Annual Report 2015

Year ended March 31, 2015

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, 2015>

In the Japanese economy during the current consolidated fiscal year, there were signs of improvement in corporate earnings and the employment situation as well as a recovery in public investments, supported by the government's economic measures and monetary policies. Although there was a sign of gradual recovery in personal consumption, the future remains uncertain in some areas due to the impact of the consumption tax hike, the weakening of the yen, and sharp fluctuations in crude oil prices.

Under these circumstances, our Group actively implemented several measures to expand, both domestically and overseas, sales and profits and improve our corporate value, the year being the second year of our mid-term management plan "Next Step 2015" - To make the next step forward- (April 1st 2013 – March 31st 2016).

Representative Director,
President, COO
Kazuya Takahashi

As a result, in the current consolidated fiscal year, net sales increased by 8,419 million yen (9.3%) compared with the preceding consolidated fiscal year to 99,331 million yen due to the sales improvement at the Specialty Truck Segment, our mainstay category. As for profit and loss status, operating income reached 9,418 million yen, an improvement of 1,380 million yen (17.2%). Thus, the current net income reached 4,333 million yen, an improvement of 687 million yen (18.9%), despite the record of the extraordinary loss incurred due to withdrawal from the gasifying melting business in the Environmental Equipment and Systems Segment.

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 same as last year. Our Group made positive efforts to secure orders, and tried to shorten delivery time and improve sales and profit by introduction of new equipment, etc. to improve production efficiency and rationality at each plant. Further, we actively developed and promoted such new products as an electrically-powered refuse truck with the world's first system which drives refuse collection equipment powered by hybrid batteries (May 2014 on sale); and a new-type single car carrier truck of new design with high brand awareness in Japan (November 2014 on sale).

As for our overseas business, a new company (Trex Thairung Co., Ltd., Pluakdaeng) in the Kingdom of Thailand jointly established by our Company, Nippon Trex Co., Ltd. (our consolidated subsidiary) and two local companies, which will serve as a base for production and marketing of van bodies and dump trucks, etc., advanced construction of its plant (completed on May 2015). We are making preparations with a view to starting the operation of such plant in the fiscal year ending March 2016.

As a result, net sales in the Specialty Truck Segment increased by 7,856 million yen (10.6%) to 82,231 million yen. Segment profit increased by 2,702 million yen (59.9%) to 7,217 million yen due to the improvement of the sales and no influence of the allowance for doubtful accounts recorded in the preceding fiscal year.

Electric refuse truck (Hybrid type)

New-type single car carrier truck

Plant in Thailand

Wing van truck (Thailand model)

ii) Environmental Equipment and Systems Segment

In the field of plant construction, we reaped results from our positive marketing activities, contracting the construction of a recycling center in May 2014 with Shibetsu city in Hokkaido prefecture and a resource conversion center in October 2014 with the Senboku Environmental Improvement Facility Association, a special district authority organized by the Cities of Izumiotsu, Izumi and Takaishi in Osaka prefecture; and we transferred four plant contracted in the past fiscal years. We made positive efforts also in the field of maintenance and operation outsourcing.

As a result, net sales increased by 2,634 million yen (30.0%) to 11,430 million yen due to the momentary increase of the sales by the percentage of completion method. Segment profit increased by 50 million yen (3.7%) to 1,425 million yen.

Recycle center in Jonan

iii) Real Estate Rental Segment

We continued to face a stiff competition in the multi-story parking equipment market. However, we engaged in active marketing efforts in maintenance and renewal projects of such equipment. In the field of coin parking, we strove to improve the rate of operation by selecting parking lots and advance the cost reduction. In the field of mega solar power generation, we inaugurate a power generation plant in Toyokawa City, Aichi Prefecture in addition to two plants (in Iizuka City, Fukuoka Prefecture and in Hachinohe City, Aomori Prefecture) inaugurated in the past fiscal years.

As a result, net sales decreased by 2,055 million yen (24.3%) to 6,395 million yen due to the lack of sale of a real estate for sale in the preceding fiscal year, and segment profit decreased by 1,458 million yen (56.3%) to 1,134 million yen.

Toll parking (Coin-operated)

Multi-story parking equipment
(in Indonesia)

<Forecast of Operations for the Next Consolidated Fiscal Year ending March 31, 2016>

The gradual recovery of the Japanese economy is expected to continue due to such factors as the increase of capital investment due to improved corporate revenues and the improvement of consumption due to rise of wage level, etc.; even though there are such alarming factors as the changes in crude oil prices and the movement of financial conditions.

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

Regarding the forecast of consolidated business performance for March 2016, the Company estimates net sales to decrease by 1,331 million yen (1.3%) compared to March 2015 to 98,000 million yen Management expects the overall operating income to decrease by 418 million yen (4.4%) to 9,000 million yen, while net income is estimated to grow by 1,467million yen (33.9%) to 5,800 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 8,376 million yen (7.6%) from the end of the preceding fiscal year to 119,120 million yen.

Current assets increased by 3,251 million yen (5.3%) to 64,963 million yen, due to increases in trade notes and accounts receivable, etc.

