KYOKUTO

Annual Report 2018

Year ended March 31, 2018

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, 2018>

In the fiscal year under review, the Japanese economy experienced a modest recovery marked by a pick-up in the capital investment, employment/income environments, and consumer spending backed by improvements in corporate earnings. This was despite facing a protectionist policy in the United States and a rise in political risks in neighboring countries such as China and North Korea.

Under these circumstances, our Group actively implemented several measures as the second 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 5,945 million yen (5.6%) compared with the preceding consolidated fiscal year to 112,691 million yen. On the other hand, operating income decreased by 900 million yen (8.1%) to 10,246 million yen, and the current net income attributable to owners of the parent decreased by 940 million yen (11.6%) to 7,190 million yen.

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

i) Specialty Truck Segment

In Japan, demand for logistics-related vehicles grew steadily. The Group made capital investments aimed at streamlining production and improving efficiency at each plant, including the new Power Gate Center constructed at the Nagoya Plant in January 2018.
The Group launched new products by leveraging its technology, including "PY165-39," a new piston concrete pump truck with 39-meter boom, the longest in Japan, and the highest output volume in Japan, launched in October 2017. In November, the Group fully remodeled and released a press type refuse truck, and a rotary type refuse truck.
As for the overseas market, the Group engaged in new activities such as producing export vehicles for the Republic of Uganda, for which the Group won a contract in the preceding fiscal year, and expanding product lines in Indonesia.

As a result, net sales in the Specialty Truck Segment increased by 5,866 million yen (6.4%) to 97,788 million yen. On the other hand, segment profit decreased by 851 million yen (9.3%) to 8,296 million yen due to cost increase, etc.


New press type refuse truck

New piston concrete pump truck
"PY165-39"

Tailgate lifter
(Indonesia model)

ii) Environmental Equipment and Systems Segment

As for plant construction, 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.

In the biogas plant business, the Group engaged in sales activities such as collecting information and making proposals to win new contracts.

As a result, net sales decreased by 569 million yen (6.3%) to 8,458 million yen due to the momentary decrease of the sales by the percentage of completion method in the plant construction department. On the other hand, Segment profit increased by 75 million yen (5.2%) to 1,523 million yen.

Biogas plant

Recycle center in Naha

iii) Real Estate Rental Segment

For multistory parking systems, the Group focused on securing new contracts for their renewal and maintenance, which is a stock-type business. For coin-operated parking, the Group strove to secure sales for the multistory parking facility Sasashima Live Parking that opened in Nagoya in April 2017 and other locations.

As for the overseas market, the Group won a contract for the second multi-story parking equipment in Indonesia in March 2018. The Group will facilitate construction with a target completion date of December 2018.

As a result, net sales increased by 606 million yen (9.4%) to 7,087 million yen. On the other hand, segment profit decreased by 89 million yen (7.2%) to 1,155 million yen.

Sasashima Live Parking
(The toll parking (Coin-operated) in Nagoya)

The first Multi-story parking equipment
in Indonesia

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

The Japanese economy is expected to remain on a steady growth path due to continued improvements in the capital investment and employment/income environments backed by strong corporate earnings, despite facing global political risks.

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 2019, the Company estimates net sales to grow to 115, 000 million yen, operating income to decrease to 9,500 million yen, the current net income attributable to owners of the parent is estimated to decrease to 6,700 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 10,317million yen (8.0%) from the end of the preceding fiscal year to 138,860 million yen.

Current assets increased by 7,602 million yen (10.6%) to 79,231 million yen, due to increases in cash and deposits, etc.

Non-current assets (property, plant and equipment, intangible assets and investments and other assets) increased by 2,714 million yen (4.8%) to 59,629 million yen, due to the rise in market prices of investment securities, etc.

Regarding liabilities, current liabilities increased by 4,412 million yen (12.1%) to 40,921 million yen due to increases in electronically recorded monetary obligations, etc. Non-current liabilities decreased by 1,129 million yen (10.1%) to 10,032 million yen due to repayment of long-term loans, etc.

Total net assets increased by 7,034 million yen (8.7%) to 87,907 million yen due to the posting of net profit, etc. attributable to owners of parent.

As a result, the capital adequacy ratio stood at 62.7% as of the end of the current fiscal year (62.3% at the end of the preceding fiscal year).

ii) Cash Flow Situation

Consolidated cash and cash equivalents at the end of period increased by 3,772 million yen (21.5%) compared with the end of the preceding fiscal year to 21,357 million yen. Cash flow by activity type is summarized as follows:

Cash Flow from Operating Activities

Net cash provided by operating activities amounted to 10,857 million yen (a decrease of 1,116 million yen compared with the preceding fiscal year). This was because of the posting of net profit before tax, increases in trade notes and accounts payable, etc.

