KYOKUTO KAIHATSU KOGYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Annual Report 2006
Years ended March 31,2006 and 2005

CONTENTS

Management Policy

(1) Basic Management Policy of the Company

The basic 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 policy, we devote ourselves to four major business domains including Specialty Truck, Environmental Equipment and Systems, Automobile Sales, and Real Estate Leasing.

(2) Basic Policy of Profit Distribution

The Kyokuto Kaihatsu Kogyo 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, 2006, Kyokuto Kaihatsu Kogyo announced per share dividend of ¥5, and the interim dividend at ¥5, bringing the total dividend for the fiscal year to ¥10 per share. In November 18, 2005, the Company has split its outstanding ordinary shares 1.5 for 1, therefore, embodied actual distribution value at ¥12.50, excluding the effect of this stock splits (also excluding a special dividend of ¥2 per share for commemoration of the 50th anniversary in the previous fiscal year). We are very pleased to report the substantial increase of annual cash dividend by ¥2.50 compared with the ¥10.00 for the previous fiscal year. We would like to sincerely thank our shareholders and all other stakeholders for their continued understanding and support during the course of our business development.

Although the limitation on the frequency of profit distribution was eliminated in the new Corporate Law of Japan (effective May 1, 2006), Kyokuto Kaihatsu Kogyo will not change the frequency of dividend payment for the time being.

(3) Concept and Policy for reduction of investment unit

The Company recognizes that improving the liquidity of its shares by reduction of investment unit to encourage of participation of more diverse investors is a matter of the top management priority. Based on this concept, as of February 1, 1995, the Company changed its minimum trading units of its shares from 1,000 shares to 100 shares. Furthermore, as explained above, the Company has split its outstanding ordinary shares 1.5 for 1 in November 18, 2005.

Taking into considerations such factors as movement of number of shareholders, stock price and market condition, the Company will carefully examine further commitment for reduction of investment units.

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

As the period during the fiscal year began April 1, 2004 to the fiscal year ending March 31, 2007 was positioned for 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. Details of the plan are as follows.

Basic policy of the "Plan 2004"

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.

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.

<Major Strategies of Plan 2004>

1. To strengthen the Kyokuto Kaihatsu Kogyo's brand power

With the Plan 2004, Kyokuto Kaihatsu Kogyo, as the specialized integrated company of manufacturing and marketing of specialty trucks and environmental related systems, will further leverage company's advantages in the market by differentiating our products from other competitors. To this end, strengthen its brand power by enhancing the core technologies is vital. Going forward, we will devote ourselves on new product development, at the same time, seek the optimal product mix of existing models. We are rapidly increasing the number of engineers in R&D division and integrating own educational program for this purpose. By implementing such strategies, Kyokuto Kaihatsu Kogyo will be able to attain a goal of adding value to its hardware and expanding its market share, thereby leading another revenue growth as well as enhancing overall profitabilities.

2. Specialty Truck Business (Domestic)

In this core business, Kyokuto Kaihatsu Group has been engaged in the manufacturing, marketing and offering maintenance services for special purpose trucks including Dump trucks, Tailgate lifters, Tank trucks, and Garbage collectors.

Demand for the specialty trucks in the domestic market had been depressed due to the slowdown in growth of both construction and logistic sectors until fiscal year ended March 31,

2003. Subsequent fiscal years, however, the demand has recovered and replacement demand for specialty trucks has rapidly promoted reflecting the tight regulation by the government including new gaseous mission control enforcement on diesel trucks. In response with this increasing opportunity, the Company took a series of decisive actions to ensure sales such as the realignment of sales force with strong emphasis on Tokyo Metropolitan areas where potential demand should be considerable, as well as the new products development. In addition, the Company embarked on several strategic policies including cost cutting efforts by accelerating global procurement project of raw materials from China, improvement of product quality, and reinforcement of service system by increasing number of directly operating centers. We believe these company wide efforts to bring about dynamic change in Kyokuto Kaihatsu Kogyo's specialty truck business, thus enhancing earnings growth opportunity.

3. Specialty Truck Business (Overseas)

Demand for the specialty trucks in overseas market has been steady especially in China where investment for construction buildings continued to remain strong backed by the explosive economic growth. This, in turn, has been generating demand for construction related trucks (Mixer trucks, Concrete pumps, and etc). Although export to China has temporarily declined due primarily to tight control of financial policy by the PRC government for the fiscal year under review, the Company expects China will continue rapidly evolving in foreseeable future. Accordingly, it is crucial to make constant efforts for the business expansion in China and other Asian countries, taking approaches of identifying the exact needs in the market and introducing the unique products with solid price competitiveness and high quality.

Traditionally, products for export were manufactured in the domestic plants. And, in April 2005, Kunshan Plant in Jiangsu, China, of Kyokuto Kaihatsu (Kunshan) Machinery Co., Ltd, our 100% owned subsidiary, began its operation of specialty truck. Currently, the company is focusing on manufacturing Mixer trucks in this plant, and it plans to begin manufacturing Concrete pumps by March 2007. It aims to eventually increase the production items by taking fully into account market conditions in its business environment.

