

Annual Report 2006

For the Fiscal Year Ended March 31, 2006



Tokai Tokyo Securities Co., Ltd.

PROFILE

Tokai Tokyo Securities Co., Ltd. and its subsidiaries / affiliates provide a broad array of services for customers on a global scale in investment, financing, and asset management to meet the ultimate goal, “the Road to the Premium House”.

Through its network of 72 branches in key cities throughout Japan that focuses on the three metropolitan areas of Tokyo, Nagoya and Osaka, Tokai Tokyo Securities Co., Ltd. aims to become the top retail securities brokerage firm in Japan by meeting its customers’ diversified needs.

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Financial Highlights

	Millions of yen		Thousands of
	March 31,		U.S. dollars
	2006	2005	March 31, 2006
Revenues	¥ 71,777	¥ 40,951	\$ 611,024
Net income	22,085	6,001	188,005
Total assets	638,148	443,591	5,432,434
Shareholders' equity	108,274	91,879	921,716
Net income per share – adjusted (yen/U.S. dollars)	79.05	21.33	0.67

Note: U.S. dollar amounts are translated for convenience only at the rate of ¥117.47=U.S.\$1.00.

Message From The President

Road to the Premium House

First of all, I hope you are all well and prosperous.

It is our pleasure to report the operating results for the 94th term (from April 1, 2005 to March 31, 2006), explain the efforts we have made and the course of action we are going to take.

During the fiscal year under review, the Company posted a sharp increase in both total revenues and profits from the previous year, helped by the highly strong market environment throughout the year. Operating income, ordinary income and net income all hit their highest levels since the merger in October 2000 on a consolidated and non-consolidated basis. Client assets in custody stood at ¥4.6069 trillion at the end of the term, up ¥1.0887 trillion from a year earlier. As a result, the Company succeeded in achieving the numerical goals of the “Medium-term Business Plan” one year ahead of the original target of March 2007. Encouraged by this, we have decided to newly formulate a “Three-Year Business Plan.”

Implementation of management policies for reforms

The Company has come up with the slogan “Premium House,” which is our ultimate goal, and is carrying out various policies to achieve this.

Upon assuming the presidency, I focused on reforming the awareness of the employees, hoping to create a new culture and bring about a change within the Company. One year has passed since then, and the employees have increased their sense of responsibility for profitability and clarified their business goals. This favorable development is attributable mainly to the adoption of an in-house company system in September 2005. Under this system, we established a Retail Company and an Investment Bank Company, better defining the responsibilities for specialty skills and profitability, moving the company forward.

At the Retail Company, the effects of “CRM,” a marketing strategy system that it developed, has become apparent. Thanks to this system, the in-house company now can fully understand customers’ needs and come up with optimal products.

The greatest change for the Retail Company is seen in the method for implementing face-to-face sales. This is evidenced in activities called “Swirl of Seminars.” By holding more than 1,000 seminars annually, the in-house company was able to have more contact with clients and new accounts. In such seminars, managerial staff gave lectures, resulting in greatly improving employees’ skills such as market analyzing and product planning, which we believe is a large fruition of our efforts.

The Investment Bank Company ranked eighth in the list of lead underwriters for IPO, up from 15th the previous year. In the fields of M&A and real estate-related financial products, the in-house company strove to expand business by proactively strengthening alliances with outside partners.

Tokai Tokyo Securities promoted its brand strategy by using actress Keiko Takeshita as a poster woman. This promotion won wide acclaim from customers for being friendly and easy to understand.

In addition, the Company implemented unique sales activities in the Tokai region (central part of Japan), where we believe we will be able to continuously maintain our competitive edge over our rivals, amid heightened competition. We made a variety of efforts in the region including concentrating management resources, for example by assigning more sales staff, enhanced advertising strategies, and operating new types of outlets.

These efforts appear to have greatly contributed to the Company’s strong operating results for the fiscal year under review.

Three-year business plan launched

Aiming for an early realization of “Premium House,” the Company has formulated “Three-Year Business Plan - Innovation Jump up 5.” Specifically, under this plan we will promote the sweeping structural reforms of: (1) corporate governance/corporate culture; (2) business portfolios/business models; (3) networks; (4) products and services; and (5) employees’ roles and productivity. We have drawn up the plan partly because we already achieved our financial goals of the “Medium-term Business Plan” in the fiscal year under review, but also because securities companies are being pressed to agilely respond to the changes in the market environment. Such change is evidenced, for example, in rising demand from individuals for management of their assets. This is associated with the so-called Year 2007 issue, in which the retirement of baby boomers will peak in 2007.

Up until now, securities houses have been engaged in brokerage operations, centering on stocks, but from now on they are expected to deal with the major trend of “from saving to investment” with the changing market. To meet such expectation, the Company will endeavor to offer high-quality services through the achievement of the three-year business plan, and become a “Premium House” that is attractive to and trusted by shareholders and clients.

I appreciate your continued support and kind understanding.

Tateaki Ishida

President & Chief Executive Officer



Management's Discussion and Analysis

Operating results

During the fiscal year under review (fiscal 2005, from April 1, 2006 to March 31 2006), the Japanese economy emerged from its first-half plateau phase, and remained steady, though moderately so, as the negative effect of oil price hikes was limited. Buoyed by strong operating results, such as record profits, corporations substantially increased capital expenditures. Meanwhile, consumer spending also rose thanks to the favorable effects of the household sector through the improved employment situation. As a result, at the end of the fiscal term, the current economic expansion period, which started in February 2002, looked poised to surpass the previous record for continuous economic expansion of 51 months that was set during the bubble economy period. With consumer prices remaining higher than the previous year, the Bank of Japan ended its five-year quantitative monetary easing policy in March 2006. The above factors suggested the deflationary period was ending.

Under such circumstances, in the stock market, foreign investors aggressively bought Japanese stocks, with their net buying for the fiscal year under review totaling slightly over ¥10 trillion on the first and second sections of the equity markets in Tokyo, Osaka and Nagoya. This, combined with the active participation of individual investors, caused the number of equity transactions to increase. The average daily trading volume for domestic common stocks on the first section of the Tokyo Stock Exchange was 2,180 million shares (up 43.0% from the previous year) and the average daily value was ¥2,252.1 billion (up 69.5%). Both these figures were all-time highs, as were the equivalent figures of the previous year. The stock market weakened early in the fiscal term influenced by uncertainties about the U.S. and Chinese economies, but strengthened in the wake of the Liberal Democratic Party's landslide victory in the Lower House election in September and the upward trend of the stock market accelerated. Then, the market temporarily declined affected by window-dressing settlements of some companies. In general, however, the Nikkei Stock Average remained strong due to brisk corporate earnings and new expectations that deflation was coming to an end, and closed at 17,059 yen at the end of the fiscal year, up 5,390 yen from a year earlier and its highest level since August 2000.

