Notes to Consolidated Financial Statements

SBI Holdings, Inc. (Formerly SOFTBANK INVESTMENT CORPORATION) and Consolidated Subsidiaries
Years Ended 31st March, 2005 and 2006

1. NATURE OF OPERATIONS AND BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

SBI Holdings, Inc. (the "Company") was incorporated in Tokyo, Japan in 1999 as a venture capital business principally for Internet-related companies, and has since expanded its line of business through mergers and acquisitions as well as expanding its asset management business to investments in certain non-Internet-related companies.

The Company and its consolidated subsidiaries (together, "SBI") are currently engaged in the provision of a wide range of financial services and are primarily active in their three core businesses of asset management, brokerage and investment banking and financial services. However SBI is expanding additional two core businesses of real estate and life related network and engaging in provision of a wide range of financial and non-financial area in five core businesses.

SBI's asset management business is principally carried out by the Company, SOFTBANK INVESTMENT CORPORATION ("SBINV"), SBI CAPITAL Co., Ltd. ("SBI-CAPITAL") and SBI BROADBAND CAPITAL K.K. ("SBI-BC"), and involves the management of venture capital investment funds, corporate restructuring funds and broadband media funds. SBI is one of the largest managers of venture capital funds in Japan in terms of net assets under management.

SBI's brokerage and investment banking businesses are principally carried out by the Company's subsidiaries, E*TRADE SECURITIES Co., Ltd. ("ETS"), one of the largest online securities companies in Japan by number of accounts, deposits in customer accounts and daily average revenue from trades, and SBI Securities Co., Ltd. ("SBI-SEC"). Brokerage and investment banking businesses involve the provision of brokerage services as well as investment banking services such as underwriting, securitisations, corporate finance advisory services and private equity advisory services.

SBI's financial services business is principally executed by the Company, SBI Mortgage Co., Ltd., SBI Lease Co., Ltd. and Morningstar Japan K.K. ("MSJ"). Financial services include the provisions of low-interest home loans, lease arrangements specialised in Internet-related area and the marketplace where customers can compare financial products.

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

Certain disclosures contained herein are not required as part of the basic financial statements in Japan but are presented herein as additional information. In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2005 financial statements to conform to the classifications used in 2006.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥117.47 to $1, the approximate rate of exchange at 31st March, 2006. Such translation should not be construed as representation that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation—The consolidated financial statements as at 31st March, 2006 include the accounts of the Company and its 37 significant (36 in 2005) subsidiaries. Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which SBI has the ability to exercise significant influence are accounted for by the equity method.

Investments in 1 (nil in 2005) unconsolidated subsidiary and 7 (2 in 2005) affiliated companies are accounted for by the equity method. Investments in the remaining 42 (12 in 2005) unconsolidated subsidiaries and 3 (3 in 2005) affiliated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not have been material.

Goodwill, representing the excess of the Company's investments in subsidiaries over the fair value of the net assets of the acquired subsidiaries at the date of acquisition, is being amortised by the straight-line method over the estimated useful life of goodwill, while goodwill is amortised over 20 years when the useful life of goodwill is not reasonably estimable. Negative goodwill, representing the excess of the fair value of the net assets of the acquired subsidiaries at the date of acquisition over the Company's investments in subsidiaries, is also being amortised by the straight-line method over the estimated useful life of negative goodwill, while negative goodwill is amortised over 20 years if the useful life of negative goodwill is not reasonably estimable. Immaterial goodwill or negative goodwill is charged to income when incurred.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealised profit included in assets resulting from transactions within SBI is eliminated.

Investments in 8 (5 in 2005) companies and 1 (1 in 2005) corporate type investment trust over 20 percent ownership are included in operational investment securities as the investments in these companies were made as part of the Company's operating activities.

Operational investments in funds included in operational investment securities on the consolidated balance sheet are accounted for by the same way as the equity method based on SBI's percentage share in the contributed capital as these funds are investment partnerships. However, SBI consolidates the revenue and expenses of these funds in the consolidated statement of income. Revenue and expenses stated on the profit and loss statement of the funds are recorded in SBI's consolidated statement of income based on SBI's percentage share in each partnership's contributed capital.

Non-operational investments in funds included in investment securities on the consolidated balance sheet are accounted for by the same way as the equity method based on SBI's percentage share in the contributed capital as these funds are investment partnerships.

In accordance with accounting standards for consolidated financial statements, the amounts on the balance sheets and the profit and loss statements of dormant partnerships which are managed by the Company's consolidated subsidiaries, SOFTBANK CONTENTS PARTNERS CORPORATION (currently merged with SBINV), SBI-CAPITAL and SBI-BC in 2005, SBINV, SBI-CAPITAL and SBI-BC in 2006, are not consolidated into SBI's consolidated financial statements since the dormant partnerships' assets, liabilities, revenue and expenses are not attributable to partnership managers.

Upon resolution and approval of the Board of Directors on 19th April, 2004, the Company acquired a total of 6,000 shares of common stock of ASCOT CO., LTD. ("ASCOT," currently known as SBI Equal Credit Co., Ltd.) from SOFTBANK FINANCE CORPORATION ("SBF," currently known as SOFTBANK AM CORPORATION ("SBAM")) and ACOM CO., LTD. and a total of 3,600 shares of common stock of Swan Credit Corporation ("SWAN," currently known as SBI Equal Credit Co., Ltd.) from SBF on 19th April, 2004. ASCOT and SWAN became the Company's consolidated subsidiaries from April 2004. On 2nd August, 2004, ASCOT was eventually merged into SWAN which was the surviving company. As a result, equity of SWAN held by the Company was 82.5 percent as at 31st March, 2005.

On 15th May, 2004, TechTank Corporation ("TechTank," currently known as SBI Technology Co., Ltd.) established Finance All Solutions Co., Ltd. ("FAS") in Korea. TechTank held 85.7 percent of the shares of FAS in the aggregate amount of ¥71 million. The main business of FAS is to deploy system development businesses principally in the Korean financial industry. FAS became a consolidated subsidiary of the Company from May 2004.

On 29th June, 2004, FINANCE ALL CORPORATION ("FAC," currently merged with the Company) acquired INTER-EYE Co., Ltd. ("IE") through a stock exchange. Through this stock exchange, FAC issued 1,886 shares of common stock valued at ¥335 million. IE became a consolidated subsidiary of the Company from June 2004. The main business of IE was to provide full cost estimate services for discounted air tickets or rental computer servers. In July 2005, IE merged into FAC which was the surviving company.

Since the importance of SB NERVA CORPORATION ("SB-NERVA," currently known as SBI Nerva Co., Ltd.) for SBI's consolidated financial statements became more significant, SB-NERVA became a consolidated subsidiary of the Company from June 2004.

On 29th June, 2004, the Company established SBI-BC and held 100 percent of the shares of SBI-BC in the aggregate amount of ¥10 million.

On 10th and 17th June, 2004, the Company acquired 2,820,000 shares of common stock of E*TRADE KOREA CO., LTD. ("ETK") from LG Investment & Securities Co., Ltd. and 2,400,000 shares from SOFTBANK CORPORATION, for the aggregate amount of ¥2,110 million. As a result, equity of ETK held by the Company as at 17th June, 2004 was 87.0 percent and ETK became a consolidated subsidiary of the Company from June 2004. Upon resolution and approval of the Board of Directors on 4th March, 2005, the Company sold all the shares of ETK to ETS on 11th March, 2005 and ETK became a consolidated subsidiary of ETS.

Upon resolution and approval of the Board of Directors on 26th July, 2004, the Company acquired 32,968 shares of common stock of MSJ from SBF in the aggregate amount of ¥7,085 million on 29th July, 2004. As a result, equity of MSJ held by the Company as at 29th July, 2004 was 50.43 percent and MSJ and its consolidated subsidiaries, Morningstar Asset Management Co., Ltd., Gomez Japan K.K. (currently known as Gomez Consulting Co., Ltd.) and E*Advisor Co., Ltd. (currently merged with MSJ), became consolidated subsidiaries of the Company from July 2004.

On 1st July, 2004, the Company agreed in principle with NOMURA LAND AND BUILDINGS CO., LTD. and Nomura Research Institute, Ltd. that the Company acquired common stock of Ace Securities Co., Ltd. ("ASCL") through Take Over Bid ("TOB"), and the TOB was officially approved by the Company's Board of Directors on 14th July, 2004. The TOB was executed from 15th July, 2004 through 5th August, 2004. The number of shares acquired through TOB was 20,603,700 shares, and the aggregate investment amount was ¥4,430 million. As a result, equity of ASCL held by the Company was 55.93 percent and ASCL and its consolidated subsidiaries (ACE CONSULTING CO., LTD., ACE CORPORATION and ACE TOCHI-TATEMONO CO., LTD. ("ATC")) became consolidated subsidiaries of the Company from August 2004. ATC merged into ASCL which was the surviving company in March 2005.

In terms of importance for SBI's consolidated financial statements, SBI CAPITAL SOLUTIONS Co., Ltd. ("SBI-CS") became a consolidated subsidiary of the Company from July 2004. However, SBI-CS merged into SBI-CAPITAL which was the surviving company in December 2004.

On 1st September, 2004, the Company acquired 700 shares of common stock of Office Work Corporation ("OWC," currently known as SBI Business Solutions Co., Ltd.) from SBF in the aggregate amount of ¥88 million. As a result, OWC and its consolidated subsidiary, Office Work Systems Corporation ("OWSC," currently known as SBI Business Solutions Co., Ltd.) became consolidated subsidiaries of the Company from September 2004. However, in terms of importance for SBI's consolidated financial statements, OWC and OWSC were excluded from the scope of consolidation at the end of fiscal 2005.

On 29th November, 2004, the Company acquired 4,000 shares of common stock of Equal Credit Co., Ltd. ("ECC," currently known as SBI Equal Credit Co., Ltd.) from SBF in the aggregate amount of ¥200 million. As a result, ECC became a wholly owned consolidated subsidiary of the Company from November 2004.

On 1st July, 2005, the Company spun off its fund management business to subsidiary of SBI VENTURES, Inc. (currently known as SBINV) and changed its trade name to SBI Holdings, Inc.

Upon resolution and approval of the Board of Directors on 3rd August, 2005, ASCL issued 31,000,000 new shares of common stock through private allocation with issue price of ¥7,440 million ($63,335 thousand) (¥240 ($2.04) per share) on 25th August, 2005. Due to this transaction, ASCL became an affiliated company of the Company.

On 26th August, 2005, the Company acquired 516,700 shares of common stock of SBI Partners Co., Ltd. ("SBIP," currently merged with the Company) from individual shareholders in the aggregate amount of ¥1,093 million ($9,303 thousand) additionally. As a result, SBIP became a consolidated subsidiary of the Company from August 2005.