Cash Flow from Investing Activities

Net cash used in investing activities was 4,083 million yen (a decrease of 808 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 2,973 million yen (an increase of 799 million yen compared with the preceding fiscal year). This was because of repayment of loans, dividends paid, 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 27th, 2018 resolved and passed to pay a dividend of 18 yen per share at the end of March 2018 as originally proposed by management, making its annual dividend 36 yen per share including an interim dividend, increased by 2 yen compared with the preceding fiscal year.

For the year ending March 2019, management plans to pay an annual dividend of 38 yen per share (including an interim dividend of 19 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, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2018	2017	2018
Current assets:			
Cash and deposits (Notes 8 & 9)	¥ 10,657	¥ 6,684	$ 100,303
Short-term securities (Notes 8 & 9)	11,200	10,900	105,412
Trade notes and accounts receivable (Note 9 & 17)	40,741	38,759	383,440
Merchandise & finished goods	890	884	8,379
Work in process	4,763	4,305	44,823
Raw materials & supplies	7,964	7,364	74,952
Other current assets	1,716	1,406	16,154
Deferred tax assets (Note 15)	1,360	1,383	12,803
Allowance for doubtful accounts	(60)	(57)	(564)
Total current assets	79,231	71,628	745,702
Property, plant and equipment (Note 10):			
Land (Note 5)	20,592	20,643	193,805
Buildings and structures (Note 5)	33,178	32,402	312,260
Machinery, equipment and vehicles	17,817	17,166	167,685
Construction in progress	276	176	2,594
Other	5,029	4,810	47,337
Total	76,892	75,197	723,681
Accumulated depreciation	(36,997)	(36,223)	(348,204)
Net property, plant and equipment	39,895	38,974	375,477
Intangible assets	639	648	6,018
Investments and other assets:			
Investment securities (Notes 3 & 9)	16,908	15,518	159,137
Deferred tax assets (Note 15)	111	53	1,047
Other assets	2,786	2,450	26,214
Allowance for doubtful accounts	(710)	(729)	(6,681)
Total investments and other assets	19,095	17,292	179,717
Total non-current assets	59,629	56,914	561,212
Total	¥ 138,860	¥ 128,542	$ 1,306,914

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars (Note 1) 2018
Current liabilities:			
Short-term bank loans (Notes 4 & 9)	¥ 2,971	¥ 2,639	$ 27,964
Current portion of long-term bank loans (Notes 4 & 9)	1,345	1,530	12,656
Trade notes and accounts payable (Note 9 & 17)	16,846	16,017	158,547
Electronically recorded obligations - operating (Note 9 & 17)	11,003	7,462	103,562
Accrued expenses	4,095	3,916	38,545
Income taxes payable	1,741	1,907	16,388
Other current liabilities (Note 4)	2,920	3,037	27,476
Total current liabilities	40,921	36,508	385,138
Non-current liabilities:			
Long-term bank loans (Notes 4 & 9)	1,204	2,611	11,327
Net defined benefit liabilities (Note 6)	688	732	6,478
Liabilities for directors' retirement benefits	160	205	1,508
Deferred tax liabilities (Note 15)	4,841	4,317	45,563
Other non-current liabilities (Notes 4, 5 & 9)	3,139	3,296	29,538
Total non-current liabilities	10,032	11,161	94,414
Total liabilities	50,953	47,669	479,552
Net assets:			
Shareholders' equity:			
Common stock (Note 12):			
Authorized-170,950,672 shares			
Issued-42,737,668 shares in 2018 and 2017	11,900	11,900	111,999
Capital surplus (Note 12)	11,719	11,719	110,294
Retained earnings	59,464	53,723	559,667
Treasury stock, at cost:			
3,009,431 shares in 2017			
3,009,885 shares in 2018	(2,151)	(2,150)	(20,246)
Total shareholders' equity	80,932	75,192	761,714
Accumulated other comprehensive income (Note 16):			
Unrealized gain on available-for-sale securities	6,416	5,167	60,383
Foreign currency translation adjustments	22	(12)	207
Remeasurements of defined benefit plans	(339)	(239)	(3,190)
Total accumulated other comprehensive income	6,099	4,916	57,400
Non-controlling interests	876	765	8,248
Total net assets	87,907	80,873	827,362
Total	¥ 138,860	¥ 128,542	$ 1,306,914

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF INCOME
Years ended March 31, 2018 and 2017

