KYOKUTO

Annual Report 2016

Year ended March 31, 2016

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, 2016>

Firstly, we would like to express our deepest sympathy to all those who have been affected by the Kumamoto Earthquakes in April, 2016, and pray for earlier revival of the stricken area.
In the fiscal year under review, the Japanese economy experienced a standstill and a downturn as a result of the economic slowdown in China and emerging countries and the deteriorating situation in the Middle East, despite of some recovery in corporate earnings as well as the employment and income environment due to economic policies of the Japanese government.
Under these circumstances, our Group actively implemented several measures both domestically and overseas, to improve our corporate value.

Representative Director, President, COO
Kazuya Takahashi

As a result, in the current consolidated fiscal year, net sales increased by 4,531 million yen (4.6%) compared with the preceding consolidated fiscal year to 103,863 million yen due to the sales improvement at the Specialty Truck Segment, our mainstay category. As for profit and loss status, operating income reached 10,501 million yen, an improvement of 1,082 million yen (11.5%), and the current net income attributable to owners of the parent reached 6,034 million yen, an improvement of 1,701 million yen (39.3%).
Thus, we achieved the performance goal (net sales: 95,000 million yen or more, operating income: 8,200 million yen or more) of the medium-term management plan "Next Step 2015" - To make the next step forward - (3-year plan; April 1, 2013 – March 31. 2016).

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

The specialty truck market in Japan grew steadily backed by demand for logistics-related vehicles. The Group worked to secure orders for priority products for sales expansion such as tailgate lifters, trailers, and refuse trucks and facilitated streamlining by promoting automation of production plants. The Group also promoted research and development and aggressively launched new products, including "PY90-17," a new concrete pumping vehicle with the mobile power of a medium-sized truck and the maximum discharge capacity of a large-sized truck, in July 2015, a new detachable body truck with significantly improved lifting capacity and operating speed in October 2015 and "GII1000/GIII1000," a new rear-storage tailgate lifter with slim appearance realized by having its power source (power unit) built-in, in January 2016.
As for the overseas market, the Thai plant (Trex Thairung Co., Ltd.: Pluak Daeng) started operating in Kingdom of Thailand in October 2015, a joint venture of the Company, NIPPON TREX Co., Ltd., the Company's consolidated subsidiary, and two local companies, which functions as a production/sales base of van bodies and dump trucks. The Group will promote the operation of the plant so that it can start contributing to business results of the Group early.

As a result, net sales in the Specialty Truck Segment increased by 5,480 million yen (6.7%) to 87,711 million yen. Segment profit increased by 355 million yen (4.9%) to 7,572 million yen due to the improvement of the sales.


Concrete Pomp (piston type)
"PY90-17"


4 ton Detachable Body Truck


Tailgate Lifter (rear retractable)
"GII 1000 / GIII 1000"


Plant in Thailand

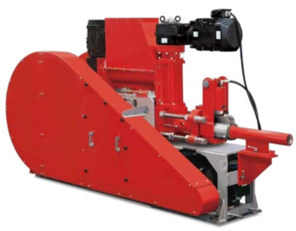

10doors van, Wing van and
Dump truck and full-trailer dump
(Thailand model)

ii) Environmental Equipment and Systems Segment

As for plant construction, the Group worked to win contracts for new construction and secured four construction projects and one operation outsourcing contract in total from Tatebayashi Hygiene Facilities Union in July 2015 and Nagato City (Yamaguchi Prefecture) and Mito City (Ibaraki Prefecture) in March 2016. The Group also focused on winning contracts for maintenance and operation of existing facilities and construction work of facilities for which the Group has already won construction projects.
In the biogas plant project for which the Group formed technological alliance with CORNES & COMPANY LIMITED in May 2015, the Group proceeded construction of the plant with CORNES & COMPANY LIMITED in parallel with technology introduction and research of market trends.

As a result, net sales decreased by 990 million yen (8.7%) to 10,439 million yen due to the momentary decrease of the sales by the percentage of completion method in the plant construction department. Segment profit increased by 660 million yen (46.3%) to 2,085 million yen.


Biogas plant


Pushing-type molding machine

iii) Real Estate Rental Segment

Under the tough market environment for multistory parking systems, the Group focused on winning contracts for renewal and maintenance as stock-type business. For coin-operated parking, the Group secured profit by selecting profitable locations and cutting cost. The mega solar power plant maintained stable operations and contributed to the Group's profit.

As a result, net sales decreased by 16 million yen (0.3%) to 6,379 million yen, and segment profit increased by 107 million yen (9.5%) to 1,242 million yen.

Toll parking (Coin-operated)

Multi-story parking equipment

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

The Japanese economy is expected to remain uncertain due to concerns for the employment and income environment as well as corporate earnings and for a slowdown in capital investment and factors such as sluggish growth and political unrest in foreign countries, in addition to unstable crude oil prices and exchange rate/stock prices.
Our Group makes determined efforts to expand sales and profits and improve our corporate value, by steadily implementing several measures of our new medium term management plan 2016-18 "Value up to the Next" to be mentioned later.

Regarding the forecast of consolidated business performance for March 2017, the Company estimates net sales to decrease to 102,000 million yen, operating income to decrease to 9,200 million yen, while the current net income attributable to owners of the parent is estimated to grow to 6,200 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 1,419 million yen (1.2%) from the end of the preceding fiscal year to 120,539 million yen.

Current assets increased by 2,627 million yen (4.0%) to 67,591 million yen, due to increases in cash and deposits, etc.

