

# 2019

## FINANCIAL STATEMENTS

MARCH 31, 2018-2019

KITANO CONSTRUCTION CORP.

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## Consolidated Balance Sheets

### As of March 31, 2018 and 2019

	Millions of yen	
	March 31,	
	2018	2019
<b>ASSETS</b>		
Current Assets:		
Cash in hand and in banks .....	¥ 8,977	¥ 10,434
Notes and accounts receivable .....	25,073	18,805
Securities .....	35	50
Real estate for sale .....	3,535	3,477
Cost of construction in progress .....	674	611
Cost of uncompleted development projects .....	41	—
Inventories .....	99	81
Other current assets .....	2,514	2,142
Less: allowance for doubtful accounts .....	(40)	(31)
Total current assets .....	40,909	35,571
Non-current Assets:		
Tangible Fixed Assets:		
Buildings and structures .....	12,370	12,053
Machinery and equipment .....	2,767	2,732
Tools, furniture and fixtures .....	2,832	2,807
Golf course .....	770	770
Land .....	6,380	6,657
Construction in progress .....	0	81
Other non-current assets .....	43	46
Less: accumulated depreciation .....	(10,624)	(11,034)
Total tangible fixed assets .....	14,539	14,115
Intangible fixed assets .....	274	249
Investments:		
Investment securities .....	6,793	6,344
Long-term loans .....	23	19
Net defined benefit asset .....	287	537
Deferred tax assets .....	67	48
Other investments .....	1,400	1,569
Less: allowance for doubtful accounts .....	(33)	(33)
Total investments .....	8,538	8,486
Total non-current assets .....	23,352	22,851
Total assets .....	¥ 64,261	¥ 58,423

The accompanying notes are an integral part of these statements.

## Consolidated Balance Sheets

### As of March 31, 2018 and 2019

	Millions of yen	
	March 31,	
	2018	2019
<b>LIABILITIES</b>		
Current Liabilities:		
Notes and accounts payable .....	¥ 18,670	¥ 13,715
Income taxes payable .....	707	959
Advances received on construction in progress .....	5,391	4,900
Advances received on uncompleted development business .....	0	0
Accrued bonuses to employees .....	325	328
Accrued bonuses to directors and statutory auditors .....	47	49
Accrued warranty .....	87	88
Allowance for loss on reconstruction of company buildings .....	—	229
Other current liabilities.....	1,650	1,335
Total current liabilities.....	<u>26,880</u>	<u>21,607</u>
Non-current Liabilities:		
Net defined benefit liability.....	78	71
Membership deposit.....	2,208	2,060
Deferred tax liabilities .....	1,056	805
Other non-current liabilities.....	215	218
Total non-current liabilities.....	<u>3,557</u>	<u>3,155</u>
Total liabilities .....	<u>30,438</u>	<u>24,762</u>
<b>NET ASSETS</b>		
Shareholders' Equity:		
Common stock.....	9,116	9,116
Authorized — 20,000,000 shares		
Issued — 68,368,532 shares as of March 31, 2018 and 6,836,853 shares as of March 31, 2019		
Capital surplus .....	5,716	3,188
Retained earnings .....	18,525	20,677
Treasury shares.....	(2,260)	(1,725)
Total shareholders' equity .....	<u>31,098</u>	<u>31,257</u>
Accumulated Other Comprehensive Income:		
Unrealized gain (loss) on other securities .....	2,004	1,687
Deferred gain (loss) on hedging derivatives .....	(1)	—
Foreign currency translation adjustment.....	271	208
Remeasurements of defined benefit plans .....	(8)	31
Total accumulated other comprehensive income .....	<u>2,266</u>	<u>1,928</u>
Non-controlling interests.....	458	475
Total net assets .....	<u>33,823</u>	<u>33,660</u>
Total liabilities and net assets.....	<u>¥ 64,261</u>	<u>¥ 58,423</u>

The accompanying notes are an integral part of these statements.

