

2012

FINANCIAL STATEMENTS

MARCH 31, 2011-2012

Contents

Financial Statements

Consolidated Balance Sheets.....	2
Consolidated Statements of Operations.....	4
Consolidated Statements of Comprehensive Income.....	5
Consolidated Statements of Changes in Net Assets.....	6
Consolidated Statements of Cash Flows.....	7
Notes to Consolidated Financial Statements.....	8
Board of Directors, Statutory Auditors and Executive Officers.....	18

Consolidated Balance Sheets

As of March 31, 2011 and 2012

	Millions of yen	
	March 31,	
	2011	2012
ASSETS		
Current Assets:		
Cash in hand and in banks	¥ 5,067	¥ 5,754
Notes and accounts receivable	12,305	12,525
Real estate for sale	5,449	6,310
Cost of construction in progress	1,568	2,286
Cost of uncompleted development projects	1,666	1,421
Inventories - materials and supplies	33	47
Deferred income taxes.....	1,195	1,200
Other current assets.....	1,017	538
Less: allowance for doubtful accounts	(42)	(84)
Total current assets	28,259	29,997
Fixed Assets:		
Tangible Fixed Assets:		
Buildings and structures.....	8,890	8,034
Machinery and equipment	609	528
Golf course	1,231	1,231
Land.....	7,695	7,432
Other fixed assets.....	1,627	1,670
Less: accumulated depreciation	(6,558)	(5,921)
Total tangible fixed assets	13,494	12,973
Intangible fixed assets	42	53
Investments:		
Investments in securities.....	4,102	3,946
Long-term loans	2,390	2,292
Deferred income taxes.....	700	501
Other investments	1,507	1,253
Less: allowance for doubtful accounts	(1,078)	(819)
Total investments	7,622	7,173
Total fixed assets	21,157	20,199
	¥ 49,416	¥ 50,197

The accompanying notes are an integral part of these statements.

Consolidated Balance Sheets

As of March 31, 2011 and 2012

	Millions of yen	
	March 31,	
	2011	2012
LIABILITIES		
Current Liabilities:		
Notes and accounts payable	¥ 13,308	¥ 15,704
Short-term bank loans	2,500	—
Income taxes payable	305	71
Advances received on construction in progress	2,621	3,596
Advances received on uncompleted development projects	42	—
Accrued bonuses to employees	250	243
Accrued bonuses to directors and statutory auditors	35	35
Accrued warranty	32	38
Allowance for losses on construction contracts	52	53
Other current liabilities	627	804
Total current liabilities	19,771	20,543
Long-Term Liabilities:		
Long-term debt	4,000	4,000
Reserve for retirement benefits to employees	570	545
Membership deposit	3,174	3,048
Negative goodwill	23	12
Other long-term debt	242	247
Total long-term liabilities	8,009	7,852
NET ASSETS		
Shareholders' Equity		
Common stock	9,116	9,116
Authorized — 200,000,000 shares		
Issued — 78,368,532 shares as of March 31, 2011 and 2012		
Capital surplus	7,405	7,405
Retained earnings	6,869	7,216
Treasury stock	(2,342)	(2,700)
Total shareholders' equity	21,049	21,038
Accumulated Other Comprehensive Income		
Unrealized gain (loss) on other securities	130	241
Unrealized gain (loss) on hedging derivatives	(7)	—
Foreign currency translation adjustments	(31)	13
Total accumulated other comprehensive income	92	253
Minority interests	496	510
Total net assets	21,636	21,802
	¥ 49,416	¥ 50,197

The accompanying notes are an integral part of these statements.

