Consolidated Financial Statements

KOKUSAI KOGYO HOLDINGS CO., LTD.
and Consolidated Subsidiaries

Years ended March 31, 2008 and 2009

KOKUSAI KOGYO HOLDINGS CO., LTD. and consolidated Subsidiaries

Consolidated Financial Statements

Years ended March 31, 2008 and 2009

Contents

Consolidated Balance Sheets

As of March 31, 2008 and 2009

	March 31,		
	2008	2009	2009
	(Millions of Yen)		*(Thousands of Euro)*
Assets			
Current Assets:			
Cash and deposits (Note 4)	¥15,487	¥9,636	€ 74,220
Trade notes and accounts receivable	20,840	22,736	175,121
Securities (Note 9)	-	200	1,540
Inventories	949	-	-
Real estate for sale (Note 4)	-	8,751	67,404
Work in process	-	2,271	17,492
Raw materials	-	150	1,155
Deferred tax assets -current (Note11)	2	63	485
Short-term loans receivables	2,532	272	2,095
Other current assets	545	1,453	11,192
Less: Allowance for doubtful accounts	(649)	(700)	(5,391)
Total current assets	39,706	44,832	345,313
Fixed Assets:			
Property, plant and equipment:			
Buildings and structures	5,185	7,202	55,474
Less: Accumulated depreciation	(2,754)	(3,528)	(27,174)
Buildings and structures, net (Note 4)	2,431	3,674	28,300
Machinery, equipments, and vehicles	567	332	2,557
Less: Accumulated depreciation	(497)	(275)	(2,118)
Machinery, equipments, and vehicles, net	70	57	439
Tools, furniture and fixtures	595	667	5,137
Less: Accumulated depreciation	(553)	(574)	(4,421)
Tools, furniture and fixtures, net	42	93	716
Land (Note 4)	3,744	5,419	41,739
Leased assets	-	950	7,317
Less: Accumulated depreciation	-	(601)	(4,629)
Leased assets, net	-	349	2,688
Construction in progress	-	46	354
Total property, plant and equipment	6,287	9,638	74,236
Intangible Fixed Assets:			
Goodwill	-	2,591	19,957
Leased assets	-	19	146
Software	37	203	1,564
Software in progress	-	445	3,428
Other intangible fixed assets	14	26	199
Total intangible fixed assets	51	3,284	25,294
Investments and other assets:			
Investment securities (Note 4) (Note 9)	5,030	7,268	55,981
Long-term loans receivables	168	453	3,489
Deferred tax assets—non-current (Note 11)	35	148	1,140
Other investments and assets (Note 4)	1,248	2,229	17,169
Less: Allowance for doubtful accounts	(131)	(414)	(3,189)
Total investments and other assets	6,350	9,684	74,590
Total fixed assets	12,688	22,606	174,120
Total assets	¥52,394	¥67,438	€ 519,433

Consolidated Balance Sheets

As of March 31, 2008 and 2009

	March 31,		
	2008	2009	2009
	(Millions of Yen)		*(Thousands of Euro)*
Liabilities and net assets			
Current Liabilities:			
Accounts payable	¥4,110	¥4,815	€ 37,087
Short-term loans payable (Note 4)	4,400	9,400	72,402
Current portion of long-term loans payable (Note 4)	60	1,635	12,593
Current portion of bonds	-	4,265	32,851
Lease obligations—current	-	306	2,357
Accrued income taxes	86	340	2,619
Deferred tax liabilities—current (Note 11)	330	80	616
Advances received on uncompleted contracts	1,231	1,379	10,622
Accrued bonuses to employees	824	202	1,556
Allowance for loss on orders	106	132	1,017
Warranty reserve	-	52	401
Interest rate swap contracts—current	12	11	85
Other current liabilities	1,494	1,470	11,321
Total current liabilities	12,653	24,087	185,527
Non-current Liabilities:			
Bonds	3,800	1,580	12,170
Long-term loans payable (Note 4)	1,050	4,386	33,783
Lease obligations—non-current	-	395	3,042
Deferred tax liabilities—non-current	762	1,151	8,865
Provision for retirement benefits (Note 10)	954	1,281	9,867
Provision for directors retirement benefits	-	120	924
Long-term guarantee deposits received	703	733	5,646
Long-term accounts payable - other	-	801	6,170
Interest rate swap contracts—non-current	18	12	92
Other non-current liabilities	277	-	-
Total non-current liabilities	7,564	10,459	80,559
Total liabilities	20,217	34,546	266,086
Net Assets :			
Shareholders' equity:			
Common stock	16,939	16,939	130,471
Capital surplus	15,264	15,264	117,569
Less: Deficit	(874)	(1,653)	(12,732)
Less: Treasury stock	(382)	(692)	(5,330)
Total shareholders' equity	30,947	29,858	229,978
Valuation and translation adjustments :			
Valuation difference on available-for-sale securities	1,255	544	4,190
Deferred gains or losses on hedges	(30)	(21)	(162)
Foreign currency translation adjustment	-	2	16
Total valuation and translation adjustments	1,225	525	4,044
Minority interests:	5	2,509	19,325
Total net assets	32,177	32,892	253,347
Total liabilities and net assets	¥52,394	¥67,438	€ 519,433

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

For the years ended March 31, 2008 and 2009

	Year ended March 31,		
	2008	2009	2009
	(Millions of yen)		*(Thousands of Euro)*
Net sales	¥34,506	¥49,427	€ 380,706
Cost of goods sold	27,451	38,729	298,306
Gross profit	7,055	10,698	82,400
Selling, general and administrative expenses :			
Salaries, allowances, and bonuses	3,141	4,104	31,611
Provision for accrued bonuses	298	50	385
Retirement benefit costs	285	260	2,003
Traveling, transportation, and communication expenses	695	783	6,031
Rental charges	726	786	6,054
Depreciation	30	151	1,163
Research and development expenses	139	360	2,773
Amortization of goodwill	9	201	1,548
Other Selling, general and administrative expenses	2,003	3,198	24,632
Total Selling, general and administrative expenses	7,326	9,893	76,200
Operating income or loss	(271)	805	6,200
Non-operating income :			
Interest income	73	97	747
Dividend income	135	81	624
Equity in earnings of affiliates	3	-	-
Amortization of negative goodwill	-	13	100
Other non-operating income	22	108	832
Total non-operating income	233	299	2,303
Non-operating expenses :			
Interest expenses on loans	135	245	1,887
Interest expenses on bonds	67	99	763
Restructuring expenses	217	-	-
Amortization of bond issue costs	-	41	316
Foreign exchange loss	-	164	1,263
Equity in loss of affiliates	-	524	4,036
Provision for bad debts	-	255	1,964
Other non-operating expenses	43	56	431
Total non-operating expenses	462	1,384	10,660
Ordinary loss	(500)	(280)	(2,157)

Consolidated Statements of Income

For the years ended March 31, 2008 and 2009

	Year ended March 31,		
	2008	2009	2009
	(Millions of yen)		*(Thousands of Euro)*
Extraordinary income :			
Gain on sales of investment in securities	¥4,156	¥39	€ 300
Reversal of allowance for doubtful accounts	9	9	70
Gain on sales of fixed assets	1,229	-	-
Other extraordinary income	153	-	-
Total extraordinary income	5,547	48	370
Extraordinary loss :			
Impairment loss (Note 5)	1,922	196	1,510
Loss on disposal of fixed assets	332	46	354
Loss on sales of fixed assets	38	0	0
Loss on sales of related companies' stock	32	-	-
Loss on devaluation of investment securities	-	27	208
Loss on devaluation of related companies' stock	-	4	31
Effect of the application of new lease accounting standards	-	14	108
Compensation for damages	-	37	285
Other extraordinary loss	63	2	15
Total extraordinary loss	2,387	326	2,511
Net income or loss before income taxes and minority interests	2,660	(558)	(4,298)
Income taxes—current	101	306	2,357
Income taxes—deferred	1,097	(180)	(1,386)
Total income taxes	1,198	126	971
Minority interests	8	46	354
Net income or loss	¥1,454	(¥730)	(€ 5,623)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2008 and 2009