Non-current assets (property, plant and equipment, intangible assets and investments and other assets) increased by 5,125 million yen (10.5%) to 54,157 million yen, due to rise of market prices of investment securities, etc.

Regarding liabilities, current liabilities increased by 4,106 million yen (11.7%) to 39,280 million yen, due to increases in trade notes and accounts payable, etc. Non-current liabilities decreased by 1,577 million yen (12.4%) to 11,165 million yen due to decrease of long-term loans, etc.

Total net assets increased by 5,848 million yen (9.3%) to 68,675 million yen, due to posting of net profit, etc.

As a result, the capital adequacy ratio stood at 57.6% as of the end of the current fiscal year (56.7% at the end of the preceding fiscal year).

ii) Cash Flow Situation

Consolidated cash and cash equivalents at the end of period decreased by 4,276 million yen (29.7%) compared with the end of the preceding fiscal year to 10,102 million yen. Cash flow by activity type is summarized as follows:

Cash Flow from Operating Activities

Net cash provided by operating activities amounted to 1,098 million yen (a decrease of 8,289 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 4,178 million yen (a decrease of 2,139 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 amounted to 1,221 million yen (a decrease of 1,697 million yen compared with the preceding fiscal year). This was because of decrease 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 25th, 2015 resolved and passed to pay a dividend of 14 yen per share at the end of March 2015 as originally proposed by management, making its annual dividend 26 yen per share including an interim dividend, increased by 5 yen compared with the preceding fiscal year, due to the improvement of net income in the current consolidated fiscal year compared with the preceding consolidated fiscal, despite the record of the extraordinary loss incurred due to withdrawal from the gasifying melting business in the Environmental Equipment and Systems Segment.

For the year ending March 2016, management plans to pay an annual dividend of 26 yen per share (including an interim dividend of 13 yen) and an anniversary dividend of 4 yen per share (including an interim anniversary dividend of 2 yen), 30 yen per share (including an interim dividend of 15 yen) in total, increased by 4 yen compared with the preceding fiscal year..

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 95,000 million yen and operating profit of 8,200 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 second year of the plan as a result of the Group making a concerted effort to secure orders and handle production.
We continue to implement several measures in order to achieve the above-mentioned forecast of consolidated business performance for March 2016

(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, 2015 and 2014

ASSETS	Millions of yen 2015	Millions of yen 2014	Thousands of U.S. dollars (Note 1) 2015
Current assets:			
Cash and deposits (Notes 8 & 9)	¥ 6,764	¥ 5,643	$ 56,300
Short-term securities (Notes 8 & 9)	3,338	8,736	27,779
Trade notes and accounts receivable (Note 9)	40,086	34,654	333,634
Merchandise & finished goods	371	279	3,092
Work in process	4,771	3,139	39,704
Raw materials & supplies	7,063	6,797	58,789
Other current assets	1,041	1,075	8,664
Deferred tax assets (Note 15)	1,570	1,651	13,065
Allowance for doubtful accounts	(41)	(262)	(342)
Total current assets	64,963	61,712	540,685
Property, plant and equipment (Note 10):			
Land (Note 5)	20,081	19,843	167,133
Buildings and structures (Note 5)	31,408	30,832	261,405
Machinery, equipment and vehicles	15,297	13,974	127,315
Construction in progress	227	251	1,888
Other	4,217	4,131	35,101
Total	71,230	69,031	592,842
Accumulated depreciation	(34,909)	(33,398)	(290,548)
Net property, plant and equipment	36,321	35,633	302,294
Intangible assets	490	427	4,078
Investments and other assets:			
Investment securities (Notes 3 & 9)	15,474	11,100	128,792
Deferred tax assets (Note 15)	50	19	418
Other assets	4,802	4,934	39,969
Allowance for doubtful accounts	(2,980)	(3,082)	(24,807)
Total investments and other assets	17,346	12,971	144,372
Total non-current assets	54,157	49,031	450,744
Total	¥ 119,120	¥ 110,743	$ 991,429

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS	Millions of yen 2015	2014	Thousands of U.S. dollars (Note 1) 2015
Current liabilities:			
Short-term bank loans (Notes 4, 5 & 9)	¥ 4,140	¥ 2,720	$ 34,457
Current portion of bonds payable (Notes 4 & 9)	-	147	-
Current portion of long-term bank loans (Notes 4, 5 & 9)	1,688	2,190	14,048
Trade notes and accounts payable (Note 9)	23,739	20,540	197,579
Accrued expenses	3,792	3,446	31,556
Income taxes payable	2,084	3,130	17,348
Other current liabilities (Note 4)	3,837	3,000	31,937
Total current liabilities	39,280	35,173	326,925
Non-current liabilities:			
Long-term bank loans (Notes 4, 5 & 9)	2,363	3,371	19,670
Net defined benefit liabilities (Note 6)	755	1,693	6,280
Liabilities for directors' retirement benefits	190	161	1,580
Deferred tax liabilities (Note 15)	4,191	3,761	34,884
Other non-current liabilities (Notes 4, 5 & 9)	3,666	3,757	30,514
Total non-current liabilities	11,165	12,743	92,928
Total liabilities	50,445	47,916	419,853
Net assets:			
Shareholders' equity:			
Common stock (Note 12):			
Authorized-170,950,672 shares			
Issued-42,737,668 shares in 2015 and 2014	11,900	11,900	99,042
Capital surplus (Note 12)	11,719	11,719	97,534
Retained earnings	42,064	38,536	350,096
Treasury stock, at cost:			
3,007,577 shares in 2014			
3,008,559 shares in 2015	(2,149)	(2,148)	(17,886)
Total shareholders' equity	63,534	60,007	528,786
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	5,063	2,895	42,142
Foreign currency translation adjustments	(150)	(51)	(1,248)
Remeasurements of defined benefit plans	171	(71)	1,420
Total accumulated other comprehensive income	5,084	2,773	42,314
Minority interests	57	47	476
Total net assets	68,675	62,827	571,576
Total	¥ 119,120	¥ 110,743	$ 991,429

