

2013

FINANCIAL STATEMENTS

MARCH 31, 2012-2013

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Consolidated Balance Sheets

As of March 31, 2012 and 2013

	Millions of yen	
	March 31,	
	2012	2013
ASSETS		
Current Assets:		
Cash in hand and in banks	¥ 5,754	¥ 6,625
Notes and accounts receivable	12,525	13,619
Real estate for sale	6,310	6,126
Cost of construction in progress	2,286	1,746
Cost of uncompleted development projects	1,421	3,192
Inventories - materials and supplies	47	55
Deferred income taxes.....	1,200	1,278
Other current assets.....	538	697
Less: allowance for doubtful accounts	(84)	(78)
Total current assets	29,997	33,259
Non-current Assets:		
Tangible Fixed Assets:		
Buildings and structures.....	8,034	7,931
Machinery and equipment	528	529
Golf course	1,231	771
Land.....	7,432	7,305
Construction in progress	—	1
Other non-current assets	1,670	1,752
Less: accumulated depreciation	(5,921)	(5,953)
Total tangible fixed assets	12,973	12,336
Intangible fixed assets	53	54
Investments:		
Investments in securities.....	3,946	4,799
Long-term loans	2,292	2,533
Deferred income taxes.....	501	456
Other investments	1,253	1,318
Less: allowance for doubtful accounts	(819)	(1,051)
Total investments	7,173	8,055
Total noncurrent assets	20,199	20,445
Total assets	¥ 50,197	¥ 53,704

The accompanying notes are an integral part of these statements.

Consolidated Balance Sheets

As of March 31, 2012 and 2013

	Millions of yen	
	March 31,	
	2012	2013
LIABILITIES		
Current Liabilities:		
Notes and accounts payable	¥ 15,704	¥ 19,598
Income taxes payable	71	483
Advances received on construction in progress	3,596	3,019
Accrued bonuses to employees	243	240
Accrued bonuses to directors and statutory auditors	35	30
Accrued warranty	38	47
Allowance for losses on construction contracts	53	256
Other current liabilities	804	942
Total current liabilities	20,543	24,615
Long-Term Liabilities:		
Long-term debt	4,000	4,000
Reserve for retirement benefits to employees	545	501
Membership deposit	3,048	2,897
Deferred income taxes	—	68
Negative goodwill	12	2
Other long-term debt	247	225
Total long-term liabilities	7,852	7,694
Total liabilities	28,395	32,309
NET ASSETS		
Shareholders' Equity		
Common stock	9,116	9,116
Authorized — 200,000,000 shares		
Issued — 68,368,532 shares as of March 31, 2012 and 2013		
Capital surplus	7,405	5,066
Retained earnings	7,216	7,255
Treasury stock	(2,700)	(1,264)
Total shareholders' equity	21,038	20,174
Accumulated Other Comprehensive Income		
Unrealized gain (loss) on other securities	241	784
Unrealized gain (loss) on hedging derivatives	—	8
Foreign currency translation adjustments	13	6
Total accumulated other comprehensive income	253	797
Minority interests	510	424
Total net assets	21,802	21,396
Debt net assets sum total	¥ 50,197	¥ 53,704

The accompanying notes are an integral part of these statements.

Consolidated Statements of Operations
For the years ended March 31, 2012 and 2013

	Millions of yen	
	March 31,	
	2012	2013
Net Sales:		
Construction contracts	¥ 46,732	¥ 58,245
Real estate development and other.....	5,618	3,514
	<u>52,351</u>	<u>61,759</u>
Cost of Sales:		
Construction contracts	43,531	54,954
Real estate development and other.....	4,064	2,153
	<u>47,595</u>	<u>57,107</u>
Gross profit.....	4,755	4,652
Selling, General and Administrative Expenses.....	3,689	3,636
Operating income	<u>1,066</u>	<u>1,015</u>
Non-Operating Income (Losses):		
Interest and dividend income	151	160
Interest expenses.....	(127)	(117)
Foreign exchange gains (losses)	77	93
Equity in gains of affiliates.....	54	50
Other, net.....	123	124
	<u>1,344</u>	<u>1,326</u>
Special Items:		
Gain on sales of fixed assets.....	159	1
Loss on disposal of fixed assets	(28)	(7)
Gain on sales of investment securities	1	—
Loss on valuation of investment securities.....	(349)	(5)
Impairment loss	—	(607)
Income before income taxes and minority interests	<u>1,128</u>	<u>708</u>
Income Taxes		
Current.....	64	484
Deferred.....	147	(267)
Income Before Minority Interests	<u>917</u>	<u>491</u>
Minority Interests in Earnings of Consolidated Subsidiaries	<u>(17)</u>	<u>84</u>
Net income	<u>¥ 900</u>	<u>¥ 576</u>

The accompanying notes are an integral part of these statements.