We expect that Kunshan Plant will bring positive impact to expand business in overseas market as well as strengthen the domestic operating base, contributing cost cutting measure to supply parts or kits from the plant to Japan. We believe promoting intra-group alliance will maximize synergy effect on reinforcing the Kyokuto Kaihatsu Kogyo Group's Specialty Truck business, as a whole.

4. Environmental Equipment and Systems Business

Kyokuto Kaihatsu Group has been actively expanding the business in this division by focusing on manufacturing, marketing and offering comprehensive maintenance services for environmental infrastructure related systems, such as Recycle Plaza and Recycle Centers, mainly for the local government. While the Company assumes the potential growth for this business to be greater, competition has been extremely intensified. The next challenge in this business segment is to ensure the order received to improve profitabilities by powerfully pushing ahead of building greater product mix combined with the enhancement of the existing business. Based on this recognition, the Company will pursue to strengthen products mix and marketing force in the mainline plant related systems such as Recycle plaza and Recycle centers as well as RDF (Refuse Derived Fuel) plant. At the same time, the Company will strive to maintain both sales and earnings in this segment by expanding contracted business for maintenance and system operation.

In addition, we will actively working on enhancing product line and another order taking activities of Refuse Gasification and Melting System, next generation incinerator whose potential demand should be considerable. Leveraging its strength as a unique company possessing technological expertise of launching new areas such as sales of Waste Carbonizing System, etc. and Waste Processing System, Kyokuto Kaihatsu Kogyo will establish and enlarge the leading platform for environmental related business.

5. Real Estate Leasing Business

In the Real Estate Leasing Division, Kyokuto Kaihatsu Group aims to establish the solid earning structure by effectively using our real estate property from the standpoint of using capital more efficiently. At the same time, by focusing on the coin parking business, we will achieve earnings growth in our real estate business.

After all, Kyokuto Kaihatsu Kogyo’s goal is to maximize the corporate value by effectively using asset and capital with concentrating management resources on the growth areas. Focusing intently on the mainline Specialty Truck business and Environmental related business, the Company will also continue to pursue the stable earnings in the Real Estate business, thereby lead to higher growth for Kyokuto Kaihatsu Kogyo Group with effectively using cost of capital.

<Progress Report of Plan 2004>

1. Measures taken for the regulation of controlling the gaseous mission

The gaseous mission control enforcement on diesel trucks including Environmental Protection Ordinance was enacted by the Tokyo Metropolitan Government in October 2003. Accordingly, the Company has carried out various strategies to meet replacement demand in the Specialty Truck Division. Such strategies then represent realignment of sales force, enhancement of service programs, and achievement of the optimal product mix. Consolidated sales in the Specialty Truck Division rose by 5% or ¥1,858 million from the previous fiscal year, as a result.

2. Start-up operation in China plant

Kunshan Plant in Jiangsu, China, of Kyokuto Kaihatsu (Kunshan) Machinery Co., Ltd, began its operation in April 2005. At the present, production capacity of Mixer truck of new plant is 30 units per month, and it plans to start manufacturing Concrete pump truck by March 2007. New plant set up the top priority on expanding local sales by establishing comprehensive manufacturing base for the stable product supply and by enlarging cost competitiveness in the Specialty Truck Division including export of parts or kits to Japan.

3. Pricing policy change

With respect to the pricing policy, the Company has conducted thorough review for the pricing policy, which has been negatively affected by the continuing hike in the raw material cost including steel products since 2004. In response to this growing cost, it is necessary to adjust our strategic price of almost all of our products: our target rise of the price is set about 5 to 10%, however, the Company announced approximately 2% rise for the fiscal year ending March 2006. We will ask our customers for their understanding and support to keep our policy fair and consistent with its business environment.

4. Cost cutting effort

In order to further improve price competitiveness, the Company recognizes that sweeping cost cutting efforts are essential to encounter this drastically rising business cost. It will focus on 2 critical tasks: establishing global procurement system of raw materials from China, and formulating/sharing corporate standard of parts.

By accelerating the global procurement system based on Kyokuto Special Automobile Trading (Shanghai) Co., Ltd, combined with newly established Kunshan Plant, we will pursue the efficiency therefore achieving a significant improvement in our cost strategy. This will be also supported by the formulating/sharing corporate standard of its parts along with conducting review of the design process throughout the Kyokuto Kaihatsu Group.

5. More emphasis on environmental related business

During the fiscal year under review, the Company purchased a part of environmental business of Sumitomo Metal Industries, Ltd. to make progress in establishing a sound operating base for the environmental business.

In March 2005, we have succeeded to launch the first model of Refuse Gasification and Melting System, next generation incinerator whose potential demand should be considerable. And we are now actively working on order taking activities of this system to boost our environmental related business.

