Consolidated Financial Statements

VT HOLDINGS CO., LTD.

Year Ended March 31, 2017

1. Analysis of Results of Operations and Financial Position
   (1) Analysis of Results of Operations
      ① Overview of Business Operations
      In the Japanese new vehicles market, the number of new vehicles sold in the domestic market in this fiscal year increased by 2.8% compared to the previous fiscal year due mainly to a moderate recovery in sales of standard-sized vehicles from the beginning of this fiscal year and light vehicles whose sales had been shrunk because of the tax increase for light vehicles started from the previous year.
      In auto sales related business, which is our core business, despite an impact from the sales suspension of two models of Nissan light vehicles through April to June, the number of new and used vehicles sold in the current fiscal year was 82,916 units, which increased by 9,099 units (or 12.3%) compared to the previous fiscal year. It was partly due to a sales increase of Motoren Shizuoka which started BMW dealer business from April in Shizuoka, WESSEX GARAGES HOLDINGS LIMITED (the U.K.) acquired in May and 12 affiliates of MASTER AUTOMOCION, S.L. (Spain) acquired in October.
      Consequently, the consolidated net sales, operating income, ordinary income, and net income attributable to owners of the parent were ¥169,560 million ($1,511,229 thousand) (15.8% increase from the previous fiscal year), ¥7,592 million ($67,664 thousand) (0.4% decrease from the previous fiscal year), ¥7,937 million ($70,739 thousand) (4.4% increase from the previous fiscal year), and ¥4,421 million ($39,402 thousand) (8.1% increase from the previous fiscal year), respectively.

      ② Business Overview by segment
      [Car Business]
      Domestic sales of new vehicles was facing tough situation, noting that respective numbers of Honda and Nissan vehicles sold were 5,316 units (10.4% decrease from the previous fiscal year) and 13,687 units (5.1% decrease from the previous fiscal year). The number of Nissan vehicles sold was influenced by the sales suspension of two models of light vehicles at the beginning of the year, despite the effects from new models launched in the second half of the year. However, the total number of new vehicles sold, including overseas sales, was 33,616 units (22.0% increase from the previous fiscal year) with sales and profit increases owing to newly consolidated subsidiaries located inside and outside Japan.
      Used vehicles business also suffered, noting that the number of exported used vehicles was 6,503 units (8.3% decrease from the previous fiscal year). Although the total number of used vehicles sold was 49,300 units (6.6% increase from the previous fiscal year) partly because of newly consolidated subsidiaries as mentioned above, profit of used vehicles slightly decreased due mainly to unfavorable export market condition and other reasons.
      In the maintenance service business, sales and profit increased from the previous fiscal year as a result of efforts of existing consolidated companies and newly consolidated subsidiaries to increase orders of automobile safety inspection, repair and maintenance, and commission income.
      In the car rental business, sales and profit also increased as operation of new stores started in the previous fiscal year and existing stores continued to grow steadily.
      From the above, net sales and operating income were ¥162,687 million ($1,449,973 thousand) (16.2% increase from the previous fiscal year) and ¥7,529 million ($67,103 thousand) (2.4% decrease from the previous fiscal year), respectively.

      [Housing Business]
      The Group is expanding condominium business in Aichi and Gifu and detached housing business in branches of Tokyo, Osaka and Nagoya

In condominium business, orders and deliveries of completed condominiums were robust as the Group focused on selection of property locations and sale of properties at reasonable prices with thorough marketing.
Despite some regional sales fluctuation, the detached housing business was on a favorable trend on a group-wide basis, with an effort to increase orders of commercial facilities from external customers taking advantage of know-how to obtain orders at branches shared by the group companies.
From the above, net sales and operating income were ¥6,731 million ($59,991 thousand) (7.4% increase from the previous fiscal year) and ¥541 million ($4,821 thousand) (86.2% increase from the previous fiscal year), respectively.

③ Forecasts for the next fiscal year
Japanese economy is showing a slowdown of steady economic growth and continues to experience uncertainty in the future economic outlook, along with a trend toward protectionist policies in other counties triggered by the U.K. and the U.S. which changed to protectionist policies and concerns of uncertainty for the future operations of export companies and stagnant consumer spending.
In addition, domestic vehicle sales market is still unpredictable mainly because of concern of a market shrinkage after an additional increase of consumption tax rate, which has been postponed to 2019, although temporary last-minutes demand before the additional increase of consumption tax rate can be expected.
Under these circumstances, we will strive to further strengthen the revenue base for used vehicle sales and maintenance service business of the group companies and to improve customer satisfaction, as well as expanding new business though M&As, such as the launch of import business in South Africa on June 1, 2017.
As a result, the forecast of consolidated net sales , operating income, ordinary income, and net income attributable to owners of the parent for the next fiscal year ending March 31, 2018 are expected to be ¥196,000 million ($1,746,880 thousand) (15.6% increase from the current fiscal year), ¥8,500 million ($75,757 thousand) (12.0% increase from the current fiscal year), ¥8,500 million($75,757 thousand) (7.1% increase from the current fiscal year), and ¥4,800 million ($42,780 thousand) (8.5% increase from the current fiscal year), respectively.

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Consolidated Balance Sheet

March 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
ASSETS			
CURRENT ASSETS:			
Cash and deposits *(Notes 4, 9, and 14)*	¥ 6,490	¥ 7,456	$ 57,843
Notes and accounts receivable:			
Trade *(Note 14)*	6,010	4,662	53,565
Other	1,608	1,163	14,331
Allowance for doubtful accounts	(74)	(32)	(659)
Lease receivables and investments in leases *(Notes 13, 14, and 19)*	9,981	7,488	88,957
Inventories *(Notes 5 and 9)*	26,694	15,330	237,914
Deferred tax assets *(Note 16)*	840	764	7,486
Other current assets	3,151	1,586	28,083
Total current assets	54,702	38,419	487,540
PROPERTY AND EQUIPMENT (Notes 7, 8, and 9):			
Land	20,868	19,407	185,989
Buildings and structures	24,861	20,731	221,577
Machinery and vehicles	6,307	3,978	56,212
Leased assets *(Note 13)*	10,705	8,820	95,409
Others	1,980	2,098	17,647
Total	64,724	55,035	576,862
Accumulated depreciation	(21,351)	(18,447)	(190,294)
Property and equipment – net	43,373	36,587	386,568
INTANGIBLE ASSETS *(Note 7)*	13,940	12,088	124,242
INVESTMENTS AND OTHER ASSETS:			
Investment securities *(Notes 6, 9, and 14)*	2,063	1,910	18,386
Investments in unconsolidated subsidiaries and associated companies	3,829	3,639	34,126
Long-term loans receivable *(Note 14)*	1,399	290	12,468
Guarantee and rental deposits	1,130	1,100	10,071
Deferred tax assets *(Note 16)*	178	188	1,586
Other assets *(Note 14)*	1,790	1,716	15,953
Allowance for doubtful accounts	(914)	(962)	(8,146)
Total investments and other assets	9,477	7,882	84,465
TOTAL ASSETS	¥ 121,493	¥ 94,979	$ 1,082,825

See accompanying notes to the consolidated financial statements.

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries
Consolidated Balance Sheet (continued)
March 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	**2016**	**2017**
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term bank loans *(Notes 9 and 15)*	¥ 10,455	¥ 8,805	$ 93,181
Current portion of long-term debt *(Notes 9 and 14)*	5,949	5,110	53,021
Current portion of long-term lease obligations *(Notes 9, 13, and 14)*	12,670	9,855	112,923
Notes and accounts payable:			
Trade *(Notes 9 and 14)*	23,646	14,233	210,748
Other	922	452	8,217
Income taxes payable *(Note 14)*	746	1,388	6,648
Accrued bonuses to employees	967	883	8,618
Other current liabilities	6,733	4,205	60,008
Total current liabilities	62,091	44,935	553,395
LONG-TERM LIABILITIES:			
Long-term debt *(Notes 9 and 14)*	12,678	8,507	112,994
Long-term lease obligations *(Notes 9 and 14)*	4 ,819	3,476	42,950
Liability for employees' retirement benefits *(Note 10)*	777	720	6,925
Liability for retirement benefits for directors and audit & supervisory board members	748	657	6,666
Accounts payable-other	64	107	570
Asset retirement obligations	380	336	3,386
Deferred tax liabilities *(Note 16)*	1,767	1,244	15,748
Other long-term liabilities *(Note 9)*	522	295	4,652
Total long-term liabilities	21,759	15,346	193,930
EQUITY *(Note 11)*:			
Common stock:			
authorized –169,800,000 shares in 2017 and 2016			
issued – 119,381,034 shares in 2017 and 2016	4,297	4,297	38,297
Capital surplus	2,832	2,832	25,240
Retained earnings	28,038	25,498	249,893
Treasury stock, at cost – 1,726,578 shares in 2017 and 2016	(98)	(98)	(873)
Accumulated other comprehensive income:			
Net unrealized gain on available-for-sale Securities	430	313	3,832
Land revaluation surplus	-	29	-
Foreign currency translation adjustments	(517)	(156)	(4,607)
Total	34,982	32,716	311,782
Subscription rights to shares *(Note12)*	137	60	1,221
Non-controlling interests	2,522	1,920	22,477
Total equity	37,642	34,697	335,490
TOTAL LIABILITIES AND EQUITY	¥ 121,493	¥ 94,979	$ 1,082,825

See accompanying notes to the consolidated financial statements.

