



# **KBK**

**FINANCIAL STATEMENTS**

**2006**

## A MESSAGE FROM THE MANAGEMENT

This report covers Kyokuto Boeki Kaisha, Ltd. (KBK)'s 86th business period—from April 1, 2005, through March 31, 2006—herein referred to as fiscal 2006.

During fiscal 2006, the Japanese economy saw gradual expansion centered on private-sector demand. Despite concerns regarding the impact of a general rise in prices due to surging crude oil prices, the continued recovery in the global economy facilitated such positive factors as the completion of IT-related inventory adjustments and a turnaround in IT-business exports and production volume, which kept capital investment robust, while improvement in the employment and income environments contributed to a rise in personal consumption.

Amid these conditions, the KBK Group moved resolutely forward with reforms of its business and organizational structure under its medium-term business plan, *KBK Wisdom 60*. For example, the Group took measures to build stronger profit structures in its core aerospace and automobile-related operations. At the same time, the Group invested considerable management resources in such business fields as information media and security and thereby greatly expanded the scope of its challenging new growth businesses while further stepping up its proactive efforts to form operational and capital alliances with other companies.

These efforts kept sales of boilers and other heavy electrical facilities to steelmakers robust and led to growth in sales of plastics to automobile manufacturers in North America, sales of paint to automobile manufacturers in China, and in overall sales of aircraft-related equipment. Although those positive factors were partially offset by decreases in sales of thermal electric power generation plant control equipment and food product-related materials and equipment, consolidated net sales grew to ¥98,420 million, up 1.1% from the level in fiscal 2005.

### **Profitability**

Gross profit decreased 3.0%, to ¥6,210 million, owing to such factors as the decrease in sales of thermal electric power generation plant control equipment and food product-related equipment. Despite cost-cutting measures that lowered SG&A expenses ¥107 million, operating income declined ¥85 million, to ¥114 million, and recurring income amounted to ¥164 million. However, the Group recorded an interim period ¥436 million loss on investment in LITS Co., Ltd., a Korea-based equity-method affiliate focused on the development and manufacture of liquid crystal panels that experienced difficulty in maintaining full-scale mass production operations due to changes in the industrial environment. Thus, the KBK Group could not avoid recording an additional ¥249 million in losses on the remaining value of investment in that company as well as guaranty liabilities and other items related to that company. Consequently, the Group recorded a net loss of ¥382 million.

### **Fund Procurement and Capital Investment**

The Group did not undertake major fund procurement or capital investment activities during fiscal 2006.

### **Future Tasks**

Regarding prospective business conditions, there is concern that growth in the U.S. economy may decelerate due to such factors as the sharp rise in oil prices and the adoption of tighter monetary policies; however, robust capital investment and personal consumption is projected to sustain continued stable economic growth in the United States. In the euro zone economy, positive trends in external demand are gradually influencing internal demand, and a gradual economic recovery centered on personal consumption is projected. In Asia, economic growth centered on China is anticipated, but the tempo of economic growth in the region is expected to slow.



**Shinya Araki**  
President and Chief Operating Officer

In Japan, continued growth in capital investment and personal consumption are projected to support a gradual economic recovery centered on private-sector demand, but numerous factors remain causes for concern—including the impact of the surge in oil prices and premature adoption of restrictive fiscal and monetary policies—and it remains difficult to make confident projections of economic trends.

Amid such adverse economic conditions, the KBK Group will continue to steadily implement its *KBK Wisdom 60A* medium-term management plan, which calls for measures to reform the Group's business and organizational structure. This plan is designed to move the Group ahead from the "complete recovery" stage to the "progress" stage. Amid economic conditions that continue to be somewhat opaque, however, changes in the Group's business environment are accelerating. In view of this, we now believe that the success of the medium-term plan will require the Group to muster still-greater capabilities for proactive strategic initiatives as well as for sustaining the momentum of implementation measures. We must concertedly draw on our knowledge, experience, and wisdom to begin a powerful acceleration towards our major objectives.

Naturally, we are continuing to select the strategic businesses we intend to focus on and are augmenting our efforts to concentrate corporate resources in those strategic fields. By doing this and taking a positive approach to business and capital alliances, we expect to develop new businesses and foster their growth into next-generation core businesses.

We are also making progress in reforming our cost structure through such measures as those to greatly reduce the amount of office space we use. In the future, we will set ourselves still-more-ambitious cost-cutting goals and consider the outsourcing of certain administrative operations. The effects of such additional cost-reduction initiatives and reforms made over the past several years are expected to help support a large improvement in Group performance.

Regarding our network in Japan, we are seeking to invest greater resources in offices that hold the potential to expand their profit bases. Similarly, with respect to our overseas network, we are not restricting ourselves to expanding the operations of already established bases but are planning the proactive launch of new operations in areas where we see market potential.

In the field of management administration, we are aiming to further improve our corporate governance by increasing the functions of our board of directors and board of auditors and are also moving ahead with measures to increase the rigor of our internal control systems. At the same time, we are endeavoring to ensure the timely and appropriate disclosure to shareholders, investors, and all other stakeholders of information pertaining to the Group's business philosophy, corporate strategies, and other relevant issues. In view of the growing international awareness of corporate social responsibility due to such trends as globalization, the rapid spread of advanced information technologies, and changes in customer attitudes, the Group has made the improvement of compliance systems and compliance performance top-priority objectives. Accordingly, we are taking additional measures to foster a highly stringent ethical business environment within the Group that guides the activities of all employees based on compliance with legal strictures and corporate ethics standards in all our corporate activities.

