Kyoritsu Maintenance Co., Ltd.

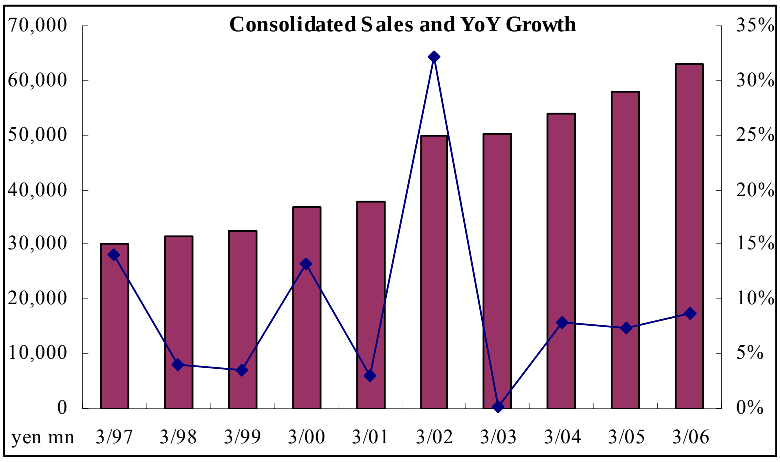
(Securities Code:　9616)

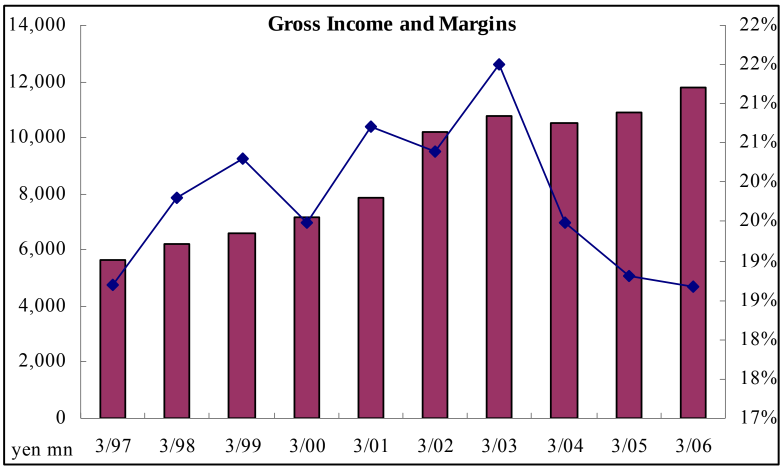
Fiscal Year March 2006

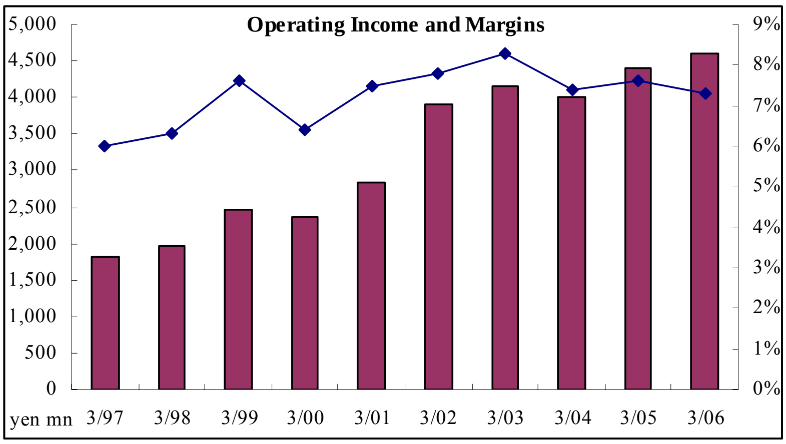
Consolidated Earnings Results Update

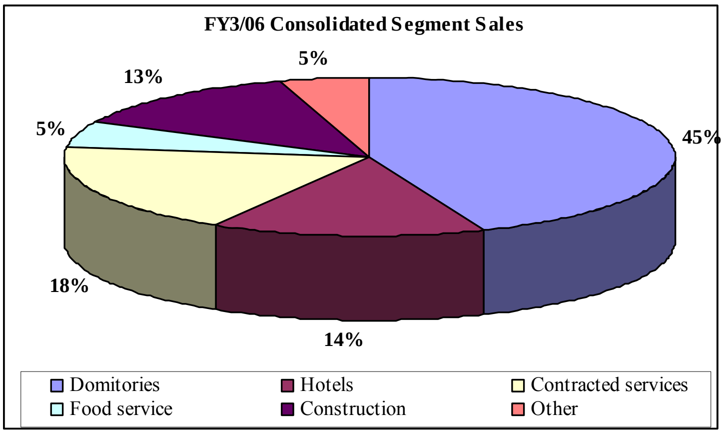
May 2006

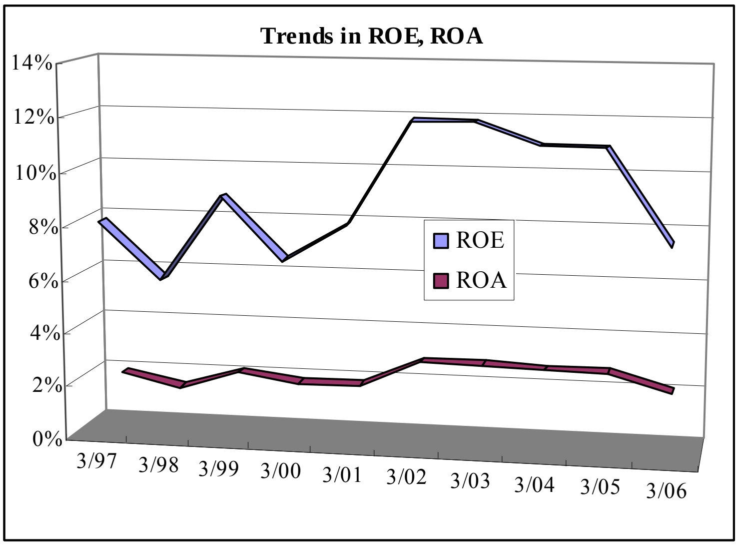
Kyoritsu Maintenance Consolidated Financial Data at a Glance

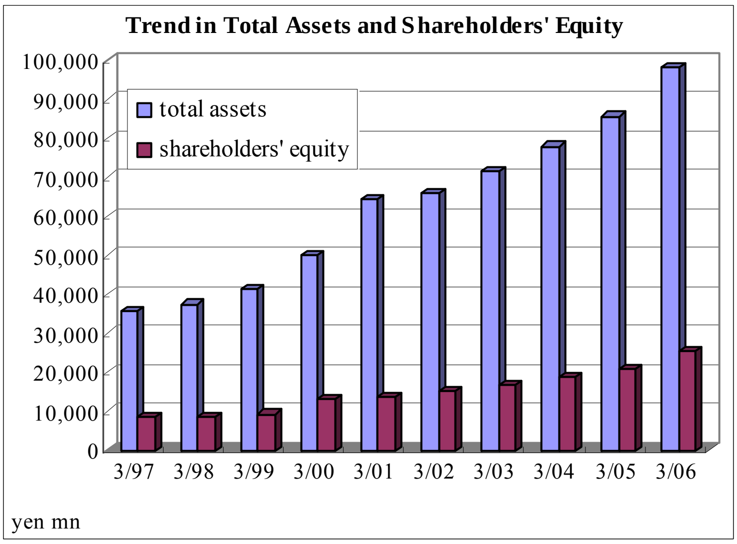







FY3/06 Consolidated Segment Sales
5%
13%
5%
45%
18%
14%
Domitories
Hotels
Contracted services
Food service
Construction
Other


