May 19, 2006

Consolidated Financial Statements for the Fiscal Year Ended March 2006

Company name: Shinoken Co., Ltd.
Stock code: 8909
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Stock Exchange listing: JASDAQ
Location: Fukuoka Prefecture

Date of board of directors' meeting for settlement of accounts: May 19, 2006
Adoption of U.S. GAAP: Not adopted

1. Consolidated Financial Results for the Fiscal Year Ended March 2006 (April 1, 2005 - March 31, 2006)

(1) Consolidated Results of Operations

(All amounts are rounded down to the nearest million yen)

	Revenues		Operating income		Ordinary income	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
March 2006	18,563	48.5	1,320	77.2	1,017	70.1
March 2005	12,498	46.8	745	56.7	597	53.8

	Net income		Net income per share (basic)	Net income per share (diluted)	Return on equity	Ratio of ordinary income to total assets	Ratio of ordinary income to revenues
	Millions of Yen	%	Yen	Yen	%	%	%
March 2006	(632)	-	(22,358.86)	-	(22.7)	6.1	5.5
March 2005	391	91.2	28,350.39	-	22.2	5.4	4.8

Notes: 1. Investment profit/loss under equity method:
Mar. '06: 5 million yen, Mar. '05: 5 million yen
2. Average number of outstanding shares during the period (consolidated):
Mar. '06: 28,270 shares, Mar. '05: 13,801 shares
3. Changes of accounting principles: None
4. Percentage in revenues, operating income, ordinary income, and net income represent the year-on-year percentage change.

(2) Consolidated Financial Position

(All amounts are rounded down to the nearest million yen)

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	Millions of Yen	Millions of Yen	%	Yen
March 2006	21,203	3,459	16.3	92,947.54
March 2005	12,277	2,114	17.2	153,813.39

Note: Number of outstanding shares at the end of the period (consolidated):
Mar. '06: 37,219 shares, Mar. '05: 13,747 shares

(3) Consolidated Cash Flow Position

(All amounts are rounded down to the nearest million yen)

	CF from operating activities	CF from investing activities	CF from financing activities	Cash and cash equivalents at end of period
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
March 2006	(9,016)	(168)	9,204	2,335
March 2005	433	(250)	1,021	2,315

(4) Scope of Consolidation and Application of Equity Method

Consolidated subsidiaries: 3 Non-consolidated subsidiaries subject to equity method: -
Affiliated company subject to equity method: 1

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

Consolidated (new): - (excluded): - Companies subject to equity method (new): - (excluded): -

2. Forecast Business Performance for the Fiscal Year Ending March 2007 (April 1, 2006 - March 31, 2007)

	Revenues	Ordinary income	Net income
	Millions of Yen	Millions of Yen	Millions of Yen
Interim	8,100	115	100
Full year	21,500	1,100	690

Reference: Estimated net income per share (full year): 18,538.92 yen

* The estimated values above have been prepared based on information available as of the announcement date of the summary. Actual results of operations may differ from the estimated values depending on various factors.

1. Corporate Group

The Shinoken Co., Ltd. group consists of our company, three consolidated subsidiaries, and one equity-method affiliate. The main line of business is asset utilization and consulting for rental apartment building management.

Below we discuss the major lines of business of the corporate group, and business relations with consolidated subsidiaries.

The business divisions described below are the same as those used in 'Operating segment information' in the 'Segment Information' section of attachments.

Rental apartment building sales business

Our company prepares a business plan for rental apartment building management using quality land information obtained through in-house research, and sells both land and rental apartment buildings to individual investors. Our company sells directly and through sales agencies, and is expanding supplies and coverage areas.

Nissho Harmony Co., Ltd. handles the planning, sales, and management of one-room rental apartments for private use in the Tokyo metropolitan area.

Real estate rental management business

Our company provides overall support to customers for rental apartment building management, including occupant advertising, rent collection, housing maintenance, and so on.

Finance business

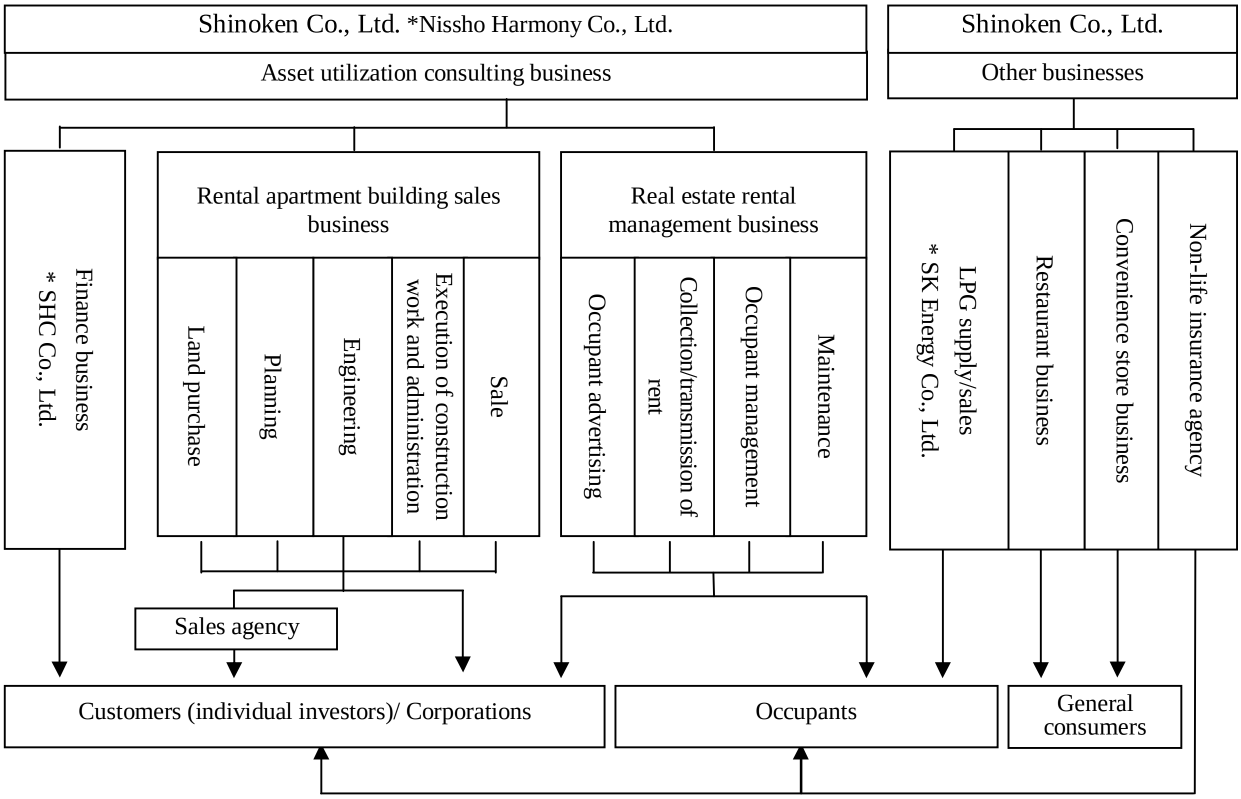
SHC Co., Ltd. is responsible for financing a portion of the purchase funds for customers who have decided to purchase properties.

Shinohara Corporation Ltd. changed its name to SHC Co., Ltd. effective August 4, 2005.

Other businesses

SK Energy Co., Ltd. is responsible for supplying LPG to occupants of rental apartment buildings that our company manages. Also, we manage a convenience store 'Family Mart Shinohara Hisayama Shop' through a franchise contract with Family Mart Co., Ltd.; manages Japanese style pubs (izakaya) 'Kitamae aburi Takadaya Hakata Nakasu Shop' and 'Kitamae soba Takadaya Fukuoka Tenjin Shop' through franchise contracts with TASCOSYSTEM Co., Ltd. Our company also operates non-life insurance agencies for The Tokio Marine and Fire Insurance Co., Ltd. and The Asahi Fire & Marine Insurance Co., Ltd.

Business flow chart is as follows:



*1. Consolidated subsidiaries

*2. Shinohara Corporation Ltd. changed its name to SHC Co., Ltd. effective August 4, 2005.

2. Management Policies

(1) Basic Management Policy

Our company has been involved since incorporation in the asset utilization and consulting business mainly in the Fukuoka, Tokyo, Nagoya, and Sapporo metropolitan areas. As an asset expansion specialist, our company's business philosophy is ‘The success of customers is everything!’

We aim to eliminate the stereotype that rental apartment building management is an asset utilization tool for landowners only, and promote a business model by which even ordinary individual investors that do not own land can safely participate in the management of low-rise rental apartment buildings. We devote ourselves to supplying quality high-rise rental apartment buildings with a comfortable living environment, and will continuously work to strengthen our organizational structure and develop products to ensure we remain an equitable and enduring publicly-listed company that contributes to community development.

(2) Basic Policy of Profit Distribution

We aim to continuously improve shareholder value including through profit distribution.

For this purpose, we have established an effective business organization for the aggressive promotion of operations, and have established a stable and continuous profit structure that is not easily impacted by changes in the economic environment. Our top priorities are returning profits to shareholders and maintaining stable operations.

