Annual Report 2014

Year ended March 31, 2014

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, 2014>

In the current consolidated fiscal year, the Japanese economy basically rebounded due to the bullish U.S. economy; the low yen rate and the high stock prices partly resulting from the Bank of Japan's easy-money policy; and the effect of economic measures implemented by the national government, even though there were such alarming factors as the slower growth of emerging markets and disturbances in international politics.
The year being the first year in our new mid-term management plan "Next Step 2015" - To make the next step forward- (April 1, 2013 - March 31, 2016), our Group strove to reinforce our managerial basis and improve our corporate value, and promoted various measures both in Japan and abroad to make greater business achievements.

Representative Director,
President, COO
Kazuya Takahashi

As a result, in the current consolidated fiscal year, net sales increased by 14,187 million yen (18.5%) compared with the preceding consolidated fiscal year to 90,911 million yen. As for profit and loss status, operating income reached 8,038 million yen, an improvement of 2,903 million yen (56.6%) due to the big sales improvement at the Specialty Truck Segment, our mainstay category. Thus, the current net income reached 3,646 million yen, an improvement of 474 million yen (15.0%).

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

In Japan, the year saw a higher demand for specialty trucks than last year. Our Group made positive efforts to secure orders, and tried to shorten delivery time e.g. by implementing measures to improve production efficiency at each plant. As a result, sales proved satisfactory mainly regarding large dump trucks and concrete pumps in the field of construction; refuse trucks and detachable body trucks in the field of the environment; and pneumatic bulk carrier trucks and trailers in the field of logistics.
Further, in cooperation with other companies, we developed such new products as Press type electric refuse truck (Hybrid type), a electrically-powered refuse trucks with the world's first system which drives refuse collection equipment powered by hybrid batteries; and LOG BUSTER LB-515TK, a truck-mounted wood crushing machine. We also developed various other products.
As for our overseas business, our plant in Indonesia (PT. Kyokuto Indomobil Manufacturing Indonesia, Purwakarta City) was formally inaugurated February 2014, to help expand sales in the country.

As a result, net sales in the Specialty Truck Segment increased by 13,101 million yen (21.4%) to 74,374 million yen. Segment profit increased by 1,146 million yen (34.0%) to 4,515 million yen due to the big improvement of the sales, despite the record of the allowance for doubtful accounts of the production subsidiary in China.

Press type electric refuse truck
(Hybrid type)

"LOG BUSTER LB-515TK"

Plant in Indonesia

Dump truck and Mixer truck
(Indonesian model)

ii) Environmental Equipment and Systems Segment

In the field of plant construction, the market continued to be in a difficult situation. Nevertheless, we reaped results from our positive marketing activities, contracting the construction of a facility to treat bulky rubbish and bottles in May 2013 with the Shiki District Sanitary Association organized by the Cities of Shiki, Niiza and Fujimi in Saitama Prefecture; and the construction of a recycling center in June 2013 with the municipal office of Tsu in Mie Prefecture. In the field of maintenance and operation outsourcing, we promoted such efforts as the streamlining of business through the integration of Group companies and marketing activities through cooperation among Group companies.

As a result, net sales decreased by 1,158 million yen (11.6%) to 8,795 million yen due to the momentary decrease of the sales by the percentage of completion method. Segment profit increased by 131 million yen (10.6%) to 1,374 million yen due to steady performance of the entrusted operations and maintenance work.

Recycle center in Naha

iii) Real Estate Rental Segment

We continued to face a stiff competition in the multi-story parking equipment market. In this field, we engaged in active marketing efforts regarding new construction projects by profiting from an increased demand for condominiums in anticipation of the hike of consumption tax rate. Also, we put our efforts in renewal projects of such equipment as stock business. In the field of coin parking, we strove to secure revenues by securing and selecting parking lots, and improving the rate of operation.

Also, we newly entered the field of mega solar power generation. Two power generation plants - Fukuoka Plant (Iizuka City) inaugurated in March 2013 and former Tohoku Plant (Hachinohe City) inaugurated in September 2013 - helped improve our revenues.

As a result, net sales increased by 2,325 million yen (38.0%) to 8,450 million yen due to the increase of sales of parking business, the launch of mega solar powers and the sale of a real estate for sale, and segment profit increased by 1,609 million yen (163.8%) to 2,592 million yen.

Toll parking (Coin-operated)

Multi-story parking equipment

<Forecast of Operations for the Next Consolidated Fiscal Year ending March 31, 2015>

The recovery of the Japanese economy is expected to continue due to such factors as the recovery of the European and U.S. economies, the continued implementation of economic measures by the national government, the increase of export and capital investment, and the rise of wage level due to improved corporate revenues; even though there are such alarming factors as the hike of consumption tax rate and changes in emerging economies.

Our Group continues to make determined efforts to expand sales and profits and improve our corporate value, by steadily implementing our mid-term management plan "Next Step 2015" - To make the next step forward- to be mentioned later.

In April 2014, our Company, Nippon Trex Co., Ltd. (our consolidated subsidiary) and two local companies agreed to jointly establish a new company (TREX THAIRUNG CO., LTD., Pluakdaeng) in the Kingdom of Thailand, which will serve as a base for production and marketing of van bodies and specialty trucks. We are making preparations with a view to starting the operation of the company in January 2015.

Regarding the forecast of consolidated business performance for March 2015, the Company estimates net sales to increase by 1,089 million yen (1.2%) over March 2014 to 92,000 million yen Management expects the overall operating income to decrease by 437 million yen (5.4%) to 7,600 million yen, while net income is estimated to grow by 855 million yen (23.4%) to 4,500 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 12,848 million yen (13.1%) from the end of the preceding fiscal year to 110,743 million yen.

Current assets increased by 10,591 million yen (20.7%) to 61,712 million yen, due to increases in securities, etc.