Trends in ROE, ROA
14%
12%
10%
8%
6%
4%
2%
0%
ROE
ROA
3/97
3/98
3/99
3/00
3/01
3/02
3/03
3/04
3/05
3/06


Trend in Total Assets and Shareholders' Equity
100,000
90,000
80,000
70,000
60,000
50,000
40,000
30,000
20,000
10,000
0
total assets
shareholders' equity
3/97
3/98
3/99
3/00
3/01
3/02
3/03
3/04
3/05
3/06
yen mn

Historical Consolidated Financial Data and Benchmarks

Consolidated Income Statement	**3/96**	**3/97**	**3/98**	**3/99**	**3/00**	**3/01**	**3/02**	**3/03**	**3/04**	**3/05**	**3/06**
net sales	26,399	30,126	31,332	32,458	36,788	37,884	50,065	50,109	54,081	58,014	63,085
gross profit	5,430	5,639	6,188	6,578	7,173	7,834	10,221	10,785	10,541	10,894	11,783
operating income	1,628	1,814	1,971	2,465	2,369	2,828	3,908	4,149	4,004	4,407	4,611
ordinary income	1,537	1,705	1,864	2,203	2,281	2,643	3,580	3,885	4,060	4,411	4,824
net income	288	684	517	850	907	1,147	1,822	2,039	2,138	2,343	2,011
Consolidated Balance Sheet											
current assets	9,059	10,952	12,391	15,336	19,900	23,793	18,100	22,138	22,122	23,254	23,350
fixed assets	22,565	24,322	24,872	25,695	29,867	40,478	47,768	49,497	55,715	62,336	74,681
total assets	31,624	35,593	37,480	41,144	49,880	64,327	65,867	71,647	77,865	85,620	98,047
current liabilities	14,461	16,254	18,980	20,921	19,731	28,513	27,031	31,610	29,374	31,585	44,039
fixed liabilities	9,300	10,943	9,954	10,946	16,977	22,064	23,761	23,146	29,433	33,077	28,316
total liabilities	23,761	27,197	28,934	31,866	36,707	22,064	50,792	54,755	58,806	64,663	72,355
shareholders' equity	7,863	8,396	8,546	9,278	13,169	13,747	15,073	16,824	18,935	20,788	25,512
yoy change											
net sales	na	14.1%	4.0%	3.6%	13.3%	3.0%	32.2%	0.1%	7.9%	7.3%	8.7%
gross profit	na	3.9%	9.7%	6.3%	9.0%	9.2%	30.5%	5.5%	-2.3%	3.3%	8.2%
operating income	na	11.4%	8.7%	25.1%	-3.9%	19.4%	38.2%	6.1%	-3.5%	10.1%	4.6%
ordinary income	na	11.0%	9.3%	18.2%	3.5%	15.9%	35.4%	8.5%	4.5%	8.6%	9.4%
net income	na	137.5%	-24.5%	64.6%	6.7%	26.5%	58.8%	11.9%	4.8%	9.6%	-14.2%
margins											
gross margins	20.6%	18.7%	19.8%	20.3%	19.5%	20.7%	20.4%	21.5%	19.5%	18.8%	18.7%
operating margins	6.2%	6.0%	6.3%	7.6%	6.4%	7.5%	7.8%	8.3%	7.4%	7.6%	7.3%
ordinary margins	5.8%	5.7%	6.0%	6.8%	6.2%	7.0%	7.2%	7.8%	7.5%	7.6%	7.6%
net margins	1.1%	2.3%	1.6%	2.6%	2.5%	3.0%	3.6%	4.1%	4.0%	4.0%	3.2%
other benchmarks											
ROE	3.7%	8.1%	6.0%	9.2%	6.9%	8.3%	12.1%	12.1%	11.3%	11.3%	7.9%
ROA	0.9%	1.9%	1.4%	2.1%	1.8%	1.8%	2.8%	2.8%	2.7%	2.7%	2.1%
equity ratio	24.9%	23.6%	22.8%	22.6%	26.4%	21.4%	22.9%	23.5%	24.3%	24.3%	26.0%

Units: million yen

Fiscal Year March 2006 Consolidated Earnings Results

May 16, 2006

Company Name: **Kyoritsu Maintenance Co., Ltd.** Stock Exchange: Tokyo Stock Exchange
Company Code: 9616 Homepage: http://www.kyoritugroup.co.jp
Headquarters: Advance Building 4-7-7 Sotokanda, Chiyoda-ku, Tokyo

President: Haruhisa Ishizuka
Contact: Takumi Ueda Telephone: +81-3-5295-7778
U.S. GAAP not adopted Board of Directors Meeting: May 16, 2006

1. Fiscal Year March 2006 Consolidated Earnings (from April 1, 2005 to March 31, 2006)

Consolidated Earnings (Figures of less than a decimal point are rounded to the nearest full number)

	Net Sales		Operating Income		Ordinary Income	
	Million Yen	%yy	Million Yen	%yy	Million Yen	%yy
FY3/06	63,085	8.7	4,611	4.6	4,824	9.3
FY3/05	58,014	7.3	4,408	10.1	4,412	8.7

	Net Income		EPS	Fully Diluted EPS	ROE	ROA	Ordinary Income Margin
	Million Yen	%yy	Yen	Yen	%	%	%
FY3/06	2,011	-14.2	161.87	141.96	8.7	5.3	7.6
FY3/05	2,343	9.6	196.40	179.09	11.8	5.4	7.6

1) Contributions from equity accounting method: ¥5 million in FY3/06, -¥3 million in FY3/05
2) Average number of shares during the term: 11,453,511 in FY3/06, 11,167,173 in FY3/05
3) ROE: net income / shareholders' equity, ROA: ordinary income / total assets,
ordinary income margin: ordinary income / sales

(2) Consolidated Financial Position

	Total Assets	Shareholders' Equity	Shareholders' Equity Ratio	Book Value per Share
	Million Yen	Million Yen	%	Yen
FY3/06	98,047	25,513	26.0	2,052.29
FY3/05	85,620	20,788	24.3	1,848.48

Shares Issued at End Fiscal Year: 12,354,813 at end FY3/06, 11,165,120 at end FY3/05

(3) Consolidated Cash Flows

	Cash Flows from Operating Activities	Cash Flows from Investment Activities	Cash Flows from Financing Activities	Cash and Equivalents at Year End
	Million Yen	Million Yen	Million Yen	Million Yen
FY3/06	5,856	−15,961	8,366	12,236
FY3/05	6,884	−10,727	5,948	13,976

(4) Consolidated Subsidiaries: 10 companies; Non-Consolidated Subsidiary: 1
Companies Held Under Equity Accounting Method: 0
Companies Not Accounted for Under Equity Accounting Method: 1
(5) Changes in the Scope of Consolidation: 1 new consolidated company added

2. Earnings Projections for Fiscal Year March 2007 (from April 1, 2006 to March 31, 2007)

	Net Sales	Ordinary Income	Net Income
	Million Yen	Million Yen	Million Yen
Interim	31,930	3,035	1,560
Full Year	69,400	5,310	2,790

(Note: Net income per share projections for the full year: ¥225.82)

* All projections provided in this document are based on the most accurate information available at the time of this writing. However our actual results may differ from our projections due to various unforeseen reasons.

