

2021

FINANCIAL STATEMENTS

MARCH 31, 2020-2021

KITANO CONSTRUCTION CORP.

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Consolidated Balance Sheets

As of March 31, 2020 and 2021

	Millions of yen	
	March 31,	
	2020	2021
ASSETS		
Current Assets:		
Cash in hand and in banks	¥ 9,425	¥ 12,998
Notes and accounts receivable	14,753	18,975
Securities	24	16
Real estate for sale	3,260	3,242
Cost of construction in progress	1,029	1,307
Cost of uncompleted development projects	67	78
Inventories	59	53
Other current assets	2,322	2,192
Less: allowance for doubtful accounts	(33)	(29)
Total current assets	30,910	38,834
Non-current Assets:		
Tangible Fixed Assets:		
Buildings and structures	12,491	16,196
Machinery and equipment	2,721	2,649
Tools, furniture and fixtures	2,935	2,980
Golf course	770	770
Land	10,032	10,073
Construction in progress	518	0
Other non-current assets	73	97
Less: accumulated depreciation	(11,501)	(11,770)
Total tangible fixed assets	18,042	20,998
Intangible fixed assets	233	201
Investments:		
Investment securities	5,534	6,729
Long-term loans	65	75
Net defined benefit asset	569	923
Deferred tax assets	51	30
Other investments	1,588	1,888
Less: allowance for doubtful accounts	(33)	(33)
Total investments	7,775	9,613
Total non-current assets	26,051	30,814
Total assets	¥ 56,961	¥ 69,649

The accompanying notes are an integral part of these statements.

Consolidated Balance Sheets

As of March 31, 2020 and 2021

	Millions of yen	
	March 31,	
	2020	2021
LIABILITIES		
Current Liabilities:		
Notes and accounts payable	¥ 12,979	¥ 11,094
Electronically recorded obligations - operating	—	6,773
Short-term borrowings	—	4,000
Income taxes payable	60	1,046
Advances received on construction in progress	4,972	4,741
Advances received on uncompleted development business	5	10
Accrued bonuses to employees	284	324
Accrued bonuses to directors and statutory auditors	50	50
Accrued warranty	40	29
Allowance for loss on reconstruction of company buildings	35	—
Other current liabilities	1,220	1,974
Total current liabilities	19,650	30,045
Non-current Liabilities:		
Net defined benefit liability	60	60
Membership deposit	1,950	1,836
Deferred tax liabilities	749	1,000
Other non-current liabilities	290	303
Total non-current liabilities	3,051	3,200
Total liabilities	22,701	33,246
NET ASSETS		
Shareholders' Equity:		
Common stock	9,116	9,116
Authorized — 20,000,000 shares		
Issued — 6,836,853 shares as of March 31, 2020 and 6,836,853 shares as of March 31, 2021		
Capital surplus	3,188	3,188
Retained earnings	22,201	23,384
Treasury shares	(1,918)	(1,938)
Total shareholders' equity	32,588	33,751
Accumulated Other Comprehensive Income:		
Unrealized gain (loss) on other securities	1,132	1,985
Deferred gain (loss) on hedging derivatives	(25)	16
Foreign currency translation adjustment	166	26
Remeasurements of defined benefit plans	(91)	124
Total accumulated other comprehensive income	1,182	2,153
Non-controlling interests	490	498
Total net assets	34,260	36,403
Total liabilities and net assets	¥ 56,961	¥ 69,649

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income
For the years ended March 31, 2020 and 2021

