

# Consolidated Financial Statements

## CONSOLIDATED BALANCE SHEET

AS OF MARCH 31, 2020 AND 2021

### ASSETS

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2020	2021	2021
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and bank deposits (Notes 5, 10 and 15)	¥152,531	<b>¥216,107</b>	<b>\$1,952,010</b>
Notes and accounts receivable, trade (Notes 5 and 10)	141,415	<b>132,346</b>	<b>1,195,434</b>
Marketable securities (Notes 5, 6 and 10)	3,260	<b>516</b>	<b>4,660</b>
Costs on uncompleted construction contracts	11,046	<b>10,774</b>	<b>97,317</b>
Inventories (Notes 7 and 13)	250,453	<b>305,703</b>	<b>2,761,293</b>
Other current assets (Note 10)	13,756	<b>24,175</b>	<b>218,363</b>
Allowance for doubtful accounts (Note 5)	(128)	<b>(94)</b>	<b>(852)</b>
Total current assets	572,334	<b>689,527</b>	<b>6,228,225</b>
<b>Property and Equipment</b> (Notes 8 and 10)	153,391	<b>173,010</b>	<b>1,562,734</b>
<b>Intangible Assets</b> (Note 8)	8,292	<b>9,858</b>	<b>89,040</b>
<b>Investments and Other Assets:</b>			
Investment securities (Notes 5 and 6)	28,106	<b>40,880</b>	<b>369,253</b>
Long-term loans receivable (Note 5)	2,936	<b>3,077</b>	<b>27,793</b>
Net defined benefit asset (Note 17)	13,766	<b>18,458</b>	<b>166,721</b>
Deferred tax assets (Note 18)	7,478	<b>5,803</b>	<b>52,416</b>
Other assets	13,780	<b>13,839</b>	<b>125,005</b>
Allowance for doubtful accounts (Note 5)	(763)	<b>(793)</b>	<b>(7,162)</b>
Total investments and other assets	65,303	<b>81,264</b>	<b>734,026</b>
Total assets	¥799,319	<b>¥953,659</b>	<b>\$8,614,025</b>

See notes to consolidated financial statements.

# Consolidated Financial Statements

## CONSOLIDATED BALANCE SHEET AS OF MARCH 31, 2020 AND 2021 LIABILITIES AND NET ASSETS

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2020	2021	2021
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Current portion of long-term debt (Notes 5 and 9)	¥ 4,171	¥ 5,971	\$ 53,931
Current portion of bonds (Notes 5 and 9)	10,000	—	—
Notes and accounts payable (Note 5)	83,619	87,095	786,691
Electronically recorded obligations (Note 5)	54,570	54,899	495,884
Income taxes payable (Notes 5 and 18)	3,359	15,397	139,078
Advances received on uncompleted construction contracts	18,725	17,636	159,297
Advances received for real estate sales	14,246	22,349	201,874
Warranty	4,195	4,303	38,865
Allowance for losses on construction contracts	47	151	1,365
Accrued bonuses for employees	4,756	4,797	43,327
Accrued bonuses for directors	146	127	1,149
Other current liabilities	49,511	59,238	535,074
Total current liabilities	247,346	271,963	2,456,535
<b>Long-term Liabilities:</b>			
Straight bonds (Notes 5 and 9)	20,000	90,000	812,935
Long-term debt (Notes 5, 9, 10 and 16)	118,091	171,981	1,553,434
Liability for retirement benefits (Note 17)	1,375	1,361	12,292
Provision for loss on litigation	2,474	2,245	20,276
Provision for employee stock ownership plan (Note 3)	2,144	2,787	25,170
Provision for board benefit trust (Note 3)	324	347	3,135
Deferred tax liabilities (Note 18)	21	22	197
Other long-term liabilities	19,862	18,589	167,909
Total long-term liabilities	164,291	287,331	2,595,347
Total liabilities	411,637	559,294	5,051,883
<b>Commitments and Contingent Liabilities</b> (Notes 11 and 12)			
<b>NET ASSETS</b> (Notes 14 and 19)			
<b>Shareholders' Equity:</b>			
Capital stock	57,500	57,500	519,375
Capital surplus	7,623	7,373	66,599
Retained earnings	346,039	369,335	3,336,057
Treasury stock, at cost — 7,879,065 shares in 2020 — 24,231,920 shares in 2021	(9,975)	(31,353)	(283,203)
Total shareholders' equity	401,187	402,855	3,638,828
<b>Accumulated Other Comprehensive Income:</b>			
Net unrealized gain (loss) on other securities	(526)	4,254	38,429
Translation adjustments	(5,331)	(7,320)	(66,121)
Retirement benefits liability adjustments	(7,653)	(5,429)	(49,042)
Total accumulated other comprehensive income (loss)	(13,510)	(8,495)	(76,734)
<b>Non-controlling Interests</b>			
Total net assets	387,682	394,365	3,562,142
Total liabilities and net assets	¥799,319	¥953,659	\$8,614,025

See notes to consolidated financial statements.

# Consolidated Financial Statements

## CONSOLIDATED STATEMENT OF INCOME

FOR THE YEARS ENDED MARCH 31, 2020 AND 2021

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2020	2021	2021
<b>Net Sales</b> (Note 13)	¥846,029	<b>¥809,438</b>	<b>\$7,311,335</b>
<b>Cost of Sales</b> (Note 13)	699,268	<b>673,207</b>	<b>6,080,813</b>
Gross profit	146,762	<b>136,231</b>	<b>1,230,523</b>
<b>Selling, General and Administrative Expenses</b> (Note 13)	60,837	<b>63,322</b>	<b>571,967</b>
Operating Income	85,925	<b>72,909</b>	<b>658,556</b>
<b>Non-operating Income (Expenses):</b>			
Interest and dividend income	559	<b>490</b>	<b>4,428</b>
Equity in earnings of affiliates	1	<b>0</b>	<b>4</b>
Subsidy income	61	<b>1,101</b>	<b>9,942</b>
Interest expense	(901)	<b>(1,353)</b>	<b>(12,222)</b>
Bond issuance cost	(66)	<b>(377)</b>	<b>(3,408)</b>
Incidental expense for loan	(1,148)	<b>(1,484)</b>	<b>(13,400)</b>
Other, net	824	<b>546</b>	<b>4,930</b>
	(671)	<b>(1,077)</b>	<b>(9,726)</b>
Ordinary income	85,253	<b>71,832</b>	<b>648,830</b>
<b>Special Income (Losses):</b>			
Gain (loss) on disposal or sales of property and equipment, net (Note 8)	4	<b>(47)</b>	<b>(428)</b>
Gain on negative goodwill	2,227	<b>—</b>	<b>—</b>
Impairment loss on fixed assets	(121)	<b>(156)</b>	<b>(1,405)</b>
Impairment loss on investment securities	(352)	<b>(764)</b>	<b>(6,897)</b>
Other, net	144	<b>1</b>	<b>6</b>
	1,902	<b>(966)</b>	<b>(8,724)</b>
<b>Income before Income Taxes</b>	87,155	<b>70,866</b>	<b>640,106</b>
<b>Income Taxes</b> (Note 18):			
Current	23,578	<b>22,994</b>	<b>207,696</b>
Deferred	3,662	<b>(386)</b>	<b>(3,483)</b>
	27,239	<b>22,608</b>	<b>204,212</b>
<b>Net Income</b>	59,916	<b>48,258</b>	<b>435,893</b>
<b>Net Income Attributable to Non-controlling Interests</b>	65	<b>(0)</b>	<b>(3)</b>
<b>Net Income Attributable to Owners of Parent</b> (Note 19)	¥ 59,851	<b>¥ 48,258</b>	<b>\$ 435,896</b>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED MARCH 31, 2020 AND 2021

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2020	2021	2021
<b>Net Income</b>	¥59,916	<b>¥48,258</b>	<b>\$435,893</b>
<b>Other Comprehensive Income</b>			
Net unrealized gain (loss) on other securities	(5,581)	<b>4,781</b>	<b>43,184</b>
Translation adjustments	(562)	<b>(1,989)</b>	<b>(17,965)</b>
Retirement benefits liability adjustments	(733)	<b>2,223</b>	<b>20,082</b>
Total other comprehensive income (loss)	(6,876)	<b>5,015</b>	<b>45,301</b>
<b>Comprehensive Income</b> (Note 22)	53,040	<b>53,273</b>	<b>481,194</b>
<b>Total Comprehensive Income Attributable to:</b>			
Comprehensive income attributable to owners of parent	52,974	<b>53,273</b>	<b>481,197</b>
Comprehensive income attributable to non-controlling interests	65	<b>(0)</b>	<b>(3)</b>

See notes to consolidated financial statements.

# Consolidated Financial Statements

## CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS FOR THE YEARS ENDED MARCH 31, 2020 AND 2021

For the year ended March 31, 2020

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
	<i>(Millions of yen)</i>				
<b>Balance at April 1, 2019</b>	<b>¥57,500</b>	<b>¥7,513</b>	<b>¥313,241</b>	<b>¥(4,609)</b>	<b>¥373,645</b>
Net income attributable to owners of parent for the year ended March 31, 2020	—	—	59,851	—	59,851
Cash dividend	—	—	(27,053)	—	(27,053)
Purchase of treasury stock	—	—	—	(5,448)	(5,448)
Disposal of treasury stock	—	0	—	82	82
Change in treasury shares of parent arising from transactions with non-controlling shareholders	—	111	—	—	111
Net changes in items other than those in shareholders' equity	—	—	—	—	—
Total changes during the year	—	111	32,798	(5,366)	27,542
<b>Balance at March 31, 2020</b>	<b>¥57,500</b>	<b>¥7,623</b>	<b>¥346,039</b>	<b>¥(9,975)</b>	<b>¥401,187</b>

	Accumulated other comprehensive income					
	Net unrealized gain (loss) on other securities	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income (loss)	Non-controlling interests	Total net assets
	<i>(Millions of yen)</i>					
<b>Balance at April 1, 2019</b>	<b>¥5,055</b>	<b>¥(4,769)</b>	<b>¥(6,920)</b>	<b>¥ (6,634)</b>	<b>¥1,040</b>	<b>¥368,051</b>
Net income attributable to owners of parent for the year ended March 31, 2020	—	—	—	—	—	59,851
Cash dividend	—	—	—	—	—	(27,053)
Purchase of treasury stock	—	—	—	—	—	(5,448)
Disposal of treasury stock	—	—	—	—	—	82
Change in treasury shares of parent arising from transactions with non-controlling shareholders	—	—	—	—	—	111
Net changes in items other than those in shareholders' equity	(5,581)	(562)	(733)	(6,876)	(1,035)	(7,911)
Total changes during the year	(5,581)	(562)	(733)	(6,876)	(1,035)	19,631
<b>Balance at March 31, 2020</b>	<b>¥ (526)</b>	<b>¥(5,331)</b>	<b>¥(7,653)</b>	<b>¥(13,510)</b>	<b>¥ 6</b>	<b>¥387,682</b>

See notes to consolidated financial statements.

# Consolidated Financial Statements

For the year ended March 31, 2021

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
	<i>(Millions of yen)</i>				
<b>Balance at April 1, 2020</b>	<b>¥57,500</b>	<b>¥7,623</b>	<b>¥346,039</b>	<b>¥ (9,975)</b>	<b>¥401,187</b>
Net income attributable to owners of parent for the year ended March 31, 2021	–	–	48,258	–	48,258
Cash dividend	–	–	(24,962)	–	(24,962)
Purchase of treasury stock	–	–	–	(21,524)	(21,524)
Disposal of treasury stock	–	0	–	146	146
Change in treasury shares of parent arising from transactions with non-controlling shareholders	–	(250)	–	–	(250)
Net changes in items other than those in shareholders' equity	–	–	–	–	–
Total changes during the year	–	(250)	23,296	(21,378)	1,668
<b>Balance at March 31, 2021</b>	<b>¥57,500</b>	<b>¥7,373</b>	<b>¥369,335</b>	<b>¥(31,353)</b>	<b>¥402,855</b>

	Accumulated other comprehensive income					
	Net unrealized gain (loss) on other securities	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income (loss)	Non-controlling interests	Total net assets
	<i>(Millions of yen)</i>					
<b>Balance at April 1, 2020</b>	<b>¥ (526)</b>	<b>¥(5,331)</b>	<b>¥(7,653)</b>	<b>¥(13,510)</b>	<b>¥ 6</b>	<b>¥387,682</b>
Net income attributable to owners of parent for the year ended March 31, 2021	–	–	–	–	–	48,258
Cash dividend	–	–	–	–	–	(24,962)
Purchase of treasury stock	–	–	–	–	–	(21,524)
Disposal of treasury stock	–	–	–	–	–	146
Change in treasury shares of parent arising from transactions with non-controlling shareholders	–	–	–	–	–	(250)
Net changes in items other than those in shareholders' equity	4,781	(1,989)	2,223	5,015	(0)	5,015
Total changes during the year	4,781	(1,989)	2,223	5,015	(0)	6,683
<b>Balance at March 31, 2021</b>	<b>¥4,254</b>	<b>¥(7,320)</b>	<b>¥(5,429)</b>	<b>¥(8,495)</b>	<b>¥ 5</b>	<b>¥394,365</b>

See notes to consolidated financial statements.

