

2011

FINANCIAL STATEMENTS

MARCH 31, 2010-2011

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Consolidated Balance Sheets

As of March 31, 2010 and 2011

	Millions of yen	
	March 31,	
	2010	2011
ASSETS		
Current Assets:		
Cash in hand and in banks	¥ 5,822	¥ 5,067
Notes and accounts receivable	13,687	12,305
Real estate for sale	5,579	5,449
Cost of construction in progress	3,453	1,568
Cost of uncompleted development projects	1,661	1,666
Inventories - materials and supplies	40	33
Deferred income taxes.....	1,126	1,195
Other current assets.....	2,930	1,017
Less: allowance for doubtful accounts	(53)	(42)
Total current assets	34,245	28,259
Fixed Assets:		
Tangible Fixed Assets:		
Buildings and structures.....	8,924	8,890
Machinery and equipment	630	609
Golf course	1,231	1,231
Land.....	7,695	7,695
Construction in progress	1	—
Other.....	1,638	1,627
Less: accumulated depreciation	(6,387)	(6,558)
Total tangible fixed assets	13,731	13,494
Intangible fixed assets	40	42
Investments:		
Investments in securities.....	4,550	4,102
Long-term loans	2,521	2,390
Deferred income taxes.....	659	700
Other investments	1,536	1,507
Less: allowance for doubtful accounts	(1,291)	(1,078)
Total investments.....	7,974	7,622
Total fixed assets	21,745	21,157
	¥ 55,990	¥ 49,416

The accompanying notes are an integral part of these statements.

Consolidated Balance Sheets

As of March 31, 2010 and 2011

	Millions of yen	
	March 31,	
	2010	2011
LIABILITIES		
Current Liabilities:		
Notes and accounts payable	¥ 16,993	¥ 13,308
Short-term bank loans	4,000	2,500
Income taxes payable	30	305
Advances received on construction in progress	3,520	2,621
Advances received on uncompleted development projects	66	42
Accrued bonuses to employees	257	250
Accrued bonuses to directors and statutory auditors	35	35
Accrued warranty	37	32
Allowance for losses on construction contracts	—	52
Other current liabilities	852	627
Total current liabilities	25,790	19,771
Long-Term Liabilities:		
Long-term debt	4,000	4,000
Reserve for retirement benefits to employees	562	570
Membership deposit	3,306	3,174
Negative goodwill	35	23
Other long-term debt	227	242
Total long-term liabilities	8,129	8,009
NET ASSETS		
Shareholders' Equity		
Common stock	9,116	9,116
Authorized — 200,000,000 shares		
Issued — 78,368,532 shares as of March 31, 2010 and 2011		
Capital surplus	7,405	7,405
Retained earnings	6,878	6,869
Treasury stock	(2,161)	(2,342)
Total shareholders' equity	21,238	21,049
Accumulated Other Comprehensive Income		
Unrealized gain on other securities	388	130
Unrealized gain on hedging derivatives	21	(7)
Foreign currency translation adjustments	(41)	(31)
Total accumulated other comprehensive income	368	92
Minority interests	464	496
Total net assets	22,070	21,636
	¥ 55,990	¥ 49,416

The accompanying notes are an integral part of these statements.

Consolidated Statements of Operations
For the years ended March 31, 2010 and 2011

	Millions of yen	
	March 31,	
	2010	2011
Net Sales:		
Construction contracts	¥ 62,045	¥ 52,672
Real estate development and other.....	2,985	4,391
	<u>65,030</u>	<u>57,063</u>
Cost of Sales:		
Construction contracts	57,949	49,599
Real estate development and other.....	1,995	2,911
	<u>59,944</u>	<u>52,510</u>
Gross profit.....	5,086	4,553
Selling, General and Administrative Expenses.....	3,817	3,633
Operating income	<u>1,270</u>	<u>919</u>
Non-Operating Income/(Losses):		
Interest and dividend income	179	173
Interest expenses.....	(149)	(135)
Foreign exchange gains/(losses)	4	(123)
Equity in gains of affiliates	307	57
Other, net	69	107
	<u>1,680</u>	<u>999</u>
Special Items:		
Gain on sales of investment securities	—	63
Gain on sales of subsidiaries stocks	121	—
Impairment loss on fixed assets	(341)	—
Loss on sales of investment securities.....	—	(2)
Loss on valuation of investment securities.....	(205)	(79)
Provision of allowance for doubtful accounts.....	161	4
Loss on revision of retirement benefit system.....	—	(39)
Other, net	(26)	(3)
Income before income taxes and minority interests	<u>1,390</u>	<u>944</u>
Income Taxes		
Current.....	24	285
Prior year	290	—
Deferred.....	16	83
Net Income Before Minority Interests	<u>—</u>	<u>575</u>
Minority Interests in Earnings of Consolidated Subsidiaries	<u>(34)</u>	<u>(14)</u>
Net income	<u>¥ 1,026</u>	<u>¥ 561</u>

