

Kyokuto Kaihatsu Kogyo Co., Ltd.

Annual Report 2001

Year ended March 31, 2001

## FINANCIAL HIGHLIGHTS

Years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
	<u>2001</u>	<u>2000</u>	<u>2001</u>
<b>For the Year:</b>			
Net Sales .....	<b>46,964</b>	46,398	<b>379,054</b>
Operating income .....	<b>802</b>	154	<b>6,478</b>
Net income .....	<b>400</b>	1	<b>3,229</b>
<b>At Year-end:</b>			
Total assets .....	<b>73,219</b>	73,689	<b>590,954</b>
Total shareholders' equity .....	<b>53,428</b>	53,480	<b>431,219</b>
	Yen		U.S. dollars (Note 1)
	<u>2001</u>	<u>2000</u>	<u>2001</u>
<b>Amounts per Share of Common Stock (Note 2):</b>			
Net Income .....	<b>13.77</b>	0.05	<b>0.11</b>
Cash dividend, applicable to earnings of the year .....	<b>6.00</b>	6.00	<b>0.05</b>

Note 1. U.S. dollar amounts are translated for convenience only, at the rate of ¥123.90 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.

## CONTENTS

1. To Our Shareholders
3. Consolidated Statements of Income and Retained Earnings
4. Consolidated Balance Sheets
6. Consolidated Statements of Cash Flows
7. Notes to Consolidated Financial Statements
15. Report of Independent Certified Public Accountants
16. Corporate Information
17. Board of Directors and Statutory Auditors

# TO OUR SHAREHOLDERS

## 1. Summary of Operations

I am pleased to report the business results of Kyokuto Kaihatsu Kogyo Co., Ltd. for the fiscal year ending March 31, 2001.

### (1) Business Results

During the fiscal year ending March 31, 2001, the recovery trend of the Japanese economy was supported by the increase in private capital investments and exports mainly based on IT (Information Technology) related businesses. The markets had undergone a change reinforcing concerns about the uncertainty over the economy that had been influenced by the slowdown of the U.S. economy since the second half of fiscal year 2000. In the truck industry, the demand for trucks had remained at a low level due to the sluggish business environment in the construction and trucking industry. In addition to this, the intense competition was brought about among environmental and automotive industries. Under these circumstances, efforts were made to improve business results by strengthening product values, securing order volume, reducing costs, enhancing product quality, and upgrading and expanding maintenance services and the downsizing of personnel.

As a result of these efforts, the sales for the fiscal year ending March 31, 2001 increased by 560 million yen (1.2%) to 46.96 billion yen over the previous term, while the operating income went up by 540 million yen (117.8%) to 1 billion yen and the net income advanced by 390 million yen to 400 million yen.

The following is a summary of operations by division.

#### <Specialty Truck Division>

The demand for trucks had hovered at low level, however, attempts were made to improve the profitability by cost reduction and efficiency betterment of the daily operations, while also focusing on expanding sales of the logistics/labor-saving products and the non-construction related products such as environment related equipment which showed steady demands. Due to these attempts, sales in the Specialty Truck Division increased by 2.52 billion yen (9.2%) to 30.07 billion yen over the previous fiscal year. The operating income increased by 800 million yen to 70 million yen.

#### <Environmental Equipment and Systems Division>

While facing severe competition in the environment related industry, we strove to retain sales and orders for RDF (Refuse Derived Fuel) plants and landfill leachate treatment facilities as well as recycling plants regarded as prime products, along with boosting maintenance and contracted plant operation business.

However, because of the carry-over of a construction project through the following fiscal year, sales decreased by 2.28 billion yen (18.6%) to 9.97 billion yen over the previous term, while operating income dropped by 220 million yen (26.3%) to 630 million yen. The amount of orders received declined by 50 million yen (0.4%) to 13.1 billion yen.

#### <Automobile Sales Division>

We made a point to bring in new car models and reinforce sales/service systems along with cutting the costs of personnel retrenchment and so on. Accordingly, sales went up by 320 million yen (4.9%) to 6.91 billion yen over the previous fiscal year, which were somewhat contributed by the launch of new models such as the "Corolla" and "Estima", while the operating income increased by 80 million yen to 80 million yen.

### (2) The State of Cash Flows

Cash and cash equivalents for the fiscal year ending March 31, 2001 increased by 1.404 billion yen (10.2%) to 15.246 billion yen over the previous year with the final result of 948 million yen of net income for the year and the progress in collection of accounts receivable. In addition some of the cash and cash equivalents were allocated to acquisitions of fixed assets and treasury stocks.



### <Cash Flows from Operating Activities>

The cash and cash equivalents generated by the Operating Activities was 1.636 billion yen (A 1.955 billion yen decrease over the previous year) in total. This was the result of 948 million yen of net income for the year in holdings (A 646 million yen increase over the previous year) and the decline in the amount of accounts payable by 1.113 billion yen (A 4.175 decrease over the previous year), while decreasing the amount of accounts receivable by 1.215 billion yen (A 2.930 increase over the previous year).