## Consolidated Financial Statements

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
	<i>(Thousands of U.S. dollars) (Note 4)</i>				
<b>Balance at April 1, 2020</b>	<b>\$519,375</b>	<b>\$68,859</b>	<b>\$3,125,634</b>	<b>\$ (90,102)</b>	<b>\$3,623,765</b>
Net income attributable to owners of parent for the year ended March 31, 2021	–	–	435,896	–	435,896
Cash dividend	–	–	(225,473)	–	(225,473)
Purchase of treasury stock	–	–	–	(194,415)	(194,415)
Disposal of treasury stock	–	0	–	1,314	1,314
Change in treasury shares of parent arising from transactions with non-controlling shareholders	–	(2,260)	–	–	(2,260)
Net changes in items other than those in shareholders' equity	–	–	–	–	–
Total changes during the year	–	(2,260)	210,424	(193,100)	15,063
<b>Balance at March 31, 2021</b>	<b>\$519,375</b>	<b>\$66,599</b>	<b>\$3,336,057</b>	<b>\$(283,203)</b>	<b>\$3,638,828</b>

	Accumulated other comprehensive income					
	Net unrealized gain (loss) on other securities	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income (loss)	Non-controlling interests	Total net assets
	<i>(Thousands of U.S. dollars) (Note 4)</i>					
<b>Balance at April 1, 2020</b>	<b>\$ (4,756)</b>	<b>\$(48,155)</b>	<b>\$(69,123)</b>	<b>\$(122,034)</b>	<b>\$51</b>	<b>\$3,501,782</b>
Net income attributable to owners of parent for the year ended March 31, 2021	–	–	–	–	–	435,896
Cash dividend	–	–	–	–	–	(225,473)
Purchase of treasury stock	–	–	–	–	–	(194,415)
Disposal of treasury stock	–	–	–	–	–	1,314
Change in treasury shares of parent arising from transactions with non-controlling shareholders	–	–	–	–	–	(2,260)
Net changes in items other than those in shareholders' equity	43,184	(17,965)	20,082	45,301	(3)	45,298
Total changes during the year	43,184	(17,965)	20,082	45,301	(3)	60,361
<b>Balance at March 31, 2021</b>	<b>\$38,429</b>	<b>\$(66,121)</b>	<b>\$(49,042)</b>	<b>\$ (76,734)</b>	<b>\$48</b>	<b>\$3,562,142</b>

See notes to consolidated financial statements.

# Consolidated Financial Statements

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEARS ENDED MARCH 31, 2020 AND 2021

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2020	2021	2021
<b>Cash Flows from Operating Activities:</b>			
Income before income taxes	¥87,155	¥ 70,866	\$ 640,106
Depreciation	4,752	5,266	47,567
Impairment loss on fixed assets	121	156	1,405
Increase (decrease) in provision for loss on litigation	(42)	(111)	(1,002)
Amortization of goodwill	203	203	1,835
Gain on negative goodwill	(2,227)	—	—
(Reversal of) provision of allowance for doubtful accounts	(47)	(4)	(35)
Interest and dividend income	(559)	(490)	(4,428)
Interest expense	901	1,353	12,222
Equity in earnings of affiliates	(1)	(0)	(4)
Gain on sale of investment securities	(139)	(1)	(6)
Impairment loss on investment securities	352	764	6,897
Gain on disposal or sale of property and equipment, net	(4)	47	428
Valuation loss on inventories	3,684	713	6,437
Changes in operating assets and liabilities			
Notes and accounts receivable	(1,262)	9,174	82,862
Costs on uncompleted construction contracts	(282)	272	2,457
Inventories	(56,030)	(53,151)	(480,094)
Notes, accounts payable and accrued expenses	(1,248)	3,832	34,610
Amounts received for uncompleted construction contracts	629	(1,089)	(9,834)
Deposits	(3,986)	11,395	102,927
Other	(6,047)	(5,906)	(53,351)
Subtotal	25,923	43,288	390,999
Interest and dividends received	554	516	4,662
Interest paid	(946)	(1,306)	(11,796)
Income taxes paid	(40,794)	(10,622)	(95,940)
<b>Net Cash (Used for) Provided by Operating Activities</b>	<b>(15,263)</b>	<b>31,876</b>	<b>287,925</b>
<b>Cash Flows from Investing Activities:</b>			
Payment for purchase of securities	(7,064)	—	—
Proceeds from redemption of securities	5,768	2,064	18,641
Purchases of property and equipment and intangible assets	(25,061)	(29,818)	(269,334)
Proceeds from sales of property and equipment and intangible assets	100	8	70
Payment for purchase of investment securities	(10,311)	(8,254)	(74,554)
Proceeds from sale of investment securities	334	16	143
Payment for acquisition of shares of subsidiaries resulting in change in scope of consolidation	(963)	—	—
Payment for loans receivable	(4,341)	(4,691)	(42,369)
Collection of loans receivable	4,498	4,605	41,591
Payment for lease deposits	(740)	(802)	(7,246)
Collection of lease deposits	678	720	6,505
Other	(121)	381	3,442
<b>Net Cash Used for Investing Activities</b>	<b>(37,222)</b>	<b>(35,772)</b>	<b>(323,111)</b>
<b>Cash Flows from Financing Activities:</b>			
Decrease in short-term borrowings, net	(1,805)	—	—
Increase in long-term debt	50,000	60,000	541,956
Repayment of long-term debt	(21,635)	(4,311)	(38,937)
Bonds issuance	10,000	70,000	632,283
Redemption of bonds	(10,000)	(10,000)	(90,326)
Bond issuance cost	(66)	(377)	(3,408)
Purchase of treasury stock	(5,448)	(21,524)	(194,415)
Incidental expenses for loan	(1,161)	(1,485)	(13,416)
Cash dividends paid	(27,053)	(24,962)	(225,473)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(989)	(286)	(2,583)
Other	(198)	(256)	(2,314)
<b>Net Cash (Used for) Provided by Financing Activities</b>	<b>(8,356)</b>	<b>66,799</b>	<b>603,368</b>
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>	<b>(385)</b>	<b>(359)</b>	<b>(3,240)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(61,226)</b>	<b>62,545</b>	<b>564,942</b>
<b>Cash and Cash Equivalents at Beginning of the Year</b>	<b>212,980</b>	<b>151,754</b>	<b>1,370,737</b>
<b>Cash and Cash Equivalents at End of the Year (Note 15)</b>	<b>151,754</b>	<b>¥214,299</b>	<b>\$1,935,679</b>

See notes to consolidated financial statements.

# Consolidated Financial Statements

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Haseko Corporation and Consolidated Subsidiaries  
For the years ended March 31, 2020 and 2021

### 1. Basis of Presentation

Haseko Corporation (the "Company") and its consolidated domestic subsidiaries maintain their books of account in conformity with the financial accounting standards of Japan, and Haseko America, Inc. and its subsidiaries ("Haseko America") maintain their books of account in conformity with the financial accounting standards of the United States of America.

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

Certain reclassifications or summaries of accounts have been made to present the consolidated financial statements in a form which is more familiar to readers outside Japan.

### 2. Summary of Significant Accounting Policies

#### (1) Scope of consolidation

The accompanying consolidated financial statements include the accounts of the Company and any significant companies controlled directly or indirectly by the Company. Companies over which the Company exercises significant influence in terms of their operating and financial policies have been accounted for by the equity method. As of March 31, 2021, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 60 and 3 (58 and 2 in 2020), respectively. Investments in subsidiaries and affiliates which are not consolidated or accounted for by the equity method are carried at cost or less.

The fiscal year of Haseko America and its subsidiaries ends on December 31, and they are included in the consolidation as of that date. The necessary adjustments for significant transactions that occur during the period from January 1 to March 31 are made in the preparation of the consolidated financial statements.

#### (2) Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank deposits that may be withdrawn on demand, negotiable deposits with a maturity of three months or less at the time of purchase and time deposits that can be easily withdrawn and bear no risk of value fluctuation.

#### (3) Marketable securities and Investment securities

Securities other than investments in non-consolidated subsidiaries and affiliates are classified into two different categories, held-to-maturity and other securities. The Company holds no trading securities.

Held-to-maturity securities are stated at amortized cost. Marketable securities classified as other securities are stated at fair value. Net unrealized gains or losses on these securities are reported as a separate component of accumulated other comprehensive income at a net-of-tax amount. Non-marketable securities classified as other securities are stated at cost. Cost of securities sold is determined by the moving-average method.

#### (4) Inventories

Costs on uncompleted construction contracts and real estate for sale are stated at cost determined by the individual cost method. Raw materials are stated at cost determined by the average method. Supplies are stated at cost determined by the individual cost method. The book value of inventories on the balance sheets is written down based on the fall in profitability. Real estate for lease included in inventories is depreciated using the same method as that applied to property and equipment.

Some consolidated subsidiaries have incorporated the interest paid on funds used for the real-estate development business into the costs of real estate for sale.

#### (5) Property and equipment

Depreciation of property and equipment is principally computed by declining-balance method while the straight-line method is applied to buildings (excluding structures attached to buildings) acquired on or after April 1, 1998 and facilities attached to buildings and structures acquired on or after April 1, 2016. Certain consolidated subsidiaries depreciate property and equipment by the straight-line method.

#### (6) Intangible assets

Intangible assets are amortized by the straight-line method over the period estimated to be effective at the time of occurrence, except for land leasehold rights, which are not amortized.

Computer software for internal use is amortized by the straight-line method over the estimated useful period of five years.

#### (7) Leases

Leased assets under finance leases that are deemed to have transferred ownership are depreciated using the same method as that applied to property and equipment.

Leased assets under finance leases that are not deemed to have transferred its ownership are depreciated over the lease period as useful period using the straight-line method with no residual value.

#### (8) Allowance for doubtful accounts

Allowance for doubtful accounts is provided for the estimated future loss on bad debt. It is estimated using the Company's experience of the loss ratio and a specific estimate of known doubtful accounts.

#### (9) Warranty

Warranty is provided for the estimated repair expense owed by the Company in the event of defects found in the completed constructions after handover.

#### (10) Allowance for losses on construction contracts

In order to prepare for future losses from construction orders, estimated amounts of losses have been recorded for construction projects prior to delivery as of the end of fiscal year for those that are expected to generate losses and losses can be evaluated rationally.

#### (11) Accrued bonuses for employees

Accrued bonuses for employees are provided for the estimated amount of bonuses to be paid to employees for the services rendered by the balance sheet date.



# Consolidated Financial Statements

## (12) Accrued bonuses for directors

Accrued bonuses for directors are provided for the estimated amount of bonuses to be paid to directors for the services rendered by the balance sheet date.

## (13) Provision for loss on litigation

Provision for loss on litigation is provided for the possible estimated loss arising from litigation.

## (14) Provision for employee stock ownership plan

In order to prepare for the provision of the Company's shares to its employees, estimated amounts of benefits earned in the fiscal year ended March 31, 2021 have been recorded.

## (15) Provision for board benefit trust

In order to prepare for the provision of the Company's shares to its directors and officers, estimated amounts of benefits earned in the fiscal year ended March 31, 2021 have been recorded.

## (16) Retirement benefits

The retirement benefit obligation for employees is attributed to each period by the benefit formula method.

Prior service costs are amortized by the straight-line method over the average remaining service period of the employees (15-16 years) at the time of occurrence.

Actuarial differences are amortized from the next year in which the difference arises by the straight-line method over the average remaining service period of the employees (5-20 years).

Some consolidated subsidiaries calculate liability for retirement benefits and retirement benefit expense by adopting the simplified method, which assumes their retirement benefit obligation to be equal to the benefits payable as if all eligible employees voluntarily terminated their employment at fiscal year end.

## (17) Foreign currency translation

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the foreign exchange rates prevailing at the respective balance sheet dates and a net exchange loss/gain is included in net income. Furthermore, the assets/liabilities and earnings/expenses of overseas consolidated subsidiaries are translated at the foreign exchange rates prevailing at the respective balance sheet dates and the resulting translation adjustments are reported as "Translation adjustments" in net assets.

## (18) Hedge accounting

The Company and its consolidated subsidiaries use interest rate swap contracts to hedge interest rate fluctuation risk on long-term debt with variable interest rates. Certain interest rate swap contracts which meet certain criteria as qualified hedges are not measured at fair value. The differences between paid and received amounts under such swap agreements are recognized in interest expenses as incurred.

The assessment of hedge effectiveness is omitted when the notional amounts, interest rates and contract periods of the hedging instruments and the hedged items are the same.

## (19) Amortization of goodwill

Goodwill is amortized on a straight-line basis over the period economic benefits are expected. However, immaterial amounts of goodwill are charged to income as incurred.

## (20) Recognition on sales and costs of construction contracts

The Company and its consolidated subsidiaries recognize revenues and costs on construction contracts on a percentage-of-completion basis for construction projects, and on a completed-contract basis for other construction contracts.

## (21) Income taxes

Deferred tax assets and liabilities have been recognized in the consolidated financial statements with respect to the differences between financial reporting and the tax bases of the assets and liabilities, and were measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse. The Company files tax returns under the consolidated corporate-tax system.

## (22) Application of tax effect accounting for the transition from the consolidated taxation system to the group tax sharing system

The Company transitioned to the group income and loss sharing regime established under the "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 8 of 2020) and conducted a review of the non-consolidated taxation system. For the items subject to such transition or review, the Company has not applied the provisions of Paragraph (44) of "Implementation Guidance on Tax Effect Accounting" (Accounting Standards Board of Japan (ASBJ) Guidance No. 28, February 16, 2018) in accordance with the treatment under Paragraph (3) of the "Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Income and Loss Sharing Regime" (ASBJ PITF No. 39, March 31, 2020). The amounts of deferred tax assets and deferred tax liabilities are calculated based on the provisions of the Income Tax Act prior to amendment.

## (23) Consumption taxes

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes. For some consolidated companies that fall under the category of tax-exempt enterprise, however, the tax-inclusive system is applied for such transactions.

## (24) Deferred assets

Issuance costs for straight bonds are charged to income.

## (25) Accounting treatment for advertising expenses

The Company and some of its consolidated subsidiaries capitalize in the real estate inventories the advertising expenses and other selling expenses for sales of real estate incurred before delivery and expense them upon delivery.

