



Protecting Now and Every Moment

## Profile

Sohgo Security Services Co., Ltd (ALSOK) was established in July 1965. It was the first company to be awarded security business certification by the Tokyo Metropolitan Public Safety Commission, and has remained a pioneer of the security services industry in Japan. It listed on the First Section of the Tokyo Stock Exchange in October 2002. ALSOK was established as the corporate brand in 2003.

The ALSOK group has already established an industry-leading track record in providing security services to financial institutions and other corporations. It has recently broadened its focus to include services to individual clients, leveraging both its experience and expertise in the corporate sector as well as the latest technologies. It has earned the confidence of all stakeholders through this emphasis on providing security throughout Japan's society.

### What's behind the **ALSOK** name?

ALSOK comes from the first letters of **AL**ways **S**ecurity **OK**. It emphasizes our dedication to come to the timely assistance of our clients whenever it is required.

### Cautionary statement regarding forecasts and projections

Plans, forecasts, strategies, goals, and beliefs of Sohgo Security Services Co., Ltd. (ALSOK) and those of the ALSOK group that are expressed in this annual report and that are not founded in historical fact are simply projections of future performance. They are based on the expectations of the management of ALSOK and the ALSOK group that are derived from information that is currently available. Readers are advised to be aware that the actual performance could differ materially from these projections, due to various factors and changes in such factors.

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## Consolidated Financial Highlights

millions of yen

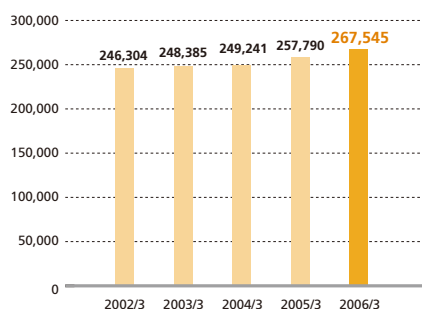
	March 2002	March 2003	March 2004	March 2005	March 2006
Fiscal year ending					
Net Sales . . . . .	246,304	248,385	249,241	257,790	<b>267,545</b>
Operating income . . . . .	16,250	17,829	14,479	10,963	<b>12,246</b>
Net income . . . . .	6,686	7,549	17,753	4,952	<b>5,550</b>
Fiscal year ending					
Total assets . . . . .	248,794	258,894	268,813	282,206	<b>282,830</b>
Shareholders' equity . . . . .	75,880	102,924	119,533	123,169	<b>129,193</b>
Per share (yen)					
Net income . . . . .	79.77 (Note 1)	79.84	175.11	47.54	<b>52.91</b>
Shareholders' equity . . . . .	890.29 (Note 1)	1,023.04	1,188.65	1,222.93	<b>1,274.27</b>
Dividends . . . . .	18.84 (Note 1)	20.00 (Note 2)	17.00	17.00	<b>17.00</b>
Ratios (%)					
ROA . . . . .	6.6	7.2	5.9	4.2	<b>4.6</b>
ROE . . . . .	9.2	8.4	16.0	4.1	<b>4.4</b>

Note 1) Per-share information for the year to March 2002 reflects the 1:13 stock split of August 1, 2002.

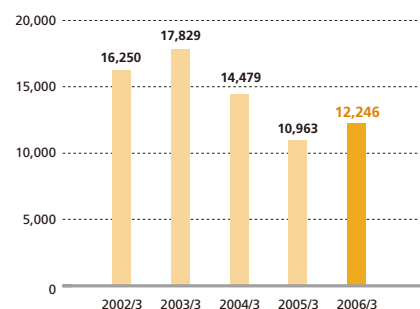
Note 2) Includes a ¥3 per share commemorative dividend.

Note 3) The Company recognized ¥19,666 million in the year to March 2004 resulting from the return of Welfare Pension Fund assets to the government.

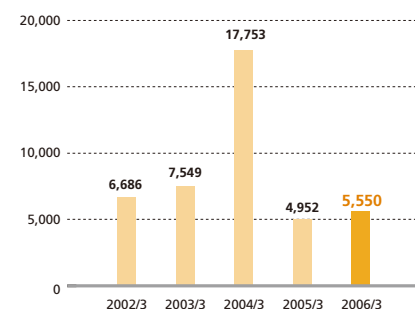
**Net Sales**  
(millions of yen)



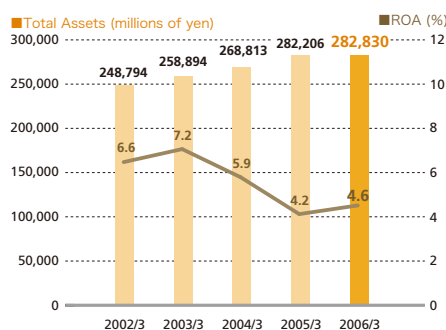
**Operating Income**  
(millions of yen)



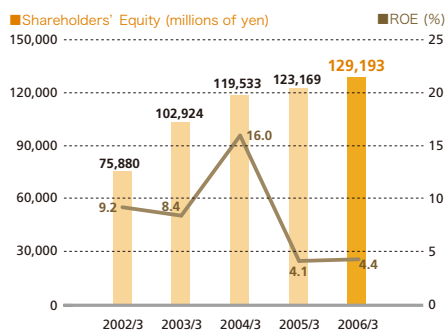
**Net Income**  
(millions of yen)



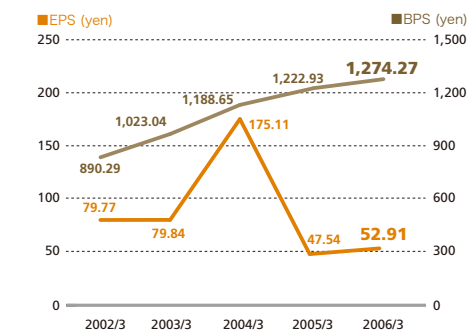
**Total Assets and ROA**



**Shareholders' Equity and ROE**



**EPS and BPS**





**The year to March 31, 2006 completed ALSOK's upfront investment that will support more rapid earnings expansion in the coming years. President Atsushi Murai reviews the highlights and issues of the year, and discusses the strategies now in place to drive growth going forward.**

## **What were the highlights of ALSOK's performance in the year ended March 31, 2006?**

The year to March 2006 was a year of earnings recovery, in which the investment we have made in future growth over the past three years finally began to translate into earnings. ALSOK has increased the number of marketing personnel from 1,377 to 1,879, and sales offices from 285 to 325 in the past four years. We recorded net growth of 16,812 contracts with corporate clients and 16,360 with individual clients in the electronic security business, as well as 1,300 Cash Deposit Machine On-line Systems and 1,500 convenience store ATMs in the transportation security segment.

The recovery in earnings among Japan's financial institutions supported a 3.8% increase in sales over the previous year, to ¥267,545 million. All three mainstay segments posted growth: 2.8% in electronic security, 4.0% in stationed security, and 6.1% in transportation security. Sales from other services also advanced 5.9%. Operating income advanced 11.7%, to ¥12,246 million, and net income 12.1%, to ¥5,500 million.

## **ALSOK launched Home Security X7 in November 2005. What are the key features of the new product?**

ALSOK Home Security X7 includes a number of features to enhance the security surveillance of a home or combined residential retail premises. One of the highlights is the ability to view images from cameras monitoring the property on a remote mobile phone.

The launch of ALSOK Home Security X7 has enabled us to meet a broader range of client requirements. We plan extensive advertising to enhance recognition of the ALSOK brand in the residential security market and expand orders further.

## **ALSOK achieved steady growth in sales of Cash Deposit Machine On-line System during the year. Do you intend to devote a particular emphasis to this area going forward?**

Our Cash Deposit Machine On-line System is an alternative to the traditional practice of carrying the daily sales proceeds to a bank's night safe. A client loads cash into a cash deposit machine located in-store, and ALSOK transfers an equivalent sum to the client's bank account on the following business day. This enables retail businesses to avoid the risks associated with the use of night safes.

The number of units installed increased by 1,300 in the year to March 31, 2006. We will focus on this area again during the current year: we expect to sell a further 1,600 systems, bringing the installed base to 7,700.

## **How sensitive are ALSOK's earnings to Japan's economy and other external factors?**

ALSOK's sales growth has traditionally tracked Japan's GDP with a one-year time lag. In this sense, the start of a period of sustained expansion in Japan's economy offers the prospect of higher sales in coming years. The earnings recovery in the banking sector is particularly positive, given the high proportion of sales to the financial services industry and the tendency for ALSOK's sales growth to lag bank earnings by one year.

## **How does your business model compare with those of major security providers in other countries?**

We rank sixth worldwide among security providers in terms of sales, but differences in the nature of the services we provide mean few points for comparison with major companies outside Japan. One key difference is in our electronic security businesses: security alarm systems in the European and American countries generally alert the local police or fire services through a monitoring center. In Japan, however, the

alarm sounds at a Guard Center with the infrastructure to respond to the situation, which dispatches security staff to the site.

Such differences create high barriers to entering the Japanese market for security services, and makes ALSOK's creation of a nationwide infrastructure one of its major strengths.

### **Japan's labor market is set to contract over the coming years. How does ALSOK plan to cope with an increased difficulty in hiring and retaining staff?**

Japan's population declined in 2005 for the first time, as society ages and fewer children are born. We also face a challenge as Japan's post-war baby boomers retire in large numbers from 2007.

We have upgraded the personnel hiring team within our personnel division to divisional status. This organizational change gives the group the speed of decision-making and independence to hire effectively.

We have for some years been developing robots to take the place of human security guards. We have completed field tests, and are now installed in the commercial compound in Fukuoka.

### **What are the company's strategic priorities for the coming years?**

Our principal focus will be on the electronic and transportation security segments. Within electronic security, we will emphasize growth in sales of Home Security products, as well as maintain our priority on the corporate market. As of 2005, some 17.2% of householders in the US had contracts with a security company to receive some kind of residential security service. In Japan, the comparable figure remains around 1%. The potential for growth in a market of 49 million households therefore remains large. We also anticipate that an increasing number of home owners will invest in security systems as the economy strengthens.

In the transportation security segment, we are working to expand orders for our Total ATM Management System in response to growing demand for outsourcing among financial institutions. We are also expanding our Cash Deposit Machine On-line System and convenience store ATM business through the establishment of a cash management center.

### **What are your forecasts for the year to March 31, 2007?**

Japan's economy is now performing well. Concerns remain over high crude oil pricing, but we see a steady improvement in corporate earnings and capital spending. The strength of the corporate sector is translating to household spending, suggesting that domestic private-sector demand will continue to sustain the economic recovery.

Public perceptions of safety continue to deteriorate in the wake of a number of particularly repugnant crimes against children. Overall, however, the number of crimes reported continues to fall, and the arrest rate to improve.

Both an improving economy and the perception of a deterioration in public safety contribute to increased demand for security services. Competition remains fierce, but conditions for the security services industry are becoming more favorable overall.

We forecast consolidated sales of ¥277,100 million, operating income of ¥15,000 million, recurring profit of ¥15,700 million, and net income of ¥8,300 million.

### **ALSOK has strengthened its corporate governance and compliance systems over the past several years. What is your approach to this area?**

A mainstay of our corporate governance is to separate management execution and supervisory functions in the interest of transparency and ethics. We have



implemented an Executive Officer system and appointed three external auditors, as well as an Internal Audit division that reports directly to the president. We have strengthened our compliance structure through the establishment of a central Compliance Committee, complemented by compliance officers and administrators throughout the company. We conduct periodic checks on compliance issues during our normal operations, and have formed a legal advisory board of external experts with several legal offices to cover a broad range of management and legal issues.

We are dedicated to the highest standards of behavior, in recognition of our task to ensure both the personal safety of our clients and the security of their assets. Our corporate governance and compliance systems are designed to reinforce this awareness among all ALSOK employees.

### What is your approach towards shareholder returns?

We have emphasized the importance of shareholder returns since listing our stock in 2002, balancing the need to supplement our internal reserves with distributions that reflect performance. We targeted a non-consolidated payout ratio of 30% at the time of listing, but have now adjusted to the higher of 30% or an absolute annual dividend per common share of ¥17. This is because a 30% payout ratio has produced dividends per share below ¥17 in each of the past two years. We will revise dividends in line with profit levels going forward.

### What can shareholders expect from ALSOK going forward?

The year to March 31, 2006 concluded the recent period of upfront investment and represented the first year of growth towards the objective of ¥300 billion in sales in the year to March 2009.

The investment of the past three years has been intended principally to strengthen our marketing capability; it has led to the development of new products such as the ALSOK Home Security 7 and X7. We forecast a rapid increase in profit from the year to March 2007, leading to recurring profit of ¥30 billion in the year to March 2010. We will continue to invest in enhancing the competitiveness of our products and our ability to sell.

I thank all our shareholders, and look forward to your continued support.

Atsushi Murai  
President

The ALSOK group consists of Sohgo Security Services Co., Ltd., 43 consolidated subsidiaries, eight companies accounted for by the equity method, and three other affiliates. The group provides security and other services throughout Japan. It reports earnings in two segments: Security Services (subdivided into Electronic Security, Stationed Security, and Transportation Security) and Other Services.

## Security Services

### Electronic Security

ALSOK's Electronic Security services consist of 24/7 remote monitoring of a client's premises from our nationwide network of Guard Centers, using on-site equipment and either telephone lines or the internet. The client base includes financial institutions and other corporate users, as well as residential households.

Our Guard Centers respond to warning of an intrusion, fire, or equipment malfunction by dispatching the security staff posted closest to the client's premises to confirm the situation. The Security Business Law stipulates that personnel must reach the client's premises within 25 minutes. When needed, ALSOK contacts the police, fire services.

The response to an alarm in Japan differs to that of the European and American countries, where a warning signal generally alert the local police or fire services through a monitoring center. The dispatch of ALSOK security staff to the scene places great importance on that person's capacity to assess the situation.

ALSOK offers a broad range of Electronic Security services, including the ALSOK Guard System (monitoring of an entire building or premises, as well as 'spot monitoring' to prevent theft from a safe or storage area), ALSOK Home Security

7 and the multi-function ALSOK Home Security X7 for individual clients, and the AMANDO System (automated operation of unstaffed cash dispensers) for financial institutions.

#### Major products

##### For corporate clients

ALSOK Guard System  
(electronic security for corporations)

Mansion TAKURUSU II  
(electronic security for condominiums)

ALSOK Apartment Guard  
(electronic security for apartment buildings)

AMANDO System  
(electronic security for financial institutions)

##### For individual clients

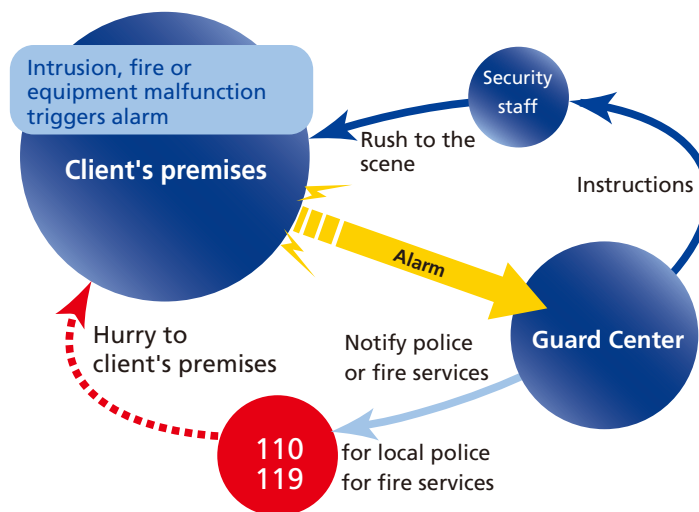
ALSOK Home Security 7

ALSOK Home Security X7



Guard Center

### Outline of ALSOK's Electronic Security services





## Stationed Security

ALSOK's Stationed Security services consist of stationing security guards at a client's premises to manage building access, patrol, monitor, and respond to emergencies. The OLM system manages all these activities in an integrated way, and is suitable for large, multi-format buildings as well as regular properties, providing an advanced combination of electronic and stationed security. Access management involves monitoring the people entering or leaving a building, confirming their identity, and checking their baggage. Patrols are intended to prevent accidents by detecting suspicious people or objects in timely fashion.

