KYOKUTO KAIHATSU KOGYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Annual Report 2010

Year ended March 31, 2010

CONTENTS

1. Operational Results

(1) Analysis of Operational Results

<Summary of Operational Results for the Consolidated fiscal Year ended March 31, 2010>

In the midst of the lingering aftereffects of the simultaneous global recession since the previous year, these negative trends seemed bottomed out in some sectors enjoying export rebounds. However, the overall Japanese economy in the current consolidated fiscal year failed to show any sign of full recovery, with the employment and income situations still remaining severe and consumer spending, sluggish.

Representative Director, President, CEO
Takaaki Fudetani

Under this business environment, the Kyokuto Kaihatsu Kogyo Group concertedly strived to improve profits and transform the corporate structure by securing orders, reorganizing production systems, reducing costs, compressing fixed costs, entailing cost reductions, etc.

However, the Specialty Truck Segment, a mainstay of its business, continued to see a severe business environment due to dwindling domestic demands for trucks in general. The Environment Equipment and Systems Segment also experienced a harsh market conditions due to financial difficulties of local governments and curtailment of public work projects, etc., as did the Real Estate Rental Segment due to a decline in demand for multistory parking garage system, triggered by reduced number of condominium construction, etc.

As a result, in the current consolidated fiscal year, sales decreased by 18,045 million yen (25.0%) compared with the preceding consolidated fiscal year to 54,071 million yen. Operating income decreased by 3,044 million yen to mark a loss of 2,572 million yen due to the reduced sales in the Specialty Truck Segment, allowances for doubtful accounts, a reduction in inventory valuation, and provision of allowance for product guarantees, etc., forcing the Company to post a net loss of 2,428 million yen, aggravated from the previous fiscal year by 1,375 million yen.

We would like to present the summary of business on a consolidated basis by segment in comparison with the preceding fiscal year.

i) Specialty Truck Segment

The Specialty Truck Segment saw incomparably low domestic demand in recent years. Meantime, overseas businesses as a whole also remained sluggish despite signs of improvements in some regions.

Under such a circumstance, the Company strived to improve the profits to counter the plummeting sales through cost-reduction efforts in elimination and consolidation of production bases, as well as centralization of procurements, etc., and curtailment of fixed costs comprised primarily of labor costs, etc. In addition, the Company introduced new products to boost robust demands, such as "E PACKER™," an electric-garbage collecting vehicle, and "POWER GATE MINI™," a new tailgate lifter for a compact truck.

In overseas markets, management tried to expand business in emerging countries where demands were expected to grow, specifically, through exports and sales expansion based on Kunshan Plant, and determination of establishment of a new production base in India.

However, sales in the Specialty Truck Segment decreased by 17,176 million yen (29.9%) to 40,263 million yen due to sluggish domestic market. The Company saw operating income decrease by 4,339 million yen and posted operating loss of 4,650 million yen due to a decrease in sales and recording of allowance for doubtful accounts, etc.

New Products

Electric garbage collector, "E PACKER™"

Tailgate lifter easily attachable to small truck, "POWER GATE MINI™"

Electric concrete pump, "TWIN DRIVE PISTON CRETE™"

Long-vessel rear dump trailer (GVW 36 ton)

ii) Environment Equipment and Systems Segment

For the Environment Equipment and Systems Segment, management tried to secure profits by obtaining orders with serious consideration on profitability in the plant division and strengthening the maintenance and system operation business. The Company also aggressively promoted overseas expansion of plant technologies, including participation in environment-related expositions in China.

As a result, orders the Segment obtained increased by 3,140 million yen (49.3%) to 9,509 million yen. Sales decreased by 888 million yen (9.7%) to 8,312 million yen. Operating income increased by 1,248 million yen to 1,253 million yen due to various profit improvement measures taken.

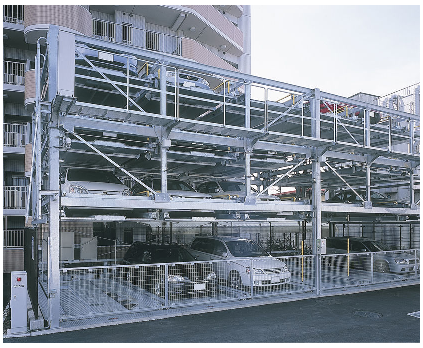
Recycle Plaza

Pulverrizer for non-burnable wastes

ⅲ) Real Estate Rental Segment

The Real Estate Rental Segment focused on maintenance and renewal of multistory parking garage systems, development of new products and profit improvement measures for coin-operated parking lots.

As a result, revenues decreased by 104 million yen (1.7%) to 5,953 million yen and operating income increased by 47 million yen (6.1%) to 821 million yen.



Multistory parking garage system

Coin-operated parking

<Forecast of Operations for the Next Consolidated Fiscal Year ending March 31, 2011>

Management expects the current uncertainties of Japanese economy to linger with government stimulus measures running out of steam, but moderate recovery to continue with improving corporate profits and increasing exports, etc.

In the meanwhile, however, the business in the industries related to the Company's operations seems to experience severe conditions due to significant shrinkage of the truck market, dwindling public work projects and slowdown of the construction market, etc.

Regarding the forecast of consolidated business performance for March 2011, the Company estimates total sales to increase by 3,528 million yen (6.5%) over March 2010 to 57,600 million yen, since the Specialty Truck Segment is likely to increase sales. Management expects the overall operating income to increase by 3,071 million yen to 500 million yen, due to an improvement in the Specialty Truck Segment, etc., while net income is estimated to grow by 2,627 million yen to 200 million yen.

(2) Analysis on Financial Conditions

i) Situations of Assets, Liabilities and Net Worth

In the current consolidated fiscal year, total assets decreased by 5,701 million yen (6.3%) from the end of the preceding fiscal year to 85,298 million yen.

Current assets decreased by 7,778 million yen (15.8%) to 41,426 million yen, due to decreases in trade notes and accounts receivable, and in inventories, etc.

Non-current assets (net property and equipment, intangible assets and investments and other assets) increased by 2,077 million yen (5.0%) to 43,872 million yen, due to acquisition of facilities and improved market values of investment securities, etc.

Regarding liabilities, current liabilities decreased by 4,053 million yen (17.0%) to 19,858 million yen, due to a decrease in trade notes and accounts payable and repayments of short-term loans payable, etc. Non-current liabilities increased by 724 million yen (5.9%) to 13,081 million yen due to issuance of bonds, etc.

Total equity decreased by 2,372 million yen (4.3%) to 52,359 million yen, due to payment of dividends as well as posting of net loss.

