

2009

FINANCIAL STATEMENTS

MARCH 31, 2008-2009

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Consolidated Balance Sheets

As of March 31, 2008 and 2009

	Millions of yen	
	March 31,	
	2008	2009
ASSETS		
Current Assets:		
Cash in hand and in banks	¥ 5,634	¥ 6,363
Notes and accounts receivable	7,985	11,476
Real estate for sale	698	5,217
Cost of construction in progress	13,312	14,028
Cost of uncompleted development projects	5,300	1,281
Inventories - materials and supplies	63	49
Deferred income taxes.....	593	1,197
Other current assets.....	1,230	2,904
Less: allowance for doubtful accounts	(73)	(638)
Total current assets	<u>34,741</u>	<u>41,876</u>
Fixed Assets:		
Tangible Fixed Assets:		
Buildings and structures.....	14,760	8,645
Machinery and equipment	1,444	771
Golf course	1,977	1,231
Land.....	8,216	7,666
Construction in progress	9	2
Other.....	1,930	1,792
Less: accumulated depreciation	(9,558)	(6,926)
Total tangible fixed assets	<u>18,777</u>	<u>13,181</u>
Cost in excess of net assets of subsidiaries	19	—
Other intangible fixed assets.....	615	40
	<u>634</u>	<u>40</u>
Investments:		
Investments in securities.....	5,133	4,207
Long-term loans	3,103	2,399
Deferred income taxes.....	853	707
Other investments	1,361	1,548
Less: allowance for doubtful accounts	(1,619)	(1,197)
Total investments.....	<u>8,831</u>	<u>7,663</u>
Total fixed assets	<u>28,243</u>	<u>20,884</u>
	<u>¥ 62,984</u>	<u>¥ 62,761</u>

The accompanying notes are an integral part of these statements.

	Millions of yen	
	March 31,	
	2008	2009
LIABILITIES		
Current Liabilities:		
Notes and accounts payable	¥ 14,893	¥ 17,025
Short-term bank loans	4,043	7,000
Income taxes payable	52	664
Advances received on construction in progress	10,615	11,029
Advances received on uncompleted development projects	4	40
Accrued bonuses to employees	336	301
Accrued bonuses to directors and statutory auditors	35	53
Accrued warranty	29	32
Allowance for losses on construction contracts	660	120
Other current assets	832	829
Total current liabilities	<u>31,499</u>	<u>37,093</u>
Long-Term Debt:		
Reserve for retirement benefits to employees	548	510
Reserve for retirement benefits to officers	986	—
Membership deposit	6,170	3,464
Other long-term debt	206	461
Total long-term debt	<u>7,910</u>	<u>4,435</u>
NET ASSETS		
Shareholders' equity		
Common stock	9,116	9,116
Authorized — 200,000,000 shares		
Issued — 78,368,532 shares as of March 31, 2008 and 2009		
Capital surplus	7,426	7,426
Retained earnings	6,235	6,430
Treasury stock	(1,841)	(2,156)
Total shareholders' equity	<u>20,937</u>	<u>20,816</u>
Valuation and translation adjustments		
Unrealized gain on other securities	1,096	241
Unrealized gain on hedging derivatives	(17)	17
Foreign currency translation adjustments	(48)	(276)
Total valuation and translation adjustments	<u>1,032</u>	<u>(18)</u>
Minority interests	1,608	434
Total net assets	<u>¥ 23,576</u>	<u>¥ 21,232</u>
	<u>¥ 62,984</u>	<u>¥ 62,761</u>

The accompanying notes are an integral part of these statements.

