

Annual Report 2008

Year ended March 31, 2008



Plat' Home

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. Going forward, we hope to continue serving as the preferred partner of computer engineers. Our founding philosophy, which has supported the Company since its inception, remains unchanged, despite our being located in the rapidly transforming Akihabara district.

Plat'Home's slogan, "TECHNOLOGY to serve you," reflects the Company's key strength, which is the ability to bring together technology and know-how to meet the needs of customers. This slogan symbolizes both the Company's commitment and the dedication shown by each and every Plat'Home employee.

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, 2008, the Japanese economy continued showing signs of recovery, underpinned by improved corporate earnings and growth in capital investments. However, this economic recovery was halted in the second half of the year by several factors, including fears of economic recession in the United States, soaring crude oil prices, and the appreciating yen. A cautious approach is required in the immediate term amid growing concerns of economic stagnation.

Plat'Home continued facing challenges in the domestic market for servers, its mainstay product. During the year, the value of shipments continued to decline, while the volume of shipments also edged down.

Facing these conditions, the Company sought to boost sales of micro servers. Meanwhile, however, there was a significant decline in sales of PC parts and other general products. As a result, net sales and gross profit declined compared to the previous year. Selling, general, and administrative expenses increased due to higher advertising and promotional expenses and costs incurred stemming from market investigations in the United States. We recorded an extraordinary loss due to impairment losses on the Company's headquarters and Tokyo Logistics Center.

Expanding Sales of Original Products

Plat'Home's medium-term plans for business expansion center on its private brand products. To achieve this goal, we plan to reinforce sales of network systems focusing on servers with Linux and other open source operating systems and RAID. We intend to concentrate our efforts on sales of micro servers and strive to expand selling services provided for our own systems products. The market is expanding for a wide range of applications for our easy-to-use micro Linux servers developed using Plat'Home's proprietary technologies.

We intend to capitalize on this opportunity by boosting sales of these products so that they become one of the Company's earnings pillars. As well as focusing on sales of quality control and security monitoring applications for systems integrators in the telecommunications sector, we will continue to strive to open up new fields for their application. In addition, we will target our sales activities at gaining a foothold in overseas markets, including the United States. In the server and storage product segment, we will harness the technological capabilities we have amassed in Linux and other open source systems to expand sales to corporate customers. We also plan to augment our customer support services, including technology consulting and repair and maintenance services.

Outlook for Plat'Home and the IT Sector

The outlook for IT-related investments in Japan is favorable. However, given the possibility of an easing in IT-related investments resulting from uncertainties surrounding the future of the Japanese economy, 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 products.

In response, Plat'Home intends to link sales activities aimed at corporate customers with technology and services and provide these customers with distinctive products and services, centering on our private brand computers and original items. By focusing on a selected client base and specializing in high-value-added products, we will endeavor to restore the Company's performance by enhancing profitability.

Our aim is to harness the value of our technological strengths to restore our business performance, guided by the principle of putting customers first.



What is your impression of the current state of the IT market?



The domestic server market has contracted in terms of both the quantity and value of sales compared with the previous fiscal year. Rather than representing a decline in demand for servers, this is due to a trough in the replacement cycle. Sales were strong in the first half of the year, but slowed down in the second half. In other words, deterioration in the sales environment from the latter part of the year resulted in a downturn in sales for the entire period. The decline in sales of PC parts and other products was greater than anticipated. On the positive side, the percentage of net sales derived from private brand computers and micro servers, which are the main focus of our sales activities, is increasing. The Company's position is steadily improving thanks to enhanced profitability owing to higher sales of these high-value-added products.

In the micro server market, which we at Plat'Home developed, sales rose thanks in part to the introduction of new products. We believe that we are now experiencing a period of growth in demand for diverse customer applications. We see room for further expansion in the micro server market, not only for direct customer sales, but also for intermediary roles played by others in the industry, including systems integrators and application providers, by adding value. We expect this type of activity to become increasingly important.



What strategies do you have in mind?



Despite a favorable outlook for IT-related investments in the near future, we fear competition with leading server vendors to become more and more intense. We plan to respond by expanding sales by making the most of Plat'Home's distinctive advantages.

The Company develops servers based on its technological capabilities in Linux and other open source systems. These strengths in servers, operating systems and network peripheral systems give us the edge over other companies, thus enabling us to provide value to our customers.

