

2014

FINANCIAL STATEMENTS

MARCH 31, 2013-2014

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Consolidated Balance Sheets

As of March 31, 2013 and 2014

	Millions of yen	
	March 31,	
	2013	2014
ASSETS		
Current Assets:		
Cash in hand and in banks	¥ 6,625	¥ 7,815
Notes and accounts receivable	13,619	15,721
Real estate for sale	6,126	8,256
Cost of construction in progress	1,746	959
Cost of uncompleted development projects	3,192	2,496
Inventories - materials and supplies	55	81
Deferred income taxes.....	1,278	1,164
Other current assets.....	697	728
Less: allowance for doubtful accounts	(78)	(75)
Total current assets	33,259	37,145
Non-current Assets:		
Tangible Fixed Assets:		
Buildings and structures.....	7,931	10,858
Machinery and equipment	529	2,504
Golf course	771	771
Land.....	7,305	6,786
Construction in progress	1	—
Other non-current assets	1,752	2,717
Less: accumulated depreciation	(5,953)	(9,144)
Total tangible fixed assets	12,336	14,493
Intangible fixed assets	54	239
Investments:		
Investments in securities.....	4,799	4,830
Long-term loans	2,533	26
Deferred income taxes.....	456	589
Other investments	1,318	1,390
Less: allowance for doubtful accounts	(1,051)	(33)
Total investments	8,055	6,801
Total noncurrent assets	20,445	21,533
Total assets	¥ 53,704	¥ 58,679

The accompanying notes are an integral part of these statements.

Consolidated Balance Sheets

As of March 31, 2013 and 2014

	Millions of yen	
	March 31,	
	2013	2014
LIABILITIES		
Current Liabilities:		
Notes and accounts payable	¥ 19,598	¥ 16,775
Short-term loans payable.....	—	1,000
Current portion of long-term loans payable.....	—	4,097
Income taxes payable	483	478
Advances received on construction in progress	3,019	4,952
Advances received on development business	—	60
Accrued bonuses to employees	240	391
Accrued bonuses to directors and statutory auditors	30	36
Accrued warranty	47	33
Allowance for losses on construction contracts	256	89
Other current liabilities.....	942	1,535
Total current liabilities.....	24,615	29,447
Long-Term Liabilities:		
Long-term debt.....	4,000	51
Reserve for retirement benefits to employees.....	501	—
Net defined benefit liability	—	878
Membership deposit.....	2,897	2,762
Deferred income taxes.....	68	1,239
Negative goodwill.....	2	—
Other long-term debt.....	225	200
Total long-term liabilities.....	7,694	5,130
Total liabilities	32,309	34,577
NET ASSETS		
Shareholders' Equity		
Common stock.....	9,116	9,116
Authorized — 200,000,000 shares		
Issued — 68,368,532 shares as of March 31, 2013 and 2014		
Capital surplus.....	5,066	5,066
Retained earnings.....	7,255	9,161
Treasury stock	(1,264)	(1,269)
Total shareholders' equity	20,174	22,075
Accumulated Other Comprehensive Income		
Unrealized gain (loss) on other securities	784	828
Unrealized gain (loss) on hedging derivatives.....	8	3
Foreign currency translation adjustments	6	6
Remeasurements of defined benefit plans	—	(296)
Total accumulated other comprehensive income	797	542
Minority interests.....	424	1,485
Total net assets	21,396	24,102
Debt net assets sum total.....	¥ 53,704	¥ 58,679

The accompanying notes are an integral part of these statements.

