KYOKUTO KAIHATSU KOGYO CO., LTD.
AND CONSOLIDATED SUBSIDIARIES

Annual Report 2007

Years ended March 31,2007 and 2006

CONTENTS

1. Operational Results

(1) Analysis of Operational Results

<Overview of Current Fiscal Year ending March 31, 2007>

The domestic economy for the fiscal year under review showed continuing steady recovery due mainly to strong capital investment in the private sector backed by a growth of earnings and modest recovery of personal consumption, despite some negative factors including higher oil prices.

By segment, domestic demand in the Specialty Truck Division has continued to increase, continuing strongly due to the tightening of government regulations such as new gas emission regulations on diesel trucks. Also, overseas demand has rebounded, especially in China where construction demand remains strong. In addition, demand from other countries in Asia, Africa, and the Middle East helped to sustain strong growth in this division's overseas performance.

In the Environmental Equipment and Systems Division, the competition has intensified further due to tightening fiscal policies by local governments. Total orders received in this division have continued to be adversely affected by these external factors.

Even within this challenging business environment, the Kyokuto Kaihatsu Group has aggressively implemented the midterm sales plan "Plan 2004" (3-year Midterm Business Plan), as this is the last year specified within it. The ultimate goal of this plan is to strengthen management architecture, further develop corporate activities, and maximize corporate value. Based on the initiatives of "Plan 2004," especially the concept of "Screening and Concentration," the management team has focused on both the Specialty Truck Division and the Environmental Equipment and Systems Division with strong emphasis on concentration of corporate resources to both, thereby enhancing overall earnings.

As of April 1, 2006, the Company withdrew from the Automobile Sales business by selling all equity holdings of Toyota Corolla Naniwa Co., Ltd. as part of a "Screening and Concentration" strategy. In addition, as of April 1, 2007, the Company purchased all equities of Nippon Trex Co., Ltd. held by Sumitomo Light Metal Industries, Ltd., aiming at further enhancement and reinforcement of the mainline Specialty Truck business.

As a result, consolidated sales for the fiscal year ended March 31, 2007 increased slightly by 0.4%, or ¥251 million from the previous fiscal year to ¥58,390 million due mainly to the increase in mainline Specialty Truck Division, which was, however, largely offset by the withdrawal of the Automobile Sales business. Consolidated ordinary income, on the other hand, jumped by 34.4%, or ¥814 million, from the previous fiscal year to ¥3,184 million because of the growth in the sales of Specialty Truck Division. Consolidated net income decreased by 19.2%, or ¥366 million to ¥1,543 million, reflecting the decline of extraordinary income from the sales of fixed assets.

The summary of each business segment in the consolidated basis is reported below.
From April 1, 2006, as the Company has realigned the Multilevel car parking tower business in the Specialty Truck Division by integrating it with the Real Estate Rental Division, the data have been adjusted for comparison with the previous fiscal year.

1) Specialty Truck Division

Domestic demand in this division posted strong growth due to recovery mainly in the Tokyo Metropolitan area supported by the tight control of gaseous emission regulations. The Company has concentrated on enhancing the total amount of orders received. Furthermore, with other tasks, including introducing new pricing policies (especially for new products), reducing cost by global procurement of raw materials from China, and enhancing marketing and service capabilities, the Company has strived to ensure overall sales as well as profit. In overseas market, the Company has focused on enhancing local production in the Kunshan Plant in China to ensure stable supply of the products in Asian countries, especially in China where construction

demand has continued to be strong. At the same time, we devote ourselves to expand global sales through exports.
As a result, overall sales in the Specialty Truck Division rose by 13.4%, or ¥5,223 million from the previous fiscal year to ¥44,297 million reflecting steady growth in both domestic and overseas markets, including exports and local production in China. Operating income in this division rose by 25.2%, or ¥458 million from the previous fiscal years to ¥2,277 million, largely due to the aforementioned growth in overall sales.

2) Environmental Equipment and Systems Division

In the Environmental Equipment and Systems Division, the Kyokuto Kaihatsu Group has pursued ensuring total orders in the mainline plant related systems such as Recycle plaza and Recycle centers, as well as RDF (Refuse Derived Fuel) and Landfill leachate treatment plant. At the same time, the Company strived to maintain both sales and earnings with strong emphasis on expanding contracted business for maintenance and system operation. In addition, we have been actively working on reinforcing our product line along with order taking activities of Refuse Gasification and our next generation incinerator Melting System.
With our wealth of practical experience in the previous years combined with consistent marketing efforts based on our expertise, as well as a sign of recovery in the market despite a continuing severe environment, total orders received in the Environmental Equipment and Systems Division dynamically increased by 53.0%, or ¥4,910 million, from the previous fiscal year to ¥14,177 million as a result. Consolidated sales in this Division also increased by 10.3%, or ¥780 million from the previous fiscal year to ¥8,338 million, and operating income rose by 136.3%, or ¥285 million, from the previous fiscal year to ¥495 million.

3) Real Estate Rental Division

In the Real Estate Rental Division, consolidated sales rose by 0.7%, or ¥44 million from the previous fiscal year to ¥6,223 million, reflecting the steady revenue growth of the coin parking business as the laws pertaining to roadside parking were amended in June 2006. Operating income increased by 7.4%, or ¥49 million from the previous fiscal year to ¥711 million.

<Forecast for the fiscal year ending March 31, 2008>

Regarding the consolidated performance forecast for the fiscal year ending March 31, 2008, the Company anticipates that the overall domestic economy will continue to show a steady recovery. On the other hand, the business environment is expected to be more demanding, and is becoming increasingly uncertain and dynamic due to such factors as the rise in crude oil prices, slowdown of public investments, as well as the rise in interest rates because of the change of monetary policies.
Under these circumstances, the Company redefined its 3-year Midterm Business Plan, drawing up “Plan 2007” (3-Year Plan) starting April 1, 2007 to accelerate corporate reform. The management teams of the Company and its subsidiaries will strive to provide the optimal solution for maximizing corporate value.
Based on “Plan 2007,” we will be aggressively concentrating corporate resources onto our core businesses with a view to developing corporate activity as the dominant company in the market.
Major initiatives are as follows:

1. To improve the Kyokuto Kaihatsu Kogyo’s brand value by realizing the customers’ trust and satisfaction,
2. To accelerate global business operations based on core businesses,
3. To evolve our technological expertise toward “Future Creation”

These initiatives are united by a common set of principles. All seek to make progress on expansion of overall sales and profits of our major business domains, including Specialty Truck, Environmental Equipment and Systems, and Real Estate Rental. In addition, leveraging by the synergistic effect arising from strategic

intra-group alliance with group companies, the management team plans to improve business performance for the years to come, maximizing corporate value as well as ensuring the sustainable growth of the company.
The management team expects consolidated sales for the year ending March 31, 2008 to be at ¥87,000 million and operating income to be at ¥3,740 million, with ordinary income and net income of ¥3,800 million and ¥2,390 million, respectively.

