

Easy-to-use Internet
BUFFALO

MELCO INC. BUSINESS REPORT 2003

Interim report

A leading company in the broadband era



MELCO INC.

“Easy-to-use Internet”

The Internet is now commonplace and familiar to us all. People can now log on not only at home and in the office, but also increasingly in public places such as railway stations, airports, restaurants and hotels.

Today, broadband bringing great changes to the way we use the Internet, and MELCO INC. intends to lead the way in the broadband era by continually strengthening its technology and offering innovative solutions.

Aiming to lead the broadband era



President and CEO **Makoto Maki**

Rapid popularization and growth of broadband

Day by day, the Internet has steadily pervaded our personal and business lives. In particular, the use of broadband services (such as high-speed Internet lines comprising a wide band of frequencies: ADSL, CATV, FTTH and so on) allowing extremely quick and smooth web access has risen dramatically since last year, with no sign of decline in sight.

Along with the spread of broadband, the Internet is being brought out of the home and office and into public places such as hotels, restaurants and coffee shops,

which are increasingly providing easy Internet access for their customers.

The huge increase in the speed and capacity of data transfer brought about by broadband makes it much simpler for users to handle the massive amounts of data required for video and audio.

This new way of using the Internet is likely to generate yet another wave of innovative ideas, taking us beyond the limits of the Web and computers of today, and ultimately forming a vital pillar in our social lives.

Forming a business structure with both profitability and growth potential

MELCO INC. has achieved a significant income increase through strict cost reduction and retrenchment as well as devoted sales efforts, and the continuing reformation of income structure started in the latter half of last year. The purpose of this income structure change is to respond to the rapid expansion of network-related markets, especially wireless LAN products, and to ensure profitability in memory and storage products.

The IT industry is in another slump as computer sales have fallen since last year. This means tough times for peripheral device manufacturers too, due to reduced demand and lower product prices. In spite of these circumstances, MELCO INC. has achieved a significant

profit increase, with reduced costs from tighter inventory control and prompt material procurement outweighing the dip in product prices. We have also succeeded in creating additional demand for our storage products, cutting the cost of production while introducing new and extremely popular portable hard disk drives. Meanwhile, offering solutions such as wireless Internet access points in public places to target the expanding broadband market has lifted sales of our networking products.

These results have enabled MELCO INC. to build the platform for a business structure that provides both growth potential and stable profitability.

A leading company in the broadband era

Since November 1st 2002 MELCO INC. has reconstructed its business domain to be able to implement more marketable strategies.

What this actually means is the integration of product families directly related to computers, such as memory, storage and LAN cards, into one “computer-related business”, the goal being to create an organization showing stable profitability even under severe competition. Meanwhile, wireless LAN is at the heart of our “broadband-related business” sector, where our solutions anticipating social change are playing a role in the formation of the broadband community, and where we are building the platform for our next leap forward into the future.

The future will see the emergence of the so-called “ubiquitous network society”, in which everyone will have access to any network wherever they are. The spread of broadband will increase not only access points and information categories but also new types of connecting devices. As the means of connecting these devices to communication lines, wireless LAN will take on an increasingly vital role.

As a leading company in the broadband era, MELCO INC. will strive to elevate the corporate value of the entire MELCO INC. Group by constantly proposing new solutions and contributing to the establishment of the broadband community.

Broadband will change society

A society where you can use networks anywhere

Broadband (using high-speed Internet lines: ADSL, CATV, optical fiber and so on) is quickly expanding. The number of households with a broadband Internet connection is expected to increase from 3.7 million at the end of March, 2002 to nearly 20 million by the end of March, 2006 (Ministry of Public Management, Home Affairs, Posts and Telecommunications: National Broadband Concept).

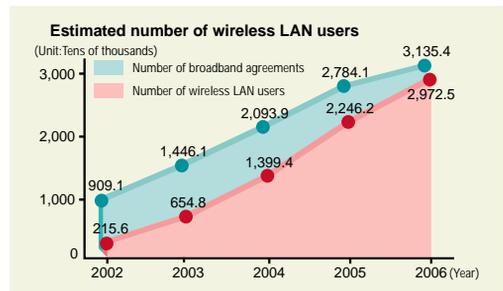
Wireless LANs are also spreading fast, being the most effective method for broadband connection due to reduced wiring labor and lower construction costs.

As wireless LAN users increase, new wireless LAN services called "FREESPOT" have become popular throughout Japan. Now the Internet can be more easily accessed in public places such as hotels, restaurants and coffee shops. With so many people wanting to log on without the restriction of cables, wireless LANs have become indispensable.

In addition to simple Internet connection, public FREESPOT will also provide users with access to ori-

nal data in their offices. People will enjoy the same information environment whether they are in a remote destination, on the move, or back at their desk, and this is bound to have a positive effect on efficiency. As systems and technology to ensure privacy and security of information are being improved day by day, wireless LANs will soon be the most effective method of using broadband.

The broadband era is coming, when people will be able to access any network from anywhere in the world.



Source: EC RESEARCH CORP.

A society where everything is on a network

In the broadband community, it is not only computers that will rely on wireless LANs. People will use their living room TV, for example, to watch movies via a

video-on-demand distribution service, home videos edited on their computer, or past TV programs that they missed. They will also be able to operate their air

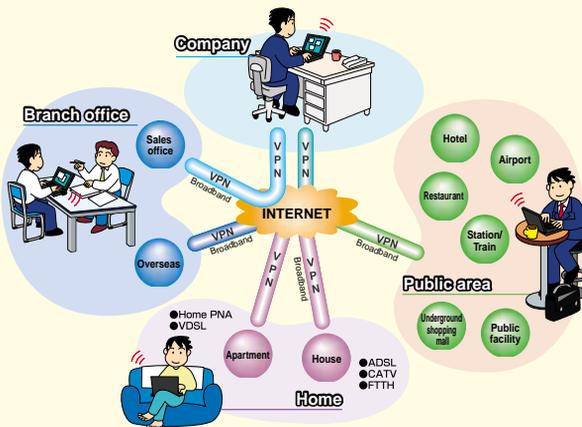
conditioners remotely from their cellular phone before arriving home. If the extension telephones in their offices are replaced with portable IP telephones (digital telephones using Internet technology), they will be able to answer their extension calls even when away from their desk. Once these work phones are combined with cellular phones, telephone communication will be possible whether in or out of the office.

