

# ALSOK

Annual Report 2004

For year ended March 31



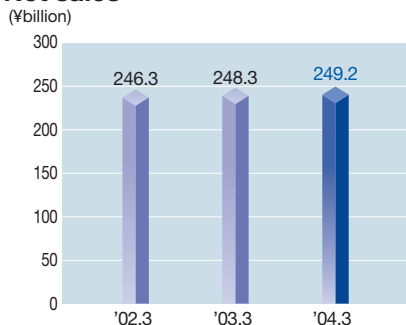
# Consolidated Financial Highlights

SOHGO SECURITY SERVICES CO., LTD.  
Years ended 31st March, 2003 and 2004

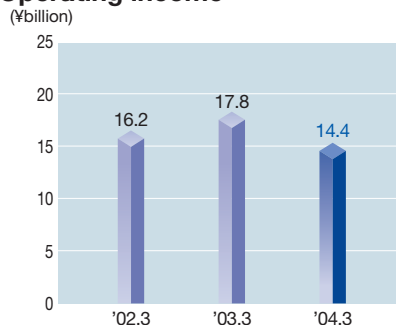
	Billions of yen		Millions of US dollars
	2004	2003	2004
<b>For the year :</b>			
Net sales .....	¥ 249.2	¥ 248.3	\$ 2,358
Operating income .....	14.4	17.8	137
Net income .....	17.7	7.5	168
<b>At year-end :</b>			
Total assets .....	268.8	258.8	2,543
Shareholders' equity .....	119.5	102.9	1,131
<b>Per share :</b>			
Net income .....	¥ 175.11	¥ 79.84	\$ 1.66
Cash dividends .....	17	20	0.16
		<small>Dividend commemorating listing in the Stock Exchange of ¥3 is included</small>	
<b>Ratio :</b>			
Net income/shareholders' equity (ROE) .....	16.0	8.4	16.0

Note: US dollar amounts are converted from yen amounts at the rate of US\$1.00=¥105.69, the approximate exchange rate on 31st March, 2004, solely for the convenience.

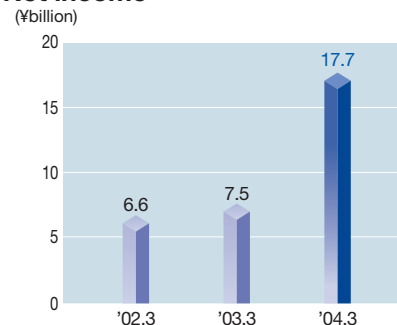
## Net sales



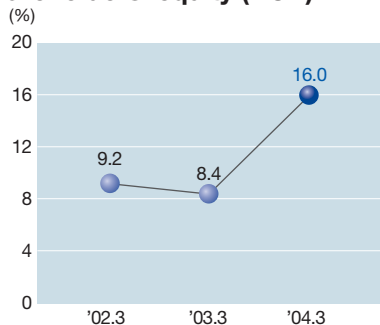
## Operating income



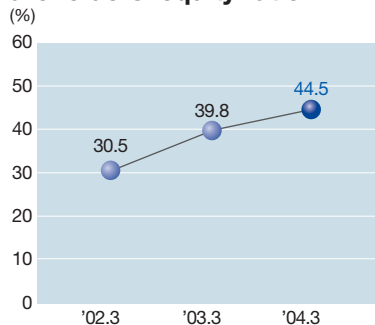
## Net income



## Net income/ shareholders' equity (ROE)



## Shareholders' equity ratio



### Cautionary Statements with Respect to Forward-Looking Statements

Statements made in this annual report with respect to Sohgo Security Services Co., Ltd. or ALSOK's current plans, estimates, strategies and beliefs, and other statements that are not historical facts are forward-looking statements about the future performance of ALSOK. These statements are based on management's assumptions and beliefs in light of the information currently available to it and therefore readers should not place undue reliance on them. ALSOK cautions readers should not place undue reliance on them. ALSOK cautions readers that a number of important factors could cause actual results to differ materially from those discussed in the forward-looking statements.

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## Company Profile

**ALSOK** contributes to securing the safety of society with security services as a core business.

Sohgo Security Services Co., Ltd. (“ALSOK”) was established in July 1965, as a pioneer company that was the first in the security services industry to receive the security business certificate from the Tokyo Metropolitan Public Safety Commission. The Company's stock was listed in the first section of the Tokyo Stock Exchange in October 2002 and currently employs around 23,000 staff on a consolidated basis.

In our core business, “Security Services”, we provide three services, namely, electronic security services, stationed security services and transportation security services, and in “Other Services” we provide building management services, disaster prevention services and other services. We view ALSOK as the only company in Japan that can comprehensively meet a broad range of security-related needs.

Since our foundation, we have operated our businesses with “heart of gratitude” and “samurai spirit” as our management creed. “Heart of gratitude” means that we always offer services with appreciation to our stakeholders (shareholders, clients and employees) and “samurai spirit” means that we manage the company with the strength, conviction, and sincerity of the spirit of samurai, in whatever situation we are placed. We are committed to providing our employees with excellent training and are cognizant of the important role we play in making our society safe.



# ALSOK seeks new markets, higher customer satisfaction, and greater corporate value.



**Atsushi Murai**  
President

## Business results

We would like to offer my deepest thanks to stockholders, investors, customers, and all other stakeholders for continued support. At this point, we would like to report the ALSOK Group's business results for the fiscal year ended March 2004.

As serious crime continued to rise, the nation's sense of peace and public order diminished. Against this background, business and personal needs for security services have continued to increase and diversify.

Under these conditions, the ALSOK Group worked to further strengthen our sales systems by introducing new products and adding to our sales staff. As a result, in the year ended March 2004, sales were ¥249.2 billion (up 0.3% compared to the previous year).

In addition, we strengthened profit base through streamlining security systems, reexamination of our communication costs, reducing of procurement costs for security devices, and other measures oriented toward cost improvements across our entire operation. However, because of the improvements to vehicular security systems, new model bullet-proof vests and the like following attacks on cash-transporting vehicles and because of the increase in labor costs that came with increasing the number of sales staff, operating income in the year ended March 2004 was ¥14.4 billion (down 18.8% compared to the previous year).

On the other hand, there was a posting of a special profit following the gain on exemption from future obligation of the

“The History of  
**ALSOK** Placing a  
Focus on “Security”  
1965~”

### July 1965

Company founded at 2-Chome 20, Uchisaiwaicho, Chiyoda-ku, Tokyo

### March 1970

Performed stationed security at Japan World Exposition

### January 1975

Operation of the “Amand System,” a service for financial institutions to control un-manned cash dispensing premise



### September 1967

Launched “Sohgo Guard System,” our first electronic security system



### February 1978

Relocation of head office to 1-6-6, Moto Akasaka, Minato-ku, Tokyo

governmental program, and net income in the year ended March 2004 was ¥17.7 billion (up 135.2% compared to the previous year).

We will continually expand our business focusing on security services. Further, we are driving forward with the reform of the earnings structure, even on the mainstay the electronic security services. For details pertaining to various policies and strategies, please refer to “ALSOK Group’s Security Business and Strength” (pp. 6-7) and featured articles (pp. 8-17).

## Responding to market changes by strengthening marketing

One of the ALSOK Group’s important strategies is strengthening our marketing to respond to the expanding market.

In reviewing sales by client industries during the period, sales to business corporations accounted for half of total sales, and the number of contracts is expected to rise as well.

On the other hand, sales to financial institutions, which were approximately 30% of total sales, were affected by business reorganizations and branch office consolidations at banks. In order to increase the contract number, especially for business corporations, of the electronic security services, we increased sales staff up to



1,800 as of April 2004. Within this we added approximately 100 staff as home security sales experts. We will offer sufficient training to improve their skill.

Further, outsourcing needs are growing due to reorganization and streamlining of financial institutions, and the business opportunity for the transportation security services is expanding. To that end, in addition to cash management services, business subcontracting to manage banks’ off-premises ATMs and convenience-store ATMs are rapidly growing. Furthermore, we are going to expand sales of our “Cash Deposit On-line System” which is mainly for mass merchandisers, which offers a single service bundle from the collection and process of sales cash to transferring the same amount to the designated accounts of the customer.



## Focusing on business expansion in undeveloped markets

In addition to increasing social uncertainty and rising crime rate, Japanese society continues to change with the rise in nuclear families and live-alone elderly. As a result, the service needs of individuals and families are increasing. Up to now we have been working to strengthen and expand the sales and service line-ups for the individual and family

### October 1979

Start of firefighting facilities management services

### March 1983

Obtained security business certification (Number 1) from the Tokyo Metropolitan Public Safety Commission

### October 1997

Launch of “Cash Deposit On-line System” to satisfy outsourcing needs of financial institutions



### December 1982

Business alliance with Mitsubishi Electric - Ryouden Services Ltd. (now Mitsubishi Electric Building Techno-Services Ltd.) in order to strengthen building maintenance operations

### November 1994

Launch of “PICLS,” a system for remote monitoring of image and voices from central guard stations



market as a developing market, and we will focus on this even more in the future.

Specifically, in addition to increasing sales experts, we are working to expand the sales channel by establishing home security shops. Further, we captured the customers' fear of insecurity and got to market fast with products such as the "Anshin Mate" that can identify its holders' position

and call security staff to the scene and the "ALSOK Apartment Guard" for monitoring apartments. We are advancing forward with the development of these easy-to-use products.

In the future, while working to increase recognition in this market, we will make the most effective use of our sales network. Further, we believe we will steadily accumulate results by introducing new services and new products.

### Expanding our range of services and sales channels through alliances

We are working to expand our range of businesses through alliances focusing on security services. Alliances with other businesses are essential for us to respond to various needs and to offer quality security services that satisfy customers. By combining security services with building general

management, disaster prevention business, and other related business, we are working to evoke new demand and to expand the market. For example, in cooperation with Tokyo Gas Co., Ltd., which already has gas pipeline infrastructure, we started a new service from April that combines gas sensing and alarms. Further, an alliance with Japan Maintenance Co., Ltd. has started, which does facilities maintenance including commercial facilities. We also have alliances with NTT WEST which provides network security and HOCHIKI Corporation which provides disaster prevention services.

In the future, we would like to aim for alliances that can mutually increase the strengths of the partnership enterprises. We will also make efforts to become an attractive partner for our partners.



### Strengthening management efficiency

Though the market is expanding, it is essential to streamline operations and make them more efficient against the backdrop of falling unit prices.

Specifically, we are working to reduce operating costs by reducing the rate of false alarms through improvements in installed equipment, consolidation of central guard stations, introduction of Automatic Guard Dispatch Systems, curbing communication costs through digitization

#### April 1998

Launch of "Home Security," a security system for individuals that besides providing crime-prevention and disaster-prevention security, also provides convenient daily-living functions



#### March 2003

Launch of "Anshin Mate," a service for individuals to search holders' location and call for security guards to the scene



#### July 2003

Changed corporate brand from SOK to ALSOK to further enhance the business image

#### October 2002

Listed on the 1st Section of the Tokyo Stock Exchange



#### April 2003

Spin off of part of the stationed security division and establishment of Sohgo Stationed Security Services Co., Ltd. Merger of subsidiary company Sokei Electric Industries Co., Ltd., a procurement division.

Business alliance with Japan Maintenance Co., Ltd. in order to offer a comprehensive solutions business focusing on building security and maintenance.

of communications lines, and other measures.

In addition, in the future we will be working on reducing equipment procurement costs and on restructuring branches as well as subsidiary and affiliated companies. Moreover, development of our integrated system of sales, administration and human resources is now under construction which will further improve the speed and efficiency of our business.

Presently, we are in the peak period for required up-front investments to reduce future costs as well as for expenditures due to increases in personnel and other costs resulting from increases in the sales staff. However, we believe that these up-front investments form the basis of future sales growth. We intend to link these investments to profitability improvement by combining them with streamlining and efficiency increasing efforts.



price-competitive products.

We ask for your further support in the future.

## Outlook

The economy of Japan is expected to continue in its harsh, deflationary economic environment. However, we will abide by our business principle we have had from our founding onward of “offering excellent and reliable security,” and we will also improve business results focusing even more on further reforming the profit structure and strengthening service in the expanding market.

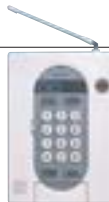
In particular, we intend to work on strengthening our sales force for the electronic security services, streamlining and increasing efficiency, and developing and marketing of new

村井 温

Atsushi Murai

### August 2003

Launch of “ALSOK Apartment Guard,” a reasonable security system for apartments



Launch of “ALSOK Safety Confirmation Service,” an enterprise risk management tool that makes communication with employees possible during a state of emergency

### January 2004

Cooperation with NTT WEST to jointly offer “Building Facilities Security Solutions”

Business alliance with Tokyo Gas Co., Ltd. to achieve synergies in the home security area of <“Crime Prevention” by ALSOK> and <“Disaster Prevention” by Tokyo Gas>

### May 2004

Business alliance with HOCHIKI Corporation to expand sales of disaster prevention services and strengthen technical strength

“And **ALSOK** will continue to pursue “peace of mind”

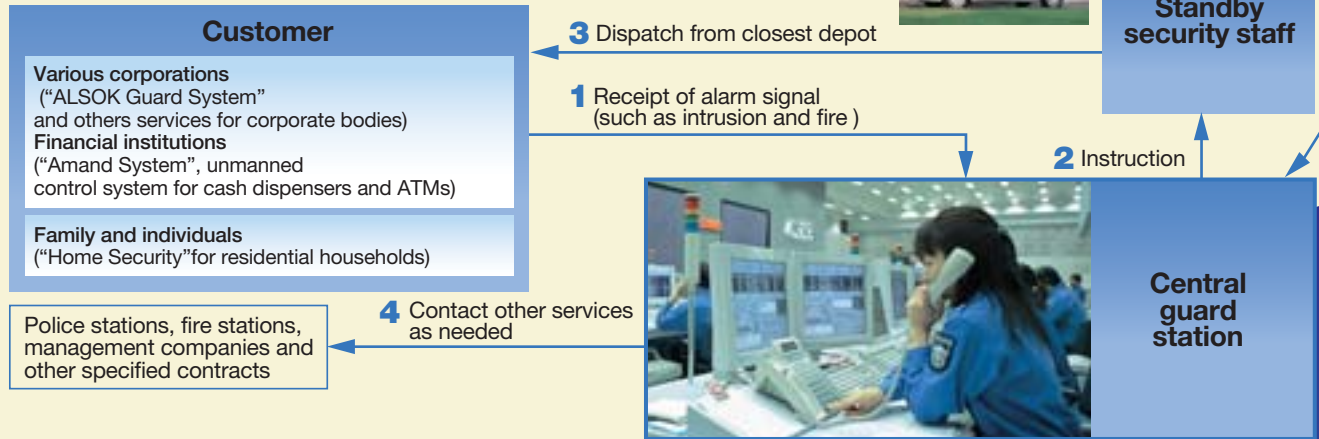
2004~”

# ALSOK Group's Security Services and Strength

We have placed our management focus on the security services that account for over 90% of sales and have maintained our basic stance of offering high quality security services since its foundation. The Company has offered security services while working on development and enhancement of infrastructure that supports these services for nearly 40 years. As a result, we have gained overwhelming competitiveness in the business in which we undertake 24-hour 365-day services which are uniform nationwide by our security staff who are highly specialized in overall services.

## Electronic Security Services

ALSOK installs alarm equipment on customer premises, has a central guard station remotely monitor information at the premises such as intrusion, fire, equipment malfunction via communication lines. In the event of an emergency, security staff can be dispatched to the scene.



### Strength of the ALSOK Group

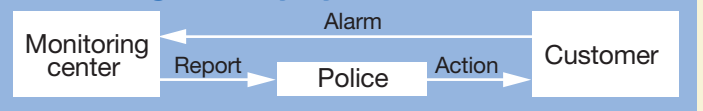
Enhanced human resources and networks that can address an increase in subscriber contracts



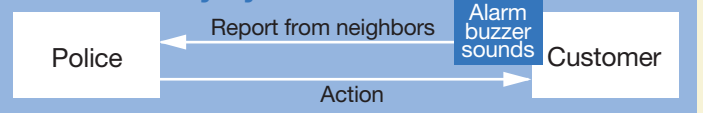
### Reference: Comparison of ALSOK and overseas security services companies in the electronic security services

In the electric security services provided by Japanese security services companies including ALSOK, the security services company immediately dispatches their security staff to take emergency action as soon as an alarm is detected. The police and fire-fighting services are also notified. However, in Europe and the US, the security services companies merely report to the police and/or fire stations (monitoring security system) or intimidate intruders with alarm sounds from sensors (local security system). In other words, it is essential to develop system infrastructure and train security staff in order to improve standard operations and services for electronic security services and thus the barrier to entry in the market in Japan is rather high compared to Europe and the US.