## (26) Significant accounting estimates

With regard to the impact of COVID-19, current conditions make it difficult to predict accurately how it will spread going forward and when it will end, among other factors. However, the Company has prepared accounting estimates for revenue recognition by using the percentage-of-completion method, valuation of real estate inventories and impairment losses on fixed assets, etc., based on the information available as of March 31, 2021 and assuming that such impact will continue in the next fiscal year ending March 31, 2022.

# Consolidated Financial Statements

## 1. Revenue recognition by using the percentage-of-completion method

(1) Amount recorded in the consolidated financial statements for the fiscal year ended March 31, 2021

	Millions of yen	Thousands of U.S. dollars
	2021	2021
Revenue from construction contracts calculated by using the percentage-of-completion method	<b>¥435,427</b>	<b>\$3,933,041</b>

Note: Revenue from construction contracts calculated by using the percentage-of-completion method in the non-consolidated financial statements for the fiscal year ended March 31, 2021 was ¥406,492 million (\$3,671,681 thousand).

(2) Information on significant accounting estimates related to the identified items

### 1) Calculation method

The Company rationally estimates total revenues and costs on construction contracts as well as progress of construction as of March 31, 2021 and, in accordance with these, recognizes construction contracts for the fiscal year ended March 31, 2021.

### 2) Significant assumptions

The total costs on construction contracts, which are the basis for revenue recognition in accordance with the percentage-of-completion method, are estimated by using the working budget for each construction contract. Each construction is unique in nature because its basic design and work contents are specifically instructed by each customer and also it requires certain assumptions and judgments made by the in-charge department with expert knowledge and experience in constructions, and thus entails uncertainty. In addition, During a long period of a construction, there may be a sharp increase in costs of construction materials and labor or difficulties in their procurement as well as a decline in production capacity due to lack of sufficient number of other cooperative companies. Accordingly, the Company continuously reviews the total costs on construction works.

3) Effects on the consolidated financial statements for the next fiscal year

If there is a change in the progress of construction due to the incurrance of additional costs, etc., it may pose a significant impact on the revenue from construction contracts in the consolidated financial statements of the next fiscal year.

## 2. Valuation of real estate inventories

(1) Amount recorded in the consolidated financial statements for the fiscal year ended March 31, 2021

	Millions of yen	Thousands of U.S. dollars
	2021	2021
Valuation loss on real estate inventories	<b>¥ 713</b>	<b>\$ 6,437</b>
Real estate for sale	<b>166,708</b>	<b>1,505,806</b>
Costs and advances for real estate operations	<b>113,272</b>	<b>1,023,146</b>
Real estate for development projects	<b>25,723</b>	<b>232,342</b>

(2) Information on significant accounting estimates related to the identified items

### 1) Calculation method

If the net realizable value of real estate inventories as of March 31, 2021 is lower than the acquisition costs, the net selling price is the value recorded in the balance sheet, and the difference is recorded as valuation losses on real estate inventories.

## 2) Significant assumptions

The net realizable value is calculated on the basis of estimated sales price and estimated selling expenses, etc. In addition, net realizable value is estimated by taking into account the transaction cases, estimated sales price and condominium demand forecast in neighboring areas.

3) Effects on the consolidated financial statements for the next fiscal year

If it becomes necessary to review the net realizable value due to changes in future economic conditions, etc., additional valuation loss on real estate inventories may be recorded in the consolidated financial statements for the next fiscal year.

## 3. Impairment loss on fixed assets

(1) Amount recorded in the consolidated financial statements for the fiscal year ended March 31, 2021

	Millions of yen	Thousands of U.S. dollars
	2021	2021
Impairment loss	<b>¥ 156</b>	<b>\$ 1,405</b>
Property and equipment	<b>173,010</b>	<b>1,562,734</b>
Intangible fixed assets	<b>9,858</b>	<b>89,040</b>

2) Other information that contributes to understanding the content of accounting estimates

### 1) Calculation method

For the assets for which it is determined that impairment loss should be recognized as of March 31, 2021, the book value is reduced to the recoverable amount and the difference is recorded as impairment loss.

### 2) Significant assumptions

The recoverable amount is the higher of the net realizable value or the value in use. The net realizable value is calculated on the basis of real estate appraisal value, etc., and the value in use is calculated on the basis of future cash flows and discount rates, etc.

3) Effects on the consolidated financial statements for the next fiscal year

If it becomes necessary to revisit the net realizable value, future cash flows and discount rate due to changes in future economic conditions, etc., additional impairment losses may be recorded in the consolidated financial statements for the next fiscal year.

## (27) Accounting standards issued but not yet effective (Accounting Standard for Revenue Recognition, etc.)

- Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, issued on March 31, 2020)
- Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, issued on March 26, 2020)

### (1) Overview

The standard is a comprehensive accounting standard for revenue recognition, in which revenue is recognized through the following five steps:

- Step 1: Identify the contract (s) 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 (or as) the entity satisfies a performance obligation

# Consolidated Financial Statements

## (2) Planned date of application

The application date of the standard will be from the beginning of the fiscal year ending March 31, 2022

## (3) Impact of the application of the accounting standard, etc.

The amount of the impact is under review as of the date of preparing the consolidated financial statements.

### **(Accounting Standard for Fair Value Measurement and Related Implementation Guidance)**

ASBJ issued "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30), and "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31), along with related updates to "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9), "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10), and "Implementation Guidance on Disclosures about Fair Value of Financial Instruments." (ASBJ Guidance No. 19).

#### (1) Overview

The ASBJ has developed an "Accounting Standard for Fair Value Measurement" and "Implementation Guidance on Accounting Standard for Fair Value Measurement" (hereinafter collectively, the "Fair Value Measurement Standard"), which provide guidance for fair value measurement in order to improve comparability with internationally recognized accounting standards. The Fair Value Measurement Standard is applied with respect to the fair value of the following items;

- Financial instruments defined in "Accounting Standard for Financial Instruments"
- Inventories held for trading purposes defined in "Accounting Standard for Measurement of Inventories"

"Implementation Guidance on Disclosures about Fair Value of Financial Instruments" has been revised requiring disclosure of financial instruments classified by level in the fair value hierarchy.

#### (2) Planned date of application

The application date of the standard will be from the beginning of the fiscal year ending March 31, 2022

#### (3) Impact of the application of the accounting standard, etc.

The application of this accounting standards such as "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" would not have an impact on the consolidated financial statements for the next fiscal year.

### **3. Supplemental Information (Changes in presentation)**

The Company applied the "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31 issued on March 31, 2020) to its consolidated financial statements for the fiscal year ended March 31, 2021, and included the notes on significant accounting estimates in the consolidated financial statements.

However, comparative information for the previous fiscal year is not included in the note in accordance with the transitional measures stipulated in the provision of Article 11 of said Accounting Standard.

#### **(Notes to consolidated statement of income)**

"Subsidy income" and "Bond issuance cost," which were included in "Other, net" in "Non-operating income (expenses)" for the fiscal year ended March 31, 2020, have been presented separately from the fiscal year ended March 31, 2021 due to an increase in their quantitative materiality. Also, "Dividend income of insurance," which was presented in "Non-operating income (expenses)" for the fiscal year

ended March 31, 2020, has decreased in quantitative materiality, and thus is included in "Other, net" for the fiscal year ended March 31, 2021. In order to reflect this change in presentation, the consolidated financial statements for the previous fiscal year have been restated.

As a result, ¥581 million presented as "Other, net" and ¥237 million presented as "Dividend income of insurance" in "non-operating income (expenses)" in the consolidated statement of income for the fiscal year ended March 31, 2020 has been reclassified as ¥61 million in "Subsidy income," ¥(66) million in "Bond issuance cost," and ¥824 million in "Other, net."

#### **(Notes to consolidated statement of cash flows)**

"Bond issuance cost," which was included in "Other" in "Cash flows from financing activities" for the fiscal year ended March 31, 2020, has been presented separately from the fiscal year ended March 31, 2021 due to an increase in its quantitative materiality. In order to reflect this change in presentation, the consolidated financial statements for the previous fiscal year have been restated.

As a result, ¥(264) million presented as "Other," in "Cash flows from financing activities" in the consolidated statement of cash flows for the fiscal year ended March 31, 2020 has been reclassified as ¥(66) million in "Bond issuance cost," and ¥(198) million in "Other."

#### **(Additional information)**

*(Accounting policies and procedures adopted in cases where the relevant provisions set forth in accounting standards and other regulations are not clear)*

The Company applied the revised "Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections" (ASBJ Statement No.24 issued on March 31, 2020) for the fiscal year ended March 31, 2021, and disclosed (25) Accounting treatment for advertising expenses in Note 2, Summary of Significant Accounting Policies.

#### **(Performance-linked stock compensation system)**

The Company has introduced a Board Benefit Trust (the "BBT Scheme") for Directors (excluding Outside Directors), Executive Vice Presidents, Executive Operating Officers and Senior Operating Officers of the Company, and the presidents, etc. of its Group companies (the "Group Officers") and the Stock-Granting Employee Stock Ownership Plan (the "ESOP Scheme") for key employees of the Company and its Group companies (the "Group Key Employees").

##### 1. BBT Scheme

###### (1) Outline of the transaction

The BBT Scheme is a scheme in which the Company's shares, etc. are provided to Group Officers, as of the date of their retirement from office as a rule, through a trust established under the BBT Scheme (the "BBT Trust"), in accordance with the "officer stock benefit rules" set forth by the Company. The benefits of the Company's shares shall be acquired by the BBT Trust using the money contributed by the Company as the funds.

###### (2) Accounting treatments for transactions of delivering the Company's own stock through trusts

The Company has continued to use a method, which it previously adopted, in accordance with the "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" (ASBJ Practical Issues Task Force No. 30 (revised 2015), March 26, 2015).

###### (3) Residual shares of the Company held by the BBT Trust

The shares of the Company held by the BBT Trust were appropriated as treasury stock in net assets.

# Consolidated Financial Statements

The book value of said shares of treasury stock was ¥736 million and ¥651 million (\$5,879 thousand) as of March 31, 2020 and 2021, respectively, with the number of shares totaling 547,500 and 484,000 shares, respectively. The weighted average number of shares outstanding for the years ended March 31, 2020 and 2021 were 583,656 and 555,133 shares, respectively.

The number of shares standing and the weighted average number of shares outstanding are included in treasury stocks which are deducted in calculating basic profit attributable to owners of parent per share.

## 2. ESOP Scheme

### (1) Outline of the transaction

The ESOP Scheme is a scheme in which the Company's shares, etc. are provided to Group Key Employees, as of the date of their retirement from the Haseko Group as a rule, through a trust established under the ESOP Scheme (the "ESOP Trust"), in accordance with the stock benefit rules set forth by the Company. The benefits of the Company's shares shall be acquired by the ESOP Trust using the money contributed by the Company as the funds.

### (2) Accounting treatments for transactions of delivering the Company's own stock through trusts

The Company has continued to use a method, which it previously adopted, in accordance with the "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" (ASBJ Practical Issues Task Force No. 30 (revised 2015), March 26, 2015).

### 3) Residual shares of the Company held by the ESOP Trust

The shares of the Company held by the ESOP Trust were appropriated as treasury stock in net assets.

The book value of said shares of treasury stock was ¥3,627 million and ¥3,567 million (\$32,220 thousand) as of March 31, 2020 and 2021, respectively, with the number of shares totaling 2,602,700 and 2,559,700 shares, respectively. The weighted average number of shares outstanding for the years ended March 31, 2020 and 2021 were 2,604,774 and 2,563,667 shares, respectively.

The number of shares standing and the weighted average number of shares outstanding are included in treasury stocks which are deducted in calculating basic profit attributable to owners of parent per share.

## 4. U.S. Dollar Amounts

The U.S. dollar amounts are included solely for convenience of readers outside Japan, at the prevailing exchange rate on March 31, 2021, which was ¥110.71=U.S.\$1. The above translation should not be construed as a representation that yen have been, could have been, or could in the future be converted into U.S. dollars at the above or any other rate.

## 5. Financial Instruments

### Overview

#### (1) Policy for financial instruments

The Company and its consolidated subsidiaries manage surplus funds only through deposits and procure funds through issuance of straight bond and borrowings from financial institutions. The Company and its consolidated subsidiaries use derivative instruments in order to hedge against interest rate fluctuations and do not enter into derivative transactions for trading or speculative purposes, in accordance with internal policy.

#### (2) Nature and extent of risks arising from financial instruments

Notes and accounts receivable, trade, which are trade receivables of the Company and its consolidated subsidiaries, are exposed to credit risks of customers. Marketable securities are the negotiable deposits which can easily be converted to cash and are subject to little risk of change in value and have high liquidity. As for investment securities, which are primarily stocks of companies with which the Company has business relationships, listed securities are exposed to market risks, and non-listed securities are exposed to risks of fluctuations in the financial conditions of the issuers. In addition, the Company provides loans to its subsidiaries and affiliates.

Notes and accounts payable and electronically recorded obligations, which are trade payables, are mostly due within a year. Straight bonds, borrowings and debt are means of fund procurement primarily in connection with business activities, and the Company uses derivative instruments (interest rate swap transactions) for a certain portion of these liabilities as hedging instruments to mitigate interest rate fluctuation risks and to fix its interest payments. With regard to the method of evaluation of hedge effectiveness, the Company omitted the evaluation of the effectiveness as the requirements for the special treatment of interest-rate swaps are satisfied. In addition, financial covenants have been applied to major borrowings and debt.

#### (3) Risk management for financial instruments

##### **Management of credit risks (risks associated with business partners' default etc.)**

With regard to trade receivables, in accordance with its internal rules, the Company checks the creditworthiness of its business partners, manages the balance of accounts receivable and monitors the status of any delay in collection, and works to obtain collateral when it is necessary to protect accounts receivable, in an endeavor to identify and mitigate risks on collections. Credit risk is also managed by its consolidated subsidiaries in accordance with its internal rules. Loans receivable are managed by the Company by conducting credit investigations on a regular basis in accordance with its internal provisions and working to obtain collateral, if necessary. When the Company conducts derivative transactions, it deals exclusively with Japanese financial institutions that have high creditworthiness.