Monitoring takes place in a disaster prevention center or central management unit, and consists of observing equipment for alarms indicating a crime, fire, or equipment malfunction. Security guard respond to any alarm by confirming the situation and taking any necessary steps, including notification to the police or fire services.

ALSOK's Stationed Security services also include crowd control at major events, and personal protection of both high-profile figures and corporate directors.



Facility Security

## OLM SYSTEM

The system can be configured and modified flexibly for any size of building. Systems are managed centrally from state-of-the-art OLM Stations. The combination of sophisticated electronic surveillance and highly trained security guards offers a fully comprehensive solution.



Disaster Prevention Center

## Transportation Security

The primary function of the transportation security business is to transport cash or marketable securities between two locations specified by a client. The Cash Transportation System uses cash transportation vehicles; the Security Transport System uses public transport such as the shinkansen.

Demand for such services has expanded substantially as corporations and financial institutions have moved increasingly to outsourcing.

Services for the retail industry include the Currency Processing System (to handle collection of sales proceeds from and delivery of change to stores, and to transfer cash to designated accounts), and the Cash Deposit Machine On-line System, which is an integrated

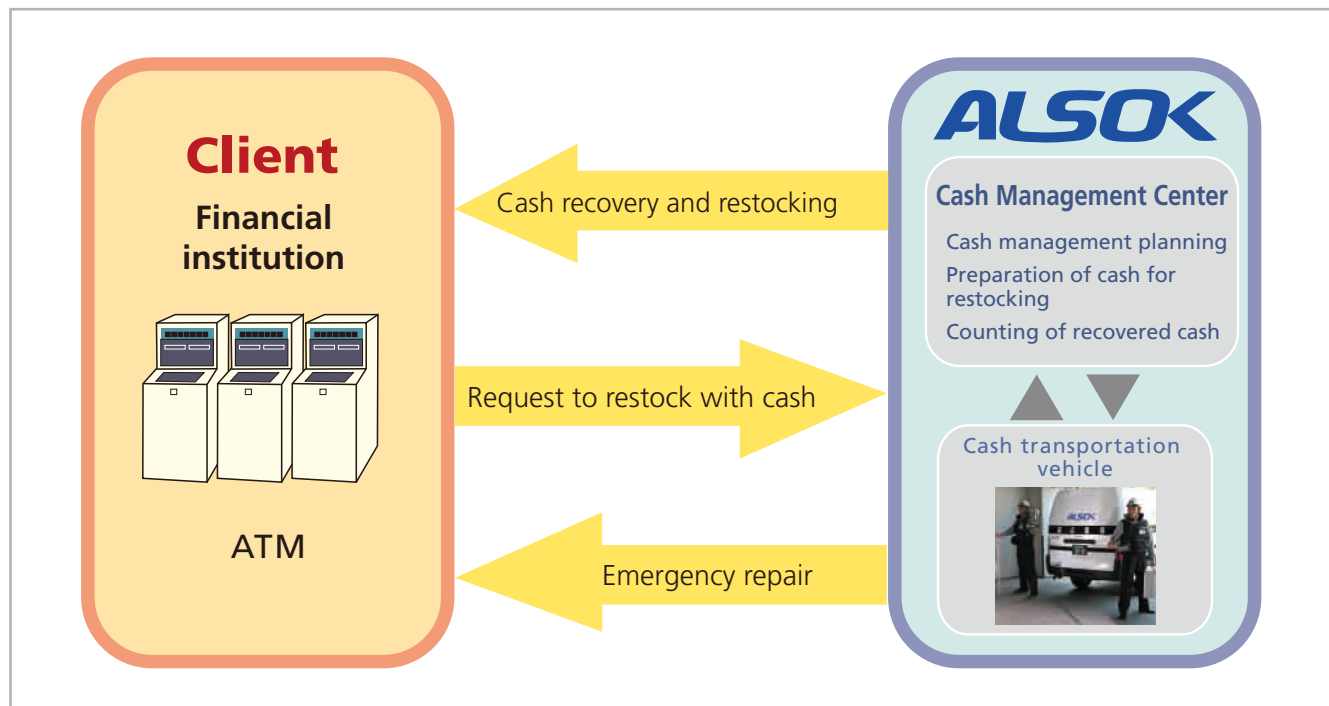
service that covers the calculation of sales, maintenance, and transfer to a designated bank account using machines positioned inside stores.

Services for financial institutions include the Total ATM Management System, which covers delivery of cash to, and collection from, ATMs both inside and away from branches, response to malfunction, and the restocking of cash and receipts, as well as functions that have traditionally been handled by the bank's own operations center, such as cash calculation and planning functions (the setting of restocking amounts and recovery frequency). The Total ATM Management System also covers ATMs located in convenience stores.



Cash Transportation

## Overview of the Total ATM Management System



## Other Services

The ALSOK group also provides the following products and services:

### Total Building Management Services

Total Building Management consists of functions such as cleaning management, environmental hygiene management, facility management, and telephone reception. Disaster prevention includes checking and maintenance of fire response systems, and the sale of related equipment and supplies.



### Other services

#### ANSHIN Mate Combining GPS and communications functionality

ANSHIN Mate consists of a handheld terminal or mobile phone carried by the client that is equipped with GPS functionality. Mobile data communications are used to transmit the client's location. Security staff can confirm the client's well-being if needed.



### MMK

#### Multimedia Kiosk Service

The MMK service supports greater operational efficiency for financial institutions by creating packages for all areas of ATM operation, from ownership to management. ALSOK supplies two functions of MMK: one that faithfully reproduces all aspects of an institution's ATM operation, and one that supports multiple functions, including utility bill payments, ticket sales, and information search.

#### ALSOK Safety Confirmation Service Assisting corporations with crisis management

ALSOK's dedicated, 24 hours crisis management information center supports email and SMS communication to confirm the safety of individuals after a disaster or accident occurs. This risk management service supports crisis management at corporations by providing an always-open route for communicating with employees.

### AED

Automated external defibrillators (AEDs) can be used to revive patients who have suffered a myocardial infarction by applying an electric shock to the heart. It is selling to the school and public utilities.

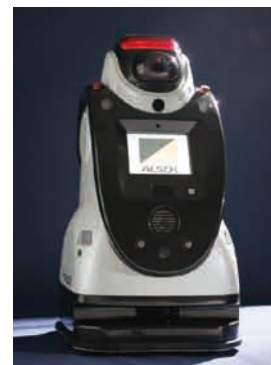


### ALSOK Server ID Information security

We provide an encoded communications service to protect companies operating web sites against hacking, and to preserve the confidentiality of personal data.

#### Customized robots Fusing knowledge and technology

ALSOK's robots incorporate camera monitoring, intrusion and fire sensors, as well as information via a touch-panel screen. They are also self-propelling and self-recharging. Their functionality and exterior can be customized according to application and objective.



# Feature 1 ALSOK Home Security

Expanding our presence in the market for residential security by building on the expertise and infrastructure developed in the provision of corporate services

ALSOK is currently focused on broadening the take-up of residential theft-and-fire prevention systems to address the deterioration of public safety in Japan and heightened interest in preventing crime. We are actively developing our high-quality Home Security services, which build on the expertise and infrastructure developed in the provision of corporate security. We also aim to establish the ALSOK brand as a major market presence.

## Increased public interest in home security services

A survey by the Cabinet Office in February 2006 found that 38.3% of people interviewed felt that public safety in Japan was deteriorating. The country has been one of the safest in the world in recent decades, but the public is worried that this could change if crime becomes more commonplace and extreme as a consequence of economic and demographic factors.

The challenge for society is how to combat the rising frequency of crime and the growing barbarity of many incidents. The public in Japan are becoming more aware of, and interested in, ways to protect themselves from this threat. This awareness of security, coupled with a broadening recognition that individuals must take personal responsibility to prevent themselves and their families from becoming victims, has led to a heightened interest in residential security services.

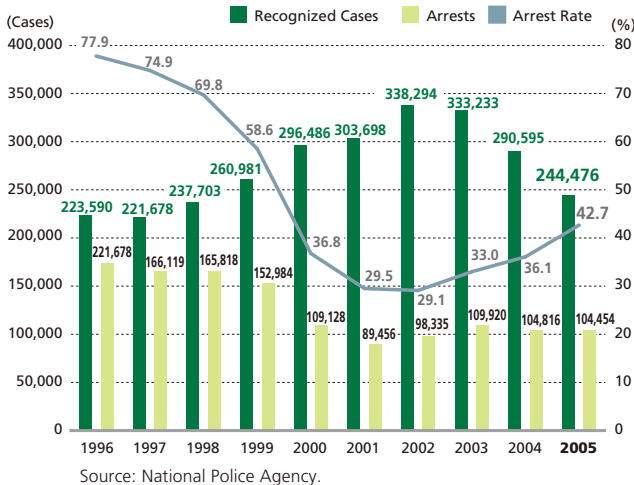
## ALSOK develops its presence in the residential security market to contribute to a safer social environment

ALSOK developed its Home Security services for use by general households to meet these needs of society and contribute to a safer environment. These new services build on the high-quality security services that it has traditionally provided to corporations.

The Home Security services leverage the nationwide infrastructure of facilities, people, and communications equipment that ALSOK has developed over many years to support its electronic security operations. It began to sell ALSOK Home Security 7, the theft-and-fire prevention system for individual clients, in November 2004.

The pricing of ALSOK Home Security, which starts at less than ¥5,000 per month on a rental basis, is the result of extensive marketing research to establish the levels that our target client would find affordable, as well as the functions required.

Recognized Crimes and Related Arrests



### ALSOK Home Security 7 offers advanced basic functionality

ALSOK Home Security 7 offers three basic services: intruder detection, fire alarm, and emergency communication.

Intruder detection operates whenever a door or window is opened (either forcibly, or after a lock is picked), or if glass is broken. The fire alarm is normally located in the kitchen, and responds to a sudden rise in temperature. Emergency communication allows a client to notify the Guard Center simply by pressing a button if someone senses danger or feels suddenly ill. The combination of these three functions enables ALSOK to protect a household's safety.

The service's combination of affordable pricing and advanced functionality has found favor with home owners since its launch. The number of contracts increased by 12,200 during the year ended March 2006.

### ALSOK Home Security X7 provides even more functionality

The growing diversity of client requirements has created demand for a security system with more varied functionality and expandability. In response, we developed ALSOK Home Security X7, which we launched in November 2005. This adds functionality to the ALSOK Home Security 7 service menu but retains competitive pricing.

We anticipate further major growth in the Japanese market for residential security services. The ALSOK group will continue to market both ALSOK Home Security 7 and ALSOK Home Security X7 actively. We will aim to increase the roll-out of the Home Security products and to contribute to the safety of society.

### The Varied Functionality of ALSOK Home Security X7

ALSOK Home Security X7 builds on the three basic functions of the ALSOK Home Security 7 service: intruder detection, fire alarm, and emergency communication. It complements them with other functions to give home owners a high-quality security service. The innovative service has attracted broad attention for its capacity to meet a broad range of client needs, such as the ability to monitor a home while away and to match the security provided to the way the property is used.

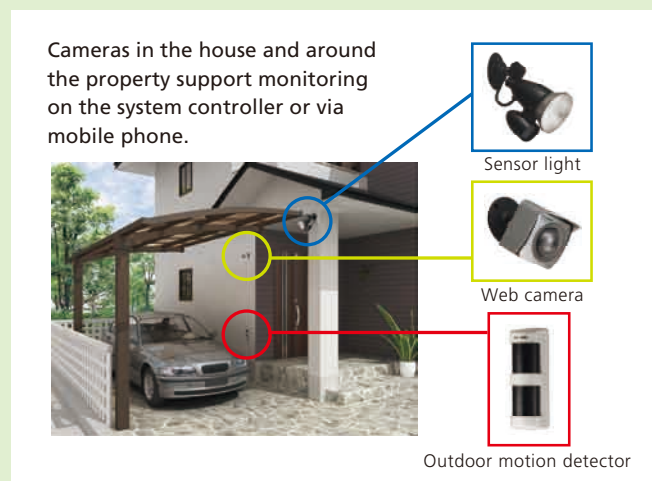
#### New functions

#### Providing even greater peace of mind to clients in their home

ALSOK Home Security X7 detects intrusion into the perimeter of a property and sounds the alarm. A sensor light flashes to warn the intruder that he has been detected, and the controller's LCD panel shows the relevant camera image.

#### Providing a security environment matched to the client's individual lifestyle

Houses are used in a variety of ways: some are shared by two generations of a family, others double as a store or an office. ALSOK Home Security X7 supports the separate security management of different areas. Cameras allow monitoring of the exterior of a house, as well as permitting a first-floor store to be monitored from the residential area on the second floor.



## Feature 2 The Cash Deposit Machine On-line System

### The Cash Deposit Machine On-line System meets demand for cash management outsourcing and develops a new market

Demand for sales cash management services has increased, principally in the retail and service industries, following the ending of banks' night safe services and the cutting-back of cash collection and delivery services. The ALSOK group developed the Cash Deposit Machine On-line System to meet this need. We anticipate major growth in this market, following very positive initial reviews from clients with units installed in-store.

#### Demand for outsourcing of cash management operations

Even relatively small retailers and restaurant operators now need to outsource cash management, following the ending of banks' night safe services and the cutting-back of cash collection and delivery services.

ALSOK's Cash Deposit Machine On-line System combines functionality to prevent cash theft and manage cash deposits. Once a store's manager inputs the day's cash sales into a cash deposit machine located in-store, the amount is communicated to ALSOK via a telephone line. ALSOK transfers that amount in advance to the store's account at a financial institution during its next business day.

#### ALSOK supports a standard nationwide service

The ALSOK group has met the demand for outsourcing among financial institutions by establishing Cash Processing Centers to coordinate the management of cash collection throughout Japan. Retail and service industry clients nationwide have responded very favorably as the installed base of Cash Deposit Machine On-line Systems controlled by these Cash Management Centers has increased.

The operation of large retail chains with stores throughout Japan require standard systems that remain consistent in all locations. ALSOK's Cash Deposit Machine On-line System satisfies this need with a standard nationwide infrastructure.



### The Cash Deposit Machine On-line System

ALSOK developed the Cash Deposit Machine On-line System as an alternative to conventional night safes, as a total solution that enhances the efficiency of cash management for retailers and restaurants. The system calculates and stores the day's cash sales once they are loaded into a machine located in the back area of a store. The amount is communicated to ALSOK via a telephone line, and ALSOK deposits the equivalent advance amount in the store's designated bank account on the following business day. This enables clients to avoid the risks associated with the use of night safes.



#### ALSOK's Cash Deposit Machine On-line System contributes to safety and efficiency

ALSOK regards its Cash Deposit Machine On-line System as a strategic product for which demand is increasing each year. It is focused on further enhancements and developments to its service. The system incorporates ALSOK's expertise in electronic security, and has been well received by both financial institutions and retailers for its contribution to safety and efficiency. We have further contributed through the development of three sizes of system to meet the needs of varying sizes of retail chains. We sold 1,300 systems during the year to March 2006, bringing the installed base to 6,100.

#### ALSOK focuses on expanding the user base of the Cash Deposit Machine On-line System in response to expanded demand

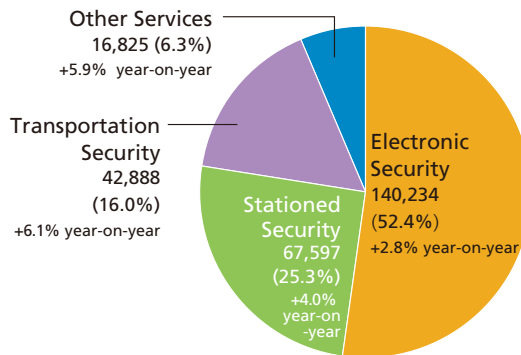
Sales of the Cash Deposit Machine On-line System are expanding to gasoline retailers and restaurants, in addition to supermarkets, as clients look to benefit from ALSOK's Cash Management Centers and transportation security network. Gasoline station operators and logistics companies are also introducing the system to recover their daily sales efficiently, smoothly, and safely.

