

**NextCom K. K.**

**Financial Statements**  
**For the year ended March 31, 2005**

Report of Independent Auditors

To the Board of Directors and Shareholders of  
NextCom K.K.

We have audited the accompanying consolidated balance sheet of NextCom K.K. and its subsidiary as of March 31, 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NextCom K.K. and its subsidiary as of March 31, 2005, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the readers, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.

*Chuo Aoyama Pricewaterhouse Coopers*

ChuoAoyama PricewaterhouseCoopers  
Tokyo, Japan  
June 17, 2005

**Consolidated Balance Sheet**  
NextCom K.K. and its consolidated subsidiary  
As of March 31, 2005

	Thousands of yen	Thousands of U.S. dollars (Note 1)
	2005	2005
<b><u>ASSETS</u></b>		
<b>Current assets</b>		
Cash on hand and in banks (Notes 3 and 7)	¥ 5,487,014	\$ 51,094
Notes and accounts receivable, trade	12,825,080	119,425
Less: allowance for doubtful accounts (Note 2(8))	(2,632)	(25)
	12,822,448	119,400
Inventories	4,615,597	42,980
Deferred income taxes (Note 11)	974,514	9,075
Other current assets	421,734	3,927
<b>Total current assets</b>	24,321,307	226,476
<b>Property and equipment</b>		
Buildings and structures	378,043	3,520
Equipment	3,665,504	34,133
	4,043,547	37,653
Less: accumulated depreciation	(2,113,141)	(19,677)
<b>Net property and equipment</b>	1,930,406	17,976
<b>Investments and other assets</b>		
Investments in securities (Note 4)	77,573	722
Deferred income taxes (Note 11)	539,066	5,020
Deferred losses on hedging activities (Note 2(13))	1,700,849	15,838
Guarantee deposits	2,439,876	22,720
Others	257,430	2,397
<b>Total investments and other assets</b>	5,014,794	46,697
<b>Total assets</b>	¥ 31,266,507	\$ 291,149

The accompanying notes are an integral part of these financial statements.

**Consolidated Balance Sheet**  
NextCom K.K. and its consolidated subsidiary  
As of March 31, 2005

	Thousands of yen	Thousands of U.S. dollars (Note 1)
	2005	2005
<b><u>LIABILITIES AND</u></b>		
<b><u>SHAREHOLDERS' EQUITY</u></b>		
<b>Current liabilities:</b>		
Short-term loans (Note 6)	¥ 120,000	\$ 1,117
Notes and accounts payable, trade	7,211,767	67,155
Income taxes payable	1,256,301	11,698
Accrued expenses	1,151,115	10,719
Advances received	1,768,590	16,469
Accrued bonuses to employees (Note 2(9))	913,055	8,502
Other current liabilities	443,857	4,134
<b>Total current liabilities</b>	12,864,685	119,794
<b>Long-term liabilities:</b>		
Reserve for retirement benefits (Notes 2(10) and 8)	700,843	6,526
Derivative contracts with negative fair value (Note 2(13))	1,759,109	16,381
Negative goodwill	186,805	1,740
<b>Total long-term liabilities</b>	2,646,757	24,647
<b>Total liabilities</b>	15,511,442	144,441
<b>Commitments and contingent liabilities</b> (Notes 9 and 12)		
<b>Shareholders' equity:</b> (Note 13)		
Common stock, no per value		
Authorized: 400,000 shares at March 31, 2005, respectively		
Issued: 149,250 shares at March 31, 2005	3,801,346	35,398
Additional paid-in capital	6,607,014	61,524
Retained earnings	5,339,571	49,721
Unrealized gains on other securities	7,969	73
Treasury stock, at cost	(835)	(8)
<b>Total shareholders' equity</b>	15,755,065	146,708
<b>Total liabilities and shareholders' equity</b>	¥ 31,266,507	\$ 291,149

The accompanying notes are an integral part of these financial statements.

