KYOKUTO KAIHATSU KOGYO CO., LTD.
AND CONSOLIDATED SUBSIDIARIES

Annual Report 2005
Years ended March 31,2005 and 2004

CONTENTS

1. Primary Management Policy of the Company

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

With this management vision, we devote ourselves to four major business pillars including Specialty Truck, Environmental Equipment and Systems, Automobile Sales, and Real Estate Leasing.

2. Basic Policy of Profit Distribution

Kyokuto Kaihatsu Group believes that both distribution policies of adequate shareholder return reflecting the business performance and stable shareholder return are the most important management objective. Therefore, the Company has strived to meet the stockholders' expectations by taking into the consideration of the business development and the economic climate in the future while achieving stable growth of earnings and sound financial position.

Regarding the dividend for the fiscal year ending March 31, 2005, Kyokuto Kaihatsu Kogyo maintained per share dividend at the previous year level of ¥5, and the interim dividend at ¥5. In June 2005, we have cerebrated the 50th anniversary of Kyokuto Kaihatsu Kogyo's founding. Therefore, the Company also paid a special dividend of ¥2 per share (the year-end dividend at ¥7), in commemoration of the 50th anniversary, bringing the total dividend for the fiscal year to ¥12 per share to express our sincere appreciation to all our shareholders, for their continued understanding and support.

3. Mid-to-Long Term Management Strategy and Major Challenges

As the period during the fiscal year ended March 31, 2004 to the fiscal year ended March 31, 2007 was positioned for the next phase of Kyokuto Kaihatsu Kogyo's corporate reform initiatives; the Company embarked on a review of the business plan formulating "Plan 2004" (3-year Midterm Business Plan). The management teams of the Company and its subsidiaries have concentrated on carrying out the corporate strategies as follows. Basic policy of the Midterm Business Plan is to strengthen the management architecture, thereby ensuring the further development of the corporate activities as well as the maximization of the corporate value.

Basic Policy of the "Plan 2004"
(1) To strengthen the Kyokuto Kaihatsu Kogyo's brand power by enhancing the core technologies,
(2) To enhance the business activities aggressively into the global markets,
(3) To reconstruct business framework and enlarge the business opportunities into new areas based on the "Screening and Concentration" concept.

4. Review of the Past Year and Operational Results

The domestic economy for the fiscal year under review showed increasing signs of recovery due mainly to the strong capital investment in the private sector backed by the steady export and improvement of the corporate financial structure, as well as modest recovery of personal consumption. Meanwhile, uncertainty around the business environment has remained because of the drastic rise in raw material price including steel products and crude oil, outbreak of large scaled natural disasters and instability of international affairs.

By segment, domestic demand in the Specialty Truck Division declined negatively affected by the completion of the initial replacement demand especially in the Metropolitan areas, which was caused by the gaseous mission control enforcement on diesel trucks including Environmental Protection Ordinance enacted by the Tokyo Metropolitan Government in October 2003. Overseas demand, on the other hand, was strong supported by the stable construction demand especially in China, the Company is now focusing on, despite major concerns of tight control of the financial policy by the PRC government.

In the Environmental Equipment and Systems Division, the competition has intensified due to buying restraint after the enforcement of anti-dioxin regulations and tightening fiscal policies by the local governments. Total orders received in this division have continued to be adversely affected by these external factors, as a result.

Even amid these worsening market conditions, Kyokuto Kaihatsu Group enacted corporate reform in Aril 2004, named "Plan 2004" (3-year Midterm Business Plan). Here again, the ultimate goal of this plan is to strengthen management bases, further developing the corporate activities, and maximizing the corporate value.

Initiatives of the "Plan 2004"

(1) To strengthen the Kyokuto Kaihatsu Kogyo's brand power by enhancing the core technologies,

(2) To enhance the business activities aggressively into the global markets,

(3) To reconstruct business framework and enlarge the business opportunities into new areas based on

the “Screening and Concentration” concept.

As a result of taking these decisive actions, consolidated sales for the fiscal year ended March 31, 2005 rose by 5% or ¥3,142 million from the previous fiscal year to ¥60,570 million due mainly to the steady growth in mainline Specialty Truck Division and Environmental Equipment and Systems Division. Consolidated ordinary income, however, declined by 22% or ¥642 million from the previous fiscal year to ¥2,275 million mainly because of the drastic rise of steel product price. Consolidated net income also declined by 28%, or ¥365 million to ¥963 million.

