



Plat' Home

Annual Report 2007
Year ended March 31, 2007

Profile

What We Do

The growth of Tokyo's Akihabara district over the years has added "consumer town" to "electric town," its earlier sobriquet. Today, Akihabara is fast becoming the "world's IT center". Hosting a cluster of leading technologies from Japan and overseas, the district serves as a hub for new initiatives bringing together industry, public entities, and educational institutions. Two towering buildings in front of Akihabara Station symbolize the changes that have taken place. The two buildings are the adjoining high-rise Akihabara Daibiru Building, where Plat'Home is headquartered, and the Akihabara UDX Building. They serve as the base for Akihabara Crossfield, a recent initiative by Japan's IT industry. As a participant in Akihabara Crossfield, Plat'Home is actively engaged in promoting collaboration between industry and academia from Japan and abroad.

Since its founding in Akihabara in 1993, Plat'Home has witnessed the district's transformation from close range. Like Akihabara, Plat'Home has also been through major changes, having developed numerous products and publicly listing its shares. Throughout this period, Plat'Home has stayed true to its policy of interacting with leading-edge computer engineers. Input from these engineers, who are at the forefront of technical innovation, has been the driving force propelling Plat'Home's product development activities. Our founding philosophy to serve as the preferred partner of computer engineers, which has supported the Company since its inception, remains unchanged, despite being located in the rapidly transforming Akihabara district.

Cautionary statement with respect to forward-looking statements

Statements made in this annual report with respect to Plat'Home's current plans, estimates, strategies and beliefs and other statements that are not historical facts are forward looking statements about the future performance of Plat'Home. These statements are based on management's assumptions and beliefs in light of the information currently available to it and therefore you should not place undue reliance on them. Plat'Home cautions you that a number of important factors could cause actual results to differ materially from those discussed in the forward-looking statements. Such factors include, but are not limited to (i) general economic conditions in Plat'Home's markets, particularly levels of consumer spending; (ii) exchange rates, particularly between the yen and the U.S. dollar; and (iii) Plat'Home's ability to continue to design and develop and win acceptance of its products and services, which are offered in highly competitive markets characterized by continual new product introduction, rapid development in technology, and subjective and changing consumer preferences.

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MESSAGE FROM THE PRESIDENT

Overview

In the year ended March 31, 2007, the Japanese economy showed signs of a sustained recovery, underpinned by improved corporate earnings and growth in capital investments. The economy is expected to remain firm, despite some causes for concern arising from trends of personal consumption, crude oil prices, and economic trends in the United States.

Plat'Home continued to face challenges in the domestic market for servers, the Company's mainstay product. During the year, the value of shipments appeared to bottom out despite higher volumes, overshadowing an increase in unit sales recorded in the second half of the period.

Faced with these conditions, the Company sought to expand sales of private brand computers and original products and items by concentrating management resources on the mainstay businesses. We reported strong sales of micro servers used by systems integrators in the telecommunications sector for quality control and security monitoring applications. In the private brand computer category, the appeal of our open source technologies contributed to steady sales of servers and storage products.

Collaboration between Industry and Academia

Universities and other educational and research institutions are not only valued Plat'Home customers, but are also important potential partners in the commercialization of new products and technologies. We will continue to collaborate with these institutions as we strengthen our ties with academia.

One top-priority relationship at present is our collaboration with SoftEther Corporation, a company originating from Tsukuba University. As the developer of PacketiX, SoftEther has attracted much attention for its exceptional technological capabilities. In November 2005, we launched PacketiX VPN 2.0, a virtual private network (VPN) software package developed through our collaboration.

Plat'Home makes its head office presentation room available to universities and research institutions. Thanks to its convenient location close to Akihabara Station, the room is widely used for technology and product seminars and serves as a venue for exchanges between people, products, and information. We also have a test room in our head office, where the latest equipment can be used to validate the functions, performance, and connectivity of all kinds of computer equipment. Plat'Home will continue to strengthen its ties with universities and research institutions in Japan and overseas, with whom it shares a commitment to industry-academia collaboration.

Outlook for Plat'Home and the IT Sector

The outlook for IT-related investments in Japan is favorable, reflecting a steadily recovering economy supported by improving corporate earnings. However, given differences in demand depending on the type of users, variability in strong selling product lines, and other factors, a sudden increase in demand does not seem likely. In fields where there is a proliferation of products, we can expect the decline in product and service prices to continue for individual IT-related investment projects.

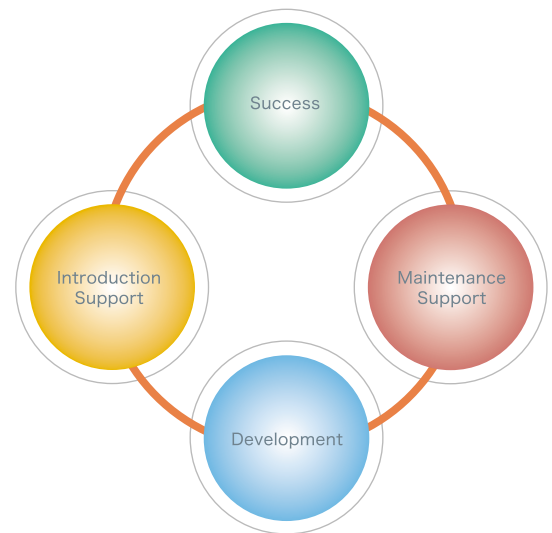
In response, Plat'Home intends to provide its corporate customers with distinctive products and services, centering on private brand computers and original items.

