

The background of the cover features a light-colored, veined marble texture. Two classical columns with fluted shafts and ornate capitals are positioned on the left and right sides. The capitals are decorated with intricate carvings, including acanthus leaves and circular medallions. The title is centered in the upper half of the page.

2007 ANNUAL REPORT

BALANCE SHEETS

AS OF MARCH 31, 2006 AND 2007

	Millions of Yen	
	March 31,	
	2006	2007
ASSETS		
Current Assets:		
Cash in hand and in banks.....	¥ 5,416	¥ 2,653
Notes receivable, trade	3,629	3,531
Accounts receivable from completed contracts.....	5,723	8,491
Accounts receivable — other	170	515
Real estate for sale	405	508
Cost of construction in progress	13,269	14,349
Cost of uncompleted development projects	1,187	6,860
Deferred income taxes.....	418	499
Other current assets.....	612	675
Less: allowance for doubtful accounts	(193)	(117)
Total current assets	30,636	37,964
Fixed Assets:		
Tangible Fixed Assets:		
Buildings and structures	2,778	2,648
Machinery and equipment	751	766
Land	5,079	5,066
Other.....	25	21
Total tangible fixed assets.....	8,633	8,501
Intangible Fixed Assets.....	42	35
Investments:		
Investments in securities	7,629	6,660
Investments in and advances to subsidiaries and affiliates	6,985	6,859
Long-term loans	719	690
Guarantee deposit.....	876	878
Other investments.....	528	513
Less: allowance for doubtful accounts	(1,958)	(1,953)
Total investments	14,779	13,647
Total fixed assets.....	23,454	22,183
	¥ 54,090	¥ 60,147

The accompanying notes are an integral part of these statements.

		Millions of Yen	
		March 31,	
		2006	2007
LIABILITIES			
Current Liabilities:			
Notes payable	¥	4,499	¥ 5,543
Accounts payable for construction		12,398	11,066
Accounts payable for development projects		3	8
Short-term loans		—	6,026
Other accounts payable and accrued expenses		187	201
Income taxes payable		27	56
Advances received on construction in progress.....		10,745	11,300
Accrued bonuses to employees		265	289
Accrued bonuses to directors and statutory auditors		—	60
Accrued warranty		53	44
Allowance for losses on construction contracts		23	105
Other current liabilities.....		427	656
Total current liabilities.....		28,627	35,354
Long-term Debt:			
Reserve for retirement benefits to employees.....		523	482
Reserve for retirement benefits to officers		896	942
Long-term guarantee deposit		77	74
Deferred income taxes.....		450	269
Other long-term debt.....		1	0
Total long-term debt		1,947	1,767
Total liabilities		30,574	37,121
NET ASSETS			
Shareholders' equity:			
Common stock.....		9,116	9,116
Authorized — 200,000,000 shares			
Issued — 78,368,532 shares as of March 31, 2006 and 2007			
Capital surplus		7,402	7,402
Retained earnings		5,982	6,074
Treasury stock.....		(1,750)	(1,760)
Total shareholders' equity.....		20,750	20,832
Valuation and translation adjustments:			
Unrealized gain on other securities.....		2,766	2,188
Unrealized gain on hedging derivatives.....		—	6
Total valuation and translation adjustments		2,766	2,194
Total net assets.....	¥	23,516	¥ 23,026
	¥	54,090	¥ 60,147

The accompanying notes are an integral part of these statements.

STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED MARCH 31, 2006 AND 2007

	Millions of Yen for the year ended March 31,	
	2006	2007
Net Sales:		
Completed construction contracts.....	¥ 58,798	¥ 62,371
Real estate development and engineering.....	1,008	1,369
	59,806	63,740
Cost of Sales:		
Completed construction contracts.....	54,762	58,186
Real estate development and engineering.....	821	1,148
	55,583	59,334
Gross profit.....	4,223	4,406
Selling, General and Administrative Expenses.....	3,300	3,400
Operating income	923	1,006
Non-Operating Income/(Losses):		
Interest income	47	50
Interest expenses.....	(60)	(77)
Gain on foreign exchange.....	20	7
Other, net	48	74
	978	1,060
Special Items:		
Gain on sales of fixed assets	2,771	5
Write-down of investments in subsidiaries	(80)	—
Allowance for doubtful accounts	(2)	—
Other, net	118	(3)
Income before income taxes.....	3,785	1,062
Income taxes:		
Current.....	30	28
Deferred.....	164	124
Net income.....	¥ 3,591	¥ 910

The accompanying notes are an integral part of these statements.