As a result, the capital adequacy ratio stood at 61.4% as of the end of the current fiscal year (60.1% at the end of the preceding fiscal year).

ii) Cash Flow Situation

Consolidated cash and cash equivalents at the end of period increased by 732 million yen (7.1%) over the balance at the beginning of period to 11,067 million yen. Cash flow by activity type is summarized as follows:

Cash Flow from Operating Activities

Net cash provided from operating activities amounted to 5,759 million yen (an increase of 3,395 million yen compared with the preceding fiscal year). This was because of decreases in accounts receivable and inventories, etc.

Cash Flow from Investing Activities

Net cash used in investment activities was 2,696 million yen (a decrease of 1,504 million yen compared with the preceding fiscal year). This was mainly because of purchase of non-current assets.

Cash Flow from Financing Activities

Net cash used in financing activities was 2,353 million yen (a decrease of 3,258 million yen compared with the preceding fiscal year). This was mainly because of expenditures for repayment of short-term loans and proceeds from issuance of bonds, etc.

(3) Principal policy for return of profits to shareholders and payment of dividends for the current year and next year

The Kyokuto Kaihatsu Kogyo Group regards the return of profits to shareholders as one of the most important management's policies. Taking the development of business in the future and business environments into account, management has been striving to meet investors' expectations through the improvement of business performance and the strengthening of its financial position.

The Meeting of Shareholders resolved and passed to pay a dividend of three yen per share at the end of March 2010 as originally proposed by management, making its annual dividend 6 yen per share including an interim dividend.

For the year ending March 2011, management also plans to pay an annual dividend of 6 yen per share (including an interim dividend of three yen).

(4) Business Risks

i) Risks related to dependence on certain key customers, products, and technologies

The Specialty Truck Division sells various types of special-purpose vehicles to domestic truck manufacturers, their affiliated truck dealers and trading firms. Thus, fluctuation in demand for trucks could affect the company's business performance. In the technological field, the company has accumulated a wide range of expertise in manufacturing and marketing by the model of a vehicle.

The Environmental Equipment and Systems Division is engaged in the construction of a garbage disposal plant and contracted business for maintenance and system operation for local governments and industrial waste management companies.

ii) Risks related to possible legal restrictions, business practices and management policy

The Specialty Truck Division's businesses are subject to the provisions of various laws and regulations, such as the Road Traffic Law, the Road Transport Vehicle Law and Motor Vehicle Safety Standards. Since vehicles that fail to meet these laws and regulations after the enactment or revision will not be allowed to be used or owned in some cases, there will be a last-minute rise in demand and its eventual backlash. The rise and fall in demand due to legal restrictions could affect the company's business performance.

In the Environmental Equipment and Systems Division, since the construction of a garbage disposal plant is subject to regulations under the 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, Transport and Tourism.

iii) Risk related to the fluctuation of raw material prices

The Kyokuto Kaihatsu Kogyo Group procures raw materials including steel products and components for manufacturing the products from outside business entities. Therefore, fluctuations in the prices of these materials could affect the Group's business performance.

iv) Risks related to overseas business activities

The Kyokuto Kaihatsu Kogyo Group exports products, manufactures and markets products and procures components at its overseas subsidiaries. There are risks involved in overseas business activities such as unpredictable economic fluctuations, fluctuations in the value of currencies, revisions of laws and regulations, the presence or occurrence of unfavorable economic factors and social or political turmoil caused by terrorism, wars and other factors. A realization of these risks could affect the Group business performance and plan.

v) Risks related to credit risks in business partners

The Kyokuto Kaihatsu Kogyo Group transacts with various domestic and overseas business partners. The realization of bad debt risks, including credit insecurity in those business partners, could cause losses and require allowances, affecting the Group business performance and financial standing.

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) Targeted management index

Despite the continued sluggish domestic demands for ordinary trucks, management aims to achieve sales of 67,000 million yen or more and operating income of 3,000 million yen or more on consolidated basis for the year ending March 2013.

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

With the truck market significantly shrinking, public works decreasing and the construction market plummeting, etc., management expects the industries related to the Company's business to continue to face extremely difficult business conditions.

Under such a circumstance, the Company will aggressively promote Group-wide efforts in tackling various issues by establishing a mid-term management plan, "Plan 2010" (from April 1, 2010 through March 31, 2013), to thoroughly revamp its business organization and form a robust corporate structure that can secure earnings even in a harsh business condition like today, and to realize improved business performance.

"Plan 2010" is summarized as follows.

Basic Policies

(1) As for the specialty truck business, we will change our business constitution to one where profit can be ensured even if domestic demands for medium and heavy-duty trucks remain stagnant. We will also establish new overseas manufacturing sites additionally to those in China and India to ensure continued development.

(2) As for the environmental equipment and systems business and car-parking business, we will promote establishment of technology partnerships and licensing of our technologies with overseas companies additionally to ensuring domestic orders and profits.

(3) We will promote product development based on the keywords of "environment", "safety", and "global".

(4) We will try to compete in new business areas regardless of the current Group business categories.

(5) We will promote mobilization of assets possessed by the Kyokuto Kaihatsu Group to streamline our capital asset management.

Key Strategies

(1) Specialty Truck Segment

Challenge: Ensuring profit even if domestic demands for medium and heavy-duty trucks remain stagnant

As the overall domestic market for medium and heavy-duty trucks remain at the level reduced by 80% from its peak level, we will aim to change our business constitution to one where profit can be ensured even if the market remains stagnant by rigorously re-organizing the domestic manufacturing structure, streamlining the manufacturing system, reducing cost, expanding overseas procurement, and increasing market share.

Challenge: Establishing new overseas manufacturing sites to ensure business development

We will actively promote technology partnerships and the establishment of overseas manufacturing sites in the ASEAN region, which we deem as the next key area following China and India.

We will invest our management resources mainly into overseas businesses where future demands are expected, and will also enforce the alignment between the domestic and overseas sites within the Group.

Challenge: Enhancing the development of new products based on the keywords of "environment", "safety", and "global"

We will actively work upon product development and sales promotion based on the keywords of "environment", "safety", and "global". We will expand sales for our new range of products such as the electrical garbage collection trucks "e Packers" whose equipment is driven electrically, and electrical concrete boom pump trucks "twin-drive PISTON CRETES", etc. We will also work actively upon developing new products which match the needs of the overseas markets as we enforce our businesses in these overseas markets, too.