### <Cash Flows from Investing Activities>

The cash and cash equivalents provided by the Investing Activities was 112 million yen (A 1.278 billion yen increase over the previous year). This resulted in an income of 1.173 billion yen from the refund of the fixed-term deposit and an income of 921 million yen from sales of securities, while spending 1.459 billion yen on the acquirement of fixed assets and expending 330 million yen for the acquisition of a new consolidated subsidiary.

### <Cash Flows from Financing Activities>

A total of 343 million yen was spent on the Financing Activities (A 447 million yen increase over the previous year). This was the result of expending 302 million yen on the acquisition of treasury stocks for cancellation purposes.

## 2. Confronting Issues

In the coming year, we foresee a sluggish economy continuing to fall due to stagnant personal consumption affected by the failures of firms and the insecure employment situation. In addition, the cutback on private capital investments and the slowdown on the U.S. economy are forecasted.

Under these circumstances, our group companies including consolidated subsidiaries launched a Medium-Term Management Plan called "Plan 2001" on April 1, 2001 as an attempt to enhance the enterprise value by the improvement of profitability and the effective employment of capital. We will have to tackle the following issues:

- 1) Improvement of marketability and profitability of our existing sectors by slashing unprofitable business units 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 the logistics/labor-saving products, non-construction related truck bodies, and their maintenance; also, we intend to increase profitability by reducing operating costs and improving operations.

### <Environmental Equipment and Systems Division>

We aim to expand business in this field by positively investing management resources in this growing industry while securing the receipt of orders from recycling plants, RDF (Refuse Derived Fuel) plants, landfill leachate treatment facilities, maintenance and contracted plant operation of these facilities.

### <Automobile Sales Division>

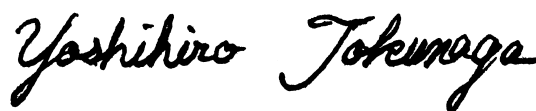
We seek to boost sales and profitability by increasing direct customer sales and strengthening the service section system.

### <Newly Participating Business>

We are contemplating expanding 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 foundation.

June, 2001



Yoshihiro Tokunaga  
President

## CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

Years ended March 31, 2001, 2000 and 1999

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2001	2000	1999	2001
<b>Net sales</b> .....	<b>46,964</b>	46,398	42,565	<b>379,054</b>
<b>Cost of sales</b> .....	<b>37,706</b>	38,063	35,575	<b>304,327</b>
Gross profit .....	<b>9,258</b>	8,335	6,990	<b>74,728</b>
Selling, general and administrative expenses .....	<b>8,456</b>	8,181	8,864	<b>68,249</b>
<b>Operating income (loss)</b> .....	<b>802</b>	154	(1,874)	<b>6,478</b>
<b>Other income (expenses)</b>				
Interest and dividend income .....	<b>76</b>	68	138	<b>620</b>
Interest expenses .....	<b>(37)</b>	(90)	(112)	<b>(306)</b>
Gain (loss) on disposal of property and equipment .....	<b>38</b>	(203)	1,620	<b>310</b>
Gain on sales of securities, net .....	<b>35</b>	874	42	<b>289</b>
Research and development expenses for RDF systems .....	<b>—</b>	(620)	—	<b>—</b>
Other-net .....	<b>32</b>	118	(43)	<b>261</b>
<b>Income (loss) before income taxes</b> ..	<b>948</b>	301	(229)	<b>7,652</b>
<b>Income taxes</b> (Note 12)				
current .....	<b>234</b>	192	300	<b>1,893</b>
deferred (prepaid), net .....	<b>301</b>	112	—	<b>2,433</b>
Total income taxes .....	<b>535</b>	304	300	<b>4,326</b>
<b>Minority interest</b> .....	<b>12</b>	3	24	<b>98</b>
<b>Net income (loss)</b> .....	<b>400</b>	1	(505)	<b>3,229</b>
<b>Retained earnings:</b>				
Balance at beginning of period .....	<b>29,566</b>	28,376	29,082	<b>238,632</b>
Deferred (prepaid) income taxes adjustment to past year .....	<b>—</b>	955	—	<b>—</b>
Amount of increase in surplus due to the addition of consolidated subsidiaries ...	<b>—</b>	420	—	<b>—</b>
Cash dividends paid .....	<b>(189)</b>	(185)	(198)	<b>(1,530)</b>
Bonuses to directors and statutory auditors .....	<b>(19)</b>	—	(3)	<b>(159)</b>
Balance at end of period .....	<b>29,757</b>	29,567	28,376	<b>240,172</b>
		Yen		U.S. dollars
<b>Per share of common stock:</b>				
Net income (loss) .....	<b>13.77</b>	0.05	(16.71)	<b>0.11</b>
Cash dividend, applicable to earnings of the year .....	<b>6.00</b>	6.00	7.50	<b>0.05</b>

The accompanying notes are an integral part of this statements.

