MANAGEMENT'S DISCUSSION AND ANALYSIS

SCOPE OF CONSOLIDATION AND EQUITY METHOD

In accordance with generally accepted accounting principles in Japan, the consolidated financial statements include the accounts of Hino Motors, Ltd. and seven consolidated subsidiaries, including three subsidiaries that were included in the consolidated accounts for the first time during the fiscal year ended March 31, 1998. In addition, 17 affiliated companies were accounted for using the equity method, compared with 14 companies during the previous term.

NET SALES

For the fiscal year ended March 31, 1998, consolidated net sales declined 6.9% to ¥589,209 million (US$4,460 million), reflecting harsh conditions in domestic and overseas markets. Total domestic sales, which include vehicles produced on commission for Toyota Motor Corporation, were down 4.5% to ¥495,820 million (US$3,753 million). Overseas sales fell 17.6% to ¥93,389 million (US$707 million). The overseas sales ratio was 15.8%, compared with 17.9% during the previous fiscal year.

Domestic sales of diesel trucks and buses declined 11.6% to ¥206,347 million (US$1,562 million). Of this amount, heavy-duty truck sales were ¥116,740 million (US$884 million), a decline of 11.7% from the previous term, and medium-duty truck sales were ¥56,224 million (US$426 million), down 14.5%. Domestic bus sales were down 5.5% to ¥29,053 million (US$220 million). Domestic sales of 2-ton trucks, however, climbed 60.5% to ¥6,486 million (US$49 million).

Owing largely to adverse operating conditions in the Company's chief export markets of Southeast Asia, overseas sales of diesel trucks and buses decreased 20.9% to ¥76,407 million (US$578 million), or 13.0% of net sales.

Sales of pickup trucks and recreational vehicles produced on commission for Toyota, and related parts and others, edged down 0.1% to ¥220,856 million (US$1,672 million), accounting for 37.5% of total net sales. Of this amount, vehicle sales were ¥170,578 million (US$1,291 million), 2.3% below the previous fiscal year.

NET INCOME

Lower sales led to a 25.0% decline in gross profit to ¥40,656 million (US$308 million). The gross profit margin deteriorated 1.7 percentage points to 6.9%, while the ratio of selling, general and administrative expenses to net sales was 6.8%, a slight improvement of 0.1 percentage point. The operating income margin was 0.1%. Consequently, operating income fell 93.1% to ¥728 million (US$6 million).

Interest expenses net of interest and dividend income was ¥37 million (US$0.3 million), compared with ¥32 million a year earlier. However, with other income, net of ¥1,876 million (US$14 million), which included a gain on the sale of marketable securities, the Company recorded other income, net of other income, of ¥1,839 million (US$14 million), compared with net expenses of ¥15 million in the previous term.

The above factors resulted in income before income taxes of ¥2,567 million (US$19 million), a decline of 75.8%. Following equity in losses of unconsolidated subsidiaries of ¥1,047 million (US$8 million) and other items, net income was ¥1,649 million (US$12 million), or 77.2% below the previous term. Net income per share was ¥4.55 (US$0.03), with cash dividends maintained at ¥6.00 (US$0.05).

CASH FLOWS AND FINANCIAL POSITION

Net cash used in operating activities was ¥4,914 million (US$37 million), compared with net cash provided by operating activities of ¥76,235 million during the previous term. Although the total of net income and depreciation and amortization was ¥29,346 million (US$222 million), this was offset by other factors, especially a decrease in notes and accounts payable of ¥17,956 million (US$136 million).

Net cash used in investing activities was ¥43,021 million (US$326 million), a slight decrease from the previous term. The largest use of cash in this category was addition to property, plant and equipment of ¥50,668 million (US$384 million).

Net cash provided by financing activities was ¥42,532 million (US$322 million), compared with net cash used in financing activities of ¥24,506 million during the previous term. The largest source of cash in this category was proceeds from long-term debt of ¥32,843 million (US$249 million), followed by a net increase in short-term loans of ¥14,561 million (US$110 million).