#### Monitoring Security System



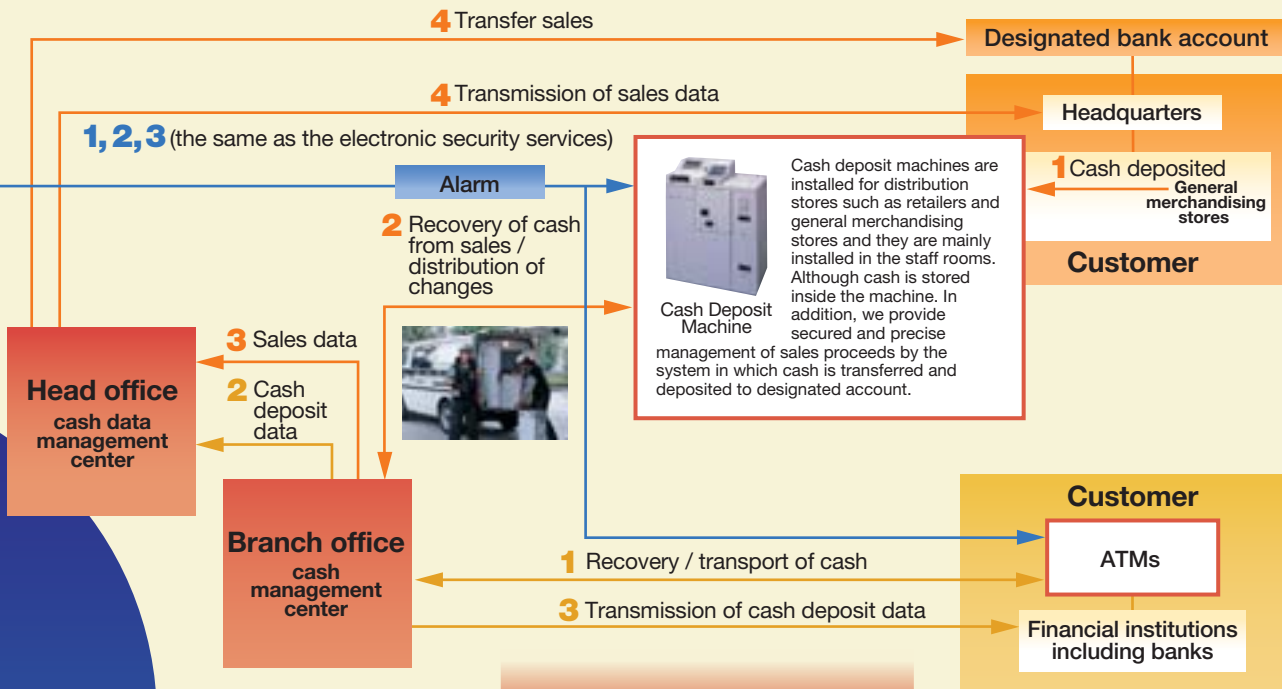
#### Local Security System





## Transportation Security Services

We have built "Cash Deposit On-Line System" and "Currency Processing System" for recovery of cash from sales and distribution of change for the retail industry, "Total ATM management system" for comprehensive management of ATMs, and "In-Corporate CD Management System" for managing CDs installed on customer premises and "Cash Transportation System" and "Transportation Security System" to safely transport cash, securities and others to the appointed locations.

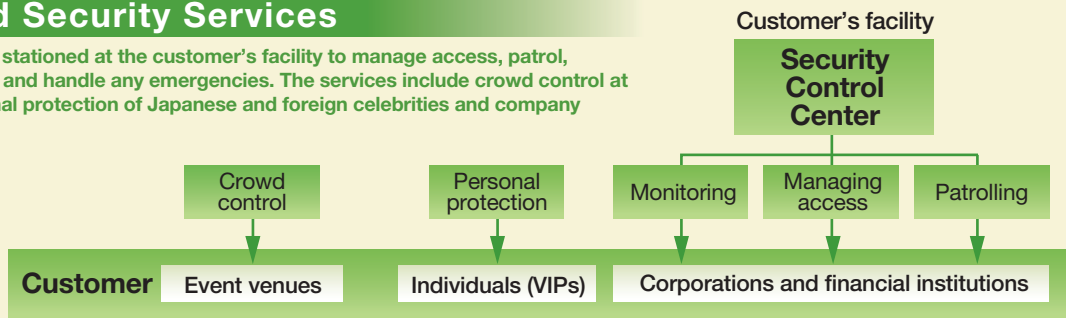


Strength of the ALSOK Group

Meeting diversified outsourcing needs with a wide range of service line-ups

## Stationed Security Services

ALSOK guards are stationed at the customer's facility to manage access, patrol, monitor the facility and handle any emergencies. The services include crowd control at events, and personal protection of Japanese and foreign celebrities and company executives.



Strength of the ALSOK Group

High quality services provided by ALSOK, which employs largest number of qualified personnel in the security services

The image shows a control room with several operators at computer workstations. In the background, the word "ALSOK" is illuminated in large, glowing letters on a wall. To the left, a large screen displays a map of Japan with various locations marked. The overall atmosphere is professional and high-tech, with a blue color scheme.

Feature

# **ALSOK** Advances Towards a New Generation in Security

As crimes worsen and become more sophisticated,  
awareness of legal norms falls.

The sense of safety in our society is dropping,  
as expectations and demands for security services rise.

Under these conditions,  
the **ALSOK** Group is working to improve profits  
in the areas of business strategy and management strategy.

# Business Strategy

Expanded markets and sales growth

Strengthen marketing



**ALSO**

Human resources development

Improved streamlining and efficiency

Strengthening management infrastructure

# Management Strategy

Market trends and the ALSOK Group activities

Outlook for the security business market

The security business market can be divided into two broad categories: the corporate and the individual.

Crime continues to become more serious and diverse. As the nation's sense of safety steadily decays, the demand for both corporate and individual security services is expanding.

Trends and measures for the corporate market

Added to a decaying sense of safety, heightened dangers from new threats such as terrorism are rising, and the demand for corporate security services is increasing. By client industry, the number of contracts for



multiple store businesses, such as those for chain store operators, including convenience stores and retailers, and logistics industries are rising.

In addition, financial institutions are one of our the main industries, and they account for close to 30% of the ALSOK Group sales. Therefore their industrial reorganization affected our business. However as different types of industries enter the finance business, the number of convenience-store ATMs, etc. increases. Rather than the financial market contracting, it is morphing. However the form may change, there will be a continuous demand for security. By responding rapidly to these changes, we are looking towards expanded sales.

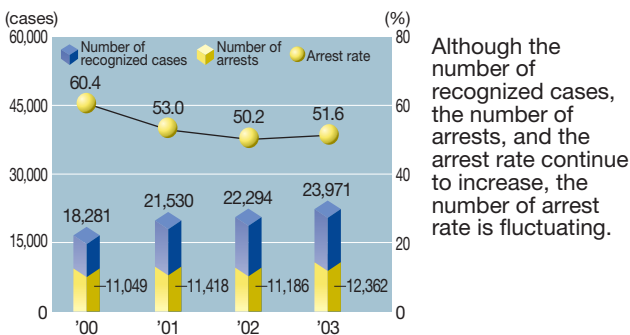
Trends and measures for the individual market

In terms of the individual market, which is oriented towards individuals and families, currently 1% of the approximately 49 million nationwide recorded households in Japan have home security services, However, with the marked increase in single dwellers and elderly households coupled with the increase in social unrest and the upswing in the crime rate, the demand for security services is rising rapidly as with the corporate market. Even though the contract unit values are small compared to the corporate market, this potential market needs to be developed. Currently, home security services are centered on affluent households. Along with



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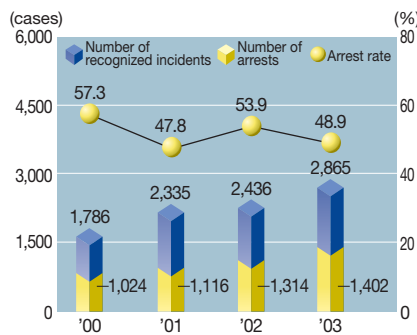
Number of serious crimes



Although the number of recognized cases, the number of arrests, and the arrest rate continue to increase, the number of arrest rate is fluctuating.

(Source: National Police Agency)

Changes in recognition and arrest patterns for intrusive robberies



Since the number of recognized incidents is increasing at a pace exceeding the number of arrests, the arrest rate has continued to lag.

(Source: National Police Agency)

deepening this market, new products and expanded services to extend the market to other segments are urgently needed.

## Security industry trends

Total domestic sales by security providers in Japan reach ¥2,700 billion (2002 National Police Agency investigation), reflecting steady industry growth. There are approximately 9,500 security providers among them, a number that has not changed in recent years. There are 26 security providers with sales of ¥10 billion or higher among them, and only two firms including ALSOK with sales of ¥200 billion or more. ALSOK is a leader in its field.

From the point of service content distribution, traffic control and stationed security services are by far the most numerous. Only a minority of businesses is active in the electronic security services and transportation security services, both areas that we have earmarked for growth. Although these businesses are highly profitable, a large amount of prior investment is necessary for construction of systems including surveillance centers and standby locations. For that reason, those both inside and outside the industry believe it will be a difficult market to enter in the future.



## Strengthening marketing for market expansion and sales growth

### Objective to strengthen marketing expansion

ALSOK already possesses an organization, rare in the field, comprising both security personnel and a network vital to the electronic security services for a rapid response to alarms. New customer requirements can be added into our existing network and services provided with minimal initial outlays. This means that an increase in customers directly translates into increased profits. For this reason, ALSOK is working to expand its business in all markets to gain new customers.

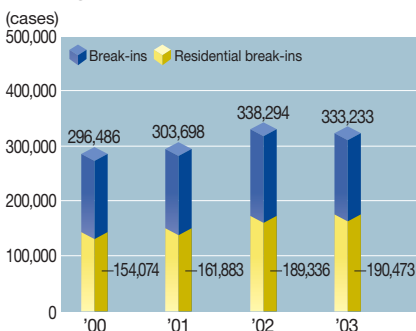
### Marketing strategy for corporate market

In the corporate market ALSOK is dedicated to a twofold approach: expanding our market share through increased contracts, and offering services corresponding to the outsourcing needs of financial institutions.

Concerning the former aim, ALSOK is investing significant management resources in Tokyo-Nagoya-Osaka, areas with a high market potential. While simultaneously training our sales staff in advanced skills, we are broadening our sales channels by increasing sales depots and strengthening the corporate introduction systems. Currently, contracts for the electronic security services are on the increase, and our market share is expanding.

Concerning the latter approach, we are now focusing on package contracts for both the transportation security services and related services, having grasped the

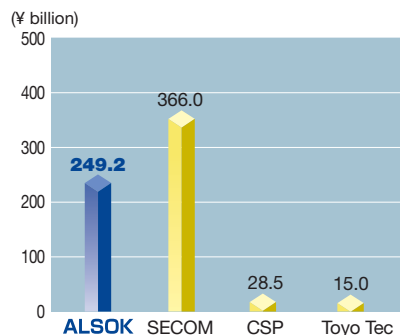
## Changes in the number of break-ins



In proportion to the increase in the number of thefts overall, the number of residential break-ins is also increasing.

(Source: National Police Agency)

## Sales of listed security providers in Japan



We are one of the top two security providers and far ahead of the number three player.

Note: Sales for SECOM Co., Ltd. are for the security business only.

(Source: company financial briefs)

outsourcing needs of cash management services in the areas of off-premise ATMs and convenience-store ATMs.

ALSOK provides consolidated and diverse transportation-security-related services including cash transportation services and cash management services to any location in Japan. We are rapidly expanding the range of our business to include cash management planning and agency of ATM cash levels and frequency of replenishment, along with contracting for clerical work of banking operations.

At the same time, we are working to strengthen sales promotions for growing services. An example is our Currency Processing System, which comprehensively handles the proceeds of mass merchandisers by collecting, examining, making change and depositing them in a designated account. Another example is our Cash Deposit Machine On-line System that streamlines the Currency Processing system.

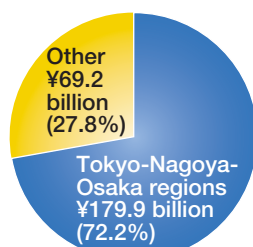
ALSOK will continue to develop the greatly promising the transportation security services, while pioneering opportunities in other related businesses.

### Marketing strategy for individual market

Along with efforts to strengthen business in the year ending March 2005, proclaimed as "the baseline year improved home security," ALSOK aims at increasing the number of contracts by introducing new products. Sales staff was bolstered as 100 home security sales experts who were committed to the Tokyo-Nagoya-Osaka areas to be deployed as sales-expansion teams, augmenting our organizational structure. We continue to expand alliances with home builders that have reliable sales volumes, and actively pursue partnerships with firms other than home builders, such as Tokyo Gas Co., Ltd. Further, we are increasing security shops with show room capabilities in our expanded sales depots.

D A T A

#### Sales by region



Sales : ¥249.2 billion

72.2% of our sales are concentrated in the urban areas of Tokyo, Nagoya, and Osaka, where we have invested our resource further increased sales.

## ALSOK Products

ALSOK products renowned in the market in recent years.

### Home Security Services

We maintain a 365-day, 24-hour online monitoring by sensors installed in homes and our security staff rush to the scene in case of emergency such as an intrusion, fire, or other event.



Home Selector is easily operated using a touch panel terminal and offers a variety of functions.

Security functions are included, as well as telephone and voice mail to medical consultation. In addition, options offered include gas-leak detection, first-aid response, home banking, and other services.

A simplified S-type limited to emergency and medical emergency notification is also available.

### Anshin Mate

Anshin Mate is a service combining a positioning function, utilizing global positioning system (GPS) and mobile phone base stations, with an alarm function. The current location of a person carrying the Anshin Mate can be confirmed via the telephone or an internet website. Further, messages may be sent to a registered email address, and in the event of an emergency, ALSOK Anshin Mate Call Center is notified and security staff can rush to the scene on demand 24 hours a day, 365 days a year.

The Anshin Mate weighs only 80 grams and can be easily carried.



### **Cash Deposit Machine On-line System**

This is a cash deposit terminal for sales proceeds located in stores and so on. With the stand-alone terminal, proceeds can be calculated and stored. If the Cash Deposit Machine On-line System is installed, a total package including deposits to a customer's account via our the transportation security services and online security through our the electronic security services are offered.

The flow of sales proceeds and change is accordingly made smoother and more efficient. Cash handling labor costs are reduced and effective overhead cost reductions are possible through functional integration. Because the ALSOK Group transports the cash, risks during transport are also reduced.



### **C-4 Type Guard Robot**

We have been engaging in R&D for guard robots since 1982. By integrating robotic technology with security services, the security services field can be expanded while reductions are made in security staff. In 1985, we developed the type A1 robot with self-mobility and firefighting functions, and have since developed technology for such uses as patrolling, guarding, guidance, and hospitality. We currently hold several patents in the self-mobility technology field.

In 2002, we released the type C4 that automatically gets on and off elevators in response to radio signals. This C4 type robot received attention because of its labor saving potential in areas such as night security patrols. In addition, for the opening of the Aichi Expo in 2005 we are developing a guard robot that further modifies the C4. Five robots are slated to perform a demonstration test of external security duty at the Expo. This will be carried out as a part of a New Energy and Industrial Technology Development Organization (NEDO) project for promoting robot technology.



Human resources developments

Enhancing sales force

We increased the number of sales staff to further strengthen the electronic security services for corporate and home security sales. Including the mid-year hiring of experienced personnel ready to begin work immediately, we increased our staff by approximately 200 people, reaching a total of 1800 the electronic security services sales staff. Further large increases in personnel are not immediately planned, and our efforts will be directed at education to improve sales potential in the future.

Personnel capabilities determine the quality of security

Security quality depends on the quality of the security staff. Attempts to improve efficiency through introducing the newest technology or facilities are dependent on personnel, who must make instant decisions in emergency situations. We train our security staff to respond appropriately through the maximum utilization of sensory input and an intuitive grasp of situations. We

encourage our employees to obtain security service related qualifications.

