KYOKUTO KAIHATSU KOGYO CO., LTD.
AND CONSOLIDATED SUBSIDIARIES

Annual Report 2008
Year ended March 31,2008

CONTENTS

1. Operational Results

(1) Analysis of Operational Results

<Summary of Operational Results for the Consolidated Fiscal Year ended March 31, 2008 >

The outlook of the Japanese economy has gradually become uncertain in the consolidated fiscal year ended March 31, 2008, due to the turmoil in the financial markets triggered by the U.S. subprime loan problem as well as a cutback in expenditure for public work and a sharp rise in crude oil and steel products prices.

President and Representative of the Board of Directors, CEO
Takaaki Fudetani

Under such a circumstance, the Kyokuto Kaihatsu Kogyo Group has strived to strengthen its management base and enhance corporate value in accordance with its medium-term business plan "Plan2007" (from April 2007 to March 2010).

The Specialty Truck Division, a mainstay of its business, experienced a difficult business environment, since demand for trucks in the domestic market decreased substantially. The company strengthened cooperation with Nippon Trex Co., Ltd. that the company consolidated as a subsidiary undertaking from April 1, 2007 and made efforts to expand overseas business. The Environment Equipment and Systems Division saw its profitability of a recycling plant construction deteriorate greatly due to the effects from local governments' worsening financial situation and a huge increase in raw material prices. The Real Estate Rental Division went through difficult times, since demand for the multistory parking garage system declined due to the amendment of the Building Standards Law. However, the division tried to ensure profitability with cost-cutting efforts.

Products of Nippon Trex

Trailers

Van bodies

Gull-wing bodies

As a result, in the current consolidated fiscal year ended March 31, 2008, sales increased by 27,294 million yen (46.7%) over the preceding consolidated fiscal year to 85,685 million yen, thanks to the consolidation of Nippon Trex Co., Ltd. Operating income decreased by 492 million yen (14.1%) to 2,997 million yen due to an operating loss incurred by the Environment Equipment and Systems Division. Ordinary income declined by 403 million yen (12.7%) to 2,780 million yen, while net income grew by 119 million yen (7.7%) to 1,662 million yen.

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

i) Specialty Truck Division

The Specialty Truck Division saw demand for trucks in the domestic market decrease substantially, due to the completion of replacement demand supported by more stringent regulations on exhaust gas emissions from diesel engine cars, declining customer interests triggered by concerns over the economic outlook, rising crude oil prices and a decrease in construction works caused by the amendment of the Building Standards Law.

Under such a circumstance, the company strengthened product lines by development of new products and took several measures to enhance production efficiency and to reduce production costs. The company also strived for establishing cooperation with Nippon Trex (joint development and procurement, strengthening cooperation among sales, service and production divisions, and integration of footholds). In oversea market, the company tried to increase exports by actively wrestling the expansion of sales in South East Asia, Russia, the Middle East and Africa, the regions where demand are expected to grow. In Kunshan Plant in China, the company made efforts to expand business by strengthening its production system and putting new products on the market

As a result, sales, domestic and foreign, in the Specialty Truck Division increased by 22,874 million yen (51.6%) to 67,172 million yen over the preceding consolidated fiscal year, thanks to the consolidation of Nippon Trex Co., Ltd., expanding production in Kunshan Plant as well as steady exports to Africa, the Middle East and Russia. Operating income grew by 741 million yen (32.6%) to 3,019 million yen.

New Products

Single-car carrier "FLATOP Zero"

New-type single-axis aluminum-tank(20kL) Semitrailer jointly developed with Nippon Trex

New Squeeze-out type concrete pump "PH55-18"

New underfloor-housed type tailgate lifter "Power Gate CG800TS"

ii) Environment Equipment and Systems Division

The Environment Equipment and Systems Division saw its profitability a recycling plant construction deteriorate greatly due to a decline in prices of orders received caused by local governments' worsening financial situation and a huge increase in raw material prices.

As a result, orders the division obtained decreased by 6,414 million yen (45.2%) to 7,762 million yen. Revenues increased by 4,070 million yen (48.8%) to 12,409 million yen, thanks to the progress of the plant construction that the company obtained in the preceding fiscal year and steady growth in maintenance and system operation contracts. Operating income decreased by 1,341 million yen and turned into a loss of 845 million yen, due to deteriorating profitability of the plant construction business.

Management will increase lucrative system operation and maintenance contracts and obtain plant construction orders by giving serious consideration on profitability.

Recycle Plaza

Pulverrizer for non-burnable wastes

iii) Real Estate Rental Division

In the Real Estate Rental Division, the multistory parking garage system faced a harsh business environment, since the construction of condominiums declined due to the amendment of the Building Standards Law. However, the division actively promoted after sales service and maintenance business while it strived to reduce costs and obtain new orders.

