



## Consolidated Financial Results for the First Half of FY2006 (Ended Sep. 30, 2006)

October 27, 2006

Company name: Club iT Corporation

Listing: Hercules, Osaka Securities Exchange

Stock code: 4347

Head office location: 8-4-14 Akasaka, Minato-ku, Tokyo

(URL: <http://www.clubit.co.jp/>)

President & CEO: Taro Hashimoto

Contact: Akira Kano, Director and General Manager of Finance & Accounting Group

Tel: +81-(0)3-6439-3725

Board meeting for approving: October 27, 2006

Parent company: SOFTBANK Broadmedia Corporation (and one other company)

Voting rights: 65.6%

Adoption of US GAAP: Not adopted

### 1. Consolidated Financial Results for the First Half of FY2006 (April 1, 2006 - September 30, 2006)

#### (1) Results of Operations

(Figures rounded down to the nearest million yen)

	Revenue		Operating profit		Recurring profit	
	Million yen	YoY (%)	Million yen	YoY (%)	Million yen	YoY (%)
1H FY2006	4,321	(9.5)	446	(70.5)	405	(72.9)
1H FY2005	4,777	(16.3)	1,512	-	1,494	-
FY2005	9,275	(15.5)	2,805	758.3	2,739	832.1

	Net profit		Net profit per share (basic)	Net profit per share (diluted)
	Million yen	YoY (%)	Yen	Yen
1H FY2006	260	(69.8)	7.45	7.35
1H FY2005	862	-	51.02	48.55
FY2005	1,645	-	96.86	92.47

Notes: 1. Equity in earnings (losses) of non-consolidated subsidiaries

1H FY2006: (41) million yen      1H FY2005: (14) million yen      FY2005: (67) million yen

2. Average number of shares outstanding (consolidated)

1H FY2006: 34,938,898 shares      1H FY2005: 16,901,619 shares      FY2005: 16,987,256 shares

3. Changes in accounting principles applied: None

4. "YoY change" represents relevant change in percentage compared to the same period of the previous year.

#### (2) Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
1H FY2006	4,774	3,250	59.5	80.62
1H FY2005	4,015	1,818	45.3	106.99
FY2005	4,999	2,690	53.8	155.00

Note: Number of shares outstanding (consolidated)

1H FY2006: 35,209,770 shares      1H FY2005: 16,994,954 shares      FY2005: 17,356,054 shares

#### (3) Cash Flow Position

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and equivalents at end of period
	Million yen	Million yen	Million yen	Million yen
1H FY2006	(631)	(1,046)	181	764
1H FY2005	763	(749)	35	1,610
FY2005	1,881	(1,306)	123	2,261

#### (4) Scope of Consolidation and Application of Equity Method

Consolidated subsidiaries: 5      Non-consolidated subsidiary under the equity method: 0      Affiliates under the equity method: 3

#### (5) Change in the Scope of Consolidation and Application of Equity Method

Consolidated subsidiaries (Newly added): 3      (Excluded): 0

Equity-method affiliates (Newly added): 1      (Excluded): 0

## 2. Forecast for the FY2006 (April 1, 2006 – March 31, 2007)

	Revenue	Recurring profit	Net profit
	Million yen	Million yen	Million yen
Full year	10,200	900	550

Reference: Estimated net profit per share for the full year: 15.62 yen

\*Forecasts regarding future performance in these materials are based on estimates and judgments of the Company's management made in accordance with information available at the time this report was prepared. Forecasts therefore embody risks and uncertainties.

### (Reference): Quarterly Results of Operations

	Revenue	Operating profit	Recurring profit
	Million yen	Million yen	Million yen
1Q (Apr. 2006 – Jun. 2006)	1,922	246	221
2Q (Jul. 2006 – Sep. 2006)	2,398	199	183
1H FY2006	4,321	446	405

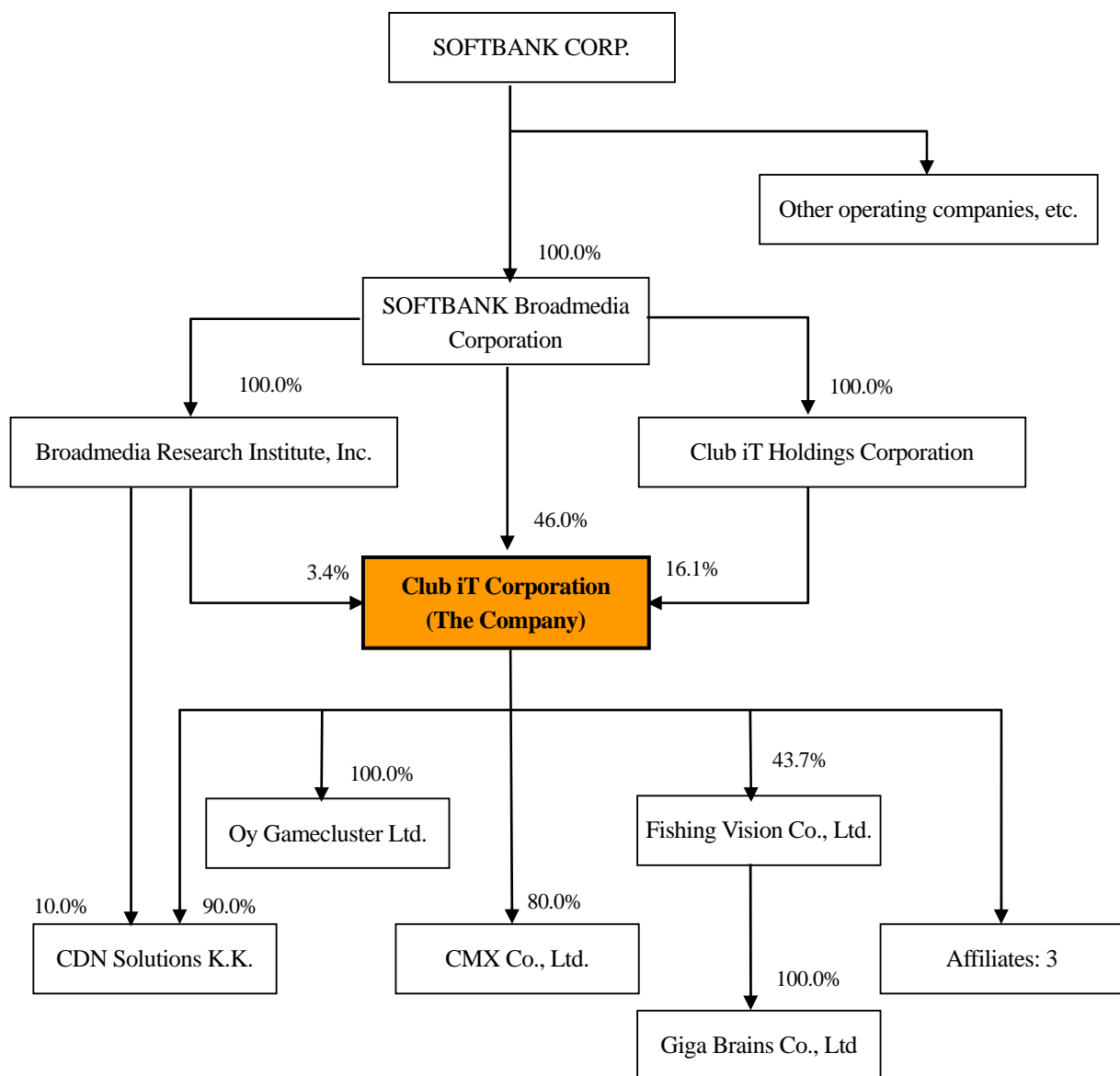
## 1. The Corporate Group

Club iT Corporation (the Company) is a subsidiary of SOFTBANK Broadmedia Corporation, which oversees the “broadmedia” (broadcasting and media) business of the SOFTBANK group. The “broadmedia” business segment of the SOFTBANK group distributes content and applications over broadcast and communication broadband infrastructure and works to promote the spread of these services. As a key company within this segment, the Company is developing a broad range of businesses ranging from CS broadcasting service to mobile services.

The equity relationships between the Company and other companies, predominantly SOFTBANK Broadmedia Corporation, as of September 30, 2006 are shown in the diagram below.

In April 2006 the Company acquired 80% of the outstanding shares of CMX Co., Ltd., and CMX became a consolidated subsidiary of the Company. In July 2006 the Company acquired 43.7% of the outstanding shares of Fishing Vision Co., Ltd., and Fishing Vision became a consolidated subsidiary of the Company.

(As of September 30, 2006)



## **2. Management Policies**

### **(1) Fundamental Management Policy**

The corporate philosophy of Club iT is “By providing inexpensive systems to enjoy services, we provide a versatile framework and are working to develop an increasingly affluent community through the dissemination of high quality services derived from IT technologies.” Based on this philosophy, the Company aims to grow and develop by offering benefits to many users and service providers through the provision of innovative services made possible by new technologies.

The Company’s objective is to take its corporate philosophy to a higher level by targeting the rapidly growing broadband market, linking in the optimum manner infrastructure companies, content companies, application companies and users.

### **(2) Basic Policy Regarding Distribution of Earnings**

Management places priority on returning earnings to shareholders as well as on ensuring that business operations remain competitive. The Company had not paid a dividend since its establishment because priority was placed on raising corporate value by raising retained earnings for the purpose of strengthening operations and laying the groundwork for future growth. However, the Company paid a dividend of 10 yen per share applicable to FY2005 (ended March 2006). The Company will continue to distribute earnings based on all applicable factors, including operating results, the need to strengthen operations, the need to invest in future growth, and other items. The Board of Directors held on October 27, 2006 approved to distribute an interim dividend of 2.50 yen per share for the first half ended September 30, 2006. The Company also intends to pay a year-end dividend of 2.50 yen for the current fiscal year. Because the Company executed a two-for-one stock split on April 1, 2006, the total amount of the dividends distributed for the current fiscal year is expected to be materially the same amount as the prior fiscal year.

### **(3) Policy and Approach Regarding Reduction in Investment Unit**

The Company’s investment unit has been 100 shares since its listing on the market in March 2002, because of the policy of placing importance on increasing the number of individual shareholders. Furthermore, a two-for-one stock split was conducted on May 20, 2005 and April 1, 2006 to raise the liquidity of Company stock.

The Company will consider a reduction in the investment unit while taking into consideration stock market trends and the current size of the investment unit.

### **(4) Targets and Performance Indicators**

Club iT conducts a number of businesses, each of which operates in a different environment and is in a different phase of growth. Therefore, management has established performance indicators that are suitable for each business and is working on maximizing corporate value.

### **(5) Medium- and Long-Term Management Strategies**

The Company’s central management strategy is to achieve a revolution in the distribution of content by taking full advantage of its strengths as a content aggregator with a technology platform. Based on this strategy, the Company is expanding its three core businesses, game on demand, CDN and media content, by focusing on content services and technology services. At the same time, management intends to continue generating consistent earnings from the CS broadcasting service business, which the Company has been conducting since its establishment. The Company’s goal is to quickly launch new businesses in mobile sector and increase revenue from this business.

Strategies for each business sector are as follows.

### **Game on Demand Business**

This is an entirely new business that uses broadband networks to distribute and supply game titles on demand. This business has two elements. One is technology services, which involves the use of the revolutionary G-cluster technology to supply games and other software without the need to download or install the software in the user's hardware. The other element is content services, which involves the provision of game content using G-cluster.

The goal of technology services is to enlarge the environment that enables the provision of G-cluster services. Accomplishing this involves the provision of server system licenses to Japanese and overseas operators as well as the installation of the required technology in set top boxes, PCs, game consoles and other hardware of Japanese and overseas companies.

The goal of content services is to establish a new content distribution market. Accomplishing this involves the aggressive establishment of collaborative agreements with Internet service providers (ISP), portal operators, Japanese and overseas game producers and other companies. The Company is also actively developing titles especially for the G-cluster technology.

### **CDN Business**

The CDN (content delivery network) Business offers services that enable distribution in the optimum manner of content supplied by content providers. The goal is to reinforce capabilities needed to handle the distribution of large-scale content and content for mobile phones, a market category that is expected to grow rapidly.

In March 2006, Club iT formed alliances with CDNetworks Co., Ltd., which is based in South Korea, and its Japanese subsidiary. This move will make possible the delivery of large-scale content as well as the distribution of content in South Korea and other Asian nations. The alliance will also make possible the delivery of content not only to PCs but also to mobile devices and many other devices.

In addition, Club iT has used its own distribution system to diversify its content delivery services through the provision of Broadmedia CDN® Entry, an inexpensive but high-quality entry-level distribution service. This allowed the Company to build a framework that can serve all sorts of market needs. Moreover, the Company aims to expand this business by greatly broadening the market and encouraging users to upgrade to higher-grade CDN services.

As previously announced, the services of the former Speedera Networks Inc. will be terminated when the contract between Speedera and the Company expires in November 2006. Moving forward, the Company will take advantage of the technology of Korea's CDNetworks Co., Ltd. to continue to develop this business.

In order to respond to the expected further growth in the distribution of content for mobile phones, the Company began providing BMCDN mobile, CDN service that incorporates image conversion for mobile phones in October 2006.

The CDN Business remains dedicated to offering the best possible solutions by incorporating technological advances that target customer needs.

### **Media Content Business**

Club iT believes that the expansion of the broadband-based content distribution market is the fundamental direction of progress rather than merely a short-term event. As this progress takes place, the Media Content Business is developing its content business by taking advantage of its skill in evaluating content gained through its BBTV operations and its sound relationships and many accomplishments with content holders.

In July 2006 the Company acquired equity stakes in Fishing Vision Co., Ltd. and Nihon Eiga Satellite Broadcasting Corp., broadcasters with which it had strong relationships from the time of its founding, adding broadcasting business to its media content business segment. And in October 2006, the Company has reached a basic agreement to acquire 90% of the outstanding shares of Broadmedia Studios Corporation from SOFTBANK Broadmedia Corporation, which currently owns 100% of Broadmedia Studios. Broadmedia Studios is a major company in the field of marketing television broadcast rights for foreign movies, TV dramas and creating Japanese subtitles and dubbing for these broadcasts. As a result, Broadmedia Studios is slated to become a consolidated subsidiary of the Company, adding television broadcast rights and Japanese subtitling and dubbing to its business domain. The Company aims to further expand the size of its business.

## **Broadband Business**

The Broadband Business uses unique sales methods, such as tie-ins with the merchandise of alliance partners, to boost efficiency and profitability by doing more than merely selling broadband connections. Looking ahead, this business aims to work hard on the planning and supply of mobile devices and other communication products. The goal is to further increase the use of communication infrastructures and offer users even more convenience through the use of broadband services.

## **CS Broadcasting Service Business**

This business has stopped activities to sign up new subscribers. However, the number of subscription cancellations is declining due to continuous actions to preserve and improve the level of services. Furthermore, profitability in this business continues to climb due to the completion of rental contracts for CS broadcast tuners and antennas provided to customers and to cost-cutting measures such as operational efficiency. The business will work even harder on enhancing services in order to achieve a further reduction in cancellations.

