Annual Report 2011

Year ended March 31, 2011

CONTENTS

Kyokuto Kaihatsu Kogyo Co.,Ltd.

1. Operational Results

(1) Analysis of Operational Results

<Summary of Operational Results for the Consolidated fiscal Year ended March 31, 2011>

First of all, we would like to express our deepest sympathy to all those who have been affected by the Great East-Japan Earthquake on March 11, 2011, and pray for earlier revival for the stricken area.

Despite the general trend of slow recovery based on improving business profits and expanding exports particularly to newly emerging markets, the overall Japanese economy in the current consolidated fiscal year continued to present an unclear outlook due to abrupt appreciation of yen and soaring crude oil prices.

Representative Director, President, CEO Takaaki Fudetani

Under this business environment, the domestic economy, hit by the unprecedented disaster caused by the Great East-Japan Earthquake, plummeted toward the end of the fiscal year. With the lingering effects of the Great East-Japan Earthquake, our domestic plants were unable to resume ordinary operations, for a few months, particularly for the Specialty Truck Segment, a mainstay of the Company, as it became difficult to secure components and materials, including chassis, due to damages suffered by our business partners, etc. Our plants, branches, and service bases, etc., for example, Sendai Business Office (Miyagino-ku, Sendai-shi, Miyagi) and Fukushima Business Office (Koriyama-shi, Fukushima) were also directly hit. We thus marked an extraordinary loss of 117 million yen in the current consolidated fiscal year to cover the losses and expenses for buildings and facilities damaged by the disaster.

Despite the above negative effects of the Earthquake toward the end of the fiscal year, we incessantly continued our efforts in strengthening the corporate constitution, so that we can generate profits even in the dwindling scale of the domestic specialty truck market, in the consolidated fiscal year under review, which was also the first year of the new medium-range management planning, "Plan 2010" (April 2010 - March 2013), commenced in April last year. These unified efforts of the entire Group were made, specifically, by means of integration/elimination and consolidation of production system, cost reduction, promotion of in-house production, improvement of profitability by suppressing fixed costs, etc., promotion of overseas business deployment, and product development, etc., based on the keywords of "environment," "safety," and "global.".

Although the Specialty Truck Segment, a mainstay of our business, continued to see a severe business environment due to dwindling domestic demands for specialty trucks, a recovery became palpable, owing partly to special subsidies for new vehicle purchases and partly to last-minute rush demands before implementation of stricter emission controls. The Environment Equipment and Systems Segment and the Real Estate Rental Segment continued to show unfavorable performances due to persistently harsh market conditions.

As a result, in the current consolidated fiscal year, net sales increased by 3,615 million yen (6.7%) compared with the preceding consolidated fiscal year to 57,686 million yen. As for profit and loss status, operating income reached 1,195 million yen, an improvement of 3,767 million yen due to our profit improvement efforts specifically targeted at the Specialty Truck Segment, our mainstay category, in the past three years. Thus, the current net income reached 882 million yen, an improvement of 3,310 million yen over the level marked in the previous term, primarily due to the steady increases in our main operations, despite the fact that the special loss of 117 million yen incurred, as mentioned above, due to the earthquake disaster.

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

ⅰ) Specialty Truck Segment

Even during the continuously declining domestic market for specialty vehicles, the Specialty Truck Segment had shown a sign of recovery due to the subsidies for new vehicle purchases, and other favorable effects. However, since the latter half of March, the production plummeted because of the Great East-Japan Earthquake, forcing our business partners to stop their factory production and making it extremely difficult for us to procure necessary components and materials.

However, the Company aggressively strived to improve profits through not only securing demands, but also promoting cost reduction and in-house production initiatives throughout the fiscal year. Furthermore, in order to enhance production efficiency, Nippon Trex Co., Ltd. acquired Kyushu Trex Co., Ltd., a Group company, through a merger, as of January 1, 2011, and integrated production bases in Kyushu into our Fukuoka Plant. As part of our overseas development efforts, the Company established “MITHRA KYOKUTO SPECIAL PURPOSEE VEHICLE COMPANY PRIVATE LIMITED” in Vijayawada, Andhra Pradesh, India as of October 7, 2010. The plant construction started on the same month, and is scheduled to start commercial production by the end of fiscal 2011, as the second overseas production site following the first in Kunshan, China.

As a result, net sales in the Specialty Truck Segment increased by 5,382 million yen (13.4%) to 45,646 million yen. The Company saw segment profit (loss) increase by 3,631 million yen and posted segment loss of 674 million yen due to the above various profit improvement measures taken. We would like to improve our profitability in the same Segment by concentrating on these profit improvement measures.

MITHRA KYOKUTO

Perspective of the Plant in India
(MITHRA KYOKUTO SPECIAL PURPOSE VEHICLE COMPANY PRIVATE LIMITED)

ⅱ) Environment Equipment and Systems Segment

For the Environment Equipment and Systems Segment, management tried to secure profits by strengthening the maintenance and system operation business and, for the plant construction business, obtaining orders with serious consideration on profitability and on PFI projects.

As a result, orders the Segment obtained increased by 2,424 million yen (25.5%) to 11,934 million yen due to obtaining orders of recycle center from Saitama, Funabashi, and Noda cities. Net sales decreased by 943 million yen (11.3%) to 7,369 million yen due to temporary reduction of POCM. Segment profit increased by 17 million yen to 1,297 million yen due to various profit improvement measures taken.

Pulverizer system for demonstration
in Kunshan Plant (China)

ⅲ) Real Estate Rental Segment

For the Real Estate Rental Segment, in the severe environment due to the sluggish market, we focused on maintenance and renewal of multistory parking equipment, promotion of cost reduction and enforcement of sales organization for toll parking lots.

As a result, net sales decreased by 807 million yen (13.6%) to 5,146 million yen and segment profit increased by 15 million yen (1.9%) to 861 million yen due to improvement of its profitability.