In addition, on 2nd September, 2005, the Company sold all of its 20,603,700 shares of ASCL for an aggregate amount of ¥4,945 million ($42,095 thousand). As a result, ASCL was no longer an affiliated company from September 2005.

On 29th September, 2005, the Company accepted new shares of ZEPHYR CO., LTD. ("ZPYR") and acquired 63,622 shares of common stock in the aggregated amount of ¥15,386 million ($130,976 thousand). As a result, ZPYR became an affiliated company accounted for by the equity method from September 2005.

On 30th December, 2005, the Company acquired 12,000 shares of common stock of AUTOBYTEL-JAPAN K.K. ("ABTL") previously held by the Company as operational investment securities, for an additional investment amount of ¥600 million ($5,108 thousand). As a result, ABTL became an affiliated company accounted for by the equity method from December 2005.

Upon approval of extraordinary shareholders meeting held on 27th January, 2006, the Company merged with SBIP on 1st March, 2006. Due to this merger, the Company issued 842,392 new shares of its common stock to SBIP's shareholders at an exchange ratio of 0.05 share for each outstanding share of SBIP's common stock.

Upon approval of extraordinary shareholders meeting held on 27th January, 2006, the Company merged with FAC on 1st March, 2006. Due to this merger, the Company issued 1,234,860 new shares of its common stock to FAC's shareholders at an exchange ratio of 2.5 shares for each outstanding share of FAC's common stock.

Upon approval of extraordinary shareholders meeting held on 27th January, 2006, the Company issued 483,338 new shares of its common stock to SBI-SEC's shareholders at an exchange ratio of 1.15 shares for each outstanding share of SBI-SEC's common stock. As a result of this share exchange, SBI-SEC became wholly owned by the Company.

b. Cash Equivalents—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, separate deposits and call deposits, all of which mature or become due within three months of the date of acquisition.

c. Valuation of Securities—Securities are classified and accounted for, depending on management's intent, as follows: (1) trading securities, which are held for the purpose of earning capital gains in the near term are reported at fair value, with the related unrealised gains and losses are included in earnings and (2) available-for-sale securities, which are not classified as trading securities are reported at fair value, with unrealised gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. The cost of securities sold is determined based on the moving-average cost method.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average cost method. For other than temporary declines in fair value, non-marketable available-for-sale securities are reduced to net realisable value by a charge to income.

Investments in funds are accounted for as either operational investment securities or investment securities on the consolidated balance sheets, according to SBI's percentage shares in the contributed capital. Effective 31st March, 2006, the shares of the Company's subsidiary invested by abovementioned funds, are consolidated by the Company according to SBI's percentage shares in the contributed capital. Gain or loss on sales of shares of the Company's subsidiary sold by the abovementioned funds are recorded as "Gain on sale of investment securities—net" in the consolidated statements of income in proportion to SBI's percentage shares in the contributed capital. The effect of this change was to decrease gross profit and operating income for the year ended 31st March, 2006 by ¥2,830 million ($24,091 thousand) while no effect has occurred to income before income taxes and minority interests.

In accordance with the Commodities Exchange Law, securities in custody for commodity futures related businesses are reported at a price determined by the commodity exchange. Determined prices of principal securities are as follows:

Interest-bearing government bonds:	85 percent of face value
Corporate bonds listed:	65 percent of face value
Equity securities listed on the first section market:	70 percent of fair value
Warehouse certificate:	70 percent of fair value

d. Valuation Allowance for Operational Investment Securities—Valuation allowance for operational investment securities is provided at an estimated amount of possible investment losses for operational investment securities based on the financial condition of investees.

e. Real Estate Inventory—Real estate inventory is stated at cost, by the specific identification method.

f. Allowance for Doubtful Accounts—The allowance for doubtful accounts is stated in amounts considered to be appropriate based on SBI's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

g. Property and Equipment—Property and equipment are stated at cost less accumulated depreciation. Depreciation of property and equipment of the Company and its consolidated domestic subsidiaries is computed by using the declining-balance method over the estimated useful lives of assets, while the straight-line method is applied to buildings acquired after 1st April, 1998 and the property and equipment of consolidated foreign subsidiaries. The range of useful lives is principally from 3 to 50 years for buildings and leasehold improvements and from 2 to 20 years for furniture and equipment.

h. Long-lived Assets—In August 2002, the Business Accounting Council ("BAC") issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements were effective for fiscal years beginning on or after 1st April, 2005 with early adoption permitted for fiscal years ending on or after 31st March, 2004.

The Company and domestic subsidiaries (together, the "Group") adopted the new accounting standard for impairment of fixed assets as of 1st April, 2005.

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognised if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The effect of adoption of the new accounting standard for impairment of fixed assets was to decrease income before income taxes and minority interests for the year ended 31st March, 2006 by ¥273 million ($2,323 thousand).

i. Lease Accounting—All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalised, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalised" information is disclosed in the notes to the lessee's financial statements.

Tangible leased assets are stated at cost less accumulated depreciation as lessor accounting treatment. Depreciation is computed by using the straight-line method over the lease term with salvage value of the estimated disposal prices of tangible leased assets at the expiration of the lease term.

Intangible leased assets are stated at cost less accumulated amortisation as lessor accounting treatment. Amortisation is computed by using the straight-line method over the lease term.

j. Software—Software is recorded at cost, less accumulated amortisation. Amortisation of software used for internal purposes is computed by using the straight-line method over 5 years, the estimated useful life of the software. On the other hand, amortisation of software for sale to the market is computed by using the straight-line method over 3 years or less, the estimated salable period of the software.

k. Other Assets—Stock issuance costs and bond issuance costs are principally amortised by the straight-line method over 3 years in conformity with Japanese Commercial Code (the "Code"), while certain consolidated subsidiaries charge immaterial stock issuance costs and bond issuance costs to income as incurred, which is also in conformity with the Code. Intangible assets are amortised by using straight-line method.

l. Contingent Reserve—Contingent reserve is provided at an estimated amount of possible losses arising from contentious cases.

m. Allowance for Compensation for Completed Construction Projects—The allowance for compensation for completed construction projects included in other current liabilities is provided at an estimated amount of possible compensation for the contract amount of the Company's certain subsidiary's construction project completed in the year ended 31st March, 2006.

n. Employees' Retirement Benefits—The liability for employees' retirement benefits is accounted for based on projected benefit obligations and plan assets at the balance sheet date.

o. Retirement Allowance for Directors—Retirement allowance for directors of certain consolidated subsidiaries is recorded to state the liability at the amount that would be required if all directors retired at each balance sheet date.

p. Revenue and Cost Recognition—SBI's revenues principally consist of revenue from operational investment securities, fees from funds and revenues from real estate related transactions, securities transactions and commodity futures transactions, while its costs principally consist of the cost of operational investment securities or real estate sold and a provision for valuation allowance for operational investment securities.

***Revenue from operational investment securities*—**Revenue from operational investment securities consists of proceeds from the sales of operational investment securities and securities held by funds and interest and dividend income from these securities. Interest and dividend income are recognised on an accrual basis.

Cost of operational investment securities—Cost of operational investment securities consists of the cost of operational investment securities and securities held by funds, write-downs of operational investment securities and securities held by funds, and fees related to securities transactions. Write-downs of operational investment securities and securities held by funds are recognised at the balance sheet date for quoted and unquoted securities if impairment of value has occurred and been deemed other than temporary, and operational investment securities are reduced to their net realisable value by a charge to income. Fees related to securities transactions are recorded when incurred.
Fees from funds—Fees from funds consist of establishment fees for fund organisation, management fees and success fees from funds under management. Establishment fees for fund organisation are recognised when a fund organised by SBI is established and funded by investors. Management fees are recognised over the periods of fund management agreements primarily based on the net asset value of the funds under management. Success fees are computed based upon a formula which takes into account realised gains and losses on and write-downs of the investments under management in funds measured at the end of each accounting period, as well as certain other expenses.
Revenue from construction projects—Revenue from long-term construction projects whose contract amounts are not less than ¥100 million ($851 thousand) and whose contract periods are beyond 1 year are recorded on percentage-of-completion method while construction projects other than aforementioned are recorded on completed-contract method.
Revenue from securities transactions—Revenue from securities transactions primarily consists of brokerage commissions from securities transactions, fees from underwriting and offering of securities for initial public offering and overriding fees for placements and sales of securities. Commissions charged for executing brokerage transactions are accrued on a trade date basis and are included in current period earnings. Underwriting fees are recorded when services for underwriting are completed. All other fees are recognised when related services are rendered.
Revenue from commodity futures transactions—Revenue from commodity futures transactions is recognised on the trading date.
Financial charges and cost of funding—Financial charges related to brokerage and investment banking businesses such as interest expense from margin transactions and costs from repurchase agreement transactions are accounted for as operating costs. Interest expense other than financial charges is categorised into either interests related to operating assets such as operational investment securities or leased assets or interests related to non-operating assets. Cost of funding related to operating assets is accounted for as operating costs while interest expense related to non-operating assets is recorded as non-operating expenses.

q. Income Taxes—The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognise deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

A valuation allowance is provided for deferred tax assets if it is more likely than not these items will either expire before SBI is able to realise their benefits, or that future deductibility is uncertain.

r. Accounting for Consumption Tax—The consumption tax imposed on revenue from customers for SBI's services is withheld by SBI at the time of receipt and paid to the national government subsequently. The consumption tax withheld upon recognition of revenue and the consumption tax paid by SBI on the purchase of products, merchandise and services from vendors, are not included in the related accounts in the accompanying consolidated statements of income. The consumption tax paid is generally offset against the balance of consumption tax withheld, and net overpayment is included in current assets or net over withholding is included in current liabilities. Consumption tax that does not qualify for deduction is included in selling, general and administrative expenses and other expenses.

s. Foreign Currency Transactions—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognised in the consolidated statements of income to the extent that they are not hedged by forward exchange contracts.

t. Foreign Currency Financial Statements—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as at the balance sheet date except for shareholders' equity, which is translated at the historical rate. Differences arising from such translation were shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity, except for the portion pertaining to minority shareholders, which is included in "Minority interests." Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

u. Derivatives and Hedging Activities—SBI primarily uses foreign currency forward contracts and interest rate swaps as a means of hedging exposures to foreign currency and interest rate risks. SBI also enters into derivatives such as stock-index futures, commodity futures and bond futures.

Derivatives are classified and accounted for as follows: (a) all derivatives are recognised as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognised in the consolidated statements of income and (b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

Foreign currency forward contracts are utilised to hedge foreign currency exposures in SBI's operating activities. Receivables, payables and investment securities denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

Interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements are recognised and included in interest expense or income.

v. Appropriation of Retained Earnings—Appropriations of retained earnings are reflected in the accompanying consolidated statements of shareholders' equity for the following year upon shareholders' approval.

w. Per Share Information—Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year, which is not retroactively adjusted for stock splits.

x. New Accounting Pronouncements

Business combination and business separation

In October 2003, the BAC issued a Statement of Opinion, "Accounting for Business Combinations," and on 27th December, 2005 ASBJ issued "Accounting Standard for Business Separations" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Separations." These new accounting pronouncements are effective for fiscal years beginning on or after 1st April, 2006.