## **Other Business**

The Company is starting up new businesses, for example, it has launched a mobile advertising business by making mobile advertising agency CMX Co., Ltd. a consolidated subsidiary in April 2006.

Going forward the Company will strive to build a business model that creates synergies with various existing businesses.

## **(6) Important Issues**

The Company's highest priority is increasing revenue and earnings by executing its medium- and long-term management strategies.

In addition to the above items, the Company is currently tackling the following issues.

### 1) Reinforce internal management systems

Club iT is currently transforming its business structure by launching new businesses that are centered on the delivery of content. Due to the nature of this business domain and to the fact that activities are now in a growth phase, the Company must correctly maintain management and business flow standards and ensure that these standards are followed throughout the company. For this purpose, the Company is constantly reexamining its entire management framework as well as improving internal management capabilities through the proper deployment of employees.

### 2) A high-profile IR program

The Company has been dedicated to providing accurate information to all stakeholders through the timely disclosure of information. Going forward, the Company will conduct a high-profile IR program that uses a variety of opportunities to achieve a greater understanding of the Company among more people. As one aspect of this stance, the Company has already enhanced the content provided through its Website, started providing streaming video of quarterly financial results, added a report on operations following the annual shareholders meeting, and taken other actions. The Company plans to further upgrade IR activities, such as by holding information meetings for individual investors.

### 3) Strengthen the information management system

The importance of protecting personal information became even greater following the April 1, 2005 enforcement of all provisions of Japan's Personal Information Protection Law. The Company has responded with a comprehensive range of actions that include naming individuals who are responsible for managing information, primarily personal information, establishing various measures involving information systems, conducting rigorous training programs for employees, and upgrading the supervision of employees and companies that perform work on an outsourcing basis. Club iT received Privacy Seal certification in December 2005. The Company will work even harder on various information management initiatives and aim for continuous improvements in its information management system.

## **(7) Regarding Relationship with Parent Companies**

### (1) Name and other information of parent company

Parent company	Relationship with the Company	Voting rights held by parent companies	Exchange listing of parent company stock
SOFTBANK CORP.	Parent company	65.6% [65.6%]	Tokyo Stock Exchange, First Section
SOFTBANK Broadmedia Corporation	Parent company	65.6% [19.6%]	

Note: Brackets of voting rights held by the parent company includes indirect holdings.

\*SOFTBANK Broadmedia Corporation is a wholly owned subsidiary of SOFTBANK CORP.

### (2) Name of parent companies with greatest influence on listed company and reason

Names of companies believed to have the greatest influence on listed company	SOFTBANK CORP. SOFTBANK Broadmedia Corporation
Reason	High percentage of Company voting rights held by these two companies

### (3) Relationship with SOFTBANK CORP. and SOFTBANK Broadmedia Corporation

SOFTBANK CORP. and SOFTBANK Broadmedia Corporation together hold 65.6% of the Company's voting rights.

The Company provides content and CDN services to various SOFTBANK group companies. It also solicits subscribers and handles service applications for "Yahoo! BB," a comprehensive broadband service. In the first half of FY2006, the SOFTBANK Group accounted for about 44% of the Company's consolidated revenue.

In addition, the president and representative director of Club iT also serves as a representative director of SOFTBANK Broadmedia Corporation.

### (4) Information concerning autonomy with regard to parent companies

When conducting business with SOFTBANK Group companies, Club iT conducts individual and direct negotiations with each client company, determining the terms for business transactions in the same manner as with companies outside the SOFTBANK Group. Almost all of Club iT's consolidated revenue from SOFTBANK Group companies is derived from subsidiaries of SOFTBANK CORP. The Company receives only a negligible amount of revenue from SOFTBANK CORP. and SOFTBANK Broadmedia Corporation.

Only one Club iT director, who is also a director of SOFTBANK Broadmedia Corporation, serves concurrently as a director of a parent company. No SOFTBANK CORP. directors are also Club iT directors. Consequently, the majority of the six Club iT directors serve solely on the Company's board. Decisions made by the Company are thus based on the resolutions of the Company's directors and not on directives or approval from a parent company. Club iT therefore believes that it has provided for sufficient autonomy from its parent companies.

## **(8) Other Significant Management Issues**

No reportable information.

### 3. Results of Operations and Financial Position

#### (1) Results of Operations

During this first half of FY2006, the Japanese economy expanded as corporate capital spending rebounded and private spending increased against the backdrop of a steadily expanding global economy.

The growing popularity of the Internet due to the introduction of broadband technology is expanding utilization of the Internet as well as creating greater diversity in user needs. In this environment, Club iT is positioning the following businesses as its core operations: the Game on Demand Business, CDN Business, and Media Content Business. Accordingly, the Company is currently transforming its business structure by shifting resources from its two established operations, the CS Broadcasting Service Business and Broadband Business, to these core businesses. Along with shoring up the structure for cooperation among business segments by implementing a reorganization and establishing unified oversight for content services and technology services, the Company rolled out an aggressive business strategy aiming at realizing the medium- to long-term growth strategy announced in April 2006.

Revenue and profit both declined during the first half of FY2006. This occurred due to a decline in the number of subscribers in the CS Broadcasting Service Business, the absence of the orders associated with a major campaign in the Media Content Business that made a substantial contribution in the previous first half year and recorded up-front expenses due to start-up delays in the Game on Demand Business and the Mobile Advertising Business.

Due to these factors, consolidated revenue was 4,321,532 thousand yen compared with 4,777,337 thousand yen in the same period of the previous fiscal year, operating profit was 446,070 thousand yen (1,512,045 thousand yen), recurring profit was 405,360 thousand yen (1,494,698 thousand yen) and net profit was 260,369 thousand yen (862,388 thousand yen).

Revenue and profit for each business segment were as follows.

Thousand yen

	Game on Demand Business	CDN Business	Media Content Business	Broadband Business	CS Broadcasting Service Business	Other businesses	Total
Revenue	65,135	605,139	811,050	1,208,797	1,535,885	95,524	4,321,532
Operating profit (loss)	(318,055)	62,217	(148,509)	(28,969)	990,382	(110,994)	446,070

#### Game on Demand Business

This business uses G-cluster technology to offer a game on demand service and supply game content. The business aims to make its activities more popular and expand operations in Japan and overseas.

Club iT started providing the G-cluster Game on Demand service to Microsoft for its Media Online service in April 2006. The Company has been conducting a campaign offering free G-cluster trials in celebration of the 10<sup>th</sup> anniversary of Yahoo Japan Corporation's Yahoo! Japan portal since July 2006. The Company is moving ahead on the preparations for the planned December 2006 launch of paid services. With the aim of bringing G-cluster services to the hotel market, in August 2006 the Company teamed up with Roonets Japan Co. Ltd., which provides systems and content for hotels. In October 2006 the Company reached an agreement with Korea's CDNetworks Co., Ltd. which is already a strategic partner of the Company in the CDN business, to further cooperate in order to launch G-cluster services in South Korea.

In order to secure game content, in July 2006 the Company forged an alliance with Oberon Media Inc., a leading game maker that provides casual games in countries around the world, and in August 2006 it teamed up with Jaleco Ltd., a long-established game maker. In doing so, the Company has enhanced its lineup of casual (easily played) games, on top of its past hits.

The Company plans to continue to aggressively make upfront investments including strengthening the operating structure in the Game on Demand business in order to assure medium- long-term growth of this business. However, delays in the establishment of some major alliances forced the Company to recognize certain costs, causing losses to increase.

Consequently, revenue was 65,135 thousand yen compared with 72,637 thousand yen in the same period of the previous fiscal year and there was an operating loss of 318,055 thousand yen (loss of 88,850 thousand yen).

### **CDN Business**

As the use of broadband increased and markets using this technology expanded, the Company reinforced its operating framework to achieve further business growth.

In April 2006, we started the Broadmedia® CDN+R, a rich-media compatible service under a business collaboration agreement signed with CD Networks Co., Ltd, a South Korea based company, and its Japanese subsidiary signed in March 2006. Elsewhere, Club iT launched two new services; (1) Broadmedia® CDN Entry, an entry model distribution service and (2) IR Streaming Service, an IR streaming service package, using its own content distribution system.

In October 2006 the Company began providing BMCDN mobile, CDN service that incorporates image conversion for mobile phones. In the past few years the image and video content for catalog sales over mobile phone has become richer, and demand for this service is expected to grow. Moving forward, the Company aims to realize low-cost, stable distribution of content for mobile phones by expanding this service.

In this business, consolidated revenue totaled 605,139 thousand yen compared with 540,558 thousand yen in the same period of the previous fiscal year and operating profit was 62,217 thousand yen (82,116 thousand yen).

### **Media Content Business**

In the Media Content Business, the Company further strengthened its relationships with content providers by acquiring stakes in program suppliers such as Fishing Vision Co., Ltd., Nihon Eiga Satellite Broadcasting Corp., and J SPORTS Broadcasting Corporation in July 2006.

In addition, in October 2006 the Company reached a basic agreement to acquire 90% of the outstanding shares of Broadmedia Studios Corporation from SOFTBANK Broadmedia Corporation, which currently owns 100% of Broadmedia Studios. Broadmedia Studios is slated to become a consolidated subsidiary of the Company. As a result of this move, the Company will become a full-line company in "content services," allowing it to further expand the size of its business.

Revenue increased this first half year thanks to Fishing Vision Co., Ltd. becoming a consolidated subsidiary, but the Company nevertheless recorded an operating loss in this business segment due to the absence of the orders associated with a major campaign that contributed greatly to profits in the previous first half year as well as the upfront costs of strengthening its systems and infrastructure.

During the first half of FY2006, along with continuing to provide content to "BBTV", in June 2006 Club iT Arena, which distributes content for PCs, bested other companies to become the sole broadband distributor of Olvidarte Jamas, the first Latin telenovela to land in Japan.

Among the highlights was the July 2006 launch of Download Arena, a download service for a range of content from entertainment and hobbies to practical use information, in response to growing demand for archiving video content. The Company has also begun offering this service through Japan's major ISPs, as well as its own distribution system, and plans to further reinforce the service in the future.

Due to these factors, this business had revenue of 811,050 thousand yen compared with 676,839 thousand yen in the same period of the previous fiscal year and operating loss of 148,509 thousand yen (operating profit of 265,944 thousand yen).

### **Broadband Business**

As the sales agent for the Yahoo! BB comprehensive broadband service, this business conducts sales activities through the sellers of network connections and other companies.

Prior fiscal year revenue fell due to a decline in the number of new connections. The business is now on the mend thanks to a recovery in existing marketing channels and the cultivation of new marketing channels, but gross margin contracted, resulting in a slight loss.

Plans call for boosting revenue and generating profits by aggressively marketing mobile phones and other telecommunications hardware using the marketing (sales agency) expertise we have built up through our ADSL connection marketing activities.

As a result, revenue totaled 1,208,797 thousand yen compared with 1,372,226 thousand yen in the same period of the previous fiscal year and operating loss was 28,969 thousand yen (operating profit of 43,054 thousand yen).

### **CS Broadcasting Service Business**

Club iT is no longer signing up new subscribers for its CS broadcasting service. As a result, the number of subscribers at the end of September 2006 was about 137,000, about 40,000 less than one year earlier. Revenue is declining along with this expected attrition in the number of subscribers. However, there was an improvement in profitability in this business because of lower expenses, chiefly because of the completion of leasing agreements for CS broadcasting tuners and antennas used by customers.

Consequently, revenue totaled 1,535,885 thousand yen compared with 2,115,076 thousand yen in the same period of the previous fiscal year and operating profit was 990,382 thousand yen (1,209,780 thousand yen).

### **Other businesses**

Revenue on other businesses totaled 95,524 thousand yen, bulk of which are mobile advertising related.

The Company recorded an operating loss of 110,994 thousand yen in other businesses due to the upfront costs associated with starting up new businesses.

**(2) Outlook for the Fiscal Year (April 1, 2006 – March 31, 2007)**

Consolidated revenue is expected to grow as a result of Fishing Vision Co., Ltd. becoming a consolidated subsidiary and the decision to make Broadmedia Studios Corporation a consolidated subsidiary. Consequently the previously announced forecast (April 27, 2006) has been left unchanged. Profits are expected to fall short of the forecast announced earlier due to investments to expand core businesses and upfront expenses associated with accelerating the launch of new businesses.

Turning to non-consolidated results, both revenue and profits are expected to fall short of the forecast announced earlier due to delays in advancing the Game on Demand Business and delays in starting up the Mobile Advertising Business.

## Consolidated forecast for FY2006

Million yen

		Revenue	Recurring profit	Net profit
Previous forecasts (Apr. 27, 2006)	(A)	10,200	1,600	950
Revised forecasts	(B)	10,200	900	550
Change	(B-A)	-	(700)	(400)
Change (%)		-	(44)%	(42)%
Previous fiscal year ended Mar. 2006		9,275	2,739	1,645

## Non-consolidated forecast for FY2006

Million yen

		Revenue	Recurring profit	Net profit
Previous forecasts (Apr. 27, 2006)	(A)	9,100	1,700	1,000
Revised forecasts	(B)	7,300	800	500
Change	(B-A)	(1,800)	(900)	(500)
Change (%)		(20)%	(53)%	(50)%
Previous fiscal year ended Mar. 2006		8,634	2,785	1,716

### **(3) Financial Position**

Cash and cash equivalents at the end of the first half of fiscal year totaled 764,975 thousand yen, 1,496,470 thousand yen less than at the end of the previous fiscal year.

#### Cash flows from operating activities

Net cash used in operating activities was 631,765 thousand yen compared with net cash provided of 763,449 thousand yen in the same period of previous fiscal year.

The Company booked 436,372 thousand yen in income before income taxes, but paid 827,526 thousand yen in corporation taxes, a 49,309 thousand yen of decrease in advance receipts, and 25,488 thousand yen of decrease in guarantee deposits.

#### Cash flows from investing activities

Net cash used in investing activities was 1,046,917 thousand yen compared with net cash used of 749,312 thousand yen in the same period of the previous fiscal year.

Cash totaling 1,307,273 thousand yen was payments for acquisition of CMX and Fishing Vision, both of which became consolidated subsidiaries. However, there is a 300,945 thousand yen of increase in cash and cash equivalents resulting from inclusion of consolidated subsidiaries. In addition, 137,502 thousand yen of payments for purchase of tangible fixed assets, such as server and software, etc. and intangible fixed assets.

#### Cash flows from financing activities

Net cash provided by financing activities was 181,833 thousand yen compared with 35,891 thousand yen in the same period of the previous fiscal year.

Proceeds from the issuance of new shares resulting from the exercise of stock acquisition rights were 61,434 thousand yen, and 500,000 thousand yen of increase in short-term debt from banks, but paid 206,250 thousand yen for redemption of corporate bonds and 170,880 yen of cash dividends.

