Annual Report 2017

Year ended March 31, 2017

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, 2017>

In the fiscal year under review, the outlook for the Japanese economy remained uncertain due partly to the risk of a slowdown of emerging economies, the UK's withdrawal from the EU, and a change of government in the United States, despite an overall modest recovery backed by solid capital investment and consumer spending in Japan.
Under these circumstances, our Group actively implemented several measures as the first year of the medium-term management plan 2016-18 "Value up to the Next" (April 1, 2016 - March 31, 2019), to improve our corporate quality and enhance our earnings base.

Representative Director,
President, CEO
Kazuya Takahashi

As a result, in the current consolidated fiscal year, net sales increased by 2,882 million yen (2.8%) compared with the preceding consolidated fiscal year to 106,745 million yen due to the sales improvement at the Specialty Truck Segment, our mainstay category. As for profit and loss status, operating income reached 11,147 million yen, an improvement of 645 million yen (6.2%), and the current net income attributable to owners of the parent reached 8,131 million yen, an improvement of 2,096 million yen (34.7%).

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

Domestic demand grew steadily due mainly to continued growth of logistics-related vehicles and a shift to a recovery in the sales of some construction-related vehicles in the latter half of the period.
The Group focused on the sale of trailers, wing van bodies, and tailgate lifters, which are logistics-related vehicles, and refuse trucks and detachable body trucks, which are environment-related vehicles. At the same time, it made capital investments and developed production/supply systems aimed at improving efficiency and streamlining production.
As a new product responding to new demand, in March 2017 the Group launched "GB40-520", a refuse truck with a new feature suited to collecting refuse in urban areas.
As for the overseas market, the Thai plant started producing mixer trucks while the Indonesia plant expanded sales and developed a production framework for mixer trucks and dump trucks that are in high demand in the country.

As a result, net sales in the Specialty Truck Segment increased by 4,209 million yen (4.8%) to 91,921 million yen. Segment profit increased by 1,575 million yen (20.8%) to 9,148 million yen due to the improvement of the sales.

New type refuse truck
"GB40-520"

Mixer trucks
(Thailand model)

Dump truck
(Indonesia model)

ii) Environmental Equipment and Systems Segment

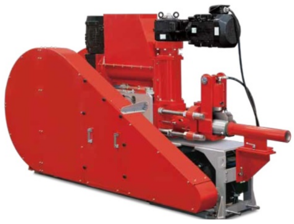
As for plant construction, the Group worked to win contracts for new construction and secured construction projects for recycling plants from Tsukuba City (Ibaraki Prefecture) in December 2016 and Osaki Region Wide Civil Service Union in January 2017. In addition to construction work for facilities that the Group has already won projects for, the Group continued to focus on the stock-type business such as maintenance and operation.

The Group strengthened the new biogas plant project, completing the construction of facilities for the town of Okoppe in Hokkaido with CORNES & COMPANY LIMITED, a technological alliance partner, in October 2016. The Group also made MORIPLANT Co., Ltd., engaging in construction of biogas plants, a Group company by acquiring all of its shares in November 2016. In December 2016, the Group won a contract for constructing a biogas plant from the town of Toyoura in Hokkaido.

In addition, in May 2016 the Group launched a new product, Pushing-type molding machine, with an energy and space-saving design that can compress and mold waste biomass such as wood chips, paper, and plastic to produce briquette fuel.

As a result, net sales decreased by 1,411 million yen (13.5%) to 9,027 million yen due to the momentary decrease of the sales by the percentage of completion method in the plant construction department. Segment profit decreased by 637 million yen (30.6%) to 1,447 million yen

Biogas plant



Pushing-type molding machine

iii) Real Estate Rental Segment

Although the tough market environment continued for multistory parking systems, the Group focused on their renewal and maintenance as a stock-type business. For coin-operated parking, the Group continued to focus on selecting and securing profitable locations.

In addition, construction was completed for the multistory parking facility Sasashima Live Parking, which had been under construction in the Sasashima Live 24 District, a redevelopment area in the south of Nagoya Station.

As for the overseas market, progress was made in constructing the first multistory parking system in Indonesia.

As a result, net sales increased by 102 million yen (1.6%) to 6,481 million yen, and segment profit increased by 3 million yen (0.2%) to 1,245 million yen.

Toll parking (Coin-operated)

Multi-story parking equipment

<Forecast of Operations for the Next Consolidated Fiscal Year ending March 31, 2018>

The Japanese economy is expected to grow steadily due partly to improvements in the employment and income environment as well as corporate earnings. However, the outlook is forecast to remain uncertain due to uncertainties of emerging economies and actualization of geopolitical risks overseas including the impact of policy trends of the new U.S. administration.