Consolidated Statements of Comprehensive Income
For the years ended March 31, 2012 and 2013

	Millions of yen			
	March 31,			
	2012			2013
Income Before Minority Interests	¥	917	¥	491
Other Comprehensive Income:				
Unrealized gain (loss) on other securities		111		544
Unrealized gain (loss) on hedging derivatives.....		7		8
Foreign currency translation adjustment.....		11		24
Share of other comprehensive income of associates accounted for using the equity method		33		(31)
Total other comprehensive income		161		544
Comprehensive Income		1,079		1,036
Comprehensive income attributable to:				
Shareholders of the Corporation.....		1,062		1,120
Minority Interests		17		(84)

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2012 and 2013

	Millions of yen									
	Shareholder's equity					Accumulated other comprehensive income				
	Number of shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gain on other securities	Unrealized gain on hedging derivatives	Adjustments	Minority interests	Total net assets
								on foreign currency statements translation		
Balance at March 31, 2011	69,228	9,116	7,405	6,869	(2,342)	130	(7)	(31)	496	21,636
Net Gain for the year ended March 31, 2012	—	—	—	900	—	—	—	—	—	900
Cash dividends	—	—	—	(553)	—	—	—	—	—	(553)
Increase in treasury stock	(2,005)	—	—	—	(358)	—	—	—	—	(358)
Gain on sale of treasury stock	—	—	(0)	—	1	—	—	—	—	0
Adjustment for the year ...	—	—	—	—	—	111	7	44	15	176
Balance at March 31, 2012	67,223	9,116	7,405	7,216	(2,700)	241	—	13	510	21,802
Net Gain for the year ended March 31, 2013	—	—	—	576	—	—	—	—	—	576
Cash dividends	—	—	—	(537)	—	—	—	—	—	(537)
Purchase of treasury stock	(4,984)	—	—	—	(903)	—	—	—	—	(903)
Disposal of treasury stock	—	—	(0)	—	0	—	—	—	—	0
Retirement of treasury stock	—	—	(2,339)	—	2,339	—	—	—	—	—
Adjustment for the year ...	—	—	(2,339)	39	1,436	543	8	(7)	(87)	458
Balance at March 31, 2013	<u>62,240</u>	<u>9,116</u>	<u>5,066</u>	<u>7,255</u>	<u>(1,264)</u>	<u>784</u>	<u>8</u>	<u>6</u>	<u>424</u>	<u>21,396</u>

