

May 10, 2006

## Consolidated Earnings Report for the Year Ended March 31, 2006

Company Name: ITX Corporation  
Stock Listing: Nippon New Market (Hercules)  
Code: 2725 Head Office: Tokyo  
(URL <http://www.itx-corp.co.jp/>)  
Representative Director: Tetsuhiko Takei, President & CEO  
Inquiries: Shoichi Hanzawa, CFO TEL (81)-3- 4288-7000  
Meeting of the Board of Directors for Approval of Results: May 10, 2006  
Parent company: Olympus Corporation (Code: 7733)  
Parent company voting right ratio: 76.57%

U.S. GAAPS Applied: No

1. Consolidated Results for the year ended March 31, 2006 (April 1, 2005 – March 31, 2006) -- Unaudited

### (1) Consolidated Operating Results

	(Millions of yen)					
	Revenues		Operating income		Net income	
Year ended March 31, 2006	346,855	(-0.8)%	2,906	(-59.4)%	1,318	(119.0)%
Year ended March 31, 2005	349,699	(-15.1)%	7,158	(-9.9)%	602	(-5.2)%

	(Yen)	
	Net income per share	Net income per share (diluted)
Year ended March 31, 2006	2,616.49	2,166.43
Year ended March 31, 2005	1,151.74	956.28

Notes:

- Equity in profits(losses) of affiliates:  
Year ended March 31, 2006 ¥ 147 million  
Year ended March 31, 2005 ¥(4,275) million
- Average number of shares outstanding during the period (consolidated):  
Year ended March 31, 2006 490,240 shares  
Year ended March 31, 2005 490,240 shares
- Changes in accounting policies: No
- Percentage figures for revenues, operating income and net income represent year-on-year changes.

### (2) Consolidated Financial Position

	(Millions of yen)			
	Total assets	Shareholders' equity	Shareholders' equity ratio	BPS
March 31, 2006	167,049	26,897	16.1%	54,794.33 (Yen)
March 31, 2005	170,012	25,869	15.2	52,692.32

Note:

Number of shares issued and outstanding as of (consolidated):  
March 31, 2006: 490,240 March 31, 2005: 490,240

(3) Consolidated Cash Flows

(Millions of yen)

	Operating activities	Investing activities	Financing activities	Cash and cash equivalents, at end of period/year
March 31, 2006	(13,363)	(112)	6,658	17,618
March 31, 2005	(738)	3,410	(6,441)	24,158

Note: Figures in brackets indicate minus amounts

(4) Consolidated Subsidiaries and Application of Equity Method

Consolidated subsidiaries: 50

Non-consolidated subsidiaries accounted for by the equity method: None

Affiliates accounted for by the equity method: 10

(5) Changes in Scope of Consolidation and Application of Equity Method

Consolidated subsidiaries:

Increase: 12

Decrease: 7

Equity-method affiliates:

Increase: 3

Decrease: 5

2. Forecast for Fiscal 2007 (April 1, 2006 – March 31, 2007)

(Millions of yen)

	Revenues	Net income
Six-month period ending September 30, 2006	167,000	100
Year ending March 31, 2007	355,000	2,300

Reference: Projected net income per share for the year: ¥4,691.57

Forward-looking Statements

The above forecasts are based on management's assumptions and beliefs in light of the information currently available, as of the date of this announcement, and involve risks and uncertainties. We caution investors that a number of factors could cause actual results to differ materially from forecasts. Please refer to Page 12 of this earnings report for an explanation of the assumptions and factors upon which the forecasts are based.

## **The ITX Group**

The ITX Group comprises the parent company, 54 subsidiaries and 10 affiliates of which 10 are accounted for by the equity method.

Utilizing the unlimited possibilities of information technology (IT), the ITX Group is striving to drive innovation in all areas of society through business incubation, equipment sales and service provision, focused on four key areas: Life Sciences; Networking & Technologies; Mobile Communications; and Business Innovations. The main business areas of the ITX Group and the position of each subsidiary and affiliate in the ITX structure are as follows:

### **Life Sciences**

- **Medical**  
Sales of endoscopes, microscopes and other optical medical equipment, medical devices based on U.S. and European technologies, and low/non-invasive devices designed to reduce the burden on patients; provision of medical informatics solutions.
- **Biotechnology**  
Provision of support for genome-based drug development and operation of regenerative medicine business
- **Consumer Lifestyle Products**  
Operation of health-related business based on the premise of offering consumers healthy food that they can trust

### **Networking & Technologies**

- **Network Solutions**  
Provision of system integration services and security solutions; sales of network infrastructure systems; development and sales of packaged software
- **Broadband**  
Operation of CATV business and broadband businesses utilizing fiber-optic networks
- **Internet Services**  
Provision of EC account settlement, CRM and other Internet services
- **Next-Generation Semiconductors and Electronic Devices**  
Design, development and sale of next-generation imaging sensors, sales of semiconductor-related equipment and electronic devices, and other operations

### **Mobile Communications**

- **Mobile Terminals, Solutions and Content**  
Distribution of mobile phone devices; provision of mobile solutions, mobile content, interactive services and other operations

### **Business Innovations**

- **CVC**  
Corporate venture capital investments
- **Human Capital Management**  
Provision of human resource services for new graduate recruiting support and deployment of new graduates as temporary staff, and provision of personnel-related outsourcing services
- **Intellectual Property**  
Development of business offering patent analysis and patent and technology licensing services
- **Business Restructuring**  
Investment and financing support for business regeneration

## [ITX Group Summary]

<b>ITX Corporation</b>
<b><u>Life Sciences</u></b> GeneFrontier Corporation TmediX Coporation KS OLYMPUS CO., LTD AVS CO.,LTD And 2 other subsidiaries and 1 affiliated company
<b><u>Networking &amp; Technologies</u></b> ITX E-Globaledge Corporation Soliste Corporation ITX TSUBASA Net CO., LTD TechMatrix Corporation ※ And 18 other subsidiaries and 6 affiliated companies
<b><u>Mobile Communications</u></b> IT Telecom, Inc. Quattro Media Corporation And 1 other subsidiary and 1 affiliated company
<b><u>Business Innovations</u></b> Atlux Corporation IPX Corporation Nippon Outsourcing Corporation And 18 other subsidiaries and 1 affiliated company

※: Affiliates accounted for by the equity method

Notes:

1. Business lines correspond to segment information
2. Three subsidiaries, such as U.S.-based ITX International Holdings, Inc., ITX International Equity Corporation, EP Operations Co., Ltd., were not included in the diagram above.
3. Soliste Corporation and TechMatrix Corporation are listed on the JASDAQ Securities Exchange.

## **Management Policies**

### **1. Fundamental Management Policy**

The ITX Group's founding ethos and mission is to contribute to society by creating new businesses based on IT and network technology. Specifically, ITX seeks to: uncover new technologies and use them in innovative ways to create new products and markets; contribute to industrial restructuring through business process reform based on accurate assessments of market needs; and attract and cultivate highly professional personnel by providing stimulating entrepreneurial working environments, based on the belief that business value creation starts with people.

### **2. Fundamental Policy on Profit Sharing**

ITX sees the return of profits to shareholders as a key management issue. After reporting a loss in fiscal 2003, ITX posted net income in the subsequent fiscal years. However, due to an accumulated deficit, the Company believes it is not in a position to pay dividends to shareholders at the current time. ITX is committed to eliminating the accumulated deficit so that it can return profits to shareholders through dividends as quickly as possible.

### **3. Target Performance Indicators**

ITX seeks to curb increases in the total value of assets to within a predetermined range, while increasing earnings. In light of this approach, management has established an ROA target of at least 5% on a consolidated basis as its long-term management benchmark. ITX is targeting ROA of 3% in the year ending March 31, 2009, the final year of the Company's new three-year Corporate Strategic Plan 2006.

### **4. Medium- and Long-term Strategy**

In line with its previous Corporate Strategic Plan, announced in May 2004, ITX has worked toward a number of management and performance goals, including developing companies into key earnings pillars for the Group, and leading a large number of investee businesses to success, particularly those created after ITX's establishment. In the fiscal year ended March 31, 2005, ITX subsidiary TechMatrix Corporation conducted its initial public offering (IPO), while ITX acquired KS Olympus Co. Ltd. and other companies. In the fiscal year under review, ITX moved into the automotive aftermarket, a new field for the Company, by acquiring ITX Tsubasa Net Co., Ltd. However, in the emerging equity markets where ITX seeks to realize value for the Group, there were drastic changes in the climate for IPOs. This reflected increasingly strict listing criteria after a number of incidents related to listed companies, and a temporary halt to listing procedures due to systems problems. Consequently, there was a slowdown in growth in the businesses of Group companies and ITX's performance fell significantly short of targets in the Corporate Strategic Plan. In light of this performance, the Company brought the Corporate Strategic Plan to a close and formulated Corporate Strategic Plan 2006, a new three-year management plan with the overarching objective of establishing ITX as a recognized name in professional business accelerator. In line with this plan, ITX will actively work to develop new businesses.

## **Management Objectives:**

### **Establish ITX as a recognized name in professional business accelerator**

Aiming to further accelerate investee growth, the Company will work to establish ITX as a recognized name in professional business accelerator based on the following specific goals:

1. Realize IPOs for multiple Group companies
2. Achieve performance targets
3. List ITX on the Tokyo Stock Exchange

In attaining these goals, ITX will attract a greater number of promising business proposals from external parties and become a more forceful company capable of attracting business accelerator and management professionals. This will underpin efforts to accelerate the pace of business accelerator.