**Consolidated Statements of Income**  
**For the years ended March 31, 2018 and 2019**

	Millions of yen	
	March 31,	
	2018	2019
Net Sales:		
Construction contracts .....	¥ 79,117	¥ 73,333
Real estate development and other.....	4,685	4,612
	83,802	77,945
Cost of Sales:		
Construction contracts .....	71,077	64,970
Real estate development and other.....	3,131	3,072
	74,208	68,042
Gross profit.....	9,594	9,903
Selling, General and Administrative Expenses.....	4,708	5,284
Operating income .....	4,885	4,618
Non-operating Income (Expenses):		
Interest and dividend income .....	129	155
Reversal of allowance for doubtful accounts .....	9	0
Interest expenses.....	(31)	(25)
Foreign exchange losses.....	(51)	(109)
Other, net.....	99	73
	5,040	4,712
Special Items:		
Gain on sales of non-current assets .....	4	2
Gain on sales of investment securities .....	8	—
Loss on disposal of non-current assets.....	(16)	(1)
Impairment loss .....	—	(217)
Provision for allowance for loss on reconstruction of company buildings.....	—	(229)
Other, net.....	—	(1)
Income before income taxes.....	5,036	4,265
Income Taxes:		
Current.....	1,440	1,593
Deferred.....	109	(98)
Profit.....	3,487	2,770
Profit attributable to non-controlling interests.....	24	19
Profit attributable to owners of parent.....	¥ 3,462	¥ 2,751

The accompanying notes are an integral part of these statements.

**Consolidated Statements of Comprehensive Income**  
**For the years ended March 31, 2018 and 2019**

	<b>Millions of yen</b>	
	<b>March 31,</b>	
	<b>2018</b>	<b>2019</b>
Profit.....	¥ 3,487	¥ 2,770
Other Comprehensive Income:		
Unrealized gain (loss) on other securities .....	197	(317)
Deferred gain (loss) on hedging derivatives .....	(10)	1
Foreign currency translation adjustment.....	(83)	(63)
Remeasurements of defined benefit plans.....	86	39
Total other comprehensive income .....	189	(338)
Comprehensive Income .....	3,676	2,432
Comprehensive income attributable to:		
Owners of parent.....	3,652	2,412
Non-controlling interests.....	24	19

The accompanying notes are an integral part of these statements.

## Consolidated Statements of Changes in Equity

### For the years ended March 31, 2018 and 2019

	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, 2017.....	68,368	9,116	5,707	15,685	(1,266)	1,806	8	355	(94)	425	31,745
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.....	—	—	—	—	—	197	(10)	(83)	86	32	222
Total changes of items during period.....	—	—	9	2,840	(994)	197	(10)	(83)	86	32	2,077
Balance at March 31, 2018.....	<u>68,368</u>	<u>9,116</u>	<u>5,716</u>	<u>18,525</u>	<u>(2,260)</u>	<u>2,004</u>	<u>(1)</u>	<u>271</u>	<u>(8)</u>	<u>458</u>	<u>33,823</u>
Balance at March 31, 2018.....	68,368	9,116	5,716	18,525	(2,260)	2,004	(1)	271	(8)	458	33,823
Dividends of surplus.....	—	—	—	(599)	—	—	—	—	—	—	(599)
Profit attributable to owners of parent.....	—	—	—	2,751	—	—	—	—	—	—	2,751
Purchase of treasury shares.....	—	—	—	—	(2,000)	—	—	—	—	—	(2,000)
Disposal of treasury shares.....	—	—	(2,527)	—	2,535	—	—	—	—	—	8
Net changes of items other than shareholders' equity.....	—	—	—	—	—	(317)	1	(62)	39	16	(321)
Total changes of items during period.....	—	—	(2,527)	2,151	535	(317)	1	(62)	39	16	(162)
Balance at March 31, 2019.....	<u>6,836</u>	<u>9,116</u>	<u>3,188</u>	<u>20,677</u>	<u>(1,725)</u>	<u>1,687</u>	<u>—</u>	<u>208</u>	<u>31</u>	<u>475</u>	<u>33,660</u>

The accompanying notes are an integral part of these statements.