**Consolidated Statements of Income**  
NextCom K.K. and its consolidated subsidiary  
For the year ended March 31, 2005

	Thousands of yen	Thousands of U.S. dollars (Note 1)
	2005	2005
<b>Net sales</b>	¥ 42,542,403	\$ 396,149
<b>Cost of sales</b>	34,292,193	319,324
Gross profit	8,250,210	76,825
<b>Selling, general and administrative expenses (Note 10)</b>	5,324,593	49,582
Operating income	2,925,617	27,243
<b>Other income (expenses):</b>		
Interest and dividends income	5,029	47
Exchange gain	186,976	1,741
Amortization of goodwill	4,790	45
Merger-related costs	(250,960)	(2,337)
Interest expenses	(1,272)	(12)
Loss on disposal of inventories	(36,846)	(343)
Stock issue expenses (Note 2(7))	(9,430)	(88)
Public offering-related costs	(14,611)	(136)
Gain on return of allowance for doubtful accountants	28,911	269
Gain on sale of investment securities	14,186	132
Loss on disposal of property and equipment	(73,302)	(683)
Loss on write-down of investment securities	(52,645)	(490)
Others, net	9,112	85
<b>Income before income taxes</b>	2,735,555	25,473
Income taxes (Note 11)		
- Current	1,460,589	13,601
- Deferred	(396,066)	(3,688)
	1,064,523	9,913
<b>Net income</b>	¥ 1,671,032	\$ 15,560

	Yen	U.S. dollars (Note 1)
	2005	2005
<b>Per share information (Note 2 (16)):</b>		
Net income per share		
- Basic earnings	¥ 13,531.10	\$ 126.00
- Diluted earnings	13,401.14	124.79
Cash dividends per share	1,000.00	9.31

The accompanying notes are an integral part of these financial statements.

**Consolidated Statement of Shareholders' Equity**  
NextCom K.K. and its consolidated subsidiary  
For the year ended March 31, 2005

	Thousands of yen					
	Number of common stock	Common stock	Additional paid-in capital	Retained earnings	Unrealized loss on other securities	Treasury stock, at cost
<b>Balance at March 31, 2004</b>	103,884	¥ 2,909,250	¥ 4,609,919	¥ 3,796,379	¥ -	¥ -
Net income	-	-	-	1,671,032	-	-
Cash dividends	-	-	-	(107,040)	-	-
Bonuses to directors and corporate auditors	-	-	-	(20,800)	-	-
Interim dividends	-	-	-	-	-	-
Issuance of additional shares of common stock	44,070	732,020	1,834,758	-	-	-
Purchase of treasury stock, net	-	-	-	-	-	(835)
New stock issued upon exercise of stock option	1,296	162,076	162,337	-	-	-
Unrealized gains on other securities	-	-	-	-	7,969	-
<b>Balance at March 31, 2005</b>	149,250	¥ 3,801,346	¥ 6,607,014	¥ 5,339,571	¥ 7,969	¥ (835)

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	Thousands of U.S. dollars (Note 1)				
	Common stock	Additional paid-in capital	Retained earnings	Unrealized loss on other securities	Treasury stock, at cost
<b>Balance at March 31, 2004</b>	\$ 27,091	\$ 42,927	\$ 35,352	\$ -	\$ -
Net income	-	-	15,560	-	-
Cash dividends	-	-	(997)	-	-
Bonuses to directors and corporate auditors	-	-	(194)	-	-
Interim dividends	-	-	-	-	-
Issuance of additional shares of common stock	6,798	17,085	-	-	-
Purchase of treasury stock, net	-	-	-	-	(8)
New stock issued upon exercise of stock option	1,509	1,512	-	-	-
Unrealized gains on other securities	-	-	-	73	-
<b>Balance at March 31, 2005</b>	\$ 35,398	\$ 61,524	\$ 49,721	\$ 73	\$ (8)

The accompanying notes are an integral part of these financial statements.

**Consolidated Statement of Cash flows**  
NextCom K.K. and its consolidated subsidiary  
For the year ended March 31, 2005

