KYOKUTO

Annual Report 2013

Year ended March 31, 2013

CONTENTS

Kyokuto Kaihatsu Kogyo Co.,Ltd.

1. Operational Results

(1) Analysis of Operational Results

<Summary of Operational Results for the Consolidated Fiscal Year ended March 31, 2013>

The Japanese economy in this consolidated fiscal year was occasionally faced with signs of a recession, despite the reconstruction demand from the Great East Japan Earthquake, due to the slowdown in overseas economies in Europe, China, etc. However, hopes for economic recovery were significantly raised toward the end of the current fiscal year as the yen depreciation and high stock prices owing to the economic policies, etc. put forward by the new administration.

Under these circumstances our company group made its efforts, in order to strengthen and stabilize its corporate quality, to implement various measures for reliable profit securing and to upgrade its corporate value in medium- and long-term perspectives which include positive promotion of overseas development.

Representative Director, President, COO Kazuya Takahashi

As a result, in the current consolidated fiscal year, net sales increased by 8,941 million yen (13.2%) compared with the preceding consolidated fiscal year to 76,724 million yen. As for profit and loss status, operating income reached 5,134 million yen, an improvement of 2,177 million yen (73.6%) due to the big sales improvement at the Specialty Truck Segment, our mainstay category. Thus, the current net income reached 3,171 million yen, an improvement of 962 million yen (43.6%).

As seen in the above, we have achieved the business performance goals (67,000 million yen or more for net sales and 3,000 million yen or more for operating income) set in our medium-term management plan "Plan 2010" (three-year-plan) which we have thus far worked on

We would like to present the summary of business on a consolidated basis by segment in comparison with the preceding fiscal year.

i) Specialty Truck Segment

While we made our efforts to secure every possible order in the domestic market, we also positively promoted strengthening our production capacity to cope with increased demand including the resumption of large dump truck production at our Nagoya Plant. Further, we positively promoted sales activities for an electric refuse truck, our company's own high-value added product and new products such as "PY135-26-H", a high-pressure and high-capacity concrete pump (piston type) having the country's highest level of performance.

As a result, net sales in the Specialty Truck Segment increased by 7,240 million yen (13.4%) to 61,272 million yen. Segment profit increased by 1,969 million yen (140.9%) to 3,367 million yen.

For overseas, we started production of concrete mixer trucks, etc. in October, 2012 at our Indian plant (MITHRA KYOKUTO SPECIAL PURPOSE VEHICLE CO., PVT. LTD.: Vijayawada in Andhra Pradesh) for local sales. In Indonesia we established 2 joint venture companies for manufacture and sales of dump trucks, etc. for starting production within the fiscal year of 2013. Furthermore, we took a stake in a Malaysian distributor, TRANSCENDENT HEAVY MACHINERY SDN BHD for strengthening our sales structure in the ASEAN countries. We have promoted our overseas development continuously as just described.

High-pressure and High-capacity
Concrete Pomp (piston type)
“PY135-26-H”

Electric Refuse Truck
equipped with power feed system

Concrete Mixer Truck
Manufactured by MKSPV
In India

ii) Environmental Equipment and Systems Segment

In the domestic market, we made our efforts for profit securing by focusing on businesses of maintenance work and entrusted operations and also promoted sales for new plants and construction of ordered facilities. In overseas, we installed and put in operation the first high-speed vertical type pulverizer in China.

As a result, net sales increased by 1,478 million yen (17.4%) to 9,953 million yen. Segment profit increased by 54 million yen (4.6%) to 1,242 million yen.

Meanwhile, we co-developed with NIPPON TREX Co., Ltd., our consolidated subsidiary, a “Truck Mounted Pulverizer” as a new product to be used for processing disaster waste, which is a high-speed vertical type pulverizer mounted on a trailer. From now on, we will proceed with tests, etc. for starting an official marketing.

“Truck Mounted Pulverizer”

Processing Disaster Waste in Tohoku
by “Truck Mounted Pulverizer”

iii) Real Estate Rental Segment

The toll parking lot made an increased profit due to reduced costs and selection of locations. The multi-story parking equipment faced continued weak market environments but managed to secure a certain level of sales and profit by focusing continuously on renewal and maintenance services.

Besides, we installed a mega-solar power plant at a site in our Fukuoka Plant (in Iizuka City) as a new business and started electric power selling in March, 2013. We will build our second mega-solar power plant in the now-defunct Tohoku Plant (in Hachinohe City) with a target of starting operation in September, 2013.

As a result, net sales increased by 293 million yen (5.0%) to 6,124 million yen and segment profit increased by 238 million yen (32.1%) to 982 million yen.

"Hachinohe Mega-Solar Power Plant" (1.5MW)
(under construction)

<Forecast of Operations for the Next Consolidated Fiscal Year ending March 31, 2014>

The Japanese economy is generally expected to make its way providing a sense of anticipation for economic recovery, because, besides various effective measures such as economic policies anticipated to be taken by the current administration, demand for the earthquake disaster reconstruction is expected to continue. Our company group aims at enlarging its sales and profit as well as upgrading its corporate value by ensuring steady implementation of its new medium-term management plan "Next Step 2015" ~ to make the next step forward ~.

Regarding the forecast of consolidated business performance for March 2014, the Company estimates net sales to increase by 6,275 million yen (8.2%) over March 2013 to 83,000 million yen, mainly since the Specialty Truck Segment is likely to increase sales. Management expects the overall operating income to increase by 1,065 million yen (20.8%) to 6,200 million yen, while net income is estimated to grow by 228 million yen (7.2%) to 3,400 million yen.

(2) Analysis on Financial Conditions

i) Situations of Assets, Liabilities and Net Worth

In the current consolidated fiscal year, total assets increased by 4,023 million yen (4.3%) from the end of the preceding fiscal year to 97,894 million yen.

Current assets increased by 1,637 million yen (3.3%) to 51,120 million yen, due to increases in accounts receivable and trade notes, etc.

Non-current assets (property, plant and equipment, intangible assets and investments and other assets) increased by 2,386 million yen (5.4%) to 46,774 million yen, due to investments in foreign subsidiaries and recovery of market prices of securities, etc.

Regarding liabilities, current liabilities increased by 1,039 million yen (3.8%) to 28,315 million yen, due to increases in trade notes and accounts payable, etc. Non-current liabilities decreased by 746 million yen (6.5%) to 10,728 million yen due to repayments of long-term bank loans, etc.

Total shareholder's equity increased by 3,731 million yen (6.8%) to 58,850 million yen, due to posting of net profit, etc.

As a result, the capital adequacy ratio stood at 60.1% as of the end of the current fiscal year (58.7% at the end of the preceding fiscal year).

ii) Cash Flow Situation

Consolidated cash and cash equivalents at the end of period decreased by 3,709 million yen (36.5%) compared with the end of the preceding fiscal year to 6,466 million yen. Cash flow by activity type is summarized as follows:

Cash Flow from Operating Activities

Net cash provided by operating activities amounted to 1,879 million yen (an increase of 676 million yen compared with the preceding fiscal year). This was because of a posting of net profit, etc.

Cash Flow from Investing Activities

Net cash used in investing activities was 3,367 million yen (a decrease of 1,088 million yen compared with the preceding fiscal year). This was because of purchases of non-current assets, etc.

Cash Flow from Financing Activities

Net cash used by financing activities was 2,245 million yen (a decrease of 439 million yen compared with the preceding fiscal year). This was because of repayments of long-term bank loans.

(3) Principal policy for return of profits to shareholders and payment of dividends for the current year and next year

The Kyokuto Kaihatsu Kogyo Group regards the return of profits to shareholders as one of the most important management's policies. Taking the development of business in the future and business environments into account, management has been striving to meet investors' expectations through the improvement of business performance and the strengthening of its financial position.

The Meeting of Shareholders on June 26th, 2013 resolved and passed to pay a dividend of 9 yen per share at the end of March 2013 as originally proposed by management, making its annual dividend 16 yen per share including an interim dividend.

For the year ending March 2014, management plans to pay an annual dividend of 18 yen per share (including an interim dividend of 9 yen).

