



# SOHGO SECURITY SERVICES CO., LTD.

Annual Report 2007  
for the year ended March 31, 2007

# ANNUAL REPORT 2007

# Profile

Sohgo Security Services Co., Ltd. (ALSOK), was established in July 1965 as a security company. ALSOK was the first company to acquire the security business certification from the Tokyo Metropolitan Public Safety Commission as a pioneer in the security services industry in Japan. The ALSOK Group has continued to further develop itself as a corporate group by listing on the First Section of the Tokyo Stock Exchange in October 2002 (Securities Code: 2331) and determining “ALSOK” as its corporate brand in 2003.

The ALSOK Group is the best player in providing security services to financial institutions and other corporations. Moreover, drawing on its abundant experience in the corporate sector, the Group has continuously expanded business in the field of Home Security services for residential households in recent years. The Group therefore contributes to ensure the social safety by supplying high-quality security, such as the rapid dispatch of security staff to a contracted site in case of an emergency.

\* ALSOK is the corporate brand to effectively raise the branding force and increase social awareness of the Company and its corporate image. The official company name has always been Sohgo Security Services Co., Ltd.

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Electronic Security Services



Stationed Security Services



Transportation Security Services

### Cautionary statement regarding forecasts and projections

Of the plans, strategies and other matters of Sohgo Security Services Co., Ltd. (ALSOK), and of the ALSOK Group, that are expressed in this annual report, the projections on future performance are not founded on historical facts. Readers are advised to be aware that the actual performance could differ materially from these projections due to various factors such as economic circumstances, competitive condition and technological innovations.

# Consolidated Financial Highlights

	2003	2004	2005	2006	2007	
Fiscal year (Millions of Yen/Thousands of US Dollars)						
Net Sales	¥248,385	¥249,241	¥257,790	¥267,545	<b>¥276,560</b>	<b>\$2,342,738</b> <sup>*Note 4</sup>
Operating Profit	17,829	14,479	10,963	12,246	<b>15,972</b>	<b>135,300</b>
Net Income	7,549	17,753 <sup>*Note 2</sup>	4,952	5,550	<b>7,558</b>	<b>64,027</b>
Capital Expenditure	13,122	12,490	16,537	14,142	<b>11,677</b>	<b>98,916</b>
Depreciation	9,966	10,314	10,816	10,907	<b>10,222</b>	<b>86,590</b>
At the end of fiscal year (Millions of Yen/Thousands of US Dollars)						
Total Assets	258,894	268,813	282,206	282,830	<b>285,219</b>	<b>2,416,088</b>
Net Assets (former Shareholders' Equity) <sup>**Note 3</sup>	102,924	119,533	123,169	129,193	<b>151,817</b>	<b>1,286,036</b>
Per share (Yen/US Dollars)						
Net Income	79.84	175.11 <sup>*Note 2</sup>	47.54	52.91	<b>74.71</b>	<b>0.63</b>
Net Assets	1,023.04	1,188.65	1,222.93	1,274.27	<b>1,322.82</b>	<b>11.21</b>
Dividend	20.00 <sup>*Note 1</sup>	17.00	17.00	17.00	<b>20.00</b>	<b>0.17</b>
Ratios (%)						
Operating Profit Margin	7.2	5.8	4.3	4.6	<b>5.8</b>	—
ROA	7.2	5.9	4.2	4.6	<b>6.0</b>	—
ROE	8.4	16.0 <sup>*Note 2</sup>	4.1	4.4	<b>5.7</b>	—

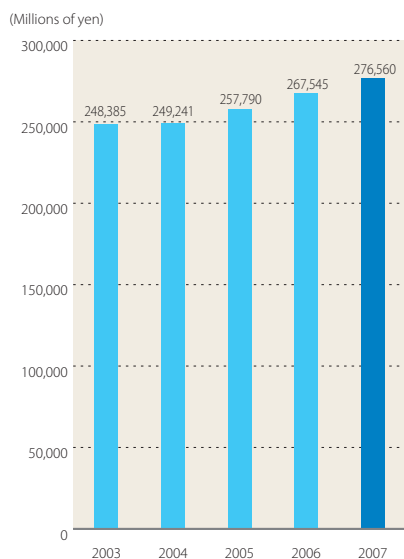
\*Note 1: Includes a ¥3 per share commemorative dividend.

\*Note 2: The Company recognized ¥19,666 million in the year to March 2004 resulting from the return of Welfare Pension Fund assets to the government.

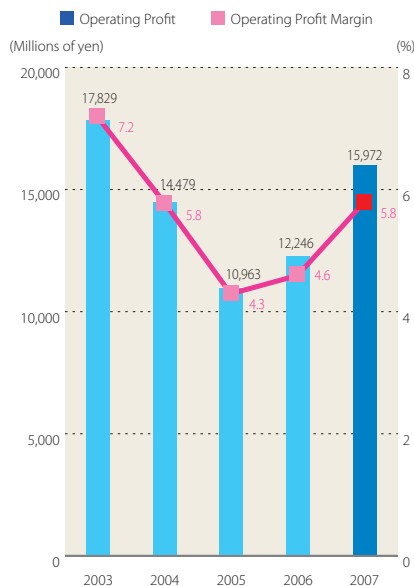
\*Note 3: Subsequent to the revision of the accounting standard, we presented Net assets including Minority interests in Shareholders' equity, effective for the fiscal year ended March 31, 2007. For further details, please refer to Note 4. (s) "Presentation of net assets in the balance sheet" on page 38.

\*Note 4: U.S. dollar amounts have been translated from yen, solely for the convenience of the reader, at the rate of ¥118.05 to U.S.\$1 prevailing on March 30, 2007.

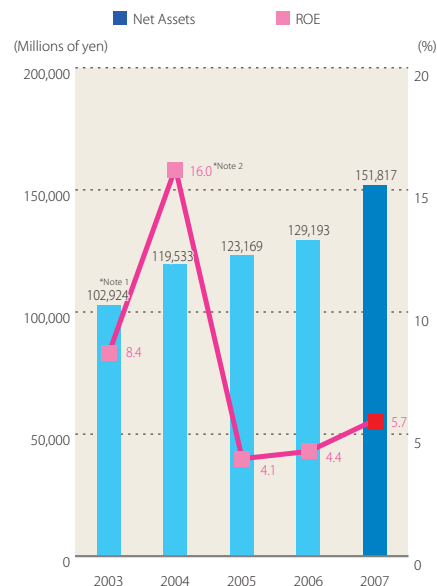
## Net Sales



## Operating Profit/ Operating Profit Margin



## Net Assets/ROE



\*Note 1: Indicated figures for Net assets are the average amounts of those at the beginning and the end of each fiscal year. For the year ended March 31, 2003, the figure for Net assets at the beginning of the year indicates the amount before the Company's stock was listed in October 2002.

\*Note 2: The Company recognized ¥19,666 million in the year to March 2004 resulting from the return of Welfare Pension Fund assets to the government.

# To Our Stakeholders



**Atsushi Murai**  
President, CEO and COO

## Report on ALSOK's Performance for the Year Ended March 31, 2007

### Financial Highlights

As the total number of criminal offenses in Japan has decreased for four consecutive years and the percentage of criminals who are arrested has been rising, public safety is statistically improving. On the other hand, atrocious crimes targeting children are on the increase, which never allows for peace of mind. Such looming concerns about safety have kept security needs consistently high.

ALSOK's net sales for the year ended March 31, 2007, increased 3.4% year-on-year to ¥276.5 billion, with sales advances in all its services.

Operating profit increased 30.4% year-on-year to ¥15.9 billion and net income increased 36.2% to ¥7.5 billion, representing outstanding growth in income.

### Performance by Service

Net sales in Security Services accounted for 93.6% of the ALSOK's net sales in the year under review, while net sales in Electronic Security Services, ALSOK's core business, accounted for 51.8%.

The number of contracts to provide Electronic Security Services for corporate clients has been increasing steadily in the real estate management and manufacturing. The total number of contracts during the year ended March 31, 2007, was about 359,000, for net growth of about 16,000, or 4.7%, year-on-year.

The number of contracts we entered into with individual clients has advanced more than 15% for the third consecutive year since the release of "ALSOK Home Security 7" in 2004. "ALSOK Home Security 7", which was developed based on our thorough market research, is available for ¥4,000–¥5,000 a month and focuses functions on the intrusions, fires and emergency call, while retaining a system for the immediate dispatch of security staff to the scene of an emergency. The total number of contracts for the "ALSOK Home Security 7" for the year under review rose about 14,000, or 15.6% net, year-on-year surpassing 100,000.

Net sales in Stationed Security Services grew 4.9% year-on-year for the year under review, showing the highest growth rate in the Security Services segment.

This growth was due to temporarily increased demand for enhancing security to prevent the fraudulent withdrawal of money from ATM user accounts by stealing their pin numbers or card numbers by installing wireless small cameras to ATM corners at financial institutions, which occurred frequently during the year under review.

Long-term contracts received also progressed favorably leveraged by the opening of new shops in large-scale shopping malls.

In Transportation Security Services, net sales rose owing to increased orders received due to an increase in the number of ATMs installed in convenience stores and orders for Cash Deposit Machine On-line Systems in the retail and service businesses.



### Business Plan for the Year Ending March 31, 2008

The ALSOK Group will seek further growth and improvement in performance, adhering to its management policy since its foundation—providing high-level security services—and prioritizing service quality.

In Electronic Security Services, our core business, ALSOK has 2,100 depots nationwide, thereby covering all Japan. Such an infrastructure will enable future aggressive increases in orders received without large capital investments.

As a specific measure in marketing activities for corporate clients in Electronic Security Services, we will emphasize marketing to corporate clients operating in the regions as Tokyo, Osaka and Nagoya, where most of the headquarters of major companies are located.

ALSOK recently added a new service for corporate clients: In January 2006, we began a consulting business for schools and in December 2006 for juku (private tutoring schools). We will further reinforce proposal-type sales activities that provide highly specialized security-related proposals.

Japan is a large market with 49 million households (according to the 2005 national census), but the penetration of Home Security is estimated to be only 1%. Actually, the populace feels that public safety in Japan is deteriorating. Reflecting such an environment, the Home Security services market that targets individual clients will continue to expand.

Moreover, we found out that it was through TV commercials and newspaper ads that many of our clients first learned about the ALSOK Home Security, which encouraged them to enter into a contract. Therefore, to enhance advertising activities, in the fiscal year ended March 31, 2006, we increased advertising expenses by about 40% compared with a year earlier primarily due to the aggressive use of TV commercials and newspaper ads, resulting in dramatically enhanced recognition of the



ALSOK brand. For the year ending March 31, 2008, as well, we intend to aggressively utilize TV commercials and newspaper ads.

We will also innovatively update our Web site and establish a mobile phone site to expand advertising activities to reach potential clients.

We will further reinforce alliances not only with major housing construction companies with nationwide bases but also with locally operating housing construction companies and building contractors to expand our marketing channels.

With regard to Transportation Security Services, an increasing tendency of financial institutions to outsource their management of their ATMs to security companies is becoming evident.

Such a trend started in major banks but has now spread to regional banks. The scope of the business includes not only ATMs outside banks but also ATMs inside banks, which is a business opportunity for the ALSOK Group.

Given such plans, we project the ALSOK Group's net sales for the year ending March 31, 2008, to be ¥285.9 billion; operating profit to be ¥17.8 billion; recurring profit to be ¥18.6 billion, which would be a record high; and net income to be ¥9.9 billion.

### To Secure High-Caliber Human Resources

For the ALSOK Group, which seeks further growth while continuing to provide high-quality services, securing human resources including security guards is a vital issue especially given the aging society and the decreasing number of children.

ALSOK currently has recruiting centers at seven locations nationwide including Tokyo and Osaka, where more than 40 members are dedicated to recruiting and employment activities throughout the year.

Through such a structure, ALSOK has been employing 700–800 new graduates each year and has established trust relationships with universities, graduate schools and other educational institutes nationwide.

Harnessing such a structure, we will continue to aggressively acquire human resources.

## Corporate Governance

Regarding corporate governance, the Financial Products Exchange Law, which was enacted in June 2006, will obligate corporate management to report the company's financial status and to evaluate the company's internal control system, effective in the year ending March 31, 2009.

We also recognize the need to further reinforce internal controls. In February 2007, we launched the internal control preparation team and concluded an advisory contract with an outside expert organization in April 2007. In the future, we will promote the documentation of business manuals and risk management measures and reinforce in-house education.

## Approach toward 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 per-



formance. Although the annual dividend per share had been ¥17 since listing our stock in 2002, for the year ended March 31, 2007, we added ¥3 per share reflecting favorable business performance, resulting in an annual dividend per share of ¥20.

Although we had targeted a non-consolidated payout ratio of 30%, we are shifting our focus to a consolidated payout ratio.

I thank all our stakeholders, and your continuing support is highly appreciated.

Atsushi Murai  
President, CEO and COO

# Business Overview

The ALSOK Group has two business segments — Security Services, which is the core segment, and Other Services. Net sales in Security Services account for 93.6% of the total net sales of the Group.

Security Services is subdivided into Electronic Security, Stationed Security and Transportation Security Services. The ALSOK Group operates such businesses through its nationwide network.

## >>> Security Services: Electronic Security, Stationed Security and Transportation Security Services

### Electronic Security Services

In ALSOK's Electronic Security Services, our Guard Centers (monitoring centers) remotely monitor clients' premises 24 hours a day, 365 days a year. Our clients are residential households and corporate buildings including financial institutions. Our Guard Centers respond to warnings of intrusions, fires or other emergency situations by dispatching security staff to the premises.

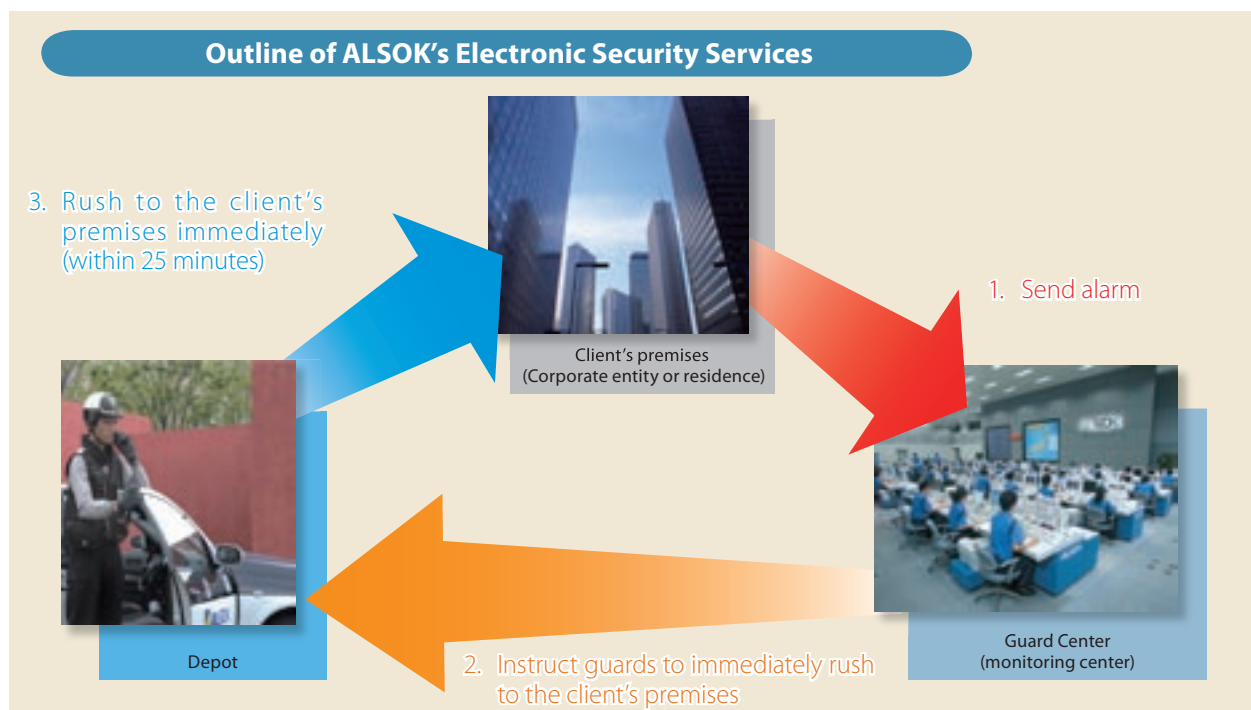
Specifically, alarms are sent from a variety of sensors installed in clients' premises to the Guard Center at the time of emergencies such as intrusions, fires and emergency call (Step 1). On receipt of such alarms, the Guard Center dispatches instructions to security staff to immediately rush to the client's premises (Step 2). A security

staff rushes to the site to take the necessary measures (Step 3). The Security Business Law stipulates that security staff must be able to reach a client's premises within 25 minutes after receiving the alert.