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

For the year ended March 31, 2012 and 2013

	Millions of yen	
	2012	2013
Cash flows from operating activities:		
Income before income taxes	¥ 1,128	¥ 708
Adjustments for:		
Depreciation	254	246
Impairment loss.....	—	607
Equity in (gains) losses of affiliates.....	(54)	(50)
Interest and dividend income	(151)	(160)
Interest expenses	127	117
(Gain) loss on sales of fixed assets.....	(159)	(1)
Foreign exchange (gains) losses.....	(68)	(50)
(Gain) Loss on sales of investment securities.....	(1)	—
(Gain) Loss on evaluation of investment securities	349	5
Increase (Decrease) in reserve for retirement benefits to employees	(25)	(43)
Increase (Decrease) in accrued warranty.....	6	9
Increase (Decrease) in allowance for losses on construction contracts...	1	203
Increase (Decrease) in accrued bonuses	(7)	(2)
Increase (Decrease) in allowance for doubtful accounts	(22)	(6)
(Increase) Decrease in notes and accounts receivable.....	(219)	(1,090)
(Increase) Decrease in cost of construction in progress and cost of uncompleted development projects	(473)	(1,231)
(Increase) Decrease in real estate for sale and inventories.....	(873)	179
Increase (Decrease) in notes and accounts payable	2,396	3,894
Increase (Decrease) in advances received on construction in progress ...	975	(577)
Other	646	(372)
Sub-total.....	3,828	2,384
Interest and dividend income received	151	171
Interest expenses paid.....	(127)	(117)
Income taxes refunded.....	7	—
Income taxes paid	(306)	(73)
Net cash provided by (used in) operating activities.....	3,553	2,365
Cash flows from investing activities:		
Payment for making time deposit	(469)	(420)
Proceeds from withdraw of time deposit.....	461	418
Payments for purchase of fixed assets.....	(310)	(139)
Proceeds from sale of fixed assets.....	740	1
Payments for purchase of investments in securities	(89)	(56)
Proceeds from sale of investments in securities.....	2	—
Proceeds from repayment of investments in securities	50	50
Payments for loans.....	(241)	(84)
Proceeds from recovery of loans	143	200
Other	181	(72)
Net cash provided by (used in) investing activities	467	(102)
Cash flows from financing activities:		
Increase (decrease) in short-term bank loans, net	(2,500)	—
Purchase of treasury stock	(358)	(903)
Cash dividends paid.....	(555)	(539)
Other	(2)	(8)
Net cash provided by (used in) financing activities.....	(3,415)	(1,450)
Effect of exchange rate changes on cash and cash equivalents.....	(70)	55
Net increase (decrease) in cash and cash equivalents	675	868
Cash and cash equivalents of beginning of year.....	4,862	5,537
Cash and cash equivalents of end of year.....	¥ 5,537	¥ 6,404

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

1. Basis of Presenting Consolidated Financial Statements

(a) Accounting Principles

The accompanying consolidated financial statements have been prepared based on the accounts maintained by Kitano Construction Corp. (the "Company") and its subsidiaries prepared in accordance with 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 Financial Instruments and Exchange Act of Japan.

(b) Scope of Consolidation

The Company had 4 subsidiaries (majority-owned companies) as at March 31, 2012 (4 for 2011). The consolidated financial statements in fiscal years ended March 31, 2012 include the accounts of the Company and 3 (3 for 2011) of its subsidiaries "the Companies", which are listed below:

•Kawanakajima Tochi Kaihatsu Co., Ltd.	69.23% owned
•Solomon Kitano Mendana Hotel Limited.	100.00% owned
•Asahi Agency Co., Ltd.	59.52% owned

The above consolidated subsidiaries, except for Solomon Kitano Mendana Hotel Limited, which has a fiscal year ending at December 31 of each year, have a fiscal year ending at March 31 of each year, which is the same as the fiscal year of the Company.

Kitano Lanka (private) Limited is not consolidated, as it is not significant in terms of total assets, net sales, net income or retained earnings.

2. Summary of Significant Accounting Policies

(a) Principles of Consolidation

All significant intercompany balances, intercompany transactions and unrealized profits among the Companies have been eliminated in consolidation and the portion thereof attributable to minority interests is charged to minority interests.

Goodwill is principally amortized over a five year period on a straight-line basis from the year of acquisition.

(b) Investment in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates are stated at cost.

The equity method of accounting for such investments is applied to Sakura Hanoi Plaza Investment Company Limited, which is affiliates of the Company, since the application of this method has significant effect on the net income and retained earnings of the Companies.

Kitano Lanka (private) Limited is excluded from the scope of the equity method of accounting because it has little influence and little importance.

(c) Recognizing Revenues and Costs of Construction Contracts

Revenues and costs of construction contracts that commenced on or after April 1, 2009, of which the percentage of completion can be reliably estimated, are recognized by the percentage-of-completion method. The percentage of completion is calculated based on the cost incurred to date as a percentage of the estimated total cost. The completed-contract method is applied to all other construction contracts.

(d) Inventory Valuation

The cost of construction in progress, real estate for sale and the cost of uncompleted development projects are stated at cost, as determined on a specific project basis.

Materials and supplies are stated at cost, as determined based on an average method.

The net book value of inventories in the balance sheet is written down if the net realizable value declines.

(e) Depreciation

Depreciation is computed by the straight-line method for buildings (excluding leasehold improvements and auxiliary facilities attached to buildings) and by the declining-balance method for other assets, at rates based on the estimated useful lives of the assets, as prescribed by Japanese income tax laws. Depreciation for real estate for leasing is computed by the straight-line method. The range of useful lives is principally from 2 to 50 years for buildings and structures and from 2 to 11 years for store fixtures and equipment.