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF INCOME
Years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Net sales	¥ 99,331	¥ 90,911	$ 826,727
Cost of sales (Note 17)	78,373	70,704	652,294
Gross profit	20,958	20,207	174,433
Selling, general and administrative expenses (Note 13)	11,540	12,169	96,044
Operating income	9,418	8,038	78,389
Other income (expenses):			
Interest and dividend income	204	162	1,695
Interest expense	(104)	(114)	(866)
Loss on sales or disposition of property and equipment, net	(218)	(25)	(1,817)
Loss on impairment of long-lived assets (Note 14)	-	(654)	-
Equity in losses of affiliates	(280)	(148)	(2,328)
Loss on revision of retirement benefit plans (Note 6)	-	(234)	-
Loss on liquidation of subsidiaries and affiliates	(1,985)	-	(16,519)
Loss on cancellation of lease assets	(96)	-	(799)
Foreign exchange gain	226	204	1,878
Other-net	(138)	(15)	(1,151)
Other expenses -net	(2,391)	(824)	(19,907)
Income before income taxes and minority interests	7,027	7,214	58,482
Income taxes (Note 15):			
Current	3,118	3,543	25,949
Deferred	(434)	17	(3,615)
Total income taxes	2,684	3,560	22,334
Net income before minority interests	4,343	3,654	36,148
Minority interests in income	10	8	85
Net income	¥ 4,333	¥ 3,646	$ 36,063

	Yen		U.S. dollars (Note 1)
	2015	2014	2015
Amounts per shares:			
Basic net income	¥ 109.06	¥ 91.76	$ 0.91
Diluted net income	-	-	-
Cash dividends applicable to earnings of the year	26.00	21.00	0.22

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Net income before minority interests	¥ 4,343	¥ 3,654	$ 36,148
Other comprehensive income (Note 16):			
Net unrealized gains on other securities	2,168	1,189	18,043
Foreign currency translation adjustments	(202)	83	(1,676)
Remeasurements of defined benefit plans	242	-	2,012
Share of other comprehensive income in affiliates accounted for by the equity method	73	36	606
Total other comprehensive income	2,281	1,308	18,985
Comprehensive income	¥ 6,624	¥ 4,962	$ 55,133
Total comprehensive income attributable to:			
Owners of the parent	6,614	4,954	55,048
Minority interests	10	8	85

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
Years ended March 31, 2015 and 2014

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, 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
Cumulative effects of changes in accounting policies			111		111						111
Restated balance, March 31, 2014	11,900	11,719	38,647	(2,148)	60,118	2,895	(51)	(71)	2,773	47	62,938
Purchases of treasury stock				(1)	(1)						(1)
Net income			4,333		4,333						4,333
Change in scope of equity method			(2)		(2)		30		30		28
Appropriation											
Cash dividends paid			(914)		(914)						(914)
Other net changes in the year						2,168	(129)	242	2,281	10	2,291
Balance, March 31, 2015	¥ 11,900	11,719	42,064	(2,149)	63,534	5,063	(150)	171	5,084	57	68,675

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, 2014	$ 99,042	97,534	320,729	(17,875)	499,430	24,099	(425)	(592)	23,082	391	522,903
Cumulative effects of changes in accounting policies			927		927						927
Restated balance, March 31, 2014	99,042	97,534	321,656	(17,875)	500,357	24,099	(425)	(592)	23,082	391	523,830
Purchases of treasury stock				(11)	(11)						(11)
Net income			36,063		36,063						36,063
Change in scope of equity method			(18)		(18)		247		247		229
Appropriation											
Cash dividends paid			(7,605)		(7,605)						(7,605)
Other net changes in the year						18,043	(1,070)	2,012	18,985	85	19,070
Balance, March 31, 2015	$ 99,042	97,534	350,096	(17,886)	528,786	42,142	(1,248)	1,420	42,314	476	571,576

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended March 31, 2015 and 2014

