Annual Report

2008

Raito Kogyo Co., Ltd.

Profile

Integrating originality, integrity and a keen sense of responsibility,

Raito Kogyo Co., Ltd. has continued to develop and market proprietary technologies in tune with the needs of each era. Since its foundation in 1943 as a specialist civil engineering contractor, Raito Kogyo has endeavored to expand business operations encompassing tunnel repair and maintenance, disaster-proof slope protection, as well as soft-ground stabilization.

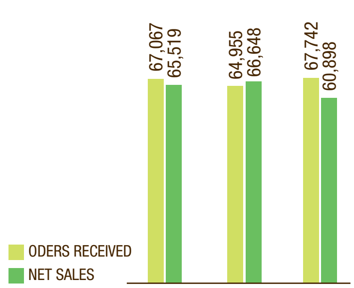
As a **leading company** in its field, Raito Kogyo enjoys significant market acclaim for its technological expertise. Active in the fields of land preservation, local infrastructure and environmental conservation, and based on the wealth of experience and skills cultivated over many years, the Company will consistently create new values and contribute to society in harmony with its natural surroundings.

Contents

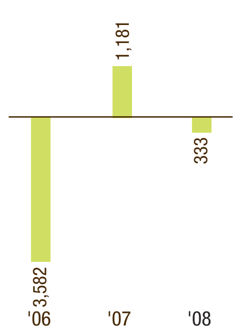
Consolidated Financial Highlights

	Millions of yen						Thousands of U.S. dollars
	2008	2007	2006	2005	2004	2003	2008
FOR THE YEAR:							
Orders received	¥67,742	¥64,955	¥67,067	¥65,123	¥71,654	¥72,698	$676,139
Net sales	66,408	66,648	65,519	67,133	70,226	73,979	662,823
Income (loss) from operations	111	1,093	(2,763)	702	1,846	1,550	1,112
Income (loss) before income taxes	61	1,249	(3,097)	292	1,689	(5,145)	(606)
Net income (loss)	(333)	1,181	(3,582)	121	1,621	(6,418)	(3,325)
AT YEAR-END:							
Total assets	66,280	¥66,908	¥63,352	¥68,252	¥68,244	¥ 68,124	661,549
Shareholders' equity	33,676	35,339	35,101	39,527	40,424	38,810	336,131
Common stock	6,119	6,119	6,119	6,119	6,119	6,119	61,079
AMOUNTS PER SHARE:							
(in yen and dollars)							
Net income (loss)	(6.32)	¥ 22.43	¥(68.02)	¥ 1.88	¥ 29.59	¥(116.36)	0.06
Shareholders' equity	639.43	¥670.98	666.44	750.03	753.55	724.08	6.38
PERFORMANCE INDICATORS:							
(%)							
Equity capital ratio	50.8	52.8	55.4	57.9	59.2	57.0	—
Return on equity	—	3.4	—	0.3	4.1	—	—
Number of employees	1,120	1,129	1,178	1,175	1,203	1,195	—

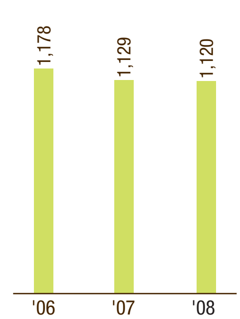
Note: U.S. dollar amounts above and elsewhere in this annual report are converted from Japanese yen, for convenience only, at the rate of ¥100.19=US$1.00, the rate on March 31, 2007 for the readers' convenience only.



ORDERS RECEIVED, NET SALES
(Millions of yen)



NET INCOME (LOSS)
(Millions of yen)



NUMBER OF EMPLOYEES

President's Message

OPERATING PERFORMANCE

The Raito Kogyo Group continued to face difficult conditions in securing new orders in the fiscal year ended March 31, 2008. While the Japanese economy maintained a steady recovery trajectory, public investment in the construction and civil engineering sectors continued to trend downward. Although higher business investment helped to boost construction-related capital investment in the private sector, general business conditions for the construction industry in Japan remained harsh.

The Group recorded consolidated net sales of ¥66,408 million, down 0.4% compared with the previous year. On the profit side, fiercer competition and sharp increases in material costs and other expenses served to squeeze our project margins. The booking of sales against large, low-margin projects was another factor depressing profits at the consolidated level. As a result, gross profit slipped 13.8% in year-on-year terms to ¥7,629 million. Although efforts to cut fixed costs successfully reduced our selling, general and administrative expenses, the decline in gross profit significantly affected earnings at both the operational and recurring levels. Income from operations fell to ¥111 million, compared with ¥1,093 million in the previous year. Recurring income fell from ¥1,230 million to ¥223 million.

We also booked a provision for exceptional losses relating to the payment of fines in connection with the infringement of Japanese antitrust legislation. We recorded a net loss for the year under review of ¥333 million, compared with the prior year's profit of ¥1,181 million.

BUSINESS SEGMENT REVIEW

Consolidated sales in the construction segment, the mainstay business for the Raito Kogyo Group, declined by 0.6% compared with the previous year to ¥66,007 million. Within this figure, sales by the parent company and Japanese subsidiaries fell 0.5% to ¥64,226 million and sales by US-based operations declined 6.2% to ¥1,780 million.

Construction segment orders in the fiscal year under review grew by 4.3% in year-on-year terms to ¥67,742 million. By project category, orders for slope protection projects fell 11.5% to ¥26,658 million. This reflected a decline in the number of project orders secured due to lower public works investment, along with a drop-off in large-scale slope protection projects related to recovery operations following earthquakes, typhoons and other natural disasters. Orders for ground improvement projects surged 16.1% in year-on-year terms to ¥23,774 million. This sector benefited from higher orders received in Japan for ground improvement projects and anti-liquefaction works for private-sector production facilities, along with large-scale ground improvement project orders from overseas. Orders for structural repair projects more than doubled over the previous year, soaring 169.0% to ¥6,333 million. This reflected the receipt of an orders for a major bridge repair project. In the anti-pollution sector, although large projects helped to boost orders for soil remediation services, demand was down for eco-friendly slope greening projects. Total orders in this sector fell 9.5% to ¥1,907 million. In other projects, construction works on sewage mains and other public utility conduits declined, leading to an 8.4% decrease in orders within this category to ¥9,068 million.