I thank KBK's shareholders for their confidence in the Company to date and hope for their continued support.

June 2006

A handwritten signature in black ink, consisting of stylized cursive letters, positioned above the printed name.

Shinya Araki  
President and Chief Operating Officer

# CONSOLIDATED BALANCE SHEETS

Kyokuto Boeki Kaisha, Ltd. and Its Consolidated Subsidiaries  
March 31, 2005 and 2006

ASSETS	Millions of yen		Thousands of U.S. dollars (Note)
	2005	2006	2006
<b>Current assets:</b>			
Cash	¥ 2,083	¥ 1,261	\$ 10,739
Time deposits	79	84	720
Marketable securities	299	—	—
Notes and accounts receivable	20,626	18,570	158,085
Less: Allowance for doubtful accounts	(55)	(110)	(939)
	20,570	19,806	168,606
Inventories	3,154	2,843	24,207
Deferred income taxes	483	484	4,124
Other current assets	1,900	2,596	22,100
Total current assets	28,573	25,730	219,039
<b>Property and equipment, at cost:</b>			
Buildings	1,198	1,028	8,754
Equipment	631	676	5,762
	1,830	1,705	14,517
Less: Accumulated depreciation	(1,274)	(1,205)	(10,266)
	555	499	4,251
Land	299	215	1,831
Total property and equipment	854	714	6,082
<b>Investments and other assets:</b>			
Investments in securities	7,403	9,083	77,325
Investments in unconsolidated subsidiaries and affiliates	297	286	2,436
Deferred income taxes	524	—	—
Other assets:	1,748	1,525	12,989
Less: Allowance for doubtful accounts	(358)	(314)	(2,673)
Total investments and other assets	9,615	10,581	90,078
Total assets	¥39,043	¥37,026	\$315,200

Note: U.S. dollar amounts above and elsewhere in the report represent translations of Japanese yen, for convenience only, at the rate of ¥117.47=US\$1, the exchange rate prevailing at March 31, 2006.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note)
	2005	2006	2006
<b>Current liabilities:</b>			
Short-term debt	¥ 1,542	¥ 861	\$ 7,335
Notes and accounts payable	18,310	15,030	127,956
Accrued income taxes	76	65	557
Allowance for investment losses	—	249	2,123
Other current liabilities	1,148	1,563	13,309
Total current liabilities	21,078	17,771	151,282
<b>Long-term liabilities:</b>			
Long-term debt	0	—	—
Deferred income taxes	—	672	5,725
Reserve for employees' retirement benefits	1,205	1,151	9,799
Reserve for officers' retirement benefits	446	307	2,618
Total long-term liabilities	1,651	2,131	18,143
Total liabilities	22,730	19,902	169,425
<b>Contingent liabilities</b>			
<b>Shareholders' equity:</b>			
Common stock:			
Authorized: 100,000,000 shares			
Issued: 27,899,592 shares at March 31, 2005 and 2006	5,030	5,030	42,820
Capital surplus	4,630	4,630	39,421
Retained earnings	6,245	5,738	48,849
Net unrealized gains on securities	904	2,155	18,347
Foreign currency translation adjustments	(174)	(98)	(842)
Treasury stock	(323)	(331)	(2,822)
Total shareholders' equity	16,313	17,124	145,774
Total liabilities and shareholders' equity	¥39,043	¥37,026	\$315,200

# CONSOLIDATED STATEMENTS OF OPERATIONS

Kyokuto Boeki Kaisha, Ltd. and Its Consolidated Subsidiaries  
For the years ended March 31, 2004, 2005 and 2006

	Millions of yen			Thousands of U.S. dollars (Note)
	2004	2005	2006	2006
<b>Net sales</b>	¥116,531	¥97,312	<b>¥98,420</b>	<b>\$837,838</b>
<b>Cost of sales</b>	109,721	90,910	<b>92,210</b>	<b>784,969</b>
Gross profit	6,810	6,402	<b>6,210</b>	<b>52,869</b>
<b>Selling, general and administrative expenses</b>	6,929	6,203	<b>6,096</b>	<b>51,894</b>
Operating income (loss)	(119)	199	<b>114</b>	<b>974</b>
<b>Other income (expenses):</b>				
Interest and dividend income	73	121	<b>125</b>	<b>1,065</b>
Interest expense	(30)	(15)	<b>(17)</b>	<b>(144)</b>
Gain on sale of marketable securities and investments in securities	538	382	<b>744</b>	<b>6,333</b>
Evaluation loss on marketable securities and investments in securities	—	(40)	<b>(441)</b>	<b>(3,761)</b>
Equity in profit (loss) of affiliates	(126)	(137)	<b>(169)</b>	<b>(1,439)</b>
Loss on asset impairment	—	—	<b>(133)</b>	<b>(1,136)</b>
Provision for investment losses	—	—	<b>(249)</b>	<b>(2,123)</b>
Other, net	12	(29)	<b>77</b>	<b>660</b>
	467	280	<b>(64)</b>	<b>(546)</b>
<b>Extraordinary loss</b>	—	—	—	—
Income before income taxes	348	479	<b>50</b>	<b>427</b>
<b>Income taxes:</b>				
Current	35	53	<b>94</b>	<b>803</b>
Deferred	280	291	<b>338</b>	<b>2,878</b>
	315	345	<b>432</b>	<b>3,682</b>
Net income (loss)	¥ 33	¥ 134	<b>¥ (382)</b>	<b>\$ (3,254)</b>
<b>Per share:</b>				
Net income (loss), primary	¥1.18	¥4.90	<b>¥(14.25)</b>	<b>\$(0.12)</b>
Net income, fully diluted	—	—	—	—
Dividends, historical	7.50	7.50	<b>7.50</b>	<b>0.06</b>
Weighted average number of shares of common stock (in thousands)	27,861	27,536	<b>26,822</b>	

