eAccess Ltd.

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2006

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Independent Auditors' Report

eAccess Ltd. and subsidiary
CONSOLIDATED BALANCE SHEET
AS OF MARCH 31, 2006

NOTE: Prior year comparative financial statements are not provided, since the consolidated financial reporting began this fiscal year.

		Millions of yen
		2006
ASSETS		
Current assets:		
Cash and cash equivalents	¥	158,654
Accounts receivable:		
Trade		5,444
Other		770
Inventories		41
Prepaid expenses and others		1,273
Deferred income taxes		495
Total current assets		166,677
Property and equipment:		
Machinery and equipment		38,420
Construction in progress		35
Others		3,709
		42,163
Accumulated depreciation and amortization		(26,907)
Total property and equipment, net		15,257
Investments and other assets:		
Investment securities		2,336
Long-term prepaid expenses		5,205
Lease deposits		800
Goodwill, net		772
Software		2,207
Deferred income taxes		769
Other assets		151
Total investments and other assets		12,240
Total assets	¥	194,174

See accompanying notes to consolidated financial statements.

eAccess Ltd. and subsidiary
CONSOLIDATED BALANCE SHEET
AS OF MARCH 31, 2006

NOTE: Prior year comparative financial statements are not provided, since the consolidated financial reporting began this fiscal year.

		Millions of yen
		2006
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable:		
Trade	¥	758
Other		4,335
Current portion of long-term debt		6,447
Accrued taxes		4,127
Accrued expenses		3,491
Provision for directors' bonus		30
Stock purchase warrants		5
Others		122
Total current liabilities		19,316
Long-term liabilities:		
Long-term debt		88,409
Others		96
Total long-term liabilities		88,504
Total liabilities		107,821
Minority interests		51,810
Commitments and contingencies		
Shareholders' equity:		
Common stock		
Authorized: 5,459,760 shares		
Issued and outstanding: 1,422,605 shares		16,403
Capital surplus		5,049
Retained earnings		13,074
Unrealized gain on investment securities		17
Total shareholders' equity		34,543
Total liabilities and shareholders' equity	¥	194,174

See accompanying notes to consolidated financial statements.

eAccess Ltd. and subsidiary
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED MARCH 31, 2006

NOTE: Prior year comparative financial statements are not provided, since the consolidated financial reporting began this fiscal year.

		Millions of yen
		2006
Revenue	¥	60,353
Cost of revenue		31,589
Gross profit		28,764
Selling, general & administrative expenses		19,389
Operating profit		9,375
Other income (expenses), net:		
Dividend income		4
Interest expense		(1,435)
Commission expense		(60)
Stock issuance costs		(350)
Others, net		(43)
Other expenses, net		(1,884)
Income before income taxes and minority interests		7,491
Income taxes		
Current		3,863
Deferred		(845)
Total income taxes		3,018
Minority interests		547
Net income	¥	5,020

		Yen
		2006
Per share data:		
Net income	¥	3,661.19
Diluted net income		3,093.51
Cash dividends		1,300.00

See accompanying notes to consolidated financial statements.

eAccess Ltd. and subsidiary
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED MARCH 31, 2006

NOTE: Prior year comparative financial statements are not provided, since the consolidated financial reporting began this fiscal year.

	Number of shares	Millions of yen				
	Common stock	**Common stock**	**Capital surplus**	**Retained earnings**	**Unrealized gain on investment securities**	**Total**
Balance at March 31, 2005	1,364,940	¥ 15,244	¥ 3,880	¥ 9,352	¥ -	¥ 28,476
Net income	-	-	-	5,020	-	5,020
Change in the Company's ownership interest in eMobile	-	-	-	343	-	343
Cash dividends	-	-	-	(1,638)	-	(1,638)
Decrease due to a newly consolidated subsidiary	-	-	-	(3)	-	(3)
Unrealized gain on investment securities	-	-	-	-	17	17
Exercise of detachable warrants	44,445	1,000	1,010	-	-	2,010
Exercise of stock options	13,220	159	159	-	-	318
Balance at March 31, 2006	1,422,605	¥ 16,403	¥ 5,049	¥ 13,074	¥ 17	¥ 34,543

See accompanying notes to consolidated financial statements.

eAccess Ltd. and subsidiary
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2006

NOTE: Prior year comparative financial statements are not provided, since the consolidated financial reporting began this fiscal year.