2. Management Policy

(1) Basic Management Policy of the Company

The management philosophy of the Kyokuto Kaihatsu Group is "Value technology and trust, make concerted efforts to develop the company, and widely contribute to the society."

Our ultimate goal in the management policy is to implement corporate policy recognizing a social role and responsibility as a public company in a strong relationship with various stakeholders such as customers, business partners, shareholders, employees, and local societies. In addition, by providing safe, effective and high quality products and services through our fair and sound business activities, the Kyokuto Kaihatsu Group seeks to bring about greater contribution to our society and maximize corporate value.

With this management policy, we devote ourselves to three major business domains including Specialty Truck, Environmental Equipment and Systems, and Real Estate Rental.

(2) Targeted management index

For the last consolidated fiscal year for “Next Step 2015” ~ to make the next step forward ~ (three-year-plan) ending March 31, 2016, our management target is 89,000 million yen for net sales and 7,000 million yen for operating income , both on a consolidated basis.

(3) Mid-to-Long Term Management Strategy and Major Challenges

Our group’s previous medium-term management plan "Plan 2010" (three-year plan) completed in March 2013. In this plan, we successfully achieved our initial targets in sales, profits and other priority themes. To make the next step forward, we have established a new three-year plan "Next Step 2015" ~ to make the next step forward ~ (April 1, 2013 to March 31, 2016). We will work together as a group to achieve this plan. Summary of this plan is as follows:

Basic policies

Kyokuto Kaihatsu Kogyo Group will celebrate its 60th anniversary in the final year of this medium-term management planning.

Positioning this three-year range as an important term to make our structural reforms to make the next step forward, we will try to restructure our management foundation and improve our corporate values as well as promote the formation of attractive corporate culture as a trusted and loved group based on the following basic policies.

"Step" to survive in the domestic market

For the core businesses (specialty truck, environmental equipment and systems and parking businesses), we will construct a firm earning system to survive in the matured domestic market.

"Step" to the global development

Positioning the overseas business as a key for the future profits, we will strengthen the foundation for global development.

We will energetically promote the early profit contribution of the overseas sites and new market development.

"Step" to the strengthening of total monozukuri (manufacturing) power

We will establish core technologies, develop human resources and ensure high quality in order to strengthen the total monozukuri power as a company and develop our domestic/overseas business based on the power.

"Step" to improve the brand value
We will provide high quality to various needs in the product development, production, sales and service fields to improve customer satisfaction as well as develop effective PR strategies proactively in order to improve our brand value in both Japan and abroad.

"Step" to get new sources of earnings
We will energetically promote business collaboration, M&A and entry in new fields in order to expand our bushiness chances and create future core business so that we will be able to become a company that earns 100 billion yen.

Key Strategies

(1) Establishing a firm earning system for the existing businesses

Specialty truck business

[1] Securing orders by securely receiving domestic demands for earthquake disaster reconstruction and recovery and land toughening.
[2] Expanding the shares of key products for sales expansion (dump trucks, refuse trucks, tailgate lifters, trailers).
[3] Improving the production efficiency by measures such as reviewing the production process drastically, promoting the automation and standardizing product specifications.
[4] Establishing the procurement system aiming at the best price and best quality.
[5] Establishing a firm earning foundation as a stock business by improving the after-sales service.

Environmental equipment and systems business

[1] Participating in joint venture with other companies for recycle facilities and securing orders taking advantage of competitive prices.
[2] Securing long-term stable earnings by after-sales service and accepting operation.

Parking business

[1] Securing our competitiveness by promoting the product development in the fields whose markets are expected to expand, overseas production and improving quality for mechanical multistory parking equipment.
[2] Promoting the selection of business locations focusing on the profitability in the pay-by-the-hour parking lot.

(2) Strengthening the foundation for global development

[1] Realizing the early stable operation of the plants in India and Indonesia and their contribution to the group performance.
[2] For the Kunshan plant in China, enhancing the sales in the South-East Asia and the parts supply function to the group companies.
[3] Strengthening the business development in the specialty truck, environmental equipment and systems and parking businesses in the China and the ASEAN region.
[4] Strengthening the development of human resources who support global development.
[5] Strengthening the collaboration of domestic and overseas development sites of the group and developing products that are competitive in the overseas markets.

(3) Enhancing the total power as a monozukuri company

[1] Ensuring quality that is the top in the specialty truck business by measures such as promotion of internal manufacturing, skill tradition for monozukuri and improvement of technical skills and

production technology.

[2] Establishing the lineup of only one and number one products that are accepted in the world and keep leading the industry.

[3] Promoting the product development in new fields powerfully by using existing technologies.

(4) Improving the brand value

[1] Improving the reliability by company-wide collaboration in the development, production, sales and service for quality improvement.

[2] Sharing the awareness in the group that the brand is an important management resource and inputting management resources aggressively.

[3] Establishing systems for continuous brand value improvement activities and a system to evaluate such activities.

(5) Creating future core businesses

Exploiting new needs in the existing businesses, inputting new products and creating "the fourth pillar" as a new core business in order to keep developing in the future. (E.g. entering in promising markets that are not influenced by the existing businesses)

(6) Company-wide activities for corporate value improvement

[1] Strengthening the law observance and impropriety prevention system and social contribution by powerful promotion of CSR activities.

[2] Strengthening the environmental management by taking measures such as energy-saving promotion and reduction of substances of concern.

[3] Improving the satisfaction level of stockholders by implementing effective stockholder return measures.

CONSOLIDATED BALANCE SHEETS
At March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2013	2012	2013
Current assets:			
Cash and deposits (Notes 8 & 10)	¥ 3,861	¥ 4,223	$ 41,074
Short-term securities (Notes 3, 8 & 10)	3,222	5,953	34,277
Trade notes and accounts receivable (Notes 10 & 18)	33,629	29,285	357,717
Merchandise & finished goods	222	302	2,363
Work in process	2,956	2,120	31,440
Raw materials & supplies	6,031	5,944	64,150
Other current assets	917	845	9,751
Deferred tax assets (Note 16)	1,156	1,223	12,297
Allowance for doubtful accounts	(874)	(412)	(9,295)
Total current assets	51,120	49,483	543,774
Property, plant and equipment (Note 11):			
Land (Note 5)	19,904	20,094	211,725
Buildings and structures (Note 5)	30,871	29,813	328,377
Machinery, equipment and vehicles	16,381	15,455	174,245
Construction in progress	198	598	2,105
Other	1,162	1,155	12,368
Total	68,516	67,115	728,820
Accumulated depreciation	(32,842)	(31,766)	(349,351)
Net property, plant and equipment	35,674	35,349	379,469
Intangible assets	390	361	4,148
Investments and other assets:			
Investment securities (Notes 3, 5 & 10)	8,995	6,626	95,679
Deferred tax assets (Note 16)	42	44	450
Other assets	2,891	3,315	30,754
Allowance for doubtful accounts	(1,217)	(1,307)	(12,949)
Total investments and other assets	10,711	8,678	113,934
Total	¥ 97,895	¥ 93,871	$ 1,041,325

The accompanying notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2013	Millions of yen 2012	Thousands of U.S. dollars (Note 1) 2013
Current liabilities:			
Short-term bank loans (Notes 4, 5 & 10)	¥ 2,620	¥ 2,620	$ 27,869
Current portion of bonds payable (Notes 4 & 10)	494	494	5,255
Current portion of long-term bank loans (Notes 4, 5 & 10)	1,728	1,744	18,382
Trade notes and accounts payable (Notes 10 & 18)	17,680	16,796	188,068
Accrued expenses	2,805	2,792	29,832
Income taxes payable	712	527	7,577
Other current liabilities	2,277	2,303	24,218
Total current liabilities	28,316	27,276	301,201
Non-current liabilities:			
Bonds payable (Notes 4 & 10)	147	641	1,564
Long-term bank loans (Notes 4, 5 & 10)	2,101	3,195	22,351
Liabilities for retirement benefits (Note 6)	1,872	2,012	19,918
Liabilities for directors' retirement benefits	146	134	1,554
Deferred tax liabilities (Note 16)	2,656	1,006	28,248
Other non-current liabilities (Notes 4, 5 & 10)	3,806	4,487	40,482
Total non-current liabilities	10,728	11,475	114,117
Shareholders' Equity:			
Common stock (Note 13):			
Authorized-170,950,672 shares			
Issued-42,737,668 shares in 2013 and 2012	11,900	11,900	126,581
Capital surplus (Note 13)	11,719	11,719	124,654
Retained earnings	35,800	33,145	380,806
Treasury stock, at cost:			
3,005,368 shares in 2012			
3,006,168 shares in 2013	(2,146)	(2,145)	(22,826)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	1,706	720	18,151
Foreign currency translation adjustments	(128)	(219)	(1,359)
Total accumulated other comprehensive income	1,578	501	16,792
Total shareholders' equity	58,851	55,120	626,007
Total	¥ 97,895	¥ 93,871	$ 1,041,325