Non-current assets (property, plant and equipment, intangible assets and investments and other assets) increased by 2,256 million yen (4.8%) to 49,031 million yen, due to recovery of market prices of investment securities, etc.

Regarding liabilities, current liabilities increased by 6,857 million yen (24.2%) to 35,173 million yen, due to increases in trade notes and accounts payable, etc. Non-current liabilities increased by 2,014 million yen (18.8%) to 12,743 million yen due to increase of long-term loans, etc.

Total net assets increased by 3,975 million yen (6.8%) to 62,827 million yen, due to posting of net profit, etc.

As a result, the capital adequacy ratio stood at 56.7% as of the end of the current fiscal year (60.1% at the end of the preceding fiscal year).

ii) Cash Flow Situation

Consolidated cash and cash equivalents at the end of period increased by 7,912 million yen (122.4%) compared with the end of the preceding fiscal year to 14,379 million yen. Cash flow by activity type is summarized as follows:

Cash Flow from Operating Activities

Net cash provided by operating activities amounted to 9,387 million yen (an increase of 7,507 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 2,038 million yen (an increase of 1,328 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 provided by financing activities amounted to 477 million yen (an increase of 2,721 million yen compared with the preceding fiscal year). This was because of increase of long-term 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, 2014 resolved and passed to pay a dividend of 11 yen per share at the end of March 2014 as originally proposed by management, making its annual dividend 21 yen per share including an interim dividend, increased by 5 yen compared with the preceding fiscal year.

For the year ending March 2015, management plans to pay an annual dividend of 22 yen per share (including an interim dividend of 11 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

The Kyokuto Kaihatsu Group has been working as one for the improvement of corporate value under the medium-term management plan “Next Step 2015” - To make the next step forward - (3-year plan) since April 1, 2013.

In this plan, we set management targets of sales of 89,000 million yen and operating profit of 7,000 million yen on a consolidated base for the term ending March 2016, the last fiscal year of the plan. However, while demand in our core special purpose vehicles business has trended at levels higher than we assumed, we achieved these targets in the first year of the plan as a result of the Group making a concerted effort to secure orders and handle production.

We have thus revised the management targets for the final fiscal year of the plan as follows towards the further expansion of the Kyokuto Kaihatsu Group.

(million yen)

	Term ending March 2016		Increase in amount	Rate of increase
	Before revision	After revision		
Consolidated net sales	89,000	95,000	6,000	107%
Consolidated operating profit	7,000	8,200	1,200	117%

(thousand US dollars)

	Term ending March 2016		Increase in amount	Rate of increase
	Before revision	After revision		
Consolidated net sales	865,086	923,406	58,320	107%
Consolidated operating profit	68,040	79,705	11,664	117%

*Rate: ¥102.88=1US$

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

On our group’s medium-term management plan "Next Step 2015", we are driving the key strategies forward for our group’s progress under the basic policies 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] Early establishment of the production of the plant in Thai in cooperation with NIPPON TREX Co., Ltd.

[3] For the Kunshan plant in China, enhancing the sales in the South-East Asia and the parts supply function to the group companies.

[4] Strengthening the business development in the specialty truck, environmental equipment and systems and parking businesses in the China and the ASEAN region.

[5] Strengthening the development of human resources who support global development.

[6] 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, 2014 and 2013

ASSETS	Millions of yen 2014	Millions of yen 2013	Thousands of U.S. dollars (Note 1) 2014
Current assets:			
Cash and deposits (Notes 8 & 9)	¥ 5,643	¥ 3,861	$ 54,848
Short-term securities (Notes 3, 8 & 9)	8,736	3,222	84,913
Trade notes and accounts receivable (Notes 9 & 17)	34,654	33,629	336,839
Merchandise & finished goods	279	222	2,714
Work in process	3,139	2,956	30,508
Raw materials & supplies	6,797	6,031	66,071
Other current assets	1,075	917	10,448
Deferred tax assets (Note 15)	1,651	1,156	16,044
Allowance for doubtful accounts	(262)	(874)	(2,544)
Total current assets	61,712	51,120	599,841
Property, plant and equipment (Note 10):			
Land (Note 5)	19,843	19,904	192,880
Buildings and structures (Note 5)	30,832	31,093	299,693
Machinery, equipment and vehicles	13,974	13,262	135,824
Construction in progress	251	198	2,444
Other	4,131	4,059	40,150
Total	69,031	68,516	670,991
Accumulated depreciation	(33,398)	(32,842)	(324,631)
Net property, plant and equipment	35,633	35,674	346,360
Intangible assets	427	390	4,150
Investments and other assets:			
Investment securities (Notes 3, 5 & 9)	11,100	8,995	107,897
Deferred tax assets (Note 15)	19	42	188
Other assets	4,934	2,891	47,957
Allowance for doubtful accounts	(3,082)	(1,217)	(29,962)
Total investments and other assets	12,971	10,711	126,080
Total non-current assets	49,031	46,775	476,590
Total	¥ 110,743	¥ 97,895	$ 1,076,431

