KYOKUTO KAIHATSU KOGYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Annual Report 2009

Year ended March 31, 2009

CONTENTS

1. Operational Results

(1) Analysis of Operational Results

<Summary of Operational Results for the Consolidated Fiscal Year ended March 31, 2009 >

With the outlook for the real economy remaining unclear, the Japanese economy went through extremely difficult times in the current consolidated fiscal year—a situation where the economic downturn accelerated the rate of deterioration due to the global economic recession triggered by the financial crisis in the United States.

Under such a tough business environment, the Kyokuto Kaihatsu Kogyo Group concertedly strived to secure earnings by implementing emergency measures to cope with rapidly deteriorating economy, such as securing orders, cost reduction and expense curtailing.

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

The Specialty Truck Division, a mainstay of its business, saw the business environment greatly deteriorate both in Japan and overseas due to the global economic slowdown from the latter half of the previous year. The Environment Equipment and Systems Division experienced a severe business downturn due to a cutting back on public works, etc., as did the Real Estate Rental Division due to a decline in demand for the multistory parking garage system.

As a result, in the current consolidated fiscal year, sales decreased by 13,568 million yen (15.8%) over the preceding consolidated fiscal year to 72,116 million yen. Operating income decreased by 2,524 million yen (84.2%) to 473 million yen due to an operating loss incurred by the Specialty Truck Division. Ordinary income declined by 2,195 million yen (79.0%) to 584 million yen, while net income decreased by 2,714 million yen due to loss on valuation of investment securities and impairment loss, etc., forcing the Company to post a net loss of 1,051 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

In the first half of the current fiscal year, the Specialty Truck Division saw its domestic demand decrease due to an eventual backlash from a special procurement demand for trucks related to the enforcement of stringent regulations on exhaust gas emissions and a decline in construction demand. Meantime, overseas businesses including exports and Kunshan Plant and the Trailer business increased steadily. However, sales both in domestic and overseas markets drastically decreased in the second half of the current fiscal year, with demand for trucks evaporating due to the global economic downturn.

Under such a circumstance, the Company strived to secure orders, revise sales prices and reduce production costs further by procuring components from overseas. Management also took emergency measures to secure a profit, such as cutback of fixed costs, reviewing of the number of employees and improvement of work efficiency. In addition, the Company strengthened business alliance with Nippon Trex Co., Ltd. through the promotion of joint new product development, joint procurement of components and materials and consolidation of sales and service footholds. In oversea markets, management tried to expand sales in emerging countries, where demand was expected to grow.

As a result, sales in the Specialty Truck Division decreased by 9,731 million yen (14.5%) to 57,440 million yen due to a drastic deterioration of the market environment. The Company saw operating income decrease by 3,330 million yen and posted operating loss of 311 million yen due to a decrease in sales, although it took cost reduction measures as well as emergency measures.

New Products

Triple-axis bulk carrier semitrailer
Jointly developed with Nippon Trex

New Piston type concrete boom pump track
"PY100-26-S"

Detachable body track equipped with scale
"Scale Hook Roll"

Squeeze-out type concrete boom pump
"PQ 20-21M"

ii) Environment Equipment and Systems Division
For the Environment Equipment and System Division, business environment was still very challenging, since local governments cut back expenditures for public works due to financial difficulties and order amounts remained low.

Under such a circumstance, with raw material prices soaring in the first half of the current fiscal year, the Company still struggled to turn a profit in the construction of a plant. Management tried to secure a profit by obtaining orders with serious consideration on profitability and strengthening the maintenance and system operation businesses.

As a result, orders the division obtained decreased by 1,393 million yen (17.9%) to 6,369 million yen. Sales decreased by 3,208 million yen (25.9%) to 9,201 million yen. The Company succeeded in turning the division into black due to implementation of the above measures. Operating income increased by 851 million yen to 5 million yen.

Recycle Plaza

Pulverrizer for non-burnable wastes

iii) Real Estate Rental Division

The Real Estate Rental Division faced a very difficult business environment, with demand for the multistory parking garage system decreasing due to a sharp decline in condominium construction and the utilization rate of coin-operated parking lots remaining low.