Our Group makes determined efforts to expand sales and profits and improve our corporate value, under the medium term management plan 2016-18 “Value up to the Next”.

Regarding the forecast of consolidated business performance for March 2018, the Company estimates net sales to decrease to 111, 000 million yen, operating income to decrease to 10,000 million yen, while the current net income attributable to owners of the parent is estimated to grow to 7,000 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 8,002 million yen (6.6%) from the end of the preceding fiscal year to 128,542 million yen.

Current assets increased by 4,036 million yen (6.0%) to 71,628 million yen, due to increases in securities, etc.

Non-current assets (property, plant and equipment, intangible assets and investments and other assets) increased by 3,966 million yen (7.5%) to 56,914 million yen, due to the rise in market prices of investment securities, etc.

Regarding liabilities, current liabilities increased by 24 million yen (0.1%) to 36,508 million yen due to increases in electronically recorded monetary obligations, etc. Non-current liabilities decreased by 1,164 million yen (9.4%) to 11,161 million yen due to repayment of long-term loans, etc.

Total net assets increased by 9,143 million yen (12.7%) to 80,873 million yen due to the posting of net profit, etc. attributable to owners of parent.

As a result, the capital adequacy ratio stood at 62.3% as of the end of the current fiscal year (59.5% at the end of the preceding fiscal year).

ii) Cash Flow Situation

Consolidated cash and cash equivalents at the end of period increased by 4,970 million yen (39.4%) compared with the end of the preceding fiscal year to 17,584 million yen. Cash flow by activity type is summarized as follows:

Cash Flow from Operating Activities

Net cash provided by operating activities amounted to 11,973 million yen (an increase of 5,063 million yen compared with the preceding fiscal year). This was because of the posting of net profit before tax, decreases in trade notes and accounts receivable, etc.

Cash Flow from Investing Activities

Net cash used in investing activities was 3,275 million yen (an increase of 159 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 3,774 million yen (a decrease of 2,825 million yen compared with the preceding fiscal year). This was because of repayment of loans, etc.

(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, 2017 resolved and passed to pay a dividend of 18 yen per share at the end of March 2017 as originally proposed by management, making its annual dividend 34 yen per share including an interim dividend, increased by 3 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 2018, management plans to pay an annual dividend of 36 yen per share (including an interim dividend of 18 yen), increased by 2 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) Mid-to-Long Term Management Strategy

Under the medium term management plan 2016-18 “Value up to the Next” (3 year plan; April 1, 2016 - March 31, 2019) , we are promoting priority strategies for the growth of the group based on the following basic policy.

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)

(3) 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.

CONSOLIDATED BALANCE SHEETS
At March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2017	2016	2017
Current assets:			
Cash and deposits (Notes 8 & 9)	¥ 6,684	¥ 8,532	$ 59,582
Short-term securities (Notes 8 & 9)	10,900	4,082	97,156
Trade notes and accounts receivable (Note 9)	38,759	39,789	345,479
Merchandise & finished goods	884	596	7,878
Work in process	4,305	4,653	38,375
Raw materials & supplies	7,364	7,324	65,636
Other current assets	1,406	1,211	12,534
Deferred tax assets (Note 14)	1,383	1,453	12,324
Allowance for doubtful accounts	(57)	(49)	(512)
Total current assets	71,628	67,591	638,452
Property, plant and equipment (Note 10):			
Land (Note 5)	20,643	20,107	183,999
Buildings and structures (Note 5)	32,402	31,381	288,816
Machinery, equipment and vehicles	17,166	15,657	153,009
Construction in progress	176	481	1,569
Other	4,810	4,327	42,867
Total	75,197	71,953	670,260
Accumulated depreciation	(36,223)	(35,078)	(322,869)
Net property, plant and equipment	38,974	36,875	347,391
Intangible assets	648	541	5,773
Investments and other assets:			
Investment securities (Notes 3 & 9)	15,518	13,691	138,323
Deferred tax assets (Note 14)	53	54	477
Other assets	2,450	4,374	21,838
Allowance for doubtful accounts	(729)	(2,587)	(6,500)
Total investments and other assets	17,292	15,532	154,138
Total non-current assets	56,914	52,948	507,302
Total	¥ 128,542	¥ 120,539	$ 1,145,754