In aggregate, cash and cash equivalents at end of year decreased ¥5,403 million (US$41 million) to ¥36,273 million (US$275 million).

Interest-bearing debt (short-term bank loans, the current portion of long-term debt and long-term debt) increased ¥44,846 million to ¥125,153 million (US$947 million). Long-term debt increased ¥19,022 million to ¥73,930 million (US$560 million), including bond issuances of ¥10,000 million (US$76 million) and ¥20,000 million (US$151 million) at 2.2% and 2.6%, respectively. The current portion of long-term debt increased ¥11,263 million to ¥13,406 million (US$101 million).

Total assets grew ¥22,404 million to ¥421,363 million (US$3,190 million). The equity ratio was 33.8%, compared with 35.5% a year earlier.

CONSOLIDATED BALANCE SHEETS

MARCH 31, 1997 AND 1998

	Millions of Yen		Thousands of U.S. Dollars
ASSETS	1997	**1998**	**1998**
Current assets:			
Cash and cash equivalents	¥ 41,676	**¥ 36,273**	**$ 274,587**
Short-term investments	11,517	**13,667**	**103,460**
Trade receivables			
Notes	1,234	**1,058**	**8,009**
Accounts	71,217	**73,376**	**555,458**
Inventories (Note 3)	27,379	**34,044**	**257,714**
Prepaid expenses and other current assets	6,768	**9,657**	**73,104**
Less allowance for doubtful accounts	(819)	**(717)**	**(5,428)**
Total current assets	158,972	**167,358**	**1,266,904**
Investments and advances:			
Investment securities	33,953	**34,014**	**257,487**
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 4)	25,990	**24,627**	**186,427**
Long-term loans	430	**355**	**2,687**
Other investments	10,170	**10,154**	**76,866**
Less allowance for doubtful accounts	(2,870)	**(1,680)**	**(12,718)**
Total investments and advances	67,673	**67,470**	**510,749**
Property, plant and equipment (Note 7) **:**			
Land	16,640	**17,888**	**135,413**
Buildings and structures	120,588	**129,899**	**983,338**
Machinery and equipment	235,100	**252,149**	**1,908,774**
Vehicles and tools	59,965	**71,686**	**542,665**
Construction in progress	21,059	**17,462**	**132,187**
	453,352	**489,084**	**3,702,377**
Less accumulated depreciation	(281,105)	**(302,728)**	**(2,291,658)**
Net property, plant and equipment	172,247	**186,356**	**1,410,719**
Other assets	67	**179**	**1,355**
	¥ 398,959	**¥ 421,363**	**$ 3,189,727**

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 1997	Millions of Yen 1998	Thousands of U.S. Dollars 1998
Current liabilities:			
Short-term bank loans (Note 5)	¥ 23,256	**¥ 37,817**	**$ 286,276**
Current portion of long-term debt (Note 5)	2,143	**13,406**	**101,484**
Trade payables			
Notes	6,969	**5,666**	**42,892**
Accounts	108,605	**91,952**	**696,079**
Accrued income taxes (Note 9)	4,010	**455**	**3,444**
Accrued expenses	12,542	**11,574**	**87,615**
Other current liabilities	28,529	**28,210**	**213,550**
Total current liabilities	186,054	**189,080**	**1,431,340**
Long-term liabilities:			
Long-term debt (Note 5)	54,908	**73,930**	**559,652**
Accrued severance indemnities (Note 6)	15,749	**15,523**	**117,509**
Other	29	**24**	**182**
Total long-term liabilities	70,686	**89,477**	**677,343**
Translation adjustments	203	**—**	**—**
Minority interests in consolidated subsidiaries	368	**354**	**2,680**
Shareholders' equity:			
Common stock, par value ¥50 per share			
Authorized—1,000,000,000 shares			
Issued—362,391,898 shares in 1997 and 1998	26,412	**26,412**	**199,939**
Additional paid-in capital	17,787	**17,787**	**134,648**
Legal reserve (Note 11)	6,603	**6,603**	**49,985**
Retained earnings (Note 12)	90,846	**91,651**	**693,800**
Less			
Treasury common stock, at cost:			
176 shares in 1997 and 1,770 shares in 1998	(0)	**(1)**	**(8)**
Total shareholders' equity	141,648	**142,452**	**1,078,364**
	¥398,959	**¥421,363**	**$3,189,727**

