Annual Report 2012

Year ended March 31, 2012

CONTENTS

Kyokuto Kaihatsu Kogyo Co.,Ltd.

１．Operational Results

（１）Analysis of Operational Results

<Summary of Operational Results for the Consolidated Fiscal Year ended March 31, 2012>

The economy of Japan in this consolidated fiscal year was greatly depressed after the Great East-Japan Earthquake which occurred on March 11, 2011, but as the supply chain was restored, the economy recovered rapidly over the summer months. From the Fall, there was demand related to the reconstruction work, but there were also effects as the European debt crisis returned to the fore and from a very strong yen and the flooding in Thailand. The result was therefore a level trend towards the end of the fiscal year.

In these circumstances, as the second year of our medium-range management planning, the "Plan 2010" (April 2010 - March 2013), the group strongly promoted overseas expansion and actively worked to strengthen our business, for example with efforts to improve profitability. In our key business, the Specialty Truck Segment, the domestic market recovered greatly from the summer onwards and there were increases seen resulting from last-minute demand before the strengthening of vehicle exhaust emissions controls and also from the demand for reconstruction work. In our Environment Equipment and Systems Segment, the environment for receiving orders continued to be very severe, due in part to changes made to the budget plans of some local governments because of the earthquake. In our Real Estate Rental Segment, the environment continued to be severe, due in part to the continuing sluggish demand for multistory parking equipment.

Representative Director,
President, CEO
Takaaki Fudetani

As a result, in the current consolidated fiscal year, net sales increased by 10,096 million yen (17.5%) compared with the preceding consolidated fiscal year to 67,783 million yen. As for profit and loss status, operating income reached 2,957 million yen, an improvement of 1,761 million yen (147.4%) due to the sales improvement mainly at the Specialty Truck Segment, our mainstay category. Thus, the current net income reached 2,209 million yen, an improvement of 1,326 million yen (150.3%).

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

In our Specialty Truck Segment, there was a situation in the domestic market from April to May where it was difficult to procure some parts due to the effects of the earthquake. However, as this situation then returned to normal, there was a rapid recovery from the summer onwards. The market environment for exports continued to be severe, due in part to the continuation of a very strong yen.

In these circumstances, in Japan we worked to secure enough production to support the reconstruction work demand and last-minute demand before the strengthening of vehicle exhaust emissions controls by maximizing the utilization of our existing structures and equipment. For overseas, we proceeded with the plant construction and final preparations for the operation of our plant in India (MITHRA KYOKUTO SPECIAL PURPOSE VEHICLE CO., PVT. LTD.: Vijayawada, Andhra Pradesh).

As a result, net sales in the Specialty Truck Segment increased by 8,386 million yen (18.4%) to 54,033 million yen. Segment profit (loss) increased by 2,071 million yen, returning to the profit of 1,398 million yen due to the sales improvement and profit improvement by cost reductions.

Carried on a trailer

Rapid Development

New-type Concrete pomp
“PY125-36A” / “PY100-36A-S”
equipped with boom speed
control system

Rapid Development
Shelter System (RDSS)
licensed by DYHOLD LLC.
to NIPPON TREX

Rear dump truck
(trial model)
manufactured by MKSPV
in India

Concrete mixer truck
(trial model)
manufactured by MKSPV
in India

ⅱ) Environment Equipment and Systems Segment

In our Environment Equipment and Systems Segment, in Japan we carried out activities to obtain orders in the plant PFI business and proposal activities for the processing of disaster-related waste. We also continued to focus on cost price reduction for plant construction and on receiving contracts for maintenance and operation, as we strengthened our structure to secure profits. We also proceeded with our extension of environmental technologies overseas, for example with our first order accepted for the equipment in China by installing a demonstration line for pulverizers at our Kunshan Plant (China).

However, orders the Segment obtained decreased by 5,111 million yen (42.8%) to 6,822 million yen due to obtaining orders of domestic recycle center with serious consideration on profitability. Net sales increased by 1,106 million yen (15.0%) to 8,475 million yen. Segment profit decreased by 109 million yen (8.4%) to 1,188 million yen.

Pulverizer system
for demonstration
in Kunshan Plant (China)

Vertical-type High-speed
Rotary Pulverizer

ⅲ) Real Estate Rental Segment

In our Real Estate Rental Segment, as the market environment for multistory parking equipment continued to be sluggish, we aimed to secure profits by promoting activities to accept orders for maintenance and renewals. Also, our simple aluminum lift-up waterproofing plate (Product name: The Guard-ban) went on sale as a new product to deal with flood damage.

As a result, net sales increased by 685 million yen (13.3%) to 5,831 million yen and segment profit decreased by 117 million yen (13.6%) to 744 million yen due to repair costs of leased property.

Multistory parking equipment

The "Guard-ban"
Simple Rise Type Aluminum
Waterproofing Plate

<Forecast of Operations for the Next Consolidated Fiscal Year ending March 31, 2013>

In our forecast for the future, whilst in the Japanese economy the action for the reconstruction from the Great East-Japan Earthquake will accelerate, there are also concerns about insufficient power supply and the continuing strength of the yen, so it is felt that uncertainty about the future will continue. For our Group, in the domestic market it is predicted that demands such as that for reconstruction work after the earthquake will continue for some time, but after this run of demand subsides, it is thought that in the medium and long-term it will continue to gradually decline.

Regarding the forecast of consolidated business performance for March 2013, the Company estimates net sales to increase by 4,216 million yen (6.2%) over March 2012 to 72,000 million yen, since the Specialty Truck Segment is likely to increase sales. Management expects the overall operating income to increase by 842 million yen (28.5%) to 3,800 million yen, while net income is estimated to grow by 91 million yen (4.1%) to 2,300 million yen.

（2） Analysis on Financial Conditions

ⅰ) Situations of Assets, Liabilities and Net Worth

In the current consolidated fiscal year, total assets increased by 5,752 million yen (6.5%) from the end of the preceding fiscal year to 93,871 million yen.

Current assets increased by 5,205 million yen (11.7%) to 49,483 million yen, due to increases in accounts receivable and trade notes, etc.

Non-current assets (property, plant and equipment, intangible assets and investments and other assets) increased by 546 million yen (1.2%) to 44,387 million yen, due to investments in securities, etc.

Regarding liabilities, current liabilities increased by 6,222 million yen (29.5%) to 27,276 million yen, due to increases in trade notes and accounts payable, etc. Non-current liabilities decreased by 2,697 million yen (19.0%) to 11,475 million yen due to repayments of long-term bank loans, etc.

Total shareholder’s equity increased by 2,226 million yen (4.2%) to 55,120 million yen, due to posting of net profit, etc.

As a result, the capital adequacy ratio stood at 58.7% as of the end of the current fiscal year (60.0% at the end of the preceding fiscal year).

