

**Index Holdings  
and Consolidated Subsidiaries**

**Consolidated Financial Statements**

*For the years ended August 31, 2004, 2005 and 2006  
with Report of Independent Auditors*

# Index Holdings and Consolidated Subsidiaries

## Consolidated Financial Statements

For the years ended August 31, 2004, 2005 and 2006

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## Report of Independent Auditors

The Board of Directors  
Index Holdings

We have audited the accompanying consolidated balance sheets of Index Holdings (formerly, Index Corporation) and consolidated subsidiaries as of August 31, 2004, 2005 and 2006, and the related consolidated statements of operations, changes in net assets, and cash flows for each of the three years in the period ended August 31, 2006, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Index Holdings and consolidated subsidiaries at August 31, 2004, 2005 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended August 31, 2006 in conformity with accounting principles generally accepted in Japan.

### Additional information

As described in Note 15, "Subsequent Events," the Company has determined to acquire shares of common stock of ATLAS Co., Ltd. at a meeting of the Board of Directors held on October 30, 2006, and acquired 7,700,000 of these shares for ¥4,242 million on November 20, 2006.

Tokyo, Japan  
November 29, 2006

## Consolidated Balance Sheets

### Index Holdings and Consolidated Subsidiaries

As of August 31, 2004, 2005 and 2006

	<b>August 31,</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>(Millions of yen)</i>		
<b>Assets</b>			
<b>Current assets:</b>			
Cash and bank deposits <i>(Notes 4 and 13)</i>	¥17,076	¥ 21,136	¥ 23,021
Notes and accounts receivable – trade	15,933	21,109	27,279
Allowance for doubtful receivables	(202)	(105)	(246)
Marketable securities <i>(Note 3)</i>	1,023	6,514	1,061
Inventories	3,665	4,650	8,762
Deferred income taxes <i>(Note 5)</i>	461	463	1,286
Other current assets	2,521	6,182	9,497
<b>Total current assets</b>	<b>40,480</b>	<b>59,952</b>	<b>70,913</b>
<b>Fixed assets:</b>			
<b>Property, plant and equipment, at cost:</b>			
Buildings and structures	474	587	2,344
Land	151	164	679
Other	1,984	3,045	6,110
Less: accumulated depreciation	(1,542)	(2,017)	(4,510)
<b>Property, plant and equipment, net</b>	<b>1,067</b>	<b>1,780</b>	<b>4,624</b>
<b>Intangible assets:</b>			
Goodwill	191	102	253
Software	901	1,499	1,365
Consolidation adjustments	–	14,664	25,259
Other	115	739	2,071
<b>Total intangible assets</b>	<b>1,208</b>	<b>17,006</b>	<b>28,949</b>
<b>Investments and other assets:</b>			
Investments in unconsolidated subsidiaries and affiliates	1,795	4,661	3,263
Other investment securities <i>(Notes 3 and 4)</i>	5,719	42,231	51,311
Long-term loans receivable	118	132	290
Deferred income taxes <i>(Note 5)</i>	71	253	302
Other assets <i>(Note 4)</i>	909	1,164	2,081
<b>Total investments and other assets</b>	<b>8,614</b>	<b>48,442</b>	<b>57,250</b>
<b>Deferred assets:</b>			
Bond issuance costs	50	25	–
<b>Total deferred assets</b>	<b>50</b>	<b>25</b>	<b>–</b>
<b>Total assets</b>	<b>¥51,422</b>	<b>¥127,208</b>	<b>¥161,737</b>

	<b>August 31,</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>(Millions of yen)</i>		
<b>Liabilities and net assets</b>			
Current liabilities:			
Short-term bank loans ( <i>Note 4</i> )	¥ 327	¥ 16,102	¥ 27,603
Current portion of long-term debt ( <i>Note 4</i> )	1,249	4,480	2,833
Notes and accounts payable – trade	10,345	13,228	14,664
Accounts payable – other	1,853	1,953	10,070
Income taxes payable ( <i>Note 5</i> )	5,072	3,189	9,055
Other current liabilities	2,117	2,699	4,213
Total current liabilities	<u>20,966</u>	<u>41,655</u>	<u>68,441</u>
Long-term debt ( <i>Note 4</i> )	17,046	8,612	2,569
Retirement benefits ( <i>Note 6</i> )	91	73	577
Deferred income taxes	1,131	7,632	1,472
Other long-term liabilities	1,225	3,261	2,143
Total liabilities	<u>40,460</u>	<u>61,235</u>	<u>75,205</u>
Net assets:			
Shareholders' equity ( <i>Notes 7 and 11</i> ):			
Common stock:			
Authorized: 6,104,000 shares at no par value			
Issued:			
411,778 shares at August 31, 2004	7,643	–	–
980,046 shares at August 31, 2005	–	24,901	–
2,130,058 shares at August 31, 2006	–	–	36,027
Additional paid-in capital	7,990	25,248	36,374
Retained earnings deficit	(9,375)	(4,007)	(1,714)
Treasury stock, at cost:			
1,200, 2,422 and 4,850 shares			
at August 31, 2004, 2005 and 2006, respectively	(103)	(109)	(110)
Total shareholders' equity	<u>6,155</u>	<u>46,033</u>	<u>70,575</u>
Valuation, translation differences and other:			
Net unrealized holding gain on securities	1,815	11,369	3,113
Translation adjustments	(51)	169	2,369
Total valuation, translation differences and other	<u>1,763</u>	<u>11,539</u>	<u>5,482</u>
Minority interests	3,042	8,399	10,473
Total net assets	<u>10,961</u>	<u>65,972</u>	<u>86,531</u>
Total liabilities and net assets	<u>¥51,422</u>	<u>¥127,208</u>	<u>¥161,737</u>

See notes to consolidated financial statements.

Consolidated Statements of Operations  
Index Holdings and Consolidated Subsidiaries

Years ended August 31, 2004, 2005 and 2006

	<b>Year ended August 31,</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>(Millions of yen)</i>		
Net sales	¥ 39,131	¥73,649	¥111,685
Cost of sales	27,793	44,883	73,669
Gross profit	11,337	28,766	38,015
Selling, general and administrative expenses	7,760	21,993	31,841
Operating income	3,577	6,772	6,173
Other income (expenses):			
Interest and dividend income	47	155	278
Interest expense	(54)	(138)	(315)
Gain on sale of marketable securities and investment securities	2,027	1,379	22,275
Loss on disposal of fixed assets	(162)	(105)	(277)
Gain on changes in equity interest in affiliates	1,056	2,102	1,241
Gain on sale of investments in subsidiaries	7,318	3,316	508
Loss on disposal of inventories	(234)	(218)	(514)
Loss on impairment of fixed assets <i>(Note 14)</i>	–	–	(5,988)
Loss on devaluation of investment securities	(0)	–	(2,474)
Loss on discontinued operations	(58)	(66)	(2,351)
Amortization of consolidation adjustments	(19,114)	(1,866)	(2,655)
Other, net	(84)	(36)	(3,910)
	(9,258)	4,520	5,814
(Loss) income before income taxes and minority interests	(5,680)	11,292	11,987
Income taxes <i>(Note 5)</i> :			
Current	5,608	4,671	10,513
Deferred	(263)	(21)	(2,072)
	5,345	4,649	8,441
Minority interests	(149)	(945)	(474)
Net (loss) income	¥(11,175)	¥ 5,696	¥ 3,070

