PanaHome Corporation
Annual Report 2004

Year ended March 31, 2004

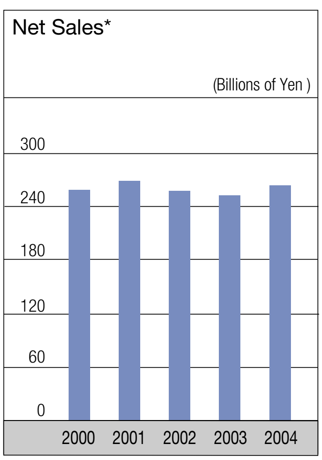
PanaHome

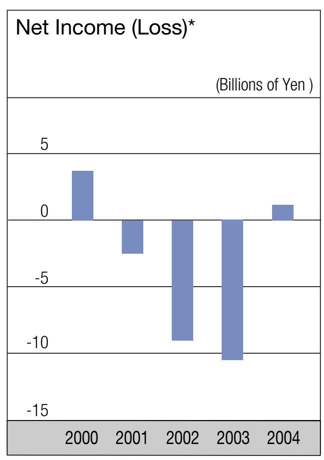
Financial Highlights

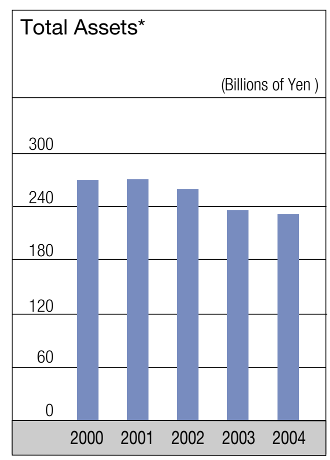
PanaHome Corporation and Subsidiaries

Years ended March 31, 2004 and 2003	Millions of yen 2004	Millions of yen 2003	Thousands of U.S. dollars 2004
Net Sales	**¥263,755**	¥252,706	**$2,488,255**
Operating Income (Loss)	**921**	(4,122)	**8,689**
Income (Loss) before Income Taxes	**322**	(13,982)	**3,037**
Net Income (Loss)	**1,134**	(10,500)	**10,698**
Total Assets	**232,147**	236,350	**2,190,066**
Shareholders' Equity	**120,642**	125,450	**1,138,132**
Return on Equity (%)	**0.9%**	(7.9)%	
	Yen		U.S. dollars
Per Share Amounts:			
Net income (loss)	**¥ 6.75**	¥(62.40)	**$0.06**
Diluted net income	**6.75**	—	**0.06**
Cash dividends	**15.00**	15.00	**0.14**
Number of Employees at Year-End (Persons)	**6,603**	6,676	

Notes: 1. In this annual report, "U.S. dollars" and "$" refer to the currency of the United States of America and "yen" and "¥" refer to the currency of Japan. U.S. dollars are translated from yen at the rate of ¥106=US$1, the approximate rate of exchange at March 31, 2004, solely for the convenience of the reader.
2. Cash dividends per share are those declared with respect to income for each fiscal year, and cash dividends charged to retained earnings are those actually paid.







* Years ended March 31

Contents

Forward-Looking Statements
This annual report contains forward-looking statements, including PanaHome's plans and strategies, as well as statements that report historical results. Forward-looking statements involve such known and unknown risks and uncertainties as economic conditions; market trends; fluctuations in land prices; laws, regulations, and governments policies; and political instability in principal markets.

Corporate Profile

PanaHome Corporation was established in 1963 to support the Matsushita Group's housing business. Founded on the basic principle of putting customers first, PanaHome is a company that specializes in creating housing that provides healthier and more comfortable living environments for all its customers and thereby strives to merit the respect associated with the Matsushita name.

On October 1, 2002, the 28 principal subsidiaries of the PanaHome Group merged to form PanaHome, and the new company was launched with the aim of becoming the most highly trusted housing company in the industry, about which people would say "PanaHome, the first choice for the family." Through this restructuring move, PanaHome created a comprehensive management organization with consolidated product development, production, marketing, construction, and service functions. This organization enables quick response to changes in the market and customer needs while proactively and efficiently channeling PanaHome Group management assets to growth businesses and strategic policies and optimizing overall structural efficiency.

Under a management strategy designating detached housing, asset management, and home remodeling as its three core businesses, the Company is working to reinforce its business foundations and to be a comprehensive housing company that is able to flexibly respond to customer housing and lifestyle requests.

In addition, PanaHome regards overcoming environmental problems as an important management issue. In line with this, we offer Eco-Life Homes that are friendly to people and the environment and are making Companywide efforts to reduce the impact of our operations on the environment, thereby making the world a better place to live.

Matsushita Electric Industrial Co., Ltd., has strengthened its capital alliance with Matsushita Electric Works, Ltd., creating a new comprehensive cooperative framework for the Matsushita Group for the 21st century. As a part of this new Group framework, PanaHome was made a consolidated subsidiary of Matsushita Electric Industrial on April 1, 2004.

Leveraging its capabilities under the new Group structure, PanaHome will expand its core businesses to provide customers with enhanced comfort and safety as well as environment-friendly, comfortable living solutions.

To Our Shareholders

PanaHome's product strategy for the development of its three core businesses is to focus its energies on creating products that are attractive to customers.

► Performance Report for Fiscal 2003

In fiscal 2003, ended March 31, 2004, although the Japanese economy continued to be troubled by deflation, a pickup in capital spending and exports was seen, and there were indications of a modest recovery in the second half of the fiscal year.

In the housing market, anticipation of higher interest rates on housing loans and support from positive economic trends drove moderate increases in new housing starts compared with the prior fiscal year, and signs that the housing market has bottomed out gradually began to emerge.

In response, PanaHome Corporation has channeled its management resources into its three core businesses of detached housing, asset management, and home remodeling, as a part of Companywide efforts to strengthen its business foundations.

PanaHome's product strategy for the development of its three core businesses is to focus its energies on creating products that are attractive to customers. This will be achieved through the Eco-Life Home concept, which is centered on making living environments friendly to both people and the environment through highly energy efficient, healthy, comfortable, and secure housing that harmonizes sophisticated technology with nature.

► Detached Housing Business

PanaHome builds fully functioning model homes on subdivided lots that are sold a year after they are put on display to minimize display costs while implementing housing ideas that suit specific geographical areas and customer needs as well as developing numerous products in response to customer diversity and individuality, thereby expanding housing orders.

During fiscal 2003, we launched the *SOLANA Series,* featuring our most select product, *The SOLANA,* with the aim of reinforcing our image as a builder of middle- and high-market housing in our 40th year of operations.

In addition to this new series, we have worked to strengthen the appeal of our lineup through the introduction of new products that promote the Eco-Life Home concept, including *EL•SOLANA* homes equipped with such standard features as solar power generation systems and meeting other specifications in line with next-generation energy-conservation standards.

In the urban housing market, PanaHome has launched the *solbios Series*—individually marketed duplexes, including multistory side-by-side type units that maximize the comfort of residents with disparate lifestyles, and other units for specific regions in Tokyo metropolitan and Kinki districts—stimulating demand among those who are interested in rebuilding their homes.

