

Non-Consolidated Financial Statements

(From July 1, 2006 to June 30, 2007)

1. Matters Concerning IXI Co., Ltd.

(1) Overview of the current fiscal year

IXI Co., Ltd. ("IXI") filed for civil rehabilitation proceedings to the Osaka District Court on January 21, 2007. The court decided to begin civil rehabilitation proceedings on January 29, 2007. IXI, which submitted a rehabilitation plan on August 10, 2007, was still under the control of the trustee in bankruptcy as of August 23, 2007. IXI had failed to submit a semiannual report (six months from April 1, 2006 to September 30, 2006) of the accounting year ended March 31, 2007 in time to the Financial Service Agency and has been delisted from the Tokyo Stock Exchange. Furthermore, Osaka District Public Prosecutor's Office has begun to investigate IXI on a charge of illegal transactions. In the course of the investigation, some mass media reported that IXI had probably been involved in fictitious circular transactions and indebted for a large off-the-book amount. The Company considers that those illegal transactions and window-dressing operations are probably true. The Company completed the transfer of all of its shares of IXI to a third party on March 29, 2007.

(2) Treatment in presenting the non-consolidated financial statements for the current fiscal year

IXI had failed to submit a semiannual report in time and has been delisted. As a result, the Company was unable to grasp IXI's financial position, which is the basis for valuing IXI's stocks. Accordingly, the Company wrote down loss on the book value of all the shares of IXI.

(3) Impacts on the 12th term (from July 1, 2007 to June 30, 2008) and onward

Progress in IXI's civil rehabilitation proceeding and its closing of accounts are unlikely to have impacts on the non-consolidated financial statements of the Company for the 12th term and onward.

2. Non-Consolidated Balance Sheet (as of June 30, 2007)

(Thousands of yen)

Account item	Amount	Account item	Amount
(Assets)		(Liabilities)	
Current assets	1,985,042	Current liabilities	3,701,282
Cash and deposits	1,705,462	Accounts payable-trade	104,885
Accounts receivable-trade	120,630	Short-term borrowings	3,525,890
Work in Process	94,407	Accounts payable-other	47,932
Prepaid expenses	21,842	Accrued expenses	6,654
Short-term loans	1,898	Accrued income taxes	6,367
Other current assets	40,823	Deposits received	8,136
Allowance for doubtful account	(21)	Other current liabilities	1,415
Fixed assets	9,916,399	Long-term liabilities	14,283
Tangible fixed assets	62,086	Deferred tax liabilities	14,283
Buildings	64,195	Total liabilities	3,715,566
Tools, furniture and fixtures	71,142	(Net assets)	
Accumulated depreciation	(73,252)	Shareholders' equity	8,186,185
Intangible fixed assets	11,509	Common stock	9,465,473
Software	11,147	Capital surplus	13,415,071
Other intangible fixed assets	362	Capital reserve	9,530,964
Investment and other assets	9,842,802	Other capital surplus	3,884,106
Stocks of affiliated companies	7,372,461	Retained earnings	(14,686,351)
Investment in securities	2,336,104	Other retained earnings	(14,686,351)
Guarantee deposits	127,638	Retained earnings brought forward	(14,686,351)
Doubtful Accounts	119,500	Treasury stock	(8,007)
Other investments and other assets	6,598	Valuation and translation adjustments	(310)
Allowance for doubtful accounts	(119,500)	Net unrealized loss on other securities	(310)
		Total net assets	8,185,875
Total assets	11,901,441	Total liabilities and net assets	11,901,441

3. Non-Consolidated Statement of Income (from July 1, 2006 to June 30, 2007)

(Thousands of yen)