*See notes to consolidated financial statements.*

# Consolidated Statements of Changes in Net Assets

## Index Holdings and Consolidated Subsidiaries

Years ended August 31, 2004, 2005 and 2006

	Number of shares issued	Common stock	Additional paid-in capital	Retained earnings (deficit)	Treasury stock	Net unrealized holding gain on securities	Translation adjustments	Minority interests
	<i>(Millions of yen)</i>							
<b>Balance at August 31, 2003</b>	95,423	¥ 3,373	¥ 3,737	¥ 2,086	¥(103)	¥ 88	¥ 2	¥ 401
Exercise of stock options	1,390	16	29	-	-	-	-	-
Exercise of warrants	2,016	30	-	-	-	-	-	-
2-for-1 stock split effective October 20, 2003	95,423	-	-	-	-	-	-	-
2-for-1 stock split effective April 20, 2004	204,526	-	-	-	-	-	-	-
Public offering of shares of common stock	13,000	4,223	4,223	-	-	-	-	-
Decrease arising from initial consolidation of subsidiaries	-	-	-	(12)	-	-	-	-
Decrease arising from inclusion/exclusion of affiliates in/from equity method of accounting	-	-	-	(160)	-	-	-	-
Net loss	-	-	-	(11,175)	-	-	-	-
Cash dividends paid	-	-	-	(114)	-	-	-	-
Net changes during the year	-	-	-	-	-	1,726	(53)	2,641
<b>Balance at August 31, 2004</b>	411,778	7,643	7,990	(9,375)	(103)	1,815	(51)	3,042
Exercise of stock options	8,626	117	117	-	-	-	-	-
Exercise of warrants	45,001	5,257	5,257	-	-	-	-	-
2-for-1 stock split effective October 20, 2004	411,778	-	-	-	-	-	-	-
Allotment of new shares to third parties	102,863	11,883	11,883	-	-	-	-	-
Net income	-	-	-	5,696	-	-	-	-
Cash dividends paid	-	-	-	(328)	-	-	-	-
Net changes during the year	-	-	-	-	(6)	9,554	221	5,356
<b>Balance at August 31, 2005</b>	980,046	24,901	25,248	(4,007)	(109)	11,369	169	8,399
Exercise of stock options	6,741	82	82	-	-	-	-	-
Exercise of warrants	29,555	1,717	1,717	-	-	-	-	-
2-for-1 stock split effective October 20, 2005	980,047	-	-	-	-	-	-	-
Allotment of new shares to third parties	133,669	9,323	9,323	-	-	-	-	-
Cash dividends paid	-	-	-	(586)	-	-	-	-
Net income	-	-	-	3,070	-	-	-	-
Decrease arising from initial consolidation (or exclusion from consolidation) of subsidiaries	-	-	-	(104)	-	-	-	-
Decrease arising from inclusion/exclusion of affiliates in/from equity method of accounting	-	-	-	(88)	-	-	-	-
Net changes during the year	-	-	-	-	(1)	(8,256)	2,199	2,073
<b>Balance at August 31, 2006</b>	2,130,058	¥36,027	¥36,374	¥ (1,714)	¥(110)	¥ 3,113	¥2,369	¥10,473

*See notes to consolidated financial statements.*

# Consolidated Statements of Cash Flows

## Index Holdings and Consolidated Subsidiaries

Years ended August 31, 2004, 2005 and 2006

	Year ended August 31,		
	2004	2005	2006
	(Millions of yen)		
<b>Operating activities</b>			
(Loss) income before income taxes and minority interests	¥ (5,680)	¥ 11,292	¥ 11,987
Adjustments to reconcile (loss) income before income taxes and minority interests to net cash provided by (used in) operating activities:			
Depreciation and amortization	590	1,024	2,373
Loss on impairment of fixed assets	–	–	5,988
Interest and dividend income	(47)	(155)	(278)
Interest expense	54	138	315
Amortization of goodwill	19,114	1,870	2,655
Gain on sale of investment securities	(2,027)	(1,372)	(21,701)
Gain on sale of investments in subsidiaries	(7,318)	(3,294)	355
Gain on changes in equity interest in affiliates	(1,056)	(2,102)	(1,241)
Loss on devaluation of investment securities	0	–	2,474
Foreign exchange gain	8	9	(638)
Loss on disposal of fixed assets	162	105	–
Changes in assets and liabilities:			
Notes and accounts receivable – trade	(2,640)	(3,389)	(2,913)
Inventories	(212)	(817)	(2,694)
Notes and accounts payable – trade	1,076	1,102	(717)
Other	(322)	(2,154)	3,488
Subtotal	1,700	2,258	(542)
Interest and dividends received	50	121	282
Interest paid	(51)	(106)	(321)
Income taxes paid	(1,399)	(6,802)	(4,839)
Net cash provided by (used in) operating activities	299	(4,528)	(5,420)
<b>Investing activities</b>			
Purchases of fixed assets	(184)	(920)	(1,520)
Proceeds from sale of fixed assets	33	14	566
Purchases of software	(574)	(992)	(1,937)
Purchases of investment securities	(1,272)	(13,316)	(32,287)
Proceeds from sale of investment securities	2,379	1,464	29,585
Purchases of investments in unconsolidated subsidiaries and affiliates	(1,437)	(19,008)	(8,119)
Proceeds from sale of investments in affiliates	7,791	7,392	2,846
Decrease in cash equivalents arising from acquisition of subsidiaries	(15,487)	(10,778)	(14,098)
Loan payments	(714)	(1,647)	(626)
Collection of loans receivable	476	1,192	1,032
Other	88	(195)	(642)
Net cash used in investing activities	(8,900)	(36,794)	(25,202)
<b>Financing activities</b>			
Increase in short-term bank loans, net	33,046	15,697	10,334
Proceeds from long-term debt	2,663	6,689	145
Repayment of long-term debt	(4,210)	(2,164)	(4,004)
Proceeds from issuance of bonds	15,153	10,000	97
Payments for redemption of debentures	–	(10,000)	(144)
Proceeds from issuance of shares of common stock	8,472	23,861	18,712
Proceeds from minority shareholders	1,281	8,205	1,980
Cash dividends paid	(113)	(324)	(581)
Dividends paid to minority shareholders	–	(1,339)	(130)
Other	2	(6)	(521)
Net cash provided by financing activities	23,282	50,619	26,138
Effect of exchange rate changes on cash and cash equivalents	(108)	204	476
Net increase (decrease) in cash and cash equivalents	14,573	9,500	(4,008)
Cash and cash equivalents at beginning of the year	3,517	18,006	27,506
Increase resulting from inclusion of subsidiaries in consolidation	66	–	568
Decrease resulting from exclusion of subsidiaries from consolidation	(150)	–	–
Cash and cash equivalents at end of the year (Note 13)	¥ 18,006	¥ 27,506	¥ 24,066

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

## Index Holdings and Consolidated Subsidiaries

August 31, 2004, 2005 and 2006

### **1. Basis of Presentation**

The accompanying consolidated financial statements of Index Holdings (the “Company”) and consolidated subsidiaries (collectively, the “Group”) are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan. In preparing these financial statements, however, certain reclassifications have been made to the consolidated financial statements issued domestically in order to present them in a format which is more familiar to readers outside Japan.

Effective June 2006, the Group has changed its organizational structure and Index Holdings has become the holding company of the Group. As a result, all business operations of the Company were transferred to the newly established Index Corporation which was carved out of the Company and became a wholly-owned subsidiary.

As permitted, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements do not necessarily agree with the sum of the individual amounts.

Certain amounts from prior years have been reclassified to conform to the current year’s presentation. In addition, effective the year ended August 31, 2006, the Group has adopted a new accounting standard for the presentation of net assets in the balance sheet and the related implementation guidance. In this connection, the financial statements for the years ended August 31, 2004 and 2005 have been restated to conform to the presentation of the financial statements for the year ended August 31, 2006.

### **2. Summary of Significant Accounting Policies**

#### **(1) Basis of consolidation**

The accompanying consolidated financial statements include the accounts of the Company and all subsidiaries over which substantial control is exerted either through majority ownership of voting stock and/or by other means. All significant intercompany balances and transactions have been eliminated in consolidation. After allocation to the respective assets based on the fair value of such assets at their dates of acquisition, the difference (goodwill) between the cost of acquisition and the underlying equity in the net assets acquired from subsidiaries is amortized by the straight-line method over the period during which the effect of the investments is considered to be maintained if such goodwill is material. If it is difficult to estimate reasonably how long the goodwill will be useful in generating additional income, it is charged to income as an other expense. Goodwill accounted for by overseas consolidated subsidiaries is not amortized, but is evaluated for impairment whenever there are indications that impairment may exist such as when the subsidiary’s fair value is lower than its book value.