MEDIUM-TO-LONG-TERM BUSINESS STRATEGY

Under these conditions, we are pursuing the following business strategy to realize a sustained recovery in performance over the medium-to-long term.

Expand markets for specialized engineering services

We aim to expand the volume of business and raise profitability by developing efficient order-seeking activities across the Raito Kogyo Group as a whole, including our regional construction subsidiaries. We plan to upgrade initiatives targeting the private sector as well as overseas markets.

Expand into general civil engineering and construction sectors

Besides focusing on our traditional specialized engineering fields, we also aim to grow the volume of business and raise profitability at the consolidated level by expanding into the general civil engineering and construction sectors.

Strengthen overseas operations

From the fiscal year to March 2009, our local subsidiary in Singapore (Raito Singapore Pte. Ltd.) will join our US operations as a consolidated subsidiary. This company will spearhead our overseas business development efforts in the Southeast Asian market as part of our ongoing program of measures to expand the volume of business and boost profitability at the Group level.

Allocate management resources efficiently

To respond flexibly to changes in operating conditions, we plan to allocate management resources efficiently across the entire Group with the aim of reinforcing our overall competitiveness as an enterprise.

OUTLOOK

We expect competition to intensify further during the fiscal year ending March 2009, with public-sector investment levels remaining on a downward trend in the construction industry. There are concerns that uncertainty about corporate earnings will cause a slowdown in construction-related capital investment in the private sector. We anticipate that operating conditions will remain harsh due to the effects of sharply rising prices for raw materials, notably petroleum and steel products, in pushing up material costs and varied other expenses. In response, we plan to focus on maintaining the volume of business within our specialized engineering fields while at the same time seeking to expand into the general civil engineering and construction sectors in Japan and taking steps to strengthen overseas operations. Other plans to reinforce the Group's earnings structure include the consolidation from the fiscal year ending March 2009 of subsidiary Yasashiite Raito Co., Ltd., which manages our operations in nursing care services. Reflecting these factors, we forecast consolidated net sales of ¥70 billion for the year to March 2009, income from operations of ¥800 million, recurring income of ¥900 million and net income of ¥400 million.

Management is highly cognizant of the business conditions surrounding the construction industry in Japan in recent years. Going forward, we aim to raise the corporate value of the entire Raito Kogyo Group by developing a presence in new business domains that are relevant to the needs of modern society, centering these efforts on the abundant technical expertise that we have accumulated over the years. In doing so we hope to make a contribution to regional communities as well.

I ask all our shareholders for their continued support and understanding as we move forward.

August 2008

Toru Tamura

Toru Tamura
President

Corporate Governance

Fundamental policy

The Raito Kogyo Group's fundamental policy on corporate governance is to strive "to enhance the prosperity of all stakeholders, including customers, shareholders and employees." To realize this goal, Raito Kogyo recognizes that development and maintenance of a sound management structure and related systems is a key issue for senior managers.

Corporate Governance Framework

Management structure and oversight/supervisory systems

Raito Kogyo has established the General Managers' Committee to strengthen management functions and to facilitate timely and effective decision-making relating to key management policies and any urgent business matters.

The optimization of the number of members of the Board of Directors and the introduction of an executive officer system serve to enhance the management structure and to promote greater efficiency in decision-making and operational execution functions.

A corporate auditor system based on the Japanese model constitutes the core element of management oversight functions. As of June 2008, the Board of Corporate Auditors comprised three members, two of whom were external appointments. Corporate auditors attend meetings of the Board of Directors and important management committees. This strengthens oversight, helps to promote sound management and increases transparency.

The independent auditors undertake accounting audits of Raito Kogyo's financial statements on both a consolidated and non-consolidated basis.

Compliance framework

Raito Kogyo has established the Compliance Promotion Committee, and has also instituted a fundamental policy on compliance along with the Raito Kogyo Group Corporate Code of Conduct.

Status of system of internal controls

On May 19, 2006, the Board of Directors decided to develop a fundamental policy on internal controls to guide the development of systems aimed at ensuring that the execution of duties by directors is in compliance with relevant laws, regulations and the articles of association, and that other management practices are consistently proper. Raito Kogyo continues to develop internal controls based on this policy, while making required revisions or improvements in response to any changes in the business environment.

Timely disclosure

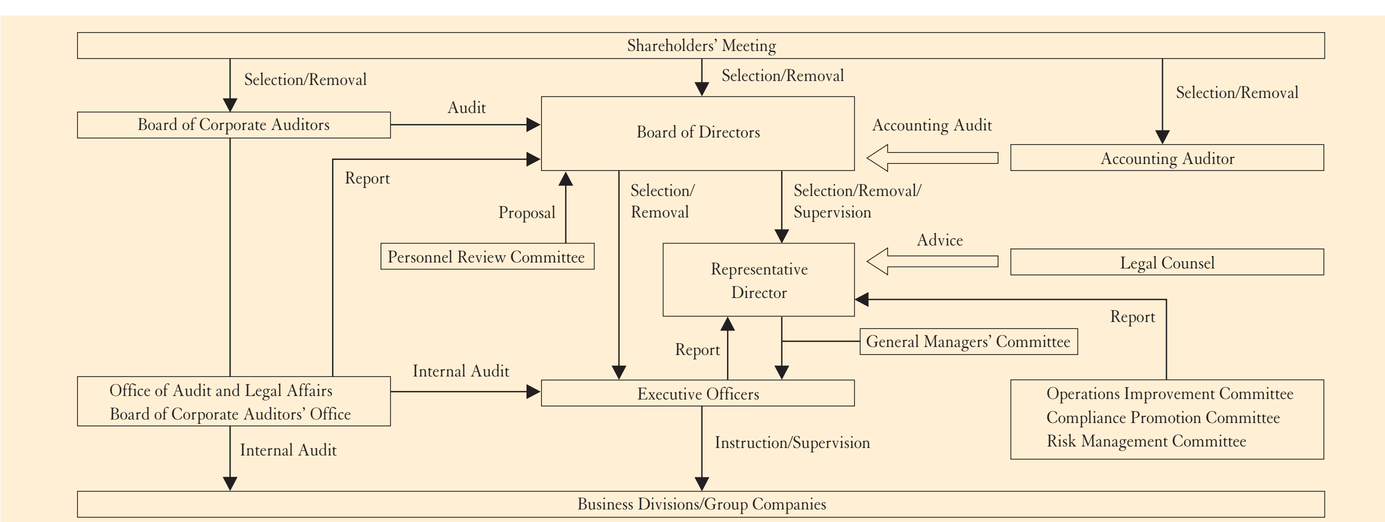
Raito Kogyo recognizes the importance of early disclosure of all relevant information to investors relating to financial results and performance. The Corporate Planning Department oversees the implementation of various IR activities, including financial results announcements, investor presentations and the disclosure of investor-related information through media channels such as the corporate web site.