Account item	Amount	
Net sales		700,164
Cost of sales		596,620
Gross profit		103,543
Selling, general and administrative expenses		800,497
Operating loss		696,953
Non-operating income		109,550
Interest income	2,306	
Dividends income	73,490	
Commission income	26,819	
Other non-operating income	6,933	
Non-operating expenses		219,201
Interest expense	28,305	
Stock issue expense	865	
Amortization of bond issue expenses	6,739	
Commission paid	26,955	
Loss from investment in partnership	35,811	
Provision for doubtful accounts	119,500	
Other non-operating expense	1,024	
Ordinary loss		806,605
Extraordinary gains		922,864
Gain on sales of investment securities	97,662	
Gain on sales of investments in subsidiaries and affiliates	818,575	
Other extraordinary gains	6,627	
Extraordinary Losses		15,922,080
Loss on sales and disposal of fixed assets	233	
Impairment loss	2,428	
Loss on sales of investments in subsidiaries and affiliates	6,601	
Loss on valuation of investment securities	151,495	
Loss on valuation of investments in subsidiaries and affiliates	15,761,322	
Loss before income taxes		15,805,820
Income taxes-current		1,210
Net loss		15,807,030

4. Non-Consolidated Statement of Changes in Shareholders' Equity, etc.
(from July 1, 2006 to June 30, 2007)

(Thousands of yen)

	Shareholders' equity		
	Common stock	Capital surplus	
		Capital reserve	Other capital surplus
Balance at July 1, 2006	9,444,404	8,002,154	3,884,106
Changes during the fiscal year			
New issue of stock	21,069	1,528,810	—
Dividends from surplus	—	—	—
Net loss	—	—	—
Acquisition of treasury stock	—	—	—
Total changes during the fiscal year	21,069	1,528,810	—
Balance at June 30, 2007	9,465,473	9,530,964	3,884,106

(Thousands of yen)

	Shareholders' equity			
	Retained earnings		Treasury stock	Total shareholders' equity
	Other retained earnings			
	Retained earnings brought forward			
Balance at July 1, 2006	1,358,402	(7,623)	22,681,444	
Changes during the fiscal year				
New issue of stock	—	—	1,549,879	
Dividends from surplus	(237,723)	—	(237,723)	
Net loss	(15,807,030)	—	(15,807,030)	
Acquisition of treasury stock	—	(384)	(384)	
Total changes during the fiscal year	(16,044,754)	(384)	(14,495,258)	
Balance at June 30, 2007	(14,686,351)	(8,007)	8,186,185	

(Thousands of yen)

	Valuation and translation adjustments
	Net unrealized gains/losses on other securities
Balance at July 1, 2006	36,568
Changes during the fiscal year	
Changes in items other than shareholders' equity (net)	(36,879)
Total changes during the fiscal year	(36,879)
Balance at June 30, 2007	(310)

5. Notes to Non-Consolidated Financial Statements

1. Significant Accounting Policies

(1) Standards and method of valuation of securities

Stocks of subsidiaries and affiliates:

Stated at cost using the moving-average method.

Other securities

Securities with market quotations:

Securities with fair market value are stated at fair market value based on the quoted market prices as of the accounting year end.

Variation differences are directly charged or credited to net assets and cost of securities sold is computed by the moving average method.

Securities without market quotations:

Securities without fair market value are stated at cost being determined by the moving-average method.

The Company posted an amount, as the amount of investments, which is equivalent to its equity of the assets of investment partnerships, and posted net income/loss, as net income/loss for the accounting year, which is equivalent to its equity of the net income/loss in the closing account of the investment partnerships prescribed in the investment partnership agreements (net method).

(2) Standards and methods of valuation of inventories

Work in process:

Carried by specific control method

(3) Depreciation method for fixed assets

Tangible assets:

Declining-balance method

Buildings are amortized over 8 to 15 years, while Tools, furniture and fixtures are amortized over 3 to 10 years.

Intangible assets:

Straight-line method

Software for internal use is amortized by straight-line method over the expected available periods within 5 years.

(4) Method of accounting of deferred assets

Stock issue expense:

Posted as expense at full value upon issuance.

Bond issue expense:

Amortized equally over 3 years.

(5) Standards of accounting for reserves

Allowance for doubtful accounts:

General allowances are provided using a rate determined by past bad debts experience and also specific allowances are provided for the estimated amounts considered to be uncollectible after reviewing individual collectability of certain doubtful accounts.