## 2. Summary of Significant Accounting Policies (continued)

### (1) Basis of consolidation (continued)

The Company recognized goodwill (as stated above) when it acquired certain companies in Japan, U.S.A. and Europe during the year ended August 31, 2004. However, the impact of the goodwill became difficult to identify in line with the diversification and complexity of the measures taken to acquire the companies. In addition, since the business environment of the Company has changed rapidly given recent technical developments and more intense competition, it has become difficult to make a reasonable estimate of the period during which this goodwill will be useful in generating income. As a result, the Company has decided to adopt the accounting policy stated in the previous paragraph and to write off goodwill as an other expense.

Investments in certain unconsolidated subsidiaries and significant affiliates are accounted for by the equity method. Other investments in unconsolidated subsidiaries and affiliates are stated at cost or less. Where there has been a permanent decline in the value of such investments, the Company has written them down to reflect the impairment.

As the fiscal year end of certain subsidiaries is different from that of the Company, the accounts of these subsidiaries have been consolidated with appropriate adjustments for the intervening transactions and events or subsequent to a tentative closing of their books of account primarily on the same closing date as that of the Company.

### (2) Foreign currency translation

- (a) The Company translates the revenue and expense accounts of its overseas consolidated subsidiaries at the average rates of exchange in effect during the year. The balance sheet accounts, except for the components of net assets, are translated into yen at the rates of exchange in effect at the balance sheet date. The components of net assets are translated at their historical rates.

Any differences arising from translation where two exchange rates have been used are presented under translation adjustments as a component of net assets and minority interests in consolidated subsidiaries.

- (b) Current and noncurrent monetary assets and liabilities denominated in foreign currencies of the Company and its domestic consolidated subsidiaries are translated into yen at the exchange rates in effect at the balance sheet date.

All revenues and expenses are translated at the rates of exchange in effect on the dates of the respective transactions.

Gains and losses arising from exchange differences are credited or charged to income in the year in which they are earned or incurred.

## 2. Summary of Significant Accounting Policies (continued)

### (3) Cash equivalents

All highly liquid investments, generally with a maturity of three months or less when purchased, which are readily convertible into known amounts of cash and are so near maturity that they represent only an insignificant risk of any change in value attributable to changes in interest rates, are considered cash equivalents.

In accordance with the accounting standard for statements of cash flows, the definition of cash and cash equivalents in the statements of cash flows and that of cash and bank deposits in the balance sheets differ with respect to certain components. A reconciliation between the cash definitions above is presented in Note 13.

### (4) Allowance for doubtful receivables

The allowance for doubtful receivables is provided at an amount sufficient to cover possible losses on the collection of receivables. The amount of the allowance is determined based on the historical experience with write-offs plus an estimated provision for probable doubtful accounts based on a review of the collectibility of individual receivables.

### (5) Securities

Investments in unconsolidated subsidiaries and certain affiliates which are not accounted for by the equity method are stated at cost based on the moving average method. Other securities with quoted market prices are carried at market value. The difference between the acquisition costs and the carrying value of other securities, including unrealized gain and loss, is recognized as a component of net assets and is reflected as "net unrealized holding gain on securities." The cost of other securities sold is computed by the moving average method. Other securities without quoted market prices are stated at cost based on the moving average method.

### (6) Inventories

Inventories are stated at cost determined principally by the following methods:

Merchandise:	Specific identification method
Finished goods:	Average method
Work in process:	Specific identification method
Supplies:	First-in, first-out method

### (7) Depreciation and amortization

Property, plant and equipment are stated at cost. Depreciation is computed by the declining-balance method over the estimated useful lives of the respective assets, except for overseas subsidiaries whose depreciation is computed by the straight-line method in accordance with the applicable accounting standards in their own countries of domicile. However, buildings (excluding structures attached to the buildings) acquired subsequent to April 1, 1998 by the Company and its domestic consolidated subsidiaries are depreciated by the straight-line method over their respective estimated useful lives.

## 2. Summary of Significant Accounting Policies (continued)

### (7) Depreciation and amortization (continued)

The useful lives of property, plant and equipment by category are summarized as follows:

Buildings and structures:	3 - 50 years
Machinery and vehicles:	2 - 18 years
Tools and equipment:	2 - 20 years

Intangible assets are amortized by the straight-line method over their respective estimated useful lives. Capitalized costs for the development of software intended for internal use are being amortized by the straight-line method over a period of 3 to 5 years.

### (8) Accounting for leases

Noncancelable leases are principally accounted for as operating leases (whether such leases are classified as operating or finance leases) except that leases which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases.

### (9) Allowance for loss on sales returns

The allowance for loss on sales returns is provided at the current portion of an estimated amount of gross profit on projected returned goods of certain domestic consolidated subsidiaries.

### (10) Special account for loss on sales returns

The special account for loss on sales returns is provided at the current portion of an estimated amount of gross profit on projected returned goods calculated based on the return rate for certain domestic consolidated subsidiaries.

### (11) Allowance for employees' bonuses

The allowance for employees' bonuses at certain consolidated subsidiaries represents a provision for the future payment of employees' bonuses. The allowance is provided at the amount which is expected to be paid.

### (12) Retirement benefits

Certain domestic consolidated subsidiaries have defined contribution pension plans.

Accrued retirement benefits for employees have been provided based on an estimate of the retirement benefit obligation at year end.

The transition difference arising from the initial adoption of the accounting standard for retirement benefits is being amortized over a period of 15 years.

Certain domestic consolidated subsidiaries also provide an accrual for retirement allowances for directors at the amount which would be required to be paid if all directors retired at the balance sheet date based on their internal regulations.

## 2. Summary of Significant Accounting Policies (continued)

### (13) Income taxes

Deferred income taxes are recognized by the asset and liability method. Under this method, deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

### (14) Distributions to shareholders

Under the Corporation Law of Japan, distributions of the capital reserve and retained earnings exceeding 25% of stated capital in amount with respect to a given financial period are made by resolution of the shareholders at a general or special meeting held subsequent to the close of such financial period or by decision of the Board of Directors if certain conditions are met. The accounts for that period do not, therefore, always reflect such appropriations.

### (15) Amounts per share

In accordance with the accounting standard for earnings per share, basic net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year, and diluted net income per share is computed based on the net income available for distribution to the shareholders of common stock and the weighted-average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the exercise of stock options or warrants. Amounts per share of net assets are computed based on the net assets available for distribution to the shareholders and the number of shares of common stock outstanding at year end.

### (16) Derivative financial instruments and hedge accounting

Derivative financial instruments are carried at fair value with any changes in unrealized gain or loss charged or credited to income, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as an asset or a liability. Foreign currency swap contracts which meet certain criteria are accounted for by the allocation method utilized to hedge against the risk arising from fluctuation in foreign exchange rates.

As a matter of policy, the Group utilizes derivatives in order to hedge their exposure to foreign exchange fluctuation relating to their long-term payables.

The Group does not make an assessment of the effectiveness of its hedging activities because the relationship between the anticipated cash flows fixed by hedging activities and the avoidance of market risk is so clear that there is no need to evaluate the effectiveness of each hedge against the respective underlying hedged item.

## 2. Summary of Significant Accounting Policies (continued)

### (17) Changes in method of accounting

#### *Impairment of fixed assets*

Effective the year ended August 31, 2006, the Group has adopted a new accounting standard entitled “Opinion Concerning the Establishment of an Accounting Standard for the Impairment of Fixed Assets” (Business Accounting Council, August 9, 2002) and “Guidance on Implementation of the Accounting Standard for the Impairment of Fixed Assets” (Accounting Standards Board of Japan Guidance No. 6, October 31, 2003).

The new standard requires that tangible and intangible fixed assets be carried at cost less depreciation, and be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Group is required to recognize an impairment loss in their statement of income if certain indicators of assets impairment exist and if the book value of a fixed asset exceeds the undiscounted sum of its future cash flows. The effect of the adoption of this standard and the applicable guidance was to decrease income before income taxes by ¥112 million for the year ended August 31, 2006 from the corresponding amount which would have been recorded under the previous method.