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED MARCH 31, 1997 AND 1998

	Millions of Yen		Thousands of U.S. Dollars
	1997	**1998**	**1998**
Net sales (Note 14)	¥632,716	**¥589,209**	**$4,460,326**
Cost of sales (Note 7)	578,537	**548,553**	**4,152,559**
Gross profit	54,179	**40,656**	**307,767**
Selling, general and administrative expenses (Note 7)	43,553	**39,928**	**302,256**
Operating income	10,626	**728**	**5,511**
Other income (expenses) (Note 7)**:**			
Interest and dividend income	2,314	**1,999**	**15,132**
Interest expenses	(2,346)	**(2,036)**	**(15,413)**
Other, net	17	**1,876**	**14,201**
	(15)	**1,839**	**13,921**
Income before income taxes	10,611	**2,567**	**19,432**
Income taxes (Note 9)**:**			
Current	5,174	**488**	**3,694**
Deferred	167	**(426)**	**(3,225)**
	5,341	**62**	**469**
Income before items as shown below	5,270	**2,505**	**18,963**
Minority interests in income of consolidated subsidiaries	(8)	**191**	**1,446**
Amortization	(0)	**(0)**	**(0)**
Equity in (losses) earnings of unconsolidated subsidiaries and affiliates	1,975	**(1,047)**	**(7,926)**
Net income	¥ 7,237	**¥ 1,649**	**$ 12,483**

Per share amounts:	Yen		U.S. Dollars
Net income	¥ 19.97	**¥ 4.55**	**$ 0.03**
Cash dividends	6.00	**6.00**	**0.05**

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED MARCH 31, 1997 AND 1998

	Number of shares of common stock (Thousands)	Millions of Yen				Number of shares of Treasury common stock
		Common stock	Additional paid-in capital	Legal reserve	Retained earnings	
Balance at March 31, 1996	362,392	¥26,412	¥17,787	¥6,603	¥88,588	(1,429)
Net income	—	—	—	—	7,237	—
Cash dividends paid	—	—	—	—	(2,174)	—
Directors' and statutory auditors' bonuses	—	—	—	—	(140)	—
Decrease due to the exemption of an affiliate accounted for by the equity method	—	—	—	—	(2,665)	—
Other	—	—	—	—	—	1,253
Balance at March 31, 1997	**362,392**	**26,412**	**17,787**	**6,603**	**90,846**	**(176)**
Net income	—	—	—	—	**1,649**	**—**
Cash dividends paid	—	—	—	—	**(2,174)**	**—**
Directors' and statutory auditors' bonuses	—	—	—	—	**(140)**	**—**
Increase due to the addition of an affiliate accounted for by the equity method	—	—	—	—	**1,470**	**—**
Other	—	—	—	—	**—**	**(1,594)**
Balance at March 31, 1998	**362,392**	**¥26,412**	**¥17,787**	**¥6,603**	**¥91,651**	**(1,770)**

	Thousands of U.S. Dollars			
	Common stock	Additional paid-in capital	Legal reserve	Retained earnings
Balance at March 31, 1997	**$199,939**	**$134,648**	**$49,985**	**$687,706**
Net income	—	—	—	**12,483**
Cash dividends paid	—	—	—	**(16,457)**
Directors' and statutory auditors' bonuses	—	—	—	**(1,060)**
Increase due to the addition of an affiliate accounted for by the equity method	—	—	—	**11,128**
Balance at March 31, 1998	**$199,939**	**$134,648**	**$49,985**	**$693,800**