Consolidated Statements of Operations
For the years ended March 31, 2011 and 2012

	Millions of yen	
	March 31,	
	2011	2012
Net Sales:		
Construction contracts	¥ 52,672	¥ 46,732
Real estate development and other.....	4,391	5,618
	<u>57,063</u>	<u>52,351</u>
Cost of Sales:		
Construction contracts	49,599	43,531
Real estate development and other.....	2,911	4,064
	<u>52,510</u>	<u>47,595</u>
Gross profit.....	4,553	4,755
Selling, General and Administrative Expenses.....	3,633	3,689
Operating income	<u>919</u>	<u>1,066</u>
Non-Operating Income (Losses):		
Interest and dividend income	173	151
Interest expenses.....	(135)	(127)
Foreign exchange gains (losses)	(123)	77
Equity in gains of affiliates	57	54
Other, net.....	107	123
	<u>999</u>	<u>1,344</u>
Special Items:		
Gain on sales of fixed assets	1	159
Loss on disposal of fixed assets	(4)	(28)
Gain on sales of investment securities	63	1
Loss on sales of investment securities.....	(2)	—
Loss on valuation of investment securities.....	(79)	(349)
Provision of allowance for doubtful accounts.....	4	—
Loss on revision of retirement benefit system.....	(39)	—
Income before income taxes and minority interests	<u>944</u>	<u>1,128</u>
Income Taxes		
Current.....	285	64
Deferred.....	83	147
Net Income Before Minority Interests	<u>575</u>	<u>917</u>
Minority Interests in Earnings of Consolidated Subsidiaries	<u>(14)</u>	<u>(17)</u>
Net income	<u>¥ 561</u>	<u>¥ 900</u>

The accompanying notes are an integral part of these statements.

Consolidated Statements of Comprehensive Income

For the years ended March 31, 2011 and 2012

	Millions of yen	
	March 31,	
	2011	2012
Income Before Minority Interests	¥ 575	¥ 917
Other Comprehensive Income:		
Unrealized gain (loss) on other securities	(258)	111
Unrealized gain (loss) on hedging derivatives.....	(28)	7
Foreign currency translation adjustment.....	(17)	11
Share of other comprehensive income of associates accounted for using the equity method	28	33
Total other comprehensive income	(276)	161
Comprehensive Income	299	1,079
Comprehensive income attributable to:		
Shareholders of the Corporation.....	285	1,062
Minority Interests	14	17

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2011 and 2012

	Millions of yen									
	Shareholder's equity					Accumulated other comprehensive income				
	Number of shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Treasury stocks	Unrealized gain on other securities	Unrealized gain on hedging derivatives	Adjustments	Minority interests	Total net assets
								on foreign currency statements translation		
Balance at March 31, 2010	70,112	9,116	7,405	6,878	(2,161)	388	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	(2,342)	130	(7)	(31)	496	21,636
Net Gain for the year ended March 31, 2012	—	—	—	900	—	—	—	—	—	900
Cash dividends	—	—	—	(553)	—	—	—	—	—	(553)
Increase in treasury stock	(2,005)	—	—	—	(358)	—	—	—	—	(358)
Gain on sale of treasury stock	—	—	(0)	—	1	—	—	—	—	0
Adjustment for the year	—	—	—	—	—	111	7	44	15	176
Balance at March 31, 2012	67,223	9,116	7,405	7,216	(2,700)	241	—	13	510	21,802