## Consolidated Statements of Cash Flows

### For the years ended March 31, 2018 and 2019

	Millions of yen	
	2018	2019
Cash flows from operating activities:		
Income before income taxes .....	¥ 5,036	¥ 4,265
Adjustments for:		
Depreciation .....	693	696
Impairment loss.....	—	217
Interest and dividend income.....	(129)	(155)
Interest expenses .....	31	25
Foreign exchange (gains) losses.....	93	33
(Gain) loss on sales of investment securities.....	(8)	—
(Gain) loss on sales of non-current assets.....	(4)	(2)
Loss on disposal of non-current assets .....	16	1
Increase (decrease) in net defined benefit asset and liability .....	(132)	(215)
Increase (decrease) in accrued warranty .....	20	0
Increase (decrease) in allowance for losses on construction contracts .....	(83)	—
Increase (decrease) in accrued bonuses to employees .....	(94)	3
Increase (decrease) in accrued bonuses to directors and statutory auditors .....	1	1
Increase (decrease) in allowance for doubtful accounts .....	(9)	(9)
Increase (decrease) in allowance for loss on reconstruction of company buildings.....	—	229
(Increase) decrease in notes and accounts receivable.....	(8,351)	6,265
(Increase) decrease in cost of construction in progress and cost of uncompleted development projects .....	33	103
(Increase) decrease in real estate for sale and inventories.....	20	73
Increase (decrease) in other current assets.....	(1,185)	364
Increase (decrease) in notes and accounts payable .....	4,268	(4,953)
Increase (decrease) in advances received on construction in progress.....	(1,180)	(490)
Increase (decrease) in other current and non-current liabilities .....	(156)	(425)
Other.....	(43)	0
Sub-total .....	(1,159)	6,030
Interest and dividend income received.....	127	154
Interest expenses paid .....	(31)	(25)
Income taxes paid.....	(2,042)	(1,321)
Net cash provided by (used in) operating activities.....	(3,106)	4,837
Cash flows from investing activities:		
Payment into time deposit.....	(891)	(841)
Proceeds from withdrawal of time deposit .....	891	891
Payments for purchase of tangible fixed assets .....	(712)	(533)
Proceeds from sale of tangible fixed assets .....	5	2
Payments for purchase of intangible fixed assets.....	(77)	(17)
Payments for purchase of investment securities.....	(463)	(37)
Proceeds from sales of investment securities.....	20	—
Proceeds from redemption of investment securities.....	50	35
Payments for loans .....	(103)	—
Proceeds from recovery of loans.....	25	3
Purchase of shares of subsidiaries and associates.....	—	(19)
Other.....	(35)	(169)
Net cash provided by (used in) investing activities.....	(1,290)	(686)
Cash flows from financing activities:		
Purchase of treasury shares .....	(1,009)	(2,000)
Disposal of treasury shares .....	24	8
Cash dividends paid.....	(622)	(600)
Cash dividends paid to non-controlling interests .....	(2)	(2)
Other.....	(9)	(3)
Net cash provided by (used in) financing activities .....	(1,619)	(2,599)
Effect of exchange rate changes on cash and cash equivalents.....	(117)	(44)
Net increase (decrease) in cash and cash equivalents .....	(6,134)	1,507
Cash and cash equivalents of beginning of year.....	14,419	8,285
Cash and cash equivalents of end of year.....	¥ 8,285	¥ 9,792

The accompanying notes are an integral part of these statements.



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# Notes to Consolidated Financial Statements

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## 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. When rounding to million yen units with respect to amounts for items presented in the Company's consolidated financial statements and other matters, the Company has up until now presented the amounts by rounding to the nearest million-yen unit, but commencing the year ended March 31, 2019, the Company presents the amounts by rounding down. Accordingly, the previous year's amounts have been restated to reflect the "rounding down" method of rounding in order to facilitate straightforward comparison.

### (b) Scope of consolidation

The Company had 4 subsidiaries (majority-owned companies) as at March 31, 2019 (4 for 2018). The consolidated financial statements in the fiscal year ended March 31, 2019 include the accounts of the Company and 4 (4 for 2018) 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.

#### Changes in accounting policies

##### (New Accounting Standards Not Yet Applied)

- "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018, Accounting Standards Board of Japan)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018, Accounting Standards Board of Japan)

a. Overview

The International Accounting Standards Board (IASB) and 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.

