

1. Conditions of Corporate Group

The company and its group participate mainly in businesses of data communications as well as development, manufacture and sales of network products. The corporate group consists of PLANEX COMMUNICATIONS INC. ("Company") as its core, PLANEX COMMUNICATIONS INC. (Taiwan) as its consolidated subsidiary and PLANEX COMMUNICATIONS PTE LTD. (Singapore) as its nonconsolidated subsidiary. Together with PLANEX COMMUNICATIONS INC. (Taiwan) which is located in Taiwan where the latest technologies are developed, the Company has established a structure to collect information on these technologies and is developing highly competitive products.

Product development cycles are fast as technologies employed at PLANEX COMMUNICATIONS INC. (Taiwan) are used. The Company commissions the production of products to agents in Taiwan and China where production cost is low and a high engineering level is maintained.

Sales of products are steadily expanding in Japan, Taiwan and Singapore where further growth of IT-related businesses are expected and in other Asian markets, as the Company utilizes channels of distributors, volume retailers and corporate customers as well as direct sales via the Web (PCI Direct). The companies in the group involved in sales activities are the Company, PLANEX COMMUNICATIONS INC., Taiwan and PLANEX COMMUNICATIONS PTE LTD., Singapore.

PLANEX COMMUNICATIONS INC. (Taiwan) has been in charge of manufacturing and export and the Company has been in charge of sales in Japan. The Company has been playing a role of fab-less company.

In FY2005, the Company has acquired four companies: American Megatrends Inc. Japan (Location: Japan, herein after "AMIJ"), TriStar Inc. (Location: Japan, herein after "TRISTAR"), SUSTEEN, Inc. (Location: U.S.A., herein after "SUSTEEN") and RedSIP Inc. (Location: U.S.A., herein after "RedSIP"). AMIJ has been the distributor in Japan for American Megatrends Inc. of U.S. (herein after "AMI"), but AMIJ has discontinued the operation as a distributor and focuses on contract development of data processing software for cell phones which uses unique BIOS technology that they have cultivated. TRISTAR is a company which commercializes the product and manufactures and distributes data processing software. Their leading product is the "Keitaibanno" series. RedSIP Inc. provides the Company with technology related to VoIP (Voice over IP). Becoming a part of the group is expected to result in synergy.

AMIJ and RedSIP are wholly owned subsidiaries of the Company whereas TRISTAR is a wholly owned subsidiary of AMIJ. The Company made a 20% investment in SUSTEEN. SUSTEEN's main business is contract development of cell phone data processing software in the U.S. and in Europe.

By acquiring the above mentioned companies with high level technology and by making investments the Company laid out a framework to meet market needs quickly and to get needed products to market fast.

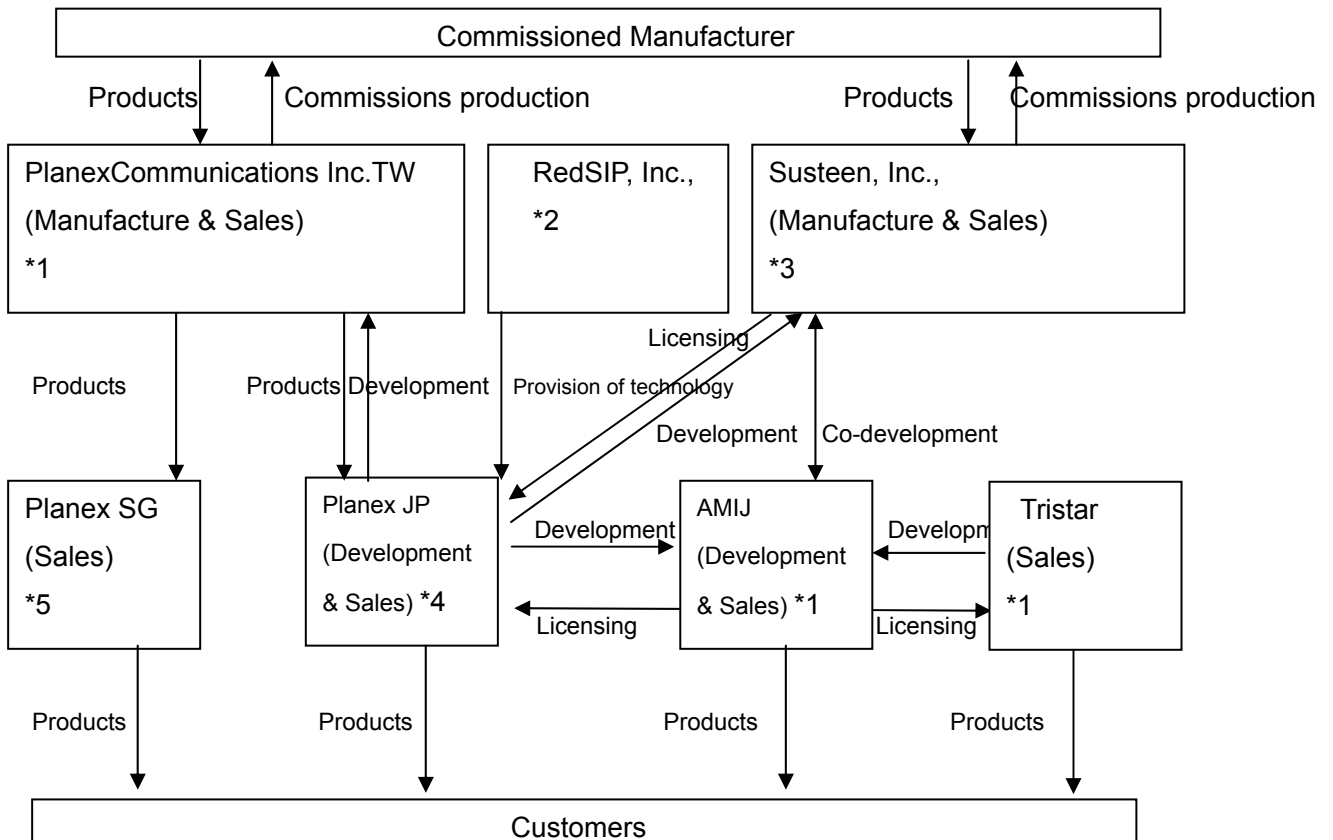
Products developed and marketed by the Company and its consolidated subsidiaries are categorized into three groups below:

1. Network products
2. Internet system products
3. Other

The Company has been using this grouping for some time. Because of the four companies joining the group, the number of products has increased, but the grouping stays the same. The grouping of the products of the newly extended group is shown below.

Product Group	Product Types
Network Products	Hubs, Network Interface Cards (NIC's), non-intelligent switches, intelligent switches, gigabit products, print servers, cables, wireless LAN products, USB products
Internet System Products	VoIP products, Linux servers, broadband routers, ADSL/cable modems
Other	USB, IEEE1394, Maintenance / Implementation / Training services / Cell phone data processing software and device / BIOS related contract development

Business flows within the corporate group are as follows.



- Notes: *1 Consolidated subsidiary
*2 Non-consolidated subsidiary
*3. Affiliated companies subject to equity method
*4 Planex JP Planex Communications Inc. (Japan), holding company
*5 Planex SGPlanex Communications, PTE, LTD. (Singapore), non-consolidated company

2. Management Policy

1) Fundamental Managerial Policy

As a leading networking company that supports future trends in data communication, the Company's motto is to provide high performance, reliable networking products and data processing products quickly for reasonable prices. It aims to grow continuously to be always capable of providing solutions needed by customers.

2) Dividend Policy

Currently the Company is failing to achieve a distributable profit, however taking this opportunity to form a new corporate group, the Company positions the stable payout of dividends for the shareholders as one of its priority management policies and sets as its basic policy to provide dividends taking into account the reinforcement of its management base, ensuring internal reserves for future business and business performance.

3) Policies for Reduction in Investment Unit

Decisions on changing the company's investment unit will be made with caution after considering both the benefit to shareholders and liquidity of shares to be improved by such modifications.