## Groupwide Strategy:

### Build an operating base capable of generating consistent consolidated earnings

ITX will aim for further growth in earnings in a number of businesses that deliver consistent performances: mobile phone sales in IT Telecom, Inc., medical-related operations in KS Olympus and other companies, and the automotive aftermarket business in ITX Tsubasa Net. In parallel, ITX will seek to attain a certain level of capital gains from corporate venture capital (CVC) and other operations. The ultimate goal is to build an earnings structure capable of supporting the Group based on these two earnings streams.

## Business Strategy:

### (1) Reinforce business accelerator capabilities

Clearly define the direction of business accelerator by reviewing the investment portfolio and classifying investees into three different categories based on investment objective.

【Category 1】 —Maintain a majority stake

These businesses have established core competencies from a client, technological and/or partner perspective and have the potential to extend business reach into related fields.

【Category 2】 —Maintain a stake that ensures control is retained after IPO

Compared to companies in category 1, these investees have yet to establish core business competencies; further business accelerator will be carried out to lift them to category 1 status.

【Category 3】 — Realize value through IPOs or M&As

These investees are standalone autonomous businesses from which ITX seeks to secure capital gains.

### (2) Clearly define investment themes

Guided by clearly defined investment themes, aim to create new businesses to supplement existing portfolio companies.

- (i) Invest in businesses that can benefit from the core competencies of category 1 companies in related fields.
- (ii) Invest to strengthen the operations of category 2 companies.
- (iii) Team up with Olympus to invest in new businesses outside existing and related fields, with a particular focus on companies that accurately satisfy market needs with their products and services.

## Organizational Strategy:

### Implement organizational reforms to reinforce business accelerator capabilities

Aiming to be a company committed to professional business accelerator, ITX will strategically realign the Group's personnel resources and cultivate and attract experienced people capable of formulating and implementing business plans. In parallel, ITX will adopt the headquarters system and establish committees along functional lines.

## 1. Management Issues

The majority of ITX's investments are made using internal funds. Unlike investment funds, which establish set dates for returns on investment, ITX conducts business accelerator by giving each investee milestones to attain. ITX attaches great importance to progress managed against these milestones, business accelerator conducted in response to issues that arise in operations, and standards for deciding when to realize value or exit the investment. In line with this thinking, ITX will take the following steps:

- 1) Clearly define business objectives, responsibilities and authority by adopting the headquarters system.
- 2) Reinforce internal control systems and promote information sharing by establishing Groupwide committees along functional lines.

## 2. Details of Parent Company

(1) Parent company name and data

Company name	Relationship to ITX	Parent company voting right ratio (%)*	Parent company stock listing
Olympus Corporation	Parent company	76.57 (9.89)	First Section, Tokyo Stock Exchange First Section, Osaka Securities Exchange

\*Figure in parenthesis represents the parent company's indirect voting right ratio

- (2) ITX's position in the Olympus Group and its relationship with the parent company and its subsidiaries
- ITX's position in the Olympus Group and its business, personnel and capital links with the parent company and its subsidiaries  
 In terms of operational scale, ITX ranks beside Olympus Imaging Corp. (a spin-off company in Olympus' core imaging business) and Olympus Medical Systems Corp. (a spin-off company in Olympus' core medical business field). Currently, three Olympus directors/employees sit on ITX's seven-member Board of Directors. Three other Olympus employees have also been seconded to ITX.
  - Business restrictions, risks and merits as a member of the Olympus Group; impact on management and business activities due to business, personnel and capital links with the Olympus Group  
 Going forward, ITX plans to reinforce its relationship with the Olympus Group by organically combining its strengths with those of Olympus. Olympus has cutting-edge technological expertise, global marketing capabilities and brand power. ITX, meanwhile, has capabilities in creating and developing new businesses and expertise in the networking and life sciences fields. Based on this thinking, and taking into account the fact that three of ITX's seven directors are Olympus directors/employees, Olympus' management policies have a certain impact on decisions related to management policy and other areas at ITX.
  - Thinking and policies on maintaining a certain level of independence from the Olympus Group  
 As illustrated by ITX's positioning in the Olympus Group, ITX is not prevented from freely carrying out its corporate activities. Although some Olympus executives concurrently serve as directors on ITX's board, these appointments have chiefly been made to encourage the exchange of management information and technical expertise. Furthermore, the three Olympus directors/employees were appointed at the request of ITX. Consequently, ITX is still capable of making independent management decisions. ITX's workforce also includes a further three individuals who have been seconded from Olympus. These employees were also seconded at the request of ITX with the aim of sharing frontline information and strengthening the Company's business divisions. The number of seconded employees will be reduced as more experienced personnel are recruited by ITX.
  - Extent of independence from the Olympus Group  
 Although ITX's policy is to carry out business activities while maintaining a close cooperative relationship with the Olympus Group, the operations of ITX and Olympus are separate and any Olympus directors and employees with posts at ITX are not in a position to prevent independent management decisions from being made. Consequently, ITX maintains a certain level of independence from the Olympus Group.

(Executives with concurrent posts)

Position at ITX	Name	Position at Olympus Or Group company	Reason for appointment at ITX
Director	Tatsuo Nagasaki	Director and Managing Officer, Olympus Corporation	To share technical expertise and enhance cooperation with Olympus
Part-time Director	Tsuyoshi Kikukawa	Representative Director and President, Olympus Corporation	To promote exchange of management information with Olympus
Part-time Director	Makoto Nakatsuka	Deputy Manager, Corporate Planning Div.*, Olympus Corporation	To promote exchange of management information with Olympus
Part-time Auditor	Shigemi Sugimoto	Manager, Finance Div.*, Olympus Corporation	Guidance for and supervision of directors to ensure sound business execution

Notes:

- (ア) Olympus directors/employees who currently sit on the ITX seven-member Board of Directors are: Tatsuo Nagasaki, Director; Tsuyoshi Kikukawa, Part-time Director; and Makoto Nakatsuka, Part-time Director.  
 (イ) Asterisks denote appointments effective April 1, 2006.

(Employees seconded to ITX)

Seconding company	No. of people	Reason for secondment
Olympus Corporation and others	3	To enhance alliance with Olympus on the request of ITX

Note: All seconded employees are concurrent appointments

### 3. Other Important Management Information

ITX released separate documents, “Corporate Strategic Plan 2006 Formulated.” on May 10, 2006, and “ITX Announces New Senior Management Team and Organizational Changes.” on May 17, 2006.

## Results of Operations and Financial Review

### 1. Results

#### Operating Environment

During fiscal 2006, ended March 31, 2006, the Japanese economy broke out of its deflationary cycle, illustrated by the end of the Bank of Japan’s quantitative easing policy in March. With the benefits of stronger corporate earnings spreading to consumer spending, the operating environments for ITX Group companies generally recovered against the backdrop of a buoyant economy supported by domestic private-sector demand. However, in the emerging equity markets where ITX seeks to realize value for Group, the climate for IPOs became more challenging during the period. This reflected increasingly strict listing criteria after a number of incidents related to listed companies, and a temporary halt to listing procedures after systems were overloaded by large order volumes.

#### Results

Against this backdrop, everyone in the Group actively worked to make fiscal 2006 the year when we accelerated the business creation cycle, through business investment and development, and initiatives in equipment sales and services.

In business investment and development, the focus was on reviewing and realigning the business portfolio, and increasing the likelihood of IPOs for subsidiaries aiming for listings. In terms of new investments, we made a significant acquisition with the purchase of ITX Tsubasa Net, heralding a move into the automotive aftermarket field—a new area for ITX. However, we were forced to lower our initial forecast for earnings from the sale of investment securities for business incubation due to lower-than-expected sales and delays to some listings planned for the period.

In equipment sales and services, our main objective was to reinforce the earnings base. In the Life Sciences business segment, we steadily boosted earnings by focusing on developing the operations of KS Olympus, a company we acquired in the previous fiscal year. Profitability in Networking & Technologies also improved thanks to the benefits of business restructuring. In Mobile Communications, we boosted market share and sales in mobile phone retailing operations, a key source of earnings, by targeting opportunities related to the introduction of number portability in the fall of 2005. However, earnings were squeezed by higher sales promotion costs. Although profitability deteriorated in Business Innovations, we formed an alliance with NEUSOFT Group Ltd., a leading Chinese software firm, to support a new company we established in March called DAS Outsourcing Corporation. This company will provide BPO services (which utilize information systems to carry out back-office processes on behalf of clients) to companies in Japan. We expect this company to bolster the segment’s earnings base from the next fiscal year.

Despite firm equipment sales and services in mobile phone retailing operations and other businesses, consolidated revenues for the year edged down 0.8% to ¥346,855 million, chiefly due to lower sales of investment securities for business incubation. The main contributors to revenues were ITX Corporation, with ¥56,048 million; major consolidated subsidiaries IT Telecom Inc., ¥202,103 million (consolidated revenues); KS Olympus CO.,LTD., ¥30,743 million, and ITX E-Globaledge Corporation, ¥13,989 million (consolidated revenues).

Revenues by business segment were as follows (figures in parentheses indicate share of consolidated revenues): ¥42,389 million (12.2%) in Life Sciences; ¥83,716 million (24.1%) in Networking & Technologies; ¥204,332 million (58.9%) in Mobile Communications; and ¥16,927 million (4.9%) in Business Innovations.

Despite a drop in gains on sales of investment securities for business incubation, consolidated gross profit increased 4.9% year on year, to ¥41,084 million, reflecting the consolidation of KS Olympus CO.,LTD. that lifted profitability in equipment sales and services. Selling, general and administrative (SG&A) expenses increased ¥6,176 million year on year to ¥38,178 million, due primarily to higher sales promotion costs in mobile phone retailing operations. This figure mainly comprised personnel expenses of ¥14,830 million and non-personnel expenses of ¥23,348 million (including ¥2,121 million for the amortization of goodwill). Operating income fell 59.4% to ¥2,906 million.