#### **(4) Business and Other Risks**

The following is a list of the major risks involving the businesses of the Club iT Group and other items that management believes may be important with regard to investment decisions. Furthermore, from the standpoint of providing all pertinent information to investors, the following list also includes items that management believes to be important with regard to investment decisions, but that may not necessarily fall within the scope of significant risk factors. The Group is aware of these risks and is taking actions to prevent the occurrence of these problems as well as to be prepared to respond in the event that a problem occurs. This is not a complete list of risk factors involving investments in the Company's stock. Moreover, this discussion contains forward-looking statements that are based on management's judgments as of the date that the operating results were released.

##### **1. Risk Concerning the Group Business Operation**

###### **(1) Risks involving business restructuring**

The Group is currently making structural changes in its business portfolio. Since its inception, the Group has been engaged in the CS Broadcasting Service Business. This business is still an important component of the Group's operations, accounting for about 36% of revenue and above 100% of operating profit. However, operating results in this business is expected to slowly decline because the Company is no longer signing up new subscribers. Furthermore, revenue in the Broadband Business is declining compare to FY2005. The Group is making steady progress in switching emphasis to the new businesses such as CDN Business and Media Content Business. However, in the event that new businesses do not perform as planned, making it difficult to generate earnings as expected, there could be a material impact on the Group's operating results.

###### **(2) Game on Demand Business**

The Game on Demand Business uses G-cluster technology, which was developed by Oy Gamecluster Ltd., to offer the on-demand distribution of video games. The Company has acquired from subsidiary Oy Gamecluster exclusive global rights for the use of G-cluster technology, and ensuring long-term access to G-cluster technology. However, in the event that a third party legally develops and commercializes a similar or competing technology, the unique aspects of the Company's service could be lost and competition become more intense as a result. These events could impact the Group's operating results.

The Company has alliances with game producers and many other content holders in order to supply a large number of popular and appealing game titles. However, in the event that the appeal of the Company's service declines due to problems involving the procurement of content, there could be an impact on the Group's operating results.

The Company plans to offer services in Japan and overseas that utilize G-cluster technology. These services are to be supplied through business partners such as prominent portal companies and ISP companies, companies offering distribution systems to hotels and other facilities, and manufacturers of set top boxes. However, if the alliances with these companies are not executed as planned, there could be an impact on the Group's operating results.

###### **(3) CDN Business**

The CDN Business involves the provision of services that facilitate the distribution of a variety of content in the optimum manner. In the period under review, the Company has established an alliance with CDNetworks, which is based in South Korea, and its Japanese subsidiary for the purpose of launching "Broadmedia® CDN+R." In addition, the CDN Business is using its own distribution system to start "Broadmedia® CDN Entry." These actions give the CDN Business a broader service menu that allows customers to select services that match their needs.

The new "Broadmedia® CDN+R" service is made possible through an alliance with CDNetworks of South Korea and its Japanese subsidiary. Club iT plans to maintain and expand on its cooperative relationship with these alliance partners for the purpose of increasing revenue through the launch of new services that meet customers' needs. However, if revenue growth does not meet expectations, or if the contract with these alliance partners is not renewed for whatever reason, there could be an impact on the Company's operating results.

The Company's CDN service involves the placement of distribution systems at a number of locations in a network, thus preventing a major disruption in the level of services in the event of a problem at a single location. Moreover, the Company constantly monitors the status of all servers to permit an immediate response in the event of a malfunction. Nevertheless, there is a possibility of an interruption and shutdown in the distribution of content due to a technical problem resulting from a natural disaster or other event. This may erode the public's trust in the Company and have other detrimental effects that could impact the Company's operating results.

There is a possibility that competition will become more intense in the CDN market due to the emergence of new providers or to other factors. Any resulting pressure on unit prices and profit margins in this business could impact the Group's operating results.

The Company's CDN Solutions K.K. consolidated subsidiary is developing a business as a CDN services reseller for America's Akamai Technologies Inc. ("Akamai"). However, if the contract between CDN Solutions K.K. is not renewed for some reason, this could have a substantial impact on the CDN Solutions' ability to sustain this business.

#### (4) Media Content Business

In addition to obtaining content from content holders and providing content to BBTB and Yahoo! Video, this business segment also includes the Club iT Arena content delivery service for PCs and the Download Arena video download service for PCs. This business segment also includes broadcasting the Fishing Vision channel (supplied by the Fishing Vision Co., Ltd. consolidated subsidiary), which can be seen on SKY PerfecTV digital satellite TV and on cable throughout Japan.

The Company plans to continue to supply content to BBTB and Yahoo! Video. However, the Company's operating results could be impacted if businesses decline or are terminated due to a change in the policies of these services or for any other reason.

The Company is working hard on supplying content to companies other than SOFTBANK group. However, in the event that the services of these other companies do not grow as planned, or that these companies terminate their content supply contracts with the Company for whatever reason, the Company's operating results could be impacted.

The media content business is dependent on the ability to continuously procure content that meets customer needs with the proper timing. Consequently, the Company seeks to acquire rights to a diverse array of content with the aim of further enlarging its lineup of titles. However, revenue may not meet expectations in the event that the cost of procuring content rises sharply, that the value of content drops during the Company's holding period, or that the Company is unable to acquire rights to content. Any of these events could impact the Company's operating results.

In the Club iT Arena and Download Arena, the Company operates its own billing site and uses alliances with ISP companies in order to reach a broader spectrum of viewers. However, if the Company is unable to attract the expected number of viewers, or if one or more ISP companies terminates its alliance with the Company, there could be an impact on the Company's operating results.

In the content distribution business, there are companies like Club iT that charge for the distribution of content as well as companies that supply content at no charge. If these free sources of content establish a dominant market position, there could be an impact on the Company's operating results.

Individual viewer income from SKY PerfecTV! accounts for 70% of the earnings of Fishing Vision Co., Ltd. This service has been growing more slowly this year, and if this trend continues there could be an impact on the Group's operating results.

#### (5) Broadband Business

The broadband business involves the provision on an outsourcing basis to BB TECHNOLOGY Corp. of subscriber solicitation, registration and other sales agency operations for the Yahoo! BB comprehensive broadband service. This service is offered by BB TECHNOLOGY and Yahoo Japan Corporation. The Company earns sales commissions based on the number of new subscribers.

The Company is using its own sales channels to sell subscriptions to Yahoo! BB. However, the possibility exists that the number of new subscribers will not increase as expected due to a revision in sales commissions associated with a change by BB TECHNOLOGY in its sales policies. If this prevents the Company from generating revenue as expected, or causes the Company's expenses to be greater than had been planned, there could be an impact on the Company's operating results.

Furthermore, the Company is obligated to refund sales commissions to BB TECHNOLOGY in the event that subscribers cancel subscriptions within a certain period. The Company establishes a suitable reserve for these refunds based on cancellation rates in the past. However, the Company's operating results could be impacted if cancellations exceed its forecast. Moreover, the Company's operating results could be impacted if, for whatever reason, the sales agency contract with BB TECHNOLOGY is terminated.

The Company outsources to other companies the subscriber solicitation, registration and other activities performed under

contract for BB TECHNOLOGY in order to sell subscriptions to the Yahoo! BB service. In the event that one or more major outsourcing company stops selling this service, there could be an impact on the Company's operating results.

The broadband business is planning on introducing and selling new products and services. However, if more time than expected is required to increase revenue of these products and services, there could be an impact on the Company's operating results.

#### (6) CS Broadcasting Service Business

In this business, the Company receives a flat-rate fee from subscribers, in return lending subscribers a tuner and antenna to receive CS broadcasts, providing a publication that includes program listings for Company-recommended channels and other information, as well as other services. In addition, the Company performs marketing activities under contract for broadcasters to promote specific channels to its subscribers. This business also includes payments under certain conditions from these broadcasters and from SKY Perfect Communications Inc. for activities to retain CS broadcast viewers that are conducted as part of services the Company provides to subscribers.

The Company is constantly taking actions to retain its subscribers by offering them services that meet their needs. Nevertheless, there could be an impact on the Company's operating results in the event of a sudden increase in subscription cancellations.

Moreover, broadcasters may postpone or terminate the payment of sales commissions due to the deterioration of their operating results, the completion of certain programs or for other reasons. This could have an impact on the Company's operating results. In the event that SKY Perfect Communications, which operates the platform for CS broadcasts, is unable to continue its operations for whatever reason, the Company would be forced to suspend subscriber services. This could have a significant impact on the Company's operating results. In addition, the Company outsources customer billing and other tasks to SKY Perfect Communications. The Company's operating results could be impacted if there is any difficulty in continuing to perform these outsourced services. Furthermore, if SKY Perfect Communications, for whatever reason, postpones or terminates the payment of incentive fees to the Company, there could be an impact on the Company's operating results.

The Company may be obligated to repair or replace the CS tuners and antennas that are loans to subscribers due to either a faulty design of this equipment or to other problems. In the event that there is a high frequency of such problems, or that considerable time is required to resolve a problem, there could be an impact on the Company's operating results.

#### (7) Other new businesses

Club iT launched the My Closet mobile commerce site in February 2006. Subsequently, the Company acquired a Web site in March 2006 that is to be used as a mobile advertising medium and acquired CMX Co., Ltd. in April 2006 to start a mobile advertising business.

These mobile phone-related businesses target market sectors that are growing rapidly. Furthermore, the Company intends to aggressively expand these businesses because it believes there are excellent prospects for using its technologies and content aggregation expertise in these businesses in the future. However, if these businesses do not perform as planned due to price-based competition with competitors or other reasons, there could be an impact on the Company's operating results.

## **2. Other Business Risks Common to All Company Operations**

### **(1) Increase in risk resulting from diversification and launch of new business lines**

Club iT Group plans to accelerate diversification from current businesses and its entry into new business fields, as part of the Group's initiative to further reinforce the operating base. Additional expenditures to increase the Group's payroll, expand manufacturing capacity and step up research and development may be required to achieve these management objectives.

It will take some time for the new businesses to establish their viability and to start generating profit. During this period, the Group's overall profit margins may come under some pressure.

Moreover, it is possible that these new businesses may fail to deliver targeted results, due to such factors as changes in the operating environment. In this case, the Group may be unable to sufficiently recover investments made in the businesses, which may impact on the Group's overall operating results.

### **(2) Outsourcing**

The central feature of Club iT Group's business strategy is to build a business model that allows the Group to carry out large-scale operations with a small organization. As a result, the Group outsources many operations. While the nature of the Group's operations is such that various operations can be easily outsourced to third party service providers, outsourcing nonetheless poses certain risks. If such third party service providers experience operating difficulties (or switchover to another service provider is delayed) that impact on, delay or undermine Club iT Group's business activities, Club iT Group's operating results may be negatively affected.

### **(3) Protection of personal information**

Club iT received Privacy Seal certification in December 2005 due to its establishment of comprehensive measures to protect subscriber information, information about parties having contracts with the Company and other types of personal information. This, however, does not completely eliminate the risk of information leaks as a result of misconduct by employees or providers of outsourced services, or the unauthorized access to such information by third parties. In the event of such leaks, Club iT Group may be found liable for damages under the Personal Information Protection Law or be held legally responsible pursuant to agreements into which it has entered. Such occurrences may damage the credibility of Club iT Group and possibly affect the Group's operating results.

### **(4) Stock options**

The Club iT Group has issued stock options (stock acquisition rights) to its directors, employees and other individuals to motivate them to raise the Group's corporate value.

The number of potential shares to be issued upon exercise of the stock options and stood at 969,630 shares as of September 30, 2006. This figure represents approximately 2.7% of the 36,180,183 shares outstanding, assuming that all stock options are exercised. Furthermore, the Company may issue more stock options at appropriate times in the future. New shares issued upon exercise of the aforementioned stock options could dilute the value of outstanding shares and also affect the supply-demand balance, thus affecting price formation of the Company's shares.

### **(5) Intellectual property rights**

Club iT Group's operations involve the use of a range of intellectual property rights, including patent and copyrights. Developing technology may be affected and provision of required services may become difficult if the Group fails to win required intellectual property rights or permission to use required intellectual property rights. In the course of business operations, there is a possibility that third parties may take action against the Group, claiming infringement of their intellectual property rights.

### **(6) Currency risk**

Club iT Group, in its CDN business, game on demand business and media contents business, conducts overseas business transactions. Most of these transactions are denominated in foreign currencies. Consequently, operating results are vulnerable to sudden changes in currency exchange rates.

(7) Risks related to overseas business activities

The Club iT Group actively seeks alliances overseas in order to expand its presence in foreign markets. As a part of the due diligence process for establishing an alliance, the Group evaluates management and the financial condition of its potential overseas alliance partners, in addition to monitoring on a continuing basis the state of affairs of the countries in which its alliance partners are domiciled, legal systems, particularly those governing intellectual property rights in those countries, and other relevant factors. Nevertheless, compared to the information available on customers in Japan, information on overseas customers may be insufficient in certain cases. The Group also prudently weighs the pros and cons of overseas transactions based on data provided by credit research companies and by reference to industry information. However, insufficient information could make collection of receivables and protection of intellectual property rights problematic. Incidents of this kind may have a negative effect on the Company's operating results.

(8) Continuing employment of certain senior executives

Club iT Group is overly dependent on the continued employment of certain senior executives. The Group's operating results could be affected if those senior executives should become unable to continue to carry on the Group's operations due to unforeseen factors, or if the Group should fail to find the right replacements for those senior executives at the right time.

(9) Dependence on certain customers

In the period under review, each SOFTBANK Group company accounted for about 44% of consolidated revenue. The majority of this revenue was derived from business with BB TECHNOLOGY Corp., which accounted for about 28% of revenue, and BB Cable Corporation, which accounted for about 10%.

The Group expects that the SOFTBANK Group, including these two companies, will account for a declining share of its revenue as the growth of new businesses generates more revenue from companies and individuals outside the SOFTBANK Group. However, for the time being, any change in Club iT's business relationships with BB TECHNOLOGY Corp. and BB Cable Corporation could affect the Group's operating results.

(10) Management of subsidiaries and affiliates

As of September 30, 2006, the Club iT Group was made up of the Company, five consolidated subsidiaries (including one overseas company), one non-consolidated subsidiary and three affiliated companies. These subsidiaries and affiliates plan to recruit the necessary people and strengthen their organizations in order to support the growth of their operations. However, these companies may experience difficulties in recruiting these people and building the necessary organization in a timely manner. Club iT will extend management and administrative support to these companies for the purpose of achieving the Group's targets. However, if there are delays at one or more of these companies in building the necessary organization or if the Company is unable to extend the necessary support, there could be an impact on the Group's operating results.

(11) Relationship with the SOFTBANK Group

The Club iT Group is a member of the SOFTBANK group, led by SOFTBANK CORP, which indirectly holds approximately 65.6% of our outstanding shares, making it the major shareholder. As a result, the operating results and valuation of SOFTBANK Corp., and changes in its business strategy, could affect Club iT Group's operating results.

(12) Changes in accounting standards

The Group prepares its financial statements in accordance with generally accepted accounting standards and responds to changes in accounting standards in a timely manner. However, a significant revision in accounting standards in the future could have an impact on the Group's operating results.