In the past several years, in the Internet-based environment, use of services provided by data centers has been on the rise. We are receiving an increasing number of large orders for our server systems which is our strength from telecommunications companies that provide data center services. The market for infrastructure for telecommunications operators, where there is an increase in the transmission of large-quantity data mainly on video data, is expected to expand.

We also intend to focus our resources on customized systems requiring special Linux for academic and research institutions, a field in which we are able to capitalize on our strengths.

We have boosted the number of technical staff to strengthen our ability to make proposals and respond to technical problems encountered by customers. Plat'Home's company motto is "TECHNOLOGY to serve you." This reflects the Company's key strength that is its ability to bring together technology and know-how to meet the needs of customers. This motto symbolizes both the Company's commitment and the dedication shown by each and every Plat'Home employee to his or her work.

Online sales through our Plat'Online website have declined, and we aim to increase sales by renewing the site. We also plan to increase the number of items available on the website, primarily network-related products.

We continue to gather information and engage in information exchanges through participation in a variety of activities at "Akihabara Crossfield." This serves as a base for research and development of new products and services, as well as collaboration between industry and academia.

It is now one year since we set up an office in the JETRO Innovation Center in San Jose, California, and began investigating the U.S. market. This base has enabled us to take part in an exhibition in New York and boost promotional activities conducted in the English language. We have recently received an increasing number of inquiries from not only the United States, but other countries as well. We believe that there is a global market for micro servers. In this respect, it is important for a company like ours with its own brand of mainstay products to set up operations overseas in the medium to long term.

 **TECHNOLOGY** to serve you. ■

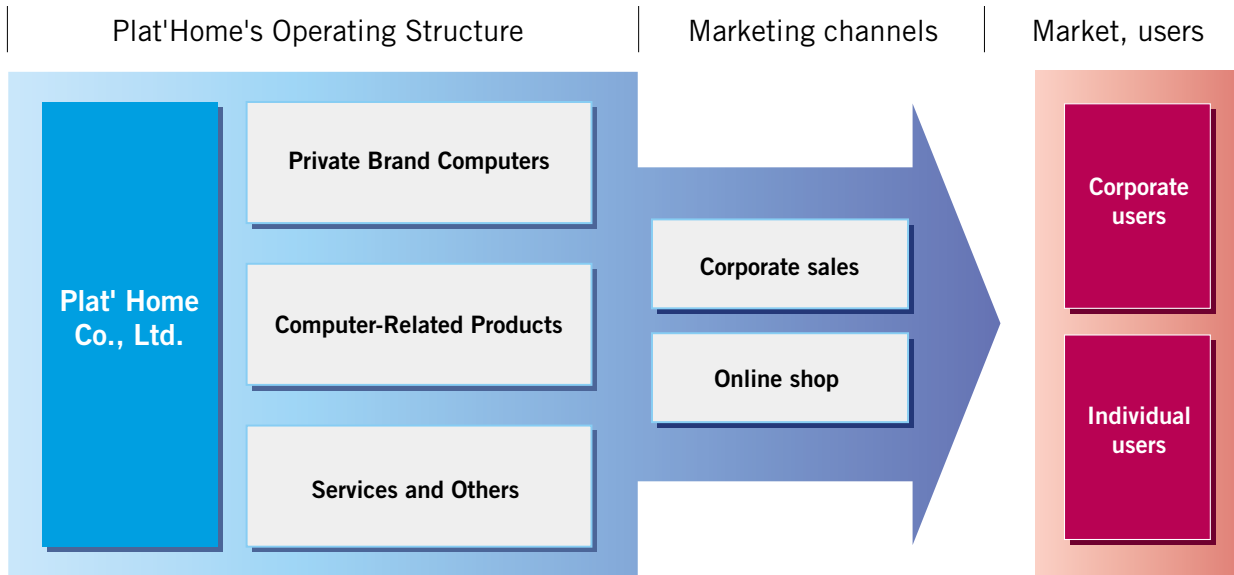
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What is your message to shareholders and other investors?

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We plan to expand sales of original products and services by harnessing our strength in open source technologies, a core competency since our founding. Our performance continues to be stymied by several factors, including uncertainties surrounding the domestic market. Over the medium and long terms, our goal is to expand markets for our products, including by establishing a physical presence overseas. I look forward to your ongoing understanding and support.

Plat'Home Business Flow Chart



Private Brand Computers

In this segment, we sell micro servers developed using our advanced technological capabilities and private brand server and storage products that we develop and produce ourselves. Our micro servers are compact servers with the Linux operating system with optimal specifications that serve as base hardware for any appliance.

