

2018

FINANCIAL STATEMENTS

MARCH 31, 2017-2018

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Consolidated Balance Sheets

As of March 31, 2017 and 2018

	Millions of yen	
	March 31,	
	2017	2018
ASSETS		
Current Assets:		
Cash in hand and in banks	¥ 15,111	¥ 8,977
Notes and accounts receivable	16,724	25,073
Securities	—	35
Real estate for sale	3,565	3,536
Cost of construction in progress	708	674
Cost of uncompleted development projects	41	41
Inventories	91	99
Deferred income taxes	510	441
Other current assets	1,260	2,514
Less: allowance for doubtful accounts	(51)	(41)
Total current assets	37,959	41,350
Non-current Assets:		
Tangible Fixed Assets:		
Buildings and structures	12,031	12,370
Machinery and equipment	2,840	2,767
Tools, furniture and fixtures	2,769	2,833
Golf course	771	771
Land	6,339	6,380
Construction in progress	10	0
Other non-current assets	47	43
Less: accumulated depreciation	(10,210)	(10,624)
Total tangible fixed assets	14,596	14,540
Intangible fixed assets	228	274
Investments:		
Investment securities	6,128	6,793
Long-term loans	25	23
Net defined benefit asset	—	288
Deferred income taxes	345	280
Other investments	1,375	1,400
Less: allowance for doubtful accounts	(32)	(33)
Total investments	7,841	8,751
Total non-current assets	22,665	23,565
Total assets	¥ 60,624	¥ 64,916

The accompanying notes are an integral part of these statements.

Consolidated Balance Sheets

As of March 31, 2017 and 2018

	Millions of yen	
	March 31,	
	2017	2018
LIABILITIES		
Current Liabilities:		
Notes and accounts payable	¥ 14,403	¥ 18,670
Income taxes payable	1,362	708
Advances received on construction in progress	6,572	5,392
Advances received on uncompleted development business	0	0
Accrued bonuses to employees	419	325
Accrued bonuses to directors and statutory auditors	47	48
Accrued warranty	67	87
Allowance for losses on construction contracts	83	—
Other current liabilities	1,680	1,650
Total current liabilities	<u>24,633</u>	<u>26,881</u>
Non-current Liabilities:		
Net defined benefit liability	47	78
Membership deposit	2,370	2,208
Deferred income taxes	1,634	1,710
Other non-current liabilities	194	215
Total non-current liabilities	<u>4,245</u>	<u>4,212</u>
Total liabilities	<u>28,878</u>	<u>31,092</u>
NET ASSETS		
Shareholders' Equity:		
Common stock	9,116	9,116
Authorized — 200,000,000 shares		
Issued — 68,368,532 shares as of March 31, 2017 and 2018		
Capital surplus	5,707	5,716
Retained earnings	15,686	18,526
Treasury shares	(1,266)	(2,260)
Total shareholders' equity	<u>29,243</u>	<u>31,098</u>
Accumulated Other Comprehensive Income:		
Unrealized gain (loss) on other securities	1,807	2,005
Deferred gain (loss) on hedging derivatives	9	(2)
Foreign currency translation adjustment	355	272
Remeasurements of defined benefit plans	(94)	(8)
Total accumulated other comprehensive income	<u>2,077</u>	<u>2,266</u>
Non-controlling interests	426	458
Total net assets	<u>31,746</u>	<u>33,823</u>
Total liabilities and net assets	<u>¥ 60,624</u>	<u>¥ 64,916</u>

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income
For the years ended March 31, 2017 and 2018

	Millions of yen	
	March 31,	
	2017	2018
Net Sales:		
Construction contracts	¥ 66,615	¥ 79,117
Real estate development and other.....	4,444	4,685
	71,058	83,802
Cost of Sales:		
Construction contracts	58,822	71,077
Real estate development and other.....	3,081	3,131
	61,903	74,208
Gross profit.....	9,155	9,594
Selling, General and Administrative Expenses.....	4,299	4,708
Operating income	4,857	4,886
Non-operating Income (Expenses):		
Interest and dividend income	131	129
Reversal of allowance for doubtful accounts	—	10
Interest expenses.....	(26)	(32)
Provision of allowance for doubtful accounts.....	(20)	—
Foreign exchange losses.....	(111)	(52)
Other, net.....	98	100
	4,928	5,041
Special Items:		
Gain on sales of non-current assets	210	4
Gain on sales of investment securities	34	9
Loss on disposal of non-current assets.....	(89)	(17)
Loss on valuation of investment securities.....	(0)	—
Other, net.....	0	—
Income before income taxes.....	5,083	5,037
Income Taxes:		
Current.....	1,729	1,440
Deferred.....	30	109
Profit.....	3,325	3,487
Profit attributable to non-controlling interests.....	3	25
Profit attributable to owners of parent.....	¥ 3,322	¥ 3,462