As a result, revenues increased by 430 million yen (6.9%) to 6,653 million yen and operating income grew by 105 million yen (14.8%) to 816 million yen.

Multistory parking garage system

Coin-operated parking

<Forecast of Operations for the Next Consolidated Fiscal Year ending March 31, 2009>
With the public expenditures decreasing, raw material prices skyrocketing and the U.S. economy slowing down, management expects the Japanese economy to enter into the recession in the near future.

Regarding the operational results for the consolidated fiscal year ending March 31, 2009, the company expects total sales to increase by 415 million yen (0.5%) over the preceding fiscal year to 86,100 million yen, due to the expansion of overseas sales in the Specialty Truck Division, the mainstay of its business, offsetting a decrease in revenues from the Environment Equipment and System Division and the Real Estate Rental Division. Management expects operating income to remain almost flat to 3,000 million yen, thanks to an improvement of profitability in the Environment Equipment and System Division, which helps to offset a decline in profit in the Specialty Truck Division and the Real Estate Rental Division due to rising raw material prices. The company estimates ordinary income to increase by 420 million yen (15.1%) to 3,200 million yen, because of a decrease in foreign exchange loss, while it forecasts net income to grow by 228 million yen (13.7%) to 1,890 million yen.

(2) Analysis on Financial Conditions

i) Situations of Assets, Liabilities and Net Worth
In the current consolidated fiscal year, total assets increased by 19,901million yen (24.2%) from the end of the preceding fiscal year to 102,210 million yen.

Current assets increased by 13,358 million yen (29.9%) to 58,011 million yen, while fixed assets grew by 6,542 million yen (17.4%) to 44,199 million yen. This is mainly because Nippon Trex was consolidated as a subsidiary undertaking.

Regarding liabilities, current liabilities increased by 15,261 million yen (96.0%) to 31,163 million yen and fixed liabilities grew by 4,431 million yen (52.3%) to 12,912 million yen, mainly due to the factor described above.

Although the company posted a net profit, this term's net worth increased by a mere 208 million yen (0.4%) to 58,134 million yen, due to a decrease in valuation difference of available-for-sale securities.

As a result, the capital adequacy ratio stood at 56.9% as of the end of the current fiscal year (70.4% at the end of the preceding fiscal year).

ii) Cash Flow Situation
Consolidated cash and cash equivalents at the end of period decreased by 4,682 million yen (36.4%) over the balance at the beginning of period to 8,186 million yen. Cash flow by activity type is summarized as follows:

Cash Flow from Operating Activities
The company recorded a cash outflow of 1,942 million yen (a decrease of 4,109 million yen over the preceding period) for operating activities, due to the company posting net income before income taxes for this term while an increase in trade accounts receivable and the company paying corporate taxes.

Cash Flow from Investing Activities

The company recorded a cash outflow of 2,014 million yen (a decrease of 1,573 million yen) for investing activities, due to expenses related to the acquisition of fixed assets such as production facilities and acquisition of shares of Nippon Trex Co., Ltd.

Cash Flow from Financial Activities

The company recorded a cash outflow of 751 million yen (an increase of 773 million yen) for financial activities, due to expenses related to the acquisition of its own shares and dividend payments.

(3) Principal policy for return of profits to shareholders and payment of dividends for the current year and next year

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

Regarding the return of profits to shareholders, the company has paid dividends and acquired its own shares.

i) Dividend payment

Management plans to pay a dividend of five yen per share at the end of March 2008, making its annual dividend 10 yen per share including an interim dividend.

For the year ending March 2009, management also plans to pay an annual dividend of 10 yen per share (including an interim dividend of five yen).

ii) Acquisition of its own shares

The company acquired its own shares based on a resolution by its board of directors meeting in the year ended March 2008 are as follows:
The total number of shares acquired: 912,700 shares
The total value of shares acquired: 798 million yen

The board of directors meeting held on March 27, 2008 resolved that the acquisition of its own shares is as follows:
The total number of shares to be acquired: 2 (Two) million shares (maximum)
The total value of shares to be acquired: 1,200 million yen (maximum)
The acquisition period: From April 1, 2008 to September 30, 2008

Management will continue to increase the return of profits to shareholders to meet investors' expectations.

(4) Business Risks

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

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

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

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

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

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

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

2. Management Policy

(1) Basic Management Policy of the Company

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

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

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

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

About the Revision of "Plan2007"

The company has implemented its three-year medium-term business plan "Plan 2007" since April 2007. Under the plan, the Kyokuto Kaihatsu Kogyo Group has been striving together to strengthen its management base and enhance corporate values.

