

Kyokuto Kaihatsu Kogyo Co., Ltd.

Annual Report 2000

Year ended March 31, 2000

FINANCIAL HIGHLIGHTS

Years ended March 31, 2000 and 1999

	Millions of yen		Thousands of U.S. dollars (Note 1)
	<u>2000</u>	<u>1999</u>	<u>2000</u>
For the Year:			
Net Sales	46,398	42,565	437,094
Operating income	154	(1,874)	1,453
Net income	1	(505)	13
At Year-end:			
Total assets	73,689	70,068	694,194
Total shareholders' equity	53,480	52,511	503,813
	Yen		U.S. dollars (Note 1)
	<u>2000</u>	<u>1999</u>	<u>2000</u>
Amounts per Share of Common Stock (Note 2):			
Net Income	0.05	(16.71)	0.00
Cash dividends attributable to the year	6.00	7.50	0.06

Note 1. U.S. dollar amounts are translated for convenience only, at the rate of ¥106.15 to US\$1.

2. The computations of net income per share of common stock are based on the weighted average number of shares outstanding during each year.

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1. Summary of Operations

I am pleased to report the business results of Kyokuto Kaihatsu Kogyo Co.,Ltd.for the fiscal year ended March 31,2000.

(1) Business Results

During the fiscal year ended March 31, 2000 the Japanese economy showed a mild recovery despite low private capital investment and personal consumption expenditure due to government intervention.

In the truck industry, the demand for trucks in the 1999 fiscal year declined more than that of the previous year.

As a result of the sluggish economic conditions the group companies of Kyokuto Kaihatsu Kogyo were forced to retrench personnel, move the Tokyo Head Office and closedown the Sagami plant. However, efforts were made to increase the sales of specialty trucks not related to the construction industry and the environmental equipment and facilities. In addition to this, attempts were made to reduce the costs, curtail the expenditures, and improve the efficiency of the daily operations along with improving the operational performance.

Due to the group companies of Kyokuto Kaihatsu Kogyo efforts, the sales for the fiscal year ended March 31, 2000 increased by 9% (3.833 billion yen) to 46.398 billion yen over the previous term, while the operating income went up by 2.028 billion yen to 154 million yen from -1.874 billion yen and the net income advanced by 506 million yen to 1 million yen from -505 million yen.

The following is a summary of operations by division.

<Specialty Truck Division>

Sales in the Specialty Truck Division increased by 3.4% (910 million yen) to 27.55 billion yen over the previous fiscal year. The operating loss decreased by 69.6% (1.665 billion yen) to 727 million yen over the previous year. We launched newly innovated and modified products such as small sized dump trucks, CG1000 Power Gate (tail gate lifter), and refuse collectors which contributed to an increase in sales in the struggling truck market.

<Environmental Equipment and Systems Division>

In the fiscal year ended March 31, 2000, we restructured to strengthen the Sales, Production, Service, and Research & Development Sections of the Environmental Equipment and Systems Division by merging with Kyokuto Service Engineering Co., Ltd. on April 1, 1999, one of the subsidiary companies and the after-sales service center of this division. Through this reorganization, we strove to boost sales by emphasizing new product inventions and technologies. Due to the increase in sales of the recycling plants, sales in this division hiked by 43.5% (3.713 billion yen) to 12.257 billion yen over the previous term and the operating income increased by 55.7% (309 million yen) to 862 million yen. At the same time, the number of orders received went up by 37.2% (3.566 billion yen) to 13.159 billion yen mainly derived from contracts with the construction of a large scale RDF (Refuse Derived Fuel) plant and Advanced Landfill Leachate Treatment System.

<Automobile Sales Division>

Prolonged sluggish personal consumption expenditure contributed to a decline in sales in this division by 10.7% (788 million yen) to 6.594 billion yen over the previous year. We were able to decrease the operating loss by 88.6% (49 million yen) to 6 million yen by cutting costs through personnel retrenchment and making greater efforts to reinforce the sales and service sections.

(2) The State of Cash Flows

Cash and cash equivalents for the fiscal year ended March 31, 2000 increased by 20.5%



(2.354 billion yen) to 13.841 billion yen over the previous year with the result of 301 million yen of net income and the fund generated by the consolidation of Kyokuto Kaihatsu Kogyo Co., Ltd. and its subsidiary groups. We allocated this fund to acquisitions of fixed assets and treasury stocks, repayment of long term borrowings, and increase in purchases.