STATEMENTS OF CHANGES IN NET ASSETS

FOR THE YEARS ENDED MARCH 31, 2006 AND 2007

	Number of shares of common stock (thousands)	Millions of Yen								
	Common stock	Capital surplus	Legal reserve	Voluntary reserve	Retained earnings	Treasury stocks	Unrealized gain on other securities	Unrealized gain on hedging derivatives	Total net assets	
Balance at March 31, 2005	75,211	9,116	9,616	2,284	4,366	(6,024)	(687)	1,320	—	19,991
Net gain for the year ended March 31, 2006 ..	—	—	—	—	—	3,591	—	—	—	3,591
Year-end cash dividends (¥6.0 per share)	—	—	(451)	—	—	—	—	—	—	(451)
Reversal of voluntary reserve	—	—	—	—	(4,260)	4,260	—	—	—	—
Transfer of capital surplus	—	—	(1,764)	—	—	1,764	—	—	—	—
Gain on sale of treasury stock	—	—	1	—	—	—	—	—	—	1
Increase in treasury stock	(3,304)	—	—	—	—	—	(1,062)	—	—	(1,062)
Adjustment for the year ..	—	—	—	—	—	—	—	1,466	—	1,446
Balance at March 31, 2006	71,907	9,116	7,402	2,284	106	3,591	(1,749)	2,766	—	23,516
Net gain for the year ended March 31, 2007...	—	—	—	—	—	910	—	—	—	910
Year-end cash dividends (¥6.0 per share)	—	—	—	—	—	(647)	—	—	—	(647)
Bonuses to directors and statutory auditors	—	—	—	—	—	(170)	—	—	—	(170)
Gain on sale of treasury stock	—	—	0	—	—	—	3	—	—	3
Increase in treasury stock	(36)	—	—	—	—	—	(14)	—	—	(14)
Adjustment for the year ..	—	—	—	—	—	—	—	(578)	6	(572)
Balance at March 31, 2007	71,871	9,116	7,402	2,284	106	3,684	(1,760)	2,188	6	23,026

The accompanying notes are an integral part of these statements.

NOTES TO THE NON-CONSOLIDATED

FINANCIAL STATEMENTS

1. Basis of Presenting the Non-Consolidated Financial Statements

The accompanying non-consolidated financial statements have been prepared from the accounts and records maintained by Kitano Construction Corp. (the "Company") in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

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

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

2. Significant Accounting Policies

(a) Revenue Recognition from Construction Contracts

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

(b) Inventory Valuation

Real estate for sale, the cost of construction in progress and the cost of uncompleted development projects are valued at cost on an individual project basis. Other inventories, consisting primarily of scaffolding, are valued at cost which is determined by moving average method.

(c) 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. 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.

(d) 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.

(e) Accrued Warranty

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

(f) Accrued Bonuses to Employees

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

(g) Accrued Bonuses to Directors and Statutory Auditors

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

(h) Reserve for Retirement Benefits to Officers

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

(i) Pension and severance costs

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.

(j) Allowance for losses on construction contracts

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

(k) Leases

Finance leases other than those which are deemed to transfer the ownership of the leased assets to the lessees are accounted for by a method similar to that applicable to ordinary operating leases.

(l) Consumption Tax

The consumption tax withheld by the Company on sales of construction and projects and consumption tax paid by the Company on its purchases of goods and services is not included in the amounts of the relevant accounts in the accompanying statements of operations. The consumption tax withheld and paid is recorded as an asset or a liability, as the case may be, and the net balance is shown in the balance sheets.