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED MARCH 31, 1997 AND 1998

	Millions of Yen		Thousands of U.S. Dollars
	1997	**1998**	**1998**
Operating activities:			
Net income	¥ 7,237	**¥ 1,649**	**$ 12,483**
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	26,795	**27,697**	**209,667**
Provision for doubtful accounts	(138)	**(102)**	**(772)**
Provision for severance indemnities less payments	(421)	**(226)**	**(1,711)**
Loss on sales and disposal of property, plant and equipment	516	**625**	**4,731**
(Decrease) increase in minority interests	6	**(14)**	**(106)**
Changes in operating assets and liabilities:			
Notes and accounts receivable	17,483	**(1,983)**	**(15,011)**
Inventories	1,040	**(6,665)**	**(50,454)**
Prepaid expenses and other current assets	2,200	**(2,889)**	**(21,870)**
Notes and accounts payable	7,514	**(17,956)**	**(135,927)**
Accrued income taxes	3,873	**(3,555)**	**(26,911)**
Accrued expenses and other current liabilities	10,130	**(1,495)**	**(11,317)**
Net cash (used in) provided by operating activities	76,235	**(4,914)**	**(37,198)**
Investing activities:			
(Increase) decrease in short-term investments	654	**(2,150)**	**(16,276)**
Net decrease (increase) in investments in unconsolidated subsidiaries and affiliates	(3,252)	**2,833**	**21,446**
Net increase in investment in securities	(2,725)	**(61)**	**(462)**
Net decrease in long-term loans	102	**75**	**568**
Addition to property, plant and equipment	(49,207)	**(50,668)**	**(383,558)**
Proceeds from sales and disposal of property, plant and equipment	11,717	**4,478**	**33,899**
Other	(896)	**2,472**	**18,713**
Net cash used in investing activities	(43,607)	**(43,021)**	**(325,670)**
Financing activities:			
Net increase (decrease) in short-term loans	(650)	**14,561**	**110,227**
Proceeds from long-term debt	1,370	**32,843**	**248,622**
Repayments of long-term debt	(22,912)	**(2,558)**	**(19,364)**
Cash dividends paid and directors' and statutory auditors' bonuses	(2,314)	**(2,314)**	**(17,517)**
Net cash provided by (used in) financing activities	(24,506)	**42,532**	**321,968**
Net (decrease) increase in cash and cash equivalents	8,122	**(5,403)**	**(40,900)**
Cash and cash equivalents at beginning of year	33,554	**41,676**	**315,487**
Cash and cash equivalents at end of year	¥ 41,676	**¥ 36,273**	**$ 274,587**
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest expense	¥ 3,145	**¥ 1,971**	**$ 14,921**
Income taxes	¥ 1,322	**¥ 4,170**	**$ 31,567**

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Basis of Consolidated Financial Statements' Presentation

The accompanying consolidated financial statements of HINO MOTORS, LTD. (the "Company") and its consolidated subsidiaries have been prepared in accordance with accounting principles and practices generally accepted in Japan.

In preparing these statements, certain reclassifications and rearrangements have been made to the accompanying consolidated financial statements prepared domestically in Japan in order to present these statements in a format which is more familiar to readers outside Japan. In addition, the accompanying notes include additional information, which is not required under accounting principles and practices generally accepted in Japan.

The U.S. dollar amounts included herein are solely for the convenience of readers outside Japan and have been translated from the Japanese yen amounts at the rate of ¥132.10=$1, the approximate exchange rate prevailing as of March 31, 1998.

Note 2: Summary of Significant Accounting Policies

(1) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. Investments in unconsolidated subsidiaries and affiliates are stated at cost and certain unconsolidated affiliates are accounted for by the equity method.