However, business sentiments in industries, with which the company has a relationship, have rapidly deteriorated due to a sharp rise in steel products and crude oil prices, a cutback in expenditure for public works, a decrease in construction works due to the amendment to the Building Standards Law and the appreciation of the yen.

The management has decided to revise the numerical target as follows, since demand for trucks in the domestic market and orders for environmental equipment are likely to fall short of the initial forecast drastically due to the reasons mentioned above.

Details of Revision (March 2010 [Consolidated])

Unit: Millions of yen

	March 2010 (Consolidated)		Differences	Results for March 2008
	Before Revision	After Revision		
Sales	97,300	89,200	△8,100	85,685
Operating Income	6,400	4,660	△1,740	2,997
Ordinary Income	6,490	4,850	△1,640	2,780
Current net Income	3,910	2,830	△1,080	1,662
ROA (%)	3.5	2.7	△0.8	1.6
ROE (%)	6.0	4.7	△1.3	2.9

Segment Information (the same as the above)

Unit: Millions of yen

	Before Revision		After Revision		Differences		Results for March 2008	
	Sales	Operating Income	Sales	Operating Income	Sales	Operating Income	Sales	Operating Income
Specialty Truck Division	77,000	4,580	76,400	3,090	△600	△1,490	67,172	3,019
Environmental Equipment and Systems Division	12,000	850	6,200	730	△5,800	△120	12,409	△845
Real Estate and Rental Division	9,000	970	7,150	840	△1,850	△130	6,653	816
Retirement or whole company	△700	–	△550	–	150	–	△550	6
Total	97,300	6,400	89,200	4,660	△8,100	△1,740	85,685	2,997

・Specialty Truck Division

Overseas sales are expected to exceed the initial target, thanks to brisk exports to Asia, Africa, Middle East and Russia. However, demand for trucks in the domestic market, mainstay of the company, is expected to fall short of the initial forecast sharply. As for earnings, the company expects production costs to increase further due to a sharp rise in steel products and components prices, although it has been striving for cost reductions and rationalization to secure profits.

・Environmental Equipment and Systems Division

With governments facing the financial difficulties and reducing public work projects, the market for environmental equipment is likely to become smaller than initially anticipated. As for earnings, the company expects a very hard business environment to continue, due to a decline in prices of orders received and a sharp rise in production costs. Placing more emphasis on profitability, management will take orders after careful selection of plants and control production costs strictly. The company will try to obtain more lucrative system operation and maintenance contracts in order to improve profitability.

・Real Estate and Rental Division

Revenues are likely to fall short of the initial target figure, because of the deteriorating business environment for the multistory parking garage system caused by a decline in construction works due to the amendment to the Building Standards Law and intensifying competitions at the coin-operated parking lot business due to an increase in new comers to the business.

Future Developments

Although the management has revised the numerical target, it will not change the basic policies and key strategies of “Plan2007.” The company positions the period for “Plan2007” as an important phase to make necessary investments for future growth and development of its business, and reinforce its management base.

Under the above concept, the whole Kyokuto Kaihatsu Kogyo Group will wrestle with the following tasks together to achieve the plan and enhance corporate values from the medium and long-term perspectives.

Basic policies of the “Plan2007”

The Kyokuto Kaihatsu Kogyo Group will strive for further development of its business as the No.1 company in the industry by actively devoting management resources to enhance its core business.

(i) To improve the Kyokuto Kaihatsu Kogyo’s brand value by realizing the customers’ trust and satisfaction
(ii) To accelerate global business activities based on core businesses
(iii) To evolve our technological expertise toward “Future Creation”

Key strategies of the “Plan2007”

(i) Expansion of overseas business
(Improvement of Kunshan Plant in China, expansion of exports and cultivation of the market)
(ii) Effects of integration with Nippon Trex Co., Ltd.
(Joint development, joint procurement, consolidation of production facilities and integration of sales and service divisions)
(iii) Improvement in profitability of Environmental Equipment and Systems Division
(Expansion of system operation and maintenance contracts and taking orders after careful selection of plants)

(3) Other Important Matters Concerning Management

There are no other pertinent matters.