(6) Accounting for leases

Financial leases other than those that are deemed to transfer the ownership of the leased property to the lessee are accounted for as operating leases.

(7) Accounting for consumption tax

Consumption tax is accounted for by the tax exclusion method.

Consumption tax on non-deductible assets is posted as expense incurred during the fiscal year.

2. Notes to Balance Sheet

(1) Amounts less than one thousand yen are rounded down to the nearest thousand yen.

(2) Assets pledged as collateral	
Stocks of subsidiaries and affiliates:	1,639,243 thousand yen
Corresponding liability	
Short-term borrowings:	3,525,890 thousand yen
(3) Credits and liabilities for subsidiaries and affiliates	
Other current assets:	6,477 thousand yen
Accounts payable-trade:	21,513 thousand yen
Accounts payable-other:	3,524 thousand yen

3. Notes to Non-Consolidated Statement of Income

(1) Amounts less than one thousand yen are rounded down to the nearest thousand yen.

(2) Amounts of business with subsidiaries and affiliates

Operating transactions:	
Net sales	119,425 thousand yen
Cost of sales	79,420 thousand yen
Selling, general and accounting expenses	27,433 thousand yen
Charge for employees on temporal transfer	52,975 thousand yen
Non-operating Transactions:	
Commission income	26,819 thousand yen
Dividends income	73,290 thousand yen
Interests income	865 thousand yen
Commission paid	2,083 thousand yen

4. Notes to Non-Consolidated Statements of Changes in Shareholders' Equity, etc.

(1) Amounts less than one thousand yen are rounded down to the nearest thousand yen.

(2) Class of treasury stock and total number

Class of stock	Number of shares at end of preceding fiscal year	Increase in the number of shares for the current fiscal year	Decrease in the number of shares for the current fiscal year	Number of shares for the current fiscal year
Common stock (shares)	65.37	3.00	—	68.37

Note: The increase in the number of shares of treasury stock stemmed from repurchases of fractional shares.

5. Notes to Tax Effects

(1) Details of deferred tax assets and liabilities by major cause incurred

Deferred tax assets	<u>Amount</u>
Accrued expenses	2,675 thousand yen
Excess depreciation of depreciable assets	2,958 thousand yen
Denial of loss on valuation of securities	1,330,716 thousand yen
Loss brought forward	6,579,445 thousand yen
Other	<u>48,637 thousand yen</u>
Deferred tax assets sub-total	7,964,432 thousand yen
Valuation reserve	<u>(7,964,432 thousand yen)</u>
Deferred tax assets total	<u>— thousand yen</u>
Deferred tax liabilities	<u>14,283 thousand yen</u>
Net deferred tax liabilities	<u>14,283 thousand yen</u>

6. Transaction with Related Companies

Name	Ratio of the related company to the Company's total voting rights (%)	Ratio of the Company to the related company's total voting rights (%)	Relation to the related company	Description of trade	Trade amount (thousands of yen)	Year-end balance of credits and liabilities for transactions (thousands of yen)	Change in transaction terms
IRI Ubiteq, Inc.	—	70.1	Subsidiary or affiliate	Receiving dividends	60,790	—	—
IRI Finance and Technology, Inc.	—	98.7	Subsidiary or affiliate	Management service contract	14,762	—	—
Saver Corporation	—	100.0	Subsidiary or affiliate	Offering loans	130,000	Claims with default possibility 119,500	—
Global Knowledge Network Japan, Ltd.	—	73.01	Subsidiary or affiliate	Exercising stock acquisition rights	650,003	—	—
Japan Internet Exchange Co., Ltd.	—	17.4	Subsidiary or affiliate	Operation service contract	119,425	Accounts payable-trade 8,925	—
				Management service contract	12,000	—	
				Receiving dividends	12,500	—	

Note: Transaction terms and policies for deciding transaction terms are the same with other companies that have no specific relation with the Company.

7. Per Share Information

(1) Net assets per share 16,807.74 yen

Net assets per share are computed based on the following:

Total in NET ASSETS section of balance sheet 8,185,875 thousand yen

Number of shares outstanding at the end of term 487,030.12 shares

* The number of shares outstanding at the end of term does not include the number of shares of treasury stock.