The superiority of wireless communication will become clear once people begin to use these various services. It is so inconvenient to have to connect lots of cables and carry around a number of dedicated devices in order to use various services. The combined cellular and IP telephone described above will be able to automatically switch between extension telephone in the

office, cellular phone outside the office, and free IP telephone in FREESPOT.

In people's homes alone, there is likely to be a rapid transition towards wireless LANs accompanying the greater use of laptop computers and increased connection to other appliances. Some studies report that the number of broadband users will be approaching 30 million by 2006, and most of them will be using a wireless LAN. When we imagine a world built around broadband, more and more massive possibilities emerge. By providing the sophisticated technology required, in such an era, for products and services that enable anyone to log on from anywhere, MELCO INC. will contribute greatly to the development of the network society.

A society with easy Internet access, anywhere and anytime



An environment is taking form in which the Internet can be used more easily, not only in the home and office but also in public places such as stations and restaurants. Wireless LAN communications technology that ensures security, and standardized communication designations that can be used anywhere in the world, are creating a more convenient and comfortable networking society. Such ready access to the Internet is bound to enrich our lives.

***VPN (Virtual Private Network)**
Security technology that enables secure communication by connecting terminals using common lines as dedicated lines.

MELCO INC.'s origins lie in the creation of solutions and the technical strength to implement them

Reliable technology recognized worldwide

As a leading company of peripheral devices for computers, MELCO INC. has always focused on the technological trends in computers, and been quick to participate in the development of the latest memory and the establishment of standard specifications.

One of MELCO INC.'s specialist engineers, Kazuyoshi Tsukada, recently received the "Chairman's Award" from JEDEC1, an international organization for the standardization of electronic components, for his achievements in the design of memory modules2. Tsukada had the honor of becoming only the third person in the history of JEDEC to be recognized by the Memory Module Subcommittee.

This prize was awarded in recognition of Tsukada's out-

standing contribution to the establishment of standards, and his highly valued technological achievements. His designs of DDR SDRAM*3) memory modules including the 172 pin MicroDIMM and the 200 pin S. O. DIMM have been adopted as standard specifications.

Notes

*1) JEDEC

This is the acronym for the "Joint Electron Device Engineering Council", the international industry association promoting the standardization of electronic components. JEDEC has over 260 member companies, and is a global leader in the electronic component field as the standardization body of the EIA (Electronic Industries Association). MELCO INC. is a participating member of JEDEC in its memory module and wireless LAN categories.

*2) Memory module

To actually use memory in a computer and so on, a component called a memory module, which is a DRAM positioned on the motherboard, is required. Various types of modules are available, described according to the number of signal pins and their shape, for example, "172 pin MicroDIMM".

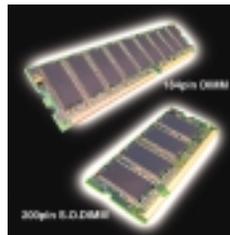
*3) DDR SDRAM

This is an abbreviation of "Double Data Rate SDRAM", a type of DRAM using technology that doubles the data rate of conventional SDRAM.

Contributing to the establishment of global standards

The principle type of memory has shifted from SDRAM to DDR. In the standardization of DDR S. O. DIMM, MELCO INC. participated in the establishment of the JEDEC common Gerber standard specification, sharing the role with two leading DRAM manufacturers. Within this group, MELCO INC. assumed a wide range of tasks, including the development of the 200 pin S. O. DIMM for x16-1BANK, adjustment of timing and load for x8-1BANK and x16-2BANK developed by DRAM manufacturers, simulation at the prototype stage, operational evaluation in collaboration with various motherboard manufacturers, and verification with measurements

using high-performance testers. The results are already being taken to the next level, helping us to participate in the establishment of standards for DDR II 533 S. O. DIMM and



Memory modules based on the JEDEC common Gerber standard whose establishment we are participating in

others. MELCO INC. is one of the top brands in the memory field, and we aim to spread the adoption of global standards for next-generation memory among worldwide PC manufacturers.

Accumulation of technologies

In 1993, MELCO INC. received the top prize in the analog category of the PCB Technology Leadership Awards, a global awards program for print-circuit board designers. This prize was awarded to us in recognition of our layout design with high-level noise countermeasures. Winners in other categories were Hewlett-Packard, AT&T, Motorola and Sony, and MELCO INC. was the first Japanese winner along with Sony. Digital technology was just entering the limelight at the time, and the transition of electronic components to digital circuits allowing easy logic designs was underway. However, we believed that the higher frequencies of the coming digital circuits would enhance the importance of layout design due to problems with signal delay caused by differences in wiring length or changed noise

characteristics because of interference between signal lines. In order to speed up digital circuits, the backup of analog technology is essential.

MELCO INC.'s accumulated technologies bore fruit in 1999, when we were the first Japanese vendor to acquire Intel's "system validation", and had the greatest number of certifications in Japan in 2000 by adding one certified item after another, such as Direct Rambus DRAM-mounted RIMM modules. We are proud of these achievements, evidence of our world-leading technological strength.



PCB Technology Award

Project D launched, aiming for even greater technological strength

The technological strength we are so proud of is not limited to memory products. An important point about MELCO INC.'s portable hard disk drives, which are selling very well in 2002, is their power saving design technology that lets them run on a tiny amount of electric power supplied through a USB interface.

We have also tried to improve our chassis designs, and worked together for a while with the world-famous Italian car designer Gandini in the pursuit of design functionality. This result of this



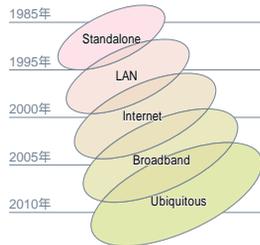
Good Design Award

was MELCO INC.'s third annual Good Design Award in succession.

We launched Project D with the aim of enriching our developers training program. D represents both DESIGN and DEVELOPMENT, and means we try to reinforce their abilities in the fields of technical and chassis design and development. We intend to reform our in-house system to generate future Tsukadas from among our current 18 expert engineers, as well as to train a lot of new expert engineers.