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Net sales	85,685	58,390	855,227
Cost of sales	71,969	46,201	718,330
Gross profit	13,715	12,188	136,897
Selling, general and administrative expenses	10,718	8,698	106,981
Operating income (loss)	2,997	3,490	29,916
Other income (expenses)			
Interest and dividend income	122	80	1,222
Interest expenses	(209)	(83)	(2,092)
Gain (loss) on sales of property and equipment	150	10	1,503
Gain (loss) on sales of investment in subsidiaries	–	227	–
Gain (loss) on sales of securities	–	4	–
Write-down of investment securites	–	(7)	–
Special research and development expenditures	–	0	–
Other-net	(373)	(360)	(3,731)
Income (loss) before income taxes	2,686	3,360	26,818
Income taxes (Note 12)			
current	1,082	1,859	10,807
deferred (prepaid),net	(58)	(42)	(585)
Total income taxes	1,024	1,817	10,221
Minority interest	–	–	–
Net income (loss)	1,662	1,543	16,596
Retained earnings :			
Balance at beginning of period	32,223	31,208	321,622
Cash dividends paid	(423)	(423)	(4,227)
Bonuses to directors and statutory auditors	(69)	(69)	(693)
Adjustment of retained earnings for eliminations of treasury stock	(36)	(36)	(363)
Balance at end of period	33,356	32,223	332,935
	Yen		U.S. dollars
Per share of common stock :			
Net income (loss)	39.73	36.57	0.40
Diluted net income (loss)	39.73	36.42	0.40
Cash dividend,applicable to earnings of the year	10.00	10.00	0.10

The accompanying notes are an integral part of this statements.

CONSOLIDATED BALANCE SHEETS

	Millions of yen 2008	Millions of yen 2007	Thousands of U.S. dollars (Note 1) 2008
ASSETS			
Current assets :			
Cash and time deposits	6,361	5,352	63,490
Short-term investments (Note 3)	1,830	7,515	18,267
Trade note and accounts receivable	36,764	24,451	366,946
Less : Allowance for doubtful accounts	(97)	(166)	(977)
Inventories	9,485	6,305	94,670
Deferred income taxes (Note 12)	1,470	871	14,680
Prepaid expenses	214	144	2,144
Other current assets	1,983	177	19,797
Total current assets	58,011	44,653	579,019
Investments and other assets :			
Investments in securities (Note 3)	5,265	6,959	52,554
Deferred income taxes (Note 12)	59	355	590
Other	3,294	1,595	32,880
Total investments and other assets	8,618	8,910	86,025
Property and equipment :			
Land	17,616	12,795	175,831
Buildings and structures	28,775	23,820	287,207
Machinery and equipment	13,043	7,355	130,186
Construction in progress	194	82	1,942
Other	2,980	2,017	29,752
	62,610	46,071	624,921
Less—Accumulated depreciation	(27,477)	(19,006)	(274,249)
Total property and equipment	35,133	28,256	350,672
Intangible assets			
Goodwill	0	129	0
other	446	359	4,454
total intangible assets	446	489	4,454
Total assets	102,210	82,309	1,020,171

CONSOLIDATED BALANCE SHEETS

	Millions of yen 2008	Millions of yen 2007	Thousands of U.S. dollars (Note 1) 2008
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities :			
Short-term bank loans (Note 4)	4,730	500	47,210
Current portion of long-term bank loans (Note 4)	―	0	―
Trade note and account payable	19,668	10,463	196,314
Accrued income and other taxes	1,137	1,537	11,353
Accrued expenses	2,412	2,070	24,082
Other current liabilities	1,958	1,331	19,548
Total current liabilities	31,163	15,902	311,047
Long-term liabilities :			
Long-term bannk loans (Note 4)	―	0	―
Accrued retirement benefits(Note 5)	2,398	1,624	23,943
Directors' and statutory auditors' retirement benefits	247	283	2,465
Deferred income taxes (Note 12)	2,866	1,796	28,606
Other long-term liabilities (Note 4)	6,302	4,776	62,900
Total long-term liabilities	12,912	8,480	128,880
Minority interrests	―	―	―
Shareholders' equity :			
Common stock, no par value (Note 10)			
Authorized ― 170,950,672 shares			
Issued ― 42,737,668 shares in 2006 and			
42,737,668 shares in 2007	11,899	11,899	118,773
Additional paid-in capital (Note 10)	11,718	11,718	116,964
Retained earnings	34,814	33,619	347,481
Treasury stock, at cost	(1,068)	(919)	(10,663)
Net unrealized holding gains on securities	524	1,391	5,232
Foreign currency translation adjustments	245	215	2,454
Total shareholders' equity	58,134	57,925	580,243
Total liabilities and shareholders' equity	102,210	82,309	1,020,171