### (13) Internal management systems

#### (i) Operation of internal management systems

The Group has always conducted employee training programs and worked on strengthening internal management for the purpose of ensuring strict compliance with laws and regulations. These activities are also aimed at preventing human errors involving business processes, and any reoccurrence of an error, improper behavior by an employee, and other compliance-related incidents. However, these actions do not completely eliminate the possibility that a problem involving business activities or management systems may occur in the future.

#### (ii) Human resources management to support business growth

Since the Group is engaged in a number of business activities, there is a need to employ people with a variety of skills needed to conduct each business. Moreover, there is a need to strengthen our workforce and personnel systems to achieve further business growth. If the Group is unable to take proper and adequate actions regarding people and its organization as the scale of operations grows, there may be problems such as erosion in the competitive edge of the Company's services and a decline in operating efficiency.

Furthermore, the Group is exercising great care to evaluate the potential of applicants during recruiting activities. However, growth in the workforce will raise personnel expenses, rent expenses and other components of fixed expenses, possibly causing a decline in the Group's profit margin.

#### (iii) Actions needed as business with general public grows

As the Group grows, it is likely to increase transaction with the general public. The Company plans to strengthen management systems, install IT systems, raise operating efficiency and take other actions to serve a large number of individual customers. However, regardless of these actions, there may be an increase in delinquent receivables due to growth in the volume of receivables, an increase in the cost of collecting receivables, and an increase in risks associated with payment processing and collections of amounts due, as well as other items.

Furthermore, the increase in expenses resulting from taking these actions could have an impact on the Group's operating results.

### (14) Investments and loans

The Group invests in companies and other entities for the purpose of forming business alliances or for preparing for a possible future alliance. However, the possibility exists that the Group will not be able to recover these investments and other payments.

Furthermore, the future operating results of companies that have received investments could have an impact on the Group's operating results.

The Group expects to continue to make new investments including corporate acquisition for the purpose of capturing synergies and increasing the scale of its operations. The Group also expects to continue extend loans and other financial support to properly meet the financial requirements of Group subsidiaries and affiliated companies. These investments and loans will be made only after completing an adequate preliminary examination and internal procedures to determine the risks associated with each proposed investment or loan. However, new investments and loans may not generate the amount of earnings that was initially planned or may even become delinquent. These kinds of problems could have an impact on the Group's financial position.

#### 4. Consolidated Financial Statements and Notes

##### (1) Consolidated Balance Sheet

Thousand yen

Account	Notes	1H of FY2005 (As of Sep. 30, 2005)		1H of FY2006 (As of Sep. 30, 2006)		FY2005 Summary (As of March 31, 2006)	
		Amount	%	Amount	%	Amount	%
<b>Assets</b>							
I Current assets							
1. Cash deposits		1,610,084		815,019		2,261,445	
2. Trade notes and accounts receivable	*1	814,513		820,822		637,381	
3. Merchandise		-		94,943		39,958	
4. Supplies		27,596		-		-	
5. Program count		224,023		375,491		378,729	
6. Advances		15,451		6,825		-	
7. Deferred tax assets		225,870		122,856		242,152	
8. Other current assets	*1	138,046		173,090		77,846	
Allowance for doubtful accounts		(228,962)		(10,957)		(13,536)	
Total current assets		2,826,623	70.4	2,398,091	50.2	3,623,978	72.5
II Fixed assets							
1. Tangible fixed assets							
(1) Buildings		7,119		26,836		8,058	
Less-accumulated depreciation		2,864	4,254	12,476	14,359	3,306	4,752
(2) Machinery and equipment		-		20,443		-	
Less-accumulated depreciation		-	-	16,874	3,568	-	-
(3) Vehicles		-		930		-	
Less-accumulated depreciation		-	-	656	273	-	-
(4) Tools, furniture and fixtures		1,199,626		1,132,621		1,170,126	
Less-accumulated depreciation		866,290	333,336	923,878	208,742	918,330	251,796
(5) Others			2,529		1,650		13,412
Total tangible fixed assets			340,120		228,595		269,961
8.5					4.8		5.4
2. Intangible fixed assets							
(1) Software			223,223		408,169		345,244
(2) Consolidation adjustment account			516,440		-		445,648
(3) Goodwill			-		446,829		-
(4) Other intangible fixed assets			3,195		8,821		2,976
Total intangible fixed assets			742,858		863,820		793,870
18.5					18.1		15.9
3. Investments and other assets							
(1) Investment securities	*2		51,296		1,136,170		256,491
(2) Deferred tax assets			22,295		20,219		18,579
(3) Other investments and other assets			32,447		131,733		36,947
Allowance for doubtful accounts			-		(3,918)		-
Total investments and other assets			106,038		1,284,204		312,019
2.6					26.9		6.2
Total fixed assets			1,189,017		2,376,619		1,375,850
29.6					49.8		27.5
Total Assets			4,015,640		4,774,711		4,999,829
100.0					100.0		100.0

Thousand yen

Account	Notes	1H of FY2005 (As of Sep. 30, 2005)		1H of FY2006 (As of Sep. 30, 2006)		FY2005 Summary (As of March 31, 2006)	
		Amount	%	Amount	%	Amount	%
<b>Liabilities</b>							
<b>I Current liabilities</b>							
1. Trade accounts payable		177,022		255,622		442,948	
2. Corporate bonds due within one year		206,250		15,300		221,550	
3. Short-term debt		-		500,000		-	
4. Current portion of long-term debt		-		2,455		-	
5. Other accounts payable		-		159,506		256,282	
6. Accrued income taxes		596,832		81,892		857,443	
7. Accrued consumption taxes		42,650		32,994		20,598	
8. Advance receipts		651,389		161,081		205,309	
9. Reserve for bonuses		-		106,615		-	
10. Other current liabilities		412,789		139,328		202,298	
Total current liabilities		2,086,934	52.0	1,454,796	30.5	2,206,431	44.2
<b>II Fixed liabilities</b>							
1. Long-term debt		-		2,455		4,703	
2. Corporate bonds		15,300		-		-	
3. Reserve for retirement benefits		-		11,170		-	
4. Reserve for directors' retirement benefits		41,249		49,691		45,583	
5. Guarantee deposits received		31,430		5,914		31,402	
6. Long-term other accounts payable		1,033		-		-	
7. Other fixed liabilities		4,494		7		-	
Total fixed liabilities		93,509	2.3	69,238	1.5	81,689	1.6
Total Liabilities		2,180,444	54.3	1,524,035	31.9	2,288,121	45.8
<b>Minority Equity</b>							
Minority equity		16,904	0.4	-	-	21,607	0.4
<b>Shareholders' Equity</b>							
<b>I Capital</b>							
I Capital		579,691	14.5	-	-	623,828	12.5
<b>II Capital surplus</b>							
II Capital surplus		205,958	5.1	-	-	250,526	5.0
<b>III Accumulated profit</b>							
III Accumulated profit		1,032,852	25.7	-	-	1,815,783	36.3
<b>IV Foreign currency translation adjustments</b>							
IV Foreign currency translation adjustments		-	-	-	-	174	0.0
<b>V Treasury stock</b>							
V Treasury stock		(211)	(0.0)	-	-	(211)	(0.0)
Total Shareholders' Equity		1,818,291	45.3	-	-	2,690,100	53.8
Total Liabilities, Minority Equity, and Shareholders' Equity		4,015,640	100.0	-	-	4,999,829	100.0
<b>Net Assets</b>							
<b>I Shareholders' equity</b>							
1. Capital		-	-	654,662	13.7	-	-
2. Capital surplus		-	-	281,698	5.9	-	-
3. Accumulated profit		-	-	1,902,592	39.9	-	-
4. Treasury stock		-	-	(287)	(0.0)	-	-
Total shareholders' equity		-	-	2,838,665	59.5	-	-
<b>II Valuation and translation adjustments</b>							
1. Unrealized holding gain on other securities		-	-	11	0.0	-	-
2. Foreign currency translation adjustments		-	-	21	0.0	-	-
Total valuation and translation adjustments		-	-	32	0.0	-	-
<b>III Stock acquisition rights</b>							
III Stock acquisition rights		-	-	21	0.0	-	-
<b>IV Minority equity</b>							
IV Minority equity		-	-	411,957	8.6	-	-
Total Net Assets		-	-	3,250,676	68.1	-	-
Total Liabilities and Net Assets		-	-	4,774,711	100.0	-	-

## 2) Consolidated Income Statement

Thousand yen

Account	Notes	1H of FY2005 (Apr. 1, 2005 – Sep. 30, 2005)		1H of FY2006 (Apr. 1, 2006 – Sep. 30, 2006)		FY2005 Summary (Apr. 1, 2005 – Mar. 31, 2006)				
		Amount	%	Amount	%	Amount	%			
I Revenue			4,777,337	100.0		4,321,532	100.0	9,275,185	100.0	
II Cost of goods sold			2,235,278	46.8		2,337,807	54.1	4,167,528	44.9	
Gross profit on revenue			2,542,058	53.2		1,983,724	45.9	5,107,656	55.1	
III Selling, general and administrative expenses										
1. Employees' wages		191,731			303,577		418,704			
2. Employees' bonuses		69,910			12,446		145,591			
3. Provision of reserve for bonuses		-			82,155		-			
4. Provision of reserve for directors' retirement benefits		4,833			4,108		9,166			
5. Outsourcing expenses		185,985			283,726		391,053			
6. Delivery cost		90,224			77,628		172,264			
7. Printing expenses		74,899			73,516		163,434			
8. Provision of allowance for doubtful accounts		13,189			7,325		-			
9. Depreciation expenses		10,129			14,091		23,691			
10. Amortization of consolidation adjustment account		19,071			-		89,862			
11. Amortization of goodwill		-			59,832		-			
12. Others		370,038	1,030,013	21.5	619,245	1,537,654	35.6	887,932	2,301,700	24.8
Operating profit			1,512,045	31.7		446,070	10.3		2,805,956	30.3
IV Non-operating income										
1. Interest income		-			812		124			
2. Gain on sales of supplies		-			849		1,635			
3. Equity in earnings of affiliates		-			19,078		-			
4. Outsourcing services		-			3,938		-			
5. Other non-operating income		4,678	4,678	0.0	4,933	29,612	0.7	7,666	9,426	0.1
V Non-operating expenses										
1. Interest expenses		2,128			3,122		4,006			
2. Foreign exchange losses		1,033			1,387		522			
3. Equity in loss of affiliates		14,400			60,559		67,503			
4. Equity in loss of a silent partnership		4,462	22,025	0.4	5,252	70,322	1.6	4,129	76,161	0.8
Recurring profit			1,494,698	31.3		405,360	9.4		2,739,221	29.6
VI Extraordinary gains										
1. Gain on changes in equity		-			31,871		-			
2. Reversal of allowance for doubtful accounts	*1	-	-	-	-		182,438			
3. Other extraordinary gains		-	-	-	180	32,050	0.7	-	182,438	2.0
VII Extraordinary losses										
1. Loss on valuation of supplies	*2	5,767			-		22,666			
2. Loss on retirement of fixed assets		-			846		60			
3. Loss on valuation of investment securities		1,318			-		2,496			
4. Loss on sales of investment securities		-			-		56			
5. Loss on valuation of other assets		-			192		-			
6. Provision of reserve for prior period directors' retirement benefits	*3	42,416	49,502	1.0	-	1,039	0.0	42,416	67,697	0.8
Income before income taxes			1,445,196	30.3		436,372	10.1		2,853,962	30.8
Current income taxes		562,099			52,982		1,195,798			
Deferred income taxes		12,613	574,713	12.0	117,656	170,638	3.9	46	1,195,845	12.9
Minority equity			8,094	0.2		5,364	0.1		12,797	0.2
Net profit			862,388	18.1		260,369	6.0		1,645,319	17.7

### 3) Consolidated Surplus Statement

Thousand yen

Account	1H of FY2005 (Apr. 1, 2005 - Sep. 30, 2005)		FY2005 (Apr. 1, 2005 - March 31, 2006)	
	Amount		Amount	
<b>Capital Surplus</b>				
I Beginning balance		162,815		162,815
II Increase				
1. Increase due to new share issuance upon the exercise of stock options	42,878		86,820	
2. Amounts transferred due to exercise of stock options	264	43,143	890	87,711
III Ending balance		205,958		250,526
<b>Accumulated Profit</b>				
I Beginning balance		170,464		170,464
II Increase				
1. Net profit	862,388	862,388	1,645,319	1,645,319
III Ending balance		1,032,852		1,815,783

#### 4) Consolidated Statements of Changes in Shareholders' Equity

1H of FY2006 (Apr. 1, 2006 – Sep. 30, 2006)

Thousand yen

	Shareholders' equity				
	Capital	Capital surplus	Accumulated profit	Treasury stock	Total shareholders' equity
Balance as of March 31, 2006	623,828	250,526	1,815,783	(211)	2,689,926
Changes in the current period					
Increases due to an increase in the number of consolidated subsidiaries	-	-	-	-	-
Exercise of stock options	30,834	31,171	-	-	62,006
Dividend of surplus	-	-	(173,560)	-	(173,560)
Net profit	-	-	260,369	-	260,369
Acquisition of treasury stocks	-	-	-	(76)	(76)
Total changes in the current period	30,834	31,171	86,808	(76)	148,738
Balance as of September 30, 2006	654,662	281,698	1,902,592	(287)	2,838,665

Thousand yen

	Valuation and translation adjustments			Stock acquisition rights	Minority equity	Total net assets
	Unrealized holding gain on other securities	Foreign currency translation adjustments	Total valuation and translation adjustments			
Balance as of March 31, 2006	-	174	174	593	21,607	2,712,301
Changes in the current period						
Increases due to an increase in the number of consolidated subsidiaries	-	-	-	-	384,985	384,985
Exercise of stock options	-	-	-	(429)	-	61,577
Dividend of surplus	-	-	-	-	-	(173,560)
Net profit	-	-	-	-	-	260,369
Acquisition of treasury stocks	-	-	-	-	-	(76)
Changes (net) in items other than shareholders' equity	11	(152)	(141)	(142)	5,364	5,079
Total changes in the current period	11	(152)	(141)	(571)	390,349	538,374
Balance as of September 30, 2006	11	21	32	21	411,957	3,250,676