The accompanying notes are an integral part of these statements.

Consolidated Statements of Comprehensive Income
For the years ended March 31, 2010 and 2011

	Millions of yen	
	March 31,	
	2010	2011
Income Before Minority Interests	¥ —	¥ 575
Other Comprehensive Income:		
Net unrealized gain (loss) on other securities, net of taxes	—	(258)
Deferred gain (loss) on hedging, net of taxes.....	—	(28)
Foreign currency translation adjustment.....	—	(17)
Share of other comprehensive income of associates accounted for using the equity method	—	28
Total other comprehensive income.....	—	(276)
Comprehensive Income	—	299
Comprehensive income attributable to:		
Shareholders of the Corporation.....	—	285
Minority Interests	—	14

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2010 and 2011

	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, 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
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
Net Gain for the year ended March 31, 2011...	—	—	—	561	—	—	—	—	—	561
Cash dividends	—	—	—	(559)	—	—	—	—	—	(559)
Increase in treasury stock	(883)	—	—	—	—	(212)	—	—	—	(212)
Gain on sale of treasury stock	—	—	(0)	—	—	0	—	—	—	0
Disposal of stocks of the parent company owned by consolidated subsidiaries	—	—	0	—	—	30	—	—	—	31
Change of scope of equity method.....	—	—	—	(11)	—	—	—	—	—	(11)
Adjustment for the year...	—	—	—	—	(258)	—	(28)	10	32	(244)
Balance at March 31, 2011.....	69,228	9,116	7,405	6,869	130	(2,342)	(7)	(31)	496	21,636

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

For the year ended March 31, 2010 and 2011

	Millions of yen	
	2010	2011
Cash flows from operating activities:		
Net income before income taxes	¥ 1,390	¥ 944
Adjustments for:		
Depreciation	296	276
Impairment loss on fixed assets.....	341	—
Equity in (gains)/losses of affiliates.....	(307)	(57)
Interest and dividend income.....	(179)	(173)
Interest expenses	149	135
(Gain)/loss on sales of fixed assets	(1)	(1)
Foreign exchange (gains)/losses.....	3	81
Gain/(Loss) on sales of investment securities.....	—	(62)
Gain/(Loss) on sales of subsidiaries stocks.....	(121)	—
Increase/(Decrease) in reserve for retirement benefits to employees	52	8
Increase/(Decrease) in accrued warranty.....	6	(6)
Increase/(Decrease) in allowance for losses on construction contracts...	(120)	52
Increase/(Decrease) in accrued bonuses	(44)	(7)
Increase/(Decrease) in allowance for doubtful accounts	(283)	(16)
(Increase)/Decrease in notes and accounts receivable.....	(2,234)	1,380
(Increase)/Decrease in cost of construction in progress and cost of uncompleted development projects	9,004	1,880
(Increase)/Decrease in real estate for sale and inventories	(173)	134
Increase/(Decrease) in notes and accounts payable	(30)	(3,685)
Increase/(Decrease) in advances received on construction in progress ..	(7,233)	(899)
Other	(184)	1,568
Sub-total.....	332	1,551
Interest and dividend income received	164	194
Interest expenses paid.....	(149)	(135)
Income taxes refunded.....	—	72
Income taxes paid	(941)	(20)
Net cash provided by/(used in) operating activities	(594)	1,662
Cash flows from investing activities:		
Payment for making time deposit	(262)	(404)
Proceeds from withdraw of time deposit.....	313	261
Payments for purchase of fixed assets.....	(891)	(88)
Proceeds from sale of fixed assets.....	2	2
Payments for purchase of investments in securities	(143)	(195)
Proceeds from sale of investments in securities.....	—	197
Payments for loans.....	(61)	(50)
Collections of loans.....	519	40
Proceeds from sale of shares of a consolidated subsidiary.....	241	—
Other	44	(9)
Net cash provided by/(used in) investing activities	(238)	(247)
Cash flows from financing activities:		
Increase/(decrease) in short-term bank loans, net	(3,000)	(1,500)
Increase in long-term debt	4,000	—
Purchase of treasury stock	(5)	(212)
Cash dividends paid	(562)	(562)
Other	(58)	(50)
Net cash provided by/(used in) financing activities.....	375	(2,223)
Effect of exchange rate changes on cash and cash equivalents.....	(0)	(90)
Net increase/(decrease) in cash and cash equivalents	(458)	(899)
Cash and cash equivalents of beginning of year.....	6,251	5,761
Increase/(Decrease) in cash and cash equivalents due to the change in consolidation scope of subsidiaries	(32)	—
Cash and cash equivalents of end of year.....	¥ 5,761	¥ 4,862