(2) Environmental Equipment and Systems Segment

Challenge: Selecting profitable orders and focusing on maintenance/outsourced operation businesses

We will focus on being selective for when receiving orders for the construction of new plants by being conscious of the expected profit and loss for each case in the domestic plants market which has been struggling under a severe business environment, and on the PFI businesses which is expected to become highly popular in the coming years, additionally to actively working upon maintenance business and outsourced plant operation business where stable profit can be expected. We will also work upon procuring components from overseas market, etc. to reduce the cost and to expand the profit.

Challenge: Actively expanding the know-how for the environmental businesses to overseas markets

We will promote licensing business of our technologies regarding crushers, RDFsystem, and recycling centers, etc. to potential overseas markets such as those in the Asian countries. We will aim to contribute to the promotion of environmental programs in each country, and to enforce the environmental equipment and systems business provided by the Group.

(3) Real Estate and Rental Segment

Challenge: Expanding our car-parking business

As for the car-parking business, we will focus on renovation business where a new market is expected to emerge, and will also enforce our product line-up by releasing new products.

(4) New businesses

Challenge: Competing in new business areas

We will aim to compete in new business areas, not only into those where synergy effect can be expected with the existing businesses that are already implemented by the Group, but into totally new business areas regardless of the current Group business categories by promoting active alliances. This will enable us to ensure new source of earnings in the future and to establish an even more robust business basis.

(4) Other Important Matters Concerning Management

There are no other pertinent matters.

CONSOLIDATED BALANCE SHEETS

ASSETS	Millions of yen 2010	Millions of yen 2009	Thousands of U.S. dollars (Note 1) 2010
Current assets:			
Cash and deposits	¥ 5,723	¥ 5,893	$ 61,508
Short-term securities	5,345	4,442	57,444
Trade notes and accounts receivable	20,503	25,777	220,370
Merchandise & finished goods	144	122	1,547
Work in process	1,821	2,362	19,573
Raw materials & supplies	6,329	9,156	68,030
Other current assets	789	762	8,481
Deferred tax assets (Note 15)	979	1,235	10,519
Allowance for doubtful accounts	(207)	(545)	(2,224)
Total current assets	41,426	49,204	445,248
Property, plant and equipment: (Note 11)			
Land (Note 5)	19,200	17,966	206,360
Buildings and structures (Note 5)	30,151	29,188	324,069
Machinery, equipment and vehicles	12,850	13,239	138,116
Construction in progress	38	578	409
Other	3,848	3,162	41,354
Total	66,087	64,133	710,308
Accumulated depreciation	(30,006)	(28,990)	(322,508)
Net property, plant and equipment	36,081	35,143	387,800
Intangible assets	392	430	4,214
Investments and other assets:			
Investment securities (Notes 3 & 5)	4,100	3,871	44,064
Deferred tax assets (Note 15)	1,022	129	10,985
Other assets	3,931	2,451	42,257
Allowance for doubtful accounts	(1,654)	(229)	(17,779)
Total investments and other assets	7,399	6,222	79,527
Total	85,298	90,999	916,789

The accompanying notes are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS

	Millions of yen		Thousands of U.S. dollars (Note 1)
LIABILITIES AND SHAREHOLDERS' EQUITY	**2010**	2009	**2010**
Current liabilities:			
Short-term bank loans (Notes 4 & 5)	¥ **2,620**	¥ 5,620	$ **28,160**
Current portion of bonds payable (Note 4)	**494**	200	**5,310**
Current portion of long-term bank loans (Notes 4 & 5)	**1,235**	1,328	**13,272**
Trade notes and accounts payable	**11,171**	12,231	**120,070**
Acrrued Expenses	**2,015**	2,156	**21,658**
Income taxes payable	**245**	276	**2,633**
Other current liabilities	**2,078**	2,100	**22,333**
Total current liabilities	**19,858**	23,911	**213,436**
Non-current liabilities:			
Bonds payable (Note 4)	**1,629**	800	**17,509**
Long-term bank loans (Notes 4 & 5)	**1,757**	1,536	**18,880**
Liabilities for retirement benefits(Note 6)	**2,404**	2,316	**25,840**
Liabilities for directors' retirement benefits	**115**	109	**1,234**
Deferred tax liabilities (Note 15)	**1,511**	1,599	**16,239**
Other non-current liabilities (Notes 4 & 5)	**5,665**	5,997	**60,892**
Total non-current liabilities	**13,081**	12,357	**140,594**
Shareholders' Equity			
Common stock, (Note 13)			
Authorized — 170,950,672 shares			
Issued — 42,737,668 shares in 2009 and 2010	**11,900**	11,900	**127,901**
Capital surplus	**11,719**	11,719	**125,953**
Retained earnings	**30,610**	33,356	**329,000**
Treasury stock, at cost			
3,004,287 shares in 2009 and 3,004,758 shares in 2010	**(2,145)**	(2,145)	**(23,055)**
Unrealized gain on available-for-sale securities	**294**	22	**3,160**
Foreign currency translation adjustments	**(19)**	(121)	**(200)**
Total shareholders' equity	**52,359**	54,731	**562,759**
Total	**85,298**	90,999	**916,789**

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF INCOME

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	**2010**
Net sales	**¥ 54,071**	¥ 72,117	**$ 581,161**
Cost of sales	**45,400**	60,574	**487,964**
Gross profit	**8,671**	11,543	**93,197**
Selling, general and administrative expenses	**11,243**	11,069	**120,836**
Operating income (loss)	**(2,572)**	474	**(27,639)**
Other income (expenses):			
Interest and dividend income	**75**	122	**806**
Interest expense	**(174)**	(193)	**(1,875)**
Gain (loss) on disposition of property and equipment	**7**	6	**70**
Loss on impairment of long-lived assets	**(3)**	(758)	**(35)**
Gain (loss) on sales of securities	**0**	(45)	**0**
Write-down of investment securities	**(186)**	(754)	**(1,996)**
Other-net	**(99)**	(157)	**(1,059)**
Other income(expenses)-net	**(380)**	(1,779)	**(4,089)**
Income (loss) before income taxes	**(2,952)**	(1,305)	**(31,728)**
Income taxes (Note 15)			
Current	**386**	504	**4,144**
Deferred	**(910)**	(758)	**(9,779)**
Total income taxes	**(524)**	(254)	**(5,635)**
Net income (loss)	**(2,428)**	(1,051)	**(26,093)**

	Yen		U.S. dollars
	2010	2009	**2010**
Amounts per share			
Basic net income (loss)	**¥ (61.10)**	¥ (26.24)	**$ (0.66)**
Diluted net income (loss)	**–**	–	**–**
Cash dividends, applicable to earnings of the year	**8.00**	10.00	**0.09**