Intrusions ..... When the sensor detects burglars or other intruders breaking into a house through a door or window.

Fires ..... When the sensor detects a rise in temperature or smog caused by fire (e.g., fire from kitchen or tobacco).

Emergency call...Clients press an emergency alarm button owing to sudden illness, injury or physical danger.





The responses to an alarm of electronic security companies in Japan differs from the method used in Europe and the United States, where alarms dispatched from alarm equipments are reported to the local police via a security company's monitoring center and police rush to the emergency scene. In Japan, security staff from a security company rush to the scene, take appropriate

measures in cooperation with a monitoring center and report to the police, fire station, managing company and other designated entities as necessary.

Security staff have a key for each client facility. That is why a client should be able to trust a security company before entering into a contract.

### Major Services for corporate clients

#### <ALSOK Guard System>

A basic Electronic Security system for corporate clients, through which security staff rush to client companies for emergencies such as intrusions, fires and emergency call.

#### <Mansion TAKURUSU II>

A system for residential building complexes such as condominiums and apartment buildings, which not only brings security staff immediately to a client's house for emergencies such as intrusions, fires and emergency call but also provides the convenience of

electric locking and unlocking functions for the main gate.

#### <AMANDO System>

A system for financial institutions that locks/unlocks ATM corners, controls and monitors the operations of lighting and air-conditioning equipment and alerts security staff for immediate dispatch to the scene in case of an intrusion, a theft or a malfunction of the ATM. This system enables the management of unmanned ATM corners from opening through closing.

### Major Services for individual clients

#### <ALSOK Home Security 7>

A standard Home Security system for regular households, which is available at ¥4,000–¥5,000 a month, alerts an ALSOK security staff immediately of emergencies such as intrusions, fires and emergency call.

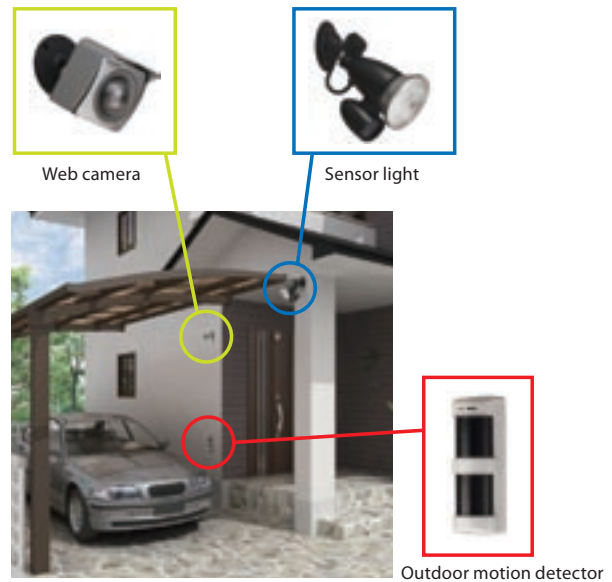
#### <ALSOK Home Security X7>

A multifunctional residential security system for households yet more effective for large houses as well, alerts an ALSOK security staff immediately of emergencies such as intrusions, fires and emergency call. The system features additional functions such as remote control and video monitoring.

### Major components of the ALSOK Home Security 7



### Exterior security system of the ALSOK Home Security X7



See page 15 for business performance for the year under review.

## Stationed Security Services

In ALSOK's Stationed Security Services, we station security guards at large-scale facilities such as hotels, shopping malls and banks to conduct internal/external access control and patrols. These services also include the security at events and other such functions and personal protection of high-profile Japanese and foreigners. For internal/external access control, we check the identity of each person who enters and leaves a building under our charge. In patrolling, we patrol inside and outside a facility under our charge and try to detect suspicious objects/persons, thereby preventing accidents or crimes. With our security guards well-trained to cope with emergencies quickly and appropriately, we provide high-quality Stationed Security Services.



Patrol



Access Control

See page 16 for business performance for the year under review.

## Transportation Security Services

Previously, our Transportation Security Services mainly transported cash or marketable securities safely and quickly between two locations specified by a client using a cash transportation vehicle or public transport for financial institutions. Nowadays, ALSOK's business realm has expanded. We increasingly handle outsourced operations such as the calculation of cash and plans to manage the amount of cash to retain in ATMs on behalf of financial institutions. We are also promoting the Cash Deposit Machine On-line System to enable logistics companies and retailers to manage sales proceeds safely.



Cash transporting

### Major Services

#### <Total ATM Management System>

We handle comprehensive services to manage ATMs inside/outside financial institutions and inside convenience stores. Specifically, the services include planning cash management such as deciding the amount of cash to be stored in an ATM and the frequency to effectively restock or collect cash; restocking cash into ATMs periodically so that cash in a machine will not run out, and counting the collected cash; and immediately dispatching staff to ATMs for emergency repairs when malfunctions occur such as cash and card jams or receipt dispense errors.



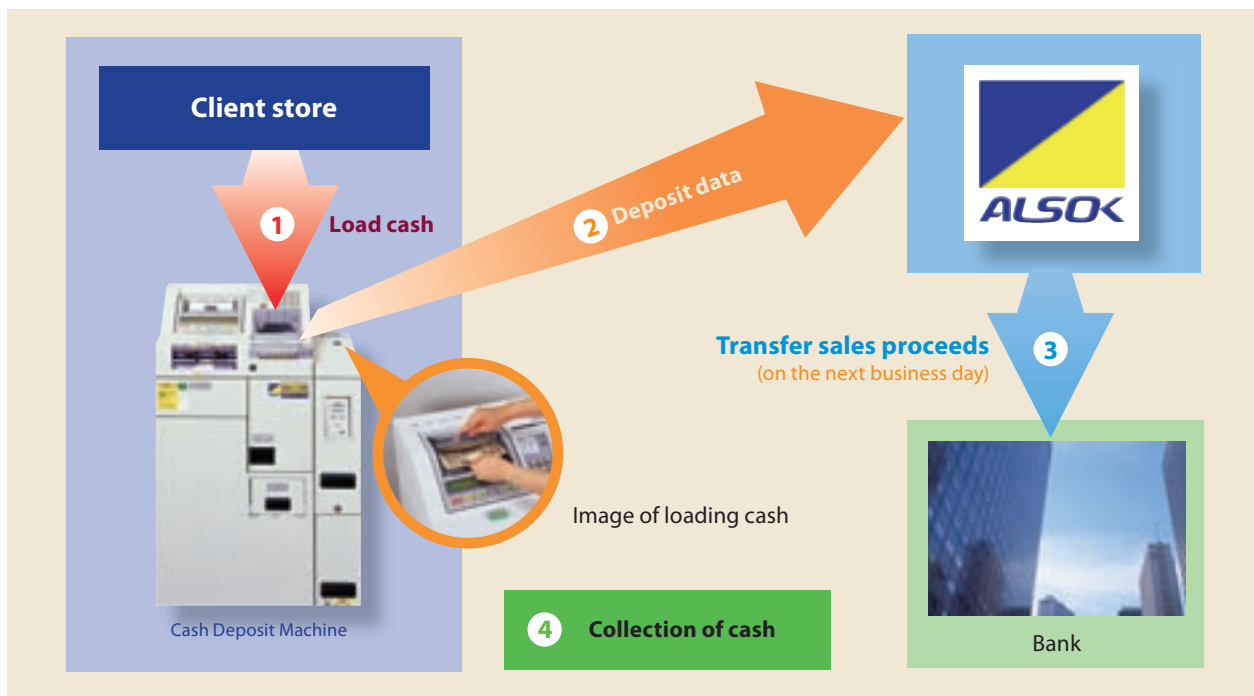
Cash restocking and collecting

### <The Cash Deposit Machine On-line System>

The Cash Deposit Machine On-line System is a service for logistics companies and retailers enabling safe management of sales proceeds. This service eliminates the need to transport cash outside a store, thereby ensuring safety and improving convenience.

Specifically, a store manager loads the day's cash sales after business hours into a Cash Deposit Machine located in an office

inside the store (Step 1). The amount is instantly calculated automatically by the machine and reported to ALSOK via a telephone line (Step 2). ALSOK transfers that amount in advance into the client's account at a bank by the next business day (Step 3). Afterward, cash in the Cash Deposit Machine is collected by ALSOK's cash transportation vehicle (Step 4).



See page 16 for business performance for the year under review.

## >>> Other Services

In addition to Security Services, ALSOK conducts Total Building Management Services covering cleaning management, environmental hygiene management, facility management and telephone answering; Disaster Prevention Services including the inspection and installation of fire extinguishers and related equipment, and sales of various disaster prevention equipment and gears; sales of devices such as automated external defibrillators (AEDs); and a service to rush to assist at the scene of a car accident upon request.



Automated external defibrillators (AEDs)

See page 16 for business performance for the year under review.

## Feature 1: Current Situation of the Security Services Industry in Japan

Although Japan once boasted the world's top-level security, serious crimes have been increasing due to factors such as changes in the social environment. According to a recent Cabinet Office survey, a majority of Japanese citizens answered that "Japan is no longer a safe nation where people can live in comfortable security." As a result, the role of the security services industry in Japan has increased in importance.

### History of the Security Services Industry in Japan

The security services industry in Japan started in the early 1960s, at the beginning of the high economic growth period. Core services were originally Stationed Security Services consisting of patrols and supervision by security guards stationed at department stores, banks and office buildings.

Thereafter, the industry became increasingly well-known after successful appearances of security services at big events such as the Tokyo Olympic Games in 1964 and the Expo '70 in Osaka. Many security companies were soon established nationwide, and the industry largely developed itself.



Expo '70 in Osaka

#### Electronic Security Services

In the early 1960s, soon after the security industry was born, the industry saw a shortage of security guards due to a rapid expansion of Stationed Security Services. Around that time, Electronic Security Services, in which security staff and remote-controlled monitoring systems were combined, became operational. Since then, Electronic Security Services have extended for corporate clients mainly due to affordable fees compared with Stationed Security Services.

In the 1970s, many banks began constructing unmanned cash-handling corners ("ATM corner(s)") with cash dispensers (CDs) and automated teller machines (ATMs) installed to complement the face-to-face counter interactions at head offices and branches.

Along with the increased use of unmanned ATM corners, security companies began to offer an integrated type of Electronic Security system that provided not only surveillance for an ATM corner (with a quick response from security staff in case of an emergency) but also

the automated operation of all relevant equipment required from the opening to the closing of the unmanned ATM corner.

Thereafter, a new service began through which a security company remotely video monitors the ATM corners at all times and security staff rush to the scene in case of an emergency.

In the 1980s, Electronic Security Services, which had been usually provided for corporate clients, were extended to residential households as individual clients. That client base was primarily high-income residents.

In 2004, ALSOK launched Home Security services at a rate of ¥4,000-¥5,000 per month. The Home Security is now used extensively by individual clients at different income levels, reflecting such social factors as a general economic recovery, an increase in single-person households of the elderly or women and increased concerns about security.

Only about 9% of all security companies nationwide supply Electronic Security Services because the services require considerable capital investment and strong marketing capabilities to acquire many clients. As a result, only ALSOK and one other company are capable of providing Electronic Security Services nationwide.



A Guard Center (monitoring center) in the early years of Electronic Security Services

#### Stationed Security Services

Before security companies were established, Japanese companies used their own employees as improvised security guards. After many security companies were established, Stationed Security Services, by entering into a contract with security company, became commonplace.

In the 1970s, new types of Stationed Security Services,

combined with an Electronic Security system, became available. The door-opening/closing status and other activities are monitored in a security guard room via video displays, and security guards rush to the scene in case of an emergency/incident. This combination of security services allowed security companies to effectively pursue the advantages of both service categories: 1) preventing possible accidents by staffing the stationed security guards and 2) establishing a continuously-operable security system with Electronic Security Services.

At present, we have begun offering a new type of Stationed Security Services, in which security robots developed by ALSOK and stationed security guards work in combination. (See Feature 2: Research and Development: Practical Use of Security Robots on Page 13.)

### Transportation Security Services

Transportation Security Services were already operational in the 1960s. At the beginning, the primary functions of this business category were to guard against theft by sharing transportation vehicles owned by freight forwarders in transporting cash, marketable securities or other valuables between two locations specified by a client via public transport facilities such as the Shinkansen (bullet trains).

In the 1970s, the core functions shifted to transporting cash, marketable securities or other valuables independently by security companies themselves using their own special cash transportation

vehicles.

In the 1980s, security companies, which had already supplied a security system capable of providing automated operation of all relevant equipment required from the opening to the closing of unmanned ATM corners, began providing the Total ATM Management System, which included the delivery of cash to be restocked at the ATMs positioned inside stores apart from the transportation of cash.

In the 1990s, following the ending of night safe services and the cutting back of cash collection and delivery services at banks, security companies began covering clients' sales cash management services without requiring the client to deposit sales proceeds into its bank account. More specifically, principally in the retail and service industries, the extended services included the collection of sales proceeds and the transfer into the client's bank account in place of the client, enabling clients to avoid the risks associated with the use of night safes.

In the 2000s, a new type of bank without store space appeared, for example, banking functions conducted only through ATMs installed inside convenience stores. Thus, security companies came to assume not only the original Electronic Security Service for ATMs but also general cash management operations, which covered the collection of cash from ATMs, the restocking of cash and receipts, cash calculation and planning functions (the setting of restocking amounts and collection frequency) as part of traditional bank operations, and responses to machine malfunctions.

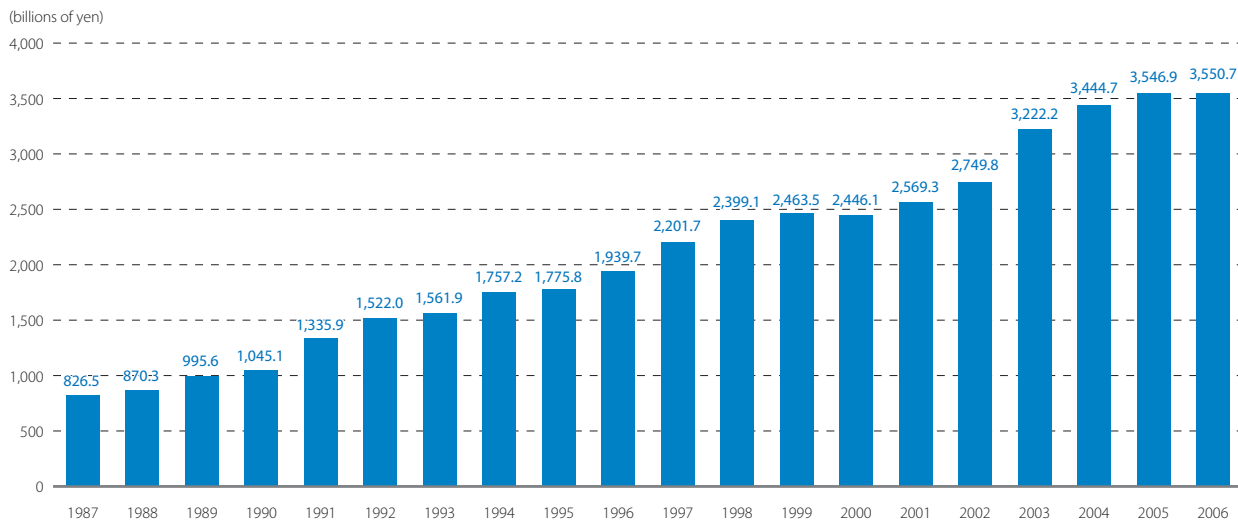
## Data of the Security Services Industry in Japan

### Net sales of the security services industry

The net sales of the security services industry in Japan have increased continually, reaching ¥3,550.7 billion in 2006, a fourfold

increase in the past 20 years.