Going forward, ALSOK will seek to expand sales of the Cash Deposit Machine On-line System, stressing the safety it offers as a leading transportation security provider and its strength in advanced system development.

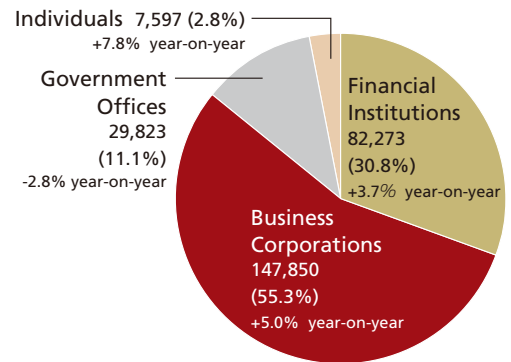
In the year to March 31, 2006, ALSOK reported consolidated sales of ¥267,545 million. Electronic security services accounted for ¥140,234 million (52.4% of the total), stationed security ¥67,597 million (25.3%), transportation security ¥42,888 million (16.0%), and others ¥16,825 million (6.3%).

Sales to financial institutions totaled ¥82,273 million (30.8% of the total), business corporations ¥147,850 million (55.3%), government offices ¥29,823 million (11.1%), and individuals ¥7,597 million (2.8%).

Sales by business (millions of yen)  
(Figures in brackets are % of total)



Sales by client industry (millions of yen)  
(Figures in brackets are % of total)



## Security Services

Priorities during the year were to strengthen the sales network through an expansion of marketing locations and the active opening of Security Shops. The company placed a particular emphasis on increasing sales of the Home Security services, to maintain the sales growth of the previous year. Security services sales totaled ¥250,719 million, an increase of 3.6% over the previous year.

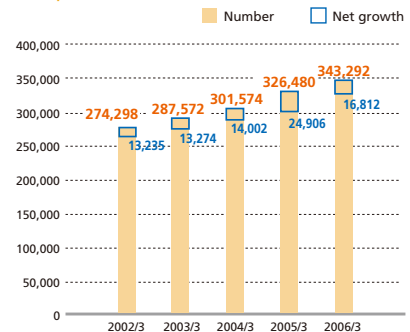
### 1. Electronic Security

Orders for electronic security services increased from corporate clients. Sales to the corporate sector were also supported by increased sales of access management systems as companies strengthened their approach to information management.

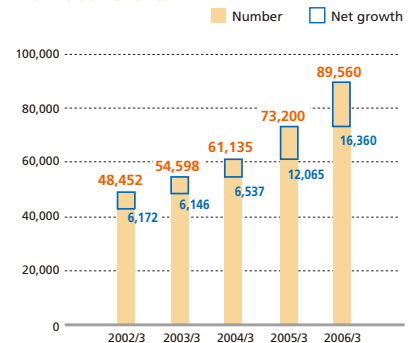
The number of new contracts for ALSOK Home Security 7, the company's mainstay service in the residential security market, increased steadily. Sales of ALSOK Home Security X7 began in November 2005.

### Number of Electronic Security Contracts

#### Corporate Clients



#### Individual Clients

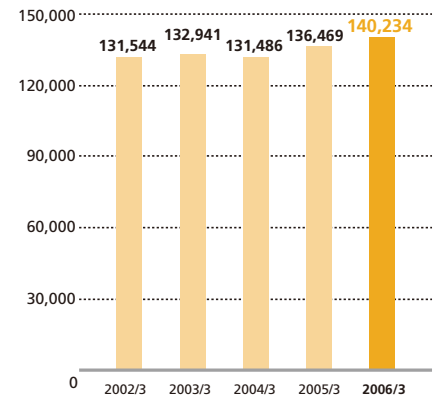




This features additional functionality, such as the ability for a client to confirm camera images from a remote handset, to appeal to a broader user base.

The number of electronic security contracts with corporate clients increased 5.1% at the end of March 2006, to 343,292, while the number of contracts with individual clients increased 22.3%, to 89,560. Sales of electronic security services rose 2.8% over the previous year, to ¥140,234 million.

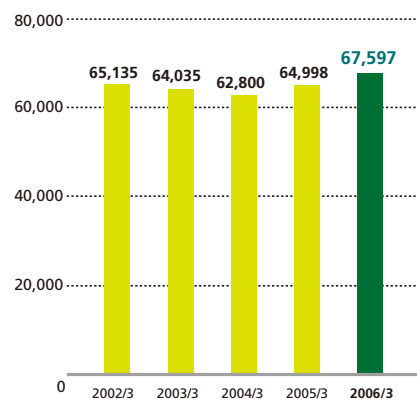
Sales (million of yen)



## 2. Stationed Security

The opening of the Tsukuba Express rail line linking Tokyo and the Tsukuba Science City, the opening of new stores by major appliance/ PC discount shop, the Aichi Expo (which ran from March to September 2005), and demand for enhanced security by financial institutions all contributed to an expansion of stationed security orders. Sales increased 4.0% over the previous year, to ¥67,597 million.

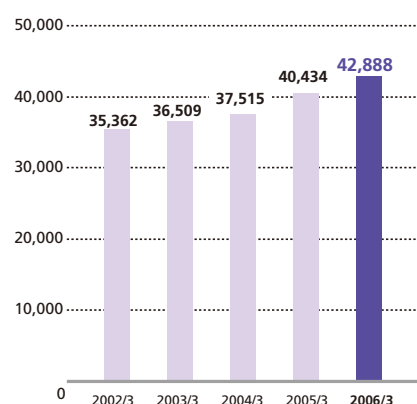
Sales (million of yen)



## 3. Transportation Security

The trend towards outsourcing by financial institutions broadened from Japan's city banks to regional banks. The Total ATM Management System including convenience stores installed ATMs in an increased number of stores, leading to additional orders for cash management and cash transportation services. Meanwhile, orders for the Cash Deposit Machine On-line System increased steadily, principally from the retail, service, and logistics industries. Sales increased 6.1% over the previous year, to ¥42,888 million.

Sales (million of yen)



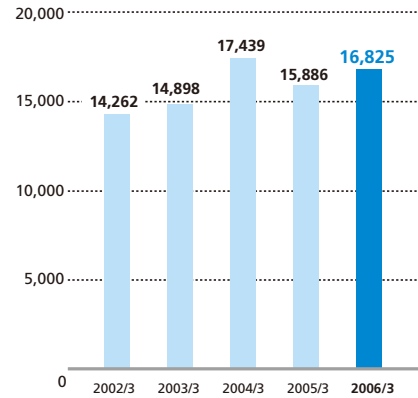
## Other Services

In the Total Building Management Services, the year to March 2006 brought major growth in orders for general management services from schools. In data communications services, ALSOK achieved a robust expansion of orders for its MMK (Multimedia Kiosk Service) and the ALSOK Safety Confirmation Service, which helps corporate clients to manage disaster response.

Other priorities included the School Safety Total Solution (SSTS) service and sales of automated external defibrillators (AEDs).

Sales increased 5.9% over the previous year, to ¥16,825 million.

Sales (million of yen)



### MMK

MMK is an automated settlement system that builds on ALSOK's advanced data technologies developed in the securities market, and that creates a new-generation retail network through the fusion of retail and finance. MMK integrates financial transactions, third-party

cash collection, and cash advances with ticket reservation and issuance, online shopping, and information search functions. MMK terminals are installed at highway service areas and similar locations, and have already won a positive reputation among users.

**ATM functionality**

- お引出し (Withdrawal)
- ご入金 (Deposit)
- お振込み (Transfer)
- 残高照会 (Balance Inquiry)

**Multimedia functions**

- Loans
- Utility payment
- New product sales
- Ticket issuance
- EC shopping
- Original contents

The ALSOK Group advocates management policies that contribute to public welfare never forgetting that it is developing security services with an extremely high level of public welfare. We focus efforts on ensuring the safety of society, the basic principle in the wellbeing of human life, while also looking upon our relationship of trust with stakeholders as an important management issue and constantly promote various initiatives for the purpose of fulfilling our corporate social responsibility (CSR) based not only on a feeling of gratitude but also a spirit of *Samurai*.

With the intention of being a corporate group that is constantly trusted and esteemed by shareholders and investors alike as well as our clients, residents of the local community and other stakeholders, the Company is pursuing sound and highly transparent management

placing importance on the management issues of corporate governance, compliance and risk management.

Furthermore, from the perspective of corporate social responsibility, the Group constantly devises various measures for the purpose of developing excellent relationships with clients, the local community and our employees and we will continue to implement initiatives to alleviate the burden on the environment.

To enable all members of society to live their lives with a sense of security and enrichment, the Company is moreover promoting social action activities through the ALSOK ANSHIN Classes and the ALSOK Gratitude Movement as well as the promotion of sports and other initiatives.



Note: ALSOK is seeking to reduce CO<sub>2</sub> emissions in its commercial vehicles.

## Corporate Governance

The ALSOK group advocates “contributions to the public welfare” as one of its management guidelines and is focusing efforts on assuring the security of society and, in order to continue being a corporate group that is trusted by all of our stakeholders, we are striving to enhance corporate governance by separating management execution and oversight, rapid decision-making, establishment of business logic and the enhancement of transparency in business.

### Board of Directors and Executive Officer System

The company’s Board of Directors has seven members, including one outside director. Meetings of the Board of Directors are in principle convened once a month to make decisions regarding important business issues and implement oversight of business execution.

In addition, the management committee chaired by the company president in principle holds meetings twice a month to discuss important decisions. As the business executive structure, an executive officer system was introduced in June, 2002, which is making efforts to clarify the sharing of roles in management and business execution and accelerate the decision-making process.

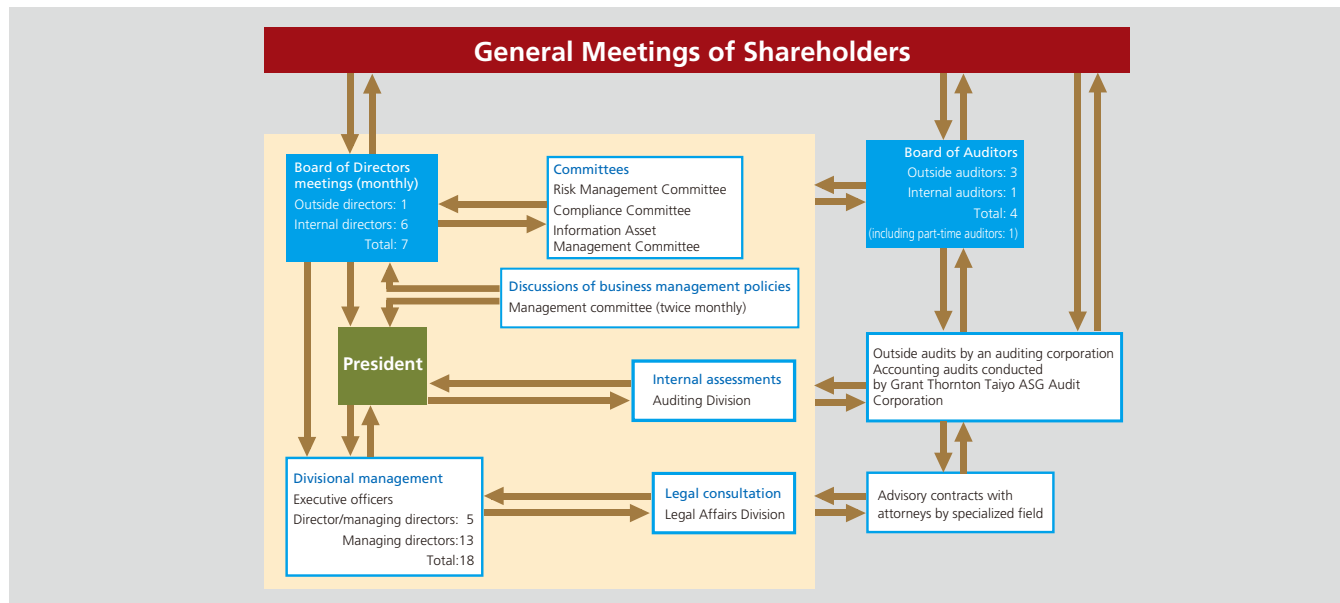
### Auditing System

Three of the Company’s four auditors are outside auditors with the aim of ensuring appropriate and adequate monitoring functions. One of the outside auditors attends meetings of the management committee and implements appropriate oversight of the conditions of management execution.

Company auditors (Board of Auditors) and Grant Thornton Taiyo ASG Audit Corporation, which conducts the company’s accounting audits, in principle hold one meeting a month and pursue collaboration within the auditing structure by exchanging information regarding Board of Directors meeting agendas and issues of mutual awareness.

The Auditing Division, which reports directly to the president, has also been established as an additional internal auditing entity. The duties of the Auditing Division are to monitor the activities of the headquarters divisions, offices and other units to ensure that asset management, accounting management

### Corporate Governance Organizational Chart



and business management are being implemented effectively and in compliance with law.

The auditors (Board of Auditors) and the Auditing Division in principle hold auditing operations liaison meetings once a month and, besides periodic in-depth exchanges of information and the reinforcement of collaboration in the auditing structure, they promote the sharing of information regarding issues that they have identified in internal governance with Grant Thornton Taiyo ASG Audit Corporation through reports of the results of management monitoring produced by the Auditing Division.

The ALSOK Group has formulated a disclosure policy and places importance on the active, impartial and prompt disclosure of information regarding such activities and systems. It furthermore holds account settlement briefings for investors, analysts and others, visitation briefings for institutional investors and other activities and makes every effort to actively enhance IR activities both in Japan and abroad. The Group will continue to examine measures applicable to its various systems with the aim of developing an organizational structure in which corporate governance functions more effectively while closely watching moves around the world.

## Compliance

The Group implements security operations under the Security Business Law and has constantly placed extremely high priority on compliance since first founded.

Currently, the Group has formed a Compliance Committee for legal compliance headed by the executive in charge of compliance and is making every effort to comply with laws and ordinances. The Committee strives to instill an unwavering awareness of compliance in all company officers and employees based on compliance rules formulated in 2002 and periodically verifies the state of compliance in business and other activities.

In addition, the ALSOK Hotline was set up in April 2004 for the early identification and prevention of corporate ethics problems. If employees encounter illegal or improper conduct or unethical behavior involving the company, they are able to notify the company by email, telephone or in writing without fear of detrimental treatment.

In light of our involvement in direct business transactions with companies and individual clients, we furthermore set up an Information Asset Management Committee chaired by the executive in charge of information asset management in September 2004 in order to be able to respond rapidly to changes in the environment such as the total enactment of the Personal Information Protection Law in April 2005. The Committee undertakes such activities as developing a management structure for personal information, business and other important information in the company's possession and promoting education and enlightenment of the employees.

Besides the above, we have entered into advisory contracts with seven law offices in Japan and are developing a fully secure for legal responses in all specialized fields. The Company also has attorneys indirectly involved in corporate compliance by maintaining compliance with a reliance on guidance from our attorneys.

## Risk Management

The Group gives especially high priority to the development of a risk management structure in order to implement security operations with the aim of ensuring the safety of society.

We organized a Risk Management Committee based on our own risk management rules formulated in 2002 and assign the executive in charge of risk management as chairperson. Individual risk management assessment organizations have also been set up in the headquarters and each individual business office to undertake exhaustive company-wide risk management activities to identify and assess risks and formulate preventive measures and proposals for countermeasures.

Moreover, sector-specific risk assessment subcommittees have been set up in the Risk Management Committee to collect, analyze and assess sector-specific risk information in each of the fields of business, management, operations and sales and to examine measures for alleviating risk. In regard to the establishment of an emergency liaison system and emergency headquarters in the event of the occurrence of a serious incident, an organizational structure is being developed capable of a rapid response. The company received ISMS (Information Security Management System) certification in 2004 and, as a result, countermeasures for information alteration on the Internet, hardware or software problems and information divulgence and the development and operation of management systems are fully underway.

