

Kyokuto Kaihatsu Kogyo Co., Ltd.

Annual Report 2002

Year ended March 31, 2002

## FINANCIAL HIGHLIGHTS

Years ended March 31, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 1)
	<u>2002</u>	<u>2001</u>	<u>2002</u>
<b>For the Year:</b>			
Net Sales .....	<b>47,982</b>	46,964	<b>360,092</b>
Operating income .....	<b>474</b>	802	<b>3,558</b>
Net income .....	<b>84</b>	400	<b>635</b>
<b>At Year-end:</b>			
Total assets .....	<b>76,360</b>	73,219	<b>573,062</b>
Total shareholders' equity .....	<b>52,512</b>	53,428	<b>394,087</b>
	Yen		U.S. dollars (Note 1)
	<u>2002</u>	<u>2001</u>	<u>2002</u>
<b>Amounts per Share of Common Stock (Note 2):</b>			
Net Income .....	<b>2.96</b>	13.77	<b>0.02</b>
Cash dividend attributable to 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 ¥133.25 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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# 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, 2002.

### (1) Business Results

Our national economy in the current consolidated fiscal year has shown severer transition with the lesser gain of company's profit and hovering around of civil investment in plant and equipment and individual consumption with the background of the deceleration of US economy as well as an abrupt lowering of results in the industries connected with the Information Technology (IT).

Also in the domain of specialty trucks, the demand has further dropped, more particularly in the field of construction related vehicles such as dump trucks, concrete pumps, etc., marked reduction of demand to a great extent, having continued to show a more difficult market trend.

On the other hand, as to environmental business, while public work sector has shown a sharp fall, maintenance works for industrial waste treatment facilities went on firm but a very severe price competition continued reflecting a very restricted financial budget of each self-governing community.

Under such circumstances, we have started a New Medium Term Operating Plan "Plan 2001", in April 2001, in which enlargement of company value is aimed at by an efficient use of its capital and improvement of an earning rate. Particularly by strengthening up of marketability, salability and serviceability of non-constructional specialty vehicles such as those which are connected with distribution of merchandises and environmental equipment and systems by tackling with the keeping of the earning rate of the company by means of securing the order reception of environmental equipment and systems, reduction of the total cost and development of new products.

Also the Shopping Center that we had been building up at Mizuho-machi, Nishitama-gun, Tokyo for the purpose of making better use of an idle land has been completed in March 2002 and it has been leased to SEIYU Co., Ltd.

As a result of the efforts we have made, the turnover has increased by 1,018 million yen (2%) of the results for the current consolidated fiscal year, marking 47,982 million yen in comparison with that of previous consolidated fiscal year thanks to the increases in environmental equipment and systems as well as construction of these facilities. On the other hand, the operating income has decreased by 328 million yen (41%) to mark 474 million yen due to the alteration in product configuration as well as to the reduction of sales profit in securities while the net profit for the current fiscal year has been reduced by 316 million yen (79%), marking 84 million yen when compared with that of previous consolidated fiscal year.

The following is a summary of each individual division.

#### **<Specialty Truck Division>**

With the recession over a long term period hovering around the construction and transportation business circles, the sales of construction vehicles including dump trucks, concrete pumps, concrete mixers, etc. have dropped while distribution of merchandises and environmental equipment and systems including tailgate lifters, tank lorries, water sprinklers, garbage collectors, multi-story parking facilities have improved their sales.

As a result, the turnover for the current fiscal year has increased by 42 million yen (0.1%), marking 30,118 million yen and sales profit & loss has marked 316 million yen of loss.

#### **<Environmental Equipment and Systems Division>**

The environmental related industry which is regarded as growing field has further intensified the competition with participation of new comers. Our company, in addition to recycle plaza and recycling center which are our main lines of business, have tried to get orders of RDF (Refuse Derived Fuel) plants, landfill leachate treatment facilities at the final disposing site as well as entrusted business of maintenance & operation of facilities. Furthermore, we cooperated with KAWASAKI IRON WORK CO., LTD. in the previous consolidated fiscal year and have undertaken to get order for pyrolysis gassification and melting system. In this way we have tried to get orders and to secure the turnover.