The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. These specific criteria are as follows:

(a) the consideration for the business combination consists solely of common shares with voting rights,

(b) the ratio of voting rights of each predecessor shareholder group after the business combination is nearly equal, and

(c) there are no other factors that would indicate any control exerted by any shareholder group other than voting rights.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures. Goodwill, including negative goodwill, is to be systematically amortised over 20 years or less, but is also subject to an impairment test.

Under the accounting standard for business separations, in a business separation where the interests of the investor no longer continue and the investment is settled, the difference between the fair value of the consideration received for the transferred business and the book value of net assets transferred to the separated business is recognised as a gain or loss on business separation in the statement of income. In a business separation where the interests of the investor continue and the investment is not settled, no such gain or loss on business separation is recognised.

Stock options

On 27th December, 2005, the ASBJ issued "Accounting Standard for Stock Options" and related guidance. The new standard and guidance are applicable to stock options newly granted on and after 1st May, 2006.

This standard requires companies to recognise compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of shareholders' equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

Bonuses to directors and corporate auditors

Prior to the fiscal year ended 31st March, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders meeting. The ASBJ issued ASBJ Practical Issues Task Force (PITF) No. 13, "Accounting Treatment for Bonuses to Directors and Corporate Auditors," which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on 29th November, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after 1st May, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

3. ACCOUNTING CHANGE

Revenue from Commodity Futures Transactions

According to the accounting standard for commodity futures transactions amended in May 2005, revenue from commodity futures transactions is recognised on the trading date which was recognised when an assignor settles a transaction by reselling, repurchasing or delivering before May 2005. The effect of this change was immaterial.

4. SEGREGATED ASSETS

At 31st March, 2005 and 2006, assets required to be segregated in certain financial institutions according to the Commodities Exchange Law were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	31st March		31st March,
	2005	**2006**	**2006**
Cash required to be segregated under regulations	¥1,184	**¥300**	**$2,554**
Short-term guarantee deposits	2,390		
Securities in custody	104		

At 31st March, 2005 and 2006, assets which belonged to assignors of customers' deposits as collateral for commodity futures and were segregated in conformity with the Commodities Exchange Law were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	31st March		31st March,
	2005	**2006**	**2006**
Cash required to be segregated under regulations	¥58	**¥6,519**	**$55,493**

5. REAL ESTATE INVENTORY

Real estate inventory at 31st March, 2006 consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Real estate for sale	¥ 7,062	$ 60,112
Real estate for developing	2,275	19,370
Beneficial interest of real estate investment trust	16,996	144,684
Total	¥26,333	$224,166

6. OPERATIONAL INVESTMENT SECURITIES AND INVESTMENT SECURITIES

Operational investment securities and investment securities at 31st March, 2005 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	31st March		31st March,
	2005	**2006**	**2006**
Current (operational investment securities):			
Marketable equity securities	¥12,900	**¥ 1,820**	**$ 15,495**
Non-marketable equity securities	3,519	**6,552**	**55,779**
Corporate bonds	89	**336**	**2,854**
Investment in funds	23,083	**52,960**	**450,837**
Other	238		
Total	¥39,829	**¥61,668**	**$524,965**
Non-current (investment securities):			
Marketable equity securities	¥ 6,768	**¥17,682**	**$150,521**
Non-marketable equity securities	2,566	**2,142**	**18,232**
Investment in funds	2,250	**5,667**	**48,247**
Government bonds	16	**15**	**126**
Corporate bonds		**2,000**	**17,026**
Trust fund investment	86	**621**	**5,286**
Total	¥11,686	**¥28,127**	**$239,438**

The carrying amounts and aggregate fair value of operational investment securities and investment securities at 31st March, 2005 and 2006 were as follows:

	Millions of Yen			
	Cost	Unrealised Gains	Unrealised Losses	Fair Value
31st March, 2005				
Securities classified as available-for-sale:				
Equity securities	¥12,533	¥7,339	¥204	¥19,668
Government bonds	10			10
Trust funds investments	100		14	86
31st March, 2006				
Securities classified as available-for-sale:				
Equity securities	**¥14,568**	**¥5,248**	**¥314**	**¥19,502**
Government bonds	**10**		**1**	**9**
Trust funds investments	**605**	**17**	**1**	**621**

	Thousands of U.S. Dollars			
	Cost	Unrealised Gains	Unrealised Losses	Fair Value
31st March, 2006				
Securities classified as available-for-sale:				
Equity securities	**$124,012**	**$44,678**	**$2,674**	**$166,016**
Government bonds	**85**		**13**	**72**
Trust funds investments	**5,150**	**145**	**9**	**5,286**

Available-for-sale securities whose fair value is not readily determinable as at 31st March, 2005 and 2006 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	31st March		**31st March,**
	2005	**2006**	**2006**
Available-for-sale:			
Equity securities	¥ 6,085	**¥ 8,694**	**$ 74,011**
Investment in funds	25,333	**58,627**	**499,084**
Debt securities and other	333	**2,342**	**19,934**
Total	¥31,751	**¥69,663**	**$593,029**

Proceeds from sales of available-for-sale securities for the years ended 31st March, 2005 and 2006 were ¥22,626 million and ¥22,822 million ($194,282 thousand), respectively. Gross realised gains and losses on these sales, computed on the moving average cost basis, were ¥5,108 million and ¥119 million, respectively, for the year ended 31st March, 2005 and ¥6,489 million ($55,244 thousand) and ¥192 million ($1,639 thousand), respectively, for the year ended 31st March, 2006.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at 31st March, 2006 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due in one year or less	¥ 2	$ 15
Due after one year through five years	2,013	17,136
Due after five years through ten years	1	14

Due to the change in the purpose of holding securities, available-for-sale equity securities in the aggregate amount of ¥106 million and ¥5,298 million ($45,099 thousand) were reclassified from operational investment securities into investments in subsidiaries and affiliated companies for the years ended 31st March, 2005 and 2006, respectively. In addition, available-for-sale equity securities in the aggregate amount of ¥5 million were reclassified from investment securities into investments in subsidiaries and affiliated companies for the year ended 31st March, 2005 and investments securities in subsidiaries and affiliated companies were reclassified into available-for-sale equity securities in the aggregated of ¥139 million ($1,183 thousand) for the year ended 31st March, 2006.

Securities whose fair value declines below 50 percent of the acquisition cost are deemed to be other than temporary declines and are reduced to net realisable value by a charge to income. In the case where the fair value of securities declines by 30 to 50 percent, impairment losses will be recognised, if necessary, considering the possibility of market value recovery or other factors. For the years ended 31st March, 2005 and 2006, the impairment losses were recorded in the aggregate amount of ¥232 million and ¥1 million ($7 thousand).

At 31st March, 2005 and 2006, investments in funds consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	31st March		31st March,
	2005	**2006**	**2006**
SOFTBANK INTERNET TECHNOLOGY FUND No. 1	¥ 2,274	**¥13,930**	**$118,583**
SOFTBANK INTERNET TECHNOLOGY FUND No. 2	2,342	**13,141**	**111,870**
SOFTBANK INTERNET TECHNOLOGY FUND No. 3	4,393	**1,787**	**15,212**
SOFTBANK INTERNET FUND	550	**1,123**	**9,557**
SBI·LBO·FUND No. 1	2,601	**2,434**	**20,722**
RESTRUCTURING Fund No. 1	5,945	**3,488**	**29,695**
SBI Mezzanine Fund No. 1	1,671	**2,485**	**21,154**
SBI BB Media Fund	1,959	**1,898**	**16,156**
BIOVISION Life Science Fund I	1,710	**2,232**	**18,998**
Other funds	1,888	**16,109**	**137,137**
Total	¥25,333	**¥58,627**	**$499,084**

7. TRADING ASSETS AND LIABILITIES

At 31st March, 2005 and 2006, trading assets and liabilities consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	31st March		31st March,
	2005	**2006**	**2006**
Trading assets:			
Equity securities	¥ 64	**¥ 93**	**$ 791**
Debt securities	2,693	**2,888**	**24,585**
Derivatives	1	**4**	**37**
Others	101	**108**	**919**
Total	¥2,859	**¥3,093**	**$26,332**
Trading liabilities:			
Equity securities		**¥ 7**	**$ 59**
Derivatives		**19**	**160**
Total		**¥ 26**	**$ 219**

8. SECURITIES DEPOSITED AND RECEIVED

Fair value of the securities deposited by SBI in securities-related businesses at 31st March, 2005 and 2006 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	31st March		31st March,
	2005	**2006**	**2006**
Securities loaned on margin transactions	¥ 47,553	**¥ 68,596**	**$ 583,948**
Securities pledged for loans payable for margin transactions	235,423	**313,451**	**2,668,351**
Securities sold in resell agreement transactions	2,117	**1,211**	**10,311**
Substitute securities for guarantee money paid	102,984	**161,916**	**1,378,362**
Securities loaned under agreement		**53,796**	**457,955**
Others	791	**907**	**7,719**

Fair value of the securities received by SBI in securities-related businesses at 31st March, 2005 and 2006 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	31st March		31st March,
	2005	**2006**	**2006**
Securities pledged for loans receivable for margin transactions	¥303,551	**¥551,701**	**$4,696,527**
Securities borrowed on margin transactions	15,374	**18,746**	**159,580**
Securities purchased on repurchase agreement transactions	14,290		
Substitute securities for guarantee money received, which were agreed on using as collateral for other transactions	195,624	**313,503**	**2,668,795**
Substitute securities for guarantee money received on futures	130	**213**	**1,809**
Others	14	**154**	**1,311**

9. DEPOSITARY ASSETS

In substitution for transactional margin deposits, SBI sets aside to Japan Commodity Clearing House Co., Ltd. in custody securities in the aggregate amount of nil and ¥625 million ($5,322 thousand) as at 31st March, 2005 and 2006, respectively, and to fiduciary agents securities in custody in the aggregate amount of ¥482 million and ¥4 million ($41 thousand) as at 31st March, 2005 and 2006, respectively, which were recorded as securities in custody included in other current assets or as customers' deposits as collateral for commodity futures on the consolidated balance sheets.

10. PROPERTY AND EQUIPMENT

Property and equipment at 31st March, 2005 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	31st March		31st March,
	2005	**2006**	**2006**
Land	¥ 1,678	**¥ 1,403**	**$ 11,943**
Buildings and leasehold improvements	4,972	**3,567**	**30,371**
Furniture and equipment	3,951	**3,954**	**33,661**
Others	88	**21**	**177**
Total	10,689	**8,945**	**76,152**
Less accumulated depreciation	(5,974)	**(4,801)**	**(40,873)**
Property and equipment—net	¥ 4,715	**¥ 4,144**	**$ 35,279**

11. LONG-LIVED ASSETS

SBI recognised an impairment loss of ¥273 million ($2,323 thousand) during the year ended 31st March, 2006 consisting of the following assets which are held by the Company's certain consolidated subsidiary.