#### *Share-Based Payments*

Effective the year ended August 31, 2006, the Group has adopted a new accounting standard entitled “Accounting Standard for Share-Based Payments” (Accounting Standards Board of Japan Statement No. 8, December 27, 2005) and “Guidance on Accounting Standard for Share-based Payments” (Accounting Standards Board of Japan Guidance No. 11, December 27, 2005). The adoption of this standard and the applicable guidance had no impact on net income.

#### *Tentative treatment of accounting for deferred assets*

Effective the year ended August 31, 2006, the Group has complied with “Tentative Solution on Accounting for Deferred Assets” (Accounting Standards Board of Japan PTIF No. 19, August 11, 2006). The compliance with this treatment had no impact on net income.

#### *Revised accounting standard for derivatives*

Effective the year ended August 31, 2006, the Group has adopted a revised accounting standard for derivatives entitled “Accounting Standard for Financial Instruments” (Accounting Standards Board of Japan Statement No. 10, August 11, 2006). The adoption of this standard had no impact on net income.

### 3. Marketable and Investment Securities

Information regarding marketable and investment securities with quoted market prices classified as other securities at August 31, 2004, 2005 and 2006 is summarized as follows:

*Securities with quoted market prices*

<b>As of August 31, 2004</b>			
	<b>Acquisition cost</b>	<b>Carrying value</b>	<b>Unrealized gain (loss)</b>
<i>(Millions of yen)</i>			
Securities whose carrying value exceeds their acquisition cost:			
Stocks	¥1,398	¥4,590	¥3,191
Debt securities:			
Corporate bonds	40	40	0
Other	-	-	-
Other	342	343	0
Subtotal	<u>1,781</u>	<u>4,974</u>	<u>3,192</u>
Securities whose acquisition cost exceeds their carrying value:			
Stocks	29	27	(1)
Debt securities:			
Corporate bonds	36	36	(0)
Other	350	261	(88)
Other	827	821	(5)
Subtotal	<u>1,243</u>	<u>1,146</u>	<u>(96)</u>
Total	<u>¥3,025</u>	<u>¥6,121</u>	<u>¥3,096</u>
<b>As of August 31, 2005</b>			
	<b>Acquisition cost</b>	<b>Carrying value</b>	<b>Unrealized gain (loss)</b>
<i>(Millions of yen)</i>			
Securities whose carrying value exceeds their acquisition cost:			
Stocks	¥ 9,252	¥31,105	¥21,853
Debt securities:			
Corporate bonds	40	40	0
Other	-	-	-
Other	145	149	4
Subtotal	<u>9,437</u>	<u>31,295</u>	<u>21,857</u>
Securities whose acquisition cost exceeds their carrying value:			
Stocks	9,405	6,826	(2,578)
Debt securities:			
Corporate bonds	17	17	(0)
Other	350	305	(44)
Other	6,510	6,508	(2)
Subtotal	<u>16,282</u>	<u>13,656</u>	<u>(2,625)</u>
Total	<u>¥25,720</u>	<u>¥44,952</u>	<u>¥19,231</u>

### 3. Marketable and Investment Securities (continued)

Securities with quoted market prices (continued)

	<b>As of August 31, 2006</b>		
	<b>Acquisition cost</b>	<b>Carrying value</b>	<b>Unrealized gain (loss)</b>
	<i>(Millions of yen)</i>		
Securities whose carrying value exceeds their acquisition cost:			
Stocks	¥17,292	¥24,532	¥ 7,240
Other	145	147	2
Subtotal	<u>17,437</u>	<u>24,680</u>	<u>7,242</u>
Securities whose acquisition cost exceeds their carrying value:			
Stocks	21,044	17,149	(3,894)
Other	1,066	1,063	(2)
Subtotal	<u>22,110</u>	<u>18,213</u>	<u>(3,896)</u>
Total	<u>¥39,548</u>	<u>¥42,893</u>	<u>¥ 3,345</u>

Sale of securities as other securities

Sale of securities as other securities for the years ended August 31, 2004, 2005 and 2006 were as follows:

	<b>Year ended August 31,</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>(Millions of yen)</i>		
Aggregate sales	¥2,382	¥30,517	¥34,847
Aggregate gain	2,027	1,466	22,275
Aggregate loss	0	7	358

Other securities without quoted market prices at August 31, 2004, 2005 and 2006 are summarized as follows:

	<b>August 31,</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>(Millions of yen)</i>		
Unlisted equity securities other than those traded on the over-the-counter market	¥570	¥3,407	¥4,702
Unlisted bonds	-	-	3,400
Free financial fund	50	50	50
Money management funds	2	6	14
Investments in subsidiaries	-	249	-
Investments in investment business associations	-	80	1,312
	<u>¥622</u>	<u>¥3,793</u>	<u>¥9,479</u>

Certain other securities without quoted market prices were written down by ¥331 thousand due to impairment for the year ended August 31, 2004.

### 3. Marketable and Investment Securities (continued)

The redemption schedule for securities classified as other securities with maturity dates at August 31, 2006 is summarized as follows:

	As of August 31, 2006			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due over ten years
	<i>(Millions of yen)</i>			
Debt securities:				
Corporate bonds	¥ –	¥3,400	¥ –	¥ –
Other debt securities	–	–	–	–
Other	–	9	88	–
Total	¥ –	¥3,409	¥88	¥ –

### 4. Short-Term Bank Loans and Long-Term Debt

The average interest rates applicable to short-term bank loans were 1.4%, 0.5% and 0.8% per annum at August 31, 2004, 2005 and 2006, respectively. These loans amounted to ¥327 million, ¥16,102 million and ¥27,603 million at August 31, 2004, 2005 and 2006, respectively.

Long-term debt at August 31, 2004, 2005 and 2006 is summarized as follows:

	August 31,		
	2004	2005	2006
	<i>(Millions of yen)</i>		
Long-term loans from banks, due through 2012 at interest rates ranging from 1.2% to 2.4%	¥ 3,295	¥ 8,393	¥ 3,870
Zero coupon bonds with warrants in euro-yen due 2009	15,000	4,640	1,265
Unsecured bonds	–	30	15
Unsecured bonds with warrants at 1.5% due 2011	–	29	–
	18,295	13,093	5,150
Current portion of long-term debt	(1,249)	(4,480)	(2,833)
	¥17,046	¥ 8,612	¥ 2,317

Zero coupon convertible bonds with warrants in euro-yen due 2009 (the “Euro Bonds”) were issued on August 23, 2004. The Euro Bonds are exercisable during the period from September 1, 2004 to August 10, 2011 and entitle the bearer to acquire fully-paid and non-assessable shares of common stock of the Company at the conversion price of ¥116,105.4 per share.

Unsecured convertible bonds (the “Bonds”) with warrants at 1.5% due 2011 were issued on May 24, 2004. The Bonds are exercisable during the period from June 1, 2004 to May 23, 2011 and entitle the bearer to acquire fully-paid and non-assessable shares of common stock of Interchannel Horon Inc., a consolidated subsidiary, at the conversion price of ¥130,000 per share.

#### 4. Short-Term Bank Loans and Long-Term Debt (continued)

The assets pledged as collateral for long-term debt outstanding at August 31, 2006 are summarized as follows:

	<u>(Millions of yen)</u>
Other investment securities	¥6,376
Investments and other assets – other assets	157
	<u>¥6,534</u>

The related debt for which the above assets were pledged as collateral at August 31, 2006 is summarized as follows:

	<u>(Millions of yen)</u>
Short-term bank loans	¥6,000
Other long-term liabilities	2
	<u>¥6,002</u>

The assets pledged as collateral referred to above were also pledged as collateral for a right of indemnity with respect to possible labor obligations to employees in the future.

In addition, cash and bank deposits of ¥82 million were pledged as collateral to guarantee the Group's business development.

