

Consolidated Financial Statements
for the First Quarter of the Fiscal Year Ending March 31, 2010

August 7, 2009

NIPPON KANZAI Co., Ltd.

Listed Exchanges: The 1st Section of Tokyo and Osaka stock exchanges

Code Number: 9728 URL: <http://www.nkanzai.co.jp/>

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Date to start dividends distribution: —

*Amounts under one million yen have been rounded down.

1. Consolidated Results for the First Quarter Ended June 30, 2009 (April 1, 2009 to June 30, 2009)

(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, 2009	17,761	4.7	760	(26.1)	780	(28.3)
Three months ended June 30, 2008	16,957	—	1,029	—	1,088	—

	Net Income		Net Income per Share	Diluted Net Income per Share
	Millions of yen	%	Yen	Yen
Three months ended June 30, 2009	441	(19.7)	21.47	—
Three months ended June 30, 2008	549	—	26.75	—

(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, 2009	39,770	27,612	65.3	1,263.45
As of March 31, 2008	39,341	27,316	65.1	1,245.32

Note: Shareholders' Equity: Three months ended Jun. 30, 2009: ¥25,979 million, Year ended Mar. 31, 2009: ¥25,606 million

2. Dividends

Record date	Dividends per Share (Yen)				
	First Quarter	Second Quarter	Third Quarter	Year-end	Annual
Year ended March 31, 2009	—	16.00	—	16.00	32.00
Year ending March 31, 2010	—	—	—	—	—
Year ending March 31, 2010 (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, 2010 (April 1, 2009 to March 31, 2010)

(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	36,447	5.7	1,719	(15.8)	1,822	(16.0)	908	(5.3)	44.20
Full year	75,369	5.6	4,043	15.6	4,258	14.3	2,187	81.8	106.39

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): None

Newly transferred: None

Eliminated: None

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

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

(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.: None

2) Changes other than 1): None

(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, 2009: 20,590,153 shares

As of March 31, 2009: 20,590,153 shares

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

As of June 30, 2009: 28,133 shares

As of March 31, 2009: 27,922 shares

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

First quarter ended June 2009: 20,562,185 shares

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

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

1. No revisions were made to consolidated financial results forecast for either the first six months or the full fiscal year that were released on May 8, 2009.
2. The forecasts of financial results are based on information available at the time material was released and actual results may differ from forecasts for various reasons.

[Qualitative Information on Financial Statements]

1. Qualitative Information on Consolidated Business Results

During the first quarter, the Japanese economy showed some signs of recovery in stock prices and production, but in terms of consumer spending, there was a strong trend toward restraining expenditures due to deterioration in both the employment and income environments, and the future of the Japanese economy remains uncertain as corporate capital expenditures continue to be sluggish.

Conditions continued to be difficult in the building maintenance industry, as customers focused on cost cutting, while properties were closed or scaled-down.

Under such circumstances, the Nippon Kanzaï Group aggressively worked on property management, private finance initiatives (PFI) and enhancement of our group along with continued expansion of businesses peripheral to building maintenance.

For the first quarter of the current fiscal year, net sales rose by 4.7% year on year to 17,761 million yen, with contributions from NS Corporation consolidated during the previous fiscal year.

As for income, operating income shrank by 26.1% year on year to 760 million yen, ordinary income fell by 28.3% year on year to 780 million yen and net income for the current quarter declined by 19.7% year on year to 441 million yen because of the reduced unit prices of new contracts and a sharp rise in costs.

The following are earnings by segment:

1) Building Management and Operating Business

In our core Building Management and Operating Business, which is engaged in building management service and security, we secured a steady stream of new contracts mainly for designated administrator system, PFI, and real estate fund-related properties, and contracts in businesses peripheral to building maintenance. Our operations continued to expand, with consolidated net sales for the first quarter of the current fiscal year rising by 1.2% year on year to 15,437 million yen.