##### **Management of market risks (interest rate fluctuation risks, etc.)**

With regard to investment securities, the Company determines their fair values and evaluates the financial position of the issuers regularly. For derivative transactions, the Company operates a system that separates execution and management functions based on the internal rules that stipulate policies, usage/and the range of derivatives, and so forth. Under the system, the balance of derivative transactions and the gains or loss from valuation are regularly reported to the director in charge of finance. Furthermore, derivative transactions by the Company and its consolidated subsidiaries are conducted, in principle, as a means to hedge risks, and should work to reduce market risks that might arise between the targeted assets and the liabilities. As such, the Company believes that market risks are fairly limited.

##### **Management of liquidity risks (risks that the Company may not be able to meet its obligation on scheduled due dates) associated with funds procurement**

The Company endeavors to secure liquidity as the finance division prepares funding plans appropriately based on reports from each division and other information and implements fund procurement by utilizing commitment lines in coordination with the scheduled due dates. In addition, the Company confirms the funding status of its consolidated subsidiaries to appropriately manage the funds of the Company and its consolidated subsidiaries as a whole.

# Consolidated Financial Statements

## (4) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in a different fair value. In addition, the notional amounts of derivatives in Note 16. Derivative Transactions are not necessarily indicative of the actual market risk involved in derivative transactions.

### Fair values of financial instruments

The carrying value of financial instruments on the consolidated balance sheet as of March 31, 2020 and 2021, and estimated fair value are shown in the following tables. The following tables do not include financial instruments for which it is extremely difficult to determine the fair value (Please refer to Note 2 below).

	Millions of yen		
	2020		
	Carrying value	Fair value	Difference
Cash and bank deposits	¥152,531	¥152,531	¥ -
Notes and account receivable, trade	141,415	141,452	37
Securities	3,260	3,260	-
Investment securities	11,785	11,785	0
Long-term loans receivable	2,936		
Allowance for doubtful accounts	(25)		
Sub-total	2,911	3,027	116
Total	¥311,903	¥312,056	¥153
Notes and accounts payable	83,619	83,619	(0)
Electronically recorded obligations	54,570	54,570	-
Current portion of long-term debt	4,171	4,186	15
Current portion of bonds	10,000	10,007	7
Income taxes payable	3,359	3,359	-
Straight bonds	20,000	19,860	(140)
Long-term debt	118,091	118,441	350
Total	¥293,811	¥294,042	¥231
Derivatives	¥ -	¥ -	¥ -

	Millions of yen		
	2021		
	Carrying value	Fair value	Difference
Cash and bank deposits	¥216,107	¥216,107	¥ -
Notes and account receivable, trade	132,346	132,404	57
Securities	516	516	-
Investment securities	21,191	21,191	0
Long-term loans receivable	3,077		
Allowance for doubtful accounts	(24)		
Sub-total	3,053	3,147	94
Total	¥373,213	¥373,365	¥152
Notes and accounts payable	87,095	87,094	(1)
Electronically recorded obligations	54,899	54,899	-
Current portion of long-term debt	5,971	5,984	13
Income taxes payable	15,397	15,397	-
Straight bonds	90,000	89,934	(66)
Long-term debt	171,981	172,071	91
Total	¥425,343	¥425,380	¥ 37
Derivatives	¥ -	¥ -	¥ -

Thousands of U.S. dollars

	2021		
	Carrying value	Fair value	Difference
Cash and bank deposits	\$1,952,010	\$1,952,010	\$ -
Notes and account receivable, trade	1,195,434	1,195,953	519
Securities	4,660	4,660	-
Investment securities	191,408	191,408	0
Long-term loans receivable	27,793		
Allowance for doubtful accounts	(217)		
Sub-total	27,576	28,427	851
Total	\$3,371,088	\$3,372,459	\$1,371
Notes and accounts payable	786,691	786,685	(6)
Electronically recorded obligations	495,884	495,884	-
Current portion of long-term debt	53,931	54,047	116
Income taxes payable	139,078	139,078	-
Straight bonds	812,935	812,339	(596)
Long-term debt	1,553,434	1,554,254	820
Total	\$3,841,954	\$3,842,287	\$ 333
Derivatives	\$ -	\$ -	\$ -

Notes:

1) Methods to determine the fair value of financial instruments and other matters related to investment securities and derivative transactions

Cash and bank deposits

Since these items are settled in a short period of time, their carrying value approximates fair value.

Notes and accounts receivable, trade

The carrying values of notes and accounts receivable that are settled in the short term are used to determine their fair value, as their fair values approximate their carrying values. With regard to notes and accounts receivable that are settled in the long term, they are classified by period and their fair values are then calculated based on the present values discounted by the interest rates determined taking into account the collection periods and credit risks.

Securities

Since these items are negotiable deposits and settled in a short period of time, their fair value approximates the book value and is thus stated at that book value.

Investment securities

Quoted market prices on the stock exchanges are used to determine the fair values of these instruments.

For information on securities classified by holding purposes, please refer to Note 6. Investment Securities.

Long-term loans receivable

Long-term loans receivable are classified by period, and their fair values are calculated based on the present values discounted by the interest rates determined taking into account credit spreads and appropriate market data such as yields of government bonds.

In addition, fair values of doubtful accounts are estimated based on collectable amounts.

Notes and accounts payable and Electronically recorded obligations

The carrying values of notes and accounts payable and electronically recorded obligations that are settled in the short term are used to determine their fair values, as the fair values approximate the carrying values. With regard to notes and accounts payable that are settled in the long term, they are classified by period and their fair values are calculated based on the present values discounted by the interest rates determined taking into account the payment periods and credit risks.

Income taxes payable

As these are settled in the short term, their fair values approximate carrying values.

Straight bonds

Fair value is calculated based on available market value. If a market value is not available, fair value is calculated based on the present value of the total amount of principal and interest discounted by an interest rate reflecting the remaining maturity and credit risk of the straight bonds.

# Consolidated Financial Statements

Long-term debt including current portion

Fair values are calculated based on the present value of the total amount of principal and interest discounted by the interest rates to be applied if similar new borrowings were entered into.

The fair values of long-term debt with floating interest rates hedged by interest rate swap transactions subject to the special treatment are calculated based on the present value of the total amount of principal and interest, accounted for together with the interest rate swap transactions, discounted by the interest rates to be applied if similar new borrowings were entered into.

Derivatives

Please refer to Note 16. Derivative Transactions.

2) Financial instruments whose fair values are extremely difficult to determine

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Equity securities of affiliates	¥6,524	¥9,761	\$88,168
Unlisted securities	9,797	9,928	89,677

The above instruments have not been included in the preceding table, "Fair values of financial instruments, Investment securities," as there are no quoted market prices available and it is extremely difficult to determine their fair values.

3) Redemption schedule for monetary receivables and securities with maturity dates at March 31, 2020 and 2021

	Millions of yen				
	2020				
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years	Total
Cash and bank deposits	¥152,531	¥ –	¥ –	¥ –	¥152,531
Notes and accounts receivable, trade	120,415	20,901	82	16	141,415
Securities:					
Negotiable certificate of deposits	3,260	–	–	–	3,260
Investment securities:					
Other securities with maturity dates					
Japanese government bonds, etc.	–	5	–	–	5
Long-term loans receivable	1,311	1,381	131	113	2,936
Total	¥277,517	¥22,288	¥213	¥130	¥300,147

	Millions of yen				
	2021				
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years	Total
Cash and bank deposits	¥216,107	¥ –	¥ –	¥ –	¥216,107
Notes and accounts receivable, trade	116,296	14,859	1,192	–	132,346
Securities:					
Negotiable certificate of deposits	516	–	–	–	516
Investment securities:					
Other securities with maturity dates					
Japanese government bonds, etc.	5	–	–	–	8
Long-term loans receivable	1,572	1,235	131	139	3,077
Total	¥334,496	¥16,093	¥1,323	¥139	¥352,051

	Thousands of U.S. dollars				
	2021				
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years	Total
Cash and bank deposits	\$1,952,010	\$ –	\$ –	\$ –	\$1,952,010
Notes and accounts receivable, trade	1,060,453	134,214	10,767	–	1,195,434
Securities:					
Negotiable certificate of deposits	4,660	–	–	–	4,660
Investment securities:					
Other securities with maturity dates					
Japanese government bonds, etc.	45	–	–	–	45
Long-term loans receivable	14,021	11,152	1,183	1,258	27,793
Total	\$3,021,369	\$145,365	\$11,950	\$1,258	\$3,179,942

# Consolidated Financial Statements

4) Repayment schedule for short-term borrowings, straight bonds, long-term debt, and lease obligations at March 31, 2020 and 2021

	Millions of yen			Millions of yen		
	2020			2021		
	Short-term borrowings	Straight bonds	Long-term debt	Short-term borrowings	Straight bonds	Long-term debt
Due within 1 year	¥-	¥10,000	¥ 4,171	¥-	¥ -	¥ 5,971
Due after 1 year through 2 years	-	-	5,971	-	-	31,981
Due after 2 years through 3 years	-	-	32,121	-	20,000	10,000
Due after 3 years through 4 years	-	-	10,000	-	-	10,000
Due after 4 years through 5 years	-	-	-	-	20,000	20,000
Due after 5 years	-	20,000	70,000	-	50,000	100,000

	Thousands of U.S. dollars		
	2021		
	Short-term borrowings	Straight bonds	Long-term debt
Due within 1 year	\$-	\$ -	\$ 53,931
Due after 1 year through 2 years	-	-	288,869
Due after 2 years through 3 years	-	180,652	90,326
Due after 3 years through 4 years	-	-	90,326
Due after 4 years through 5 years	-	180,652	180,652
Due after 5 years	-	451,630	903,261

5) Investments in non-consolidated subsidiaries and affiliates are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Investment securities	¥5,227	¥9,191	\$83,019
Other securities	1,297	570	5,148

## 6. Marketable Securities and Investment Securities

(1) Marketable securities classified as held-to-maturity debt securities as of March 31, 2020 and 2021 consisted of the following:

	Millions of yen					
	2020			2021		
	Carrying value	Fair value	Unrealized gain (loss)	Carrying value	Fair value	Unrealized gain (loss)
Securities whose fair value exceeds their carrying value	¥ 5	¥ 5	¥0	¥ 5	¥ 5	¥0
Securities whose fair value does not exceed their carrying value	3,260	3,260	-	516	516	-
Total	¥3,265	¥3,265	¥0	¥521	¥521	¥0

	Thousands of U.S. dollars		
	2021		
	Carrying value	Fair value	Unrealized gain (loss)
Securities whose fair value exceeds their carrying value	\$ 45	\$ 45	\$0
Securities whose fair value does not exceed their carrying value	4,660	4,660	-
Total	\$4,705	\$4,706	\$0

# Consolidated Financial Statements

(2) Other securities whose fair value is available as of March 31, 2020 and 2021 consisted of the following:

	<i>Millions of yen</i>					
	2020			2021		
	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
(Securities whose carrying value exceeds their acquisition cost)						
Equity securities	¥ 1,604	¥ 226	¥ 1,378	<b>¥20,530</b>	<b>¥14,722</b>	<b>¥5,808</b>
Other	-	-	-	-	-	-
Sub-total	¥ 1,604	¥ 226	¥ 1,378	<b>¥20,530</b>	<b>¥14,722</b>	<b>¥5,808</b>
(Securities whose carrying value does not exceeds their acquisition cost)						
Equity securities	¥ 9,484	¥10,941	¥(1,457)	¥ -	¥ -	¥ -
Other	692	745	(52)	<b>656</b>	<b>745</b>	<b>(88)</b>
Sub-total	¥10,177	¥11,686	¥(1,509)	<b>¥ 656</b>	<b>¥ 745</b>	<b>¥ (88)</b>
Total	¥11,780	¥11,912	¥ (132)	<b>¥21,186</b>	<b>¥15,466</b>	<b>¥5,720</b>

	<i>Thousands of U.S. dollars</i>		
	2021		
	Carrying value	Acquisition cost	Unrealized gain (loss)
(Securities whose carrying value exceeds their acquisition cost)			
Equity securities	<b>\$185,435</b>	<b>\$132,974</b>	<b>\$52,461</b>
Other	-	-	-
Sub-total	<b>\$185,435</b>	<b>\$132,974</b>	<b>\$52,461</b>
(Securities whose carrying value does not exceeds their acquisition cost)			
Equity securities	\$ -	\$ -	\$ -
Other	<b>5,928</b>	<b>6,726</b>	<b>(797)</b>
Sub-total	<b>\$ 5,928</b>	<b>\$ 6,726</b>	<b>\$ (797)</b>
Total	<b>\$191,363</b>	<b>\$139,700</b>	<b>\$51,664</b>

(3) Other securities sold for the years ended March 31, 2020 and 2021 were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2020	2021	2021
Equity securities:			
Proceeds from sales	¥334	<b>¥16</b>	<b>\$143</b>
Gain on sales	139	<b>1</b>	<b>6</b>
Loss on sales	-	-	-

For the fiscal year ended March 31, 2021

The Company recorded impairment losses of ¥764 million (\$6,897 thousand) on investment securities.

For securities whose fair values at the end of the fiscal year have declined by 50% or more compared with their acquisition cost, loss on impairment is recorded without exception. For securities whose fair values at the end of the fiscal year have declined by 30% or more but less than 50% compared with their acquisition cost, loss on impairment is recorded as deemed necessary in consideration of the possibility of their recoverability.

