



TOKYU CONSTRUCTION CO., LTD.

Consolidated Financial Statements for
the years ended March 31, 2006 and 2007

This document has been translated from the original Japanese as a guide for non-Japanese readers. It may contain forward-looking statements based on a number of assumptions and beliefs made by management in light of information currently available. Actual financial results may differ materially depending on a number of factors, including changing economic conditions, legislative and regulatory developments, delay in new product and service launches, and pricing and product initiatives of competitors. As described in Note 18, the Company redeemed part of the first series of unsecured corporate bonds with stock acquisition rights on April 20, 2007.

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Yen amounts in these financial statements have been rounded to the nearest one million yen. U.S. dollar amounts are provided solely for the convenience of readers and are translated from yen at the rate of ¥118 = US\$1, the approximate exchange rate on March 31, 2007, and have been rounded to the nearest one thousand dollars.

TOKYU CONSTRUCTION CO., LTD.AND CONSOLIDATED SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2006 and 2007

<u>Assets</u>	<u>Yen (millions)</u>		<u>U.S.dollars</u> <u>(thousands)</u> <u>(Note 2)</u>	<u>Liabilities and Net assets</u>	<u>Yen (millions)</u>		<u>U.S.dollars</u> <u>(thousands)</u> <u>(Note 2)</u>
	<u>2006</u>	<u>2007</u>	<u>2007</u>		<u>2006</u>	<u>2007</u>	<u>2007</u>
Current assets:				Current liabilities:			
Cash and cash equivalents	¥ 16,352	¥ 16,013	\$ 135,703	Current portion of long-term debt (Note 5)	¥ 9,468	¥ -	\$ -
Trade receivables:				Trade payables:			
Notes	8,420	7,838	66,421	Notes	45,612	47,975	406,571
Accounts	93,552	99,660	844,578	Accounts	58,470	61,179	518,469
Allowance for doubtful receivables	(363)	(350)	(2,966)	Total trade payables	104,082	109,155	925,041
Net trade receivables	101,609	107,148	908,033				
				Progress billings on uncompleted contracts	19,502	22,345	189,363
Cost of uncompleted contracts	13,996	19,998	169,476	Warranty reserve for completed construction contracts	788	1,490	12,625
Deferred tax assets-current (Note 12)	1,110	1,516	12,845	Accrued expenses	1,594	1,331	11,278
				Deposit	8,282	8,744	74,103
Inventories:				Other current liabilities	1,091	2,758	23,372
Land and housing (Notes 5 and 9)	1,602	1,764	14,946	Total current liabilities	144,807	145,822	1,235,783
Materials and supplies	189	194	1,648				
Total inventories	1,791	1,958	16,594	Corporate bonds with stock acquisition rights	-	13,000	110,169
				Accrued retirement benefit (Note 6)	9,742	7,848	66,505
Other current assets	7,196	4,768	40,409	Guarantee deposits (Note 7)	216	215	1,823
Total current assets	142,054	151,401	1,283,059	Total liabilities	154,765	166,885	1,414,281
				Net assets:			
Investments and long-term loans:				Shareholders' equity (Note 8)			
Investment securities:				Common stock			
Unconsolidated subsidiaries and affiliates	3,770	4,470	37,877	Authorized - 400,000,000 shares			
Other securities (Notes 3 and 5)	12,611	13,192	111,797	Issued - 106,761,205 shares	18,527	16,354	138,597
Long-term loans	1,024	1,229	10,413	Preferred stock A			
Long-term trade receivables	291	338	2,868	Authorized - 30,000,000 shares			
Guarantee deposits and other investments	3,427	3,576	30,304	Issued - 27,000,000 shares	6,750	-	-
Allowance for doubtful accounts	(423)	(485)	(4,113)	Preferred stock B			
Total investments and long-term loans	20,700	22,319	189,146	Authorized - 30,000,000 shares			
				Issued - 12,500,000 shares	3,125	-	-
Property and equipment (Notes 4 and 5)	12,548	12,383	104,937	Additional paid-in capital	-	3,894	32,998
Deferred tax assets-non-current (Note 12)	14,099	10,965	92,924	Retained earnings	4,814	7,845	66,481
Other non-current assets (Note 5)	559	103	871	Treasury stock	(36)	(38)	(322)
				Total shareholders' equity	33,179	28,055	237,755
Total assets	¥ 189,960	¥ 197,171	\$ 1,670,937	Valuation and translation adjustments			
				Unrealized gain on investment securities	1,973	2,084	17,659
				Foreign currency translation adjustments	20	121	1,029
				Total valuation and translation adjustments	1,993	2,205	18,688
				Minority interests	22	25	213
				Total net assets	35,195	30,285	256,656
				Total liabilities and net assets	¥ 189,960	¥ 197,171	\$ 1,670,937

See notes to consolidated financial statements.