As a result, the turnover on environmental equipment and systems as well as repair & maintenance construction, besides the plant has satisfactorily increased. The turnover showing the increase by 993 million yen (10%), marking for the period in question 10,967 million yen. The sales profit has increased by 99 million yen (16%) to mark 734 million yen for the period. As to the order reception, although we have got orders of 5 recycle plazas, the turnover has been reduced by 2,045 million yen (16%) and has marked 11,058 million yen.

#### **<Automobile Sales Division>**

The automobile sales division has done an effort to put new model of vehicles on the road, to reinforce sales and service system, to maintain the turnover and has striven to improve the earning rate by reducing the total cost.



As a result, the turnover has increased by 7 million yen (1%) and has marked 6,925 million yen but the sales profit has been reduced by 39 million yen (48%), marking 42 million yen due to the intensified price competition.

## (2) State of Cash Flows

CASH AND CASH EQUIVALENT (hereinafter referred to as "Fund") at the end of the current consolidated fiscal year, namely net profit before adjustment of tax was 399 million yen. But because of the increase of the sales credit, acquisition of the fixed asset and of such expenditure as repayment of the long term loan, the Fund has decreased by 319 million yen (2.1%), thus marking 14,927 million yen when compared at the end of previous consolidated fiscal year.

### <Cash Flows from Operating Activities>

The income from the Fund arising out from the operating activities in the current consolidated fiscal year has marked 3,639 million yen (+2,003 million yen when compared with that of previous consolidated fiscal year.) This comes from the fact that the other debt (guarantee for long term credit) has increased by 3,973 million yen (+3,642 million yen when compared with that of previous consolidated fiscal year.)

### <Cash Flows from Investing Activities>

The income of the Fund arising out from the investing activities in the current consolidated fiscal year has marked  $\triangle$ 3,229 million yen for the current consolidated fiscal year ( $\triangle$ 3,341 million yen when compared with that of previous consolidated fiscal year.) This comes from the fact that while there was a refund income of 1,569 million yen from the fixed time deposit (+396 million yen when compared with that of previous consolidated fiscal year), there was a expenditure of 5,153 million yen for the acquisition of fixed asset (+3,694 million yen when compared with that of the previous consolidated fiscal year.)

### <Cash Flows from Financing Activities>

The income of the Fund arising out from the financing activities in the current consolidated fiscal year has marked  $\triangle$ 759 million yen ( $\triangle$ 416 million yen when compared with that of the previous consolidated fiscal year.) This is due to the fact that the expenditure for the repayment of long term borrowing has marked 604 million yen (+594 million yen when compared with that of the previous consolidated fiscal year), etc.

## 2. Problems remaining to be solved

Although there is a trend of recovery of US economy, weaker Japanese yen, low recovery of production expected from gradual advancement of stock adjustment, there remains still a deflation trend of economy and fear for unemployment. All these factors allow us to perceive a slow recovery of the Japanese economy. It is presumed that it will go through an unclear and severe condition.

Under such circumstances, our company group (our company and our affiliated companies) have started the Medium Term Operating Plan named "Plan 2001" on April 1st, 2001 in order to undertake an efficient use of our capital and betterment of the company value by improvement of estimated earnings. The immediate targets that we must tackle with are (1) Marketable business and development onto the products by "Selection and concentration" of existing businesses and improvement of the earning rate by an exhaustive research of efficiency, (2) Encouragement of growing field of business by effective investment of operating resource and (3) Positive business development and active business operation by reinforcement of group operation.

With respect to the operation of specialty vehicles, we will undertake the development of distribution and labor saving products, specialty vehicles non-related to construction such as environmental related products, increase of turnover by positive development of maintenance business, cost reduction as well as improvement of job efficiency.

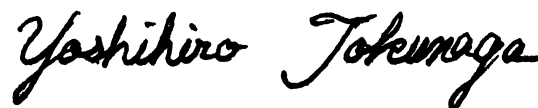
With respect to the environmental equipment and system business, we will undertake to secure reception of orders for recycle plaza, RDF (Refuse Derived Fuel) plant, landfill leachate treatment facilities at the final disposing site as well as entrusted business of maintenance & operation of facilities and at the same time undertaking of business enlargement by positive investment of operating resources.

