



Consolidated Financial Section 2020

Contents

Consolidated Balance Sheet	P. 1
Consolidated Statement of Income	P. 3
Consolidated Statement of Comprehensive Income	P. 4
Consolidated Statement of Changes in Equity	P. 5
Consolidated Statement of Cash Flows	P. 6
Notes to Consolidated Financial Statements	P. 7

Note:

Consolidated Financial Section contains audited English-language financial statements in which certain items have been changed for the convenience of overseas readers.

Consolidated Balance Sheet

Daito Trust Construction Co., Ltd. and Consolidated Subsidiaries
March 31, 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 17)	¥159,902	¥187,614	\$1,469,282
Money held in trust (Note 17)	14,000	16,000	128,641
Marketable securities (Notes 3, 5 and 17)	4,029	12,509	37,021
Short-term investments (Note 17)	28	1,000	257
Notes and accounts receivable (Note 17):			
Construction contracts	64,630	55,810	593,862
Other	11,827	11,516	108,674
Total receivables	76,457	67,326	702,536
Operating loans (Note 17)	127,592	93,260	1,172,397
Inventories (Note 6)	16,428	21,557	150,951
Prepaid expenses—whole-building lease and other expenses (Note 22)	69,187	66,862	635,735
Other current assets	23,464	18,881	215,603
Allowance for doubtful accounts	(482)	(309)	(4,429)
Total current assets	490,605	484,700	4,507,994
PROPERTY, PLANT AND EQUIPMENT (Notes 7 and 16):			
Land	76,432	76,365	702,306
Buildings and structures	101,676	92,993	934,264
Machinery and equipment	49,044	45,120	450,648
Furniture and fixtures	9,416	9,833	86,521
Lease assets (Note 16)	6,723	6,428	61,775
Total	243,291	230,739	2,235,514
Accumulated depreciation	(67,987)	(64,143)	(624,708)
Net property, plant and equipment	175,304	166,596	1,610,806
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3, 5 and 17)	27,995	35,547	257,236
Subordinated bonds and subordinated trust beneficiary right (Notes 4 and 17)	10,643	11,140	97,795
Investments in associated companies (Note 17)	17,805	17,620	163,604
Intangible assets	28,283	27,897	259,882
Guarantee deposits (Note 5)	29,023	28,975	266,682
Deferred tax assets (Note 12)	83,234	71,406	764,807
Other assets	22,524	20,380	206,965
Allowance for doubtful accounts (Note 4)	(5,127)	(4,489)	(47,110)
Total investments and other assets	214,380	208,476	1,969,861
TOTAL	¥880,289	¥859,772	\$8,088,661

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Current portion of long-term bank loans (Notes 8 and 17)	¥ 21,640	¥ 19,816	\$ 198,842
Current portion of long-term lease obligations (Note 16)	211	201	1,939
Accounts payable (Note 17)	54,760	45,687	503,170
Advances received—construction contracts	40,259	48,141	369,926
Income taxes payable (Notes 12 and 17)	30,082	28,325	276,413
Advances received—whole-building lease and other (Note 22)	89,571	65,867	823,036
Accrued employees' bonuses	14,131	21,363	129,845
Deposits received (Note 17)	10,004	8,783	91,923
Other current liabilities	57,861	51,973	531,663
Total current liabilities	318,519	290,156	2,926,757
LONG-TERM LIABILITIES:			
Long-term bank loans (Notes 8 and 17)	61,110	72,300	561,518
Long-term lease obligations (Note 16)	515	648	4,732
Liability for retirement benefit (Note 9)	15,229	13,388	139,934
Provision for repair of whole-building lease system (Notes 21 and 22)	151,863	134,732	1,395,415
Deposits received for guarantee (Note 17)	33,645	34,109	309,152
Other long-term liabilities	13,247	12,141	121,722
Total long-term liabilities	275,609	267,318	2,532,473
EQUITY (Note 10):			
Common stock—authorized, 329,541 thousand shares; issued, 68,918 thousand shares in 2020 and 75,628 thousand shares in 2019	29,061	29,061	267,031
Capital surplus	34,541	34,541	317,385
Stock acquisition rights (Note 11)	483	492	4,438
Retained earnings	243,349	297,952	2,236,047
Treasury stock—at cost, 485 thousand shares in 2020 and 3,134 thousand shares in 2019	(11,021)	(55,566)	(101,268)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	767	6,487	7,048
Deferred gain on derivatives under hedge accounting	258	222	2,371
Land revaluation surplus	(7,584)	(7,584)	(69,687)
Foreign currency translation adjustments	(3,842)	(3,208)	(35,303)
Defined retirement benefit plans	(3,012)	(2,989)	(27,676)
Total	283,000	299,408	2,600,386
Noncontrolling interests	3,161	2,890	29,045
Total equity	286,161	302,298	2,629,431
TOTAL	¥880,289	¥859,772	\$8,088,661

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Daito Trust Construction Co., Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
NET INCOME	¥90,715	¥90,359	\$833,548
OTHER COMPREHENSIVE INCOME (Note 19):			
Unrealized (loss) gain on available-for-sale securities	(5,720)	605	(52,559)
Deferred gain on derivatives under hedge accounting	36	517	331
Foreign currency translation adjustments	(634)	(988)	(5,826)
Defined retirement benefit plans	(14)	(1,715)	(128)
Total other comprehensive loss	(6,332)	(1,581)	(58,182)
COMPREHENSIVE INCOME	¥84,383	¥88,778	\$775,366
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥84,040	¥88,339	\$772,214
Noncontrolling interests	343	439	3,152

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Daito Trust Construction Co., Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2020

Millions of yen

	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Accumulated other comprehensive income					Total	Noncontrolling Interests	Total Equity
							Unrealized Gain on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Land Revaluation Surplus	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans			
BALANCE, APRIL 1, 2018	74,508,922	¥29,061	¥34,541	¥415	¥253,109	¥(17,203)	¥ 5,882	¥(295)	¥(7,584)	¥(2,220)	¥(1,264)	¥294,442	¥2,597	¥297,039
Net income attributable to owners of the parent					89,930							89,930		89,930
Cash dividends, ¥601 per share					(45,045)							(45,045)		(45,045)
Purchase of treasury stock	(2,544,395)					(40,935)						(40,935)		(40,935)
Disposal of treasury stock	204,036				(33)	2,572						2,539		2,539
Retirement of treasury stock												—		—
Changes in the parent's ownership interest due to transactions with noncontrolling interests					(9)							(9)		(9)
Net change in the year				77			605	517		(988)	(1,725)	(1,514)	293	(1,221)
BALANCE, MARCH 31, 2019	72,168,563	29,061	34,541	492	297,952	(55,566)	6,487	222	(7,584)	(3,208)	(2,989)	299,408	2,890	302,298
Net income attributable to owners of the parent					90,381							90,381		90,381
Cash dividends, ¥617 per share					(43,620)							(43,620)		(43,620)
Purchase of treasury stock	(4,229,043)					(59,941)						(59,941)		(59,941)
Disposal of treasury stock	247,654				(125)	3,245						3,120		3,120
Retirement of treasury stock					(101,241)	101,241						—		—
Changes in the parent's ownership interest due to transactions with noncontrolling interests					2							2		2
Net change in the year				(9)			(5,720)	36		(634)	(23)	(6,350)	271	(6,079)
BALANCE, MARCH 31, 2020	68,187,174	¥29,061	¥34,541	¥483	¥243,349	¥(11,021)	¥ 767	¥ 258	¥(7,584)	¥(3,842)	¥(3,012)	¥283,000	¥3,161	¥286,161

Thousands of U.S. dollars (Note 1)

	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Accumulated other comprehensive income					Total	Noncontrolling Interests	Total Equity
						Unrealized Gain on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Land Revaluation Surplus	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans			
BALANCE, MARCH 31, 2019	\$267,031	\$317,385	\$4,521	\$2,737,774	\$(510,576)	\$ 59,607	\$2,040	\$(69,687)	\$(29,477)	\$(27,465)	\$2,751,153	\$26,555	\$2,777,708
Net income attributable to owners of the parent				830,479							830,479		830,479
Cash dividends, \$5.67 per share				(400,809)							(400,809)		(400,809)
Purchase of treasury stock					(550,776)						(550,776)		(550,776)
Disposal of treasury stock				(1,148)	29,817						28,669		28,669
Retirement of treasury stock				(930,267)	930,267						—		—
Changes in the parent's ownership interest due to transactions with noncontrolling interests				18							18		18
Net change in the year			(83)			(52,559)	331		(5,826)	(211)	(58,348)	2,490	(55,858)
BALANCE, MARCH 31, 2020	\$267,031	\$317,385	\$4,438	\$2,236,047	\$(101,268)	\$ 7,048	\$2,371	\$(69,687)	\$(35,303)	\$(27,676)	\$2,600,386	\$29,045	\$2,629,431