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS		Millions of yen 2014		2013		Thousands of U.S. dollars (Note 1) 2014
Current liabilities:						
Short-term bank loans (Notes 4, 5 & 9)	¥	2,720	¥	2,620	$	26,439
Current portion of bonds payable (Notes 4 & 9)		147		494		1,429
Current portion of long-term bank loans (Notes 4, 5 & 9)		2,190		1,728		21,288
Trade notes and accounts payable (Notes 9 & 17)		20,540		17,680		199,654
Accrued expenses		3,446		2,805		33,495
Income taxes payable		3,130		712		30,422
Other current liabilities (Note 4)		3,000		2,277		29,162
Total current liabilities		35,173		28,316		341,889
Non-current liabilities:						
Bonds payable (Notes 4 & 9)		-		147		-
Long-term bank loans (Notes 4, 5 & 9)		3,371		2,101		32,768
Liabilities for retirement benefits (Note 6)		-		1,872		-
Net defined benefit liabilities (Note 6)		1,693		-		16,452
Liabilities for directors' retirement benefits		161		146		1,563
Deferred tax liabilities (Note 15)		3,761		2,656		36,560
Other non-current liabilities (Notes 4, 5 & 9)		3,757		3,806		36,519
Total non-current liabilities		12,743		10,728		123,862
Total liabilities		47,916		39,044		465,751
Net assets:						
Shareholders' equity:						
Common stock (Note 12):						
Authorized-170,950,672 shares						
Issued-42,737,668 shares in 2014 and 2013		11,900		11,900		115,667
Capital surplus (Note 12)		11,719		11,719		113,907
Retained earnings		38,536		35,800		374,568
Treasury stock, at cost:						
3,006,168 shares in 2013						
3,007,577 shares in 2014		(2,148)		(2,146)		(20,875)
Total shareholders' equity		60,007		57,273		583,267
Accumulated other comprehensive income:						
Unrealized gain on available-for-sale securities		2,895		1,706		28,144
Foreign currency translation adjustments		(51)		(128)		(497)
Remeasurements of defined benefit plans		(71)		-		(691)
Total accumulated other comprehensive income		2,773		1,578		26,956
Minority interests		47		-		457
Total net assets		62,827		58,851		610,680
Total	¥	110,743	¥	97,895	$	1,076,431

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF INCOME
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Net sales	¥ 90,911	¥ 76,724	$ 883,665
Cost of sales (Note 18)	70,704	60,751	687,251
Gross profit	20,207	15,973	196,414
Selling, general and administrative expenses (Note 13)	12,169	10,839	118,285
Operating income	8,038	5,134	78,129
Other income (expenses):			
Interest and dividend income	162	142	1,577
Interest expense	(114)	(149)	(1,106)
Loss on sales or disposition of property and equipment, net	(25)	(19)	(248)
Loss on impairment of long-lived assets (Note 14)	(654)	(234)	(6,355)
Equity in losses of affiliates	(148)	(19)	(1,439)
Amortization of negative goodwill	-	377	-
Loss on revision of retirement benefit plans (Note 6)	(234)	-	(2,272)
Foreign exchange gain	204	169	1,986
Other-net	(15)	(75)	(153)
Other income (exepenses) -net	(824)	192	(8,010)
Income before income taxes and minority interests	7,214	5,326	70,119
Income taxes (Note 15):			
Current	3,543	981	34,442
Deferred	17	1,174	162
Total income taxes	3,560	2,155	34,604
Net income before minority interests	3,654	3,171	35,515
Minority interests in income	8	-	78
Net income	¥ 3,646	¥ 3,171	$ 35,437

	Yen		U.S. dollars (Note 1)
	2014	2013	2014
Amounts per shares:			
Basic net income	¥ 91.76	¥ 79.82	$ 0.89
Diluted net income	-	-	-
Cash dividends applicable to earnings of the year	21.00	16.00	0.20

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Net income before minority interests	¥ 3,654	¥ 3,171	$ 35,515
Other comprehensive income (Note 16):			
Net unrealized gains on other securities	1,189	986	11,558
Foreign currency translation adjustments	83	77	809
Share of other comprehensive income in affiliates accounted for by the equity method	36	14	350
Total other comprehensive income	1,308	1,077	12,717
Comprehensive income	¥ 4,962	¥ 4,248	$ 48,232
Total comprehensive income attributable to:			
Owners of the parent	4,954	4,248	48,154
Minority interests	8	–	78

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
Years ended March 31, 2014 and 2013

Millions of yen

	Shareholders' equity					Accumulated other comprehensive income					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total	Minority interests	Total net assets
Balance, March 31, 2012	¥ 11,900	¥ 11,719	¥ 33,145	¥ (2,145)	¥ 54,619	¥ 720	¥ (219)	¥ -	¥ 501	¥ -	¥ 55,120
Purchases of treasury stock				(1)	(1)						(1)
Disposal of treasury stock			(0)	0	0						0
Net income			3,171		3,171						3,171
Appropriation											
Cash dividends paid			(516)		(516)						(516)
Other net changes in the year						986	91		1,077		1,077
Balance, March 31, 2013	¥ 11,900	¥ 11,719	¥ 35,800	¥ (2,146)	¥ 57,273	¥ 1,706	¥ (128)	¥ -	¥ 1,578	¥ -	¥ 58,851
Purchases of treasury stock				(2)	(2)						(2)
Disposal of treasury stock		0		0	0						0
Net income			3,646		3,646						3,646
Change in scope of consolidation			(2)		(2)					39	37
Change in scope of equity method			(153)		(153)		(42)		(42)		(195)
Appropriation											
Cash dividends paid			(755)		(755)						(755)
Other net changes in the year						1,189	119	(71)	1,237	8	1,245
Balance, March 31, 2014	¥ 11,900	¥ 11,719	¥ 38,536	¥ (2,148)	¥ 60,007	¥ 2,895	¥ (51)	¥ (71)	¥ 2,773	¥ 47	¥ 62,827

Thousands of U.S. dollars

	Shareholders' equity					Accumulated other comprehensive income					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total	Minority interests	Total net assets
Balance, March 31, 2013	$ 115,667	$ 113,907	$ 347,975	$ (20,858)	$ 556,691	$ 16,586	$ (1,243)	$ -	$ 15,343	$ -	$ 572,034
Purchases of treasury stock				(18)	(18)						(18)
Disposal of treasury stock		0		1	1						1
Net income			35,437		35,437						35,437
Change in scope of consolidation			(19)		(19)					378	359
Change in scope of equity method			(1,487)		(1,487)		(413)		(413)		(1,900)
Appropriation											
Cash dividends paid			(7,338)		(7,338)						(7,338)
Other net changes in the year						11,558	1,159	(691)	12,026	79	12,105
Balance, March 31, 2014	$ 115,667	$ 113,907	$ 374,568	$ (20,875)	$ 583,267	$ 28,144	$ (497)	$ (691)	$ 26,956	$ 457	$ 610,680

