

2022

FINANCIAL STATEMENTS

MARCH 31, 2021-2022

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Consolidated Balance Sheets

As of March 31, 2021 and 2022

	Millions of yen	
	March 31,	
	2021	2022
ASSETS		
Current Assets:		
Cash in hand and in banks	¥ 12,998	¥ 14,906
Notes and accounts receivable	18,975	15,443
Securities	16	6
Real estate for sale	3,242	3,232
Cost of construction in progress	1,307	385
Cost of uncompleted development projects	78	—
Inventories	53	55
Other current assets	2,192	1,679
Less: allowance for doubtful accounts	(29)	(14)
Total current assets	38,834	35,695
Non-current Assets:		
Tangible Fixed Assets:		
Buildings and structures	16,196	15,965
Machinery and equipment	2,649	2,915
Tools, furniture and fixtures	2,980	3,048
Golf course	770	770
Land	10,073	10,073
Construction in progress	0	—
Other non-current assets	97	97
Less: accumulated depreciation	(11,770)	(12,151)
Total tangible fixed assets	20,998	20,720
Intangible fixed assets	201	188
Investments:		
Investment securities	6,729	6,140
Long-term loans	75	64
Net defined benefit asset	923	913
Deferred tax assets	30	17
Other investments	1,888	1,792
Less: allowance for doubtful accounts	(33)	(31)
Total investments	9,613	8,896
Total non-current assets	30,814	29,805
Total assets	¥ 69,649	¥ 65,500

The accompanying notes are an integral part of these statements.

Consolidated Balance Sheets

As of March 31, 2021 and 2022

	Millions of yen	
	March 31,	
	2021	2022
LIABILITIES		
Current Liabilities:		
Notes and accounts payable	¥ 11,094	¥ 9,891
Electronically recorded obligations - operating	6,773	4,110
Short-term borrowings	4,000	4,000
Income taxes payable	1,046	238
Advances received on construction in progress	4,741	4,024
Advances received on uncompleted development business	10	6
Accrued bonuses to employees	324	323
Accrued bonuses to directors and statutory auditors	50	51
Accrued warranty	29	46
Other current liabilities.....	1,974	2,028
Total current liabilities.....	30,045	24,721
Non-current Liabilities:		
Net defined benefit liability.....	60	65
Membership deposit.....	1,836	1,756
Deferred tax liabilities	1,000	1,167
Other non-current liabilities.....	303	288
Total non-current liabilities.....	3,200	3,278
Total liabilities	33,246	27,999
NET ASSETS		
Shareholders' Equity:		
Common stock.....	9,116	9,116
Authorized — 20,000,000 shares		
Issued — 6,836,853 shares as of March 31, 2021 and 6,836,853 shares as of March 31, 2022		
Capital surplus	3,188	3,188
Retained earnings	23,384	24,443
Treasury shares.....	(1,938)	(1,951)
Total shareholders' equity	33,751	34,796
Accumulated Other Comprehensive Income:		
Unrealized gain (loss) on available-for-sale securities	1,985	1,820
Deferred gain (loss) on hedging derivatives	16	39
Foreign currency translation adjustment.....	26	238
Remeasurements of defined benefit plans	124	88
Total accumulated other comprehensive income	2,153	2,186
Non-controlling interests.....	498	517
Total net assets	36,403	37,501
Total liabilities and net assets.....	¥ 69,649	¥ 65,500

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income
For the years ended March 31, 2021 and 2022

	Millions of yen	
	March 31,	
	2021	2022
Net Sales:		
Construction contracts	¥ 72,661	¥ 57,696
Real estate development and other.....	2,604	2,407
	<u>75,265</u>	<u>60,103</u>
Cost of Sales:		
Construction contracts	65,871	51,588
Real estate development and other.....	2,131	1,846
	<u>68,002</u>	<u>53,434</u>
Gross profit.....	7,262	6,669
Selling, General and Administrative Expenses.....	4,492	4,274
Operating income	<u>2,770</u>	<u>2,394</u>
Non-operating Income (Expenses):		
Interest and dividend income	159	150
Foreign exchange gains	—	312
Reversal of allowance for doubtful accounts	0	0
Surrender value of insurance policies	49	—
Interest expenses.....	(52)	(56)
Foreign exchange losses.....	(35)	—
Provision of allowance for doubtful accounts.....	—	(0)
Commitment fee	(17)	(17)
Other, net.....	78	81
	<u>2,952</u>	<u>2,864</u>
Special Items:		
Gain on sales of non-current assets	1	—
Gain on sales of investment securities	9	123
Loss on sales of investment securities.....	—	(0)
Loss on disposal of non-current assets.....	(9)	(4)
Loss on valuation of investment securities.....	—	(191)
Impairment loss	—	(22)
Income before income taxes.....	<u>2,953</u>	<u>2,770</u>
Income Taxes:		
Current.....	1,309	827
Deferred.....	(171)	183
Profit.....	<u>1,815</u>	<u>1,760</u>
Profit attributable to non-controlling interests.....	<u>11</u>	<u>20</u>
Profit attributable to owners of parent.....	<u>¥ 1,804</u>	<u>¥ 1,739</u>

The accompanying notes are an integral part of these statements.