	Millions of yen
	2006
Cash flows from operating activities:	
Income before income taxes and minority interests	¥ 7,491
Depreciation and amortization	10,762
Loss on disposal of property and equipment	11
Loss on disposal of intangible assets – software	13
Provision for bad debt reserve	6
Interest expense	1,435
Stock issuance costs	350
Decrease in accounts receivable – trade	223
Decrease in inventories	13
Decrease in long-term prepaid expenses	43
Decrease in accounts payable – trade	(137)
Increase in accounts payable – other	1,989
Decrease in accrued expenses	(3,056)
Others, net	(515)
Subtotal	18,629
Cash received from interest	5
Cash paid for interest	(1,437)
Cash paid for income taxes	(11)
Net cash provided by operating activities	17,186
Cash flows from investing activities:	
Payments for purchase of investment securities	(2,107)
Purchase of property and equipment	(5,952)
Purchase of intangible assets	(919)
Others, net	(25)
Net cash used in investing activities	(9,003)
Cash flows from financing activities:	
Proceeds from long-term debt	6,000
Repayments of long-term debt	(7,456)
Proceeds from stock issuance by the Company, net	2,309
Payments for commissions on commitment line	(6,000)
Proceeds of capital increase from minority shareholders of eMobile	52,515
Payments for stock issuance by eMobile	(157)
Dividends paid	(1,638)
Others, net	(172)
Net cash provided by financing activities	45,401
Net increase in cash and cash equivalents	53,583
Cash and cash equivalents at beginning of year	104,770
Increase in cash and cash equivalents due to a newly consolidated subsidiary	300
Cash and cash equivalents at end of year	¥ 158,654

See accompanying notes to consolidated financial statements.

eAccess Ltd. and subsidiary
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements of eAccess Ltd. (hereinafter "the Company") and its subsidiary have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accompanying consolidated financial statements have been prepared and translated into English (with some expanded descriptions and the inclusion of the statement of shareholders' equity) from the consolidated financial statements prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The Company commenced to prepare the consolidated financial statements from the year ended March 31, 2006 and accordingly did not prepare comparative information.

2. Summary of Significant Accounting Policies

(1) Principles of consolidation and accounting for investments in affiliated company

The accompanying consolidated financial statements include the accounts of the Company and its subsidiary, eMobile Ltd. ("eMobile"), which is controlled by the Company through substantial ownership of 52% of the voting rights at March 31, 2006. The Company consolidated eMobile due to its increasing materiality with respect to the consolidated amounts. eMobile, established in January 2005, acquired a license to operate a mobile business in the 1.7GHz spectrum in November 2005, and is currently preparing to launch mobile services in the fiscal year ending March 31, 2007. By entering into the mobile business, the Company currently providing ADSL services plans to expand its business domain in the broadband environment. All significant intercompany transactions and accounts are eliminated.

The Company excluded one wholly-owned subsidiary from consolidation due to its immateriality in terms of the consolidated total assets, revenue, net income and retained earnings.

Investments in the unconsolidated subsidiary for which the equity method also has not been applied are stated at cost and reviewed periodically for impairment because the effect of application of the equity method would be immaterial.

(2) Cash equivalents

Cash equivalents in the accompanying consolidated statement of cash flows are composed of bank deposits able to be withdrawn on demand and short-term highly liquid investments with an original maturity of three months or less at the time of purchase which bear minimum fluctuation risk.

(3) Investment securities

The Company and its subsidiary are required to examine the intent of holding each security and classify those securities as (a) securities held for trading purposes (hereinafter, "trading securities"), (b) debt securities intended to be held-to-maturity (hereinafter, "held-to-maturity debt securities"), and (c) all other securities that are not classified in any of the above categories.

The Company and its subsidiary have no trading securities and held-to-maturity debt securities.