As mentioned earlier in the section Eye, the Internet society is expected to drastically change in the future into an ubiquitous networking community, with the use of

broadband. We believe there will be sweeping technological innovation during this period, and it is important to constantly reinforce our technological strength in order to provide new solutions that meet user needs.



Developed a high-end tester for our memory modules in collaboration with Advantest. Advanced evaluation technology is essential for the development of cutting-edge technology.

Track record of our technological power

| Year | Prize / acquisition | Prizewinning product / item | Contents |
|------|--|--|--|
| 1989 | 3rd "Best Product Prize" awarded by Japan System House Association | EMJ memory board | First to adopt EMS method in Japan, which became mainstream in memory extension |
| 1993 | 7th "Best Product Prize" awarded by Japan System House Association | WBS peer-to-peer LAN | LAN system allowing sharing of data and peripherals without a dedicated server |
| | "PCB Technology Award" by Mentor Graphics | 16M-RJF flush memory card-dedicated board | Highly evaluated noise countermeasure design |
| 1994 | 8th "Best Product Prize" awarded by Japan System House Association | NMB multimedia box | Realized three functions of window accelerator, PCM sound and CD-ROM in one unit |
| 1995 | Minister of International Trade and Industry Award. | NMB multimedia box | Awarded prize for Best Information Processing System at Japanese government-sponsored program commemorating Information Technology Month |
| | 9th "Best Product Prize" awarded by Japan System House Association | Hyper-memory CPU | Original product integrating CPU and memory technologies |
| 1996 | 10th "Best Product Prize" awarded by Japan System House Association | LBR-64 ISDN router | Realized shared TA function, which had not been achieved before |
| 1997 | Minister of International Trade and Industry Award. | Information technology promoting company | Awarded at Japanese government-sponsored program commemorating Information Technology Month |
| | 11th "Best Product Prize" awarded by Japan System House Association | FTD liquid crystal display | Overall evaluation of performance, user-friendliness, design and guarantee system |
| 2000 | Intel System Validation | Direct Rambus DRAM-mounted RIMM | Most acquisitions in Japan, evidence of our top-level global technological power |
| | "Best of Show Award" by Net World+Interop 2000 Tokyo | AirStation wireless LAN | Awarded for our infrastructure builder product for private companies |
| | Wi-Fi, WECA international certification | AirStation wireless LAN | Quickly acquired international certification ensuring communication compatibility in a multi-vendor environment |
| | Good Design Award 2000 by Japan Industrial Design Promotion Organization | AirStation wireless LAN | Interior decoration-focused design targeting in-home introduction |
| 2001 | "Best of Show Award" by Net World+Interop 2001 Tokyo | AirP's LPV-WL11 wireless print server | Special prize in peripheral and server category |
| | Good Design Award 2001 by Japan Industrial Design Promotion Organization | MCR card reader and CRWU-PB88 CD-R/RW | Fresh design adopting a curvilinear form with improved usability |
| 2002 | "Chairman's Award" by JEDEC | Standardization of memory modules | Contributed to global standardization |
| | Good Design Award 2002 by Japan Industrial Design Promotion Organization | AirStation wireless LAN (WLA-S11, WLI-USB-S11) | Space-saving and familiar design, with functionality increasing wireless LAN application |

Received JEDEC Chairman's Award Contributing to the global standardization of memory

JEDEC is an American industry association that promotes the global standardization of electronic device components. MELCO INC. has joined JEDEC in order to be involved in the establishment of global standards for memory modules. Now JEDEC has recognized our contribution to the development of memory modules, by making Kazuyoshi Tsukada, one of our expert engineers, only the third member ever to receive the Chairman's Award from the Memory Module Committee.

MELCO INC. is working hard towards the standardization of memory modules, including the development of a global standard for high-speed memory DDR SDRAM. With a constant eye on the latest technology trends, we have been quick to incorporate cutting-edge technology in various product proposals adopted by JEDEC. We are extremely proud of this award, which is evidence of the recognition of our achievements. As the IT revolution continues to move forward throughout the world, standardization technology is essential. MELCO INC. will continue to make tireless efforts in technological innovation and promote the development of next-generation memory modules.



Won Good Design Award three years in succession Design extends wireless LAN function

MELCO INC.'s AirStation wireless LAN was given the Good Design Award 2002 by the Japan Industrial Design Promotion Organization. This was the third year in a row that we received this prize, following the success of our card reader and CD-RW drive last year and wireless LAN the year before that.

The prizewinning AirStation's WLA-S11 access point and WLI-USB-S11 USB port adapter enabled us to create a compact and space-saving design with a height of 12 cm, while its softly curved shape gives it an attractive and friendly appearance ideal for the home. Another remarkable feature is its versatility, the number one requirement for a wireless LAN, achieved by using a wall-hanging kit and attachment holder. This provides outstanding functionality, allowing not only desktop installation but also attachment to a wall surface or the back of a laptop computer display. MELCO INC. will continue to develop products with such sophisticated designs and high functionality.



WLA-S11



WLI-USB-S11

Proposing wireless spot services aimed at handy Internet access

The information society is dramatically changing with the spread of the Internet. This Internet society, which allows public and private offices and even individuals to transfer all kinds of information to each other, is making our lives richer and more convenient.

Amid this social change, MELCO INC. is proposing Internet wireless spot services, or FREESPOT, the goal being a society where anyone can easily log on to the Internet anywhere. FREESPOT will allow people to use broadband Internet anywhere, in remote destinations as well as their homes and offices. In order to promote this service nationwide, MELCO INC. launched the FREESPOT Conference with the participation of Sharp, Matsushita Electric Industrial co., Ltd. and others, and released a FREESPOT Installation Kit. This facilitates Internet access in public places like hotels and shops, helping to build an environment that will allow anyone to log on anywhere and anytime. We will continue to propose this kind of solution, broadening the horizons of Internet users and providers and contributing to the realization of the ubiquitous networking community.