ⅱ) Cash Flow Situation

Consolidated cash and cash equivalents at the end of period decreased by 2,883 million yen (22.1%) over the balance at the beginning of period to 10,176 million yen. Cash flow by activity type is summarized as follows:

Cash Flow from Operating Activities

Net cash provided by operating activities amounted to 1,202 million yen (a decrease of 1,273 million yen compared with the preceding fiscal year). This was because of an increase in accounts payable, etc.

Cash Flow from Investing Activities

Net cash used in investing activities was 2,278 million yen (an increase of 30 million yen compared with the preceding fiscal year). This was because of purchases of non-current assets, etc.

Cash Flow from Financing Activities

Net cash used by financing activities was 1,806 million yen (a decrease of 3,644 million yen compared with the preceding fiscal year). This was because of repayments of long-term bank loans.

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

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

The Meeting of Shareholders on June 27th, 2012 resolved and passed to pay a dividend of 6 yen per share at the end of March 2012 as originally proposed by management, making its annual dividend 10 yen per share including an interim dividend.

For the year ending March 2013, management plans to pay an annual dividend of 12 yen per share (including an interim dividend of 6 yen).

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

In our "Plan 2010" medium-range management planning, the Group has established a business target of at least 67 billion yen in consolidated sales and at least 3 billion yen in consolidated operating profits for the fiscal year ending March 2013, regardless of whether or not there is continuing sluggish demand for normal trucks in Japan. However, as written in the "Forecast of Operations for the Next Consolidated Fiscal Year ending March 31, 2013," in the forecast for consolidated business performance for the year ending March 2013, it is predicted that orders for specialty trucks will continue to trend well, and it is expected that results will be 72 billion yen in sales and 3.8 billion yen in operating profits, which both exceed the targets.

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

In the domestic market, demands in restoration work after the disaster, etc. are expected to continue for a certain period.

Under this business environment, the Group would like to respond to orders and production requirements for our various products to the utmost. However, since medium- to long-term domestic demands for trucks are expected to decrease gradually, we will aggressively and emphatically promote overseas initiatives, focusing particularly on establishment of manufacturing sites in newly developing countries expected to generate strong demands.

We will continue our efforts aggressively to secure and promote sound business performances, in accordance with the following five Basic Policies of "Plan 2010," formulated as our mid-term management plan.

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.

[Result in the year ending March 2012]

(1) We have promoted cost reduction by further shifts to in-house production.

(2) We have increased international sourcing for cost reduction, including by using parts and components manufactured by Kunshan Plant.

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.

[Result in the year ending March 2012]

(1) We have made the plant construction and final preparations for the Indian plant ("MITHRA KYOKUTO SPECIAL PURPOSE VEHICLE CO., PVT. LTD." in Vijayawada, Andhra Pradesh, India).

(2) We will continually and actively consider establishing new overseas manufacturing sites.

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 electric refuse trucks whose equipment is driven electrically, and electric concrete pumps, 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.

[Result in the year ending March 2012]

(1) We have made a full model change of press type garbage trucks.

(2) We have introduced a, hybrid electric garbage truck, developing the line-up of the electric special purpose vehicles.

(3) NIPPON TREX, a consolidated subsidiary, has executed the license agreement with DYHOLD, LCC (South Carolina, USA) concerning the Rapid Development Shelters (RDSS), which are very useful in an emergency.

(4) We have actively launched other new products including piston-type concrete pumps equipped with the 36 meters boom, which is in the longest class of trucks available on public roads in Japan..

(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.

[Result in the year ending March 2012]

(1) We have started construction of new plant orders of which we obtained in the preceding year.

(2) We have actively promoted for system operation contracts to expand the profits.

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

We will promote licensing business of our technologies regarding crushers, RDF system, 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.

[Result in the year ending March 2012]

(1) We have obtained the 1st order of out pulverizer system in China.

(2) We have actively promoted our products by exhibiting them at some expositions or other events in China.

(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.

[Result in the year ending March 2012]

(1) We have actively promoted renewal of multistory parking equipment.

(2) We have strengthened maintenance business activities.

(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.

[Result in the year ending March 2012]

(1) We have launched the simple rise type aluminum waterproofing plate, a new product to protect assets against flood caused by a typhoon or a localized downpour rising everywhere nowadays.

(2) We have studied and gathered information about some new markets, expected to grow in the future.

CONSOLIDATED BALANCE SHEETS
At March 31, 2012 and 2011

ASSETS	*Millions of yen* 2012	*Millions of yen* 2011	*Thousands of U.S. dollars (Note 1)* 2012
Current assets:			
Cash and deposits (Notes 8 & 10)	¥ 4,223	¥ 5,609	$ 51,378
Short-term securities (Notes 8 & 10)	5,953	7,949	72,425
Trade notes and accounts receivable (Note 10 & 17)	29,285	21,178	356,304
Merchandise & finished goods	302	94	3,679
Work in process	2,120	1,888	25,798
Raw materials & supplies	5,944	5,755	72,314
Other current assets	845	838	10,295
Deferred tax assets (Note 15)	1,223	1,115	14,880
Allowance for doubtful accounts	(412)	(149)	(5,014)
Total current assets	49,483	44,277	602,059
Property, plant and equipment (Note 11):			
Land (Note 5)	20,094	19,331	244,479
Buildings and structures (Note 5)	29,813	30,034	362,731
Machinery, equipment and vehicles	15,455	15,514	188,036
Construction in progress	598	16	7,280
Other	1,155	1,131	14,060
Total	67,115	66,026	816,586
Accumulated depreciation	(31,766)	(31,072)	(386,494)
Net property, plant and equipment	35,349	34,954	430,092
Intangible assets	361	357	4,382
Investments and other assets:			
Investment securities (Notes 3, 5 & 10)	6,626	5,585	80,617
Deferred tax assets (Note 15)	44	913	533
Other assets	3,315	3,411	40,338
Allowance for doubtful accounts	(1,307)	(1,378)	(15,899)
Total investments and other assets	8,678	8,531	105,589
Total	¥ 93,871	¥ 88,119	$ 1,142,122

The accompanying notes are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS
At March 31, 2012 and 2011