⑵ Financial Analysis

1) Assets, Liabilities and Stockholders' Equity

Total assets on March 31, 2007 decreased by 5.6%, or ¥4,925 million to ¥82,309 million compared with the previous fiscal year-end reflecting a decrease of ¥4,614 million (5.3%) by transfer of consolidated subsidiary. Other factors behind the significant decline of total assets excluding the factor above are described below. The calculation of increase/decrease in absolute value or percentage change from the previous fiscal year was based on results which eliminated the impact of transfer of consolidated subsidiary.
Current liabilities on March 31, 2007 increased by 1.7%, or ¥741 million compared with the previous fiscal year-end. The increase was primarily attributable to an increase in notes and accounts receivable.
Fixed assets decreased by 2.7%, or ¥1,057 million to ¥37,656 million due largely to decrease in securities investments caused by the decline of the stock market.
While current liabilities on March 31, 2007 increased by 3.4%, or ¥522 million, compared with the previous fiscal year-end, long-term liabilities decreased by 5.1%, or ¥456 million due to decrease in deferred tax liabilities. As a result, total current and long-term liabilities on March 31, 2007 increased by 0.3%, or ¥66 million to ¥24,383 million compared with the previous fiscal year-end.
Stockholders' equity on March 31, 2007 decreased by 0.7%, or ¥383 million to ¥57,925 million compared with the previous fiscal year-end. This was primarily because of the decrease in the difference of evaluation of investment securities along with the implementation of repurchasing treasury stocks, despite increase from recorded net income of the fiscal year under review.
The ratio of stockholders' equity to total assets on March 31, 2007 increased from 66.6% for the previous fiscal year to 70.4%.

2) Cash Flows

Cash and cash equivalents on March 31, 2007 increased by 1.6%, or ¥206 million to ¥12,868 million compared with the balance at the beginning of this fiscal year. Details are as follows.

· **Cash flows from operating activities**

Net cash provided by operating activities totaled ¥2,167 million, decreased by ¥2,783 million in the previous year due mainly to the recording net income before income taxes, despite increase in notes and accounts receivables.

· **Cash flows from investing activities**

Net cash used in investing activities increased by ¥578 million to ¥440 million compared with the previous year due to increase in purchases of fixed assets, including lands and buildings of the Osaka Service Center despite proceeds from sales of stocks of consolidated subsidiary.

· **Cash flows from financing activities**

Net cash used in financing activities increased by ¥2,164 million to ¥1,524 million compared with the previous year, due primarily to the payments for repurchase of treasury stocks as well as dividend payments.

⑶ Basic Policy of Profit Distribution and Dividend Payment for FY2006 and FY2007

The Kyokuto Kaihatsu Group believes that both distribution policies of adequate shareholder return reflecting business performance and stable shareholder return are the most important management objectives. Therefore, the Company has strived to meet the stockholders' expectations by taking into the consideration of business

development and the future economic climate, while achieving stable growth of earnings and a sound financial position.
Regarding the dividends for the fiscal year ending March 31, 2007, Kyokuto Kaihatsu Kogyo announced a per share dividend of ¥5, and an interim dividend at ¥5, bringing the total dividend for the fiscal year to ¥10 per share. On November 18, 2005, the Company split its outstanding ordinary shares 1.5 for 1, therefore, actual distribution value was ¥15, excluding the effect of this stock split. We are very pleased to report the substantial increase of an annual cash dividend by ¥2.50 compared with ¥10 for the previous fiscal year (¥12.50 before this stock split).
The Company plans annual dividends at ¥10 (including ¥5 for interim dividends) for the year ending March 31, 2008.

(4) Risk Management

1) Risks related to concentration on a particular customer, product, and technology

In our core business, the Specialty Truck Division, our customer portfolio is comprised of diversified domestic truck manufacturers or their affiliated sales companies or trading firms, and therefore successfully reduces the risks related to concentration in a particular customer or particular item. In addition, we have built wide range of technological expertise for manufacturing and marketing each model in this product line.
As for the Environmental Equipment and Systems Division, the Company provides its business (e.g. plant or system construction for waste disposal, maintenance services, or contracted business for maintenance and system operation) to most of the local governments in Japan as they need.

2) Risks related to a particular regulation, law, business practice and management policy

In the Specialty Truck Division, enactment or amendment of particular laws, such as Road Traffic Law, Road Trucking Vehicle Law, and Motor Vehicle Safety Standards generally and materially affect the Company's business performance. The vehicle which may fail to meet these regulations will not be allowed by the government to be used or owned; this, in turn, temporarily generates extra demand (usually called "last-minute buying") before the enactment or amendment of the regulation. Thereafter, overall demand will be adversely affected by this behavior, shrinking rapidly in the following terms.
In the Environmental Equipment and Systems Division, as the business of plant construction of waste disposal for local governments are subject to regulation under Construction Industry Law, the Company conducts business with the license of a construction or cleaning facilities construction industry which is authorized by the Minister of Land, Infrastructure and Transportation. Additionally, enactment or amendment of other environmental related regulation or law, for example anti-dioxin regulation, may cause additional demand for plant renewal.

3) Risks related to business activity in overseas markets

The Kyokuto Kaihatsu Group is conducting business activities through product exports, local production, marketing, or procurement systems of parts in overseas markets. And risks related to business in overseas markets are becoming increasingly complex and diverse due to various changes in the business environment surrounding our company in these areas: unexpected changes of economy, fluctuation of foreign exchange rates, change of related laws or regulations, and presence or occurrence of events which may bring about adverse effects, as well as social or political turmoil caused by terrorist attacks, war and other factors. Because of these potential risks, our business activities in overseas markets may be negatively affected, consequently bringing a material impact to the operational results or corporate plan of the Kyokuto Kaihatsu Group.

2. Management Policy

(1) Basic Management Policy of the Company

The basic management policy of the Kyokuto Kaihatsu Group is "To work together making every effort for the further development of the Company with strong emphasis on our unique technological expertise and strong reliability, and providing considerable contribution to our society together with our group companies."

Our ultimate goal in the management policy is to implement corporate policy recognizing a social role and responsibility as a public company in a strong relationship with various stakeholders such as customers, business partners, shareholders, employees, and local societies. In addition, by providing safe, effective and high quality products and services through our fair and sound business activities, the Kyokuto Kaihatsu Group seeks to bring about greater contribution to our society and maximize corporate value.