Risk management system

The Risk Management Committee coordinates efforts to ensure the early identification of risks, alongside implementation of preventive measures.

Internal audits

The Internal Audit Office, which comprised three members of staff, fulfills various internal audit functions. Based on annual auditing plans, it reviews the soundness of executive actions and business activities. Internal audit results are reported to the corporate auditors and to the president.



Rito Kogyo At a Glance

Slope Protection Projects

This sector includes engineering works to protect slopes from degradation or weathering and to prevent disasters due to landslip, landslide, slope failure, mudslide or flooding. Orders received in the fiscal year under review totaled ¥25,825 million and segment revenues from completed projects amounted to ¥27,335 million.

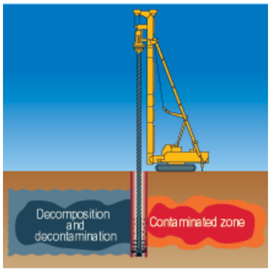
Ground Improvement Projects

Structural foundation and soft-ground stabilization works help to prevent ground subsidence or liquefaction during an earthquake. Orders received in the fiscal year under review totaled ¥21,723 million, while segment revenues from completed projects were ¥21,350 million..

Structural Repair Projects

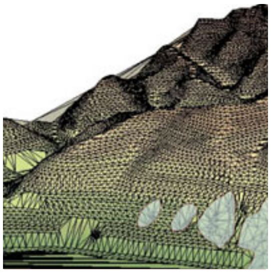
Activities in this sector include diagnostic survey and structural repair work for tunnels, bridges, sewage systems and other structures. Orders received in the fiscal year under review amounted to ¥6,278 million. Segment revenues from completed projects were ¥3,415 million.

Anti-Pollution Projects



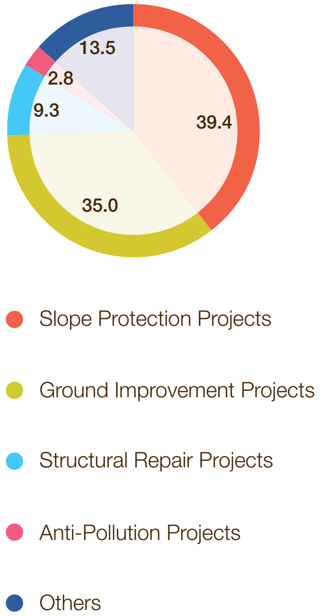
This sector includes surveys of contaminated sites, soil remediation works, and eco-conscious slope greening projects aimed at utilizing recycled wastes or preserving local ecosystems. Orders received during the fiscal year under review totaled ¥1,907 million, while segment revenues from completed projects amounted to ¥1,167 million.

Others



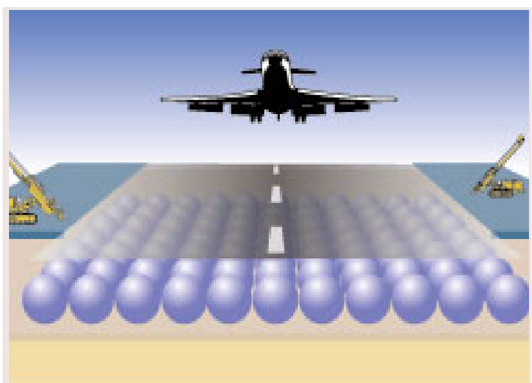
This sector spans a variety of engineering works, including the installation of sewage mains or other public utility conduits and the analysis of digitized data obtained from geological surveys or 3-D imaging. Orders received in the fiscal year under review were ¥5,721 million and segment revenues from completed projects amounted to ¥7,628 million.

ORDERS RECEIVED BY TYPE OF WORK (%)



Technical Topics

Raito Kogyo is engaged in a broad range of research and development activities in an effort to respond to changes in market trends, expand its scope of business activities and upgrade technologies in each business segment. To this end, the Company is also active in joint R&D, and aggressively pursues joint-development opportunities with institutions in and out of the construction industry, universities and government authorities including the Ministry of Land, Infrastructure and Transport. R&D expenditures for the fiscal year under review were ¥483 million.



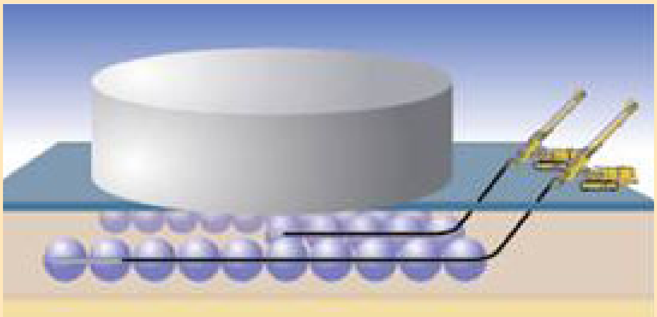
Anti-Liquefaction and Earthquake-Resistant Soil Treatment

Raito Kogyo continues to actively pursue research and development in the field of anti-liquefaction soil treatment utilizing chemical grouting as a means of stabilization. Maxperm Grouting method facilitates the long-term effects of improvement and stabilization by using a highly durable grout. Utilized in areas such as air and sea ports, this soft-ground stabilization and anti-liquefaction soil treatment is attracting wide acclaim.

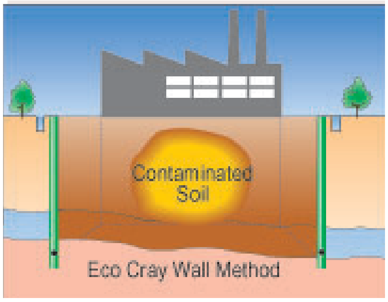
Close-Up!