	Millions of yen 2018	*Millions of yen* 2017	*Thousands of U.S. dollars (Note 1)* 2018
Net sales	¥ 112,691	¥ 106,745	$ 1,060,618
Cost of sales (Note 18)	89,450	83,253	841,879
Gross profit	23,241	23,492	218,739
Selling, general and administrative expenses (Note 13)	12,995	12,345	122,307
Operating income	10,246	11,147	96,432
Other income (expenses):			
Interest and dividend income	358	293	3,365
Interest expense	(104)	(99)	(975)
Gain on sales of investment securities	104	1	976
Loss on sales or disposition of property and equipment, net	(323)	(65)	(3,036)
Loss on impairment of long-lived assets (Note 14)	(216)	-	(2,033)
Equity in losses of affiliates	(92)	(263)	(868)
Loss on valuation of investment securities (Note 3 and 9)	-	(125)	-
Foreign exchange loss	(124)	(103)	(1,163)
Other-net	41	(33)	382
Other expenses -net	(356)	(394)	(3,352)
Income before income taxes and non-controlling interests	9,890	10,753	93,080
Income taxes (Note 15):			
Current	3,007	2,529	28,300
Deferred	33	275	313
Total income taxes	3,040	2,804	28,613
Net income	6,850	7,949	64,467
Net loss attributable to non-controlling interests	(340)	(182)	(3,206)
Net income attributable to owners of the parent	¥ 7,190	¥ 8,131	$ 67,673

	Yen 2018	*Yen* 2017	*U.S. dollars (Note 1)* 2018
Amounts per shares:			
Basic net income	¥ 180.99	¥ 204.66	$ 1.70
Diluted net income	-	-	-
Cash dividends applicable to earnings of the year	36.00	34.00	0.34

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Net income	¥ 6,850	¥ 7,949	$ 64,467
Other comprehensive income (Note 16):			
Unrealized gain on available-for-sale securities	1,249	1,484	11,755
Foreign currency translation adjustments	15	57	140
Remeasurements of defined benefit plans	(100)	134	(933)
Share of other comprehensive income in affiliates accounted for by the equity method	35	(41)	326
Total other comprehensive income	1,199	1,634	11,288
Comprehensive income	¥ 8,049	¥ 9,583	$ 75,755
Total comprehensive income attributable to:			
Owners of the parent	8,373	9,799	78,809
Non-controlling interests	(324)	(216)	(3,054)

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
Years ended March 31, 2018 and 2017

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, 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
Purchases of treasury stock					(1)	(1)						(1)
Net income attributable to owners of the parent				7,190		7,190						7,190
Change in scope of consolidation				(19)		(19)						(19)
Appropriation												
Cash dividends paid				(1,430)		(1,430)						(1,430)
Other net changes in the year							1,249	34	(100)	1,183	111	1,294
Balance, March 31, 2018	¥	11,900	11,719	59,464	(2,151)	80,932	6,416	22	(339)	6,099	876	87,907

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, 2017	$	111,999	110,294	505,635	(20,238)	707,690	48,628	(107)	(2,257)	46,264	7,204	761,158
Purchases of treasury stock					(8)	(8)						(8)
Net income attributable to owners of the parent				67,673		67,673						67,673
Change in scope of consolidation				(180)		(180)						(180)
Appropriation												
Cash dividends paid				(13,461)		(13,461)						(13,461)
Other net changes in the year							11,755	314	(933)	11,136	1,044	12,180
Balance, March 31, 2018	$	111,999	110,294	559,667	(20,246)	761,714	60,383	207	(3,190)	57,400	8,248	827,362

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Operating activities:			
Income before income taxes and non-controlling interests	¥ 9,890	¥ 10,753	$ 93,080
Depreciation and amortization	2,529	2,213	23,802
Loss on valuation of investment securities	-	125	-
Gain on sales of investment securities	(104)	(1)	(976)
Loss on impairment of long-lived assets	216	-	2,033
Equity in losses of affiliates	92	263	868
Loss on sales or disposition of property and equipment, net	282	58	2,649
Interest and dividend income	(358)	(293)	(3,365)
Interest expenses	104	99	975
Decrease (increase) in trade notes and accounts receivable	(1,803)	3,040	(16,971)
Decrease (increase) in inventories	(816)	177	(7,682)
Increase (decrease) in trade notes and accounts payable	4,478	346	42,143
Increase (decrease) in net defined benefit liabilities	(195)	(230)	(1,834)
Increase (decrease) in allowance for doubtful accounts	(17)	(1,850)	(160)
Increase (decrease) in allowance for others	(94)	(215)	(886)
Increase (decrease) in consumption taxes payable	(185)	259	(1,738)
Other, net	(380)	(82)	(3,578)
Sub total	13,639	14,662	128,360
Interest and dividend income received	357	293	3,364
Interest expenses paid	(81)	(17)	(762)
Income taxes paid	(3,058)	(2,965)	(28,777)
Net cash provided by operating activities	10,857	11,973	102,185
Investing activities:			
Purchases of shares of subsidiaries	-	(354)	-
Purchases of securities and investments	(526)	(222)	(4,954)
Proceeds from sales of securities and investments	215	4	2,023
Purchases of property, plant and equipment	(3,469)	(2,533)	(32,649)
Proceeds from sales of property, plant and equipment	235	321	2,213
Net decrease (increase) in short-term loans receivable	45	(35)	424
Disbursement of loans receivable	(588)	(465)	(5,540)
Collection of loans receivable	5	9	50
Net cash used in investing activities	(4,083)	(3,275)	(38,433)
Financing activities:			
Net increase (decrease) in short-term bank loans	16	(634)	147
Proceeds from long-term bank loans	70	-	658
Repayment of long-term bank loans	(1,593)	(1,791)	(14,992)
Payment of finance lease obligations	(35)	(77)	(334)
Purchases of treasury stock	(1)	(0)	(8)
Dividends paid	(1,430)	(1,272)	(13,458)
Net cash used in financing activities	(2,973)	(3,774)	(27,987)
Foreign currency translation adjustments on cash and cash equivalents	(32)	(32)	(298)
Net increase (decrease) in cash and cash equivalents	3,769	4,892	35,467
Cash and cash equivalents at beginning of year	17,584	12,614	165,501
Increase in cash and cash equivalents from a newly consolidated subsidiary	4	78	41
Cash and cash equivalents at end of year (Note 8)	¥ 21,357	¥ 17,584	$ 201,009

