

## **Notes to the Consolidated Financial Statements**

*For the years ended 31 March 2007 and 2006*

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### **1. Basis of Presenting the Consolidated Financial Statements**

The accompanying consolidated financial statements of THE NIPPON ROAD CO., LTD. (the "Company") and its consolidated subsidiaries (hereinafter referred to collectively as the "Companies") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

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

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

## **2. Summary of Significant Accounting Policies**

### **(1) Principles of Consolidation**

As at 31 March 2007, the consolidated financial statements included the accounts of the Company and its 45 (2006: 45) subsidiaries (42 domestic subsidiaries and 3 overseas subsidiaries). All assets and liabilities of consolidated subsidiaries were revalued to fair market value as of the date of establishment of control. Any difference between the cost of an investment in a subsidiary and the amount of underlying equity in the net assets of the subsidiary, if any at the date of establishment of control, were expensed when incurred, as any such difference was minor. All significant intercompany accounts and transactions and unrealized profit among the Companies, if any, were been eliminated on consolidation.

The unconsolidated subsidiaries and affiliates did not have a material effect on the consolidated financial statements of the Companies and therefore they were excluded from consolidation. They were not accounted for using the equity method for the reason described above.

Overseas consolidated subsidiaries were adopted accounting principles generally accepted in their respective countries and no adjustments were made to their financial statements on consolidation, as allowed under accounting principles and practices generally accepted in Japan. In addition, the financial statements of three overseas subsidiaries (Nippon Road (M) Sdn. Bhd., Thai Nippon Road Co., Ltd. and Thai Nippon Holding Ltd.) were prepared on a calendar-year basis. Significant transactions that occurred between 1 January and 31 March were reflected in the accompanying consolidated financial statements.

### **(2) Valuation of Securities**

Securities held by the Companies are classified into two categories:

a) Held-to-maturity debt securities that the Companies intend to hold to maturity are stated at cost after accounting for any premium or discount on acquisition, which is amortized over the period to maturity.

b) Other securities for which market quotations are available are stated at fair value. Net unrealized gains on other securities with market quotations are reported net of taxes as a separate component of "Shareholders' Equity".

Other securities for which market quotations are unavailable are valued at cost, cost being determined by the moving average method.

### **(3) Inventory Valuation**

Inventories are classified into three categories:

- a) The cost of uncompleted construction contracts and b) other inventories, are valued at cost as determined by the job order costing method.
- c) Raw materials and supplies are valued at cost as determined by the moving average method.

### **(4) Tangible Fixed Assets**

The tangible fixed assets of the Company and its domestic subsidiaries, excluding leased assets, are principally depreciated using the declining-balance method over the estimated useful lives of the assets at the balance sheet date. However, the straight-line method has been applied to buildings, excluding building fixtures, acquired after 1 April 1998, over the estimated useful lives of the assets at the balance sheet date.

Leased assets are depreciated using the straight-line method over the lease term.

The tangible fixed assets of overseas subsidiaries are principally depreciated using the straight-line method over the estimated useful lives of the assets at the balance sheet date.

Normal repairs and maintenance, including minor renewals and improvements, are charged to income as incurred.

Estimated useful lives range from 3 to 50 years for buildings and structures, and from 2 to 20 years for machinery, equipment, and leased assets.

### **(5) Intangible Assets**

Amortization of intangible assets and long-term prepaid expenses included in "Other investments" are computed using the straight-line method, over the estimated useful lives.

Software for internal use is amortized over the expected useful life of the software (5 years) on a straight-line basis.

### **(6) Reserves and Allowances**

#### **(i) Allowance for doubtful accounts**

The Company and its domestic subsidiaries provide an allowance for doubtful accounts based on a historical default ratio, in addition to the amount of potential losses from irrecoverable receivables based on the management's estimate.

The foreign consolidated subsidiaries provide for potential losses from irrecoverable receivables based on the management's estimate.

#### **(ii) Warranty reserve for completed construction contracts**

A warranty reserve for completed construction contracts is provided at an estimated amount, based on the actual level of defects and the related warranty costs specified in the completed construction contracts.

(iii) Reserve for loss on construction contracts

The Company provides a reasonable estimated amount for future loss on construction contracts outstanding at the year-end.

(iv) Accounting standard for directors' bonus

Effective from the year ended 31 March 2007, the Company applied "Accounting standard for directors' bonus" (Accounting Standard Board of Japan Statement No.4 issued on November 29 2005 by the Accounting Standards Board of Japan), and the Company calculates "Accrued bonus to directors and statutory auditors."

The effect of the application of this standard on profit and loss was immaterial.

(v) Reserve for retirement benefits

(a) Retirement benefits to employees

A reserve for retirement benefits to employees is provided at an amount equal to the present value of the projected benefit obligation less the fair value of the plan assets at year-end.

Unrecognized past service costs are amortized on a straight-line basis over 12 years from the year in which they occur.

Unrecognized actuarial differences are amortized on a straight-line basis over 12 years from the year after they occur.

Effective from the year ended 31 March 2007, the amortization period of unrecognized past service costs and unrecognized actuarial differences was changed from 13 years to 12 years due to the shortening of employees' average remaining service period.

As a result of the change of the amortization period, operating profit, ordinary profit and profit before income taxes and minority interests for the year ended 31 March 2007 increased by ¥10 million.

(b) Retirement benefits to directors and corporate auditors

The Company has provided for the accrued cost of retirement benefits payable to directors and corporate auditors at an amount equivalent to 100 per cent of the benefits that the Company would be required to pay in accordance with the relevant internal rules and regulations, were all eligible directors and corporate auditors to retire at the year-end date.