With respect to the automobile sales business, we are undertaking to increase of turnover by taking necessary measures to increase the direct sale to direct client and through the reinforcement of the service system as well as to improve the earning rate.

With respect to the new venture, we will undertake positively to develop new businesses by making an effective use of operating resource including an effective use of idling facilities.

By steadily executing all the measures mentioned above, we will ever strive to strengthen the operating base of the company as well as to improve the business results of our company.

June, 2002



Yoshihiro Tokunaga  
President

## CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

Years ended March 31, 2002, 2001 and 2000

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2002	2001	2000	2002
<b>Net sales</b> .....	<b>47,982</b>	46,964	46,398	<b>360,092</b>
<b>Cost of sales</b> .....	<b>38,841</b>	37,706	38,063	<b>291,492</b>
Gross profit .....	<b>9,140</b>	9,258	8,335	<b>68,600</b>
Selling, general and administrative expenses .....	<b>8,666</b>	8,456	8,181	<b>65,042</b>
<b>Operating income (loss)</b> .....	<b>474</b>	802	154	<b>3,558</b>
<b>Other income (expenses)</b>				
Interest and dividend income .....	<b>50</b>	76	68	<b>380</b>
Interest expenses .....	<b>(28)</b>	(37)	(90)	<b>(217)</b>
Gain (loss) on disposal of property and equipment .....	<b>(31)</b>	38	(203)	<b>(239)</b>
Gain on sales of securities, net .....	<b>72</b>	35	874	<b>544</b>
Research and development expenses for RDF systems .....	<b>—</b>	—	(620)	<b>—</b>
Other-net .....	<b>(137)</b>	32	118	<b>(1,032)</b>
<b>Income (loss) before income taxes</b> ..	<b>399</b>	948	301	<b>2,995</b>
<b>Income taxes</b> (Note 12)				
current .....	<b>424</b>	234	192	<b>3,183</b>
deferred (prepaid), net .....	<b>(112)</b>	301	112	<b>(841)</b>
Total income taxes .....	<b>311</b>	535	304	<b>2,341</b>
<b>Minority interest</b> .....	<b>2</b>	12	3	<b>19</b>
<b>Net income (loss)</b> .....	<b>84</b>	400	1	<b>635</b>
<b>Retained earnings:</b>				
Balance at beginning of period .....	<b>29,757</b>	29,566	28,376	<b>223,317</b>
Deferred (prepaid) income taxes adjustment to past year .....	<b>—</b>	—	955	<b>—</b>
Increase by increase of number of consolidated subsidiaries .....	<b>—</b>	—	420	<b>—</b>
Cash dividends paid .....	<b>(171)</b>	(189)	(185)	<b>(1,283)</b>
Bonuses to directors and statutory auditors .....	<b>(24)</b>	(19)	—	<b>(180)</b>
Balance at end of period .....	<b>29,646</b>	29,757	29,567	<b>222,488</b>
		Yen		U.S. dollars
<b>Per share of common stock:</b>				
Net income (loss) .....	<b>2.96</b>	13.77	0.05	<b>0.02</b>
Cash dividend, applicable to earnings of the year .....	<b>6.00</b>	6.00	6.00	<b>0.05</b>

The accompanying notes are an integral part of this statements.