The summary of each business segment in the consolidated basis is reported below.

[Specialty Truck Division]

Domestic demand in this division was sharply declined reflecting negative effect by the completion of initial replacement demand especially in Tokyo Metropolitan area, which offset the steady demand in Chubu and Kansai Metropolitan areas supported by the expanding effect of gaseous mission control regulation into these areas. To cope with a challenging operating environment, the Company has concentrated on enhancing total orders received and sales as well as improving overall profitability by strengthening product portfolio, marketing and service capabilities. Consequently, overseas sales in the Specialty Truck Division posted strong growth by mainly focusing on the marketing of construction vehicles in China with empowered sales force although domestic sales remained almost same level of previous fiscal year.

Consolidated sales in the Specialty Truck Division rose by 4% or ¥1,383 million to ¥40,442 million, as a result. However, operating income declined by 32% or ¥606 million to ¥1,289 million due largely to rise in raw material cost including steel product price combined with the impact of product mix change.

Kunshan Plant in Jiangsu, China, of Kyokuto Kaihatsu (Kunshan) Machinery Co., Ltd, our first overseas plant, began its operation in April 2005. We will place priority on expanding sales by establishing comprehensive marketing, manufacturing and servicing base and by enlarging cost competitiveness in China, where the demand for the construction vehicle including mixer truck and concrete pump truck is expected to be strong. We believe that Kunshan Plant will bring positive impact to reinforce the domestic operating base, contributing cost cutting measure as a whole.

[Environmental Equipment and Systems Division]

In the Environmental Equipment and Systems Division, Kyokuto Kaihatsu group has pursued to ensure total order in the mainline plant related systems such as recycle plaza and recycle centers in the severe business circumstances. At the same time, the Company strived to maintain both sales and earnings with strong emphasis on expanding contracted business for maintenance and system operation. In addition, we have been actively working on R&D for the full scale of commercialization and order taking activities of Refuse Gasification and Melting System, next generation incinerator whose potential demand should be considerable. We have succeeded to launch the first model in March 2005.

Consolidated sales in the Environmental Equipment and Systems Division rose by 12% or ¥1,230 million from the previous fiscal year to ¥11,477 million due mainly to the steady progress of plant construction received in the last fiscal year, and stable performance of contracted business for maintenance and system operation. However, operating income decreased by 29% or ¥152 million from the previous fiscal year to ¥381 million reflecting the decline of profitability in the plant construction business due to drop in unit price caused by the intensified competition.

Total orders received in this division decreased by 38% or ¥4,150 million to ¥6,685 million affected by the tightening fiscal policies in the local governments as well as negative impact of buying restraint after the enforcement of anti-dioxin regulations.

[Automobile Sales Division]

In the Automobile Sales Division, the Company has concentrated on ensuring both sales and earnings by expanding market share along with improving customer satisfaction through strengthened marketing and service systems. As a result, consolidated sales in the Automobile Sales Division rose by 2% or ¥125 million from the previous fiscal year to ¥6,212 million. On the other hand, the Company posted operating loss of ¥62 million, decreased by ¥79 million from the previous fiscal year reflecting the rise of SG&A expenses.

[Real Estate Leasing Division]

In the Real Estate Leasing Division, consolidated sales rose by 18% or ¥453 million from the previous fiscal year to ¥2,909 million with full contribution of leasing revenue of Kanagawa Ryutsu Center in Atsugi city, which commenced the leasing operation in September 2003 as well as steady revenue growth of coin parking business. But, operating income decreased by 1% or ¥5 million from the previous fiscal year to ¥687 million due mainly to the initial cost associated with the coin parking business.

5 . Basic Concept of Corporate Governance

Kyokuto Kaihatsu group has been fully committed to management strategy with the view to maximizing the corporate value. To this end, we have reinforced the management platform facilitating swifter decision-making to meet with dynamically changing business environment, and implementing the policy or strategy promptly and timely.

Furthermore, we have conducted stronger internal audit and supervisory system to keep sweeping compliance with each standards or code of obligation in the process involved in the decision making to enforcement. And, the group regards the establishment of a strong relationship with shareholders, customers, bushiness partners, local societies and employees as vital for the management. To embody this objective, we have been promoting ethical evolution, and recognizing the social responsibility or role of the Company as the public company or member of society through organic business activities. Based on this recognition, we will take decisive actions to improve or develop not only internal rules including company code but also legal function or system of annual shareholders meeting, meeting of board of directors, meeting of auditors, and audit companies for maintaining the sustainable growth as the public company in the years to come.