Consolidated Statements of Operations

For the years ended March 31, 2008 and 2009

	Millions of yen	
	March 31,	
	2008	2009
Net Sales:		
Completed construction contracts.....	¥ 58,109	¥ 63,081
Real estate development and engineering.....	12,329	2,770
	<u>70,439</u>	<u>65,851</u>
Cost of Sales:		
Completed construction contracts.....	54,993	58,066
Real estate development and engineering.....	8,717	1,933
	<u>63,711</u>	<u>59,999</u>
Gross profit.....	6,728	5,852
Selling, General and Administrative Expenses.....	5,265	4,291
Operating income	<u>1,463</u>	<u>1,561</u>
Non-Operating Income/(Losses):		
Interest and dividend income	102	274
Interest expenses.....	(195)	(175)
Foreign exchange losses.....	(247)	(157)
Equity in losses of affiliates	(72)	(329)
Other, net	163	110
	<u>1,215</u>	<u>1,285</u>
Special Items:		
Gain on sales of fixed assets.....	9	1
Loss on disposal of fixed assets.....	(16)	(15)
Impairment loss on fixed assets	(2)	(218)
Gain on sales of subsidiaries stocks	332	520
Loss from compensation for damage.....	(424)	—
Gain/(Loss) on sales of investment securities.....	(15)	434
Gain on bad debts recovered	—	367
Loss on valuation of real estate for sale	—	(221)
Provision of allowance for doubtful accounts.....	—	(553)
Other, net	(33)	(59)
Income before income taxes and minority interests	<u>1,065</u>	<u>1,541</u>
Income taxes		
Current.....	68	655
Deferred.....	33	99
Minority Interests in Earnings of Consolidated Subsidiaries	<u>(62)</u>	<u>(21)</u>
Net income	<u>¥ 902</u>	<u>¥ 766</u>

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2008 and 2009

	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 translation	Minority interests	Total net assets
Balance at March 31, 2007.....	71,564	9,116	7,426	5,760	2,189	(1,828)	6	16	1,553	24,240
Net Gain for the year ended March 31, 2008...	—	—	—	902	—	—	—	—	—	902
Cash dividends	—	—	—	(428)	—	—	—	—	—	(428)
Increase in treasury stock	(40)	—	—	—	—	(15)	—	—	—	(15)
Gain on sale of treasury stock	—	—	(0)	—	—	3	—	—	—	3
Other	—	—	—	—	—	—	—	—	—	—
Adjustment for the year ...	—	—	—	—	(1,093)	—	(23)	(64)	(54)	(1,126)
Balance at March 31, 2008.....	71,524	9,116	7,426	6,235	1,096	(1,841)	(17)	(48)	1,608	23,576
Net Gain for the year ended March 31, 2009 ...	—	—	—	766	—	—	—	—	—	766
Cash dividends	—	—	—	(571)	—	—	—	—	—	(571)
Increase in treasury stock	(1,391)	—	—	—	—	(320)	—	—	—	(320)
Gain on sale of treasury stock	—	—	(0)	—	—	2	—	—	—	2
Other	—	—	—	—	—	2	—	—	—	2
Adjustment for the year ...	—	—	—	—	(855)	—	33	(229)	(1,173)	(2,223)
Balance at March 31, 2009.....	70,133	9,116	7,426	6,430	241	(2,156)	17	(276)	434	21,232