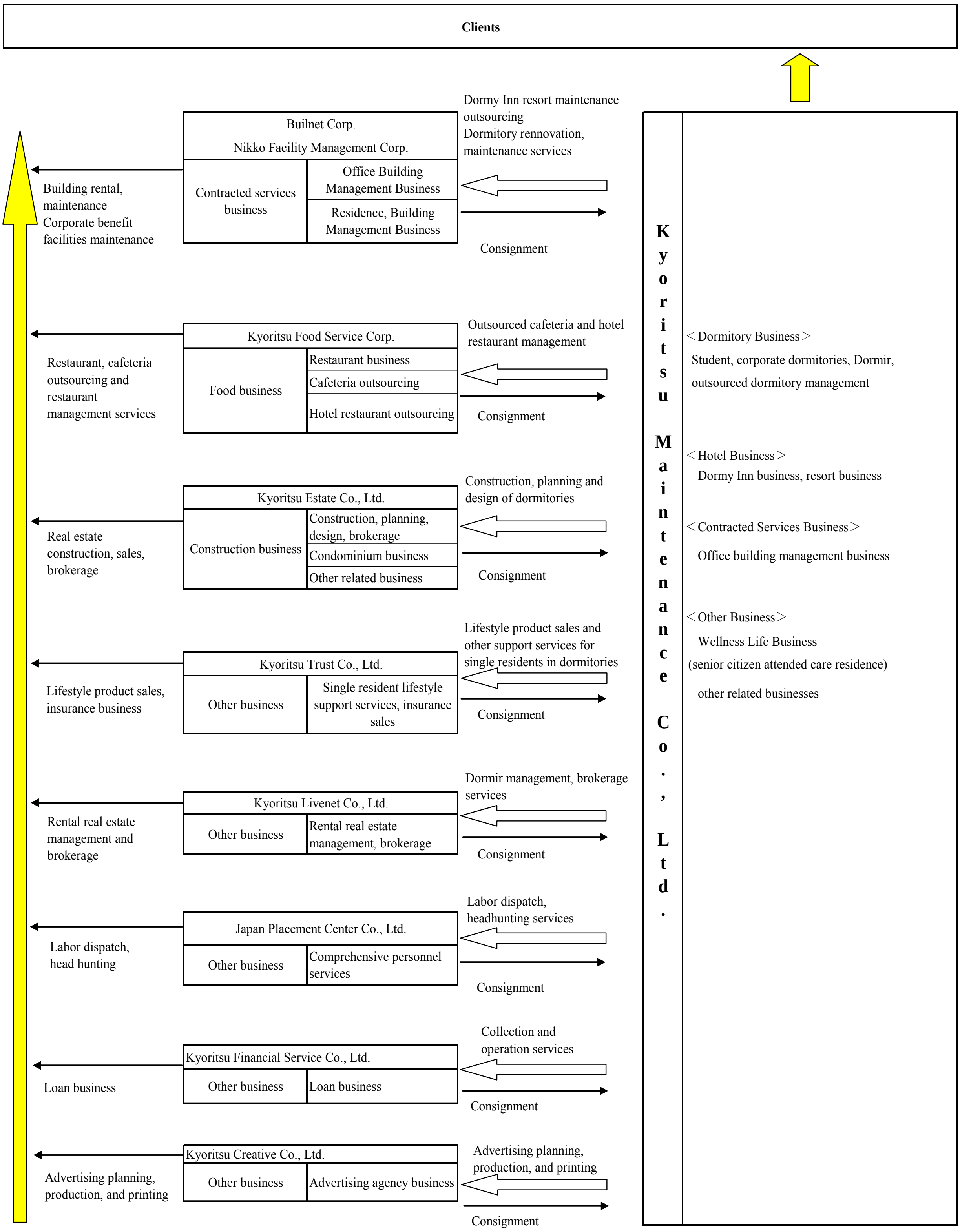
1. Corporate Structure

The Kyoritsu Maintenance Group consists of the parent company, 11 subsidiaries, and five affiliated companies. Our main businesses consist of student and company dormitories, hotels, contracted services, food service, real estate development business, and other businesses.

The details of our businesses segments and services provided by our various subsidiaries and affiliates are listed below.

Business Segment	Business Description	Participating Companies
Dormitories	Student and employee dormitories, and outsourced dormitory management	Kyoritsu Maintenance Co., Ltd.
Hotels	Long-term stay business hotels (Dormy Inns) and resort hotels (Dormy Villas and Wellness-no-Mori)	Kyoritsu Maintenance Co., Ltd. Two other companies
Contracted Services	Office building management business Residence management business	Builnet Corporation Nikko Facility Management Co., Ltd.* Kyoritsu Maintenance Co., Ltd. Two other companies
Food Service Business	Restaurant business Outsourced catering business Hotel restaurant outsourcing business	Kyoritsu Food Services Co., Ltd.
Real Estate Development Business	Construction, planning, design, brokerage, condominium sales, other related real estate development business	Kyoritsu Estate Co., Ltd.
Other Businesses	Wellness Life Business (senior citizen residence management and operations) Brokerage and management of rental real estate Single resident insurance and other lifestyle support services Comprehensive human resources business Financing business Advertising business Other related businesses	Kyoritsu Maintenance Co., Ltd. Kyoritsu Livenet Co., Ltd. Kyoritsu Trust Co., Ltd. Nihon Placement Center Co., Ltd. Kyoritsu Financial Service Co., Ltd. Kyoritsu Creative Co., Ltd.

Schematic Diagram of Our Operations



2. Management Policy

Our Basic Management Policy

The goal of our Group's management policy is to contribute to the development of society through our services, which focus on themes such as "dining," "living," and "comfort." We also place top priority on client satisfaction, constantly seeking to satisfy the various needs of our residents by offering them useful and high quality services. We also offer guests at our facilities modern versions of the "traditional Japanese boarding house" (*Geshukuya*) that "provide heart-warming comfort" to help make their stay more enjoyable. Furthermore, as a specific part of our business strategy, we aim to further expand and to raise the profitability of our core dormitory business, to expand into related business fields, and to establish new businesses that can become drivers of our earnings in the future. Finally, we seek to fortify our corporate structure to improve the quality of our services, and to be able to contribute to the prosperity of our clients, our business partners, and our community.

Our Basic Policy Regarding the Distribution of Profits

We consider the capital contributed by shareholders to be invaluable, and place a high priority on the distribution of profits to our shareholders in line with our earnings performance through dividends. One of our goals is to maintain a stable level of dividends over the longer term and we have established a target payout ratio of 20%. During recent years we have been able not only to increase our dividends, but also to offer stock splits, effectively raising the overall dividend payout. During the term under review we saw a decline in our net income from the previous year due to an impairment accounting loss, however we expect to maintain the previous year's dividend payment of ¥36 per share. With regards to distribution of profits to shareholders in the future, we will endeavor to maintain a stable level of dividends while also responding flexibly to reflect changes in our earnings and with a view to the conversion of the convertible bond issued in September 2004. At the same time we also seek to retain a level of earnings that will give our management the freedom to make necessary capital investments in response to changes in the market and to develop new businesses when appropriate.