6. Commitment to Compliance and Risk Management

Regarding commitment to compliance, the Company has formulated "Kyokuto Kaihatsu Kogyo Code of Conduct" as a guideline for the activities of employees. Through "Code of Conduct", we provide each employee with tools in order to reach a solid level of understandings – ensuring each employee not only recognize the social responsibility as the public company but also conduct business in adherence to the relevant policy. In addition, we have named directors in charge of CSR activities. Kyokuto Kaihatsu Kogyo will consistently promote the compliance strategy by means of internal educational or awareness programs for the employees to maintain high ethical standards of business conduct and observation of the laws.

Regarding risk management, the Company also formulated "Code of Risk Management" to give the employees clear direction for addressing any concerns of management environment including contingency matters adequately and promptly. It is comprehensively including the provisions of information management or decision making at the special task force to supervise these tasks. Going forward, we will enhance Kyokuto Kaihatsu Kogyo's entire risk management system by evaluating risks using this "Code of Risk Management".

7. Compensation: Directors and Auditors

Compensation for directors and auditors of the Company, and compensation for the audit company are as follows;

<Directors' Compensation>

Annual compensation for directors ¥223 million

Annual compensation for auditors ¥40 million

Total compensation value listed above includes directors' bonuses (directors ¥26 million) and retirement benefits (directors ¥136 million and auditors ¥15 million).

<Auditors' Compensation>

Compensation based on the article 2-1, Certified Public Accountant Law ¥16 million

There is no compensation based on the duties other than the above listed.

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Net sales	60,570	57,428	564,028
Cost of sales	48,775	44,687	454,193
Gross profit	11,795	12,741	109,834
Selling, general and administrative expenses	9,480	9,577	88,277
Operating income (loss)	2,314	3,163	21,556
Other income (expenses)			
Interest and dividend income	64	62	597
Interest expenses	(114)	(96)	(1,066)
Gain (loss) on sales of property and equipment	(13)	(114)	(123)
Gain (loss) on sales of securities	533	290	4,970
Write-down of investment securites	(50)	(1)	(472)
Special research and development expenditures	(727)	(539)	(6,776)
Other-net	(90)	(257)	(845)
Income (loss) before income taxes	1,915	2,507	17,838
Income taxes (Note 12)			
current	654	1,560	6,094
deferred (prepaid),net	298	(375)	2,775
Total income taxes	952	1,185	8,870
Minority interest	–	(5)	0
Net income (loss)	963	1,328	8,968
Retained earnings :			
Balance at beginning of period	30,742	29,642	286,267
Cash dividends paid	(308)	(194)	(2,875)
Bonuses to directors and statutory auditors	(48)	(34)	(454)
Adjustment of retained earnings for eliminations of treasury stock	(138)	0	(1,292)
Balance at end of period	31,208	30,742	290,613
	Yen		U.S. dollars
Per share of common stock :			
Net income (loss)	32.42	46.05	0.30
Diluted net income (loss)	32.04	45.73	0.30
Cash dividend,applicable to earnings of the year	12.00	10.00	0.11

The accompanying notes are an integral part of this statements.

CONSOLIDATED BALANCE SHEETS

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
ASSETS			
Current assets:			
Cash and time deposits	6,007	5,961	55,945
Short-term investments (Note 3)	6,432	6,832	59,899
Trade note and accounts receivable	28,250	23,945	263,060
Less: Allowance for doubtful accounts	(184)	(181)	(1,717)
Inventories	5,630	7,169	52,434
Deferred income taxes (Note 12)	671	993	6,252
Prepaid expenses	113	91	1,056
Other current assets	1,542	1,246	14,365
Total current assets	48,464	46,057	451,297
Investments and other assets:			
Investments in securities (Note 3)	4,935	5,417	45,962
Deferred income taxes (Note 12)	324	284	3,021
Other	3,367	3,579	31,358
Total investments and other assets	8,627	9,281	80,342
Property and equipment:			
Land	12,386	12,386	115,337
Buildings and structures	26,104	26,029	243,081
Machinery and equipment	7,326	7,111	68,218
Construction in progress	736	215	6,855
Other	2,310	2,257	21,519
	48,863	48,000	455,012
Less—Accumulated depreciation	(19,035)	(18,044)	(177,258)
Total property and equipment	29,827	29,955	277,753
Intangible assets			
Cost in excess of net assets of subsidiaries	8	24	74
other	371	246	3,456
total intangible assets	379	270	3,531
Total assets	87,300	85,566	812,925