A certain subsidiary has grouped its long-lived assets depending on sales branches which are the minimum unit for management accounting. Corporate dormitory and welfare provisions are classified as common use assets. In addition, head office is considered separately as it is determined to be moved.

The carrying amounts of the assets of head office in Tokyo were reduced to recoverable amounts, which were determined based on the net selling price as it is to be moved. As a result, the reduced amount of ¥261 million ($2,224 thousand) was recorded as impairment loss during the year ended 31st March, 2006. The abovementioned impairment loss consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Buildings	¥136	$1,156
Furniture and equipment	11	97
Leasehold	114	971
Total	¥261	$2,224

The carrying amounts of the assets of sales branch in Hiratsuka were reduced to recoverable amounts, which were appraised at zero as it is to be moved and scrapped. As a result, the reduced amount of ¥7 million ($59 thousand) was recorded as impairment loss during the year ended 31st March, 2006. The abovementioned impairment loss consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Buildings	¥6	$50
Furniture and equipment	1	9
Total	¥7	$59

The carrying amounts of the assets of sales branch in Nagoya were reduced to recoverable amounts, which were determined based on value in use, the sum of the net projected future cash flows discounted at a rate of 9.3 percent due to decrease of operating revenues. As a result, the reduced amount of ¥5 million ($40 thousand) was recorded as impairment loss during the year ended 31st March, 2006. The abovementioned impairment loss consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Buildings	¥4	$34
Furniture and equipment	1	6
Total	¥5	$40

12. LEASED ASSETS

Leased assets at 31st March, 2005 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	31st March		31st March,
	2005	**2006**	**2006**
Furniture and equipment	¥16,113	**¥ 21,932**	**$ 186,707**
Software	1,331	**1,853**	**15,773**
Total	17,444	**23,785**	**202,480**
Less accumulated depreciation	(9,213)	**(12,560)**	**(106,922)**
Leased assets—net	¥ 8,231	**¥ 11,225**	**$ 95,558**

Rental income and depreciation expense were ¥3,994 million and ¥3,497 million, respectively, for the year ended 31st March, 2005 and ¥4,792 million ($40,796 thousand) and ¥4,183 million ($35,608 thousand), respectively, for the year ended 31st March, 2006.

The minimum future rentals on noncancellable operating lease contracts at 31st March, 2005 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	31st March		31st March,
	2005	**2006**	**2006**
Due within one year	¥222	**¥137**	**$1,164**
Due after one year	240	**93**	**793**
Total	¥462	**¥230**	**$1,957**

Pro forma information of leased assets such as future minimum lease payments to be received and interest income under finance leases that do not transfer ownership of the leased assets to the lessee on an "as if capitalised" basis for the years ended 31st March, 2005 and 2006 was as follows:

Future minimum lease payments to be received under finance leases, including those of subleases:

	Millions of Yen		Thousands of U.S. Dollars
	31st March		31st March,
	2005	**2006**	**2006**
Due within one year	¥4,640	**¥ 5,037**	**$ 42,879**
Due after one year	4,871	**15,628**	**133,036**
Total	¥9,511	**¥20,665**	**$175,915**

Interest income under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	31st March		31st March,
	2005	**2006**	**2006**
Interest income	¥576	**¥592**	**$5,036**

Interest income, which was not reflected in the accompanying consolidated statements of income, was computed by the interest method.

13. INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES AND AFFILIATED COMPANIES

Investments in unconsolidated subsidiaries and affiliated companies of ¥807 million and ¥23,534 million ($200,341 thousand) at 31st March, 2005 and 2006, respectively, consisted of common stock of unconsolidated subsidiaries of ¥492 million and ¥3,688 million ($31,391 thousand), and common stock of affiliated companies of ¥315 million and ¥19,846 million ($168,950 thousand), respectively.

14. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at 31st March, 2005 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	31st March		31st March,
	2005	**2006**	**2006**
Short-term borrowings:			
From banks, 0.58 to 2.38 percent in 2005 and 1.11 to 1.69 percent in 2006	¥5,812	**¥ 7,100**	**$60,441**
From other, 0.23 to 2.13 percent in 2005 and 0.20 to 5.25 percent in 2006	2,920	**4,298**	**36,584**
Total	¥8,732	**¥11,398**	**$97,025**

Weighted average interest rates of loans payable for margin transactions and loans payable for repurchase agreement transactions were 0.63 percent and 0.57 percent, respectively, for the year ended 31st March, 2005 and 0.63 percent and 0.60 percent, respectively, for the year ended 31st March, 2006.

Long-term debt at 31st March, 2005 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	31st March		31st March,
	2005	**2006**	**2006**
Zero coupon unsecured Japanese yen convertible bonds with warrants due November 2008	¥ 13,000	**¥ 5,940**	**$ 50,566**
Zero coupon unsecured Japanese yen convertible bonds with warrants due April 2009	20,000	**12,770**	**108,708**
Unsecured Japanese yen bonds with a fixed interest rate of 1.23 percent		**50,000**	**425,641**
Unsecured Japanese yen bonds with a fixed interest rate of 1.24 percent		**50,000**	**425,641**
Unsecured Japanese yen bonds with a fixed interest rate of 2 percent	1,400	**1,400**	**11,918**
Unsecured Japanese yen bonds with a fixed interest rate of 3 percent	459		
Unsecured loans from financial institutions, due serially through March 2010 with a weighted average floating interest rate of 1.25 percent in 2005 and 0.40 percent in 2006 and a weighted average fixed interest rate of 3.27 percent in 2005 and 1.83 percent in 2006	12,900	**33,200**	**282,625**
Total	47,759	**153,310**	**1,305,099**
Less current portion	(11,759)	**(900)**	**(7,661)**
Long-term debt, less current portion	¥ 36,000	**¥152,410**	**$1,297,438**

Annual maturities of long-term debt as at 31st March, 2006 for the next five years were as follows:

Year Ending 31st March	Millions of Yen	Thousands of U.S. Dollars
2007	¥ 900	$ 7,661
2008	21,900	186,430
2009	106,040	902,699
2010	24,470	208,309
2011		
Total	¥153,310	$1,305,099

On 25th November, 2003, the Company issued ¥13,000 million of zero coupon unsecured Japanese yen convertible bonds with warrants mainly in the Euro market. The bonds are due 25th November, 2008, and the warrants are exercisable at ¥38,486.10 ($327.62) per share as at 31st March, 2006. Upon exercise of the warrants, the bonds are convertible into the Company's common stock. The issue price of the bonds was 100 percent of the face value of the bonds, and remaining number of the warrants and number of shares to be issued upon exercise of the warrants are 594 warrants and 154,350 shares, respectively, as at 31st March, 2006.

On 8th April, 2004, the Company issued ¥20,000 million of zero coupon unsecured Japanese yen convertible bonds with warrants mainly in the Euro market. The bonds are due 8th April, 2009, and the warrants are exercisable at ¥39,438.50 ($335.73) per share as at 31st March, 2006. Upon exercise of the warrants, the bonds are convertible into the Company's common stock. The issue price of the bonds was 100 percent of the face value of the bonds, and remaining number of the warrants and number of shares to be issued upon exercise of the warrants are 1,277 warrants and 323,803 shares, respectively, as at 31st March, 2006.

On 13th September, 2005, the Company issued ¥42,000 million ($357,538 thousand) of unsecured Japanese yen straight bonds with a fixed rate of 1.23 percent. The bonds are due 29th September, 2008.

On 11th October, 2005, the Company issued ¥8,000 million ($68,102 thousand) of unsecured Japanese yen straight bonds with a fixed rate of 1.23 percent. The bonds are due 29th September, 2008.

On 10th March, 2006, ETS, the Company's subsidiary, issued ¥50,000 million ($425,641 thousand) of unsecured Japanese yen straight bonds with a fixed rate of 1.24 percent. The bonds are due 10th March, 2009.

The Company repurchased all of the warrants attached to bonds previously issued and already redeemed and distributed these repurchased warrants to officers and employees of the Company as a means of stock-based incentive compensation. At 31st March, 2006, these warrants were included in other current liabilities.

Exercise prices and exercise periods of warrants outstanding at 31st March, 2006 were as follows:

Exercise Period		Per Share Exercise Price		Number of Common Stock to Purchase
From	To	Yen	U.S. Dollars	
1st April, 2002	31st March, 2007	¥ 2,083.30	$ 17.73	2,592.02
1st April, 2003	31st March, 2008	2,083.30	17.73	18,792.25
1st April, 2002	31st March, 2007	25,464.90	216.78	3,952.04
1st April, 2003	31st March, 2008	25,464.90	216.78	4,010.13
1st October, 2003	30th September, 2008	25,464.90	216.78	581.10
				29,927.54

The Company took over the warrants issued by E*TRADE Japan K.K. ("ETJ") due to the merger on 2nd June, 2003. Exercise prices and exercise periods of these warrants outstanding at 31st March, 2006 were as follows:

Exercise Period		Per Share Exercise Price		Number of Common Stock to Purchase
From	To	Yen	U.S. Dollars	
1st April, 2002	28th March, 2007	¥1,910.70	$16.27	7,960.19
1st April, 2003	28th March, 2008	1,910.70	16.27	10,953.82
12th June, 2002	28th March, 2007	2,116.40	18.02	1,496.88
12th June, 2003	28th March, 2008	2,116.40	18.02	2,959.74
				23,370.63

The Company took over the warrants issued by FAS due to the merger on 1st March, 2006. Exercise prices and exercise periods of these warrants outstanding at 31st March, 2006 were as follows:

Exercise Period		Per Share Exercise Price		Number of Common Stock to Purchase
From	To	Yen	U.S. Dollars	
1st April, 2002	28th March, 2009	¥4,464.00	$38.00	30,216

The exercise prices of the warrants are subject to adjustments to reflect stock splits and certain other events.

SBI has bank lines of credit of ¥92,846 million ($790,384 thousand) available for working capital use, ¥88,346 million ($752,076 thousand) of which was unused at 31st March, 2006.

15. PLEDGED ASSETS

The carrying amounts of assets pledged as collateral for short-term borrowings of ¥2,190 million and ¥2,140 million ($18,217 thousand) at 31st March, 2005 and 2006 and for long-term debt of nil and ¥11,700 million ($99,600 thousand) at 31st March, 2005 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	31st March		**31st March,**
	2005	**2006**	**2006**
Cash and cash equivalents	¥ 275	**¥ 40**	**$ 341**
Real estate inventory		**19,266**	**164,004**
Buildings and leasehold improvements	152		
Land	152		
Investment securities	612		
Total	¥1,191	**¥19,306**	**$164,345**

Securities received as collateral for financing from broker's own capital of ¥2,211 million and ¥801 million ($6,820 thousand) were pledged as collateral for short-term bank loans at 31st March, 2005 and 2006, respectively.