(f) Allowance for Doubtful Accounts

The balance of allowance for doubtful accounts represents the amount deemed necessary to cover possible losses estimated on an individual doubtful account basis. The amount is calculated using a certain percentage based on past experience for other accounts.

(g) Accrued Warranty

Accrued warranty is provided for against the future costs of warranty from completed construction.

(h) Accrued Bonuses to Employees

Accrued bonuses are computed by estimating the payment required in order to provide for the payment of bonuses to employees.

(i) Accrued Bonuses to Directors and Statutory Auditors

Accrued bonuses are computed by estimating the payment required in order to provide for the payment of bonuses to directors and statutory auditors.

(j) Reserve for Retirement Benefits to Employees

The Company recognize accrued pension and severance costs to employees based on the actual valuation of projected benefit obligation and plan assets at fair value.

Actuarial gains and losses were recognized using mainly the straight-line method over a period of 10 years.

Prior service costs were amortized using mainly the straight-line method over a period of 10 years, the period within the estimated average remaining service life of the employees.

(k) Allowance for losses on construction contracts

The Company prepares reasonable estimated amount for future losses from construction works outstanding at fiscal year-end.

(l) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash in hand, bank deposits able to be withdrawn on demand and short-term investments with an original maturity of three months or less and which represent a minor risk of fluctuations in value.

(m) Income Taxes

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

The Company and its subsidiaries account for deferred taxes in accordance with the regulations for preparation of consolidated financial statements in Japan. Deferred income taxes are determined using the asset and liability approach, whereby deferred tax assets and liabilities are recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the financial statements.

(n) Securities Valuation

Held-to-maturity debt securities are carried at amortized cost.

Available-for-sale securities are classified into two categories where: (a) the fair value is available and (b) the fair value is not available.

(a) Securities whose fair value is available are valued at the quoted market price prevailing at the fiscal year-end. Net unrealized gains or losses on these securities are reported as a separate component of net assets at a net-of-tax amount. Cost of sales is determined by the moving-average method.

(b) Securities whose fair value is not available are valued at cost, determined by the moving-average method.

(o) Hedge Accounting

Gains or losses arising from changes in the fair value of the derivatives designated as "hedging instruments" are deferred as an asset or liability and included in net profit or loss in the same period during which the gains and losses on the hedged items or transactions are recognized.

The derivatives designated as hedging instruments by the Company are principally forward exchange contracts. The related hedged items are finance for the overseas construction business. The Company is able to fix future cash flows and mitigate the deterioration of income from the construction business due to yen depreciation. The Company obtains management approval before making forward exchange contracts, and subsequently the accounting department executes and controls the contract.

(p) Consumption Tax

Consumption Tax payable or receivable is excluded from each account in the consolidated statements of income.

(q) Reclassification of Accounts

Certain prior year amounts have been reclassified to conform with the current year's presentation.

Changes in accounting policies

(Changes in depreciation method for tangible fixed assets)

In accordance with the amendments of the Corporation Tax Act, effective from fiscal year ended March 31, 2013, the Company and its domestic subsidiaries have changed their depreciation method for tangible fixed assets acquired on or after April 1, 2012.

The impact of this change on operating income and income before income taxes and minority interests for the fiscal year ended March 31, 2013 is immaterial.

(Unapplied accounting standards, etc.)

"Accounting Standard for Retirement Benefits" (Accounting Standard Board of Japan (ASBJ) Statement No. 26 of May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25 of May 17, 2012)

(1) Outline

Under the amended rule, actuarial gains and losses and past service costs would be recognized within the net asset section, after adjusting for tax effects, the deficit or surplus would be recognized as a liability or asset without any adjustments. For determining method of attributing expected benefit to periods, the standard now allows to choose benefit formula basis, as well as straight-line basis. Method for determination of discount rate has also been amended.

(2) Effective date

Effective for the end of fiscal year ending on or after March 31, 2014. Amendments relating to determining method of attributing expected benefit to periods are effective from the beginning of fiscal year ending on March 31, 2015. No retrospective application to financial statements in prior periods will be made as transitional provisions are stipulated regarding the application of these accounting standards.