## CONSOLIDATED BALANCE SHEETS

Years ended March 31, 2001, 2000 and 1999

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2001	2000	1999	2001
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash and time deposits .....	7,221	8,769	7,703	58,284
Short-term investments (Note 3) .....	9,471	8,196	6,414	76,444
Trade note and accounts receivable .....	18,711	19,976	18,140	151,019
Less: Allowance for doubtful accounts .....	(54)	(37)	(42)	(443)
Inventories .....	4,902	4,594	5,680	39,567
Deferred income taxes (Note 12) ...	314	256	—	2,542
Prepaid expenses .....	99	128	82	806
Other current assets .....	209	339	746	1,689
<b>Total current assets .....</b>	<b>40,875</b>	<b>42,221</b>	<b>38,723</b>	<b>329,908</b>
<b>Investment and other assets:</b>				
Investment in securities (Note 3) ....	4,046	3,697	3,472	32,663
Deferred income taxes (Note 12) ...	180	587	—	1,461
Other .....	2,729	2,239	2,216	22,029
<b>Total investment and other assets ....</b>	<b>6,957</b>	<b>6,523</b>	<b>5,688</b>	<b>56,152</b>
<b>Property and equipment:</b>				
Land .....	10,284	10,045	9,658	83,005
Buildings and structures .....	20,523	20,266	20,181	165,642
Machinery and equipment .....	8,923	9,304	9,786	72,023
Construction in progress .....	722	117	72	5,834
Other .....	2,748	3,279	3,198	22,182
	43,200	43,011	42,895	348,682
Less — Accumulated depreciation ...	(18,358)	(18,392)	(17,585)	(148,174)
<b>Total property and equipment ..</b>	<b>24,842</b>	<b>24,619</b>	<b>25,310</b>	<b>200,508</b>
<b>Intangible assets .....</b>				
Cost in excess of net assets of subsidiaries .....	375	204	305	3,033
Other .....	167	122	42	1,353
<b>Total intangible assets .....</b>	<b>543</b>	<b>326</b>	<b>347</b>	<b>4,385</b>
<b>Total assets .....</b>	<b>73,219</b>	<b>73,689</b>	<b>70,068</b>	<b>590,954</b>

The accompanying notes are an integral part of this statements.

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2001	2000	1999	2001
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Current liabilities:</b>				
Short-term bank loans (Note 4) .....	<b>2,388</b>	2,856	2,980	<b>19,274</b>
Trade note and account payable .....	<b>9,750</b>	10,721	7,586	<b>78,699</b>
Accrued income and other taxes ...	<b>248</b>	718	327	<b>2,007</b>
Accrued expenses .....	<b>1,601</b>	1,569	1,546	<b>12,924</b>
Other current liabilities .....	<b>1,831</b>	1,060	1,834	<b>14,778</b>
<b>Total current liabilities</b> .....	<b>15,819</b>	16,924	14,273	<b>127,681</b>
<b>Long-term liabilities:</b>				
Long-term debt (Note 4) .....	<b>723</b>	297	556	<b>5,838</b>
Accrued severance indemnities (Note 5)	<b>1,678</b>	2,148	2,245	<b>13,544</b>
Net assets of subsidiaries in excess of cost .....	<b>92</b>	140	181	<b>750</b>
Other .....	<b>1,247</b>	482	72	<b>10,066</b>
<b>Total long-term liabilities</b> .....	<b>3,741</b>	3,067	3,054	<b>30,199</b>
<b>Minority interests</b> .....	<b>229</b>	218	230	<b>1,854</b>
<b>Shareholders' equity:</b>				
Common stock, par value ¥50 per share (Note 10)				
Authorized — 120,000,000 shares				
Issued and outstanding:				
2001 — 29,073,279 shares ....	<b>11,786</b>			<b>95,126</b>
2000 — 29,253,479 shares ....		11,786		
1999 — 29,663,279 shares ....			11,786	
Additional paid-in capital (Note 10) .	<b>11,824</b>	12,127	12,349	<b>95,436</b>
Retained earnings (Note 13) .....	<b>29,757</b>	29,567	28,376	<b>240,172</b>
Net unrealized holding gains on securities .....	<b>60</b>	—	—	<b>485</b>
<b>Total shareholders' equity</b> .....	<b>53,428</b>	53,480	52,511	<b>431,219</b>
<b>Total liabilities and shareholders' equity</b> .....	<b>73,219</b>	73,689	70,068	<b>590,954</b>

