BELLUNA

Annual Report

For the fiscal year ended March 31, 2006

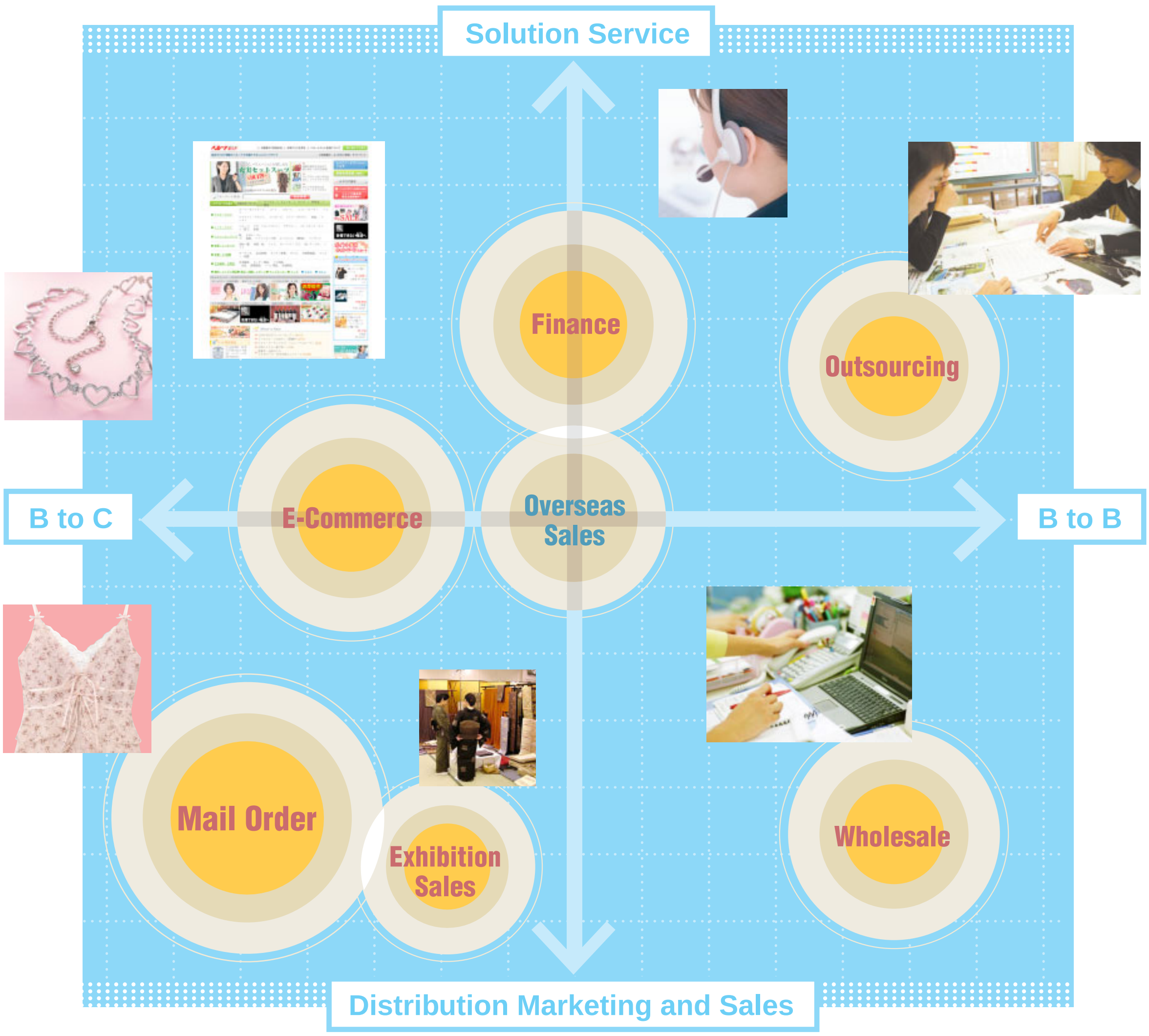
BELLUNA CO., LTD.

Belluna for All Stakeholders

Belluna Co., Ltd. is a database marketing company, which develops products and services in clothing, foods, living and entertainment. Based on the motto, “Sound Adventure,” we have been consistently committed to developing wide-ranging related businesses that leverage our management resources, including our database, know-how, infrastructure, human resources, information and funds accumulated through our mail order sales business. By creating synergies and advancing our portfolio management approach, we have maintained the highest level of growth and profitability in the Japanese mail order industry, with fourteen consecutive years of sales and income growth.

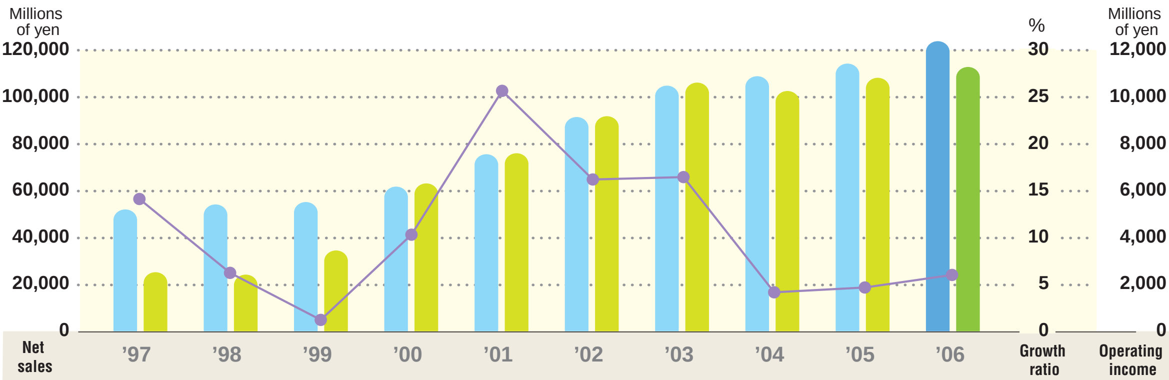
From the international viewpoint, the Company seeks to develop goods and services that provide a more affluent lifestyle ahead of other competitors, and aims to be a well-balanced excellent company in terms of stability, growth, continuity, profitability as well as activity focusing on increasing in its stakeholders’ satisfaction.

Best Quality for Our Customers



Achieved Sales and Profit Increase for 14 Consecutive Year

Net Sales, Operating Income and Growth Ratio



Data from 1997 to 1999 are shown on a non-consolidated basis.