**Table 1: Changes in Net Sales of the Security Services Industry**

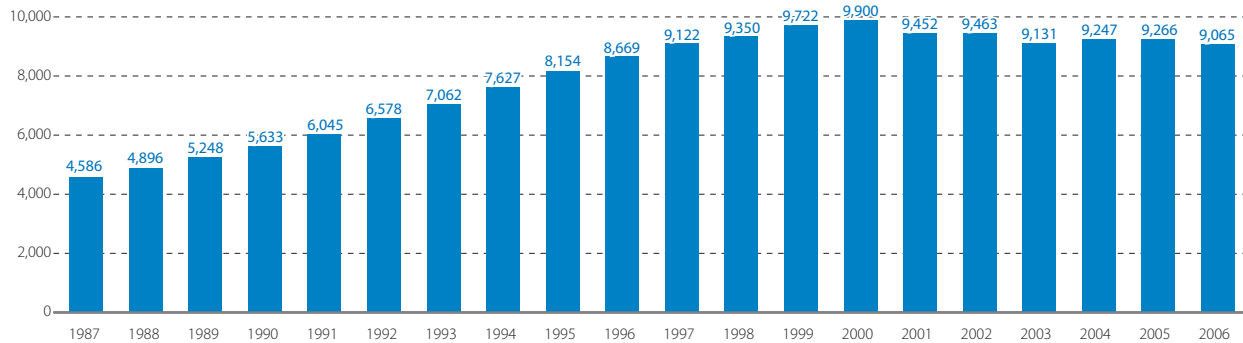


## Number of security companies

The total number of security companies in Japan peaked at 9,900 in 2000. The number has since declined and totaled 9,065 in 2006.

**Table 2: Changes in Number of Security Companies**

(Number of security companies)

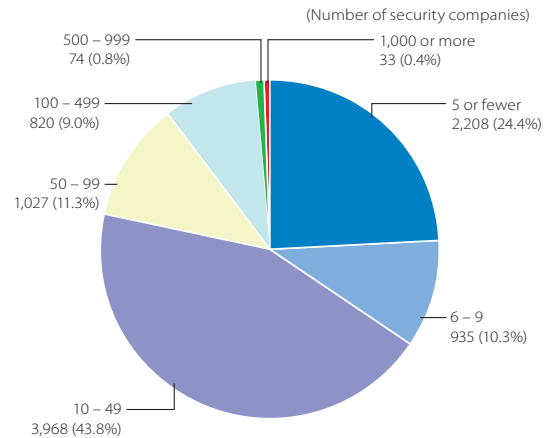


## Number of security companies by number of security guards

There were 491,082 security guards in the security services industry in 2006. The security industry nationwide has about twice as many security guards as the number of police officers in Japan, of which there were approximately 250,000 in 2006 (Source: 2006 Police White Paper prepared by the National Policy Agency). Accordingly, the importance of the security industry is increasing.

Security companies with less than 100 security guards account for 90% of the total, whereas only 33 companies have 1,000 or more security guards, or 0.4% of the total.

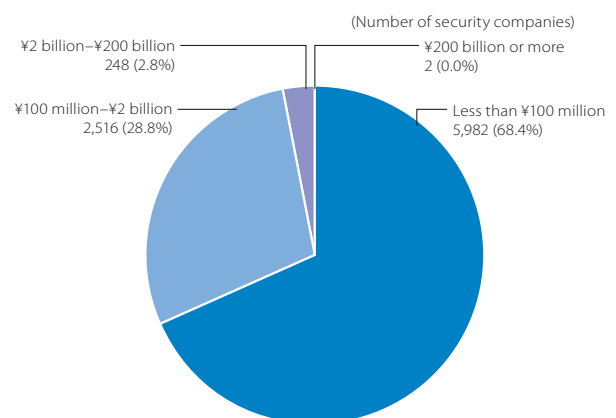
**Table 3: Number of Security Companies by Number of Security Guards**



## Number of security companies by net sales

Net sales of the two largest companies each exceed ¥200 billion annually, whereas those of the third-largest security company are approximately ¥30 billion annually, one digit behind the two giant companies. The number of security companies for which annual net sales are less than ¥100 million accounts for 68.4% of the total.

**Table 4: Number of security companies by net sales\***



\*According to a recent survey that included 8,748 of the 9,065 companies.

Note: For "Feature 1," the values in the text, tables and graphs relative to the overall security services industry are taken from the National Policy Agency: Overview of the Security Services Industry in 2006 and based on data from surveys by the ALL JAPAN SECURITY SERVICE ASSOCIATION.

## Research and Development: Practical Use of Security Robots

ALSOK has been proactively committed to R&D themes such as 1) research on security robots, 2) development of imaging centers, 3) development of information security products and 4) development of movable object control systems.

Here, we introduce the results of our practical research on security robots, including Japan's first patrol-type robot, and a new security system that works in collaboration with security guards.

### ALSOK's R&D on Security Robots

Security services are labor-intensive and require talented human resources including security guards. With Japan's population forecast to decrease and the society rapidly aging with a diminishing number of children, it could be increasingly difficult to ensure the necessary labor force. As a consequence, enhancing the efficiency of security services is already an important issue. One promising solution is security robots, which ALSOK started R&D in 1982. The possible advantages of their implementation would be a reduction in the number of staffed security guards, a reduction in the physical burden of security guards and the improvement of security services. Security guards could then handle intellectual operations such as monitoring video displays while robots handle routine operations such as patrols. The patrolling frequency could be optimally increased without taking a rest.

ALSOK introduced the Guard Robo C4, which is equipped with reception and guidance functions, in April 2002. In 2005, ALSOK developed the Guard Robo i, which improved on the functionality of the C4 model, as an innovative model operable outdoors. The Guard Robo i was demonstrated at Expo 2005 in Aichi. In June 2005, we released and started the actual use of the Guard Robo D1, for which the key function is patrol security.

### ALSOK's New Stationed Security Services System

In November 2006, ALSOK launched Reborg-Q, a new Stationed Security Services system that effectively combines security guards with the Guard Robo D1. Reborg was named after "Remote Cyborg," a coined term from *remote* and *cyborg* (meaning mechanized or functionality-reinforced organisms). "Q" connotes Quality, Quick and Q&A, with which we refer to our efforts for further quality improvement of security and the respective facilities, early information communication and response, and enhanced Q&A facility-guidance service using robots, all of which should add value to the relevant facilities where the security robot is implemented.

The Reborg-Q system was implemented ahead of the official launch at Canal City in Fukuoka in August 2006, and full operations began at the Aqua City Odaiba in Tokyo in mid-December 2006.

Representative operations of the Guard Robo D1 are staff-assistant functions. These include the provision of a variety of services to visitors in the course of its self-traveling patrols such as the announcement of stray children and store information in the daytime and sending messages to the disaster prevention center regarding any detection of suspicious individuals and a fire at night.

The introduction of security robots is topical and serves to improve security quality, thereby increasing the added value of the facilities that implement them. At the facilities that implement our security robots, the robots have become popular not only among children but also among adults as familiar mascots.



Guard Robo C4



Stationed Security Service system  
Reborg-Q (Guard Robo D1)  
at the Aqua City Odaiba



Stationed Security Service system  
Reborg-Q (Guard Robo D1)

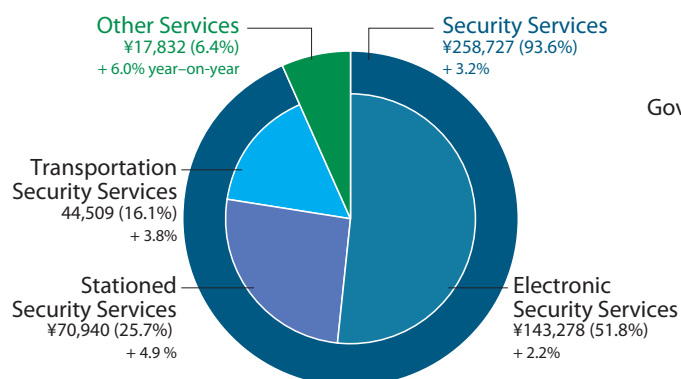
# Review of Operations

Net sales of the ALSOK Group for the year ended March 31, 2007, increased 3.4% year-on-year to ¥276,560 million. By services, in the Security Services segment, net sales of Electronic Security Services rose 2.2% to ¥143,278 million, net sales of Stationed Security Services increased 4.9% to ¥70,940 million and net sales of Transportation Security Services advanced 3.8% to ¥44,509 million, accounting for 51.8%, 25.7% and 16.1%, respectively, of net sales. Net sales in the Other Services segment increased 6.0% year-on-year to ¥17,832 million, representing 6.4% of net sales.

By client industry, net sales from our contracts with financial institutions increased 2.2% year-on-year to ¥84,110 million; ¥153,447 million from business corporations, up 3.8%; ¥30,485 million from government offices, up 2.2%; ¥8,515 million from individuals, mainly for Home Security services, up 12.1%. The sectors accounted for 30.4%, 55.5%, 11.0% and 3.1%, respectively, of net sales.

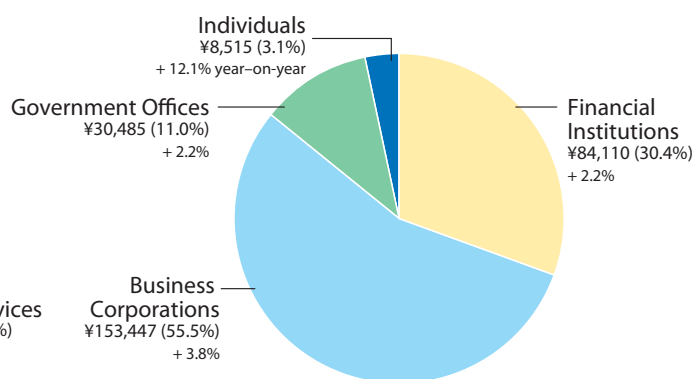
## Net sales by service (Millions of yen)

Figures in parentheses indicate the composition relative to net sales.



## Net sales by client industry (Millions of yen)

Figures in parentheses indicate the composition relative to net sales.

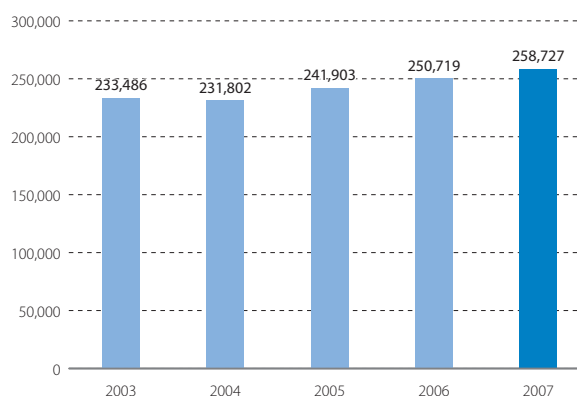


## >>> Security Services

Net sales in Security Services increased 3.2% year-on-year to ¥258,727 million, reflecting an increase of 2.2% in Electronic Security, 4.9% in Stationed Security and 3.8% in Transportation Security Services.

## Change in net sales

(Millions of yen)





## Electronic Security Services

In Electronic Security Services for corporate clients, orders received advanced mainly from real estate management companies and manufacturers.

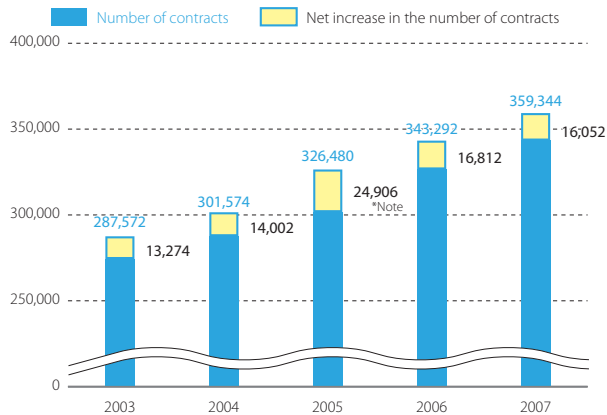
The number of contracts provided by Electronic Security Services for corporate clients increased 4.7% year-on-year to 359,344, showing steady progress.

For individual clients, the number of contracts for “ALSOK Home Security 7”, which was released in November 2004, increased briskly along with solid advances in sales of its upgraded version—“ALSOK Home Security X7”.

The number of contracts provided by Electronic Security Services for individual clients increased 15.6% year-on-year to 103,569.

As a result, net sales of Electronic Security Services increased 2.2% to ¥143,278 million.

### Number of contracts for Electronic Security Services concluded with corporate clients



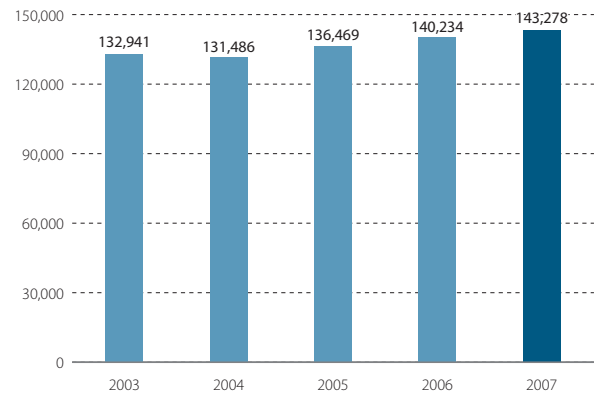
Note: During the year ended March 31, 2005, ALSOK consolidated Fukushima Sohgo Security Services Co., Ltd., as its subsidiary.



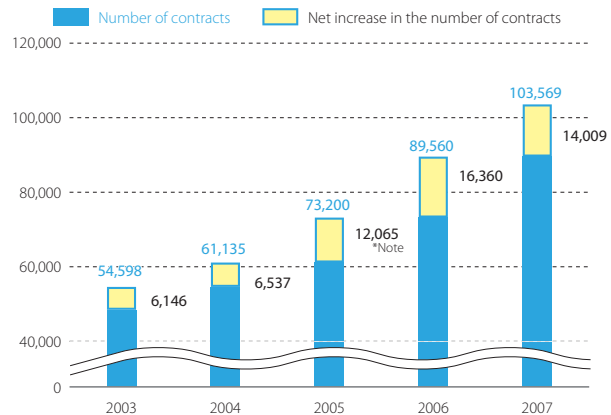
Guard Center (monitoring center)

### Change in net sales

(Millions of yen)



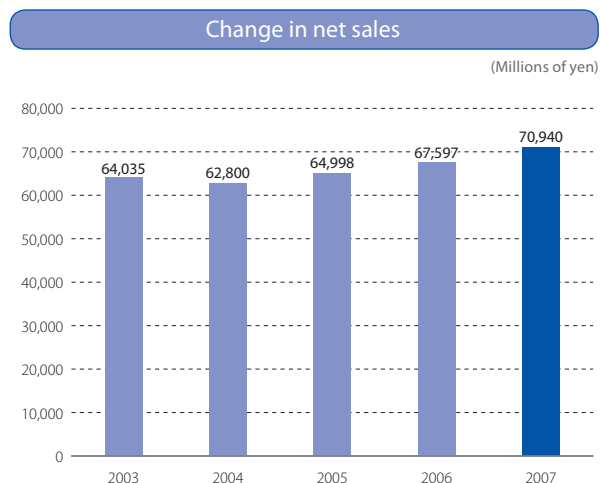
### Number of contracts for Electronic Security Services concluded with individual clients



ALSOK Home Security X7 contoller

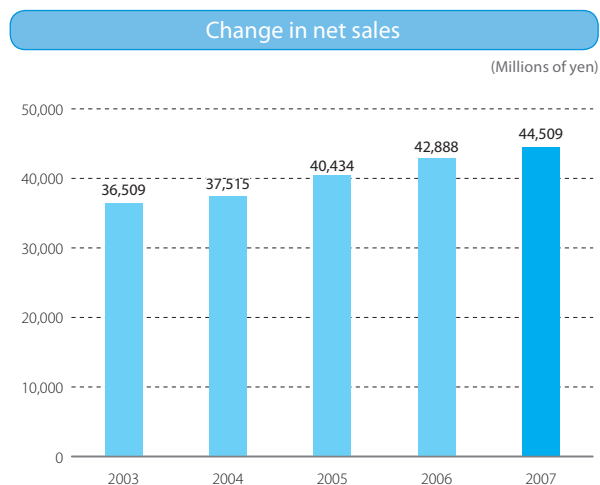
## Stationed Security Services

In Stationed Security Services, orders received expanded due to the opening of new stores in large-scale shopping malls and due to the temporarily increased demand from financial institutions for enhancing security to prevent the installation of spy cameras to steal pin numbers or card numbers at ATM corners. As a result, net sales in Stationed Security Services for the year ended March 31, 2007, advanced 4.9% year-on-year to ¥70,940 million.