Consolidated Statements of Operations

For the years ended March 31, 2013 and 2014

	Millions of yen	
	March 31,	
	2013	2014
Net Sales:		
Construction contracts	¥ 58,245	¥ 66,103
Real estate development and other.....	3,514	4,582
	61,759	70,685
Cost of Sales:		
Construction contracts	54,954	61,323
Real estate development and other.....	2,153	3,252
	57,107	64,575
Gross profit.....	4,652	6,109
Selling, General and Administrative Expenses.....	3,636	3,808
Operating income	1,015	2,301
Non-Operating Income (Losses):		
Interest and dividend income	160	149
Interest expenses.....	(117)	(107)
Foreign exchange gains (losses)	93	78
Equity in gains of affiliates	50	16
Other, net.....	124	126
	1,326	2,563
Special Items:		
Gain on sales of fixed assets	1	3
Gain on step acquisitions.....	—	20
Gain on bargain purchases.....	—	1,171
Loss on disposal of fixed assets	(7)	(12)
Loss on valuation of investment securities.....	(5)	(8)
Loss on valuation of shares of subsidiaries and associates	—	14
Impairment loss	(607)	—
Income before income taxes and minority interests	708	3,722
Income Taxes		
Current.....	484	690
Deferred.....	(267)	597
Income Before Minority Interests	491	2,435
Minority Interests in Earnings of Consolidated Subsidiaries	84	(32)
Net income	¥ 576	¥ 2,403

The accompanying notes are an integral part of these statements.

Consolidated Statements of Comprehensive Income
For the years ended March 31, 2013 and 2014

	Millions of yen	
	March 31,	
	2013	2014
Income Before Minority Interests	¥ 491	¥ 2,435
Other Comprehensive Income:		
Unrealized gain (loss) on other securities	544	45
Unrealized gain (loss) on hedging derivatives.....	8	(5)
Foreign currency translation adjustment.....	24	120
Share of other comprehensive income of associates accounted for using the equity method	(31)	(97)
Total other comprehensive income	544	63
Comprehensive Income	1,036	2,498
Comprehensive income attributable to:		
Shareholders of the Corporation.....	1,120	2,443
Minority Interests	(84)	55

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2013 and 2014

	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	Adjustments on foreign					Minority interests	Total net assets
						Unrealized gain on other securities	Unrealized gain on hedging derivatives	currency statements translation	Remeasurements of defined benefits plans			
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	62,240	9,116	5,066	7,255	(1,264)	784	8	6	—	424	21,396	
Net Gain for the year ended March 31, 2014	—	—	—	2,403	—	—	—	—	—	—	2,403	
Cash dividends	—	—	—	(497)	—	—	—	—	—	—	(497)	
Purchase of treasury stock	(24)	—	—	—	(6)	—	—	—	—	—	(6)	
Disposal of treasury stock	—	—	(0)	—	0	—	—	—	—	—	0	
Adjustment for the year ...	—	—	(0)	1,906	(5)	45	(5)	1	(296)	1,061	2,706	
Balance at March 31, 2014	<u>62,216</u>	<u>9,116</u>	<u>5,066</u>	<u>9,161</u>	<u>(1,269)</u>	<u>828</u>	<u>3</u>	<u>6</u>	<u>(296)</u>	<u>1,485</u>	<u>24,102</u>	