(2) Net loss per share 32,550.84 yen

Net income per share is computed based on the following:

Net loss in statement of income 15,807,030 thousand yen

Average number of shares for the term 485,610.47 shares

* The average number of shares for the term is computed by subtracting the average number of shares of treasury stock from the average number of shares outstanding for the term.

8. Important Subsequent Events

Changes in subsidiaries and affiliates

To focus all of its corporate resources on IT business, the principal business of the IRI Group, the Company concluded an agreement on July 9, 2007 in which all the shares of consolidated subsidiary FiberTech Co., Ltd. held by the Company shall be transferred. As a result, the Company has called off the parent-subsiary relation with FiberTech since July 10, 2007, the stock transfer date. A summary of the agreement is as follows:

- Summary of the subsidiary to be transferred:

Trade name: FiberTech Co., Ltd.

Location: 21 Kanda-Nishikicho 3, Chiyoda-ku, Tokyo

Representative: Shinya Miike

Date of foundation: October 15, 1998

Lines of business: Development, manufacture, and marketing of medical instruments centering on super-thin-diameter endoscopes

- Summary of the transfer agreement

Transferee:	Fujikura Ltd.	39,683 shares
	Shinya Miike	1,000 shares
Transfer price:		834,753 thousand yen
Gain from transfer of business:		88,391 thousand yen

Consolidated Financial Statements

(From July 1, 2006 to June 30, 2007)

1. Matters Concerning IXI Co., Ltd.

(1) Summary of operation for the current consolidated accounting year

IXI Co., Ltd. ("IXI") filed for civil rehabilitation proceedings to the Osaka District Court on January 21, 2007. The court decided to begin civil rehabilitation proceedings on January 29, 2007. Since then, IXI has also been under the control of the trustee in bankruptcy who is authorized to exercise IXI's business, and control and dispose of IXI's property. Accordingly, IXI has been no longer a consolidated subsidiary of the Company. IXI seemingly submitted a rehabilitation plan on August 10, 2007 and was still under the control of the trustee in bankruptcy as of August 23, 2007. IXI had failed to submit a semiannual report (six months from April 1, 2006 to September 30, 2006) of the accounting year ended March 31, 2007 in time to the Financial Service Agency and has been delisted from the Tokyo Stock Exchange. Furthermore, Osaka District Public Prosecutor's Office has begun to investigate IXI on a charge of illegal transactions. In the course of the investigation, some mass media reported that IXI had been probably involved in fictitious circular transactions and indebted for a large off-the-book amount. The Company considers that those illegal transactions and window-dressing operations are probably true. The Company completed the transfer of all of its shares of IXI to a third party on March 29, 2007.

(2) Treatment in presenting consolidated financial statements for the current consolidated accounting year

As mentioned above, IXI has been no longer a consolidated subsidiary of the Company. However, since IXI was a consolidated subsidiary of the Company until December 31, 2006 (closing of the current interim accounting period), IXI's provisional closing of accounts for the six months from July 1, 2006 to December 31, 2006 (current interim accounting period) will have impacts, among the consolidated financial statements, on the consolidated statement of income and the consolidated statement of changes in shareholders' equity, etc., except the consolidated balance sheet, for the current accounting year of the Company.

However, IXI, which had failed to submit a semiannual report in time to the Financial Service Agency and has been delisted from the Tokyo Stock Exchange, was unable to conduct provisional closing of accounts. Accordingly, the Company treated as if the Company incurred neither income nor loss from IXI in the consolidated financial statements for the current consolidated accounting year.

(3) Impacts on the 12th term (July 1, 2007 to June 30, 2008) and onward

Progress in IXI's civil rehabilitation proceeding and its closing of accounts are unlikely to have impacts on the consolidated financial statements of the Company for the 12th term and onward.