	Millions of yen	
	March 31,	
	2020	2021
Net Sales:		
Construction contracts	¥ 57,411	¥ 72,661
Real estate development and other.....	4,540	2,604
	61,951	75,265
Cost of Sales:		
Construction contracts	51,202	65,871
Real estate development and other.....	3,079	2,131
	54,281	68,002
Gross profit.....	7,669	7,262
Selling, General and Administrative Expenses.....	4,625	4,492
Operating income	3,043	2,770
Non-operating Income (Expenses):		
Interest and dividend income	163	159
Reversal of allowance for doubtful accounts	—	0
Surrender value of insurance policies	40	49
Interest expenses.....	(48)	(52)
Foreign exchange losses.....	(70)	(35)
Provision of allowance for doubtful accounts.....	(0)	—
Commitment fee	—	(17)
Other, net.....	78	78
	3,207	2,952
Special Items:		
Gain on sales of non-current assets	0	1
Gain on sales of investment securities	0	9
Loss on disposal of non-current assets.....	(1)	(9)
Loss on valuation of investment securities.....	(2)	—
Income before income taxes.....	3,204	2,953
Income Taxes:		
Current.....	788	1,309
Deferred.....	245	(171)
Profit.....	2,170	1,815
Profit attributable to non-controlling interests.....	17	11
Profit attributable to owners of parent.....	¥ 2,152	¥ 1,804

The accompanying notes are an integral part of these statements.

Consolidated Statements of Comprehensive Income
For the years ended March 31, 2020 and 2021

	Millions of yen	
	March 31,	
	2020	2021
Profit.....	¥ 2,170	¥ 1,815
Other Comprehensive Income:		
Unrealized gain (loss) on other securities	(554)	852
Deferred gain (loss) on hedging derivatives	(25)	42
Foreign currency translation adjustment.....	(42)	(140)
Remeasurements of defined benefit plans.....	(123)	215
Total other comprehensive income	(746)	970
Comprehensive Income	1,424	2,786
Comprehensive income attributable to:		
Owners of parent.....	1,406	2,775
Non-controlling interests.....	17	10

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Equity

For the years ended March 31, 2020 and 2021

	Millions of yen										
	Shareholders' equity					Accumulated other comprehensive income					
	Number of shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Treasury shares	Unrealized	Deferred	Foreign			
						gain (loss) on other securities	gain (loss) on hedging derivatives	currency translation adjustment	Remeasurements of defined benefits plans	Non-controlling interests	Total net assets
Balance at March 31, 2019.....	6,836	9,116	3,188	20,677	(1,725)	1,687	—	208	31	475	33,660
Dividends of surplus.....	—	—	—	(629)	—	—	—	—	—	—	(629)
Profit attributable to owners of parent.....	—	—	—	2,152	—	—	—	—	—	—	2,152
Purchase of treasury shares.....	—	—	—	—	(193)	—	—	—	—	—	(193)
Net changes of items other than shareholders' equity.....	—	—	—	—	—	(554)	(25)	(42)	(123)	14	(731)
Total changes of items during period.....	—	—	—	1,523	(193)	(554)	(25)	(42)	(123)	14	599
Balance at March 31, 2020.....	<u>6,836</u>	<u>9,116</u>	<u>3,188</u>	<u>22,201</u>	<u>(1,918)</u>	<u>1,132</u>	<u>(25)</u>	<u>166</u>	<u>(91)</u>	<u>490</u>	<u>34,260</u>
Balance at March 31, 2020.....	6,836	9,116	3,188	22,201	(1,918)	1,132	(25)	166	(91)	490	34,260
Dividends of surplus.....	—	—	—	(621)	—	—	—	—	—	—	(621)
Profit attributable to owners of parent.....	—	—	—	1,804	—	—	—	—	—	—	1,804
Purchase of treasury shares.....	—	—	—	—	(20)	—	—	—	—	—	(20)
Net changes of items other than shareholders' equity.....	—	—	—	—	—	852	42	(139)	215	8	979
Total changes of items during period.....	—	—	—	1,183	(20)	852	42	(139)	215	8	2,142
Balance at March 31, 2021.....	<u>6,836</u>	<u>9,116</u>	<u>3,188</u>	<u>23,384</u>	<u>(1,938)</u>	<u>1,985</u>	<u>16</u>	<u>26</u>	<u>124</u>	<u>498</u>	<u>36,403</u>