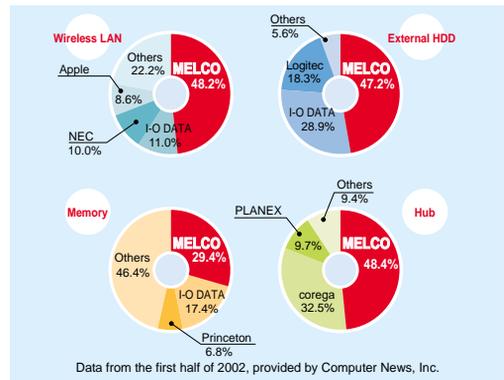
Internet wireless spot



Gained top share of PC peripheral sales in 12 categories in first half of 2002

According to the BCN Rankings, the sales statistics of computer peripheral devices provided by Computer News, Inc. MELCO INC. gained the top share in 12 categories in the initial half of 2002.

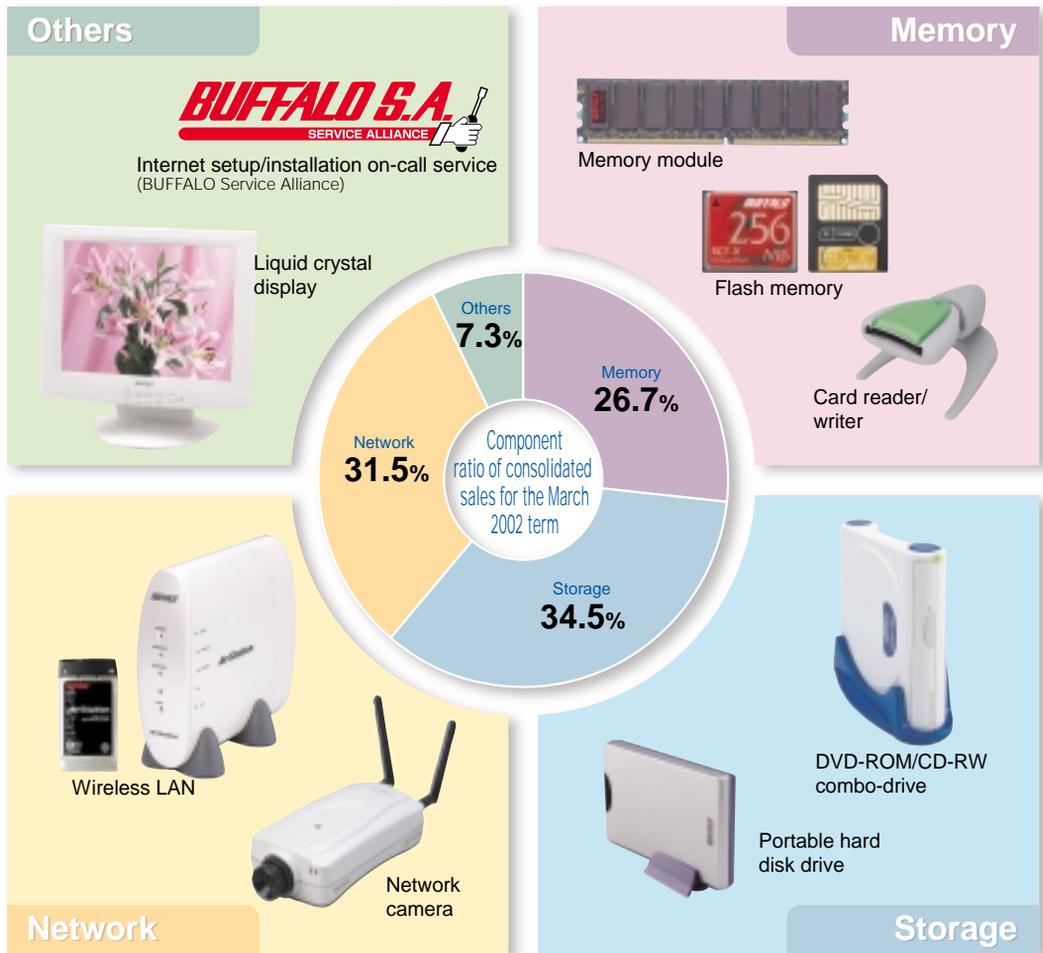
These statistics indicate the sales share of different models through a system of sales data collection from large stores nationwide. The actual categories in which MELCO INC. won the top share were: wireless LANs, hubs, LAN cards, print servers, MO drives, CD-R/RW drives, external hard disk drives, internal hard disk drives, card readers, memory, CPU accelerators and printer buffers. This is the result of our firm commitment to the development and market release of products that meet customer needs, and we feel it proves just how much trust and support we are receiving from users. We will continue to deliver new products that satisfy all kinds of customer needs, and will redouble our efforts to reinforce the business system that supports our dealers.



Outline Summary of business

Under the motto "Easy-to-use Internet", MELCO INC. is working to create an online environment that is comfortable and convenient for all.