2. Consolidated Balance Sheet (as of June 30, 2007)

(Thousands of yen)

Account item	Amount	Account item	Amount
(Assets)		(Liabilities)	
Current assets	9,987,129	Current liabilities	7,114,885
Cash and deposits	4,872,048	Notes and accounts payable-trade	1,409,682
Notes and accounts receivable-trade	2,883,129	Short-term borrowings	4,621,482
Inventories	583,728	Accounts payable-other	415,166
Prepaid expense	1,444,694	Reserve for bonuses	28,428
Advance payments	6,686	Reserve for bonuses to officers	35,000
Other current assets	227,135	Reserve for sales return	2,241
Allowance for doubtful accounts	(30,293)	Reserve for loss on orders received	2,187
Fixed assets	8,750,157	Reserve for discount points	12,814
Tangible fixed assets	647,247	Estimated liabilities for after-sale services	3,000
Buildings and structures	441,983	Other current liabilities	584,882
Machinery and transportation equipment	13,864	Long-term Liabilities	412,253
Tools, furniture and fixtures	1,057,805	Bonds with stock acquisition rights	69,982
Accumulated depreciation	(889,794)	Long-term borrowings	8,980
Construction in progress	23,388	Reserve for retirement benefits	296,647
Intangible fixed assets	1,802,327	Reserve for retirement benefits for officers	22,111
Goodwill	1,678,903	Other long-term liabilities	14,532
Other intangible fixed assets	123,423	Total liabilities	7,527,139
Investment and other assets	6,300,583	(Net Assets)	
Investment in securities	2,486,121	Shareholders' equity	9,596,839
Stock of affiliated companies	3,200,134	Common stock	9,465,473
Guarantee deposits	538,318	Capital surplus	14,029,263
Other investment and other assets	84,062	Retained earnings	(13,889,890)
Allowance for doubtful accounts	(8,053)	Treasury stock	(8,007)
		Valuation and translation adjustments	22,098
		Net unrealized gains on other securities	3,530
		Foreign currency translation adjustment	18,568
		Minority interests	1,591,209
		Total net assets	11,210,147
Total assets	18,737,286	Total liabilities and net assets	18,737,286

3. Consolidated Statement of Income (from July 1, 2006 to June 30, 2007)

(Thousands of yen)

Account item	Amount	
Net sales		15,354,109
Cost of sales		12,030,543
Gross profit		3,323,565
Selling, general and administrative expenses		4,699,815
Operating loss		1,376,249
Non-operating income		743,239
Interest and dividends income	18,702	
Commission income	24,362	
Amortization of goodwill	6,397	
Equity in earnings	615,149	
Miscellaneous income	78,627	
Non-operating expenses		191,825
Interest expense	68,893	
Stock issue expense	2,315	
Amortization of bond issue expenses	6,739	
Commission paid	43,426	
Loss from investment in partnership	35,811	
Miscellaneous losses	34,639	
Ordinary loss		824,834
Extraordinary gains		968,912
Gain on sales of fixed assets	484	
Gain on sales of investment securities	97,662	
Gain on sales of investments in subsidiaries and affiliates	764,537	
Reversal of allowance for doubtful accounts	4,376	
Other extraordinary gains	101,852	
Extraordinary losses		15,832,335
Loss on sales and disposal of fixed assets	46,942	
Impairment loss	85,446	
Loss on valuation of investment securities	151,495	
Loss on changes in holding ratios of subsidiaries and affiliates	36,908	
Loss on valuation of investments in subsidiaries and affiliates	14,380,332	
Amortization of goodwill	1,083,721	
Loss on valuation of inventories	31,089	
Other extraordinary losses	16,399	
Loss before income taxes and minority interests		15,688,257
Income taxes-current		386,207
Income taxes-deferred		50,469
Minority interests		139,403
Net loss		16,264,338