Our server and storage products run using open source operating systems and are ideally suited for Internet and intranet use. We offer customized products, such as desktop and rack-mounted models which meet the needs of our customers. 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. By leveraging these strengths in software, we keep pace with the diverse and evolving needs of enterprises and research institutions for computer networks. Our ability to freely customize products enables us to provide servers with specifications tailor-made to the specific component formation sought by users, who make their selections from a large choice of components. We meet individual requirements of users by checking that our wide range of

operating systems is compatible with different software and by providing additional services.

During the year under review, we reported strong sales of products with embedded network monitoring software to telecommunications operators using OpenBlockS and OpenMicroServer, and to systems solution companies. However, sales of server and storage products declined. This was due to a drop in large shipments recorded in the previous year, despite strong sales to electrical equipment manufacturers and Internet-based service companies.

As a result, sales of private brand computers fell 20.3%, to ¥1,106 million (US\$11,040 thousand).

Other Computer-Related Products

In addition to private brand computers, Plat'Home markets computer peripherals that it designs and develops in-house. These include KVM switches and compact keyboards. A KVM switch is a device that connects a monitor, keyboard, and mouse to a number of computers to enable the user to switch control from one computer to the other. These computers can be disconnected while leaving the power on. We also sell products made by other domestic and overseas manufacturers.

PRODUCTS

Product 1

Unit Sales of MicroServer Series Top 40,000

Plat'Home's MicroServer Series small Linux-based servers has been developed from engineers' perspective. The development concept is a clear departure from the embedded boards and compact computers offered by other companies. Our products' specifications make them perfect as base hardware for any appliance. Free of driving parts, they are robust in the harshest environments and are easy to maintain, making them ideal for applications that require continuous operation. Used for monitoring and controlling networks and as base hardware for appliances, applications for these flexible products are expanding.

Our MicroServers Series has earned high praise from a wide range of customers since it first appeared in the market, bringing total sales to more than 40,000 units. The micro server market is expanding globally as we launched two products in the series, OpenMicroServer and OpenBlockS, in the U.S. market.



We supply both corporate and individual customers with cutting-edge products, including computer peripherals, network-related parts and materials, and software.

During the year in review, we reinforced sales of original products and mainstay products. As a result, we recorded strong sales of products for micro servers, although there was a sharp decline in sales of PC parts and other general products.

As a result, sales in this segment fell 32.3% from the previous year, to ¥1,059 million (US\$10,570 thousand).

Services and Others

This segment consists of system design and consulting support services for clients building or upgrading their information and telecommunication network infrastructures. Our services include repair and maintenance of private brand computers and the Company's own product brands. In the year under review, a change to accounting policy concerning the treatment of revenues from paid maintenance contracts resulted in a decline in sales from these services. However, growth in maintenance services for private brand computers contributed to an overall increase in total segment sales.

As a result, sales in this segment climbed 33.7%, to ¥131 million (US\$1,305 thousand).

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



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Results of Operations

Net sales for the year amounted to ¥2,296 million (US\$22,915 thousand), down 24.7% from the previous year. We recorded steady sales of micro servers to telecommunications companies, which represent our main customer base, as well as systems integration companies for use in various applications, such as communication quality control and security monitoring. Although we reported steady sales of servers and storage products to electrical appliance manufacturers and companies providing Internet-based services, these were no large-scale orders as in the previous year, leading to a significant sales decline compared to the previous year. Shrinking sales of PC parts and other general products also had a negative effect on revenue. By contrast, despite a fall in revenue due to the change in accounting policy, sales from other services increased due to higher demand for private brand computer maintenance services.

The share of sales of high-value-added original products in net sales grew significantly, while the share of sales of low-margin general products declined. Accordingly, the gross profit ratio increased 2.0 percentage points to 26.8%. Increases in advertising and promotional expenses, as well as higher market research costs in the

United States led to a rise in selling, general, and administrative expenses. We also posted an extraordinary loss on impairment of the Tokyo Logistics Center and head office fixed assets. As a result, the Company posted an operating loss of ¥287 million (US\$2,869 thousand) and a net loss of ¥409 million (US\$4,079 thousand).