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 ¥106.25=US$1, the approximate exchange rate on March 31, 2018. 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 11 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, 2018, 6 subsidiaries are excluded from scope of consolidation. As to these, investments in 6 nonconsolidated subsidiaries are accounted for by the equity method. These companies are not material in terms of total assets, net sales, net income and retained earnings and do not have any significant impact on the consolidated financial statements.
During the fiscal year ended March 31, 2018, PT. Kyokuto Indomobil Manufacturing Indonesia has been included into the scope of consolidation from being accounted for by the equity method and Mori Plant Co., Ltd. has newly been accounted for equity method, since their materiality has been increased.
Among the consolidated subsidiaries, the balance sheet date for Kyokuto Kaihatsu (Kunshan) Machinery Co., Ltd., Trex Thairung Co., Ltd. and PT. Kyokuto Indomobil Manufacturing Indonesia 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. 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.

Non-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 39,727 and 39,728 thousand shares for 2018 and 2017.
Diluted net income per share is not disclosed because the Company had no potentially dilutive shares outstanding at these balance sheet dates.
Cash dividends per share shown in the statements of income are the amounts applicable to the respective years.

(o) Accounting Standards issued but not yet applied

- "Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan (ASBJ) Statement No.29, March 30, 2018)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No.30, March 30, 2018)

(1) Overview

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) in the United States jointly developed a comprehensive accounting standard for revenue recognition and published the "Revenue from Contracts with Customers" (as IFRS 15 in the IASB and Topic 606 in the FASB) in May 2014, respectively. To respond to both IFRS 15,which will be applied from a fiscal year beginning on or after January 1, 2018 and Topic 606, which will be applied from a fiscal year beginning after December 15, 2017, the ASBJ has developed a comprehensive accounting standard for revenue recognition and issued it in conjunction with the Implementation Guidance.

In developing the accounting standards for revenue recognition, the ASBJ basically integrated the core principles of IFRS 15 from a comparability point if view of the financial statements, which is one of the benefits of ensuring consistency with IFRS 15, the ASBJ, on the other hand, considered additional alternative treatments where current practices under Japanese GAAP should be reflected as far as such treatments would not significantly impair international comparability.

(2) Scheduled date of application

To be applied from the beginning of the fiscal year ending March 2022.

(3) Effects of application of these standards

The effects of the application of the aforementioned standard and guidance on the Company's consolidated financial statements are currently under the assessment.

3. Securities

The following is a summary of held-to-maturity securities and available-for-sale securities at March 31, 2018 and 2017:

Millions of yen

	Held-to-maturity securities			
March 31, 2018	Carrying amount	Gross unrealized gains	Gross unrealized losses	Fair value
Debt securities,				
whose fair value exceeds carrying amount	¥ 30	¥ 0	¥ —	¥ 30
whose fair value does not exceed carrying amount	—	—	—	—
Total	¥ 30	¥ 0	¥ —	¥ 30

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

Thousands of U.S. dollars

	Held-to-maturity securities			
March 31, 2018	Carrying amount	Gross unrealized gains	Gross unrealized losses	Fair value
Debt securities,				
whose fair value exceeds carrying amount	$ 282	$ 0	$ —	$ 282
whose fair value does not exceed carrying amount	—	—	—	—
Total	$ 282	$ 0	$ —	$ 282

Millions of yen

	Available-for-sale securities			
March 31, 2018	Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	¥ 5,888	¥ 9,260	¥ (2)	¥ 15,146
Other securities	333	—	(18)	315
Subtotal	¥ 6,221	¥ 9,260	¥ (20)	¥ 15,461
Market value not available:				1,417
Total				¥ 16,878

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

Thousands of U.S. dollars

	Available-for-sale securities			
March 31, 2018	Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	$ 55,422	$ 87,151	$ (19)	$ 142,554
Other securities	3,130	—	(169)	2,961
Subtotal	$ 58,552	$ 87,151	$ (188)	$ 145,515
Market value not available:				13,340
Total				$ 158,855

Impairment losses of available-for-sale securities which have market value were recognized in the amount of ¥ 16 million during the fiscal year ended March 31, 2017. No impairment loss was recorded during the fiscal year ended March 31, 2018.