Other securities for which market quotations are available are stated at fair value prevailing at the balance sheet date. Unrealized gains and losses, net of applicable deferred tax assets and liabilities, are reported as a separate component of shareholders' equity. The cost of securities sold is determined principally by the moving-average method.

Other securities for which market quotations are not available are valued at cost determined principally by the moving-average method.

(4) Inventories

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

(5) Property and equipment

Property and equipment are stated at cost. Assets are depreciated over their estimated useful lives by applying the straight-line method to “machinery and equipment” and “modems”, and the declining-balance method to “building and structure” and “tools, furniture and fixtures”.

The estimated useful lives are as follows:

Building and structure: 8 - 15 years

Machinery and equipment: 3 - 5 years

Modems: 3 years

Tools, furniture and fixtures: 2 - 20 years

“Machinery and equipment” and “modems” under capital leases are capitalized and amortized over the period of lease terms on a straight-line basis.

For the year ended March 31, 2006, the Company and its subsidiary adopted the accounting standard for impairment of fixed assets (“Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets” issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003) due to mandatory application from the fiscal year which started on and after April 1, 2005. The adoption of this accounting standard has no material impact on its consolidated financial statements.

(6) Goodwill, other intangible assets and long-term prepaid expenses

(a) Goodwill

Goodwill on the purchase of specific business is stated at cost in excess of the net assets of the company acquired and is amortized by the straight-line method within five years.

(b) Software

Software used for internal purposes is stated at cost, less accumulated amortization. Amortization of software is computed by the straight-line method over three to five years, the estimated useful life of the software.

(c) Indefeasible right of use

The indefeasible right of use (“IRU”) for long distance lines is capitalized and included in other assets at the present value of the minimum IRU payments payable during the IRU term, and the corresponding liabilities are recorded. Amortization of the IRU is computed by the straight-line method over its contract period.

(d) Long-term prepaid expenses

Commissions paid to secure the commitment line are capitalized and amortized over the maximum repayment period of seven years using the straight-line method.

(7) Allowance for bad debts

The Company and its subsidiary recognize an allowance for general credits based on actual bad debt experience and ratios, and also recognize an allowance for estimated unrecoverable amounts for specific credits deemed to be uncollectible after considering possible losses on collection.

(8) Provision for directors’ bonus

The Company recognizes provision for directors’ bonus for an amount to be approved at the ordinary general shareholders’ meeting held subsequent to the fiscal year-end.

(9) Leases

Where assets are financed by leasing agreements that give rights approximating to ownership, the assets are treated as if they had been purchased outright. These are capitalized at the lower of the fair value of the asset or the present value of the minimum lease payments, and the corresponding lease liabilities are recognized. The leased assets are amortized on a straight-line basis over the shorter of the period the Company and its subsidiary are expected to benefit from their use or the lease term. Lease payments are classified as repayment of capital and interest elements using the annuity method. Amortization of the capitalized assets and interest expense on the lease liabilities are charged to income.

All other leases are operating leases and the annual rentals are charged to income over the period of lease terms.

(10) Research and development expenses

Research and development expenses are charged to income as incurred. Research and development expenses of ¥737 million were incurred for the year ended March 31, 2006.

(11) Issuance costs for stock

Issuance costs for stock are charged to income as incurred.

(12) Income taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(13) Employees' severance and retirement benefit

The Company and its subsidiary have a defined contribution pension plan for their employees. The contributions to the defined contribution pension plan made by the Company and its subsidiary are charged to income when paid.

(14) Derivatives and hedging activities

The Company and its subsidiary use derivative financial instruments to manage their exposures to fluctuations in interest rates. Interest rate swaps are utilized to reduce interest rate risks. The Company and its subsidiary do not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows: (a) all derivatives are recognized as either assets or liabilities and measured at fair value; (b) gains and losses resulting from the fair value adjustments on derivative instruments not qualifying for hedge accounting are recognized in the statement of income; and (c) for derivative instruments other than interest rate swaps that are used for hedging purposes and qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains and losses from the fair value adjustments are deferred until the maturity of the hedged transactions.

Interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, and the difference paid or received under the swap agreements is recognized and included in interest expense as it is accrued.