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Operating activities:			
Income before income taxes and minority interests	¥ 7,214	¥ 5,326	$ 70,119
Depreciation and amortization	1,678	1,512	16,313
Loss on impairment of long-lived assets	654	234	6,355
Equity in losses of affiliates	148	19	1,439
Loss on sales or disposition of property and equipment, net	24	19	230
Interest and dividend income	(162)	(142)	(1,577)
Interest expenses	114	149	1,106
Decrease (increase) in trade notes and accounts receivable	(2,445)	(3,966)	(23,768)
Decrease (increase) in inventories	(918)	(809)	(8,919)
Increase (decrease) in trade notes and accounts payable	2,756	863	26,792
Increase (decrease) in liabilities for retirement benefits	-	(140)	-
Increase (decrease) in net defined benefit liabilities	(290)	-	(2,816)
Increase (decrease) in allowance for doubtful accounts	970	316	9,426
Increase (decrease) in allowance for others	486	(6)	4,720
Increase (decrease) in consumption taxes payable	(7)	(23)	(66)
Other, net	257	(748)	2,501
Sub total	10,479	2,604	101,855
Interest and dividend income received	163	141	1,585
Interest expenses paid	(66)	(81)	(638)
Income taxes paid	(1,189)	(784)	(11,556)
Net cash provided by operating activities	9,387	1,880	91,246
Investing activities:			
Purchases of securities and investments	(1,224)	(1,468)	(11,898)
Proceeds from sales of securities and investments	615	1	5,975
Proceeds from maturity of securities and investments	617	-	6,002
Purchases of property, plant and equipment	(2,134)	(1,823)	(20,748)
Proceeds from sales of property, plant and equipment	97	5	944
Net decrease (increase) in short-term loans	(12)	(82)	(115)
Disbursement of loans receivable	(9)	(15)	(91)
Collection of loans receivable	12	15	117
Net cash used in investing activities	(2,038)	(3,367)	(19,814)
Financing activities:			
Net increase (decrease) in short-term bank loans	100	-	972
Proceeds from long-term bank loans	3,460	634	33,631
Repayment of long-term bank loans	(1,728)	(1,744)	(16,797)
Payment for redemption of bonds	(494)	(494)	(4,802)
Payment of finance lease obligations	(105)	(125)	(1,028)
Purchases of treasury stock	(2)	(1)	(18)
Proceeds from sales of treasury stock	0	0	1
Dividends paid	(754)	(516)	(7,327)
Net cash provided (used) in financing activities	477	(2,246)	4,632
Foreign currency translation adjustments on cash and cash equivalents	58	23	570
Net increase (decrease) in cash and cash equivalents	7,884	(3,710)	76,634
Cash and cash equivalents at beginning of year	6,466	10,176	62,853
Cash of newly consolidated subsidiary at beginning of the year	29	-	274
Cash and cash equivalents at end of year (Note 8)	¥ 14,379	¥ 6,466	$ 139,761

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 ¥102.88=US$1, the approximate exchange rate on March 31, 2014. 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 3 nonconsolidated subsidiaries 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.
In March 31, 2014, 4 subsidiaries are excluded from scope of consolidation. As to these, investments in 3 non-consolidated subsidiaries are accounted for by the equity method, and other is not accounted for. In the same way, 1 investment in affiliate is not accounted for by the equity method.
These companies are not material in terms of total assets, net sales, net income and retained earnings and do not have any significant impact on the consolidated

financial statements.
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 which have readily determinable fair values as held-to-maturity debt securities, 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 or losses, net of applicable taxes, and reported in accumulated other comprehensive income. The cost of available-for-sale securities sold is determined based on the moving average method.

None-marketable 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.

(f) Retirement Benefits

Net defined benefit liabilities 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.
In calculating the projected retirement obligations, the straight-line attribution is applied for allocation of projected benefits to the periods until the end of the current fiscal year.
Actuarial gains or losses are amortized by declining-balance method over stated years that do not exceed the average remaining service period of the employees (10 years) beginning with the year following the year which incurred.

(Accounting change)
From March 31, 2014, the Company adopted the "Accounting Standard for Retirement Benefits (ASBJ Statement No.26, May 17, 2012; hereinafter referred to as the "Retirement Benefits Accounting Standards") and "Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No.25, May 17, 2012; hereinafter referred to as the "Guidance on Retirement Benefits") (excluding the provisions set forth in Clause 35 of the Retirement Benefits Accounting Standards and Clause 67 of the Guidance on Retirement Benefits).
Consequently, retirement benefit obligations net pension assets were recorded as net defined benefit liabilities, and the unrecognized actuarial gains or losses were recorded as net defined benefit liabilities.
In accordance with the transitional accounting treatments set forth in Clause 37 of the Retirement Benefits Accounting Standards, the Company has made adjustments to the remeasurements of defined benefit plans recorded as "Accumulated other comprehensive income" by factoring in the effects arising from the changes in the current consolidated fiscal year.
As a result, Net defined benefit liabilities of ¥1,693 million ($16,452 thousand) was recognized and accumulated other comprehensive income decreased by ¥71 million ($691 thousand).

(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.

(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 39,730 thousand shares for 2014 and 39,731 thousand shares for 2013.
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 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 would be not material.