Non-deductible consumption tax and local consumption tax are charged to current net income as expenses.

(m) 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.

(n) 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.

3. Notes to the Non-Consolidated Balance Sheets

	Millions of Yen			
	March 31,			
	2006		2007	
(1) Short-term accounts receivable from subsidiaries and affiliates.....	¥	28	¥	11
(2) Assets pledged as collateral:				
Buildings.....		366		353
Land.....		1,161		1,161
(3) Contingent liabilities from guarantee of indebtedness of others.....		1,290		1,260

4. Notes to the Non-Consolidated Statement of Operations

Selling, general and administrative expenses included the following:

	Millions of Yen			
	for the year ended			
	March 31,		March 31,	
	2006		2007	
Depreciation.....	¥	125	¥	110
Payroll.....		1,220		1,202
Allowance for accrued bonuses		83		96

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

(a) Type and number of treasury stock

Type of shares	March 31, 2007			
	Number of shares			
	Balance at Beginning of year	Increase in shares during the year	Decrease in shares during the year	Balance at end of year
Treasury stock				
Common stock	6,461,085	47,409	10,580	6,497,914
Total	6,461,085	47,409	10,580	6,497,914

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

6. Lease Transactions

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

	Millions of Yen	
	March 31,	
	2006	2007
Machinery, equipment and other		
Acquisition cost.....	¥ 83	¥ 74
Accumulated depreciation.....	(34)	(43)
Net book value.....	¥ 49	¥ 31
The future lease payments including representing interest		
Due within one year.....	¥ 18	¥ 12
Due over one year.....	31	19
	¥ 49	¥ 31
Lease expenses for the year.....	¥ 21	¥ 18
An amount equivalent to depreciation.....	¥ 21	¥ 18

7. Income Taxes

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,	
	2006	2007
Deferred tax assets:		
Allowance for doubtful accounts.....	¥ 1,004	¥ 1,006
Reserve for accrued retirement benefits to officers.....	362	381
Write-down of fixed assets.....	1,752	1,715
Write-down of marketable securities.....	31	31
Write-down of investments in subsidiaries and affiliates.....	780	780
Operating loss carryforwards.....	1,212	668
Other.....	894	991
Total gross deferred tax assets.....	6,035	5,572
Valuation allowance.....	(4,121)	(3,782)
	1,914	1,790

	Millions of Yen	
	March 31,	
	2006	2007
Deferred tax liabilities:		
Reserve for advanced depreciation.....	(72)	(72)
Unrealized gain on other securities.....	(1,875)	(1,483)
Unrealized gain on hedging derivatives.....	—	(4)
	(1,947)	(1,559)
Net deferred tax assets.....	¥ (33)	¥ 231
Statutory tax rate.....		40.4%

As a loss before income taxes was recorded, no reconciliation of the statutory tax rate and the effective tax rate for the year ended March 31, 2006 was recognized.

8. Per Share Data

Net assets per share and net income per share as of and for the years ended March 31, 2006 and 2007 are as follows:

	Yen	
	2006	2007
Net assets per share	¥ 324.67	¥ 320.38
Net income per share — primary	47.04	12.66

	Millions of Yen	
	2006	2007
Net income	¥ 3,591	¥ 910
Less: Components not pertaining to common shareholders:		
Bonuses to directors and corporate auditors	(170)	—
Net income pertaining to common stock	¥ 3,421	¥ 910
Average outstanding shares of common stock	72,731 thousand shares	71,888 thousand shares