After other income,mainly profit on sales of investment securities in subsidiaries,and other expense,mainly impairment loss,interest expense,ITX posted income before income taxes of ¥2,690 million,an increase of ¥469 million year on year.Net income was ¥1,318 million,an increase of ¥716 million year on year.

**Operating Results by Business Segment**

The ITX Group comprises 61 companies as of March 31, 2006: ITX Corporation, 50 subsidiaries and 10 affiliates. The following table lists operating results by segment and by source of revenue (gains from sales of investment securities for business incubation and revenues from sales of equipment and provision of services) on a consolidated basis for the year ended March 31, 2006.

Segment	Apr. 1, 2004- Mar. 31, 2005	Apr. 1, 2005- Mar. 31, 2006
(Millions of yen)		
<b>Life Sciences</b>		
Revenues	24,888	42,389
Sales of investment securities for business incubation	932	2,403
Equipment sales and services	23,956	39,986
Gross Profit	4,280	8,015
Sales of investment securities for business incubation	794	1,872
Equipment sales and services	3,486	6,143
Selling, general and administrative expenses	3,665	5,608
Operating income	615	2,407
Sales of investment securities for business incubation	587	1,688
Equipment sales and services	28	719
<b>Networking &amp; Technologies</b>		
Revenues	133,681	83,716
Sales of investment securities for business incubation	12,364	2,897
Equipment sales and services	121,317	80,819
Gross Profit	13,736	8,683
Sales of investment securities for business incubation	7,505	2,070
Equipment sales and services	6,231	6,613
Selling, general and administrative expenses	6,681	6,690
Operating income	7,055	1,993
Sales of investment securities for business incubation	6,949	1,704
Equipment sales and services	106	289
<b>Mobile Communications</b>		
Revenues	178,786	204,332
Sales of investment securities for business incubation	-	-
Equipment sales and services	178,786	204,332
Gross Profit	18,630	20,209
Sales of investment securities for business incubation	(5)	-
Equipment sales and services	18,635	20,209
Selling, general and administrative expenses	18,235	20,348
Operating income	395	(139)
Sales of investment securities for business incubation	(29)	(12)
Equipment sales and services	424	(127)
<b>Business Innovations</b>		
Revenues	12,344	16,927
Sales of investment securities for business incubation	780	587
Equipment sales and services	11,564	16,340
Gross Profit	2,514	4,223
Sales of investment securities for business incubation	300	237
Equipment sales and services	2,214	3,986
Selling, general and administrative expenses	2,200	4,347
Operating income	314	(124)
Sales of investment securities for business incubation	163	97
Equipment sales and services	151	(221)

Segment	Apr. 1, 2004- Mar. 31, 2005	Apr. 1, 2005- Mar. 31, 2006
<b>Elimination and Corporate</b>		
Revenues	-	(509)
Sales of investment securities for business incubation	-	-
Equipment sales and services	-	(509)
Gross Profit	-	(46)
Sales of investment securities for business incubation	-	-
Equipment sales and services	-	(46)
Selling, general and administrative expenses	1,221	1,185
Operating income	(1,221)	(1,231)
Sales of investment securities for business incubation	(610)	(592)
Equipment sales and services	(611)	(639)
<b>Consolidated</b>		
Revenues	349,699	346,855
Sales of investment securities for business incubation	14,076	5,887
Equipment sales and services	335,623	340,968
Gross Profit	39,160	41,084
Sales of investment securities for business incubation	8,594	4,179
Equipment sales and services	30,566	36,905
Selling, general and administrative expenses	32,002	38,178
Operating income	7,158	2,906
Sales of investment securities for business incubation	7,060	2,885
Equipment sales and services	98	21

## Notes:

Operating income from sales of investment securities for business incubation and from equipment sales and services has been shown for reference purposes from the period under review.

### **Forecasts for Fiscal 2007(ending March 31, 2007)**

For the next fiscal year, ITX is forecasting net income of ¥ 2.3 billion on consolidated net revenues of ¥ 355.0 billion. These forecasts, which represent increases of approximately ¥ 1.0 billion and ¥ 8.1 billion, respectively, are based on the following main factors:

- Growth at major subsidiaries: IT Telecom, Inc in Mobile Communications; KS Olympus CO., LTD. in Life Sciences; and ITX Tsubasa Net CO., LTD. Networking & Technologies.
- Capital gains from the sale of investment securities for business incubation and other investments by ITX Corporation and subsidiary ITX International Equity Corporation.

The above forecasts are based on management's assumptions and beliefs in light of the information currently available and may be affected by a number of important factors including, but not limited to, those listed in 3. Business Risks, such as the economic situation, competitive climate and market environment. Consequently, actual results may differ materially from those discussed above. The Company will rapidly disclose revised earnings projections in the event of factors impacting on forecasts.

## **2. Financial Position**

### **(1) Financial position and cash flows**

#### **① Changes in total assets, liabilities and shareholders' equity**

As of March 31, 2006, total assets stood at ¥167,049 million, a decrease of ¥2,963 million, or 1.7%, compared to the end of the previous fiscal year. Despite a significant increase in intangible fixed assets from the consolidation of ITX Tsubasa Net CO., LTD., total assets declined slightly overall due to sales of business incubation securities by ITX Corporation and subsidiary ITX International Equity Corporation, and a decline in trade notes and accounts receivable following the termination of sales of OEM PC peripheral products.

At the fiscal year-end, interest-bearing debt totaled ¥90,762 million, an increase of ¥6,138 million compared to a year earlier. This was mainly attributable to an increase in debt at ITX Corporation related to the consolidation of ITX Tsubasa Net CO., LTD

Shareholders' equity totaled ¥26,897 million, an increase of ¥1,028 million compared to a year earlier, which mainly reflected the booking of net income. As a result, the shareholders' equity ratio increased from 15.2% to 16.1%.

#### **② Cash flows**

Cash and cash equivalents at the end of the year stood at ¥17,618 million, ¥6,540 million less than the ¥24,158 million at the end of the previous year.

##### **(Cash flows from operating activities)**

Operating activities used net cash of ¥13,363 million. This mainly reflected cash from sales of investment securities for business incubation by ITX Corporation and subsidiary ITX International Equity Corporation, against cash used for the acquisition of ITX Tsubasa Net CO., LTD

##### **(Cash flows from investing activities)**

Investing activities used net cash of ¥112 million. This was chiefly due to cash used for capital investment at subsidiaries and other factors, which outweighed proceeds from sales of investment securities (including the sale of all shares in NISSHO ELECTRONICS CORPORATION held by IT Telecom).

##### **(Cash flows from financing activities)**

Financing activities provided net cash of ¥6,658 million. This mainly reflected proceeds from the procurement of short-term debt at ITX Corporation associated with the acquisition of ITX Tsubasa Net CO., LTD.

### **(2) Forecasts for Fiscal 2007(ending March 31, 2007)**

#### **(i) Important factors affecting cash flows**

The company's ability to generate gains from sales of investment securities for business incubation is highly dependent on the ability to sell these securities (realize the value of a business) through an initial public offering, merger, acquisition or other means. This may have a material impact on ITX's cash flows.

(ii) Important factor affecting cash flows

In fiscal 2005, additional funds will be needed for new investments in business incubation projects and to provide additional funding to existing businesses. To provide the funds to meet these obligations, ITX plans to recover some investments through sales of business incubation securities and procure funds through loans and other means.

### 3. Business Risk

The following is a list of major business risk factors which ITX views as associated with its operations. In addition, ITX also actively discloses other information which may not necessarily be business risks, but may impact one's investment decisions. Readers and potential investors are cautioned, however, that the list below does not purport to be a comprehensive analysis of business risk factors impinging on the operations of ITX.

#### (1) General risks associated with investment and incubation activities

By developing unlisted companies to enhance their enterprise value, the ITX Group aims to generate corporate value by securing capital gains through IPOs, M&As and other means. Consequently, the following risks may impact the earnings of the Company's investment and development activities, which are a key source of earnings for the Group.

1. Discovery of promising investment and business creation opportunities  
The inability to identify promising business investment opportunities (new business creation, investment or acquisition targets)
2. Business incubation period following initial investment  
The business incubation period of investees may exceed that of initial estimates
3. Business value of investees  
The business value of an investee may not increase in line with initial estimates
4. Impact of investees' operations on ITX's financial results on a consolidated basis.  
The financial results of an investee may have an impact on ITX's financial results on a consolidated basis, leading to a significant fluctuation in its operating results
5. Capital gains from investments  
The Company may not be able to sell its investments at an expected share price or at a favorable time. This will prevent the Company from securing capital gains as initially projected.
6. Listed investee share price  
The stock price fluctuations in investees after going public or in ITX's investments in publicly traded securities may impact ITX's financial position and its consolidated financial results.
7. Changing conditions in stock markets on which investees are seeking to list or the environment for IPOs  
Delays or cancellations to investee listings or fluctuations in the IPO issue price as a result of changing conditions in stock markets or the environment for IPOs, may impact on ITX's financial results on a consolidated basis, leading to a significant fluctuation in its operating results.
8. Business restructuring  
Restructuring involving the disposal, merger, or liquidation of existing businesses, or the creation, investment in or acquisition of new businesses may not be implemented as scheduled

#### (2) Risk factors in target business fields

1. Market size and growth predictions  
Markets in which ITX businesses operate may contract, or fail to expand in line with initial growth predictions
2. Competing products, technologies and services  
The introduction of competitive products, technologies and services in the market may have an impact on the operations of ITX
3. Problems related to products, systems and services offered by ITX  
Problems or deficiencies related to products, systems, services, technological support or aftercare services provided by ITX may have an impact on operations
4. Declines in incentives and commissions  
Incentives and commissions offered to ITX for the sales or provision of third-party products, systems and services may fall short of realistic or projected levels
5. New product development/new service provision  
The development of new products or new services scheduled for future launch may not proceed as scheduled
6. Collection of Receivable