6. New product development and others

Targeting at optimal product mix in the mainline Specialty Truck Division, the Company has succeeded to develop and launch 13 new models including Tailgate lifter and Detachable body truck for the fiscal year under review.

In addition, the Company has aggressively expanded the parking business, another area of significant growth potential, during the year. Simultaneously, the Company has been actively implementing the business tie-ups and seeking new business opportunities, to ensure earnings growth of the entire group.

(5) Management Target

We will work toward our consolidated milestone targets to reach for the year ending March 31, 2007, through the steady implementation of the core strategies outlined in above “Plan 2004” for our principal business domains. These targets are consolidated ROA of 3.1% and consolidated ROE of 4.6%.

(6) Matters Concerning Parent Company

There is no pertinent matter.

<u>Operating and Financial Review</u>

(1) 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 growth of earnings as well as modest recovery of personal consumption helped by the improvement of employment environment.

By segment, domestic demand in the Specialty Truck Division has increased supported by the placement demand reflecting the tight regulation by the government such as new gaseous mission control enforcement on diesel trucks including Environmental Protection Ordinance enacted by the Tokyo Metropolitan Government in October 2005. Overseas demand, on the other hand, declined temporarily due mainly to the negative effect of the tight control of the financial policy by the government and the change of the industrial standard of chassis in our major oversea market, China .

In the Environmental Equipment and Systems Division, the competition has intensified further due to buying restraint after the enforcement of anti-dioxin regulations and tightening fiscal policies by the local governments since previous fiscal year. 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 has aggressively implemented 2nd phase project of “Plan 2004” (3-year Midterm Business Plan), corporate reform enacted in Aril 2004. Here again, the ultimate goal of this plan is to strengthen the management architecture, further developing the corporate activities, and maximizing the corporate value. Based on the Initiatives of the “Plan 2004”, especially “Screening and Concentration” concept, the management team has focused on both Specialty Truck Division and Environmental Equipment and Systems Division with strong emphasis on concentration of corporate resources to both divisions, thereby enhancing overall earnings.

As a result, consolidated sales for the fiscal year ended March 31, 2006 decreased by only 4%, or ¥2,432 million from the previous fiscal year to ¥58,138 million due mainly to the decline of the number of new plants in Environmental Equipment and Systems Division despite steady growth in mainline Specialty Truck Division. Consolidated ordinary income, however, rose by 4%, or ¥93 million from the previous fiscal year to ¥2,369 million because of the growth in the sales of Specialty Truck Division. Consolidated net income also rose by 98%, or ¥946 million to ¥1,910 million with contribution of extraordinary income from the sales of former Sagami Plant.

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

1 Specialty Truck Division

Domestic demand in this division posted strong growth due to the recovery mainly in Tokyo Metropolitan area supported by the tight control of gaseous mission regulation. The Company has concentrated on enhancing total orders received. Furthermore, with other tasks including introducing new pricing policy especially for the new products, reducing cost by the global procurement of raw materials from China, strengthening products mix with the new products development and enhancing marketing and service capabilities, the Company has strived to ensure overall sales as well as profit.

Consolidated sales in the Specialty Truck Division rose by 5%, or ¥1,858 million from the previous fiscal year to ¥42,300 million, as a result, despite decline of export affected by the sluggish demand in China. Operating income in this division, on the other hand, dramatically rose by 41%, or ¥532 million from the previous fiscal years to ¥1,823 million due largely to aforementioned cost cutting efforts combined with the impact of product mix change, as well as introducing the new pricing policy .

From April 1, 2006, the Company established 100% owned subsidiary, Kyokuto Kaihatsu Parking Co. Ltd., to integrate various parking business and offer comprehensive services and maximize efficiencies. Multilevel car parking tower business in the Specialty Truck Division and coin parking business in the Real Estate Leasing Division were all realigned into this subsidiary.

2 Environmental Equipment and Systems Division

During the fiscal year under review, the Company purchased a part of environmental business of Sumitomo Metal Industries, Ltd. to make progress in establishing a sound operating base for the environmental business.

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 as well as RDF (Refuse Derived Fuel) plant and Landfill leachate treatment plant in the continued 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 reinforcement of product line along with order taking activities of Refuse Gasification and Melting System, next generation incinerator.

However, consolidated sales in the Environmental Equipment and Systems Division drop by 34%, or ¥3,918 million from the previous fiscal year to ¥7,558 million due mainly to the decline of total orders received in the last fiscal year. Operating income also decreased by 45%, or ¥170 million from the previous fiscal year to ¥209 million.

Nevertheless, total orders received in this division increased by 39%, or ¥2,581 million from the previous fiscal year to ¥9,266 million.

3 Automobile Sales Division

In the Automobile Sales Division, the Company has concentrated on ensuring both sales and earnings by strengthening marketing and service systems along with company-wide cost cutting efforts. In spite of above efforts, consolidated sales in the Automobile Sales Division declined by 7%, or ¥407 million from the previous fiscal year to ¥5,804 million adversely affected by the decline of number of unit sales of new vehicles. The Company posted operating loss of ¥5 million despite above cost cutting efforts. Consequently, as of April 1, 2006, the Company withdrew automobile sales business by selling equities holding of Toyota Corolla Naniwa Co., Ltd.