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 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 4 subsidiaries (majority-owned companies) as at March 31, 2011 (3 for 2010). The consolidated financial statements in fiscal years ended March 31, 2011 include the accounts of the Company and 3 (3 for 2010) 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.

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.

Goodwill is principally amortized over a five year period on a straight-line basis from the year of acquisition.

(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, which is affiliates of the Company, since the application of this method has significant effect on the net income and retained earnings of the Companies.

Kawajima Nakayama Kaihatsu Co., Ltd is excluded from the scope of the equity method of accounting because it has little influence and little importance.

(c) Recognizing Revenues and Costs of Construction Contracts

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 based on the cost incurred to date as a percentage of the estimated total cost. The completed-contract method is applied to all other construction contracts.

(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 were recognized using mainly the straight-line method over a period of 10 years.

Prior service costs were amortized using mainly the straight-line method over a period of 10 years, the period within the estimated average remaining service life of the employees.

(Additional Information)

The company abolished the approved retirement annuity system at March 31, 2011 and adopts the defined contribution pension plan and the defined-benefit corporate pension plan system from April 1, 2011.

(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.

(q) Asset Retirement Obligation

Effective from the fiscal year ended March 31, 2011, we have adopted new accounting standards, the "Accounting Standard for Asset Retirement Obligations"(ASBJ Statement No.18, March 31, 2008) and the "Guidance on Accounting Standard for Asset Retirement Obligations"(ASBJ Guidance No.21, March 31, 2008).

This change does not have the influence for the our profit and loss.

(r) Change of Presentation Method

Effective from the fiscal year ended March 31, 2011, we have adopted a new regulation, the "Cabinet Office Ordinance Partially Revising Regulations for Terminology, Forms and Preparation of financial statements, etc"(Cabinet Office Ordinance No.5, March 24, 2009) based on the "Accounting Standard for Consolidated Financial Statements"(ASBJ Statement No.22, December 26, 2008), and presented net income before minority interests.

We expressed "Income taxes refunded" on cash flows from operating activities of consolidated statements of cash flows, because it's importance increased. And we had expressed "income taxes paid" including "Income taxes refunded" at the fiscal year ended March 31, 2010.

"Income taxes refunded" was 1 million of yen at the fiscal year ended March 31, 2010.