(3) Policy of Lowering the Minimum Investment Unit

We recognize that lowering is an effective means for enhancing stock liquidity as it puts the stock within reach of more investors which helps to reinvigorate the stock market. We will cautiously examine lowering the minimum investment unit taking into consideration business results, market conditions, and cost-effectiveness.

(4) Target Performance Indicators

The group positions ‘Return on equity’ (ROE) as an important performance indicator. We aim to strengthen the corporate foundation to maintain ROE above 20% in all business circumstances.

(5) Mid- to Long-Term Business Strategy

Rental apartment building sales and rental real estate management form the foundation of our group’s profit structure. In rental apartment building sales business, we will continue to prioritize sales in the Fukuoka metropolitan area, but will also begin to focus on other branch offices. We differentiate ourselves from major competitors through a marketing strategy that encourages a direct approach to ordinary individual investors who do not own land.

In rental real estate management business, newly-built rental apartment buildings account for the majority of properties managed at present. However, as the number of older rental apartment buildings (ten years and over) increases, we will propose renovation plans to owners to improve the attractiveness of their rental apartment buildings in order to maintain high occupancy rates.

(6) Challenges to be Addressed by our company

The business environment for our group deteriorated significantly after the earthquake-resistance data fabrication scandal came to light. However, thanks to the overwhelming support and cooperation of financial institutions and affiliates, we have bought back problem properties and have begun to raze those that cannot be repaired and strengthen those that are repairable. In this way, we have made good progress in dealing with this temporary setback, and thank all involved for their support.

We plan to make good on what we have learned from this incident to ensure it never happens again, and management will work together with employees to implement the following countermeasures.

(Implementation of preventative measures, and measures to improve the construction process)

Structural calculations will be carried out by a professional third-party institution selected or approved by our company, and a second professional third-party institution will then re-examine the structural calculations. We believe this double-check system for all properties will help prevent a reoccurrence of the data fabrication incident.

(Measures to win back trust)

We will redouble our efforts to ensure thorough quality control, aftercare, and customer satisfaction, in order to build safe and secure houses for users, and to establish a system whereby owners feel secure outsourcing asset management to our company.

We humbly ask shareholders for their continued support and guidance going forward.

(7) Maintenance and Management of Internal Administrative Control

We omit this section as it overlaps with the corporate governance report "Basic policy and arrangement of the internal compliance system" that we plan to disclose in May 2006.

(8) Basic Policy of Related Party Transactions (parent company, etc.)
Not applicable as our company has no parent company.

3. Results of Operations and Financial Position

(1) Results of Operations

While concerns existed that high raw materials prices, rising long-term interest rates, and tax hikes might cause the economy to fall back into recession, private capital investment and personal consumption continued to rise on improving corporate earnings, and the Japanese economy remained on a recovery path in the current fiscal year under review, and even broadened to sectors where the recovery had been delayed.

In the real estate industry, housing construction and rental housing construction starts increased year-on-year in Fiscal 2005. Land prices, which affect the real estate market, appear to finally have begun bottoming after many years of declines, and the number of areas in central Tokyo with rising land prices broadened thanks to aggressive real estate investment.

Under these circumstances, we strengthened collaboration among group companies, promoted information sharing, and worked to expand sales and improve service quality in the Fukuoka, Tokyo, Nagoya, and Sapporo metropolitan areas.

Consolidated group results for the fiscal year ended March 31, 2006 were as follows: consolidated revenues 18,563 million yen (up 48.5% from a year earlier); and consolidated ordinary income 1,017 million yen (up 70.1%). However, we booked a net loss of 632 million yen (compared with a 391 million yen gain in the same period of the previous fiscal year) due to an extraordinary losses of 2,290 million yen related to the earthquake-resistance data falsification scandal.

The outline of results by business segment is as follows:

a) Rental apartment building sales business

In the low-rise rental apartment building sales business, our company conducted an aggressive promotion campaign using the catchphrase “anyone can manage an apartment building—even with few funds and no land!” and focusing on plots of land that are conveniently located and reasonably priced. We concluded a business alliance with the Tokyo Star Bank to introduce non-recourse loans which limit a borrower’s liability, in August 2004, for prospective individual apartment building owners. The prospective customer base has been broadened as recognition of these loans has become more widespread among apartment purchasing applicants.

In the high-rise rental apartment building business, we opened promotion channels to investment funds. Meanwhile we succeeded in receiving more orders than before by securing good land plots for development mainly in the Tokyo, Fukuoka, and Nagoya metropolitan areas.

Revenues in the rental apartment building sales business totaled 16,251 million yen (up 54.8%), and operating income 1,206 million yen (up 90.5%).

b) Rental real estate management business

In the rental real estate management business, new properties for management have steadily grown reflecting good sales of rental apartment buildings. The number of family units for management totaled 7,502 at the end of the current fiscal year. SG&A expenses increased due to increased staff assigned to apartment occupant services, such as video-on-demand (VOD) which we jointly released with Usen Corporation in August 2005.

Revenues in the rental real estate management business totaled 1,484 million yen (up 19.4%), and operating income 373 million yen (up 1.2%).

c) Finance business

In the financing business, the balance of operating loans totaled 1,689 million yen at the end of the current fiscal year owing to an increase in the number of new rental apartment building sales customers. Revenues in the finance business totaled 116 million yen (up 58.4%), and operating income 46 million yen (up 162.0%).

Shinohara Corporation Ltd. changed its name to SHC Co., Ltd. effective August 4, 2005.

d) Other businesses

The number of family units to which LPG was supplied and sold by SK Energy Co., Ltd. totaled 4,069 (up 28.4%) at the end of the current fiscal year.

We planned and carried out promotional activities, and were thorough in managing costs, at the two franchise Japanese style pubs (izakaya) and one convenience store that we operate.

Revenues in other businesses totaled 711 million yen (up 4.5%), and operating income 96 million yen (up 56.2%).

(2) Financial Position

Cash and cash equivalents (hereinafter ‘net cash’) on a consolidated basis for the current fiscal year ended March 31, 2006 totaled 2,335 million yen, an increase of 19 million yen from a year earlier.

The status of cash flows by activity were as follows:

(Operating activities)

Net cash used in operating activities was 9,016 million yen (up 9,450 million yen from a year earlier). Cash flow increased due to a 2,290 million yen in reserves for losses related to the earthquake-resistance data falsification scandal; cash flow decreased due to a 933 million yen in net loss before income taxes, a 7,525 million yen increase in inventories and a 1,876 million yen in outlays related to the earthquake-resistance data falsification scandal.

(Investing activities)

Net cash used in investing activities was 168 million yen (down 82 million yen). Mainstay items included 1,400 million yen in outlays for the acquisition of tangible assets including properties that were built based on fabricated earthquake-resistance data, 987 million yen in income from the sale of land of properties that were built based on fabricated earthquake-resistance data, and 280 million yen in income from the cancellation of time deposit.

(Financing activities)

Net cash provided by financing activities was 9,204 million yen (up 8,183 million yen). Cash flow increased due to a 6,618 million yen net increase in short- and long-term borrowings, and 964 million yen in proceeds from a corporate bond issue and 1,988 million yen in proceeds from issuance of bonds with stock acquisition rights; cash flow decreased from the payment of 223 million yen in interest on borrowings.

(3) Outlook for the Fiscal Year ending March 31, 2007

The outlook for the fiscal year is strong. Backorders for rental apartment building sales as of March 31, 2006 totaled 5,680 million yen for low-rise apartment buildings, 8,764 million yen for high-rise apartment buildings, and 597 million yen for one-room rental apartments. Backorders increased 2,306 million yen in total from a year earlier. Under these circumstances, our forecast for the new fiscal year ending March 31, 2007 is as follows: consolidated revenues of 21,500 million yen; consolidated ordinary income of 1,100 million yen, and consolidated net income of 690 million yen.

(4) Business Risks

1. Business activities

(1) Rental apartment building sales business

1) Rental apartment building sales

Rental apartment building management embodies a variety of investment risks: the risk that rental income will decline due to a rise in vacancy rates or a decline in going rent rates, and the risk that rising interest rates will increase the debt repayment burden. There is the possibility that the balance of income of customers who engage in rental apartment building management will deteriorate because occupancy rates and rent rates often decline as a building ages.

Our company aims to minimize these risks by providing start-to-finish services, including land selection, project and funds planning, building design and construction, after-sales building management, occupant advertising, and maintenance. We believe these efforts will help sustain high occupancy rates. Our company offers multi-faceted support to ensure stable and long-term rental apartment building business by our customers. Not one of our customers has ever gone bankrupt from rental apartment building management.

However, it is impossible to completely eliminate all the risks associated with rental apartment building management. The following factors could negatively impact the rental apartment building management of our customers: a decline in occupancy rates or significant declines in going rent rates; a change in the stance of banks and financial institutions towards apartment building loans; and a sharp rise in interest rates. Because our group is intimately involved in customers' rental apartment building management, these factors would also likely exert a negative impact on our business results.

2) One-room rental apartment building sales

Our company sells one-room rental apartment buildings to apartment sales companies, including our consolidated subsidiary Nissho Harmony Co., Ltd., which plans, sells, and leases (including sub-leasing) one-room apartments for investment primarily in central Tokyo.

We research the marketing strength and other factors of apartment sales companies before doing business with them; and we procure land only after we have judged there are no problems.