CONSOLIDATED BALANCE SHEETS

AS OF MARCH 31, 2006 AND 2007

	Millions of Yen	
	March 31,	
	2006	2007
ASSETS		
Current Assets:		
Cash in hand and in banks.....	¥ 6,025	¥ 3,291
Notes and accounts receivable	9,703	12,416
Real estate for sale	636	739
Cost of construction in progress	13,269	14,349
Cost of uncompleted development projects	1,187	6,860
Inventories - materials and supplies	78	67
Deferred income taxes.....	426	507
Other current assets.....	861	1,244
Less: allowance for doubtful accounts	(86)	(77)
Total current assets	32,099	39,396
Fixed Assets:		
Tangible Fixed Assets:		
Buildings and structures.....	14,525	14,683
Machinery and equipment	1,623	1,658
Golf course	1,967	1,967
Land.....	8,187	8,181
Construction in progress	3	129
Other.....	1,894	1,899
Less: accumulated depreciation	(9,212)	(9,587)
Total tangible fixed assets.....	18,987	18,930
Cost in excess of net assets of subsidiaries	426	265
Other intangible fixed assets.....	627	619
	1,053	884
Investments:		
Investments in securities	8,119	6,933
Long-term loans	3,099	3,202
Deferred income taxes.....	167	215
Other investments.....	1,421	1,409
Less: allowance for doubtful accounts	(1,524)	(1,595)
Total investments.....	11,282	10,164
Total fixed assets.....	31,322	29,978
	¥ 63,421	¥ 69,374

The accompanying notes are an integral part of these statements.

		Millions of Yen	
		March 31,	
		2006	2007
LIABILITIES			
Current Liabilities:			
Notes and accounts payable	¥	17,333	¥ 17,040
Short-term bank loans.....		1,389	7,323
Income taxes payable		67	71
Advances received on construction in progress.....		10,745	11,300
Advances received on uncompleted development projects		2	321
Accrued bonuses to employees		277	299
Accrued bonuses to directors and statutory auditors		—	68
Accrued warranty		53	44
Allowance for losses on construction contracts		23	105
Other current assets		717	637
Total current liabilities.....		30,606	37,208
Long-Term Debt:			
Reserve for retirement benefits to employees.....		632	587
Reserve for retirement benefits to officers		895	943
Membership deposit.....		6,419	6,322
Other long-term debt.....		79	75
Total long-term debt		8,025	7,927
NET ASSETS			
Shareholders' equity			
Common stock		9,116	9,116
Authorized — 200,000,000 shares			
Issued — 78,368,532 shares as of March 31, 2006 and 2007			
Capital surplus		7,426	7,426
Retained earnings		5,713	5,760
Treasury stock.....		(1,807)	(1,828)
Total shareholders' equity		20,448	20,474
Valuation and translation adjustments			
Unrealized gain on other securities.....		2,767	2,189
Unrealized gain on hedging derivatives.....		—	6
Foreign currency translation adjustments		(12)	17
Total valuation and translation adjustments.....		2,755	2,212
Minority interests.....		1,587	1,553
Total net assets.....	¥	24,790	¥ 24,239
	¥	63,421	¥ 69,374

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED MARCH 31, 2006 AND 2007

	Millions of Yen	
	March 31,	
	2006	2007
Net Sales:		
Completed construction contracts.....	¥ 58,799	¥ 62,291
Real estate development and engineering.....	6,057	6,454
	64,856	68,745
Cost of Sales:		
Completed construction contracts.....	54,762	58,106
Real estate development and engineering.....	3,810	4,195
	58,572	62,301
Gross profit.....	6,284	6,444
Selling, General and Administrative Expenses.....	5,334	5,364
Operating income	950	1,080
Non-Operating Income/(Losses):		
Interest and dividend income	77	86
Interest expenses.....	(78)	(95)
Foreign exchange gain.....	507	37
Equity in gains of affiliates.....	83	83
Other, net	63	99
	1,602	1,290
Special Items:		
Gain on sales of fixed assets.....	2,771	5
Loss on disposal of fixed assets	(4)	(7)
Impairment loss on fixed assets	(258)	—
Other, net	67	1
Income before income taxes and minority interests.....	4,178	1,289
Income taxes		
Current.....	88	70
Deferred.....	183	259
Minority Interests in Earnings of Consolidated Subsidiaries	(440)	(95)
Net income.....	¥ 3,467	¥ 865