With this management policy, we devote ourselves to three major business domains including Specialty Truck, Environmental Equipment and Systems, and Real Estate Rental.

(2) Management Target

We will work toward our consolidated milestone targets to reach for the year ending March 31, 2010, through steady implementation of the core strategies outlined in the above "Plan 2007" for our principal business domains. These targets include sales of ¥97,300 million, ordinary income of ¥6,490 million and net income of ¥3,910 million along with ROA of 3.5% and ROE of 6.0%, all in the consolidated basis.

(3) Mid-to-Long Term Management Strategy and Major Challenges

<<Results of "Plan 2004" (April 1, 2004 ~ March 31, 2007)>>

The Company set up 3-year midterm business plan called "Plan 2004" for the period during the fiscal year began April 1, 2004 to the fiscal year ending March 31, 2007, and we have concentrated on carrying out the corporate strategies together with our group companies.

During the period for "Plan 2004", Kyokuto Kaihatsu Group has demonstrated its ability to achieve greater effect to identify the exact needs in the market in the Specialty Truck Division. This is reflecting increasing market share and enhancing service capabilities in the domestic market, along with launch of overseas production (Kunshan Plant in Jiangsu, China), and expansion of the export in overseas market. Also, in the Environmental Equipment and Systems Division, we have taken steps of expanding contracted business for maintenance and system operation of recycle center by purchasing operating unit of Sumitomo Metal Industries, Ltd. Furthermore, we have made significant progress in the coin parking business, which has a great potential growth, in the Real Estate Rental Division

Regarding the performance of "Plan 2004", however, consolidated sales posted ¥58,390 million below management's target of ¥66,500 million. This was chiefly a reflection of sales decline by the withdrawal of Automobile Sales business combined with the slowdown of orders received for plant related systems due to fierce competition in the environment related market despite successful achievement of target sales in the Specialty Truck Division. As for earnings, we have determined to become more competitive by taking decisive actions to improve profitability by implementing cost cutting efforts including establishment of efficient production system as well as comprehensive procurement system from China. However, both ordinary income and net income were ¥3,184 million and ¥1,543 million against management's target of ¥4,470 million and ¥2,650 million, respectively. This is all attributed to the higher raw material cost (including steel products) than expected and sales decline in the Environmental Equipment and Systems Division.

Accordingly, the performance of "Plan 2004" was below our targets for all indicators, and we accept the gravity of the situation with sincerity. At the same time, the Company will continue strictly implementing the accomplishment we have achieved during the period.

<<Outline of "Plan 2007" (April 1, 2007 ~ March 31, 2010)>>

Under these circumstances, the Company redefined its 3-year Midterm Business Plan, drawing up "Plan 2007-Shining Phase-" starting April 1, 2007, to accelerate corporate reform. The management teams of the Company and its subsidiaries will strive to provide the optimal solution for maximizing corporate value.

Basic policies of the "Plan 2007"

As we explained before, under "Plan 2007" we will be aggressively concentrating corporate resources onto our core businesses with a view to developing corporate activity as the dominant company in the market. Major initiatives are as follows:

1. To improve the Kyokuto Kaihatsu Kogyo's brand value by realizing the customers' trust and satisfaction,
2. To accelerate global business activities based on core businesses,
3. To evolve our technological expertise toward "Future Creation"

<<Period>> April 1, 2007 ~ March 31, 2010

<<Management Target (Mach 31, 2010, Consolidated basis)>>

Sales	¥97,300 million	ROA	3.5%
Operating Income	¥6,400 million	ROE	6.0%
Ordinary Income	¥6,490 million		
Net Income	¥3,910 million		

Based on this management objective, we at Kyokuto Kaihatsu Group, will strive to reinforce and expand each business segment with a strong emphasis on the major initiatives listed below.

<Specialty Truck Division>

Sales: ¥44,297 million (March 31, 2007) → ¥77,000 million (March 31, 2010)

Operating Income：¥2,277 million (March 31, 2007) → ¥4,580 million (March 31, 2010)

1）**Enhancement of Business Platform in the Domestic Market**

We expect domestic demand to decrease in foreseeable future due largely to the anticipated completion of replacement demand supported by the tight control of gaseous emission regulations. Based on this recognition, we believe that enhancement of our business platform in the domestic market is indispensable in ensuring growth in earnings. We, therefore, will promote sweeping measures such as increasing market share and business tie-ups with competitors or M&A activities. In addition, we will work to enhance customer satisfaction by developing several critical tasks: improving production efficiency through standardization and equalization of products; expanding profitability by the promotion of company-wide cost cutting efforts; and enhancing service capabilities.

Furthermore, as of April 1, 2007, Nippon Trex Co., Ltd., the leading company for trailers in the domestic market, joined the Kyokuto Kaihatsu Group. We believe this integration represents an enormous opportunity to exhibit our enhanced strength as a supplier of specialty truck, an attributes that makes us unique as a group. Consequently, it should bring more customer satisfaction by providing comprehensive product mix in terms of product quality, pricing structure and service capabilities. In fact, our group now has overwhelming advantages to enlarge overall competitive edge and marketing power by implementing joint measures such as ⅰ) providing high quality products based on the technological expertise of both companies, ⅱ) expanding product portfolio, ⅲ) building highly efficient comprehensive marketing networks, ⅳ) implementing cost cutting efforts through rationalization, including joint procurement of raw materials as well as standardization of various parts, and ⅴ) enhancing overall service network. Our goal is to keep the Kyokuto Kaihatsu Group at the forefront in the industry by enhancing the earnings of the Special Truck business in the domestic market through fully leveraging our synergistic effects as well as expanding our scale of operation.

2） **Enhancement of Business Operation in the Overseas Market**

Demand for the specialty trucks in overseas market has been steady especially in China where investment for construction buildings continued to remain strong backed by the explosive economic growth. This, in turn, has been generating demand for construction related trucks (Mixer trucks, Concrete pumps, and etc).

Furthermore, demand from other countries in Asia, Africa and Middle East has also been strong. By powerfully pushing ahead with marketing systems in these areas to meet increasing demand timely, we will assure total orders received. We intend to increase the production capacity in the Kunshan Plant in China, which will bring positive impact to expand business in overseas market as well as strengthen the domestic operating base, contributing cost cutting measure to supply parts or kits from the plant to Japan.