In our tract housing business, in addition to operating tract housing developments in Japan's three main urban areas, PanaHome has begun developing a tract housing business specializing in the efficient use of limited property space. These efforts have yielded the *J CASA,* which utilizes new construction methods for three-story domiciles in the Tokyo area and has attracted strong demand from first-time buyers in urban areas.

► Asset Management Business

PanaHome has worked to develop its asset management business by improving the organization and function of its asset management branches serving landowners. Also we have started a condominium business operated under an equivalent exchange system in the Tokyo metropolitan area to provide customers with more flexible business solutions.

In rental apartment housing, we have renewed and strengthened the lineup of our existing *Solegio Series* and have launched sales of the *FLATZA Series* urban maisonette-type units to commemorate our 40 years of operations.

In the area of medical and nursing care facility construction, we have entered into alliances with operators of private nursing homes for the elderly to enhance the scope of our business solutions. In addition, we have taken the lead in the industry by pioneering a new type of Nursing Home Loan that securitizes loans for nursing care facilities and expands customers' options for stable fund procurement in an effort to expand orders for nursing care facilities.

Furthermore, PanaHome has launched products that can provide compound design solutions for nursing care facilities, including seniors' group homes and day care centers, to better meet the needs of elderly people requiring nursing care, as well as products to assist operators with the stable long-term management of nursing care facilities and help ensure stable rates of return for landowners.

With regard to real estate, PanaHome's business is centered on the management of rental property and mediation in the purchase and sale of real estate, and the Company has expanded its retail outlets in this area to create a network spanning the entire nation and taken other initiatives to better support asset utilization for customers.

► Home Remodeling Business

In home remodeling, PanaHome revitalized its operating structure in response to the recent expansion in demand by bolstering its sales force as well as expanding those branches specializing in remodeling work and enhancing their services.

In addition, to satisfy customer requests for products that meet precise housing specifications, PanaHome has continued to strengthen its consulting services by increasing the number of its lifestyle advisors. PanaHome has also established a system of guarantees for remodeling work and has focused its energies on creating a structure that will ensure customers come to PanaHome first for all of their remodeling needs.

PanaHome has also developed building materials that incorporate the environment-friendly principles of the Eco-Life Home concept and, with the aim of increasing remodeling contracts, especially with residents of detached housing and condominiums, the Company has pursued various activities that include holding remodeling fairs in various regions around the country utilizing the Matsushita Group's major showrooms.

Amid these conditions, corporate performance was buoyed by initiatives to obtain more contracts and, as a result, new orders for fiscal 2003 were ¥265,670 million and consolidated net sales were ¥263,755 million. In addition, consolidated operating income was ¥921 million and consolidated net income was ¥1,134 million. Fiscal 2003 was a profitable year for PanaHome, and represented an important step toward putting the Company on a stable recovery track.

► Industry Conditions

The number of new housing starts peaked in fiscal 1996 at 1.629 million but, since that time, the market has languished amid uncertainty about the future. In fiscal 2002, there were 1.146 million new housing starts.

In fiscal 2003, increased demand due to housing loan tax cuts and other factors reversed the downward trend in the

construction of owner-built and tract housing, boosting such housing starts to 1.174 million, the first increase in four years.

Recent market trends, including the adoption of the Housing Performance Indication System, revisions to the Building Standards Law, crime prevention initiatives, and other social needs-driven measures, as well as heightened public concern regarding energy conservation, health, safety, and the environment have made customers' housing demands more challenging than ever.

However, in a 1998 study by the Ministry of Land, Infrastructure and Transport, it was revealed that 32% of the housing of Japan's approximately 44 million households, or roughly 14 million housing units, does not meet new earthquake resistance standards. Roughly 12 million of the 14 million substandard units comprised detached housing, accounting for 51% of all detached housing, while the remaining approximately 2 million units were multiunit dwellings. PanaHome believes this relative deficiency in earthquake resistance in Japanese housing to be one potential source of future rebuilding demand.

Regarding the composition of Japan's population, a large proportion now comprises members of the generation now in their late 20s and early 30s—the age-group most likely to acquire housing. This group will remain a market force through 2010, a situation that is expected to lead to an increase in the number of first-time home buyers. In addition, the baby boomer generation is facing retirement in the next few years, another factor expected to stimulate consumption. Furthermore, with the number of elderly in Japan growing ever higher, senior rental housing and nursing homes are promising markets.

Looking at the market for remodeling, housing starts peaked in the 1990s, and houses built then, which are now 10 to 20 years old, are strong sources of potential remodeling demand. Accordingly, demand for the remodeling of houses built in the 1990s is expected to gradually increase through to 2010.

► Future Business Strategies

In light of the aforementioned conditions, PanaHome's management is focusing on its three core businesses of detached housing, asset management, and home remodeling.

In the detached housing business, PanaHome's Eco-Life Homes offer units that produce and conserve energy, are healthy and comfortable, and are safe and secure in an effort to respond to customers' diversity and individuality. As a part of this initiative, in July 2003 PanaHome launched *EL･SOLANA* homes equipped with solar power generation systems and other energy saving features. In April 2004, PanaHome launched the *EL･SOLANA KIRATECH,* a housing line that is the first in the industry to utilize a unique tile on the exterior of the house that uses photocatalytic technology to prevent fouling and purify the air within the house as a standard feature. In this way, PanaHome is seeking to enhance its Eco-Life Home product lineup, improve housing specifications, and expand sales.

Through these and other measures, PanaHome is steadily working to augment its product lineups for the urban housing and tract housing markets as well as to strengthen sales of urban housing reconstruction projects and housing to first-time buyers.

In the asset management business, we have launched rental apartment housing that makes it easier to keep pets, units with comprehensive security systems, and units equipped with high-speed Internet connections to respond to residents' sensibilities

Katsuhiko Tajiri
President & CEO

Katsuhiko Tajiri

and values. In the future, PanaHome will strive to expand sales by offering units that further meet the precise needs of their residents. Moreover, by nurturing close ties between our Marketing Division and Rental Management Division, we will seek to develop operations founded on the creation of partnerships with customers.

With the establishment of the mandatory government nursing care insurance scheme, PanaHome began to work even harder to develop products, construct facilities, and offer management support in response to the needs of seniors' group homes, seniors' independent living facilities, and nursing care facilities. In October 2003, PanaHome entered into an alliance with Calyon Capital Markets Asia B.V., Tokyo Branch (formerly Crédit Agricole Indosuez Bank), to create a new nursing home business loan specializing in financing for group homes and other nursing care facilities, thereby launching the industry's first financing program and helping promote the construction of such facilities. As Japan faces the rapid graying of its population, the Company will continue to seek to proactively expand business in the field of medical and nursing care facility construction through solutions for senior rental housing, new nursing care facilities, and other relevant areas.