The Company decided to terminate its retirement benefit plan for directors and corporate auditors at the annual general meeting of shareholders held on 29 June 2006, and the shareholders approved a resolution to make lump-sum payments of their accumulated retirement benefits to the directors and corporate auditors. The aggregate amount of the outstanding retirement benefits to directors and corporate auditors at the date of the shareholders' meeting was included in "Other non-current liabilities" at 31 March 2007.

#### **(7) Translation of Foreign Currency**

All monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at the exchange rate prevailing at the balance sheet date. Resulting gains and losses are included in net profit or loss for the period.

Assets and liabilities of the foreign subsidiaries and affiliates are translated into Japanese yen at the exchange rate prevailing at the balance sheet date. Shareholders' equity at the beginning of the year is translated into Japanese yen at the historical rate. Profit and loss accounts for the year are translated into Japanese yen using the exchange rate prevailing at the balance sheet date. Differences in yen amounts arising from the use of different rates are presented as "foreign currency translation adjustments" in the shareholders' equity.

#### **(8) Accounting for Leases**

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

#### **(9) Hedge Accounting**

The derivatives designated as hedging instruments by the Company are principally interest swaps.

The Companies have a policy to utilize hedging instruments in order to reduce the Companies' risk of fluctuations in interest. Therefore, the Companies' purchases of hedging instruments are limited to, at maximum, the amounts of the hedged items.

Gains or losses from changes in the fair value of the derivatives designated as "hedging instruments" are deferred as an asset or liability and included in net income for the same year during which the gains or losses on the hedged items or transactions are recognized. However, interest rate swaps, if they meet the conditions for hedge accounting and their nominal amount, terms of interest and contract period are substantially the same as those of hedged items, are not valued at fair value, but are accrued net of the swap interest paid and received.

The Companies evaluate the effectiveness of their hedging activities, except for interest rate swaps which meet the conditions described above, with reference to the correlation between fluctuation in the market value of hedged items and hedging instruments accumulated from the commencement of the hedges.

#### **(10) Revenue Recognition**

The Company and its domestic consolidated subsidiaries adopt the completion method in recognition of revenue and costs relating to all construction contracts. The foreign consolidated subsidiaries adopt the percentage of completion method.

**(11) 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.

**(12) Accounting for Consumption Tax**

Consumption tax is imposed at the flat rate of 5% on all domestic consumption of goods and services (with certain exemptions).

The consumption tax withheld upon sale and consumption tax paid by the Companies on their purchases of goods and services are not included in the amounts of respective revenue and cost or expense items in the accompanying consolidated statements of income. The consumption tax withheld and consumption tax paid are recorded as assets or liabilities and the net balance is included in "Accounts payable - other" in the consolidated balance sheets.

**(13) Income Taxes**

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

The Company and its subsidiaries adopt deferred tax accounting in accordance with the amended regulations for the preparation of consolidated financial statements. 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 consolidated financial statements.

**(14) Appropriation of Retained Earnings**

Until the year ended 31 March 2006, under the Japanese Commercial Code and the Articles of Incorporation of the Company, the appropriation of retained earnings proposed by the Board of Directors was subject to approval by the shareholders at a meeting which must be held within three months of the end of each financial year. The appropriations of retained earnings reflected in the accompanying consolidated financial statements included the results of such appropriations applicable to the immediately preceding financial year as approved at the shareholders' meeting and effected during the relevant year. Dividends were paid to shareholders on the shareholders' register as at the end of each financial year. As was customary practice in Japan, the payment of bonuses to directors and corporate auditors was made out of retained earnings through an appropriation, instead of being charged to the income of the year.

The Japanese Commercial Code provided that interim cash dividends may be paid as a part of the annual dividend upon approval by the Board of Directors. The Company did not pay such interim dividends to its shareholders.

Effective from 1 May 2007, under the Company Law of Japan, such cash dividends are able to be made at any time by resolution of the shareholders or by the Board of Directors if certain conditions are met.

#### **(15) Legal Reserves**

Under the Company Law of Japan, the entire amount of the issue price of shares is required to be accounted for as common stock, although a company may, by resolution of its Board of Directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital.

The Company Law requires that an amount equal to at least 10% of cash dividends and other cash appropriations are appropriated and set aside as legal reserve until the total amount of legal reserve and additional paid-in capital equals 25% of common stock. The legal reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. If the total amount of the legal reserve and additional paid-in capital remains equal to or exceeds 25% of common stock, the legal reserve and additional paid-in capital are available for dividends by resolution of the shareholders' meeting. In the accompanying financial statements, the legal reserve is included in retained earnings and additional paid-in capital is included in capital surplus.

The maximum amount the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Company Law.

#### **(16) Earnings per Share**

The computation of basic net income per common share is based on the weighted average number of outstanding shares of common stock, excluding treasury stock. The average number of shares used in the computation was 94,990,322 for the year ended 31 March 2007 and 95,015,900 for the year ended 31 March 2006.

#### **(17) Accounting Standard for Impairment of Fixed Assets**

On 9 August 2002, the Business Accounting Council in Japan issued "Accounting Standard for Impairment of Fixed Assets". The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of net selling price and value in use.

The standard is effective from fiscal years beginning 1 April 2005. The Companies have applied this new standard to the consolidated financial statements from the year ended 31 March 2006.

As a result of the adoption of this new accounting standard, an impairment loss on fixed assets was recognized and the profit before income taxes and minority interests decreased by ¥588 million

(\$5,006 thousand) in the consolidated statements of income for the year ended 31 March 2006. The impairment loss on fixed assets has been deducted directly from the carrying amounts of the respective assets in the consolidated balance sheets.