Securities received as collateral for financing from broker's own capital of ¥6,507 million and ¥19,392 million ($165,083 thousand) were pledged as collateral for loans payable for margin transactions at 31st March, 2005 and 2006, respectively. Substitute securities for guarantee money received from customers of ¥12,474 million and ¥17,487 million ($148,862 thousand) were also pledged as collateral for loans payable for margin transactions at 31st March, 2005 and 2006, respectively.

Substitute securities for guarantee money received from customers of ¥130 million and ¥213 million ($1,809 thousand) and securities received as collateral for financing from broker's own capital of ¥35 million and ¥18 million ($152 thousand) were pledged as collateral for substitute securities for trade margin on futures at 31st March, 2005 and 2006, respectively.

Securities received as collateral for financing from broker's own capital of ¥66 million and nil were pledged as collateral for substitute securities for guarantee money for the securities exchange at 31st March, 2005 and 2006, respectively.

Securities received as collateral for financing from broker's own capital of ¥10 million and ¥25 million ($215 thousand) were pledged as collateral for substitute securities for guarantee money for when-issued transactions at 31st March, 2005 and 2006, respectively.

In addition, cash and cash equivalents of ¥2,500 million were pledged as collateral for payment guarantee by a financial institution upon the court decree concerning suits for damages at 31st March, 2005.

16. UNEARNED INCOME

Unearned income at 31st March, 2005 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	31st March		31st March,
	2005	**2006**	**2006**
SOFTBANK INTERNET TECHNOLOGY FUND No. 1	¥ 67	**¥ 71**	**$ 609**
SOFTBANK INTERNET TECHNOLOGY FUND No. 2	559	**684**	**5,821**
SOFTBANK INTERNET TECHNOLOGY FUND No. 3	107	**34**	**289**
SOFTBANK INTERNET FUND	291	**291**	**2,474**
SBI·LBO·FUND No. 1	48	**12**	**104**
RESTRUCTURING Fund No. 1	90	**36**	**311**
SBI BB Media Fund	475	**472**	**4,022**
SBI Broadband Fund No. 1	162	**258**	**2,192**
BIOVISION Life Science Fund I	121	**88**	**753**
SOFTBANK CONTENTS FUND		**212**	**1,800**
SBI Bio Life Science Investment LPS.		**133**	**1,129**
SBI-BC		**262**	**2,229**
Advance received from customer for lease		**211**	**1,795**
Others	747	**907**	**7,720**
Total	¥2,667	**¥3,671**	**$31,248**

17. LIABILITY FOR EMPLOYEES' RETIREMENT BENEFITS

The Company and certain domestic consolidated subsidiaries have a contributory funded defined benefit pension plan and a defined contribution pension plan. The Company's certain domestic consolidated subsidiaries have a non-contributory funded defined benefit pension plan and either of a contributory funded defined benefit pension plan, a defined contribution pension plan or an advance payment system for the employees' retirement plan, or more, while certain foreign consolidated subsidiaries have a termination allowance plan according to their own retirement benefit policies.

Under the contributory or non-contributory funded defined benefit pension plan, employees terminating their employment are, in most circumstances, entitled to pension payments based on their average pay during their employment, length of service and certain other factors. Under the defined contribution pension plans, the Company and certain domestic consolidated subsidiaries contribute an amount equal to 3 percent of the employee's annual salary up to ¥216,000 per year.

As at 31st March, 2005 and 2006, fair value of plan assets under the contributory funded defined benefit pension plan managed by Kanto IT Software Health Insurance Society was ¥438 million and ¥721 million ($6,139 thousand), respectively, which was calculated based on a ratio of the number of plan beneficiaries from the Company and its subsidiaries to the total number of plan beneficiaries.

As at 31st March, 2005 and 2006, fair value of plan assets under the contributory funded defined benefit pension plan managed by Association of Welfare Pension Fund in the Commodity Futures Industry was ¥238 million and ¥319 million ($2,712 thousand), respectively, which was calculated based on a ratio of the contribution amount made by the Company's subsidiary to the total contribution amount.

The liability for employees' retirement benefits included in other long-term liabilities at 31st March, 2005 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	31st March		**31st March,**
	2005	**2006**	**2006**
Projected benefit obligation	¥ 1,855	**¥ 139**	**$ 1,181**
Fair value of plan assets	(1,810)	**(143)**	**(1,215)**
Unrecognised actuarial loss	(66)		
Prepaid pension costs	36	**4**	**34**
Net liability	¥ 15		

Other than the liability mentioned above, the liability for employees' retirement benefit of a foreign consolidated subsidiary in the aggregate amount of ¥61 million and ¥26 million ($220 thousand) was included in the SBI's liability for employee's retirement benefit at 31st March, 2005 and 2006, respectively.

The components of net periodic benefit costs for the years ended 31st March, 2005 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended 31st March		**Year Ended 31st March,**
	2005	**2006**	**2006**
Service cost	¥260	**¥123**	**$1,049**
Interest cost	54	**18**	**152**
Expected return on plan assets	(42)	**(12)**	**(100)**
Recognised actuarial loss	84	**14**	**123**
Net periodic benefit costs	356	**143**	**1,224**
Contributions to the defined contribution pension plan and advance retirement payments	65	**178**	**1,513**
Total	¥421	**¥321**	**$2,737**

The service cost mentioned above included contributions to the contributory funded defined benefit pension plan managed by Kanto IT Software Health Insurance Society in the aggregate amounts of ¥41 million and ¥70 million ($594 thousand) for the years ended 31st March, 2005 and 2006, respectively, to the contributory funded defined benefit pension plan managed by Japanese Securities Dealers Employees Pension Fund in the aggregate amount of ¥61 million for the year ended 31st March, 2005, and to the contributory funded defined benefit pension plan managed by Association of Welfare Pension Fund in the Commodity Futures Industry in the aggregate amount of ¥8 million and ¥10 million ($83 thousand) for the years ended 31st March, 2005 and 2006, respectively.

Other than the costs mentioned above, SBI accounted for the benefit costs in the aggregate amount of ¥27 million and ¥40 million ($342 thousand) which was incurred by a foreign consolidated subsidiary for the years ended 31st March, 2005 and 2006, respectively.

Certain domestic consolidated subsidiaries have applied the simplified method for computation of projected benefit obligation. Under the simplified method, the liability for employees' retirement benefits is recorded to state the liability at the amount that would be required if all employees voluntarily terminate at each balance sheet date. Net periodic benefit costs of consolidated domestic subsidiaries which applied the simplified method for computation of projected benefit obligation were included in service cost.

A certain domestic consolidated subsidiary which had applied the principal accounting treatment for computation of projected benefit obligation under accounting principles generally accepted in Japan ("the principal method") was excluded from consolidation scope at the end of August 2005. Consequently all consolidated subsidiaries have applied the simplified method for computation of projected benefit obligation from September 2005. The net periodic benefit costs under the principal method were included in service cost from April 2005 to August 2005.

Assumptions used for the year ended 31st March, 2005 were set forth as follows:

	2005
Discount rate	Principally 2.50 percent
Expected rate of return on plan assets	Principally 2.50 percent
Recognition period of actuarial gain/loss	Principally 8 to 10 years

18. RETIREMENT ALLOWANCE FOR DIRECTORS

Retirement allowance for directors is paid subject to approval of the shareholders in accordance with the Code.

The Company and its subsidiary recorded liabilities of ¥44 million and ¥7 million ($61 thousand) for its unfunded retirement allowance plan covering all of their directors at 31st March, 2005 and 2006, respectively, which was included in other long-term liabilities.

19. STATUTORY RESERVES

According to the Securities and Exchange Law and the Commodities Exchange Law of Japan, a securities company and a commodities company are required to set aside reserves in proportion to its securities or commodities transactions and other related trading to cover possible customer losses incurred by default of the securities company on securities transactions or the commodities company on commodities transactions.

20. SHAREHOLDERS' EQUITY

Through 1st May, 2006, Japanese companies are subject to the Code.

The Code requires that all shares of common stock be issued with no par value and at least 50 percent of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds are required to be presented as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration by way of a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Code also provides that an amount of 10 percent or more of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period (such as bonuses to directors) shall be appropriated as a legal reserve (a component of retained earnings) until the total of such reserve and additional paid-in capital equals 25 percent of common stock. The amount of total legal reserve and additional paid-in capital that exceeds 25 percent of the common stock may be available for dividends by resolution of the shareholders after transferring such excess in accordance with the Code. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The Code allows Japanese companies to purchase treasury stock and dispose of such treasury stock upon resolution of the Board of Directors. The aggregate purchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the annual general meeting of shareholders.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash outlays, the Code also imposes certain limitations on the amount of capital surplus and retained earnings available for dividends. The amount of capital surplus and retained earnings available for dividends under the Code was ¥69,769 million ($593,934 thousand) as of 31st March, 2006, based on the amount recorded in the parent company's general books of account.

Dividends are approved by the shareholders at a meeting held subsequent to the end of fiscal year to which the dividends are applicable. Semi-annual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

On 1st May, 2006, a new corporate law (the "Corporate Law") became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after 1st May, 2006 and for the fiscal years ending on or after 1st May, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarised below:

a. Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as: (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semi-annual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Corporate Law requires that an amount equal to 10 percent of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25 percent of the common stock. Under the Code, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25 percent of the common stock may be made available for dividends by resolution of the shareholders. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of shareholders' equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of shareholders' equity or deducted directly from stock acquisition rights.

On 9th December, 2005, the ASBJ published a new accounting standard for presentation of shareholders' equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of shareholders' equity. Such items include stock acquisition rights, minority interest, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after 1st May, 2006.

On 5th October, 2004, the Company made a stock split by way of a free share distribution at the ratio of 3 shares for each outstanding share, and 4,657,939 shares of the Company's common stock were issued to shareholders of record on 11th August, 2004 and 7,346 shares of treasury stock increased. Dividends for newly issued shares in relation to this stock split were computed from 1st October, 2004. In addition, on 5th October, 2004, the Company increased the number of authorised shares by 18,126,000 shares to 27,190,000 shares through amendment of articles of incorporation.

During the year ended 31st March, 2005, the Company issued 125,678 shares of its common stock pursuant to the exercise of warrants attached to various unsecured corporate bonds already redeemed and options granted based on the stock option plans. As a result, common stock and capital surplus increased by ¥596 million and ¥599 million, respectively.

Upon resolution and approval of the Board of Directors on 23rd February, 2005, the Company issued 1,250,000 new shares of common stock through public offering on 15th March, 2005. The Company's common stock and capital surplus increased by ¥22,414 million and ¥22,413 million, respectively.