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Daito Trust Construction Co., Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
OPERATING ACTIVITIES:			
Income before income taxes	¥ 133,015	¥132,342	\$ 1,222,227
Adjustments for:			
Income taxes—paid	(49,788)	(50,735)	(457,484)
Depreciation and amortization	15,002	12,512	137,848
Impairment losses	34	30	312
Changes in operating assets and liabilities, net of merger effects:			
Decrease (increase) in notes and accounts receivable	(9,132)	(15,275)	(83,911)
Decrease (increase) in inventories	5,129	(797)	47,129
Decrease (increase) in prepaid expenses— whole-building lease and other	(1,030)	425	(9,464)
Decrease (increase) in operating loans	(34,333)	(28,999)	(315,474)
Increase (decrease) in accounts payable	9,074	2,959	83,378
Increase (decrease) in advances received— whole-building lease and other	23,704	5,523	217,808
Increase (decrease) in advances received—construction contracts	(7,882)	(1,378)	(72,425)
Increase (decrease) in deposits received for guarantee	(465)	(2,668)	(4,273)
Increase (decrease) in deposits received	1,222	1,202	11,229
Increase (decrease) in allowance for doubtful accounts	812	633	7,461
Increase (decrease) in accrued employees' bonuses	(7,232)	(1,817)	(66,452)
Increase (decrease) in liability for retirement benefits	1,826	991	16,778
Increase (decrease) in provision for repair of whole-building lease system	17,130	19,229	157,401
Other—net	5,043	(2,195)	46,339
Total adjustments	(30,886)	(60,360)	(283,800)
Net cash provided by operating activities	102,129	71,982	938,427
INVESTING ACTIVITIES:			
Proceeds from time deposits	2,000	82,000	18,377
Payments for time deposits	(1,002)	(47,000)	(9,207)
Proceeds from money held in trust	2,000	3,000	18,377
Purchases of marketable and investment securities	(5,969)	(19,944)	(54,847)
Proceeds from sales and redemption of marketable and investment securities	12,510	21,985	114,950
Payments for purchase of property, plant and equipment	(19,130)	(24,836)	(175,779)
Payments for purchase of intangible assets	(8,231)	(10,088)	(75,631)
Payment for acquisition of shares of a subsidiary resulting in the consolidation scope (Note 2a)	—	(1,041)	—
Other—net	(479)	(3,994)	(4,401)
Net cash (used in) provided by investing activities	(18,301)	82	(168,161)
FINANCING ACTIVITIES:			
Proceeds from long-term bank loans	10,700	17,100	98,318
Repayment of long-term bank loans	(20,066)	(30,417)	(184,379)
Dividends paid	(43,620)	(45,045)	(400,809)
Repurchase of treasury stock	(59,941)	(40,935)	(550,776)
Proceeds from disposal of treasury stock	1,906	2,020	17,514
Dividends paid to noncontrolling interests	(134)	(130)	(1,231)
Other—net	(255)	(263)	(2,344)
Net cash used in financing activities	(111,410)	(97,670)	(1,023,707)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(130)	(495)	(1,195)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(27,712)	(26,101)	(254,636)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	187,614	213,715	1,723,918
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 159,902	¥187,614	\$ 1,469,282

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Daito Trust Construction Co., Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2020

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and 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.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2019 consolidated financial statements to conform them to the classifications used in 2020.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Daito Trust Construction Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥108.83 to \$1, the approximate rate of exchange at March 31, 2020. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation—The consolidated financial statements as of March 31, 2020, include the accounts of the Company and its 31 (29 in 2019) significant subsidiaries (together, the "Group").

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in three (three in 2019) associated companies are accounted for by the equity method.

Investments in two associated companies are stated at cost. If the equity method of accounting had been applied to the investments in those companies, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

b. Business Combination— Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. The acquirer recognizes any bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a

review of the procedures used in the purchase price allocation. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

- c. Cash Equivalents**—Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value.

Cash equivalents include time deposits and certificates of deposit, both of which mature within three months of the date of acquisition.

- d. Inventories**—Construction projects in progress are stated at cost determined specifically by project. Materials and other inventories are mainly stated at the lower of cost, determined by the moving-average method, or net selling value.

- e. Marketable and Investment Securities**—Marketable and investment securities are classified and accounted for, depending on management's intent, as follows:

(1) held-to-maturity debt securities, for which there is the positive intent and ability to hold to maturity are reported at amortized cost; and (2) available-for-sale securities, which are not classified as the aforementioned securities, except for nonmarketable available-for sale securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

- f. Property, Plant and Equipment**—Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is computed substantially by the declining-balance method based on the estimated useful lives of the assets, while the straight-line method is applied to buildings acquired on or after April 1, 1998, building improvements and structures acquired on or after April 1, 2016, principal machinery and equipment, and all property and equipment of consolidated foreign subsidiaries. The range of useful lives is principally from 10 to 60 years for buildings and structures, from 3 to 22 years for machinery and equipment, and from 2 to 20 years for furniture and fixtures. Leased assets are depreciated using the straight-line method over the estimated useful lives of assets which are the term of the respective leases.

- g. Long-Lived Assets**—The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

- h. Land Revaluation**—Under the "Law of Land Revaluation," the Company elected a one-time revaluation of its own-use land to a value based on real estate appraisal information as of March 31, 2002. The resulting land revaluation excess represents unrealized appreciation of land and is stated, net of income taxes, as a

component of equity. There was no effect on the statement of income. Continuous readjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the land revaluation excess amount.

- i. Allowance for Doubtful Accounts*—The allowance for doubtful accounts is stated at amounts considered to be appropriate based on the Group’s past credit loss experience and an evaluation of potential losses in the receivables outstanding. The allowance for doubtful accounts related to the subordinated bonds and subordinated trust beneficiary rights issued by special-purpose entities “SPEs” is stated based on an evaluation of potential losses due to the deteriorating fiscal condition of the SPEs.
- j. Accrued Employees’ Bonuses*—The Company and certain consolidated subsidiaries have provided for employees’ bonuses and have recorded a liability at the estimated amount payable to employees.
- k. Retirement and Pension Plans*—The Company and certain consolidated subsidiaries have contributory funded defined benefit pension plans and unfunded retirement benefit plans for employees. Other consolidated domestic subsidiaries have unfunded retirement benefit plans.

The Company accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis. Actuarial gains and losses are recognized in profit or loss approximately over 6 years and 8 years, respectively, and past service costs are recognized in profit or loss over approximately 8 years, however, no longer than the expected average remaining service period of the employees. The discount rate is determined using a single weighted-average discount rate reflecting the estimated timing and amount of the benefit payments.

- l. Provision for Repair of Whole-Building Lease System*—Certain consolidated subsidiaries have provided for a provision for repair of whole-building lease systems to cover probable costs of restoration and repairs being borne in the future based on the whole-building lease contracts. See Note 22 for a description of the whole-building lease system.
- m. Stock Options*—The accounting standard for stock options requires companies to measure the cost of employee stock options based on the fair value at the date of grant and recognize compensation expense over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.
- n. Employee and Directors Stock Ownership Plan*—In December 2013, the ASBJ issued PITF No. 30, “Practical Solution on Transactions of Delivering the Company’s Own Stock to Employees etc. through Trusts” This PITF is effective for the beginning of annual periods beginning on or after April 1, 2014, with earlier application permitted from the beginning of annual periods first ending after the date of issuance of this PITF, and applied retrospectively.

In accordance with the PITF, upon the transfer of treasury stock to the Employee Stock Ownership Trust (the “Trust”) by the entity, any difference between the book value and fair value of the treasury stock shall be recorded in capital surplus. At year end, the entity shall record (1) the entity stock held by the Trust as

treasury stock in equity, (2) all other assets and liabilities of the Trust on a line-by-line basis, and (3) a liability/asset for the net of (i) any gain or loss on delivery of the stock by the Trust to the employee shareholding association, (ii) dividends received from the entity for the stock held by the Trust, and (iii) any expenses relating to the Trust.

The Company applied this PITF effective April 1, 2014. As for the trust contracts concluded before April 1, 2014, the Company applied transitional accounting (as stipulated in this PITF) and continued the previous accounting treatment.

- o. Research and Development Costs**—Research and development costs are charged to income as incurred.
- p. Construction Contracts**—Construction revenue and construction costs are recognized by the percentage-of-completion method, if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs and the stage of completion of the contract at the balance sheet date can be reliably measured, the outcome of a construction contract is deemed to be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method should be applied. When it is probable that the total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for a loss on the construction contracts.
- q. Income Taxes**—The provision for income taxes is computed based on pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax law rates to the temporary differences.
- r. Foreign Currency Transactions**—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.
- s. Foreign Currency Financial Statements**—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as “Foreign currency translation adjustments” under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.
- t. Derivatives and Hedging Activities**—The Group uses derivative financial instruments to manage its exposure to fluctuations in foreign currency exchange rates. Foreign exchange forward contracts are utilized by the Group to reduce foreign currency exchange risk. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: (1) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statement of income; and (2) for derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The foreign currency forward contracts employed to hedge foreign exchange exposure for imports are measured at fair value and the unrealized gains/losses are recognized in income. Forward contracts applied for forecasted (or committed) transactions are also measured at fair value but the unrealized gains/losses are deferred until the underlying transactions are completed.

Accounts payable denominated in foreign currencies for which foreign exchange forward contracts are used to hedge the foreign currency fluctuations are translated at the contracted rate if the forward contracts qualify for hedge accounting.

u. Consumption Tax—Consumption tax is accounted for by the tax exclusion method.

v. Per Share Information—Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding warrants at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective years, including dividends to be paid after the end of the year.

w. New Accounting Pronouncements

1: Accounting standard for revenue recognition

On March 30, 2018, the ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition". The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should recognize revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contracts with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when the entity satisfies a performance obligation

The accounting standard and guidance are effective for annual periods beginning on or after April 1, 2021. Earlier application is permitted for annual periods beginning on or after April 1, 2018.