Financial Position

At fiscal year-end, total assets amounted to ¥4,161 million (US\$41,530 thousand), down 13.6% from a year earlier. Current assets declined 12.1% to ¥3,760 million (US\$37,533 thousand). Major factors in this change included a ¥423 million (US\$4,220 thousand) decrease in cash and cash equivalents, as well as a ¥101 million (US\$1,003 thousand) decrease in notes and accounts receivable accompanying the decline in net sales.

Property, plant, and equipment decreased 25.4% compared to the previous year to ¥400 million (US\$3,997 thousand). This was mainly due to ¥29 million (US\$286 thousand) in depreciation and ¥119 million (US\$1,195 thousand) impairment loss on property, plant, and equipment. The Company also reported investments and other assets to shares of an affiliated company, related to establishment of Plat'Home USA Ltd.

Total liabilities declined 35.9% to ¥443 million (US\$4,421 thousand). The main factor was a ¥261 million (US\$2,606 thousand) decrease in accounts payable due to a lower volume of goods purchased. By contrast, there was a ¥26 million (US\$261 thousand) increase in advances received due to a change in accounting policy for stating sales from maintenance services.

Net assets declined 9.8% from the previous year, to ¥3,718 million (US\$37,109 thousand). This was mainly due ¥408 million (US\$4,079 thousand) decline in retained earnings due to net loss.

Cash Flows

Cash and cash equivalents at fiscal year-end were at ¥2,192 million (US\$21,881 thousand), down ¥423 million (US\$4,220 thousand) from a year earlier. The decline stemmed primarily from operating activities, which produced a net outflow. Investing activities, however, generated a slight net inflow.

Net cash used in operating activities amounted to ¥431 million (US\$4,307 thousand). Factors holding down operating cash flows included loss before income taxes of ¥409 million (US\$4,079 thousand), an impairment loss of ¥120 million (US\$1,195 thousand), and depreciation of ¥29 million (US\$286 thousand), and a ¥261 million (US\$2,606 thousand) decrease in notes and accounts payable. Factors boosting cash flows included a ¥101 million (US\$1,003 thousand) increase in notes and accounts receivable.

Net cash provided by investing activities totaled ¥9 million (US\$89 thousand). This was mainly due to ¥28 million (US\$275 thousand) distribution from a limited liability partnership, as well as ¥15 million (US\$150 thousand) in purchases of tangible and intangible

fixed assets. There was no change in cash flows from financing activities.

Outlook

The domestic server market is expected to remain challenging, due to intense price competition in the limited markets in which the Company operates. We will continue our marketing plan for expanding sales of original products. We will also focus on increasing corporate sales by augmenting our range of open source technologies and reinforcing our service system.

With respect to private brand computers, a market is emerging for various applications of the micro servers functioning as compact servers with the easy-to-use Linux operating system. We plan to expand sales to maintain strong results. Meanwhile, we plan to pursue further business development overseas. In April 2007, we established a U.S. subsidiary in San Jose, California, receiving support from JETRO for our business expansion efforts to encompass overseas markets, including the United States. We also plan to utilize our amassed technical expertise in Linux and other open source operating systems to generate a recovery in sales of servers and storage products.

In computer-related products, we plan to sales of our original products and core products. In addition to increasing sales of PacketiX in the domestic market, we will concentrate on selling a downloadable English-language version aimed at overseas markets. With regard to general products, we will work to enhance sales efficiency by focusing on sales to corporate customers and improving functions on our online sales site. In storage and other products, we will strive to continue increasing our maintenance services for private brand computers.

Net Sales (Millions of yen)

2004	4,469
2005	3,685
2006	3,300
2007	3,050
2008	2,296

Net Income (Millions of yen)

2004	△ 891
2005	△ 161
2006	△ 297
2007	△ 127
2008	△ 409

Total Assets (Millions of yen)