Flexible responses to Security Business Law amendments

The Security Business Law in force since 1972 has been amended from time to time in accordance with changes in the security business. The law was extensively amended by the Diet on 19 May 2004 for the first time in twenty years. The National Public Safety Commission regulations are being created and thoroughly communicated to security service providers. The amended law is scheduled to take effect within one year and six months. The main points of the amendments are found in "Improvement of security staff's knowledge and capability," which specifically provides rigorous instructions with regard to the selection of security staff instructors and the retaining of certified personnel. The ALSOK Group has traditionally advocated responsible "excellent and reliable security", and has provided an



D A T A

Martial arts rank holders

(persons)

	Kendo	Judo	Jukendo (Japanese bayonet fencing)	Other	Total
1st level	169	398	71	27	665
2nd level	165	288	37	14	504
3rd level	149	178	20	7	354
4th level	73	27	12	2	114
5th level and higher	17	6	9	2	34
<b>Total</b>	<b>573</b>	<b>897</b>	<b>149</b>	<b>52</b>	<b>1,671</b>

We work to train not only the body but the mind of our personnel through martial arts.

\*On non-consolidated basis

As of June 2004



exhaustive in-house training system. Consequently, the number of current ALSOK employees holding qualifications is among the highest in Japanese security firms. For this reason, our present training system conforms to the new amendments. This new amendment serves to further enhance our outstanding competitive edge in the market.

### Personnel training to address diversification in security services

Our training program is unique and multifaceted, divided into area specializations, rank, and managerial orientations. Covering the training stipulated in the Security Business Law as a matter of course, our curriculum is arranged to rapidly attain the quality demanded of security services in a new age, in order to respond to new types of crimes, and including training in operating the most advanced equipment.



## ALSOK Charter

### Management principle

Our business operation is based on the management principle, "heart of gratitude" and "samurai spirit". We are devoted to maintain the safety of our society, which is indispensable for our comfortable lives. Therefore we use our best endeavor to be the company with prestigious services.

### Management policy

#### 1. Fundamental

We work hard to meet our principle, "heart of gratitude", to be grateful to everything, and "samurai spirit", to be tough, fair and warmhearted. Further we commit to develop manpower to provide reliable services.

#### 2. Priority

It is our top priority to provide the excellent security services, which will be reflected on our profit, to meet our shareholders' expectation and to offer a better working condition to employees.

#### 3. Strategy

We devote ourselves to the security services, on the other hand we also intend to offer diversified services to meet the demand of the times to the extent that our experience of the know-how in the security business is applicable.

#### 4. Contribution to our society

We support the security policy of the government and contribute to our society.

### Number of personnel according to type of qualification

(persons)

Security Staff Instructor	1,314	Dangerous Goods Handler	1,117	Emergency Medical Technician	24
Electronic Security Services Manager	536	Firefighting Equipment Handler	1,432	Senior Lifesaving Certificate	890
Stationed Security	98	Firefighting Equipment Inspector	415	Regular Lifesaving Certificate	1,231
Traffic Control	312	Firefighting Engineer	1,102		
Valuables Transportation Security	767	Certificate of Completing of Fire Prevention Course	496		

As of June 2004

Our comprehensive training system and organization yields results: many of our employees have obtained qualifications.

\*On non-consolidated basis

## Streamlining and efficiency improvements

### Two directions for cost reductions

Our goal is to reduce personnel costs and decrease other outlays in the process of streamlining and maximizing efficiency.

### Reducing personnel costs

We are making efforts to reduce personnel costs through streamlining security systems. We will first reduce personnel and administrative costs by examining efficiency improvements for the central guard station staff and security staff.

Next, we will adopt streamlining measures to decrease false alarm rates (resulting from equipment malfunction and misoperation). This requires false alarm prevention measures such as security equipment upgrades and adaptable installations.

In addition, we are introducing Automatic Guard Dispatch System to lessen the workload of security staff. Further, by consolidating central guard stations we aim to improve operational efficiency by centralizing administrative functions and reduce costs for personnel, rentals, utilities, communication, etc.

Besides these efforts, we are forming a project to systemize sales, accounting, and human resources, and are reducing personnel and administrative expenses, as well as studying problematic areas in the existing system infrastructure. In addition, we are examining personnel

costs reduction by utilizing temporary employees for clerical work.

### Other cost reductions

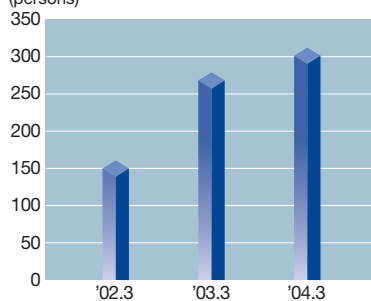
We are also reducing costs including development, manufacture, and procurement of security related equipment.

On April 1st, 2003 we merged with Sokei Electrical Industry Co., Ltd., a subsidiary contracting for procurement operations. Besides the benefits of consolidation, we have begun a reevaluation of our procurement systems and methods. Specifically, we have already achieved results by reevaluating equipment delivery companies in terms of simplifying the logistical processes for electric security equipment installation, reducing unit costs for lot (bulk) orders, and reducing procurement and warehousing costs by limiting prioritized equipment models. In the future, we will realize further procurement cost reductions with the goal of overseas procurement.

D A T A

### Increase in temporary employees

(persons)



The number of temporary employees has increased concomitant with a fall in overall personnel costs.

\*On non-consolidated basis

## ALSOK's Compliance Structure

### ALSOK's compliance and the Security Business Law

Our philosophy of compliance with the Security Business Law is based on our founder's concepts of "heart of gratitude" and "samurai spirit". We devote ourselves fully and with sincerity to making solid contributions to the security of society, which is the cornerstone of human life. We do this based on a feeling of universal gratitude, and with the "strong", "proper", and "considerate" spirit the samurai valued.

The security business must conform to the Security Business Law, and operations may be conducted only by personnel having regulated qualifications. For this reason, we attach the utmost importance to compliance with this law. Up to now the Security Business Law has been suitably amended in accordance with changes in society and the market. A large-scale amendment to the

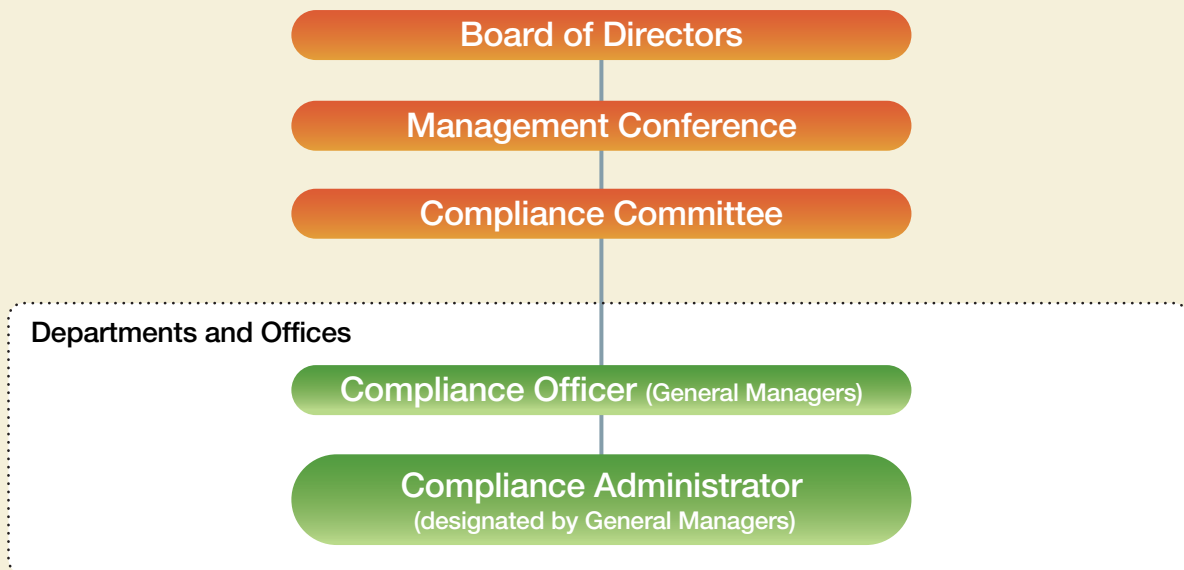
law will soon come into effect, which we are already prepared for through our training system.

### Promoting compliance

To continue as a security provider increasingly responsive to the needs of society, we have established a Compliance Committee chaired by a Senior Executive Officer in charge of compliance.

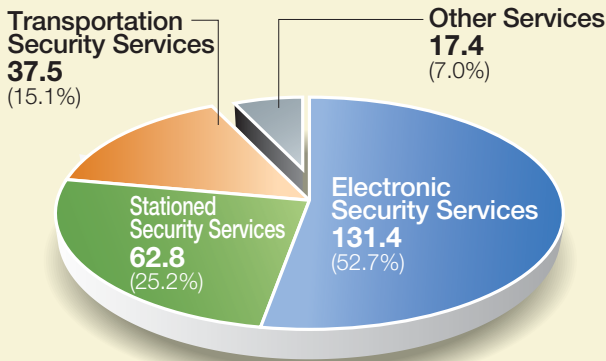
Specifically, we have instituted systematic compliance campaigns focusing on action themes throughout the year to raise an awareness of compliance among our personnel, and are carrying out periodic checks on compliance issues during ongoing operations. In addition, as a legal advisory board on management/legal issues, we have contracted with legal advisors from several law firms. We believe all legal concerns have been met.

### ALSOK's Compliance Structure (As of April 1, 2004)



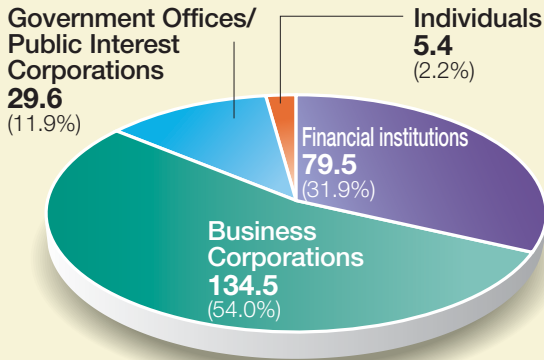
# Business Overview

## Sales by Service (¥ billion)



Fiscal year ended March 2004  
Total sales: 249.2 billion yen

## Sales by Client Industry (¥ billion)

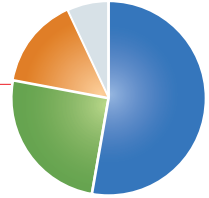


Fiscal year ended March 2004  
Total sales: 249.2 billion yen

## Security Services

The security services comprises three business categories; Electronic Security Services, Stationed Security Services, and Transportation Security Services.

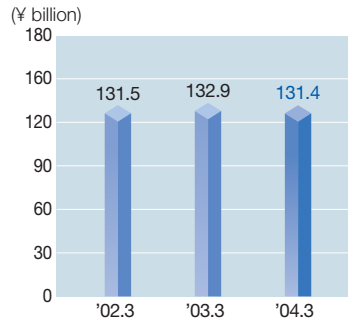
Security Services sales for the year ended March 2004 were ¥231.8 billion.



## Electronic Security Services

We strengthened our sales structure by establishing a Board of Business Promotion, a sales headquarters, increasing the sales staff, and taking other measures. We then fanned out with aggressive sales activities focused on logistics, retailing, food and beverage and other potential markets for security services. In particular, to expand services for individual customers, we forged ahead with alliances with home builders and security related companies, and expanded our sales network. Nevertheless, due to a slump in sales to financial institutions which are our principal customers, sales were ¥131.4 billion.

## Sales

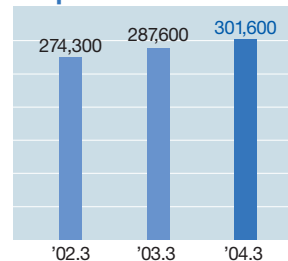


Central Guard Station

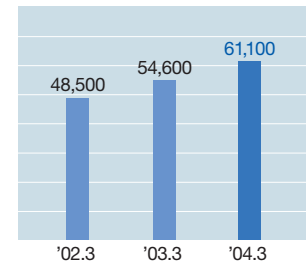


Home Selector

## Number of contracts : Corporate customers



## Individual customers



## Stationed Security Services

Although we improved efficiency and streamlined operations, for example by spinning off a part of the stationed security division as Sohgo Stationed Security Services Co., Ltd., sales were ¥62.8 billion.

### Sales

(¥ billion)



Reception services



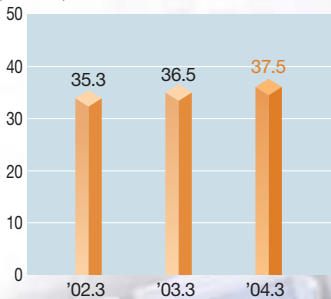
Bodyguard services

## Transportation Security Services

We signed more contracts with convenience stores for ATM management services, and sales rose on the back of the cash management services and cash transportation services as financial institutions continued to outsource their operations. Furthermore, because our Cash Deposit Machine On-line System – a service supplement for financial institutions – expanded favorably in the logistics industry, sales came to ¥37.5 billion.

### Sales

(¥ billion)



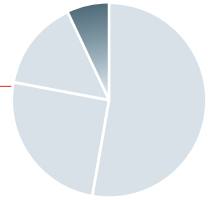
Cash transportation services



Transportation security station

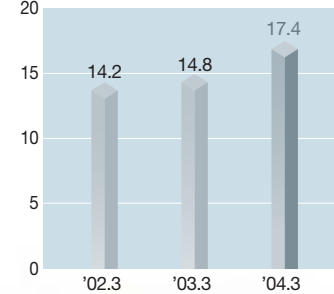
## Other Services

We increased sales favorably through a business alliance with building maintenance companies, through orders of facility management services for universities, etc. In addition, marketing of “ALSOK Safety Confirmation Service,” and “Anshin Mate” were successful in addressing various needs as sales for these services reached ¥17.4 billion.



### Sales

(¥ billion)



Topaz Center



“Anshin Mate” search display image

## Fulfilling Social Responsibilities

Since security services are critical for ensuring the safety of our society, we expect our business will keep growing. While expanding our business, we recognize the importance of developing management transparency and disclosure.

We are also committed to fulfilling our social responsibilities through social contribution.

### Corporate Governance

In order to continue to earn the trust from our clients, we are strengthening our corporate governance, aiming to separate of managerial execution and supervision, facilitate speedy decision making, establishment of a corporate code of conduct, and assuring transparency of management.

Since June 2002, we have reduced the number of directors from a maximum of 30 to a maximum of 10 and reduced the term from 2 years to 1 year. We have introduced an executive officer system in which authority has been boldly transferred. We have upgraded business supervision system based on this, promoting impartial and sound management.

Further, we appoint three external auditors for the four-member audit committee, to establish and operate a sound corporate governance structure. We are strengthening neutral and independent management supervision functions.

In addition, we have also established an audit department within the company for internal auditing under the direct control of the president, and we are monitoring business operations and assets, accounting, and others. In concert with the auditors (of the audit committee), the audit department is striving to solidify and reinforce the auditing structure.

### Risk Management

Based on our Risk Management Rules enacted in 2002, we have organized a risk management committee and have appointed the Senior Executive Officer in charge of risk management as its chairman. We identify and assess the risk and formulate preventative measures at the headquarters level and at each business unit. In addition, we have established risk study division in areas in the risk management committee to collect risk information, analyze and evaluate risk, and examine the measures to reduce risk.

### Environmental Efforts

#### Reducing CO<sub>2</sub>

Currently, we are increasingly using two-wheeled vehicles, securing standby facilities, and strictly enforcing stopping engine idle when vehicles are waiting. In the future, we will work on shifting to hybrid cars or eco cars.

