

Consolidated Financial Statements
for the First Quarter of the Fiscal Year Ending March 31, 2009

August 8, 2008

NIPPON KANZAI Co., Ltd.

Listed Exchanges: The 1st Section of Tokyo and Osaka Stock Exchanges
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*Amounts under one million yen have been rounded down.

1. Consolidated Results for the First Quarter Ended June 30, 2008

(1) Consolidated business results

(Percentage figures indicate the rate of change from the same period in the previous year.)

	Net Sales		Operating Income		Ordinary Income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended June 30, 2008	16,957	—	1,029	—	1,088	—
Three months ended June 30, 2007	15,348	8.3	892	(8.3)	927	(6.0)

	Net Income		Net Income per Share	Diluted Net Income per Share
	Millions of yen	%	Yen	Yen
Three months ended June 30, 2008	549	—	26.75	—
Three months ended June 30, 2007	467	(14.6)	22.75	—

(2) Consolidated financial position

	Total Assets	Net Assets	Equity Ratio	Net Assets per Share
	Millions of yen	Millions of yen	%	Yen
As of June 30, 2008	37,811	27,173	67.7	1,244.42
As of March 31, 2008	36,467	26,354	69.3	1,229.13

Note: Shareholders' Equity: Three months ended June 30, 2008: ¥25,589 million, Year ended March 31, 2008: ¥25,275 million

2. Dividends

Record date	Dividends per Share (Yen)				
	First Quarter	Second Quarter	Third Quarter	Year-end	Annual
Year ended March 31, 2008	—	16.00	—	16.00	32.00
Year ended March 31, 2009	—	—	—	—	—
Year ended March 31, 2009 (Forecast)	—	16.00	—	16.00	32.00

Note: Revisions to the forecast of cash dividends in the current quarter: none

3. Consolidated Financial Result Forecasts for the Year Ending March 31, 2009

(Percentage figures indicate the rate of change from the same period in the previous year.)

	Net Sales		Operating Income		Ordinary Income		Net Income		Net Income per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
First six months	33,601	5.8	2,225	(6.2)	2,336	(5.3)	1,253	(3.3)	60.97
Full year	69,140	4.1	4,852	2.2	5,078	(12.3)	2,723	26.3	132.46

Note: Revisions to the forecast of consolidated results in the current quarter: none

4. Others

(1) Significant changes to subsidiaries during the term (transfers of specific subsidiaries with changes in the scope of consolidation): Yes

Newly transferred: 1 company (the anonymous association managed by the limited liability company SRF2007)
Eliminated: None

(2) Adoption of the simple accounting as well as specific accounting for preparing the quarterly consolidated financial statements: None

(3) Changes in accounting policies, procedures and methods of presentation for preparing the quarterly consolidated financial statements (changes described in the section of “Changes in significant matters forming the basis of preparing the quarterly consolidated financial statements“)

1) Changes due to the revision of accounting standard, etc.: Yes

2) Changes other than 1): None

Note: For details, please refer to Page 3, “4. Others” of “Qualitative Information on Financial Statements.”

(4) Number of shares issued and outstanding (common stock)

1) Number of shares issued and outstanding at the end of each period (including treasury stock)

As of June 30, 2008: 20,590,153 shares

As of March 31, 2008: 20,590,153 shares

2) Number of treasury stock at the end of each period

As of June 30, 2008: 27,161 shares

As of March 31, 2008: 26,869 shares

3) Average number of shares issued and outstanding in each period

First quarter ended June 2008: 20,563,170 shares

First quarter ended June 2007: 20,564,380 shares

*** Explanation concerning the appropriate use of estimated business results and other special notes**

1. As for the consolidated financial result forecasts, no revision has been made since May 8, 2008, the announcement date of financial reports for the previous fiscal year. The future prospects of the business results, etc., described in this material is based on information that our company has acquired as of the announcement date of financial reports, and there is a possibility that actual business results, etc., will be different depending on various factors.

2. *Accounting Standards for Quarterly Financial Reporting* (Accounting Standards No. 12) and *Implementation Guidance for Accounting Standards for Quarterly Financial Reporting* (Implementation Guidance No. 14) was applied starting this fiscal year, and quarterly financial reports were created in accordance with *Quarterly Financial Reporting Regulations*.

[Qualitative Information on Financial Statements]

1. Qualitative Information on Consolidated Business Results

During the first quarter of the current fiscal year, the downward trend in Japanese economic growth steepened and uncertainty about the future surfaced as the U.S. economic growth slowed due to the subprime mortgage problem and inflation arose following the increase in the price of raw materials such as crude oil and the grains.

In the building maintenance industry, there was growing awareness of the importance of reducing costs and there was fierce competition with other companies, including that related to contract amounts.