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

For the years ended March 31, 2020 and 2021

	Millions of yen	
	2020	2021
Cash flows from operating activities:		
Income before income taxes	¥ 3,204	¥ 2,953
Adjustments for:		
Depreciation	698	702
Interest and dividend income	(163)	(159)
Interest expenses	48	52
Foreign exchange (gains) losses	23	107
(Gain) loss on sales of investment securities	(0)	(9)
(Gain) loss on sales of non-current assets	(0)	(1)
Loss on disposal of non-current assets	1	9
Increase (decrease) in net defined benefit asset and liability	(135)	(79)
Increase (decrease) in accrued warranty	(47)	(11)
Increase (decrease) in accrued bonuses to employees	(43)	39
Increase (decrease) in accrued bonuses to directors and statutory auditors	0	—
Increase (decrease) in allowance for doubtful accounts	2	(4)
Increase (decrease) in allowance for loss on reconstruction of company buildings	(193)	(35)
(Increase) decrease in notes and accounts receivable	4,050	(4,223)
(Increase) decrease in cost of construction in progress and cost of uncompleted development projects	(485)	(289)
(Increase) decrease in real estate for sale and inventories	237	23
Increase (decrease) in other current assets	(179)	72
Increase (decrease) in notes and accounts payable	(735)	4,892
Increase (decrease) in advances received on construction in progress	72	(231)
Increase (decrease) in other current and non-current liabilities	(456)	701
Other	(55)	(284)
Sub-total	5,843	4,225
Interest and dividend income received	163	183
Interest expenses paid	(49)	(53)
Income taxes paid	(1,466)	(350)
Net cash provided by (used in) operating activities	4,491	4,003
Cash flows from investing activities:		
Payment into time deposit	(791)	(1,011)
Proceeds from withdrawal of time deposit	841	1,041
Payments for purchase of tangible fixed assets	(4,594)	(3,714)
Proceeds from sale of tangible fixed assets	0	2
Payments for purchase of intangible fixed assets	(7)	(15)
Payments for purchase of investment securities	(0)	(0)
Proceeds from sales of investment securities	0	14
Proceeds from redemption of investment securities	50	24
Payments for loans	(51)	(20)
Proceeds from recovery of loans	5	10
Other	(32)	52
Net cash provided by (used in) investing activities	(4,579)	(3,617)
Cash flows from financing activities:		
Increase (decrease) in short-term loans, net	—	4,000
Purchase of treasury shares	(193)	(20)
Cash dividends paid	(629)	(620)
Cash dividends paid to non-controlling interests	(2)	(2)
Other	(8)	(6)
Net cash provided by (used in) financing activities	(833)	3,350
Effect of exchange rate changes on cash and cash equivalents	(36)	(133)
Net increase (decrease) in cash and cash equivalents	(958)	3,602
Cash and cash equivalents of beginning of year	9,792	8,834
Cash and cash equivalents of end of year	¥ 8,834	¥ 12,436

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, 2021 (4 for 2020). The consolidated financial statements in the fiscal year ended March 31, 2021 include the accounts of the Company and 4 (4 for 2020) of its subsidiaries (the “Companies”), which are listed below:

•Kawanakajima Tochi Kaihatsu Co., Ltd.	91.7% owned
•Solomon Kitano Mendana Hotel Limited.	100.0% owned
•Sakura Hanoi Plaza Investment Co., Ltd.	99.5% owned
•Asahi Agency Inc.	59.5% owned

The above consolidated subsidiaries, except for Solomon Kitano Mendana Hotel Limited and Sakura Hanoi Plaza Investment Co., Ltd., which have 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.

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 non-controlling interests is charged to non-controlling interests.

(b) 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.

(c) 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.

(d) Depreciation

Depreciation is computed by the declining-balance method; provided however, buildings (excluding leasehold improvements and auxiliary facilities attached to buildings), facilities attached to buildings and structures acquired on or after April 1, 2016 and real estate for leasing are depreciated by the straight-line method at rates based on the estimated useful lives of the assets, as prescribed by Japanese income tax laws. The range of useful lives is principally from 2 to 50 years for buildings and structures and from 2 to 17 years for machinery and equipment.

(e) 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.

(f) Accrued warranty

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

(g) Accrued bonuses to employees

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

(h) 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.

(i) Reserve for retirement benefits to employees

The Company recognizes 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.

(j) Allowance for losses on construction contracts

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

(k) Allowance for loss on reconstruction of company buildings

A reasonably estimated allowance is provided for future loss on reconstruction of the Company's head office.

(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: (1) the fair value is available and (2) the fair value is not available.