**CONSOLIDATED STATEMENT OF CASH FLOWS**

Years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
	<u>2001</u>	<u>2000</u>	<u>2001</u>
<b>Operating activities:</b>			
Net income before income taxes .....	<b>948</b>	301	<b>7,652</b>
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization .....	<b>1,139</b>	1,331	<b>9,194</b>
Net gains (loss) on sales of marketable securities and investments .....	<b>(189)</b>	(874)	<b>(1,526)</b>
Net gains (loss) on sales of property .....	<b>(88)</b>	137	<b>(715)</b>
Provision (reversal) for accrued severance indemnities ..	<b>(262)</b>	(152)	<b>(2,115)</b>
Interest and dividend income .....	<b>(76)</b>	(68)	<b>(620)</b>
Interest expenses .....	<b>37</b>	90	<b>306</b>
<b>Change in assets and liabilities:</b>			
Decrease (increase) in accounts receivable .....	<b>1,215</b>	(1,783)	<b>9,813</b>
Decrease (increase) in inventories .....	<b>(306)</b>	1,170	<b>(2,476)</b>
Decrease (increase) in prepaid expenses .....	<b>182</b>	511	<b>1,471</b>
Decrease (increase) in accounts payable .....	<b>(1,113)</b>	3,061	<b>(8,991)</b>
Decrease (increase) in accrued expenses .....	<b>654</b>	(403)	<b>5,279</b>
Decrease (increase) in income taxes payable .....	<b>(445)</b>	404	<b>(3,594)</b>
Other, net .....	<b>174</b>	120	<b>1,411</b>
<b>Sub total</b> .....	<b>1,869</b>	3,843	<b>15,089</b>
Interest and dividend income received .....	<b>68</b>	69	<b>553</b>
Interest expenses paid .....	<b>(38)</b>	(90)	<b>(310)</b>
Income taxes paid .....	<b>(263)</b>	(231)	<b>(2,125)</b>
<b>Net cash provided by operating activities</b> .....	<b><u>1,636</u></b>	<u>3,592</u>	<u><b>13,208</b></u>
<b>Investing activities:</b>			
Decrease (increase) in time deposits .....	<b>1,115</b>	(276)	<b>9,000</b>
Payment for purchase of marketable securities and investments ...	<b>(760)</b>	(2,110)	<b>(6,142)</b>
Proceeds from sales of marketable securities and investments .....	<b>921</b>	2,441	<b>7,434</b>
Payment for purchase of facilities .....	<b>(1,459)</b>	(1,998)	<b>(11,779)</b>
Proceeds from sale of facilities .....	<b>292</b>	773	<b>2,362</b>
Disbursement of loan receivables .....	<b>(3)</b>	(2)	<b>(27)</b>
Collection of loan receivables .....	<b>6</b>	6	<b>56</b>
<b>Net cash provided by (used in) investing activities</b> ..	<b><u>112</u></b>	<u>(1,166)</u>	<u><b>904</b></u>
<b>Financing activities:</b>			
Increase (decrease) in short-term debt .....	<b>(468)</b>	(124)	<b>(3,777)</b>
Proceeds from long-term debt .....	<b>626</b>	41	<b>5,059</b>
Payment on long-term debt .....	<b>(10)</b>	(300)	<b>(81)</b>
Purchases of common stock .....	<b>(302)</b>	(222)	<b>(2,443)</b>
Dividends paid .....	<b>(189)</b>	(186)	<b>(1,531)</b>
<b>Net cash provided by (used in) financing activities</b> ..	<b><u>(343)</u></b>	<u>(791)</u>	<u><b>(2,773)</b></u>
Effect of exchange rate change on cash and cash equivalents ..	<b>0</b>	(1)	<b>0</b>
Net increase in cash and cash equivalents .....	<b>1,404</b>	1,634	<b>11,339</b>
Cash and cash equivalents at beginning of year .....	<b>13,841</b>	11,487	<b>111,713</b>
Increase in cash and cash equivalents by increase of number of consolidated subsidiaries .....	<b>0</b>	720	<b>0</b>
Cash and cash equivalents at end of year .....	<b><u>15,246</u></b>	<u>13,841</u>	<u><b>123,052</b></u>

For the year ended March 31, 1999 and prior years, the cash flow statement was not required by the Securities and Exchange Law of Japan.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. Basis of Presenting Consolidated Financial Statements

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

The accompanying consolidated financial statements are prepared based on the consolidated financial statements of the Company and its subsidiaries (the "Group") which were filed with the Director of Kanto Local Finance Bureau as required by the Securities and Exchange Law. In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of the reader, using the approximate exchange rate at March 31, 2001, which was ¥123.90 to US\$1.00. These convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

## 2. Summary of Significant Accounting Policies

### (a) Consolidation Principles:

The consolidated financial statements include the accounts of the Company's subsidiaries. All significant inter-company transactions and accounts are eliminated.

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

### (b) Consolidated Statement of Cash Flows:

In 2000, the Group adopted the Accounting Standards for Consolidated Statement of Cash Flows which were issued by the Business Accounting Deliberation Council. For the purposes of cash flow statements, cash and cash equivalents comprise cash in hand, deposits held at call with banks, net of overdrafts and all highly liquid investments with maturities of three months or less.

### (c) Short-term Investments and Investments in Securities:

Through March 31, 2000, marketable securities included in short-term investments and investments in securities were stated at the lower of cost or market. Other investments, except for these accounted for by the equity method, were carried at cost determined by the moving average method. Effective April 1, 2000, the Group adopted the Accounting Standards for Financial Instruments which were issued by the Business Accounting Deliberation Council. In accordance with the new standards, securities are classified into three categories: trading securities, held-to-maturity debt securities, equity investments in associates and other securities.

These classified as other would be reported at fair value with unrealized gains, net of related taxes reported in equity. Under the Code, unrealized holding gains on securities, net of related taxes is not available for distribution as dividends and bonuses to directors and corporate auditors.

Other investments are carried at cost. The cost is determined by the moving average method.

(Trading securities)

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

(Held-to-maturity debt securities and other securities)

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

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

(Golf club membership)

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

The effect of the new standard adoption for the year ended 31,2001, is to increase income before income taxes and minority interests by ¥182 million (\$1,474 thousand).

**(d) Inventories:**

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

**(e) Depreciation:**

Depreciation is principally computed on the declining-balance method, based on the estimated useful lives of assets which are prescribed by

Japanese income tax laws. Buildings are depreciated on a straight-line basis.