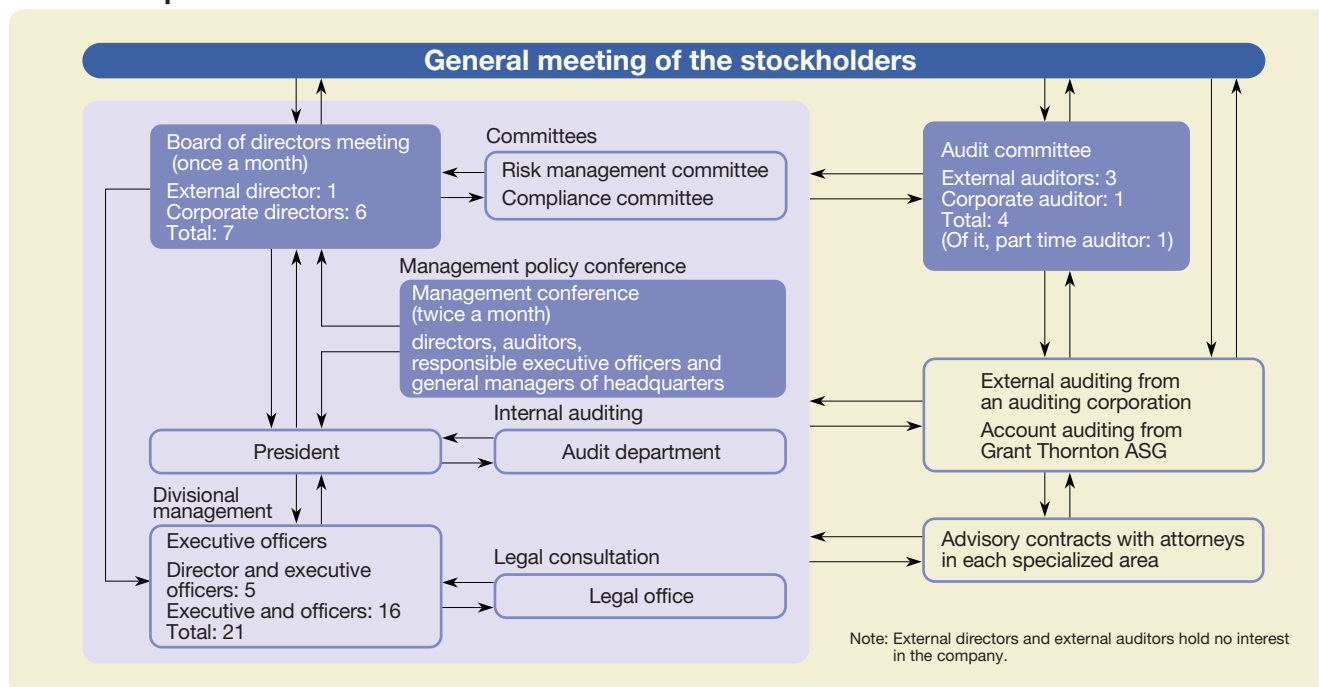
#### Waste treatment

We conform to the Industrial Waste Materials Act in our waste-treatment processes for superannuated the electronic security services equipment. We subcontract to licensed specialized firms in connection with industrial waste materials and take receipt of the manifests.

#### Packaging

We are proactively introducing packaging materials such as cardboards, cushionings, paddings, and the like which do not contain hazardous chemical substances such as polystyrene foam.

### ALSOK Corporate Governance Structure



## Activities Contributing to Society

### ALSOK Thank You Campaign

Based on a "heart of gratitude" advocated by our founder, Jun Murai, ALSOK launched "Thank You Campaign" in 1967 with the objective of "being grateful for the daily favors received from country and society, having a 'heart of gratitude that helps society and receives help from society and serving the society within and beyond Japan." These activities are not funded from business profits, but by membership fees of supportive executives and employees of ALSOK and contributions from ALSOK and principal affiliates (individual and groups). This fiscal year, donations for refugee relief in the world, gifts of articles produced by the disabled, contributions for natural disasters both foreign and domestic, donations of welfare-purpose vehicles to welfare facilities, and other donations grew to a total of ¥48 million. Of particular note, ALSOK has continued to donate welfare-purpose vehicles for 9 consecutive years and such vehicles totaled 43.



UNHCR/P.Benatar

### Jun Murai Scholarship Found

The Jun Murai Scholarship Found was established in July 2000 in commemoration of the 35th anniversary of the company founding, 12 years after the death of our founder, Jun Murai. It was established to provide scholarships to students attending engineering universities or colleges within Kanagawa prefecture, and the foundation's activities are on going.

### Financial support of foundations

We are continuing to provide financial support needed for operations for both the Japan Urban Security Research Institute, which carries out investigations, research, and advocacy activities, and the Defense Research Center, which carries out investigations and research concerning prevention of crime in urban areas.

### Contributions to regional society

We make contributions to the respective regional societies where our headquarters and business offices are located that put our main business expertise to practical use. We carry out safety patrols along school routes and conduct fire prevention campaigns. We also proactively support social studies at public elementary schools, conduct crime prevention drills and crime prevention seminars at schools and shopping areas.

### ALSOK's Female Marching Band "VIVACE"

An all female marching band made its start in November 1985.

VIVACE means "lively," and we hold parades, marching performances, and exhibitions at events, ceremonies, and other locations throughout the country. This fiscal year the band made a total of 57 performances.



## Activities to Promote Sports

### Intercompany Martial Arts Tournament

ALSOK sponsored the Intercompany Martial Arts Tournament which is held three times a year by ALSOK and affiliated company employees. People compete in various sports such as judo, kendo, jukendo, and self-defense arts. Martial arts not only discipline the minds of employees, but have positive effects to improve the quality of security.

### Opening judo classrooms for young people

In order to promote judo, we are opening judo classrooms in six locations across the country, supporting children who are learning judo.

### Sending athletes to the Athens Olympics

The following athletes belonging to the ALSOK Group will participate in the 2004 Summer Olympics in Athens. Through their activities, we would like to support the furtherance of sports that nurture our dreams.



**Kosei Inoue**  
Men's judo,  
100 kg class



**Maki Tsukada**  
Women's judo,  
78 kg and  
over class



**Makoto Sasamoto**  
Men's wrestling,  
Greco-Roman,  
60 kg class



**Kunihiko Obata**  
Men's wrestling,  
freestyle,  
74 kg class



**Masaharu Yamada**  
Men's weight lifting,  
56 kg class

# Company Management

(As of July 1, 2004)

## Directors



**Tsuneo Murai**  
Chairman



**Atsushi Murai**  
President and  
Representative Director



**Kanehiro Mashita**  
Representative Director



**Satoru Kakuchi**  
Representative Director



**Akira Tamura**  
Representative Director



**Ko Sato**  
Director



**Akira Kanno**  
Director

## Executive Officers

**Atsushi Murai**  
President

Chairman, Board of Business Promotion  
Chairman, Board of Security Operation

**Kanehiro Mashita**  
Senior Executive Officer

Corporate Planning  
R&D  
Compliance  
Risk Management

**Satoru Kakuchi**  
Senior Executive Officer

Corporate Administration / Audit

**Akira Tamura**  
Senior Executive Officer

Co-Chairman,  
Board of Business Promotion

**Ko Sato**  
Senior Executive Officer

Co-Chairman,  
Board of Security Operation

**Haruo Higashiyama**  
Senior Executive Officer

General Manager of  
East Japan Headquarters

**Hiroyuki Fujimoto**  
Senior Executive Officer

General Manager of  
West Japan Headquarters

**Satoshi Matsumoto**  
Senior Executive Officer

Corporate Planning  
General Manager of  
Corporate Planning Department

**Shozo Sato**  
Senior Executive Officer

General Manager of  
Central Japan Headquarters

**Hiroki Hagiwara**  
Executive Officer

General Manager of  
Procurement Department

**Yoshihiro Koishi**  
Executive Officer

General Manager of Electronic  
Security Services Headquarters

**Kazue Ikeya**  
Executive Officer

General Manager of Total Building  
Management Business Department

**Hideo Nakajima**  
Executive Officer

General Manager of Home & Personal  
Business Department

**Shirou Hashio**  
Executive Officer

Co-Chairman,  
Board of Business Promotion

**Tohei Tani**  
Executive Officer

R&D  
General Manager of R&D Planning  
Department

**Akira Ohnishi**  
Executive Officer

Accounting  
General Manager of Accounting  
Department

**Eiiti Morimoto**  
Executive Officer

Deputy General Manager of  
East Japan Headquarters

**Hiroshi Oono**  
Executive Officer

Information Systems

**Toshio Yamura**  
Executive Officer

Deputy General Manager of  
West Japan Headquarters

**Morikatsu Kiyotaki**  
Executive Officer

General Manager of Transportation  
Security Services Headquarters

**Shozo Sawamura**  
Executive Officer

Advisor to Board of Business Promotion

## Corporate Auditors

**Takumi Someya**  
Corporate Auditor

**Kazumasa Oizumi**  
Corporate Auditor

**Harutoshi Itoh**  
Corporate Auditor

**Teruo Kageyama**  
Corporate Auditor (part time)



# Financial Section

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ALSOK

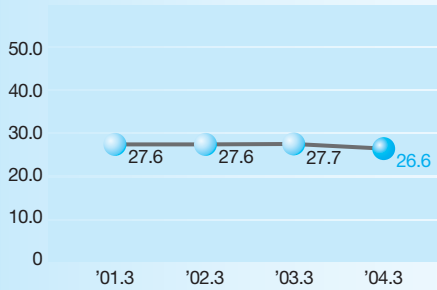


綜合警備保衛

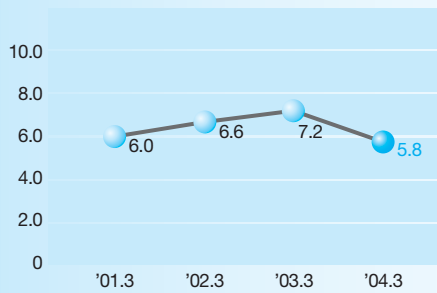
# Major Performance Indicators

## Profitability

### Gross profit margin ratio (%)

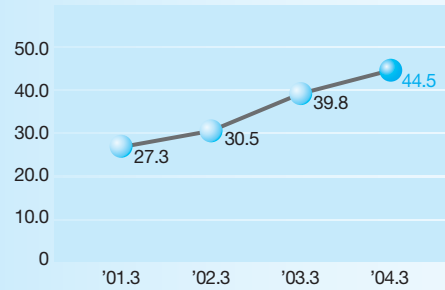


### Operating income ratio (%)

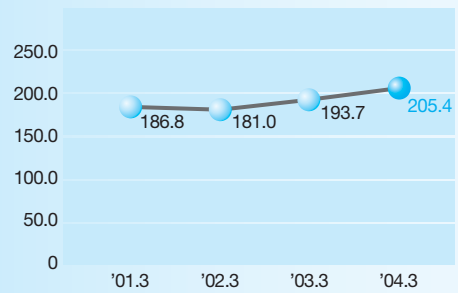


## Stability

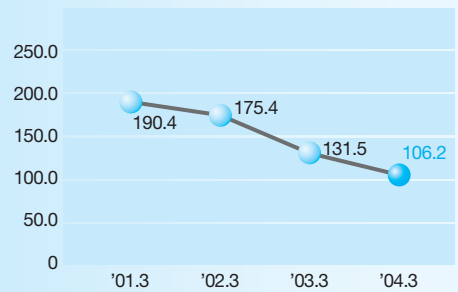
### Shareholders equity ratio (%)



### Current ratio (%)

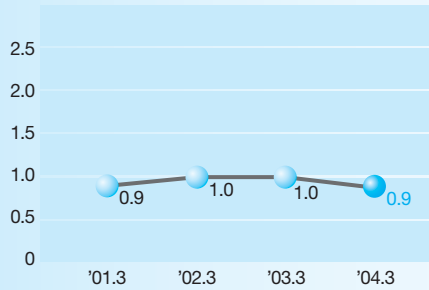


### Fixed ratio (%)

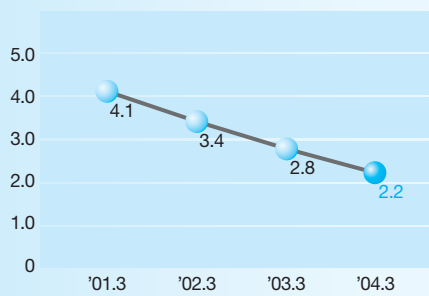


## Efficiency

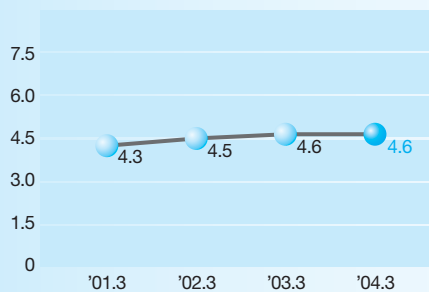
### Asset turnover (times)



### Shareholder's equity turnover (times)

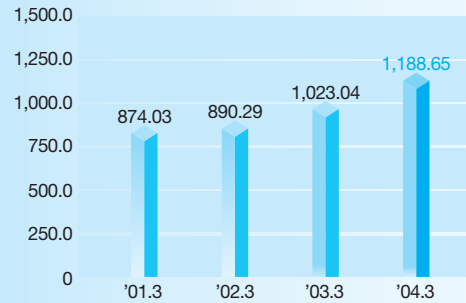


### Tangible fixed asset turnover (times)

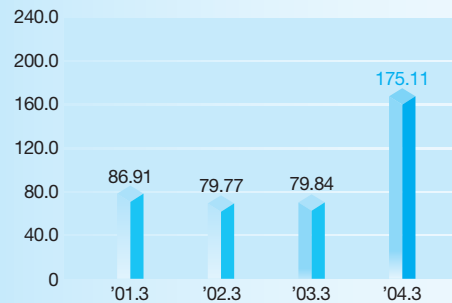


## Others

### Net assets per share (yen)



### Net income per share (yen)



(Note)1. From the year ended March 2003, we adopt "Accounting for Earnings per Share" (Financial Accounting Standard No.2) and "Implementation Guidance on Accounting Standards for Earnings per Share" (Accounting Implementation Guidance No.4) for computing "net assets per share" and "net income per share".

2. As at 1 August 2002, the Company split its stocks for thirteen for one. In addition, "net assets per share" and "net income per share" prior to the year ended March 2003, are computed under the hypothesis that the stock split was executed as at 1 April 2002.

# Financial Condition and Business Results

## ● Consolidated balance sheets comparisons

Year-on-year comparisons of assets, liabilities, minority interests and shareholders' equity on consolidated balance sheets are as follows.

Item	The year ended March 2004		The year ended March 2003		Compared to the corresponding period in the previous year	
	Amount (¥ million)	Composition ratio (%)	Amount (¥ million)	Composition ratio (%)	Change (¥ million)	Change (%)
<b>Assets</b>						
Current assets	141,890	52.8	123,502	47.7	18,388	14.9
Non-current assets	126,923	47.2	135,393	52.3	(8,470)	(6.3)
Total assets	268,813	100.0	258,895	100.0	9,918	3.8
<b>Liabilities</b>						
Current liabilities	69,080	25.7	63,756	24.6	5,324	8.3
Long-term liabilities	65,751	24.4	78,702	30.4	(12,951)	(16.5)
Total liabilities	134,831	50.1	142,458	55.0	(7,627)	(5.4)
Minority interests	14,449	5.4	13,512	5.2	937	6.9
Total shareholders' equity	119,533	44.5	102,925	39.8	16,608	16.1

Consolidated total assets stood at ¥268,813 million, representing a year-on-year increase of ¥9,918 million (up 3.8%) for the year ended March 2004. Current assets increased by ¥18,388 million (up 14.9%) to ¥141,890 million, and non-current assets decreased by ¥8,470 million (down 6.3%) to ¥126,923 million.

Current assets, which increased mainly due to increases in cash for the transportation security services for the purpose of provision for in-house CD (cash dispenser) machines by the ALSOK Group, and advance payment for Cash Deposit On-line System, increased ¥3,300 million and ¥4,567 million respectively. Other contributing factors were an ¥826 million increase in deferred tax assets.

Non-current assets declined primarily due to a decline of ¥7,906 million in deferred tax assets corresponding to decrease of accrued retirement benefits for employees in accompany with exemption from future obligation of the governmental retirement benefit fund program, and a decline of ¥1,058 million in consolidated adjustments account.

Consolidated total liabilities as of the end of the year ended March 2004 declined by ¥7,627 million (down 5.4%) year-on-year, to ¥134,831 million. Current liabilities increased by ¥5,324 million (up 8.3%) to ¥69,080 million, and long-term liabilities decreased by ¥12,951 million (down 16.5%) to ¥65,751 million.

Current liabilities increased due primarily to a ¥12,238 million increase in short term borrowings in accordance with provision of cash for transportation security services and other uses, an increase in accounts payable of ¥1,390 million corresponding to cash deposit machine leases following the expansion of sales of cash deposit on-line system, an increase in allowance for bonuses of ¥444 million, an increase in accrued income taxes of ¥442 million, and a decrease of ¥10,000 million in current portion of bonds due within one year.

Long-term liabilities decreased due to a ¥20,406 million decrease in accrued retirement benefits for employees following the exemption from future obligation of the governmental retirement benefit fund program, a ¥6,654 million increase in long term borrowings through syndicated loans, and a ¥1,100 million increase in corporate bonds issued.