#### Changes in presentation

(Changes in line with the application of the "Partial Amendments to Accounting Standard for Tax Effect Accounting")

The Company has applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018; hereinafter referred to as the "Partial Amendments to Tax Effect Accounting Standard") effective from the beginning of the current fiscal year. Accordingly, deferred tax assets were presented under "Investments" and deferred tax liabilities were presented under "Non-current Liabilities," and changes were made in the notes "Income Taxes." Consequently, in the consolidated balance sheet for the previous fiscal year, "Deferred tax assets" under "Current Assets" decreased by ¥441 million, "Deferred tax assets" under "Non-current Assets" decreased by ¥212 million, and "Deferred tax liabilities" under "Non-current Liabilities" decreased by ¥653 million.

Furthermore, in the notes "Income Taxes," the contents described in the "Accounting Standard for Tax Effect Accounting" explanatory notes (Note 8) (excluding total valuation allowance) and (Note 9) set out in paragraphs (3) through (5) of the Partial Amendments to Tax Effect Accounting Standard have been added; provided, however, content related to the previous fiscal year among said contents is not described in accordance with the transitional treatment as presented in paragraph (7) of the Partial Amendments to Tax Effect Accounting Standard.

### 3. Notes to Consolidated Balance Sheets

	Millions of yen	
	March 31,	
	2018	2019
(1) Items relating to non-consolidated subsidiaries and associates		
Investment securities .....	¥ 4	¥ 23
(2) Inventories		
Materials and supplies .....	91	78
Merchandise .....	7	2
(3) The guarantee of housing construction flaw security		
Securities.....	35	50
Investment securities .....	157	108

### 4. Notes to Consolidated Statements of Income

	Millions of yen	
	for the year ended March 31,	
	2018	2019
(1) Write-down of inventories included in cost of sales on real estate development and other .....	¥ 28	¥ 16
(2) The major components of "Selling, general and administrative expenses"		
Payroll .....	1,605	1,604
Retirement benefit expenses .....	91	74
Allowance for accrued bonuses .....	145	163
Provision of allowance for doubtful accounts .....	9	(6)
Depreciation .....	361	366

**5. Notes to Consolidated Statements of Comprehensive Income**

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

	<b>Millions of yen</b>	
	<b>for the year ended March 31,</b>	
	<b>2018</b>	<b>2019</b>
Net unrealized gain (loss) on other securities, net of taxes		
Gains (losses) arising during the year .....	¥ 286	¥ (457)
Reclassification adjustments .....	—	—
Total before tax effect .....	286	(457)
Tax effect .....	(88)	(140)
Net unrealized gain (loss) on other securities, net of taxes ..	197	(317)
Deferred gain (loss) on hedging derivatives, net of taxes		
Gains (losses) arising during the year .....	¥ (15)	¥ 2
Tax effect .....	4	(0)
Deferred gain (loss) on hedging derivatives, net of taxes .....	(10)	1
Foreign currency translation adjustment		
Gains (losses) arising during the year .....	¥ (83)	¥ (63)
Remeasurements of defined benefit plans, net of tax		
Gains (losses) arising during the year .....	¥ 13	¥ (5)
Reclassification adjustments .....	109	62
Amount before income tax effect .....	123	57
Income tax effect .....	(37)	17
Remeasurements of defined benefit plans, net of tax .....	86	39
Total other comprehensive income .....	¥ 189	¥ (338)

## 6. Notes to Consolidated Statements of Changes in Equity

### (a) Type and number of outstanding 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
<b>Issued stock</b>				
Common stock	68,368,532	—	—	68,368,532
<b>Total</b>	<b>68,368,532</b>	<b>—</b>	<b>—</b>	<b>68,368,532</b>
<b>Treasury shares</b>				
Common stock	6,120,420	2,360,859	65,472	8,415,807
<b>Total</b>	<b>6,120,420</b>	<b>2,360,859</b>	<b>65,472</b>	<b>8,415,807</b>

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

**March 31, 2019**

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
<b>Issued stock</b>				
Common stock	68,368,532	—	61,531,679	6,836,853
<b>Total</b>	<b>68,368,532</b>	<b>—</b>	<b>61,531,679</b>	<b>6,836,853</b>
<b>Treasury shares</b>				
Common stock	8,415,807	2,260,477	10,132,005	544,279
<b>Total</b>	<b>8,415,807</b>	<b>2,260,477</b>	<b>10,132,005</b>	<b>544,279</b>

- (Notes) 1. The decrease in shares of issued common stock is attributable to a consolidation of shares at a ratio of one share for ten shares with an effective date of October 1, 2018.
2. With an effective date of October 1, 2018, the Company carried out a consolidation of shares at a ratio of one share for ten shares of its common stock.