<Environmental Equipment and Systems Division>

Sales： ¥8,338 million (March 31, 2007） → ¥12,000 million (March 31, 2010)

Operating Income： ¥495 million (March 31, 2007） → ¥850 million (March 31, 2010）

Demand for the Recycle Centers has been sluggish due largely to intensifying competition. However, going forward, we see replacement demand emerging, as the number of aging facilities is increasing. By taking this potential demand, at the same time, by carrying out aggressive R&D activities in the areas of technology that are seen to have high potential in the future, we will be able to offer the optimal solutions to our customers, thus ensuring orders received for plant related construction business. Furthermore, with more emphasis on the highly profitable contracted business for maintenance and system operation, the Company will achieve a significant growth in sales and earnings in the Environmental Equipment and Systems Division.

<Real Estate Rental Division>

Sales： ¥6,223 million (March 31, 2007) → ¥9,000 million (March 31, 2010）

Operating Income： ¥711 million (March 31, 2007) → ¥970 million (March 31, 2010)

With regard to the Real Estate Rental Division, the Kyokuto Kaihatsu Group positions its coin parking business as third business pillar of the group, and will promote aggressive operation combined with the effective use of real estate as a part of group's capital policy, making it a stable source of earnings as a result.

While pursuing more stable earnings from the Real Estate Rental business and maintaining Specialty Trucks and Environmental Equipment and Systems as core businesses, we aim to boost our corporate value. Focusing intently on the cost of capital, control of management resources onto the growth areas is essential to more efficient use of capital and assets, which we believe will lead to the Kyokuto Kaihatsu Group's enlarged and unique value.

<Appendix>

Comparison of Business Performance of March 31, 2007 and March 31, 2010

(Consolidated basis)

	31-Mar-07	March 31, 2010（Last year of the plan）		
	Result	Target	Increase	Change（%）
Sales（million yen）	58,390	97,300	＋38,910	＋66.6
Operating income（mil.	3,490	6,400	＋2,910	＋83.4
Ordinary income（mil.）	3,184	6,490	＋3,306	＋103.8
Net income（mil.）	1,543	3,910	＋2,367	＋153.4
ROA（%）	1.8	3.5	－	＋1.7
ROE（%）	2.7	6.0	－	＋3.3

(4) Other Important Matters Concerning Management

There are no other pertinent matters.

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Net sales	58,390	58,138	494,627
Cost of sales	46,201	45,917	391,375
Gross profit	12,188	12,220	103,251
Selling, general and administrative expenses	8,698	9,524	73,685
Operating income (loss)	3,490	2,696	29,565
Other income (expenses)			
Interest and dividend income	80	67	682
Interest expenses	(83)	(104)	(709)
Gain (loss) on sales of property and equipment	10	1,628	93
Gain (loss) on sales of investment in subsidiaries	227	–	1,925
Gain (loss) on sales of securities	4	158	36
Write-down of investment securites	(7)	–	(67)
Special research and development expenditures	0	(297)	0
Other-net	(360)	(90)	(3,055)
Income (loss) before income taxes	3,360	3,495	28,469
Income taxes (Note 12)			
current	1,859	1,248	15,750
deferred (prepaid), net	(42)	336	(358)
Total income taxes	1,817	1,585	15,392
Minority interest	—	0	0
Net income (loss)	1,543	1,910	13,077
Retained earnings:			
Balance at beginning of period	32,604	31,208	276,195
Cash dividends paid	(423)	(338)	(3,587)
Bonuses to directors and statutory auditors	(69)	(50)	(588)
Adjustment of retained earnings for eliminations of treasury stock	(36)	(125)	(308)
Balance at end of period	33,619	32,604	284,788
	Yen		U.S. dollars
Per share of common stock:			
Net income (loss)	36.57	43.46	0.31
Diluted net income (loss)	36.42	43.17	0.31
Cash dividend, applicable to earnings of the year	10.00	10.00	0.08

The accompanying notes are an integral part of this statements.

CONSOLIDATED BALANCE SHEETS

	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars (Note 1) 2007
ASSETS			
Current assets :			
Cash and time deposits	5,352	5,030	45,344
Short-term investments (Note 3)	7,515	7,701	63,663
Trade note and accounts receivable	24,451	25,290	207,132
Less : Allowance for doubtful accounts	(166)	(194)	(1,411)
Inventories	6,305	6,746	53,417
Deferred income taxes (Note 12)	871	766	7,379
Prepaid expenses	144	67	1,223
Other current assets	177	376	1,506
Total current assets	44,653	45,784	378,255
Investments and other assets :			
Investments in securities (Note 3)	6,959	6,761	58,954
Deferred income taxes (Note 12)	355	336	3,012
Other	1,595	3,220	13,512
Total investments and other assets	8,910	10,318	75,479
Property and equipment :			
Land	12,795	13,310	108,392
Buildings and structures	23,820	26,685	201,786
Machinery and equipment	7,355	7,504	62,304
Construction in progress	82	83	694
Other	2,017	2,020	17,088
	46,071	49,604	390,267
Less—Accumulated depreciation	(17,814)	(19,006)	(150,908)
Total property and equipment	28,256	30,598	239,358
Intangible assets			
Goodwill	129	167	1,099
other	359	365	3,048
total intangible assets	489	533	4,148
Total assets	82,309	87,234	697,241

CONSOLIDATED BALANCE SHEETS

	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars (Note 1) 2007
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities :			
Short-term bank loans (Note 4)	500	3,000	4,235
Current portion of long-term bank loans (Note 4)	—	1,028	—
Trade note and account payable	10,463	10,965	88,636
Accrued income and other taxes	1,537	1,388	13,022
Accrued expenses	2,070	2,036	17,539
Other current liabilities	1,331	1,523	11,277
Total current liabilities	15,902	19,942	134,711
Long-term liabilities :			
Long-term bannk loans (Note 4)	—	86	—
Accrued retirement benefits(Note 5)	1,624	1,837	13,764
Directors' and statutory auditors' retirement benefits	283	303	2,402
Deferred income taxes (Note 12)	1,796	2,205	15,214
Other long-term liabilities (Note 4)	4,776	4,742	40,458
Total long-term liabilities	8,480	9,174	71,839
Minority interrests	—	—	—
Shareholders' equity :			
Common stock, no par value (Note 10)			
Authorized — 170,950,672 shares			
Issued — 42,737,668 shares in 2006 and			
42,737,668 shares in 2007	11,899	11,899	100,803
Additional paid-in capital (Note 10)	11,718	11,718	99,269
Retained earnings	33,619	32,604	284,788
Treasury stock, at cost	(919)	(349)	(7,791)
Net unrealized holding gains on securities	1,391	2,105	11,790
Foreign currency translation adjustments	215	138	1,829
Total shareholders' equity	57,925	58,118	490,690
Total liabilities and shareholders' equity	82,309	87,234	697,241