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Consolidated Statement of Income

Year Ended March 31, 2017

	Millions of Yen		*Thousands of U.S. Dollars (Note 1)*
	2017	**2016**	**2017**
NET SALES	¥ 169,560	¥ 146,468	$ 1,511,229
COST OF SALES	138,456	118,157	1,234,010
Gross profit	31,104	28,310	277,219
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	23,511	20,690	209,545
Operating income	7,592	7,619	67,664
NON-OPERATING INCOME (EXPENSE):			
Interest and dividend income	78	77	695
Interest expense	(322)	(316)	(2,869)
Equity in earnings of associated companies	271	186	2,415
Lease revenue received	73	74	650
Subsidy income	288	50	2,566
Cost of real estate leasing	(63)	(65)	(561)
Exchange losses	(74)	(145)	(659)
Other-net	94	122	837
Ordinary income	7,937	7,603	70,739
EXTRAORDINARY INCOME(EXPENSE):			
Gain on sales of investment securities *(Note 6)*	2	5	17
Loss on sales and disposals of property and equipment – net	(86)	(53)	(766)
Write-down of investment securities *(Note 6)*	-	(651)	-
Loss on impairment of long-lived assets *(Note 7)*	(89)	-	(793)
Loss on store closing	(103)	-	(918)
Other – net	(71)	(73)	(632)
Extraordinary income (expense) – net	(348)	(773)	(3,101)
INCOME BEFORE INCOME TAXES	¥ 7,589	¥ 6,830	$ 67,638

See accompanying notes to the consolidated financial statements.

	Millions of Yen		*Thousands of U.S. Dollars (Note 1)*
	2017	**2016**	**2017**
INCOME TAXES *(Note 16)*			
Current	¥ 2,324	¥ 2,710	$ 20,713
Deferred	445	(245)	3,966
Total income taxes	2,770	2,465	24,688
NET INCOME	4,819	4,365	42,950
NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	397	274	3,538
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 4,421	¥ 4,090	$ 39,402

	Yen		*U.S. Dollars (Note 1)*
PER SHARE OF COMMON STOCK *(Notes 2(w) and 18)*			
Basic net income	¥ 37.58	¥ 34.77	$ 0.33
Diluted net income	-	-	-
Cash dividends applicable to the year	17.00	18.00	0.15

See accompanying notes to the consolidated financial statements.

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries
Consolidated Statement of Comprehensive Income
Year Ended March 31, 2017

	Millions of Yen		*Thousands of U.S. Dollars (Note 1)*
	2017	**2016**	**2017**
NET INCOME	¥ 4,819	¥ 4,365	$ 42,950
OTHER COMPREHENSIVE INCOME *(Note 17)*:			
Net unrealized gain on available-for-sale securities	122	(71)	1,087
Foreign currency translation adjustments	(339)	(236)	(3,021)
Share of other comprehensive income in associates	(31)	(6)	(276)
Total other comprehensive income	(248)	(314)	(2,210)
COMPREHENSIVE INCOME	¥4,570	¥ 4,050	$ 40,730
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥ 4,148	¥ 3,795	$ 36,969
Non-controlling interests	421	255	3,752

See accompanying notes to the consolidated financial statements.

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries
Consolidated Statement of Changes in Equity
Year Ended March 31, 2017

Millions of Yen

	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income: Net Unrealized Gain on Available-for-Sale Securities	Accumulated Other Comprehensive Income: Land Revaluation Surplus	Accumulated Other Comprehensive Income: Foreign Currency Translation Adjustment	Total	Subscription Rights to Shares	Non-controlling Interests	Total Equity
BALANCE AT APRIL 1, 2015	117,654,456	¥ 4,297	¥ 2,832	¥ 23,402	¥ (98)	¥ 377	¥ 29	¥ 73	¥ 30,914	¥ -	¥ 1,689	¥ 32,604
Cash dividends, ¥17.00 per share	-	-	-	(2,000)	-	-	-	-	(2,000)	-	-	(2,000)
Net income for the year	-	-	-	4,090	-	-	-	-	4,090	-	-	4,090
Change in treasury stocks of parent arising from transactions with non-controlling shareholders	-	-	0	-	-	-	-	-	0	-	(21)	(20)
Change in scope of consolidation	-	-	-	6	-	-	-	-	6	-	-	6
Net change in the year	-	-	-	-	-	(64)	-	(230)	(294)	60	251	17
BALANCE AT MARCH 31, 2016	117,654,456	4,297	2,832	25,498	(98)	313	29	(156)	32,716	60	1,920	34,697
Cash dividends, ¥16.00 per share	-	-	-	(1,882)		-	-	-	(1,882)	-	-	(1,882)
Net income for the year	-	-	-	4,421		-	-	-	4,421	-	-	4,421
Change in treasury stocks of parent arising from transactions with non-controlling shareholders	-	-	0	-	-	-	-	-	0	-	(1)	(1)
Net change in the year	-	-	-	-	-	117	(29)	(360)	(273)	76	603	407
BALANCE AT MARCH 31, 2017	117,654,456	¥ 4,297	¥ 2,832	¥ 28,038	¥ (98)	¥ 430	¥ -	¥ (517)	¥ 34,982	¥ 137	¥ 2,522	¥ 37,642

Thousands of U.S. Dollars (Note 1)

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated other comprehensive income: Net Unrealized Gain on Available-for-Sale Securities	Accumulated other comprehensive income: Land Revaluation Surplus	Accumulated other comprehensive income: Foreign Currency Translation Adjustments	Total	Subscription Rights to Shares	Non-controlling Interests	Total Equity
BALANCE AT MARCH 31, 2016	$ 38,297	$ 25,240	$ 227,254	$ (873)	$ 2,789	$ 258	$ (1,390)	$ 291,586	$ 534	$ 17,112	$ 309,242
Cash dividends, $0.14 per share	-	-	(16,773)	-	-	-	-	(16,773)	-	-	(16,773)
Net income for the year	-	-	39,402	-	-	-	-	39,402	-	-	39,402
Change in treasury stocks of parent arising from transactions with non-controlling shareholders	-	0	-	-	-	-	-	0	-	(8)	(8)
Net change in the year	-	-	-	-	1,042	(258)	(3,208)	(2,433)	677	5,374	3,627
BALANCE AT MARCH 31, 2017	$ 38,297	$ 25,240	$ 249,893	$ (873)	$ 3,832	$ -	$ (4,607)	$ 311,782	$ 1,221	$ 22,477	$ 335,490

See accompanying notes to the consolidated financial statements.

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries
Consolidated Statement of Cash Flows
Year Ended March 31, 2017

	Millions of Yen		*Thousands of U.S. Dollars (Note 1)*
	2017	**2016**	**2017**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income taxes	¥ 7,589	¥ 6,830	$ 67,638
Adjustments for:			
Depreciation and amortization	4,574	3,701	40,766
Amortization of goodwill	1,088	1,001	9,696
Loss on impairment of long-lived assets	89	-	793
(Decrease) increase in allowance for doubtful accounts	8	15	71
(Decrease) increase in accrued bonuses to employees	66	18	588
(Decrease) increase in liability for employees' retirement benefits	(26)	(18)	(231)
Increase in liability for retirement benefits for directors and audit & supervisory board members	90	26	802
Interest and dividend income	(78)	(77)	(695)
Interest expense	322	316	2,869
Foreign exchange loss (gain)	(4)	12	(35)
Equity in earnings of unconsolidated subsidiaries and associated companies	(271)	(186)	(2,415)
Loss on sales and disposals of property and equipment – net	86	53	766
Write-down of investment securities	-	651	-
Gain on sales of investment securities – net	(2)	(4)	(17)
Decrease in notes and accounts receivable – trade	1,209	13	10,775
(Increase) decrease in inventories	(4,352)	615	(38,787)
(Decrease) increase in notes and accounts payable – trade	4,606	(1,332)	41,051
(Increase) decrease in other current assets	(496)	93	(4,420)
(Decrease) increase in other current liabilities	194	(77)	1,729
(Decrease) increase in consumption taxes payable	(743)	468	(6,622)
Other – net	135	(60)	1,203
Subtotal	14,086	12,061	125,543
Interest and dividends received	127	127	1,131
Interest paid	(321)	(315)	(2,860)
Income taxes paid	(2,873)	(2,233)	(25,606)
Net cash provided by operating activities	¥ 11,017	¥ 9,640	$ 98,190

See accompanying notes to the consolidated financial statements.

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows (continued)

Year Ended March 31, 2017

	Millions of Yen		*Thousands of U.S. dollars (Note 1)*
	2017	**2016**	**2017**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	¥ (8,083)	¥ (5,571)	$ (72,040)
Proceeds from sales of property and equipment	2,341	2,311	20,864
Purchases of intangible assets	(93)	(92)	(828)
Purchases of investment securities	(16)	(123)	(142)
Proceeds from sales of investment securities	8	138	71
Payments for acquisition of newly consolidated subsidiaries	(5,083)	(65)	(45,303)
Proceeds from sales of shares of subsidiaries resulting in change of consolidation	-	114	-
Payment of loans receivable	(1,153)	(7)	(10,276)
Proceeds from loans receivable	96	47	855
Payment of security deposits	(138)	(102)	(1,229)
Proceeds from security deposits	121	59	1,078
Payments for business transfer	(1,075)	-	(9,581)
Other–net	(27)	72	(240)
Net cash used in investing activities	(13,103)	(3,220)	(116,782)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in short-term bank loans	1,216	1,813	10,837
Proceeds from long-term debt	11,480	2,860	102,317
Repayment of long-term debt	(6,232)	(3,962)	(55,543)
Redemption of bonds	(294)	(550)	(2,620)
Cash dividends paid	(1,882)	(2,000)	(16,773)
Cash dividends paid to non-controlling interests	(24)	(23)	(213)
Repayment of lease obligations	(3,158)	(3,173)	(28,146)
Other–net	(2)	(5)	(17)
Net cash used in financing activities	1,102	(5,041)	9,821
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	29	18	258
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(954)	1,397	(8,502)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,454	6,056	66,434
CASH AND CASH EQUIVALENTS, END OF YEAR *(Note 4)*	¥ 6,499	¥ 7,454	$ 57,923

See accompanying notes to the consolidated financial statements.