<Cash Flows from Operating Activities>

The income generated by the Operating Activities was 3.592 billion yen in total. This was the result of 301 million yen of net income in holding, an increase of purchases, and a decrease in inventories.

<Cash Flows from Investing Activities>

A total of 1.166 billion yen was spent on the Investing Activities. This resulted mainly from expending 1.998 billion yen on acquisition of fixed assets and earning an income of 773 million yen from sales of fixed assets.

<Cash Flows from Financing Activities>

A total of 791 billion yen was spent on the Financing Activities. This was mainly the result of disbursing 300 million yen in repayment of long term borrowings and spending 222 million yen on acquisition of treasury stocks.

Note: The Consolidated Statements of Cash Flows do not show the figures of previous year item by item because this is the first year we issue them.

2. Confronting Issues

In the coming year, we expect the government to take measures to help the Japanese economy to recover gradually; however, we also foresee this sluggish economy continuing due to the dull personal consumption and high unemployment rate. Under these circumstances, our group companies including consolidated subsidiaries will have to tackle the following issues:

- 1) Improvement of marketability and profitability of our existing sectors by slashing the fallen business and concentrating on the profitable ones.
- 2) Participation in growing industries by investing the management resources in new business.
- 3) Positive advancement and development of the business by strengthening the management of the group companies.

<Specialty Truck Division>

We intend to raise sales by focusing on promoting laborsaving logistics products, non-construction related truck bodies, and their maintenance; also, we intend to increase profitability by reducing operating costs and improving the operations.

<Environmental Equipment and Systems Division>

We aim to expand the business in this field by positively investing management resources in this growing industry while securing the receipt of orders of recycling plants, RDF (Refuse Derived Fuel) plants, Advanced Landfill Leachate Treatment System, and the maintenance of these facilities.

<Automobiles Sales Division>

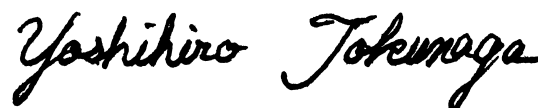
We seek to boost sales and profitability by increasing direct customer sales and strengthening the service section system.

<Newly Participating Business>

We are contemplating expanding the business by utilizing management resources while making efficient use of idle assets.

We plan to carry out these above-mentioned measures to improve business results and also to build a strong management basis.

June, 2000



Yoshihiro Tokunaga
President

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

Years ended March 31, 2000, 1999 and 1998

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2000	1999	1998	2000
Net sales	46,398	42,565	52,388	437,094
Cost of sales	38,063	35,575	43,102	358,575
Gross profit	8,335	6,990	9,286	78,519
Selling, general and administrative expenses	8,181	8,864	9,611	77,066
Operating income	154	(1,874)	(325)	1,453
Other income (expenses)				
Interest and dividend income	68	138	122	645
Interest expenses	(90)	(112)	(122)	(848)
Gain (loss) on disposal of property and equipment	(203)	1,620	1,521	(1,915)
Gain on sales of securities, net	874	42	184	8,233
Write-down of securities investment ...			(1,225)	
Research and development expenses for RDF systems	(620)	—	—	(5,839)
Other-net	118	(43)	403	1,111
Income (loss) before income taxes ..	301	(229)	558	2,840
Income taxes (Note 5)				
current	192	300	350	1,809
deferred (prepaid), net	112	—	—	1,051
Total income taxes	304	300	350	2,860
Minority interest	3	24	(27)	33
Net income	1	(505)	181	13
Retained earnings:				
Balance at beginning of period	28,376	29,082	29,235	267,320
Deferred (prepaid) income taxes adjustment to past year	955	—	—	8,993
Increase by increase of number of consolidated subsidiaries	420	—	—	3,953
Cash dividends paid	(185)	(198)	(289)	(1,744)
Bonuses to directors and statutory auditors	—	(3)	(45)	—
Balance at end of period	29,567	28,376	29,082	278,535
		Yen		U.S. dollars
Per share of common stock:				
Net income (loss)	0.05	(16.71)	5.94	0.00
Cash dividend, applicable to earnings of the year	6.00	7.50	7.50	0.06

The accompanying notes are an integral part of this statements.