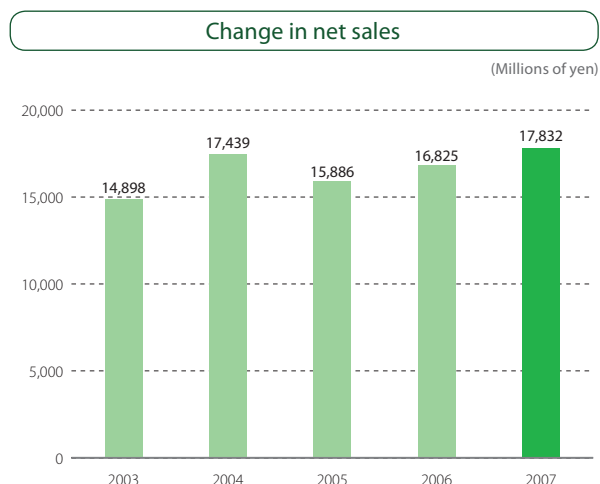
## Transportation Security Services

In Transportation Security Services, the number of convenience stores with ATM increased and orders received for Cash Deposit Machine On-line System steadily expanded mainly in the retail and service industries. As a result, net sales in Transportation Security Services increased 3.8% year-on-year to ¥44,509 million.



## >>> Other Services

In Other Services, we received orders from an insurance company for a service to dispatch security staff to the scene of a car accident upon request. In addition, sales of automated external defibrillators (AEDs) expanded steadily. As a result, net sales in Other Services increased 6.0% year-on-year to ¥17,832 million.



# CSR Activities

The ALSOK Group advocates "Contribution to the public welfare" as one of its management guidelines by taking into consideration its engagement in security services that feature an extremely high level of public welfare. We focus our efforts on ensuring the social safety, the basic principle in the well-being of human beings, and also look upon our trust-based relationships with stakeholders as an essential management task. We therefore are continually committed to a variety of activities to fulfill our corporate social responsibility (CSR) based not only on "Sense of Gratitude" but also on "Spirit of Samurai," both of which are our management philosophies.

To be a corporate group that is constantly trusted by shareholders and investors as well as by our clients, local residents and other stakeholders, the Group endeavors to pursue sound and highly transparent business management by placing emphasis on management issues including corporate governance, compliance and risk management.

Furthermore, the Group has taken diverse measures to develop excellent relationships with clients, local communities and our employees from the perspective of CSR and will continue to address the issue of reducing environmental impact.

In addition, to ensure comfortable lives with a sense of security for every member of society, the Group promotes various social action programs with activities such as the ALSOK ANSHIN Classes and the ALSOK Gratitude Movement, and the promotion of sports and other social activities.



# Corporate Governance

The ALSOK Group advocates “Contribution to the public welfare” as one of its management guidelines and focuses its efforts on ensuring the social safety. Meanwhile, to be a corporate group constantly trusted by all stakeholders, we strive to reinforce groupwide corporate governance with measures for separation of execution and oversight functions in management, swifter decision-making, establishment of corporate ethics and enhanced transparency in business management.

## Board of Directors and the Executive Officer System

ALSOK’s Board of Directors has seven members, including one outside director. Meetings of the Board of Directors are held once per month, in principle, to make decisions and oversee business executions regarding important business issues.

### Outside Director

The outside director Akira Kanno attended all 14 Board of Directors meetings held during the year ended March 31, 2007. He appropriately made necessary remarks on the deliberation of the agenda, etc., at the meetings, based on his abundant experience and insight accumulated through his services rendered at a financial institution.

Meetings of the Management Committee, which are chaired by the President, CEO and COO, are held twice per month, in principle, to discuss major decision-making matters. The Company implemented an executive officer system in June 2002 to clarify the division of roles in management and business execution and accelerate the decision-making process in business execution.

## Auditing System

Three of the Company’s four auditors are outside auditors with the

aim of ensuring appropriate and sufficient supervising functions.

### Outside Auditors

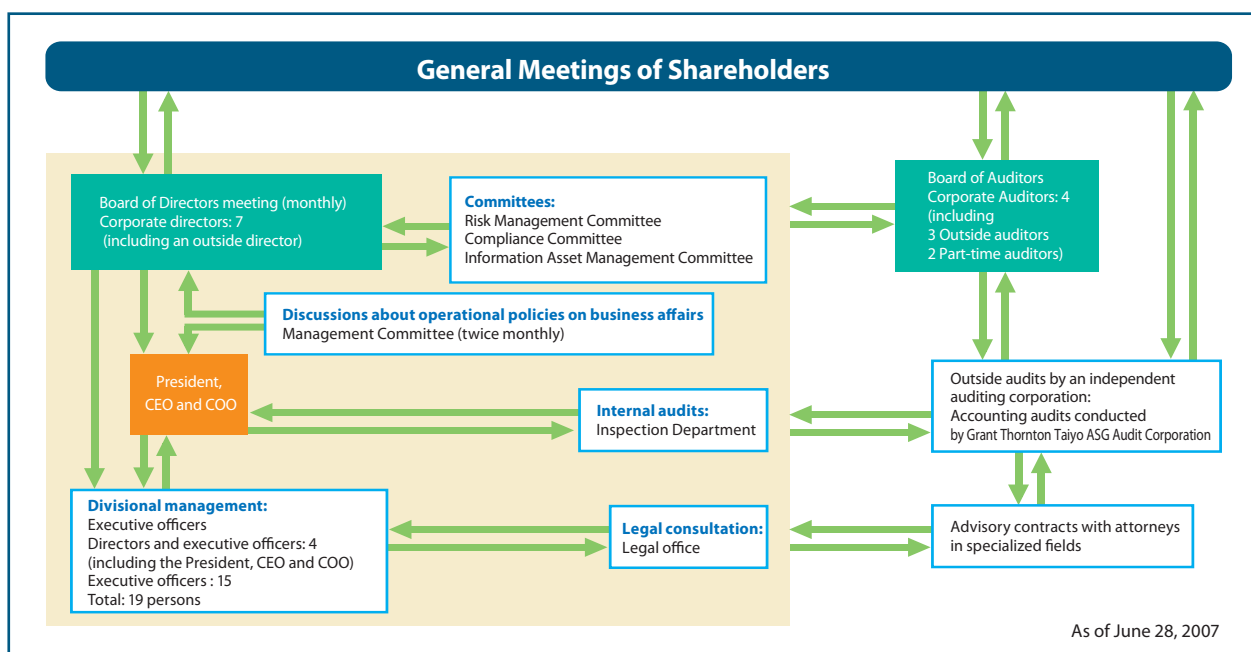
The three outside auditors attended all 14 Board of Directors meetings and all 13 Board of Auditors meetings held during the year ended March 31, 2007.

The outside auditor Takumi Someya appropriately made necessary remarks on the deliberation of the agenda, etc., at the meetings, based on his abundant experience accumulated through his services rendered at a financial institution and as a standing auditor of the Company.

The outside auditor Kazumasa Oizumi appropriately made necessary remarks on the deliberation of the agenda, etc., at the meetings, based on his broad experience in diverse business fields especially as he used to be a sales manager for corporate clients at his preceding post.

The outside auditor Teruo Kageyama appropriately made necessary remarks on the deliberation of the agenda, etc., at the meetings, based on his experience and ability as a management executive having previously served as President of another company.

The Company’s auditors (Board of Auditors) and Grant Thornton Taiyo ASG Audit Corporation, which conducts the Company’s accounting audits, hold a meeting per month, in principle, to pursue collaboration within the auditing structure via the enhanced exchange of information regarding the agenda items of the Board of Directors meetings and issues of mutual awareness.



The Inspection Department which directly reports to the President, CEO and COO, has also been established as an internal auditing entity. The major duties of the Inspection Department are to supervise the activities of the headquarters departments and other business units to ensure that asset management, accounting management and business management are being implemented effectively in compliance with relevant laws.

The Company's auditors (Board of Auditors) and the Inspection Department hold "auditing operations liaison meetings" once per month, in principle. Besides periodic in-depth exchanges of information and the reinforcement of collaboration in the auditing structure, they promote the sharing of information regarding the issues that they have identified in internal governance with Grant Thornton Taiyo ASG Audit Corporation through reports of the results of management supervision produced by the Inspection Department.

## Disclosure of Information and IR

The Group has formulated the Disclosure Policy and placed importance on the active, impartial and prompt disclosure of information regarding such activities. The disclosed information is viewable on the Company's Web site. The Group also holds financial results briefings for 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.

## Compliance

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

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

In addition, the ALSOK Hotline was set up in April 2004, for early identification and prevention of corporate ethics problems. If employees encounter illegal or improper conduct or unethical behavior involving the Company, they are capable of blowing whistle on the Company by e-mail, telephone call or in writing without fear of detrimental treatment.

In light of our involvement in direct business transactions with corporations 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 to cope with changes in the environment such as the complete 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 the education and enlightenment of the employees.

Besides the above, we have entered into advisory contracts with eight law offices in Japan and are developing a fully secure system for legal responses in all specialized fields. The Company also has attorneys indirectly involved in corporate governance 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 to implement security operations with the aim of ensuring the social safety.

We organized a Risk Management Committee based on the risk management rules formulated in December 2002 and assigned 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, companywide risk management activities, to identify and assess risks and to formulate preventative measures and proposals for countermeasures.

Moreover, sector-specific risk assessment subcommittees have been set up under the Risk Management Committee to collect, analyze and assess sector-specific risk information in each of the fields of "Business Management," "Administration," "Operation" 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, the corporate structure has been improved to be capable of a rapid emergency response. The Company obtained ISMS (Information Security Management System) certification in October 2004. As a result, countermeasures against information alternation on the Internet, hardware or software problems and information leakage and the development and operation of management systems are fully under way.

## Our Efforts for Environmental Conservation

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

To reduce environmental contamination due to CO<sub>2</sub> emissions, the Company vigorously promotes the use of motorcycles for its commercial vehicles, facility standby and no idling when on standby. We are replacing diesel-powered automobiles with vehicles that comply with the particulate matter discharge standards that are stipulated by local government ordinances, or low-emission vehicles.

### Promotion of Green Purchasing

The Company formulated its Green Purchasing Guidelines in March 2006 with the aim of reinforcing our commitment to environmental conservation activities and contributing to the formation of the recycling-oriented society being prompted by the government as a CSR-based corporation. The purpose of the Guidelines is to actively promote the "3 Rs" (Reduce, Reuse and Recycle) for security-related equipments and other goods used by the Company with the goal of effectively utilizing resources. The Company is also promoting

compliance with Law on Promoting Green Purchasing and consideration for the environment to its business partners, and is moving forward with environmental conservation activities through mutual collaboration.

### Promotion of Recycling

The Company is promoting the recycling of used rechargeable batteries, and collected approximately 4.4 tons of such batteries during the year ended March 31, 2007. In addition, the Company has introduced foldable "returnable containers" in its logistics to restrict the waste volume of corrugated fiberboard, and continues to tackle the reduction in environmental impact by reviewing the processing methods of equipment to be abandoned as recyclable resources.

### Our Efforts toward Energy Conservation

We are engaged in companywide electrical energy conservation efforts to help reduce the use of lighting, air-conditioning and other electrical equipment that is considered to be of little need or used excessively.

## Service Quality Improvement

### Acquisition of ISO 9001 Certification

The Group launched the ISO promotion project in pursuit of the provision of high-quality security services and the improvement of customer satisfaction, and subsequently acquired the ISO 9001 certification (2000 version) in September 2002. This approach to certification acquisition has already been completed for all the branches and is currently being expanded to the overall group companies. (Twenty-six group companies had acquired certification as of March 31, 2007.) The enhancement of internal audits and the setting of higher targets are intended to ensure further improvement of service quality.



satisfaction (CS). Specific activities include efforts to constantly place the client in the center of our 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 also strive to upgrade employee satisfaction (ES) and employee education. Currently, we are developing activities for the realization of improvements in CS unique to the ALSOK Group from a multifaceted perspective.

### Promotion of Customer Satisfaction by the CS Committees

Along with the acquisition of ISO certification, CS committees have also been set up in each business unit to promote an improvement in customer

### 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 Web site in the form of ALSOK Security Information. Upon request, we also provide service of regularly transmitted e-mail messages with the most up-to-date information. We are also promoting an accelerated response to requests for consulting regarding Home Security services and other products designed for individual clients.

## Treatment and Education of Employees

### Equal-Opportunity Benefit Program

The Group actively implements qualification tests, correspondence education, training and other programs to comprehensively identify skills, personalities and so forth of employees, and seeks to utilize

human resources appropriate for respective job families and classes. Test qualification rules, appraisal for salary increases and so forth are undertaken with an emphasis on fairness and impartiality.

## Exhaustive Education and Training Programs

The Company promotes 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 practical working skills according to job families and in specialized operations.



Training extinguisher use

## Contribution to Society

### ALSOK ANSHIN Classes

The Group participates in the ALSOK ANSHIN Classes, a community support program that started in October 2004. The classes offer four different lessons according to the children's growth level by ALSOK employees in the area of crime prevention at elementary schools to help children have a better sense of self-defense safety and further educate teachers and parents on crime prevention. Around 300,000 pupils have participated in the lessons instructed by active-duty security guards who are familiar with local school-commuting roads.



Scene of a lesson

### ALSOK Gratitude Movement

The ALSOK Gratitude Movement was launched in 1967 for the purpose of providing services to society both in Japan and abroad. This is based on the doctrine of "appreciation for the benefits received daily from the nation and society" and "a spirit of live-and-let-live gratitude." Rather than support through business revenues, these activities are managed through donations by executives, employees and other members of the Group as well as other company-related parties (individuals and organizations) who agree with its purpose. During the term under review, it contributed to the global medical treatment organization "Médecins du Monde Japon," and other organizations involved in activities for refugee relief around the world, as well as contributions to the Japan Guide Dog Association, the Japan Committee for UNICEF, Japan Mine Action Service, Zenkaren (The National Federation of Families with the Mentally Ill in Japan) and other organizations. In the area of disaster relief, it provided monetary donations for disaster damages caused by the Java Island Midland

Earthquake and the Noto Peninsula Earthquake. It also donated welfare vehicles for wheelchair use to social welfare organizations.

### Jun Murai Memorial Foundation

The Jun Murai Memorial Foundation was established in July 2000, twelve years after the death of ALSOK's founder, to commemorate the 35th anniversary of the Company's establishment. It provides scholarships to students enrolled in a technical college or the engineering department of a university in Kanagawa Prefecture. These scholarships do not require repayment.

### Monetary Assistance to a Foundation

The Group provides the continual monetary assistance required for operations to the Japan Urban Security Research Institute, which implements surveys and research for the prevention of urban crimes.

### Promotion of Sports

The 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 throughout the country.