As for income, operating income fell by 10.2% year on year to 1,425 million yen, reflecting the sluggish unit prices of contracts and reduction of temporary works which is relatively highly-profitable, in addition to increases in start-up costs of new properties and major costs consisting of outsourcing and others.

2) Environmental Facility Management Business

In the Environmental Facility Management Business, which is mainly engaged in the management of public facilities for water and sewerage, we secured an overall firm number of new contracts, particularly for the management of incinerators and recycling facilities. As a result, net sales increased by 3.1% year on year to 1,586 million yen.

Although we revised outsourcing and purchases costs in individual contracts and implemented thorough cost management centered on the efficient assignment of personnel, the tight fiscal conditions faced by local governments, which are our main customers, and costs shifting within a severe price range resulted in the operating income falling by 6.0% year on year to 147 million yen.

3) Real Estate Fund Management Business

In asset management operations, which entail forming real estate funds and managing assets, and real estate fund management operations, which mainly handle investments in anonymous associations, a stable asset management income was recorded. However, fee revenue from acquisitions and sales of assets decreased, as conditions deteriorated in the real estate market. As a result, net sales shrank by 16.8% year on year to 134 million yen.

As for income, non-recurring income from acquisitions and sales fell, and the prices of real estate for sale held by the fund business of our Group dropped, affected by the deterioration of the real estate market. As a result we recorded valuation losses on real estate for sale. The overall result was an operating loss of 61 million yen (year on year decrease of 152 million yen).

4) Others

Other Business, which includes mainly event planning and management, printing, and design, conducted sales to our main customer, the Shiseido Group, generating net sales of 602 million yen and an operating income of 43 million yen.

(Note) As for business segment information, there were changes to business segments as discussed in note 3 of (5) Segment information, Business segment information, Three months ended June 30, 2009. Therefore, year on year changes in net sales and ordinary income were calculated based on retroactively adjusted figures for the first quarter of the previous fiscal year.

2. Qualitative Information on Consolidated Financial Position

(1) Consolidated balance sheets

Total assets at the end of the first quarter of the current fiscal year rose by 1.1% (428 million yen) compared to the end of the previous fiscal year to 39,770 million yen.

The change in assets was mainly due to the increase of cash and time deposits.

The liabilities increased by 1.1% year on year to 12,157 million, the same level as the previous year.

Net assets rose by 1.1% (295 million yen) to 27,612 million yen because of an increase in retained earnings.

(2) Consolidated cash flows

(Cash flows from operating activities)

Net cash provided by operating activities rose by 689 million yen year on year to 577 million yen because of a dramatic decrease in payment of income and other taxes, which offset decrease in income before income taxes.

(Cash flows from investing activities)

Net cash provided by investing activities increased by 817 million yen to 144 million yen as a result of proceeds from redemption of securities and others.

(Cash flows from financing activities)

Net cash used in financing activities increased by 2 million yen from the previous year to 316 million yen for various reasons including the dividends paid to shareholders and minority shareholders.

As a result, cash and cash equivalents at the end of first quarter of the current fiscal year increased by 404 million yen year on year to 11,907 million yen.

3. Qualitative Information on Consolidated Financial Result Forecasts for the Year Ending March 2010

Consolidated financial results for the first quarter were in line with the forecasts released on May 8, 2009, and no revisions were made to forecasts for the first six months or the full fiscal year.

4. Others

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

There is no related information.

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

Method for calculating depreciation of fixed assets

For assets that the declining balance method is applied to, depreciation expense for the fiscal period is calculated by proportionally allocating the depreciation expense for the full fiscal year.

(3) Changes in accounting policies, procedures and methods of presentation for preparing the quarterly consolidated financial statements

There is no related information.

