KYOKUTO

Annual Report 2019

Year ended March 31, 2019

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, 2019>

In the fiscal year under review, the Japanese economy experienced a modest recovery marked by an increase in capital investment and improvement in the employment/income environments. This was despite facing concerns both at home and abroad about factors including a series of natural disasters, U.S.–China trade frictions, and the Brexit issue.

Under these circumstances, our Group actively implemented several measures as the final year of the medium-term management plan 2016-18 "Value up to the Next" (April 1, 2016 - March 31, 2019), to enhance our earnings base and improve our corporate quality .

Representative Director,
President, CEO
Kazuya Takahashi

As a result, in the current consolidated fiscal year, net sales increased by 1,610 million yen (1.4%) compared with the preceding consolidated fiscal year to 114,301 million yen. Operating income decreased by 1,691 million yen (16.5%) to 8,554 million yen due to increase in costs, etc, and the current net income attributable to owners of the parent decreased by 905 million yen (12.6%) to 6,284 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

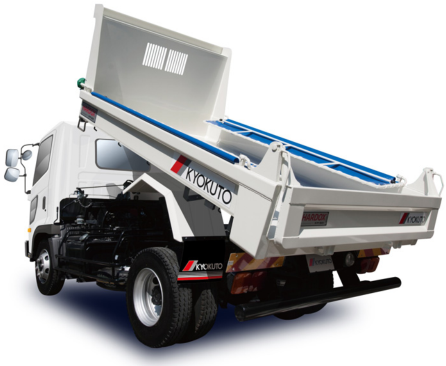
As demand in Japan remained strong, efforts were made to create an efficient production system and improve quality while striving to win new contracts.

The Group fully remodeled a new press type refuse truck, in May 2018 and released an air transfer unit for wood pellet, a product related to forestry, in November 2018.

In addition, the Group focused on technological development and sales promotion, such as developing an IoT-based service support system, and promoting a new Dump truck [Medium-sized rear dump truck wear-resistant steel plating (HARDOX) specifications] which won "Good Design Award 2018."

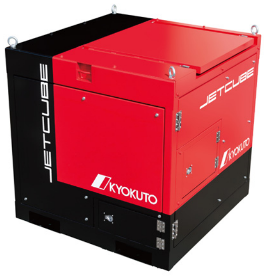
Net sales in the Specialty Truck Segment decreased by 2,898 million yen (3.0%) to 94,888 million yen. Segment profit decreased by 2,680 million yen (9.3%) to 5,615 million yen.

In addition, in May 2018, we made HOKURIKU HEAVY INDUSTRIES, LTD. a wholly owned subsidiary and entered the railway vehicle field.



New dump truck
[Medium-sized rear dump truck
wear-resistant steel plating
(HARDOX) specifications]

New press type refuse truck



Air transfer unit for wood pellet

ii) Environmental Equipment and Systems Segment

As for plant construction, the Group moved ahead with construction work for facilities that the Group won projects for and completed the construction of a recycling center in March 2019 for which an order was received from Tsukuba, Ibaraki. In addition, the Group continued to focus on the stock-type business such as maintenance and entrusted operation.

In the biogas plant business, the Group completed the construction of a plant in March 2019 for which an order was received from Toyoura, Hokkaido as the first original contract, and engaged in activities to win new contracts.

As a result, net sales increased by 4,494 million yen (53.2%) to 12,952 million yen. Segment profit increased by 1,058 million yen (69.5%) to 2,581 million yen.

Biogas plant

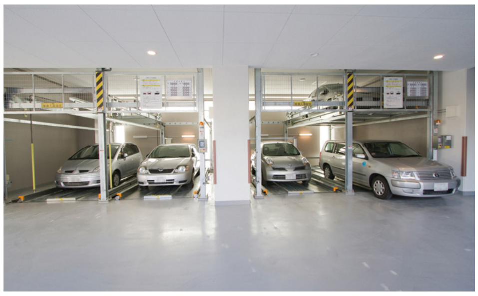
Recycle center in Noda

iii) Real Estate Rental Segment

For multistory parking systems, in addition to engaging in activities to win new contracts for new facilities, the Group continued to focus on the stock-type business such as renewal and maintenance. For coin-operated parking, the Group strove to expand profits by expanding business focusing on profitability in each location.

As a result, net sales decreased by 51 million yen (0.7%) to 7,035 million yen. Segment profit increased by 5 million yen (0.5%) to 1,161 million yen.

Toll parking (Coin-operated)



Multi-story parking equipment

<Forecast of Operations for the Next Consolidated Fiscal Year ending March 31, 2019>

As the global economy is becoming increasingly unstable against the backdrop of U.S.–China trade frictions and other factors, the Japanese economy is expected to face a challenging situation due partly to the expected impact of the consumption tax hike in October 2019.

Under these circumstances, the Group completed its previous medium-term management plan 2016-18 “Value up to the Next” (April 1, 2016 – March 31, 2019) in March 2019.

As a result of implementing measures to secure orders for logistics- and environment-related products and expand the stock and overseas businesses, the Group achieved its sales target among the Group’s performance targets.

Meanwhile, the Group fell short of achieving profit targets due partly to changes in the sales composition, a rise in raw material prices, and high fixed costs.

With the goal of fostering consistent developmental growth in the next three years and beyond based on these issues, the Group will promote priority strategies based on the basic policy stipulated in the new medium-term management plan 2019–21 “To the Growth Cycle” (3-year plan; April 1, 2019 – March 31, 2022) and make all-out efforts to improve productivity, enhance profitability, create future earnings sources, improve corporate quality, and increase social value.

Regarding the forecast of consolidated business performance for March 2020, the Company estimates net sales to grow to 116, 000 million yen, operating income to decrease to 7,400 million yen, the current net income attributable to owners of the parent is estimated to decrease to 5,200 million yen.