4 Real Estate Leasing Division

In the Real Estate Leasing Division, consolidated sales rose by 2%, or ¥52 million from the previous fiscal year to ¥2,962 million reflecting the steady revenue growth of coin parking business despite negative effect by the sales of leasing property. But, operating income decreased by 4%, or ¥29 million from the previous fiscal year to ¥658 million.

(2) Forecast for the fiscal year ending March 31, 2007

Regarding the forecast of consolidated results for the fiscal year ending March 31, 2007, the Company anticipates that overall domestic economy will continue to show a steady recovery. On the other hand, business environment is expected to be more demanding due to such factors as the rise in the raw material cost (crude oil and steel products), foreign exchange fluctuations as well as rise in interest rate.

Under these circumstances, Kyokuto Kaihatsu Group will strive to implement the initiatives under the last phase of “Plan 2004” to achieve sales and earnings growth in our three business domains: Specialty Truck Division, Environmental Equipment and Systems Division and Real Estate Leasing Division. And, Kyokuto Kaihatsu Group will work together to further develop the corporate activities and maximize the corporate value, leveraged by the synergy effect of the intra-group alliance in the year to come.

The management expects consolidated sales for the year ending March 31, 2007 to be at ¥54,300 million with ordinary income and net income of ¥2,660 million and ¥1,520 million, respectively.

Kyokuto Kaihatsu group’s automobile sales business has been facilitated by the Toyota Corolla Naniwa Co., Ltd, and by the sales of equities holdings of Toyota Corolla Naniwa, the Company will cease this business after March 31, 2007.

(3) Financial Review

1 Assets, Liabilities and Stockholders’ Equity

Total assets at March 31, 2006 decreased by 0%, or ¥65 million to ¥87,234 million compared with the previous fiscal year-end.

Current assets decreased by 6%, or ¥2,680 million to ¥45,784 million. This decrease was primarily attributable to decrease in notes and account receivable.
Fixed assets increased by 7%, or ¥2,615 million to ¥41,450 million due to increase (¥1,825 million) in securities investment.

Current liabilities at March 31, 2006 decreased by 12%, or ¥2,737 million compared with the previous fiscal year-end. This decrease was primarily attributable to decrease in short-term borrowings. Long-term liabilities increased by 1%, or ¥99 million due to increase in deferred tax liabilities, which offset decrease in long-term borrowings. As a result, total current and long-term liabilities at March 31, 2006 decreased by 8%, or ¥2,637 million to ¥29,116 million compared with the previous fiscal year-end.

Stockholders' equity at March 31, 2006 increased by 5%, or ¥2,571 million to ¥58,118 million compared with the previous fiscal year-end. This increase was primarily because of increase in both retained earnings and difference of evaluation of investment securities.
The ratio of stockholders' equity to total assets at March 31, 2006 increased from 64% for the previous fiscal year to 67%.

2 Cash Flows

Cash and Cash equivalents at March 31, 2006 increased by 2%, or ¥291 million to ¥12,661 million compared with the balance at the beginning of this fiscal year. Details are as follows.

・**Cash flows from operating activities**

Net cash provided by operating activities totaled ¥4,950 million, increased by ¥7,535 million in the previous year due mainly to the decrease in notes and accounts receivables in Specialty Truck Division and Environmental Equipment and Systems Division.

・**Cash flows from investing activities**

Net cash used in investing activities decreased by ¥471 million to ¥1,019 million compared with the previous year due to increase in purchases of fixed assets as well as securities investment despite proceeds from sales of fixed assets.

・**Cash flows from financing activities**

Net cash used in financing activities decreased by ¥6,498 million to¥3,688 million compared with the previous year due primarily to the payment of short-term borrowings.

(4) Risk Management

1 Risks related to unusual change in financial position, operating results and cash flow position

The Company has no significant unusual change or significant factors which may cause the material impact in its financial position, operating results and cash flow position in future for the fiscal year ended March 31, 2006.

2 Risks related to concentration in a particular customer, product, and technology

In our core business, Specialty Truck Division, our customer portfolio is comprised of the diversified domestic truck manufacturers or their affiliated sales companies or trading firms, therefore, successfully reducing the risks related to concentration in a particular customer or particular item. In addition, we have built wide range of technological expertise for manufacturing and marketing of each model in this product line.

As for the Environmental Equipment and Systems Division, the Company provides its business (e.g. plant or system construction for Waste Disposal, maintenance service or contracted business for maintenance and system operation) to most of the local governments in Japan based on their needs.