## Environmental Initiatives

### Reduction of CO<sub>2</sub>

For the reduction of environmental contamination due to CO<sub>2</sub> emissions, the company vigorously promotes the use of motorcycles for commercial vehicles, assurance of facility standby and the stop-idling movement when on standby. In addition, it is also striving to procure diesel vehicles that meet regulations.

### Promotion of green purchasing

The company formulated its Green Purchasing Guidelines in March 2006 with the aim of reinforcing specific initiatives for environmental conservation activities and contributing to the formation of the environmental society being promoted by the government as a responsible corporation. The purpose is to actively promote the "3 Rs" (Reduce, Reuse and Recycle) for security-related equipment and other goods used by the company with the goal of effectively utilizing resources and, with its business partners, it is also promoting their compliance with green purchasing related laws and consideration for

the environment and is moving forward with environmental conservation activities through mutual collaboration.

### Promotion of recycling

The company is promoting the reuse of used rechargeable batteries through the JBRC\*.

\* JBRC (Battery Association of Japan's Portable Rechargeable Battery Recycling Promotion Center): An organization established in April 2001 based on the Law for the Promotion of the Effective Utilization of Resources enacted earlier that year. The membership includes manufacturers of small-size rechargeable batteries, manufacturers of devices that use them, importers and other businesses.

### Initiatives for energy conservation

A company-wide electrical energy conservation movement is being furthered for the purpose of reducing the use of lighting, air conditioning and other electrical equipment thought to be of little need or excessively used.

## Market-oriented Initiatives

### Acquisition of ISO9001 certification

The ALSOK group launched the ISO promotion project in January 2002 for the realization of further improvements in client service and subsequently acquired ISO9001:2000 certification. This initiative is currently being expanded to the group overall and the acquisition of certification by all units is being advanced. In the ISO promotion project, the targets of certification acquisition are being expanded and the enhancement of internal surveillance is being promoted to ensure further improvement in the level of service quality.



efforts to constantly place the client in the center of business operations by encouraging clients to express their views through the customer service desk and by other means and sharing them with the employees via the Intranet. In addition, we are also striving to upgrade employee satisfaction (ES) and staff education and are developing activities for the realization of improvements in CS unique to the ALSOK group from a multifaceted perspective.

### Provision of security advice

We provide easy-to-understand explanations of trends in crime commonly encountered at home and in our everyday lives, countermeasures and so forth that we have accumulated through our business operations and release them on our website in the form of ALSOK Security Information. Upon request, we also provide a service (free of charge) of regularly transmitted email messages with the most up-to-date information. We are also promoting an accelerated response to requests for consulting regarding home security, ANSHIN Mates and other products designed for individuals.

### Promotion of customer satisfaction by CS committees

Along with the acquisition of ISO certification, CS committees have also been set up in each unit to promote an improvement in customer satisfaction (CS). Specific activities include

## Employee Benefits and Education

### Equal-opportunity benefit program

The group actively implements qualification testing, correspondence education, training and other activities, comprehensively identifies skills, personalities and so forth and

seeks to utilize human resources appropriate for job families and classes. Test qualification rules, promotion screening and so forth are undertaken with an emphasis on fairness and impartiality.

## Exhaustive education and training programs

The company is promoting the enhancement of various educational programs with the aim of promoting not only education considered essential under the Security Business Law but also improvements in management and working skills in accordance with job families and improvements in working skills in specialized operations.

## Correspondence education program

We have set up an correspondence education program consisting of a diversity of more than one hundred designated courses that promote the development of skills required to take promotion tests and recommended (work-related) courses that support the development of work skills. There are also some courses that are subsidized and we provide a diversity of opportunities for self-edification.

## Community Support

### ALSOK ANSHIN Classes

In recent years, there has been a wave of malicious crimes involving elementary school and preschool children and the safety of children has become a major social issue in Japan. The ALSOK group established the ALSOK ANSHIN Classes in Kanagawa Prefecture in October 2004, which provides instruction by employees in the area of crime prevention at elementary schools. Prompted by a reaction that was greater than expected since its establishment and the many requests for lessons that have been received from around the country, the company began expanding the program in earnest on a nationwide scale in April 2005. There have now been more than 100,000 children who have participated and the program has also been featured in newspapers, TV and other media in many areas around the country.

### ALSOK Gratitude Movement

The ALSOK Gratitude Movement was launched in 1967 for the purpose of providing service to society both in Japan and abroad based on the doctrine of “appreciation for the benefits received daily from the government and society” and “a spirit of live-and-let-live gratitude.” Rather than support through business revenues, these activities are managed through donations by company executives, employees and other members of the ALSOK group as well as other company related parties (individuals and organizations) who are in agreement with its purpose. During the current term, it is contributing to the global medical treatment organization Medicin du Monde Japon, UNHCR Japan (United Nations High Commissioner for Refugees) and other organizations involved in activities for refugee relief around the world as well as contributions to the Japan Guide Dog Association, Japan UNICEF Association, Japan Mine Action Service and other organizations. In the area of disaster relief, it has also provided monetary donations for disaster damage caused by the Sumatra Offshore Earthquake, hurricane Katrina in the



U.S. and the Northern Pakistan Earthquake through the Japan Red Cross Society. It has also donated welfare vehicles for wheelchair use to social welfare organizations.

### Jun Murai Memorial Foundation

To commemorate the 35th anniversary of the founding of the company twelve years after the death of founder Jun Murai, the Jun Murai Memorial Foundation was established in July 2000 and is involved in activities to supply non-repayment scholarship funding to students currently enrolled in an engineering university or university department in Kanagawa Prefecture.

### Monetary assistance for foundations

For national security in Japan, continuous monetary assistance required for operations is provided to the Defense Research Center (DRC), which implements surveys, research and recommendations from a broad perspective, and the Japan Urban Security Research Institute, which implements surveys and research for the prevention of urban crime.

### Promotion of sports

The ALSOK group provides employees with both mental and physical training and actively encourages participation in martial arts with the aim of realizing a ripple effect in improving security quality. In-house tournaments are held for judo, kendo, jukendo (bayonet fighting) and other sports and group employees from around the country compete bolstered by their daily training efforts. In addition, with the aim of promoting judo, judo classes that teach the enjoyment of this sport to children are held around the country.



JOC/AJFF-007



JOC/AJFF-007

**Directors**



**Tsuneo Murai**  
Chairman



**Atsushi Murai**  
President and  
Representative Director



**Kanehiro Mashita**  
Representative Director



**Akira Tamura**  
Representative Director



**Shiro Hashio**  
Director



**Akira Ichikawa**  
Director



**Akira Kanno**  
Director

**Executive Officers**

**Atsushi Murai**  
President

Chief of Business Promotion Headquarters  
Chief of Security Operation Headquarters

**Kanehiro Mashita**  
Senior Executive Officer

Corporate Planning  
Compliance  
Risk Management  
Information Assets Management

**Akira Tamura**  
Senior Executive Officer

Deputy Chief of Business Promotion  
Headquarters

**Satoshi Matsumoto**  
Senior Executive Officer

Corporate Administration/Audit  
Corporate Ethics

**Akira Ohnishi**  
Senior Executive Officer

Accounting

**Hiroshi Ohno**  
Senior Executive Officer

R&D  
Information Systems

**Shiro Hashio**  
Senior Executive Officer

Deputy Chief of Business Promotion  
Headquarters

**Shozo Sawamura**  
Senior Executive Officer

Representative of Business Promotion  
for Business Corporations

**Hiroki Hagiwara**  
Senior Executive Officer

Deputy Chief of Security Operation  
Headquarters

**Ko Sato**  
Senior Executive Officer

Chief of East Japan Headquarters

**Akira Ichikawa**  
Senior Executive Officer

Chief of West Japan Headquarters

**Eiichi Morimoto**  
Executive Officer

Chief of Tokyo Headquarters

**Satoshi Yamada**  
Executive Officer

HR Planning  
Recruiting  
Overseas Business Operations

**Tohei Tani**  
Executive Officer

Director of Technology R&D

**Seiichi Matsumoto**  
Executive Officer

Representative of Business Promotion  
for Financial Institutions

**Hideo Nakajima**  
Executive Officer

Representative of Business Promotion  
for Individuals

**Noriyuki Sato**  
Executive Officer

Deputy Chief of East Japan Headquarters

**Toshio Yamura**  
Executive Officer

Deputy Chief of West Japan Headquarters

**Corporate Auditors**

**Takumi Someya**  
Corporate Auditor

**Kazumasa Oizumi**  
Corporate Auditor

**Harutoshi Itoh**  
Corporate Auditor

**Teruo Kageyama**  
Corporate Auditor (par-time)



# Financial Information

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### Overview of Business Performance

ALSOK's sales have tended to increase in line with the growth of Japan's economy. The economy is now clearly in recovery, as corporate earnings have improved and companies have returned to more active investment. The recovery in financial institution earnings has been a particular positive, since they account for a large percentage of ALSOK sales.

The overall number of crimes reported in Japan declined for the third consecutive year, and the arrest rate rose. However, the frequency of high-profile crimes, particularly against children, emphasized the need for a comprehensive range of security services to meet the needs of society.

In electronic security, demand for the ALSOK Guard System (corporate clients) and ALSOK Home Security 7 (individual clients) remained robust. In stationed security, demand increased for one-time events, such as the Aichi Expo, and long-term contracts. Transportation security benefited from steady increases in the number of convenience store ATMs and Cash Deposit Machine On-line System. These measures contributed to overall consolidated sales of ¥267,545 million, an increase of 3.8% over the previous year.

Operating income increased to ¥12,246 million, a rise of 11.7% over the previous year. Net income increased 12.1%, to ¥5,550 million.

Major indicators of balance sheet strength and profitability improved generally over the year. The consolidated shareholders' equity ratio rose from 43.6% at the end of March 2005 to 45.7%. The operating income margin improved from 4.3% to 4.6%, and the net income margin from 1.9% to 2.1%.

## Sales

The Company's security operations divide into two segments: Security Services and Other Services: the former consists of three business categories: electronic security, stationed security, and transportation security.

Sales to financial institutions, which account for 30% of the total, increased 3.7% over the previous year, while sales to business corporations (half the total) rose 5.0%. However, sales to government offices declined slightly, as rebidding of competitive tenders resulted in the resetting of some contracts at less favorable conditions. Sales to individuals increased 7.8% over the previous year, as the company continued to expand its provision of residential security services.

## Security Services Segment

Overall security operations increased 3.6% over the previous year, to ¥250,719 million, and accounted for 93.7% of total sales in the year under review.

### Electronic Security Services

Sales of electronic security services increased 2.8% over the previous year, to ¥140,234 million, and accounted for 52.4% of the Company's total. The factors behind this included expanded corporate sales, steady growth in sales of ALSOK Home Security 7 (we added 12,200 new contracts during the year), and brisk initial demand for ALSOK Home Security X7, which features more advanced functionality, following its launch in November 2005. The number of individual contracts increased 22.3%, against a rise of 5.1% to corporate clients.

### Stationed Security Services

Sales of stationed security services increased 4.0% over the previous year, to ¥67,597 million, and accounted for 25.3% of the Company's total. The drivers included long-term orders from volume retailers of household appliances following new store openings, and from the operator of the Tsukuba Express rail line, as well as one-off demand related to the Aichi Expo and increased demand for security among Japan's major banks.

### Transportation Security Services

Sales of transportation security services increased 6.1% over the previous year, to ¥42,888 million, and accounted for 16.0% of the Company's total. Sales of cash management services increased as the trend towards outsourcing by financial institutions broadened from Japan's city banks to regional banks, and the installed base of convenience store ATMs and Cash Deposit Machine On-line Systems expanded. The number of convenience store ATMs increased by 1,500 during the year, bringing the total to 11,500. ALSOK sold 1,300 Cash Deposit Machine On-line Systems during the year, principally to retailers and service providers, bringing the installed base to 6,100.

## Other Services Segment

Sales increased 5.9% over the previous year, to ¥16,825 million. This represented 6.3% of the company total. The year brought major growth in orders for general management services from schools. ALSOK also worked to increase sales of its MMK (Multimedia Kiosk Service), the ALSOK Safety Confirmation Service, which helps corporate clients to manage disaster response, the School Safety Total Solution (SSTS) service, and automated external defibrillators (AEDs).

## Operating Income

The cost of goods sold increased 3.5% over the previous year, to ¥199,144 million, while sales rose 3.8%. This led to a 4.6% advance in gross profit, to ¥68,401 million. The principal reasons for the rise in cost of goods sold were higher on-site labor expenses (up ¥1,516 million), higher engineering and selling costs related to the expansion of hardware sales (up ¥1,409 million), higher outsourcing expenses (up ¥1,963 million), and higher rental expenses (up ¥573 million).

The 11.7% increase in operating income (up ¥1,283 million, to ¥12,246 million) resulted from a 3.2% rise in selling, general and administrative expenses (to ¥56,155 million), compared with the 4.6% rise in gross profit. The chief elements in the higher selling, general and administrative expenses were expanded television and newspaper advertising (up ¥856 million) and higher depreciation on software and other capital items (up ¥560 million).

## Other Income and Expenses

Other income increased 0.1%, to ¥3,242 million, while other expenses increased 47.5%, to ¥3,284 million. This resulted in net non-operating income of a negative ¥42 million, compared with a positive ¥1,012 million in the previous year. The principal contributors to other income were dividend and interest income (up 21.6%, to ¥765 million), and gains on sales of investment securities (down 42.5%, to ¥414 million). The principal contributors to other expenses were interest payments (up ¥302 million), appraisal losses on intangible fixed assets (¥475 million), inventory disposals and appraisal losses (¥196 million), and losses associated with the application of impairment accounting (¥264 million).

## Net Income

Income before income taxes rose 1.9% (up ¥229 million), to ¥12,204 million. Income taxes totaled ¥5,568 million (down 3.7%), consisting of ¥4,292 million (up 37.1%) in payments and ¥1,276 million (down 51.8%) in deferred taxes. Net income rose 12.1% (up ¥598 million), to ¥5,550 million.

## Assets

Total consolidated assets at the end of the year under review increased ¥624 million (up 0.2%), to ¥282,830 million. Current assets declined ¥3,092 million (down 2.0%), to ¥147,809 million, tangible fixed assets increased ¥314 million (up 0.5%), to ¥59,509 million, and investments and other assets increased ¥3,402 million (up 4.7%), to ¥75,512 million.

Current assets principally consisted of cash and deposits (down 4.8% to ¥85,857 million), notes and accounts receivable (up 5.8% to ¥19,016 million), cash advances paid in the transportation security business (up 15.9% to ¥29,778 million), and deferred tax assets (down 32.4% to ¥4,092 million). The principal elements of investments and other assets were investment securities (up 22.1% to ¥36,400 following increases in equity values) and deferred tax assets (down 6.0% to ¥16,384 million).

## Liabilities

Consolidated liabilities at the end of the year declined 4.6% (down ¥6,588 million), to ¥136,991 million. This reflected falls of 3.6% (down ¥2,989 million) in current liabilities, to ¥79,914 million, and 5.9% (down ¥3,599 million) in long-term liabilities, to ¥57,077 million. Current liabilities consisted principally of notes and accounts payable (down 3.1% to ¥8,693 million), short-term borrowing by the transportation security business (down 6.9% to ¥39,089 million), the short-term portion of long-term borrowings (down 8.5% to ¥4,762 million), and bonus reserves (down 11.1% to ¥4,688 million). The reduction in long-term liabilities resulted from a ¥3,188 million decline in long-term borrowing (due to the repayment of loans), a ¥600 million reduction in retirement benefit reserves, and a ¥697 million fall in directors' retirement reserves.

## Shareholders' Equity

The total capital increased 4.9% (up ¥6,024 million) to ¥129,193 million. The capital increase resulted from rises of ¥2,328 million in appraisal valuations on other securities, ¥2,199 million in retained earnings, ¥679 million from the execution of stock option rights, and ¥210 million rise in the capital surplus.