The accompanying notes are an integral part of these statements.

Consolidated Statements of Comprehensive Income
For the years ended March 31, 2017 and 2018

	Millions of yen	
	March 31,	
	2017	2018
Profit.....	¥ 3,325	¥ 3,487
Other Comprehensive Income:		
Unrealized gain (loss) on other securities	721	198
Deferred gain (loss) on hedging derivatives	8	(11)
Foreign currency translation adjustment.....	(117)	(84)
Remeasurements of defined benefit plans.....	122	86
Total other comprehensive income	734	189
Comprehensive Income	4,059	3,677
Comprehensive income attributable to:		
Owners of parent.....	4,114	3,652
Non-controlling interests.....	(55)	25

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Equity

For the years ended March 31, 2017 and 2018

	Millions of yen											
	Number of shares of common stock (thousands)	Shareholder's equity				Accumulated other comprehensive income						Total net assets
		Common stock	Capital surplus	Retained earnings	Treasury shares	Unrealized gain (loss) on other securities	Deferred gain (loss) on hedging derivatives	Foreign currency translation adjustment	Remeasurements		Non-controlling interests	
									of defined benefits plans			
Balance at March 31, 2016.....	68,369	9,116	5,502	12,986	(1,262)	1,085	1	415	(216)	775	28,402	
Dividends of surplus.....	—	—	—	(622)	—	—	—	—	—	—	(622)	
Profit attributable to owners of parent.....	—	—	—	3,322	—	—	—	—	—	—	3,322	
Purchase of treasury shares.....	—	—	—	—	(4)	—	—	—	—	—	(4)	
Change in treasury shares of parent arising from transactions with non-controlling interests.....	—	—	205	—	—	—	—	—	—	—	205	
Net changes of items other than shareholders' equity.....	—	—	—	—	—	722	8	(59)	122	(349)	443	
Total changes of items during period.....	—	—	205	2,700	(4)	722	8	(59)	122	(349)	3,344	
Balance at March 31, 2017.....	<u>68,369</u>	<u>9,116</u>	<u>5,707</u>	<u>15,686</u>	<u>(1,266)</u>	<u>1,807</u>	<u>9</u>	<u>355</u>	<u>(94)</u>	<u>426</u>	<u>31,746</u>	
Balance at March 31, 2017.....	68,369	9,116	5,707	15,686	(1,266)	1,807	9	355	(94)	426	31,746	
Dividends of surplus.....	—	—	—	(622)	—	—	—	—	—	—	(622)	
Profit attributable to owners of parent.....	—	—	—	3,462	—	—	—	—	—	—	3,462	
Purchase of treasury shares.....	—	—	—	—	(1,009)	—	—	—	—	—	(1,009)	
Disposal of treasury shares.....	—	—	9	—	15	—	—	—	—	—	24	
Net changes of items other than shareholders' equity.....	—	—	—	—	—	198	(11)	(83)	86	33	222	
Total changes of items during period.....	—	—	9	2,840	(994)	198	(11)	(83)	86	33	2,077	
Balance at March 31, 2018.....	<u>68,369</u>	<u>9,116</u>	<u>5,716</u>	<u>18,526</u>	<u>(2,260)</u>	<u>2,005</u>	<u>(2)</u>	<u>272</u>	<u>(8)</u>	<u>458</u>	<u>33,823</u>	