	Shareholders' equity				
	Common stock	Capital surplus	Deficit	Treasury stock	Total shareholders' equity
	(Millions of yen)				
Balance as of March 31, 2007	¥16,939	¥18,000	¥(5,442)	¥(602)	¥28,895
Changes of items during the period					
Net income (loss)			1,454		1,454
Change due to stock transfer	(0)	(2,854)	3,122	(268)	0
Purchase of treasury stock				(7)	(7)
Disposal of treasury stock		118		495	613
Decrease resulting from exclusion of affiliates accounted for by the equity method			(8)		(8)
Changes in minority interests due to changes in scope of consolidation					
Changes in interest due to purchase of consolidated subsidiaries' stock					
Changes in interest due to sales of consolidated subsidiaries' stock					
Net changes of items other than those in shareholders' equity					
Total changes of items during the period	0	(2,736)	4,568	220	2,052
Balance as of March 31, 2008	¥16,939	¥15,264	¥(874)	¥(382)	¥30,947

	Valuation and translation adjustments					
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Total valuation and translation adjustments	Minority interests	Total net assets
	(Millions of yen)					
Balance as of March 31, 2007	¥4,022	¥(28)		¥3,994	¥48	¥32,937
Changes of items during the period						
Net income (loss)						1,454
Change due to stock transfer	(0)					0
Purchase of treasury stock						(7)
Disposal of treasury stock						613
Decrease resulting from exclusion of affiliates accounted for by the equity method						(8)
Changes in minority interests due to changes in scope of consolidation					5	5
Changes in interest due to purchase of consolidated subsidiaries' stock					(41)	(41)
Changes in interest due to sales of consolidated subsidiaries' stock					(15)	(15)
Net changes of items other than those in shareholders' equity	(2,767)	(2)		(2,769)	8	(2,761)
Total changes of items during the period	(2,767)	(2)	-	(2,769)	(43)	(760)
Balance as of March 31, 2008	¥1,255	¥(30)	-	¥1,225	¥5	¥32,177

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2008 and 2009

	Shareholders' equity				
	Common stock	Capital surplus	Deficit	Treasury stock	Total shareholders' equity
	(Millions of yen)				
Balance as of March 31, 2008	¥16,939	¥15,264	¥(874)	¥(382)	¥30,947
Changes of items during the period					
Net income (loss)			(730)		(730)
Change due to stock transfer					
Purchase of treasury stock				(310)	(310)
Disposal of treasury stock					
Minority interests in income					
Dividends from surplus to minority interests			(49)		(49)
Changes in minority interests due to changes in scope of consolidation					
Changes in interest due to purchase of consolidated subsidiaries' stock					
Net changes of items other than those in shareholders' equity					
Total changes of items during the period	0	0	(779)	(310)	(1,089)
Balance as of March 31, 2009	¥16,939	¥15,264	¥(1,653)	¥(692)	¥29,858

	Valuation and translation adjustments					
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Total valuation and translation adjustments	Minority interests	Total net assets
	(Millions of yen)					
Balance as of March 31, 2008	¥1,255	¥(30)		¥1,225	¥5	¥32,177
Changes of items during the period						
Net income (loss)						(730)
Change due to stock transfer						
Purchase of treasury stock						(310)
Disposal of treasury stock						
Minority interests in income					46	46
Dividends from surplus to minority interests						(49)
Changes in minority interests due to changes in scope of consolidation					2,919	2,919
Changes in interest due to purchase of consolidated subsidiaries' stock					(440)	(440)
Net changes of items other than those in shareholders' equity	(711)	9	2	(700)	(21)	(721)
Total changes of items during the period	(711)	9	2	(700)	2,504	715
Balance as of March 31, 2009	¥544	¥(21)	¥2	¥525	¥2,509	¥32,892

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2008 and 2009

	Shareholders' equity				
	Common stock	Capital surplus	Deficit	Treasury stock	Total shareholders' equity
	(Thousands of Euro)				
Balance as of March 31, 2008	€ 130,471	€ 117,569	(€ 6,732)	(€ 2,942)	€ 238,366
Changes of items during the period					
Net income (loss)			(5,623)		(5,623)
Change due to stock transfer					
Purchase of treasury stock				(2,388)	(2,388)
Disposal of treasury stock					
Minority interests in income					
Dividends from surplus to minority interests			(377)		(377)
Changes in minority interests due to changes in scope of consolidation					
Changes in interest due to purchase of consolidated subsidiaries' stock					
Net changes of items other than those in shareholders' equity					
Total changes of items during the period	0	0	(6,000)	(2,388)	(8,388)
Balance as of March 31, 2009	€ 130,471	€ 117,569	(€ 12,732)	(€ 5,330)	€ 229,978

	Valuation and translation adjustments					
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Total valuation and translation adjustments	Minority interests	Total net assets
	(Thousands of Euro)					
Balance as of March 31, 2008	€ 9,666	(€ 231)		€ 9,435	€ 39	€ 247,840
Changes of items during the period						
Net income (loss)						(5,623)
Change due to stock transfer						
Purchase of treasury stock						(2,388)
Disposal of treasury stock						
Minority interests in income					354	354
Dividends from surplus to minority interests						(377)
Changes in minority interests due to changes in scope of consolidation					22,483	22,483
Changes in interest due to purchase of consolidated subsidiaries' stock					(3,389)	(3,389)
Net changes of items other than those in shareholders' equity	(5,476)	69	16	(5,391)	(162)	(5,553)
Total changes of items during the period	(5,476)	69	16	(5,391)	19,287	5,507
Balance as of March 31, 2009	€ 4,190	(€ 162)	€ 16	€ 4,044	€ 19,325	€ 253,347

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended March 31, 2008 and 2009

	Year ended March 31		
	2008	2009	2009
	(Millions of yen)		*(Thousands of Euro)*
Cash flows from Operating Activities			
Net income or loss before income taxes and minority interests	¥2,660	(¥559)	(€ 4,306)
Depreciation	456	576	4,437
Amortization of goodwill	9	201	1,548
Amortization of negative goodwill	-	(13)	(100)
Equity in loss or earnings of affiliates	(3)	524	4,036
Increase or decrease in allowance for doubtful receivables	(45)	270	2,080
Increase or decrease in allowance for bonuses to employees	475	(686)	(5,284)
Interest and dividend income	(207)	(178)	(1,371)
Interest expenses on loans and bonds	202	345	2,657
Amortization of bond issue costs	-	41	316
Exchange loss or gain	-	164	1,263
Net loss or gain on disposal/sales of fixed assets	(859)	47	362
Loss or gain on sale of investment securities	(4,125)	(39)	(300)
Loss on devaluation of investment securities	-	27	208
Loss on devaluation of related companies' stock	-	4	31
Impairment loss	1,922	196	1,510
Other extraordinary loss or income	-	53	408
Increase or decrease in allowance for loss on orders	106	15	116
Increase or decrease in allowance for loss on restructuring of businesses	(186)	-	-
Increase or decrease in warranty reserve	-	(23)	(177)
Increase or decrease in reserve for retirement benefits	116	22	169
Increase or decrease in provision for directors' retirement benefits	-	17	131
Increase or decrease in receivables	(1,062)	(1,600)	(12,324)
Increase or decrease in inventories	(89)	2,074	15,975
Increase or decrease in payables	42	191	1,471
Increase or decrease in accrued consumption tax	94	(434)	(3,343)
Increase or decrease in advances paid on property for sale	2,268	-	-
Others	(306)	(305)	(2,350)
Subtotal	1,468	930	7,163
Interest and dividends received	207	162	1,248
Interest paid	(203)	(346)	(2,665)
Income taxes paid	(141)	(139)	(1,071)
Net cash provided by operating activities	1,331	607	4,675