Note: U.S. dollar amounts above and elsewhere in the report represent translations of Japanese yen, for convenience only, at the rate of ¥117.47=US\$1, the exchange rate prevailing at March 31, 2006.

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Kyokuto Boeki Kaisha, Ltd. and Its Consolidated Subsidiaries  
For the years ended March 31, 2004, 2005 and 2006

	Number of shares of common stock (thousands)	Millions of yen					
		Common stock	Capital surplus	Retained earnings	Net unrealized gains on securities	Foreign currency translation adjustments	Treasury stock, at cost
<b>Balance as at March 31, 2003</b>	27,899	¥5,030	¥4,630	¥6,569	¥ 262	¥(123)	¥ (8)
Cash dividends	—	—	—	(244)	—	—	—
Directors' and corporate auditors' bonuses	—	—	—	—	—	—	—
Sales/purchases of treasury stocks, net	—	—	—	—	—	—	(3)
Cumulative effect of the change in the scope of equity companies	—	—	—	(38)	—	—	—
Net income for the year ended March 31, 2004	—	—	—	33	—	—	—
Net unrealized loss on securities, net of income taxes	—	—	—	—	750	—	—
Foreign currency translation adjustments	—	—	—	—	—	(51)	—
<b>Balance as at March 31, 2004</b>	27,899	5,030	4,630	6,320	1,012	(174)	(11)
Cash dividends	—	—	—	(208)	—	—	—
Directors' and corporate auditors' bonuses	—	—	—	—	—	—	—
Sales/purchases of treasury stocks, net	—	—	—	—	—	—	(311)
Cumulative effect of the change in the scope of equity companies	—	—	—	—	—	—	—
Net income for the year ended March 31, 2005	—	—	—	134	—	—	—
Net unrealized loss on securities, net of income taxes	—	—	—	—	(107)	—	—
Foreign currency translation adjustments	—	—	—	—	—	(0)	—
<b>Balance as at March 31, 2005</b>	27,899	5,030	4,630	6,245	904	(174)	(323)
Cash dividends	—	—	—	(201)	—	—	—
Directors' and corporate auditors' bonuses	—	—	—	(0)	—	—	—
Sales/purchases of treasury stocks, net	—	—	—	—	—	—	(8)
Gain on disposal of treasury stock	—	—	0	—	—	—	—
Increase due to changes in subsidiaries	—	—	—	76	—	—	—
Cumulative effect of the change in the scope of equity companies	—	—	—	—	—	—	—
Net loss for the year ended March 31, 2006	—	—	—	(382)	—	—	—
Net unrealized loss on securities, net of income taxes	—	—	—	—	1,250	—	—
Foreign currency translation adjustments	—	—	—	—	—	75	—
<b>Balance as at March 31, 2006</b>	<b>27,899</b>	<b>¥5,030</b>	<b>¥4,630</b>	<b>¥5,738</b>	<b>¥2,155</b>	<b>¥ (98)</b>	<b>¥(331)</b>

	Thousands of U.S. dollars (Note)					
	Common stock	Capital surplus	Retained earnings	Net unrealized gains on securities	Foreign currency translation adjustments	Treasury stock, at cost
<b>Balance as at March 31, 2005</b>	\$42,820	\$39,420	\$53,168	\$ 7,699	\$(1,488)	\$(2,750)
Cash dividends	—	—	(1,712)	—	—	—
Directors' and corporate auditors' bonuses	—	—	(6)	—	—	—
Sales/purchases of treasury stocks, net	—	—	—	—	—	(71)
Gain on disposal of treasury stock	—	1	—	—	—	—
Increase due to changes in subsidiaries	—	—	655	—	—	—
Cumulative effect of the change in the scope of equity companies	—	—	—	—	—	—
Net loss for the year ended March 31, 2006	—	—	(3,254)	—	—	—
Net unrealized loss on securities, net of income taxes	—	—	—	10,647	—	—
Foreign currency translation adjustments	—	—	—	—	646	—
<b>Balance as at March 31, 2006</b>	<b>\$42,820</b>	<b>\$39,421</b>	<b>\$48,849</b>	<b>\$18,347</b>	<b>\$ (842)</b>	<b>\$(2,822)</b>

Note: U.S. dollar amounts above and elsewhere in the report represent translations of Japanese yen, for convenience only, at the rate of ¥117.47=US\$1, the exchange rate prevailing at March 31, 2006.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Kyokuto Boeki Kaisha, Ltd. and Its Consolidated Subsidiaries  
For the years ended March 31, 2004, 2005 and 2006