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

For the year ended March 31, 2008 and 2009

	Millions of yen	
	2008	2009
Cash flows from operating activities:		
Net income before income taxes	¥ 1,065	¥ 1,541
Adjustments for:		
Depreciation	506	308
Impairment loss on fixed assets.....	2	218
Equity in (gains)/losses of affiliates.....	72	329
Interest and dividend income.....	(102)	(274)
Interest expenses	195	175
(Gain)/loss on sales of fixed assets	(9)	(1)
Foreign exchange (gains)/losses.....	138	53
Gain on bad debts recovered.....	—	(367)
Gain/(Loss) on sales of investment securities.....	15	(434)
Gain/(Loss) on sales of subsidiaries stocks.....	(332)	(520)
Increase/(Decrease) in reserve for retirement benefits to employees and officers	4	(983)
Increase/(Decrease) in accrued warranty.....	(14)	2
Increase/(Decrease) in allowance for losses on construction contracts...	555	(540)
Increase/(Decrease) in accrued bonuses	37	(32)
Increase/(Decrease) in allowance for doubtful accounts.....	(5)	575
(Increase)/Decrease in notes and accounts receivable.....	4,427	(3,562)
(Increase)/Decrease in cost of construction in progress and cost of uncompleted development projects	2,598	3,304
(Increase)/Decrease in real estate for sale and inventories	43	(4,686)
Increase/(Decrease) in notes and accounts payable	(2,140)	2,278
Increase/(Decrease) in advances received on construction in progress ...	(686)	415
Other	(219)	(1,871)
Sub-total	6,151	(4,073)
Interest and dividend income received	102	641
Interest expenses paid.....	(195)	(175)
Income taxes paid	(100)	(52)
Net cash provided by/(used in) operating activities	5,957	(3,659)
Cash flows from investing activities:		
Payment for making time deposit	(252)	(116)
Proceeds from withdraw of time deposit.....	231	250
Payments for purchase of fixed assets.....	(624)	(609)
Proceeds from sale of fixed assets.....	53	6
Payments for purchase of investments in securities	(601)	(894)
Proceeds from sale of investments in securities.....	498	801
Payments for loans.....	(390)	—
Collections of loans.....	691	2,266
Proceeds from sale of shares of a consolidated subsidiary.....	510	0
Other	33	(66)
Net cash provided by/(used in) investing activities	149	1,638
Cash flows from financing activities:		
Increase/(decrease) in short-term bank loans, net	(3,232)	4,000
Purchase of treasury stock	(13)	(317)
Cash dividends paid.....	(430)	(574)
Other	—	(1)
Net cash provided by/(used in) financing activities.....	(3,675)	3,108
Effect of exchange rate changes on cash and cash equivalents.....	(109)	(67)
Net increase/(decrease) in cash and cash equivalents	2,322	1,021
Cash and cash equivalents of beginning of year.....	3,059	5,381
Increase/(Decrease) in cash and cash equivalents due to the change in consolidation scope of subsidiaries	—	(151)
Cash and cash equivalents of end of year.....	¥ 5,381	¥ 6,251

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 5 subsidiaries (majority-owned companies) as at March 31, 2009 (8 for 2008). The consolidated financial statements in fiscal years ended March 31, 2009 include the accounts of the Company and 4 (7 for 2008) 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
•Western samoa Kitano Limited.	99.00% owned
•Asahi Agency Co., Ltd.	59.52% owned

The above consolidated subsidiaries, except for Solomon Kitano Mendana Hotel Limited and Western Samoa Kitano Limited, 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 Company excluded 3 subsidiaries (Kisokougen Kaihatsu Co., Ltd., Kitano ArmsCorp. and Hakubai Inc.), which were consolidated subsidiaries at March 31, 2008, from the scope of consolidation because the company lost a control for those subsidiaries in fiscal years ended March 31, 2009.

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

2. Summary of Significant Accounting Policies

(a) Principles of Consolidation

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

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

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

(b) Investment in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates are stated at cost.

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

The Company applied the equity method for Kitano Arms Corp. and Hakubai Inc., which were consolidated subsidiaries at March 31, 2008 because the Company lost a dominator for those subsidiaries in fiscal years ended March 31, 2009.

(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 stated at cost, as determined on a specific project basis. Materials and supplies are stated at cost, as determined based on an average method.

Effective April 1, 2008, the Company and its domestic consolidated subsidiaries have applied the "Accounting Standard for Measurement of Inventories" (ASBJ Statement NO.9). For real estate for sale and the cost of uncompleted development projects, the evaluation method has been changed from the cost method to the cost method where the book value is reduced based on their decrease in profitability.

As the result of applying ASBJ Statement No.9, operating income decreased by ¥48 million, and income before income taxes and minority interests decreased by ¥270 million for the year ended March 31, 2009.

(e) Depreciation

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

(f) Allowance for Doubtful Accounts

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

(g) Accrued Warranty

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

(h) Accrued Bonuses to Employees

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

(i) Accrued Bonuses to Directors and Statutory Auditors

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

(j) Reserve for Retirement Benefits to Employees

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

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

(k) Allowance for losses on construction contracts

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

(l) Leases

The Company leases certain equipment under finance leases. Finance lease transactions that did not involve transfer of ownership were previously accounted for in accordance with the method used for ordinary operating lease transactions.