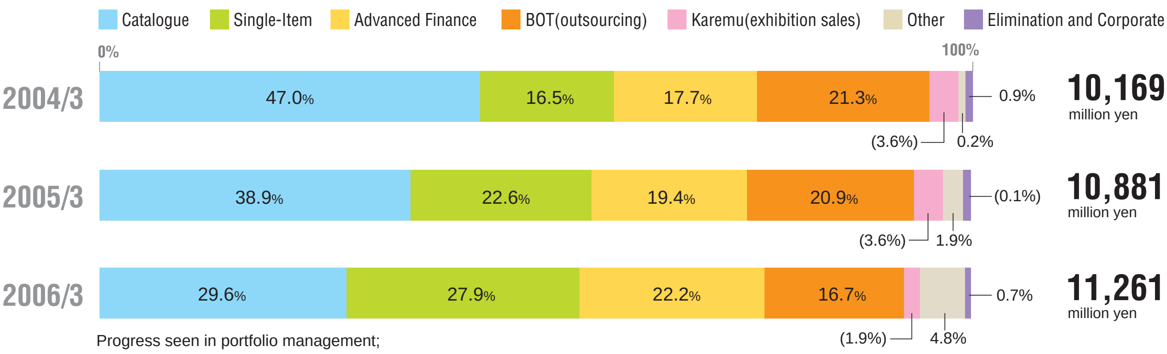
Six-Year Summary

The financial statements in this annual report are translations of the financial statements contained in securities filings that companies that are issuers of marketable securities are required to submit to the Financial Services Agency, in accordance with Japan's securities regulations. The financial statements are not audited by an independent certified accountant.

	Millions of yen						Thousands of U.S. dollars
Years ended March 31	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2006**
OPERATING RESULTS:							
Net sales	¥ 77,215	¥ 90,016	¥ 105,126	¥ 109,626	¥ 115,098	¥ 121,938	$1,034,249
Cost of sales	34,742	39,593	45,865	47,073	48,206	51,409	436,039
Gross profit	42,775	50,838	59,759	62,839	66,891	70,536	598,270
Selling, general and administrative expenses	35,194	41,631	49,074	52,670	56,010	59,274	502,748
Operating income	7,581	9,206	10,684	10,169	10,881	11,261	95,513
Net income	4,163	4,975	6,253	6,490	6,777	6,935	58,821
FINANCIAL POSITION AT YEAR-END:							
Total assets	69,893	76,940	86,255	93,256	97,015	119,253	1,011,476
Total liabilities	41,578	44,025	48,913	50,541	48,041	61,942	525,377
Total shareholders' equity	28,315	32,915	37,342	42,703	48,920	57,197	485,131
PER SHARE AMOUNTS:	Yen						U.S. dollars
Adjusted net income	¥ 180.35	¥ 215.53	¥ 270.90	¥ 281.17	¥ 293.63	¥ 274.95	$ 2.33
Cash dividends	25	25	25	25	25	30	0.25
Shareholders' equity	1,591.70	1,682.13	1,760.57	2,035.47	2,119.40	2,220.42	18.83
OTHER DATA:	Thousands						
Number of shares issued	17,789	19,567	21,210	20,980	23,082	25,224	

Notes: 1. U.S. dollar amounts are calculated based on the exchange rate of U.S.$1=¥117.90 (March 31, 2006).
2. Adjusted net income per share was calculated based on the average number of shares during the year ended March 31, 2006.
3. Number of shares issued is exclusive of treasury stock.

Consolidated Operating Income by Segment



Progress seen in portfolio management;
Lower dependence on the catalogue business and a shift to a balanced profit profile

Aiming to be an Excellent Company

The consolidated results of the Company for the term under review, included a 5.9% rise in net sales from the previous term, to 121.9 billion yen, a 4.6% increase in ordinary income, to 12.1 billion yen, and a 2.3% rise in net income, to 6.9 billion yen. This term marked the fourteenth year of gains in both sales and income, which started before the Company's IPO. The catalogue business has experienced sluggish growth in recent years. But the business has picked up since the autumn/winter season, thanks partly to favorable weather conditions, and is now showing signs of a recovery as the major source of earnings. In addition, the steady single-item mail order business and the advanced finance business have maintained their double-digit growth for the term under review, building up their importance as our number two and three sources of earnings. In contrast, we did not achieve our goals in establishing systems to enable the Internet and mobile phone Internet sales, despite a full fledged effort involving more than 100 staff.

Kiyoshi Yasuno

Kiyoshi Yasuno
President and Representative Director

Industry Trends

The major factor in the Company's stable growth has been our "portfolio" approach, which consists of multiple core businesses, while sustaining the synergies that derive from operating compatible businesses. The Japanese economy is showing signs of a recovery, and the Japanese mail order industry has been expanding steadily, led by new media such as the Internet sales business, as well as the development of the single-item mail order sales business. We expect the market to maintain this stable growth. At the same time, however, competition in the industry has intensified with growing disparities in business performance among single-item mail order sales companies that have to date enjoyed steady performance, and the newer players in the mail order business, who mostly come from manufacturers. Retail industry as a whole is under severe circumstances with continuously expanding retail space. Under these circumstances, we reconfirmed our basic policies to develop businesses by taking advantage of every management resource. We established a five-year medium-term management plan "ASUNARO Plan" in December 2005, to set out a scenario for further growth.

Towards Greater Challenges

Under the ASUNARO Plan, we pursue to achieve numeric targets including 20 billion yen in operating income, an operating margin that exceeds 10% and an ROE better than 13% by March 2011, the final fiscal year of the plan. We will be shifting our focus from our conventional business model, which relies on the catalogue business, to a progressive business model that accesses and utilizes management resources based on the uniqueness of each business. We will then seek to be a diversified conglomerate, consisting of a number of core earnings sources and their associated operations.

Specifically, to develop a new source of earnings, we plan to launch a mail order sales outsourcing business that makes use of our infrastructure, while continuing to address long-standing issues such as the Internet and the mobile phone Internet sales. We also seek to reform our internal systems and business strategies, including restrictions on interest rates, protection of personal information and compliance in response to prevailing trends. With these initiatives, we will establish a growth scenario.

