



2008 FINANCIAL STATEMENTS

**MARCH 31,
2007-2008**

KITANO CONSTRUCTION CORP.

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Consolidated Balance Sheets

As of March 31, 2007 and 2008

	Millions of yen	
	March 31,	
	2007	2008
ASSETS		
Current Assets:		
Cash in hand and in banks	¥ 3,291	¥ 5,634
Notes and accounts receivable	12,416	7,985
Real estate for sale	739	698
Cost of construction in progress	14,349	13,312
Cost of uncompleted development projects	6,860	5,300
Inventories - materials and supplies	67	63
Deferred income taxes.....	507	593
Other current assets.....	1,244	1,229
Less: allowance for doubtful accounts	(77)	(73)
Total current assets	<u>39,396</u>	<u>34,741</u>
Fixed Assets:		
Tangible Fixed Assets:		
Buildings and structures.....	14,683	14,760
Machinery and equipment	1,658	1,444
Golf course	1,967	1,977
Land.....	8,181	8,216
Construction in progress	129	9
Other.....	1,899	1,930
Less: accumulated depreciation	(9,587)	(9,558)
Total tangible fixed assets	<u>18,930</u>	<u>18,778</u>
Cost in excess of net assets of subsidiaries.....	265	19
Other intangible fixed assets.....	619	615
	<u>884</u>	<u>634</u>
Investments:		
Investments in securities.....	6,933	5,133
Long-term loans	3,202	3,103
Deferred income taxes.....	215	853
Other investments	1,409	1,361
Less: allowance for doubtful accounts	(1,595)	(1,619)
Total investments.....	<u>10,164</u>	<u>8,831</u>
Total fixed assets	<u>29,978</u>	<u>28,243</u>
	<u>¥ 69,374</u>	<u>¥ 62,984</u>

The accompanying notes are an integral part of these statements.

	Millions of yen	
	March 31,	
	2007	2008
LIABILITIES		
Current Liabilities:		
Notes and accounts payable	¥ 17,040	¥ 14,893
Short-term bank loans	7,323	4,043
Income taxes payable	71	52
Advances received on construction in progress	11,300	10,615
Advances received on uncompleted development projects	321	4
Accrued bonuses to employees	299	336
Accrued bonuses to directors and statutory auditors	68	34
Accrued warranty	44	29
Allowance for losses on construction contracts	105	660
Other current assets	637	832
Total current liabilities	37,208	31,498
Long-Term Debt:		
Reserve for retirement benefits to employees	587	548
Reserve for retirement benefits to officers	943	986
Membership deposit	6,322	6,170
Other long-term debt	75	206
Total long-term debt	7,927	7,910
NET ASSETS		
Shareholders' equity		
Common stock	9,116	9,116
Authorized — 200,000,000 shares		
Issued — 78,368,532 shares as of March 31, 2007 and 2008		
Capital surplus	7,426	7,426
Retained earnings	5,760	6,235
Treasury stock	(1,828)	(1,840)
Total shareholders' equity	20,474	20,937
Valuation and translation adjustments		
Unrealized gain on other securities	2,189	1,096
Unrealized gain on hedging derivatives	6	(17)
Foreign currency translation adjustments	17	(47)
Total valuation and translation adjustments	2,212	1,032
Minority interests	1,553	1,607
Total net assets	¥ 24,239	¥ 23,576
	¥ 69,374	¥ 62,984

The accompanying notes are an integral part of these statements.