Consolidated Statements of Comprehensive Income
For the years ended March 31, 2021 and 2022

	Millions of yen	
	March 31,	
	2021	2022
Profit.....	¥ 1,815	¥ 1,760
Other Comprehensive Income:		
Unrealized gain (loss) on available-for-sale securities	852	(165)
Deferred gain (loss) on hedging derivatives	42	23
Foreign currency translation adjustment.....	(140)	213
Remeasurements of defined benefit plans.....	215	(36)
Total other comprehensive income	970	34
Comprehensive Income	2,786	1,794
Comprehensive income attributable to:		
Owners of parent.....	2,775	1,773
Non-controlling interests.....	10	20

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Equity

For the years ended March 31, 2021 and 2022

	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					
						available-for- sale securities	on hedging derivatives	Foreign currency translation adjustment	Remeasurements of defined benefits plans	Non-controlling interests	Total net assets
Balance at March 31, 2020	6,836	9,116	3,188	22,201	(1,918)	1,132	(25)	166	(91)	490	34,260
Dividends of surplus	—	—	—	(621)	—	—	—	—	—	—	(621)
Profit attributable to owners of parent	—	—	—	1,804	—	—	—	—	—	—	1,804
Purchase of treasury shares	—	—	—	—	(20)	—	—	—	—	—	(20)
Net changes of items other than shareholders' equity	—	—	—	—	—	852	42	(139)	215	8	979
Total changes of items during period	—	—	—	1,183	(20)	852	42	(139)	215	8	2,142
Balance at March 31, 2021	<u>6,836</u>	<u>9,116</u>	<u>3,188</u>	<u>23,384</u>	<u>(1,938)</u>	<u>1,985</u>	<u>16</u>	<u>26</u>	<u>124</u>	<u>498</u>	<u>36,403</u>
Balance at March 31, 2021	6,836	9,116	3,188	23,384	(1,938)	1,985	16	26	124	498	36,403
Cumulative effects of changes in accounting policies	—	—	—	2	—	—	—	—	—	—	2
Restated balance	6,836	9,116	3,188	23,386	(1,938)	1,985	16	26	124	498	36,405
Dividends of surplus	—	—	—	(682)	—	—	—	—	—	—	(682)
Profit attributable to owners of parent	—	—	—	1,739	—	—	—	—	—	—	1,739
Purchase of treasury shares	—	—	—	—	(13)	—	—	—	—	—	(13)
Disposal of treasury shares	—	—	(0)	—	0	—	—	—	—	—	0
Net changes of items other than shareholders' equity	—	—	—	—	—	(164)	23	212	(36)	18	52
Total changes of items during period	—	—	(0)	1,057	(13)	(164)	23	212	(36)	18	1,095
Balance at March 31, 2022	<u>6,836</u>	<u>9,116</u>	<u>3,188</u>	<u>24,443</u>	<u>(1,951)</u>	<u>1,820</u>	<u>39</u>	<u>238</u>	<u>88</u>	<u>517</u>	<u>37,501</u>

