KYOKUTO

Annual Report 2020

Year ended March 31, 2020

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, 2020>

In the fiscal year under review, the Japanese economy as a whole remained solid in the first half. However, it stalled in the second half due partly to a consumption tax hike and U.S.–China trade frictions. The outlook became uncertain due to concerns about a rapid deterioration of the economy caused by the global spread of COVID-19 toward the end of the fiscal year.

Representative Director,
President, CEO
Tatsuya Nunohara

Under these circumstances, our Group actively implemented several measures as the first year of the new medium term management plan 2019-21 "To the Growth Cycle" (April 1, 2019 - March 31, 2022), to improve our corporate quality and deepening our social value.

As a result, in the current consolidated fiscal year, net sales increased by 5,872 million yen (5.1%) compared with the preceding consolidated fiscal year to 120,173 million yen. Operating income decreased by 60 million yen (0.7%) to 8,493 million yen, and the current net income attributable to owners of the parent decreased by 211 million yen (3.4%) to 6,073 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 domestic demand remained solid, the Group proactively secured orders while striving to rationalize and streamline its production structure. It did this through means such as boosting production of swap body vehicles at Mito Factory of NIPPON TREX, a consolidated subsidiary, and a retractable tailgate lifter at the new Power Gate Center constructed at the Nagoya Plant.

The Group enhanced product capabilities and product lines in new areas. It did this by fully remodeling a new rotary type refuse truck, in October 2019 and launching "Hyper CP PH80A-26C," a squeeze-type concrete pump truck with the longest and highest-spec boom in Japan , in the same month and a wood chip drying container system, in February 2020.

All shares of Trex Thairung Co., Ltd., a specified subsidiary of the Group in Thailand, owned by the Group and its consolidated subsidiary, NIPPON TREX, were transferred to THAI RUNG UNION CAR PUBLIC CO., LTD., a local joint venture, effective July 30, 2019. Going forward, the Group will continue to engage in business in Thailand through technical assistance and invest management resources in areas with high returns on investment in line with the business restructuring.

Net sales in the Specialty Truck Segment increased by 7,187 million yen (7.6%) to 102,076 million yen. Segment profit increased by 802 million yen (14.3%) to 6,417 million yen due to cost increase, etc.

New rotary type refuse truck

New squeeze concrete pump truck
“PH80A-26C”

New tailgate lifter

ii) Environmental Equipment and Systems Segment

As for plant construction, a recycling center for which an order was received from the Osaki Area Integrated Administration of a Large Region Office Work Association in Miyagi was completed in June 2019. Also, construction work for a new cleaning plant for an order received from Mito, Ibaraki and “Clean Center” for an order received from Sasebo, Nagasaki were both completed in March 2020.

In the biogas plant business, the Group won a new contract for constructing biomass power generation facilities in Okayama from Biodiesel Okayama Co., Ltd., a DOWA Group company, as a result of activities to win new contracts.

In addition, the Group continued to focus on the stock-type business such as maintenance and entrusted operation.

Net sales in the Environmental Equipment and Systems Segment decreased by 1,479 million yen (11.4%) to 11,473 million yen. Segment profit decreased by 767 million yen (29.7%) to 1,813 million yen.

Biogas plant

Recycle center in Tsu

iii) Real Estate Rental Segment

For multistory parking systems, in addition to engaging in activities to win new contracts for new facilities, the Group focused on securing new contracts for the stock-type business such as renewal and maintenance. For coin-operated parking, the Group continued to expand business locations focusing on profitability and started operating six new municipal parking lots for which an order was received from Kizugawa, Kyoto.

Net sales in the Real Estate Rental Segment increased by 153 million yen (2.2%) to 7,189 million yen. Segment profit decreased by 18 million yen (1.6%) to 1,142 million yen.

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

Multi-story parking equipment

<Forecast of Operations for the Next Consolidated Fiscal Year ending March 31, 2020>

The Japanese economy is expected to face a challenging situation due to a significant impact caused by the spread of COVID-19.

The Group has established a basic policy for COVID-19 and projected the impact of the spread of COVID-19 as follows.

The Group has established a basic policy for COVID-19 as “Giving top priority to the safety of customers, local communities, and Group employees while ensuring balance with business continuation.” Through the implementation of various measures, the Group has striven to reduce the risk of infection. The Group’s current situation and countermeasures are as provided below.

1. No employee has tested positive for COVID-19.
2. Implemented teleworking/staggered work hours and allowed commuting by personal car.
3. Promoted digitization to continue business amid stay-at-home requests using video conferencing and online meetings.
4. Maintained normal operation at plants and service bases.

For the Group’s mainstay Specialty Truck Segment, the Group has a backlog of orders of approximately 70 billion yen (as of March-end 2020) which is equivalent to over six months’ worth of consolidated net sales of the Specialty Truck Segment. No major problems have occurred in plants’ production activities. While some of the projects which were ordered by customers have been cancelled, their impact on the Group’s consolidated performance is limited.

Concerns about a prolonged impact of COVID-19 and the occurrence of second and third waves of infections are as listed below.

1. Delay and cancellation of new business negotiations during sales activities.
2. Delay in installation of truck chassis in production activities and impact on supply chains, including procurement of parts.

Regarding the forecast for the truck market in the fiscal year under review, it is difficult to predict the specific number of trucks and demand trends at the moment. Therefore, it is difficult to numerically forecast the impact of COVID-19 on the Group’s future business performance.

The Environmental Equipment and Systems Segment is operating normally without any delay, etc. in construction work due to the nature of public works that are essential to people’s daily lives. Entrusted operations, etc. have also been busy with a higher operating rate caused partly by increases in household waste. It is expected that there will be almost no impact on business performance in the segment.

In the Real Estate Rental Segment, net sales are expected to decrease due to a decline in customer traffic in the coin-operated parking business, etc. caused by restrictions on going out. However, the extent of impact on business performance will be confirmed based on the situation with COVID-19 in the future.

Based on the above, the Group’s policy for revising the earnings forecast and medium-term management plan is as follows.

1. Consolidated earnings forecast for the fiscal year ending March 2021
   To be developed and disclosed immediately as soon as the extent of impact of COVID-19 on each segment along with accompanying market trends and forecasts can be confirmed.