Consolidated Statements of Cash Flows

For the years ended March 31, 2008 and 2009

	Year ended March 31		
	2008	2009	2009
	(Millions of yen)		(Thousands of Euro)
Cash Flows from Investing Activities			
Payment for time deposits	(52)	(4,443)	(34,222)
Proceeds from time deposits	67	2,556	19,687
Payment for acquisition of tangible and intangible fixed assets	(690)	(1,954)	(15,050)
Proceeds from sales of tangible and intangible fixed assets	7,964	0	-
Payment for purchase of securities	-	(200)	(1,540)
Proceeds from sales of securities	-	600	4,621
Payment for purchase of investment securities	(952)	(3,655)	(28,152)
Proceeds from sales of investment securities	5,302	349	2,688
Payment for loans	(2,514)	(2,245)	(17,292)
Proceeds from collection of loans	46	4,061	31,279
Payment for purchase of subsidiaries' stocks with causing changes in scope of consolidation	(77)	(3,105)	(23,916)
Payment for additional purchase of consolidated subsidiaries' stock	-	(352)	(2,711)
Others	(304)	90	694
Net cash provided by investing activities	8,790	(8,298)	(63,914)
Cash Flows from Financing Activities			
Proceeds from short-term loans payable	9,900	19,495	150,158
Repayment of short-term loans payable	(14,000)	(18,280)	(140,800)
Proceeds from long-term loans payable	18	3,589	27,644
Repayment of long-term loans payable	(2,056)	(3,914)	(30,147)
Proceeds from issuance of bonds	-	1,689	13,009
Redemption of bonds	-	(2,131)	(16,414)
Payment for purchase of treasury stock	(7)	(310)	(2,388)
Proceeds from sales of treasury stock	612	-	-
Dividends paid for minority interests	-	(48)	(370)
Repayment of lease obligations	-	(362)	(2,788)
Others	6	-	1
Net cash used in financing activities	(5,527)	(272)	(2,095)
Effect of exchange rate changes on cash and cash equivalents	-	52	400
Net increase or decrease in cash and cash equivalents	4,594	(7,911)	(60,934)
Cash and cash equivalents at the beginning of the year	10,876	15,470	119,156
Cash and cash equivalents at the end of the year (Note 7)	¥15,470	¥7,559	€ 58,222

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

March 31, 2008 and 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

KOKUSAI KOGYO HOLDINGS CO., LTD. (the “Company”) and its domestic consolidated subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, and its overseas consolidated subsidiaries maintain their books of account in conformity with those of their countries of domicile.

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards (“IFRS”).

(b) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The accompanying consolidated financial statements include the accounts of the Company and all of the significant companies controlled directly or indirectly by the Company. Companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the accompanying consolidated financial statements by the equity method. All significant intercompany accounts and transactions have been eliminated in consolidation. The Company had 8 subsidiaries and 2 affiliates to which equity method is applied as of March 31, 2008 while 41 subsidiaries and 4 affiliates to which the same method is applied as of March 31, 2009.

(c) Investment securities

Securities other than equity securities issued by subsidiaries and affiliates are classified into three categories: trading, held-to-maturity or other securities in Japanese GAAP. The Company has no trading and held-to maturity securities. Marketable securities classified as other securities are stated at fair value with any changes in unrealized gains or losses, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as other securities are stated at cost. Cost of securities sold is determined by the moving average cost method.

(d) Inventories

Inventories are stated at the lower of cost or market determined by the specific-identification method.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost.

Depreciation of property, plant and equipment is computed by the declining-balance method.

Significant renewals and additions are capitalized at cost. Maintenance and repairs are charged to income as incurred.

Leased assets under finance lease transactions other than those that are deemed to transfer ownership of the leased assets are depreciated over the respective lease period by the straight-line method with a zero salvage value.

Additional information on depreciation

Effective the year ended March 31, 2009, pursuant to the revision to the Corporation Tax Law, the Company and its domestic consolidated subsidiaries reduced the useful lives of certain assets after having reviewed the status of machinery and equipment usage. As a result of this change in useful lives, net loss before income taxes and minority interests decreased by ¥20 million (€152 thousand) for the year ended March 31, 2009.

(f) Research and development costs and computer software

Research and development costs are charged to income when incurred. Software for sales purpose is amortized by comparing the amount based on estimated revenue from sales and the amount to be evenly distributed over the residual effective period for sales is estimated as 3 years. Expenditures relating to computer software developed for internal use are charged to income as incurred unless these are deemed to contribute to the generation of future income or cost savings. Software capitalized as assets is amortized by the straight-line method over their useful lives, generally a period of 5 years.

(g) Goodwill and negative goodwill

Goodwill and negative goodwill is amortized using the straight-line method over a reasonable period of years determined by the estimated respective useful lives.

(h) Impairment of fixed assets

Fixed assets are reviewed for impairment in accordance with the accounting standards for impairment of fixed assets whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

(i) Foreign currency translation

All monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the rates of exchange in effect at the balance sheet date and the gain or loss on each translation is credited or charged to income.

Revenue and expense items arising from transactions denominated in foreign currencies are generally translated into Japanese yen at the average rates of exchange in effect during the year. Gain or loss on foreign exchange is credited or charged to income in the period in which such gain or loss is recognized for reporting purposes.

The financial statements of the overseas subsidiaries are translated into Japanese yen at the rates of exchange in effect at the balance sheet date except that the components of net assets excluding minority interests are translated at their historical exchange rates. Adjustments resulting from translating the foreign currency financial statements are not included in the determination of net income and have been reported as translation adjustment and minority interests in net assets in the accompanying consolidated balance sheets.

(j) Allowance for doubtful accounts

The allowance for doubtful accounts is determined based on the Company’s and its consolidated subsidiaries’ historical experience of losses on bad debts and write-offs as a percentage of the balance of total receivables plus an additional amount deemed necessary to cover estimated future losses on specific doubtful accounts.

(k) Accrued bonuses to employees

The amount of employees’ bonuses is accrued based on the anticipated bonus payments to employees.

(l) Allowance for loss on orders

Since there is a high likelihood of losses for certain orders on hand as of the end of each fiscal year, an allowance is provided against future losses on order contracts based on reasonable estimation.

(m) Warranty reserve

A warranty reserve for repair service to cover all repair expenses is provided based on the past warranty experience.

(n) Provision for retirement benefits

Allowance for employees’ pension and retirement benefits at the balance sheet date is recorded based on the estimated amounts of projected benefit obligation. Prior service cost is amortized by the straight-line method mainly over 10 years which are shorter than the average remaining years of service of the employees. Actuarial differences are amortized by the straight-line method mainly over 5 years, from the fiscal year following the fiscal year in which such differences incur.

(o) Provision for directors retirement benefits

Provision for retirement benefit for directors and corporate auditors represents 100% of such retirement benefit obligations as of the balance sheet date calculated in accordance with policies of certain consolidated subsidiaries.

(p) Derivative financial instruments

Various derivative transactions have been entered into in order to manage certain risks arising from adverse fluctuations in interest rates. Derivative financial instruments are stated at fair value with any changes in unrealized gain or loss charged or credited to income, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as an asset or a liability.

(q) Income taxes

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporate tax, inhabitants' taxes and enterprise tax.

Income taxes are calculated based on taxable income and charged to income on an accrual basis. Certain temporary differences exist between taxable income and income reported for financial statement purposes, which they enter into the determination of taxable income in a different period. The Company has recognized the tax effect of such temporary differences in the accompanying consolidated financial statements.

(r) Cash and cash equivalents

Cash and cash equivalents include cash on hand and in banks and other liquid investments with maturity of three months or less when purchased.

2. EURO AMOUNTS

Solely for the convenience of the reader and as a matter of arithmetic computation only, the amounts in the consolidated financial statements have been translated from Japanese yen into Euro, at the rate of ¥129.83 = Euro1, the approximate rate prevailing on March 31, 2009. The translation should not be construed as a representation that Japanese yen could be converted into Euro at this or any other rate.