The summary of the main change reason

Increase by the acquisition of treasury shares	
by a resolution of the Board of Directors .....	2,249,600 shares
	(before consolidation: 1,944,000 shares, after consolidation: 305,600 shares)
Increase by the repurchase of shares less than one unit .....	10,877 shares
	(before consolidation: 9,087 shares, after consolidation: 1,790 shares)
Decrease by the disposal of treasury shares	
for the purpose of supporting Kitano Foundation .....	800,000 shares
Decrease by the consolidation of shares .....	9,332,005 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)	Shareholders' 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

(Note) With an effective date of October 1, 2018, the Company carried out a consolidation of shares at a ratio of one share for ten shares of its common stock. "Amount per share" is the amount before consolidation of shares.

(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 21, 2019	Annual general meeting of shareholders	Common stock	629,257	Retained earnings	100.0	March 31, 2019	June 24, 2019

7. Notes to Consolidated Statements of Cash Flows

	Millions of yen	
	March 31,	
	2018	2019
Cash in hand and in banks .....	¥ 8,977	¥ 10,434
Time deposits with a deposit term of over 3 months .....	(691)	(641)
Cash and cash equivalents .....	¥ 8,285	¥ 9,792

## 8. Fair Value of Financial Instruments

The fair values and book values of financial instruments as of March 31, 2018 and March 31, 2019, other than items of which fair value are not practically available, are as follows:

	<b>Millions of yen</b>		
	<b>March 31, 2018</b>		
	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 .....	5,332	5,332	—
Total .....	¥ 39,383	¥ 39,383	¥ —
Notes and accounts payable .....	¥ 18,670	¥ 18,670	¥ —
Total .....	¥ 18,670	¥ 18,670	¥ —
Derivative transactions .....	¥ (2)	¥ (2)	¥ —

	<b>Millions of yen</b>		
	<b>March 31, 2019</b>		
	Book value	Fair value	Difference
Cash in hand and in banks .....	¥ 10,434	¥ 10,434	¥ —
Notes and accounts receivable .....	18,805	18,805	—
Securities and investment securities .....	4,839	4,839	—
Total .....	¥ 34,079	¥ 34,079	¥ —
Notes and accounts payable .....	¥ 13,715	¥ 13,715	¥ —
Total .....	¥ 13,715	¥ 13,715	¥ —
Derivative transactions .....	¥ —	¥ —	¥ —

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

	<b>Millions of yen</b>	
	<b>March 31, 2018</b>	<b>March 31, 2019</b>
	Book value	Book value
Non-listed shares * .....	¥ 1,495	¥ 1,555
Membership deposit * .....	2,208	2,060

\* 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

<b>Millions of yen</b>								
<b>March 31, 2018</b>								
		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		—

<b>Millions of yen</b>								
<b>March 31, 2019</b>								
		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	¥	10,434	¥	—	¥	—	¥	—
Notes and accounts receivable.....		18,805		—		—		—
Securities and investment securities								
Government bonds.....		50		74		34		—
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, 2018 and 2019:

	<b>Millions of yen</b>		
	<b>March 31, 2018</b>		
	Book value	Acquisition cost	Difference
Securities with book value exceeding acquisition cost:			
Equity securities .....	¥ 5,067	¥ 2,259	¥ 2,808
Government bonds .....	186	181	5
Corporate bonds .....	—	—	—
Sub-total .....	¥ 5,254	¥ 2,441	¥ 2,813
Securities with book value not exceeding acquisition cost:			
Equity securities .....	¥ 21	¥ 23	¥ (1)
Government bonds .....	5	5	(0)
Corporate bonds .....	50	51	(0)
Sub-total .....	78	80	(2)
Total .....	¥ 5,332	¥ 2,521	¥ 2,810