CONSOLIDATED BALANCE SHEETS

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
LIABILITIES AND SHAREHOLDERS'EQUITY			
Current liabilities:			
Short-term bank loans (Note 4)	6,150	2,955	57,267
Current portion of long-term debt (Note 4)	22	32	209
Trade note and account payable	12,439	13,101	115,833
Accrued income and other taxes	738	1,597	6,881
Accrued expenses	1,957	1,946	18,230
Other current liabilities	1,370	1,653	12,761
Total current liabilities	22,679	21,287	211,184
Long-term liabilities:			
Long-term debt (Note 4)	1,115	1,137	10,382
Accrued retirement benefits(Note 5)	1,894	1,802	17,644
Directors' and statutory auditors' retirement benefits	249	301	2,320
Deferred income taxes (Note 12)	1,064	1,145	9,912
Other long-term liabilities	4,750	4,719	44,240
Total long-term liabilities	9,074	9,106	84,501
Minority interrests	—	0	—
Shareholders' equity:			
Common stock, no par value (Note 10)			
Authorized — 117,708,100 shares			
Issued — 28,469,779 shares in 2004 and			
28,326,779 shares in 2004	11,892	11,842	110,738
Additional paid-in capital (Note 10)	11,711	11,661	109,051
Retained earnings	31,208	30,742	290,613
Net unrealized holding gains on securities	1,089	1,231	10,145
Foreign currency translation adjustments	(74)	(28)	(693)
Treasury stock, at cost	(280)	(276)	(2,616)
Total shareholders' equity	55,546	55,172	517,239
Total liabilities and shareholders' equity	87,300	85,566	812,925

CONSOLIDATED STATEMENT OF CASH FLOWS

	Millions of yen		Thousands of U.S. dollars (Note 1)
Operating activities :	2005	2004	2005
Net income before income taxes	1,915	2507	17,838
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Dpreciation and amortization	1,434	1,373	13,357
Write-down of investment securites	58	45	540
Net gains (loss) on sales of marketable securities and investments	(534)	(290)	(4,973)
Net gains (loss) on sales of property	12	57	114
Provision (reversal) for accrued retirement benefits	40	38	377
Interest and dividend income	(64)	(62)	(597)
Interrest expenses	114	96	1,066
Decreease (increase) in accounts receivable	(4,239)	576	(39,478)
Decrease (increase) in inventories	1,538	(1,741)	14,322
Decrease (increase) in prepaid expenses	85	230	799
Decrease (increase) in accounts payable	(775)	991	(7,222)
Decrease (increase) in accrued expenses	(147)	248	(1,372)
Decrease (increase) in income taxes payable	352	(406)	3,281
Other,net	366	780	3,416
Sub total	158	4,446	1,471
Interest and dividend income received	62	61	578
Interest expenses paid	(43)	(31)	(405)
Income taxes paid	(1,866)	(262)	(17,377)
Other,net	(895)	(926)	(8,335)
Net cash provided by operating activities	(2,584)	3,287	(24,069)
Investing activities :			
Payment for purchase of marketable securities and investments	(364)	(367)	(3,389)
Proceeds from sales of marketable securities and investments	1,171	770	10,904
Payment for purchase of facilities	(1,414)	(2,551)	(13,168)
Proceeds from sale of facilities	61	66	576
Disbursement of loan receivables	(39)	(22)	(368)
Collection of loan receivables	37	8	345
Net cash provided by (used in) investing activities	(547)	(2,096)	(5,099)
Fainancing activities :			
Increase (decrease) in short-term debt	3,194	330	29,750
Proceeds from long-term debt	-	1,068	0
Payment on long-term debt	(32)	(107)	(305)
Proceeds from issuance of common stock	99	111	925
Purchases of treasury stock	(560)	(112)	(5,219)
Proceeds from sales of treasury stock	417	-	3,888
Dividends paid	(308)	(194)	(2,874)

1. Basis of Presenting Consolidated Financial Statements

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

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

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

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of the reader, using the approximate exchange rate at March 31, 2005, which was ¥107.39 to US$1.00. These convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

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

2. Summary of Significant Accounting Policies

(a) Consolidation Principles

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

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

(b) Consolidated Statement of Cash Flows

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

(c) Short-term investments and Investments in Securities

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

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

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

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

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

(d) Inventories

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

(e) Depreciation:

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

(f) Stock and bond issue expenses

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

(g) Accrued Retirement Benefits

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

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

(h) Revenue recognition

For the year ended March 31,2003 and prior years, if the construction work takes longer than one year and the contract amount exceeded ¥ 0.5 billion ($4,656 thousand), the percentage of completion method was applied.