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

For the year ended March 31, 2011 and 2012

	Millions of yen	
	2011	2012
Cash flows from operating activities:		
Net income before income taxes	¥ 944	¥ 1,128
Adjustments for:		
Depreciation	276	254
Equity in (gains) losses of affiliates.....	(57)	(54)
Interest and dividend income	(173)	(151)
Interest expenses	135	127
(Gain) loss on sales of fixed assets.....	(1)	(159)
Foreign exchange (gains) losses.....	81	(68)
(Gain) Loss on sales of investment securities.....	(62)	(1)
(Gain) Loss on evaluation of investment securities	79	349
Increase (Decrease) in reserve for retirement benefits to employees	8	(25)
Increase (Decrease) in accrued warranty	(6)	6
Increase (Decrease) in allowance for losses on construction contracts...	52	1
Increase (Decrease) in accrued bonuses	(7)	(7)
Increase (Decrease) in allowance for doubtful accounts	(16)	(22)
(Increase) Decrease in notes and accounts receivable.....	1,380	(219)
(Increase) Decrease in cost of construction in progress and cost of uncompleted development projects	1,880	(473)
(Increase) Decrease in real estate for sale and inventories.....	134	(873)
Increase (Decrease) in notes and accounts payable	(3,685)	2,396
Increase (Decrease) in advances received on construction in progress ...	(899)	975
Other	1,489	646
Sub-total.....	1,551	3,828
Interest and dividend income received	194	151
Interest expenses paid.....	(135)	(127)
Income taxes refunded.....	72	7
Income taxes paid	(20)	(306)
Net cash provided by (used in) operating activities.....	1,662	3,553
Cash flows from investing activities:		
Payment for making time deposit	(404)	(469)
Proceeds from withdraw of time deposit.....	261	461
Payments for purchase of fixed assets.....	(88)	(310)
Proceeds from sale of fixed assets.....	2	740
Payments for purchase of investments in securities	(195)	(89)
Proceeds from sale of investments in securities.....	197	2
Proceeds from repayment of investments in securities	—	50
Payments for loans.....	(50)	(241)
Proceeds from recovery of loans	40	143
Other	(9)	181
Net cash provided by (used in) investing activities	(247)	467
Cash flows from financing activities:		
Increase (decrease) in short-term bank loans, net	(1,500)	(2,500)
Purchase of treasury stock	(212)	(358)
Cash dividends paid	(562)	(555)
Other	50	(2)
Net cash provided by (used in) financing activities.....	(2,223)	(3,415)
Effect of exchange rate changes on cash and cash equivalents.....	(90)	(70)
Net increase (decrease) in cash and cash equivalents	(899)	675
Cash and cash equivalents of beginning of year.....	5,761	4,862
Cash and cash equivalents of end of year.....	¥ 4,862	¥ 5,537

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, 2012 (4 for 2011). The consolidated financial statements in fiscal years ended March 31, 2012 include the accounts of the Company and 3 (3 for 2011) 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.

Kitano Lanka (private) Limited 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.

Kitano Lanka (private) Limited 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 11 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.

(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) Consumption Tax

Consumption Tax payable or receivable is excluded from each account in the consolidated statements of income.

(q) Reclassification of Accounts

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

(r) Change of Presentation Method

We expressed "Gain (Loss) on evaluation of investment securities" on cash flows from operating activities of consolidated statements of cash flows, because it's importance increased. And we had expressed "Other" including "Gain (Loss) on evaluation of investment securities" at the fiscal year ended March 31, 2011. "Gain (Loss) on evaluation of investment securities" was 79 million of yen at the fiscal year ended March 31, 2011.

(Additional Information)

From the current fiscal year, the Company has adopted the "Accounting Statement for Accounting Changes and Error Corrections" (ASBJ Statement No.24, December 4, 2009) and the "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No.24, December 4, 2009).

3. Notes to the Consolidated Balance Sheets

	Millions of yen	
	March 31,	
	2011	2012
(1) Investments in unconsolidated subsidiaries and affiliates.....	¥ 12	¥ 9
(2) Assets pledged as collateral		
Buildings	304	291
Land	1,161	1,161
Real estate for sale.....	4,683	4,470
(3) The guarantee of housing construction flaw security		
Investment in securities	99	131
(4) The guarantee of a debt		
Morimoto Co, Ltd.....	309	299

4. Notes to Consolidated Statements of Operations

	Millions of yen	
	for the year ended March 31,	
	2011	2012
(1) Allowance for loss on construction contract include in cost of sales construction contracts	¥ 52	¥ 53
(2) Write-down of inventories included in cost of sales on real estate development and other	43	264
(3) The major components of "Selling, general and administrative expenses"		
Depreciation	205	192
Payroll	1,339	1,325
Allowance for accrued bonuses	122	119

5. Notes to consolidated Statement of comprehensive income

Reclassification adjustments and tax effects related to other comprehensive income were as follows:

	Millions of yen	
	for the year ended March 31,	
	2012	
Net unrealized gain (loss) on other securities, net of taxes		
Gains (losses) arising during the year	¥ 146	
Reclassification adjustments		8
Total before tax effect		154
Tax effect		(44)
Net unrealized gain (loss) on other securities, net of taxes		111
Deferred gain (loss) on hedging, net of taxes		
Gains (losses) arising during the year	¥ 11	
Tax effect		(5)
Deferred gain (loss) on hedging, net of taxes		7
Foreign currency translation adjustments		
Gains (losses) arising during the year	¥ 11	
Share of other comprehensive income of associates accounted for using equity method		
Gains (losses) arising during the year	¥ 33	
Total other comprehensive income	¥ 161	