CONSOLIDATED STATEMENT OF CASH FLOWS

	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars (Note 1) 2007
Operating activities:			
Net income before income taxes	3, 360	3495	28,469
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Dpreciation and amortization	1, 388	1, 511	11,758
Write-down of investment securites	9	28	77
Net gains (loss) on sales of marketable securities and investments	(231)	(145)	(1,961)
Net gains (loss) on sales of proparty	22	(1, 558)	186
Provision (reversal) for accrued retirementt benefits	(96)	8	(815)
Interest and dividend income	(80)	(67)	(682)
Interrest expenses	83	104	709
Decreease (increase) in accounts receivable	(1, 883)	3, 039	(15,952)
Decrease (increase) in inventories	(29)	(1, 229)	(246)
Decrease (increase) in prepaid expenses	—	69	—
Decrease (increase) in accounts payable	257	(1, 339)	2,178
Decrease (increase) in accrued expenses	—	12	—
Decrease (increase) in income taxes payable	(76)	(140)	(647)
Other,net	1, 222	2, 139	10,354
Sub total	3, 946	5, 929	33,428
Interest and dividend income received	54	66	462
Interest expenses paid	(16)	(36)	(137)
Income taxes paid	(1, 634)	(459)	(13,838)
Other,net	(183)	(551)	(1,556)
Net cash provided by operating activities	2, 167	4, 950	18,358
Investing activities:			
Payment for purchase of marketable securities and investmen	(346)	(1, 212)	(2,934)
Proceeds from sales of marketable securities and investments	116	566	987
Proceeds from sales of investments in subsidiaries	841	—	7,126
Payment for purchase of facilities	(1, 209)	(2, 949)	(10,246)
Proceeds from sale of facilities	63	2, 247	534
Disbursement of loan receivables	(2)	(7)	(24)
Collection of loan receivables	97	336	822
Net cash provided by (used in) investing activities	(440)	(1, 019)	(3,733)
Fainancing activities:			
Increase (decrease) in short-term debt	500	(3, 150)	4,235
Proceeds from long-term debt	—	—	—
Payment on long-term debt	(1, 000)	(22)	(8,470)
Proceeds from issuance of common stock	—	15	—
Purchases of treasury stock	(644)	(396)	(5,459)
Proceeds from sales of treasury stock	41	—	353
Dividends paid	(422)	(337)	(3,576)
Net cash provided by (used in) financing activities	(1, 524)	(3, 688)	(12,917)
Effect of exchange rate change on cash and cash equivalents	(2)	48	(25)

1．Basis of Presenting Consolidated Financial Statements

Kyokuto Kaihatu Co.,Ltd (the ”Company”) and its domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Commercial Code of Japan (the “Code”) and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan.

The accompanying consolidated financial statements are prepared based on the consolidated financial statements of the Company and its subsidiaries (the “Group”) which were fi1ed with the Director of Kanto Local Finance Bureau as required by the Securities and Exchange Law.

In preparing the accompanying 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.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of the reader, using the approximate exchange rate at March 31, 2007, which was
¥ 118.50 to US$1.00. These convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

As permitted by the regulations under the Securities and Exchange Law of Japan, amounts of less than one million yen have been omitted.　As a result, the totals shown in the accompanying consolidated financial statements (both in yen and in U.S.dollars) do not necessarily agree with the sums of the individual amounts.

2．Summary of Significant Accounting Policies

(a) Consolidation Principles

The consolidated financial statements include the accounts of the Company and its significant subsidiaries in accordance with the Securities and Exchange Law and related regulations of Japan. The minor differences arising from the cost of the companies’ investments in subsidiaries and affiliates over the equity in their net assets at fair value are charged or credited to income in the year of acquisition.　Significant differences are, as a rule, amortized over periods of 5 years.　All significant inter-company accounts and transactions have been eliminated.

Investments in associates are accounted for by the equity method whereby the Group includes in net income its share of income or losses of these companies, and records its investments at cost adjusted for its share of income, losses or dividends received.

(b) Consolidated Statement of Cash Flows

In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturity of not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

(c) Short-term investments and Investments in Securities

For the Accounting Standards for Financial Instruments which was issued by the

Business Accounting Deliberation Council, securities are classified into three categories: trading securities, held-to-maturity debt securities, equity investments in associates and other securities.
Those classified as other would be reported at fair value with unrealized gains, net of related taxes reported in equity. Under the Code, unrealized holding gains on securities, net of related taxes is not available for distribution as dividends and bonuses to directors and corporate auditors.
Other investments are carried at cost. The cost is determined by the moving average method.

(Trading securities)
Trading securities are held for resale in anticipation of short-term market movements. Trade securities, consisting of debt and marketable equity securities, are stated at fair value. Gains and losses, both realized and unrealized, are charged to income.

(Held-to-maturity debt securities and other securities)
Management determines the appropriate classification of debt securities at the time of purchase and reevaluates the classification as of each balance sheet date. Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Held-to-maturity debt securities are stated at amortized cost adjusted for the amortization of premiums and the accretion of discounts to maturity.

Marketable equity securities and debt securities not classified as held-to-maturity are classified as other securities. Other securities are carried at fair value with the unrealized gains and losses, net of tax, reported in a separate component of shareholders' equity. The amortized cost of debt securities in this category is adjusted for the amortization of premiums and the accretion of discounts to maturity. Realized gains and losses and declines in value judged to be other than temporary on other securities are charged to income.

(Golf club membership)
An impairment loss on deposits for golf club membership is required to be recognized in accordance with the new standard.

(d) Inventories

Merchandise inventories are stated at cost, determined by the specific identification method. Materials and work in process are stated at cost, determined by the periodic average method. Supplies are stated at cost, determined by the last purchase cost method.

(e) Depreciation:

Depreciation is principally computed on the declining-balance method, based on the estimated useful lives of assets which are prescribed by Japanese income tax laws. Buildings are depreciated on a straight-line basis.
Amortization of intangible assets is computed by the straight-line method over periods prescribed primarily by the Japanese Commercial Code or Japanese income tax laws.

(f) Stock and bond issue expenses

Stock and bond issue expenses are charged to income as incurred.

(g) Accrued Retirement Benefits

To provide for the payment of retirement benefits and pension plans to employees, the Company and certain consolidated subsidiaries have entered an amount into a reserve equivalent to the amount recognized as necessary at the end of the period under review based on the expected retirement and severance obligations and the assets of pension plans at fiscal year-end.