The inability to collect receivables from business partners facing financial difficulty, bankruptcy or other problems, may have an impact on the operations or financial results of ITX

**(3) Management risk**

1. Financial position
  - Failure to secure a planned level of net income may affect the Company's ability to rapidly reduce the accumulated deficit
  - The procurement of additional funds may lead to a deterioration in the Company's debt equity ratio
2. Procurement of funds
  - The Company may not be able to acquire funds as planned
  - The cost of procuring funds may rise to such a level that it impacts on the Company's financial results
3. Securing personnel  
Failure to secure personnel with appropriate management, investment, business incubation or business operation skills may have an impact on the operational capabilities of the Company

**(4) Other**

1. Conversion of convertible bonds with stock acquisition rights  
The conversion into shares of ¥10 billion in convertible bonds with stock acquisition rights may result in the dilution of ITX stock.
2. Stock options  
The Company issues stock options via subscription rights to motivate employees in enhancing ITX's performance. In line with this thinking, ITX is currently examining the further issue of subscription rights to executives and employees of the Company. The exercise of these rights may lead to dilution of ITX's share price.
3. Information security  
ITX and its subsidiaries have put in place information security measures in line with the ITX Group Basic Information Security Policy. However, the loss of public trust in the Company in the event of the leak of personal information for some reason could have an impact on the operating results of ITX

**ITX Corporation**  
**Consolidated Balance Sheets**  
As of March 31, 2006 and 2005

<b>Assets</b>	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
<b>Current assets:</b>			
Cash and cash equivalents	¥ 17,618	¥ 24,158	\$ 150,581
Trade notes and accounts receivable	44,658	49,958	381,692
Allowance for doubtful accounts	(210)	(146)	(1,795)
	44,448	49,812	379,897
Marketable securities	1,200	1,200	10,256
Inventories	12,954	13,793	110,718
Deferred tax assets	264	215	2,256
Other current assets	8,511	10,117	72,744
Total current assets	84,995	99,295	726,452
<b>Non-current assets:</b>			
Property and equipment			
Land	1,667	1,208	14,248
Buildings and structures	9,386	8,624	80,222
Machinery and transportation equipment	1,512	1,210	12,924
Furniture and fixtures	2,681	2,720	22,915
Accumulated depreciation	(6,417)	(5,835)	(54,846)
	8,829	7,927	75,463
<b>Investments and other assets:</b>			
Investment securities	7,093	7,975	60,624
Investment securities for business incubation	12,422	11,676	106,171
Long-term loans receivable	151	254	1,291
Deferred tax assets - non-current	273	214	2,333
Goodwill	45,417	33,751	388,179
Intangible assets	2,817	2,940	24,077
Other non-current assets	5,052	5,980	43,179
	73,225	62,790	625,854
Total non-current assets	82,054	70,717	701,317
Total assets	¥ 167,049	¥ 170,012	\$ 1,427,769

*The accompanying notes to Consolidated Financial Statements are an integral part of these statements.*

<b>Liabilities and shareholders' equity</b>	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
<b>Current liabilities:</b>			
Trade notes and accounts payable	¥ 33,374	¥ 41,008	\$ 285,248
Short-term borrowings	21,240	15,299	181,538
Current portion of long-term debt	7,235	12,979	61,838
Accrued income taxes	784	559	6,701
Other current liabilities	9,675	11,073	82,692
Total current liabilities	<u>72,308</u>	<u>80,918</u>	<u>618,017</u>
<b>Non-current liabilities:</b>			
Long-term debt	62,286	56,346	532,359
Deferred tax liabilities - non-current	130	395	1,111
Retirement allowance:			
Employees	1,338	1,413	11,436
Directors and corporate auditors	92	158	786
Allowance for losses on guarantees of liabilities	450	225	3,846
Allowance for disposal of business at subsidiaries	240	-	2,051
Other non-current liabilities	221	223	1,889
Total non-current liabilities	<u>64,757</u>	<u>58,760</u>	<u>553,478</u>
<b>Minority interest</b>	<b>3,087</b>	<b>4,645</b>	<b>26,385</b>
<b>Shareholders' equity:</b>			
Common stock	20,456	20,456	174,838
Additional paid-in capital	27,968	27,968	239,043
Accumulated deficit	(21,438)	(22,715)	(183,231)
Revaluation reserve for land	(135)	(135)	(1,154)
Net unrealized holding gain on available-for-sale securities	210	1,040	1,795
Foreign currency translation adjustments	(164)	(745)	(1,402)
Total shareholders' equity	<u>26,897</u>	<u>25,869</u>	<u>229,889</u>
Total liabilities and shareholders' equity	<u>¥ 167,049</u>	<u>¥ 170,012</u>	<u>\$ 1,427,769</u>

*The accompanying notes to Consolidated Financial Statements are an integral part of these statements.*

**ITX Corporation**  
**Consolidated Statements of Income**  
For the year ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
<b>Revenues:</b>			
Equipment sales and services	¥ 340,968	¥ 335,623	\$ 2,914,257
Sales of investment securities for business incubation	5,887	14,076	50,316
	<u>346,855</u>	<u>349,699</u>	<u>2,964,573</u>
<b>Costs of revenues:</b>			
Equipment sales and services	304,064	305,057	2,598,838
Sales of investment securities for business incubation	1,707	5,482	14,590
	<u>305,771</u>	<u>310,539</u>	<u>2,613,428</u>
<b>Gross profit</b>	<b>41,084</b>	<b>39,160</b>	<b>351,145</b>
<b>Selling, general and administrative expenses</b>	<b>38,178</b>	<b>32,002</b>	<b>326,307</b>
<b>Operating income</b>	<b>2,906</b>	<b>7,158</b>	<b>24,838</b>
<b>Other income (expenses):</b>			
Interest and dividend income	182	186	1,556
Interest expense	(1,307)	(1,451)	(11,171)
Foreign exchange loss, net	-	(23)	-
Impairment loss on investment securities	(94)	(70)	(803)
Gain on sales of investment securities, net	794	265	6,786
Gain on sales of investment securities in subsidiaries and affiliates	2,199	1,601	18,795
Gain on disposition of investment securities, net	424	-	3,624
Impairment loss of long-lived assets	(1,411)	-	(12,060)
Equity in gain (losses) of unconsolidated subsidiaries and affiliates	147	(4,275)	1,256
Loss on derivative stock-price swap transactions	(560)	(1,001)	(4,786)
Provision of allowance for doubtful accounts	123	511	1,051
Gain on deemed sales of investment securities in affiliates due to dilution of equity interests, net	242	284	2,068
Gain on delinquency charges	396	-	3,385
Provision of allowance for loss on guarantees of liabilities	(225)	(225)	(1,923)
Provision of allowance for disposal of business at subsidiaries	(240)	-	(2,051)
Other, net	(886)	(740)	(7,574)
<b>Income before income taxes</b>	<b>2,690</b>	<b>2,220</b>	<b>22,991</b>
<b>Income taxes:</b>			
Current	1,570	1,429	13,419
Deferred	(210)	50	(1,795)
	<u>1,360</u>	<u>1,479</u>	<u>11,624</u>
<b>Minority interest</b>	<b>(12)</b>	<b>(139)</b>	<b>(102)</b>
<b>Net income</b>	<b>¥ 1,318</b>	<b>¥ 602</b>	<b>\$ 11,265</b>

*The accompanying notes to Consolidated Financial Statements are an integral part of these statements.*

**ITX Corporation**  
**Consolidated Statements of Shareholders' Equity**  
For the year ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
<b>Common stock:</b>			
Beginning balance	¥ 20,456	¥ 20,456	\$ 174,838
Issuance of common stock	-	-	-
Ending balance	<u>¥ 20,456</u>	<u>¥ 20,456</u>	<u>\$ 174,838</u>
<b>Additional paid-in capital:</b>			
Beginning balance	¥ 27,968	¥ 27,968	\$ 239,043
Issuance of common stock	-	-	-
Ending balance	<u>¥ 27,968</u>	<u>¥ 27,968</u>	<u>\$ 239,043</u>
<b>Accumulated deficit:</b>			
Beginning balance	¥ (22,715)	¥ (24,533)	\$ (194,145)
Net income	1,318	602	11,265
Bonuses paid to directors and corporate auditors	(37)	(6)	(316)
Effect of changes in scope of consolidation	(4)	1,222	(35)
Ending balance	<u>¥ (21,438)</u>	<u>¥ (22,715)</u>	<u>\$ (183,231)</u>
<b>Revaluation reserve for land:</b>			
Beginning balance	¥ (135)	¥ (144)	\$ (1,154)
Net increase (decrease)	-	9	-
Ending balance	<u>¥ (135)</u>	<u>¥ (135)</u>	<u>\$ (1,154)</u>
<b>Net unrealized holding gain on available-for-sale securities:</b>			
Beginning balance	¥ 1,040	¥ 5,062	\$ 8,889
Net increase (decrease)	(830)	(4,022)	(7,094)
Ending balance	<u>¥ 210</u>	<u>¥ 1,040</u>	<u>\$ 1,795</u>
<b>Foreign currency translation adjustments:</b>			
Beginning balance	¥ (745)	¥ (655)	\$ (6,368)
Adjustments from translation of foreign currency financial statements	581	(90)	4,966
Ending balance	<u>¥ (164)</u>	<u>¥ (745)</u>	<u>\$ (1,402)</u>

*The accompanying notes to Consolidated Financial Statements are an integral part of these statements.*