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars (Note 1) 2017
Current liabilities:			
Short-term bank loans (Notes 4 & 9)	¥ 2,639	¥ 2,960	$ 23,518
Current portion of long-term bank loans (Notes 4 & 9)	1,530	1,791	13,641
Trade notes and accounts payable (Note 9)	16,017	16,578	142,766
Electronically recorded obligations - operating (Note9)	7,462	6,372	66,512
Accrued expenses	3,916	3,712	34,904
Income taxes payable	1,907	2,275	16,996
Other current liabilities (Note 4)	3,037	2,796	27,077
Total current liabilities	36,508	36,484	325,414
Non-current liabilities:			
Long-term bank loans (Notes 4 & 9)	2,611	4,141	23,270
Net defined benefit liabilities (Note 6)	732	1,155	6,526
Liabilities for directors' retirement benefits	205	197	1,828
Deferred tax liabilities (Note 14)	4,317	3,400	38,479
Other non-current liabilities (Notes 4, 5 & 9)	3,296	3,433	29,380
Total non-current liabilities	11,161	12,326	99,483
Total liabilities	47,669	48,810	424,897
Net assets:			
Shareholders' equity:			
Common stock (Note 12):			
Authorized-170,950,672 shares			
Issued-42,737,668 shares in 2017 and 2016	11,900	11,900	106,069
Capital surplus (Note 12)	11,719	11,719	104,454
Retained earnings	53,723	46,946	478,863
Treasury stock, at cost:			
3,008,960 shares in 2016			
3,009,431 shares in 2017	(2,150)	(2,150)	(19,166)
Total shareholders' equity	75,192	68,415	670,220
Accumulated other comprehensive income (Note 15):			
Unrealized gain on available-for-sale securities	5,167	3,683	46,053
Foreign currency translation adjustments	(12)	(60)	(101)
Remeasurements of defined benefit plans	(239)	(373)	(2,137)
Total accumulated other comprehensive income	4,916	3,250	43,815
Non-controlling interests	765	64	6,822
Total net assets	80,873	71,729	720,857
Total	¥ 128,542	¥ 120,539	$ 1,145,754

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF INCOME
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Net sales	¥ 106,745	¥ 103,863	$ 951,470
Cost of sales (Note 16)	83,253	81,752	742,073
Gross profit	23,492	22,111	209,397
Selling, general and administrative expenses (Note 13)	12,345	11,610	110,040
Operating income	11,147	10,501	99,357
Other income (expenses):			
Interest and dividend income	293	251	2,614
Interest expense	(99)	(82)	(885)
Gain on sales of investment securities	1	-	10
Loss on sales or disposition of property and equipment, net	(65)	(47)	(584)
Equity in losses of affiliates	(263)	(608)	(2,340)
Loss on valuation of investment securities (Note 3 and 9)	(125)	(20)	(1,112)
Foreign exchange loss	(103)	(215)	(916)
Other-net	(33)	(330)	(297)
Other expenses -net	(394)	(1,051)	(3,510)
Income before income taxes and non-controlling interests	10,753	9,450	95,847
Income taxes (Note 14):			
Current	2,529	3,135	22,540
Deferred	275	274	2,454
Total income taxes	2,804	3,409	24,994
Net income	7,949	6,041	70,853
Net income (loss) attributable to non-controlling interests	(182)	7	(1,621)
Net income attributable to owners of the parent	¥ 8,131	¥ 6,034	$ 72,474

	Yen		U.S. dollars (Note 1)
	2017	2016	2017
Amounts per shares:			
Basic net income	¥ 204.66	¥ 151.88	$ 1.82
Diluted net income	-	-	-
Cash dividends applicable to earnings of the year	34.00	31.00	0.30

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Net income	¥ 7,949	¥ 6,041	$ 70,853
Other comprehensive income (Note 15):			
Unrealized gain on available-for-sale securities	1,484	(1,380)	13,223
Foreign currency translation adjustments	57	175	513
Remeasurements of defined benefit plans	134	(544)	1,193
Share of other comprehensive income in affiliates accounted for by the equity method	(41)	(85)	(367)
Total other comprehensive income	1,634	(1,834)	14,562
Comprehensive income	¥ 9,583	¥ 4,207	$ 85,415
Total comprehensive income attributable to:			
Owners of the parent	9,799	4,200	87,345
Non-controlling interests	(216)	7	(1,930)

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
Years ended March 31, 2017 and 2016

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 accumulated other comprehensive income	Non-controlling interests	Total net assets
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
Change in scope of consolidation											
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
Purchases of treasury stock				(0)	(0)						(0)
Net income attributable to owners of the parent			8,131		8,131						8,131
Change in scope of consolidation			(82)		(82)						(82)
Appropriation											
Cash dividends paid			(1,272)		(1,272)						(1,272)
Other net changes in the year						1,484	48	134	1,666	701	2,367
Balance, March 31, 2017	¥ 11,900	11,719	53,723	(2,150)	75,192	5,167	(12)	(239)	4,916	765	80,873