Navigational Drilling System

The navigational drilling system enables highly accurate curved drilling utilizing double-wall rod strings. Distinguished by the use of a double-wall system, the navigational drilling can be freely used in conjunction with a variety of existing chemical grouting and soil remediation methods. By applying this method, greater efficiencies can be achieved in soil remediation works. The navigation drilling system is ideal for remediation in areas immediately beneath active plants and factories, condominiums, gas stations and petroleum storage tanks. This system can expand remediation capabilities by allowing the injection of materials that decompose contaminants without being hampered by structures and obstacles.



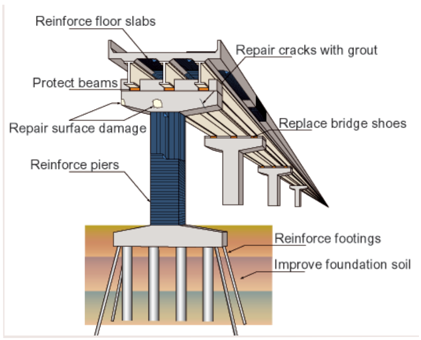
Soil Remediation Technology



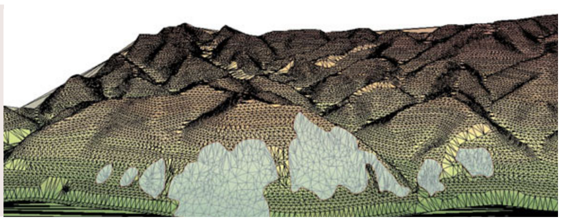
For many years, Raito Kogyo has conducted research and development on soil remediation technology as a long-standing strength of the Company. In particular, Raito Kogyo introduced the Steam Enhanced Remediation (SER) method in an effort to treat soil contaminated by volatile organic compounds and petroleum-derived hydrocarbons. After a series of performance tests, the SER method was proved to be effective with outstanding results. In addition, the Company successfully developed the Eco Clay Wall method. This method serves to contain the contaminated ground by installing cut off walls without producing spoils during excavation. With a clay base material, the wall offers long-term stability and durability. At the same time, the plastic nature of the wall provides protection against cracking in the event of an earthquake.

Aging Concrete Repair Technology

With the passing of time, newly constructed facilities enter a period of maintenance and repair. Basic infrastructure encompassing tunnels, bridges, roadways and viaducts are not exempt. While new structures continue to be built, adequate maintenance and repair of existing infrastructure plays an important role in safety and stability. In the maintenance and repair of basic structures, Raito Kogyo conducts detailed onsite inspections and analysis. Based on the results, the Company proposes the best method to effectively address structural damage and deterioration.



Spatial Information Technology (SI)



Utilizing spatial information technology, images taken from devices such as digital cameras, videos and artificial earth satellites are transformed into two- and three-dimensional image data with coordinates. The image data allow to conduct basic image location survey as well as landscape simulation using slope and underground space montages. Raito Kogyo developed the controlled thermal conduction (CTC) based on infrared thermography technology to facilitate slope and cavity inspection. With this technique, frozen carbon dioxide powder is injected into cavities to allow accurate infrared ray analysis. Furthermore the Company established a nationwide network to take aerial video images when a disaster or an emergency occurs and quickly convert the video images to continuous series of still images to ensure prompt investigation and analysis of the damage.

Construction Results

Project

Crop irrigation project the Azusa river trunk line construction

Client
Ministry of Agriculture, Forestry and Fisheries, Kanto Regional Agricultural Administration Office

Technique/Objective
Structure repair/repair and reinforce

Equipment
Ordered: September 2006 Completed: March 2008

Project

Kita-Kanto Expressway Iwase viaduct construction

Client
EAST NIPPON EXPRESSWAY COMPANY LIMITED

Technique/Objective
RAS (Reliable Accord Soil) column method/supporting beam basics

Equipment
Ordered: March 2005 Completed: December 2007

Project

Higashi-kanto Expressway Hinuma river bridge construction

Client
EAST NIPPON EXPRESSWAY COMPANY LIMITED

Technique/Objective
Stake construction/supporting beam new establishment

Equipment
Ordered: July 2005 Completed: March 2008

Project

Nippon Steel Corporation slag treatment plant

Client
OKUMURA CORPORATION

Technique/Objective
Eco clay wall method/waterproof

Equipment
Ordered: December 2006 Completed: September 2007

Project

Crop irrigation project the Ie underground dam construction

Client
OBAYASHI CORPORATION, Sumitomo Mitsui Construction Co., Ltd. and Maruo construction Co., Ltd

Technique/Objective
RAITO soil wall method/waterproof

Equipment
Ordered: February 2006 Completed: January 2008

Consolidated Balance Sheets

March 31, 2008 and 2007	Millions of yen 2008	2007	Thousands of U.S. dollars (Note 1) 2008
ASSETS			
Current assets:			
Cash and time deposits (Note 3)	¥ 11,087	¥ 5,979	$ 110,656
Marketable securities (Notes 3)	—	—	—
Notes and accounts receivable, trade:			
Notes	3,794	4,783	37,867
Accounts	18,668	21,251	186,326
Allowance for doubtful accounts	(242)	(246)	(2,415)
Inventories (Note 4)	9,694	9,587	96,759
Deferred tax assets (Note 12)	414	258	4,130
Other current assets	1,487	1,533	14,839
Total current assets	44,901	43,145	448,161
Property and equipment:			
Land (Note 6)	9,661	9,698	96,423
Buildings	8,957	8,998	89,399
Machinery and equipment	24,900	24,732	248,527
Construction in progress	39	19	389
	43,556	43,447	434,739
Accumulated depreciation	(27,824)	(27,236)	(277,708)
Net property and equipment	15,733	16,211	157,031
Investment and other assets:			
Investment in securities (Note 5)	3,225	4,556	32,193
Investment in non-consolidated subsidiaries and affiliate	252	264	2,519
Long-term loans to non-consolidated subsidiaries and affiliate	0	100	0
Long-term receivable	526	518	5,248
Allowance for doubtful accounts	(648)	(688)	(6,469)
Deferred tax assets (Note 12)	919	574	9,172
Others	1,372	2,228	13,694
Total investment and other assets	5,646	7,552	56,357
Total assets	¥ 66,281	¥ 66,908	$ 661,549

The accompanying notes are an integral part of this statement.