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF INCOME
Years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Net sales	¥ 76,724	¥ 67,783	$ 816,130
Cost of sales (Note 19)	60,751	54,646	646,224
Gross profit	15,973	13,137	169,906
Selling, general and administrative expenses (Note 14)	10,839	10,180	115,291
Operating income	5,134	2,957	54,615
Other income (expenses):			
Interest and dividend income	142	112	1,506
Interest expense	(149)	(164)	(1,590)
Loss on sales or disposition of property and equipment, net	(19)	(20)	(201)
Loss on impairment of long-lived assets (Note 15)	(234)	-	(2,493)
Gain on sales of securities	-	0	-
Write-down of investment securities	-	(47)	-
Amortization of negative goodwill	377	377	4,005
Loss on disaster	(1)	(92)	(8)
Foreign exchange gain	169	19	1,804
Other-net	(93)	(175)	(987)
Other income-net	192	10	2,036
Income before income taxes and minority interests	5,326	2,967	56,651
Income taxes (Note 16):			
Current	981	630	10,429
Deferred	1,174	128	12,488
Total income taxes	2,155	758	22,917
Net income before minority interests	3,171	2,209	33,734
Net income	¥ 3,171	¥ 2,209	$ 33,734

	Yen		U.S. dollars (Note 1)
	2013	2012	2013
Amounts per shares:			
Basic net income	¥ 79.82	¥ 55.59	$ 0.85
Diluted net income	-	-	-
Cash dividends applicable to earnings of the year	16.00	10.00	0.17

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Net income before minority interests	¥ 3,171	¥ 2,209	$ 33,734
Other comprehensive income (Note 17):			
Net unrealized gains on other securities	986	353	10,493
Foreign currency translation adjustments	77	(17)	811
Share of other comprehensive income in affiliates accounted for by the equity method	14	0	152
Total other comprehensive income	1,077	336	11,456
Comprehensive income	¥ 4,248	¥ 2,545	$ 45,190
Total comprehensive income attributable to:			
Owners of the parent	4,248	2,545	45,190
Minority interests	–	–	–

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years ended March 31, 2013 and 2012

Millions of yen

	Common stock	Capital surplus	Retained earnings	Treasury stock	Accumulated other comprehensive income: Unrealized gain on available-for-sale securities	Accumulated other comprehensive income: Foreign currency translation adjustments	Accumulated other comprehensive income: Total	Total shareholders' equity
Balance, March 31, 2011	¥ 11,900	¥ 11,719	¥ 31,254	¥ (2,145)	¥ 367	¥ (202)	¥ 165	¥ 52,893
Purchases of treasury stock				(0)				(0)
Disposal of treasury stock			(0)	0				0
Net income			2,209					2,209
Appropriation								
Cash dividends paid			(318)					(318)
Net changes in the year					353	(17)	336	336
Balance, March 31, 2012	¥ 11,900	¥ 11,719	¥ 33,145	¥ (2,145)	¥ 720	¥ (219)	¥ 501	¥ 55,120
Purchases of treasury stock				(1)				(1)
Disposal of treasury stock			(0)	0				0
Net income			3,171					3,171
Appropriation								
Cash dividends paid			(516)					(516)
Net changes in the year					986	91	1,077	1,077
Balance, March 31, 2013	¥ 11,900	¥ 11,719	¥ 35,800	¥ (2,146)	¥ 1,706	¥ (128)	¥ 1,578	¥ 58,851

Thousands of U.S. dollars

	Common stock	Capital surplus	Retained earnings	Treasury stock	Accumulated other comprehensive income: Unrealized gain on available-for-sale securities	Accumulated other comprehensive income: Foreign currency translation adjustments	Accumulated other comprehensive income: Total	Total shareholders' equity
Balance, March 31, 2012	$ 126,581	$ 124,654	$ 352,567	$ (22,819)	$ 7,658	$ (2,322)	$ 5,336	$ 586,319
Purchases of treasury stock				(7)				(7)
Disposal of treasury stock			(0)	0				0
Net income			33,734					33,734
Appropriation								
Cash dividends paid			(5,495)					(5,495)
Net changes in the year					10,493	963	11,456	11,456
Balance, March 31, 2013	$ 126,581	$ 124,654	$ 380,806	$ (22,826)	$ 18,151	$ (1,359)	$ 16,792	$ 626,007

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Operating activities:			
Income before income taxes and minority interests	¥ 5,326	¥ 2,967	$ 56,651
Depreciation and amortization	1,512	1,756	16,080
Write-down of investment securities	-	47	-
Loss on impairment of long-lived assets	234	-	2,493
Gain on sales of securities	-	(0)	-
Loss on sales or disposition of property and equipment, net	19	20	201
Interest and dividend income	(142)	(112)	(1,506)
Interest expenses	149	164	1,590
Decrease (increase) in trade notes and accounts receivable	(3,966)	(8,008)	(42,192)
Decrease (increase) in inventories	(809)	(412)	(8,609)
Increase (decrease) in trade notes and accounts payable	863	4,624	9,181
Increase (decrease) in liabilities for retirement benefits	(140)	(177)	(1,487)
Increase (decrease) in consumption taxes payable	(23)	195	(244)
Other, net	(419)	469	(4,461)
Sub total	2,604	1,533	27,697
Interest and dividend income received	141	112	1,497
Interest expenses paid	(81)	(86)	(860)
Income taxes paid	(784)	(357)	(8,339)
Net cash provided by operating activities	1,880	1,202	19,995
Investing activities:			
Proceeds from time deposits	-	500	-
Purchases of securities and investments	(1,468)	(659)	(15,620)
Proceeds from sales of securities and investments	1	3	6
Purchases of property, plant and equipment	(1,823)	(2,036)	(19,391)
Proceeds from sales of property, plant and equipment	5	63	59
Decrease (increase) in short-term loans	(82)	0	(877)
Disbursement of loans receivable	(15)	(161)	(155)
Collection of loans receivable	15	12	158
Net cash used in investing activities	(3,367)	(2,278)	(35,820)
Financing activities:			
Proceeds from long-term bank loans	634	812	6,744
Repayment of long-term bank loans	(1,744)	(1,704)	(18,548)
Payment for redemption of bonds	(494)	(494)	(5,255)
Payment of finance lease obligations	(125)	(102)	(1,328)
Purchases of treasury stock	(1)	(0)	(7)
Proceeds from sales of treasury stock	0	0	0
Dividends paid	(516)	(318)	(5,490)
Net cash used in financing activities	(2,246)	(1,806)	(23,884)
Foreign currency translation adjustments on cash and cash equivalents	23	(0)	255
Net increase (decrease) in cash and cash equivalents	(3,710)	(2,882)	(39,454)
Cash and cash equivalents at beginning of year	10,176	13,058	108,237
Cash and cash equivalents at end of year (Note 8)	¥ 6,466	¥ 10,176	$ 68,783

The accompanying notes are an integral part of these statements.

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Kyokuto Kaihatsu Kogyo Co., Ltd. (the "Company") and its consolidated subsidiaries (collectively the "Group") have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made to the consolidated financial statements issued domestically, in order to present them in a form which is more familiar to readers outside Japan.

In addition, the notes to consolidated financial statements include additional information which is not required under generally accepted accounting principles and practices in Japan.