(2) Foreign Currency Translation

Foreign currency translation of the accounts of the Company and its subsidiaries are as follows:

Current receivables and payables in foreign currencies are translated at the rate of exchange in effect at the balance sheet date or at the rates of any applicable forward exchange contract. Non-current receivables and payables are translated at historical exchange rates.

The accounts of the consolidated foreign subsidiary are translated into yen at the rate of exchange in effect at the balance sheet date.

(3) Statements of Cash Flows

For the presentation of the statements of cash flows, the Company considers cash, time deposits and all other highly liquid investments with an original maturity of three months or less to be cash equivalents.

(4) Inventories

The Company:

Finished products are stated at cost, which is determined by the identified cost method. Work in process, raw materials and supplies are stated at cost, which is determined by the moving average cost method.

Subsidiaries:

Inventories are principally stated at cost, which is determined by the moving average method or at the latest purchase price.

(5) Marketable Securities and Investment Securities

Marketable securities and investment securities are carried at cost, which is determined by the moving average cost method.

(6) Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost. Depreciation is computed principally by the declining balance method based on the estimated useful lives of the respective assets.

The range of useful lives are as follows:

Buildings and structures	5 to 75 years
Machinery and equipment	4 to 12 years
Vehicles and tools	2 to 15 years

(7) Severance Indemnities and Pension Plans

Employees who terminate their services with the Company and its subsidiaries are entitled to a lump-sum severance payment determined by reference to their current basic rate of pay and length of service. The Company and its subsidiaries generally provide for this liability to the extent of 40 per cent. of the amount (equal to the maximum amount allowable for income tax purposes) which would be required to be paid if all employees voluntarily terminated their services at the balance sheet date.

The Company has a non-contributory pension plan for employees. An employee who terminates employment with the Company at age 50 or more receives 10 per cent. (mandatory retirement at age 60 entitles an employee to receive 100 per cent.) of such retirement benefits by a lump-sum payment or by annuity payments from this pension plan, and the remainder by a lump-sum payment from the unfunded retirement plan (as described above). Payments to the pension fund are charged to income when made. The past service costs relating to the pension plan are being funded over a period of 20 years.

The consolidated subsidiaries have various kinds of pension plans.

(8) Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided based on the estimated amount of probable bad debts and the maximum amount which can be charged to income under Japanese income tax laws.

(9) Research and Development Costs

Research and development costs are charged to income as incurred.

(10) Income Taxes

Income taxes are provided for based on amounts currently payable for each year. No tax effect is recognized by the Company and its domestic subsidiaries for timing differences which arise as a result of the differences in the recognition of certain income and expenses for tax and for financial reporting purposes.

The foreign consolidated subsidiaries recognizes deferred income tax for such timing differences.

(11) Revenue Recognition

Sales of products are recognized in the accounts upon shipment to customers.

(12) Net Income per Share

The computation of net income per share is based on the weighted average number of shares outstanding during the period.

(13) Leases

Finance leases, other than those lease agreements which stipulate the transfer of ownership of the leased property, are accounted for as operating leases.

Note 3: Inventories

Inventories at March 31, 1997 and 1998 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	1997	**1998**	**1998**
Finished products	¥13,201	**¥17,341**	**$131,272**
Work in process	11,203	**13,377**	**101,264**
Raw materials and supplies	2,975	**3,326**	**25,178**
	¥27,379	**¥34,044**	**$257,714**

Note 4: Advances to Unconsolidated Subsidiaries and Affiliates

Loans to unconsolidated subsidiaries and affiliates at March 31, 1997 and 1998, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	1997	**1998**	**1998**
Long-term loans:			
Unconsolidated subsidiaries	¥952	**¥940**	**$7,116**
Affiliates	32	**0**	**0**
	¥984	**¥940**	**$7,116**

Note 5: Short-Term Bank Loans and Long-Term Debt

The annual interest rates applicable to short-term bank loans outstanding at March 31, 1997 and 1998 were principally 1.625 per cent.