The aggregate annual maturities of long-term debt subsequent to August 31, 2006 are summarized as follows:

<u>Year ending August 31,</u>	<u>(Millions of yen)</u>
2007	¥2,833
2008	838
2009	1,422
2010	23
2011 and thereafter	34
	<u>¥5,150</u>

#### *Lines of credit:*

The Company and certain domestic consolidated subsidiaries enter into loan facility contracts with banks in order to borrow operating funds efficiently and on a steady basis. The unutilized amount of the loan facility contracts at August 31, 2006 is summarized as follows:

	<u>(Millions of yen)</u>
Total lines of credit	¥24,930
Utilized	17,200
Unutilized	<u>¥ 7,730</u>

These loan facility contracts had commitment fee requirements amounting to ¥195 million for the year ended August 31, 2006.

## 5. Income Taxes

Income taxes applicable to the Group comprised corporation tax, enterprise tax and inhabitants' per capita taxes which, in the aggregate, resulted in a statutory tax rate of approximately 40.5% for the years ended August 31, 2004, 2005 and 2006.

The major components of deferred tax assets and liabilities at August 31, 2004, 2005 and 2006 are summarized as follows:

	<u>2004</u>	<u>2005</u>	<u>2006</u>
	<i>(Millions of yen)</i>		
Deferred tax assets:			
Accrued enterprise taxes	¥ 453	¥ 306	¥ 693
Tax loss carryforwards	506	1,453	1,920
Depreciation	670	683	620
Accrued employees' bonuses	52	45	100
Accrued retirement benefits	71	69	261
Inventories	118	173	308
Allowance for loss on returned goods	19	24	182
Investment securities	34	132	5,340
Other	272	303	821
Gross deferred tax assets	<u>2,199</u>	<u>3,193</u>	<u>10,250</u>
Valuation allowance	<u>(1,528)</u>	<u>(2,153)</u>	<u>(2,832)</u>
Total deferred tax assets	671	1,040	7,417
Deferred tax liabilities:			
Net unrealized holding loss on other securities	(1,243)	(7,829)	(2,215)
Investment securities	-	-	(4,188)
Other	(56)	(412)	(962)
Total deferred tax liabilities	<u>(1,299)</u>	<u>(8,241)</u>	<u>(7,366)</u>
Net deferred tax (liabilities) assets	<u>¥ (628)</u>	<u>¥(7,201)</u>	<u>¥ 51</u>

A reconciliation between the statutory tax rate and the effective tax rate as a percentage of income before income taxes for the year ended August 31, 2006 is summarized as follows:

	<u>2006</u>
Statutory tax rate	40.7%
Reconciliation:	
Nondeductible expenses	1.0
Unrecognized income for tax purposes	(0.1)
Per capita taxes	0.2
Valuation allowance	5.4
Amortization of consolidation adjustments	9.0
Loss on impairment of goodwill	16.2
Equity in loss of affiliates	0.8
Effect of change in equity in investments in subsidiaries	(4.2)
Other	1.4
Effective tax rate	<u>70.4%</u>

As permitted, since no taxable income was recorded for the year ended August 31, 2004, and the difference between the statutory tax rate and the effective tax rate was less than 5% of the statutory rate for the year ended August 31, 2005, no disclosure of the differences between the statutory tax rate and the effective tax rates have been presented for the years ended August 31, 2004 and 2005.

## 6. Retirement Benefits

Certain domestic consolidated subsidiaries have lump-sum retirement payment plans and defined contribution pension plans. Two domestic consolidated subsidiaries participated in a multi-employer welfare pension fund plan (the "Fund") pursuant to the Welfare Pension Insurance Law of Japan. Because the subsidiaries are not able to calculate their allocated portion of the Fund reasonably, the contributions to the Fund under this plan have been accounted for as retirement expenses in accordance with the accounting standard for retirement benefits. The estimated portion of the Fund owned by these subsidiaries amounted to ¥29 million, ¥68 million and ¥338 million at August 31, 2004, 2005 and 2006, respectively, and were calculated based on the subsidiaries' payments as a percentage of the total contributions paid into the Fund.

In addition, one domestic consolidated subsidiary in November 2003 changed a portion of its lump-sum retirement plan to a defined contribution pension plan. The effect of this change has been omitted because the change was made prior to this subsidiary being included in consolidation.

The consolidated subsidiaries have adopted a simplified method permitted for the calculation of the projected benefit obligation.

The funded status of the defined contribution pension plans for the years ended August 31, 2004, 2005 and 2006 is summarized as follows:

	<u>2004</u>	<u>2005</u>	<u>2006</u>
	<i>(Millions of yen)</i>		
Projected benefit obligation	¥(91)	¥(70)	¥(558)
Unamortized transition difference arising from initial adoption of accounting standard for retirement benefits	<u>20</u>	<u>18</u>	<u>5</u>
Accrued retirement benefits for employees	<u>¥(71)</u>	<u>¥(52)</u>	<u>¥(552)</u>

(Note) The estimated portion of the Fund has not been included in the above projected benefit obligation.

Retirement benefit expense for the years ended August 31, 2004, 2005 and 2006 is summarized as follows:

	<u>2004</u>	<u>2005</u>	<u>2006</u>
	<i>(Millions of yen)</i>		
Service cost – benefits earned during the year	¥2	¥3	¥107
Amortization of transition difference arising from initial adoption of accounting standard for retirement benefits	<u>0</u>	<u>1</u>	<u>0</u>
Retirement benefit expense	<u>¥2</u>	<u>¥5</u>	<u>¥108</u>

(Note) (1) The portion of the contributions to the Fund which the subsidiaries are responsible for paying is included in service cost.

(2) The contributions to the defined contribution pension plans are included in service cost.

## 7. Distributions to Shareholders

The Commercial Code of Japan (the “Code”) provides that an amount equal to at least 10% of the amounts to be disbursed as distributions of earnings be appropriated to the legal reserve until the sum of such reserve and additional paid-in capital equals 25% of the common stock account. The Code also stipulates that, to the extent that the sum of the additional paid-in capital account and the legal reserve exceeds 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the shareholders.

The new Corporation Law of Japan (the “Law”), which superseded most of the provisions of the Code, went into effect on May 1, 2006. The Law stipulates requirements on distributions of earnings similar to those of the Code. Under the Law, however, such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

## 8. Segment Information

### *Business segments*

The business segment information of the Group for the years ended August 31, 2004, 2005 and 2006 is summarized as follows:

2004	Contents	Solutions	Commerce	Publishing	Total	Eliminations and unallocated	Consoli- dated
<i>(Millions of yen)</i>							
Sales to third parties	¥14,539	¥12,244	¥8,926	¥3,421	¥39,131	¥ –	¥39,131
Inter-group sales and transfers	87	303	7	6	405	(405)	–
Net sales	14,627	12,547	8,934	3,427	39,537	(405)	39,131
Operating expenses	12,006	10,388	8,862	3,389	34,646	907	35,553
Operating income	¥ 2,621	¥ 2,159	¥ 72	¥ 38	¥ 4,890	¥ (1,313)	¥ 3,577
Total assets at year end	¥20,956	¥ 8,894	¥4,299	¥2,177	¥36,328	¥15,094	¥51,422
Depreciation and amortization	¥ 395	¥ 36	¥ 76	¥ 58	¥ 567	¥ 22	¥ 590
Capital expenditures	¥ 584	¥ 39	¥ 58	¥ 20	¥ 703	¥ 55	¥ 759
2005	Contents	Solutions	Commerce	Publishing	Total	Eliminations and unallocated	Consoli- dated
<i>(Millions of yen)</i>							
Sales to third parties	¥39,748	¥17,837	¥12,113	¥3,949	¥73,649	¥ –	¥ 73,649
Inter-group sales and transfers	100	373	6	2	483	(483)	–
Net sales	39,849	18,211	12,120	3,951	74,132	(483)	73,649
Operating expenses	37,007	13,492	11,583	3,837	65,922	954	66,877
Operating income	¥ 2,841	¥ 4,718	¥ 536	¥ 113	¥ 8,210	¥ (1,438)	¥ 6,772
Total assets at year end	¥54,970	¥12,135	¥ 5,498	¥2,201	¥74,806	¥52,402	¥127,208
Depreciation and amortization	¥ 635	¥ 200	¥ 99	¥ 59	¥ 995	¥ 28	¥ 1,024
Capital expenditures	¥ 1,271	¥ 424	¥ 115	¥ 6	¥ 1,817	¥ 175	¥ 1,992

