

2020

FINANCIAL STATEMENTS

MARCH 31, 2019-2020

KITANO CONSTRUCTION CORP.

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Consolidated Balance Sheets

As of March 31, 2019 and 2020

	Millions of yen	
	March 31,	
	2019	2020
ASSETS		
Current Assets:		
Cash in hand and in banks	¥ 10,434	¥ 9,425
Notes and accounts receivable	18,805	14,753
Securities	50	24
Real estate for sale	3,477	3,260
Cost of construction in progress	611	1,029
Cost of uncompleted development projects	—	67
Inventories	81	59
Other current assets	2,142	2,322
Less: allowance for doubtful accounts	(31)	(33)
Total current assets	35,571	30,910
Non-current Assets:		
Tangible Fixed Assets:		
Buildings and structures	12,053	12,491
Machinery and equipment	2,732	2,721
Tools, furniture and fixtures	2,807	2,935
Golf course	770	770
Land	6,657	10,032
Construction in progress	81	518
Other non-current assets	46	73
Less: accumulated depreciation	(11,034)	(11,501)
Total tangible fixed assets	14,115	18,042
Intangible fixed assets	249	233
Investments:		
Investment securities	6,344	5,534
Long-term loans	19	65
Net defined benefit asset	537	569
Deferred tax assets	48	51
Other investments	1,569	1,588
Less: allowance for doubtful accounts	(33)	(33)
Total investments	8,486	7,775
Total non-current assets	22,851	26,051
Total assets	¥ 58,423	¥ 56,961

The accompanying notes are an integral part of these statements.

Consolidated Balance Sheets

As of March 31, 2019 and 2020

	Millions of yen	
	March 31,	
	2019	2020
LIABILITIES		
Current Liabilities:		
Notes and accounts payable	¥ 13,715	¥ 12,979
Income taxes payable	959	60
Advances received on construction in progress	4,900	4,972
Advances received on uncompleted development business	0	5
Accrued bonuses to employees	328	284
Accrued bonuses to directors and statutory auditors	49	50
Accrued warranty	88	40
Allowance for loss on reconstruction of company buildings	229	35
Other current liabilities.....	1,335	1,220
Total current liabilities.....	<u>21,607</u>	<u>19,650</u>
Non-current Liabilities:		
Net defined benefit liability.....	71	60
Membership deposit.....	2,060	1,950
Deferred tax liabilities	805	749
Other non-current liabilities.....	218	290
Total non-current liabilities.....	<u>3,155</u>	<u>3,051</u>
Total liabilities	<u>24,762</u>	<u>22,701</u>
NET ASSETS		
Shareholders' Equity:		
Common stock.....	9,116	9,116
Authorized — 20,000,000 shares		
Issued — 6,836,853 shares as of March 31, 2019 and 6,836,853 shares as of March 31, 2020		
Capital surplus	3,188	3,188
Retained earnings	20,677	22,201
Treasury shares.....	(1,725)	(1,918)
Total shareholders' equity	<u>31,257</u>	<u>32,588</u>
Accumulated Other Comprehensive Income:		
Unrealized gain (loss) on other securities	1,687	1,132
Deferred gain (loss) on hedging derivatives	—	(25)
Foreign currency translation adjustment.....	208	166
Remeasurements of defined benefit plans	31	(91)
Total accumulated other comprehensive income	<u>1,928</u>	<u>1,182</u>
Non-controlling interests.....	475	490
Total net assets	<u>33,660</u>	<u>34,260</u>
Total liabilities and net assets.....	<u>¥ 58,423</u>	<u>¥ 56,961</u>

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income
For the years ended March 31, 2019 and 2020