The Company and its domestic subsidiaries provide for lump-sum severance benefits with respect to directors and corporate auditors. While the Company has no legal obligation, it is a customary practice in Japan to make lump-sum payments to a director or a corporate auditor upon retirement. Annual provisions are made in the accounts for the estimated costs of this termination plan, which is not funded. Any amounts payable to officers upon retirement are subject to approval at the shareholders' meeting.

(h) Revenue recognition

The percentage of completion method is applied to the construction works which take longer than one year and exceed ¥200million ($1,694 thousand) in contract amount.

(i) Leases

In Japan finance leases other than those that are deemed to transfer the ownership of the leased assets to lessees are accounted for by a method similar to that applicable to ordinary operating leases.

(j) Research and Development and Computer Software

Research and development expenditure is charged to income when incurred.
Expenditure relating to computer software developed for internal use is charged to income when incurred, except if it contributes to the generation of income or to future cost savings. Such expenditure is capitalized as an asset is amortized using the straight-line method over its estimated useful life which is in the range of 3 to 5 years.

(k) Income Taxes

Income taxes consist of corporation, inhabitants and enterprise taxes for domestic companies and foreign income taxes.
Deferred income taxes are provided for the income tax expenses under the asset and liability method. Deferred income tax assets and liabilities are determined based on temporary differences between the financial statements and tax bases of assets and liabilities, using enacted tax rates in effect during the years in which the differences are expected to reverse, and on available tax credits carryforward.

(l) Per Share Information

The computation of basic net income per share is based on the weighted average number of shares of common stock outstanding during each period. The average number of shares used in the computation was 42,215 thousand shares for 2007 and 42,353 thousand shares for 2006 (see Note 10).

For the year ended 31, 2007 and 2006 fully diluted net income per share of common stock assumes full exercise of right of the outstanding stock option plan at the beginning of the year.
Cash dividends per share shown in the statements of income are the amounts applicable to the respective years.

3. Short-term Investments, Investments in Securities and Investments in and advances to associates

Short-term securities at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		*Thousands of U.S. dollars*
	2007	2006	2007
Market value available:			
Trading securities	—	—	—
Market value not available:			
M.M.F. and F.F.F.	¥ 7,515	¥ 7,701	$ 63,663
Other investment trust	—	—	—
Total	¥ 7,515	¥ 7,701	$ 63,663

The following is a summary of other securities at March 31, 2007 and 2006:

	Millions of yen			
	March 31, 2007			
	Other securities			
	Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	¥ 2,419	¥ 2,380	¥ (35)	¥ 4,764
Bonds and debentures	—	—	—	—
Other securities	—	—	—	—
	¥ 2,419	¥ 2,380	¥ (35)	¥ 4,764
Market value not available:				894
Total				¥ 5,659

	Millions of yen			
	March 31, 2006			
	Other securities			
	Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	¥ 2,059	¥ 3,548	—	¥ 5,607
Bonds and debentures	—	—	—	—
Other securities	—	—	—	—
	¥ 2,059	¥ 3,548	—	¥ 5,607
Market value not available:				1,154
Total				¥ 6,761

Thousands of U.S. dollars

March 31, 2007

	Other securities			
	Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	$ 20,499	$ 20,166	(303)	$ 40,362
Bonds and debentures	—	—	—	—
Other securities	—	—	—	—
	$ 20,499	$ 20,166	(303)	$ 40,362
Market value not available:				7,580
Total				$ 47,942

4．Short-term bank loans and long-term debt

The annual average interest rates applicable to short-term bank loans at March 31, 2007, and 2006 are 0.89％ and 0.67％, respectively.

Long-term debt at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
0.58％ bank loans due 2008	¥ 1,028	¥ 1,028	$ 8,716
0.48％ bank loans due 2013	86	86	729
1.50％ guarantee money due 2023	3,299	3,250	27,948
	¥ 4,414	¥ 4,365	$ 37,394

Aggregate annual maturities of long-term debt subsequent to March 31, 2007 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2008	¥ 1,028	$ 8,716
2009	233	1,973
2010	233	1,973
2011	233	1,973
2012 and thereafter	2,686	22,756
	¥ 4,414	$ 37,394

5. Accrued Retirement Benefits

The following tables sets forth the changes in benefit obligation, plan assets and funded status of the Company and its subsidiaries at March 31, 2007 and 2006.

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Benefit obligation at end of year	¥ 4,560	¥ 5,230	$ 38,629
Fair value of plan assets at end of year	3,024	3,361	25,624
Funded status:			
Benefit obligation in excess of plan assets	1,535	1,869	13,005
Unrecognized net transition obligation at date of adoption	—	—	—
Unrecognized prior service cost	—	—	—
Unrecognized actuarial loss	(107)	32	(912)
Prepaid expenses for plan assets at end of year	—	—	—
Accrued pension liability recognized in the consolidation balance sheets	1,642	1,837	13,917

Note: Some domestic subsidiaries have adopted allowed alternative treatment of the accounting standards for retirement benefit for small business entity.

Severance and pension costs of the Company and its subsidiaries included the following components for the year ended March 31, 2007 and 2006.

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2006
Service cost	¥ 238	¥ 268	$ 2,017
Interest cost	96	102	815
Expected return on plan assets	(61)	(78)	(524)
Amortization:			
Transition obligation at date of adoption	—	—	—
Prior service cost	—	—	—
Actuarial losses	6	107	56
Net periodic benefit cost	¥ 279	¥ 400	$ 2,364

Assumption used in the accounting for the defined benefit plans for the year ended March 31, 2007 and 2006 is as follows:

	2007	2006
Method of attributing benefit to periods of service	straight –line basis	straight –line basis
Discount rate	2.0 %	2.0 %
Long-term rate of return on fund assets	2.0 %	2.0 %
Amortization period for transition obligation at date of adoption	—	—
Amortization period for prior service cost	—	—
Amortization period for actuarial losses	10 years	10 years

6. Contingencies

At March 31, 2007 and 2006, the Group was contingently liable as follows:

	Millions of yen		Thousands of US dollars
	2007	2006	2007
As an endorser of notes discounted or endorsed	¥ 2,649	¥ 2,069	$ 22,447
As a guarantor of indebtedness of :			
Associates	¥ 4,933	¥ 5,795	$ 41,788
Others	227	43	1,929
	¥ 5,160	¥ 5,838	$ 43,717

7. Cash and cash equivalents

Cash and cash equivalents at March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Cash and time deposits	¥ 5,352	¥ 5,030	$ 45,345
Short-term investment	7,515	7,701	63,663
Less-Time deposits with original maturities more than three months	—	(70)	—
Less-Stock	—	—	—
	¥ 12,868	¥12,661	$ 109,008

8. Leases

The Group leases certain machinery and equipment, and other assets. Total lease payments under these leases were ¥ 468 million ($ 3,967 thousand) , and ¥ 477 million for the years ended March 31, 2007 and 2006, respectively.