2004	5,612
2005	5,388
2006	4,951
2007	4,814
2008	4,161

NON-CONSOLIDATED BALANCE SHEETS

As of March 31, 2008 and 2007

	Thousands of yen		Thousands of U.S. dollars (Note 2)
	2008	2007	2008
ASSETS			
Current assets:			
Cash and time deposit (Note 4)	¥3,192,255	¥3,615,069	\$31,862
Accounts receivable-trade	414,385	514,918	4,136
Allowance for doubtful accounts	(621)	(773)	(6)
Inventories (Note 5)	110,036	111,984	1,098
Other current assets	44,334	35,862	443
Total current assets	3,760,389	4,277,060	37,533
Property, plant and equipment:			
Buildings and leasehold improvements	83,766	161,387	836
Tools, furniture and fixtures	103,043	129,626	1,028
	186,809	291,013	1,864
Accumulated depreciation	(186,809)	(174,406)	(1,864)
Property, plant and equipment, net	—	116,607	—
Investments and other assets:			
Investment in unconsolidated subsidiaries	3,668	—	37
Investment in securities (Note 7)	268,068	294,937	2,675
Intangible and other assets (Note 8)	128,742	125,074	1,285
Total investments and other assets	400,478	420,011	3,997
Total assets	¥4,160,867	¥4,813,678	\$41,530
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable-trade	¥343,781	¥621,832	\$3,431
Accrued expenses	26,666	23,465	266
Accrued income taxes	12,258	10,996	122
Advances received	41,437	15,262	414
Other current liabilities	3,910	9,389	39
Total current liabilities	428,052	680,944	4,272
Long-term liabilities:			
Employees' severance and retirement benefits (Note 9)	11,741	9,544	117
Deferred tax liabilities (Note 11)	3,158	506	32
Total long-term liabilities	14,899	10,050	149
Total liabilities	442,951	690,994	4,421
Net assets (Notes 10):			
Common stock			
Authorized - 36,000 shares			
Issued and outstanding - : 13,588 shares in 2008 and 2007	2,414,700	2,414,700	24,101
Capital surplus	5,566,781	5,566,781	55,562
Accumulated deficit	(4,109,837)	(3,701,205)	(41,020)
Treasury stocks, at cost	(158,329)	(158,329)	(1,580)
Unrealized gain on securities, net of taxes	4,601	737	46
Total net assets	3,717,916	4,122,684	37,109
Total liabilities and net assets	¥4,160,867	¥4,813,678	\$41,530

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, 2008 and 2007

	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, 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 gain 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	
Net loss	—	—	—	(408,632)	—	—	(408,632)	
Changes in unrealized gain on securities, net of taxes	—	—	—	—	—	3,864	3,864	
Balance at March 31, 2008	13,588	¥2,414,700	¥5,566,781	¥(4,109,837)	¥(158,329)	¥4,601	¥3,717,916	

	Thousands of U.S. dollars (Note 2)					
Balance at March 31, 2007	\$24,101	\$55,562	\$(36,941)	\$(1,580)	\$7	\$41,149
Net loss	—	—	(4,079)	—	—	(4,079)
Net increase in unrealized gain on available-for-sale securities	—	—	—	—	39	39
Balance at March 31, 2008	\$24,101	\$55,562	\$(41,020)	\$(1,580)	\$46	\$37,109

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

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31, 2008 and 2007

	Thousands of yen		Thousands of U.S. dollars (Note 2)
	2008	2007	2008
Cash flows from operating activities:			
Net loss	¥(408,632)	¥(127,008)	\$(4,079)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	28,650	61,437	286
Loss on impairment of fixed assets	119,757	—	1,195
(Increase) decrease in accounts receivable-trade	100,533	(47,024)	1,003
(Increase) decrease in inventories	1,948	(19,147)	19
Decrease in accounts payable-trade	(261,094)	(10,673)	(2,606)
Decrease in accrued expenses	(2,297)	(186)	(22)
Increase (decrease) in advance received	26,176	(15,145)	261
Decrease in accrued income taxes	(1,262)	(4,682)	(12)
Other, net	(35,278)	39,486	(352)
Net cash used in operating activities	(431,499)	(122,942)	(4,307)
Cash flows from investing activities:			
Deposits in time deposits	(1,000,000)	(1,000,000)	(9,981)
Withdrawals from time deposits	1,000,000	—	9,981
Purchases of property, plant and equipment	(4,583)	(5,377)	(46)
Purchases of intangibles	(10,449)	(5,245)	(104)
Purchase of investment in securities	—	(1,400)	—
Purchase of subsidiaries securities	(3,668)	—	(36)
Proceeds from investment in securities	27,600	—	275
Other, net	—	(560)	—
Net cash provided by (used in) investing activities	8,900	(1,012,582)	89
Cash flows from financing activities:			
Proceeds from sales of treasury stocks	—	7,753	—
Net cash provided by financing activities	—	7,753	—
Effect of exchange rate on cash and cash equivalents	(215)	12	(2)
Net decrease in cash and cash equivalents	(422,814)	(1,127,759)	(4,220)
Cash and cash equivalents at beginning of period	2,615,069	3,742,828	26,101
Cash and cash equivalents at end of period	¥2,192,255	¥2,615,069	\$21,881
Supplemental disclosures of cash flow information:			
Cash paid during the years for:			
Interest	—	—	—
Income taxes	(2,036)	(4,288)	(20)

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

As of March 31, 2008 and 2007

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 Financial Instruments 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 Financial Instruments 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 statement.