Amortization of intangible assets is computed by the straight-line method over periods prescribed primarily by the Japanese Commercial Code or Japanese income tax laws.

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 (\$2,954 thousand) and an increase in net income of ¥366 million (\$2,954 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 (\$291 thousand)

**(f) Stock and Bond Issue Expenses:**

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

**(g) Accrued Severance Indemnities:**

Effective April 1, 2000, the Group adopted the Accounting Standards for Retirement Benefit which were issued by the Business Accounting Deliberation Council. In accordance with the new standards, accrued severance indemnities are provided, based on the amount of projected benefit obligation reduced by pension plan assets at fair value at the end of the annual period.

The effect of the new standard adoption for the year ended 31, 2001, is to increase income before income taxes and minority interests by ¥145 million (\$1,171 thousand).

The Company and its domestic subsidiaries provide for lump-sum severance benefits with respect to directors and corporate auditors. While the Company has no legal obligation, it is a customary practice in Japan to make lump-sum payments to a director or a corporate auditor upon retirement. Annual provisions are made in the accounts for the estimated

costs of this termination plan, which are not funded. Any amounts payable to officers upon retirement are subject to approval at the shareholders' meeting.

**(h) Construction Contract:**

The construction contract takes longer than one year and the contract amount exceeded ¥0.5 billion, the percentage of completion method is applied.

**(i) Leases:**

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

**(j) Research and Development and Computer Software:**

Research and development expenditure is charged to income when incurred.

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

Effective April 1, 1999, the Group adopted the Accounting Standards for Research and Development Cost, etc. which was issued by the Business Accounting Deliberation Council.

The effect of the new standard adoption for the year ended 31, 2000, is to increase income before income taxes and minority interests by ¥63 million (\$508 thousand).

**(k) Income Taxes:**

Effective April 1, 1999, the Group adopted the Financial Accounting Standard on Accounting for Income Taxes which was issued by the Business Accounting Deliberation Council.

This standard requires that income taxes be ac-

counted for under the asset and liability method. The effect of the initial application of this policy for the year ended March 31, 2000 was to decrease net income by ¥111 million. The cumulative effect up to the beginning of the current year of ¥954 million has been reported as a prior years' tax effect from initial application of accounting for income taxes in the consolidated statement of shareholders' equity. As a result of the above, total assets and retained earnings at March 31, 2000 increased by ¥843 million.

**(l) Per Share Information**

The computation of basic net income per share is based on the weighted average number of shares of common stock outstanding during each period. The average number of shares used in the computation was 28,594 thousand and 29,253 thousand and 29,663 thousand for the years ended March 31 2001 and 2000 and 1999, respectively. Cash dividends per share shown in the statements of income are the amounts applicable to the respective years.

**3. Short-Term Investments, Investments in Securities and Investments in and Advances to Associates:**

At March 31, 2000, short-term investments and investments in securities were as follows:

	Millions of yen		
	2000		
	Carrying amount	Market value	Unrealized gain(loss)
Short-term investments:			
Market value available:			
Equity securities .....	¥ 565	¥ 781	¥ 217
Bonds and debentures ...	—	—	—
Other securities .....	—	—	—
	565	¥ 781	¥ 217
Market value not available ...	7,631		
Total .....	¥8,196		
Investments in securities:			
Market value available:			
Equity securities .....	¥3,615	¥4,436	¥ 822
Bonds and debentures	—	—	—
Other securities .....	—	—	—
	3,615	¥4,436	¥ 822
Market value not available ...	82		
Total .....	¥3,697		

Short-term securities at March 31, 2001 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2001	2001
Market value available:		
Trading securities .....	¥ 178	\$ 1,444
Market value not available:		
M.M.F. ....	¥8,793	\$70,968
COMERCIAL PAPER .....	¥ 499	\$ 4,032
Total.....	¥9,471	\$76,444

The following is a summary of other securities at March 31, 2001:

	Millions of yen			
	March 31, 2001			
	Other securities			
	Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities .....	¥ 3,847	¥ 453	¥ 344	¥ 3,956
Bonds and debentures ...	—	—	—	—
Other securities .....	—	—	—	—
	¥ 3,847	¥ 453	¥ 344	¥ 3,956
Market value not available				90
Total .....				¥ 4,046

	Thousands of U.S. dollars			
	March 31, 2001			
	Other securities			
	Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities .....	\$31,054	\$ 3,657	\$ 2,780	\$31,931
Bonds and debentures....	—	—	—	—
Other securities .....	—	—	—	—
	\$31,054	\$ 3,657	\$ 2,780	\$31,931
Market value not available				732
Total.....				\$32,663

#### 4. Short-Term Bank Loans and Long-Term Debt:

The annual average interest rates applicable to short-term bank loans at March 31, 2001 and 2000 are 1.19 % and 1.50 %, respectively.