TOKYU CONSTRUCTION CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Consolidated Statement of Operations
for the years ended March 31, 2006 and 2007

	<u>Yen (millions)</u>		U.S. dollars (thousands) (Note 2)
	<u>2006</u>	<u>2007</u>	<u>2007</u>
Construction business:			
Net sales	¥ 295,963	¥ 301,638	\$ 2,556,258
Cost of sales	<u>274,346</u>	<u>281,118</u>	<u>2,382,355</u>
Gross profit	<u>21,617</u>	<u>20,521</u>	<u>173,903</u>
Real estate business:			
Net sales	3,322	2,458	20,832
Cost of sales	<u>2,192</u>	<u>1,536</u>	<u>13,013</u>
Gross profit	<u>1,130</u>	<u>923</u>	<u>7,819</u>
Total net sales:	299,285	304,097	2,577,090
Total cost of sales	<u>276,538</u>	<u>282,653</u>	<u>2,395,368</u>
Gross profit	22,747	21,443	181,722
Selling, general and administrative expenses (Notes 6 and 13):			
	<u>14,438</u>	<u>13,787</u>	<u>116,839</u>
Operating income	8,309	7,656	64,882
Other income:			
Interest and dividends	161	148	1,255
Equity in earnings of affiliates	-	67	564
Other (Note 10)	<u>2,022</u>	<u>538</u>	<u>4,556</u>
	<u>2,183</u>	<u>752</u>	<u>6,375</u>
Other expenses:			
Interest	727	261	2,216
Equity in losses of affiliates	2,346	-	-
Other (Note 11)	<u>1,086</u>	<u>1,129</u>	<u>9,565</u>
	<u>4,159</u>	<u>1,390</u>	<u>11,781</u>
Income before income taxes and minority interests	<u>6,333</u>	<u>7,018</u>	<u>59,477</u>
Income taxes (Note 12):			
Current	285	237	2,007
Deferred	<u>2,760</u>	<u>2,683</u>	<u>22,737</u>
Income before minority interests	3,288	4,098	34,733
Minority interests:	<u>2</u>	<u>3</u>	<u>24</u>
Net income	¥ <u>3,286</u>	¥ <u>4,096</u>	\$ <u>34,708</u>
Net income per share			
		<u>Yen</u>	U.S. dollars (Note 2)
Basic	¥ <u>3.12</u>	¥ <u>40.27</u>	\$ <u>0.341</u>
Diluted	¥ <u>-</u>	¥ <u>36.29</u>	\$ <u>0.308</u>

See accompanying notes to consolidated financial statements.

TOKYU CONSTRUCTION CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Consolidated Statement of Changes in Net Assets
for the years ended March 31, 2006 and 2007

	Yen (millions)		U.S. dollars (thousands) (Note 2)
	<u>2006</u>	<u>2007</u>	<u>2007</u>
Common stock:			
Balance at beginning of year (Note 8)	¥ 18,527	¥ 18,527	\$ 157,004
Issuance of common stocks under private placement	-	4,185	35,470
Exercise of stock acquisition rights	-	4,900	41,525
Capital reduction (Note 8)	-	(11,258)	(95,403)
Balance at end of year	¥ <u>18,527</u>	¥ <u>16,354</u>	\$ <u>138,597</u>
Preferred stock:			
Balance at beginning of year	¥ 9,875	¥ 9,875	\$ 83,686
Capital reduction (Note 8)	-	(9,875)	(83,686)
Balance at end of year	¥ <u>9,875</u>	¥ <u>-</u>	\$ <u>-</u>
Additional paid-in capital:			
Balance at beginning of year	¥ -	¥ -	\$ -
Issuance of common stocks under private placement	-	1,794	15,201
Exercise of stock acquisition rights	-	2,100	17,797
Transfer from common stock and preferred stock (Note 8)	-	21,133	179,089
Retirement of treasury stock (preferred stock) (Note 8)	-	(21,133)	(179,089)
Balance at end of year	¥ <u>-</u>	¥ <u>3,894</u>	\$ <u>32,998</u>
Retained earnings:			
Balance at beginning of year	¥ 2,073	¥ 4,814	\$ 40,796
Net income	3,286	4,095	34,709
Cash dividend	(545)	(1,063)	(9,007)
Reissuance of treasury stock	-	(2)	(17)
Balance at end of year	¥ <u>4,814</u>	¥ <u>7,845</u>	\$ <u>66,481</u>
Treasury stock:			
Balance at beginning of year	¥ (35)	¥ (36)	\$ (308)
Acquisition of treasury stock	(1)	(4)	(36)
Reissuance of treasury stock	-	3	23
Acquisition of treasury stock (preferred stock)	-	(21,133)	(179,089)
Retirement of treasury stock (preferred stock)	-	21,133	179,089
Balance at end of year	¥ <u>(36)</u>	¥ <u>(38)</u>	\$ <u>(322)</u>