Upon resolution and approval of the Board of Directors on 23rd February, 2005, the Company issued 187,500 new shares of common stock through private placement on 23rd March, 2005. The Company's common stock and capital surplus each increased by ¥3,362 million.

Upon resolution and approval of the Board of Directors on 2nd September, 2005, the Company issued 347,861 new shares of common stock through private placement on 29th September, 2005. The Company's common stock and capital surplus increased by ¥6,448 million ($54,887 thousand) and ¥6,448 million ($54,884 thousand), respectively.

Upon resolution and approval of the Board of Directors on 25th October, 2005, the Company issued 134,000 new shares of common stock through private placement on 16th November, 2005. The Company's common stock and capital surplus each increased by ¥3,479 million ($29,619 thousand).

Upon resolution and approval of the Board of Directors meeting held on 13th October, 2005, to own SBI-CAPITAL wholly, the Company issued 49,259 shares of its common stock to SBI-CAPITAL's shareholders listed in shareholder list as at 30th November, 2005 at an exchange ratio of 3.01 shares for each outstanding share of SBI-CAPITAL's common stock on 1st December, 2005. Dividends for newly issued shares in relation to this exchange of shares were computed from 1st October, 2005. As a result, the Company's capital surplus increased by ¥2,267 million ($19,299 thousand).

Upon resolution and approval of the extraordinary shareholders meeting held on 27th January, 2006, to merge with SBIP, the Company issued 842,392 shares of its common stock to SBIP's shareholders listed in shareholder list as at 28th February, 2006 at an exchange ratio of 0.05 share for each outstanding share of SBIP's common stock on 1st March, 2006. Dividends for newly issued shares in relation to this merger were computed from 1st October, 2005. As a result, the Company's capital surplus increased by ¥8,544 million ($72,732 thousand).

Upon resolution and approval of the extraordinary shareholders meeting held on 27th January, 2006, to merge with FAC, the Company issued 1,234,860 shares of its common stock to FAC's shareholders listed in shareholder list as at 28th February, 2006 at an exchange ratio of 2.5 shares for each outstanding share of FAC's common stock on 1st March, 2006. Dividends for newly issued shares in relation to this merger were computed from 1st October, 2005. There was no effect on the Company's capital surplus.

Upon resolution and approval of the extraordinary shareholders meeting held on 27th January, 2006, to own SBI-SEC wholly, the Company issued 483,338 shares of its common stock to SBI-SEC's shareholders listed in shareholder list as at 28th February, 2006 at an exchange ratio of 1.15 shares for each outstanding share of SBI-SEC's common stock on 1st March, 2006. Dividends for newly issued shares in relation to this exchange of shares were computed from 1st October, 2005. As a result, the Company's capital surplus increased by ¥31,842 million ($271,068 thousand).

During the year ended 31st March, 2006, the Company issued 289,889 shares of its common stock pursuant to the exercise of warrants attached to various unsecured corporate bonds already redeemed and options granted based on the stock option plans. As a result, the Company's common stock and capital surplus increased by ¥2,392 million ($20,363 thousand) and ¥2,392 million ($20,365 thousand), respectively.

During the year ended 31st March, 2006, the Company issued 366,749 shares of its common stock pursuant to the exercise of warrants attached to zero coupon unsecured Japanese yen convertible bonds. As a result, the Company's common stock and capital surplus each increased by ¥7,145 million ($60,824 thousand).

21. STOCK OPTION PLAN

The stock option plan, which was approved by shareholders of the Company at the general shareholders meeting held on 19th December, 2001, provides for granting options to 118 key employees of the Company to purchase the Company's common stock at an exercise price of ¥20,796 per share during the period from 20th December, 2003 to 19th December, 2011. The maximum number of shares to be issued upon exercise of the options was 12,382 shares. In the case where the Company makes a stock split or stock consolidation subsequent to the date of option grant, the number of shares to be issued will be adjusted based upon a certain formula, as defined.

At the Board of Directors meeting on 19th December, 2002, details of the stock option plan which had been approved by the Company's shareholders at the general shareholders meeting on the same date were determined. According to the resolution, this stock option plan provides for issuing options to 9 directors and 109 key employees of the Company to purchase the Company's common stock at an exercise price of ¥5,984 per share during the period from 20th December, 2004 to 19th December, 2012. The maximum number of shares to be issued upon exercise of the options was 53,748 shares.

At the Board of Directors meeting on 17th September, 2003, details of the stock option plan which had been approved by the Company's shareholders at the general shareholders meeting on 19th December, 2002 were determined. According to the resolution, this stock option plan provides for issuing options to 2 directors and 4 key employees of the Company and 3 directors of consolidated subsidiaries to purchase the Company's common stock at an exercise price of ¥17,879 per share during the period from 20th December, 2004 to 19th December, 2012. The maximum number of shares to be issued upon exercise of the options was 22,428 shares.

At the Board of Directors meeting on 17th September, 2003, details of the stock option plan which had been approved by the Company's shareholders at the general shareholders meeting on 23rd June, 2003 were determined. According to the resolution, this stock option plan provides for issuing options to 2 directors and 110 key employees of the Company and 6 directors and 86 key employees of consolidated subsidiaries to purchase the Company's common stock at an exercise price of ¥17,879 per share during the period from 24th June, 2005 to 23rd June, 2013. The maximum number of shares to be issued upon exercise of the options was 191,646 shares.

The stock option plan, which was approved by shareholders of ETJ at the general shareholders meeting held on 20th June, 2002 and taken over by the Company due to the merger on 2nd June, 2003, provides for issuing options to purchase the Company's common stock at an exercise price of ¥12,079 per share during the period from 21st June, 2004 to 20th June, 2012. The maximum number of shares to be issued upon exercise of the options was 122,325 shares.

At the Board of Directors meeting on 23rd October, 2003, details of the stock option plan which had been approved by the Company's shareholders at the general shareholders meeting on 23rd June, 2003 were determined. According to the resolution, this stock option plan provides for issuing options to 17 directors of consolidated subsidiaries to purchase the Company's common stock at an exercise price of ¥27,655 per share during the period from 24th June, 2005 to 23rd June, 2013. The maximum number of shares to be issued upon exercise of the options was 25,227 shares.

At the Board of Directors meeting on 20th July, 2005, details of the stock option plan which had been approved by the Company's shareholders at the general shareholders meeting on 29th June, 2005 were determined. According to the resolution, this stock option plan provides for issuing options to 7 directors and 89 key employees of the Company and 14 directors and 36 key employees of subsidiaries to purchase the Company's common stock at an exercise price of ¥35,078 per share during the period from 28th July, 2005 to 29th June, 2013. The maximum number of shares to be issued upon exercise of the options was 35,057 shares.

The stock option plan, which was approved by shareholders of Digit Brain, Inc. at the general shareholders meeting held on 27th June, 2003 and taken over by the Company due to the merger on 1st March, 2006, provides for issuing options to purchase the Company's common stock at an exercise price of ¥13,000 per share during the period from 1st January, 2004 to 31st December, 2006. The maximum number of shares to be issued upon exercise of the options was 8,655 shares.

The stock option plan, which was approved by shareholders of SBI HOME Planner Co., LTD. ("SBIHP," currently known as SBI Planners Co., LTD.) at the general shareholders meeting held on 27th June, 2003 and taken over by SBIP due to the share exchange on 15th January, 2005, was succeeded to the Company due to the merger on 1st March, 2006. This stock option plan provides for issuing options to purchase the Company's common stock at an exercise price of ¥23,200 per share during the period from 28th June, 2005 to 27th June, 2013. The maximum number of shares to be issued upon exercise of the options was 786 shares.

The stock option plan, which was approved by shareholders of SBIHP at the extraordinary shareholders meeting held on 27th September, 2004 and taken over by SBIP due to the share exchange on 15th January, 2005, was succeeded to the Company due to the merger on 1st March, 2006. This stock option plan provides for issuing options to purchase the Company's common stock at an exercise price of ¥25,600 per share during the period from 1st April, 2005 to 30th March, 2007. The maximum number of shares to be issued upon exercise of the options was 930 shares.

The stock option plan, which was approved by shareholders of SBIHP at the extraordinary shareholders meeting held on 27th September, 2004 and taken over by SBIP due to the share exchange on 15th January, 2005, was succeeded to the Company due to the merger on 1st March, 2006. This stock option plan provides for issuing options to purchase the Company's common stock at an exercise price of ¥25,600 per share during the period from 2nd October, 2006 to 30th September, 2010. The maximum number of shares to be issued upon exercise of the options was 934 shares.

At the Board of Directors meeting on 25th October, 2004, details of the stock option plan which had been approved by shareholders of SBIHP at the extraordinary shareholders meeting on 27th September, 2004 were determined. This stock option plan had been taken over by SBIP due to the share exchange on 15th January, 2005, and it has been succeeded to the Company due to the merger on 1st March, 2006. This stock option plan provides for issuing options to purchase the Company's common stock at an exercise price of ¥25,600 per share during the period from 2nd October, 2006 to 30th September, 2010. The maximum number of shares to be issued upon exercise of the options was 60 shares.

The stock option plan, which was approved by shareholders of SBIP at the general shareholders meeting held on 22nd September, 2005 and taken over by the Company due to the merger on 1st March, 2006, provides for issuing options to purchase the Company's common stock at an exercise price of ¥37,060 per share during the period from 1st December, 2005 to 31st October, 2013. The maximum number of shares to be issued upon exercise of the options was 800 shares.

The stock option plan, which was approved by shareholders of FAC at the extraordinary shareholders meeting held on 24th September, 2002 and taken over by the Company due to the merger on 1st March, 2006, provides for issuing options to purchase the Company's common stock at an exercise price of ¥4,465 per share during the period from 25th September, 2004 to 24th September, 2012. The maximum number of shares to be issued upon exercise of the options was 6,840 shares.

The stock option plan, which was approved by shareholders of FAC at the extraordinary shareholders meeting held on 1st August, 2003 and taken over by the Company due to the merger on 1st March, 2006, provides for issuing options to purchase the Company's common stock at an exercise price of ¥4,465 per share during the period from 2nd August, 2005 to 1st August, 2013. The maximum number of shares to be issued upon exercise of the options was 38,240 shares.

The stock option plan, which was approved by shareholders of SOFTBANK FRONTIER SECURITIES CO., LTD ("SFS," currently known as SBI-SEC) at the general shareholders meeting held on 18th June, 2002 and taken over by WORLD NICHIEI FRONTIER Securities Co., LTD. ("WNF," currently known as SBI-SEC) due to the merger on 2nd February, 2004, was succeeded to the Company due to the share exchange on 1st March, 2006. This stock option plan provides for issuing options to purchase the Company's common stock at an exercise price of ¥7,740 per share during the period from 19th June, 2004 to 18th June, 2008. The maximum number of shares to be issued upon exercise of the options was 986 shares.