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

In the Specialty Truck Division, enactment or amendment of particular law such as Road Traffic Law, Road Trucking Vehicle Law, and Motor Vehicle Safety Standard generally and materially affect the Company’s business performance. The vehicle which may fall to meet these regulations will not be allowed to use or hold by the government, this, in turn, temporarily generate extra demand (usually called “last minutes buying”) before regulation enactment or amendment. Thereafter, overall demand will be adversely affected by this customer’s behavior, shrinking rapidly in the following terms.

In the Environmental Equipment and Systems Division, as the business of plant construction of Waste disposal for the local government is subject to the regulation under Construction Industry Law, the Company conducts the business with the license of construction industry or cleaning facilities construction industry which are authorized by the minister of land, infrastructure and transportation. Additionally, enactment or amendment of other environmental related regulation or law, for example, anti-dioxin regulation, again may cause additional renewal demand for the plant.

4 Risks related to material litigation

There was no material litigation which may bring the material impact on the business performance for the year ended March 31, 2006.

5 Substantive matters concerning directors, major shareholders, and affiliated companies

There was no substantive matter relating to the Company’s directors, major shareholders, and affiliated companies for the year ended March 31, 2006.

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Net sales	58,138	60,570	494,925
Cost of sales	45,917	48,775	390,891
Gross profit	12,220	11,795	104,034
Selling, general and administrative expenses	9,524	9,480	81,079
Operating income (loss)	2,696	2,314	22,955
Other income (expenses)			
Interest and dividend income	67	64	570
Interest expenses	(104)	(114)	(890)
Gain (loss) on sales of property and equipment	1,628	(13)	13,865
Gain (loss) on sales of securities	158	533	1,347
Write-down of investment securites	–	(50)	0
Special research and development expenditures	(297)	(727)	(2,533)
Other-net	(652)	(90)	(5,558)
Income (loss) before income taxes	3,495	1,915	29,756
Income taxes (Note 12)			
current	1,248	654	10,630
deferred (prepaid), net	336	298	2,865
Total income taxes	1,585	952	13,495
Minority interest	—	0	0
Net income (loss)	1,910	963	16,260
Retained earnings:			
Balance at beginning of period	31,208	30,742	265,676
Cash dividends paid	(338)	(308)	(2,879)
Bonuses to directors and statutory auditors	(50)	(48)	(429)
Adjustment of retained earnings for eliminations of treasury stock	(125)	(138)	(1,067)
Balance at end of period	32,604	31,208	277,559

	Yen		U.S. dollars
Per share of common stock:			
Net income (loss)	43.46	32.42	0.37
Diluted net income (loss)	43.17	32.04	0.37
Cash dividend, applicable to earnings of the year	10.00	12.00	0.09

The accompanying notes are an integral part of this statements.

CONSOLIDATED BALANCE SHEETS

	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars (Note 1) 2006
ASSETS			
Current assets :			
Cash and time deposits	5,030	6,007	42,820
Short-term investments (Note 3)	7,701	6,432	65,563
Trade note and accounts receivable	25,290	28,250	215,290
Less : Allowance for doubtful accounts	(194)	(184)	(1,657)
Inventories	6,746	5,630	57,434
Deferred income taxes (Note 12)	766	671	6,529
Prepaid expenses	67	113	571
Other current assets	376	1,542	3,203
Total current assets	45,784	48,464	389,756
Investments and other assets :			
Investments in securities (Note 3)	6,761	4,935	57,561
Deferred income taxes (Note 12)	336	324	2,866
Other	3,220	3,367	27,411
Total investments and other assets	10,318	8,627	87,839
Property and equipment :			
Land	13,310	12,386	113,312
Buildings and structures	26,685	26,104	227,169
Machinery and equipment	7,504	7,326	63,883
Construction in progress	83	736	714
Other	2,020	2,310	17,197
	49,604	48,863	422,277
Less—Accumulated depreciation	(19,006)	(19,035)	(161,797)
Total property and equipment	30,598	29,827	260,480
Intangible assets			
Cost in excess of net assets of subsidiaries	—	8	—
other	533	371	4,537
total intangible assets	533	379	4,537
Total assets	87,234	87,300	742,613

CONSOLIDATED BALANCE SHEETS

	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars (Note 1) 2006
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities :			
Short-term bank loans (Note 4)	3,000	6,150	25,538
Current portion of long-term bank loans (Note 4)	1,028	22	8,759
Trade note and account payable	10,965	12,439	93,345
Accrued income and other taxes	1,388	738	11,818
Accrued expenses	2,036	1,957	17,332
Other current liabilities	1,523	1,370	12,968
Total current liabilities	19,942	22,679	169,763
Long-term liabilities :			
Long-term bannk loans (Note 4)	86	1,115	732
Accrued retirement benefits(Note 5)	1,837	1,894	15,640
Directors' and statutory auditors' retirement benefits	303	249	2,582
Deferred income taxes (Note 12)	2,205	1,064	18,773
Other long-term liabilities (Note 4)	4,742	4,750	40,372
Total long-term liabilities	9,174	9,074	78,100
Minority interrests	—	—	—
Shareholders' equity :			
Common stock, no par value (Note 10)			
Authorized — 117,708,100 shares			
Issued — 28,469,779 shares in 2005 and			
42,737,668 shares in 2006	11,899	11,892	101,301
Additional paid-in capital (Note 10)	11,718	11,711	99,759
Retained earnings	32,604	31,208	277,559
Net unrealized holding gains on securities	2,105	1,089	17,925
Foreign currency translation adjustments	138	(74)	1,183
Treasury stock, at cost	(349)	(280)	(2,978)
Total shareholders' equity	58,118	55,546	494,749
Total liabilities and shareholders' equity	87,234	87,300	742,613