## 5) Consolidated Cash Flow Statement

Thousand yen

	1H of FY2005 (Apr. 1 2005 - Sep. 30, 2005)	1H of FY2006 (Apr. 1, 2006 - Sep. 30, 2006)	FY2005 (Apr. 1, 2005 - Mar. 31, 2006)
Account	Amount	Amount	Amount
<b>I Cash flows from operating activities</b>			
1. Income before income taxes	1,445,196	436,372	2,853,962
2. Depreciation expenses	217,970	143,261	454,281
3. Amortization of consolidation adjustment account	19,071	-	89,862
4. Amortization of goodwill	-	59,832	-
5. Decrease in allowance for doubtful accounts	(7,069)	(4,593)	(222,496)
6. Increase in reserve for bonuses	-	89,228	-
7. Increase in reserve for directors' retirement benefits	41,249	4,108	45,583
8. Interest and dividend income	(15)	(812)	(124)
9. Interest expenses	2,128	3,122	4,006
10. Equity in gain of an affiliates	14,400	41,480	67,503
11. Deemed gain on changes in equity	-	(31,871)	-
12. Loss on retirement of fixed assets	-	846	60
13. Loss on valuation of investment securities	1,318	-	2,496
14. Gain on sales of investment securities	-	-	56
15. Equity in loss of a silent partnership	4,462	5,252	4,129
16. Decrease (increase) in trade receivables	407,124	13,249	585,106
17. Decrease (increase) in inventories	(189,528)	48,579	(341,249)
18. Decrease in trade payables	(373,308)	(302,787)	(107,382)
19. Decrease (increase) in advance payments	8,729	525	24,180
20. Decrease (increase) in other accounts receivable	(52,479)	34,222	105,444
21. Decrease in advance receipts	(293,909)	(49,309)	(740,092)
22. Increase (decrease) in accrued consumption taxes	(167,183)	3,841	(189,234)
23. Decrease in guarantee deposits received	(170)	(25,488)	(198)
24. Others	235,171	(267,494)	171,578
Subtotal	1,313,157	201,566	2,807,473
25. Interests and dividends received	15	273	124
26. Interests paid	(3,661)	(6,079)	(3,921)
27. Income taxes paid	(546,061)	(827,526)	(921,918)
Net cash provided by (used in) operating activities	763,449	(631,765)	1,881,757
<b>II Cash flows from investing activities</b>			
1. Payments for purchase of fixed assets	(197,404)	(137,502)	(476,889)
2. Payments for purchase of investment securities	-	(944,521)	(284,500)
3. Proceeds from sale of investment securities	-	100,000	-
4. Payments for acquisition of subsidiaries' stock resulting in change in the scope consolidation	(523,806)	(61,806)	(523,806)
5. Payment for investments in capital	(25,000)	-	-
6. Payments for loans receivable	-	-	(10,000)
7. Proceeds from collection of loans receivable	-	10,229	-
8. Others	(3,101)	(13,316)	(10,920)
Net cash provided by (used in) investing activities	(749,312)	(1,046,917)	(1,306,117)
<b>III Cash flows from financing activities</b>			
1. Increase (decrease) in short-term debt	(50,000)	500,000	(50,000)
2. Repayment for long-term debt	-	(2,393)	-
3. Payment for redemption of corporate bonds	-	(206,250)	-
4. Proceeds from issuing new share	85,891	61,434	173,969
5. Payments for acquisition of treasury stock	-	(76)	-
6. Cash dividends paid	-	(170,880)	-
Net cash provided by (used in) financing activities	35,891	181,833	123,969
<b>IV Effect of exchange rate changes on cash and equivalents</b>	12	378	1,791
<b>V Increase (decrease) in cash and equivalents</b>	50,040	(1,496,470)	701,402
<b>VI Cash and equivalents, beginning balance</b>	1,560,043	2,261,445	1,560,043
<b>VII Cash and equivalents, ending balance</b>	1,610,084	764,975	2,261,445

## Significant Accounting Policies in the Preparation of Consolidated Financial Statements

1H of FY2005 (Apr. 1, 2005 – Sep. 30, 2005)	1H of FY2006 (Apr. 1, 2006 – Sep. 30, 2006)	FY2005 (Apr. 1, 2005 – Mar. 31, 2006)
<p>1. Scope of consolidation (1) Consolidated subsidiary: 2 Name of the consolidated subsidiaries:     CDN Solutions K.K.     Oy Gamecluster Ltd. During the current period, two subsidiaries are included in the consolidation due to acquisition of shares.</p> <p>(2) Major non-consolidated subsidiary     ClariNet Corporation Reason for exclusion from the consolidation: The consolidated financial statements do not include the accounts of non-consolidated subsidiary ClariNet since the entity is a small-scale business whose combined total assets, revenue, net profit/loss or accumulated profit have no significant effect on the overall results of consolidated financial statements.</p> <p>2. Application of the equity method Affiliate under the equity method: 1     Aliss Net co., Ltd. Effective from the current period, Aliss Net co. Ltd., is included in the application of the equity method, since the Company acquired an equity stake in the entity on March 31, 2005.</p> <p>3. First half end of consolidated subsidiaries Oy Gamecluster Ltd.'s first half ends on June 30. The consolidated financial statements include the financial statements of this consolidated subsidiary as of June 30, 2005. However, necessary adjustments have been made for the consolidation concerning material transactions arising between this date and the consolidated balance sheet date.</p>	<p>1. Scope of consolidation (1) Consolidated subsidiaries: 5 Name of the consolidated subsidiaries:     CDN Solutions K.K.     Oy Gamecluster Ltd.     CMX Co., Ltd.     Fishing Vision Co., Ltd.     Giga Brains Co., Ltd. During the current period, CMX Co., Ltd., Fishing Vision Co., Ltd. and Giga Brains Co., Ltd. are included in the consolidation due to acquisition of shares.</p> <p>(2) Major non-consolidated subsidiary     ClariNet Corporation Reason for exclusion from the consolidation:     Same as on the left.</p> <p>2. Application of the equity method Affiliates under the equity method: 3     Aliss Net co., Ltd.     Renaissance Academy Corporation     Nihon Eiga Satellite Broadcasting Corp. Effective from the current period, Nihon Eiga Satellite Broadcasting Corp. is included in the application of the equity method, since the Company acquired an equity stake in the entity on July 31, 2006.</p> <p>3. First half end of consolidated subsidiaries     Same as on the left.</p>	<p>1. Scope of consolidation (1) Consolidated subsidiaries: 2 Name of the consolidated subsidiaries and reason for inclusion in consolidation:     CDN Solutions K.K.     Oy Gamecluster Ltd. During the current fiscal year, two subsidiaries are included in the consolidation due to acquisition of shares.</p> <p>(2) Major non-consolidated subsidiary     ClariNet Corporation Reason for exclusion from the consolidation: The consolidated financial statements do not include the accounts of non-consolidated subsidiary ClariNet since the entity is a small-scale business whose combined total assets, revenue, net profit/loss or accumulated profit have no significant effect on the overall results of consolidated financial statements.</p> <p>2. Application of the equity method Affiliates under the equity method: 2     Aliss Net co., Ltd.     Renaissance Academy Corporation Effective from the current fiscal year, Aliss Net co. Ltd., is included in the application of the equity method, since the Company acquired an equity stake in the entity on March 31, 2005. Effective from the current fiscal year, Renaissance Academy Corporation, established on October 3, 2005, is included in the application of the equity method, since the Company subscribed to the capital of that entity.</p> <p>3. Fiscal year end of consolidated subsidiaries Oy Gamecluster Ltd.'s fiscal year ends on December 31. The consolidated financial statements include the financial statements of this consolidated subsidiary as of December 31, 2005. However, necessary adjustments have been made for the consolidation concerning material transactions arising between this date and the consolidated balance sheet date.</p>

1H of FY2005 (Apr. 1, 2005 – Sep. 30, 2005)	1H of FY2006 (Apr. 1, 2006 – Sep. 30, 2006)	FY2005 (Apr. 1, 2005 – Mar. 31, 2006)
<p>4. Significant accounting policies</p> <p>(1) Valuation criteria and methods for principal assets</p> <p>Securities</p> <p>Other securities without market quotations</p> <p>Securities without market quotations are stated at cost, cost being determined by the moving-average method.</p> <p>As for marketable securities of “Investment business limited associations” as defined in Article 2, Section 2 of the Securities Exchanges Law, we book the proportional value based on the most recent available financial report of the association, according to the financial settlement date stipulated in the association contract. Equity in earnings/loss is reported as non-operating income/loss.</p> <p>Inventories</p> <p>_____</p> <p>Supplies</p> <p>Supplies are stated at cost, cost being determined by the first-in first-out method.</p> <p>Program count</p> <p>Program count are stated at cost, cost being determined by the specific-identification method.</p> <p>(2) Depreciation method for principal assets</p> <p>Tangible fixed assets</p> <p>Depreciation of tangible fixed assets is calculated by the declining-balance method.</p> <p>Intangible fixed assets</p> <p>Intangible fixed assets other than software development costs are amortized by the straight-line method over their estimated useful lives. Software development costs are amortized over an expected useful life of five years by the straight-line method.</p> <p>(3) Accounting for significant allowances</p> <p>Allowance for doubtful accounts</p> <p>To prepare for credit losses on receivables, an allowance equal to the estimated amount of uncollectible receivables is provided for general receivables based on the historical write-off ratio, and bad receivables based on a case-by-case determination of collectibility.</p>	<p>4. Significant accounting policies</p> <p>(1) Valuation criteria and methods for principal assets</p> <p>Securities</p> <p>Other securities without market quotations</p> <p>Same as on the left.</p> <p>Inventories</p> <p>Merchandise</p> <p>Merchandise is stated at cost, cost being determined by the first-in first-out method.</p> <p>_____</p> <p>Program count</p> <p>Same as on the left.</p> <p>(2) Depreciation method for principal assets</p> <p>Tangible fixed assets</p> <p>Same as on the left.</p> <p>Intangible fixed assets</p> <p>Same as on the left.</p> <p>(3) Accounting for significant allowances</p> <p>Allowance for doubtful accounts</p> <p>Same as on the left.</p>	<p>4. Significant accounting policies</p> <p>(1) Valuation criteria and methods for principal assets</p> <p>Securities</p> <p>Other securities without market quotations</p> <p>Same as on the left.</p> <p>Inventories</p> <p>Merchandise</p> <p>Same as on the left.</p> <p>_____</p> <p>Program count</p> <p>Same as on the left.</p> <p>(2) Depreciation method for principal assets</p> <p>Tangible fixed assets</p> <p>Same as on the left.</p> <p>Intangible fixed assets</p> <p>Same as on the left.</p> <p>(3) Accounting for significant allowances</p> <p>Allowance for doubtful accounts</p> <p>Same as on the left.</p>

1H of FY2005 (Apr. 1, 2005 – Sep. 30, 2005)	1H of FY2006 (Apr. 1, 2006 – Sep. 30, 2006)	FY2005 (Apr. 1, 2005 – Mar. 31, 2006)
<p>Reserve for directors' retirement benefits To provide for directors' retirement benefits, an allowance is provided for the aggregate amount payable at the end of the period pursuant to the Company's rules on directors' retirement benefits.</p> <p style="text-align: center;">_____</p> <p>(4) Accounting for leases Finance leases other than those, which are deemed to transfer the ownership of the leased assets to the lessees, are accounted for by a method similar to that applicable to ordinary operating leases.</p> <p>(5) Accounting for hedges _____</p> <p>5. Other significant accounting policies Accounting for consumption taxes All amounts stated are exclusive of consumption.</p> <p>6. Valuation of assets and liabilities of consolidated subsidiaries Valuation of all the assets and liabilities of consolidated subsidiaries is based on market price method.</p>	<p>Reserve for directors' retirement benefits Same as on the left.</p> <p>Reserve for bonuses To provide for employees' bonuses, an allowance is provided for the amount deemed to have accrued from among future estimated bonus obligations.</p> <p>(4) Accounting for leases Same as on the left.</p> <p>(5) Accounting for hedges 1) Hedge accounting method The Company applies the deferred accounting method. With respect to foreign currency risk, a hedge is accounted by the short-cut method if the hedging relationship meets certain criteria.</p> <p>2) Hedging instruments and risk hedged Hedging instrument: Forward foreign exchange contracts Risk hedged: Foreign currency-denominated trade accounts payable</p> <p>3) Hedging policy The Company hedges its exposure to currency risk in accordance with its internal currency risk management regulations.</p> <p>4) Assessing the effectiveness of a hedge Regarding forward exchange contracts, the Company does not assess the effectiveness of hedges since the major criteria of the hedge transaction and the hedged item are identical, and the cash flow is fixed.</p> <p>5. Other significant accounting policies Accounting for consumption taxes Same as on the left.</p> <p>6. Valuation of assets and liabilities of consolidated subsidiaries Same as on the left.</p>	<p>Reserve for directors' retirement benefits To provide for directors' retirement benefits, an allowance is provided for the aggregate amount payable at the end of the period pursuant to the Company's rules on directors' retirement benefits.</p> <p style="text-align: center;">_____</p> <p>(4) Accounting for leases Same as on the left.</p> <p>(5) Accounting for hedges 1) Hedge accounting method The Company applies the deferred accounting method. With respect to foreign currency risk, a hedge is accounted by the short-cut method if the hedging relationship meets certain criteria.</p> <p>2) Hedging instruments and risk hedged Hedging instrument: Forward foreign exchange contracts Risk hedged: Foreign currency-denominated trade accounts payable</p> <p>3) Hedging policy The Company hedges its exposure to currency risk in accordance with its internal currency risk management regulations.</p> <p>4) Assessing the effectiveness of a hedge Regarding forward exchange contracts, the Company does not assess the effectiveness of hedges since the major criteria of the hedge transaction and the hedged item are identical, and the cash flow is fixed.</p> <p>5. Other significant accounting policies Accounting for consumption taxes Same as on the left.</p> <p>6. Valuation of assets and liabilities of consolidated subsidiaries Same as on the left.</p>

1H of FY2005 (Apr. 1, 2005 – Sep. 30, 2005)	1H of FY2006 (Apr. 1, 2006 – Sep. 30, 2006)	FY2005 (Apr. 1, 2005 – Mar. 31, 2006)
<p>_____</p> <p>_____</p> <p>9. Cash and equivalents in the cash flow statements Cash and equivalents in the cash flow statements consist of vault cash, deposits that can be withdrawn on demand, and short-term investments, generally with original maturities of three months or less, that are readily convertible to known amounts of cash and are so near maturity that they present insignificant risk of change in value.</p>	<p>7. Amortization of goodwill Goodwill is amortized over a period of three to five years by the straight-line method.</p> <p>8. Appropriation of retained earnings The consolidated surplus statement show decided appropriation of profit during the current period.</p> <p>9. Cash and equivalents in the cash flow statements Same as on the left.</p>	<p>7. Amortization of consolidation adjustment account Consolidation adjustment account is amortized over a period of five years by the straight-line method.</p> <p>8. Appropriation of retained earnings The consolidated surplus statement show decided appropriation of profit during the current fiscal year.</p> <p>9. Cash and equivalents in the cash flow statements Cash and equivalents in the cash flow statements consist of vault cash, deposits that can be withdrawn on demand, and short-term investments, generally with original maturities of three months or less, that are readily convertible to known amounts of cash and are so near maturity that they present insignificant risk of change in value.</p>