	Millions of yen			Thousands of U.S. dollars (Note)
	2004	2005	2006	2006
<b>Cash flows from operating activities:</b>				
Income before income taxes	¥ 348	¥ 479	¥ 50	\$ 427
Adjustments for:				
Depreciation and amortization	112	132	155	1,323
Loss on impairment of fixed assets	—	—	133	1,136
Gain on sale of property	(114)	(197)	(0)	(0)
Equity in loss (profit) of affiliates	126	137	169	1,439
Evaluation loss on marketable securities and investments in securities	—	40	441	3,761
Loss on property and equipment and inventories	17	175	6	59
Gain on sale of marketable securities and investments in securities	(538)	(382)	(744)	(6,333)
Net increase (decrease) in accounts receivable	(2,561)	5,075	2,369	20,171
Net increase (decrease) in inventories	(2,319)	606	498	4,246
Net decrease (increase) in advance payments	520	175	(663)	(5,645)
Net decrease (increase) in accrued revenue	(219)	(442)	65	560
Net increase (decrease) in other current assets	(680)	708	51	436
Net increase (decrease) in accounts payable	7,476	(4,868)	(3,618)	(30,806)
Net increase (decrease) in other current liabilities	(274)	106	385	3,281
Net decrease in reserve for retirement benefits	(7)	(78)	(54)	(462)
Increase (decrease) in provision for allowance for doubtful accounts	196	(77)	6	54
Increase in provision for allowance for investment losses	—	—	249	2,123
Interest and dividend income	(73)	(121)	(125)	(1,065)
Interest expense	30	15	17	144
Others	56	49	(91)	(775)
Subtotal	2,096	1,534	(695)	(5,923)
Interest and dividend income received	76	114	121	1,030
Interest expense paid	(29)	(17)	(17)	(144)
Income taxes paid	(21)	(45)	(146)	(1,245)
Net cash provided by (used in) operating activities	2,122	1,585	(737)	(6,282)
<b>Cash flows from investing activities:</b>				
Payment for making time deposits	—	(79)	(103)	(877)
Proceeds from withdrawal of time deposits	84	—	130	1,113
Payment for acquisition of marketable securities	—	(299)	(100)	(851)
Proceeds from sale of marketable securities	—	272	400	3,405
Payment for acquisition of investment securities	(1,270)	(2,265)	(3,065)	(26,095)
Proceeds from sale of investment securities	714	1,252	3,619	30,814
Payment for acquisition of property and equipment	(121)	(102)	(69)	(595)
Proceeds from sale of property and equipment	248	300	1	10
Net decrease in short-term loans	(0)	—	(110)	(941)
Net decrease (increase) in long-term loans	48	(2)	8	71
Others	29	297	109	929
Net cash provided by (used in) investing activities	(268)	(626)	820	6,983
<b>Cash flows from financing activities:</b>				
Net increase in short-term bank loans	(539)	(620)	(708)	(6,032)
Repayment of long-term debt	(1,267)	(733)	(0)	(2)
Payment for purchase of treasury stock	(4)	(311)	(8)	(74)
Proceeds from sale of treasury stock	—	—	0	3
Cash dividends paid to the Company's shareholders	(243)	(208)	(200)	(1,704)
Net cash used in financing activities	(2,053)	(1,873)	(917)	(7,810)
<b>Effect of exchange rate changes on cash and cash equivalents</b>	(12)	(1)	23	200
<b>Net change in cash and cash equivalents</b>	(211)	(916)	(811)	(6,909)
<b>Cash and cash equivalents at beginning of year</b>	3,210	2,999	2,083	17,733
<b>Cash and cash equivalents of newly consolidated subsidiaries</b>	—	—	22	194
<b>Cash and cash equivalents at end of year</b>	¥2,999	¥2,083	¥1,294	\$11,017

Note: U.S. dollar amounts above and elsewhere in the report represent translations of Japanese yen, for convenience only, at the rate of ¥117.47=US\$1, the exchange rate prevailing at March 31, 2006.

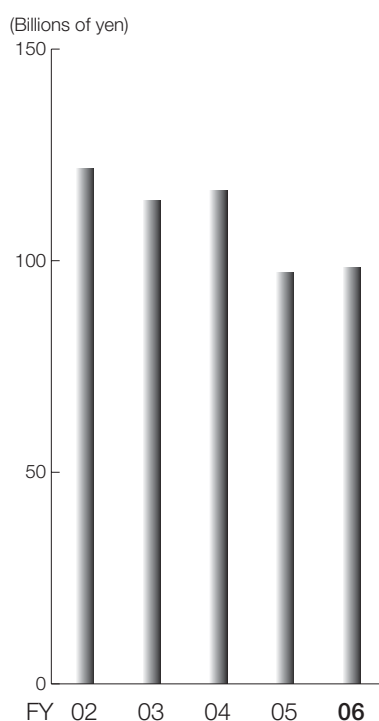
# CONSOLIDATED FINANCIAL HIGHLIGHTS

Kyokuto Boeki Kaisha, Ltd. and Its Consolidated Subsidiaries  
Years ended March 31