4) Impairment of investment in securities

For the fiscal year ended March 31, 2020

The Company recorded impairment losses of ¥352 million on investment securities.

For securities whose fair values at the end of the fiscal year have declined by 50% or more compared with their acquisition cost, loss on impairment is recorded without exception. For securities whose fair values at the end of the fiscal year have declined by 30% or more but less than 50% compared with their acquisition cost, loss on impairment is recorded as deemed necessary in consideration of the possibility of their recoverability.

## 7. Inventories

Inventories as of March 31, 2020 and 2021 consisted of the following:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2020	2021	2021
Real estate for sale	¥124,881	<b>¥166,708</b>	<b>\$1,505,806</b>
Costs and advances for real estate operations	102,379	<b>113,272</b>	<b>1,023,146</b>
Real estate for development projects	23,193	<b>25,723</b>	<b>232,342</b>
	<b>¥250,453</b>	<b>¥305,703</b>	<b>\$2,761,293</b>



# Consolidated Financial Statements

## 8. Property and Equipment and Intangible Assets

(1) Property and equipment as of March 31, 2020 and 2021 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Buildings and structures	¥ 74,821	<b>¥82,382</b>	<b>\$744,128</b>
Machinery, vehicles, equipment and furniture	9,593	<b>9,707</b>	<b>87,679</b>
Land	91,029	<b>100,156</b>	<b>904,674</b>
Leased assets	1,349	<b>1,274</b>	<b>11,509</b>
Construction in progress	3,144	<b>9,105</b>	<b>82,243</b>
Sub-total	179,937	<b>202,625</b>	<b>1,830,234</b>
Accumulated depreciation	(26,546)	<b>(29,615)</b>	<b>(267,500)</b>
	<u>¥153,391</u>	<u><b>¥173,010</b></u>	<u><b>\$1,562,734</b></u>

(2) Intangible assets as of March 31, 2020 and 2021 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Land leasehold rights	¥1,877	<b>¥1,876</b>	<b>\$16,942</b>
Goodwill	2,793	<b>2,590</b>	<b>23,397</b>
Other	3,622	<b>5,392</b>	<b>48,701</b>
	<u>¥8,292</u>	<u><b>¥9,858</b></u>	<u><b>\$89,040</b></u>

(3) Net gain (loss) on disposal or sales of property and equipment and intangible assets for the years ended March 31, 2020 and 2021 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2020	2020
Buildings and structures	¥(3)	<b>¥(27)</b>	<b>\$(244)</b>
Machinery, vehicles, equipment and furniture	(3)	<b>(14)</b>	<b>(129)</b>
Land	13	<b>2</b>	<b>19</b>
Leased assets	(2)	<b>(1)</b>	<b>(9)</b>
Other	(1)	<b>(7)</b>	<b>(65)</b>
	<u>¥ 4</u>	<u><b>¥(47)</b></u>	<u><b>\$(428)</b></u>

(4) Impairment loss on fixed assets

The Company and its consolidated domestic subsidiaries recognized impairment losses on the following fixed assets for the years ended March 31, 2020 and 2021:

2020

Use	Type	Location	Number of instances
Asset for construction-related business	Equipment and furniture	Minato-ku, Tokyo	1
Real estate for service-related business	Land and buildings etc.	Izu-shi, Shizuoka, etc.	10
Asset for service-related business	Machinery, equipment and furniture etc.	Takatsu-ku, Kawasaki-shi, etc.	8

2021

Use	Type	Location	Number of instances
Real estate for construction-related business	Land	Tsukuba-shi, Ibaraki	<b>1</b>
Asset for construction-related business	Equipment and furniture	Minato-ku, Tokyo	<b>1</b>
Real estate for service-related business	Buildings, etc.	Kohoku-ku, Yokohama-shi, etc.	<b>10</b>
Asset for service-related business	Machinery, equipment and furniture etc.	Suginami-ku, Tokyo, etc.	<b>12</b>

The Company and its consolidated domestic subsidiaries recognized impairment loss on certain real estate for construction-related business, service-related business, and assets for construction-related business, service-related business, which are grouped separately for the assessment of impairment.

(2020)

The decline economic performance and the decision to dispose of the investment, etc., in the year ended March 31, 2020 triggered the recognition of impairment, and the carrying values of those assets have been written down to their recoverable amounts, resulting in impairment losses on fixed assets of ¥121 million for the year ended March 31, 2020, which were presented as "Special Losses" on the consolidated statement of income.

(2021)

The decline economic performance and the decision to suspend of the usage, etc., in the year ended March 31, 2021 triggered the recognition of impairment, and the carrying values of those assets have been written down to their recoverable amounts, resulting in impairment losses on fixed assets of ¥156 million (\$1,405 thousand) for the year ended March 31, 2021, which were presented as "Special Losses" on the consolidated statement of income.

The details of impairment losses on fixed assets were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Buildings and structures	¥ 77	<b>¥112</b>	<b>\$1,011</b>
Equipment and furniture	29	<b>39</b>	<b>354</b>
Land	0	<b>1</b>	<b>7</b>
Leased assets	8	<b>3</b>	<b>24</b>
Intangible assets	7	<b>1</b>	<b>9</b>
	<u>¥121</u>	<u><b>¥156</b></u>	<u><b>\$1,405</b></u>

(2020)

The recoverable amount is the higher of the net selling price or value in use. The net selling price is based on a comparison approach value for other assets. Value in use is zero as future cash flows are expected to be negative. Moreover, the discount rate is omitted as future cash flows before discounting are expected to be negative.

# Consolidated Financial Statements

## (2021)

The recoverable amount of real estate for construction-related business is measured by the net selling price calculated on the basis of transaction cases, etc. The recoverable amount of assets for construction-related business is measured by the value in use, and is calculated by discounting future cash flows with a certain discount rate set by the Company. The recoverable amount of real estate for service-related business and assets for service-related business is measured by the value in use. However, the value in use is set as zero because the valuation based on future cash flows is expected to be negative. Moreover, the discount rate is omitted as undiscounted future cash flows before discounting are expected to be negative.

## (5) Rental Properties

The Company and some of its consolidated subsidiaries own residential properties for lease, office buildings for lease (including land), commercial facilities for lease, etc., mainly in the Tokyo metropolitan area and the Kinki area. Income/expenses of the leasing business related to the rental properties for the years ended March 31, 2020 and 2021 were ¥2,088 million and ¥1,877 million (\$16,951 thousand), respectively. Gains on sales (recorded as "Special Income") was ¥24 million for the year ended March 31, 2020.

Income from the leasing business is recorded as leasing and management revenue and expenses for the leasing business are recorded as leasing and management expenses. Changes in the recorded amount of rental properties, etc. in the consolidated balance sheet during the year and fair value as of the end of the fiscal year are as follows.

	Millions of yen		Thousands of U.S. dollars	
	2020	2021	2020	2021
Book value:				
Balance at the beginning of the year	¥ 84,593	<b>¥103,025</b>	\$ 930,581	
Increase/decrease	18,431	<b>20,980</b>	<b>189,508</b>	
Balance at the end of the year	103,025	<b>124,005</b>	<b>1,120,089</b>	
Fair value	¥113,633	<b>¥138,445</b>	<b>\$1,250,521</b>	

### Notes:

- The rental properties are recorded on the consolidated balance sheet at their acquisition costs net of accumulated depreciation and impairment losses.
- Of the amount of increase (decrease) for the year ended March 31, 2020, the increase is primarily attributable to acquisition of real estate (¥21,480 million) and to transfer to rental properties (¥712 million) and the decrease is primarily attributable to transfer to real estate for sale (¥2,419 million) and depreciation (¥922 million).  
Of the amount of increase (decrease) for the year ended March 31, 2021, the increase is primarily attributable to acquisition of real estate (¥27,030 million, \$244,150 thousand) and the decrease is primarily attributable to transfer to real estate for sale (¥6,152 million, \$55,569 thousand) and depreciation (¥1,209 million, \$10,923 thousand).
- The fair value at the end of the current fiscal year is the appraisal value taken from the real estate appraisal reports for major properties; and the calculations by the Company in accordance with the "Real Estate Appraisal Standards" for others. However, for certain properties the value at the time of acquisition or value obtained using a general fair value calculation formula is stated as the fair value at the end of the current fiscal year when there has been no significant fluctuation in the index which is deemed to be a kind of appraised value or appropriately reflect market value since they were acquired or most recently appraised.

## 9. Short-term Borrowings, Long-term Debt, Straight Bonds and Lease Obligations

- (1) The following is a summary of the interest bearing debt as of March 31, 2020 and 2021:

	Average interest rate	Millions of yen		Thousands of U.S. dollars	
		2019	2020	2020	2020
Short-term borrowings	-	¥ -	¥ -	\$ -	\$ -
Current portion of long-term debt	0.68%	4,171	<b>5,971</b>	<b>53,931</b>	
Current portion of lease obligations	1.79%	217	<b>168</b>	<b>1,516</b>	
Straight bond due Jul. 22, 2020	0.41%	10,000	-	-	
Straight bond due Nov. 1, 2028	0.52%	10,000	<b>10,000</b>	<b>90,326</b>	
Straight bond due Jul. 19, 2029	0.35%	10,000	<b>10,000</b>	<b>90,326</b>	
Straight bond due Jul. 11, 2025	0.24%	-	<b>20,000</b>	<b>180,652</b>	
Straight bond due Jul. 12, 2030	0.47%	-	<b>20,000</b>	<b>180,652</b>	
Straight bond due Nov. 27, 2023	0.03%	-	<b>20,000</b>	<b>180,652</b>	
Straight bond due Nov. 26, 2027	0.30%	-	<b>10,000</b>	<b>90,326</b>	
Long-term debt due from 2022 to 2035	0.67%	118,091	<b>171,981</b>	<b>1,553,434</b>	
Lease obligations due from 2022 to 2027	1.66%	266	<b>202</b>	<b>1,821</b>	
Total		¥152,746	<b>¥268,321</b>	<b>\$2,423,638</b>	

Note: The weighted average interest rate for the end-of-year balance of outstanding debt is shown as the "average interest rate."

The weighted average interest rate for the end-of-year balance of outstanding lease obligations, whose interest payments are calculated based on the effective interest method, is shown as the "Average interest rate" of lease obligation.

- (2) The annual maturities of straight bonds, long-term debt and lease obligations (excluding the current portion) as of March 31, 2021 were as follows:

Year ending March, 31	Millions of yen				Thousands of U.S. dollars	
	Straight bonds	Long-term debt	Lease obligations	Total	Total	Total
2023	¥ -	¥ 31,981	¥ 96	¥ 32,007	\$ 289,735	
2024	<b>20,000</b>	<b>10,000</b>	<b>60</b>	<b>30,060</b>	<b>271,520</b>	
2025	-	<b>10,000</b>	<b>26</b>	<b>10,046</b>	<b>90,562</b>	
2026	<b>20,000</b>	<b>20,000</b>	<b>14</b>	<b>40,014</b>	<b>361,434</b>	
2027 and thereafter	<b>50,000</b>	<b>100,000</b>	<b>5</b>	<b>150,005</b>	<b>1,351,939</b>	
Total	<b>¥90,000</b>	<b>¥171,981</b>	<b>¥202</b>	<b>¥262,182</b>	<b>\$2,368,190</b>	

- (3) The Company has committed lines of credit available for immediate and stable borrowings with certain five financial institutions as of March 31, 2020 and 2021. The lines of credit and unused lines of credit as of March 31, 2020 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2020	2021	2020	2021
Line of credit	¥63,000	<b>¥63,000</b>	\$569,054	
Amount utilized	-	-	-	
Unused line of credit	¥63,000	<b>¥63,000</b>	<b>\$569,054</b>	

# Consolidated Financial Statements

(4) One consolidated subsidiary has concluded an overdraft agreement with a financial institution in order to secure stable and flexible procurement of operating funds. The balance of the unexecuted portion as of March 31, 2020 based on this agreement was as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Overdraft limit	¥1,300	¥-	\$-
Amount utilized	-	-	-
Amount unused	¥1,300	¥-	\$-

## 10. Collateral

(1) Assets provided as collateral as of March 31, 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Cash and bank deposits	¥350	¥-	\$-

Secured liabilities as of March 31, 2020 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Other current liabilities	¥350	¥-	\$-

(2) The following assets have been provided as collateral for borrowings by HC Katsushimacho Jutaku Co., Ltd., related to PFI projects.

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Notes and accounts receivable, trade	¥2,078	¥1,388	\$12,534
Buildings and structures	53	50	453
Other current assets	15	10	92
	¥2,146	¥1,448	\$13,079

Secured liabilities as of March 31, 2020 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Current portion of long-term debt	¥ 636	¥ 636	\$ 5,742
Long-term debt	1,271	636	5,742
	¥1,907	¥1,271	\$11,484

In addition to the above, the following assets have been provided as collateral, all of which have been eliminated on the consolidated balance sheet:

(2020)

Shares of HC Katsushimacho Jutaku Co., Ltd. (¥9 million) owned by Haseko Corporation and Haseko Community, Inc.

Loans receivable (¥157 million) lent by Haseko Corporation to HC Katsushimacho Jutaku Co., Ltd.

(2021)

Shares of HC Katsushimacho Jutaku Co., Ltd. (¥9 million, \$81 thousand) owned by Haseko Corporation and Haseko Community Inc.

Loans receivable (¥157 million, \$1,418 thousand) lent by Haseko Corporation to HC Katsushimacho Jutaku Co., Ltd.

## 11. Contingent Liabilities

The Company was contingently liable for guarantees on bank loans and other guarantees as of March 31, 2020 and 2021 as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Customers using housing loans and other loans to purchase real estate	¥38,480	¥45,518	\$411,149

## 12. Lease Transactions

(1) Finance lease transactions

(a) Details of leased assets

Fixed Assets are mainly assets for the "Service-related business."