Multistory parking equipment

Toll parking (coin-operated)

<Forecast of Operations for the Next Consolidated Fiscal Year ending March 31, 2012>

Management expects the overall national economic conditions to remain unclear in the aftermath of the Great East-Japan Earthquake, the electricity shortage and the appreciation of the yen.
Although demands will continue for a while in nation-wide recovery efforts after the disaster, it’s difficult to estimate its effect accurately, so we have to watch the market trends carefully. In this situation, we will continue our efforts aggressively to obtain orders and emphatically promote overseas initiatives.

Regarding the forecast of consolidated business performance for March 2012, the Company estimates net sales to increase by 3,814 million yen (6.6%) over March 2011 to 61,500 million yen, since the Specialty Truck Segment is likely to increase sales. Management expects the overall operating income to increase by 505 million yen to 1,700 million yen, due to an improvement in the Specialty Truck Segment, etc., while net income is estimated to grow by 618 million yen to 1,500 million yen.

(2) Analysis on Financial Conditions

ⅰ) Situations of Assets, Liabilities and Net Worth

In the current consolidated fiscal year, total assets increased by 2,821 million yen (3.3%) from the end of the preceding fiscal year to 88,119 million yen.

Current assets increased by 2,851 million yen (6.9%) to 44,277 million yen, due to increases in trade notes and accounts receivable, and in short-term securities, etc.

Non-current assets (property, plant and equipment, intangible assets and investments and other assets) decreased by 30 million yen (0.1%) to 43,842 million yen, due to depreciation, despite acquisition of land, investment in foreign subsidiaries and acquisition of national bond as guarantee deposit for plant construction.

Regarding liabilities, current liabilities increased by 1,196 million yen (6.0%) to 21,054 million yen, due to increases in trade notes and accounts payable and in current portion of long-term bank loans, etc. Non-current liabilities increased by 1,091 million yen (8.3%) to 14,172 million yen due to an increase in long-term bank loans, etc.

Total shareholder's equity increased by 534 million yen (1.0%) to 52,893 million yen, due to an increase in unrealized gain on available-for-sale securities as well as posting of net profit.

As a result, the capital adequacy ratio stood at 60.0% as of the end of the current fiscal year (61.4% at the end of the preceding fiscal year).

ⅱ) Cash Flow Situation

Consolidated cash and cash equivalents at the end of period increased by 1,991 million yen (18.0%) over the balance at the beginning of period to 13,058 million yen. Cash flow by activity type is summarized as follows:

Cash Flow from Operating Activities

Net cash provided by operating activities amounted to 2,476 million yen (a decrease of 3,282 million yen compared with the preceding fiscal year). This was because of a posting of income before income taxes and an increase in trade notes and accounts payable, etc.

Cash Flow from Investing Activities

Net cash used in investing activities was 2,309 million yen (an increase of 386 million yen compared with the preceding fiscal year). This was because of purchases of property, plant and equipment and securities and investment, etc.

Cash Flow from Financing Activities

Net cash provided by financing activities was 1,839 million yen (an increase of 4,191 million yen compared with the preceding fiscal year). This was because of proceeds from long-term bank loans.

⑶ Principal policy for return of profits to shareholders and payment of dividends for the current year and next year

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

The Meeting of Shareholders on June 28th, 2011 resolved and passed to pay a dividend of four yen per share at the end of March 2011 as originally proposed by management, making its annual dividend 7 yen per share including an interim dividend.

For the year ending March 2012, management plans to pay an annual dividend of 9 yen per share (including an interim dividend of four yen).

(4) Business Risks

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

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

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

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

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

In the Environmental Equipment and Systems Segment, since the construction of a garbage disposal plant is subject to regulations under the Construction Industry Law, the company conducts business with the license of a construction or cleaning facilities construction industry which is authorized by the Minister of Land, Infrastructure, Transport and Tourism.

iii) Risk related to the fluctuation of raw material prices

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

iv) Risks related to overseas business activities

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

v) Risks related to credit risks in business partners

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

2. Management Policy

(1) Basic Management Policy of the Company

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

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

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

(2) Targeted management index

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

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

As special demands are expected in restoration work after the disaster, the Group is determined to respond to orders and production requirements for our various products, specifically specialty trucks, our mainstay, so that we can contribute to expeditious recovery of the disaster-stricken areas.

However, since long-term domestic demands for trucks are not expected to grow rapidly, we will emphatically promote overseas initiatives, focusing particularly on newly developing countries expected to generate strong demands.

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

Basic Policies

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

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

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

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

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

Key Strategies

(1) Specialty Truck Segment

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

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

[Result in the year ending March 2011]

(1) We had Kyushu Trex Co., Ltd. merge into Nippon Trex Co., Ltd. on January 1, 2011, and integrated production bases in Kyushu into our Fukuoka Plant for the production rationalization.

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

(3) We have increased international sourcing for cost reduction, especially from China utilizing Kunshan Plant and Shanghai Business Office.

Challenge: ***Establishing new overseas manufacturing sites to ensure business development***

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

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

[Result in the year ending March 2011]

(1) We have founded “Mithra Kyokuto Special Purpose Vehicle Company Private Limited” in Vijayawada, Andhra Pradesh, India as of October 7, 2010, and started plant construction in the same month. We expect that it will start its commercial production in 2011.

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

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

We will actively work upon product development and sales promotion based on the keywords of “environment”, “safety”, and “global”. We will expand sales for our new range of products such as the electric refuse trucks “E PACKER™” whose equipment is driven electrically, and electric concrete pumps “twin-drive PISTON CRETES™”, etc. We will also work actively upon developing new products which match the needs of the overseas markets as we enforce our businesses in these overseas markets, too.

[Result in the year ending March 2011]

(1) We have developed the line-up of the electric refuse trucks “E PACKER™” and actively promoted them by exhibiting them at some expositions or other events.

(2) We have introduced a new product “Double-axis 24kl rectangular-type aluminum tank semitrailer”, jointly developed with Nippon Trex.

(3) We have actively launched other new products including piston-type concrete pumps “PISTON CRETE™ PY100-30-S”.

(2) Environmental Equipment and Systems Segment

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

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

[Result in the year ending March 2011]

(1) We have obtained orders of new plant constructions from Saitama, Noda and Funabashi cities.