# CONSOLIDATED BALANCE SHEETS

Years ended March 31, 2002, 2001 and 2000

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2002	2001	2000	2002
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash and time deposits .....	6,104	7,221	8,769	45,811
Short-term investments (Note 3) .....	8,991	9,471	8,196	67,479
Trade note and accounts receivable .....	19,972	18,711	19,976	149,885
Less: Allowance for doubtful accounts .....	(82)	(54)	(37)	(618)
Inventories .....	5,413	4,902	4,594	40,624
Deferred income taxes (Note 12) .....	386	314	256	2,901
Prepaid expenses .....	102	99	128	771
Other current assets .....	157	209	339	1,185
<b>Total current assets .....</b>	<b>41,046</b>	<b>40,875</b>	<b>42,221</b>	<b>308,038</b>
<b>Investments and other assets:</b>				
Investment in securities (Note 3) .....	3,268	4,046	3,697	24,527
Deferred income taxes (Note 12) .....	651	180	587	4,891
Other .....	3,546	2,729	2,239	26,617
<b>Total investment and other assets .....</b>	<b>7,466</b>	<b>6,957</b>	<b>6,523</b>	<b>56,035</b>
<b>Property and equipment:</b>				
Land .....	10,551	10,284	10,045	79,187
Buildings and structures .....	24,617	20,523	20,266	184,744
Machinery and equipment .....	6,627	8,923	9,304	49,737
Construction in progress .....	142	722	117	1,069
Other .....	2,211	2,748	3,279	16,599
	44,150	43,200	43,011	331,336
Less — Accumulated depreciation .....	(16,750)	(18,358)	(18,392)	(125,708)
<b>Total property and equipment .....</b>	<b>27,399</b>	<b>24,842</b>	<b>24,619</b>	<b>205,628</b>
<b>Intangible assets .....</b>				
Cost in excess of net assets of subsidiaries .....	213	375	204	1,599
Other .....	234	167	122	1,761
<b>Total intangible assets .....</b>	<b>447</b>	<b>543</b>	<b>326</b>	<b>3,360</b>
<b>Total assets .....</b>	<b>76,360</b>	<b>73,219</b>	<b>73,689</b>	<b>573,062</b>

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2002	2001	2000	2002
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Current liabilities:</b>				
Short-term bank loans (Note 4) .....	<b>2,428</b>	2,388	2,856	<b>18,221</b>
Trade note and account payable .....	<b>9,981</b>	9,750	10,721	<b>74,910</b>
Accrued income and other taxes ...	<b>472</b>	248	718	<b>3,543</b>
Accrued expenses .....	<b>1,712</b>	1,601	1,569	<b>12,849</b>
Other current liabilities .....	<b>1,753</b>	1,831	1,060	<b>13,161</b>
<b>Total current liabilities</b> .....	<b>16,347</b>	15,819	16,924	<b>122,685</b>
<b>Long-term liabilities:</b>				
Long-term debt (Note 4) .....	<b>4,205</b>	966	296	<b>31,560</b>
Accrued severance indemnities (Note 5)	<b>1,685</b>	1,678	2,148	<b>12,650</b>
Net assets of subsidiaries in excess of cost .....	<b>45</b>	92	140	<b>341</b>
Other .....	<b>1,334</b>	1,004	482	<b>10,015</b>
<b>Total long-term liabilities</b> .....	<b>7,270</b>	3,741	3,067	<b>54,567</b>
<b>Minority interests</b> .....	<b>229</b>	229	218	<b>1,723</b>
<b>Shareholders' equity:</b>				
Common stock, par value ¥50 per share (Note 10)				
Authorized — 120,000,000 shares				
Issued and outstanding:				
2002 — 28,310,779 shares ....	<b>11,786</b>			<b>88,451</b>
2001 — 29,073,279 shares ....		11,786		
2000 — 29,253,478 shares ....			11,786	
Additional paid-in capital (Note 10) .	<b>11,613</b>	11,824	12,127	<b>87,156</b>
Retained earnings (Note 14) .....	<b>29,645</b>	29,757	29,567	<b>222,484</b>
Net unrealized holding gains on securities .....	<b>(533)</b>	60	—	<b>(4,004)</b>
<b>Total shareholders' equity</b> .....	<b>52,512</b>	53,428	53,480	<b>394,087</b>
<b>Total liabilities and shareholders' equity</b> .....	<b>76,360</b>	73,219	73,689	<b>573,062</b>