4. Consolidated Statement of Changes in Shareholders' Equity, etc. (from July 1, 2006 to June 30, 2007)

(Thousands of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at July 1, 2006	9,444,404	12,500,453	3,415,119	(7,623)	25,352,353
Changes during the consolidated accounting year					
New issue of stock	21,069	1,528,810	—	—	1,549,879
Dividends from surplus	—	—	(237,723)	—	(237,723)
Net loss	—	—	(16,264,338)	—	(16,264,338)
Acquisition of treasury stock	—	—	—	(384)	(384)
Changes in shareholders' equity resulting from reduction of subsidiaries	—	—	(802,947)	—	(802,947)
Total changes during the consolidated accounting year	21,069	1,528,810	(17,305,009)	(384)	(15,755,513)
Balance at June 30, 2007	9,465,473	14,029,263	(13,889,890)	(8,007)	9,596,839

(Thousands of yen)

	Valuation and translation adjustments		Minority interests
	Unrealized gains/losses on other securities	Foreign currency translation adjustment	
Balance at July 1, 2006	37,155	10,723	7,578,719
Changes during the consolidated accounting year			
Changes in shareholders' equity resulting from reduction of subsidiaries	(611)	589	(6,270,066)
Changes in items other than shareholders' equity (net)	(33,013)	7,254	282,556
Total changes during the consolidated accounting year	(33,625)	7,844	(5,987,510)
Balance at June 30, 2007	3,530	18,568	1,591,209

5. Notes to Consolidated Financial Statements

1. Basis of Presenting Consolidated Financial statements

(1) Scope of consolidation

Number of consolidated subsidiaries and names of major consolidated subsidiaries

Number of consolidated subsidiaries: 23

Names of major consolidated subsidiaries:

IRI Commerce and Technology, Inc.

IRI Ubiteq, Inc.

FiberTech Co., Ltd.

Produce on Demand, Inc.

IRI Finance and Technology Asia Ltd.

IXI Co., Ltd. (Note 3)

IID, Inc.

Saver Corporation (Note 1)

Global Knowledge Network Japan, Ltd. (Note 2)

Notes: 1. The Company acquired all the shares issued of Saver Corporation as a wholly-owned consolidated subsidiary through share-for-share exchange during the consolidated accounting year.

2. The Company acquired Global Knowledge Network Japan, Ltd. as a consolidated subsidiary by exercising stock acquisition rights and acquiring 73.12% of the shares issued and outstanding during the consolidated accounting year.

3. Matters Concerning IXI Co., Ltd. are as stated in (2) Treatment in presenting consolidated financial statements for the current accounting year of 1. Matters Concerning IXI Co., Ltd, at the top of the Consolidated Financial statements.

Names of non-consolidated subsidiaries and reasons for non-consolidation

Non-consolidated subsidiaries:

Internet GIS Inc. (Note)

Ubiteq Solutions Vietnam, Ltd.

Note: The Company liquidated Internet GIS Inc. during the current consolidated accounting year.

Reasons for non-consolidation:

Since the total assets, net sales, net income/loss, retained earnings, etc. of the non-consolidated subsidiaries do not have significant impacts on the consolidated financial statements, they are not included in consolidation.

(2) Application of equity method

Number of non-consolidated subsidiaries or affiliates to which equity method is applied and their names

Number of equity method companies: 11

Major equity method companies:

Bell Heart, Inc.

Mobile Internet Capital Inc.

SHANGHAI JIALU

Japan Internet Exchange Co., Ltd.

BroadBand Tower, Inc.

(3) Summary of Significant Accounting Policies

Valuation standard and method for significant assets

i) Securities:

Other securities

Securities with market quotations:

Securities with fair market value are stated at fair market value based on the quoted market prices as of the accounting year end.

Valuation differences are directly charged or credited to net assets and cost of securities sold is computed by the moving-average method.

Securities without market quotations:

Securities without fair market value are stated at cost being determined by the moving-average method.

The Company posted an amount, as the amount of investments, which is equivalent to its equity

of the assets of investment partnerships, and posted net income/loss, as net income/loss for the accounting year, which is equivalent to its equity of the net income/loss in the closing account of the investment partnerships prescribed in the investment partnership agreements (net method).

ii) Inventories:

Merchandise, products and raw materials:

Carried chiefly by gross average method.

Work in process:

Carried chiefly by specific control method

Supplies:

Carried chiefly by gross average method.