	Millions of yen	
	March 31,	
	2019	2020
Net Sales:		
Construction contracts	¥ 73,333	¥ 57,411
Real estate development and other.....	4,612	4,540
	<u>77,945</u>	<u>61,951</u>
Cost of Sales:		
Construction contracts	64,970	51,202
Real estate development and other.....	3,072	3,079
	<u>68,042</u>	<u>54,281</u>
Gross profit.....	9,903	7,669
Selling, General and Administrative Expenses.....	5,284	4,625
Operating income	<u>4,618</u>	<u>3,043</u>
Non-operating Income (Expenses):		
Interest and dividend income	155	163
Reversal of allowance for doubtful accounts	0	—
Surrender value of insurance policies	—	40
Interest expenses.....	(25)	(48)
Foreign exchange losses.....	(109)	(70)
Provision of allowance for doubtful accounts.....	—	(0)
Other, net.....	73	78
	<u>4,712</u>	<u>3,207</u>
Special Items:		
Gain on sales of non-current assets	2	0
Loss on sales of investment securities.....	(0)	(2)
Loss on disposal of non-current assets.....	(1)	(1)
Impairment loss	(217)	—
Provision for allowance for loss on reconstruction of company buildings.....	(229)	—
Other, net.....	(1)	—
Income before income taxes.....	<u>4,265</u>	<u>3,204</u>
Income Taxes:		
Current.....	1,593	788
Deferred.....	(98)	245
Profit.....	<u>2,770</u>	<u>2,170</u>
Profit attributable to non-controlling interests.....	<u>19</u>	<u>17</u>
Profit attributable to owners of parent.....	<u>¥ 2,751</u>	<u>¥ 2,152</u>

The accompanying notes are an integral part of these statements.

Consolidated Statements of Comprehensive Income
For the years ended March 31, 2019 and 2020

	Millions of yen	
	March 31,	
	2019	2020
Profit.....	¥ 2,770	¥ 2,170
Other Comprehensive Income:		
Unrealized gain (loss) on other securities	(317)	(554)
Deferred gain (loss) on hedging derivatives	1	(25)
Foreign currency translation adjustment.....	(63)	(42)
Remeasurements of defined benefit plans.....	39	(123)
Total other comprehensive income	(338)	(746)
Comprehensive Income	2,432	1,424
Comprehensive income attributable to:		
Owners of parent.....	2,412	1,406
Non-controlling interests.....	19	17

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Equity

For the years ended March 31, 2019 and 2020

	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, 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>
Balance at March 31, 2019.....	6,836	9,116	3,188	20,677	(1,725)	1,687	—	208	31	475	33,660
Dividends of surplus.....	—	—	—	(629)	—	—	—	—	—	—	(629)
Profit attributable to owners of parent.....	—	—	—	2,152	—	—	—	—	—	—	2,152
Purchase of treasury shares.....	—	—	—	—	(193)	—	—	—	—	—	(193)
Disposal of treasury shares.....	—	—	—	—	—	—	—	—	—	—	—
Net changes of items other than shareholders' equity.....	—	—	—	—	—	(554)	(25)	(42)	(123)	14	(731)
Total changes of items during period.....	—	—	—	1,523	(193)	(554)	(25)	(42)	(123)	14	599
Balance at March 31, 2020.....	<u>6,836</u>	<u>9,116</u>	<u>3,188</u>	<u>22,201</u>	<u>(1,918)</u>	<u>1,132</u>	<u>(25)</u>	<u>166</u>	<u>(91)</u>	<u>490</u>	<u>34,260</u>