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

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

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

[Result in the year ending March 2011]

(1) We have installed pulverizer system for demonstration in Kunshan Plant (China) to strengthen the overseas sales.

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

(3) Real Estate and Rental Segment

Challenge: ***Expanding our car-parking business***

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

[Result in the year ending March 2011]

(1) We have actively promoted renewal of multistory parking equipment to expand the profits.

(2) We have strengthened maintenance business activities.

(4) New businesses

Challenge: ***Competing in new business areas***

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

[Result in the year ending March 2011]

(1) We have started studies for EV conversion business including the market research.

(2) We have continually studied some new markets, expected to grow in the future or to bring us synergy, from several viewpoints.

(4) Other Important Matters Concerning Management

There are no other pertinent matters.

CONSOLIDATED BALANCE SHEETS
At March 31, 2011 and 2010

ASSETS	Millions of yen 2011	Millions of yen 2010	Thousands of U.S. dollars (Note 1) 2011
Current assets:			
Cash and deposits (Notes 8 & 10)	¥ 5,609	¥ 5,723	$ 67,463
Short-term securities (Notes 8 & 10)	7,949	5,345	95,598
Trade notes and accounts receivable (Note 10)	21,178	20,503	254,692
Merchandise & finished goods	94	144	1,129
Work in process	1,888	1,821	22,710
Raw materials & supplies	5,755	6,329	69,216
Other current assets	838	789	10,075
Deferred tax assets (Note 15)	1,115	979	13,413
Allowance for doubtful accounts	(149)	(207)	(1,797)
Total current assets	44,277	41,426	532,499
Property, plant and equipment (Note 11):			
Land (Note 5)	19,331	19,200	232,489
Buildings and structures (Note 5)	30,034	30,151	361,203
Machinery, equipment and vehicles	15,514	12,850	186,580
Construction in progress	16	38	192
Other	1,131	3,848	13,601
Total	66,026	66,087	794,065
Accumulated depreciation	(31,072)	(30,006)	(373,692)
Net property, plant and equipment	34,954	36,081	420,373
Intangible assets	357	392	4,283
Investments and other assets:			
Investment securities (Notes 3, 5 & 10)	5,585	4,100	67,165
Deferred tax assets (Note 15)	913	1,022	10,985
Other assets	3,411	3,931	41,022
Allowance for doubtful accounts	(1,378)	(1,654)	(16,573)
Total investments and other assets	8,531	7,399	102,599
Total	¥ 88,119	¥ 85,298	$ 1,059,754

The accompanying notes are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS
At March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
LIABILITIES AND SHAREHOLDERS' EQUITY	2011	2010	2011
Current liabilities:			
Short-term bank loans (Notes 4, 5 & 10)	¥ 2,620	¥ 2,620	$ 31,509
Current portion of bonds payable (Notes 4 & 10)	494	494	5,941
Current portion of long-term bank loans (Notes 4, 5 & 10)	1,865	1,235	22,423
Trade notes and accounts payable (Note 10)	12,014	11,171	144,487
Accrued expenses	2,120	2,015	25,496
Income taxes payable	158	245	1,904
Other current liabilities	1,783	2,078	21,441
Total current liabilities	21,054	19,858	253,201
Non-current liabilities:			
Bonds payable (Notes 4 & 10)	1,135	1,629	13,650
Long-term bank loans (Notes 4, 5 & 10)	3,967	1,757	47,710
Liabilities for retirement benefits (Note 6)	2,189	2,404	26,330
Liabilities for directors' retirement benefits	125	115	1,506
Deferred tax liabilities (Note 15)	1,494	1,511	17,973
Other non-current liabilities (Notes 4, 5 & 10)	5,262	5,665	63,270
Total non-current liabilities	14,172	13,081	170,439
Shareholders' Equity:			
Common stock (Note 13):			
Authorized-170,950,672 shares			
Issued-42,737,668 shares in 2011 and 2010	11,900	11,900	143,113
Capital surplus	11,719	11,719	140,935
Retained earnings	31,254	30,610	375,876
Treasury stock, at cost:			
3,004,758 shares in 2010			
3,005,055 shares in 2011	(2,145)	(2,145)	(25,798)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	367	294	4,408
Foreign currency translation adjustments	(202)	(19)	(2,420)
Total accumulated other comprehensive income	165	275	1,988
Total shareholders' equity	52,893	52,359	636,114
Total	¥ 88,119	¥ 85,298	$ 1,059,754

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF INCOME
Years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Net sales	¥ 57,686	¥ 54,071	$ 693,762
Cost of sales	47,177	45,400	567,374
Gross profit	10,509	8,671	126,388
Selling, general and administrative expenses	9,314	11,243	112,014
Operating income (loss)	1,195	(2,572)	14,374
Other income (expenses):			
Interest and dividend income	95	75	1,146
Interest expense	(176)	(174)	(2,112)
Gain (loss) on sales or disposition of property and equipment, net	(32)	(50)	(382)
Loss on impairment of long-lived assets	(5)	(3)	(62)
Gain (loss) on sales of securities	54	0	647
Write-down of investment securities	-	(186)	-
Amortization of negative goodwill	377	377	4,528
Loss on disaster	(117)	-	(1,411)
Foreign exchange loss	(140)	(143)	(1,678)
Other-net	(139)	(276)	(1,677)
Other expenses-net	(83)	(380)	(1,001)
Income (loss) before income taxes and minority interests	1,112	(2,952)	13,373
Income taxes (Note 15):			
Current	324	386	3,899
Deferred	(94)	(910)	(1,137)
Total income taxes	230	(524)	2,762
Net income (loss) before minority interests	882	(2,428)	10,611
Net income (loss)	¥ 882	¥ (2,428)	$ 10,611

	Yen		U.S. dollars (Note 1)
	2011	2010	2011
Amounts per shares:			
Basic net income (loss)	¥ 22.21	¥ (61.10)	$ 0.26
Diluted net income (loss)	-	-	-
Cash dividends applicable to earnings of the year	7.00	6.00	0.08