	Thousands of yen	Thousands of U.S. dollars (Note 1)
	2005	2005
<b>Cash flows from operating activities:</b>		
Income before income taxes	¥ 2,735,555	\$ 25,473
Adjustments for -		
Depreciation	427,430	3,980
Decrease in allowance for doubtful accounts	(49,211)	(458)
Increase in accrued bonuses to employees	394,685	3,675
Increase in reserve for retirement benefits	23,856	222
Interest income	(5,029)	(47)
Interest expenses	1,272	12
Loss on disposal of property and equipment	73,302	683
Loss on disposal of inventories	36,846	343
Gain on sale of investment securities	(14,186)	(132)
Amortization of goodwill	(4,790)	(45)
Loss on write-down of investments in securities	52,645	490
Increase in notes and accounts receivable, trade	(2,011,765)	(18,733)
Decrease in inventories	1,795,036	16,715
Decrease in notes and accounts payable, trade	(1,186,815)	(11,051)
Decrease in consumption taxes payable	(75,680)	(705)
Increase in guarantee deposits	(384,394)	(3,579)
Bonuses to directors and corporate auditors	(20,800)	(194)
Others, net	(713,355)	(6,643)
Subtotal	1,074,602	10,006
Interest received	5,203	48
Interest paid	(1,277)	(12)
Income taxes paid	(816,659)	(7,605)
<b>Net cash provided by operating activities</b>	<u>261,869</u>	<u>2,437</u>
<b>Cash flows from investing activities:</b>		
Decrease in time deposit, net	10,000	93
Purchase of property and equipment	(668,447)	(6,224)
Purchase of intangible assets	(26,634)	(248)
Sale of investments in securities	41,111	383
Others, net	28,717	267
<b>Net cash used in investing activities</b>	<u>(615,253)</u>	<u>(5,729)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from short-term loans	(160,000)	(1,490)
Retirement of bonds	(10,000)	(93)
New stock issue	1,784,452	16,617
Purchase of treasury stock	(835)	(8)
Cash dividends paid	(107,040)	(997)
<b>Net cash provided by financing activities</b>	<u>1,506,577</u>	<u>14,029</u>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	(148)	(1)
<b>Net increase in cash and cash equivalents</b>	1,153,045	10,736
<b>Cash and cash equivalents at beginning of the year</b>	3,260,740	30,364
<b>Increase in Cash and Cash Equivalents resulting from merger</b>	1,068,729	9,952
<b>Cash and cash equivalents at end of the year (Note 3)</b>	<u>¥ 5,482,514</u>	<u>\$ 51,052</u>

The accompanying notes are an integral part of these financial statements.

**Notes to Consolidated Financial Statements**  
NextCom K.K. and its consolidated subsidiary

1 Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements of NextCom K.K. (the "Company") and its subsidiary are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

The Company has a acquired subsidiary and has therefore prepared consolidated financial statements as of March 31, 2005. As the Company did not own a subsidiary in the prior year, comparative consolidated financial statements have not been presented.

Relevant notes have been added and certain reclassifications and recapitulations of account balances as disclosed in the consolidated financial statements submitted to the Director of Kanto Financial Bureau in Japan have been made so as to present them in a form which is more familiar to the readers outside Japan.

Although the statements of shareholders' equity are not disclosed in Japan for domestic reporting purposes, such statements have been prepared for the purpose of inclusion in this document.

The amounts presented in the consolidated financial statements are rounded to the nearest thousand yen.

The Company maintains its accounting records in Japanese yen. The U.S. dollar amounts included in the accompanying consolidated financial statements and notes thereto represent the arithmetical results of translating Japanese yen into U.S. dollars at the rate of ¥107.39 =U.S.\$1.00 prevailing at March 31, 2005. The inclusion of such U.S. dollar amounts is solely for the convenience of the readers and is not intended to imply that Japanese yen amounts have been or could be converted, realized or settled in U.S. dollars at that or any other rate.

**Notes to Consolidated Financial Statements**  
NextCom K.K. and its consolidated subsidiary

2 Summary of Significant Accounting Policies

(1) Principals of consolidated

The Company has one subsidiary as of May 31, 2005. The subsidiary which was consolidated with the Company as of May 31, 2005, is follows;

<u>Consolidated subsidiary</u>	<u>Equity ownership (%)</u>
Adam Net Techno-Service Ltd.	100.0

For consolidation, all significant inter-company transaction, account balance and unrealized profit/loss arising from inter-company transactions have been eliminated.

The difference between the cost of an investment in a consolidated subsidiary and the amount of underlying equity in net assets at fair value of such subsidiary is recorded as negative goodwill in the accompanying financial statements and is amortized on a straight-line basis over a period of 20 years.

(2) Cash and cash equivalents

For the purpose of the statement of cash flows, "Cash and cash equivalents" consists of cash on hand, demand deposits and certain investments with original maturity of three months or less with virtually no risk of loss of value.