TOKYU CONSTRUCTION CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Consolidated Statement of Changes in Net Assets (continued)
for the years ended March 31, 2006 and 2007

Unrealized holding gain on investment securities (Note 1(f)):						
Balance at beginning year	¥	622	¥	1,973	\$	16,724
Net change during year		<u>1,351</u>		<u>110</u>		<u>935</u>
Balance at end of year	¥	<u>1,973</u>	¥	<u>2,084</u>	\$	<u>17,659</u>
Foreign currency translation adjustments:						
Balance at beginning of year	¥	(21)	¥	20	\$	169
Net change during year		<u>41</u>		<u>101</u>		<u>860</u>
Balance at end of year	¥	<u>20</u>	¥	<u>121</u>	\$	<u>1,029</u>
Minority interests:						
Balance at beginning of year	¥	24	¥	22	\$	188
Net change during year		<u>(2)</u>		<u>3</u>		<u>24</u>
Balance at end of year	¥	<u>22</u>	¥	<u>25</u>	\$	<u>213</u>

See accompanying notes to consolidated financial statements.

TOKYU CONSTRUCTION CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Consolidated Statement of Cash Flows
for the years ended March 31, 2006 and 2007

	<u>Yen (millions)</u>		U.S.dollars (thousands) (Note 2)
	<u>2006</u>	<u>2007</u>	<u>2007</u>
Cash flows from operating activities:			
Income before income taxes	¥ 6,333	¥ 7,018	\$ 59,477
Adjustments to reconcile net income before income taxes to net cash provided by operating activities:			
Depreciation	448	360	3,048
Change in allowance for doubtful accounts	205	50	425
Change in accrued retirement benefit	(1,225)	(1,895)	(16,055)
Equity in earnings and losses of affiliates	2,346	(67)	(564)
Interest and dividends income	(161)	(148)	(1,255)
Interest expense	727	261	2,216
Loss on disposal of property and equipment	10	-	-
Gain on sale of investment securities	(9)	-	-
Gain on sale of property and equipment	(1,801)	(14)	(122)
Change in trade receivables, net	(1,575)	(5,526)	(46,832)
Change in costs of uncompleted contracts	(1,246)	(5,523)	(46,801)
Change in inventories	1,066	(641)	(5,433)
Change in trade payables	4,787	5,073	42,990
Change in progress billings on uncompleted contracts	3,257	2,843	24,092
Change in deposits received	(2,375)	463	3,920
Other, net	<u>296</u>	<u>4,605</u>	<u>39,028</u>
Sub-total	11,083	6,860	58,133
Interest and dividends received	181	161	1,365
Interest paid	(726)	(261)	(2,216)
Income taxes paid	<u>(288)</u>	<u>(249)</u>	<u>(2,113)</u>
Net cash provided by operating activities	<u>10,250</u>	<u>6,510</u>	<u>55,169</u>
Cash flows from investing activities:			
Proceeds from sale of investment securities	16	-	-
Purchases of investment securities	(339)	(972)	(8,237)
Purchases of affiliates' stocks	(4,046)	(3)	(25)
Proceeds from sales of property and equipment	13,000	416	3,524
Purchases of property and equipment	(447)	(468)	(3,968)
Loans, net	<u>60</u>	<u>(155)</u>	<u>(1,312)</u>
Net cash provided by investing activities	<u>8,244</u>	<u>(1,182)</u>	<u>(10,018)</u>

TOKYU CONSTRUCTION CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Consolidated Statement of Cash Flows (continued)
for the years ended March 31, 2006 and 2007

	<u>Yen (millions)</u>		U.S.dollars (thousands) (Note 2)
	<u>2006</u>	<u>2007</u>	<u>2007</u>
Cash flows from financing activities:			
Proceeds from issuance of corporate bonds	-	20,000	169,492
Bank borrowings, net	(18,872)	(9,468)	(80,240)
Cash dividend	(545)	(1,063)	(9,007)
Proceeds from issuance of common stock	-	5,979	50,671
Acquisition of preferred stock	-	(21,133)	(179,089)
Other, net	<u>(2)</u>	<u>(2)</u>	<u>(13)</u>
Net cash used in financing activities	<u>(19,419)</u>	<u>(5,686)</u>	<u>(48,187)</u>
Translation differences in cash and cash equivalents	<u>10</u>	<u>20</u>	<u>167</u>
Net decrease in cash and cash equivalents	(915)	(338)	(2,869)
Cash and cash equivalents at beginning of year	<u>17,267</u>	<u>16,352</u>	<u>138,573</u>
Cash and cash equivalents at end of year	¥ <u>16,352</u>	¥ <u>16,013</u>	\$ <u>135,703</u>
Non-cash transactions:			
Exercise of stock acquisition rights			
Common stock	-	4,900	41,525
Additional paid-in capital	<u>-</u>	<u>2,100</u>	<u>17,797</u>
Total	¥ <u><u>-</u></u>	¥ <u>7,000</u>	\$ <u>59,322</u>