(2) Analysis on Financial Conditions

i) Situations of Assets, Liabilities and Net Worth

In the current consolidated fiscal year, total assets increased by 1,231million yen (0.9%) from the end of the preceding fiscal year to 138,878 million yen.

Current assets increased by 2,887 million yen (3.7%) to 80,757 million yen, due to increases in bills receivable and accounts receivable, etc.

Non-current assets (property, plant and equipment, intangible assets and investments and other assets) decreased by 1,655 million yen (2.8%) to 58,120 million yen, due to the fall in market prices of investment securities, etc.

Regarding liabilities, current liabilities decreased by 48 million yen (0.1%) to 40,871 million yen due to decreases in electronically recorded monetary obligations, etc. Non-current liabilities decreased by 1,669 million yen (18.9%) to 7,149 million yen due to decreases in deferred tax liability, etc.

Total net assets increased by 2,949 million yen (8.7%) to 90,857 million yen due to the posting of net profit, etc. attributable to owners of parent.

As a result, the capital adequacy ratio stood at 64.9% as of the end of the current fiscal year (63.2% at the end of the preceding fiscal year).

ii) Cash Flow Situation

Consolidated cash and cash equivalents at the end of period decreased by 2,273 million yen (10.6%) compared with the end of the preceding fiscal year to 19,083 million yen. Cash flow by activity type is summarized as follows:

Cash Flow from Operating Activities

Net cash provided by operating activities amounted to 4,029 million yen (a decrease of 6,827 million yen compared with the preceding fiscal year). This was because of the posting of net profit before tax, etc.

Cash Flow from Investing Activities

Net cash used in investing activities was 3,230 million yen (an increase of 852 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 3,056 million yen (a decrease of 83 million yen compared with the preceding fiscal year). This was because of dividends paid, repayment of long-term 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 26th, 2019 resolved and passed to pay a dividend of 19 yen per share at the end of March 2019 as originally proposed by management, making its annual dividend 38 yen per share including an interim dividend, increased by 2 yen compared with the preceding fiscal year.

For the year ending March 2020, management plans to pay an annual dividend of 38 yen per share (including an interim dividend of 19 yen), same amount 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 new medium term management plan 2019-21 “To the Growth Cycle” (3 year plan; April 1, 2019 - March 31, 2022), we are promoting priority strategies for the growth of the group based on the following basic policy.

Basic policies

With the goal of being a global company that responds flexibly to changes, our group is steadily taking measures that increase productivity and profit margins while balancing contribution to social issues with business growth. The group is aggressively channeling management resources into these measures.

(1) Improving productivity and enhancing profitability
Maximizing the effects of capital investments aimed at enhancing the earnings base. In addition, striving to make effective use of the IoT, AI, and other technologies and providing higher added value and higher quality products and services.

(2) Creating future earnings sources
Aggressively channeling management resources while utilizing the Group’s existing resources, alliances, and M&A aimed at solidly establishing an earnings base for the overseas business and businesses in new areas.

(3) Improving corporate quality and deepening social value
Promoting workstyle reforms, talented personnel development, and social contribution through business activities based on thorough enforcement of safety and compliance.

Key Strategies

(1) Special purpose vehicles business
[1] Streamlining overall business and expanding profits through Group-wide seamless activities from sales to design and production.
[2] Expanding sales and improving productivity by effectively using facilities in which investments were made prior to the end of the previous plan and making new capital investment.
[3] Differentiating brands and securing earnings through the provision of services with high customer satisfaction.
[4] Promoting the development of products that capture the needs of the times, such as automation and energy saving in operation and safety.

(2) Environmental business

[1] Securing orders for plants through differentiation focusing on proprietary technologies and safety and promotion of alliances with other companies.

[2] Maintaining a stable base by enhancing capabilities to propose services and respond to construction works.

[3] Promoting entry and establishment of businesses in new fields through development of new core products and systems.

(3) Parking business

[1] For mechanical multistory parking equipment, focusing on renewal projects and promoting the development of differentiated products and proposal activities.

[2] For pay-by-the-hour parking lots, focusing on securing earnings in each location and engaging in selective order-winning activities for new business locations.

[3] Promoting cultivation of new overseas markets and development of new products for the future.

(4) Overseas business

[1] For overseas bases, investing resources to establish an earnings base.

[2] Achieving total optimization by promoting cross-border business expansion through Group-wide collaboration including in Japan and China.

(5) Other

[1] Enhancing added value of products and services and promoting streamlining and automation of internal operations through proactive use of the IoT, AI, and other technologies.

[2] Creating a work environment that enables each employee to focus on high value added operations by promoting an approach to develop human resources as a team and conduct workstyle reforms.

[3] Achieving sustainable growth and increasing added value as a company by addressing social issues through business activities as the society is now at a turning point.

(3) Targeted management index

We set management targets of sales of 110 billion yen or more and operating profit of 9 billion yen or more on a consolidated base for the term ending March 2022, the last fiscal year of the new medium term management plan 2019-21 “To the Growth Cycle” (3 year plan; April 1, 2019 - March 31, 2022).

CONSOLIDATED BALANCE SHEETS
At March 31, 2019 and 2018

ASSETS		Millions of yen 2019		2018		Thousands of U.S. dollars (Note 1) 2019
Current assets:						
Cash and deposits (Notes 8 & 9)	¥	10,584	¥	10,657	$	95,348
Short-term securities (Notes 8 & 9)		9,133		11,200		82,279
Trade notes and accounts receivable (Note 9 & 17)		43,616		40,741		392,939
Merchandise & finished goods		1,198		890		10,794
Work in process		5,561		4,763		50,095
Raw materials & supplies		9,178		7,964		82,684
Other current assets		1,555		1,716		14,016
Allowance for doubtful accounts		(67)		(60)		(608)
Total current assets		80,758		77,871		727,547
Property, plant and equipment (Note 10):						
Land (Note 5)		20,565		20,592		185,270
Buildings and structures (Note 5)		33,340		33,178		300,356
Machinery, equipment and vehicles		18,253		17,817		164,440
Construction in progress		166		276		1,496
Other		5,275		5,029		47,525
Total		77,599		76,892		699,087
Accumulated depreciation		(38,425)		(36,997)		(346,166)
Net property, plant and equipment		39,174		39,895		352,921
Intangible assets		706		639		6,363
Investments and other assets:						
Investment securities (Notes 3 & 9)		15,991		16,908		144,061
Deferred tax assets (Note 15)		272		258		2,447
Other assets		2,687		2,786		24,212
Allowance for doubtful accounts		(710)		(710)		(6,398)
Total investments and other assets		18,240		19,242		164,322
Total non-current assets		58,120		59,776		523,606
Total	¥	138,878	¥	137,647	$	1,251,153

The accompanying notes are an integral part of these statements.