## Cash Flow

Cash and cash equivalents at the end of the year to March 31, 2006 increased from ¥44,364 million to ¥50,222 million. This rise of ¥5,858 million over the previous year consisted of consolidated cash flow of ¥29,107 million from operating activities, the use of ¥14,898 million in investing activities, and the use of ¥8,351 million in financing activities.

Net cash provided by operating activities was ¥29,107 million, a decline of ¥7,820 million from the previous year. This was the net result principally of ¥12,204 million (up 1.9%) in net income before income taxes and interest, ¥10,908 million in internal reserves due to depreciation (up 0.8%), ¥264 million in impairment losses, ¥486 million in write-offs from the consolidated adjustment account (down 14.6%), a ¥1,045 million decrease in sales receivables (down 31.5%), ¥3,622 million in income tax payments (down 51.9%), and ¥2,117 million in income tax reimbursements.

Net cash used in investing activities was ¥14,898 million (down 1.7%). This resulted principally from expenditure of ¥11,485 million to acquire tangible fixed assets (down 14.6%) and ¥4,430 million to acquire investment securities (up 67.5%), offset by proceeds of ¥3,062 million from the sale of investment securities (up 87.6%). A rise in fixed deposits caused a net decrease in cash of ¥1,523 million, after a cash inflow of ¥2,530 million in the previous year.

Net cash used in financing activities was ¥8,351 million, after a cash inflow of ¥21,532 million in the previous year. The major factors were a reduction in short-term borrowings, which represented a net cash outflow of ¥2,879 million (after a cash inflow of ¥15,773 million in the previous year), offset by proceeds of ¥1,716 million through an increase in long-term borrowing (down 87.2%). Repayment of long-term borrowings represented a ¥5,349 million use of cash (down 11.8%), and payment of dividends was a ¥2,564 million use of cash (up 50.3% from the previous year).

## Capital Expenditure and Depreciation

Capital expenditure during the year totaled ¥14,147 million, a decline of ¥2,390 million from the previous year. The principal items were in the Security Services segment. In electronic security services (¥10,965 million), the main expenditure items were the installation of security equipment (¥7,267 million), new building construction and refurbishment, and the acquisition of a backbone operating system (¥3,698 million). Spending on stationed security totaled ¥965 million, and on transportation security was ¥1,762 million. Capital expenditure in the Other Services segment was ¥454 million. Depreciation was broadly stable, at ¥10,907 million, compared with ¥10,816 million in the previous year.

## Consolidated Balance Sheets

	In millions of yen		In thousands of US dollars (Note 3)
	As at 31st March		As at 31st March
	2005	2006	2006
<b>(Assets)</b>			
<b>Current assets:</b>			
Cash and deposits (Notes 5, 6 & 8)	¥ 90,186	¥ 85,857	\$ 730,883
Notes and accounts receivable	17,971	19,016	161,876
Short-term investments in securities (Notes 6 & 16)	539	410	3,488
Inventories	4,514	4,459	37,955
Advance payment	25,701	29,778	253,494
Deferred tax assets (Note 19)	6,051	4,092	34,835
Other	6,102	4,379	37,289
Allowance for doubtful accounts	(163)	(182)	(1,551)
<b>Total current assets</b>	<b>150,901</b>	<b>147,809</b>	<b>1,258,269</b>
<b>Property, plant and equipment:</b>			
Land (Notes 8,14 & 17)	17,103	17,098	145,550
Buildings and structures (Note 8,14 & 17)	32,055	33,276	283,276
Machinery, equipment and delivery equipment	98,662	99,997	851,254
Construction in progress	866	1,598	13,604
Other	12,378	13,386	113,952
<b>Total</b>	<b>161,064</b>	<b>165,355</b>	<b>1,407,636</b>
Accumulated depreciation	(101,869)	(105,846)	(901,049)
<b>Net property, plant and equipment</b>	<b>59,195</b>	<b>59,509</b>	<b>506,587</b>
<b>Investments and other assets:</b>			
Intangible assets	6,448	6,452	54,928
Investments in securities (Notes 8, 10 & 16)	29,801	36,400	309,868
Deferred tax assets (Note 19)	17,436	16,384	139,475
Other assets	20,655	18,507	157,540
Allowance for doubtful accounts	(2,230)	(2,231)	(18,992)
<b>Net investments and other assets</b>	<b>72,110</b>	<b>75,512</b>	<b>642,819</b>
<b>Total</b>	<b>¥282,206</b>	<b>¥282,830</b>	<b>\$2,407,675</b>

	In millions of yen		In thousands of US dollars (Note 3)
	As at 31st March		As at 31st March
	2005	2006	2006
<b>(Liabilities and shareholders' equity)</b>			
<b>Current liabilities:</b>			
Notes and accounts payable, trade	¥ 8,969	¥ 8,693	\$ 74,003
Short-term borrowings (Notes 7 & 8)	41,968	39,089	332,756
Current portion of long-term debt (Notes 7 & 8)	5,207	4,762	40,539
Accounts payable	10,901	10,976	93,439
Accrued income taxes	1,325	2,130	18,135
Allowance for bonuses	5,275	4,688	39,909
Other	9,258	9,576	81,505
<b>Total current liabilities</b>	<b>82,903</b>	<b>79,914</b>	<b>680,286</b>
<b>Long-term liabilities:</b>			
Long-term debt (Notes 7 & 8)	24,882	21,694	184,678
Accrued retirement benefits for employees (Note 9)	30,503	29,903	254,561
Accrued retirement benefits for directors and corporate auditors	2,350	1,653	14,072
Deferred tax liabilities	10	63	534
Other	2,931	3,764	32,043
<b>Total long-term liabilities</b>	<b>60,676</b>	<b>57,077</b>	<b>485,888</b>
Minority interests in consolidated subsidiaries:	15,458	16,646	141,704
<b>Shareholders' equity:</b>			
<b>Common stock-</b>	17,152	17,831	151,789
authorised: 300,000,000 shares in 2005 and 2006			
issued: 100,566,742 shares in 2005 and 101,209,642 shares in 2006			
Capital surplus	31,601	31,811	270,805
Retained earnings	77,444	79,643	677,985
Land revaluation account (Note 14)	(5,586)	(4,977)	(42,364)
Other securities valuation difference	2,584	4,912	41,812
Treasury stock: 15,958 shares in 2005 and 16,702 shares in 2006	(26)	(27)	(230)
<b>Total shareholders' equity</b>	<b>123,169</b>	<b>129,193</b>	<b>1,099,797</b>
<b>Total</b>	<b>¥282,206</b>	<b>¥282,830</b>	<b>\$2,407,675</b>

# Consolidated Statements of Operations

	In millions of yen			In thousands of US dollars (Note 3)
	Year ended 31st March			Year ended 31st March
	2004	2005	2006	2006
<b>Net sales (Note 20)</b>	¥249,241	¥257,790	¥267,545	\$2,277,563
<b>Cost of sales</b>	182,902	192,406	199,144	1,695,280
Gross profit on sales	66,339	65,384	68,401	582,283
<b>Selling, general and administrative expenses (Notes 12 &amp; 21)</b>	51,860	54,421	56,155	478,033
Operating income	14,479	10,963	12,246	104,250
<b>Other income:</b>				
Interest and dividends	496	629	765	6,513
Equity in earnings of affiliates	540	295	259	2,205
Gain on exemption from future obligation of the governmental program (Note 9)	19,666	—	—	—
Profit on sales of investments in securities, net	—	720	414	3,526
Received penalties for contracts cancellation	242	241	293	2,494
Other	1,373	1,353	1,511	12,862
	22,317	3,238	3,242	27,600
<b>Other expenses:</b>				
Interest	764	733	1,035	8,808
Loss on sales of investments in securities, net (Note 16)	328	—	—	—
Loss on disposals of property, plant and equipment	599	462	590	5,023
Loss on devaluations of investments in securities (Note 16)	442	97	34	286
Loss on disposals and devaluations of intangible assets	609	—	475	4,041
Loss on disposal of inventories	300	—	196	1,670
Special retirement expense	180	221	106	903
Provision for doubtful accounts	1,324	—	60	508
Impairment losses	—	—	264	2,247
Other	458	713	524	4,477
	5,004	2,226	3,284	27,963
<b>Income before income taxes</b>	31,792	11,975	12,204	103,887
<b>Income taxes (Note 19)</b>				
Current	7,238	3,130	4,292	36,535
Deferred	5,821	2,649	1,276	10,863
	13,059	5,779	5,568	47,398
<b>Income before minority interests</b>	18,733	6,196	6,636	56,489
<b>Minority interests in income of consolidated subsidiaries</b>	980	1,244	1,086	9,239
<b>Net income</b>	¥ 17,753	¥ 4,952	¥ 5,550	\$ 47,250



## Consolidated Statements of Changes in Shareholders' Equity

In millions of yen

	Number of shares issued	Common stock	Capital surplus	Retained earnings	Land revaluation account	Other securities valuation difference	Treasury stock	Total
<b>Balance at 31st March, 2003</b>	100,370,542	¥16,920	¥29,824	¥61,111	¥(5,586)	¥ 679	¥ (23)	¥102,925
Exercise of stock options	33,600	46	—	—	—	—	—	46
Increase from merger (Note 13)	—	—	2,729	—	—	—	—	2,729
Decrease due to change of consolidated subsidiaries, net	—	—	(797)	(2,444)	—	—	—	(3,241)
Net income	—	—	—	17,753	—	—	—	17,753
Other securities valuation difference	—	—	—	—	—	1,561	—	1,561
Cash dividends	—	—	—	(2,007)	—	—	—	(2,007)
Bonuses to directors	—	—	—	(231)	—	—	—	(231)
Treasury stock acquired, net	—	—	—	—	—	—	(2)	(2)
<b>Balance at 31st March, 2004</b>	100,404,142	16,966	31,756	74,182	(5,586)	2,240	(25)	119,533
Exercise of stock options	162,600	186	39	—	—	—	—	225
Transfer to retained earnings from capital surplus	—	—	(194)	—	—	—	—	—
Net income	—	—	—	4,952	—	—	—	4,952
Other securities valuation difference	—	—	—	—	—	344	—	344
Cash dividends	—	—	—	(1,707)	—	—	—	(1,707)
Bonuses to directors	—	—	—	(177)	—	—	—	(177)
Treasury stock acquired, net	—	—	—	—	—	—	(1)	(1)
<b>Balance at 31st March, 2005</b>	100,566,742	17,152	31,601	77,444	(5,586)	2,584	(26)	123,169
Exercise of stock options	642,900	679	210	—	—	—	—	889
Reversal of land revaluation account	—	—	—	(609)	609	—	—	—
Net income	—	—	—	5,550	—	—	—	5,550
Other securities valuation difference	—	—	—	—	—	2,328	—	2,328
Cash dividends	—	—	—	(2,564)	—	—	—	(2,564)
Bonuses to directors	—	—	—	(178)	—	—	—	(178)
Treasury stock acquired, net	—	—	—	—	—	—	(1)	(1)
<b>Balance at 31st March, 2006</b>	101,209,642	¥17,831	¥31,811	¥79,643	¥(4,977)	¥4,912	¥ (27)	¥129,193

In thousands of US dollars (Note 3)

	Number of shares issued	Common stock	Capital surplus	Retained earnings	Land revaluation account	Other securities valuation difference	Treasury stock	Total
<b>Balance at 31st March, 2005</b>	100,566,742	\$146,014	\$269,012	\$ 659,268	\$(47,552)	\$21,995	(220)	\$1,048,517
Exercise of stock options	642,900	5,775	1,793	—	—	—	—	7,568
Reversal of land revaluation account	—	—	—	(5,188)	5,188	—	—	—
Net income	—	—	—	47,250	—	—	—	47,250
Other securities valuation difference	—	—	—	—	—	19,817	—	19,817
Cash dividends	—	—	—	(21,827)	—	—	—	(21,827)
Bonuses to directors	—	—	—	(1,518)	—	—	—	(1,518)
Treasury stock acquired, net	—	—	—	—	—	—	(10)	(10)
<b>Balance at 31st March, 2006</b>	101,209,642	\$151,789	\$270,805	\$ 677,985	\$(42,364)	\$41,812	(230)	\$1,099,797

# Consolidated Statements of Cash Flows

	In millions of yen			In thousands of US dollars (Note 3)
	Year ended 31st March			Year ended 31st March
	2004	2005	2006	2006
<b>Cash flows from operating activities</b>				
Income before income taxes	¥31,792	¥11,975	¥12,204	\$103,887
Depreciation	10,315	10,817	10,908	92,855
Impairment losses	—	—	264	2,247
Amortization of goodwill	509	569	486	4,139
Increase / (decrease) in allowance for doubtful accounts	1,713	(7)	19	168
Decrease in accrued retirement benefit for employees	(20,407)	(14,811)	(599)	(5,103)
Decrease in provision for loss on debt guarantees	(400)	—	—	—
Increase / (decrease) in allowance for bonuses	444	(118)	(587)	(4,998)
Interest income and dividend income	(496)	(629)	(765)	(6,513)
Interest expenses	764	733	1,035	8,808
Equity in earnings of affiliates	(540)	(295)	(259)	(2,205)
Loss on sales and disposals of property, plant and equipment, net	603	432	636	5,411
Loss / (profit) on sales of investments in securities	328	(720)	(414)	(3,526)
Loss on devaluations of investments in securities	442	97	34	286
(Increase) / decrease in accounts receivable	101	(1,526)	(1,045)	(8,895)
(Increase) / decrease Increase in inventories	(400)	(687)	55	475
Increase / (decrease) in accounts payable	1,513	226	(186)	(1,581)
(Increase) / decrease prepaid pension	—	(1,380)	519	4,417
Other	(8,392)	(4,880)	8,540	72,707
Sub-total	17,889	(204)	30,845	262,579
Interest and dividend income, received	567	633	791	6,729
Interest expenses, paid	(805)	(716)	(1,024)	(8,715)
Income taxes, paid	(6,798)	(7,533)	(3,622)	(30,838)
Income taxes, paid, received	—	—	2,117	18,024
Net cash provided by / (used in) operating activities	10,853	(7,820)	29,107	247,779
<b>Cash flows from investment activities</b>				
(Increase) / decrease of time deposits	(919)	2,530	(1,523)	(12,963)
Payments for purchases of property, plant and equipment	(11,435)	(13,441)	(11,485)	(97,771)
Proceeds from sales of property, plant and equipment	15	113	70	596
Payments for purchases of investments in securities	(2,648)	(2,644)	(4,430)	(37,708)
Proceeds from sales and redemption of investments in securities	3,598	1,632	3,062	26,067
Proceeds from sales of investments in unconsolidated subsidiaries	8	—	—	—
Payments purchases of investments in consolidated subsidiaries	—	(258)	—	—
Decrease / (increase) in short-term loans	8	(1)	14	116
Long-term loans made	(364)	(121)	(114)	(969)
Long-term loans collected	275	171	170	1,450
Other	764	(3,143)	(662)	(5,639)
Net cash used in investment activities	(10,698)	(15,162)	(14,898)	(126,821)
<b>Cash flows from financing activities</b>				
Decrease in short-term borrowings	12,712	15,773	(2,879)	(24,508)
Proceeds from long-term debt	13,560	13,446	1,716	14,610
Payments on repayment of long-term debt	(16,279)	(6,062)	(5,349)	(45,534)
Proceeds from issue of new shares	63	225	877	7,465
Payments for acquisition of treasury stock	(2)	(1)	(1)	(10)
Dividends paid	(2,007)	(1,706)	(2,564)	(21,826)
Dividends paid to minority shareholders	(171)	(143)	(151)	(1,290)
Net cash provided by / (used in) financing activities	7,876	21,532	(8,351)	(71,093)
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>8,031</b>	<b>(1,450)</b>	<b>5,858</b>	<b>49,865</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>37,783</b>	<b>45,814</b>	<b>44,364</b>	<b>377,664</b>
<b>Balance of cash and cash equivalents at end of year (Note 6)</b>	<b>¥45,814</b>	<b>¥44,364</b>	<b>¥50,222</b>	<b>\$427,529</b>

## 1. Nature of Operations

Sohgo Security Services Co., Ltd. (the "Company") was incorporated in Tokyo, Japan in 1965. The Company and its consolidated subsidiaries (hereinafter collectively referred to as "ALSOK") are primarily engaged in security services in Japan, comprising electronic security services, stationed security services, transportation security services, and total building management, fire-prevention and other services. The electronic security services are ALSOK's principal business activities, providing security services by placing security equipment, remote monitoring using telephone lines and other communication methods, and responding to unusual happenings for corporate and individual clients.