Long-term debt at March 31, 2001 and 2000 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2001	2000	1999	2001
Construction loans from SEIYU Corporation due 2002 through 2017 at rate of 1.5% per annum .....	¥ 723	¥ 96	¥ 355	\$ 5,838
Less, current portion .....	—	—	—	—
	¥ 723	¥ 96	¥ 355	\$ 5,838

Aggregate annual maturities of long-term debt subsequent to March 31, 2001 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2002 .....	—	—
2003 .....	—	—
2004 .....	—	—
2005 .....	—	—
2006 and thereafter .....	¥ 723	\$ 5,838
	¥ 723	\$ 5,838

#### 5. Accrued Severance Indemnities

The following tables sets forth the changes in benefit obligation, plan assets and funded status of the Company and its subsidiaries at March 31, 2001.

Benefit obligation at end of year .....	¥ 5,366	\$43,311
Fair value of plan assets at end of year .....	3,481	28,096
Funded status:		
Benefit obligation in excess of plan assets .....	1,885	15,215
Unrecognized net transition obligation at date of adoption .....	—	—
Unrecognized prior service cost .....	—	—
Unrecognized actuarial loss .....	219	1,775
Prepaid expenses for plan assets at end of year .....	12	104
Accrued pension liability recognized in the consolidation balance sheets .....	1,678	13,544

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

Severance and pension costs of the Company and its subsidiaries included the following components for the year ended March 31, 2001.

Service cost .....	¥ 247	\$ 1,996
Interest cost .....	157	1,274
Expected return on plan assets .....	(93)	(754)
Amortization:		
Transition obligation at date of adoption .....	(275)	(2,227)
Prior service cost .....	—	—
Actuarial losses .....	135	1,092
Net periodic benefit cost .....	¥ 171	\$ 1,381

Assumption used in the accounting for the defined benefit plans for the year ended March 31, 2001 is as follows:

Method of attributing benefit to periods of service .....	straight -line basis
Discount rate .....	3.0 %
Long-term rate of return on fund assets .....	3.0 %
Amortization period for transition obligation at date of adoption ...	1 years
Amortization period for prior service cost .....	10 years
Amortization period for actuarial losses .....	10 years

The accumulated balance of fund assets of the retirement benefit plan of the Company and its domestic subsidiaries had an aggregate value of ¥ 3,719 million as of June 30 , 1999, which is the most recent benefit information date.

## 6. Contingencies

At March 31, 2001, the Group was contingently liable as follows:

	Millions of yen	Thousands of U.S. dollars
As an endorser of notes discounted or endorsed .....	¥3,366	\$27,171
As a guarantor of indebtedness of:		
Associates .....	¥ 320	\$ 2,582
Others .....	7	58
	¥ 327	\$ 2,640

## 7. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2001 and 2000 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Cash and time deposits ...	¥ 7,221	¥ 8,769	\$ 58,284
Short-term investment ....	9,471	8,196	76,444
Less-time deposits with original maturities more than three months .....	(1,347)	(2,459)	(10,878)
Less-stock .....	(98)	(664)	(798)
	¥15,426	¥13,841	\$123,052

## 8. Leases

The Group leases certain machinery and equipment, and other assets. Total lease payments under these leases were ¥ 295 million (\$ 2,389 thousand) , ¥ 308 million and ¥ 330 million for the years ended March 31, 2001 ,2000 and 1999, respectively.

Pro forma information relating to acquisition costs, accumulated depreciation and future minimum lease payments for property held under finance leases which ownership of the leased property is not transferred to the lessee on an "as if capitalized" basis for the years ended March 31, 2001, 2000 and 1999, is as follows:

	Millions of yen		
	2001		
	Machinery and Equipment	Other	Total
Acquisition costs .....	¥ 560	¥ 1,353	¥ 1,913
Accumulated depreciation .....	124	994	1,119
Net leased property .....	¥ 435	¥ 358	¥ 794
	2000		
	Machinery and Equipment	Other	Total
Acquisition costs .....	¥ 521	¥ 1,508	¥ 2,029
Accumulated depreciation .....	147	1,104	1,252
Net leased property .....	¥ 373	¥ 403	¥ 777

	1999		
	Machinery and Equipment	Other	Total
Acquisition costs .....	¥ 122	¥ 1,391	¥ 1,513
Accumulated depreciation .....	107	848	955
Net leased property .....	¥ 14	¥ 543	¥ 558

Thousands of U.S. dollars

	2001		
	Machinery and Equipment	Other	Total
Acquisition costs .....	\$ 4,523	\$ 10,923	\$ 15,446
Accumulated depreciation .....	1,008	8,028	9,036
Net leased property .....	\$ 3,515	\$ 2,895	\$ 6,410

Future minimum lease payments under finance leases as of March 31, 2001, 2000 and 1999 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2001	2000	1999	2001
Due within one year .....	¥ 272	¥ 270	¥ 274	\$ 2,196
Due after one year .....	522	506	283	4,214
Total .....	¥ 794	¥ 777	¥ 558	\$ 6,410

The acquisition costs and future minimum lease payments under finance leases include the imputed interest expense portion.

Depreciation expense, which is not reflected in the accompanying consolidated statements of income, is computed by the straight-line method, would have been ¥ 295 million (\$ 2,839 thousand) for the year ended March 31, 2001.