Consolidated Statements of Operations
For the years ended March 31, 2007 and 2008

	Millions of yen	
	March 31,	
	2007	2008
Net Sales:		
Completed construction contracts.....	¥ 62,291	¥ 58,110
Real estate development and engineering.....	6,454	12,329
	68,745	70,439
Cost of Sales:		
Completed construction contracts.....	58,106	54,994
Real estate development and engineering.....	4,195	8,717
	62,301	63,711
Gross profit.....	6,444	6,728
Selling, General and Administrative Expenses.....	5,364	5,265
Operating income	1,080	1,463
Non-Operating Income/(Losses):		
Interest and dividend income	86	102
Interest expenses.....	(95)	(195)
Foreign exchange gains/(losses)	37	(247)
Equity in gains/(losses) of affiliates.....	83	(71)
Other, net.....	99	163
	1,290	1,215
Special Items:		
Gain on sales of fixed assets.....	5	8
Loss on disposal of fixed assets	(7)	(16)
Impairment loss on fixed assets	—	(2)
Gain on sales of subsidiaries stocks	—	332
Loss from compensation for damage.....	—	(424)
Other, net.....	1	(48)
Income before income taxes and minority interests	1,289	1,065
Income taxes		
Current.....	70	68
Deferred.....	259	33
Minority Interests in Earnings of Consolidated Subsidiaries	(95)	(62)
Net income	¥ 865	¥ 902

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2007 and 2008

	Millions of yen									
	Number of shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Unrealized gain on other securities	Treasury stocks	Unrealized gain on hedging derivatives	Adjustments	Minority interests	Total net assets
								on foreign		
								currency statements translation		
Balance at March 31, 2006	71,642	9,116	7,426	5,713	2,767	(1,807)	—	(12)	1,587	24,790
Net Gain for the year ended March 31, 2007...	—	—	—	865	—	—	—	—	—	865
Cash dividends	—	—	—	(642)	—	—	—	—	—	(642)
Bonuses to directors and statutory auditors	—	—	—	(177)	—	—	—	—	—	(177)
Increase in treasury stock	(78)	—	—	—	—	(14)	—	—	—	(14)
Gain on sale of treasury stock	—	—	0	—	—	2	—	—	—	2
Other	—	—	(0)	1	—	(9)	—	—	—	(8)
Adjustment for the year..	—	—	0	—	(578)	—	6	29	(34)	(577)
Balance at March 31, 2007	71,564	9,116	7,426	5,760	2,189	(1,828)	6	17	1,553	24,239
Net Gain for the year ended March 31, 2008...	—	—	—	902	—	—	—	—	—	902
Cash dividends	—	—	—	(427)	—	—	—	—	—	(427)
Increase in treasury stock	(40)	—	—	—	—	(15)	—	—	—	(15)
Gain on sale of treasury stock	—	—	(0)	—	—	3	—	—	—	3
Adjustment for the year..	—	—	—	—	(1,093)	—	(23)	(65)	55	(1,126)
Balance at March 31, 2008	<u>71,524</u>	<u>9,116</u>	<u>7,426</u>	<u>6,235</u>	<u>1,096</u>	<u>(1,840)</u>	<u>(17)</u>	<u>(48)</u>	<u>1,608</u>	<u>23,576</u>