CONSOLIDATED STATEMENT OF CASH FLOWS

	Millions of yen		Thousands of U.S. dollars (Note 1)
Operating activities:	2006	2005	2006
Net income before income taxes	3, 495	1915	29,756
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Dpreciation and amortization	1, 511	1, 434	12,870
Write-down of investment securites	28	58	245
Net gains (loss) on sales of marketable securities and investments	(145)	(534)	(1,238)
Net gains (loss) on sales of proparty	(1, 558)	12	(13,270)
Provision (reversal) for accrued retiremennt benefits	8	40	70
Interest and dividend income	(67)	(64)	(570)
Interrest expenses	104	114	890
Decreease (increase) in accounts receivable	3, 039	(4, 239)	25,871
Decrease (increase) in inventories	(1, 229)	1, 538	(10,463)
Decrease (increase) in prepaid expenses	69	85	593
Decrease (increase) in accounts payable	(1, 339)	(775)	(11,399)
Decrease (increase) in accrued expenses	12	(147)	106
Decrease (increase) in income taxes payable	(140)	352	(1,194)
Other,net	2, 139	366	18,210
Sub total	5, 929	158	50,478
Interest and dividend income received	66	62	569
Interest expenses paid	(36)	(43)	(306)
Income taxes paid	(459)	(1, 866)	(3,908)
Other,net	(551)	(895)	(4,692)
Net cash provided by operating activities	4, 950	(2, 584)	42,140
Investing activities:			
Payment for purchase of marketable securities and investmen	(1, 212)	(364)	(10,320)
Proceeds from sales of marketable securities and investments	566	1, 171	4,819
Payment for purchase of facilities	(2, 949)	(1, 414)	(25,110)
Proceeds from sale of facilities	2, 247	61	19,136
Disbursement of loan receivables	(7)	(39)	(66)
Collection of loan receivables	336	37	2,866
Net cash provided by (used in) investing activities	(1, 019)	(547)	(8,674)
Fainancing activities:			
Increase (decrease) in short-term debt	(3, 150)	3, 194	(26,815)
Proceeds from long-term debt	—	—	—
Payment on long-term debt	(22)	(32)	(191)
Proceeds from issuance of common stock	15	99	130
Purchases of treasury stock	(396)	(560)	(3,379)
Proceeds from sales of treasury stock	202	—	1,725
Dividends paid	(337)	(308)	(2,873)
Net cash provided by (used in) financing activities	(3, 688)	2, 809	(31,403)
Effect of exchange rate change on cash and cash equivalents	48	(30)	416
Net increase in cash and cash equivalents	291	(353)	2,478

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, 2006, which was ¥117.47 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.

Effective April 1, 2005, the Company and its domestic consolidated subsidiaries adopted the new Japanese accounting standard for write-down of fixed assets.
The effect of this adoption was to decrease income before income taxes by ¥140 million ($1,199 thousand).

(f) Stock and bond issue expenses

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

(g) Accrued Retirement Benefits

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

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

(h) Revenue recognition

The percentage of completion method is applied to the construction works which take longer than one year and exceed ¥200million ($1,703 thousand) in contract amount.

(i) Leases

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

(j) Research and Development and Computer Software

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

(k) Income Taxes

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

(l) Per Share Information

The computation of basic net income per share is based on the weighted average number of shares of common stock outstanding during each period. The average number of shares used in the computation was 42,353 thousand shares for 2006 and 28,148 thousand shares for 2005 (see Note 10).

For the year ended 31, 2006 and 2005 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, 2006 and 2005 consisted of the following:

	Millions of yen		*Thousands of U.S. dollars*
	2006	2005	2006
Market value available:			
Trading securities	―	¥ 101	―
Market value not available:			
M.M.F. and F.F.F.	¥ 7,701	¥ 6,301	$ 65,563
Other investment trust	―	30	―
Total	¥ 7,701	¥ 6,432	$ 65,563

The following is a summary of other securities at March 31, 2006 and 2005:

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

	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

	Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
	Thousands of U.S. dollars			
	March 31, 2006			
	Other securities			
Market value available:				
Equity securities	$ 17,528	$ 30,208	―	$ 47,736
Bonds and debentures	―	―	―	―
Other securities	―	―	―	―
	$ 17,528	$ 30,208	―	$ 47,736
Market value not available:				9,825
Total				$ 57,561

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

The annual average interest rates applicable to short-term bank loans at March 31, 2006, and 2005 are 0.67％ and 0.66％, respectively.

