

NextCom K. K. and its consolidated subsidiary

Consolidated Financial Statements

For the year ended March 31, 2005 and 2006

Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of NextCom K.K. and its subsidiary as of March 31, 2005 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for the years 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 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 10, the Company has filed a lawsuit in Tokyo District Court and the case is at an advanced stage in the mediation process.

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.

ChuoAoyama PricewaterhouseCoopers

Tokyo, Japan

June 23, 2006

Consolidated Balance SheetsNextCom K.K. and its consolidated subsidiary
As of March 31, 2005 and 2006

	Thousands of yen		Thousands of U.S. dollars (Note 1)
	2005	2006	2006
<u>ASSETS</u>			
Current assets			
Cash on hand and in banks (Notes 3 and 7)	¥ 5,487,014	¥6,892,820	\$ 58,677
Notes and accounts receivable, trade	12,825,080	10,975,206	93,430
Less: allowance for doubtful accounts	(2,632)	(24,891)	(212)
	<u>12,822,448</u>	<u>10,950,315</u>	<u>93,218</u>
Inventories	4,615,597	5,213,663	44,383
Deferred income taxes (Note 12)	974,514	507,030	4,316
Other current assets	421,734	290,222	2,471
Total current assets	<u>24,321,307</u>	<u>23,854,050</u>	<u>203,065</u>
Property and equipment			
Buildings and structures	378,043	427,054	3,635
Equipment	3,665,504	4,235,807	36,059
	<u>4,043,547</u>	<u>4,662,861</u>	<u>39,694</u>
Less: accumulated depreciation	(2,113,141)	(2,628,552)	(22,376)
Net property and equipment	<u>1,930,406</u>	<u>2,034,309</u>	<u>17,318</u>
Investments and other assets			
Investments in securities (Note 4)	77,573	63,449	540
Deferred income taxes (Note 12)	539,066	536,880	4,570
Deferred losses on hedging activities	1,700,849	-	-
Guarantee deposits	2,439,876	531,829	4,527
Others	257,430	243,332	2,072
Less: allowance for doubtful accounts	-	(9,272)	(79)
Total investments and other assets	<u>5,014,794</u>	<u>1,366,218</u>	<u>11,630</u>
Total assets	<u>¥ 31,266,507</u>	<u>¥ 27,254,577</u>	<u>\$ 232,013</u>

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

Consolidated Balance Sheets

NextCom K.K. and its consolidated subsidiary
As of March 31, 2005 and 2006

	Thousands of yen		Thousands of U.S. dollars (Note 1)
	2005	2006	2006
<u>LIABILITIES AND</u>			
<u>SHAREHOLDERS' EQUITY</u>			
Current liabilities:			
Short-term bank loans (Note 6)	¥ 120,000	¥ 40,000	\$ 341
Notes and accounts payable, trade	7,211,767	6,540,146	55,675
Income taxes payable	1,256,301	601,895	5,124
Accrued expenses	1,151,115	1,079,936	9,193
Advances received	1,768,590	1,713,412	14,586
Accrued bonuses to employees	913,055	331,814	2,825
Other current liabilities	443,857	347,837	2,960
Total current liabilities	12,864,685	10,655,040	90,704
Long-term liabilities:			
Reserve for retirement benefits (Note 8)	700,843	808,642	6,884
Derivative contracts with negative fair value	1,759,109	-	-
Negative goodwill	186,805	177,225	1,509
Total long-term liabilities	2,646,757	985,867	8,393
Total liabilities	15,511,442	11,640,907	99,097
Commitments and contingent liabilities (Notes 9 and 12)			
Shareholders' equity: (Note 14)			
Common stock, no par value			
Authorized: 400,000 shares at March 31, 2005, 1,600,000 shares at March 31, 2006			
Issued: 149,250 shares at March 31, 2005, 607,308 shares at March 31, 2006	3,801,346	4,113,734	35,019
Additional paid-in capital	6,607,014	6,919,401	58,904
Retained earnings	5,339,571	6,822,410	58,078
Unrealized gains on other securities	7,969	17,852	152
Treasury stock, at cost	(835)	(2,259,727)	(19,237)
Total shareholders' equity	15,755,065	15,613,670	132,916
Total liabilities and shareholders' equity	¥ 31,266,507	¥ 27,254,577	\$ 232,013