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

For the years ended March 31, 2017 and 2018

	Millions of yen	
	2017	2018
Cash flows from operating activities:		
Income before income taxes	¥ 5,083	¥ 5,037
Adjustments for:		
Depreciation	679	693
Interest and dividend income	(131)	(129)
Interest expenses	26	32
Foreign exchange (gains) losses.....	107	93
(Gain) loss on sales of investment securities.....	(34)	(9)
(Gain) loss on valuation of investment securities	0	—
(Gain) loss on sales of non-current assets.....	(210)	(4)
Loss on disposal of non-current assets	89	17
Increase (decrease) in net defined benefit asset and liability	(145)	(132)
Increase (decrease) in accrued warranty	26	20
Increase (decrease) in allowance for losses on construction contracts	83	(83)
Increase (decrease) in accrued bonuses to employees	108	(94)
Increase (decrease) in accrued bonuses to directors and statutory auditors	1	1
Increase (decrease) in allowance for doubtful accounts	(196)	(9)
(Increase) decrease in notes and accounts receivable.....	2,076	(8,351)
(Increase) decrease in cost of construction in progress and cost of uncompleted development projects	(358)	34
(Increase) decrease in real estate for sale and inventories.....	(5)	20
Increase (decrease) in other current assets.....	(301)	(1,185)
Increase (decrease) in notes and accounts payable	243	4,268
Increase (decrease) in advances received on construction in progress.....	2,174	(1,180)
Increase (decrease) in other current and non-current liabilities	(204)	(156)
Other.....	92	(43)
Sub-total	9,206	(1,160)
Interest and dividend income received.....	128	127
Interest expenses paid	(26)	(32)
Income taxes paid.....	(1,132)	(2,042)
Net cash provided by (used in) operating activities.....	8,176	(3,107)
Cash flows from investing activities:		
Payment into time deposit.....	(891)	(891)
Proceeds from withdrawal of time deposit	911	891
Payments for purchase of tangible fixed assets	(1,695)	(712)
Proceeds from sale of tangible fixed assets	295	5
Payments for purchase of intangible fixed assets	(33)	(78)
Payments for purchase of investment securities.....	(39)	(463)
Proceeds from sales of investment securities.....	37	21
Proceeds from redemption of investment securities	50	50
Payments for loans	(7)	(103)
Proceeds from recovery of loans	8	25
Other.....	(33)	(35)
Net cash provided by (used in) investing activities.....	(1,398)	(1,290)
Cash flows from financing activities:		
Purchase of treasury shares	(4)	(1,009)
Disposal of treasury shares	—	24
Cash dividends paid.....	(623)	(623)
Cash dividends paid to non-controlling interests.....	(2)	(2)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(87)	—
Other.....	(15)	(10)
Net cash provided by (used in) financing activities	(730)	(1,620)
Effect of exchange rate changes on cash and cash equivalents.....	(101)	(117)
Net increase (decrease) in cash and cash equivalents	5,947	(6,134)
Cash and cash equivalents of beginning of year.....	8,472	14,419
Cash and cash equivalents of end of year.....	¥ 14,419	¥ 8,285

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, 2018 (4 for 2017). The consolidated financial statements in fiscal years ended March 31, 2018 include the accounts of the Company and 4 (4 for 2017) 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) 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.

(l) 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.

(m) 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.

(n) 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.

(o) Reclassification of accounts

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

Changes in accounting policies

(New Accounting Standards Not Yet Applied)

- "Guidance on Accounting Standard for Tax Effect Accounting" (ASBJ Guidance No. 28, revised by the Accounting Standards Board of Japan on February 16, 2018)

- "Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, revised by the Accounting Standards Board of Japan on February 16, 2018)

a. Overview

When the practical guidelines on tax effect accounting issued by the Japanese Institute of Certified Public Accountants (JICPA) were transferred to the Accounting Standards Board of Japan (ASBJ), the ASBJ made necessary changes mentioned below to the practical guidelines while maintaining the basic framework and issued the "Guidance on Accounting Standard for Tax Effect Accounting" and the other above.