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries
Consolidated Statement of Cash Flows (continued)
Year Ended March 31, 2017

	Millions of Yen		*Thousands of U.S. Dollars (Note 1)*
	2017	**2016**	**2017**
NONCASH FINANCING ACTIVITIES:			
Finance lease transactions:			
Increase in leased assets	¥ 4,528	¥ 3,355	$ 40,356
Increase in lease obligations	4,831	3,614	43,057
ADDITIONAL INFORMATION:			
Reconciliation of the net cash paid for investment in MG General Service Co., Ltd. was as follows:			
Current assets	¥ -	¥ 133	$ -
Fixed assets	-	166	-
Goodwill	-	58	-
Current liabilities	-	(98)	-
Non-current liabilities	-	(101)	-
Non-controlling interests	-	(19)	-
Cost of shares	-	137	-
Cash and cash equivalents held by MG General Service Co., Ltd.	-	(72)	-
Net cash paid for investment in MG General Service Co., Ltd.	¥ -	¥ 65	$ -
Reconciliation of the net cash paid for investment in WESSEX GRAGES HOLDINGS LIMITED was as follows:			
Current assets	¥ 4,938	-	$ 44,010
Fixed assets	896	-	7,985
Goodwill	954	-	8,502
Current liabilities	(3,793)	-	(33,805)
Cost of shares	2,996	-	26,702
Cash and cash equivalents held by WESSEX GRAGES HOLDINGS LIMITED	(11)	-	(98)
Net cash paid for investment in WESSEX GRAGES HOLDINGS LIMITED	¥ 2,985	-	$ 26,604

See accompanying notes to the consolidated financial statements.

Reconciliation of the net cash paid for investment in MASTER AUTOMOCION, S.L. and its 11 subsidiaries (hereafter "M AUTOMOCION Group") was as follows:			
Current assets	¥ 4,044	-	$ 36,042
Fixed assets	542	-	4,830
Goodwill	1,581	-	14,090
Current liabilities	(3,836)	-	(34,188)
Non-current liabilities	(75)	-	(668)
Non-controlling interests	(207)	-	(1,844)
Cost of shares	2,049	-	18,262
Dividends paid to M Automocion Group	310	-	2,762
Cash and cash equivalents held by M AUTOMOCION Group	(262)	-	(2,335)
Net cash paid for investment in M AUTOMOCION Group	¥ 2,097	-	$ 18,689
Reconciliation of the net cash received from sales of VT International Co., Ltd. was as follows:			
Current assets	¥ -	¥ 98	$ -
Fixed assets	-	56	-
Current liabilities	-	(74)	-
Noncurrent liabilities	-	(8)	-
Gain on sales of shares	-	48	-
Net settlement	-	8	-
Revenues for its sales	-	130	-
Cash and cash equivalents held by	-	(15)	-
Net cash received sales of VT International Co., Ltd.	¥ -	¥ 114	$ -
Reconciliation of the net cash paid for business transfer of Sansei Motor Sales Ltd. was as follows:			
Current assets	¥ 243	-	$ 2,165
Fixed assets	1,137	-	10,133
Goodwill	342	-	3,048
Total assets	1,723	-	15,356
Current liabilities	(481)	-	(4,286)
Non-current liabilities	(166)	-	(1,479)
Total liabilities	(647)	-	(5,766)
Net cash paid for business transfer of Sansei Motor Sales Ltd	¥ 1,075	-	$ 9,581

See accompanying notes to the consolidated financial statements.

1. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements 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 accordance with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements 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, certain reclassifications have been made in the 2016 consolidated financial statements to conform to the classifications used in 2017.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which VT HOLDINGS CO., LTD. (the “Company”) is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥112.20 to $1, the approximate rate of exchange at March 31, 2017. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Japanese yen figures less than a million yen are rounded down to the nearest thousand yen. Consequently, the totals shown in the accompanying consolidated financial statements for the years ended March 31, 2017 and 2016 (both in yen and in U.S. dollars), do not necessarily agree with the sum of the individual amounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation

The consolidated financial statements as of March 31, 2017, include the accounts of the Company and its significant 42 (28 in 2016) subsidiaries (together, the “Group”).

WESSEX GRAGES HOLDINGS LIMITED and MASTER AUTOMOCION, S.L. with its 12 subsidiaries are included in the consolidation from the fiscal year ended March 31, 2017 as a result of acquisition of stock.

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method, except for mentioned below.

Investments in two (two in 2016) associated companies are accounted for by the equity method.

Investments in the remaining unconsolidated subsidiaries and associated companies (seven in 2017 and nine in 2016) are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.
The excess of the cost of an acquisition over the fair value of the net assets of an acquired subsidiary at the date of acquisition is being amortized over a period of 20 years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

Among the consolidated subsidiaries, the fiscal year-end of MASTER AUTOMOCION, S.L. and 12 other companies is December 31 and different from the consolidated fiscal year-end (March 31). However, necessary adjustments were made regarding significant transactions occurring in the period from January 1 to the consolidated fiscal year-end of March 31.

(b) Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements

In May 2006, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." PITF No. 18 prescribes that the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting.

(c) Business Combinations

In October 2003, the Business Accounting Council issued a Statement of Opinion, "Accounting for Business Combinations," and in December 2005, the ASBJ issued ASBJ Statement No. 7, "Accounting Standard for Business Divestitures" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures." The accounting standard for business combinations allowed companies to apply the pooling-of-interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures.

In December 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations." Major accounting changes under the revised accounting standard are as follows: (1) The revised standard requires accounting for business combinations only by the purchase method. As a result, the pooling-of-interests method of accounting is no longer allowed. (2) The previous accounting standard required research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development costs (IPR&D) acquired in the business combination are capitalized as an intangible asset. (3) The previous accounting standard provided for a bargain purchase gain (negative goodwill) to be systematically amortized over a period not exceeding 20 years. Under the revised standard, the acquirer recognizes the bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. The revised standard was applicable to business combinations undertaken on or after April 1, 2010.

(d) Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash and cash equivalents consist of cash on hand, deposits in banks, and the above short-term investments.

(e) Allowance for Doubtful Accounts

The allowance for doubtful accounts is computed based on the historical ratio of bad debts and an estimate of certain uncollectible amounts determined after an analysis of specific individual receivables.

(f) Inventories

Inventories are stated at the lower of cost, determined by the individual cost method for merchandise, such as new cars, used cars, and real estate for sale and work in process and by the last purchase method for merchandise such as parts, raw materials, and supplies.

(g) Property and Equipment

Property and equipment are stated at cost, less gains deferred on the sale and replacement of certain assets. Depreciation of property and equipment of the Company and its consolidated domestic subsidiaries is computed by the declining-balance method based on the estimated useful lives of the assets in accordance with the corporate tax law, except for buildings (other than structures attached to the buildings) acquired on or after April 1, 1998 and structures (including structures attached to the building) acquired on or after April 1,2016, and cars for rental purposes to which the straight-line method is applied, while the straight-line method is applied to all property and equipment of consolidated foreign subsidiaries.

Leased assets that are deemed not to transfer ownership to the lessee are depreciated over the lease period by the straight-line method with no residual value (or with guaranteed residual value, if any).

(h) Intangible Assets

Expenditures relating to software developed for internal use are charged to income when incurred, except when the software is expected to contribute to the generation of income or to cost savings. Such expenditures are capitalized as assets and are amortized by the straight-line method over their estimated useful life, generally a five-year period.

(i) Long-Lived Assets

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

(j) Investment Securities

Investment securities are classified and accounted for, depending on management's intent, as follows:

Available-for-sale securities, which are classified as neither trading securities nor held-to-maturity securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

(k) Deferred Assets

Stock and bond issuance costs are charged to income as incurred.

(l) Accrued Bonuses to Employees

Accrued bonuses to employees are provided for at the estimated amount of bonuses to be paid to the employees in the following year, which has been allocated to them in the current fiscal year.

(m) Liability for Retirement Benefits for Directors and Audit & Supervisory Board Members

Retirement allowances for directors and Audit & Supervisory Board members are recorded as a liability at the amount that would be required if all directors and Audit & Supervisory Board members retired at each balance sheet date.

(n) Liability for Employees' Retirement Benefits

The Company and certain consolidated subsidiaries have a defined contribution pension plan. In addition, there is a company pension plan, a severance payment plan, and a funded contributory pension plan, all of which are defined benefit pension plans.
The funded contributory pension plan is a multiemployer plan and the Group recognizes the required contribution for the period as net pension cost.
Certain consolidated subsidiaries adopt the simplified method for computing retirement benefit liabilities and retirement benefit expenses.

In May 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the accounting standard for retirement benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

The Company applied the revised accounting standard and guidance for retirement benefit effective March 31, 2014. There was no effect of these changes on the consolidated statement of income for the year ended March 31, 2014.

(Additional Information)
Following the implementation of the Defined-Benefit Corporate Pension Act, the Company and some of its subsidiaries received a waiver from the Minister of Health, Labor and Welfare of past obligations in respect of the proxy portion of the employee pension fund on September 1, 2016. There is no impact on gain or loss due to this change.

(o) Asset Retirement Obligations

In March 2008, the ASBJ issued ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations," and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows 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. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

(p) Stock Options

In December 2005, the ASBJ issued ASBJ Statement No. 8, "Accounting Standard for Stock Options," and related guidance. The new standard and guidance are applicable to stock options newly granted on or after May 1, 2006. This standard requires companies to measure the cost of employee stock options based on the fair value at the date of grant and recognize compensation expense over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to nonemployees based on the fair value of either the stock option or the goods or services received. In the consolidated balance sheet, the stock option is presented as a stock acquisition right as a separate component of equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

(q) Leases

In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions.

(Lessee)
Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the notes to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions be capitalized by recognizing lease assets and lease obligations in the balance sheet. In addition, the revised accounting standard permits leases that existed at the transition date and do not transfer ownership of the leased property to the lessee to continue to be accounted for as operating lease transactions.

(Sublease)
Prior to April 1, 2008, lease revenue received was recorded as sales and lease expense paid was recorded as cost of sales. However, effective April 1, 2008, net gains on sublease transactions were recorded as sales. Also, the Group accounted for leases that existed at the transition date and do not transfer ownership of the leased assets to the lessee in accordance with the new accounting method.