March 31, 2008 and 2007	Millions of yen 2008	2007	Thousands of U.S. dollars (Note 1) 2008
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank loans payable (Note 7)	¥ 3,203	¥ 2,259	$ 31,967
Current portion of long-term bank loans payable (Note 7)	—	—	—
Notes and accounts payable, trade:			
Notes	5,665	5,471	56,544
Accounts	11,254	12,019	112,324
Notes and accounts payable, other:			
Notes	79	138	785
Accounts	846	931	8,448
Advance received on uncompleted contracts	7,591	5,877	75,761
Allowance for anticipated loss on contract work	47	335	467
Accrued expenses	1,095	1,206	10,934
Accrued income taxes	143	97	1,428
Other current liabilities	328	236	3,271
Total current liabilities	30,250	28,569	301,928
Non-current liabilities:			
Deferred tax liabilities for land revaluation	1,435	1,435	14,324
Reserve for retirement benefits	190	547	1,898
Reserve for loss on liabilities for guarantee	138	147	1,381
Long-term accrued amount payable	535	812	5,336
Consolidation adjustment account	18	25	180
Other long-term liabilities	37	34	371
Total non-current liabilities	2,353	3,000	23,489
Total liabilities	32,604	31,569	325,418
Capital stock	6,119	6,119	61,079
Capital surplus	6,358	6,358	63,461
Retained earnings	23,786	24,531	237,409
Treasury stock	(1,697)	(1,697)	(16,942)
Total shareholders' equity	34,566	35,311	345,006
Valuation difference on available-for-sale securities	105	996	1,047
Revaluation reserve for land	(1,053)	(1,053)	(10,512)
Foreign currency translation adjustment	59	85	590
Total valuation and translation adjustments	(889)	28	(8,875)
Net assets	33,677	35,339	336,131
Liabilities and net assets	¥66,281	¥66,908	$661,549

The accompanying notes are an integral part of this statement.

Consolidated Statements of Operations

For the years ended March 31, 2008 and 2007	Millions of yen 2008	2007	Thousands of U.S. dollars (Note 1) 2008
Net sales:			
Net sales of completed construction contracts	¥ 66,007	¥ 66,425	$658,820
Net sales of goods	401	223	4,004
Cost of sales:			
Cost of sales of completed construction contracts	(58,446)	(57,581)	(583,355)
Cost of goods sold	(332)	(217)	(3,317)
Gross profit of completed construction contracts	7,561	8,844	75,465
Gross profit-merchandise	69	6	686
Selling, general and administrative expenses	(7,518)	(7,757)	(75,039)
Operating income	111	1,093	1,112
Other income:			
Interest income	14	18	138
Dividends income	116	105	1,160
Royalty income	16	17	160
Rent income on non-current assets	30	30	302
Amortization of negative goodwill	7	7	72
Other	99	77	983
Total on-operating income	282	254	2,815
Interest expenses	(34)	(80)	(339)
Loss on sales of notes payable	(1)	(1)	(15)
Commission fee	(25)	(9)	(247)
Guarantee commission	(15)	(12)	(152)
Foreign exchange losses	(61)	(0)	(612)
Other	(33)	(15)	(330)
Total on-operating expenses	(170)	(117)	(1,695)
Ordinary income	224	1,230	2,232
Gain on prior period adjustment	6	13	58
Gain on sales of non-current assets	8	53	79
Gain on sales of investment securities	34	110	335
Reversal of allowance for doubtful accounts	5	74	51
Other	5	9	50
Total extraordinary income	57	258	572
Loss on sales of non-current assets	(30)	(42)	(303)
Loss on valuation of membership	(1)	(18)	(13)
Loss on valuation of investment securities	(19)	(20)	(192)
Special extra retirement payments	(39)	(42)	(389)
Impairment loss	0	(40)	0
Loss on litigation	(223)	0	(2,225)
Other	(29)	(77)	(288)
Total extraordinary loss	(342)	(239)	(3,411)
Income before income taxes	(61)	1,250	(606)
Total income taxes	(165)	(102)	(1,652)
Income taxes for prior periods	0	39	0
Income taxes-deferred	(107)	(6)	(1,066)
Net income	¥ (333)	¥ 1,181	$ (3,325)

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2008 and 2007	Millions of yen 2008	Millions of yen 2007	Thousands of U.S. dollars (Note 1) 2008
Common stock:			
Balance at beginning of the year	¥ 6,119	¥ 6,119	$ 61,079
Balance at end of year	6,119	6,119	61,079
Additional paid-in capital:			
Balance at beginning of the year	6,358	6,358	63,461
Balance at end of year	6,358	6,358	63,461
Retained earnings:			
Balance at beginning of the year	24,531	23,876	244,841
Transfer from Revaluation surplus of Land			
Net income for the year	(333)	1,181	(3,325)
Cash dividends	(421)	(527)	(4,205)
Increase in retained earnings from newly consolidated subsidiary	10	—	97
Bonuses to directors and statutory auditors	237,647	236,229	2,372
Balance at end of year	23,786	24,531	237,409
Revaluation surplus of land (Note 6):			
Balance at beginning of the year	(1,053)	(1,053)	(10,512)
Sales of revaluated land		—	
Balance at end of year	(1,053)	(1,053)	(10,512)
Unrealized gain on available-for-sale securities:			
Balance at beginning of the year	996	1,415	9,940
Net change during the year	(891)	(419)	(8,893)
Balance at end of year	105	996	1,047
Foreign currency translation adjustments:			
Balance at beginning of the year	85	82	851
Net change during the year	(26)	3	(261)
Balance at end of year	59	85	590
Treasury stock (Note 10):			
Balance at beginning of the year	1,697	(1,696)	16,937
Increase in treasury stock	(1)	(1)	(5)
Balance at end of year	¥ (1,697)	¥ (1,687)	$ (16,942)

The accompanying notes are an integral part of this statement.