2. Revision of medium-term management plan
   To be handled flexibly based on the extent of the impact above through such measures as considering and implementing policy revisions as needed.

3. Capital investment plan, etc.
   Capital investment plans developed before the spread of COVID-19 will be revised as described above.

Under these circumstances, the Group is promoting priority strategies based on the basic policy stipulated in the medium-term management plan 2019–21 “To the Growth Cycle” (3-year plan; April 1, 2019 – March 31, 2022) and making all-out efforts to expand sales and profits and to improve its corporate value. Meanwhile, the Group will pay close attention to the current and future trends and respond flexibly such as by considering and implementing policy revisions, etc. as needed.

(2) Analysis on Financial Conditions

i) Situations of Assets, Liabilities and Net Worth

In the current consolidated fiscal year, total assets decreased by 2,298million yen (1.7%) from the end of the preceding fiscal year to 136,579 million yen.

Current assets increased by 1,995 million yen (2.5%) to 82,753 million yen, due to increases in securities, etc.

Non-current assets (property, plant and equipment, intangible assets and investments and other assets) decreased by 4,294 million yen (7.4%) to 53,826 million yen, due to the fall in market prices of investment securities, etc.

Regarding liabilities, current liabilities decreased by 2,256 million yen (5.5%) to 38,615 million yen due to decreases in bills payable and accounts payable, repayment of short-term loans, etc. Non-current liabilities decreased by 1,751 million yen (24.5%) to 5,397 million yen due to decreases in deferred tax liability, etc.

Total net assets increased by 1,709 million yen (1.9%) to 92,566 million yen due to the posting of net profit, etc. attributable to owners of parent.

As a result, the capital adequacy ratio stood at 67.5% as of the end of the current fiscal year (64.9% at the end of the preceding fiscal year).

ii) Cash Flow Situation

Consolidated cash and cash equivalents at the end of period increased by 981 million yen (5.1%) compared with the end of the preceding fiscal year to 20,065 million yen. Cash flow by activity type is summarized as follows:

Cash Flow from Operating Activities

Net cash provided by operating activities amounted to 5,799 million yen (an increase of 1,769 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 2,746 million yen (an increase of 483 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 2,284 million yen (an increase of 772 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 25th, 2020 resolved and passed to pay a dividend of 20 yen per share at the end of March 2018 as originally proposed by management, making its annual dividend 40 yen per share including an interim dividend, increased by 2 yen compared with the preceding fiscal year.

The annual dividend for the year ending March 2021 is undecided, and was disclosed when it became possible to disclose the expected dividend amount, I will.

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 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 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, 2020 and 2019

ASSETS	Millions of yen 2020	Millions of yen 2019	Thousands of U.S. dollars (Note 1) 2020
Current assets:			
Cash and deposits (Notes 9 & 10)	¥ 7,804	¥ 10,584	$ 71,724
Short-term securities (Notes 9 & 10)	12,890	9,133	118,460
Trade notes and accounts receivable (Note 10 & 17)	35,905	37,595	329,982
Electronically recorded monetary claims - operating (Note 10 & 17)	6,815	6,021	62,628
Merchandise & finished goods	1,368	1,198	12,574
Work in process	5,798	5,561	53,281
Raw materials & supplies	9,484	9,178	87,159
Other current assets	2,751	1,555	25,288
Allowance for doubtful accounts	(62)	(67)	(568)
Total current assets	82,753	80,758	760,528
Property, plant and equipment (Note 11):			
Land (Note 5)	20,360	20,565	187,115
Buildings and structures (Note 5)	33,816	33,340	310,782
Machinery, equipment and vehicles	18,351	18,253	168,650
Construction in progress	1,012	166	9,299
Other	5,105	5,275	46,915
Total	78,644	77,599	722,761
Accumulated depreciation	(39,597)	(38,425)	(363,911)
Net property, plant and equipment	39,047	39,174	358,850
Intangible assets	701	706	6,440
Investments and other assets:			
Investment securities (Notes 3, 6 & 10)	11,685	15,991	107,388
Deferred tax assets (Note 15)	259	272	2,384
Other assets	2,842	2,687	26,126
Allowance for doubtful accounts	(708)	(710)	(6,507)
Total investments and other assets	14,078	18,240	129,391
Total non-current assets	53,826	58,120	494,681
Total	¥ 136,579	¥ 138,878	$ 1,255,209

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS	Millions of yen 2020	Millions of yen 2019	Thousands of U.S. dollars (Note 1) 2020
Current liabilities:			
Short-term bank loans (Notes 4 & 10)	¥ 1,464	¥ 2,939	$ 13,452
Current portion of long-term bank loans (Notes 4 & 10)	637	600	5,853
Trade notes and accounts payable (Note 10 & 17)	15,993	17,374	146,981
Electronically recorded obligations - operating (Note 10 & 17)	10,629	10,225	97,684
Accrued expenses	4,569	4,320	41,990
Income taxes payable	1,570	2,059	14,429
Other current liabilities (Note 4)	3,753	3,355	34,499
Total current liabilities	38,615	40,872	354,888
Non-current liabilities:			
Bonds payable (Notes 4 & 10)	50	-	460
Long-term bank loans (Notes 4 & 10)	56	600	511
Net defined benefit liabilities (Note 7)	968	780	8,892
Liabilities for directors' retirement benefits	168	141	1,546
Deferred tax liabilities (Note 15)	1,600	2,742	14,708
Other non-current liabilities (Notes 4, 5 & 10)	2,556	2,886	23,489
Total non-current liabilities	5,398	7,149	49,606
Total liabilities	44,013	48,021	404,494
Net assets:			
Shareholders' equity:			
Common stock (Note 13):			
Authorized-170,950,672 shares			
Issued-42,737,668 shares in 2020 and 2019	11,900	11,900	109,364
Capital surplus (Note 13)	11,679	11,719	107,334
Retained earnings	68,733	64,280	631,677
Treasury stock, at cost:			
3,010,866 shares in 2019			
3,011,295 shares in 2020	(2,153)	(2,153)	(19,789)
Total shareholders' equity	90,159	85,746	828,586
Accumulated other comprehensive income (Note 16):			
Unrealized gain on available-for-sale securities	2,553	4,878	23,466
Foreign currency translation adjustments	127	(3)	1,172
Remeasurements of defined benefit plans	(657)	(463)	(6,040)
Total accumulated other comprehensive income	2,023	4,412	18,598
Non-controlling interests	384	699	3,531
Total net assets	92,566	90,857	850,715
Total	¥ 136,579	¥ 138,878	$ 1,255,209