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 and 2006

	Thousands of yen		Thousands of U.S. dollars (Note 1)
	2005	2006	2006
Net sales	¥ 42,542,403	¥ 44,329,135	\$ 377,366
Cost of sales	34,292,193	32,954,487	280,536
Gross profit	8,250,210	11,374,648	96,830
Selling, general and administrative expenses (Note 11)	5,324,593	8,590,534	73,129
Operating income	2,925,617	2,784,114	23,701
Other income (expenses):			
Interest and dividends income	5,029	1,126	10
Exchange gain	186,976	335,807	2,857
Amortization of goodwill	4,790	9,580	82
Merger-related costs	(250,960)	-	-
Interest expenses	(1,272)	(1,470)	(13)
Loss on disposal of inventories	(36,846)	(20,420)	(174)
Stock issue expenses	(9,430)	(10,699)	(91)
Public offering-related costs	(14,611)	-	-
Treasury stock-related costs	-	(5,893)	(50)
Gain on return of allowance for doubtful accountants	28,911	-	-
Gain on sale of investment securities	14,186	30,000	255
Gain on disposal of property and equipment	-	477	4
Loss on disposal of property and equipment	(73,302)	(8,344)	(71)
Loss on write-down of investment securities	(52,645)	(790)	(6)
Loss on write-down of other investments	-	(1,499)	(12)
Loss on cancellation of derivative	-	(341,098)	(2,904)
Others, net	9,112	28,253	241
Income before income taxes	2,735,555	2,799,144	23,829
Income taxes (Note 12)			
- Current	1,460,589	676,160	5,756
- Deferred	(396,066)	462,887	3,941
	1,064,523	1,139,047	9,697
Net income	¥ 1,671,032	¥ 1,660,097	\$ 14,132

Per share information (Note 17):	Yen		U.S. dollar (Note 1)
	2005	2006	2005
Net income per share			
- Basic earnings	¥ 13,531.10	¥ 2,720.47	\$ 23.15
- Diluted earnings	13,401.14	2,696.73	22.95
Cash dividends per share	1,000.00	1,000.00	8.51

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 and 2006

	Thousands of yen					
	Number of common stock	Common stock	Additional paid-in capital	Retained earnings	Unrealized gains on other securities	Treasury stock, at cost
Balance at March 31, 2004	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)	-	-
Issuance of additional shares of common stock	44,070	730,020	730,020	-	-	-
Increase due to merger	-	-	1,104,738	-	-	-
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	-
Balance at March 31, 2005	149,250	¥ 3,801,346	¥ 6,607,014	¥ 5,339,571	¥ 7,969	¥ (835)
Net income	-	-	-	1,660,097	-	-
Cash dividends	-	-	-	(150,358)	-	-
Bonuses to directors and corporate auditors	-	-	-	(26,900)	-	-
Stock split	454,767	-	-	-	-	-
Purchase of treasury stock, net	-	-	-	-	-	(2,258,892)
New stock issued upon exercise of stock option	3,291	312,388	312,387	-	-	-
Unrealized gains on other securities	-	-	-	-	9,883	-
Balance at March 31, 2006	607,308	¥ 4,113,734	¥ 6,919,401	¥ 6,822,410	¥ 17,852	¥ (2,259,727)

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 and 2006

Thousands of U.S. dollars (Note 1)

