

# 2010

## FINANCIAL STATEMENTS

MARCH 31, 2009-2010

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## Consolidated Balance Sheets

### As of March 31, 2009 and 2010

	Millions of yen	
	March 31,	
	2009	2010
<b>ASSETS</b>		
Current Assets:		
Cash in hand and in banks .....	¥ 6,363	¥ 5,822
Notes and accounts receivable .....	11,476	13,687
Real estate for sale .....	5,217	5,579
Cost of construction in progress .....	14,028	3,453
Cost of uncompleted development projects .....	1,281	1,661
Inventories - materials and supplies .....	49	40
Deferred income taxes.....	1,197	1,126
Other current assets.....	2,904	2,930
Less: allowance for doubtful accounts .....	(638)	(53)
Total current assets .....	41,876	34,245
Fixed Assets:		
Tangible Fixed Assets:		
Buildings and structures.....	8,645	8,924
Machinery and equipment .....	771	630
Golf course .....	1,231	1,231
Land.....	7,666	7,695
Construction in progress .....	2	1
Other.....	1,792	1,638
Less: accumulated depreciation .....	(6,926)	(6,387)
Total tangible fixed assets .....	13,181	13,731
Intangible fixed assets .....	40	40
Investments:		
Investments in securities.....	4,207	4,550
Long-term loans .....	2,399	2,521
Deferred income taxes.....	707	659
Other investments .....	1,548	1,536
Less: allowance for doubtful accounts .....	(1,197)	(1,291)
Total investments.....	7,663	7,974
Total fixed assets .....	20,884	21,745
	¥ 62,761	¥ 55,990

The accompanying notes are an integral part of these statements.

	<b>Millions of yen</b>	
	<b>March 31,</b>	
	<b>2009</b>	<b>2010</b>
<b>LIABILITIES</b>		
Current Liabilities:		
Notes and accounts payable .....	¥ 17,025	¥ 16,993
Short-term bank loans .....	7,000	4,000
Income taxes payable .....	664	30
Advances received on construction in progress .....	11,029	3,520
Advances received on uncompleted development projects .....	40	66
Accrued bonuses to employees .....	301	257
Accrued bonuses to directors and statutory auditors .....	53	35
Accrued warranty .....	32	37
Allowance for losses on construction contracts .....	120	—
Other current liabilities.....	829	852
Total current liabilities.....	37,093	25,790
Long-Term Liabilities:		
Long-term debt.....	—	4,000
Reserve for retirement benefits to employees.....	510	562
Membership deposit.....	3,464	3,306
Other long-term debt.....	461	261
Total long-term liabilities.....	4,435	8,129
<b>NET ASSETS</b>		
Shareholders' equity		
Common stock.....	9,116	9,116
Authorized — 200,000,000 shares		
Issued — 78,368,532 shares as of March 31, 2009 and 2010		
Capital surplus .....	7,426	7,405
Retained earnings .....	6,430	6,878
Treasury stock.....	(2,156)	(2,161)
Total shareholders' equity .....	20,816	21,238
Valuation and translation adjustments		
Unrealized gain on other securities .....	241	388
Unrealized gain on hedging derivatives.....	17	21
Foreign currency translation adjustments .....	(276)	(41)
Total valuation and translation adjustments.....	(18)	368
Minority interests.....	434	464
Total net assets.....	¥ 21,232	¥ 22,070
	¥ 62,761	¥ 55,990

The accompanying notes are an integral part of these statements.