Pro forma information relating to acquisition costs, accumulated depreciation and future minimum lease payments for property held under finance leases which do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2007 and 2006, are as follows:

	Millions of yen		
	2007		
	Machinery and Equipment	Other	Total
Acquisition costs	¥ 1,607	¥ 430	¥ 2,037
Accumulated Depreciation	681	164	845
Net leased property	¥ 925	¥ 265	¥ 1,191

	Millions of yen		
	2006		
	Machinery and Equipment	Other	Total
Acquisition costs	¥ 1,806	¥ 628	¥ 2,434
Accumulated Depreciation	1,078	435	1,513
Net leased property	¥ 727	¥ 192	¥ 920

	Thousands of U.S. dollars		
	2007		
	Machinery and Equipment	Other	Total
Acquisition costs	$ 13,617	$ 3,643	$ 17,260
Accumulated Depreciation	5,774	1,391	7,165
Net leased property	$ 7,843	$ 2,252	$ 10,095

Future minimum lease payments under finance leases as of March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Due within one year	¥ 422	¥ 418	$ 3,578
Due after one year	769	501	6,517
Total	¥ 1,191	¥ 920	$ 10,095

The acquisition costs and future minimum lease payments under finance leases include the imputed interest expense portion.

Depreciation expense, which is not reflected in the accompanying consolidated statements of income, computed by the straight-line method, would have been ¥ 468 million ($3,967thousand) for the year ended March 31, 2007.

９．Derivatives and Hedging Activities

Derivative financial instruments are utilized by the Company principally to reduce interest rate and foreign exchange rate risks. The Company has established a control environment which includes policies and procedures for risk assessment and for the approval, reporting and monitoring of transactions involving derivative financial instruments. The Company does not hold or issue derivative financial instruments for trading purposes.

At March 31, 2007 and 2006, all forward exchange contracts outstanding were entered into in order to hedge receivables and payables denominated in foreign currencies which have been translated and reflected at the corresponding contracted rates in the accompanying consolidated balance sheets at March 31, 2007 and 2006.

１０．Shareholders' Equity

(1) Changes in common stock and additional paid-in capital have resulted from the following.

			Millions of yen	
		Number of Shares	Common Stock	Additional paid-in capital
Balance of March 31, 2005	……	28,469,779	11,892	11,711
Stock split		14,245,889	―	―
Retirement of stock during 2006	……	22,000	7	7
Balance of March 31, 2006	……	42,737,668	11,899	11,718
Retirement of stock during 2007	……	―	―	―
Balance of March 31, 2007	……	42,737,668	11,899	11,718

		Thousands of U.S.dollars	
		Common Stock	Additional paid-in capital
Balance of March31, 2006	……	100,804	99,269
Retirement of stock during 2007	……	―	―
Balance of March31, 2007	……	100,804	99,269

The Company adopted 100 shares of common stock as "low unit". A holder of shares representing less than one unit cannot exercise any voting rights with respect to such shares. However, the holder is entitled to receive dividends and other distributions. A holder of a fraction of a unit may at any time require the Company to purchase such shares at the prevailing market price. Shares so purchased must be sold or otherwise transferred to a third party within a reasonable time.

(2) Stock split

n November 18, 2005 the Company made a stock split at the rate of 0.5 shares for each outstanding shares and 14,245,889 shares were issued to shareholders of record on September 30, 2005

１１．Research and Development and Computer Software

Research and development expenditure charged to income was ¥ 897million ($ 7,605 thousand) and ¥ 1,100 million for the years ended March 31, 2007 and 2006, respectively.

１２．INCOME TAXES

The Company and its domestic subsidiaries are subject to several taxes based on income, which in the aggregate resulted in statutory tax rates of approximately 40.6％ and 40.6 % for the years ended March 31, 2007 and 2006, respectively. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The effective rate for the two years ended March 31, 2007 differs from the Company's statutory tax rate for the following reasons:

	2007	2006	
Statutory tax rate	40.6	40.6	%
Dividend income ……………………………………	(0.3)	(0.3)	
Expenses not deductible for income tax purposes ……	1.7	1.8	
Per capital inhabitant tax	1.8	1.8	
Other ………………………………………………	10.3	1.5	
Effective tax rate ………………………………………	54.1	45.4	%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at March 31, 2007 and 2006 are presented below:

	Millions of yen		Thousands of US dollars
	2007	2006	2007
Deferred tax assets:			
Accrued expenses	¥ 403	¥ 425	$ 3,421
Accrued retirement benefits	780	860	6,614
Depreciation	216	233	1,836
Unrealized profits	302	302	2,564
Tax loss carryforwards	86	129	732
Other	565	488	4,788
Total gross deferred tax assets	2,355	2,439	19,954
Less valuation allowance	(160)	(266)	(1,359)
Net deferred tax assets	2,195	2,173	18,595
Deferred tax liabilities:			
Special tax-purpose reserve for condensed booking of fixed assets	(1,811)	(1,831)	(15,345)
Unrealized gains of other securities	(952)	(1,442)	(8,072)
Total gross deferred tax liabilities	(2,764)	(3,274)	(23,417)
Net deferred tax assets	¥ (569)	¥ (1,101)	$ (4,822)

In assessing the realizability of deferred tax assets, management of the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is entirely dependent upon the generation of future taxable income in specific tax jurisdictions during the periods in which those temporary differences become deductible. Although realization is not assured, management considered the projected future taxable income in making this assessment. Based on these factors, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the existing valuation allowance as of March 31, 2007.

Tax loss carryforwards will expire between 2008 and 2014.