**CONSOLIDATED STATEMENT OF CASH FLOWS**

Years ended March 31, 2002, 2001 and 2000

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2002	2001	2000	2002
<b>Operating activities:</b>				
Net income before income taxes .....	399	948	301	2,995
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization .....	1,173	1,139	1,331	8,804
Net gains (loss) on sales of marketable securities and investments .....	(72)	(189)	(874)	(544)
Net gains (loss) on sales of property .....	22	(88)	137	165
Provision (reversal) for accrued severance indemnities ..	75	(262)	(152)	564
Interest and dividend income .....	(49)	(76)	(68)	(368)
Interest expenses .....	28	37	90	210
Decrease (increase) in accounts receivable .....	(111)	1,215	(1,783)	(833)
Decrease (increase) in inventories .....	(507)	(306)	1,170	(3,810)
Decrease (increase) in prepaid expenses .....	27	182	511	204
Decrease (increase) in accounts payable .....	111	(1,113)	3,061	838
Decrease (increase) in accrued expenses .....	(78)	654	(403)	(590)
Decrease (increase) in income taxes payable .....	4	(445)	404	30
Other, net .....	2,879	174	117	21,611
<b>Sub total</b> .....	<b>3,901</b>	<b>1,869</b>	<b>3,843</b>	<b>29,277</b>
Interest and dividend income received .....	53	68	69	404
Interest expenses paid .....	(32)	(38)	(90)	(246)
Income taxes paid .....	(204)	(263)	(231)	(1,530)
Other, net .....	(78)	—	—	(593)
<b>Net cash provided by operating activities ..</b>	<b>3,639</b>	<b>1,636</b>	<b>3,592</b>	<b>27,313</b>
<b>Investing activities:</b>				
Decrease (increase) in time deposits .....	1,277	1,115	(276)	9,589
Payment for purchase of marketable securities and investments ..	(382)	(760)	(2,110)	(2,867)
Proceeds from sales of marketable securities and investments ..	240	921	2,441	1,801
Payment for purchase of facilities .....	(5,153)	(1,459)	(1,998)	(38,678)
Proceeds from sale of facilities .....	783	292	773	5,877
Disbursement of loan receivables .....	(1)	(3)	(2)	(14)
Collection of loan receivables .....	7	6	6	57
<b>Net cash provided by (used in) investing activities ..</b>	<b>(3,229)</b>	<b>112</b>	<b>(1,166)</b>	<b>(24,233)</b>
<b>Financing activities:</b>				
Increase (decrease) in short-term debt .....	40	(468)	(124)	300
Proceeds from long-term debt .....	189	626	41	1,418
Payment on long-term debt .....	(604)	(10)	(300)	(4,533)
Purchases of common stock .....	(211)	(302)	(222)	(1,583)
Dividends paid .....	(173)	(189)	(186)	(1,298)
<b>Net cash provided by (used in) financing activities ..</b>	<b>(759)</b>	<b>(343)</b>	<b>(791)</b>	<b>(5,696)</b>
Effect of exchange rate change on cash and cash equivalents ..	—	—	(1)	—
<b>Net increase in cash and cash equivalents .....</b>	<b>(349)</b>	<b>1,404</b>	<b>1,634</b>	<b>(2,617)</b>
<b>Cash and cash equivalents at beginning of year .....</b>	<b>15,246</b>	<b>13,841</b>	<b>11,487</b>	<b>114,418</b>
<b>Increase in cash and cash equivalents by increase of number of consolidated subsidiaries .....</b>	<b>30</b>	<b>—</b>	<b>720</b>	<b>225</b>
<b>Cash and cash equivalents at end of year .....</b>	<b>14,927</b>	<b>15,246</b>	<b>13,841</b>	<b>112,023</b>

# 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, 2002, which was ¥133.25 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 was 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 those 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 was 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.

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

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

(Trading securities)

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

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

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

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

(Golf club membership)

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

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.

**(d) Inventories:**

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

**(e) Depreciation:**

Depreciation is principally computed on the declining-balance method, based on the estimated

useful lives of assets which are prescribed by Japanese income tax laws. Buildings are depreciated on a straight-line basis.

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

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

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

**(g) Accrued Severance Indemnities:**

Effective April 1, 2000, the Group adopted the Accounting Standards for Retirement Benefit which was 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.

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

**(h) 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 those that are deemed to transfer the ownership of the leased assets to lessees are accounted for by a method similar to that applicable to ordinary operating leases.

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

Research and development expenditure is charged to income when incurred.