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 accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance, March 31, 2016	$ 106,069	104,454	418,452	(19,160)	609,815	32,830	(530)	(3,330)	28,970	575	639,360
Purchases of treasury stock				(6)	(6)						(6)
Net income attributable to owners of the parent			72,474		72,474						72,474
Change in scope of consolidation			(731)		(731)						(731)
Appropriation											
Cash dividends paid			(11,332)		(11,332)						(11,332)
Other net changes in the year						13,223	429	1,193	14,845	6,247	21,092
Balance, March 31, 2017	$ 106,069	104,454	478,863	(19,166)	670,220	46,053	(101)	(2,137)	43,815	6,822	720,857

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Operating activities:			
Income before income taxes and non-controlling interests	¥ 10,753	¥ 9,450	$ 95,847
Depreciation and amortization	2,213	1,980	19,725
Loss on valuation of investment securities	125	20	1,112
Gain on sales of investment securities	(1)	-	(10)
Equity in losses of affiliates	263	608	2,340
Loss on sales or disposition of property and equipment, net	58	47	516
Interest and dividend income	(293)	(251)	(2,614)
Interest expenses	99	82	885
Decrease (increase) in trade notes and accounts receivable	3,040	713	27,095
Decrease (increase) in inventories	177	(371)	1,582
Increase (decrease) in trade notes and accounts payable	346	(824)	3,088
Increase (decrease) in net defined benefit liabilities	(230)	(385)	(2,049)
Increase (decrease) in allowance for doubtful accounts	(1,850)	(385)	(16,486)
Increase (decrease) in allowance for others	(215)	(17)	(1,912)
Increase (decrease) in consumption taxes payable	259	(397)	2,305
Other, net	(82)	(545)	(731)
Sub total	14,662	9,725	130,693
Interest and dividend income received	293	263	2,616
Interest expenses paid	(17)	(25)	(152)
Income taxes paid	(2,965)	(3,053)	(26,433)
Net cash provided by operating activities	11,973	6,910	106,724
Investing activities:			
Purchases of shares of subsidiaries	(354)	-	(3,155)
Purchases of securities and investments	(222)	(577)	(1,977)
Proceeds from sales of securities and investments	4	2	36
Purchases of property, plant and equipment	(2,533)	(2,881)	(22,580)
Proceeds from sales of property, plant and equipment	321	16	2,865
Net decrease (increase) in short-term loans receivable	(35)	-	(312)
Disbursement of loans receivable	(465)	(6)	(4,147)
Collection of loans receivable	9	11	81
Other,net	-	0	-
Net cash used in investing activities	(3,275)	(3,435)	(29,189)
Financing activities:			
Net increase (decrease) in short-term bank loans	(634)	(1,180)	(5,646)
Proceeds from long-term bank loans	-	3,569	-
Repayment of long-term bank loans	(1,791)	(1,688)	(15,967)
Payment of finance lease obligations	(77)	(50)	(686)
Purchases of treasury stock	(0)	(1)	(6)
Dividends paid	(1,272)	(1,151)	(11,330)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	-	(447)	-
Net cash used in financing activities	(3,774)	(948)	(33,635)
Foreign currency translation adjustments on cash and cash equivalents	(32)	(15)	(288)
Net increase (decrease) in cash and cash equivalents	4,892	2,512	43,612
Cash and cash equivalents at beginning of year	12,614	10,102	112,431
Increase in cash and cash equivalents from a newly consolidated subsidiary	78	-	695
Cash and cash equivalents at end of year (Note 8)	¥ 17,584	¥ 12,614	$ 156,738

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 ¥112.19=US$1, the approximate exchange rate on March 31, 2017. 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 10 significant subsidiaries. Investments in 6 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, 2017, 7 subsidiaries are excluded from scope of consolidation. As to these, investments in 6 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.

During the fiscal year ended March 31, 2017, Trex Thairung Co., Ltd. has been included in the scope of consolidation and Sasashima Live Parking Co., Ltd. newly accounted for equity method, since their materiality has been increased. Inoue Motor Company Co., Ltd has also been accounted for equity method due to the acquisition of the stocks during the year.

Among the consolidated subsidiaries, the balance sheet date for Kyokuto Kaihatsu (Kunshan) Machinery Co., Ltd. and Trex Thairung Co., Ltd. is December 31. They are consolidated using the financial statements as of their balance sheet date. Significant inter-company transactions between their balance sheet date and consolidated balance sheet date are adjusted for consolidation.

Furthermore, the balance sheet date for Kyokuto Special Automobile Trading (Shanghai) Co., Ltd. and PT. Kyokuto Indomobile manufacturing Indonesia under the equity method is different from the consolidated balance sheet date, but no adjustments were made.