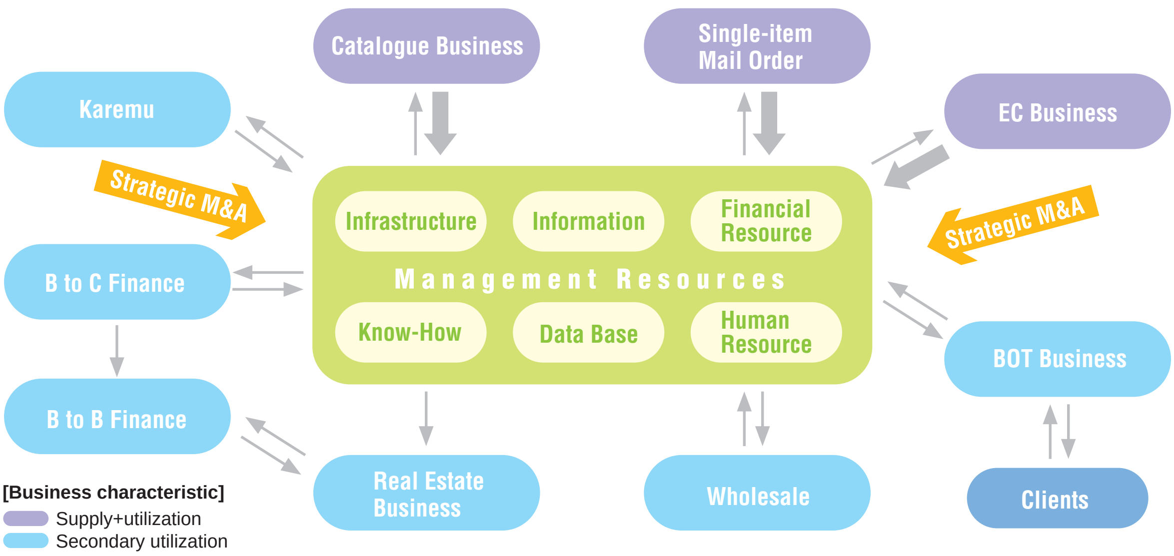
Another element of the plan is our commitment to returning value to our shareholders. To do that, we have set a goal to make dividends together with share buyback, account for 30% of the profit for the term.

To meet the expectations of all stakeholders, we will move forward with the development of our businesses based on the growth strategies described above, and will also strive to achieve greater corporate value.

Belluna, a Diversified Conglomerate

Utilizing all the management resources from our mail order business

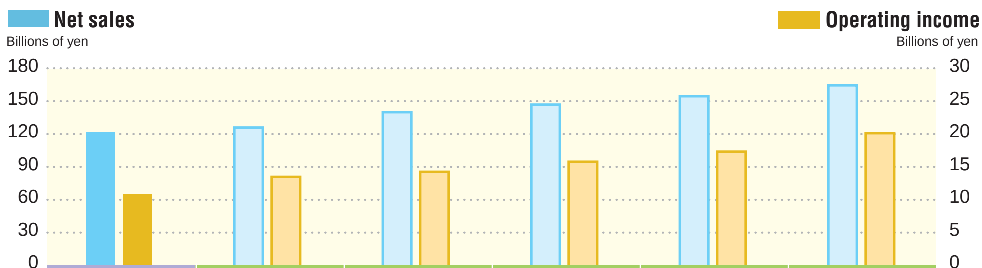
In December 2005, Belluna announced the ASUNARO Plan, a five-year medium-term management plan. While the Company has sustained stable growth, the external environment has changed remarkably with the emergence of new media such as the Internet as well as the change in the power relationship of the mail order industry. These developments have created intensive price and quality competition with shops and other competitors. Belluna has also experienced a slowdown in the catalogue business, but on the other hand, it posted significant growth in the single-item mail order and the advanced finance businesses. To maintain this stable growth in rapidly changing circumstances, we rebuilt our business models following the ASUNARO Plan. By emphasizing the independence and uniqueness of each business, we will promote a balanced portfolio management approach, and ultimately intend to turn ourselves into a diversified conglomerate, with double or more of the benefits derived from each management resource.



Aiming for 20 billion yen in operating income by March 2011

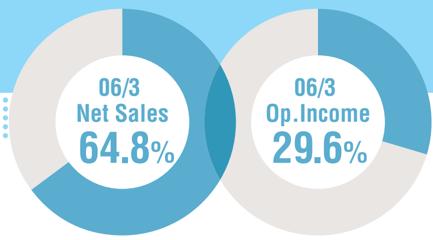
The ASUNARO Plan focuses on profit, with the following three numeric targets: (as of December 15, 2005)

Operating income ↗ 20 billion yen	Operating income ratio ↗ At least 10%	ROE ↗ At least 13%



	'06/3	'07/3	'08/3	'09/3	'10/3	'11/3
Net sales	121.9	129.5	138.7	147.3	155.9	166.0
Operating income	11.3	12.7	14.2	15.9	17.8	**20.0**
Sales to operating income ratio	9.2%	9.8%	10.2%	10.8%	11.4%	12.1%

The sales figures are for reference only.

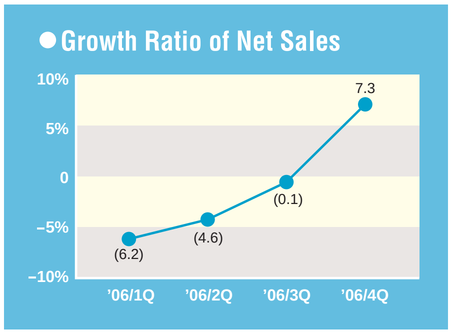


One of the Core Businesses of Belluna, Expanding with a Focus on the Axes of Targets and Media

The catalogue business is one of Belluna's core businesses, and is expanding with a focus on two axes, namely "targets" and "media". It divides roughly into RYURYU for customers in their 20s, LUAR for those in their 30s and BELLUNA for mid-aged customers. We effectively use a range of media, such as leaflets, catalogues, the Internet and the mobile phone Internet. Conventional paper-based media has been sluggish in recent years. It has, however, been recovering since the latter half of the term under review, following our introduction of boutique-type catalogues prepared with an emphasis on a range of products on top of the traditional type of comprehensive assortment, visuals or copy, as a way of responding to customer demands. Our measures to retain customers and favorable weather conditions also contributed to this recovery. In the future, we will push ahead to improve quality and lead time, including the establishment of supply chain management, thereby securing repeat orders.

BELLUNA

LUAR



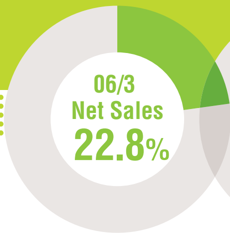


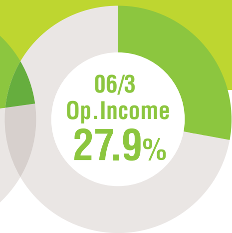

E-Commerce ~Expanding Media~

Now that the Internet and the mobile phone Internet are major tools for the next generation, it is a critical issue for us to bolster our efforts in such areas in order to approach younger generations and reducing costs. The Company is aiming to step up electronic commerce in terms of a ratio to its overall business based on the three primary strategies below:

- Catalogue linked type: The major objectives are to prevent customer churn and to reduce order costs.
- Internet completion type: The major objectives are to cultivate new customers and to reduce media expenditure.
- New service: The major objectives are to develop new profit sources by developing a number of service businesses with future promise and attaining synergy with the distribution marketing businesses.