## 2. Basis of Presentation

ALSOK maintains their books of account in conformity with the financial accounting standards of Japan, which may differ from International Accounting Standards and generally accepted accounting practices and standards of the country of the reader.

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related regulations, and in conformity with accounting principles generally accepted in Japan. The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

Certain disclosures contained herein are not required as part of the basic financial statements in Japan but have been presented as additional information. In addition, certain reclassifications have been made to the accompanying consolidated financial statements in order to present them in a form which is more familiar to readers outside Japan.

## 3. Financial Statement Translation

The accompanying financial statements are stated in Japanese yen ("¥"), the currency of the country in which the Company was incorporated and currently operates. Translation to US dollars has been calculated using the approximate exchange rate on 31st March, 2006 of ¥117.47= 1.00 US dollar, and

has been included solely for the convenience of readers outside Japan. This translation should not be interpreted as a representation that Japanese yen could be converted into US dollars at this or any other exchange rate.

## 4. Significant Accounting Policies

### (a) Consolidation

The consolidated financial statements include the accounts of the Company and those companies in which the Company, directly or indirectly, is able to exercise control over operations. Investments over which ALSOK has the ability to exercise significant influence are accounted for under the equity method. The excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition is included in the balance sheets as "intangible assets", being amortised over a period of five years. All significant intercompany balances and transactions have been eliminated on consolidation. All material unrealised profit included in assets resulting from intercompany transactions has been eliminated.

The Company consolidated 38, 42, and 43 subsidiaries for the year ended 31st March 2004, 2005, and 2006, respectively. Other subsidiaries were not consolidated and not accounted for under equity method as they were not significant in terms of total assets, net sales, retained earnings, net income or net loss.

Nine and eight affiliates were accounted for under the equity method for the year ended 31 March 2004 and each of two years ended 31st March 2006, respectively. Other affiliates were not accounted for under equity method as they were not significant in terms of retained earnings, net income or net loss.

The subsidiaries and affiliates are summarised below:

- (1) Significant consolidated subsidiaries:
- Sokei Stationed Security Service Co., Ltd. (\*1)
  - Tohoku Sohgo Security Services Co., Ltd.
  - Kita-Kanto Sohgo Security Services Co., Ltd.
  - Hiroshima Sohgo Security Services Co., Ltd.
  - Sokei Building Service Co., Ltd.
  - Fukushima Sohgo Security Services Co., Ltd. (\*2)

- (2) Unconsolidated subsidiaries not accounted for under the equity method:
- Ehime Sokei Services Co., Ltd.

(3) Significant affiliates accounted for under the equity method :

Fukushima Sohgo Security Services Co., Ltd.(for the years ended 31st March 2004)(\*2)

Niigata Sohgo Security Services Co., Ltd.

Hokuriku Sohgo Security Services Co., Ltd.

(4) Major affiliates not accounted for under the equity method:

Kita-kanto Transportation Security Services Co., Ltd.

Chukyo Sohgo Kanzai Co., Ltd.

Ehime Sokei Services Co., Ltd.

(\*1) Sokei Stationed Security Service Co., Ltd. was consolidated from the year of establishment, the year ended 31st March 2004. In the current fiscal year, Osaka Branch of Sokei Stationed Security Service Co., Ltd. spun off, and became ALSOK Kinki Co., Ltd, a new wholly owned subsidiary, thus was consolidated from the current fiscal year.

(\*2) Fukushima Sohgo Security Service Co., Ltd. was consolidated as it became a wholly owned subsidiary from the year ended 31 March 2005.

The financial year-end of all consolidated subsidiaries is the same as the consolidation date.

#### **(b) Foreign currency transactions**

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. The foreign exchange gains and losses from translation are recognised in the statements of operations.

#### **(c) Revenue recognition**

Revenue is recognised from security services over the contractual period, or in the case of specific services, when the services are rendered. Merchandise sales are recognised as products are shipped, or in the case of installations, when the installations are completed.

Subscribers are generally requested to prepay a portion of service charges, which is recognised as unearned revenue and released to income evenly over the service period.

#### **(d) Cash and cash equivalents**

For the purpose of the statements of cash flows, all highly liquid investments with an insignificant risk of change in value, and which have maturities of generally three months or less when acquired, have been treated as cash equivalents.

#### **(e) Valuation of securities**

Securities are classified into one of the following three categories; trading securities, held-to-maturity securities, or other securities. Other securities with a market value are principally carried at market value. The difference, net of tax,

between the acquisition cost and the carrying value of other securities, including unrealised gains and losses, is recognised as "Other securities valuation differences" in "shareholders' equity". Other securities without a market value are principally carried at cost. The cost of other securities sold is computed using the moving average method.

ALSOK classifies investment in securities as other securities. Securities, which mature within one year, are presented as current assets and others are presented as non-current assets.

#### **(f) Inventories**

Inventories are mainly stated at cost on a first-in first-out basis.

#### **(g) Allowance for doubtful accounts**

Allowance for doubtful accounts is provided to the extent that uncollectable amounts are anticipated. General provisions are determined on the basis of past credit loss experience, and specific provisions, such as loss apprehensive credits, are determined by considering individual collectability.

#### **(h) Property, plant and equipment**

Property, plant and equipment are stated at cost. Depreciation is computed using the declining-balance method, while the straight-line method is applied to buildings (excluding annexed facilities) acquired after 1st April, 1998, at rates based on the estimated useful lives of the assets. The range of useful lives is principally as follows.

Buildings and structures	38 to 50 years
Machinery, equipment and delivery equipment	three to five years

#### **(i) Intangible assets**

Intangible assets principally comprise software, goodwill and private leased circuit rights. Software used for internal purposes is recorded at cost less accumulated amortisation and is amortised using the straight-line method over five years (the estimated useful life of the software). Goodwill is calculated as cost less the net asset value of the subsidiary acquired and is amortised using the straight-line method over five years. Private leased circuit rights are stated at cost and are amortised using the straight-line method over five years.

#### **(j) Income taxes**

ALSOK provides for income taxes applicable to all items included in the consolidated statements of operations regardless of when the taxes are payable. Deferred income taxes are recorded to reflect the impact of temporary differences between assets and liabilities recognised for financial reporting purposes and any amounts recognised for tax purposes. The deferred taxes are calculated by applying currently enacted tax laws to the temporary differences.

All of corporation enterprise tax was presented in income taxes through the year ended 31st March 2004. As the taxation of corporations by the size of their business was applied for taxable year beginning after 1st April 2004, the Company changed to present this taxation portion of ¥421 million in selling, general and administrative expenses for the year ended 31st March 2005.

#### **(k) Allowance for bonuses**

Allowance for bonuses is provided for the current portion of the future expected payment, in order to prepare for the payment of bonuses to employees.

In the year ended 31st March 2006, the Company decided to change payment terms for bonuses as follows:

In the present:

Payment in June : for the service rendered from December 1st to May 31st

Payment in December : for the service rendered from June 1st to November 30th

For future:

Payment in June : for the services rendered and to be rendered from April 1st to September 30th

Payment in December : for the service rendered and to be rendered from October 1st to March 31st

As a result of this change, for the year ended 31st March 2006, allowance for bonuses is decreased by ¥1,336 million (\$11,373 thousand), gross profit on sales is increased by ¥900 million (\$7,661 thousand), and operating income and income before income taxes are increased by ¥1,336 million (\$11,373 thousand), compared with the present payment terms.

#### **(l) Retirement benefit and pension plans for employees**

The Company and most of its consolidated subsidiaries have contributory and non-contributory defined benefit pension plans and unfunded retirement plans covering substantially all eligible employees after three years of service.

Retirement benefits for employees are provided based on the actuarially calculated retirement benefit obligation and pension assets.

Past service liabilities are amortised from the date incurred using the straight-line method over a certain period (five years) that does not exceed the remaining average service period.

Unrecognised actuarial gains or losses are amortised using the straight-line method over a certain period (10 years) that does not exceed the remaining average service period from the date incurred. Amortisation of unrecognised actuarial gains or losses begins in the year following that in which incurred.

Effective from the year ended 31st March 2006, ALSOK adopted the new accounting standard for "Partial Revision of Accounting Standard for Retirement Benefits" (Accounting Standard Board Statement No.3) and "Implementation Guidance for Partial Revision of Accounting Standard for Retirement Benefits" (the Financial Accounting Standard Implementation Guidance No.7), issued by the Accounting Standards Board of Japan on 16th March 2005. This change had no effect on operating income or income before income taxes for the fiscal year ended 31st March 2006. Unrecognised actuarial gain as at 31st March 2006 includes an amount of ¥8.618 million (\$73,360 thousand), which should have been treated as unrecognized plan assets under the former accounting standard, which is to be amortised over 10 years from the next fiscal year.

#### **(m) Retirement benefit plan for directors and corporate auditors**

The Company and most of its consolidated subsidiaries have had retirement benefit plans for directors and corporate auditors. The accrued liabilities are provided for in full on an annual basis, based on the amount which ALSOK would be required to pay under the relevant rules and bylaws if all members resigned at each balance sheet date.

In the year ended 31st March 2006, the Company abolished the retirement benefit plan for its directors and corporate auditors. The balance of the accrued retirement benefits for directors and corporate auditors as of 31st March 2006 was ¥608 million (\$5,176 thousand), which was transferred from allowance account to others account in long-term liabilities.

#### **(n) Reserves for losses on debt guarantees**

ALSOK has provided for losses on debt guarantees, determined with respect to the financial position and other conditions of the guarantees.

#### **(o) Leases**

Finance leases, except for those where the legal title of the underlying property is transferred from the lessor to the lessee at the end of the lease term, are accounted for in the same manner as operating leases.

#### **(p) Derivatives and hedge accounting**

Derivative transactions are appraised by the mark-to-market method.

For derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions. And the interest rate swaps, which qualify for hedge accounting and meet specific matching criteria, are not remeasured at market value but the differential paid or received under the swap agreements are charged to income.

ALSOK has a policy to use derivatives only for the purpose of reducing financial costs and exposures to market risks resulting from fluctuations in interest rates, and not for trading or speculative purpose. Assessment of hedge effectiveness is passed for interest rate swaps which qualify for hedge accounting and meet specific matching criteria, as they are considered highly hedge effective. Management also believes there is very little risk from market rate change in interest rate swaps transactions. In accordance with its internal rules, ALSOK controls various aspects of derivative transactions including authorization levels, transaction volumes, and execution by accounting division.

#### **(q) Accounting for consumption tax**

The consumption tax imposed on revenue from clients for ALSOK's services is withheld by ALSOK at the time of receipt and subsequently paid to the national government. The consumption tax withheld upon recognition of revenue and the consumption tax paid by ALSOK on the purchase of products, merchandise and services from vendors, are not included in the related accounts in the accompanying consolidated statements of operations. The consumption tax

paid is generally offset against the balance of consumption tax withheld, and the net balance is included in current assets or current liabilities as appropriate.

#### **(r) Appropriation of retained earnings**

Under the Commercial Code of Japan, retained earnings with respect to a given financial period are appropriated by resolution of the shareholders at a general meeting to be held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriations.

#### **(s) Impairment of fixed assets**

For the year ended 31st March 2006, ALSOK adopted the New Accounting Standard for Impairment of Fixed Assets ("Opinion Concerning Established of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the impairment guidance for accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No.6 issued by the Accounting Standard Board of Japan on October 31, 2003).

As a result of adopting the new standard, for the year ended 31st March 2006, income before income taxes was decreased by ¥264 million (\$2,247 thousand). The amount of accumulated impairment losses were directly deducted from book value of each asset in accordance with the standard.

## 5. Cash and Deposits

Cash and deposits on balance sheets include cash for transportation security services of ¥38,847 million and ¥27,193 million (\$231,494 thousand) as at 31st March, 2005 and 2006 respectively, which are restricted as to use by ALSOK. Short-term borrowings from banks include ¥36,492 million and ¥34,093 million (\$ 290,225 thousand) as at 31st March, 2005 and 2006 respectively, relating to this operation.

In addition to cash and deposits presented on the consolidated balance sheet, ALSOK has off-balance cash of ¥233,952 million and ¥270,766 million (\$ 2,304,978 thousand) at 31st March, 2005 and 2006 respectively, deposited from clients in the course of conducting transportation security services.

## 6. Cash and Cash Equivalents

A reconciliation between the balance of cash and deposits in the consolidated balance sheets and the balance of cash and cash equivalents in the consolidated statements of cash flows is as follows.

	In millions of yen		In thousands of US dollars
	As at 31st March		As at 31st March
	2005	2006	2006
Cash and deposit accounts per balance sheets	¥90,186	¥85,857	\$730,883
Deposits to mature in excess of three months	(7,323)	(8,846)	(75,305)
Cash for transportation security services	(38,847)	(27,193)	(231,494)
Short-term investments (securities) to be redeemed within three months of acquisition date	349	404	3,445
Cash and cash equivalents per statements of cash flows	¥44,364	¥50,222	\$427,529

## 7. Short-Term Borrowings and Long-Term Debt

Short-term borrowings represent bank loans which are due within one year. The average interest rates for outstanding short-term borrowings are both 1.4% as at 31st March, 2005 and 2006.

The long-term debt as at 31st March, 2005 and 2006 is comprised of the following:

	In millions of yen		In thousands of US dollars
	As at 31st March		As at 31st March
	2005	2006	2006
Loans, principally from banks, due 2005 to 2014 with interest rates ranging from 0.53% to 2.88% for 2005 balance, due 2006 to 2015 with interest rates ranging from 0.77% to 2.85% for 2006 balance			
Secured	¥ 1,745	¥ 2,756	\$ 23,466
Unsecured	16,244	11,700	99,597
Unsecured 1.03% bonds No.9 due 2012 March	5,500	5,500	46,820
Unsecured 1.03% bonds No.10 due 2012 March	3,000	3,000	25,538
Unsecured 1.03% bonds No.11 due 2012 March	2,000	2,000	17,026
Unsecured 1.03% bonds No.12 due 2012 March	500	500	4,257
Unsecured 0.49% bonds No.1 due 2006 May (*1)	300	300	2,554
Unsecured 0.50% bonds No.2 due 2006 May (*1)	200	200	1,703
Unsecured 1.53% bonds No.1 due 2008 July (*2)	500	500	4,256
Unsecured 1.70% bonds No.1 due 2005 December (*3)	100	—	—
	30,089	26,456	225,217
Less – current portion due within one year	5,207	4,762	40,539
	¥24,882	¥21,694	\$184,678

(\*1) Issued by Hiroshima Sohgo Security Services Co.,Ltd.

(\*2) Issued by Kita-Kanto Sohgo Security Services Co.,Ltd.

(\*3) Issued by Tohoku Sohgo Security Services Co.,Ltd.

The aggregate annual maturities of long-term debt (including the current portion) outstanding at 31st March, 2006 are summarised as follows:

	In millions of yen	In thousands of US dollars
	As at 31st March	As at 31st March
	2006	2006
Year ending 31st March		
2007	¥ 4,762	\$ 40,539
2008	6,736	57,345
2009	6,038	51,396
2010	3,913	33,310
2011	2,438	20,755
Thereafter	2,569	21,872
	¥26,456	\$225,217

## 8. Assets Pledged As Collateral

The following assets were pledged as collateral on 31st March, 2005 and 2006.