The Company expects to apply the accounting standard and guidance for annual periods beginning on or April 1, 2021, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

2: Accounting standard for fair value measurement

On July 4, 2019, the ASBJ issued ASBJ Statement No. 30, "Accounting Standard for Fair Value Measurement" and ASBJ Guidance No. 31, "Implementation Guidance on Accounting Standard for Fair Value Measurement," and revised related ASBJ Statements and ASBJ Guidance (the "New Accounting Standards"). Under the New Accounting Standards, nonmarketable available-for-sale equity securities are stated at cost, while under the current accounting standards, nonmarketable available-for-sale securities are stated at cost. The New Accounting Standards are effective for the annual periods beginning on or after April 1, 2021. Earlier application is permitted for annual periods beginning on or after April 1, 2020, or annual periods ending on or after March 31, 2020.

The Company expects to apply the accounting standard and guidance for annual periods beginning on or April 1, 2021, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

x. *Impact of COVID-19 on accounting estimates*

In our group, the potential impact of COVID-19 was considered in assessing the key accounting estimates, such as impairment of fixed assets and recoverability of deferred tax assets, based on the information available at the time of preparation of the consolidated financial statements.

The extent of the impact of COVID-19 on our business depends on the nature of business. For our construction business, all the offices were closed due to the declaration of a nation-wide state of emergency and all the construction sites were closed since April 16, 2020. For this reason, we believe that operating profit will be decreased.

After the end of a nation-wide state of emergency, construction sites have been reopened and revenues from this business are gradually improving; however, it is inevitable that the impact of COVID-19 will remain in the next consolidated fiscal year.

As for the property business, all the offices were closed during the nation-wide state of emergency, but this did not have a significant impact on the occupancy rate. As such, we believe that the revenue from this business is not significantly affected by COVID-19.

Our financial business would also not be significantly affected by COVID-19.

The above assumptions were considered in assessing impairment of fixed assets and recoverability of deferred tax assets.

However, please note that all the above assumptions involved a high degree of uncertainty and there is a possibility that the further spread of COVID-19 and its impact on economy would have a greater impact on the consolidated financial statements for the next consolidated fiscal year.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2020 and 2019, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Current:			
Government and corporate bonds	¥ 4,029	¥ 9,509	\$ 37,021
Other	—	3,000	—
Total	¥ 4,029	¥12,509	\$ 37,021
Non-current:			
Marketable equity securities	¥12,317	¥21,899	\$113,177
Non-marketable equity securities	5,576	—	51,235
Government and corporate bonds	5,606	9,655	51,512
Investments in other companies	4,218	3,693	38,758
Trust fund investments and other	278	300	2,554
Total	¥27,995	¥35,547	\$257,236

The costs and aggregate fair values of marketable and investment securities at March 31, 2020 and 2019, were as follows:

	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2020				
Securities classified as:				
Available-for-sale:				
Equity securities	¥11,819	¥ 765	¥267	¥12,317
Government and corporate bonds	9,623	2	20	9,605
Other	3,982	536	22	4,496
Held-to-maturity	30	0	—	30

March 31, 2019

	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥12,598	¥9,313	¥ 12	¥21,899
Government and corporate bonds	19,145	7	28	19,124
Other	6,992	1	—	6,993
Held-to-maturity	40	1	—	41

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2020				
Securities classified as:				
Available-for-sale:				
Equity securities	\$108,601	\$7,029	\$2,453	\$113,177
Government and corporate bonds	88,422	18	183	88,257
Other	36,589	4,925	202	41,312
Held-to-maturity	276	0	—	276

The proceeds, realized gains and realized losses of the available-for-sale securities which were sold during the years ended March 31, 2020 and 2019, were as follows:

March 31, 2020	Millions of yen		
	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥1,620	¥ 960	¥(7)
Total	¥1,620	¥ 960	¥(7)
March 31, 2019			
Available-for-sale:			
Equity securities	¥1,459	¥1,065	¥—
Total	¥1,459	¥1,065	¥—

March 31, 2020	Thousands of U.S. Dollars		
	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	\$14,886	\$8,821	\$(64)
Total	\$14,886	\$8,821	\$(64)

4. SUBORDINATED BONDS AND SUBORDINATED TRUST BENEFICIARY RIGHTS

The Company mediates the extension of apartment loans to customers who order construction of rental housing.

As for these loans, financial institutions establish SPEs and the loans are securitized by the SPEs.

When the customers use these loans, the Company is required to buy the subordinated bonds or subordinated trust beneficiary rights issued by the SPEs according to the agreement with certain financial institutions.

Details of the subordinated bonds and subordinated trust beneficiary rights are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Subordinated bonds and subordinated trust beneficiary rights	¥10,643	¥11,140	\$ 97,795
Allowance for doubtful accounts	¥ (121)	¥ (153)	\$ (1,112)
Possession ratio of subordinated bonds and subordinated trust beneficiary rights	6.17%	6.17%	6.17%
Date of maturity	November 2034—February 2043	November 2034—February 2043	November 2034—February 2043
Loan balance of SPEs	¥34,404	¥37,195	\$316,126
Outstanding bonds of SPEs	¥34,512	¥37,241	\$317,118
Number of SPEs	10	10	10

The possession ratio of the subordinated bonds and subordinated trust beneficiary rights is the ratio of the subordinated bonds and subordinated trust beneficiary rights balance of the Company to the total amount of bonds when issued.

5. PLEDGED ASSETS

The carrying amounts of assets pledged as collateral required by the Building Lots and Buildings Transaction Business Law, and the Act for Secure Execution of Defect Warranty Liability, and those pledged for the purpose of extending payment due dates for customs and consumption tax and insurance payments in accordance with the Trust Business Act and the Insurance Business Act, and payment for Settlement of Electricity Transaction at March 31, 2020 and 2019, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Marketable securities	¥ 30	¥ 10	\$ 276
Investment securities	—	30	—
Guarantee deposits	9,188	9,178	84,425
Total	¥9,218	¥9,218	\$84,701

6. INVENTORIES

Inventories at March 31, 2020 and 2019, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Construction projects in progress	¥12,099	¥14,144	\$111,173
Materials	4,043	7,140	37,150
Merchandise	286	273	2,628
Total	¥16,428	¥21,557	\$150,951

7. INVESTMENT PROPERTY

The Group owns certain rental properties such as office buildings, apartments and car parking spaces and hotels. A portion of the rental office buildings where the Company and some consolidated subsidiaries use as their offices is included in "Properties that partially contain rental properties". The net of rental income and operating expenses for the rental properties was ¥4,431 million (\$40,715 thousand) and ¥3,986 million for the fiscal years ended March 31, 2020 and 2019, respectively.

The carrying amounts, changes in such balances and market prices of such properties are as follows:

(1) Rental properties

Millions of yen			Fair Value
April 1, 2019	Carrying Amount Increase	March 31, 2020	March 31, 2020
¥22,214	¥4,249	¥26,463	¥24,162

Millions of yen			Fair Value
April 1, 2018	Carrying Amount Increase	March 31, 2019	March 31, 2019
¥2,682	¥19,532	¥22,214	¥22,168

Thousands of U.S. Dollars			Fair Value
April 1, 2019	Carrying Amount Increase	March 31, 2020	March 31, 2020
\$204,117	\$39,042	\$243,159	\$222,016

(2) Properties that partially contain rental properties

Millions of yen			Fair Value
Carrying Amount			March 31, 2020
April 1, 2019	Decrease	March 31, 2020	
¥53,399	¥(517)	¥52,882	¥133,624

Millions of yen			Fair Value
Carrying Amount			March 31, 2019
April 1, 2018	Decrease	March 31, 2019	
¥54,055	¥(656)	¥53,399	¥132,645

Thousands of U.S. Dollars			Fair Value
Carrying Amount			March 31, 2020
April 1, 2019	Decrease	March 31, 2020	
\$490,664	\$(4,750)	\$485,914	\$1,227,823

- Notes: 1. Carrying amount recognized in the consolidated balance sheet is net of accumulated depreciation and accumulated impairment losses, if any.
2. Increase during the fiscal year ended March 31, 2020, primarily represents the acquisition of certain rental properties of ¥4,372 million (\$40,173 thousand), and decrease primarily represents the recognition of depreciation of ¥123 million (\$1,130 thousand).
3. Increase during the fiscal year ended March 31, 2019, primarily represents the acquisition of certain rental properties of ¥19,650 million, and decrease primarily represents the recognition of depreciation of ¥774 million.
4. Fair value of properties as of March 31, 2020 was measured by the Group in accordance with its Real-Estate Appraisal Standard.