LIABILITIES AND SHAREHOLDERS' EQUITY	*Millions of yen* 2012	*Millions of yen* 2011	*Thousands of U.S. dollars (Note 1)* 2012
Current liabilities:			
Short-term bank loans (Notes 4, 5 & 10)	¥ 2,620	¥ 2,620	$ 31,877
Current portion of bonds payable (Notes 4 & 10)	494	494	6,010
Current portion of long-term bank loans (Notes 4, 5 & 10)	1,744	1,865	21,216
Trade notes and accounts payable (Note 10 & 17)	16,796	12,014	204,359
Accrued expenses	2,792	2,120	33,970
Income taxes payable	527	158	6,415
Other current liabilities	2,303	1,783	28,023
Total current liabilities	27,276	21,054	331,870
Non-current liabilities:			
Bonds payable (Notes 4 & 10)	641	1,135	7,799
Long-term bank loans (Notes 4, 5 & 10)	3,195	3,967	38,877
Liabilities for retirement benefits (Note 6)	2,012	2,189	24,483
Liabilities for directors' retirement benefits	134	125	1,629
Deferred tax liabilities (Note 15)	1,006	1,494	12,235
Other non-current liabilities (Notes 4, 5 & 10)	4,487	5,262	54,590
Total non-current liabilities	11,475	14,172	139,613
Shareholders' Equity:			
Common stock (Note 13):			
Authorized-170,950,672 shares			
Issued-42,737,668 shares in 2012 and 2011	11,900	11,900	144,785
Capital surplus	11,719	11,719	142,581
Retained earnings	33,145	31,254	403,271
Treasury stock, at cost:			
3,005,055 shares in 2011			
3,005,368 shares in 2012	(2,145)	(2,145)	(26,101)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	720	367	8,759
Foreign currency translation adjustments	(219)	(202)	(2,656)
Total accumulated other comprehensive income	501	165	6,103
Total shareholders' equity	55,120	52,893	670,639
Total	¥ 93,871	¥ 88,119	$ 1,142,122

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF INCOME
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Net sales	¥ 67,783	¥ 57,686	$ 824,714
Cost of sales (Note 18)	54,646	47,177	664,875
Gross profit	13,137	10,509	159,839
Selling, general and administrative expenses (Note 14)	10,180	9,314	123,860
Operating income	2,957	1,195	35,979
Other income (expenses):			
Interest and dividend income	112	95	1,361
Interest expense	(164)	(176)	(1,990)
Loss on sales or disposition of property and equipment, net	(20)	(32)	(242)
Loss on impairment of long-lived assets	-	(5)	-
Gain on sales of securities	0	54	0
Write-down of investment securities	(47)	-	(570)
Amortization of negative goodwill	377	377	4,581
Loss on disaster	(92)	(117)	(1,116)
Foreign exchange gain (loss)	19	(140)	231
Other-net	(175)	(139)	(2,129)
Other expenses-net	10	(83)	126
Income before income taxes and minority interests	2,967	1,112	36,105
Income taxes (Note 15):			
Current	630	324	7,669
Deferred	128	(94)	1,564
Total income taxes	758	230	9,233
Net income before minority interests	2,209	882	26,872
Net income	¥ 2,209	¥ 882	$ 26,872

	Yen		U.S. dollars (Note 1)
	2012	2011	2012
Amounts per shares:			
Basic net income	¥ 55.59	¥ 22.21	$ 0.68
Diluted net income	-	-	-
Cash dividends applicable to earnings of the year	10.00	7.00	0.12

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Net income before minority interests	¥ 2,209	¥ 882	$ 26,872
Other comprehensive income (Note 16):			
Net unrealized gains on other securities	353	73	4,300
Foreign currency translation adjustments	(17)	(169)	(212)
Share of other comprehensive income in affiliates accounted for by the equity method	0	(14)	3
Total other comprehensive income	336	(110)	4,091
Comprehensive income (Note 16)	¥ 2,545	¥ 772	$ 30,963
Total comprehensive income attributable to (Note 16):			
Owners of the parent	2,545	772	30,963
Minority interests	—	—	—

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years ended March 31, 2012 and 2011

					Accumulated other comprehensive income		
	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Total
Balance, March 31, 2010	¥ 11,900	¥ 11,719	¥ 30,610	¥ (2,145)	¥ 294	¥ (19)	¥ 275
Purchases of treasury stock				(0)			
Disposal of treasury stock			(0)	0			
Net income			882				
Appropriation							
Cash dividends paid			(238)				
Net changes in the year					73	(183)	(110)
Balance, March 31, 2011	¥ 11,900	¥ 11,719	¥ 31,254	¥ (2,145)	¥ 367	¥ (202)	¥ 165
Purchases of treasury stock				(0)			
Disposal of treasury stock			(0)	0			
Net income			2,209				
Appropriation							
Cash dividends paid			(318)				
Net changes in the year					353	(17)	336
Balance, March 31, 2012	¥ 11,900	¥ 11,719	¥ 33,145	¥ (2,145)	¥ 720	¥ (219)	¥ 501

Thous

					Accumulated other comprehensive income		
	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Total
Balance, March 31, 2011	$ 144,785	$ 142,581	$ 380,266	$ (26,100)	$ 4,459	$ (2,447)	$ 2,012
Purchases of treasury stock				(2)			
Disposal of treasury stock			(0)	1			
Net income			26,872				
Appropriation							
Cash dividends paid			(3,867)				
Net changes in the year					4,300	(209)	4,091
Balance, March 31, 2012	$ 144,785	$ 142,581	$ 403,271	$ (26,101)	$ 8,759	$ (2,656)	$ 6,103

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended March 31, 2012 and 2011

	Millions of yen 2012	*Millions of yen* 2011	*Thousands of U.S. dollars (Note 1)* 2012
Operating activities:			
Income before income taxes and minority interests	¥ 2,967	¥ 1,112	$ 36,105
Depreciation and amortization	1,756	1,902	21,365
Write-down of investment securities	47	-	570
Loss on impairment of long-lived assets	-	5	-
Gain on sales of securities	(0)	(54)	(0)
Loss on sales or disposition of property and equipment, net	20	32	242
Interest and dividend income	(112)	(95)	(1,361)
Interest expenses	164	176	1,990
Decrease (increase) in trade notes and accounts receivable	(8,008)	(569)	(97,429)
Decrease (increase) in inventories	(412)	501	(5,009)
Increase (decrease) in trade notes and accounts payable	4,624	953	56,260
Increase (decrease) in liabilities for retirement benefits	(177)	(215)	(2,155)
Increase (decrease) in consumption taxes payable	195	(115)	2,376
Other, net	469	(666)	5,716
Sub total	1,533	2,967	18,670
Interest and dividend income received	112	96	1,366
Interest expenses paid	(86)	(176)	(1,053)
Income taxes paid	(357)	(411)	(4,347)
Net cash provided by operating activities	1,202	2,476	14,636
Investing activities:			
Proceeds from time deposits	500	-	6,083
Purchases of securities and investments	(659)	(1,516)	(8,018)
Proceeds from sales of securities and investments	3	176	30
Purchases of property, plant and equipment	(2,036)	(735)	(24,773)
Proceeds from sales of property, plant and equipment	63	84	768
Disbursement of loans receivable	(161)	(328)	(1,959)
Collection of loans receivable	12	9	145
Net cash used in investing activities	(2,278)	(2,310)	(27,724)
Financing activities:			
Proceeds from long-term bank loans	812	4,500	9,879
Repayment of long-term bank loans	(1,704)	(1,659)	(20,739)
Payment for redemption of bonds	(494)	(494)	(6,010)
Payment of finance lease obligations	(102)	(269)	(1,241)
Purchases of treasury stock	(0)	(0)	(2)
Proceeds from sales of treasury stock	0	0	1
Dividends paid	(318)	(239)	(3,866)
Net cash provided by (used in) financing activities	(1,806)	1,839	(21,978)
Foreign currency translation adjustments on cash and cash equivalents	(0)	(15)	(12)
Net increase (decrease) in cash and cash equivalents	(2,882)	1,990	(35,078)
Cash and cash equivalents at beginning of year	13,058	11,068	158,881
Cash and cash equivalents at end of year (Note 8)	¥ 10,176	¥ 13,058	$ 123,803