Scenes of an in-house judo tournament

# Directors and Auditors (As of June 28, 2007)

## Directors



**Tsuneo Murai**  
Chairman



**Atsushi Murai**  
President, CEO and COO



**Akira Tamura**  
Representative Director



**Ko Sato**  
Director



**Akira Ichikawa**  
Director



**Kanehiro Mashita**  
Director



**Akira Kanno**  
Director (Outside Director)

## Executive Director (The persons marked with an asterisk (\*) concurrently serve as directors.)

**Atsushi Murai\***  
President, CEO and COO

**Satoshi Matsumoto**  
Senior Executive Officer  
CSO (Chief Strategy Officer)  
CCO (Chief Compliance Officer)  
Investor Relations

**Akira Ohnishi**  
Senior Executive Officer  
CFO (Chief Financial Officer)

**Akira Tamura\***  
Senior Executive Officer  
Deputy Chief of Business Promoter  
Headquarters

**Ko Sato\***  
Senior Executive Officer  
Human Resource  
Corporate Ethics

**Hiroshi Ohno**  
Senior Executive Officer  
R&D  
Information Systems

**Shozo Sawamura**  
Senior Executive Officer  
Deputy Chief of Business Promoter  
Headquarters

**Hiroki Hagiwara**  
Senior Executive Officer  
Deputy Chief Officer of Security  
Operations Division

**Shiro Hashio**  
Senior Executive Officer  
Chief Officer of East Japan  
Headquarters

**Akira Ichikawa\***  
Senior Executive Officer  
Chief Officer of West Japan  
Headquarters

**Matsuo Honjyo**  
Executive Officer  
Chief Officer of Tokyo  
Headquarters

**Takeshi Ueno**  
Executive Officer  
Chief Officer of Mid Japan  
Headquarters

**Masashi Terao**  
Executive Officer  
Chief Officer of Transportation  
Security Services Headquarters

**Takao Fujikawa**  
Executive Officer  
General Affairs

**Kiyomi Hara**  
Executive Officer  
Stationed Security Services  
Reorganization

**Satoshi Yamada**  
Executive Officer  
HR Planning  
International Affairs

**Susumu Hoshino**  
Executive Officer  
R&D

**Tohei Tani**  
Executive Officer  
General Manager of Security  
Science Institute

**Yuichi Miyazawa**  
Executive Officer  
Deputy Chief Officer of West  
Japan Headquarters

## Corporate Auditors

**Kazumasa Oizumi**  
Corporate Auditor  
(Outside Corporate Auditor)

**Hideo Nakajima**  
Corporate Auditor

**Teruo Kageyama**  
Corporate Auditor  
(Outside Corporate Auditor, part-time)

**Tassei Iijima**  
Corporate Auditor  
(Outside Corporate Auditor, part-time)



# Financial Information

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24	Management Discussion and Analysis
30	Consolidated Balance Sheets
32	Consolidated Statements of Operations
33	Consolidated Statements of Changes in Shareholders' Equity
34	Consolidated Statements of Cash Flows
35	Notes to Consolidated Financial Statements
50	Independent Auditors' Report

For the year ended March 31, 2007, net sales, operating profit and net income of ALSOK group increased 3.4%, 30.4% and 36.2%, respectively, from the previous fiscal year. The operating profit margin improved from 4.6% to 5.8%, and the net income margin improved from 2.1% to 2.7%.

## Overview of Business Performance

### Net Sales

The Company's security operations are divided into two segments: Security Services and Other Services. The former consists of three business categories: Electronic Security, Stationed Security and Transportation Security Services.

### Security Services Segment

Net sales from the overall security services segment increased 3.2% year-on-year to ¥258,727 million and accounted for 93.6% of total net sales in the year under review.

#### Electronic Security Services

Net sales of Electronic Security Services increased 2.2% year-on-year to ¥143,278 million, and accounted for 51.8% of the Group's total sales. The number of corporate contracts steadily rose 4.7% to 359,344. The number of contracts for ALSOK Home Security 7, which was launched in November 2004 with a monthly contract fee at an affordable ¥4,000-¥5,000, successfully increased, and the number of individual contracts, together with those for the high-end ALSOK Home Security X7, increased 15.6% to 103,569.

#### Stationed Security Services

Net sales of Stationed Security Services increased 4.9% year-on-year to ¥70,940 million, and accounted for 25.7% of the Group's total net sales. Major contributors to this rise were orders from financial institutions for provisional security services to prevent the installation of spy cameras to steal pin numbers of card numbers at the ATM corners and orders for new openings of large shopping malls.

#### Transportation Security Services

Sales of Transportation Security Services increased 3.8% year-on-year to ¥44,509 million, and accounted for 16.1% of the Group's total net sales. The rise was mainly attributable to increased orders for convenience store ATMs and the Cash Deposit Machine On-line

Systems installed at retailers and service providers.

### Other Services Segment

Net sales from this segment increased 6.0% year-on-year to ¥17,832 million, and accounted for 6.4% of total sales in the year under review. Orders for the service to dispatch security staff to the scene of a car accident upon request increased steadily, and sales of automated external defibrillators (AEDs) performed well.

### Cost of Sales, Selling, General and Administrative Expenses and Operating Profit

The cost of sales increased ¥3,936 million, or 2.0% year-on-year to ¥203,081 million. Major components of the increase in cost of sales were higher outsourcing expenses (up ¥1,914 million) due to increased orders for Stationed Security Services, higher lease payment (up ¥730 million) owing to increased orders for the Cash Deposit Machine On-line Systems and higher cost of products sold (up ¥708 million) related to the expansion of hardware sales.

Selling, general and administrative expenses increased ¥1,352 million, or 2.4% year-on-year to ¥57,507 million. A principal factor in the increase was a rise in commission fees (up ¥1,069 million) related to the introduction of a new enterprise resource planning system.

Taking into account these factors, operating profit considerably advanced ¥3,725 million, or 30.4%, year-on-year to ¥15,972 million.

### Other Income and Expenses and Net Income

Other income increased 3.6% to ¥3,359 million, whereas other expenses decreased 5.9% to ¥3,090 million. Principal contributors to other income were ¥965 million in interest and dividends (up 26.1%) and ¥519 million in received penalties for contracts cancellation (up 77.1%). A principal contributor to other expenses was a loss on devaluation of intangible assets, which was posted for the previous fiscal year but not recorded for the year under review.

Income before income taxes increased ¥4,037 million, or 33.1%,

to ¥16,241 million. Income taxes current totaled ¥7,823 million. Net income after deducting income taxes and minority interests in consolidated subsidiaries increased ¥2,007 million, or 36.2%, to ¥7,558 million.

## Financial Position

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### Assets

Total assets at the end of the year under review increased ¥2,389 million, or 0.8%, to ¥285,219 million. Current assets increased ¥5,428 million, or 3.7%, to ¥153,237 million; property, plant and equipment increased ¥192 million, or 0.3%, to ¥59,701 million; and investments and other assets decreased ¥3,231 million, or 4.3%, to ¥72,281 million.

A primary element of the increase in current assets was an rise of ¥14,555 million in cash and deposits. Advance payment were mostly for Transportation Security Services, and a decrease of ¥10,094 million in cash advances paid resulted from the fact that March 31, 2007, was a Saturday, thereby making it impossible for ALSOK to transfer the cash collected from the places of collection to the designated bank accounts of our clients.

Moreover, we have cash and deposits of ¥290,183 million categorized as funds in custody deposited from contracted clients in association with Transportation Security Services, in addition to cash and deposits stated on the consolidated balance sheets.

Major contributors to the increase in property, plant and equipment were a ¥1,590 million increase in machinery, equipment and delivery equipment; an ¥834 million increase in buildings and structures; and a ¥785 million increase in land.

A major contributor to the decline in investments and other assets was a ¥1,781 million decrease in investments in securities.

### Liabilities

Total liabilities at the end of the year under review decreased ¥3,589 million, or 2.6%, to ¥133,402 million. Current liabilities increased ¥1,377 million, whereas long-term liabilities decreased ¥4,966 million.

The primary elements of the increase in current liabilities were a ¥2,208 million increase in accounts payable and a ¥2,534 million increase in the current portion of long-term debt.

A primary element of the decrease in long-term liabilities was a ¥4,621 million decrease in long-term debt.

### Equity

Total net assets at the end of the year under review increased ¥5,977 million, or 4.1%, to ¥151,817 million. Major factors of this increase in net assets were a ¥5,615 million rise in retained earnings, ¥7,558 million in net income after deducting interim dividends paid of ¥862 million and ¥859 million in year-end dividends.

### Cash Flow

Cash and cash equivalents at the end of the year increased from ¥50,222 million as of March 31, 2006, to ¥52,591 million. The rise of ¥2,369 million over the previous year resulted from consolidated cash inflow of ¥16,571 million from operating activities, the use of ¥8,814 million in investing activities and the use of ¥5,388 million in financing activities.

#### Cash flows from operating activities

Net cash provided by operating activities was ¥16,571 million. The major factors of this rise were ¥16,241 million in income before income taxes (up 33.1%), ¥10,222 million in internal reserves due to depreciation (down 6.3%), a ¥2,606 million decrease in the bonus reserve (up 344.0%), a ¥1,864 million decrease in accounts receivable (up 78.4%), a ¥2,087 million decrease in cash due to increased cash advances paid for Transportation Security Services (against a ¥7,490 million increase in cash due to decreased cash advances paid for the previous fiscal year) and ¥5,526 million in income taxes paid (up 52.6%).

#### Cash flows from investing activities

Net cash used in investing activities was ¥8,814 million. The major factors were ¥10,585 million in payments for purchases of tangible fixed assets (down 7.8%), payments for purchases of investments in securities (down 29.0%), ¥3,767 million in proceeds from sales and redemption of investments in securities (up 23.0%) and a ¥1,199 million increase in cash due to a decrease in the insurance reserve.

## Cash flows from financing activities

Net cash used in financing activities was ¥5,388 million. The major factors were a ¥2,416 million decline due to a decrease in short-term borrowings (down 16.1%) and ¥2,950 million in proceeds from long-term debt (up 71.9%). Repayment of long-term debt represented a ¥5,036 million use of cash (down 5.9%), and dividends paid represented a ¥1,723 million use of cash (down 32.8%).

## Dividend

The Group's considers ensuring good returns to shareholders an important management policy and intends to maintain an appropriate payout ratio with due consideration to earnings while ensuring sufficient funds for future business development. As business performance was successful for the year ended March 31, 2007, we intend to increase the annual dividend per share to ¥20, an increase of ¥3 per share over the previous fiscal year.

## Capital Expenditures and Depreciation

Capital expenditures for the year totaled ¥11,677 million, a decline of ¥2,469 million, or 17.5%, from the previous year. The investment was primarily appropriated to the Security Services segment.

Spending on Electronic Security Services totaled ¥8,310 million. The main expenditure items were ¥6,696 million for the installation of security equipments (including ¥676 million for construction in progress) and ¥1,613 million for the acquisition of an enterprise resource planning system and the installation of furniture and fixtures.

Spending on Stationed Security Services totaled ¥472 million for new building construction and refurbishments as well as for the installation of furniture and fixtures.

Spending on Transportation Security Services totaled ¥2,752 million, consisting of ¥1,927 million for new building construction and refurbishments and ¥824 million for the installation of furniture and fixtures and the acquisition of an enterprise resource planning system.

Depreciation decreased ¥685 million, or 6.3%, to ¥10,222 million.

## Risk Information

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Of the matters related to the ALSOK Group's business and accounting circumstances, the following items could potentially have a significant effect on the judgment of investors.

Future-related descriptions in the content below were deemed appropriate by the Group as of the end of the fiscal year under review.

### (1) Dependency on sales from a specific business sector

Sales from the financial institutions sector accounted for 30.4% of the Group's total net sales in the year ended March 31, 2007. Consequently, trends in the economic environment surrounding financial institutions could have a considerable effect on the Group's operating performance due to possible cancellations of existing security service contracts via the execution of scrap-and-build plans for stores.

### (2) Electronic Security business

Of the Group's total net sales, 51.8% are dependent on the Electronic Security business. The smooth operation of the Electronic Security business is based on the premise of continued capital investment for structuring and maintaining operational infrastructures such as the preparation of Guard Centers and depots, special-purpose vehicles for Electronic Security Services and communications systems, as well as personnel expenses for Guard Center staff and security staff. Should the Group fail to enter into certain scales of Electronic Security contracts due to any of a wide range of factors in association with the Group's Electronic Security business, the Group's operating performance could be affected.

### (3) Cash used for Transportation Security Services

The Group applies its own funds or funds financed through overdrafts to cash to be stored in the CD machines installed by the subsidiaries of financial institutions in their business partners' stores and offices and cash used to deposit advance money for sales proceeds via Cash Deposit Machine On-line System contracts.

Although ALSOK receives fees for advancing these funds from the contracted clients to compensate for the burden of interest for financing the cash required for the Transportation Security Services, the burden of interest could have a considerable effect on the Group's operating performance in case of a rapid rise in interest rates.

### (4) Dependency on a specified equipment supplier

The Group mostly depends on NEC Corporation for the development and provision of the center equipment that has been and is to be installed inside the Guard Centers. As for transactions involving the center equipment, the Group enters into a master agreement for commodity purchases to provide for anticipated quantities of items and additionally holds certain levels of spare items for maintenance to allow for emergencies. Should any difficulty occur in the provision of such center equipment due to a natural disaster or for whatever reason, the normal operation of the Guard Centers could be affected.

### (5) Adaptation to changes in the technological environment

The development of security-related equipment and the adoption of new IT technology are indispensable in the provision of the Group's security services to "cope with increasingly complicated and heinous crimes," "avoid the obsolescence of existing facilities due to the sophistication of information communication infrastructures" and "master the progress of widely extended IT-technology-applied operations."

The ALSOK Group continues to make efforts in the development of security-related equipment and advanced IT technologies principally at the R&D department of the Group. However, should our adaptation to technological progress falls behind the changes in the technological environment of our society, the Group's operating performance could be affected.

### (6) Management of client information

Recognizing the importance of information management, the Group endeavors to upgrade and strengthen information management by the execution of appropriate internal audits and the confirmation of safety management in writing. In concluding a security service contract with a client, the Group obtains a wealth of information about the client including the names, addresses and phone numbers of related parties, as well as diverse information about the client premises that are subject to the security services, and utilizes that essential information for the execution of security services and client management. In preparation for an emergency, ALSOK has enrolled in an insurance policy for personal information leakage, an umbrella policy covering all the group companies. However, should any important trouble occur with regard to the management of

client information, including any accidents as force majeure cases, the resulting claims for damages and the decline in reliability of the Group could affect the operating performance and future business development of the Group.

#### (7) Ensuring human resources

In recent years, Japanese society has been rapidly aging with an elongated average life expectancy together with a sharp drop in the birthrate. Although we would anticipate that these tendencies will cause a rise in the need for our security services, it could become more difficult to recruit younger workers in this labor-intensive industry. Should personnel expenses such as wages be increased with the aim of securing good human resources, the Group's operating performance could be affected.

#### (8) Legal restrictions

The Group endures a variety of statutory restrictions including the major ones stated in the table below in the provision of various security and other business services.

Should any of these statutory restrictions be amended or abolished or any new legal provisions additionally established, the Group's operating performance could be affected.

Major operation	Relevant laws	Competent authorities, etc.
Electronic Security Services, Stationed Security Services and Transportation Security Services	Security Business Law	National Public Safety Commission and Prefectural Public Safety Commission(s)
Electronic Security Services	Construction Industry Law, Enforcement Ordinance of the Security Business Law and Enforcement Regulations of the Security Business Law	Ministry of Land, Infrastructure and Transport
	Electrical Appliance and Material Safety Law	Ministry of Economy, Trade and Industry
Stationed Security Services	Ordinance of Boiler and Pressure Vessels	Competent Labor Standards Supervision Office(s) of the Prefectural Labor Standards Bureau(s)
Transportation Security Services	Truck Transport Business Law, Freight Forwarding Business Law, Road Trucking Vehicle Law and Warehousing Business Law	Ministry of Land, Infrastructure and Transport
Other businesses (Total Building Management, Disaster Prevention Services and other operations)	Fire Defense Law; Fire Prevention Ordinance, etc.; and Law for Maintenance of Sanitation in Buildings	Each firefighting headquarters; Ministry of Internal Affairs and Communications; Each municipality; Ministry of Health, Labor and Welfare; and Prefectures
	Pharmaceutical Affairs Law	Ministry of Health, Labor and Welfare

### (9) Natural disasters and other problems

The Group monitors varied information relating to security services in a concentrated manner through a regionally segmented supervision network. One of the major network components is the telecommunications lines that connect the clients' premises to be guarded, the Guard Centers, the depots and so forth. The operation of the telecommunications lines depends on the communications services provided by the contracted type-I carrier. Accordingly, should any serious failure take place in the telecommunications lines due to a natural disaster or an accident, the operation of the Guard Centers such as those security services using a remote-monitoring telecommunications system could have functional difficulties.

Several anti-seismic measures have been adopted and/or backup functionality by the support center has been established for diverse systems including the Guard Centers on the assumption that such a natural disaster might happen in an area where a Guard Center is established or various types of system malfunctions might happen. Nevertheless, in the case where a natural disaster of unprecedented scale occurs, normal signal transmission/reception from/to the contracted clients would become unavailable, causing serious difficulties such as the suspension of our security services.

In such cases, the resulting claims for damages and the decline in reliability of the Group could affect the operating performance and future business development of the Group and concurrently it could

become necessary to pay huge expenses to recover the damaged Guard Center and other facilities.

### (10) Effects of the revisions to the Moneylending Control Law on the consumer credit issue

In line with the implementation of a clear upper limit on interest rates in the consumer credit market, consumer credit companies have strengthened restructuring measures such as a reduction in the number of offices. As a consequence, the Group's net sales for the year ending March 31, 2008, are expected to decrease approximately 0.5% compared with the previous fiscal year.