	<b>Millions of yen</b>		
	<b>March 31, 2019</b>		
	Book value	Acquisition cost	Difference
Securities with book value exceeding acquisition cost:			
Equity securities .....	¥ 4,604	¥ 2,255	¥ 2,349
Government bonds .....	159	154	4
Corporate bonds .....	—	—	—
Sub-total .....	¥ 4,763	¥ 2,410	¥ 2,353
Securities with book value not exceeding acquisition cost:			
Equity securities .....	¥ 23	¥ 28	¥ (4)
Government bonds .....	—	—	—
Corporate bonds .....	51	51	(0)
Sub-total .....	75	79	(4)
Total .....	¥ 4,839	¥ 2,490	¥ 2,348

## 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, 2018.....	¥ 2,418
Service cost.....	156
Interest cost.....	12
Actuarial loss (gain) .....	7
Benefits paid.....	(235)
Balance at March 31, 2019 .....	¥ 2,358

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

	Millions of yen
Balance at April 1, 2018.....	¥ 2,705
Expected return on plan assets.....	54
Actuarial loss (gain) .....	2
Contributions paid by the employer.....	369
Benefits paid.....	(235)
Balance at March 31, 2019 .....	¥ 2,896

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

	Millions of yen
Balance at April 1, 2018.....	¥ 78
Retirement benefit costs.....	0
Benefits paid.....	(7)
Balance at March 31, 2019 .....	¥ 71

#### (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 .....	¥ 2,381
Plan assets .....	(2,911)
	(530)
Unfunded retirement benefit obligations .....	63
Total net defined benefit liability (asset) at March 31, 2019 .....	(466)
Net defined benefit liability .....	71
Net defined benefit asset .....	(537)
Total net defined benefit liability (asset) at March 31, 2019 .....	¥ (466)

(e) Retirement benefit costs		Millions of yen
Service cost.....	¥	156
Interest cost.....		12
Expected return on plan assets.....		(54)
Net actuarial loss amortizations.....		69
Past service cost amortization.....		(7)
Retirement benefit costs calculated by simplified method.....		0
Total retirement benefit costs for the year ended March 31, 2019.....	¥	177
(f) Remeasurements of defined benefit plans, before tax		Millions of yen
Past service cost.....	¥	(7)
Actuarial gains / losses.....		64
Total.....	¥	57
(g) Breakdown of items recognized in accumulated other comprehensive income		Millions of yen
Unrealized past service cost.....	¥	(7)
Unrecognized actuarial differences.....		(38)
Total.....	¥	(45)
(h) Plan assets		
Bonds.....		23%
Securities.....		15%
General accounts.....		46%
Other.....		16%
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.		

## 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,	
	2018	2019
Deferred tax assets:		
Write-down of fixed assets.....	¥ 749	¥ 808
Allowance for doubtful accounts.....	27	25
Write-down of marketable securities.....	162	162
Intercompany profits.....	215	202
Loss on valuation of real estate for sale.....	328	321
Deferred gains (loss) on hedging derivatives.....	0	—
Operating tax loss carry forwards (Note).....	73	75
Net defined benefit liability.....	14	13
Other.....	607	671
Total gross deferred tax assets.....	2,179	2,280
Valuation allowance related to operating tax loss carry forwards (Note).....	—	(36)
Valuation allowance related to total deductible temporary differences, etc.....	—	(1,391)
Total valuation allowance.....	(1,437)	(1,427)
	741	853
Deferred tax liabilities:		
Reserve for special depreciation.....	(71)	(47)
Reserve for advanced depreciation.....	(87)	(87)
Unrealized gain (loss) on other securities.....	(836)	(696)
Difference from fair value of subsidiaries.....	(647)	(615)
Net defined benefit asset.....	(87)	(163)
Total gross deferred tax liabilities.....	(1,730)	(1,610)
Net deferred tax assets (liabilities).....	¥ (988)	¥ (757)

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

	Millions of yen			
	March 31, 2019			
	Due 1 year or less	Due after 1 year through 5 years	Due after 5 years	Total
Operating tax loss carry forwards (*1).....	¥ —	¥ 74	¥ 0	¥ 75
Valuation allowance.....	—	(36)	—	(36)
Deferred tax assets.....	—	38	0	*2 39