(3) Impact of application of the new accounting standard

Application of "Accounting Standard for Retirement Benefits" is expected to result in material impacts on the consolidated financial statements of the Group. As for the consolidated balance sheets, the amount of net assets will be significantly affected due mainly to the recognition of actuarial gains and losses as incurred, however, its effects are currently under evaluation.

3. Notes to the Consolidated Balance Sheets

	Millions of yen	
	March 31,	
	2012	2013
(1) Investments in unconsolidated subsidiaries and affiliates	¥ 9	¥ 19
(2) Assets pledged as collateral		
Buildings	291	314
Land	1,161	1,161
Real estate for sale.....	4,470	4,410
(3) The guarantee of housing construction flaw security		
Investment in securities	131	141
(4) The guarantee of a debt		
Morimoto Co, Ltd.....	299	—

4. Notes to Consolidated Statements of Operations

	Millions of yen	
	for the year ended March 31,	
	2012	2013
(1) Allowance for loss on construction contract included in cost of sales of construction contracts.....	¥ 53	¥ 256
(2) Write-down of inventories included in cost of sales on real estate development and other	264	72
(3) The major components of “Selling, general and administrative expenses”		
Depreciation	192	208
Payroll	1,325	1,313
Allowance for accrued bonuses.....	119	112
(4) Impairment loss.....	—	607

5. Notes to consolidated Statement of comprehensive income

Reclassification adjustments and tax effects related to other comprehensive income were as follows:

	Millions of yen	
	for the year ended March 31,	
	2012	2013
Net unrealized gain (loss) on other securities, net of taxes		
Gains (losses) arising during the year	¥ 146	¥ 839
Reclassification adjustments.....	8	2
Total before tax effect	154	841
Tax effect	(44)	(298)
Net unrealized gain (loss) on other securities, net of taxes..	111	544
Deferred gain (loss) on hedging, net of taxes		
Gains (losses) arising during the year	¥ 11	¥ 13
Tax effect	(5)	(5)
Deferred gain (loss) on hedging, net of taxes.....	7	8
Foreign currency translation adjustments		
Gains (losses) arising during the year	¥ 11	¥ 24
Share of other comprehensive income of associates accounted for using equity method		
Gains (losses) arising during the year	¥ 33	¥ (31)
Total other comprehensive income	¥ 161	¥ 544

6. Notes to the Consolidated Statement of Changes in Net Assets

(a) Type and number of outstanding shares

March 31, 2012

Type of shares	Number of shares			
	Balance at Beginning of year	Increase in shares during the year	Decrease in shares during the year	Balance at end of year
Issued stock				
Common stock	78,368,532	—	—	78,368,532
Total	78,368,532	—	—	78,368,532
Treasury stock				
Common stock	9,140,165	2,007,067	2,030	11,145,202
Total	9,140,165	2,007,067	2,030	11,145,202

The summary of the main change reason

Increase by the repurchase of shares less than one unit	7,067 shares
by the acquisition of the treasury stock by the board of directors resolution	2,000,000 shares
Decrease by the sale of shares less than one unit.....	2,030 shares

March 31, 2013

Type of shares	Number of shares			
	Balance at Beginning of year	Increase in shares during the year	Decrease in shares during the year	Balance at end of year
Issued stock				
Common stock	78,368,532	—	10,000,000	68,368,532
Total	78,368,532	—	10,000,000	68,368,532
Treasury stock				
Common stock	11,145,202	4,984,639	10,000,962	6,128,879
Total	11,145,202	4,984,639	10,000,962	6,128,879

The summary of the main change reason

Increase by the repurchase of shares less than one unit	12,639 shares
by the acquisition of the treasury stock by the board of directors resolution	4,972,000 shares
Decrease by the sale of shares less than one unit.....	962 shares
by retirement of treasury stock	10,000,000 shares

(b) Dividends

(1) Dividends paid to shareholders

Date of approval	Resolution Approved by	Type of shares	Amount (Thousands of Yen)	Paid from	Amount Per share (Yen)	Shareholder's cut-off date	Effective date
June 24, 2011	Annual general meeting of shareholders	Common stock	555,041	Retained earnings	8	March 31, 2011	June 27, 2011
June 22, 2012	Annual general meeting of shareholders	Common stock	539,001	Retained earnings	8	March 31, 2012	June 25, 2012