8. LONG-TERM BANK LOANS

Long-term bank loans at March 31, 2020 and 2019, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Loans from banks due on various dates through 2021 with interest rates ranging from 0.17% to 0.41% (2020) and from 0.17% to 0.57% (2019)	¥ 82,750	¥ 92,116	\$ 760,360
Total	82,750	92,116	760,360
Less current portion	(21,640)	(19,816)	(198,842)
Long-term bank loans, less current portion	¥ 61,110	¥ 72,300	\$ 561,518

Annual maturities of long-term bank loans, excluding finance leases (see Note 16), at March 31, 2020, were as follows:

Year Ending March 31	Millions of yen	Thousands of U.S. dollars
2021	¥21,640	\$198,842
2022	20,440	187,816
2023	20,440	187,816
2024	2,440	22,420
2025	17,790	163,466
2026 and thereafter	—	—
Total	¥82,750	\$760,360

As is customary in Japan, the Company maintains substantial deposit balances with banks with which it has borrowings. Such deposit balances are not legally or contractually restricted as to withdrawal.

General agreements with respective banks provide, as is customary in Japan, that additional collateral must be provided under certain circumstances if requested by such banks and that certain banks have the right to offset cash deposited with them against any long-term or short-term debt or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the banks. The Company has never been requested to provide any additional collateral.

In addition, the Company entered into committed loan facility agreements totaling ¥119,017 million (\$1,093,605 thousand) with 11 Japanese banks. There was no balance under the committed loan facility agreements as of March 31, 2020.

9. RETIREMENT AND PENSION PLANS

The Company and certain consolidated subsidiaries have severance payment plans for employees. Under most circumstances, employees terminating employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain consolidated subsidiaries and annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

The Company and certain consolidated subsidiaries have contributory funded defined benefit pension plans and unfunded retirement benefit plans for employees which cover approximately 70% and 30%, respectively, of their benefits. Other consolidated subsidiaries have unfunded retirement benefit plans.

1. The changes in defined benefit obligation for the years ended March 31, 2020 and 2019, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Balance at beginning of year	¥39,474	¥34,704	\$362,713
Current service cost	3,305	2,744	30,368
Interest cost	2	5	18
Actuarial (gains) losses	1,460	4,343	13,415
Benefits paid	(2,413)	(2,322)	(22,172)
Balance at end of year	¥41,828	¥39,474	\$384,342

2. The changes in plan assets for the years ended March 31, 2020 and 2019, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Balance at beginning of year	¥26,121	¥24,804	\$240,017
Expected return on plan assets	389	370	3,574
Actuarial (gains) losses	(558)	(128)	(5,127)
Contributions from the employer	2,537	2,672	23,312
Benefits paid	(1,718)	(1,597)	(15,787)
Balance at end of year	¥26,771	¥26,121	\$245,989

3. Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets was as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Funded defined benefit obligation	¥30,577	¥28,822	\$280,961
Plan assets	26,771	26,121	245,989
Total	3,806	2,701	34,972
Unfunded defined benefit obligation	11,255	10,652	103,418
Net liability (asset) arising from defined benefit obligation	¥15,061	¥13,353	\$138,390

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Liability for retirement benefits	¥15,229	¥13,388	\$139,934
Asset for retirement benefits	(168)	(35)	(1,544)
Net liability (asset) arising from defined benefit obligation	¥15,061	¥13,353	\$138,390

4. The components of net periodic benefit costs for the years ended March 31, 2020 and 2019, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Service cost	¥3,305	¥2,744	\$30,368
Interest cost	2	5	18
Expected return on plan assets	(389)	(370)	(3,574)
Recognized actuarial (gains) losses	1,966	1,971	18,065
Amortization of prior service cost	23	29	211
Net periodic benefit costs	¥4,907	¥4,379	\$45,088

5. Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2020 and 2019, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Prior service cost	¥ 23	¥ 29	\$ 211
Actuarial (gains) losses	(52)	(2,500)	(477)
Total	¥(29)	¥(2,471)	\$(266)

6. Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2020 and 2019, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Unrecognized prior service cost	¥ (10)	¥ (33)	\$ (92)
Unrecognized actuarial (gains) losses	(4,329)	(4,276)	(39,778)
Total	¥(4,339)	¥(4,309)	\$(39,870)

7. Plan assets

(1) Components of plan assets

Plan assets as of March 31, 2020 and 2019, consisted of the following:

	2020	2019
Debt investments	42.4%	44.4%
Equity investments	9.3%	15.7%
Cash and cash equivalents	9.0%	2.9%
General accounts	36.3%	35.0%
Others	3.0%	2.0%
Total	100.0%	100.0%

(2) Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

8. Assumptions used for the years ended March 31, 2020 and 2019, were set forth as follows:

	2020	2019
Discount rate	0.0%	0.0%
Expected rate of return on plan assets	1.5%	1.5%
Expected rate of future salary increases	1.9%	1.6%

10. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company does not meet all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal

reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

The Company has set up a "Trust under Employee Stock Ownership Plan" (the "ESOP trust") and a "Trust for employees receiving in-kind benefit by stock" (the "J-ESOP") to improve the employees' benefit program, increase corporate value by enhancing awareness of the Company's results and stock price, and enhance employees' motivation and morale. In addition, the Company has set up a "Board incentive plan" (the "BIP") to better interrelate the director's remuneration plan, the Company's performance, and shareholder's value so that the directors will be motivated to contribute to the Company's performance and increase corporate value by holding ownership shares of the Company. The Company believes that this will improve the mindset of the directors to share same value with the shareholder in relation to the Company's performance.

Trust Contracts Concluded Before April 1, 2014

J-ESOP

The implementation of a new employee incentive plan J-ESOP was resolved at the Board of Directors' Meeting held on July 4, 2011. Under the J-ESOP, employees are granted shares of the Company's stock when they become vested in accordance with the Share-based Benefits Regulations established by the Company. The Company grants points to selected employees based on their performance and achievements. Employees who have met certain requirements will receive the number of shares of the Company' stock corresponding to their points obtained (one share to one point). Shares to be granted to employees are acquired for both current and future benefits with the money held in a trust and separately managed as trust assets. With the J-ESOP, the Company expects to enhance employees' morale and motivation to dedicate themselves to improving the Company's business performance and corporate value over the medium-term.

The Company's stock held by the above trusts at March 31, 2020 and 2019, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
J-ESOP	¥4,009	¥4,951	\$36,837

	Thousands of Shares	
	2020	2019
J-ESOP	247	326

The Company's stock held by the trusts is therefore presented as "Treasury Stock" and as a deduction to shareholders' equity in the consolidated balance sheet and consolidated shareholders' equity (or statement of changes in equity).

However, such stock is excluded from treasury stock in calculating EPS of common stock and fully diluted EPS of common stock.

Trust Contracts Concluded On or After April 1, 2014

ESOP trust

The implementation of an employee incentive plan ESOP trust was resolved at the Board of Directors' Meeting held on November 24, 2015, aiming to increase the Company's corporate value over the medium to long-term. The Company has set up a trust for employees that are members of the "Daito Trust Construction Co., Ltd. Employee Stock Ownership Plan," who are eligible under certain requirements to be beneficiaries. During the designated acquisition period, December 16, 2015 to January 29, 2016, the ESOP trust purchased from stock exchanges the number of shares of the Company's stock which is expected to be acquired by the Daito Trust Construction Co., Ltd. Employee Stock Ownership Plan from the ESOP trust over five years after its establishment. Since the acquisition, the ESOP trust has sold shares of the Company's stock to Daito Trust Construction Co., Ltd. Employee Stock Ownership Plan on a certain day of every month. As for the termination of the ESOP trust, where an increase in the stock price will have generated trust earnings on the sales of the shares of the Company's stock, money held in the trust will be distributed to the employees as beneficiaries based on their contribution ratio. When a decrease in the stock price will have caused losses on the sales of the shares of the Company's stock, resulting in obligations related to trust assets, the employees will not be obligated to make additional contributions because the Company will settle those obligations in a lump sum with the bank in accordance with a guarantee clause in the loan agreement.

The Company's stock held by the above trust at March 31, 2020 and 2019, was as follow:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
ESOP trust	¥1,761	¥3,617	\$16,181

	Thousands of Shares	
	2020	2019
ESOP trust	132	271

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Long-term debt	¥12,000	¥2,880	\$110,264

The Company's stock held by the above trusts also has the same rights as a normal stock, e.g., voting and dividend claim rights, as the stock does not meet the definition of treasury stock under the Companies Act. To calculate the available amounts of dividends as stipulated under Clause 2 of Article 461 of the Companies Act, the Company's stock held by the trusts is not deducted for the same reason.

Trust Contracts Concluded On or After April 1, 2014

BIP

The implementation of a new director incentive plan BIP was resolved at the general shareholders meeting held on June 25 2019. Under the BIP, the directors are granted shares of the Company's stock or similar value of money upon their achievement of their performance indicators. The period for this new director incentive plan is from the year ended March 31, 2020 to the year ending March 31, 2022 and subsequently every 3 years. Upper limit of ¥1,900 million (\$17,458 thousand) is set on director's remuneration to be paid in each period. The directors who have achieved their performance indicators will only be subject to this incentive plan. The trust period will be 3 years. During the trust period, the points will be granted to directors but during the subjected 3 years, the maximum for total points granted to an individual director will be 210,000 points (210,000 shares). At the end of the subjected period, the trust will convert the points into shares of the Company's stock or similar value of money. Also, the Company plans to, at the end of the trust period, set up a new trust, amend the existing trust contract or create an additional trust contract to retain this incentive plan.