The accompanying notes are an integral part of these statements.

1. Basis of Presenting Consolidated Financial Statements

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

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

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

The financial statements presented herein are expressed in Japanese yen and, solely for the convenience of the readers, have been translated into U.S. dollars at the rate of ¥82.19=US$1, the approximate exchange rate on March 31, 2012. 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 9 significant subsidiaries. Investments in 1 nonconsolidated subsidiary and 1 affiliate are accounted for by the equity method.
Under the concept of control or significant influence, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies which the Group has the ability to exercise significant influence (affiliated companies) are accounted for by the equity method.
There are 2 nonconsolidated subsidiaries which are not accounted for by the equity method, because these companies are not material in terms of net income and retained earnings and do not have any significant impact on the consolidated financial statements, if excluded from the scope of application by the equity method.

All significant inter-company balances and transactions have been eliminated in the consolidated financial statements. All material unrealized gains resulting from inter-company transactions have been eliminated.

Assets and liabilities of the consolidated subsidiaries at the time of investment are all valued at fair value. The goodwill or negative goodwill is being amortized on a straight-line basis over estimated useful lives not exceeding 20 years, or five years in situations in which the useful lives cannot be estimated. However, insignificant goodwill or negative goodwill is charged to expenses (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 from the date of acquisition.

(c) Short-term Securities and Investment Securities

The Group classifies their securities as held-to-maturity debt securities or available-for-sale securities, depending on management's intent.

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

(Available-for-sale securities)
Marketable available-for-sale securities are stated at fair value, with unrealized gains and losses, net of applicable taxes, and 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.

(d) Inventories

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

(e) Depreciation

Depreciation is principally computed under the straight-line method for buildings and under the declining-balance method for other assets, using rates based on the estimated useful lives of the assets. The useful lives are principally ranging from 7 to 60 years for buildings and structures, and 4 to 17 years for machinery, equipment and vehicles.
Amortization of intangible assets is computed by the straight-line method.

(f) Liabilities for Retirement Benefits

Liabilities for retirement benefits are recorded for employees' pension and severance payments based on the projected benefit obligations and the fair value of plan assets at the balance sheet date.

(g) Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided against potential losses on collections at an amount determined using a historical bad debt loss ratio and an amount individually estimated on the collectability of receivables that are expected to be uncollectible due to bad financial condition or insolvency of the debtor.

(h) Asset Retirement Obligations

Asset retirement obligations are defined as a statutory or similar obligation with regard to the removal of tangible fixed assets and are incurred when tangible fixed assets are acquired, constructed, developed or used in an ordinary way. The asset retirement obligation is recognized as the sum of the discounted cash flow required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made.

(i) Revenue from Construction Contracts

Revenues from construction contracts and the related costs are recorded under the percentage-of-completion method, if the outcome of the construction contract can be estimated reliably. Otherwise, the completed-contract method is applied if the outcome cannot be reliably estimated.

(j) Allowance for Losses on Construction Contracts

Estimated losses on construction contracts are charged to income in the period in which they are identified.

(k) Leases

Finance lease transactions, except for immaterial or short-term finance leases transactions which are accounted for as operating leases, are capitalized to recognize lease assets and lease obligations in the balance sheet. Such capitalized lease assets are depreciated by the straight-line method over the lease terms assuming no residual value.
As permitted, finance leases which commenced prior to April 1, 2008 and have been accounted for as operating leases, have been accounted for as operating leases with the note of certain "as if capitalized" information.

(l) Income Taxes

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

(m) Derivatives

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

(n) Per Share Information

Basic net income per share is computed based on net income available to common stockholders and the weighted average number of shares of common stock outstanding during each period. The average numbers of shares used in the computations are 39,732 thousand shares for 2012 and 2011, respectively.

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

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

(o) Application of the "Accounting Standard for Accounting Changes and Error Corrections" and others

For the accounting changes and error corrections made after the fiscal year beginning on April 1, 2011, the Company has adopted the "Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No.24 of December 4, 2009) and the "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No.24 of December 4, 2009).

Accounting treatments under this standard and guidance are as follows;

(1) Changes in accounting policies
When a new accounting policy is applied with revision of accounting standards, a new policy is applied retrospectively unless the revised accounting standards include specific

transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions.

(2) Changes in presentations
When the presentation of financial statements is changed, prior period financial statements are reclassified in accordance with the new presentation.

(3) Changes in accounting estimates
A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) Corrections of prior period errors
When an error in prior period financial statements is discovered, those statements are restated.

3. Investment Securities

The following is a summary of held-to-maturity securities and available-for-sale securities at March 31, 2012 and 2011:

Millions of yen

	Held-to-maturity securities			
March 31, 2012	Carrying amount	Gross unrealized gains	Gross unrealized losses	Fair value
Debt securities,				
whose fair value exceeds carrying amount	¥ 634	¥ 1	¥ ―	¥ 635
whose fair value does not exceed carrying amount	―	―	―	―
Total	¥ 634	¥ 1	¥ ―	¥ 635

Millions of yen

	Held-to-maturity securities			
March 31, 2011	Carrying amount	Gross unrealized gains	Gross unrealized losses	Fair value
Debt securities,				
whose fair value exceeds carrying amount	¥ 15	¥ 0	―	¥ 15
whose fair value does not exceed carrying amount	622	―	¥ (0)	622
Total	¥ 637	¥ 0	¥ (0)	¥ 637

Thousands of U.S. dollars

March 31, 2012	Held-to-maturity securities Carrying amount	Gross unrealized gains	Gross unrealized losses	Fair value
Debt securities,				
whose fair value exceeds carrying amount	$ 7,721	$ 12	—	$ 7,733
whose fair value does not exceed carrying amount	—	—	—	—
Total	$ 7,721	$ 12	$ —	$ 7,733