(b) Depreciation method of leased assets

Please refer to Note 2 (7) Summary of Significant Accounting Policies relating depreciations of leased assets.

(2) Operating lease transactions

(As lessee)

Outstanding future minimum lease payments under noncancelable operating leases as of March 31, 2020 and 2021 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Within one year	¥ 1,953	¥ 1,568	\$ 14,162
Over one year	13,291	12,848	116,055
Total	¥15,244	¥14,416	\$130,217

(As lessor)

Outstanding future minimum lease income under noncancelable operating leases as of March 31, 2020 and 2021 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Within one year	¥ 1,439	¥ 2,097	\$ 18,943
Over one year	15,724	18,042	162,965
Total	¥17,164	¥20,139	\$181,907

# Consolidated Financial Statements

## 13. Supplementary Profit and Loss Information

(1) Revenue from construction contracts calculated by using the percentage-of-completion method were ¥476,863 million and ¥435,427 million (\$3,933,041 thousand) for the years ended March 31, 2020 and 2021, respectively.

(2) Allowance for losses on construction contracts included in cost of sales for the years ended March 31, 2020 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Construction contracts	¥ 1	¥64	\$580
Design and supervision	39	81	734

(3) Valuation losses on inventories included in cost of sales for the years ended March 31, 2020 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Real estate	¥3,684	¥713	\$6,437

(4) Selling, general and administrative expenses for the years ended March 31, 2020 and 2021 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Salaries and allowances	¥21,122	¥21,757	\$196,519
Provision for bonuses for employees	1,928	1,934	17,467
Provision for bonuses for directors	146	127	1,149
Provision for employee stock ownership plan	326	369	3,330
Provision for board benefit trust	110	96	866
Retirement benefit expenses	979	971	8,772
Rent	3,295	3,579	32,331
Depreciation	1,815	2,095	18,921
Amortization	203	203	1,835
Other	30,913	32,192	290,776
Total	¥60,837	¥63,322	\$571,967

(2) Dividends

(a) Dividends paid

In the year ended March 31, 2020

Resolution	Type of shares	Total amount of dividend (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Annual meeting of shareholders on June 27, 2019 (Note1)	Common stock	¥21,024	¥70.00	March 31, 2019	June 28, 2019
Board of Directors on November 8, 2019 (Note 2)	Common stock	¥ 6,012	¥20.00	September 30, 2019	December 5, 2019

Notes:

- 1) The total amount of dividends includes ¥225 million as dividends to the Company's shares held by the BBT and the Stock-Granting ESOP as trust assets.
- 2) The total amount of dividends includes ¥63 million as dividends to the Company's shares held by the BBT and the Stock-Granting ESOP as trust assets.

(5) Research and development costs included in selling, general and administrative expenses for the years ended March 31, 2020 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Research and development costs	¥3,034	¥3,905	\$35,273

## 14. Net Assets

(1) Shares issued and treasury stock

Changes in number of shares issued and treasury stock for the year ended March 31, 2020 were as follows:

	Number of shares			
	2019	Increase	Decrease	2020
Shares issued:				
Common stock	300,794,397	—	—	300,794,397
Treasury stock:				
Common stock (Notes 1 and 2)	3,410,903	4,528,022	59,860	7,879,065

Notes:

- 1) Increase in treasury stock due to the request by shareholders for purchase of shares less than one standard unit.
- 2) Decrease in treasury stock due to the grant by the BBT and the Stock-Granting ESOP held as trust assets.

Changes in number of shares issued and treasury stock for the year ended March 31, 2021 were as follows:

	Number of shares			
	2020	Increase	Decrease	2021
Shares issued:				
Common stock	300,794,397	—	—	300,794,397
Treasury stock:				
Common stock (Notes 1 and 2)	7,879,065	16,459,515	106,660	24,231,920

Notes:

- 1) Increase in treasury stock due to the request by shareholders for purchase of shares less than one standard unit.
- 2) Decrease in treasury stock due to the grant by the BBT and the Stock-Granting ESOP held as trust assets.

# Consolidated Financial Statements

In the year ended March 31, 2021

Resolution	Type of shares	Total amount of dividend		Dividend per share		Record date	Effective date
		(Millions of yen)	(Thousands of U.S. dollars)	(Yen)	(U.S. dollars)		
Annual meeting of shareholders on June 26, 2020 (Note1)	Common stock	¥14,803	\$133,712	¥50.00	\$0.45	March 31, 2020	June 29, 2020
Board of Directors on November 12, 2020 (Note 2)	Common stock	¥10,159	\$ 91,760	¥35.00	\$0.32	September 30, 2020	December 4, 2020

Notes:

- The total amount of dividends includes ¥158 million (\$1,423 thousand) as dividends to the Company's shares held by the BBT and the Stock-Granting ESOP as trust assets.
- The total amount of dividends includes ¥107 million (\$962 thousand) as dividends to the Company's shares held by the BBT and the Stock-Granting ESOP as trust assets.

(b) Dividends with the cut-off date in the year ended March 31, 2021 and the effective date in the year ending March 31, 2022

Resolution	Type of shares	Total amount of dividend		Dividend per share		Record date	Effective date
		(Millions of yen)	(Thousands of U.S. dollars)	(Yen)	(U.S. dollars)		
Annual meeting of shareholders on June 29, 2021 (Note)	Common stock	¥9,786	\$88,395	¥35.00	\$0.32	March 31, 2021	June 30, 2021

Note: The total amount of dividends includes ¥107 million (\$962 thousand) as dividends to the Company's shares held by the BBT and the Stock-Granting ESOP as trust assets.

## 15. Cash and Cash Equivalents

(1) A reconciliation between cash and cash equivalents on the consolidated statement of cash flows and the cash and bank deposits on the consolidated balance sheet as of March 31, 2020 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Cash and bank deposits	¥152,531	¥216,107	\$1,952,010
Time deposits pledged as collateral	(350)	-	-
Saving accounts for insurance agency	(826)	(606)	(5,472)
Negotiable certificates of deposit, which were included in Securities	543	-	-
Restricted deposit	(144)	(1,202)	(10,860)
Cash and cash equivalents	¥151,754	¥214,299	\$1,935,679

acquisition of shares of subsidiaries resulting in change in the scope of consolidation are as follows:

	Millions of yen
	2020
Current assets	¥ 9,753
Fixed assets	1,915
Current liabilities	(6,778)
Long-term liabilities	(476)
Negative goodwill	(2,227)
Acquisition price of Hosoda Corporation shares	2,186
Cash and cash equivalents of Hosoda Corporation	(1,223)
Difference:	
Payment for acquisition of shares of subsidiaries resulting in change in the scope of consolidation	963

(2) Major breakdown of assets and liabilities of companies which newly became consolidated subsidiaries during the year ended March 31, 2020 through share acquisition:

A breakdown of assets and liabilities at the time of consolidation in line with the acquisition of shares of Hosoda Corporation and the reconciliation between the acquisition price of the company's shares and proceeds (net amount) due to

(3) The increase/decrease in short-term borrowings, net and repayment of long-term debt in the current fiscal year include Hosoda Corporation's repayments of the existing borrowings by using the loans made by the Company during the period between the acquisition date and the deemed acquisition date with regard to the Company's newly consolidating Hosoda Corporation. Such amounts were ¥1,805 million for decrease in short-term borrowings, net, and ¥3,525 million for repayment of long-term debt.

# Consolidated Financial Statements

## 16. Derivative Transactions

Derivative transactions for which hedge accounting is applied are as follows:

			As of March 31, 2020		
Hedge accounting method	Hedging instrument	Hedged item	Notional amount	Of which, maturing after one year	Fair value
<i>(Millions of yen)</i>					
Special treatment of interest rate swaps	Interest rate swap transaction Pay fixed / Receive floating	Long-term debt	¥67,795	¥64,580	(Note)
			As of March 31, 2021		
Hedge accounting method	Hedging instrument	Hedged item	Notional amount	Of which, maturing after one year	Fair value
<i>(Millions of yen)</i>					
Special treatment of interest rate swaps	Interest rate swap transaction Pay fixed / Receive floating	Long-term debt	<b>¥94,580</b>	<b>¥91,365</b>	(Note)
<i>(Thousands of U.S. dollars)</i>					
			<b>\$854,304</b>	<b>\$825,264</b>	

Note: The fair value of interest rate swaps accounted for by special treatment is included in the fair value of the applicable long-term debt as such swaps are accounted for together with the hedged long-term debt.

There were no derivative transactions for which hedge accounting was not applied as of March 31, 2020 and 2021.

## 17. Retirement Benefit Plans

The Company and its consolidated subsidiaries have established a lump-sum retirement allowance plan, funded defined benefit plan, multi-employer pension plan or smaller enterprise retirement allowance plan, and defined contribution pension plans.

Certain consolidated subsidiaries participate in the multi-employer pension plan. When the pension assets held by the multi-employer pension plan corresponding to the subsidiaries' contribution cannot be reliably determined, the accounting treatment applied is the same as that for a defined contribution plan.

(1) The changes in the retirement benefit obligation during the years ended March 31, 2020 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Balance at the beginning of the year	¥53,833	<b>¥55,956</b>	<b>\$505,430</b>
Service cost	2,917	<b>3,038</b>	<b>27,440</b>
Interest cost	104	<b>115</b>	<b>1,043</b>
Actuarial gain or loss	195	<b>1,059</b>	<b>9,562</b>
Retirement benefit paid	(1,975)	<b>(2,787)</b>	<b>(25,172)</b>
Other	882	<b>(132)</b>	<b>(1,189)</b>
Balance at the end of the year	<u>¥55,956</u>	<u><b>¥57,250</b></u>	<u><b>\$517,113</b></u>

(2) The changes in plan assets during the years ended March 31, 2020 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Balance at the beginning of the year	¥65,382	<b>¥68,347</b>	<b>\$617,353</b>
Expected return on plan assets	1,600	<b>1,665</b>	<b>15,035</b>
Actuarial gain or loss	(1,638)	<b>3,291</b>	<b>29,728</b>
Contributions by the Company	3,911	<b>3,481</b>	<b>31,440</b>
Retirement benefits paid	(1,891)	<b>(2,728)</b>	<b>(24,642)</b>
Other	985	<b>291</b>	<b>2,628</b>
Balance at the end of the year	<u>¥68,347</u>	<u><b>¥74,346</b></u>	<u><b>\$671,542</b></u>

# Consolidated Financial Statements

(3) The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2020 and 2021.

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Funded retirement benefit obligation	¥ 54,913	¥ 55,990	\$ 505,737
Plan assets at fair value	(68,347)	(74,346)	(671,542)
	(13,434)	(18,356)	(165,805)
Unfunded retirement benefit obligation	1,043	1,259	11,376
Net liability for retirement benefits in the balance sheet	(12,391)	(17,097)	(154,429)
Liability for retirement benefits	1,375	1,361	12,292
Asset for retirement benefits	(13,766)	(18,458)	(166,721)
Net liability for retirement benefits in the balance sheet	¥(12,391)	¥(17,097)	\$(154,429)

(4) The components of retirement benefit expense for the years ended March 31, 2020 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Service cost	¥ 2,733	¥ 2,596	\$ 23,445
Interest cost	104	115	1,043
Expected return on plan assets	(1,600)	(1,665)	(15,035)
Amortization of actuarial loss	1,104	1,123	10,143
Amortization of prior service cost	(354)	(146)	(1,319)
Retirement benefit expense	¥ 1,987	¥ 2,023	\$ 18,277

Notes:

- 1) Service cost does not include the amounts contributed by employees with respect to welfare pension fund plans.
- 2) Retirement benefit expenses for consolidated subsidiaries adopting the simplified method which assumes retirement benefit obligation to be equal to the benefits payable as if all eligible employees voluntarily terminated their employment at fiscal year-end are included in "Service cost."

(5) The components of retirement benefits liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2020 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Actuarial loss	¥ (354)	¥ (146)	\$(1,319)
Prior service cost	(730)	3,356	30,309
Total	¥(1,084)	¥3,210	\$28,991

(6) The components of retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2020 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Unrecognized prior service cost	¥ (160)	¥ (14)	\$ (126)
Unrecognized actuarial loss	11,225	7,869	71,078
Total	¥11,065	¥7,855	\$70,952

(7) The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2020 and 2021 were as follows:

	2020	2021
Bonds	62%	58%
Stocks	14%	19%
Alternative investments (Note)	16%	16%
Life insurance general accounts, etc.	8%	7%
Total	100%	100%

Note: Alternative investments are mainly investments in hedge funds.

The expected return on assets has been estimated based on the anticipated allocation to each asset class and the expected long-term returns on assets held in each category.

(8) The assumptions used in accounting for the above plans were as follows:

	2020	2021
Discount rates	0.2% - 1.0%	0.2% - 1.0%
Expected rates of return on plan assets	1.0% - 2.5%	1.0% - 2.5%

(9) Defined Contribution Plan

The required contributions to the defined contribution plans of consolidated subsidiaries for the years ended March 31, 2020 and 2021 were ¥15 million and ¥41 million (\$370 thousand), respectively.

# Consolidated Financial Statements

## (10) Multi-employer pension plan

The required contributions, which were accounted in the same way as the defined contribution plan for the years ended March 31, 2020 and 2021 were ¥18 million and ¥38 million (\$350 thousand), respectively.

The most recent funded status was as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Pension assets	¥ 3,670	¥ 3,314	\$ 30,450
Total of the amount of actuarial obligations under pension funding program and minimum policy reserves	5,415	4,989	45,845
Difference	<u>¥(1,745)</u>	<u>¥(1,675)</u>	<u>\$(15,395)</u>

The U.S. dollar amounts are calculated by the prevailing exchange rate on March 31, 2020, which was ¥108.83=U.S.\$1.