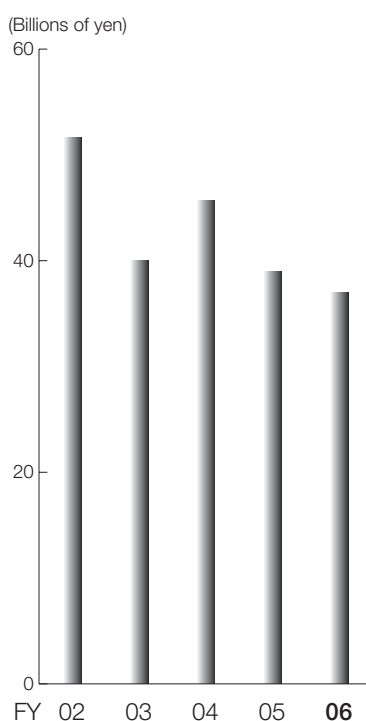
	Millions of yen					Thousands of U.S. dollars (Note)
	2002	2003	2004	2005	2006	2006
<b>For the year:</b>						
Net sales	¥121,686	¥114,181	¥116,531	¥97,312	<b>¥98,420</b>	<b>\$837,838</b>
Net income (loss)	82	(1,886)	33	134	<b>(382)</b>	<b>(3,254)</b>
<b>At year-end:</b>						
Total assets	51,692	40,048	45,695	39,043	<b>37,026</b>	<b>315,200</b>
Total shareholders' equity	18,955	16,362	16,807	16,313	<b>17,124</b>	<b>145,774</b>
	Yen					U.S. dollars (Note)
<b>Per share:</b>						
Net income (loss), primary	¥2.93	¥(67.65)	¥1.18	¥4.90	<b>¥(14.25)</b>	<b>\$(0.12)</b>
Dividends, historical	7.50	5.00	7.50	7.50	<b>7.50</b>	<b>0.06</b>

Note: U.S. dollar amounts above and elsewhere in the report represent translations of Japanese yen, for convenience only, at the rate of ¥117.47=US\$1, the exchange rate prevailing at March 31, 2006.

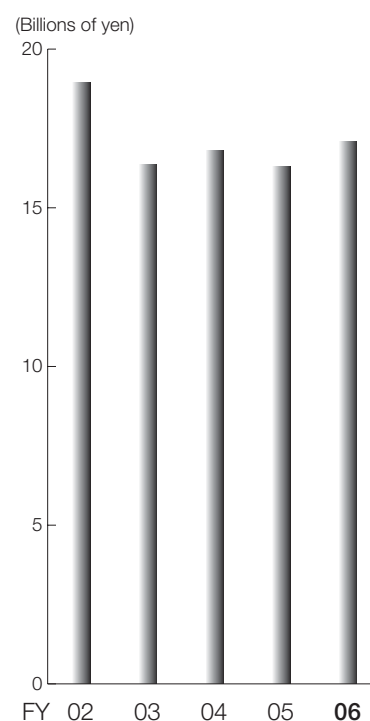
## Net Sales



## Total Assets



## Total Shareholders' Equity



# REVIEW OF OPERATIONS

## Electrical and Energy-Related Division

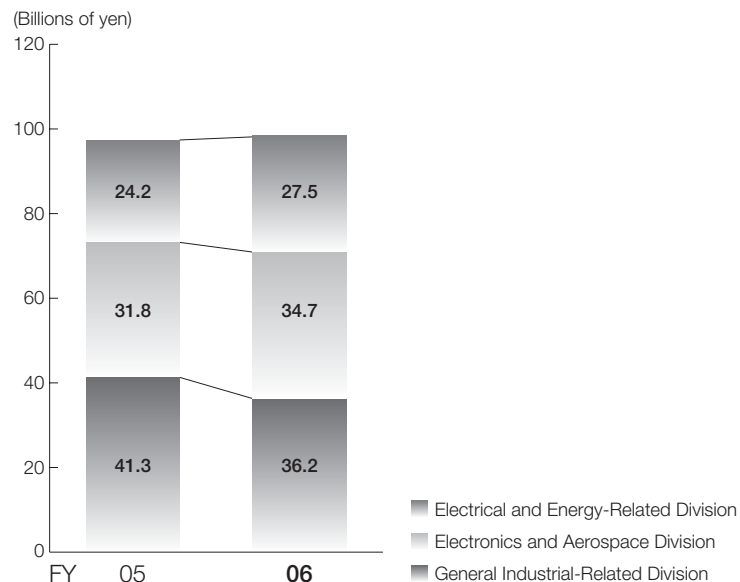
Business in thermal electric power generation plant control equipment was affected by slack demand for electric power and the growing presence in the electric power industry of independent power producers (IPPs) and other new entrants, which created an extremely harsh environment for obtaining new orders that made it impossible to prevent a decline in KBK's performance in that business sector. However, the Company's sales of boilers and other heavy electrical facilities for steelmaking, chemical, and other kinds of plants showed a recovery supported by lively market conditions, and profitability in that sector also improved. Business in resource development equipment was negatively affected by the completion of major projects, but steady demand for services and consumables kept performance at approximately the same level as in the previous fiscal year. Consequently, the division's consolidated net sales amounted to ¥27,484 million, up 13.4% from the previous fiscal year.