4) Medium, Long-Term Management Strategy

The expansion of networking by the spread of the Internet, especially the establishment of broadband and spread of wireless products and also the lower cost of Internet flat rate service ensures further growth of the network market. Cell phones, along with conventional telephones and PCs, are used more and more in this highly networked information society. The Company will further enhance sales for medium and small companies and the consumer market while reinforcing products and services for large enterprises, government, public offices and education related markets and others to ensure the strong position of the Company in the network market. The Company will make cell phone related products a pillar of its business and aims to form a new corporate group which takes the lead in a time of highly networking information.

5) About Corporate Governance

(1) Basic Policy of the Company Regarding Corporate Governance

The Company recognizes that corporate governance is to carry out its responsibility for the stake holders including its shareholders, employees, business clients and creditors, and also to balance compliance and maximizing corporate value for improvement of the value of the enterprise. To implement such corporate governance, the Company recognizes quick task performance, supervision of task performance, improvement of auditing and better risk prevention including prevention of illegal activities is necessary and must be working on a day to day basis.

Especially for compliance, the Company acknowledges that it can fall into a crisis with any occurrence of illegal acts. The Company also considers that at a managerial level, highly objective and transparent judgement is very important.

(2) Implementation Status of Corporate Governance

The board of directors of the Company consists of eight members, two of which are outside board members. All three auditors of the Company are outside auditors. In addition to its regular meetings held once a month, extraordinary board meetings have been held as the necessity arises, so that managerial decisions can be made quickly. Auditors attend both ordinary and extraordinary board meetings to supervise business and affairs of the board. Auditor's meetings are also held once a month. In addition, the Company receives expressed opinions along with advice such as on improving internal control functions as needed from the commissioned audit corporation. Whenever further legal decisions are required, consultations with corporate lawyers takes place who reflect on the managerial decision.

(3) State of Implementation of Enhancement of Corporate Governance Last Year

An internal audit is conducted at the Company and its group companies. Protection of personal information and ensuring information security is also worked on. Operation flow is being reviewed and improved for further enhancement of checking functionality and for improved efficiency.

(4) Overview of the Relationship Between the Company and Outside Board Members, Outside Auditors, in Respect of Personal Relations, Capital Relations, Business Relations and Other Interest

Outside board members and outside auditors of the Company have no stake in the Company via personal relations, capital relations, business relations or other interests.

6) Measures Regarding Facilities and Other Issues of Management Organization

The management team of the Company understands management risks and uses rational, efficient and reliable management to minimize such risk. At the same time they seek increased profit for various stakeholders surrounding the Company by accomplishing changes to quickly make decisions and by making appropriate disclosures.

In order to obtain the full benefit of the acquisition of the group companies including AMIJ, the Company combined human resources by moving the headquarters. The system behind this move is gradually yielding results.

7) Goals to Be Achieved

The two most important challenges facing the Company for the latter six month period are strengthening product development and enhancement of the organization.

Specific challenges of the Company:

(1) Development of Reasonably Priced High Performance Attractive Products

To achieve best quality, with minimum time and cost, we will implement innovation in each aspect, such as development, production, sales and distribution, by focusing on core products, and concentrate investment on such products.

Also we will pursue economies of scale in production by reclassifying the product portfolio and by implementing integration of the product line and a disposition of unprofitable products.

(2) Enhancement of Marketing

The Company started a network portal service called "CyberGate" that includes a new concept service at the end of 2005. It includes three services: "CyberGate – Live –" which lets you see images taken with network cameras on cell phones, "CyberGate – DDNS –", a dynamic DNS service and "CyberGate – Sync –" that let you backup and synchronize cell phone data such as address books online.

We will develop this "CyberGate" into a driver that grows and will try to develop and make efforts to sell cell phone related products which will be more and more in demand after cell phone number portability will be introduced this fall.

(3) Synergy Effects of the New Corporate Group

By cooperating with the companies with advanced technology that joined the group through M&A in FY2005, the Company laid out a framework to meet market needs quickly and to get needed products to market fast. For example, multiple network-related products are being developed using new technology including VoIP products with the cooperation of each company of the group.

(4) Strengthening Financial Situation

To strengthen the financial situation, we aim to decrease inventory assets. That should improve the cash flow and retain underlying assets to be invested for growth investment.

8) Items regarding Parent Company, Etc.

Not applicable

9) Basic Policy on Transactions with Related Parties

The policy of the Company is to avoid any transactions with related parties. However, in case of execution of such transaction, the Company will positively disclose the transaction.

10) Management Goal

While Planex strives to achieve continuous business growth during every term, it also aims at maintaining a constant profit rate. Although the sales growth ratio and the ordinary income ratio had been important management index goals, along with the introduction of financial products accounting since FY2001, ordinary income ratio depends a lot on currency movement, an external factor and that makes it difficult to maintain an ordinary income ratio through the efforts of the Company.

Since the previous fiscal year, the Company saw an improvement of the sales growth ratio and operating income ratio as its management goal. This will be applied to the corporate group as well. However, limited to this term, we had a negative figure for the sales profit. We see the present situation as a period to solidify the system.

In the network device industry where technological innovation is very fast, it is most important to keep fresh stock to operate the business in order to keep a high profit margin. Because of it, the Company has been conducting business by emphasizing inventory turnover. The target inventory turnover is more than 12 times a year.

3. Managerial Results

1) Overview of Current Term

(1) Operational Results

During this term, although the Japanese economy experienced rising raw material prices including oil prices, economic recovery is even more resilient with active business investment following improved corporate profits and moderate growth of consumer spending. If you turn your eyes to outside Japan, the Japanese economy is supported by the U.S. with a stable economy and a growing Chinese economy. Information communication and the network market, on which the corporate group of the Company depend, are supported by excellent private demand. However, sales competition among firms is so fierce that a drop in product price is happening faster than expected. As a result, the existing distribution and mass sales market is still experiencing a year of sluggish growth and stupor.

As for wireless LAN products, the Company released the first wireless LAN access point and wireless LAN card that support 108Mbps in the Japanese market as the first products from the "Carrier Quality Series (CQS)", a new brand targeted at corporate demands.

The Company also released BRC-14VG as a new product from the BRC series which implements fast VPN.

Our wireless LAN adapters that adopt the IEEE802.11g standard for high speed connection at 54Mbps provided users with a wireless LAN environment with high cost performance without spoiling the high speed of Internet connection. A wireless LAN card of overwhelmingly low cost but also a USB adapter proved very popular.

The Company sees market needs for VoIP devices that expanded along with the rapid growth of broadband infrastructure in Japan, and cooperates with VoIP device value-added service companies to extend its market share. In order to promote various services over the Internet, to take advantage of synergy effects, the Company acquired four companies; American Megatrends Inc. Japan (Location: Japan, herein after "AMIJ"), TriStar Inc. (Location: Japan, herein after "TRISTAR"), SUSTEEN, Inc. (Location: U.S.A., herein after "SUSTEEN") and RedSIP Inc. (Location: U.S.A., herein after "RedSIP"). As for synergy products, the Company has software to synchronize cell phone data with Internet device data and started to develop new devices. In FY2005, a network portal service called "CyberGate" that includes a new concept service started. Services provided are (1) "CyberGate – Live -" which lets you view image taken with a network camera on cell phones, (2) "CyberGate – DDNS –", a dynamic DNS service and (3) "CyberGate – Sync -" which lets you backup and synchronize cell phone data such as address books online. We will keep improving the "CyberGate" service and plan to add more services. Under the conditions described above, consolidated sales for the FY decreased by 5.8% to 4,208 million yen. The growth by market is 3,533 million yen in the Japanese market (4.1% increase) and 675 million yen in overseas markets (13.7% decrease). Consolidated operating income decreased from -175 million yen in the previous year to -760 million yen.

(2) Cash Flows

Cash and cash equivalents (herein after "Cash") during this consolidated fiscal year increased by 1,673 million yen to 2,322 million yen at the end of the fiscal year.

State of cash flows in the current consolidated fiscal year and the factors are as follows:

(Cash Flows from Sales Activities)

Decrease in cash decreased as a result of sales activities is 194 million yen.

This is mainly due to 801 million yen increase in notes and accounts receivables.

(Cash Flows from Investing Activities)

Cash used for investing activities was 87 million yen.

This is mainly used for share acquisition of an affiliated company, SUSTEEN.

(Cash Flows from Financing Activities)

Cash earned by financing activities was 1,921 million yen. This resulted from issuance of 2,000 million yen worth of unsecured convertible bonds with stock acquisition rights.