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, 2008, which was ¥100.19 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 equipment, parts, raw materials and private brand computers are stated at cost using the moving-average method.

◆ *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

Change in accounting policies

Effective from this fiscal year, the Company has changed its depreciation method in terms of property, plant and equipment acquired after April 1, 2007 in accordance with revisions of the Corporation Tax Law.

The effect on net income of the adoption of this change was not material.

Additional information

Effective from this fiscal year, after having depreciated property, plant and equipment acquired before March 31, 2007 up to 5 percent of the remaining acquisition cost based on the prior Corporation Tax Law, the Company has depreciated 5 percent of the remaining acquisition cost less minimum salvage value, using a straight line method over 5 years and booked as depreciation expense in accordance with revisions of the Corporation Tax Law.

The effect on net income of the adoption of this change was not material.

◆ *Investment in securities*

Subsidiaries securities are stated at cost using the moving-average method.

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

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

◆ ***Intangible and other assets***

Computer software for the Company's 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 operations. 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, 2008 and 2007, because of net loss.

◆ ***Reclassifications***

Certain prior year amounts have been reclassified to conform to 2008 presentation.

◆ ***Accounting change***
Sales of support service

Under the existing accounting standard, sales of support service and related cost of sales were recorded between contracts service periods or when connected with the contracts, however effective April 1, 2007, the Company unified which records between contracts service periods.

This unification is required for the growth of support service for private brand computers and others, and this growth trends would continue in the future, and the Company maintained the management system of managing the support service data for applied "Practical solution on accounting for revenue recognition of software" (ASBJ Practical Issues Task Force No.17 issued on March 30, 2006) from the year ended March 31, 2008.

As a result of this change, net sales were decreased by ¥13,545 thousand (\$135 thousand), cost of sales were decreased by ¥3,481 thousand (\$35 thousand), and operating loss, loss before income taxes were increased by ¥10,064 thousand (\$100 thousand), for the year ended March 31, 2008.

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, 2008 and 2007 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2008	2007	2008
Cash and time deposit	¥ 3,192,255	¥ 3,615,069	\$31,862
Less: Time deposits with maturities exceeding three months	(1,000,000)	(1,000,000)	(9,981)
Cash and cash equivalents	¥ 2,192,255	¥ 2,615,069	\$21,881

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, 2008 and 2007 comprised the following:

	Thousands of yen		Thousands of U.S. dollars
	2008	2007	2008
Computer equipment and parts	¥86,716	¥50,044	\$865
Private brand computers	720	6,510	7
Raw materials	22,600	55,430	226
Total	¥110,036	¥111,984	\$1,098

6. Impairment of fixed assets:

The Company recorded impairment losses to the following asset group for the year ended March 31, 2008.

Use	Classification	Location
Logistics facility	Buildings, Tools, Furnitures,	Tokyo Logistics Center
Manufacturing facility	Fixtures and Others	(Ohta-ku, Tokyo)
Office	Buildings, Tools, Furnitures, Fixtures and Others	Head Office (Chiyoda-ku, Tokyo)

(Method of grouping asset)

The whole entity of the Company was classified as one group that yields cash flows.

(Process of recognizing impairment losses)

The Company may not be able to recover its investments in fixed assets. Accordingly, the book value of these assets has been reduced to their potential recovery value.

(Breakdown of Impairment Losses)

Classification	Thousands of yen	Thousands of U.S. dollars
Buildings and leasehold improvements	¥79,051	\$789
Tools, furniture and fixtures	21,354	213
Computer software	7,885	79
Others	11,467	114
Total	¥119,757	\$1,195

7. Investment in securities:

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2008 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2008	2007	2008
Available-for-sale			
Non-Listed equity securities	¥1,400	¥1,400	\$14
Investment in limited liability partnership	266,668	293,537	2,661
Total	¥268,068	¥294,937	\$2,675

8. Intangible and other assets:

Intangible and other assets as of March 31, 2008 and 2007 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2008	2007	2008
Computer software	¥ —	¥14,427	\$ —
Deposits	128,742	106,364	1,285
Other	—	4,283	—
Total	¥128,742	¥125,074	\$1,285

9. Employees' severance and retirement benefits:

As explained in Note 3, the liability for severance and retirement benefits as of March 31, 2008 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, 2008 and 2007 were ¥13,706 thousand (\$137 thousand) and ¥11,910 thousand, respectively. The fair value of pension assets as of March 31, 2008 and 2007 were ¥112,634 thousand (\$1,124 thousand) and ¥104,389 thousand, respectively.