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

For the years ended March 31, 2021 and 2022

	Millions of yen	
	2021	2022
Cash flows from operating activities:		
Income before income taxes	¥ 2,953	¥ 2,770
Adjustments for:		
Depreciation	702	839
Impairment loss.....	—	22
Interest and dividend income	(159)	(150)
Interest expenses	52	56
Foreign exchange (gains) losses.....	107	(214)
(Gain) loss on valuation of investment securities	—	191
(Gain) loss on sales of investment securities.....	(9)	(123)
(Gain) loss on sales of non-current assets.....	(1)	—
Loss on disposal of non-current assets	9	4
Increase (decrease) in net defined benefit asset and liability	(79)	(40)
Increase (decrease) in accrued warranty	(11)	17
Increase (decrease) in accrued bonuses to employees	39	(0)
Increase (decrease) in accrued bonuses to directors and statutory auditors	—	1
Increase (decrease) in allowance for doubtful accounts	(4)	(17)
Increase (decrease) in allowance for loss on reconstruction of company buildings.....	(35)	—
(Increase) decrease in notes and accounts receivable.....	(4,223)	3,537
(Increase) decrease in cost of construction in progress and cost of uncompleted development projects	(289)	1,000
(Increase) decrease in real estate for sale and inventories.....	23	10
Increase (decrease) in other current assets.....	72	607
Increase (decrease) in notes and accounts payable	4,892	(3,871)
Increase (decrease) in advances received on construction in progress.....	(231)	(716)
Increase (decrease) in other current and non-current liabilities	701	(70)
Other.....	(284)	(14)
Sub-total	4,225	3,837
Interest and dividend income received.....	183	150
Interest expenses paid	(53)	(56)
Income taxes paid.....	(350)	(1,606)
Net cash provided by (used in) operating activities.....	4,003	2,324
Cash flows from investing activities:		
Payment into time deposit.....	(1,011)	(971)
Proceeds from withdrawal of time deposit	1,041	561
Payments for purchase of tangible fixed assets	(3,714)	(308)
Proceeds from sale of tangible fixed assets	2	—
Payments for purchase of intangible fixed assets	(15)	(22)
Payments for purchase of investment securities.....	(0)	(108)
Proceeds from sales of investment securities.....	14	402
Proceeds from redemption of investment securities	24	16
Payments for loans	(20)	(0)
Proceeds from recovery of loans.....	10	12
Other.....	52	73
Net cash provided by (used in) investing activities.....	(3,617)	(345)
Cash flows from financing activities:		
Increase (decrease) in short-term loans, net	4,000	—
Purchase of treasury shares	(20)	(13)
Disposal of treasury shares	—	0
Cash dividends paid.....	(620)	(683)
Cash dividends paid to non-controlling interests	(2)	(2)
Other.....	(6)	(16)
Net cash provided by (used in) financing activities	3,350	(715)
Effect of exchange rate changes on cash and cash equivalents.....	(133)	235
Net increase (decrease) in cash and cash equivalents	3,602	1,498
Cash and cash equivalents of beginning of year.....	8,834	12,436
Cash and cash equivalents of end of year.....	¥ 12,436	¥ 13,935

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, 2022 (4 for 2021). The consolidated financial statements in the fiscal year ended March 31, 2022 include the accounts of the Company and 4 (4 for 2021) 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

Details of major performance obligations in main businesses in relation to revenue from contracts with customers of the Company and its consolidated subsidiaries, and normal timing when these performance obligations are satisfied (normal timing when revenue is recognized) are as follows.

(1) Construction

In the construction business, the Company mainly assumes obligations to execute construction work related to building and civil engineering based on construction contracts with clients.

Construction contracts are performance obligations that are satisfied over a certain period of time, because the Company’s performance of an obligation creates an asset or enhances value of an asset, and the customer obtains control of the asset as the asset is created or value of the asset is enhanced. Revenue is recognized over a certain period of time based on progress of construction.

Progress towards satisfaction of performance obligations is measured based on the proportion of construction cost that is incurred by the last day of each reporting period to the estimated total of construction cost. In addition, when progress towards satisfaction of performance obligations cannot be reasonably estimated, but incurred costs are expected to be recovered, revenue is recognized using the cost recovery method.

Consideration for transactions of construction work is received in stages during the contract period, separately from satisfaction of performance obligations, and the remaining amount is basically received within one year after all the performance obligations are satisfied. Contract assets are recognized as rights to consideration that is recorded through the recognition of revenue according to the progress. Contract assets are reclassified to notes and accounts receivable when the right to consideration becomes unconditional. Advance consideration received from customers prior to fulfillment of a contract is recognized as contract liabilities (advances received on construction in progress), and reversed as revenue is recognized in relation to the contract for the advance consideration.

For construction contracts for which the period from the day when the transaction under the contract begins to the time when performance obligations are expected to be completely satisfied is very short, the Company does not recognize revenue over a certain period of time, but recognizes revenue when performance obligations are completely satisfied, applying the alternative treatment.

(2) Hotels

In the hotels business, the Company assumes obligations to provide accommodation services of hotels in accordance with the accommodation terms and conditions. These performance obligations are satisfied at a point in time when the provision of services is completed, and revenue is recognized at the time of completion. The payment of accommodation fees is received at the time when hotel guests check out.

(3) Golf courses

In the golf courses business, the Company assumes obligations to provide services for use of golf course facilities to members and other customers in accordance with the service use terms and conditions, etc. These performance obligations are satisfied at the time when the facilities are used. In addition, consideration for major transactions is fees for using the golf courses such as play fees, and is received at the end of using the facilities.

(4) Advertising agent

In the advertising agent business, the Company mainly provides services such as placement of advertising to various media, advertising production, and production of diverse contents. As for the placement of advertising, the Company considers that control of the service is transferred to customers and performance obligations are satisfied principally at the time when advertising is placed to media. As for the provision of services such as advertising production and production of diverse contents, the Company considers that control of goods or services is transferred to customers and performance obligations are satisfied mainly by the acceptance inspection of the product by customers or the provision of services. Consideration for various service revenues is basically received within one month from the satisfaction of performance obligations.

With regard to revenue related to the construction business and the advertising agent business, for transactions in which the role of the Company in the provision of goods or services to customers falls under the category of agent, revenue is recognized at the net amount calculated by deducting the amount paid to business partners for the goods or services from the amount received from customers.