The stock option plan, which was approved by shareholders of SFS at the general shareholders meeting held on 27th June, 2003 and taken over by the Company due to the share exchange on 1st March, 2006, provides for issuing options to purchase the Company's common stock at an exercise price of ¥17,392 per share during the period from 1st July, 2005 to 26th June, 2013. The maximum number of shares to be issued upon exercise of the options was 2,565 shares.

At the Board of Directors meeting on 29th June, 2004, details of the stock option plan which had been approved by shareholders of WNF at the general shareholders meeting on the same date were determined. This stock option plan, which had been taken over by the Company due to the share exchange on 1st March, 2006, provides for issuing options to purchase the Company's common stock at an exercise price of ¥50,174 per share during the period from 30th June, 2006 to 29th June, 2014. The maximum number of shares to be issued upon exercise of the options was 32,059 shares.

At the Board of Directors meeting on 22nd December, 2004, details of the stock option plan which had been approved by the shareholders of WNF at the general shareholders meeting on 29th June, 2004 were determined. This stock option plan, which had been taken over by the Company due to the share exchange on 1st March, 2006, provides for issuing options to purchase the Company's common stock at an exercise price of ¥31,914 per share during the period from 30th June, 2006 to 29th June, 2014. The maximum number of shares to be issued upon exercise of the options was 98 shares.

The stock option plan, which was approved by shareholders of SBI-SEC at the general shareholders meeting held on 29th June, 2005 and taken over by the Company due to the share exchange on 1st March, 2006, provides for issuing options to purchase the Company's common stock at an exercise price of ¥46,957 per share during the period from 30th June, 2007 to 29th June, 2015. The maximum number of shares to be issued upon exercise of the options was 39,017 shares.

The stock option plan, which was approved by the Company's shareholders at the general shareholders meeting held on 23rd June, 2004, lapsed on 28th June, 2005.

The exercise prices of the above options will be adjusted for subsequent transactions such as stock splits, stock consolidations, or stock issuances or disposal of treasury stock with a lower price than market value, based upon certain formulas, as defined. There are also certain restrictions in exercising the stock option rights.

22. REVENUE FROM TRADING

Gain (loss) on trading included in operating revenues for the years ended 31st March, 2005 and 2006 consisted of the following:

	Millions of Yen						Thousands of U.S. Dollars		
	2005			**2006**			**2006**		
	Realised Gain	Unrealised Gain (Loss)	Total	Realised Gain	Unrealised Gain (Loss)	Total	Realised Gain	Unrealised Gain (Loss)	Total
Equity securities	¥ 670	¥(26)	¥ 644	**¥ 999**	**¥(8)**	**¥ 991**	**$ 8,506**	**$(66)**	**$ 8,440**
Debt securities	2,495		2,495	**2,747**	**7**	**2,754**	**23,383**	**57**	**23,440**
Others	187	22	209	**882**	**(2)**	**880**	**7,505**	**(20)**	**7,485**
Total	¥3,352	¥ (4)	¥3,348	**¥4,628**	**¥(3)**	**¥4,625**	**$39,394**	**$(29)**	**$39,365**

Gains on certain businesses other than securities-related business of ¥7 million and ¥71 million ($604 thousand) were included in the gain (loss) on trading for the years ended 31st March, 2005 and 2006, respectively.

23. OPERATING COSTS

Operating costs for the years ended 31st March, 2005 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended 31st March		**Year Ended 31st March,**
	2005	**2006**	**2006**
Cost of operational investment securities	¥10,240	**¥12,467**	**$106,129**
Provision for (reversal of) valuation allowance for operational investment securities	(71)	**450**	**3,828**
Financial charges	2,327	**4,127**	**35,130**
Rental and lease costs	5,374	**6,075**	**51,713**
Others, including administrative expenses	3,453	**14,477**	**123,247**
Total	¥21,323	**¥37,596**	**$320,047**

The above cost of operational investment securities for the years ended 31st March, 2005 and 2006 included a write-down of operational investment securities and securities held by funds of ¥616 million and ¥209 million ($1,777 thousand), respectively.

24. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended 31st March, 2005 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended 31st March		**Year Ended 31st March,**
	2005	**2006**	**2006**
Compensation for directors	¥ 973	**¥ 1,280**	**$ 10,895**
Provision for allowance for doubtful accounts	239	**678**	**5,770**
Payroll and bonuses	6,309	**7,048**	**59,997**
Provision for retirement allowances for directors	13	**8**	**72**
Retirement benefit costs	285	**104**	**889**
Provision for accrued bonuses	593	**818**	**6,960**
Subcontracting fees	5,731	**8,432**	**71,779**
Others	21,176	**31,688**	**269,754**
Total	¥35,319	**¥50,056**	**$426,116**

25. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of 40.69 percent for the years ended 31st March, 2005 and 2006.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at 31st March, 2005 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	31st March		31st March,
	2005	**2006**	**2006**
Deferred tax assets:			
Current:			
Write-down of operational investment securities	¥ 951	**¥ 3,216**	**$ 27,376**
Valuation allowance for operational investment securities	769	**854**	**7,268**
Allowance for doubtful accounts	125	**123**	**1,046**
Accrued bonuses	266	**274**	**2,329**
Fee from funds	24		
Tax loss carryforwards	294	**998**	**8,498**
Accrued enterprise taxes	717	**1,381**	**11,759**
Other	455	**406**	**3,459**
Less valuation allowance	(904)	**(565)**	**(4,813)**
Total	2,697	**6,687**	**56,922**
Non-current:			
Tax loss carryforwards	3,199	**1,758**	**14,967**
Allowance for doubtful accounts	898	**525**	**4,471**
Write-down of investment securities	753	**730**	**6,210**
Reserve for liability for securities transactions	1,036	**2,005**	**17,071**
Other	603	**541**	**4,603**
Less valuation allowance	(5,419)	**(3,492)**	**(29,726)**
Total	1,070	**2,067**	**17,596**
Total	¥ 3,767	**¥ 8,754**	**$ 74,518**
Deferred tax liabilities:			
Current:			
Unrealised gain on available-for-sale securities	¥ 5,077	**¥ 6,823**	**$ 58,087**
Other	1		
Total	5,078	**6,823**	**58,087**
Non-current:			
Unrealised gain on available-for-sale securities	1,914	**2,744**	**23,363**
Other	327	**67**	**562**
Total	2,241	**2,811**	**23,925**
Total	¥ 7,319	**¥ 9,634**	**$ 82,012**

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended 31st March, 2005 and 2006 was as follows:

	Year Ended 31st March	
	2005	**2006**
Normal effective tax rate	40.69%	**40.69%**
Permanent differences	0.10	**0.22**
Dilution gain from changes in equity interest	(10.63)	**(13.21)**
Amortisation of goodwill	(2.70)	**(0.76)**
Valuation allowance	(3.95)	**(4.61)**
Other—net	0.03	**1.18**
Actual effective tax rate	23.54%	**23.51%**

26. DILUTION GAIN FROM CHANGES IN EQUITY INTEREST

The "Dilution gain from changes in equity interest" arose from changes in the Company's and its consolidated subsidiaries' equity interest as a result of capital transactions by investees, including an initial public offering. Dilution gain principally consisted of an initial public offering by ETS for the year ended 31st March, 2005 and allocation of new stocks to a third party by ETS for the year ended 31st March, 2006.

27. LEASES

SBI leases certain office equipment, computer equipment, office space and other assets.

Total rental expenses for the years ended 31st March, 2005 and 2006 were ¥3,288 million and ¥4,130 million ($35,159 thousand), respectively, including ¥794 million and ¥1,222 million ($10,404 thousand) of lease payments under finance leases.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense, interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalised" basis for the years ended 31st March, 2005 and 2006 was as follows:

	Year Ended 31st March, 2005		
	Millions of Yen		
	Furniture and Equipment	Software	Total
Acquisition cost	¥3,954	¥1,025	¥4,979
Accumulated depreciation	1,000	292	1,292
Net leased property	¥2,954	¥ 733	¥3,687

	Year Ended 31st March, 2006					
	Millions of Yen			Thousands of U.S. Dollars		
	Furniture and Equipment	Software	Total	Furniture and Equipment	Software	Total
Acquisition cost	**¥6,124**	**¥1,317**	**¥7,441**	**$52,134**	**$11,211**	**$63,345**
Accumulated depreciation	**1,849**	**516**	**2,365**	**15,739**	**4,395**	**20,134**
Net leased property	**¥4,275**	**¥ 801**	**¥5,076**	**$36,395**	**$ 6,816**	**$43,211**

Obligations under finance leases including interest portion as at 31st March, 2005 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	31st March		**31st March,**
	2005	**2006**	**2006**
Due within one year	¥1,730	**¥ 2,547**	**$ 21,679**
Due after one year	3,203	**12,508**	**106,485**
Total	¥4,933	**¥15,055**	**$128,164**

Depreciation expense and interest expense under finance leases for the years ended 31st March, 2005 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended 31st March		**Year Ended 31st March,**
	2005	**2006**	**2006**
Depreciation expense	¥740	**¥1,143**	**$ 9,729**
Interest expense	86	**114**	**969**
Total	¥826	**¥1,257**	**$10,698**

Depreciation expense and interest expense, which are not reflected in the accompanying consolidated statements of income, were computed by the straight-line method and the interest method, respectively.

The future minimum lease payments under noncancellable operating leases at 31st March, 2005 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	31st March		**31st March,**
	2005	**2006**	**2006**
Due within one year	¥111	**¥ 8**	**$ 71**
Due after one year	8	**7**	**57**
Total	¥119	**¥15**	**$128**

28. RELATED PARTY TRANSACTIONS

Transactions of SBI with related parties for the years ended 31st March, 2005 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended 31st March		**Year Ended 31st March,**
	2005	**2006**	**2006**
Purchase of common stock		**¥ 759**	**$ 6,462**
Purchase of investment in securities		**50,500**	**429,897**
Sales of common stock	¥486		

29. DERIVATIVES

SBI enters into foreign currency forward contracts and interest rate swap agreements primarily to hedge foreign exchange risk associated with receivables, payables and securities denominated in foreign currencies and to manage its interest rate exposures on borrowings and does not hold or issue them for speculative purpose. Stock-index futures, commodity futures and a portion of foreign currency forward contracts and commodity futures are used for increasing underlying assets and supplementing revenue, respectively. SBI enters into stock-index futures and commodity futures for the purpose of day trading or capping of the size of their transactions. In addition, SBI uses bond futures and a portion of foreign currency forward contracts for trading purpose. In the trading operation, these derivatives are used in response to clients' needs and facilitation of trading in the normal course of business.