Single-item Mail Order Business





A New Core Business Registering Strong Growth with Specialty Shop Mail Order Services

A mail order shopping service specializing in certain areas as a specialized mail order company, such as cosmetics, foods and health foods. By developing only one product in any one category, this business has succeeded in expanding the database of established customers and achieving stable growth. We will continue to develop new products to add to our current lineup. Moreover, we intend to improve our ability to retain established customers by service improvements, including outbound and after-sales care. In addition, we will address not only the catalogue business database but also the acquisition of external customers and new marketing outlets to expand the business as a core of group operation that acquires and deploys management resources.

OZIO
(cosmetics)

Refre
(health foods)

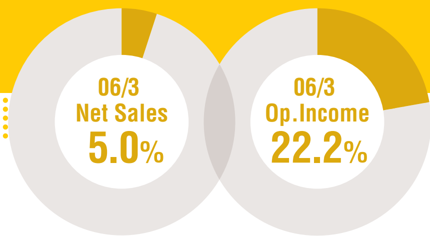
My WineClub
(wine)

Iki Iki Kazoku
(foods and flowers)

Features of the Single-item Mail Order Business

Profitability	Cosmetics and health foods offer particularly high gross margins compared with the catalogue business and expects high earnings.
Rate of repeat orders	The products in this business are characterized by repeat orders for the same product by the same customer. With more repeat orders, established customers account for a greater percentage of the overall business, and this enables expectations of stable expansion.
Cost of customer acquisition	Because of the unique features of the product, the cost of acquiring new customers in the single-item mail order business is relatively higher than it is in the catalogue business. But once we have acquired a customer and they become a steady client, the cost of customer retention declines. This subsequently enables us to enjoy high profitability.

Advanced Finance Business



B to B and B to C Financing Service, New Business Focusing on Global Development

The advanced finance business consists of Belluna Notice, or B to C financing service using a database, B to B financing service which leverages the know-how developed through Belluna Notice, and B to C financing service in South Korea. With the growth of the respective three businesses, the advanced finance business is now a key driver in operating profit growth.

Notes: B to C financing service in South Korea will be included in the consolidated accounts from the term ending March 2007.
B to B financing service is operated by a subsidiary, Sunstage Finance Co., Ltd., and B to C financing service in South Korea is operated by a subsidiary, Bell-Net Credit Co., Ltd.

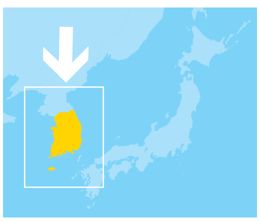
B to C Finance
Belluna Notice

Belluna Notice is a financing service provided primarily to customers of the catalogue business. By utilizing our database, we attain a lower credit loss rate than our competitors, which is the main feature of this business. We strive to bolster convenience and to cut costs by issuing a card that can be used at bank ATMs. In the future, by increasing the number of tie-up ATMs for further improvement of convenience, we will acquire more new customers. We will aggressively challenge to diversify methods in finding a potential customer base using Internet and/or external lists. We will take steps to develop this business further, while maintaining strict screening levels, incorporating database and regional information.

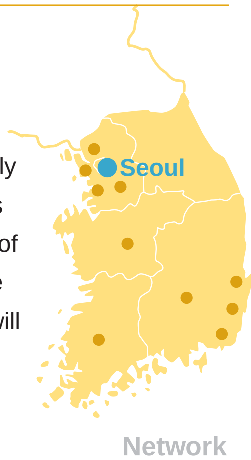
B to B Finance
Sunstage Finance

Sunstage Finance is a B to B financing service, consisting of bridge loans, back finance and commerce and industry loans. The service has achieved robust growth in collateral loan business, by exploiting information and expertise obtained through B to C financing service and our own staff. We will develop branches mainly in Tokyo Metropolitan area. We seek steady growth of this business by operating through our experienced personnel.

B to C Finance in Korea
Bell-net Credit

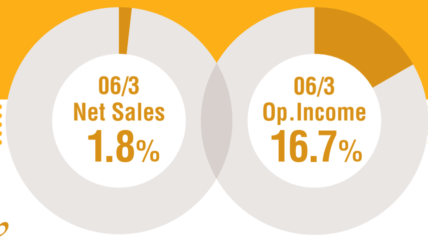


Belluna embarked into South Korea in 2002, and started B to C financing service with know-how and exprience developed through financing services in Japan. The South Korean finance market is relatively large. We have set up branches in various locations in the country by taking advantage of the strengths of the Belluna Group, and expanded the business. We will continue to open branches in the country, and will focus on growth of this business. We will make this business a core foundation of the Group and will continue to bolster our internal audit system and reduce the credit loss ratio.



Network in Korea

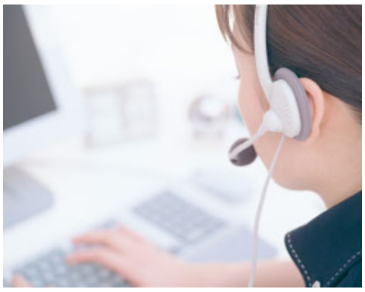
BOT Business



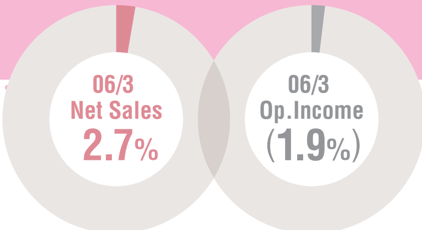
Secondary Use of Existing Infrastructure

~ Business underpinning portfolio management with stable profits

The BOT business consists of an enclosure and mailout service, as well as contracting business of mail order. Belluna Direct is an enclosure charge business, which earns commissions for enclosing the direct mail of other companies with goods and catalogues that we send. It is an example of our commitment to leveraging our infrastructure to operate extremely high-margin businesses. For our future growth, we have been launching other outsourcing services that benefit from our infrastructure, such as our call center and distribution center. We will make this business one of our main profit sources.