As a result, revenues decreased by 596 million yen (9.0%) to 6,057 million yen and operating income decreased by 42 million yen (5.3%) to 773 million yen.

Multistory parking garage system

Coin-operated parking

<Forecast of Operations for the Next Consolidated Fiscal Year ending March 31, 2009>

Management expects the economic downturn to continue in the next fiscal year, with capital expenditures shrinking due to deterioration of corporate earnings and consumer spending declining due to the severe employment and income situation.

Regarding the forecast of consolidated business performance for March 2010, the Company estimates total sales to decrease by 11,616 million yen (16.1%) over March 2009 to 60,500 million yen, since the Specialty Truck Division is likely to see demand sharply decline and the Environment Equipment and System Division is going to obtain orders with serious consideration on profitability. Management expects operating income to increase by 27 million yen (5.6%) to 500 million yen, due to an improvement in profitability in the Environment Equipment and System Division and the Real Estate Rental Division despite a decline in profit in the Specialty Truck Division. Ordinary income is expected to increase by 36 million yen (6.0%) to 620 million yen, while net income is estimated to grow by 1,371 million yen to 320 million yen due to a decrease in extraordinary loss.

(2) Analysis on Financial Conditions

i) Situations of Assets, Liabilities and Net Worth

In the current consolidated fiscal year, total assets decreased by 11,211 million yen (11.0%) from the end of the preceding fiscal year to 90,999 million yen.

Current assets decreased by 8,807 million yen (15.2%) to 49,204 million yen, due to a decline in notes and accounts receivable-trade.

Non-current assets decreased by 2,403 million yen (5.4%) to 41,795 million yen, due to a decline in market values of investment securities and posting of impairment loss.

Regarding liabilities, current liabilities decreased by 7,252 million yen (23.3%) to 23,911 million yen due to a decrease in notes and accounts payable-trade and non-current liabilities decreased by 555 million yen (4.3%) to 12,356 million yen.

Net assets decreased by 3,403 million yen (5.9%) to 54,731 million yen, due to a decline in valuation difference on available-for-sale securities as well as posting of net loss.

As a result, the capital adequacy ratio stood at 60.1% as of the end of the current fiscal year (56.9% at the end of the preceding fiscal year).

ii) Cash Flow Situation

Consolidated cash and cash equivalents at the end of period increased by 2,148 million yen (26.2%) over the balance at the beginning of period to 10,334 million yen. Cash flow by activity type is summarized as follows:

Cash Flow Provided by Operating Activities

Net cash provided from operating activities amounted to 2,363 million yen (an increase of 4,305 million yen compared with the preceding fiscal year). This was mainly because of collection of account receivable-trade.

Cash Flow Used in Investing Activities

Net cash used in investment activities was 1,190 million yen (a decrease of 823 million yen). This was mainly because of purchase of non-current assets.

Cash Flow Provided by Financial Activities

Net cash provided by financing activities amounted to 905 million yen (an increase of 1,656 million yen). This was mainly because of proceeds from issuance of bonds and loans payable.

(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 2009, making its annual dividend 10 yen per share including an interim dividend.

For the year ending March 2010, the Kyokuto Kaihatsu Kogyo Group expects its businesses continue to falter due to the global economic downturn from the second half of the previous year. Under such a circumstance, management regrets to report that it plans to reduce the annual dividend payment by four yen per share to six yen per share (including three yen of an interim dividend) for the year ending March 2010.

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 2009 are as follows:
The total number of shares acquired: 1,778,300 shares
The total value of shares acquired: 1,076 million yen

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) Targeted management index

Management aims to achieve the following results on consolidated basis for the year ending March 2010: sales of 60,500 million yen, ordinary income of 620 million yen and net income of 320 million yen.

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

With the truck market shrinking, public works decreasing and the construction market collapsing due to the global economic crisis since the previous year, management expects the industries related to the Company's businesses to continue to face extremely difficult business conditions.