The bond market remained strong in the first half of the fiscal year under review due to concerns over economic adjustments, with the yields on 10-year government bonds falling to 1.165% in June. However, the Liberal Democratic Party was overwhelming victorious in the Lower House election in September, which significantly raised

expectations for an economic recovery, and the Nikkei Stock Average rose to the 16,000 yen range toward the end of the year. In response, bond prices, which had been stable at lower levels, gradually declined (interest rates climbed). Then, according to the statistics announced in January 2006, the consumer price index (excluding fresh produce, on a nationwide basis) for December 2005 rose 0.1 percentage point from the previous year, was unchanged in October, and rose 0.1 point in November. Seeing the index post positive figures for three months in a row, the BOJ announced in March that it would abandon its quantitative monetary relaxation policy, which was launched in March 2001. The bond market sharply reacted to this development, with short- and medium-term bonds leading an increase in yields on overall bonds. The yields on the 10-year government bonds stood at 1.765% at the end of the fiscal year under review.

In this environment, on a consolidated basis we posted total revenues of ¥71,777 million, up 75.3% from the previous year, net revenues of ¥70,817 million, up 76.9%, and selling, general and administrative expenses of ¥44,273 million, up 27.8%. Operating income jumped 392.7% year-on-year to ¥26,544 million, and net income jumping 268.0% to ¥22,085 million.

1. Commissions

In the fiscal year under review, commissions received were ¥53,110 million on a consolidated basis, up 68.1% from the previous year.

The breakdown of the commissions received is as follows:

(1) Brokerage commissions

On a consolidated basis, brokerage of stocks stood at 7,785 million shares in the fiscal year under review, up 39.9% from the preceding year, with a value of ¥5,763.1 billion, up 81.0%. These sharp increases are attributable to active trading by individual investors. As a result, we booked equity brokerage commissions of ¥37,071million, up 69.2% from a year earlier.

(2) Underwriting and offering commissions, and subscription and offering commissions

On a consolidated basis, underwriting and offering commissions for stocks were ¥1,946 million in the fiscal year under review, up 109.5% from the previous year, and such commissions for stocks and bonds were ¥2,028 million, up 98.4%.

Subscription and offering commissions for beneficial certificates totaled ¥7,774 million, up 80.6%, and such commissions for beneficial certificates, stocks and bonds

were ¥7,958 million, up 78.3%.

(3) Other commissions

Other commissions for the fiscal year under review posted ¥5,956 million on a consolidated basis, up 44.9%, of which agency commissions for beneficial certificates accounted for ¥4,083 million, up 31.5%.

2. Gains / losses on trading

In the fiscal year under review, gains on trading of stocks have greatly increased, posting ¥11,252 million on a consolidated basis, up 203.0% from the previous year, due to brisk trading of both domestic and foreign stocks. Meanwhile, gains on trading of bonds were ¥4,696 million, up 23.7%. Gains on trading of stocks, bonds and others totaled ¥16,569 million, up 107.6%.

3. Financial balance

We registered financial revenues of ¥2,098 million in the fiscal year under review, up 53.0% from the previous year, due to an increase in interest income derived from margin trading. Meanwhile, financial expenses remained almost unchanged, posting ¥960 million, up 3.3%. Hence, the positive net financial balance was ¥1,138 million, up 157.4%.

4. Selling, general and administrative expenses

In the fiscal year under review, selling, general and administrative expenses increased 27.8% from the previous year to ¥44,273 million on a consolidated basis. Of the amount, brokerage and other commissions were ¥2,073 million, up 25.9%, with employees' compensation and benefits at ¥27,670 million, up 42.8%, real estate expenses at ¥5,074 million, up 0.3%, and data processing and office supplies at ¥3,200 million, up 10.5%.

5. Extraordinary profits / losses

In the fiscal year under review, we booked as extraordinary profits of ¥3,168 million on some investment securities holdings which were transferred to the employee retirement benefit trust to make our pension program's finances sound. Meanwhile, with the adoption of the "accounting standard for the impairment of fixed assets," we recorded group-wide impairment losses of ¥3,936 million as extraordinary losses.

Financial conditions

Cash flows

In the fiscal year under review, cash outflows from operating activities were ¥34,570 million on a consolidated basis, down ¥18,124 million from the previous year. While income before income taxes and minority interests was ¥26,226 million, trading products and receivables related to margin transactions increased.

Cash outflows from investing activities were ¥2,219 million, down ¥2,652 million, due to IT-related investments. Cash inflows from financing activities were ¥45,732 million, up ¥34,999 million, owing to a rise in borrowings and an issuance of commercial paper. As a result, the balance of cash and cash equivalents was ¥35,522 million at the end of the fiscal year on a consolidated basis, up ¥9,055 million from the previous year.

The Company has signed commitment-line contracts totaling ¥30 billion (as of the end of March 2006) with financial institutions.

Consolidated Financial Statements

**Tokai Tokyo Securities Co., Ltd. and
Consolidated Subsidiaries**

**Years ended March 31, 2006 and 2005
with Report of Independent Auditors**

Misuzu Audit Corporation
Kasumigaseki Bldg., 32nd Floor
3-2-5, Kasumigaseki, Chiyoda-ku
Tokyo 100-6088, JAPAN
Telephone 81-3-5532-2100
Facsimile 81-3-5532-2901

Report of Independent Auditors

To the Board of Directors and Shareholders of Tokai Tokyo Securities Co., Ltd.

We have audited the accompanying consolidated balance sheets of Tokai Tokyo Securities Co., Ltd and its subsidiaries as of March 31, 2005 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 consolidated financial position of Tokai Tokyo Securities Co., Ltd. and its subsidiaries as of March 31, 2005 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 2, effective for the year ended March 31, 2006, Tokai Tokyo Securities Co., Ltd. and its subsidiaries changed their accounting policy for impairment of fixed assets due to the application of the "Accounting Standard for Impairment of Fixed Assets" and the "Application Guideline for the Accounting Standard for Impairment of Fixed Assets".

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.


Misuzu Audit Corporation
Tokyo, Japan
November 27, 2006

Consolidated Balance Sheets

As of March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	March 31,		March 31,
	2006	2005	2006
ASSETS			
Cash on hand and in banks			
Cash and time deposits (Notes 6 and 16)	¥ 36,458	¥ 27,285	\$ 310,360
Cash segregated as deposits related to securities transactions	30,492	22,894	259,573
	66,950	50,179	569,933
Collateralized short-term financing agreements			
Deposits paid for securities borrowed (Note 6)	200,057	143,493	1,703,048
Trading assets (Notes 3 and 6)	183,272	130,177	1,560,160
Receivables			
Receivables from brokers, dealers and clearing organization	2,441	1,009	20,780
Receivables from customers	3,711	1,617	31,591
Receivables related to margin transactions	145,648	80,242	1,239,874
Other	3,745	2,162	31,880
	155,545	85,030	1,324,125
Less: allowance for doubtful accounts	(143)	(105)	(1,217)
	155,402	84,925	1,322,908
Investment securities (Notes 4 and 6)	13,333	15,107	113,501
Deferred income taxes (Notes 9)	2,699	—	22,976
Other assets			
Property and equipment (Notes 5 and 6)	14,264	17,970	121,427
Less: accumulated depreciation	(4,732)	(4,623)	(40,283)
	9,532	13,347	81,144
Lease deposits	3,439	3,731	29,276
Others	4,266	3,488	36,315
	17,237	20,566	146,735
Less: allowance for doubtful accounts	(802)	(856)	(6,827)
	16,435	19,710	139,908
Total assets	¥ 638,148	¥ 443,591	\$ 5,432,434