CONSOLIDATED STATEMENT OF CASH FLOWS

	Millions of yen		Thousands of U.S. dollars (Note 1)
Operating activities:	2008	2007	2008
Net income before income taxes	2, 686	3360	26,818
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Dpreciation and amortization	1, 877	1, 388	18,744
Write-down of investment securites	93	9	932
Net gains (loss) on sales of marketable securities and investments	0	(231)	0
Net gains (loss) on sales of proparty	(116)	22	(1,161)
Provision (reversal) for accrued retiremennt benefits	(336)	(96)	(3,354)
Interest and dividend income	(122)	(80)	(1,222)
Interrest expenses	209	83	2,092
Decreease (increase) in accounts receivable	(3, 621)	(1, 883)	(36,142)
Decrease (increase) in inventories	(542)	(29)	(5,416)
Decrease (increase) in accounts payable	1, 248	257	12,466
Decrease (increase) in income taxes payable	(38)	(76)	(384)
Other,net	(1, 338)	1, 222	(13,361)
Sub total	0	3, 946	9
Interest and dividend income received	116	54	1,167
Interest expenses paid	(189)	(16)	(1,895)
Income taxes paid	(1, 619)	(1, 633)	(16,157)
Other,net	(251)	(183)	(2,510)
Net cash provided by operating activities	(1, 942)	2, 167	(19,387)
Investing activities:			
Payment for purchase of marketable securities and investmen	(681)	(346)	(6,799)
Proceeds from sales of marketable securities and investments	473	116	4,730
Proceeds from sales of investments in subsidiaries	—	841	—
Payment for purchase of investments in subsidiaries	(644)	—	(6,436)
Payment for purchase of facilities	(1, 556)	(1, 209)	(15,532)
Proceeds from sale of facilities	517	63	5,161
Disbursement of loan receivables	(134)	(2)	(1,338)
Collection of loan receivables	10	97	107
Net cash provided by (used in) investing activities	(2, 014)	(440)	(20,106)
Fainancing activities:			
Increase (decrease) in short-term debt	600	500	5,988
Proceeds from long-term debt	1, 349	—	—
Payment on long-term debt	(1, 583)	(1, 000)	(15,801)
Purchases of treasury stock	(801)	(644)	(7,998)
Proceeds from sales of treasury stock	102	—	1,023
Dividends paid	(418)	(422)	(4,173)
Net cash provided by (used in) financing activities	(751)	(1, 524)	(7,496)
Effect of exchange rate change on cash and cash equivalents	(18)	(2)	(181)
Net increase in cash and cash equivalents	(4, 726)	198	(47,171)

1. Basis of Presenting Consolidated Financial Statements

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

The accompanying consolidated financial statements are prepared based on the consolidated financial statements of the Company and its subsidiaries (the "Group") which were fi1ed with the Director of Kanto Local Finance Bureau as required by the Securities and Exchange Law.

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

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of the reader, using the approximate exchange rate at March 31, 2008, which was
¥ 100.19 to US$1.00. These convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

As permitted by the regulations under the Securities and Exchange Law of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and in U.S.dollars) do not necessarily agree with the sums of the individual amounts.

2. Summary of Significant Accounting Policies

(a) Consolidation Principles

The consolidated financial statements include the accounts of the Company and its significant subsidiaries in accordance with the Securities and Exchange Law and related regulations of Japan. The minor differences arising from the cost of the companies' investments in subsidiaries and affiliates over the equity in their net assets at fair value are charged or credited to income in the year of acquisition. Significant differences are, as a rule, amortized over periods of 5 years. All significant inter-company accounts and transactions have been eliminated.

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

(b) Consolidated Statement of Cash Flows

In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturity of not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

(c) Short-term investments and Investments in Securities

For the Accounting Standards for Financial Instruments which was issued by the Business Accounting Deliberation Council, securities are classified into three categories: trading securities, held-to-maturity debt securities, equity investments in associates and other securities.

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

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

(Trading securities)

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

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

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

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

(Golf club membership)

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

(d) Inventories

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

(e) Depreciation:

Depreciation is principally computed on the declining-balance method, based on the estimated useful lives of assets which are prescribed by Japanese income tax laws. Buildings are depreciated on a straight-line basis.

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

(f) Stock and bond issue expenses

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

(g) Accrued Retirement Benefits

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

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

(h) Revenue recognition

The percentage of completion method is applied to the construction works which take longer than one year and exceed ¥200million ($1,996 thousand) in contract amount.

(i) Leases

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

(j) Research and Development and Computer Software

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

(k) Income Taxes

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

expected to reverse, and on available tax credits carryforward.

(l) Per Share Information

The computation of basic net income per share is based on the weighted average number of shares of common stock outstanding during each period. The average number of shares used in the computation was 41,847 thousand shares for 2008 and 42,215 thousand shares for 2007(see Note 10).

For the year ended 31, 2007, fully diluted net income per share of common stock assumes full exercise of right of the outstanding stock option plan at the beginning of the year. Cash dividends per share shown in the statements of income are the amounts applicable to the respective years.