Effective April 1, 2008, the "Accounting Standard for Lease Transactions" (ASBJ Statement No.13) and "Guidance on Accounting Standard for Lease Transactions" (ASBJ Guidance No.16) were applied. Leased assets related to finance lease transactions that do not involve transfer of ownership are depreciated on a straight-line basis, with the lease periods used as their useful lived and no residual value.

For finance lease transactions which took place before April 1, 2008, the accounting method remains same, as for ordinary operating lease transactions.

The impact of this change on income and loss was immaterial.

(m) 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.

(n) 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.

(o) 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.

(p) 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.

(q) 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,	
	2008	2009
(1) Investments in unconsolidated subsidiaries and affiliates.....	¥ 7	¥ 282
(2) Assets pledged as collateral		
Buildings	334	331
Land	1,161	1,161

4. Notes to Consolidated Statements of Operations

- (1) Charges to income for warranty which is included in "Cost of Sales-completed construction contracts" was ¥29 million for the year ended March 31, 2008, and ¥32 million for the year ended March 31, 2009. Allowance for accrued bonuses included in "Cost of Sales-completed construction contracts" was ¥224 million for the year ended March 31, 2008, and ¥199 million for the year ended March 31, 2009. Allowance for loss on construction contract included in "Cost of Sales-completed construction contracts" was ¥660 million for the year ended March 31, 2008, and ¥120 million for the year ended March 31, 2009.
- (2) ¥48 million write-down of inventory book value for impairment loss to reflect reduced profitability was included in cost of sales for the year ended March 31, 2009.
- (3) Selling, general and administrative expenses included the following:

	Millions of yen	
	for the year ended March 31,	
	2008	2009
Depreciation	¥ 440	¥ 237
Payroll	1,812	1,484
Allowance for accrued bonuses	136	147

- (4) Impairment loss on fixed assets

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

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

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

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

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

- (a) Type and number of outstanding shares

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

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

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

Type of shares	March 31, 2009			
	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	6,844,282	1,452,154	61,369	8,235,067
Total	6,844,282	1,452,154	61,369	8,235,067

The summary of the main change reason

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

(b) Dividends

(1) Dividends paid to shareholders

Date of approval	Resolution Approved by	Type of shares	Amount (Thousands of Yen)	Paid from	Amount Per share (Yen)	Shareholders' cut-off date	Effective date
June 28, 2007	Annual general meeting of shareholders	Common stock	431,224	Retained earnings	6	March 31, 2007	June 29, 2007
June 27, 2008	Annual general meeting of shareholders	Common stock	574,591	Retained earnings	8	March 31, 2008	June 30, 2008

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

Date of approval	Resolution Approved by	Type of shares	Amount (Thousands of Yen)	Paid from	Amount Per share (Yen)	Shareholders' cut-off date	Effective date
June 26, 2009	Annual general meeting of shareholders	Common stock	563,329	Retained earnings	8	March 31, 2009	June 29, 2009

6. Notes to the Consolidated Statements of Cash Flows

	Millions of yen	
	March 31,	
	2008	2009
Cash in hand and in banks	¥ 5,634	¥ 6,363
Time deposits with a deposit term of over 3 months	(253)	(113)
Cash and cash equivalents	¥ 5,381	¥ 6,251

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,	
	2008	2009
Machinery, equipment and other		
Acquisition cost	¥ 160	¥ 104
Accumulated depreciation	(95)	(78)
Net book value	¥ 65	¥ 26
The future lease rental payment on such lease contracts		
Due within one year	¥ 35	¥ 18
Due over one year	30	8
Total	¥ 65	¥ 26
Lease rental expenses for the year	¥ 34	¥ 26
Including an amount equivalent to depreciation	¥ 34	¥ 26