１３．Segment Information

Information about operations in different industry segments of the Group for the years ended March 31, 2007 and 2006, are as follows:

Industry Segments

a. *Sales and Operating Income*

	Millions of yen					
	2007					
	Industry A	Industry B	Industry C	Industry D	Eliminations/Corporate	Consolidated
Sales to customers	¥44,296	¥ 8,338	¥ −	¥ 5,754	¥ −	¥ 58,390
Intersegment	0	−	−	468	(468)	−
Total sales	44,297	8,338	−	6,,223	(468)	58,390
Operating expenses	42,019	7,843	−	5,511	(473)	54,900
Operating income	¥ 2,277	¥ 495	¥ −	¥ 711	¥ 5	¥ 3,490

	Millions of yen					
	2006					
	Industry A	Industry B	Industry C	Industry D	Eliminations/Corporate	Consolidated
Sales to customers	¥42,294	¥ 7,558	¥5,804	¥2,481	¥ −	¥ 58,138
Intersegment	5	−	−	481	(487)	−
Total sales	42,300	7,558	5,804	2,962	(487)	58,138
Operating expenses	40,477	7,348	5,810	2,303	(497)	55,442
Operating income	¥ 1,823	¥ 209	¥ (5)	¥ 658	¥ 10	¥ 2,696

	Thousands of U.S. dollars					
	2007					
	Industry A	Industry B	Industry C	Industry D	Eliminations/Corporate	Consolidated
Sales to customers	$375,239	$70,639	$ −	$ 48,750	$ −	$494,627
Intersegment	2	−	−	3,966	(3,968)	−
Total sales	375,241	70,639	−	52,716	(3,968)	494,627
Operating expenses	355,947	66,442	−	46,688	(4,015)	465,062
Operating income	$ 19,294	$ 4,197	$ −	$ 6,028	$ 47	$ 29,565

b. *Assets, Depreciation and Capital Expenditures*

	Millions of yen					
	2007					
	Industry A	Industry B	Industry C	Industry D	Eliminations/Corporate	Consolidated
Assets	¥47,497	¥ 4,546	¥ —	¥10,565	¥ 19,699	¥ 82,309
Depreciation	916	64	—	294	—	1,275
Capital expenditure	749	21	—	716	—	1,487

	Millions of yen					
	2006					
	Industry A	Industry B	Industry C	Industry D	Eliminations/Corporate	Consolidated
Assets	¥46,566	¥ 5,068	¥5,859	¥9,177	¥ 20,564	¥ 87,234
Depreciation	853	66	107	316	—	1,344
Capital expenditure	2,426	199	112	59	—	2,797

	Thousands of U.S. dollars					
	2007					
	Industry A	Industry B	Industry C	Industry D	Eliminations/Corporate	Consolidated
Assets	$402,353	$ 38,513	$ —	$ 89,498	$166,877	$697,241
Depreciation	7,763	543	—	2,497	—	10,804
Capital expenditure	6,350	179	—	6,069	—	12,599

Notes: Industry A consists of special equipment car.
Industry B consists of environmental equipment and systems.
Industry C consists of car sales business.
On April 1,2006, Kyokuto Kaihatu Co.,Ltd sold a subsidiary of car sales business
Industry D consists of real estate business.
Corporate assets consist primarily of cash and cash equivalents, investment in and advances to affiliates, investments in securities and the corporate headquarters assets.

１４．Subsequent Event

(1) The following appropriations of the Company's retained earnings in respect of the year ended March 31, 2007 were as proposed by the Board of Directors and approved by the shareholders at the annual general meeting held on 27,June, 2007:

Appropriations	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥ 10 per share)	¥ 208	$ 1,767

Effective April 1,2006,the Company and its domestic consolidated subsidiaries adopted Accrued bonuses to directors method. The effect of this change was to decrease income before income taxes by 78 million (U.S.$661 thousand).

(2) Acquisition of a subsidiary

On April 1, 2007, Kyokuto Kaihatu Co.,Ltd acquired 100% shares of common stock of Nihon Torekusu Co.,Ltd by ¥4,000 million (U.S.$33,884 thousand).

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Shareholders and
Board of Directors
of Kyokuto Kaihatsu Kogyo Co., Ltd.

We have audited the accompanying consolidated balance sheets of Kyokuto Kaihatsu Co., Ltd. and subsidiaries as of March 31, 2006 and 2007, and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the two-year period ended March 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kyokuto Kaihatsu Kogyo Co.,Ltd. and subsidiaries as of March 31, 2006 and 2007, and the results of their operations and their cash flows for each of the years in the two-year period ended March 31, 2007 in conformity with accounting principles generally accepted in Japan, except at noted in the following paragraph.

As explained in Note 14 (1), Effective April 1,2006,the Company and its domestic consolidated subsidiaries adopted Accrued bonuses to directors method.

The accompanying consolidated financial statements as of and for the year ended March 31, 2007 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in yen have been translated into dollars on the basis set forth in note 1 to the consolidated financial statements.

Yukoh Audit Corporation

Osaka, Japan
June 27, 2007

CORPORATE INFORMATION

Kyokuto Kaihatsu Kogyo Co.,Ltd.
Established: June,1955
Paid-in Capital: ¥11,899 million (at March 31,2007)
Number of Shares Issued: 42,737,668shares (at March 31,2007)
Number of Employees:1,268 (at March 31,2007)

Head Office:
1-45,Koshienguti 6-chome,Nishinomiya City,
Hyogo Prefecture,663-8545 Japan
Tel.+81-798-66-1000, Fax.+81-798-66-8146

Tokyo Office:
1-1,Asahicho,Haneda,Ota-ku,Tokyo,144-0042,Japan
Tel.+81-3-5737-2271, Fax+81-3-5737-7791

Plants:
Yokohama Plant
Occupies 61,456 ㎡, Since March,1962
Located in Yamato,Kanagawa
Nagoya Plant
Occupies 132,537 ㎡, Since June,1970
Located in Komaki,Aichi
Miki Plant
Occupies 98,274 ㎡, Since October,1979
Located in Miki,Hyogo
Fukuoka Plant
Occupies 66,832 ㎡, Since September,1970
Located in Iizuka,Fukuoka
Hachinohe Plant
Occupies 57,600 ㎡, Since April,1999
Located in Hacinohe,Aomori

BOARD OF DIRECTOR AND STATUTORY AUDITORS

Katsushi Tanaka,
President and Representative of the Board of Directors, CEO

Takaaki Hudetani,
Vice President and Representative of the Board of Directors, CEO

Motohachi Hashimoto,
Director, Senior Managing Executive Officer

Akira Yamashita,
Director, Senior Managing Executive Officer

Tomoki Ueyama,
Director, Managing Executive Officer

Kazuyoshi Nakai,
Director, Managing Executive Officer

Hiroharu Kobayashi,	Executive Officer
Taro Okamoto,	Executive Officer
Masatoshi Yoshida,	Executive Officer
Norihiro Kumazawa,	Executive Officer
Yoshihiro Yasuoka,	Executive Officer
Yoshinori Takashima,	Executive Officer
Takahisa Tsuda,	Executive Officer
Osami Ikeda,	Executive Officer
Masakazu Nishida,	Executive Officer

Shunji Nakamura,	Standing Auditor
Kozo Ueda,	Auditor
Rikuyuki Tentaku,	Auditor
Akira Michigami,	Auditor