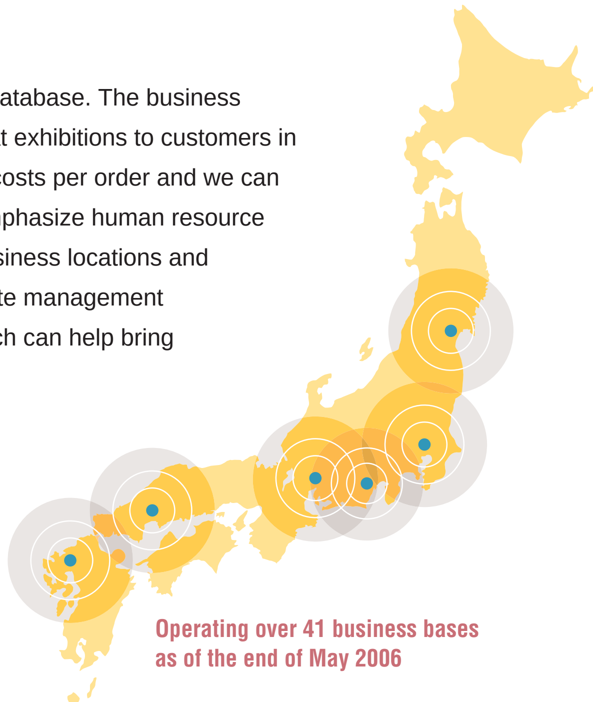
Karemu Business



Exhibition Sales

~ Business leveraging our management resources, with high growth expectations

The Karemu business is designed to take full advantage of our database. The business operates throughout Japan, with the sale of kimonos or jewelry at exhibitions to customers in different locations. By using our database, we are able to lower costs per order and we can identify the needs of customers in detail. In the future, we will emphasize human resource development, training core staff for this business, developing business locations and strengthening customer retention. In addition, we aim to invigorate management resources of the Group by expanding the Karemu business, which can help bring back customers who have not used Belluna for a long time.



Operating over 41 business bases as of the end of May 2006

1 Business Results

Benefiting from specialty mail order companies and fueled by a breakthrough in the Internet and mobile Internet access, the mail order industry as a whole has shown steady growth, while the competition has increasingly intensified with a number of new entrants.

Under these circumstances, our Company has made efforts to improve cost efficiency while enhancing the quality of our services and strengthening our portfolio management.

Consequently, consolidated net sales totaled 121,938 million yen (up 5.9% from the previous fiscal year), with operating income of 11,261 million yen (up 3.5%), ordinary income of 12,118 million yen (up 4.6%), and net income of 6,935 million yen (up 2.3%).

2 Financial Situation

a. Assets, Liabilities and Shareholders' Equity

Total assets increased by 22,237 million yen from the previous fiscal year owing mainly to increases in trade loans receivable, cash and deposits.

Liabilities increased by 13,900 million yen from the previous fiscal year, due mainly to increases in corporate bonds, and long- and short-term borrowings.

Shareholders' equity increased by 8,277 million yen from the previous fiscal year, supported by a rise in retained earnings combined with conversions of the convertible bonds and the exercise of share subscription rights. However, because their rises were smaller than the increases in liabilities, shareholders' equity ratio went down 2.4 percentage points to 48.0%.

b. Cash Flows

Consolidated cash and cash equivalents increased by 11,424 million yen from the end of the previous fiscal year to 19,960 million yen.

Cash flows from operating activities

Cash flows from operating activities increased by 339 million yen from the end of the previous fiscal year to –1,609 million yen. The reason was that the decrease in purchase liabilities and the increase in inventories shrank, in spite of the rise in trade loans receivable.

Cash flows from investing activities

Cash flows from investing activities grew by 1,213 million yen from the previous fiscal year, because the proceeds from sale of investment securities increased.

Cash flows from financing activities

Cash flows from financing activities amounted to 14,802 million yen, due mainly to an increase in long- and short-term borrowings of our consolidated subsidiaries, Sunstage Finance Co., Ltd., and El Dorado Co., Ltd. and income from issuing corporate bonds.

3 Business Risks

a. Statutory Regulations

1) The financial services business is subject to the "Interest Limitation Law," "Money Lending Business Control and Regulation Law" and "Law Concerning Regulation, etc. of Receiving of Capital Subscription, Deposits and Interest, etc." (Investment Law), as well as related laws and regulations. Currently, discussions have been raised in meetings held by Financial Services Agency regarding money lending business to review the undefined state of cap interest rate. At the moment, the cap interest rates that are stipulated by the Interest Limitation Law and Investment Law are 15 to 20% and 29.2%, respectively, allowing the cap interest rate to have so-called "gray zone." Therefore, any amendments to these laws and regulations could affect our business performances, depending on the details of the amendments.

2) The catalogue and single-item mail order sales businesses are subject to regulation as stipulated in laws such as the Law for Preventing Unjustifiable Extra or Unexpected Benefit and Misleading Representation, and the Japan Agricultural Standards Law. We have established internal controls and an administrative structure to thoroughly secure compliance with such laws and regulations, but there is the possibility that measures to prevent violations could be ineffectively implemented due to illegal activity or the actions of our venders. In the event that a violation should occur by some chance, our reputation may suffer a negative impact and in some cases, compensation may become necessary, thus leaving the possibility that our business is affected.

b. Climate and Seasonal Risks

Although we plan our sales projects based on seasonal product trends, climactic instability such as cold summers, warm winters and long rains may cause sales performance to suffer and inventory surplus to increase, thus negatively affecting our overall performance.

c. Manufacturing Structure in China

We procure most products from overseas, especially from China, to produce competitive products and minimize the cost of manufacturing. However, changes in the political environment, unexpected amendments to laws and regulations, shortages in the work force, strikes, demonstrations, worsening of the economic situation or natural disasters could result in our business performance being negatively affected.

d. Foreign Exchange Risks

Some of our products are imported from abroad on a foreign currency basis. We use hedge transactions through forward exchange contracts to minimize the risks of currency fluctuations. Nevertheless, any substantial fluctuations in foreign exchange rates may affect our business performance.

e. Protection of Personal Information

As a company dealing with personal information under the Personal Information Protection Law, we are subject to this law since its enforcement in April 2005. We have strengthened our internal control system to comply with this law and prevent the outflow of personal information. However, if any such information should be leaked, the company image will be damaged and this could result in a downturn in our business.

f. System Risks

Computer systems that we own are protected from unauthorized access, computer viruses, etc. by means of firewalls and antivirus software installed in computers. Furthermore, system security is enforced through the establishment of a structure that applies updated hot-fixes, and prevents unauthorized usage of internal computers. Nevertheless, system downtime or computer malfunctions caused by unauthorized access from outsiders, or invasions by computer viruses, may incur financial losses despite continual implementation of the latest measures. Extra expenses will be incurred in the event that any computer trouble occurs that requires a considerable amount of time for recovery, since the majority of our business operations are handled through the use of computer processing. Such impairment of our computing infrastructure could affect our business performance.

4 Analysis of Business Results

Looking at sales by business operation, the other business (up 98.4% on a year-on-year basis), the Karemu (exhibition sales) business (up 37.6%), the single-item mail order business (up 22.8%) and the advanced finance business (up 16.5%) remained favorable. On the other hand, the catalogue business (down 0.8%) suffered slowdown in sales of clothing and the BOT business (down 10.7%) was sluggish due to the stricter examination to avoid internal competition with products covered by the other business. As a result, consolidated net sales rose 5.9% from the previous fiscal year to 121,938 million yen.