(3) Marketable securities and Investments in securities

Effective April 1, 2000, the new accounting standard for financial instruments was applied by the Company. The standard requires all applicable securities to be classified and accounted for, depending on management's intent, as follows;

Trading securities, which are held for the purpose of earning capital gains in near time, are reported at fair value, and the related unrealized gains and losses are included in earnings. Held-to-maturity securities, which are expected to be held to maturity with the positive intent and ability to hold maturity, are reported at amortized cost. The Company has no trading securities and held-to-maturity securities as of March 31, 2005. Securities other than trading securities and hold-to-maturity securities are classified as available-for-sale securities. Available-for-sale securities that are publicly traded are reported at fair market value, with unrealized gains and losses, net of applicable taxes, reported in a traded are reported in a separate component of shareholders' equity. Available-for-sale securities that are not publicly trade are stated at cost; cost being determined using the moving-average method.

(4) Inventories

Inventories are stated at cost determined by the moving-average method.

(5) Property and equipment

Property and equipment are stated at cost. Depreciation is computed based on the declining-balance method while the straight-line method is applied to buildings acquired after

**Notes to Consolidated Financial Statements**  
NextCom K.K. and its consolidated subsidiary

April 1, 1998.

The range of useful lives utilized is mainly from 8 to 18 years for buildings and structures, from 5 to 15 years for equipment.

(6) Intangible assets

Intangible assets are amortized on straight-line basis. Software for internal use is amortized over the period of the estimated useful life (5 years).

(7) Stock issue expenses

Stock issue expenses are charged to income when incurred.

(8) Allowance for doubtful accounts

For normal receivables: Allowance for doubtful accounts for debtors, who are not in trouble with their financial status, is determined by applying the historical credit loss rates to the balance at the end of period.

For doubtful receivables: Allowance for doubtful accounts for debtors, who have not failed but has a probability to be in serious financial trouble for repayments of debts, is determined by estimating the uncollectible amount of such receivables respectively.

(9) Accrued bonuses to employees

Accrued bonuses to employees represents the estimated amounts of bonuses to employees attributable to their services rendered within the respective period.

(10) Reserve for retirement benefits

The Company has a lump-sum retirement payment scheme and a defined benefit pension plan for employees and a retirement benefit plan for directors and corporate auditors.

The reserve for retirement benefits to employees is provided in the amount that would have been borne by the Company if all employees had voluntarily retired at the balance sheet date, whereas the contribution to the retirement fund is charged to income as incurred.

The reserve for retirement benefit to directors and corporate auditors is recorded in the amount calculated in accordance with the relevant internal rule on the assumption that all directors and corporate auditors had retired at the respective balance sheet dates. Payment of the retirement benefits to directors and corporate auditors requires the shareholders' prior approval, however the reserve for the retirement benefits to directors and corporate auditors is recognized as the generally accepted customary practice in Japan.

**Notes to Consolidated Financial Statements**  
NextCom K.K. and its consolidated subsidiary

(11) Income taxes

Income taxes of the Company consist of corporate income taxes, corporate inhabitant taxes and enterprise taxes. Enterprise taxes are deductible when paid for the computation of other income taxes.

Deferred tax accounting is applied and the asset and liability approach is employed in accordance with the Japanese accounting standards.

(12) Consumption taxes

The consumption taxes are imposed at the flat rate of 5% on all domestic consumption of goods and services with certain exceptions.

The consumption taxes paid for purchase and consumption tax withheld from sales are excluded from expenses and sales amounts in the accompanying financial statements. Net consumption taxes receivable was recorded in the amount of ¥176,571 thousand in other current liabilities in the accompanying balance sheet as of March 31, 2005.

(13) Derivatives and hedging activities

The Company uses foreign exchange forward contract, foreign currency options, foreign currency swaps, marketable securities and time deposits denominated in foreign currencies to hedge the exchange risks associated with payables, contract obligations on import transactions and anticipated transactions denominated in foreign currencies.

The Company does not enter into derivatives for trading purposes or speculative purpose. Internal rules have been established with respect to the purposes, policies, procedures and approvals, and reporting. As to the hedging transactions, the effectiveness of hedge over the hedged items is constantly monitored.

Where the transactions do not satisfy the certain conditions stipulated in the Japanese accounting standards for financial instruments, such derivative arrangements and financial instruments are valued at fair value and resulting unrealized gains or losses are included in the determination of the current year's income, whereas a deferral method of accounting is applied where transactions are fallen into the category of hedging transactions (hedge accounting). Under the hedge accounting, unrealized gains and losses on the hedge instruments are carried as assets or liabilities in the balance sheets until the profits and losses on the corresponding hedged items are realized.