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Millions of yen

		Common stock		Capital surplus		Retained earnings		Unrealized gain on available-for-sale securities		Foreign currency translation adjustments		Treasury stock		Total equity
Balance, March 31,2008	¥	11,900	¥	11,719	¥	34,814	¥	524	¥	246	¥	(1,069)	¥	58,134
Purchase of treasury stock		−		−		−		−		−		(1,077)		(1,077)
Disposal of treasury stock		−		−		(0)		−		−		1		1
Net income (loss)		−		−		(1,051)		−		−		−		(1,051)
Appropriation														
Cash dividends paid		−		−		(407)		−		−		−		(407)
Net Changes in the year		−		−		−		(502)		(367)		−		(869)
Balance, March 31,2009		11,900		11,719		33,356		22		(121)		(2,145)		54,731
Purchase of treasury stock		−		−		−		−		−		(0)		(0)
Disposal of treasury stock		−		−		(0)		−		−		0		(0)
Net income (loss)		−		−		(2,428)		−		−		−		(2,428)
Appropriation														
Cash dividends paid		−		−		(318)		−		−		−		(318)
Net Changes in the year		−		−		−		272		102		−		374
Balance, March 31,2010		11,900		11,719		30,610		294		(19)		(2,145)		52,359

Thousands of U.S.dollars(Note 1)

		Common stock		Capital surplus		Retained earnings		Unrealized gain on available-for-sale securities		Foreign currency translation adjustments		Treasury stock		Total equity
Balance, March 31,2009	$	127,901	$	125,953	$	358,510	$	238	$	(1,294)	$	(23,053)	$	588,255
Purchase of treasury stock		−		−		−		−		−		(2)		(2)
Disposal of treasury stock		−		−		(0)		−		−		0		(0)
Net income (loss)		−		−		(26,093)		−		−		−		(26,093)
Appropriation														
Cash dividends paid		−		−		(3,417)		−		−		−		(3,417)
Net Changes in the year		−		−		−		2,922		1,094		−		4,016
Balance, March 31,2010		127,901		125,953		329,000		3,160		(200)		(23,055)		562,759

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2010	2009	**2010**
Operating activities:			
Income (loss) before income taxes	**¥ (2,952)**	¥ (1,305)	**$ (31,728)**
Adjustments for:			
Depreciation and amortization	**2,006**	2,030	**21,560**
Write-down of investment securities and investments	**193**	754	**2,073**
Loss on impairment of long-lived assets	**3**	758	**35**
Net loss (gains) on sales of securities	**0**	45	**(0)**
Net loss (gains) on sales of property	**50**	48	**540**
Interest and dividend income	**(75)**	(122)	**(806)**
Interest expenses	**174**	193	**1,875**
Decrease (increase) in trade notes and accounts receivable	**3,717**	13,290	**39,952**
Decrease (increase) in inventories	**3,362**	(2,226)	**36,136**
Increase (decrease) in trade notes and accounts payable	**(494)**	(8,127)	**(5,306)**
Increase (decrease) in liabilities for retirement benefits	**88**	(107)	**946**
Increase (decrease) in consumption taxes payable	**157**	(50)	**1,687**
Other, net	**(68)**	(1,663)	**(750)**
Sub total	**6,161**	3,518	**66,214**
Interest and dividend income received	**74**	120	**799**
Interest expenses paid	**(155)**	(172)	**(1,665)**
Income taxes paid	**(321)**	(1,103)	**(3,450)**
Net cash provided by operating activities	**5,759**	2,363	**61,898**
Investing activities:			
Purchases of securities and investments	**(16)**	(261)	**(177)**
Proceeds from sales of securities and investments	**62**	279	**669**
Proceeds from time deposit	**–**	5	**–**
Purchases of property, plant and equipment	**(2,756)**	(1,218)	**(29,621)**
Proceeds from sale of property, plant and equipment	**15**	7	**161**
Disbursement of loan receivables	**(8)**	(27)	**(81)**
Collection of loan receivables	**7**	24	**78**
Net cash used in investing activities	**(2,696)**	(1,191)	**(28,971)**
Financing activities:			
Net increase (decrease) in short-term bank loans	**(3,000)**	890	**(32,244)**
Proceeds from long-term bank loans	**1,488**	1,783	**15,993**
Repayment of long-term bank loans	**(1,361)**	(1,274)	**(14,625)**
Proceeds from issuance of bonds	**1,470**	1,000	**15,800**
Payment for redemption of bonds	**(347)**	–	**(3,730)**
Payment of finance lease obligations	**(285)**	(11)	**(3,072)**
Purchases of treasury stock	**(0)**	(1,077)	**(2)**
Proceeds from sales of treasury stock	**0**	0	**0**
Dividends paid	**(318)**	(406)	**(3,412)**
Net cash provided by (used in) financing activities	**(2,353)**	905	**(25,292)**
Foreign currency translation adjustments on cash and cash equivalents	**23**	68	**237**
Net increase in cash and cash equivalents	**733**	2,145	**7,872**
Cash and cash equivalents at beginning of year	**10,335**	8,187	**111,080**
Increase in cash and cash equivalents by consolidation of subsidiaries previously unconsolidated	**–**	3	**–**
Cash and cash equivalents at end of year	**11,068**	10,335	**118,952**

1. Basis of Presenting Consolidated Financial Statements

The financial statements of Kyokuto Kaihatsu Kogyo Co., Ltd. (the "Company") and its domestic subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

Effective from the year ended March 31, 2009, the Company adopted the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (PITF No. 18) and as a result, the accounts of consolidated overseas subsidiaries are prepared in accordance with International Financial Reporting Standards, with adjustments for the specified six items as applicable.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made to the consolidated financial statements issued domestically, in order to present them in a form which is more familiar to readers outside Japan.

In addition, the notes to consolidated financial statements include additional information which is not required under generally accepted accounting principles and practices in Japan.

The financial statements presented herein are expressed in Japanese yen and, solely for the convenience of the reader, have been translated into United States dollars at the rate of ¥93.04=US$1, the approximate exchange rate on March 31, 2010. These translations should not be construed as representations that the Japanese yen amounts actually are, have been or could be converted into U.S. dollar amounts.

2. Summary of Significant Accounting Policies

(a) Consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries and affiliated companies accounted for by the equity method.

All significant inter-company balances and transactions have been eliminated in consolidation. All material unrealized gains resulting from inter-company transactions have been eliminated.