However, the period from when we procure land to when we sell the apartment building to the apartment sales company presents inventory risk for our company. If the apartment sales company goes bankrupt before we are able to sell the apartment building to it, we would have to sell the apartment building either directly to end-customers, or to another apartment sales company. In this case, we might not be able to sell the building at the original price we intended. There is also the risk that we would not be able to recover receivables if the apartment sales company fails to sell the property they purchased from us to end-customers.

There is also the risk of sales concentrating on particular apartment sales companies.

We intend to increase unit sales going forward taking into consideration business size and market environment. A special purpose company (SPC), wholly owned by a limited-liability intermediate corporation whose stock we completely own, developed a building composed of over 200 one-room rental apartments in Nishi Gotanda (Shinagawa Ward). The SPC used non-recourse loans to borrow funds from financial institutions for this project.

We believe the SPC will develop other one-room rental apartment buildings going forward. We are examining a scheme to separate our company from the financial risk associated with this project, but this may not be possible for various reasons.

Nissho Harmony Co., Ltd., which sells one-room rental apartments to individuals, is vulnerable to various risks, including the economic cycle, interest rate trends, sales price trends, and changes to housing and other tax systems. It also faces inventory risk if it fails to sell apartments in line with initial plans.

(2) Finance business

SHC Co., Ltd. (former Shinohara Corporation Ltd.), a group consolidated subsidiary, provides back-up loans to individuals that purchase rental apartment buildings from our company.

Back-up loans cover any gap between the rental apartment building purchase price, and the total funds a customer has through loans from banks and other financial institutions and personal money. A careful screening is carried out before a back-up loan is granted, and attention is paid to risk management as well. Our group provides back-up loans and sells rental apartment buildings to customers only after judging a property will provide sufficient investment returns, and the customer will be able to handle the loan burden based on his/her annual income and other factors. In general, the purchased property is put up as collateral for the back-up loan.

We believe the number of customers using back-up loans will rise as we increase rental apartment building sales going forward, and we cannot guarantee that there will be no payment delays or that irrecoverable loans will not emerge. Our group will continue to strengthen our screening procedures and administration structure to minimize back-up loan risk.

SHC Co., Ltd. does not just provide back-up loans. The subsidiary has in the past, upon customer request, lent the difference between the price of a rental apartment building, and a customer's own funds, to customers who have purchased our rental apartment buildings. The subsidiary currently does not provide loans other than back-up loans, and this is its policy going forward.

The subsidiary is gradually working, with customer approval, to refinance these loans through general financial institutions. The same risk management used in providing back-up loans was used in providing these loans, but failure to refinance means a continued risk of payment delays and irrecoverable loans.

(3) Reliance on the rental apartment building business

Our group relies heavily on the rental apartment building sales business, where we build and sell rental apartment buildings to ordinary individuals (salaried private and public sector workers, self-employed, etc.) that do not necessarily own land where a rental apartment building could be built; and on the rental real estate management business, where we provide start-to-finish support of our customer's rental apartment buildings, including after-sales management, occupant advertising, and maintenance.

(4) Guarantee system against building foundation accidents

We provide a guarantee against building foundation accidents (we issue a guarantee certificate) for general individuals that purchase our rental apartment buildings. Our guarantee against building foundation accidents means that we provide repair funds to return the building to its original state were the building to require repairs from damage due to a faulty initial foundation survey or faulty foundation improvement work, or from defects in the building that are later discovered. The guarantee period is for ten years, and the maximum guarantee is 30 million yen for one accident or for damage over the length of the guarantee period. Regarding guarantee payments, we have concluded a ten-year Products Liability Insurance Special Contract with Asahi Fire & Marine Insurance Co., Ltd. The insurance company will compensate us based on the above insurance contract in the event we are forced to compensate customers under our guarantee system against building foundation accidents for damage that occurred through unequal settling and where the following surveys or construction were carried out:

Building owners could make a claim against our company regarding building defects or administration problems concerning the rental apartment buildings that we sell, build, and administer, and concerning trouble that may arise with occupants. Additionally, we may be sued for these reasons, and building owners may seek damages. Our group's business results could be impacted depending on the outcome of these lawsuits and claims.

1) Foundation surveys by a foundation survey company we designated.

2) Foundation reinforcement/improvement work based on a foundation survey report by a foundation survey company we designated.

(5) Guarantee system against delayed rent payment

We have concluded a rental apartment management outsourcing contract with most individuals that have purchased our rental apartment buildings. Under this contract, we gather rent payments from tenants and transfer them to the building owner after deducting building management fees. We have in place a guarantee system against delayed rent payments by which we transfer rent payments to the building owner even if tenant rent payments are delayed (the guarantee system covers arrears up to six months; we do not cover arrears beyond this period). There is the possibility we will see a rise in delayed rent payments as the number of properties we administer increases. The failure to quickly and efficiently recover delayed rent could impact our group's business results.

(6) Our group's sales coverage

Our group's main sales area is the Fukuoka metropolitan area, and the concentration of management resources in this area has enabled us to achieve efficient business operations. However, there is a limit to the extent we can expand business in the Fukuoka metropolitan area over the long term in light of the limited absolute number of potential customers there. We have therefore begun efforts to expand sales coverage by opening branch offices in Tokyo and Nagoya. We plan to expand sales coverage by gradually expanding operations to include all of Japan's core cities. We opened a branch office in Sapporo in January 2005. However, failure to expand sales coverage to produce results in line with initial plans could impact our group' business results.

2. First-half and second-half results volatility

Our group books rental apartment building sales, our mainstay business sales, when buildings are handed over to customers; as a result, the concentration of building transfers in a particular period can create large differences between first-half and second-half results.

Customers who purchase rental apartment buildings from our group normally request that the building be transferred in February-March, because this is the season when new tenant contracts tend to peak. We also prefer to transfer rental apartment buildings to customers in this season because of the reduced risk of vacancies for newly constructed buildings. As a result, our group's sales tend to concentrate in the second half of the fiscal year. However, because SG&A expenses tend to be evenly spread throughout the first and second half, ordinary income tends to be low and sometimes negative in the first-half.

3. Cash flow trends and financial condition

(1) Cash flow trends

Our group's operating cash flow was minus 830 million yen in FY2003, minus 2,380 million yen in FY2004, and positive 433 million yen in FY2005, as receivables, which arise upon the transfer of properties to customers near the end of the fiscal year, declined year-on-year, and net income increased.

Operating cash flow in the interim period ended September 2005 decreased 5,348 million yen because of increasing inventories of real estate for sale, real estate operational outlays, and an increase in accounts receivable on rising sales.

(2) Debt reliance

It often takes several months between when we sell rental apartment building land to customers and receive money from the sale. We primarily use short-term bank loans to purchase land to build rental apartment buildings. We use long-term bank loans to purchase land to build one-room rental apartments.

Our need for funds to purchase land to build rental apartment buildings and one-room rental apartments has increased as we have expanded our business in recent years. As a result, the ratio of our group's debt to total assets is comparatively high.

Interest rate changes, or a change in the lending stance of banks and financial institutions, could impact our group's financial conditions and business results.

(3) Valuations of company-owned real estate

Our company owns a headquarters building, warehouses and parking lots (six locations), two tenant buildings, three rental apartment buildings, two rental shops, and other property. As a general rule, we plan to continue owning these properties and use them for our business. Also, of these business assets, it is our understanding that the parking lots, tenant buildings, rental apartment buildings, and rental shops are sufficiently profitable.

Our group applied impairment accounting for fixed assets ahead of schedule starting fiscal year ended March 2005. We have not booked any losses from the application of this accounting standard in the fiscal year ended March 2005, but changing conditions could impact our group's business results.

4. Procuring land for sale

Because most customers interested in owning a rental apartment building must first purchase land for the rental apartment building, our group must selectively purchase quality land in prime locations where we believe a high-occupancy rate can be achieved, to offer for sale to customers. We believe we have been able to swiftly procure quality land in prime locations because of our group's strong capacity to gather information on land, procure funds, make quick decisions regarding purchases, and steadily expanding earnings. However, there is no guarantee that we will be able to continue the rapid procurement of prime land as our group's business expands, and this could impact our business results.

5. Competition

In our group's mainstay business of rental apartment building sales, the mainstream business style of leading companies in the market is to offer property development proposals to landowners interested in effectively utilizing their land or reducing fixed assets or inheritance taxes. In contrast, our group's business style is to propose rental apartment building management for asset development purposes to salaried private and public sector workers, the self-employed, and other ordinary individuals that do not own land suitable for rental apartment building development. Currently, there is relatively less competition in this market than in the market of selling rental apartment buildings to landowners.

There is the possibility that leading companies in the rental apartment sales market will strengthen their research and marketing of selling rental apartment buildings to non-landowners, and eventually enter this niche market. This could impact our group's business results.

Also, a company set up by a former employee of our group currently competes with us. There is the possibility that officers and employees of our group may eventually set up their own companies to compete with us after they have acquired sufficient know-how. This could impact our group's business results.

6. Possibility of lawsuits

Building owners could make a claim against our company regarding building defects or administration problems concerning the rental apartment buildings that we sell, build, and administer, and trouble may arise with occupants. Additionally, we may be sued for these reasons and building owners may seek damages. Our group's business results could be impacted depending on the outcome of these lawsuits and claims.