**Consolidated Statements of Operations**  
**For the years ended March 31, 2009 and 2010**

	Millions of yen	
	March 31,	
	2009	2010
Net Sales:		
Construction contracts .....	¥ 63,081	¥ 62,045
Real estate development and other.....	2,770	2,985
	<u>65,851</u>	<u>65,030</u>
Cost of Sales:		
Construction contracts .....	58,066	57,949
Real estate development and other.....	1,933	1,995
	<u>59,999</u>	<u>59,944</u>
Gross profit.....	5,852	5,086
Selling, General and Administrative Expenses.....	4,291	3,817
Operating income .....	<u>1,561</u>	<u>1,270</u>
Non-Operating Income/(Losses):		
Interest and dividend income .....	274	179
Interest expenses.....	(175)	(149)
Foreign exchange gains/(losses) .....	(157)	4
Equity in gains/(losses) of affiliates.....	(329)	307
Other, net .....	110	69
	<u>1,285</u>	<u>1,680</u>
Special Items:		
Gain on sales of investment securities .....	434	—
Gain on sales of subsidiaries stocks .....	520	121
Impairment loss on fixed assets .....	(218)	(341)
Loss on valuation of real estate for sale .....	(221)	—
Loss on valuation of investment securities.....	(59)	(205)
Gain on bad debts recovered .....	367	—
Provision of allowance for doubtful accounts.....	(553)	161
Other, net .....	(14)	(26)
Income before income taxes and minority interests .....	<u>1,541</u>	<u>1,390</u>
Income taxes		
Current.....	655	24
Prior year .....	—	290
Deferred.....	99	16
Minority Interests in Earnings of Consolidated Subsidiaries .....	<u>(21)</u>	<u>(34)</u>
Net income .....	<u>¥ 766</u>	<u>¥ 1,026</u>

The accompanying notes are an integral part of these statements.

## Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2009 and 2010

	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 on foreign currency statements translation	Minority interests	Total net assets
Balance at March 31, 2008.....	71,524	9,116	7,426	6,235	1,096	(1,841)	(17)	(48)	1,608	23,576
Net Gain for the year ended March 31, 2009...	—	—	—	766	—	—	—	—	—	766
Cash dividends .....	—	—	—	(571)	—	—	—	—	—	(571)
Increase in treasury stock .....	(1,391)	—	—	—	—	(320)	—	—	—	(320)
Gain on sale of treasury stock .....	—	—	(0)	—	—	2	—	—	—	2
Other .....	—	—	—	—	—	2	—	—	—	2
Adjustment for the year ...	—	—	—	—	(855)	—	33	(229)	(1,173)	(2,223)
Balance at March 31, 2009.....	70,133	9,116	7,426	6,430	241	(2,156)	17	(276)	434	21,232
Net Gain for the year ended March 31, 2010...	—	—	—	1,026	—	—	—	—	—	1,026
Cash dividends .....	—	—	—	(560)	—	—	—	—	—	(560)
Increase in treasury stock .....	(22)	—	—	—	—	(5)	—	—	—	(5)
Gain on sale of treasury stock .....	—	—	(0)	—	—	0	—	—	—	0
Change of scope of consolidation .....	—	—	—	(306)	—	—	—	—	—	(306)
Change of scope of equity method.....	—	—	(21)	288	—	—	—	—	—	267
Other .....	—	—	—	—	—	—	—	—	—	—
Adjustment for the year ...	—	—	—	—	147	—	5	235	29	416
Balance at March 31, 2010.....	70,112	9,116	7,405	6,878	388	(2,161)	21	(41)	464	22,070

The accompanying notes are an integral part of these statements.