The financial statements presented herein are expressed in Japanese yen and, solely for the convenience of the readers, have been translated into U.S. dollars at the rate of ¥94.01=US$1, the approximate exchange rate on March 31, 2013. These translations should not be construed as representations that the Japanese yen amounts actually are, have been or could be converted into U.S. dollar amounts.

2. Summary of Significant Accounting Policies

(a) Consolidation

The consolidated financial statements include the accounts of the Company and its 9 significant subsidiaries. Investments in 1 nonconsolidated subsidiary and 1 affiliate are accounted for by the equity method.
Under the concept of control or significant influence, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies which the Group has the ability to exercise significant influence (affiliated companies) are accounted for by the equity method.
There are 5 nonconsolidated subsidiaries and affiliates which are not accounted for by the equity method, because these companies are not material in terms of net income and retained earnings and do not have any significant impact on the consolidated financial statements, if excluded from the scope of application by the equity method.

All significant inter-company balances and transactions have been eliminated in the consolidated financial statements. All material unrealized gains resulting from inter-company transactions have been eliminated.

Assets and liabilities of the consolidated subsidiaries at the time of investment are all valued at fair value. The goodwill or negative goodwill is being amortized on a straight-line basis over estimated useful lives not exceeding 20 years, or 5 years in situations in which the useful lives cannot be estimated. However, insignificant goodwill or negative goodwill is charged to expenses (income) when incurred.

(b) Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value. All of cash equivalents mature or become due within three months from the date of acquisition.

(c) Short-term Securities and Investment Securities

The Group classifies their securities as held-to-maturity debt securities or available-for-sale securities, depending on management's intent.

(Held-to-maturity debt securities)
Held-to-maturity debt securities are stated at amortized cost.

(Available-for-sale securities)
Marketable available-for-sale securities are stated at fair value, with unrealized gains and losses, net of applicable taxes, and reported in a separate component of shareholders' equity. The cost of available-for-sale securities sold is determined based on the moving average method.
None-marketable available-for-sale securities are stated at cost determined by the moving average method.

(d) Inventories

Merchandises are stated at cost determined by the specific identification method, or if lower, the net realizable value.
Raw materials, finished goods and work in process are stated at cost determined by the periodic average method, or if lower, the net realizable value.
Supplies are stated at cost determined by the last purchase cost method, or if lower, the net realizable value.

(e) Depreciation

Depreciation is principally computed under the straight-line method, using rates based on the estimated useful lives of the assets. The useful lives are principally ranging from 7 to 60 years for buildings and structures, and 4 to 17 years for machinery, equipment and vehicles.
Amortization of intangible assets is computed by the straight-line method.

(Accounting change)
Prior to April 1, 2012, depreciation of property, plant and equipment, except for buildings, was computed by the declining-balance method. However, effective from April 1, 2012, the straight-line method has been applied to all property, plant and equipment.
This change was triggered by the introduction of new management systems in this fiscal year. The fact became evident that most long-lived assets were used continually and consistently throughout their useful lives as a result of and review of cost-behavior. This change aims to carry out more appropriate cost allocation.

Additionally, the Group expects to increase its overseas capital expenditures in the efforts to capitalize on the acceleration of global business development. This change also aims to unify the Group's accounting methods.
Due to this change, operating income and income before income taxes and minority interests increased by ¥ 246 million ($ 2,622 thousand), compared to the amount that would have been under the previous accounting method.

(f) Liabilities for Retirement Benefits

Liabilities for retirement benefits are recorded for employees' pension and severance payments based on the projected benefit obligations and the fair value of plan assets at the balance sheet date.

(g) Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided against potential losses on collections at an amount determined using a historical bad debt loss ratio and an amount individually estimated on the collectability of receivables that are expected to be uncollectible due to bad financial condition or insolvency of the debtor.

(h) Asset Retirement Obligations

Asset retirement obligations are defined as a statutory or similar obligation with regard to the removal of tangible fixed assets and are incurred when tangible fixed assets are acquired, constructed, developed or used in an ordinary way. The asset retirement obligation is recognized as the sum of the discounted cash flow required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made.

(i) Revenue from Construction Contracts

Revenues from construction contracts and the related costs are recorded under the percentage-of-completion method, if the outcome of the construction contract can be estimated reliably. Otherwise, the completed-contract method is applied if the outcome cannot be reliably estimated.

(j) Allowance for Losses on Construction Contracts

Estimated losses on construction contracts are charged to income in the period in which they are identified.

(k) Leases

Finance lease transactions, except for immaterial or short-term finance leases transactions which are accounted for as operating leases, are capitalized to recognize lease assets and lease obligations in the balance sheet. Such capitalized lease assets are depreciated by the straight-line method over the lease terms assuming no residual value.
As permitted, finance leases which commenced prior to April 1, 2008 and have been accounted for as operating leases, have been accounted for as operating leases with the note of certain "as if capitalized" information (Note 9).

(l) Income Taxes

The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amount and tax bases of assets and liabilities, and operating loss carry-forwards.

(m) Derivatives

All derivatives, except for certain foreign exchange forward contracts and interest rate swap contracts described below, are stated at fair value. If derivative financial instruments are used as hedges and meet certain hedging criteria, the Group defers recognition of gains or losses resulting from a change in the market value of the derivative financial instruments until the related gains or losses on the hedged items are recognized. Accounts payable hedged by foreign exchange contracts which meet certain hedging criteria are translated at their contracted rates. Interest rate swaps which meet certain hedging criteria are accounted for as if the interest rate applied to the swaps had originally applied to the underlying debt.

(n) Per Share Information

Basic net income per share is computed based on net income available to common stockholders and the weighted average number of shares of common stock outstanding during each period. The average numbers of shares used in the computations are 39,731 thousand shares for 2013 and 39,732 thousand shares for 2012.
Diluted net income per share is not disclosed because the Company had no potentially dilutive shares outstanding at these balance sheet dates.
Cash dividends per share shown in the statements of income are the amounts applicable to the respective years.

(o) Accounting Standards issued but not yet applied

"Accounting Standard for Retirement Benefits (ASBJ Statement No.26, May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No.25, May 17, 2012)

(1) Summary
The accounting standard was revised, from the viewpoint of improvements to financial reporting and international trends, mainly focusing on how unrecognized actuarial gain and loss and unrecognized prior service cost should be accounted for, how benefit obligation and service cost should be determined, and enhancement of disclosures.

(2) Scheduled date of adoption
The Company expects to apply the revised accounting standard from the end of the fiscal year ending March 31, 2014. However, the amendment of the calculation method for present value of defined benefit obligation and service cost will be adopted from the beginning of the fiscal year ending March 31, 2015.

(3) The effect of adoption of this revised accounting standard
The effect of adoption of this revised accounting standard is now under assessment at the time of preparation of the accompanying consolidated financial statements.

3. Securities

The following is a summary of held-to-maturity securities and available-for-sale securities at March 31, 2013 and 2012:

Millions of yen

March 31, 2013	Held-to-maturity securities Carrying amount	Gross unrealized gains	Gross unrealized losses	Fair value
Debt securities,				
whose fair value exceeds carrying amount	¥ 632	¥ 0	¥ —	¥ 632
whose fair value does not exceed carrying amount	—	—	—	—
Total	¥ 632	¥ 0	¥ —	¥ 632

Millions of yen

March 31, 2012	Held-to-maturity securities Carrying amount	Gross unrealized gains	Gross unrealized losses	Fair value
Debt securities,				
whose fair value exceeds carrying amount	¥ 634	¥ 1	¥ —	¥ 635
whose fair value does not exceed carrying amount	—	—	—	—
Total	¥ 634	¥ 1	¥ —	¥ 635

Thousands of U.S. dollars

March 31, 2013	Held-to-maturity securities Carrying amount	Gross unrealized gains	Gross unrealized losses	Fair value
Debt securities,				
whose fair value exceeds carrying amount	$ 6,728	$ 11	$ —	$ 6,739
whose fair value does not exceed carrying amount	—	—	—	—
Total	$ 6,728	$ 11	$ —	$ 6,739

Millions of yen

March 31, 2013	Available-for-sale securities Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	¥ 4,409	¥ 2,731	¥ (96)	¥ 7,044
Other securities	732	12	(3)	741
Subtotal	¥ 5,141	¥ 2,743	¥ (99)	¥ 7,785
Market value not available:				1,195
Total				¥ 8,980

Millions of yen

March 31, 2012	Available-for-sale securities Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	¥ 4,085	¥ 1,268	¥ (151)	¥ 5,202
Other securities	132	0	(2)	130
Subtotal	¥ 4,217	¥ 1,268	¥ (153)	¥ 5,332
Market value not available:				660
Total				¥ 5,992

Thousands of U.S. dollars

March 31, 2013	Available-for-sale securities Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	$ 46,894	$ 29,047	$ (1,018)	$ 74,923
Other securities	7,786	135	(36)	7,885
Subtotal	$ 54,680	$ 29,182	$ (1,054)	$ 82,808
Market value not available:				12,711
Total				$ 95,519

4. Short-term Bank Loans and Long-term Debts

The annual average interest rates applicable to short-term bank loans at March 31 2013 and 2012 were 0.66% and 0.68%, respectively.