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF INCOME
Years ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Net sales	¥ 120,174	¥ 114,301	$ 1,104,437
Cost of sales (Note 18)	97,228	91,991	893,558
Gross profit	22,946	22,310	210,879
Selling, general and administrative expenses (Note 14)	14,452	13,755	132,820
Operating income	8,494	8,555	78,059
Other income (expenses):			
Interest and dividend income	382	373	3,514
Interest expense	(50)	(97)	(456)
Gain on sales of investment securities	712	390	6,540
Loss on sales or disposition of property and equipment, net	(52)	(24)	(481)
Equity in losses of affiliates	(192)	(96)	(1,765)
Loss on valuation of investment securities (Note 3)	(8)	-	(77)
Loss on sale of investment in a subsidiary (Note 20)	(601)	-	(5,524)
Foreign exchange gain (loss)	(34)	12	(314)
Other-net	49	43	458
Other expenses -net	206	601	1,895
Income before income taxes and non-controlling interests	8,700	9,156	79,954
Income taxes (Note 15):			
Current	2,756	3,268	25,329
Deferred	(26)	(173)	(239)
Total income taxes	2,730	3,095	25,090
Net income	5,970	6,061	54,864
Net loss attributable to non-controlling interests	(103)	(224)	(950)
Net income attributable to owners of the parent	¥ 6,073	¥ 6,285	$ 55,814

	Yen		U.S. dollars (Note 1)
	2020	2019	2020
Amounts per shares:			
Basic net income	¥ 152.87	¥ 158.20	$ 1.40
Diluted net income	-	-	-
Cash dividends applicable to earnings of the year	40.00	38.00	0.37

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Net income	¥ 5,970	¥ 6,061	$ 54,864
Other comprehensive income (Note 16):			
Unrealized gain on available-for-sale securities	(2,324)	(1,537)	(21,363)
Foreign currency translation adjustments	66	(51)	612
Remeasurements of defined benefit plans	(195)	(123)	(1,789)
Share of other comprehensive income in affiliates accounted for by the equity method	72	(12)	660
Total other comprehensive income	(2,381)	(1,723)	(21,880)
Comprehensive income	¥ 3,589	¥ 4,338	$ 32,984
Total comprehensive income attributable to:			
Owners of the parent	3,679	4,598	33,809
Non-controlling interests	(90)	(260)	(825)

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
Years ended March 31, 2020 and 2019

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, 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
Purchases of treasury stock					(0)	(0)						(0)
Net income attributable to owners of the parent				6,073		6,073						6,073
Change in scope of consolidation				(71)		(71)		6		6		(65)
Change in ownership interest of parent due to transactions with non-controlling interests			(40)			(40)						(40)
Appropriation												
Cash dividends paid				(1,549)		(1,549)						(1,549)
Other net changes in the year							(2,325)	124	(194)	(2,395)	(315)	(2,710)
Balance, March 31, 2020	¥	11,900	11,679	68,733	(2,153)	90,159	2,553	127	(657)	2,023	384	92,566

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, 2019	$	109,364	107,699	590,752	(19,784)	788,031	44,831	(28)	(4,254)	40,549	6,428	835,008
Purchases of treasury stock					(5)	(5)						(5)
Net income attributable to owners of the parent				55,814		55,814						55,814
Change in scope of consolidation				(650)		(650)		54		54		(596)
Change in ownership interest of parent due to transactions with non-controlling interests			(365)			(365)						(365)
Appropriation												
Cash dividends paid				(14,239)		(14,239)						(14,239)
Other net changes in the year							(21,365)	1,146	(1,786)	(22,005)	(2,897)	(24,902)
Balance, March 31, 2020	$	109,364	107,334	631,677	(19,789)	828,586	23,466	1,172	(6,040)	18,598	3,531	850,715

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Operating activities:			
Income before income taxes and non-controlling interests	¥ 8,700	¥ 9,156	$ 79,954
Depreciation and amortization	2,625	2,644	24,122
Loss on valuation of investment securities	8	-	77
Gain on sales of investment securities, net	(111)	(390)	(1,016)
Equity in losses of affiliates	192	96	1,765
Loss on sales or disposition of property and equipment, net	18	15	165
Interest and dividend income	(382)	(373)	(3,514)
Interest expenses	50	97	456
Decrease (increase) in trade notes and accounts receivable	1,128	(2,911)	10,364
Decrease (increase) in inventories	(565)	(2,360)	(5,195)
Increase (decrease) in trade notes and accounts payable	(1,481)	(193)	(13,607)
Increase (decrease) in net defined benefit liabilities	(94)	(87)	(860)
Increase (decrease) in allowance for doubtful accounts	(8)	8	(73)
Increase (decrease) in allowance for others	(64)	206	(589)
Increase (decrease) in consumption taxes payable	348	192	3,199
Other, net	(1,717)	577	(15,778)
Sub total	8,647	6,677	79,470
Interest and dividend income received	389	382	3,578
Interest expenses paid	(34)	(3)	(313)
Income taxes paid	(3,203)	(3,026)	(29,436)
Net cash provided by operating activities	5,799	4,030	53,299
Investing activities:			
Purchases of securities and investments	(440)	(1,611)	(4,040)
Proceeds from sales of securities and investments	1,200	626	11,026
Proceeds from maturity of securities and investments	633	500	5,818
Purchases of property, plant and equipment	(3,467)	(2,082)	(31,866)
Proceeds from sales of property, plant and equipment	295	17	2,707
Purchases of shares of subsidiaries	-	(375)	-
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation (Note 19)	(692)	-	(6,356)
Net decrease (increase) in short-term loans receivable	23	-	214
Disbursement of loans receivable	(316)	(353)	(2,903)
Collection of loans receivable	15	42	139
Other,net	2	6	17
Net cash used in investing activities	(2,747)	(3,230)	(25,244)
Financing activities:			
Net increase (decrease) in short-term bank loans	96	6	879
Repayment of long-term bank loans	(637)	(1,348)	(5,857)
Payment of finance lease obligations	(55)	(101)	(508)
Purchases of treasury stock	(0)	(2)	(5)
Dividends paid	(1,549)	(1,469)	(14,234)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(138)	(143)	(1,266)
Net cash used in financing activities	(2,283)	(3,057)	(20,991)
Foreign currency translation adjustments on cash and cash equivalents	(5)	(16)	(40)
Net increase (decrease) in cash and cash equivalents	764	(2,273)	7,024
Cash and cash equivalents at beginning of year	19,084	21,357	175,384
Increase in cash and cash equivalents from a newly consolidated subsidiary	217	-	1,999
Cash and cash equivalents at end of year (Note 9)	¥ 20,065	¥ 19,084	$ 184,407