Non-current assets (property, plant and equipment, intangible assets and investments and other assets) decreased by 1,208 million yen (2.2%) to 52,948 million yen, due to decreases of investment securities, etc.

Regarding liabilities, current liabilities decreased by 2,796 million yen (7.1%) to 36,484 million yen, due to decreases in short-term bank loans and trade notes and accounts payable, etc. Non-current liabilities increased by 1,160 million yen (10.4%) to 12,326 million yen due to increase of long-term loans, etc.

Total net assets increased by 3,054 million yen (4.4%) to 71,729 million yen, due to posting of net profit, etc.

As a result, the capital adequacy ratio stood at 59.5% as of the end of the current fiscal year (57.6% at the end of the preceding fiscal year).

ii) Cash Flow Situation

Consolidated cash and cash equivalents at the end of period increased by 2,511 million yen (24.9%) compared with the end of the preceding fiscal year to 12,614 million yen. Cash flow by activity type is summarized as follows:

Cash Flow from Operating Activities

Net cash provided by operating activities amounted to 6,910 million yen (an increase of 5,812 million yen compared with the preceding fiscal year). This was because of a posting of net profit, etc.

Cash Flow from Investing Activities

Net cash used in investing activities was 3,435 million yen (an increase of 743 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 948 million yen (an increase of 272 million yen compared with the preceding fiscal year). This was because of decrease of short-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 28th, 2016 resolved and passed to pay a dividend of 16 yen per share at the end of March 2016 as originally proposed by management, making its annual dividend 31 yen per share including an interim dividend, increased by 5 yen compared with the preceding fiscal year, due to the satisfactory performance at the Specialty Truck Segment, our mainstay category.

For the year ending March 2017, management plans to pay an annual dividend of 32 yen per share (including an interim dividend of 16 yen), increased by 1 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

We set management targets of sales of 100 billion yen or more and operating profit of 9 billion yen or more on a consolidated base for the term ending March 2019, the last fiscal year of the medium term management plan 2016-18 “Value up to the Next” (3 year plan; April 1, 2016 - March 31, 2019).

In addition, our group’s goal for the period during and after this plan is summed up by the slogan ”KYOKUTO with sustainable and developmental growth and widely chosen.” We endeavor to achieve (1) a domestic operating profit ratio of 10% or more, (2) overseas sales of 10 billion yen or more, and (3) a sales increase through M&A and new businesses, reaching consolidated net sales of 120 billion yen or more.

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

Our group’s previous medium-term management plan "Next Step 2015" to make the next step forward (3 year plan; April 1, 2013 - March 31, 2016) completed in March 2016.

We have achieved the group’s performance goal, as the domestic market for special purpose vehicles has substantially exceeded expectations. Challenges remain, however, in several priority themes, including the share target for key products for sales expansion and securing earnings from overseas business. In light of these challenges, we have established the new medium term management plan 2016-18 “Value up to the Next” (3 year plan; April 1, 2016 - March 31, 2019) described below to ensure development and growth over the next three years and beyond.

Basic policies

Our group is fostering consistent developmental growth and striving to become a corporate group widely chosen by customers and society at large by taking measures to establish a firm earning foundation and secure new sources of earnings, and is aggressively channeling management resources into these measures.

(1) Enhancing a domestic earning foundation

In Japan, promoting selection and concentration from the long-term and company-wide perspectives, and enhancing the earning foundation and improving the profit ratio through efforts such as expanding the shares of logistics- and environment-related products and expanding stock business

(2) Establishing overseas sales

Putting overseas businesses on the growth track as key sources of future earnings through efforts across the Kyokuto Kaihatsu group

(3) Promoting M&A and new businesses
Promoting strategic M&A and new businesses aggressively and seeking new growth drivers

(4) Improving corporate quality
Based on the provision of merchandise (products and services) of higher standards of quality, the safety, and the compliance, focusing on the establishment of a healthy corporate culture to create sustainable growth

Key Strategies

(1) Special purpose vehicles business
[1] Expanding shares of key products (e.g., tailgate lifters, refuse trucks, detachable body trucks, and freezing vans)
[2] Reconstructing a strategic and flexible production system from a far-sighted, long-term perspective
[3] Improving customer satisfaction and enhancing the foundation of the stock business by expanding regular visit service and locations on 24-hour duty
[4] Building industry-leading product groups with world-class performance and quality

(2) Environmental business
[1] Securing orders by strengthening sales and proposal capabilities and participating in joint ventures with other companies for recycling facilities
[2] Increasing earnings from after-sales service and operation acceptance through measures such as energy saving proposals and enhanced group collaboration
[3] Promoting the establishment of businesses in new fields and products such as biogas plants

(3) Parking business
[1] Focusing on renewal and after-sales service for mechanical multistory parking equipment
[2] Securing earnings through measures such as developing new business locations, including large facilities for pay-by-the-hour parking lots
[3] Securing new earnings sources through measures such as developing overseas markets based on group collaboration

(4) Overseas business
[1] Securing and expanding the production volume and shares of plants in India and Indonesia, and establishing the production and sales system of the plant in Thailand at an early stage
[2] Promoting collaboration with local partners and expanding exports through measures such as developing untapped markets
[3] Promoting the development of human resources overseas and enhancing collaboration across the group to develop products for overseas markets

(5) Improving corporate quality
[1] Striving to improve quality awareness and address quality control from the customer perspective, and establishing the quality to be chosen continuously
[2] Building the foundation of a healthy corporate culture (e.g., by creating a secure and safe work environment, ensuring compliance, and building a scheme of technology and skill tradition)
[3] Establishing human resources and an organization that create sustainable growth (e.g., by developing next-generation leaders and building a scheme to support the enhancement of overseas businesses)
[4] Improving stockholder satisfaction by implementing effective stockholder return measures (approximately 20 to 30% of the expected consolidated dividend payout ratio)