CONSOLIDATED BALANCE SHEETS

Years ended March 31, 2000, 1999 and 1998

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2000	1999	1998	2000
ASSETS				
Current assets:				
Cash and time deposits	8,769	7,703	7,168	82,613
Marketable securities	8,196	6,414	8,516	77,212
Trade note and accounts receivable	19,976	18,140	19,603	188,185
Less: Allowance for doubtful accounts	(37)	(42)	(177)	(346)
Inventories	4,594	5,680	7,502	43,274
Deferred income taxes (Note 5)	256	—	—	2,408
Prepaid expenses	128	82	64	1,208
Other current assets	339	746	369	3,194
Total current assets	42,221	38,723	43,045	397,748
Investment and other assets:				
Investment securities	3,697	3,472	4,020	34,828
Deferred income taxes (Note 5)	587	—	—	5,534
Other	2,239	2,216	2,149	21,093
Total investment and other assets	6,523	5,688	6,169	61,455
Property and equipment:				
Buildings and structures	20,266	20,181	19,419	190,918
Machinery and equipment	12,583	12,984	12,946	118,539
Land	10,045	9,658	9,663	94,630
Other	117	72	624	1,102
	43,011	42,895	42,652	405,189
Less — Accumulated depreciation ...	(18,392)	(17,585)	(16,832)	(173,265)
Total property and equipment ..	24,619	25,310	25,820	231,924
Intangible assets				
Cost in excess of net assets of subsidiaries	204	305	393	1,919
Other	122	42	37	1,148
Total intangible assets	326	347	430	3,067
Total assets	73,689	70,068	75,464	694,194

The accompanying notes are an integral part of this statements.

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2000	1999	1998	2000
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Short-term bank loans	2,856	2,980	3,180	26,905
Trade note and account payable	10,721	7,586	10,116	101,003
Accrued income and other taxes ...	718	327	273	6,769
Accrued expenses	1,569	1,546	1,682	14,779
Other current liabilities	1,060	1,834	2,994	9,982
Total current liabilities	16,924	14,273	18,245	159,438
Long-term liabilities:				
Long-term debt	297	556	510	2,794
Accrued retirement benefits (Note 4)	2,148	2,245	2,689	20,233
Net assets of subsidiaries in excess of acquisition cost	140	181	—	1,324
Other	482	72	—	4,537
Total long-term liabilities	3,067	3,054	3,199	28,888
Minority intererests	218	230	495	2,055
Shareholders' equity:				
Common stock, par value ¥50 per share (Note 6)				
Authorized — 120,000,000 shares				
Issued and outstanding:				
2000 — 29,253,479 shares	11,786			111,032
1999 — 29,663,279 shares		11,786		
1998 — 30,456,679 shares			11,786	
Additional paid-in capital (Note 6) ...	12,127	12,349	12,657	114,246
Retained earnings (Note 8)	29,567	28,376	29,082	278,535
Total shareholders' equity	53,480	52,511	53,525	503,813
Total liabilities and shareholders' equity	73,689	70,068	75,464	694,194