Turning to the home remodeling business, the Company will strive to enhance service for those who have built PanaHome housing in an effort to improve customer satisfaction. Furthermore, PanaHome will continue to train and dispatch lifestyle advisors to respond to customers' diverse needs and bolster the Company's consulting system. Moreover, in addition to developing remodeling materials in line with the Eco-Life Home concept, we are utilizing major Matsushita Group showrooms to hold remodeling fairs across the nation.

The remodeling market is expected to continue to grow, and we are targeting not only residents of PanaHome housing, but also others living in general detached houses and apartments in order to expand our remodeling business.

PanaHome recognizes that securing an impressive sales force is important to the successful implementation of these business initiatives. The Company will work to increase the number of sales personnel in the areas of detached housing, asset management, and home remodeling while enhancing their marketing skills through training and other measures to improve the sales force both in terms of quantity and quality.

► Corporate Governance and Compliance

Aiming to construct a system that can respond quickly and precisely in a rapidly changing business environment, PanaHome introduced an executive officer system in June 2002, halved its number of directors, and reduced directors' terms of office to one year. There are currently six directors on PanaHome's board. Furthermore, one of PanaHome's four corporate auditors is external to the Company to ensure that its management is conducted in a sound manner.

To ensure public trust in PanaHome, the Company channels its energies to promoting corporate ethics and regulatory compliance. In October 2000, PanaHome established the Management Risk Supervisory Council to create a structure to prevent significant management risks. In addition, in August 2003, we set up the corporate ethics hot line to create a consultation system superceding the internal company structure for cases where operations violate regulations or laws or incur social criticism.

We appreciate your continuing support.

July 2004

in harmony with the future

Solar power generation system

► Eco-Life Homes: A New Chapter for the Company in its 40th Year of Operations

In 2003, PanaHome celebrated its 40th year of operations with the "Thank you for 40 years—service visits" initiative, under which Company employees visited the homes of all the approximately 240,000 customers who have purchased PanaHome housing. Through this initiative, the Company once again confirmed that all employees share a commitment to put customers first, a conviction that has been at the heart of the Matsushita Group since its inception. In addition, along with our focus on generating and conserving energy and the cultivation of technologies that offer safety and security as well as health and comfort over our 40 years of service, we have launched a line of products incorporating the Eco-Life Home concept to reinforce our already solid footing in the housing industry.

Compared with other industrial products, housing uses a large volume of resources during production and construction. This is as true now as it was in the past. In addition, during its useful life span, housing consumes a large amount of energy. In Japan, although considerable resources and energy are invested in housing, the structures themselves have significantly shorter useful life spans compared with those in North America and Europe and, when they are demolished, produce enormous quantities of waste. PanaHome recognizes that as a housing company one of its foremost social responsibilities is to devise an eventual solution to these issues.

► Environmental Management System

At PanaHome, the Group environmental management system places the final responsibility for the Company's environmental policy on the president and the executive officer in charge of environmental affairs. Also, our branch offices, plants, and other business units have appointed environment officers, environment directors, and other responsible personnel.

► Activities Aimed at Reducing Environmental Impact

As one initiative to counter global warming, the Company has formulated the goal of reducing the total volume of greenhouse gas emissions produced by its operating activities to at least 15% below fiscal 1990 levels by fiscal 2010.

In fiscal 2002, PanaHome set the target of reducing the rate of CO_2 emissions per production volume unit by 10% or more compared with the fiscal 1999 level. Working to achieve this goal, improvements were made to the brush at the intake of the electric furnace on the floor panel line at the Shizuoka Plant; measures were implemented that cut the conveyor idling loss on the thin plate molding line at the Tsukuba Plant; and other steps have been taken to sharply cut electricity use. As a result, in fiscal 2003 basic emissions per production volume unit were reduced by 7.0% from fiscal 1999.

With regard to waste reduction, despite the adoption of a policy at the Head Plant to recycle wood flour as a valuable material rather than disposing of it, the disposal of waste materials of experimental products and other factors resulted in an increase in waste of 1,443 metric tons compared with fiscal 2002. However, from March 2003 we have been able to transform 100% of waste materials produced to a raw material state without resorting to direct landfills or simple incineration and have continued this effort.

*Statements regarding the Company's environmental activities contained herein have not been examined by independent auditors.

Air cleaning tower (to the right of the door)

EL tile KIRATECH, *exterior tiles utilizing photocatalytic system*

Woodworking class for adults and children

► PanaHome's Approach to Housing and the Environment

Developing environment-friendly materials and offering customers lifestyle options that do not unduly impact the environment are high priorities at PanaHome, as the following examples attest.

(1) Solar power generation systems and reliance on electricity for all power needs

Without marring the aesthetics of PanaHome housing, the Company installs high-output solar cells on the roof to generate power from sunlight. This feature represents the skillful use of a clean energy source that does not cause worries about CO_2 emissions, a known cause of global warming.

(2) Steel frame construction and next-generation energy conservation standards

PanaHome utilizes a sturdy structure based on a highly durable steel frame. Constructing housing with a long usable life is closely tied to conserving resources and energy at the time of disassembly and reconstruction. Because we use dry fixing through bolts and other means, disassembly and recycling are also simplified. Furthermore, as of fiscal 2004, all PanaHome detached housing is equipped to meet next-generation energy conservation standards. PanaHome contributes to the prevention of global warming through efficient heating and cooling systems.

(3) *Eco Cute*

Eco Cute is an energy-saving, cost-efficient electric hot-water supply system that draws on ambient heat in the atmosphere and employs a CO_2 coolant that does not destroy the ozone layer.

(4) *EL tile KIRATECH*

This product is a tile that employs photocatalytic technology that utilizes sunlight, rain, and other natural sources. *EL tile KIRATECH* ensures the long-term preservation of the beauty of a newly built house and helps filter harmful nitrogen oxide from emission gasses and other sources.

(5) Air cleaning tower

This device comfortably controls indoor air quality. The air cleaning tower improves housing ventilation and also works exceptionally well at eliminating dust, pollen, odors, and volatile organic compounds (VOCs).

(6) Building materials that adjust humidity levels (Wakkanai diatomite)

PanaHome has developed various building materials (Wakkanai diatomite tiles, climate-control design tiles, climate-control plaster board, etc.) that adjust humidity levels using Wakkanai diatomite.

► PanaHome's Relationship with Society

(1) Interaction with customers through PanaHome Life Online

The Company operates a web page exclusively for its clients, PanaHome Life Online, to offer information on housing care, online shopping, and special services as well as to provide a forum where customers can interact.

(2) Woodworking classes for adults and children

PanaHome donates recycled furniture and other items created from leftover materials retrieved from construction sites to the organizers of regional events. In addition, the Tsukuba Plant and Ibaraki Branch took part in the local Yawara Festival, where they set up a lumber recycling corner and conducted woodworking classes utilizing waste wood materials from the plant to enhance PanaHomes relationship with the regional community. In addition, PanaHome's Saitama Branch conducted woodworking classes for parents and their elementary school age children in regional areas during the summer break. This program gave children the opportunity to work with wood in the process of making bookends.

Housing That Is Friendly to People and the Environment

in harmony with the earth

Eco-Life Homes

Everyone wants to be safe and secure and have a more healthy and comfortable living environment. However, this quest for convenience has also driven up the consumption of resources and energy.