**(18) Accounting standard for presentation of net assets in the balance sheet**

Effective from the year ended 31 March 2007, the Company applied “Accounting standard for presentation of net assets in the balance sheet” (Accounting Standards Board of Japan Statement No.5), and “Implementation guidance for Accounting standards for presentation of net assets in the balance sheet” (Accounting Standards of Japan Guidance No. 8) both issued by the Accounting Standards Board of Japan on 9 December 2005.

The amount corresponding to the conventional “Shareholders’ equity” in the balance sheet was 51,501 million.

“Net assets” in the balance sheets for this year were presented according to the revision of “Regulations concerning the Terminology, Form and Presentation Methods of Consolidated Financial Statements” dated 25 April 2006.

**(19) Changes in the Accounting Presentation**

Changes in the accounting presentation were made in the consolidated statements of income for the year ended 31 March 2006 as follows:

“Foreign currency transaction gain” was individually itemized from the year ended 31 March 2006 because it was important. It was itemized in “other net” for the year ended 31 March 2005. The amount of “foreign currency transaction gain” for the year ended 31 March 2005 was ¥27 million.

Changes in the accounting presentation were made in the consolidated statements of cash flows for the year ended 31 March 2006 as follows:

i) “Valuation loss on real estate held for resale” in the cash flows from operating activities was individually itemized from the year ended 31 March 2006 because it was important. It was itemized in “others” for the year ended 31 March 2005. The amount of “valuation loss on real estate held for resale” in “others” in the cash flows from operating activities for the year ended 31 March 2005 was ¥57 million.

ii) “Payment of long-term loans” in the cash flows from investing activities was individually itemized from the year ended 31 March 2006 because it was important. It was itemized in “others” for the year ended 31 March 2005. The amount of “payment of long-term loans” in “others” in the cash flows from investing activities for the year ended 31 March 2005 was ¥(1) million.

Changes in the accounting presentation were made in the consolidated statements of cash flows for the year ended 31 March 2007 as follows:

i) “Increase in reserve for loss on construction contracts” in the cash flows from operating activities was itemized in “others” from the year ended 31 March 2007 because it was immaterial. It was individually itemized for the year ended 31 March 2006. The amount of “Decrease in

reserve for loss on construction contracts” itemized in “others” in the cash flows from operating activities for the year ended 31 March 2007 was ¥(19) million.

ii) “Acquisition of investments in securities” in the cash flows from investing activities was itemized in “others” from the year ended 31 March 2007 because it was immaterial. It was individually itemized for the year ended 31 March 2006. The amount of “Acquisition of investments in securities” itemized in “others” in the cash flows from investing activities for the year ended 31 March 2007 was ¥(18) million.

iii) “Proceeds from sale of investments in securities” in the cash flows from investing activities was itemized in “others” from the year ended 31 March 2007 because it was immaterial. It was individually itemized for the year ended 31 March 2006. The amount of “Proceeds from sale of investments in securities” itemized in “others” in the cash flows from investing activities for the year ended 31 March 2007 was ¥3 million.

### 3. United States Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥118.09=U.S. \$1, the approximate rate of exchange prevailing at 31 March 2007 has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at this rate or any other rates.

### 4. Note to the Consolidated Balance Sheets

(1) Investments of the Company in equity securities issued by unconsolidated subsidiaries and affiliates

31 March	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Investment in securities (corporate stock).....	<b>¥172</b>	¥171	<b>\$1,454</b>

(2) Pledged Assets

The following assets were pledged as collateral in substitution for guarantee money paid.

31 March	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Securities.....	<b>¥45</b>	¥45	<b>\$381</b>
	<b>¥45</b>	¥45	<b>\$381</b>

### (3) Contingent Liabilities

As at 31 March 2007 and 2006, the Company was contingently liable for guarantees as follows:

31 March 2007	Millions of yen	Thousands of U.S. dollars (Note 3)
Guarantees of loans from banks .....	<b>¥12</b>	<b>\$99</b>

  

31 March 2006	Millions of yen
Guarantees of loans from banks .....	¥17

### (4) Commitments

The Company had a total of ¥4,300 million (\$36,413 thousand) of overdraft contracts and credit lines from two banks to facilitate the availability of efficient funds as at 31 March 2007, and ¥4,300 million as at 31 March 2006. The unutilized portion was ¥4,300 million (\$36,413 thousand) as at 31 March 2007 and ¥4,300 million as at 31 March 2006.

### (5) Effect of Bank Holiday on 31 March 2007

Due to a Bank holiday on 31 March 2007, the following notes receivable and notes payable with maturities on 31 March 2007 were included in “Notes and accounts receivable – trade” and “Notes and accounts payable (on construction) – trade”, respectively.

31 March 2007	Millions of yen	Thousands of U.S. dollars (Note 3)
Notes receivable .....	<b>¥574</b>	<b>\$4,864</b>
Notes payable .....	<b>¥334</b>	<b>\$2,827</b>

## 5. Notes to the Consolidated Statements of Income

### (1) The major components of “Selling, General and Administrative Expenses”

31 March	Millions of yen		Thousand of U.S. dollars (Note 3)
	2007	2006	2007
Salaries and allowances to employees .....	<b>¥3,993</b>	¥4,035	<b>\$33,817</b>
The net periodic pension expense .....	<b>139</b>	199	<b>1,178</b>
Reserve for retirement benefits to directors and corporate auditors .....	<b>36</b>	23	<b>302</b>
Accrued bonus to directors .....	<b>8</b>	-	<b>65</b>
Allowance for doubtful accounts .....	<b>56</b>	30	<b>477</b>

### (2) Research and Development Expenses

Research and development expenses, which were included in general and administrative expenses, amounted to ¥361 million (\$3,054 thousand) as at 31 March 2007 and ¥309 million for the year ended 31 March 2006.