Long-term debts at March 31, 2013 and 2012 consisted of the following:

	Millions of yen		*Thousands of U.S. dollars*
	2013	2012	2013
Bonds	¥ 641	¥ 1,135	$ 6,819
Long-term bank loans	3,829	4,939	40,733
Lease obligations	261	352	2,775
Other	1,998	2,216	21,254
Total	¥ 6,729	¥ 8,642	$ 71,581

Aggregate annual maturities of long-term debts subsequent to March 31, 2013 were as follows:

Year ending March 31	*Millions of yen*	*Thousands of U.S. dollars*
2014	¥ 2,544	$ 27,056
2015	1,844	19,619
2016	947	10,071
2017	251	2,673
2018 and thereafter	1,143	12,162
Total	¥ 6,729	$ 71,581

To set up a commitment line by multiple finance institutions, the Company renewed an agreement with a syndicate of 7 banks for the years ended March 31, 2013 and 2012, respectively.

The unexecuted balance of lending commitments of the Company at March 31, 2013 and 2012 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2013	2012	2013
Total lending commitments	¥ 3,000	¥ 3,000	$ 31,911
Less amounts currently executed	-	-	-
Unexecuted balance	¥ 3,000	¥ 3,000	$ 31,911

5. Pledged Assets

The following assets were pledged as collateral for the following borrowings at March 31, 2013 and 2012:

	Millions of yen		*Thousands of U.S. dollars*
	2013	2012	2013
Land	¥ 5,755	¥ 5,755	$ 61,214
Buildings	3,410	3,537	36,276
Investment securities	449	619	4,780
Total	¥ 9,614	¥ 9,911	$ 102,270

	Millions of yen		*Thousands of U.S. dollars*
	2013	2012	2013
Short-term bank loans	¥ 100	¥ 100	$ 1,064
Current portion of long-term bank loans	482	658	5,128
Long-term bank loans	693	541	7,374
Other	2,952	3,185	31,396
Total	¥ 4,227	¥ 4,484	$ 44,962

6. Liabilities for Retirement Benefits

The following table sets forth the changes in benefit obligations, plan assets and funded status of the Group at March 31, 2013 and 2012:

	Millions of yen		*Thousands of U.S. dollars*
	2013	2012	2013
Benefit obligation at end of year	¥ 6,533	¥ 6,572	$ 69,496
Fair value of plan assets at end of year	4,135	3,593	43,985
Funded status:			
Benefit obligation in excess of plan assets	2,398	2,979	25,511
Unrecognized prior service cost	-	20	-
Unrecognized actuarial loss	(526)	(987)	(5,593)
Liabilities for Retirement Benefits	¥ 1,872	¥ 2,012	$ 19,918

Severance and pension costs of the Group included the following components for the years ended March 31, 2013 and 2012:

	Millions of yen		*Thousands of U.S. dollars*
	2013	2012	2013
Service cost	¥ 376	¥ 341	$ 4,002
Interest cost	112	125	1,189
Expected return on plan assets	(62)	(67)	(658)
Amortization:			
Prior service cost	(20)	(20)	(212)
Actuarial losses	203	160	2,162
Other	25	21	261
Net periodic benefit cost	¥ 634	¥ 560	$ 6,744

Assumptions used in the accounting for the defined benefit plans for the years ended March 31, 2013 and 2012 were as follows:

	2013	2012
Method of attributing benefit to periods of service	straight–line basis	straight–line basis
Discount rate	1.3 to 2.0 %	1.3 to 2.0 %
Long-term rate of return on plan assets	1.3 to 2.0 %	2.0 %
Amortization period for prior service cost	10 years	10 years
Amortization period for actuarial losses	10 years	10 years

7. Contingencies

At March 31, 2013 and 2012, the Group was contingently liable as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2013	2012	2013
As a guarantor of indebtedness of :			
Affiliated companies	¥ 3,786	¥ 4,082	$ 40,276
Other	32	37	338
Total	¥ 3,818	¥ 4,119	$ 40,614

8. Cash and cash equivalents

Cash and cash equivalents at March 31, 2013 and 2012 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2013	2012	2013
Cash and deposits	¥ 3,861	¥ 4,223	$ 41,074
Short-term securities	3,222	5,953	34,277
Government bonds with original maturities more than three months	(617)	—	(6,568)
Cash and cash equivalents	¥ 6,466	¥ 10,176	$ 68,783

9. Leases

The Group leases certain machinery and equipment, and other assets. Total lease payments under these leases were ¥ 25 million ($ 264 thousand) and ¥ 95 million for the years ended March 31, 2013 and 2012, respectively.
Pro forma information relating to acquisition costs, accumulated depreciation and future minimum lease payments for property held under finance leases which do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2013 and 2012, were as follows:

Millions of yen

2013	Machinery and vehicles	Other	Total
Acquisition costs	¥ 22	¥ -	¥ 22
Accumulated Depreciation	20	-	20
Net leased property	¥ 2	¥ -	¥ 2

Millions of yen

2012	Machinery and vehicles	Other	Total
Acquisition costs	¥ 201	¥ 19	¥ 220
Accumulated Depreciation	179	16	195
Net leased property	¥ 22	¥ 3	¥ 25

Thousands of U.S. dollars

2013	Machinery and vehicles	Other	Total
Acquisition costs	$ 235	$ -	$ 235
Accumulated Depreciation	219	-	219
Net leased property	$ 16	$ -	$ 16

Future minimum lease payments under finance leases at March 31, 2013 and 2012 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2013	2012	2013
Due within one year	¥ 2	¥ 23	$ 16
Due after one year	-	2	-
Total	¥ 2	¥ 25	$ 16

Depreciation expenses, which are not reflected in the accompanying consolidated statements of income, computed by the straight-line method, would have been ¥ 25 million ($ 264 thousand) and ¥ 95 million for the years ended March 31, 2013 and 2012, respectively.

10. Financial Instruments and Related Disclosures

(1) Policy for financial instruments

The Group manages funds by utilizing short-term deposits, etc. The Group raises money by borrowing from financial institutions and by issuing bonds. Derivatives are used, not for speculative nor trading purpose, but to hedge the exposure to interest rate risks associated with certain interest payments on borrowings.

(2) Types of financial instruments and related risk, and risk management for financial instruments

Trade notes and accounts receivable are exposed to credit risk in relation to customers. In order to monitor credit risk, the Group manages, according to the credit management guideline of the Group, the due date and the balance of operating receivables from customers.

Investment securities consist of mainly held-to-maturity securities and equity securities issued by the Group's business partners and these securities are exposed to market risk.

The Group periodically monitors the fair value of such equity securities, which is reported to the board meeting.

Trade notes and accounts payable have payment due dates mainly within one year. Trade notes and accounts payable denominated in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rate. Such risk is hedged principally by forward foreign currency contract.

Short-term bank loans are raised mainly in connection with business activities and long-term bank loan and bonds payable, which are due mainly within five years, are raised principally for the purpose of making capital investments.

Long-term debts with variable interest rates are exposed to interest rate fluctuation risk, so the Group enters into interest rate swap transactions to manage such interest rate exposure.