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

For the years ended March 31, 2019 and 2020

	Millions of yen	
	2019	2020
Cash flows from operating activities:		
Income before income taxes	¥ 4,265	¥ 3,204
Adjustments for:		
Depreciation	696	698
Impairment loss.....	217	—
Interest and dividend income	(155)	(163)
Interest expenses	25	48
Foreign exchange (gains) losses.....	33	23
(Gain) loss on sales of non-current assets.....	(2)	(0)
Loss on disposal of non-current assets	1	1
Increase (decrease) in net defined benefit asset and liability	(215)	(135)
Increase (decrease) in accrued warranty	0	(47)
Increase (decrease) in accrued bonuses to employees	3	(43)
Increase (decrease) in accrued bonuses to directors and statutory auditors	1	0
Increase (decrease) in allowance for doubtful accounts	(9)	2
Increase (decrease) in allowance for loss on reconstruction of company buildings.....	229	(193)
(Increase) decrease in notes and accounts receivable.....	6,265	4,050
(Increase) decrease in cost of construction in progress and cost of uncompleted development projects	103	(485)
(Increase) decrease in real estate for sale and inventories.....	73	237
Increase (decrease) in other current assets.....	364	(179)
Increase (decrease) in notes and accounts payable	(4,953)	(735)
Increase (decrease) in advances received on construction in progress.....	(490)	72
Increase (decrease) in other current and non-current liabilities	(425)	(456)
Other.....	0	(55)
Sub-total	6,030	5,843
Interest and dividend income received.....	154	163
Interest expenses paid	(25)	(49)
Income taxes paid.....	(1,321)	(1,466)
Net cash provided by (used in) operating activities.....	4,837	4,491
Cash flows from investing activities:		
Payment into time deposit.....	(841)	(791)
Proceeds from withdrawal of time deposit	891	841
Payments for purchase of tangible fixed assets	(533)	(4,594)
Proceeds from sale of tangible fixed assets	2	0
Payments for purchase of intangible fixed assets.....	(17)	(7)
Payments for purchase of investment securities.....	(37)	(0)
Proceeds from sales of investment securities.....	—	0
Proceeds from redemption of investment securities.....	35	50
Payments for loans	—	(51)
Proceeds from recovery of loans.....	3	5
Purchase of shares of subsidiaries and associates.....	(19)	—
Other.....	(169)	(32)
Net cash provided by (used in) investing activities.....	(686)	(4,579)
Cash flows from financing activities:		
Purchase of treasury shares	(2,000)	(193)
Disposal of treasury shares	8	—
Cash dividends paid.....	(600)	(629)
Cash dividends paid to non-controlling interests	(2)	(2)
Other.....	(3)	(8)
Net cash provided by (used in) financing activities	(2,599)	(833)
Effect of exchange rate changes on cash and cash equivalents.....	(44)	(36)
Net increase (decrease) in cash and cash equivalents	1,507	(958)
Cash and cash equivalents of beginning of year.....	8,285	9,792
Cash and cash equivalents of end of year.....	¥ 9,792	¥ 8,834

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, 2020 (4 for 2019). The consolidated financial statements in the fiscal year ended March 31, 2020 include the accounts of the Company and 4 (4 for 2019) 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 31, 2020, Accounting Standards Board of Japan)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 31, 2020, Accounting Standards Board of Japan)
- "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, March 31, 2020, Accounting Standards Board of Japan)

a. Overview

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

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

b. Scheduled date of application

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

c. Effects of application of the accounting standards

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

- "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2020, Accounting Standards Board of Japan)
- "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, July 4, 2020, Accounting Standards Board of Japan)
- "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2020, Accounting Standards Board of Japan)
- "Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, July 4, 2020, Accounting Standards Board of Japan)

- “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, March 31, 2020, Accounting Standards Board of Japan)

a. Overview

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

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

b. Scheduled date of application

ASBJ statements and accompanying guidances, will be applied at the start of the fiscal year beginning on April 1, 2020.

c. Effects of application of the accounting standards

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

- “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, March 31, 2020, Accounting Standards Board of Japan)

a. Overview

With regard to “sources of estimation uncertainty,” which is required to be disclosed in paragraph 125 of International Accounting Standard (IAS) 1 (hereinafter referred to as “IAS 1”) published by the International Accounting Standards Board (IASB) in 2003, as the ASBJ received requests to consider also requiring disclosure of these sources as information that is highly useful to financial statement users, as note information in the Japanese GAAP, the ASBJ developed and published the Accounting Standard for Disclosure of Accounting Estimates (hereinafter referred to as the “Accounting Standard”).

The ASBJ’s basic policy for the development of the Accounting Standard is to present the principle (disclosure purpose) instead of enhancing individual notes, and place the onus on entities to determine the specific information to be disclosed according to the disclosure purpose, while referring to the provision of paragraph 125 of IAS 1 in the development.

b. Scheduled date of application

ASBJ statements and accompanying guidances, will be applied at the end of the fiscal year beginning on April 1, 2020.