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

FOR THE YEARS ENDED MARCH 31, 2006 AND 2007

	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, 2005	74,857	9,116	9,616	489	1,320	(753)	—	(107)	1,055	20,736
Net gain for the year ended March 31, 2006...	—	—	—	3,467	—	—	—	—	—	3,467
Cash dividends.....	—	—	(447)	—	—	—	—	—	—	(447)
Bonuses to directors and statutory auditors	—	—	—	(6)	—	—	—	—	—	(6)
Transfer of capital surplus	—	—	(1,763)	1,763	—	—	—	—	—	—
Increase in treasury stock.....	(3,215)	—	—	—	—	(1,054)	—	—	—	(1,054)
Gain on sale of treasury stock.....	—	—	20	—	—	—	—	—	—	20
Adjustment for the year..	—	—	—	—	1,447	—	—	95	532	2,074
Balance at March 31, 2006	71,642	9,116	7,426	5,713	2,767	(1,807)	—	(12)	1,587	24,790
Net Gain for the year ended March 31, 2007...	—	—	—	865	—	—	—	—	—	865
Cash dividends.....	—	—	—	(642)	—	—	—	—	—	(642)
Bonuses to directors and statutory auditors	—	—	—	(177)	—	—	—	—	—	(177)
Increase in treasury stock.....	(78)	—	—	—	—	(14)	—	—	—	(14)
Gain on sale of treasury stock	—	—	0	—	—	2	—	—	—	2
Other	—	—	(0)	1	—	(9)	—	—	—	(8)
Adjustment for the year..	—	—	0	—	(578)	—	6	29	(34)	(577)
Balance at March 31, 2007	71,564	9,116	7,426	5,760	2,189	(1,828)	6	17	1,553	24,239

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED MARCH 31, 2006 AND 2007

	Millions of Yen	
	2006	2007
Cash flows from operating activities:		
Net income before income taxes.....	¥ 4,178	¥ 1,289
Adjustments for:		
Depreciation.....	447	449
Impairment loss on fixed assets.....	258	—
Equity in gains of affiliates.....	(83)	(83)
Interest and dividend income.....	(77)	(86)
Interest expenses.....	78	95
Gain on sales of fixed assets.....	(2,771)	(5)
Foreign exchange loss.....	(429)	(37)
Increase in reserve for retirement benefits to employees and officers.....	101	1
Increase/(decrease) in accrued warranty.....	2	(9)
Increase in allowance for losses on construction contracts.....	23	82
Increase in accrued bonuses.....	13	22
Increase/(decrease) in allowance for doubtful accounts.....	(10)	14
(Increase)/decrease in notes and accounts receivable.....	948	(2,710)
(Increase) in cost of construction in progress and cost of uncompleted development projects.....	(4,787)	(6,754)
(Increase)/decrease in real estate for sale and inventories.....	127	(92)
Increase/(decrease) in notes and accounts payable.....	3,185	(295)
Increase in advances received on construction in progress.....	2,221	556
Other.....	(253)	(193)
Sub-total.....	3,171	(7,756)
Interest and dividend income received.....	77	86
Interest expenses paid.....	(79)	(95)
Income taxes paid.....	(109)	(66)
Net cash provided by/(used in) operating activities.....	3,060	(7,831)
Cash flows from investing activities:		
Payment for making time deposit.....	(271)	(232)
Proceeds from withdraw of time deposit.....	117	271
Payments for purchase of fixed assets.....	(212)	(324)
Proceeds from sale of fixed assets.....	6,325	23
Payments for purchase of investments in securities.....	(9)	(4)
Proceeds from sale of investments in securities.....	71	223
Payments for loans.....	(38)	(42)
Collections of loans.....	41	67
Proceeds from sale of shares of a consolidated subsidiary.....	100	—
Other.....	33	(1)
Net cash provided by/(used in) investing activities.....	6,157	(19)
Cash flows from financing activities:		
Increase/(decrease) in short-term bank loans, net.....	(4,438)	5,934
Repayments of long-term bank loans.....	(535)	—
Purchase of treasury stock.....	(984)	(11)
Purchases of subsidiary's treasury stock by the subsidiary.....	—	(128)
Cash dividends paid.....	(455)	(645)
Net cash provided by/(used in) financing activities.....	(6,412)	5,150
Effect of exchange rate changes on cash and cash equivalents.....	5	4
Net increase/(decrease) in cash and cash equivalents.....	2,810	(2,696)
Cash and cash equivalents of beginning of year.....	2,945	5,755
(Decrease)/Increase in cash and cash equivalents due to merger.....	—	—
Cash and cash equivalents of end of year.....	¥ 5,755	¥ 3,059