The accompanying notes are an integral part of these statements

Consolidated Balance Sheets

As of March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	March 31,		March 31,
	2006	2005	2006
LIABILITIES AND SHAREHOLDERS' EQUITY			
Short-term borrowings (Notes 6 and 7)	¥ 75,770	¥ 36,126	\$ 645,016
Commercial Paper	10,500	—	89,385
Trading liabilities (Note 3)	145,309	112,825	1,236,988
Collateralized short-term financing agreements			
Deposits received for securities loaned (Note 6)	143,146	105,390	1,218,575
Securities sold under repurchase agreements	15,492	—	131,880
	158,638	105,390	1,350,455
Payables			
Payables to brokers, dealers, and clearing organizations	9,822	6,769	83,613
Payables to customers	34,435	22,314	293,139
Payables related to margin transactions	69,361	53,477	590,457
Other	7,506	2,528	63,897
	121,124	85,088	1,031,106
Deferred income taxes (Note 9)	861	2,168	7,330
Accrued and other liabilities			
Income taxes payable	7,597	355	64,672
Retirement benefits (Note 8)	1,051	4,798	8,947
Employees' bonuses	4,540	1,450	38,648
Other	3,221	2,477	27,420
	16,409	9,080	139,687
Statutory reserves (Note 10)	1,013	846	8,623
Total liabilities	529,624	351,523	4,508,590
Minority interests	250	189	2,128
Commitments and contingent liabilities (Note 11)			
Shareholders' equity			
Common stock:			
Authorized : 972,730,000 and 972,730,000 shares as of March 31, 2006 and 2005, respectively			
Issued : 285,582,115 and 285,582,115 shares as of March 31, 2006 and 2005 respectively	36,000	36,000	306,461
Additional paid - in capital	37,586	37,636	319,963
Retained earnings	36,188	16,969	308,062
Net unrealized gain on investment securities	2,836	4,173	24,142
Foreign currency translation adjustment	(126)	(225)	(1,073)
Less: treasury shares, at cost, 11,516,232 and 9,174,747 shares as of March 31, 2006 and 2005, respectively	(4,210)	(2,674)	(35,839)
Total shareholders' equity	108,274	91,879	921,716
Total liabilities and shareholders' equity	¥ 638,148	¥ 443,591	\$ 5,432,434

The accompanying notes integral part of these statements

Consolidated Statements of Income

March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	March 31,		March 31,
	2006	2005	2006
Revenues			
Commissions (Note 12)	¥ 53,110	¥ 31,598	\$ 452,115
Net gain on trading	16,569	7,982	141,049
Interest and dividend income	2,098	1,371	17,860
Total revenues	71,777	40,951	611,024
Interest expenses	960	929	8,172
Net revenues	70,817	40,022	602,852
Selling, general and administrative expenses (Note 13)	44,273	34,634	376,888
Operating income	26,544	5,388	225,964
Other, net (Note 14)	(318)	752	(2,707)
Income before income taxes and minority interests	26,226	6,140	223,257
Income taxes (Note 9)			
Current	7,376	112	62,791
Deferred	(3,297)	—	(28,067)
	4,079	112	34,724
Minority interests	62	27	528
Net income	¥ 22,085	¥ 6,001	\$ 188,005
Earnings per share			
Net income		Yen	U.S. dollars
Basic	¥ 79.05	¥ 21.33	\$ 0.67
Diluted	¥ 78.98	¥ 21.26	\$ 0.67

The accompanying notes integral part of these statements

Consolidated Statements of Shareholders' Equity

March 31, 2006 and 2005

March 31, 2006 and 2005

	Thousands	Millions of yen						
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Net unrealized gain on investment securities	Foreign currency translation adjustment	Treasury shares	Total Shareholders' equity
Balance as of March 31, 2004	285,582	¥ 36,000	¥ 35,578	¥ 13,663	¥ 3,567	¥ (206)	¥ (6,816)	¥ 81,786
Net income for the year	—	—	—	6,001	—	—	—	6,001
Cash dividends paid	—	—	—	(2,562)	—	—	—	(2,562)
Bonus payments to directors	—	—	—	(133)	—	—	—	(133)
Gain on disposal of treasury shares	—	—	2,058	—	—	—	—	2,058
Change in revaluation reserve	—	—	—	—	606	—	—	606
Change in translation adjustment	—	—	—	—	—	(19)	—	(19)
Change in treasury shares	—	—	—	—	—	—	4,142	4,142
Balance as of March 31, 2005	285,582	¥ 36,000	¥ 37,636	¥ 16,969	¥ 4,173	¥ (225)	¥ (2,674)	¥ 91,879
Net income for the year	—	—	—	22,085	—	—	—	22,085
Cash dividends paid	—	—	—	(2,764)	—	—	—	(2,764)
Bonus payments to directors	—	—	—	(102)	—	—	—	(102)
Gain on disposal of treasury shares	—	—	(50)	—	—	—	—	(50)
Change in revaluation reserve	—	—	—	—	(1,337)	—	—	(1,337)
Change in translation adjustment	—	—	—	—	—	99	—	99
Change in treasury shares	—	—	—	—	—	—	(1,536)	(1,536)
Balance as of March 31, 2006	285,582	¥ 36,000	¥ 37,586	¥ 36,188	¥ 2,836	¥ (126)	¥ (4,210)	¥ 108,274

Thousands of U.S. Dollars (Note 1)

Balance as of March 31, 2005	\$ 306,461	\$ 320,388	\$ 144,454	\$ 35,524	\$ (1,915)	\$ (22,763)	\$ 782,149
Net income for the year	—	—	188,005	—	—	—	188,005
Cash dividends paid	—	—	(23,529)	—	—	—	(23,529)
Bonus payments to directors	—	—	(868)	—	—	—	(868)
Gain on disposal of treasury shares	—	(425)	—	—	—	—	(425)
Change in revaluation reserve	—	—	—	(11,382)	—	—	(11,382)
Change in translation adjustment	—	—	—	—	842	—	842
Change in treasury shares	—	—	—	—	—	(13,076)	(13,076)
Balance as of March 31, 2006	\$ 306,461	\$ 319,963	\$ 308,062	\$ 24,142	\$ (1,073)	\$ (35,839)	\$ 921,716