		Millions of yen			Thousands of U.S. dollars (Note 1)
LIABILITIES AND NET ASSETS		2019		2018		2019
Current liabilities:						
Short-term bank loans (Notes 4 & 9)	¥	2,939	¥	2,971	$	26,474
Current portion of long-term bank loans (Notes 4 & 9)		600		1,345		5,405
Trade notes and accounts payable (Note 9 & 17)		17,374		16,846		156,518
Electronically recorded obligations - operating (Note 9 & 17)		10,225		11,003		92,119
Accrued expenses		4,320		4,095		38,918
Income taxes payable		2,059		1,741		18,546
Other current liabilities (Note 4)		3,355		2,920		30,235
Total current liabilities		40,872		40,921		368,215
Non-current liabilities:						
Long-term bank loans (Notes 4 & 9)		600		1,204		5,405
Net defined benefit liabilities (Note 6)		780		688		7,029
Liabilities for directors' retirement benefits		141		160		1,268
Deferred tax liabilities (Note 15)		2,742		3,628		24,704
Other non-current liabilities (Notes 4, 5 & 9)		2,886		3,139		26,000
Total non-current liabilities		7,149		8,819		64,406
Total liabilities		48,021		49,740		432,621
Net assets:						
Shareholders' equity:						
Common stock (Note 12):						
Authorized-170,950,672 shares						
Issued-42,737,668 shares in 2019 and 2018		11,900		11,900		107,206
Capital surplus (Note 12)		11,719		11,719		105,574
Retained earnings		64,280		59,464		579,096
Treasury stock, at cost:						
3,009,885 shares in 2018						
3,010,866 shares in 2019		(2,153)		(2,151)		(19,394)
Total shareholders' equity		85,746		80,932		772,482
Accumulated other comprehensive income (Note 16):						
Unrealized gain on available-for-sale securities		4,878		6,416		43,946
Foreign currency translation adjustments		(3)		22		(27)
Remeasurements of defined benefit plans		(463)		(339)		(4,170)
Total accumulated other comprehensive income		4,412		6,099		39,749
Non-controlling interests		699		876		6,301
Total net assets		90,857		87,907		818,532
Total	¥	138,878	¥	137,647	$	1,251,153

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF INCOME
Years ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Net sales	¥ 114,301	¥ 112,691	$ 1,029,739
Cost of sales (Note 18)	91,991	89,450	828,744
Gross profit	22,310	23,241	200,995
Selling, general and administrative expenses (Note 13)	13,755	12,995	123,927
Operating income	8,555	10,246	77,068
Other income (expenses):			
Interest and dividend income	373	358	3,362
Interest expense	(97)	(104)	(872)
Gain on sales of investment securities	390	104	3,513
Loss on sales or disposition of property and equipment, net	(24)	(323)	(216)
Loss on impairment of long-lived assets (Note 14)	-	(216)	-
Equity in losses of affiliates	(96)	(92)	(862)
Foreign exchange gain (loss)	12	(124)	107
Other-net	43	41	383
Other expenses -net	601	(356)	5,415
Income before income taxes and non-controlling interests	9,156	9,890	82,483
Income taxes (Note 15):			
Current	3,268	3,007	29,435
Deferred	(173)	33	(1,556)
Total income taxes	3,095	3,040	27,879
Net income	6,061	6,850	54,604
Net loss attributable to non-controlling interests	(224)	(340)	(2,017)
Net income attributable to owners of the parent	¥ 6,285	¥ 7,190	$ 56,621

	Yen		U.S. dollars (Note 1)
	2019	2018	2019
Amounts per shares:			
Basic net income	¥ 158.20	¥ 180.99	$ 1.43
Diluted net income	-	-	-
Cash dividends applicable to earnings of the year	38.00	36.00	0.34

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Net income	¥ 6,061	¥ 6,850	$ 54,604
Other comprehensive income (Note 16):			
Unrealized gain on available-for-sale securities	(1,537)	1,249	(13,849)
Foreign currency translation adjustments	(51)	15	(461)
Remeasurements of defined benefit plans	(123)	(100)	(1,112)
Share of other comprehensive income in affiliates accounted for by the equity method	(12)	35	(104)
Total other comprehensive income	(1,723)	1,199	(15,526)
Comprehensive income	¥ 4,338	¥ 8,049	$ 39,078
Total comprehensive income attributable to:			
Owners of the parent	4,598	8,373	41,426
Non-controlling interests	(260)	(324)	(2,348)

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
Years ended March 31, 2019 and 2018

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, 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
Purchases of treasury stock					(2)	(2)						(2)
Net income attributable to owners of the parent				6,285		6,285						6,285
Appropriation												
Cash dividends paid				(1,469)		(1,469)						(1,469)
Other net changes in the year							(1,538)	(25)	(124)	(1,687)	(177)	(1,864)
Balance, March 31, 2019	¥	11,900	11,719	64,280	(2,153)	85,746	4,878	(3)	(463)	4,412	699	90,857