(1) 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.

(2) 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. Evaluation of effectiveness has been omitted for forward exchange contracts because these are expected to completely offset cash-flow fluctuations resulting from exchange rate fluctuations as the hedging instrument and the hedged item are in the same currency.

(p) Reclassification of accounts

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

Significant accounting estimates

• Estimate of percentage of completion

a. Amount recorded in the consolidated financial statements for the fiscal year ended March 31, 2021
Construction contracts.....¥71,257 million

b. Information on details of significant accounting estimates for identified items

The Company applies the percentage-of-completion method for construction contracts for which the percentage of completion by the end of the fiscal year can be reliably estimated, and adopts the cost-to-cost method to estimate the percentage of completion.

The percentage of completion is calculated based on what percentage of total construction work costs have been expended in the work performed up to the fiscal year closing date. The total construction work costs is the estimated amount based on the information available as of the fiscal year closing date. However, given the variability arising from the various factors of uncertainty, such as future additions or alterations to contracts, changes in prices of materials, wages, etc., and weather, the actual final total cost of construction work may be different from the estimate.

Changes in accounting policies

(New Accounting Standards Not Yet Applied)

- "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020, Accounting Standards Board of Japan)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 26, 2021, Accounting Standards Board of Japan)
- "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, March 31, 2020, Accounting Standards Board of Japan)

a. Overview

The International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) jointly developed comprehensive accounting standards for revenue recognition and issued “Revenue from Contracts with Customers” in May 2014 (IASB’s IFRS 15 and FASB’s Topic 606). Considering that IFRS 15 shall apply to fiscal years beginning on or after January 1, 2018, and Topic 606 shall apply to fiscal years beginning after December 15, 2017, the ASBJ developed a comprehensive accounting standard for revenue recognition and thus issued the accounting standard together with the implementation guidance.

The ASBJ established the accounting standard for revenue recognition by determining the basic policies for developing it based on the following. Firstly, ASBJ incorporated the basic principle of IFRS 15 as the starting point from the perspective to ensure consistency with IFRS 15 and thereby facilitate comparability among financial statements as one of benefits. Secondly, to an extent that it does not impair comparability, ASBJ shall add alternative treatments for items warranting consideration of conventional practice in Japan.

b. Scheduled date of application

ASBJ statements and accompanying guidances will be applied at the start of the fiscal year beginning on April 1, 2021.

c. Effects of application of the accounting standards

The impact of the application of the Accounting Standard for Revenue Recognition and the other above on the consolidated financial statements is currently under evaluation.

- “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019, Accounting Standards Board of Japan)
- “Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9, July 4, 2019, Accounting Standards Board of Japan)
- “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019, Accounting Standards Board of Japan)
- “Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, July 4, 2019, Accounting Standards Board of Japan)
- “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, March 31, 2020, Accounting Standards Board of Japan)

a. Overview

In light of the situation in which the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) have established detailed guidance on fair value measurement with almost the same content (IFRS 13 “Fair Value Measurement” in International Financial Reporting Standards (IFRS), and Accounting Standards Codification Topic 820 “Fair Value Measurement” in the US GAAP), the Accounting Standards Board of Japan (ASBJ) worked to ensure consistency of the Japanese GAAP with international accounting standards mainly for guidance and disclosures on fair value of financial instruments and published “Accounting Standard for Fair Value Measurement” and others.

The ASBJ’s basic policy for the development of the accounting standard for fair value measurement is to incorporate basically all the provisions of IFRS 13 from the perspective of increasing comparability of financial statements among companies in Japan and overseas by using the unified measurement method, and to establish other treatments of individual items to the extent that consideration is given to practices, etc. that have been conducted to date in Japan and comparability among financial statements is not undermined largely.

b. Scheduled date of application

ASBJ statements and accompanying guidances will be applied at the start of the fiscal year beginning on April 1, 2021.

c. Effects of application of the accounting standards

The effects of the application of the Accounting Standard for Fair Value Measurement, etc. on the consolidated financial statements are yet to be determined at this time.