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended March 31, 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2011		2011	
Net income before minority interests	¥	882	$	10,611
Other comprehensive income (Note 16):				
Net unrealized gains on other securities		73		872
Foreign currency translation adjustments		(169)		(2,030)
Share of other comprehensive income in affiliates accounted for by the equity method		(14)		(165)
Total other comprehensive income		(110)		(1,323)
Comprehensive income (Note 16)	¥	772	$	9,288
Total comprehensive income attributable to (Note 16):				
Owners of the parent		772		9,288
Minority interests		─		─

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years ended March 31, 2011 and 2010

Millions of yen

	Common stock	Capital surplus	Retained earnings	Treasury stock	Accumulated other comprehensive income: Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Total	Total equity
Balance, March 31, 2009	¥ 11,900	¥ 11,719	¥ 33,356	¥ (2,145)	¥ 22	¥ (121)	¥ (99)	¥ 54,731
Purchases of treasury stock				(0)				(0)
Disposal of treasury stock			(0)	0				(0)
Net loss			(2,428)					(2,428)
Appropriation								
Cash dividends paid			(318)					(318)
Net changes in the year					272	102	374	374
Balance, March 31, 2010	¥ 11,900	¥ 11,719	¥ 30,610	¥ (2,145)	¥ 294	¥ (19)	¥ 275	¥ 52,359
Purchases of treasury stock				(0)				(0)
Disposal of treasury stock			(0)	0				0
Net income			882					882
Appropriation								
Cash dividends paid			(238)					(238)
Net changes in the year					73	(183)	(110)	(110)
Balance, March 31, 2011	¥ 11,900	¥ 11,719	¥ 31,254	¥ (2,145)	¥ 367	¥ (202)	¥ 165	¥ 52,893

Thousands of U.S. dollars

	Common stock	Capital surplus	Retained earnings	Treasury stock	Accumulated other comprehensive income: Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Total	Total equity
Balance, March 31, 2010	$ 143,113	$ 140,935	$ 368,132	$ (25,798)	$ 3,536	$ (225)	$ 3,311	$ 629,693
Purchases of treasury stock				(0)				(0)
Disposal of treasury stock			(0)	0				0
Net income			10,611					10,611
Appropriation								
Cash dividends paid			(2,867)					(2,867)
Net changes in the year					872	(2,195)	(1,323)	(1,323)
Balance, March 31, 2011	$ 143,113	$ 140,935	$ 375,876	$ (25,798)	$ 4,408	$ (2,420)	$ 1,988	$ 636,114

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended March 31, 2011 and 2010

	Millions of yen 2011	*Millions of yen* 2010	*Thousands of U.S. dollars (Note 1)* 2011
Operating activities:			
Income (loss) before income taxes	¥ 1,112	¥ (2,952)	$ 13,373
Depreciation and amortization	1,902	2,006	22,874
Write-down of investments securities and investments	-	193	-
Loss on impairment of long-lived assets	5	3	62
Net loss (gains) on sales of securities	(54)	(0)	(647)
Net loss (gains) on sales of property	31	50	371
Interest and dividend income	(95)	(75)	(1,146)
Interest expenses	176	174	2,112
Decrease (increase) in trade notes and accounts receivable	(569)	3,717	(6,843)
Decrease (increase) in inventories	501	3,362	6,028
Increase (decrease) in trade notes and accounts payable	953	(494)	11,458
Increase (decrease) in liabilities for retirement benefits	(215)	88	(2,583)
Increase (decrease) in consumption taxes payable	(115)	157	(1,386)
Other, net	(665)	(68)	(7,985)
Sub total	2,967	6,161	35,688
Interest and dividend income received	96	74	1,153
Interest expenses paid	(176)	(155)	(2,115)
Income taxes paid	(411)	(321)	(4,942)
Net cash provided by operating activities	2,476	5,759	29,784
Investing activities:			
Purchases of securities and investments	(1,516)	(16)	(18,237)
Proceeds from sales of securities and investments	176	62	2,114
Purchases of property, plant and equipment	(735)	(2,756)	(8,833)
Proceeds from sales of property, plant and equipment	84	15	1,007
Disbursement of loans receivable	(328)	(8)	(3,941)
Collection of loans receivable	9	7	119
Net cash used in investing activities	(2,310)	(2,696)	(27,771)
Financing activities:			
Net increase (decrease) in short-term bank loans	-	(3,000)	-
Proceeds from long-term bank loans	4,500	1,488	54,118
Repayment of long-term bank loans	(1,659)	(1,361)	(19,962)
Proceeds from issuance of bonds	-	1,470	-
Payment for redemption of bonds	(494)	(347)	(5,941)
Payment of finance lease obligations	(269)	(285)	(3,235)
Purchases of treasury stock	(0)	(0)	(0)
Proceeds from sales of treasury stock	0	0	0
Dividends paid	(239)	(318)	(2,869)
Net cash provided by (used in) financing activities	1,839	(2,353)	22,111
Foreign currency translation adjustments on cash and cash equivalents	(15)	23	(177)
Net increase in cash and cash equivalents	1,990	733	23,947
Cash and cash equivalents at beginning of year	11,068	10,334	133,100
Cash and cash equivalents at end of year (Note 8)	¥ 13,058	¥ 11,068	$ 157,047

The accompanying notes are an integral part of these statements.

1. Basis of Presenting Consolidated Financial Statements

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

As explained in Note 2 (n), a consolidated statement of comprehensive income is required from the fiscal year ended March 31, 2011 and has been presented herein. Accordingly, accumulated other comprehensive income is presented in the consolidated balance sheets and the consolidated statements of changes in net assets. Information with respect to other comprehensive income for the year ended March 31, 2010 is disclosed in Note 16. In addition, “Net income before minority interests” is disclosed in the consolidated statements of income.

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

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

The financial statements presented herein are expressed in Japanese yen and, solely for the convenience of the readers, have been translated into U.S. dollars at the rate of ¥83.15=US$1, the approximate exchange rate on March 31, 2011. These translations should not be construed as representations that the Japanese yen amounts actually are, have been or could be converted into U.S. dollar amounts.