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

**(k) Income Taxes:**

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 accounted 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 28,310 thousand and 29,073 thousand

and 29,253 thousand for the years ended March 31 2002 and 2001 and 2000, 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, 2002 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Market value available:			
Trading securities .....	¥ 199	¥ 178	\$ 1,496
Market value not available:			
M.M.F. ....	7,792	8,793	58,480
COMERCIAL PAPER .....	999	499	7,503
Total .....	¥8,991	¥9,471	\$67,479

The following is a summary of other securities at March 31, 2002 and 2001:

Millions of yen				
March 31, 2002				
Other securities				
	Gross	Gross	Book Value	
	unrealized	unrealized	(Estimated	
	Cost	gains	losses	fair value)
Market value available:				
Equity securities .....	¥ 4,083	¥ 418	¥ 1,334	¥ 3,167
Bonds and debentures ...	—	—	—	—
Other securities .....	—	—	—	—
	<u>¥ 4,083</u>	<u>¥ 418</u>	<u>¥ 1,334</u>	<u>¥ 3,167</u>
Market value not available				101
Total .....				<u>¥ 3,268</u>

Thousands of U.S. dollars				
March 31, 2002				
Other securities				
	Gross	Gross	Book Value	
	unrealized	unrealized	(Estimated	
	Cost	gains	losses	fair value)
Market value available:				
Equity securities .....	\$30,646	\$ 3,143	\$10,017	\$23,773
Bonds and debentures ...	—	—	—	—
Other securities .....	—	—	—	—
	<u>\$30,646</u>	<u>\$ 3,143</u>	<u>\$10,017</u>	<u>\$23,773</u>
Market value not available				754
Total .....				<u>\$24,527</u>

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

The annual average interest rates applicable to short-term bank loans at March 31, 2002, 2001 and 2000 are 1.25%, 1.19%. and 1.50%, respectively.

Long-term debt at March 31, 2002, 2001 and 2000 consisted of the following:

	Millions of yen			Thousands of
	2002	2001	2000	U.S. dollars
1.25% bank loans				
due 2009 .....	¥ 308	¥ 723	¥ 96	\$ 2,311
1.50% guarantee money				
due 2023 .....	2,903	199	200	21,793
0% guarantee money				
due 2023 .....	993	43	—	7,456
Less, current portion .....	—	—	—	—
	<u>¥4,205</u>	<u>¥ 966</u>	<u>¥ 296</u>	<u>\$31,560</u>

Aggregate annual maturities of long-term debt subsequent to March 31, 2002 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2003 .....	¥ —	\$ —
2004 .....	98	735
2005 .....	41	308
2006 .....	18	135
2007 and thereafter .....	—	—
	<u>¥ 157</u>	<u>\$ 1,178</u>

#### 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, 2002 and 2001.

	Millions of yen		Thousands of
	2002	2001	U.S. dollars
Benefit obligation at end of year .....	¥ 5,207	¥ 5,366	\$39,079
Fair value of plan assets at end of year .....	3,167	3,481	23,771
Funded status:			
Benefit obligation in excess of plan assets .....	2,039	1,885	15,308
Unrecognized net transition obligation at date of adoption .....	—	—	—
Unrecognized prior service cost .....	—	—	—
Unrecognized actuarial loss .....	368	219	2,762
Prepaid expenses for plan assets at end of year .....	13	12	105
Accrued pension liability recognized in the consolidation balance sheets .....	1,685	1,678	12,650

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, 2002 and 2001.

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Service cost .....	¥ 253	¥ 247	\$ 1,900
Interest cost .....	157	157	1,182
Expected return on plan assets .....	(79)	(93)	(594)
Amortization:			
Transition obligation at date of adoption .....	—	(275)	—
Prior service cost .....	—	—	—
Actuarial losses .....	45	135	340
Net periodic benefit cost	¥ 376	¥ 171	\$ 2,828

Assumption used in the accounting for the defined benefit plans for the year ended March 31, 2002 and 2001 is as follows:

	2002	2001
Method of attributing benefit to periods of service .....	straight-line basis	straight-line basis
Discount rate .....	3.0%	3.0%
Long-term rate of return on fund assets .....	3.0%	3.0%
Amortization period for transition obligation at date of adoption .....	—	1 years
Amortization period for prior service cost .....	10 years	10 years
Amortization period for actuarial losses .....	10 years	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 March 31, 2000, which is the most recent benefit information date.