(15) Net income per share

Net income per share is computed based on the average number of shares of common stock outstanding during the year.

Diluted net income per share of common stock is computed based on the weighted average number of shares of common stock and the contingent issuance of common stock upon the exercise of stock purchase warrants and stock options.

3. Investment Securities

Investment securities at March 31, 2006 consisted of the following:

	Millions of yen					
2006		**Acquisition cost**		**Book value**		**Unrealized gain**
Marketable securities	¥	2,107	¥	2,136	¥	29

	Millions of yen	
		Book value
Non-marketable equity securities	¥	200

4. Inventories

Inventories which were composed of principally modems at March 31, 2006 consisted of the following:

	Millions of yen	
Modems	¥	40
Other		1
	¥	41

5. Long-Term Debt

Long-term debt at March 31, 2006 consisted of the following:

		Millions of yen
Bonds:		
Unsecured straight bond due 2010 with an interest rate of 1.95%	¥	50,000
Unsecured straight bond due 2012 with an interest rate of 2.75%		10,000
Zero coupon convertible bond due 2011		23,000
		83,000
Loans from banks:		
Maturing through 2009 an average rate of 1.23% per annum		7,090
Less: Portion due within one year		3,200
		3,890
Other interest bearing debts (see note 15):		
Capital lease obligations with an average rate of 4.44%		4,766
Less: Portion due within one year		3,247
		1,519
Total long-term debt		94,856
Less: Portion due within one year		6,447
	¥	88,409

The aggregate annual maturities of long-term debt subsequent to March 31, 2006 are summarized as follows:

Year ending March 31		Millions of yen
2007	¥	6,447
2008		3,926
2009		1,482
2010		50,000
2011		23,000
2012 and thereafter		10,000
Total	¥	94,856

The zero coupon convertible bond which has a conversion price of ¥117,300 per share is convertible into 196,078 shares of common stock at March 31, 2006.

At March 31, 2006, the following assets were pledged as collateral for bank loans:

		Millions of yen
Collateral assets:		
Machinery and equipment, net	¥	451
Secured long-term debt:		
Long-term debt (includes due within one year)	¥	2,030

On March 31, 2006, eMobile opened a commitment line of credit for a syndicate loan amounting to ¥220,000 million with ten financial institutions. The commitment line, with a maximum repayment period of seven years, is expected to satisfy the funding requirements of the mobile business until the business will become a cash-flow positive. The amount of commitment line unused at March 31, 2006 was as follows:

	Millions of yen	
Total amount of commitment line	¥	220,000
Used amount		-
Unused amount of commitment line	¥	220,000

NOTE: The commitment line requires all major assets of eMobile and all shares of eMobile held by the Company to be pledged as collateral. In addition, the line includes certain financial and operational covenants.

6. Commitment and Contingencies

Purchase commitments

The Company and its subsidiary have entered into various commitments for the purchase of property and equipment. Commitments outstanding at March 31, 2006 amounted to ¥1,596 million for property and equipment.

7. Concentration

Credit risk

At March 31, 2006, three customers accounted for approximately 66% of the outstanding trade accounts receivable. Although the Company does not expect its customers to fail to meet their obligations, the Company is potentially exposed to concentration of credit risk if the customers fail to perform according to the terms of the contracts.

Revenue

For the year ended March 31, 2006, three customers accounted for approximately 68% of revenue.

8. Shareholders' Equity

Legal reserve

Japanese Commercial Code (the "Code") provides that (i) all appropriations of retained earnings, including dividends, require approval at the ordinary general shareholders' meeting, (ii) interim cash dividends can be distributed upon the approval of the board of directors if the articles of incorporation provide for such interim cash dividends, subject to some restrictions in the amount, and (iii) an amount equal to at least 10 percent of cash dividends and other appropriations paid in cash be appropriated as a legal reserve until the aggregated amount of legal reserve and additional paid-in capital, which is included in capital surplus, equals 25 percent of common stock. The Code provides that the capital surplus and legal reserve, exceeding 25 percent of stated capital, are available for distribution upon approval at the ordinary general shareholders' meeting.