10. 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, respec-

tively, 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 27, 2008, the shareholders approved no dividend.

11. 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, 2008 and 2007.

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2008 and 2007 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2008	2007	2008
Deferred tax assets:			
Net operating loss carry forward	¥1,661,529	¥1,554,083	\$16,584
Loss on impairment of fixed assets	48,741	—	486
Accrued expenses and payable	13,390	12,550	134
Inventories	14,631	12,778	146
Depreciation	863	1,160	8
Retirement benefits	4,779	3,884	48
Other	9,813	6,089	98
Deferred tax assets before valuation allowance	1,753,746	1,590,544	17,504
Valuation allowance	(1,753,746)	(1,590,544)	(17,504)
Total deferred tax assets	¥ —	¥ —	\$ —
Deferred tax liabilities:			
Unrealized gains on securities	¥3,158	¥506	\$32
Deferred tax liabilities	3,158	506	32
Net deferred tax liabilities	¥3,158	¥506	\$32

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, 2008 and 2007 were as follows:

	2008	2007
Normal effective statutory tax rate	40.7%	40.7%
Permanent difference	(0.3)	(1.1)
Inhabitant tax	(1.0)	(1.3)
Valuation allowance	(40.4)	(39.6)
Other, net	0.0	0.0
Actual effective tax rate	<u>(1.0)%</u>	<u>(1.3)%</u>

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, 2008 and 2007 are summarized as follows:

	Thousands of yen		Thousands of U.S. dollars
	2008	2007	2008
Assumed acquisition cost:			
Tools, furniture and fixtures	¥1,070	¥7,773	\$11
Accumulated depreciation	(1,004)	(6,507)	(10)
Impairment	(66)	—	(1)
Book value	<u>¥ —</u>	<u>¥1,266</u>	<u>\$ —</u>

Future minimum lease payments, inclusive of interest, as of March 31, 2008 were ¥72 thousand (\$1 thousand) due within one year.

Lease payments, assumed depreciation and interest charged for the years ended March 31, 2008 and 2007 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2008	2007	2008
Lease payments	¥1,343	¥2,140	\$13
Depreciation charges	1,200	1,930	12
Interest expense	29	106	0

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, 2008 and 2007 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2008	2007	2008
Salary and bonuses	¥290,808	¥282,783	\$ 2,902
Commission	93,987	70,424	938
Other	518,242	529,081	5,173
Total	<u>¥903,037</u>	<u>¥882,288</u>	<u>\$9,013</u>

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, 2008 and 2007 were ¥57,202 thousand (\$571 thousand) and ¥55,876 thousand, respectively.

16. Contingent liabilities:

As of March 31, 2008, there were no material contingent liabilities.

17. Subsequent events:

As of March 31, 2008, there were no material subsequent events.



**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, 2008 and 2007, 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, 2008 and 2007, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to Note 3 Accounting change to the non-consolidated financial statements. Effective April 1, 2007, PLAT'HOME Co., Ltd. changed the method of accounting for sales of support service.

The U.S. dollar amounts in the accompanying non-consolidated financial statements with respect to the year ended March 31, 2008 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 27, 2008



Plat'Home

CORPORATE DATA

Date of Establishment	March 23, 1993
Capital	¥2,414 million
Net Sales	¥2,296 million
Japanese Stock Exchange Listings	Tokyo Stock Exchange, MOTHERS market
Shares of Common Stock Issued	13,588 shares
Number of Shareholders	937
Number of Employees	55

(As of March 31, 2008)

Directors

President, Representative Director	Tomoyasu Suzuki
Director	Katsue Imura
Director	Kunio Kawanami

Corporate Auditors

Standing Statutory Auditor	Akira Kurihara
Statutory Auditor	Yoshinori Chujo
Statutory Auditor	Shoji Matsuyama

(As of June 27, 2008)

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