## Consolidated Statements of Cash Flows

### For the year ended March 31, 2009 and 2010

	Millions of yen	
	2009	2010
Cash flows from operating activities:		
Net income before income taxes .....	¥ 1,541	¥ 1,390
Adjustments for:		
Depreciation .....	308	296
Impairment loss on fixed assets.....	218	341
Equity in (gains)/losses of affiliates.....	329	(307)
Interest and dividend income.....	(274)	(179)
Interest expenses .....	175	149
(Gain)/loss on sales of fixed assets .....	(1)	(1)
Foreign exchange (gains)/losses.....	53	3
Gain on bad debts recovered.....	(367)	—
Gain/(Loss) on sales of investment securities.....	(434)	—
Gain/(Loss) on sales of subsidiaries stocks.....	(520)	(121)
Increase/(Decrease) in reserve for retirement benefits to employees .....	3	52
Increase/(Decrease) in accrued warranty.....	2	6
Increase/(Decrease) in allowance for losses on construction contracts...	(540)	(120)
Increase/(Decrease) in accrued bonuses .....	(32)	(44)
Increase/(Decrease) in allowance for doubtful accounts .....	575	(283)
(Increase)/Decrease in notes and accounts receivable.....	(3,562)	(2,234)
(Increase)/Decrease in cost of construction in progress and cost of uncompleted development projects .....	3,304	9,004
(Increase)/Decrease in real estate for sale and inventories .....	(4,686)	(173)
Increase/(Decrease) in notes and accounts payable .....	2,278	(30)
Increase/(Decrease) in advances received on construction in progress ...	415	(7,233)
Other .....	(2,857)	(184)
Sub-total .....	(4,073)	332
Interest and dividend income received .....	641	164
Interest expenses paid.....	(175)	(149)
Income taxes paid .....	(52)	(941)
Net cash provided by/(used in) operating activities .....	(3,659)	(594)
Cash flows from investing activities:		
Payment for making time deposit .....	(116)	(262)
Proceeds from withdraw of time deposit.....	250	313
Payments for purchase of fixed assets.....	(609)	(891)
Proceeds from sale of fixed assets.....	6	2
Payments for purchase of investments in securities .....	(894)	(143)
Proceeds from sale of investments in securities.....	801	—
Payments for loans.....	—	(61)
Collections of loans.....	2,266	519
Proceeds from sale of shares of a consolidated subsidiary.....	0	241
Other .....	(66)	44
Net cash provided by/(used in) investing activities .....	1,638	(238)
Cash flows from financing activities:		
Increase/(decrease) in short-term bank loans, net .....	4,000	(3,000)
Increase in long-term debt .....	—	4,000
Purchase of treasury stock .....	(317)	(5)
Cash dividends paid .....	(574)	(562)
Other .....	(1)	(58)
Net cash provided by/(used in) financing activities.....	3,108	375
Effect of exchange rate changes on cash and cash equivalents.....	(67)	(0)
Net increase/(decrease) in cash and cash equivalents .....	1,021	(458)
Cash and cash equivalents of beginning of year.....	5,381	6,251
Increase/(Decrease) in cash and cash equivalents due to the change in consolidation scope of subsidiaries .....	(151)	(32)
Cash and cash equivalents of end of year.....	¥ 6,251	¥ 5,761

The accompanying notes are an integral part of these statements.

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# Notes to Consolidated Financial Statements

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## 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 prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

### (b) Scope of Consolidation

The Company had 3 subsidiaries (majority-owned companies) as at March 31, 2010 (5 for 2009). The consolidated financial statements in fiscal years ended March 31, 2010 include the accounts of the Company and 3 (4 for 2009) of its subsidiaries “the Companies”, which are listed below:

- Kawanakajima Tochi Kaihatsu Co., Ltd. .... 69.23% owned
- Solomon Kitano Mendana Hotel Limited. .... 100.00% owned
- Asahi Agency Co., Ltd. .... 59.52% owned

The above consolidated subsidiaries, except for Solomon Kitano Mendana Hotel Limited, which has a fiscal year 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.

Western Samoa Kitano Limited. was excluded from the scope of consolidation due to liquidation in fiscal year ended March 31, 2010.

## 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, and 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.

Kitano Arms Corp. and Hakubai Inc. were excluded from the scope of the equity method of accounting because the Company sold the stocks.

### (c) Recognizing Revenues and Costs of Construction Contracts

Until the year ended March 31, 2009, revenues and costs of construction contracts were recognized by the completed-contract method, except for those related to the contracts with a construction period exceeding two years and a contract amount exceeding one billion yen, which were recognized by the percentage-of-completion method.

Effective April 1, 2009, the Company have applied the “Accounting Standard for Construction Contracts” (ASBJ Statement No.15) and its guidance (ASBJ Guidance No.18).