	Millions of yen 2015	*Millions of yen* 2014	*Thousands of U.S. dollars (Note 1)* 2015
Operating activities:			
Income before income taxes and minority interests	¥ 7,027	¥ 7,214	$ 58,482
Depreciation and amortization	1,793	1,678	14,921
Loss on impairment of long-lived assets	-	654	-
Equity in losses of affiliates	280	148	2,328
Loss on sales or disposition of property and equipment, net	216	24	1,794
Interest and dividend income	(204)	(162)	(1,695)
Interest expenses	104	114	866
Decrease (increase) in trade notes and accounts receivable	(3,576)	(2,445)	(29,766)
Decrease (increase) in inventories	(1,972)	(918)	(16,410)
Increase (decrease) in trade notes and accounts payable	3,001	2,756	24,980
Increase (decrease) in net defined benefit liabilities	(282)	(290)	(2,349)
Increase (decrease) in allowance for doubtful accounts	(314)	970	(2,615)
Increase (decrease) in allowance for others	(60)	486	(498)
Increase (decrease) in consumption taxes payable	797	(7)	6,635
Other, net	(1,748)	257	(14,543)
Sub total	5,062	10,479	42,130
Interest and dividend income received	189	163	1,574
Interest expenses paid	(23)	(66)	(194)
Income taxes paid	(4,130)	(1,189)	(34,375)
Net cash provided by operating activities	1,098	9,387	9,135
Investing activities:			
Purchases of securities and investments	(1,774)	(1,224)	(14,767)
Proceeds from sales of securities and investments	0	615	5
Proceeds from maturity of securities and investments	-	617	-
Purchases of property, plant and equipment	(2,561)	(2,134)	(21,316)
Proceeds from sales of property, plant and equipment	51	97	426
Net decrease (increase) in short-term loans	70	(12)	583
Disbursement of loans receivable	(6)	(9)	(53)
Collection of loans receivable	42	12	353
Net cash used in investing activities	(4,178)	(2,038)	(34,769)
Financing activities:			
Net increase (decrease) in short-term bank loans	1,420	100	11,818
Proceeds from long-term bank loans	680	3,460	5,660
Repayment of long-term bank loans	(2,190)	(1,728)	(18,228)
Payment for redemption of bonds	(147)	(494)	(1,223)
Payment of finance lease obligations	(70)	(105)	(579)
Purchases of treasury stock	(1)	(2)	(11)
Proceeds from sales of treasury stock	-	0	-
Dividends paid	(913)	(754)	(7,599)
Net cash provided (used) in financing activities	(1,221)	477	(10,162)
Foreign currency translation adjustments on cash and cash equivalents	24	58	203
Net increase (decrease) in cash and cash equivalents	(4,277)	7,884	(35,593)
Cash and cash equivalents at beginning of year	14,379	6,466	119,672
Cash of newly consolidated subsidiary at beginning of the year	-	29	-
Cash and cash equivalents at end of year (Note 8)	¥ 10,102	¥ 14,379	$ 84,079

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 ¥120.15=US$1, the approximate exchange rate on March 31, 2015. 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 4 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, 2015, 5 subsidiaries are excluded from scope of consolidation. As to these, investments in 4 nonconsolidated subsidiaries are accounted for by the equity method, and other is not accounted for.

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 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 is charged to expenses 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 the fiscal year, the Company has adopted the "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan (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, March 26, 2015; hereinafter referred to as the "Guidance on Retirement Benefits"), specifically content stipulated in paragraph 35 of the Retirement Benefits Accounting Standards and stipulated in paragraph 67 of the Guidance on Retirement Benefits.
Consequently, the Company has revised its method for calculating its retirement benefit liability and service costs, and the methodology for deciding the discount rate has also been changed, from using the discount rate based on the employees' average remaining period of service to using a single weighted average discount rate that reflects the estimated period and payment of retirement benefits.
In accordance with transitional provisions set forth in paragraph 37 of Retirement Benefits Accounting Standard, retained earnings are adjusted for the effect of changes in the method for calculating retirement benefit liability and service costs at the beginning of this fiscal year.

As a result, at the beginning of the consolidated fiscal year under review, net defined benefit liability decreased by ¥173 million ($ 1,441 thousand) and retained earnings increased by ¥111 million ($ 927 thousand). The monetary effect of operating income, ordinary income and income before income taxes were immaterial.
Net assets per share increased by ¥2.81 ($ 0.02), and the effect of net income per share was immaterial.

(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 39,279 and 39,730 thousand shares for 2015 and 2014, respectively.
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

On September 13, 2013, the ASBJ issued “Revised Accounting Standard for Business Combinations” (ASBJ Statement No. 21), “Revised Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22), “Revised Accounting Standard for Business Divestitures” (ASBJ No. 7), “Revised Accounting Standard for Earning Per Share” (ASBJ No. 2), “Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10), and “Revised Guidance on Accounting Standard for Earning Per Share” (ASBJ Guidance No.4).

(1) Summary

The accounting standard was revised that 1)the accounting treatment for changes in a parent’s ownership interest in a subsidiary when that the parent retains control over the subsidiary on the additional acquisition of shares in a subsidiary, 2)the accounting treatment for acquisition related costs, 3)the amendment of the presentation method of net income and the amendment of “minority interests” to “non-controlling interests”, 4)the accounting treatment for the transitional provisions.

(2) Scheduled date of adoption

These revised accounting standards will be adopted from the beginning of the fiscal year ending March 31, 2016. In addition, the amendment of the accounting treatment for the transitional provisions will be adopted from the business combinations performed on or after the beginning of the fiscal year ending March 31, 2016.