Effective April 1,2004, the Company changed the criteria for the application of the percentage of completion method. The percentage of completion method is applied to the construction works which take longer than one year and exceed ¥0.2 billion ($1,862 thousand) in contract amount.

As a result of the adoption of the new criteria, the net sales and the cost of sales for the year ended March 31, 2004, are greater than would have been on the prior criteria by ¥147 million ($1,369 thousand) and ¥163 million ($1,518 thousand), respectively.

(i) Leases

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

(j) Research and Development and Computer Software

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

(k) Income Taxes

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

(l) Per Share Information

The computation of basic net income per share is based on the weighted average number of shares of common stock outstanding during each period. The average number of shares used in the computation was 28,484 thousand shares for 2005 and 27,784 thousand shares for 2004.
For the year ended 31, 2005 and 2004 fully diluted net income per share of common stock assumes full exercise of right of the outstanding stock option plan at the beginning of the year.
Cash dividends per share shown in the statements of income are the amounts applicable to the respective years.

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

Short-term securities at March 31, 2005 and 2004 consisted of the following:

	Millions of yen		*Thousands of U.S. dollars*
	2005	2004	2005
Market value available:			
Trading securities	¥ 101	¥ 101	$ 942
Market value not available:			
M.M.F. and F.F.F.	¥ 6,301	¥ 6,701	$ 58,678
Other investment trust	30	30	279
Total	¥ 6,432	¥ 6,832	$ 59,900

The following is a summary of other securities at March 31, 2005 and 2004:

	Millions of yen			
	March 31, 2005			
	Other securities			
	Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	¥ 2,193	¥ 1,941	¥ 105	¥ 4,029
Bonds and debentures	—	—	—	—
Other securities	—	—	—	—
	¥ 2,193	¥ 1,941	¥ 105	¥ 4,029
Market value not available:				906
Total				¥ 4,935

	Millions of yen			
	March 31, 2004			
	Other securities			
	Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	¥ 2,292	¥ 2,118	¥ 43	¥ 4,367
Bonds and debentures	—	—	—	—
Other securities	—	—	—	—
	¥ 2,292	¥ 2,118	¥ 43	¥ 4,367
Market value not available:				1,050
Total				¥ 5,417

	Thousands of U.S. dollars			
	March 31, 2005			
	Other securities			
	Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	$ 20,428	$ 18,083	$ 986	$ 37,526
Bonds and debentures	—	—	—	—
Other securities	—	—	—	—
	$ 20,428	$ 18,083	$ 986	$ 37,526
Market value not available:				8,437
Total				$ 45,963

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

The annual average interest rates applicable to short-term bank loans at March 31, 2005, and 2004 are 0.86% and 0.67%, respectively.

Long-term debt at March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
0.46% bank loans due 2006	¥ 22	¥ 32	$ 209
0.57% bank loans due 2009	1,115	1,137	10,382
1.50% guarantee money due 2023	3,180	3,111	29,613
	¥ 4,317	¥ 4,282	$ 40,206

Aggregate annual maturities of long-term debt subsequent to March 31, 2005 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2006	¥ 22	$ 209
2007	1,028	9,581
2008	261	2,439
2009	260	2,425
2010 and thereafter	2,743	25,549
	¥ 4,317	$ 40,206

5. Accrued Retirement Benefits

The following tables sets forth the changes in benefit obligation, plan assets and funded status of the Company and its subsidiaries at March 31, 2005 and 2004.

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Benefit obligation at end of year	¥ 5,259	¥5,350	$ 48,979
Fair value of plan assets at end of year	2,852	2,846	26,564
Funded status:			
Benefit obligation in excess of plan assets	2,407	2,504	22,415
Unrecognized net transition obligation at date of adoption	—	—	—
Unrecognized prior service cost	—	—	—
Unrecognized actuarial loss	524	712	4,880
Prepaid expenses for plan assets at end of year	(11)	(10)	(109)
Accrued pension liability recognized in the consolidation balance sheets	1,894	1,802	17,644

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

Severance and pension costs of the Company and its subsidiaries included the following components for the year ended March 31, 2005 and 2004.