In terms of profits, the cost to sales ratio fell 0.3 percentage points on a year-on-year basis due to the sale of real estate by the subsidiary El Dorado Co., Ltd. However, growth in sales volume caused operating income to increase by 3.5% from the previous fiscal year to 11,261 million yen.

5 Analysis of Financial Situation

Assets

Current assets rose 19,249 million yen from the previous fiscal year mainly because trade loans receivable, and cash and deposits increased 8,840 million yen and 11,240 million yen, respectively.

Fixed assets rose 2,988 million yen from the previous fiscal year due mainly to an increase of 1,671 million yen in investment securities.

Liabilities

Total liabilities increased 13,900 million yen from the previous fiscal year. This is attributable to increases in short-term borrowings and long-term borrowings of 7,179 million yen and 3,968 million yen, respectively, mainly for the subsidiary Sunstage Finance Co., Ltd., and also an increase of 5,000 million yen in corporate bonds to fund capital investment.

Shareholders' Equity

Shareholders' equity grew 8,277 million yen from the previous fiscal year, supported by a rise of 6,358 million yen in retained earnings and by conversion of convertible bonds. We also acquired the treasury stock of 1,175 million yen. As a result, the shareholders' equity ratio decreased 2.4 percentage points to 48.0%.

6 Capital Expenditure

The Company has spent 1,674 million yen on plant and equipment particularly in the catalogue business and the other business to expand our operations and achieve continuous growth as well as to improve operating efficiency and attain steady revenues.

In the catalogue business, we spent 262 million yen on Ryouke Maruyama System Center to respond to an increase in our shipments.

In the other business, we obtained land and buildings for rent in Chuo-ku, Tokyo to boost and stabilize revenues. The total amount of this investment was 1,123 million yen.

There were no retirements or sales of any significant equipment and facilities during this fiscal year.

Consolidated Balance Sheets

March 31, 2006 and 2005	Millions of yen 2006	2005	Thousands of U.S. dollars 2006
Assets			
Current assets			
Cash and deposits at banks	**¥ 21,869**	¥10,628	**$ 185,488**
Notes and accounts receivable-trade	**13,811**	14,190	**117,142**
Loans receivable-trade	**31,204**	22,364	**264,665**
Marketable securities	**497**	2,142	**4,215**
Inventories	**10,610**	9,753	**89,992**
Deferred tax assets	**709**	567	**6,014**
Other	**2,801**	2,557	**23,757**
Allowance for doubtful accounts	**(1,336)**	(1,284)	**(11,332)**
Total current assets	**80,168**	60,919	**679,966**
Fixed assets			
Tangible fixed assets			
Buildings and structures	**11,365**	11,922	**96,395**
Machinery, equipment and vehicles	**217**	264	**1,841**
Furniture and fixtures	**199**	227	**1,688**
Land	**15,367**	14,262	**130,339**
Construction in progress	**366**	50	**3,104**
Total tangible fixed assets	**27,514**	26,727	**233,367**
Intangible fixed assets	**1,281**	942	**10,865**
Total intangible fixed assets	**1,281**	942	**10,865**
Investment and other assets			
Investments in securities	**7,840**	6,168	**66,497**
Long-term loans receivable	**868**	505	**7,362**
Investments in unions and funds	**0**	740	**0**
Deferred income tax assets	**0**	192	**0**
Other	**1,861**	880	**15,785**
Allowance for doubtful accounts	**(284)**	(61)	**(2,409)**
Total investment and other assets	**10,288**	8,426	**87,260**
Total fixed assets	**39,084**	36,096	**331,501**
Total assets	**¥119,253**	¥97,015	**$1,011,476**

March 31, 2006 and 2005	Millions of yen 2006	2005	Thousands of U.S. dollars 2006
Liabilities			
Current liabilities			
Notes and accounts payable-trade	¥ 17,560	¥18,513	$ 148,940
Short-term borrowings	11,299	4,120	95,835
Current portion of bonds	0	5,000	0
Current portion of convertible bonds	2,970	0	25,191
Accrued expenses	7,182	7,191	60,916
Corporation and inhabitants taxes payable	2,747	1,944	23,299
Accrued bonuses	552	485	4,682
Allowance for returned goods	127	135	1,077
Reserve for losses on interest repayment	95	0	806
Other	1,554	1,490	13,181
Total current liabilities	44,089	38,880	373,953
Long-term liabilities			
Bonds	10,000	—	84,818
Convertible bonds	0	4,999	0
Long-term borrowings	6,597	2,628	55,954
Reserve for retirement benefits	110	104	933
Reserve for retirement benefits for directors and corporate auditors	242	232	2,053
Reserve for new share subscription right	119	131	1,009
Other	782	1,065	6,633
Total long-term liabilities	17,853	9,161	151,425
Total liabilities	61,942	48,041	525,377
Minority interests			
Minority interests	113	53	958
Shareholders' equity			
Capital stock	8,393	7,169	71,187
Capital surplus	8,789	7,565	74,546
Retained earnings	43,242	36,884	366,768
Difference on revaluation of other makerable securities	605	100	5,131
Translation adjustments	71	(71)	602
Treasury stock	(3,905)	(2,729)	(33,121)
Total shareholders' equity	57,197	48,920	485,131
Total liabilities and shareholders' equity	¥119,253	¥97,015	$1,011,476

Consolidated Statements of Income

	Millions of yen		Thousands of U.S. dollars
Years ended March 31, 2006 and 2005	2006	2005	2006
Net sales	¥121,938	¥115,098	$1,034,249
Cost of sales	51,409	48,206	436,039
Gross margin	70,528	66,891	598,202
Adjustment to profit on allowance for returned goods	(8)	0	(68)
Gross profit	70,536	66,891	598,270
Selling, general and administrative expenses	59,274	56,010	502,748
Operating income	11,261	10,881	95,513
Non-operating income			
Interest income	208	174	1,764
Dividends received	266	350	2,256
Rent income	82	96	696
Commission received	147	123	1,247
Gain on sale of marketable securities	301	—	2,553
Income from cancellation of debt	46	24	390
Compensation received	64	55	543
Currency exchange gain	—	47	—
Other	382	169	3,240
Total non-operating income	1,499	1,042	12,714
Non-operating expenses			
Interest expenses	238	188	2,019
Issuance expense of bonds	46	—	390
Currency exchange loss	228	—	1,934
Other	129	145	1,094
Total non-operating expenses	643	333	5,454
Ordinary income	12,118	11,589	102,782
Extraordinary gains			
Gain on sale of investment securities	48	—	407
Gain on recovery of bad debts	33	34	280
Total extraordinary gains	82	34	696
Extraordinary losses			
Loss on disposal of fixed assets	14	90	119
Loss on sale of investment securities	—	2	—
Loss on valuation of investment securities	239	194	2,027
Impairment loss	42	—	356
Bad debt loss	68	—	577
Allowance for bad debt	109	—	925
Loss on changes in equity value of affiliated companies	—	14	—
Total extraordinary losses	474	302	4,020
Income before income taxes and minority interests	11,726	11,320	99,457
Corporation, inhabitants and enterprise taxes	4,990	4,427	42,324
Adjustment to corporation tax, etc.	(247)	93	(2,095)
Minority interest in net income	48	22	407
Net income	¥ 6,935	¥ 6,777	$ 58,821