Our Basic Policy Regarding Reductions in the Minimum Share Investment Lot

Our Company views reductions in the minimum investment lot as an effective means of increasing liquidity in our shares and a way to help to invigorate the stock markets.

We do not have any concrete targets in terms of either the timing for or the number of shares to which our minimum share investment lot could be reduced. However we will take the trading of our shares, our shareholder structure, and stock market conditions into consideration with regards to the timing and amount by which we could reduce our minimum share investment lot.

Benchmarks of Our Intermediate- to Long-Term Management Strategy

The Kyoritsu Group maintains a basic goal of increasing its consolidated return on equity (ROE), and seeks to create a corporate structure that emphasizes profitability. In order to become a company with an even stronger market presence in the 21st century, we seek to dramatically expand our share of the dormitory market, to stably grow our dormitory business, to cultivate our hotel business as a driver of our growth, and to increase the synergies within our Group.

In order to achieve these goals, our Group has established the following targets as part of our intermediate- to long-term management plan.

1. Since our Company's founding, we have recognized the importance of strengthening our cooperation with universities to improve the student dormitory part of our business and to expand our market share. At the same time we will accelerate the pace of our development and increase the resources we allocate to this business area.
2. In our corporate dormitory business, we see a trend by Japanese corporations to abandon the operation of their own dormitories as part of their restructuring of corporate benefits, particularly in the Tokyo metropolitan region. In response to this changing environment, we seek to increase our share of the single-employee housing market and to capture demand for outsourcing services to maintain dormitories and other corporate housing.
3. Our Dormy Inn business (extended stay business hotels) has become an established part of our overall business model, and we will expand our operations to all of the major cities throughout Japan to help strengthen our earnings structure.
4. With regards to our resort business, the large "Beach Tower Okinawa" facility opened in July 2004 has been in operation for over a full year as our flagship resort. In the future we will open other similar facilities designed to "achieve harmony with the surrounding natural environment" as the theme for our next generation of resorts.

5. In our contracted services business, we will fortify and expand our nationwide network in addition to raising the level of our technical expertise and the attractiveness of our services.
6. By optimizing the distribution of our business resources we seek to restrain increases in the amount of capital employed, increase the liquidity of our real estate holdings and promote the shift of assets off our balance sheet thereby strengthening our overall financial position.

Additionally, we maintain the following management goals:

1. Actively hire new staff, and promote their training.
2. Consolidate back office and other administrative functions, and streamline and speed up our operations in general.
2. Strengthen our IR function.

Our Group is currently reviewing our intermediate- to long-term management plan as mentioned above, and has established goals of 10% growth in both sales and ordinary income going forward. During fiscal year March 2009, the final year of our intermediate-term management plan, we target an ordinary income margin of 8%, ROE of 14% and ROA of 7% at the consolidated level.

Key Management Issues

In our efforts to realize the goals defined in our intermediate- to long-term management plan cited above and to further raise our shareholder value, the Kyoritsu Group maintains as a core principle the belief that our customers are our primary concern and helping our customers is the basis of our work ethic.

For this reason, in the development of our dormitory business we will accurately assess the demands of the market and always place an emphasis on allocating our business resources effectively. Specifically, we strive to differentiate our software and products by raising the attractiveness of the facilities and the services we provide. Furthermore, we seek to strengthen our standing in the market and expand our operating territory by fortifying our cooperation with vocational schools and major universities throughout Japan. We will take advantage of the approaching wave of business we expect to see for the management outsourcing and disposal of corporate housing facilities, and will strengthen our proposal-based marketing (BEAS Support System) to cultivate new customers by helping them to solve problems in managing their employee fringe benefit facilities.

Using the know-how developed in our dormitory business as a base for our Dormy business (single room type dormitories that can be rented on a per-unit basis as needed rather than owned), we will increase our supply of these facilities to respond to the trend for students to live alone instead of with roommates, and for companies to provide rental contracts to individuals for their corporate dormitories rather than housing them in their own dormitory facilities. Furthermore, we will create dormitories that are cleaner and more modern than our competitors, and aggressively target students, women, single workers and individual clients.

In our hotel business, we will speed up the nationwide development of our Dormy Inn business, which has become an established part of our earnings structure. And in our resort business, with “The Beach Tower Okinawa” as our flagship facility, we seek to raise the appeal of our existing facilities, and to attract retiring Japanese baby boomers to our facilities for their “reasonable and high quality resort life space” and their theme of “comforting accommodations.”

In our contracted services business, we are expanding our presence in the market through the nationwide development of our dormitory and hotel facilities. The market for office buildings and other commercial facilities maintenance is expanding as well, but fierce pricing competition exists in these job applications. Therefore we are strengthening our proposal-based marketing capability in our contracted service business to avoid being drawn into pricing competition.

With regard to our food service business, we seek to improve both the flavor and service of our hotel restaurant and independent restaurant management operations, and to control variable and food costs to improve our profitability.

In our other business, we will re-examine all of the roles of companies in our Group to identify and build further synergies.

With regard to the adjustment of our intermediate- to long-term management plan, and as a result of our survey and validation of the investment plans for our new business development, we will combine outright purchase with methods which use SPC for block lease-type developments. Also we are considering the sale of some of our self-owned properties while maintaining our management agreements. Kyoritsu will thus able to recover funds while avoiding negative impacts upon our earnings, continue to secure managed properties, restrain growth in interest-bearing liabilities, and improve our return on investments without damaging our financial position.

Each year our management locates certain themes to pursue in operations. And while we have chosen relatively conservative themes in recent years due to economic uncertainties of the times, last year marked a turning point for our themes, and this year we selected the theme “pushing aggressively forward.” In keeping with this theme, our Group will concentrate its efforts to develop new businesses that can become the next generation of growth drivers of our sales. Also we are conscious of the concept that “we need to fulfill the role that society asks of us” and we therefore seek to create a corporate culture and develop new business areas by working together with our customers and using our business resources without being distracted by short-lived market trends.

Parent Company Relationship

We are not a subsidiary or an affiliate and therefore have no parent company.

3. Our Earnings and Financial Position

(1) Earnings During the Term Under Review

Our Overall Earnings During the Term Under Review

(Consolidated Earnings) Units: Million Yen

	Previous Term FY3/05	Current Term FY3/06	Growth Rate (%)
Net Sales	58,014	63,085	8.7
Operating Income	4,408	4,611	4.6
Ordinary Income	4,412	4,824	9.3
Net Income	2,343	2,011	-14.2

During the term under review, the Japanese economy continued to recover on back of the five year long policy of monetary stimulus and low interest rates, recoveries in the stock market, increases in commercial real estate prices, and despite various uncertainties such as continued high oil prices and concerns relating to the pension, social welfare system and taxes.