The Company's stock held by the above trust at March 31, 2020 and 2019, was as follow:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
BIP	¥808	¥—	\$7,424

	Thousands of Shares	
	2020	2019
BIP	59	—

The Company's stock held by the above trusts also has the same rights as a normal stock, e.g., voting and dividend claim rights, as the stock does not meet the definition of treasury stock under the Companies Act. To calculate the available amounts of dividends as stipulated under Clause 2 of Article 461 of the Companies Act, the Company's stock held by the trusts is not deducted for the same reason.

11. STOCK OPTIONS

The Company

The stock options outstanding as of March 31, 2020, were as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2012 Stock Option (A)	10 directors	7,600 shares	2012.6.14	¥ 1 (\$0.01)	From June 15, 2012 to June 14, 2042
2012 Stock Option (B)	10 directors	17,500 shares	2012.6.14	¥ 1 (\$0.01)	From June 15, 2015 to June 14, 2020
2013 Stock Option (A)	11 directors	7,900 shares	2013.6.17	¥ 1 (\$0.01)	From June 18, 2013 to June 17, 2043
2013 Stock Option (B)	11 directors	14,300 shares	2013.6.17	¥ 1 (\$0.01)	From June 18, 2016 to June 17, 2021
2014 Stock Option (A)	6 directors	5,200 shares	2014.6.17	¥ 1 (\$0.01)	From June 18, 2014 to June 17, 2044
2014 Stock Option (B)	6 directors	11,600 shares	2014.6.17	¥ 1 (\$0.01)	From June 18, 2017 to June 17, 2022
2015 Stock Option (A)	7 directors	4,200 shares	2015.6.16	¥ 1 (\$0.01)	From June 17, 2015 to June 16, 2045
2015 Stock Option (B)	7 directors	8,200 shares	2015.6.16	¥ 1 (\$0.01)	From June 17, 2018 to June 16, 2023
2016 Stock Option (A)	9 directors	3,800 shares	2016.6.16	¥ 1 (\$0.01)	From June 17, 2016 to June 16, 2046
2016 Stock Option (B)	9 directors	7,000 shares	2016.6.16	¥ 1 (\$0.01)	From June 17, 2019 to June 16, 2024
2017 Stock Option (A)	10 directors	11,600 shares	2017.6.16	¥ 1 (\$0.01)	From June 17, 2017 to June 16, 2047
2017 Stock Option (B)	10 directors	7,000 shares	2017.6.16	¥ 1 (\$0.01)	From June 17, 2020 to June 16, 2025
2018 Stock Option (A)	8 directors	2,800 shares	2018.6.15	¥ 1 (\$0.01)	From June 16, 2018 to June 15, 2048
2018 Stock Option (B)	8 directors	6,200 shares	2018. 6.15	¥ 1 (\$0.01)	From June 16, 2021 to June 15, 2026
2019 Stock Option (A)	9 directors	16,000 shares	2019.6.14	¥ 1 (\$0.01)	From June 15, 2019 to June 14, 2049
2019 Stock Option (B)	9 directors	9,400 shares	2019. 6.14	¥ 1 (\$0.01)	From June 15, 2022 to June 14, 2027

The stock option activity for the years ended March 31, 2020 and 2019, is as follows:

	2012 Stock Option (A)	2012 Stock Option (B)	2013 Stock Option (A)	2013 Stock Option (B)	2014 Stock Option (A)	2014 Stock Option (B)
Year Ended March 31, 2020 (Shares)						
Non-vested						
March 31, 2019—Outstanding	—	—	—	—	—	—
Granted	—	—	—	—	—	—
Canceled	—	—	—	—	—	—
Vested	—	—	—	—	—	—
March 31, 2020—Outstanding	—	—	—	—	—	—
Vested						
March 31, 2019—Outstanding	1,000	1,300	1,600	700	2,500	1,600
Vested	—	—	—	—	—	—
Exercised	1,000	1,300	1,000	700	1,800	1,600
Canceled	—	—	—	—	—	—
March 31, 2020—Outstanding	—	—	600	—	700	—
Exercise price	¥ 1 (\$ 0.01)					
Average stock price at exercise	¥13,885 (\$127.58)	¥14,425 (\$132.55)	¥13,885 (\$127.58)	¥14,425 (\$132.55)	¥13,885 (\$127.58)	¥10,860 (\$ 99.79)
Fair value price at grant date	¥ 5,821 (\$ 53.49)	¥ 5,474 (\$ 50.30)	¥ 7,444 (\$ 68.40)	¥ 7,304 (\$ 67.11)	¥ 9,361 (\$ 86.01)	¥ 9,741 (\$ 89.51)

	2015 Stock Option (A)	2015 Stock Option (B)	2016 Stock Option (A)	2016 Stock Option (B)	2017 Stock Option (A)	2017 Stock Option (B)
Year Ended March 31, 2020 (Shares)						
Non-vested						
March 31, 2019—Outstanding	—	—	—	7,000	—	7,000
Granted	—	—	—	—	—	—
Canceled	—	—	—	—	—	—
Vested	—	—	—	7,000	—	—
March 31, 2020—Outstanding	—	—	—	—	—	7,000
Vested						
March 31, 2019—Outstanding	2,500	5,400	2,500	—	2,600	—
Vested	—	—	—	7,000	—	—
Exercised	1,400	900	1,200	3,500	1,200	—
Canceled	—	—	—	—	—	—
March 31, 2020—Outstanding	1,100	4,500	1,300	3,500	1,400	—
Exercise price	¥ 1 (\$ 0.01)					
Average stock price at exercise	¥13,885 (\$127.58)	¥10,860 (\$ 99.79)	¥13,885 (\$127.58)	¥13,192 (\$121.22)	¥13,885 (\$127.58)	¥ — (\$ —)
Fair value price at grant date	¥10,328 (\$ 94.90)	¥10,667 (\$ 98.02)	¥13,013 (\$119.57)	¥13,044 (\$119.86)	¥15,384 (\$141.36)	¥15,119 (\$138.92)

	2018 Stock Option (A)	2018 Stock Option (B)	2019 Stock Option (A)	2019 Stock Option (B)
Year Ended March 31, 2020 (Shares)				
Non-vested				
March 31, 2019—Outstanding	—	6,200	—	—
Granted	—	—	16,000	9,400
Canceled	—	—	—	—
Vested	—	—	16,000	—
March 31, 2020—Outstanding	—	6,200	—	9,400
Vested				
March 31, 2019—Outstanding	2,800	—	—	—
Vested	—	—	16,000	—
Exercised	1,200	—	12,300	—
Canceled	—	—	—	—
March 31, 2020—Outstanding	1,600	—	3,700	—
Exercise price	¥ 1 (\$ 0.01)	¥ 1 (\$ 0.01)	¥ 1 (\$ 0.01)	¥ 1 (\$ 0.01)
Average stock price at exercise	¥13,885 (\$127.58)	¥ — (\$ —)	¥13,885 (\$127.58)	¥ — (\$ —)
Fair value price at grant date	¥15,054 (\$138.33)	¥15,246 (\$140.09)	¥11,452 (\$105.23)	¥10,951 (\$100.62)

	2012 Stock Option (A)	2012 Stock Option (B)	2013 Stock Option (A)	2013 Stock Option (B)	2014 Stock Option (A)	2014 Stock Option (B)
Year Ended March 31, 2019 (Shares)						
Non-vested						
March 31, 2018—Outstanding	—	—	—	—	—	—
Granted	—	—	—	—	—	—
Canceled	—	—	—	—	—	—
Vested	—	—	—	—	—	—
March 31, 2019—Outstanding	—	—	—	—	—	—
Vested						
March 31, 2018—Outstanding	1,000	1,300	1,600	1,700	2,500	1,600
Vested	—	—	—	—	—	—
Exercised	—	—	—	1,000	—	—
Canceled	—	—	—	—	—	—
March 31, 2019—Outstanding	1,000	1,300	1,600	700	2,500	1,600

	2015 Stock Option (A)	2015 Stock Option (B)	2016 Stock Option (A)	2016 Stock Option (B)
Year Ended March 31, 2019 (Shares)				
Non-vested				
March 31, 2018—Outstanding	—	8,200	—	7,000
Granted	—	—	—	—
Canceled	—	—	—	—
Vested	—	8,200	—	—
March 31, 2019—Outstanding	—	—	—	7,000
Vested				
March 31, 2018—Outstanding	2,500	—	2,500	—
Vested	—	8,200	—	—
Exercised	—	2,800	—	—
Canceled	—	—	—	—
March 31, 2019—Outstanding	2,500	5,400	2,500	—

	2017 Stock Option (A)	2017 Stock Option (B)	2018 Stock Option (A)	2018 Stock Option (B)
Year Ended March 31, 2019 (Shares)				
Non-vested				
March 31, 2018—Outstanding	—	7,000	—	—
Granted	—	—	2,800	6,200
Canceled	—	—	—	—
Vested	—	—	2,800	—
March 31, 2019—Outstanding	—	7,000	—	6,200
Vested				
March 31, 2018—Outstanding	2,600	—	—	—
Vested	—	—	2,800	—
Exercised	—	—	—	—
Canceled	—	—	—	—
March 31, 2019—Outstanding	2,600	—	2,800	—

The Assumptions Used to Measure the Fair Value of the 2019 Stock Option (A)

Estimate method: Black-Scholes option pricing model

Volatility of stock price: 24.05%

Estimated remaining outstanding period: 4.47 years

Estimated dividend: ¥606 per share

Risk free interest rate: -0.226%

The Assumptions Used to Measure the Fair Value of the 2019 Stock Option (B)

Estimate method: Black-Scholes option pricing model

Volatility of stock price: 23.44%

Estimated remaining outstanding period: 5.50 years

Estimated dividend: ¥606 per share

Risk free interest rate: -0.225%

Consolidated subsidiary

The House com Corporation

Stock has been restated, as appropriate, to reflect two-for-one stock split effected April 1, 2018.