- “Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections” (ASBJ Statement No. 24, March 31, 2020, Accounting Standards Board of Japan)

a. Overview

Following the recommendation to consider enhancing note information on “accounting policies and procedures adopted in cases where the relevant provisions set forth in accounting standards and other regulations are not clear,” the ASBJ made necessary revisions and published the revised standard as the Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections.

In striving to enhance note information on “accounting policies and procedures adopted in cases where the relevant provisions set forth in accounting standards and other regulations,” the provision of annotations on corporate accounting principles (note 1 to 2) shall be taken over so that traditional practices in the case where provisions of relevant accounting standards, etc. are clear are not affected.

b. Scheduled date of application

ASBJ statements and accompanying guidances, will be applied at the end of the fiscal year beginning on April 1, 2020.

Changes in presentation

(Consolidated statements of income)

“Loss on valuation of investment securities,” which was included in “Other, net” under “Special items” in the previous fiscal year, has been presented individually from the current fiscal year since its materiality in amount has increased. Consolidated financial statements for the previous fiscal year have been reclassified in order to reflect this change in presentation.

As a result, in the consolidated statements of income for the previous fiscal year, ¥1,341 thousand previously presented in “Other, net” under “Special items” has been reclassified as “Loss on valuation of investment securities” of ¥341 thousand and “Other, net” of ¥1,000 thousand.

3. Notes to Consolidated Balance Sheets

	Millions of yen	
	March 31,	
	2019	2020
(1) Items relating to non-consolidated subsidiaries and associates		
Investment securities	¥ 23	¥ 23
(2) Inventories		
Materials and supplies	78	54
Merchandise	2	5
(3) The guarantee of housing construction flaw security		
Securities.....	50	24
Investment securities	108	84

4. Notes to Consolidated Statements of Income

	Millions of yen	
	for the year ended March 31,	
	2019	2020
(1) Write-down of inventories included in cost of sales on real estate development and other	¥ 16	¥ 6
(2) The major components of "Selling, general and administrative expenses"		
Payroll	1,604	1,521
Retirement benefit expenses	74	47
Allowance for accrued bonuses	163	135
Provision of allowance for doubtful accounts	(6)	2
Depreciation	366	366

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,	
	2019	2020
Net unrealized gain (loss) on other securities, net of taxes		
Gains (losses) arising during the year	¥ (457)	¥ (788)
Reclassification adjustments	—	2
Total before tax effect	(457)	(786)
Tax effect	(140)	(231)
Net unrealized gain (loss) on other securities, net of taxes ..	(317)	(554)
Deferred gain (loss) on hedging derivatives, net of taxes		
Gains (losses) arising during the year	¥ 2	¥ (36)
Tax effect	(0)	11
Deferred gain (loss) on hedging derivatives, net of taxes	1	(25)
Foreign currency translation adjustment		
Gains (losses) arising during the year	¥ (63)	¥ (42)
Remeasurements of defined benefit plans, net of tax		
Gains (losses) arising during the year	¥ (5)	¥ (168)
Reclassification adjustments	62	(8)
Amount before income tax effect	57	(176)
Income tax effect	17	(53)
Remeasurements of defined benefit plans, net of tax	39	(123)
Total other comprehensive income	¥ (338)	¥ (746)

6. Notes to Consolidated Statements of Changes in Equity

(a) Type and number of outstanding 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
Issued stock				
Common stock	68,368,532	—	61,531,679	6,836,853
Total	68,368,532	—	61,531,679	6,836,853
Treasury shares				
Common stock	8,415,807	2,260,477	10,132,005	544,279
Total	8,415,807	2,260,477	10,132,005	544,279

(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

March 31, 2020

Type of shares	Number of shares			
	Balance at beginning of year	Increase in shares during the year	Decrease in shares during the year	Balance at end of year
Issued stock				
Common stock	6,836,853	—	—	6,836,853
Total	6,836,853	—	—	6,836,853
Treasury shares				
Common stock	544,279	80,150	—	624,429
Total	544,279	80,150	—	624,429

The summary of the main change reason

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

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

(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 26, 2020	Annual general meeting of shareholders	Common stock	621,242	Retained earnings	100.0	March 31, 2020	June 29, 2020