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presenting Consolidated Financial Statements

(a) Accounting Principles

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

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

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

(b) Scope of Consolidation

The Company had 8 subsidiaries (majority-owned companies) as at March 31, 2007 (8 for 2006). The consolidated financial statements in fiscal years ended March 31, 2007 include the accounts of the Company and 7 (7 for 2006) of its subsidiaries "the Companies", which are listed below:

•Kawanakajima Tochi Kaihatsu Co., Ltd.	69.23% owned
•Kisokougen Kaihatsu Co., Ltd.	50.00% owned
•Solomon Kitano Mendana Hotel Limited.	100.00% owned
•Western samoa Kitano Limited.	99.00% owned
•Asahi Agency Co., Ltd.	52.40% owned
•Kitano Arms Corp.	57.95% owned
•Hakubai Inc.	57.95% owned

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

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

2. Summary of Significant Accounting Policies

(a) Principles of Consolidation

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

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

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

(b) Investment in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates are stated at cost.

The equity method of accounting for such investments is applied to Sakura Hanoi Plaza Investment Company Limited, which is an affiliate of the Company, since the application of this method has significant effect on the net income and retained earnings of the Companies.

(c) Revenue Recognition from Construction Contracts

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

(d) Inventory Valuation

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

(e) Depreciation

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

(f) Allowance for Doubtful Accounts

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

(g) Accrued Warranty

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

(h) Accrued Bonuses to Employees

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

(i) Accrued Bonuses to Directors and Statutory Auditors

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

(j) Reserve for Retirement Benefits to Officers

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

(k) Reserve for Retirement Benefits to Employees

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

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

(l) Allowance for losses on construction contracts

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

(m) Leases

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

(n) Cash and Cash Equivalents

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

(o) Income Taxes

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

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

(p) Securities Valuation

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

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

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

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

(q) Hedge Accounting

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

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

(r) Reclassification of Accounts

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

3. Notes to the Consolidated Balance Sheets

	Millions of Yen	
	March 31,	
	2006	2007
(1) Investments in unconsolidated subsidiaries and affiliates.....	¥ 10	¥ 13
(2) Assets pledged as collateral		
Buildings.....	366	353
Land	1,160	1,161

4. Notes to Consolidated Statements of Operations

- (1) Charges to income for warranty which is included in "Cost of Sales-completed construction contracts" was ¥53 million for the year ended March 31, 2006, and ¥44 million for the year ended March 31, 2007. Allowance for accrued bonuses included in "Cost of Sales-completed construction contracts" was ¥182 million for the year ended March 31, 2006, and ¥193 million for the year ended March 31, 2007. Allowance for loss on construction contract included in "Cost of Sales-completed construction contracts" was ¥23 million for the year ended March 31, 2006, and ¥98 million for the year ended March 31, 2007.

- (2) Selling, general and administrative expenses included the following:

	Millions of Yen	
	for the year ended March 31,	
	2006	2007
Depreciation	¥ 358	¥ 377
Payroll.....	1,822	1,793
Allowance for accrued bonuses.....	83	164

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

(a) Type and number of outstanding shares

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

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

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

(b) Dividends

(1) Dividends paid to shareholders

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

(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 28, 2007	Annual general meeting of shareholders	Common stock	431,224	Retained earnings	6	March 31, 2007	June 29, 2007

6. Notes to the Consolidated Statements of Cash Flows

Millions of Yen		
March 31,		
	2006	2007
Cash in hand and in banks	¥ 6,025	¥ 3,291
Time deposits with a deposit term of over 3 months	(270)	(232)
Cash and cash equivalents	¥ 5,755	¥ 3,059