Minority interests for the year ended March 2004 increased by ¥937 million (up 6.9%) year-on-year, to ¥14,449 million.

Consolidated total shareholders' equity for the year ended March 2004 increased by ¥16,608 million (up 16.1%) year-on-year, to ¥119,533 million.

The main factors behind the increase in total shareholders' equity were a ¥13,070 million increase in retained earnings, a ¥1,931 million increase in capital surplus, and a ¥1,560 million increase in valuation differences in other marketable securities.

Consequently, capital adequacy ratio rose from 39.8% to 44.5%, and BPS rose from ¥1,023.04 to ¥1,188.65, at the end of the year ended March 2004.

## ● Consolidated statements of operations comparison

Year-on-year comparisons of net sales, gross profit on sales, operating income, recurring profit and net income on the income statements are as follows.

Item	The year ended March 2004		The year ended March 2003		Compared to the corresponding period in the previous year	
	Amount (¥ million)	Composition ratio (%)	Amount (¥ million)	Composition ratio (%)	Change (¥ million)	Change (%)
Sales	249,241	100.0	248,385	100.0	856	0.3
Gross profit on sales	66,339	26.6	68,803	27.7	(2,464)	(3.6)
Operating income	14,479	5.8	17,829	7.2	(3,350)	(18.8)
Recurring profit*	15,490	6.2	18,396	7.4	(2,906)	(15.8)
Net income	17,753	7.1	7,549	3.0	10,204	135.2

\*Recurring profit = Operating income + Non-Operating income – Non-Operating expenses

Sales in the year ended March 2004 increased by ¥856 million (up 0.3%) year-on-year, to ¥249,241 million. Sales comparison by services are as follows.

Business categories	The year ended March 2004		The year ended March 2003		Compared to the corresponding period in the previous year	
	Amount (¥ million)	Composition ratio (%)	Amount (¥ million)	Composition ratio (%)	Change (¥ million)	Change (%)
Security services						
Electronic Security Services	131,487	52.7	132,942	53.5	(1,455)	(1.1)
Stationed Security Services	62,800	25.2	64,036	25.8	(1,236)	(1.9)
Transportation Security Services	37,515	15.1	36,509	14.7	1,006	2.8
Subtotal	231,802	93.0	233,487	94.0	(1,685)	(0.7)
Other services	17,439	7.0	14,898	6.0	2,541	17.1
Total	249,241	100.0	248,385	100.0	856	0.3

The main factors for the changes in sales by services are as follows.

In the electronic security services, sales declined by ¥1,455 million (down 1.1%) to ¥131,487 million mainly due to effect from restructuring of financial institutions, and a ¥1,405 million reduction in gains on sales of security devices .

In the stationed security services, sales decreased by 1,236 million (down 1.9%) to ¥62,800 million because the number of contracts declined by 130 (down 5.3%) year-on-year, and other factors.

In the transportation security services, sales increased by ¥1,006 million (up 2.8%) to ¥37,515 million due to favorable sales expansion for convenience-store ATMs operations and cash deposit on-line system.

Other services increased by ¥2,541 million (up 17.1%) to ¥17,439 million due to an increase in orders from universities and others in the total building management of the other services, which engages in building maintenance.

Gross profits on sales decreased by ¥2,464 million (down 3.6%) to ¥66,339 million, due to an increase in the cost of sales of ¥3,320 million against an increase in sales of ¥856 million.

## Financial Condition and Business Results

The cost of sales increased due primarily to a ¥1,013 million increase in subcontract costs as outsourcing fees related to the total building management operations including maintenance of buildings, a ¥627 million increase due to expansion of Cash Deposit On-line System and an increase of ¥383 million in bonus related social insurance premiums in accompanying with introduction of total salary method, additional ¥286 million in construction costs for INS line installation with which ALSOK aims to reduce communication expenses, and additional ¥375 million in installation costs for security equipments related to the electronic security services. In addition, equipment costs for Anshin Mate and outfitting expenses for bullet-proof vests also increased.

Operating income decreased by ¥3,350 million (down 18.8%) to ¥14,479 million due to a ¥2,464 million decrease in gross profits on sales and a ¥886 million increase in selling, general and administrating (SG&A) expenses.

The main factors for the increase in SG&A expenses were a ¥371 million increase in retirement benefit expenses due to an increase in actuarial differences in relation to retirement benefits, a ¥211 million increase in R&D expenses, and a ¥173 million increase in bonus related social insurance premiums following the introduction of the total salary method.

Recurring profit decreased by ¥2,906 million (15.8%) to ¥15,490 million due to a ¥3,350 million decrease in operating income, a ¥438 million decrease in non-operating expenses, and a ¥5 million increase in non-operating income.

Non-operating expenses declined due to a ¥175 million decrease in interest paid in accompany with reduced average balance of interest-bearing liabilities and lower interest rates.

Net income increased ¥10,204 million (up 135.2%) to ¥17,753 million due to a ¥2,906 million reduction in recurring profit, a ¥19,666 million increase in extraordinary gains, a ¥2,385 million increase in extraordinary losses, a ¥4,377 million increase in taxes (total of income tax, inhabitants tax, enterprise tax and income taxes-deferred, etc.), and a ¥207 million decrease in minority interests.

Extraordinary gains expanded due to a ¥19,666 gains from exemption from future obligation of the government retirement benefit program for the year ended March 2004. The increase in extraordinary losses were mainly due to the ALSOK Group's posting of bad debt reserves carried forward of ¥1,323 million, fixed asset disposal and appraisal losses of ¥608 million, losses of ¥438 million from sales on investment securities of Ashikaga Financial Group, Inc. and others, and inventory disposal and appraisal losses of ¥299 million.

The increase in taxes was attributed to a ¥3,752 million increase in income tax-deferred resulting from the reduction of accrued retirement benefits for employees following the return of substituted portion of retirement benefit fund to authorities, and from reversal of deferred tax assets corresponding to accrued retirement benefits for employees.

## Operational Risk Factors

The followings are possible ALSOK's operational and accounting factors, which may significantly influence investors' judgment on ALSOK.

### ● Sales dependence on particular business

Revenues from financial institutions account for 31.9% of total sales of our group, which is a high percentage, and cancellation of contracts as a result of closures and amalgamations of branches of financial institutions deriving from any changes in economic environment surrounding them, may give significant impact on our group's earnings performance.

### ● The electronic security services

The electronic security services accounts for 52.7% of total sales. Operating the electronic security services is premised on continuous capital injection for personnel expenses for central guard station staff and security guards, in order to establish and maintain business infrastructure including equipments needed for central guard stations and depots, vehicles and telecommunications for the services. Failure in consigning contracts of certain scale due to various factors related to the electronics security services of our group may affect the earnings performance of the group.

### ● Cash for the transportation security services

We allocate cash for storing in CDs at the business premises which subsidiaries of financial institutions install at customers' premise and for cash advance for transaction on Cash Deposit On-line System through capital procurement based on our own fund and bank overdraft.

We charge commissions to subscribers to reduce interest burden in accompany with cash procurement for the transportation security services. However, in cases of rapid rise in interest rate, interest burden may affect our earnings performance.

### ● Dependence on particular provider

We depend on NEC for a large part of development and supply of center equipment, which is one of the principal alarm system equipments installed at central guard stations. We concluded a basic agreement for commodity trading with NEC and maintain a certain amount of inventory in readiness for emergencies. However, in cases that we have some troubles in equipment supply due to natural disasters and others, it may affect operations of our central guard stations.

### ● Keeping up with in technological environment

It is essential for us to develop security-related equipments and to keep up with IT technologies as the services we provide are for "addressing highly sophisticated and increasingly atrocious crimes," "continuously updating existing equipments" and "matching the progress in various businesses that apply IT technologies".

We are striving for developing security-related equipments and keeping up with IT technologies primarily through R&D divisions of companies that develop these technologies. However, any delay in meeting the changes in technological environment may affect our earnings performance.

### ● Managing customer information

We acquire a large amount of customer information including their names, addresses, phone numbers and other relevant information about the subject for security services at the time of concluding security contracts with customers, and use the information as basic information essential to implement security services and manage customers. We recognize the importance of management of customer information and try to strengthen information control by setting up Information Security Committee.

We did not have any problems such as outflow or loss of our customer information in the past. However, problems in customer information control, in some events including inevitable accidents, could lead to erosion of our trust or compensation claim onto us, affecting our earnings performance and our future business development.

### ● Securing personnel

In recent years, birth rate has been declining while life expectancy has increased in Japan, and thereby exacerbates aging society. This means that, while new demand for the security services is expected to expand, it may become more difficult to employ young staff in the labor intensive industry like security services industry. In case that we need to increase personnel expenses including salaries in order to secure personnel, it may affect our earnings performance.

### ● Legal restrictions

We are subject to various legal restrictions upon provision of security services and other services. Major legal restrictions are as shown on the following table.

Revision or elimination of these legal restrictions may affect our earnings performance.

Major relevant businesses	Major legal restrictions	Supervising government offices
Electronics Security Services Transportation Security Services Stationed Security Services	Security Business Law	National Public Safety Commission Prefectural Public Safety Commission
Electronic Security Services	Construction Business Law Construction Business Law Enforcement Order Construction Business Law Enforcement Requirements	Ministry of Land, Infrastructure and Transportation
Stationed Security Services	Boiler and Pressure Vessel Safety Regulations	Prefectural Labor Standards bureau, relevant Labor Standards Supervision office
Transportation Security Services	Road Base Freight Transport Business Law Freight Transport Business Law Warehouse Business Law	Ministry of Land, Infrastructure and Transportation
Other services (Total Building Management Services and Disaster Prevention Management Services)	Fire Defense Law Fire Prevention Ordinance Law Concerning Securing Hygienic Environmental in the Buildings	Fire station head quarters Ministry of Public Management, Home Affairs, Posts and Telecommunications Local municipalities Ministry of Health, Labor and Welfare Prefectural and city governments
Other services	Regulations accredited by office to implement safety measures for information system in information-processing services	Ministry of Economy, Trade and Industry

### ● Natural disasters and others

We have established network in each region and remotely monitor various security related information. We use communication lines that connect premises subject to security services, central guard stations and depots, which is one of the important elements of our network. We rely on services provided by Class 1 communication providers for operations of communication lines and serious damage on lines due to natural disaster and accidents could cause problems in our security services using remote monitoring.

We are currently implementing measures including reinforcing central guard stations against earthquake and decentralizing monitoring places, assuming cases of natural disasters in the areas of central guard stations. However, in unexpectedly severe disaster, we may not be able to receive alarm signals from subscribers which will result in suspension of operations.

Such cases may not only lead to compensation claims and erosion in our trust, and affect our earnings performance and the future business development, but recovery of central guard stations and others may cost us significantly.



## ● Stock option

We introduce stock option system with certain incentives for directors, executive officers and employees in order to improve willingness to serve the company and increase motivation.

The number of shares for stock option amounts to 2,766,000 shares as of March 31, 2004, equivalent to 2.8% of outstanding shares in issue (100,404,000). Under the hypothesis that the stock option right was exercised, the value of shares held by shareholders may be diluted.

Stock option which have not been exercised as of end March, 2004 are as follows.

General share holder meeting Resolution date	Subject with stock option right	Type of shares	Number of shares (1,000 shares)	Exercise value per share	Payment at exercise of right (¥ million)	Exercise period
August 22, 2000	Directors and employees	Common stock	1,031	¥1,385	1,428	From September 1, 2002 to August 21, 2007
June 28, 2001	Directors and employees	Common stock	767	¥1,382	1,059	From July 1, 2003 to June 30, 2008
June 27, 2002	Executive officers and employees	Common stock	468	¥1,414	661	From July 1, 2004 to June 30, 2009
June 27, 2003	Directors and employees	Common stock	500	¥1,338	669	From July 1, 2005 to June 30, 2010
Total	—	—	2,766	—	3,819	—

## ● Related-party transactions

We donate annual operation expenses or annual scholarship to Japan Urban Security Research Institute, Defense Research Center, and the Jun Murai Scholarship Fund for which ALSOK representative president serves as a board chairman, according to decisions made at the ALSOK board of directors, so that these institutes can attain their respective targets.

The activities of foundations are as follows.

Name	Activities
Foundation, Japan Urban Security Research Institute	<ol style="list-style-type: none"> <li>1 Surveys and research on Urban Security</li> <li>2 Hosting lecture meetings, symposiums, seminars and international conferences regarding urban security</li> <li>3 Support for groups which carry out surveys and research, and PR activities on urban security</li> <li>4 Issuance of publications such as research journals, public relations newsletters, bulletins and others</li> </ol>
Foundation, Defense Research Center	<ol style="list-style-type: none"> <li>1 Surveys and research on defense</li> <li>2 Surveys and research on global defense</li> <li>3 Research and education on defense on consignment for government and other public offices</li> <li>4 Thought-provoking and enlightening activities on defense</li> <li>5 Publishing books regarding defense</li> </ol>
Foundation, The Jun Murai Scholarship Fund	Providing scholarship with no repayment requirements for students studying at engineering universities or engineering faculties in Kanagawa prefecture.

# Consolidated Balance Sheets

SOHGO SECURITY SERVICES CO., LTD.  
As at 31st March, 2003 and 2004

	In millions of yen		In thousands of US dollars (Note 3)
	2004	2003	2004
<b>Assets</b>			
<b>Current assets</b>			
Cash and deposits (Notes 5, 6 & 8) .....	¥ 96,492	¥ 84,062	\$ 912,976
Notes and accounts receivable .....	16,186	16,325	153,146
Short-term investments in securities (Notes 6 & 16) .....	664	1,876	6,282
Inventories .....	3,779	3,380	35,753
Advance payment .....	16,912	12,340	160,019
Deferred tax assets (Note 18) .....	3,306	2,480	31,276
Other .....	4,716	3,208	44,620
Allowance for doubtful accounts .....	(165)	(169)	(1,561)
<b>Total current assets</b> .....	<b>141,890</b>	<b>123,502</b>	<b>1,342,511</b>
<b>Property, plant and equipment</b>			
Land (Notes 8 & 14) .....	16,400	15,731	155,172
Buildings and structures (Note 8) .....	27,549	27,054	260,655
Machinery, equipment and delivery equipment .....	92,746	89,994	877,529
Construction in progress .....	1,377	914	13,025
Other .....	11,593	11,307	109,688
Total .....	149,665	145,000	1,416,069
Accumulated depreciation .....	(94,523)	(90,523)	(894,338)
Net property, plant and equipment .....	55,142	54,477	521,731
<b>Investments and other assets</b>			
Intangible assets .....	4,705	6,560	44,513
Investments in securities (Notes 8, 10 & 16) .....	28,414	25,537	268,839
Deferred tax assets (Note 18) .....	22,392	30,298	211,865
Other assets .....	18,481	19,015	174,864
Allowance for doubtful accounts .....	(2,211)	(494)	(20,922)
Net investments and other assets .....	71,781	80,916	679,159
<b>Total</b> .....	<b>¥ 268,813</b>	<b>¥ 258,895</b>	<b>\$ 2,543,401</b>

	In millions of yen		In thousands of US dollars (Note 3)
	2004	2003	2004
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities</b>			
Notes and accounts payable, trade .....	¥ 8,285	¥ 7,871	\$ 78,387
Short-term borrowings (Notes 7 & 8) .....	25,905	13,193	245,105
Current portion of long-term debt (Notes 7 & 8) .....	5,399	15,873	51,082
Accounts payable .....	11,072	9,681	104,761
Accrued income taxes .....	3,546	3,103	33,551
Allowance for bonuses .....	5,167	4,723	48,892
Other .....	9,706	9,312	91,827
<b>Total current liabilities</b> .....	<b>69,080</b>	<b>63,756</b>	<b>653,605</b>
<b>Long-term liabilities</b>			
Long-term debt (Notes 7 & 8) .....	17,104	9,349	161,833
Accrued retirement benefits for employees (Note 9) .....	43,846	64,253	414,853
Accrued retirement benefits for directors and corporate auditors .....	2,213	2,282	20,943
Other .....	2,588	2,818	24,479
Total long-term liabilities .....	65,751	78,702	622,108
<b>Minority interests in consolidated subsidiaries</b> .....	<b>14,449</b>	<b>13,512</b>	<b>136,715</b>
<b>Shareholders' equity</b>			
Common stock- authorised: 300,000,000 shares in 2003 and 2004 issued: 100,370,542 shares in 2003 and 100,404,142 shares in 2004 .....	16,966	16,920	160,528
Capital surplus .....	31,756	29,824	300,463
Retained earnings .....	74,182	61,111	701,877
Land revaluation account (Note 14) .....	(5,586)	(5,586)	(52,852)
Other securities valuation difference .....	2,240	679	21,192
Treasury stock: 14,122 shares in 2003 and 15,286 shares in 2004 .....	(25)	(23)	(235)
Total shareholders' equity .....	119,533	102,925	1,130,973
<b>Commitments and contingent liabilities (Note 11)</b>			
<b>Total</b> .....	<b>¥ 268,813</b>	<b>¥ 258,895</b>	<b>\$ 2,543,401</b>