7. Legal restrictions

(1) Legal restrictions

The real estate industry in which we operate is subject to a variety of laws including the Building Lots and Buildings Transaction Business Law, the Construction Industry Law, the Building Standards Law, the Act for Planning the Utilization of National Land, the City Planning Law, and others. Because we sell, build, and broker rental apartment buildings, we are subject to these laws. We have acquired licenses in line with the Building Lots and Buildings Transaction Business Law, and the Construction Industry Law, which enable us to sell real estate, construct buildings, and broker rental apartment buildings.

Our consolidated subsidiary SHC Co., Ltd., engaged in financing, is subject to the Money Lending Business Law, and has acquired a financing license in line with this law.

Because SHC Co., Ltd. outsources some of its financing business to our company, it has registered us as a sales agency under the Money Lending Business Law.

Our company is also involved in the convenience store business and restaurant business (izakaya, Japanese style pubs), and is therefore subject to the Food Sanitation Law. SK Energy Co., Ltd., a consolidated subsidiary, is engaged in LPG supply and sales to occupants of rental apartment buildings we manage, and is therefore subject to the High Pressure Gas Safety Law.

(2) Consumer Contracts Law

Our mainstay businesses of rental apartment building sales (land purchase contracts for rental apartment buildings, building construction contracts, etc.), rental real estate management (rental management outsourcing contracts, occupant advertising, billing for apartment cleanup after occupant exit, etc.), and financing (monetary consumer lending contracts, etc.) primarily involve contracts and transactions with individual consumers. We do our best to make sure that customers understand the content of our proposals and contracts when they contract or engage in a transaction with us. Our employees know through internal company training that it is forbidden to misrepresent facts to customers signing contracts with us, and we work hard to make sure our employees observe applicable laws. However, our group would incur legal sanction were an employee to violate applicable laws, and this could impact our business results and/or damage public trust.

(3) Soil Pollution Countermeasures Law

We believe the risk of soil contamination from industrial waste is low because the properties we sell are primarily located in residential areas not situated on former factory grounds. However, there is the possibility that, as we expand our business, we may build a rental apartment building on former factory grounds, and the soil there may be found to be contaminated with harmful materials. Also, we cannot guarantee at this point that soil contamination problems will not arise at rental apartment buildings we have already sold. The emergence of such problems could impact our group’s business results.

8. Our company’s operating structure

(1) Reliance on the current Representative, President, and Director Hideaki Shinohara

Hideaki Shinohara, the current Representative, President, and Director, plays a very important role at our company: he is involved in making decisions concerning management policies, management strategies, and business strategies, and is central to the commercialization of products and in moving business proposals forward. Our company is working to revise the current management structure to reduce management risk from overdependence on Mr. Shinohara. We are also strengthening human resources development in each business field. However, our company is still heavily dependent on Mr. Shinohara, and our business results and future expansion could be impaired were he not able to carry out his duties as a manager at our company for some reason, or were to retire for some reason.

(2) Organizational structure

Our company had four directors, three auditors, and 73 employees at the end of March 31, 2006. We have strengthened our workforce as we have expanded our business, and have strengthened our internal administrative structure as the size of our organization has expanded.

We intend to continue strengthening our workforce as we expand our business going forward, and will enhance and strengthen our internal administrative structure as well. However, it is unclear whether, as we expand our business and workforce, our organizational structure will be able to appropriately and adequately cope with expansion. Failure to cope would reduce organizational efficiency, render internal administration inadequate, and could impact our ability to carry out business and further expand.

(3) Securing and developing human resources

Our group provides start-to-finish rental apartment management services, and offers multi-faceted support to ensure stable and long-term rental apartment building operations by our customers. We believe securing and developing human resources is the most important challenge in moving forward with our business. However, a comparatively large number of employees have retired over the past several years as they have not been able to cope with our rapid business expansion and speedy management. We plan to work to improve the retention rate of employees, and secure and train talented workers going forward. However, failure to adequately secure and train the kinds of human resources we require, and failure to prevent deterioration in the employee retention rate, could impact our business results.

9. Personal information management

To prevent the outflow of personal information we have obtained from customers, our group sets limits on who can view personal data; registers IDs; carries out internal inspections of e-mail inbox/outbox trays; and establishes a system to prevent external hacking. Going forward, we intend to ensure compliance with the Personal Information Protection Law (Law No.57, 2003) which went into effect starting April 2005.

So far, customer information has never leaked outside our group as far as we know. However, despite measures we have taken to the contrary, personal information may leak or be used inappropriately in the future. The resulting deterioration of public trust, and possible damage claims, could impact our group's operations and business results.

* This financial report is solely a translation of "Kessan Tanshin" (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.

4. Consolidated Financial Statements

Consolidated Financial Statements

1) Consolidated Balance Sheets

(Thousands of Yen)

Items	Note	As of March 31, 2005 Amount		%	As of March 31, 2006 Amount		%	Change Amount
Assets								
I Current assets								
1. Cash and deposits	*1		2,776,402			2,515,784		
2. Real estate operation accounts due and accounts receivable			1,174,543			1,564,733		
3. Operating loans receivable	*1		1,555,160			1,689,665		
4. Real estate for sale	*1		1,156,995			1,782,093		
5. Real estate operation outlays	*1		3,559,323			10,021,939		
6. Other inventories			25,735			36,262		
7. Deferred tax assets			28,138			394,398		
8. Income tax refund-receivable			-			110,960		
9. Unearned accounts			28,776			159,596		
10. Others			73,688			429,971		
Allowance for doubtful accounts			(17,577)			(24,189)		
Total current assets			10,361,187	84.4		18,681,216	88.1	8,320,029
II Fixed assets								
1. Tangible assets								
(1) Buildings and structures	*1	727,377			881,443			
Accumulated depreciation		(163,955)	563,422		(191,621)	689,821		
(2) Machinery, equipment and vehicles		14,941			15,875			
Accumulated depreciation		(9,067)	5,874		(10,294)	5,581		
(3) Land	*1		739,769			1,199,439		
(4) Others		355,327			416,849			
Accumulated depreciation		(150,022)	205,305		(189,107)	227,741		
Total tangible assets			1,514,371	12.3		2,122,584	10.0	608,212
2. Intangible assets								
(1) Consolidated adjustment accounts			127,665			120,313		
(2) Others			2,964			2,964		
Total intangible assets			130,629	1.1		123,278	0.6	(7,351)
3. Investments and other assets								
(1) Investments in securities	*2		12,606			21,394		
(2) Deferred tax assets			61,673			26,538		
(3) Others			206,672			260,041		
Allowance for doubtful accounts			(9,581)			(31,058)		
Total investments and other assets			271,371	2.2		276,915	1.3	5,544
Total fixed assets			1,916,372	15.6		2,522,777	11.9	606,405
Total assets			12,277,559	100.0		21,203,994	100.0	8,926,434

(Thousands of Yen)

Items	Note	As of March 31, 2005 Amount	%	As of March 31, 2006 Amount	%	Change Amount
Liabilities						
I Current liabilities						
1. Real estate operation unpaid accounts and accounts payable		1,541,906		1,310,577		
2. Short-term borrowings	*1,3	4,601,552		4,938,104		
3. Corporate bonds due within one year		40,000		340,000		
4. Accrued income taxes		161,152		17,369		
5. Real estate operation advances payable		129,310		111,043		
6. Deposits received		288,732		430,791		
7. Accrued employees' bonuses		14,430		12,976		
8. Allowance for construction compensation		1,094		1,227		
9. Reserves for losses related to the earthquake-resistance data falsification scandal		-		207,330		
10. Others		341,454		406,568		
Total current liabilities		7,119,632	58.0	7,775,989	36.7	656,357
II Long-term liabilities						
1. Bonds	*1	590,000		1,220,000		
2. Long-term borrowings	*1	1,968,581		8,250,791		
3. Accrued employees' retirement benefits		11,120		15,687		
4. Accrued officers' severance benefits		159,689		203,990		
5. Deposits received		247,269		242,766		
6. Others		66,794		35,355		
Total long-term liabilities		3,043,454	24.8	9,968,590	47.0	6,925,135
Total liabilities		10,163,087	82.8	17,744,580	83.7	7,581,493
Minority interests						
Minority interests		-	-	-	-	
Shareholders' equity						
I Common stock	*4	567,420	4.6	1,567,159	7.4	999,739
II Capital surplus		499,304	4.1	1,499,564	7.1	1,000,260
III Retained earnings		1,189,471	9.7	535,037	2.5	(654,434)
IV Treasury stock	*5	(141,723)	(1.2)	(142,347)	(0.7)	(624)
Total shareholders' equity		2,114,472	17.2	3,459,414	16.3	1,344,942
Total liabilities, minority interests, and shareholders' equity		12,277,559	100.0	21,203,994	100.0	8,926,435

2) Consolidated Statements of Income

(Thousands of Yen)