Millions of yen

March 31, 2012	Available-for-sale securities Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	¥ 4,085	¥ 1,268	¥ (151)	¥ 5,202
Other securities	132	0	(2)	130
Subtotal	¥ 4,217	¥ 1,268	¥ (153)	¥ 5,332
Market value not available:				660
Total				¥ 5,992

Millions of yen

March 31, 2011	Available-for-sale securities Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	¥ 3,470	¥ 907	¥ (287)	¥ 4,090
Other securities	134	0	(2)	132
Subtotal	¥ 3,604	¥ 907	¥ (289)	¥ 4,222
Market value not available:				726
Total				¥ 4,948

Thousands of U.S. dollars

March 31, 2012	Available-for-sale securities: Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	$ 49,714	$ 15,425	$ (1,849)	$ 63,290
Other securities	1,611	0	(30)	1,581
Subtotal	$ 51,325	$ 15,425	$ (1,879)	$ 64,871
Market value not available:				8,025
Total				$ 72,896

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

The annual average interest rate applicable to short-term bank loans at March 31, 2012 and 2011 was 0.68%, respectively.

Long-term debts at March 31, 2012 and 2011 consisted of the following:

	Millions of yen 2012	2011	*Thousands of U.S. dollars* 2012
Bonds	¥ 1,135	¥ 1,629	$ 13,809
Long-term bank loans	4,939	5,832	60,093
Lease obligations	352	374	4,283
Other	2,216	2,432	26,955
Total	¥ 8,642	¥ 10,267	$ 105,140

Aggregate annual maturities of long-term debts subsequent to March 31, 2012 were as follows:

Year ending March 31	*Millions of yen*	*Thousands of U.S. dollars*
2013	¥ 2,366	$ 28,787
2014	2,310	28,107
2015	1,611	19,600
2016	714	8,679
2017 and thereafter	1,641	19,967
Total	¥ 8,642	$105,140

To set up a commitment line by multiple finance institutions, the Company renewed an agreement with a syndicate of 7 banks and 6 banks for the years ended March 31, 2012 and 2011, respectively.

The unexecuted balance of lending commitments of the Company at March 31, 2012 and 2011 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2011
Total lending commitments	¥ 3,000	¥ 5,000	$ 36,501
Less amounts currently executed	-	-	-
Unexecuted balance	¥ 3,000	¥ 5,000	$ 36,501

5. Pledged Assets

The following assets were pledged as collateral for the following borrowings at March 31, 2012 and 2011:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Land	¥ 5,755	¥ 5,755	$ 70,017
Buildings	3,537	3,732	43,036
Investment securities	619	622	7,537
Total	¥ 9,911	¥ 10,109	$ 120,590

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Short-term bank loans	¥ 100	¥ 100	$ 1,217
Current portion of long-term bank loans	658	778	8,003
Long-term bank loans	541	387	6,586
Other	3,185	3,427	38,745
Total	¥ 4,484	¥ 4,692	$ 54,551

6. Liabilities for Retirement Benefits

The following table sets forth the changes in benefit obligations, plan assets and funded status of the Group at March 31, 2012 and 2011:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Benefit obligation at end of year	¥ 6,572	¥ 6,182	$ 79,969
Fair value of plan assets at end of year	3,593	3,374	43,720
Funded status:			
Benefit obligation in excess of plan assets	2,979	2,808	36,249
Unrecognized prior service cost	20	40	242
Unrecognized actuarial loss	(987)	(659)	(12,008)
Liabilities for Retirement Benefits	¥ 2,012	¥ 2,189	$ 24,483

Severance and pension costs of the Group included the following components for the years ended March 31, 2012 and 2011:

	Millions of yen		*Thousands of U.S. dollars*
	2012	2011	2012
Service cost	¥ 341	¥ 342	$ 4,144
Interest cost	125	129	1,525
Expected return on plan assets	(67)	(69)	(818)
Amortization:			
Prior service cost	(20)	(20)	(242)
Actuarial losses	160	173	1,945
Others	21	22	262
Net periodic benefit cost	¥ 560	¥ 577	$ 6,816

Assumptions used in the accounting for the defined benefit plans for the years ended March 31, 2012 and 2011 were as follows:

	2012	2011
Method of attributing benefit to periods of service	straight–line basis	straight–line basis
Discount rate	1.3 to 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, 2012 and 2011, the Group was contingently liable as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2012	2011	2012
As a guarantor of indebtedness of :			
Affiliated companies	¥ 4,082	¥ 3,991	$ 49,663
Others	37	41	455
Total	¥ 4,119	¥ 4,032	$ 50,118

8. Cash and cash equivalents

Cash and cash equivalents at March 31, 2012 and 2011 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2012	2011	2012
Cash and deposits	¥ 4,223	¥ 5,609	$ 51,378
Short-term securities	5,953	7,949	72,425
Less-Time deposits with original maturities more than three months	—	(500)	—
Cash and cash equivalents	¥ 10,176	¥ 13,058	$ 123,803

9. Leases

The Group leases certain machinery and equipment, and other assets. Total lease payments under these leases were ¥ 95 million ($ 1,157 thousand) and ¥ 226 million for the years ended March 31, 2012 and 2011, 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, 2012 and 2011, were as follows:

Millions of yen

2012	Machinery and vehicles	Other	Total
Acquisition costs	¥ 201	¥ 19	¥ 220
Accumulated Depreciation	179	16	195
Net leased property	¥ 22	¥ 3	¥ 25

Millions of yen

2011	Machinery and vehicles	Other	Total
Acquisition costs	¥ 425	¥ 219	¥ 644
Accumulated Depreciation	334	190	524
Net leased property	¥ 91	¥ 29	¥ 120

Thousands of U.S. dollars

2012	Machinery and vehicles	Other	Total
Acquisition costs	$ 2,449	$ 227	$ 2,676
Accumulated Depreciation	2,184	190	2,374
Net leased property	$ 265	$ 37	$ 302

Future minimum lease payments under finance leases at March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Due within one year	¥ 23	¥ 95	$ 283
Due after one year	2	25	19
Total	¥ 25	¥ 120	$ 302

Depreciation expenses, which are not reflected in the accompanying consolidated statements of income, computed by the straight-line method, would have been ¥ 95 million ($1,157 thousand) and ¥ 226 million for the years ended March 31, 2012 and 2011, respectively.

10. Financial Instruments and Related Disclosures

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

(2) Types of financial instruments and related risk, and risk management for financial instruments
Trade notes and accounts receivable are exposed to credit risk in relation to customers. In order to monitor credit risk, the Group manages, according to the credit management guideline of the Group, the due date and the balance of operating receivables from customers.