# Consolidated Statements of Operations

SOHGO SECURITY SERVICES CO., LTD.  
Years ended 31st March, 2002, 2003 and 2004

	In millions of yen			In thousands of US dollars (Note 3)
	2004	2003	2002	2004
<b>Net sales (Note 20)</b> .....	<b>¥ 249,241</b>	¥ 248,385	¥ 246,305	<b>\$ 2,358,230</b>
<b>Cost of sales</b> .....	<b>182,902</b>	179,582	178,357	<b>1,730,553</b>
Gross profit on sales .....	<b>66,339</b>	68,803	67,948	<b>627,677</b>
<b>Selling, general and administrative expenses (Notes 12&amp; 20)</b> .....	<b>51,860</b>	50,974	51,698	<b>490,684</b>
Operating income .....	<b>14,479</b>	17,829	16,250	<b>136,993</b>
<b>Other income</b>				
Interest and dividends .....	<b>496</b>	422	384	<b>4,688</b>
Equity in earnings of affiliates .....	<b>540</b>	515	541	<b>5,114</b>
Profit on sales of treasury stock .....	<b>—</b>	—	75	<b>—</b>
Gain on exemption from future obligation of the governmental program (Note 9) .....	<b>19,666</b>	—	—	<b>186,073</b>
Other .....	<b>1,615</b>	1,794	1,593	<b>15,284</b>
	<b>22,317</b>	2,731	2,593	<b>211,159</b>
<b>Other expenses</b>				
Interest .....	<b>764</b>	939	1,150	<b>7,226</b>
Loss on sales of investments in securities, net (Note 16) .....	<b>328</b>	63	3	<b>3,103</b>
Loss on disposals of property, plant and equipment .....	<b>599</b>	555	712	<b>5,671</b>
Impairment loss on investments in securities (Note 16) .....	<b>442</b>	959	1,428	<b>4,186</b>
Loss on disposal and impairment of intangible assets .....	<b>609</b>	—	—	<b>5,758</b>
Loss on disposal of inventories .....	<b>300</b>	—	—	<b>2,835</b>
Special retirement expense .....	<b>180</b>	—	175	<b>1,700</b>
Provision for doubtful accounts .....	<b>1,324</b>	—	—	<b>12,526</b>
Provision for loss on debt guarantees (Note 11) .....	<b>—</b>	20	160	<b>—</b>
Other .....	<b>458</b>	606	343	<b>4,335</b>
	<b>5,004</b>	3,142	3,971	<b>47,340</b>
Income before income taxes .....	<b>31,792</b>	17,418	14,872	<b>300,812</b>
<b>Income taxes (Note 18)</b>				
Current .....	<b>7,238</b>	6,612	7,014	<b>68,488</b>
Deferred .....	<b>5,821</b>	2,069	(99)	<b>55,074</b>
	<b>13,059</b>	8,681	6,915	<b>123,562</b>
Income before minority interests .....	<b>18,733</b>	8,737	7,957	<b>177,250</b>
Minority interests in income of consolidated subsidiaries .....	<b>980</b>	1,188	1,271	<b>9,278</b>
Net income .....	<b>¥ 17,753</b>	¥ 7,549	¥ 6,686	<b>\$ 167,972</b>

# Consolidated Statements of Changes in Shareholders' Equity

SOHGO SECURITY SERVICES CO., LTD.  
Years ended 31st March, 2001, 2002, 2003 and 2004

	In millions of yen							
	Number of shares issued	Common stock	Capital surplus	Retained earnings	Land revaluation account	Other securities valuation difference	Treasury stock	Total
<b>Balance at 31st March, 2001</b> .....	6,058,243	¥ 6,011	¥ 10,978	¥ 49,785	¥ —	¥ 2,063	¥ —	¥ 68,837
Stock-swaps with fourteen subsidiaries as at 1st April, 2001 (Note 13) .....	277,791	139	4,692	—	—	—	—	4,831
Allocation of new shares to third parties as at 1st August, 2001 .....	100,000	300	300	—	—	—	—	600
Allocation of new shares to third parties as at 16th November, 2001 .....	120,200	1,021	1,022	—	—	—	—	2,043
Net income .....	—	—	—	6,686	—	—	—	6,686
Land revaluation (Note 14) .....	—	—	—	—	(5,586)	—	—	(5,586)
Other securities valuation difference .....	—	—	—	—	—	(541)	—	(541)
Cash dividends .....	—	—	—	(681)	—	—	—	(681)
Bonuses to directors .....	—	—	—	(308)	—	—	—	(308)
<b>Balance at 31st March, 2002</b> .....	6,556,234	7,471	16,992	55,482	(5,586)	1,522	—	75,881
Stock split, 1:13, as at 1st August, 2002 .....	78,674,808	—	—	—	—	—	—	—
Issuance of shares in public offering as at 25th October, 2002 .....	15,000,000	9,255	12,832	—	—	—	—	22,087
Exercises of stock options .....	139,500	194	—	—	—	—	—	194
Net income .....	—	—	—	7,549	—	—	—	7,549
Other securities valuation difference .....	—	—	—	—	—	(843)	—	(843)
Cash dividends .....	—	—	—	(1,580)	—	—	—	(1,580)
Bonuses to directors .....	—	—	—	(340)	—	—	—	(340)
Treasury stock acquired, net .....	—	—	—	—	—	—	(23)	(23)
<b>Balance at 31st March, 2003</b> .....	100,370,542	16,920	29,824	61,111	(5,586)	679	(23)	102,925
Exercise of stock options .....	33,600	46	—	—	—	—	—	46
Increase from merger (Note 13) .....	—	—	2,729	—	—	—	—	2,729
Decrease due to change of consolidated subsidiaries, net .....	—	—	(797)	(2,444)	—	—	—	(3,241)
Net income .....	—	—	—	17,753	—	—	—	17,753
Other securities valuation difference .....	—	—	—	—	—	1,561	—	1,561
Cash dividends .....	—	—	—	(2,007)	—	—	—	(2,007)
Bonuses to directors .....	—	—	—	(231)	—	—	—	(231)
Treasury stock acquired, net .....	—	—	—	—	—	—	(2)	(2)
<b>Balance at 31st March, 2004</b> .....	100,404,142	¥ 16,966	¥ 31,756	¥ 74,182	¥ (5,586)	¥ 2,240	¥ (25)	¥ 119,533

	In thousands of US dollars (Note 3)							
	Number of shares issued	Common stock	Capital surplus	Retained earnings	Land revaluation account	Other securities valuation difference	Treasury stock	Total
<b>Balance at 31st March, 2003</b> .....	100,370,542	\$ 160,088	\$ 282,185	\$ 578,209	\$ (52,852)	\$ 6,428	\$ (220)	\$ 973,838
Exercises of stock options .....	33,600	440	—	—	—	—	—	440
Increase from merger (Note 13) .....	—	—	25,817	—	—	—	—	25,817
Decrease due to change of consolidated subsidiaries, net .....	—	—	(7,539)	(23,132)	—	—	—	(30,671)
Net income .....	—	—	—	167,972	—	—	—	167,972
Other securities valuation difference .....	—	—	—	—	—	14,764	—	14,764
Cash dividends .....	—	—	—	(18,988)	—	—	—	(18,988)
Bonuses to directors .....	—	—	—	(2,184)	—	—	—	(2,184)
Treasury stock acquired, net .....	—	—	—	—	—	—	(15)	(15)
<b>Balance at 31st March, 2004</b> .....	100,404,142	\$ 160,528	\$ 300,463	\$ 701,877	\$ (52,852)	\$ 21,192	\$ (235)	\$ 1,130,973

# Consolidated Statements of Cash Flows

SOHGO SECURITY SERVICES CO., LTD.  
Years ended 31st March, 2002, 2003 and 2004

	In millions of yen			In thousands of US dollars (Note 3)
	2004	2003	2002	2004
<b>Cash flows from operating activities</b>				
Income before income taxes	¥ 31,792	¥ 17,418	¥ 14,872	\$ 300,812
Depreciation	10,315	9,966	9,776	97,595
Amortisation of goodwill	509	784	784	4,812
Increase/(decrease) in allowance for doubtful accounts	1,713	(15)	144	16,212
Decrease in accrued retirement benefit for employees	(20,407)	(2,050)	(1,523)	(193,082)
Decrease in provision for loss on debt guarantees	(400)	—	—	(3,785)
Increase/(decrease) in allowance for bonuses	444	(1,178)	667	4,204
Interest income and dividend income	(496)	(422)	(384)	(4,688)
Interest expenses	764	939	1,150	7,226
Equity in earnings of affiliates	(540)	(515)	(541)	(5,114)
Loss on sales and disposals of property, plant and equipment	603	557	715	5,707
Loss on sales of investments in securities	328	63	3	3,103
Profit on sales of treasury stock	—	—	(75)	—
Impairment loss on investment in securities	442	959	1,428	4,186
(Increase)/decrease in accounts receivable	101	1,054	(832)	957
(Increase)/decrease in inventories	(400)	(429)	48	(3,780)
Increase/(decrease) in accounts payable	1,513	(3,299)	2,153	14,313
Other	(8,392)	(8,790)	(2,948)	(79,415)
Sub-total	17,889	15,042	25,437	169,263
Interest and dividend income, received	567	544	453	5,361
Interest expenses, paid	(805)	(938)	(1,146)	(7,620)
Income taxes, paid	(6,798)	(6,427)	(8,035)	(64,317)
Net cash provided by operating activities	¥ 10,853	¥ 8,221	¥ 16,709	\$ 102,687

	In millions of yen			In thousands of US dollars (Note 3)
	2004	2003	2002	2004
<b>Cash flows from investment activities</b>				
(Increase)/decrease of time deposits .....	¥ (919)	¥ 2,088	¥ 1,985	\$ (8,694)
Payments for purchases of property, plant and equipment .....	(11,435)	(11,525)	(13,488)	(108,191)
Proceeds from sales of property, plant and equipment .....	15	9	74	144
Payments for purchases of investments in securities .....	(2,648)	(10,256)	(5,358)	(25,054)
Proceeds from sales and redemption of investments in securities .....	3,598	3,192	2,604	34,043
Proceeds from sales of investments in unconsolidated subsidiaries .....	8	—	—	74
Decrease in short-term loans .....	8	3	9	72
Long-term loans made .....	(364)	(283)	(153)	(3,445)
Long-term loans collected .....	275	216	199	2,606
Other .....	764	962	(1,252)	7,227
Net cash used in investment activities .....	(10,698)	(15,594)	(15,380)	(101,218)
<b>Cash flows from financing activities</b>				
Decrease in short-term borrowings .....	12,712	(4,059)	(1,436)	120,275
Proceeds from long-term debt .....	13,560	2,350	1,700	128,301
Payments on repayment of long-term debt .....	(16,279)	(9,559)	(9,074)	(154,025)
Proceeds from issue of new shares .....	63	22,297	2,644	598
Payments for acquisition of treasury stock .....	(2)	(50)	—	(16)
Proceeds from sales of treasury stock .....	—	—	270	—
Dividends paid .....	(2,007)	(1,580)	(681)	(18,988)
Dividends paid to minority shareholders .....	(171)	(148)	(159)	(1,620)
Net cash provided by / (used in) financing activities .....	7,876	9,251	(6,736)	74,525
<b>Net increase/(decrease) in cash and cash equivalents .....</b>	<b>8,031</b>	<b>1,878</b>	<b>(5,407)</b>	<b>75,994</b>
<b>Cash and cash equivalents at beginning of year .....</b>	<b>37,783</b>	<b>35,905</b>	<b>41,312</b>	<b>357,486</b>
<b>Balance of cash and cash equivalents at end of year (Note 6) ....</b>	<b>¥ 45,814</b>	<b>¥ 37,783</b>	<b>¥ 35,905</b>	<b>\$ 433,480</b>

## 1 Nature of operations

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

## 2 Basis of presentation

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

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

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

## 3 Financial statement translation

The accompanying financial statements are stated in Japanese yen ("¥"), the currency of the country in which the Company was incorporated and currently operates. Translation to US dollars has been calculated using the approximate exchange rate on 31st March, 2004 of ¥105.69 = 1.00 US dollar, and has been included solely for the convenience of readers outside Japan. This translation should not be interpreted as a representation that Japanese yen could be converted into US dollars at this or any other exchange rate.

## 4 Significant accounting policies

### (a) Consolidation

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

The Company consolidated 39 subsidiaries for the years ended 31st March, 2002 and 2003, and 38 subsidiaries for the year ended 31st March, 2004. Other subsidiaries were not consolidated and not accounted for under equity method as they were not significant in terms of total assets, net sales, retained earnings, net income or net loss.

Nine affiliates were accounted for under the equity method for the years ended 31st March, 2002, 2003 and 2004. 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:

Sohgo 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.  
Sokei Electrical Industry Co., Ltd. (for the year ended 31st March 2002 and 2003) (\*2)

#### (2) Unconsolidated subsidiaries not accounted for under the equity method:

Ehime Sokei Services Co., Ltd.  
System 24 Co., Ltd. (for the years ended 31st March, 2002)(\*3)

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

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



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

Kita-Kanto Guarded Transport Services Co., Ltd.

Chukyo Sohgo Kanzai Co., Ltd.

(\*1) Sohgo Stationed Security Service Co., Ltd. was consolidated as it was newly established in the current fiscal year.

(\*2) As of 1st April, 2003, Sokei Electrical Industry Co., Ltd., which had been a consolidated subsidiary until the year ended 31st March, 2003, was wound up by the merger with the Company.

(\*3) In the year ended 31st March, 2003, the Company sold its all shares in System 24 Co., Ltd.

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

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

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

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

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

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

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

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

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

Securities are classified into one of the following three categories; trading securities, held-to-maturity securities, or other securities. Other securities with a market value are principally carried at market value. The difference, net of tax, between the acquisition cost and the carrying value of other securities, including unrealised gains and losses, is recognised as "Other securities valuation differences" in "shareholders' equity". Other securities without a market value are principally carried at cost. The cost of other securities sold is computed using the moving average method.

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

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

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

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

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

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

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

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

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

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

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

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

#### **(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.

Employer's share of social insurance contribution on bonus had been recognized as expense when it was paid until the fiscal year ended 31st March 2003. Alongside a revision in the Welfare Pension Insurance Law, a "total salary method" was introduced for calculation of social insurance contribution from April 2003. As the effect of this revision was material, the Company changed

to recognise employer's share of social insurance contribution as expense when bonus is accrued for the current fiscal year. As a result of this change, gross profit on sales is decreased by ¥384million (\$3,633 thousands), and operating income and income before income taxes are decreased by ¥556 million (\$5,263 thousands) compared with the same accounting procedure as the previous fiscal year.

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

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

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

Past service liabilities are amortised from the date incurred using the straight-line method over a certain period (five years) 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.

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

The Company and most of its consolidated subsidiaries have retirement benefit plans for directors and corporate auditors.

The accrued liabilities are provided for in full on an annual basis, based on the amount which ALSOK would be required to pay under the relevant rules and bylaws if all members resigned at each balance sheet date.

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

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

### (o) Leases

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

### (p) Derivatives and hedge accounting

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

For derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and hedged items, gains or losses on derivatives are deferred until maturity of

the hedged transactions. And the interest rate swaps, which qualify for hedge accounting and meet specific matching criteria, are not remeasured at market value but the differential paid or received under the swap agreements are charged to income.

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

### (q) Accounting for consumption tax

The consumption tax imposed on revenue from customers for ALSOK's services is withheld by ALSOK at the time of receipt and subsequently paid to the national government. The consumption tax withheld upon recognition of revenue and the consumption tax paid by ALSOK on the purchase of products, merchandise and services from vendors, are not included in the related accounts in the accompanying consolidated statements of operations. The consumption tax paid is generally offset against the balance of consumption tax withheld, and the net balance is included in current assets or current liabilities as appropriate.

### (r) Appropriation of retained earnings

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

### (s) Accounting standard for treasury stock and reduction of legal reserve

With effect from 1st April, 2002, ALSOK adopted "Accounting for Treasury Stock and Reduction of Legal Reserves" (Financial Accounting Standard No.1, Accounting Standards Board of Japan, 21st February, 2002). The adoption of this statement has no significant effect on ALSOK's net income for the year ended 31st March, 2003.