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

For the year ended March 31, 2013 and 2014

	Millions of yen	
	2013	2014
Cash flows from operating activities:		
Income before income taxes.....	¥ 708	¥ 3,722
Adjustments for:		
Depreciation.....	246	280
Impairment loss.....	607	—
Amortization of negative goodwill.....	(10)	(2)
Equity in (gains) losses of affiliates.....	(50)	(16)
Interest and dividend income.....	(160)	(149)
Interest expenses.....	117	107
Increase (decrease) in net defined benefit liability.....	—	(80)
(Gain) loss on sales of fixed assets.....	(1)	(3)
Loss on disposal of fixed assets.....	7	12
Foreign exchange (gains) losses.....	(50)	18
(Gain) Loss on evaluation of investment securities.....	5	8
Increase (decrease) in provision for directors' bonuses.....	(5)	7
Increase (Decrease) in reserve for retirement benefits to employees.....	(43)	—
Increase (Decrease) in accrued warranty.....	9	(13)
Increase (Decrease) in allowance for losses on construction contracts.....	203	(166)
Increase (Decrease) in accrued bonuses.....	(2)	151
Increase (Decrease) in allowance for doubtful accounts.....	(6)	(3)
Loss on valuation of shares of subsidiaries and associates.....	—	14
Gain on step acquisitions.....	—	(20)
Gain on bargain purchases.....	—	(1,171)
(Increase) Decrease in notes and accounts receivable.....	(1,090)	(2,034)
(Increase) Decrease in cost of construction in progress and cost of uncompleted development projects.....	(1,231)	1,483
(Increase) Decrease in real estate for sale and inventories.....	179	(2,130)
Increase (Decrease) in notes and accounts payable.....	3,894	(2,858)
Increase (Decrease) in advances received on construction in progress.....	(577)	1,933
Other.....	(372)	250
Sub-total.....	2,384	(662)
Interest and dividend income received.....	171	139
Interest expenses paid.....	(117)	(107)
Income taxes paid.....	(73)	(697)
Net cash provided by (used in) operating activities.....	2,365	(1,326)
Cash flows from investing activities:		
Payment for making time deposit.....	(420)	(522)
Proceeds from withdraw of time deposit.....	418	420
Payments for purchase of fixed assets.....	(139)	(915)
Proceeds from sale of fixed assets.....	1	1,320
Payments for purchase of investments in securities.....	(56)	(15)
Proceeds from repayment of investments in securities.....	50	—
Payments for loans.....	(84)	(33)
Proceeds from recovery of loans.....	200	38
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation.....	—	1,712
Other.....	(72)	(74)
Net cash provided by (used in) investing activities.....	(102)	1,933
Cash flows from financing activities:		
Increase (decrease) in short-term bank loans, net.....	—	(1,000)
Purchase of treasury stock.....	(903)	(5)
Cash dividends paid.....	(539)	(500)
Other.....	(8)	(11)
Net cash provided by (used in) financing activities.....	(1,450)	484
Effect of exchange rate changes on cash and cash equivalents.....	55	(1)
Net increase (decrease) in cash and cash equivalents.....	868	1,089
Cash and cash equivalents of beginning of year.....	5,537	6,404
Cash and cash equivalents of end of year.....	¥ 6,404	¥ 7,493

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, 2014 (3 for 2013). The consolidated financial statements in fiscal years ended March 31, 2014 include the accounts of the Company and 4 (3 for 2013) 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
•Sakura Hanoi Plaza Investment Co., Ltd.	56.50% owned
•Asahi Agency Inc.	59.52% 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.

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 17 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

(Application of the accounting standard, etc. for retirement benefits)

The Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012; hereinafter the "Accounting Standard") and the Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012; hereinafter the "Guidance") have been applied, effective from the end of the fiscal year, except for the provisions of Paragraph 35 of the Accounting Standard and Paragraph 67 of the Guidance. According to this application, an amount obtained by deducting the amount of plan assets from retirement benefit obligations is recognized as "Net defined benefit liability" (or "Net defined benefit asset" if the amount of plan assets exceeds the amount of retirement benefit obligations), and unrecognized actuarial differences and unrecognized past service costs are recognized as "Net defined benefit asset" or "Net defined benefit liability."

For the application of the Accounting Standard and the Guidance, the transitional treatment provided for in Paragraph 37 of the Accounting Standard is followed. Accordingly, the effect of this change is reflected in "Remeasurements of defined benefit plans" under "Accumulated other comprehensive income."

As a result, at the end of the fiscal year, net defined benefit liability of 878 million yen was reported, and there was a decrease of 296 million yen in accumulated other comprehensive income.

Net assets per share decreased by 4.75 yen.

(Unapplied accounting standards, etc.)

1. Accounting standard, etc. for retirement benefits

The Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012) and the Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012)

(1) Outline

Treatment method of unrecognized actuarial differences and unrecognized prior service costs, and calculation method and disclosure of net defined benefit liability and service costs were amended.