Consolidated Statements of Retained Earnings

Years ended March 31, 2006 and 2005	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars 2006
Capital surplus			
Capital surplus at beginnings of period	**¥ 7,565**	¥ 7,511	**$ 64,165**
Increase in capital surplus			
Issue of shares	**209**	53	**1,773**
Conversion of convertible bonds	**1,014**	0	**8,601**
Profit on disposition of treasury stock	**0**	0	
Capital surplus at end of period	**8,789**	7,565	**74,546**
Retained earnings			
Retained earnings at beginning of period	**36,884**	30,594	**312,841**
Increase in retained earnings			
Net income	**6,935**	6,827	**58,821**
Decrease in retained earnings			
Dividends	**577**	524	**4,894**
Decrease in retained earnings due to initial application of consolidation	**—**	13	**—**
Retained earnings at end of period	**¥43,242**	¥36,884	**$366,768**

Consolidated Statements of Cash Flows

	Millions of yen		Thousands of U.S. dollars
Years ended March 31, 2006 and 2005	**2006**	2005	**2006**
Cash flows from operating activities			
Income before income taxes and minority interests	**¥11,726**	¥11,320	**$ 99,457**
Depreciation	**956**	1,012	**8,109**
Impairment loss	**42**	—	**356**
Increase in allowance for returned goods	**8**	0	**68**
Increase in allowance for doubtful accounts	**272**	(17)	**2,307**
Increase in accrued bonuses	**67**	18	**568**
Increase in reserve for retirement benefits	**5**	35	**42**
Increase in reserve for retirement benefits for directors and corporate auditors	**9**	9	**76**
Reserve for losses on interest repayments	**95**	0	**806**
Interest and dividend income	**(474)**	(525)	**(4,020)**
Interest expense	**238**	188	**2,019**
Gain/loss on sale of marketable securities	**(301)**	—	**(2,553)**
Gain/loss on sales of investments securities	**(48)**	2	**(407)**
Loss on valuation of investments securities	**239**	194	**2,027**
Loss on disposal of fixed assets	**14**	90	**119**
Increase in notes and accounts recievable-trade	**409**	183	**3,469**
Increase in loans recievable-trade	**(9,041)**	(4,455)	**(76,684)**
Increase in inventories	**(841)**	(1,849)	**(7,133)**
(Increase)/decrease in other current assets	**100**	(263)	**848**
Increase/(decrease) of notes and accounts payable-trade	**(651)**	(3,590)	**(5,522)**
Increase in other current liabilities	**(274)**	(115)	**(2,324)**
Increase in other long-term liabilities	**(346)**	57	**(2,935)**
Other	**95**	145	**806**
Subtotal	**2,287**	2,442	**19,398**
Interest and dividends received	**481**	525	**4,080**
Interest paid	**(265)**	(154)	**(2,248)**
Payment of income taxes, etc.	**(4,113)**	(4,761)	**(34,885)**
Net cash provided by operating activities	**(1,609)**	(1,948)	**(13,647)**
Cash flows from investing activities			
Increase in time deposits	**(309)**	(12)	**(2,621)**
Withdrawal of time deposits	**800**	110	**6,785**
Expenditure for purchase of securities	**(407)**	(1,702)	**(3,452)**
Proceeds from sale of securities	**816**	1,000	**6,921**
Expenditure for purchase of tangible fixed assets	**(1,725)**	(2,081)	**(14,631)**
Proceeds from sale of tangible fixed assets	**0**	0	**0**
Expenditure for purchase of intangible fixed assets	**(524)**	(43)	**(4,444)**
Expenditure for purchase of investment securities	**(3,182)**	(1,949)	**(26,989)**
Proceeds from sale of investment securities	**2,667**	437	**22,621**
Payments for loans receivable	**(561)**	(146)	**(4,758)**
Proceeds from collection of loans receivable	**45**	368	**382**
Payments for other investments	**(382)**	(64)	**(3,240)**
Proceeds from collection of other investments	**862**	967	**7,311**
Net cash used in investing activities	**(1,900)**	(3,114)	**(16,115)**
Cash flows from financing activities			
Increase in short-term borrowings	**7,213**	2,015	**61,179**
Proceeds from long-term borrowings	**4,600**	—	**39,016**
Expenditure for repayment of long-term borrowings	**(664)**	(740)	**(5,632)**
Proceeds from issurance of shares	**406**	104	**3,444**
Proceeds from issuance of bonds	**10,000**	—	**84,818**
Expenditure for redemption of bonds	**(5,000)**	—	**(42,409)**
Proceeds from sale of treasury stock	**0**	0	**0**
Expenditure for purchase of treasury stock	**(1,175)**	(88)	**(9,966)**
Share subscription from minority shareholders	**—**	11	**—**
Dividends paid	**(577)**	(524)	**(4,894)**
Net cash provided by (used in) financing activities	**14,802**	778	**125,547**
Translation differences on cash and cash equivalents	**131**	18	**1,111**
Increase/(decrease) in cash and cash equivalents	**11,424**	(4,265)	**96,896**
Cash and cash equivalents at beginning of period	**8,536**	12,792	**72,400**
Cash and cash equivalents of additional consolidation of a subsidiary at beginning of period	**—**	12	**—**
Cash and cash equivalents of a subsidiary excluded from consolidation at beginning of period	**—**	(2)	**—**
Cash and cash equivalents at end of period	**¥19,960**	¥ 8,536	**$169,296**

1. Basis of presenting financial statements

The accompanying consolidated financial statements are in compliance with generally accepted accounting principles in Japan (called "Japanese accounting standards" hereinafter), with the accounting records preserved. Financial statements contained in this report are based on the reported consolidated financial statements for the purpose of financial reporting in Japan under the provisions of the Securities Exchange Law and relevant regulations.

Japanese accounting standards differ in places from international accounting standards regarding accounting procedures and disclosure items. The accompanying consolidated financial statements are shown in U.S. dollars, based on the approximate current exchange rate of ¥117.90=US$1 as of March 31, 2006. These figures in U.S. dollars in the accompanying consolidated financial statements and their notes are translated from Japanese yen for the sake of convenience only, and thus should not be interpreted as meaning that the yen value represents the actual U.S. dollar value or that it is or can be changed into U.S. dollars.