CONSOLIDATED BALANCE SHEETS
At March 31, 2016 and 2015

ASSETS	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars (Note 1) 2016
Current assets:			
Cash and deposits (Notes 8 & 9)	¥ 8,532	¥ 6,764	$ 75,759
Short-term securities (Notes 8 & 9)	4,082	3,338	36,243
Trade notes and accounts receivable (Note 9)	39,789	40,086	353,307
Merchandise & finished goods	596	371	5,294
Work in process	4,653	4,771	41,319
Raw materials & supplies	7,324	7,063	65,030
Other current assets	1,211	1,041	10,756
Deferred tax assets (Note 14)	1,453	1,570	12,899
Allowance for doubtful accounts	(49)	(41)	(436)
Total current assets	67,591	64,963	600,171
Property, plant and equipment (Note 10):			
Land (Note 5)	20,107	20,081	178,535
Buildings and structures (Note 5)	31,381	31,408	278,646
Machinery, equipment and vehicles	15,657	15,297	139,025
Construction in progress	481	227	4,272
Other	4,327	4,217	38,421
Total	71,953	71,230	638,899
Accumulated depreciation	(35,078)	(34,909)	(311,468)
Net property, plant and equipment	36,875	36,321	327,431
Intangible assets	541	490	4,804
Investments and other assets:			
Investment securities (Notes 3 & 9)	13,691	15,474	121,570
Deferred tax assets (Note 14)	54	50	476
Other assets	4,374	4,802	38,841
Allowance for doubtful accounts	(2,587)	(2,980)	(22,973)
Total investments and other assets	15,532	17,346	137,914
Total non-current assets	52,948	54,157	470,149
Total	¥ 120,539	¥ 119,120	$ 1,070,320

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS		*Millions of yen* 2016		2015		*Thousands of U.S. dollars (Note 1)* 2016
Current liabilities:						
Short-term bank loans (Notes 4, 5 & 9)	¥	2,960	¥	4,140	$	26,283
Current portion of long-term bank loans (Notes 4, 5 & 9)		1,791		1,688		15,906
Trade notes and accounts payable (Note 9)		22,950		23,739		203,786
Accrued expenses		3,712		3,792		32,960
Income taxes payable		2,275		2,084		20,197
Other current liabilities (Note 4)		2,796		3,837		24,825
Total current liabilities		36,484		39,280		323,957
Non-current liabilities:						
Long-term bank loans (Notes 4, 5 & 9)		4,141		2,363		36,770
Net defined benefit liabilities (Note 6)		1,155		755		10,254
Liabilities for directors' retirement benefits		197		190		1,744
Deferred tax liabilities (Note 14)		3,400		4,191		30,193
Other non-current liabilities (Notes 4, 5 & 9)		3,433		3,666		30,484
Total non-current liabilities		12,326		11,165		109,445
Total liabilities		48,810		50,445		433,402
Net assets:						
Shareholders' equity:						
Common stock (Note 12):						
Authorized-170,950,672 shares						
Issued-42,737,668 shares in 2016 and 2015		11,900		11,900		105,664
Capital surplus (Note 12)		11,719		11,719		104,055
Retained earnings		46,946		42,064		416,854
Treasury stock, at cost:						
3,008,559 shares in 2015						
3,008,960 shares in 2016		(2,150)		(2,149)		(19,087)
Total shareholders' equity		68,415		63,534		607,486
Accumulated other comprehensive income (Note 15):						
Unrealized gain on available-for-sale securities		3,683		5,063		32,705
Foreign currency translation adjustments		(60)		(150)		(528)
Remeasurements of defined benefit plans		(373)		171		(3,317)
Total accumulated other comprehensive income		3,250		5,084		28,860
Non-controlling interests		64		57		572
Total net assets		71,729		68,675		636,918
Total	¥	120,539	¥	119,120	$	1,070,320

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF INCOME
Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Net sales	¥ 103,863	¥ 99,331	$ 922,240
Cost of sales (Note 16)	81,752	78,373	725,908
Gross profit	22,111	20,958	196,332
Selling, general and administrative expenses (Note 13)	11,610	11,540	103,090
Operating income	10,501	9,418	93,242
Other income (expenses):			
Interest and dividend income	251	204	2,224
Interest expense	(82)	(104)	(726)
Loss on sales or disposition of property and equipment, net	(47)	(218)	(415)
Equity in losses of affiliates	(608)	(280)	(5,401)
Loss on valuation of investment securities (Note 3)	(20)	-	(179)
Loss on liquidation of subsidiaries and affiliates	-	(1,985)	-
Loss on cancellation of lease assets	-	(96)	-
Foreign exchange gain (loss)	(215)	226	(1,907)
Other-net	(330)	(138)	(2,928)
Other expenses -net	(1,051)	(2,391)	(9,332)
Income before income taxes and non-controlling interests	9,450	7,027	83,910
Income taxes (Note 14):			
Current	3,135	3,118	27,832
Deferred	274	(434)	2,433
Total income taxes	3,409	2,684	30,265
Net income	6,041	4,343	53,645
Net income attributable to non-controlling interests	7	10	65
Net income attributable to owners of the parent	¥ 6,034	¥ 4,333	$ 53,580