Derivatives are managed in accordance with policies and procedures for risk assessment (see Note 12 "Derivatives") and also the Group enters into derivative transactions only with financially stable financial institutions to reduce institutions' credit risk.

Based on a report from the Company and consolidated subsidiaries, the Group prepares and updates its cash flow plans on a monthly basis to manage the Group's liquidity.

(3) Supplementary explanation of the estimated fair value of financial instruments

With regard to the below mentioned contract prices etc. of derivatives, the contract prices themselves do not present the market risk on the derivative transactions.

Summarized in the table below are the carrying amounts and the estimated fair value of financial instruments outstanding at March 31, 2013 and 2012. Financial instruments for which it is extremely difficult to determine the fair value are not included in the table below.

Millions of yen

March 31, 2013	Carrying amount	Fair value	Unrecognized gain/loss
Cash and deposits	¥ 3,861	¥ 3,861	¥ —
Trade notes and accounts receivable	33,629	33,629	—
Short-term securities	3,222	3,222	0
Investment securities	7,800	7,800	0
Trade notes and accounts payable	(17,680)	(17,680)	—
Short-term bank loans	(2,620)	(2,620)	—
Long-term bank loans	(3,829)	(3,829)	0
Bonds payable	(641)	(645)	(4)
Long-term deposits	(1,998)	(2,156)	(158)
Derivatives	—	—	—

March 31, 2012	Carrying account	Fair value	Unrecognized gain/loss
			Millions of yen
Cash and deposits	¥ 4,223	¥ 4,223	¥ —
Trade notes and accounts receivable	29,285	29,285	—
Short-term securities	5,953	5,953	—
Investment securities	5,966	5,967	1
Trade notes and accounts payable	(16,796)	(16,796)	—
Short-term bank loans	(2,620)	(2,620)	—
Long-term bank loans	(4,939)	(4,931)	8
Bonds payable	(1,135)	(1,145)	(10)
Long-term deposits	(2,216)	(2,351)	(135)
Derivatives	—	—	—

March 31, 2013	Carrying account	Fair value	Unrecognized gain/loss
			Thousands of U.S. dollars
Cash and deposits	$ 41,074	$ 41,074	$ —
Trade notes and accounts receivable	357,717	357,717	—
Short-term securities	34,277	34,278	1
Investment securities	82,968	82,978	10
Trade notes and accounts payable	(188,068)	(188,068)	—
Short-term bank loans	(27,869)	(27,869)	—
Long-term bank loans	(40,733)	(40,727)	6
Bonds payable	(6,819)	(6,863)	(44)
Long-term deposits	(21,254)	(22,938)	(1,684)
Derivatives	—	—	—

Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions:

(a) “Cash and deposits” and “Trade notes and accounts receivable”
Their carrying amounts approximate fair value because of their short maturity.

(b) “Short-term securities”
The fair values of held-to-maturity debt securities are based on quotes provided by the financial institutions.
The carrying amounts of the other securities than the above debt securities approximate fair value because of their short maturity.

(c) “Investment securities”
The fair values of marketable securities are based on quoted market prices. The fair values of debt securities are based on quotes provided by the financial institutions. For information on securities classified by holding purpose, please refer to Note 3 “Securities”.

(d) “Trade notes and accounts payable” and “Short-term bank loans”
Their carrying amounts approximate fair value because of their short maturity.

(e) “Long-term bank loans”
The fair value of long-term bank loans is estimated based on present value of the total of principal and interest discounted by an assumed current interest rate for loans with similar terms and remaining maturities.

(f) “Bonds payable”
The fair value of bonds payable is estimated based on present value of the total of principal and interest discounted by an assumed interest rate based on debt’s maturity and credit risk.

(g) “Long-term deposit”
The fair value of long-term deposit is estimated based on present value of the total of principal and interest discounted by an assumed interest rate, if possible, based on debt’s maturity and credit risk.

(h) “Derivatives”
Please refer to Note 12 “Derivatives”.

Financial instruments for which it is extremely difficult to determine the fair value at March 31, 2013 and 2012 consist of the following:

	Millions of yen		*Thousands of U.S. dollars*
	2013	2012	2013
Non-listed equity securities	¥ 1,195	¥ 660	$ 12,711
Long-term deposit	1,054	1,055	11,211

The annual maturities of financial assets and investment securities with contractual maturities subsequent to March 31, 2013 and 2012 were as follows:

Millions of yen

March 31, 2013	Due in one year or less	Due after one year through five years	Due after five years through ten years
Cash and deposits	¥ 3,861	¥ —	¥ —
Trade notes and accounts receivable	33,629	—	—
Short-term securities	617	—	—
Investment securities	—	15	—
Total	¥ 38,107	¥ 15	¥ —

Millions of yen

March 31, 2012	Due in one year or less	Due after one year through five years	Due after five years through ten years
Cash and deposits	¥ 4,223	¥ —	¥ —
Trade notes and accounts receivable	29,284	1	—
Investment securities	—	619	15
Total	¥ 33,507	¥ 620	¥ 15

Thousands of U.S. dollars

March 31, 2013	Due in one year or less	Due after one year through five years	Due after five years through ten years
Cash and cash equivalents	$ 41,074	$ —	$ —
Trade notes and accounts receivable	357,717	—	—
Short-term securities	6,568	—	—
Investment securities	—	160	—
Total	$ 405,359	$ 160	$ —

11. Investment Property

The company and certain subsidiaries hold some rental properties including land in Tokyo and other areas (“investment properties”). The amounts of net income related to investment properties (rental income is recognized in operating revenue and rental expense is principally charged to operating expenses) were ¥ 833 million ($ 8,863 thousand) and ¥ 822 million for the year ended March 31, 2013 and 2012, respectively. The amounts of loss on impairment of investment properties was ¥ 234 million ($ 2,493 thousand) for the year ended March 31, 2013 (Note 15). There was no loss on impairment of investment properties for the year ended March 31, 2012.

The carrying amount, changes in such balances and market prices of investment properties were as follows:

Millions of yen

Carrying amount			Fair value
April 1, 2012	Increase/ (decrease)	March 31, 2013	March 31, 2013
¥ 9,170	¥ 131	¥ 9,301	¥ 11,294

Millions of yen

Carrying amount			Fair value
April 1, 2011	Increase/ (decrease)	March 31, 2012	March 31, 2012
¥ 9,533	¥ (363)	¥ 9,170	¥ 11,914

Thousands of U.S. dollars

Carrying amount			Fair value
April 1, 2012	Increase/ (decrease)	March 31, 2013	March 31, 2013
$ 97,551	$ 1,388	$ 98,939	$ 120,137

(1) Carrying amount is net of accumulated depreciation and accumulated impairment losses, if any.

(2) Increase during the year ended March 31, 2013 was mainly due to the change in holding purpose of Haneda office in an amount of ¥ 621 million ($ 6,602 thousand).
Increase during the year ended March 31, 2012 was mainly due to the site preparation in Nagoya Plant in an amount of ¥ 56 million.
Decrease during the year ended March 31, 2013 was mainly due to depreciation in an amount of ¥ 213 million ($ 2,269 thousand) and impairment loss in an amount of ¥ 234 million ($ 2,493 thousand).
Decrease during the year ended March 31, 2012 was mainly due to depreciation in an amount of ¥ 222 million.

(3) Fair value at March 31, 2013 and 2012 was principally measured based on the real estate appraisal assessed by the external real estate appraiser.

12. Derivatives

Derivative financial instruments are utilized by the Company principally to reduce interest rate risk and foreign exchange rate risk. The Company has established a control environment which includes policies and procedures for risk assessment and for the approval, reporting and monitoring of transactions involving derivative financial instruments. The Company does not hold or issue derivative financial instruments for trading purposes.