## Electronics and Aerospace Division

Regarding aircraft-related equipment, KBK maintained satisfactory sales of electronic equipment for installation on aircraft as well as of peripheral airframe equipment to both governmental and private-sector customers, and sales of signal processing equipment were robust. Regarding electronic equipment, the Company made a strong showing in sales of illumination-related components to automobile manufacturers in North America, but sales of electronic components for optical communications equipment were slack. As a result, the division's consolidated net sales totaled ¥34,744 million, up 9.2% from the previous fiscal year.

## General Industrial-Related Division

Regarding the plastics-related business, KBK sustained the strength of its sales of plastic materials to automobile manufacturers in North America and of paint to Japan-affiliated automobile manufacturers in China. Against the backdrop of positive trends in the steel industry, KBK obtained orders for such large-scale facilities as those for the welding of steel and iron materials, but sales of relatively profitable items and general-use equipment were weak. Sales of food processing equipment and secondary foodstuff materials decreased due to the impact of harsh price competition. In information media related business, sales of components and materials were robust, but sales of information media manufacturing equipment to customers in Taiwan were weak owing to such factors as the postponement of orders to the current fiscal year. Thus, the division's consolidated net sales were ¥36,191 million, down 12.3% from the previous fiscal year.



# SEGMENT INFORMATION

## Segment Information

### (1) Information by Business Segment

The Company and its consolidated subsidiaries engage in a comprehensive range of business activities that center on the domestic and overseas trading of various commodities. As a trading company with engineering expertise, the Company provides numerous financial and other services that are integrated with its trading transactions.

The business segment categories used correspond to categories the Company uses to organize its business management structure.

The business segment information for the Company and its consolidated subsidiaries for the year ended March 31, 2005 is as follows:

	Millions of yen					
	Electrical and Energy-Related Division	Electronics and Aerospace Division	General Industrial-Related Division	Total	Elimination or corporate	Consolidated
I. Sales and operating income						
Sales						
(1) Sales to external customers	¥24,226	¥31,809	¥41,275	¥97,312	¥ —	¥97,312
(2) Intersegment internal sales or transfers	—	—	—	—	—	—
Total	24,226	31,809	41,275	97,312	—	97,312
Operating expenses	24,218	31,748	41,139	97,106	7	97,113
Operating income	¥ 8	¥ 61	¥ 136	¥ 206	¥ (7)	¥ 199
II. Total assets, depreciation and capital expenditures						
Total assets	¥ 6,312	¥ 4,123	¥11,199	¥21,635	¥17,407	¥39,043
Depreciation and amortization	3	25	5	34	97	132
Capital expenditures	1	29	7	38	65	104

Notes: 1. Business classification method:

Businesses are classified based on similarities among products and markets.

2. Capital expenditures include long-term prepaid expenses.

3. Principal products in each business segment:

Business Segment	Principal Products
Electrical and Energy-Related Division	Electrical machinery facilities, measuring and control systems, drilling equipment, oil and gas exploration services and other natural resource development equipment
Electronics and Aerospace Division	Electronic equipment, electronic components and software, image processing equipment, aircraft-mounted avionics, ground support electronic equipment, aircraft machinery and automotive illumination equipment
General Industrial-Related Division	Steel, nonferrous metals, automobile chemicals, ships, plant engineering related machinery, environmental preservation facilities, composite materials manufacturing facilities, textile processing machinery, food processing machinery, resin processing machinery, painting facilities, measuring and analysis devices and associated secondary foodstuff materials, industrial resins and paints, construction materials, synthetic composite materials, drop-forged products and textile products

4. The amount of corporate assets, included in those under the elimination or corporate heading, was ¥17,407 million. The principal items were the Company's surplus funds under management (cash and marketable securities), long-term investment funds (investment securities), administrative division related assets and other assets.

The business segment information for the Company and its consolidated subsidiaries for the year ended March 31, 2006 is as follows:

	Millions of yen					
	Electrical and Energy-Related Division	Electronics and Aerospace Division	General Industrial-Related Division	Total	Elimination or corporate	Consolidated
<b>I. Sales and operating income</b>						
Sales						
(1) Sales to external customers	¥27,484	¥34,744	¥36,191	¥98,420	¥ —	¥98,420
(2) Intersegment internal sales or transfers	—	—	—	—	—	—
Total	27,484	34,744	36,191	98,420	—	98,420
Operating expenses	27,526	34,715	36,066	98,309	(2)	98,306
Operating income (loss)	¥ (42)	¥ 28	¥ 125	¥ 111	¥ 2	¥ 114
<b>II. Total assets, depreciation and capital expenditures</b>						
Total assets	¥ 2,995	¥ 5,309	¥14,217	¥22,522	¥14,503	¥37,026
Depreciation and amortization	2	35	5	43	111	155
Loss on impairment of fixed assets	—	—	—	—	133	133
Capital expenditures	0	42	5	48	24	72

	Thousands of U.S. dollars					
	Electrical and Energy-Related Division	Electronics and Aerospace Division	General Industrial-Related Division	Total	Elimination or corporate	Consolidated
<b>I. Sales and operating income</b>						
Sales						
(1) Sales to external customers	\$233,972	\$295,772	\$308,093	\$837,838	\$ —	\$837,838
(2) Intersegment internal sales or transfers	—	—	—	—	—	—
Total	233,972	295,772	308,093	837,838	—	837,838
Operating expenses	234,331	295,527	307,027	836,886	(21)	836,864
Operating income (loss)	\$ (358)	\$ 245	\$ 1,066	\$ 952	\$ 21	\$ 974
<b>II. Total assets, depreciation and capital expenditures</b>						
Total assets	\$ 25,502	\$ 45,195	\$121,033	\$191,731	\$123,468	\$315,200
Depreciation and amortization	21	298	50	370	950	1,323
Loss on impairment of fixed assets	—	—	—	—	1,136	1,136
Capital expenditures	3	360	45	409	206	616

Notes: 1. Business classification method:

Businesses are classified based on similarities among products and markets.