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, 2018	$	107,206	105,574	535,718	(19,380)	729,118	57,799	198	(3,054)	54,943	7,895	791,956
Purchases of treasury stock					(14)	(14)						(14)
Net income attributable to owners of the parent				56,621		56,621						56,621
Appropriation												
Cash dividends paid				(13,243)		(13,243)						(13,243)
Other net changes in the year							(13,853)	(225)	(1,116)	(15,194)	(1,594)	(16,788)
Balance, March 31, 2019	$	107,206	105,574	579,096	(19,394)	772,482	43,946	(27)	(4,170)	39,749	6,301	818,532

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Operating activities:			
Income before income taxes and non-controlling interests	¥ 9,156	¥ 9,890	$ 82,483
Depreciation and amortization	2,644	2,529	23,820
Gain on sales of investment securities	(390)	(104)	(3,513)
Loss on impairment of long-lived assets	-	216	-
Equity in losses of affiliates	96	92	862
Loss on sales or disposition of property and equipment, net	15	282	133
Interest and dividend income	(373)	(358)	(3,362)
Interest expenses	97	104	872
Decrease (increase) in trade notes and accounts receivable	(2,911)	(1,803)	(26,221)
Decrease (increase) in inventories	(2,360)	(816)	(21,257)
Increase (decrease) in trade notes and accounts payable	(193)	4,478	(1,739)
Increase (decrease) in net defined benefit liabilities	(87)	(195)	(782)
Increase (decrease) in allowance for doubtful accounts	8	(17)	71
Increase (decrease) in allowance for others	206	(94)	1,856
Increase (decrease) in consumption taxes payable	192	(185)	1,730
Other, net	577	(380)	5,199
Sub total	6,677	13,639	60,152
Interest and dividend income received	382	357	3,445
Interest expenses paid	(3)	(81)	(34)
Income taxes paid	(3,026)	(3,058)	(27,260)
Net cash provided by operating activities	4,030	10,857	36,303
Investing activities:			
Purchases of securities and investments	(1,611)	(526)	(14,517)
Proceeds from sales of securities and investments	626	215	5,644
Proceeds from maturity of securities and investments	500	-	4,505
Purchases of property, plant and equipment	(2,082)	(3,469)	(18,762)
Proceeds from sales of property, plant and equipment	17	235	150
Purchases of shares of subsidiaries	(375)	-	(3,382)
Net decrease (increase) in short-term loans receivable	-	45	-
Disbursement of loans receivable	(353)	(588)	(3,177)
Collection of loans receivable	42	5	382
Other,net	6	-	52
Net cash used in investing activities	(3,230)	(4,083)	(29,105)
Financing activities:			
Net increase (decrease) in short-term bank loans	6	16	51
Proceeds from long-term bank loans	-	70	-
Repayment of long-term bank loans	(1,348)	(1,593)	(12,146)
Payment of finance lease obligations	(101)	(35)	(911)
Purchases of treasury stock	(2)	(1)	(14)
Dividends paid	(1,469)	(1,430)	(13,237)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(143)	-	(1,282)
Net cash used in financing activities	(3,057)	(2,973)	(27,539)
Foreign currency translation adjustments on cash and cash equivalents	(16)	(32)	(142)
Net increase (decrease) in cash and cash equivalents	(2,273)	3,769	(20,483)
Cash and cash equivalents at beginning of year	21,357	17,584	192,407
Increase in cash and cash equivalents from a newly consolidated subsidiary	-	4	-
Cash and cash equivalents at end of year (Note 8)	¥ 19,084	¥ 21,357	$ 171,924

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 ¥111.00=US$1, the approximate exchange rate on March 31, 2019. 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, 2019, 7 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.
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 thousand shares for 2019 and 2018.
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.

(iii) 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.

(p) Changes in presentation methods

(Changes associated with the application of "Partial Amendments to Accounting Standard for Tax Effect Accounting", etc.)

The Company has applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No.28, February 16, 2018), etc. as of the beginning of the current fiscal year. Accordingly, deferred tax assets are presented under investments and other assets, and deferred tax liabilities are presented under non-current liabilities.

Consequently, in the consolidated balance sheet for the previous fiscal year, "Deferred tax assets" under "Current assets" decreased by ¥ 1,360 million

($ 12,255 thousand) and "Deferred tax assets" under "Investments and other assets" increased by ¥ 147 million ($ 1,327 thousand), while "Deferred tax liabilities" under "Non-current liabilities" decreased by ¥ 1,213 million ($ 10,928 thousand).
As "Deferred tax assets" and "Deferred tax liabilities" relating to the same taxable entity were offset against each other, and total assets decreased by ¥ 1,213 million ($ 10,928 thousand) compared with the amount before the change.
In addition, notes on "Accounting Standard for Tax Effect Accounting" (Note 8) (excluding total of valuation allowance) and (Note 9) provided in Items 3 to 5 of the "Partial Amendments to Accounting Standard for Tax Effect Accounting" have been added to Note 15 "Income taxes". However, related matters pertaining to the previous consolidated fiscal year have not been stated under the transitional treatment provided in Item 7 of the "Partial Amendments to Accounting Standard for Tax Effect Accounting".

3. Securities

The following is a summary of held-to-maturity securities and available-for-sale securities at March 31, 2019 and 2018:

Millions of yen

	Held-to-maturity securities			
March 31, 2019	Carrying amount	Gross unrealized gains	Gross unrealized losses	Fair value
Debt securities,				
whose fair value exceeds carrying amount	¥ —	¥ —	¥ —	¥ —
whose fair value does not exceed carrying amount	800	—	—	800
Total	¥ 800	¥ —	¥ —	¥ 800

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

Thousands of U.S. dollars

	Held-to-maturity securities			
March 31, 2019	Carrying amount	Gross unrealized gains	Gross unrealized losses	Fair value
Debt securities,				
whose fair value exceeds carrying amount	$ 7,207	$ —	$ —	$ 7,207
whose fair value does not exceed carrying amount	—	—	—	—
Total	$ 7,207	$ —	$ —	$ 7,207

Millions of yen

March 31, 2019	Cost	Available-for-sale securities Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	¥ 5,858	¥ 7,100	¥ (57)	¥ 12,901
Other securities	332	—	(13)	319
Subtotal	¥ 6,190	¥ 7,100	¥ (70)	¥ 13,220
Market value not available:				1,971
Total				¥ 15,191

Millions of yen

March 31, 2018	Cost	Available-for-sale securities 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

Thousands of U.S. dollars

March 31, 2019	Cost	Available-for-sale securities Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	$ 52,778	$ 63,960	$ (511)	$ 116,227
Other securities	2,992	—	(120)	2,872
Subtotal	$ 55,770	$ 63,960	$ (631)	$ 119,099
Market value not available:				17,755
Total				$ 136,854

No impairment losses were recorded during the fiscal year ended March 31, 2019 and 2018.