In April 2007, we established a subsidiary in the United States, called Plat'Home USA Ltd. With its office located in the JETRO Innovation Center in San Jose, California, that company intends to explore the potential for micro servers in the U.S. market. By steadily implementing our fundamental strategy in this way, we will endeavor to restore the Company's performance by expanding sales while maintaining high profitability.

Our aim is to deliver high profitability and improve our business performance. To achieve our goals, we will provide distinctive items in the market with an emphasis on original Plat'Home products.

Q What is your impression of the operating environment for the IT sector?

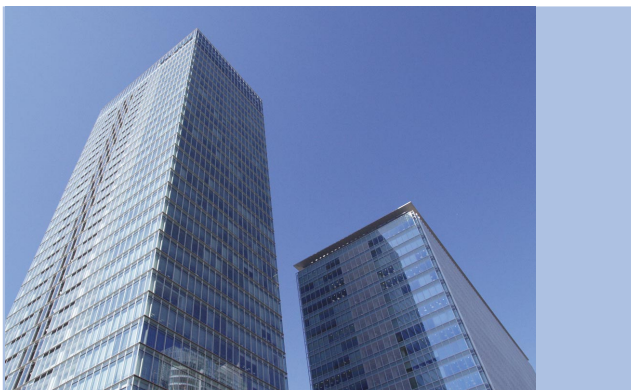
A The Japanese economy is showing signs of a sustained recovery, characterized by improved corporate earnings and an increase in capital investments. However, the domestic server market, Plat'Home's main market, remains challenging. Although there has been an increase in terms of sales quantity's this growth was overshadowed in the second half of the year when sales failed to increase in terms of value. Nonetheless, the Company has generated higher revenues from sales of private brand computers and micro servers. This is attributable to proactive sales activities targeting corporate customers, such as educational institutions, telecommunications companies, and security-related businesses.



Q What strategies do you have in mind for Plat'Home's original products and items?

A Even though the market for the Company's mainstay servers and storage products remains challenging, in the year under review we posted higher sales in both volume and value terms. We plan to continue to make the most of the Company's strengths in open source servers. By this, I mean our ability to provide integrated solutions by developing and manufacturing both servers and storage products, along with our expertise in open source technologies, such as Linux, which we have accumulated since the Company was first established. We intend to continue to meet customer demand in fields that require detailed service.

Meanwhile, the increased use of micro servers for quality control of communication circuits and security purposes has led to numerous applications for these devices.



We plan to expand sales in this area by broadening our customer base through several measures including devising innovative proposals for similar applications and developing new applications. Plat'Home has been an industry leader in micro servers, introducing its first product in July 2000. We feel that the micro servers market has gradually taken shape in the past few years.

We intend to strengthen our lineup of products made by other manufacturers, centering on those that are compatible with our own servers and other items that will help us harness synergies. At present, we are devoting considerable resources to our virtual private network software, PacketiX. This product, which can provide integrated services for networked servers and micro servers, one of Plat'Home strengths, is also enjoying healthy sales. We plan to continue to augment our distinctive lineup of offerings by strengthening our product and solution development activities.

Q **What was the objective behind establishing a subsidiary in the United States, and how do you see its future?**

A The United States plays an integral role in today's computer-related products market. Micro servers have a market all of their own, and Plat'Home is proud of its pioneering role in that market. However, even a slight development in the United States could easily alter the Company's current dominance. We established an office in the United States to investigate our prospects in the U.S. micro server market and strategies for survival. Plat'Home USA's office is located in San Jose, California, and has received support from the Japan External Trade Organization (JETRO).

Plat'Home was the first in the world to bring a micro server to market. If we do not tackle the U.S. market now, another company will at some stage. Our objective is to open up a market in the United States as the pioneer of the micro server. We also intend to look into the possibilities of collaborating with other companies.