### (11) Stock acquisition rights (stock options)

ALSOK introduced a stock option system to grant an incentive to directors, executive officers and certain employees to increase their willingness to contribute to ALSOK and raise morale.

As of March 31, 2007, the number of shares subject to the stock acquisition rights was 708 thousand, which corresponded to 0.7% of the total number of shares issued of 101,889 thousand. Should these stock acquisition rights be exercised in mass within a shorter period, the value of shares held by shareholders could be diluted.

The unexercised stock options as of the end of the fiscal year were as indicated below.

### Stock options granted (as of March 31, 2007)

Date of resolution at a general meeting of shareholders	Qualified grantees	Type of shares subject to the stock acquisition rights	Number of shares subject to the stock acquisition rights	Exercise value per share	Total amount to be subscribed upon exercise of the rights	Exercise period
August 22, 2000	Directors and certain employees	Common stock	179 thousand	¥1,385	¥248 million	September 1, 2002, through August 21, 2007
June 28, 2001	Directors and certain employees	Common stock	187 thousand	¥1,382	¥259 million	July 1, 2003, through June 30, 2008
June 27, 2002	Executive officers and certain employees	Common stock	87 thousand	¥1,414	¥123 million	July 1, 2004, through June 30, 2009
June 27, 2003	Directors and certain employees	Common stock	253 thousand	¥1,338	¥339 million	July 1, 2005, through June 30, 2010
Total	—	—	708 thousand	—	¥971 million	—

	In millions of yen		In thousands of US dollars (Note 3)
	As of 31st March		As of 31st March
	2006	2007	2007
<b>(Assets)</b>			
<b>Current assets:</b>			
Cash and deposits (Notes 6 & 8)	¥ 58,664	¥ 61,029	\$ 516,978
Cash for transportation security services (Note 5)	27,193	39,383	333,610
Notes and accounts receivable (Note 15)	19,016	20,880	176,873
Short-term investments in securities (Notes 6 & 18)	410	707	5,986
Inventories	4,459	4,092	34,668
Advance payment	29,778	19,684	166,744
Deferred tax assets (Note 21)	4,092	2,433	20,615
Other	4,379	5,201	44,057
Allowance for doubtful accounts	(182)	(172)	(1,458)
Total current assets	147,809	153,237	1,298,073
<b>Property, plant and equipment:</b>			
Land (Notes 8, 16 & 19)	17,098	17,883	151,490
Buildings and structures (Notes 8, 17 & 19)	33,276	34,110	288,944
Machinery, equipment and delivery equipment	99,997	101,587	860,538
Construction in progress	1,598	2,320	19,649
Other	13,386	13,744	116,427
Total	165,355	169,644	1,437,048
Accumulated depreciation	(105,846)	(109,943)	(931,323)
Net property, plant and equipment	59,509	59,701	505,725
<b>Investments and other assets:</b>			
Intangible assets	6,452	6,122	51,857
Investments in securities (Notes 8, 12 & 18)	36,400	34,619	293,256
Deferred tax assets (Note 21)	16,384	15,828	134,077
Other assets	18,507	17,927	151,863
Allowance for doubtful accounts	(2,231)	(2,215)	(18,763)
Net investments and other assets	75,512	72,281	612,290
Total	¥ 282,830	¥ 285,219	\$ 2,416,088



	In millions of yen		In thousands of US dollars (Note 3)
	As of 31st March		As of 31st March
	2006	2007	2007
<b>(Liabilities and net assets)</b>			
<b>Current liabilities:</b>			
Notes and accounts payable, trade	¥ 8,693	¥ 9,401	\$ 79,640
Short-term borrowings (Notes 5, 7 & 8)	39,089	36,673	310,658
Current portion of long-term debt (Notes 7 & 8)	4,762	7,296	61,805
Accounts payable	10,976	13,184	111,678
Accrued income taxes	2,130	2,629	22,268
Allowance for bonuses	4,688	1,858	16,074
Allowance for directors' bonus	—	224	1,563
Other	9,576	10,026	84,930
Total current liabilities	79,914	81,291	688,616
<b>Long-term liabilities:</b>			
Long-term debt (Notes 7 & 8)	21,694	17,073	144,629
Accrued retirement benefits for employees (Note 9)	29,903	29,157	246,990
Accrued retirement benefits for directors and corporate auditors	1,653	1,545	13,088
Deferred tax liabilities (Note 21)	63	458	3,876
Other	3,764	3,878	32,853
Total long-term liabilities	57,077	52,111	441,436
Minority interests in consolidated subsidiaries:	16,646	—	—
<b>Net assets (Note 10)</b>			
<b>Common stock-</b>			
authorised: 300,000,000 shares in 2006 and 2007	17,831	18,536	157,022
issued: 101,209,642 shares in 2006 and 101,889,342 shares in 2007			
<b>Capital surplus</b>	31,811	32,048	271,476
<b>Retained earnings</b>	79,643	85,258	722,221
<b>Land revaluation account (Note 16)</b>	(4,977)	(5,395)	(45,705)
<b>Other securities valuation difference</b>	4,912	4,336	36,726
<b>Treasury stock: 16,702 shares in 2006 and 3,958 shares in 2007</b>	(27)	(7)	(55)
Total	129,193	134,776	1,141,685
Minority interests in consolidated subsidiaries:	—	17,041	144,351
Total shareholders' equity	129,193	151,817	1,286,036
Total	¥ 282,830	¥ 285,219	\$ 2,416,088

## Consolidated Statements of Operations

	In millions of yen			In thousands of US dollars (Note 3)
	Year ended 31st March			Year ended 31st March
	2005	2006	2007	2007
<b>Net sales (Note 22)</b>	¥257,790	¥267,545	<b>¥276,560</b>	<b>\$2,342,738</b>
<b>Cost of sales</b>	192,406	199,144	<b>203,081</b>	<b>1,720,295</b>
Gross profit on sales	65,384	68,401	<b>73,479</b>	<b>622,443</b>
<b>Selling, general and administrative expenses (Notes 13 &amp; 23)</b>	54,421	56,155	<b>57,507</b>	<b>487,143</b>
Operating profit	10,963	12,246	<b>15,972</b>	<b>135,300</b>
<b>Other income:</b>				
Interest and dividends	629	765	<b>965</b>	<b>8,174</b>
Equity in earnings of affiliates	295	259	<b>256</b>	<b>2,172</b>
Profit on sales of investments in securities, net	720	414	<b>118</b>	<b>999</b>
Received penalties for contracts cancellation	241	293	<b>519</b>	<b>4,394</b>
Other	1,353	1,511	<b>1,501</b>	<b>12,718</b>
	3,238	3,242	<b>3,359</b>	<b>28,457</b>
<b>Other expenses:</b>				
Interest	733	1,035	<b>957</b>	<b>8,109</b>
Loss on disposals of property, plant and equipment	462	590	<b>498</b>	<b>4,216</b>
Loss on devaluations of investments in securities (Note 18)	97	34	<b>123</b>	<b>1,041</b>
Loss on disposals and devaluations of intangible assets	—	475	—	—
Loss on disposal of inventories	—	196	<b>410</b>	<b>3,475</b>
Special retirement expense	221	106	—	—
Provision for doubtful accounts	—	60	—	—
Impairment losses	—	264	<b>84</b>	<b>708</b>
Other	713	524	<b>1,018</b>	<b>8,630</b>
	2,226	3,284	<b>3,090</b>	<b>26,179</b>
<b>Income before income taxes</b>	11,975	12,204	<b>16,241</b>	<b>137,578</b>
<b>Income taxes (Note 21)</b>				
Current	3,130	4,292	<b>5,107</b>	<b>43,258</b>
Deferred	2,649	1,276	<b>2,716</b>	<b>23,009</b>
	5,779	5,568	<b>7,823</b>	<b>66,267</b>
<b>Income before minority interests</b>	6,196	6,636	<b>8,418</b>	<b>71,311</b>
<b>Minority interests in income of consolidated subsidiaries</b>	1,244	1,086	<b>860</b>	<b>7,284</b>
Net income	¥ 4,952	¥ 5,550	<b>¥ 7,558</b>	<b>\$ 64,027</b>

## Consolidated Statements of Changes in Shareholders' Equity

In millions of yen

	Shareholders' equity						Valuation and translation adjustments			Minority interests in consolidated subsidiaries	Total
	Number of shares issued	Common stock	Capital surplus	Retained earnings	Treasury stock	total	Land revaluation account	Other securities valuation difference	total		
<b>Balance on March 31st, 2004</b>	100,404,142	¥ 16,966	¥ 31,756	¥ 74,182	¥ (25)	¥ 122,879	¥ (5,586)	¥ 2,240	¥ (3,346)	¥ —	¥ 119,533
Issuance of new shares	162,600	186	39	—	—	225	—	—	—	—	225
Transfer to retained earnings from capital surplus	—	—	(194)	194	—	—	—	—	—	—	—
Cash dividends	—	—	—	(1,707)	—	(1,707)	—	—	—	—	(1,707)
Bonuses to directors	—	—	—	(177)	—	(177)	—	—	—	—	(177)
Net income	—	—	—	4,952	—	4,952	—	—	—	—	4,952
Treasury stock acquired, net	—	—	—	—	(1)	(1)	—	—	—	—	(1)
Change amount excluding shareholders' equity	—	—	—	—	—	—	—	344	344	—	344
Total changes	162,600	186	(155)	3,262	(1)	3,292	—	344	344	—	3,636
<b>Balance on March 31st, 2005</b>	100,566,742	¥ 17,152	¥ 31,601	¥ 77,444	¥ (26)	¥ 126,171	¥ (5,586)	¥ 2,584	¥ (3,002)	¥ —	¥ 123,169
Issuance of new shares	642,900	679	210	—	—	889	—	—	—	—	889
Cash dividends	—	—	—	(2,564)	—	(2,564)	—	—	—	—	(2,564)
Bonuses to directors	—	—	—	(178)	—	(178)	—	—	—	—	(178)
Net income	—	—	—	5,550	—	5,550	—	—	—	—	5,550
Treasury stock acquired, net	—	—	—	—	(1)	(1)	—	—	—	—	(1)
Reversal of land revaluation account	—	—	—	(609)	—	(609)	—	—	—	—	(609)
Change amount excluding shareholders' equity	—	—	—	—	—	—	609	2,328	2,937	—	2,937
Total changes	642,900	679	210	2,199	(1)	3,087	609	2,328	2,937	—	6,024
<b>Balance on March 31st, 2006</b>	101,209,642	¥ 17,831	¥ 31,811	¥ 79,643	¥ (27)	¥ 129,258	¥ (4,977)	¥ 4,912	¥ (65)	¥ —	¥ 129,193
Issuance of new shares	679,700	705	233	—	—	938	—	—	—	—	938
Cash dividends	—	—	—	(1,723)	—	(1,723)	—	—	—	—	(1,723)
Bonuses to directors	—	—	—	(220)	—	(220)	—	—	—	—	(220)
Net income	—	—	—	7,558	—	7,558	—	—	—	—	7,558
Treasury stock acquired, net	—	—	4	—	20	24	—	—	—	—	24
Adoption of new accounting standards for preparation of net assets in the balance sheet (Note 1(5))	—	—	—	—	—	—	—	—	—	16,646	16,646
Change amount excluding shareholders' equity	—	—	—	—	—	—	(418)	(576)	(994)	395	(599)
Total changes	679,700	705	237	5,615	20	6,577	(418)	(576)	(994)	17,041	22,624
<b>Balance on March 31st, 2007</b>	101,889,342	¥ 18,536	¥ 32,048	¥ 85,258	¥ (7)	¥ 135,835	¥ (5,395)	¥ 4,336	¥ (1,059)	¥ 17,041	¥ 151,817

In thousands of US dollars (Note 3)

	Shareholders' equity						Valuation and translation adjustments			Minority interests in consolidated subsidiaries	Total
	Number of shares issued	Common stock	Capital surplus	Retained earnings	Treasury stock	total	Land revaluation account	Other securities valuation difference	total		
<b>Balance on March 31st, 2006</b>	101,209,642	\$151,043	\$269,475	\$674,654	\$(229)	\$1,094,943	\$(42,156)	\$41,606	\$ (550)	\$ —	\$1,094,393
Issuance of new shares	679,700	5,979	2,001	—	—	7,980	—	—	—	—	7,980
Cash dividends	—	—	—	(14,592)	—	(14,592)	—	—	—	—	(14,592)
Bonuses to directors	—	—	—	(1,868)	—	(1,868)	—	—	—	—	(1,868)
Net income	—	—	—	64,027	—	64,027	—	—	—	—	64,027
Treasury stock acquired, net	—	—	—	—	174	174	—	—	—	—	174
Adoption of new accounting standards for preparation of net assets in the balance sheet (Note 1(5))	—	—	—	—	—	—	—	—	—	141,704	141,704
Change amount excluding shareholders' equity	—	—	—	—	—	—	(3,549)	(4,880)	(8,429)	2,647	(5,782)
Total changes	679,700	5,979	2,001	47,567	174	55,721	(3,549)	(4,880)	(8,429)	144,351	191,643
<b>Balance on March 31st, 2007</b>	101,889,342	\$157,022	\$271,476	\$722,221	\$(55)	\$1,150,664	\$(45,705)	\$36,726	\$(8,979)	\$144,351	\$1,286,036

## Consolidated Statements of Cash Flows

	In millions of yen			In thousands of US dollars (Note 3)
	Year ended 31st March			Year ended 31st March
	2005	2006	2007	2007
<b>Cash flows from operating activities</b>				
Income before income taxes	¥ 11,975	¥ 12,204	¥ 16,241	\$ 137,578
Depreciation	10,817	10,908	10,222	86,592
Impairment losses	—	264	84	708
Amortization of goodwill	569	486	109	925
Increase (decrease) in allowance for doubtful accounts	(7)	19	(26)	(221)
Decrease in accrued retirement benefit for employees	(14,811)	(599)	(746)	(6,320)
Decrease in allowance for bonuses	(118)	(587)	(2,606)	(22,077)
Interest income and dividend income	(629)	(765)	(965)	(8,174)
Interest expenses	733	1,035	957	8,109
Equity in earnings of affiliates	(295)	(259)	(257)	(2,172)
Loss on sales and disposals of property, plant and equipment, net	432	636	501	4,241
Profit on sales of investments in securities, net	(720)	(414)	(117)	(956)
Loss on devaluations of investments in securities	97	34	122	998
Increase in accounts receivable	(1,526)	(1,045)	(1,864)	(15,792)
(Increase)/decrease in inventories	(687)	55	366	3,101
Increase/(decrease) in accounts payable	226	(186)	2,381	20,174
(Increase)/decrease in prepaid pension	(1,380)	519	(1,127)	(9,550)
Other	(4,880)	8,540	(1,822)	(15,433)
Sub-total	(204)	30,845	21,453	181,731
Interest and dividend income, received	633	791	1,028	8,706
Interest expenses, paid	(716)	(1,024)	(970)	(8,218)
Income taxes, paid	(7,533)	(3,622)	(5,526)	(46,815)
Income taxes, paid, received	—	2,117	586	4,966
Net cash provided by operating activities	(7,820)	29,107	16,571	140,371
<b>Cash flows from investment activities</b>				
(Increase)/decrease of time deposits, net	2,530	(1,523)	(298)	(2,528)
Payments for purchases of property, plant and equipment	(13,441)	(11,485)	(10,585)	(89,669)
Proceeds from sales of property, plant and equipment	113	70	5	43
Payments for purchases of investments in securities	(2,644)	(4,430)	(3,146)	(26,650)
Proceeds from sales and redemption of investments in securities	1,632	3,062	3,767	31,911
Payments purchases of investments in consolidated subsidiaries	(258)	—	—	—
Decrease/(Increase) in short-term loans, net	(1)	14	4	34
Long-term loans made	(121)	(114)	(178)	(1,505)
Long-term loans collected	171	170	178	1,511
Other	(3,143)	(662)	1,439	(12,192)
Net cash used in investment activities	(15,162)	(14,898)	(8,814)	(74,661)
<b>Cash flows from financing activities</b>				
Decrease in short-term borrowings, net	15,773	(2,879)	(2,416)	(20,462)
Proceeds from long-term debt	13,446	1,716	2,950	24,989
Payments on repayment of long-term debt	(6,062)	(5,349)	(5,036)	(42,665)
Proceeds from issue of new shares	225	877	929	7,868
Payments for acquisition of treasury stock	(1)	(1)	(2)	(14)
Proceeds from sales of treasury stock	—	—	64	542
Dividends paid	(1,706)	(2,564)	(1,723)	(14,592)
Dividends paid to minority shareholders	(143)	(151)	(154)	(1,304)
Net cash used in financing activities	21,532	(8,351)	(5,388)	(45,638)
<b>Net increase /(decrease) in cash and cash equivalents</b>	(1,450)	5,858	2,369	20,072
<b>Cash and cash equivalents at beginning of year</b>	45,814	44,364	50,222	425,429
<b>Balance of cash and cash equivalents at end of year (Note 6)</b>	¥ 44,364	¥ 50,222	¥ 52,591	\$ 445,501

## 1. Nature of Operations

Sohgo Security Services Co., Ltd. (ALSOK) was incorporated in Tokyo, Japan in 1965. The Company and its consolidated subsidiaries (hereinafter collectively referred to as ALSOK group) are primarily engaged in security services in Japan, comprising electronic security services, stationed security services, transportation security services, and other services such as total building management, fire-prevention. The electronic security services are ALSOK group principal business activities, providing on-line centralised security services for commercial and residential premises. ALSOK group also develops, and sells security equipment.