(3) Components of gain on sale of tangible fixed assets

31 March	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Land .....	<b>¥259</b>	¥40	<b>\$2,196</b>
Machinery and equipment and others .....	<b>6</b>	8	<b>55</b>
	<b>¥265</b>	¥48	<b>\$2,251</b>

(4) Components of loss on sale of tangible fixed assets

31 March	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Land .....	<b>¥-</b>	¥274	<b>\$-</b>
Machinery and equipment.....	<b>5</b>	19	<b>49</b>
Others.....	<b>-</b>	3	<b>-</b>
	<b>¥5</b>	¥296	<b>\$49</b>

(5) Components of loss on disposal of tangible fixed assets

31 March	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Buildings.....	<b>¥15</b>	¥30	<b>\$124</b>
Structures .....	<b>2</b>	11	<b>17</b>
Machinery and equipment.....	<b>62</b>	36	<b>526</b>
Others.....	<b>7</b>	4	<b>64</b>
	<b>¥86</b>	¥81	<b>\$731</b>

(6) Impairment loss on fixed assets

The Companies recognized an impairment loss of ¥565 million (4,788 thousand) for the following group of assets as of 31 March 2007 and ¥588 million as of 31 March 2006.

Branch	Segment	Use	Category	Impairment loss		
				Millions of yen		Thousands of U.S. dollars
31 March				2007	2006	2007
Kansai branch	Construction	Business offices, machinery, and others	Buildings .....	<b>¥-</b>	¥30	<b>\$-</b>
			Land .....	<b>11</b>	61	<b>93</b>
			Others.....	<b>5</b>	42	<b>44</b>
Kyusyu branch	Construction	Business offices, machinery, and others	Buildings .....	<b>87</b>	-	<b>736</b>
			Land .....	<b>326</b>	-	<b>2,762</b>
			Others.....	<b>88</b>	-	<b>750</b>
Tohoku branch	Construction	Business offices, machinery, and others	Buildings .....	-	97	-
			Land .....	<b>13</b>	251	<b>114</b>
			Others.....	<b>20</b>	103	<b>168</b>
		-	Idle land	Land .....	<b>15</b>	-

The companies assessed impairment for each group of assets, which were grouped on the basis of managerial accounting, branch and segment, and for idle assets, individually.

As a result of the deterioration of the business environment, operating profitability worsened substantially. Therefore, the Companies decided to mark the above assets down to their recoverable value, and accrued impairment loss.

The recoverable value was determined as the net selling value. The net selling value of land was based on the price of deals or the assessed value of fixed assets.

## 6. Notes to the Consolidated Statements of Cash Flows

Cash and Cash Equivalents at 31 March 2007 and 2006 consisted of:

31 March	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Cash in hand and at banks .....	<b>¥17,773</b>	¥15,621	<b>\$150,500</b>
Fixed deposits over 3 months .....	-	-	-
Cash and cash equivalents .....	<b>¥17,773</b>	¥15,621	<b>\$150,500</b>

## 7. Notes to the Consolidated Statements of Changes in Net Assets

### (1) Type and number of outstanding shares

Type of shares	Thousands of shares			
	Balance at 31 March 2006	Increase in shares during the year	Decrease in shares during the year	Balance at 31 March 2007
Issued stock :				
Common stock .....	97,616	-	-	97,616
Treasury stock :				
Common stock .....	2,615	24	-	2,639

### (2) Dividends

#### (i) Dividends paid to shareholders

Resolution	Type of shares	Amount (Millions of yen)	Amount (Thousands of US dollars)	Amount per share (Yen)	Amount per share (US dollars)	Shareholders' cut-off date	Effective date
Annual general meeting of shareholders (29 June 2006)	Common stock	¥475	\$4,022	¥5	\$0.04	31 March 2006	30 June 2006

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

Resolution	Type of shares	Amount (Millions of yen)	Amount (Thousands of US dollars)	Resources	Amount per share (Yen)	Amount per share (US dollars)	Shareholders' cut-off date	Effective date
Board of directors (21 May 2007)	Common stock	¥285	\$2,413	Retained earnings	¥3	\$0.03	31 March 2007	11 June 2007

## 8. Leases

Information regarding finance leases as lessor that did not transfer the ownership of the leased property to the lessee for the years ended 31 March 2007 and 2006 was as follows:

(1) The acquisition cost, accumulated depreciation and the balance

31 March 2007	Millions of yen		
	Acquisition costs	Accumulated depreciation	Balance
Machinery and equipment.....	<b>¥14,776</b>	<b>¥8,676</b>	<b>¥6,100</b>
Other .....	<b>130</b>	<b>97</b>	<b>33</b>
	<b>¥14,906</b>	<b>¥8,773</b>	<b>¥6,133</b>

31 March 2006	Millions of yen		
	Acquisition costs	Accumulated depreciation	Balance
Machinery and equipment.....	¥17,820	¥9,552	¥8,268
Other .....	142	99	43
	¥17,962	¥9,651	¥8,311

31 March 2007	Thousands of U.S. dollars (Note 3)		
	Acquisition costs	Accumulated depreciation	Balance
Machinery and equipment.....	<b>\$125,125</b>	<b>\$73,470</b>	<b>\$51,655</b>
Other .....	<b>1,104</b>	<b>818</b>	<b>286</b>
	<b>\$126,229</b>	<b>\$74,288</b>	<b>\$51,941</b>

(2) The scheduled maturities of future lease receivables on such lease contracts

31 March	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Due within one year .....	<b>¥2,010</b>	¥2,502	<b>\$17,025</b>
Due over one year .....	<b>3,254</b>	4,433	<b>27,551</b>
	<b>¥5,264</b>	¥6,935	<b>\$44,576</b>

(3) Lease revenue, depreciation expenses and equivalent to interest income

31 March	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Lease revenue.....	<b>¥2,685</b>	¥3,259	<b>\$22,738</b>
Depreciation expenses.....	<b>2,139</b>	2,592	<b>18,112</b>
Equivalent to interest income.....	<b>560</b>	687	<b>4,738</b>

(4) The Companies calculated interest income using the interest method.