Assets and liabilities of the consolidated subsidiaries at the time of investment are all valued at fair value. The goodwill or negative goodwill is amortized on a straight-line basis over five years. However, insignificant goodwill or negative goodwill is charged to income when incurred.

(b) Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value. All of cash equivalents mature or become due within three months of the date of acquisition.

(c) Short-term Securities and Investment Securities

The Company and its subsidiaries (the "Group") classify their securities as held-to-maturity debt securities or available-for-sale securities, depending on management are holding intent.

(Held-to-maturity debt securities)
Held-to-maturity debt securities are stated at amortized cost.

(Available-for-sale securities)
Marketable available-for-sale securities are stated at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. The cost of available-for-sale securities sold is determined based on the moving average method.
None-marketable available-for-sale securities are stated at cost determined by the moving-average method.

For significant impairment in value that is judged unrecoverable, carrying amounts of securities are reduced to fair value, with a resulting charge to income.

(d) Inventories

Merchandises are stated at cost or, if lower, the net realizable value, cost being determined by the specific identification method.
Raw materials, finished goods and work in process are stated at cost or, if lower, the net realizable value, cost being determined by the periodic average method.
Supplies are stated at cost or, if lower, the net realizable value, cost being determined by the last purchase cost method.

(e) Depreciation

Depreciation is principally computed on the declining-balance method, based by the estimated useful lives of assets, while buildings are depreciated on a straight-line basis. The useful lives of buildings and structures, and machinery, equipment and vehicles are principally from 7 to 60 years and 4 to 17 years, respectively.
Amortization of intangible assets is computed by the straight-line method.

(f) Liabilities for Retirement Benefits

The Company provides for the liability for employees' retirement benefits based on projected benefit obligations and plan assets at the balance sheet date. Certain subsidiaries provide for the liability for employees' severance payments based on amounts which would be required to be paid if all eligible employees voluntarily terminated their employment at the balance sheet date.

Change in Accounting Policy

Effective from the year ended March 31, 2010, the Company and its domestic consolidated subsidiaries have adopted "Revision (No.3) of Accounting Standard for Accrued Retirement Benefits" (Accounting Standard Board of Japan (ASBJ) Statement No.19 issued on July 31, 2008).

There is no impact on profit and loss as a result of the adoption of this accounting standard.

(g) Allowance for Doubtful Accounts

The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the companies' past credit loss experience and an evaluation of potential losses in the receivables outstanding.

(h) Revenue Recognition

Revenues from construction contracts and the related costs of the Company are recorded under the percentage-of-completion method, if the outcome of the construction activity is deemed certain during the course of the activity. Otherwise, the completed-contract method is applied if the outcome is deemed uncertain.

Change in Accounting Policy

Effective from the year ended March 31, 2010, the Company and its domestic consolidated subsidiaries have adopted the "Accounting Standard for Construction Contacts" (ASBJ Statement No.15, issued on December 27, 2007) and "Guidance for the Application of Accounting Standard for Construction Contracts" 'ASBJ Guidance No.18, issued on December 27, 2007).

There is no impact on profit and loss as a result of the adoption of this accounting standard.

(i) Leases

The Company and its domestic consolidated subsidiaries capitalize their assets used under finance leases, except for certain immaterial or short-term finance leases accounted for as operating leases. As permitted, finance leases which commenced prior to April 1, 2008 and have been accounted for as operating leases, continue to be accounted for as operating leases, with the disclosure of certain "as if capitalized" information.

Such capitalized lease assets are depreciated by straight-line method over the lease period as the useful life and assuming no residual value.

(j) Income Taxes

The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amount and tax bases of assets and liabilities, and operating loss carry-forwards.

(k) Derivatives

All derivatives, except for certain foreign exchange forward contracts and interest rate swap contracts described below, are stated at fair value. If derivative financial instruments are used as hedges and meet certain hedging criteria, the Group defers recognition of gain or loss resulting from a change in the market value of the derivative financial instrument until the related gain or loss on the hedged item is recognized.
Accounts payable hedged by foreign exchange contracts which meet certain conditions are translated at their contracted rates. Interest-rate swaps which meet certain conditions are accounted for as if the interest rate applied to the swaps had originally applied to the underlying debt.

(l) Per Share Information

The computations of basic net income per share are based on net income available to common stockholders and the weighted average number of shares of common stock outstanding during each period. The average numbers of shares used in the computations were 39,733 thousand shares for 2010 and 40,084 thousand shares for 2009.

Diluted net income per share is not disclosed because the Company had no potentially dilutive shares outstanding as of these balance sheet dates.

Cash dividends per share shown in the statements of income are the amounts applicable to the respective years.

3. Securities

The following is a summary of available-for-sale securities at March 31, 2010 and 2009:

Millions of yen

	Available-for-sale securities			
March 31, 2010	Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	¥ 2,948	¥ 800	¥ (295)	¥ 3,453
Other securities	116	—	(9)	107
Subtotal	¥ 3,064	¥ 800	¥ (304)	¥ 3,560
Market value not available:				540
Total				¥ 4,100

Millions of yen

	Available-for-sale securities			
March 31, 2009	Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	¥ 2,735	¥ 419	¥ (320)	¥ 2,834
Other securities	198	0	(11)	187
Subtotal	¥ 2,933	¥ 419	¥ (331)	¥ 3,021
Market value not available:				850
Total				¥ 3,871

Thousands of U.S. dollars

	Available-for-sale securities			
March 31, 2010	Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	$ 31,685	$ 8,608	$ (3,171)	$ 37,122
Other securities	1,247	—	(97)	1,150
Subtotal	$ 32,932	$ 8,608	$ (3,268)	$ 38,272
Market value not available:				5,792
Total				$ 44,064

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

The annual average interest rates applicable to short-term bank loans at March 31, 2010, and 2009 are 0.75% and 1.08% respectively.

Long-terms debt at March 31, 2010 and 2009 consisted of the following:

	Millions of yen		*Thousands of U.S. dollars*
	2010	2009	2010
Bonds	¥ 2,123	¥ 1,000	$ 22,819
Long-term bank loans	2,992	2,864	32,152
Lease obligation	566	100	6,083
Other	2,647	2,860	28,450
Total	¥ 8,328	¥ 6,824	$ 89,504

Aggregate annual maturities of long-term debts subsequent to March 31, 2010 were as follows:

Year ending March 31	*Millions of yen*	*Thousands of U.S. dollars*
2011	¥ 2,201	$ 23,654
2012	1,753	18,843
2013	1,361	14,624
2014	948	10,192
2015 and thereafter	2,065	22,192
Total	¥ 8,328	$ 89,505

The Company renewed an agreement with a syndicate of 6 banks to set up a commitment line by multiple finance institutions. The unexecuted balance of lending commitments at the company as of March 31, 2010, and 2009 were as follows;

	Millions of yen		*Thousands of U.S. dollars*
	2010	2009	2010
Total lending commitments	¥ 5,000	¥ 5,000	$ 53,740
Less amounts currently executed	—	2,000	—
Unexecuted balance	¥ 5,000	¥ 3,000	$ 53,740

5. Pledged Assets

The following assets were pledged as collateral as of March 31, 2010 and 2009.