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Service cost	¥ 271	¥ 257	$ 2,529
Interest cost	109	131	1,018
Expected return on plan assets	(62)	(99)	(578)
Amortization:			
Transition obligation at date of adoption	—	—	—
Prior service cost	—	—	—
Actuarial losses	146	162	1,368
Net periodic benefit cost	¥ 465	¥ 452	$ 4,337

Assumption used in the accounting for the defined benefit plans for the year ended March 31, 2005 and 2004 is as follows:

	2005	2004
Method of attributing benefit to periods of service	straight –line basis	straight –line basis
Discount rate	2.0 %	2.0 %
Long-term rate of return on fund assets	2.0 %	2.5 %
Amortization period for transition obligation at date of adoption	—	—
Amortization period for prior service cost	—	—
Amortization period for actuarial losses	10 years	10 years

6. Contingencies

At March 31, 2005 and 2004, the Group was contingently liable as follows:

	Millions of yen		Thousands of US dollars
	2005	2004	2005
As an endorser of notes discounted or endorsed	¥ 2,079	¥ 2,084	$ 19,368
As a guarantor of indebtedness of :			
Associates	¥ 5,015	¥ 1,715	$ 46,699
Others	52	37	489
	¥ 5,067	¥ 1,752	$ 47,187

7. Cash and cash equivalents

Cash and cash equivalents at March 31, 2005 and 2004 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Cash and time deposits	¥ 6,007	¥ 5,961	$ 55,945
Short-term investment	6,432	6,832	59,900
Less-Time deposits with original maturities more than three months	(70)	(70)	(652)
Less-Stock	—	—	—
	¥ 12,370	¥ 12,724	$ 115,193

8. Leases

The Group leases certain machinery and equipment, and other assets. Total lease payments under these leases were ¥ 437 million ($ 4,071 thousand) , and ¥ 402 million for the years ended March 31, 2005 and 2004, 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, 2005 and 2004, are as follows:

	Millions of yen		
	2005		
	Machinery and Equipment	Other	Total
Acquisition costs	¥ 1,875	¥ 689	¥ 2,564
Accumulated Depreciation	979	432	1,412
Net leased property	¥ 895	¥ 257	¥ 1,152

	Millions of yen		
	2004		
	Machinery and Equipment	Other	Total
Acquisition costs	¥ 1,010	¥ 1,060	¥ 2,071
Accumulated Depreciation	522	556	1,079
Net leased property	¥ 488	¥ 504	¥ 992

	Thousands of U.S. dollars		
	2005		
	Machinery and Equipment	Other	Total
Acquisition costs	$ 17,460	$ 6,421	$ 23,882
Accumulated Depreciation	9,122	4,027	13,149
Net leased property	$ 8,338	$ 2,394	$ 10,733

Future minimum lease payments under finance leases as of March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Due within one year	¥ 422	¥ 391	$ 3,938
Due after one year	729	601	6,795
Total	¥ 1,152	¥ 992	$ 10,733

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 ¥437 million ($4,071 thousand) for the year ended March 31, 2005.

9. Derivatives and Hedging Activities

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

At March 31, 2005 and 2004, all forward exchange contracts outstanding were entered into in order to hedge receivables and payables denominated in foreign currencies which have been translated and reflected at the corresponding contracted rates in the accompanying consolidated balance sheets at March 31, 2005 and 2004.

10. Shareholders' Equity

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

			Millions of yen	
		Number of Shares	Common Stock	Additional paid-in capital
Balance of March 31, 2003	……	28,165,779	11,786	11,508
Retirement of stock during 2004	……	161,000	56	153
Balance of March 31, 2004	……	28,326,779	11,842	11,661
Retirement of stock during 2005	……	143,000	49	49
Balance of March 31, 2005	……	28,469,779	11,892	11,711

		Thousands of U.S.dollars	
		Common Stock	Additional paid-in capital
Balance of March31, 2004	……	110,275	108,590
Retirement of stock during 2005	……	463	462
Balance of March31, 2005	……	110,739	109,052

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.