	Yen		U.S. dollars (Note 1)
	2016	2015	2016
Amounts per shares:			
Basic net income	¥ 151.88	¥ 109.06	$ 1.35
Diluted net income	-	-	-
Cash dividends applicable to earnings of the year	31.00	26.00	0.28

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Net income	¥ 6,041	¥ 4,343	$ 53,645
Other comprehensive income (Note 15):			
Net unrealized gain on available-for-sale securities	(1,380)	2,168	(12,255)
Foreign currency translation adjustments	175	(202)	1,561
Remeasurements of defined benefit plans	(544)	242	(4,833)
Share of other comprehensive income in affiliates accounted for by the equity method	(85)	73	(757)
Total other comprehensive income	(1,834)	2,281	(16,284)
Comprehensive income	¥ 4,207	¥ 6,624	$ 37,361
Total comprehensive income attributable to:			
Owners of the parent	4,200	6,614	37,296
Non-controlling interests	7	10	65

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
Years ended March 31, 2016 and 2015

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	Non-controlling interests	Total net assets
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 attributable to owners of the parent			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
Purchases of treasury stock				(1)	(1)						(1)
Net income attributable to owners of the parent			6,034		6,034						6,034
Appropriation											
Cash dividends paid			(1,152)		(1,152)						(1,152)
Other net changes in the year						(1,380)	90	(544)	(1,834)	7	(1,827)
Balance, March 31, 2016	¥ 11,900	11,719	46,946	(2,150)	68,415	3,683	(60)	(373)	3,250	64	71,729

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	Non-controlling interests	Total net assets
Balance, March 31, 2015	$ 105,664	104,055	373,504	(19,082)	564,141	44,960	(1,332)	1,516	45,144	507	609,792
Purchases of treasury stock				(5)	(5)						(5)
Net income attributable to owners of the parent			53,580		53,580						53,580
Appropriation											
Cash dividends paid			(10,230)		(10,230)						(10,230)
Other net changes in the year						(12,255)	804	(4,833)	(16,284)	65	(16,219)
Balance, March 31, 2016	$ 105,664	104,055	416,854	(19,087)	607,486	32,705	(528)	(3,317)	28,860	572	636,918

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Operating activities:			
Income before income taxes and non-controlling interests	¥ 9,450	¥ 7,027	$ 83,910
Depreciation and amortization	1,980	1,793	17,579
Loss on valuation of investment securities	20	-	179
Equity in losses of affiliates	608	280	5,401
Loss on sales or disposition of property and equipment, net	47	216	415
Interest and dividend income	(251)	(204)	(2,224)
Interest expenses	82	104	726
Decrease (increase) in trade notes and accounts receivable	713	(3,576)	6,333
Decrease (increase) in inventories	(371)	(1,972)	(3,294)
Increase (decrease) in trade notes and accounts payable	(824)	3,001	(7,317)
Increase (decrease) in net defined benefit liabilities	(385)	(282)	(3,422)
Increase (decrease) in allowance for doubtful accounts	(385)	(314)	(3,421)
Increase (decrease) in allowance for others	(17)	(60)	(152)
Increase (decrease) in consumption taxes payable	(397)	797	(3,522)
Other, net	(545)	(1,748)	(4,841)
Sub total	9,725	5,062	86,350
Interest and dividend income received	263	189	2,334
Interest expenses paid	(25)	(23)	(222)
Income taxes paid	(3,053)	(4,130)	(27,104)
Net cash provided by operating activities	6,910	1,098	61,358
Investing activities:			
Purchases of securities and investments	(577)	(1,774)	(5,121)
Proceeds from sales of securities and investments	2	0	14
Purchases of property, plant and equipment	(2,881)	(2,561)	(25,584)
Proceeds from sales of property, plant and equipment	16	51	146
Net decrease (increase) in short-term loans	-	70	-
Disbursement of loans receivable	(6)	(6)	(57)
Collection of loans receivable	11	42	102
Other,net	0	-	3
Net cash used in investing activities	(3,435)	(4,178)	(30,497)
Financing activities:			
Net increase (decrease) in short-term bank loans	(1,180)	1,420	(10,478)
Proceeds from long-term bank loans	3,569	680	31,691
Repayment of long-term bank loans	(1,688)	(2,190)	(14,987)
Payment for redemption of bonds	-	(147)	-
Payment of finance lease obligations	(50)	(70)	(449)
Purchases of treasury stock	(1)	(1)	(5)
Dividends paid	(1,151)	(913)	(10,223)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(447)	-	(3,971)
Net cash used in financing activities	(948)	(1,221)	(8,422)
Foreign currency translation adjustments on cash and cash equivalents	(15)	24	(138)
Net increase (decrease) in cash and cash equivalents	2,512	(4,277)	22,301
Cash and cash equivalents at beginning of year	10,102	14,379	89,701
Cash and cash equivalents at end of year (Note 8)	¥ 12,614	¥ 10,102	$ 112,002

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 ¥112.62=US$1, the approximate exchange rate on March 31, 2016. 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, 2016, 6 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.
From the fiscal year ended March 31, 2016, MITHRA KYOKUTO SPECIAL PURPOSE VEHICLE CO., PVT. LTD. has changed its fiscal year-end from December 31 to March 31. As a result of this change, it was accounted for by the equity method for 15 months from January 1, 2015 to March 31, 2016.
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 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.