7. Notes to Consolidated Statements of Cash Flows

	Millions of yen	
	March 31,	
	2019	2020
Cash in hand and in banks.....	¥ 10,434	¥ 9,425
Time deposits with a deposit term of over 3 months.....	(641)	(591)
Cash and cash equivalents.....	¥ 9,792	¥ 8,834

8. Fair Value of Financial Instruments

The fair values and book values of financial instruments as of March 31, 2019 and March 31, 2020, other than items of which fair value are not practically available, are as follows:

	Millions of yen		
	March 31, 2019		
	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	¥ —	¥ —	¥ —
	Millions of yen		
	March 31, 2020		
	Book value	Fair value	Difference
Cash in hand and in banks	¥ 9,425	¥ 9,425	¥ —
Notes and accounts receivable	14,753	14,753	—
Securities and investment securities	4,005	4,005	—
Total	¥ 28,185	¥ 28,185	¥ —
Notes and accounts payable	¥ 12,979	¥ 12,979	¥ —
Total	¥ 12,979	¥ 12,979	¥ —
Derivative transactions	¥ (25)	¥ (25)	¥ —

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

	Millions of yen	
	March 31, 2019	March 31, 2020
	Book value	Book value
Non-listed shares *	¥ 1,555	¥ 1,552
Membership deposit *	2,060	1,950

* 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, 2019								
		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		—

Millions of yen								
March 31, 2020								
		Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years
Cash in hand and in banks	¥	9,425	¥	—	¥	—	¥	—
Notes and accounts receivable.....		14,753		—		—		—
Securities and investment securities								
Government bonds.....		24		50		34		—
Corporate bonds.....		—		—		50		—

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, 2019 and 2020:

	Millions of yen		
	March 31, 2019		
	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

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

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, 2019.....	¥ 2,358
Service cost.....	156
Interest cost.....	11
Actuarial loss (gain)	73
Benefits paid.....	(274)
Balance at March 31, 2020	¥ 2,326

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

	Millions of yen
Balance at April 1, 2019.....	¥ 2,896
Expected return on plan assets.....	57
Actuarial loss (gain)	(94)
Contributions paid by the employer.....	310
Benefits paid.....	(274)
Balance at March 31, 2020	¥ 2,895

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

	Millions of yen
Balance at April 1, 2019.....	¥ 71
Retirement benefit costs.....	1
Benefits paid.....	(12)
Balance at March 31, 2020	¥ 60

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

	Millions of yen
Funded retirement benefit obligations	¥ 2,334
Plan assets	(2,895)
	(561)
Unfunded retirement benefit obligations	53
Total net defined benefit liability (asset) at March 31, 2020	(508)
Net defined benefit liability	60
Net defined benefit asset	(569)
Total net defined benefit liability (asset) at March 31, 2020	¥ (508)

(e) Retirement benefit costs		Millions of yen
Service cost.....	¥	156
Interest cost.....		11
Expected return on plan assets.....		(57)
Net actuarial loss amortizations.....		(1)
Past service cost amortization.....		(7)
Retirement benefit costs calculated by simplified method.....		1
Total retirement benefit costs for the year ended March 31, 2020.....	¥	103
(f) Remeasurements of defined benefit plans, before tax		Millions of yen
Past service cost.....	¥	(7)
Actuarial gains / losses.....		(169)
Total.....	¥	(176)
(g) Breakdown of items recognized in accumulated other comprehensive income		Millions of yen
Unrealized past service cost.....	¥	—
Unrecognized actuarial differences.....		131
Total.....	¥	131
(h) Plan assets		
Bonds.....		23%
Securities.....		15%
General accounts.....		47%
Other.....		15%
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 ¥51 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,	
	2019	2020
Deferred tax assets:		
Write-down of fixed assets.....	¥ 808	¥ 738
Allowance for doubtful accounts	25	26
Write-down of marketable securities.....	162	159
Intercompany profits	202	189
Loss on valuation of real estate for sale	321	318
Deferred gains (loss) on hedging derivatives	—	11
Operating tax loss carry forwards (Note)	75	62
Net defined benefit liability.....	13	11
Other	671	522
Total gross deferred tax assets.....	2,280	2,039
Valuation allowance related to operating tax loss carry forwards (Note).....	(36)	(25)
Valuation allowance related to total deductible temporary differences, etc.....	(1,391)	(1,377)
Total valuation allowance	(1,427)	(1,403)
	853	636
Deferred tax liabilities:		
Net defined benefit asset	(163)	(173)
Reserve for advanced depreciation.....	(87)	(87)
Reserve for special depreciation	(47)	(23)
Unrealized gain (loss) on other securities.....	(696)	(464)
Difference from fair value of subsidiaries.....	(615)	(585)
Total gross deferred tax liabilities	(1,610)	(1,335)
Net deferred tax assets (liabilities).....	¥ (757)	¥ (698)