	Common stock	Additional paid-in capital	Retained earnings	Unrealized gains on other securities	Treasury stock, at cost
Balance at March 31, 2005	<u>\$ 32,360</u>	<u>\$ 56,245</u>	<u>\$ 45,455</u>	<u>\$ 68</u>	<u>\$ (7)</u>
Net income	-	-	14,132	-	-
Cash dividends	-	-	(1,280)	-	-
Bonuses to directors and corporate auditors	-	-	(229)	-	-
Stock split	-	-	-	-	-
Purchase of treasury stock, net	-	-	-	-	(19,230)
New stock issued upon exercise of stock option	2,659	2,659	-	-	-
Unrealized gains on other securities	-	-	-	84	-
Balance at March 31, 2006	<u>\$ 35,019</u>	<u>\$ 58,904</u>	<u>\$ 58,078</u>	<u>\$ 152</u>	<u>\$ (19,237)</u>

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 and 2006

	Thousands of yen		Thousands of U.S. dollars (Note 1)
	2005	2006	2006
Cash flows from operating activities:			
Income before income taxes	¥ 2,735,555	¥ 2,799,144	\$ 23,829
Adjustments for -			
Depreciation	427,430	628,881	5,354
Amortization of goodwill	(4,790)	(9,580)	(82)
Decrease/Increase in allowance for doubtful accounts	(49,211)	31,532	268
Increase/Decrease in accrued bonuses to employees	394,685	(581,240)	(4,948)
Increase in reserve for retirement benefits	23,856	107,799	918
Interest income	(5,029)	(1,126)	(10)
Interest expenses	1,272	1,470	13
Loss on disposal of property and equipment	73,302	8,344	71
Loss on disposal of inventories	36,846	20,420	174
Loss on cancellation of derivative	-	341,098	2,904
Gain on disposal of property and equipment	-	(477)	(4)
Gain on sale of investment securities	(14,186)	(30,000)	(255)
Loss on write-down of investments in securities	52,645	790	6
Loss on write-down of other investments	-	1,499	12
Increase/Decrease in notes and accounts receivable, trade	(2,011,765)	1,794,697	15,278
Decrease/Increase in inventories	1,795,036	(618,486)	(5,265)
Decrease in notes and accounts payable, trade	(1,186,815)	(630,644)	(5,369)
Decrease/Increase in consumption taxes payable	(75,680)	64,874	552
Increase/Decrease in guarantee deposits	(384,394)	1,550,747	13,201
Bonuses to directors and corporate auditors	(20,800)	(26,900)	(229)
Others, net	(713,355)	(210,475)	(1,791)
Subtotal	1,074,602	5,242,367	44,627
Interest received	5,203	1,126	10
Interest paid	(1,277)	(1,560)	(13)
Income taxes paid	(816,659)	(1,290,142)	(10,983)
Net cash provided by operating activities	261,869	3,951,791	33,641
Cash flows from investing activities:			
Decrease in time deposit, net	10,000	-	-
Purchase of property and equipment	(668,447)	(669,875)	(5,703)
Sale of property and equipment	-	2,311	20
Purchase of intangible assets	(26,634)	(83,300)	(709)
Sale of investments in securities	41,111	69,000	587
Others, net	28,717	-	-
Net cash used in investing activities	(615,253)	(681,864)	(5,805)
Cash flows from financing activities:			
Proceeds from short-term loans	(160,000)	(80,000)	(681)
Retirement of bonds	(10,000)	-	-
New stock issue	1,784,452	624,775	5,319
Purchase of treasury stock	(835)	(2,258,891)	(19,230)
Cash dividends paid	(107,040)	(150,358)	(1,280)
Net cash provided (used in) by financing activities	1,506,577	(1,864,474)	(15,872)
Effect of exchange rate changes on cash and cash equivalents	(148)	353	3
Net increase in cash and cash equivalents	1,153,045	1,405,806	11,967
Cash and cash equivalents at beginning of the year	3,260,740	5,482,514	46,672
Increase in cash and cash equivalents resulting from merger	1,068,729	-	-
Cash and cash equivalents at end of the year (Note 3)	¥ 5,482,514	¥ 6,888,320	\$ 58,639

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.