(5) No impairment loss on fixed assets was recognized on leased assets.

Information regarding finance leases as lessee that did not transfer the ownership of the leased property to the Companies for the years ended 31 March 2007 and 2006 was as follows:

(1) The acquisition cost, accumulated depreciation and the balance

31 March 2007	Millions of yen		
	Acquisition costs (equivalent)	Accumulated depreciation (equivalent)	Balance (equivalent)
Machinery and equipment.....	<b>¥23</b>	<b>¥18</b>	<b>¥5</b>
	<b>¥23</b>	<b>¥18</b>	<b>¥5</b>

31 March 2006	Millions of yen		
	Acquisition costs (equivalent)	Accumulated depreciation (equivalent)	Balance (equivalent)
Machinery and equipment.....	¥23	¥14	¥9
	<b>¥23</b>	<b>¥14</b>	<b>¥9</b>

31 March 2007	Thousands of U.S. dollars (Note 3)		
	Acquisition costs (equivalent)	Accumulated depreciation (equivalent)	Balance (equivalent)
Machinery and equipment.....	<b>\$198</b>	<b>\$158</b>	<b>\$40</b>
	<b>\$198</b>	<b>\$158</b>	<b>\$40</b>

(2) The scheduled maturities of future lease payments on such lease contracts

31 March	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Due within one year .....	<b>¥4</b>	¥5	<b>\$40</b>
Due over one year .....	-	4	-
	<b>¥4</b>	<b>¥9</b>	<b>\$40</b>

(3) Lease payments and depreciation expenses

31 March	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Lease payments .....	¥4	¥4	\$40
Depreciation expenses.....	4	4	40

(4) Depreciation expenses were computed using the straight-line method over a period up to the length of the relevant lease contracts, with no residual value.

(5) The figures shown above included the portion of interest thereon.

(6) No impairment loss on fixed assets was recognized on leased assets.

## 9. Investments in Securities

Investments in securities as at 31 March 2007 and 2006 were as follows:

(1) Held-to-maturity debt securities with market quotations

	Millions of yen					
	2007			2006		
	Fair market value	Book value	Difference	Fair market value	Book value	Difference
<b>Securities with unrealized gains</b>						
Governmental and municipal bonds.....	¥45	¥45	¥0	¥46	¥45	¥1
<b>Securities with unrealized losses</b>						
Governmental and municipal bonds.....	-	-	-	-	-	-
<b>Total</b>	<b>¥45</b>	<b>¥45</b>	<b>¥0</b>	<b>¥46</b>	<b>¥45</b>	<b>¥1</b>

	Thousands of U.S. dollars (Note 3)		
	2007		
	Fair market value	Book value	Difference
<b>Securities with unrealized gains</b>			
Governmental and municipal bonds.....	\$383	\$381	\$2
<b>Securities with unrealized losses</b>			
Governmental and municipal bonds.....	-	-	-
<b>Total</b>	<b>\$383</b>	<b>\$381</b>	<b>\$2</b>

## (2) Other securities with market quotations

	Millions of yen					
	2007			2006		
	Acquisition cost	Fair market value (book value)	Difference	Acquisition cost	Fair market value (book value)	Difference
<b>Other securities with unrealized gains</b>						
Equity securities .....	¥2,493	¥6,792	¥4,299	¥2,501	¥8,218	¥5,717
Debt securities:						
Convertible bonds .....	-	-	-	-	-	-
Others .....	-	-	-	-	-	-
<b>Sub total</b>	<b>¥2,493</b>	<b>¥6,792</b>	<b>¥4,299</b>	<b>¥2,501</b>	<b>¥8,218</b>	<b>¥5,717</b>
<b>Other securities with unrealized losses</b>						
Equity securities .....	¥33	¥30	¥(3)	¥29	¥26	¥(3)
Debt securities:						
Convertible bonds .....	-	-	-	-	-	-
Others .....	-	-	-	-	-	-
<b>Sub total</b>	<b>¥33</b>	<b>¥30</b>	<b>¥(3)</b>	<b>¥29</b>	<b>¥26</b>	<b>¥(3)</b>
<b>Total</b>	<b>¥2,526</b>	<b>¥6,822</b>	<b>¥4,296</b>	<b>¥2,530</b>	<b>¥8,244</b>	<b>¥5,714</b>

	Thousands of U.S. dollars (Note 3)		
	2007		
	Acquisition cost	Fair market value (book value)	Difference
<b>Other securities with unrealized gains</b>			
Equity securities .....	\$21,116	\$57,518	\$36,402
Debt securities:			
Convertible bonds .....	-	-	-
Others .....	-	-	-
<b>Sub total</b>	<b>\$21,116</b>	<b>\$57,518</b>	<b>\$36,402</b>
<b>Other securities with unrealized losses</b>			
Equity securities .....	\$277	\$256	\$(21)
Debt securities:			
Convertible bonds .....	-	-	-
Others .....	-	-	-
<b>Sub total</b>	<b>\$277</b>	<b>\$256</b>	<b>\$(21)</b>
<b>Total</b>	<b>\$21,393</b>	<b>\$57,774</b>	<b>\$36,381</b>

When the fair market value of a security declines by 50% or more from the acquisition cost, the Company automatically recognizes an impairment loss on the security. When the fair market value of a security declines by 30% or more but less than 50% from the acquisition cost, the Company recognizes an impairment loss on the security based on the management's estimate.