Under the new accounting standard and guidance, revenues and costs of construction contracts that commenced on or after April 1, 2009, of which the percentage of completion can be reliably estimated, are recognized by the percentage-of-completion method. The percentage of completion is calculated at the cost incurred as a percentage of the estimated total cost. The completed-contract method continues to be applied to all other construction contracts.

As a result of this change, Net sales of construction contracts increased by ¥6,199 million, Gross profit, Operating income and Income before income taxes and minority interests increased by ¥692 million for the year ended March 31, 2010.

### (d) Inventory Valuation

The cost of construction in progress, real estate for sale and the cost of uncompleted development projects are stated at cost, as determined on a specific project basis.

Materials and supplies are stated at cost, as determined based on an average method.

The net book value of inventories in the balance sheet is written down if the net realizable value declines.

### (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 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.

(k) Allowance for losses on construction contracts

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

(l) 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.

(m) 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 account for deferred taxes in accordance with the regulations for preparation of consolidated financial statements in Japan. Deferred income taxes are determined using the asset and liability approach, whereby deferred tax assets and liabilities are recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the financial statements.

(n) 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.

(o) 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.

(p) 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,	
	2009	2010
(1) Investments in unconsolidated subsidiaries and affiliates .....	¥ 282	¥ 17
(2) Assets pledged as collateral		
Buildings .....	331	316
Land .....	1,161	1,161
Real estate for sale.....	—	4,703

#### 4. Notes to Consolidated Statements of Operations

- (1) Charges to income for warranty which is included in "Cost of Sales construction contracts" was ¥32 million for the year ended March 31, 2009, and ¥37 million for the year ended March 31, 2010. Allowance for accrued bonuses included in "Cost of Sales construction contracts" was ¥199 million for the year ended March 31, 2009, and ¥173 million for the year ended March 31, 2010. Allowance for loss on construction contract included in "Cost of Sales construction contracts" was ¥120 million for the year ended March 31, 2009.

	Millions of yen	
	for the year ended March 31,	
	2009	2010
(2) Write-down of inventories included in cost of sales on real estate development and other .....	¥ 48	¥ 165
(3) The major components of "Selling, general and administrative expenses"		
Depreciation .....	237	220
Payroll .....	1,484	1,408
Allowance for accrued bonuses .....	147	116
(4) Impairment loss on fixed assets		
The Company recognized impairment losses on fixed assets as follows:		

Description	Location	Classification	Millions of yen	
			March 31, 2009	
			Amount	
Hotel	Samoa	Building	¥	201
Idle property	Nagano	Land lease	¥	17

  

Description	Location	Classification	Millions of yen	
			March 31, 2010	
			Amount	
Idle property	Saitama	Land, building and others	¥	341

The book values of the above assets were reduced to their recoverable amounts.

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

- (a) Type and number of outstanding shares

Type of shares	March 31, 2009			
	Balance at Beginning of year	Number of shares		Balance at end of year
		Increase in shares during the year	Decrease in shares during the year	
Issued stock				
Common stock	78,368,532	—	—	78,368,532
Total	78,368,532	—	—	78,368,532
Treasury stock				
Common stock	6,844,282	1,452,154	61,369	8,235,067
Total	6,844,282	1,452,154	61,369	8,235,067

The summary of the main change reason

Increase by the acquisition of the treasury stock by the board of directors resolution .....	1,331,000 shares
by the repurchase of shares less than one unit.....	87,239 shares
by the increase in the ratio of possession of subsidiaries.....	33,915 shares
Decrease by the sale of shares less than one unit.....	10,517 shares
by having excluded subsidiaries from scope of consolidation .....	50,852 shares

Type of shares	March 31, 2010			
	Balance at Beginning of year	Number of shares		Balance at end of year
		Increase in shares during the year	Decrease in shares during the year	
Issued stock				
Common stock	78,368,532	—	—	78,368,532
Total	78,368,532	—	—	78,368,532
Treasury stock				
Common stock	8,235,067	23,596	1,737	8,256,926
Total	8,235,067	23,596	1,737	8,256,926

The summary of the main change reason

Increase by the repurchase of shares less than one unit .....	23,596 shares
Decrease by the sale of shares less than one unit.....	1,737 shares