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 ¥108.81=US$1, the approximate exchange rate on March 31, 2020. 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, 2020, 6 subsidiaries are excluded from scope of consolidation. As to these, investments in all 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, 2020, Hokuriku Heavy Industries, Ltd. has been included into the scope of consolidation, since their materiality has been increased. Also, Trex Thairung Co., Ltd. has been excluded from the scope of consolidation, since the Company sold its all shares.
Among the consolidated subsidiaries, the balance sheet date for Kyokuto Kaihatsu (Kunshan) Machinery 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 (except for lease 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 39,726 and 39,727 thousand shares for 2020 and 2019, respectively.
Diluted net income per share is not disclosed because the Company had no potentially dilutive shares outstanding at these balance sheet dates.
Cash dividends per share shown in the statements of income are the amounts applicable to the respective years.

(o) Accounting Standards issued but not yet applied

- "Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan (ASBJ) Statement No.29, March 31, 2020)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No.30, March 31, 2020)
- "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No.19, March 31, 2020)

(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. IFRS 15 was applied to fiscal years beginning on or after January 1, 2018 and Topic 606 was applied from fiscal years beginning after December 15, 2017. Considering this situation, the ASBJ developed a comprehensive accounting standard for revenue recognition and implementation guidance and issued them together.

In developing the accounting standards for revenue recognition, the ASBJ basically integrated the core principles of IFRS 15 from a comparability point in view of the financial statements, which is one of the benefits of ensuring consistency with IFRS 15. If there are any items which should be considered in current practices in Japan, alternative treatments would be added to the extent to which comparability is not impaired.

(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.

- "Accounting Standard for Fair Value Measurement" (ASBJ Statement No.30, July 4, 2019)
- "Accounting Standard for Measurement of Inventories (ASBJ Statement No.9, July 4, 2019)

- "Accounting Standard for Financial Instruments" (ASBJ Statement No.10, July 4, 2019)
- "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No.31, July 4,2019)
- "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No.19, March31, 2020)

(i) Overview

IASB and FASB in the United States established almost the same detailed guidance regarding fair value measurement (IFRS 13 "Fair Value Measurement" in IFRS and Topic 820 "Fair Value Measurement" in FASB). Considering this situation, the ASBJ has worked for consistency between Japanese accounting standards and international accounting standards regarding fair value of financial instruments and disclosure and issued "Accounting Standard for Fair Value Measurement" and others above.

The basic approach taken by the ASBJ in the development of the accounting standards for fair value measurement was, to incorporate essentially all details of IFRS 13 in order to improve the comparability with financial statements of Japan and overseas. If there are any items which should be considered in current practices in Japan, exceptional treatments would be added to the extent to which the comparability is not impaired significantly.

(ii) 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 standards and guidance on the Company's consolidated financial statements are currently under the assessment.

- "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No.31, March 31, 2020)

(i) Overview

With regard to the disclosure of "Sources of estimation uncertainty" required by paragraph 125 of International Accounting Standards (IAS) 1 "Presentation of Financial Statements" (hereinafter, "IAS 1") issued in 2003 by IASB, because this information is highly useful to users of the financial statements, there were

requests to consider disclosing this under Japanese GAAP as information included in explanatory notes, and the ASBJ developed and issued the "Accounting Standard for Disclosure of Accounting Estimates" (hereinafter, the "Standard").
The basic approach taken by the ASBJ in the development of the Standard was, rather than to expand individual notes, to state the general principle (disclosure objectives), and then to allow the company to make a decision on specific content to be disclosed according to the disclosure objectives. In the development, the ASBJ also made it its policy to make reference to the provisions of paragraph 125 of IAS 1.

(ii) Scheduled date of application
To be applied from the beginning of the fiscal year ending March 2021.

- "Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error
  Corrections" (ASBJ Statement No.24, March 31, 2020)

(i) Overview
Having been presented with a proposal that consideration should be given to enriching the information in the explanatory notes on "the principles and procedures for accounting treatments adopted in cases where the provisions of relevant accounting standards and regulations are not clear," the ASBJ performed the necessary revisions to the Standard, and issued the revised Standard as the "Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections".
In addition, when seeking to enrich the information in the explanatory notes on "the principles and procedures for accounting treatments adopted in cases where the provisions of relevant accounting standards and regulations are not clear," in order to avoid affecting business that has been conducted under conditions where the provisions of relevant accounting standards and regulations are clear, it is assumed to inherit the provisions of the Annotations on the Corporate Accounting Principles (Annotation No. 1-2).

(ii) Scheduled date of application
To be applied from the beginning of the fiscal year ending March 2021.

(p) Changes in presentation methods

(Consolidated balance sheets)
From fiscal year ended March 31, 2020, "Electronically recorded monetary claims - operating" which was included in "Trade notes and accounts receivable" under "Current assets" in the previous fiscal year, is presented separately because its amount has become significant. The financial statements for the previous fiscal year have been reclassified to reflect this change in presentation method.
As a result, ¥43,616 million which was presented in "Trade notes and accounts receivable" on the consolidated balance sheets for the previous fiscal year has been reclassified as ¥37,595 million in "Trade notes and accounts receivable" and ¥6,021 million in "Electronically recorded monetary claims - operating".

(q) Additional information

(Accounting estimates of the impacts of the new COVID-19 infection)
The Company believes that it is difficult to predict how the impacts of the new COVID-19 infection will spread or when they will converge. However, we make the accounting estimates based on the assumption which the impact on financial position and operating results of the Group will continue over the period until the fiscal year ending March 31, 2021 based on external information available at this time.