See accompanying notes to consolidated financial statements.

TOKYU CONSTRUCTION CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

(a) Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared from the accounts maintained by the Company and its consolidated subsidiaries in accordance with the provisions set forth in the Securities and Exchange Laws of Japan and the Corporate Law of Japan and in conformity with accounting principles and practices generally accepted in Japan, which may differ in some material respects from accounting principles and practices generally accepted and applied in countries and jurisdictions other than Japan.

Certain items presented in the Japanese consolidated financial statements have been reclassified for presentation solely for the convenience of readers outside Japan.

In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

(b) Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Company and consolidated subsidiaries consider low-risk and all highly liquid securities with maturities of three months or less when purchased to be cash equivalents.

(c) Consolidation Policies

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant intercompany accounts, intercompany transactions and unrealized profits have been eliminated in consolidation. Investments in major affiliates are accounted for by the equity method.

(d) Method of Accounting for Construction Contracts

The Company and consolidated subsidiaries applied the percentage of completion method for most contracts. Certain short-term contracts whose contract period is within 1 year are accounted for by the completed contract method, which recognizes income only when a contract is completed.

Anticipated losses on contracts in process are recognized when it is expected that a contract price exceeds total estimated construction costs.

(e) Inventories

Inventories are stated at cost, determined by the identified cost method for land and housing and adjusted for any substantial permanent decline in value, and by the average method for materials and supplies.

(f) Investments

'Held-to-maturity bonds are stated at amortized cost (straight-line method).

'Other securities' (securities which are neither trading nor held-to-maturity securities nor investments in subsidiaries and affiliates) with market value are carried at the market value on the balance sheet date. The difference between the acquisition cost and the market value of 'Other securities' is recognized as 'Unrealized gain on securities' in the balance sheet, net of tax effect. The cost of 'Other securities' sold is computed based on the moving average method.

(g) Property and Equipment

Property and equipment are stated at cost. The Company and most of its subsidiaries compute depreciation of items other than buildings by the declining balance method and of buildings by the straight-line method. Rates for depreciation are based on the estimated useful lives of the assets according to their general class, type of construction, and use.

The estimated useful lives are principally as follows:

Buildings and structures.....55 years

(h) Costs related to issuance of stocks and bonds

Costs related to issuance of stocks and bonds are expensed as incurred.

(i) Income Taxes

Deferred tax assets have been recognized in the consolidated financial statements for the year ended March 31, 2006 and the year ended March 31, 2007 with respect to the differences between the financial reporting and tax bases of assets and liabilities, measured using the enacted tax rates and laws which will be in effect when the differences are expected to be reversed. A valuation allowance is provided for the amount that is not considered to be recoverable.

(j) Allowance for Doubtful Receivables

General provision for doubtful receivables is provided by applying a certain reserve percentage of the receivables based on experience from past transactions. When considered necessary, specific reserves are made based on the assessment of individual receivables.

(k) 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 related warranty costs found on completed construction contracts.

(l) Accrued Retirement Benefit

Accrued retirement benefit for employees has been provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of the balance sheet dates, as adjusted for unrecognized actuarial gain or loss. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of service of the eligible employees.

Actuarial gain and loss are amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over 5 years which period is shorter than the average remaining years of service of the employees.

Consolidated subsidiaries have adopted the simplified method of amortization of their retirement benefit obligation as allowed under generally accepted accounting principle in Japan.

(m) Foreign Currency Translation

The balance sheet accounts of the foreign subsidiaries and affiliates are translated into yen at the rates of exchange in effect at the balance sheet date, except for the components of shareholders' equity, which are translated at their historical exchange rates. The income statement accounts are translated using the average rates of exchange for the fiscal year. Foreign currency translation adjustments are included in net assets and minority interests in the consolidated financial statements.

(n) Derivative Financial Instruments

The Company has entered into interest rate swaps with major Japanese commercial banks in order to manage certain risks arising from adverse fluctuations in interest rates. Derivative financial instruments are carried at fair value with changes in unrealized gain or loss charged or credited to earnings, except for those that meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as a component of net assets.