With these conditions as a backdrop, we recorded higher sales in our core dormitory business as we were able to grow the number of contracts through efforts to strengthen our relationships with universities and vocational schools, and owing to the stable occupancy rates of our new Dormy business. Furthermore, the higher than expected occupancy rates at The Beach Tower Okinawa resort, which opened in July 2004, and at six newly opened facilities combined with favorable occupancy rates at our existing facilities, allowing sales in our hotel business to rise. With regards to our contracted services business, Nikko Facility Management Co., Ltd., all of whose shares we acquired in March 2005, was successful in expanding its business realm. In our construction business, the increase in dormitories using SPC and the strong sales of condominiums contributed to higher sales. Consequently our sales, ordinary income and net income exceeded our estimates. Sales grew by ¥5,071 million or 8.7% year-over-year to ¥63,085 million. Furthermore operating and ordinary incomes rose by 4.6% year-over-year to ¥4,611 million and 9.3% year-over-year to ¥4,824 million respectively. However we incurred an extraordinary loss of ¥1,012 million and our net income fell by 14.2% year-over-year to ¥2,011 million. Therefore we saw earnings per share of ¥161.87, down ¥34.53 from the previous term, and our return on equity ratio was 8.7%, a 3.1% point decline from the previous year.

Key Data by Business Segment

<Dormitory Business (Student, Corporate, Dormy, Outsourced)> Units: Million yen

	Previous Term FY3/05	Current Term FY3/06	Growth (%)
Contracts (no. of people)	23,624	25,136	6.4
Net Sales	30,563	31,767	3.9
Operating Income	4,779	4,804	0.5

In terms of the operating environment for our student dormitories, the nation’s secondary education advancement rate increased by 0.9% point year-over-year and helped to offset declines in the total number of students arising from declining birth rates. Against this backdrop, we concentrated on strengthening our relationships with vocational schools, college preparatory schools, and universities including Waseda University, Sophia University, Aoyama University, International Christian University, and Kokugakuin University. We also strengthened our marketing efforts and formed agreements with six new colleges including Tokyo Women’s University. We leveraged our unique services such as our “food menus coordinated to health management” and “supervised dormitories providing a safe and convenient living environment” in our marketing efforts to cultivate new clients. As evidence of our effective marketing strategy we were able to open our first facility in Hiroshima, “Dormitory Hiroshima.” Consequently the number of schools and universities we provide services to rose by 2.6% year-over-year to 1,598, the number of students we provide room and board to increased by 2.4% year-over-year to 15,206, and our sales increased by 3.2% year-over-year to ¥18,994 million.

With regards to the operating environment for our corporate dormitory business, the number of employed workers rose by 0.4% or 6.356 million, and new graduates entering the workforce rose by 2.2% year-over-year to 597,000. While Japanese corporations implemented structural reforms designed to reduce labor costs, a recovery in corporate earnings led to a renewed hiring of younger workers. Furthermore, as a part of widespread measures to address corporate fringe benefit packages, the trend to sell and or outsource the management of dormitories and corporate housing continued. Furthermore the needs and the role of single employee dormitories continue to change, with employees desiring greater choice and flexibility in where they choose to live. With these trends in place during the term under review, our problem-solving marketing efforts were successful in acquiring new contracts by utilizing our Business Expansion Assistance Service (BEAS involves managing outsourced corporate benefit facilities). Therefore the number of companies utilizing our corporate dormitories rose by 0.3% year-over-year to 1,191, and our corporate dormitory sales rose by 3.9% from the previous term to ¥7,968 million.

In our Dormy business we grew the supply of newly developed studio-type condominiums to accommodate the trend where both students and non-employees increasingly seek to live in corporate dormitories. We saw synergies from the introduction of new tenants in corporate dormitories from our affiliated schools and companies, as well as from our residents moving out of dormitories with cafeterias. During the term under review, the high occupancy rates at 10 new facilities we opened primarily in the Tokyo and surrounding regions contributed to an 18.5% rise from the previous year in residents to 3,289 and a 14.8% year-over-year increase in our sales to ¥2,708 million.

Our outsourced dormitory business is the management of dormitories owned by corporations and schools. We leverage our “specialist dormitory marketing proposal capabilities” to differentiate our services from those of our competitors in the corporate fringe benefit facilities outsourcing business and to expand our orders. During the term under review we promoted a strategy to eliminate unprofitable projects and cancelled 24 dormitories while taking on 21 new dormitories. This caused a decline in sales of 1.1% year-over-year to ¥2,097 million.

In our overall dormitory business we managed 354 locations, for a net increase of 21 from the previous fiscal year excluding outsourced dormitories, and housed 25,899 residents, for an increase of 1,562 from the previous year. Our sales rose 3.9% year-over-year to ¥31,767 million, and our operating income rose by 0.5% from the pervious year to ¥4,804 million.

<Hotel Business (Dormy Inn, Resorts)> Units: Million Yen

	Previous Term FY3/05	Current Term FY3/06	Change (%)
Net Sales	7,859	10,410	32.5
Operating Income	8	300	—

In our Dormy Inn business (extended-stay residence hotels), the industry trend towards specialized services in accommodations and labor-saving has led to strong demand for our unique hospitality services, and we carefully tried to reflect the needs of our customers in the development of our services. Among their suggestions, we noted strong demand for “large hot spring type bathing facilities” and “good tasting breakfasts.” Also we accurately assessed demand for business trip accommodations and late-night accommodation services for corporate clients, as well as the need for special services for women and for families on weekends. Consequently, we opened five new facilities (Dormy Inn Suidobashi, Dormy Inn Shinsaibashi, Dormy Inn Toyama, Dormy Inn Akihabara, Dormy Inn Tokyo Hachobori) and strong demand to stay at our facilities contributed to a 0.7% points increase in our occupancy rates at all 17 of our facilities to 90.1%. Moreover, the popularity of our hotel business was supported by our offering of daytime use of our hotels’ large bathing and spa facilities (for guests not staying overnight at our hotels), where we offer free-flowing hot spring water to residents of large cities. Furthermore we try to reflect our customer preference for “reasonable prices, close proximity, and short-term use” in our hotel services. As a result of our efforts, we saw a 35.8% year-over-year increase in sales to ¥5,358 million.

In our resort business, we maintain the objectives of providing hotels that offer “reasonable prices and high quality resort lifestyles” as well as providing customers with “comfortable accommodations.” And during the term under review we opened one new facility which reflected these objectives (Oku Hida Onsenkyo, with free running hot spring water). Also The Beach Tower Okinawa, the largest hotel in Okinawa, opened in July 2004 continued see high occupancy rates (up 6.1% point to 83.6% during the current term). Moreover, we focused efforts upon developing services to raise occupancy rates at our existing facilities on weekdays, and we endeavored to attain our goal of becoming a low-cost operator to be able to offer customers high levels of service for their money. Thus, we saw a large 29.1% increase from the previous fiscal year in sales to ¥5,052 million. However the opening of new facilities contributed to a front-loading of opening and other costs and our operating income was negatively impacted.

Consequently in our hotel business overall, we increased the number of our facilities by 6 to 27, and raised the number of rooms by 895 to 2,724. Therefore our sales rose by 32.5% year-over-year to ¥10,410 million but operating income fell to ¥3 million.

<Contracted Services Business> Units: Million Yen

	Previous Term FY3/05	Current Term FY3/06	Change (%)
Net Sales	11,050	13,277	20.2
Operating Income	452	578	28.0

The contracted services business includes maintenance services for offices and residences, rental of consigned buildings, and parking lot management. Within these services, pricing competition in the building maintenance industry became even more severe, as building owners reviewed their contracts, and as consolidation of contracted outsourcers continued. Furthermore, we also saw the cancellation of contracts and severe competition for new orders.

Against the backdrop of these conditions, we focused our efforts on developing new clients such as the Orix Group, and increasing our business with existing clients such as Nissan Motors Group, as well as attracting new tenants as part of our efforts to fortify our building maintenance business. We also devoted attention to fortifying our renovation and property management businesses.