Under these conditions, the Nippon Kanzai group aggressively developed its business, by working on property management and PFI and other projects, and by strengthening group companies, as well as continuously expanding businesses peripheral to the building maintenance.

For the first quarter of the current fiscal year, net sales increased by 10.5% from the previous year to 16,957 million yen thanks to the contributions from new contracts since the beginning of the fiscal year.

Although it was difficult to increase the amount of contracts for building maintenance operations, the highly-profitable asset management and property management operations have grown and the group proceeded thorough cost controls; therefore, operating income rose by 15.3% to 1,029 million yen, ordinary income increased by 17.3% to 1,088 million yen, and net income expanded by 17.6% to 549 million yen.

2. Qualitative Information on Consolidated Financial Position

(1) Consolidated balance sheets

Total assets at the end of the first quarter were 37,811 million yen, having increased by 1,344 million yen (3.7%) from the end of the previous fiscal year.

The main reason was an increase in assets (real estate for sale) held by an anonymous association that was added to the scope of consolidation as it grew since the first quarter of the current fiscal year, in spite of a decline in cash and time deposits.

Net assets were 27,173 million yen, having increased by 818 million yen (3.1%) from the end of the previous fiscal year, because of the increase in retained earnings and minority interests.

Since the first quarter of the current fiscal year, real estate held by an anonymous association (a real estate fund) included within the scope of consolidation was recorded as real estate for sale (current asset), and loans for these investments were recorded as long-term non-recourse loans (fixed liabilities).

(2) Consolidated cash flows

Cash flows from operating activities resulted in 112 million yen in outflows. The main reason was a substantial increase of the business taxes.

Net cash used in investing activities was 673 million yen, mainly due to the expenditure for acquisition of tangible fixed assets and investment securities.

Net cash used in financing activities was 313 million yen, mainly due to the payment for dividends to shareholders and minority shareholders.

As a result, cash and cash equivalents at the end of the first quarter decreased by 1,099 million yen from the previous fiscal year-end to 10,164 million yen.

3. Qualitative Information on Consolidated Financial Result Forecasts for the Year Ending March 2009

The business results were in line with forecasts generally. Consolidated financial result forecasts for the first quarter under review and the year ending March 2009 have not changed since May 8, 2008, the announcement date of the financial reports for the previous fiscal year.

4. Others

(1) Significant transfers to subsidiaries during the term (transfers of specific subsidiaries with changes in the scope of consolidation)

During the first quarter of the current fiscal year, the anonymous association managed by the limited liability company SRF2007 and that has traditionally been accounted for as a non-consolidated equity method company was turned into a consolidated subsidiary with accompanying importance of that anonymous association.

(2) Adoption of the simple accounting as well as specific accounting for preparing the quarterly consolidated financial statements

Not applicable.

(3) Changes in accounting policies, procedures and methods of presentation for preparing the quarterly consolidated financial statements (changes described in the section of “Changes in significant matters forming the basis of preparing the quarterly consolidated financial statements“)

1. *Accounting Standards for Quarterly Financial Reporting* (Accounting Standards No. 12) and *Implementation Guidance for Accounting Standards for Quarterly Financial Reporting* (Implementation Guidance No. 14) was applied starting this fiscal year, and quarterly financial reports were created in accordance with *Quarterly Financial Reporting Regulations*.

2. Application of Accounting Standards for Measurement of Inventories
Accounting Standards for Measurement of Inventories (Accounting Standard Board of Japan; Accounting Standard No. 9; July 5, 2006) was applied starting the first quarter of the current fiscal year, and the measurement standards changed from a cost method to a **cost method** based on the specific identification method (the book value on the balance sheet is calculated using a method that reduces the value based on a deterioration in profitability (of the asset)). The impact of this change on operating income and each segment information is immaterial.

3. The anonymous association managed by the limited liability company SRF2007 that has traditionally been a non-consolidated subsidiary was included in the scope of consolidation since its importance increased during the first quarter of the current fiscal year. As for real estate for sale that was newly recorded following this change, a cost method based on the specific identification method (the book value on the balance sheet is calculated using a method that reduces the value based on deterioration in the profitability (of the asset)) was adopted.