Items	Note	April 1, 2004 – March 31, 2005 Amount		%	April 1, 2005 – March 31, 2006 Amount		%	Change Amount	
I Revenues			12,498,695	100.0		18,563,990	100.0		6,065,294
II Cost of revenues			10,110,432	80.9		15,353,951	82.7		5,243,519
Gross profit			2,388,262	19.1		3,210,038	17.3		821,775
III SG&A expenses									
1. Royalty paid		32,883			32,035				
2. Advertising expenses		261,527			247,203				
3. Provision for allowance for doubtful accounts		21,048			39,936				
4. Officers remuneration		68,735			79,616				
5. Salary benefits		432,105			509,968				
6. Bonuses		40,898			10,595				
7. Provision for accrued employees’ bonuses		11,672			10,694				
8. Retirement bonuses		-			43				
9. Provision for accrued employees’ retirement benefits		2,708			3,836				
10. Provision for accrued officers’ severance benefits		26,021			44,300				
11. Welfare expenses		69,530			73,294				
12. Entertainment expenses		6,008			11,384				
13. Supplies expenses		29,141			32,658				
14. Fees and commissions		31,685			41,840				
15. Remuneration		34,274			41,363				
16. Insurance paid		12,882			21,277				
17. Depreciation		55,443			58,805				
18. Land/house rentals		82,660			100,579				
19. Taxes and public charges		42,320			75,891				
20. Others		381,276	1,642,824	13.1	453,944	1,889,271	10.2		246,446
Operating income			745,438	6.0		1,320,766	7.1		575,328
IV Non-operating income									
1. Interest income		205			178				
2. Dividend income		4			1,258				
3. Fee income		1,492			2,104				
4. Gains on membership		10,377			15,927				
5. Investment profits under equity method		5,663			5,658				
6. Others		7,916	25,658	0.2	3,908	29,036	0.2		3,378
V Non-operating expenses									
1. Interest expenses		119,432			218,795				
2. New share issue expenses		12,650			7,737				
3. Fees and commissions		40,791			86,290				
4. Corporate bond issue expenses		-			16,565				
5. Others		246	173,121	1.4	3,253	332,641	1.8		159,519
Ordinary income			597,974	4.8		1,017,162	5.5		419,188

(Thousands of Yen)

Items	Note	April 1, 2004 – March 31, 2005 Amount		%	April 1, 2005 – March 31, 2006 Amount		%	Change Amount	
VI Extraordinary gains									
1. Gains on sale of land	*2	-			403,325				
2. Contract cancellation penalties income		9,500			-				
3. Others		3,268	12,768	0.1	-	403,325	2.2		390,556
VII Extraordinary losses									
1. Losses related to the earthquake-resistance data falsification scandal	*3	-			2,290,000				
2.Loss on disposal of fixed assets	*1	155			-				
3.Others		-	155	0.0	64,014	2,354,014	12.7		2,353,858
Net income (loss) before income taxes			610,587	4.9		(933,526)	(5.0)		(1,544,113)
Current income taxes		247,897			29,692				
Deferred income taxes		(28,568)	219,329	1.8	(331,124)	(301,431)	(1.6)		(520,761)
Net income (loss)			391,258	3.1		(632,094)	(3.4)		(1,023,352)

3) Consolidated Statements of Retained Earnings

(Thousands of Yen)

Items	Note	April 1, 2004 – March 31, 2005 Amount		April 1, 2005 – March 31, 2006 Amount	
Capital surplus					
I Capital surplus at the beginning of period			249,554		499,304
II Increase in capital surplus					
New share issued		249,750	249,750	1,000,260	1,000,260
III Capital surplus at the end of period			499,304		1,499,564
Retained earnings					
I Retained earnings at the beginning of period			839,811		1,189,471
II Increase in retained earnings					
Net income		391,258	391,258	-	-
III Decrease in retained earnings					
1. Dividends		41,598		22,338	
2. Net loss		-	41,598	632,094	654,433
IV Retained earnings at the end of period			1,189,471		535,037

4) Consolidated Statements of Cash Flows

(Thousands of Yen)

Items	Note	April 1, 2004 – March 31, 2005 Amount	April 1, 2005 – March 31, 2006 Amount
I Cash flows from operating activities			
1. Net income (losses) before income taxes		610,587	(933,526)
2. Losses related to the earthquake-resistance data falsification scandal		-	2,290,000
3. Gains on sales of land		-	(403,325)
4. Depreciation		67,232	70,912
5. Amortization of consolidated adjustment accounts		7,351	7,351
6. Increase (decrease) in allowance for doubtful accounts		2,569	28,089
7. Increase (decrease) in accrued employees' bonuses		1,760	(1,453)
8. Increase (decrease) in allowance for construction compensation		(504)	133
9. Increase (decrease) in accrued employees' retirement benefits		(444)	4,566
10. Increase (decrease) in accrued officers' severance benefits		26,021	44,300
11. Interest expenses		119,432	218,795
12. Interest income		(205)	(178)
13. Loss on disposal of fixed assets		155	-
14. Decrease (increase) in receivables		528,371	(412,100)
15. Decrease (increase) in inventories		(1,252,973)	(7,525,370)
16. Increase (decrease) in payables		442,187	(231,328)
17. Payment of increase in operating loans receivable		(290,473)	(425,100)
18. Proceeds from collection of operating loans receivable		159,180	290,594
19. Decrease in real estate operation advances payable		(1,119,729)	(1,417,927)
20. Increase in real estate operation advances payable		1,196,850	1,399,661
21. Increase (decrease) in consumption taxes payable (receivable)		37,357	10,692
22. Others		132,699	129,897
Subtotal		667,427	(6,855,315)
23. Payment for losses related to the earthquake-resistance data falsification scandal		-	(1,876,563)
24. Income taxes paid		(233,646)	(284,435)
Net cash provided by (used in) operating activities		433,780	(9,016,313)
II Cash flows from investing activities			
1. Payment for acquisition of tangible assets		(67,824)	(1,400,999)
2. Proceeds from sale of tangible assets		-	987,365
3. Payment for time deposits		(296,006)	(218,305)
4. Proceeds from cancellation of time deposits		169,000	498,600
5. Payment for increase in key money/deposits extended		(13,255)	(25,178)
6. Proceeds from decrease of key money/deposits extended		7,174	1,352
7. Interest received		221	185
8. Others		(49,739)	(11,202)
Net cash used in investing activities		(250,430)	(168,181)
III Cash flows from financing activities			
1. Net increase (decrease) in short-term borrowings		754,000	578,400
2. Proceeds from long-term borrowings		2,355,000	8,280,626
3. Payment of long-term borrowings		(2,246,168)	(2,240,264)
4. Proceeds from new issues of corporate bonds		-	964,896
5. Proceeds from issuance of bonds with stock acquisition rights		-	1,988,204
6. Payment for redemption of corporate bonds		(40,000)	(40,000)
7. Proceeds from new issues of shares		487,577	-
8. Acquisition of treasury stock		(141,723)	(624)
9. Dividends paid		(41,598)	(22,338)
10. Interests paid		(106,853)	(223,863)
11. Others		867	(80,861)
Net cash provided by financing activities		1,021,101	9,204,174

(Thousands of Yen)

Items	Note	April 1, 2004 – March 31, 2005 Amount	April 1, 2005 – March 31, 2006 Amount
IV Increase (decrease) in cash and cash equivalents		1,204,452	19,677
V Cash and cash equivalents at the beginning of period		1,111,441	2,315,894
VI Cash and cash equivalents at the end of period		2,315,894	2,335,571

Significant Accounting Policies in the Preparation of Consolidated Financial Statements

	April 1, 2004 – March 31, 2005	April 1, 2005 – March 31, 2006
1. Scope of consolidation	All subsidiaries are consolidated. Number of consolidated subsidiaries: 3 Name of consolidated subsidiaries: Shinohara Corporation Ltd. SK Energy Co., Ltd. Nissho Harmony Co., Ltd.	(1) Number of consolidated subsidiaries: 3 Name of consolidated subsidiaries: SHC Co., Ltd. SK Energy Co., Ltd. Nissho Harmony Co., Ltd. Shinohara Corporation Ltd. has changed its name to SHC Co., Ltd. effective on August 4, 2005. (2) Non-consolidated subsidiary KS Fund.Y.K. Reason for exclusion from the consolidation: The consolidated financial statements do not include the accounts of one non-consolidated subsidiary since the entity is a small-scale business whose total net assets, net sales, net income/loss (equity in earnings/losses) or retained earnings (equity in earnings/losses) have no significant effect on the overall results of consolidated financial statements.
2. Application of the equity method	We apply the equity method to all affiliates. Number of equity method affiliates: 1 Name of equity method affiliates: My Media Co., Ltd.	(1) Number of equity method affiliates: 1 Name of equity method affiliates: My Media Co., Ltd. Note: All affiliates are accounted for under the equity method. (2) Non-consolidated subsidiaries not accounted for under equity method KS Fund.Y.K. Reason for exclusion KS Fund.Y.K., a non-conslidated subsidiary, is not accounted for under the equity method of accounting, since it has a very minor effect on net income/loss (equity in earnings/losses) and retained surplus (equity in earnings/losses) and is relatively insignificant in the context of the consolidated financial statements.
3. Period end of consolidated subsidiaries	The period of the consolidated subsidiaries ends on the closing date of consolidated financial statements.	Same as on the left.
4. Significant accounting policies	(1) Valuation criteria and methods for principal assets 1) Securities Other securities Securities without market quotations Stated at cost, cost being determined by the moving-average method.	(1) Valuation criteria and methods for principal assets 1) Securities Other securities Securities without market quotations Same as on the left.