The stock options outstanding as of March 31, 2020, were as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2014 Stock Option	1 director	31,000 shares	2014.5.30	¥ 1 (\$0.01)	From May 31, 2014 to May 30, 2044
2015 Stock Option	2 directors	11,200 shares	2015.6.5	¥ 1 (\$0.01)	From June 6, 2015 to June 5, 2045
2016 Stock Option	2 directors	11,400 shares	2016.6.2	¥ 1 (\$0.01)	From June 4, 2016 to June 3, 2046
2017 Stock Option	2 directors	10,600 shares	2017.5.31	¥ 1 (\$0.01)	From June 2, 2017 to June 1, 2047

The stock option activity for the years ended March 31 2020 and 2019, is as follows:

	2014 Stock Option	2015 Stock Option	2016 Stock Option	2017 Stock Option
Year Ended March 31, 2020	(Shares)			
Non-vested				
March 31, 2019—Outstanding	—	—	—	—
Granted	—	—	—	—
Canceled	—	—	—	—
Vested	—	—	—	—
March 31, 2020—Outstanding	—	—	—	—
Vested				
March 31, 2019—Outstanding	31,000	11,200	11,400	10,600
Vested	—	—	—	—
Exercised	—	—	—	—
Canceled	—	—	—	—
March 31, 2020—Outstanding	31,000	11,200	11,400	10,600
Exercise price	¥ 1 (\$0.01)	¥ 1 (\$0.01)	¥ 1 (\$0.01)	¥ 1 (\$0.01)
Average stock price at exercise	¥ — (\$ —)	¥ — (\$ —)	¥ — (\$ —)	¥ — (\$ —)
Fair value price at grant date	¥ 270 (\$2.48)	¥ 656 (\$6.03)	¥ 596 (\$5.48)	¥ 827 (\$7.60)

	2014 Stock Option	2015 Stock Option	2016 Stock Option	2017 Stock Option
Year Ended March 31, 2019	(Shares)			
Non—vested				
March 31, 2018—Outstanding	—	—	—	—
Granted	—	—	—	—
Canceled	—	—	—	—
Vested	—	—	—	—
March 31, 2019—Outstanding	—	—	—	—
Vested				
March 31, 2018—Outstanding	31,000	11,200	11,400	10,600
Vested	—	—	—	—
Exercised	—	—	—	—
Canceled	—	—	—	—
March 31, 2019—Outstanding	31,000	11,200	11,400	10,600

12. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 30.6% and 30.6% for the years ended March 31, 2020 and 2019, respectively.

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities at March 31, 2020 and 2019, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Deferred tax assets:			
Loss on devaluation of investment securities	¥ 311	¥ 283	\$ 2,858
Allowance for doubtful accounts	1,717	1,468	15,777
Unrealized profit of assets	7,379	4,643	67,803
Accrued expenses	1,985	2,637	18,239
Accrued enterprise taxes	1,860	1,667	17,091
Depreciation	1,389	1,426	12,763
Accrued employees' bonuses	4,332	6,559	39,805
Provision for warranties for completed construction	251	311	2,307
Retirement benefit for employees	4,662	4,119	42,837
Provision for repair of whole-building lease system	46,500	41,255	427,272
Deferred cleaning revenue	5,090	4,473	46,770
Tax loss carryforwards	524	469	4,815
Others	10,246	8,684	94,147
Total of tax loss carryforwards and temporary differences	86,246	77,994	792,484
Less valuation allowance for tax loss carryforwards	(524)	(469)	(4,815)
Less valuation allowance for temporary differences	(404)	(373)	(3,712)
Total valuation allowance	(928)	(842)	(8,527)
Deferred tax assets	85,318	77,152	783,957
Deferred tax liabilities:			
Reserve for special depreciation	1,737	2,712	15,961
Unrealized gain on available-for-sale securities	102	2,863	937
Others	553	468	5,082
Deferred tax liabilities	2,392	6,043	21,980
Net deferred tax assets	¥82,926	¥71,109	\$761,977

The expiration of tax loss carryforwards, the related valuation allowances and the resulting net deferred tax assets as of March 31, 2020 and 2019, were as follows:

	Millions of yen						Total
	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	
March 31, 2020							
Deferred tax assets relating to tax loss carryforwards				¥ 8	¥ 15	¥ 501	¥ 524
Less valuation allowances for tax loss carryforwards				(8)	(15)	(501)	(524)
Net deferred tax assets relating to tax loss carryforwards							

	Millions of yen						Total
	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	
March 31, 2019							
Deferred tax assets relating to tax loss carryforwards					¥ 8	¥ 461	¥ 469
Less valuation allowances for tax loss carryforwards					(8)	(461)	(469)
Net deferred tax assets relating to tax loss carryforwards							

	Thousands of U.S. Dollars						Total
	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	
March 31, 2020							
Deferred tax assets relating to tax loss carryforwards				\$73	\$138	\$4,604	\$4,815
Less valuation allowances for tax loss carryforwards				(73)	(138)	(4,604)	(4,815)
Net deferred tax assets relating to tax loss carryforwards							

Deferred tax assets and liabilities were included in the consolidated balance sheets as of March 31, 2020 and 2019 as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Non-current assets—Deferred tax assets	¥83,234	¥71,406	\$764,807
Non-current liabilities—Other	(308)	(297)	(2,830)

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 2020, with the corresponding figures for 2019, is as follows:

	2020	2019
Normal effective statutory tax rate	30.6%	30.6%
Expenses not deductible for income tax purposes	1.0	1.4
Inhabitant tax on per capita basis	0.4	0.4
Valuation allowance	0.1	(0.3)
Others—net	(0.3)	(0.4)
Actual effective tax rate	31.8%	31.7%

13. CONSTRUCTION CONTRACTS

Revenue recognized with respect to construction contracts which is accounted for by the percentage-of-completion method at March 31, 2020 and 2019, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Revenue	¥542,002	¥603,416	\$4,980,263

14. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income for the years ended March 31, 2020 and 2019, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Research and development costs	¥1,542	¥1,984	\$14,169

15. OTHER INCOME—NET

Other income—net for the years ended March 31, 2020 and 2019, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Commission fee	¥3,102	¥3,456	\$28,503
Impairment losses	(34)	(30)	(312)
Other	1,496	1,341	13,746
Other income—net	¥4,564	¥4,767	\$41,937

16. LEASES

Lessee

The minimum rental commitments under noncancelable operating leases at March 31, 2020 and 2019, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Due within one year	¥ 528,222	¥ 499,782	\$ 4,853,643
Due after one year	1,903,491	1,908,814	17,490,499
Total	¥2,431,713	¥2,408,596	\$22,344,142

Lease payments fixed by contract with regard to the whole-building lease system are included in the above-mentioned minimum rental commitments at March 31, 2020 and 2019, as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Due within one year	¥ 525,470	¥ 495,866	\$ 4,828,356
Due after one year	1,896,624	1,897,902	17,427,401
Total	¥2,422,094	¥2,393,768	\$22,255,757

Lessor

The minimum rental commitments under noncancelable operating leases at March 31, 2020 and 2019, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Due within one year	¥ 1,319	¥ 621	\$ 12,120
Due after one year	14,284	1,864	131,251
Total	¥15,603	¥2,485	\$143,371

17. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

The Group uses financial instruments, mainly loans from banks, based on its capital financing plan for construction business. As a matter of policy, the Group only uses derivatives for actual operating requirements, not for speculative purposes.

(2) Nature and Extent of Risks Arising from Financial Instruments and Risk Management for Financial Instruments

Money held in trust has been set up to separately manage tenancy deposits. The Group manages such trust assets as short-term deposits and low risk securities. These are exposed to variable risks, including issuers' credit, interest rate, and market. However, the Group periodically monitors the financial condition of issuers and the market value of debt securities.

Receivables such as trade notes and accounts receivable are exposed to customer credit risk. The Group decreases the risk by starting construction after customer financing is fixed.

Marketable and investment securities, mainly held-to-maturity securities and equity instruments, are exposed to variable risks, including issuers' credit, interest rate, and market. The Group periodically monitors the financial condition of the issuers of marketable investment securities. An ongoing review of securities held, other than held-to-maturity securities, is performed by taking into consideration the market as well as the relationship with the trading counterparties.

Short-term investments are time deposits that mature or become due after more than three months from the date of acquisition.

Operating loans, mainly loans for customers' construction financing (i.e., bridge loans until financial institutions execute a long-term loan) are exposed to customer credit risk. The Group thoroughly enforces credit risk management, which includes periodic monitoring of the financial condition of customers to mitigate the risk of uncollectible loans.