2. Capital expenditures include long-term prepaid expenses.

3. Principal products in each business segment:

Business Segment	Principal Products
Electrical and Energy-Related Division	Electrical machinery facilities, measuring and control systems, drilling equipment, oil and gas exploration services and other natural resource development equipment
Electronics and Aerospace Division	Electronic equipment, electronic components and software, image processing equipment, aircraft-mounted avionics, ground support electronic equipment, aircraft machinery and automotive illumination equipment
General Industrial-Related Division	Steel, nonferrous metals, automobile chemicals, ships, plant engineering related machinery, environmental preservation facilities, composite materials manufacturing facilities, textile processing machinery, food processing machinery, resin processing machinery, painting facilities, measuring and analysis devices and associated secondary foodstuff materials, industrial resins and paints, construction materials, synthetic composite materials, drop-forged products and textile products

4. The amount of corporate assets, included in those under the elimination or corporate heading, was ¥14,503 million (US\$123,468 thousand). The principal items were the Company's surplus funds under management (cash and marketable securities), long-term investment funds (investment securities), administrative division related assets and other assets.

## (2) Segment Information by Geographical Area

The Company's operating results by geographical area for the year ended March 31, 2005 are summarized as follows:

	Millions of yen					Consolidated
	Japan	North America	Southeast Asia	Total	Elimination or corporate	
I. Sales and operating income						
Sales						
(1) Sales to external customers	¥93,576	¥ 785	¥2,951	¥ 97,312	¥ —	¥97,312
(2) Intersegment internal sales or transfers	551	4,869	—	5,420	(5,420)	—
Total	94,127	5,654	2,951	102,733	(5,420)	97,312
Operating expenses	93,876	5,706	2,944	102,527	(5,414)	97,113
Operating income (loss)	¥ 250	¥ (52)	¥ 6	¥ 205	¥ (6)	¥ 199
II. Assets	¥20,114	¥1,247	¥ 163	¥ 21,525	¥17,517	¥39,043

Notes: 1. The country or regional classification categories are based on geographical contiguity.

2. Principal regional classifications other than Japan:

(1) North America: United States, Canada (2) Southeast Asia: Taiwan

The Company's operating results by geographical area for the year ended March 31, 2006 are summarized as follows:

	Millions of yen					Consolidated
	Japan	North America	Southeast Asia	Total	Elimination or corporate	
I. Sales and operating income						
Sales						
(1) Sales to external customers	¥89,591	¥4,326	¥4,502	¥ 98,420	¥ —	¥98,420
(2) Intersegment internal sales or transfers	931	2,353	12	3,297	(3,297)	—
Total	90,523	6,680	4,515	101,718	(3,297)	98,420
Operating expenses	90,583	6,637	4,381	101,601	(3,295)	98,306
Operating income (loss)	¥ (59)	¥ 42	¥ 133	¥ 116	¥ (1)	¥ 114
II. Assets	¥21,813	¥1,341	¥ 808	¥ 23,963	¥13,062	¥37,026

	Thousands of U.S. dollars					Consolidated
	Japan	North America	Southeast Asia	Total	Elimination or corporate	
I. Sales and operating income						
Sales						
(1) Sales to external customers	\$762,677	\$36,830	\$38,330	\$837,838	\$ —	\$837,838
(2) Intersegment internal sales or transfers	7,928	20,035	106	28,069	(28,069)	—
Total	770,606	56,866	38,436	865,908	(28,069)	837,838
Operating expenses	771,116	56,500	37,300	864,917	(28,053)	836,864
Operating income (loss)	\$ (509)	\$ 365	\$ 1,135	\$ 990	\$ (16)	\$ 974
II. Assets	\$185,697	\$11,420	\$ 6,880	\$203,998	\$111,201	\$315,200

Notes: 1. The country or regional classification categories are based on geographical contiguity.

2. Principal regional classifications other than Japan:

(1) North America: United States, Canada (2) Southeast Asia: Taiwan

### (3) Overseas Sales

Overseas sales information of the Company and its consolidated subsidiaries for the fiscal year ended March 31, 2005 is as follows:

	Millions of yen				Total
	North America	Europe	Southeast Asia	Other areas	
I. Overseas sales	¥24,203	¥2,018	¥8,678	¥—	¥34,900
II. Consolidated sales					97,312
III. Overseas sales as proportion of consolidated sales	24.9%	2.1%	8.9%	—%	35.9%

Notes: 1. The regional classification categories are based on geographical contiguity.