Additionally we worked to strengthen our relationship with Nikko Facility Management, which we turned into a subsidiary through the purchase of 100% of its shares in March 2005.

Consequently our contracted services business saw a 20.2% year-over-year increase in sales to ¥13,277 million and a 28.0% year-over-year increase in operating income to ¥578 million.

(Food Service Business <Restaurants, Outsourced Cafeterias, Hotels and Restaurants>) Units: Million Yen

	Previous Term FY3/05	Current Term FY3/06	Change (%)
Net Sales	3,847	3,829	-0.5
Operating Income	-67	-76	—

Our food services business was negatively impacted by price increases for meat products brought on by mad cow disease and bird influenza, as well as high prices for vegetables due to natural disasters, and our overall operating environment remained unstable. With these trends in place, we continued to take steps to restructure this business which included eliminating contracts for unprofitable facilities, and cultivating new management contracts for restaurants. In sum, our food service business sales declined by 0.5% year-over-year to ¥3,829 million, and we recorded an operating loss of ¥76 million.

<Construction Business> Units: Million Yen

	Previous Term FY3/05	Current Term FY3/06	Change (%)
Net Sales	8,575	9,572	11.6
Operating Income	349	365	4.5

In our construction business, the large influx of foreign and domestic capital into the Japanese real estate market to take advantage of the spread between yields on financial instruments and real estate caused a bubble in real estate funds in parts of central Tokyo and other major metropolitan areas, which gradually spread to other regions as well. In terms of acquiring properties for development, we competed aggressively with rival firms in this sector, while paying close attention to the profitability of the properties we selected.

In light of these conditions, during the term under review we focused on acquiring properties to be developed as studio-type condominiums in the Tokyo and surrounding regions, as well as properties to be developed as resort hotels using SPC vehicles. Also, in our condominium division we completely sold three units (Asakusa, Yokohama, Yokohama Tomioka). Consequently our sales rose by 11.6% from the previous year to ¥9,572 million and operating income rose by 4.5% from the previous year to ¥365 million.

<Other Business> Units: Million Yen

	Previous Term FY3/05	Current Term FY3/06	Change (%)
Net Sales	3,009	3,333	10.8
Operating Income	181	160	-11.2

In our other business division, both our comprehensive human resources services and our life services business (mail order sales and rental services) recorded sales growth. Consequently this division's sales rose 10.8% from the previous year to ¥3,333 million but operating income declined by 11.2% year-over-year to ¥160 million.

(2) Financial Position Units: Million Yen

	Previous Term FY3/05	Current Term FY3/06	Change
Cash Flows from Operating Activities	6,953	5,856	-1,028
Cash Flows from Investing Activities	-10,830	-15,961	-5,234
Cash Flows from Financing Activities	5,948	8,366	2,418
Cash and Equivalents at End of Term	13,942	12,236	-1,740

1. Review of Our Cash Flows

During the fiscal year under review, our consolidated cash and equivalents declined by ¥1,740 million from the end of the previous fiscal year to ¥12,236 million.

We provide details of the cash flows from our various businesses below.

(Cash Flows from Operating Activities)

During the term, accounts payables for purchases of real estate for our condominium for sale in our development business increased, but inventory purchases and tax payments also increased and our cash flows from operating activities declined by ¥1,028 million to ¥5,856 million.

(Cash Flows from Investing Activities)

During the fiscal year under review, cash flows from investing activities saw an increase in net outflows of ¥5,234 million to ¥15,961 million due to deposits for the opening of new facilities and renovations for existing facilities in our dormitory business, as well as for new facilities in our hotel business. The purchase of marketable securities also increased our net outflows.

(Cash Flows from Our Financing Activities)

During the term, cash flows from our financing activities increased by ¥2,418 million to ¥8,366 million due primarily to the assumption of short-term and long-term debt.

2. Trends in Our Cash Flow Indicators

Trends in our cash flow indicators for our parent and group companies are listed below.

	FY3/02	FY3/03	FY3/04	FY3/05	FY3/06
Equity Ratio (%)	22.9%	23.5%	24.3%	24.3%	26.0%
Capital Adequacy Ratio, Market Capitalization Based (%)	27.2%	25.4%	29.7%	29.3%	61.1%
Debt Recovery Period (years)	4.1	29.6	12.2	5.6	7.7
Interest Rate Coverage Ratio	15.9	2.4	5.3	13.2	10.6

(note)
1. Each indicator is based on consolidated financial figures.
2. Each indicator is calculated as follows:
    (1) Equity Ratio: Shareholders' Equity / Total Assets
    (2) Capital Adequacy Ratio: Market Capitalization / Total Assets
    (3) Debt Recovery Period: Interest Bearing Debt / Operating Cash Flow
    (4) Interest Coverage Ratio: Operating Cash Flow / Interest Payments

3. Cash flows from operating activities is based on cash flows of our consolidated accounts.
4. Interest-bearing debt includes all of the liabilities which bear interest payments on our consolidated balance sheet.
5. We use interest payments from our consolidated cash flow statements.

(3) Business Risks

We note below the risk factors which may be considerations to investors thinking about investing in our Company. These are the main risks we believe existed during the course of our operations during the term under review.

1. Our Sales Conditions

In our core dormitory business, we operate and manage various facilities with the goal of providing a highly relaxing environment and experience to our residents. Furthermore we provide comfortable and safe dormitory services to both schools and corporations, while providing flexibility in the amount of rooms needed to match the changing residential needs of both students and employees. But because we maintain leases with the owners of the various facilities which we use as dormitories, we are at risk of being negatively impacted by declines in our dormitory occupancy rates arising from the cancellation of resident contracts by either schools and or corporations.

With regards to our hotel business, while we have been able to insulate ourselves from large fluctuations in occupancy rates at our Dormy Inn Hotels by providing various unique services and amenities such as long-term stay programs, we are still vulnerable to fluctuations and volatility in corporate demand due to trends in the economy.

In our resort hotel business, we are also subject to the volatility in occupancy rates arising from the weather and natural calamities such as typhoons which may occur during our peak occupancy season and our earnings may also suffer as a result.

Regarding our food services business, we are vulnerable to changes in demand for our stand-alone restaurants, and may also incur loss of business resulting from cancellations of outsourcing contracts for the management of restaurants and cafeterias in hotels and other facilities. Therefore our earnings would also be impacted by these changes.

2. Financial Conditions

Our Group endeavors to maintain growth in both sales and profits as outlined in our intermediate-term business strategy (five year), but the attainment of growth is highly dependent upon our ability to secure assets to be developed into and used as dormitories and hotels.

Upon development of these assets, we take our financial balance into consideration and seek to make the most efficient use of all of our resources by utilizing various financial techniques to yield the biggest returns. We also seek to stably promote the development of our productive assets despite potential stagnation in the real estate market, volatility in real estate prices, declines in cash flow resulting from ongoing development projects, and volatility in the financial markets. However inability to proceed as expected with development of assets could negatively impact both our earnings and our financial standing.

3. Legal Regulations and Quality Control

Our Group provides both services and goods and we are subject to various rules and regulations relating to food safety and sanitation, personal information privacy security, hotel and fire laws, as well as a host of other safety related regulations and laws.