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

The annual average interest rates applicable to short-term bank loans at March 31, 2019 and 2018 were 1.34% and 1.62%, respectively.

Long-term debts at March 31, 2019 and 2018 consisted of the following:

	Millions of yen		*Thousands of U.S. dollars*
	2019	2018	2019
Long-term bank loans	¥ 1,200	¥ 2,549	$ 10,810
Lease obligations	291	345	2,618
Other	666	891	6,000
Total	¥ 2,157	¥ 3,785	$ 19,428

Aggregate annual maturities of long-term debts subsequent to March 31, 2019 were as follows:

Year ending March 31	*Millions of yen*	*Thousands of U.S. dollars*
2020	¥ 925	$ 8,328
2021	925	8,334
2022	264	2,381
2023	15	137
2024 and thereafter	28	248
Total	¥ 2,157	$ 19,428

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, 2019 and 2018.

The unexecuted balance of lending commitments of the Company at March 31, 2019 and 2018 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2019	2018	2019
Total lending commitments	¥ 5,000	¥ 5,000	$ 45,045
Less amounts currently executed	—	—	—
Unexecuted balance	¥ 5,000	¥ 5,000	$ 45,045

5. Pledged Assets

The following assets were pledged as collateral for the following borrowings at March 31, 2019 and 2018:

	Millions of yen		*Thousands of U.S. dollars*
	2019	2018	2019
Land	¥ 750	¥ 750	$ 6,753
Buildings	1,645	1,728	14,821
Total	¥ 2,395	¥ 2,478	$ 21,574

	Millions of yen		*Thousands of U.S. dollars*
	2019	2018	2019
Other non-current liabilities	¥ 1,553	¥ 1,786	$ 13,995
Total	¥ 1,553	¥ 1,786	$ 13,995

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, 2019 and 2018 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2019	2018	2019
Benefit obligations at beginning of year	¥ 7,219	¥ 6,794	$ 65,036
Service cost	476	439	4,286
Interest cost	20	20	180
Actuarial gains or losses	230	376	2,076
Retirement benefits paid	(246)	(416)	(2,218)
Increase of benefit obligation due to a newly consolidated subsidiary	—	6	—
Translation adjustments	(1)	—	(9)
Benefit obligations at end of year	¥ 7,698	¥ 7,219	$ 69,351

The changes in plan assets for the year ended March 31, 2019 and 2018 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2019	2018	2019
Plan assets at beginning of year	¥ 6,531	¥ 6,062	$ 58,835
Expected return on plan assets	131	121	1,177
Actuarial gains or losses	(49)	161	(445)
Contributions from employers	514	538	4,639
Retirement benefits paid	(209)	(351)	(1,884)
Plan assets at end of year	¥ 6,918	¥ 6,531	$ 62,322

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, 2019 and 2018 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2019	2018	2019
Funded benefit obligations	¥ 7,685	¥ 7,208	$ 69,238
Plan assets at end of year	6,918	6,531	62,322
	767	677	6,916
Non funded benefit obligations	13	11	113
Net amount of liabilities and assets recognized in consolidated balance sheet	¥ 780	¥ 688	$ 7,029
Net defined benefit liabilities	¥ 780	¥ 688	$ 7,029
Net defined benefit assets	—	—	—
Net amount of liabilities and assets recognized in consolidated balance sheet	¥ 780	¥ 688	$ 7,029

The retirement benefit expenses for the year ended March 31, 2019 and 2018 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2019	2018	2019
Service cost	¥ 476	¥ 439	$ 4,286
Interest cost	20	20	180
Expected return on plan assets	(131)	(121)	(1,177)
Recognition of actuarial gains or losses	100	70	901
Severance and pension costs	¥ 465	¥ 408	$ 4,190

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*
	2019	2018	2019
Recognized actuarial gains or losses	¥ (180)	¥ (144)	$ (1,619)
Total	¥ (180)	¥ (144)	$ (1,619)

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*
	2019	2018	2019
Unrecognized actuarial gains or losses	¥ 667	¥ 486	$ 6,007
Total	¥ 667	¥ 486	$ 6,007

The components of plan assets as of March 31, 2019 and 2018 were as follows:

	Ratio	
	2019	2018
Bonds	41%	42%
Securities	31%	31%
General account asset	21%	20%
Other	7%	7%
Total	100%	100%

The major actuarial assumptions for the year ended March 31, 2019 and 2018 were as follows:

	2019	2018
Discount rate		
The Company and a domestic subsidiary	0.0 to 0.6%	0.0 to 0.6%
A foreign subsidiary	8.4%	7.2%
Long-term rate of return on plan assets		
The Company and a domestic subsidiary	2.0%	2.0%
A foreign subsidiary	-%	-%
Future salary increase		
The Company and a domestic subsidiary	4.3 to 7.3%	4.3 to 6.5%
A foreign subsidiary	7.0%	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 ¥ 111 million ($ 996 thousand) and ¥ 107 million for the year ended March 31, 2019 and 2018 in the Company and other domestic subsidiaries.