11. Research and Development and Computer Software

Research and development expenditure charged to income was ¥ 1,505 million ($ 14,023 thousand) and ¥ 1,284 million for the years ended March 31, 2005 and 2004, respectively.

12. INCOME TAXES

The Company and its domestic subsidiaries are subject to several taxes based on income, which in the aggregate resulted in statutory tax rates of approximately 40.6% and 42.0 % for the years ended March 31, 2005 and 2004, respectively. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The effective rate for the two years ended March 31, 2005 differs from the Company's statutory tax rate for the following reasons:

	2005	2004	
Statutory tax rate	40.6	42.0	%
Dividend income	(0.3)	(0.3)	
Expenses not deductible for income tax purposes	2.7	2.5	
Per capital inhabitant tax	3.3	2.5	
Other	3.4	0.6	
Effective tax rate	49.7	47.3	%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at March 31, 2005 and 2004 are presented below:

	Millions of yen		Thousands of US dollars
	2005	2004	2005
Deferred tax assets:			
Accrued expenses	¥ 418	¥ 426	$ 3,896
Accrued retirement benefits	818	773	7,617
Depreciation	194	210	1,815
Unrealized profits	302	302	2,818
Tax loss carryforwards	53	42	501
Other	402	725	3,750
Total gross deferred tax assets	2,190	2,479	20,398
Less valuation allowance	(189)	(159)	(1,764)
Net deferred tax assets	2,001	2,320	18,634
Deferred tax liabilities:			
Special tax-purpose reserve for condensed booking of fixed assets	(1,323)	(1,344)	(12,320)
Unrealized gains of other securities	(746)	(843)	(6,952)
Total gross deferred tax liabilities	(2,069)	(2,187)	(19,272)
Net deferred tax assets	¥ (68)	¥ 132	$ (638)

In assessing the realizability of deferred tax assets, management of the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is entirely dependent upon the generation of future taxable income in specific tax jurisdictions during the periods in which those temporary differences become deductible. Although realization is not assured, management considered the projected future taxable income in making this assessment. Based on these factors, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the existing valuation allowance as of March 31, 2005.

Tax loss carryforwards will expire between 2006 and 2008.

13. Segment Information

Information about operations in different industry segments of the Group for the years ended March 31, 2005 and 2004, are as follows:

Industry Segments

a. Sales and Operating Income

	Millions of yen					
	2005					
	Industry A	Industry B	Industry C	Industry D	Eliminations/ Corporate	Consolidated
Sales to customers	¥40,438	¥11,477	¥ 6,212	¥ 2,443	¥ —	¥ 60,570
Intersegment	4	—	—	466	(470)	—
Total sales	40,442	11,477	6,212	2,909	(470)	60,570
Operating expenses	39,152	11,095	6,274	2,221	(488)	58,256
Operating income	¥ 1,289	¥ 381	¥ (62)	¥ 687	¥ 17	¥ 2,314

	Millions of yen					
	2004					
	Industry A	Industry B	Industry C	Industry D	Eliminations/ Corporate	Consolidated
Sales to customers	¥39,058	¥10,246	¥6,086	¥2,036	¥ —	¥57,428
Intersegment	0	—	—	419	(419)	—
Total sales	39,058	10,246	6,086	2,456	(419)	57,428
Operating expenses	37,162	9,712	6,068	1,763	(442)	54,264
Operating income	¥1,896	¥ 534	¥ 17	¥ 692	¥ 22	¥ 3,163

	Thousands of U.S. dollars					
	2005					
	Industry A	Industry B	Industry C	Industry D	Eliminations/ Corporate	Consolidated
Sales to customers	$376,554	$106,873	$57,850	$22,751	$ —	$ 564,028
Intersegment	38	—	—	4,344	(4,382)	—
Total sales	376,592	106,873	57,850	27,095	(4,382)	564,028
Operating expenses	364,585	103,316	58,428	20,690	(4,548)	542,472
Operating income	$ 12,007	$ 3,557	$ (578)	$ 6,405	$ 166	$ 21,557

b. Assets, Depreciation and Capital Expenditures

	Millions of yen					
	2005					
	Industry A	Industry B	Industry C	Industry D	Eliminations/ Corporate	Consolidated
Assets	¥43,773	¥ 9,755	¥ 6,062	¥ 9,609	¥ 18,098	¥ 87,300
Depreciation	807	43	116	332	—	1,299
Capital expenditure	1,195	39	90	51	—	1,377