Changes in presentation

- Application of “Accounting Standard for Disclosure of Accounting Estimates”

The Company applies “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, March 31, 2020) from the consolidated financial statements for the fiscal year ended March 31, 2021, and presents notes to significant accounting estimates in the consolidated financial statements.

Such notes are not presented in content for the previous fiscal year in accordance with the transitional treatment set forth in the proviso of paragraph 11 of the aforementioned accounting standard.

3. Notes to Consolidated Balance Sheets

	Millions of yen	
	March 31,	
	2020	2021
(1) Items relating to non-consolidated subsidiaries and associates		
Investment securities	¥ 23	¥ 23
(2) Inventories		
Materials and supplies	54	48
Merchandise	5	4
(3) The guarantee of housing construction flaw security		
Securities	24	16
Investment securities	84	68
(4) Assets pledged as collateral and secured liabilities		
Assets pledged as collateral		
Land	—	1,160
Buildings	—	394
Secured liabilities		
Short-term borrowings	—	2,000

4. Notes to Consolidated Statements of Income

	Millions of yen	
	for the year ended March 31,	
	2020	2021
(1) Write-down of inventories included in cost of sales on real estate development and other	¥ 6	¥ 15
(2) The major components of “Selling, general and administrative expenses”		
Payroll	1,521	1,384
Retirement benefit expenses	47	61
Allowance for accrued bonuses	135	145
Provision of allowance for doubtful accounts	2	(1)
Depreciation	366	372

5. Notes to Consolidated Statements 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,	
	2020	2021
Net unrealized gain (loss) on other securities, net of taxes		
Gains (losses) arising during the year	¥ (788)	¥ 1,205
Reclassification adjustments	2	9
Total before tax effect	(786)	1,215
Tax effect	231	(362)
Net unrealized gain (loss) on other securities, net of taxes ..	(554)	852
Deferred gain (loss) on hedging derivatives, net of taxes		
Gains (losses) arising during the year	¥ (36)	¥ 61
Tax effect	11	(18)
Deferred gain (loss) on hedging derivatives, net of taxes	(25)	42
Foreign currency translation adjustment		
Gains (losses) arising during the year	¥ (42)	¥ (140)
Remeasurements of defined benefit plans, net of tax		
Gains (losses) arising during the year	¥ (168)	¥ 280
Reclassification adjustments	(8)	29
Amount before income tax effect	(176)	309
Income tax effect	53	(94)
Remeasurements of defined benefit plans, net of tax	(123)	215
Total other comprehensive income	¥ (746)	¥ 970

6. Notes to Consolidated Statements of Changes in Equity

(a) Type and number of outstanding shares

March 31, 2020

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	6,836,853	—	—	6,836,853
Total	6,836,853	—	—	6,836,853
Treasury shares				
Common stock	544,279	80,150	—	624,429
Total	544,279	80,150	—	624,429

The summary of the main change reason

Increase by the acquisition of treasury shares	
by a resolution of the Board of Directors.....	79,400 shares
Increase by the repurchase of shares less than one unit	750 shares

March 31, 2021

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	6,836,853	—	—	6,836,853
Total	6,836,853	—	—	6,836,853
Treasury shares				
Common stock	624,429	7,619	—	632,048
Total	624,429	7,619	—	632,048

The summary of the main change reason

Increase by the repurchase of shares less than one unit	7,619 shares
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(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)	Shareholders' cut-off date	Effective date
June 26, 2020	Annual general meeting of shareholders	Common stock	621,242	Retained earnings	100.0	March 31, 2020	June 29, 2020

(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)	Shareholders' cut-off date	Effective date
June 24, 2021	Annual general meeting of shareholders	Common stock	682,528	Retained earnings	110.0	March 31, 2021	June 25, 2021

7. Notes to Consolidated Statements of Cash Flows

	Millions of yen	
	March 31,	
	2020	2021
Cash in hand and in banks	¥ 9,425	¥ 12,998
Time deposits with a deposit term of over 3 months	(591)	(561)
Cash and cash equivalents	¥ 8,834	¥ 12,436

8. Fair Value of Financial Instruments

The fair values and book values of financial instruments as of March 31, 2020 and March 31, 2021, other than items of which fair value are not practically available, are as follows:

	Millions of yen		
	March 31, 2020		
	Book value	Fair value	Difference
Cash in hand and in banks	¥ 9,425	¥ 9,425	¥ —
Notes and accounts receivable	14,753	14,753	—
Securities and investment securities	4,005	4,005	—
Total	¥ 28,185	¥ 28,185	¥ —
Notes and accounts payable	¥ 12,979	¥ 12,979	¥ —
Total	¥ 12,979	¥ 12,979	¥ —
Derivative transactions	¥ (25)	¥ (25)	¥ —

	Millions of yen		
	March 31, 2021		
	Book value	Fair value	Difference
Cash in hand and in banks	¥ 12,998	¥ 12,998	¥ —
Notes and accounts receivable	18,975	18,975	—
Securities and investment securities	5,190	5,190	—
Total	¥ 37,164	¥ 37,164	¥ —
Notes and accounts payable	¥ 11,094	¥ 11,094	¥ —
Electronically recorded obligations			
- operating	6,773	6,773	—
Short-term borrowings	4,000	4,000	—
Total	¥ 21,868	¥ 21,868	¥ —
Derivative transactions	¥ 24	¥ 24	¥ —

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

	Millions of yen	
	March 31, 2020	March 31, 2021
	Book value	Book value
Non-listed shares *	¥ 1,552	¥ 1,554
Membership deposit *	1,950	1,836

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

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

Millions of yen								
March 31, 2020								
		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 in hand and in banks	¥	9,425	¥	—	¥	—	¥	—
Notes and accounts receivable.....		14,753		—		—		—
Securities and investment securities								
Government bonds.....		24		50		34		—
Corporate bonds.....		—		—		50		—
Millions of yen								
March 31, 2021								
		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 in hand and in banks	¥	12,998	¥	—	¥	—	¥	—
Notes and accounts receivable.....		18,975		—		—		—
Securities and investment securities								
Government bonds.....		16		57		11		—
Corporate bonds.....		—		—		50		—

9. Investment Securities

The following tables summarize the acquisition cost and book value of available-for-sale securities with market value as of March 31, 2020 and 2021:

	Millions of yen		
	March 31, 2020		
	Book value	Acquisition cost	Difference
Securities with book value exceeding acquisition cost:			
Equity securities	¥ 2,835	¥ 1,194	¥ 1,640
Government bonds	108	106	2
Corporate bonds	—	—	—
Sub-total	¥ 2,943	¥ 1,301	¥ 1,642
Securities with book value not exceeding acquisition cost:			
Equity securities	¥ 1,011	¥ 1,087	¥ (76)
Government bonds	—	—	—
Corporate bonds	49	51	(1)
Sub-total	1,061	1,139	(77)
Total	¥ 4,005	¥ 2,440	¥ 1,565

	Millions of yen		
	March 31, 2021		
	Book value	Acquisition cost	Difference
Securities with book value exceeding acquisition cost:			
Equity securities	¥ 5,039	¥ 2,254	¥ 2,784
Government bonds	84	82	1
Corporate bonds	—	—	—
Sub-total	¥ 5,123	¥ 2,337	¥ 2,786
Securities with book value not exceeding acquisition cost:			
Equity securities	¥ 16	¥ 23	¥ (7)
Government bonds	—	—	—
Corporate bonds	50	51	(1)
Sub-total	66	75	(8)
Total	¥ 5,190	¥ 2,412	¥ 2,778

10. Reserve for Retirement Benefits to Employees

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

Defined benefit plans

(a) Movements in retirement benefit obligations (except (c) below)

	Millions of yen
Balance at April 1, 2020.....	¥ 2,326
Service cost.....	159
Interest cost.....	11
Actuarial loss (gain)	(96)
Benefits paid.....	(291)
Balance at March 31, 2021	¥ 2,109

(b) Movements in plan assets (except (c) below)

	Millions of yen
Balance at April 1, 2020.....	¥ 2,895
Expected return on plan assets.....	57
Actuarial loss (gain)	183
Contributions paid by the employer.....	186
Benefits paid.....	(291)
Balance at March 31, 2021	¥ 3,033