Under such a circumstance, the Company will thoroughly revamp its business organization including realignment of group companies to form a robust corporate structure that can secure earnings even in a harsh business condition like today.

Strategies of Divisions

・Specialty Truck Division

The Company expects the domestic truck market to remain very weak. Under such a circumstance, management will strengthen sales forces to secure orders, completely review the procurement of materials and strongly promote cost reduction with central purchasing and overseas procurement plans to improve profitability. Meantime, the Company will raise production efficiency through realignment of domestic plants including the closure of the Hachinohe plant. In addition, management will actively promote the development of attractive new products that feature environment protection and safety technologies.

Regarding overseas markets, the Kunshan Plant will try to obtain demand from infrastructure improvement projects such as railways and roads and expand sales in outside China in order to increase earnings. The Company will boost exports from Japan to countries where demand is expected to grow.

・Environmental Equipment and Systems Division

Management will focus on the expansion of maintenance and system operation businesses to increase earnings further.

The Company will actively promote the transfer of technology and know-how to overseas.

・Real Estate and Rental Division

To improve the profitability of the Parking business, the Company will reduce production cost of the multistory parking garage system, strengthen service and maintenance and develop a new product. Management will also raise the utilization rate of coin-operated parking lots and expand land for business to increase earnings.

Management Policies

The Kyokuto Kaihatsu Kogyo Group will concertedly strive to secure earnings, boost corporate value and achieve continuous business expansion by making the most use of business resources and generating a synergistic effect among group companies based on the basic policies and key strategies set in the medium-term (three-year) management plan, *Plan 2007*, which started from April 2007.lthough 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.

Basic policies

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

(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)
	2009	2008	2009
Net sales	72,116	85,685	734,161
Cost of sales	60,573	71,969	616,654
Gross profit	11,542	13,715	117,506
Selling, general and administrative expenses	11,069	10,718	112,688
Operating income (loss)	473	2,997	4,818
Non-operating income (expenses)			
Interest and dividends income	122	122	1,246
Interest expenses	(193)	(209)	(1,969)
Gain on sales of noncurrent assets	6	150	66
Gain (loss) on sales of securities	(45)	0	(460)
Loss on valuation of investment securities	(754)	0	(7,680)
Impairment loss	(757)	0	(7,712)
Other-net	(156)	(373)	(1,594)
Income (loss) before income taxes and minority interests	(1,305)	2,686	(13,286)
Income taxes (Note 12)			
Income taxes-current	504	1,082	5,133
Income taxes-deferred	(757)	(58)	(7,711)
Total income taxes	(253)	1,024	(2,578)
Minority interests	-	-	-
Net income (loss)	(1,051)	1,662	(10,708)
Retained earnings:			
Balance at beginning of period	34,814	33,619	354,414
Dividends from surplus	(406)	(417)	(4,138)
Disposal of treasury stock	0	(50)	0
Balance at end of period	33,355	34,814	339,567

	Yen		U.S. dollars
Per share of common stock:			
Net income (loss)	(26.24)	39.73	-0.27
Diluted net income (loss)	(26.24)	39.73	-0.27
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		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
ASSETS			
Current assets:			
Cash and deposits	5,893	6,361	60,000
Short-term investment securities (Note 3)	4,441	1,830	45,210
Notes and accounts receivable-trade	25,777	36,764	262,418
Less: Allowance for doubtful accounts	(545)	(97)	(5,551)
Inventories	11,639	9,485	118,493
Deferred tax assets (Note 12)	1,235	1,470	12,576
Prepaid expenses	247	214	2,521
Other	514	1,983	5,238
Total current assets	49,204	58,011	500,908
Investments and other assets:			
Investments securities (Note 3)	3,870	5,265	39,404
Deferred tax assets (Note 12)	129	59	1,317
Other	2,222	3,294	22,624
Total investments and other assets	6,222	8,618	63,346
Property and equipment:			
Land	17,965	17,616	182,894
Buildings and structures	29,187	28,775	297,136
Machinery and equipment	13,238	13,043	134,772
Construction in progress	578	194	5,884
Other	3,162	2,980	32,198
	64,133	62,610	652,886
Less—Accumulated depreciation	(28,990)	(27,477)	(295,128)
Total property and equipment	35,142	35,133	357,757
Intangible assets			
other	430	446	4,378
total intangible assets	430	446	4,378
Total assets	90,999	102,210	926,390