The amount of additional paid-in capital is 25 percent of common stock at March 31, 2006, and therefore, the Company is not required to provide a legal reserve. Provision has not been made in the consolidated financial statements for the dividend of ¥1,849 million (or ¥1,300 per share) which was subsequently approved by the board of directors and approved by the ordinary general shareholders' meeting on June 22, 2006.

Under the Code, at least 50 percent of the issue price of new shares is required to be designated as common stock. The portion which is not designated as common stock is determined by resolution of the board of directors. Proceeds not designated as common stock are credited to capital surplus.

The Japanese Corporate Law enforced on May 1, 2006 provides that earnings in an amount equal to 10 percent of appropriations of retained earnings that are paid in cash shall be appropriated as a capital surplus or a legal reserve until total amount of capital surplus and a legal reserve equal 25 percent of stated common stock. At the ordinary general shareholders' meeting on June 22, 2006, in accordance with the Japanese Corporate Law, the Company altered the articles of incorporation to allow for the distribution of earnings to shareholders on dates other than the mid-term and year-end by resolution of the board of directors.

The eAccess Rights Plan

In June 2005, the Company's shareholders approved the adoption of the eAccess Rights Plan ("the Plan"). The purpose of the Plan is to maximize the Company's corporate value to prevent in advance a hostile takeover which could unjustly damage its corporate value and to ensure that, when an acquisition of the Company has been suggested, that there is sufficient information and time available to fully consider the appropriateness of such acquisition proposal and to explore alternatives that the Company might suggest in relation to that proposal. The evaluation of the acquisition proposal will be conducted by the Corporate Value Enhancement Committee ("the Committee"), which is made up of all the Company's independent directors.

The Company granted a limited liability intermediate corporation ("LLC"), which is the wholly-owned subsidiary excluded from consolidation (see note 2(1)), 1,800,000 stock options on June 10, 2005. This LLC on behalf of its current shareholders can exercise the stock options through June 22, 2015 at an exercise price of ¥135,000, or an amount calculated by multiplying the adjusted exercise price of common stock, which is one-fifth of the average closing price for the five successive days during the period, by the number of shares per stock option, which may be adjusted within a range from 1.5 to 2, pursuant to the conditions for exercise in the Plan agreement.

The rights will be exercisable only if the Committee determines to activate the stock options after reviewing the proposal plan by a person or a group who acquires or is intending to acquire more than 20 percent of the total issued voting shares of the Company. Upon such an event, the rights enable dilution of the acquiring person's or group's interest by providing that other holders of the Company's common stock may purchase the Company's common stock through LLC.

The Company may cancel all of the stock options issued in the Plan without compensation by a resolution of the board of directors. The Plan must be reaffirmed by the Company's shareholders every three years.

9. Stock-Based Compensation Plan

The Company adopted an equity-based compensation plan that issues common stock acquisition rights for the purpose of granting stock options to the directors and employees, pursuant to the Code as incentive plan. The stock acquisition rights generally vest ratably over a three-year period and are exercisable up to ten years from the date of grant. At April 1, 2005, the Company had outstanding granted stock options of 80,160 shares, with a weighted-average exercise price of ¥78,688.

On June 22, 2005, the Company's shareholders approved a stock option plan for the Company's directors, statutory auditors and employees that enabled them to purchase up to 46,450 shares of the Company's common stock in the period from July 1, 2005 to June 21, 2015. On July 1, 2005, the options were granted at an exercise price of ¥76,565 per share.

On June 22, 2005, the Company's shareholders approved a stock option plan for the Company's employees and certain advisors of the Company that enabled them to purchase up to 1,050 shares of the Company's common stock in the period from August 25, 2005 to June 22, 2015. On August 25, 2005, the options were granted at an exercise price of ¥80,168 per share.

For the year ended March 31, 2006, 2,395 shares of the options were forfeited, and 13,220 shares of the options were exercised. At March 31, 2006, the Company had outstanding granted stock options of 112,045 shares, with a weighted-average exercise price of ¥83,848.

10. Rights of Detachable Warrants

The Company issued the detachable warrants on September 25, 2001. These warrants are exercisable during September 26, 2001 through September 25, 2006 for one share of common stock per warrant.