(2) Effective date

The new Accounting Standard and Guidance shall be applied effective from the beginning of the fiscal year ending March 31, 2015.

As transitional treatments are provided in these new standards, they were not applied retrospectively to consolidated financial statements in prior years.

(3) Impact of the application of the revised accounting standard and guidance

Amounts of the effect of this application were under evaluation at the time of preparing this report.

(Accounting standard, etc. for business combinations)

Revised Accounting Standard for Business Combinations (ASBJ Statement No. 21, September 13, 2013)

Revised Accounting Standard for Business Divestitures (ASBJ Statement No. 7, September 13, 2013)

Revised Accounting Standard for Earnings Per Share (ASBJ Statement No. 2, September 13, 2013)
 Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, September 13, 2013)
 Revised Guidance on Accounting Standard for Earnings Per Share (ASBJ Guidance No. 4, September 13, 2013)

(1) Outline

The major amendments are as follows:

This Accounting Standard was revised mainly with a focus on (i) the treatment of changes to a parent company's ownership of a subsidiary if control is maintained in the acquisition of additional shares of the subsidiary, etc. (ii) the treatment of acquisition-related costs, and (iii) the handling of tentative accounting treatment.

(2) Scheduled date of application

The revised Accounting Standard is scheduled to be applied from the beginning of the fiscal year ending March 31, 2016.

The handling of tentative accounting treatment is scheduled to be applied to business combinations carried out at or after the beginning of the fiscal year ending March 31, 2016.

(3) Effect of the application of the revised accounting standards and guidance

Amounts of the effect of this application were under assessment at the time of preparing this report.

3. Notes to the Consolidated Balance Sheets

	Millions of yen	
	March 31,	
	2013	2014
(1) Investments in unconsolidated subsidiaries and affiliates.....	¥ 19	¥ 4
(2) Assets pledged as collateral		
Buildings	314	300
Land	1,161	1,161
Real estate for sale.....	4,410	4,380
(3) The guarantee of housing construction flaw security		
Investment in securities	141	154

4. Notes to Consolidated Statements of Operations

	Millions of yen	
	for the year ended March 31,	
	2013	2014
(1) Allowance for loss on construction contract included in cost of sales of construction contracts.....	¥ 256	¥ 89
(2) Write-down of inventories included in cost of sales on real estate development and other	72	102
(3) The major components of "Selling, general and administrative expenses"		
Depreciation	208	238
Payroll	1,313	1,267
Allowance for accrued bonuses	112	173
(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,	
	2013	2014
Net unrealized gain (loss) on other securities, net of taxes		
Gains (losses) arising during the year	¥ 839	¥ 29
Reclassification adjustments.....	2	8
Total before tax effect	841	37
Tax effect	(298)	8
Net unrealized gain (loss) on other securities, net of taxes ..	544	45
Deferred gain (loss) on hedging, net of taxes		
Gains (losses) arising during the year	¥ 13	¥ (9)
Tax effect	(5)	3
Deferred gain (loss) on hedging, net of taxes.....	8	(5)
Foreign currency translation adjustments		
Gains (losses) arising during the year	¥ 24	¥ 120
Share of other comprehensive income of associates accounted for using equity method		
Gains (losses) arising during the year	¥ (31)	¥ (97)
Total other comprehensive income	¥ 544	¥ 63

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

(a) Type and number of outstanding 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

March 31, 2014

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	68,368,532	—	—	68,368,532
Total	68,368,532	—	—	68,368,532
Treasury stock				
Common stock	6,128,879	24,561	774	6,152,666
Total	6,128,879	24,561	774	6,152,666

The summary of the main change reason

Increase by the repurchase of shares less than one unit	24,561 shares
Decrease by the sale of shares less than one unit.....	774 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 21, 2013	Annual general meeting of shareholders	Common stock	499,131	Retained earnings	8	March 31, 2013	June 24, 2013

(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 20, 2014	Annual general meeting of shareholders	Common stock	561,309	Retained earnings	9	March 31, 2014	June 23, 2014