(r) Construction Contracts

In December 2007, the ASBJ issued ASBJ Statement No. 15, “Accounting Standard for Construction Contracts,” and ASBJ Guidance No. 18, “Guidance on Accounting Standard for Construction Contracts.” Under this accounting standard, construction revenue and construction costs should be recognized by the percentage-of-completion method if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs, and the stage of completion of the contract at the balance sheet date can be reliably measured, the outcome of a construction contract is deemed to be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method should be applied. When it is probable that the total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for a loss on construction contracts.

(s) Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. 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 amounts and the tax bases of assets and liabilities.
Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.
The Group files a tax return under the consolidated corporate tax system, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly owned domestic subsidiaries.

(t) Foreign Currency Transactions

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

(u) Foreign Currency Financial Statements

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date, except for equity, which is translated at the historical rate. Differences arising from such translation are shown as “Foreign currency translation adjustments” under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

(v) Derivatives and Hedging Activities

The Group uses derivative financial instruments to manage its exposures to fluctuations in interest rates. Interest rate swaps and interest rate caps are utilized by the Group to reduce interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

Interest rate swaps and interest rate caps that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements is recognized and included in interest expenses or income.

Significant hedge accounting methods
(i) Hedge accounting methods
Deferred hedge accounting is applied. Integrated treatment (special treatment or allocation treatment) is applied to interest rate and currency swaps that meet specific matching criteria.
(ii) Hedging instruments and hedged items
Hedging instruments: interest rate and currency swaps
Hedged items: borrowings denominated in foreign currencies and interest
(iii) Hedge method
Interest rate and currency swaps are used to mitigate interest rate risk of borrowings and exchange fluctuation risk.
(iv) Evaluation of hedge effectiveness
For interest rate and currency swaps to which integrated treatment is applied, hedge effectiveness is not evaluated.

(w) Per Share Information

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective years, including dividends to be paid after the end of the year.

(x) Accounting Changes and Error Corrections

In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows: (1) Changes in Accounting Policies - When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions. (2) Changes in Presentation - When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation. (3)

Changes in Accounting Estimates - A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior-Period Errors - When an error in prior-period financial statements is discovered, those statements are restated.

(y) New Accounting Pronouncements

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

3. Changes in accounting policies

In accordance with the revision of the Corporation Tax Act, effective from fiscal 2017 a part of consolidated subsidiaries in Japan adopted the Practical Solution on a Change in Depreciation Method due to Tax Reform 2016 (Practical Issue Task Force No. 32, June 17, 2016). Accordingly, the Company has changed the depreciation method for facilities attached to buildings and structures acquired on or after April 1, 2016 from the declining-balance method to the straight-line method. As a result, operating income, ordinary income and income before tax for the current fiscal year increased by ¥22 million ($196 thousand).

4. CASH AND CASH EQUIVALENTS

A reconciliation between the cash and deposits in the consolidated balance sheets and the cash and cash equivalents in the consolidated statements of cash flows for the years ended March 31, 2017 and 2016 was as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2017	**2016**	**2017**
Cash and deposits in the consolidated balance sheets	¥ 6,490	¥ 7,456	$ 57,843
Time deposits	-	(2)	-
Other (other deposits)	8	-	71
Cash and cash equivalents in the consolidated statements of cash flows	¥ 6,499	¥ 7,454	$ 57,923

5. INVENTORIES

Inventories as of March 31, 2017 and 2016 consisted of the following:

	Millions of Yen		*Thousands of U.S. Dollars*
	2017	**2016**	**2017**
New and used cars	¥ 21,725	¥ 12,678	$ 193,627
Parts	1,639	456	14,607
Other merchandise	568	430	5,062
Total merchandise	23,933	13,564	213,306
Raw materials	5	6	44
Work in process	2,687	1,683	23,948
Supplies	67	76	597
Total	¥ 26,694	¥ 15,330	$ 237,914

6. INVESTMENT SECURITIES

Investment securities as of March 31, 2017 and 2016 consisted of the following:

	Millions of Yen		*Thousands of U.S. Dollars*
	2017	**2016**	**2017**
Noncurrent:			
Equity securities	¥ 1,790	¥ 1,643	$ 15,953
Trust fund investments and other	272	267	2,424
Total	¥ 2,063	¥ 1,910	$ 18,386

Information regarding investment securities classified as available-for-sale securities at March 31, 2017 and 2016 is summarized as follows:

	Millions of Yen			
March 31, 2017	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	¥ 270	¥ 590	(5)	¥ 855
Other	248	25	¥ (2)	272
Total	¥ 519	¥ 615	¥ (7)	¥ 1,128

	Millions of Yen			
March 31, 2016	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	¥ 268	¥ 446	(6)	¥ 708
Other	248	29	(11)	267
Total	¥ 517	¥ 475	¥ (17)	¥ 975

	Thousands of U.S. Dollars			
March 31, 2017	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	$ 2,406	$ 5,258	$ (44)	$ 7,620
Other	2,210	222	(17)	2,424
Total	$ 4,625	$ 5,481	$ (62)	$ 10,053

The information of the available-for-sale securities that were sold during the years ended March 31, 2017 and 2016 was as follows:

	Millions of Yen		
March 31, 2017	Proceeds	Realized Gains	Realized Losses
Equity securities	¥ 8	¥ 2	-

	Millions of Yen		
March 31, 2016	Proceeds	Realized Gains	Realized Losses
Equity securities	¥ 138	¥ 5	¥ 0

	Thousands of U.S. Dollars		
March 31, 2017	Proceeds	Realized Gains	Realized Losses
Equity securities	$ 71	$ 17	-

The impairment losses on securities for the year ended March 31, 2016 were ¥651 million. No impairment losses on securities were recognized for the year ended March 31, 2017.

7. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of March 31, 2017 and 2016. As a result, the Group recognized impairment losses of ¥89 million ($793 thousand) in 2017. For the year ended March 31, 2017, a loss was recognized for long-lived assets used for the car business due to a decrease in profitability and management's decision to dispose of the assets relating to store relocation and rebuilding. Carrying amounts of assets were written down to the recoverable amounts, which were measured at net selling price.

Impairment losses consisted of the following:

	Millions of Yen		*Thousands of U.S. Dollars*
	2017	**2016**	**2017**
Buildings and structures	¥ 19	¥ -	$ 169
Land	14	-	124
Leased assets	55	-	490
Other	0	-	0
Total	¥ 89	¥ -	$ 793

8. INVESTMENT PROPERTY

In November 2008, the ASBJ issued ASBJ Statement No. 20, "Accounting Standard for Investment Property and Related Disclosures," and issued ASBJ Guidance No. 23, "Guidance on Accounting Standard for Investment Property and Related Disclosures."

The Company and its consolidated subsidiaries hold some rental properties, such as office buildings and shops, in Aichi and other areas. In addition, some rental properties, such as office buildings, part of which the Company and its consolidated subsidiaries use, are classified as rental properties in part.

The carrying amounts, changes in such balances, and market prices of such properties are as follows:

	Millions of Yen			
	Carrying Amount			Fair Value
	April 1, 2016	Increase (Decrease)	March 31, 2017	March 31, 2017
Investment properties	¥ 4,646	¥ 734	¥ 5,380	¥ 5,044
Properties that include portions used as investment properties	1,396	(220)	1,176	1,307

	Millions of Yen			
	Carrying Amount			Fair Value
	April 1, 2015	Increase (Decrease)	March 31, 2016	March 31, 2016
Investment properties	¥ 4,749	¥ (103)	¥ 4,646	¥ 4,282
Properties that include portions used as investment properties	1,418	(21)	1,396	1,535

	Thousands of U.S. Dollars			
	Carrying Amount			Fair Value
	April 1, 2016	Increase (Decrease)	March 31, 2017	March 31, 2017
Investment properties	$ 41,408	$ 6,541	$ 47,950	$ 44,955
Properties that include portions used as investment properties	12,442	(1,960)	10,481	11,648

Notes:
1) The carrying amount recognized in the consolidated balance sheet is net of accumulated depreciation and accumulated impairment losses, if any.
2) The main increase in 2017 in the carrying amount of investment properties was due to acquisition of assets amounting to ¥746 million ($6,648 thousand).

3) The main decrease in 2017 in the carrying amount of properties that include portions used as investment properties was due to exclusion from the portions amounting to ¥204 million ($1,818thousand)used as investment properties by the changes in control scope.
4) The fair value of properties as of March 31, 2017 and 2016 is measured by the Group in accordance with its Real-Estate Appraisal Standard.

In addition, rental income and operating expenses for those rental properties are as follows:

	Millions of Yen			
March 31, 2017	Rental Income	Cost of Rent	Net Rental Income	Other Income
Investment properties	¥ 346	¥ 181	¥ 164	¥ 3
Properties that include portions used as investment properties	45	21	24	-

	Millions of Yen			
March 31, 2016	Rental Income	Cost of Rent	Net Rental Income	Other Expenses
Investment properties	¥ 348	¥ 179	¥ 168	2
Properties that include portions used as investment properties	47	21	26	-

	Thousands of U.S. Dollars			
March 31, 2017	Rental Income	Cost of Rent	Net Rental Income	Other Income
Investment properties	$ 3,083	$ 1,613	$ 1,461	$ 26
Properties that include portions used as investment properties	401	187	213	-

Notes:
1) Rental income arising from parts used by the Group for its business and administration relating to properties that include portions used as investment properties are not included above. In addition, costs arising from such properties for business use (e.g., depreciation expense, repair cost, insurance cost, tax, and public charges) are deducted from cost of rent.

9. SHORT-TERM BANK LOANS, LONG-TERM DEBT, AND INTEREST-BEARING LIABILITIES

Short-term bank loans principally represent short-term notes and overdrafts.
The average annual interest rates applicable to the short-term bank loans were 0.41% and 0.43% at March 31, 2017 and 2016 respectively.