Consolidated sales per product from April 2001 to March 2002



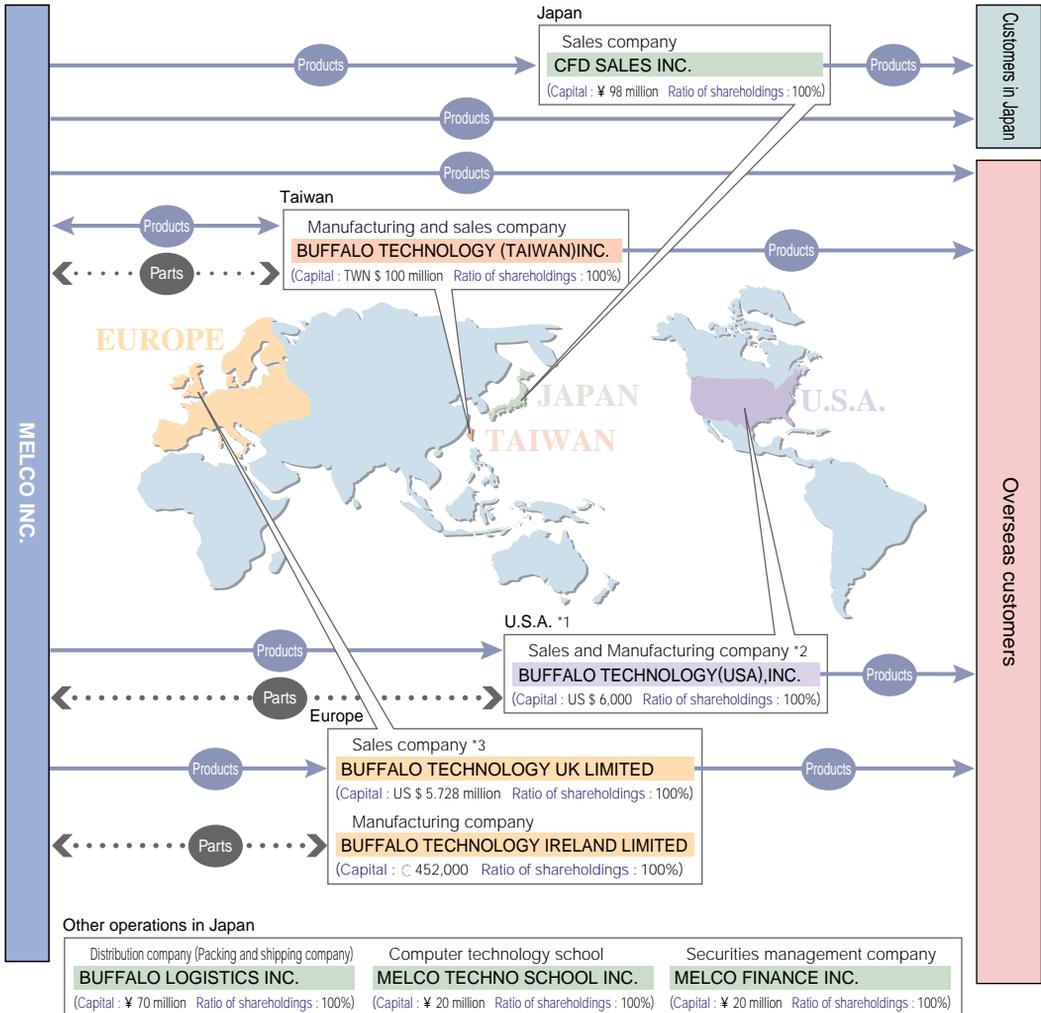
Group Companies MELCO INC.Group

MELCO INC.Group Affiliation Chart (Consolidated subsidiaries)

*1 BUFFALO TECHNOLOGY (U.S.A.), INC. has been liquidated as of December 31, 2001.

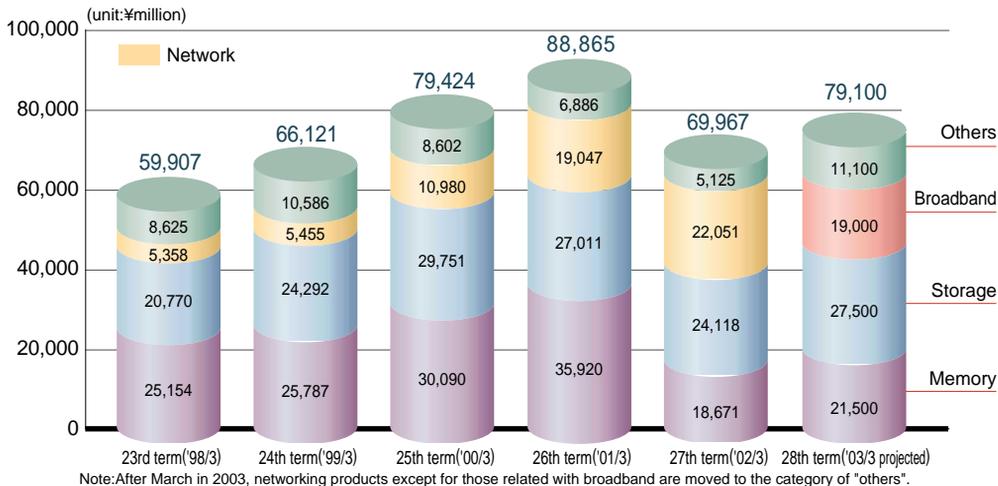
*2 The ratio of shareholdings for TechWorks (Delaware), Inc. increased from 98.4% to 100% as of December 18, 2001. The company was renamed BUFFALO TECHNOLOGY (USA), INC. as of February 28, 2002.

*3 The capital was increased to US \$ 5.728 million for BUFFALO TECHNOLOGY UK LIMITED. on December 18, 2001.

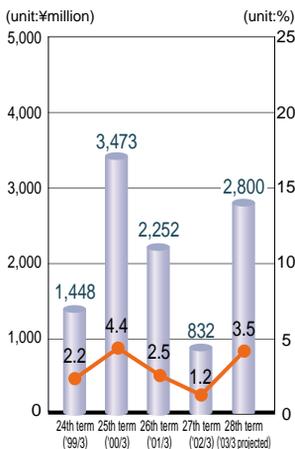


Financial Report Consolidated Statement

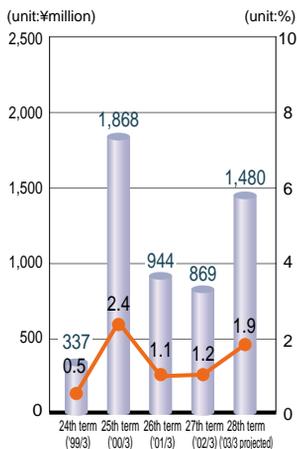
Consolidated sales



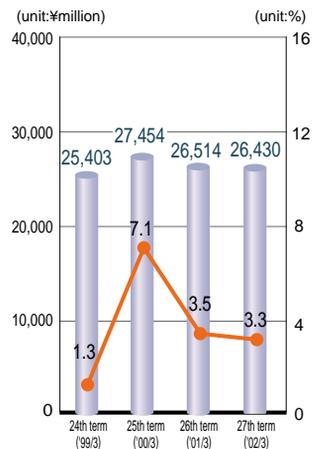
Consolidated ordinary income and % of sales



Consolidated net income and % of sales



Consolidated shareholder's equity and return on equity (ROE)