Depreciation method of significant depreciable assets

i) Depreciation method for fixed assets

Tangible assets: Depreciation methods and depreciation periods are as follows.

Buildings and structures:

Chiefly declining balance method (10 to 31 years)

Machinery and transportation equipment:

Declining-balance method (10 years)

Tools, furniture and fixtures:

Declining-balance method (4 to 15 years)

Some of the subsidiaries posted tangible assets, acquired on and after April 1, 2007, in declining-balance method pursuant to the revised Corporation Tax Law.

Intangible assets: Depreciation methods and depreciation periods are as follows.

Goodwill:

Straight-line method (1 to 20 years)

Software:

Software for internal use is amortized by straight-line method over the expected available periods within 5 years.

ii) Treatment of deferred assets

Bond issue expense: Amortized equally over 3 years.

Stock issue expense: Posted as expense at full value upon issuance.

Accounting for significant allowances

i) Allowance for doubtful accounts

General allowances are provided using a rate determined by past bad debts experience and also specific allowances are provided for the estimated amounts considered to be uncollectible after reviewing individual collectability of certain doubtful accounts.

ii) Reserve for bonuses

To provide for payment of bonuses to employees, accrued bonuses are recorded as the amount expected to be paid

iii) Reserve for bonuses to officers

To provide for payment of bonuses to officers, accrued bonuses are recorded as the amount expected to be paid.

iv) Reserve for sales return

Loss on sales return (estimated) is posted based on a rate determined by past sales return experience, to prepare for loss expected from sales return.

v) Reserve for loss on orders received

Loss on contract orders (estimated) is posted against those in which cost to be incurred is likely to exceed the order value, in order to prepare for loss from order contracts received.

vi) Reserve for discount points

An amount on use of discount points (estimated) is posted against transactions with discount points for incentive purpose.

vii) Estimated liabilities for after-sale services

An amount of non-charged service that is likely to occur after sales is posted based on a rate determined by past occurrence experience.

viii) Reserve for retirement benefits

To provide retirement benefits with employees of subsidiaries with a retirement benefit scheme, allowance for retirement benefits is recorded based on the projected retirement benefit obligations and related pension assets of the current consolidated accounting year end.

ix) Reserve for retirement benefits for officers

Subsidiaries with the bylaws have made a policy of recognizing an allowance, to provide for retirement benefit payments to officers, in the amount payable at each accounting year-end in accordance with the bylaws of the subsidiaries.

Additional basis of presenting consolidated financial statements

i) Accounting for leases

Financial leases other than those that are deemed to transfer the ownership of the leased property to the lessee are accounted for as operating leases.

ii) Accounting for consumption tax

Consumption tax is accounted for by the tax exclusion method.

Consumption tax on non-deductible assets is posted as expense incurred during the fiscal year.

(4) Valuation of assets and liabilities of consolidated subsidiaries

Assets and liabilities of consolidated subsidiaries are valued at market value method.

2. Changes in significant accounting policies

Some of the subsidiaries posted depreciable assets, acquired on and after April 1, 2007, in the depreciation method specified in the revised Corporation Tax Law (Law Concerning Partial Revision of the Income Tax Law (Law No. 6, March 30, 2007) and the Law Concerning Partial Revision of the Enforcement Regulations of the Corporation Tax Law (Government Ordinance No.83, March 30, 2007)). However, their impacts on the income and loss were minor and negligible.

3. Notes to Consolidated Balance Sheets

(1) Amounts less than one thousand yen are rounded down to the nearest thousand yen.

(2) Assets pledged as collateral

Assets pledged as collateral are as follows:

Notes and accounts receivable-trade (Note 1)	89,562 thousand yen
Stock of affiliated companies (Note 2)	1,639,243 thousand yen
Guarantee deposits	104,962 thousand yen

Corresponding liability

Short-term borrowings	4,597,318 thousand yen
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Notes: 1. Corresponding to lease liability of 352,000 thousand yen

2. Stocks of subsidiaries and affiliates are as follows:

IRI Ubiteq, Inc.	14,350 shares
BroadBand Tower, Inc.	37,300 shares

The book value of stock of IRI Ubiteq, Inc. is traded off in consolidation with account items of shareholders' equity.