(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: (1) securities other than shares, etc. whose quoted market price is not available and (2) shares, etc. whose quoted market price is not available

(1) Securities other than shares, etc. whose quoted market price is not available are valued at fair value. 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) Shares, etc. whose quoted market price 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.

Significant accounting estimates

1. Revenue based on performance obligations that are satisfied over a certain period of time.

a. Amount recorded in the consolidated financial statements for the fiscal year ended March 31, 2022

	Millions of yen	
	for the year ended March 31, 2022	
Construction contracts	¥	56,409

The Company has applied the Accounting Standard for Revenue Recognition and relevant ASBJ regulations from the beginning of the fiscal year ended March 31, 2022. In accordance with the transitional treatment provided for in the proviso to paragraph 84 of the Accounting Standard for Revenue Recognition, the cumulative effect assuming the new accounting policy is retroactively adopted prior to the beginning of the fiscal year ended March 31, 2022 has been added to or deducted from retained earnings at the beginning of the fiscal year ended March 31, 2022, and the new accounting policy has been applied from the relevant opening balance at the beginning of the period. Construction contracts for the fiscal year ended March 31, 2021 by the percentage-of-completion method was ¥71,257 million.

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

For construction contracts in the construction business, the progress towards satisfaction of performance obligations over a certain period of time is estimated with such contracts, and revenue is recognized based on this progress.

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

2. Impairment loss on non-current assets

a. Amount recorded in the consolidated financial statements for the fiscal year ended March 31, 2022

	Millions of yen	
	for the year ended March 31,	
	2021	2022
Tangible fixed assets	¥ 20,998	¥ 20,720
Intangible fixed assets.....	201	188

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

In principle, the Company and its subsidiaries group assets for business use based on business divisions whose profit and loss are identified continuously, and idle assets are grouped by individual asset.

As for judgment on indications of impairment, the Company and its subsidiaries consider that there is an indication of impairment when operating loss continues, and is expected to continue, to be recorded on an individually grouped asset or asset group, when fair value of a non-current asset decreases significantly, or in other cases.

Of non-current assets, for assets or asset groups for which there is an indication of impairment, if the total amount of undiscounted future cash flows that can be gained from the asset or asset group falls below the book value, the book value is reduced to the recoverable amount, and the reduced amount is recorded as impairment loss. The recoverable amount in this case is calculated based on the net sale value or value in use.

While the Company and its subsidiaries consider carefully in the judgment and measurement of an indication and recognition of impairment loss, if there is any change in conditions or assumptions on which the estimated amount is based due to changes in the business plan or market environment, recording of additional impairment loss may be required.

Changes in accounting policies

1. The Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ regulations from the beginning of the fiscal year ended March 31, 2022, and recognizes revenue in the amount expected to be received in exchange for promised goods or services when control of the goods or services is transferred to the customer.

Major changes due to the application of the Accounting Standard for Revenue Recognition and relevant ASBJ regulations are as follows.

(1) Revenue recognition for construction contracts

With regard to construction contracts, previously, the percentage-of-completion method was applied if the percentage of completion can be reliably estimated, and the completed-contracts method was applied to all other construction contracts. However, these methods have been changed to the method where revenue is recognized over a certain period of time as performance obligations to transfer goods or services to the customer are satisfied, if control of goods or services is transferred to the customer over a certain period of time. Progress toward satisfaction of performance obligations is measured based on the proportion of construction cost that is incurred by the last day of each reporting period to the estimated total of construction cost. In addition, when progress toward satisfaction of performance obligations cannot be reasonably estimated but incurred costs are expected to be recovered, revenue is recognized using the cost recovery method. For construction contracts for which the period from the day when the transaction under the contract begins to the time when performance obligations are expected to be completely satisfied is very short, the Company does not recognize revenue over a certain period of time, but recognizes revenue when performance obligations are completely satisfied, applying the alternative treatment.

(2) Revenue recognition related to agent transactions

Previously, with regard to revenue related to the construction business and the advertising agent business, the total amount of consideration received from customers was recognized as revenue. However, for transactions in which the role of the Company in the provision of goods or services to customers falls under the category of agent, the above has been changed to the method where revenue is recognized at the net amount calculated by deducting the amount paid to business partners for the goods or services from the amount received from customers.

The application of the Accounting Standard for Revenue Recognition and relevant ASBJ regulations is subject to the transitional treatment in the proviso to paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effect assuming the new accounting policy is retroactively adopted prior to the beginning of the fiscal year ended March 31, 2022 has been added to or deducted from retained earnings at the beginning of the fiscal year ended March 31, 2022, and the new accounting policy has been applied from the relevant opening balance at the beginning of the period. However, the new accounting policy was not retrospectively applied to contracts for which nearly all the revenue amounts had been recognized in accordance with the previous treatment in periods prior to the beginning of the fiscal year ended March 31, 2022, by applying the method provided for in paragraph 86 of the Accounting Standard for Revenue Recognition. In addition, by applying the method set forth in item (1) of the supplementary provisions of paragraph 86 of the Accounting Standard for Revenue Recognition, modifications to contracts carried out prior to the beginning of the fiscal year ended March 31, 2022 were accounted for based on the contractual terms after all contract modifications were reflected, and this cumulative effect was added to or deducted from retained earnings at the beginning of the fiscal year ended March 31, 2022.