	Millions of yen		*Thousands of U.S. dollars*
	2010	2009	2010
Land	¥ 5,754	¥ 5,754	$ 61,844
Buildings	3,896	4,135	41,874
Investment securities	—	42	—
Total	¥ 9,650	¥ 9,931	$ 103,718

Obligation with collateral pledged as of March 31, 2010 and 2009 were as follows;

	Millions of yen		*Thousands of U.S. dollars*
	2010	2009	2010
Short-term bank loans	¥ 100	¥ 140	$ 1,075
Current portion of long-term bank loans	1,048	1,207	11,264
Long-term bank loans	1,165	1,056	12,521
Other	3,671	3,913	39,456
Total	¥ 5,984	¥ 6,316	$ 64,316

6. Liabilities for Retirement Benefits

The following table sets forth the changes in benefit obligation, plan assets and funded status of the Group at March 31, 2010 and 2009.

	Millions of yen		*Thousands of U.S. dollars*
	2010	2009	2010
Benefit obligation at end of year	¥ 6,555	¥ 6,675	$ 70,453
Fair value of plan assets at end of year	3,447	3,113	37,052
Funded status:			
Benefit obligation in excess of plan assets	3,108	3,562	33,401
Unrecognized prior service cost	59	79	642
Unrecognized actuarial loss	(763)	(1,325)	(8,203)
Liabilities for Retirement Benefits	¥ 2,404	¥ 2,316	$ 25,840

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 Group included the following components for the year ended March 31, 2010 and 2009.

	Millions of yen		*Thousands of U.S. dollars*
	2010	2009	2010
Service cost	¥ 345	¥ 359	$ 3,711
Interest cost	132	140	1,419
Expected return on plan assets	(62)	(80)	(666)
Amortization:			
Prior service cost	(20)	(19)	(214)
Actuarial losses	300	157	3,228
Others	22	—	234
Net periodic benefit cost	¥ 717	¥ 557	$ 7,712

Assumption used in the accounting for the defined benefit plans for the year ended March 31, 2010 and 2009 was as follows:

	2010	2009
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 plan assets	2.0 %	2.0 %
Amortization period for prior service cost	10 years	10 years
Amortization period for actuarial losses	10 years	10 years

7. Contingencies

At March 31, 2010 and 2009, the Group was contingently liable as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2010	2009	2010
As a guarantor of indebtedness of :			
Affiliated companies	¥ 4,276	¥ 4,559	$ 45,959
Others	55	71	586
	¥ 4,331	¥ 4,630	$ 46,545

8. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2010 and 2009 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2010	2009	2010
Cash and deposits	¥ 5,723	¥ 5,893	$ 61,508
Short-term investment	5,345	4,442	57,444
Cash and Cash Equivalents	¥ 11,068	¥ 10,335	$ 118,952

9. Leases

The Group leases certain machinery and equipment, and other assets. Total lease payments under these leases were ¥ 285 million ($ 3,067 thousand), and ¥ 418 million for the years ended March 31, 2010 and 2009, 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, 2010 and 2009, were as follows:

	Millions of yen		
March 31, 2010	Machinery and Equipment	Other	Total
Acquisition costs	¥ 900	¥ 274	¥ 1,174
Accumulated Depreciation	630	192	822
Net leased property	¥ 270	¥ 82	¥ 352

	Millions of yen		
March 31, 2009	Machinery and Equipment	Other	Total
Acquisition costs	¥ 1,107	¥ 384	¥ 1,491
Accumulated Depreciation	622	232	854
Net leased property	¥ 485	¥ 152	¥ 637

	Thousands of U.S. dollars		
March 31, 2010	Machinery and Equipment	Other	Total
Acquisition costs	$ 9,673	$ 2,941	$ 12,614
Accumulated Depreciation	6,772	2,062	8,834
Net leased property	$ 2,901	$ 879	$ 3,780

Future minimum lease payments under finance leases as of March 31, 2010 and 2009 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2010	2009	2010
Due within one year	¥ 232	¥ 285	$ 2,492
Due after one year	120	352	1,288
Total	¥ 352	¥ 637	$ 3,780

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 ¥ 285 million ($3,067 thousand) for the year ended March 31, 2010.

10. Financial Instruments and Related Disclosures

On March 10, 2008, the ASBJ revised ASBJ Statement No.10 "Accounting Standard for Financial Instruments" and issued ASBJ Guidance No.19 "Guidance on Accounting Standard for Financial Instruments and Related Disclosure".
Effective from the year ended March 31, 2010, the Company applied the revised accounting standard and the new guidance.

(1) Policy for financial instruments

The Group manages funds by utilizing short-term deposits, etc. The Group raises money by borrowing from financial institutions and by issuing bonds.
Derivatives are used, not for speculative nor trading purpose, but to hedge the exposure to interest rate risks associated with certain interest payments on borrowings.

(2) Types of financial instruments and related risk, and risk management for financial instruments

Trade notes and accounts receivable are exposed to credit risk in relation to customers. In order to monitor credit risk, the Group manages, according to the credit management guideline of the Group, the due date and the balance of operating receivables from customers.

Available-for-sale securities, mainly equity instruments of the Group's customers, are exposed to market risk.
The Group periodically monitors the fair value of such securities, which is reported at the board meeting.

Trade notes and accounts payable have payment due dates mainly within one year.
Trade notes and accounts payable dominated in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rate. Such risk is hedged principally by forward foreign currency contract.

Short-term bank loans are raised mainly in connection with business activities, and long-term bank loan and bonds payable, which are due mainly within five years, are raised principally for the purpose of making capital investments.
Long-term debts with variable interest rates are exposed to interest rate fluctuation risk, so the Group enters into interest rate swap transactions to manage such interest rate exposure.

Derivatives are managed in accordance with policies and procedures for risk assessment (See Note12 "Derivatives"), and also the Group enters into derivative transactions only with financially stable financial institutions to reduce institutions' credit risk.

Based on a report from the Company and consolidated subsidiaries, the Group prepares and updates its cash flow plans on a monthly basis to manage liquidity risk.