Consolidated Statements of Cash Flows

For the years ended March 31, 2008 and 2007	Millions of yen 2008	Millions of yen 2007	Thousands of U.S. dollars (Note 1) 2008
Cash flows from operating activities:			
Income before income taxes	¥ (60)	¥ 1,250	$ (603)
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	1,257	1,132	12,548
Impairment of fixed assets	0	40	0
Gain on sales of investment securities	(34)	(110)	(335)
Losses on devaluation of investment securities	19	20	192
Increase (decrease) in allowance for doubtful accounts	2	55	23
Increase (decrease) in reserve for employees' retirement benefits	(357)	64	(3,559)
Increase (decrease) in reserve for directors' retirement benefits	0	(403)	0
Increase (decrease) in reserve for loss on construction contracts	(278)	335	(2,773)
Interest income and dividends received recognized on statement of income	(130)	(124)	(1,298)
Interest payment recognized on statement of income	34	80	339
Decrease (increase) in notes and accounts receivable	3,703	(2,445)	36,962
Decrease (increase) in accumulated construction cost in progress	(69)	(888)	(687)
Decrease (increase) in other inventories	(30)	(23)	(296)
Increase (decrease) in notes and accounts payable	(640)	1,088	(6,390)
Increase (decrease) in advance received on uncompleted contracts	1,721	468	17,180
Others	(148)	(18)	(1,481)
Subtotal	4,992	523	49,824
Interest income and dividend received (cash basis)	130	124	1,298
Interest payment (cash basis)	(34)	(80)	(339)
Income taxes paid	(149)	(150)	(1,486)
Others	(1)	(1)	(15)
Net cash provided by operating activities	4,938	414	49,282
Cash flows from investing activities:			
Purchases of fixed assets	(969)	(1,101)	(9,676)
Proceeds from sales of fixed assets	80	677	798
Purchases of investment securities	(1,670)	(2,122)	(16,667)
Proceeds from sales of investment securities	1,316	1,760	13,133
Payments into time deposits	(100)	0	(998)
Proceeds from withdrawal of time deposits	100	0	998
Proceeds from insurance policy cancellation	149	0	1,492
Purchases of stock of affiliated company	0	—	0
Others	(7)	194	(67)
Net cash used in investing activities	(1,101)	(593)	(10,987)
			0
Cash flows from financing activities:			0
Net increase (decrease) in short-term borrowing	998	1,291	9,963
Proceeds from long-term borrowing	—	—	—
Repayment of long-term borrowing	0	(236)	0
Purchases of treasury stock	(1)	(1)	(5)
Cash dividends paid	(422)	(527)	(4,215)
Net cash used in financing activities	575	527	5,742
Effect of exchange rate change on cash and cash equivalents	(13)	0	
Net increase (decrease) in cash and cash equivalents	4,399	349	43,903
Cash and cash equivalents at beginning of the year	5,979	5,630	59,679
Increase in cash and cash equivalents from newly consolidated subsidiary	108	0	1,075
Cash and cash equivalents at end of the year (Note 3)	¥ 10,486	¥ 5,979	$104,658

The accompanying notes are an integral part of this statement.

Notes to Consolidated Financial Statements

1. Basis of preparation

The accompanying consolidated financial statements of RAITO KOGYO CO., LTD. (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of 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.

In order to facilitate the understanding of readers outside Japan, certain reclassifications have been made to the consolidated financial statements prepared for domestic purposes and relevant notes and statements of shareholders' equity have been added. 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.

The amounts are rounded to the nearest millions of yen. Therefore, total or subtotal amounts do not correspond with the aggregation of such account balance.

The United States dollar amounts presented in the accompanying financial statements are included solely for convenience and are stated, as a matter of arithmetical computation only, at the rate of ¥100.19=US$1.00, which was the exchange rate prevailing at March 31, 2008.

2. Summary of significant accounting policies

a) Principles of consolidation

(i) Consolidated subsidiaries

The consolidated financial statements include the accounts of the Company and its 7 significant subsidiaries (ONORYOGUMI CO., LTD., C.E. CREATE CO., LTD., KYUSHU REALIZE., LTD., TOHOKU REALIZE., LTD., MICHINOKU REALIZE., LTD., RAITO, INC. and AURA LUGAR., LTD.), after the elimination of all significant intercompany transactions, balances and unrealized profits.

The consolidated financial statements do not include the accounts of RAITO SHINGAPORE PTE., LTD. EDO ENTERPRISE CO., LTD., YASASHITE RAITO CO., LTD. since the combined total assets, sales, net income, and retained earnings of these subsidiaries are not significant and would not have a material impact on the consolidated financial statements.

(ii) Equity method

Investments in unconsolidated subsidiaries have been carried at cost.

Investments in unconsolidated subsidiaries above mentioned are not carried using the equity method, since the effect of applying the equity method in these subsidiaries is not material.

(iii) Consolidation adjustments

The consolidation difference between the cost of an investment and equity in its net assets at the date of acquisition is amortized practical number of within 20 years.

b) Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, the Company and its consolidated subsidiaries consider all highly liquid investments with insignificant risk of changes in value and original maturity of three months or less at the date of acquisition to be cash equivalents.

c) Marketable securities and investments in securities

Securities are classified into three categories: trading, held-to-maturity or available-for-sale securities which are not classified as either trading or held-to-maturity securities.

The Company classifies all of marketable securities and investments in securities as available-for-sale securities.

Marketable available-for-sale securities are carried at fair market value at year end. The cost of securities sold is determined based on the moving average method. Unrealized holding gain or loss on available-for-sale securities, zet of the applicable income taxes, is charged to shareholder's equity.

Non-marketable available-for-sale securities are carried at cost by the moving average method.

Impairments of non-marketable securities are reduced to net realized value by a charge to income.

d) Inventories

Inventories other than materials and supplies are stated at accumulated construction cost for each project. Selling, general and administrative expenses are excluded from such cost.

Materials and supplies are stated at cost determined by the first-in, first-out method.

e) Recognition of net sales and related costs

Net sales and the related costs of construction contracts are recorded on the completed-contract method regarding the Company and its domestic subsidiaries, and on the percentage-of-completion method regarding the foreign subsidiaries.

f) Allowance for doubtful accounts

Allowance for doubtful accounts of the Company and its consolidated subsidiaries are provided as follows:

For general receivables, allowance is provided at rates derived from historical credit loss experiences.