As a result, for the fiscal year ended March 31, 2022, net sales of construction contracts decreased by ¥343 million, net sales of real estate development and other decreased by ¥568 million, cost of sales of construction contracts decreased by ¥346 million, cost of sales of real estate development and other decreased by ¥568 million, and operating income and income before income taxes each increased by ¥2 million.

Because the cumulative effect was reflected in net assets at the beginning of the fiscal year ended March 31, 2022, the opening balance of retained earnings in the consolidated statements of changes in equity increased by ¥2 million.

The impact on per share information is immaterial.

In accordance with the transitional treatment set forth in paragraph 89-3 of the Accounting Standard for Revenue Recognition, notes on “Revenue Recognition” for the fiscal year ended March 31, 2021 were not provided.

2. The Company has applied the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019) and relevant ASBJ regulations from the beginning of the fiscal year ended March 31, 2022, and it has applied the new accounting policy provided for by the Accounting Standard for Fair Value Measurement and relevant ASBJ regulations prospectively in accordance with the transitional treatment provided for in paragraph 19 of the Accounting Standard for Fair Value Measurement, and paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019). There is no impact on the consolidated financial statements.

The Company has decided to provide notes on matters regarding the breakdown of financial instruments by level of fair value, etc. in the notes on “Fair Value of Financial Instruments.” However, in accordance with the transitional treatment set forth in paragraph 7-4 of the “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, July 4, 2019), of these notes, notes related to the fiscal year ended March 31, 2021 were not provided.

3. Notes to Consolidated Balance Sheets

	Millions of yen			
	March 31,			
	2021		2022	
(1) Items relating to non-consolidated subsidiaries and associates				
Investment securities	¥	23	¥	23
(2) Inventories				
Materials and supplies		48		51
Merchandise		4		4
(3) The guarantee of housing construction flaw security				
Securities.....		16		6
Investment securities		68		61
(4) Assets pledged as collateral and secured liabilities				
Assets pledged as collateral				
Land		1,160		1,160
Buildings		394		366
Secured liabilities				
Short-term borrowings		2,000		2,000
(5) Receivables arising from contracts with customers and contract assets				
Notes receivable - trade				34
Accounts receivable - trade				296
Accounts receivable from completed construction contracts.....				4,544
Contract assets				10,567
(6) Contract liabilities				
Advances received				15

4. Notes to Consolidated Statements of Income

	Millions of yen			
	for the year ended March 31,			
	2021		2022	
(1) Write-down of inventories included in cost of sales on real estate development and other	¥	15	¥	4
(2) The major components of "Selling, general and administrative expenses"				
Payroll		1,384		1,360
Retirement benefit expenses		61		42
Allowance for accrued bonuses		144		148
Provision of allowance for doubtful accounts		(1)		(0)
Depreciation		372		506

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,	
	2021	2022
Net unrealized gain (loss) on available-for-sale securities, net of taxes		
Gains (losses) arising during the year	¥ 1,205	¥ (336)
Reclassification adjustments	9	115
Total before tax effect	1,215	(221)
Tax effect	(362)	56
Net unrealized gain (loss) on available-for-sale securities, net of taxes.....	852	(165)
Deferred gain (loss) on hedging derivatives, net of taxes		
Gains (losses) arising during the year	¥ 61	¥ 33
Tax effect	(18)	(10)
Deferred gain (loss) on hedging derivatives, net of taxes	42	23
Foreign currency translation adjustment		
Gains (losses) arising during the year	¥ (140)	¥ 213
Remeasurements of defined benefit plans, net of tax		
Gains (losses) arising during the year	¥ 280	¥ (39)
Reclassification adjustments	29	(12)
Amount before income tax effect	309	(52)
Income tax effect	(94)	15
Remeasurements of defined benefit plans, net of tax.....	215	(36)
Total other comprehensive income	¥ 970	¥ 34

6. Notes to Consolidated Statements of Changes in Equity

(a) Type and number of outstanding shares

March 31, 2021

Type of shares	Number of shares			
	Balance at beginning of year	Increase in shares during the year	Decrease in shares during the year	Balance at end of year
Issued stock				
Common stock	6,836,853	—	—	6,836,853
Total	6,836,853	—	—	6,836,853
Treasury shares				
Common stock	624,429	7,619	—	632,048
Total	624,429	7,619	—	632,048

The summary of the main change reason

Increase by the repurchase of shares less than one unit 7,619 shares

March 31, 2022

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	632,048	6,160	8	638,200
Total	632,048	6,160	8	638,200