7. Lease Transactions

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

Millions of Yen		
March 31,		
	2006	2007
Machinery, equipment and other		
Acquisition cost	¥ 183	¥ 165
Accumulated depreciation	(80)	(92)
Net book value	¥ 103	¥ 73
The future lease rental payment on such lease contracts		
Due within one year	¥ 39	¥ 31
Due over one year	64	42
Total	¥ 103	¥ 73
Lease rental expenses for the year	¥ 40	¥ 41
Including an amount equivalent to depreciation	¥ 40	¥ 41

8. Investments in Securities

- (a) As of March 31, 2007, "Other securities" are valued at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity.
- (b) The following tables summarize the book value and fair value of held-to-maturity debt securities as of March 31, 2006 and 2007:

Millions of Yen					
March 31, 2006					
	Book value		Fair value		Difference
Securities with fair value exceeding book value:					
Debt securities.....	¥	—	¥	—	¥ —
Sub-total.....	¥	—	¥	—	¥ —
Securities with fair value not exceeding book value:					
Debt securities.....	¥	5	¥	5	¥ 0
Sub-total.....	¥	5	¥	5	¥ 0
Total	¥	5	¥	5	¥ 0

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

- (c) The following tables summarize the acquisition cost and book value of available-for-sale securities as of March 31, 2006 and 2007:

Millions of Yen					
March 31, 2006					
	Acquisition cost		Book value		Difference
Securities with book value exceeding acquisition cost:					
Equity securities	¥	2,109	¥	6,754	¥ 4,645
Sub-total.....	¥	2,110	¥	6,754	¥ 4,645
Securities with book value not exceeding acquisition cost:					
Equity securities	¥	1	¥	1	¥ 0
Sub-total.....	¥	1	¥	1	¥ 0
Total	¥	2,110	¥	6,755	¥ 4,645

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

(d) Available-for-sale securities sold during the year ended March 31, 2006 and 2007, are as follows:

	Millions of Yen			
	2006		2007	
Proceeds from sale of securities.....	¥	71	¥	223
Gross realized gain on sale of available-for-sale securities	¥	69	¥	1
Gross realized loss on sale of available-for-sale securities	¥	—	¥	—

(e) The following tables summarize the book value of securities with no available fair value as of March 31, 2006 and 2007:

	2006		2007	
Available-for-sale securities				
Unlisted equity securities				
(excluding over-the-counter securities)	¥	1,348	¥	1,129

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

	Millions of Yen			
	March 31, 2006			
	Within one year	Over one year within five years	Over five years but within ten years	Over ten years
Held-to-maturity debt securities	¥ —	¥ 5	¥ —	¥ —
Total	¥ —	¥ 5	¥ —	¥ —

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

9. Reserve for Retirement Benefits to Employees

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

(b) The reserve for retirement benefits as of March 31, 2006 and 2007 is analyzed as follows:

	Millions of Yen	
	March 31,	
	2006	2007
Projected benefit obligations	¥ (5,158)	¥ (5,154)
Plan assets	4,983	5,185
Unfunded benefit obligations.....	(175)	31
Unamortized transition obligation.....	—	(618)
Unrecognized actuarial differences.....	(457)	—
Total	(632)	(587)
Prepaid pension costs	—	—
Reserve for retirement benefits to employees.....	¥ (632)	¥ (587)

(c) The net periodic expenses related to retirement benefits for the fiscal year 2006 and 2007 are as follows:

	Millions of Yen	
	March 31,	
	2006	2007
Service costs.....	¥ 199	¥ 190
Interest costs	126	126
Expected return on plan assets	(88)	(100)
Amortization of transition obligation.....	6	—
Recognition of actuarial differences	45	(13)
	¥ 288	¥ 203

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

	As of March 31,	
	2006	2007
Discount rate	2.5%	2.5%
Expected rate of return on plan assets	2.0%	2.0%
Method of attributing the projected benefits	Straight-line	Straight-line
To period of services	basis	basis
Amortization of actuarial differences	10 years	10 years