5. Consolidated Financial Statements

(1) Consolidated balance sheets

(Thousands of yen)

	First quarter ended June 30, 2009 (As of June 30, 2009)	Year ended March 31, 2009 (As of March 31, 2009)
ASSETS		
Current assets		
Cash and time deposits	12,577,701	12,183,097
Notes and accounts receivable	7,841,989	7,890,714
Securities	9,827	204,241
Investments in anonymous associations for business purposes	426,644	429,623
Supplies	75,344	74,668
Real estate for sale	2,886,511	2,987,234
Income taxes receivable	375,110	343,676
Deferred income taxes – current	667,138	571,242
Other	872,915	683,509
Allowance for doubtful accounts	(28,172)	(28,071)
Total current assets	25,705,007	25,339,933
Fixed assets		
Tangible fixed assets		
Buildings and structures, net	1,612,993	1,610,467
Machinery and vehicles, net	97,878	100,232
Tools, appliance and equipment, net	278,329	266,329
Land	1,254,009	1,254,009
Lease assets, net	123,210	103,760
Total tangible fixed assets	3,366,419	3,334,797
Intangible fixed assets		
Goodwill	389,710	427,577
Software	830,524	876,627
Lease assets	15,250	16,129
Other	34,718	34,718
Total intangible fixed assets	1,270,202	1,355,051
Investments and other assets		
Investment securities	5,065,576	4,675,249
Investment in anonymous associations	15,166	15,166
Long-term loans	550,195	563,507
Guarantee and deposit for leasehold estate	1,936,056	1,939,324
Memberships	425,898	425,923
Deferred tax assets	1,085,619	1,235,051
Other	999,207	1,105,673
Allowance for doubtful accounts	(649,066)	(648,217)
Total investments and other assets	9,428,651	9,311,676
Total fixed assets	14,065,272	14,001,524
TOTAL ASSETS	39,770,279	39,341,457

(Thousands of yen)

	First quarter ended June 30, 2009 (As of June 30, 2009)	Year ended March 31, 2009 (As of March 31, 2009)
LIABILITIES		
Current liabilities		
Notes and accounts payable	3,662,215	4,103,562
Current portion of long-term non-recourse loans	531,900	535,500
Lease obligations	26,974	22,548
Accrued expenses	2,780,788	1,772,134
Accrued income taxes	453,415	524,274
Accrued consumption taxes	443,729	332,595
Deposits received	314,902	234,246
Advances received	150,238	137,858
Accrued bonus	114,362	665,476
Accrued directors' bonus	19,512	82,150
Other	73,302	69,922
Total current liabilities	8,571,337	8,480,265
Fixed liabilities		
Long-term non-recourse loans	1,442,000	1,442,000
Lease obligations	113,082	98,261
Allowance for employees' retirement benefits	134,666	124,345
Allowance for directors' retirement benefits	481,975	470,290
Long-term guarantee deposits received	1,407,127	1,402,473
Other	7,790	7,069
Total fixed liabilities	3,586,640	3,544,438
TOTAL LIABILITIES	12,157,977	12,024,703
NET ASSETS		
Shareholders' equity		
Common stock	3,000,000	3,000,000
Capital surplus	499,127	499,127
Retained earnings	22,826,067	22,713,544
Treasury stock	(59,215)	(58,928)
Total shareholders' equity	26,265,979	26,153,743
Unrealized gains and adjustments		
Valuation difference on marketable securities	(286,970)	(547,150)
Total unrealized gains and adjustments	(286,970)	(547,150)
Minority interests	1,633,293	1,710,161
TOTAL NET ASSETS	27,612,302	27,316,754
TOTAL LIABILITIES AND NET ASSETS	39,770,279	39,341,457

(2) Consolidated statements of income
[Three months ended June 30, 2009]

(Thousands of yen)