For doubtful receivables, allowance is provided at the amount considered uncollectible based on respective assessment of collectability.

g) Property and equipment, depreciation and lease transaction

Property and equipment are carried at cost.

Regarding the Company and its domestic subsidiaries, depreciation for buildings acquired before April 1, 1998, machinery and equipment is mainly computed by the declining balance method, and depreciation for buildings acquired after April 1, 1998 is computed by the straight-line method over the applicable useful lives.

Regarding the foreign subsidiaries, depreciation is mainly computed by the straight-line method over the estimated useful lives.

h) Software

Software used by the Company and its consolidated subsidiaries is depreciated using the straight-line method, based on the useful life as determined by the Company and its consolidated subsidiaries (generally 5 years).

j) Reserve for retirement benefit

Accrued retirement benefits are provided for the payment of retirement benefits at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets at the end of the current fiscal year.

Prior service cost is being amortized as incurred by the straight-line method over periods which are shorter than the average remaining years of service of the eligible employees.

One of the consolidated subsidiaries, ONORYOGUMI CO., LTD., however, accounted 100% of the required amount of reserve at year end calculated using the simplified method.

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

k) Allowance for anticipated loss on contract work

For the contract works for which future loss is anticipated at the end of the fiscal year, allowance is provided at the amount based on reasonable estimation.

lm) Consumption tax

Consumption tax is taken out from all the revenue and expense items and balance sheet items, and recorded separately, except mainly for receivables and payables.

3. Cash and cash equivalents

Reconciliation between cash and time deposits and marketable securities on the consolidated balance sheets as of March 31, 2008 and 2007 and cash and cash equivalents at end of years on the statements of cash flows for the year ended March 31, 2008 and 2007 are as follows:

	Millions of yen		U.S. dollars
	2008	**2007**	**2008**
Cash and time deposits on the consolidated balance sheets	¥11,087	¥5,979	$110,656
Marketable securities on the consolidated balance sheets	—	—	—
Time deposits with terms exceeding 3 months	(601)	—	
Cash and cash equivalents on the statement of cash flows	¥10,486	¥5,979	$104,658

4. Inventories

Inventories as of March 31, 2008 and 2007 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2008	**2007**	**2008**
Accumulated construction cost in progress	¥9,450	¥9,366	$94,321
Materials and supplies	(244)	221	2,438
	¥9,694	¥9,587	$96,759

5. Marketable securities and investment in securities

The market value of listed securities, which are classified as Marketable securities, as of March 31, 2008 and 2007, are as follows:

	Millions of yen		
		Fair Value	
As of March 31, 2008	Cost	(Carrying Amount)	Unrealized Gain (Loss)
Marketable equity securities	¥1,500	¥2,112	¥612
Fund trust and other	1,464	1,028	(436)
	¥2,986	¥3,140	¥176

	Thousands of U.S. dollars		
		Fair Value	
As of March 31, 2008	Cost	(Carrying Amount)	Unrealized Gain (Loss)
Marketable equity securities	$14,968	$21,080	$6,112
Fund trust and other	14,608	10,257	(4,351)
	$29,806	$31,337	$1,761

	Millions of yen		
		Fair Value	
As of March 31, 2007	Cost	(Carrying Amount)	Unrealized Gain (Loss)
Marketable equity securities	¥1,512	¥3,214	¥1,701
Fund trust and other	1,273	1,246	(26)
	¥2,785	¥4,460	¥1,675

6. Revaluation of land

Under the "Law of Land Revaluation", promulgated on March 31, 1998 and revised on March 31, 2001, the Company has elected a one-time revaluation of its ownuse land.

The resulting land revaluation excess represents unrealized appreciation of land and is stated, net of income taxes, as a component of shareholders' equity. There is no effect on the statements of operations. Continuous readjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the land revaluation excess account and related deferred tax liabilities.

As of March 31, 2008, the carrying amount of the land after one-time revaluation exceed the market value by ¥2,302 million ($19,265 thousand).

7. Short-term bank loans payable

Short-term bank loans payable are mostly unsecured loans bearing interest at market rates.

8. Employees' retirement benefit and pension plan

The Company and its consolidated subsidiaries have severance payment plans for employees.

The liability for employees' retirement benefits obligation at March 31, 2008 and 2007, consists of the followings;

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Projected benefit obligation	¥(11,523)	¥(12,078)	$(115,013)
Plan assets at fair value	8,441	9,851	84,245
Retirement benefit trust	2,797	4,281	27,913
Unrecognized actuarial loss	1,236	(1,265)	12,340
Unrecognized prior service cost	(937)	(1,017)	(9,353)
Long-term prepaid expenses	(203)	(318)	(2,031)
Net liability	¥ (190)	¥ (546)	$ (1,898)

The components of net periodic benefit costs for the year ended March 31, 2008 and 2007, are as follows;

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Service cost	¥ 464	¥ 655	$ 4,631
Interest cost	238	62	2,373
Expected return on plan assets	(394)	(381)	(3,933)
Amortization of actuarial loss	(80)	(46)	(798)
Amortization of prior service cost	(13)	(80)	(129)
Net periodic benefit costs	¥ 215	¥ 210	$ 2,143

Assumptions used for the year ended March 31, 2008 and 2007, are set forth as follows;

	2008	2007
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	4.0%	4.0%
Amortization period of actuarial gain/loss	15 years	15 years
Amortization period of prior service cost	15 years	15 years

9. Shareholders' equity

Dividends may be approved by the shareholders after the end of each fiscal period. In accordance with the Commercial Code, these dividends and the related appropriations of retained earnings are not reflected in the financial statements at the end of such fiscal year but are recorded at the time they are approved. However, dividends per share shown in the accompanying statements of income and retained earnings are included in the years to which they relate.

10. Treasury stock

The Company holds 5,137,563 shares of treasury stock as of March 31, 2008 based on approval by the annual shareholder's meeting.

The Company has adopted the new "Financial Accounting Standards for Treasury Stock and Reduction of Legal Reserves" effective from April 1, 2002.

11. Leases

a) The following is certain information on finance leases accounted for in the same manner as operating leases since ownership of the leased assets is not substantially transferred to the lessee.

The analysis of the leased assets as of March 31, 2008 and 2007 is as follows. The acquisition cost equivalent is computed based on undiscounted lease payments at the inception of the leases.