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

	Millions of Yen		*Thousands of U.S. Dollars*
	2017	**2016**	**2017**
Loans from banks and other financial institutions due serially to 2025 with weighted-average interest rates of 0.38% in 2017 and 0.64% in 2016	¥ 18,247	¥ 12,943	$ 162,629
Unsecured three months' TIBOR+0.20% domestic bonds due serially to 2016	-	40	-
Unsecured 0.72% domestic bonds due serially to 2019	250	250	2,228
Unsecured 0.79% domestic bonds due serially to 2017	-	60	-
Unsecured 0.79% domestic bonds due serially to 2017	-	100	-
Unsecured 0.59% domestic bonds due serially to 2018	80	160	713
Unsecured 0.84% domestic bonds due serially to 2020	51	65	454
Long-term lease obligations	7,573	5,904	67,495
Unsecured 1.90% in 2017 and 2016 domestic other long-term debt due serially to 2029*	12	13	106
Total	¥ 26,214	¥ 19,535	$ 233,636
Less current portion	(8,702)	(7,538)	(77,557)
Long-term debt, less current portion	¥ 17,511	¥ 11,996	$ 156,069

* Unsecured 1.90% domestic other long-term debt due serially to 2029 is included in other long-term liabilities in the consolidated balance sheets.

The aggregate annual maturities of long-term debt and lease obligations subsequent to March 31, 2017 are summarized as follows:

Long-term debt (including current portion)	*Millions of Yen* 2017	*Thousands of U.S. Dollars* 2017
2018	¥ 5,949	$ 53,021
2019	4,859	43,306
2020	2,557	22,789
2021	2,184	19,465
2022	1,283	11,434
2023 and thereafter	1,793	15,980
Total	¥ 18,628	$ 166,024

Long-term lease obligations (including current portion)	*Millions of Yen* 2017	*Thousands of U.S. Dollars* 2017
2018*	¥ 2,753	$ 24,536
2019	2,143	19,099
2020	1,199	10,686
2021	237	2,112
2022	115	1,024
2023 and thereafter	1,123	10,008
Total	¥ 7,573	$ 67,495

*Lease obligations on subleases were not included in the schedule above and, as a result, the current portion of long-term lease obligations presented in the consolidated balance sheet exceeds that in the above schedule by ¥9,916 million ($88,377 thousand).

The assets pledged as collateral for accounts payable of ¥4,313 million ($38,440 thousand), short-term bank loans of ¥953 million ($8,493 thousand), and long-term debt of ¥3,982 million ($35,490 thousand) including the current portion at March 31, 2017 were as follows:

	Millions of Yen 2017	*Thousands of U.S. Dollars* 2017
Time deposit	¥ 240	$ 2,139
Merchandise and vehicles	4,514	40,231
Work in progress	1,262	11,247
Land	5,734	51,105
Buildings	2,188	19,500
Investment securities	5	44
Total	¥ 13,946	$ 124,295

10. RETIREMENT AND PENSION PLAN

To prepare for payment of retirement benefits to employees, the Company and some of its subsidiaries have defined contribution plans, funded defined benefit corporate pension plans, lump-sum retirement plans, and defined benefit corporate pension plans under multiemployer pension plans.
The same accounting treatment as that of defined contribution plans is applied to defined benefit corporate pension plans under multiemployer pension plans since the amount of pension assets corresponding to the Company's contribution cannot be reasonably estimated.
The Company and some of its subsidiaries received a waiver of past obligations for the employee's pension fund under multiemployer pension plans and transferred to defined benefit corporate pension plans.
With respect to funded retirement benefit corporate pension plans and lump-sum retirement plans which some consolidated subsidiaries have, liabilities for retirement benefits and retirement benefit expenses are calculated using a simplified method.

(1) Multiemployer pension plan

Total contributions made to the multiemployer pension plans were ¥79 million ($704 thousand) and ¥95 million, respectively, for the years ended March 31, 2017 and 2016.
The Company and some of its subsidiaries are members of National Honda Car Dealers Corporate Pension Fund, which was transferred from previous Honda Car Dealers' Pension Fund with the approval of the Minister of Health, Labor and Welfare for a waiver of past obligations on September 1, 2016. National Honda Car Dealers Corporate Pension Fund is currently in the year-end closing process with its first closing date of March 31, 2017. Therefore, the disclosure of the latest reserve status is omitted.
Saitama Machine Industry Pension Fund was dissolved on March 31, 2017. However, there was no impact on the Company caused by the dissolution of the fund.

(2) Defined benefit pension plan

The changes in defined benefit obligation, which applied the simplified method for the years ended March 31, 2017 and 2016 were as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2017	2016	2017
Balance at the beginning of year	¥ 720	¥ 730	$ 6,417
Increase from the changes in the scope of consolidation	-	8	-
Periodic benefit costs	72	53	641
Benefits paid	(93)	(66)	(828)
Contributions from the employer	(5)	(5)	(44)
Increase due to business transfer	82	-	730
Balance at the end of year	¥ 777	¥ 720	$ 6,925

A reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets is as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2017	2016	2017
Funded defined benefit obligation	¥ 84	¥ 84	$ 748
Plan assets	(76)	(69)	(677)
	7	15	62
Unfunded defined benefit obligation	769	705	6,853
Net liability arising from defined benefit obligation	¥ 777	¥ 720	$ 6,925

(3) Defined contribution pension plan

Total contribution for the defined contribution pension plan was ¥330 million ($2,941 thousand) and ¥320 million for the years ended March 31, 2017 and 2016, respectively.

11. EQUITY

Japanese companies are subject to the Companies Act of Japan (the “Companies Act”). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders’ meeting. For companies that meet certain criteria including such as (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria. The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to certain limitations and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases/Decreases and Transfer of Common Stock, Reserve, and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury Stock and Subscription Rights to Shares

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula. Under the Companies Act, subscription rights to shares are presented as a separate component of equity. The Companies Act also provides that companies can purchase both subscription rights to shares and treasury stock. Such are presented as a separate component of equity or deducted directly from subscription rights to shares.

12. STOCK OPTIONS

The stock options outstanding at March 31, 2017 are as follows:

	Millions of Yen		*Thousands of U.S. Dollars*	
	2017		**2017**	
Share -based compensation Expenses - SGA	¥	76	$	677

Stock Option (Granted by)	Persons Granted	Number of Options Granted (Shares)	Date of Grant	Exercise Price *Yen (U.S. Dollars)*	Exercise Period
2015 Stock option (the Company)	(the Company) 2 directors 7 employees (Subsidiaries) 27 directors 158 employees	588,000	June 16, 2015	¥ 718 ($ 6.39)	From June 17, 2017 to June 16, 2022

The stock option activity is as follows:

(Stock option granted by the Company)

	2015 Stock Option (Shares)	
For the year ended March 31, 2017		
Non-vested		
March 31, 2016 - Outstanding		-
Granted		585,000
Canceled		2,000
Vested		-
March 31, 2017 - Outstanding		583,000
Vested		
March 31, 2016 - Outstanding		-
Vested		-
Exercised		-
Canceled		-
March 31, 2017 - Outstanding		-
Exercise price	¥	718
(Yen and U.S. dollars)	($	6.39)
Average stock price at exercise		-
(Yen and U.S. dollars)		-
Fair value price at grant date	¥	263
(Yen and U.S. dollars)	($	2.34)

13. LEASES

The Group's leased assets primarily consist of maintenance machinery and cars for rent in the Car industry.

Amounts of sublease items, which include the interest portion, included in the consolidated balance sheets as of March 31, 2017 and 2016 were as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2017	**2016**	**2017**
Lease receivables and investments in leases	¥ 9,530	¥ 7,118	$ 84,937
Current portion of long-term lease obligations	9,916	7,427	88,377

14. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

The Group sells cars and conducts related businesses. The Group finances itself mainly through bank loans based on its capital financing plan. Cash surpluses, if any, are invested in low-risk financial assets. Short-term bank loans are used to fund its daily operations. Derivatives are not used for speculative purposes, but to manage exposure to financial risks as described below.

(2) Nature and Extent of Risks Arising from Financial Instruments

Receivables, such as trade notes, trade accounts, lease receivables, and investments in leases are exposed to customer credit risk. Securities and investment securities, which are mainly in equity instruments of customers and suppliers of the Group, are exposed to the risk of market price fluctuation. In addition, advances to the Group's customers and suppliers and receivables from them are exposed to credit risk.

Payment terms of payables, such as trade notes, trade accounts, and income taxes payable, are less than one year. Bank loans and bonds are used to fund mergers and acquisitions for business expansion and facilities in its subsidiaries with maturities less than approximately five years. Lease obligations mainly arise from finance lease transactions of cars for rent with maturities less than five years. Additionally, bank loans and bonds with variable interest rates and lease obligations are exposed to risks from changes in variable interest rates. Some borrowings are exposed to interest rate risk and exchange fluctuation risk, and hedged by derivative transactions (interest rate and currency swaps).

(3) Risk Management for Financial Instruments

Management of credit risks (risks of clients' failure to perform contracted obligations)

The Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of customers' credit records which are reviewed on a regular basis to identify the default risk of customers at an early stage. The Group investigates the credit information of new customers before doing business to determine whether to enter into the contract or not, as well as to define the contract terms with them.
As counterparties of derivative transactions are limited to financial institutions, the Company believes credit risk is extremely low.

Management of market risks (fluctuation risks in exchange rates and interest rates, etc.)

Securities and investment securities are managed by monitoring the market values and the financial position of issuers on a regular basis. In some cases, the Group apply derivatives to manage the market risk from changes in variable interest rates.
In addition, the Company's management division executes and manages derivative transactions, and all the transactions are carried out after the deliberation by the board of directors.

Management of liquidity risks (risks of inability to make payments on the due date)

Liquidity risk comprises the risk that the Group cannot meet its contractual obligations in full on maturity dates. The Group manages its liquidity risk by planning or revising its cash flow projection on a monthly basis.