3. Notes to the Consolidated Balance Sheets

	Millions of yen	
	March 31,	
	2010	2011
(1) Investments in unconsolidated subsidiaries and affiliates.....	¥ 17	¥ 12
(2) Assets pledged as collateral		
Buildings	316	304
Land	1,161	1,161
Real estate for sale.....	4,703	4,683
(3) The guarantee of housing construction flaw security		
Investment in securities	—	99
(4) The guarantee of a debt		
Morimoto Co, Ltd.....	—	309

4. Notes to Consolidated Statements of Operations

- (1) Charges to income for warranty which is included in "Cost of Sales construction contracts" was ¥37 million for the year ended March 31, 2010, and ¥32 million for the year ended March 31, 2011. Allowance for accrued bonuses included in "Cost of Sales construction contracts" was ¥173 million for the year ended March 31, 2010, and ¥160 million for the year ended March 31, 2011. Allowance for loss on construction contract included in "Cost of Sales construction contracts" was ¥52 million for the year ended March 31, 2011.

	Millions of yen	
	for the year ended March 31,	
	2010	2011
(2) Write-down of inventories included in cost of sales on real estate development and other	¥ 165	¥ 43
(3) The major components of "Selling, general and administrative expenses"		
Depreciation	220	205
Payroll	1,408	1,339
Allowance for accrued bonuses	116	122
(4) Impairment loss on fixed assets		
The Company recognized impairment losses on fixed assets as follows:		

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

We have no impairment loss for the year ended March 31, 2011.
The book values of the above assets were reduced to their recoverable amounts.

5. Notes to consolidated Statement of comprehensive income

Comprehensive income

	Millions of yen	
	for the year ended March 31,	
	2010	
Comprehensive income attributable to shareholders of the corporation	¥	1,412
Comprehensive income attributable to minority interests		34
Total	¥	1,446

Other comprehensive income

	Millions of yen	
	for the year ended March 31,	
	2010	
Net unrealized gain (loss) on other securities, net of taxes	¥	147
Deferred gain (loss) on hedging, net of taxes		5
Foreign currency translation adjustment		167
Share of other comprehensive income of associates accounted for using the equity method		68
Total	¥	387

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

(a) Type and number of outstanding 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

March 31, 2011

Number of shares

Type 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	8,256,926	1,015,083	131,844	9,140,165
Total	8,256,926	1,015,083	131,844	9,140,165

The summary of the main change reason

Increase by the repurchase of shares less than one unit	15,083 shares
by the acquisition of the treasury stock by the board of directors resolution	1,000,000 shares
Decrease by the sale of shares less than one unit	900 shares
by the sale of parent company stocks that subsidiary have	130,944 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)	Shareholder's cut-off date	Effective date
June 26, 2009	Annual general meeting of shareholders	Common stock	563,329	Retained earnings	8	March 31, 2009	June 29, 2009
June 24, 2010	Annual general meeting of shareholders	Common stock	563,155	Retained earnings	8	March 31, 2010	June 25, 2010

(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 24, 2011	Annual general meeting of shareholders	Common stock	555,041	Retained earnings	8	March 31, 2011	June 27, 2011

7. Notes to the Consolidated Statements of Cash Flows

	Millions of yen	
	March 31,	
	2010	2011
Cash in hand and in banks	¥ 5,822	¥ 5,067
Time deposits with a deposit term of over 3 months	(62)	(205)
Cash and cash equivalents	¥ 5,761	¥ 4,862

8. Fair Value of Financial Instruments

(a) The fair value and book value of financial instruments as of March 31, 2010 and March 31, 2011, 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	¥ —

	Millions of yen		
	March 31, 2011		
	Book value	Fair value	Difference
Cash and deposits	¥ 5,067	¥ 5,067	¥ —
Notes and accounts receivable	12,305	12,305	—
Investments in securities	2,718	2,718	—
Total.....	¥ 20,090	¥ 20,090	¥ —
Notes and accounts payable	¥ 13,308	¥ 13,308	¥ —
Short-term bank loans	2,500	2,500	—
Long-term debt	4,000	4,000	—
Total.....	¥ 19,808	¥ 19,808	¥ —
Derivative transactions	¥ (11)	¥ (11)	¥ —

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

	Millions of yen	
	March 31, 2010	March 31, 2011
	Book value	Book value
Non-listed shares *	¥ 1,249	¥ 1,384
Membership deposit *	3,306	3,174

* 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

	Millions of yen		
	March 31, 2010		
	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

	Millions of yen		
	March 31, 2011		
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years
Cash and deposits	¥ 5,045	¥ —	¥ —
Notes and accounts receivable	12,275	30	—
Investments in securities			
Government bonds.....	—	—	109
Corporate bonds.....	—	—	100