(14) Leases

Lease transactions are accounted for in conformity with the Japanese accounting standards on leases.

Finance leases other than those which are deemed to transfer the ownership of the leased assets to lessees are accounted for by a method similar to that used for ordinary operating leases.

**Notes to Consolidated Financial Statements**  
NextCom K.K. and its consolidated subsidiary

(15) Appropriation of retained earning

The Japanese Commercial Code (the "Code") requires the appropriation including cash dividends of retained earnings to be approved at the shareholders meeting to be held within three months after the balance sheet date. Also the Code allows the Board of Directors to make interim cash distribution (interim cash dividends) if certain conditions are satisfied.

The amounts of cash dividends shown in the accompanying statements of changes in shareholders' equity is the total of such interim cash dividends and the cash dividends paid during the respective periods.

(16) Earnings and dividends per share

Basic earnings per share is computed based on the weighted-average number of shares of common stock outstanding during each period.

Diluted earnings per share reflects the potential dilution that could occur when dilutive securities were converted into common shares.

The amount of cash dividends is total of interim cash dividends paid during the respective periods and such dividends declared as applicable to the respective periods.

3 Cash and cash equivalents

(1) Reconciliation of "Cash on hand in bank" to "cash and cash equivalents"

	Thousands of yen	Thousands of U.S. dollars
	2005	2005
Cash on hand and in banks	¥ 5,487,014	\$ 51,094
Less: Time deposits of cash in banks on contracts	(4,500)	(42)
Total cash and cash equivalents	<u>¥ 5,482,514</u>	<u>\$ 51,052</u>

(2) Outline of the merged companies' assets and liabilities as of December 11, 2004.

	Thousands of yen	Thousands of U.S. dollars
Current assets	¥ 6,535,001	\$ 60,853
Other assets	2,052,567	19,113
Total assets	<u>8,587,568</u>	<u>79,966</u>
Current liabilities	7,063,342	65,773
Long-term liabilities	417,109	3,884
Total liabilities	<u>¥ 7,480,451</u>	<u>69,657</u>

**Notes to Consolidated Financial Statements**  
NextCom K.K. and its consolidated subsidiary

4 Marketable securities and investments in securities

Marketable securities and investment in securities of which the aggregate costs, unrealized gains and losses fair market values pertaining to held-to-maturity securities and available-for-sale securities as of March 31, 2005 were as follows;

	Thousands of yen			Fair market value
	Cost	Unrealized gains	Unrealized losses	
Securities classified as:				
Available-for-sale-				
Equity securities	¥15,840	¥ 13,440	¥ -	¥ 29,280
Debt securities	-	-	-	-
Others	-	-	-	-
	¥15,840	¥ 13,440	¥ -	¥ 29,280
Held-to-maturity-Debt securities	-	-	-	-

	Thousands of U.S. dollars			Fair market value
	Cost	Unrealized gains	Unrealized losses	
Securities classified as:				
Available-for-sale-				
Equity securities	\$ 147	\$ 125	¥ -	\$ 272
Debt securities	-	-	-	-
Others	-	-	-	-
	\$ 147	\$ 125	¥ -	\$ 272
Held-to-maturity-Debt securities	-	-	-	-

In addition, unrealized gains on investment in of ¥7,969 thousand, net of tax effect, is included in “Unrealized gains on other securities” on the consolidated balance sheets and is excluded from the schedule above.

Proceeds from sales available-for-sale securities were ¥48,111 thousand for the year ended March 31, 2005. On those sales, gross realized gains computed on the average cost basis were ¥14,186 thousand.

Major equity securities whose fair market value are not readily determinable as of March 31, 2005 were as follows;

	Thousands of yen	Thousands of U.S. dollars
Available-for-sale- securities		
Unlisted stock	¥ 48,293	\$ 450

**Notes to Consolidated Financial Statements**  
NextCom K.K. and its consolidated subsidiary

5 Derivative financial instruments

The derivative transactions of the Company as of March 31, 2005 were as follows:

	Thousands of yen			Thousands of U.S. dollars		
	2005			2005		
	Notional Amount	Market Value	Unrealized Loss	Notional Amount	Market Value	Unrealized Loss
Options						
Sold (US\$)	¥ 839,580	(¥ 58,260)	(¥ 58,260)	\$ 7,818	(\$ 543)	(\$ 543)
Put						

- Derivative transactions to which hedge accounting is applied are excluded from the above table.
- Unrealized loss in the above table is charged to income for the year.