3. CHANGES OF ACCOUNTING POLICIES

(a) Construction Contracts

Previously, for the recognition of revenue from construction contracts, the percentage of completion method was applied to long-term contracts which require a period of one year or more to complete and short-term contracts by governments or public agencies which are completed within a period of less than one year, whereas the completed-contract method was applied to any other contract. Pursuant, however, to the fact that Accounting Standard for Construction Contracts (Accounting Standards Board of Japan ("ASBJ") Statement No.15; December 27, 2007) and Guidance on Accounting Standard for Construction Contracts (ASBJ Guidance No.18; December 27, 2007) had became applicable from a consolidated fiscal year starting before April 1, 2009, these accounting standards were applied to the Company's consolidated financial statements for the current consolidated fiscal year ended, March 31, 2009. Thus, for construction contracts whose work started in the current consolidated fiscal year, the percentage of completion method was applied to contracts for which the outcome of the construction activity is deemed certain by the end of the current year, with the percentage of completion estimated by the cost-to-cost method. As a result of this accounting change, operating income increased by ¥264 million (€2,032 thousand), ordinary loss, and net loss before income taxes and minority interests decreased by ¥264 million (€2,032 thousand) for the year ended, March 31, 2009.

(b) Leases

On March 30, 2007, the ASBJ issued ASBJ Statement No.13, "Accounting Standard for Lease Transactions", which revised the previous accounting standard for lease transactions issued in 1993. The revised accounting standard for lease transactions became effective for the fiscal years beginning on or after April 1, 2008. Under the previous accounting standard, finance leases deemed to transfer the ownership of the leased asset to the lessee were to be capitalized, but other finance leases were permitted to be accounted for as operating lease transactions if certain “as if capitalized” information was described in the notes to the financial statements. The revised accounting standard requires that all lease transactions should be capitalized to recognized leased assets and lease obligations in the balance sheet. As a result of this accounting change, net loss before income taxes and minority interests increased by ¥15 million (€115 thousand) for the year ended March 31, 2009.

4. PLEDGED ASSETS

As of March 31, 2009, the following assets of the Company and its consolidated subsidiaries were pledged to secure the repayment of short-term loans payable of ¥6,736 million (€51,883 thousand), the current portion of long-term loans payable of ¥1,426 million (€10,980 thousand), and long-term loans payable of ¥4,181 million (€32,204 thousand).

	2008	2009	2009
	(Millions of Yen)		*(Thousands of Euro)*
Buildings and structures, net	¥890	¥3,119	€ 24,024
Land	1,536	4,360	33,582
Investment securities	1,718	3,049	23,485
Time deposits	2,565	1,705	13,133
Real estates for sale	-	5,714	44,011
Other investments and other assets	-	870	6,701
Total	¥6,709	¥18,817	€ 144,936

5. CONTINGENT LIABILITIES

As of March 31, 2009, the Company and its consolidated subsidiaries guarantee the loan of ¥11 million (€82 thousand) to those employees from the Welfare and Medical Service Agency.

6. IMPAIRMENT ON FIXED ASSETS

The Company and its consolidated subsidiaries reviewed their fixed assets for impairment. For the years ended March 31, 2008 and 2009, the Company and its consolidated subsidiaries recorded impairment losses of ¥1,922 million and ¥196 million (€1,509 thousand), respectively. The carrying amounts of assets impaired were written down to the recoverable amounts. The recoverable amounts of idle assets were measured at the net selling price at disposition. The recoverable amounts of other assets were measured at their value in use and the discount rate used to compute of present value of future cash flow was 4.7%.

	2008	2009	2009
	(Millions of Yen)		*(Thousands of Euro)*
Business Assets :			
Buildings and structures	¥606	¥74	€ 569
Machinery, equipments and vehicles	99	1	8
Tools, furniture and fixtures	45	63	485
Land	666	-	-
Software	22	1	8
Other intangible fixed assets	17	7	54
Leased assets	467	48	370
Idle Assets :			
Land	-	2	15
Total	¥1,922	¥196	€ 1,509

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2008 and 2009 consisted of the following:

	2008	2009	2009
	(Millions of Yen)		*(Thousands of Euro)*
Cash and deposits	¥15,487	¥9,636	€ 74,220
Time deposits categorized as investments and other assets	-	972	7,487
Time deposits over three months	(17)	(3,049)	(23,485)
Cash and cash equivalents	¥15,470	¥7,559	€ 58,222

8. LEASED ASSETS

Year ended March 31, 2008 (From April 1, 2007 to March 31, 2008)

(a) Acquisition cost equivalents, accumulated depreciation equivalents, accumulated impairment loss equivalents, and net book value equivalents of leased assets as of March 31,2008

	March 31, 2008			
	Acquistion cost	Accumulated depreciation	Accumulated impairment loss	Net book value
	(Millions of Yen)			
Machinery equipments and vehicles	¥496	¥365	¥79	52
Tools, furniture and fixtures	1,081	467	388	226
Total	¥1,577	¥832	¥467	¥278

(b) Future lease payment balance equivalents and the balance of impairment loss on leased assets as of March 31, 2008.

	(Millions of Yen)
Due within one year	¥312
Due over one year	447
Total	¥759
Impairment loss on leased assets	¥467

Year ended March 31, 2009 (From April 1, 2008 to March 31, 2009)

(a) Tangible fixed assets

As described in Notes 3 (b), all lease transactions have been capitalized in the balance sheet as of March 31, 2009.

Tangible fixed assets are, primarily, are production equipments (machinery, tools, furniture and fixtures) used in engineering and consulting services as of March 31, 2009.

(b) Intangible fixed assets

As described in Notes 3 (b), all lease transactions have been capitalized in the balance sheet as of March 31, 2009.

Intangible fixed assets are, primarily, software aimed at improving production efficiency in engineering and consulting services as of March 31, 2009.

9. SECURITIES

Securities classified as other securities at March 31, 2008 and 2009 are as follows:

	March 31, 2008		
	Acquisition cost	Book value	Gross unrealized gain or loss
		(Millions of Yen)	
a) Marketable securities			
Securities (book value exceeds acquisition cost)	¥878	¥2,931	¥2,053
Securities (book value does not exceed acquisition cost)	569	466	(103)
Bonds	-	-	-
Others	-	-	-
Total	¥1,447	¥3,397	¥1,950
b) Non-marketable securities			
Bonds held to maturity	¥645		
Unlisted securities	¥729		
c) Other securities sold during the year			
Proceeds from sales	¥5,298		
Total gain	¥4,156		

	March 31, 2009		
	Acquisition cost	Book value	Gross unrealized gain or loss
		(Millions of Yen)	
a) Marketable securities			
Securities (book value exceeds acquisition cost)	¥831	¥2,108	¥1,277
Securities (book value does not exceed acquisition cost)	694	554	(140)
Bonds	-	-	-
Others	19	18	(1)
Total	¥1,544	¥2,680	¥1,136
b) Non-marketable securities			
Bonds held to maturity	¥645		
Unlisted securities	¥1,830		
Unlisted bonds	¥200		
c) Other securities sold during the year			
Proceeds from sales	¥349		
Total gain	¥39		

	March 31, 2009		
	Acquisition cost	Book value	Gross unrealized gain or loss
		(Thousands of Euro)	
a) Marketable securities			
Securities (book value exceeds acquisition cost)	€ 6,401	€ 16,237	€ 9,836
Securities (book value does not exceed acquisition cost)	5,345	4,267	(1,078)
Bonds	-	-	-
Others	146	138	(8)
Total	€ 11,892	€ 20,642	€ 8,750
b) Non-marketable securities			
Bonds held to maturity	€ 4,968		
Unlisted securities	€ 14,095		
Unlisted bonds	€ 1,540		
c) Other securities sold during the year			
Proceeds from sales	€ 2,688		
Total gain	€ 300		

10. RETIREMENT BENEFITS

The Company and certain of its consolidated subsidiaries provide both a lump-sum retirement benefit plan and a defined contribution pension plan. They also contribute to a multi-employer employees' pension fund plan.