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

(a) Type and number of outstanding shares

Type of shares	March 31, 2011			
	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	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

March 31, 2012				
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	9,140,165	2,007,067	2,030	11,145,202
Total	9,140,165	2,007,067	2,030	11,145,202

The summary of the main change reason

Increase by the repurchase of shares less than one unit	7,067 shares
by the acquisition of the treasury stock by the board of directors resolution	2,000,000 shares
Decrease by the sale of shares less than one unit	2,030 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 24, 2010	Annual general meeting of shareholders	Common stock	563,155	Retained earnings	8	March 31, 2010	June 25, 2010
June 24, 2011	Annual general meeting of shareholders	Common stock	555,041	Retained earnings	8	March 31, 2011	June 27, 2011

(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 22, 2012	Annual general meeting of shareholders	Common stock	539,001	Retained earnings	8	March 31, 2012	June 25, 2012

7. Notes to the Consolidated Statements of Cash Flows

	Millions of yen	
	March 31,	
	2011	2012
Cash in hand and in banks	¥ 5,067	¥ 5,754
Time deposits with a deposit term of over 3 months	(205)	(217)
Cash and cash equivalents	<u>¥ 4,862</u>	<u>¥ 5,537</u>

8. Fair Value of Financial Instruments

(a) The fair value and book value of financial instruments as of March 31, 2011 and March 31, 2012, other than items of which fair value are not practically available, are as follows:

	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)	¥ —

	Millions of yen		
	March 31, 2012		
	Book value	Fair value	Difference
Cash and deposits	¥ 5,754	¥ 5,754	¥ —
Notes and accounts receivable	12,525	12,525	—
Investments in securities	2,894	2,894	—
Total	¥ 21,173	¥ 21,173	¥ —
Notes and accounts payable	¥ 15,704	¥ 15,704	¥ —
Long-term debt	4,000	4,000	—
Total	¥ 19,704	¥ 19,704	¥ —

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

	Millions of yen	
	March 31, 2011	March 31, 2012
	Book value	Book value
Non-listed shares *	¥ 1,384	¥ 1,052
Membership deposit *	3,174	3,048

* 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, 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	

	Millions of yen			
	March 31, 2012			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and deposits	¥ 5,736	¥ —	¥ —	¥ —
Notes and accounts receivable	12,525	—	—	—
Investments in securities				
Government bonds	—	—	125	15
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, 2011 and 2012:

	Millions of yen		
	March 31, 2011		
	Book value	Acquisition cost	Difference
Securities with book value exceeding acquisition cost:			
Equity securities	¥ 1,129	¥ 715	¥ 414
Government bonds	45	44	1
Corporate bonds	101	100	1
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

	Millions of yen		
	March 31, 2012		
	Book value	Acquisition cost	Difference
Securities with book value exceeding acquisition cost:			
Equity securities	¥ 1,353	¥ 886	¥ 467
Government bonds	118	115	3
Corporate bonds	50	50	0
Sub-total	¥ 1,521	¥ 1,051	¥ 470
Securities with book value not exceeding acquisition cost:			
Equity securities	¥ 1,310	¥ 1,408	¥ (97)
Government bonds	13	13	(0)
Corporate bonds	49	50	(1)
Sub-total	¥ 1,373	¥ 1,471	¥ (98)
Total	¥ 2,894	¥ 2,522	¥ 372

(b) Impairment losses of ¥8 million were recorded to write down book value of investments in securities for the year ended March 31, 2012.

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)

There is no applicable for the year ended March 31, 2012.