In consideration of the global environment, PanaHome makes its homes highly reliant on natural power sources and constructs them with steel frames to ensure exceptional earthquake resistance, thus making customers feel secure living in PanaHome housing.

We developed Eco-Life Homes with the goal of offering housing that enables lifestyles friendly to people and the environment.

EL･SOLANA KIRATECH, *equipped with* EL tile KIRATECH *as standard*

Eco Kabe-kun, *plaster wall utilizing Wakkanai diatomite*

Banister staircase

Eco-Life Remodeling

PanaHome provides Eco-Life Remodeling for healthy, comfortable, and ecological living that also reduces the environmental impact of customers' daily lives.

PanaHome is dedicated to ensuring the air quality in its homes and offers its customers living environments that are friendly to people and the environment through interior housing materials that eradicate volatile organic compounds (VOCs) and building materials that utilize Wakkanai diatomite to effectively regulate indoor humidity. In addition, PanaHome puts customer security and comfort first with housing that incorporates universal design principles, eliminating differences in floor levels between rooms and within the bathroom and installing such fixtures as sliding doors and banisters to make rooms barrier free and ensure residents feel secure living in their PanaHome housing for their entire lives.

► *Solegio*

Unique features in PanaHome housing proactively respond to diversifying needs, as well as a unique management system that attracts potential residents.

PanaHome has actively developed many special features in rental housing that address security, the keeping of pets, and other housing issues, thereby offering rental housing adapted for the new millennium.

Solegio, *next-generation rental apartment housing responding to tenants' needs*

● The *Solegio-Securio Series* answers customers' security needs

In addition to PanaHome's own security equipment, the Company installs apartment security systems from SECOM Co., Ltd.

● Features developed in cooperation with veterinarians to make keeping pets easier

PanaHome studied and, with the Japanese Animal Hospital Association (JAHA), developed rental housing that promotes the health and comfort of people and their pets.

● Broadband Internet connections allow residents to surf in style

Through the collaborative provision of Internet lines, people can access the Internet immediately after moving in without installing a separate line.

Financial Review

Sales, Costs, Expenses, and Income

Anticipation of higher interest rates on housing loans and positive trends in the economy drove moderate increases in new housing starts from the prior fiscal year. PanaHome's contract unit price rose thanks to the launch of the *SOLANA Series,* and the medical and nursing care facility business performed strongly, resulting in a 4.4% increase in net sales, to ¥263,755 million ($2,488,255 thousand).

At the beginning of the second half of fiscal 2002, we designated construction as the parent company's main business. Accordingly, we changed our accounting procedure for certain indirect construction costs that had been accounted for under selling, general and administrative (SG&A) expenses, transferring them to cost of sales. In fiscal 2003 (ended March 31, 2004), we again transferred a portion of SG&A expenses to cost of sales, and this, along with improvements in housing quality, lifted costs, thus the cost of sales ratio increased 2.9 percentage points, to 75.5%. On the other hand, as a result of the above transfer as well as reforms to the administrative structure implemented in fiscal 2002, SG&A expenses dipped 13.1%, to ¥63,791 million ($601,802 thousand). As a result, consolidated operating income was ¥921 million ($8,689 thousand).

In addition, although the Company incurred ¥7,566 million in expenses for administrative structural reforms in fiscal 2002, no such expenses were incurred in fiscal 2003, and PanaHome recorded consolidated net income of ¥1,134 million ($10,698 thousand), which represented an important step toward putting the Company on a recovery track.

Net income per share was ¥6.75 ($0.06), and cash dividends per share applicable for the year amounted to ¥15.00 ($0.14) (¥7.50 ($0.07) each for the interim and the year-end dividends), the same as for the year ended March 31, 2003.

Financial Position

Total assets at the end of fiscal 2003 had edged down 1.8%, to ¥232,147 million ($2,190,066 thousand). A decline in inventories helped shave current assets 0.9%, to ¥118,619 million ($1,119,047 thousand), while current liabilities were down 2.0%, to ¥69,470 million ($655,377 thousand), at the end of the period under review, primarily due to a decrease in deposits

Five-Year Summary

	Millions of yen					Thousands of U.S. dollars
Years ended March 31	**2004**	2003	2002	2001	2000	**2004**
Net Sales	**¥263,755**	¥252,706	¥258,032	¥269,472	¥258,859	**$2,488,255**
Operating Income (Loss)	**921**	(4,122)	(7,292)	504	10,869	**8,689**
Income (Loss) before Income Taxes	**322**	(13,982)	(12,204)	(784)	9,084	**3,037**
Net Income (Loss)	**1,134**	(10,500)	(9,017)	(2,485)	3,681	**10,698**
Total Assets	**232,147**	236,350	260,242	270,728	269,905	**2,190,066**
Shareholders' Equity	**120,642**	125,450	138,873	150,439	157,966	**1,138,132**
Return on Equity (%)	**0.9%**	(7.9)%	(6.2)%	(1.6)%	2.4%	
	Yen					U.S. dollars
Per Share Amounts:						
Net income (loss)	**¥6.75**	¥(62.40)	¥(53.50)	¥(14.65)	¥21.39	**$0.06**
Diluted net income	**6.75**	—	—	—	—	**0.06**
Cash dividends	**15.00**	15.00	15.00	15.00	15.00	**0.14**

Notes: 1. In this annual report, "U.S. dollars" and "$" refer to the currency of the United States of America and "yen" and "¥" refer to the currency of Japan. U.S. dollars are translated from yen at the rate of ¥106=US$1, the approximate rate of exchange at March 31, 2004, solely for the convenience of the reader.

2. Cash dividends per share are those declared with respect to income for each fiscal year, and cash dividends charged to retained earnings are those actually paid.

received for construction in progress. As a result, working capital increased from ¥48,886 million at the end of fiscal 2002, to ¥49,150 million ($463,679 thousand). The current ratio improved 1.8 percentage points, to 170.8% at the end of fiscal 2003.

Despite an increase in investment securities, a rise in accumulated depreciation on buildings and structures resulted in fixed assets sliding 2.6%, to ¥113,528 million ($1,071,019 thousand), at the end of fiscal 2003. Long-term liabilities increased 5.0% from the end of the previous term, to ¥41,696 million ($393,359 thousand), mainly owing to a revision of deferred income tax liabilities on land revaluation.

With regard to shareholders' equity, there was a decrease in consolidated retained earnings, as well as a transfer to land revaluation difference incurred from a revision of deferred income tax assets on land revaluation, and shareholders' equity declined from ¥125,450 million at the end of fiscal 2002 to ¥120,642 million ($1,138,132 thousand) at the end of fiscal 2003.

Cash Flows

Net cash provided by operating activities was ¥7,640 million ($72,075 thousand), compared with net cash used in operating activities of ¥2,493 million in the previous term. This was primarily due to the rebound in income before income taxes and minority interests and the decrease in inventories.