Major changes to accounting treatments

- Treatment of taxable temporary differences pertaining to shares of subsidiaries and associates in non-consolidated financial statements

- Treatment of recoverability of deferred tax assets for an entity classified as type 1

b. Scheduled date of application

The ASBJ guidance will be applied at the start of the fiscal year beginning on April 1, 2018.

c. Effects of application of the accounting standards

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

3. Notes to Consolidated Balance Sheets

	Millions of yen			
	March 31,			
	2017		2018	
(1) Items relating to non-consolidated subsidiaries and associates				
Investment securities	¥	5	¥	5
(2) Inventories				
Materials and supplies		81		91
Merchandise		10		8
(3) The guarantee of housing construction flaw security				
Securities.....		—		35
Investment securities		184		158

4. Notes to Consolidated Statements of Income

	Millions of yen			
	for the year ended March 31,			
	2017		2018	
(1) Allowance for losses on construction contracts included in cost of sales of construction contracts.....	¥	83	¥	—
(2) Write-down of inventories included in cost of sales on real estate development and other		2		29
(3) The major components of “Selling, general and administrative expenses”				
Payroll		1,534		1,606
Retirement benefit expenses.....		96		92
Allowance for accrued bonuses.....		190		145
Provision of allowance for doubtful accounts.....		(216)		10
Depreciation		357		362

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,	
	2017	2018
Net unrealized gain (loss) on other securities, net of taxes		
Gains (losses) arising during the year	¥ 1,018	¥ 287
Reclassification adjustments	—	—
Total before tax effect	1,018	287
Tax effect	(297)	(89)
Net unrealized gain (loss) on other securities, net of taxes ..	721	198
Deferred gain (loss) on hedging derivatives, net of taxes		
Gains (losses) arising during the year	¥ 11	¥ (15)
Tax effect	(3)	5
Deferred gain (loss) on hedging derivatives, net of taxes	8	(11)
Foreign currency translation adjustment		
Gains (losses) arising during the year	¥ (117)	¥ (84)
Remeasurements of defined benefit plans, net of tax		
Gains (losses) arising during the year	¥ 73	¥ 14
Reclassification adjustments	102	110
Amount before income tax effect	175	124
Income tax effect	(53)	(38)
Remeasurements of defined benefit plans, net of tax	122	86
Total other comprehensive income	¥ 734	¥ 189

6. Notes to Consolidated Statements of Changes in Equity

(a) Type and number of outstanding shares

March 31, 2017

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 shares				
Common stock	6,107,301	13,119	—	6,120,420
Total	6,107,301	13,119	—	6,120,420

The summary of the main change reason

Increase by the repurchase of shares less than one unit 13,119 shares

March 31, 2018

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 shares				
Common stock	6,120,420	2,360,859	65,472	8,415,807
Total	6,120,420	2,360,859	65,472	8,415,807

The summary of the main change reason

Increase by the acquisition of treasury shares
by a resolution of the Board of Directors..... 2,338,000 shares
Increase by the repurchase of shares less than one unit 22,859 shares
Decrease by the sales of treasury shares (the Company's shares)
by a consolidated subsidiary..... 65,472 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 23, 2017	Annual general meeting of shareholders	Common stock	623,135	Retained earnings	10.0	March 31, 2017	June 26, 2017

(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 22, 2018	Annual general meeting of shareholders	Common stock	599,527	Retained earnings	10.0	March 31, 2018	June 25, 2018

7. Notes to Consolidated Statements of Cash Flows

	Millions of yen	
	March 31,	
	2017	2018
Cash in hand and in banks.....	¥ 15,111	¥ 8,977
Time deposits with a deposit term of over 3 months.....	(692)	(692)
Cash and cash equivalents.....	¥ 14,419	¥ 8,285

8. Fair Value of Financial Instruments

The fair values and book values of financial instruments as of March 31, 2017 and March 31, 2018, other than items of which fair value are not practically available, are as follows:

	Millions of yen		
	March 31, 2017		
	Book value	Fair value	Difference
Cash in hand and in banks	¥ 15,111	¥ 15,111	¥ —
Notes and accounts receivable	16,724	16,724	—
Securities and investment securities	5,027	5,027	—
Total	¥ 36,862	¥ 36,862	¥ —
Notes and accounts payable	¥ 14,403	¥ 14,403	¥ —
Total	¥ 14,403	¥ 14,403	¥ —
Derivative transactions	¥ 13	¥ 13	¥ —