## Change in Significant Accounting Policies in the Preparation of Consolidated Financial Statements

1H of FY2005 (Apr. 1, 2005 – Sep. 30, 2005)	1H of FY2006 (Apr. 1, 2006 – Sep. 30, 2006)	FY2005 (Apr. 1, 2005 – Mar. 31, 2006)
<p>Accounting standard concerning impairment of fixed assets: Effective from the current period, the Company has adopted “Statement of Opinion, Accounting for Impairment of Fixed Assets” (Business Accounting Council, August 9, 2002) and the “Accounting Standard Implementation Guidance for Impairment of Fixed Assets” (ASBJ Guidance No. 6, October 31, 2003). The effect of this change is insignificant.</p>	<p>Accounting standard concerning presentation of net assets on balance sheet: Effective from the current period, the Company has adopted “Accounting Standard for Presentation of Net Assets on Balance Sheet” (Business Accounting Council Standard No. 5, December 9, 2005) and “Accounting Standard Implementation Guidance for Presentation of Net Assets on Balance Sheet” (ASBJ Guidance No. 8, December 9, 2005). The effect of this change is insignificant. Under the former accounting standard, amounts equivalent to “Total shareholders’ equity” totaled 2,838,697 thousand yen.</p> <p>Changes in presentation in consolidated balance sheet to conform to the revision of the Regulations of Consolidated Financial Statements:</p> <ol style="list-style-type: none"> <li>1. Effective from the current period, the Shareholders’ Equity section is renamed Net Assets section. The Net Assets section comprises, Shareholders’ Equity, Valuation and Translation Adjustments, Stock Acquisition Rights and Minority Equity.</li> <li>2. Effective from the current period, Capital, Capital Surplus, Accumulated Profit and Treasury Stock, presented as line items in prior periods, are presented under Shareholders’ Equity.</li> <li>3. Effective from the current period, Stock Acquisition Rights, included in Others under Current Liabilities in prior periods, are reclassified and presented as a line item in the Net Assets section. The outstanding balance of Stock Acquisition Rights as of the end of the current period was 1,218 thousand yen.</li> <li>4. Effective from the current period, Minority Equity, presented as a line item is reclassified and presented as a line item in the Net Assets section.</li> </ol>	<p>Accounting standard concerning impairment of fixed assets: Effective from the current period, the Company has adopted “Statement of Opinion, Accounting for Impairment of Fixed Assets” (Business Accounting Council, August 9, 2002) and the “Accounting Standard Implementation Guidance for Impairment of Fixed Assets” (ASBJ Guidance No. 6, October 31, 2003). The effect of this change is insignificant.</p>

1H of FY2005 (Apr. 1, 2005 – Sep. 30, 2005)	1H of FY2006 (Apr. 1, 2006 – Sep. 30, 2006)	FY2005 (Apr. 1, 2005 – Mar. 31, 2006)
<p style="text-align: center;">—————</p>	<p>Accounting standard concerning business combination: Effective from the current period, the Company has adopted “Accounting Standard for Business Combination” (Business Accounting Council, October 31, 2003), the “Accounting Standard for Business Divestiture” (ASBJ Statement No.7: Accounting Standards Board of Japan, December 27, 2005) and the “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10: Accounting Standards Board of Japan, December 27, 2005). The effect of this change is insignificant.</p> <p>Changes in presentation in consolidated balance sheet to conform to the revision of the Regulations of Consolidated Financial Statements: (Consolidated income statement) Effective from the current period, “Amortization of consolidation adjustment account” is renamed “Amortization of goodwill”.</p> <p>(Consolidated cash flow statement) Effective from the current period, “Amortization of consolidation adjustment account” is renamed “Amortization of goodwill”.</p>	<p style="text-align: center;">—————</p>

### Supplementary Information

1H of FY2005 (Apr. 1, 2005 – Sep. 30, 2005)	1H of FY2006 (Apr. 1, 2006 – Sep. 30, 2006)	FY2005 (Apr. 1, 2005 – Mar. 31, 2006)
<p>Effective from the current period, the Company introduced a system of “Directors’ Retirement Benefits.” To provide for directors’ retirement benefits, an allowance is provided pursuant to the Company’s rules on directors’ retirement benefits. As a result, 4,833 thousand yen, the amount recognized for the current period, is included in selling, general and administrative expenses, and 42,416 thousand yen, the amount recognized as past service liabilities, is booked as an extraordinary loss. The effect of this change was to reduce both operating profit and recurring profit by 4,833 thousand yen, and to reduce income before income taxes by 47,249 thousand yen, compared to the amounts that would have been reported if the previous method had been applied consistently.</p>	<p style="text-align: center;">—————</p>	<p>Effective from the current consolidated fiscal year, the Company introduced a system of “Directors’ Retirement Benefits.” To provide for directors’ retirement benefits, an allowance is provided pursuant to the Company’s rules on directors’ retirement benefits. As a result, 9,166 thousand yen, the amount recognized for the current fiscal year, is included in selling, general and administrative expenses, and 42,416 thousand yen, the amount recognized as past service liabilities, is booked as an extraordinary loss. The effect of this change was to reduce both operating profit and recurring profit by 9,166 thousand yen, and to reduce income before income taxes by 51,583 thousand yen, compared to the amounts that would have been reported if the previous method had been applied consistently.</p>

**Notes to Consolidated Financial Statements**  
**Notes to Consolidated Balance Sheet**

Thousand yen

1H of FY2005 (As of Sep. 30, 2005)	1H of FY2006 (As of Sep. 30, 2006)	FY2005 (As of Mar. 31, 2006)																				
<p>*1. Assets pledged and liabilities corresponding to pledged assets</p> <p>Assets pledged:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 15%;">Trade accounts receivable</td> <td style="width: 15%; text-align: right;">361,787</td> <td style="width: 70%;">(mortgage by transfer)</td> </tr> <tr> <td>Other accounts receivable</td> <td style="text-align: right;">2,685</td> <td>(mortgage by transfer)</td> </tr> <tr> <td><b>Total</b></td> <td style="text-align: right;"><b>364,473</b></td> <td></td> </tr> </table> <p>Liabilities corresponding to pledged assets:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 15%;">Trade accounts payable</td> <td style="width: 15%; text-align: right;">2,386</td> <td style="width: 70%;">(mortgage by transfer)</td> </tr> </table> <p>The above mortgage by transfer are provided as security for future lease payments of 41,089 thousand yen (including 2,386 thousand yen in trade accounts payable) related to CS tuner/antennas, and include current and future receivables from members in accordance with membership agreements, receivables from broadcasters under marketing agreements and receivables related to CS tuner and antenna sales from members and sales agents. Receivables pledged as of the end of the current period include 361,787 thousand yen in trade accounts receivable and 2,685 thousand yen in other accounts receivable.</p>	Trade accounts receivable	361,787	(mortgage by transfer)	Other accounts receivable	2,685	(mortgage by transfer)	<b>Total</b>	<b>364,473</b>		Trade accounts payable	2,386	(mortgage by transfer)	<p style="text-align: center;">_____</p> <p>*2. Current account overdraft agreements</p> <p>The Company has current account overdraft agreements with a bank of account, in order to raise funds efficiently. The balances of credit available at the end of fiscal year was as follows.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Current account overdraft and revolving line of credit</td> <td style="width: 40%; text-align: right;">1,000,000</td> </tr> <tr> <td>Credit used</td> <td style="text-align: right;">500,000</td> </tr> <tr> <td><b>Credit available</b></td> <td style="text-align: right;"><b>500,000</b></td> </tr> </table> <p>*3. Trade notes receivable/payable maturing at period-end are treated as if they were settled at the clearing date of notes. Consequently, as the period-end date was a bank holiday, the following notes receivable/payable maturing at period-end were included in the ending balance of notes receivable/payable of the current period.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Trade notes receivable</td> <td style="width: 40%; text-align: right;">1,155</td> </tr> </table>	Current account overdraft and revolving line of credit	1,000,000	Credit used	500,000	<b>Credit available</b>	<b>500,000</b>	Trade notes receivable	1,155	<p style="text-align: center;">_____</p> <p style="text-align: center;">_____</p> <p style="text-align: center;">_____</p>
Trade accounts receivable	361,787	(mortgage by transfer)																				
Other accounts receivable	2,685	(mortgage by transfer)																				
<b>Total</b>	<b>364,473</b>																					
Trade accounts payable	2,386	(mortgage by transfer)																				
Current account overdraft and revolving line of credit	1,000,000																					
Credit used	500,000																					
<b>Credit available</b>	<b>500,000</b>																					
Trade notes receivable	1,155																					

1H of FY2005 (As of Sep. 30, 2005)	1H of FY2006 (As of Sep. 30, 2006)	FY2005 (As of Mar. 31, 2006)				
<p>*4. Accounting for consumption taxes Consumption tax and local consumption tax are accounted using the net-of-tax method, and are included in "Accrued consumption taxes" after being offset by suspense payment and suspense receipt of consumption taxes.</p> <hr/> <p>6. Contractual obligations The Company entered into an agreement to invest in one unit, valued at 100,000 thousand yen (one unit), of the SBI Broadband Fund No. 1 Limited Liability Investment Partnership, on April 28, 2005. Since the amount invested as of the end of the current period is 25,000 thousand yen, the Company is under obligation to invest the balance of 75,000 thousand yen.</p>	<p>*4. Accounting for consumption taxes Same as on the left.</p> <p>*5. The following items are applicable to non-consolidated subsidiaries and affiliates</p> <table data-bbox="592 600 999 633"> <tr> <td>Investment securities (stocks)</td> <td style="text-align: right;">290,149</td> </tr> </table> <p>6. Contractual obligations The Company entered into an agreement to invest in one unit, valued at 100,000 thousand yen (one unit), of the SBI Broadband Fund No. 1 Limited Liability Investment Partnership, on April 28, 2005. Since the amount invested as of the end of the current period is 50,000 thousand yen, the Company is under obligation to invest the balance of 50,000 thousand yen. The Company entered into an agreement to invest in one unit, valued at 100,000 thousand yen (one unit), of the SBI BB Mobile Limited Liability Investment Partnership, on April 17, 2006. Since the amount invested as of the end of the current period is 25,000 thousand yen, the Company is under obligation to invest the balance of 75,000 thousand yen.</p>	Investment securities (stocks)	290,149	<p>*4. Accounting for consumption taxes Same as on the left.</p> <p>*5. The following items are applicable to non-consolidated subsidiaries and affiliates</p> <table data-bbox="1031 600 1447 633"> <tr> <td>Investment securities (stocks)</td> <td style="text-align: right;">35,621</td> </tr> </table> <p>6. Contractual obligations The Company entered into an agreement to invest in one unit, valued at 100,000 thousand yen (one unit), of the SBI Broadband Fund No. 1 Limited Liability Investment Partnership, on April 28, 2005. Since the amount invested as of the end of the current consolidated fiscal year is 25,000 thousand yen, the Company is under obligation to invest the balance of 75,000 thousand yen.</p>	Investment securities (stocks)	35,621
Investment securities (stocks)	290,149					
Investment securities (stocks)	35,621					

**Notes to Consolidated Income Statement**

Thousand yen

1H of FY2005 (Apr. 1, 2005 – Sep. 30, 2005)	1H of FY2006 (Apr. 1, 2006 – Sep. 30, 2006)	FY2005 (Apr. 1, 2005 – Mar. 31, 2006)
<p>_____</p> <p>*2. Loss on write-down of CS tuner and antennas and other items.</p> <p style="text-align: right;">5,767</p> <p>_____</p>	<p>_____</p> <p>_____</p> <p>_____</p>	<p>*1. The Company ceased activities to sign up new subscribers to Club iT's CS broadcasting service four years ago. In the absence of new subscriptions, provisions for doubtful receivables on a case-by-case basis and general receivables have declined.</p> <p>*2. Loss on write-down of CS tuner and antennas and other items.</p> <p style="text-align: right;">22,666</p> <p>*3. Effective from the current fiscal year, the Company introduced a system of "Directors' Retirement Benefits." To provide for directors' retirement benefits, an allowance is provided pursuant to the Company's rules on directors' retirement benefits. The amount represents the past service liability.</p>

## Notes to Consolidated Statements of Changes in Shareholders' Equity

1H of FY2006 (Apr. 1, 2006 – Sep. 30, 2006)

### 1. Type and number of outstanding shares

Type of share	Number of shares as of Mar. 31, 2006 (Shares)	Increase during the current period (Shares)	Decrease during the current period (Shares)	Number of shares as of Sep. 30, 2006 (Shares)
Common shares	17,356,400	17,854,153	-	35,210,553

Outline of changes

- (1) Increase in the number of shares due to stock split: 17,356,400 shares  
 (2) Increase in the number of shares due to exercise of stock options: 497,753 shares

### 2. Type and number of treasury stocks

Type of share	Number of shares as of Mar. 31, 2006 (Shares)	Increase during the current period (Shares)	Decrease during the current period (Shares)	Number of shares as of Sep. 30, 2006 (Shares)
Common shares	346	437	-	783

Outline of changes

- (1) Increase in the number of shares due to stock split: 346 shares  
 (2) Increase in the number of shares due to acquisition of odd lot shares: 91 shares

### 3. Items related to stock acquisition rights

Item	Stock acquisition rights (itemized)	Type of shares under stock acquisition rights	Number of shares under stock acquisition rights (Shares)				Balance as of Sep. 30, 2006 (Thousand yen)
			As of Mar. 31, 2006	Increase during the current period	Decrease during the current period	As of Sep. 30, 2006	
Reporting company	First issue subscription warrant	Common shares	277,000	277,000	554,000	-	-
	Second issue subscription warrant	Common shares	39,400	39,400	55,970	22,830	21
	First issue stock acquisition rights 2004	Common shares	293,400	293,400	40,000	546,800	-
	First issue stock acquisition rights 2005	Common shares	200,000	200,000	-	400,000	-
Total			809,800	809,800	649,970	969,630	21

### 4. Dividends

#### (1) Dividend payment

Resolution	Type of share	Total amount of dividend (Thousand yen)	Dividend per share (Yen)	Record date	Effective date
Annual General Meeting of shareholders on June 16, 2006	Common shares	173,560	10.00	March 31, 2006	June 19, 2006

#### (2) Dividends with a record date in the current period but an effective date in the following second half period

Resolution	Type of share	Source of funds	Total amount of dividend (Thousand yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors on October 27, 2006	Common shares	Accumulated profit	88,024	2.50	September 30, 2006	December 5, 2006