The notional amounts and the estimated fair value of derivative financial instruments, for which deferred hedge accounting has been applied were as follows:

Millions of yen

March 31, 2013	Hedged item	Contract amount	Contract amount due after one year	Fair value
Interest rate swap: (Fixed rate payment/floating rate receipt)	Long-term debt	¥ 1,329	¥ 811	Note

Millions of yen

March 31, 2012	Hedged item	Contract amount	Contract amount due after one year	Fair value
Interest rate swap: (Fixed rate payment/floating rate receipt)	Long-term debt	¥ 1,865	¥ 1,329	Note

Thousands of U.S. dollars

March 31, 2013	Hedged item	Contract amount	Contract amount due after one year	Fair value
Interest rate swap: (Fixed rate payment/floating rate receipt)	Long-term debt	$ 14,137	$ 8,627	Note

Fair value of swap contracts assigned for Long-term debt is included in the fair value of Long-term debt disclosed at Note 10 “Financial Instruments and Related Disclosures”.

13. Shareholders' Equity

Changes in common stock and additional paid-in capital have resulted from the following:

	Number of Shares	Common Stock	Capital Surplus
		Millions of yen	
Balance at March 31, 2011	42,737,668	11,900	11,719
Retirement of stock during 2012	—	—	—
Balance at March 31, 2012	42,737,668	11,900	11,719
Retirement of stock during 2013	—	—	—
Balance at March 31, 2013	42,737,668	11,900	11,719

	Common Stock	Capital surplus
	Thousands of U.S. dollars	
Balance at March 31, 2012	126,581	124,654
Retirement of stock during 2013	—	—
Balance at March 31, 2013	126,581	124,654

The Company adopted 100 shares of common stock as "unit amount of shares". A holder of shares representing less than one unit cannot exercise any voting rights with respect to such shares. However, the holder is entitled to receive dividends and other distributions. A holder of a fraction of a unit may at any time request the Company to purchase such shares at the prevailing market price. Shares so purchased must be sold or otherwise transferred to a third party within a reasonable time.

14. Research and Development

Research and development expenditure which is included in "Selling, general and administrative expenses" were ¥ 1,163 million ($ 12,369 thousand) and ¥ 1,013 million for the years ended March 31, 2013 and 2012, respectively.

15. Loss on impairment of long-lived assets

The Group recognized loss on impairment of long-lived assets as follows:

Use	Type of assets	location
Idle property	Land	Chino-shi, Nagano
Idle property	Land	Ota-ku, Tokyo
Property for sale	Buildings, structures, machinery, equipment, tools, furniture and fixtures	Atsugi-shi, Kanagawa

With regard to the property, plant and equipment of the Group, business assets were classified into groups based on the management accounting categories. For rental properties, idle properties and properties for sale, each property is considered to constitute a group. Headquarters and welfare facilities were classified as corporate assets.

Since return of investments in certain idle properties was judged to be difficult due to falling land prices, the book values of such assets were written down to recoverable values or net sales values, and the resulting decrease was recognized as loss on impairment of long-lived assets of ¥234 million ($2,493 thousand), comprising ¥190 million ($2,023 thousand) for land, ¥42 million ($447 thousand) for buildings and ¥2 million ($23 thousand) for other assets. There was no impairment loss of long-lived assets for the year ended March 31, 2012.

The recoverable values of the above idle properties were determined using net sales values based on appraisal values for road rating or fixed asset tax.

16. Income Taxes

The Company and its domestic subsidiaries are subject to several taxes based on income, which in the aggregate resulted in a statutory tax rate of approximately 37.96% and 40.64% for the years ended March 31, 2013 and 2012, respectively. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2013 and 2012 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2013	2012	2013
Deferred tax assets:			
Accrued expenses	¥ 524	¥ 488	$ 5,572
Liabilities for retirement benefits	655	711	6,964
Depreciation	488	424	5,189
Fixed assets – elimination of intercompany profits	663	639	7,049
Allowance for doubtful accounts	612	539	6,512
Net operating loss carry-forwards	140	1,102	1,489
Other	917	1,008	9,771
Sub-total	3,999	4,911	42,546
Less valuation allowance	(1,317)	(1,195)	(14,010)
Total deferred tax assets	2,682	3,716	28,536
Deferred tax liabilities:			
Deferred gain on sales of fixed assets for income tax purposes	(1,741)	(1,763)	(18,522)
Unrealized gain on investment securities	(942)	(395)	(10,023)
Special depreciation reserve	(174)	(14)	(1,848)
Unrealized gain on subsidiaries' fixed assets by revaluation at the beginning of consolidation	(1,283)	(1,283)	(13,644)
Total	(4,140)	(3,455)	(44,037)
Net deferred tax assets (liabilities)	¥ (1,458)	¥ 261	$ (15,501)

The reconciliation between the statutory tax rate and the effective income tax rate for the year ended March 31, 2013 and 2012 were as follows:

	2013	2012
Statutory tax rate	37.96%	40.64%
Non-deductible expenses for income tax purpose	0.87	1.43
Non-taxable dividend income	(0.41)	(0.59)
Inhabitant per capita tax	1.52	2.69
Effect of tax rate change	—	(3.95)
Change in valuation allowance	2.46	(10.13)
Amortization of negative goodwill	(2.68)	(5.16)
Equity in earnings of affiliated companies	0.14	0.91
Loss on impairment of long-lived assets	0.81	—
Other	(0.21)	(0.27)
Effective tax rate	40.46%	25.57%

17. Comprehensive Income

The components of other comprehensive income for the year ended March 31, 2013 and 2012 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2013	2012	2013
Unrealized gain on available-for-sale securities:			
Gains arising during the year	¥ 1,535	¥ 451	$ 16,329
Reclassification adjustments for loss	-	47	-
Amount before income tax effect	1,535	498	16,329
Income tax effect	(549)	(145)	(5,836)
Total	¥ 986	¥ 353	$ 10,493
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ 77	¥ (17)	$ 811
Total	¥ 77	¥ (17)	$ 811
Share of other comprehensive income in affiliate:			
Gains arising during the year	¥ 14	¥ 0	$ 152
Total	¥ 14	¥ 0	$ 152
Total other comprehensive income	¥ 1,077	¥ 336	$ 11,456

18. Trade Note Maturities

The following trade notes, which matured but were not settled on March 31, 2013 and 2012 because that day fell on a bank holiday, were included in the balance sheet as of March 31, 2013 and 2012, respectively.

	Millions of yen		*Thousands of U.S. dollars*
	2013	2012	2013
Trade notes receivable	¥ 840	¥ 800	$ 8,939
Trade notes payable	932	942	9,913

19. Provision of reserve for Losses on Construction Contracts

Provision of reserve for losses on construction contracts included in Cost of Sales were ¥ 4 million ($ 41 thousand) and ¥ 31 million for the years ended March 31, 2013 and 2012, respectively.

20. Segment Information

a. Description of reportable segments

The Group's reportable segments are those for which separately financial information is available and regular evaluation by the Board of Directors is being performed in order to decide how resources are allocated among the Group. The Group conducts several types of businesses including specialty truck business, environmental equipment and systems and real estate rental business. The Company and its consolidated subsidiaries are engaged in each business as an independent management unit. The Group consists of three reportable segments, which are "Specialty truck business" (Industry A), "Environmental equipment and systems business" (Industry B) and "Real estate rental business" (Industry C). Industry A manufactures and distributes specialty trucks such as dump trucks, tailgate lifters, tank trucks, refuse trucks, trailers, etc. Industry B manufactures and distributes recycle facilities, including maintenance and consignment business. Industry C manufactures multistory parking equipment and offers operating services for toll parking and real estate rental services.

b. Methods of measurement for the amounts of sales, profit (loss), assets, liabilities and other items for each reportable segment

The accounting policies of each reportable segment are consistent to those disclosed in Note 2, "Summary of Significant Accounting Policies". Intersegment sales or transfers are based on the market prices.

c. Information about sales, profit (loss), assets and other items for the years ended March 31, 2013 and 2012 are as follows:

Millions of yen

	Reportable segments					
2013	Industry A	Industry B	Industry C	Total	Reconciliations (Note 1)	Consolidated (Note 2)
Net sales:						
External customers	¥ 61,246	¥ 9,953	¥ 5,525	¥ 76,724	–	¥ 76,724
Intersegment sales or transfers	27	–	600	627	(627)	–
Total	61,273	9,953	6,125	77,351	(627)	76,724
Segment profit (loss)	3,368	1,242	983	5,593	(459)	5,134
Segment assets	64,150	5,735	12,696	82,581	15,314	97,895
Other items:						
Depreciation	1,061	59	260	1,380	–	1,380
Increase in tangible and intangible fixed assets	1,261	23	702	1,986	–	1,986