4. Notes to Consolidated Statement of Income

(1) Amounts less than one thousand yen are rounded down to the nearest thousand yen.

(2) "Loss on valuation of investments in subsidiaries and affiliates," which falls on extraordinary loss, is the loss from valuation of stocks of IXI, which had been a consolidated subsidiary of the Company until December 31, 2006, as stated in (2) Treatment in presenting consolidated financial statements for the current accounting year in 1. Matters Concerning IXI Co., Ltd., at the top of the Consolidated Financial statements.

5. Notes to Consolidated Statement of Changes in Shareholders' Equity, etc.

(1) Amounts less than one thousand yen are rounded down to the nearest thousand yen.

(2) Class and total number of shares issued

Class of shares	Number of shares at end of preceding consolidated accounting year	Increase during current consolidated accounting year	Decrease during current consolidated accounting year	Number of shares at end of current consolidated accounting year
Common stock (shares)	475,511.49	11,587.00	—	487,098.49

Note: The increase in the number of shares outstanding stemmed from share-for-share exchanges and issuances of new shares upon exercises of stock warrants and stock acquisition rights (as stock options).

(3) Dividends from surplus for the current consolidated accounting year

Resolution	Class of shares	Source of dividends	Total of dividends (thousand yen)	Dividends per share (yen)	Record date	Effective date
Ordinary general meeting of shareholders on September 26, 2006	Common stock	Retained earnings	237,723	500	June 30, 2006	September 27, 2006

(4) Number of shares to be issued or transferred upon exercise of stock acquisition rights (those under the period for exercise of such rights) at the end of the current consolidated accounting period

Stock option (stock acquisition rights): 13,194 shares

Stock warrants pursuant provision of Article 280-19 of the former Commercial Code of Japan 3,268 shares

(5) "Changes in shareholders' equity resulting from reduction of subsidiaries," which falls on changes during the current consolidated accounting year, are the changes resulting from the fact that IXI is no longer a consolidated subsidiary of the Company, as stated in (2) Treatment in presenting consolidated financial statements for the current accounting year in 1. Matters Concerning IXI Co., Ltd., at the top of the Consolidated Financial statements.

6. Per Share Information

(1) Net assets per share 19,750.19 yen

Net assets per share are computed based on the following:

Total in NET ASSETS section of consolidated balance sheet 11,210,147 thousand yen

Amount subtracted from NET ASSETS section 1,591,209 thousand yen

(Minority interests 1,591,209 thousand yen)

Number of shares outstanding at year-end 487,030.12 shares

* The number of shares outstanding at the end of the term does not include the number of shares of treasury stock.

(2) Net loss per share 33,492.56 yen

Net loss per share is computed based on the following:

Net loss in consolidated statement of income 16,264,338 thousand yen

Average number of shares for the term 485,610.47 shares

*The average number of shares for the term is computed by subtracting the average number of shares of treasury stock from the average number of shares outstanding for the term.

7. Important Subsequent Events

Changes in subsidiaries and affiliates

To focus all of its corporate resources on IT business, the principal business of the IRI Group, the Company concluded an agreement on July 9, 2007 in which all the shares of consolidated subsidiary FiberTech Co., Ltd. held by the Company shall be transferred. As a result, the Company has called off the parent-subsiidiary relation with FiberTech since July 10, 2007, the stock transfer date. A summary of the agreement is as follows:

- Summary of the subsidiary to be transferred:

Trade name: FiberTech Co., Ltd.
Location: 21 Kanda-Nishikicho 3, Chiyoda-ku, Tokyo
Representative: Shinya Miike
Date of foundation: October 15, 1998
Lines of business: Development, manufacture, and marketing of medical instruments centering on super-thin-diameter endoscopes

- Summary of the transfer agreement

Transferee:	Fujikura Ltd.	39,683 shares
	Shinya Miike	1,000 shares
Transfer price:		834,753 thousand yen
Gain from transfer of business:		475,527 thousand yen