## 8. Segment Information (continued)

### Business segments (continued)

2006	Contents	Solutions	Commerce	Publishing	Total	Eliminations and unallocated	Consoli- dated
<i>(Millions of yen)</i>							
Sales to third parties	¥63,192	¥29,413	¥15,548	¥3,531	¥111,685	¥ –	¥111,685
Inter-group sales and transfers	121	564	134	24	845	(845)	–
Net sales	63,313	29,977	15,682	3,556	112,530	(845)	111,685
Operating expenses	62,104	23,127	15,281	3,510	104,023	1,487	105,511
Operating income	¥ 1,209	¥ 6,849	¥ 401	¥ 45	¥ 8,506	¥ (2,333)	¥ 6,173
Total assets at year end	¥46,303	¥19,456	¥ 7,621	¥2,017	¥ 75,398	¥86,339	¥161,737
Depreciation and amortization	¥ 1,514	¥ 635	¥ 132	¥ 55	¥ 2,338	¥ 35	¥ 2,373
Impairment loss	¥ 5,875	¥ –	¥ 112	¥ –	¥ 5,988	¥ –	¥ 5,988
Capital expenditures	¥ 837	¥ 1,707	¥ 150	¥ 0	¥ 2,695	¥ 762	¥ 3,458

- (Note) (1) Business segments have been divided into categories based on the Group's market and corporate structure.
- (2) These segments consisted primarily of the following areas of business:
- Contents: Planning, production, distribution, etc. of contents for mobile platforms and broadband business
- Solution: Development of systems, etc. and system services related to broadband business
- Commerce: Sale of products through mobile platforms and online
- Publishing: Planning, production and publication of magazines, etc.
- (3) Eliminations or unallocated amounts of operating expenses consisted principally of expenses incurred in the Group's General and Administrative Department, which amounted to ¥1,281 million, ¥1,522 million and ¥2,483 million for the years ended August 31, 2004, 2005 and 2006, respectively.
- (4) Eliminations or unallocated amounts of total assets consisted principally of the Company's surplus funds (cash and bank deposits), funds for long-term investments (investment securities) and assets belonging to the General and Administrative Department, which amounted to ¥19,725 million, ¥53,318 million and ¥86,711 million for the years ended August 31, 2004, 2005 and 2006, respectively.

## 8. Segment Information (continued)

### Geographical segments

The geographical segment information of the Group for the years ended August 31, 2004, 2005 and 2006 is outlined as follows:

	Year ended August 31, 2004							Consolidated
	Japan	North America	Europe	Asia	Other	Total	Eliminations	
	<i>(Millions of yen)</i>							
Sales to third parties	¥38,517	¥ 454	¥ 159	¥ –	¥ –	¥39,131	¥ –	¥39,131
Interarea sales	13	2	4	–	–	20	(20)	–
Net sales	38,531	457	163	–	–	39,151	(20)	39,131
Operating expenses	33,465	579	242	–	–	34,287	1,266	35,553
Operating income (loss)	¥ 5,066	¥(122)	¥ (79)	¥ –	¥ –	¥ 4,864	¥ (1,286)	¥ 3,577
Total assets	¥19,191	¥ 612	¥12,750	¥158	¥103	¥32,817	¥18,605	¥51,422

  

	Year ended August 31, 2005							Consolidated
	Japan	North America	Europe	Asia	Other	Total	Eliminations	
	<i>(Millions of yen)</i>							
Sales to third parties	¥51,429	¥1,090	¥19,948	¥ 1,124	¥ 55	¥73,649	¥ –	¥ 73,649
Interarea sales	10	–	22	–	–	33	(33)	–
Net sales	51,440	1,090	19,970	1,124	55	73,682	(33)	73,649
Operating expenses	44,161	1,814	18,223	1,091	97	65,387	1,490	66,877
Operating income (loss)	¥ 7,279	¥ (723)	¥ 1,747	¥ 33	¥(41)	¥ 8,295	¥(1,523)	¥ 6,772
Total assets	¥39,091	¥ 961	¥19,179	¥15,508	¥ 65	¥74,806	¥52,401	¥127,208

  

	Year ended August 31, 2006							Consolidated
	Japan	North America	Europe	Asia	Other	Total	Eliminations	
	<i>(Millions of yen)</i>							
Sales to third parties	¥85,408	¥1,011	¥20,802	¥ 4,425	¥ 35	¥111,685	¥ –	¥111,685
Interarea sales	2	–	12	–	–	14	(14)	–
Net sales	85,411	1,011	20,814	4,425	35	111,699	(14)	111,685
Operating expenses	76,547	1,745	20,592	4,101	51	103,038	2,473	105,511
Operating income (loss)	¥ 8,863	¥ (733)	¥ 222	¥ 324	¥(15)	¥ 8,661	¥ (2,488)	¥ 6,173
Total assets	¥31,219	¥ 586	¥32,525	¥10,626	¥ 74	¥ 75,031	¥86,706	¥161,737

(Note) (1) Geographical segments are divided into categories based on geographical proximity.

(2) Nations other than Japan included in each geographical segment are as follows:

North America: U.S.A.

Europe: France, England, Germany, Spain, Luxembourg, Italy

Asia: Thailand, Indonesia, The People's Republic of China, Korea

Other: Morocco, Australia

(3) The items described in Notes (3) and (4) of business segments are included in eliminations.

## 8. Segment Information (continued)

### Overseas sales

Overseas sales for the years ended August 31, 2005 and 2006 are summarized as follows:

	Year ended August 31, 2005		
	Europe	Other	Total
	<i>(Millions of yen)</i>		
I. Overseas sales	¥20,048	¥2,358	¥22,407
II. Consolidated sales			73,649
III. I as a percentage of II	27.22%	3.20%	30.42%

  

	Year ended August 31, 2006		
	Europe	Other	Total
	<i>(Millions of yen)</i>		
I. Overseas sales	¥20,851	¥10,387	¥ 31,239
II. Consolidated sales			111,685
III. I as a percentage of II	18.67%	9.30%	27.97%

(Note) (1) Nations and areas are classified by geographical proximity.

(2) Nations included in each area are as follows:

Europe: France, Germany, England, Spain, Luxembourg, Italy  
Other: U.S.A., Morocco, Thailand, Indonesia, Korea, The People's  
Republic of China, Taiwan, Singapore, Australia

(3) Overseas sales represent sales in nations or areas other than Japan.

As permitted, since overseas sales constituted less than 10% of consolidated sales for the year ended August 31, 2004, no disclosure of overseas sales has been presented.

## 9. Derivatives

Derivative financial instruments are composed of forward foreign exchange contracts and interest rate swaps utilized by the Company and certain domestic consolidated subsidiaries to hedge their exposure to foreign exchange and interest rate fluctuation. Interest-rate swap contracts are generally utilized by the Company to offset changes in the rates to be paid on long-term debt.

The Company and certain domestic consolidated subsidiaries utilizing the derivatives referred to above are exposed to market risk resulting from the adverse fluctuation of exchange rates and credit risk in the event of nonperformance by counterparties to the interest rate swaps. However, they do not anticipate credit risk resulting from nonperformance by any of the counterparties to their derivatives positions because all such counterparties are domestic financial institutions with high credit ratings.

## 9. Derivatives (continued)

Derivative transactions are handled by the director in charge of financial matters subsequent to approval at a meeting of the Board of Directors, and the results are reported to the Board of Directors.