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

	Millions of Yen		Thousands of U.S. Dollars
	1997	**1998**	**1998**
Loans, principally from banks, insurance companies and other institutions, due 1998 to 2026 with interest rates ranging from 1.15% ~ 5.51%			
Secured	¥ 5,529	**¥ 4,830**	**$ 36,563**
Unsecured	7,522	**8,506**	**64,391**
Less amount due within one year	(2,143)	**(9,406)**	**(71,204)**
	10,908	**3,930**	**29,750**
7.0% bonds due 1998	4,000	**4,000**	**30,280**
3.45% bonds due 1999	15,000	**15,000**	**113,550**
Floating-rate bonds due 1999	25,000	**25,000**	**189,251**
2.2% bonds due 2002	—	**10,000**	**75,700**
2.6% bonds due 2003	—	**20,000**	**151,400**
Less amount due within one year	—	**(4,000)**	**(30,280)**
	44,000	**70,000**	**529,901**
	¥54,908	**¥73,930**	**$559,652**

The aggregate annual maturities of long-term debt outstanding at March 31, 1998, were as follows:

Year ending March 31	Millions of Yen	Thousands of U.S. Dollars
1999	¥13,406	$101,484
2000	42,306	320,257
2001	1,020	7,721
2002 and thereafter	30,604	231,673
	¥87,336	$661,135

As is customary in Japan, short-term and long-term bank loans are made under general agreements which provide that collateral and guarantees for present and future indebtedness will be given upon request of the bank with reasonable and probable cause, and that the bank shall have the right to offset cash deposited with it against any obligation that has become due or, in the event of default, against all obligations due to the bank. The Company has never been requested to give any additional collateral or guarantee.

On January 17, 1995, the Company entered into debt assumption agreements with certain financial institutions for the full redemption of the 6.9 per cent. bonds due 1999 and eliminated the bonds from liabilities.

Under these agreements the debt was assigned as follows:

Assignee	Millions of Yen	Thousands of U.S. Dollars
The Sakura Bank		
–London Branch	¥10,000	$ 75,700
The Fuji Bank		
(Luxembourg) S.A.	5,000	37,850
The Dai-Ichi Kangyo Bank		
–London Branch	5,000	37,850
	¥20,000	$151,400

The Company retains a legal obligation as the primary obligator on the issuance of the bonds and consequently, has a contingent liability of ¥20,000 million (US$151,400 thousand) until the final redemption is made.

Note 6: Accrued Severance Indemnities and Pension Costs

The charges to income for accrued severance indemnities and pension costs for the years ended March 31, 1997 and 1998 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1997	**1998**	**1998**
Accrued severance			
indemnities	¥3,331	**¥3,729**	**$28,229**
Pension costs	1,512	**1,621**	**12,271**

Note 7: Depreciation

Depreciation charges of property, plant and equipment for the years ended March 31, 1997 and 1998 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1997	**1998**	**1998**
Selling, general and			
administrative expenses	¥ 1,167	**¥ 1,296**	**$ 9,811**
Cost of sales	24,124	**24,859**	**188,183**
Other	535	**397**	**3,005**

Note 8: Leases

Lease expenses in respect of finance leases, other than those lease agreements which stipulate the transfer of ownership of the leased property, were as follows:

	Year ended March 31, 1998	
Class of property	Millions of Yen	Thousands of U.S. Dollars
Machinery and equipment	¥ 5,889	$44,580
Vehicles and tools	11,908	90,144
Others	26	197
	17,823	134,921
Less accumulated depreciation	(6,887)	(52,135)
Net	10,936	82,786
Future minimum payments		
1999	2,921	22,112
2000 and thereafter	8,015	60,674
	10,936	82,786
Lease expenses	2,070	15,670
Accumulated depreciation	2,070	15,670

Note 9: Income Taxes

The Company and its domestic subsidiaries are subject to corporate income tax, enterprise tax and prefectural and municipal inhabitants taxes, based on income, which in the aggregate result in a statutory tax rate of approximately 52 per cent. However, the effective tax rates in the accompanying statements of income differ from the above-mentioned income tax rate. The principal reasons for such differences are (a) the accounting policy of not providing for deferred income taxes arising from timing differences between financial and tax reporting, and (b) certain expenses which are not deductible for income tax purposes.