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 thousand shares for 2017 and 2016.
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) Changes in presentation methods

(Consolidated balance sheets)
From fiscal year ended March 31, 2017,“Electronically recorded obligations - operating” which was included in “Trade notes and accounts payable” under “Current liabilities” in the previous fiscal year, is presented separately because its amount have become significant. The financial statements for the previous fiscal year have been reclassified to reflect this change in presentation method.
As a result ¥22,950 million which was presented in “Trade notes and accounts payable” on the consolidated balance sheets for the previous fiscal year has been reclassified as ¥16,578

million in “Trade notes and accounts payable” and ¥6,372 million in “Electronically recorded obligations - operating”.

(p) Additional information

(Application of ASBJ Guidance on Recoverability of Deferred Tax Assets)

Effective from the fiscal year ended March 31, 2017, the Company has applied the “Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016).

3. Securities

The following is a summary of held-to-maturity securities and available-for-sale securities at March 31, 2017 and 2016:

Millions of yen

	Held-to-maturity securities			
March 31, 2017	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, 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

Thousands of U.S. dollars

	Held-to-maturity securities			
March 31, 2017	Carrying amount	Gross unrealized gains	Gross unrealized losses	Fair value
Debt securities,				
whose fair value exceeds carrying amount	$ 401	$ 3	$ —	$ 404
whose fair value does not exceed carrying amount	—	—	—	—
Total	$ 401	$ 3	$ —	$ 404

Millions of yen

	Available-for-sale securities			
March 31, 2017	Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	¥ 5,994	¥ 7,465	¥ (7)	¥ 13,452
Other securities	333	0	(14)	319
Subtotal	¥ 6,327	¥ 7,465	¥ (21)	¥ 13,771
Market value not available:				1,702
Total				¥ 15,473

Millions of yen

March 31, 2016	Available-for-sale securities 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

Thousands of U.S. dollars

March 31, 2017	Available-for-sale securities Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	$ 53,425	$ 66,541	$ (58)	$ 119,908
Other securities	2,974	0	(129)	2,845
Subtotal	$ 56,399	$ 66,541	$ (187)	$ 122,753
Market value not available:				15,169
Total				$ 137,922

Impairment losses of available-for-sale securities which have market value were recognized in the amount of ¥ 16 million ($ 145 thousand) and ¥ 20 million, during the fiscal year ended March 31, 2017 and 2016, respectively.

Impairment losses for security whose market value is not available, please refer to Note 9 “Financial Instruments and Related Disclosures”.

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, 2017 and 2016 were 0.64% and 0.46%, respectively.

Long-term debts at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		*Thousands of U.S. dollars*
	2017	2016	2017
Long-term bank loans	¥ 4,141	¥ 5,932	$ 36,911
Lease obligations	312	94	2,780
Other	1,115	1,338	9,943
Total	¥ 5,568	¥ 7,364	$ 49,634

Aggregate annual maturities of long-term debts subsequent to March 31, 2017 were as follows:

Year ending March 31	*Millions of yen*	*Thousands of U.S. dollars*
2018	¥ 1,828	$ 16,299
2019	1,709	15,232
2020	898	8,001
2021	892	7,955
2022 and thereafter	241	2,147
Total	¥ 5,568	$ 49,634

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, 2017 and 2016.

The unexecuted balance of lending commitments of the Company at March 31, 2017 and 2016 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2017	2016	2017
Total lending commitments	¥ 5,000	¥ 3,000	$ 44,567
Less amounts currently executed	—	—	—
Unexecuted balance	¥ 5,000	¥ 3,000	$ 44,567

5. Pledged Assets

The following assets were pledged as collateral for the following borrowings at March 31, 2017 and 2016:

	Millions of yen		*Thousands of U.S. dollars*
	2017	2016	2017
Land	¥ 750	¥ 750	$ 6,681
Buildings	1,832	1,926	16,334
Total	¥ 2,582	¥ 2,676	$ 23,015

	Millions of yen		*Thousands of U.S. dollars*
	2017	2016	2017
Other non-current liabilities	¥ 2,019	¥ 2,252	$ 18,000
Total	¥ 2,019	¥ 2,252	$ 18,000

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.

The changes in defined benefit obligations for the year ended March 31, 2017 and 2016 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2017	2016	2017
Benefit obligations at beginning of year	¥ 6,700	¥ 6,171	$ 59,721
Service cost	430	389	3,836
Interest cost	11	65	103
Actuarial gains or losses	44	498	387
Retirement benefits paid	(391)	(423)	(3,485)
Benefit obligations at end of year	¥ 6,794	¥ 6,700	$ 60,562

The changes in plan assets for the year ended March 31, 2017 and 2016 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2017	2016	2017
Plan assets at beginning of year	¥ 5,545	¥ 5,416	$ 49,427
Expected return on plan assets	95	92	843
Actuarial gains or losses	126	(236)	1,124
Contributions from employers	652	640	5,809
Retirement benefits paid	(356)	(367)	(3,167)
Plan assets at end of year	¥ 6,062	¥ 5,545	$ 54,036