	Three months ended June 30, 2008 (April 1, 2008 to June 30, 2008)	Three months ended June 30, 2009 (April 1, 2009 to June 30, 2009)
Net sales	16,957,536	17,761,708
Cost of sales	13,587,696	14,480,278
Gross profit	3,369,840	3,281,430
Selling, general and administrative expenses		
Selling expenses	77,150	62,530
Personnel expenses	1,115,899	1,396,729
Provision for accrued bonus	164,453	25,202
Provision for accrued directors' bonus	20,000	19,512
Provision for allowance for directors' retirement benefits	38,182	31,485
Retirement benefits expense	19,857	29,668
Transportation and communication expense	177,952	174,890
Supplies expense	126,326	107,929
Lease expense	196,433	206,902
Insurance expense	45,245	45,092
Depreciation and amortization	36,264	83,642
Tax and public charge	42,645	47,381
Provision for allowance for doubtful accounts	6,184	1,037
Amortization of goodwill	31,589	37,866
Other	241,886	250,773
Total selling, general and administrative expenses	2,340,065	2,520,638
Operating income	1,029,775	760,792
Non-operating income		
Interest and dividends income	64,403	46,761
Rent earned	12,542	11,382
Other	15,516	18,668
Total non-operating income	92,461	76,811
Non-operating expenses		
Interest expense	686	2,238
Expense related to leasehold estates	15,645	15,674
Investment loss on equity method	8,550	34,407
Other	8,879	4,645
Total non-operating expenses	33,760	56,964
Ordinary income	1,088,476	780,639
Extraordinary losses		
Loss on valuation of investment securities	—	33,502
Total extraordinary losses	—	33,502
Income before income taxes	1,088,476	747,137
Income, inhabitant and business taxes	468,393	444,142
Income and other taxes adjustment	37,947	(114,469)
Total income and other taxes	506,340	329,673
Minority interests in income (loss)	32,144	(24,055)
Net income	549,992	441,519

(3) Consolidated statements of cash flows

(Thousands of yen)

	Three months ended June 30, 2008 (April 1, 2008 to June 30, 2008)	Three months ended June 30, 2009 (April 1, 2009 to June 30, 2009)
Cash flows from operating activities		
Income before income taxes	1,088,476	747,137
Depreciation and amortization	40,644	100,201
Amortization of goodwill account	31,589	37,866
Increase (decrease) in accrued bonus	295,819	(551,114)
Increase (decrease) in accrued directors' bonus	(61,620)	(62,638)
Increase (decrease) in allowance for employees' retirement benefits	6,823	10,322
Increase (decrease) in allowance for directors' retirement benefits	7,357	11,685
Increase (decrease) in allowance for doubtful accounts	2,664	950
Equity in losses (earnings) of affiliated companies	8,550	34,407
Interest and dividends income	(64,403)	(46,761)
Interest expense	686	2,238
(Gain) loss on sale of marketable and investment securities	958	—
Loss (gain) on retirement of investment securities	—	33,502
(Increase) decrease in accounts receivable	45,596	70,182
(Increase) decrease in investment in anonymous associations for business purposes	128,527	(3,406)
(Increase) decrease in inventories	4,159	(675)
(Increase) decrease in other assets for business purposes	72,141	39,704
Increase (decrease) in accounts payable	(537,325)	(544,137)
Increase (decrease) in accrued consumption tax, etc.	85,497	111,134
Increase (decrease) in other liabilities	145,132	1,086,562
Other	—	3,780
Sub-total	<u>1,301,270</u>	<u>1,080,939</u>
Interest and dividends received	62,635	44,852
Interest paid	(686)	(2,238)
Payment of income and other taxes	<u>(1,475,475)</u>	<u>(546,436)</u>
Net cash provided by (used in) operating activities	<u>(112,256)</u>	<u>577,117</u>
Cash flows from investing activities		
Payments into time deposits	(30,067)	(20,000)
Proceeds from withdrawal of time deposits	30,056	130,078
Purchase of tangible and intangible fixed assets	(296,843)	(132,637)
Proceeds from sales of tangible and intangible fixed assets	6,058	224
Purchase of investment securities	(107,135)	(35,135)
Proceeds from sales of investment securities	9,212	—
Proceeds from redemption of investment securities	—	200,000
Expenditure from investment in anonymous associations in conjunction with the change in scope of consolidation	(105,960)	—
Expenditure for lending	(104,101)	(921)
Income from recovery of loans	6,603	4,343
(Increase) decrease in guarantee and deposit for leasehold estate	(283,122)	3,268
Increase (decrease) in deposit guarantees received	201,788	4,654
Other	27	(9,862)
Net cash provide by (used in) investing activities	<u>(673,484)</u>	<u>144,012</u>
Cash flows from financing activities		
Income from short-term loans	150,000	150,000
Payments for repayment of short-term loans	(150,000)	(150,000)
Payments for repayment of long-term non-recourse loans	—	(3,600)
Payments for repayment of lease obligations	—	(6,300)
(Increase) decrease in treasury stock	(831)	(286)
Dividend paid	(283,514)	(252,306)
Dividend paid to minority shareholders	(29,600)	(53,955)
Net cash used in financing activities	<u>(313,945)</u>	<u>(316,447)</u>
Net increase (decrease) in cash and cash equivalents	<u>(1,099,685)</u>	<u>404,682</u>
Cash and cash equivalents at beginning of term	<u>11,264,301</u>	<u>11,502,515</u>
Cash and cash equivalents at end of term	<u>10,164,616</u>	<u>11,907,197</u>