3. Securities

The following is a summary of held-to-maturity securities and available-for-sale securities at March 31, 2020 and 2019:

Millions of yen

	Held-to-maturity securities			
March 31, 2020	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	600	—	(2)	598
Total	¥ 600	¥ —	¥ (2)	¥ 598

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

Thousands of U.S. dollars

March 31, 2020	Held-to-maturity securities 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	5,514	—	(18)	5,496
Total	$ 5,514	$ —	$ (18)	$ 5,496

Millions of yen

March 31, 2020	Available-for-sale securities Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	¥ 5,372	¥ 3,982	¥ (273)	¥ 9,081
Other securities	229	—	(4)	225
Subtotal	¥ 5,601	¥ 3,982	¥ (277)	¥ 9,306
Market value not available:				1,779
Total				¥ 11,085

Millions of yen

March 31, 2019	Available-for-sale securities Cost	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

				Thousands of U.S. dollars
	Available-for-sale securities			
March 31, 2020	Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	$ 49,368	$ 36,595	$ (2,511)	$ 83,452
Other securities	2,106	—	(35)	2,071
Subtotal	$ 51,474	$ 36,595	$ (2,546)	$ 85,523
Market value not available:				16,351
Total				$ 101,874

Impairment losses of available-for-sale securities were recorded during the fiscal year ended March 31, 2020. They were immaterial. No impairment losses were recorded during the fiscal year ended March 31, 2019.

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

The annual average interest rates applicable to short-term bank loans at March 31, 2020 and 2019 were 0.48% and 1.34%, respectively.

Long-term debts at March 31, 2020 and 2019 consisted of the following:

	Millions of yen		*Thousands of U.S. dollars*
	2020	2019	2020
Bonds payable	¥ 50	¥ -	$ 460
Long-term bank loans	693	1,200	6,364
Lease obligations	158	291	1,459
Other	439	666	4,034
Total	¥ 1,340	¥ 2,157	$ 12,317

Aggregate annual maturities of long-term debts subsequent to March 31, 2020 were as follows:

Year ending March 31	*Millions of yen*	*Thousands of U.S. dollars*
2021	¥ 953	$ 8,762
2022	270	2,479
2023	52	483
2024	35	319
2025 and thereafter	30	274
Total	¥ 1,340	$ 12,317

To set up a commitment line by multiple finance institutions, the Company renewed an agreement with a syndicate of 6 and 7 banks for the years ended March 31, 2020 and 2019, respectively.

The unexecuted balance of lending commitments of the Company at March 31, 2020 and 2019 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2020	2019	2020
Total lending commitments	¥ 5,000	¥ 5,000	$ 45,952
Less amounts currently executed	—	—	—
Unexecuted balance	¥ 5,000	¥ 5,000	$ 45,952

5. Pledged Assets

The following assets were pledged as collateral for the following borrowings at March 31, 2020 and 2019:

	Millions of yen		*Thousands of U.S. dollars*
	2020	2019	2020
Land	¥ 750	¥ 750	$ 6,889
Buildings	1,565	1,645	14,383
Total	¥ 2,315	¥ 2,395	$ 21,272

	Millions of yen		*Thousands of U.S. dollars*
	2020	2019	2020
Other non-current liabilities	¥ 1,320	¥ 1,553	$ 12,135
Total	¥ 1,320	¥ 1,553	$ 12,135

6. Lending Securities

Out of investment securities, ¥ 41 million ($ 376 thousand) was for lending securities at March 31, 2020.

7. 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, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Benefit obligations at beginning of year	¥ 7,698	¥ 7,219	$ 70,747
Service cost	502	476	4,614
Interest cost	14	20	130
Actuarial gains or losses	128	230	1,181
Retirement benefits paid	(346)	(246)	(3,189)
Translation adjustments	0	(1)	4
Benefit obligations at end of year	¥ 7,996	¥ 7,698	$ 73,487

The changes in plan assets for the year ended March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Plan assets at beginning of year	¥ 6,918	¥ 6,531	$ 63,576
Expected return on plan assets	138	131	1,272
Actuarial gains or losses	(289)	(49)	(2,659)
Contributions from employers	546	514	5,022
Retirement benefits paid	(285)	(209)	(2,616)
Plan assets at end of year	¥ 7,028	¥ 6,918	$ 64,595

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, 2020 and 2019 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2020	2019	2020
Funded benefit obligations	¥ 7,978	¥ 7,685	$ 73,320
Plan assets at end of year	7,028	6,918	64,595
	950	767	8,725
Non funded benefit obligations	18	13	167
Net amount of liabilities and assets recognized in consolidated balance sheet	¥ 968	¥ 780	$ 8,892
Net defined benefit liabilities	¥ 968	¥ 780	$ 8,892
Net defined benefit assets	—	—	—
Net amount of liabilities and assets recognized in consolidated balance sheet	¥ 968	¥ 780	$ 8,892

The retirement benefit expenses for the year ended March 31, 2020 and 2019 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2020	2019	2020
Service cost	¥ 502	¥ 476	$ 4,614
Interest cost	14	20	130
Expected return on plan assets	(138)	(131)	(1,272)
Recognition of actuarial gains or losses	137	100	1,262
Severance and pension costs	¥ 515	¥ 465	$ 4,734

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*
	2020	2019	2020
Recognized actuarial gains or losses	¥ (281)	¥ (180)	$ (2,577)
Total	¥ (281)	¥ (180)	$ (2,577)

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*
	2020	2019	2020
Unrecognized actuarial gains or losses	¥ 947	¥ 667	$ 8,702
Total	¥ 947	¥ 667	$ 8,702

The components of plan assets as of March 31, 2020 and 2019 were as follows:

	Ratio	
	2020	2019
Bonds	57%	41%
Securities	19%	31%
General account asset	17%	21%
Other	7%	7%
Total	100%	100%

The major actuarial assumptions for the year ended March 31, 2020 and 2019 were as follows:

	2020	2019
Discount rate		
The Company and a domestic subsidiary	0.0 to 0.3%	0.0 to 0.6%
A foreign subsidiary	5.8 to 8.6%	8.4%
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 7.3%
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 ¥ 118 million ($ 1,081 thousand) and ¥ 111 million for the year ended March 31, 2020 and 2019 in the Company and other domestic subsidiaries.