The summary of the main change reason

Increase by the repurchase of shares less than one unit 6,160 shares

Decrease due to purchase of shares less than one unit 8 shares

(b) Dividends

(1) Dividends paid to shareholders

Date of approval	Resolution approved by	Type of shares	Amount (Millions of yen)	Paid from	Amount per share (Yen)	Shareholders' cut-off date	Effective date
June 24, 2021	Annual general meeting of shareholders	Common stock	682	Retained earnings	110.0	March 31, 2021	June 25, 2021

(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 (Millions of yen)	Paid from	Amount per share (Yen)	Shareholders' cut-off date	Effective date
June 28, 2022	Annual general meeting of shareholders	Common stock	619	Retained earnings	100.0	March 31, 2022	June 29, 2022

7. Notes to Consolidated Statements of Cash Flows

	Millions of yen	
	March 31,	
	2021	2022
Cash in hand and in banks	¥ 12,998	¥ 14,906
Time deposits with a deposit term of over 3 months	(561)	(971)
Cash and cash equivalents	¥ 12,436	¥ 13,935

8. Fair Value of Financial Instruments

The fair values and book values of financial instruments as of March 31, 2021 and March 31, 2022 are as follows:

	Millions of yen		
	March 31, 2021		
	Book value	Fair value	Difference
Securities and investment securities	¥ 5,190	¥ 5,190	¥ —
Total	¥ 5,190	¥ 5,190	¥ —
Derivative transactions	¥ 24	¥ 24	¥ —

	Millions of yen		
	March 31, 2022		
	Book value	Fair value	Difference
Securities and investment securities	¥ 4,801	¥ 4,801	¥ —
Total	¥ 4,801	¥ 4,801	¥ —
Derivative transactions	¥ 57	¥ 57	¥ —

(*1) Since “Cash in hand and in banks,” “Notes and accounts receivable,” “Notes and accounts payable,” “Electronically recorded obligations - operating” and “Short-term borrowings” are cash, and settled in a short period of time, their fair value approximates the book value. Therefore, the information has been omitted.

(*2) Shares, etc. whose quoted market price is not available are not included in “Securities and investment securities.”

Book values of these financial instruments are as follows.

	Millions of yen	
	March 31,	
	2021	2022
Non-listed shares	¥ 1,554	¥ 1,344

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

Millions of yen								
March 31, 2021								
		Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years
Cash in hand and in banks	¥	12,998	¥	—	¥	—	¥	—
Notes and accounts receivable.....		18,975		—		—		—
Securities and investment securities								
Government bonds.....		16		57		11		—
Corporate bonds.....		—		—		50		—
Millions of yen								
March 31, 2022								
		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	¥	14,906	¥	—	¥	—	¥	—
Notes and accounts receivable.....		4,876		—		—		—
Securities and investment securities								
Government bonds.....		6		51		111		—
Corporate bonds.....		—		—		50		—

(b) Matters regarding the breakdown of financial instruments by level of fair value

Fair values of financial instruments are classified into the following three levels according to observability and significance of inputs for fair value measurement.

Level 1 fair value: Fair value determined using quoted price formed in an active market for the asset or liability that is subject to the fair value measurement, of observable inputs for fair value measurement

Level 2 fair value: Fair value determined using inputs for fair value measurement other than Level 1 inputs, of observable inputs for fair value measurement

Level 3 fair value: Fair value determined using unobservable inputs for fair value measurement

Financial instruments recorded at fair value in the consolidated balance sheets

		Millions of yen				
		March 31, 2022				
		Fair Value				
		Level 1	Level 2	Level 3	Total	
Securities and investment securities						
Available-for-sale securities						
Equity securities	¥	4,584	¥	—	¥	4,584
Corporate bonds		—		49		49
Government bonds		67		99		167
Derivative transactions						
Currency-related		—		57		57

(Note) Explanation of valuation techniques and inputs for fair value measurement

Securities and investment securities

Listed shares, government bonds and corporate bonds are valued using quoted prices. Since listed shares and Japanese government bonds are traded in active markets, their fair values are classified as Level 1 fair value. On the other hand, because local government bonds and corporate bonds held by the Company are infrequently traded in markets and their prices are not deemed as quoted prices in active markets, their fair values are classified as Level 2 fair value.

Derivative transactions

Fair values of forward exchange contracts are determined by the discounted present value using observable inputs such as interest rate and exchange rate, and are classified as Level 2 fair value.