CONSOLIDATED STATEMENT OF CASH FLOWS

Years ended March 31, 2000

	Millions of yen	Thousands of U.S. dollars (Note 2)
	<u>2000</u>	<u>2000</u>
Operating activities:		
Net income before income taxes	301	2,840
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,331	12,536
net gains (loss) on sales of marketable securities and investments	(874)	(8,233)
Net gains (loss) on sales of property	137	1,292
Provision (reversal) for postretirement benefits	(152)	(1,436)
Payment of income taxes	(231)	(2,178)
Change in assets and liabilities:		
Decrease (increase) in accounts receivable	(1,783)	(16,794)
Decrease (increase) in inventories	1,170	11,019
Decrease (increase) in prepaid expenses	511	4,814
Decrease (increase) in accounts payable	3,061	28,840
Decrease (increase) in accrued expenses	(403)	(3,793)
Decrease (increase) in income taxes payable	404	3,804
Other, net	120	1,128
Net cash provided by operating activities	<u>3,592</u>	<u>33,839</u>
Investing activities:		
Decrease (increase) in time Deposits	(276)	(2,600)
Payment for purchase of marketable securities and investments ...	(2,110)	(19,874)
Proceeds from sales of marketable securities and investments	2,441	22,998
Payment for purchase of facilities	(1,998)	(18,824)
Proceeds from sale of facilities	773	7,282
Disbursement of loan receivables.....	(2)	(21)
Collection of loan receivables	6	54
Net cash provided by (used in) investing activities ..	<u>(1,166)</u>	<u>(10,985)</u>
Financing activities:		
Increase (decrease) in short-term debt	(124)	(1,168)
Proceeds from long-term debt	41	384
Payment on long-term debt	(300)	(2,826)
Purchases of common stock	(222)	(2,094)
Dividends paid	(186)	(1,751)
Net cash provided by (used in) financing activities ..	<u>(791)</u>	<u>(7,455)</u>
Effect of exchange rate change on cash and cash equivalents ..	(1)	(10)
Net increase in cash and cash equivalents	<u>1,634</u>	<u>15,389</u>
Cash and cash equivalents at beginning of year	<u>11,487</u>	<u>108,222</u>
Increase in cash and cash equivalents by increase of number of consolidated subsidiaries	<u>720</u>	<u>6,782</u>
Cash and cash equivalents at end of year	<u>13,841</u>	<u>130,393</u>

For the year ended March 31, 1999 and prior years, the consolidated cash flow statements were not required by the Securities and Exchange Law of Japan. The accompanying notes are an integral part of this statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTING THE CONSOLIDATED FINANCIAL STATEMENTS

The accompanying financial statements have been prepared in accordance with accounting principles and practices generally accepted in Japan and compiled from the consolidated financial statements filed with the Minister of Finance as required by the Securities and Exchange Law of Japan and include certain additional financial information for the convenience of readers outside Japan.

2. U.S. Dollar amounts:

The Company and its domestic consolidated Subsidiaries maintain their accounting records in yen. The U.S. dollar amounts included in the accompanying consolidated financial statements and notes thereto represent the arithmetic results of translating yen into U.S. dollars at the rate of ¥106.15=\$1, the approximate exchange rate prevailing on March 31, 2000. The inclusion of such U.S. dollar amounts is solely for the convenience of readers outside Japan and is not intended to imply that yen amounts and assets and liabilities that originated in yen have been or could be readily converted, realized, or settled in U.S. dollars at this or any other rate.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation:

The accompanying consolidated financial statements include the accounts of the Company and substantially all of its subsidiaries. Investments in unconsolidated subsidiaries are accounted for by the equity method.

All intercompany accounts and transactions are eliminated in consolidation. The excess of acquisition costs over net assets acquired is amortized generally over five years.

Beginning with the years ended March 31, 2000, the accounts of seven subsidiaries, which were non-consolidated subsidiaries of the Company, have been included in the consolidated financial statements, and the accounts of one subsidiary,

which was non-consolidated subsidiary of the Company, has been accounted for by using the equity method, respectively, due to their growing significance.

(b) Securities:

Marketable securities are stated at the lower of moving average cost or market. Other securities are stated at cost determined by the moving average method.

(c) 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.

(d) 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.

In 1999, the Company changed the method of depreciation for building from declining balance method to straight-line method in order to match depreciation expense with revenue more properly.

The change resulted in a reduced depreciation charge of ¥366 million (\$3,448 thousand) and an increase in net income of ¥366 million (\$3,448 thousand).

In the same year 1999, the Company reduced the estimated useful lives for buildings to reflect the change of the Japanese tax regulations. The effect of this reduction was to reduce income before income taxes in 1999 by approximately ¥36 million (\$339 thousand).

(e) Stock and bond issue expenses:

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

(f) Allowance for doubtful accounts:

Allowance for doubtful accounts is provided generally in accordance with the Japanese tax regulations. Additional allowance is provided based on management's estimate for possible losses on individual accounts.

(g) Revenue recognition:

For the year ended March 31, 1997 and prior years, if the construction work takes longer than one year and the contract amount exceeded ¥1 billion (\$9,420 thousand), the percentage of completion method was applied.

Effective April 1, 1998, the Company changed the criteria for the application of the percentage of completion method. The percentage of completion method is applied to the construction works which take longer than one year and exceed ¥0.5 billion (\$4,710 thousand) in contract amount.