3. Short-term Investments, Investments in Securities and Investments in and advances to associates

Short-term securities at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		*Thousands of U.S. dollars*
	2008	2007	2008
Market value available:			
Trading securities	—	—	—
Market value not available:			
M.M.F. and F.F.F.	¥ 1,830	¥7,515	$ 18,265
Other investment trust	—	—	—
Total	¥ 1,830	¥ 7,515	$ 18,265

The following is a summary of other securities at March 31, 2008 and 2007:

	Millions of yen			
	March 31, 2008			
	Other securities			
	Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	¥ 3,707	¥ 1,263	¥ (472)	¥ 4,498
Bonds and debentures	—	—	—	—
Other securities	—	—	—	—
	¥ 3,707	¥ 1,263	¥ (472)	¥ 4,498
Market value not available:				767
Total				¥ 5,265

	Millions of yen			
	March 31, 2007			
	Other securities			
	Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	¥ 2,419	¥ 2,380	¥ (35)	¥ 4,764
Bonds and debentures	—	—	—	—
Other securities	—	—	—	—
	¥ 2,419	¥ 2,380	¥ (35)	¥ 4,764
Market value not available:				894
Total				¥ 5,659

	Thousands of U.S. dollars			
	March 31, 2008			
	Other securities			
	Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	$ 37,000	$ 12,606	(4,711)	$ 44,895
Bonds and debentures	—	—	—	—
Other securities	—	—	—	—
	$ 37,000	$ 12,606	(4,711)	$ 44,895
Market value not available:				7,655
Total				$ 52,550

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

The annual average interest rates applicable to short-term bank loans at March 31, 2008, and 2007 are 1.51% and 0.89%, respectively.

Long-term debt at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
0.58% bank loans due 2009	¥ 1,256	¥ 1,028	$ 12,538
0.48% bank loans due 2013	1,098	86	10,963
1.50% guarantee money due 2023	3,072	3,299	30,667
	¥ 5,427	¥ 4,414	$ 54,18

Aggregate annual maturities of long-term debt subsequent to March 31, 2008 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2009	¥ 1,256	$ 12,538
2010	1,048	10,465
2011	504	5,032
2012	235	2,353
2013 and thereafter	2,382	23,779
	¥ 5,452	$ 54,168

5．Accrued Retirement Benefits

The following tables sets forth the changes in benefit obligation, plan assets and funded status of the Company and its subsidiaries at March 31, 2008 and 2007.

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Benefit obligation at end of year	¥ 7,000	¥ 4,560	$ 69,867
Fair value of plan assets at end of year	4,013	3,024	40,054
Funded status:			
Benefit obligation in excess of plan assets	2,987	1,535	29,813
Unrecognized prior service cost	98	—	978
Unrecognized actuarial loss	(687)	(107)	(6,857)
Prepaid expenses for plan assets at end of year	—	—	—
Accrued pension liability recognized in the consolidation balance sheets	2,398	1,642	23,935

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, 2008 and 2007.

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2007
Service cost	¥ 368	¥ 238	$ 3,673
Interest cost	146	96	1,457
Expected return on plan assets	(99)	(61)	(988)
Amortization:			
Prior service cost	(19)	—	(250)
Actuarial losses	(25)	6	(190)
Net periodic benefit cost	¥ 371	¥ 279	$ 3,703

Assumption used in the accounting for the defined benefit plans for the year ended March 31, 2008 and 2007 is as follows:

	2008	2007
Method of attributing benefit to periods of service	straight –line basis	straight –line basis
Discount rate	2.0 %	2.0 %
Long-term rate of return on fund assets	2.0 %	2.0 %
Amortization period for prior service cost	10 years	—
Amortization period for actuarial losses	10 years	10 years

6. Contingencies

At March 31, 2008 and 2007, the Group was contingently liable as follows:

	Millions of yen		Thousands of US dollars
	2008	2007	2008
As an endorser of notes discounted or endorsed	¥ 2,482	¥ 2,649	$ 24,776
As a guarantor of indebtedness of :			
Associates	¥ 4,511	¥ 4,933	$ 45,026
Others	80	227	798
	¥ 4,561	¥ 5,160	$ 45,824

7. Cash and cash equivalents

Cash and cash equivalents at March 31, 2008 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Cash and time deposits	¥ 6,361	¥ 5,352	$ 63,490
Short-term investment	1,830	7,515	18,267
Less-Time deposits with original maturities more than three months	(5)	—	(50)
Less-Stock	—	—	—
	¥ 8,186	¥12,868	$ 81,708

8. Leases

The Group leases certain machinery and equipment, and other assets. Total lease payments under these leases were ¥ 515 million ($ 5,143 thousand) , and ¥ 468 million for the years ended March 31, 2008 and 2007, 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, 2008 and 2007, are as follows:

	Millions of yen		
	2008		
	Machinery and Equipment	Other	Total
Acquisition costs	¥ 1,568	¥ 606	¥ 2,174
Accumulated Depreciation	768	319	1,083
Net leased property	¥ 804	¥ 286	¥ 1,090