## Notes to Consolidated Cash Flow Statement

Thousand yen

1H of FY2005 (Apr. 1, 2005 – Sep. 30, 2005)	1H of FY2006 (Apr. 1, 2006 – Sep. 30, 2006)	FY2005 (Apr. 1, 2005 – Mar. 31, 2006)																																																																																																														
<p>1. Reconciliation of cash and equivalents of the consolidated cash flow statement and “Cash deposits” of balance sheet is made as follows:</p> <p style="text-align: right;">(As of Sep. 30, 2005)</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Cash deposits</td> <td style="text-align: right; border-bottom: 1px solid black;">1,610,084</td> </tr> <tr> <td>Cash and equivalents</td> <td style="text-align: right; border-bottom: 3px double black;">1,610,084</td> </tr> </table>	Cash deposits	1,610,084	Cash and equivalents	1,610,084	<p>1. Reconciliation of cash and equivalents of the consolidated cash flow statement and “Cash deposits” of balance sheet is made as follows:</p> <p style="text-align: right;">(As of Sep. 30, 2006)</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Cash deposits</td> <td style="text-align: right;">815,019</td> </tr> <tr> <td>Term deposits with maturities over 3 months</td> <td style="text-align: right; border-bottom: 1px solid black;">(50,044)</td> </tr> <tr> <td>Cash and equivalents</td> <td style="text-align: right; border-bottom: 3px double black;">764,975</td> </tr> </table> <p>2. Assets and liabilities of newly consolidated subsidiary acquired through and exchange of stock:</p> <p>A summary of assets and liabilities of newly included in the consolidation due to acquisition through an exchange of stock, and payments (net) for acquisition of stock are as follows.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2">CMX Co., Ltd.</td> </tr> <tr> <td style="width: 80%;">Current assets</td> <td style="text-align: right;">55,923</td> </tr> <tr> <td>Fixed assets</td> <td style="text-align: right;">-</td> </tr> <tr> <td>Goodwill</td> <td style="text-align: right;">31,855</td> </tr> <tr> <td>Current liabilities</td> <td style="text-align: right;">(45,742)</td> </tr> <tr> <td>Fixed liabilities</td> <td style="text-align: right;">-</td> </tr> <tr> <td>Minority equity</td> <td style="text-align: right; border-bottom: 1px solid black;">(2,036)</td> </tr> <tr> <td colspan="2">CMX Co., Ltd.</td> </tr> <tr> <td>Payments for acquisition of stock</td> <td style="text-align: right;">40,000</td> </tr> <tr> <td>Cash and equivalents</td> <td style="text-align: right; border-bottom: 1px solid black;">9,595</td> </tr> <tr> <td>Payments (net) for acquisition of</td> <td style="text-align: right;">30,404</td> </tr> <tr> <td>CMX Co., Ltd.</td> <td style="text-align: right; border-bottom: 1px solid black;"></td> </tr> <tr> <td colspan="2">Fishing Vision Co., Ltd.</td> </tr> <tr> <td>Current assets</td> <td style="text-align: right;">609,949</td> </tr> <tr> <td>Fixed assets</td> <td style="text-align: right;">191,576</td> </tr> <tr> <td>Goodwill</td> <td style="text-align: right;">25,265</td> </tr> <tr> <td>Current liabilities</td> <td style="text-align: right;">(110,451)</td> </tr> <tr> <td>Fixed liabilities</td> <td style="text-align: right;">(10,627)</td> </tr> <tr> <td>Minority equity</td> <td style="text-align: right;">(382,949)</td> </tr> <tr> <td>Unrealized holding gain (loss) on other securities</td> <td style="text-align: right; border-bottom: 1px solid black;">(11)</td> </tr> <tr> <td colspan="2">Fishing Vision Co., Ltd.</td> </tr> <tr> <td>Payments for acquisition of stock</td> <td style="text-align: right;">322,751</td> </tr> <tr> <td>Cash and equivalents</td> <td style="text-align: right; border-bottom: 1px solid black;">282,391</td> </tr> <tr> <td>Payments (net) for acquisition of</td> <td style="text-align: right;">40,359</td> </tr> <tr> <td>Fishing Vision Co., Ltd.</td> <td style="text-align: right; border-bottom: 1px solid black;"></td> </tr> </table>	Cash deposits	815,019	Term deposits with maturities over 3 months	(50,044)	Cash and equivalents	764,975	CMX Co., Ltd.		Current assets	55,923	Fixed assets	-	Goodwill	31,855	Current liabilities	(45,742)	Fixed liabilities	-	Minority equity	(2,036)	CMX Co., Ltd.		Payments for acquisition of stock	40,000	Cash and equivalents	9,595	Payments (net) for acquisition of	30,404	CMX Co., Ltd.		Fishing Vision Co., Ltd.		Current assets	609,949	Fixed assets	191,576	Goodwill	25,265	Current liabilities	(110,451)	Fixed liabilities	(10,627)	Minority equity	(382,949)	Unrealized holding gain (loss) on other securities	(11)	Fishing Vision Co., Ltd.		Payments for acquisition of stock	322,751	Cash and equivalents	282,391	Payments (net) for acquisition of	40,359	Fishing Vision Co., Ltd.		<p>1. 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Thousand yen

1H of FY2005 (Apr. 1, 2005 – Sep. 30, 2005)	1H of FY2006 (Apr. 1, 2006 – Sep. 30, 2006)	FY2005 (Apr. 1, 2005 – Mar. 31, 2006)
	Giga Brains Co., Ltd.	
	Current assets 31,436	
	Fixed assets 11,955	
	Goodwill 3,891	
	Current liabilities (17,283)	
	Fixed liabilities -	
	Affiliate stock of Fishing Vision Co., Ltd. (30,000)	
	<hr/>	
	Giga Brains Co., Ltd.	
	Payments for acquisition of stock -	
	Cash and equivalents 8,958	
	<hr/>	
	Payments (net) for acquisition of Giga Brains Co., Ltd. 8,958	
	<hr/>	

## Accounting for Leases

Thousand yen

1H of FY2005 (Apr. 1, 2005 – Sep. 30, 2005)	1H of FY2006 (Apr. 1, 2006 – Sep. 30, 2006)	FY2005 (Apr. 1, 2005 – Mar. 31, 2006)
Finance lease transactions not involving the transfer of title to lessee:	Finance lease transactions not involving the transfer of title to lessee:	Finance lease transactions not involving the transfer of title to lessee:
(1) Acquisition cost, accumulated depreciation and fiscal period-end balance equivalents of the leased property	(1) Acquisition cost, accumulated depreciation and fiscal period-end balance equivalents of the leased property	(1) Acquisition cost, accumulated depreciation and fiscal year-end balance equivalents of the leased property
<i>Tools, furniture and fixtures (mainly CS tuners/antennas)</i>	<i>Tools, furniture and fixtures (mainly CS tuners/antennas)</i>	<i>Tools, furniture and fixtures (mainly CS tuners/antennas)</i>
Acquisition cost equivalents: 683,936	Acquisition cost equivalents: 222,402	Acquisition cost equivalents: 212,122
Accumulated depreciation equivalents: 464,555	Accumulated depreciation equivalents: 135,553	Accumulated depreciation equivalents: 117,994
Period-end balance equivalents: 219,380	Period-end balance equivalents: 86,848	Fiscal year-end balance equivalents: 94,127
	<i>Machinery and equipment (mainly image editing equipment)</i>	
	Acquisition cost equivalents: 8,057	
	Accumulated depreciation equivalents: 3,729	
	Period-end balance equivalents: 4,328	
	<i>Vehicles</i>	
	Acquisition cost equivalents: 6,479	
	Accumulated depreciation equivalents: 1,519	
	Period-end balance equivalents: 4,959	
(2) Outstanding lease commitments and the fiscal period-end balance equivalents	(2) Outstanding lease commitments and the fiscal period-end balance equivalents	(2) Outstanding lease commitments and the fiscal year-end balance equivalents
Due within one year 159,301	Due within one year 60,645	Due within one year 51,941
Due over one year 67,877	Due over one year 42,792	Due over one year 47,920
Total 227,179	Total 103,437	Total 99,861
(3) Lease payments, depreciation, impairment loss and interest equivalents	(3) Lease payments, depreciation, impairment loss and interest equivalents	(3) Lease payments, depreciation, impairment loss and interest equivalents
Lease payments 129,779	Lease payments 28,776	Lease payments 189,950
Depreciation equivalents 112,624	Depreciation equivalents 24,860	Depreciation equivalents 164,336
Interest equivalents 9,904	Interest equivalents 3,530	Interest equivalents 15,457
(4) Calculation of depreciation equivalents	(4) Calculation of depreciation equivalents	(4) Calculation of depreciation equivalents
Depreciation equivalents are calculated by the straight-line method, assuming the lease period as the useful life and guaranteed residual value as the residual value.	Same as on the left.	Same as on the left.
(5) Calculation of interest equivalents	(5) Calculation of interest equivalents	(5) Calculation of interest equivalents
Interest is defined as the difference between the total lease payments and acquisition cost equivalents and is allocated for each period using the simple-interest method.	Same as on the left.	Same as on the left.
Impairment loss	Impairment loss	Impairment loss
There is no impairment loss on leased asset-impairment account.	Same as on the left.	Same as on the left.

## Securities

1H of FY2005 (As of Sep. 30, 2005)

Securities without market quotations

Thousand yen

Item	Carrying value
Other securities	
Unlisted stock (excluding OTC stocks)	51,296
Total	51,296

1H of FY2006 (As of Sep. 30, 2006)

Securities without market quotations

Thousand yen

Item	Carrying value
Affiliates stock	
Unlisted stock (excluding OTC stocks)	290,149
Other securities	
Unlisted stock (excluding OTC stocks)	689,814
Corporate bonds	70,000
Others	86,205
Total	1,136,170

FY2005 (As of Mar. 31, 2006)

1. Securities without market quotations

Thousand yen

Item	Carrying value
Affiliates stock	
Unlisted stock	35,621
Other securities	
Unlisted stock	220,870
Total	256,491

2. Sales of securities classified as other securities (Apr. 1, 2005 – Mar. 31, 2006)

Thousand yen

Sales amount	Aggregate gain	Aggregate loss
300	-	56

## Derivatives

1H of FY2005 (As of Sep. 30, 2005)

No reportable information. The Company and its consolidated subsidiaries does not have derivative transactions.

1H of FY2006 (As of Sep. 30, 2006)

No reportable information. The Company and its consolidated subsidiaries does not have derivative transactions.

FY2005 (As of Mar. 31, 2006)

1. Financial derivative transactions

(1) Description and purpose of derivative transactions

The Company uses financial derivative transactions, which comprise forward foreign exchange contracts, to reduce its exposure to market risks from fluctuations in foreign currency exchange rates.

(2) Policy

The Company uses forward foreign exchange contracts to hedge risks on foreign currency-denominated transactions. It is the Company's policy to use derivatives only for the purpose of reducing foreign exchange risk associated with such foreign currency-denominated liabilities. The Company does not hold or issue financial derivative instruments for trading purposes.

(3) Purpose

Forward foreign exchange contracts are exposed to the risk of exchange rate fluctuations.

The Company considers that there is no significant credit risk from a counterparty's default. The Company's counterparties are reliable financial institutions.

(4) Risks

In the execution and management of foreign currency-denominated transactions, all derivatives transactions that the Company enters into must conform with the "Foreign Exchange Risk Management Regulations," an internal regulation, and require approval of the Board of Directors, the representative director or the general manager of the finance division, depending on notional principal amounts. The conditions and results of these transactions are reported to the general manager of the Finance & Accounting Group in the monthly "Accrued Balance Report," and to the Board of Directors every six months in the "Foreign Exchange Gain/Loss Report."

2. Market value of derivative transaction

Information on derivative transactions to which the hedge accounting method is applied is not presented.

## Segment Information

### Operating segment information

1H of FY2005 (Apr. 1, 2005 – Sep. 30, 2005)

Thousand yen

	Media Content Business	Game on Demand Business	CDN Business	Broadband Business	CS Broadcasting Service Business	Total	Elimination or corporate	Consolidated
Revenue								
(1) External revenue	676,839	72,637	540,558	1,372,226	2,115,076	4,777,337	-	4,777,337
(2) Inter-segment revenue and transfers	-	-	-	-	-	-	-	-
Total	676,839	72,637	540,558	1,372,226	2,115,076	4,777,337	-	4,777,337
Operating expenses	410,894	161,487	458,442	1,329,171	905,295	3,265,292	-	3,265,292
Operating profit (loss)	265,944	(88,850)	82,116	43,054	1,209,780	1,512,045	-	1,512,045

Notes: 1. Method of segmentation

The Company classifies its operations into segments based on the similarities of services provided to customers and the type and attributes of markets targeted.

2. Major categories in each operating segment are as follows

Operating segment	Major merchandise, products and service
Media Content Business	Content distribution to BBTB operators, CATV operators and communication service providers. Distribution of content to PCs.
Game on Demand Business	Offering G-cluster technology to support the distribution of interactive applications to various terminals without having to first download programs. Distribution of game content by using G-cluster technology.
CDN Business	Operation of a content delivery network for optimized distribution of content to end users supplied by content providers.
Broadband Business	Selling subscriptions to SOFTBANK BB services, including broadband Internet connections (Yahoo! BB).
CS Broadcasting Service Business	Planning and management of membership associations for offering innovative services, such as free rental of CS broadcast tuners and antennas and publication and, distribution of a program guided-oriented magazine.

3. Reclassifications of operating segments

In prior periods, the Company's operations were classified into three segments based on the similarity of services offered to customers. Effective from the current consolidated period, the former Broadband-related Service Business segment has been reclassified and split into the CDN Business segment, Game on Demand Business segment and the Broadband Business segment. The Company now classifies its operations into five business segments.

The above reclassifications reflect organizational changes (transition to a divisional system) adopted by the Company. They are based on the type and attributes of the markets targeted by each service, in order to more accurately present the progress of each business.

4. Changes in the allocation of business expenses

In prior periods, shared corporate expenses were allocated based on the number of employees in each operating segment. Effective from the current period, certain expenses are allocated based on the nature of such expenses, in addition to the level of segment revenue.

Following the above reclassifications, a review of the contribution of the administration division to each of the operating segments found that the above method of allocating expenses better presents the status of operations of each operating segment.

5. The operating segment information for the current period, restated to conform to the former method of allocating shared corporate expenses, and is summarized below:

Thousand yen

	Media Content Business	Game on Demand Business	CDN Business	Broadband Business	CS Broadcasting Service Business	Total	Elimination or corporate	Consolidated
Revenue								
(1) External revenue	676,839	72,637	540,558	1,372,226	2,115,076	4,777,337	-	4,777,337
(2) Inter-segment revenue and transfers	-	-	-	-	-	-	-	-
Total	676,839	72,637	540,558	1,372,226	2,115,076	4,777,337	-	4,777,337
Operating expenses	462,830	201,094	491,847	1,311,428	798,092	3,265,292	-	3,265,292
Operating profit (loss)	214,009	(128,456)	48,711	60,797	1,316,983	1,512,045	-	1,512,045

1H of FY2006 (Apr. 1, 2006 – Sep. 30, 2006)

Thousand yen

	Media Content Business	Game on Demand Business	CDN Business	Broadband Business	CS Broadcasting Service Business	Other businesses	Total	Elimination or corporate	Consolidated
Revenue									
(1) External revenue	811,050	65,135	605,139	1,208,797	1,535,885	95,524	4,321,532	-	4,321,532
(2) Inter-segment revenue and transfers	-	-	-	-	-	-	-	-	-
Total	811,050	65,135	605,139	1,208,797	1,535,885	95,524	4,321,532	-	4,321,532
Operating expenses	959,559	383,191	542,921	1,237,767	545,502	206,518	3,875,461	-	3,875,461
Operating profit (loss)	(148,509)	(318,055)	62,217	(28,969)	990,382	(110,994)	446,070	-	446,070

Notes: 1. Method of segmentation

The Company classifies its operations into segments based on the similarities of services provided to customers and the type and attributes of markets targeted.