As a result of the adoption of the new criteria, the net sales and the cost of sales for the year ended March 31, 1998, are greater than would have been on the prior criteria by ¥598 million (\$5,638 thousand) and ¥529 million (\$4,987 thousand), respectively.

(h) Leases:

All leases are accounted for as operating leases.

(i) Consumption tax:

Revenues and expenses are net of consumption tax amounts.

4. RETIREMENT BENEFITS AND PENSION PLAN:

Allowance for retirement benefits is stated at 100% of the amount with respect to employees which would be required, excluding the amount covered by a pension plan, if all eligible employees voluntarily retired at the balance sheet date in accordance with the Japanese tax regulations.

Retirement benefits to directors and auditors are also included in the allowance, which are accrued in accordance with the Company's by-law. The amounts payable to directors and auditors at March 31, 1998, 1999 and 2000, amounted to ¥507 million (\$4,782 thousand), ¥276 million (\$2,607 thousand), and ¥245 million (\$2,311 thousand), respectively.

The Company has a pension plan which covers 70% of the employees retirement benefits.

The assets of the pension plan at March 31, 1998, 1999 and 2000, totaled ¥3,910 million (\$36,843 thousand), ¥3,624 million (\$34,140 thousand), and ¥3,719 million (\$35,042 thousand), respectively.

5. INCOME TAXES:

For the year ended March 31, 1999, and prior years, the Company provided for income taxes at the amounts currently payable for each year. Deferred income taxes relating to timing differences between reporting and accounting purposes were not required under Japanese accounting practices, and therefore have not been provided.

However in the year ended March 31, 2000, the Company has provided the Consolidated Financial Statements reflecting the tax effect to reflect the change of Japanese accounting practices. Increases of the retained earnings at March 31, 2000 and the net income for the year then ended resulting from this accounting change are ¥843 million (\$7,942 thousand) and ¥111 million (\$1,051 thousand) respectively.

Unlike other income taxes, enterprise tax is deductible for tax purposes when it is paid. For the year ended March 31, 1998, although the enterprise tax was presented as selling, general and administrative expenses in the basic financial statements disclosed in conformity with the accounting practices in Japan, the reclassification had been made to present income taxes in their entirety in the accompanying consolidated financial statements. Income taxes in the accompanying consolidated statements of income include all taxes based on income mentioned above.

6. SHAREHOLDERS' EQUITY:

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

	Number of shares	Millions of yen	
		Common stock	Additional paid-in capital
Balance of March 31, 1997	30,456,679	11,786	12,657
No transactions during 1998	—	—	—
Balance of March 31, 1998	30,456,679	11,786	12,657
Retirement of stock during 1999	(793,400)	—	(308)
Balance of March 31, 1999	29,663,279	11,786	12,349
Retirement of stock during 2000	(409,800)	—	(222)
Balance of March 31, 2000	29,253,479	11,786	12,127
		Thousands of U.S. dollars	
		Common stock	Additional paid-in capital
Balance of March 31, 1999		111,032	116,339
Retirement of stock during 2000		—	(2,093)
Balance of March 31, 2000		111,032	114,246

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.

7. CONTINGENT LIABILITIES:

At March 31, 1998, 1999 and 2000, contingent liabilities were as follows:

	Millions of yen			Thousands of U.S. dollars
	1998	1999	2000	2000
Trade notes receivable discounted or endorsed	2,744	3,298	3,230	30,434
Guarantees for bank borrowings of Company employees and subsidiaries.....	331	327	322	3,042

8. SUBSEQUENT EVENT:

The following plan for the appropriation of retained earnings for the period from April 1, 1998 to March 31, 2000 was approved at the Shareholders' Annual Meeting held on June 29, 2000.

	Millions of yen	Thousands of U.S. dollars
Unappropriated retained earnings Balance at March 31, 2000	29,567	278,535
Appropriations:		
Cash dividends	102	964
Bonuses to directors and statutory auditors	20	186
Balance carried forward	29,445	277,385

Appropriations of retained earnings are customarily recorded in the accompanying period in which they are approved by the shareholders.

9. Change of presentation:

Effective April 1, 1999, the Company reclassified rental revenue and its related cost to sales and cost of sales, which had been presented in non-operating income and expenses until 1999.