8. Investments in Securities

(a) As of March 31, 2009, "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, 2008 and 2009:

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

	Millions of yen		
	March 31, 2009		
	Book value	Fair value	Difference
Securities with fair value exceeding book value:			
Debt securities	¥ 5	¥ 5	¥ 0
Sub-total	¥ 5	¥ 5	¥ 0
Securities with fair value not exceeding book value:			
Debt securities	¥ —	¥ —	¥ —
Sub-total	¥ —	¥ —	¥ —
Total	¥ 5	¥ 5	¥ 0

(c) The following tables summarize the acquisition cost and book value of available-for-sale securities as of March 31, 2008 and 2009:

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

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

(d) Available-for-sale securities sold during the year ended March 31, 2008 and 2009, are as follows:

	Millions of yen	
	2008	2009
Proceeds from sale of securities.....	¥ 498	¥ 801
Gross realized gain on sale of available-for-sale securities.....	¥ 5	¥ 440
Gross realized loss on sale of available-for-sale securities	¥ 20	¥ 6

(e) The following tables summarize the book value of securities with no available fair value as of March 31, 2008 and 2009:

	March 31,	
	2008	2009
Available-for-sale securities		
Unlisted equity securities		
(excluding over-the-counter securities).....	¥ 1,119	¥ 869

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

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

	Millions of yen			
	March 31, 2009			
	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	¥ —	¥ —	¥ —
Corporate bonds	¥ —	¥ —	¥ 100	¥ —
Total.....	¥ 5	¥ —	¥ 100	¥ —

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, 2008 and 2009 is analyzed as follows:

	Millions of yen	
	2008	2009
Projected benefit obligations	¥ (5,083)	¥ (5,191)
Plan assets	4,573	3,885
Unfunded benefit obligations.....	(510)	(1,306)
Unrecognized actuarial differences.....	(37)	(796)
Unrecognized prior service cost	—	—
Total.....	(548)	(510)
Prepaid pension costs	—	—
Reserve for retirement benefits to employees.....	¥ (548)	¥ (510)

(c) The net periodic expenses related to retirement benefits for the fiscal year 2008 and 2009 are as follows:

	Millions of yen	
	March 31,	
	2008	2009
Service costs.....	¥ 191	¥ 178
Interest costs.....	126	124
Expected return on plan assets.....	(104)	(91)
Recognition of actuarial differences.....	(36)	24
Amortization of prior service cost.....	—	—
	¥ 178	¥ 234

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

	As of March 31,	
	2008	2009
Discount rate.....	2.5%	2.0%
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,	
	2008	2009
Deferred tax assets:.....		
Write-down of fixed assets.....	¥ 1,689	¥ 1,684
Allowance for doubtful accounts.....	943	1,204
Reserve for retirement benefits to officers.....	398	—
Write-down of marketable securities.....	314	300
Intercompany profits.....	406	373
Loss on valuation of real estate for sale.....	—	740
Operating loss carryforwards.....	523	205
Unrealized loss on hedging derivatives.....	11	—
Other.....	1,284	857
Total gross deferred tax assets.....	5,570	5,363
Valuation allowance.....	(3,310)	(3,213)
	2,260	2,150
Deferred tax liabilities:.....		
Reserve for advanced depreciation.....	(72)	(72)
Unrealized gain on other securities.....	(741)	(163)
Unrealized gain on hedging derivatives.....	—	(11)
Total gross deferred tax assets liabilities.....	(814)	(246)
Net deferred tax assets.....	¥ 1,446	¥ 1,904

(b) The reconciliation between the statutory tax rate and the effective tax rate as at March 31, 2008 and 2009 is presented below:

	As of March 31,	
	2008	2009
Statutory tax rate.....	40.4%	40.4%
Permanent differences on expenses not deductible.....	5.0	3.3
Permanent differences on income not taxable.....	(1.4)	(3.0)
Accrued bonuses to directors and statutory auditors not deductible.....	2.6	1.3
Inhabitant taxes per capita.....	2.6	1.6
Valuation allowance.....	(31.1)	12.7
Other.....	(8.6)	(7.4)
Effective tax rate.....	9.5%	48.9%