Therefore our Group maintains internal structures and systems to ensure that we are in strict compliance with the various laws and regulations that pertain to our businesses. And despite the very low probability of mishaps relating to these laws and regulations occurring, we are still vulnerable to the potential failure to comply with these laws and regulations and our earnings maybe profoundly impacted.

4. Regarding the Implementation of "Asset Impairment Accounting"

On August 9, 2002 the Business Accounting Council announced a report entitled "White Paper on the Accounting Standards for Fixed Asset Impairment Accounting" and the policy paper entitled "Policy Statement for the Implementation of Accounting Standards for Fixed Asset Impairment Accounting" was released on October 31, 2003.

In response to these moves within the accounting industry, we are now required to implement asset impairment accounting with regards to our tangible and intangible fixed assets, including investments, other assets and leases. Therefore both our earnings and financial position may be profoundly impacted by the implementation of asset impairment accounting.

5. Important Contracts

323 of the 354 dormitories we operate, and another 17 offices we operate are leased to our company from the owners of the assets under long-term lease agreements ranging from 10 to 20 years.

Of these facilities, 21 maintain stipulations in the lease contract where we can not cancel the lease agreement before the full term of the contract. Therefore weak trends in occupancy rates of these managed assets could negatively affect the profitability of these specific assets and in turn could negatively impact our overall earnings and financial position.

Moreover, the balance of rent remaining under these irrevocable contracts stood at ¥7,902 million as of end March 2006.

(4) Earnings Projections

(Consolidated) Units: Million Yen

	Actual Results FY3/06	Projections FY3/07	Change (%)
Net Sales	63,085	69,400	10.0
Operating Income	4,611	5,430	17.8
Ordinary Income	4,824	5,310	10.1
Net Income	2,011	2,790	38.7

(Parent) Units: Million Yen

	Actual Results FY3/06	Projections FY3/07	Change (%)
Net Sales	43,249	49,000	13.3
Operating Income	3,592	4,260	18.6
Ordinary Income	3,963	4,360	10.0
Net Income	1,611	2,430	50.8

With regards to our operating environment, the advance of the declining birth rates and restructuring of corporate fringe benefit programs continue to present problems for our operations. However the underlying economy continues to recover on the back of an expansion in consumption and improvements in the labor markets. Against this backdrop, our Group will continue to leverage our comprehensive strengths to further rationalize our management structure and to improve our earnings structure.

With regard to our earnings projections for the coming fiscal year, our occupancy rates in April, which are the key to predicting our earnings for the coming year, continued to trend strongly at 97.1%. And in the coming term we will open our first facility in Kumamoto, as well as expanding our facilities in the Kanto region as well. Consequently we plan to open 21 new facilities adding a total of 1,450 rooms to our capacity, bringing the total number of facilities under our management to 365 and the total number of rooms to 26,879 during the fiscal year March 2007. These additions reflect our unrelenting efforts to keep pace with the needs of our customers. Furthermore we began introducing IP telephones and increased the number of facilities offering Internet connectivity to attract a greater number of customers in our facilities, and we will continue to introduce new technologies to help reduce our operating costs. With regards to our marketing function, we will continue to fortify our relationships with both private and public universities and schools, by using our unique services such as our healthy cafeteria functions. And in response to the increase in employment of younger staff on the back of the continued recovery in corporate profits, we are responding to the growing needs for corporate dormitories by providing flexibility in our supply of dormitories. Also in our dormitory business, we are rapidly increasing the supply of facilities through the use of SPC to help meet the growing needs in the greater metropolitan areas throughout Japan.

With regards to our Dormy Inn Hotel business, we plan to open a number of new facilities on the back of the high occupancy rates at our existing facilities, and we will continue to offer unique services such as our business trip and late night accommodation services. Furthermore we are also adding large hot spring type bath facilities and better food services in our new facilities.

With regards to our resort business, we will develop the market for “active seniors” with the impending large wave of baby boomer Japanese who are now beginning to reach retirement age. We will aggressively open new facilities to capture their business. These new facilities will offer high quality resort lifestyle accommodations at reasonable prices and provide our guests with comfort. We have targeted our hotel business to become the next pillar of our growth and will devote a large amount of our business resources to fortify the foundation of this business over the next one to two years.

In our contracted services business, severe market conditions are continuing due to fierce pricing competition brought on by reviews of contracts. This has been compounded by the trend for building owners wanting to consolidate the number of contractors, and the subsequent cancellation of contracts. At the same time liquidity in the real estate market is increasing and new opportunities are appearing in the market as a result of this invigorated market. In response to these conditions, we sought to raise our competitive position by increasing our technical expertise and making our services more attractive to gain an even higher level of customer trust.

With regards to our food service business, we continued to focus attention on improving our profit structure through close management of variable and other costs. The Kyoritsu Group seeks to raise the efficiency of our restaurant operations in connection with our nationwide network of hotels, and to strengthen our operational know-how related to restaurants located at golf courses, as well as to develop business with restaurants outside of our Group.

In our construction business, we will increase the supply of our Dormy (studio-type condominiums) to meet the heightened needs for student dormitories in the Tokyo region, as well as increasing the supplies of our hotel facilities to match the strong market demand for our services in this business.

With regards to our other business area, we will strive to increase our capacity utilization rates of our Wellness Life business and to quickly respond to our customers' needs in the area of human resources support services to fortify our earnings structure. We will also focus upon expanding our mail order and studio-type condominium brokerage businesses as well.

Consequently our Group projects consolidated sales to grow by 10.0% year-over-year to ¥69,400 million, ordinary income by 10.1% year-over-year to ¥5,310 million, and net income by 38.7% year-over-year to ¥2,790 million. At the same time, we project parent sales to grow by 13.3% year-over-year to ¥49,000 million, ordinary income by 10.0% year-over-year to ¥4,360 million, and net income by 50.8% year-over-year to ¥2,430 million.

4. Consolidated Financial Statements

(1) Consolidated Balance Sheet

Units: 1,000 yen

Item	Previous Term FY3/05 Value		Share	Current Term FY3/06 Value		Share	Change
Assets							
I Current assets							
1. Cash and deposits		14,673,153			12,898,332		-1,774,821
2. Notes and accounts receivables		3,504,409			3,642,943		138,534
3. Marketable securities		70,664			38,254		-32,410
4. Inventories		1,519,443			1,298,216		-221,227
5. Deferred tax assets		575,715			653,948		78,233
6. Others		2,965,781			4,874,021		1,908,240
Doubtful account reserves		-54,777			-55,016		-239
Total current assets		23,254,388	27.2		23,350,698	23.8	96,310
II Fixed Assets							
(1) Tangible fixed assets							
1. Buildings and structures	24,769,129			27,294,583			
Aggregated depreciation	-5,249,869	19,519,260		-6,245,238	21,049,345		1,530,085
2. Land		15,645,311			19,071,501		3,426,190
3. Construction in progress		1,940,322			3,861,309		1,920,987
4. Others	2,041,140			2,499,543			
Aggregated depreciation	-1,419,987	621,153		-1,643,353	856,190		235,037
Total tangible fixed assets		37,726,046	44.1		44,838,345	45.7	7,112,299
(2) Intangible fixed assets							
1. Consolidated account adjustment		129,863			111,311		-18,552
2. Others		2,286,944			2,225,794		-61,150
Total intangible fixed assets		2,416,807	2.8		2,337,105	2.4	-79,702
(3) Investments and other assets							
1. Investment securities		7,324,354			12,859,737		5,535,383
2. Long-term loans		942,971			932,543		-10,428
3. Guaranteed deposits		6,491,623			6,346,759		-144,864
4. Security deposits		5,037,359			4,835,597		-201,762
5. Deferred tax assets		747,583			751,825		4,242
6. Others		1,932,216			1,872,866		-59,350
Doubtful account reserves		-282,271			-93,163		189,108
Total investments and other assets		22,193,835	25.9		27,506,164	28.1	5,312,329
Total fixed assets		62,336,688	72.8		74,681,614	76.2	12,344,926
III Deferred assets							
1. Bond issuance expense		29,108			14,783		-14,325
Total deferred assets		29,108	0.0		14,783	0.0	-14,325
Total assets		85,620,184	100.0		98,047,095	100.0	12,426,911