The average contribution ratio to total contributions made to all plans for the year ended March 31, 2019 and 2020 were 5.61% and 5.61%, respectively. This ratio does not accord with the actual contribution ratio of the Company group.

The differences of ¥(1,745) million as described above was due to prior service cost under pension funding programs ¥(1,655) million and special reserve fund ¥(90) million for the year ended March 31, 2019.

The differences of ¥(1,675) million (\$15,395) thousand as described above was due to prior service cost under pension funding programs ¥(1,476) million (\$13,559) thousand and special reserve fund ¥(200) million (\$1,837) thousand for the year ended March 31, 2020.

Prior service costs under this program are amortized using the straight-line method (9 years and 6 months)

## 18. Income Taxes

(1) The significant components of deferred tax assets and liabilities as of March 31, 2020 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Deferred tax assets:			
Allowance for doubtful accounts	¥ 617	¥ 212	\$ 1,917
Accrued business tax	741	886	8,000
Warranty	1,292	1,330	12,017
Accrued bonuses for employees	1,720	1,757	15,869
Liability for retirement benefits	448	497	4,489
Valuation loss on real estate for sale	5,311	4,789	43,253
Impairment loss on fixed assets	1,534	1,535	13,864
Valuation loss on investment securities	555	774	6,988
Revaluation of assets on consolidation	10,380	9,151	82,655
Consideration for business transfer	935	540	4,880
Provision for employee stock ownership plan	668	868	7,845
Tax loss carry forwards	4,414	3,646	32,930
Other	8,683	10,859	98,089
Sub-total	37,299	36,844	332,796
Valuation allowance pertaining to tax loss carry forwards	(3,988)	(3,213)	(29,021)
Valuation allowance pertaining to total deductible temporary difference	(19,914)	(19,310)	(174,420)
Valuation allowances (sub-total)	(23,903)	(22,523)	(203,441)
Total deferred tax assets	13,396	14,321	129,355
Deferred tax liabilities:			
Unrealized gain on other securities	(397)	(1,466)	(13,246)
Prepaid pension cost	(4,240)	(5,725)	(51,715)
Revaluation of assets on consolidation	(280)	(275)	(2,488)
Other	(1,022)	(1,072)	(9,686)
Total deferred tax liabilities	(5,939)	(8,540)	(77,135)
Net deferred tax assets	<u>¥ 7,457</u>	<u>¥ 5,781</u>	<u>\$ 52,219</u>

Notes:

1) Valuation loss on real estate for sale includes ¥43 million and ¥359 million (\$3,247 thousand) as of March 31, 2020 and 2021, respectively, for properties that were reclassified from "Current Assets" to "Property and Equipment" following a change in holding purpose.

## 2) Tax loss carry forwards and related deferred tax assets expire as follow

As of March 31, 2020

	Millions of yen						Total
	Within 1 year	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	
Tax loss carry forwards (a)	¥ 1,101	¥ 312	¥ 196	¥ 81	¥ 161	¥ 2,564	¥ 4,414
Valuation allowance	(1,026)	(298)	(192)	(79)	(161)	(2,233)	(3,988)
Deferred tax assets	75	14	4	2	—	331	426 (b)

(a) Tax loss carry forwards are shown as the amounts multiplied by the statutory tax rate.

(b) The Company recorded deferred tax assets of ¥426 million for tax loss carry forwards of ¥4,414 million (the amount multiplied by the statutory tax rate). The said deferred tax assets of ¥426 million represent the amount at which the Company recognized for part of the tax loss carry forwards totaling ¥4,414 million for Haseko Community Inc. and 13 other consolidated subsidiaries. The deferred tax assets recognized for the tax carry forwards resulted from losses of ¥75 million for the fiscal year ended March 31, 2012, ¥14 million for the fiscal year ended March 31, 2013, ¥5 million for the fiscal year ended March 31, 2014, ¥1 million for the fiscal year ended March 31, 2015, ¥124 million for the fiscal year ended March 31, 2017, ¥130 million for the fiscal year ended March 31, 2018, ¥48 million for the fiscal year ended March 31, 2019 and ¥29 million for the fiscal year ended March 31, 2020, respectively (the amount multiplied by the statutory tax rate for each), as calculated by Haseko Community Inc. and 8 other companies. As such, the Company determined that the amounts are recoverable in view of anticipated taxable income in the future, and did not recognize valuation allowances for them.



# Consolidated Financial Statements

As of March 31, 2021

	<i>Millions of yen</i>						
	Within 1 year	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	Total
Tax loss carry forwards (a)	¥ 264	¥184	¥ 56	¥ 151	¥134	¥ 2,856	¥ 3,646
Valuation allowance	(234)	(68)	(54)	(151)	(14)	(2,691)	(3,213)
Deferred tax assets	30	116	2	–	120	165	433 (b)

	<i>Thousands of U.S. dollars</i>						
	Within 1 year	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	Total
Tax loss carry forwards (a)	\$ 2,384	\$1,663	\$ 507	\$ 1,364	\$1,212	\$ 25,800	\$ 32,930
Valuation allowance	(2,115)	(612)	(492)	(1,364)	(129)	(24,309)	(29,021)
Deferred tax assets	268	1,051	16	–	1,083	1,490	3,909 (b)

(a) Tax loss carry forwards are shown as the amounts multiplied by the statutory tax rate.

(b) The Company recorded deferred tax assets of ¥433 million (\$3,909 thousand) for tax loss carry forwards of ¥3,646 million (\$32,930 thousand) (the amount multiplied by the statutory tax rate). The said deferred tax assets of ¥433 million (\$3,909 thousand) represent the amount at which the Company recognized for part of the tax loss carry forwards totaling ¥3,646 million (\$32,930 thousand) for Haseko Community Inc. and 13 other consolidated subsidiaries. The deferred tax assets recognized for the tax carry forwards resulted from losses of ¥30 million (\$268 thousand) for the fiscal year ended March 31, 2013, ¥116 million (\$1,051 thousand) for the fiscal year ended March 31, 2014, ¥2 million (\$16 thousand) for the fiscal year ended March 31, 2015, ¥120 million (\$1,083 thousand) for the fiscal year ended March 31, 2017, ¥54 million (\$491 thousand) for the fiscal year ended March 31, 2018, ¥71 million (\$643 thousand) for the fiscal year ended March 31, 2019, ¥28 million (\$256 thousand) for the fiscal year ended March 31, 2020 and ¥11 million (\$100 thousand) for the fiscal year ended March 31, 2021, respectively (the amount multiplied by the statutory tax rate for each), as calculated by Haseko Community Inc. and 8 other companies. As such, the Company determined that the amounts are recoverable in view of anticipated taxable income in the future, and did not recognize valuation allowances for them.

2) The note of the reconciliation of the statutory tax rate to the effective income tax rate for the years ended March 31, 2020 and 2021 have been omitted because the differences between the statutory tax rate and the effective tax rate are less than 5% of the statutory tax rate.

## 19. Per Share Information

(1) Per share information as of and for the years ended March 31, 2020 and 2021 were as follows:

	<i>Yen</i>		<i>U.S. dollars</i>
	2020	2021	2021
Net assets per share	¥1,323.51	¥1,425.93	\$12.88
Net income per share			
Basic	201.36	168.62	1.52
Diluted	–	–	–

(2) The following is the basis for calculating the basic and diluted net income per share:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2020	2021	2021
Net income	¥59,851	¥48,258	\$435,896
Net income not attributable to owners of parent	–	–	–
Net income attributable to owners of parent	¥59,851	¥48,258	\$435,896
Weighted average number of shares outstanding (thousands of shares)	297,225	286,194	

Note: Shares owned by the Board Benefit Trust (BBT) and the Stock-Granting ESOP held as trust assets are included in treasury stocks which is deducted in calculating basic profit attributable to owners of parent per share. The average numbers of shares outstanding during the years ended March 31, 2020 and 2021 were 3,568 thousand and 14,599 thousand, respectively, including 3,159 and 3,063 thousand of shares held by the BBT and the Stock-Granting ESOP as trust assets in 2020 and 2021.

# Consolidated Financial Statements

(3) The following is the basis for calculating the net assets per share:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Net assets	¥387,682	¥394,365	\$3,562,142
Amount not attributable to common shareholders:			
Non-controlling interests	6	5	48
Net assets attributable to common shareholders	¥387,677	¥394,359	\$3,562,094
Number of common shares of the end of the period used in the calculation of the net assets per share (thousands of shares)	292,915	276,562	

Note: Shares owned by the Board Benefit Trust (BBT) and the Stock-Granting ESOP held as trust assets are included in treasury stocks which is deducted in calculating net assets per share. The numbers of the treasury stocks at March 31, 2020 and 2021 were 7,879 thousand and 24,231 thousand, respectively, including 3,150 and 3,043 thousand of shares held by the BBT and the Stock-Granting ESOP as trust assets in 2020 and 2021.

## 20. Segment Information

### Overview of segment information

The reportable segments of the Company are components for which discrete financial information is available and which are subject to periodic review in order for the Board of Directors to decide on

resource allocation and to assess performance.

The Company group operates its business with any housing related business being at the core. An organizational unit comprises of several business groups with common business/operation targets and responsibilities in certain business domain. The Company has "Construction-Related Business," which primarily targets the market for new housing supply, etc., "Real Estate-Related Business," which primarily engages in the real estate for sale and real estate leasing, "Service-Related Business," which primarily deals with existing residences and "Overseas-Related Business," which engages in the development and sales of real estate overseas as reportable segments.

From the first quarter ended June 30, 2020, "Real Estate-Related Business" was newly disclosed because The Company has positioned "Expansion of investment in real estate-related business" as one of its new focused strategies in the medium-term business plan that commenced in the current fiscal year. As a result, parts of the "Construction-Related Business" and the "Service-Related Business" have been classified into the "Real Estate-Related Business."

Furthermore, the segment information for the previous year ended March 31, 2020 has been reclassified in line with the revised group of segmentation.

The accounting policies of the segments are substantially the same as those described in Note 2, "Summary of Significant Accounting Policies." Segment performance is evaluated based on operating income or loss. Intersegment sales amounts are determined based on market price.

1. Reportable segment information for the years ended March 31, 202 and 2021 were as follows:

	Millions of yen						
	2020						
	Reportable segments					Adjustments and eliminations (Note )	Consolidated
Construction-related business	Real estate-related business	Service-related business	Overseas-related business	Total			
Sales, income or loss and assets by reportable segments							
Sales to third parties	¥590,617	¥ 68,943	¥186,033	¥ 437	¥846,029	¥ -	¥846,029
Inter-segment sales and transfer	40,263	589	8,059	-	48,912	(48,912)	-
Net sales	630,880	69,532	194,092	437	894,941	(48,912)	846,029
Segment income (loss)	73,908	8,514	11,749	(3,777)	90,394	(4,612)	85,925
Segment assets	¥300,668	¥233,281	¥161,071	¥40,083	¥735,102	¥ 64,217	¥799,319
Other items							
Depreciation and amortization	¥ 1,314	¥ 1,200	¥ 2,069	¥ 11	¥ 4,594	¥ 158	¥ 4,752
Investment in equity-method affiliates	-	-	-	1,413	1,413	-	1,413
Capital expenditures	1,557	21,521	1,986	10	25,057	103	25,176

# Consolidated Financial Statements

Millions of yen

	2021						
	Reportable segments					Adjustments and eliminations (Note)	Consolidated
	Construction-related business	Real estate-related business	Service-related business	Overseas-related business	Total		
Sales, income or loss and assets by reportable segments							
Sales to third parties	¥556,859	¥73,226	¥178,649	¥ 703	¥809,438	¥ –	¥809,438
Inter-segment sales and transfer	55,070	1,051	7,061	–	63,182	(63,182)	–
Net sales	611,929	74,277	185,711	703	872,620	(63,182)	809,438
Segment income (loss)	64,620	8,511	6,953	(1,134)	78,950	(6,041)	72,909
Segment assets	¥324,116	¥304,706	¥186,737	¥48,952	¥864,512	¥ 89,146	¥953,659
Other items							
Depreciation and amortization	¥ 1,502	¥ 1,482	¥ 2,201	¥ 7	¥ 5,193	¥ 73	¥ 5,266
Investment in equity-method affiliates	–	–	–	2,480	2,480	–	2,480
Capital expenditures	1,585	26,120	2,498	818	31,022	(117)	30,905

Thousands of U.S. dollars

	2021						
	Reportable segments					Adjustments and eliminations (Note)	Consolidated
	Construction-related business	Real estate-related business	Service-related business	Overseas-related business	Total		
Sales, income or loss and assets by reportable segments							
Sales to third parties	\$5,029,890	\$ 661,421	\$1,613,670	\$ 6,354	\$7,311,335	\$ –	\$7,311,335
Inter-segment sales and transfer	497,422	9,492	63,783	–	570,697	(570,697)	–
Net sales	5,527,312	670,914	1,677,453	6,354	7,882,033	(570,697)	7,311,335
Segment income (loss)	583,689	76,875	62,800	(10,244)	713,121	(54,565)	658,556
Segment assets	\$2,927,615	\$2,752,293	\$1,686,725	\$442,168	\$7,808,801	\$ 805,224	\$8,614,025
Other items							
Depreciation and amortization	\$ 13,566	\$ 13,389	\$ 19,885	\$ 67	\$ 46,906	\$ 660	\$ 47,567
Investment in equity-method affiliates	–	–	–	22,399	22,399	–	22,399
Capital expenditures	14,319	235,931	22,566	7,392	280,208	(1,057)	279,151

Notes:

1) Adjustments and eliminations are as follows:

(2020)

- (1) Adjustments and eliminations for segment income include ¥(195) million of elimination of inter-segment transactions and ¥(4,274) million of corporate expenses, which are not allocable to the reportable segments. These corporate expenses mainly consist of general and administrative expenses not attributable to reportable segments.
- (2) Adjustment and eliminations for segment assets include ¥(11,074) million of elimination of receivables stemming from inter-segment transactions and ¥75,291 million of corporate assets. Corporate assets are primarily comprised of cash and bank deposits of the Company.
- (3) Since Hosoda Corporation is newly consolidated in the current fiscal year, segment assets in the service-related business increased by ¥11,668 compared with the end of the previous fiscal year.