The accompanying notes integral part of these statements

Consolidated Statements of Cash Flows

March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Cash flows from operating activities			
Income before income taxes and minority interests	¥ 26,226	¥ 6,140	\$ 223,257
Adjustments to reconcile income before income taxes and minority interests to net cash provided by (used in) operating activities			
Depreciation and amortization	832	810	7,083
Provision for doubtful accounts	145	27	1,234
Provision for retirement benefits	165	216	1,405
Employees' bonuses	3,090	(601)	26,305
Provision for statutory reserves	166	118	1,413
Gains on sale of investment securities, net	(751)	(499)	(6,393)
Losses on disposal of fixed assets	115	68	979
Losses on the sale of fixed assets, net	221	14	1,881
Losses on impairment of fixed assets	3,936	—	33,506
Losses on devaluation of investment securities	24	8	204
Gain on contribution of securities to employees' retirement benefit trust	(3,168)	—	(26,969)
Interest and dividend income	(2,281)	(1,747)	(19,418)
Interest expenses	960	929	8,172
Increase in receivables	(70,161)	(2,741)	(597,267)
Increase in payables	36,012	15,510	306,563
Decrease in trading assets and liabilities, net	(20,611)	3,569	(175,457)
Increase in collateralized short-term financing agreements, net	(3,317)	(37,155)	(28,237)
Other, net	(7,154)	(1,897)	(60,900)
Subtotal	(35,551)	(17,231)	(302,639)
Interest and dividend received	2,045	1,634	17,409
Interest paid	(914)	(725)	(7,781)
Income tax paid	(150)	(124)	(1,277)
Net cash used in operating activities	(34,570)	(16,446)	(294,288)
Cash flows from investing activities			
Purchase of property and equipment	(816)	(282)	(6,947)
Proceeds from sale of property and equipment	45	240	383
Purchase of investment securities	(1,945)	(213)	(16,557)
Proceeds from sale of investment securities	1,664	1,219	14,165
Other, net	(1,167)	(531)	(9,934)
Net cash (used in) provided by investing activities	(2,219)	433	(18,890)
Cash flows from financing activities			
Increase in short-term borrowings	39,584	7,099	336,971
Income from commercial paper	19,000	—	161,744
Redemption of commercial paper	(8,500)	—	(72,359)
Purchase of common stocks	(1,671)	(2,006)	(14,225)
Proceeds from sale of common stocks	86	8,205	732
Cash dividends paid	(2,764)	(2,562)	(23,529)
Cash dividends to minority shareholders	(3)	(3)	(26)
Net cash provided by financing activities	45,732	10,733	389,308
Effect of exchange rate changes on cash and cash equivalents	112	(19)	954
Net increase (decrease) in cash and cash equivalents	9,055	(5,299)	77,084
Cash and cash equivalents at the beginning of year	26,467	31,766	225,308
Cash and cash equivalents at the end of year (Note 16)	¥ 35,522	¥ 26,467	\$ 302,392

The accompanying notes integral part of these statements

Notes to Consolidated Financial Statements

1. Basis of presentation

The accompanying consolidated financial statements of Tokai Tokyo Securities Co., Ltd. (herein after referred to as the "Company") have been prepared in accordance with the provisions set forth in the Commercial Code of Japan and the Securities and Exchange Law, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing the consolidated financial statements, certain reclassifications and rearrangements have been made to the financial statements issued in Japan in order to present these statements in a form which is more familiar to readers of these statements outside Japan. Certain items presented in the consolidated financial statements filed with the Director of the Kanto Finance Bureau in Japan have been reclassified and/or recapitulated for the convenience of readers outside Japan. The consolidated financial statements are not intended to present the consolidated financial position, results of operation and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

The translation of yen amounts into U.S. dollars is included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 2006, which was ¥117.47 to US\$1. The translation should not be construed as a representation that the yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

Certain amounts in the 2005 financial statements and notes have been reclassified to conform with the 2006 presentation.

2. Summary of significant accounting policies

Principles of consolidation

Subsidiaries are, in general, the companies in which the Company 1) holds, directly and/or indirectly, more than 50% of the voting shares; 2) holds, directly and/or indirectly, 40% or more of the voting shares and, at the same time, exercises effective control over the decision-making body by directing business policy, and deciding on financial and operating policies; or 3) holds more than 50% of the voting shares together with those entities that would vote or agree to vote with the Company due to their close relationship with the Company through sharing of personnel, provision of finance and technology and other relationships and, at the same time, has effective control over the decision making body, unless evidence exists which shows that the Company does not have such control.

The name of the consolidated subsidiaries as of March 31, 2006 are as follows:

- Tokai Tokyo Securities (Asia) Ltd.
- Tokai Tokyo Research Center Co., Ltd.
- Utsunomiya Securities Co., Ltd.
- Tokai Tokyo Services Co., Ltd.
- Tokai Tokyo Asset Management Co., Ltd.
- Tokai Tokyo Finance & Real Estate Co., Ltd.

The financial statements of Tokai Tokyo Securities (Asia) Limited, whose fiscal year-end is December 31, are included in the consolidated financial statements on the basis of its respective fiscal year after making appropriate adjustments for significant transactions during the period from its fiscal year-end to the date of the Company's fiscal year-end. All other subsidiaries' fiscal year-end are March 31.

Any difference between the cost of and acquisition fair value of the net assets of the consolidated subsidiaries is recognized as negative goodwill and amortized if cost exceeded fair value, using the straight-line method over 5 years.

Affiliates are, in general, companies other than subsidiaries, in which the Company 1) holds, directly and/or indirectly, 20% or more of the voting shares; 2) holds, directly and/or indirectly, 15% or more of the voting shares and also is able to influence decision making through personnel, finance and other relationships; or 3) holds more than 20% of the voting shares together with those entities that would vote or agree to vote with the Company due to their close relationship with the Company through sharing of personnel, provision of finance and technology and other relationship and, at the same time, is able to influence the decision making body, unless evidence exists which shows that the Company does not have such influence.

Financial Instruments

The purpose of trading activities is to make profits from the short-term volatility in stock prices, interest rates, foreign exchange rates and other market indices, and from arbitrage between markets, and to reduce losses arising from (a) securities such as stocks and bonds, (b) derivatives listed on exchanges such as equity index futures and options, and bond futures and options and (c) OTC derivatives such as foreign exchange forwards and OTC bond options. Securities, derivative contracts and other financial instruments classified as trading assets and liabilities are held at fair value based on the mark-to market method.

Other securities are held for non-trading purposes and classified as investment securities. Other securities that have a market quotation are held at the market price prevailing at the end of the fiscal year. Differences between the cost of securities held determined by the moving average method and the fair value less associated deferred taxes are recorded in the "Net unrealized gain on investment securities" in "Shareholders' equity" on the consolidated balance sheets. Other securities without a market quotation are valued at cost as determined by the moving average or are valued at amortized cost. Where other securities have declined significantly and such impairment of value is deemed not temporary, such securities are written down to their fair value and the resulting losses are charged to net profit or loss for the period.

Property and equipment

Depreciation of tangible fixed assets is calculated based on the declining-balance method. However, buildings (excluding leasehold improvements) acquired by the Company and domestic consolidated subsidiaries after April 1, 1998 are depreciated by using the straight-line method.

The estimated useful life and residual value of tangible fixed assets, used by the Company and domestic consolidated subsidiaries, are in accordance with the Japanese Corporation Tax Law.

Intangible fixed assets

Amortization of intangible fixed assets is calculated on the straight-line basis. The estimated useful life, used by the Company and its domestic consolidated subsidiaries, is in accordance with the Japanese Corporation Tax Law.