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 ¥117.47 =U.S.\$1.00 prevailing at March 31, 2006. 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 March 31, 2005 and 2006. The subsidiary which was consolidated with the Company as of March 31, 2005 and 2006, 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 and 2006. Securities other than trading securities and held-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) Impairment of fixed assets

On August 9, 2002, the Business Accounting Council of Japan issued new accounting standards entitled "Statement of Opinion on the Establishment of Accounting Standards for Impairment of Fixed Assets". Further, on October 31, 2003, the Accounting Standards Board of Japan issued Financial Accounting Standards Implementation Guidance No. 6 - "Application Guidance on Accounting Standards for Impairment of Fixed Assets". These standards are effective from the fiscal years beginning April 1, 2005.

The Company adopted these standards in the fiscal year ended March 31, 2006. As a result, an application of new standard have no impact on the Company's consolidated financial statements.

(8) Stock issue expenses

Stock issue expenses are charged to income when incurred.

(9) 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.

(10) 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.

Notes to Consolidated Financial Statements

NextCom K.K. and its consolidated subsidiary

(11) Reserve for retirement benefits

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

The reserve for retirement benefits of a lump-sum retirement payment scheme, a defined benefit pension plan 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 benefits of a tax-qualified pension plan would have accounted for using the actuarial calculation of projected benefit obligation for each employee.

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.

(12) 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.

(13) 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 payable was recorded in the amount of ¥241,444 thousand (\$2,055 thousand) in other current liabilities in the accompanying balance sheets as of March 31, 2006.

(14) 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

Notes to Consolidated Financial Statements

NextCom K.K. and its consolidated subsidiary

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.

(15) 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.

(16) 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 sheets 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.

(17) 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.

Notes to Consolidated Financial Statements

NextCom K.K. and its consolidated subsidiary

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	2006	2006
Cash on hand and in banks	¥ 5,487,014	¥ 6,892,820	\$ 58,677
Less: Time deposits of cash in banks on contracts	(4,500)	(4,500)	(38)
Total cash and cash equivalents	<u>¥ 5,482,514</u>	<u>¥ 6,888,320</u>	<u>\$ 58,639</u>

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

	Thousands of yen
Current assets	¥ 6,535,001
Other assets	2,052,567
Total assets	<u>8,587,568</u>
Current liabilities	7,063,342
Long-term liabilities	417,109
Total liabilities	<u>¥ 7,480,451</u>

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			
	Cost	Unrealized gains	Unrealized losses	Fair market value
Securities classified as:				
Available-for-sale-				
Equity securities	¥15,840	¥ 13,440	¥ -	¥ 29,280
Debt securities	-	-	-	-
Others	-	-	-	-
	<u>¥15,840</u>	<u>¥ 13,440</u>	<u>¥ -</u>	<u>¥ 29,280</u>
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.

Notes to Consolidated Financial Statements

NextCom K.K. and its consolidated subsidiary

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
Available-for-sale- securities	
Unlisted stock	¥ 48,293

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, 2006 were as follows;

	Thousands of yen			
	Cost	Unrealized gains	Unrealized losses	Fair market value
Securities classified as:				
Available-for-sale-				
Equity securities	¥15,840	¥ 29,910	¥ -	¥ 45,750
Debt securities	-	-	-	-
Others	-	-	-	-
	¥15,840	¥ 29,910	¥ -	¥ 45,750
Held-to-maturity-Debt securities	-	-	-	-

	Thousands of U.S. dollars			
	Cost	Unrealized gains	Unrealized losses	Fair market value
Securities classified as:				
Available-for-sale-				
Equity securities	\$ 134	\$ 255	¥ -	\$ 389
Debt securities	-	-	-	-
Others	-	-	-	-
	\$ 134	\$ 255	¥ -	\$ 389
Held-to-maturity-Debt securities	-	-	-	-

In addition, unrealized gains on investment in of ¥17,852 thousand (\$152 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 ¥60,000 thousand (\$511 thousand) for the year ended March 31, 2006. On those sales, gross realized gains computed on the average cost basis were ¥30,000 thousand (\$255 thousand).