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

For the year ended March 31, 2007 and 2008

	Millions of yen	
	2007	2008
Cash flows from operating activities:		
Net income before income taxes	¥ 1,289	¥ 1,065
Adjustments for:		
Depreciation	449	506
Impairment loss on fixed assets.....	—	2
Equity in gains of affiliates	(83)	72
Interest and dividend income	(86)	(102)
Interest expenses	95	195
Gain on sales of fixed assets.....	(5)	(9)
Foreign exchange loss.....	(37)	138
Increase in reserve for retirement benefits to employees and officers	1	4
(Decrease) in accrued warranty.....	(9)	(14)
Increase in allowance for losses on construction contracts	82	555
Increase in accrued bonuses.....	22	37
Increase/(decrease) in allowance for doubtful accounts.....	14	(5)
(Increase)/decrease in notes and accounts receivable	(2,710)	4,427
(Increase) in cost of construction in progress and cost of uncompleted development projects	(6,754)	2,598
(Increase)/decrease in real estate for sale and inventories	(92)	43
(Decrease) in notes and accounts payable	(295)	(2,140)
Increase/(decrease) in advances received on construction in progress....	556	(686)
Other	(193)	(535)
Sub-total	(7,756)	6,151
Interest and dividend income received	86	101
Interest expenses paid.....	(95)	(195)
Income taxes paid	(66)	(100)
Net cash provided by/(used in) operating activities	(7,831)	5,957
Cash flows from investing activities:		
Payment for making time deposit	(232)	(252)
Proceeds from withdraw of time deposit.....	271	231
Payments for purchase of fixed assets.....	(324)	(624)
Proceeds from sale of fixed assets.....	23	53
Payments for purchase of investments in securities	(4)	(601)
Proceeds from sale of investments in securities.....	223	498
Payments for loans.....	(42)	(390)
Collections of loans.....	67	691
Proceeds from sale of shares of a consolidated subsidiary.....	—	510
Other	(1)	33
Net cash provided by/(used in) investing activities	(19)	149
Cash flows from financing activities:		
Increase/(decrease) in short-term bank loans, net	5,934	(3,232)
Purchase of treasury stock	(11)	(13)
Purchases of subsidiary's treasury stock by the subsidiary	(128)	—
Cash dividends paid	(645)	(430)
Net cash provided by/(used in) financing activities.....	5,150	(3,675)
Effect of exchange rate changes on cash and cash equivalents.....	4	(109)
Net increase/(decrease) in cash and cash equivalents	(2,696)	2,322
Cash and cash equivalents of beginning of year.....	5,755	3,059
Cash and cash equivalents of end of year.....	¥ 3,059	¥ 5,381

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

1. Basis of Presenting Consolidated Financial Statements

(a) Accounting Principles

The accompanying consolidated financial statements have been prepared based on the accounts maintained by Kitano Construction Corp. (the "Company") and its subsidiaries. The accounts of the Company and its domestic subsidiaries are maintained in accordance with the provisions set forth in the Commercial Code of Japan, the Securities and Exchange Law, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. The accounts of the Company's overseas subsidiaries are maintained in conformity with accounting principles and practices generally accepted in their respective countries of domicile.

Certain items presented in the consolidated financial statements filed with the Director of Kanto Finance Bureau in Japan have been reclassified for the convenience of readers outside Japan.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

(b) Scope of Consolidation

The Company had 8 subsidiaries (majority-owned companies) as at March 31, 2008 (8 for 2007). The consolidated financial statements in fiscal years ended March 31, 2008 include the accounts of the Company and 7 (7 for 2007) of its subsidiaries "the Companies", which are listed below:

•Kawanakajima Tochi Kaihatsu Co., Ltd.	69.23% owned
•Kisokougen Kaihatsu Co., Ltd.	40.00% owned
•Solomon Kitano Mendana Hotel Limited.	100.00% owned
•Western samoa Kitano Limited.	99.00% owned
•Asahi Agency Co., Ltd.	52.38% owned
•Kitano Arms Corp.	34.95% owned
•Hakubai Inc.	34.95% owned

The above consolidated subsidiaries, except for Solomon Kitano Mendana Hotel Limited, Western Samoa Kitano Limited, Kitano Arms Corp. and Hakubai Inc., which have fiscal years ending at December 31 of each year, have a fiscal year ending at March 31 of each year, which is the same as the fiscal year of the Company.

The remaining 1 unconsolidated subsidiary is not consolidated, as it is not significant in terms of total assets, net sales, net income or retained earnings.

2. Summary of Significant Accounting Policies

(a) Principles of Consolidation

All significant intercompany balances, intercompany transactions and unrealized profits among the Companies have been eliminated in consolidation and the portion thereof attributable to minority interests is charged to minority interests.

In eliminating investments in shares of consolidated subsidiaries, with the underlying equity in net assets, any difference between the cost of an investment in a subsidiary and the amount of underlying equity in net assets of the subsidiary is treated as an asset or a liability, as the case may be, and amortized over a period of five years on a straight-line basis.

The assets and liabilities of the consolidated subsidiaries are recorded at market value on their consolidation. Cost in excess of the net assets of the subsidiaries is amortized over 5 years.

(b) Investment in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates are stated at cost.