(3) Purchases and Sales

Purchase Results

Purchase results for the current term by product group are as follows.

(Millions of yen)		
Product Group	Amount	Net Change

Network Products	1,704	-35.2%
Internet System Products	361	-38.8%
Other	688	235.3%
Total	2,755	-19.6%

Notes:

1. The figures above do not include consumption tax.
2. The exchange rate on the settling day (1NTD=3.6 yen as of December 31, 2005) was used for the current term.

Sales Results

The sales results for the first half of this term by product group are as follows:

(Millions of yen)

Product Group	Amount	Net Change
Network Products	2,631	-26.3%
Internet System Products	475	-42.3%
Other	1,101	1,463.4%
Total	4,208	-5.8%

Notes:

1. The figures above do not include consumption tax.
2. The exchange rate on the settling day (1NTD=3.6 yen as of December 31, 2005) was used for the current term.
3. Other products include sales service, sales promotion goods, support and others.

2) Outlook for Whole Financial Year

Following the rapid spread of broadband services since last year, high speed Internet access services have become significantly less expensive and more functions have been added to low-end products.

Due to these changes, while the market itself is expanding, it is unlikely to achieve an increase in unit sales of products for corporate users that would match their price reduction.

Under the circumstances, the Company will start selling newly introduced IP related devices in addition to development of network devices and original products.

The Company will also attempt to maintain steady growth by carrying out currency exchange rate/pricing measures that withstand exchange fluctuations.

(Millions of yen)

	Outlook for Whole Financial Year	Real Business Performance for the Current Term	Net Change
Sales Proceeds	5,074	4,208	20.6%

Ordinary Income	-20	346	-
Net Profit for Current Term	-34	100	-

Sales forecast by product group for the period of December 2005 is as follows.

(Millions of yen)

Product Group	Outlook for Whole Financial Year	Business Performance for the Current Term	Net Change
Network Products	3,180	2,631	20.9%
Internet System Products	544	475	14.5%
Other	1,350	1,101	22.6%
Total	5,074	4,208	20.6%

4. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Thousands of yen)

	Current Term (December 31, 2005)		Previous Term (December 31, 2004)	
	Sum	Ratio	Sum	Ratio
(Assets)		%		%
Current assets				
Cash and deposits	2,315,900		626,158	
Note receivables and accounts receivable	1,966,763		863,185	
Marketable securities	25,743		22,996	
Inventory assets	451,983		517,745	
Deferred income tax assets	11,198		19,976	
Deferral hedge losses	-		69,600	
Option assets	159,824		-	
Other	162,529		136,196	
Allowance for doubtful accounts	-14,664		-2,899	
Total current assets	5,079,278	71.0	2,252,958	61.5
Fixed assets				
Tangible fixed assets				
Buildings	16,535		41,811	
Vessels	226		715	
Vehicles	14,836		23,756	
Machine tools and equipment	55,830		67,219	

Allowance for funds used during construction	63,415		-	
Total tangible fixed assets	150,842		133,503	
Intangible fixed assets				
Consolidated adjustment account	292,732		-	
Goodwill	120,000		-	
Other	104,039		38,283	
Total intangible fixed assets	516,772		38,283	
Investments and other assets				
Investments in securities	1,216,434		1,173,202	
Deferred tax assets	11,577		8,172	
Other	178,325		60,699	
Allowance for doubtful accounts	-450		-499	
Investments and other assets (total)	1,405,887		1,241,575	
Total fixed assets	2,073,502	29.0	1,413,363	38.5
Total assets	7,152,781	100.0	3,666,322	100.0

(Thousands of yen)

	Current Term (December 31, 2005)		Previous Term (December 31, 2004)	
	Sum	Ratio	Sum	Ratio
(Liabilities)		%		%
Current liabilities				
Accounts payable	1,560,445		464,883	
Short term loans	4,500		-	
Current portion of bonds	30,000		-	
Accrued corporate income taxes	28,474		36,408	
Accrued liability	237,762		106,906	
Accrued bonuses	11,159		15,343	
Allowance for sales return	103,625		-	
Exchange contract	7,141		49,374	
Option assets	-		956,546	
Deferred hedging income	149,955		-	
Other	92,858		82,115	
Total current liabilities	2,225,921	31.1	1,711,578	46.7
Fixed liabilities				
Bonds	175,000		-	
Deferred tax liabilities	130,815		110,839	
Retirement allowances for directors	165,856		146,641	
Other	80,915		3,100	
Total fixed liabilities	552,586	7.7	260,581	7.1
Total liabilities	2,778,508	38.8	1,972,159	53.8
(Shareholder's equity)				
Capital	2,067,229	28.9	916,985	25.0
Capital surplus	2,456,891	34.4	1,106,646	30.2
Earned surplus	-151,077	-2.1	-251,263	-6.9

Other profit and loss from securities revaluation	36,713	0.5	14,887	0.4
Foreign currency translation adjustment	33,390	0.5	-25,160	-0.7
Treasury stock	-68,875	-1.0	-67,932	-1.8
Total shareholders' equity	4,374,272	61.2	1,694,162	46.2
Total liabilities and shareholders' equity	7,152,781	100.0	3,666,322	100.0

(2) Consolidated Income Statements

(Thousands of yen)

	Current Term Starting: January 1, 2005 Ending: December 31, 2005		Previous Term Starting: January 1, 2004 Ending: December 31, 2004	
	Sum	Ratio	Sum	Ratio
		%		%
Net sales	4,208,785	100.0	4,467,172	100.0
Cost of sales	2,757,326	65.5	3,218,789	72.0
Gross profits	1,451,458	34.5	1,248,383	28.0
Provision for allowance for sales returns	103,625		-	
Reversal of allowance for sales returns	-61,741		-	
Value account net sales profit	1,409,574	33.5	1,248,383	28.0
Selling, general and administrative expenses	2,169,784	51.6	1,424,182	31.9
Officers' remuneration	132,525		74,623	
Employees' salaries and bonuses	517,330		438,144	
Advertising expenses	62,954		62,803	
Transportation expenses	90,259		102,639	
Provision for doubtful accounts	10,934		-	
Provision for bonus payable	18,414		22,841	
Provision for retirement benefits for officers	21,781		17,866	
Business consignment expenses	187,484		134,430	

Research and development cost	229,964		81,829	
Other	898,134		489,006	
Operating loss	760,210	-18.1	175,798	-3.9
Non-operating income	1,194,727	28.4	128,100	2.8
Interest and dividends received	39,477		30,944	
Gains on sales of marketable securities	128,331		31,988	
Exchange gains	58,356		45,483	
Option appraisal income	938,310		-	
Miscellaneous	30,251		19,683	
Non-operating expenses	87,570	2.1	256,023	5.7
Interest cost discount charge	1,694		-	
Deferred stock issue cost	21,921		-	
Option appraisal loss	-		247,077	
Investment loss by equity method	56,057		-	
Casualty loss	7,897		8,945	
Ordinary income or loss	346,946	8.2	-303,721	-6.8

(Thousands of yen)

	Current Term Starting: January 1, 2005 Ending: December 31, 2005		Previous Term Starting: January 1, 2004 Ending: December 31, 2004	
	Sum	Ratio	Sum	Ratio
Extraordinary gains	2,566	0.1%	4,640	0.1%
Reversal of allowance for doubtful accounts	-		1,305	
Income from disposal of tangible fixed assets	-		3,335	
Reversal of allowance for reserve for directors' retirement benefits	2,566		-	
Extraordinary losses	204,543	4.9%	41,563	0.9%
Loss on retirement of tangible fixed assets	49,442		-	
Extraordinary loss from valuation of investment securities	30,161		41,563	
Investment loss by equity method	124,940		-	
Current net income or loss before tax adjustment	144,969	3.4%	-340,644	-7.6%
Corporate income tax, local tax and enterprise tax	32,277	0.7%	49,251	1.1%
Adjustment of corporate tax, etc.	12,506	0.3%	347,961	7.8%

Net income or loss	100,185	2.4	-737,857	-16.5

(3) Consolidated Statement of Surplus

(Thousands of yen)