Net cash used in investing activities totaled ¥5,315 million ($50,142 thousand), compared with ¥5,809 million provided by investing activities fiscal 2002, and was mainly used for the acquisition of investment securities.

Net cash used in financing activities was ¥3,463 million ($32,670 thousand), compared with ¥12,639 million used in financing activities in fiscal 2002. These funds were mostly used to pay dividends to shareholders.

As a result of the preceding factors, as well as a net increase of ¥475 million ($4,482 thousand) due to changes in the scope of consolidation, cash and cash equivalents at the end of fiscal 2003 decreased 1.0%, to ¥64,578 million ($609,226 thousand).

Stock, Price Range/Trading Volume (Tokyo Stock Exchange)

Consolidated Balance Sheets

PanaHome Corporation and Subsidiaries

March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2004	2003	2004
CURRENT ASSETS:			
Cash and cash equivalents	¥ 64,578	¥ 65,225	$ 609,226
Marketable securities (Note 3)	4,100	1,011	38,679
Short-term investments (Note 2-d)	53	25	500
Receivables:			
Trade notes	342	367	3,226
Trade accounts	9,018	8,793	85,075
Allowance for doubtful receivables	(145)	(107)	(1,368)
Inventories (Note 4)	32,720	37,115	308,679
Deferred income tax assets (Note 9)	5,114	4,971	48,246
Other current assets	2,839	2,346	26,784
Total current assets	118,619	119,746	1,119,047
PROPERTY, PLANT AND EQUIPMENT:			
Land (Note 5)	24,154	24,180	227,868
Buildings and structures	52,618	52,572	496,396
Machinery and equipment	34,138	34,489	322,057
Construction in progress	239	103	2,255
Total	111,149	111,344	1,048,576
Less accumulated depreciation	(56,290)	(53,900)	(531,038)
Net property, plant and equipment	54,859	57,444	517,538
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3)	20,324	19,291	191,736
Investments in associated companies	8,158	8,053	76,962
Long-term loans to employees	10,941	11,193	103,216
Deferred income tax assets (Note 9)	11,099	10,529	104,708
Deferred income tax assets on land revaluation (Note 5)		1,737	
Intangibles and other assets	8,989	9,326	84,802
Allowance for doubtful accounts	(842)	(969)	(7,943)
Total investments and other assets	58,669	59,160	553,481
TOTAL	¥ 232,147	¥ 236,350	$ 2,190,066

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2004	Millions of Yen 2003	Thousands of U.S. Dollars (Note 1) 2004
CURRENT LIABILITIES:			
Short-term bank loans (Note 6)	¥ 525	¥ 499	$ 4,953
Payables:			
Trade notes	1,222	1,293	11,528
Trade accounts	31,870	30,974	300,660
Accrued income taxes payable	110	105	1,038
Deposits received	10,055	12,335	94,858
Accrued expenses and other current liabilities	25,688	25,654	242,340
Total current liabilities	69,470	70,860	655,377
LONG-TERM LIABILITIES:			
Long-term debt (Note 6)	20,000	20,000	188,680
Liability for employees' retirement benefits (Note 7)	8,034	8,504	75,792
Deferred income tax liabilities on land revaluation (Note 5)	2,303		21,726
Other long-term liabilities	11,359	11,217	107,161
Total long-term liabilities	41,696	39,721	393,359
MINORITY INTERESTS	339	319	3,198
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 12 and 13)			
SHAREHOLDERS' EQUITY (Note 8):			
Common stock, authorized - 596,409,000 shares, issued - 168,563,533 shares in 2004 and 2003	28,376	28,376	267,698
Capital surplus	31,835	31,832	300,330
Land revaluation difference (Note 5)	(6,600)	(2,553)	(62,264)
Retained earnings	67,090	68,470	632,925
Net unrealized gains (losses) on available-for-sale securities (Note 2-c)	330	(217)	3,113
Foreign currency translation adjustments	(87)	(175)	(821)
Treasury stock - at cost, 720,733 shares in 2004 and 692,526 shares in 2003	(302)	(283)	(2,849)
Total shareholders' equity	120,642	125,450	1,138,132
TOTAL	¥ 232,147	¥ 236,350	$ 2,190,066

Consolidated Statements of Operations

PanaHome Corporation and Subsidiaries

Years Ended March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	2004
NET SALES	¥ 263,755	¥ 252,706	$ 2,488,255
COST OF SALES	199,043	183,392	1,877,764
Gross profit	64,712	69,314	610,491
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 10 and 12)	63,791	73,436	601,802
Operating income (loss)	921	(4,122)	8,689
OTHER INCOME (EXPENSES):			
Interest and dividends	632	776	5,962
Amortization of negative goodwill		602	
Gain on exemption from future pension obligation of the governmental program		825	
Interest expense	(626)	(789)	(5,906)
Equity in losses of affiliated companies	(168)	(1,046)	(1,585)
Write-down of real estate for sale	(354)	(356)	(3,340)
Loss on disposal of property, plant and equipment	(401)	(646)	(3,783)
Past period service cost of employees' retirement benefit (Note 7)	(40)	(1,317)	(377)
Restructuring cost		(7,566)	
Other - net	358	(343)	3,377
Other expenses - net	(599)	(9,860)	(5,652)
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS	322	(13,982)	3,037
INCOME TAXES (Note 9):			
Current	(252)	(260)	(2,377)
Deferred	1,089	3,720	10,274
Total	837	3,460	7,897
MINORITY INTERESTS	(25)	22	(236)
NET INCOME (LOSS)	¥ 1,134	¥ (10,500)	$ 10,698

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2-n):			
Basic net income (loss)	¥ 6.75	¥(62.40)	$ 0.06
Diluted net income	6.75		0.06
Cash dividends applicable to the year	15.00	15.00	0.14

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

PanaHome Corporation and Subsidiaries

Years Ended March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	2004
COMMON STOCK (Note 8):			
Balance at beginning of year	¥ 28,376	¥ 28,376	$ 267,698
Balance at end of year	¥ 28,376	¥ 28,376	$ 267,698
CAPITAL SURPLUS (Note 8):			
Balance at beginning of year	¥ 31,832	¥ 31,832	$ 300,302
Gain on sales of treasury stock	3		28
Balance at end of year	¥ 31,835	¥ 31,832	$ 300,330
LAND REVALUATION DIFFERENCE (Note 5):			
Balance at beginning of year	¥ (2,553)	¥ (2,458)	$ (24,085)
Reversal of deferred tax assets on land revaluation	(4,042)		(38,132)
Net change due to disposal of land	(5)	(95)	(47)
Balance at end of year	¥ (6,600)	¥ (2,553)	$ (62,264)
RETAINED EARNINGS (Note 8):			
Balance at beginning of year	¥ 68,470	¥ 81,471	$ 645,944
Net income (loss)	1,134	(10,500)	10,698
Cash dividends, ¥15.00 ($0.14) per share in 2004 and 2003	(2,518)	(2,528)	(23,755)
Reversal of land revaluation difference	4	27	38
Balance at end of year	¥ 67,090	¥ 68,470	$ 632,925
NET UNREALIZED GAINS (LOSSES) ON AVAILABLE-FOR-SALE SECURITIES (Note 2-c):			
Balance at beginning of year	¥ (217)	¥ (75)	$ (2,047)
Net change	547	(142)	5,160
Balance at end of year	¥ 330	¥ (217)	$ 3,113
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS:			
Balance at beginning of year	¥ (175)	¥ (256)	$ (1,651)
Translation adjustments during year	88	81	830
Balance at end of year	¥ (87)	¥ (175)	$ (821)
TREASURY STOCK AT COST (Note 8):			
Balance at beginning of year	¥ (283)	¥ (17)	$ (2,670)
Purchase of treasury stock	(19)	(266)	(179)
Balance at end of year	¥ (302)	¥ (283)	$ (2,849)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