5. Consolidated Financial Statements for the First Quarter Ended June 30, 2008 of FY2009

(1) Consolidated balance sheets

(Thousands of yen)

	First quarter ended June 30, 2008 (As of June 30, 2008)	Year ended March 2008 (As of March 31, 2008)
ASSETS		
Current assets		
Cash and time deposits	10,495,314	11,594,987
Notes and accounts receivable	7,335,844	7,323,753
Securities	8,238	9,196
Investments in anonymous associations for business purposes	1,093,062	1,329,359
Inventories	70,411	74,571
Real estate for sale	2,163,902	—
Deferred income taxes – current	392,353	435,637
Other	586,783	458,322
Allowance for doubtful accounts	(12,650)	(11,566)
Total current assets	22,133,257	21,214,259
Fixed assets		
Tangible fixed assets		
Buildings and structures, net	1,438,186	1,463,344
Machinery and vehicles, net	29,768	32,413
Tools, appliance and equipment, net	239,690	236,462
Land	1,254,009	1,254,009
Construction in progress	2,800	2,800
Total tangible fixed assets	2,964,453	2,989,028
Intangible fixed assets		
Goodwill	410,416	442,005
Software in progress	443,191	410,051
Other	75,564	67,963
Total intangible fixed assets	929,171	920,019
Investments and other assets		
Investment securities	6,632,488	6,390,943
Investment in anonymous associations	37,067	37,067
Long-term loans	568,385	571,193
Guarantee and deposit for leasehold estate	2,116,047	1,832,925
Memberships	454,138	454,138
Deferred income taxes	894,497	951,417
Other	1,734,632	1,757,505
Allowance for doubtful accounts	(652,316)	(650,736)
Total investments and other assets	11,784,938	11,344,452
Total fixed assets	15,678,562	15,253,499
TOTAL ASSETS	37,811,819	36,467,758

(Thousands of yen)

	First quarter ended June 30, 2008 (As of June 30, 2008)	Year ended March 2008 (As of March 31, 2008)
LIABILITIES		
Current liabilities		
Notes and accounts payable	3,082,946	3,565,978
Accrued expenses	1,817,622	1,853,796
Accrued income taxes	449,350	1,465,100
Accrued consumption taxes	446,179	360,682
Deposits received	317,895	267,574
Advances received	196,316	123,432
Accrued bonus	943,735	647,916
Accrued directors' bonus	20,000	81,620
Other	98,919	150,101
Total current liabilities	7,372,962	8,516,199
Fixed liabilities		
Long-term non-recourse loans	1,442,000	—
Differed tax liabilities	1,668	4,668
Allowance for employees' retirement benefits	77,967	71,143
Allowance for directors' retirement benefits	450,646	443,289
Long-term guarantee deposits received	1,291,327	1,075,921
Other	1,684	1,685
Total fixed liabilities	3,265,292	1,596,706
TOTAL LIABILITIES	10,638,254	10,112,905
NET ASSETS		
Shareholders' equity		
Common stock	3,000,000	3,000,000
Capital surplus	499,016	499,016
Retained earnings	22,388,978	22,167,998
Treasury stock	(57,462)	(56,631)
Total shareholders' equity	25,830,532	25,610,383
Unrealized gains and adjustments		
Differential on valuation of marketable securities	(241,465)	(335,335)
Total unrealized gains and adjustments	(241,465)	(335,335)
Minority interests	1,584,498	1,079,805
TOTAL NET ASSETS	27,173,565	26,354,853
TOTAL LIABILITIES AND NET ASSETS	37,811,819	36,467,758

(2) Consolidated statements of income

(Thousands of yen)

	Three months ended June 30, 2008
Net sales	16,957,536
Cost of sales	13,587,696
Gross profit	3,369,840
Service, general and administrative expenses	
Selling expenses	77,150
Personnel expenses	1,115,899
Provision for accrued bonus	164,453
Provision for accrued directors' bonus	20,000
Provision for allowance for directors' retirement benefits	38,182
Retirement benefits expense	19,857
Transportation and communication expense	177,952
Supplies expense	126,326
Lease expense	196,433
Insurance expense	45,245
Depreciation and amortization	36,264
Tax and public charge	42,645
Provision for allowance for doubtful accounts	6,184
Amortization of goodwill	31,589
Other	241,886
Total service, general and administrative expenses	2,340,065
Operating income	1,029,775
Non-operating income	
Interest and dividends income	64,403
Rent earned	12,542
Other	15,516
Total non-operating income	92,461
Non-operating expenses	
Interest expense	686
Expense related to leasehold estates	15,645
Investment loss on equity method	8,550
Other	8,879
Total non-operating expenses	33,760
Ordinary income	1,088,476
Income before income taxes	1,088,476
Income, inhabitant and business taxes	468,393
Income and other taxes adjustment	37,947
Income and other taxes	506,340
Minority interests	32,144
Net income	549,992

(3) Consolidated statements of cash flows

(Thousands of yen)