	Current Term Starting: January 1, 2005) Ending: December 31, 2005	Previous Term Starting: January 1, 2004 Ending: December 31, 2004
	Sum	Sum
(Section for capital surplus)		
Capital surplus balance at the beginning of the term	1,106,646	1,106,646
Increase in capital surplus reserve		
Increase by share exchange	350,000	-
Increase by conversion of unsecured convertible bonds with stock acquisition rights	1,000,000	-
Increase by exercising subscription rights	244	-
Capital surplus balance at the end of the term	2,456,891	1,106,646
(Earned surplus)		
Earned surplus at the beginning of the term	-251,263	500,894
Increase in earned surplus		
Current net income	100,185	-
Decrease in earned surplus		

Dividend	-	14,301
Net loss during this term	-	737,857
Earned surplus at the end of the term	-151,077	-251,263

(4) Consolidated Statement of Cash Flows

(Thousands of yen)

	Current Term	Previous Term
	Starting: January 1, 2005 Ending: December 31, 2005	Starting: January 1, 2004 Ending: December 31, 2004
	Sum	Sum
I Cash flows from operating activities		
1. Current net income or losses before income taxes (-)	144,969	-340,644
2. Depreciation expenses	61,780	48,271
3. Amortization of goodwill	30,000	-
4. Amortization of consolidation difference	51,658	-
5. Investment loss by equity method	180,997	-
6. Increase/Decrease in allowance for doubtful accounts	10,798	-1,220
7. Increase in allowance for bonus payable	-4,995	2,987
8. Increase in provision for retirement benefits for directors	19,215	17,866
9. Increase in allowance for sales return	41,884	-
10. Interest and dividend received	-39,477	-30,944
11. Interest cost	1,694	-
12. Exchange gain (loss)	-7,499	8,188
13. Issuance cost of new shares	21,921	-
14. Options appraisal gain (loss)	-938,310	245,191
15. Income from disposal of investment securities	-128,331	-31,988
16. Gain (loss) on retirement of tangible fixed assets	49,442	-3,335
17. Investment securities appraisal loss	30,161	41,563
18. Increase in accounts receivables	-801,486	-4,355
19. Increase in inventories	96,699	-248,691
20. Increase in purchasing debts	950,567	-112,047
21. Increase in accounts payable	16,975	4,881
22. Other increases and decreases in assets and liabilities	57,192	-65,654
Sub total	-154,142	-469,933
23. Interest and dividend received	30,293	32,340
24. Amount of interest paid	-1,694	-
25. Amount of corporate income tax, etc. paid	-69,115	-27,328
Cash flows from operating activities	-194,658	-464,921
II. Cash Flows From Investing Activities		
1. Increase and decrease in term deposits	-14,000	-
2. Expenditure due to the acquisition of investment securities	-714,669	-460,135
3. Income from disposal of investment	635,829	254,261

securities		
4. Expense on acquisition of tangible fixed assets	-32,606	-39,972
5. Income from disposal of tangible fixed assets	-	13,901
6. Expense on acquisition of intangible fixed assets	-68,062	-12,701
7. Expenditure due to acquisition of goodwill	-150,000	
8. Increase (decrease) in short-term loans receivable	22,766	-
9. Capital received from acquisition of subsidiaries through share exchange	322,851	-
10. Income by acquisition of shares of affiliated companies with change in consolidation range	10,157	-
11. Expense due to increase of guarantee deposit	-115,902	-
12. Other	15,961	-4,713
Cash flows from investing activities	-87,673	-249,360

(Thousands of yen)

	Current Term	Previous Term
	Starting: January 1, 2005 Ending: December 31, 2005	Starting: January 1, 2004 Ending: December 31, 2004
	Sum	Sum
III Cash flows from financing activities		
1. Earnings from short-term loans	50,000	-
2. Payments for repayment of short-term debt	-75,850	-
3. Earnings from issuance of bonds	2,000,000	-
4. Payments for redemption of debenture	-30,000	-
5. Earnings from exercising stock option rights	488	-
6. Payments for issuance of new shares	-21,921	-
7. Payments for acquisition of treasury stock	-942	-
8. Payments of dividends	-	-14,301
Cash flows from financing activities	1,921,774	-14,301
IV Effects of exchange rate changes on cash and cash equivalents	34,048	13,168
V Increase in cash and cash equivalents	1,673,490	-715,413
VI Cash and cash equivalents at the beginning of year	649,154	1,364,567
VII Cash and cash equivalents at end of year	2,322,644	649,154

(5) Scope of Consolidation and Other Accounting Policies Adapted for Preparing the Consolidated Financial Statements

1. Scope of Consolidation

Number of consolidated subsidiaries: 3

PLANEX COMMUNICATIONS INC. (Taiwan)

American Megatrends Inc., Japan

TriStar Inc.

American Megatrends Inc. Japan which has become a wholly owned subsidiary of the Company through a share exchange on 20 May 2005 is included in the scope of consolidation from this consolidated accounting term.

TriStar Inc. of which 200 shares (100% of voting rights) which were issued on 1 April 2005 were acquired by American Megatrends Inc. Japan, is included in the scope of consolidation from this consolidated accounting term.

Main unconsolidated subsidiaries

Planex Communications Pte Ltd. (Singapore)

RedSIP Inc.

Any non-consolidated companies are small in scale. Their assets, sales, current term net loss (relative to its equity) and earned surplus (relative to its equity) don't have significant influence on consolidated financial statements.

2. Application of Equity Method

Number of affiliated companies to which the equity method apply: 1

SUSTEEN Inc.

Main unconsolidated subsidiary to which equity method is not applied

Planex Communications PTE LTD. (Singapore)

RedSIP Inc.

The Company has acquired five thousand shares (20% of total voting rights) that Susteen, Inc. issued on 30 March 2005 and includes Susteen, Inc. in the application of the equity method. Non-consolidated companies that are excluded from the application of the equity method have little influence on consolidated net loss, earned surplus and others. They have so little importance as a whole that they are excluded from the application of the equity method.

3. Closing Date of Consolidated Subsidiaries

The closing day for all subsidiaries coincides with the consolidated closing date.

Accounting term for American Megatrends Inc., Japan and for TriStar Inc. is nine months due to the change of closing date.

4. Accounting Procedure of Deferred Assets

Cost of issuance of new shares: Entire amount is processed at the time of payment.

5. Significant Accounting Policies

1) Standards and Methods for Evaluating Major Assets

i. Marketable Securities

Securities held to maturity: Amortized cost method (straight line basis) is adopted.

ii) Other marketable securities

Current quotes available: valued at their market prices as of the balance sheet date. (All differences in valuations were included directly in shareholders' equity, and cost of securities sold was determined based on the moving average method.)

Current quotes unavailable: valued at cost using the moving average method.

For equity in a limited partnership of investment business or similar association (which is classified as securities according to Article 2 Paragraph 2 of the Securities and Exchange Law) , the amount of the investment is recorded as assets.

iii) Derivatives: stated at fair value

iv) Inventories: The cost accounting method based on the moving average method was used.

2) Depreciation Method for Significant Depreciable Assets

i) Tangible fixed assets:

Buildings (excluding equipment therein) are depreciated by the straight-line method, while other assets are depreciated using the declining-balance method. The overseas consolidated subsidiary uses a straight-line method based on the accounting standard of its country.

ii) Intangible fixed assets:

Software for in-house use is amortized using the straight-line method over estimated useful life.

3) Accounting Standards for Major Reserves

i) Reserve for bad debts:

As for general loans, the figure is based on a loan loss ratio, and in the case of such legally defined loans as loans feared to be irrecoverable, the figure is based on an estimation of the likelihood of recovery of individual loans.

ii) Allowance for accrued bonuses:

To provide bonuses of employees, an amount is determined based on the amount that is regarded as likely to be incurred.

iii) Allowance for severance benefits:

To provide for the retirement allowances of directors, an amount is stated based on the payment requirements at the end of the period under review according to company rules concerning retirement allowances for directors.

iv) Allowance for sales return:

To provide for losses by sales return of software packages at any consolidated companies, an amount equivalent to sales return and an amount equivalent to abandonment loss are stated.