(3) Supplementary explanation of the estimated fair value of financial instruments

With regard to the below mentioned contract prices etc. of derivatives, the contract prices themselves do not present the market risk on the derivative transactions.

Summarized in the table below are the carrying amounts and the estimated fair value of financial instruments outstanding at March 31, 2010. Financial instruments for which it is extremely difficult to determine the fair value are not included in the table below.

	Millions of yen		
March 31, 2010	Carrying Account	Fair value	Unrecognized gain/loss
Cash and deposits	¥ 5,723	¥ 5,723	—
Trade notes and accounts receivable	20,296	20,296	—
Short-term securities	5,345	5,345	—
Investment securities	3,560	3,560	—
Trade notes and accounts payable	(11,171)	(11,171)	—
Short-term bank loans	(2,620)	(2,620)	—
Long-term bank loans	(2,992)	(2,996)	(4)
Bonds payable	(2,123)	(2,141)	(18)
Long-term deposits	(2,666)	(2,777)	(111)
Derivatives	—	—	—

	Thousands of U.S. dollars		
March 31, 2010	Carrying Account	Fair value	Unrecognized gain/loss
Cash and deposits	$ 61,508	$ 61,508	—
Trade notes and accounts receivable	218,146	218,146	—
Short-term securities	57,444	57,444	—
Investment securities	38,272	38,272	—
Trade notes and accounts payable	(120,070)	(120,070)	—
Short-term bank loans	(28,160)	(28,160)	—
Long-term bank loans	(32,152)	(32,191)	(39)
Bonds payable	(22,819)	(23,009)	(190)
Long-term deposits	(28,650)	(29,849)	(1,199)
Derivatives	—	—	—

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

(a) “Cash and deposits”, “Trade notes and accounts receivable” and “Short-term

securities”
These are settled in a short period of time, therefore their carrying amounts approximate fair value.

(b) “Investment Securities”
The fair values of marketable securities are based on quoted market prices.
The fair values of debt securities are based on quotes provided by the financial institutions. For information on securities classifies by holding purpose, please refer to Note 3 “Securities”.

(c) “Trade notes and accounts payable” and “Short-term bank loans”
These are settled in a short period of time, therefore their carrying amounts approximate fair value.

(d) “Long-term bank loans”
The fair value of long-term bank loans is estimated based on present value of the total of principal and interest discounted by the interest rate that would be applied if similar new loans were entered into.

(e) “Bonds payable”
The fair value of bonds payable is estimated based on present value of the total of principal and interest discounted by the interest assumed based on debt’s maturity and credit risk.

(f) “Long-term deposit”
The fair value of long-term deposit is estimated based on present value of the total of principal and interest discounted by the interest, if possibly, assumed based on debt’s maturity and credit risk.

(g) “Derivatives”
Please refer to Note 12 “Derivatives”.

Financial instruments for which it is extremely difficult to determine the fair value at March 31, 2010 consist of the following:

March 31, 2010	*Millions of yen*	*Thousands of U.S. dollars*
Non-listed equity securities	¥ 540	$ 5,792
Long-term deposit	1,014	10,898

The annual maturities of financial assets and investment securities with contractual maturities subsequent to March 31, 2010 were as follows;

	Millions of yen	*Thousands of U.S. dollars*
March 31, 2010	Due in one year or less	Due in one year or less
Cash and deposits	¥ 5,723	$ 61,508
Trade notes and accounts receivable	20,503	220,370
Short-term Securities	5,345	57,444
Investment securities	―	―
Total	¥ 31,571	$ 339,322

11. Investment Property

On November 28, 2008, the ASBJ issued ASBJ Statement No.20 "Disclosures about Fair Value of Investment and Rental Property" and ASBJ Guidance No.23 "Disclosures about Fair Value of Investment and Rental Property".
Effective from the year ended March 31, 2010, the Company applied the new accounting standard and the new guidance.

The Company and certain subsidiaries hold rental properties included land in Tokyo and other areas ("investment properties"). For the year ended March 31, 2010, the amounts of net income related to investment properties (rental income is recognized in operating revenue, and rental expense is principally charged to operating expenses) and loss on impairment of investment properties were ¥ 596 million ($ 6,406 thousand) and ¥ 3 million ($ 35 thousand).

The carrying amounts, changes in such balances and market prices of investment properties were as follows;

Millions of yen

Carrying amount			Fair value
April 1, 2009	Increase/ (decrease)	March 31, 2010	March 31, 2010
¥ 9,070	¥ (13)	¥ 9,057	¥ 12,515

Thousands of U.S. dollars

Carrying amount			Fair value
April 1, 2009	Increase/ (decrease)	March 31, 2010	March 31, 2010
$ 97,482	$ (142)	$ 97,340	$ 134,516

Notes:

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

(2) Increase was principally attributed to the Company's policy change (¥ 221 million, $ 2,375 thousand), and decrease was mainly attributed to depreciation expenses (¥ 241 million, $ 2,590 thousand).

(3) Fair value at March 31, 2010 is principally measured based on the real-estate appraisal assessed by the external real-estate appraiser.

12. Derivatives

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

The notional amounts and the estimated fair value of derivative financial instruments, for which deferred hedged accounting has been applied were as follows;

	Millions of yen			
March 31, 2010	Hedged item	Contract Amount	Contract Amount due after One year	Fair Value
Interest rate swap; (fixed rate payment, Floating rate receipt)	Long-term Debt	¥872	¥233	Note

	Thousands of U.S. Dollars			
March 31, 2010	Hedged Item	Contract Amount	Contract Amount due after One year	Fair Value
Interest rate swap; (fixed rate payment, Floating rate receipt)	Long-term Debt	$9,372	¥2,504	Note

Fair value of swap contract assigned for Long-term debt is included in the fair value of Long-term debt disclosed at Note 10 "Financial Instruments and Related Disclosures".

13. Shareholders' Equity

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

	Number of Shares	Millions of yen Common Stock	Capital Surplus
Balance of March 31, 2008	42,737,668	11,900	11,719
Retirement of stock during 2009	—	—	—
Balance of March 31, 2009	42,737,668	11,900	11,719
Retirement of stock during 2010	—	—	—
Balance of March 31, 2010	42,737,668	11,900	11,719

	Thousands of U.S. dollars Common Stock	Capital surplus
Balance of March31, 2009	127,901	125,953
Retirement of stock during 2010	—	—
Balance of March31, 2010	127,901	125,953

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.

14. Research and Development

Research and development expenditure charged to expenses was ¥ 1,074 million ($ 11,540 thousand) and ¥ 1,024 million for the years ended March 31, 2010 and 2009, respectively.