(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)	Shareholders' 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
June 26, 2009	Annual general meeting of shareholders	Common stock	563,329	Retained earnings	8	March 31, 2009	June 29, 2009

(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)	Shareholders' cut-off date	Effective date
June 24, 2010	Annual general meeting of shareholders	Common stock	563,155	Retained earnings	8	March 31, 2010	June 25, 2010

6. Notes to the Consolidated Statements of Cash Flows

	Millions of yen	
	March 31,	
	2009	2010
Cash in hand and in banks .....	¥ 6,363	¥ 5,822
Time deposits with a deposit term of over 3 months .....	(113)	(62)
Cash and cash equivalents .....	¥ 6,251	¥ 5,761

7. Fair Value of Financial Instruments

- (a) Effective From the fiscal year ended March 31, 2010, the "Accounting Standard for Financial Instruments" (ASBJ Statement No.10) and its guidance (ASBJ Guidance No.19) have been applied.
- (b) The fair value and book value of financial instruments as of March 31, 2010, other than items of which fair value are not practically available, are as follows:

	Millions of yen		
	March 31, 2010		
	Book value	Fair value	Difference
Cash and deposits .....	¥ 5,822	¥ 5,822	¥ —
Notes and accounts receivable .....	13,687	13,687	—
Investments in securities .....	3,301	3,301	—
Total .....	¥ 22,810	¥ 22,810	¥ —
Notes and accounts payable .....	¥ 16,993	¥ 16,993	¥ —
Short-term bank loans .....	4,000	4,000	—
Long-term debt .....	4,000	4,000	—
Total .....	¥ 24,993	¥ 24,993	¥ —
Derivative transactions .....	¥ 36	¥ 36	¥ —

(1) Financial instruments for which it is extremely difficult to determine the fair value

	Millions of yen
	March 31, 2010
	Book value
Non-listed shares * .....	¥ 1,249
Membership deposit * .....	3,306

\* It is extremely difficult to determine the fair values thereof because neither market quoted prices are available nor future Cash Flows can be estimated.

## (2) Redemption schedule for money claims and securities with maturities

<b>Millions of yen</b>						
<b>March 31, 2010</b>						
	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years	
Cash and deposits .....	¥	5,805	¥	—	¥	—
Notes and accounts receivable .....		13,632		55		—
Investments in securities						
Government bonds .....		—		—		50
Corporate bonds .....		—		—		100

**8. Investments in Securities**

(a) The following tables summarize the acquisition cost and book value of available-for-sale securities with market value as of March 31, 2009 and 2010:

<b>Millions of yen</b>						
<b>March 31, 2009</b>						
	Book value		Acquisition cost		Difference	
Securities with book value exceeding acquisition cost:						
Equity securities .....	¥	2,260	¥	1,679	¥	581
Sub-total .....	¥	2,260	¥	1,679	¥	581
Securities with book value not exceeding acquisition cost:						
Equity securities .....	¥	697	¥	873	¥	(176)
Corporate bonds .....	¥	99	¥	100	¥	(1)
Sub-total .....	¥	796	¥	973	¥	(176)
Total .....	¥	3,056	¥	2,651	¥	405

<b>Millions of yen</b>						
<b>March 31, 2010</b>						
	Book value		Acquisition cost		Difference	
Securities with book value exceeding acquisition cost:						
Equity securities .....	¥	2,657	¥	1,935	¥	722
Corporate bonds .....	¥	102	¥	100	¥	2
Sub-total .....	¥	2,759	¥	2,035	¥	724
Securities with book value not exceeding acquisition cost:						
Equity securities .....	¥	498	¥	570	¥	(72)
Government bonds .....	¥	43	¥	44	¥	(1)
Sub-total .....	¥	541	¥	614	¥	(73)
Total .....	¥	3,301	¥	2,649	¥	651

Among above tables, non-listed shares are not included in the above because determining their fair values is extremely difficult.

(b) Impairment losses of ¥145 million were recorded to write down book value of investments in securities for the year ended March 31, 2010.