Summarized below are the notional amounts and estimated fair value of the Group's derivative financial positions at August 31, 2004, 2005 and 2006:

### (1) Currency-related transactions

	August 31,								
	2004			2005			2006		
	Notional amounts	Fair value	Unrealized (loss)	Notional amounts	Fair value	Unrealized (loss)	Notional amounts	Fair value	Unrealized gain (loss)
	<i>(Millions of yen)</i>								
Forward foreign exchange contracts:									
Sell:									
US\$	¥ -	¥ -	¥-	¥359	¥363	¥(3)	¥-	¥-	¥ -
Buy:									
US\$	199	197	(1)	-	-	-	-	-	-
Currency options:									
Sell:									
US\$	-	-	-	-	-	-	5	2	7
Buy:									
US\$	-	-	-	-	-	-	2	(9)	(11)
	¥199	¥197	¥(1)	¥359	¥363	¥(3)	¥7	¥(6)	¥ (4)

### (2) Interest-rate related transactions

	August 31,								
	2004			2005			2006		
	Notional amounts	Fair value	Unrealized (loss)	Notional amounts	Fair value	Unrealized gain (loss)	Notional amounts	Fair value	Unrealized (loss)
	<i>(Millions of yen)</i>								
Interest rate swaps:									
Receive floating rate/pay fixed rate	¥300	¥295	¥(4)	¥-	¥-	¥-	¥150	¥(1)	¥(1)
	¥300	¥295	¥(4)	¥-	¥-	¥-	¥150	¥(1)	¥(1)

## 10. Leases

### a) As lessee

The following *pro forma* amounts represent the acquisition costs, accumulated depreciation and net book value of leased properties at August 31, 2004, 2005 and 2006, which would have been reflected in the balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	2004	2005	2006
	<i>(Millions of yen)</i>		
Buildings and structures, machinery, equipment and software:			
Acquisition costs	¥ 878	¥ 897	¥1,821
Accumulated depreciation	(450)	(393)	(552)
Net book value	¥ 427	¥ 504	¥1,269

## 10. Leases (continued)

### a) As lessee (continued)

The lease payments for such finance leases consisted of the following expenses for the years ended August 31, 2004, 2005 and 2006:

	<u>2004</u>	<u>2005</u>	<u>2006</u>
	<i>(Millions of yen)</i>		
Lease expenses	¥180	¥231	¥279
Estimated depreciation expense	165	215	260
Estimated interest expense	13	15	23

Future minimum lease payments subsequent to August 31, 2004, 2005 and 2006 for finance leases accounted for as operating leases are summarized as follows:

	<u>2004</u>	<u>2005</u>	<u>2006</u>
	<i>(Millions of yen)</i>		
Due within one year	¥177	¥183	¥ 305
Due after one year	261	331	980
Total	<u>¥439</u>	<u>¥515</u>	<u>¥1,286</u>

Future minimum lease payments subsequent to August 31, 2006 for noncancelable operating leases are summarized as follows:

	<u>2004</u>	<u>2005</u>	<u>2006</u>
	<i>(Millions of yen)</i>		
Due within one year	¥-	¥ 61	¥105
Due after one year	-	75	130
Total	<u>¥-</u>	<u>¥136</u>	<u>¥236</u>

### b) As lessor

The Group enters into sublease contracts with third parties as lessor. Future minimum lease payments required by the lessees to the Group subsequent to August 31, 2004, 2005 and 2006 for finance leases accounted for as operating leases are summarized as follows:

	<u>2004</u>	<u>2005</u>	<u>2006</u>
	<i>(Millions of yen)</i>		
Due within one year	¥ 567	¥ 586	¥606
Due after one year	1,494	908	302
Total	<u>¥2,061</u>	<u>¥1,494</u>	<u>¥908</u>

## 11. Stock Option Plans

At August 31, 2006, the Group had the following stock option plans approved by the shareholders in accordance with the Code:

Date of approval by shareholders	Index Holdings			NEO Index Corporation
	June 15, 2000	November 28, 2002	November 27, 2003	
Grantees	1 director and 22 employees	5 directors and 5 employees	6 directors and 10 employees	
Type of stock with warrants granted	Common stock	Common stock	Common stock	
Number of shares with warrants granted	96,432 shares	4,800 shares	2,400 shares	
Option price per warrant	¥745	¥36,881	¥99,169	
Exercisable period	April 1, 2001 – December 31, 2009	December 1, 2004 – November 30, 2006	December 1, 2005 – November 30, 2007	

  

Date of approval or granted by shareholders	Index Holdings			NEO Index Corporation
	November 26, 2004 No. 1	November 26, 2004 No. 2	November 29, 2005	March 1, 2004
Grantees	6 directors and 182 employees	7 employees	7 directors and 168 employees, and directors and employees of the Company's subsidiaries	4 directors, 1 auditor, 55 employees, 6 customers, 2 directors of customers, 1 director of a subsidiary, and 2 employees of the parent company
Type of stock with warrants granted	Common stock	Common stock	Common stock	Common Stock
Number of shares with warrants granted	11,524 shares	152 shares	17,555 shares	1,400 shares
Option price per warrant	¥129,264	¥129,346	¥207,046	¥150,000
Exercisable period	December 1, 2006 – November 30, 2008	December 1, 2006 – November 30, 2008	December 1, 2007 – November 30, 2009	May 1, 2006 – December 31, 2013

  

Date of approval by shareholders	NEO Index Corporation		MADHOUSE Inc.	
	August 31, 2005 No. 1	November 30, 2005 No. 2	February 8, 2005 No. 1	March 18, 2005 No. 2
Grantees	1 director and 37 employees	3 employees	The parent company	2 customers
Type of stock with warrants granted	Common stock	Common stock	Common stock	Common stock
Number of shares with warrants granted	213 shares	72 shares	5,000 shares	1,200 shares
Option price per warrant	¥750,000	¥900,000	¥100,000	¥120,000
Exercisable period	September 1, 2007 – July 31, 2015	December 1, 2007 – October 31, 2015	February 9, 2005 – January 31, 2010	April 1, 2006 – March 31, 2008

## 11. Stock Option Plans (continued)

Date of approval by shareholders	MADHOUSE Inc.		TOKYO TV LAND CO., LTD.	NetIndex, Inc.
	April 13, 2005 No. 3	February 1, 2006	June 29, 2000	November 30, 2005
Grantees	1 customer	4 directors and 4 employees	7 employees	5 directors, 2 directors of subsidiaries, 26 employees, and 4 employees of subsidiaries
Type of stock with warrants granted	Common stock	Common stock	Common stock	Common stock
Number of shares with warrants granted	600 shares	2,000 shares	250 shares	800 shares
Option price per warrant	¥120,000	¥100,000	¥100,000	¥485,000
Exercisable period	April 1, 2006 – March 31, 2008	February 9, 2007 – January 31, 2010	A year from the day following the listing date – May 28, 2010	(1) Maximum of 50% allocation September 17, 2007 – September 16, 2008 (2) Maximum of 70% of (1) above September 17, 2008 – September 16, 2009 (3) Maximum of allocations less (1) and (2) above After September 17, 2009
	<b>OSP Corporation</b>			
Date of approval by shareholders	August 31, 2006			
Grantees	3 directors, 10 employees, and 2 external assistants			
Type of stock with warrants granted	Common stock			
Number of shares with warrants granted	883 shares			
Option price per warrant	¥50,000			
Exercisable period	August 31, 2006 – August 30, 2016			

## 12. Amounts Per Share

	<u>2004</u>	<u>2005</u>	<u>2006</u>
		<i>(Yen)</i>	
Net (loss) income:			
Basic	¥(28,118.54)	¥ 6,618.70	¥ 1,481.49
Diluted	—	6,002.53	1,422.92
Net assets	19,287.14	58,890.63	35,788.84

Diluted net income per share for the year ended August 31, 2004 has not been presented because a net loss was recorded for the year then ended.