The management believes that such reclassification are more appropriate for the presentation of statements of income, because rental of the real estate is a part of the Company's business and is becoming increasingly material. Amounts reclassified to sales and cost of sales were ¥107 million (\$1,008 thousand) and ¥35 million (\$330 thousand), respectively.

10. Segments information:

Information by Industry Segment

The Company and its subsidiaries operate

principally in three industry segments: Special Equipment Car, Environmental Equipment and Systems, and Car Sales Business.

Operations in the Special Equipment Car segment involve the production and sale of Dump Trucks, Tank Trucks, Concrete Pumps and Pneumatic bulk carrier.

Operations in the Environmental Equipment and Systems segment involve the plant contract of Refuse Derived Fuel, Glass Bottle Color Sorting System, and Advanced Landfill Leachate Treatment System.

Operations in the Car Sales Business segment involve the sale of the car produced by TOYOTA Automobile Company, limited.

Industry segment	Millions of yen year ended March 31, 1998					Millions of yen year ended March 31, 1999				
	Sales to outside customers	Inter-segment sales	Total sales	Operating cost	Operating profit	Sales to outside customers	Inter-segment sales	Total sales	Operating cost	Operating profit
Specialty Truck	35,121	—	35,121	36,026	(905)	26,640	—	26,640	29,031	(2,391)
Environmental Equipment and Systems	8,283	—	8,283	7,654	629	8,543	—	8,543	7,990	553
Automobiles Sales	8,984	—	8,984	9,019	(35)	7,382	—	7,382	7,436	(54)
Total	52,388	—	52,388	52,699	(311)	42,565	—	42,565	44,457	(1,892)
Elimination of intersegment sales/profit	—	—	—	(19)	19	—	—	—	(18)	18
Consolidated total	52,388	—	52,388	52,680	(292)	42,565	—	42,565	44,439	(1,874)

Industry segment	Millions of yen year ended March 31, 2000					Thousands of U.S. dollars (Note 2) year ended March 31, 2000				
	Sales to outside customers	Inter-segment sales	Total sales	Operating cost	Operating profit	Sales to outside customers	Inter-segment sales	Total sales	Operating cost	Operating profit
Specialty Truck	27,547	3	27,550	28,277	(727)	259,515	30	259,545	266,389	(6,844)
Environmental Equipment and Systems	12,257	—	12,257	11,395	862	115,464	—	115,464	107,345	8,119
Automobiles Sales	6,594	—	6,594	6,600	(6)	62,115	1	62,116	62,175	(59)
Total	46,398	—	46,401	46,272	129	437,094	31	437,125	435,909	1,216
Elimination of intersegment sales/profit	—	(3)	(3)	(28)	25	—	(31)	(31)	(268)	237
Consolidated total	46,398	—	46,398	46,244	154	437,094	—	437,094	435,641	1,453

11. Consolidated statements of cash flows:

For purposes of the consolidated statements of cash flows, cash and cash equivalents include highly liquid investments with an original maturity of three months or less to be equivalents.



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Kyokuto Kaihatsu Kogyo Co., Ltd.

1. Outline of audit:

We have examined the consolidated balance sheets of Kyokuto Kaihatsu Co., Ltd. and consolidated subsidiaries as of March 31, 1998, 1999 and 2000, and the related consolidated statement of income and retained earnings for each of the three years in the period ended March 31, 2000, and the consolidated related statement of cash flows for the year ended at March 31, 2000, all expressed in Japanese yen. Our examination were made in accordance with auditing standards generally accepted in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

2. Results of audit:

In our opinion, the accompanying consolidated financial statements referred to above present fairly the consolidated financial position of Kyokuto Kaihatsu Kogyo Co.,Ltd. and consolidated subsidiaries at March 31, 1998, 1999 and 2000, 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 consistently applied during the period except for the change, with which we concur, in the method of accounting for the percentage of completion method, depreciation for buildings, real estate rental income and cost as described in Note 3(g), 3(d) and 9 to the consolidated financial statements.

We have also reviewed the translation the 2000 consolidated financial statements into United States dollars on the basis described in Note 2. In our opinion, such United States dollar amounts have been properly translated on such basis.

Yukoh Audit Corporation

Osaka, Japan
June 29, 2000

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KYOKUTO KAIHATSU KOGYO CO., LTD.