PanaHome Corporation and Subsidiaries

Years Ended March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	2004
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income (Loss) before income taxes and minority interests	¥ 322	¥ (13,982)	$ 3,037
Adjustments for:			
Depreciation	4,570	5,191	43,113
Write-down of investment securities		356	
Provision for retirement and severance benefits	(499)	(2,345)	(4,708)
Interest and dividend income	(658)	(776)	(6,207)
Interest expense	626	789	5,906
Write-down of real estate for sale	354	356	3,340
Equity in losses of affiliated companies	168	1,046	1,585
Loss on disposal of property, plant and equipment	401	646	3,783
Restructuring cost		7,566	
Decrease (increase) in trade receivables	(3)	767	(28)
Decrease in inventories	4,439	3,811	41,877
Increase in trade payables	198	775	1,868
Decrease in advances received	(2,643)	(666)	(24,934)
Other	586	1,239	5,528
Sub total	7,861	4,773	74,160
Interest and dividend income received	675	797	6,368
Interest expense paid	(647)	(829)	(6,104)
Restructuring expenses		(6,912)	
Income taxes paid	(249)	(322)	(2,349)
Net cash provided by (used in) operating activities	7,640	(2,493)	72,075
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for purchase of securities	(2,572)		(24,264)
Proceeds from sales of securities	3,582	4,425	33,791
Additions to property, plant and equipment	(1,322)	(1,101)	(12,472)
Proceeds from sales of property, plant and equipment	222	257	2,094
Purchases of investment securities	(11,299)	(6,500)	(106,594)
Proceeds from sales and redemption of investment securities	6,721	8,787	63,406
Purchases of equity in companies, resulting in new consolidated subsidiaries	(31)	(33)	(292)
Decrease in short-term investments	18	411	170
Other	(634)	(437)	(5,981)
Net cash provided by (used in) investing activities	(5,315)	5,809	(50,142)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Decrease in short-term bank loans	(785)	(9,662)	(7,406)
Purchase of treasury stock	(30)	(256)	(283)
Cash dividends paid	(2,518)	(2,528)	(23,755)
Other	(130)	(193)	(1,226)
Net cash used in financing activities	(3,463)	(12,639)	(32,670)
Effect of exchange rate changes on cash and cash equivalents	16	19	151
Net decrease in cash and cash equivalents	(1,122)	(9,304)	(10,586)
Cash and cash equivalents at beginning of year	65,225	73,968	615,330
Cash and cash equivalents of newly consolidated subsidiaries (Note 14)	475	561	4,482
Cash and cash equivalents at end of year (Note 2-b)	¥ 64,578	¥ 65,225	$ 609,226

See notes to consolidated financial statements.

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared from the consolidated financial statements issued for domestic reporting purposes in accordance with the provisions set forth in the Japanese Securities and Exchange Law. PanaHome Corporation (the "Company") and its domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards, and its foreign subsidiaries in conformity with those of their countries of domicile.

In preparing these 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 consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥106 to $1, the approximate rate of exchange at March 31, 2004. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. ***Consolidation -*** The consolidated financial statements include the accounts of the Company and all subsidiaries (together the "Group") based on the control or influence concept. Under the control or influence concept, those companies over whose operations the Parent, directly or indirectly, is able to exercise control are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in seventeen associated companies are accounted for by the equity method. The investments in one associated company is stated at cost. If the equity method of accounting had been applied to the investments in this company, the effect on the accompanying consolidated financial statements would not be material. The excess of cost over net assets of subsidiaries acquired is charged to income when incurred. All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the companies is eliminated.

b. ***Cash Equivalents -*** Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits and certificates of deposit, all of which mature or become due within three months of the date of acquisition.

c. ***Marketable and Investment Securities -*** Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: i) held-to-maturity debt securities, in which the Company has the positive intent and ability to hold to maturity are reported at amortized cost and ii) available-for-sale securities, which are not classified as held-to-maturity debt securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. The Group does not hold securities for trading purpose.

The cost of securities sold is determined based on the moving-average method.

Non-marketable available-for-sale securities are stated at cost, determined by the moving-average method. For other than temporary declines in fair value, marketable and investment securities are reduced to net realizable value by a charge to income.

d. ***Short-term Investments -*** Short-term investments are time deposits and certificates of deposit, all of which mature or become due later than three months of the date of acquisition.

e. ***Inventories -*** Real estate for sale and contracts in progress are stated at cost, determined by the specific identified cost method. Finished goods, work in progress, raw materials and supplies are stated at cost, determined by the average cost method.

f. ***Property, Plant and Equipment -*** Property, plant and equipment are stated at cost. Depreciation is computed substantially by the declining-balance method at rates based on the estimated useful lives of the assets while the straight-line method is applied to buildings. The range of useful lives is principally from 3 to 50 years for buildings and from 4 to 8 years for machinery and equipment.

g. ***Leases -*** All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that are deemed to transfer ownership of the leased property to the lessee are to be capitalized; while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

h. ***Retirement and Pension Plans -*** The Company and domestic subsidiaries have contributory defined benefit pension plans and unfunded retirement benefit plans, and may grant additional benefits for retired employees. The Company's foreign subsidiaries have no retirement benefit plan.

Retirement benefits to directors and corporate auditors are not covered by the above programs and are charged to income when the benefits are paid.

i. ***Income Taxes -*** The provision for income taxes is computed based on the pretax income included in the consolidated statements of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

j. ***Appropriations of Retained Earnings -*** Appropriations of retained earnings at each year-end are reflected in the financial statements of the following year after shareholders' approval has been obtained.

k. ***Foreign Currency Transactions -*** All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the statements of operations to the extent that they are not hedged by forward exchange contracts.

l. ***Foreign Currency Financial Statements -*** The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at historical exchange rates. Revenue and expense accounts of the consolidated foreign subsidiaries translated into yen at the average exchange rate.

Differences arising from such translation are shown as "Foreign currency translation adjustments", as a separate component of shareholders' equity.

m. ***Derivative Financial Instruments -*** The Group uses foreign exchange forward contracts to manage its exposure to changes in foreign currency exchange rates. The Group does not enter into derivatives for trading or speculative purposes. Gains or losses on derivatives are deferred until maturity of the hedged transactions if the derivatives used for hedging purposes qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items.