(3) Other securities sold for the years ended 31 March 2007 and 2006

	Millions of yen					
	2007			2006		
	Proceeds from sales	Gains on sales	Losses on sales	Proceeds from sales	Gains on sales	Losses on sales
<b>Other securities.....</b>	<b>¥3</b>	<b>¥2</b>	<b>¥84</b>	¥2,305	¥1,248	¥0

  

	Thousands of U.S. dollars		
	2007		
	Proceeds from sales	Gains on sales	Losses on sales
<b>Other securities.....</b>	<b>\$29</b>	<b>\$16</b>	<b>\$708</b>

(4) Securities without market quotations

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
	Book value	Book value	Book value
Other securities			
Unlisted shares .....	<b>¥938</b>	¥1,018	<b>\$7,945</b>

(5) The following tables summarized the securities with maturities and held-to-maturity debt securities held by the Companies at 31 March 2007 and 2006

	Millions of yen				Thousands of U.S. dollars	
	2007		2006		2007	
	Within 1 year	Over 1 year but within 5 years	Within 1 year	Over 1 year but within 5 years	Within 1 year	Over 1 year but within 5 years
<b>Bonds</b>						
Governmental and municipal bonds .....	<b>¥45</b>	<b>¥-</b>	¥-	¥45	<b>\$381</b>	<b>\$-</b>
<b>Total</b>	<b>¥45</b>	<b>¥-</b>	¥-	¥45	<b>\$381</b>	<b>\$-</b>

All securities have a maturity of 5 years or less.

## 10. Derivative and Hedging Activities

The Companies use interest rate swap transactions in order to minimize the risk of fluctuation in interest rates on borrowings.

The Companies have established a control environment which includes policies and procedures for risk assessment and for the approval, reporting and monitoring of transactions involving derivative financial instruments. The Companies do not hold or issue derivative financial instruments for trading purposes.

The Companies are exposed to certain market risks arising from their swap agreements. The Companies are also exposed to the risk of credit loss in the event of non-performance by the counterparties to the currency and interest; however, the Companies do not anticipate

nonperformance by any of these counterparties, all of whom are financial institutions with high credit ratings.

At 31 March 2007 and 2006, outstanding interest rate swap agreements were as follows:

For the year ended 31 March 2007	Millions of yen	
	Notional amount	Unrealized loss
Interest-rate swap agreements:		
Valuable-rate into fixed-rate Obligations.....	¥-	¥-

  

For the year ended 31 March 2006	Millions of yen	
	Notional amount	Unrealized loss
Interest-rate swap agreements:		
Valuable-rate into fixed-rate Obligations.....	¥1,500	¥(29)

  

For the year ended 31 March 2007	Thousands of U.S. dollars (Note 3)	
	Notional amounts	Unrealized loss
Interest-rate swap agreements:		
Valuable-rate into fixed-rate Obligations.....	\$-	\$-

Note) Derivative transactions which qualify for hedge accounting for the years ended 31 March 2007 and 2006 are excluded from the disclosure of information above.

## 11. Retirement Benefits

The Company and its domestic consolidated subsidiaries operate a severance payment plan and qualified pension plan. Furthermore, an additional payment is allowed in certain cases.

35 (2006: 36) domestic consolidated subsidiaries participate in another type of contributory severance payment plan, operated by two independent pension plans.

1) The reserve for retirement benefits as at 31 March 2007 and 2006 was summarized as follows:

31 March	Millions of yen		Thousand of U.S. dollars (Note 3)
	2007	2006	2007
Projected benefit obligations .....	¥(11,882)	¥(12,249)	\$(100,622)
Plan assets .....	11,811	11,697	100,018
Unfunded benefit obligations .....	(71)	(552)	(604)
Unrecognized actuarial differences .....	(1,121)	(748)	(9,494)
Unrecognized past service obligations .....	(1,289)	(1,450)	(10,913)
	<u>¥(2,481)</u>	<u>¥(2,750)</u>	<u>\$(21,011)</u>

Note) Domestic consolidated subsidiaries calculate the projected benefit obligation by the simple method permitted under the Japanese accounting standard.

The net periodic pension expense was summarized as follows:

31 March	Millions of yen		Thousand of U.S. dollars (Note 3)
	2007	2006	2007
Service costs .....	<b>¥490</b>	¥484	<b>\$4,150</b>
Interest costs .....	<b>304</b>	298	<b>2,578</b>
Expected return on plan assets.....	<b>(292)</b>	(248)	<b>(2,476)</b>
Amortization of unrecognized actuarial differences .....	<b>(10)</b>	90	<b>(81)</b>
Amortization of unrecognized past service obligations.	<b>(161)</b>	(145)	<b>(1,364)</b>
	<b>¥331</b>	¥479	<b>\$2,807</b>

*Note) Service costs include the net periodic pension expense incurred by certain consolidated subsidiaries which adopt the simple method for calculation of projected benefit obligations.*

2) Assumptions used in calculation of the above information:

	2007	2006
Method of attributing the projected benefits to period of services	<b>Benefit/year of service approach</b>	Benefit/ year of service approach
Discount rate .....	<b>2.5%</b>	2.5%
Expected rate of return .....	<b>2.5%</b>	2.5%

## 12. Income Taxes

The Company and its domestic subsidiaries were subject to several taxes based on income, which in the aggregate resulted in a statutory tax rate of approximately 40.69% for the year ended 31 March 2007 and 2006. Foreign subsidiaries were subject to the income taxes of the countries in which they operate.