(4) Fair Values of Financial Instruments

The fair value of financial instruments is based on quoted prices in active markets. If quoted prices are not available, other rational valuation techniques are used instead. The contractual amounts of derivative transactions in Note 14 "Derivative Transactions" do not represent market risks relating to derivative transactions.

For hedging instruments, hedged items, hedge policies and evaluation of hedge effectiveness, please refer to significant basic items for consolidated financial statements in "(v) Derivatives and Hedging Activities" of "2. Summary of Significant Accounting Policies" above.

(a) Fair value of financial instruments

	Millions of Yen		
March 31, 2017	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and deposits	¥ 6,490	¥ 6,490	-
Notes and accounts receivable	6,010	6,010	-
Lease receivables and investments in leases	9,981	10,942	¥ 961
Securities and investment securities:			
Available-for-sale securities	1,128	1,128	-
Long-term loans receivable:	1,399	1,408	9
Claims in bankruptcy:	913		
Less: allowance for doubtful accounts (*)	(913)		
Claims in bankruptcy – net	-	-	-
Total	¥ 25,009	¥ 25,980	¥ 970
Notes and accounts payable	¥ 23,646	¥ 23,646	-
Short-term bank loans (excluding current portion of long-term debt)	10,455	10,455	-
Income taxes payable	746	746	-
Long-term lease obligations (including current portion)	17,489	17,180	¥ (309)
Long-term debt (including current portion)	18,628	18,739	111
Total	¥ 70,966	¥ 70,768	¥ (197)

March 31, 2016	*Millions of Yen* Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and deposits	¥ 7,456	¥ 7,456	-
Notes and accounts receivable	4,662	4,662	-
Lease receivables and investments in leases	7,488	8,243	¥ 755
Securities and investment securities:			
Available-for-sale securities	975	975	-
Long-term loans receivable:	290	303	13
Claims in bankruptcy:	957		
Less: allowance for doubtful accounts (*)	(957)		
Claims in bankruptcy – net	-	-	-
Total	¥ 20,873	¥ 21,641	¥ 768
Notes and accounts payable	¥ 14,233	¥ 14,233	-
Short-term bank loans (excluding current portion of long-term debt)	8,805	8,805	-
Income taxes payable	1,388	1,388	-
Long-term lease obligations (including current portion)	13,331	13,146	¥ (185)
Long-term debt (including current portion)	13,618	13,629	11
Total	¥ 51,377	¥ 51,204	¥ (173)

	Thousands of U.S. Dollars		
March 31, 2017	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and deposits	$ 57,843	$ 57,843	-
Notes and accounts receivable	53,565	53,565	-
Lease receivables and investments in leases	88,957	97,522	$ 8,565
Securities and investment securities			
Available-for-sale securities	10,053	10,053	-
Long-term loans receivable	12,468	12,549	80
Claims in bankruptcy	8,137		
Less: allowance for doubtful accounts (*)	(8,137)		
Claims in bankruptcy – net	-	-	-
Total	$ 222,896	$ 231,550	$ 8,645
Notes and accounts payable	$ 210,748	$ 210,748	-
Short-term bank loans (excluding current portion of long-term debt)	93,181	93,181	-
Income taxes payable	6,648	6,648	-
Long-term lease obligations (including current portion)	155,873	153,119	$ (2,754)
Long-term debt (including current portion)	166,024	167,014	989
Total	$ 632,495	$ 630,730	$ (1,755)

(*) Allowance for long-term loans receivable and claims in bankruptcy is deducted from the carrying amount.

Assets

Cash and deposits, and Notes and Accounts Receivable
The carrying amounts of these accounts approximate fair value because of their short maturities.

Lease Receivables and Investments in leases
The fair values of these accounts are determined by discounting the total nominal amount with the rate reflecting the credit risk. Accordingly, the carrying amount of these accounts is different from the fair value because they are carried at the nominal amount.

Securities and Investment Securities
The fair values of these accounts are measured at the quoted market prices of the stock exchange for equity instruments.

Long-Term Loans Receivable
The fair values of these accounts are determined by discounting the cash flow with the rate reflecting the payment term and the credit risk by each item. The fair value of certain doubtful long-term loans receivable represents the carrying amount as of the balance sheet date less bad debt allowance because the allowances are estimated based on the recoverable amount of those receivables, which approximate fair value.

Claims in Bankruptcy
The fair value of claims in bankruptcy represents the carrying amount as of the balance sheet date less the bad debt allowance because the allowances are estimated based on the recoverable amount which considers any guarantees and collateral, which approximate fair value.

Liabilities

Notes and Accounts Payable, Income taxes payable, and Short-Term Bank Loans
The carrying amount of these accounts approximates fair value because of their short maturities.

Long-term Lease Obligations
The fair values of long-term lease obligations are determined by discounting the nominal amount at the rate reflecting the credit risk. In addition, the carrying amount of lease obligations related to sublease transactions is different from their fair value because the carrying amount includes interest expense.

Bonds
The fair value of bonds with market prices is estimated based on market prices. The fair value of those with no market prices is measured on the basis of the present value calculated by discounting the sum of principal and interest at an interest rate assumed when new similar bonds are issued.

Long-term Debt
The fair value of long-term loans with variable interest rates approximates the book value as they reflect market interest rates within a short period of time, and thus is stated at the book value. The fair value of those with fixed interest rates is based on the present value computed by discounting the sum of principal and interest (*) at an interest rate applied when new similar loans are obtained.

(*) For long-term loans subject to integrated treatment (special treatment or allocation treatment) of interest rate and currency swaps (refer to Note 15), the sum of principal and interest at a rate of interest rate and currency swaps.

Derivatives

Please see Note 15 for the details of derivatives.

(b) Carrying amount of financial instruments whose fair value cannot be reliably determined:

	Millions of Yen		*Thousands of U.S. Dollars*
	2017	**2016**	**2017**
Unlisted equity securities	¥ 934	¥ 934	$ 8,324

(5) Maturity analysis for financial assets and securities with contractual maturities:

	Millions of Yen			
March 31, 2017	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through 10 Years	Due after 10 Years
Cash and deposits	¥ 6,490	-	-	-
Notes and accounts receivable	6,010	-	-	-
Lease receivables and investments in leases	4,544	¥ 5,419	¥ 17	-
Securities and investment securities				
Available-for-sale securities with contractual maturities	3	-	-	¥ 199
Long-term loans receivable	88	313	328	669
Total	¥ 17,137	¥ 5,732	¥ 345	¥ 868

	Thousands of U.S. Dollars			
March 31, 2017	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through 10 Years	Due after 10 Years
Cash and deposits	$ 57,843	-	-	-
Notes and accounts receivable	53,565	-	-	-
Lease receivables and investments in leases	40,499	$ 48,297	$ 151	-
Securities and investment securities				
Available-for-sale securities with contractual maturities	26	-	-	$ 1,773
Long-term loans receivable	784	2,789	2,923	5,962
Total	$ 152,736	$ 51,087	$ 3,074	$ 7,736

Please see Note 9 for annual maturities of long-term debt and obligations under finance leases.

15. DERIVATIVES

The Group enters into interest rate cap contracts to manage its interest rate exposures on certain liabilities.

All derivative transactions are entered into to hedge interest exposures incorporated within the Group’s business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedge assets or liabilities.

Derivative transactions entered into by the Group have been made in accordance with internal policies, which regulate the authorization and credit limit amount.

Information concerning derivative transactions to which hedge accounting was applied at March 31, 2017 and 2016 is as follows:

	Millions of Yen			
March 31, 2017	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate caps	Long-term debt	¥ 1,399	1,184	(*)
March 31, 2016	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate caps	Long-term debt	-	¥ -	(*)

	Thousands of U.S. Dollars			
March 31, 2017	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate caps	Long-term debt	$ 12,468	10,552	(*)

The contract amounts of derivatives, which are shown above, do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

(*) The above interest rate caps, which qualify for hedge accounting and meet specific matching criteria, are not remeasured at market value, but the differential paid or received under the cap agreements is recognized and included in interest expense or income. In addition, the fair value of such interest rate caps in Note 14 is included in the hedged items (i.e., long-term bank loans).

16. INCOME TAXES

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

	Millions of Yen		*Thousands of U.S. Dollars*
	2017	**2016**	**2017**
Deferred tax assets:			
Accrued enterprise tax	¥ 121	¥ 148	$ 1,078
Accrued bonuses to employees	322	300	2,869
Liability for employees' retirement benefits	261	242	2,326
Allowance for doubtful accounts	301	315	2,682
Loss on impairment of long-lived assets	224	201	1,996
Write-down of investment securities	92	512	819
Tax loss carryforwards	1,227	866	10,935
Accounts payable - other, noncurrent	31	28	276
Other	992	957	8,841
Subtotal	3,576	3,573	31,871
Less: Valuation allowance	(1,762)	(1,545)	(15,704)
Deferred tax assets	¥ 1,814	¥ 2,028	$ 16,167
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥ (187)	¥ (142)	$ (1,666)
Unrealized gain on subsidiaries' assets and liabilities arising from consolidation	(1,156)	(1,164)	(10,303)
Gain on valuation of investment securities	(205)	(205)	(1,827)
Adjustments for assets	(841)	(659)	(7,495)
Adjustments for liabilities	(33)	(32)	(294)
Other	(148)	(116)	(1,319)
Deferred tax liabilities	¥ (2,572)	¥ (2,320)	$ (22,923)
Net deferred tax liabilities	¥ (752)	¥ (292)	$ (6,746)

A reconciliation between the effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of income for the years ended March 31, 2017 and 2016 is as follows:

	2017	**2016**
Effective statutory tax rate	30.6%	32.8%
Amortization of goodwill	3.7	4.0
Changes in valuation allowance	(0.5)	(3.5)
Tax rate differences in subsidiaries	3.9	2.7
Tax loss carryforward	(0.6)	0.3
Equity in earnings of associated companies	(1.1)	(0.9)
Per capita tax	0.6	0.7
Other-net	(0.2)	0.0
Actual effective tax rate	36.5%	36.1%

Modifications to the amount of deferred tax assets and liabilities due to changes of corporate tax rates

Following the enactment by the Diet of the “Act for Partial Revision to the Partial Revision, etc. of Consumption Tax Act for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources for Social Security” (Act No. 85 of 2016) and the “Act for Partial Revision to the Partial Revision, etc. of Local Tax Act and Local Allocation Tax Act for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources for Social Security” (Act No. 86 of 2016) on November 18, 2016, a consumption tax rate increase to 10% has been determined to be effective on October 1, 2019, changed from April 1, 2017.