Subordinated bonds and subordinated trust beneficiary rights are financial instruments issued by an SPE established by a financial institution. The financial institution securitized the apartment loans of customers who order the Company to construct an apartment building for rent using the SPE. Subordinated bonds and subordinated trust beneficiary rights are exposed to the credit risk of the debtor of the apartment loan. The Group manages the credit risk by monitoring repayments of the loan.

Payment terms of payables, such as accounts payable, income taxes payable, and deposits received, are generally less than one year.

Loans from banks are exposed to market risk from changes in interest rates. The Group performs continuous monitoring of market fluctuations.

Long-term deposits received for guarantees are received from tenants in the real estate rental business by the whole-building lease system.

Derivatives are forward foreign currency exchange contracts, which are used to manage exposure to market risks from changes in foreign currency exchange rate payables.

(3) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, another rational valuation technique is used instead.

(a) Fair value of financial instruments

March 31, 2020	Millions of yen		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥159,902	¥159,902	¥ —
Money held in trust	14,000	14,000	—
Short-term investments	28	28	—
Notes and accounts receivable	76,457		
Allowance for doubtful accounts	(73)		
	76,384	76,384	
Marketable and investment securities:			
Held-to-maturity securities	30	30	0
Investments in associated companies	14,935	31,932	16,997
Available-for-sale securities	26,418	26,418	—
Operating loans	127,592		
Allowance for doubtful accounts	(274)		
	127,318	127,496	178
Total	¥419,015	¥436,190	¥17,175
Accounts payable	¥ 54,760	¥ 54,760	¥ —
Income taxes payable	30,082	30,082	—
Deposit received	10,004	10,004	—
Current portion of long-term loans and long-term loans	82,750	82,750	—
Deposits received for guarantees	33,645	33,492	(153)
Total	¥211,241	¥211,088	¥ (153)

March 31, 2019	Millions of yen		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥187,614	¥187,614	¥ —
Money held in trust	16,000	16,000	—
Short-term investments	1,000	1,000	—
Notes and accounts receivable	67,326		
Allowance for doubtful accounts	(43)		
	67,283	67,283	—
Marketable and investment securities:			
Held-to-maturity securities	40	41	1
Investments in associated companies	14,470	39,629	25,159
Available-for-sale securities	48,016	48,016	—
Operating loans	93,260		
Allowance for doubtful accounts	(186)		
	93,074	93,335	261
Total	¥427,497	¥452,918	¥25,421
Accounts payable	¥ 45,687	¥ 45,687	¥ —
Income taxes payable	28,325	28,325	—
Deposit received	8,783	8,783	—
Current portion of long-term bank loans and long-term bank loans	92,116	92,116	—
Deposits received for guarantees	34,109	34,030	(79)
Total	¥209,020	¥208,941	¥ (79)

March 31, 2020	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	\$1,469,282	\$1,469,282	\$ —
Money held in trust	128,641	128,641	—
Short-term investments	257	257	—
Notes and accounts receivable	702,536		
Allowance for doubtful accounts	(671)		
	701,865	701,865	—
Marketable and investment securities:			
Held-to-maturity securities	276	276	0
Investments in associated companies	137,232	293,412	156,180
Available-for-sale securities	242,746	242,746	—
Operating loans	1,172,397		
Allowance for doubtful accounts	(2,517)		
	1,169,880	1,171,515	1,635
Total	\$3,850,179	\$4,007,994	\$157,815
Accounts payable	\$503,170	\$503,170	\$ —
Income taxes payable	276,413	276,413	—
Deposit received	91,923	91,923	—
Current portion of long-term loans and long-term loans	760,360	760,360	—
Deposits received for guarantees	309,152	307,746	(1,406)
Total	\$1,941,018	\$1,939,612	\$ (1,406)

Cash and Cash Equivalents, Notes and Accounts Receivable and Short-Term Investments

The carrying amounts of the accounts presented above approximate fair value because of their short maturities.

Money Held in Trust

The fair value of money held in trust is measured based on the financial instruments which comprise the money held in trust. At the end of the fiscal year ended March 31, 2020, all of the financial instruments that comprise money held in trust were deposits. As the carrying amount of this account approximates fair value, the carrying amount is treated as its fair value.

Marketable and Investment Securities

The fair values of marketable and investment securities are measured at the quoted market price of the stock exchange for the equity instruments, and at the quoted price obtained from the financial institution for certain debt instruments. Fair value information for marketable and investment securities by classification is included in Note 3.

Operating Loans

The fair value of operating loans with floating-rates approximates its carrying amount because the rate reflects market interest rates within a short period of time except for significant changes in credit conditions of debtors.

Loans with fixed rates consist of short-term bridge loans and long-term loans. The fair value of operating loans approximates its carrying amount because the rate reflects market interest rates. The fair value of long-term loans is determined based on the present value calculated by using discount rates corresponding to the remaining period of the loan and credit risk.

Accounts Payable, Income Taxes Payable, and Deposits Received

The carrying amount of the accounts mentioned above approximate fair value because of their short maturities.

Current Portion of Long-Term Loans and Long-Term Loans

For the current portion of long-term loans and for long-term loans that have floating interest rates, the fair values approximate the carrying amount because the rates reflect market interest rates within a short period of time.

Deposits Received for Guarantees

The fair value of deposits received for guarantees is determined based on the present value calculated by using discount rates corresponding to credit risk and the remaining period of deposits received for the guarantees.

(b) Carrying amount of financial instruments whose fair value cannot be reliably determined

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Subordinated bonds and subordinated trust beneficiary rights	¥10,643	¥11,140	\$97,795
Investments in equity instruments that do not have a quoted market price in an active market	¥ 5,723	¥ 109	\$52,587
Investments in other companies	¥ 2,723	¥ 3,041	\$25,021

(4) Maturity Analysis for Financial Assets and Securities with Contractual Maturities

	Millions of yen					
March 31, 2020	Due in 1 Year or Less	Due after 1 Year through 2 Years	Due after 2 Years through 3 Years	Due after 3 Years through 4 Years	Due after 4 Years through 5 Years	Due after 5 Years
Cash and cash equivalents	¥159,902	¥ —	¥ —	¥ —	¥ —	¥ —
Money held in trusts	14,000					
Short-term investments	28					
Notes and accounts receivable	76,457	—	—	—	—	—
Investment securities:						
Held-to-maturity securities	30	—	—	—	—	—
Available-for-sales securities with contractual maturities	4,000	1,500	3,100	1,000	—	300
Operating loans	77,074	4,065	3,797	3,509	3,247	35,900
Subordinated bonds and subordinated trust beneficiary rights	—	—	—	—	—	10,821
Total	¥331,491	¥5,565	¥6,897	¥4,509	¥3,247	¥47,021

	Millions of yen					
March 31, 2019	Due in 1 Year or Less	Due after 1 Year through 2 Years	Due after 2 Years through 3 Years	Due after 3 Years through 4 Years	Due after 4 Years through 5 Years	Due after 5 Years
Cash and cash equivalents	¥187,614	¥ —	¥ —	¥ —	¥ —	¥ —
Money held in trusts	16,000					
Short-term investments	1,000					
Notes and accounts receivable	67,326	—	—	—	—	—
Investment securities:						
Held-to-maturity securities	10	30	—	—	—	—
Available-for-sales securities with contractual maturities	12,500	4,000	1,500	3,100	1,000	300
Operating loans	63,539	2,907	2,632	2,340	2,019	19,805
Subordinated bonds and subordinated trust beneficiary rights	—	—	—	—	—	11,319
Total	¥347,989	¥6,937	¥4,132	¥5,440	¥3,019	¥31,424

	Thousands of U.S. Dollars					
	Due in 1 Year or Less	Due after 1 Year through 2 Years	Due after 2 Years through 3 Years	Due after 3 Years through 4 Years	Due after 4 Years through 5 Years	Due after 5 Years
March 31, 2020						
Cash and cash equivalents	\$1,469,282	\$ —	\$ —	\$ —	\$ —	\$ —
Money held in trusts	128,641					
Short-term investments	257					
Notes and accounts receivable	702,536	—	—	—	—	—
Investment securities:						
Held-to-maturity securities	276	—	—	—	—	—
Available-for-sale securities with contractual maturities	36,755	13,783	28,485	9,189	—	2,757
Operating loans	708,205	37,352	34,889	32,243	29,836	329,872
Subordinated bonds and subordinated trust beneficiary rights	—	—	—	—	—	99,430
Total	\$3,045,952	\$51,135	\$63,374	\$41,432	\$29,836	\$432,059

Please see Note 8 for annual maturities of long-term bank loans.

18. DERIVATIVES

Derivative Transactions to Which Hedge Accounting Is Applied

March 31, 2020	Hedged Item	Millions of yen		
		Contract Amount	Contract Amount due after One Year	Fair Value
Foreign currency forward contracts:				
Buying U.S.\$	Forecasted transactions	¥11,532	¥4,538	¥372
March 31, 2019				
Foreign currency forward contracts:				
Buying U.S.\$	Forecasted transactions	¥12,564	¥4,173	¥321
March 31, 2020	Hedged Item	Thousands of U.S. Dollars		
		Contract Amount	Contract Amount due after One Year	Fair Value
Foreign currency forward contracts:				
Buying U.S.\$	Forecasted transactions	\$105,963	\$41,698	\$3,418

The fair value of derivative transactions is measured at the quoted price obtained from the financial institution.