Millions of yen

2012	Reportable segments Industry A	Industry B	Industry C	Total	Reconciliations (Note 1)	Consolidated (Note 2)
Net sales:						
External customers	¥ 54,015	¥ 8,475	¥ 5,293	¥ 67,783	–	¥ 67,783
Intersegment sales or transfers	18	0	538	556	(556)	–
Total	54,033	8,475	5,831	68,339	(556)	67,783
Segment profit (loss)	1,398	1,188	744	3,330	(373)	2,957
Segment assets	62,381	4,691	11,777	78,849	15,022	93,871
Other items:						
Depreciation	1,339	64	210	1,613	–	1,613
Increase in tangible and intangible fixed assets	2,171	31	97	2,299	–	2,299

Thousands of U.S. dollars

2013	Reportable segments Industry A	Industry B	Industry C	Total	Reconciliations (Note 1)	Consolidated (Note 2)
Net sales:						
External customers	$ 651,480	$ 105,879	$ 58,771	$ 816,130	–	$ 816,130
Intersegment sales or transfers	289	–	6,378	6,667	(6,667)	–
Total	651,769	105,879	65,149	822,797	(6,667)	816,130
Segment profit (loss)	35,824	13,216	10,453	59,493	(4,878)	54,615
Segment assets	682,373	61,007	135,045	878,425	162,900	1,041,325
Other items:						
Depreciation	11,284	630	2,765	14,679	–	14,679
Increase in tangible and intangible fixed assets	13,416	241	7,473	21,130	–	21,130

1. Reconciliations of segment profit in an amount of ¥(459) million ($(4,878) thousand) which consists of elimination of intersegment transactions in an amount of ¥14 million ($154 thousand) and corporate expenses which are not allocated to each reportable segment in an amount of ¥(473) million ($(5,032) thousand). Corporate expenses are mainly general administrative expenses not attributable to any other reportable segments.
   Reconciliations of segment assets are surplus fund (cash and deposits and securities) and long-term investment fund (investment securities) of the Company.

2. Segment profit (loss) is reconciled with operating income in the consolidated statements of income.

3. As described in Note 2 "Summary of Significant Accounting Policies", prior to April 1, 2012, depreciation of property, plant and equipment, except for buildings, was computed by the declining-balance method. However, effective from April 1, 2012, the straight-line method has been applied to all property, plant and equipment. The effect of this change was to increase operating income for the year ended March 31, 2013 of "Industry A," "Industry B" and "Industry C" by ¥ 204 million ($ 2,177 thousand), ¥ 13 million ($ 138 thousand) and ¥ 29 million ($ 307 thousand), respectively.

Information about impairment loss on fixed assets by reportable segment

Millions of yen

	Reportable segments					
2013	Industry A	Industry B	Industry C	Total	Reconciliations	Consolidated
Loss on impairment of long-lived assets	¥ –	¥ –	¥ 234	¥ 234	¥ –	¥ 234

There was no impairment loss for the years ended March 31, 2012.

Thousands of U.S. dollars

	Reportable segments					
2013	Industry A	Industry B	Industry C	Total	Reconciliations	Consolidated
Loss on impairment of long-lived assets	$ –	$ –	$ 2,493	$ 2,493	$ –	$ 2,493

Information about amortization of goodwill and unamortized balance

Millions of yen

	Reportable segments					
2013	Industry A	Industry B	Industry C	Total	Reconciliations	Consolidated
Negative goodwill:						
Amortization for the year	377	–	–	377	–	377
Unamortized balance	–	–	–	–	–	–

Millions of yen

2012	Reportable segments					
	Industry A	Industry B	Industry C	Total	Reconciliations	Consolidated
Negative goodwill:						
Amortization for the year	377	–	–	377	–	377
Unamortized balance	377	–	–	377	–	377

Thousands of U.S. dollars

2013	Reportable segments					
	Industry A	Industry B	Industry C	Total	Reconciliations	Consolidated
Negative goodwill:						
Amortization for the year	4,005	–	–	4,005	–	4,005
Unamortized balance	–	–	–	–	–	–

21. Subsequent Event

The following appropriations of the Company's retained earnings in respect of the year ended March 31, 2013 were as proposed by the Board of Directors and approved by the shareholders at the annual general meeting held on June 26, 2013.

Appropriations	*Millions of yen*	*Thousands of U.S. dollars*
Cash dividends of ¥ 9 ($ 0.10) per share	¥ 358	$ 3,804

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and
Board of Directors of
Kyokuto Kaihatsu Kogyo Co., Ltd.

We have audited the accompanying consolidated balance sheet of Kyokuto Kaihatsu Co., Ltd. and its consolidated subsidiaries as of March 31, 2013, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity 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.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in conformity with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kyokuto Kaihatsu Kogyo Co., Ltd. and its consolidated subsidiaries as of March 31, 2013, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation
The accompanying consolidated financial statements as of and for the year ended March 31, 2013, have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in yen have been translated into dollars on the basis set forth in Note 1 to the consolidated financial statements.

PKF Osaka Audit Corporation
Osaka, Japan
August 8, 2013

CORPORATE INFORMATION

Kyokuto Kaihatsu Kogyo Co., Ltd.
Established: June 1, 1955
Paid-in Capital: 11,899,867,400 yen (as of March 31, 2013)
Number of Shares Issued: 42,737,668 shares (as of March 31, 2013)
Number of Employees: consolidated 2,206; non-consolidated 840
(as of March 31, 2013)

Headquarters:
6-1-45, Koshienguchi, Nishinomiya-shi, Hyogo, 663-8545 Japan
Tel.+81-798-66-1000, Fax.+81-798-66-8146
Tokyo Office (Overseas Business Department):
3-15-10, Higashi-shinagawa, Shinagawa-ku, Tokyo, 140-0002, Japan
Tel.+81-3-5781-9828, Fax+81-3-5781-3431

Plants:
Yokohama Plant
Occupies 78,158 ㎡
Located in Yamato, Kanagawa (Japan)
Nagoya Plant
Occupies 132,537 ㎡
Located in Komaki, Aichi (Japan)
Miki Plant
Occupies 98,274 ㎡
Located in Miki, Hyogo (Japan)
Fukuoka Plant
Occupies 66,832 ㎡
Located in Iizuka, Fukuoka (Japan)
Plant of KYOKUTO KAIHATSU (KUNSHAN) MACHINERY CO., LTD.
Occupies 83,140 ㎡
Located in Kunshan, Jiangsu (China)
Plant of MITHRA KYOKUTO SPECIAL PURPOSE VEHICLE CO., PVT. LTD.
Occupies 60,405 ㎡
Located in Veerapanenigudem, Andhra Pradesh (India)
Head Plant of NIPPON TREX Co., Ltd.
Occupies 125,285 ㎡
Located in Toyokawa, Aichi (Japan)
Otowa Plant of NIPPON TREX Co., Ltd.
Occupies 20,889 ㎡
Located in Toyokawa, Aichi (Japan)

BOARD OF DIRECTORS AND STATUTORY AUDITORS

Takaaki Fudetani,
Representative Director, Chairman, CEO

Kazuya Takahashi,
Representative Director, President, COO

Harumi Sugimoto,
Director, Executive Officer

Tokumasa Hayashi,
Director, Executive Officer

Takashi Yoneda,
Director, Executive Officer

Haruhiro Kondo,
Director, Executive Officer

Ikuya Sakai,
Director, Executive Officer

Ryuichiro Nishikawa,	Associate Senior Executive Officer
Toshihisa Nakanishi,	Executive Officer
Takeo Norimitsu,	Executive Officer
Noboru Horimoto,	Executive Officer
Sadanobu Kato,	Executive Officer
Akira Sakurai,	Executive Officer
Souichiro Ochi,	Executive Officer
Tatsuya Nunohara,	Executive Officer

Yoshinori Takashima,	Standing Auditor
Tomoki Ueyama,	Auditor
Akira Michigami,	Outside Corporate Auditor
Morio Kusunoki,	Outside Corporate Auditor