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, 2018 and 2017 were 1.62% and 0.64%, respectively.

Long-term debts at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		*Thousands of U.S. dollars*
	2018	2017	2018
Long-term bank loans	¥ 2,549	¥ 4,141	$ 23,983
Lease obligations	345	312	3,247
Other	891	1,115	8,390
Total	¥ 3,785	¥ 5,568	$ 35,620

Aggregate annual maturities of long-term debts subsequent to March 31, 2018 were as follows:

Year ending March 31	*Millions of yen*	*Thousands of U.S. dollars*
2019	¥ 1,663	$ 15,654
2020	920	8,663
2021	918	8,636
2022	257	2,414
2023 and thereafter	27	253
Total	¥ 3,785	$35,620

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, 2018 and 2017.

The unexecuted balance of lending commitments of the Company at March 31, 2018 and 2017 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2018	2017	2018
Total lending commitments	¥ 5,000	¥ 5,000	$ 47,059
Less amounts currently executed	—	—	—
Unexecuted balance	¥ 5,000	¥ 5,000	$ 47,059

5. Pledged Assets

The following assets were pledged as collateral for the following borrowings at March 31, 2018 and 2017:

	Millions of yen		*Thousands of U.S. dollars*
	2018	2017	2018
Land	¥ 750	¥ 750	$ 7,055
Buildings	1,728	1,832	16,267
Total	¥ 2,478	¥ 2,582	$ 23,322

	Millions of yen		*Thousands of U.S. dollars*
	2018	2017	2018
Other non-current liabilities	¥ 1,786	¥ 2,019	$ 16,814
Total	¥ 1,786	¥ 2,019	$ 16,814

6. Retirement Benefits

The Company, a domestic subsidiary and a foreign 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, 2018 and 2017 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2018	2017	2018
Benefit obligations at beginning of year	¥ 6,794	¥ 6,700	$ 63,947
Service cost	439	430	4,125
Interest cost	20	11	189
Actuarial gains or losses	376	44	3,542
Retirement benefits paid	(416)	(391)	(3,917)
Increase of benefit obligation due to a newly	6	—	58
consolidated subsidiary	¥ 7,219	¥ 6,794	$ 67,944

The changes in plan assets for the year ended March 31, 2018 and 2017 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2018	2017	2018
Plan assets at beginning of year	¥ 6,062	¥ 5,545	$ 57,056
Expected return on plan assets	121	95	1,141
Actuarial gains or losses	161	126	1,516
Contributions from employers	538	652	5,057
Retirement benefits paid	(351)	(356)	(3,304)
Plan assets at end of year	¥ 6,531	¥ 6,062	$ 61,466

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, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Benefit obligations	¥ 7,219	¥ 6,794	$ 67,944
Plan assets at end of year	6,531	6,062	61,466
Net amount of liabilities and assets recognized in consolidated balance sheet	¥ 688	¥ 732	$ 6,478
Net defined benefit liabilities	¥ 688	¥ 732	$ 6,478
Net defined benefit assets	—	—	—
Net amount of liabilities and assets recognized in consolidated balance sheet	¥ 688	¥ 732	$ 6,478

The retirement benefit expenses for the year ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Service cost	¥ 439	¥ 430	$ 4,125
Interest cost	20	11	189
Expected return on plan assets	(121)	(95)	(1,141)
Recognition of actuarial gains or losses	70	111	664
Severance and pension costs	¥ 408	¥ 457	$ 3,837

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
	2018	2017	2018
Recognized actuarial gains or losses	¥ (144)	¥ 193	$ (1,355)
Total	¥ (144)	¥ 193	$ (1,355)

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*
	2018	2017	2018
Unrecognized actuarial gains or losses	¥ 486	¥ 342	$ 4,578
Total	¥ 486	¥ 342	$ 4,578

The components of plan assets as of March 31, 2018 and 2017 were as follows:

	Ratio	
	2018	2017
Bonds	42%	41%
Securities	31%	32%
General account asset	20%	20%
Other	7%	7%
Total	100%	100%

The major actuarial assumptions for the year ended March 31, 2018 and 2017 were as follows:

	2018	2017
Discount rate		
The Company and a domestic subsidiary	0.0 to 0.6%	0.0 to 0.6%
A foreign subsidiary	7.2%	-%
Long-term rate of return on plan assets		
The Company and a domestic subsidiary	2.0%	1.3 to 2.0%
A foreign subsidiary	-%	-%
Future salary increase		
The Company and a domestic subsidiary	4.3 to 6.5%	4.3 to 6.3%
A foreign subsidiary	7.0%	-%

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

The required amount of the defined contribution pension plan were ¥ 107 million ($ 1,011 thousand) and ¥ 103 million for the year ended March 31, 2018 and 2017 in the Company and other domestic subsidiaries.