2. Accounting policies

a. Valuation standards and methods of significant assets

Securities

Other securities

Those with fair market values ——

Market value method is used, based on the market price on the last day of the consolidated fiscal year (valuation profit or loss is processed entirely using the direct capitalization method, with cost of sales calculated using the moving average method)

Those without fair market values ——

The cost method is used based on the moving average method. However, for investments in investment limited partnerships and similar partnerships (which are considered securities under Paragraph 2, Article 2 of the Securities Exchange Law), profits or losses equivalent to the Company's stake in the assets of the partnerships are recorded based on the last financial statements available, in accordance with the reporting date provided under partnership contracts.

Derivatives

Market value method

Inventories

Merchandise: Lower of cost or market price based on the moving average method

Supplies: Latest purchase price method

b. Depreciation method of significant depreciable assets

(1) Tangible fixed assets

The Company and its domestic consolidated subsidiaries adopt the declining balance method, while its overseas consolidated subsidiaries adopt the straight-line method. However, the Company and its domestic consolidated subsidiaries adopt the straight-line method for buildings (excluding fixtures) acquired on or after April 1, 1998.

(2) Intangible fixed assets

The straight-line method is adopted. Software for internal use is amortized based on the straight-line method with useful life (5 years) determined by the Company's policy.

c. Accounting policies for calculation of significant allowances

(1) Allowance for doubtful accounts

In preparation for possible bad debt losses, the Company records the estimated amount of potentially unrecoverable bad debts based on the historical bad debt loss ratio for general debts, and individual recoverability for specific debts such as potentially bad debts.

(2) Accrued bonuses

In preparation for bonus payments to employees, the estimated amount of payment is recorded.

(3) Allowances for returned goods

In preparation for possible losses from returned goods after the fiscal year end, gross profit equivalents to the estimated amount of potential returned goods are recorded based on the historical returned goods ratio.

(4) Allowances for losses on interest repayment

In preparation for compliance with customer requests for repayment of interest that was paid beyond the cap interest rate of the Interest Limitation Law, the amount of requested repayment to be returned in the future was estimated for the fiscal year ended March 31, 2006.

(Additional information)

The allowances for losses on interest repayment has been recorded starting from the fiscal year ended March 31, 2006, because of the Supreme court decision on January 13 and 19, 2006 regarding the application of constructive reimbursement in Article 43 of the Money-Lending Business Control and Regulation Law, from which emerged a recognition of the importance of the reimbursement amount that a customer has paid beyond the cap interest rate established by the Interest Limitation Law.

Accordingly, the operating income, ordinary income and income before income taxes and minority interests have been decreased by ¥95 million compared to previous accounting procedure.

(5) Reserves for retirement benefits

In preparation for employees' retirement benefits, the Company records estimated amounts of retirement benefit obligations and pension assets at fiscal year end. Some subsidiaries introduce a shortcut procedure in calculating retirement benefit obligations. Actuarial differences are apportioned by the straight-line method over a fixed term (5 years) within the average remaining service period of the employees at the time of occurrence, and charged to expenses after the fiscal year of occurrence.

(6) Reserves for retirement benefits for directors and corporate auditors

In preparation for retirement benefits for directors and corporate auditors, the Company accounts for the amount payable at year-end in accordance with internal regulations.

d. Accounting for lease transactions

Financial lease transactions, other than those in which the ownership of the leased property is deemed to be transferred to the lessee, are accounted for in accordance with the accounting method for ordinary lease transactions.

e. Accounting for significant hedge transactions

A deferred accounting treatment is applied to hedge transactions.

(1) Hedging instrument: Forward exchange contracts and currency swap transactions

(2) Hedged items: Anticipated transactions in foreign currencies

(3) Hedging policies: Hedge transactions are used to minimize risks in anticipated transactions in foreign currencies

f. Other significant matters for preparation of consolidated financial statements

(1) Accounting for consumption taxes: Consumption taxes are excluded from sales.

(2) Accounting for bond issuance fees: Bond issuance fees are treated the full value of the cost as incurred.

3. Scope of cash on consolidated cash flow statements

Cash (cash and cash equivalents) on consolidated cash flow statements consist of cash on hand, demand deposits, and highly liquid short-term investments with minimum risks of changes in value and with a maturity of less than three months from the date of acquisition.

4. Significant change in accounting policy for preparing consolidated balance sheets

(Accounting standards for impairment of fixed assets)

The Company adopted "Accounting Standards for Impairment of Fixed Assets" ("Opinion Concerning Establishment of Accounting Standards for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and "Implementation Guidance for Accounting Standard for Impairment of Fixed Assets" (Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003) in the fiscal year under review.

Due to this change in accounting standard, income before income taxes and minority interests decreased 42 million yen compared to the amount calculated using the previous accounting standard.

Corporate Data

(As of March 31, 2006)

Company name	Belluna Co., Ltd.
Head office	4-2, Miyamoto-cho, Ageo, Saitama 362-8688, Japan Tel: +81-48-771-7753
Capital stock	¥8,393 million
Established	June 1977
Employees	1,027
Businesses	Belluna is a group company expanding businesses based on the customer list. Multiple use of this management resources, as portofolio management, is acheivable for stable revenue.
Consolidated subsidiaries	Refre Co., Ltd. Bell-Net International Hong Kong Ltd. B.N. International U.S.A. Inc. El Dorado Co., Ltd. Ozio Co., Ltd. Friendly Co., Ltd. Sunstage Finance Co., Ltd.

Board of Directors & Corporate Auditors

(As of June 29, 2006)

President and Representative Director	Kiyoshi Yasuno
Managing Director	Takeo Shimano
Directors	Yukio Ohashi Junko Shishido Yukihiro Katabe Masakazu Oikawa
Standing Corporate Auditor	Tadashi Furuhashi
Corporate Auditors	Isao Nakamura Yukimitsu Watabe

Investor Information

(As of March 31, 2006)

Common stock	Exchange: Tokyo Stock Exchange, 1st Section Shares issued and outstanding: 27,001,728 Number of shareholders: 4,587
ADRs	Exchange: OTC (U.S.A.) Ratio: 2 ADRs = 1 Ordinary Share Symbol: BLUNY CUSIP: 07986W102 Depositary: The Bank of New York Tel: (212) 815-2042 U.S. Toll Free: 888-269-2377 (888-BNY-ADRS) URL: http://www.adrbny.com
For further information	URL: http://www.belluna.co.jp/ir/english/html. E-mail: ir@belluna.co.jp

Topics

Stock split

The Company made a stock split for each share into 2 shares for every shareholder as of March 31, 2006.

Dividend increase

The Company increased dividends per share from ¥25, for the previous fiscal year, to ¥30 for this fiscal year ended March 31, 2006.