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, 2021 and 2022:

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

	Millions of yen		
	March 31, 2022		
	Book value	Acquisition cost	Difference
Securities with book value exceeding acquisition cost:			
Equity securities	¥ 4,581	¥ 1,988	¥ 2,592
Government bonds	59	58	0
Corporate bonds	—	—	—
Sub-total	¥ 4,640	¥ 2,046	¥ 2,593
Securities with book value not exceeding acquisition cost:			
Equity securities	¥ 2	¥ 3	¥ (0)
Government bonds	108	108	(0)
Corporate bonds	49	51	(1)
Sub-total	161	163	(1)
Total	¥ 4,801	¥ 2,210	¥ 2,591

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, 2021.....	¥ 2,109
Service cost.....	142
Interest cost.....	10
Actuarial loss (gain)	20
Benefits paid.....	(205)
Balance at March 31, 2022	¥ 2,077

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

	Millions of yen
Balance at April 1, 2021.....	¥ 3,033
Expected return on plan assets.....	60
Actuarial loss (gain)	(19)
Contributions paid by the employer.....	121
Benefits paid.....	(205)
Balance at March 31, 2022	¥ 2,990

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

	Millions of yen
Balance at April 1, 2021.....	¥ 60
Retirement benefit costs.....	7
Benefits paid.....	(1)
Balance at March 31, 2022	¥ 65

(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	¥ 2,085
Plan assets	(2,990)
	(904)
Unfunded retirement benefit obligations	57
Total net defined benefit liability (asset) at March 31, 2022	(847)
Net defined benefit liability	65
Net defined benefit asset	(913)
Total net defined benefit liability (asset) at March 31, 2022	¥ (847)

(e) Retirement benefit costs		Millions of yen
Service cost.....	¥	142
Interest cost.....		10
Expected return on plan assets.....		(60)
Net actuarial loss amortizations.....		(12)
Retirement benefit costs calculated by simplified method.....		7
Total retirement benefit costs for the year ended March 31, 2022.....	¥	86
(f) Remeasurements of defined benefit plans, before tax		Millions of yen
Actuarial gains / losses.....	¥	(52)
Total.....	¥	(52)
(g) Breakdown of items recognized in accumulated other comprehensive income		Millions of yen
Unrecognized actuarial differences.....	¥	(126)
Total.....	¥	(126)
(h) Plan assets		
Bonds.....		23%
Equity securities.....		16%
General accounts.....		44%
Other.....		17%
Total.....		100%
(i) Long-term expected rate of return		
Current and target asset allocations as well as historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.		
(j) Actuarial assumptions		
Discount rate.....		0.5%
Rate of expected return on plan assets.....		2.0%
(k) Defined contribution plans		
Amount of contributions to defined contribution plans by the Company and its subsidiaries was ¥50 million.		

11. Income Taxes

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

	Millions of yen			
	March 31,			
	2021		2022	
Deferred tax assets:				
Write-down of fixed assets.....	¥	728	¥	721
Allowance for doubtful accounts		24		22
Write-down of marketable securities.....		158		216
Intercompany profits		176		171
Loss on valuation of real estate for sale		307		309
Operating tax loss carry forwards (Note)		155		192
Net defined benefit liability.....		11		10
Other		709		509
Total gross deferred tax assets.....		<u>2,272</u>		<u>2,155</u>
Valuation allowance related to operating tax loss carry forwards (Note).....		(136)		(192)
Valuation allowance related to total deductible temporary differences, etc.....		(1,357)		(1,415)
Total valuation allowance		<u>(1,493)</u>		<u>(1,608)</u>
		779		547
Deferred tax liabilities:				
Net defined benefit asset.....		(281)		(278)
Reserve for advanced depreciation.....		(87)		(87)
Unrealized gain (loss) on available-for-sale securities		(826)		(770)
Deferred gain (loss) on hedging derivatives		(7)		(17)
Difference from fair value of subsidiaries.....		(546)		(543)
Total gross deferred tax liabilities		<u>(1,749)</u>		<u>(1,697)</u>
Net deferred tax assets (liabilities).....	¥	<u>(970)</u>	¥	<u>(1,150)</u>

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

	Millions of yen			
	March 31, 2022			
	Due 1 year or less	Due after 1 year through 5 years	Due after 5 years	Total
Operating tax loss carry forwards (*1).....	¥ 4	¥ 187	¥ —	¥ 192
Valuation allowance	(4)	(187)	—	(192)
Deferred tax assets	—	—	—	—

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

(b) The reconciliation between the statutory tax rate and the effective tax rate as at March 31, 2021 and 2022 is presented below:

	As of March 31,	
	2021	2022
Statutory tax rate.....	30.4%	30.4%
Permanent differences on expenses not deductible	0.8	1.4
Permanent differences on income not taxable	(0.3)	(0.3)
Accrued bonuses to directors and statutory auditors not deductible	0.5	0.5
Inhabitant taxes per capita.....	0.7	0.8
Valuation allowance	4.6	6.1
Other.....	1.8	(2.5)
Effective tax rate.....	<u>38.5%</u>	<u>36.4%</u>

12. Revenue Recognition

1. Information on disaggregation of revenue from contracts with customers

Information on disaggregation of revenue from contracts with customers is as stated in the notes to consolidated financial statements “Segment Information.”