The status of the exercise rights of the detachable warrants at March 31, 2006 was as follows:

Exercise price	¥	45,000
Number of warrants exercised		44,445
Number of warrants outstanding		22,220

11. Cost of Revenue

Significant components of “Cost of revenue” for the year ended March 31, 2006 was as follows:

		Millions of yen
Cost of revenue:		
Modems and related tools	¥	282
Salaries and benefits		480
Outsourcing		802
Depreciation and amortization		9,496
Network		11,761
Modem rental		8,024
Others		744
	¥	31,589

12. Selling, General & Administrative Expenses

Significant components of “Selling, general & administrative expenses” for the year ended March 31, 2006 was as follows:

		Millions of yen
Selling, general & administrative expenses:		
Sales promotion		6,008
Salaries and benefits		2,519
Outsourcing		6,557
Depreciation and amortization		1,266
Others		3,039
	¥	19,389

13. Employees’ Severance and Retirement Benefits

As part of the employee benefit plan, the Company has adopted a “defined contribution pension plan” from April 1, 2002. Periodic pension costs for the year ended March 31, 2006 of contribution to the defined contribution pension plan were as follows:

		Millions of yen
Periodic pension cost:		
Defined contribution pension plan	¥	52

14. Income Taxes

The Company and its subsidiary are subject to Japanese corporate, inhabitants and business taxes based on income which, in the aggregate, result in a statutory tax rate of approximately 40.7 percent for the year ended March 31, 2006.

The income tax expenses reflected in the statement of income for the year ended March 31, 2006 consist of the following:

	Millions of yen	
Current	¥	3,863
Deferred		(845)
	¥	3,018

The statutory tax rates used for calculating deferred tax assets and deferred tax liabilities as of March 31, 2006 was 40.7%.

At March 31, 2006, significant components of deferred tax assets and deferred tax liabilities were analyzed as follows:

	Millions of yen	
Deferred tax assets:		
Accrued business taxes	¥	385
Depreciation and amortization		766
Valuation loss on inventories		24
Net operating loss carryforwards of eMobile		640
Others		215
Total gross deferred tax assets		2,030
Valuation allowance		(754)
Total net deferred tax assets		1,276
Deferred tax liabilities		
Unrealized gain on investment securities		12
Net deferred tax assets	¥	1,264

The following table summarizes significant differences between the statutory tax rate and the Company's effective tax rate for financial statement purposes for the year ended March 31,2006.

Statutory tax rate	40.7	%
Adjustments:		
Change in valuation allowance other than net operating loss carryforwards	(8.6)	
Valuation allowance for net operating loss carryforwards of eMobile	8.7	
Others, net	(0.5)	
Effective tax rate	40.3	%

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the period in which those temporary differences become deductible. For the assessment of the realizability of deferred tax assets, management considers the reversal of deferred tax liabilities, future taxable income, tax planning strategies and level of net scheduled operating loss carryforwards, in accordance with accounting principles generally accepted in Japan.

After the reassessment of future taxable income over the period in which the net deductible temporary differences are expected to be reversed, management believes the Company will be able to realize the deferred tax assets from transitioning over the mobile business to eMobile and accordingly, the valuation allowance of ¥751 million was reversed. Management also believes that the deferred tax assets of eMobile which primarily represents net operating loss carryforwards will not be realizable and accordingly, the Company provided a valuation allowance of ¥754 million as of March 31, 2006.

15. Leases

The Company leases certain machinery and equipment in the normal course of business under capital leases. Assets covered under capital leases at March 31, 2006 are as follows:

		Millions of yen
Class of property and equipment, intangible assets:		
Machinery and equipment	¥	15,808
Tools, furniture and fixtures		50
Computer software		508
		16,367
Accumulated amortization		(11,934)
	¥	4,433

Future minimum lease payments by year under capital leases together with the present value of net minimum lease payments at March 31, 2006 are as follows (see note 5):

Year ending March 31		Millions of yen
2007		3,385
2008		1,371
2009		184
2010 and thereafter		-
Total minimum lease payments		4,940
Less: Amount representing interest (an average rate of 4.4%)		174
Present value of net minimum lease payments		4,766
Less: Portion due within one year		3,247
Capital lease obligations, less current portion	¥	1,519

16. Segment Information

Business segments are categorized primarily based on type of services, nature of business operations and sales channels, etc. The following table summarizes the business segment information of the Company and its subsidiary for the year ended March 31, 2006.