3. Securities

The following is a summary of held-to-maturity securities and available-for-sale securities at March 31, 2014 and 2013:

Millions of yen

	Held-to-maturity securities			
March 31, 2014	Carrying amount	Gross unrealized gains	Gross unrealized losses	Fair value
Debt securities,				
whose fair value exceeds carrying amount	¥ 15	¥ 0	¥ —	¥ 15
whose fair value does not exceed carrying amount	30	—	(0)	30
Total	¥ 45	¥ 0	¥ (0)	¥ 45

Millions of yen

	Held-to-maturity securities			
March 31, 2013	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

Thousands of U.S. dollars

	Held-to-maturity securities			
March 31, 2014	Carrying amount	Gross unrealized gains	Gross unrealized losses	Fair value
Debt securities,				
whose fair value exceeds carrying amount	$ 146	$ 6	$ —	$ 152
whose fair value does not exceed carrying amount	292	—	(3)	289
Total	$ 438	$ 6	$ (3)	$ 441

Millions of yen

March 31, 2014	Available-for-sale securities Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	¥ 5,542	¥ 4,531	¥ (33)	¥ 10,040
Other securities	132	0	(9)	123
Subtotal	¥ 5,674	¥ 4,531	¥ (42)	¥ 10,163
Market value not available:				892
Total				¥ 11,055

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

Thousands of U.S. dollars

March 31, 2014	Available-for-sale securities Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	$ 53,865	$ 44,047	$ (320)	$ 97,592
Other securities	1,287	0	(88)	1,199
Subtotal	$ 55,152	$ 44,047	$ (408)	$ 98,791
Market value not available:				8,668
Total				$ 107,459

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

The annual average interest rates applicable to short-term bank loans at March 31 2014 and 2013 were 0.63% and 0.66%, respectively.

Long-term debts at March 31, 2014 and 2013 consisted of the following:

	Millions of yen		*Thousands of U.S. dollars*
	2014	2013	2014
Bonds	¥ 147	¥ 641	$ 1,429
Long-term bank loans	5,561	3,829	54,056
Lease obligations	184	261	1,785
Other	1,779	1,998	17,297
Total	¥ 7,671	¥ 6,729	$ 74,567

Aggregate annual maturities of long-term debts subsequent to March 31, 2014 were as follows:

Year ending March 31	*Millions of yen*	*Thousands of U.S. dollars*
2015	¥ 2,624	$ 25,509
2016	1,727	16,783
2017	1,031	10,024
2018	815	7,926
2019 and thereafter	1,474	14,325
Total	¥ 7,671	$ 74,567

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, 2014 and 2013, respectively.

The unexecuted balance of lending commitments of the Company at March 31, 2014 and 2013 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2014	2013	2014
Total lending commitments	¥ 3,000	¥ 3,000	$ 29,160
Less amounts currently executed	—	—	—
Unexecuted balance	¥ 3,000	¥ 3,000	$ 29,160

5. Pledged Assets

The following assets were pledged as collateral for the following borrowings at March 31, 2014 and 2013:

	Millions of yen		*Thousands of U.S. dollars*
	2014	2013	2014
Land	¥ 5,755	¥ 5,755	$ 55,936
Buildings	3,399	3,410	33,045
Investment securities	—	449	—
Total	¥ 9,154	¥ 9,614	$ 88,981

	Millions of yen		*Thousands of U.S. dollars*
	2014	2013	2014
Short-term bank loans	¥ 100	¥ 100	$ 972
Current portion of long-term bank loans	635	482	6,176
Long-term bank loans	518	693	5,034
Other	2,719	2,952	26,424
Total	¥ 3,972	¥ 4,227	$ 38,606

6. Retirement Benefits

The Company and a domestic subsidiary have defined benefit corporate pension plans and lump-sum retirement benefit plans. Other domestic subsidiaries join the Smaller Enterprise Retirement Allowance Mutual Aid Scheme which is a kind of defined contribution plans. For the year ended March 31, 2014, The Company transferred its part of defined benefit corporate pension plan to a defined contribution pension plan. As a result of applying "Guidance on Accounting Standard for Transfers Between Retirement Benefit Plans" (ASBJ Guidance No.1, January 31, 2002), Loss on revision of retirement benefit plans of ¥234 million ($2,272 thousand) was recognized.

The changes in defined benefit obligations for the year ended March 31, 2014 were as follows:

	Millions of yen 2014	*Thousands of U.S. dollars* 2014
Benefit obligations at beginning of year	¥ 6,533	$ 63,505
Service cost	385	3,739
Interest cost	112	1,085
Actuarial gains or losses	38	365
Retirement benefits paid	(424)	(4,117)
Transition to a defined contribution pension plan	(384)	(3,728)
Benefit obligations at end of year	¥ 6,260	$ 60,849

The changes in plan assets for the year ended March 31, 2014 were as follows:

	Millions of yen 2014	*Thousands of U.S. dollars* 2014
Plan assets at beginning of year	¥ 4,135	$ 40,193
Expected return on plan assets	71	696
Actuarial gains or losses	341	3,311
Contributions from employers	663	6,442
Retirement benefits paid	(381)	(3,698)
Transition to a defined contribution pension plan	(262)	(2,547)
Plan assets at end of year	¥ 4,567	$ 44,397

The reconciliation of the defined benefit obligations and plan assets to the net defined benefit liabilities recognized in the consolidated balance sheet as of March 31, 2014 was as follows:

	Millions of yen 2014	*Thousands of U.S. dollars* 2014
Benefit obligations	¥ 6,260	$ 60,849
Plan assets at end of year	4,567	44,397
Net amount of liabilities and assets recognized in consolidated balance sheet	¥ 1,693	$ 16,452
Net defined benefit liabilities	¥ 1,693	$ 16,452
Net defined benefit assets	—	—
Net amount of liabilities and assets recognized in consolidated balance sheet	¥ 1,693	$ 16,452

The retirement benefit expenses for the year ended March 31, 2014 was as follows:

	Millions of yen	*Thousands of U.S. dollars*
	2014	2014
Service cost	¥ 385	$ 3,739
Interest cost	112	1,085
Expected return on plan assets	(71)	(696)
Recognition of actuarial gains or losses	108	1,053
Severance and pension costs	¥ 534	$ 5,181
Loss on revision of retirement benefit plans (Other expenses)	¥ 234	$ 2,272

The unrecognized actuarial gains or losses recognized in accumulated other comprehensive income (amount before income tax effect) was ¥110 million ($1,067 thousand) for the year ended March 31, 2014.