6 Short-term loans

The weighted-average interest rate on short-term bank loans for the year ended March 31, 2005 was 0.598%.

	Thousands of yen	Thousands of U.S. dollars
	2005	2005
Payable to domestic banks		
Collateralized	¥ -	\$ -
Unsecured	120,000	1,117
Current portion of long-term debt	-	-
	<u>¥ 120,000</u>	<u>\$ 1,117</u>

7 Assets pledged as collateral

The Company has assets pledged as collateral as of March 31, 2005.

	Thousands of yen	Thousands of U.S. dollars
	2005	2005
Cash in banks	¥ 4,500	\$ 42

**Notes to Consolidated Financial Statements**  
NextCom K.K. and its consolidated subsidiary

8 Reserve for retirement benefits

The balance of reserve for retirement benefits as of March 31, 2005 is consisted of the followings.

	Thousands of yen	Thousands of U.S. dollars
	2005	2005
Retirement benefits to:		
-Employees		
a. Project benefit obligations	¥ 623,355	\$ 5,805
b. Plan assets	(73,021)	(680)
c. Unfunded retirement benefit obligation (a + b)	550,334	5,125
d. Unrecognized actuarial differences	(32,285)	(301)
Employees retirement benefits (c - d)	518,049	4,824
 -Directors and corporate auditors	 182,794	 1,702
Total	<u>¥ 700,843</u>	<u>\$ 6,526</u>

The composition of cost of reserve for retirement benefits to employees for the year ended March 31, 2005 was as follows:

	Thousands of yen	Thousands of U.S. dollars
	2005	2005
Service cost	¥ 54,449	\$ 507
Interest cost	1,825	17
Expected return on plan assets	(433)	(4)
Amortization of prior service cost	1,372	13
Pension premium	82,295	766
Total	<u>¥ 139,508</u>	<u>\$ 1,299</u>

Assumptions made in the calculation of the above information are as follows;

	2005
Discount rate	2.0%
Expected rate of return on plan assets	2.0%
Amortization of unrecognized actuarial difference	5 years

9 Contingent Liabilities

As of March 31, 2005, the Company had no contingent liabilities.

**Notes to Consolidated Financial Statements**  
NextCom K.K. and its consolidated subsidiary

10 Research and development

Research and development expenditure charged to income was ¥28,490 thousand (\$265 thousand) for the year ended March 31, 2005.

11 Income taxes

At March 31, 2005, significant components of deferred tax assets were as follows;

	Thousands of yen 2005	Thousands of U.S. dollars 2005
Deferred income tax assets:		
Accrued bonuses to employees	¥ 380,709	\$ 3,545
Accrued enterprise taxes	106,732	994
Accrued expenses	306,377	2,853
Depreciation	199,965	1,862
Reserve for retirement benefits	283,154	2,637
Loss on disposal of inventories	127,150	1,184
Loss on write-down of investment securities	53,859	501
Others	61,104	569
Gross deferred tax assets	1,519,050	\$ 14,145
Deferred income tax liabilities:		
Unrealized gain on other securities	(5,470)	(51)
Gross deferred tax liabilities	(5,470)	(51)
Net deferred income tax assets	1,513,580	14,094

The effective statutory tax rate is approximately 40.7% for the year ended March 31, 2005.

**Notes to Consolidated Financial Statements**  
NextCom K.K. and its consolidated subsidiary

12 Lease Commitments

The Company uses certain machinery and equipment under the finance lease contracts. Total lease payments were ¥55,830 thousand (\$520 thousand) for the year ended March 31, 2005.