**9. Derivative transactions**

- (a) Derivative transactions for which hedge accounting is not applied.  
Not applicable.
- (b) Derivative transactions for which hedge accounting is applied.  
Currency-related transaction

Hedging method	Transaction type	Main hedged item	Millions of yen		
			Contract amount	Contract over 1 year	Fair value
Deferred hedge method	Foreign exchange forward contract Buy U.S. dollar	Forecasted foreign currency transactions	¥ 1,245	¥ 157	¥ 36

**10. 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.
- (b) The reserve for retirement benefits as of March 31, 2009 and 2010 is analyzed as follows:

	Millions of yen	
	2009	2010
Projected benefit obligations .....	¥ (5,191)	¥ (5,023)
Plan assets .....	3,885	3,938
Unfunded benefit obligations .....	(1,306)	(1,085)
Unrecognized actuarial differences .....	796	523
Unrecognized prior service cost .....	—	—
Total .....	(510)	(562)
Prepaid pension costs .....	—	—
Reserve for retirement benefits to employees .....	¥ (510)	¥ (562)

- (c) The net periodic expenses related to retirement benefits for the fiscal year 2009 and 2010 are as follows:

	Millions of yen	
	2009	2010
Service costs .....	¥ 178	¥ 188
Interest costs .....	124	102
Expected return on plan assets .....	(91)	(77)
Amortization of actuarial differences .....	24	109
Amortization of prior service cost .....	—	—
	¥ 234	¥ 322

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

	As of March 31,	
	2009	2010
Discount rate .....	2.0%	2.0%
Expected rate of return on plan assets .....	2.0%	2.0%
Method of attributing the projected benefits to period of services .....	Straight-line basis	Straight-line basis
Amortization periods of actuarial differences .....	10 years	10 years

## 11. Income Taxes

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

	<b>Millions of yen</b>	
	<b>March 31,</b>	
	<b>2009</b>	<b>2010</b>
Deferred tax assets:.....		
Write-down of fixed assets .....	¥ 1,684	¥ 1,814
Allowance for doubtful accounts .....	1,204	949
Write-down of marketable securities.....	300	321
Intercompany profits .....	373	345
Loss on valuation of real estate for sale .....	740	842
Operating loss carryforwards .....	205	179
Other .....	857	817
Total gross deferred tax assets .....	5,363	5,266
Valuation allowance.....	(3,213)	(3,136)
	2,150	2,131
Deferred tax liabilities: .....		
Reserve for advanced depreciation .....	(72)	(72)
Unrealized gain on other securities.....	(163)	(259)
Unrealized gain on hedging derivatives .....	(11)	(15)
Total gross deferred tax liabilities .....	(246)	(346)
Net deferred tax assets.....	¥ 1,904	¥ 1,785

(b) The reconciliation between the statutory tax rate and the effective tax rate as at March 31, 2009 and 2010 is presented below:

	<b>As of March 31,</b>	
	<b>2009</b>	<b>2010</b>
Statutory tax rate.....	40.4%	40.4%
Permanent differences on expenses not deductible .....	3.3	3.5
Permanent differences on income not taxable .....	(3.0)	(2.1)
Accrued bonuses to directors and statutory auditors not deductible .....	1.3	1.0
Inhabitant taxes per capita.....	1.6	1.7
Income taxes for prior year .....	—	3.0
Valuation allowance.....	12.7	(18.5)
Other.....	(7.4)	(5.3)
Effective tax rate.....	48.9%	23.7%

## 12. Rental Properties

(a) Effective From the fiscal year ended March 31, 2010, the “Accounting Standard for Disclosure of Fair Value of Real Estate” (ASBJ Statement No.20) and its guidance (ASBJ Guidance No.23) have been applied.

(b) The Company holds some office buildings and residential units. For the year ended March 31, 2010, net operating losses from rent business of ¥21 million were recorded as operating losses of Real estate development and other.