15. 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% for the years ended March 31, 2010 and 2009. Foreign subsidiaries are subject to income taxes of the countries in which they operate.
The reconciliation between the statutory tax rate and the effective income tax rate is not disclosed because the Group posted net loss both in 2010 and 2009.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2010 and 2009 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2010	2009	2010
Deferred tax assets:			
Accrued expenses	¥ 366	¥ 421	$ 3,935
Liabilities for retirement benefits	950	926	10,208
Depreciation	592	612	6,359
Fixed assets – elimination of intercompany profits	303	302	3,253
Allowance for doubtful accounts	710	284	7,631
Net operating loss carry-forwards	1,975	794	21,223
Other	766	799	8,246
Total	5,662	4,138	60,855
Less valuation allowance	(1,817)	(1,171)	(19,529)
Net deferred tax assets	3,845	2,967	41,326
Deferred tax liabilities:			
Deferred gain on sales of fixed assets for income tax purposes	(1,653)	(1,678)	(17,762)
Unrealized gains of investment securities	(200)	(18)	(2,155)
Unrealized gains of subsidiaries' fixed assets by revaluation at the beginning of consolidation	(1,502)	(1,506)	(16,144)
Total	(3,355)	(3,202)	(36,061)
Net deferred tax assets (liabilities)	¥ 490	¥ (235)	$ 5,265

16. Segment Information

Information about operations in different industry segments of the Group for the years ended March 31, 2010 and 2009 were as follows:

Industry Segments

a. Sales and Operating Income

Millions of yen

2010	Industry A	Industry B	Industry C	Elimination/ Corporate	Consolidated
Sales to customers	¥ 40,263	¥ 8,312	¥ 5,496	¥ –	¥ 54,071
Intersegment	1	0	457	(458)	–
Total sales	40,264	8,312	5,953	(458)	54,071
Operating expenses	44,914	7,059	5,132	(462)	56,643
Operating income (loss)	¥ (4,650)	¥ 1,253	¥ 821	¥ 4	¥ (2,572)

Millions of yen

2009	Industry A	Industry B	Industry C	Elimination/ Corporate	Consolidated
Sales to customers	¥ 57,440	¥ 9,202	¥ 5,475	¥ –	¥ 72,117
Intersegment	0	0	582	(582)	–
Total sales	57,440	9,202	6,057	(582)	72,117
Operating expenses	57,751	9,197	5,283	(588)	71,643
Operating income (loss)	¥ (311)	¥ 5	¥ 774	¥ 6	¥ 474

Thousands of U.S. dollars

2010	Industry A	Industry B	Industry C	Elimination/ Corporate	Consolidated
Sales to customers	$ 432,746	$ 89,344	$ 59,071	$ –	$ 581,161
Intersegment	10	1	4,913	(4,924)	–
Total sales	432,756	89,345	63,984	(4,924)	581,161
Operating expenses	482,742	75,873	55,157	(4,972)	608,800
Operating income (loss)	$ (49,986)	$ 13,472	$ 8,827	$ 48	$ (27,639)

b. Assets, Depreciation and Capital Expenditures

					Millions of yen
2010	Industry A	Industry B	Industry C	Elimination/ Corporate	Consolidated
Assets	¥54,761	¥ 4,263	¥11,914	¥ 14,360	¥ 85,298
Depreciation	1,503	99	309	―	1,911
Capital expenditure	2,512	209	83	―	2,804

					Millions of yen
2009	Industry A	Industry B	Industry C	Elimination/ Corporate	Consolidated
Assets	¥60,985	¥ 6,457	¥10,243	¥ 13,314	¥ 90,999
Depreciation	1,489	79	367	―	1,935
Capital expenditure	1,741	61	96	―	1,898

					Thousands of U.S. dollars
2010	Industry A	Industry B	Industry C	Elimination/ Corporate	Consolidated
Assets	$588,572	$ 45,815	$ 128,050	$154,352	$916,789
Depreciation	16,155	1,068	3,323	―	20,546
Capital expenditure	26,995	2,251	888	―	30,134

Notes: Industry A consists of specialty truck.
Industry B consists of environmental equipment and systems.
Industry C 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.

17. Subsequent Event

The following appropriations of the Company's retained earnings in respect of the year ended March 31, 2010 were as proposed by the Board of Directors and approved by the shareholders at the annual general meeting held on June 25, 2010.

Appropriations	*Millions of yen*	*Thousands of U.S. dollars*
Cash dividends (¥ 3 per share)	¥ 119	$ 1,279

INDEPENDENT AUDITORS' REPORT

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 its consolidated subsidiaries (the "Company") as of March 31, 2009 and 2010, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the years then ended in the two-year period ended March 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently 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 consolidated financial position of Kyokuto Kaihatsu Kogyo Co., Ltd. and its consolidated subsidiaries as of March 31, 2009 and 2010, 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.

The accompanying consolidated financial statements as of and for the year ended March 31, 2010 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.

Osaka Audit Corporation

Osaka, Japan
June 15, 2010

CORPORATE INFORMATION

Kyokuto Kaihatsu Kogyo Co., Ltd.
Established: June,1955
Paid-in Capital: ¥11,900 million (at March 31, 2010)
Number of Shares Issued: 42,737,668shares (at March 31, 2010)
Number of Employees: consolidated 2,191 non-consolidated 812 (at March 31, 2010)

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

Tokyo Head 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 78,158 ㎡, 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

BOARD OF DIRECTORS AND STATUTORY AUDITORS

Katsushi Tanaka,
Chairman of the Board of Directors

Takaaki Fudetani,
Representative Director, President, CEO

Kazuyoshi Nakai,
Representative Director, Senior Managing Director,
Senior Executive Officer

Yoshihiro Yasuoka,
Director, Associate Senior Executive Officer

Tomoki Ueyama,
Director, Executive Officer

Yoshinori Takashima,
Director, Executive Officer

Norihiro Kumazawa,
Director, Executive Officer

Ryuichiro Nishikawa,	Executive Officer
Masakazu Nishida,	Executive Officer
Tokumasa Hayashi,	Executive Officer
Harumi Sugimoto,	Executive Officer
Toshihisa Nakanishi,	Executive Officer
Takashi Yoneda,	Executive Officer
Kazuya Takahashi,	Executive Officer

Shunji Nakamura,	Standing Auditor
Taro Okamoto,	Auditor
Rikuyuki Tentaku,	Outside Corporate Auditor
Akira Michigami,	Outside Corporate Auditor