10. Income Taxes

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

	Millions of Yen	
	March 31,	
	2006	2007
Deferred tax assets:		
Write-down of fixed assets	¥ 1,752	¥ 1,714
Allowance for doubtful accounts	1,005	1,008
Reserve for retirement benefits to officers	362	383
Accrued enterprise taxes	3	0
Write-down of marketable securities	316	313
Intercompany profits	485	446
Operating loss carryforwards	1,518	803
Other	920	1,038
Total gross deferred tax assets	6,361	5,705
Valuation allowance	(3,819)	(3,422)
	2,542	2,283
Deferred tax liabilities:		
Reserve for advanced depreciation	(72)	(72)
Unrealized gain on other securities	(1,877)	(1,485)
Unrealized gain on hedging derivatives	—	(4)
Total gross deferred tax assets liabilities	(1,949)	(1,561)
Net deferred tax assets	¥ 593	¥ 722

(b) As a loss before income taxes was recorded, no reconciliation of the statutory tax rate and the effective tax rate for the year ended March 31, 2006 was required.

The reconciliation between the statutory tax rate and the effective tax rate as at March 31, 2007 is presented below:

Statutory tax rate	40.4%
Permanent differences on expenses not deductible	4.7
Permanent differences on income not taxable	(1.7)
Accrued bonuses to directors and statutory auditors not deductible	2.1
Inhabitant taxes per capita	2.6
Valuation allowance	(26.5)
Other	3.9
Effective tax rate	25.5%

11. Segment Information

Industry Segment Information

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

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

The segment information of the Company and its subsidiaries for the year ended March 31, 2006 and 2007 is presented below:

	Millions of Yen	
	2006	2007
Net sales:		
Construction	¥ 58,799	¥ 62,371
Development	1,008	1,369
Golf	654	648
Hotel	2,411	2,750
Advertising agency	2,077	1,786
	<u>64,949</u>	<u>68,924</u>
Less: intersegment transaction	(93)	(179)
	<u>64,856</u>	<u>68,745</u>
Operating expenses:		
Construction	58,007	61,514
Development	877	1,221
Golf	687	732
Hotel	2,246	2,483
Advertising agency	1,958	1,748
	<u>63,775</u>	<u>67,698</u>
Less: intersegment transaction	131	(33)
	<u>63,906</u>	<u>67,665</u>
Operating income	<u>¥ 950</u>	<u>¥ 1,080</u>
Assets:		
Construction	¥ 33,870	¥ 37,518
Development	3,431	9,582
Golf	7,677	7,456
Hotel	5,983	6,183
Advertising agency	1,281	1,078
	<u>52,242</u>	<u>61,817</u>
Other assets	11,179	7,557
	<u>¥ 63,421</u>	<u>¥ 69,374</u>
Depreciation:		
Construction	¥ 156	¥ 140
Development	45	45
Golf	47	44
Hotel	200	217
Advertising agency	10	8
	<u>¥ 458</u>	<u>¥ 454</u>
Impairment loss on fixed assets:		
Construction	¥ —	¥ —
Development	—	—
Golf	256	—
Hotel	—	—
Advertising agency	2	—
	<u>¥ 258</u>	<u>¥ —</u>

Capital expenditure:

Construction.....	
Development	
Golf.....	
Hotel.....	
Advertising agency	

Millions of Yen			
2006		2007	
¥	89	¥	51
	7		2
	19		22
	101		242
	3		—
¥	219	¥	317

12. Per Share Data

Net assets per share and net income per share as of and for the year ended March 31, 2006 and 2007 are as follows:

Net assets per share	
Net income per share – primary	

Yen			
2006		2007	
¥	321.41	¥	317.01
	45.42		12.08

Net income	
Less: Components not pertaining to common shareholders:	
Bonuses to directors and corporate auditors	
Net income pertaining to common stock	
Average outstanding shares of common stock	

Millions of Yen			
2006		2007	
¥	3,467	¥	865
	(177)		—
¥	3,290	¥	865
72,442 thousand shares		71,603 thousand shares	