The components of plan assets as of March 31, 2014 were as follows:

	Ratio
	2014
Bonds	35%
Securities	39%
General account asset	20%
Other	6%
Total	100%

The major actuarial assumptions for the year ended March 31, 2014 were as follows:

	2014
Discount rate	1.3%
Long-term rate of return on plan assets	1.3 to 2.0 %

Long-term rate of return on plan assets was determined by considering the current and future portfolio of plan assets and the current and future long-term performance of various assets comprise the plan assets.

As a result of transferring the part of defined benefit corporate pension plan to a defined contribution pension plan on March 31, 2014, the benefit obligations decreased by ¥384 million ($3,728 thousand) and unrecognized actuarial gains or losses (before tax) decreased by ¥5 million ($45 thousand) for the year ended March 31, 2014. The pension assets of ¥613 million ($5,955 thousand) will be transferred to the defined contribution pension plan for 4 years. Outstanding balance for transferring of 351 million as of March 31, 2014, was accounted as “Other current liabilities” and “Other non-current liabilities” on the consolidated balance sheets.

The required amount of the defined contribution pension plan was ¥26 million ($ 252 thousand) for the year ended March 31, 2014 in other domestic subsidiaries.

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

	Millions of yen
	2013
Benefit obligations at end of year	¥ 6,533
Fair value of plan assets at end of year	4,135
Funded status:	
Benefit obligation in excess of plan assets	2,398
Unrecognized actuarial losses	(526)
Liabilities for Retirement Benefits	¥ 1,872

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

	Millions of yen
	2013
Service cost	¥ 376
Interest cost	112
Expected return on plan assets	(62)
Amortization:	
Prior service cost	(20)
Actuarial losses	203
Other	25
Net periodic benefit cost	¥ 634

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

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

7. Contingencies

At March 31, 2014 and 2013, the Group was contingently liable as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2014	2013	2014
As a guarantor of indebtedness of :			
Affiliated companies	¥ 3,668	¥ 3,786	$ 35,650
Other	172	32	1,671
Total	¥ 3,840	¥ 3,818	$ 37,321

8. Cash and cash equivalents

Cash and cash equivalents at March 31, 2014 and 2013 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2014	2013	2014
Cash and deposits	¥ 5,643	¥ 3,861	$ 54,848
Short-term securities	8,736	3,222	84,913
Government bonds with original maturities more than three months	—	(617)	—
Cash and cash equivalents	¥ 14,379	¥ 6,466	$ 139,761

9. 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 11 "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, 2014 and 2013. 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, 2014	Carrying amount	Fair value	Unrecognized gain/loss
Cash and deposits	¥ 5,643	¥ 5,643	¥ —
Trade notes and accounts receivable	34,654	34,654	—
Short-term securities	8,736	8,736	—
Investment securities	10,208	10,208	0
Trade notes and accounts payable	(20,540)	(20,540)	—
Short-term bank loans	(2,720)	(2,720)	—
Long-term bank loans	(5,561)	(5,559)	2
Bonds payable	(147)	(148)	(1)
Long-term deposits	(1,779)	(1,908)	(129)
Derivatives	—	—	—

			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	—	—	—

			Thousands of U.S. dollars
March 31, 2014	Carrying account	Fair value	Unrecognized gain/loss
Cash and deposits	$ 54,848	$ 54,848	$ —
Trade notes and accounts receivable	336,839	336,839	—
Short-term securities	84,913	84,913	—
Investment securities	99,229	99,232	3
Trade notes and accounts payable	(199,654)	(199,654)	—
Short-term bank loans	(26,439)	(26,439)	—
Long-term bank loans	(54,056)	(54,032)	24
Bonds payable	(1,429)	(1,434)	(5)
Long-term deposits	(17,297)	(18,546)	(1,249)
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 11 "Derivatives".

Financial instruments for which it is extremely difficult to determine the fair value at March 31, 2014 and 2013 consist of the following:

	Millions of yen		*Thousands of U.S. dollars*
	2014	2013	2014
Non-listed equity securities	¥ 892	¥ 1,195	$ 8,668
Long-term deposit	1,053	1,054	10,237

The annual maturities of financial assets and investment securities with contractual maturities subsequent to March 31, 2014 and 2013 were as follows:

Millions of yen

March 31, 2014	Due in one year or less	Due after one year through five years	Due after five years through ten years
Cash and deposits	¥ 5,643	¥ —	¥ —
Trade notes and accounts receivable	34,654	—	—
Investment securities	—	45	—
Total	¥ 40,297	¥ 45	¥ —

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	618	—	—
Investment securities	—	15	—
Total	¥ 38,108	¥ 15	¥ —

Thousands of U.S. dollars

March 31, 2014	Due in one year or less	Due after one year through five years	Due after five years through ten years
Cash and cash equivalents	$ 54,848	$ —	$ —
Trade notes and accounts receivable	336,839	—	—
Investment securities	—	438	—
Total	$ 391,687	$ 438	$ —

10. 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 ¥ 724 million ($ 7,040 thousand) and ¥ 833 million for the year ended March 31, 2014 and 2013, respectively. There was no loss on impairment of investment properties for the year ended March 31, 2014. The amounts of loss on impairment of investment properties was ¥ 234 million for the year ended March 31, 2013 (Note 14).