11. Reserve for Retirement Benefits to Employees

- (a) Employees of the Company is covered by a defined-benefit corporate pension plan and defined-contribution allowance plan. Employees of its domestic subsidiaries are covered by termination allowance plan or defined-contribution pension plan.
- (b) The reserve for retirement benefits as of March 31, 2011 and 2012 is analyzed as follows:

	Millions of yen	
	March 31,	
	2011	2012
Projected benefit obligations	¥ (4,038)	¥ (3,793)
Plan assets	3,035	2,774
Unfunded benefit obligations.....	(1,003)	(1,019)
Unrecognized actuarial differences.....	501	535
Unrecognized prior service cost.....	(68)	(61)
Total.....	(570)	(545)
Prepaid pension costs	—	—
Reserve for retirement benefits to employees.....	¥ (570)	¥ (545)

- (c) The net periodic expenses related to retirement benefits for the fiscal year 2011 and 2012 are as follows:

	Millions of yen	
	March 31,	
	2011	2012
Service costs.....	¥ 181	¥ 136
Interest costs.....	99	79
Expected return on plan assets.....	(78)	(60)
Amortization of actuarial differences	93	60
Amortization of prior service cost.....	(8)	(8)
Loss on revision of retirement benefit system	39	—
Premium amount of payment to a defined by termination allowance plan or defined-contribution pension plan.....	—	45
Retirement benefits expense.....	¥ 325	¥ 253

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

	As of March 31,	
	2011	2012
Method of attributing the projected benefits to period of services.....	Straight-line basis	Straight-line basis
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	2.0%	2.0%
Amortization periods of actuarial differences	10 years	10 years
Amortization periods of prior service costs.....	10 years	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,	
	2011	2012
Deferred tax assets:		
Write-down of fixed assets	¥ 1,790	¥ 1,020
Allowance for doubtful accounts	952	831
Write-down of marketable securities.....	324	400
Intercompany profits.....	318	293
Loss on valuation of real estate for sale	846	866
Operating loss carry forwards	3	71
Unrealized gain on hedging derivatives.....	5	—
Other	866	730
Total gross deferred tax assets	5,103	4,211
Valuation allowance.....	(3,049)	(2,315)
	2,054	1,895
Deferred tax liabilities:		
Reserve for advanced depreciation.....	(72)	(63)
Unrealized gain on other securities.....	(86)	(132)
Total gross deferred tax liabilities	(159)	(195)
Net deferred tax assets.....	¥ 1,896	¥ 1,701

- (b) The reconciliation between the statutory tax rate and the effective tax rate as at March 31, 2011 and 2012 is presented below:

	As of March 31, 2012
Statutory tax rate.....	40.4%
Permanent differences on expenses not deductible	3.0
Permanent differences on income not taxable	(1.2)
Accrued bonuses to directors and statutory auditors not deductible	1.3
Inhabitant taxes per capita.....	2.1
Valuation allowance	(36.4)
Influence by effective tariff change	10.5
Other.....	(1.0)
Effective tax rate.....	18.7%

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

- (c) Reversal of the amount of deferred tax assets and liabilities due to the change in the corporate tax rate

The “Act for Partial Revision of the Income Tax Act etc. for the Purpose of Creating Taxation System Responding to Changes in Economic and Structures” (Act No.114 of 2011) and the “Act on special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake” (Act No.117 of 2011) were promulgated on December 2, 2011. The reduction of the corporate tax rate and a temporary special reconstruction corporate tax will apply to corporate taxes effective fiscal years beginning on or after April 1, 2012. Therefore, the effective statutory tax rate used to measure the Corporation’s deferred tax assets and liabilities was changed from 40.4% to 37.8% for temporary differences expected to be utilized from fiscal years beginning April 1, 2012 to April 1, 2014 and from 40.4% to 35.4% for temporary differences expected to be utilized from fiscal years beginning April 1, 2015.

As a result of these changes in the tax rate, deferred tax assets (net of the amount of deferred tax liabilities) decreased by ¥100 million, deferred income taxes increased by ¥118 million.

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.

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

	<u>Millions of yen</u> <u>2011</u>	
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).

Notes are not disclosed as the importance is scarce for the year ended March 31, 2012.

14. Segment Information

(1) The segment information of the Company and its subsidiaries for the year ended March 31, 2011 and 2012 is presented below:

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

Construction..... Construction, engineering works, development and sale of real estate.