**ITX Corporation**  
**Consolidated Statement of Cash Flows**  
For the year ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
<b>Cash flows from operating activities:</b>			
Income before income taxes	¥2,690	¥2,220	\$22,991
Adjustments to reconcile income before income taxes to net cash provided by (used in) operating activities			
Depreciation	2,248	1,621	19,214
Amortization of goodwill	2,121	2,183	18,128
Increase (decrease) in allowance for doubtful accounts	(2,261)	(505)	(19,325)
Increase (decrease) in retirement allowance:			
Employees	147	133	1,256
Directors and corporate auditors	(47)	10	(402)
Interest and dividend income	(182)	(186)	(1,556)
Interest expense	1,307	1,451	11,171
Equity in gain of unconsolidated subsidiaries and affiliates	(147)	-	(1,256)
Equity in losses of unconsolidated subsidiaries and affiliates	-	4,275	-
Gain on sales of investment securities, net	(794)	(265)	(6,786)
Gain on deemed sales due to changes in equity, net	(242)	(284)	(2,068)
Impairment loss on investment securities	94	70	803
Gain on sales of investment securities in subsidiaries and affiliates	(2,199)	(1,602)	(18,795)
Impairment loss of long-lived assets	1,411	-	12,060
Increase in investment securities for business incubation	(12,637)	(1,355)	(108,009)
Decrease (increase) in trade receivables	3,666	(6,266)	31,333
Decrease (increase) in inventories	1,189	(3,052)	10,162
Increase (decrease) in trade payables	(7,179)	7,240	(61,359)
Decrease (increase) in other assets	(69)	311	(590)
Increase (decrease) in other liabilities	(749)	(1,742)	(6,402)
Payment of directors' and corporate auditors' bonuses	(37)	(8)	(316)
Other, net	529	(1,596)	4,524
Sub-total	(11,141)	2,653	(95,222)
Receipt of interest and dividends	173	154	1,479
Payment of interest	(1,162)	(1,348)	(9,932)
Refund of income taxes	71	307	607
Payment of income taxes	(1,304)	(2,504)	(11,146)
Net cash provided by (used in) operating activities	(13,363)	(738)	(114,214)
<b>Cash flows from investment activities:</b>			
Acquisitions of marketable securities	-	(1,200)	-
Acquisition of property and equipment	(1,612)	(1,017)	(13,778)
Proceeds from sales of property and equipment	51	10	436
Acquisitions of intangible fixed assets	(1,570)	(1,081)	(13,419)
Proceeds from sales of intangible assets	-	-	-
Acquisitions of investment securities	(1,103)	(4,014)	(9,427)
Proceeds from sales of investment securities	3,050	533	26,068
Proceeds from sales of investment securities in subsidiaries and affiliates	-	13,034	-
Net decrease from acquisitions of investments in subsidiaries related to changes in scope of consolidation	-	(1,270)	-
Net decrease due to sales of investments in subsidiaries related to changes in scope of consolidation	-	(131)	-
Net increase from acquisition of investments in subsidiaries related to changes in scope of consolidation	1,431	-	12,231
Acquisitions of investments in subsidiaries	(71)	(49)	(607)
Loans made	(1,725)	(123)	(14,743)
Collection of loans	1,359	280	11,615
Acquisitions of other investments	(11)	(1,662)	(94)
Proceeds from sales of other investments	89	100	761
Net cash provided by (used in) investment activities	(112)	3,410	(957)

(to be continued)

(Continued)	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
<b>Cash flows from financing activities:</b>			
Decrease in short-term borrowings	5,918	(19,517)	50,581
Proceeds from long-term debt	27,022	23,781	230,957
Repayments of long-term debt	(26,973)	(11,994)	(230,538)
Proceeds from issuance of bonds	244	300	2,085
Redemption of corporate bonds	(26)	-	(222)
Proceeds from issuance of common stock to minority shareholders	473	989	4,043
Net cash provided by (used in) financing activities	6,658	(6,441)	56,906
Effect of exchange rate changes on cash and cash equivalents	240	103	2,051
Net decrease in cash and cash equivalents	(6,577)	(3,666)	(56,214)
Cash and cash equivalents at beginning of year	24,158	26,757	206,479
Increase in cash and cash equivalents due to increase in consolidated subsidiaries	46	1,067	393
Decrease in cash and cash equivalents due to decrease in consolidated subsidiaries	(9)	-	(77)
Cash and cash equivalents at end of year	¥17,618	¥ 24,158	\$150,581

*The accompanying notes to Consolidated Financial Statements are an integral part of these statements.*

**ITX Corporation**  
**Notes to Consolidated Financial Statements**  
ITX Corporation and consolidated subsidiaries

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **Basis of presenting consolidated financial statements**

ITX Corporation (the “Company”) and its consolidated domestic subsidiaries maintain their official accounting records 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 and practices generally accepted in Japan (“Japanese GAAP”), which are different in certain aspects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principals prevailing in the respective countries of domicile.

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at March 31, 2006, which was ¥117 to U.S. \$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

### **Consolidation**

The accompanying consolidated financial statements include the accounts of the Company and its 50 (45 in 2005) significant subsidiaries (“the Companies”), over which the Company has an ability to control through majority voting rights or existence of certain other conditions evidencing control by the Company. Material inter-company balances, transactions and unrealized profits have been eliminated in consolidation. In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

Investments in affiliates (10 in 2006 and 12 in 2005) are accounted for by the equity method and are included in investment securities and investment securities for business incubation in the accompanying consolidated balance sheets.

### **Cash and cash equivalents**

Cash and cash equivalents include cash on hand, readily available deposits and short-term highly liquid securities, with original maturities of three months or less.

### **Allowance for doubtful accounts**

The allowance for doubtful accounts is provided for an amount sufficient to cover possible losses on collection by estimating individually uncollectible amounts and applying a percentage based on collection experience to the remaining accounts.

### **Securities**

Equity issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at cost based on the moving-average method. Securities with no available fair market value are stated at moving-average cost.

Available-for-sale securities with available fair market values stated at their fair market value as of balance sheet date. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. When the fair value of these securities has declined significantly, such securities are written down to fair value, thus establishing a new cost basis. Unless the fair value is deemed to be recoverable the amount of each write-down is charged to income as an impairment loss. The Company has established a policy for the recognition of an impairment loss when the fair value declines below 50 % of the cost basis unless the fair value is deemed to be recoverable. The cost of securities sold is determined by the moving average method.

### **Inventories**

Inventories, consisting mainly of commodities and materials held for resale, are stated at cost, determined principally on a first-in, first-out basis, except for items that are written down because their net realizable values are substantially less than the original cost.

### **Property and equipment**

Property and equipment are stated at cost. Depreciation is provided on the declining-balance method for assets held by the Company and its domestic subsidiaries over estimated useful lives, except for buildings and structures acquired after March 31, 1998, which are depreciated by the straight-line method. Assets held by foreign subsidiaries are depreciated in accordance with local accounting standards, principally by the straight-line method over estimated useful lives. The estimated useful lives for significant assets are as follows:

Buildings and structures:	5-50 years
Furniture and fixtures:	2-20 years

Ordinary maintenance and repairs are charged to income as incurred. Major replacements and improvements are capitalized. When depreciable property is retired or

otherwise disposed of, the amounts of such property are deducted from the respective property and equipment as well as accumulated depreciation accounts. Any undepreciated balances are charged to income immediately.

## **Leases**

Non-cancelable lease transactions are accounted for as operating leases regardless of whether such leases are classified as operating or finance leases except that lease agreements which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance lease.

## **Goodwill**

Goodwill is being amortized on a straight-line method over 20 years, unless its fair value declines significantly.

## **Software costs**

The Companies depreciate software using the straight-line method over the estimated useful lives (five years).

Costs of software under development are also included in software, which is included in intangible assets.

## **Translation of foreign currencies**

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rate at year-end, and the translation gains and losses are charged to income.

Assets, liabilities, revenues, and expenses of the foreign subsidiaries are translated into yen at the current exchange rate at year-end and the resulting differences are included in minority interest and foreign currency translation adjustments under shareholders' equity.

## **Severance and retirement benefits**

The Company and its consolidated subsidiaries provide two types of post-employment benefit plan, unfunded lump-sum payment plans and funded non-contributory pension plans, under which all eligible employees are entitled to benefit payments based on the level of wages and salaries at the time of retirement or termination, length of service, and certain other factors.

The Company and its domestic subsidiaries provide allowance for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at year-end.

Allowance for retirement and severance benefits for employees and payables for past funding liabilities to the employees' pension plans are included in liabilities for "Retirement allowance--Employees".

Unrecognized actuarial gain or loss is being amortized over a period, primarily of 5 years, within the average remaining service period of active employees expected to receive benefits under the plan.

Directors and corporate auditors of the Company are entitled to lump sum payments at the time of severance or retirement,

subject to an approval of the shareholders. The liabilities for such benefits are determined based on the Company's internal rules and included in liabilities for "Retirement allowance-Directors and corporate auditors".

## **Allowance for losses on guarantees of liabilities**

Allowance for losses on guarantees of liabilities is stated in amounts considered to be appropriate based on an evaluation of the financial conditions of guaranteed parties.

## **Allowance for disposal of business at subsidiaries**

Allowances are provided for estimated losses related to underperforming business at consolidated subsidiaries.

## **Income taxes**

The provision for income taxes is computed based on the pretax income included in the accompanying consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Beginning in the year ended March 31, 2005, the Company and certain of its domestic subsidiaries file consolidated income tax returns.

## **Revenue and expenses**

Proceeds from sales of securities for business incubation are recognized in income as "Revenues--sales of investment securities for business incubation". The impairment loss and carrying amounts value of those securities are charged to income as "Costs of revenues--sales of investment securities for business incubation".