	Millions of yen				
	ADSL・ISP Business	MOBILE Business	Total	Elimination	Consolidation
Ⅰ. Sales and operating profit (loss):					
Outside sales	¥ 60,353	¥ -	¥ 60,353	¥ -	¥ 60,353
Intersegment sales	-	-	-	-	-
Total	60,353	-	60,353	-	60,353
Operating expenses	48,683	2,295	50,978	-	50,978
Operating profit (loss)	¥ 11,670	¥ (2,295)	¥ 9,375	¥ -	¥ 9,375
Ⅱ. Identifiable assets, depreciation and amortization and capital expenditures:					
Identifiable assets	¥ 97,205	¥ 97,368	¥ 194,573	¥ (398)	¥ 194,174
Depreciation and amortization	10,761	1	10,762	-	10,762
Capital expenditures	6,847	346	7,193	-	7,193

NOTE: Business category and principal services/operations of each segment.

Business segment	Principal services/operations
ADSL・ISP Business	Fast Internet access services by wholesale of ADSL lines and ISP services under the AOL brand
MOBILE Business..................	Mobile broadband services

Information by geographic area is not shown since the Company does not have any consolidated subsidiaries or material branches which are located outside of Japan. Also, information of overseas sales is not shown since overseas sales were less than ten percent of consolidated net sales.

17. Subsequent Events

(1) Equity financing through the issuance of new shares by eMobile

Based on the Board resolution on March 20, 2006, eMobile has completed the equity financing through the issuance of new shares on April 25, 2006. The details were as follows:

(1)	Number of shares issued (preferred stock)	210,940 shares
(2)	Issue price per share	85,000 yen
(3)	Aggregate issue price	17,930 million yen
(4)	Proceeds designated as common stock (per share)	42,500 yen
(5)	Primary investors	The Company Goldman Sachs Group and others
(6)	Use of proceeds	Operations and capital requirements of mobile business
(7)	Ownership percentage of the Company after the allocation of new shares	49.4%

Note: The percentage above is calculated based on the number of shares with voting rights. The ownership percentage calculated based on the fully diluted base is 51.4%.

(2) Equity financing through the issuance of new shares by eMobile

On April 26, 2006, the Board of Directors of eMobile has approved the equity financing through the issuance of new shares, and the payment has been completed on May 31, 2006. The details were as follows:

(1)	Number of shares issued (preferred stock)	320,929 shares
(2)	Issue price per share	85,000 yen
(3)	Aggregate issue price	27,279 million yen
(4)	Proceeds designated as common stock (per share)	42,500 yen
(5)	Primary investors	The Company Temasek Holdings Goldman Sachs Group and others
(6)	Use of proceeds	Operations and capital requirements of mobile business
(7)	Ownership percentage of the Company after the allocation of new shares	43.5%

Note: The percentage above is calculated based on the number of shares with voting rights. The ownership percentage calculated based on the fully diluted base is 46.2%.

(3) Assets pledged as collateral for the commitment line of eMobile

On May 31, 2006, primary assets of eMobile and total shares of eMobile held by the Company have been pledged as collateral for the commitment line of credit of a syndicate loan amounting to ¥220,000 million. The commitment line has a maximum repayment period of seven years that eMobile entered into with ten financial institutions in March 2006.

The Company and its subsidiary pledged the following assets as collateral reported at book value as of May 31, 2006.

		Millions of yen
Collateral assets of eMobile:		
Cash		106,814
Intangible assets:		
Software		35
Property and equipment:		
Machinery and equipment		4
Tools, furniture and fixtures		15
Building and structure		33
Total	¥	106,901
Collateral assets of the Company:		
Investments in eMobile	¥	56,300

The assets will be pledged as collateral until the loan is repaid under the commitment line.