## 9. Derivatives and Hedging Activities

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

At March 31, 2001 and 2000, outstanding of the forward exchange contracts were as follows:

	Millions of yen					
	2001			2000		
	Notional amount	Market value	Unrealized Gain	Notional amount	Market value	Unrealized Gain
Forward exchange contracts to buy U.S. dollars .....	—	—	—	—	—	—

Thousands of U.S. dollars

	2001		
	Notional amount	Market value	Unrealized Gain
	Forward exchange contracts to buy U.S. dollars .....	—	—

The above amounts exclude contracts entered into in order to hedge receivables and payables denominated in foreign currencies which have been translated and reflected at the corresponding contracted rates in the accompanying consolidated balance sheets at March 31, 2001 and 2000.

## 10. 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, 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
Retirement of stock during 2001 .....	(180,200)	—	(302)
Balance of March 31, 2001 .....	29,073,279	11,786	11,824

	Thousands of U.S. dollars	
	Common stock	Additional paid-in capital
Balance of March 31, 2000 .....	95,126	97,879
Retirement of stock during 2001 .....	—	(2,443)
Balance of March 31, 2001 .....	95,126	95,436

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

## 11. Research and Development and Computer Software

Research and development expenditure charged to income was ¥576 million (\$ 4,650 thousand) and ¥633 million for the years ended March 31, 2001 and 2000, respectively.

## 12. Income Taxes

The Company and its domestic subsidiaries are subject to several taxes based on income, which in the aggregate resulted in statutory tax rates of approximately 42.0 % for the years ended March 31, 2001 and 2000. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The effective rate for the two years ended March 31, 2001 differs from the Company's statutory tax rate for the following reasons:

	2001	2000
Statutory tax rate .....	42.0	42.0%
Dividend income.....	(1.3)	(5.8)
Expenses not deductible for income tax purposes.....	12.3	36.0
Other.....	3.5	28.5
Effective tax rate .....	56.5	100.7%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at March 31, 2001 and 2000 are presented below:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Deferred tax assets:			
Allowance for doubtful accounts .....	¥ 45	¥ —	\$ 368
Accrued expenses .....	297	357	2,398
Accrued severance indemnities .....	607	664	4,905
Tax loss carryforwards ...	337	993	2,720
Other .....	544	286	4,485
Total gross deferred tax assets .....	1,830	2,300	14,876
Less valuation allowance .....	(359)	(571)	(3,000)
Net deferred tax assets .....	1,471	1,729	11,876
Deferred tax liabilities:			
Depreciation .....	(929)	(886)	(7,504)
Unrealized gains of other securities .....	(45)	—	(368)
Other .....	(0)	—	(1)
Total gross deferred tax liabilities .....	(975)	(1,700)	(7,803)
Net deferred tax assets ...	¥ 495	¥ 843	\$4,003

In assessing the realizability of deferred tax assets, management of the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is entirely dependent upon the generation of future taxable income in specific tax jurisdictions during the periods in which those temporary differences become deductible. Although realization was not assured, management considered the projected future taxable income in making this assessment. Based on these factors, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the existing valuation allowance as of March 31, 2001.

Tax loss carryforwards will expire between 2002 and 2006.

### 13. Segment Information:

Information about operations in different industry segments of the Group for the years ended March 31, 2001, 2000 and 1999, is as follows:

#### Industry Segments

##### a. Sales and Operating Income

	Millions of yen				
	2001				
	Industry A	Industry B	Industry C	Eliminations /Corporate	Consolidated
Sales to customers .....	¥30,071	¥ 9,974	¥ 6,918	¥ —	¥46,964
Intersegment .....	5	—	—	(5)	—
Total sales .....	30,076	9,974	6,918	(5)	46,964
Operating expenses .....	30,002	9,339	6,836	(16)	46,162
Operating income .....	¥ 74	¥ 635	¥ 81	¥ (10)	¥ 802

	Millions of yen				
	2000				
	Industry A	Industry B	Industry C	Eliminations /Corporate	Consolidated
Sales to customers .....	¥27,547	¥12,257	¥ 6,594	¥ —	¥46,398
Intersegment .....	3	—	—	(3)	—
Total sales .....	27,550	12,257	6,594	(3)	46,398
Operating expenses .....	28,277	11,395	6,600	(28)	46,244
Operating income .....	¥ (727)	¥ 862	¥ (6)	¥ 25	¥ 154

	Millions of yen				
	1999				
	Industry A	Industry B	Industry C	Eliminations /Corporate	Consolidated
Sales to customers .....	¥26,640	¥8,543	¥7,382	¥ —	¥42,565
Intersegment .....	—	—	—	—	—
Total sales .....	26,640	8,543	7,382	0	42,565
Operating expenses .....	29,031	7,990	7,436	(18)	44,439
Operating income .....	¥ (2,391)	¥ 553	¥ (54)	¥ 18	¥ (1,874)

	Thousands of U.S. dollars				
	2001				
	Industry A	Industry B	Industry C	Eliminations /Corporate	Consolidated
Sales to customers .....	\$242,707	\$ 80,507	\$ 55,840	\$ —	\$379,054
Intersegment .....	44	—	—	(44)	—
Total sales .....	242,752	80,507	55,840	(44)	379,054
Operating expenses .....	244,148	75,378	55,180	(130)	372,576
Operating income .....	\$ 604	\$ 5,129	\$ 660	\$ (86)	\$ 6,478