## **Derivative instruments**

The Companies use certain derivative instruments including currency forward contracts, interest rate swap contracts, and stock-price swap contracts.

The Companies enter into currency forward contracts and interest rate swap contracts to reduce their exposures to losses resulting from adverse fluctuations in foreign currency exchange rates on transactions denominated in foreign currencies or interest rate on debts.

Further, the Companies enter into stock-price swap contracts for trading purposes. These contracts are not qualified for the hedge accounting.

Derivative financial instruments are stated at fair value, and the gains and losses are charged to income unless derivative financial instruments are qualified for the hedge accounting.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the recognition of gains or losses resulting from changes in fair values are deferred until the gains or losses on the hedged items are recognized.

If interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received

under the interest rate swap contract is added to or deducted from interest on the underlying assets or liabilities for which the swap contract was executed.

The Companies are exposed to credit risk in the event of default by counterparties to the currency forward contracts and the interest rate swap contracts, however, the Companies do not anticipate such risks because the counterparties are major international financial institutions which have high credit ratings.

## Changes in Accounting Policies

### Accounting standards for the impairment of fixed assets

The Company has adopted new accounting standards for the impairment of fixed assets in accordance with “Accounting Standards for the Impairment of Fixed Assets” (“Opinion Concerning Establishment of Accounting Standards for the Impairment of Fixed Assets,” Business Accounting Council, August 9, 2002) and “Implementation Guidance for Accounting Standards for the Impairment of Fixed Assets,” (Accounting Standards Board of Japan, Financial Accounting Standard Implementation Guidance No. 6, October 31, 2003). As a result of changes in standards, income before income taxes decreased ¥1,411 million compared to the same period a year earlier.

## Additional Information

1. In the interim period, ITX sold a portion of its shares in consolidated subsidiary TechMatrix Corporation, making it an equity-method affiliate. As a result of subsequently reviewing its objectives for holding TechMatrix shares, the Company booked its remaining holding under investment securities for business incubation (totaling ¥1,610 million (US\$13,761 thousand) as of March 31, 2006)

2. With effect from November 2005, the Company terminated sales of OEM PC peripheral products. For these transactions, sales to OEM users were booked as revenues and procurement of products from OEM suppliers as cost of revenues. Meanwhile, consolidated subsidiary ITX E-Globaledge Corporation entered into a new OEM agreement for PC peripheral products, starting December 2005. Under this new agreement, ITX E-Globaledge primarily provides usance and logistics services between OEM users and suppliers. Taking into account the viability of these services, ITX E-Globaledge books sales generated as revenues commensurate with compensation received. As a result of the termination of OEM sales, the Company's revenues and cost of revenues will both decline. For reference, revenues and cost of revenues for the period from December 2004 to March 2005 in the previous fiscal year were ¥29,127 million (US\$ 248,949 thousand) and ¥28,878 million (US\$ 246,821 thousand), respectively.

### 3. SECURITIES

The following tables summarize acquisition cost and book values of available-for-sale securities with available fair values as of March 31, 2006 and 2005:

Type	Millions of yen					
	2006			2005		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Current:						
Debt securities	¥ 1,200	¥ 1,200	¥ -	¥ 1,200	¥ 1,200	¥ -
Non-current:						
Equity securities	¥ 3,271	¥3,488	¥ 217	¥ 5,011	¥ 6,081	¥ 1,070
Debt securities	-	-	-	10	10	0
Other	-	-	-	129	113	(16)
	<b>3,271</b>	<b>3,488</b>	<b>217</b>	<b>5,150</b>	<b>6,204</b>	<b>1,054</b>
<b>Total</b>	<b>¥ 4,471</b>	<b>¥4,688</b>	<b>¥ 217</b>	<b>¥ 6,350</b>	<b>¥7,404</b>	<b>¥ 1,054</b>

Type	Thousands of U.S. dollars		
	2006		
	Acquisition cost	Book value	Difference
Current:			
Debt securities	\$ 10,256	\$ 10,256	\$ -
Non-current:			
Equity securities	\$ 27,957	\$29,812	\$ 1,855
	<b>27,957</b>	<b>29,812</b>	<b>1,855</b>
<b>Total</b>	<b>\$ 38,213</b>	<b>\$ 40,068</b>	<b>\$ 1,855</b>

The proceeds and gross realized gains (losses) on the sales of available-for-sale securities are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
	Proceeds	¥4,889	¥ 6,538
Gross realized gains	30,033	5,432	256,692
Gross realized losses	19	13	162

The following tables summarize book values of available-for-sale securities with no available fair value as of March 31, 2006 and 2005:

Available-for-sale securities	Millions of yen		Thousands of U.S. dollars
	Book value		Book value
	2006	2005	2006
Non-current:			
Non-listed equity securities	¥ 9,215	¥ 7,887	\$ 78,761
Investments in limited liability investment partnerships and similar partnerships	1,521	1,560	13,000
Non-listed other securities	299	194	2,556
<b>Total</b>	<b>¥ 11,035</b>	<b>¥ 9,641</b>	<b>\$ 94,316</b>

The following tables summarize book value of investment in unconsolidated subsidiaries and affiliates as of March 31, 2006 and 2005:

Investment in affiliates	Millions of yen		Thousands of U.S.
	Book value		dollars
	2006	2005	Book value
			2006
Investment securities	¥ 93	¥ 87	\$ 795
Investment securities for business incubation	4,899	3,719	42,872
Total	¥ 4,992	¥ 3,806	\$ 42,667

#### 4. DERIVATIVES

The following tables summarize market value information of derivative instruments for which hedge accounting has not been applied as of March 31, 2006 and 2005.

March 31, 2006	Millions of yen			
	Contracted amount	Contracts extending over one year	Market value	Recognized losses
Stock-price swap contract	¥ 2,810	¥ -	¥ (1,466)	¥ (1,466)

March 31, 2005	Millions of yen			
	Contracted amount	Contracts extending over one year	Market value	Recognized losses
Stock-price swap contract	¥ 6,490	¥ 3,805	¥ (3,124)	¥ (3,124)

March 31, 2006	Thousands of U.S. dollars			
	Contracted amount	Contracts extending over one year	Market value	Recognized losses
Stock-price swap contract	\$ 24,017	\$ -	\$ (12,530)	\$ (12,530)

#### 5. SEGMENT INFORMATION

The Companies operate in the following four different segments of business:

(1) Life Sciences

Medical Businesses: Sales of endoscopes, microscopes and other optical medical equipment, medical devices based on U.S. and European technologies, and low/non-invasive devices designed to reduce the burden on patients; provision of medical informatics solutions.

Biotechnology: Provision of support for genome-based drug development and operation of regenerative medicine business

Consumer Lifestyle Products: Operation of health-related business based on the premise of offering consumers healthy food that they can trust

KS Olympus Co., Ltd., a company selling endoscopes, microscopes and other optical medical equipment, was deemed to have commenced operations as part of the ITX Group on the final day of the interim period in the previous fiscal year. Results for this company have been included in the above business segment information from this date.

(2) Networking & Technologies

Network Solutions: Provision of system integration services and security solutions; sales of network infrastructure systems; development and sales of packaged software

Broadband Services: Operation of CATV business and broadband businesses utilizing fiber-optic networks

Internet Services: Provision of a range of Internet services such as EC account settlement and CRM

Next-generation Semiconductors and Electronic Devices: Design, development and sale of next-generation imaging sensors, sales of semiconductor-related equipment and electronic devices, and other operations

(3) Mobile Communications

Mobile Terminals, Solutions & Content: Distribution of mobile phone devices; provision of mobile solutions, mobile content, interactive services and other operations

(4) Business Innovations

CVC (Corporate Venture Capital): Investment in business ventures

Human Capital Management: Provision of human resource services (new graduate recruiting, dispatch of new graduates as temporary staff, etc.) and personnel-related outsourcing services

Intellectual Property: Operation of businesses offering patent analysis and patent and technology licensing services

Business Restructuring: Investment and financial support for business regeneration

The business segment information of the Companies for the year ended March 31, 2006 and 2005 is as follows:

**Business Segments**

Year ended March 31, 2006	Millions of yen					Consolidated
	LS	NW & T	MC	BI	Elimination and Corporate	
Net sales						
Sales to third parties	¥42,028	¥83,568	¥204,332	¥16,927		346,855
Intersegment sales	361	148	-	-	(509)	-
Total	42,389	83,716	204,332	16,927	(509)	346,855
Operating expenses	39,982	81,723	204,471	17,051	722	343,949
Operating income (loss)	2,407	1,993	(139)	(124)	(1,231)	2,906

Year ended March 31, 2006	Thousands of U.S. dollars					Consolidated
	LS	NW & T	MC	BI	Elimination and Corporate	
Net sales						
Sales to third parties	\$359,218	\$714,252	\$1,746,428	\$144,675	-	\$2,964,573
Intersegment sales	3,081	1,269	-	-	(4,350)	-
Total	362,299	715,521	1,746,428	144,675	(4,350)	2,964,573
Operating expenses	341,726	698,487	1,747,615	145,735	6,172	2,939,735
Operating income (loss)	20,573	17,034	(1,187)	(1,060)	(10,522)	24,838

**Business Segments**

Year ended March 31, 2005	Millions of yen					Consolidated
	LS	NW & T	MC	BI	Elimination and Corporate	
Net sales						
Sales to third parties	¥ 24,888	¥133,681	¥178,786	¥12,344	¥ -	¥349,699
Intersegment sales	-	-	-	-	-	-
Total	24,888	133,681	178,786	12,344	-	349,699
Operating expenses	24,273	126,626	178,391	12,030	1,221	342,541
Operating income	¥ 615	¥ 7,055	¥ 395	¥ 314	¥(1,221)	¥ 7,158