(c) The book value and fair value of properties for rent were as follows:

	<b>Millions of yen</b>	
	<b>2010</b>	
Book value.....		
At the end of previous period .....	¥	611
Increase (decrease) – net .....		1,360
At the end of current period.....		1,971
Fair value at the end of current period.....	¥	1,944

The changes during the year primarily consist of real estate acquisitions (increase:¥1,410 million) and depreciation (decrease:¥50 million).

### 13. Segment Information

#### Industry Segment Information

The Company and its subsidiaries operate principally in the following five 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, 2009 and 2010 is presented below:

	Millions of yen	
	2009	2010
Net sales:		
Construction.....	¥ 63,082	¥ 62,046
Development.....	484	1,056
Golf.....	313	282
Hotel.....	543	430
Advertising agency.....	1,530	1,304
	65,952	65,117
Less: intersegment transaction.....	(100)	(87)
	65,851	65,030
Operating expenses:		
Construction.....	61,480	61,025
Development.....	495	832
Golf.....	333	288
Hotel.....	567	410
Advertising agency.....	1,514	1,292
	64,390	63,848
Less: intersegment transaction.....	(100)	(87)
	64,290	63,761
Operating income.....	¥ 1,561	¥ 1,270
Assets:		
Construction.....	¥ 38,759	¥ 30,155
Development.....	8,336	10,490
Golf.....	4,091	4,006
Hotel.....	680	515
Advertising agency.....	998	1,012
	52,864	46,178
Other assets.....	9,897	9,812
	¥ 62,761	¥ 55,990
Depreciation:		
Construction.....	¥ 177	¥ 164
Development.....	40	60
Golf.....	28	24
Hotel.....	54	42
Advertising agency.....	8	6
	¥ 308	¥ 296
Impairment loss on fixed assets:		
Construction.....	¥ 17	¥ 341
Development.....	—	—
Golf.....	—	—
Hotel.....	201	—
Advertising agency.....	—	—
	¥ 218	¥ 341
Capital expenditure:		
Construction.....	¥ 440	¥ 83
Development.....	3	1,411
Golf.....	10	7
Hotel.....	155	20
Advertising agency.....	—	—
	¥ 609	¥ 1,520

**14. Per Share Data**

Net assets per share and net income per share as of and for the year ended March 31, 2009 and 2010 are as follows:

	Yen	
	2009	2010
Net assets per share .....	¥ 296.55	¥ 308.17
Net income per share – primary .....	10.78	14.63

  

	Millions of yen	
	2009	2010
Net income .....	¥ 766	¥ 1,026
Net income pertaining to common stock .....	¥ 766	¥ 1,026
Average outstanding shares of common stock .....	71,055 thousand shares	70,121 thousand shares



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## BOARD OF DIRECTORS, STATUTORY AUDITORS AND EXECUTIVE OFFICERS AS OF MARCH 31, 2010

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### Board of Directors

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*Chairman and President, Representative Director*

**Takahiro Kitano**

*Vice President, Representative Director*

**Kimio Shiozawa**

*Directors*

**Shinsuke Nishida**

**Yoshitada Mikami**

**Yoshikatsu Yamazaki**

**Zentaro Ozawa**

*Outside Director*

**Yoshinori Uda**

### Statutory Auditors

---

*Permanent Auditor*

**Tadaaki Takamizawa**

*Auditor*

**Toshiyuki Tsukada**

**Akira Koike**

**Yoshichika Owa**

### Executive Officers

---

*President and Executive Officer*

**Takahiro Kitano \***

*Vice President and Executive Officer*

**Kimio Shiozawa \***

*Senior Executive Officers*

**Shinsuke Nishida \***

*Managing Executive Officer*

**Yoshitada Mikami \***

**Toshiro Maki**

**Itsuo Takeuchi**

**Yoshikatsu Yamazaki \***

**Zentaro Ozawa \***

**Nagayoshi Matsumoto**

*Executive Officer*

**Toshiaki Yamagishi**

**Kiyonori Nakashima**

\* : Member of Board of Directors

**KITANO**  
CONSTRUCTION CORP.