Three months ended June 30, 2008	
Cash flows from operating activities	
Income before income taxes	1,088,476
Depreciation and amortization	40,644
Amortization of goodwill account	31,589
Increase (decrease) in accrued bonus	295,819
Increase (decrease) in accrued directors' bonus	(61,620)
Increase (decrease) in allowance for employees' retirement benefits	6,823
Increase (decrease) in allowance for directors' retirement benefits	7,357
Increase (decrease) in allowance for doubtful accounts	2,664
Equity in losses (earnings) of affiliated companies	8,550
Interest and dividends income	(64,403)
Interest expense	686
(Gain) loss on sale of investment securities	958
(Increase) decrease in accounts receivable	45,596
(Increase) decrease in investment in anonymous associations for business purposes	128,527
(Increase) decrease in inventories	4,159
(Increase) decrease in other assets	72,141
Increase (decrease) in purchasing debts	(537,325)
Increase (decrease) in accrued consumption tax, etc.	85,497
Increase (decrease) in other liabilities	145,132
Sub-total	1,301,270
Interest and dividends received	62,635
Interest paid	(686)
Payment of income and other taxes	(1,475,475)
Net cash used in operating activities	(112,256)
Cash flows from investing activities	
Decrease in time deposits	(30,067)
Increase in time deposits	30,056
Expenditure for purchase of fixed assets	(296,843)
Income from sale of fixed assets	6,058
Expenditure for acquisition of investment securities	(107,135)
Income from sale of investment securities	9,212
Expenditure from investment in anonymous associations in conjunction with the change in scope of consolidation	(105,960)
Expenditure for lending	(104,101)
Income from recovery of loans	6,603
(Increase) decrease in guarantee and deposit for leasehold estate	(283,122)
Increase (decrease) in deposit guarantees received	201,788
Other	27
Net cash used in investing activities	(673,484)

(Thousands of yen)

Three months ended June 30, 2008	
Cash flows from financing activities	
Income from short-term loans	150,000
Expenditure for repayment of short-term loans	(150,000)
(Increase) decrease in treasury stock	(831)
Dividend paid	(283,514)
Dividend paid to minority shareholders	(29,600)
Net cash flows from financing activities	(313,945)
Net increase (decrease) in cash and cash equivalents	(1,099,685)
Cash and cash equivalents at beginning of year	11,264,301
Cash and cash equivalents at end of year	10,164,616

Accounting Standards for Quarterly Financial Reporting (Accounting Standards No. 12) and Implementation Guidance for Accounting Standards for Quarterly Financial Reporting (Implementation Guidance No. 14) was applied starting this fiscal year, and quarterly financial reports were created in accordance with *Quarterly Financial Reporting Regulations*.

(4) Notes on premise of a going concern

There is no related information.

(5) Segment information

[Business segment information]

Three months ended June 30, 2008

(Thousands of yen)

	Building Management and Operating	Environmental Facility Management	Temporary Staffing	Real Estate Fund Management	Total	Elimination or Total	Consolidation
Net sales							
(1) Net sales to external customers	14,792,479	1,538,305	464,703	162,049	16,957,536	—	16,957,536
(2) Intersegment net sales and transfer	—	—	—	—	—	—	—
Total	14,792,479	1,538,305	464,703	162,049	16,957,536	—	16,957,536
Operating income	1,580,880	156,956	6,239	91,094	1,835,169	(805,394)	1,029,775

Notes: 1. Segmentation

Our services are divided into the categories of building management and operating, environmental facility management, temporary staffing and real estate fund management businesses.

2. Main business in each service category

Category	Main Businesses
Building Management and Operating Business	Building cleaning, facility maintenance, and all-day resident security services for multipurpose buildings, city hotels, condominiums and rental apartments; automated security service with automated emergency response equipment that quickly notifies using sensors and telephone line
Environmental Facility Management Business	Management of water supply and sewage disposal plants, operation and maintenance of human waste treatment plants
Temporary Staffing Business	Temporary staffing for receptionists and telephone operators, and distribution processing services and logistics processing services in warehouses
Real Estate Fund Management Business	Management and arrangement of real estate fund, investment in anonymous associations, investment consulting and asset management and building operating business

[Segment information by geographic region]

Because the group does not have consolidated subsidiaries or branch offices outside Japan, there is no related information.

[Overseas sales]

Because the group does not conduct sales activities outside Japan, there is no related information.

(6) Notes on significant changes in the amount of shareholders' equity

There is no related information.

(Reference)**Consolidated statements of income
For the three months ended June 30, 2007 (Summery)**

(Thousands of yen)

	Three months ended June 30, 2007
	Amount
I Net sales	15,348,594
II Cost of sales	12,364,403
Gross profit	2,984,191
III Service, general and administrative expenses	2,091,357
Operating income	892,834
IV Non-operating income	
1 Interest and dividends income	50,475
2 Rent earned	13,243
3 Other	14,622
Total non-operating income	78,340
V Non-operating expenses	
1 Interest expense	622
2 Expense related to leasehold estates	15,913
3 Investment loss on equity method	20,931
4 Other	5,764
Total non-operating expenses	43,230
Ordinary income	927,944
Income before income taxes	927,944
Income and other taxes	507,678
Income and other taxes adjustment	(69,906)
Minority interests	22,306
Net income	467,866