The equity method of accounting for such investments is applied to Sakura Hanoi Plaza Investment Company Limited, Kawajima Nakayama Kaihatsu Co., Ltd, which are affiliates of the Company, since the application of this method has significant effect on the net income and retained earnings of the Companies.

(c) Revenue Recognition from Construction Contracts

Revenue from and related costs of construction contracts, whose construction periods are more than two years and contract amounts are more than one billion yen, are recorded under the percentage-of-completion method. Revenue from and related costs of construction contracts except the above are recorded using the complete-contract method.

(d) Inventory Valuation

The cost of construction in progress, real estate for sale and the cost of uncompleted development projects are valued at cost on an individual project basis. Materials and supplies are mostly valued at cost, which is determined by the moving average method.

(e) Depreciation

Depreciation is computed by the straight-line method for buildings (excluding leasehold

improvements and auxiliary facilities attached to buildings) and by the declining-balance method for other assets, at rates based on the estimated useful lives of the assets, as prescribed by Japanese income tax laws. Depreciation for real estate for leasing is computed by the straight-line method. The range of useful lives is principally from 3 to 50 years for buildings and structures and from 2 to 20 years for store fixtures and equipment.

(f) Allowance for Doubtful Accounts

The balance of allowance for doubtful accounts represents the amount deemed necessary to cover possible losses estimated on an individual doubtful account basis. The amount is calculated using a certain percentage based on past experience for other accounts.

(g) Accrued Warranty

Accrued warranty is provided for against the future costs of warranty from completed construction.

(h) Accrued Bonuses to Employees

Accrued bonuses are computed by estimating the payment required in order to provide for the payment of bonuses to employees.

(i) Accrued Bonuses to Directors and Statutory Auditors

Accrued bonuses are computed by estimating the payment required in order to provide for the payment of bonuses to directors and statutory auditors.

(j) Reserve for Retirement Benefits to Officers

A reserve for retirement benefits for officers is provided in an amount equivalent to 100% of the benefits payable by the Company as determined by the Company's internal rules, had all the officers retired at the balance sheet date.

(k) Reserve for Retirement Benefits to Employees

The Company recognize accrued pension and severance costs to employees based on the actual valuation of projected benefit obligation and plan assets at fair value.

Actuarial gains and losses are amortized based on the straight-line method over a period of 10 years starting from the beginning of the subsequent year.

(l) Allowance for losses on construction contracts

The Company prepares reasonable estimated amount for future losses from construction works outstanding at fiscal year-end.

(m) Leases

Leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as capital leases and Leases that do not transfer ownership of the assets at the end of the lease term are accounted for as operating leases, in accordance with accounting principles and practices generally accepted in Japan.

(n) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash in hand, bank deposits able to be withdrawn on demand and short-term investments with an original maturity of three months or less and which represent a minor risk of fluctuations in value.

(o) Income Taxes

The income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local inhabitants' taxes and enterprise taxes.

The Company and its subsidiaries adopted the deferred tax accounting method in accordance with the amended regulations for the preparation of consolidated financial statements. Income taxes were determined using the asset and liability approach, whereby deferred tax assets and liabilities were recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the financial statements.

(p) Securities Valuation

Held-to-maturity debt securities are carried at amortized cost.

Available-for-sale securities are classified into two categories where: (a) the fair value is available and (b) the fair value is not available.

(a) Securities whose fair value is available are valued at the quoted market price prevailing at the fiscal year-end. Net unrealized gains or losses on these securities are reported as a separate component of net assets at a net-of-tax amount. Cost of sales is determined by the moving-average method.

(b) Securities whose fair value is not available are valued at cost, determined by the moving-average method.

(q) Hedge Accounting

Gains or losses arising from changes in the fair value of the derivatives designated as "hedging instruments" are deferred as an asset or liability and included in net profit or loss in the same period during which the gains and losses on the hedged items or transactions are recognized.