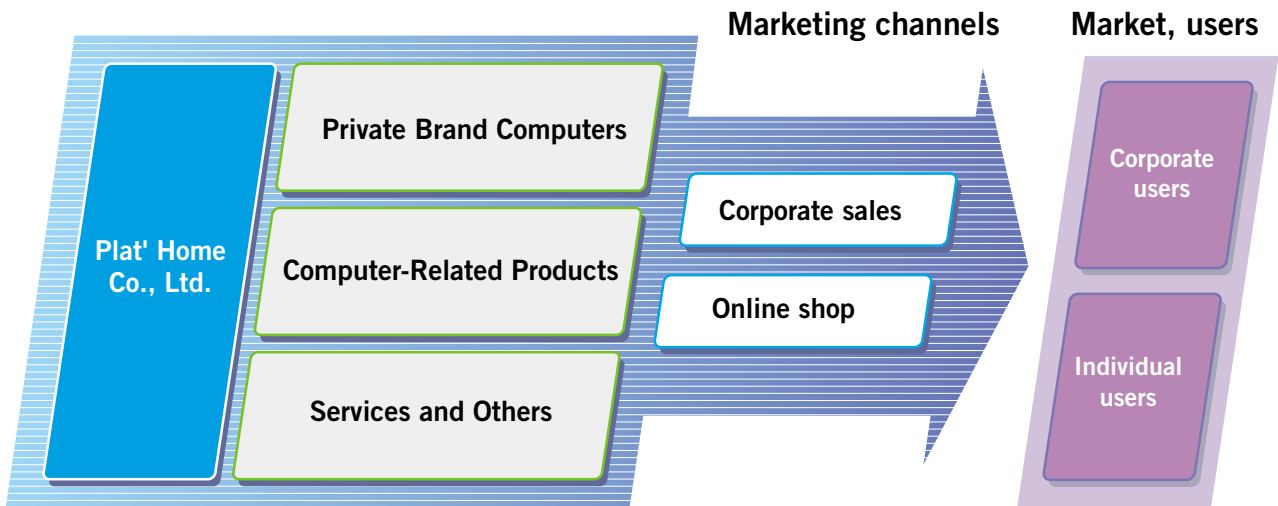


Q **What is the outlook for the next fiscal period?**

A Plat'Home recorded a loss for the year under review, despite posting a profit in the fourth quarter. Going forward, we plan to achieve new growth by focusing on business applications, particularly for our original products and items to the market. Having completed building a solid business foundation during the year under review, we believe it is now time to undertake new investment. Accordingly, in the current fiscal year we plan to reinforce the structure of the core technology side of our operations. We also plan to invest in R&D to bolster our product lineup and strengthen marketing activities directed at the global market.

Plat'Home Business Flow Chart

Plat'Home's Operating Structure



Private Brand Computers

In this segment, we sell to end users private brand computers that we develop, design, and assemble by applying our advanced technology. Our mainstay products are servers with open source operating systems designed for internet and intranet use. We meet the needs of our customers by offering customized products, such as desktop and rack-mounted models. Using our software and hardware packaging engineering technologies, we supply servers compatible with a wide range of operating systems, including Linux, Free BSD, and other open source software; Solaris and other UNIX systems; and Windows. We keep pace with the diverse and evolving needs of enterprises and research institutions for computer networks.

During the year under review, we reported strong sales to our main customer base, consisting of educational and research institutions, electrical equipment manu-

facturers, internet-based service companies, and other corporate customers. Sales in this segment recovered after bottoming in the previous fiscal year.

As a result, sales of private brand computers rose 9.1% from a year earlier, to ¥1,135 million (US\$9,618 thousand).

Other Computer-Related Products

In addition to private brand computers, Plat'Home markets OEM Products, as well as original products and items developed through agreements with manufacturers and retail stores. These include micro servers, KVM switches, and compact keyboards.

Revenue in this segment rose markedly as a result of sales of our popular OpenBlockS micro server, OpenMicroServer, an addition to the micro server range launched at the end of the previous fiscal year, as well as PacketiX, developed by SoftEther Corporation.

New Product 1

Micro Server Series

The forthcoming advent of the ubiquitous networking age has created demand for products that can link one remote place with another, as well as multiple sites. Plat'Home's series of compact Linux servers overcomes the problems of size, durability in certain environment, and maintenance faced by conventional servers. Another main feature is that they can be monitored and controlled remotely. The series consists of OpenMicroServer, featuring an improved interface and specifications ensuring durability in harsh environments, and OpenBlockS266, a palm-sized appliance server base.

Recently, there has been an increase in the use of micro servers as live servers for monitoring crime-prevention and disaster-prevention surveillance cameras. The surveillance camera is also a compact appliance server base that uses a network to transmit visual data continuously. As an appliance server base, micro servers are also used to control smoke sensors, temperature sensors, and other disaster prevention sensors, and detect abnormalities.



Sales of other general products to mainly individual consumers declined significantly, due to the closure of our Akihabara retail store in December 2005 and a shift to products aimed at the corporate market.

As a result, segment sales fell 16.7% from the previous period, to ¥1,817 million (US\$15,390 thousand).

Services and Others

This segment consists of system design and consulting support services for clients building or upgrading their network infrastructures. Our services include repair and maintenance accompanying sales of private brand computers and the Company's own product brands.

In the year under review, sales in this segment rose 23.5%, to ¥98 million (US\$828 thousand).

New Product 2

PacketiX VPN 2.0

This software package is used to build virtual private networks (VPNs), connecting networks or computers in different locations and allowing users to access their company networks safely from both outside and inside. Networks built by introducing this software package to any environment use encoded and encapsulated networking to provide safe communication.

PacketiX VPN 2.0 has safety, flexibility, and expandability in every assumed situation. It is ideal for small and medium-sized business networks, and wide area and advanced networks that are required by communications between large facilities and ISPs.


PacketiX
NEXT GENERATION VPN SYSTEM
BY SOFTETHER CORPORATION

FINANCIAL REVIEW

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Results of Operations

Net sales of the year amounted to ¥3,050 million (US\$25,836 thousand), down 7.6% from the previous year. We recorded steady sales of servers and storage products to our main customer base, namely educational and research institutions, electrical appliance manufacturers, and companies providing Internet-based services. However, we posted a significant decline in sales to individual consumers, due to the closure of the Akihabara retail store and the restructuring of our product lineup to a corporate-oriented lineup. Sluggish sales of general products other than original products also decreased revenues.

By segment, sales of our mainstay private brand computers climbed 9.1%. This was attributable to an increase in sales to our main customer base of educational and research institutions, electrical appliance manufacturers, and Internet-based service companies. Sales of other computer-related products declined 16.7%. Here, the significant increase in sales of original items was insufficient to offset the drop in sales to individuals stemming from the closure of the retail store. Sales from other services increased 23.5%. This was attributable to an increase in maintenance services accompanying sales of original products and items.