Units: 1,000 yen

Item	Previous Term FY3/05 Value	Share %	Current Term FY3/06 Value	Share %	Change
Liabilities					
I Current liabilities					
1. Accounts payable	1,877,701		3,622,338		1,744,637
2. Short term debt	11,162,283		21,668,708		10,506,425
3. Redeemable portion of bond within one year	1,540,000		1,440,000		-100,000
4. Accrued corporate and other tax	1,586,904		810,921		-775,983
5. Deposits	10,365,092		11,130,240		765,148
6. Bonus reserves	885,464		991,584		106,120
7. Compensation for completed work reserves	8,222		45,375		37,153
8. Others	4,159,670		4,330,035		170,365
Total current liabilities	31,585,336	36.9	44,039,201	44.9	12,453,865
II Fixed liabilities					
1. Bonds	8,140,000		5,061,000		-3,079,000
2. Long-term debt	17,062,588		15,536,550		-1,526,038
3. Long-term lease payables	1,175,548		1,122,953		-52,595
4. Long-term guarantees received	4,334,203		4,221,739		-112,464
5. Deferred tax liabilities	1,009,740		875,833		-133,907
6. Retirement benefit reserves	928,295		980,783		52,488
7. Director retirement reserves	361,248		374,188		12,940
8. Others	66,111		142,970		76,859
Total fixed liabilities	33,077,733	38.6	28,316,016	28.9	-4,761,717
Total liabilities	64,663,069	75.5	72,355,217	73.8	7,692,148
(Minority interests)					
Minority interests	168,717	0.2	179,193	0.2	10,476
(Shareholders' equity)					
I Capital stock	3,505,756	4.1	5,051,400	5.1	1,545,644
II Capital reserves	4,314,204	5.0	5,857,699	6.0	1,543,495
Ⅲ Retained earnings	13,238,566	15.5	14,680,872	15.0	1,442,306
Ⅳ Valuation gain on securities	25,745	0.0	249,232	0.2	223,487
V Treasury stock	-295,873	-0.3	-326,518	-0.3	-30,645
Total shareholders' equity	20,788,398	24.3	25,512,685	26.0	4,724,287
Total liabilities, minority interests, and shareholders' equity	85,620,184	100.0	98,047,095	100.0	12,426,911

(2) Consoldiated Income Statement

Units: 1,000 yen

Item	Previous Term From April 1, 2004 to March 31, 2005 Value		Share %	Current Term From April 1, 2005 to March 31, 2006 Value		Share %	Change
I Net sales		58,014,040	100.0		63,084,819	100.0	5,070,779
II CGS		47,119,098	81.2		51,301,002	81.3	4,181,904
Gross income		10,894,942	18.8		11,783,817	18.7	888,875
III SG&A		6,487,070	11.2		7,172,572	11.4	685,502
Operating income		4,407,872	7.6		4,611,245	7.3	203,373
IV Non-operating income							
1. Interest received	30,359			39,535			
2. Dividend received	—			188,397			
3. Marketable securities sale	276,662			341,633			
4. Minority shareholding profit	—			5,367			
5. Deposit returns	154,700			149,167			
6. Others	275,238	736,959	1.3	233,372	957,471	1.5	220,512
V Non-operating expense							
1. Interest payment	532,536			513,437			
2. Bond issuance expense	26,304			23,044			
3. Minority shareholding loss	3,467			—			
4. Others	170,711	733,018	1.3	208,637	745,118	1.2	12,100
Ordinary income		4,411,813	7.6		4,823,598	7.6	411,785
VI Extraordinary income							
1. Marketable securities sale	71,746	71,746	0.1	208,561	208,561	0.3	136,815
VII Extraordinary loss							
1. Loss adjustment from previous term	—			215,244			
2. Fixed asset sale loss	—			36,546			
3. Impairment accounting loss	—			1,012,166			
4. Valuation losson investment securities	171,355			—			
5. Doubtful account reserves	30,160			—			
6. Pension losses	—	201,515	0.3	335,462	1,599,418	2.5	1,397,903
Net income before taxes		4,282,044	7.4		3,432,741	5.4	-849,303
Corporate and other taxes	2,029,050			1,746,822			
Adjustment for taxes	-128,750	1,900,300	3.3	-369,774	1,377,048	2.1	-523,252
Minority shareholding profits		38,683	0.1		44,705	0.1	6,022
Net income		2,343,061	4.0		2,010,988	3.2	-332,073

Consolidated Sales Overview

The table below shows sales results in each of our business segments at the end of the fiscal year

Units: 1,000 yen

Business segment		Previous Term FY3/05	Current Term FY3/06	Change (%)	Change (value)
Domitories		30,563,173	31,767,206	3.9	1,204,033
	Student	18,413,060	18,993,578	3.2	580,518
	Corporate	7,670,456	7,968,392	3.9	297,936
	Dormy	2,359,972	2,708,124	14.8	348,152
	Outsourced	2,119,685	2,097,112	-1.1	-22,573
Hotels		7,859,095	10,410,300	32.5	2,551,205
	Dormy Inn	3,944,261	5,357,803	35.8	1,413,542
	Resort	3,914,834	5,052,497	29.1	1,137,663
Contracted services		11,049,703	13,277,402	20.2	2,227,699
	Office building management	8,108,160	7,256,666	-10.5	-851,494
	Residential property management	2,941,543	6,020,736	104.7	3,079,193
Food service		3,847,122	3,828,616	-0.5	-18,506
Construction		8,574,548	9,571,732	11.6	997,184
Other		3,008,976	3,333,360	10.8	324,384
Consolidated eliminations		-6,888,577	-9,103,797	32.2	-2,215,220
Total		58,014,040	63,084,819	8.7	5,070,779

(Note) 1. The figures above do not include consumption or other taxes

2. Occupancy rates of our dormitories are shown below

Capacity and Occupancy of Our Facilities

Segment \ Term	Previous Term FY3/05			Current Term FY3/06			Change		
	Capacity	Contracts	Occupancy rate	Capacity	Contracts	Occupancy rate	Capacity	Contracts	Occupancy rate
	persons	persons	%	persons	persons	%	persons	persons	%
Student	—	14,845	—	—	15,206	—	—	361	—
Corporate	—	6,003	—	—	6,641	—	—	638	—
Dormy	2,849	2,776	97.4	3,338	3,289	98.5	489	513	1.1
	24,337	23,624	97.1	25,899	25,136	97.1	1,562	1,512	0.0

* Capacity and contract data are as of the end of the term, with contracts for students using data as of start of the following term, April 1

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