The derivatives designated as hedging instruments by the Company are principally forward exchange contracts. The related hedged items are finance for the overseas construction business. The Company is able to fix future cash flows and mitigate the deterioration of income from the construction business due to yen depreciation. The Company obtains management approval before making forward exchange contracts, and subsequently the accounting department executes and controls the contract.

(r) Reclassification of Accounts

Certain prior year amounts have been reclassified to conform with the current year's presentation.

3. Notes to the Consolidated Balance Sheets

	Millions of yen			
	March 31,			
	2007		2008	
(1) Investments in unconsolidated subsidiaries and affiliates.....	¥	13	¥	7
(2) Assets pledged as collateral				
Buildings.....		353		334
Land.....		1,161		1,161

4. Notes to Consolidated Statements of Operations

- (1) Charges to income for warranty which is included in “Cost of Sales-completed construction contracts” was ¥44 million for the year ended March 31, 2007, and ¥29 million for the year ended March 31, 2008. Allowance for accrued bonuses included in “Cost of Sales-completed construction contracts” was ¥193 million for the year ended March 31, 2007, and ¥224 million for the year ended March 31, 2008. Allowance for loss on construction contract included in “Cost of Sales-completed construction contracts” was ¥98 million for the year ended March 31, 2007, and ¥660 million for the year ended March 31, 2008.
- (2) Selling, general and administrative expenses included the following:

	Millions of yen			
	for the year ended March 31,			
	2007		2008	
Depreciation.....	¥	377	¥	440
Payroll.....		1,793		1,812
Allowance for accrued bonuses.....		164		136

- (3) Impairment loss on fixed assets

The Company recognized an impairment loss on fixed assets as follows:

Description	Location	Classification	Millions of yen	
			March 31, 2008	
			Amount	
Idle property	Nara	Land	¥	2

The book values of the above asset was reduced to their recoverable amounts and an impairment loss was recognized.

5. Notes to the Consolidated Statement of Changes in Net Assets

- (a) Type and number of outstanding shares

Type of shares	March 31, 2007			
	Number of shares			
	Balance at Beginning of year	Increase in shares during the year	Decrease in shares during the year	Balance at end of year
Issued stock				
Common stock	78,368,532	—	—	78,368,532
Total	78,368,532	—	—	78,368,532
Treasury stock				
Common stock	6,726,531	88,282	10,580	6,804,233
Total	6,726,531	88,282	10,580	6,804,233

Treasury stock increased by 47,409 shares due to the repurchase of shares less than one unit and decreased by 10,580 shares due to the sale of shares less than one unit.

Treasury stock increased by 40,873 shares due to the increase in the ratio of possession of subsidiaries.

Type of shares	March 31, 2008			
	Number of shares			
	Balance at Beginning of year	Increase in shares during the year	Decrease in shares during the year	Balance at end of year
Issued stock				
Common stock	78,368,532	—	—	78,368,532
Total	78,368,532	—	—	78,368,532
Treasury stock				
Common stock	6,804,233	57,574	17,525	6,844,282
Total	6,804,233	57,574	17,525	6,844,282

Treasury stock increased by 57,574 shares due to the repurchase of shares less than one unit and decreased by 10,863 shares due to the sale of shares less than one unit.

Treasury stock decreased by 6,662 shares due to the decrease in the ratio of possession of subsidiaries.

(b) Dividends

(1) Dividends paid to shareholders

Date of approval	Resolution Approved by	Type of shares	Amount (Thousands of Yen)	Paid from	Amount Per share (Yen)	Shareholder's cut-off date	Effective date
June 29, 2006	Annual general meeting of shareholders	Common stock	647,167	Retained earnings	9	March 31, 2006	June 29, 2006
June 28, 2007	Annual general meeting of shareholders	Common stock	431,224	Retained earnings	6	March 31, 2007	June 29, 2007

(2) Dividends with a shareholders' cut-off date during the current fiscal year but an effective date subsequent to the current fiscal year