	March 31, 2008
	(Millions of Yen)
a) Benefit obligation	
Retirement benefit obligation	¥1,474
Plan assets	-
Benefit obligation in excess of plan assets	1,474
Unrecognized net actuarial loss	(112)
Unrecognized past service costs	(408)
Net amount recognized	954
Prepaid pension costs	-
Provision for retirement benefits	¥954
b) Severance and pension cost	
Service costs	¥323
Interest costs	27
Expected return on plan assets	-
Amortization of net actuarial loss	24
Amortization of past service costs	66
Total	440
Paid premiums to defined contribution plan	219
Employees' severance and pension expenses	¥659

	March 31, 2009	March 31, 2009
	(Millions of Yen)	*(Thousands of Eur*
a) Benefit obligation		
Retirement benefit obligation	¥1,658	€ 12,771
Plan assets	-	-
Benefit obligation in excess of plan assets	1,658	12,771
Unrecognized net actuarial loss	(36)	(277)
Unrecognized past service costs	(341)	(2,627)
Net amount recognized	1,281	9,867
Prepaid pension costs	-	-
Provision for retirement benefits	¥1,281	€ 9,867
b) Severance and pension cost		
Service costs	¥251	€ 1,933
Interest costs	27	208
Expected return on plan assets	-	-
Amortization of net actuarial loss	4	31
Amortization of past service costs	66	508
Total	348	2,680
Paid premiums to defined contribution plan	327	2,519
Retirement payment of temporal imposition	50	385
Employees' severance and pension expenses	¥725	€ 5,584

Basis for calculation of retirement benefit obligations and costs

1)	Method of allocating estimated amount of all retirement benefits tobe paid at future retirement dates	The straight-line method over the estimated years of service of the eligible employees
2)	Discount rate	2.00%
3)	Expected rate of return on plan assets	-%
4)	Amortization of prior service cost	10 years
5)	Amortization of actuarial gain or loss	5 years

11. INCOME TAXES

Significant components of the deferred tax assets and liabilities as of March 31, 2008 and 2009 are as follows:

Income taxes

	2008	2009	2009
	(Millions of Yen)		*(Thousands or Euro)*
Deferred tax assets :			
Accrued enterprise tax	¥17	¥39	€ 300
Provision for retirement benefits	386	448	3,451
Impairment loss	781	736	5,669
Allowance for doubtful accounts	312	399	3,073
Excess amounts of deferred asset depreciation	14	-	-
Loss on investment securities	470	1,154	8,889
Loss on inventories	156	156	1,202
Accrued bonus payables for employee	334	93	716
Excess amounts of depreciation including software	123	48	370
Allowance for loss on orders	43	43	331
Lump-sum depreciation of assets	-	210	1,617
Warranty reserve	-	21	162
Loss on land revaluation	3,246	3,297	25,395
Deferred loss	7	1,357	10,452
Deferred loss of subsidiaries	719	-	-
Others	191	53	408
Sub total	6,799	8,054	62,035
Valuation allowance	(6,762)	(7,430)	(57,229)
Total deferred tax assets	¥37	¥624	€ 4,806
Deferred tax liabilities :			
Profits from percentage-of-completion method	(¥330)	(¥479)	(€ 3,689)
Reserve for buildings reduction entry	(68)	(64)	(493)
Unrealized gains on other securities	(694)	(558)	(4,298)
Others	-	(543)	(4,182)
Total deferred tax liabilities	(¥1,092)	(¥1,644)	(€ 12,662)
Net deferred tax liabilities	(¥1,055)	(¥1,020)	(€ 7,856)

A reconciliation between the effective statutory tax rate and the effective income tax rate as a percentage of income before income taxes and minority interest for the years ended March 31, 2008 and 2009 is as follows:

	2008	2009
Statutory tax rate	40.5%	40.5%
Increase(decrease)in taxes resulting from :		
Non-deductible entertainment expenses	1.1%	(4.4%)
Non-deductible directors' bonus	-	(0.6%)
Non-deductible contributions	-	(6.2%)
Non-taxable dividends received	(0.9%)	4.0%
Inhabitants per capita tax	2.7%	(15.6%)
Earnings accounted for by the equity method	(0.1%)	-
Valuation allowance	1.7%	(38.7%)
Others	0.0%	(1.6%)
Effective income tax rates	45.0%	(22.6%)

12. SEGMENT INFORMATION

a) Business segments

	Year ended March 31 , 2008					
	Technology service	Real estate	Others	Total	Elimination	Consolidated
	(Millions of Yen)					
Ⅰ Sales and operating income						
1)Sales to third parties	¥31,701	¥2,414	¥391	¥34,506	-	¥34,506
2)Inter-segment sales or transfers	0	516	8	524	(524)	-
Total sales	31,701	2,930	399	35,030	(524)	34,506
Operating expenses	32,544	2,369	388	35,301	(524)	34,777
Operating income (loss)	(¥843)	¥561	¥11	(¥271)	-	(¥271)
Ⅱ Assets, depreciation, impairment loss and capital expenditure						
Total assets	¥25,968	¥10,943	¥2,840	¥39,751	¥12,643	¥52,394
Depreciation	208	246	2	456	-	456
Impairment loss	1,922	-	-	1,922	-	1,922
Capital expenditure	¥311	¥363	¥0	¥674	-	¥674

	Year ended March 31 , 2009					
	Technology service	Real estate	Others	Total	Elimination	Consolidated
	(Millions of Yen)					
Ⅰ Sales and operating income						
1)Sales to third parties	¥34,327	¥15,076	¥24	¥49,427	-	¥49,427
2)Inter-segment sales or transfers	1	895	6	902	(902)	-
Total sales	34,328	15,971	30	50,329	(902)	49,427
Operating expenses	34,029	15,467	28	49,524	(902)	48,622
Operating income (loss)	¥299	¥504	¥2	¥805	-	¥805
Ⅱ Assets, depreciation, impairment loss and capital expenditure						
Total assets	¥41,597	¥26,298	¥2,591	¥70,486	(¥3,048)	¥67,438
Depreciation	310	454	0	764	-	764
Impairment loss	194	2	-	196	-	196
Capital expenditure	¥2,876	¥1,742	-	¥4,618	-	¥4,618

	Year ended March 31, 2009					
	Technology service	Real estate	Others	Total	Elimination	Consolidated
	(Thousands of Euro)					
Ⅰ Sales and operating income						
1)Sales to third parties	€ 264,400	€ 116,121	€ 185	€ 380,706	-	€ 380,706
2)Inter-segment sales or transfers	7	6,894	47	6,948	(6,948)	-
Total sales	264,407	123,015	232	387,654	(6,948)	380,706
Operating expenses	262,104	119,133	217	381,454	(6,948)	374,506
Operating income (loss)	€ 2,303	€ 3,882	€ 15	€ 6,200	-	€ 6,200
Ⅱ Assets, depreciation, impairment loss and capital expenditure						
Total assets	€ 320,396	€ 202,557	€ 19,957	€ 542,910	(€ 23,477)	€ 519,433
Depreciation	2,388	3,497	0	5,885	-	5,885
Impairment loss	1,494	16	-	1,510	-	1,510
Capital expenditure	€ 22,152	€ 13,418	-	€ 35,570	-	€ 35,570

Notes:
(1) Method of segmentation of business
Business operations are categorized to Engineering and Consultation, Real Estate, and Other businesses according to business purposes.
(2). Main lines of business by segment
1. Engineering and Consultation
Spatial information services, surveying, construction consulting
2. Real Estate
Rental and administration of real estate, real estate agency business
3. Other
Insurance agency business, operation of sports facilities

13. RELATED PARTY TRANSACTIONS

Year ended March 31, 2008 (From April 1, 2007 to March 31, 2008)

(a) Parent Company (Amounts in millions of Yen)

Type	Name	Address	Capitalization	Nature of operation	Equity ownership	Relationship		Transactions	Transaction amount	Account	Year-end balance
						Interlocking director	Business relation				
Parent company	Japan Asia Holdings (Japan) Limited	Chiyoda-ku, Tokyo	¥2,641	Investment business	55.4% direct	One	Sale of shares	Tender offer for shares of the company (Note)	¥612	—	—

Note: Terms of trade and method of setting trading terms:
Terms of trade were determined with comprehensive consideration of share market price and estimation of share price made by an independent appraiser on behalf of the Company and its subsidiaries.