	April 1, 2004 – March 31, 2005	April 1, 2005 – March 31, 2006
	2) Inventories Real estate for sale Stated at cost, cost determined by the specific identification method. Real estate operation outlays Stated at cost, cost determined by the specific identification method. Merchandise Valued at cost, cost being determined by the retail inventory method. Work in progress Stated at cost, cost being determined by the weighted average method. Supplies Valued at cost, cost being determined by the method of most recent purchase price. (2) Depreciation and amortization method for principal depreciable assets 1) Tangible assets Our company and its subsidiaries compute depreciation using the declining-balance method, except for buildings (excluding fixtures) acquired on or subsequent to April 1, 1998 on which depreciation is calculated by the straight-line method. The useful lives of principal assets are as follows: Buildings and structures: 5-50 years Machinery, equipment and vehicles: 3-15 years 2) Long-term prepaid expenses Long-term prepaid expenses are amortized by the straight-line method. (3) Accounting for significant deferred assets 1) New share issue expenses New share issue expenses are charged to income as accrued. ——— (4) Accounting for significant allowances 1) Allowance for doubtful accounts To prepare for credit losses on receivables and loans, an allowance equal to the estimated amount of uncollectible receivables is provided for general receivables based on the historical write-off ratio, and bad receivables based on a case-by-case determination of collectibility. 2) Accrued employees' bonuses To provide for employees' bonus obligation, an allowance is provided for an estimated accrued amount for the period.	2) Inventories Real estate for sale Same as on the left. Real estate operation outlays Same as on the left. Merchandise Same as on the left. Work in progress Same as on the left. Supplies Same as on the left. (2) Depreciation and amortization method for principal depreciable assets 1) Tangible assets Same as on the left. 2) Long-term prepaid expenses Same as on the left. (3) Accounting for significant deferred assets 1) New share issue expenses Same as on the left. 2) Corporate bond issue expenses Corporate bond issue expenses are charged to income as accrued. (4) Accounting for significant allowances 1) Allowance for doubtful accounts Same as on the left. 2) Accrued employees' bonuses Same as on the left.

	April 1, 2004 – March 31, 2005	April 1, 2005 – March 31, 2006
	3) Accrued employees' retirement benefits To provide for accrued employees' retirement benefits, an allowance is provided for the amount deemed to have accrued at the end of the current consolidated fiscal year based on projected benefit obligations at the end of the fiscal year.	3) Accrued employees' retirement benefits Same as on the left.
	4) Accrued officers' severance benefits To provide for officers' retirement benefits, an allowance is provided for the aggregate amount payable at the end of the current fiscal year pursuant to our company's rules on officers' retirement benefits.	4) Accrued officers' severance benefits Same as on the left.
	5) Allowance for construction compensation We set aside funds to cover defect liabilities on completed construction works by applying recent actual construction liability rates to the total value of projects delivered to clients in the previous one year.	5) Allowance for construction compensation Same as on the left.
	―――――	6) Reserves for losses related to the earthquake-resistance data falsification scandal To provide for losses related to the earthquake-resistance data falsification scandal, an allowance is provided on the basis of estimated losses.
	(5) Accounting for leases Finance leases other than those, which are deemed to transfer the ownership of the leased assets to the lessees, are accounted for by a method similar to that applicable to ordinary operating leases.	(5) Accounting for leases Same as on the left.
	(6) Accounting for hedges 1) Hedge accounting method Interest rate swaps that meet certain criteria are accounted by the short-cut method.	(6) Accounting for hedges 1) Hedge accounting method Same as on the left.
	2) Hedging instrument and risk hedged Hedging instrument: Interest rate swaps Risk hedged: Borrowings	2) Hedging instrument and risk hedged: Same as on the left.
	3) Hedging policy Our company uses interest rate swaps for converting the floating interest rate on certain borrowings from financial institutions into a fixed interest rate. Our company does not hold or issue financial derivative instruments for speculation or trading purposes.	3) Hedging policy Same as on the left.
	4) Assessing the effectiveness of a hedge Effectiveness of interest rate swaps is not evaluated since these hedges meet certain criteria.	4) Assessing the effectiveness of a hedge Same as on the left.

	April 1, 2004 – March 31, 2005	April 1, 2005 – March 31, 2006
	(7) Other significant accounting policies Accounting for consumption taxes Consumption taxes are accounted by the tax-exclusion method. Non-deductible consumption taxes are accounted as selling and general administrative expenses.	(7) Other significant accounting policies Accounting for consumption taxes Same as on the left.
5. Valuation of assets and liabilities of consolidated subsidiaries	Assets and liabilities of the consolidated subsidiaries are fully evaluated by the fair market value method.	Same as on the left.
6. Amortization of consolidation adjustment accounts	The consolidation adjustment accounts is amortized over a period of 20 years by the straight-line method.	Same as on the left.
7. Appropriation of retained earnings	The consolidated statements of retained earnings show decided appropriation of profit during the current fiscal year.	Same as on the left.
8. Cash and cash equivalents in the cash flows statements	Cash and cash equivalents in the cash flows statements consist of vault cash, deposits that can be withdrawn on demand, and short-term investments, generally with original maturities of three months or less, that are readily convertible to known amounts of cash and are so near maturity that they present insignificant risk of change in value.	Same as on the left.

Change in Significant Accounting Policies in the Preparation of Consolidated Financial Statements

April 1, 2004 – March 31, 2005	April 1, 2005 – March 31, 2006
(Accounting for impairment of fixed assets) Effective the current consolidated fiscal year, our company has adopted the new accounting standards for the presentation of the Impairment of Assets (Statement of Opinion, “Accounting for Impairment of Fixed Assets,” (Business Accounting Council; August 9, 2002) and the “Accounting Standard Implementation Guidance No. 6: Guidance for Accounting Standards for Impairment of Fixed Assets,” (ASBJ; October 31, 2003). This change in accounting policy has no significant effect on the amount of net income before income taxes compared to the amount that would have been reported if the previous method had been applied consistently.	―――

Reclassifications

April 1, 2004 – March 31, 2005	April 1, 2005 – March 31, 2006
(Consolidated statements of income) Effective the current consolidated fiscal year, “Fees” included in “Others” under non-operating expenses in prior periods, has been reclassified and presented as a separate line item, given that it now represents more than 10/100 of total non-operating expenses. Fees totaled 5,739 thousand yen in the previous consolidated fiscal year.	―――

Supplementary Information

April 1, 2004 – March 31, 2005	April 1, 2005 – March 31, 2006
Effective the current consolidated fiscal year, our company has adopted the new accounting standard for the presentation of the Enterprise Tax (Accounting Standard Implementation Guidance No. 12: “Practical Guidance On Presentation of the Pro Forma Standard Tax Portion of the Enterprise Tax in the Income Statement,” (ASBJ, February 13, 2004)) following the implementation of the Partial Revision of the Local Finance Act (Law No. 9 of 2003) on March 31, 2003 and the introduction of the pro forma standard tax from the fiscal year beginning on and after April 1, 2004. Accordingly, the value-added tax portion and the pro forma standard tax portion of the Enterprise Tax are included in SG&A expenses. The effect of this change was to increase SG&A expenses by 7,570 thousand yen and decrease operating income, ordinary income and net income before income taxes by 7,570 thousand yen each.	―――

Notes to Consolidated Financial Statements

Notes to Consolidated Balance Sheets

(Thousands of Yen)

As of March 31, 2005		As of March 31, 2006	
*1. Assets pledged as collateral and corresponding liabilities		*1. Assets pledged as collateral and corresponding liabilities	
(1) Assets pledged as collateral		(1) Assets pledged as collateral	
Real estate for sale	36,100	Time deposits	115,700
Real estate operation outlays	2,454,410	Operating loans receivable	1,353,988
Buildings and structures	464,077	Real estate operation outlays	7,192,137
Land	705,491	Buildings and structures	450,988
Total	3,660,080	Land	1,055,884
		Total	10,168,698
(2) Liabilities corresponding to assets pledged as collateral		(2) Liabilities corresponding to assets pledged as collateral	
Short-term borrowings	1,807,828	Short-term borrowings	2,260,288
Long-term borrowings	770,184	Long-term borrowings	1,899,596
Total	2,578,012	Bond with bank guarantee	470,000
		Total	4,629,884
*2. The following items are applicable to non-consolidated subsidiaries and affiliates		*2. The following items are applicable to non-consolidated subsidiaries and affiliates	
Investments securities (Equities)	12,235	Investment securities (Equities)	20,893
*3. To efficiently raise working capital for purchasing land for rental apartment buildings, our company has entered into commitment-line with 14 financial institutions. The balance of unused credit commitment lines based on these agreements as of the end of the fiscal year is as follows:		―――	
Commitment line total	3,400,000		
Credit used	1,240,000		
Credit available	2,160,000		
*4. Number of shares outstanding		*4. Number of shares outstanding	
Common stock:	14,040 shares	Common stock:	37,807.52 shares
*5. Company's shares held by consolidated subsidiaries, non-consolidated subsidiaries accounted for under the equity method and affiliates.		*5. Company's shares held by consolidated subsidiaries, non-consolidated subsidiaries accounted for under the equity method and affiliates.	
Common stock:	293 shares	Common stock:	588.52 shares

Notes to Consolidated Statements of Income

(Thousands of Yen)

April 1, 2004 – March 31, 2005	April 1, 2005 – March 31, 2006
*1. Breakdown of "Loss on disposal of fixed assets". Others (Tools, furniture and fixtures) 155	―――
―――	*2. Breakdown of "Gains on sales of land". Gains on sales of land repurchased for the earthquake-resistance data falsification scandal 403,325
―――	*3. Losses on the earthquake-resistance data falsification scandal Losses on purchases of buildings and land 1,701,573 Demolition expenses 348,315 Compensation for eviction 68,899 Others 171,211 Total 2,290,000 The above figures include 207,330 thousand yen in provision of reserve for losses related the earthquake-resistance data falsification scandal.