(2021)

- (1) Adjustments and eliminations for segment income include ¥(1,620) million (\$ (14,636) thousand) of elimination of inter-segment transactions and ¥(4,421) million (\$ (39,929) thousand) of corporate expenses, which are not allocable to the reportable segments. These corporate expenses mainly consist of general and administrative expenses not attributable to reportable segments.
  - (2) Adjustment and eliminations for segment assets include ¥(25,347) million (\$ (228,945) thousand) of elimination of receivables stemming from inter-segment transactions and ¥114,493 million (\$1,034,169 thousand) of corporate assets. Corporate assets are primarily comprised of cash and bank deposits of the Company.
- 2) Segment income has been adjusted with operating income in the consolidated statement of income.

2. Impairment loss on fixed assets by reportable segments for the years ended March 31, 2020 and 2021 were summarized as follows:

Millions of yen

	2020						
	Reportable segments					Adjustments and eliminations	Consolidated
	Construction-related business	Real estate-related business	Service-related business	Overseas-related business	Total		
Impairment loss on fixed assets	¥0	–	¥121	¥–	¥121	¥–	¥121

# Consolidated Financial Statements

*Millions of yen*

	2021						
	Reportable segments					Adjustments and eliminations	Consolidated
	Construction-related business	Real estate-related business	Service-related business	Overseas-related business	Total		
Impairment loss on fixed assets	¥16	¥-	¥139	¥-	¥156	¥-	¥156

*Thousands of U.S. dollars*

	2021						
	Reportable segments					Adjustments and eliminations	Consolidated
	Construction-related business	Real estate-related business	Service-related business	Overseas-related business	Total		
Impairment loss on fixed assets	\$148	\$-	\$1,257	\$-	\$1,405	\$-	\$1,405

3. The following table presents the amortization and balance of goodwill as of and for the years ended March 31, 2020 and 2021 by reportable segment:

*Millions of yen*

	2020						
	Reportable segments					Adjustments and eliminations	Consolidated
	Construction-related business	Real estate-related business	Service-related business	Overseas-related business	Total		
Amortization	¥-	¥-	¥ 403	¥-	¥ 403	¥(200)	¥ 203
Balance as of March 31	¥-	¥-	¥3,043	¥-	¥3,043	¥(250)	¥2,793

*Millions of yen*

	2021						
	Reportable segments					Adjustments and eliminations	Consolidated
	Construction-related business	Real estate-related business	Service-related business	Overseas-related business	Total		
Amortization	¥-	¥-	¥ 403	¥-	¥ 403	¥(200)	¥ 203
Balance as of March 31	¥-	¥-	¥2,640	¥-	¥2,640	¥ (50)	¥2,590

*Thousands of U.S. dollars*

	2021						
	Reportable segments					Adjustments and eliminations	Consolidated
	Construction-related business	Real estate-related business	Service-related business	Overseas-related business	Total		
Amortization	\$-	\$-	\$ 3,642	\$-	\$ 3,642	\$(1,807)	\$ 1,835
Balance as of March 31	\$-	\$-	\$23,849	\$-	\$23,849	\$ (457)	\$23,397

(2020)

Hosoda Corporation is newly included in the scope of consolidation as a result of acquiring its shares during the year ended March 31, 2020. The resulting gain on the negative goodwill recorded in the previous fiscal year was ¥2,227 million.

(2021)

Not applicable.

4. Information by product and service

Information by product and service is omitted as similar information has already been disclosed in this section.

5. Geographical information

(1) Net sales

Net sales information is omitted since net sales to external customers in Japan exceeds 90% of net sales recorded in the

consolidated statement of income for the years ended March 31, 2020 and 2021.

(2) Property and equipment

Property and equipment information is omitted, since the amount of property and equipment located in Japan exceeds 90% of the amount of property and equipment recorded in the consolidated balance sheet as of March 31, 2020 and 2021.

6. Information by major customers

Information by major customers is omitted, as net sales to any one specific customer were less than 10% of net sales recorded in the consolidated statement of income for the years ended March 31, 2020 and 2021.

# Consolidated Financial Statements

## 21. Related Party Transactions

The consolidated subsidiary of the Company had a related party transaction with a close family member of a key management personnel of the Company.

The corresponding balances as of March 31, 2020 and 2021 and the amounts of these transactions for the years then ended are summarized as follows:

Fiscal year ended March 31, 2020 (April 1, 2019 – March 31, 2020)

Type	Name of company or individual	Relationship with related party	Transaction	Transaction amount	Account	Balance at end of fiscal year
Director of a significant subsidiary	Shuhei Ooka, President and Representative Director of Haseko Urbest	Purchase a condominium from a subsidiary of the Company (Notes 1 and 2)	Purchase a condominium from a subsidiary of the Company (Notes 1 and 2)	(Millions of yen) ¥23	—	—

Notes:

- 1) Price and other transaction terms are determined in a similar manner for general transactions.
- 2) National and local consumption taxes are not included in the transaction amount and the balance at end of fiscal year.

Fiscal year ended March 31, 2021 (April 1, 2020 – March 31, 2021)

Not applicable.

## 22. Other Comprehensive Income

Reclassification adjustments and tax effects on components of other comprehensive income for the years ended March 31, 2020 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Net unrealized gain (loss) on other securities:			
Amount arising during the year	¥(7,292)	¥5,851	\$52,848
Reclassification adjustments for gains (losses) recognized in net income	302	(1)	(6)
Amount before tax effect	(6,989)	5,850	52,842
Tax effect	1,408	(1,069)	(9,658)
Net unrealized gain (loss) on other securities	(5,581)	4,781	43,184
Translation adjustments:			
Amount arising during the year	(562)	(1,989)	(17,965)
Retirement benefits liability adjustments:			
Amount arising during the year	(1,833)	2,233	20,166
Reclassification adjustments for gains (losses) recognized in net income	749	977	8,825
Amount before tax effect	(1,084)	3,210	28,991
Tax effect	351	(986)	(8,909)
Retirement benefit liability adjustments	(733)	2,223	(20,082)
Share of other comprehensive income (loss) of affiliates accounted for by the equity method:			
Amount arising during the year	—	—	—
Total other comprehensive income (loss)	¥(6,876)	¥5,015	\$45,301



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## Independent Auditor's Report

The Board of Directors  
HASEKO Corporation

### Opinion

We have audited the accompanying consolidated financial statements of HASEKO Corporation and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2021, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in 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 ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

### Estimation of total construction costs in applying the percentage-of-completion method

#### Description of Key Audit Matter

The Company is primarily engaged in Construction related business, which involves the planning, design and construction of condominiums and other facilities. As described in the Note 2(20) to the Consolidated Financial Statements on the criteria for recognizing revenue from and costs of fulfilling construction contracts, the Company recognizes revenue from construction contracts the returns of which are deemed certain to the extent of progress as of the fiscal year end by using the percentage-of-completion method. Of the Net sales ¥ 809,438 million( \$ 7,311,335 thousand) for the fiscal year ended March 31, 2021, the amount of revenue from construction contracts recorded by using the percentage-of-completion method amounted to ¥ 406,492 million, representing 50.2% of Net Sales.



In using the percentage of completion method, the Company is required to reasonably estimate the total construction revenue, the total construction cost and the progress of the construction as of the fiscal year end. The progress of construction is to be measured by dividing the costs incurred to the fiscal year end by the total construction costs.

As described in the Note 2(26) (Significant Accounting Estimates) to the consolidated financial statements, estimation of total construction costs involves uncertainty since each construction is unique in nature because its basic design and work contents are specifically instructed by each customer and also it requires certain assumptions and judgments made by the in-charge department with expert knowledge and experience in constructions.

In addition, it involves complexity to revisit and update the estimation of total construction costs timely and appropriately. During a long period of a construction, there may be a sharp increase in costs of construction materials and labor or difficulties in their procurement as well as a decline in production capacity due to lack of sufficient number of other cooperative companies.

Therefore, we have determined the estimation of the total construction costs in applying the percentage-of-completion method to be a key audit matter since it involves management's judgment and also its amount is material in the Consolidated Financial Statements.

### **Auditor's Response**

In assessing the estimation of the total construction costs in applying the percentage-of-completion method, we performed the following audit procedures, among others:

#### (1) Evaluation of the internal controls

In order to evaluate the effectiveness of the estimation process of the total construction costs, we evaluated the design and operating effectiveness of the following internal controls of the Company.

- The control ensuring the construction budgets, which serves as the basis for estimating the total construction costs, to be approved by officers with approval authority.
- The control ensuring the total construction costs to be revisited in a timely, appropriate and comprehensive manner by periodical monitoring of the responsible division in accordance with the execution status of the construction, the amount of actual costs incurred and the change of the specification due to specific instructions from the customers, etc.

#### (2) Assessment of the estimation of the total construction costs

- In order to confirm that the revised estimation of total construction costs in construction budgets is reflected in calculation of the construction progress in a timely and appropriate manner, we compared the total construction costs used in calculation of the construction progress with the results of revision made by the department in charge of the construction budget to evaluate consistency.
- In order to confirm that the estimation of total construction costs has been reviewed in a timely and appropriate manner, we assessed the changes in the profit margin of each construction project. When the changes exceeded our scope and were caused by the changes in the total construction costs, we inquired with the department in charge the reasons for such a change and evaluated if their responses were consistent with the construction plans and the actual construction costs



incurred to date.

- In order to confirm that all the events that should be reflected in the estimation of the total construction costs were reflected, we inspected the minutes of various meetings such as the Board of Directors and inquired the in-charge department and examined whether the identified events were reflected appropriately in the estimation of the total construction costs.

- In order to evaluate the reasonableness of the estimation of the total construction costs, we compared the construction budgets selected based on the our risk assessment taking into account the total construction revenue, construction profit and loss, nature of construction work, etc., with the estimation made independently by us based on the past performance of the construction works with similar building sizes and equipment specifications, etc. When a discrepancy exceeding the threshold set by us, was identified as a result of the comparison, we inquired the department in charge about the reason and examined whether their responses were consistent with the nature of the construction work , the contract terms, the market conditions for construction material and the quotation of the external contractor, etc.

- In order to evaluate the estimation process of the total construction costs, the initial estimate, the revised estimate and the actual amount of the total construction costs were compared with each other.





## **Valuation of the real estate inventories in Real estate related business**

### **Description of Key Audit Matter**

The Company and its consolidated subsidiaries, Haseko Real Estate Development, Inc. and Sohgo Real Estate Co., Ltd., are engaged in Real estate related business where they develop and sell condominiums. In the Consolidated balance sheet, the real estate held for the purposes of sales as condominiums (hereinafter referred to as "real estate inventories") is included in "Real estate held for sales" of ¥166,708 million( \$ 1,505,806 thousand) and "Costs and advances for real estate operations" of ¥113,272 million( \$ 1,023,146 thousand) on the Consolidated Financial Statements. The condominiums for sales included in the real estate inventories are associated with a potential risk of having lower profitability than originally expected because of price reduction or cancellation of the business plan which would be required depending on the progress of the business plan.

If the net realizable value falls below the acquisition costs as a result of change in a business plan, a valuation loss may need to be recorded.

The net realizable value is calculated based on transactions taken place in the neighboring areas, projection of sales prices and future demand for condominiums. The probability of the sales as well as the estimation of the net realizable value may become more uncertain especially for the condominiums whose progress of development and sales has been significantly delayed from the originally plan.

The significant assumptions in estimating the net realizable value are the estimated sales prices and the estimated selling expenses, as described in the Note 2(26) (Significant Accounting Estimates) to the consolidated financial statements.

Given that the valuation of the condominiums for sales included in the real estate inventories held by the Company, Haseko Real Estate Development, Inc. and Sohgo Real Estate Co., Ltd. involves management's judgment, we determined valuation of the real estate inventories to be a key audit matter.

### **Auditor's Response**

In assessing management's judgment on whether a valuation loss on real estate inventories should be recognized, we performed the following audit procedures, among others, for properties selected as a result of our risk assessment.

- In order to evaluate the validity of the estimation of net realizable value of each real estate inventory, we compared the estimated sales price with the market price in neighboring areas, etc. and also compared the estimated selling expenses with the actual results in the past, etc. used in the sales plan which serves as the basis for the estimation of net realizable value as significant assumptions.
- In order to evaluate the validity of the estimated selling expenses, we obtained the selling expense ratio and the margin ratio and inquired with the department in charge of the property for which the selling expense ratio increased or the margin ratio decreased and assessed the consistency between their responses and our understanding of the business plan.
- In order to confirm that all the events that should be reflected in the estimation of the net realizable value were reflected, we inspected the minutes of various meetings such as the Board of Directors and performed inquiries with the in-charge department and examined whether the identified events were appropriately reflected in the evaluation of the real estate inventories.



## **Responsibilities of Management, the Corporate Auditor and the Board of Corporate Auditors for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these 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 and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing 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. 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, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not 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.

# Consolidated Financial Statements



- Evaluate 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 in accordance with accounting principles generally accepted in Japan.
- 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 the Corporate Auditor and the Board of Corporate Auditors 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 the Corporate Auditor and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Corporate Auditor and the Board of Corporate Auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **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.




## Convenience Translation


The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2021 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 4 to the consolidated financial statements.

Ernst & Young ShinNihon LLC  
Tokyo, Japan

June 29, 2021

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Certified Public Accountant

齋藤祐暢 

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