(b) Fellow Subsidiaries (Amounts in millions of Yen)

Type	Name	Address	Capitalization	Nature of operation	Equity ownership	Relationship		Transactions	Transaction amount	Account	Year-end balance
						Interlocking director	Business relation				
Subsidiary of other affiliates	Japan Asia Land limited	Chiyoda-ku, Tokyo	¥100	Real estate business	—	—	Temporary loan	Loan of funds (Note)	¥2,500	Short-term loans	¥2,500

Note: Terms of trade and method of setting trading terms:
Interest rate was reasonably determined taking into consideration the market rate.

Year ended March 31, 2009 (From April 1, 2008 to March 31, 2009)
1. Transactions with Related Parties
(1) Transactions between Kokusai Kogyo Holdings Co., Ltd. and related parties
(a) Parent company and major shareholders (limited to corporations) of Kokusai Kogyo Holdings Co., Ltd.

(Amounts in millions of Yen)

Type	Name	Address	Capitalization	Nature of operation	Equity ownership	Relationship	Transactions	Transaction amount	Account	Year-end balance
Parent company	Japan Asia Holdings (Japan) Limited	Chiyoda-ku, Tokyo	¥2,641	Investment business	59.1 % direct	Transfer of shares Two interlocking officers	Transfer of shares (Note 1)	¥2,157	Affiliates shares	¥819

Note: 1. Terms of trade and method of setting trading terms:
Terms of trade were determined on a case by case basis with reference to market price.

(b) Companies sharing the same parent company with Kokusai Kogyo Holdings Co., Ltd., and subsidiaries of other affiliates of Kokusai Kogyo Holdings Co., Ltd.

(Amounts in millions of Yen)

Type	Name	Address	Capitalization	Nature of operation	Equity ownership	Relationship	Transactions	Transaction amount	Account	Year-end balance
Company sharing the same parent company	Japan Asia Securities Co., Ltd.	Chuo-ku, Tokyo	¥4,000	Financial services	–	Transfer of shares Agency business of issuance of corporate bonds Two interlocking officers	Transfer of shares (Note 2)	¥587	Affiliates shares	¥587
							Payment of fees for issuance of corporate bonds	¥16	–	–

Notes:
1. The transaction amount and the year-end balance are exclusive of consumption taxes.
2. Terms of trade and method of setting trading terms:
Terms of trade were reasonably determined taking into consideration of corporate value.

(c) Directors or major individual shareholders of Kokusai Kogyo Holdings Co., Ltd.

(Amounts in millions of Yen)

Type	Name	Address	Capitalization	Nature of operation	Equity ownership	Relationship	Transactions	Transaction amount	Account	Year-end balance
Company in which the Company's officer or his/her spouse or next of kin owns more than 50% of voting right	TOAS Holdings Co., Ltd. (Note 2)	Minato-ku, Tokyo	¥3	Consulting business	–	Consulting contracts One interlocking officer	Payment of compensation for consulting services (Note 3)	¥29	Accounts payable-other	¥3

Notes:
1. The transaction amount is exclusive of consumption taxes, but the year-end balance is inclusive of consumption taxes.
2. Andreas Steinberg, Director of the Company, owns 100% of the voting rights, of TOAS Holdings Co., Ltd.
3. Terms of trade and method of setting trading terms:
Compensation for consulting services was determined on a case by case basis based on proposed prices estimated by TOAS Holdings Co., Ltd. as in other similar business transactions.

(2) Transactions between the consolidated subsidiaries of Kokusai Kogyo Holdings Co., Ltd. and related parties

(a) Parent company and major shareholders (limited to corporations) of Kokusai Kogyo Holdings Co., Ltd.

(Amounts in millions of Yen)

Type	Name	Address	Capitalization	Nature of operation	Equity ownership	Relationship	Transactions	Transaction amount	Account	Year-end balance
Parent company	Japan Asia Group Limited	Chiyoda-ku, Tokyo	¥600	Pure holding company	59.1% Indirect	Purchase of corporate bonds Two interlocking officers	Purchase of corporate bonds	¥645	Investment securities	¥645
							Receiving interests on corporate bonds (Note 1)	¥3	Accounts receivable-other	¥3

Note: 1. The transaction amount and the year-end balance are exclusive of consumption taxes.

14. BUSINESS COMBINATIONS

Year ended March 31, 2008 (from April 1, 2007 to March 31, 2008)

(a) Establishment of KOKUSAI KOGYO HOLDINGS CO., LTD. (the "Company") a pure holding company through a share transfer

At a meeting held on May 18, 2007, the Board of Directors of KOKUSAI KOGYO CO., LTD. a subsidiary of the Company, decided establishment of a pure holding company through a share transfer. The proposal was approved at the General Meeting of Shareholders held on June 26, 2007. The transfer of Kokusai Kogyo's shares was consummated on October 1, 2007, and the Company was established as a pure holding company, with Kokusai Kogyo as its wholly owned subsidiary.

(1) Name and outline of business of constituent company or target business, legal form of business combination, name of company after business combination, and outline of transactions including purpose of transactions

1. Name and outline of business of constituent company or target business

KOKUSAI KOGYO CO., LTD. (a consolidated subsidiary of the Company)	Engineering and consultation business, real estate business

2. Legal form of business combination

Establishment of a pure holding company through a share transfer

3. Name of company after business combination

KOKUSAI KOGYO HOLDINGS CO., LTD.

4. Outline of transactions including purpose of transactions

In order to secure growth and accelerate advancement, Kokusai Kogyo believes that it is necessary to pursue a flexible business strategy which enables various business areas with different features to address the changing market environment. The Company will become a parent company, and the engineering and consultation business and the real estate business of its wholly owned subsidiary will be separated and succeeded by several companies. Separation of management and businesses clarifies authority and responsibility and enhances business judgment functions. Strengthened governance of the Group allows prompt actions on investment in new business or industry reorganization and enhances the Group's corporate value.

(2) Outline of accounting procedure adopted

The share transfer was accounted as a transaction under common control in accordance with the "Accounting Standard for Business Combination" (Business Accounting Council, October 31, 2003) and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, December 22, 2006).

(b) Separation of real estate business through a company split

At a meeting held on November 26, 2007, the Board of Directors of the Company and the Board of Directors of KOKUSAI KOGYO CO., LTD. a subsidiary of the Company, decided to separate the real estate business through a company split. Effective of January 4, 2008, the real estate business of Kokusai Kogyo was separated and succeeded by KOKUSAI FACILITIES CO., LTD. a 100% owned subsidiary of Kokusai Kogyo.

(1) Name and outline of business of constituent company or target business, legal form of business combination, name of company after business combination, and outline of transactions including purpose of transactions

1. Name and outline of business of constituent company or target business

KOKUSAI KOGYO CO., LTD. (a consolidated subsidiary of the Company)	Engineering and consultation business, real estate business
KOKUSAI FACILITIES CO., LTD. (a consolidated subsidiary of the Company)	Real estate business

2. Legal form of business combination

The real estate business was separated from KOKUSAI KOGYO CO., LTD. and succeeded by KOKUSAI FACILITIES CO., LTD.