7. Contingencies

At March 31, 2019 and 2018, the Group was contingently liable as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2019	2018	2019
As a guarantor of indebtedness of :			
Affiliated companies	¥ −	¥ 38	$ −
Other	10	12	94
Total	¥ 10	¥ 50	$ 94

The Company guarantees all liabilities which MITHRA KYOKUTO SPECIAL PURPOSE VEHICLE CO., PVT. LTD. is liable for in the transactions with the specified customer. As of the end of the current consolidated fiscal year, there are no transactions for which the Company might fulfill our obligations.

8. Cash and cash equivalents

Cash and cash equivalents at March 31, 2019 and 2018 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2019	2018	2019
Cash and deposits	¥ 10,584	¥ 10,657	$ 95,348
Short-term securities	9,133	11,200	82,279
Securities with redemption term of over 3 Months	(633)	(500)	(5,703)
Cash and cash equivalents	¥ 19,084	¥ 21,357	$ 171,924

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, 2019 and 2018. 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, 2019	Carrying amount	Fair value	Unrecognized gain/loss
Cash and deposits	¥ 10,584	¥ 10,584	¥ —
Trade notes and accounts receivable	43,616	43,616	—
Short-term securities	9,133	9,133	—
Investment securities	14,020	14,020	—
Trade notes and accounts payable	(17,374)	(17,374)	—
Electronically recorded obligations - Operating	(10,225)	(10,225)	—
Short-term bank loans	(2,939)	(2,939)	—
Long-term bank loans	(1,200)	(1,201)	(1)
Long-term deposits	(666)	(695)	(29)
Derivatives	—	—	—

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	—	—	—

			Thousands of U.S. dollars
March 31, 2019	Carrying account	Fair value	Unrecognized gain/loss
Cash and deposits	$ 95,348	$ 95,348	$ —
Trade notes and accounts receivable	392,939	392,939	—
Short-term securities	82,279	82,279	—
Investment securities	126,306	126,306	—
Trade notes and accounts payable	(156,518)	(156,518)	—
Electronically recorded obligations - operating	(92,119)	(92,119)	—
Short-term bank loans	(26,474)	(26,474)	—
Long-term bank loans	(10,810)	(10,821)	(11)
Long-term deposits	(6,000)	(6,261)	(261)
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, 2019 and 2018 consist of the following:

	Millions of yen		*Thousands of U.S. dollars*
	2019	2018	2019
Non-listed equity securities	¥ 1,971	¥ 1,417	$17,755
Long-term deposit	1,425	1,419	12,836

The annual maturities of financial assets and investment securities with contractual maturities subsequent to March 31, 2019 and 2018 were as follows:

	Millions of yen		
March 31, 2019	Due in one year or less	Due after one year through five years	Due after five years through ten years
Cash and deposits	¥ 10,584	¥ —	¥ —
Trade notes and accounts receivable	43,616	—	—
Short-term securities	9,133	—	—
Investment securities	800	—	—
Total	¥ 64,133	¥ —	¥ —

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

March 31, 2019	Due in one year or less	Due after one year through five years	Due after five years through ten years
	Thousands of U.S. dollars		
Cash and cash equivalents	$ 95,348	$ —	$ —
Trade notes and accounts receivable	392,939	—	—
Short-term securities	82,279	—	—
Investment securities	7,207	—	—
Total	$ 577,773	$ —	$ —

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 ¥ 998 million ($ 8,987 thousand) and ¥ 966 million for the year ended March 31, 2019 and 2018, respectively.

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, 2018	Increase/ (decrease)	March 31, 2019	March 31, 2019
¥ 7,101	¥ (121)	¥ 6,980	¥ 9,972

			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

			Thousands of U.S. dollars
Carrying amount			Fair value
April 1, 2018	Increase/ (decrease)	March 31, 2019	March 31, 2019
$ 63,970	$ (1,085)	$ 62,885	$ 89,837

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

(b) Increase during the year ended march 31, 2019 was mainly due to the expenditure for setting signboards of coin parking in amount of ¥ 11 million ($ 99 thousand). Decrease during the year ended March 31, 2019 was mainly due to depreciation in an amount of ¥ 144 million ($ 1,294 thousand).
Increase during the year ended march 31, 2018 was mainly due to the expenditure for repairing the sidewalk of 'the Mall MIZUHO' in amount of ¥ 4 million. Decrease during the year ended March 31, 2018 was mainly due to an unused land in an amount of ¥ 502 million.

(c) Fair value at March 31, 2019 and 2018 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, 2019 and 2018, 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, 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
Movement of stock during 2019	―	―	―
Balance at March 31, 2019	42,737,668	¥ 11,900	¥ 11,719

	Thousands of U.S. dollars	
	Common Stock	Capital surplus
Balance at March 31, 2018	$ 107,206	$ 105,574
Movement of stock during 2019	―	―
Balance at March 31, 2019	$ 107,206	$ 105,574

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 ¥ 1,406 million ($ 12,665 thousand) and ¥ 1,577 million for the years ended March 31, 2019 and 2018, 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*
Pluakdang, Rayong, Thailand	Business properties	Buildings and structures	¥ 185
		Machinery, equipment and vehicles	17
		Other long-lived assets	14
		Total	216

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.

There was no loss on impairment of long-lived assets for the year ended March 31, 2019.