4) Method of Important Hedge Accounting

i) Method of hedge accounting

Deferred hedge accounting is used. As for liabilities in foreign currencies to which exchange contracts are attached, those that fulfill conditions for appropriation are

appropriated.

ii) Hedge means and hedge targets

Hedge means: Derivative transaction (Forward Exchange Contracts)

Hedge targets: Stock liabilities in foreign currency and others

iii) Hedge policy

It has been performed to countervail the possibility of losses including stock liabilities incurred by fluctuations in exchange.

iv) Method of evaluating the effectiveness of hedge

The effectiveness of hedge has been evaluated by assessing whether or not exchange risks of hedge targets including stock liabilities in foreign currency are diminishing.

5) Other Accounting Policies Adapted for Preparing the Consolidated Financial Statements

Account processing of consumption tax and others: Before-tax method is adopted for accounting of consumption tax and local consumption tax.

6. Evaluation of Consolidated Subsidiaries

All assets and liabilities of consolidated subsidiaries are evaluated using current-price system.

7. Depreciation of Consolidated Adjustment Account

Consolidated adjustment account is depreciated equally in five years.

8. Appropriation of profit

The statement of consolidated surplus has been prepared using data on profit appropriation for consolidated companies that was settled during the fiscal consolidated year.

9. Consolidated Statements of Cash Flows

Cash and cash equivalents in the consolidated statements of cash flows consist of cash on hand, demand deposits, and short-term investments that are readily convertible into cash, are exposed to insignificant risk of changes in value, all of which mature or become due within three months of the date of acquisition.

(6) Change of Indication Method

“Revision of securities exchange law” (Law No.97, 2004) was delivered on June 9, 2004 and its application started on December 1, 2004. “Practical guidelines regarding accounting of financial commodity” (Accounting institution report No. 14) was revised as of February 15, 2005. Along with these revisions, investment for Investment operation association with limited liability and for other associations of the same kind (which are regarded as negotiable securities by Securities Exchange Law 2-2) should be recorded as investment account security from this consolidated accounting term. The amount which is included as investment account for this consolidated accounting period is 168,070 thousand yen.

(7) Additional Information

1. "Revision of local consumption tax law" (Law No. 9, 2003) was delivered on March 31, 2003 and dual corporate tax system was introduced in the accounting year that started from April 1, 2004. Along with these revisions, allocation of added value and of capital of corporate tax have been stated as Sales, general and administrative expenses following "Practical handling on indication on balance sheet for the part of size-based corporate taxes" (Corporate Accounting Standard Committee February 13, 2004 Accounting Standard Application Guidance No.12)

As the result, Sales, general and administrative expenses increased by 15,048 thousand yen and Ordinary income and Current net income before tax adjustment decreased by 15,048 thousand yen.

2. For network building services, the entire amount of credit and liabilities is stated, whereas for sales, the figure stated is after having balanced sales with 885,133 thousand yen, the amount of external purchases. This is based on the idea of accounting over gross amount indication in "Regarding audit problems for information service industry" (Project team to consider special dealings in IT industry, Japanese Institute of Certified Public Accountants, March 2005) and "Practical handling regarding account processing of earnings from dealing software (proposal)" (Business accounting standards committee Practical handling report publication draft No.20 2006)

(8) Explanatory Notes to the Consolidated Financial Statements

1. Issues Relating to Balance Sheet

	Current Term	Previous Term
1) Cumulative depreciation of tangible fixed assets	134,547 thousand yen	115,425 thousand yen
2) Assets and liabilities with regards to non-consolidated subsidiaries and companies that have business with Planex		
Investment securities (shares):	186,918 thousand yen	
3) Shares issued	Common stock 95,629 shares	
4) Amount of treasure stocks owned	Common stock 1,344 shares	

2. Issues Related to Profit and Loss Statement

	Current Term	Previous Term
1) Total expenditure of R&D expenses included in administrative expenses:		
	229,964 thousand yen	81,829 thousand yen
2) Income from disposal of tangible fixed assets		
	- thousand yen	3,335 thousand yen

The amount in the previous term was from disposal of vehicles and transport equipment.

3) Investment loss by equity method (extraordinary loss) is the result of impairment accounting of consolidated adjustment account equivalent of affiliated companies subject to equity method.

	Current Term	Previous Term
4) Breakdown of loss on retirement of tangible fixed assets		
Buildings	40,516 thousand yen	- thousand yen
Machine tools and equipment	8,925 thousand yen	- thousand yen

3. Notes on the Statement of Cash Flows

1) Reconciliation between cash and cash equivalents and the related accounts shown in the consolidated balance sheet at year end for the current and previous terms

	Current Term	Previous Term
Cash and time deposits	2,315,900 thousand yen	626,158 thousand yen
MMF and others included in marketable securities	25,743 thousand yen	22,996 thousand yen
Total	<u>2,341,644</u> thousand yen	<u>649,154</u> thousand yen
Fixed term deposit with term longer than three months	-19,000 thousand yen	- thousand yen
Cash and cash equivalents	<u>2,322,644</u> thousand yen	<u>649,154 thousand</u> yen

2) Important Nonfund Transactions

a. Share exchange

Increase in capital fund by share exchange	150,000	thousand yen
Increase in capital reserve by share exchange	350,000	thousand yen

3) Conversion of Unsecured Convertible Bonds with Stock Acquisition Rights

Increase in capital fund by conversion of unsecured convertible bonds with stock acquisition rights	1,000,000	thousand yen
Increase in capital reserve by conversion of unsecured convertible bonds with stock acquisition rights	1,000,000	thousand yen

Decrease of unsecured convertible bonds with stock acquisition rights by conversion	2,000,000	thousand yen
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3) Breakdown of Assets and Losses of The Companies That Became Consolidated Subsidiaries Through Share Acquisition

Breakdown of assets and losses at the beginning of the consolidation of TriStar Inc. by share acquisition and acquisition value and income (net base) by the acquisition are as follows:

Current assets	109,496	thousand yen
Fixed assets	4,365	thousand yen
Consolidated adjustment account	49,352	thousand yen
Current loss	-153,213	thousand yen
Acquisition value of TriStar Inc.	10,000	thousand yen
Cash and cash equivalents of TriStar Inc.	20,157	thousand yen
Income by acquisition of consolidated subsidiary	10,157	thousand yen

4) Breakdown of The Assets and Losses of The Companies That Became Consolidated Subsidiaries Through Share Exchange

Breakdown of assets and losses at the beginning of the consolidation of American Megatrends Inc. Japan by share exchange and amount of capital received (net base) by the share exchange are as follows:

(1) Breakdown of Assets and Losses at The Beginning of The Consolidation

Current assets	589,455	thousand yen
Fixed assets	40,653	thousand yen
Total assets	630,108	thousand yen
Current losses	136,469	thousand yen

Fixed losses	282,700	thousand yen
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Total losses	419,169	thousand yen
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(2) Amount of Capital of the Subsidiary Received by The Share Exchange

Cash and cash equivalent	337,851	thousand yen
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Cost of share exchange	-15,000	thousand yen
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Amount of capital of the subsidiary received by the share exchange	322,851	thousand yen
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5. Segment Information

1) Industry Segment Information

During the previous period and current period, the company's consolidated group has been engaged in just one business enterprise concerning the development, manufacture and sales of network and information communication products. For this reason, segment information by business type is not presented.

2) Geographical Segment Information

<Current Term>(Starting; January 1, 2005 Ending: December 31, 2005) (Thousands of yen)

	Japan	Asia	Total	Eliminations and Corporate	Consolidated
I Sales and operating income					
Sales					
(1) Sales to customers	3,553,693	655,091	4,208,785	-	4,208,785
(2) Intersegment sales	173,065	1,698,462	1,871,528	(1,871,528)	-
Total sales	3,726,759	2,353,553	6,080,313	(1,871,528)	4,208,785
Operating expenses	4,395,383	2,406,457	6,801,840	(1,832,845)	4,968,995
Operating income (loss) (-)	-668,623	-52,903	-721,527	(38,683)	-760,210
II Assets	5,291,942	1,162,012	6,453,955	698,825	7,152,781

Notes: 1. Segmentation of country or areas is based on geographical proximity.

2. Countries and areas included in each category are as follows:

Asia.....Taiwan

3. Corporate expenses, which are not allocated to each segment and are included in eliminations and corporate, consist mainly of employment cost incurred at the R&D and purchasing departments and the amount is 59,538 thousand yen.