3. Name of company after business combination

KOKUSAI FACILITIES CO., LTD. (Its corporate name was changed to KOKUSAI LAND & DEVELOPMENT CO., LTD. effective of January 4, 2008)

4. Outline of transactions including purpose of transactions

The Group has long been engaged in real estate business as well as in engineering and consultation business. The organization of the real estate business is, however, significantly different from that of engineering and consultation business, and its management issues are also completely different. Accordingly, the Group decided to separate real estate business as an independent company.

(2) Outline of accounting procedure adopted

The company split was accounted as a transaction under common control in accordance with the "Accounting Standard for Business Combinations" (Business Accounting Council, October 31, 2003) and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, December 22, 2006,).

(c) Separation of environment solution business through a company split

At a meeting held on November 26, 2007, the Board of Directors of the Company and the Board of Directors of KOKUSAI KOGYO CO., LTD. a subsidiary of the Company, decided to separate the environment solution business through a company split. Effective March 1, 2008, the environment solution business of Kokusai Kogyo was separated and succeeded by KOKUSAI ENVIRONMENTAL SOLUTIONS CO., LTD. a 100% owned subsidiary of the Company.

(1) Name and outline of business of constituent company or target business, legal form of business combination, name of company after business combination, and outline of transactions including purpose of transactions

1. Name and outline of business of constituent company or target business

KOKUSAI KOGYO CO., LTD. (a consolidated subsidiary of the Company)	Engineering and consultation business
KOKUSAI ENVIRONMENTAL SOLUTIONS CO., LTD. (a consolidated subsidiary of the Company)	Environment solution business

2. Legal form of business combination:

The environment solution business was separated from KOKUSAI KOGYO CO., LTD. and KOKUSAI ENVIRONMENTAL SOLUTIONS CO., LTD., a 100% owned subsidiary of the Company, was established on December 10, 2007.

3. Name of company after business combination

KOKUSAI ENVIRONMENTAL SOLUTIONS CO., LTD.

4. Outline of transactions including purpose of transactions

The organization of the environment solution business, which mainly consists of surveys and consulting services on pollution of land owned by private companies, is significantly different from that of engineering and consultation business, and its management issues are also unique. Accordingly, the Group decided to separate the environment solution business as an independent company.

(2) Outline of accounting procedure adopted

The company split was accounted as a transaction under common control in accordance with the "Accounting Standard for Business Combination" (Business Accounting Council, October 31, 2003) and the Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, December 22, 2006,).

(d) Separation of cultural heritage excavation and research business through a company split

At a meeting held on November 26, 2007, the Board of Directors of the Company and the Board of Directors of KOKUSAI KOGYO CO., LTD. a subsidiary of the Company, decided to separate the cultural heritage excavation and research business through a company split. Effective April 1, 2008, the cultural heritage excavation and research business of Kokusai Kogyo was separated and succeeded by KOKUSAI BUNKAZAI CO., LTD. a 100% owned subsidiary of the Company.

(1) Name and outline of business of constituent company or target business, legal form of business combination, name of company after business combination, and outline of transactions including purpose of transactions

(a) Name and outline of business of constituent company or target business

KOKUSAI KOGYO CO., LTD. (a consolidated subsidiary of the Company)	Engineering and consultation business
KOKUSAI BUNKAZAI CO., LTD. (a consolidated subsidiary of the Company)	Cultural heritage excavation and research business

2. Legal form of business combination

The cultural heritage excavation and research business was separated from KOKUSAI KOGYO CO., LTD. and KOKUSAI BUNKAZAI CO., LTD., a 100% owned subsidiary of the Company, was established on December 10, 2007.

3. Name of company after business combination

KOKUSAI BUNKAZAI CO., LTD.

4. Outline of transactions including purpose of transactions

The organization of the cultural heritage excavation and research business is significantly different from that of engineering and consultation business, and its management issues are also unique. Accordingly, the Group decided to separate cultural heritage excavation and research business as an independent company.

(2) Outline of accounting procedure adopted

The company split was accounted as a transaction under common control in accordance with the "Accounting Standard for Business Combinations" (Business Accounting Council, October 31, 2003) and the Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ, December 22, 2006, ASBJ Guidance No. 10).

Year ended March 31, 2009 (From April 1, 2008 to March 31, 2009)

(a) Acquisition of KHC ltd. through share acquisition making it a subsidiary

At meetings held on February 8 and February 15, 2008, the Board of Directors of the Company decided to enter into a share sale and purchase agreement regarding stock of KHC ltd. The Company acquired 197,700 shares of KHC effective of April 4, 2008 making it a subsidiary. Additional acquisitions of KHC's shares were made on June 30, 2008 (22,000 shares) on July 31, 2008 (5,000 shares), and September 30, 2008 (5,000 shares).

(1) Name and business of acquired company, primary reasons for business combination, date of business combination, legal form of business combination, name of company after business combination, and ratio of voting rights acquired

1. Name and business of acquired company

Name of acquired company: KHC ltd.

Business of acquired company: Management of subsidiaries which engage in construction or real estate businesses

2. Primary reasons for business combination

The acquisition of KHC aims to further expand Kokusai Kogyo Group's real estate business by pursuing development business focusing on housing in Japan and overseas with the business bases of KHC. Efficient use of tangible/intangible assets owned by Kokusai Kogyo Group will further strengthen marketing competitiveness and the revenue base of KHC and potentially create new businesses. This will lead to enhancement of the Group's corporate value.

3. Date of business combination

April 4, 2008 (The deemed acquisition date is the beginning of the fiscal year ended March 31, 2009.)

4. Legal form of business combination

Acquisition of shares

5. Name of company after business combination

The Company acquired KHC's shares, but the acquiree’s name was not changed after the acquisition.

6. Ratio of voting rights acquired (including additional, share acquisitions)

59.59%

(2) Period of the operating results of the acquired company included in the accompanying consolidated financial statements

April 1, 2008 to March 31, 2009

(3) Acquisition cost and outline of the acquired company (Including additional acquisition)

Payment for acquisition	Payment by cash	¥4,009 million
Acquisition cost		¥4,009 million

(4) Amount of goodwill, reason for the recognition, and amortization method and period for amortization

1. Amount of goodwill (Including additional acquisition)

¥787 million

2. Reason for the recognition

Goodwill was recognized in the amount of the difference between the acquisition cost and the net amount of assets acquired, liabilities assumed, and minority interests.

3. Amortization method and period for amortization

Amortization on a straight-line basis over five years

(5) Amount and main classes of assets acquired and liabilities assumed at the date of business combination

1. Amount of assets

Current assets	¥13,977 million
Fixed assets	3,078 million
Total	¥17,055 million

2. Amount of liabilities

Current liabilities	¥6,599 million
Non-current liabilities	5,032 million
Total	¥11,631 million

(6) Approximate amount of the effects on the accompanying consolidated statements of income for the fiscal year ended March 31, 2009 assuming that the business combination was consummated at the beginning of the fiscal year ended March 31, 2009.

There would be no effects on the consolidated statements of income because the consolidated statements of income were prepared with the deemed acquisition date as the beginning of the fiscal year ended March 31, 2009.

(b) Acquisition of GOSEI CO., LTD. through a share acquisition making it a subsidiary

At a meeting held on November 26, 2007, the Board of Directors of the Company decided to enter into business alliance regarding stock of GOSEI CO., LTD. and at a meeting held on April 22, 2008, it also decided to enter into a share sale and purchase agreement with Gosei. The Company acquired 28,560 shares of Gosei effective April 28, 2008 and made it a subsidiary.