Software for internal use is amortized on the straight-line basis over its economic useful life, namely 5 years.

Allowance for doubtful accounts

Reserve for bad debts is provided on the basis of historical loss experience for receivables. For certain receivables, for which collection is doubtful, a specific reserve equivalent to the amount of expected loss is established.

Employees' bonuses

Accrued bonus payable to employees is provided for at the estimated amounts that the Company and its consolidated subsidiaries are obliged to pay to employees based on internal rules.

Retirement benefits

Reserve for retirement allowance is provided for by the Company and its domestic consolidated subsidiaries based on estimated retirement benefit obligations and estimated plan assets at the end of the fiscal year.

Any actuarial differences are amortized on the straight-line basis over 10 years reflecting the average of employees' remaining service period, beginning one fiscal year after the year when the difference is determined.

Reserve for directors' retirement benefits is provided for at the estimated amounts that the Company and its domestic consolidated subsidiaries are obliged to pay to directors based on internal rules.

Translation of foreign currencies

Assets and liabilities denominated in foreign currencies, whether long term or short term, are translated in Japanese yen at the exchange rates prevailing at the balance sheet date. Resulting gains and losses are included in the net profit or loss for the period. In translating the financial statements of subsidiaries or affiliates stated in foreign currencies into yen, for purposes of consolidation with the Company or for application of the equity method, all assets and liabilities of foreign subsidiaries are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Shareholders' equity at the beginning of the year is translated into Japanese yen at historical rates. Profit and loss accounts for the year are translated into Japanese yen using the average exchange rate during the year or, alternatively, using the exchange rates prevailing at the balance sheet date. Differences in yen amounts arising from the use of different rates are included in "Foreign currency translation adjustment" in "Shareholders' equity".

Accounting for leases

Finance leases where the ownership of assets is not transferred to the lessee are accounted for as the operating leases.

Income taxes

Deferred taxes are provided for temporary differences between the tax and accounting basis of assets and liabilities in the financial statements.

Consumption Taxes

Consumption tax and local consumption tax incurred by the Company and its consolidated subsidiaries are excluded from transaction amounts.

Earning per share

Earnings per share is based on the average number of common stock outstanding during the period. The average number of shares used in the computation excluded the number of treasury shares.

Appropriation of retained earnings

Under the Commercial Code of Japan and the Articles of Incorporation of the Company, the appropriation of retained earnings proposed by the Board of Directors is subject to approval by the shareholders at a meeting which must be held within three months of the end of each financial year. The appropriations of retained earnings reflected in the accompanying consolidated financial statements include the results of such appropriations applicable to the immediately preceding financial year as approved at the shareholders' meeting, and effected, during the relevant year.

Scope of cash and cash equivalents in consolidated statements of cash flows

Cash and cash equivalents disclosed in the consolidated statements of cash flows comprise cash on hand, demand deposits and ordinary deposits which can be easily liquidated on demand.

Accounting standard for impairment of fixed assets

Beginning in the fiscal year under review, the Company has adopted the "Accounting Standard for Impairment of Fixed Assets" ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" [Business Accounting Council, August 9, 2002]) and the "Application Guideline for the Accounting Standard for Impairment of Fixed Assets" (Accounting Standards Board of Japan, October 31, 2003, Financial Accounting Standard Application Guidance No. 6).

The Group classifies the network of business outlets including the head office and branches as an asset group, regarding it as the smallest unit of asset group that generates cash flows. We group lease assets and idle assets by property type.

As a result, the book values of lease assets, whose profitability has worsened, and idle assets, whose market prices dropped sharply, were reduced to recoverable values. The reductions, amounting to ¥ 3,936 million (land: ¥ 2,670 million; buildings: ¥ 1,227 million; others: ¥ 38 million) were recognized as an impairment loss and booked as an extraordinary loss. We calculate the recoverable values of lease assets as their value in use, which are their estimated future cash flows discounted by 7%. We use real estate appraisal values for the recoverable values of idle assets, which are regarded as net selling prices.

The accumulated impairment losses are subtracted directly from the amounts of related assets in the consolidated balance sheets.

3.Trading assets and trading liabilities

Trading assets and trading liabilities are recorded at fair value with unrealized gains and losses recognized currently as "Net gain on trading " in the consolidated statements of income. Sales of securities that the Company does not currently own, and will therefore be obligated to purchase at future dates ("short sales"), are included in trading liabilities. Purchases and sales of trading instruments are recognized on their respective trade dates. Unrealized gains and losses arising from the Company's dealings in over-the-counter ("OTC") financial instruments are presented in the accompanying consolidated balance sheets on a gross basis.

The fair values of the trading positions generally are based on listed market prices. If listed market prices are not available, fair value is determined based on other relevant factors, including dealer price quotations and price quotations for similar instruments or from pricing models. Valuation pricing models consider current market and contractual prices for the underlying financial instruments as well as time value, interest rate, dividend yield , time to expiration, volatility factors, market liquidity and other statistical adjustments relevant to the instrument on similar instruments.

(1) Trading assets and liabilities as of March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2006	March 31, 2005	March 31, 2006
Trading assets:			
Equity and warrants	¥ 27,797	¥ 15,240	\$ 236,631
Bonds	150,756	113,140	1,283,357
Beneficiary certificates of investment trust	4,119	1,683	35,064
Derivatives	246	114	2,094
Others	354	—	3,014
	¥ 183,272	¥ 130,177	\$ 1,560,160
Trading liabilities:			
Equity and warrants	¥ 18,775	¥ 10,201	\$ 159,828
Bonds	126,207	102,541	1,074,376
Derivatives	327	83	2,784
	¥ 145,309	¥ 112,825	\$ 1,236,988

(2) Notional amounts and market value of derivatives as of March 31, 2006 and 2005 were as follows:

	Millions of yen							
	March 31, 2006				March 31, 2005			
	Assets		Liabilities		Assets		Liabilities	
	Notional amount	Market value	Notional amount	Market value	Notional amount	Market value	Notional amount	Market value
Options	¥ 20,548	¥ 171	¥ 40,668	¥ 81	¥ 9,366	¥ 63	¥ 20,843	¥ 62
Foreign exchange forwards	—	—	2,573	6	—	—	2,886	2
Futures and forwards	6,731	75	27,938	240	4,618	51	3,501	19

	Thousands of U.S. dollars			
	March 31, 2006			
	Assets		Liabilities	
	Notional amount	Market value	Notional amount	Market value
Options	\$ 174,921	\$ 1,456	\$ 346,199	\$ 690
Foreign exchange forwards	—	—	21,903	51
Futures and forwards	57,300	638	237,831	2,043

(3) Trading activities

(a) Details of trading

There are three types of financial instruments that the Company trades in: (a) securities such as stocks and bonds; (b) derivatives traded on exchanges, such as futures and options based on stock price indices, and futures and options based on bonds; and (c) derivatives traded on outside exchanges, such as foreign exchange forward contracts, bonds with options and OTC securities options.