(3) The effect of adoption of this revised accounting standard

The effect of adoption of these revised accounting standards is now under the 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, 2015 and 2014:

Millions of yen

	Held-to-maturity securities			
March 31, 2015	Carrying amount	Gross unrealized gains	Gross unrealized losses	Fair value
Debt securities,				
whose fair value exceeds carrying amount	¥ 15	¥ 1	¥ —	¥ 16
whose fair value does not exceed carrying amount	30	—	(0)	30
Total	¥ 45	¥ 1	¥ (0)	¥ 46

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

Thousands of U.S. dollars

	Held-to-maturity securities			
March 31, 2015	Carrying amount	Gross unrealized gains	Gross unrealized losses	Fair value
Debt securities,				
whose fair value exceeds carrying amount	$ 125	$ 5	$ —	$ 130
whose fair value does not exceed carrying amount	250	—	(1)	249
Total	$ 375	$ 5	$ (1)	$ 379

Millions of yen

	Available-for-sale securities			
March 31, 2015	Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	¥ 5,950	¥ 7,419	¥ (25)	¥ 13,344
Other securities	132	0	(2)	130
Subtotal	¥ 6,082	¥ 7,419	¥ (27)	¥ 13,474
Market value not available:				1,955
Total				¥ 15,429

Millions of yen

	Available-for-sale securities			
March 31, 2014	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

				Thousands of U.S. dollars
	Available-for-sale securities			
March 31, 2015	Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	$ 49,526	$ 61,744	$ (205)	$ 111,065
Other securities	1,102	0	(18)	1,084
Subtotal	$ 50,628	$ 61,744	$ (223)	$ 112,149
Market value not available:				16,268
Total				$ 128,417

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

The annual average interest rates applicable to short-term bank loans at March 31, 2015 and 2014 were 0.47% and 0.63%, respectively.

Long-term debts at March 31, 2015 and 2014 consisted of the following:

	Millions of yen		*Thousands of U.S. dollars*
	2015	2014	2015
Bonds	¥ -	¥ 147	$ -
Long-term bank loans	4,051	5,561	33,718
Lease obligations	144	184	1,200
Other	1,560	1,779	12,980
Total	¥ 5,755	¥ 7,671	$ 47,898

Aggregate annual maturities of long-term debts subsequent to March 31, 2015 were as follows:

Year ending March 31	*Millions of yen*	*Thousands of U.S. dollars*
2016	¥ 1,959	$ 16,310
2017	1,264	10,521
2018	1,052	8,755
2019	790	6,572
2020 and thereafter	690	5,740
Total	¥ 5,755	$ 47,898

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, 2015 and 2014, respectively.

The unexecuted balance of lending commitments of the Company at March 31, 2015 and 2014 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2015	2014	2015
Total lending commitments	¥ 3,000	¥ 3,000	$ 24,969
Less amounts currently executed	1,200	—	9,988
Unexecuted balance	¥ 1,800	¥ 3,000	$ 14,981

5. Pledged Assets

The following assets were pledged as collateral for the following borrowings at March 31, 2015 and 2014:

	Millions of yen		*Thousands of U.S. dollars*
	2015	2014	2015
Land	¥ 5,755	¥ 5,755	$ 47,896
Buildings	3,225	3,399	26,841
Total	¥ 8,980	¥ 9,154	$ 74,737

	Millions of yen		*Thousands of U.S. dollars*
	2015	2014	2015
Short-term bank loans	¥ 100	¥ 100	$ 832
Current portion of long-term bank loans	591	635	4,920
Long-term bank loans	607	518	5,050
Other non-current liabilities	2,485	2,719	20,686
Total	¥ 3,783	¥ 3,972	$ 31,488

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 was recognized.

The changes in defined benefit obligations for the year ended March 31, 2015 and 2014 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2015	2014	2015
Benefit obligations at beginning of year	6,260	¥ 6,533	$ 52,102
Cumulative effects of changes in accounting policies	(173)	-	(1,441)
Restated balance at beginning of the year	6,087	6,533	50,661
Service cost	376	385	3,132
Interest cost	84	112	701
Actuarial gains or losses	145	38	1,203
Retirement benefits paid	(521)	(424)	(4,335)
Transition to a defined contribution pension plan	-	(384)	-
Benefit obligations at end of year	6,171	¥ 6,260	$ 51,362

The changes in plan assets for the year ended March 31, 2015 and 2014 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2015	2014	2015
Plan assets at beginning of year	¥ 4,567	¥ 4,135	$ 38,016
Expected return on plan assets	81	71	680
Actuarial gains or losses	482	341	4,012
Contributions from employers	754	663	6,279
Retirement benefits paid	(468)	(381)	(3,905)
Transition to a defined contribution pension plan	-	(262)	-
Plan assets at end of year	¥ 5,416	¥ 4,567	$ 45,082

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, 2015 and 2014 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2015	2014	2015
Benefit obligations	¥ 6,171	¥ 6,260	$ 51,362
Plan assets at end of year	5,416	4,567	45,082
Net amount of liabilities and assets recognized in consolidated balance sheet	¥ 755	¥ 1,693	$ 6,280
Net defined benefit liabilities	¥ 755	¥ 1,693	$ 6,280
Net defined benefit assets	—	—	—
Net amount of liabilities and assets recognized in consolidated balance sheet	¥ 755	¥ 1,693	$ 6,280