### (t) Per share information

Through the year ended March 31, 2002, the computation of basic net income per share was based on the weighted average number of shares of common stock outstanding during each year. And the computation of diluted net income per share was

required to be based on the weighted average number of shares of common stock outstanding each year after giving effect to the dilutive potential of common shares to be issued upon the exercise of warrants and the conversion of convertible bonds.

With effect from 1st April, 2002, ALSOK adopted "Accounting for Earnings per Share" (Financial Accounting Standard No.2, Accounting Standards Board of Japan, 25th September, 2002) and "Implementation Guidance on Accounting Standards for Earnings per Share" (Accounting Implementation Guidance No.4, Accounting Standards Board of Japan, 25th September, 2002). The new accounting standard for per share information requires the computation of per share information to exclude the amounts not belonging to ordinary shareholders.

The adoption of this statement has immaterial effect on ALSOK's per share information.

## 5 Cash and deposits

Cash and deposits on balance sheets include cash for transportation security services of ¥37,982 million and ¥41,282 million (\$ 390,598 thousand) as at 31st March, 2003 and 2004 respectively, which are restricted as to use by ALSOK. Short-term borrowings from banks include ¥10,375 million and ¥21,983 million (\$ 208,000 thousand) as at 31st March, 2003 and 2004 respectively, relating to this operation.

In addition to cash and deposits presented on the consolidated balance sheet, ALSOK has off-balance cash of ¥142,993 million and ¥174,902 million (\$ 1,654,862 thousand) at 31st March, 2003 and 2004 respectively, deposited from clients in the course of conducting transportation security services.

## 6 Cash and cash equivalents

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

	In millions of yen		In thousands of US dollars
	As at 31st March		As at 31st March
	2004	2003	2004
Cash and deposit accounts			
per balance sheets .....	¥ 96,492	¥ 84,062	\$ 912,976
Deposits to mature			
in excess of three months .....	(9,801)	(8,882)	(92,735)
Cash for transportation security services .....	(41,282)	(37,982)	(390,598)
Short-term investments (securities) to be redeemed within three months of acquisition date .....	405	585	3,837
Cash and cash equivalents per statements of cash flows .....	¥ 45,814	¥ 37,783	\$ 433,480

## 7 Short-term borrowings and long-term debt

Short-term borrowings represent bank loans which are due within one year. The average interest rates for outstanding short-term borrowings are both 1.4% as at 31st March, 2003 and 2004.

The long-term debt as at 31st March, 2003 and 2004 is comprised of the following:

	In millions of yen		In thousands of US dollars
	As at 31st March		As at 31st March
	2004	2003	2004
Loans, principally from banks, due 2003 to 2013 with interest rates ranging from 0.54% to 3.8% for 2003 balance, due 2004 to 2013 with interest rates ranging from 0.53 % to 3.8 % for 2004 balance			
Secured .....	¥ 1,837	¥ 2,483	\$ 17,380
Unsecured .....	19,566	12,739	185,127
Unsecured 2.60% bonds			
No.4 due 2003 December .....	—	3,000	—
Unsecured 2.60% bonds			
No.5 due 2003 December .....	—	2,000	—
Unsecured 2.60% bonds			
No.6 due 2003 December .....	—	2,000	—
Unsecured 2.98% bonds			
No.7 due 2004 February .....	—	1,500	—
Unsecured 2.98% bonds			
No.8 due 2004 February .....	—	1,500	—
Unsecured 0.49% bonds			
No.1 due 2006 May (*1) .....	300	—	2,838
Unsecured 0.50% bonds			
No.2 due 2006 May (*1) .....	200	—	1,892
Unsecured 1.53% bonds			
No.1 due 2008 July (*2) .....	500	—	4,732
Unsecured 1.70% bonds			
No.1 due 2005 December (*3) .....	100	—	946
	22,503	25,222	212,915
Less – current portion due within one year .....	5,399	15,873	51,082
Total .....	¥ 17,104	¥ 9,349	\$161,833

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

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

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

The aggregate annual maturities of long-term debt (including the current portion) outstanding at 31st March, 2004 are summarised as follows:

	In millions of yen		In thousands of US dollars
	As at 31st March		As at 31st March
	2004	2004	2004
Year ending 31st March			
2005 .....	¥ 5,399		\$ 51,082
2006 .....	4,907		46,427
2007 .....	4,068		38,488
2008 .....	3,740		35,390
2009 .....	3,065		29,002
Thereafter .....	1,324		12,526
Total .....	¥ 22,503		\$ 212,915

## 8 Assets pledged as collateral

The following assets were pledged as collateral on 31st March, 2003 and 2004.

	In millions of yen		In thousands of US dollars
	As at 31st March		As at 31st March
	2004	2003	2004
Cash and deposits .....	¥ 75	¥ 122	\$ 711
Land .....	4,617	4,421	43,682
Buildings and structures .....	1,993	2,105	18,853
Investments in securities .....	10	10	101
Total .....	¥ 6,695	¥ 6,658	\$ 63,347

The obligations collateralised by the above assets on 31st March, 2003 and 2004 are as follows:

	In millions of yen		In thousands of US dollars
	As at 31st March		As at 31st March
	2004	2003	2004
Short-term borrowings .....	¥ 173	¥ 178	\$ 1,632
Current portion of long-term debt .....	530	730	5,018
Long-term debt .....	1,306	1,753	12,362
Total .....	¥ 2,009	¥ 2,661	\$ 19,012

## 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.)

According to the enactment of the Defined benefit Pension Plan Law on April 1, 2002, the Company and some of its consolidated subsidiaries obtained an approval of exemption from future obligation to pay benefits for the substituted portion of the governmental welfare pension program by the Ministry of Health, labour and Welfare on 1st March 2004. The Company and some of its consolidated subsidiaries regarded benefit obligation and plan assets on the substituted portion of the governmental welfare pension program as having disappeared on the approval date of exemption, and accounted it in accordance with a transitional measurement of the implementation guidance on the accounting standard for employees' retirement benefits. ALSOK recognized a gain on exemption from future pension obligation of the governmental program in the amount of ¥19,666 million (\$186,073 thousands) for the year ended 31st March, 2004. Also, the amount of transferred obligation to the government, equivalent to the minimum actuarial reserve, is estimated as ¥36,603 million (\$346,322 thousands) on 31st March, 2004.

(2) The following table sets out the status of the plans, and the amounts recognised in the consolidated balance sheets as at 31st March, 2003 and 2004 for ALSOK's defined benefit plans:

	In millions of yen		In thousands of US dollars
	Year ended 31st March	Year ended 31st March	Year ended 31st March
	2004	2003	2004
Retirement benefit obligation	¥ (75,752)	¥ (136,422)	\$ (716,737)
Plan assets	23,190	51,529	219,418
Unfunded retirement benefit obligation	(52,562)	(84,893)	(497,319)
Unrecognised actuarial gain	9,921	26,247	93,873
Unrecognised prior service cost (decrease in obligation) (*1)	(1,205)	(5,607)	(11,407)
Net amount recognised in the balance sheet	(43,846)	(64,253)	(414,853)
Prepaid pension cost	—	—	—
Net retirement benefit liability	¥ (43,846)	¥ (64,253)	\$ (414,853)

(\*1) Prior service cost (decrease in obligation) has accrued as a result of the following. Alongside a revision in the Welfare Pension Insurance Law, which was enacted in March 2000, the rule was revised with respect to a rise in the initial age of payment relevant to the substituted portion. Secondly, and effective from 1st April, 2000, the "Sohgo Security Services welfare pension fund scheme" was transformed into an "additional type" fund scheme from a "substitution type" fund.

(\*2) 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.

## Notes to Consolidated Financial Statements

(3) The components of retirement benefit expenses for the year ended 31st March, 2002, 2003 and 2004 are outlined as follows:

	In millions of yen			In thousands of US dollars
	2004	2003	2002	2004
Service cost (*1)(*3) .....	¥ 5,143	¥ 5,678	¥ 5,812	\$ 48,660
Interest cost .....	3,354	3,499	3,280	31,741
Expected return				
on plan assets .....	(1,282)	(1,495)	(1,459)	(12,130)
Recognised actuarial gain .....	2,640	1,138	582	24,976
Amortisation of				
prior service cost (*2) .....	(2,828)	(2,810)	(2,805)	(26,760)
Extra severance payment .....	198	179	342	1,878
Net periodic benefit cost .....	7,225	6,189	5,752	68,365
Gain on exemption				
from future pension obligation				
of the governmental				
program .....	¥ (19,666)	—	—	(186,073)
<b>Total .....</b>	<b>(12,441)</b>	<b>¥ 6,189</b>	<b>¥ 5,752</b>	<b>\$ (117,708)</b>

(\*1) Employees' contributions to welfare pension fund are deducted.

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

(\*3) Retirement benefit expenses for consolidated subsidiaries adopting a simplified method in conformity with the accounting standard for the employees' retirement benefits are included.

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

	2004	2003	2002
Discount rate .....	2.5%	2.5%	3.0%
Expected return on assets .....	2.5%	3.0%	3.0%
Amortisation period of			
prior service cost .....	5 years	5 years	5 years
Recognition period of			
actuarial gain/loss			
(Amortisation commences			
from next year) .....	10 years	10 years	10 years

Estimated retirement benefits are equally allocated over service period.

### 10 Investments in non-consolidated subsidiaries and affiliated companies

ALSOK's investments in non-consolidated subsidiaries and affiliated companies were ¥4,964 million and ¥5,476 million (\$51,816 million) as at 31st March, 2003 and 2004 respectively.

### 11 Contingent liabilities

ALSOK has contingent liabilities with respect to guarantees on the borrowings from financial institutions of the following companies. Under these circumstances, the guaranteed amount is netted off against the reserves for losses on debt guarantees.

As at 31st March	In millions of yen		In thousands of US dollars
	2004	2003	2004
Pan Asia Co., Ltd. ....	¥ —	¥ 52	\$ —

### 12 Selling, general and administrative expenses

Selling, general and administrative expenses comprise the following.

	In millions of yen			In thousands of US dollars
	2004	2003	2002	2004
Advertising .....	¥ 1,997	¥ 1,975	¥ 1,831	\$ 18,897
Salaries and				
allowances .....	27,135	27,292	27,488	256,736
Retirement benefit				
expenses .....	1,731	1,359	1,424	16,379
Welfare and service .....	4,209	3,965	3,768	39,824
Depreciation .....	1,489	1,405	1,342	14,086
Rent .....	5,133	5,447	5,718	48,570
Taxes and duties .....	624	812	1,083	5,901
Communication .....	1,123	1,051	917	10,622
Research and				
development .....	859	647	489	8,126
Other .....	7,560	7,021	7,638	71,543
<b>Total .....</b>	<b>¥ 51,860</b>	<b>¥ 50,974</b>	<b>¥ 51,698</b>	<b>\$ 490,684</b>

### 13 Non-cash financing activities

On 1st April, 2001, the Company made 14 consolidated subsidiaries wholly owned subsidiary companies through stock-swaps. As these companies operate security services locally, the purpose of the integration was to reinforce unity within the group and increase the competitiveness, profitability and corporate values of ALSOK as a whole.

The Company issued 277,791 shares of common stock to acquire minority interests in these 14 consolidated subsidiaries through stock-swaps. As a result of the acquisition of the outstanding minority ownership interest on 1st April, 2001, common stock and capital surplus on the consolidated financial statements increased by ¥139 million and ¥4,692 million respectively. The increase of capital surplus of ¥4,692 million was calculated based on the fair value of the Company's newly issued and swapped stocks after deducting the increased amount of common stocks, and including the increase of capital surplus of ¥3,138 million in the Company's books on a non-consolidated basis.

On 1st April 2003, the Company merged with Sokei Electrical Industry Co., Ltd. ("SEI"), a wholly owned subsidiary. As SEI was a supplier of security services for ALSOK group, the merger was a part of restructuring, aiming at the improvement of business efficiency. As a result of this merger, capital surplus on the consolidated financial statement increased by ¥2,729 million.

Assets and liabilities transferred from SEI to the Company are summarized below:

	In millions of yen
<b>(Asset)</b>	
Current assets .....	¥ 5,021
Property, plant and equipment .....	1,554
Intangible assets .....	75
Investments and other assets .....	592
<b>(Liabilities)</b>	
Current liabilities .....	¥ 3,406
Long-term liabilities .....	379

### 14 Land revaluation account

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

The value of land is based on the official notice prices calculated as directed by public notification of the Commissioner of the National Tax Administration and as provided for in the Law Concerning Public Notification of Land Prices, as stipulated in Article 2-4 of the Ordinance Implementing the Law Concerning Land Revaluation (Government Ordinance No.119, promulgated on 31st March, 1998), after making reasonable adjustments.

Net book value of land used for business purposes:

	In millions of yen	In thousands of US dollars
Before revaluation .....	¥ 10,946	\$ 103,568
After revaluation .....	5,360	50,716
Balance of land revaluation account .....	¥ 5,586	\$ 52,852

Date of revaluation was as at 31st March, 2002. As at 31st March, 2004, the total fair value of revalued land is less than the total book value by ¥ 832 million (\$7,873 thousand).

## Notes to Consolidated Financial Statements

### 15 Leases

#### A) Lessee leases

##### a) Finance leases

1) The following pro-forma amounts represent the acquisition cost, accumulated depreciation and net book value of leased property as at 31st March, 2003 and 2004 which would have been reflected in the balance sheet if finance lease accounting had been applied to the finance lease transactions currently accounted for as operating leases.

	In millions of yen As at 31st March		
	2004		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery, equipment and delivery equipment .....	¥ 13,762	¥ 8,547	¥ 5,215
Other .....	466	347	119
<b>Total .....</b>	<b>¥ 14,228</b>	<b>¥ 8,894</b>	<b>¥ 5,334</b>

	In millions of yen As at 31st March		
	2003		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery, equipment and delivery equipment .....	¥ 12,094	¥ 6,536	¥ 5,558
Other .....	461	309	152
<b>Total .....</b>	<b>¥ 12,555</b>	<b>¥ 6,845</b>	<b>¥ 5,710</b>

	In thousands of US dollars As at 31st March		
	2004		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery, equipment and delivery equipment .....	\$ 130,208	\$ 80,864	\$ 49,344
Other .....	4,410	3,288	1,122
<b>Total .....</b>	<b>\$ 134,618</b>	<b>\$ 84,152</b>	<b>\$ 50,466</b>

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

	In millions of yen		In thousands of US dollars
	As at 31st March		As at 31st March
	2004	2003	2004
Due within one year .....	¥ 2,158	¥ 2,351	\$ 20,419
Due after one year .....	3,310	3,812	31,322
<b>Total .....</b>	<b>¥ 5,468</b>	<b>¥ 6,163</b>	<b>\$ 51,741</b>

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

	In millions of yen		In thousands of US dollars
	As at 31st March		As at 31st March
	2004	2003	2004
Lease payments .....	¥ 2,604	¥ 2,678	\$ 24,636
Depreciation equivalent .....	3,011	2,574	28,493
Interest expense equivalent .....	¥ 189	¥ 217	\$ 1,790

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 at 31st March		As at 31st March
	2004	2003	2004
Due within one year .....	¥ 2,183	¥ 2,305	\$ 20,653
Due after one year .....	14,400	17,188	136,246
<b>Total .....</b>	<b>¥ 16,583</b>	<b>¥ 19,493</b>	<b>\$ 156,899</b>



## B) Lessor leases

1) The following pro-forma amounts represent the acquisition cost, accumulated depreciation and net book value of leasing property as at 31st March, 2003 and 2004.