(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 (April 1, 2008 to 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

Three months ended June 30, 2009 (April 1, 2009 to June 30, 2009)

(Thousands of yen)

	Building Management and Operating	Environmental Facility Management	Real Estate Fund Management	Other Businesses	Total	Elimination or Total	Consolidation
Net sales							
(1) Net sales to external customers	15,437,984	1,586,639	134,871	602,214	17,761,708	—	17,761,708
(2) Intersegment net sales and transfer	—	—	—	—	—	—	—
Total	15,437,984	1,586,639	134,871	602,214	17,761,708	—	17,761,708
Operating income	1,425,559	147,542	(61,080)	43,231	1,555,252	(794,460)	760,792

Notes: 1. Segmentation

Our services are divided into the categories of Building Management and Operating, Environmental Facility Management, Real Estate Fund Management Businesses and Other 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, temporary staffing for receptionists and telephone operators
Environmental Facility Management Business	Management of water supply and sewage disposal plants, operation and maintenance of human waste treatment plants.
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
Other Businesses	Event planning and management, printing and design, bookbinding, and real estate sales and brokerage

3. Additional information

Until the end of the previous fiscal year, business segmentation comprised the three segments Building Management and Operating Business, Environment Facility Management Business, Temporary Staffing Business and Real Estate Fund Management Business. The Temporary Staffing Business is composed of various operations including those for product management inside warehouses, and production lines and those for operators and receptionists related to building management contracts. It was decided to include the temporary staffing operations, which had been handled as a separate business, within the building management and operating business because temporary staffing operations for product management inside warehouses and production lines are no longer material as the company made progress in withdrawing from these operations during the previous fiscal year, and the remaining temporary staffing operations including those for operators and receptionists are conducted as part of operations included in building management contracts.

Segment information by business type for the previous fiscal year, applying business segmentation of the current fiscal year, is as follows:

Three months ended June 30, 2008 (April 1, 2008 to June 30, 2008)

(Thousands of yen)

	Building Management and Operating	Environmental Facility Management	Real Estate Fund Management	Other Businesses	Total	Elimination or Total	Consolidation
Net sales							
(1) Net sales to external customers	15,257,182	1,538,305	162,049	—	16,957,536	—	16,957,536
(2) Intersegment net sales and transfer	—	—	—	—	—	—	—
Total	15,257,182	1,538,305	162,049	—	16,957,536	—	16,957,536
Operating income	1,587,119	156,956	91,094	—	1,835,169	(805,394)	1,029,775

[Segment information by geographic region]

First quarter of the previous fiscal year (April 1, 2008 to June 30, 2008)

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

First quarter of the current fiscal year (April 1, 2009 to June 30, 2009)

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

[Overseas sales]

First quarter of the previous fiscal year (April 1, 2008 to June 30, 2008)

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

First quarter of the current fiscal year (April 1, 2009 to June 30, 2009)

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

First quarter of the current fiscal year (April 1, 2009 to June 30, 2009)

There is no related information.