Long-term debt at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
0.58％ bank loans due 2007	¥ 1,028	¥ 22	$ 8,759
0.48％ bank loans due 2013	86	1,115	732
1.50％ guarantee money due 2023	3,250	3,180	27,667
	¥ 4,365	¥ 4,317	$ 37,159

Aggregate annual maturities of long-term debt subsequent to March 31, 2006 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥ 1,028	$ 8,759
2008	261	2,230
2009	260	2,217
2010	244	2,078
2011 and thereafter	2,569	21,873
	¥ 4,365	$ 37,159

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, 2006 and 2005.

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Benefit obligation at end of year	¥ 5,230	¥ 5,259	$ 44,530
Fair value of plan assets at end of year	3,361	2,852	28,616
Funded status:			
Benefit obligation in excess of plan assets	1,869	2,407	15,914
Unrecognized net transition obligation at date of adoption	—	—	—
Unrecognized prior service cost	—	—	—
Unrecognized actuarial loss	32	524	274
Prepaid expenses for plan assets at end of year	(—)	(11)	(—)
Accrued pension liability recognized in the consolidation balance sheets	1,837	1,894	15,640

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, 2006 and 2005.

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Service cost	¥ 268	¥ 271	$ 2,288
Interest cost	102	109	874
Expected return on plan assets	(78)	(62)	(670)
Amortization:			
Transition obligation at date of adoption	—	—	—
Prior service cost	—	—	—
Actuarial losses	107	146	919
Net periodic benefit cost	¥ 400	¥ 465	$ 3,411

Assumption used in the accounting for the defined benefit plans for the year ended March 31, 2006 and 2005 is as follows:

	2006	2005
Method of attributing benefit to periods of service	straight –line basis	straight –line basis
Discount rate	2.0 %	2.0 %
Long-term rate of return on fund assets	2.0 %	2.0 %
Amortization period for transition obligation at date of adoption	—	—
Amortization period for prior service cost	—	—
Amortization period for actuarial losses	10 years	10 years

6. Contingencies

At March 31, 2006 and 2005, the Group was contingently liable as follows:

	Millions of yen		Thousands of US dollars
	2006	2005	2006
As an endorser of notes discounted or endorsed	¥ 2,069	¥ 2,079	$ 17,620
As a guarantor of indebtedness of :			
Associates	¥ 5,795	¥ 5,015	$ 49,332
Others	43	52	367
	¥ 5,838	¥ 5,067	$ 49,698

7. Cash and cash equivalents

Cash and cash equivalents at March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Cash and time deposits	¥ 5,030	¥ 6,007	$ 42,820
Short-term investment	7,701	6,432	65,563
Less-Time deposits with original maturities more than three months	(70)	(70)	(596)
Less-Stock	—	—	—
	¥12,661	¥ 12,370	$ 107,788

8. Leases

The Group leases certain machinery and equipment, and other assets. Total lease payments under these leases were ¥ 477 million ($ 4,065 thousand) , and ¥ 437 million for the years ended March 31, 2006 and 2005, 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, 2006 and 2005, are as follows:

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

	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

	Thousands of U.S. dollars		
	2006		
	Machinery and Equipment	Other	Total
Acquisition costs	$ 15,375	$ 5,349	$ 20,724
Accumulated Depreciation	9,179	3,708	12,887
Net leased property	$ 6,196	$ 1,641	$ 7,837

Future minimum lease payments under finance leases as of March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Due within one year	¥ 418	¥ 422	$ 3,567
Due after one year	501	729	4,270
Total	¥ 920	¥ 1,152	$ 7,837

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 ¥477 million ($4,065 thousand) for the year ended March 31, 2006.

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, 2006 and 2005, 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, 2006 and 2005.

１０． Shareholders' Equity

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

			Millions of yen	
		Number of Shares	Common Stock	Additional paid-in capital
Balance of March 31, 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
Stock split		14,245,889	—	—
Retirement of stock during 2006	……	22,000	7	7
Balance of March 31, 2006	……	42,737,668	11,899	11,718

		Thousands of U.S.dollars	
		Common Stock	Additional paid-in capital
Balance of March31, 2005	……	101,236	99,694
Retirement of stock during 2006	……	65	65
Balance of March31, 2006	……	101,301	99,759

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

(2) Stock split

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

１１． Research and Development and Computer Software

Research and development expenditure charged to income was ¥ 1,100 million ($ 9,364 thousand) and ¥ 1,505 million for the years ended March 31, 2006 and 2005, respectively.