Interim consolidated balance sheet (unit:¥million)

| Item | Fiscal year Current interim term as of Sep. 30, 2002 | Previous interim term as of Sep. 30, 2001 | Previous fiscal year as of March 31, 2002 |
|--|---|---|---|
| (Assets) | | | |
| Current assets | 26,122 | 30,759 | 28,022 |
| Tangible fixed assets | 2,674 | 2,917 | 2,777 |
| Intangible fixed assets | 130 | 203 | 156 |
| Investments, etc. | 11,787 | 3,086 | 11,121 |
| Total Fixed assets | 14,592 | 6,207 | 14,055 |
| Total assets | 40,715 | 36,967 | 42,077 |
| (Liabilities) | | | |
| Current liabilities | 13,104 | 10,764 | 14,968 |
| Long-term liabilities | 729 | 749 | 678 |
| Total liabilities | 13,834 | 11,514 | 15,646 |
| (Capital) | | | |
| Capital | 6,400 | 6,400 | 6,400 |
| Capital surplus | 7,593 | - | - |
| Profit surplus | 13,285 | - | - |
| Capital reserve | - | 7,593 | 7,593 |
| Consolidated surplus | - | 11,507 | 12,741 |
| Balance of other profits on securities | 41 | 38 | 70 |
| Exchange adjustment | 223 | 17 | 160 |
| Treasury stock | 215 | 68 | 213 |
| Total capital | 26,880 | 25,453 | 26,430 |
| Total liabilities and capital | 40,715 | 36,967 | 42,077 |

Interim consolidated statement of surplus (unit:¥million)

| Item | Fiscal year Current interim term (April 1, 2002 to Sep. 30, 2002) | Previous interim term (April 1, 2001 to Sep. 30, 2001) | Previous fiscal year (April 1, 2001 to March 31, 2002) |
|--|---|---|---|
| Capital surplus opening balance | 7,593 | - | - |
| Capital surplus interim closing (closing) balance | 7,593 | - | - |
| Profit surplus opening balance | 12,741 | - | - |
| Interim (current term) net income | 705 | - | - |
| Reduction of profit surplus | 161 | - | - |
| Profit surplus interim closing (closing) balance | 13,285 | - | - |
| Consolidated surplus opening balance | - | 12,801 | 12,801 |
| Reduction of consolidated surplus | - | 768 | 929 |
| Interim (current term) net income | - | 525 | 869 |
| Consolidated surplus interim closing (closing) balance | - | 11,507 | 12,741 |

Interim consolidated statement of income (unit:¥million)

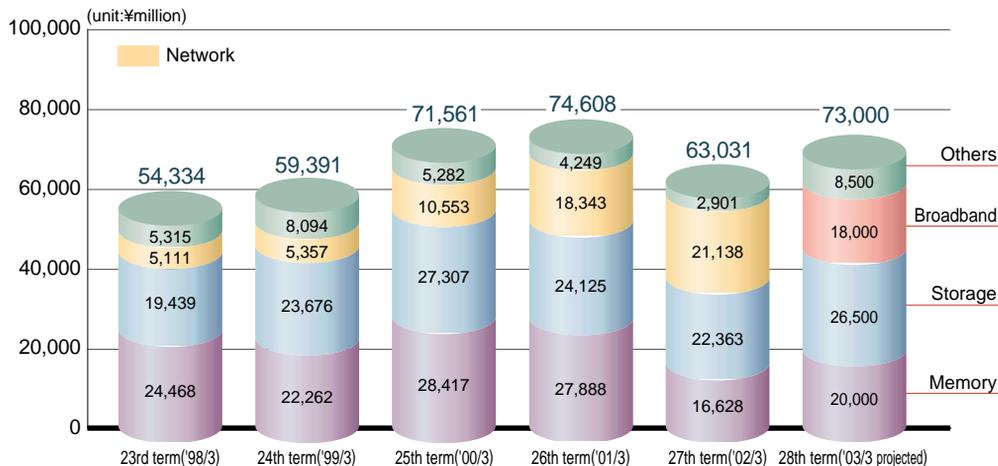
| Item | Fiscal year Current interim term (April 1, 2002 to Sep. 30, 2002) | Previous interim term (April 1, 2001 to Sep. 30, 2001) | Previous fiscal year (April 1, 2001 to March 31, 2002) |
|--|---|---|---|
| Sales | 39,089 | 30,430 | 69,967 |
| Cost of sales | 34,155 | 26,940 | 61,389 |
| Selling, general and administrative expenses | 3,617 | 4,195 | 7,922 |
| Operating income | 1,316 | 705 | 655 |
| Non-operating income | 171 | 267 | 421 |
| Non-operating expenses | 152 | 123 | 244 |
| Ordinary income | 1,336 | 562 | 832 |
| Extraordinary income | 167 | 22 | 54 |
| Extraordinary loss | 146 | 17 | 222 |
| Interim (current term) net income before taxes and other adjustments | 1,357 | 557 | 664 |
| Corporation, resident and enterprise taxes | 767 | 48 | 397 |
| Adjustment for corporation tax, etc. | 114 | 80 | 603 |
| Interim (current term) net income | 705 | 525 | 869 |

Interim consolidated cash flow statement (unit:¥million)

| Item | Fiscal year Current interim term (April 1, 2002 to Sep. 30, 2002) | Previous interim term (April 1, 2001 to Sep. 30, 2001) | Previous fiscal year (April 1, 2001 to March 31, 2002) |
|---|---|---|---|
| Operating activity cash flow | 7,411 | 4,542 | 3,422 |
| Investment activity cash flow | 819 | 128 | 7,444 |
| Financial activity cash flow | 134 | 761 | 765 |
| Balance of cash/cash-equivalent conversions | 57 | 51 | 43 |
| Increase of cash/cash-equivalents | 6,669 | 3,961 | 4,744 |
| Cash/cash-equivalent opening balance | 2,030 | 6,775 | 6,775 |
| Cash/cash-equivalent interim closing (closing) balance | 8,700 | 10,736 | 2,030 |

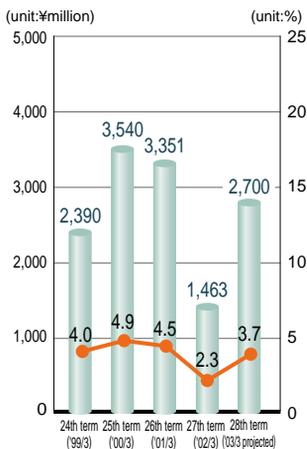
Financial Report Unconsolidated Statement

Sales

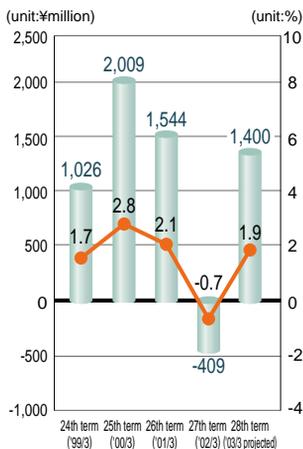


Note: After March in 2003, networking products except for those related with broadband are moved to the category of "others".