Investment securities consist of mainly held-to-maturity securities and equity securities issued by the Group's business partners and these securities are exposed to market risk.
The Group periodically monitors the fair value of such equity securities, which is reported to the board meeting.

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

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

risk, so the Group enters into interest rate swap transactions to manage such interest rate exposure.

Derivatives are managed in accordance with policies and procedures for risk assessment (see Note 12 “Derivatives”) and also the Group enters into derivative transactions only with financially stable financial institutions to reduce institutions’ credit risk.

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

(3) Supplementary explanation of the estimated fair value of financial instruments
With regard to the below mentioned contract prices etc. of derivatives, the contract prices themselves do not present the market risk on the derivative transactions.

Summarized in the table below are the carrying amounts and the estimated fair value of financial instruments outstanding at March 31, 2012 and 2011. 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, 2012	Carrying amount	Fair value	Unrecognized gain/loss
Cash and deposits	¥ 4,223	¥ 4,223	¥ —
Trade notes and accounts receivable	29,285	29,285	—
Short-term securities	5,953	5,953	—
Investment securities	5,966	5,967	1
Trade notes and accounts payable	(16,796)	(16,796)	—
Short-term bank loans	(2,620)	(2,620)	—
Long-term bank loans	(4,939)	(4,931)	8
Bonds payable	(1,135)	(1,145)	(10)
Long-term deposits	(2,216)	(2,351)	(135)
Derivatives	—	—	—

			Millions of yen
March 31, 2011	Carrying account	Fair value	Unrecognized gain/loss
Cash and deposits	¥ 5,609	¥ 5,609	¥ —
Trade notes and accounts receivable	21,178	21,178	—
Short-term securities	7,949	7,949	—
Investment securities	4,859	4,859	0
Trade notes and accounts payable	(12,014)	(12,014)	—
Short-term bank loans	(2,620)	(2,620)	—
Long-term bank loans	(5,832)	(5,792)	40
Bonds payable	(1,629)	(1,644)	(15)
Long-term deposits	(2,441)	(2,552)	(111)
Derivatives	—	—	—

			Thousands of U.S. dollars
March 31, 2012	Carrying account	Fair value	Unrecognized gain/loss
Cash and deposits	$ 51,378	$ 51,378	$ —
Trade notes and accounts receivable	356,304	356,304	—
Short-term securities	72,425	72,425	—
Investment securities	72,592	72,604	12
Trade notes and accounts payable	(204,359)	(204,359)	—
Short-term bank loans	(31,877)	(31,877)	—
Long-term bank loans	(60,093)	(60,007)	86
Bonds payable	(13,809)	(13,934)	(125)
Long-term deposits	(26,955)	(28,603)	(1,648)
Derivatives	—	—	—

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

(a) “Cash and deposits”, “Trade notes and accounts receivable” and “Short-term securities”
Their carrying amounts approximate fair value because of their short maturity.

(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 classified by holding purpose, please refer to Note 3 “Investment Securities”.

(c) “Trade notes and accounts payable” and “Short-term bank loans”
Their carrying amounts approximate fair value because of their short maturity.

(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 an assumed current interest rate for loans with similar terms and remaining maturities.

(e) "Bonds payable"
The fair value of bonds payable is estimated based on present value of the total of principal and interest discounted by an assumed interest rate 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 an assumed interest rate, if possible, based on debt's maturity and credit risk.

(g) "Derivatives"
Please refer to Note 12 "Derivatives".

Financial instruments for which it is extremely difficult to determine the fair value at March 31, 2012 and 2011 consist of the following:

	Millions of yen		*Thousands of U.S. dollars*
	2012	2011	2012
Non-listed equity securities	¥ 660	¥ 726	$ 8,025
Long-term deposit	1,055	1,014	12,838

The annual maturities of financial assets and investment securities with contractual maturities subsequent to March 31, 2012 and 2011 were as follows:

	Millions of yen		
March 31, 2012	Due in one year or less	Due after one year through five years	Due after five years through ten years
Cash and deposits	¥ 4,223	¥ —	¥ —
Trade notes and accounts receivable	29,284	1	—
Short-term securities	5,953	—	—
Investment securities	—	619	15
Total	¥ 39,460	¥ 620	¥ 15

March 31, 2011	Due in one year or less	Due after one year through five years	Due after five years through ten years
			Millions of yen
Cash and deposits	¥ 5,609	¥ —	¥ —
Trade notes and accounts receivable	21,178	—	—
Short-term securities	7,949	—	—
Investment securities	—	622	15
Total	¥ 34,736	¥ 622	¥ 15

March 31, 2012	Due in one year or less	Due after one year through five years	Due after five years through ten years
			Thousands of U.S. dollars
Cash and cash equivalents	$ 51,378	$ —	$ —
Trade notes and accounts receivable	356,296	8	—
Short-term securities	72,425	—	—
Investment securities	—	7,538	183
Total	$ 480,099	$ 7,546	$ 183

11. Investment Property

The company and certain subsidiaries hold some rental properties including land in Tokyo and other areas ("investment properties"). The amounts of net income related to investment properties (rental income is recognized in operating revenue and rental expense is principally charged to operating expenses) were ¥822 million ($10,006 thousand) and ¥645 million for the year ended March 31, 2012 and 2011, respectively. The amounts of loss on impairment of investment properties were ¥5 million for the year ended March 31, 2011. There was no loss on impairment of investment properties for the year ended March 31, 2012.

The carrying amount changes in such balances and market prices of investment properties were as follows:

Carrying amount			Fair value
			Millions of yen
April 1, 2011	Increase/ (decrease)	March 31, 2012	March 31, 2012
¥ 9,533	¥ (363)	¥ 9,170	¥ 11,914

Millions of yen

Carrying amount			Fair value
April 1, 2010	Increase/ (decrease)	March 31, 2011	March 31, 2011
¥ 9,057	¥ 476	¥ 9,533	¥ 12,793

Thousands of U.S. dollars

Carrying amount			Fair value
April 1, 2011	Increase/ (decrease)	March 31, 2012	March 31, 2012
$ 115,997	$ (4,417)	$ 111,580	$ 144,962

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

(2) Increase during the year ended March 31, 2012 was mainly due to the site preparation in Nagoya Plant in an amount of ¥56 million ($679 thousand).
Increase during the year ended March 31, 2011 was mainly due to the change in holding purpose in an amount of ¥691 million.
Decrease during the year ended March 31, 2012 and 2011 were mainly due to depreciation in an amount of ¥222 million ($2,707 thousand) and ¥230 million.