The retirement benefit expenses for the year ended March 31, 2015 and 2014 was as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2015	2014	2015
Service cost	¥ 376	¥ 385	$ 3,132
Interest cost	84	112	701
Expected return on plan assets	(81)	(71)	(680)
Recognition of actuarial gains or losses	23	108	188
Severance and pension costs	¥ 402	¥ 534	$ 3,341
Loss on revision of retirement benefit plans (Other expenses)	-	¥ 234	-

Remeasurements of defined benefit plans recognized in other comprehensive income (amount before income tax effect) were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2015	2014	2015
Recognized actuarial gains	¥ 360	-	$ 2,996
Total	¥ 360	-	$ 2,996

Remeasurements of defined benefit plans recognized in accumulated other comprehensive income (amount before income tax effect) were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2015	2014	2015
Unrecognized actuarial gains or losses	¥ (250)	¥ 110	$ (2,083)
Total	¥ (250)	¥ 110	$ (2,083)

The components of plan assets as of March 31, 2015 and 2014 were as follows:

	Ratio	
	2015	2014
Bonds	36%	35%
Securities	41%	39%
General account asset	18%	20%
Other	5%	6%
Total	100%	100%

The major actuarial assumptions for the year ended March 31, 2015 and 2014 were as follows:

	2015	2014
Discount rate	0.9 to 1.3%	1.3%
Long-term rate of return on plan assets	1.3 to 2.0 %	1.3 to 2.0 %
Future salary increase	4.1 to 6.6%	4.1 to 6.4%

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 and unrecognized actuarial gain or loss (before tax) decreased by ¥5 million for the year ended March 31, 2014. The pension assets of ¥613 million will be transferred to the defined contribution pension plan for 4 years. Outstanding balances for transferring of ¥343 million ($ 2,858 thousand) as of March 31, 2015, 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 were ¥87 million ($ 728 thousand) and ¥26 million for the year ended March 31, 2015 and 2014 in other domestic subsidiaries.

7. Contingencies

At March 31, 2015 and 2014, the Group was contingently liable as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2015	2014	2015
As a guarantor of indebtedness of :			
Affiliated companies	¥ 405	¥ 3,668	$ 3,371
Other	807	172	6,713
Total	¥ 1,212	¥ 3,840	$ 10,084

8. Cash and cash equivalents

Cash and cash equivalents at March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Cash and deposits	¥ 6,764	¥ 5,643	$ 56,300
Short-term securities	3,338	8,736	27,779
Cash and cash equivalents	¥ 10,102	¥ 14,379	$ 84,079

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 foreign exchange rate risks with the debts and credits dominated in foreign currencies and 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, 2015 and 2014. 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, 2015	Carrying amount	Fair value	Unrecognized gain/loss
Cash and deposits	¥ 6,764	¥ 6,764	¥ —
Trade notes and accounts receivable	40,086	40,086	—
Short-term securities	3,338	3,338	—
Investment securities	13,519	13,520	1
Trade notes and accounts payable	(23,739)	(23,739)	—
Short-term bank loans	(4,140)	(4,140)	—
Long-term bank loans	(4,051)	(4,051)	0
Long-term deposits	(1,560)	(1,678)	(118)
Derivatives	—	—	—

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	—	—	—

Thousands of U.S. dollars

March 31, 2015	Carrying account	Fair value	Unrecognized gain/loss
Cash and deposits	$ 56,300	$ 56,300	$ —
Trade notes and accounts receivable	333,634	333,634	—
Short-term securities	27,779	27,779	—
Investment securities	112,524	112,528	4
Trade notes and accounts payable	(197,579)	(197,579)	—
Short-term bank loans	(34,457)	(34,457)	—
Long-term bank loans	(33,718)	(33,715)	3
Long-term deposits	(12,980)	(13,962)	(982)
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, 2015 and 2014 consist of the following:

	Millions of yen		*Thousands of U.S. dollars*
	2015	2014	2015
Non-listed equity securities	¥ 1,955	¥ 892	$ 16,268
Long-term deposit	1,387	1,053	11,541

The annual maturities of financial assets and investment securities with contractual maturities subsequent to March 31, 2015 and 2014 were as follows:

March 31, 2015	Due in one year or less	Due after one year through five years	Due after five years through ten years
	Millions of yen		
Cash and deposits	¥ 6,764	¥ —	¥ —
Trade notes and accounts receivable	40,085	1	—
Investment securities	—	45	—
Total	¥ 46,849	¥ 46	¥ —

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

March 31, 2015	Due in one year or less	Due after one year through five years	Due after five years through ten years
	Thousands of U.S. dollars		
Cash and cash equivalents	$ 56,300	$ —	$ —
Trade notes and accounts receivable	333,629	5	—
Investment securities	—	375	—
Total	$ 389,929	$ 380	$ —

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 ¥ 545 million ($ 4,533 thousand) and ¥ 724 million for the year ended March 31, 2015 and 2014, respectively. There was no loss on impairment of investment properties for the year ended March 31, 2015 and 2014.