CONSOLIDATED BALANCE SHEETS

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term loans payable (Note 4)	5,620	4,730	57,212
Current portion of bonds (Note 4)	200	—	2,036
Current portion of long-term loans payable(Note 4)	1,327	1,256	13,516
Notes and accounts payable-trade	12,231	19,668	124,517
Income taxes payable and Accrued consumption taxes	275	1,137	2,809
Accrued expenses	2,155	2,412	21,948
Other current liabilities	2,100	1,958	21,381
Total current liabilities	23,911	31,163	243,421
Long-term liabilities:			
Bonds payable (Note 4)	800	—	8,144
Long-term loans payable (Note 4)	1,536	1,098	15,641
Provision for retirement benefits (Not	2,316	2,398	23,579
Provision for directors' retirement benefits	108	247	1,107
Deferred tax liabilities (Note 12)	1,599	2,866	16,282
Other long-term liabilities (Note 4)	5,996	6,302	61,040
Total long-term liabilities	12,356	12,912	125,795
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	121,142
Additional paid-in capital (Note 10)	11,718	11,718	119,298
Retained earnings	33,355	34,814	339,567
Treasury stock, at cost	(2,144)	(1,068)	(21,835)
Valuation difference on available-for-sale securities	22	524	225
Foreign currency translation adjustments	(120)	245	(1,225)
Total shareholders' equity	54,731	58,134	557,173
Total liabilities and shareholders' equity	90,999	102,210	926,390

CONSOLIDATED STATEMENT OF CASH FLOWS

	Millions of yen		Thousands of U.S. dollars (Note 1)
Net cash provided by (used in) operating activities :	2009	2008	2009
Income (loss) before income taxes and minority i	(1,305)	2686	(13,286)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	2,029	1,877	20,665
Loss on valuation of securities	759	93	7,727
Impairment loss	757	-	
Loss (gain) on sales of securities	45	-	460
Loss (gain) on sales of noncurrent assets	48	(116)	489
Increase (decrease) in provision for retirement benefits	(107)	(336)	(1,092)
Interest and dividends income	(122)	(122)	(1,246)
Interrest expenses	193	209	1,969
Decrease (increase) in notes and accounts receivable-trade	13,289	(3,621)	135,293
Decrease (increase) in inventories	(2,226)	(542)	(22,665)
Increase (decrease) in notes and accounts payable-trade	(8,127)	1,248	(82,734)
Increase (decrease) in accrued consumption tax	(50)	(38)	(509)
Other,net	-1,667	-1,338	(16,970)
Sub total	3,518	0	35,814
Interest and dividend income received	120	116	1,224
Interest expenses paid	(171)	(189)	(1,748)
Income taxes paid	(1,103)	(1,618)	(11,231)
Other,net	-	(251)	-
Net cash provided by (used in) operating activities	2,363	(1,942)	24,059
Net cash provided by (used in) investing activities :			
Purchase of short-term investment securities	(261)	(681)	(2,661)
Proceeds from sales of short-term investment securities	279	473	2,850
Proceeds from sales of noncurrent assets	5	—	51
Purchase of investments in subsidiaries	—	(644)	—
Purchase of noncurrent assets	(1,218)	(1,556)	(12,400)
Proceeds from sales of noncurrent assets	6	517	67
Payments of long-term loans receivable	(27)	(134)	(275)
Collection of long-term loans receivable	24	10	248
Net cash provided by (used in) investing activities	(1,190)	(2,014)	(12,119)
Net cash provided by (used in) financing activities:			
Increase (decrease) in short-term loans payable	890	600	9,060
Proceeds from long-term loans payable	1,783	1,349	18,151
Repayment of long-term loans payabl	(1,273)	(1,583)	(12,964)
Repayments of lease obligations	(10)	—	(107)
Proceeds from issuance of bonds	1,000	—	10,180
Purchases of treasury stock	(1,077)	(801)	(10,966)
Proceeds from sales of treasury stock	0	102	4
Cash dividends paid	(406)	(418)	(4,141)
Net cash provided by (used in) financing activities	905	(751)	9,215
Effect of exchange rate change on cash and cash equivalents	67	(18)	690