2. Summary of Significant Accounting Policies

(a) Consolidation

The consolidated financial statements include the accounts of the Company and its 9 significant subsidiaries (10 in 2010). Investments in 1 nonconsolidated subsidiary (1 in 2010) and 1 affiliate (1 in 2010) are accounted for by the equity method.
Under the concept of control or significant influence, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies which the Group has the ability to exercise significant influence (affiliated companies) are accounted for by the equity method.
There are two nonconsolidated subsidiaries which are not accounted for by the equity

method at March 31, 2011, because these companies are not material in terms of net income and retained earnings and do not have any significant impact on the consolidated financial statements, if excluded from the scope of application by the equity method.

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

On March 10, 2008, the ASBJ issued ASBJ Statement No.16, "Accounting Standard for Equity Method of Accounting for Investments". The new standard requires adjustments to be made to conform the affiliate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the affiliate's financial statements are used in applying the equity method unless it is impracticable to determine adjustments. In addition, financial statements prepared by foreign affiliates in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used in applying the equity method. In this case, same adjustments as those for overseas subsidiaries are required in the consolidation process unless the impact is not material.
This standard was applicable to equity method of accounting for fiscal years beginning on or after April 1, 2010.
The Company applied this accounting standard effective April 1, 2010, but there was no impact on the income for the year ended March 31, 2011.

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

(b) Cash Equivalents

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

(c) Short-term Securities and Investment Securities

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

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

(Available-for-sale securities)
Marketable available-for-sale securities are stated at fair value, with unrealized gains

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

The securities whose fair values at the year-end are less than 50% of the acquisition costs, or are more than 50% but less than 70% and deemed to be unrecoverable, the impairment losses are recognized.

(d) Inventories

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

(e) Depreciation

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

(f) Liabilities for Retirement Benefits

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

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

(g) Allowance for Doubtful Accounts

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

(h) Asset Retirement Obligations

On March 31, 2008, the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Statement No. 18 "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No.21 "Guidance on Accounting Standard for Asset Retirement Obligations". Under this accounting standard, asset retirement obligations are defined as a statutory or similar obligation with regard to the removal of tangible fixed assets and is incurred when tangible fixed assets are acquired, constructed, developed or used in an ordinary way. The asset retirement obligation is recognized as the sum of the discounted cash flow required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. Effective April 1, 2010, the Company adopted this accounting standard. The effect of applying this accounting standard was to decrease operating income and income before income taxes and minority interests for the year ended March 31, 2011 by ¥21 million ($249 thousand) and ¥113 million ($1,363 thousand), respectively.

(i) Revenue from Construction Contracts

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

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

(j) Leases

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

(k) Income Taxes

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

(l) Derivatives

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

(m) Per Share Information

Basic net income per share is computed based on net income available to common stockholders and the weighted average number of shares of common stock outstanding during each period. The average numbers of shares used in the computations are 39,732 thousand shares for 2011 and 39,733 thousand shares for 2010.

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

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

(n) Presentation of Comprehensive Income

On June 30, 2010, the ASBJ issued ASBJ Statement No. 25 “Accounting Standard for Presentation of Comprehensive Income”. This standard requires the entities to present comprehensive income which refers to the change in net assets in an entity’s financial statements for a period, other than those changes resulting from direct transactions with equity holders in the entity’s net assets in either of a format composed of the statement of income that presents the calculation of net income and the statement of comprehensive income that presents the calculation of comprehensive income (two-statement format) or a format using one statement (statement of income and comprehensive income) that presents the calculation both of net income and comprehensive income (one-statement format). The calculation of comprehensive income for consolidated financial statements shall present net income before adjusting minority interests and additions or deductions of other comprehensive income consisting of unrealized holding gain or loss on available-for-sale securities and foreign currency translation adjustments. Effective March 31, 2011, the Company adopted this standard.

3. Securities

The following is a summary of held-to-maturity securities and available-for-sale securities at March 31, 2011 and 2010:

Millions of yen

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

There were no held-to-maturity securities at March 31, 2010.

Thousands of U.S. dollars

	Held-to-maturity securities			
March 31, 2011	Carrying amount	Gross unrealized gains	Gross unrealized losses	Fair value
Debt securities,				
whose fair value exceeds carrying amount	$ 180	$ 0	—	$ 180
whose fair value does not exceed carrying amount	7,478	—	$ (0)	7,478
Total	$ 7,658	$ 0	$ (0)	$ 7,658

Millions of yen

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

Millions of yen

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

Thousands of U.S. dollars

March 31, 2011	Available-for-sale securities Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	$ 41,729	$ 10,904	$ (3,444)	$ 49,189
Other securities	1,615	1	(32)	1,584
Subtotal	$ 43,344	$ 10,905	$ (3,476)	$ 50,773
Market value not available:				8,734
Total				$ 59,507

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

The annual average interest rate applicable to short-term bank loans at March 31, 2011 and 2010 was 0.68% and 0.75% respectively.

Long-term debts at March 31, 2011 and 2010 consisted of the following:

	Millions of yen 2011	2010	*Thousands of U.S. dollars* 2011
Bonds	¥ 1,629	¥ 2,123	$ 19,591
Long-term bank loans	5,832	2,992	70,133
Lease obligations	374	566	4,505
Other	2,432	2,647	29,243
Total	¥ 10,267	¥ 8,328	$ 123,472

Aggregate annual maturities of long-term debts subsequent to March 31, 2011 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2012	¥ 2,669	$ 32,103
2013	2,277	27,382
2014	1,874	22,536
2015	1,361	16,366
2016 and thereafter	2,086	25,085
Total	¥ 10,267	$123,472

The Company renewed an agreement with a syndicate of 6 banks to set up a commitment line by multiple finance institutions. The unexecuted balance of lending commitments of the Company at March 31, 2011 and 2010 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Total lending commitments	¥ 5,000	¥ 5,000	$ 60,132
Less amounts currently executed	-	-	-
Unexecuted balance	¥ 5,000	¥ 5,000	$ 60,132