Pro forma information regarding the leased property such as acquisition cost, accumulated depreciation and future minimum lease payments under finance leases that do not transfer the ownership of the leased property to the lessee for the year ended March 31, 2005 were as follows:

	Thousands of yen	Thousands of U.S. dollars
	2005	2005
<hr/>		
Machinery and equipments		
Acquisition cost	¥ 186,892	\$ 1,740
Accumulated depreciation	91,129	848
Net book value	<u>¥ 95,763</u>	<u>\$ 892</u>
Depreciation	52,586	490
Interest	3,227	30
	Thousands of yen	Thousands of U.S. dollars
	2005	2005
<hr/>		
Future minimum lease payments		
Due within one year	¥ 38,253	\$ 356
Due after one year	59,351	553
Total	<u>¥ 97,604</u>	<u>\$ 909</u>

The amounts of acquisition costs and future minimum lease payments under finance leases shown above included the imputed interest lease portion.

## Notes to Consolidated Financial Statements

NextCom K.K. and its consolidated subsidiary

### 13 Shareholders' Equity

Under the Japanese Commercial Code (the "Code"), at least 50% of the issue price of new shares is required to be designated as stated capital, which is determined by a resolution of the Board of Directors. Proceeds in excess of the amount designated as stated capital are credited to additional paid-in capital.

Under the Code, an amount equivalent to 10% of interim cash distribution (interim cash dividends) and at least 10% of cash distribution including cash dividends made as a result of the appropriation of retained earnings is required to be transferred to the legal reserve until the balance of that reserve reached 25% of the stated share capital.

In October, 2001 the Code was amended and transfer to the legal reserve is no longer required if the balance of the total of the additional paid-in capital and the legal reserve stated above reaches 25% of the stated share capital. The amount in excess of 25% of the stated share capital is allowed to be distributed as dividends when certain conditions specifically stipulated in the Code are satisfied.

The Company had introduced stock-based compensation plans as an incentive for certain persons who hold office of directors or corporate auditors of the Company or its related companies and who are employees at the time of exercise of such rights. The outline of each plans is summarized below. Exercise price of the above rights are subject to subsequent adjustment in certain events including new share issue below market price. Number of shares of common stock to be issued is as follows:

#### (1) Approved on June 22, 2001

Persons qualified	Number of shares of common stock	Exercise price	Exercise period
Directors, corporate auditors and employees	1,347	¥ 303,000	from October 1, 2002 to September 30, 2005

#### (2) Approved on June 18, 2003

Persons qualified	Number of shares of common stock	Exercise price	Exercise period
Directors and employees	1,466	¥ 134,470	from July 1, 2005 to June 30, 2008

Persons qualified	Number of shares of common stock	Exercise price	Exercise period
Directors and employees	429	¥ 216,219	from July 1, 2005 to June 30, 2008

Persons qualified	Number of shares of common stock	Exercise price	Exercise period
Directors and employees	659	¥ 321,429	from July 1, 2005 to June 30, 2008

**Notes to Consolidated Financial Statements**  
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14 Related Party Transactions

The parent company of the Company is Mitsui & Co.,Ltd, which owns 47.38% of shares of the Company as of March 31, 2005 , and CSK Corporation owns 29.83% of shares of the Company as of March 31, 2005 ,all of which have been listed their shares in Tokyo Stock Exchange.

The Company's transactions with those companies for the year ended March 31, 2005 were as follows.

Company	Transaction	Thousands of yen <u>2005</u>	Thousands of U.S. dollars <u>2005</u>
Mitsui & Co.,Ltd,	Sales	¥ 1,004,789	\$ 9,356
	Accounts receivable	626,206	5,831
	Purchase	651,637	6,068
	Accounts payable	463,917	4,320
CSK Corporation	Sales	¥ 1,466,788	\$ 13,659
	Accounts receivable	543,237	5,059

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15 Segment Information

(1) Business segment information

Segment information classified by business has been omitted because the Company is only engaged in computer services, computer and other product sale and related business.

(2) Geographic segment information

Segment information classified by geographic has been omitted because all operations were performed in Japan.

(3) Export sales and sales by overseas subsidiaries

Segment information has been omitted as all sales were within Japan.

16 Subsequent Events

The new stock option plan was approved by the shareholders' meeting on June 17, 2005.

Entitled	Number of shares of common stock	Price	Period
Directors, executive officers and employees of the company and subsidiary	3,500	Note	from July 1, 2007 through June 30, 2010

Note: These new options to be granted will be exercisable at price which multiplied average market price by 5.0%. The average market price is calculated by the closing prices of each day on previous month when the new options exercises.

The exercise price is also subject to adjustment in the cases including a stock split or a new share issue in which the price of the share is less than market price.