## 6. Contingencies

At March 31, 2002 and 2001, the Group was contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
As an endorser of notes discounted or endorsed	¥2,219	¥3,366	\$16,659
As a guarantor of indebtedness of:			
Associates .....	¥ 450	¥ 320	\$ 3,377
Others .....	4	7	36
	¥2,674	¥ 327	\$20,072

## 7. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2002, 2001 and 2000 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2002	2001	2000	2002
Cash and time deposits ...	¥ 6,104	¥ 7,221	¥ 8,769	\$ 45,810
Short-term investment ....	8,991	9,471	8,196	67,480
Less-time deposits with original maturities more than three months .....	(70)	(1,347)	(2,459)	(525)
Less-stock .....	(98)	(98)	(664)	(742)
	¥14,927	¥15,426	¥13,841	\$112,023

## 8. Leases

The Group leases certain machinery and equipment, and other assets. Total lease payments under these leases were ¥309 million (\$2,321 thousand), ¥295 million and ¥308 million for the years ended March 31, 2002, 2001 and 2000, 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, 2002, 2001 and 2000, is as follows:

	Millions of yen		
	2002		
	Equipment	Other	Total
Acquisition costs .....	¥ 1,101	¥ 946	¥ 2,048
Accumulated depreciation .....	249	662	912
Net leased property .....	¥ 852	¥ 283	¥ 1,135

	Millions of yen		
	2001		
	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

	Thousands of U.S. dollars		
	2001		
	Machinery and Equipment	Other	Total
	Acquisition costs .....	\$ 8,269	\$ 7,101
Accumulated depreciation .....	1,874	4,975	6,849
Net leased property .....	\$ 6,395	\$ 2,126	\$ 8,521

Future minimum lease payments under finance leases as of March 31, 2002, 2001 and 2000 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2002	2001	2000	2002
Due within one year .....	¥ 330	¥ 272	¥ 270	\$2,477
Due after one year .....	805	522	506	6,044
Total .....	¥1,135	¥ 794	¥ 777	\$8,521

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

Depreciation expense, which is not reflected in the accompanying consolidated statements of income, computed by the straight-line method, would have been ¥309 million (\$2,321 thousand) for the year ended March 31, 2002.

## 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, 2002, 2001 and 2000, the forward exchange contracts outstanding were as follows:

	Millions of yen					
	2002			2001		
	Notional amount	Market value	Unrealized Gain	Notional amount	Market value	Unrealized Gain
Forward exchange contracts to buy U.S. dollars .....	—	—	—	—	—	—

	Millions of yen			Thousands of U.S. dollars		
	2000			2002		
	Notional amount	Market value	Unrealized Gain	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, 2002, 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, 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
Retirement of stock during 2002 .....	(7,625,000)	—	(201)
Balance of March 31, 2002 .....	28,310,779	11,786	11,613

	Thousands of U.S. dollars	
	Common stock	Additional paid-in capital
Balance of March 31, 2001 .....	88,451	88,739
Retirement of stock during 2002 .....	—	(1,583)
Balance of March 31, 2002 .....	88,451	87,156

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 ¥644 million (\$4,838 thousand) ¥576 million and ¥633 million for the years ended March 31, 2002, 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, 2002, 2001 and 2000. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The effective rate for the three years ended March 31, 2002 differs from the Company's statutory tax rate for the following reasons:

	2002	2001	2000
Statutory tax rate .....	42.0	42.0	42.0%
Dividend income .....	(2.1)	(1.3)	(5.8)
Expenses not deductible for income tax purposes .....	28.9	12.3	36.0
Other .....	9.3	3.5	28.5
Effective tax rate.....	78.1	56.5	100.7%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at March 31, 2002, 2001 and 2000 are presented below:

	Millions of yen			Thousands of U.S. dollars
	2002	2001	2000	2002
Deferred tax assets:				
Allowance for doubtful accounts .....	¥ 51	¥ 45	¥ —	\$ 383
Accrued expenses .....	267	297	357	2,007
Accrued severance indemnities .....	687	607	664	5,158
Tax loss carryforwards ...	212	337	993	1,593
Unrealized losses of other securities .....	394	—	—	2,958
Other .....	683	544	286	5,122
Total gross deferred tax assets .....	2,294	1,830	2,300	17,221
Less valuation allowance .....	(280)	(359)	(571)	(2,106)
Net deferred tax assets .....	2,014	1,471	1,729	15,115
Deferred tax liabilities:				
Depreciation .....	(966)	(929)	(886)	(7,250)
Unrealized gains of other securities .....	(9)	(45)	—	(73)
Other .....	—	(0)	—	—
Total gross deferred tax liabilities .....	(975)	(975)	(886)	(7,323)
Net deferred tax assets .....	¥1,038	¥ 495	¥ 843	\$ 7,792