<Previous Term>(Starting: January 1, 2004 Ending: December 31, 2004) (Thousands of yen)

	Japan	Asia	Total	Eliminations and Corporate	Consolidated
I Sales and operating income					
Sales					
(1) Sales to customers	3,684,263	782,909	4,467,172	-	4,467,172
(2) Intersegment sales	-	3,047,168	3,047,168	(3,047,168)	-
Total sales	3,684,263	3,830,077	7,514,341	(3,047,168)	4,467,172

Operating expenses	3,902,889	3,689,831	7,592,720	(2,949,749)	4,642,971
Operating income (loss) (-)	-218,625	140,246	-78,379	(97,419)	-175,798
II Assets	1,687,527	1,095,109	2,782,636	883,685	3,666,322

Notes: 1. Segmentation of country or areas is based on geographical proximity.

2. Countries and areas included in each category are as follows:

Asia..... Taiwan

3. Corporate expenses, which are not allocated to each segment and are included in eliminations and corporate, consist mainly of employment cost incurred at the R&D and purchasing departments and the amount is 70,366 thousand yen.

(3) Overseas Sales

<Current Term> (Starting: January 1, 2005 Ending: December 31, 2005) (Thousands of yen)

	Asia	Other	Total
I Overseas sales	578,254	97,489	752,580
II Consolidated sales	-	-	4,208,785
III Share of overseas sales (%)	13.7%	2.3%	16.1%

Notes: 1. Segmentation of country or areas is based on geographical proximity

2. Countries and areas included in each category are as follows:

Asia..... Taiwan, Hong Kong, China, Korea, Thailand, Singapore, Israel, Sri Lanka, Vietnam and United Arab Emirates

Other..... Ukraine, Germany, United Kingdom, Poland, Sweden, Switzerland, Czech Republic, the United States of America, Canada and Argentina

<Previous Term> (Starting: January 1, 2004 Ending: December 31, 2004) (Thousands of yen)

	Asia	Other	Total
I Overseas sales	754,586	28,322	782,909
II Consolidated sales	-	-	4,467,172
III Share of overseas sales (%)	16.9%	0.6%	17.5%

Notes: 1. Segmentation of country or areas is based on geographical proximity.

2. Countries and areas included in each category are as follows:

Asia..... Taiwan, Hong Kong, China, Korea, Thailand, Singapore, Israel and Sri Lanka

Other..... Kazakhstan, Denmark, United Kingdom, Poland, Italy, Canada, Panama and Czech Republic

6. Marketable Securities

<Current Term>

(1) Market Value of Other Securities

(Thousands of yen)

	Categories	Cost	Carrying Amount	Balance
Carrying amount (reported in the consolidated balance sheet) is greater than cost	1. Stocks	16,890	24,065	7,175
	2. Bonds			
	Government bonds and municipal bonds	-	-	-
	Corporate bonds	219,020	-	-
	Other	195,971	225,643	6,623
	3. Other			260,363
	Subtotal	431,882	510,072	78,190
Carrying amount (reported in the consolidated balance sheet) does not exceed cost	1. Stocks	24,886	24,160	-725
	2. Bonds			
	Government bonds and municipal bonds	-	-	-
	Corporate bonds	-	-	-
	Other	11,715	11,187	-527
	3. Other	-	-	-
	Subtotal	36,601	35,347	-1,253
Total		468,483	545,420	76,936

Notes: "cost" in the table is the book value after impairment accounting. For the current term, after the impairment accounting, 4,241 thousand yen is stated as Investment securities appraisal loss.

(2) Other Marketable Securities Sold During the Current Term

Sales	Total profit on sales	Total loss on sales額
635,829	140,398	12,067

(3) Marketable Securities Whose Fair Value is Not Determined

	Carrying amount
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1. Bonds held to maturity	
Unlisted Euro-Yen bonds	300,000
2. Other marketable securities	
Unlisted bonds	16,025
Foreign currency MMF	25,743
Investments by Investment operation association	168,070
Total	509,839

Notes: "cost" in the table is the book value after impairment accounting. For the current term, after the impairment accounting, 17,684 thousand yen is stated as Investment securities appraisal loss.

(4) The Redemption Schedule of Other Marketable Securities with Maturity Date/Those Held to Maturity

Categories	Within a year (Thousands of yen)	1 year to 5 years (Thousands of yen)	5 years to 10 years (Thousands of yen)	Over 10 years ¹⁰ (Thousands of yen)
1. Bonds				
National bond, local bond	-	-	-	-
Corporate bond	-	-	-	-
Other	-	-	11,187	525,643
2. Other	-	-	-	-
Total	-	-	11,187	525,643

<Previous Term>

(1) Market Value of Other Securities

(Thousands of yen)

	Categories	Cost	Carrying amount	Balance
Carrying amount (reported in the consolidated balance sheet) is greater than cost	1. Stocks	114,379	141,320	26,940
	2. Bonds			
	Government bonds and municipal bonds	-	-	-
	Corporate bonds	-	-	-
	Other	100,000	105,701	5,701
	3. Other	195,971	213,648	17,676
	Subtotal	410,351	460,669	50,318

Carrying amount (reported in the consolidated balance sheet) does not exceed cost	1. Stocks	78,916	65,438	-13,477
	2. Bonds			
	Government bonds and municipal bonds	-	-	-
	Corporate bonds	-	-	-
	Other	130,735	120,143	-10,591
	3. Other	-	-	-
	Subtotal	209,651	185,581	-24,069
	Total	620,002	646,251	26,248

Notes: "cost" in the table is the book value after impairment accounting. For the current term, after the impairment accounting, 8,963 thousand yen is stated as Investment securities appraisal loss.

(2) Other marketable securities sold during the current term

Sales	Total profit on sales	Total loss on sales
173,158	33,183	1,194

(3) Marketable Securities Whose Fair Value is Not Determined

	Carrying amount
1. Bonds held to maturity	
Unlisted Euro-Yen bonds	300,000
2. Other marketable securities	
Unlisted foreign currency bonds	32,978
Foreign currency MMF	22,996
Total	355,974

Notes: "cost" in the table is the book value after impairment accounting. For the current term, after the impairment accounting, 32,600 thousand yen is stated as Investment securities appraisal loss.

(4) The Redemption Schedule of Other Marketable Securities with Maturity Date/Those Held to Maturity

Categories	Within a year (Thousands of yen)	1 year to 5 years (Thousands of yen)	5 years to 10 years (Thousands of yen)	Over 10 years (Thousands of yen)
1. Bonds				
National bond, local bond	-	-	-	-
Corporate bond	-	-	-	-
Other	-	-	10,154	515,690
2. Other	-	-	-	-
Total	-	-	10,154	515,690

7. Contract and Other Amounts, Fair Value and Unrealized Gains or Losses on Derivative Transactions

<Current Term> (December 31, 2005)

(Thousands of yen)

Subject type	Type	Contract amount	Fair value	Unrealized gain (loss)
Currency	Currency option contracts			
	Buying			
	U.S. dollar	354,702	266,909	-87,792
	Selling			
	U.S. dollar	-533,269	-262,545	270,723
Total		-178,567	4,364	182,931

Notes: 1. Market value calculation methods:

The fair market values of these quotations are based on the values provided by the company's banks.

2. Among debts in foreign currency that are subject to derivative contracts and thus whose Japanese yen values are already fixed, those whose yen values are disclosed in the balance sheet are excluded from the table above.

3. The values subject to hedge accounting are excluded from the table above.

<Previous Term> (December 31, 2004)

(Thousands of yen)

Subject type	Type	Contract amount	Fair value	Unrealized gain (loss)
Currency	Currency option contracts			
	Buying			
	U.S. dollar	427,431	129,521	-297,910
	Selling			
	U.S. dollar	-612,480	-1,064,206	-451,726
Total		-185,048	-934,685	-749,636

Notes: 1. Market value calculation methods:

The fair market values of these quotations are based on the values provided by the company's banks.

2. Among debts in foreign currency that are subject to derivative contracts and thus whose Japanese yen values are already fixed, those whose yen values are disclosed in the balance sheet are excluded from the table above.