The information related to overseas sales by region for the years ended March 31, 2006 and 2005 is as follows:

**Overseas Sales by region**

Year ended March 31, 2006	Millions of yen					Total
	North America	Europe	Asia	Central and South America	Others	
I. Overseas sales	¥25,361	¥21,359	¥7,505	¥11,401	¥653	¥66,279
II. Consolidated sales	-	-	-	-	-	¥346,855
% of overseas sales	7.3%	6.2%	2.2%	3.3%	0.1%	19.1%

Year ended March 31, 2005	Millions of yen					Total
	North America	Europe	Asia	Central and South America	Others	
I. Overseas sales	¥33,676	¥32,605	¥13,303	¥24,668	¥1,044	¥105,296
II. Consolidated sales	-	-	-	-	-	¥349,699
% of overseas sales	9.6%	9.3%	3.8%	7.1%	0.3%	30.1%

Year ended March 31, 2006	Thousands of U.S. dollars					Total
	North America	Europe	Asia	Central and South America	Others	
I. Overseas sales	\$216,761	\$182,556	\$64,145	\$97,444	\$5,581	\$566,487
II. Consolidated sales	-	-	-	-	-	\$2,964,573
% of overseas sales	7.3%	6.2%	2.2%	3.3%	0.1%	19.1%

## Subsequent Events

1) At the Board of Directors, meeting held on April 28, 2006, ITX Corporation passed a resolution finalizing the following details of a second issue of subscription rights issued as stock options, in accordance with a resolution approved at the 6th Ordinary Annual General Meeting of Shareholders on June 23, 2005.

1. Issue date

April 28, 2006

2. Total number of subscription rights to be issued

455 rights (each right for one common share)

3. Price of subscription rights

Awarded at no cost

4. Class and number of shares to be issued associated with subscription rights

455 common shares

5. Amount payable upon exercise of subscription rights

¥219,689(US\$ 1,878) per share

6. Amount not transferred to the account of common stock upon exercise

¥109,844(US\$ 939) per share

7. Total value of common shares to be issued upon exercise

¥99,958,495(US\$ 854,346)

8. Exercise period

June 24, 2007 to June 23, 2010

9. Eligible recipients

Employees of the Company and directors of the Company's subsidiaries

2) To ensure a sufficient level of working capital for future operations, ITX concluded a term loan contract with the Bank of Tokyo-Mitsubishi UFJ, Ltd., effective March 28, 2006.

Key details of the contract are as follows:

1. Loan drawdown date: April 5, 2006

2. Loan amount: ¥7.0 billion(US\$ 60 million)

3. Repayment method: Lump-sum repayment, March 31, 2011

4. Interest rate: Base rate (6 month TIBOR) + 0.5%

5. Collateral/guarantee: None

## Non-Consolidated Earnings Report for the Year Ended March 31, 2006

Company Name: ITX Corporation  
 Stock Listing Market: Nippon New Market (Hercules)  
 Code: 2725 Head Office: Tokyo  
 (URL <http://www.itx-corp.co.jp/>)  
 Representative Director: Tetsuhiko Takei, President & CEO  
 Inquiries: Shoichi Hanzawa, CFO TEL (81)-3- 4288-7000  
 Interim Dividend System: Yes  
 Meeting of the Board of Directors for Approval of Results: May 10, 2006  
 Parent company: Olympus Corporation (Code: 7733)  
 Trading Unit System: No

### 1. Non-Consolidated Results for the year ended March 31, 2006(April 1, 2005– March 31, 2006) -- Unaudited

#### (1) Non-Consolidated Operating Results

(Millions of yen)

	Revenues		Operating income(loss)		Net income	
Year ended March 31, 2006	56,049	(-47.1)%	(2,485)	( - )%	630	(-92.0)%
Year ended March 31, 2005	105,931	(26.2)%	1,959	(-66.9)%	7,846	(20.9)%

(Yen)

	Net income per share
Year ended March 31, 2006	1,284.89
Year ended March 31, 2005	16,004.05

Notes:

- Average number of shares outstanding during the period:  
 Year ended March 31, 2006 490,240 shares  
 Year ended March 31, 2005 490,240 shares
- Changes in accounting policies: No
- Percentage figures for revenues, operating income and net income represent year-on-year changes.

#### (2) Dividend Payments

(Yen)

	Interim dividend per share	Annual dividend per share
Year ended March 31, 2006	-	-
Year ended March 31, 2005	-	-

#### (3) Non-Consolidated Financial Position

(Millions of yen)

	Total assets	Shareholders' Equity	Shareholders' equity ratio	BPS
March 31, 2006	107,554	33,579	31.2 %	68,495.66 (Yen)
March 31, 2005	105,041	32,944	31.4	67,200.97

Notes:

Number of shares issued and outstanding as of:  
 March 31, 2006: 490,240 March 31, 2005: 490,240

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

(Millions of yen)

	Revenues	Net income
Six-month period ending September 30, 2006	43,000	600
Year ending March 31, 2007	97,000	1,600

Reference: Projected net income per share for the year: ¥3,263.70

#### Forward-looking Statements

The above forecasts are based on management's assumptions and beliefs in light of the information currently available, as of the date of this announcement, and involve risks and uncertainties. We caution investors that a number of factors could cause actual results to differ materially from forecasts. Please refer to Page 11 of this earnings report for an explanation of the assumptions and factors upon which the forecasts are based.

**ITX Corporation**  
**Non-Consolidated Balance Sheets**

As of March 31, 2006 and 2005

<b>Assets</b>	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
<b>Current assets:</b>			
Cash	¥ 2,329	¥ 4,420	\$ 19,906
Trade notes and accounts receivable	129	5,389	1,103
Allowance for doubtful accounts	(1)	(1)	(9)
	128	5,388	1,094
Other current assets	9,180	13,782	78,463
Total current assets	11,637	23,590	99,463
<b>Non-current assets:</b>			
Property and equipment			
Buildings and structures	94	119	803
Furniture and fixtures	64	72	547
Accumulated depreciation	(68)	(81)	(581)
	90	110	769
<b>Investment and other assets:</b>			
Investment securities	5,291	5,230	45,222
Investment securities for business incubation	6,400	5,722	54,701
Investment securities – in affiliates	55,163	58,021	471,479
Investment securities for business incubation – in affiliates	26,723	10,747	228,402
Long-term loan receivable	2,119	22	18,111
Software	121	238	1,034
Other non-current assets	10	1,361	85
	95,827	81,341	819,034
Total non-current assets	95,917	81,451	819,803
Total assets	¥ 107,554	¥ 105,041	\$ 919,266

*The accompanying notes to Non-Consolidated Financial Statements are an integral part of these statements.*

<b>Liabilities and shareholders' equity</b>	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
<b>Current liabilities:</b>			
Accounts payable	¥ 77	¥ 5,176	\$ 658
Short-term borrowings	11,700	4,460	100,000
Current portion of long-term debt	5,220	10,627	44,615
Accrued income taxes	14	49	120
Deposits	33	27	282
Other current liabilities	2,389	3,695	20,419
Total current liabilities	<u>19,433</u>	<u>24,034</u>	<u>166,094</u>
<b>Non-current liabilities:</b>			
Long-term debt	53,800	47,600	459,829
Deferred tax liabilities – non-current	66	-	564
Retirement allowance:			
Employees	208	218	1,778
Directors and corporate auditors	18	20	154
Allowance for losses on guarantees of liabilities	450	225	3,846
Total non-current liabilities	<u>54,542</u>	<u>48,063</u>	<u>466,171</u>
<b>Shareholders' equity :</b>			
Common stock	20,456	20,456	174,838
Additional paid-in capital	27,977	27,977	239,120
Accumulated deficit	(14,950)	(15,580)	(127,778)
Net unrealized holding gain on available-for-sale securities	96	91	821
Total shareholders' equity	<u>33,579</u>	<u>32,944</u>	<u>287,001</u>
Total liabilities and shareholders' equity	<u>¥ 107,554</u>	<u>¥ 105,041</u>	<u>\$ 919,266</u>

*The accompanying notes to Non-Consolidated Financial Statements are an integral part of these statements.*

**ITX Corporation**  
**Non-Consolidated Statements of Income**  
For the year ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
<b>Revenues:</b>			
Equipment sales and services	¥ 53,015	¥ 92,787	\$ 453,120
Sales of investment securities for business incubation	3,034	13,144	25,932
	<u>56,049</u>	<u>105,931</u>	<u>479,052</u>
<b>Costs of revenues:</b>			
Equipment sales and services	52,397	91,763	447,838
Sales of investment securities for business incubation	3,549	9,140	30,333
	<u>55,946</u>	<u>100,903</u>	<u>478,171</u>
<b>Gross profit</b>	<b>103</b>	<b>5,028</b>	<b>881</b>
<b>Selling, general and administrative expenses</b>	<b>2,588</b>	<b>3,069</b>	<b>22,120</b>
<b>Operating income (loss)</b>	<b>(2,485)</b>	<b>1,959</b>	<b>(21,239)</b>
<b>Other income(expenses)</b>			
Interest and dividend income	1,889	1,591	16,145
Interest expense	(1,036)	(1,223)	(8,855)
Gain (Loss) on sales of investment securities, net	314	(7)	2,684
Gain on sales of investment securities in affiliates	2,118	6,010	18,103
Impairment loss on investment securities in affiliates	(498)	-	(4,256)
Loss on derivative stock-price swap transactions	(560)	(1,001)	(4,786)
Provision of allowance for doubtful accounts	(187)	404	(1,598)
Provision of allowance for losses on guarantees of liabilities	(225)	(225)	(1,923)
Gain on delinquency charges	396	-	3,385
Other, net	(290)	(34)	(2,479)
Income(loss) before income taxes	<u>(564)</u>	<u>7,474</u>	<u>(4,819)</u>
<b>Income taxes:</b>			
Current	(1,194)	(372)	(10,205)
Deferred	-	-	-
	<u>(1,194)</u>	<u>(372)</u>	<u>(10,205)</u>
<b>Net income</b>	<b>¥ 630</b>	<b>¥ 7,846</b>	<b>\$ 5,386</b>