11. Segment Information

Industry Segment Information

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

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

The segment information of the Company and its subsidiaries for the year ended March 31, 2008 and 2009 is presented below:

	Millions of yen	
	2008	2009
Net sales:		
Construction.....	¥ 58,406	¥ 63,082
Development.....	7,137	484
Golf.....	640	313
Hotel.....	2,998	543
Advertising agency.....	1,681	1,530
	<u>70,862</u>	<u>65,952</u>
Less: intersegment transaction.....	(424)	(100)
	<u>70,439</u>	<u>65,851</u>
Operating expenses:		
Construction.....	58,301	61,480
Development.....	6,012	495
Golf.....	667	333
Hotel.....	2,669	567
Advertising agency.....	1,673	1,514
	<u>69,321</u>	<u>64,390</u>
Less: intersegment transaction.....	(346)	(100)
	<u>68,975</u>	<u>64,290</u>
Operating income.....	<u>¥ 1,463</u>	<u>¥ 1,561</u>
Assets:		
Construction.....	¥ 31,967	¥ 38,759
Development.....	7,798	8,336
Golf.....	7,011	4,091
Hotel.....	6,026	680
Advertising agency.....	1,052	998
	<u>53,854</u>	<u>52,864</u>
Other assets.....	9,130	9,897
	<u>¥ 62,984</u>	<u>¥ 62,761</u>
Depreciation:		
Construction.....	¥ 153	¥ 177
Development.....	44	40
Golf.....	47	28
Hotel.....	261	54
Advertising agency.....	7	8
	<u>¥ 513</u>	<u>¥ 308</u>
Impairment loss on fixed assets:		
Construction.....	¥ 2	¥ 17
Development.....	—	—
Golf.....	—	—
Hotel.....	—	201
Advertising agency.....	—	—
	<u>¥ 2</u>	<u>¥ 218</u>
Capital expenditure:		
Construction.....	¥ 214	¥ 440
Development.....	4	3
Golf.....	31	10
Hotel.....	401	155
Advertising agency.....	3	—
	<u>¥ 654</u>	<u>¥ 609</u>

12. Per Share Data

Net assets per share and net income per share as of and for the year ended March 31, 2008 and 2009 are as follows:

	Yen	
	2008	2009
Net assets per share	¥ 307.15	¥ 296.55
Net income per share – primary	12.61	10.78

	Millions of yen	
	2008	2009
Net income	¥ 902	¥ 766
Net income pertaining to common stock	¥ 902	¥ 766
Average outstanding shares of common stock	71,536 thousand shares	71,055 thousand shares

BOARD OF DIRECTORS, STATUTORY AUDITORS AND EXECUTIVE OFFICERS AS OF MARCH 31, 2009

Board of Directors

Chairman and President, Representative Director

Takahiro Kitano

Vice President, Representative Director

Kimio Shiozawa

Directors

Shinsuke Nishida

Yoshitada Mikami

Yoshikatsu Yamazaki

Zentaro Ozawa

Outside Director

Yoshinori Uda

Statutory Auditors

Permanent Auditor

Tadaaki Takamisawa

Auditor

Toshiyuki Tsukada

Akira Koike

Yoshichika Owa

Executive Officers

President and Executive Officer

Takahiro Kitano *

Vice President and Executive Officer

Kimio Shiozawa *

Senior Executive Officers

Tetsuji Hashimoto

Shinsuke Nishida *

Managing Executive Officer

Yoshitada Mikami *

Toshiro Maki

Itsuo Takeuchi

Nagayoshi Matsumoto

Yoshikatsu Yamazaki *

Zentaro Ozawa *

Executive Officer

Toshiaki Yamagishi

Kazuyasu Hirata

Noriaki Yaguchi

Norimitsu Akanuma

Kiyonori Nakashima

Yoneo Obinata

* : Member of Board of Directors

KITANO
CONSTRUCTION CORP.