	Millions of yen		
	2007		
	Machinery and Equipment	Other	Total
Acquisition costs	¥ 1,607	¥ 430	¥ 2,037
Accumulated Depreciation	681	164	845
Net leased property	¥ 925	¥ 265	¥ 1,191

	Thousands of U.S. dollars		
	2008		
	Machinery and Equipment	Other	Total
Acquisition costs	$ 15,657	$ 6,049	$ 21,709
Accumulated Depreciation	7,632	3,185	10,817
Net leased property	$ 8,025	$ 2,864	$ 10,889

Future minimum lease payments under finance leases as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Due within one year	¥ 432	¥ 422	$ 4,313
Due after one year	658	769	6,576
Total	¥ 1,090	¥ 1,191	$ 10,889

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 ¥ 515 million ($5,158 thousand) for the year ended March 31, 2008.

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, 2008 and 2007, all forward exchange contracts outstanding were entered into in order to hedge receivables and payables denominated in foreign currencies which have been translated and reflected at the corresponding contracted rates in the accompanying consolidated balance sheets at March 31, 2008 and 2007.

１０. Shareholders' Equity

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

			Millions of yen	
		Number of Shares	Common Stock	Additional paid-in capital
Balance of March 31, 2006	……	42,737,668	11,899	11,718
Retirement of stock during 2007	……	—	—	—
Balance of March 31, 2007	……	42,737,668	11,899	11,718
Retirement of stock during 2008	……	—	—	—
Balance of March 31, 2008	……	42,737,668	11,899	11,718

		Thousands of U.S.dollars	
		Common Stock	Additional paid-in capital
Balance of March31, 2007	……	118,773	116,965
Retirement of stock during 2008	……	—	—
Balance of March31, 2008	……	118,773	116,965

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 ¥ 1,045 million ($ 10,431 thousand) and ¥ 897 million for the years ended March 31, 2008 and 2007, respectively.

１２. INCOME TAXES

The Company and its domestic subsidiaries are subject to several taxes based on income, which in the aggregate resulted in statutory tax rates of approximately 40.6% and 40.6 % for the years ended March 31, 2008 and 2007, respectively. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The effective rate for the two years ended March 31, 2008 differs from the Company's statutory tax rate for the following reasons:

	2008	2007	
Statutory tax rate	40.6	40.6	%
Dividend income ……………………………………	(0.5)	(0.3)	
Expenses not deductible for income tax purposes ……	2.1	1.7	
Per capital inhabitant tax	2.9	1.8	
Other …………………………………………………	(7.0)	10.3	
Effective tax rate ………………………………………	38.1	45.4	%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at March 31, 2008 and 2007 are presented below:

	Millions of yen		Thousands of US dollars
	2008	2007	2008
Deferred tax assets:			
Accrued expenses	¥ 480	¥ 403	$ 4,791
Accrued retirement benefits	1,059	780	10,570
Depreciation	299	216	2,984
Unrealized profits	302	302	3,021
Tax loss carryforwards	—	86	—
Other	1,157	565	11,552
Total gross deferred tax assets	3,298	2,355	32,917
Less valuation allowance	(916)	(160)	(9,143)
Net deferred tax assets	2,382	2,195	23,775
Deferred tax liabilities:			
Special tax-purpose reserve for condensed booking of fixed assets	(1,705)	(1,811)	(17,018)
Unrealized gains of other securities	(359)	(952)	(3,583)
Intercompany profit	(1,654)	—	(16,509)
Total gross deferred tax liabilities	(3,718)	(2,764)	(37,109)
Net deferred tax assets	¥ (1,336)	¥ (569)	$ (13,335)

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, 2008.

１３．Segment Information

Information about operations in different industry segments of the Group for the years ended March 31, 2008 and 2007, are as follows:

Industry Segments

a. Sales and Operating Income

	Millions of yen				
	2008				
	Industry A	Industry B	Industry C	Eliminations/Corporate	Consolidated
Sales to customers	¥67,171	¥ 12,409	¥ 6,104	¥ —	¥ 85,685
Intersegment	0	—	549	(550)	—
Total sales	67,171	12,409	6,653	(550)	85,685
Operating expenses	64,152	13,255	5,837	(557)	82,687
Operating income	¥ 3,019	¥ (845)	¥ 816	¥ 6	¥ 2,997

	Millions of yen				
	2007				
	Industry A	Industry B	Industry C	Eliminations/Corporate	Consolidated
Sales to customers	¥44,296	¥ 8,338	¥ 5,754	¥ —	¥ 58,390
Intersegment	0	—	468	(468)	—
Total sales	44,297	8,338	6,223	(468)	58,390
Operating expenses	42,019	7,843	5,511	(473)	54,900
Operating income	¥ 2,277	¥ 495	¥ 711	¥ 5	¥ 3,490