As a result of this change, the repeal of the special local corporation tax and revival of the corporate enterprise tax in association therewith, the revision of the local corporation tax rate, and the tax rate revision of corporation levy of the corporate inhabitant tax will be effective from fiscal years beginning on and after October 1, 2019, instead of fiscal years beginning on and after April 1, 2017.

There is no change to the statutory tax rate used for calculating differed tax assets and deferred tax liabilities; however, the reclassification of tax rates between national taxes and local taxes affects the amount of deferred tax assets (net of deferred tax liabilities).

The effects of these tax rate changes are immaterial.

17. COMPREHENSIVE INCOME

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

	Millions of Yen		*Thousands of U.S. Dollars*
	2017	2016	2017
Net unrealized gain on available-for-sale securities:			
Gains arising during the year	¥ 153	¥ (105)	$ 1,363
Reclassification adjustments to profit or loss	(2)	(4)	(17)
Amount before income tax effect	150	(110)	1,336
Income tax effect	(28)	39	(249)

Total	¥	122	¥	(71)	$	1,087
Foreign currency translation adjustments:						
Adjustments arising during the year	¥	(339)	¥	(236)	$	(3,021)
Total	¥	(339)	¥	(236)	$	(3,021)
Share of other comprehensive income in associates:						
Gains arising during the year	¥	(31)	¥	(6)	$	(276)
Total	¥	(31)	¥	(6)	$	(276)
Total other comprehensive income	¥	(248)	¥	(314)	$	(2,210)

18. NET INCOME PER SHARE

A reconciliation of the difference between basic and diluted net income per share ("EPS") for the years ended March 31, 2017 and 2016 is presented as follows:

	Millions of Yen	*Shares*	*Yen*	*U.S. Dollars*
	Net Income	Weighted-Average Shares	EPS	
For the year ended March 31, 2017				
Basic EPS				
Net income available to common shareholders	¥ 4,421	117,654,456	¥ 37.58	$ 0.33
For the year ended March 31, 2016				
Basic EPS				
Net income available to common shareholders	¥ 4,090	117,654,456	¥ 34.77	

Diluted net income per share is not presented for the years ended March 31, 2016 and 2017 as there were no diluted securities outstanding during these periods.

19. RELATED-PARTY TRANSACTIONS

Transactions with related parties for the years ended March 31, 2017 and 2016 were as follows:

Related Party	Nature of Transaction	*Millions of Yen* 2017	*Millions of Yen* 2016	*Thousands of U.S. Dollars* 2017
Director	Contract for Construction	¥ 45	-	$ 401
A company, of which a majority of voting rights	Automotive subleases	26	-	231

is owned by the director and his close family members (Note 2)	Investments in leases	35	-	311
	Contract for Construction	16	-	142
An associated company	Automotive subleases	5,145	3,059	45,855
	Investments in leases	6,570	4,754	58,556
A company, of which a majority of voting rights is owned by the subsidiary's director and his close family members (Note 3)	Procurement of parts	23	-	204
	Accounts payable	5	-	44
A company, of which a majority of voting rights is owned by the subsidiary's director and his close family members (Note 4)	Commission income for automotive sales	23	-	204
	Accounts receivable	0	-	0
	Procurement of parts	18	-	160
	Accounts payable	2	-	17
A company, of which a majority of voting rights is owned by the subsidiary's director and his close family members (Note 5)	Store rent	129	-	1,149
	Guarantee deposits	16	-	142
	Accrued rent	0	-	0

Transaction conditions and determination policy

1. Transaction prices are determined in the same manner as ordinary transaction conditions taking market prices into consideration.
2. A close relative of Director Kazuho Takahashi directly holds 100% of voting rights.
3. Director Miguel Angel Garcia Moreta of the Company's subsidiary MASTER AUTOMOCION, S.L. and its affiliate and his close relative directly hold 82% of voting rights.
4. Director Miguel Angel Garcia Moreta of the Company's subsidiary MASTER AUTOMOCION, S.L. and its affiliate and his close relative directly hold 79% of voting rights
5. Director Miguel Angel Garcia Moreta of the Company's subsidiary MASTER AUTOMOCION, S.L. and its affiliate and his close relative directly hold 100% of voting rights
6. Office rent is determined in reference to transactions in neighboring areas.
7. Conditions for purchasing goods are determined in the same manner as ordinary transaction conditions.
8. Commission received is determined based on the same conditions as ordinary transaction conditions.
9. Consumption tax, etc. is included in transaction price but not in ending balance.

20. SUBSEQUENT EVENTS

As a result of having evaluated subsequent events through June 28, 2017, there is no applicable matter.

21. BUSINESS COMBINATION

The Board of Directors resolved an entire business transfer from Sansei Motor Sales Ltd. and its wholly owned subsidiary to Motoren Shizuoka Ltd., which is a wholly owned subsidiary of the Company.

(1) Overview of Business Combination

① Name and business description of the acquiree
Name of the acquiree: Sansei Motor Sales Ltd. and its wholly owned subsidiary
Business description: Sales of new and used BMW vehicles, repair and maintenance service for automobiles, agency business for life and non-life insurance, and other related business

② Main reason for the business combination
Expansion of auto sales related business

③ Acquisition date: April 1, 2016

④ Legal form of the business combination
Transfer of business in exchange for cash payment

⑤ Name of the company after business combination: No change

⑥ Main reason for determining acquiring company
Business of Sansei Motor Sales Ltd. and its wholly owned subsidiary was transferred to Motoren Shizuoka Ltd., which is a wholly owned subsidiary of the Company in exchange for cash payment.

(2) The acquiree' s operating period included in the consolidated financial statements
From April 1, 2016 to March 31, 2017

(3) Acquisition cost of the acquiree and detail of consideration:

Consideration	Cash	¥1,075 million ($9,581 thousand)
Acquisition cost		¥1,075 million ($9,581 thousand)

The amount above is a temporary amount as amendment provision pertained.

(4) Main acquisition-related costs
Fees and other charges for advisory service: Approximately ¥11 million ($98 thousand)

(5) Goodwill arisen, reason, amortization method and amortization period

① Amount of goodwill arisen: ¥342 million ($3,048 thousand)

② Reason: Expected future excess earning power

③ Amortization method and period: Goodwill is evenly amortized over 20 years.

(6) Description and amount of assets acquired and liabilities assumed on the date of business combination

	Millions of Yen	*Thousands of U.S. Dollars*
Current assets	¥ 243	$ 2,165
Fixed assets	1,137	10,133
Total assets	1,381	12,308
Current liabilities	(481)	(4,286)
Non-current liabilities	(166)	(1,479)
Total liabilities	(647)	(5,766)

The Board of Directors resolved an acquisition of all outstanding shares of WESSEX GRAGES HOLDINGS LIMITED, which operates car dealership in the southwestern part of England, and converted it into the Company's wholly owned subsidiary.

(1) Overview of Business Combination
- ① Name and business description of the acquiree
  Name of the acquiree: WESSEX GRAGES HOLDINGS LIMITED
  Business description: Sales of new and used vehicles of Nissan, Renault, Dacia, Fiat, Abarth, Kia, and Hyundai, repair and maintenance service for automobiles, and other related business
- ② Main reason for the business combination
  Expansion of auto sales related business
- ③ Acquisition date: May 6, 2016
- ④ Legal form of the business combination: Acquisition of shares
- ⑤ Name of the company after business combination: No change
- ⑥ Acquired voting rights ratio: 100%
- ⑦ Main reason for determining acquiring company:
  The Company acquired 100% of the voting rights in exchange for cash payment.

(2) The acquiree' s operating period included in the consolidated financial statements
From July 1, 2016 to March 31, 2017

(3) Acquisition cost of the acquiree and detail of consideration:

Consideration	Cash	¥2,996 million (GBP: 19 million) ($26,702 thousand)
Acquisition cost		¥2,996 million (GBP: 19 million) ($26,702 thousand)

The amount above is a temporary amount as amendment provision pertained.

(4) Main acquisition-related costs
Fees and other charges for advisory service: Approximately ¥42 million ($374 thousand)

(5) Goodwill arisen, reason, amortization method and amortization period
- ① Amount of goodwill arisen: ¥954 million ($8,502 thousand)
- ② Reason: Expected future excess earning power
- ③ Amortization method and period: Goodwill is evenly amortized over 20 years.

(6) Description and amount of assets acquired and liabilities assumed on the date of business combination

	Millions of Yen	*Thousands of U.S. Dollars*
Current assets	¥ 4,938	$ 44,010
Fixed assets	896	7,985
Total assets	5,835	52,005
Current liabilities	(3,793)	(33,805)
Total liabilities	(3,793)	(33,805)

(7) Approximate amount and calculation method of impact of business combination on the current fiscal year's consolidated statements of income assuming acquisition was completed on the first day of a fiscal year.

	Millions of Yen	*Thousands of U.S. Dollars*
Net sales	¥ 5,789	$ 51,595
Operating income	(15)	(133)
Ordinary income	(23)	(204)
Income before income taxes	(23)	(204)
Net income attributable to owners of the parent	(23)	(204)
Net income per share*(Yen and U.S.Dollars)*	(0.20)	(0.001)

(Calculation method of approximate amounts)

The above figures reflect the estimated differences between net sales and operating income in the consolidated financial statements and net sales and operating income assuming that the business combination had been completed at the beginning of the current fiscal year.

The approximate amounts were computed by adjusting amortization on the assumption that goodwill, etc. recognized at the time of the business combination had been incurred at the beginning of the current fiscal year. The approximate amounts have not been audited.