Major equity securities whose fair market value are not readily determinable as of March 31, 2006 were as follows;

	Thousands of yen	Thousands of U.S. dollars
Available-for-sale- securities		
Unlisted stock	¥ 17,699	\$ 151

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 and 2006 were as follows:

	Thousands of yen					
	2005			2006		
	Notional Amount	Market Value	Unrealized Loss	Notional Amount	Market Value	Unrealized Loss
Options						
Sold (US\$)	¥ 839,580	(¥ 58,260)	(¥ 58,260)	¥ -	¥ -	¥ -
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 bank loans

The weighted-average interest rate on short-term bank loans for the year ended March 31, 2005 and 2006 were 0.598% and 0.585%, respectively.

	Thousands of yen		Thousands of
	2005	2006	U.S. dollars
			2006
Payable to domestic banks			
Collateralized	¥ -	¥ -	\$ -
Unsecured	120,000	40,000	341
	<u>¥ 120,000</u>	<u>¥ 40,000</u>	<u>\$ 341</u>

7 Assets pledged as collateral

The Company has assets pledged as collateral as of March 31, 2005 and 2006.

	Thousands of yen		Thousands of
	2005	2006	U.S. dollars
			2006
Cash in banks	¥ 4,500	¥ 4,500	\$ 38

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NextCom K.K. and its consolidated subsidiary

8 Reserve for retirement benefits

The balance of reserve for retirement benefits as of March 31, 2005 and 2006 are consisted of the followings.

	Thousands of yen		Thousands of U.S. dollars
	2005	2006	2006
Retirement benefits to:			
-Employees			
a. Project benefit obligations	¥ 623,355	¥ 656,661	\$ 5,590
b. Plan assets	(73,021)	(85,713)	(730)
c. Unfunded retirement benefit obligation (a + b)	550,334	570,948	4,860
d. Unrecognized actuarial differences	(32,285)	1,684	14
Employees retirement benefits (c + d)	518,049	572,632	4,874
 -Directors and corporate auditors	 182,794	 236,010	 2,010
Total	¥ 700,843	¥ 808,642	\$ 6,884

The composition of cost of reserve for retirement benefits to employees for the year ended March 31, 2005 and 2006 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2005	2006	2006
Service cost	¥ 54,449	¥ 123,202	\$ 1,049
Interest cost	1,825	6,535	56
Expected return on plan assets	(433)	(1,460)	(12)
Amortization of prior service cost	1,372	8,751	74
Pension premium	82,295	185,617	1,580
Total	¥ 139,508	¥ 322,645	\$ 2,747

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

	2005	2006
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	2.0%	2.0%
Amortization of unrecognized actuarial difference	5 years	5 years

9 Contingent Liabilities

As of March 31, 2005 and 2006, the Company had no contingent liabilities.

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10 Lawsuit

The Company filed a lawsuit against Fujitsu Support and Service Inc. and Fujitsu Network Solutions, Ltd. on September 29, 2004 due to the defendants' non payment of amounts due of ¥1,777 million per the supply contract. At present the case is with the Tokyo District Court and the mediation process is at an advanced stage. The purchase cost in relation to the supply contract is currently recognized as inventory in the Company's balance sheet.

11 Research and development

Research and development expenditure charged to income was ¥28,490 thousand and ¥212,831 thousand (\$1,812 thousand) for the year ended March 31, 2005 and 2006, respectively.

12 Income taxes

At March 31, 2005 and 2006, significant components of deferred tax assets were as follows;

	Thousands of yen		Thousands of
	2005	2006	U.S. dollars
Deferred income tax assets:			2006
Accrued bonuses to employees	¥ 380,709	¥ 135,512	\$ 1,153
Accrued enterprise taxes	106,732	55,804	475
Accrued expenses	306,377	231,385	1,970
Depreciation	199,965	213,917	1,821
Reserve for retirement benefits	283,154	329,405	2,804
Loss on disposal of inventories	127,150	83,178	708
Loss on write-down of investment securities	53,859	611	5
Others	61,104	6,350	54
Gross deferred tax assets	1,519,050	1,056,162	\$ 8,990
Deferred income tax liabilities:			
Unrealized gain on other securities	(5,470)	(12,252)	(104)
Gross deferred tax liabilities	(5,470)	(12,252)	(104)
Net deferred income tax assets	1,513,580	1,043,910	8,886

The effective statutory tax rate is approximately 40.7% for the year ended March 31, 2005 and 2006.