Substantial growth in sales of high-value-added original products and items, coupled with a review of distri-

bution and inventory management, resulted in a 3.2 percentage point increase in the gross profit ratio, to 24.8%. The ratio of selling, general, and administrative expenses to net sales rose 0.2 percentage point, to 28.9%. This was due to reduced expenses stemming from the closure of the Akihabara retail store and ongoing efforts to cut costs across the board. Unable to compensate for lower sales in all areas besides original products and items, we posted an operating loss of ¥125 million (US\$1,056 thousand), however this was half the size of the operating loss however in the previous year.

We recorded a net loss of ¥127 million (US\$1,075 thousand) in fiscal 2007, because there were no expenses incurred in moving the Company's headquarters and closing down the Akihabara retail store in the previous year.

Financial Position

At fiscal year-end, total assets was ¥4,814 million (US\$40,777 thousand), down 2.8% from a year earlier. Current assets declined 1.4%, to ¥4,277 million (US\$36,231 thousand). Major factors in this change included a decrease in cash and cash equivalents, while notes and accounts receivable increased due to a rise in transactions with corporate customers. There was also an increase in raw material inventories owing to a backlog of unfilled orders.

Fixed assets decreased 12.6% year-on-year, to ¥537 million (US\$4,546 thousand). This was due in part to a decline in tangible and intangible fixed assets stemming from depreciation. Investments and other assets declined due to the reimbursement of the security deposit for the closed Akihabara retail store.

Total liabilities declined 2.7%, to ¥691 million (US\$5,853 thousand). The main factor was a decrease in accounts payable due to a lower volume of goods purchased, which led to a decline in current liabilities.

Net assets declined 2.8% from the previous year, to ¥4,123 million (US\$34,924 thousand).

Cash Flows

Cash and cash equivalents at fiscal year-end was ¥2,615 million (US\$22,152 thousand), down ¥1,128 million (US\$9,553 thousand) from a year earlier. The decline stemmed primarily from changes in cash flows from operating and investing activities.

Net cash used in operating activities totaled ¥123 million (US\$1,041 thousand). Factors holding down operating cash flows included an increase in notes and accounts receivable due to a rise in sales to corporate customers, as well as an increase in inventory assets.

Net cash used in investing activities totaled ¥1,013 million (US\$8,578 thousand). This was mainly due to increases in time deposits and purchases of property, plant, and equipment.

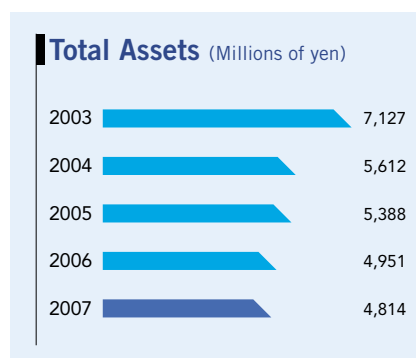
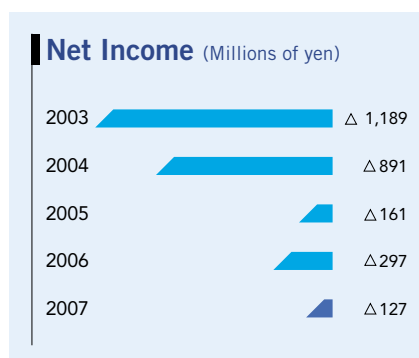
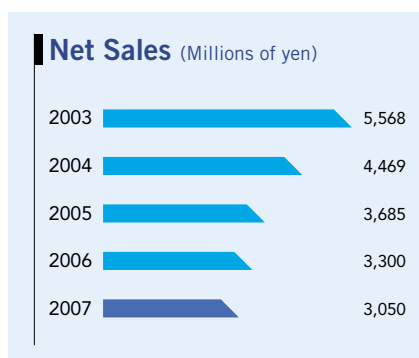
The Company posted a slight increase in net cash provided by financing activities. This was due to disposal of treasury stock stemming from the exercise of stock options.

Outlook

The domestic server market is expected to remain tough due to intense price competition in the limited markets in which the Company operates. We will continue our marketing plan for expanding sales of private brand computers and original products and items, with an emphasis on sales to corporate customers. We will also strive to increase corporate sales of servers and storage products by augmenting our range of open source technologies. In addition, we will endeavor to increase sales of micro servers to telecommunications companies and other corporations by continuing to open up new fields for their application, such as security and network-based monitoring.

In April 2007, we established a U.S. subsidiary in San Jose, California. JETRO is supporting our business expansion efforts to encompass overseas markets, including the United States.

In addition to striving to increase sales of PacketiX in the domestic market, we also plan to launch an English-language version aimed at overseas markets. With regard to resale products, we intend to further enhance efficiency by concentrating on products for corporate customers, creating a selective product lineup while promoting online sales.