	Millions of yen		
	March 31, 2018		
	Book value	Fair value	Difference
Cash in hand and in banks	¥ 8,977	¥ 8,977	¥ —
Notes and accounts receivable	25,073	25,073	—
Securities and investment securities	5,333	5,333	—
Total	¥ 39,383	¥ 39,383	¥ —
Notes and accounts payable	¥ 18,670	¥ 18,670	¥ —
Total	¥ 18,670	¥ 18,670	¥ —
Derivative transactions	¥ (3)	¥ (3)	¥ —

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

	Millions of yen	
	March 31, 2017	March 31, 2018
	Book value	Book value
Non-listed shares *	¥ 1,102	¥ 1,495
Membership deposit *	2,370	2,208

* 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, 2017			
	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	¥ 15,111	¥ —	¥ —	¥ —
Notes and accounts receivable	16,724	—	—	—
Investment securities				
Government bonds	—	125	57	1
Corporate bonds	—	—	50	—

	Millions of yen			
	March 31, 2018			
	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	¥ 8,977	¥ —	¥ —	¥ —
Notes and accounts receivable	25,073	—	—	—
Securities and investment securities				
Government bonds	35	91	63	3
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, 2017 and 2018:

	Millions of yen		
	March 31, 2017		
	Book value	Acquisition cost	Difference
Securities with book value exceeding acquisition cost:			
Equity securities	¥ 4,793	¥ 2,282	¥ 2,511
Government bonds	184	177	7
Corporate bonds	50	50	0
Sub-total	¥ 5,027	¥ 2,509	¥ 2,518
Securities with book value not exceeding acquisition cost:			
Equity securities	¥ —	¥ —	¥ —
Government bonds	¥ —	¥ —	¥ —
Corporate bonds	¥ —	¥ —	¥ —
Sub-total	¥ —	¥ —	¥ —
Total	¥ 5,027	¥ 2,509	¥ 2,518

	Millions of yen		
	March 31, 2018		
	Book value	Acquisition cost	Difference
Securities with book value exceeding acquisition cost:			
Equity securities	¥ 5,068	¥ 2,260	¥ 2,808
Government bonds	187	181	6
Corporate bonds	¥ —	¥ —	¥ —
Sub-total	¥ 5,255	¥ 2,441	¥ 2,814
Securities with book value not exceeding acquisition cost:			
Equity securities	¥ 21	¥ 23	¥ (2)
Government bonds	6	6	(0)
Corporate bonds	51	52	(1)
Sub-total	¥ 78	¥ 81	¥ (3)
Total	¥ 5,333	¥ 2,522	¥ 2,811

10. Derivative transactions

Derivative transactions for which hedge accounting is applied.

Currency-related transaction

Hedging method	Transaction type	Main hedged item	Millions of yen		
			March 31, 2018		
			Contract amount	Contract over 1 year	Fair value
Deferred hedge method	Foreign exchange forward contract Buy U.S. dollar	Forecasted foreign currency transactions	¥ 111	¥ —	¥ (3)

11. 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)

Balance at April 1, 2017	¥	2,442
Service cost		156
Interest cost		12
Actuarial loss (gain)		20
Benefits paid		(212)
Balance at March 31, 2018	¥	2,418

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

Balance at April 1, 2017	¥	2,459
Expected return on plan assets		49
Actuarial loss (gain)		34
Contributions paid by the employer		376
Benefits paid		(212)
Balance at March 31, 2018	¥	2,706

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

Balance at April 1, 2017	¥	63
Retirement benefit costs		22
Benefits paid		(7)
Balance at March 31, 2018	¥	78

(d) Reconciliation from net defined benefit liability and plan assets to liability for retirement benefits

Funded retirement benefit obligations	¥	2,445
Plan assets		(2,724)
		(279)
Unfunded retirement benefit obligations		70
Total net defined benefit liability (asset) at March 31, 2018		(209)
Net defined benefit liability		78
Net defined benefit asset		(288)
Total net defined benefit liability (asset) at March 31, 2018	¥	(209)

(e) Retirement benefit costs		
Service cost.....	¥	156
Interest cost.....		12
Expected return on plan assets.....		(49)
Net actuarial loss amortizations.....		117
Past service cost amortization.....		(8)
Retirement benefit costs calculated by simplified method.....		22
Total retirement benefit costs for the year ended March 31, 2018.....	¥	250
(f) Remeasurements of defined benefit plans, before tax		
Past service cost.....	¥	(8)
Actuarial gains / losses.....		131
Total.....	¥	124
(g) Breakdown of items recognized in accumulated other comprehensive income		
Unrealized past service cost.....	¥	(15)
Unrecognized actuarial differences.....		27
Total.....	¥	12
(h) Plan assets		
Bonds.....		24%
Securities.....		21%
General accounts.....		46%
Other.....		9%
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 ¥52 million.		