7. Contingencies

At March 31, 2018 and 2017, the Group was contingently liable as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2018	2017	2018
As a guarantor of indebtedness of :			
Affiliated companies	¥ 38	¥ 114	$ 358
Other	12	14	115
Total	¥ 50	¥ 128	$ 473

8. Cash and cash equivalents

Cash and cash equivalents at March 31, 2018 and 2017 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2018	2017	2018
Cash and deposits	¥ 10,657	¥ 6,684	$ 100,303
Short-term securities	11,200	10,900	105,412
Securities with redemption term of over 3 months	(500)	—	(4,706)
Cash and cash equivalents	¥ 21,357	¥ 17,584	$ 201,009

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, 2018 and 2017. 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, 2018	Carrying amount	Fair value	Unrecognized gain/loss
Cash and deposits	¥ 10,657	¥ 10,657	¥ —
Trade notes and accounts receivable	40,741	40,741	—
Short-term securities	11,200	11,200	—
Investment securities	15,491	15,491	0
Trade notes and accounts payable	(16,846)	(16,846)	—
Electronically recorded obligations - operating	(11,003)	(11,003)	—
Short-term bank loans	(2,971)	(2,971)	—
Long-term bank loans	(2,549)	(2,550)	(1)
Long-term deposits	(891)	(939)	(48)
Derivatives	—	—	—

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	—	—	—

			Thousands of U.S. dollars
March 31, 2018	Carrying account	Fair value	Unrecognized gain/loss
Cash and deposits	$ 100,303	$ 100,303	$ —
Trade notes and accounts receivable	383,440	383,440	—
Short-term securities	105,412	105,412	—
Investment securities	145,797	145,797	0
Trade notes and accounts payable	(158,547)	(158,547)	—
Electronically recorded obligations - operating	(103,562)	(103,562)	—
Short-term bank loans	(27,964)	(27,964)	—
Long-term bank loans	(23,983)	(23,996)	(13)
Long-term deposits	(8,391)	(8,842)	(451)
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”, “Electronically recorded obligations - operating” 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, 2018 and 2017 consist of the following:

	Millions of yen		*Thousands of U.S. dollars*
	2018	2017	2018
Non-listed equity securities	¥ 1,417	¥ 1,702	$13,340
Long-term deposit	1,419	1,408	13,357

Impairment losses of non-listed securities were recognized in the amount of ¥ 109 million during the fiscal year ended March 31, 2017. No impairment loss was recorded during the fiscal year ended March 31, 2018.

The annual maturities of financial assets and investment securities with contractual maturities subsequent to March 31, 2018 and 2017 were as follows:

	Millions of yen		
March 31, 2018	Due in one year or less	Due after one year through five years	Due after five years through ten years
Cash and deposits	¥ 10,657	¥ —	¥ —
Trade notes and accounts receivable	40,741	—	—
Short-term securities	11,200	—	—
Investment securities	30	—	—
Total	¥ 62,628	¥ —	¥ —

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	—	—
Short-term securities	10,900	—	—
Investment securities	15	30	—
Total	¥ 56,358	¥ 30	¥ —

Thousands of U.S. dollars

March 31, 2018	Due in one year or less	Due after one year through five years	Due after five years through ten years
Cash and cash equivalents	$ 100,303	$ —	$ —
Trade notes and accounts receivable	383,440	—	—
Short-term securities	105,412	—	—
Investment securities	282	—	—
Total	$ 589,437	$ —	$ —

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 ¥ 966 million ($ 9,090 thousand) and ¥ 745 million for the year ended March 31, 2018 and 2017, respectively. There was no loss on impairment of investment properties for the year ended March 31, 2018 and 2017.

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, 2017	Increase/ (decrease)	March 31, 2018	March 31, 2018
¥ 7,746	¥ (645)	¥ 7,101	¥ 9,985

			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

			Thousands of U.S. dollars
Carrying amount			Fair value
April 1, 2017	Increase/ (decrease)	March 31, 2018	March 31, 2018
$ 72,903	$ (6,073)	$ 66,830	$ 93,976

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

(2) Increase during the year ended march 31, 2018 was mainly due to the expenditure for repairing the elevator of 'the Mall MIZUHO' in amount of ¥ 4 million ($ 39 thousand). Decrease during the year ended March 31, 2018 was mainly due to an unused land in an amount of ¥ 502 million ($ 4,725 thousand).
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. Decrease during the year ended March 31, 2017 was mainly due to depreciation in an amount of ¥ 193 million.