3. The values subject to hedge accounting are excluded from the table above.

8. Retirement Benefit

Outline of Retirement Benefit Scheme

There are no applicable particulars since the Company does not adopt a retirement benefit

scheme.

9. Per Share Information

Current Consolidated Term Starting: January 1, 2005 Ending: December 31, 2005	Previous Consolidated Term Starting: January 1, 2004 Ending: December 31, 2004
Net assets amount per share 46,394 yen 15 sen	Net assets amount per share 118,464 yen 62 sen
Current net income per share 1,226 yen 49 sen	Current net loss per share 51,594 yen 78 sen
Current net income per share after residual securities adjustment 1,112 yen 54 sen	Current net income per share after residual securities adjustment Current net income per share after residual securities adjustment is not posted, because net loss per share is posted.
<p>The Company executed a 5 for 1 share split of common stock as of August 19, 2005. When assuming the split had been executed at the beginning of the term, the amount would have been as follows.</p>	
Net assets amount per share 23,692 yen 92 sen	
Current net loss per share 10,318 yen 96 sen	
Current net income per share after residual securities adjustment	
Current net income per share after residual securities adjustment is not posted, because net loss per share is posted.	

Notes: Factors responsible for current net income per share and current net income per share after residual securities adjustment

	Current Consolidated Term Starting: January 1, 2005 Ending: December 31, 2005	Previous Consolidated Term Starting: January 1, 2004 Ending: December 31, 2004

Current net income or net loss per share (-)	1,226 yen 49 sen	-51,594 yen 78 sen
Current net income or net loss (Thousands of yen) (-)	100,185	-737,857
Income or loss not attributable to common stockholders (Thousands of yen)	-	-
Current net income or net loss associated with common stock (thousands of yen) (-)	100,185	-737,857
Average number of shares during term	81,685	14,301
Current net income per share after residual securities adjustment	1,112 yen 54 sen	-
	Current Consolidated Term Starting: January 1, 2005 Ending: December 31, 2005	Previous Consolidated Term Starting: January 1, 2004 Ending: December 31, 2004
Adjustment of current net income (thousands of yen)	-	-
Number of increased common stock	8,366	-
(New share subscription rights out of number of increased common stock)	(3,066)	(-)
Summary of residual securities which were not included in interim (current) net income per share after residual securities adjustment because they don't have dilutive effect	New share subscription rights (number of new share subscription rights: 215)	New share subscription rights (number of new share subscription rights: 911)

10. Financial Statements

(1) Balance Sheet

(Thousands of yen)

	Current Accounting Year (December 31, 2005)		Previous Accounting Year (December 31, 2004) (
	Sum	Ratio	Sum	Ratio
(Assets)		%		%
Current assets				
Cash and deposits	1,697,715		322,691	
Accounts receivable	1,517,293		710,687	
Products	231,335		383,430	
Advances	-		53,987	
Prepaid expenses	40,786		22,303	
Deferral hedge losses	-		69,600	
Option assets	159,824		-	
Other	60,047		65,834	
Allowance for doubtful accounts	-231		-132	
Total current assets	3,706,772	66.2	1,628,402	52.8
Fixed assets				
Tangible fixed assets				
Buildings	16,535		41,811	
Vessels	226		715	
Vehicles	14,836		23,756	
Machine tools and equipment	35,696		48,137	
Allowance for funds used during construction	63,415		-	
Total tangible fixed assets	130,709	2.3	114,421	3.7
Intangible fixed assets				
Software	86,581		36,521	

Allowance for funds used for software	6,980		-	
Other	1,641		1,641	
Total intangible fixed assets	95,203	1.7	38,163	1.2

(Thousands of yen)

	Current Accounting Year (December 31, 2005)		Previous Accounting Year (December 31, 2004)	
	Sum	Ratio	Sum	Ratio
Investments and other assets		%		%
Investments in securities	1,008,747		1,145,290	
Investments in stocks of affiliated company	496,968		101,858	
Bankruptcy credit, reorganization credit and other similar credit	450		499	
Guarantee deposit	121,250		19,276	
Insurance reserve	43,602		38,970	
Allowance for doubtful accounts	450		499	
Investments and other assets (total)	1,670,568	29.8	1,305,395	42.3
Total fixed assets	1,896,482	33.8	1,457,980	47.2
Total assets	5,603,254	100.0	3,086,383	100.0

(Thousands of yen)

	Current Accounting Year (December 31, 2005)		Previous Accounting Year (December 31, 2004)	
	Sum	Ratio	Sum	Ratio
Liabilities		%		%
Current liabilities				
Accounts payable	1,137,005		382,766	
Accrued liability	192,517		105,821	
Accrued expense	43,399		46,540	
Accrued corporate income taxes	17,000		2,700	
Deposits payable	4,641		4,486	
Accrued bonuses	4,515		7,559	
Deferred Hedging income	149,955		–	
Option Assets	–		956,546	
Exchange contract	7,141		49,374	
Other	7,537		2,874	
Total current liabilities	1,563,714	27.9	1,558,670	50.5
Fixed liabilities				
Deferred tax liabilities	130,375		110,839	
Retirement allowances for directors	165,856		146,641	
Other	2,000		2,000	
Total fixed liabilities	298,232	5.3	259,481	8.4
Total liabilities	1,861,946	33.2	1,818,151	58.9
(Shareholder's equity)				
Capital	2,067,229	36.9	916,985	29.7
Capital surplus				
Capital reserve	2,161,553		1,106,646	
Total capital surplus	2,161,553	38.6	1,106,646	35.9

Earned surplus				
Earned reserve	5,047		5,047	
Unappropriated reserve				
Special depreciation reserve	–		4,592	
Unappropriated deficit for the current year	459,044		711,994	
Total earned surplus	-453,996	-8.1	-702,354	-22.8
Other profit and loss from securities revaluation	35,396	0.6	14,887	0.5
Treasury stock	-68,875	-1.2	-67,932	-2.2
Total shareholders' equity	3,741,307	66.8	1,268,232	41.1
Total liabilities and shareholders' equity	5,603,254	100.0	3,086,383	100.0

(2) Income Statements

(Thousands of yen)

	Current Accounting Year Starting: January 1, 2005 Ending: December 31, 2005		Previous Accounting Year Starting: January 1, 2004 Ending: December 31, 2004	
	Sum	Ratio	Sum	Ratio
		%		%
Net sales	2,971,861	100.0	3,684,263	100.0
Cost of sales	2,268,345	76.3	2,877,919	78.1
Gross profits	703,515	23.7	806,344	21.9
Selling, general and administrative expenses	1,274,105	42.9	1,095,306	29.7
Officers' remuneration	76,281		70,200	
Employees' salaries and bonuses	329,980		375,724	
Advertising expenses	28,349		49,471	

Transportation expenses	37,055		40,689	
Provision for doubtful accounts	233		–	
Provision for bonus payable	4,515		7,559	
Provision for retirement benefits for officers	21,781		17,866	
Machine tools and equipment	15,979		9,072	
Rent account	77,231		57,312	
Insurance premiums paid	15,969		15,245	
Depreciation expenses	45,957		36,239	
R&D expenses	169,632		68,135	
Business consignment expenses	158,015		134,430	
Other	293,121		213,360	
Operating loss	570,589	-19.2	288,962	-7.8
Non–operating income	1,113,048	37.5	114,211	3.1
Interest and dividends received	34,332		23,649	
Gains on sales of marketable securities	120,353		28,606	
Exchange gains	17,281		59,078	
Option appraisal income	938,310		1,886	
Miscellaneous	2,770		991	
Non–operating expenses	25,692	0.9	247,077	6.7
Interest cost discount charge	3,409		–	
Deferred stock issue cost	21,921		–	
Option appraisal loss	–		247,077	

Casualty loss	361		-	
Ordinary income or loss (-)	516,766	17.4	-421,828	-11.4

(Thousands of yen)

	Current Accounting Year Starting: January 1, 2005 Ending: December 31, 2005		Previous Accounting Year Starting: January 1, 2004 Ending: December 31, 2004	
	Sum	Ratio	Sum	Ratio
Extraordinary gains	2,566	0.1	4,756	0.1
Reversal of allowance for doubtful accounts	—		1,420	
Income from disposal of tangible fixed assets	—		3,335	
Reversal of allowance for reserve for directors' retirement benefits	2,566		—	
Extraordinary losses	245,731	8.3	—	—
Loss on retirement of fixed assets	43,740		—	
Extraordinary loss from valuation of investment securities	30,161		—	
Extraordinary loss from valuation of affiliated companies	171,830		—	
Current net income or loss (–) before tax adjustment	273,601	9.2	-417,072	-11.3
Corporate income tax, local tax and enterprise tax	19,661	0.6	2,726	0.0
Adjustment of corporate tax, etc.	5,582	0.2	367,013	10.0

Net income or loss (-)	248,357	8.4	-786,812	-21.3
Unappropriated retained earnings or losses (-) brought forward	-707,401		74,817	
Unappropriated deficit for the current year	459,044		711,994	

(3) Accounting Policies Adopted for Preparing the Financial Statements

1. Standards and Methods for Evaluating Major Assets

1) Inventories: The cost accounting method based on the moving average method was used.