(b) Trading policy and purpose of use

The Company's basic policy on trading operations is to provide clients with appropriate information services and products that meet their diversified needs, through exchange transactions or transactions on outside exchanges. In exchange transactions, the Company aims to help strengthen sound market functions and to smoothly execute on-commission trades. Meanwhile, in transactions on outside exchanges, the Company intends to form fair prices and smoothen the circulation of money. The Company also makes every effort to earn profits through transactions capitalizing on: short-term fluctuations in various prices on securities markets such as exchanges, interest rates, currency rates, and other indices; and differences among markets. At the same time, the Company is striving to reduce losses from these transactions.

(c) Details of risks related to trading

The principle risks that occur in relation to trading operations that materially affect the Company's financial conditions are market risks and credit risks.

Market risk relates to changes in the market values of stocks, interest rates and exchange rates, while credit risk is the risk that business partners may fail to fulfill contractual obligations.

(d) Risk management system related to trading

Securities operations basically involve market risks. However, such risks have become complicated and diverse with the diversification of financial products such as derivatives. Hence, we regard risk management as being extremely important.

Risk management essentially aims to adequately control risks in a way that suits the Company's financial conditions. Based on the management policies and budget that are formulated at the beginning of the fiscal year, we set risk limits, position limits and loss-cut rules, with which we manage our risk management system.

Under such system, the risk management department, which became independent from the trading section, calculates risks, positions and profits and losses on a daily basis so that risks may be controlled. At the same time, these matters are reported to the manager and related departments every day. We also hold a "Risk Management Committee" once a month to deliberate and report on details of our risk management.

4. Investment securities

Investment securities as of March 31, 2006 and 2005 consisted of the following:

	Millions of yen					
	March 31, 2006			March 31, 2005		
	Acquisition cost	Balance sheets	Difference	Acquisition cost	Balance sheets	Difference
Securities with market value that exceed acquisition cost:	¥ 5,007	¥ 9,391	¥ 4,384	¥ 5,474	¥ 11,889	¥ 6,415
Stocks	4,874	9,256	4,382	5,391	11,805	6,414
Bonds	—	—	—	—	—	—
Governmental/local bonds	—	—	—	—	—	—
Corporate bonds	—	—	—	—	—	—
Others	—	—	—	—	—	—
Others	133	135	2	83	84	1
Securities with market value that do not exceed acquisition cost:	1,012	893	(119)	711	598	(113)
Stocks	1,002	883	(119)	501	425	(76)
Bonds	10	10	(0)	—	—	—
Governmental/local bonds	10	10	(0)	—	—	—
Corporate bonds	—	—	—	—	—	—
Others	—	—	—	—	—	—
Others	—	—	—	210	173	(37)
	¥ 6,019	¥ 10,284	¥ 4,265	¥ 6,185	¥ 12,487	¥ 6,302
Without market value:						
Stocks (non-listed)		¥ 2,482			¥ 2,491	
Bonds (non-listed)		100			—	
Others		467			129	
		¥ 3,049			¥ 2,620	
Total		¥ 13,333			¥ 15,107	

	Thousands of U.S. dollars		
	March 31, 2006		
	Acquisition cost	Balance sheets	Difference
Securities with market value that exceed acquisition cost:	\$ 42,624	\$ 79,944	\$ 37,320
Stocks	41,491	78,795	37,304
Bonds	—	—	—
Governmental/local bonds	—	—	—
Corporate bonds	—	—	—
Others	—	—	—
Others	1,132	1,149	17
Securities with market value that do not exceed acquisition cost:	8,615	7,602	(1,013)
Stocks	8,530	7,517	(1,013)
Bonds	85	85	(0)
Governmental/local bonds	85	85	(0)
Corporate bonds	—	—	—
Others	—	—	—
Others	—	—	—
	\$ 51,239	\$ 87,546	\$ 36,307
Without market value:			
Stocks (non-listed)		\$ 21,129	
Bonds (non-listed)		851	
Others		3,975	
		\$ 25,955	
Total		\$ 113,501	

The proceeds from sales of, and gross realized gain and loss on, investment securities for the years ended March 31, 2006 and 2005 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Proceeds from sales	¥ 1,664	¥ 1,219	\$ 14,165
Gross realized gains	787	534	6,700
Gross realized losses	(36)	(35)	(306)

Money in trust (money in trust, other than that for trading purposes, held to maturity) as of March 31, 2006 and 2005 consisted of the following:

	Millions of yen					
	March 31, 2006			March 31, 2005		
	Acquisition cost	Balance sheets	Difference	Acquisition cost	Balance sheets	Difference
Other money in trust	¥ —	¥ —	¥ —	¥ 4,524	¥ 4,528	¥ 4

	Thousands of U.S. dollars		
	March 31, 2006		
	Acquisition cost	Balance sheets	Difference
Other money in trust	\$ —	\$ —	\$ —

5. Lease transactions

Finance leases other than those which are deemed to transfer the ownership of the leased assets to lessees:

(1) Acquisition cost, accumulated depreciation and net book value

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Acquisition cost	¥ 590	¥ 1,574	\$ 5,023
Accumulated depreciation	363	1,127	3,090
Net book value at year end	¥ 227	¥ 447	\$ 1,933

(2) Future Lease payments

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Due in one year or less	¥ 100	¥ 270	\$ 851
Due after one year	138	200	1,175
Total	¥ 238	¥ 470	\$ 2,026

(3) Lease expenses, depreciation and interest expenses

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Lease payment	¥ 290	¥ 441	\$ 2,469
Depreciation	262	383	2,230
Interest expense	16	33	136

(4) Calculation method for depreciation

Depreciation is calculated using the straight-line method over the lease term assuming a residual value of zero.

6. Assets pledged as collateral

With respect to the Company, assets pledged as collateral for borrowings as of March 31, 2006 and 2005 were summarized as follows:

	Millions of yen					
	Obligations		Pledged Assets			Total
	secured by pledged assets	Cash in banks	Trading securities	Investment securities		
2006						
Short-term borrowings	¥ 41,380	¥ 50	¥ 43,141	¥ 723	¥	43,914
Borrowing for margin transaction	66,491	—	—	—		—
Deposits received for securities loaned	143,146	—	87,268	—		87,268
Securities sold under repurchase agreements	15,492	—	16,000	—		16,000
	¥ 266,509	¥ 50	¥ 146,409	¥ 723	¥	147,182

Millions of yen						
	Obligations secured by pledged assets	Pledged Assets			Total	
		Cash in banks	Trading securities	Investment securities		
2005						
Short-term borrowings	¥ 16,230	¥ 50	¥ 14,135	¥ 5,710	¥	19,895
Borrowing for margin transaction	49,938	—	—	—		—
Deposits received for securities loaned	105,390	—	84,256	—		84,256
	¥ 171,558	¥ 50	¥ 98,391	¥ 5,710	¥	104,151

Thousands of U.S. dollars						
	Obligations secured by pledged assets	Pledged Assets			Total	
		Cash in banks	Trading securities	Investment securities		
2006						
Short-term borrowings	\$ 352,260	\$ 426	\$ 367,251	\$ 6,155	\$	373,832
Borrowing for margin transaction	566,025	—	—	—		—
Deposits received for securities loaned	1,218,575	—	742,896	—		742,896
Securities sold to margin transactions	131,880	—	136,205	—		136,205
	\$ 2,268,740	\$ 426	\$ 1,246,352	\$ 6,155	\$	1,252,933

In addition to the above, as of March 31, 2006, ¥13,451 million of stocks received as collateral from customers under self-financing margin transactions for which the Company has not utilized securities finance companies and ¥54,936 million of stocks received as collateral from customers for securities borrowed, are pledged as collateral. In addition, ¥300 million of cash in banks, ¥10 million of trading securities, ¥296 million of property and equipment, ¥300 million of investment securities and ¥3,488 million of stocks received from self-financing on margin transactions are pledged as initial margin for futures transactions.