The foreign currency forward contracts are utilized to hedge foreign currency exposures in procurement of raw materials from overseas suppliers. Trade payable denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

n. ***Per Share Information -*** Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if stock options were exercised. Diluted net income per share of common stock assumes full exercise of outstanding stock options at the beginning of the year.

Diluted net income per share of 2003 is not disclosed because it is anti-dilutive (because of the Company's net loss position).

Cash dividends per share presented in the accompanying consolidated statements of operations are dividends applicable to the respective years including dividends to be paid after the end of the year.

o. ***New Accounting Pronouncements -*** In August 2002, the Business Accounting Council issued a Statement of Opinion, “Accounting for Impairment of Fixed Assets”, and in October 2003 the Accounting Standards Board of Japan (ASB) issued ASB Guidance No.6, “Guidance for Accounting Standard for Impairment of Fixed Assets”. These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The new accounting standard requires an entity to review its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The Company is currently in the process of assessing the effect of adoption of these pronouncements.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Current:			
Government and corporate bonds	¥ 4,100	¥ 1,011	$ 38,679
Non-current:			
Marketable equity securities	¥ 1,177	¥ 876	$ 11,104
Government and corporate bonds	18,555	17,589	175,047
Trust fund investments and other	592	826	5,585
Total	¥ 20,324	¥ 19,291	$ 191,736

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2004 and 2003 were as follows:

	Millions of Yen			
	2004			
Securities classified as:	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥ 483	¥ 556	¥ 7	¥ 1,032
Debt securities	183		1	182
Other	84	8		92
Held-to-maturity	22,473	105	376	22,202

	Millions of Yen			
	2003			
Securities classified as:	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥ 1,243	¥ 13	¥ 380	¥ 876
Debt securities	374		1	373
Other	175	6		181
Held-to-maturity	18,227	95	127	18,195

	Thousands of U.S. Dollars			
	2004			
Securities classified as:	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	$ 4,556	$ 5,246	$ 66	$ 9,736
Debt securities	1,726		9	1,717
Other	792	76		868
Held-to-maturity	212,009	991	3,547	209,453

Available-for-sale securities whose fair values are not readily determinable as of March 31, 2004 and 2003 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
Available-for-sale:	2004	2003	2004
Equity securities	¥ 145	¥ 145	$ 1,368
Other	500	500	4,717
Total	¥ 645	¥ 645	$ 6,085

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2004 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due in one year or less	¥ 4,100	$ 38,679
Due after one year through five years	6,537	61,670
Due after five years through ten years	12,000	113,208
Due after ten years	21	198
Total	¥ 22,658	$ 213,755

4. INVENTORIES

Inventories at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Real estate for sale	¥ 24,602	¥ 24,751	$ 232,094
Contracts in progress	5,362	8,908	50,585
Finished goods	1,778	2,262	16,774
Work in process, raw materials and supplies	978	1,194	9,226
Total	¥ 32,720	¥ 37,115	$ 308,679

5. LAND REVALUATION

Under the "Law of Land Revaluation", the Company elected a one-time revaluation of its own-use land to a value based on real estate appraisal information as of March 31, 2000.

The resulting land revaluation difference represents unrealized depreciation of land and is stated, net of income taxes, as a component of shareholders' equity. There is no effect on the statement of operations and retained earnings. Continuous readjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be added to the land revaluation difference and related deferred tax assets. The details of the one-time revaluation as of March 31, 2000 were as follows:

Land before revaluation: ¥24,147 million
Land after revaluation: ¥19,905 million
Land revaluation difference: ¥2,458 million (net of income taxes of ¥1,784 million)

At March 31, 2004, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥3,581 million.

The land revaluation difference increased because of the reversal of deferred income tax assets on land revaluation, but there was no change in the carrying amount of land.

6. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

For short-term bank loans at March 31, 2004 and 2003, the annual interest rates ranged from 1.41% to 4.4% and from 1.4% to 3.35%, respectively.

Long-term debt at March 31, 2004 and 2003 consisted of the unsecured 1.0% bonds, which is matured in the year ending March 31, 2006.

As is customary in Japan, the Company maintains deposit balances with banks with which it has bank loans. Such deposit balances are not legally or contractually restricted as to withdrawal.

In addition, collateral must be provided if requested by the lending banks and certain banks have the right to offset cash deposited with them against any bank loan or obligation that becomes due and, in case of default and certain other specified events, against all other debt payables to the bank concerned. The Company has never received any such request.

7. RETIREMENT AND PENSION PLANS

The Company and certain domestic subsidiaries have two types of pension plans for employees; a non-contributory and a contributory funded defined benefit pension plan.

Under the pension plan, employees terminating their employment are, in most circumstances, entitled to pension payments based on their average pay during their employment, length of service and certain other factors.

The liability for employees' retirement benefits at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Projected benefit obligation	¥ 44,250	¥ 37,290	$ 417,453
Fair value of plan assets	(20,299)	(15,884)	(191,500)
Unrecognized prior service benefit	181	248	1,707
Unrecognized actuarial loss	(16,098)	(13,150)	(151,868)
Liability for employees' retirement benefits	¥ 8,034	¥ 8,504	$ 75,792

The components of net periodic benefit costs were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Service cost	¥ 2,094	¥ 2,521	$ 19,755
Interest cost	1,114	1,483	10,509
Expected return on plan assets	(471)	(1,049)	(4,443)
Prior service benefit	(17)	(23)	(160)
Recognized actuarial loss	719	387	6,783
Past period service cost of employees' retirement benefit	40	1,317	377
Net periodic benefit costs	¥ 3,479	¥ 4,636	¥ 32,821

Assumptions used for the years ended March 31, 2004 and 2003 were set forth as follows:

	2004	2003
Discount rate	2.5%	3.0%
Expected rate of return on plan assets	Principally 3.0%	Principally 4.5%
Amortization period of prior year service benefit (cost)	Principally 10 years	Principally 10 years
Recognition period of actuarial gain (loss)	Principally 19 years	Principally 19 years

8. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which various amendments have become effective since October 1, 2001.

The Code was revised whereby common stock par value was eliminated resulting in all shares being recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The revised Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders meeting and dispose of such treasury stock by resolution of the Board of Directors. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

The amount of retained earnings available for dividends under the Code was ¥48,449 million ($457,066 thousand) as of March 31, 2004, based on the amount recorded in the parent company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

9. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 42.1% and 42.0% for the years ended March 31, 2004 and 2003, respectively.

The significant components of deferred tax assets and liabilities at March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Deferred tax assets:			
Loss carryforward	¥ 9,790	¥ 11,164	$ 92,359
Accrued expenses	2,763	2,025	26,066
Depreciation	1,436	1,579	13,547
Employees' retirement benefits	2,343	1,835	22,104
Write-down of inventories	1,362	1,417	12,849
Other	1,424	2,093	13,434
Subtotal	19,118	20,113	180,359
Valuation allowance	(2,680)	(4,613)	(25,283)
Total	16,438	15,500	155,076
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(225)		(2,122)
Total	(225)		(2,122)
Net deferred tax assets	¥ 16,213	¥ 15,500	$ 152,954

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of operations for the years ended March 31, 2004 is as follows (2003 is not presented because of the net loss for the period).