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 30.58% and 30.81% for the years ended March 31, 2019 and 2018, 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, 2019 and 2018 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2019	2018	2019
Deferred tax assets:			
Tax loss carry forward	¥ 413	¥ 294	$ 3,724
Allowance for doubtful accounts	239	237	2,153
Accrued Bonuses	634	605	5,708
Provision for product warranties	302	204	2,717
Allowance for repairs	9	47	84
Accrued corporation enterprise tax	150	137	1,352
Loss on valuation of inventories	134	124	1,208
Forecast of construction cost	24	107	220
Net defined benefit liabilities	238	245	2,144
Fixed assets – elimination of intercompany profits	256	256	2,311
Loss on impairment of long-lived assets	309	309	2,784
Loss on valuation of investment for subsidiaries and affiliates	33	33	299
Excess depreciation	308	242	2,770
Other	473	446	4,259
Deferred tax assets sub-total	3,522	3,286	31,733
Less valuation allowance relevant to tax loss carry forward	(379)	–	(3,413)
Less valuation allowance relevant to total deductible temporary difference	(926)	–	(8,343)
Valuation allowance sub-total	(1,305)	(1,272)	(11,756)
Total deferred tax assets	¥ 2,217	¥ 2,014	$ 19,977

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Deferred tax liabilities:			
Unrealized gain on investment securities	¥ (2,145)	¥ (2,822)	$ (19,322)
Reduction reserve for fixed assets	(1,393)	(1,407)	(12,551)
Special depreciation reserve	(34)	(59)	(311)
Unrealized gain on subsidiaries’ fixed assets by revaluation at the beginning of consolidation	(1,115)	(1,096)	(10,050)
Total deferred tax liabilities	(4,687)	(5,384)	(42,234)
Net deferred tax assets (liabilities)	¥ (2,470)	¥ (3,370)	$ (22,257)

(Note) Tax loss carry forward and related deferred tax assets by expiration periods were as follows.

At March 31, 2019

Millions of yen

	Within 1 year	After 1 year through 2years	After 2 year through 3years	After 3 year through 4years	After 4 year through 5years	After 5 years	Total
Tax loss carry forward	62	67	65	75	144	—	413
Valuation allowance	(62)	(57)	(56)	(68)	(136)	—	(379)
Deferred tax assets	—	10	9	7	8	—	34

Thousands of U.S. dollars

	Within 1 year	After 1 year through 2years	After 2 year through 3years	After 3 year through 4years	After 4 year through 5years	After 5 years	Total
Tax loss carry forward	556	608	581	680	1,299	—	3,724
Valuation allowance	(556)	(510)	(507)	(618)	(1,222)	—	(3,413)
Deferred tax assets	—	98	74	62	77	—	311

(a) Tax loss carry forward is shown as an amount multiplied by the statutory tax rate.

(b) The deferred tax assets of ¥ 34 million ($ 311 thousand) were recognized for the balance of tax loss carry forward (an amount multiplied by the statutory tax rate) of ¥ 413 million ($ 3,724 thousand).
Valuation allowance has not been recognized in the portion of tax loss carryforward based on judgement of recoverability through future taxable income.

The reconciliation between the statutory tax rate and the effective income tax rate for the year ended March 31, 2019 and 2018 were as follows:

	2019	2018
Statutory tax rate	30.58%	—
Non-deductible expenses for income tax purpose	0.67	—
Non-taxable dividend income	(0.23)	—
Inhabitant per capita tax	0.95	—
Effect of tax rate change	0.15	
Tax credit	(0.67)	—
Change in valuation allowance	1.06	—
Equity in earnings of affiliated companies	0.32	—
Other	0.97	—
Effective tax rate	33.80%	—

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, 2019 and 2018 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2019	2018	2019
Unrealized gain on available-for-sale securities:			
Gains (Losses) arising during the year	¥ (1,818)	¥ 1,892	$ (16,384)
Reclassification adjustments for gain (loss)	(390)	(104)	(3,513)
Amount before income tax effect	(2,208)	1,788	(19,897)
Income tax effect	671	(539)	6,048
Total	¥ (1,537)	¥ 1,249	$ (13,849)
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ (51)	¥ 15	$ (461)
Total	¥ (51)	¥ 15	$ (461)
Remeasurements of defined benefit plans:			
Gains (Losses) arising during the year	¥ (280)	¥ (214)	$ (2,520)
Reclassification adjustments for gain (loss)	100	70	901
Amount before income tax effect	(180)	(144)	(1,619)
Income tax effect	57	44	507
Total	¥ (123)	¥ (100)	$ (1,112)
Share of other comprehensive income in affiliates accounted for by equity method:			
Gains (Losses) arising during the year	¥ (12)	¥ 35	$ (104)
Total	¥ (12)	¥ 35	$ (104)
Total other comprehensive income	¥ (1,723)	¥ 1,199	$ (15,526)

17. Trade Note Maturities

The following trade notes and electronically recorded monetary claims and obligations which matured but were not settled on March 31, 2019 and 2018 because that day fell on a bank holiday, were included in the balance sheet as of March 31, 2019 and 2018, respectively:

	Millions of yen		*Thousands of U.S. dollars*
	2019	2018	2019
Trade notes receivable	¥ 880	¥ 1,019	$ 7,925
Electronically recorded monetary claims - operating	84	239	758
Trade notes payable	868	378	7,820
Electronically recorded obligation - operating	1,949	2,027	17,560

18. Provision of reserve for Losses on Construction Contracts

Provision of reserve for losses on construction contracts included in Cost of Sales were ¥ 101 million ($ 909 thousand) and ¥ 33 million for the years ended March 31, 2019 and 2018, respectively.

19. Segment Information

(1) 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.

(2) 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.

(3) Information about sales, profit, assets and other items for the years ended March 31, 2019 and 2018 are as follows:

Millions of yen

	Reportable segments					
2019	Industry A	Industry B	Industry C	Total	Reconciliations (Note 1)	Consolidated (Note 2)
Net sales:						
External customers	¥ 94,877	¥ 12,950	¥ 6,474	¥ 114,301	—	¥ 114,301
Intersegment sales or transfers	12	2	562	576	(576)	—
Total	94,889	12,952	7,036	114,877	(576)	114,301
Segment profit	5,615	2,582	1,161	9,358	(803)	8,555
Segment assets	81,119	10,509	12,269	103,897	34,981	138,878
Other items:						
Depreciation	2,165	54	382	2,601	1	2,602
Increase in tangible and intangible fixed assets	1,815	75	176	2,066	—	2,066

Millions of yen

2018	Reportable segments					
	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	80,645	5,507	12,459	98,611	39,036	137,647
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