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13 Lease Commitments

The Company uses certain equipment, intangible assets under the finance lease contracts. Total lease payments were ¥55,830 thousand and ¥46,069 (\$392 thousand) for the year ended March 31, 2005 and 2006, respectively.

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 and 2006 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2005	2006	2006
Equipments, intangible assets and others			
Acquisition cost	¥ 186,892	¥ 156,240	\$ 1,330
Accumulated depreciation	91,129	83,802	713
Net book value	<u>¥ 95,763</u>	<u>¥ 72,438</u>	<u>\$ 617</u>
Depreciation	52,586	43,806	373
Interest	3,227	2,375	20
	Thousands of yen		Thousands of U.S. dollars
	2005	2006	2006
Future minimum lease payments			
Due within one year	¥ 38,253	¥ 34,069	\$ 290
Due after one year	59,351	40,232	342
Total	<u>¥ 97,604</u>	<u>¥ 74,301</u>	<u>\$ 632</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

14 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 18, 2003

Persons qualified	Number of shares of common stock	Exercise price	Exercise period
Directors and employees	2,420	¥ 33,618	from July 1, 2005 to June 30, 2008

Persons qualified	Number of shares of common stock	Exercise price	Exercise period
Directors and employees	824	¥ 54,055	from July 1, 2005 to June 30, 2008

Persons qualified	Number of shares of common stock	Exercise price	Exercise period
Directors and employees	1,612	¥ 80,357	from July 1, 2005 to June 30, 2008

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(2) Approved on June 17, 2005

Persons qualified	Number of shares of common stock	Exercise price	Exercise period
Directors and employees	12,076	¥ 130,634	from July 1, 2007 to June 30, 2010

Persons qualified	Number of shares of common stock	Exercise price	Exercise period
Directors and employees	392	¥ 86,793	from July 1, 2007 to June 30, 2010

15 Related Party Transactions

The parent company of the Company is Mitsui & Co.,Ltd. which owns 47.38% and 46.58% of shares of the Company as of March 31, 2005 and 2006, 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. Bussan Real Estate Co.,Ltd. is a subsidiary of Mitsui&Co.,Ltd.

The Company's transactions with those companies for the year ended March 31, 2005 and 2006 were as follows.

Company	Transactions	Thousands of yen		Thousands of U.S. dollars
		2005	2006	2006
Mitsui&Co.,Ltd.	Sales	¥ 1,004,789	¥ 2,387,429	\$ 20,324
	Accounts receivable	626,206	156,561	1,333
	Purchase	651,637	1,474,994	12,556
	Accounts payable	463,917	639,381	5,443
Bussan Real Estate Co.,Ltd	Rental expenses for real estates	-	¥ 466,424	\$ 3,971
	Guarantee deposit	-	¥ 356,393	\$ 3,034
CSK Corporation	Sales	¥ 1,466,788	¥ -	\$ -
	Accounts receivable	543,237	-	-

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NextCom K.K. and its consolidated subsidiary

16 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.

17 Stock Split

On December 20, 2006, the Company implemented a 4-for-1 split of its shares of common stock pursuant to a resolution approved at the meeting of the Board of Directors held on October 3, 2005. If the stock split had gone into effect during the years ended March 31, 2005, net income per share and diluted net income per share would have been as follows:

Per share information:	<u>Yen</u>
	<u>2005</u>
Net income per share	
- Basic earnings	¥ 3,382.77
- Diluted earnings	3,350.28

18 Subsequent Events

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

<u>Entitled</u>	<u>Number of shares of common stock</u>	<u>Price</u>	<u>Period</u>
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.