8. Contingencies

At March 31, 2020 and 2019, the Group was contingently liable as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2020	2019	2020
As a guarantor of indebtedness of :			
Other	¥ 9	¥ 10	$ 80
Total	¥ 9	¥ 10	$ 80

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 perform our obligations.

9. Cash and cash equivalents

Cash and cash equivalents at March 31, 2020 and 2019 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2020	2019	2020
Cash and deposits	¥ 7,804	¥ 10,584	$ 71,724
Short-term securities	12,890	9,133	118,460
Securities with redemption term of over 3 months	(590)	(633)	(5,419)
Time deposits with an original maturity of over 3 months	(39)	―	(358)
Cash and cash equivalents	¥ 20,065	¥ 19,084	$ 184,407

10. 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 12 "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, 2020 and 2019. 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, 2020	Carrying amount	Fair value	Unrecognized gain/loss
Cash and deposits	¥ 7,804	¥ 7,804	¥ —
Trade notes and accounts receivable	35,905	35,905	—
Electronically recorded monetary claims - operating	6,815	6,815	—
Short-term securities	12,890	12,890	—
Investment securities	9,906	9,904	(2)
Trade notes and accounts payable	(15,993)	(15,993)	—
Electronically recorded obligations - operating	(10,629)	(10,629)	—
Short-term bank loans	(1,464)	(1,464)	—
Long-term bank loans	(693)	(691)	2
Bonds payable	(50)	(50)	(0)
Long-term deposits	(439)	(453)	(14)
Derivatives	—	—	—

March 31, 2019	Carrying amount	Fair value	Unrecognized gain/loss
	Millions of yen		
Cash and deposits	¥ 10,584	¥ 10,584	¥ —
Trade notes and accounts receivable	37,595	37,595	—
Electronically recorded monetary claims - operating	6,021	6,021	—
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)
Bonds payable	—	—	—
Long-term deposits	(666)	(695)	(29)
Derivatives	—	—	—

March 31, 2020	Carrying account	Fair value	Unrecognized gain/loss
	Thousands of U.S. dollars		
Cash and deposits	$ 71,724	$ 71,724	$ —
Trade notes and accounts receivable	329,982	329,982	—
Electronically recorded monetary claims - operating	62,628	62,628	—
Short-term securities	118,460	118,460	—
Investment securities	91,037	91,019	(18)
Trade notes and accounts payable	(146,981)	(146,981)	—
Electronically recorded obligations - operating	(97,684)	(97,684)	—
Short-term bank loans	(13,452)	(13,452)	—
Long-term bank loans	(6,364)	(6,355)	9
Bonds payable	(460)	(461)	(1)
Long-term deposits	(4,034)	(4,165)	(131)
Derivatives	—	—	—

Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions:

(a) "Cash and deposits", "Trade notes and accounts receivable" and "Electronically recorded monetary claims - operating"

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 12 "Derivatives".

Financial instruments for which it is extremely difficult to determine the fair value at March 31, 2020 and 2019 consist of the following:

	Millions of yen		*Thousands of U.S. dollars*
	2020	2019	2020
Non-listed equity securities	¥ 1,779	¥ 1,971	$16,351
Long-term deposit	1,422	1,425	13,070

The annual maturities of financial assets and investment securities with contractual maturities subsequent to March 31, 2020 and 2019 were as follows:

Millions of yen

March 31, 2020	Due in one year or less	Due after one year through five years	Due after five years through ten years
Cash and deposits	¥ 7,804	¥ —	¥ —
Trade notes and accounts receivable	35,905	—	—
Electronically recorded monetary claims - operating	6,815	—	—
Short-term securities	12,890	—	—
Investment securities	—	600	—
Total	¥ 63,414	¥ 600	¥ —

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	37,595	—	—
Electronically recorded monetary claims - operating	6,021	—	—
Short-term securities	9,133	—	—
Investment securities	800	—	—
Total	¥ 64,133	¥ —	¥ —

March 31, 2020	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	$ 71,724	$ —	$ —
Trade notes and accounts receivable	329,982	—	—
Electronically recorded monetary claims - operating	62,628	—	—
Short-term securities	118,460	—	—
Investment securities	—	5,514	—
Total	$ 582,794	$ 5,514	$ —

11. 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 ¥ 952 million ($ 8,747 thousand) and ¥ 998 million for the year ended March 31, 2020 and 2019, 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, 2019	Increase/ (decrease)	March 31, 2020	March 31, 2020
¥ 6,980	¥ (68)	¥ 6,912	¥ 10,045

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

			Thousands of U.S. dollars
Carrying amount			Fair value
April 1, 2019	Increase/ (decrease)	March 31, 2020	March 31, 2020
$ 64,150	$ (627)	$ 63,523	$ 92,317

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

(b) Increase during the year ended march 31, 2020 was mainly due to the expenditure for provision of site for lent in amount of ¥ 32 million ($ 290 thousand). Decrease during the year ended March 31, 2020 was mainly due to depreciation in an amount of ¥ 135 million ($ 1,238 thousand).
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. Decrease during the year ended March 31, 2019 was mainly due to depreciation in an amount of ¥ 144 million.

(c) Fair value at March 31, 2020 and 2019 were principally measured based on the real estate appraisal assessed by the external real estate appraiser.

12. 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, 2020 and 2019, 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.

13. Shareholders' Equity

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

		Millions of yen	
	Number of Shares issued	Common Stock	Capital Surplus
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
Movement of stock during 2020	—	—	(40)
Balance at March 31, 2020	42,737,668	¥ 11,900	¥ 11,679

	Thousands of U.S. dollars	
	Common Stock	Capital surplus
Balance at March 31, 2019	$ 109,364	$ 107,699
Movement of stock during 2020	—	(365)
Balance at March 31, 2020	$ 109,364	$ 107,334

Decrease of capital surplus during 2020 was change in ownership interest due to transactions with non-controlling interests.

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.

14. Research and Development

Research and development expenditure which is included in "Selling, general and administrative expenses" were ¥ 1,479 million ($ 13,594 thousand) and ¥ 1,406 million for the years ended March 31, 2020 and 2019, respectively.