2. Principal regional classifications:

- (1) North America: United States, Canada
- (2) Europe: United Kingdom, Netherlands, Norway, Sweden
- (3) Southeast Asia: China, Taiwan, Singapore, South Korea

3. Overseas sales are sales of the Company and its consolidated subsidiaries to countries and regions other than Japan.

Overseas sales information of the Company and its consolidated subsidiaries for the fiscal year ended March 31, 2006 is as follows:

	Millions of yen				Total
	North America	Europe	Southeast Asia	Other areas	
I. Overseas sales	<b>¥21,344</b>	<b>¥1,661</b>	<b>¥7,857</b>	<b>¥20</b>	<b>¥30,884</b>
II. Consolidated sales					<b>98,420</b>
III. Overseas sales as proportion of consolidated sales	<b>21.7%</b>	<b>1.7%</b>	<b>8.0%</b>	<b>0.0%</b>	<b>31.4%</b>

	Thousands of U.S. dollars				Total
	North America	Europe	Southeast Asia	Other areas	
I. Overseas sales	<b>\$181,702</b>	<b>\$14,146</b>	<b>\$66,891</b>	<b>\$174</b>	<b>\$262,915</b>
II. Consolidated sales					<b>837,838</b>

Notes: 1. The regional classification categories are based on geographical contiguity.

2. Principal regional classifications:

- (1) North America: United States
- (2) Europe: Netherlands, United Kingdom, Sweden, Italy, Norway
- (3) Southeast Asia: Taiwan, China, Singapore, South Korea, Thailand
- (4) Other areas: The United Arab Emirates, Iran

3. Overseas sales are sales of the Company and its consolidated subsidiaries to countries and regions other than Japan.

## OVERSEAS NETWORK

### Overseas Branch and Offices

#### Taipei Branch

5F, No. 46, Sec. 2 Chung Shan,  
N Road,  
Taipei, Taiwan  
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Fax: (2) 2561-6085

#### Beijing Office

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22 Jianguo Menwai Street,  
Beijing, People's Republic of China  
Tel: (10) 6512-3466  
Fax: (10) 6512-4769

#### Shanghai Office

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101 Yincheng East Road,  
Pudong New Area, Shanghai,  
People's Republic of China  
Tel: (21) 6841-2066  
Fax: (21) 6841-5395

### Overseas Subsidiaries and Representative Offices

#### KBK Inc. (New York)

330 Madison Avenue, 33rd Floor,  
New York, NY 10017-5091, U.S.A.  
Tel: (212) 687-8564  
Fax: (212) 972-9212

#### *Los Angeles Representative Office*

801 South Figueroa Street,  
Suite 1060, Los Angeles,  
CA 90017, U.S.A.  
Tel: (213) 891-0011  
Fax: (213) 892-1616

#### *Cedar Rapids Representative Office*

1221 Park Place N.E., Suite F,  
Cedar Rapids,  
IA 52402-2019, U.S.A.  
Tel: (319) 393-2306  
Fax: (319) 393-2321

#### *Battle Creek Representative Office*

4950 West Dickman Road,  
Suite B-6, Battle Creek,  
MI 49015, U.S.A.  
Tel: (616) 964-0570  
Fax: (616) 964-1310

#### KBK Europe GmbH

Immermannstrasse 13,  
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Tel: (211) 350015  
Fax: (211) 1649531

#### Kyokuto Trading (Shanghai) Co., Ltd.

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#### *Guangzhou Office*

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183 Tianhe North Road,  
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People's Republic of China  
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Fax: (20) 8755-4795

## DOMESTIC NETWORK

### Head Office

7th Floor, New Otemachi Building,  
2-1, Otemachi 2-chome, Chiyoda-ku,  
Tokyo 100-0004, Japan  
Tel: (03) 3244-3511  
Fax: (03) 3246-2148

### Domestic Branches

Sapporo Branch  
Sendai Branch  
Nagoya Branch  
Osaka Branch  
Hiroshima Branch  
Fukuoka Branch

### Subsidiary

Nippon System Industries Corporation  
KBK Office Works Co., Ltd.  
KBK Frontier Co., Ltd.

(As of August 31, 2006)

# CORPORATE INFORMATION

## ▶ Chairman and Chief Executive Officer

Takashi Hiraishi\*

## ▶ President and Chief Operating Officer

Shinya Araki\*

## ▶ Executive Vice President

Kunihiko Irie\*

## ▶ Vice President

Ryuji Sato

## ▶ Managing Directors

Hiroshi Inoue

Hiroshi Sato

## ▶ Directors

Masami Kurihara

Kosaku Inaba

## ▶ Corporate Auditors

Shigeru Okuyama

Hideto Miyaguchi

Kozo Fujita

Nobuhiko Tanabe

## ▶ Established

November 27, 1947

## ▶ Paid-in Capital

¥5,030 million (US\$42,820 thousand)

## ▶ Number of Employees

295

## ▶ Common Stock

Authorized: 100,000,000 shares

Issued: 27,899,592 shares

## ▶ Number of Shareholders

3,989

\* Representative Directors

(As of June 21, 2006)

## KYOKUTO BOEKI KAISHA, LTD.

7th Floor, New Otemachi Building, 2-1, Otemachi 2-chome, Chiyoda-ku, Tokyo 100-0004, Japan

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