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, 2013	Increase/ (decrease)	March 31, 2014	March 31, 2014
¥ 9,301	¥ (937)	¥ 8,364	¥ 10,707

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

Thousands of U.S. dollars

Carrying amount			Fair value
April 1, 2013	Increase/ (decrease)	March 31, 2014	March 31, 2014
$ 90,409	$ (9,107)	$ 81,302	$ 104,068

(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.
Decrease during the year ended March 31, 2014 was mainly due to depreciation in an amount of ¥ 212 million ($ 2,056 thousand) and the change in category of Hachinohe Plant due to starting up the electric power selling in an amount of ¥ 717 million ($ 6,966 thousand).
Decrease during the year ended March 31, 2013 was mainly due to depreciation in an amount of ¥ 213 million and impairment loss in an amount of ¥ 234 million.

(3) Fair value at March 31, 2014 and 2013 were principally measured based on the real estate appraisal assessed by the external real estate appraiser.

11. 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, 2014	Hedged item	Contract amount	Contract amount due after one year	Fair value
Interest rate swap: (Fixed rate payment/floating rate receipt)	Long-term bank loans	¥ 793	¥ 275	Note

			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 bank loans	¥ 1,329	¥ 811	Note

			Thousands of U.S. dollars	
March 31, 2014	Hedged item	Contract amount	Contract amount due after one year	Fair value
Interest rate swap: (Fixed rate payment/floating rate receipt)	Long-term bank loans	$ 7,708	$ 2,673	Note

Fair value of swap contracts assigned for Long-term bank loans is included in the fair value of Long-term bank loans disclosed at Note 9 “Financial Instruments and Related Disclosures”.

12. Shareholders' Equity

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

	Number of Shares	Common Stock *(Millions of yen)*	Capital Surplus *(Millions of yen)*
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
Retirement of stock during 2014	—	—	0
Balance at March 31, 2014	42,737,668	11,900	11,719

	Common Stock *(Thousands of U.S. dollars)*	Capital surplus *(Thousands of U.S. dollars)*
Balance at March 31, 2013	115,667	113,907
Retirement of stock during 2014	—	0
Balance at March 31, 2014	115,667	113,907

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.

13. Research and Development

Research and development expenditure which is included in "Selling, general and administrative expenses" were ¥ 1,347 million ($ 13,096 thousand) and ¥ 1,163 million for the years ended March 31, 2014 and 2013, respectively.

14. Loss on impairment of long-lived assets

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.

In the fiscal year ending March 31, 2014, the Group recognized loss on impairment of long-lived assets as follows:

Use	Type of assets	Location
Business property	Buildings, structures, machinery and equipment, vehicles, tools, furniture and fixtures	China, Kunshan
Property for sale	Land	Sapporo-shi, Hokkaido

Since return of investments in certain business properties was judged to be difficult due to decrease of expected future cash flow from them, the book values of such assets were written down to the expected future cash flow, and the property for sale was written down to net sales values, and the resulting decrease was recognized as loss on impairment of long-lived assets of ¥654 million ($6,355 thousand), comprising ¥389 million ($3,783 thousand) for buildings, ¥163 million ($1,585 thousand) for machinery and equipment, ¥57 million ($556 thousand) for structures, ¥8 million ($76 thousand) for land and ¥37 million ($355 thousand) for other assets.

In the fiscal year ending March 31, 2013, 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 and equipment, tools, furniture and fixtures	Atsugi-shi, Kanagawa

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, comprising ¥190 million for land, ¥42 million for buildings and ¥2 million for other assets.
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.

15. 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% for the years ended March 31, 2014 and 2013. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

Following the publication on March 31, 2014 of the "Act for Partial Revision of the Income Tax Act (Act No.10 of 2004)", Japanese corporation tax rates will be changed for the fiscal years beginning on or after April 1, 2014. In line with these revisions, the statutory tax rate will be changed to calculate deferred tax assets and liabilities from 37.96% to 35.59% for temporary differences which are expected to reverse in the period from the fiscal year beginning on April 1, 2014.
As a result of this change, net deferred tax assets (after netting deferred tax liabilities) decreased by ¥109 million ($1,064 thousand), and income taxes-deferred increased by ¥109 million ($1,064 thousand).

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2014 and 2013 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2014	2013	2014
Deferred tax assets:			
Accrued expenses	¥ 660	¥ 524	$ 6,415
Loss on valuation of inventories	85	92	824
Liabilities for retirement benefits	—	662	—
Net defined benefit liabilities	597	—	5,808
Depreciation	621	488	6,031
Fixed assets – elimination of intercompany profits	272	663	2,645
Allowance for doubtful accounts	1,144	612	11,124
Provision for product warranties	242	280	2,348
Corporation enterprise tax	245	75	2,377
Net operating loss carry-forwards	78	140	756
Other	833	463	8,102
Sub-total	4,777	3,999	46,430
Less valuation allowance	(2,120)	(1,317)	(20,601)
Total deferred tax assets	2,657	2,682	25,829
Deferred tax liabilities:			
Deferred gain on sales of fixed assets for income tax purposes	(1,723)	(1,741)	(16,747)
Unrealized gain on investment securities	(1,598)	(942)	(15,535)
Special depreciation reserve	(144)	(174)	(1,408)
Unrealized gain on subsidiaries' fixed assets by revaluation at the beginning of consolidation	(1,283)	(1,283)	(12,467)
Total	(4,748)	(4,140)	(46,157)
Net deferred tax assets (liabilities)	¥ (2,091)	¥ (1,458)	$ (20,328)

The reconciliation between the statutory tax rate and the effective income tax rate for the year ended March 31, 2014 and 2013 were as follows:

	2014	2013
Statutory tax rate	37.96%	37.96%
Non-deductible expenses for income tax purpose	0.76	0.87
Non-taxable dividend income	(0.38)	(0.41)
Inhabitant per capita tax	1.13	1.52
Effect of tax rate change	1.52	—
Change in valuation allowance	9.96	3.26
Amortization of negative goodwill	—	(2.68)
Equity in earnings of affiliated companies	0.78	0.14
Other	(2.38)	(0.21)
Effective tax rate	49.35%	40.45%