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

Date of approval	Resolution Approved by	Type of shares	Amount (Thousands of Yen)	Paid from	Amount Per share (Yen)	Shareholder's cut-off date	Effective date
June 21, 2013	Annual general meeting of shareholders	Common stock	499,131	Retained earnings	8	March 31, 2013	June 24, 2013

7. Notes to the Consolidated Statements of Cash Flows

	Millions of yen	
	March 31,	
	2012	2013
Cash in hand and in banks	¥ 5,754	¥ 6,625
Time deposits with a deposit term of over 3 months	(217)	(220)
Cash and cash equivalents	¥ 5,537	¥ 6,404

8. Fair Value of Financial Instruments

(a) The fair value and book value of financial instruments as of March 31, 2012 and March 31, 2013, other than items of which fair value are not practically available, are as follows:

	Millions of yen		
	March 31, 2012		
	Book value	Fair value	Difference
Cash and deposits	¥ 5,754	¥ 5,754	¥ —
Notes and accounts receivable	12,525	12,525	—
Investments in securities	2,894	2,894	—
Total	¥ 21,173	¥ 21,173	¥ —
Notes and accounts payable	¥ 15,704	¥ 15,704	¥ —
Long-term debt	4,000	4,000	—
Total	¥ 19,704	¥ 19,704	¥ —

	Millions of yen		
	March 31, 2013		
	Book value	Fair value	Difference
Cash and deposits	¥ 6,625	¥ 6,625	¥ —
Notes and accounts receivable	13,619	13,619	—
Investments in securities	3,740	3,740	—
Total	¥ 23,984	¥ 23,984	¥ —
Notes and accounts payable	¥ 19,598	¥ 19,598	¥ —
Long-term debt	4,000	4,000	—
Total	¥ 23,598	¥ 23,598	¥ —
Derivative transactions	¥ 13	¥ 13	¥ —

(1) Financial instruments for which it is extremely difficult to determine the fair value

	Millions of yen	
	March 31, 2012	March 31, 2013
	Book value	Book value
Non-listed shares *	¥ 1,052	¥ 1,059
Membership deposit *	3,048	2,897

* It is extremely difficult to determine the fair values thereof because neither market quoted prices are available nor future Cash Flows can be estimated.

(2) Redemption schedule for money claims and securities with maturities

Millions of yen								
March 31, 2012								
		Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years
Cash and deposits	¥	5,736	¥	—	¥	—	¥	—
Notes and accounts receivable.....		12,525		—		—		—
Investments in securities								
Government bonds.....		—		—		125		15
Corporate bonds.....		—		—		100		—

Millions of yen								
March 31, 2013								
		Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years
Cash and deposits	¥	6,591	¥	1	¥	—	¥	—
Notes and accounts receivable.....		13,619		—		—		—
Investments in securities								
Government bonds.....		—		—		130		15
Corporate bonds.....		—		—		100		—

9. Repayment schedule for long-term debt after the closing date of accounting period.

Millions of yen										
March 31, 2012										
		Due in 1 year or less		Due after 1 year through 2 years		Due after 2 years through 3 years		Due after 3 years through 4 years		Due after 4 years through 5 years
Long-term debt..	¥	—	¥	—	¥	4,000	¥	—	¥	—

Millions of yen										
March 31, 2013										
		Due in 1 year or less		Due after 1 year through 2 years		Due after 2 years through 3 years		Due after 3 years through 4 years		Due after 4 years through 5 years
Long-term debt..	¥	—	¥	4,000	¥	—	¥	—	¥	—

10. Investments in Securities

(a) The following tables summarize the acquisition cost and book value of available-for-sale securities with market value as of March 31, 2012 and 2013:

Millions of yen						
March 31, 2012						
		Book value		Acquisition cost		Difference
Securities with book value exceeding acquisition cost:						
Equity securities.....	¥	1,353	¥	886	¥	467
Government bonds.....		118		115		3
Corporate bonds.....		50		50		0
Sub-total	¥	1,521	¥	1,051	¥	470
Securities with book value not exceeding acquisition cost:						
Equity securities.....	¥	1,310	¥	1,408	¥	(97)
Government bonds.....		13		13		(0)
Corporate bonds.....		49		50		(1)
Sub-total	¥	1,373	¥	1,471	¥	(98)
Total	¥	2,894	¥	2,522	¥	372

	Millions of yen		
	March 31, 2013		
	Book value	Acquisition cost	Difference
Securities with book value exceeding acquisition cost:			
Equity securities	¥ 3,385	¥ 2,170	¥ 1,215
Government bonds	141	134	7
Corporate bonds	101	100	1
Sub-total	¥ 3,627	¥ 2,404	¥ 1,223
Securities with book value not exceeding acquisition cost:			
Equity securities	¥ 113	¥ 123	¥ (10)
Sub-total	¥ 113	¥ 123	¥ (10)
Total	¥ 3,740	¥ 2,527	¥ 1,213

(b) Impairment losses of ¥8 million and ¥2 million were recorded to write down book value of investments in securities for the years ended March 31, 2012 and 2013, respectively.