5. Pledged Assets

The following assets were pledged as collateral for the following borrowings at March 31, 2011 and 2010:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Land	¥ 5,755	¥ 5,754	$ 69,209
Buildings	3,732	3,896	44,889
Investment securities	622	-	7,478
Total	¥ 10,109	¥ 9,650	$ 121,576

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Short-term bank loans	¥ 100	¥ 100	$ 1,203
Current portion of long-term bank loans	778	1,048	9,363
Long-term bank loans	387	1,165	4,655
Other	3,427	3,671	41,210
Total	¥ 4,692	¥ 5,984	$ 56,431

6. Liabilities for Retirement Benefits

The following table sets forth the changes in benefit obligations, plan assets and funded status of the Group at March 31, 2011 and 2010:

	Millions of yen		*Thousands of U.S. dollars*
	2011	2010	2011
Benefit obligation at end of year	¥ 6,182	¥ 6,555	$ 74,350
Fair value of plan assets at end of year	3,374	3,447	40,571
Funded status:			
Benefit obligation in excess of plan assets	2,808	3,108	33,779
Unrecognized prior service cost	40	59	479
Unrecognized actuarial loss	(659)	(763)	(7,928)
Liabilities for Retirement Benefits	¥ 2,189	¥ 2,404	$ 26,330

Severance and pension costs of the Group included the following components for the years ended March 31, 2011 and 2010:

	Millions of yen		*Thousands of U.S. dollars*
	2011	2010	2011
Service cost	¥ 342	¥ 345	$ 4,113
Interest cost	129	132	1,556
Expected return on plan assets	(69)	(62)	(826)
Amortization:			
Prior service cost	(20)	(20)	(240)
Actuarial losses	173	300	2,077
Others	22	22	257
Net periodic benefit cost	¥ 577	¥ 717	$ 6,937

Assumptions used in the accounting for the defined benefit plans for the years ended March 31, 2011 and 2010 were as follows:

	2011	2010
Method of attributing benefit to periods of service	straight–line basis	straight–line basis
Discount rate	2.0 %	2.0 %
Long-term rate of return on plan assets	2.0 %	2.0 %
Amortization period for prior service cost	10 years	10 years
Amortization period for actuarial losses	10 years	10 years

7. Contingencies

At March 31, 2011 and 2010, the Group was contingently liable as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2011	2010	2011
As a guarantor of indebtedness of :			
Affiliated companies	¥ 3,991	¥ 4,276	$ 47,996
Others	41	55	498
Total	¥ 4,032	¥ 4,331	$ 48,494

8. Cash and cash equivalents

Cash and cash equivalents at March 31, 2011 and 2010 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2011	2010	2011
Cash and deposits	¥ 5,609	¥ 5,723	$ 67,463
Short-term securities	7,949	5,345	95,598
Less-Time deposits with original maturities more than three months	(500)	—	(6,014)
Cash and cash equivalents	¥ 13,058	¥ 11,068	$ 157,047

9. Leases

The Group leases certain machinery and equipment, and other assets. Total lease payments under these leases were ¥ 226 million ($ 2,716 thousand) and ¥ 285 million for the years ended March 31, 2011 and 2010, 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, 2011 and 2010, were as follows:

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

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

			Thousands of U.S. dollars
2011	Machinery and Equipment	Other	Total
Acquisition costs	$ 5,108	$ 2,640	$ 7,748
Accumulated Depreciation	4,017	2,290	6,307
Net leased property	$ 1,091	$ 350	$ 1,441

Future minimum lease payments under finance leases at March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Due within one year	¥ 95	¥ 232	$ 1,143
Due after one year	25	120	298
Total	¥ 120	¥ 352	$ 1,441

Depreciation expense, which is not reflected in the accompanying consolidated statements of income, computed by the straight-line method, would have been ¥ 226 million ($2,716 thousand) for the year ended March 31, 2011.

10. Financial Instruments and Related Disclosures

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

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

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

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

Investment securities consist of mainly held-to-maturity securities and equity securities issued by the Group's business partners and these securities are exposed to market risk.

The Group periodically monitors the fair value of such equity securities, which is reported to the board meeting.

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

Short-term bank loans are raised mainly in connection with business activities and long-term bank loan and bonds payable, which are due mainly within five years, are raised principally for the purpose of making capital investments.

Long-term debts with variable interest rates are exposed to interest rate fluctuation risk, so the Group enters into interest rate swap transactions to manage such interest rate exposure.

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

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

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

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

Summarized in the table below are the carrying amounts and the estimated fair value of financial instruments outstanding at March 31, 2011 and 2010. Financial instruments for which it is extremely difficult to determine the fair value are not included in the table below.

Millions of yen

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

Millions of yen

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

			Thousands of U.S. dollars
March 31, 2011	Carrying account	Fair value	Unrecognized gain/loss
Cash and deposits	$ 67,463	$ 67,463	$ —
Trade notes and accounts receivable	254,692	254,692	—
Short-term-securities	95,598	95,598	—
Investment securities	58,431	58,431	0
Trade notes and accounts payable	(144,487)	(144,487)	—
Short-term bank loans	(31,509)	(31,509)	—
Long-term bank loans	(70,133)	(69,658)	475
Bonds payable	(19,591)	(19,772)	(181)
Long-term deposits	(29,354)	(30,692)	(1,338)
Derivatives	—	—	—

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

(a) “Cash and deposits”, “Trade notes and accounts receivable” and “Short-term securities”
Since these are settled in a short period of time, their carrying amounts approximate fair value.

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

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

(d) “Long-term bank loans”
The fair value of long-term bank loans is estimated based on present value of the total of principal and interest discounted by an assumed interest rate on an equivalent new loan.