(o) Impairment of Long-lived Assets

Fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of asset exceeds undiscounted future net cash flows expected to be generated by such asset. The impairment loss is measured by the amount by which the carrying amount of the asset exceeds its recoverable amount being higher of discounted future net cash flows or net realizable value.

(p) Reclassification

Certain reclassifications have been made to the prior year's consolidated financial statements to conform with the presentation used for the year ended March 31, 2007.

(q) Research and Development Expenses

Research and development expenses are charged to income as incurred.

(r) Accounting change

Accounting standard for presentation of net assets in the balance sheet

The Company has adopted "Accounting Standard for Presentation of Net Assets in the Balance Sheet" from the current fiscal year ended March 31, 2007.

Under the adopted standard, preparation of a consolidated statement of changes in net assets is required instead of a consolidated statement of shareholders' equity. In order to conform to the 2007 presentation, the consolidated balance sheet as of March 31, 2006 and the consolidated statement of shareholders' equity for the year ended March 31, 2006 have been restated.

2. Basis of Translation

The consolidated financial statements as of and for the year ended March 31, 2007 presented herein are expressed in yen and, solely for the convenience of the readers, have been translated into U.S. dollars at ¥118 = U.S. \$1, the approximate rate of exchange in effect on March 31, 2007. This translation should not be construed as a representation that any of the yen amounts could be converted into U.S. dollar amounts at the above or any other rate.

3. Investment Securities

- (a) Marketable securities classified as 'Other securities' at March 31, 2007 are summarized as follows:

Marketable 'Other securities'

	<u>Yen (millions)</u>		
Securities whose carrying value exceeds their acquisition cost:	<u>Acquisition cost</u>	<u>Carrying value</u>	<u>Unrealized gain (loss)</u>
Stock	¥ 7,252	¥ 10,693	¥ 3,440
Securities whose acquisition cost exceeds their carrying value:			
Stock	<u>636</u>	<u>607</u>	<u>(29)</u>
Total	¥ <u>7,888</u>	¥ <u>11,300</u>	¥ <u>3,412</u>

	<u>U.S. dollars (thousands)</u>		
Securities whose carrying value exceeds their acquisition cost:	<u>Acquisition cost</u>	<u>Carrying value</u>	<u>Unrealized gain (loss)</u>
Stock	\$ 61,462	\$ 90,618	\$ 29,157
Securities whose acquisition cost exceeds their carrying value:			
Stock	<u>5,389</u>	<u>5,148</u>	<u>(242)</u>
Total	\$ <u>66,851</u>	\$ <u>95,766</u>	\$ <u>28,915</u>

(b) Non-marketable securities at March 31, 2007 are summarized as follows:

<u>Carrying value</u>	<u>Yen</u> <u>(millions)</u>	<u>U.S. dollars</u> <u>(thousands)</u>
Held-to-maturity securities:		
Bond	400	3,390
Other securities:		
Stock	2,009	17,022
Total	¥ 2,409	\$ 20,412

4. Property and Equipment

Property and equipment at March 31, 2006 and 2007 were as follows:

	<u>Yen (millions)</u>		<u>U.S.dollars</u> <u>(thousands)</u>
	<u>2006</u>	<u>2007</u>	<u>2007</u>
Land	¥ 9,264	¥ 9,096	\$ 77,085
Buildings and structures	3,873	4,032	34,168
Machinery, vehicles, tools, furniture and fixtures	1,433	1,392	11,798
Construction in progress	-	3	23
	14,570	14,523	123,074
Less : accumulated depreciation	2,022	2,140	18,137
Net property and equipment	¥ 12,548	¥ 12,383	\$ 104,937

5. Long-term Debt and Corporate Bonds

Long-term debt at March 31, 2006 and 2007 are summarized as follows:

	<u>Yen (millions)</u>		<u>U.S.dollars</u> <u>(thousands)</u>
	<u>2006</u>	<u>2007</u>	<u>2007</u>
Syndicated long-term debts from 11 financial institutions, maturing 2005 to 2006, for weighted average interest rates of 2.25% in 2006.	¥ 9,468	¥ -	\$ -
Less current portion	(9,468)	(-)	(-)
	¥ -	¥ -	\$ -

The following assets are provided as security for the borrowings at March 31, 2006:

	<u>Yen</u> <u>(millions)</u>
Inventories (land)	¥ 1,033
Investment securities	9,434
Property and equipment (principally land)	11,174
Other non-current assets	436
	¥ 22,077

No assets are pledged as collateral for borrowings at March 31, 2007.