\*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, 2018 and 2019 is presented below:

	As of March 31,	
	2018	2019
Statutory tax rate.....	—%	30.4%
Permanent differences on expenses not deductible.....	—	3.6
Permanent differences on income not taxable.....	—	(0.2)
Accrued bonuses to directors and statutory auditors not deductible.....	—	0.3
Inhabitant taxes per capita.....	—	0.5
Valuation allowance.....	—	(0.1)
Other.....	—	0.5
Effective tax rate.....	—%	35.0%

(Note) In the previous fiscal year, 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.

## 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, 2018 and 2019 is presented below:

Millions of Yen								
2018								
	Construction	Golf courses	Hotels	Advertising agent	Total	Reconciliations	Consolidated	
I . Net sales and operating income								
Net sales								
Customers	¥ 79,796	¥ 241	¥ 2,224	¥ 1,539	¥ 83,802	¥ —	¥ 83,802	
Intersegment or transfer	64	5	2	108	179	(179)	—	
<b>Total</b>	<b>79,861</b>	<b>246</b>	<b>2,226</b>	<b>1,647</b>	<b>83,982</b>	<b>(179)</b>	<b>83,802</b>	
<b>Operating income</b>	<b>¥ 4,677</b>	<b>¥ (0)</b>	<b>¥ 135</b>	<b>¥ 45</b>	<b>¥ 4,858</b>	<b>¥ 27</b>	<b>¥ 4,885</b>	
II . Other								
Depreciation	279	41	388	11	721	(27)	693	

Millions of Yen								
2019								
	Construction	Golf courses	Hotels	Advertising agent	Total	Reconciliations	Consolidated	
I . Net sales and operating income								
Net sales								
Customers	¥ 74,013	¥ 232	¥ 2,209	¥ 1,490	¥ 77,945	¥ —	¥ 77,945	
Intersegment or transfer	0	5	4	65	75	(75)	—	
<b>Total</b>	<b>74,014</b>	<b>237</b>	<b>2,213</b>	<b>1,555</b>	<b>78,021</b>	<b>(75)</b>	<b>77,945</b>	
<b>Operating income</b>	<b>¥ 4,427</b>	<b>¥ 0</b>	<b>¥ 133</b>	<b>¥ 29</b>	<b>¥ 4,590</b>	<b>¥ 27</b>	<b>¥ 4,618</b>	
II . Other								
Depreciation	299	36	372	16	724	(27)	696	

### 13. Per Share Data

Net assets per share and earnings per share for the years ended March 31, 2018 and 2019 are as follows:

	Yen	
	2018	2019
Net assets per share .....	¥ 5,565.19	¥ 5,273.78
Earnings per share – primary.....	569.71	474.30

(Note) Since the Company carried out a consolidation of shares at a ratio of one share for ten shares of its common stock with an effective date of October 1, 2018, earnings per share – primary and net assets per share have been calculated as if the consolidation of shares had been carried out at the beginning of the previous fiscal year.

1. Basis of net income per share of common stock for the years ended March 31, 2018 and 2019 is as follows:

	Millions of yen	
	2018	2019
Profit attributable to owners of parent.....	¥ 3,462	¥ 2,751
Profit pertaining to common stock .....	¥ 3,462	¥ 2,751
Average outstanding shares of common stock.....	6,077 thousand shares	5,800 thousand shares

2. Basis of net assets per share of common stock as of March 31, 2018 and 2019 is as follows:

	Millions of Yen	
	2018	2019
Net assets.....	¥ 33,823	¥ 33,660
Amounts deducted from net assets.....	458	475
Non-controlling interests.....	458	475
Net assets applicable to common stock .....	33,364	33,185
Number of shares of common stock at end of year .....	5,995 thousand shares	6,292 thousand shares

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## Board of Directors, Statutory Auditors and Executive Officers

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### Board of Directors

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*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**

**Atsushi Gomyo**

**Yoshikazu Tsukada**

**Tomonari Iwanami**

**Sadao Sugimura**

\* : Member of Board of Directors

**KITANO**  
CONSTRUCTION CORP.