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

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

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

Financial instruments for which it is extremely difficult to determine the fair value at March 31, 2011 and 2010 consist of the following:

	Millions of yen		*Thousands of U.S. dollars*
	2011	2010	2011
Non-listed equity securities	¥ 726	¥ 540	$ 8,734
Long-term deposit	1,014	1,014	12,200

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

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

	Thousands of U.S. dollars		
March 31, 2011	Due in one year or less	Due after one year through five years	Due after five years through ten years
Cash and cash equivalents	$ 67,463	$ —	$ —
Trade notes and accounts receivable	254,692	—	—
Short-term securities	95,598	—	—
Investment securities	—	7,478	180
Total	$ 417,753	$ 7,478	$ 180

11. Investment Property

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

The company and certain subsidiaries hold some rental properties including land in Tokyo and other areas (“investment properties”). The amounts of net income related to investment properties (rental income is recognized in operating revenue and rental expense is principally charged to operating expenses) and loss on impairment of investment properties were ¥645 million ($7,754 thousand) and ¥5 million ($62 thousand) for the year ended March 31, 2011 and ¥596 million and ¥3 million for the year ended March 31, 2010, respectively.

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

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

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

			Thousands of U.S. dollars
Carrying amount			Fair value
April 1, 2010	Increase/ (decrease)	March 31, 2011	March 31, 2011
$ 108,917	$ 5,739	$ 114,656	$ 153,849

(1) Carrying amount is net of accumulated depreciation and accumulated impairment losses, if any.
(2) Increase during the year ended March 31, 2011 and 2010 was principally attributed to the change in holding purpose in an amount of ¥691 million ($8,310 thousand) and ¥221 million, respectively. Decrease during the year ended March 31, 2011 and 2010 was principally attributed to depreciation in an amount of ¥230 million ($2,769 thousand) and ¥241 million.
(3) Fair value at March 31, 2011 and 2010 was principally measured based on the real estate appraisal assessed by the external real estate appraiser.

12. Derivatives

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

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

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

				Millions of yen
March 31, 2010	Hedged item	Contract amount	Contract amount due after one year	Fair value
Interest rate swap:				
(Fixed rate payment/floating rate receipt)	Long-term debt	¥ 872	¥ 233	Note

				Thousands of U.S. dollars
March 31, 2011	Hedged item	Contract amount	Contract amount due after one year	Fair value
Interest rate swap:				
(Fixed rate payment/floating rate receipt)	Long-term debt	$ 33,686	$ 22,429	Note

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

13. Shareholders' Equity

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

		Millions of yen	
	Number of Shares	Common Stock	Capital Surplus
Balance at March 31, 2009	42,737,668	11,900	11,719
Retirement of stock during 2010	—	—	—
Balance at March 31, 2010	42,737,668	11,900	11,719
Retirement of stock during 2011	—	—	—
Balance at March 31, 2011	42,737,668	11,900	11,719

	Thousands of U.S. dollars	
	Common Stock	Capital surplus
Balance at March 31, 2010	143,113	140,935
Retirement of stock during 2011	—	—
Balance at March 31, 2011	143,113	140,935

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

14. Research and Development

Research and development expenditure which is included in "Selling, general and administrative expenses" was ¥949 million ($11,413 thousand) and ¥1,074 million for the years ended March 31, 2011 and 2010, respectively.

15. Income Taxes

The Company and its domestic subsidiaries are subject to several taxes based on income, which in the aggregate resulted in a statutory tax rate of approximately 40.6% for the years ended March 31, 2011 and 2010, respectively. Foreign subsidiaries are subject to income taxes of the countries in which they operate.
The reconciliation between the statutory tax rate and the effective income tax rate is not disclosed for the year ended March 31, 2010 because the Group posted net loss in 2010.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2011 and 2010 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2011	2010	2011
Deferred tax assets:			
Accrued expenses	¥ 429	¥ 366	$ 5,158
Liabilities for retirement benefits	882	950	10,612
Depreciation	478	592	5,753
Fixed assets – elimination of intercompany profits	303	303	3,640
Allowance for doubtful accounts	530	710	6,375
Net operating loss carry-forwards	2,033	1,975	24,447
Other	910	766	10,941
Total	5,565	5,662	66,926
Less valuation allowance	(1,650)	(1,817)	(19,839)
Net deferred tax assets	3,915	3,845	47,087
Deferred tax liabilities:			
Deferred gain on sales of fixed assets for income tax purposes	(1,628)	(1,653)	(19,583)
Unrealized gain on investment securities	(251)	(200)	(3,015)
Unrealized gain on subsidiaries' fixed assets by revaluation at the beginning of consolidation	(1,502)	(1,502)	(18,064)
Total	(3,381)	(3,355)	(40,662)
Net deferred tax assets	¥ 534	¥ 490	$ 6,425

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

Information for the year ended March 31, 2010 was not disclosed because the Group posted net loss in 2010.

	2011
Statutory tax rate	40.64%
Non-deductible expenses for income tax purpose	2.57
Non-taxable dividend income	(1.43)
Inhabitant per capita tax	7.25
Change in valuation allowance	(16.80)
Amortization of negative goodwill	(13.76)
Equity in earnings of affiliated companies	1.34
Other	0.84
Effective tax rate	20.65%

16. Comprehensive Income

Total comprehensive income for the year ended March 31, 2010 was as follows:

	Millions of yen
Total comprehensive income attributable to:	
Owners of the Company	¥ (2,054)
Minority interests	—
Total comprehensive income	¥ (2,054)

Other comprehensive income for the year ended March 31, 2010 consisted of the following:

	Millions of yen
Other comprehensive income:	
Unrealized gain on available-for-sale securities	¥ 271
Foreign currency translation adjustments	98
Share of other comprehensive income in affiliates	3
Total other comprehensive income	¥ 372

17. Segment Information

In March 2008, the ASBJ revised ASBJ Statement No. 17 "Accounting Standard for Disclosures about Segments of an Enterprise and Related information" and issued ASBJ Guidance No. 20 "Guidance on the Accounting Standard for Disclosures about Segments of an Enterprise and Related information". Under the standard and guidance, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. This accounting standard and the guidance are applicable to segment information disclosures for the fiscal years beginning on or after April 1, 2010.