(1) Name and business of acquired company, primary reasons for business combination, date of business combination, legal form of business combination, name of company after business combination, and ratio of voting rights acquired

1. Name and business of acquired company
   Name of acquired company: GOSEI CO., LTD.
   Business of acquired company: General construction consultancy
2. Primary reasons for business combination
   The acquisition of Gosei aims to develop a new community-based business model through collaboration using Gosei's community-based business style and the technical support provided by Kokusai Kogyo Group, as well as strengthen the service potential for municipal governments and other customers, and reinforce both companies management base by joint management of Kokusai Kogyo Group.
3. Date of business combination
   April 28, 2008 (The deemed acquisition date is the beginning of the fiscal year ended March 31, 2009)
4. Legal form of business combination
   Acquisition of shares
5. Name of company after business combination
   The Company acquired Gosei's shares, but the acquiree's name was not changed after the acquisition.
6. Ratio of voting rights acquired
   59.50%

(2) Period of the operating results of the acquired company included in the accompanying consolidated financial statements
   April 1, 2008 to March 31, 2009

(3) Acquisition cost and its outline of the acquired company

Payment for acquisition	Payment by cash	¥143 million
Acquisition cost		¥143 million

(4) Amount of goodwill, reason for the recognition, and amortization method and period for amortization
1. Amount of goodwill
   ¥128 million
2. Reason for the recognition
   Goodwill was recognized in the amount of the difference between the acquisition cost and the net amount of assets acquired, liabilities assumed, and minority interests.
3. Amortization method and period for amortization
   Amortization on a straight-line basis over five years

(5) Amount and main classes of assets acquired and liabilities assumed at the date of business combination
1. Amount of assets

Current assets	¥1,397 million
Fixed assets	683 million
Total	¥2,080 million

2. Amount of liabilities

Current liabilities	¥1,436 million
Non-current liabilities	619 million
Total	¥2,055 million

(6) Approximate amount of effects on the accompanying consolidated statements of income for the fiscal year ended March 31, 2009 provided that the business combination consummated on the beginning of the fiscal year ended March 31, 2009.
   There would be no effects on the accompanying consolidated statements of income for the consolidated statements of income were prepared with the deemed acquisition date as the beginning of the fiscal year ended March 31, 2009.

(c) Acquisition of Geosol Group through an equity acquisition making it a subsidiary

At a meeting held on December 4, 2008, the Board of Directors of the Company decided to enter into an equity transfer agreement to acquire Geosol Group. The Company acquired equity of Geosol Group companies through KOKUSAI EUROPE GMBH, a European affiliate of the Company effective of January 1, 2009 (German time) and made them its subsidiaries.

At the same time of the acquisition of equity of Geosol Group, the organization was restructured to a new group structure which has GEOSOL Beteiligungsgesellschaft mbH as a holding company and other Geosol Group companies as its 100% owned subsidiaries.

(1) Name and business of acquired company, primary reasons for business combination, date of business combination, legal form of business combination, name of company after business combination, and ratio of voting rights acquired

1. Name and business of acquired company

Name of acquired company: GEOSOL Beteiligungsgesellschaft mbH and its group companies (21 companies in total)

Business of acquired company: Development and operation of mega-solar power generation

2. Primary reasons for business combination

The Geosol Group has technological know-how to optimize various solar-power panel-mover systems developed by world major manufacturers by adjusting them to different local conditions, as well as of financial know-how to implement projects. By acquiring a variety of know-how, known brand and development results through the acquisition of equity, Kokusai Kogyo Group will be able to enter and to develop its new energy business in a more secure manner. To facilitate this, the Company will implement organizational restructuring including establishment of a company to promote new energy business.

The acquisition of Geosol Group will enable Kokusai Kogyo Group to pursue a two-pillar business structure with high potential for creating substantial synergy effects. Entering and maintaining a recognized market position and profitable operations in Europe, as currently the most advanced market in terms of mega solar power generation, shall be combined with a step-wise business development approach in Asia, especially Japan. Furthermore, expected expansion of the global market for mega-solar power generation will advance Kokusai Kogyo Group a step forward to global operation.

Presently, Geosol Group is pursuing development projects of new mega-solar power plants, which are due in 2010, in Italy and the Czech Republic, with contractual relations to financial institutions in Germany already in place. The business plan projects revenues with high profitability from selling completed power plants as well as stable income from operation and maintenance of the power plants. By this, the mega-solar business in Europe is expected to contribute to the consolidated results of Kokusai Kogyo Group, which represents one major objective of acquiring the equity of Geosol Group this time.

3. Date of business combination

January 1, 2009 (German time)

4. Legal form of business combination

Acquisition of equity

5. Name of company after business combination

No change was made for the company name.

6. Ratio of voting rights acquired

80.00%

(2) Period of the operating results of the acquired company included in the consolidated financial statements

December 31, 2008 was deemed as the acquisition date. Financial statements as of the closing date were used because the difference of closing dates does not exceed 3 months.

(3) Acquisition cost and its outline of the acquired company

Payment for acquisition	Payment by cash	¥2,181 million
Acquisition cost		¥2,181 million

(4) Amount of goodwill, reason for the recognition, and amortization method and period for amortization

1. Amount of goodwill

¥1,824 million

2. Reason for the recognition

Goodwill was recognized tentatively based on available and reasonable information and recorded in the amount of the difference between the acquisition cost and the net amount of assets acquired, liabilities assumed, and minority interests.

3. Amortization method and period for amortization
   Goodwill is scheduled to be amortized by the straight-line method over a reasonable period, which will be determined based on an estimated period for which the investment effects last. The period for which the investment effects last is under calculation.

(5) Amount and main classes of assets acquired and liabilities assumed at the date of business combination

1. Amount of assets

Current assets	¥2,631 million
Fixed assets	128 million
Total	¥2,759 million

2. Amount of liabilities

Current liabilities	¥910 million
Non-current liabilities	516 million
Total	¥1,426 million

(6) Outline of payment for acquisition with conditions prescribed in the business combination agreement and accounting policy for fiscal years following the fiscal year ended March 31, 2009

1. Outline of payment for acquisition with conditions
   Additional payment shall be made based on expected performance including total income generated from the acquisition to 2010.
2. Accounting policy
   For the increase in the amount of goodwill through payments described above, the Company will deem that the increase in the amount was paid at the acquisition of equity and change acquisition cost, the amount of goodwill, and the amortization amount of goodwill.
   Purchase price allocation has not been completed at the submission date of this financial report, for the Company accounts for based on available and reasonable information.

(7) Approximate amount of effects on the consolidated statements of income for the fiscal year ended March 31, 2009 assumed that the business combination was consummated on the beginning of the fiscal year ended March 31, 2009.
Approximate estimation of the amount is difficult and has not been made. This note has not been given audit certificate.

15. AMOUNTS PER SHARE

	2008	2009	2009
	(Yen)		*(Euro)*
Net income (Loss) - Basic:	¥39.68	(¥19.79)	(€ 0.15)
Net assets:	¥859.59	¥834.01	€ 6.42

Basic net income per share was computed based on the net income available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during the year.
Amounts per share of net assets were computed based on the net assets available for distribution to the shareholders and the number of shares of common stock outstanding at the year-end.
Net income per share (diluted) was omitted because there was no residual securities existed.

16. SIGNIFICANT SUBSEQUENT EVENTS

Not applicable

Ernst & Young ShinNihon LLC
Hibiya Kokusai Bldg.
2-2-3, Uchisaiwai-cho,
Chiyoda-ku, Tokyo, Japan 100-0011

Tel : +81 3 3503 1100
Fax: +81 3 3503 1197

Report of Independent Auditors

The Board of Directors
KOKUSAI KOGYO HOLDINGS CO., LTD.

We have audited the accompanying consolidated balance sheets of KOKUSAI KOGYO HOLDINGS CO., LTD. and consolidated subsidiaries as of March 31, 2008 and 2009, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of KOKUSAI KOGYO HOLDINGS CO., LTD. and consolidated subsidiaries at March 31, 2008 and 2009, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Supplemental Information

As described in Note 3(a) to the consolidated financial statements, the Company adopted "Accounting Standard For Construction Contracts" and "Guidance on Accounting Standard for Construction Contracts."

The Euro amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2009 are presented solely for convenience. Our audit also included the translation of yen amounts into Euro amounts and, in our opinion, such translation has been made on the basis described in Note 2.

Ernst & Young ShinNihon LLC

June 24, 2009