Note 10: Contingent Liabilities

Contingent liabilities at March 31, 1997 and 1998 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1997	**1998**	**1998**
Trade notes receivable			
discounted with banks	¥ 456	**¥ 643**	**$ 4,868**
Guarantees of housing loans of employees and for indebtedness of consolidated subsidiaries and affiliates	15,578	**14,866**	**112,536**

In addition, the Company retains an obligation in respect of bonds of ¥20,000 million (US$151,400 thousand) which were assumed by third parties on January 17, 1995 (See Note 5).

Note 11: Legal Reserve

The Commercial Code of Japan provides that an amount equal to at least 10 per cent. of cash dividends and other cash appropriations of retained earnings be appropriated as a legal reserve until such reserve equals 25 per cent. of common stock. This legal reserve is not available for dividends, but may be used to reduce a deficit by resolution of stockholders or may be transferred to capital stock by resolution of the Board of Directors.

Note 12: Retained Earnings and Dividends

The amount of retained earnings available for dividends under the Commercial Code of Japan is based on the amount stated in the statutory financial statements of the Company.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividend is applicable. In addition, a semi-annual interim dividend payment may be made by a resolution of the Board of Directors subject to certain limitations imposed by the Commercial Code.

Note 13: Subsequent Event

On June 26, 1998, the shareholders of the Company approved the following appropriations of retained earnings:

	Millions of Yen	Thousands of U.S. Dollars
Appropriations:		
Cash dividends	¥1,087	$8,229
Bonuses to directors and statutory auditors	70	530
	¥1,157	$8,759

Note 14: Segment Information

The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sale of automobiles, particularly diesel trucks and buses.

Business segment information is not required to be disclosed as both sales and operating income of the automobile business exceed 90 per cent. of total sales and of operating income of all segments not incurring an operating loss.

Geographical segment information is not required to be disclosed as sales outside Japan are less than 10 per cent. of consolidated net sales.

	Year ended March 31, 1998			
	Millions of Yen			Thousands of U.S. Dollars
Overseas sales	**Asia**	**Other areas**	**Total**	**Total**
Overseas sales (A)	**¥53,844**	**¥39,545**	**¥ 93,389**	**$ 706,949**
Consolidated sales (B)	—	—	¥589,209	$4,460,318
(A)/(B)	9.1%	6.7%	15.8%	

	Year ended March 31, 1997	
	Millions of Yen	Thousands of U.S. Dollars
Overseas sales	Total	Total
Overseas sales (A)	¥113,386	$ 913,666
Consolidated sales (B)	¥632,716	$5,098,437
(A)/(B)	17.9%	

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
HINO MOTORS, LTD.

We have examined the consolidated balance sheets of Hino Motors, Ltd. and its consolidated subsidiaries as of March 31, 1997 and 1998 and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards generally accepted in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above, expressed in Japanese yen, present fairly the consolidated financial position of Hino Motors, Ltd. at March 31, 1997 and 1998 and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan applied on a consistent basis.

The accompanying consolidated financial statements with respect to the year ended March 31, 1998 have been translated into U.S. dollars solely for the convenience of the reader. We have reviewed the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into U.S. dollars on the basis described in Note 1 to the consolidated financial statements.

Showa Ota & Co.

Tokyo, Japan
June 26, 1998

SHOWA OTA & CO.
Certified Public Accountants