Notes to Consolidated Statements of Cash Flows

(Thousands of Yen)

April 1, 2004 – March 31, 2005		April 1, 2005 – March 31, 2006	
1. Reconciliation of "Cash and cash equivalents" of the consolidated cash flows statements and "Cash and deposits" of balance sheets for the fiscal year is made as follows:		1. Reconciliation of "Cash and cash equivalents" of the consolidated cash flows statements and "Cash and deposits" of balance sheets for the fiscal year is made as follows:	
Cash and deposits	2,776,402	Cash and deposits	2,515,784
Time deposits with maturities longer than three months	(460,507)	Time deposits with maturities longer than three months	(180,212)
Cash and cash equivalents	2,315,894	Cash and cash equivalents	2,335,571

Segment Information

1. Operating segment information

Previous fiscal year (April 1, 2004 – March 31, 2005)

(Thousands of Yen)

	Rental apartment building sales business	Real estate rental management business	Finance business	Other businesses	Total	Elimination or corporate	Consolidated
I Revenues							
(1) External sales	10,501,075	1,242,615	73,620	681,383	12,498,695	-	12,498,695
(2) Inter-segment sales and transfers	-	2,653	-	167	2,820	[2,820]	-
Total	10,501,075	1,245,268	73,620	681,551	12,501,516	[2,820]	12,498,695
Operating expenses	9,867,947	876,211	55,958	619,486	11,419,603	333,653	11,753,257
Operating income	633,127	369,057	17,662	62,064	1,081,912	[336,474]	745,438
II Assets, depreciation and amortization and capital expenditure							
Assets	6,071,442	1,171,925	1,664,849	400,314	9,308,531	2,969,028	12,277,559
Depreciation and amortization	8,137	12,899	-	39,846	60,883	6,349	67,232
Capital expenditure	8,047	1,650	-	48,522	58,220	10,804	69,024

Current fiscal year (April 1, 2005 – March 31, 2006)

(Thousands of Yen)

	Rental apartment building sales business	Real estate rental management business	Finance business	Other	Total	Elimination or corporate	Consolidated
I Revenues							
(1) External sales	16,251,234	1,484,179	116,617	711,957	18,563,990	-	18,563,990
(2) Inter-segment sales and transfers	-	2,595	-	1,089	3,684	[3,684]	-
Total	16,251,234	1,486,774	116,617	713,047	18,567,674	[3,684]	18,563,990
Operating expenses	15,045,067	1,113,242	70,336	616,107	16,844,753	398,469	17,243,223
Operating income	1,206,167	373,532	46,281	96,939	1,722,920	[402,153]	1,320,766
II Assets, depreciation and amortization and capital expenditure							
Assets	13,753,878	1,336,792	1,900,758	392,779	17,384,208	3,819,785	21,203,994
Depreciation and amortization	8,070	13,263	-	41,922	63,256	7,655	70,912
Capital expenditure	5,325	193,139	-	58,037	256,502	359,807	616,309

Notes: 1. Method of segmentation

The operating segment information is presented on the basis of the type of business and similarity of activities.

2. Summary of operating segments

(1) Rental apartment building sales business:	Rental apartment building planning and sales; rental apartment sales agent
(2) Real estate rental management business:	Rental apartment building management and brokerage services
(3) Finance business:	Financing of rental apartment building purchases
(4) Other businesses:	LPG supply and sales, convenience store and restaurant (Japanese style pubs (izakaya)) management; subcontracting of renovation and extension construction work, maintenance work and non-life insurance agencies.

3. Significant components and corresponding amounts of “Eliminations or corporate” are summarized below:

(Thousands of Yen)

	Fiscal year ended March 31, 2005	Fiscal year ended March 31, 2006	Major components
Unallocated operating expenses included in “Elimination or corporate”	340,849	409,691	Primarily our company’s expenses of the administrative operations.
Total assets included in “Elimination or corporate”	2,969,028	3,469,393	Primarily of our company’s surplus funds.

4. Depreciation and capital expenditure include long-term prepaid expenses and their amortization expenses.

2. Geographical segment information

Previous fiscal year (April 1, 2004 – March 31, 2005) and current fiscal year (April 1, 2005 – March 31, 2006)

Geographic segment information is not presented since our company did not have consolidated subsidiaries or branch offices in areas other than Japan.

3. Overseas sales

Previous fiscal year (April 1, 2004 – March 31, 2005) and current fiscal year (April 1, 2005 – March 31, 2006)

Overseas sales information is not presented our company had no overseas sales.

Accounting for Leases

(Thousands of Yen)

April 1, 2004 – March 31, 2005	April 1, 2005 – March 31, 2006
Finance lease transactions not involving the transfer of title to lessee: (1) Acquisition cost, accumulated depreciation and year-end balance equivalents of the leased property	Finance lease transactions not involving the transfer of title to lessee: (1) Acquisition cost, accumulated depreciation and year-end balance equivalents of the leased property
Machinery, equipment and vehicles Acquisition cost equivalents: 12,805 Accumulated depreciation equivalents: 7,979 Year-end balance equivalents: 4,825	Others (Tools, furniture and fixtures) Acquisition cost equivalents: 238,500 Accumulated depreciation equivalents: 105,869 Year-end balance equivalents: 132,630
Others (Tools, furniture and fixtures) Acquisition cost equivalents: 201,987 Accumulated depreciation equivalents: 73,381 Year-end balance equivalents: 128,605	Total Acquisition cost equivalents: 238,500 Accumulated depreciation equivalents: 105,869 Year-end balance equivalents: 132,630
Total Acquisition cost equivalents: 214,792 Accumulated depreciation equivalents: 81,361 Year-end balance equivalents: 133,431	
The year-end balance equivalents are calculated based on the simple-interest method since the year-end balance of outstanding lease commitments represents only a minor portion of tangible fixed assets on the fiscal year balance sheet date.	The year-end balance equivalents are calculated based on the simple-interest method since the year-end balance of outstanding lease commitments represents only a minor portion of tangible fixed assets on the fiscal year balance sheet date.
(2) Outstanding lease commitments and the fiscal year-end balance equivalents Due within one year 46,411 Due over one year 87,020 Total 133,431	(2) Outstanding lease commitments and the year-end balance equivalents Due within one year 50,227 Due over one year 82,403 Total 132,630
The acquisition cost are calculated based on the simple-interest method since the year-end balance of outstanding lease commitments represents only a minor portion of tangible assets on the fiscal year balance sheet date.	The acquisition cost are calculated based on the simple-interest method since the year-end balance of outstanding lease commitments represents only a minor portion of tangible assets on the fiscal year balance sheet date.
(3) Lease payments, depreciation and interest equivalents Lease payments 39,657 Depreciation equivalents 39,657	(3) Lease payments, depreciation and interest equivalents Lease payments 52,288 Depreciation equivalents 52,288
(4) Calculation of accumulated depreciation equivalents Depreciation is based on the straight-line method, assuming the lease period to be the useful life and no residual value. Note: There is no finance lease asset without transfer of ownership subject to impairment loss.	(4) Calculation of accumulated depreciation equivalents Same as on the left.
―――	2. Future Lease Payments on Operating Lease Transactions Due within one year 12,506 Due over one year 8,011 Total 20,517

Related Party Transactions

Previous fiscal year (April 1, 2004 – March 31, 2005) and current fiscal year (April 1, 2005 – March 31, 2006)
No reportable information.