NON-CONSOLIDATED BALANCE SHEETS

As of March 31, 2007 and 2006

	Thousands of yen		Thousands of U.S. dollars (Note 2)
	2007	2006	2007
ASSETS			
Current assets:			
Cash and time deposit (Note 4)	¥ 3,615,069	¥ 3,742,828	\$ 30,623
Notes and accounts receivable-trade	514,918	467,893	4,362
Allowance for doubtful accounts	(773)	(702)	(7)
Inventories (Note 5)	111,984	92,838	949
Other current assets	35,862	34,480	304
Total current assets	4,277,060	4,337,337	36,231
Property, plant and equipment:			
Buildings and leasehold improvements	161,387	161,387	1,367
Tools, furniture and fixtures	129,626	129,226	1,098
	291,013	290,613	2,465
Accumulated depreciation	(174,406)	(153,060)	(1,477)
Property, plant and equipment, net	116,607	137,553	988
Investments and other assets:			
Investment in securities (Note 6)	294,937	298,797	2,498
Intangible and other assets (Note 7)	125,074	177,481	1,060
Total investments and other assets	420,011	476,278	3,558
Total assets	¥ 4,813,678	¥ 4,951,168	\$ 40,777
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable-trade	¥ 621,832	¥ 625,706	\$ 5,268
Accrued expenses	23,465	25,853	199
Accrued income taxes (Note 10)	10,996	13,010	93
Advances received	15,262	30,407	129
Other current liabilities	9,389	4,574	79
Total current liabilities	680,944	699,550	5,768
Long-term liabilities:			
Employees' severance and retirement benefits (Note 8)	9,544	10,416	81
Deferred tax liabilities	506	—	4
Total long-term liabilities	10,050	10,416	85
Total liabilities	690,994	709,966	5,853
Net Assets (Note 9):			
Common stock			
Authorized - 36,000 shares			
Issued and outstanding - :			
13,588 shares in 2007 and 2006	2,414,700	2,414,700	20,455
Capital surplus	5,566,781	5,565,320	47,156
Accumulated deficit	(3,701,205)	(3,574,197)	(31,352)
Treasury stocks, at cost	(158,329)	(164,621)	(1,341)
Unrealized gain on securities, net of taxes	737	—	6
Total net assets	4,122,684	4,241,202	34,924
Total liabilities and net assets	¥ 4,813,678	¥ 4,951,168	\$ 40,777

The accompanying notes to the financial statements are an integral part of this statement.

NON-CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended March 31, 2007 and 2006

	Thousands of yen		Thousands of U.S. dollars (Note 2)
	2007	2006	2007
Net sales:	¥3,049,919	¥ 3,300,010	\$25,836
Cost of sales (Note 8 and 15):	2,292,353	2,586,715	19,418
Gross profit	757,566	713,295	6,418
Selling, general and administrative expenses (Notes 8, 13, 14 and 15)	882,288	962,202	7,474
Operating loss	(124,722)	(248,907)	(1,056)
Other income (expenses):			
Interest income	3,872	65	33
Loss on disposal of fixed assets	(375)	(21,480)	(3)
Loss on disposal of intangible assets	—	(485)	—
Loss on investment in partnership	(6,175)	(1,146)	(52)
Loss on store closing	—	(11,597)	—
Expense of head office removal	—	(7,561)	—
Cancellation fee on finance leases	—	(1,498)	—
Other, net	2,012	(39)	17
	(666)	(43,741)	(5)
Loss before income taxes	(125,388)	(292,648)	(1,061)
Provision for income taxes (Note 10):			
Current	1,620	4,210	14
Net loss	¥ (127,008)	¥ (296,858)	\$ (1,075)
		Yen	U.S. dollars
Per share of common stock:			
Net loss	¥ (10,021)	¥ (23,329)	\$ (85)
Diluted net income	—	—	—
Cash dividends applicable to the year	—	—	—

The accompanying notes to the financial statements are an integral part of this statement.

NON-CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Years ended March 31, 2007 and 2006

	Number of shares of common stock	Thousands of yen					Unrealized gain on securities, net of taxes	Total
		Common stock	Capital surplus	Accumulated deficit	Treasury stocks			
Balance at March 31, 2005	13,588	¥ 2,414,700	¥ 5,565,320	¥ (3,277,339)	¥ (72,501)	¥ —	¥4,630,180	
Net loss	—	—	—	(296,858)	—	—	(296,858)	
Acquisition of treasury stocks	—	—	—	—	(92,120)	—	(92,120)	
Balance at March 31, 2006	13,588	2,414,700	5,565,320	(3,574,197)	(164,621)	—	4,241,202	
Net loss	—	—	—	(127,008)	—	—	(127,008)	
Exercise of stock option	—	—	1,461	—	6,292	—	7,753	
Changes in unrealized gains on securities, net of taxes	—	—	—	—	—	737	737	
Balance at March 31, 2007	13,588	¥2,414,700	¥5,566,781	¥(3,701,205)	¥(158,329)	¥ 737	¥4,122,684	

	Thousands of U.S. dollars (Note 2)					
Balance at March 31, 2006	\$ 20,455	\$ 47,144	\$ (30,277)	\$ (1,394)	\$ —	\$ 35,928
Net loss	—	—	(1,075)	—	—	(1,075)
Exercise of stock option	—	12	—	53	—	65
Changes in unrealized gains on securities, net of taxes	—	—	—	—	6	6
Balance at March 31, 2007	\$20,455	\$ 47,156	\$ (31,352)	\$ (1,341)	\$ 6	\$ 34,924

The accompanying notes to the financial statements are an integral part of this statement.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31, 2007 and 2006