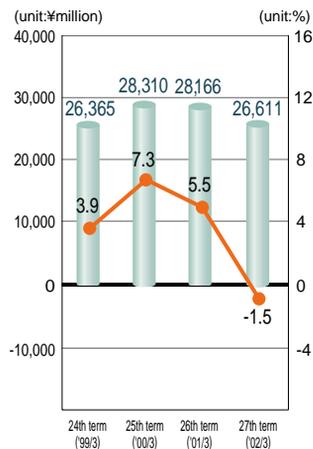
Ordinary income and % of sales



Net income and % of sales



Shareholder's equity and return on equity (ROE)



Interim balance sheet

(unit:¥million)

| Fiscal year Item | Current interim term as of Sep. 30, 2002 | Previous interim term as of Sep. 30, 2001 | Previous fiscal year as of March 31, 2002 |
|--|--|---|---|
| (Assets) | | | |
| Current assets | 35,501 | 29,377 | 37,021 |
| Tangible fixed assets | 1,972 | 2,113 | 2,027 |
| Intangible fixed assets | 113 | 171 | 139 |
| Investments, etc. | 3,145 | 6,070 | 3,215 |
| Total Fixed assets | 5,231 | 8,355 | 5,382 |
| Total assets | 40,732 | 37,733 | 42,404 |
| (Liabilities) | | | |
| Current liabilities | 12,876 | 9,800 | 15,163 |
| Long-term liabilities | 684 | 680 | 629 |
| Total liabilities | 13,561 | 10,481 | 15,793 |
| (Capital) | | | |
| Capital | 6,400 | 6,400 | 6,400 |
| Capital surplus | 7,593 | - | - |
| Profit surplus | 13,351 | - | - |
| Legal reserve | - | 9,193 | 9,193 |
| Retained earnings | - | 11,619 | 11,161 |
| Balance of other profits on securities | 41 | 38 | 70 |
| Treasury stock | 215 | - | 213 |
| Total capital | 27,171 | 27,251 | 26,611 |
| Total liabilities and capital | 40,732 | 37,733 | 42,404 |

Interim statement of income

(unit:¥million)

| Fiscal year Item | Current interim term (April 1, 2002 to Sep. 30, 2002) | Previous interim term (April 1, 2001 to Sep. 30, 2001) | Previous fiscal year (April 1, 2001 to March 31, 2002) |
|--|--|---|---|
| Sales | 35,840 | 26,317 | 63,031 |
| Cost of sales | 31,451 | 23,538 | 55,773 |
| Selling, general and administrative expenses | 2,985 | 3,204 | 6,147 |
| Operating income | 1,403 | 425 | 1,110 |
| Non-operating income | 70 | 260 | 529 |
| Non-operating expenses | 76 | 95 | 176 |
| Ordinary income | 1,396 | 259 | 1,463 |
| Extraordinary income | 133 | 27 | 56 |
| Extraordinary loss | 143 | 13 | 2,506 |
| Interim (current term) net income before taxes | 1,386 | 244 | 986 |
| Corporation, resident and enterprise taxes | 746 | 8 | 333 |
| Adjustment for corporation tax, etc. | 110 | 141 | 909 |
| Interim (current term) net income | 750 | 112 | 409 |
| Profit carried over from previous term | 12,601 | 5,301 | 5,301 |
| Earnings allocated to retirement of treasury stock | - | 569 | 569 |
| Interim dividends | - | - | 160 |
| Unappropriated profit interim (current term) | 13,351 | 4,619 | 4,161 |

Company Data

Company Profile/Investor Information

Company Profile (As of September 30, 2002)

Company Name: MELCO INC.

Headquarters: 11-50, Ohsu 4-chome, Naka-ku, Nagoya, Aichi Prefecture, Japan

Founded: May 1, 1975

Incorporated: August 5, 1978

President and CEO: Makoto Maki

Capital: ¥6.4 billion

Sales: ¥69.967 billion consolidated
¥63.031 billion unconsolidated
(at end of March 2002)

Business content: Development, manufacture and sales of Internet equipment and related services

No. of employees: 635 consolidated, 381 unconsolidated

Group affiliates: 8 companies (4 in Japan and 4 overseas)

Banks: UFJ, Nagoya, Iyo, Tokyo-Mitsubishi, UFJ Trust Bank

Board of Directors (As of June 27, 2002)

President and CEO Makoto Maki

Senior Managing Director Kuniaki Saiki

Director Hiromi Maki

Director Hiromichi Maki

Director Harumi Maekawa

Director Seishi Toyooka

Director Takayuki Nishioka

Director Hidetoshi Yamaguchi

Senior Corporate Auditor Yozo Ueda

Corporate Auditor Toshio Nishikawa

Corporate Auditor Yuzuru Kawashima

Corporate Auditor Iwao Tsusaka

Investor Information(As of September 30,2002)

Accounts closed: March 31

Scheduled shareholder's meeting: June

Dates to determine stock ownership: Shareholders entitled to vote
March 31
Shareholders entitled to year-end dividend
March 31
Shareholders entitled to interim dividend
September 30

Listed Stock Exchanges: First Section of Tokyo Stock Exchange and
First Section of Nagoya Stock Exchange

Stock code: 6913

Number of shares issued: 26,841,136

Number of treasury stocks: 128,600

Number of shareholders: 15,255

Number of shares per unit: 100

Newspaper with notice to shareholders: Nihon Keizai Shimbun

Transfer agent: UFJ Trust Bank Limited
4-3, Marunouchi 1-chome,
Chiyoda-ku, Tokyo

Handling office: UFJ Trust Bank Limited
Security Agent Department
10-11, Higashi-suna, 7-chome,
Koto-ku, Tokyo 137-8081
Tel: 81-3-5683-5111

Managing underwriters: (main) Nomura Securities
(others) Daiwa Securities SMBC
Mizuho Investors Securities
Nikko Cordial Securities