12. 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,	
	2017	2018
Deferred tax assets:		
Write-down of fixed assets.....	¥ 747	¥ 750
Allowance for doubtful accounts.....	27	27
Write-down of marketable securities.....	156	163
Intercompany profits.....	228	215
Loss on valuation of real estate for sale.....	304	329
Deferred gains (loss) on hedging derivatives.....	—	1
Operating loss carry forwards.....	63	73
Net defined benefit liability.....	8	15
Other.....	669	608
Total gross deferred tax assets.....	2,202	2,180
Valuation allowance.....	(1,362)	(1,438)
	839	742
Deferred tax liabilities:		
Reserve for special depreciation.....	(96)	(72)
Reserve for advanced depreciation.....	(90)	(87)
Unrealized gain (loss) on other securities.....	(747)	(836)
Difference from fair value of subsidiaries.....	(681)	(648)
Deferred gains (loss) on hedging derivatives.....	(4)	—
Net defined benefit asset.....	—	(88)
Total gross deferred tax liabilities.....	(1,618)	(1,731)
Net deferred tax assets (liabilities).....	¥ (778)	¥ (989)

(b) The reconciliation between the statutory tax rate and the effective tax rate as at March 31, 2017 and 2018 is presented below:

	As of March 31,	
	2017	2018
Statutory tax rate.....	30.7%	—%
Permanent differences on expenses not deductible.....	0.6	—
Permanent differences on income not taxable.....	(0.2)	—
Accrued bonuses to directors and statutory auditors not deductible.....	0.3	—
Inhabitant taxes per capita.....	0.4	—
Valuation allowance.....	1.8	—
Other.....	1.0	—
Effective tax rate.....	34.6%	—%

(Note) In fiscal year 2018, since the difference between statutory effective tax rate and actual effective tax rate after applying tax effect accounting is less than 5% of statutory effective tax rate, note is omitted.

13. Segment Information

(a) The Company and its subsidiaries operate principally in the following 4 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

(b) The segment information of the Company and its subsidiaries for the years ended March 31, 2017 and 2018 is presented below:

Millions of Yen								
2017								
	Construction	Golf courses	Hotels	Advertising agent	Total	Reconciliations	Consolidated	
I . Net sales and operating income								
Net sales								
Customers	¥ 67,348	¥ 233	¥ 1,881	¥ 1,596	¥ 71,058	¥ —	¥ 71,058	
Intersegment or transfer	1	4	9	76	91	(91)	—	
Total	67,349	238	1,890	1,673	71,149	(91)	71,058	
Operating income	¥ 4,846	¥ (3)	¥ (67)	¥ 53	¥ 4,829	¥ 28	¥ 4,857	
II . Other								
Depreciation	280	39	379	9	707	(28)	679	

Millions of Yen								
2018								
	Construction	Golf courses	Hotels	Advertising agent	Total	Reconciliations	Consolidated	
I . Net sales and operating income								
Net sales								
Customers	¥ 79,797	¥ 241	¥ 2,225	¥ 1,540	¥ 83,802	¥ —	¥ 83,802	
Intersegment or transfer	65	5	2	108	180	(180)	—	
Total	79,861	246	2,227	1,648	83,982	(180)	83,802	
Operating income	¥ 4,678	¥ (1)	¥ 136	¥ 45	¥ 4,858	¥ 28	¥ 4,886	
II . Other								
Depreciation	280	42	388	12	721	(28)	693	

14. Per Share Data

Net assets per share and earnings per share as of and for the years ended March 31, 2017 and 2018 are as follows:

	Yen	
	2017	2018
Net assets per share	¥ 503.15	¥ 556.52
Earnings per share – primary.....	53.36	56.97