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, 2009, which was
¥ 98.23 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 or, if lower, the net realizable value, cost being determined by the specific identification method. Materials..
Work in process are stated at cost or, if lower, the net realizable value, cost being determined by the periodic average method.
Supplies are stated at cost or, if lower, the net realizable value, cost being determined by the last purchase cost method.

Accounting change

In the year ended March 31,2009,the Company changed its inventory valuation method from the moving average cost to the lower of average cost or realizable value cost.
As a result of this change, income before income taxes for the year decreased by ¥757 million ($7,712 thousand).

(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

In the year ended March 31,2009,the percentage of completion method is applied to the construction works which take longer than one year and exceed ¥200million ($2,036 thousand) in contract amount.

(i) Leases

For the year ended March 31,2008, leases payments relating to finance leases are accounted for as operating leases.
For the year ended March 31,2009,depreciation of the leased assets are computed by the straight-line method over the respective lease terms, includind the imputed interest portion.

(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 40,084 thousand shares for 2009 and 41,847 thousand shares for 2008 (see Note 10).

For the year ended 31, 2009, 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, 2009 and 2008 consisted of the following:

	Millions of yen		*Thousands of U.S. dollars*
	2009	2008	2009
Market value available:			
Trading securities	—	—	—
Market value not available:			
M.M.F. and F.F.F.	¥ 4,441	¥ 1,830	$ 45,210
Other investment trust	—	—	—
Total	¥ 4,441	¥ 1,830	$ 45,210

The following is a summary of other securities at March 31, 2009 and 2008:

	Millions of yen			
	March 31, 2009			
	Other securities			
	Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	¥ 2,933	¥ 419	¥ (331)	¥ 3,021
Bonds and debentures	—	—	—	—
Other securities	—	—	—	—
	¥ 2,933	¥ 419	¥ (331)	¥ 3,021
Market value not available:				848
Total				¥ 3,870

	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

	Thousands of U.S. dollars			
	March 31, 2009			
	Other securities			
	Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	$ 29,867	$ 4,267	(3,370)	$ 30,763
Bonds and debentures	—	—	—	—
Other securities	—	—	—	—
	$ 29,867	$ 4,267	(3,370)	$ 30,763
Market value not available:				8,642
Total				$ 39,405

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

The annual average interest rates applicable to short-term bank loans at March 31, 2009, and 2008 are 1.08% and 1.51% respectively.

Long-term debt at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Bonds	¥ 1,000	¥ 1,256	$ 10,180
Long-term debt	2,864	3,072	29,157
	¥ 3,864	¥ 5,427	$ 39,337

Aggregate annual maturities of long-term debt subsequent to March 31, 2009 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2009	¥ 1,527	$ 15,552
2010	983	10,011
2011	713	7,258
2012	320	3,257
2013 and thereafter	320	3,257
	¥ 3,864	$ 39,337

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, 2009 and 2008.

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Benefit obligation at end of year	¥ 6,675	¥ 7,000	$ 67,957
Fair value of plan assets at end of year	3,113	4,013	31,700
Funded status:			
Benefit obligation in excess of plan assets	3,561	2,987	36,257
Unrecognized prior service cost	79	98	811
Unrecognized actuarial loss	(1,325)	(687)	(13,489)
Prepaid expenses for plan assets at end of year	—	—	—
Accrued pension liability recognized in the consolidation balance sheets	2,316	2,398	23,579

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, 2009 and 2008.