Golf courses..... 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, 2011 and 2012 is presented below:

<u>Millions of Yen</u> <u>March 31, 2011</u>									
	Construction	Golf courses	Hotels	Advertising agent	Total	Reconciliations	Consolidated		
I . Net sales and Operating income									
Net sales									
Customers	¥ 55,205	¥ 262	¥ 399	¥ 1,197	¥ 57,063	¥ —	¥ 57,063		
Intersegment or transfer	4	1	3	91	98	(98)	—		
Total	55,209	263	402	1,288	57,161	(98)	57,063		
Operating income (loss)	¥ 910	¥ (55)	¥ 40	¥ 24	¥ 919	¥ —	¥ 919		
II . Other									
Depreciation and amortization	208	23	39	6	276	—	276		

<u>Millions of Yen</u> <u>March 31, 2012</u>									
	Construction	Golf courses	Hotels	Advertising agent	Total	Reconciliations	Consolidated		
I . Net sales and Operating income									
Net sales									
Customers	¥ 50,440	¥ 274	¥ 399	¥ 1,239	¥ 52,351	¥ —	¥ 52,351		
Intersegment or transfer	206	1	5	78	290	(290)	—		
Total	50,646	275	404	1,317	52,641	(290)	52,351		
Operating income	¥ 1,010	¥ 4	¥ 15	¥ 37	¥ 1,066	¥ —	¥ 1,066		
II . Other									
Depreciation and amortization	195	20	33	6	254	—	254		

15. Per Share Data

Net assets per share and net income per share as of and for the year ended March 31, 2011 and 2012 are as follows:

	Yen	
	2011	2012
Net assets per share	¥ 305.37	¥ 316.73
Net income per share – primary	8.07	13.13

1. Basis of net income per share of common stock

	Millions of yen	
	2011	2012
Net income	¥ 561	¥ 900
Net income pertaining to common stock	¥ 561	¥ 900
Average outstanding shares of common stock	69,563 thousand shares	68,552 thousand shares

2. Basis of net assets per share of common stock

	Millions of Yen	
	2011	2012
Net assets.....	¥ 21,636	¥ 21,802
Amounts deducted from net assets.....	496	510
Minority interests.....	496	510
Net assets applicable to common stock	21,141	21,291
Number of shares of common stock at end of year	69,228 thousand shares	67,223 thousand shares

16. Important subsequent phenomenon

The company resolved effacing treasury stocks by board of directors of holding on June 22, 2012 as follows.

- (1) The kind of stocks to efface
The common stock of the company
- (2) The number of the stocks to efface
10,000,000 stocks
(The percentage to the all issued stocks (including treasury stocks) before efface is 12.76%.)
- (3) All issue stocks after efface
68,368,532 stocks (including treasury stocks)
- (4) The date to efface
June 29, 2012

BOARD OF DIRECTORS, STATUTORY AUDITORS AND EXECUTIVE OFFICERS AS OF MARCH 31, 2012

Board of Directors

Chairman and President, Representative Director

Takahiro Kitano

Vice President, Representative Director

Kimio Shiozawa

Director

Shinsuke Nishida

Yoshikatsu Yamazaki

Yoshitada Mikami

Zentaro Ozawa

Outside Director

Yoshinori Uda

Statutory Auditors

Permanent Auditor

Noboru Takizawa

Auditor

Toshiyuki Tsukada

Yoshichika Owa

Kazumichi Hanyu

Executive Officers

President and Executive Officer

Takahiro Kitano *

Vice President and Executive Officer

Kimio Shiozawa *

Senior Executive Officer

Shinsuke Nishida *

Yoshikatsu Yamazaki *

Yoshitada Mikami *

Toshiro Maki

Managing Executive Officer

Itsuo Takeuchi

Zentaro Ozawa *

Nagayoshi Matsumoto

Executive Officer

Toshiaki Yamagishi

Kiyonori Nakashima

Yoshito Iwasaki

Masakatsu Kobayashi

* : Member of Board of Directors

KITANO
CONSTRUCTION CORP.