(c) Movements in net defined benefit liability based on the simplified method

	Millions of yen
Balance at April 1, 2020.....	¥ 60
Retirement benefit costs.....	3
Benefits paid.....	(4)
Balance at March 31, 2021	¥ 60

(d) Reconciliation between net defined benefit obligations and plan assets, and net defined benefit liability and net defined benefit asset

	Millions of yen
Funded retirement benefit obligations	¥ 2,118
Plan assets	(3,033)
	(914)
Unfunded retirement benefit obligations	51
Total net defined benefit liability (asset) at March 31, 2021	(863)
Net defined benefit liability	60
Net defined benefit asset	(923)
Total net defined benefit liability (asset) at March 31, 2021	¥ (863)

(e) Retirement benefit costs

	Millions of yen
Service cost.....	¥ 159
Interest cost.....	11
Expected return on plan assets.....	(57)
Net actuarial loss amortizations.....	29
Past service cost amortization.....	—
Retirement benefit costs calculated by simplified method.....	3
Total retirement benefit costs for the year ended March 31, 2021.....	¥ 146

(f) Remeasurements of defined benefit plans, before tax

	Millions of yen
Past service cost.....	¥ —
Actuarial gains / losses.....	309
Total.....	¥ 309

(g) Breakdown of items recognized in accumulated other comprehensive income

	Millions of yen
Unrealized past service cost.....	¥ —
Unrecognized actuarial differences.....	(178)
Total.....	¥ (178)

(h) Plan assets

Bonds.....	23%
Securities.....	16%
General accounts.....	44%
Other.....	17%
Total.....	100%

(i) Long-term expected rate of return

Current and target asset allocations as well as historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

(j) Actuarial assumptions

Discount rate.....	0.5%
Rate of expected return on plan assets.....	2.0%

(k) Defined contribution plans

Amount of contributions to defined contribution plans by the Company and its subsidiaries was ¥50 million.

11. Income Taxes

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

	Millions of yen	
	March 31,	
	2020	2021
Deferred tax assets:		
Write-down of fixed assets.....	¥ 738	¥ 728
Allowance for doubtful accounts.....	26	24
Write-down of marketable securities.....	159	158
Intercompany profits.....	189	176
Loss on valuation of real estate for sale.....	318	307
Deferred gains (loss) on hedging derivatives.....	11	—
Operating tax loss carry forwards (Note).....	62	155
Net defined benefit liability.....	11	11
Other.....	522	709
Total gross deferred tax assets.....	2,039	2,272
Valuation allowance related to operating tax loss carry forwards (Note).....	(25)	(136)
Valuation allowance related to total deductible temporary differences, etc.....	(1,377)	(1,357)
Total valuation allowance.....	(1,403)	(1,493)
	636	779
Deferred tax liabilities:		
Net defined benefit asset.....	(173)	(281)
Reserve for advanced depreciation.....	(87)	(87)
Reserve for special depreciation.....	(23)	—
Unrealized gain (loss) on other securities.....	(464)	(826)
Deferred gain (loss) on hedging derivatives.....	—	(7)
Difference from fair value of subsidiaries.....	(585)	(546)
Total gross deferred tax liabilities.....	(1,335)	(1,749)
Net deferred tax assets (liabilities).....	¥ (698)	¥ (970)

(Note) Amount of operating tax loss carry forwards and its deferred tax assets by carryforward period

	Millions of yen			
	March 31, 2021			
	Due 1 year or less	Due after 1 year through 5 years	Due after 5 years	Total
Operating tax loss carry forwards (*1).....	¥ 26	¥ 129	¥ —	¥ 155
Valuation allowance.....	(7)	(129)	—	(136)
Deferred tax assets.....	18	—	—	*2 18

*1 The amount of operating tax loss carry forwards is multiplied by statutory tax rate.

*2 The recoverability of deferred tax assets related to operating tax loss carry forwards is calculated to the extent that is expected to be recoverable by using the estimated amount of future taxable profit based on the current business prospect of each company.