１２． INCOME TAXES

The Company and its domestic subsidiaries are subject to several taxes based on income, which in the aggregate resulted in statutory tax rates of approximately 40.6％ and 40.6 % for the years ended March 31, 2006 and 2005, 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, 2006 differs from the Company's statutory tax rate for the following reasons:

	2006	2005	
Statutory tax rate	40.6	40.6	%
Dividend income ·······································	(0.3)	(0.3)	
Expenses not deductible for income tax purposes ······	1.8	2.7	
Per capital inhabitant tax	1.8	3.3	
Other ···	1.5	3.4	
Effective tax rate ··	45.4	49.7	%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at March 31, 2006 and 2005 are presented below:

	Millions of yen		Thousands of US dollars
	2006	2005	2006
Deferred tax assets:			
Accrued expenses	¥ 425	¥ 418	$ 3,620
Accrued retirement benefits	860	818	7,326
Depreciation	233	194	1,984
Unrealized profits	302	302	2,576
Tax loss carryforwards	129	53	1,104
Other	488	402	4,155
Total gross deferred tax assets	2,439	2,190	20,766
Less valuation allowance	(266)	(189)	(2,265)
Net deferred tax assets	2,173	2,001	18,501
Deferred tax liabilities:			
Special tax-purpose reserve for condensed booking of fixed assets	(1,831)	(1,323)	15,595)
Unrealized gains of other securities	(1,442)	(746)	(12,283)
Total gross deferred tax liabilities	(3,274)	(2,069)	(27,878)
Net deferred tax assets	¥ (1,101)	¥ (68)	$ (9,377)

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, 2006.
Tax loss carryforwards will expire between 2007 and 2009.

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

	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

	Thousands of U.S. dollars					
	2006					
	Industry A	Industry B	Industry C	Industry D	Eliminations/ Corporate	Consolidated
Sales to customers	$360,046	$64,342	$49,417	$21,121	$ —	$494,926
Intersegment	50	—	—	4,098	(4,149)	—
Total sales	360,097	64,342	49,417	25,219	(4,149)	494,926
Operating expenses	344,578	62,557	49,463	19,611	(4,239)	471,970
Operating income	$15,519	$ 1,785	$ (46)	$ 5,608	$ 90	$ 22,955

b. Assets, Depreciation and Capital Expenditures

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

	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

	Thousands of U.S. dollars					
	2006					
	Industry A	Industry B	Industry C	Industry D	Eliminations/ Corporate	Consolidated
Assets	$396,413	$43,143	$49,877	$78,122	$175,058	$ 742,613
Depreciation	7,268	563	915	2,694	—	11,441
Capital expenditure	20,652	1,697	957	505	—	23,812

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

(1) The following appropriations of the Company’s retained earnings in respect of the year ended March 31, 2006 were as proposed by the Board of Directors and approved by the shareholders at the annual general meeting held on 29 June, 2006:

Appropriations	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥ 10 per share)	¥ 211	$ 1,802
Bonuses to directors	26	223
Total appropriations	¥ 237	$ 2,025

(2) Sales of a subsidiary

On April 1, 2006, Kyokuto Kaihatu Co.,Ltd sold a subsidiary.
The estimated profit on the sales of ¥195 million (U.S.$1,660 thousand) will be recorded in fiscal 2006.

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, 2005 and 2006, 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, 2006. 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, 2005 and 2006, and the results of their operations and their cash flows for each of the years in the two-year period ended March 31, 2006 in conformity with accounting principles generally accepted in Japan, except at noted in the following paragraph.

As explained in Note 2 (d), in the year ended March 31,2006,Kyokuto Kaihatsu Kogyo Co.,Ltd. and subsidiaries adopted the new Japanese accounting standard for write-down of fixed assets.

The accompanying consolidated financial statements as of and for the year ended March 31, 2006 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, 2006

・CORPORATE INFORMATION

Kyokuto Kaihatsu Kogyo Co.,Ltd.
Established: June,1955
Paid-in Capital: ¥11,899 million (at March 31,2006)
Number of Shares Issued: 42,737,668shares (at March 31,2006)
Number of Employees:1,385 (at March 31,2006)

Head Office:
1-45,Koshienguti 6-chome,Nishinomiya City,
Hyogo Prefecture,663-8545 Japan
Tel.+81-798-66-1000, Fax.+81-798-66-8146
Tokyo Office:
1-1,Asahicho,Haneda,Ota-ku,Tokyo,144-0042,Japan
Tel.+81-3-5737-2271, Fax+81-3-5737-7791

Plants:
Yokohama Plant
Occupies 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,
Vice President and Representative of the Board of Directors, CEO
Takaaki Hudetani ,
Director, Senior Managing Executive Officer
Yukinori Matsuhashi,
Director, Managing Executive Officer
Motohachi Hashimoto ,
Director, Managing Executive Officer
Akira Yamashita, Director, Executive Officer
Syunji Nakamura, Director, Executive Officer

Tomoki Ueyama, Executive Officer
Rikio Sagawa, Executive Officer
Kozo Ueda, Executive Officer
Masatoshi Yosida, Executive Officer
Hiroharu Kobayashi, Executive Officer
Taro Okamoto, Executive Officer
Kazuyoshi Nakai, Executive Officer
Norihiro Kumazawa, Executive Officer

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