At 31 March 2007 and 2006, significant components of deferred tax assets and liabilities were as follows:

31 March 2007	Millions of yen	Thousands of U.S. dollars (Note 3)
Deferred tax assets:		
Valuation loss on real estate for sale.....	¥1,290	\$10,926
Reserve for bad debt.....	420	3,558
Reserve for retirement benefit to employees.....	1,008	8,539
Tax loss carry forwards .....	42	357
Reserve for bonuses .....	470	3,980
Valuation loss on investments in securities .....	292	2,474
Impairment loss on fixed assets.....	407	3,448
Valuation loss on facility membership.....	70	588
Accrued enterprise taxes .....	55	468
Others .....	331	2,799
Sub total of deferred tax assets	<u>4,385</u>	<u>37,137</u>
Less valuation allowance	<u>(1,193)</u>	<u>(10,103)</u>
Total of deferred tax assets	<u>3,192</u>	<u>27,034</u>
Deferred tax liabilities		
Accelerated depreciation of fixed assets .....	(443)	(3,745)
Unrealized gain on other securities .....	<u>(1,647)</u>	<u>(13,946)</u>
Total of deferred tax liabilities	<u>(2,090)</u>	<u>(17,691)</u>
Net deferred tax assets	<u>1,102</u>	<u>9,343</u>
Deferred tax assets (Current Assets) .....	1,718	14,552
Deferred tax assets (Non-current Assets) .....	38	325
Deferred tax liabilities (Non-current Liabilities) ...	(654)	(5,534)

31 March 2006

Millions of yen

Deferred tax assets:	
Valuation loss on real estate for sale.....	¥1,654
Reserve for bad debt.....	461
Reserve for retirement benefit to employees .....	1,119
Tax loss carry forwards .....	976
Excess over the limit of reserve for bonuses .....	434
Valuation loss on investments in securities .....	329
Impairment loss on fixed assets.....	204
Valuation loss on facility membership.....	113
Accrued enterprise taxes .....	55
Others .....	324
Sub total of deferred tax assets	5,669
Less valuation allowance	(1,426)
Total of deferred tax assets	<u>4,243</u>
Deferred tax liabilities	
Accelerated depreciation of fixed assets .....	(528)
Unrealized gain on other securities .....	(2,216)
Special depreciation reserve .....	(0)
Total of deferred tax liabilities	<u>(2,744)</u>
Net deferred tax assets	<u>1,499</u>
Deferred tax assets (Current Assets) .....	2,573
Deferred tax assets (Non-current Assets) .....	36
Other current liabilities (Current Liabilities) .....	(4)
Deferred tax liabilities (Non-current Liabilities) ...	(1,106)

At 31 March 2007 and 2006, the reconciliation of the statutory tax rate to the effective income tax rate was as follows:

31 March 2007	<u>2007</u>
Statutory tax rate.....	40.69 %
Adjustments	
Permanent non-deductible differences such as entertainment expenses etc. ....	20.37
Permanent non-taxable differences such as dividend income etc. ....	(1.91)
Inhabitant tax per capital .....	18.61
Valuation allowance for deferred tax assets ..	135.45
Others .....	<u>(1.46)</u>
Effective income tax rate .....	<u>211.75 %</u>

31 March 2006	<u>2006</u>
Statutory tax rate.....	40.69 %
Adjustments	
Permanent non-deductible differences such as entertainment expenses etc. ....	7.05
Permanent non-taxable differences such as dividend income etc. ....	(1.61)
Inhabitant tax per capital .....	6.76
Valuation allowance for deferred tax assets ..	2.17
Others .....	<u>1.76</u>
Effective income tax rate .....	<u>56.82 %</u>

### 13. Segment Information

#### (1) Industry segment information

The operations of the Company and its consolidated subsidiaries for the years ended 31 March 2007 and 2006 were summarized by product group as follows:

For the year ended 31 March 2007	Millions of yen					
	Construction	Material sales	Leasing business	Other	Eliminations or corporate assets	Consolidated total
Sales						
Sales to external customers .....	¥111,085	¥27,560	¥5,009	¥1,257	¥-	¥144,911
Inter-segment sales .....	124	4,314	891	431	(5,760)	-
Total .....	111,209	31,874	5,900	1,688	(5,760)	144,911
Operating costs and expenses .....	109,209	28,937	6,125	1,651	(3,119)	142,803
Operating income .....	¥2,000	¥2,937	¥(225)	¥37	¥(2,641)	¥2,108
Assets .....	¥69,805	¥25,673	¥11,137	¥4,461	¥24,756	¥135,832
Depreciation .....	¥433	¥1,119	¥3,009	¥34	¥53	¥4,648
Impairment loss on fixed assets ...	¥551	¥14	-	-	-	¥565
Capital expenditure .....	¥201	¥1,721	¥2,728	¥2	¥199	¥4,851

For the year ended 31 March 2006	Millions of yen					
	Construction	Material sales	Leasing business	Other	Eliminations or corporate assets	Consolidated total
Sales						
Sales to external customers .....	¥104,759	¥25,065	¥5,836	¥1,027	¥-	¥136,687
Inter-segment sales .....	146	3,595	1,020	410	(5,171)	-
Total .....	104,905	28,660	6,856	1,437	(5,171)	136,687
Operating costs and expenses .....	103,305	26,319	6,772	1,378	(2,707)	135,067
Operating income .....	¥1,600	¥2,341	¥84	¥59	¥(2,464)	¥1,620
Assets .....	¥67,535	¥24,093	¥14,266	¥3,751	¥24,048	¥133,693
Depreciation .....	¥549	¥1,190	¥3,495	¥36	¥46	¥5,316
Impairment loss on fixed assets ...	¥588	-	-	-	-	¥588
Capital expenditure .....	¥396	¥938	¥3,560	¥0	¥100	¥4,994

Thousand of U.S.dollars (Note 3)