The Company issued the first series of zero interest rate unsecured corporate bonds with stock acquisition rights of ¥13,000 million on June 2, 2006. The combined issue price of the bonds was ¥20,000 million, of which ¥7,000 million was allocated to the stock acquisition rights. The stock acquisition rights of ¥7,000 million was exercised upon the issuance of the bonds, which resulted in an increase in common stock by ¥4,900 million as well as an increase in additional paid-in capital by ¥2,100 million.

The scheduled redemption date of the bonds is June 2, 2008. The stock acquisition rights are convertible to common stocks at a conversion price which is determined monthly at 90% of market price with the lowest price of ¥906.4, if exercised on March 31, 2007 the conversion price is ¥906.4, during a period from June 5, 2006 to May 30, 2008. The annual maturities of the bonds are as follows:

Yen (millions)

Years ending March 31:

2008	¥	6,700
2009	¥	6,300

As discussed in the Note 18, the amount due within one year of ¥6,700 million was prepaid on April 20, 2007.

6. Retirement Benefit Plans

The Company and consolidated subsidiaries have pension plans covering substantially all employees. Benefits under the plans are primarily based on the combination of the years of service and compensation of employees. The funding policy is to make periodic contributions as required by applicable regulations. The plan's funded status and the amount recognized in the accompanying consolidated balance sheet at March 31, 2006 and 2007 are as follows:

	Yen (millions)		U.S. dollars
	2006	2007	(thousands) 2007
Retirement benefit obligation	¥ 19,505	¥ 20,487	\$ 173,622
Plan assets at fair value	(10,753)	(12,709)	(107,707)
Unfunded retirement benefit obligations	8,752	7,778	65,915
Unrecognized actuarial loss	990	70	590
Accrued retirement benefit	¥ 9,742	¥ 7,848	\$ 66,505

The components of retirement benefit expenses for the years ended March 31, 2006 and 2007 are as follows:

	Yen (millions)		U.S. dollars
	2006	2007	(thousands) 2007
Service cost	¥ 615	¥ 634	\$ 5,375
Interest cost	418	425	3,599
Expected return on plan assets	(156)	(323)	(2,734)
Amortization of actuarial gain or loss	119	(148)	(1,253)
Total	¥ 996	¥ 589	\$ 4,988

Actuarial assumptions used in accounting for the above plans are as follows:

	2006	2007
Discount rates	2.2%	2.2%
Expected return on assets	2.0%	3.0%

7. Guarantee deposits classified as non-current liabilities

Guarantee deposits classified as non-current liabilities at March 31, 2006 and 2007 are summarized as follows:

	<u>Yen (millions)</u>		U.S.dollars (thousands)
	<u>2006</u>	<u>2007</u>	<u>2007</u>
Deposits from tenants of leased property	¥ <u>216</u>	¥ <u>215</u>	\$ <u>1,823</u>

8. Shareholders' Equity

In accordance with the Corporate Law of Japan (the Law), the Company provides a legal reserve, which is included in retained earnings. The Law provides that an amount equal to at least 10% of the amounts to be disbursed as distribution of earnings be appropriated to the legal reserve until the total of the legal reserve and the additional paid-in capital account equals 25% of the common stock account. As of March 31, 2006, and 2007 the total of the legal reserve included in retained earnings was ¥55 million and ¥161 million, respectively.

The Law further provides that neither additional paid-in capital nor the legal reserve is available for the payment of dividends, but either may be used to reduce or eliminate accumulated deficits by resolution of the shareholders, or may be transferred to the common stock account by resolution of the shareholders. The Law also provides that, if the total amount of additional paid-in capital and the legal reserve exceeds 25% of the amount of common stock, the excess may be distributed to the shareholders, either as a return of capital or as dividends, subject to the approval of the shareholders.

The Company conducted a 10 to 1 reverse share split of common shares in accordance with the resolution adopted at the general meeting of stockholders held June 27, 2006.

The Company reduced both common stock and preferred stock by a total of ¥21,133 million in accordance with a resolution adopted at the general meeting of stockholders held on June 27, 2006. This capital reduction was transferred to additional paid-in capital for retiring treasury stocks of ¥21,133 million.

All of the preferred shares of ¥21,133 million were acquired in bulk and retired on October 1, 2006.