The Board of Directors resolved an acquisition of 75% of outstanding shares of MASTER AUTOMOCION, S.L., which operates car dealership in Spain, and converted it into the Company’s wholly owned subsidiary.

(1) Overview of Business Combination

① Name and business description of the acquiree
Name of the acquiree: MASTER AUTOMOCION, S.L.
Business description: Management consulting service, a holding company with 11 operating companies that own automobile dealers of new vehicles of Toyota, Honda, Mazda, Subaru, Hyundai, Ssang Young, and Opel

② Main reason for the business combination
Expansion of auto sales related business

③ Acquisition date: October 3, 2016

④ Legal form of the business combination: Acquisition of shares

⑤ Name of the company after business combination: No change

⑥ Acquired voting rights ratio: 75%

⑦ Main reason for determining acquiring company:
The Company acquired 75% of the voting rights in exchange for cash payment.

(2) The acquiree’ s operating period included in the consolidated financial statements
The fiscal year-end of the acquiree is December 31 and different for 3 months from the consolidated fiscal year-end (March 31). The acquiree’s operating results from July 1, 2016 to December 31, 2016 were included in the consolidated financial statements as the deemed acquisition date was set on July 1, 2016.

(3) Acquisition cost of the acquiree and detail of consideration:

Consideration	Cash	¥2,049 million (EUR: 17,960 thousand) ($18,262 thousand)
Acquisition cost		¥2,049 million (EUR: 17,960 thousand) ($18,262 thousand)

The amount above is a temporary amount as amendment provision pertained.

(4) Main acquisition-related costs
Fees and other charges for advisory service: Approximately ¥86 million ($766 thousand)

(5) Goodwill arisen, reason, amortization method and amortization period

① Amount of goodwill arisen: ¥1,581 million ($14,090 thousand)

② Reason: Expected future excess earning power

③ Amortization method and period: Goodwill is evenly amortized over 20 years.

(6) Description and amount of assets acquired and liabilities assumed on the date of business combination

	Millions of Yen	*Thousands of U.S. Dollars*
Current assets	¥ 4,044	$ 36,042
Fixed assets	542	4,830
Total assets	4,587	40,882
Current liabilities	(3,836)	(34,188)

Non-current liabilities	(75)	(668)
Total liabilities	(3,911)	(34,857)

(7) Approximate amount and calculation method of impact of business combination on the current fiscal year's consolidated statements of income assuming acquisition was completed on the first day of a fiscal year.

	Millions of Yen	*Thousands of U.S. Dollars*
Net sales	¥10,426	$ 92,923
Operating income	132	1,176
Ordinary income	114	1,016
Income before income taxes	114	1,016
Net income attributable to owners of the parent	45	401
Net income per share *(Yen and U.S.Dollars)*	0.39	0.003

(Calculation method of approximate amounts)
The above figures reflect the estimated differences between net sales and operating income in the consolidated financial statements and net sales and operating income assuming that the business combination had been completed at the beginning of the current fiscal year.

The approximate amounts were computed by adjusting amortization on the assumption that goodwill, etc. recognized at the time of the business combination had been incurred at the beginning of the current fiscal year. The approximate amounts have not been audited.

22. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures" and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

1. Description of Reportable Segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group.

The Group employs the holding company system. The Company devises group-wide business strategies and administers the Group as a holding company, while its subsidiaries operate the businesses. The Group's reportable segments consist of the Car and Housing business.

The car business consists primarily of dealer businesses such as sales of new or used cars and repairs to cars. It also consists of related businesses such as import of cars, export of used cars, and rental of cars.

The housing business consists of sale and leasing of homes, construction of houses, and related business.

2. Methods of Measurement for the Amounts of Sales, Profit (Loss), Assets, and Other Items for Each Reportable Segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

3. Information about Sales, Profit (Loss), Assets, and Other Items

	Millions of Yen					
	2017					
	Reportable Segment					
	Car	Housing	Other	Total	Reconciliations	Consolidated
Sales						
Sales to external customers	¥ 162,687	¥ 6,731	¥ 142	¥ 169,560	-	¥ 169,560
Intersegment sales or transfers	69	1,074	777	1,920	¥ (1,920)	-
Total	¥ 162,756	¥ 7,805	¥ 919	¥ 171,481	¥ (1,920)	¥ 169,560
Segment profit (loss)	¥ 7,529	¥ 541	¥ (395)	¥ 7,675	¥ (83)	¥ 7,592
Segment assets	110,873	6,943	7,360	125,177	(3,683)	121,493
Other:						
Depreciation and amortization	¥ 4,547	¥ 25	¥ 27	¥ 4,600	¥ (26)	¥ 4,574
Amortization of goodwill	1,048	39	-	1,088	-	1,088
Impairment losses of assets	61	-	28	89	-	89
Investments in associated companies	664	-	2,991	3,656	-	3,656
Increase in property, equipment and intangible assets	13,101	4	816	13,923	(124)	13,798

	Millions of Yen					
	2016					
	Reportable Segment					
	Car	Housing	Other	Total	Reconciliations	Consolidated
Sales						
Sales to external customers	¥ 140,057	¥ 6,268	¥ 142	¥ 146,468	-	¥ 146,468
Intersegment sales or transfers	56	644	780	1,480	¥ (1,480)	-
Total	¥ 140,113	¥ 6,912	¥ 922	¥ 147,949	¥ (1,480)	¥ 146,468
Segment profit (loss)	¥ 7,716	¥ 290	¥ (315)	¥ 7,691	¥ (71)	¥ 7,619
Segment assets	87,236	5,374	6,568	99,179	(4,200)	94,979
Other:						
Depreciation and amortization	¥ 3,681	¥ 22	¥ 18	¥ 3,722	¥ (21)	¥ 3,701
Amortization of goodwill	963	38	-	1,001	-	1,001
Impairment losses of assets	-	-	-	-	-	-
Investments in associated companies	637	-	2,828	3,465	-	3,465
Increase in property, equipment and intangible assets	8,994	12	14	9,021	(95)	8,925

	Thousands of U.S. Dollars					
	2017					
	Reportable Segment					
	Car	Housing	Other	Total	Reconciliations	Consolidated
Sales						
Sales to external customers	$ 1,449,973	$ 59,991	$ 1,265	$ 1,511,229	-	$ 1,511,229
Intersegment sales or transfers	614	9,572	6,925	17,112	$ (17,112)	-
Total	$ 1,450,588	$ 69,563	$ 8,190	$ 1,528,351	$ (17,112)	$ 1,511,229
Segment profit (loss)	$ 67,103	$ 4,821	$ (3,520)	$ 68,404	$ (739)	$ 67,664
Segment assets	988,172	61,880	65,597	1,115,659	(32,825)	1,082,825
Other:						
Depreciation and amortization	$ 40,525	$ 222	$ 240	$ 40,998	$ (231)	$ 40,766
Amortization of goodwill	9,340	347	-	9,696	-	9,696
Impairment losses of assets	543	-	249	793	-	793
Investments in associated companies	5,918	-	26,657	32,584	-	32,584
Increase in property, equipment and intangible assets	116,764	35	7,272	124,090	(1,105)	122,976

Notes:
1. "Other" consists of group-wide departments of management.
2. "Reconciliations" consists of intersegment transactions.
3. Segment profit is reconciled to operating income in the consolidated statement of income.

Associated Information

1. Information by Product and Service

	Millions of Yen					
Year ended March 31, 2017	Selling New Automobiles	Selling Used Automobiles	Automotive Repair Service	Rental Car Service	Other	Total
Sales to external customers	¥ 74,799	¥ 47,164	¥ 33,919	¥ 6,804	¥ 6,873	¥ 169,560

	Millions of Yen					
Year ended March 31, 2016	Selling New Automobiles	Selling Used Automobiles	Automotive Repair Service	Rental Car Service	Other	Total
Sales to external customers	¥ 61,676	¥ 44,472	¥ 27,735	¥ 6,173	¥ 6,410	¥ 146,468

	Thousands of U.S. Dollars					
Year ended March 31, 2017	Selling New Automobiles	Selling Used Automobiles	Automotive Repair Service	Rental Car Service	Other	Total
Sales to external customers	$ 666,657	$ 420,356	$ 302,308	$ 60,641	$ 61,256	$ 1,511,229

2. Geographical Information

(1) Net Sales

Millions of Yen						
2017						
Japan	Africa	North & South America	Oceania	Europe	Asia	Total
¥ 113,679	¥ 4,222	¥ 1,831	¥ 4,917	¥ 44,504	¥ 404	¥ 169,560

Millions of Yen						
2016						
Japan	Africa	North & South America	Oceania	Europe	Asia	Total
¥ 109,663	¥ 5,333	¥ 2,395	¥ 5,850	¥ 22,582	¥ 642	¥ 146,468

Thousands of U.S. Dollars						
2017						
Japan	Africa	North & South America	Oceania	Europe	Asia	Total
$ 1,013,181	$ 37,629	$ 16,319	$ 43,823	$ 396,648	$ 3,600	$ 1,511,229

(2) Property and Equipment

Disclosures are omitted because property and equipment located in Japan account for more than 90% of the property and equipment in the consolidated balance sheet.

3. Information by Major Customer

Disclosures are omitted because there are no customers for which sales account for more than 10% of net sales in the consolidated statement of income.

4. Information about Goodwill by Reportable Segment

	Millions of Yen			
March 31, 2017	Car	Housing	Other	Total
Amount of goodwill	¥ 12,656	¥ 667	-	¥ 13,324

	Millions of Yen			
March 31, 2016	Car	Housing	Other	Total
Amount of goodwill	¥ 10,821	¥ 707	-	¥ 11,528

	Thousands of U.S. Dollars			
March 31, 2017	Car	Housing	Other	Total
Amount of goodwill	$ 112,798	$ 5,944	-	$ 118,752

Information about amortization of goodwill was omitted because equivalent information was disclosed above.