	Thousands of U.S. dollars				
	2008				
	Industry A	Industry B	Industry C	Eliminations/Corporate	Consolidated
Sales to customers	$670,438	$123,861	$ 60,929	$ —	$855,228
Intersegment	9	—	5,484	(5,493)	—
Total sales	670,447	123,861	66,413	(5,493)	855,228
Operating expenses	640,309	132,301	58,262	(5,561)	825,311
Operating income	$ 30,138	$ (8,441)	$ 8,151	$ 68	$ 29,916

b. Assets, Depreciation and Capital Expenditures

	Millions of yen				
	2008				
	Industry A	Industry B	Industry C	Eliminations/Corporate	Consolidated
Assets	¥69,209	¥ 10,853	¥10,289	¥ 11,857	¥ 102,210
Depreciation	1,380	66	327	－	1,774
Capital expenditure	1,118	31	52	－	1,202

	Millions of yen				
	2007				
	Industry A	Industry B	Industry C	Eliminations/Corporate	Consolidated
Assets	¥47,497	¥ 4,546	¥10,565	¥ 19,699	¥ 82,309
Depreciation	916	64	294	－	1,275
Capital expenditure	749	21	716	－	1,487

	Thousands of U.S. dollars				
	2008				
	Industry A	Industry B	Industry C	Eliminations/Corporate	Consolidated
Assets	$690,784	$ 108,332	$ 102,702	$118,352	$1,020,171
Depreciation	13,775	661	3,270	－	17,707
Capital expenditure	11,163	318	524	－	12,006

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

１４．Subsequent Event

The following appropriations of the Company’s retained earnings in respect of the year ended March 31, 2008 were as proposed by the Board of Directors and approved by the shareholders at the annual general meeting held on June, 2008:

Appropriations	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥ 10 per share)	¥ 207	$ 2,066

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheets of Kyokuto Kaihatsu Co., Ltd. and subsidiaries as of March 31, 2007 and 2008, and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the two-year period ended March 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kyokuto Kaihatsu Kogyo Co.,Ltd. and subsidiaries as of March 31, 2007 and 2008, and the results of their operations and their cash flows for each of the years in the two-year period ended March 31, 2008 in conformity with accounting principles generally accepted in Japan, except at noted in the following paragraph.

The accompanying consolidated financial statements as of and for the year ended March 31, 2008 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in yen have been translated into dollars on the basis set forth in note 1 to the consolidated financial statements.

Osaka Audit Corporation

Osaka, Japan
June 26, 2008

CORPORATE INFORMATION

Kyokuto Kaihatsu Kogyo Co.,Ltd.
Established: June,1955
Paid-in Capital: ¥11,899 million (at March 31,2008)
Number of Shares Issued: 42,737,668shares (at March 31,2008)
Number of Employees: consolidated 2,156 non-consolidated 847 (at March 31,2008)

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

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

Plants:
Yokohama Plant
Occupies 62,400 ㎡, Since March,1962
Located in Yamato,Kanagawa
Nagoya Plant
Occupies 132,537 ㎡, Since June,1970
Located in Komaki,Aichi
Miki Plant
Occupies 98,274 ㎡, Since October,1979
Located in Miki,Hyogo
Fukuoka Plant
Occupies 66,832 ㎡, Since September,1970
Located in Iizuka,Fukuoka
Hachinohe Plant
Occupies 57,600 ㎡, Since April,1999
Located in Hachinohe,Aomori

BOARD OF DIRECTOR AND STATUTORY AUDITORS

Katsushi Tanaka,
Chairman and Representative of the Board of Directors

Takaaki Hudetani,
President and Representative of the Board of Directors,CEO

Motohachi Hashimoto,
Director, Senior Managing Executive Officer

Tomoki Ueyama,
Director, Managing Executive Officer

Kazuyoshi Nakai,
Director, Managing Executive Officer

Akira Yamashita,
Director, Managing Executive Officer

Yoshinori Takashima,
Director, Managing Executive Officer

Taro Okamoto,	Executive Officer
Masatoshi Yoshida,	Executive Officer
Norihiro Kumazawa,	Executive Officer
Yoshihiro Yasuoka,	Executive Officer
Takahisa Tsuda,	Executive Officer
Osami Ikeda,	Executive Officer
Masakazu Nishida,	Executive Officer
Ryuichiro Nishikawa,	Executive Officer

Shunji Nakamura,	Standing Auditor
Kozo Ueda,	Auditor
Rikuyuki Tentaku,	Auditor
Akira Michigami,	Auditor