9. Land and Housing

Land and housing at March 31, 2006 and 2007 are summarized as follows:

	<u>Yen (millions)</u>		U.S.dollars (thousands)
	<u>2006</u>	<u>2007</u>	<u>2007</u>
Land	¥ 1,596	¥ 1,690	\$ 14,319
Residential housing and other	<u>6</u>	<u>74</u>	<u>627</u>
	¥ <u>1,602</u>	¥ <u>1,764</u>	\$ <u>14,946</u>

10. Other Income

The composition of Other income-Other for the years ended March 31, 2006 and 2007 are as follows:

	<u>Yen (millions)</u>		<u>U.S.dollars</u>
	<u>2006</u>	<u>2007</u>	<u>(thousands)</u>
Gain on sale of property and equipment	¥ 1,801	¥ 271	\$ 2,297
Gain on sale of investments in other securities	9	-	-
Foreign exchange gain	110	38	324
Other	<u>102</u>	<u>228</u>	<u>1,936</u>
	¥ <u>2,022</u>	¥ <u>538</u>	\$ <u>4,556</u>

11. Other Expenses

The composition of Other expenses-Other for the years ended March 31, 2006 and 2007 are as follows:

	<u>Yen (millions)</u>		<u>U.S.dollars</u>
	<u>2006</u>	<u>2007</u>	<u>(thousands)</u>
Loss on disposal of property and equipment	¥ 9	¥ -	\$ -
Loss on sale of property and equipment	-	13	112
Restructuring charges	505	-	-
Provision for allowance for doubtful accounts	209	-	-
Penalties	-	560	4,745
Other	<u>363</u>	<u>556</u>	<u>4,709</u>
	¥ <u>1,086</u>	¥ <u>1,129</u>	\$ <u>9,565</u>

12. Income Taxes

The Company and its consolidated subsidiaries are subject to a number of taxes based on income which, in the aggregate, resulted in a statutory tax rate of approximately 40.7% for the years ended March 31, 2006 and 2007. The tax effects of temporary differences which gave rise to significant portions of deferred tax assets and deferred tax liabilities as at March 31, 2006 and 2007 are summarized as follows:

	<u>Yen (millions)</u>		<u>U.S.dollars</u>
	<u>2006</u>	<u>2007</u>	<u>(thousands)</u>
			<u>2007</u>
Deferred tax assets:			
Net operating loss carry forwards	¥ 4,114	¥ 6,148	\$ 52,106
Excess over allowed limit for goodwill amortization	11,090	5,545	46,993
Accrued bonuses	542	529	4,482
Warranty reserve for completed construction contracts	321	606	5,138
Accrued retirement benefits	69	501	4,247
Excess over allowed limit for allowance for doubtful accounts	639	386	3,269
Other	<u>596</u>	<u>605</u>	<u>5,129</u>
Gross deferred tax assets	17,371	14,321	121,363
Less: Valuation allowances	<u>(819)</u>	<u>(451)</u>	<u>(3,825)</u>
Total deferred tax assets	<u>16,552</u>	<u>13,869</u>	<u>117,538</u>
Deferred tax liabilities:			
Unrealized gain on investment securities	<u>1,343</u>	<u>1,389</u>	<u>11,768</u>
Total deferred tax liabilities	<u>1,343</u>	<u>1,389</u>	<u>11,768</u>
Net deferred tax assets	¥ <u>15,209</u>	¥ <u>12,481</u>	\$ <u>105,769</u>
Net deferred tax assets comprise the following:			
Current portion	¥ 1,110	¥ 1,516	\$ 12,845
Non-current portion	<u>14,099</u>	<u>10,965</u>	<u>92,924</u>
Total	¥ <u>15,209</u>	¥ <u>12,481</u>	\$ <u>105,769</u>

The effective tax rate for the year ended March 31, 2006 differed from the statutory tax rate for the following reasons:

	<u>2006</u>
Statutory tax rate	40.7%
Effect of:	
Entertainment expenses not deductible for tax purposes	5.0
Non-taxable dividends income	(0.1)
Per capita tax of the Japanese Inhabitant Taxes	3.9
Valuation allowance	(16.6)
Equity in income of non-consolidated subsidiaries and affiliates	15.0
Other	<u>0.2</u>
Effective tax rate	<u>48.1%</u>

For the year ended March 31, 2007, a reconciliation has been omitted because the difference between the effective tax rate and the statutory tax rate was less than 5%.

13. Rental Expenses

Rental expenses, principally for office buildings totaled approximately ¥2,783 million and ¥2,731 million (U.S. \$23,142 thousand), for the years ended March 31, 2006 and 2007 respectively.

14. Contingent Liabilities

As at March 31, 2006 and 2007, the Company and consolidated subsidiaries had contingent liabilities amounted to ¥475 million and ¥521 million (U.S. \$4,418 thousand) respectively, which principally consisted of guarantees of third party companies' debts.

15. Derivative Transactions

Derivative financial instruments are comprised principally of interest rate swaps with major Japanese commercial banks to reduce interest rate risks. The Company and its subsidiaries do not hold or issue financial instruments for trading purposes.

(a) Hedge accounting

Derivative financial instruments are generally accounted for under the deferral hedge accounting.