2. Information that forms the basis for understanding revenue from contracts with customers

Information that forms the basis for understanding revenue from contracts with customers is as stated in “Notes to Consolidated Financial Statements, 2. Summary of Significant Accounting Policies, (b) Recognizing revenues and costs of construction contracts.”

3. Information on relation between satisfaction of performance obligations based on contracts with customers and cash flows arising from the contracts, and amount and timing of revenue expected to be recognized in and after the fiscal year ending March 31, 2023 from contracts with customers that existed as at March 31, 2022

(1) Balances of contract assets and contract liabilities, etc.

	Millions of yen	
	March 31, 2022	
Receivables arising from contracts with customers (Balance at April 1, 2021).....	¥	3,441
Receivables arising from contracts with customers (Balance at March 31, 2022).....		4,876
Contract assets (Balance at April 1, 2021).....		16,055
Contract assets (Balance at March 31, 2022).....		10,567
Contract liabilities (Balance at April 1, 2021).....		4,749
Contract liabilities (Balance at March 31, 2022).....		4,039

Of the amount of revenue recognized in the fiscal year ended March 31, 2022, the amount included in the balance of contract liabilities at April 1, 2021 was ¥4,662 million. The amount of revenue recognized in the fiscal year ended March 31, 2022 from performance obligations that were satisfied (or partially satisfied) in past periods was ¥919 million.

(2) Transaction price allocated to remaining performance obligations

Performance obligations that have not been satisfied (or partially not been satisfied) are ¥61,150 million. These performance obligations are related to construction works in the construction business. Approximately 89% of them is expected to be recognized as revenue within one year after the year-end, and remaining approximately 11% is expected to be recognized within two years after that.

13. 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, 2021 and 2022 is presented below:

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

Millions of yen								
2022								
	Construction	Golf courses	Hotels	Advertising agent	Total	Reconciliations	Consolidated	
I . Net sales and operating income								
Net sales								
Goods or services transferred at a point in time	¥ 1,677	¥ 234	¥ 652	¥ 761	¥ 3,325	¥ —	¥ 3,325	
Goods or services transferred over a certain period of time	56,409	—	—	—	56,409	—	56,409	
Revenue from contracts with customers	58,086	234	652	761	59,734	—	59,734	
Other revenue	369	—	—	—	369	—	369	
Customers	¥ 58,455	¥ 234	¥ 652	¥ 761	¥ 60,103	¥ —	¥ 60,103	
Intersegment or transfer	1	4	1	47	55	(55)	—	
Total	58,457	238	653	809	60,158	(55)	60,103	
Operating income (loss)	¥ 2,916	¥ 15	¥ (623)	¥ 58	¥ 2,366	¥ 27	¥ 2,394	
II . Other								
Depreciation	487	26	341	11	866	(27)	839	

- (c) Matters regarding changes in reportable segments, etc.

As stated in “Changes in accounting policies,” the Company has applied the Accounting Standard for Revenue Recognition and relevant ASBJ regulations from the beginning of the fiscal year ended March 31, 2022, and changed the accounting treatment for revenue recognition. Accordingly, the method of calculating profit or loss of operating segments was changed likewise.

As a result of the changes, for the fiscal year ended March 31, 2022, net sales of the “construction business” decreased by ¥343 million, segment profit of the said business increased by ¥2 million, and net sales of the “advertising agent business” decreased by ¥568 million.

14. Per Share Data

Net assets per share and earnings per share for the years ended March 31, 2021 and 2022 are as follows:

	Yen	
	2021	2022
Net assets per share	¥ 5,786.54	¥ 5,966.43
Earnings per share – primary.....	290.71	280.54

1. Basis of net income per share of common stock for the years ended March 31, 2021 and 2022 is as follows:

	Millions of yen	
	2021	2022
Profit attributable to owners of parent.....	¥ 1,804	¥ 1,739
Profit pertaining to common stock	¥ 1,804	¥ 1,739
Average outstanding shares of common stock.....	6,207 thousand shares	6,201 thousand shares

2. Basis of net assets per share of common stock as of March 31, 2021 and 2022 is as follows:

	Millions of yen	
	2021	2022
Net assets.....	¥ 36,403	¥ 37,501
Amounts deducted from net assets.....	498	517
Non-controlling interests.....	498	517
Net assets applicable to common stock	35,904	36,983
Number of shares of common stock at end of year	6,204 thousand shares	6,198 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

Satoshi Kubo

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

Mitsuya Minamisawa

Kenji Yamanaka

Satoshi Kubo *

Kazuyoshi Kurashina

Masakatsu Kobayashi

Shuichi Moriyasu

Yuzuru Maruyama

Takeo Murata

Masami Aruga

Yoshikazu Tsukada

Shu Uehara

* : Member of Board of Directors

KITANO
CONSTRUCTION CORP.