(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 39,728 and 39,729 thousand shares for 2016 and 2015, 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 change

(Application of Accounting Standards for Business Combinations)
From the fiscal year, the Company has applied the "Accounting Standard for Business Combinations", (ASBJ Statement No. 21, September 13, 2013, hereinafter "BCA Standard"), the "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013, hereinafter "CFSA Standard"), the "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013, hereinafter "BDA Standard") and other relating accounting standards. Consequently, the accounting method was changed such that differences arising from changes in the equity in subsidiaries under ongoing control of the Company are now recorded as capital surplus, and acquisition-related costs are now recorded as expenses for the fiscal year in which they are incurred. In addition, with respect to business combinations occurring after the beginning of the fiscal year, the Company will now revise acquisition cost allocation based on provisional accounting estimates, reflecting these costs in the consolidated financial statements for the fiscal year in which the business combination occurred. The Company has also changed the presentation of net income and other items, and has changed from presenting minority interests to presenting non-controlling interests. In order to reflect these changes in the presentation, certain reclassifications have been made to the consolidated financial statements with respect to the previous fiscal year.
The Company has applied the BCA Standard, etc. in accordance with transitional provisions in

paragraph 58-2(4) of the BCA Standard, paragraph 44-5(4) of the CFSA Standard, and paragraph 57-4(4) of the BDA Standard, prospectively at the beginning of the fiscal year.
In the fiscal year, the presentation method of the consolidated financial statement of Cash Flows has been changed such that cash flow related to the purchase or sale of shares of subsidiaries not resulting in changes in scope of consolidation is categorized as “cash flows from financing activities”, and cash flow related to expenses associated with the purchase of shares of subsidiaries resulting in changes in scope of consolidation or expenses arising from the purchase or sale of shares of subsidiaries not resulting in changes in scope of consolidation is categorized as “cash flows from operating activities”.
As a result, there was no impact on consolidated financial statement for the current fiscal year.

(p) Accounting Standards issued but not yet applied

“Accounting Standard for recoverability of deferred tax assets” (ASBJ Guidance No. 26, March 28, 2016)

(1) Summary
Regarding the accounting treatment of recoverability of deferred tax assets, this accounting standard has been revised as indicated below after basically following the framework of the Audit Committee Report No.66 ”Audit treatment for the judgment of recoverability of deferred tax assets” which require entity to estimate the amount of deferred tax assets according to 5 entity divisions.

(i.) The treatment for the entity who does not apply any requirement of division 1 to 5
(ii.) The requirement of division 2 and division 3
(iii.) The treatment of future deductible temporary difference of which entity in division 2 cannot be scheduled the resolving year
(iv.) The treatment in connection with the foreseeable future term of taxable income before adjusting future temporary difference in division 3 entity
(v.) The treatment for the entity that is applicable to division 4 is also applicable to division 2 or division 3.

(2) Scheduled date of application
The applications of these accounting standards above are scheduled for implementation from the beginning of the fiscal year ending March 31, 2017.

(3) Influence by the application of the relevant accounting standards
The effect of application 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, 2016 and 2015:

Millions of yen

	Held-to-maturity securities			
March 31, 2016	Carrying amount	Gross unrealized gains	Gross unrealized losses	Fair value
Debt securities,				
whose fair value exceeds carrying amount	¥ 45	¥ 0	¥ —	¥ 45
whose fair value does not exceed carrying amount	—	—	—	—
Total	¥ 45	¥ 0	¥ —	¥ 45

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

Thousands of U.S. dollars

	Held-to-maturity securities			
March 31, 2016	Carrying amount	Gross unrealized gains	Gross unrealized losses	Fair value
Debt securities,				
whose fair value exceeds carrying amount	$ 400	$ 4	$ —	$ 404
whose fair value does not exceed carrying amount	—	—	—	—
Total	$ 400	$ 4	$ —	$ 404

Millions of yen

	Available-for-sale securities			
March 31, 2016	Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	¥ 6,037	¥ 5,370	¥ (65)	¥ 11,342
Other securities	133	0	(3)	130
Subtotal	¥ 6,170	¥ 5,370	¥ (68)	¥ 11,472
Market value not available:				2,174
Total				¥ 13,646

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

				Thousands of U.S. dollars
	Available-for-sale securities			
March 31, 2016	Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	$ 53,610	$ 47,680	$ (580)	$ 100,710
Other securities	1,176	0	(22)	1,154
Subtotal	$ 54,786	$ 47,680	$ (602)	$ 101,864
Market value not available:				19,306
Total				$ 121,170

Impairment losses of available-for-sale securities were recognized in the amount of ¥ 20 million ($ 179 thousand), during the fiscal year ended March 31, 2016.
Impairment losses of all securities whose fair value declined 50 percent or more were recognized. In addition, the Company considers the fair values of securities are deemed unrecoverable and impairment losses are recognized when their fair values have declined more than 30%, but less than 50% from acquisition cost, and the fair values have continued to decline for two years.

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

The annual average interest rates applicable to short-term bank loans at March 31, 2016 and 2015 were 0.46% and 0.47%, respectively.

Long-term debts at March 31, 2016 and 2015 consisted of the following:

	Millions of yen		*Thousands of U.S. dollars*
	2016	2015	2016
Long-term bank loans	¥ 5,932	¥ 4,051	$ 52,676
Lease obligations	94	144	831
Other	1,338	1,560	11,882
Total	¥ 7,364	¥ 5,755	$ 65,389

Aggregate annual maturities of long-term debts subsequent to March 31, 2016 were as follows:

Year ending March 31	*Millions of yen*	*Thousands of U.S. dollars*
2017	¥ 2,054	$ 18,236
2018	1,838	16,321
2019	1,579	14,023
2020	834	7,407
2021 and thereafter	1,059	9,402
Total	¥ 7,364	$ 65,389

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, 2016 and 2015.