7. Notes to the Consolidated Statements of Cash Flows

	Millions of yen	
	March 31,	
	2013	2014
Cash in hand and in banks	¥ 6,625	¥ 7,815
Time deposits with a deposit term of over 3 months	(220)	(322)
Cash and cash equivalents	¥ 6,404	¥ 7,493

8. Fair Value of Financial Instruments

(a) The fair value and book value of financial instruments as of March 31, 2013 and March 31, 2014, other than items of which fair value are not practically available, are as follows:

	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	¥ —

	Millions of yen		
	March 31, 2014		
	Book value	Fair value	Difference
Cash and deposits	¥ 7,815	¥ 7,815	¥ —
Notes and accounts receivable	15,721	15,721	—
Investments in securities	3,784	3,784	—
Total	¥ 27,320	¥ 27,320	¥ —
Notes and accounts payable	¥ 16,775	¥ 16,775	¥ —
Short-term debt	¥ 1,000	¥ 1,000	¥ —
Long-term debt	4,148	4,148	—
Total	¥ 21,923	¥ 21,923	¥ —
Derivative transactions	¥ 4	¥ 4	¥ —

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

	Millions of yen	
	March 31, 2013	March 31, 2014
	Book value	Book value
Non-listed shares *	¥ 1,059	¥ 1,046
Membership deposit *	2,897	2,762

* 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, 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	—

	Millions of yen			
	March 31, 2014			
	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	¥ 7,770	¥ 2	¥ —	¥ —
Notes and accounts receivable	15,721	—	—	—
Investments in securities				
Government bonds	—	35	123	—
Corporate bonds	—	—	100	—

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

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	¥ —	¥ —	¥ —	—

Millions of yen						
March 31, 2014						
	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..	¥ 4,097	¥ 51	¥ —	¥ —	¥ —	—

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, 2013 and 2014:

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

Millions of yen				
March 31, 2014				
	Book value	Acquisition cost	Difference	
Securities with book value exceeding acquisition cost:				
Equity securities	¥ 3,501	¥ 2,257	¥	1,245
Government bonds	154	148		6
Corporate bonds	101	100		1
Sub-total	¥ 3,757	¥ 2,505	¥	1,252
Securities with book value not exceeding acquisition cost:				
Equity securities	¥ 27	¥ 29	¥	(2)
Sub-total	¥ 27	¥ 29	¥	(2)
Total	¥ 3,784	¥ 2,533	¥	1,251

(b) Impairment losses of ¥2 million and ¥8 million were recorded to write down book value of investments in securities for the years ended March 31, 2013 and 2014, 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

Millions of yen					
March 31, 2014					
Hedging method	Transaction type	Main hedged item	Contract amount	Contract over 1 year	Fair value
Deferred hedge method	Foreign exchange forward contract Buy U.S. dollar	Forecasted foreign currency transactions	¥ 87	¥ —	¥ 4

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,
	2013
Projected benefit obligations	¥ (3,671)
Plan assets	2,598
Unfunded benefit obligations.....	(1,072)
Unrecognized actuarial differences.....	624
Unrecognized prior service cost.....	(53)
Total.....	(501)
Prepaid pension costs	—
Reserve for retirement benefits to employees.....	¥ (501)

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

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

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

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

Defined benefit plans

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

Balance at April 1, 2013.....	¥ 3,590
Service cost.....	130
Interest cost.....	39
Actuarial loss (gain)	(68)
Benefits paid.....	(360)
Balance at March 31, 2014	¥ 3,331

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

Balance at April 1, 2013.....	¥ 2,571
Expected return on plan assets.....	51
Actuarial loss (gain)	22
Contributions paid by the employer.....	213
Benefits paid.....	(360)
Balance at March 31, 2014	¥ 2,498

- (c) Movements in net liability for retirement benefits based on the simplified method

Balance at April 1, 2013.....	¥ 54
Retirement benefit costs.....	8
Benefits paid.....	(16)
Balance at March 31, 2014	¥ 45