(b) Hedging methods and risks hedged

Hedging method: interest rate swaps

Risks hedged: interest rate risks embedded in long-term debt

(c) Hedging policy

Rules regarding authority to enter into derivative transactions are defined in the Company's Operations Manual. Exposure to interest rate risk is hedged in conformity with these regulations.

No interest rate swap contracts are outstanding at March 31, 2007, as the associated debts were fully repaid.

16. Segment Information

The Company and consolidated subsidiaries operate in two business segments as described below. Certain corporate administrative expenses have been allocated to the segments based on the nature of each expense.

Business segment information for the years ended March 31, 2006 and 2007 are as follows:

	Yen (millions)				
	Business segments			Eliminations and corporate Items	Consolidated
	Construction	Real estate business	Total		
2006:					
Net sales to customers	¥ 295,963	¥ 3,322	¥ 299,285	¥ -	¥ 299,285
Inter-segment sales	<u>8</u>	<u>19</u>	<u>27</u>	<u>(27)*</u>	<u>-</u>
Total net sales	295,971	3,341	299,312	(27)	299,285
Operating income	11,044	856	11,900	(3,591)**	8,309
Depreciation	401	39	440	8	448
Capital expenditures	426	16	442	9	451

	Yen (millions)				
	Business segments			Eliminations and corporate Items	Consolidated
	Construction	Real estate business	Total		
2007:					
Net sales to customers	¥ 301,638	¥ 2,458	¥ 304,097	¥ -	¥ 304,097
Inter-segment sales	<u>3</u>	<u>18</u>	<u>21</u>	<u>(21)*</u>	<u>-</u>
Total net sales	301,642	2,476	304,118	(21)	304,097
Operating income	9,894	652	10,546	(2,890)**	7,656
Depreciation	321	31	352	7	360
Capital expenditures	444	1	445	26	471

	U.S. dollars (thousands)				
	Business segments			Eliminations and corporate Items	Consolidated
	Construction	Real estate business	Total		
2007:					
Net sales to customers	\$ 2,556,258	\$ 20,832	\$ 2,577,090	\$ -	\$ 2,577,090
Inter-segment sales	<u>28</u>	<u>152</u>	<u>179</u>	<u>(179)*</u>	<u>-</u>
Total net sales	2,556,286	20,983	2,577,269	(179)	2,577,090
Operating income	83,849	5,524	89,373	(24,491)**	64,882
Depreciation	2,723	262	2,985	63	3,048
Capital expenditures	3,764	6	3,770	223	3,993

*Elimination of intercompany sales

**Includes unallocated administrative expenses of ¥3,591 million for the year ended March 31, 2006 and ¥2,890 million (U.S. \$24,492 thousand) for the year ended March 31, 2007.

17. Balances and Transactions with Related Companies

The outstanding right to vote at the general shareholders' meeting of the Company is owned 14.9% by Tokyu corporation(the principal shareholder). Principal balances and transactions with the principal shareholder as of and for the years ended March 31, 2006 and 2007 are summarized as follows:

	Yen (millions)		U.S. dollars
	2006	2007	(thousands) 2007
Transactions:			
Construction and other revenues	¥ 37,347	¥ 41,453	\$ 351,295
Acquisition of treasury stock (preferred stock)	-	5,350	45,339
Balances:			
Trade receivable(accounts)	5,135	7,623	64,601
Progress billings on uncompleted contracts	5,775	5,820	49,322
Guarantee deposits classified as non-current liabilities	12	-	-

18. Subsequent Events

In accordance with a decision made at the board of directors' meeting held on March 9, 2007, the Company redeemed part of the first series of the Company's unsecured corporate bonds with stock acquisition rights for ¥6,700 million on April 20, 2007. The partial early redemption was conducted for reducing the number of dilutive shares that increased by a third-party capital increase on March 29, 2007, which was executed under the Company's capital policy called "Shareholders' Equity Value-Up Plan", and improving the corporate value. As a result of executing the partial early redemption, the outstanding balance of the corporate bonds amounted to ¥6,300 million at March 31, 2007.

Report of Independent Auditors

The Board of Directors
Tokyu Construction Co., Ltd.

We have audited the accompanying consolidated balance sheets of Tokyu Construction Co., Ltd. and consolidated subsidiaries as of March 31, 2006 and 2007, and the related consolidated statements of operations, 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 audit 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 audit 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 Tokyu Construction Co., Ltd. and consolidated subsidiaries at March 31, 2006 and 2007, 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.

As described in Note 18, the Company redeemed part of the first series of unsecured corporate bonds with stock acquisition rights on April 20, 2007.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2.

Ernst & Young ShinNihon

June 26, 2007