For the year ended 31 March 2007	Construction	Material sales	Leasing business	Other	Eliminations or corporate assets	Consolidated total
Sales						
Sales to external customers .....	\$940,678	\$233,385	\$42,416	\$10,648	\$-	\$1,227,127
Inter-segment sales .....	1,053	36,535	7,544	3,647	(48,779)	-
Total .....	941,731	269,920	49,960	14,295	(48,779)	1,227,127
Operating costs and expenses .....	924,797	245,046	51,869	13,981	(26,418)	1,209,275
Operating income .....	\$16,934	\$24,874	\$(1,909)	\$314	\$(22,361)	\$17,852
Assets .....	\$591,118	\$217,396	\$94,308	\$37,778	\$209,640	\$1,150,240
Depreciation .....	\$3,665	\$9,475	\$25,477	\$286	\$450	\$39,353
Impairment loss on fixed assets ...	\$4,667	\$121	-	-	-	\$4,788
Capital expenditure .....	\$1,705	\$14,574	\$23,100	\$16	\$1,685	\$41,080

Note) 1. The types of business above are based upon the Standard Industrial Classification in Japan and net sales categories in the consolidated statements of income.

2. Outline of the businesses

Construction: Paving, civil engineering, construction, and others relating to the construction business

Material sales: Sales of road material

Leasing business: Leasing of automobiles, business equipment, and others

Other: Development, consulting business, real estate rental service, sales of software, non-life insurance agency, and administration of sports facilities

3. The amounts of unallocatable operating costs and expenses included in "Eliminations or corporate assets" for the years ended 31 March 2007 and 2006 were ¥2,662 million (\$22,542 thousand) and ¥2,456 million, respectively.

Unallocatable operating costs consist of the operating costs of the administrative department of the Company.

The amounts of corporate assets included in "Eliminations or corporate assets" for the years ended 31 March 2007 and 2006 were ¥25,914 million (\$219,447 thousand) and ¥25,123 million, respectively. Corporate assets consist of surplus operating funds (cash), long-term investments (securities), assets of the administrative department, or other, of the Company.

(2) Geographic segment information

Segment information classified by geographic area was omitted because the majority of the Companies' operations were performed in Japan.

(3) Export sales and sales by overseas subsidiaries

Segment information for export sales and sales by overseas subsidiaries was omitted since such sales make up less than 10% of consolidated sales and are, thus, immaterial.

#### 14. Related Party Transactions

The material transactions of the Company with related companies and individuals, excluding transactions with consolidated subsidiaries which were eliminated in the consolidated financial statements and other than those disclosed elsewhere in these financial statements, for the years ended 31 March 2007 and 2006 were as follows:

Name of related company	Paid-in capital	Principal business	Equity ownership percentage by the company	Description of the company's transactions	Millions of yen/Thousands of U.S. dollars (Note 3)				
					Transaction		Resulting accounting balance		
					For the year ended 31 March		At 31 March		
				2007	2006	Account	2007	2006	
Shimizu Corporation	¥74,365 million	Construction & Development	23.2%				Notes & accounts receivable -trade	¥5,566	¥5,526
				Construction contracts	¥16,604 \$(140,601)	¥14,826	Advances received on uncompleted construction contracts	\$(47,132) ¥702	637
				Material sales	¥6 \$(50)	12	Accounts receivable	¥2 \$(19)	
				Construction order	¥223 \$(1,886)	-	Accounts payable	¥112 \$(952)	

The terms and conditions of the above transactions are on an arm's-length basis.

#### 15. Per Share Data

Per Share (Note 2 (16))	Yen		U.S. dollars
	2007	2006	2007
Net assets	¥542.25	¥566.41	\$4.59
Net (loss) / profit			
Basic .....	(¥8.40)	¥8.93	(\$0.07)
Diluted .....	-	-	-
Cash dividends			
Common shares .....	¥ 3.00	¥ 5.00	\$0.03

Note) Diluted per share amounts are not shown because no convertible bonds have been issued.

Calculation bases for net assets per share for the years ended 31 March 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Net assets .....	¥51,588	-	\$436,853
Deduction amount .....	¥87	-	\$733
(Minority interests) .....	¥(87)	-	\$(733)
Net assets available to common stockholders .....	¥51,501	-	\$436,120
Common stock outstanding except for treasury stock ( in thousands of shares) .....	94,977	-	

Calculation bases for net (loss) / profit per share for the years ended 31 March 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Net (loss) / profit.....	¥(798)	¥855	\$(6,755)
Net profit not available to common stockholders ... (Net profit appropriated as bonuses to directors)...	-	¥6	-
Net (loss) / profit available to common stockholders .....	¥(798)	¥849	\$(6,755)
Average common stock outstanding ( in thousands of shares)	94,990	95,016	

## 16. Subsequent Events

The payment of cash dividends to shareholders on record at 31 March 2007 in the aggregate amount of ¥285 million (\$2,413 thousand) (¥3 per share) was agreed by the Board of Directors on 21 May 2007. The resolution came into force on 11 June 2007.

## 17. Short-term Borrowings and Long-term Borrowings

31 March	Millions of yen		Thousands of U.S. dollars (Note 3)	Average interest rate (%)	Repayment period
	2007	2006	2007		
Short-term borrowings.....	¥549	¥5,134	\$4,653	2.39	-
Current portion of long-term borrowings.....	3,901	1,979	33,034	1.48	-
Long-term borrowings (excluding current portion).....	10,405	7,181	88,113	1.93	2009~ 2014
Others .....	-	-	-	-	-
Total	¥14,855	¥14,294	\$125,800		

Annual maturities of long-term debt are as follows:

Year ending on 31 March	Millions of yen	Thousands of U.S. dollars (Note 3)
2008 .....	¥3,901	\$33,034
2009 .....	675	5,716
2010 .....	1,575	13,338
2011 .....	575	4,869
2012 .....	7,580	64,190
	¥14,306	\$121,147