(d) Reconciliation from retirement benefit obligations and plan assets to liability for retirement benefits	
Funded retirement benefit obligations	¥ 3,373
Plan assets	(2,525)
	848
Unfunded retirement benefit obligations	30
Total net liability (asset) for retirement benefits at March 31, 2014	878
Asset for retirement benefits.....	878
Total net liability (asset) for retirement benefits at March 31, 2014.....	¥ 878
(e) Retirement benefit costs	
Service cost.....	¥ 130
Interest cost.....	39
Expected return on plan assets.....	(51)
Net actuarial loss amortizations	31
Past service cost amortization	(8)
Retirement benefit costs calculated by simplified method.....	8
Total retirement benefit costs for the year ended March 31, 2014.....	¥ 149
(f) Breakdown of items recognized in accumulated other comprehensive income	
Unrealized past service cost.....	¥ 503
Unrecognized actuarial differences.....	(45)
Total.....	¥ 457
(g) Plan assets	
Securities	23%
Bonds.....	21%
General accounts	48%
Other.....	8%
Total.....	100%
(h) Long-term expected rate of return	
Current and target asset allocations, historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return	
(i) Actuarial assumptions	
Discount rate	1.1%
Rate of expected return on plan assets.....	2.0%
(j) Defined contribution plans	
Amount of contributions to defined contribution plans by the Company and its subsidiaries was ¥48 million.	

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,	
	2013	2014
Deferred tax assets:		
Write-down of fixed assets	¥ 1,014	¥ 1,001
Allowance for doubtful accounts	829	820
Write-down of marketable securities.....	401	190
Intercompany profits.....	269	268
Loss on valuation of real estate for sale	857	837
Operating loss carry forwards	168	143
Other	851	896
Total gross deferred tax assets	4,389	4,156
Valuation allowance.....	(2,227)	(2,233)
	2,163	1,922
Deferred tax liabilities:		
Reserve for special depreciation	—	(195)
Reserve for advanced depreciation.....	(63)	(63)
Unrealized gain on other securities.....	(429)	(422)
Difference from fair value of subsidiaries.....	—	(727)
Deferred gains or losses on hedges.....	(5)	(1)
Total gross deferred tax liabilities	(497)	(1,408)
Net deferred tax assets.....	¥ 1,666	¥ 514

- (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,	
	2013	2014
Statutory tax rate.....	37.8%	37.8%
Permanent differences on expenses not deductible	5.1	0.9
Permanent differences on income not taxable	(1.9)	(0.4)
Accrued bonuses to directors and statutory auditors not deductible	1.9	0.3
Inhabitant taxes per capita.....	3.4	0.6
Valuation allowance	(13.5)	6.0
Influence by effective tariff change	—	1.8
Influence of future tax rate.....	(1.6)	—
Revision due to amortization of negative goodwill.....	—	(11.9)
Other.....	(0.6)	(0.5)
Effective tax rate.....	<u>30.6%</u>	<u>34.6%</u>

(Notes to business combinations, etc.)

(Business combination by means of acquisition)

1. Overview of the business combination

(1) Name of acquired company and description of the business acquired

Name of acquired company: Sakura Hanoi Plaza Investment Co., Ltd.

Description of the business acquired: Hotel business

(2) Major reason for the business combination

For efficient collection of accounts receivable from the said specified subsidiary.

(3) Date of the business combination

March 31, 2014

(4) Legal form of the business combination

Acquisition of shares

(5) Name of the company after the combination

Sakura Hanoi Plaza Investment Co., Ltd.