Thousands of U.S. dollars

2019	Reportable segments					
	Industry A	Industry B	Industry C	Total	Reconciliations (Note 1)	Consolidated (Note 2)
Net sales:						
External customers	$ 854,746	$ 116,670	$ 58,323	$ 1,029,739	–	$ 1,029,739
Intersegment sales or transfers	108	16	5,065	5,189	(5,189)	–
Total	854,854	116,686	63,388	1,034,928	(5,189)	1,029,739
Segment profit	50,588	23,258	10,461	84,307	(7,239)	77,068
Segment assets	730,805	94,677	110,526	936,008	315,145	1,251,153
Other items:						
Depreciation	19,507	492	3,439	23,438	6	23,444
Increase in tangible and intangible fixed assets	16,348	678	1,589	18,615	–	18,615

(a) Reconciliations of segment profit in an amount of ¥ (803) million ($ (7,239) thousand) which consists of elimination of intersegment transactions in an amount of ¥ 7 million ($ 60 thousand) and corporate expenses which are not allocated to each reportable segment in an amount of ¥ (810) million ($ (7,299) 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.

(b) Segment profit is reconciled with operating income in the consolidated statements of income.

20. Subsequent Event

(1) Cash Dividends
The following appropriations of the Company's retained earnings in respect of the year ended March 31, 2019 were as proposed by the Board of Directors and approved by the shareholders at the annual general meeting held on June 26, 2019.

Appropriations	*Millions of yen*	*Thousands of U.S. dollars*
Cash dividends of ¥ 19 ($ 0.17) per share	¥ 755	$ 6,800

(2) Transfers of shares of a specified subsidiary
The Company's board of directors decided at the meeting held on July 24, 2019 that it would transfer all shares of specified subsidiary, Trex Thairung Co., Ltd. (TTR). And then, the Company concluded the share transfer agreement on July 25, 2019, and has transferred them on July 30, 2019.
As a result, TTR would not be a specified subsidiary, and be excluded from the scope of consolidation.

(a) Reason for the share transfer

TTR was established on May, 2014 in Thailand in the form of a joint venture with the Company, Nihon Trex Co., Ltd (Nihon Trex) which is a specified subsidiary, THAI RUNG UNION CAR PUBLIC CO., LTD. (THAI RUNG) which is supplier of vehicles and construction machines, and performing the car dealer, sales of vehicles under its own brand in Thailand, and MITSIAM INTERNATIONAL, LIMITED (MITSIAM) which is subsidiary of MITSUI & CO. (THAILAND) LTD. The Business of TTR has been manufacturing and sales of Van bodies and specially equipped vehicles in Thailand since the factory completion in October, 2015.

However, the demand for Wing Van which was expected as a core product heavily has fallen below the initial plan and their production level hasn't been improved due to the local unstable employment practice. As a result, they have been facing the severe management environment since starting operation and the improvement of their performance couldn't be anticipated over the medium term. Therefore, it was decided that the all shares which the Company, Nihon Trex and MITSIAM owned were transferred to THAI RUNG, and hereafter the Group would continue the business in Thailand in the way of technical support.

By this business restructuring, our management resources will be focused on the business area with higher investment effect, and the Group will work together to achieve the new Mid-term business plan "2019-21 ～To the Growth Cycle～" (from April 1, 2019 to March 31, 2022).

(b) Company name of transferee

THAI RUNG UNION CAR PUBLIC CO., Ltd.

(c) Effective date of share transfer

July 30, 2019

(d) Name of subsidiary, business description, details transaction with the Company

(i) Name
Trex Thai Rung Co., Ltd.

(ii) Major business description
Manufacturing and sales of Wing Van, 10 doors Van, Dump, Mixer

(iii) Details transaction with the Company
The Company supply parts, and technical support for the subsidiary.

(e) Number of shares transferred, transfer price, gain or loss of transfer, and number of shares after transfer

(i) Number of shares transferred

4,891,500 shares (Proportion of voting rights: 45%)

Details

The Company: 1,630,500 shares (Proportion of voting rights: 15%)

Nihon Trex: 3,261,000 shares (Proportion of voting rights: 30%)

(ii) Transfer price (3.5 Yen against 1THB)

101,480 thousand THB (¥ 355 million, $ 3,200 thousand)

Details

The Company: 33,830 thousand THB (¥ 118 million, $ 1,067 thousand)

Nihon Trex: 67,650 thousand THB (¥ 236 million, $ 2,133 thousand)

(iii) Gain of loss of transfer

The Company will recognize amounting ¥ 592 million ($ 5,333 thousand) related the share transfer as extraordinary loss on consolidated statement of income for the fiscal year ended March 31, 2020.

(iv) Number of shares after transfer

None (Proportion of voting rights: 0%)

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, 2019, 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, 2019, 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, 2019, 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 20, 2019

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, 2019)
Number of Employees: consolidated 2,865; non-consolidated 1,038 (March 31, 2019)

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)

BOARD OF DIRECTORS AND STATUTORY AUDITORS

Kazuya Takahashi,	Representative Director, President, CEO
Takashi Yoneda,	Director, Associate Senior Executive Officer
Takeo Norimitsu,	Director, Associate Senior Executive Officer
Tatsuya Nunohara,	Director, Associate Senior Executive Officer
Noboru Horimoto,	Director,Executive Officer
Kazuhiko Harada,	Director,Executive Officer
Yoji Kido,	Outside Director
Akira Michigami,	Outside Director
Harumi Sugimoto,	Standing Auditor
Soichiro Ochi,	Auditor
Yoshihiko Norikura,	Outside Corporate Auditor
Kuniaki Fujiwara,	Outside Corporate Auditor
Mitsuhiko Nakashima,	Associate Senior Executive Officer
Sadanobu Kato,	Executive Officer
Akira Sakurai,	Executive Officer
Yukihiro Hosozawa,	Executive Officer
Teruyuki Kizu,	Executive Officer
Shinichi Takahama,	Executive Officer
Yutaka Yoshida,	Executive Officer