	Thousands of yen		Thousands of U.S. dollars (Note 2)
	2007	2006	2007
Cash flows from operating activities:			
Net loss	¥ (127,008)	¥ (296,858)	\$ (1,075)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	61,437	74,728	520
Increase in notes and accounts receivable-trade	(47,024)	(94,535)	(398)
(Increase) decrease in inventories	(19,147)	98,032	(162)
Decrease in accounts payable-trade	(10,673)	(33,533)	(90)
Decrease in accrued expenses	(186)	(3,468)	(2)
(Decrease) increase in advance received	(15,145)	(1,001)	(128)
(Decrease) increase in accrued income taxes	(4,682)	(9,697)	(40)
Other, net	39,486	38,925	334
Net cash used in operating activities	(122,942)	(227,407)	(1,041)
Cash flows from investing activities:			
Purchase of short-term investment	(1,000,000)	—	(8,471)
Purchases of property, plant and equipment	(5,377)	(51,277)	(46)
Purchases of intangible	(5,245)	(12,391)	(44)
Purchase of investment in securities	(1,400)	(300,000)	(12)
Other, net	(560)	—	(5)
Net cash used in investing activities	(1,012,582)	(363,668)	(8,578)
Cash flows from financing activities:			
Acquisition of treasury stocks	—	(92,389)	—
Proceeds from sales of treasury stocks	7,753	—	66
Net cash provided by (used in) financing activities	7,753	(92,389)	66
Effect of exchange rate changes on cash and cash equivalents	12	204	0
Net decrease in cash and cash equivalents	(1,127,759)	(683,260)	(9,553)
Cash and cash equivalents at beginning of period	3,742,828	4,426,088	31,705
Cash and cash equivalents at end of period (Note 4)	¥ 2,615,069	¥ 3,742,828	\$ 22,152
Supplemental disclosures of cash flow information:			
Cash paid during the years for:			
Interest	—	—	—
Income taxes	¥ (4,288)	¥ (4,211)	\$ (36)

The accompanying notes to the financial statements are an integral part of this statement.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

As of March 31, 2007 and 2006

1. Nature of operations:

Plat'Home Co., Ltd. (the "Company") was incorporated in March 1993. The Company distributes computers and network equipment, parts, software and related services through institutional sales, and internet. The Company also manufactures computers under its private brand name "Plat'Home Factory". The Company offers consulting services to clients in the areas of design, installation and upgrading of network computer systems.

2. Basis of presenting Non-consolidated financial statements:

The accompanying non-consolidated financial statements 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, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accompanying non-consolidated financial statements have been restructured and translated into English (with certain expanded disclosure and the inclusion of the non-consolidated statement of changes in net assets for 2006) from the non-consolidated financial statements of the Company 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 non-consolidated financial statements, but not required for fair presentation, is not presented in the accompanying non-consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2007, which was ¥118.05 to U.S. \$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

3. Summary of significant accounting policies:

◆ Allowance for doubtful accounts

The Company provides an allowance for doubtful accounts in an amount sufficient to cover possible losses on collection by estimating individually uncollectible amounts and applying a percentage based on collection experience to the remaining accounts.

◆ Inventories

Computer equipments, parts, raw materials and private brand computers are stated at cost using the moving-average method. Work-in-process are stated at cost using the specific identifi-

cation method in system development projects and at cost using the moving-average method in others.

◆ Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation is computed by the declining-balance method at rates based on estimated useful lives of respective assets. As an exception, the straight-line method is applied to buildings, excluding building fixtures, acquired after March 31, 1998. The estimated useful lives of depreciable assets are as follows:

Buildings and leasehold improvements	8 to 15 years
Tools, furniture and fixtures	2 to 20 years

◆ Investment in securities

Available-for-sale securities whose fair values are not readily determinable are stated at cost using the moving-average method.

The company have recorded an amount equivalent to the proportional portion of assets held by investments in limited liability partnerships and of a similar investments using the equity method.

◆ Intangible and other assets

Computer software for the Companies' own use is amortized using the straight-line method over the estimated useful lives (5 years) and other intangible assets are amortized using the straight-line method.

◆ Employees' severance and retirement benefits

The Company provides two post-employment benefit plans, an unfunded lump-sum payment plan and a funded contributory pension plan, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors.

Allowance and expenses for severance and pension benefits are basically determined based on the amounts actuarially calculated using certain assumptions. However, the Company adopted a simpler method, which is allowed for companies with less than 300 employees.

Under the simpler method, the Company accrues the full amounts of the lump-sum payments which will be required if all eligible employees voluntarily terminated their employment as of the balance sheet date. The Company recognizes pension expense when, and to the extent, payments are made to the pension fund.

◆ Income taxes

Income taxes comprise corporate, enterprise and inhabitant taxes.

Provision for income taxes is computed based on the pretax income included in the non-consolidated statement of opera-

tions. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

◆ **Foreign currency translation**

Short-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the prevailing year-end rates.

The Company does not use any derivative financial instruments.

◆ **Cash and cash equivalents**

Cash and cash equivalents include cash on hand, readily-available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase.

◆ **Net income per share of common stock**

The computation of net income per share of common stock shown in the non-consolidated statement of operations is based on the average number of shares of common stock outstanding during each year.

Diluted income per share is not presented for the years ended March 31, 2007 and 2006, because of net loss.

◆ **Reclassifications**

Certain prior year amounts have been reclassified to conform to 2007 presentation.

◆ **Accounting change**

(1) Accounting Standard for Presentation of Net Assets in the Balance Sheet

Effective from the year ended March 31, 2007, the Company adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No.5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, the "New Accounting Standards").

Under the New Accounting Standards, the balance sheet comprises three sections, which are the assets, liabilities and net assets sections. Previously, the balance sheet comprised the assets, liabilities, and the shareholders' equity sections.

The non-consolidated balance sheet as of March 31, 2006 has been restated to conform to the 2007 presentation. There were no effects on total assets or total liabilities from applying the New Accounting Standards to the balance sheet as of March 31, 2006.

The amount of net assets as of March 31, 2007 is the same as the amount of the shareholders' equity that would have been presented if the previous presentation rules had been applied at that date.