(6) Ratio of voting rights acquired

Ratio of voting rights prior to business combination: 37.5%

Ratio of voting rights acquired on the date of business combination: 19.0%

Ratio of voting rights after acquisition: 56.5%

2. The period for which results of the acquired company is included in the consolidated financial statements

As the fiscal year-end (March 31, 2014) was the date of acquisition, profit and loss of the acquired From March 1, 2014, to March 31, 2014

3. Acquisition costs of the business acquired and the details

Acquisition costs 3,255 million yen (32,550 common stock of MU Credit Guarantee)

4. Amount of negative goodwill generated and reasons thereof

(1) Amount of negative goodwill generated: 1,171 million yen

(2) Reasons for the generation of negative goodwill

Negative goodwill was generated due to the acquisition price of the shares of Sakura Hanoi Plaza Investment Co., Ltd. acquired by the Company was below the amount of net assets of the acquired company.

6. Assets received and liabilities undertaken on the date of the business combination and the breakdown (Millions of yen)

Current assets: 1,874 million yen

Non-current assets: 3,410 million yen

Total assets: 5,284 million yen

Current liabilities: 182 million yen

Non-current liabilities: 2,731 million yen

Total liabilities: 2,913 million yen

7. The estimated amounts of the impact of this business combination on the consolidated statement of income for the fiscal year on the assumption that the business combination was completed on the beginning date of the fiscal year, and method of calculation

(Millions of yen)

Net income: 1,031 million yen

Operating income: 142 million yen

Ordinary income: 884 million yen

Income before income taxes

and minority interests: 884 million yen

Net income: 833 million yen

Net income per share: 13.39 yen

(Method of calculation of the estimated amounts)

The difference between net sales and income (loss) calculated on the assumption that the business combination was completed on the beginning date of the fiscal year and the amounts of the corresponding accounts in the consolidated statement of income of the acquirer for the fiscal year are regarded as the estimated amounts of the impact of this business combination.

The above note information is not audited.

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, 2013 and 2014 is presented below:

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	

Millions of Yen								
March 31, 2014								
	Construction	Golf courses	Hotels	Advertising agent	Total	Reconciliations	Consolidated	
I. Net sales and Operating income								
Net sales								
Customers	¥ 68,295	¥ 243	¥ 674	¥ 1,473	¥ 70,685	¥ —	¥ 70,685	
Intersegment or transfer	196	3	3	88	290	(290)	—	
Total	68,491	246	677	1,561	70,974	(290)	70,685	
Operating income	¥ 2,191	¥ 9	¥ 67	¥ 52	¥ 2,319	¥ (17)	¥ 2,301	
II. Other								
Depreciation and amortization	190	22	62	7	281	(1)	280	

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	
	2013	2014
Net assets per share	¥ 336.95	¥ 363.52
Net income per share – primary	9.00	38.62

1. Basis of net income per share of common stock

	Millions of yen	
	2013	2014
Net income	¥ 576	¥ 2,403
Net income pertaining to common stock	¥ 576	¥ 2,403
Average outstanding shares of common stock	63,947 thousand shares	62,229 thousand shares

2. Basis of net assets per share of common stock

	Millions of Yen	
	2013	2014
Net assets	¥ 21,396	¥ 24,102
Amounts deducted from net assets	424	1,485
Minority interests	424	1,485
Net assets applicable to common stock	20,972	22,617
Number of shares of common stock at end of year	62,240 thousand shares	62,216 thousand shares

BOARD OF DIRECTORS, STATUTORY AUDITORS AND EXECUTIVE OFFICERS AS OF MARCH 31, 2014

Board of Directors

Chairman and President, Representative Director

Takahiro Kitano

Directors

Yoshikatsu Yamazaki

Zentaro Ozawa

Kimio Shiozawa

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 *

Senior Executive Officer

Yoshikatsu Yamazaki *

Managing Executive Officers

Itsuo Takeuchi

Zentaro Ozawa *

Executive Officers

Kiyoto Kitagawa

Shuichi Moriyasu

Yoshito Iwasaki

Atsushi Gomyo

Tsuneaki Yamada

Hironori Terashima

Masakatsu Kobayashi

Fumihiro Akiyama

Sadao Sugimura

Kiyonori Nakashima

* : Member of Board of Directors

KITANO
CONSTRUCTION CORP.