## 2. Basis of presentation

ALSOK group 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 March 31st, 2007 of ¥ 118.05= 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 group 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 42, 43, and 43 subsidiaries for the year ended 31st March, 2005, 2006, and 2007, 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.

Eight affiliates were accounted for under the equity method for the year ended 31st March, 2006 and 2007, 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) Unconsolidated subsidiaries not accounted for under the equity method:

Ehime Sokei Services Co., Ltd.

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

Niigata Sohgo Security Services Co., Ltd.  
Hokuriku Sohgo Security Services Co., Ltd.

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

Kitakanto Transportation Security Services Co., Ltd.

Chukyo Sohgo Kanzai Co., Ltd.

Ehime Sokei Services Co., Ltd.

(\*1) 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 year ended 31st March 2006.

The fiscal 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 group 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 April 1st, 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	3 to 5 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 group 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 fiscal 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, gross profit on sales is increased by ¥900 million, and operating profit and income before income taxes are increased by ¥1,336 million, compared with the present payment terms. For the year ended 31st March 2007, allowance for bonuses of the Company is not provided.

#### **(l) Allowance for directors' bonus**

Allowance for directors' bonus is provided for the current portion of the future expected payment, in order to prepare for the payment of bonuses to directors and corporate auditors.

Effective from the year ended 31st March 2007, ALSOK group adopted the new standard for "Accounting Standard for Directors' Bonus (Accounting Standard Board of Japan Statement No.4 issued on 19th November 2005).

As a result of adopting the new standard, for the year ended 31st March 2007, operating profit and income before income taxes was decreased by ¥282 million.

#### **(m) 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 (5 years) less than the remaining average service period.

Unrecognised actuarial gains or losses are amortised using the straight-line method over a certain period (10 years) less than 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 March 16th 2005. This change had no effect on operating profit 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, which should have been treated as unrecognized plan assets under the former accounting standard, which is to be amortized over 10 years from the current fiscal year.

#### **(n) 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 group 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, which was transferred from allowance account to others account in long-term liabilities.

#### **(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 group 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 group 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 group services is withheld by ALSOK group 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 group 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) Impairment of fixed assets**

For the year ended 31st March 2006, ALSOK group 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 9th, 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 31st, 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. The amount of accumulated impairment losses were directly deducted from book value of each asset in accordance with the standard.

#### **(s) Presentation of net assets in the balance sheet**

Effective from the year ended 31st March 2007 the Company adopted “Accounting Standard for Presentation of Net Assets in the Balance Sheet” (Accounting Standards Board of Japan Statement No.5 issued on December 9th, 2005) and “Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet” (Accounting Standards Board of Japan Guidance No.8 issued on December 9th, 2005). As a result of adopting these accounting standards, minority interests are included in net assets on March 31st, 2007. Under the previous presentation rules, minority interests were presented as a separate component in the consolidated balance sheets. The adoption of these accounting standards had no impact on the consolidated statement of income for the year ended 31st March 2007. For the year ended 31st March 2007 the amount of shareholders’ equity would have been ¥134,776 million, if the previous year’s presentation was applied.

### 5. Cash for transportation security services

Cash for transportation security services on the consolidated balance sheets are restricted as to use by ALSOK group. Short-term borrowings from banks include ¥34,093 million and ¥31,815 million as of 31st March, 2006 and 2007 respectively, relating to this operation.

In addition to cash and deposits presented on the consolidated balance sheet, ALSOK group has off-balance cash of ¥270,766 million and ¥290,183million as of 31st March, 2006 and 2007 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 of 31st March	As of 31st March	As of 31st March
	2006	2007	2007
Cash and deposit accounts per balance sheets	¥58,664	¥61,029	\$516,978
Deposits to mature in excess of three months	(8,846)	(9,145)	(77,463)
Short-term investments (securities) to be redeemed within three months of acquisition date	404	707	5,986
Cash and cash equivalents per statements of cash flows	¥50,222	¥52,591	\$445,501

## 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 1.4% and 1.7% as of 31st March, 2006 and 2007 respectively.

The long-term debt as of 31st March, 2006 and 2007 is comprised of the following:

	In millions of yen		In thousands of US dollars
	As of 31st March	As of 31st March	As of 31st March
	2006	2007	2007
Loans, principally from banks, due 2006 to 2015 with interest rates ranging from 0.77% to 2.85% for 2006 balance, due 2007 to 2015 with interest rates ranging from 0.95% to 3.08% for 2007 balance			
Secured	¥ 2,756	¥ 3,090	\$ 26,174
Unsecured	11,700	9,780	82,844
Unsecured 1.03% bonds No.9 due 2012 March	5,500	5,500	46,590
Unsecured 1.03% bonds No.10 due 2012 March	3,000	3,000	25,413
Unsecured 1.03% bonds No.11 due 2012 March	2,000	2,000	16,942
Unsecured 1.03% bonds No.12 due 2012 March	500	500	4,236
Unsecured 0.49% bonds No.1 due 2006 May (*1)	300	—	—
Unsecured 0.50% bonds No.2 due 2006 May (*1)	200	—	—
Unsecured 1.53% bonds No.1 due 2008 July (*2)	500	500	4,236
	26,456	24,370	206,435
Less – current portion due within one year	4,762	7,296	61,805
	¥21,694	¥17,074	\$144,630

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

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

The aggregate annual maturities of long-term debt (including the current portion) outstanding as of 31st March 2007 are summarised as follows:

	In millions of yen	In thousands of US dollars
	As of 31st March	As of 31st March
	2007	2007
Year ending 31st March		
2008	¥ 7,296	\$ 61,805
2009	6,540	55,399
2010	4,407	37,334
2011	2,935	24,857
2012	2,749	23,289
Thereafter	443	3,751
	¥24,370	\$206,435

## 8. Assets pledged as collateral

The following assets were pledged as collateral on 31st March, 2006 and 2007.

	In millions of yen		In thousands of US dollars
	2006	2007	2007
Cash and deposits	¥ 10	¥ 10	\$ 85
Land	4,383	4,282	36,271
Buildings and structures	2,067	1,868	15,825
Construction in progress	801	1,546	13,098
Investments in securities	11	20	169
	¥7,272	¥7,726	\$65,448

The obligations collateralized by the above assets on 31st March, 2006 and 2007 are as follows:

	In millions of yen		In thousands of US dollars
	2006	2007	2007
Short-term borrowings	¥ 140	¥ 500	\$ 4,235
Current portion of long-term debt	623	694	5,875
Long-term debt	2,134	2,396	20,299
	¥2,897	¥3,590	\$30,410

## 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 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 April 1st, 2005.

On April 1st, 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 of 31st March, 2006 and 2007 for ALSOK group defined benefit plans:

	In millions of yen		In thousands of US dollars
	Year ended 31st March		Year ended 31st March
	2006	2007	2007
Retirement benefit obligation	¥(68,456)	¥(70,879)	\$(600,411)
Plan assets	50,365	54,256	459,598
Unfunded retirement benefit obligation	(18,091)	(16,623)	(140,813)
Unrecognised actuarial gain	(8,186)	(8,485)	(71,874)
Unrecognised prior service cost (decrease in obligation) (*1)	(2,765)	(2,061)	(17,458)
Net amount recognised in the balance sheet	(29,042)	(27,169)	(230,145)
Prepaid pension cost	861	1,988	16,845
Net retirement benefit liability	¥(29,903)	¥(29,157)	\$(246,990)

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

(\*2) As stated in Note 4(m), unrecognised actuarial gain as of 31st March 2006 includes an amount of ¥8,618 million, which should have been treated as unrecognised plan assets under the former accounting standard.

(\*3) 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
	2005	2006	2007	2007
Service cost	¥ 4,624	¥ 4,170	¥ 3,790	\$32,101
Interest cost	1,892	1,837	1,663	14,090
Expected return on plan assets	(581)	(1,076)	(1,255)	(10,629)
Recognised actuarial gain	1,223	989	(398)	3,367
Amortisation of prior service cost (*1)	(1,161)	(706)	(704)	(5,965)
Extra severance payment	222	109	76	643
Net periodic benefit cost	6,219	5,323	3,172	26,873
Total	¥ 6,219	¥ 5,323	¥ 3,172	\$26,873

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

(\*2) Service cost includes retirement benefit expenses for consolidated subsidiaries adopting a simplified method in conformity with the accounting standard for the employees' retirement benefits.

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

	2005	2006	2007
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. Net assets

Japanese Corporate Law ("the Law") became effective on May 1st, 2006, replacing the Japanese Commercial Code ("the Code"). Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus. Under the Law, in cases where dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in-capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets. Under the Code, companies were required to set aside an amount equal to at least 10% of cash dividend and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in-capital equaled 25% of common stock. Under the Code, legal earnings reserve and additional paid-in-capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting. Additional paid-in-capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, additional paid-in-capital and legal earnings reserve could have been transferred to retained earnings by the resolution of the shareholders' meeting as long as the total amount of legal earnings reserve and additional paid-in-capital remained equal to or exceeded 25% of common stock. Under the Law, all additional paid-in-capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends. The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Law. Under

the Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as: (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, and (5) the opinion of independent auditors is unqualified, the Board of Directors may declare dividends if the

company has prescribed so in its articles of incorporation. Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. Cash dividends charged to retained earnings during the fiscal year were year-end cash dividends for the preceding fiscal year and interim cash dividends for the current fiscal year.

## 11. Stock options

Stock options existing in the year ended March 31 2007 is as follows:

(1) Content of stock options

	2000	2001	2002	2003
Persons granted	26 directors and 23 employees	3 directors and 46 employees	4 corporate officers and 59 employees	1 director and 499 employees
Number of shares (*1)	common stock 1,911,000 shares	common stock 1,911,000 shares	common stock 2,457,000 shares	common stock 500,000 shares
Date of grant	January 31st, 2001	November 30th, 2001	August 28th, 2002	November 26th, 2003
Vesting conditions	-directors Increase of recurring profit in the year ended March 2001 and achievement of recurring profit target of all section in the year ended March 2002  -employees Increase of recurring profit of a branch in the year ended March 2001 and achievement of recurring profit target of a branch in the year ended March 2002	-directors Increase of recurring profit in the year ended March 2002 and achievement of recurring profit target of all section in the year ended March 2003  -employees Achievements of recurring profit target of a branch in the year ended March 2002 and March 2003	Achievements of income target of a branch in the year ended March 2003 and March 2004	-directors Achievements of recurring profit target of a branch in the year ended March 2004  -employees Achievements of ordinary income target of a branch in the year ended March 2004
Service period	January 31st, 2001 to August 30th, 2002	November 30th, 2001 to June 30th, 2003	August 28th, 2002 to June 30th, 2004	November 26th, 2003 to June 30th, 2005
Exercise period	September 1st, 2002 to August 21st, 2007	July 1st, 2003 to June 30th, 2008	July 1st, 2004 to June 30th, 2009	July 1st, 2005 to June 30th, 2010

(\*1) The number of stock options is convertible into an equal number of shares.

(2) Number, movement and price of stock options

Existed stock options at the year ended March 31, 2007 are covered, and the number of stock options is convertible into an equal number of shares

(a) Number of shares

	2000	2001	2002	2003
Before vesting options				
Balance on March 31, 2006	—	—	—	—
Granted	—	—	—	—
Forfeited	—	—	—	—
Vested	—	—	—	—
Balance on March 31, 2007	—	—	—	—
After vesting options				
Balance on March 31, 2006	530,100	407,900	137,400	348,400
Vested	—	—	—	—
Exercised	341,900	198,600	49,900	89,300
Forfeited	8,800	21,800	—	5,200
Balance on March 31, 2007	179,400	187,500	87,500	253,900

(b) Price per share

	(in yen)			
	2000	2001	2002	2003
Option price	1,385	1,382	1,414	1,338
Weighted-average stock price	2,211	2,163	2,116	2,166
Fair value at grant date	—	—	—	—

## 12. Investments in non-consolidated subsidiaries and affiliated companies

ALSOK group investments in non-consolidated subsidiaries and affiliated companies were ¥4,659 million and ¥4,846 million as of 31st March 2006 and 2007, respectively.

## 13. Assets and liabilities of the consolidated subsidiary changed from an affiliated company

The Company acquired Fukushima Sohgo Security Service Co., Ltd. ("Fukushima") on September 30th 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 Fukushima	1,800
Cash and cash equivalents owned by Fukushima	(1,542)
Net cash outflow for the acquisition of Fukushima	¥ 258

## 14. Selling, general and administrative expenses

Selling, general and administrative expenses comprise the following.

	In millions of yen			In thousands of US dollars
	2005	2006	2007	Year ended 31st March 2007
Advertising	¥ 2,003	¥ 2,859	¥ 2,966	\$ 25,127
Salaries and allowances	28,911	28,788	29,355	248,662
Retirement benefit expenses	1,591	1,530	963	8,161
Welfare and service	4,425	4,367	4,400	37,276
Depreciation	1,562	2,122	2,008	17,010
Rent	5,053	5,128	5,347	45,291
Taxes and duties	1,137	1,189	1,186	10,047
Communication	1,227	1,184	1,277	10,817
Research and development	542	406	537	4,545
Other	7,970	8,582	9,468	80,207
Total	¥54,421	¥56,155	¥57,507	\$487,143

## 15. Accounting for notes due on balance sheet date

Notes due on the balance sheet date are processed upon collection. Since the fiscal year-end was a bank holiday, notes receivable due on the balance sheet date of ¥70 million is included in notes receivable account on the consolidated balance sheet.

## 16. Land revaluation account

Based on the Law concerning Land Revaluation (Law No.34, promulgated on March 31st, 1998, and Law No.24, amended March 31st, 1999), ALSOK group revalued its land used for business purposes on March 31st, 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 March 31st, 1998), after making reasonable adjustments.

	In millions of yen	In thousands of US dollars
Before revaluation	¥9,691	\$82,093
After revaluation	4,715	39,937
Deferred tax liability related to land revaluation	(419)	(3,549)
Balance of land revaluation account	¥5,395	\$45,705

## 17. Leases

Net book value of land used for business purposes:

### 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 of 31st March, 2006 and 2007 which would have been reflected in the balance sheet if finance lease accounting had been applied to the finance lease transactions

	In millions of yen As of 31st March						In thousands of US dollars As of 31st March		
	2006			2007			2007		
	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	¥12,216	¥6,881	¥5,335	¥12,083	¥6,719	¥5,364	\$102,356	\$56,918	\$45,438
Other	340	176	164	385	214	171	3,258	1,815	1,443
Total	¥12,556	¥7,057	¥5,499	¥12,468	¥6,933	¥5,535	\$105,614	\$58,733	\$46,881

currently accounted for as operating leases.