The adoption of the New Accounting Standards had no impact on the non-consolidated statements of income for the years ended March 31, 2007 and 2006.

(2) Accounting Standard for Statement of Changes in Net Assets

Effective from the year ended March 31, 2007, the Company adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No.6 issued by the Accounting Standards Board of Japan on December 27, 2005), and the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, the "Additional New Accounting Standards").

Accordingly, the Company prepared the statements of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards. Also, the Company voluntarily prepared the non-consolidated statement of changes in net assets for 2006 in accordance with the Additional New Accounting Standards. Previously, non-consolidated statements of shareholders' equity were prepared for the purpose of inclusion in the non-consolidated financial statements although such statements were not required under Japanese GAAP.

(3) Reclassification and restatement

Certain prior year amounts have been reclassified to conform to the current year presentation.

Also, as described in (1) and (2), the non-consolidated balance sheet for 2006 has been adapted to conform to new presentation rules of 2007. Also, in lieu of the non-consolidated statement of shareholders' equity for the year ended March 31, 2006, which was prepared on a voluntary basis for inclusion in the 2006 non-consolidated financial statements, the Company prepared the non-consolidated statement of changes in net assets for 2006 as well as for 2007.

These reclassifications had no impact on previously reported results of operations or retained earnings.

4. Cash and cash equivalents:

Reconciliation of cash and time deposits shown in the non-consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows as of March 31, 2006 and 2007 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2007	2006	2007
Cash and deposit	¥3,615,069	¥3,742,828	\$30,623
Less: Time deposits with maturities exceeding three months	(1,000,000)	—	(8,471)
Cash and cash equivalents	¥2,615,069	¥3,742,828	\$22,152

Cash and cash equivalents include cash on hand, readily-available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase.

5. Inventories:

Inventories as of March 31, 2007 and 2006 comprised the following:

	Thousands of yen		Thousands of U.S. dollars
	2007	2006	2007
Computer equipment and parts	¥ 50,044	¥ 57,169	\$ 424
Private brand computers	6,510	6,398	55
Raw materials	55,430	29,271	470
Total	¥111,984	¥ 92,838	\$ 949

6. Investment in securities:

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2007 were as follows:

	Carrying amount	
	Thousands of yen	Thousands of U.S. dollars
Available-for-sale Non-Listed equity securities	¥1,400	\$11
Investments in limited liability partnership	293,537	\$2,487
Total	¥294,937	\$2,498

7. Intangible and other assets:

Intangible and other assets as of March 31, 2007 and 2006 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2007	2006	2007
Computer software	¥ 14,427	¥ 48,337	\$ 122
Deposits	106,364	125,133	901
Other	4,283	4,011	37
Total	¥125,074	¥ 177,481	\$1,060

8. Employees' severance and retirement benefits:

As explained in Note 3, the liability for severance and retirement benefits as of March 31, 2007 was the full-amounts of the lump-sum payments which would be required if all eligible employees voluntarily terminated their employment as of the balance sheet date. Charges to income for severance and the pension plan for the years ended March 31, 2007 and 2006 were ¥11,910 thousand (\$101 thousand) and ¥12,694 thousand respectively. The fair value of pension assets as of March 31, 2007 and 2006 were ¥104,389 thousand (\$884 thousand) and ¥113,221 thousand respectively.

9. Net Assets

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in-capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying non-consolidated balance sheets.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the

Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, all additional paid-in-capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations. At the annual shareholders' meeting held on June 28, 2007, the shareholders approved no dividend.

10. Income taxes:

The aggregate statutory income tax rate used for calculation of deferred income tax assets and liabilities was 40.7% for the years ended March 31, 2007 and 2006.

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2007 and 2006 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2007	2006	2007
Deferred tax assets			
Net operating loss			
carry forward	¥1,554,083	¥1,508,047	\$13,165
Accrued expenses			
and payable	12,550	13,037	106
Inventories	12,778	13,049	108
Depreciation	1,160	1,745	10
Retirement benefits	3,884	4,239	33
Other	6,089	781	51
Deferred tax assets before			
valuation allowance	1,590,544	1,540,898	13,473
Valuation allowance	(1,590,544)	(1,540,898)	(13,473)
Total deferred tax			
assets	¥ —	¥ —	\$ —
Deferred tax liabilities:			
Unrealized gains on			
securities	¥ 506	¥ —	\$ 4
Deferred tax			
liabilities	506	—	4
Net deferred tax			
liabilities	¥ 506	¥ —	\$ 4

The Company recorded a valuation allowance to reflect the estimate amount of deferred tax assets that may not be realized.

A reconciliation of the difference between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying non-consolidated statement of operations for the years ended March 31, 2007 and 2006 were as follows:

	2007	2006
Normal effective statutory tax rate	40.7%	40.7%
Permanent difference	(1.1)	(0.6)
Inhabitant tax	(1.3)	(1.4)
Valuation allowance	(39.6)	(40.1)
Other, net	0.0	0.0
Actual effective tax rate	(1.3)%	(1.4)%

11. Stock option plan:

Information on stock options is as follows:

(1) Content of stock options

	Stock options granted in 2005
Persons granted	2 directors 34 employees
Number of shares (Note1)	common stock 449 shares
Date of grant	August 12, 2005
Vesting conditions	Note2
Service period	August 12, 2005 to September 30, 2006
Exercise period	November 15, 2005 to December 29, 2006

Note1. The number of stock options is convertible into an equal number of shares.