Date of approval	Resolution Approved by	Type of shares	Amount (Thousands of Yen)	Paid from	Amount Per share (Yen)	Shareholder's cut-off date	Effective date
June 27, 2008	Annual general meeting of shareholders	Common stock	574,591	Retained earnings	8	March 31, 2008	June 30, 2008

6. Notes to the Consolidated Statements of Cash Flows

	Millions of yen	
	March 31,	
	2007	2008
Cash in hand and in banks.....	¥ 3,291	¥ 5,634
Time deposits with a deposit term of over 3 months.....	(232)	(253)
Cash and cash equivalents.....	¥ 3,059	¥ 5,381

7. Lease Transactions

Information on finance lease transactions, other than those in which the ownership of the leased equipment was recognized as transferred to lessees, is as follows:

	Millions of yen	
	March 31,	
	2007	2008
Machinery, equipment and other		
Acquisition cost.....	¥ 165	¥ 160
Accumulated depreciation.....	(92)	(95)
Net book value	¥ 73	¥ 65
The future lease rental payment on such lease contracts		
Due within one year	¥ 31	¥ 35
Due over one year.....	42	30
Total.....	¥ 73	¥ 65
Lease rental expenses for the year	¥ 41	¥ 34
Including an amount equivalent to depreciation.....	¥ 41	¥ 34

8. Investments in Securities

- (a) As of March 31, 2008, "Other securities" are valued at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity.
- (b) The following tables summarize the book value and fair value of held-to-maturity debt securities as of March 31, 2007 and 2008:

	Millions of yen					
	March 31, 2007					
	Book value		Fair value		Difference	
Securities with fair value exceeding book value:						
Debt securities	¥	—	¥	—	¥	—
Sub-total.....	¥	—	¥	—	¥	—
Securities with fair value not exceeding book value:						
Debt securities	¥	5	¥	5	¥	(0)
Sub-total.....	¥	5	¥	5	¥	(0)
Total.....	¥	5	¥	5	¥	(0)

	Millions of yen					
	March 31, 2008					
	Book value		Fair value		Difference	
Securities with fair value exceeding book value:						
Debt securities	¥	—	¥	—	¥	—
Sub-total.....	¥	—	¥	—	¥	—
Securities with fair value not exceeding book value:						
Debt securities	¥	5	¥	5	¥	(0)
Sub-total.....	¥	5	¥	5	¥	(0)
Total.....	¥	5	¥	5	¥	(0)

- (c) The following tables summarize the acquisition cost and book value of available-for-sale securities as of March 31, 2007 and 2008:

	Millions of yen					
	March 31, 2007					
	Acquisition cost		Book value		Difference	
Securities with book value exceeding acquisition cost:						
Equity securities	¥	2,110	¥	5,785	¥	3,675
Sub-total.....	¥	2,110	¥	5,785	¥	3,675
Securities with book value not exceeding acquisition cost:						
Equity securities	¥	1	¥	1	¥	(0)
Sub-total.....	¥	1	¥	1	¥	(0)
Total.....	¥	2,111	¥	5,786	¥	3,675

	Millions of yen					
	March 31, 2008					
	Acquisition cost		Book value		Difference	
Securities with book value exceeding acquisition cost:						
Equity securities	¥	1,805	¥	3,714	¥	1,909
Sub-total.....	¥	1,805	¥	3,714	¥	1,909
Securities with book value not exceeding acquisition cost:						
Equity securities	¥	358	¥	288	¥	(70)
Sub-total.....	¥	358	¥	288	¥	(70)
Total.....	¥	2,163	¥	4,002	¥	1,839

(d) Available-for-sale securities sold during the year ended March 31, 2007 and 2008, are as follows:

	Millions of yen	
	2007	2008
Proceeds from sale of securities.....	¥ 223	¥ 498
Gross realized gain on sale of available-for-sale securities	¥ 1	¥ 5
Gross realized loss on sale of available-for-sale securities	¥ —	¥ 20

(e) The following tables summarize the book value of securities with no available fair value as of March 31, 2007 and 2008:

	March 31,	
	2007	2008
Available-for-sale securities		
Unlisted equity securities		
(excluding over-the-counter securities).....	¥ 1,129	¥ 1,119

(f) Schedule for redemption of held-to-maturity debt securities with maturities:

	Millions of yen			
	March 31, 2007			
	Within one year	Over one year within five years	Over five years but within ten years	Over ten years
Held-to-maturity debt securities.....	¥ —	¥ 5	¥ —	¥ —
Total.....	¥ —	¥ 5	¥ —	¥ —

	Millions of yen			
	March 31, 2008			
	Within one year	Over one year within five years	Over five years but within ten years	Over ten years
Held-to-maturity debt securities.....	¥ —	¥ 5	¥ —	¥ —
Total.....	¥ —	¥ 5	¥ —	¥ —

9. Reserve for Retirement Benefits to Employees

(a) Employees of the Company and its domestic subsidiaries are covered by a qualified pension plan and a severance payment plan. Some foreign subsidiaries have a defined contribution pension plan.

(b) The reserve for retirement benefits as of March 31, 2007 and 2008 is analyzed as follows:

	Millions of yen	
	2007	2008
Projected benefit obligations.....	¥ (5,154)	¥ (5,084)
Plan assets.....	5,185	4,573
Unfunded benefit obligations.....	31	(511)
Unamortized transition obligation	(618)	(37)
Unrecognized actuarial differences	—	—
Total.....	(587)	(548)
Prepaid pension costs	—	—
Reserve for retirement benefits to employees.....	¥ (587)	¥ (548)

(c) The net periodic expenses related to retirement benefits for the fiscal year 2007 and 2008 are as follows:

	Millions of yen	
	2007	2008
Service costs	¥ 190	¥ 191
Interest costs.....	126	126
Expected return on plan assets	(100)	(103)
Amortization of transition obligation	—	—
Recognition of actuarial differences.....	(13)	(36)
	¥ 203	¥ 178

(d) Assumptions used in calculation of the above information were as follows:

	As of March 31,	
	2007	2008
Discount rate.....	2.5%	2.5%
Expected rate of return on plan assets.....	2.0%	2.0%
Method of attributing the projected benefits.....	Straight-line	Straight-line
To period of services.....	basis	basis
Amortization of actuarial differences.....	10 years	10 years

10. Income Taxes

(a) The tax effects of temporary differences that give rise to significant portions of the deferred tax assets are presented below:

	Millions of yen	
	March 31,	
	2007	2008
Deferred tax assets:.....		
Write-down of fixed assets	¥ 1,714	¥ 1,689
Allowance for doubtful accounts	1,008	944
Reserve for retirement benefits to officers.....	383	398
Accrued enterprise taxes.....	0	—
Write-down of marketable securities	313	314
Intercompany profits.....	446	407
Operating loss carryforwards.....	803	523
Unrealized loss on hedging derivatives	—	11
Other.....	1,038	1,284
Total gross deferred tax assets	5,705	5,570
Valuation allowance.....	(3,422)	(3,310)
	2,283	2,260
Deferred tax liabilities:		
Reserve for advanced depreciation.....	(72)	(72)
Unrealized gain on other securities.....	(1,485)	(742)
Unrealized gain on hedging derivatives	(4)	—
Total gross deferred tax assets liabilities.....	(1,561)	(814)
Net deferred tax assets	¥ 722	¥ 1,446

(b) As a loss before income taxes was recorded, no reconciliation of the statutory tax rate and the effective tax rate for the year ended March 31, 2007 was required

The reconciliation between the statutory tax rate and the effective tax rate as at March 31, 2008 is presented below:

Statutory tax rate	40.4%
Permanent differences on expenses not deductible	5.0
Permanent differences on income not taxable	(1.4)
Accrued bonuses to directors and statutory auditors not deductible..	2.6
Inhabitant taxes per capita.....	2.6
Valuation allowance	(31.1)
Other.....	(8.6)
Effective tax rate	9.5%

11. Segment Information

Industry Segment Information

The Company and its subsidiaries operate principally in the following three industrial segments:

Construction.....	Construction and engineering works
Development.....	Development and sale of real estate
Golf.....	Management of golf courses
Hotel.....	Management of hotels
Advertising Agency.....	Advertising agent

The segment information of the Company and its subsidiaries for the year ended March 31, 2007 and 2008 is presented below:

	Millions of yen	
	2007	2008
Net sales:		
Construction	¥ 62,371	¥ 58,406
Development.....	1,369	7,137
Golf.....	648	640
Hotel.....	2,750	2,998
Advertising agency.....	1,786	1,681
	<u>68,924</u>	<u>70,862</u>
Less: intersegment transaction.....	(179)	(423)
	<u>68,745</u>	<u>70,439</u>
Operating expenses:		
Construction	61,514	58,301
Development.....	1,221	6,012
Golf.....	732	667
Hotel.....	2,483	2,669
Advertising agency.....	1,748	1,673
	<u>67,698</u>	<u>69,322</u>
Less: intersegment transaction.....	(33)	(346)
	<u>67,665</u>	<u>68,976</u>
Operating income	<u>¥ 1,080</u>	<u>¥ 1,463</u>
Assets:		
Construction	¥ 37,518	¥ 31,967
Development.....	9,582	7,798
Golf.....	7,456	7,011
Hotel.....	6,183	6,026
Advertising agency.....	1,078	1,052
	<u>61,817</u>	<u>53,854</u>
Other assets	7,557	9,130
	<u>¥ 69,374</u>	<u>¥ 62,984</u>
Depreciation:		
Construction	¥ 140	¥ 153
Development.....	45	45
Golf.....	44	47
Hotel.....	217	261
Advertising agency.....	8	7
	<u>¥ 454</u>	<u>¥ 513</u>
Impairment loss on fixed assets:		
Construction	¥ —	¥ 2
Development.....	—	—
Golf.....	—	—
Hotel.....	—	—
Advertising agency.....	—	—
	<u>¥ —</u>	<u>¥ 2</u>
Capital expenditure:		
Construction	¥ 51	¥ 214
Development.....	2	4
Golf.....	22	32
Hotel.....	242	401
Advertising agency.....	—	3
	<u>¥ 317</u>	<u>¥ 654</u>

12. Per Share Data

Net assets per share and net income per share as of and for the year ended March 31, 2007 and 2008 are as follows:

	Yen	
	2007	2008
Net assets per share.....	¥ 317.01	¥ 307.15
Net income per share – primary.....	12.08	12.61

	Millions of yen	
	2007	2008
Net income.....	¥ 865	¥ 902
Net income pertaining to common stock.....	¥ 865	¥ 902
Average outstanding shares of common stock.....	71,603 thousand shares	71,536 thousand shares

**BOARD OF DIRECTORS, STATUTORY AUDITORS
AND EXECUTIVE OFFICERS AS OF MARCH 31, 2008**

Board of Directors

Representative Chairman and President

Takahiro Kitano

Directors

Kimio Shiozawa

Shinsuke Nishida

Yoshitada Mikami

Tadao Miyashita

Tsuguto Kitano

Statutory Auditors

Akira Koike

Tadaaki Takamisawa

Toshiyuki Tsukada

Yoshichika Owa

Executive Officers

Chief Executive Officer and President

Takahiro Kitano *

Senior Executive Officers

Kimio Shiozawa *

Tetsuji Hashimoto

Managing Executive Officer

Shinsuke Nishida *

Tateo Murai

Executive Officer

Yoshitada Mikami *

Toshiro Maki

Itsuo Takeuchi

Nagayoshi Matsumoto

Yoshikatsu Yamazaki

Kazuyasu Hirata

Noriaki Yaguchi

Norimitsu Akanuma

Kiyonori Nakashima

Toshiaki Yamagishi

*** : Member of Board of Directors**



KITANO CONSTRUCTION CORP.

524, Agata-machi, Nagano City 380-8524, Japan

Phone(026)233-5111