2) Future minimum lease payments for finance lease transactions

	In millions of yen	In thousands of US dollars
	As of 31st March	As of 31st March
	2007	2007
Due within one year	¥2,231	\$18,897
Due after one year	3,621	30,677
Total	¥5,852	\$49,574

accounted for as operating leases are summarised as follows:

	In millions of yen	In thousands of US dollars
	As of 31st March	As of 31st March
	2006	2007
Lease payments	¥2,690	\$22,500
Depreciation equivalent	¥2,585	\$21,651
Interest expense equivalent	¥192	\$1,641

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

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 millions of yen		In thousands of US dollars	
	As of 31st March		As of 31st March	
	2007		2007	
Due within one year	¥	1,587	\$	13,449
Due after one year		9,560		80,981
<b>Total</b>		<b>¥11,147</b>		<b>\$94,430</b>

(\*) 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 of 31st March, 2006 and

	In millions of yen As of 31st March						In thousands of US dollars As of 31st March											
	2006			2007			2007											
	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	¥846	¥(826)	¥391	¥(389)	¥455	¥(437)	¥909	¥(909)	¥401	¥(401)	¥508	¥(508)	\$7,701	\$(7,701)	\$3,401	\$(3,401)	\$4,300	\$(4,300)

2007.

2) Future minimum unearned lease payments for finance lease

	In millions of yen		In thousands of US dollars	
	As of 31st March		As of 31st March	
	2007		2007	
Due within one year	¥168	¥(168)	\$1,420	\$(1,420)
Due after one year	362	(362)	3,066	(3,066)
<b>Total</b>	<b>¥530</b>	<b>¥(530)</b>	<b>\$4,486</b>	<b>\$(4,486)</b>

transactions accounted for as operating leases are summarised as follows:

3) Earned lease payments, equivalent for depreciation and equivalent

	In millions of yen		In thousands of US dollars			
	As of 31st March		As of 31st March			
	2006	2007	2007	2007		
Earned lease payments	¥187	¥(187)	¥212	¥(209)	\$1,800	\$(1,771)
Depreciation equivalent	¥157	¥(157)	¥182	¥(179)	\$1,541	\$(1,516)
Interest income equivalent	¥30	¥(30)	¥31	¥(31)	\$264	\$(259)

for interest income are as follows:

(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.

## 18. Securities

(1) Information regarding marketable other securities as of 31st March, 2006 and 2007 is as follows:

	In millions of yen As of 31st March					
	2006			2007		
	Acquisition cost	Carrying value	Unrealised gain (loss)	Acquisition cost	Carrying value	Unrealised gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
(1) Stocks	¥ 7,189	¥16,242	¥9,053	¥ 5,449	¥13,422	¥7,973
(2) Debt securities						
a. National and local government bond	342	342	0	148	150	2
b. Corporate bond	1,430	1,459	29	1,320	1,334	14
(3) Others	196	304	108	510	603	93
Sub-total	9,157	18,347	9,190	7,427	15,509	8,082
Securities whose acquisition cost exceeds their carrying value:						
(1) Stocks	620	524	(97)	2,290	2,012	(278)
(2) Debt securities						
a. National and local government bond	52	52	—	253	253	—
b. Corporate bond	3,937	3,723	(215)	4,016	3,799	(217)
(3) Others	646	622	(22)	788	760	(28)
Sub-total	5,255	4,921	(334)	7,347	6,824	(523)
Total	¥14,412	¥23,268	¥8,856	¥14,774	¥22,333	¥7,559

	In millions of yen As of 31st March		
	2007		
	Acquisition cost	Carrying value	Unrealised gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
(1) Stocks	\$ 46,159	\$113,697	\$67,538
(2) Debt securities			
a. National and local government bond	1,250	1,268	18
b. Corporate bond	11,181	11,301	120
(3) Others	4,324	5,112	788
Sub-total	62,914	131,378	68,464
Securities whose acquisition cost exceeds their carrying value:			
(1) Stocks	19,400	17,046	(2,354)
(2) Debt securities			
a. National and local government bond	2,139	2,139	—
b. Corporate bond	34,025	32,182	(1,843)
(3) Others	6,673	6,435	(238)
Sub-total	62,237	57,802	(4,435)
Total	\$125,151	\$189,180	\$64,030

(Note) Impairment losses of ¥33 million and ¥113 million derived from other marketable securities, were charged to income for each of the years ended 31st March, 2006 and 2007, respectively. No impairment loss was charged to income for the year ended 31st March, 2005.



(2) Proceeds from sales of securities amounted to ¥3,062 million and ¥669 million with an aggregate gross gain of ¥423 million and ¥154 million and aggregate gross losses of ¥9 million and ¥36 million for each of the three years ended 31st March, 2006 and 2007, respectively.

(3) Carrying value of major non-marketable securities classified as other securities as of 31st March, 2006 and 2007 is summarised as follows.

	In millions of yen		In thousands of US dollars
	As of 31st March		As of 31st March
	2006	2007	2007
Unlisted stocks	¥7,247	¥ 7,327	\$ 62,069
Unlisted corporate bonds	¥1,100	¥ 100	\$ 847
Other	¥ 537	¥ 719	\$ 6,092

(4) The redemption schedule for securities with maturity dates classified as other securities as of 31st March, 2006 and 2007 is summarised as follows.

	In million of yen As of 31st March								In thousands of US dollars As of 31st March			
	2006				2007				2007			
	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	¥ —	¥ 4	¥148	¥ —	¥ 2	¥ 2	¥150	¥ —	\$ 17	\$ 17	\$1,268	\$ —
b. Corporate bond	610	1,772	387	2,355	705	1,343	295	2,757	5,969	11,380	2,504	23,351
(2) Others	—	323	5	—	—	110	—	100	—	928	—	847
Total	¥610	¥2,099	¥540	¥2,355	¥707	¥1,455	¥445	¥2,857	\$5,986	\$12,325	\$3,772	\$24,198

## 19. Impairment Losses on Fixed Assets

For the year ended 31st March, 2006 and 2007, ALSOK group recorded impairment losses as follows:

Accounts	Status	In millions of yen		In thousands of US dollars
		Year ended 31st March		Year ended 31st March
		2006	2007	2007
Land and buildings	Dormitory	¥152	¥—	\$ —
Land and structures	Unused	112	84	708
Total		¥264	¥84	\$708

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 for land and ¥97 million for buildings and structures for the year ended 31st March 2006, and ¥84 million for land for the year

ended 31st March 2007. The estimated recoverable values of these assets were determined based on reasonable indices and/or appraisals, by deducting estimated disposal costs.

## 20. Derivative financial instruments

For the year ended 31st March, 2006 and 2007, ALSOK group 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.

## 21. Income taxes and deferred tax assets and liabilities

(1) Significant components of ALSOK group deferred tax assets and liabilities on March 31st, 2006 and 2007 are as follows:

	In millions of yen		In thousands of US dollars
	As of 31st March		As of 31st March
	2006	2007	2007
<b>Deferred tax assets:</b>			
Accrued enterprise tax	¥ 274	¥ 328	\$ 2,774
Allowance for bonuses	1,911	759	6,425
Allowance for doubtful accounts	919	914	7,742
Excess of maximum depreciation	1,601	1,400	11,861
Installation cost for signal equipment on subscribers' premises	4,299	5,280	44,730
Accrued retirement benefit for employees	12,001	11,702	99,123
Accrued retirement benefit for directors and corporate auditors	914	874	7,407
Valuation losses on investment in securities	131	191	1,620
Amount of loss carried forward	767	203	1,719
Land revaluation account	2,025	2,444	20,707
Others	1,662	658	5,575
Sub total	26,504	24,753	209,683
Valuation allowance	(2,506)	(3,412)	(28,902)
Total deferred tax assets	23,998	21,341	180,781
<b>Deferred tax liabilities:</b>			
Special depreciation reserve	(14)	(3)	(23)
Valuation differences in other securities	(3,571)	(2,979)	(25,238)
Dividend income by foreign stock	—	(136)	(1,154)
Land revaluation account	—	(419)	(3,549)
Total deferred tax liabilities	(3,585)	(3,537)	(29,964)
Net deferred tax assets	¥20,413	¥17,804	\$150,817

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

	In millions of yen		In thousands of US dollars
	As of 31st March		As of 31st March
	2006	2007	2007
Current asset	¥ 4,092	¥ 2,434	\$ 20,615
- Deferred tax assets			
Non-current asset	16,384	15,826	134,078
- Deferred tax assets			
Non-current liability	(63)	(39)	(327)
- Deferred tax liabilities			
Non-current liability	—	(419)	(3,549)
- Deferred tax liabilities related to land revaluation			
Net deferred tax assets	¥ 20,413	¥ 17,804	\$ 150,817

Valuation allowance

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

	Year ended 31st March		
	2005	2006	2007
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.	0.9	1.4	1.7
Items that may not be incorporated in profits permanently, including dividend income, etc.	(0.2)	(0.3)	(0.2)
Inhabitants equalisation tax	2.8	2.8	2.1
Amortisation of goodwill	1.9	1.6	0.3
Equity in earnings of affiliates	(1.0)	(0.9)	(0.6)
Valuation allowance	—	—	3.5
Others	3.2	0.3	0.7
Effective income tax rate	48.3%	45.6%	48.2%

## 22. Segmental information

### (1) Business segments

Business segment information disclosure has been omitted as the security business accounts for more than 90 percent of total sales, operating profits and total assets of all segments for each of the three years ended 31st March, 2007.

### (2) Geographical segments

Geographical segment information disclosure is not applicable to ALSOK group as there have been no consolidated subsidiary or material branch office which is located in a country or region other than Japan, as of 31st March, 2005, 2006 and 2007.

### (3) Net sales by region

Net sales by region information disclosure is not applicable to ALSOK group, as there have been no overseas sales for each of the three years ended 31st March, 2007.

## 23. 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 2007 were as follows:

	In millions of yen			In thousands of US dollars
	As of 31st March			As of 31st March
	2005	2006	2007	2007
Donation to foundations (included in selling, general and administrative expenses)	¥ 108	¥ 95	¥ 102	\$ 868
Free-lending of office space (included in selling, general and administrative expenses) (*1)	¥ 27	¥ 28	¥ 28	\$ 234
Balance related to the above	—	—	—	—

(\*1) ALSOK group 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 group paid to the lessor. The terms of this lease were equivalent to those of an arm's-length transaction.

## 24. Per share information

	In yen			In USD
	2005	2006	2007	2007
Net income per share - Basic	¥ 47.54	¥ 52.91	¥ 74.71	\$ 0.63
- Diluted	¥ 47.50	¥ 52.76	¥ 74.43	\$ 0.63
Net assets per share	¥1,222.93	¥1,274.27	¥1,322.82	\$11.21

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

	In millions of yen			In thousands of US dollars
	As of 31st March			As of 31st March
	2005	2006	2007	2007
<b>Net income per share - basic</b>				
Net income	¥ 4,952	¥ 5,550	¥ 7,558	\$ 64,027
Amount not belonging to ordinary shareholders	178	219	(25)	(207)
-Of which bonuses to directors by appropriation of retained earnings	(203)	(246)	—	—
-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	(25)	(27)	(25)	(207)
Net income attributable to common stock	4,774	5,331	7,583	64,234
Weighted average number of ordinary shares (thousands of shares)	100,432	100,751	101,499	101,499
<b>Net income per share - diluted</b>				
Adjustment to net income	—	—	—	—
Increase of ordinary shares (thousands of shares)	82	287	384	384

## 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. (ALSOK) and subsidiaries (collectively "ALSOK group") as of 31st March, 2006 and 2007, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years ended 31st March 2007, all expressed in Japanese yen.

These consolidated financial statements are the responsibility of ALSOK group 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 group as of 31st March, 2006 and 2007, and the results of their operations and their cash flows for each of the three years ended 31st March 2007 in conformity with accounting principles generally accepted in Japan.

In the year ended 31st March 2007, as discussed in Note 4(l) to the consolidated financial statements, ALSOK group adopted the accounting standard on directors' bonus, and as discussed in Note 4(s), adopted the accounting standard for presentation of net assets in the balance sheet.

The United States dollar amounts in the accompanying consolidated financial statements with respect to the year ended 31st March 2007 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 Tokyo ASG*

Tokyo, Japan  
28th June, 2007

# Corporate Data (As of March 31, 2007)

## Profile

Corporate Name	SOHGO SECURITY SERVICES CO., LTD.
Main Office	1-6-6 Motoakasaka, Minato-ku, Tokyo 107-8511
Telephone	+81-3-3470-6811
Established	July 16, 1965
Capital	18,536,459,900 yen
Employees	(Consolidated) 25,302 (Non-consolidated) 12,000
Business Operations	Headquarters/ 5 Division Offices/58 Branches/ 44 Offices/227 Sales Offices
URL	<a href="http://www.alsok.co.jp/">http://www.alsok.co.jp/</a>

## Stock Information

Stock Listing	First Section, Tokyo Stock Exchange
Securities Code	2331
Minimum Trading Lot	100
Total Number of Shares Authorized	300,000,000
Number of Shares Issued	101,889,342
Number of Shareholders at the end of the preceding fiscal period	9,228

## Major Shareholders

No.	Name	Number of shares held (1,000 shares)	Investment ratio (%) <sup>1)</sup>
1	Tsuneo Murai <sup>2)</sup>	9,082	8.91
2	SOHGO CORPORATION	7,388	7.25
3	Employees Shareholding Association	5,722	5.61
4	Saitama Machinery Co., Ltd.	5,283	5.18
5	Trust & Custody Services Bank, Ltd as trustee for Mizuho Bank Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd. <sup>3)</sup>	4,261	4.18
6	Japan Trustee Services Bank, Ltd. (trust account) <sup>4)</sup>	4,227	4.14
7	The Master Trust Bank of Japan, Ltd. (trust account) <sup>4)</sup>	4,129	4.05
8	The Chase Manhattan Bank NA London	3,585	3.51
9	Tokio Marine & Nichido Fire Insurance Co., Ltd	3,420	3.35
10	Atsushi Murai	2,954	2.89

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

Note 2: The number of shares above held by Tsuneo Murai includes 2.5 million shares, held in the name of Kamukura Shoji Co., Ltd. (2.45%).

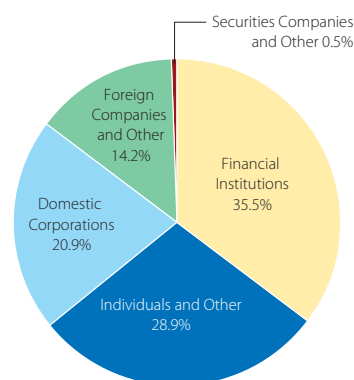
Note 3: The shares held by the Mizuho Trust & Banking Co., Ltd. Retirement Benefits Trust Account entrusted to Mizuho Bank, Ltd. are shares entrusted by Mizuho Bank as a contribution to retirement benefits.

Note 4: Trust-related shares included in the number of shares held above are as follows:  
Japan Trustee Services Bank, Ltd. (trust account): 2,289,000 shares  
The Master Trust Bank of Japan, Ltd. (trust account): 3,407,000 shares

## IR Contact: IR Office

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## 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.	ALSOK Shimane-Asahi Co., Ltd.*
Chiba Sohgo Security Services Co., Ltd.	Hiroshima Sohgo Security Services Co., Ltd.
Sokei Building Service Co., Ltd.	Hiroshima Sokei Service Co., Ltd.
Chiyoda Kanzai Co., Ltd.	Setouchi Sokei Service Co., Ltd.
Tokyo Sohgo Security Services Co., Ltd.	Yamaguchi Sohgo Security Services Co., Ltd.
Tama Sohgo Security Services Co., Ltd.	Yamaguchi Kanzai Co., Ltd.
Sokei Electrical Construction Co., Ltd.	Tokushima Sohgo Security Services Co., Ltd.
Sokei Information System Co., Ltd.	Kita-Shikoku Sohgo Security Services Co., Ltd.
Sokei Leasing Co., Ltd.	Ehime Sohgo Security Services Co., Ltd.
JFL Co., Ltd.	Minami-Shikoku Sohgo Security Services Co., Ltd.
Sokei Stationed Security Services Co., Ltd.	Fukuoka Sohgo Security Services Co., Ltd.
Kanagawa Sohgo Security Services Co., Ltd.	Saga Sohgo Security Services Co., Ltd.
Niigata Sohgo Security Services Co., Ltd.	Nagasaki Sohgo Security Services Co., Ltd.
Toyama Sohgo Security Services Co., Ltd.	Kumamoto Sohgo Security Services Co., Ltd.
Tomiso Technical Service Co., Ltd.	Miyazaki Sohgo Security Services Co., Ltd.
Hokuriku Sohgo Security Services Co., Ltd.	Kagoshima Sohgo Security Services Co., Ltd.
Nihon Guard Co., Ltd.	Okinawa Sohgo Security Services Co., Ltd.

\*Established June 1, 2007.



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Securities Code: 2331