On July 20, 2005, the Board of Directors approved a two-for-one stock split of the Company's common stock. The stock split entitled each shareholder of record at the close of business on August 31, 2005 to receive one additional share for every share of common stock held on that date. The stock split went into effect on October 20, 2005. As a result of this stock split, the number of shares of common stock increased by 980,046. Assuming that this stock split had been made at the beginning of the year ended August 31, 2005, per share information as of and for the year ended August 31, 2005 is summarized as follows:

	<u>2005</u>
Net income:	
Basic	¥ 3,309.35
Diluted	3,001.26
Net assets	29,445.32

## 13. Supplementary Cash Flow Information

- 1) The following table represents a reconciliation of cash and cash equivalents for the years ended August 31, 2004, 2005 and 2006:

	<u>Year ended August 31,</u>		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
	<i>(Millions of yen)</i>		
Cash and bank deposits	¥17,076	¥21,136	¥23,273
Time deposits with maturities of more than three months	(93)	(126)	(302)
Marketable securities	1,023	6,497	1,061
Other	—	—	33
Cash and cash equivalents	<u>¥18,006</u>	<u>¥27,506</u>	<u>¥24,066</u>

### 13. Supplementary Cash Flow Information (continued)

- 2) The following information regarding acquisitions by stock purchases and the sale of a subsidiary affected cash flows of the Group:

During the year ended August 31, 2004, 22 subsidiaries (including TOKYO TV LAND CO., LTD., NEO Index Corporation, Mobliss Corporation, Index Europe S.A.S., MADHOUSE Inc., Interchannel, Ltd., YOSHINAGA CORPORATION, HONDA ELECTRON CO., LTD., and A.L.B.P.) were initially included in consolidation as a result of acquisition. Their combined assets and liabilities, the acquisition costs, and cash and cash equivalents acquired as of their respective dates of inclusion in consolidation are summarized as follows:

	<i>(Millions of yen)</i>
Current assets	¥ 22,096
Noncurrent assets	3,824
Goodwill	17,613
Current liabilities	(12,814)
Noncurrent liabilities	(4,792)
Minority interests	(2,250)
Translation adjustments	78
Acquisition costs	23,754
Long-term payables	(476)
Cash and cash equivalents acquired	(7,790)
Net payment for acquisitions	¥ 15,487

Outlet Plaza Corporation was sold and this former subsidiary has been excluded from consolidation effective the year ended August 31, 2004. Its assets and liabilities, the profit on sale of its shares of common stock and its cash and cash equivalents at the time of the sale are summarized as follows:

	<i>(Millions of yen)</i>
Current assets	¥ 372
Noncurrent assets	38
Current liabilities	(16)
Noncurrent liabilities	(386)
Minority interests	(2)
Profit on sale of shares of common stock	94
Cost of acquisition of shares of common stock	100
Cash and cash equivalents	(25)
Net proceeds from sale of Outlet Plaza Corporation	¥ 74

### 13. Supplementary Cash Flow Information (continued)

During the year ended August 31, 2005, Dynamo Pictures, Inc., Media Suits Inc. and HOLON, Inc. were initially included in consolidation as a result of acquisition. Their combined assets and liabilities, the acquisition costs, and cash and cash equivalents acquired as of their respective dates of inclusion in consolidation are summarized as follows:

	<i>(Millions of yen)</i>
Current assets	¥ 1,928
Noncurrent assets	634
Goodwill	756
Current liabilities	(1,556)
Noncurrent liabilities	(589)
Minority interests	(218,464)
Acquisition costs	<u>954</u>
Cash and cash equivalents acquired	<u>(512)</u>
Net payment for acquisitions	<u>¥ 442</u>

During the year ended August 31, 2005, 9 overseas subsidiaries (including Grenoble Foot 38 SASP, Power Genius Holdings Limited and Sino Asia Management Limited) were initially included in consolidation as a result of acquisition. Their combined assets and liabilities, the acquisition costs, and cash and cash equivalents acquired as of their respective dates of inclusion in consolidation are summarized as follows:

	<i>(Millions of yen)</i>
Current assets	¥ 2,780
Noncurrent assets	810
Goodwill	11,762
Current liabilities	(932)
Noncurrent liabilities	(644)
Acquisition costs	<u>13,777</u>
Long-term payables	<u>(2,172)</u>
Cash and cash equivalents acquired	<u>(1,269)</u>
Net payment for acquisitions	<u>¥10,335</u>

### 13. Supplementary Cash Flow Information (continued)

For the year ended August 31, 2006, the Company newly acquired shares of common stock of NIKKATSU CORPORATION, Outsourcing Service Producer, So Fast Corporation and T2i Entertainment Co., Ltd. which became domestic consolidated subsidiaries. Their combined assets and liabilities, the acquisition costs, and cash and cash equivalents acquired as of their respective dates of inclusion in consolidation are summarized as follows:

Domestic consolidated subsidiaries:

	<i>(Millions of yen)</i>
Current assets	¥ 8,137
Noncurrent assets	4,908
Current liabilities	(3,060)
Noncurrent liabilities	(1,329)
Goodwill	2,612
Minority interests	(2,395)
Acquisition costs	8,873
Cash and cash equivalents acquired	(2,344)
Net payment for acquisition	¥ 6,529

In addition, for the year ended August 31, 2006, the Company acquired the shares of common stock of Wonderphone TV SAS and Titanium Communication Marketing Inc. which became overseas consolidated subsidiaries. Their combined assets and liabilities, the acquisition costs, and cash and cash equivalents acquired as of their respective dates of inclusion in consolidation are summarized as follows:

Overseas consolidated subsidiaries:

	<i>(Millions of yen)</i>
Current assets	¥ 1,696
Noncurrent assets	1,491
Consolidated difference (goodwill)	10,957
Current liabilities	(1,029)
Noncurrent liabilities	(518)
Minority interests	-
Acquisition costs	12,598
Long-term accounts payable – other	(3,848)
Cash and cash equivalents acquired	(1,181)
Net payment for acquisition	¥ 7,569

### 13. Supplementary Cash Flow Information (continued)

- 3) ZERO CREATE CO., LTD. was sold and this former consolidated subsidiary has been excluded from consolidation effective August 31, 2006. The following presents its assets and liabilities, sales price of its shares of common stock and cash and cash equivalents at the time of the sale:

	<i>(Millions of yen)</i>
Current assets	¥ 91
Noncurrent assets	11
Current liabilities	(65)
Noncurrent liabilities	(9)
Minority interests	(13)
Profit on sale of shares of common stock	15
Sales price of shares of common stock	<u>30</u>
Cash and cash equivalents	<u>(18)</u>
Net proceeds from sale of ZERO CREATE CO., LTD.	<u>¥ 11</u>

- 4) Significant non-cash transactions for the years ended August 31, 2005 and 2006 are summarized as follows:

	<u>2005</u>	<u>2006</u>
	<i>(Millions of yen)</i>	
Increase in common stock due to exercise of bonds with warrants	¥ 5,257	¥1,717
Increase in additional paid-in capital due to exercise of bonds with warrants	5,257	1,717
Issuance of discount bonds	<u>(155)</u>	<u>—</u>
Decrease in bonds with warrants due to exercise of bonds with warrants	<u>¥10,360</u>	<u>¥3,385</u>

### 14. Loss on Impairment of Fixed Assets

The following table presents the components of “Loss on impairment of fixed assets” as reflected in the consolidated statement of income for the year ended August 31, 2006:

Business segment	Use	Category	Loss on impairment <i>(Millions of yen)</i>
Contents	Distribution of contents for mobile platforms	Consolidation adjustments (goodwill)	¥5,875
Commerce	Sales of products through mobile platforms and online	Software	112
			<u>¥5,988</u>

Assets are classified into groups based on their respective business segments as cash-generating units which are defined as the smallest identifiable group of assets.

#### 14. Loss on Impairment of Fixed Assets (continued)

Idle assets are classified into groups based on their respective nature.

Loss on impairment of fixed assets for the Contents and the Commerce business segments referred to above was recorded in other income (expenses). The Group does not expect to recover its investments in these segments within the foreseeable period based on estimates for earning cash inflows due to the change in their business environment. Therefore, their book value was written down to their respective fair value based on appraisals by an independent appraiser, or their recoverable amounts.

#### 15. Subsequent Events

- (1) The following distribution to shareholders of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended August 31, 2006, was approved at a meeting of the shareholders held on November 29, 2006:

	<u>(Millions of yen)</u>
Cash dividends (¥300 per share)	¥637

- (2) On October 30, 2006, the Board of Directors approved a resolution to acquire shares of common stock of ATLAS Co., Ltd., a game software provider and amusement facility operator, by means of a takeover bid (“TOB”). On November 20, 2006, the TOB was successfully completed and the Company obtained 7,700,000 shares (or 54.93%) of ATLAS Co., Ltd.’s common stock for ¥4,242 million in cash. As a result, ATLAS Co., Ltd. will be included in consolidation as a consolidated subsidiary.