As of March 31, 2005, ¥9,374 million of stocks received as collateral from customers under self-financing margin transactions for which the Company has not utilized securities finance companies and ¥21,277 million of stocks received as collateral from customers for securities borrowed, are pledged as collateral. In addition, ¥300 million of cash in banks, ¥12 million of trading securities, ¥297 million of property and equipment, ¥300 million of investment securities and ¥1,010 million of stocks received from self-financing on margin transactions are pledged as initial margin for futures transactions.

The fair value of securities pledged and received as collateral at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of dollars
	2006	2005	2006
Pledged Securities:			
Securities loaned to customers for margin transactions	¥ 3,447	¥ 3,864	\$ 29,344
Securities pledged as collateral to securities finance companies or securities exchange brokers for margin transaction	68,474	48,985	582,906
Securities loaned for collateralized short-term financing agreements	142,204	105,533	1,210,556
Securities pledged related to securities sold under repurchase agreements	16,000	—	136,205
Securities pledged as collateral for short-term guarantee	38,518	26,226	327,896
Securities pledged as collateral for long-term guarantee	124	165	1,056
Received Securities:			
Securities received from customers for loans under margin transactions	¥ 136,815	¥ 73,520	\$ 1,164,680
Securities borrowed from finance companies or securities exchange brokers for margin transactions	6,230	4,647	53,035
Short-term securities borrowed	209,128	144,009	1,780,267
Securities received as collateral for short-term guarantee	71,095	41,308	605,218
Securities received as collateral for long-term guarantee	21	246	179
Others	2,069	1,035	17,613

7. Short-term borrowings

Short-term borrowings as of March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of dollars
	2006	2005	2006
Borrowings from financial institutions	¥ 72,990	¥ 33,346	\$ 621,350
Borrowings from securities finance companies	2,430	2,430	20,686
Borrowings from others	350	350	2,979
Total	¥ 75,770	¥ 36,126	\$ 645,015

8. Retirement benefits

The Company and domestic consolidated subsidiaries adopt the approved retirement annuity system, a defined benefit plan. There are some cases in which we pay extra retirement benefits to employees when they retire. The Company set up a retirement benefit trust in June 2005.

In March 2006, we dissolved the comprehensive Securities Companies' Welfare Pension Fund, which administered the Company's employee pension fund program. Hence, in place of the said employee pension fund program, we introduced a defined-contribution pension plan in January 2006.

In addition, Directors' retirement benefits of ¥ 401 million and ¥ 372 million were included in "Retirement benefits" on the consolidated balance sheets as of March 31, 2006 and 2005, respectively.

The following table sets forth the changes in benefits obligation, plan assets and funded status of the Company as of March 31, 2006 and 2005:

	Millions of yen		Thousands of dollars
	2006	2005	2006
Projected benefits obligations	¥ (9,499)	¥ (9,251)	\$ (80,863)
Plan assets	10,568	3,401	89,963
Unfunded retirement benefit obligation	1,069	(5,850)	9,100
Unrecognized net actuarial differences	(1,666)	1,424	(14,182)
Net amounts reported in the consolidated balance sheets	(597)	(4,426)	(5,082)
Prepaid pension and severance costs	53	—	451
Accrued benefit obligation for employees	¥ (650)	¥ (4,426)	\$ (5,533)

The components of retirement benefit expenses for the years ended March 31, 2006 and 2005 were outlined as follows:

	Millions of yen		Thousands of dollars
	2006	2005	2006
Service cost	¥ 612	¥ 791	\$ 5,210
Interest cost	172	166	1,464
Expected return on plan assets	(68)	(58)	(579)
Amortization of actuarial differences	211	219	1,796
Net pension expense	¥ 927	¥ 1,118	\$ 7,891
Contribution of defined contribution benefit plan	25	—	213
	¥ 952	¥ 1,118	\$ 8,104

Service cost includes contribution to the Securities Companies' Welfare Pension Fund amounting to ¥200 million for the years ended March 31, 2006 and 2005, respectively.

The assumptions used in accounting for the defined retirement benefit plans for the years ended March 31, 2006 and 2005 were as follows:

	2006	2005
Discount rates	2.00%	2.00%
Expected rate of return on plan assets	2.00%	2.00%

9. Income taxes

Deferred income taxes reflect the net tax effects of differences between the financial reporting and tax basis of assets and liabilities and tax loss carry forwards. These temporary differences result in taxable or deductible amounts in future years and are measured using the tax rates and laws that will be in effect when such differences are expected to reverse.

The significant components of deferred tax assets and liabilities as of March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of dollars	
	2006	2005	2006	
Deferred tax assets:				
Retirement benefits	¥ 1,786	¥ 1,743	\$ 15,204	
Allowance for doubtful accounts	332	338	2,826	
Loss on devaluation of investment securities	566	618	4,818	
Loss on impairment of fixed assets	1,511	—	12,863	
Loss on devaluation of investment securities	401	335	3,414	
Directors' retirement benefits	159	145	1,354	
Employees' bonuses	1,797	573	15,298	
Accrued business tax	612	—	5,210	
Other	876	951	7,458	
Sub total	8,040	4,703	68,445	
Tax loss carried forward	88	5,772	749	
Deferred tax assets	8,128	10,475	69,194	
Valuation allowance	(3,577)	(10,475)	(30,450)	
Total deferred tax assets	4,551	—	38,744	
Deferred tax liabilities:				
Gain on contribution of securities to employee retirement benefit trust	¥ 1,253	¥ —	\$ 10,667	
Valuation reserve on investment securities	1,452	2,160	12,361	
Other	9	8	77	
Deferred tax liabilities	2,714	2,168	23,105	
Valuation allowance	(1)	—	(9)	
Total deferred tax liabilities	¥ 2,713	¥ 2,168	\$ 23,096	
Net deferred tax assets (liabilities)	¥ 1,838	¥ (2,168)	\$ 15,648	

Net deferred tax assets (liabilities) as of March 31, 2006 and 2005 are reflected in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of dollars	
	2006	2005	2006	
Current assets - Deferred income taxes	¥ 2,699	¥ —	\$ 22,976	
Non-current liabilities - Deferred income taxes	861	2,168	7,330	

Reconciliations between the effective income tax rate reflected in the accompanying consolidated statements of income and the effective statutory tax rate for the year ended March 31, 2006 and 2005 were as follows:

	2006	2005
Effective statutory tax rate	39.55%	39.55%
Increase (decrease) due to:		
Permanent non-deductible items	0.16	(2.71)
Utilization of tax loss carried forward	(19.94)	(31.47)
Resident tax per capita levy	0.32	1.29
Valuation allowance	(4.58)	—
Other, net	0.04	(4.83)
Effective income tax rate	15.55%	1.83%

10. Statutory reserves

Statutory reserves in the accompanying consolidated balance sheets consisted of a reserve for securities transaction required by the 51 of the Securities and Exchange law. The amounts of the reserves to be maintained are determined by the formula stipulated in those laws.