Note2. To exercise these options, the person granted the option is principally required to be a director, a corporate auditor, a corporate officer or an employee of the company except for resignation of term and retirement

(2) Number, movement and price of stock options

The number of stock options is convertible into an equal number of shares.

(a) Number of shares

	Stock options granted in 2005
Before vesting options (number of shares)	
Balance at March 31, 2006	367
Granted	—
Forfeited	367
Vested	—
Balance at March 31, 2007	—
After vesting options (number of shares)	
Balance at March 31, 2006	42
Vested	—
Excercised	36
Forfeited	6
Balance at March 31, 2007	—

(b)Price per share

	Stock options granted in 2005	
Option price(yen)	¥215,350	\$2,129
Weighted-average stock price(yen)	¥309,750	\$2,624
Fair value at grant date(yen)	—	

12. Business segment and geographic area information:

The Company is engaged predominantly in a single industry, computer network services in Japan, which includes computer and its equipment sales and related consulting services.

13. Non-capitalized finance leases:

Finance leases, which do not transfer ownership of properties to lessees, are not capitalized and are accounted for in the same manner as operating leases. Certain information for such non-capitalized finance leases is as follows:

Assumed amounts of acquisition cost, accumulated depreciation and net book value as of March 31, 2007 and 2006, are summarized as follows:

	Thousands of yen		Thousands of U.S. dollars
	2007	2006	2007
Assumed acquisition cost:			
Tools, furniture and fixtures	¥7,773	¥10,825	\$ 66
Accumulated depreciation	(6,507)	(7,629)	(55)
Book value	¥1,266	¥3,196	\$ 11

Future minimum lease payments, inclusive of interest, as of March 31, 2007 were ¥1,386 thousand (\$12 thousand), including ¥1,314 thousand (\$11 thousand) due within one year.

Lease payments, assumed depreciation and interest charged for the years ended March 31, 2007 and 2006 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2007	2006	2007
Lease payments	¥2,140	¥6,370	\$18
Depreciation charges	1,930	5,463	16
Interest expense	106	292	1

Assumed depreciation charges are computed using the straight-line method over lease terms assuming no residual value.

Assumed interest expense, which is the difference between minimum lease payment and assumed cost of leased property, is allocated over the lease term using the interest method.

14. Selling, general and administrative expenses:

Selling, general and administrative expenses for the years ended March 31, 2007 and 2006 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2007	2006	2007
Salary and bonuses	¥ 282,783	¥ 291,853	\$ 2,395
Commission	70,424	75,721	597
Other	529,081	594,628	4,482
Total	¥ 882,288	¥ 962,202	\$ 7,474

15. Research and development expenses:

Research and development expenses are charged to income as incurred. Such amount charged to income for the years ended March 31, 2007 and 2006 were ¥55,876 thousand (\$ 473 thousand) and ¥69,064 thousand respectively.

16. Contingent liabilities:

As of March 31, 2007, there were no material contingent liabilities.

17. Subsequent events:

Formation of a wholly-owned subsidiary was approved by the meeting of the board of directors held on April 18, 2007. The summary of the formation is as follows:

1. Objective

On March 20, 2007, the Company concluded an agreement with the Japan External Trade Organization (JETRO), whereby the Company will take part in JETRO's "Venture Incubation in USA" program. Under the agreement, the Company will set up a business operation in JETRO's Incubation Center (located in Silicon Valley, California), mainly to conduct market research and client development activities related to micro servers. Once the operation is up and running, there are plans to establish a local subsidiary.

2. Name, Representative person, Address, Date of formation, Main businesses, Year-end date, Capital:

(1) Name	Plat'Home USA Ltd.
(2) Representative person	Katsue Imura (Director, General Manager of Business Administration Div. of Plat'Home Co.,Ltd.)
(3) Address	San Jose, CA95113, USA
(4) Date of formation	April, 2007
(5) Main businesses	Market research, client development activities
(6) Year-end date	March 31
(7) Capital	Thirty Thousand Dollars (\$30,000)

3. Future prospects

The effect of the formation of a wholly-owned subsidiary will not be material to the Company's projection.

INDEPENDENT AUDITORS' REPORT

**To the Shareholders and Board of Directors of
PLAT'HOME Co., Ltd.:**

We have audited the accompanying non-consolidated balance sheets of PLAT'HOME Co., Ltd. as of March 31, 2007 and 2006, and the related non-consolidated statements of operations, changes in net assets and cash flows for the years then ended, expressed in Japanese yen. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these non-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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of PLAT'HOME Co., Ltd. as of March 31, 2007 and 2006, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying non-consolidated financial statements with respect to the year ended March 31, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the non-consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 28, 2007



Plat'Home

CORPORATE DATA

Date of Establishment	March 23, 1993
Capital	¥2,414 million
Net Sales	¥3,050 million
Japanese Stock Exchange Listings	Tokyo Stock Exchange, MOTHERS market
Shares of Common Stock Issued	13,588 shares
Number of Shareholders	1,089
Number of Employees	49

(As of March 31, 2007)

Directors

Chairman, Director	Hiro Honda
President, Representative Director	Tomoyasu Suzuki
Director	Katsue Imura
Director	Kunio Kawanami
Director	Setsuo Kazami

Corporate Auditors

Standing Statutory Auditor	Akira Kurihara
Statutory Auditor	Yugo Kitagawa
Statutory Auditor	Yoshinori Chujo
Statutory Auditor	Takeo Nagasawa

(As of June 28, 2007)

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