The unexecuted balance of lending commitments of the Company at March 31, 2016 and 2015 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2016	2015	2016
Total lending commitments	¥ 3,000	¥ 3,000	$ 26,638
Less amounts currently executed	—	1,200	—
Unexecuted balance	¥ 3,000	¥ 1,800	$ 26,638

5. Pledged Assets

The following assets were pledged as collateral for the following borrowings at March 31, 2016 and 2015:

	Millions of yen		*Thousands of U.S. dollars*
	2016	2015	2016
Land	¥ 750	¥ 5,755	$ 6,656
Buildings	1,926	3,225	17,103
Total	¥ 2,676	¥ 8,980	$ 23,759

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Short-term bank loans	¥ —	¥ 100	$ —
Current portion of long-term bank loans	—	591	—
Long-term bank loans	—	607	—
Other non-current liabilities	2,252	2,485	20,001
Total	¥ 2,252	¥ 3,783	$ 20,001

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. In March 2015, 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, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Benefit obligations at beginning of year	¥ 6,171	¥ 6,260	$ 54,796
Cumulative effects of changes in accounting policies	—	(173)	—
Restated balance at beginning of the year	¥ 6,171	¥ 6,087	$ 54,796
Service cost	389	376	3,454
Interest cost	65	84	572
Actuarial gains or losses	498	145	4,424
Retirement benefits paid	(423)	(521)	(3,754)
Benefit obligations at end of year	¥ 6,700	¥ 6,171	$ 59,492

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Plan assets at beginning of year	¥ 5,416	¥ 4,567	$ 48,096
Expected return on plan assets	92	81	816
Actuarial gains or losses	(236)	482	(2,094)
Contributions from employers	640	754	5,677
Retirement benefits paid	(367)	(468)	(3,257)
Plan assets at end of year	¥ 5,545	¥ 5,416	$ 49,238

The changes in plan assets for the year ended March 31, 2016 and 2015 were as follows:

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, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Benefit obligations	¥ 6,700	¥ 6,171	$ 59,492
Plan assets at end of year	5,545	5,416	49,238
Net amount of liabilities and assets recognized in consolidated balance sheet	¥ 1,155	¥ 755	$ 10,254
Net defined benefit liabilities	¥ 1,155	¥ 755	$ 10,254
Net defined benefit assets	—	—	—
Net amount of liabilities and assets recognized in consolidated balance sheet	¥ 1,155	¥ 755	$ 10,254

The retirement benefit expenses for the year ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Service cost	¥ 389	¥ 376	$ 3,454
Interest cost	65	84	572
Expected return on plan assets	(92)	(81)	(816)
Recognition of actuarial gains or losses	(52)	23	(458)
Severance and pension costs	¥ 310	¥ 402	$ 2,752

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*
	2016	2015	2016
Recognized actuarial gains	¥ (786)	¥ 360	$ (6,976)
Total	¥ (786)	¥ 360	$ (6,976)

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*
	2016	2015	2016
Unrecognized actuarial gains or losses	¥ 535	¥ (250)	$ 4,754
Total	¥ 535	¥ (250)	$ 4,754

The components of plan assets as of March 31, 2016 and 2015 were as follows:

	Ratio	
	2016	2015
Bonds	39%	36%
Securities	34%	41%
General account asset	19%	18%
Other	8%	5%
Total	100%	100%

The major actuarial assumptions for the year ended March 31, 2016 and 2015 were as follows:

	2016	2015
Discount rate	0.0 to 0.3%	0.9 to 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 6.7%	4.1 to 6.6%

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.

The required amount of the defined contribution pension plan were ¥97 million ($ 863 thousand) and ¥87 million for the year ended March 31, 2016 and 2015 in the Company and other domestic subsidiaries.

7. Contingencies

At March 31, 2016 and 2015, the Group was contingently liable as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2016	2015	2016
As a guarantor of indebtedness of :			
Affiliated companies	¥ 741	¥ 405	$ 6,579
Other	23	807	209
Total	¥ 764	¥ 1,212	$ 6,788

8. Cash and cash equivalents

Cash and cash equivalents at March 31, 2016 and 2015 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2016	2015	2016
Cash and deposits	¥ 8,532	¥ 6,764	$ 75,759
Short-term securities	4,082	3,338	36,243
Cash and cash equivalents	¥ 12,614	¥ 10,102	$ 112,002

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 denominated 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, 2016 and 2015. 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, 2016	Carrying amount	Fair value	Unrecognized gain/loss
Cash and deposits	¥ 8,532	¥ 8,532	¥ —
Trade notes and accounts receivable	39,789	39,789	—
Short-term securities	4,082	4,082	—
Investment securities	11,517	11,517	0
Trade notes and accounts payable	(22,950)	(22,950)	—
Short-term bank loans	(2,960)	(2,960)	—
Long-term bank loans	(5,932)	(5,942)	(10)
Long-term deposits	(1,338)	(1,441)	(103)
Derivatives	—	—	—

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	—	—	—

March 31, 2016	Carrying account	Fair value	Unrecognized gain/loss
	Thousands of U.S. dollars		
Cash and deposits	$ 75,759	$ 75,759	$ —
Trade notes and accounts receivable	353,307	353,307	—
Short-term securities	36,243	36,243	—
Investment securities	102,264	102,268	4
Trade notes and accounts payable	(203,786)	(203,786)	—
Short-term bank loans	(26,283)	(26,283)	—
Long-term bank loans	(52,676)	(52,761)	(85)
Long-term deposits	(11,883)	(12,793)	(910)
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) “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.