##### b. Assets, Depreciation and Capital Expenditures

	Millions of yen				
	2001				
	Industry A	Industry B	Industry C	Eliminations /Corporate	Consolidated
Assets .....	¥39,734	¥ 6,286	¥ 6,016	¥21,181	¥73,219
Depreciation .....	1,005	36	103	—	1,145
Capital expenditures .....	1,526	29	120	—	1,675

	Millions of yen				
	2000				
	Industry A	Industry B	Industry C	Eliminations /Corporate	Consolidated
Assets .....	¥39,603	¥ 8,851	¥ 6,292	¥20,940	¥73,688
Depreciation .....	1,176	45	108	—	1,330
Capital expenditures .....	1,164	36	31	—	1,231

	Thousands of U.S. dollars				
	2001				
	Industry A	Industry B	Industry C	Eliminations /Corporate	Consolidated
Assets .....	\$320,698	\$ 50,739	\$ 48,558	\$170,959	\$590,954
Depreciation .....	8,116	296	836	—	9,248
Capital expenditures .....	12,321	236	969	—	13,526

Notes: Industry A consists of special equipment car.

Industry B consists of environmental equipment and systems.

Industry C consists of car sales business.

Corporate assets consist primarily of cash and cash equivalents, investment in and advances to affiliates, investments in securities and the corporate headquarters assets.

### 14. Subsequent Event

The following appropriations of the Company's retained earnings in respect of the year ended March 31, 2001 were, as proposed by the Board of Directors, approved by the shareholders at the annual general meeting held on 29 June, 2001:

Appropriations	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥6.0 per share) .....	¥ 85	\$ 692
Bonuses to directors .....	18	150
Transfer to legal reserve .....	10	85
Total appropriations .....	¥ 114	\$ 927



# REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

---

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

## 1. Outline of audit:

We have audited the consolidated balance sheets of Kyokuto Kaihatsu Co., Ltd. and its subsidiaries as of March 31, 1999, 2000 and 2001, and the related consolidated statements of income and shareholders' equity for the years and the related consolidated statement of cash flows for the years ended at March 31, 2000 and 2001, all expressed in Japanese yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied 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 consolidated financial statements, referred to above present fairly the consolidated financial position of Kyokuto Kaihatsu Kogyo Co.,Ltd. and subsidiaries as of March 31, 1999, 2000 and 2001, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis except for the change, with which we concur, in the method of accounting for depreciation for buildings, as described in Note 2(e) to the consolidated financial statements.

As described in Note 2(j) and 2(k), effective April 1, 1999, the consolidated financial statements have been prepared in accordance with new accounting standard for Research and Development Cost and Income Taxes.

As described in Note 2(g), effective April 1, 2000, the consolidated financial statements have been prepared in accordance with new accounting standard for Retirement Benefit and Financial Instruments.

Also in our opinion, the U.S.dollar amounts in the consolidated financial statements, referred to above have been translated from Japanese yen on the basis set forth in Note 1.

*Yukoh Audit Corporation*

Osaka, Japan  
June 28, 2001

Office: 9-605, Toyosaki 3-chome, 20  
Kita-ku, Osaka, Japan

### **Kyokuto Kaihatsu Kogyo Co., Ltd.**

#### **Established:**

June, 1955

#### **Paid-in Capital:**

¥11,786 million (at March 31, 2001)

#### **Number of Shares Issued:**

28,594,755 shares  
(at March 31, 2001)

#### **Number of Employees:**

1,359

#### **Head Office:**

6-1-45, Koshienguchi, Nishinomiya City, Hyogo Prefecture,  
663-8545, Japan  
Tel: (0798) 66-1000  
Fax: (0798) 66-8146

#### **Tokyo Office:**

1-1, Asahicho, Haneda, Ota-ku, Tokyo, 144-0042, Japan  
Tel: 03-5737-2271  
Fax: 03-5737-7791

#### **Plants:**

Yokohama Plant  
Occupies 51,890m<sup>2</sup>  
Since March, 1962  
Located in Yamato, Kanagawa

Nagoya Plant  
Occupies 132,537m<sup>2</sup>  
Since June, 1970  
Located in Komaki, Aichi

Miki Plant  
Occupies 98,274m<sup>2</sup>  
Since October, 1979  
Located in Miki, Hyogo

Fukuoka Plant  
Occupies 66,832m<sup>2</sup>  
Since September, 1970  
Located in Iizuka, Fukuoka

Tohoku Plant  
Occupies 57,600m<sup>2</sup>  
Since April, 1999  
Located in Hachinohe, Aomori



# BOARD OF DIRECTORS AND STATUTORY AUDITORS

---

**President**

Yoshihiro Tokunaga

**Senior Managing Director**

Tomizo Takenaka

**Managing Directors**

Tadao Yasuda

Katsushi Tanaka

**Directors**

Hiroki Uoi

Takeshi Tada

Yukinori Matsuhashi

Kiyoshi Urasaka

Norio Maeda

Ichiro Fujinami

Yoshikazu Kira

**Standing Statutory Auditor**

Masamichi Hirai

**Statutory Auditors**

Shunichi Suda

Yoshiaki Fujioka

**KYOKUTO KAIHATSU KOGYO CO., LTD.**