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2008
Service cost	¥ 359	¥ 368	$ 3,69
Interest cost	140	146	1,425
Expected return on plan assets	(80)	(99)	(817)
Amortization:			
Prior service cost	(19)	(19)	(203)
Actuarial losses	157	(25)	1,598
Net periodic benefit cost	¥ 556	¥ 371	$ 5,663

Assumption used in the accounting for the defined benefit plans for the year ended March 31, 2009 and 2008 is as follows:

	2009	2008
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	10 years
Amortization period for actuarial losses	10 years	10 years

6. Contingencies

At March 31, 2009 and 2008, the Group was contingently liable as follows:

	Millions of yen		Thousands of US dollars
	2009	2008	2009
As an endorser of notes discounted or endorsed	—	¥ 2,649	—
As a guarantor of indebtedness of :			
Associates	¥ 4,559	¥ 4,933	$ 46,417
Others	71	227	727
	¥ 4,561	¥ 5,160	$ 45,957

7. Cash and cash equivalents

Cash and cash equivalents at March 31, 2009 and 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Cash and time deposits	¥ 5,893	¥ 6,361	$ 60,001
Short-term investment	4,441	1,830	45,210
Less-Time deposits with original maturities more than three months	—	(5)	—
Less-Stock	—	—	—
	¥ 10,334	¥ 8,186	$ 105,211

8. Leases

The Group leases certain machinery and equipment, and other assets. Total lease payments under these leases were ¥ 418 million ($ 4,261 thousand) , and ¥ 515 million for the years ended March 31, 2009 and 2008, 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, 2009 and 2008, are as follows:

	Millions of yen		
	2009		
	Machinery and Equipment	Other	Total
Acquisition costs	¥ 1,107	¥ 384	¥ 1,491
Accumulated Depreciation	621	232	854
Net leased property	¥ 4854	¥ 151	¥ 637

	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

	Thousands of U.S. dollars		
	2009		
	Machinery and Equipment	Other	Total
Acquisition costs	$ 11,271	$ 3,912	$ 15,183
Accumulated Depreciation	6,331	2,367	8,698
Net leased property	$ 4,940	$ 1,545	$ 6,485

Future minimum lease payments under finance leases as of March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Due within one year	¥ 285	¥ 432	$ 2,905
Due after one year	351	658	3,580
Total	¥ 637	¥ 1,090	$ 6,485

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 ¥ 418 million ($4,261 thousand) for the year ended March 31, 2009.

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, 2009 and 2008, 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, 2009 and 2008.

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	Capital surplus
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
Retirement of stock during 2009	……	—	—	—
Balance of March 31, 2009	……	42,737,668	11,899	11,718

		Thousands of U.S. dollars	
Balance of March31, 2008		Common Stock	Capital surplus
Retirement of stock during 2009	……	121,143	119,299
Balance of March31, 2009	……	—	—
	……	121,143	119,299

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 ¥ 1,024 million ($ 10,434 thousand) and ¥ 1,045 million for the years ended March 31, 2009 and 2008, 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, 2009 and 2008, respectively. Foreign subsidiaries are subject to income taxes of the countries in which they operate.
As at March 31, 208,and 2009 the reconciliation of the statutory tax rate to the effective income tax rate is as follows. No figures are shown for 2009 as a net loss was recorded.:

	2009	2008	
Statutory tax rate	—	40.6	%
Dividend income	—	(0.5)	
Expenses not deductible for income tax purposes	—	2.1	
Per capital inhabitant tax	—	2.9	
Other	—	(7.0)	
Effective tax rate	—	38.1	%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at March 31, 2009 and 2008 are presented below:

	Millions of yen		Thousands of US dollars
	2009	2008	2009
Deferred tax assets:			
Accrued expenses	¥ 421	¥ 480	$ 4,291
Accrued retirement benefits	983	1,059	10,016
Depreciation	612	299	6,234
Unrealized profits	302	302	3,081
Allowance for doubtful accounts	284	—	2,896
Tax loss carryforwards	794	—	8,087
Other	742	1,157	7,555
Total gross deferred tax assets	4,141	3,298	42,159
Less valuation allowance	(1,172)	(916)	(11,934)
Net deferred tax assets	2,969	2,382	30,225
Deferred tax liabilities:			
Special tax-purpose reserve for condensed booking of fixed assets	(1,678)	(1,705)	(17,088)
Unrealized gains of other securities	(18)	(359)	(189)
Intercompany profit	(1,506)	(1,654)	(15,338)
Total gross deferred tax liabilities	(3,203)	(3,718)	(32,615)
Net deferred tax assets	¥ (234)	¥ (1,336)	$ (2,389)

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, 2009.

１３. Segment Information

Information about operations in different industry segments of the Group for the years ended March 31, 2009 and 2008, are as follows:

Industry Segments

a. Sales and Operating Income

	Millions of yen				
	2009				
	Industry A	Industry B	Industry C	Eliminations/Corporate	Consolidated
Sales to customers	¥57,440	¥ 9,201	¥ 5,475	¥ —	¥ 72,116
Intersegment	—	—	582	(582)	—
Total sales	57,440	9,201	6,057	(582)	72,116
Operating expenses	57,751	9,196	5,283	(588)	71,643
Operating income	¥ (311)	¥ 5	¥ 773	¥ 5	¥ 473

	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

	Thousands of U.S. dollars				
	2009				
	Industry A	Industry B	Industry C	Eliminations/Corporate	Consolidated
Sales to customers	$584,752	$93,670	$ 55,739	$ —	$734,161
Intersegment	4	—	5,927	(5,933)	—
Total sales	584,756	93,670	61,667	(5,933)	734,161
Operating expenses	587,923	93,617	53,789	(5,986)	729,343
Operating income	$ (3,167)	$ 54	$ 7,878	$ 53	$ 4,818

b. Assets, Depreciation and Capital Expenditures

	Millions of yen				
	2009				
	Industry A	Industry B	Industry C	Eliminations/Corporate	Consolidated
Assets	¥60,984	¥ 6,456	¥10,243	¥ 13,314	¥ 90,999
Depreciation	1,489	78	366	−	1,935
Capital expenditure	1,741	60	96	−	1,898

	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

	Thousands of U.S. dollars				
	2009				
	Industry A	Industry B	Industry C	Eliminations/Corporate	Consolidated
Assets	$620,834	$ 65,724	$ 104,283	$135,547	$926,390
Depreciation	15,166	802	3,731	−	19,699
Capital expenditure	17,733	616	980	−	19,330

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, 2009 were as proposed by the Board of Directors and approved by the shareholders at the annual general meeting held on June, 2009:

Appropriations	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥ 10 per share)	¥ 198	$ 2,022

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, 2008 and 2009, 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, 2009. 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, 2008 and 2009, and the results of their operations and their cash flows for each of the years in the two-year period ended March 31, 2009 in conformity with accounting principles generally accepted in Japan.

As discussed in Note 2(d) to the consolidated financial statements, the Company changed its method of inventories evaluation.

The accompanying consolidated financial statements as of and for the year ended March 31, 2009 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, 2009

CORPORATE INFORMATION

Kyokuto Kaihatsu Kogyo Co., Ltd.
Established: June,1955
Paid-in Capital: ¥11,899 million (at March 31,2009)
Number of Shares Issued: 42,737,668shares (at March 31,2009)
Number of Employees: consolidated 2,144 non-consolidated 829 (at March 31,2009)

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

Kazuyoshi Nakai,
Director, Senior Managing Executive Officer

Tomoki Ueyama,
Director, Managing Executive Officer

Yoshinori Takashima,
Director, Managing Executive Officer

Yoshihiro Yasuoka,	Senior Executive Officer
Taro Okamoto,	Executive Officer
Masatoshi Yoshida,	Executive Officer
Norihiro Kumazawa,	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