(g) “Derivatives”

Please refer to Note 11 “Derivatives”.

Financial instruments for which it is extremely difficult to determine the fair value at March 31, 2016 and 2015 consist of the following:

	Millions of yen		*Thousands of U.S. dollars*
	2016	2015	2016
Non-listed equity securities	¥ 2,174	¥ 1,955	$19,306
Long-term deposit	1,407	1,387	12,494

Impairment losses of non-listed securities were recognized in the amount of ¥ 650 million, during the fiscal year ended March 31, 2015.

The annual maturities of financial assets and investment securities with contractual maturities subsequent to March 31, 2016 and 2015 were as follows:

			Millions of yen
March 31, 2016	Due in one year or less	Due after one year through five years	Due after five years through ten years
Cash and deposits	¥ 8,532	¥ —	¥ —
Trade notes and accounts receivable	39,789	—	—
Investment securities	—	45	—
Total	¥ 48,321	¥ 45	¥ —

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, 2016	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	$ 75,759	$ —	$ —
Trade notes and accounts receivable	353,307	—	—
Investment securities	—	400	—
Total	$ 429,066	$ 400	$ —

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 ¥ 748 million ($ 6,643 thousand) and ¥ 545 million for the year ended March 31, 2016 and 2015, respectively. There was no loss on impairment of investment properties for the year ended March 31, 2016 and 2015.

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, 2015	Increase/ (decrease)	March 31, 2016	March 31, 2016
¥ 8,011	¥ (108)	¥ 7,903	¥ 10,400

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

Thousands of U.S. dollars

Carrying amount			Fair value
April 1, 2015	Increase/ (decrease)	March 31, 2016	March 31, 2016
$ 71,138	$ (964)	$ 70,174	$ 92,342

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

(2) Increase during the year ended march 31, 2016 was mainly due to the expenditure for repairing the sidewalk of ‘the Mall MIZUHO’ in amount of ¥ 67 million ($ 599 thousand). Decrease during the year ended March 31, 2016 was mainly due to depreciation in an amount of ¥ 197 million ($ 1,751 thousand).

Decrease during the year ended March 31, 2015 was mainly due to depreciation in an amount of ¥ 202 million and the disposition by demolition of Haneda office in an amount of ¥ 165 million.

(3) Fair value at March 31, 2016 and 2015 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.

At March 31, 2015, 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

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, 2014	42,737,668	11,900	11,719
Movement of stock during 2015	—	—	—
Balance at March 31, 2015	42,737,668	11,900	11,719
Movement of stock during 2016	—	—	—
Balance at March 31, 2016	42,737,668	11,900	11,719

	Thousands of U.S. dollars	
	Common Stock	Capital surplus
Balance at March 31, 2015	105,664	104,055
Movement of stock during 2016	—	—
Balance at March 31, 2016	105,664	104,055

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 ¥ 1,410 million ($ 12,518 thousand) and ¥ 1,485 million for the years ended March 31, 2016 and 2015, respectively.

14. 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 33.02% and 35.59% for the years ended March 31, 2016 and 2015, respectively. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

Following the execution on March 29, 2016 of the "Act for Partial Amendment of the Income Tax Act, etc." and the "Act for Partial Amendment of the Local Tax Act, etc.", the effective tax rate used for the calculation of deferred tax assets and liabilities was changed from 31.52% to 30.81% for the temporary differences expected to be realized or settled in the year beginning on April 1, 2016 and 2017, and to 30.58% for realized or settled after April 1, 2018.

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 ¥86 million ($ 760 thousand), and income taxes-deferred for the fiscal year decreased ¥43 million ($ 379 thousand), unrealized gain on available-for-sale securities and remeasurements of defined benefit plans as of the end of the fiscal year increased by ¥ 51 million ($ 449 thousand) and decreased by ¥ 8 million ($ 68 thousand), respectively.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2016 and 2015 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2016	2015	2016
Deferred tax assets - current:			
Accrued Bonuses	¥ 571	¥ 635	$ 5,072
Provision for product warranties	219	242	1,942
Allowance for repairs	114	127	1,017
Allowance for doubtful accounts	16	408	139
Accrued corporation enterprise tax	170	171	1,511
Loss on valuation of inventories	122	104	1,081
Forecast of construction cost	136	164	1,205
Other	169	176	1,504
Sub-total	1,517	2,027	13,471
Less valuation allowance	(64)	(457)	(572)
Total deferred tax assets - current	1,453	1,570	12,899
Deferred tax assets – non-current:			
Net defined benefit liabilities	350	240	3,106
Fixed assets – elimination of intercompany profits	256	256	2,277
Accrued payable for transfer to the defined contribution pension plan	68	110	606
Allowance for doubtful accounts	799	1,003	7,092
Loss on impairment of long-lived assets	399	440	3,545
Loss on valuation of investment for subsidiaries and affiliates	200	215	1,778
Excess depreciation	120	82	1,063
Other	313	341	2,774
Sub-total	2,505	2,687	22,241
Less valuation allowance	(1,575)	(1,682)	(13,981)
Total deferred tax assets - non-current	930	1,005	8,260

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Deferred tax liabilities:			
Unrealized gain on investment securities	(1,620)	(2,332)	(14,387)
Reduction reserve for fixed assets	(1,449)	(1,510)	(12,867)
Special depreciation reserve	(111)	(143)	(988)
Unrealized gain on subsidiaries' fixed assets by revaluation at the beginning of consolidation	(1,096)	(1,161)	(9,735)
Total deferred tax liabilities - non-current	(4,276)	(5,146)	(37,977)
Net deferred tax assets (liabilities) – non-current	¥ (3,346)	¥ (4,141)	$ (29,717)