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% for the years ended March 31, 2020 and 2019. 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, 2020 and 2019 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2020	2019	2020
Deferred tax assets:			
Tax loss carry forward	¥ 230	¥ 413	$ 2,113
Allowance for doubtful accounts	237	239	2,178
Accrued Bonuses	730	634	6,712
Provision for product warranties	300	302	2,757
Allowance for repairs	—	9	—
Accrued corporation enterprise tax	135	150	1,244
Loss on valuation of inventories	146	134	1,339
Forecast of construction cost	41	24	374
Net defined benefit liabilities	295	238	2,711
Fixed assets – elimination of intercompany profits	256	256	2,357
Loss on impairment of long-lived assets	231	309	2,127
Loss on valuation of investment for subsidiaries and affiliates	33	33	305
Excess depreciation	344	308	3,157
Other	702	473	6,448
Deferred tax assets sub-total	3,680	3,522	33,822
Less valuation allowance relevant to tax loss carry forward	(214)	(379)	(1,964)
Less valuation allowance relevant to total deductible temporary difference	(1,111)	(926)	(10,209)
Valuation allowance sub-total	(1,325)	(1,305)	(12,173)
Total deferred tax assets	¥2,355	¥ 2,217	$ 21,649

	Millions of yen 2020	*Millions of yen* 2019	*Thousands of U.S. dollars* 2020
Deferred tax liabilities:			
Unrealized gain on investment securities	¥ (1,134)	¥ (2,145)	$ (10,420)
Reduction reserve for fixed assets	(1,380)	(1,393)	(12,688)
Unrealized gain on subsidiaries' fixed assets by revaluation at the beginning of consolidation	(1,131)	(1,115)	(10,396)
Special depreciation reserve	(51)	(34)	(469)
Total deferred tax liabilities	(3,696)	(4,687)	(33,973)
Net deferred tax assets (liabilities)	¥ (1,341)	¥ (2,470)	$ (12,324)

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

At March 31, 2020

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	67	34	7	62	60	—	230
Valuation allowance	(67)	(34)	(7)	(62)	(44)	—	(214)
Deferred tax assets	—	—	—	—	16	—	16

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

At March 31, 2020

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	615	312	65	566	555	—	2,113
Valuation allowance	(615)	(312)	(65)	(566)	(406)	—	(1,964)
Deferred tax assets	—	—	—	—	149	—	149

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

(b) The deferred tax assets of ¥ 16 million ($ 149 thousand) and ¥ 34 million were recognized for the balance of tax loss carry forward (an amount multiplied by the statutory tax rate) of ¥ 230 million ($ 2,113 thousand) and ¥ 413 million at March 31, 2020 and 2019, respectively.
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, 2020 and 2019 were as follows:

	2020	2019
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, 2020 was omitted because the difference is less than 5% of the statutory income tax rate.

16. Comprehensive Income

The components of other comprehensive income for the year ended March 31, 2020 and 2019 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2020	2019	2020
Unrealized gain on available-for-sale securities:			
Gains (Losses) arising during the year	¥ (2,627)	¥ (1,818)	$ (24,151)
Reclassification adjustments for gain (loss)	(704)	(390)	(6,463)
Amount before income tax effect	(3,331)	(2,208)	(30,614)
Income tax effect	1,007	671	9,251
Total	¥ (2,324)	¥ (1,537)	$ (21,363)
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ 60	¥ (51)	$ 558
Reclassification adjustments for gain (loss)	6	—	54
Amount before income tax effect	66	(51)	612
Income tax effect	—	—	—
Total	¥ 66	¥ (51)	$ 612
Remeasurements of defined benefit plans:			
Gains (Losses) arising during the year	¥ (418)	¥ (280)	$ (3,839)
Reclassification adjustments for gain (loss)	137	100	1,262
Amount before income tax effect	(281)	(180)	(2,577)
Income tax effect	86	57	788
Total	¥ (195)	¥ (123)	$ (1,789)
Share of other comprehensive income in affiliates accounted for by equity method:			
Gains (Losses) arising during the year	¥ 72	¥ (12)	$ 660
Total	¥ 72	¥ (12)	$ 660
Total other comprehensive income	¥ (2,381)	¥ (1,723)	$ (21,880)

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 because that day fell on a bank holiday, were included in the balance sheet as of March 31, 2019:

	Millions of yen		*Thousands of U.S. dollars*
	2020	2019	2020
Trade notes receivable	¥ —	¥ 880	$ —
Electronically recorded monetary claims - operating	—	84	—
Trade notes payable	—	868	—
Electronically recorded obligation - operating	—	1,949	—

18. Provision of reserve for Losses on Construction Contracts

Provision of reserve for losses on construction contracts included in Cost of Sales were ¥ 55 million ($ 510 thousand) and ¥ 101 million for the years ended March 31, 2020 and 2019, respectively.

19. Supplemental cash flow information

Assets and liabilities of Trex Thairung Co., Ltd. ("TTR") that have been excluded from the scope of consolidation as a result of the sales of all shares, the sales amount of shares and the expenditures associated with the sales of shares were as follows:

	Millions of yen	*Thousands of U.S. dollars*
Current assets	¥ 567	$ 5,209
Non-current assets	1,578	14,504
Current liabilities	(1,825)	(16,773)
Non-current liabilities	(100)	(920)
Non-controlling interests	(121)	(1,111)
Foreign currency translation adjustments	6	54
Loss on sale of subsidiary shares	(601)	(5,524)
Net sales price of shares of TTR	(496)	(4,561)
Cash and cash equivalents of TTR	(196)	(1,795)
Payments associated with the sales of shares	¥ (692)	$ (6,356)

(Note) Net sales price of TTR was included the amount of capital increase in working capital requirements.

20. Business Combination

(Business divestiture)
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.

(a) Summary of the business divestiture
- (i) Name of the consolidated subsidiary divested and its business description
  Name : Trex Thairung Co., Ltd.
  Business description : Manufacturing and sales of Wing Van, 10 doors Van, Dump, Mixer
- (ii) Name of the counterparty of the business divestiture
  THAI RUNG UNION CAR PUBLIC CO., Ltd.
- (iii) Major reason for the business divestiture
  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 dealership business, 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 had fallen below the initial plan and their production level hasn't been improved due to the local unstable employment practices. As a result, it has been facing the severe management environment since starting operation and the improvement in performance couldn't be expected 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.