Derivatives are subject to market risk and credit risk. Market risk is the exposure created by potential fluctuations in market conditions, including interest or foreign exchange rates, stock price, foreign commodity markets for products, economic trends or weather conditions. Credit risk is the possibility that a loss may result from counterparty's failure to perform according to the terms and conditions of the contract. Because the counterparties to foreign currency forward contracts and interest rate swap agreements are limited to major domestic financial institutions, and stock-index futures, commodity futures and bonds futures are traded in the public market, SBI does not anticipate any losses arising from credit risk. Potential risks inherent in the trading operation are also subject to market risk and credit risk.

Derivatives used for the hedging purpose are planned and executed by the administrative headquarters department upon approval of a director in-charge. Each derivative transaction is periodically reported to the management, where evaluation and analysis of derivatives are made. Derivatives used for trading purpose have been made in accordance with internal policies which regulate the nature of derivatives, credit limit amounts and administrative structure, which is monitored by the administrative headquarters department on a daily basis.

Fair Value of Derivatives

The fair values of SBI's derivatives at 31st March, 2005 and 2006 were as follows:

	Millions of Yen			
	2005			
	Assets		Liabilities	
	Contract Amount	Fair Value	Contract Amount	Fair Value
Foreign currency forward contracts	¥ 67	¥2	¥256	¥3
Bond futures			139	
Total	¥ 67	¥2	¥395	¥3

	Millions of Yen			
	2006			
	Assets		Liabilities	
	Contract Amount	Fair Value	Contract Amount	Fair Value
Foreign currency forward contracts	**¥222**	**¥1**	**¥1,027**	**¥11**
Nikkei average futures transactions			**6**	**2**
Bond futures	**403**	**3**		
Total	**¥625**	**¥4**	**¥1,033**	**¥13**

	Thousands of U.S. Dollars			
	2006			
	Assets		Liabilities	
	Contract Amount	Fair Value	Contract Amount	Fair Value
Foreign currency forward contracts	**$1,888**	**$10**	**$8,743**	**$ 97**
Nikkei average futures transactions			**48**	**15**
Bond futures	**3,435**	**27**		
Total	**$5,323**	**$37**	**$8,791**	**$112**

Gains or losses on deemed settlements are recorded in the "Fair value" above. In addition, the fair value of foreign currency forward contracts, Nikkei average futures transactions and bond futures were stated at the market values using forward exchange rates, Nikkei average future rates and bond future rates, respectively, on the balance sheet date.

Derivative liabilities for trading purposes are included in other current liabilities.

Derivatives used for the hedging purpose are excluded from the above table.

30. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended 31st March, 2005 and 2006 was as follows:

	Millions of Yen	Shares	Yen	U.S. Dollars
Year Ended 31st March, 2005	Net Income	Weighted-average Shares	EPS	
Basic EPS—Net income available to common shareholders	¥25,251	7,054,857	¥3,579.29	
Effect of dilutive securities—Warrants	(188)	585,307		
Diluted EPS—Net income for computation	¥25,063	7,640,164	¥3,280.47	
Year Ended 31st March, 2006				
Basic EPS—Net income available to common shareholders	**¥45,369**	**9,152,365**	**¥4,957.08**	**$42.20**
Effect of dilutive securities—Warrants	**(113)**	**628,469**		
Diluted EPS—Net income for computation	**¥45,256**	**9,780,834**	**¥4,627.04**	**$39.39**

31. SEGMENT INFORMATION

SBI operates in the following business segments:

"Asset Management Business" primarily consists of fund management and investment in Internet technology, bio and restructuring companies.

"Brokerage and Investment Banking Businesses" primarily consists of the provision of a wide range of high value-added financial services, such as access to financial assets including equity securities, debt securities, foreign exchanges, insurances or commodity futures, financing from the capital market, securitisations, mergers and acquisitions and structured financing.

"Financial Services Business" primarily consists of the provision of information regarding financial products, leasing business and mortgage loan business.

Information about business segments, geographical segments and revenue from foreign customers of SBI for the years ended 31st March, 2005 and 2006 was as follows:

(1) Business Segments

	Millions of Yen					
	Year Ended 31st March, 2005					
	Asset Management Business	Brokerage and Investment Banking Businesses	Financial Services Business	Total	Eliminations/ Corporate	Consolidated
a. Revenue and Operating Income						
Revenue from customers	¥ 24,258	¥ 45,397	¥11,857	¥ 81,512		¥ 81,512
Intersegment revenue	205	827	551	1,583	¥(1,583)	
Total revenue	24,463	46,224	12,408	83,095	(1,583)	81,512
Operating expenses	13,843	31,409	11,366	56,618	24	56,642
Operating income	¥ 10,620	¥ 14,815	¥ 1,042	¥ 26,477	¥(1,607)	¥ 24,870
b. Total Assets, Depreciation and Capital Expenditures						
Total assets	¥101,083	¥617,000	¥41,160	¥759,243	¥(4,239)	¥755,004
Depreciation	48	1,256	3,986	5,290	(59)	5,231
Capital expenditures	589	2,067	3,664	6,320	(47)	6,273

	Millions of Yen					
	Year Ended 31st March, 2006					
	Asset Management Business	Brokerage and Investment Banking Businesses	Financial Services Business	Total	Eliminations/ Corporate	Consolidated
a. Revenue and Operating Income						
Revenue from customers	¥ 37,822	¥ 80,221	¥19,204	¥ 137,247		¥ 137,247
Intersegment revenue	2,985	595	640	4,220	¥ (4,220)	
Total revenue	40,807	80,816	19,844	141,467	(4,220)	137,247
Operating expenses	30,387	42,279	17,548	90,214	(2,562)	87,652
Operating income	¥ 10,420	¥ 38,537	¥ 2,296	¥ 51,253	¥ (1,658)	¥ 49,595
b. Total Assets, Depreciation and Capital Expenditures						
Total assets	¥156,197	¥1,085,433	¥61,075	¥1,302,705	¥28,939	¥1,331,644
Depreciation	178	1,535	4,835	6,548	(44)	6,504
Capital expenditures	443	2,526	8,717	11,686	(21)	11,665

	Thousands of U.S. Dollars					
	Year Ended 31st March, 2006					
	Asset Management Business	Brokerage and Investment Banking Businesses	Financial Services Business	Total	Eliminations/ Corporate	Consolidated
a. Revenue and Operating Income						
Revenue from customers	$ 321,969	$ 682,907	$163,483	$ 1,168,359		$ 1,168,359
Intersegment revenue	25,408	5,063	5,451	35,922	$ (35,922)	
Total revenue	347,377	687,970	168,934	1,204,281	(35,922)	1,168,359
Operating expenses	258,676	359,915	149,385	767,976	(21,813)	746,163
Operating income	$ 88,701	$ 328,055	$ 19,549	$ 436,305	$ (14,109)	$ 422,196
b. Total Assets, Depreciation and Capital Expenditures						
Total assets	$1,329,677	$9,240,089	$519,920	$11,089,686	$246,348	$11,336,034
Depreciation	1,515	13,072	41,159	55,746	(377)	55,369
Capital expenditures	3,769	21,501	74,209	99,479	(180)	99,299

Notes: 1. Operating expenses mainly incurred in the Company's administrative headquarters could not be allocated based upon the business segments above and, therefore, were included in "Eliminations/corporate" of operating expenses with the aggregate amount of ¥2,024 million and ¥1,807 million ($15,383 thousand) for the years ended 31st March, 2005 and 2006, respectively.

2. Total corporate assets of nil and ¥40,904 million ($348,211 thousand) included in "Eliminations/corporate" of total assets as at 31st March, 2005 and 2006, respectively, mainly consisted of surplus funds (cash, bank deposits and cash in trust).

3. As mentioned in Note 2, the share of the Company's subsidiary invested by certain funds are consolidated by the Company according to SBI's contributed capital in investment partnerships. As a result, "Operating income" and "Total assets" in "Asset management business" decreased by ¥2,830 million ($24,091 thousand) and ¥76,658 million ($652,576 thousand), respectively, for the year ended 31st March, 2006. Total assets of "Brokerage and investment banking businesses" increased by ¥15,500 million ($131,951 thousand) and total assets of "Eliminations/corporate" decreased by ¥655 million ($5,573 thousand) for the year ended 31st March, 2006.

(2) Geographical Segments

Operating revenue and identifiable assets of consolidated foreign subsidiaries are not significant, therefore, geographical segment information is not presented herein.

(3) Revenue from Foreign Customers

	Year Ended 31st March, 2006		
	Millions of Yen		
	North America	Others	Total
Sales to foreign customers (A)	**¥13,344**	**¥7,870**	**¥ 21,214**
Consolidated sales (B)			**137,247**
(A)/(B)	**9.7%**	**5.8%**	**15.5%**

	Thousands of U.S. Dollars		
	North America	Others	Total
Sales to foreign customers (A)	**$113,596**	**$66,999**	**$ 180,595**
Consolidated sales (B)			**1,168,359**
(A)/(B)	**9.7%**	**5.8%**	**15.5%**

Note: North America and others primarily consisted of the United States of America, and Europe, Hong Kong and Korea, respectively.

Operating revenue from foreign customers for the year ended 31st March, 2005 is not significant; therefore, the information is not presented herein.

32. MARKETABLE SECURITIES LOANED

Fair value of marketable securities loaned was ¥89,487 million as at 31st March, 2005, which was an off-balance sheet item. None of fair value of marketable securities loaned was as at 31st March, 2006.

33. SUBSEQUENT EVENTS

a. Appropriations of Retained Earnings

At the general shareholders meeting held on 29th June, 2006, the Company's shareholders approved the following events:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥600 ($5.11) per share	¥7,338	$62,464
Bonuses to directors	200	1,703

b. Exercise of Stock Options

Due to the exercise of stock options previously granted (see Note 21), 6,385.12 shares of the Company's common stock were additionally issued in the period from 1st April to 31st May, 2006. The Company's common stock and capital surplus increased by ¥58 million ($493 thousand) and ¥58 million ($493 thousand), respectively.

c. NEXUS CO., LTD.

Upon resolution and approval of the Board of Directors meeting held on 12th May, 2006, the Company purchased 30,500 shares of common stock newly issued by NEXUS CO., LTD. ("NEXUS"), for an investment amount of ¥3,498 million ($29,781 thousand) (¥114,700 ($976.42) per share) on 29th May, 2006. As a result, equity of NEXUS held by the Company as at 29th May, 2006 was 22.8 percent, and NEXUS became an affiliated company of the Company from May 2006 and will be accounted for by the equity method from fiscal year 2007.

d. Purchase of Treasury Stock

Upon resolution and approval of the Board of Directors meeting held on 31st July, 2006, the Company purchased 1,047,900 shares of treasury stock, amounting to ¥47,156 million ($401,426 thousand), from SBAM, the Company's principal shareholder, on 1st August, 2006. As a result, the voting rights of the Company held by SBAM and its parent company, SOFTBANK CORPORATION, decreased, so the Company has been excluded from their affiliated companies accounted for by the equity method listings.