(3) Fair value at March 31, 2018 and 2017 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, 2018 and 2017, 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:

		Millions of yen	
	Number of Shares	Common Stock	Capital Surplus
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
Movement of stock during 2018	—	—	—
Balance at March 31, 2018	42,737,668	¥ 11,900	¥ 11,719

	Thousands of U.S. dollars	
	Common Stock	Capital surplus
Balance at March 31, 2017	$ 111,999	$ 110,294
Movement of stock during 2018	—	—
Balance at March 31, 2018	$ 111,999	$ 110,294

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 ¥ 1,577 million ($ 14,843 thousand) and ¥ 1,516 million for the years ended March 31, 2018 and 2017, respectively.

14. Loss on impairment of long-lived assets

With regard to the property, plant and equipment of the Group, business assets were classified into groups based on the management accounting categories. For rental properties, idle properties and properties for sale, each property is considered to constitute a group. Headquarters and welfare facilities were classified as corporate assets. The consolidated subsidiaries classified their fixed assets into groups by the individual subsidiaries which are regarded as the smallest units independently generating cash flows.

In fiscal year ending March 31, 2018, the Group recognized loss on impairment of long-lived assets as follows:

Location	Use	Type of assets	*Millions of yen*	*Thousands of U.S. dollars*
Pluakdang, Rayong, Thailand	Business properties	Buildings and structures	¥ 185	$ 1,738
		Machinery, equipment and vehicles	17	157
		Other long-lived assets	14	138
		Total	216	2,033

The company found it difficult to return the investments due to decrease of profitability as the result of reviewing the business plan, the book values of assets were written down to the expected future cash flow in certain business properties.
The recoverable values of the above business properties were determined using net sales values based on the real estate appraisal of the building and the salvage values of the structures, machinery, equipment, tools, furniture, fixtures and leased assets.

15. Income Taxes

The Company and its domestic subsidiaries are subject to several taxes based on income, which in the aggregate resulted in a statutory tax rate of approximately 30.81% for the years ended March 31, 2018 and 2017. 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, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deferred tax assets - current:			
Accrued Bonuses	¥ 604	¥ 598	$ 5,689
Provision for product warranties	204	199	1,924
Allowance for repairs	47	72	444
Allowance for doubtful accounts	19	18	177
Accrued corporation enterprise tax	137	152	1,288
Loss on valuation of inventories	124	115	1,168
Forecast of construction cost	107	121	1,003
Other	195	175	1,836
Sub-total	1,437	1,450	13,529
Less valuation allowance	(77)	(67)	(726)
Total deferred tax assets - current	¥ 1,360	¥ 1,383	$ 12,803

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deferred tax assets – non-current:			
Net defined benefit liabilities	¥ 245	¥ 221	$ 2,304
Fixed assets – elimination of intercompany profits	256	256	2,414
Accrued payable for transfer to the defined contribution pension plan	–	33	–
Allowance for doubtful accounts	218	327	2,050
Loss on impairment of long-lived assets	309	399	2,908
Loss on valuation of investment for subsidiaries and affiliates	33	33	312
Excess depreciation	242	179	2,276
Other	291	344	2,735
Sub-total	1,594	1,792	14,999
Less valuation allowance	(940)	(1,174)	(8,843)
Total deferred tax assets - non-current	¥ 654	¥ 618	$ 6,156

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deferred tax liabilities:			
Unrealized gain on investment securities	¥ (2,822)	¥ (2,273)	$ (26,555)
Reduction reserve for fixed assets	(1,407)	(1,429)	(13,242)
Special depreciation reserve	(59)	(84)	(556)
Unrealized gain on subsidiaries' fixed assets by revaluation at the beginning of consolidation	(1,096)	(1,096)	(10,319)
Total deferred tax liabilities - non-current	(5,384)	(4,882)	(50,672)
Net deferred tax assets (liabilities) – non-current	¥ (4,730)	¥ (4,264)	$ (44,516)

The reconciliation between the statutory tax rate and the effective income tax rate for the year ended March 31, 2018 and 2017 were as follows:

	2018	2017
Statutory tax rate	—	30.81%
Non-deductible expenses for income tax purpose	—	0.71
Non-taxable dividend income	—	(0.16)
Inhabitant per capita tax	—	0.77
Tax credit	—	(3.08)
Change in valuation allowance	—	(4.15)
Equity in earnings of affiliated companies	—	0.69
Other	—	0.49
Effective tax rate	—	26.08%

The reconciliation between the statutory tax rate and the effective income tax rate for the year ended March 31, 2018 was omitted because the difference is 5% or below the statutory income tax rate.