2) Marketable securities

Shares of subsidiaries and affiliated companies: The cost accounting method based on the moving average method was used.

Securities held to maturity: Amortized cost method (straight line basis) is adopted.

Other marketable securities

Current quotes available: valued at their market prices as of the balance sheet date. (All differences in valuations were included directly in shareholders' equity, and cost of securities sold was determined based on the moving average method.)

2. Depreciation Method for Fixed Assets

1) Tangible fixed assets: Buildings (excluding equipment therein) are depreciated by the straight-line method, while other assets are depreciated using the declining-balance method.

2) Intangible fixed assets: Software for in-house use is amortized using the straight-line method over estimated useful life.

3. Accounting Procedure of Deferred Assets

Cost of issuance of new shares: Entire amount is processed at the time of payment.

4. Accounting Standards for Reserves

1) Reserve for bad debts: As for general loans, the figure is based on a loan loss ratio, and in the case of such legally defined loans as loans feared to be irrecoverable, the figure is based on an estimation of the likelihood of recovery of individual loans.

2) Allowance for accrued bonuses: To provide bonuses of employees, an amount is determined based on the amount that is regarded as likely to be incurred.

3) Allowance for severance benefits: To provide for the retirement allowances of directors, an amount is stated based on the payment requirements at the end of the period under review according to company rules concerning retirement allowances for directors.

5. Method of Important Hedge Accounting

1) Method of hedge accounting

Deferred hedge accounting is used. As for liabilities in foreign currencies to which exchange contracts are attached, those that fulfill conditions for appropriation are appropriated.

2) Hedge means and hedge targets

Hedge means: Derivative transaction (Forward Exchange Contracts)

Hedge targets: Stock liabilities in foreign currency and others

3) Hedge policy

It has been performed to counteract the possibility of losses including stock liabilities incurred by

fluctuations in exchange.

4) Method of evaluating the effectiveness of hedge

The effectiveness of hedge has been evaluated by assessing whether or not exchange risks of hedge targets including stock liabilities in foreign currency are diminishing.

6. Other Accounting Policies Adapted for Preparing the Financial Statements

Account processing of consumption tax and others

Before-tax method is adopted for accounting of consumption tax and local consumption tax.

(4) Additional information

1. "Revision of local consumption tax law" (Law No. 9, 2003) was delivered on March 31, 2003 and dual corporate tax system was introduced in the accounting year that started from April 1, 2004. Along with these revisions, allocation of added value and of capital of corporate tax have been stated as Sales, general and administrative expenses following "Practical handling on indication on balance sheet for the part of size-based corporate taxes" (Corporate Accounting Standard Committee February 13, 2004 Accounting Standard Application Guidance No.12)

As the result, Sales, general and administrative expenses increased by 14,300 thousand yen and Ordinary income and Current net income before tax adjustment decreased by 14,300 thousand yen.

2. For network building services, the entire amount of credit and liabilities is stated, whereas for sales, the figure stated is after having balanced sales with 882,133 thousand yen, the amount of external purchases. This is based on the idea of accounting over gross amount indication in "Regarding audit problems for information service industry" (Project team to consider special dealings in IT industry, Japanese Institute of Certified Public Accountants, March 2005) and "Practical handling regarding account processing of earnings from dealing software (proposal)" (Corporate Accounting Standard Committee 2006 Practical handling report publication draft No.20)

(5) Explanatory Notes to the Financial Statements

1. Issues relating to balance sheet

	<u>Current Business Year</u>	<u>Previous Business Year</u>
1) Cumulative depreciation of tangible fixed assets	71,201 thousand yen	89,518 thousand yen
2) Assets and liabilities with regards to non-consolidated subsidiaries and companies that have business with Planex		
Accounts due	8,626 thousand yen	
Advances	15,279 thousand yen	
Accounts payable	202,536 thousand yen	

Accrued liability 3,368 thousand yen

3) Guarantee liabilities

The Company has guarantee liabilities for the following affiliated companies for their loan from banking establishments.

American Megatrends Inc.	209,500 thousand
Japan	yen
Total	209,500 thousand
	yen

4) Number of authorized shares and shares issued

Number of authorized shares	Common stock	255,200 shares
Number of shares issued	Common stock	95,629 shares

Increase in net assets stipulated in the Commercial code enforcement rule, Article 124 Section 3 is 35,396 thousand yen. The said amount is restricted to appropriate to dividends.

6) Amount of treasure stocks owned

Common stock 1,344 shares

1. Issues related to profit and loss statement

1) Business with affiliated companies

Sales 966 thousand yen
Amount of purchases 1,632,124 thousand yen

2) Total expenditure of R&D expenses

R&D expenses included in administrative expenses 169,632 thousand yen

3) Affiliated companies share appraisal loss is the result of impairment accounting of affiliated companies subject to the equity method.

11. Per Share Information

Current Accounting Year Starting: January 1, 2005 Ending: December 31, 2005	Previous Accounting Year Starting: January 1, 2004 Ending: December 31, 2004
Net assets amount per share 39,680 yen 84 sen	Net assets amount per share 88,681 yen 36 sen

Current net income per share	3,040 yen 43 sen	Current net loss per share	55,018 yen 01 sen
Current net income per share after residual securities adjustment	2,757 yen 95 sen	Current net income per share after residual securities adjustment	Current net income per share after residual securities adjustment is not posted, because net loss per share is posted.
<p>The Company executed a 5 for 1 share split of common stock as of August 19, 2005.</p> <p>When assuming the split had been executed at the beginning of the term, the amount would have been as follows.</p>			
Net assets amount per share	17,736 yen 27 sen		
Net assets amount per share	11,003 yen 60 sen		
Current net income per share after residual securities adjustment			
<p>Current net income per share after residual securities adjustment is not posted, because net loss per share is posted.</p>			

Notes: Factors responsible for current net income per share and current net income per share after residual securities adjustment

	Current Accounting Year Starting: January 1, 2005 Ending: December 31, 2005	Previous Accounting Year Starting: January 1, 2004 Ending: December 31, 2004
Current net income or net loss (-) per share	3,040 yen 43 sen	55,018 yen 01 sen
Current net income or net loss (-) (Thousands of yen)	248,357	-786,812
Income or loss not attributable to common stockholders (Thousands of yen)	-	-
Current net income or net loss (-) associated with common stock (Thousands of yen)	248,357	-786,812
Average number of shares during term	81,685	14,301

	Current Accounting Year Starting: January 1, 2005 Ending: December 31, 2005	Previous Accounting Year Starting: January 1, 2004 Ending: December 31, 2004
Current net income per share after residual securities adjustment	2,757 yen 95 sen	–
Adjustment of current net income (thousands of yen)	–	–
Number of increased common stock	8,366	–
(New share subscription rights out of number of increased common stock)	(3,066)	(–)
Summary of residual securities which were not included in interim (current) net income per share after residual securities adjustment because they don't have dilutive effect	New share subscription rights (number of new share subscription rights: 215)	New share subscription rights (number of new share subscription rights: 911)

12. Movement of Board Members

(1) The movements of directors and auditors during the current term are as follows.

1) Assumption

Mr. Kunihiro Ishiguro was elected and became a board member at the extraordinary shareholders' meeting which was held on August 10, 2005.

2) Resignation

Mr. Hiroshi Amano has resigned as a board member as of June 30, 2005.