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

	Millions of yen			
	March 31, 2020			
	Due 1 year or less	Due after 1 year through 5 years	Due after 5 years	Total
Operating tax loss carry forwards (*1).....	¥ —	¥ 62	¥ —	¥ 62
Valuation allowance.....	—	(25)	—	(25)
Deferred tax assets	—	37	—	*2 37

*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, 2019 and 2020 is presented below:

	As of March 31,	
	2019	2020
Statutory tax rate.....	30.4%	30.4%
Permanent differences on expenses not deductible	3.6	0.9
Permanent differences on income not taxable	(0.2)	(0.3)
Accrued bonuses to directors and statutory auditors not deductible	0.3	0.4
Inhabitant taxes per capita.....	0.5	0.7
Valuation allowance	(0.1)	(0.7)
Other	0.5	0.8
Effective tax rate.....	35.0%	32.2%

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, 2019 and 2020 is presented below:

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)	—	
Total	74,014	237	2,213	1,555	78,021	(75)	77,945	
Operating income	¥ 4,427	¥ 0	¥ 133	¥ 29	¥ 4,590	¥ 27	¥ 4,618	
II . Other								
Depreciation	299	36	372	16	724	(27)	696	

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

13. Per Share Data

Net assets per share and earnings per share for the years ended March 31, 2019 and 2020 are as follows:

	Yen	
	2019	2020
Net assets per share	¥ 5,273.78	¥ 5,435.92
Earnings per share – primary.....	474.30	343.92

(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, 2019 and 2020 is as follows:

	Millions of yen	
	2019	2020
Profit attributable to owners of parent.....	¥ 2,751	¥ 2,152
Profit pertaining to common stock	¥ 2,751	¥ 2,152
Average outstanding shares of common stock.....	5,800 thousand shares	6,259 thousand shares

2. Basis of net assets per share of common stock as of March 31, 2019 and 2020 is as follows:

	Millions of Yen	
	2019	2020
Net assets.....	¥ 33,660	¥ 34,260
Amounts deducted from net assets.....	475	490
Non-controlling interests.....	475	490
Net assets applicable to common stock	33,185	33,770
Number of shares of common stock at end of year	6,292 thousand shares	6,212 thousand shares

Board of Directors, Statutory Auditors and Executive Officers

Board of Directors

Chairman and President, Representative Director

Takahiro Kitano

Directors

Yoshikatsu Yamazaki

Zentaro Ozawa

Outside Directors

Yoshinori Uda

Fumiko Yazaki

Statutory Auditors

Permanent Auditor

Noboru Takizawa

Outside Auditors

Yoshichika Owa

Nobuyoshi Sakai

Takashi Nishida

Executive Officers

President and Executive Officer

Takahiro Kitano *

Senior Executive Officer

Yoshikatsu Yamazaki *

Managing Executive Officer

Zentaro Ozawa *

Executive Officers

Shuichi Moriyasu

Satoshi Kubo

Mitsuya Minamisawa

Kenji Yamanaka

Shinichi Kitamura

Masakatsu Kobayashi

Atsushi Gomyo

Yoshikazu Tsukada

Tomonari Iwanami

Sadao Sugimura

* : Member of Board of Directors

KITANO
CONSTRUCTION CORP.