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, 2017 and 2016 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2017	2016	2017
Benefit obligations	¥ 6,794	¥ 6,700	$ 60,562
Plan assets at end of year	6,062	5,545	54,036
Net amount of liabilities and assets recognized in consolidated balance sheet	¥ 732	¥ 1,155	$ 6,526
Net defined benefit liabilities	¥ 732	¥ 1,155	$ 6,526
Net defined benefit assets	—	—	—
Net amount of liabilities and assets recognized in consolidated balance sheet	¥ 732	¥ 1,155	$ 6,526

The retirement benefit expenses for the year ended March 31, 2017 and 2016 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2017	2016	2017
Service cost	¥ 430	¥ 389	$ 3,836
Interest cost	11	65	103
Expected return on plan assets	(95)	(92)	(843)
Recognition of actuarial gains or losses	111	(52)	983
Severance and pension costs	¥ 457	¥ 310	$ 4,079

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*
	2017	2016	2017
Recognized actuarial gains or losses	¥ 193	¥ (786)	$ 1,720
Total	¥ 193	¥ (786)	$ 1,720

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*
	2017	2016	2017
Unrecognized actuarial gains or losses	¥ 342	¥ 535	$ 3,053
Total	¥ 342	¥ 535	$ 3,053

The components of plan assets as of March 31, 2017 and 2016 were as follows:

	Ratio	
	2017	2016
Bonds	41%	39%
Securities	32%	34%
General account asset	20%	19%
Other	7%	8%
Total	100%	100%

The major actuarial assumptions for the year ended March 31, 2017 and 2016 were as follows:

	2017	2016
Discount rate	0.0 to 0.6%	0.0 to 0.3%
Long-term rate of return on plan assets	1.3 to 2.0%	1.3 to 2.0%
Future salary increase	4.3 to 6.3%	4.1 to 6.7%

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 ¥103 million ($ 914 thousand) and ¥97 million for the year ended March 31, 2017 and 2016 in the Company and other domestic subsidiaries.

7. Contingencies

At March 31, 2017 and 2016, the Group was contingently liable as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2017	2016	2017
As a guarantor of indebtedness of :			
Affiliated companies	¥ 349	¥ 741	$ 3,113
Other	14	23	126
Total	¥ 363	¥ 764	$ 3,239

8. Cash and cash equivalents

Cash and cash equivalents at March 31, 2017 and 2016 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2017	2016	2017
Cash and deposits	¥ 6,684	¥ 8,532	$ 59,582
Short-term securities	10,900	4,082	97,156
Cash and cash equivalents	¥ 17,584	¥ 12,614	$ 156,738

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, 2017 and 2016. 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, 2017	Carrying amount	Fair value	Unrecognized gain/loss
Cash and deposits	¥ 6,684	¥ 6,684	¥ —
Trade notes and accounts receivable	38,759	38,759	—
Short-term securities	10,900	10,900	—
Investment securities	13,816	13,816	0
Trade notes and accounts payable	(16,017)	(16,017)	—
Electronically recorded obligations - operating	(7,462)	(7,462)	—
Short-term bank loans	(2,639)	(2,639)	—
Long-term bank loans	(4,141)	(4,149)	(8)
Long-term deposits	(1,115)	(1,188)	(73)
Derivatives	—	—	—

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	(16,578)	(16,578)	—
Electronically recorded obligations - operating	(6,372)	(6,372)	—
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	—	—	—

March 31, 2017	Carrying account	Fair value	Unrecognized gain/loss
	Thousands of U.S. dollars		
Cash and deposits	$ 59,582	$ 59,582	$ —
Trade notes and accounts receivable	345,479	345,479	—
Short-term securities	97,156	97,156	—
Investment securities	123,154	123,157	3
Trade notes and accounts payable	(142,766)	(142,766)	—
Electronically recorded obligations - operating	(66,512)	(66,512)	—
Short-term bank loans	(23,518)	(23,518)	—
Long-term bank loans	(36,911)	(36,981)	(70)
Long-term deposits	(9,943)	(10,588)	(645)
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, 2017 and 2016 consist of the following:

	Millions of yen		*Thousands of U.S. dollars*
	2017	2016	2017
Non-listed equity securities	¥ 1,702	¥ 2,174	$15,169
Long-term deposit	1,408	1,407	12,547

Impairment losses of non-listed securities were recognized in the amount of ¥ 109 million ($ 967 thousand), during the fiscal year ended March 31, 2017.