1. Basis of net income per share of common stock

	Millions of yen	
	2017	2018
Profit attributable to owners of parent.....	¥ 3,322	¥ 3,462
Profit pertaining to common stock	¥ 3,322	¥ 3,462
Average outstanding shares of common stock.....	62,255 thousand shares	60,774 thousand shares

2. Basis of net assets per share of common stock

	Millions of Yen	
	2017	2018
Net assets.....	¥ 31,746	¥ 33,823
Amounts deducted from net assets.....	426	458
Non-controlling interests.....	426	458
Net assets applicable to common stock	31,320	33,365
Number of shares of common stock at end of year	62,248 thousand shares	59,952 thousand shares

(Significant Events after Reporting Period)

(1) Change in number of shares per share unit and consolidation of shares

The Company resolved at the meeting of the Board of Directors held on May 14, 2018, to partially amend the Articles of Incorporation in relation to change in number of shares per share unit, and to refer the matter of a share consolidation to the 73rd annual general meeting of shareholders held on June 22, 2018, at which the consolidation was approved.

(i) Purposes of change in number of shares per share unit and consolidation of shares

Japanese stock exchanges have announced the “Action Plan for Consolidating Trading Units,” aiming to consolidate trading units for common stocks (number of shares per share unit) of all listed companies in Japan to 100 shares by October 1, 2018. The Company respects this initiative, and will change the number of shares per share unit from 1,000 to 100 shares, as well as consolidation of shares to one share for every ten shares currently issued, in order to maintain stable shareholding of the Company’s shares, and appropriately adjust the level of investment units, giving consideration to medium to long-term fluctuations in share price.

(ii) Details of change in number of shares per share unit

The Company will change the number of shares per share unit of common stocks from 1,000 shares to 100 shares.

(iii) Details of consolidation of shares

a) Details of consolidation of shares

Class of shares to be consolidated Common stocks

b) Method and ratio of consolidation of shares

Effective October 1, 2018, the Company will consolidate the shares at a ratio of 1 share per every 10 shares held by shareholders registered on the final shareholder register as of September 30, 2018.

c) Decrease in number of shares resulting from the consolidation of shares

Total number of issued stocks before the consolidation of shares (as of March 31, 2018)	68,368,532 shares
Decrease in number of shares resulting from the consolidation of shares	61,531,679 shares
Total number of issued stocks after the consolidation of shares	6,836,853 shares

(Note) The decrease in number of shares resulting from consolidation and the total number of issued stocks after consolidation are theoretical numbers calculated based on the total number of issued shares before consolidation and the share consolidation ratio.

d) Processing for fractional shares

If fractional shares arise as a result of the consolidation of shares, the Company will sell all such fractional shares and distribute the proceeds to shareholders having fractional shares in proportion to their respective fractions, in accordance with the provisions of the Companies Act.

e) Total number of issued stocks after the consolidation of shares

20,000,000 shares (200,000,000 shares before consolidation)

(iv) Schedule of change in number of shares per share unit and consolidation of shares

Date of resolution of the Board of Directors	May 14, 2018
Date of resolution of the general meeting of shareholders	June 22, 2018
Effective date of the change in number of shares per share unit and consolidation of shares	October 1, 2018

(v) Effect on per share data

If the consolidation of shares had hypothetically been carried out at the beginning of the current fiscal year, the per share data in the current fiscal year would be as shown below.

	For the year ended March 31, 2018
Net assets per share	¥ 5,565.19
Earnings per share	¥ 569.71

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

Toshiyuki Nishimura

Nobuyoshi Sakai

Executive Officers

President and Executive Officer

Takahiro Kitano *

Senior Executive Officer

Yoshikatsu Yamazaki *

Managing Executive Officers

Itsuo Takeuchi

Zentaro Ozawa *

Kiyoto Kitagawa

Executive Officers

Shuichi Moriyasu

Satoshi Kubo

Mitsuya Minamisawa

Kenji Yamanaka

Shinichi Kitmura

Masakatsu Kobayashi

Issei Mori

Atsushi Gomyo

Yoshikazu Tsukada

Tomonari Iwanami

Sadao Sugimura

* : Member of Board of Directors

KITANO
CONSTRUCTION CORP.