	2004
Normal effective statutory rate	42.1%
Per capita levy	63.3
Expenses permanently not deductible for income tax purposes	167.2
Decrease of valuation allowance	(362.1)
Realization of tax benefits not recognized on operating losses of subsidiaries in prior years	(243.3)
Recognized tax effects not on unprofitable subsidiaries	20.2
Equity in losses of affiliated companies	19.7
Unrealized profit	4.1
Effect of tax rate change	30.8
Other - net	(1.3)
Actual effective rate	(259.3) %

On October 28, 2003, a tax reform ordinance of Osaka prefecture concerning enterprise tax was issued and this reform will apply to fiscal years beginning after April 1, 2004. As a result of this reform, the statutory income tax rate to be used for the calculation of deferred income taxes concerning temporary differences, which are expected to be realized or settled after April 1, 2004, will be changed. The effect of this change was to decrease deferred tax assets by ¥100 million ($943 thousand), to increase income taxes-deferred by ¥99 million ($934 thousand) and to decrease net unrealized gains on available-for-sale securities by ¥1 million ($9 thousand) for the year ended March 31, 2004.

10. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to operations were ¥2,809 million ($26,500 thousand) and ¥4,084 million for the years ended March 31, 2004 and 2003, respectively.

11. RELATED PARTY TRANSACTIONS

Sales to associated companies for the years ended March 31, 2004 and 2003 were ¥36,398 million ($343,377 thousand) and ¥38,678 million, respectively. Trade accounts receivable due from associated companies at March 31, 2004 and 2003 were ¥1,713 million ($16,160 thousand) and ¥1,696 million, respectively.

12. LEASES

Total lease payments under finance leases that are not deemed to transfer ownership of the leased property to the lessee were ¥2,587 million ($24,406 thousand) and ¥2,444 million for the years ended March 31, 2004 and 2003, respectively.

Pro forma information of leased property under finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2004 and 2003 were as follows:

	Millions of Yen			
	2004			
	Buildings and Structures	Machinery and Equipment	Intangibles	Total
Acquisition cost	¥ 6,558	¥ 1,788	¥ 60	¥ 8,406
Accumulated depreciation	4,046	1,048	50	5,144
Net leased property	¥ 2,512	¥ 740	¥ 10	¥ 3,262

	Millions of Yen			
	2003			
	Buildings and Structures	Machinery and Equipment	Intangibles	Total
Acquisition cost	¥ 6,744	¥ 1,876	¥ 88	¥ 8,708
Accumulated depreciation	3,388	962	61	4,411
Net leased property	¥ 3,356	¥ 914	¥ 27	¥ 4,297

	Thousands of U.S. Dollars			
	2004			
	Buildings and Structures	Machinery and Equipment	Intangibles	Total
Acquisition cost	$ 61,868	$ 16,868	$ 566	$ 79,302
Accumulated depreciation	38,170	9,887	472	48,529
Net leased property	$ 23,698	$ 6,981	$ 94	$ 30,773

Obligations under such finance leases as of March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Due within one year	¥ 1,850	¥ 2,153	$ 17,453
Due after one year	1,412	2,143	13,320
Total	¥ 3,262	¥ 4,296	$ 30,773

The amount of acquisition cost and obligations under finance leases includes the imputed interest expense portion.

Depreciation expenses, which are not reflected in the accompanying statements of operations, computed by the straight-line method were ¥2,587 million ($24,406 thousand) and ¥2,444 million for the years ended March 31, 2004 and 2003, respectively.

13. COMMITMENTS AND CONTINGENCIES

Guarantees of Loans - At March 31, 2004, the Group had contingent liabilities principally related to guarantees of customer housing loans in the amount of ¥9,462 million ($89,264 thousand).

14. SUPPLEMENTARY CASH FLOWS INFORMATION

In 2004 and 2003, the Company acquired additional stocks of several affiliated companies, which were subsequently consolidated.

The breakdown of assets and liabilities of the acquired companies, at the time of acquisition was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Current assets	¥ 1,218	¥ 1,536	$ 11,490
Non-current assets	599	1,370	5,651
Current liabilities	(2,067)	(2,373)	(19,500)
Non-current liabilities	(229)	(508)	(2,160)
Minority interests		(34)	
Goodwill	3	53	28
Equity acquired in past year	507	(12)	4,783
Acquired price of stocks	31	32	292
Cash and cash equivalent of acquired company	475	561	4,482
Difference	¥ 444	¥ 529	$ 4,190

15. SUBSEQUENT EVENTS

Appropriations of Retained Earnings - The following appropriations of retained earnings at March 31, 2004 were approved at the general shareholders meeting held on June 29, 2004:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥7.50 ($0.07) per share	¥1,259	$11,877

A New Parent-Subsidiary Relationship - The Company was the associated company of Matsushita Electric Industrial Co., Ltd. and Matsushita Electric Works, Ltd., and both owned 27.4% of voting rights of the Company. Matsushita Electric Industrial Co., Ltd. acquired an additional share of the Matsushita Electric Works, Ltd. by means of a tender offer, and Matsushita Electric Works, Ltd. became the subsidiary of Matsushita Electric Industrial Co., Ltd. at April 1, 2004.

As a result, the Company became the subsidiary of Matsushita Electric Industrial Co., Ltd.

Independent Auditors' Report

Deloitte.

To the Board of Directors of PanaHome Corporation:

We have audited the accompanying consolidated balance sheets of PanaHome Corporation and subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. 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 consolidated financial position of PanaHome Corporation and subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 29, 2004

Management (As of June 30, 2004)

Members of the Board

President & Chief Executive Officer
Katsuhiko Tajiri

Executive Vice President
Shinya Koga

Directors
Takaaki Ikeda
Hiroyuki Ako
Yuji Kinoshita
Motoyuki Yano

Corporate Auditors

Standing Corporate Auditors
Isao Yokogawa
Masahiko Keino
Mamoru Hamaguchi

Corporate Auditor
Kazumi Kawaguchi

Corporate Executive Officers

Executive Vice President & Officer
Shinya Koga

Senior Managing Executive Officers
Takaaki Ikeda
Hiroyuki Ako
Yuji Kinoshita
Akira Oda

Managing Executive Officers
Motoyuki Yano
Mitsuo Kusunoki
Kenji Kondo

Executive Officers
Masanori Kizu
Akira Kobayashi
Koji Watanabe
Yukimitsu Kodama
Hiroshi Yamada

Corporate Data (As of March 31, 2004)

Head Office
1-4, Shinsenrinishimachi 1-chome,
Toyonaka, Osaka 560-8543, Japan
Phone: 81-6-6834-5111
http://www.panahome.jp

Established
July 1, 1963

Stock Exchange Listings
Tokyo, Osaka

Capital
¥28,376 million

Shares

Authorized	596,409,000 shares
Issued	168,563,533 shares

Number of Shareholders
8,839

Subsidiaries and Affiliates (As of March 31, 2004)