The annual maturities of financial assets and investment securities with contractual maturities subsequent to March 31, 2017 and 2016 were as follows:

	Millions of yen		
March 31, 2017	Due in one year or less	Due after one year through five years	Due after five years through ten years
Cash and deposits	¥ 6,684	¥ —	¥ —
Trade notes and accounts receivable	38,759	—	—
Investment securities	15	30	—
Total	¥ 48,458	¥ 30	¥ —

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	¥ —

Thousands of U.S. dollars

March 31, 2017	Due in one year or less	Due after one year through five years	Due after five years through ten years
Cash and cash equivalents	$ 59,582	$ —	$ —
Trade notes and accounts receivable	345,479	—	—
Investment securities	134	267	—
Total	$ 405,195	$ 267	$ —

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 ¥ 745 million ($ 6,639 thousand) and ¥ 748 million for the year ended March 31, 2017 and 2016, respectively. There was no loss on impairment of investment properties for the year ended March 31, 2017 and 2016.

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, 2016	Increase/ (decrease)	March 31, 2017	March 31, 2017
¥ 7,903	¥ (157)	¥ 7,746	¥ 10,393

			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

			Thousands of U.S. dollars
Carrying amount			Fair value
April 1, 2016	Increase/ (decrease)	March 31, 2017	March 31, 2017
$ 70,443	$ (1,400)	$ 69,043	$ 92,640

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

(2) Increase during the year ended march 31, 2017 was mainly due to the expenditure for repairing the sidewalk of 'the Mall MIZUHO' in amount of ¥ 17 million ($ 151 thousand). Decrease during the year ended March 31, 2017 was mainly due to depreciation in an amount of ¥ 193 million ($ 1,722 thousand).
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. Decrease during the year ended March 31, 2016 was mainly due to depreciation in an amount of ¥ 197 million.

(3) Fair value at March 31, 2017 and 2016 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, 2017 and 2016, the notional amounts and the estimated fair value of derivative financial instruments, for which deferred hedge accounting has been applied or has not been applied were none, respectively.

12. Shareholders' Equity

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

	Number of Shares	Common Stock (*Millions of yen*)	Capital Surplus (*Millions of yen*)
Balance at March 31, 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
Movement of stock during 2017	—	—	—
Balance at March 31, 2017	42,737,668	¥ 11,900	¥ 11,719

	Common Stock (*Thousands of U.S. dollars*)	Capital surplus (*Thousands of U.S. dollars*)
Balance at March 31, 2016	$ 106,069	$ 104,454
Movement of stock during 2017	—	—
Balance at March 31, 2017	$ 106,069	$ 104,454

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 ¥ 1,516 million ($ 13,511 thousand) and ¥ 1,410 million for the years ended March 31, 2017 and 2016, 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 30.81% and 33.02% for the years ended March 31, 2017 and 2016, respectively. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2017 and 2016 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2017	2016	2017
Deferred tax assets - current:			
Accrued Bonuses	¥ 598	¥ 571	$ 5,332
Provision for product warranties	199	219	1,768
Allowance for repairs	72	114	643
Allowance for doubtful accounts	18	16	162
Accrued corporation enterprise tax	152	170	1,354
Loss on valuation of inventories	115	122	1,025
Forecast of construction cost	121	136	1,082
Other	175	169	1,557
Sub-total	1,450	1,517	12,923
Less valuation allowance	(67)	(64)	(599)
Total deferred tax assets - current	¥ 1,383	¥ 1,453	$ 12,324

Deferred tax assets – non-current:			
Net defined benefit liabilities	¥ 221	¥ 350	$ 1,967
Fixed assets – elimination of intercompany profits	256	256	2,286
Accrued payable for transfer to the defined contribution pension plan	33	68	298
Allowance for doubtful accounts	327	799	2,912
Loss on impairment of long-lived assets	399	399	3,559
Loss on valuation of investment for subsidiaries and affiliates	33	200	298
Excess depreciation	179	120	1,593
Other	344	313	3,058
Sub-total	1,792	2,505	15,971
Less valuation allowance	(1,174)	(1,575)	(10,462)
Total deferred tax assets - non-current	¥ 618	¥ 930	$ 5,509

	Millions of yen		*Thousands of U.S. dollars*
	2017	2016	2017
Deferred tax liabilities:			
Unrealized gain on investment securities	¥ (2,273)	¥ (1,620)	$ (20,257)
Reduction reserve for fixed assets	(1,429)	(1,449)	(12,732)
Special depreciation reserve	(84)	(111)	(749)
Unrealized gain on subsidiaries' fixed assets by revaluation at the beginning of consolidation	(1,096)	(1,096)	(9,773)
Total deferred tax liabilities - non-current	(4,882)	(4,276)	(43,511)
Net deferred tax assets (liabilities) – non-current	¥ (4,264)	¥ (3,346)	$ (38,002)

The reconciliation between the statutory tax rate and the effective income tax rate for the year ended March 31, 2017 and 2016 were as follows:

	2017	2016
Statutory tax rate	30.81%	33.02%
Non-deductible expenses for income tax purpose	0.71	1.09
Non-taxable dividend income	(0.16)	(0.17)
Inhabitant per capita tax	0.77	0.88
Effect of tax rate change	—	0.12
Tax credit	(3.08)	(1.96)
Change in valuation allowance	(4.15)	0.55
Equity in earnings of affiliated companies	0.69	2.13
Other	0.49	0.41
Effective tax rate	26.08%	36.07%

15. Comprehensive Income

The components of other comprehensive income for the year ended March 31, 2017 and 2016 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2017	2016	2017
Unrealized gain on available-for-sale securities:			
Gains (Losses) arising during the year	¥ 2,141	¥ (2,117)	$ 19,082
Reclassification adjustments for gain (loss)	(16)	20	(144)
Amount before income tax effect	2,125	(2,097)	18,938
Income tax effect	(641)	717	(5,715)
Total	¥1,484	¥(1,380)	$ 13,223
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ 57	¥ 175	$ 513
Total	¥ 57	¥ 175	$ 513
Remeasurements of defined benefit plans:			
Gains (Losses) arising during the year	¥ 82	¥ (734)	$ 737
Reclassification adjustments for gain (loss)	111	(52)	983
Amount before income tax effect	193	(786)	1,720
Income tax effect	(59)	242	(527)
Total	¥ 134	¥ (544)	$ 1,193
Share of other comprehensive income in affiliates accounted for by equity method:			
Gains (Losses) arising during the year	¥ (41)	¥ (85)	$ (367)
Total	¥ (41)	¥ (85)	$ (367)
Total other comprehensive income	¥ 1,634	¥ (1,834)	$ 14,562

16. Provision of reserve for Losses on Construction Contracts

Provision of reserve for losses on construction contracts included in Cost of Sales were ¥ 47 million ($ 415 thousand) and ¥ 24 million for the years ended March 31, 2017 and 2016, 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.

c. Information about sales, profit, assets and other items for the years ended March 31, 2017 and 2016 are as follows:

Millions of yen

2017	Reportable segments					
	Industry A	Industry B	Industry C	Total	Reconciliations (Note 1)	Consolidated (Note 2)
Net sales:						
External customers	¥ 91,903	¥ 9,025	¥ 5,817	¥ 106,745	―	¥ 106,745
Intersegment sales or transfers	18	2	664	684	(684)	―
Total	91,921	9,027	6,481	107,429	(684)	106,745
Segment profit	9,148	1,447	1,245	11,840	(693)	11,147
Segment assets	75,779	5,211	12,157	93,147	35,395	128,542
Other items:						
Depreciation	1,701	44	421	2,166	1	2,167
Increase in tangible and intangible fixed assets	2,477	47	202	2,726	―	2,726

Millions of yen

2016	Reportable segments					
	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

Thousands of U.S. dollars

2017	*Reportable segments* Industry A	Industry B	Industry C	Total	Reconciliations (Note 1)	Consolidated (Note 2)
Net sales:						
External customers	$ 819,171	$ 80,445	$ 51,854	$ 951,470	—	$ 951,470
Intersegment sales or transfers	157	17	5,918	6,092	(6,092)	—
Total	819,328	80,462	57,772	957,562	(6,092)	951,470
Segment profit	81,538	12,903	11,095	105,536	(6,179)	99,357
Segment assets	675,447	46,451	108,362	830,260	315,494	1,145,754
Other items:						
Depreciation	15,164	395	3,753	19,312	6	19,318
Increase in tangible and intangible fixed assets	22,081	416	1,798	24,295	—	24,295

1. Reconciliations of segment profit in an amount of ¥ (693) million ($ (6,179) thousand) which consists of elimination of intersegment transactions in an amount of ¥5 million ($44 thousand) and corporate expenses which are not allocated to each reportable segment in an amount of ¥ (698) million ($ (6,223) 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, 2017 were as proposed by the Board of Directors and approved by the shareholders at the annual general meeting held on June 28, 2017.

Appropriations	*Millions of yen*	*Thousands of U.S. dollars*
Cash dividends of ¥ 18 ($ 0.16) per share	¥ 715	$ 6,374

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, 2017, 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, 2017, 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, 2017, 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 4, 2017

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, 2017)
Number of Employees: consolidated 2,670; non-consolidated 987 (March 31, 2017)

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

Kazuya Takahashi,	Representative Director, President, CEO
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
Takeo Norimitsu,	Director, Executive Officer
Tatsuya Nunohara,	Director,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
Noboru Horimoto,	Executive Officer
Sadanobu Kato,	Executive Officer
Akira Sakurai,	Executive Officer
Hiroaki Kuriyama,	Executive Officer
Yukihiro Hosozawa,	Executive Officer
Kazuhiko Harada,	Executive Officer