11. Derivative transactions

(a) Derivative transactions for which hedge accounting is not applied
Not applicable.

(b) Derivative transactions for which hedge accounting is applied.
Currency-related transaction

Hedging method	Transaction type	Main hedged item	Millions of yen		
			March 31, 2013		
			Contract amount	Contract over 1 year	Fair value
Deferred hedge method	Foreign exchange forward contract Buy U.S. dollar	Forecasted foreign currency transactions	¥ 72	¥ —	¥ 13

There were no applicable matters for the year ended March 31, 2012.

12. Reserve for Retirement Benefits to Employees

(a) Employees of the Company is covered by a defined-benefit corporate pension plan and defined-contribution allowance plan. Employees of its domestic subsidiaries are covered by termination allowance plan or defined-contribution pension plan.

(b) The reserve for retirement benefits as of March 31, 2012 and 2013 is analyzed as follows:

	Millions of yen	
	March 31,	
	2012	2013
Projected benefit obligations	¥ (3,793)	¥ (3,671)
Plan assets	2,774	2,598
Unfunded benefit obligations	(1,019)	(1,072)
Unrecognized actuarial differences	535	624
Unrecognized prior service cost	(61)	(53)
Total	(545)	(501)
Prepaid pension costs	—	—
Reserve for retirement benefits to employees	¥ (545)	¥ (501)

(c) The net periodic expenses related to retirement benefits for the fiscal year 2012 and 2013 are as follows:

	Millions of yen	
	March 31,	
	2012	2013
Service costs.....	¥ 136	¥ 127
Interest costs.....	79	74
Expected return on plan assets.....	(60)	(55)
Amortization of actuarial differences.....	60	36
Amortization of prior service cost.....	(8)	(8)
Premium amount of payment to a defined by termination allowance plan or defined-contribution pension plan.....	45	46
Retirement benefits expense.....	<u>¥ 253</u>	<u>¥ 221</u>

(d) Assumptions used in calculation of the above information were as follows:

	As of March 31,	
	2012	2013
Method of attributing the projected benefits to period of services.....	Straight-line basis	Straight-line basis
Discount rate.....	2.0%	1.1%
Expected rate of return on plan assets.....	2.0%	2.0%
Amortization periods of actuarial differences.....	10 years	10 years
Amortization periods of prior service costs.....	10 years	10 years

13. Income Taxes

(a) The tax effects of temporary differences that give rise to significant portions of the deferred tax assets are presented below:

	Millions of yen	
	March 31,	
	2012	2013
Deferred tax assets:		
Write-down of fixed assets.....	¥ 1,020	¥ 1,014
Allowance for doubtful accounts.....	831	829
Write-down of marketable securities.....	400	401
Intercompany profits.....	293	269
Loss on valuation of real estate for sale.....	866	857
Operating loss carry forwards.....	71	168
Other.....	730	851
Total gross deferred tax assets.....	4,211	4,389
Valuation allowance.....	(2,315)	(2,227)
	<u>1,895</u>	<u>2,163</u>
Deferred tax liabilities:		
Reserve for advanced depreciation.....	(63)	(63)
Unrealized gain on other securities.....	(132)	(429)
Deferred gains or losses on hedges.....	—	(5)
Total gross deferred tax liabilities.....	(195)	(497)
Net deferred tax assets.....	<u>¥ 1,701</u>	<u>¥ 1,666</u>

(b) The reconciliation between the statutory tax rate and the effective tax rate as at March 31, 2012 and 2013 is presented below:

	As of March 31,	
	2012	2013
Statutory tax rate.....	40.4%	37.8%
Permanent differences on expenses not deductible.....	3.0	5.1
Permanent differences on income not taxable.....	(1.2)	(1.9)
Accrued bonuses to directors and statutory auditors not deductible.....	1.3	1.9
Inhabitant taxes per capita.....	2.1	3.4
Valuation allowance.....	(36.4)	(13.5)
Influence by effective tariff change.....	10.5	—
Influence of future tax rate.....	—	(1.6)
Other.....	(1.0)	(0.6)
Effective tax rate.....	<u>18.7%</u>	<u>30.6%</u>

14. Segment Information

(1) The segment information of the Company and its subsidiaries for the year ended March 31, 2012 and 2013 is presented below:

The Company and its subsidiaries operate principally in the following four industrial segments:
 Construction..... Construction, engineering works, development and sale of real estate.
 Golf courses..... Management of golf courses
 Hotels..... Management of hotels
 Advertising agent Management of advertising agent.

(2) The segment information of the Company and its subsidiaries for the year ended March 31, 2012 and 2013 is presented below:

Millions of Yen								
March 31, 2012								
	Construction	Golf courses	Hotels	Advertising agent	Total	Reconciliations	Consolidated	
I . Net sales and Operating income								
Net sales								
Customers	¥ 50,440	¥ 274	¥ 399	¥ 1,239	¥ 52,351	¥ —	¥ 52,351	
Intersegment or transfer	206	1	5	78	290	(290)	—	
Total	50,646	275	404	1,317	52,641	(290)	52,351	
Operating income	¥ 1,010	¥ 4	¥ 15	¥ 37	¥ 1,066	¥ —	¥ 1,066	
II . Other								
Depreciation and amortization	195	20	33	6	254	—	254	

Millions of Yen								
March 31, 2013								
	Construction	Golf courses	Hotels	Advertising agent	Total	Reconciliations	Consolidated	
I . Net sales and Operating income								
Net sales								
Customers	¥ 59,566	¥ 276	¥ 515	¥ 1,401	¥ 61,759	¥ —	¥ 61,759	
Intersegment or transfer	0	2	4	90	96	(96)	—	
Total	59,567	278	519	1,491	61,855	(96)	61,759	
Operating income (loss)	¥ 861	¥ 34	¥ 56	¥ 65	¥ 1,015	¥ —	¥ 1,015	
II . Other								
Depreciation and amortization	176	16	48	6	246	—	246	

15. Per Share Data

Net assets per share and net income per share as of and for the year ended March 31, 2012 and 2013 are as follows:

	Yen	
	2012	2013
Net assets per share	¥ 316.73	¥ 336.95
Net income per share – primary	13.13	9.00

1. Basis of net income per share of common stock

	Millions of yen	
	2012	2013
Net income	¥ 900	¥ 576
Net income pertaining to common stock	¥ 900	¥ 576
Average outstanding shares of common stock	68,552 thousand shares	63,947 thousand shares

2. Basis of net assets per share of common stock

	Millions of Yen	
	2012	2013
Net assets.....	¥ 21,802	¥ 21,396
Amounts deducted from net assets.....	510	424
Minority interests.....	510	424
Net assets applicable to common stock	21,291	20,972
Number of shares of common stock at end of year	67,223 thousand shares	62,240 thousand shares

BOARD OF DIRECTORS, STATUTORY AUDITORS AND EXECUTIVE OFFICERS AS OF MARCH 31, 2013

Board of Directors

Chairman and President, Representative Director

Takahiro Kitano

Vice President, Representative Director

Kimio Shiozawa

Directors

Yoshikatsu Yamazaki

Zentaro Ozawa

Outside Director

Yoshinori Uda

Statutory Auditors

Permanent Auditor

Noboru Takizawa

Outside Auditors

Toshiyuki Tsukada

Yoshichika Owa

Kazumichi Hanyu

Executive Officers

President and Executive Officer

Takahiro Kitano *

Vice President and Executive Officer

Kimio Shiozawa *

Senior Executive Officers

Yoshikatsu Yamazaki *

Toshiro Maki

Managing Executive Officers

Itsuo Takeuchi

Zentaro Ozawa *

Toshiaki Yamagishi

Executive Officers

Kiyonori Nakashima

Yoshito Iwasaki

Masakatsu Kobayashi

Hirokuni Matsushita

Tsuneaki Yamada

* : Member of Board of Directors

KITANO
CONSTRUCTION CORP.