(b) The reconciliation between the statutory tax rate and the effective tax rate as at March 31, 2020 and 2021 is presented below:

	As of March 31,	
	2020	2021
Statutory tax rate.....	30.4%	30.4%
Permanent differences on expenses not deductible.....	0.9	0.8
Permanent differences on income not taxable.....	(0.3)	(0.3)
Accrued bonuses to directors and statutory auditors not deductible.....	0.4	0.5
Inhabitant taxes per capita.....	0.7	0.7
Valuation allowance.....	(0.7)	4.6
Other.....	0.8	1.8
Effective tax rate.....	32.2%	38.5%

12. Segment Information

- (a) The Company and its subsidiaries operate principally in the following 4 industrial segments:
 Construction..... Construction, engineering works, development and solar power generation.
 Golf courses..... Management of golf courses
 Hotels..... Management of hotels
 Advertising agent Management of advertising agent

- (b) The segment information of the Company and its subsidiaries for the years ended March 31, 2020 and 2021 is presented below:

Millions of yen								
2020								
	Construction	Golf courses	Hotels	Advertising agent	Total	Reconciliations	Consolidated	
I . Net sales and operating income								
Net sales								
Customers	¥ 58,233	¥ 234	¥ 2,028	¥ 1,454	¥ 61,951	¥ —	¥ 61,951	
Intersegment or transfer	1	4	2	74	82	(82)	—	
Total	58,234	239	2,031	1,529	62,034	(82)	61,951	
Operating income	¥ 2,905	¥ 6	¥ 55	¥ 48	¥ 3,016	¥ 27	¥ 3,043	
II . Other								
Depreciation	320	32	357	15	726	(27)	698	

Millions of yen								
2021								
	Construction	Golf courses	Hotels	Advertising agent	Total	Reconciliations	Consolidated	
I . Net sales and operating income								
Net sales								
Customers	¥ 73,244	¥ 206	¥ 606	¥ 1,208	¥ 75,265	¥ —	¥ 75,265	
Intersegment or transfer	1	4	0	53	58	(58)	—	
Total	73,245	210	606	1,262	75,324	(58)	75,265	
Operating income	¥ 3,382	¥ 1	¥ (672)	¥ 32	¥ 2,743	¥ 27	¥ 2,770	
II . Other								
Depreciation	341	28	345	13	729	(27)	702	

13. Per Share Data

Net assets per share and earnings per share for the years ended March 31, 2020 and 2021 are as follows:

	Yen	
	2020	2021
Net assets per share	¥ 5,435.92	¥ 5,786.54
Earnings per share – primary.....	343.92	290.71

1. Basis of net income per share of common stock for the years ended March 31, 2020 and 2021 is as follows:

	Millions of yen	
	2020	2021
Profit attributable to owners of parent.....	¥ 2,152	¥ 1,804
Profit pertaining to common stock	¥ 2,152	¥ 1,804
Average outstanding shares of common stock.....	6,259 thousand shares	6,207 thousand shares

2. Basis of net assets per share of common stock as of March 31, 2020 and 2021 is as follows:

	Millions of yen	
	2020	2021
Net assets.....	¥ 34,260	¥ 36,403
Amounts deducted from net assets.....	490	498
Non-controlling interests.....	490	498
Net assets applicable to common stock	33,770	35,904
Number of shares of common stock at end of year	6,212 thousand shares	6,204 thousand shares

Board of Directors, Statutory Auditors and Executive Officers

Board of Directors

Chairman and President, Representative Director

Takahiro Kitano

Directors

Yoshikatsu Yamazaki

Zentaro Ozawa

Outside Directors

Yoshinori Uda

Fumiko Yazaki

Statutory Auditors

Permanent Auditor

Noboru Takizawa

Outside Auditors

Yoshichika Owa

Nobuyoshi Sakai

Takashi Nishida

Executive Officers

President and Executive Officer

Takahiro Kitano *

Senior Executive Officer

Yoshikatsu Yamazaki *

Managing Executive Officer

Zentaro Ozawa *

Executive Officers

Shuichi Moriyasu

Satoshi Kubo

Mitsuya Minamisawa

Kenji Yamanaka

Shinichi Kitamura

Masakatsu Kobayashi

Yoshikazu Tsukada

Tomonari Iwanami

Yuzuru Maruyama

Sadao Sugimura

* : Member of Board of Directors

KITANO
CONSTRUCTION CORP.