In assessing the realizability of deferred tax assets, management of the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is entirely dependent upon the generation of future taxable income in specific tax jurisdictions during the periods in which those temporary differences become deductible. Although realization is not assured, management considered the projected future taxable income in making this assessment. Based on these factors, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the existing valuation allowance as of March 31, 2002.

Tax loss carryforwards will expire between 2003 and 2007.

### 13. Segment Information:

Information about operations in different industry segments of the Group for the years ended March 31, 2002, 2001 and 2000, is as follows:

#### Industry Segments

##### a. Sales and Operating Income

	Millions of yen				
	2002				
	Industry A	Industry B	Industry C	Eliminations /Corporate	Consolidated
Sales to customers .....	¥30,089	¥10,967	¥6,925	¥ —	¥47,982
Intersegment .....	29	—	—	(29)	—
Total sales .....	30,118	10,967	6,925	(29)	47,982
Operating expenses .....	30,434	10,232	6,883	(41)	47,508
Operating income .....	¥ (316)	¥ 734	¥ 42	¥ 12	¥ 474

	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	—	0	(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

	Thousands of U.S. dollars				
	2002				
	Industry A	Industry B	Industry C	Eliminations /Corporate	Consolidated
Sales to customers .....	\$225,809	\$ 82,308	\$ 51,975	\$ —	\$360,092
Intersegment .....	218	—	—	(218)	—
Total sales .....	226,027	82,308	51,975	(218)	360,092
Operating expenses .....	228,399	76,792	51,656	(313)	356,534
Operating income .....	\$ (2,372)	\$ 5,516	\$ 319	\$ (95)	\$ 3,558

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

	Millions of yen				
	2002				
	Industry A	Industry B	Industry C	Eliminations /Corporate	Consolidated
Assets .....	¥42,172	¥ 7,793	¥ 6,162	¥20,233	¥76,360
Depreciation .....	932	34	109	—	1,075
Capital expenditures .....	4,252	50	314	—	4,616

	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				
	2002				
	Industry A	Industry B	Industry C	Eliminations /Corporate	Consolidated
Assets .....	\$316,488	\$ 58,484	\$ 46,244	\$151,842	\$573,058
Depreciation .....	6,994	255	818	—	8,067
Capital expenditures .....	31,910	375	2,356	—	34,641

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, 2002 were, as proposed by the Board of Directors, approved by the shareholders at the annual general meeting held on 27 June, 2002:

Appropriations	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥3.0 per share) .....	¥ 84	\$ 637
Bonuses to directors .....	17	133
Total appropriations .....	¥ 102	\$ 770


# REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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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 subsidiaries as of March 31, 2002, 2001 and 2000, and the related consolidated statements of income and shareholders' equity for the years then ended and the related consolidated statement of cash flows for the years, 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, 2002, 2001 and 2000, 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.

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 27, 2002

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, 2002)

**Number of Shares Issued:**

29,310,555 shares  
(at March 31, 2002)

**Number of Employees:**

1,340

**Head Office:**

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

**Tokyo Office:**

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

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



# BOARD OF DIRECTORS AND STATUTORY AUDITORS

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**President**

Yoshihiro Tokunaga

**Senior Managing Director**

Tomizo Takenaka

**Managing Directors**

Tadao Yasuda

Katsushi Tanaka

Takeshi Tada

**Directors**

Hiroki Uoi

Yukinori Matsushashi

Kiyoshi Urasaka

Norio Maeda

Ichiro Fujinami

Kazuyoshi Kira

**Standing Statutory Auditor**

Masamichi Hirai

**Statutory Auditors**

Shunichi Suda

Yoshiaki Fujioka

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