(3) Fair value at March 31, 2012 and 2011 was 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 hedge accounting has been applied were as follows:

Millions of yen

March 31, 2012	Hedged item	Contract amount	Contract amount due after one year	Fair value
Interest rate swap:				
(Fixed rate payment/floating rate receipt)	Long-term debt	¥ 1,865	¥ 1,329	Note

March 31, 2011	Hedged item	Contract amount	Contract amount due after one year	Fair value
				Millions of yen
Interest rate swap:				
(Fixed rate payment/floating rate receipt)	Long-term debt	¥ 2,801	¥ 1,865	Note

March 31, 2012	Hedged item	Contract amount	Contract amount due after one year	Fair value
				Thousands of U.S. dollars
Interest rate swap:				
(Fixed rate payment/floating rate receipt)	Long-term debt	$ 22,691	$ 16,170	Note

Fair value of swap contracts 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	Common Stock	Capital Surplus
		Millions of yen	
Balance at March 31, 2010	42,737,668	11,900	11,719
Retirement of stock during 2011	—	—	—
Balance at March 31, 2011	42,737,668	11,900	11,719
Retirement of stock during 2012	—	—	—
Balance at March 31, 2012	42,737,668	11,900	11,719

	Common Stock	Capital surplus
	Thousands of U.S. dollars	
Balance at March 31, 2011	144,785	142,581
Retirement of stock during 2012	—	—
Balance at March 31, 2012	144,785	142,581

The Company adopted 100 shares of common stock as "unit amount of shares". A holder of shares representing less than one unit cannot exercise any voting rights with respect to such shares. However, the holder is entitled to receive dividends and other distributions. A holder of a fraction of a unit may at any time request the Company to purchase such shares at the prevailing market price. 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 which is included in "Selling, general and administrative expenses" was ¥1,013 million ($12,319 thousand) and ¥949 million for the years ended March 31, 2012 and 2011, respectively.

15. Income Taxes

Following the promulgation on December 2, 2011 of the "Act Partial Revision of the Income Tax Act, etc. for the Purpose of Creating Taxation System Responding to Changes in Economic and Social Structures" (Act No.114 of 2011) and the "Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake" (Act No.117 of 2011), Japanese corporation tax rates will be imposed for the fiscal years beginning on or after April 1, 2012. In line with these revisions, the Company changed the statutory tax rate to calculate deferred tax assets and liabilities from 40.64% to 37.96% for temporary differences which are expected to reverse during the period from the fiscal year beginning on April 1, 2012 to the fiscal year beginning on April 1, 2014. Similarly, the Company changed the statutory tax rate to calculate deferred tax assets and liabilities from 40.64% to 35.59% for temporary differences which are expected to reverse during the period for the fiscal year beginning on or after April 1, 2015.

As a result of this change, net deferred tax assets (after netting deferred tax liabilities) increased by ¥172 million ($2,093 thousand), and income taxes-deferred and unrealized gain on available-for-sale securities decreased by ¥117 million ($1,424 thousand) and ¥55 million ($669 thousand), respectively.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2012 and 2011 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2012	2011	2012
Deferred tax assets:			
Accrued expenses	¥ 488	¥ 429	$ 5,933
Liabilities for retirement benefits	711	882	8,656
Depreciation	424	478	5,154
Fixed assets – elimination of intercompany profits	639	303	7,777
Allowance for doubtful accounts	539	530	6,559
Net operating loss carry-forwards	1,102	2,033	13,412
Other	1,008	910	12,262
Total	4,911	5,565	59,753
Less valuation allowance	(1,195)	(1,650)	(14,546)
Net deferred tax assets	3,716	3,915	45,207
Deferred tax liabilities:			
Deferred gain on sales of fixed assets for income tax purposes	(1,763)	(1,628)	(21,444)
Unrealized gain on investment securities	(395)	(251)	(4,808)
Special depreciation reserve	(14)	—	(171)
Unrealized gain on subsidiaries' fixed assets by revaluation at the beginning of consolidation	(1,283)	(1,502)	(15,606)
Total	(3,455)	(3,381)	(42,029)
Net deferred tax assets	¥ 261	¥ 534	$ 3,178

The reconciliation between the statutory tax rate and the effective income tax rate for the year ended March 31, 2012 and 2011 were as follows:

	2012	2011
Statutory tax rate	40.64%	40.64%
Non-deductible expenses for income tax purpose	1.43	2.57
Non-taxable dividend income	(0.59)	(1.43)
Inhabitant per capita tax	2.69	7.25
Effect of tax rate change	(3.95)	—
Change in valuation allowance	(10.13)	(16.80)
Amortization of negative goodwill	(5.16)	(13.76)
Equity in earnings of affiliated companies	0.91	1.34
Other	(0.27)	0.84
Effective tax rate	25.57%	20.65%

16. Comprehensive Income

The components of other comprehensive income for the year ended March 31, 2012 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2012	2011	2012
Unrealized gain on available-for-sale securities:			
Gains arising during the year	¥ 451	¥ —	$ 5,488
Reclassification adjustments for loss	47	—	570
Amount before income tax effect	498	—	6,058
Income tax effect	(145)	—	(1,758)
Total	¥ 353	¥ —	$ 4,300
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ (17)	¥ —	$ (212)
Total	¥ (17)	¥ —	$ (212)
Share of other comprehensive income in affiliate:			
Gains arising during the year	¥ 0	¥ —	$ 3
Total	¥ 0	¥ —	$ 3
Total other comprehensive income	¥ 336	¥ —	$ 4,091

The corresponding information for the year ended March 31, 2011 was not required under the accounting standard for presentation of comprehensive income as an exemption for the first year of adopting that standard and not disclosed herein.

17. Trade Note Maturities

The following trade notes, which matured but were not settled on March 31, 2012 because that day fell on a bank holiday, were included in the balance sheet as of March 31, 2012:

	Millions of yen		*Thousands of U.S. dollars*
	2012	2011	2012
Trade notes receivable	¥ 800	¥ —	$ 9,733
Trade notes payable	212	—	2,574

18. Provision of reserve for Losses on Construction Contracts

Provision of reserve for losses on construction contracts included in Cost of Sales were ¥ 31 million ($ 377 thousand) for the years ended March 31, 2012.