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, 2014	Increase/ (decrease)	March 31, 2015	March 31, 2015
¥ 8,364	¥ (353)	¥ 8,011	¥ 10,519

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

Thousands of U.S. dollars

Carrying amount			Fair value
April 1, 2014	Increase/ (decrease)	March 31, 2014	March 31, 2015
$ 69,616	$ (2,937)	$ 66,679	$ 87,550

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

(2) Decrease during the year ended March 31, 2015 was mainly due to depreciation in an amount of ¥ 202 million ($ 1,678 thousand) and the disposition by demolition of Haneda office in an amount of ¥ 165 million ($ 1,370 thousand).
Decrease during the year ended March 31, 2014 was mainly due to depreciation in an amount of ¥ 212 million and the change in category of Hachinohe Plant due to starting up the electric power selling in an amount of ¥ 717 million.

(3) Fair value at March 31, 2015 and 2014 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, 2015	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	¥ 275	¥ -	Note

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

Thousands of U.S. dollars

March 31, 2015	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	$ 2,289	$ -	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:

		Millions of yen	
	Number of Shares	Common Stock	Capital Surplus
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
Retirement of stock during 2015	—	—	—
Balance at March 31, 2015	42,737,668	11,900	11,719

	Thousands of U.S. dollars	
	Common Stock	Capital surplus
Balance at March 31, 2014	99,042	97,534
Retirement of stock during 2015	—	—
Balance at March 31, 2015	99,042	97,534

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.

13. Research and Development

Research and development expenditure which is included in "Selling, general and administrative expenses" were ¥ 1,485 million ($ 12,363 thousand) and ¥ 1,347 million for the years ended March 31, 2015 and 2014, 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, 2015, there were no losses on impairment of long-lived 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, comprising ¥389 million for buildings, ¥163 million for machinery and equipment, ¥57 million for structures, ¥8 million for land and ¥37 million for other assets.

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 35.59% and 37.96% for the years ended March 31, 2015 and 2014, respectively. Foreign subsidiaries are subject to income taxes of the countries in which they operate.
Following the publication on March 31, 2015 of the “Act on Partial Revision of the Income Tax Act, etc.” and the “Act on Partial Revision of the Local Tax Act, etc.”, the effective tax rate used for the calculation of deferred tax assets and liabilities was changed from 35.59% to 33.02% for the temporary differences expected to be realized or settled in the year beginning on April 1, 2015 and to 31.52% for the temporary differences expected to be realized or settled from April 1, 2016.
Due to this change in tax rate, net of deferred tax liabilities (after deduction of deferred tax assets) as of the end of the fiscal year decreased by ¥420 million ($ 3,499 thousand), and income taxes-deferred for the fiscal year decreased ¥111 million ($ 924 thousand), unrealized gain on available-for-sale securities and remeasurements of defined benefit plans as of the end of the fiscal year increased by ¥ 301 million ($ 2,506 thousand) and ¥ 8 million ($ 69 thousand), respectively.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Deferred tax assets - current:			
Accrued Bonuses	¥ 635	¥ 660	$ 5,281
Provision for product warranties	242	242	2,011
Allowance for repairs	127	188	1,058
Allowance for doubtful accounts	408	93	3,398
Accrued corporation enterprise tax	171	244	1,425
Loss on valuation of inventories	104	85	865
Forecast of construction cost	164	55	1,365
Other	176	135	1,463
Sub-total	2,027	1,702	16,866
Less valuation allowance	(457)	(51)	(3,801)
Total deferred tax assets - current	1,570	1,651	13,065
Deferred tax assets – non-current:			
Net defined benefit liabilities	240	597	1,998
Fixed assets – elimination of intercompany profits	256	272	2,135
Accrued payable for transfer to the defined contribution pension plan	110	125	915
Allowance for doubtful accounts	1,003	1,144	8,350
Loss on impairment of long-lived assets	440	544	3,665
Loss on valuation of investment for subsidiaries and affiliates	215	-	1,786
Other	423	393	3,516
Sub-total	2,687	3,075	22,365
Less valuation allowance	(1,682)	(2,068)	(13,996)
Total deferred tax assets - non-current	1,005	1,007	8,369
Deferred tax liabilities:			
Unrealized gain on investment securities	(2,332)	(1,598)	(19,412)
Reduction reserve for fixed assets	(1,510)	(1,723)	(12,570)
Special depreciation reserve	(143)	(145)	(1,191)
Unrealized gain on subsidiaries' fixed assets by revaluation at the beginning of consolidation	(1,161)	(1,283)	(9,662)
Total deferred tax liabilities - non-current	(5,146)	(4,749)	(42,835)
Net deferred tax assets (liabilities) – non-current	¥ (4,141)	¥ (3,742)	$ (34,466)

The reconciliation between the statutory tax rate and the effective income tax rate for the year ended March 31, 2015 and 2014 were as follows:

	2015	2014
Statutory tax rate	35.59%	37.96%
Non-deductible expenses for income tax purpose	1.17	0.76
Non-taxable dividend income	(0.47)	(0.38)
Inhabitant per capita tax	1.18	1.13
Effect of tax rate change	(1.70)	1.52
Change in valuation allowance	5.81	9.96
Equity in earnings of affiliated companies	1.37	0.78
Other	(4.76)	(2.38)
Effective tax rate	38.19%	49.35%