16. Comprehensive Income

The components of other comprehensive income for the year ended March 31, 2014 and 2013 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2014	2013	2014
Unrealized gain on available-for-sale securities:			
Gains arising during the year	¥ 1,875	¥ 1,535	$ 18,226
Reclassification adjustments for loss	(11)	-	(106)
Amount before income tax effect	1,864	1,535	18,120
Income tax effect	(675)	(549)	(6,562)
Total	¥ 1,189	¥ 986	$ 11,558
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ 83	¥ 77	$ 809
Total	¥ 83	¥ 77	$ 809
Share of other comprehensive income in affiliate:			
Gains arising during the year	¥ 36	¥ 14	$ 350
Total	¥ 36	¥ 14	$ 350
Total other comprehensive income	¥ 1,308	¥ 1,077	$ 12,717

17. Trade Note Maturities

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

There were not applicable in 2014, because March 31, 2014 was weekday.

	Millions of yen
	2013
Trade notes receivable	¥ 840
Trade notes payable	932

18. Provision of reserve for Losses on Construction Contracts

Provision of reserve for losses on construction contracts included in Cost of Sales were ¥ 71 million ($ 689 thousand) and ¥ 4 million for the years ended March 31, 2014 and 2013, respectively.

19. 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, 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, assets and other items for the years ended March 31, 2014 and 2013 are as follows:

Millions of yen

2014	Reportable segments: Industry A	Reportable segments: Industry B	Reportable segments: Industry C	Reportable segments: Total	Reconciliations (Note 1)	Consolidated (Note 2)
Net sales:						
External customers	¥ 74,358	¥ 8,793	¥ 7,760	¥ 90,911	–	¥ 90,911
Intersegment sales or transfers	16	2	690	708	(708)	–
Total	74,374	8,795	8,450	91,619	(708)	90,911
Segment profit	4,515	1,374	2,592	8,481	(443)	8,038
Segment assets	67,879	5,459	12,777	86,115	24,628	110,743
Other items:						
Depreciation	1,191	67	379	1,637	1	1,638
Increase in tangible and intangible fixed assets	1,510	33	705	2,248	–	2,248

Millions of yen

2013	Reportable segments: Industry A	Reportable segments: Industry B	Reportable segments: Industry C	Reportable segments: 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	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

Thousands of U.S. dollars

2014	Reportable segments: Industry A	Industry B	Industry C	Total	Reconciliations (Note 1)	Consolidated (Note 2)
Net sales:						
External customers	$ 722,761	$ 85,471	$ 75,433	$ 883,665	—	$ 883,665
Intersegment sales or transfers	158	18	6,707	6,883	(6,883)	—
Total	722,919	85,489	82,140	890,548	(6,883)	883,665
Segment profit	43,879	13,359	25,196	82,434	(4,305)	78,129
Segment assets	659,790	53,063	124,197	837,050	239,381	1,076,431
Other items:						
Depreciation	11,579	649	3,685	15,913	7	15,920
Increase in tangible and intangible fixed assets	14,678	322	6,846	21,846	—	21,846

1. Reconciliations of segment profit in an amount of ¥(443) million ($(4,305) thousand) which consists of elimination of intersegment transactions in an amount of ¥2 million ($23 thousand) and corporate expenses which are not allocated to each reportable segment in an amount of ¥(445) million ($(4,328) 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 is reconciled with operating income in the consolidated statements of income.

Information about impairment loss on fixed assets by reportable segment

Millions of yen

2014	Reportable segments: Industry A	Industry B	Industry C	Total	Reconciliations	Consolidated
Loss on impairment of long-lived assets	¥ 654	¥ —	¥ —	¥ 654	¥ —	¥ 654

Millions of yen

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

Thousands of U.S. dollars

2014	*Reportable segments* Industry A	Industry B	Industry C	Total	Reconciliations	Consolidated
Loss on impairment of long-lived assets	$ 6,355	$ —	$ —	$ 6,355	$ —	$ 6,355

Information about amortization of goodwill and unamortized balance
There was no amortization of goodwill and unamortized balance for the years ended March 31, 2014.

Millions of yen

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

20. Subsequent Event

The following appropriations of the Company's retained earnings in respect of the year ended March 31, 2014 were as proposed by the Board of Directors and approved by the shareholders at the annual general meeting held on June 26, 2014.

Appropriations	*Millions of yen*	*Thousands of U.S. dollars*
Cash dividends of ¥ 11 ($ 0.11) per share	¥ 437	$ 4,248

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, 2014, and the related consolidated statements of income, comprehensive income, changes in net assets, 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, 2014, 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, 2014, 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.

Osaka, Japan
June 16, 2014

PKF Osaka Audit Corporation

CORPORATE INFORMATION

Kyokuto Kaihatsu Kogyo Co., Ltd.
Established: June 1, 1955
Paid-in Capital: 11,899,867,400 yen (as of March 31, 2014)
Number of Shares Issued: 42,737,668 shares (as of March 31, 2014)
Number of Employees: consolidated 2,390; non-consolidated 897
(as of March 31, 2014)

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 62,423 ㎡
Located in Yamato, Kanagawa (Japan)
Nagoya Plant
Occupies 109,611 ㎡
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)
Plant of PT KYOKUTO INDOMOBIL MANUFACTURING INDONESIA
Occupies Aprox.20,000 ㎡
Located in Purwakarta, Jawa Barat (Indonesia)
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, Associate Senior Executive Officer

Takashi Yoneda,
Director, Associate Senior Executive Officer

Haruhiro Kondo,
Director, Associate Senior Executive Officer

Ikuya Sakai,
Director, Associate Senior Executive Officer

Ryuichiro Nishikawa,
Director, 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
Hiroaki Kuriyama,	Executive Officer
Yukihiro Hosozawa,	Executive Officer

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