19. Segment Information

a. Description of reportable segments

The Group's reportable segments are those for which separately financial information is available and regular evaluation by the Board of Directors is being performed in order to decide how resources are allocated among the Group. The Group conducts several types of businesses including specialty truck business, environmental equipment and systems and real estate rental business. The Company and its consolidated subsidiaries are engaged in each business as an independent management unit. The Group consists of three reportable segments, which are "Specialty truck business" (Industry A), "Environmental equipment and systems business" (Industry B) and "Real estate rental business" (Industry C). Industry A manufactures and distributes specialty trucks such as dump trucks, tailgate lifters, tank trucks, refuse trucks, trailers, etc. Industry B manufactures and distributes recycle facilities, including maintenance and consignment business. Industry C manufactures multistory parking equipment and offers operating services for toll parking and real estate rental services.

b. Methods of measurement for the amounts of sales, profit (loss), assets, liabilities and other items for each reportable segment

The accounting policies of each reportable segment are consistent to those disclosed in Note 2, "Summary of Significant Accounting Policies". Intersegment sales or transfers are based on the market prices.

c. Information about sales, profit (loss), assets and other items for the years ended March 31, 2012 and 2011 is as follows:

Millions of yen

	Reportable segments					
2012	Industry A	Industry B	Industry C	Total	Reconciliations (Note 1)	Consolidated (Note 2)
Net sales:						
External customers	¥ 54,015	¥ 8,475	¥ 5,293	¥ 67,783	—	¥ 67,783
Intersegment sales or transfers	18	0	538	556	(556)	—
Total	54,033	8,475	5,831	68,339	(556)	67,783
Segment profit	1,398	1,188	744	3,330	(373)	2,957
Segment assets	62,381	4,691	11,777	78,849	15,022	93,871
Other items:						
Depreciation	1,339	64	210	1,613	—	1,613
Increase in tangible and intangible fixed assets	2,171	31	97	2,299	—	2,299

Millions of yen

2011	Reportable segments Industry A	Industry B	Industry C	Total	Reconciliations (Note 1)	Consolidated (Note 2)
Net sales:						
External customers	¥ 45,643	¥ 7,369	¥ 4,674	¥ 57,686	—	¥ 57,686
Intersegment sales or transfers	3	0	472	475	(475)	—
Total	45,646	7,369	5,146	58,161	(475)	57,686
Segment profit (loss)	(674)	1,297	861	1,484	(289)	1,195
Segment assets	53,376	4,184	11,760	69,320	18,799	88,119
Other items:						
Depreciation	1,494	78	288	1,860	—	1,860
Increase in tangible and intangible fixed assets	649	0	187	836	—	836

Thousands of U.S. dollars

2012	Reportable segments Industry A	Industry B	Industry C	Total	Reconciliations (Note 1)	Consolidated (Note 2)
Net sales:						
External customers	$ 657,192	$ 103,121	$ 64,401	$ 824,714	—	$ 824,714
Intersegment sales or transfers	219	1	6,547	6,767	(6,767)	—
Total	657,411	103,122	70,948	831,481	(6,767)	824,714
Segment profit	17,010	14,456	9,052	40,518	(4,539)	35,979
Segment assets	758,985	57,075	143,290	959,350	182,772	1,142,122
Other items:						
Depreciation	16,292	779	2,555	19,626	—	19,626
Increase in tangible and intangible fixed assets	26,414	377	1,180	27,971	—	27,971

1. Reconciliations of segment profit in an amount of ¥(373) million ($(4,539) thousand) which consists of elimination of intersegment transactions in an amount of ¥13 million ($164 thousand) and corporate expenses which are not allocated to each reportable segment in an amount of ¥(386) million ($(4,703) thousand). Corporate expenses are mainly general administrative expenses not attributable to any other reportable segments.

   Reconciliations of segment assets are surplus fund (cash and deposits and securities) and long-term investment fund (investment securities) of the Company.

2. Segment profit (loss) is reconciled with operating income in the consolidated statements of income.

Information about impairment loss on fixed assets by reportable segment
There was no impairment loss for the years ended March 31, 2012.

	Reportable segments					*Millions of yen*
2011	Industry A	Industry B	Industry C	Total	Reconciliations	Consolidated
Impairment loss	¥ 5	¥ －	¥ －	¥ 5	¥ －	¥ 5

Information about amortization of goodwill and unamortized balance

	Reportable segments					*Millions of yen*
2012	Industry A	Industry B	Industry C	Total	Reconciliations	Consolidated
Negative goodwill:						
Amortization for the year	377	－	－	377	－	377
Unamortized balance	376	－	－	376	－	376

	Reportable segments					*Millions of yen*
2011	Industry A	Industry B	Industry C	Total	Reconciliations	Consolidated
Goodwill:						
Amortization for the year	¥ －	¥ 11	¥ 4	¥ 15	¥ －	¥ 15
Unamortized balance	－	－	－	－	－	－
Negative goodwill:						
Amortization for the year	377	－	－	377	－	377
Unamortized balance	753	－	－	753	－	753

	Reportable segments					*Thousands of U.S. dollars*
2012	Industry A	Industry B	Industry C	Total	Reconciliations	Consolidated
Negative goodwill:						
Amortization for the year	4,581	－	－	4,581	－	4,581
Unamortized balance	4,581	－	－	4,581	－	4,581

20. Subsequent Event

The following appropriations of the Company's retained earnings in respect of the year ended March 31, 2012 were as proposed by the Board of Directors and approved by the shareholders at the annual general meeting held on June 27, 2012.

Appropriations	*Millions of yen*	*Thousands of U.S. dollars*
Cash dividends of ¥6 ($0.07) per share	¥ 238	$ 2,901

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated balance sheet of Kyokuto Kaihatsu Co., Ltd. and its consolidated subsidiaries as of March 31, 2012, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in conformity with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2012, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

The accompanying consolidated financial statements as of and for the year ended March 31, 2012, 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.

PKF Osaka Audit Corporation

Osaka, Japan
June 18, 2012

CORPORATE INFORMATION

Kyokuto Kaihatsu Kogyo Co., Ltd.
Established: June,1955
Paid-in Capital: ¥11,900 million (at March 31, 2012)
Number of Shares Issued: 42,737,668shares (at March 31, 2012)
Number of Employees: consolidated 2,169 non-consolidated 823 (at March 31, 2011)

Headquarters:
1-45, Koshienguchi 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

Takaaki Fudetani,
Representative Director, President, CEO

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

Yoshinori Takashima,
Director, Associate Senior Executive Officer

Norihiro Kumazawa,
Director, Associate Senior Executive Officer

Kazuya Takahashi,
Director, Associate Senior Executive Officer

Tokumasa Hayashi,
Director, Executive Officer

Harumi Sugimoto,
Director, Executive Officer

Takashi Yoneda,
Director, Executive Officer

Ryuichiro Nishikawa,	Associate Senior Executive Officer
Toshihisa Nakanishi,	Executive Officer
Takeo Norimitsu,	Executive Officer
Noboru Horimoto,	Executive Officer
Ikuya Sakai,	Executive Officer
Haruhiro Kondo,	Executive Officer
Sadanobu Kato,	Executive Officer

Tomoki Ueyama,	Standing Auditor
Taro Okamoto,	Auditor
Akira Michigami,	Outside Corporate Auditor
Morio Kusunoki,	Outside Corporate Auditor