16. Comprehensive Income

The components of other comprehensive income for the year ended March 31, 2015 and 2014 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2015	2014	2015
Unrealized gain on available-for-sale securities:			
Gains arising during the year	¥ 2,899	¥ 1,875	$ 24,125
Reclassification adjustments for loss	-	(11)	-
Amount before income tax effect	2,899	1,864	24,125
Income tax effect	(731)	(675)	(6,082)
Total	¥ 2,168	¥ 1,189	$ 18,043
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ (202)	¥ 83	$ (1,676)
Total	¥ (202)	¥ 83	$ (1,676)
Remeasurements of defined benefit plans:			
Gains arising during the year	¥ 337	¥ —	$ 2,808
Reclassification adjustments for gain	23	—	188
Amount before income tax effect	360	—	2,996
Income tax effect	(118)	—	(984)
Total	¥ 242	¥ —	$ 2,012
Share of other comprehensive income in affiliate:			
Gains arising during the year	¥ 73	¥ 36	$ 606
Total	¥ 73	¥ 36	$ 606
Total other comprehensive income	¥ 2,281	¥ 1,308	$ 18,985

17. Provision of reserve for Losses on Construction Contracts

Provision of reserve for losses on construction contracts included in Cost of Sales were ¥ 47 million ($ 394 thousand) and ¥ 71 million for the years ended March 31, 2015 and 2014, respectively.

18. 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, 2015 and 2014 are as follows:

Millions of yen

2015	Reportable segments: Industry A	Industry B	Industry C	Total	Reconciliations (Note 1)	Consolidated (Note 2)
Net sales:						
External customers	¥ 82,212	¥ 11,428	¥ 5,691	¥ 99,331	—	¥ 99,331
Intersegment sales or transfers	19	2	704	725	(725)	—
Total	82,231	11,430	6,395	100,056	(725)	99,331
Segment profit	7,217	1,425	1,134	9,776	(358)	9,418
Segment assets	74,351	8,697	12,205	95,253	23,867	119,120
Other items:						
Depreciation	1,293	42	404	1,739	1	1,740
Increase in tangible and intangible fixed assets	2,316	129	234	2,679	—	2,679

Millions of yen

2014	Reportable segments: Industry A	Industry B	Industry C	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

Thousands of U.S. dollars

2015	*Reportable segments* Industry A	Industry B	Industry C	Total	Reconciliations (Note 1)	Consolidated (Note 2)
Net sales:						
External customers	$ 684,246	$ 95,114	$ 47,367	$ 826,727	–	$ 826,727
Intersegment sales or transfers	153	15	5,862	6,030	(6,030)	–
Total	684,399	95,129	53,229	832,757	(6,030)	826,727
Segment profit	60,066	11,862	9,437	81,365	(2,976)	78,389
Segment assets	618,820	72,386	101,580	792,786	198,643	991,429
Other items:						
Depreciation	10,765	348	3,362	14,475	6	14,481
Increase in tangible and intangible fixed assets	19,277	1,069	1,949	22,295	–	22,295

1. Reconciliations of segment profit in an amount of ¥ (358) million ($ (2,976) thousand) which consists of elimination of intersegment transactions in an amount of ¥7 million ($55 thousand) and corporate expenses which are not allocated to each reportable segment in an amount of ¥ (364) million ($ (3,031) 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
There was no impairment loss on fixed assets by reportable segment for the years ended March 31, 2015.

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

19. Subsequent Event

The following appropriations of the Company's retained earnings in respect of the year ended March 31, 2015 were as proposed by the Board of Directors and approved by the shareholders at the annual general meeting held on June 25, 2015.

Appropriations	*Millions of yen*	*Thousands of U.S. dollars*
Cash dividends of ¥ 14 ($ 0.12) per share	¥ 556	$ 4,629

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, 2015, 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, 2015, 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, 2015, 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 Hibiki Audit Corporation

Osaka, Japan
September 1, 2015

PKF Hibiki Audit Corporation

CORPORATE INFORMATION

Kyokuto Kaihatsu Kogyo Co., Ltd.
Established: June 1, 1955
Paid-in Capital: 11,899,867,400 yen (March 31, 2015)
Number of Shares Issued: 42,737,668 shares (March 31, 2015)
Number of Employees: consolidated 2,424; non-consolidated 950 (March 31, 2015)

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 102,357 ㎡
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 43,503 ㎡
Located in Iizuka, Fukuoka (Japan)
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)
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 20,028 ㎡
Located in Purwakarta, Jawa Barat (Indonesia)
Plant of TREX THAIRUNG CO., LTD.
Occupies 85,158 ㎡
Located in Pluakdang, Rayong (Thailand)

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
Yoji Kido,	Outside Director
Akira Michigami,	Outside Director
Yoshinori Takashima,	Standing Auditor
Tomoki Ueyama,	Auditor
Morio Kusunoki,	Outside Corporate Auditor
Yoshihiko Norikura,	Outside Corporate Auditor
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