	In millions of yen As at 31st March					
	<b>2004</b>					
	Acquisition cost		Accumulated depreciation		Net book value	
Machinery, equipment and delivery equipment .....	¥ 785	¥ (782)	¥ 380	¥ (379)	¥ 405	¥ (403)

	In millions of yen As at 31st March					
	<b>2003</b>					
	Acquisition cost		Accumulated depreciation		Net book value	
Machinery, equipment and delivery equipment .....	¥ 1,090	¥ (1,021)	¥ 561	¥ (506)	¥ 529	¥ (515)

	In thousands of US dollars As at 31st March					
	<b>2004</b>					
	Acquisition cost		Accumulated depreciation		Net book value	
Machinery, equipment and delivery equipment .....	\$ 7,423	\$ (7,400)	\$ 3,597	\$ (3,586)	\$ 3,826	\$ (3,814)

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

	In millions of yen				In thousands of US dollars	
	As at 31st March				As at 31st March	
	<b>2004</b>		2003		<b>2004</b>	
Due within one year	¥ 150	¥ (149)	¥ 192	¥ (181)	\$ 1,417	\$ (1,412)
Due after one year .....	280	(279)	373	(365)	2,648	(2,639)
Total .....	¥ 430	¥ (428)	¥ 565	¥ (546)	\$ 4,065	\$ (4,051)

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

	In millions of yen				In thousands of US dollars	
	As at 31st March				As at 31st March	
	<b>2004</b>		2003		<b>2004</b>	
Earned lease payments ....	¥ 220	¥ (219)	¥ 183	¥ (169)	\$ 2,085	\$ (2,072)
Depreciation equivalent .....	183	(182)	147	(140)	1,733	(1,723)
Interest income equivalent .....	¥ 36	¥ (36)	¥ 46	¥ (43)	\$ 343	\$ (341)

(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.

## Notes to Consolidated Financial Statements

### 16 Securities

(1) Information regarding marketable other securities as at 31st March, 2003 and 2004 is as follows:

	In millions of yen As at 31st March		
	2004		
	Acquisition cost	Carrying value	Unrealized gain(loss)
Securities whose carrying value exceeds their acquisition cost:			
(1) Stocks	¥ 4,282	¥ 8,315	¥ 4,033
(2) Debt securities			
a. National and local			
government bond	99	100	1
b. Corporate bond	1,600	1,666	66
(3) Others	229	249	20
Sub-total	6,210	10,330	4,120
Securities whose acquisition cost exceeds their carrying value:			
(1) Stocks	1,458	1,285	(173)
(2) Debt securities			
a. National and local			
government bond	—	—	—
b. Corporate bond	803	789	(14)
(3) Others	2,185	2,109	(76)
Sub-total	4,446	4,183	(263)
Total	¥ 10,656	¥ 14,513	¥ 3,857

	In millions of yen As at 31st March		
	2003		
	Acquisition cost	Carrying value	Unrealized gain(loss)
Securities whose carrying value exceeds their acquisition cost:			
(1) Stocks	¥ 2,290	¥ 4,022	¥ 1,732
(2) Debt securities			
a. National and local			
government bond	135	136	1
b. Corporate bond	1,433	1,469	36
(3) Others	401	407	6
Sub-total	4,259	6,034	1,775
Securities whose acquisition cost exceeds their carrying value:			
(1) Stocks	4,214	3,469	(745)
(2) Debt securities			
a. National and local			
government bond	—	—	—
b. Corporate bond	882	843	(39)
(3) Others	2,228	2,049	(179)
Sub-total	7,324	6,361	(963)
Total	¥ 11,583	¥ 12,395	¥ 812

	In thousands of US dollars As at 31st March		
	2004		
	Acquisition cost	Carrying value	Unrealized gain(loss)
Securities whose carrying value exceeds their acquisition cost:			
(1) Stocks	\$ 40,514	\$ 78,673	\$ 38,159
(2) Debt securities			
a. National and local			
government bond	941	947	6
b. Corporate bond	15,136	15,762	626
(3) Others	2,167	2,361	194
Sub-total	58,758	97,743	38,985
Securities whose acquisition cost exceeds their carrying value:			
(1) Stocks	13,791	12,151	(1,640)
(2) Debt securities			
a. National and local			
government bond	—	—	—
b. Corporate bond	7,600	7,469	(131)
(3) Others	20,676	19,956	(720)
Sub-total	42,067	39,576	(2,491)
Total	\$ 100,825	\$ 137,319	\$ 36,494

(Note) Impairment losses of ¥1,384 million, ¥862 million and ¥375 million (\$3,551 thousand), derived from other marketable securities, were charged to income for each of the three years ended 31st March, 2004 respectively.

(2) Proceeds from sales of securities amounted to ¥444 million, ¥1,893 million and ¥1,486 million (\$14,064 thousand) with an aggregate gross gain of ¥6 million, ¥26 million and ¥111 million (\$1,049 thousand) and aggregate gross losses of ¥9 million, ¥89 million and ¥439 million (\$4,152 thousand) for each of the three years ended 31st March, 2004 respectively.

(3) Carrying value of major non-marketable securities classified as other securities as at 31st March, 2003 and 2004 is summarised as follows.

	In millions of yen		In thousands of US dollars
	As at 31st March		As at 31st March
	2004	2003	2004
Unlisted stocks	¥ 7,979	¥ 8,043	\$ 75,496
(excluding OTC stocks)			
Unlisted corporate bonds	¥ 1,099	¥ 1,000	\$ 10,396
Other	¥ 10	¥ 1,009	\$ 95

(4) The redemption schedule for securities with maturity dates classified as other securities as at 31st March, 2003 and 2004 is summarised as follows.

	In million of yen As at 31st March			
	<b>2004</b>			
	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	¥ —	¥ 98	¥ —	¥ —
b. Corporate bond	407	1,495	292	200
(2) Others	10	3	317	898
<b>Total</b>	<b>¥ 417</b>	<b>¥ 1,596</b>	<b>¥ 609</b>	<b>¥ 1,098</b>

	In million of yen As at 31st March			
	<b>2003</b>			
	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	¥ 40	¥ 96	¥ —	¥ —
b. Corporate bond	36	1,990	285	—
(2) Others	1,215	112	298	676
<b>Total</b>	<b>¥ 1,291</b>	<b>¥ 2,198</b>	<b>¥ 583</b>	<b>¥ 676</b>

	In thousands of US dollars As at 31st March			
	<b>2004</b>			
	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	\$ —	\$ 923	\$ —	\$ —
b. Corporate bond	3,847	14,150	2,759	1,892
(2) Others	95	32	3,003	8,496
<b>Total</b>	<b>\$ 3,942</b>	<b>\$ 15,105</b>	<b>\$ 5,762</b>	<b>\$ 10,388</b>

## 17 Derivative financial instruments

For the year ended 31st March, 2003 and 2004, ALSOK entered into a derivative transaction, interest rate swap, to hedge interest fluctuation risk arising from certain bank loan in accordance with internal rules. As the interest rate swap transaction qualifies for hedge accounting and meets specific matching criteria, it is not applicable to the disclosure of market value information.

## 18 Income taxes and deferred tax assets and liabilities

(1) Significant components of ALSOK's deferred tax assets and liabilities on 31st March, 2003 and 2004 are as follows:

	In millions of yen		In thousands of US dollars
	As at 31st March		As at 31st March
	<b>2004</b>	2003	<b>2004</b>
Deferred tax assets:			
Accrued enterprise tax	¥ 333	¥ 274	\$ 3,150
Allowance for bonuses	2,106	1,534	19,925
Allowance for doubtful accounts	890	167	8,421
Excess of maximum depreciation	628	827	5,946
Installation cost for signal equipment on subscribers' premises	3,833	4,233	36,264
Accrued retirement benefit for employees	15,573	23,785	147,342
Accrued retirement benefit for directors and corporate auditors	880	944	8,329
Valuation losses on investment in securities	145	167	1,372
Others	2,899	1,238	27,431
<b>Total deferred tax assets</b>	<b>27,287</b>	<b>33,169</b>	<b>258,180</b>
Deferred tax liabilities:			
Special depreciation reserve	(20)	(46)	(194)
Valuation differences in other securities	(1,569)	(345)	(14,845)
<b>Total deferred tax liabilities</b>	<b>(1,589)</b>	<b>(391)</b>	<b>(15,039)</b>
<b>Net deferred tax assets</b>	<b>¥ 25,698</b>	<b>¥ 32,778</b>	<b>\$ 243,141</b>

## Notes to Consolidated Financial Statements

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

	In millions of yen		In thousands of US dollars
	As at 31st March		As at 31st March
	2004	2003	2004
Current asset -			
Deferred tax assets	¥ 3,306	¥ 2,480	\$ 31,276
Non-current asset -			
Deferred tax assets	22,392	30,298	211,865
Net deferred tax assets	¥ 25,698	¥ 32,778	\$ 243,141

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

	Year ended 31st March		
	2004	2003	2002
Statutory tax rate	40.7%	42.1%	42.1%
Increase (reduction) in taxes resulting from:			
Items that may not be incorporated in losses permanently, including entertainment expenses, etc.	0.5	1.1	1.6
Items that may not be incorporated in profits permanently, including dividend income, etc.	(0.0)	(0.1)	(1.1)
Inhabitants equalisation tax	1.1	1.5	2.1
Amortisation of goodwill	0.7	1.9	2.2
Equity in earnings of affiliates	(0.7)	(1.2)	(1.5)
Adjustment of deferred tax assets and liabilities due to tax rate change	—	4.7	—
Others	(1.2)	(0.2)	1.1
Effective income tax rate	41.1%	49.8%	46.5%

(3) Income tax rate change

Accompanying the revision of local income tax law (Law No.9, promulgated on 31st March, 2003), statutory tax rate used for the calculation of non-current portion of net deferred tax assets is changed to 40.7% for the year ended 31st March, 2003, from 42.1% through the year ended 31st March, 2002. As a result, net deferred tax assets decreased and deferred income taxes increased by ¥814 million for the year ended 31st March, 2003.

## 19 Segmental information

(1) Business segments

Business segment information disclosure has been omitted as the security business accounts for more than 90 per cent of total sales, operating profits and total assets of all segments for each of the three years ended 31st March, 2004.

(2) Geographical segments

Geographical segment information disclosure is not applicable to ALSOK as there have been no consolidated subsidiary or material branch office which is located in a country or region other than Japan, as at 31st March, 2002, 2003 and 2004.

(3) Net sales by region

Net sales by region information disclosure is not applicable to ALSOK, as there have been no overseas sales for each of the three years ended 31st March, 2004.

## 20 Related party transactions

Transactions and related balances with certain officers, employees and unconsolidated entities for each of the three years ended 31st March, 2004 were as follows:

	In millions of yen			In thousands of US dollars
	Year ended 31st March			Year ended 31st March
	2004	2003	2002	2004
Donation to foundations (included in selling, general and administrative expenses)	¥ 170	¥ 168	¥ 154	\$ 1,604
Free-lending of office space (included in selling, general and administrative expenses) (*1)	¥ 27	¥ 29	¥ 43	\$ 258
Sale of security equipment (*2)	¥ —	¥ —	¥ 1	\$ —
Balance related to the above	¥ —	¥ —	¥ —	\$ —

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

(\*2) The terms of these sales were equivalent to those of an arm's-length transaction.

## 21 Per share information

	In yen			In USD
	2004	2003	2002	2004
Net income per share—Basic	¥ 175.11	¥ 79.84	¥ 1,037.01	\$ 1.66
—Diluted	¥ 174.99	¥ 79.56		\$ 1.66
Net assets per share	¥ 1,188.65	¥ 1,023.04	¥ 11,573.86	\$ 11.25

As described per Note 4 (t), ALSOK adopted new accounting standard for earnings per share effective from 1st April, 2002. And as at 1st August, 2002, the Company split its stocks for thirteen-for-one. Under the hypothesis that the stock split was executed as at 1st April, 2001, and that new accounting standard was adopted one year earlier than actual adoption, ALSOK's per share information for the year ended 31st March, 2002 would be restated as follows:

Net income per share - basic	¥ 75.72
Net assets per share	¥ 885.94

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

	In millions of yen		In thousands of US dollars
	Year ended 31st March	2003	As at 31st March
	2004	2003	2004
<b>Net income per share - basic</b>			
Net income	¥ 17,753	¥ 7,549	\$ 167,972
Amount not belonging to ordinary shareholders	177	226	1,678
—Of which bonuses to directors by appropriation of retained earnings	(205)	(256)	(1,943)
—Of which the Company's share of bonuses to directors by appropriation of retained earnings for prior fiscal year of the companies accounted for under the equity method	(△28)	(△30)	(△265)
Net income attributable to common stock	17,576	7,323	166,294
Weighted average number of ordinary shares (thousands of shares)	100,372	91,718	100,372
<b>Net income per share – diluted</b>			
Adjustment to net income	—	—	—
Increase of ordinary shares (thousands of shares)	¥ 69	¥ 327	\$ 69

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

## Independent Auditors' Report

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. and subsidiaries as at 31st March, 2003 and 2004, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years ended 31st March, 2004, all expressed in Japanese yen.

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sohgo Security Services Co., Ltd. and consolidated subsidiaries as at 31st March, 2003 and 2004, and the results of their operations and their cash flows for each of the three years ended 31st March, 2004 in conformity with accounting principles generally accepted in Japan.

The United States dollar amounts in the accompanying consolidated financial statements with respect to the year ended 31st March, 2004 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 ASG*

Tokyo, Japan  
29<sup>th</sup> June, 2004

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# Corporate Information

## Corporate Information (As of 31st March, 2004)

### SOHGO SECURITY SERVICES CO., LTD.

**Head Office:** 1-6-6 Motoakasaka, Minato-ku, Tokyo, 107-8511  
**Telephone:** +81-3-3470-6811  
**Established:** July 16, 1965  
**Capital:** ¥16,966,245,500  
**Employee:** 23,046 (consolidated)  
**Offices:** 5 business head quarters, 59 branch offices, 45 offices, 178 sales offices (As of 1st June, 2004)

## Stock Information (As of 31st March, 2004)

**Stock Listing:** Tokyo  
**Code:** 2331  
**Total Number of Shares Authorized:** 300,000,000  
**Number of Shares Issued:** 100,404,142\*  
\*The Company issued 33,600 of new shares as for exercise of stock option in the year ended 2004.  
**Number of Shareholders:** 14,634

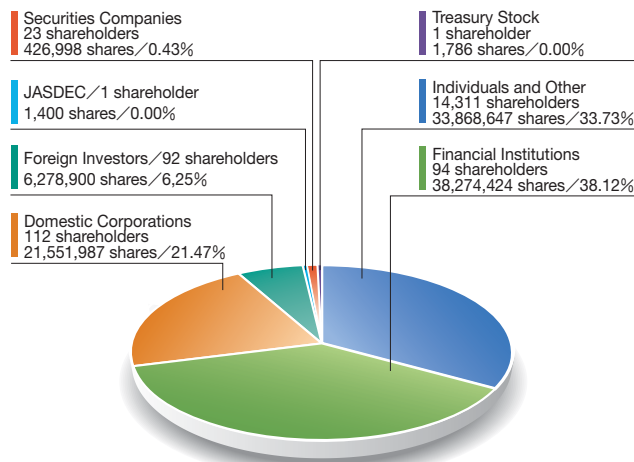
### Major Shareholders:

	Name	Number of Shares Held (1,000 shares)	Percentage of voting rights in issue (%)
1	Tsuneo Murai	9,043	9.01
2	SOHGO CORPORATION	7,388	7.36
3	Employee stock ownership plan	7,214	7.18
4	Japan Trustee Services Bank, Ltd.(trust account)	6,469	6.44
5	Saitama Machinery Co., Ltd.	5,283	5.26
6	The Master Trust Bank of Japan, Ltd. (trust account)	4,341	4.32
7	Trust & Custody Services Bank, Ltd as trustee for Mizuho Bank Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd	4,261	4.24
8	The Tokio Marine and Fire Insurance Co., Ltd.	3,420	3.40
9	Atsushi Murai	2,932	2.92
10	Sumitomo Mitsui Banking Corporation	2,735	2.72

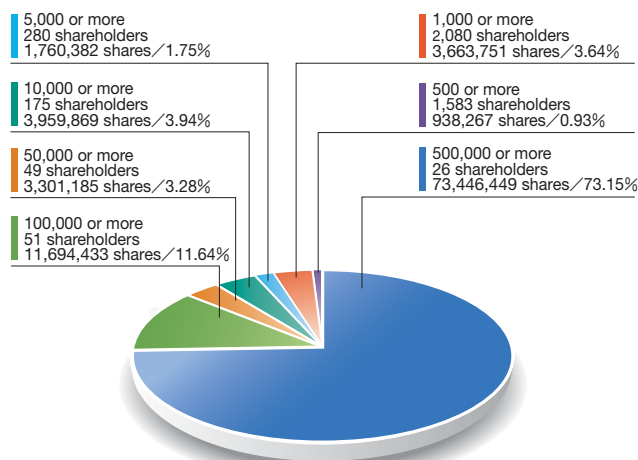
## The ALSOK Group (As of 31st March, 2004)

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

## Breakdown of Shareholders (As of 31st March, 2004)



### Types of Shareholders



### Number of Shareholders

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**Fax:** +81-3-3470-1565  
**E-mail:** alsok-ir@alsok.co.jp



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