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Machinery and equipment:			
Acquisition cost equivalent	¥579	¥598	$5,781
Accumulated depreciation equivalent	307	326	3,066
Net book value equivalent	¥272	¥272	$2,716

Undiscounted future lease payments as of March 31, 2008 and 2007, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Due within one year	¥109	¥105	$1,090
Thereafter	163	167	1,626
	¥272	¥272	$2,716

Lease payments for the years ended March 31, 2008 and 2007, are ¥128 million ($1,278 thousand) and ¥105 million, respectively. Depreciation expense equivalent is computed on a straight-line basis over the lease term with no residual value, and amounted to ¥128 million ($1,278 thousand) and ¥105 million for the years ended March 31, 2008 and 2007, respectively.

b) Future payments of operating lease as of March 31, 2008 and 2007, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Due within one year	¥2	¥1	$ 2
Thereafter	0	2	4
	¥2	¥3	$21

12. Income taxes

The significant components of the Company's deferred tax assets and liabilities as of March 31, 2008 and 2007, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Deferred tax assets:			
Reserve for employees' retirement benefit	¥ 1,089	¥ 1,109	$ 10,868
Reserve for directors retirement benefit			
Long-term accounts payable	103	155	1,024
Amortization of transitional obligation	485	485	4,837
Accrued expenses	134	134	1,333
Net operating loss carryforwards	1,052	3,852	10,500
Allowance for doubtful accounts	237	530	2,362
Other	1,086	877	10,844
Subtotal	4,185	7,142	41,768
Valuation allowance	(2,267)	(5,069)	(22,629)
Total defferred tax assets	¥ 1,917	¥ 2,073	$ 19,139
Deferred tax liabilities:			
Gain on securities contributed to employees' retirement benefit	(504)	504	(5,034)
Special depreciation allowance for tax purposes	(9)	10	(89)
Unrealized gain on availableforsale securities	(72)	679	(714)
Other		48	
Total deferred tax liabilities	¥ 585	¥ 1,241	$ 5,837
Total net deferred tax assets	¥ 1,333	¥ 832	$ 13,302

13. Segment information

(1) Industry segments

Summarized financial information by industry segment for the years ended as of March 31, 2008 and 2007 is as follows:

	Millions of yen				
	Year ended March 31, 2008				
	Construction	Goodssales	Total	Elimination	Consolidated
Revenues:					
Customers	¥66,007	¥401	¥66,408		$66,408
Inter-segments	67	1,191	1,258	(1,258)	0
Total	66,074	1,592	67,666	(1,258)	66,408
Operating expenses	66,042	1,512	67,554	(1,257)	66,297
Operating income/loss	32	81	113	(1)	112
Assets	50,284	1,142	51,429	14,852	66,281
Depreciation	1,246	12	1,258	0	1,257
Capital expenditures	698	3	701	0	701

	Thousands of U.S. dollars				
	Year ended March 31, 2008				
	Construction	Goodssales	Total	Elimination	Consolidated
Revenues:					
Customers	$658,820	$ 4,004	$662,824	$ 0	$662,824
Inter-segments	668	11,889	12,557	(12,557)	0
Total	659,488	15,893	675,381	(12,557)	662,824
Operating expenses	659,169	15,086	674,255	(12,547)	661,708
Operating income/loss	$ 319	$ 807	1,126	$ (10)	$ 1,116
Assets	$501,889	$11,398	513,317	$148,235	$661,552
Depreciation	12,434	120	12,554	(3)	12,551
Capital expenditures	6,965	30	6,995	0	6,995

(2) Geographical segment and Overseas sales

Disclosure of geographical segment information and overseas sales have been omitted due to immateriality.

14. Contingent liabilities

As of March 31, 2008 and 2007, the Company and its consolidated subsidiaries were contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Deferred tax assets:		¥ —	

15. Subsequent event

On June 26, 2008, the following appropriations of retained earnings were approved at the shareholders' meeting of the Company:

	Millions of yen	Thousands of U.S. dollars
Cash dividends of ¥8 ($0.08) per share (final for the year ended March 31, 2008)	¥421	$3,568

BOARD OF DIRECTORS AND AUDITORS

Chairman
Yuji Samaru

President
Toru Tamura

Managing Director
Nobuyuki Akiyama
Katsunori Negishi
Ayumu Yasukawa
Yoshitaka Mituse
Yasumi Irie
Shigeyoshi Kimura

Director
Fumio Takeda
Izumi Hasegawa
Nobutaka Suzuki
Koji Sugiyama
Hitoshi Kubota
Susumu Araki
Kazuo Suzuki

(as of June 26, 2008)

SHARE INFORMATION

Common Stock:
Authorized shares
198,000,000 shares
(as of March 31, 2008)

Issued and outstanding shares
57,804,450 shares
(as of June 28, 2007)

Number of shareholders
10,986
(as of March 31, 2008)

Fiscal Year-End:
End of March each year

Annual Meeting:
In June of each year in Tokyo, Japan

Transfer Agent, Registrar and Dividend Payments:
The Chuo Mitsui Trust and Banking Co., Ltd.
3-33-1 Shiba, Minato-ku,
Tokyo 105-8574, Japan
Phone: 81-3-5232-8618
Fax: 81-3-5232-8698

Dividends:
Dividends are normally paid in June.

Please direct inquiries to:
Publicity Office
Raito Kogyo Co., Ltd.
4-2-35 Kudan-kita, Chiyoda-ku,
Tokyo 102-8236, Japan
Phone: 81-3-3265-2551
Fax: 81-3-3265-0879

CORPORATE DATA

Head Office:
4-2-35 Kudan-kita, Chiyoda-ku,
Tokyo 102-8236, Japan

Capital:
¥6,119,475,000
US$61,078,700
(¥100.19=US$1.00)
(as of March 31, 2008)

Date of Establishment:
September 28, 1948

Stock Trading:
Tokyo Stock Exchange,
First Section

Major Shareholders:
Raito Kogyo Co., Ltd.
TAIYO LIFE INSURANCE COMPANY
Sumitomo Mitsui Banking Corporation
State Street Bank and Trust Company
Morgan Stanley Group
Nippon Life Insurance Company

Employees:
1,120 (as of March 31, 2008)