(iv) Date of the business divestiture
July 30, 2019

(v) Legal form of the business divestiture
Share transfer in consideration for cash

(b) Summary of the accounting treatment

(i) Amount of gain / loss on the share transfer

	Millions of yen	*Thousands of U.S. dollars*
Loss on sale of investment in a subsidiary	¥ 601	$ 5,524

(ii) Details of balance sheet amount of assets and liabilities of divested business

	Millions of yen	*Thousands of U.S. dollars*
Current assets	¥ 567	$ 5,209
Non-current assets	1,578	14,504
Total assets	¥ 2,145	$ 19,713
Current liabilities	¥ 1,825	$ 16,773
Non-current liabilities	100	920
Total liabilities	¥ 1,925	$ 17,693

(iii) Accounting treatment
The difference between the book value of the transferred interest in the consolidated balance sheet including the amount of capital increase which the Company underwrote and the net sales price was "Loss on sale of investment in a subsidiary" in "Other income (expenses)" in the consolidated statement of income for the year ended March 31, 2020.

(c) Name of segment in which the divested business was included
"Specialty truck business" (Industry A)

(d) Estimated Net sales and Operating income of the divested business included in the consolidated statement of income for the year ended March 31, 2020

	Millions of yen	*Thousands of U.S. dollars*
Net sales	¥ 87	$ 802
Operating income	(88)	(811)

21. 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, 2020 and 2019 are as follows:

Millions of yen

2020	Reportable segments Industry A	Industry B	Industry C	Total	Reconciliations (Note a)	Consolidated (Note b)
Net sales:						
External customers	¥ 102,035	¥ 11,472	¥ 6,667	¥ 120,174	―	¥ 120,174
Intersegment sales or transfers	42	1	522	565	(565)	―
Total	102,077	11,473	7,189	120,739	(565)	120,174
Segment profit	6,417	1,814	1,143	9,374	(880)	8,494
Segment assets	80,904	8,244	11,810	100,958	35,621	136,579
Other items:						
Depreciation	2,168	59	368	2,595	1	2,596
Increase in tangible and intangible fixed assets	3,626	108	239	3,973	―	3,973

(a) Reconciliations of segment profit in an amount of ¥ (880) million which consists of elimination of intersegment transactions in an amount of ¥ 9 million and corporate expenses which are not allocated to each reportable segment in an amount of ¥ (889) million. 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.

Millions of yen

2019	*Reportable segments* Industry A	Industry B	Industry C	Total	Reconciliations (Note a)	Consolidated (Note b)
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

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

Thousands of U.S. dollars

2020	Reportable segments				Reconciliations (Note a)	Consolidated (Note b)
	Industry A	Industry B	Industry C	Total		
Net sales:						
External customers	$ 937,733	$ 105,429	$ 61,275	$ 1,104,437	–	$ 1,104,437
Intersegment sales or transfers	383	13	4,795	5,191	(5,191)	–
Total	938,116	105,442	66,070	1,109,628	(5,191)	1,104,437
Segment profit	58,977	16,669	10,504	86,150	(8,091)	78,059
Segment assets	743,531	75,766	108,539	927,836	327,373	1,255,209
Other items:						
Depreciation	19,921	547	3,384	23,852	6	23,858
Increase in tangible and intangible fixed assets	33,329	995	2,193	36,517	–	36,517

(a) Reconciliations of segment profit in an amount of $ (8,091) thousand which consists of elimination of intersegment transactions in an amount of $ 84 thousand and corporate expenses which are not allocated to each reportable segment in an amount of $ (8,175) 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.

22. Subsequent Event

The following appropriations of the Company's retained earnings in respect of the year ended March 31, 2020 were as proposed by the Board of Directors and approved by the shareholders at the annual general meeting held on June 25, 2020.

Appropriations	*Millions of yen*	*Thousands of U.S. dollars*
Cash dividends of ¥ 20 ($ 0.18) per share	¥ 795	$ 7,302

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of KYOKUTO KAIHATSU KOGYO CO.,LTD

Opinion

We have audited the accompanying consolidated balance sheet of KYOKUTO KAIHATSU KOGYO CO.,LTD (the "Company") and its consolidated subsidiaries as of March 31, 2020, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its consolidated subsidiaries as of March 31, 2020, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company and its consolidated subsidiaries in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management, Audit & Supervisory Board and its members for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Audit & Supervisory Board and its members are responsible for overseeing the Company and its consolidated subsidiaries' financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether dueto fraud or error, design and perform audit procedures responsive to those risks. These audit procedures are based on auditor's professional judgment and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

- 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate whether the presentation and notes to the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, and the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company and its consolidated subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board and its members regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board and its members with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

Our firm and its engagement partners do not have any interest in the Company and its consolidated subsidiaries which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

The engagement partners on the audit resulting in this independent auditor's report are Naoya Hayashi Certified Public Accountant and Takahiro Fujita Certified Public Accountant.

PKF Hibiki Audit Corporation

Hibiki Audit Corporation
Osaka, Japan
August 6th, 2020

Notes to the Readers of Independent Auditor's Report

This is an English translation of the Independent Auditor's Report as required by the Financial Instruments and Exchange Act of Japan[1] for the conveniences of the reader.

CORPORATE INFORMATION

Kyokuto Kaihatsu Kogyo Co., Ltd.
Established: June 1, 1955
Paid-in Capital: 11,899,867,400 yen (March 31, 2020)
Number of Employees: consolidated 2,883; non-consolidated 1,072 (March 31, 2020)

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, Chairperson
Tatsuya Nunohara,	Representative Director, President, CEO
Takeo Norimitsu,	Director, Associate Senior Executive Officer
Noboru Horimoto,	Director,Executive Officer
Kazuhiko Harada,	Director,Executive Officer
Sadanobu Kato,	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
Akira Sakurai,	Executive Officer
Yukihiro Hosozawa,	Executive Officer
Teruyuki Kizu,	Executive Officer
Shinichi Takahama,	Executive Officer
Yutaka Yoshida,	Executive Officer
Masashi Ushio,	Executive Officer
Shinsaku Chijiiwa,	Executive Officer