2. Major categories in each operating segment are as follows

Operating segment	Major merchandise, products and service
Media Content Business	Content distribution to BBTV operators, CATV operators and communication service providers. Distribution of content to PCs.
Game on Demand Business	Offering G-cluster technology to support the distribution of interactive applications to various terminals without having to first download programs. Distribution of game content by using G-cluster technology.
CDN Business	Operation of a content delivery network for optimized distribution of content to end users supplied by content providers.
Broadband Business	Selling subscriptions to BB TECHNOLOGY, including broadband Internet connections (Yahoo! BB).
CS Broadcasting Service Business	Planning and management of membership associations for offering innovative services, such as free rental of CS broadcast tuners and antennas and publication and, distribution of a program guided-oriented magazine.

	Media Content Business	Game on Demand Business	CDN Business	Broadband Business	CS Broadcasting Service Business	Other businesses	Total	Elimination or corporate	Consolidated
I Revenue/operating profit (loss)									
Revenue									
(1) External revenue	1,705,511	160,190	1,140,828	2,269,148	3,998,641	865	9,275,185	-	9,275,185
(2) Inter-segment revenue and transfers	-	-	-	-	-	-	-	-	-
Total	1,705,511	160,190	1,140,828	2,269,148	3,998,641	865	9,275,185	-	9,275,185
Operating expenses	1,064,816	492,701	941,314	2,179,785	1,658,101	132,509	6,469,228	-	6,469,228
Operating profit (loss)	640,694	(332,511)	199,514	89,362	2,340,540	(131,644)	2,805,956	-	2,805,956
II Assets/depreciation/capital expenditures									
Assets	418,111	868,656	556,870	195,657	542,507	40,142	2,621,946	2,377,883	4,999,829
Depreciation	4,679	40,479	2,429	5,284	396,908	880	450,662	-	450,662
Capital expenditures	44,573	249,014	18,882	4,174	176,604	18,220	511,468	-	511,468

Notes: 1. Method of segmentation

The Company classifies its operations into segments based on the similarities of services provided to customers and the type and attributes of markets targeted.

2. Major categories in each operating segment are as follows

Operating segment	Major merchandise, products and service
Media Content Business	Content distribution to BBTB operators, CATV operators and communication service providers. Distribution of content to PCs.
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CS Broadcasting Service Business	Planning and management of membership associations for offering innovative services, such as free rental of CS broadcast tuners and antennas and publication and, distribution of a program guided-oriented magazine.

3. Reclassifications of operating segments

In prior periods, the Company's operations were classified into three segments based on the similarity of services offered to customers. Effective from the current consolidated period, the former Broadband-related Service Business segment has been reclassified and split into the CDN Business segment, Game on Demand Business segment and the Broadband Business segment. The Company now classifies its operations into six business segments.

The above reclassifications reflect organizational changes (transition to a divisional system) adopted by the Company. They are based on the type and attributes of the markets targeted by each service, in order to more accurately present the progress of each business.

4. Changes in the allocation of business expenses

In prior periods, shared corporate expenses were allocated based on the number of employees in each operating segment. Effective from the current consolidated fiscal year, certain expenses are allocated based on the nature of such expenses, in addition to the level of segment revenue.

Following the above reclassifications, a review of the contribution of the administration division to each of the operating segments found that the above method of allocating expenses better presents the status of operations of each operating segment.

5. The operating segment information for the current consolidated fiscal year, restated to conform to the former method of allocating shared corporate expenses, and is summarized below:

Thousand yen

	Media Content Business	Game on Demand Business	CDN Business	Broadband Business	CS Broadcasting Service Business	Other businesses	Total	Elimination or corporate	Consolidated
Revenue									
(1) External revenue	1,705,511	160,190	1,140,828	2,269,148	3,998,641	865	9,275,185	-	9,275,185
(2) Inter-segment revenue and transfers	-	-	-	-	-	-	-	-	-
Total	1,705,511	160,190	1,140,828	2,269,148	3,998,641	865	9,275,185	-	9,275,185
Operating expenses	1,132,155	582,168	1,002,630	2,148,965	1,447,542	155,766	6,469,228	-	6,469,228
Operating profit (loss)	573,355	(421,978)	138,198	120,183	2,551,098	(154,901)	2,805,956	-	2,805,956

6. Assets (2,377,883 thousand yen) included in "elimination or corporate" consist primarily of surplus funds under management (cash deposits, securities, etc.) at the Company.

### Geographical segment information

1H of FY2005 (Apr. 1, 2005 – Sep. 30, 2005)	1H of FY2006 (Apr. 1, 2006 – Sep. 30, 2006)	FY2005 (Apr. 1, 2005 – Mar. 31, 2006)
Geographical segment information is not presented since domestic revenue exceeded 90% of consolidated revenue.	Same as on the left.	Geographical segment information is not presented since domestic revenue and assets exceeded 90% of consolidated revenue and total assets.

### Overseas revenue

1H of FY2005 (Apr. 1, 2005 – Sep. 30, 2005)	1H of FY2006 (Apr. 1, 2006 – Sep. 30, 2006)	FY2005 (Apr. 1, 2005 – Mar. 31, 2006)
Information of overseas revenue is not presented since overseas revenue account for less than 10% of consolidated revenue.	Same as on the left.	Same as on the left.

## Per Share Information

Yen

1H of FY2005 (Apr. 1, 2005 – Sep. 30, 2005)	1H of FY2006 (Apr. 1, 2006 – Sep. 30, 2006)	FY2005 (Apr. 1, 2005 – Mar. 31, 2006)																												
Net assets per share 106.99 Net profit per share (basic) 51.02 Net profit per share (diluted) 48.55 On May 20, 2005, the Company split its stock two for one. Per share information retroactively adjusted to the beginning of the previous consolidated fiscal year, is as follows.	Net assets per share 80.62 Net profit per share (basic) 7.45 Net profit per share (diluted) 7.35 On April 1, 2006, the Company split its stock two for one. Per share information retroactively adjusted to the beginning of the previous consolidated fiscal year, is as follows.	Net assets per share 155.00 Net profit per share (basic) 96.86 Net profit per share (diluted) 92.47 On May 20, 2005, the Company split its stock two for one. Per share information retroactively adjusted to the beginning of the previous consolidated fiscal year, is as follows.																												
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Note: Basis for calculation of net profit per share (basic) and net profit per share (diluted) is as follows.

	1H of FY2005 (Apr. 1, 2005 – Sep. 30, 2005)	1H of FY2006 (Apr. 1, 2006 – Sep. 30, 2006)	FY2005 (Apr. 1, 2005 – Mar. 31, 2006)
Net profit per share (basic)			
Net profit (thousands of yen)	862,388	260,369	1,645,319
Amount not available to common shareholders (thousands of yen)	-	-	-
Net profit available to common stock (thousands of yen)	862,388	260,369	1,645,319
Average shares outstanding available to common stock (shares)	16,901,619	34,938,898	16,987,256
Net profit per share (diluted)			
Adjustments to net profit (thousands of yen)	-	-	-
Increase in number of common stocks (shares)	860,716	505,312	804,893
[of which stock subscription rights (shares)]	[642,663]	[244,343]	[593,667]
[of which new stock acquisition right (shares)]	[218,053]	[260,969]	[211,226]
Summary of non-dilutive stock equivalents not used in calculation of net profit per share (diluted)	-	First issue stock acquisition rights 2005 (unexercised: 2,000)	Same as on the left.

## Material Subsequent Events

1H of FY2005 (Apr. 1, 2005 – Sep. 30, 2005)

No reportable information.

1H of FY2006 (Apr. 1, 2006 – Sep. 30, 2006)

### 1. Agreement to acquire Broadmedia Studios Corporation

The Company has reached a basic agreement with SOFTBANK Broadmedia Corporation (“SOFTBANK Broadmedia”) to acquire 90% of the shares of Broadmedia Studios Corporation (“BMS”) that are held by SOFTBANK Broadmedia.

#### (1) Objective of the acquisition

By making BMS, which sells broadcast rights and creates Japanese subtitles and dubbing for foreign productions, a consolidated subsidiary, the Company will become a full-line company in “content services,” allowing it to further expand the size of the business.

The Company purchases, distributes, and sells the rights for content for PC and STB. BMS has business relations with many broadcast media outlets such as terrestrial broadcasters (including flagship stations) and CS/BS broadcasters, so by making this company a subsidiary it will be able to provide content for a variety of media ranging from video-on-demand (“VOD”) to terrestrial TV, allowing it to provide a full range of services from the creation of video productions to providing content to end users.

In addition, by acquiring content broadcast rights and VOD distribution rights along with BMS, the Company will be able to obtain content more efficiently. The Company will seek to maximize earnings by creating content through this partnership and developing cross-media activities such as the sale of VOD distribution and TV broadcast rights.

#### (2) Broadmedia Studios Corporation

- |   |   |
|---|---|
| (1) Company name                                | Broadmedia Studios Corporation  |
| (2) Representative                              | Taro Hashimoto, President & CEO   |
| (3) Location                                    | 1-14-7 Tsukishima, Chuo-ku, Tokyo   |
| (4) Founded                                     | August 10, 2000   |
| (5) Business                                    | - Selling TV broadcast rights for foreign movies and foreign TV series<br>- Creating Japanese versions (subtitled or dubbed) of foreign movies and foreign TV series<br>- Purchasing, selling, and promoting DVD and video rights<br>- Theatrical distribution, movie publicity, etc. |
| (6) End of fiscal year                          | March   |
| (7) Number of employees                         | 141 (As of September 30, 2006)  |
| (8) Capital                                     | 1,025 million yen (As of September 30, 2006)  |
| (9) Outstanding shares                          | 40,500 shares (As of September 30, 2006)  |
| (10) Financial highlights<br>(two-year summary) | Year ended March 2006: 3,542 million yen<br>Year ended March 2005: 3,034 million yen  |
| (11) Subsidiaries                               | HOLLYWOOD CHANNEL INC.<br>Business: Operates mobile sites   |
| (12) Major users                                | NBC Universal, Fox Japan, TOEI COMPANY, LTD., MGM, Sony Pictures<br>Entertainment(Japan)Inc.<br>Other major domestic and foreign studios<br>Commercial network stations, satellite broadcasters<br>Video content companies, game makers, etc.   |

#### (3) SOFTBANK Broadmedia Corporation Corporate Data

- |                   |   |
|-------------------|---|
| 1) Company name   | SOFTBANK Broadmedia Corporation           |
| 2) Representative | Taro Hashimoto, President & CEO           |
| 3) Address        | 1-9-1 Higashi-shinbashi, Minato-ku, Tokyo |

#### (4) Acquisition cost (Scheduled)

About 1,700 million yen (90% of outstanding shares)

\* Acquisition cost may slightly change due to condition in stock acquisition.

\* Internal funds and borrowing are used for the acquisition.

(5) Date of acquisition of stock (Scheduled)

The Acquisition will be carried out no later than December 1, 2006.

FY2005 (Apr. 1, 2005 – Mar. 31, 2006)

1. Stock split of Club iT share (gratis issue)

The Board of Directors of the Company on January 25, 2006 approved a gratis stock split, in order to increase the liquidity of the Company's stock and expand its shareholder base. Details are as follows:

(1) Outline of stock split

On April 1, 2006, the Company split its common stock two-for-one.

1. Increase in the number of shares due to the stock split

Common stock: 17,356,400 shares

2. Method of split

We will issue two stocks for every one common stock owned by registered shareholders as of March 31, 2006.

(2) Issue date: May 19, 2006

(3) Dividend record date: April 1, 2006

(4) Increase in the total number of shares issued by the Company

The Company amended Article 5 of its Articles of Incorporation on April 1, 2006, in order to increase the number of shares outstanding by 64,000,000 shares to 128,000,000 shares.

(5) The Board of Directors will determine other necessary items for the stock split.

(6) Adjustment of exercise price

In line with the stock split, the Company adjusts the exercise price for subscription warrant and stock acquisition rights, from April 1, 2005, as follows:

Description	Exercise price after adjustment	Exercise price before adjustment
First issue subscription warrant	93.8 yen	187.5 yen
Second issue subscription warrant	93.8 yen	187.5 yen
First issue stock acquisition rights 2004	466 yen	931 yen
First issue stock acquisition rights 2005	1,270 yen	2,539 yen

(7) Per share information for the current and the previous consolidated fiscal years, retroactively adjusted for the stock split to the beginning of the respective fiscal years, is as follows:

Item	FY2004	FY2005
Net assets per share	-	77.50 yen
Net profit (loss) per share (basic)	(15.35) yen	48.43 yen
Net profit per share (diluted)	Net profit per share (diluted) is not presented since the Company posted net loss for the current fiscal year.	46.24 yen

2. Others

No reportable information.

## 5. Production, Orders and Revenue

### (1) Production

No reportable information, since the Company and its consolidated subsidiaries are not manufacturing companies.

### (2) Purchases

Purchases by segment are as follows:

Thousand yen

Segment	1H of FY2005 (Apr. 1, 2005 – Sep. 30, 2005)	1H of FY2006 (Apr. 1, 2006 – Sep. 30, 2006)	Change	
	Amount	Amount	Amount	%
Media Content Business	296,049	139,026	(157,023)	(53.0)
Game on Demand Business	18,045	7,427	(10,617)	(58.8)
Other businesses	-	11,042	11,042	-
Total	314,095	157,497	156,598	(49.9)

Note: Amounts do not include consumption taxes.

### (3) Orders

No reportable information, since the Company and its consolidated subsidiaries do not manufacture on order.

### (4) Revenue

Performance by segment are as follows:

Thousand yen

Segment	1H of FY2005 (Apr. 1, 2005 – Sep. 30, 2005)	1H of FY2006 (Apr. 1, 2006 – Sep. 30, 2006)	Change	
	Amount	Amount	Amount	%
Game on Demand Business	72,637	65,135	(7,501)	(10.3)
CDN Business	540,558	605,139	64,580	12.0
Media Content Business	676,839	811,050	134,211	19.8
Broadband Business	1,372,226	1,208,797	(163,428)	(11.9)
CS Broadcasting Service Business	2,115,076	1,535,885	(579,191)	(27.4)
Other businesses	-	95,524	95,524	-
Total	4,777,337	4,321,532	(455,805)	(9.5)

Notes: 1. Amounts do not include consumption taxes.

2. The following table indicates revenue from major customers and its ratio of total revenue.

Thousand yen

Customer	1H of FY2005 (Apr. 1, 2005 – Sep. 30, 2005)		1H of FY2006 (Apr. 1, 2006 – Sep. 30, 2006)	
	Amount	%	Amount	%
BB TECHNOLOGY Corp.	1,299,107	27.2	1,204,728	27.9
J SPORTS Broadcasting Corporation	605,320	12.7	450,211	10.4
BB Cable Corporation	641,731	13.4	433,801	10.0

Notes: 1. Amounts do not include consumption taxes.

2. SOFTBANK BB Corp. changed its name to BB TECHNOLOGY Corp. effective on December 1, 2005.

\* This financial report is solely a translation of Japanese "Kessan Tanshin" (including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer English translation.