Evolution of the MELCO INC. GROUP

| History | Business/Others |
|---|--|
| Incorporated for the purpose of manufacturing and selling audio equipment | Aug 1978 Began marketing a string-driven turntable |
| | 1980 |
| | Jul 1981 Entered the personal computer peripherals market in earnest |
| Opened Tokyo Branch Office (now the Tokyo Head Office) | Oct 1982 Began marketing an internal printer buffer |
| | Oct 1986 Began marketing Japan's first EMS board |
| | Oct 1988 |
| Established BUFFALO LOGISTICS INC. | Sep 1990 |
| Opened Osaka Sales Office (now the Osaka Branch Office) | Sep 1991 |
| Registered with JASDAQ | Oct |
| Opened High-Tech Center | Jan 1992 |
| Established BAPILU PRODUCTS INC. [now BUFFALO TECHNOLOGY (TAIWAN) INC.] | Jun 1992 |
| | Jul 1993 Began marketing CPU accelerator products |
| | Aug 1993 Began marketing LAN products |
| | May 1993 Began marketing window accelerators; entered the multimedia market in earnest |
| | Oct 1993 Received Prize for Excellence at PCB Technology Awards |
| | Feb 1994 Began marketing hard disks; shifted emphasis to manufacture of computer peripheral devices |
| Listed in second section of Nagoya Stock Exchange | Jan 1995 |
| Listed in second section of Tokyo Stock Exchange | Aug 1995 |
| | Sep 1995 Obtained ISO 9001 certification |
| Opened agencies in Sendai and Fukuoka (now the Sendai and Fukuoka sales Offices) | Nov 1995 Began marketing DOS/V component PCs; shifted emphasis from manufacture of computer peripheral devices to manufacture of PC components |
| MELCO TECHNO SCHOOL INC. commenced operations at its computer technology school | Jul 1996 |
| Listed in the first sections of the Tokyo and Nagoya Stock Exchanges | Sep 1996 |
| Made CFD SALES INC. a subsidiary | Oct 1996 Began marketing LCD monitors |
| Introduced divisional organization | Oct 1997 |
| Made TechWorks (Delaware), Inc.(now BUFFALO TECHNOLOGY(USA),INC.) a subsidiary | Jan 1998 |
| Made TechWorks (UK) Limited and TechWorks (Ireland) Limited (now BUFFALO TECHNOLOGY UK LIMITED. and BUFFALO TECHNOLOGY IRELAND LIMITED.)subsidiaries | Dec 1998 |
| | Jan 1999 Entered the wireless LAN market; released "AIRCONNECT" |
| MELCO FINANCE INC. commenced operations in securities management and related areas | Nov 1999 Began marketing memory for Rambus devices |
| | 2000 |
| | Apr 2000 Began marketing the wireless LAN "AirStation" |
| | Oct 2000 Received Good Design Award for AirStation wireless LAN Developed worldwide standard specification of DDR memory for notebook computers |
| Opened BUFFALO Solution Square (formerly Akihabara Customer Support Center) | Dec 2000 |
| | 2001 |
| Formed BUFFALO Service Alliance | Jan 2001 Began Internet service business |
| Established joint venture company, Digital Reuse Inc. | Mar 2001 Obtained Environmental Management System ISO14001 Certification |
| | Oct 2001 Received Good Design Awards for card reader and CD-RW drive |
| | 2002 |
| | Jul 2002 Proposed FreeSpot to promote Internet wireless spot service |
| Reorganized business department into broadband business and computer business | Nov 2002 Received Good Design Award for AirStation wireless LAN |

MELCO INC.

11-50, Ohsu 4-chome, Naka-ku, Nagoya, 460-0011, Japan
Tel: 81-52-251-6891 FAX: 81-52-241-7979

<http://www.melcoinc.co.jp/>

Offices

| | | | |
|------------------------------------|--|---------------------|---------------------|
| Headquarters | Kamiya Bldg., 11-50, Ohsu 4-chome, Naka-ku, Nagoya, 460-0011, Japan | Tel:81-52-251-6891 | Fax:81-52-241-7979 |
| Tokyo Head Office | 1-2-5 Eitaro Bldg. Nihonbashi Chuo-ku Tokyo 100-0027, Japan | Tel:81-3-3242-7777 | Fax:81-3-5203-8551 |
| Subsidiaries Japan | | | |
| CFD SALES INC. | Kamiya Bldg., 11-50, Ohsu 4-chome, Naka-ku, Nagoya, 460-0011, Japan | Tel:81-52-261-7771 | Fax:81-52-261-7775 |
| BUFFALO LOGISTICS INC. | 1-3, Mutsuno 2-chome, Atsuta-ku, Nagoya, 456-0023, Japan | Tel:81-52-883-3035 | Fax:81-52-883-3042 |
| MELCO TECHNO SCHOOL INC. | 15, Shibata hondori 4-chome, Minami-ku, Nagoya, 457-8520, Japan | Tel:81-52-619-7727 | Fax:81-52-619-2027 |
| MELCO FINANCE INC. | Kamiya Bldg., 11-50, Ohsu 4-chome, Naka-ku, Nagoya, 460-0011, Japan | Tel:81-52-251-6891 | Fax:81-52-241-7979 |
| Subsidiaries Overseas | | | |
| BUFFALO TECHNOLOGY (TAIWAN) INC. | 4F, NO.18, LANE609, SEC.5, CHUNG HSIN RD., SANCHUNG CITY, TAIPEI HSIEN, TAIWAN | Tel:886-2-2999-9860 | Fax:886-2-2999-2264 |
| BUFFALO TECHNOLOGY (USA), INC. | 4030 West Braker Lane, Suite 350, Austin, TEXAS 78759-5319 U.S.A. | Tel:1-512-794-8533 | Fax:1-512-794-8606 |
| BUFFALO TECHNOLOGY UK LIMITED | 176 Buckingham Avenue, Slough, Berkshire SL1 4RD, United Kingdom | Tel:44-1753-555-000 | Fax:44-1753-535-420 |
| BUFFALO TECHNOLOGY IRELAND LIMITED | Unit 14B, Shannon Industrial Estate, Shannon, Co. Clare Ireland | Tel:353-61-474711 | Fax:353-61-474770 |