The reconciliation between the statutory tax rate and the effective income tax rate for the year ended March 31, 2016 and 2015 were as follows:

	2016	2015
Statutory tax rate	33.02%	35.59%
Non-deductible expenses for income tax purpose	1.09	1.17
Non-taxable dividend income	(0.17)	(0.47)
Inhabitant per capita tax	0.88	1.18
Effect of tax rate change	0.12	(1.70)
Tax credit	(1.96)	(5.40)
Change in valuation allowance	0.55	5.81
Equity in earnings of affiliated companies	2.13	1.37
Other	0.41	0.64
Effective tax rate	36.07%	38.19%

15. Comprehensive Income

The components of other comprehensive income for the year ended March 31, 2016 and 2015 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2016	2015	2016
Unrealized gain on available-for-sale securities:			
Gains (Losses) arising during the year	¥ (2,117)	¥ 2,899	$ (18,796)
Reclassification adjustments for gain	20	-	179
Amount before income tax effect	(2,097)	2,899	(18,617)
Income tax effect	717	(731)	6,362
Total	¥(1,380)	¥ 2,168	$ (12,255)
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ 175	¥ (202)	$ 1,561
Total	¥ 175	¥ (202)	$ 1,561
Remeasurements of defined benefit plans:			
Gains (Losses) arising during the year	¥ (734)	¥ 337	$ (6,518)
Reclassification adjustments for gain (loss)	(52)	23	(458)
Amount before income tax effect	(786)	360	(6,976)
Income tax effect	242	(118)	2,143
Total	¥ (544)	¥ 242	$ (4,833)
Share of other comprehensive income in affiliate:			
Gains (Losses) arising during the year	¥ (85)	¥ 73	$ (757)
Total	¥ (85)	¥ 73	$ (757)
Total other comprehensive income	¥ (1,834)	¥ 2,281	$ (16,284)

16. Provision of reserve for Losses on Construction Contracts

Provision of reserve for losses on construction contracts included in Cost of Sales were ¥ 24 million ($ 212 thousand) and ¥ 47 million for the years ended March 31, 2016 and 2015, respectively.

17. 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.

Information about sales, profit, assets and other items for the years ended March 31, 2016 and 2015 are as follows:

Millions of yen

	Reportable segments					
2016	Industry A	Industry B	Industry C	Total	Reconciliations (Note 1)	Consolidated (Note 2)
Net sales:						
External customers	¥ 87,689	¥ 10,437	¥ 5,737	¥ 103,863	—	¥ 103,863
Intersegment sales or transfers	22	2	642	666	(666)	—
Total	87,711	10,439	6,379	104,529	(666)	103,863
Segment profit	7,572	2,085	1,242	10,899	(398)	10,501
Segment assets	73,244	6,916	12,011	92,171	28,368	120,539
Other items:						
Depreciation	1,498	41	413	1,952	1	1,953
Increase in tangible and intangible fixed assets	2,525	40	220	2,785	—	2,785

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

Thousands of U.S. dollars

2016	Reportable segments Industry A	Industry B	Industry C	Total	Reconciliations (Note 1)	Consolidated (Note 2)
Net sales:						
External customers	$ 778,628	$ 92,675	$ 50,937	$ 922,240	—	$ 922,240
Intersegment sales or transfers	194	15	5,703	5,912	(5,912)	—
Total	778,822	92,690	56,640	928,152	(5,912)	922,240
Segment profit	67,237	18,516	11,025	96,778	(3,536)	93,242
Segment assets	650,366	61,414	106,650	818,430	251,890	1,070,320
Other items:						
Depreciation	13,305	367	3,666	17,338	6	17,344
Increase in tangible and intangible fixed assets	22,425	356	1,951	24,732	—	24,732

1. Reconciliations of segment profit in an amount of ¥ (398) million ($ (3,536) thousand) which consists of elimination of intersegment transactions in an amount of ¥7 million ($61 thousand) and corporate expenses which are not allocated to each reportable segment in an amount of ¥ (405) million ($ (3,597) 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.

18. Subsequent Event

The following appropriations of the Company's retained earnings in respect of the year ended March 31, 2016 were as proposed by the Board of Directors and approved by the shareholders at the annual general meeting held on June 28, 2016.

Appropriations	*Millions of yen*	*Thousands of U.S. dollars*
Cash dividends of ¥ 16 ($ 0.14) per share	¥ 636	$ 5,644

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, 2016, 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, 2016, 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, 2016, 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
August 31, 2016

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, 2016)
Number of Employees: consolidated 2,485; non-consolidated 978 (March 31, 2016)

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 96,657 ㎡
Located in Yamato, Kanagawa (Japan)
Nagoya Plant
Occupies 109,611 ㎡
Located in Komaki, Aichi (Japan)
Miki Plant
Occupies 100,311 ㎡
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,	Director, Chairman of the Board
Kazuya Takahashi,	Representative Director, President, COO
Haruhiro Kondo,	Representative Director, Senior Managing Director, Senior Executive Officer
Harumi Sugimoto,	Director, Associate Senior Executive Officer
Takashi Yoneda,	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
Tatsuya Nunohara,	Executive Officer
Hiroaki Kuriyama,	Executive Officer
Yukihiro Hosozawa,	Executive Officer
Kazuhiko Harada,	Executive Officer