9. 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, 2010 and 2011:

	Millions of yen		
	March 31, 2010		
	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

	Millions of yen		
	March 31, 2011		
	Book value	Acquisition cost	Difference
Securities with book value exceeding acquisition cost:			
Equity securities	¥ 1,129	¥ 715	¥ 414
Corporate bonds.....	146	144	2
Sub-total	¥ 1,275	¥ 859	¥ 416
Securities with book value not exceeding acquisition cost:			
Equity securities	¥ 1,389	¥ 1,587	¥ (198)
Government bonds.....	54	55	(1)
Sub-total	¥ 1,443	¥ 1,642	¥ (199)
Total.....	¥ 2,718	¥ 2,501	¥ 217

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

(b) Impairment losses of ¥77 million were recorded to write down book value of investments in securities for the year ended March 31, 2011.

10. 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		
			March 31, 2011		
			Contract amount	Contract over 1 year	Fair value
Deferred hedge method	Foreign exchange forward contract Buy U.S. dollar	Forecasted foreign currency transactions	¥ 460	—	¥ (11)

11. 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, 2010 and 2011 is analyzed as follows:

	Millions of yen	
	March 31,	
	2010	2011
Projected benefit obligations	¥ (5,023)	¥ (4,038)
Plan assets	3,938	3,035
Unfunded benefit obligations.....	(1,085)	(1,003)
Unrecognized actuarial differences.....	523	501
Unrecognized prior service cost	—	(68)
Total	(562)	(570)
Prepaid pension costs	—	—
Reserve for retirement benefits to employees	¥ (562)	¥ (570)

(c) The net periodic expenses related to retirement benefits for the fiscal year 2010 and 2011 are as follows:

	Millions of yen	
	March 31,	
	2010	2011
Service costs.....	¥ 188	¥ 181
Interest costs.....	102	99
Expected return on plan assets.....	(77)	(78)
Amortization of actuarial differences	109	93
Amortization of prior service cost.....	—	(8)
Sub-total.....	¥ 322	¥ 286
Loss on revision of retirement benefit system.....	—	39
Retirement benefits expense	¥ 322	¥ 325

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

	As of March 31,	
	2010	2011
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
Amortization periods of prior service costs	—	10 years

12. 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,	
	2010	2011
Deferred tax assets:		
Write-down of fixed assets	¥ 1,814	¥ 1,790
Allowance for doubtful accounts	949	952
Write-down of marketable securities	321	324
Intercompany profits	345	318
Loss on valuation of real estate for sale	842	846
Operating loss carry forwards	179	3
Unrealized gain on hedging derivatives	—	5
Other	817	866
Total gross deferred tax assets	5,266	5,103
Valuation allowance	(3,136)	(3,049)
	2,131	2,054
Deferred tax liabilities:		
Reserve for advanced depreciation	(72)	(72)
Unrealized gain on other securities	(259)	(86)
Unrealized gain on hedging derivatives	(15)	—
Total gross deferred tax liabilities	(346)	(159)
Net deferred tax assets	¥ 1,785	¥ 1,896

(b) The reconciliation between the statutory tax rate and the effective tax rate as at March 31, 2010 and 2011 is presented below:

	As of March 31,
	2010
Statutory tax rate	40.4%
Permanent differences on expenses not deductible	3.5
Permanent differences on income not taxable	(2.1)
Accrued bonuses to directors and statutory auditors not deductible	1.0
Inhabitant taxes per capita	1.7
Income taxes for prior year	3.0
Valuation allowance	(18.5)
Other	(5.3)
Effective tax rate	23.7%

Corresponding differences for the year ended March 31, 2011 were not disclosed as the differences were immaterial.

13. Rental Properties

(a) The Company holds some office buildings and residential units. For the year ended March 31, 2011, net operating gains from rent business of ¥37 million were recorded as operating gains of Real estate development and other.

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

	Millions of yen	
	2011	
Book value		
At the end of previous period	¥	1,971
Increase (decrease) – net		(52)
At the end of current period		1,919
Fair value at the end of current period	¥	1,918

The changes during the year primarily consist of real estate depreciation (decrease: ¥50 million).