The segment information for the year ended March 31, 2010 under the revised accounting standard is also disclosed hereunder as required.

a. Description of reportable segments

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

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

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

c. Information about sales, profit (loss), assets, liabilities and other items for the years ended March 31, 2011 and 2010 is as follows:

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

2010	*Millions of yen*					
	Reportable segments					
	Industry A	Industry B	Industry C	Total	Reconciliations (Note 1)	Consolidated (Note 2)
Net sales:						
External customers	¥ 40,263	¥8,312	¥5,496	¥ 54,071	—	¥ 54,071
Intersegment sales or transfers	1	0	457	458	(458)	—
Total	40,264	8,312	5,953	54,529	(458)	54,071
Segment profit (loss)	(4,305)	1,280	845	(2,180)	(392)	(2,572)
Segment assets	54,761	4,262	11,914	70,937	14,361	85,298
Other items:						
Depreciation	1,503	99	309	1,911	—	1,911
Increase in tangible and intangible fixed assets	2,512	209	83	2,804	—	2,804

2011	*Thousands of U.S. dollars*					
	Reportable segments					
	Industry A	Industry B	Industry C	Total	Reconciliations (Note 1)	Consolidated (Note 2)
Net sales:						
External customers	$ 548,920	$ 88,626	$ 56,216	$ 693,762	—	$ 693,762
Intersegment sales or transfers	44	1	5,672	5,717	(5,717)	—
Total	548,964	88,627	61,888	699,479	(5,717)	693,762
Segment profit (loss)	(8,103)	15,600	10,354	17,851	(3,477)	14,374
Segment assets	641,927	50,325	141,425	833,677	226,077	1,059,754
Other items:						
Depreciation	17,965	943	3,458	22,366	—	22,366
Increase in tangible and intangible fixed assets	7,809	6	2,245	10,060	—	10,060

1. Reconciliations of segment profit (loss) in an amount of ¥(289) million ($(3,477) thousand) which consists of elimination of intersegment transactions in an amount of ¥14 million ($172 thousand) and corporate expenses which are not allocated to each reportable segment in an amount of ¥(303) million ($(3,649) thousand). Corporate expenses are mainly general administrative expenses not attributable to any other reportable segments.

   Reconciliations of segment assets are surplus fund (cash and deposits and securities) and long-term investment fund (investment securities) of the Company.
2. Segment profit (loss) is reconciled with operating income in the consolidated statements of income.

Information about impairment loss on fixed assets by reportable segment

Millions of yen

2011	*Reportable segments* Industry A	Industry B	Industry C	Total	Reconciliations	Consolidated
Impairment loss	¥ 5	¥ –	¥ –	¥ 5	¥ –	¥ 5

Thousands of U.S. dollars

2011	*Reportable segments* Industry A	Industry B	Industry C	Total	Reconciliations	Consolidated
Impairment loss	$ 62	$ –	$ –	$ 62	$ –	$ 62

Information about amortization of goodwill and unamortized balance

Millions of yen

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

Thousands of U.S. dollars

2011	*Reportable segments* Industry A	Industry B	Industry C	Total	Reconciliations	Consolidated
Goodwill:						
Amortization for the year	$ –	$ 136	$ 50	$ 186	$ –	$ 186
Unamortized balance	–	–	–	–	–	–
Negative goodwill:						
Amortization for the year	4,528	–	–	4,528	–	4,528
Unamortized balance	9,056	–	–	9,056	–	9,056

Industry Segment Information for the year ended March 31, 2010 which was reported under the previous accounting standard was as follows:

a. *Sales and Operating Income*

Millions of yen

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

b. *Assets, Depreciation and Capital Expenditures*

Millions of yen

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

Notes: Industry A consists of specialty truck, etc.
Industry B consists of environmental equipment and systems.
Industry C consists of real estate rental.
Corporate assets consist primarily of cash and cash equivalents, investment in and advances to affiliates, investments in securities and the corporate headquarters assets.

18. Subsequent Event

The following appropriations of the Company's retained earnings in respect of the year ended March 31, 2011 were as proposed by the Board of Directors and approved by the shareholders at the annual general meeting held on June 28, 2011.

Appropriations	*Millions of yen*	*Thousands of U.S. dollars*
Cash dividends of ¥4 ($0.05) per share	¥ 159	$ 1,911

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Kyokuto Kaihatsu Co., Ltd. (the "Company") and its consolidated subsidiaries as of March 31, 2010 and 2011, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the years then ended in the two-year period ended March 31, 2011. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kyokuto Kaihatsu Kogyo Co., Ltd. and its consolidated subsidiaries as of March 31, 2010 and 2011, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention the following:

As discussed in Note 2 (h) to consolidated statements, effective April 1, 2010, the Company and its domestic consolidated subsidiaries have adopted the new accounting standard, "Accounting standard for Asset Retirement Obligations".

The accompanying consolidated financial statements as of and for the year ended March 31, 2011 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in yen have been translated into dollars on the basis set forth in note 1 to the consolidated financial statements.

Osaka Audit Corporation

Osaka, Japan
June 10, 2011

CORPORATE INFORMATION

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

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

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

Plants:
Yokohama Plant
Occupies 78,158 ㎡, Since March, 1962
Located in Yamato, Kanagawa
Nagoya Plant
Occupies 132,537 ㎡, Since June, 1970
Located in Komaki, Aichi
Miki Plant
Occupies 98,274 ㎡, Since October, 1979
Located in Miki, Hyogo
Fukuoka Plant
Occupies 66,832 ㎡, Since September, 1970
Located in Iizuka, Fukuoka

BOARD OF DIRECTORS AND STATUTORY AUDITORS

Takaaki Fudetani,
Representative Director, President, CEO

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

Yoshihiro Yasuoka,
Director, Associate Senior Executive Officer

Yoshinori Takashima,
Director, Associate Senior Executive Officer

Norihiro Kumazawa,
Director, Associate Senior Executive Officer

Kazuya Takahashi,
Director, Executive Officer

Ryuichiro Nishikawa,	Executive Officer
Masakazu Nishida,	Executive Officer
Tokumasa Hayashi,	Executive Officer
Harumi Sugimoto,	Executive Officer
Toshihisa Nakanishi,	Executive Officer
Takashi Yoneda,	Executive Officer
Takeo Norimitsu,	Executive Officer
Noboru Horimoto,	Executive Officer

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