	Millions of yen					
	2004					
	Industry A	Industry B	Industry C	Industry D	Eliminations/ Corporate	Consolidated
Assets	¥44,850	¥ 7,386	¥ 6,051	¥ 9,693	¥ 17,584	¥ 85,566
Depreciation	749	43	110	334	—	1,238
Capital expenditure	945	26	230	1,072	—	2,275

	Thousands of U.S. dollars					
	2005					
	Industry A	Industry B	Industry C	Industry D	Eliminations/ Corporate	Consolidated
Assets	$407,616	$90,843	$56,456	$89,480	$168,528	$ 812,925
Depreciation	7,502	401	1,088	3,092	—	12,107
Capital expenditure	11,134	368	842	482	—	12,827

Notes: Industry A consists of special equipment car.
Industry B consists of environmental equipment and systems.
Industry C consists of car sales business.
Industry D consists of real estate business.
Corporate assets consist primarily of cash and cash equivalents, investment in and advances to affiliates, investments in securities and the corporate headquarters assets.

14. Subsequent Event

The following appropriations of the Company's retained earnings in respect of the year ended March 31, 2005 were as proposed by the Board of Directors and approved by the shareholders at the annual general meeting held on 29 June, 2005:

Appropriations	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥ 8.0 per share)	¥ 197	$ 1,839
Bonuses to directors	22	208
Total appropriations	¥ 219	$ 2,047

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheets of Kyokuto Kaihatsu Co., Ltd. and subsidiaries as of March 31, 2004 and 2005, and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the two-year period ended March 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kyokuto Kaihatsu Kogyo Co.,Ltd. and subsidiaries as of March 31, 2004 and 2005, and the results of their operations and their cash flows for each of the years in the two-year period ended March 31, 2005 in conformity with accounting principles generally accepted in Japan.

The accompanying consolidated financial statements as of and for the year ended March 31, 2005 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in yen have been translated into dollars on the basis set forth in note 1 to the consolidated financial statements.

Yukoh Audit Corporation

Osaka, Japan

June 29, 2005

CORPORATE INFORMATION

Kyokuto Kaihatsu Kogyo Co.,Ltd.
Established: June,1955
Paid-in Capital: ¥11,892 million (at March 31,2005)
Number of Shares Issued: 28,469,779 shares
(at March 31,2005)
Number of Employees:1,382

Head Office:
1- 45,Koshienguti 6-chome,Nishinomiya City,
Hyogo Prefecture,663-8545 Japan
Tel.0798-66-1000, Fax.0798-66-8146
Tokyo Office:
1-1,Asahicho,Haneda,Ota-ku,Tokyo,144-0042,Japan
Tel.03-5737-2271, Fax03-5737-7791
Plants:
Yokohama Plant
Occupies 51,890 ㎡
Since March,1962
Located in Yamato,Kanagawa
Nagoya Plant
Occupies 132,537 ㎡
Since June,1970
Located in Komaki,Aichi
Miki Plant
Occupies 98,274 ㎡
Since October,1979
Located in Miki,Hyogo
Fukuoka Plant
Occupies 66,832 ㎡
Since September,1970
Located in Iizuka,Fukuoka
Hachinohe Plant
Occupies 57,600 ㎡
Since April,1999
Located in Hacinohe,Aomori

BOARD OF DIRECTOR AND STATUTORY AUDITORS

Katsushi Tanaka,
President and Representative of the Board of Directors, CEO
Tadao Yasuda,
Senior Managing Director, Senior Managing Executive Officer
Hiroki Uoi,
Managing Director, Managing Executive Officer
Yukinori Matsuhashi, Director, Managing Executive Officer
Takeshi Kunisada, Director, Executive Officer
Takaaki Hudetani, Director, Executive Officer
Syunji Nakamura, Director, Executive Officer
Kiyosi Urasaka, Executive Officer
Yukitoshi Masumura, Executive Officer
Tomoki Ueyama, Executive Officer
Motohachi Hashimoto, Executive Officer
Rikio Sagawa, Executive Officer
Kozo Ueda, Executive Officer
Daisuke Nagumo, Executive Officer
Akira Yamashita, Executive Officer
Masatoshi Yosida, Executive Officer

Yasuhiko Tamaki, Standing Auditor
Yoshikazu Kira, Auditor
Rikuyuki Tentaku, Auditor
Yasuo Mizuno, Auditor