The contract or notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

19. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended March 31, 2020 and 2019, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Unrealized gain (loss) on available-for-sale securities:			
Gains arising during the year	¥(7,647)	¥ 1,937	\$(70,266)
Reclassification adjustments to profit or loss	(834)	(1,066)	(7,663)
Amount before income tax effect	(8,481)	871	(77,929)
Income tax effect	2,761	(266)	25,370
Total	¥(5,720)	¥ 605	\$(52,559)
Deferred gain (losses) on derivatives under hedge accounting:			
Gains arising during the year	¥ 51	¥ 745	\$ 469
Reclassification adjustments to profit or loss	—	—	—
Amount before income tax effect	51	745	469
Income tax effect	(15)	(228)	(138)
Total	¥ 36	¥ 517	\$ 331
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ (634)	¥ (988)	\$ (5,826)
Reclassification adjustments to profit or loss	—	—	—
Amount before income tax effect	(634)	(988)	(5,826)
Income tax effect	—	—	—
Total	¥ (634)	¥ (988)	\$ (5,826)
Defined retirement benefit plan(s):			
Adjustments arising during the year	¥(2,018)	¥(4,471)	\$(18,543)
Reclassification adjustments to profit or loss	1,989	2,000	18,277
Amount before income tax effect	(29)	(2,471)	(266)
Income tax effect	15	756	138
Total	¥ (14)	¥(1,715)	\$ (128)
Total other comprehensive income (loss)	¥(6,332)	¥(1,581)	\$(58,182)

20. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2020 and 2019, is as follows:

	Millions of yen	Thousands of Shares	Yen	U.S. dollars
	Net Income Attributable to Owners of the Parent	Weighted-Average Shares	EPS	
Year Ended March 31, 2020				
Basic EPS—Net income available to common shareholders	¥90,381	69,167	¥1,306.71	\$12.01
Effect of dilutive securities—Warrants		47		
Diluted EPS—Net income for computation	¥90,381	69,214	¥1,305.77	\$12.00
Year Ended March 31, 2019				
Basic EPS—Net income available to common shareholders	¥89,930	74,188	¥1,212.20	\$10.92
Effect of dilutive securities—Warrants		45		
Diluted EPS—Net income for computation	¥89,930	74,233	¥1,211.41	\$10.91

21. SUBSEQUENT EVENTS

We reached the conclusion in the directors meeting held on May 29, 2020, regarding a purchase to secure stable and agile financing means and to further stabilize our financial base in preparation for the further spread and long-term inflection impact of COVID-19. We have determined to enter into a syndicated commitment line agreement with Sumitomo Mitsui Banking Corporation as an arranger for a total amount of ¥70,000 million (\$643,205 thousand).

The following will be the details of the commitment line agreement:

- (1) Loan amount set: ¥70,000 million (\$643,205 thousand)
- (2) Date of execution: May 29, 2020
- (3) Contract period: 1 year
- (4) Use of funds: Working capital

The effect of this matter on the business performance for the fiscal year ending March 31, 2021 would not be material.

22. SEGMENT INFORMATION

Under AJBJ statement No. 17, "Accounting Standard for Segment Information Disclosures," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(1) Description of Reportable Segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group.

The Company is engaged in the construction of apartments to foster effective utilization by customers. Daito Building Management Co., Ltd., a consolidated subsidiary, enters into whole-building leases as a "Lease management trust system" whereby it rents all apartments from landowners and subleases them to tenants. Daito Finance Corporation provides operating loans to landowners to fund construction projects. The Company creates management strategies and develops business activities for these operations.

Therefore, the Group consists of three reportable segments as follows:

Construction: civil engineering, construction, and other related business

Real estate: whole-building lease, rent, agency, guarantee of tenant and management business

Finance: construction finance business for landowners until financial institution executes long-term loans

(2) Methods of Measurement for the Amounts of Sales, Profit (Loss), Assets and Other Items for Each Reportable Segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

(3) Information about Sales, Profit (Loss), Assets and Other Items

Millions of Yen								
2020								
	Reportable Segment				Other	Total	Reconciliations	Consolidated
	Construction	Real Estate	Finance	Total				
Sales:								
Sales to external customers	¥551,104	¥973,694	¥ 9,241	¥1,534,039	¥ 52,254	¥1,586,293	¥ —	¥1,586,293
Intersegment sales or transfers	81	4,479	1,024	5,584	909	6,493	(6,493)	—
Total	¥551,185	¥978,173	¥ 10,265	¥1,539,623	¥ 53,163	¥1,592,786	¥ (6,493)	¥1,586,293
Segment profit (loss)	¥ 77,392	¥ 56,515	¥ 3,658	¥ 137,565	¥ 9,063	¥146,628	¥ (18,671)	¥ 127,957
Segment assets	131,487	327,979	139,854	599,320	116,696	716,016	164,273	880,289
Other:								
Depreciation	6,284	5,704	191	12,179	2,791	14,970	32	15,002
Impairment losses of assets	—	34	—	34	—	34	—	34
Increase in property, plant and equipment and intangible assets	3,292	7,986	119	11,397	11,134	22,531	3,642	26,173

Millions of Yen								
2019								
	Reportable Segment				Other	Total	Reconciliations	Consolidated
	Construction	Real Estate	Finance	Total				
Sales:								
Sales to external customers	¥609,779	¥924,113	¥ 7,972	¥1,541,864	¥ 49,315	¥1,591,179	¥ —	¥1,591,179
Intersegment sales or transfers	636	4,934	939	6,509	3,298	9,807	(9,807)	—
Total	¥610,415	¥929,047	¥ 8,911	¥1,548,373	¥ 52,613	¥1,600,986	¥ (9,807)	¥1,591,179
Segment profit (loss)	¥ 95,723	¥ 44,070	¥ 3,396	¥ 143,189	¥ 8,798	¥ 151,987	¥(24,940)	¥ 127,047
Segment assets	134,653	317,397	103,006	555,056	106,846	661,902	197,870	859,772
Other:								
Depreciation	4,842	5,492	134	10,468	2,020	12,488	24	12,512
Impairment losses of assets	—	30	—	30	—	30	—	30
Increase in property, plant and equipment and intangible assets	4,255	7,167	244	11,666	24,018	35,684	887	36,571

Thousands of U.S. Dollars								
2020								
	Reportable Segment				Other	Total	Reconciliations	Consolidated
	Construction	Real Estate	Finance	Total				
Sales:								
Sales to external customers	\$5,063,898	\$8,946,926	\$ 84,912	\$14,095,736	\$ 480,144	\$14,575,880	\$ —	\$14,575,880
Intersegment sales or transfers	744	41,156	9,409	51,309	8,353	59,662	(59,662)	—
Total	\$5,064,642	\$8,988,082	\$ 94,321	\$14,147,045	\$ 488,497	\$14,635,542	\$ (59,662)	\$14,575,880
Segment profit (loss)	\$ 711,127	\$ 519,296	\$ 33,612	\$ 1,264,035	\$ 83,277	\$ 1,347,312	\$ (171,561)	\$ 1,175,751
Segment assets	1,208,187	3,013,682	1,285,068	5,506,937	1,072,278	6,579,215	1,509,446	8,088,661
Other:								
Depreciation	57,741	52,412	1,755	111,908	25,646	137,554	294	137,848
Impairment losses of assets	—	312	—	312	—	312	—	312
Increase in property, plant and equipment and intangible assets	30,249	73,381	1,093	104,723	102,306	207,029	33,465	240,494

Notes for the year ended March 31, 2020

- (1) The reconciliations in segment profit include elimination of intersegment trades of ¥855 million (\$-7,856 thousand) and corporate expenses not allocated to a reportable segment of ¥-17,816 million (\$-163,705 thousand). Corporate expenses are mainly the Company's general administration expenses.
- (2) The reconciliations in segment assets include elimination of intersegment trades of ¥8,562 million (\$78,673 thousand) and corporate assets not allocated to a reportable segment of ¥172,835 million (\$1,588,119 thousand). Corporate assets are mainly short-term investments and investment securities held by the Company and other assets of administrative departments.
- (3) Consolidated segment profit is equal to operating income in the consolidated statement of income. Consolidated segment assets are equal to total assets in the consolidated balance sheet.

Notes for the year ended March 31, 2019

- (4) The reconciliations in segment profit include elimination of intersegment trades of ¥-878 million and corporate expenses not allocated to a reportable segment of ¥-24,061 million. Corporate expenses are mainly the Company's general administration expenses.
- (5) The reconciliations in segment assets include elimination of intersegment trades of ¥7,904 million and corporate assets not allocated to a reportable segment of ¥205,774 million. Corporate assets are mainly short-term investments and investment securities held by the Company and other assets of administrative departments.
- (6) Consolidated segment profit is equal to operating income in the consolidated statement of income. Consolidated segment assets are equal to total assets in the consolidated balance sheet.



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Daito Trust Construction Co., Ltd.:

Opinion

We have audited the consolidated financial statements of Daito Trust Construction Co., Ltd. and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2020, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Member of
Deloitte Touche Tohmatsu Limited

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgement. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Deloitte Touche Tohmatsu LLC

June 30, 2020