*The accompanying notes to Non-Consolidated Financial Statements are an integral part of these statements.*

**ITX Corporation**  
**Non-Consolidated Statements of Shareholders' Equity**

For the year ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
<b>Common stock:</b>			
Beginning balance	¥ 20,456	¥ 20,456	\$ 174,838
Issuance of common stock		-	
Ending balance	<u>¥ 20,456</u>	<u>¥ 20,456</u>	<u>\$ 174,838</u>
<b>Additional paid-in capital:</b>			
Beginning balance	¥ 27,977	¥ 27,977	\$ 239,120
Issuance of common stock		-	
Ending balance	<u>¥ 27,977</u>	<u>¥ 27,977</u>	<u>\$ 239,120</u>
<b>Accumulated deficit:</b>			
Beginning balance	¥ (15,580)	¥ (23,426)	\$ (133,164)
Net income	630	7,846	5,386
Ending balance	<u>¥ (14,950)</u>	<u>¥ (15,580)</u>	<u>\$ (127,778)</u>
<b>Net unrealized holding gain on available-for-sale securities:</b>			
Beginning balance	¥ 91	¥ 4,942	\$ 778
Net increase (decrease)	5	(4,851)	43
Ending balance	<u>¥ 96</u>	<u>¥ 91</u>	<u>\$ 821</u>

*The accompanying notes to Non-Consolidated Financial Statements are an integral part of these statements.*

**ITX Corporation**  
**Notes to Non-Consolidated Financial Statements**

**1. SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES**

**BASIS OF PRESENTING  
NON-CONSOLIDATED FINANCIAL  
STATEMENTS**

ITX Corporation (the “Company”) maintains its official accounting records 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 and practices generally accepted in Japan (“Japanese GAAP”), which are different in certain aspects as to application and disclosure requirements of International Financial Reporting Standards.

In the non-consolidated financial statements, subsidiaries and affiliates are not consolidated or accounted for under the equity method. Investments in subsidiaries and affiliates are stated at the moving-average cost.

The accompanying non-consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of statements of shareholders' equity) from the financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language financial statements, but not required for fair presentation, is not presented in the accompanying financial statements.

In preparing the accompanying non-consolidated financial statements, certain reclassifications have been made in the financial statements issued domestically.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at March 31, 2006, which was ¥117 to U.S. \$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

**Allowance for doubtful accounts**

The allowance for doubtful accounts is provided for an amount sufficient to cover possible losses on collection by estimating individually uncollectible amounts and applying a percentage based on collection experience to the remaining accounts

**Securities**

Available-for-sale securities with available fair market values are stated at their fair market values as of balance sheet date. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. If the fair value of these securities has declined significantly, such securities are written down to fair value, thus establishing a new cost basis. Unless the fair value is deemed to be recoverable the amount of each write-down is

charged to income as an impairment loss. The Company has established a policy for the recognition of an impairment loss when the fair value declines below 50 % of the cost basis unless the fair value is deemed to be recoverable. The cost of securities sold is determined by the moving-average method.

Securities with no available fair market value are stated at moving-average cost.

**Inventories**

Inventories, consisting mainly of commodities and materials held for resale, are stated at cost, principally on a first-in, first-out basis, except for items that are written down because their net realizable values are substantially less than the original cost.

**Property and equipment**

Property and equipment are stated at cost. Depreciation is computed primarily by the declining-balance method for assets held by the Company, except for buildings and structures acquired after March 31, 1998, which are depreciated by the straight-line method. The estimated useful lives for significant assets are as follows:

Buildings and structures:	8-50 years
Furniture and fixtures:	3-20 years

**Leases**

Non-cancelable lease transactions are accounted for as operating leases regardless of whether such leases are classified as operating or finance leases except that lease agreements which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance lease.

**Software costs**

The Company depreciated software using the straight-line method over the estimated useful lives (five years).

**Translation of foreign currencies**

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rate at year-end, and the translation gains and losses are charged to income.

**Severance and retirement benefits**

The Company provides allowance for employees' severance and retirement benefits at the balance sheet dates based on the estimated amounts of projected benefit obligation. The Company provides allowance for directors' and corporate auditors' severance and retirement benefits based on the Company's internal rules.

**Allowance for losses on guarantees of liabilities**

Allowance for losses on guarantees of liabilities is stated in amounts considered to be appropriate based on an evaluation

of the financial conditions of guaranteed parties.

### **Income taxes**

The provision for income taxes is computed based on the pretax income included in the statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Beginning in the year ended March 31, 2005, the Company and certain of its domestic subsidiaries file consolidated income tax returns. For the purpose of non-consolidated financial statements, income taxes are provided for on a pro-rata basis based on taxable income generated by the respective companies.

### **Revenue and expenses**

Proceeds from sales of securities for business incubation are recognized in income as "Revenues --sales of investment securities for business incubation". Impairment loss and carrying amounts of those securities are charged to income as "Costs of revenues -- sales of investment securities for business incubation".

### **Derivative instruments**

The Company uses certain derivative instruments including currency forward contracts, interest rate swap contracts, and stock-price swap contracts.

The Company enters into currency forward contracts and interest rate swap contracts to reduce their exposures to losses resulting from adverse fluctuations in foreign currency exchange rates on transactions denominated in foreign currencies or interest rate on debts.

Further, the Company enters into stock-price swap contracts for trading purposes. These contracts are not qualified for the hedge accounting.

Derivative financial instruments are stated at fair value, and the gains and losses are charged to income unless derivative financial instruments are qualified for the hedge accounting.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the recognition of gains or losses resulting from changes in fair values are deferred until the gains or losses on the hedged items are recognized.

If interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from interest on the underlying assets or liabilities for which the swap contract was executed.

The Company is exposed to credit risk in the event of default by counterparties to the currency forward contracts and the interest rate swap contracts, however, the Company does not anticipate such risks because the counterparties are major international financial institutions which have high credit ratings..

## 2.Changes in Accounting Policies

Accounting standards for the impairment of fixed assets

The Company has adopted new accounting standards for the impairment of fixed assets in accordance with “Accounting Standards for the Impairment of Fixed Assets” (“Opinion Concerning Establishment of Accounting Standards for the Impairment of Fixed Assets,” Business Accounting Council, August 9, 2002) and “Implementation Guidance for Accounting Standards for the Impairment of Fixed Assets,” (Accounting Standards Board of Japan, Financial Accounting Standard Implementation Guidance No. 6, October 31, 2003). This change has no impact on the Company’s income.

## 3.Additional Information

1. In the interim period,ITX sold a portion of its shares in consolidated subsidiary TechMatrix Corporation, making it an equity-method affiliate. As a result of subsequently reviewing its objectives for holding TechMatrix shares, the Company booked its remaining holding under investment securities for business incubation (totaling ¥1,645 million(US\$ 14,060 thousand) as of March 31, 2006)

2. With effect from November 2005, the Company terminated sales of OEM PC peripheral products. For these transactions, sales to OEM users were booked as revenues and procurement of products from OEM suppliers as cost of revenues.As a result of the termination of OEM sales, the Company’s revenues and cost of revenues will both decline. For reference, revenues and cost of revenues for the period from December 2004 to March 2005 in the previous fiscal year were ¥29,127 million (US\$248,949 thousand) and ¥28,878 million (US\$246,821 thousand), respectively.

## 4. SECURITIES

The following tables summarize of market values of investment securities in subsidiaries and affiliates with available fair value as of March 31, 2006 and 2005:

Description	Millions of yen		
	Book value	Market value	Difference
<b>March 31,2006</b>			
Subsidiaries	¥ 870	¥ 958	¥ 88
Affiliates	1,645	4,407	2,762
Total	2,515	5,365	2,850

Description	Millions of yen		
	Book value	Market value	Difference
March 31,2005			
Subsidiaries	¥ 3,570	¥ 9,082	¥ 5,512

Description	Thousands of U.S. dollars		
	Book value	Market value	Difference
<b>March 31,2006</b>			
Subsidiaries	\$ 7,436	\$ 8,188	\$ 752
Affiliates	14,060	37,667	23,607
Total	21,496	45,855	24,359

## 5. SUBSEQUENT EVENTS

1) At the Board of Directors,meeting hold on April 28, 2006, ITX Corporation passed a resolution finalizing the following details of a second issue of subscription rights issued as stock options, in accordance with a resolution approved at the 6th Ordinary Annual General Meeting of Shareholders on June 23, 2005.

1. Issue date  
April 28, 2006
2. Total number of subscription rights to be issued  
455 rights (each right for one common share)
3. Price of subscription rights  
Awarded at no cost
4. Class and number of shares to be issued associated with subscription rights  
455 common shares
5. Amount payable upon exercise of subscription rights  
¥219,689(US\$ 1,878) per share
6. Amount not transferred to the account of common stock upon exercise  
¥109,844(US\$ 939) per share
7. Total value of common shares to be issued upon exercise

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8. Exercise period

June 24, 2007 to June 23, 2010

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Employees of the Company and directors of the Company's subsidiaries

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Key details of the contract are as follows:

1. Loan drawdown date: April 5, 2006
2. Loan amount: ¥7.0 billion(US\$ 60 million)
3. Repayment method: Lump-sum repayment, March 31, 2011
4. Interest rate: Base rate (6 month TIBOR) + 0.5%
5. Collateral/guarantee: None