16. Comprehensive Income

The components of other comprehensive income for the year ended March 31, 2018 and 2017 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2018	2017	2018
Unrealized gain on available-for-sale securities:			
Gains (Losses) arising during the year	¥ 1,892	¥ 2,141	$ 17,805
Reclassification adjustments for gain (loss)	(104)	(16)	(976)
Amount before income tax effect	1,788	2,125	16,829
Income tax effect	(539)	(641)	(5,074)
Total	¥ 1,249	¥1,484	$ 11,755
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ 15	¥ 57	$ 140
Total	¥ 15	¥ 57	$ 140
Remeasurements of defined benefit plans:			
Gains (Losses) arising during the year	¥ (214)	¥ 82	$ (2,019)
Reclassification adjustments for gain (loss)	70	111	664
Amount before income tax effect	(144)	193	(1,355)
Income tax effect	44	(59)	422
Total	¥ (100)	¥ 134	$ (933)
Share of other comprehensive income in affiliates accounted for by equity method:			
Gains (Losses) arising during the year	¥ 35	¥ (41)	$ 326
Total	¥ 35	¥ (41)	$ 326
Total other comprehensive income	¥ 1,199	¥ 1,634	$ 11,288

17. Trade Note Maturities

The following trade notes and electronically recorded monetary claims and obligations which matured but were not settled on March 31, 2018 because that day fell on a bank holiday, were included in the balance sheet as of March 31, 2018:

	Millions of yen		*Thousands of U.S. dollars*
	2018	2017	2018
Trade notes receivable	¥ 1,019	¥ —	$ 9,591
Electronically recorded monetary claims - operating	239	—	2,246
Trade notes payable	378	—	3,557
Electronically recorded obligation - operating	2,027	—	19,077

18. Provision of reserve for Losses on Construction Contracts

Provision of reserve for losses on construction contracts included in Cost of Sales were ¥ 33 million ($ 313 thousand) and ¥ 47 million for the years ended March 31, 2018 and 2017, respectively.

19. Segment Information

a. Description of reportable segments

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

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

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

c. Information about sales, profit, assets and other items for the years ended March 31, 2018 and 2017 are as follows:

Millions of yen

	Reportable segments					
2018	Industry A	Industry B	Industry C	Total	Reconciliations (Note 1)	Consolidated (Note 2)
Net sales:						
External customers	¥ 97,761	¥ 8,456	¥ 6,474	¥ 112,691	―	¥ 112,691
Intersegment sales or transfers	27	2	613	642	(642)	―
Total	97,788	8,458	7,087	113,333	(642)	112,691
Segment profit	8,296	1,523	1,155	10,974	(728)	10,246
Segment assets	81,041	5,507	12,459	99,007	39,853	138,860
Other items:						
Depreciation	1,991	46	442	2,479	1	2,480
Increase in tangible and intangible fixed assets	2,982	48	172	3,202	―	3,202

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

Thousands of U.S. dollars

2018	Reportable segments Industry A	Industry B	Industry C	Total	Reconciliations (Note 1)	Consolidated (Note 2)
Net sales:						
External customers	$ 920,097	$ 79,586	$ 60,935	$ 1,060,618	－	$ 1,060,618
Intersegment sales or transfers	249	18	5,772	6,039	(6,039)	－
Total	920,346	79,604	66,707	1,066,657	(6,039)	1,060,618
Segment profit	78,078	14,334	10,873	103,285	(6,853)	96,432
Segment assets	762,734	51,832	117,265	931,831	375,083	1,306,914
Other items:						
Depreciation	18,738	437	4,159	23,334	7	23,341
Increase in tangible and intangible fixed assets	28,067	456	1,618	30,141	－	30,141

1. Reconciliations of segment profit in an amount of ¥ (728) million ($ (6,853) thousand) which consists of elimination of intersegment transactions in an amount of ¥ 5 million ($ 50 thousand) and corporate expenses which are not allocated to each reportable segment in an amount of ¥ (733) million ($ (6,903) 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.

20. Subsequent Event

T The following appropriations of the Company's retained earnings in respect of the year ended March 31, 2018 were as proposed by the Board of Directors and approved by the shareholders at the annual general meeting held on June 27, 2018.

Appropriations	*Millions of yen*	*Thousands of U.S. dollars*
Cash dividends of ¥ 18 ($ 0.17) per share	¥ 715	$ 6,730

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, 2018, 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, 2018, 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, 2018, 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 3, 2018

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, 2018)
Number of Employees: consolidated 2,781; non-consolidated 999 (March 31, 2018)

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 100,728 ㎡
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
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
Harumi Sugimoto,	Standing Auditor
Yoshinori Takashima,	Auditor
Morio Kusunoki,	Outside Corporate Auditor
Yoshihiko Norikura,	Outside Corporate Auditor
Mitsuhiko Nakajima,	Associate Senior Executive Officer
Noboru Horimoto,	Executive Officer
Sadanobu Kato,	Executive Officer
Akira Sakurai,	Executive Officer
Hiroaki Kuriyama,	Executive Officer
Yukihiro Hosozawa,	Executive Officer
Kazuhiko Harada,	Executive Officer
Teruyuki Kizu,	Executive Officer
Shinichi Takahama,	Executive Officer