14. Segment Information

(1) Business Segments

Millions of Yen									
March 31, 2010									
	Real estate Construction development		Golf courses	Hotels	Advertising agent	Total	Reconciliations	Consolidated	
I. Net sales and Operating income									
Net sales									
Customers	¥ 62,045	¥ 1,056	¥ 282	¥ 428	¥ 1,220	¥ 65,030	¥ —	¥ 65,030	
Intersegment or transfer	0	—	1	2	84	87	(87)	—	
Total	62,046	1,056	282	430	1,304	65,117	(87)	65,030	
Operating expense	61,025	832	288	410	1,292	63,848	(87)	63,761	
Operating income (loss)	¥ 1,020	¥ 224	¥ (6)	¥ 20	¥ 12	¥ 1,270	¥ —	¥ 1,270	
II. Assets, Depreciation and amortization, Impairment loss, and Capital expenditures									
Assets	¥ 30,155	¥ 10,490	¥ 4,006	¥ 515	¥ 1,015	¥ 46,178	¥ 9,812	¥ 55,990	
Depreciation and amortization	164	60	24	42	6	296	—	296	
Impairment loss	341	—	—	—	—	341	—	341	
Capital expenditures	83	1,411	7	20	—	1,520	—	1,520	

Note: Outline of the businesses

- Construction: Construction, civil engineering
- Real estate development: Sales, Purchases and rentals of real estate
- Golf course: Management of golf courses
- Hotels: Management of hotels
- Advertising agent: Management of advertising agent

(2) The segment information of the Company and its subsidiaries for the year ended March 31, 2010 and 2011 is presented below:

The Company and its subsidiaries operate principally in the following two industrial segments:
 Construction..... Construction, engineering works, development and sale of real estate.
 Other..... Management of golf courses, hotels and advertising agent.

Millions of Yen
March 31, 2010

	Construction		Others		Total		Reconciliations		Consolidated	
I. Net sales and Operating income										
Net sales										
Customers	¥	63,101	¥	1,929	¥	65,030	¥	—	¥	65,030
Intersegment or transfer		0		86		87		(87)		—
Total		63,102		2,016		65,117		(87)		65,030
Operating income	¥	1,244	¥	26	¥	1,270	¥	—	¥	1,270
II. Other										
Depreciation and amortization	¥	224	¥	72	¥	296	¥	—	¥	296

Millions of Yen
March 31, 2011

	Construction		Others		Total		Reconciliations		Consolidated	
I. Net sales and Operating income										
Net sales										
Customers	¥	55,205	¥	1,858	¥	57,063	¥	—	¥	57,063
Intersegment or transfer		4		95		98		(98)		—
Total		55,209		1,952		57,161		(98)		57,063
Operating income	¥	910	¥	9	¥	919	¥	—	¥	919
II. Other										
Depreciation and amortization	¥	208	¥	68	¥	276	¥	—	¥	276

(Additional information)

Effective from the fiscal year ended March 31, 2011, the Group has adopted new accounting standards, the “Revised Accounting Standard for Disclosures about Segments of an Enterprise and Related information”(ASBJ Statement No.17, March 27, 2009) and the “Guidance on the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information”(ASBJ Guidance No.20, March 21, 2008).

15. Per Share Data

Net assets per share and net income per share as of and for the year ended March 31, 2010 and 2011 are as follows:

	Yen			
	2010		2011	
Net assets per share	¥	308.17	¥	305.37
Net income per share – primary		14.63		8.07
	Millions of yen			
	2010		2011	
Net income	¥	1,026	¥	561
Net income pertaining to common stock	¥	1,026	¥	561
Average outstanding shares of common stock		70,121 thousand shares		69,563 thousand shares

BOARD OF DIRECTORS, STATUTORY AUDITORS AND EXECUTIVE OFFICERS AS OF MARCH 31, 2011

Board of Directors

Chairman and President, Representative Director

Takahiro Kitano

Vice President, Representative Director

Kimio Shiozawa

Director

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 Officer

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.