	In millions of yen		In thousands of US dollars
	As at 31st March		As at 31st March
	2005	2006	2006
Cash and deposits	¥ 10	¥ 10	\$ 85
Land	4,675	4,383	37,314
Buildings and structures	2,124	2,067	17,599
Construction in progress	—	801	6,819
Investments in securities	—	11	91
	¥6,809	¥7,272	\$61,908

The obligations collateralized by the above assets on 31st March, 2005 and 2006 are as follows:

	In millions of yen		In thousands of US dollars
	As at 31st March		As at 31st March
	2005	2006	2006
Short-term borrowings	¥ 175	¥ 140	\$ 1,192
Current portion of long-term debt	567	623	5,300
Long-term debt	1,178	2,134	18,166
	¥1,920	¥2,897	\$24,658

## 9. Retirement Benefit

### (1) Outline of retirement benefit plan

The Company and most of its consolidated subsidiaries, have contributory defined benefit plans, which are pursuant to the Japanese Welfare Pension Insurance Law. The contributory pension plans, established in September 1970, cover a portion of the governmental welfare pension program, under which the contributions are made by the companies and their employees, and an additional portion representing the substituted non-contributory pension plans. To supplement the aforementioned welfare pension plan, the companies also have tax-eligible non-contributory defined benefit pension plans established in March 1999. The remaining indemnities are covered by severance payments made by the companies.

The consolidated subsidiaries, other than those having plans as described above, have defined benefit plans (tax-eligible non-contributory defined benefit pension plan and lump-sum severance indemnities plan, and defined contribution plan of Retirement Allowance Mutual Aid System of Medium and Small Enterprises.)

The Company and certain consolidated subsidiaries obtained an approval of exemption from future obligation to pay benefits for the substituted portion of the governmental welfare pension program by the Ministry of Health, Labour and Welfare on 1st March 2004. The Company and certain consolidated subsidiaries regarded benefit obligation and plan assets on the substituted portion of the governmental welfare pension program as having disappeared on the approval date of exemption, and accounted it in accordance with a transitional measurement of the implementation guidance on the accounting standard for employees' retirement benefits. ALSOK recognized a gain on exemption from future pension obligation of the governmental program in the amount of ¥19,666 million for the year ended 31st March, 2004. Also, the amount of transferred obligation to the government, equivalent to the minimum actuarial reserve, is estimated as ¥36,603 million on 31st March, 2004.

The Company and certain consolidated subsidiaries obtained an approval of return for past obligations and plan assets on the substituted portion of the governmental welfare pension program by the Ministry of Health, Labour and Welfare on 1st April 2005.



On 1st April 2005, the Company and certain subsidiaries transferred their Sohgo Securities Service welfare pension fund scheme and tax-eligible non-contributory defined benefit pension plan to a defined benefit private pension plan. Alongside this transfer, prior service cost (decrease in obligation) accrued in the first half period of the fiscal year ended 31st March 2006 was to be amortised using the straight-line method over five years from the accrual.

(2) The following table sets out the status of the plans, and the amounts recognised in the consolidated balance sheets as at 31st March, 2005 and 2006 for ALSOK's defined benefit plans:

	In millions of yen		In thousands of US dollars
	Year ended 31st March		Year ended 31st March
	2005	2006	2006
Retirement benefit obligation	¥(78,899)	¥(68,456)	\$(582,755)
Plan assets	43,303	50,365	428,747
Unfunded retirement benefit obligation	(35,596)	(18,091)	(154,008)
Unrecognised actuarial gain	6,552	(8,186)	(69,683)
Unrecognised prior service cost (decrease in obligation) (*1)	(79)	(2,765)	(23,539)
Net amount recognised in the balance sheet	(29,123)	(29,042)	(247,230)
Prepaid pension cost (*2)	1,380	861	7,331
Net retirement benefit liability	¥(30,503)	¥(29,903)	\$(254,561)

(\*1) Prior service cost (decrease in obligation) has accrued as certain subsidiaries modified their lump-sum severance indemnities plan.

(\*2) For the fiscal year ended 31st March 2005, one-time contribution of ¥15,805 million was made to Sohgo Securities Service welfare pension fund scheme on a consolidated basis in order to fulfill the shortage of plan asset for transfer of pension scheme to a defined benefit private pension plan. As the result, certain subsidiaries recorded excess amounts over retirement benefit liability in prepaid pension cost.

(\*3) As stated in Note 4(l), unrecognised actuarial gain as at 31st March 2006 includes an amount of ¥8,617 million (\$73,355 thousand), which should have been treated as unrecognised plan assets under the former accounting standard.

(\*4) Certain subsidiaries have adopted a simplified method in the computation of their retirement benefit obligation in conformity with the accounting standard for employees' retirement benefits.

(3) The components of retirement benefit expenses are outlined as follows:

	In millions of yen			In thousands of US dollars
	Year ended 31st March			Year ended 31st March
	2004	2005	2006	2006
Service cost (*1)(*4)	¥ 5,143	¥4,624	¥4,170	\$35,499
Interest cost	3,354	1,892	1,837	15,637
Expected return on plan assets	(1,282)	(581)	(1,076)	(9,159)
Recognised actuarial gain	2,640	1,223	989	8,414
Amortisation of prior service cost (*2)(*3)	(2,828)	(1,161)	(706)	(6,011)
Extra severance payment	198	222	109	930
Net periodic benefit cost	7,225	6,219	5,323	45,310
Gain on exemption from future pension obligation of the governmental program	(19,666)	-	-	-
Total	¥(12,441)	¥6,219	¥5,323	\$45,310

(\*1) For the fiscal year ended 31st March 2004, employees' contributions to welfare pension fund are deducted.

(\*2) This is the appropriated amount for the current period related to prior service obligations described in (2)(\*1).

(\*3) For the year ended 31st March 2005, this was after deduction of the amount relevant to recognized gain on exemption from future obligation of the governmental program in the year ended 31 March 2004.

(\*4) Retirement benefit expenses for consolidated subsidiaries adopting a simplified method in conformity with the accounting standard for the employees' retirement benefits are included.

(4) The assumptions used in accounting for the above plans were as follows:

	2004	2005	2006
Discount rate	2.5%	2.5%	2.5%
Expected return on assets	2.5%	2.5%	2.5%
Amortisation period of prior service cost	5 years	5 years	5 years
Recognition period of actuarial gain/ loss (Amortisation commences from next year)	10 years	10 years	10 years

Estimated retirement benefits are equally allocated over service period.

## 10. Investments in Non-Consolidated Subsidiaries and Affiliated Companies

ALSOK's investments in non-consolidated subsidiaries and affiliated companies were ¥4,387 million and ¥4,659 million (\$39,657 million) as at 31st March 2005 and 2006, respectively.

## 11. Assets and Liabilities of The Consolidated Subsidiary Changed from an Affiliated Company

The Company acquired Fukushima Sohgo Security Service Co., Ltd. ("Fukushima") on 30th September 2004, a deemed acquisition date, through additional purchasing of stocks. Fukushima becomes a consolidated subsidiary from an affiliate accounted for under equity method. Fukushima's assets and liabilities as of the acquisition date, acquisition cost and the net cash outflow on the acquisition are summarized below:

	In millions of yen
Current assets	¥2,599
Non-current assets	2,601
Goodwill recognised in a consolidation	549
Current liabilities	(1,036)
Long-term liabilities	(1,500)
Minority interests	(1,413)
Acquisition cost for Fukusima	1,800
Cash and cash equivalents owned by Fukusima	(1,542)
Net cash outflow for the acquisition of Fukusima	¥ 258

## 12. Selling, General and Administrative Expenses

Selling, general and administrative expenses comprise the following.

	In millions of yen			In thousands of US dollars
	Year ended 31st March			Year ended 31st March
	2004	2005	2006	2006
Advertising	¥ 1,997	¥ 2,003	¥ 2,859	\$ 24,335
Salaries and allowances	27,135	28,911	28,788	245,067
Retirement benefit expenses	1,731	1,591	1,530	13,027
Welfare and service	4,209	4,425	4,367	37,171
Depreciation	1,489	1,562	2,122	18,068
Rent	5,133	5,053	5,128	43,660
Taxes and duties	624	1,137	1,189	10,119
Communication	1,123	1,227	1,184	10,080
Research and development	859	542	406	3,452
Other	7,560	7,970	8,582	73,054
Total	¥51,860	¥54,421	¥56,155	\$478,033

## 13. Non-Cash Financing Activities

On 1st April 2003, the Company merged with Sokei Electrical Industry Co., Ltd. ("SEI"), a wholly owned subsidiary. As SEI was a supplier of security services for ALSOK group, the merger was a part of restructuring, aiming at the improvement of business efficiency. As a result of this merger, profit or loss was not affected, and capital surplus on the consolidated financial statement increased by ¥2,729 million. Assets and liabilities transferred from SEI to the Company are summarized below:

(Asset)	In millions of yen
Current assets	¥5,021
Property, plant and equipment	1,554
Intangible assets	75
Investments and other assets	592

(Liabilities)	In millions of yen
Current liabilities	¥3,406
Long-term liabilities	379

## 14. Land Revaluation Account

Based on the Law concerning Land Revaluation (Law No.34, promulgated on 31st March, 1998, and Law No.24, amended 31st March, 1999), ALSOK revalued its land used for business purposes on 31st March, 2002. The revaluation difference has been shown as land revaluation account indicated under shareholders' equity. No deferred tax assets have been accounted for as revaluation, in view of the unlikelihood of disposing of such land.

The value of land is based on the official notice prices calculated as directed by public notification of the Commissioner of the National Tax Administration and as provided for in the Law Concerning Public Notification of

Land Prices, as stipulated in Article 2-4 of the Ordinance Implementing the Law Concerning Land Revaluation (Government Ordinance No.119, promulgated on 31st March, 1998), after making reasonable adjustments.

Net book value of land used for business purposes:

	In millions of yen	In thousands of US dollars
Before revaluation	¥9,691	\$82,498
After revaluation	4,714	40,134
Balance of land revaluation account	¥4,977	\$42,364

Date of revaluation was as at 31st March, 2002. As at 31st March, 2006, the total fair value of revalued land is less than the total book value by ¥1,154 million (\$9,831 thousand).

## 15. Leases

### A) Lessee leases

#### a) Finance leases

1) The following pro-forma amounts represent the acquisition cost, accumulated depreciation and net book value of leased property as at 31st March, 2005 and 2006 which would have been reflected in the balance sheet if finance lease accounting had been applied to the finance lease transactions currently accounted for as operating leases.

	In millions of yen						In thousands of US dollars		
	As at 31st March						As at 31st March		
	2005			2006			2006		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Machinery, equipment and delivery equipment	¥12,388	¥7,171	¥5,217	¥12,216	¥6,881	¥5,335	\$103,990	\$58,572	\$45,418
Other	413	255	158	340	176	164	2,897	1,505	1,392
Total	¥12,801	¥7,426	¥5,375	¥12,556	¥7,057	¥5,499	\$106,887	\$60,077	\$46,810

2) Future minimum lease payments for finance lease transactions accounted for as operating leases are summarised as follows:

	In millions of yen		In thousands of US dollars	
	As at 31st March		As at 31st March	
	2006		2006	
Due within one year	¥2,222		\$18,911	
Due after one year	3,710		31,584	
Total	¥5,932		\$50,495	

3) Lease payments, equivalent for depreciation and equivalent for interest expense are as follows:

	In millions of yen		In thousands of US dollars	
	Year ended 31st March		Year ended 31st March	
	2005	2006	2006	
Lease payments	¥2,620	¥2,690	\$22,896	
Depreciation equivalent	¥2,499	¥2,585	\$22,009	
Interest expense equivalent	¥ 176	¥ 192	\$ 1,637	

The amounts equivalent for depreciation are calculated using the straight-line method, written off over the lease period, with no remaining residual value. The difference between total lease payments and the amount equivalent to acquisition costs is regarded as interest expense and allocated to each period using the interest method.

## b) Operating lease

Future minimum lease payments for non-cancellable operating leases are summarised as follows:

	In thousands of US dollars		In thousands of US dollars	
	As at 31st March		As at 31st March	
	2006		2006	
Due within one year	¥ 1,685		\$ 14,349	
Due after one year	11,865		101,003	
Total	¥13,550		\$115,352	

(\*) No impairment losses were allocated to leased assets.

## B) Lessor leases

1) The following pro-forma amounts represent the acquisition cost, accumulated depreciation and net book value of leasing property as at 31st March, 2005 and 2006.

	In millions of yen						In thousands of US dollars											
	As at 31st March						As at 31st March											
	2005			2006			2006			2006								
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value						
Machinery, equipment and delivery equipment	¥795	¥(792)	¥400	¥(398)	¥395	¥(394)	¥846	¥(826)	¥391	¥(389)	¥455	¥(437)	\$7,205	\$(7,031)	\$3,333	\$(3,312)	\$3,872	\$(3,719)

2) Future minimum unearned lease payments for finance lease transactions accounted for as operating leases are summarised as follows:

	In millions of yen		In thousands of US dollars	
	As at 31st March		As at 31st March	
	2006		2006	
Due within one year	¥163	¥(160)	\$1,387	\$(1,356)
Due after one year	315	(300)	2,679	(2,556)
<b>Total</b>	<b>¥478</b>	<b>¥(460)</b>	<b>\$4,066</b>	<b>\$(3,912)</b>

3) Earned lease payments, equivalent for depreciation and equivalent for interest income are as follows:

	In millions of yen				In thousands of US dollars	
	Year ended 31st March				Year ended 31st March	
	2005		2006		2006	
Earned lease payments	¥200	¥(199)	¥187	¥(186)	\$1,589	\$(1,581)
Depreciation equivalent	¥167	¥(167)	¥157	¥(156)	\$1,334	\$(1,327)
Interest income equivalent	¥ 32	¥ (32)	¥ 30	¥ (29)	\$ 252	\$ (250)

(Note) The amounts included in brackets relate to the respective amounts to the left and show the value of items that have been sub-leased to clients.

The amounts equivalent for depreciation are calculated using the straight-line method, written off over the lease period, with no remaining residual value. The difference between total lease payments and the amount equivalent to acquisition costs is regarded as interest expense and allocated to each period using the interest method.

(\*) No impairment losses were allocated to leasing assets.

## 16. Securities

(1) Information regarding marketable other securities as at 31st March, 2005 and 2006 is as follows:

	In millions of yen					
	As at 31st March					
	2005			2006		
	Acquisition cost	Carrying value	Unrealised gain (loss)	Acquisition cost	Carrying value	Unrealised gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
(1) Stocks	¥ 5,311	¥ 9,993	¥4,682	¥ 7,189	¥16,242	¥9,053
(2) Debt securities						
a. National and local government bond	344	351	7	342	342	0
b. Corporate bond	1,869	1,912	43	1,430	1,459	29
(3) Others	332	343	11	196	304	108
Sub-total	7,856	12,599	4,743	9,157	18,347	9,190
Securities whose acquisition cost exceeds their carrying value:						
(1) Stocks	1,054	846	(208)	620	524	(97)
(2) Debt securities						
a. National and local government bond	50	50	0	52	52	0
b. Corporate bond	1,459	1,359	(100)	3,937	3,723	(215)
(3) Others	1,981	1,940	(41)	646	622	(22)
Sub-total	4,544	4,195	(349)	5,255	4,921	(334)
<b>Total</b>	<b>¥12,400</b>	<b>¥16,794</b>	<b>¥4,394</b>	<b>¥14,412</b>	<b>¥23,268</b>	<b>¥8,856</b>

	In thousands of US dollars		
	As at 31st March		
	2006		
	Acquisition cost	Carrying value	Unrealised gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
(1) Stocks	\$ 61,195	\$138,263	\$77,068
(2) Debt securities			
a. National and local government bond	2,913	2,916	3
b. Corporate bond	12,175	12,422	247
(3) Others	1,666	2,585	919
Sub-total	77,949	156,186	78,237
Securities whose acquisition cost exceeds their carrying value:			
(1) Stocks	5,282	4,460	(822)
(2) Debt securities			
a. National and local government bond	443	443	0
b. Corporate bond	33,514	31,687	(1,827)
(3) Others	5,497	5,297	(200)
Sub-total	44,736	41,887	(2,849)
Total	\$122,685	\$198,073	\$75,388

(Note) Impairment losses of ¥33,095 million derived from other marketable securities, were charged to income for the years ended 31st March 2006. No impairment loss was charged to income for the year ended 31st March 2005.