11. Commitments and contingent liabilities

At March 31, 2006 and 2005, the Company was contingently liable as follows:

	Millions of yen		Thousands of dollars
	2006	2005	2006
Guarantees for employees' borrowings from financial institution	¥ 82	¥ 99	\$ 698

12. Commissions

Commissions earned for the years ended March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of dollars
	2006	2005	2006
Brokerage	¥ 37,168	¥ 22,003	\$ 316,404
Underwriting and distribution	9,986	5,485	85,009
Other	5,956	4,110	50,702
Total	¥ 53,110	¥ 31,598	\$ 452,115

13.Selling, general and administrative expenses

Selling, general and administrative expenses for the years ended March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of dollars
	2006	2005	2006
Employees' compensation and benefits	¥ 27,670	¥ 19,376	\$ 235,550
Brokerage and other commissions	2,073	1,647	17,647
Communication and transportation	2,327	2,255	19,809
Real estate expenses	5,074	5,059	43,194
Data processing and office supplies	3,200	2,897	27,241
Taxes other than income taxes	597	535	5,082
Depreciation	543	554	4,622
Amortization	290	256	2,469
Other	2,499	2,055	21,274
Total	¥ 44,273	¥ 34,634	\$ 376,888

14.Other, net

The components of "Other, net" in the consolidated statements of income for the years ended March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of dollars
	2006	2005	2006
Net gain (loss) on investments securities	¥ 727	¥ 491	\$ 6,189
Gain on contribution of securities to employees' retirement benefit trust	3,168	—	26,968
System alteration costs	—	(668)	—
Net loss from sale of fixed assets	(221)	(14)	(1,881)
Loss on disposal of fixed assets	(115)	(68)	(979)
Loss on impairment of fixed assets	(3,936)	—	(33,506)
Other	59	1,011	502
Total	¥ (318)	¥ 752	\$ (2,707)

15.Cash and cash equivalents

A reconciliation between cash and cash equivalents in the consolidated statements of cash flows and cash and time deposits in the consolidated balance sheets as of March 31, 2006 and 2005 is presented as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2006	2005	March 31, 2006
Cash and time deposits	¥ 36,458	¥ 27,285	\$ 310,360
Time deposits with maturity of over 3 months	(936)	(818)	(7,968)
Cash and cash equivalents	¥ 35,522	¥ 26,467	\$ 302,392

16.Segment information

(1) Segment information by type of business

The Tokai Tokyo Securities Group conducts worldwide business activities, centering on securities transactions, such as: (a) securities trading; (b) acting as an agency to entrust agents with on-commission trading of securities; (c) underwriting and offering securities; (d) dealing in securities subscription and offering; and (e) handling transactions of securities private placement.

The above business activities involve provision of financial and other services, and the Group earns profits through marketing activities that are integrated with these services. Hence, the Group's business segment belongs only to the "investment and financial service business."

(2) Geographical segment information

Geographical segment information for the fiscal term under review has been omitted because the "Japan" segment accounted for more than 90% of both total consolidated net sales and total assets.

(3) Overseas sales (revenues)

Overseas sales for the fiscal term under review have been omitted because they accounted for less than 10% of consolidated net sales.

17.Subsequent events

On June 29, 2006, the shareholders authorized the appropriation of retained earnings as follows:

Appropriations:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥25.0=\$0.21 per share)	¥ 6,852	\$ 58,330
Bonus to directors and statutory auditors	238	2,026

Company Information

Board of Directors and Statutory Auditors

(As of June 29, 2006)

(Directors)

Chairman

Masao Okumura

President & Chief Executive Officer

Tateaki Ishida

Director & Managing Executive Officer

Tadashi Kaneko

Director & Senior Executive Officers

Takashi Matsunaga

Yoshimi Maemura

Directors

Shingo Ichihara

Ikuo Suzuki

(Statutory Auditors)

Fumio Takahashi

Shuji Murase

Akira Nishigaki

Yukimasa Iwamoto

Nobuhiro Morisue

(Senior Executive Officers)

Kazue Kobayashi

Yasuo Takamatsu

Masaaki Takeda

(Executive Officers)

Yoshikazu Yamaguchi

Minoru Yoshida

Nobuhiro Ito

Hirokazu kawai

Nobuhiro Komuro

Mitsugu Ishii

Hiroichi Wakita

Masahiko Kawaguchi

Tadataka Shikada

Masahide Kawamoto

Directory

Tokai Tokyo Securities Co., Ltd.

Head Office

7-1, Kyobashi 1-chome, Chuo-ku

Tokyo 104-8317, Japan

Tel : 03-3566-8811

Fax: 03-3566-8717

Nagoya Main Office

7-1, Meieki 4-chome, Nakamura-ku

Nagoya 450-6212, Japan

Tel : 052-527-1111

Fax: 052-527-1195

Osaka Office

7-1, Doshomachi 1-chome, Chuo-ku

Osaka 541-0045, Japan

Tel : 06-6231-9251

Fax: 06-6231-9067

(Overseas Office)

London Representative Office

18 Hanover Square, London W1S

1HX, UK

Tel : 44-203-008-5533

Fax: 44-203-008-5531

Overseas Subsidiary

Tokai Tokyo Securities (Asia) Limited

Suite 1119, Jardine House, 1 Connaught Place,

HONG KONG

Tel : 852-2810-0822

Fax: 852-2810-0394

Domestic Affiliates

Utsunomiya Securities Co., Ltd.

Tokai Tokyo Research Center Co., Ltd.

Tokai Tokyo Services Co., Ltd.

Tokai Tokyo Investment Management Co., Ltd.

Tokai Tokyo Finance & Real Estate Co., Ltd.

Tokai Tokyo Investment Co., Ltd.

(Established on April 3, 2006)

Major Shareholders

(As of March 31, 2006)

Mitsui Sumitomo Insurance Co., Ltd.

The Bank of Tokyo-Mitsubishi UFJ, Ltd.

Japan Trustee Services Bank, Ltd.

(Trust Account)

Japan Securities Finance Co., Ltd.

The Master Trust Bank of Japan, Ltd.

(Trust Account)

Meiji Yasuda Life Insurance Company

Aozora Bank, Ltd.

The Chuo Mitsui Trust and Banking Company, Ltd.

Privée Zurich Turnaround Co., Ltd.

Japan Trustee Services Bank, Ltd.

(Trust Account for The Sumitomo Trust and Banking Co., Ltd. retirement benefit trust account for Toyota Motor Corporation)

Internet Home Page Address: <http://www.tokaitokyo.co.jp>