Deferred Tax Accounting

As of March 31, 2005

1. Significant components of deferred tax assets and liabilities

(Thousands of Yen)

Deferred tax assets	
Accrued enterprise taxes	10,353
Allowance for doubtful accounts in excess of the maximum amount allowed for inclusion in expenses	9,975
Accrued employees' bonuses	5,829
Accrued employees' retirement benefits in excess of the maximum amount allowed for inclusion in expenses	4,472
Accrued officers' severance benefits	64,514
Lump sum amortization of software denied	5,550
Lump sum depreciation of assets	1,078
Gain/loss on insurance paid	969
Loss carried forward	88,666
Deposit liquidation cost	5,629
Others	3,345
Deferred tax assets - Subtotal	200,386
Valuation reserve	(92,299)
Deferred tax assets - Total	108,086
Deferred tax liabilities	
Stock swap liabilities	18,274
Deferred tax liabilities - Total	18,274
Deferred tax assets - Net	89,812

Note: Net deferred tax assets are included in the following consolidated balance sheet accounts

Deferred tax assets (current)	28,138
Deferred tax assets (fixed)	61,673

2. Significant sources of difference between the statutory and effective tax rates

Effective tax rate (Adjustment)	40.4%
Permanent differences such as entertainment expenses	0.4%
Impact from tax on retained earnings	2.3%
Residential tax for the period	1.1%
Loss carried forward of certain subsidiary	(7.6)%
Investment profit under equity method	(0.4)%
Impact from consolidation adjustment accounts	0.5%
Impact from elimination of unrealized income	(0.7)%
Others	(0.1)%
Effective tax rate	35.9%

As of March 31, 2006

1. Significant components of deferred tax assets and liabilities

(Thousands of Yen)

Deferred tax assets	
Accrued enterprise taxes	1,386
Allowance for doubtful accounts in excess of the maximum amount allowed for inclusion in expenses	19,360
Accrued employees' bonuses	5,242
Accrued employees' retirement benefits	6,337
Accrued officers' severance benefits	81,851
Lump sum amortization of software denied	5,885
Lump sum depreciation of assets	2,444
Losses related to the earthquake-resistance data falsification scandal	135,178
Loss carried forward	302,294
Deposit liquidation cost	11,811
Others	22,714
Deferred tax assets - Subtotal	594,505
Valuation reserve	(149,117)
Deferred tax assets - Total	445,387
Deferred tax liabilities	
Stock swap liabilities	18,274
Others	6,176
Deferred tax liabilities - Total	24,450
Deferred tax assets - Net	420,936

Note: Net deferred tax assets are included in the following consolidated balance sheet accounts

Deferred tax assets (current)	394,398
Deferred tax assets (fixed)	26,538

2. Significant sources of difference between the statutory and effective tax rates

Effective tax rate (Adjustment)	40.4%
Permanent differences such as entertainment expenses	(0.6)%
Residential tax for the period	(0.9)%
Investment profit under equity method	0.2%
Impact from consolidation adjustment accounts	(0.3)%
Valuation reserve to deferred tax assets	(6.5)%
Others	0.0%
Effective tax rate	32.3%

Securities

Previous fiscal year

1. Sales of other securities (April 1, 2004 – March 31, 2005)

(Thousands of Yen)

Sales amount	Aggregate gain	Aggregate loss
149,789	-	210

2. Securities without market quotations and carrying value (As of March 31, 2005)

Other securities

(Thousands of Yen)

Item	Carrying value
Unlisted stock	370

Current fiscal year

1. Sales of other securities (April 1, 2005 – March 31, 2006)

(Thousands of Yen)

Sales amount	Aggregate gain	Aggregate loss
71,117	1,011	581

2. Securities without market quotations and carrying value (As of March 31, 2006)

Other securities

(Thousands of Yen)

Item	Carrying value
Unlisted stock	500

Derivatives

April 1, 2004 – March 31, 2005	April 1, 2005 – March 31, 2006
1. Financial derivative information (1) Types of transaction Our company uses financial derivative transactions, which comprise interest rate swap transactions.	1. Financial derivative information (1) Types of transaction Same as on the left.
(2) Transaction policy Our company enters into interest rate swap transactions to reduce exposure to future risks from fluctuations in the interest rate.	(2) Transaction policy Same as on the left.
(3) Purpose of derivative transaction Our company does not hold or issue financial derivative instruments for trading purposes. The transactions are accounted by the hedge accounting method. a. Hedge accounting method Interest rate swaps that meet certain criteria are accounted by the short-cut method. b. Hedging instruments and risks hedged Hedging instrument: Interest rate swaps Risk hedged: Borrowings c. Hedging policy Our company uses interest rate swaps for converting the floating interest rate on certain borrowings from financial institutions into a fixed interest rate. We do not hold or issue financial derivative instruments for speculation or trading purposes. d. Assessing the effectiveness of a hedge Effectiveness of interest rate swaps is not evaluated since these hedges meet certain criteria.	(3) Purpose of derivative transaction Same as on the left.
(4) Transaction risks Interest rate swap transaction contains some risks on market rate fluctuation. However, our company evaluates it and is of the opinion that such risk is nominal.	(4) Transaction risks Same as on the left.
(5) Risk management We limit the use of interest rate swap transactions to a portion of debt, and the administration division in charge of the particular debt executes and manages the transaction. Debt requires the approval of the person in charge of accounts settlement to ensure compliance with internal rules regarding transaction authority and transaction limits.	(5) Risk management Same as on the left.
2. Information on market values Not applicable, as we apply a special accounting procedure for interest rate swap transactions.	2. Information on market values Same as on the left.

Retirement Benefits

(Thousands of Yen)

<table>
<tr><th>April 1, 2004 – March 31, 2005</th><th>April 1, 2005 – March 31, 2006</th></tr>
<tr><td>1. Retirement benefit plans
The Group has retirement lump-sum payment systems based on an in-house fund in accordance with our company’s regulation.

2. Projected benefit obligation
(1) Projected benefit obligation (11,120)
(2) Accrued employees’ retirement benefits (11,120)
Note: The projected benefit obligation is computed by the simple method.

3. Retirement benefit expenses
(1) Service cost 4,054
(2) Retirement benefit expenses 4,054

4. The assumptions used in accounting for the above plans
The assumptions used in accounting for the above plans are not presented since our group uses the simple method.</td><td>1. Retirement benefit plans
The Group has retirement lump-sum payment systems based on an in-house fund in accordance with our company’s regulation.

2. Projected benefit obligation
(1) Projected benefit obligation (15,687)
(2) Accrued employees’ retirement benefits (15,687)
Note: The projected benefit obligation is computed by the simple method.

3. Retirement benefit expenses
(1) Service cost 4,872
(2) Retirement benefit expenses 4,872

4. The assumptions used in accounting for the above plans
Same as on the left.</td></tr>
</table>

Material Subsequent Events

<table>
<tr><th>April 1, 2004 – March 31, 2005</th><th>April 1, 2005 – March 31, 2006</th></tr>
<tr><td>(1) Stock split
The board of directors on January 12, 2005 approved a resolution to issue new shares through a stock split. Details are as follows:
1) On May 20, 2005, our company split its common stock two-for-one.
2) Stock split method
We will issue two stocks for every one common stock owned by registered shareholders as of March 31, 2005.
3) The stock split will increase the total number of shares by 14,040 shares.
4) Starting date for calculating dividends
April 1, 2005

Per share data based on the average number of shares during the periods, retroactively adjusted for stock splits to the beginning of the periods, are as follows:
<table><tr><th>Fiscal year ended
March 31, 2004</th><th>Fiscal year ended
March 31, 2005</th></tr><tr><td>Net assets per share:
54,791.14 yen
Net income per share:
7,968.79 yen</td><td>Net assets per share:
76,906.69 yen
Net income per share:
14,175.20 yen</td></tr></table></td><td>———</td></tr>
</table>

5. Production, Orders and Sales

(1) Orders

Our group's businesses include the rental apartment sales business, the real estate management business, the finance business, and the others businesses. However, we list orders for our rental apartment sales business only.

(Thousands of Yen)

Segment	Units	(% change YoY)	Value	(% change YoY)
Rental apartment building sales business				
Low-rise rental apartment buildings	187	105.1%	10,049,605	106.5%
High-rise rental apartment buildings	8	80.0%	6,611,794	100.8%
One-room rental apartments	98	124.1%	1,896,481	124.3%
Total	293	109.7%	18,557,880	105.9%

Notes: 1. The amounts above do not include consumption taxes.
2. Low-rise rental apartment buildings are wooden structures up to two stories, and high-rise rental apartment buildings are structures three stories or greater.

(2) Sales

(Thousands of Yen)

Segment	Units	(% change YoY)	Value	(% change YoY)
Asset utilization consulting business				
Rental apartment building sales business				
Low-rise rental apartment buildings	175	126.8%	9,094,201	125.3%
High-rise rental apartment buildings	8	160.0%	5,822,502	332.5%
One-room rental apartments	72	93.5%	1,334,531	89.5%
Real estate rental management business	-	-	1,484,179	119.4%
Finance business	-	-	116,617	158.4%
Subtotal	255	115.9%	17,852,032	151.1%
Other businesses	-	-	711,957	104.5%
Total	255	115.9%	18,563,990	148.5%

Notes: 1. Inter-segment transactions are eliminated in the consolidation.
2. The amounts above do not include consumption taxes.
3. Summary of real estate rental management business segment:

(Thousands of yen)

Segment	Amount	Share (%)	YoY change (%)
Rental management income	1,420,201	95.7%	122.7%
Rental brokerage income	63,977	4.3%	75.3%
Total	1,484,179	100.0%	119.4%

4. Rental management business' segments:

Segment	Buildings/parking lots	(% change YoY)	Households/contracts	(% change YoY)
Housing	997	115.9%	7,502	117.1%
Tenants	6	100.0%	21	100.0%
Parking lots	5	100.0%	42	100.0%

Note: The number of parking lots and contracts does not include parking lots associated with apartment buildings we manage.

(3) Order balance

(Thousands of Yen)

Segment	Units	(% change YoY)	Value	(% change YoY)
Rental apartment building sales business				
Low-rise rental apartment buildings	109	112.4%	5,680,305	120.2%
High-rise rental apartment buildings	11	100.0%	8,764,011	109.9%
One-room rental apartments	28	1,400.0%	597,164	1,695.8%
Total	148	134.6%	15,041,480	118.1%