(2) Proceeds from sales of securities amounted to ¥1,486 million, ¥967 million and ¥3,062 million (\$26,067 thousand) with an aggregate gross gain of ¥111 million, ¥733 million and ¥423 million (\$3,604 thousand) and aggregate gross losses of ¥439 million, ¥14 million and ¥9 million (\$78 thousand) for each of the three years ended 31st March, 2006 respectively.

(3) Carrying value of major non-marketable securities classified as other securities as at 31st March, 2005 and 2006 is summarised as follows.

	In millions of yen		In thousands of US dollars
	As at 31st March		As at 31st March
	2005	2006	2006
Unlisted stocks (excluding OTC stocks)	¥7,927	¥7,247	\$61,689
Unlisted corporate bonds	1,221	1,100	9,364
Other	¥ 12	¥ 537	\$ 4,572

(4) The redemption schedule for securities with maturity dates classified as other securities as at 31st March, 2005 and 2006 is summarised as follows.

	In millions of yen								In thousands of US dollars			
	As at 31st March								As at 31st March			
	2005				2006				2006			
	Due in one year or less	Due after one year through five years	Due after five years through 10 years	Due after 10 years	Due in one year or less	Due after one year through five years	Due after five years through 10 years	Due after 10 years	Due in one year or less	Due after one year through five years	Due after five years through 10 years	Due after 10 years
(1) Debt securities												
a. National and local government bond	¥ —	¥ 196	¥ —	¥ 153	¥ —	¥ 4	¥148	¥ —	\$ —	\$ 34	\$1,254	\$ —
b. Corporate bond	—	1,823	495	568	610	1,772	387	2,355	5,194	15,085	3,297	20,051
(2) Others	100	12	100	901	—	323	5	—	—	2,753	42	—
Total	¥100	¥2,031	¥595	¥1,622	¥610	¥2,099	¥540	¥2,355	\$5,194	\$17,872	\$4,593	\$20,051

## 17. Impairment Losses on Fixed Assets

For the year ended 31st March 2006, ALSOK recorded impairment losses as follows:

Accounts	Status	In millions of yen	In thousands of US dollars
		As at 31st March	As at 31st March
		<b>2006</b>	<b>2006</b>
Land and structures	Unused	¥112	\$ 953
Land and buildings	Dormitory	¥152	\$1,294
		¥264	\$2,247

Assets groups are classified, by unit of individual property for nonperforming assets, and by unit of managerial accounting for performing assets in business.

Aforementioned impairment losses were recorded at the amount by which the book value of each asset exceeded its estimated recoverable value, ¥167 million (\$1,424 thousand) for land and ¥97 million (\$823 thousand) for buildings and structures. The estimated recoverable values of these assets were determined based on reasonable indices and/or appraisals, by deducting estimated disposal costs.

## 18. Derivative Financial Instruments

For the year ended 31st March, 2005 and 2006, ALSOK entered into a derivative transaction, interest rate swap, to hedge interest fluctuation risk arising from certain bank loan in accordance with internal rules. As the interest rate swap transaction qualifies for hedge accounting and meets specific matching criteria, it is not applicable to the disclosure of market value information.

## 19. Income Taxes and Deferred Tax Assets and Liabilities

(1) Significant components of ALSOK's deferred tax assets and liabilities on 31st March, 2005 and 2006 are as follows:

	In millions of yen		In thousands of US dollars
	As at 31st March	As at 31st March	As at 31st March
	2005	2006	2006
<b>Deferred tax assets:</b>			
Accrued enterprise tax	¥ 239	¥ 274	\$ 2,330
Allowance for bonuses	2,279	1,911	16,266
Allowance for doubtful accounts	869	919	7,827
Excess of maximum depreciation	1,036	1,601	13,629
Installation cost for signal equipment on subscribers' premises	3,712	4,299	36,600
Accrued retirement benefit for employees	11,287	12,001	102,164
Accrued retirement benefit for directors and corporate auditors	953	914	7,781
Valuation losses on investment in securities	150	131	1,118
Amount of loss carried forward	3,571	767	6,529
Others	1,537	1,662	14,152
	25,633	24,479	208,396
Valuation allowance	(378)	(481)	(4,099)
Total deferred tax assets	25,255	23,998	204,297
<b>Deferred tax liabilities:</b>			
Special depreciation reserve	(25)	(14)	(117)
Valuation differences in other securities	(1,753)	(3,571)	(30,404)
Total deferred tax liabilities	(1,778)	(3,585)	(30,521)
Net deferred tax assets	¥23,478	¥20,413	\$173,776

In addition to the above, there are deferred income taxes related to land revaluation as follows:

	In millions of yen		In thousands of US dollars
	As at 31st March		As at 31st March
	2005	2006	2006
Deferred tax assets related to land revaluation	¥2,273	¥2,025	\$17,242
Valuation allowance	(2,273)	(2,025)	(17,242)
Deferred tax assets related to land revaluation, net	¥ —	¥ —	\$ —

Net deferred tax assets are stated on the consolidated balance sheet as below.

	In millions of yen		In thousands of US dollars
	As at 31st March		As at 31st March
	2005	2006	2006
Current asset			
- Deferred tax assets	¥ 6,051	¥ 4,092	\$ 34,835
Non-current asset			
- Deferred tax assets	17,436	16,384	139,475
Non-current liability			
- Deferred tax liabilities	(10)	(63)	(534)
Net deferred tax assets	¥23,477	¥20,413	\$173,776

## 20. Segmental Information

### (1) Business segments

Business segment information disclosure has been omitted as the security business accounts for more than 90 per cent of total sales, operating incomes and total assets of all segments for each of the three years ended 31st March, 2006.

### (2) Geographical segments

Geographical segment information disclosure is not applicable to ALSOK as there have been no consolidated subsidiary or material branch office which is located in a country or region other than Japan, as at 31st March, 2004, 2005 and 2006.

### (3) Net sales by region

Net sales by region information disclosure is not applicable to ALSOK, as there have been no overseas sales for each of the three years ended 31st March, 2006.

(2) Reconciliation of the differences between the statutory tax rate and the effective income tax rate is as follows:

	Year ended 31st March		
	2004	2005	2006
Statutory tax rate	40.7%	40.7%	40.7%
Increase (reduction) in taxes resulting from:			
Items that may not be incorporated in losses permanently, including entertainment expenses, etc.	0.5	0.9	1.4
Items that may not be incorporated in profits permanently, including dividend income, etc.	(0.0)	(0.2)	(0.3)
Inhabitants equalisation tax	1.1	2.8	2.8
Amortisation of goodwill	0.7	1.9	1.6
Equity in earnings of affiliates	(0.7)	(1.0)	(0.9)
Others	(1.2)	3.2	0.3
Effective income tax rate	41.1%	48.3%	45.6%



## 21. Related Party Transactions

Transactions and related balances with related parties such as certain officers and major shareholders for each of the three years ended 31st March, 2006 were as follows:

	In millions of yen			In thousands of US dollars
	Year ended 31st March			Year ended 31st March
	2004	2005	2006	2006
Donation to foundations (included in selling, general and administrative expenses)	¥170	¥108	¥95	\$806
Free-lending of office space (included in selling, general and administrative expenses) (*1)	¥ 27	¥ 27	¥28	\$236
Balance related to the above	¥ —	¥ —	¥ —	\$ —

(\*1) ALSOK lends leased office space to certain non-profit organisations of related parties free of charge. The above amount of free-lending of office space is the amount ALSOK paid to the lessor. The terms of this lease were equivalent to those of an arm's-length transaction.

## 22. Per share Information

	In yen			US dollars
	2004	2005	2006	2006
Net income per share - Basic	¥ 175.11	¥ 47.54	¥ 52.91	\$ 0.45
- Diluted	¥ 174.99	¥ 47.50	¥ 52.76	\$ 0.45
Net assets per share	¥1,188.65	¥1,222.93	¥1,274.27	\$10.85

The basis for calculation of net income per share - basic and diluted is as follows:

	In millions of yen			In thousands of US dollars
	Year ended 31st March			Year ended 31st March
	2004	2005	2006	2006
<b>Net income per share - basic</b>				
Net income	¥17,753	¥4,952	¥5,550	\$47,250
Amount not belonging to ordinary shareholders	177	178	219	1,872
-Of which bonuses to directors by appropriation of retained earnings	(205)	(203)	(246)	(2,095)
-Of which the Company's share of bonuses to directors by appropriation of retained earnings for prior fiscal year of the companies accounted for under the equity method	(△ 28)	(△ 25)	(△ 27)	(△ 223)
Net income attributable to common stock	17,576	4,774	5,331	45,378
Weighted average number of ordinary shares (thousands of shares)	100,372	100,432	100,751	100,751
<b>Net income per share - diluted</b>				
Adjustment to net income	—	—	—	—
Increase of ordinary shares (thousands of shares)	69	82	287	287

For the computation of dilutive net income per share for the year ended 31st March, 2004, 9,680 stock rights are not included because they are anti-dilutive. 9,680 Stock rights compose of 4,680 rights under the resolution of the shareholders' meeting held on 27th June 2003 and 5000 rights under the resolution of the shareholders' meeting held on 27th June 2004. These stock rights are issued by the special resolution of shareholders' meeting under the article 280-20 and 280-21 of the Commercial Code of Japan.

### To the Shareholders and Board of Directors of

### Sohgo Security Services Co., Ltd.

We have examined the consolidated balance sheets of Sohgo Security Services Co., Ltd. (the "Company") and subsidiaries (collectively "ALSOK") as at 31st March 2005 and 2006, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years ended 31st March 2006, all expressed in Japanese yen.

These consolidated financial statements are the responsibility of ALSOK's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of ALSOK as at 31st March 2005 and 2006, and the results of their operations and their cash flows for each of the three years ended 31st March 2006 in conformity with accounting principles generally accepted in Japan.

As discussed in Note 4 (I) to the consolidated financial statements, effective from the year ended 31st March 2006, ALSOK adopted the revised accounting standard on retirement benefit plans.

The United States dollar amounts in the accompanying consolidated financial statements with respect to the year ended 31st March 2006 are presented solely for the convenience of readers outside Japan. Our examination also included the translation of Japanese yen amounts into United States dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

*Grant Thornton Taisho ASG*

Tokyo, Japan  
29th June, 2006

## Profile

<b>Corporate Name</b>	SOHGO SECURITY SERVICES CO.,LTD.
<b>Main Office</b>	1-6-6 Motoakasaka, Minato-ku, Tokyo
<b>Telephone</b>	+81-3-3470-6811
<b>Established</b>	July 16, 1965
<b>Capital</b>	17,830 million yen (as of March 31, 2006)
<b>Employees</b>	(Consolidated) 24,703 (Non-consolidated) 11,828 (as of March 31, 2006)
<b>Business Operations</b>	Headquarters/ 5 Division Offices 58 Branches/ 44 Offices 223 Sales Offices

## Stock Information

<b>Stock Listing</b>	First Section, Tokyo Stock Exchange
<b>Code</b>	2331
<b>Minimum trading lot</b>	100
<b>Total Number of Shares</b>	300,000,000
<b>Authorized</b>	
<b>Number of Shares Issued</b>	101,209,642
<b>Number of shareholders at the end of the preceding fiscal period</b>	10,195

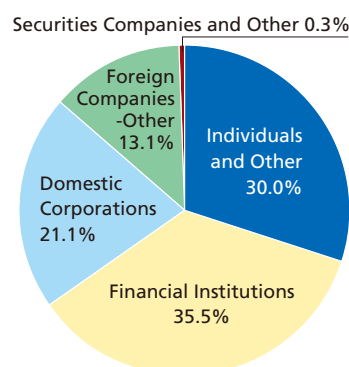
### Major Shareholders

No.	Name	Number of Shares Held (1,000 shares)	controlling share (%)
1	Tsuneo Murai	9,067	8.95
2	SOHGO CORPORATION	7,388	7.30
3	Employee stock ownership plan	6,059	5.98
4	Japan Trustee Services Bank, Ltd. (trust account)	5,417	5.35
5	Saitama Machinery Co., Ltd.	5,283	5.22
6	Trust & Custody Services Bank, Ltd as trustee for Mizuho Bank Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd	4,261	4.21
7	Tokio Marine & Nichido Fire Insurance Co., Ltd.	3,420	3.37
8	The Chase Manhattan Bank NA London	3,341	3.30
9	The Master Trust Bank of Japan,Ltd.	3,312	3.27
10	Atsushi Murai	2,948	2.91

Notes:1 Investment ratios shown are rounded to the nearest thousandth of a percent (the third place after the decimal point).

Notes:2 The shares held by the Mizuho Trust & Banking Co., Ltd. retirement benefits trust account entrusted to Mizuho Bank, Ltd. are shares entrusted by Mizuho Bank as a contribution to retirement benefits. The Company holds 1,180 shares (controlling share 0.0%) and 2,000 preferred shares (controlling share 0.0%) in Mizuho Bank's holding company, Mizuho Financial Group, Ltd.

## Type of Shareholders



## The ALSOK Group

Hokkaido Sohgo Security Services Co., Ltd.	Tokai Sohgo Security Services Co., Ltd.
Aomori Sohgo Security Services Co., Ltd.	Chukyo Sohgo Security Services Co., Ltd.
Tohoku Sohgo Security Services Co., Ltd.	Aichi Sohgo Security Services Co., Ltd.
Tohoku Sohgo Kanzai Co., Ltd.	Mie Sohgo Security Services Co., Ltd.
Tohoku Sohgo Stationed Security Services Co., Ltd.	Keiji Sohgo Security Services Co., Ltd.
Fukushima Sohgo Security Services Co., Ltd.	Osaka Sohgo Security Services Co., Ltd.
Ibaraki Sohgo Security Services Co., Ltd.	Osaka Sohgo Kanzai Co., Ltd.
Kita-Kanto Sohgo Security Services Co., Ltd.	ALSOK Kinki Co., Ltd.
Gunma Sohgo Guard System Co., Ltd.	ALSOK Sanin Co., Ltd.
Saitama Sohgo Security Services Co., Ltd.	Hiroshima Sohgo Security Services Co., Ltd.
Chiba Sohgo Security Services Co., Ltd.	Hiroshima Sokei Service Co., Ltd.
Sokei Building Service Co., Ltd.	Setouchi Sokei Service Co., Ltd.
Chiyoda Kanzai Co., Ltd.	Yamaguchi Sohgo Security Services Co., Ltd.
Tokyo Sohgo Security Services Co., Ltd.	Yamaguchi Kanzai Co., Ltd.
Tama Sohgo Security Services Co., Ltd.	Tokushima Sohgo Security Services Co., Ltd.
Sokei Electrical Construction Co., Ltd.	Kita-Shikoku Sohgo Security Services Co., Ltd.
Sokei Information System Co., Ltd.	Ehime Sohgo Security Services Co., Ltd.
Sokei Leasing Co., Ltd.	Minami-Shikoku Sohgo Security Services Co., Ltd.
JFL Co., Ltd.	Fukuoka Sohgo Security Services Co., Ltd.
Sokei Stationed Security Services Co., Ltd.	Saga Sohgo Security Services Co., Ltd.
Kanagawa Sohgo Security Services Co., Ltd.	Nagasaki Sohgo Security Services Co., Ltd.
Niigata Sohgo Security Services Co., Ltd.	Kumamoto Sohgo Security Services Co., Ltd.
Toyama Sohgo Security Services Co., Ltd.	Miyazaki Sohgo Security Services Co., Ltd.
Tomiso Technical Service Co., Ltd.	Kagoshima Sohgo Security Services Co., Ltd.
Hokuriku Sohgo Security Services Co., Ltd.	Okinawa Sohgo Security Services Co., Ltd.
Nihon Guard Co., Ltd.	Taiwan Shin Kong Security Co., Ltd.

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