# PanaHome Corporation

## Annual Report 2005

**For the year ended March 31, 2005**

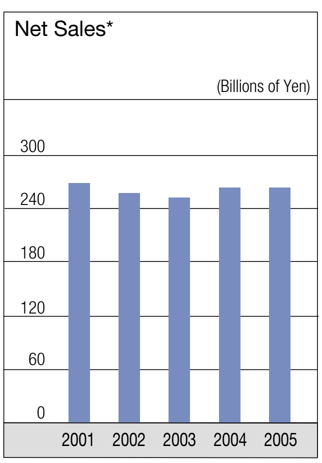
PanaHome

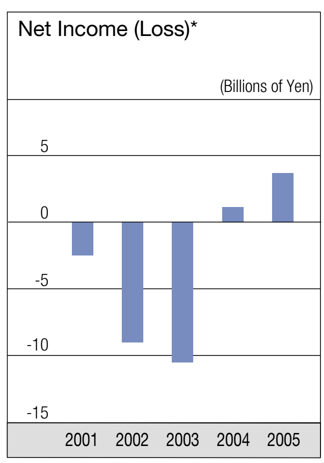
# Financial Highlights

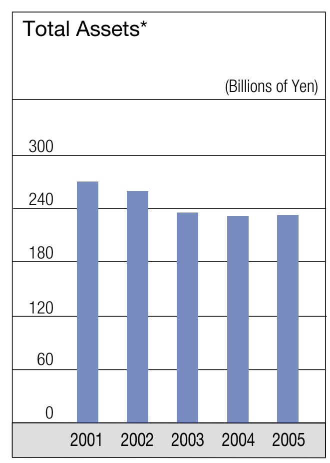
PanaHome Corporation and Subsidiaries

| Years ended March 31, 2005 and 2004 | Millions of yen 2005 | Millions of yen 2004 | Thousands of U.S. dollars 2005 |
|---|---|---|---|
| Net Sales | **¥263,826** | ¥263,755 | **$2,465,664** |
| Operating Income | **3,045** | 921 | **28,459** |
| Income before Income Taxes | **3,213** | 322 | **30,028** |
| Net Income | **3,772** | 1,134 | **35,252** |
| Total Assets | **233,365** | 232,147 | **2,180,981** |
| Shareholders' Equity | **122,273** | 120,642 | **1,142,738** |
| Return on Equity (%) | **3.1%** | 0.9% | |
| | Yen | | U.S. dollars |
| Per Share Amounts: | | | |
| Net income | **¥22.48** | ¥ 6.75 | **$0.21** |
| Diluted net income | **22.47** | 6.75 | **0.21** |
| Cash dividends | **15.00** | 15.00 | **0.14** |
| Number of Employees at Year-End (Persons) | **6,493** | 6,603 | |

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 ¥107=US$1, the approximate rate of exchange at March 31, 2005, 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 government 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, established the slogan "with your dreams," and began operations 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.

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.

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, become a comprehensive housing company that is able to flexibly respond to customer housing and lifestyle requests, and implement measures to protect the environment. PanaHome will continue to contribute to society and its customers by making Companywide efforts to reduce the environmental impact of its operations and provide customers with environment-friendly Eco-Life Homes.

PanaHome will use its position as a new member of the Matsushita Group to add value to the lives of its customers and draw on the Group's comprehensive strengths to facilitate the development of its businesses. In this way, PanaHome will demonstrate its capabilities through the provision of "comfortable living solutions" that give customers richer, more comfortable living spaces.

# To Our Shareholders

## Helping Our Customers Realize Their Dreams through Our Eco-Life Concept of Harmonizing Human Life and the Environment

### ▶ Performance Report for Fiscal 2004

In fiscal 2004, ended March 31, 2005, although the Japanese economy continued to improve slightly, prices of construction materials rose dramatically in the second half of the term, putting downward pressure on exports and manufacturing growth. In the housing market, the recovering economy created favorable conditions for tract housing, but growth in custom-built housing remained stagnant.

Against this background, to develop core businesses in the areas of detached housing, asset management, and home remodeling, the PanaHome Group has made use of its Eco-Life Home concept, a product strategy calling for the creation of environment-friendly housing that generates and conserves energy, promotes health and comfort, and enables safe and secure living arrangements.

To increase customer lifetime satisfaction while flexibly adapting to changes in its operating environment, PanaHome Corporation has created a business structure to accommodate the demands of customers and the market and implemented a "management quality improvement program" designed to raise the quality of processes throughout the Company.

As the importance of maintaining standards of social responsibility and corporate ethics has grown, the Matsushita Group has established the Code of Conduct of the Matsushita Group, a corporate compliance system incorporating concrete policies and practices that promote ethical behavior throughout the organization.

### ▶ Detached Housing Business

In the detached housing business, we have strengthened our sales force by aggressively promoting our newly updated Eco-Life Parks, which are located on sites adjacent to PanaHome manufacturing plants to enable the public to experience the housing process directly, and implementing a training program for all sales representatives.

We have taken a number of steps to stimulate a recovery in orders for detached housing, including the creation of fully functioning model homes that we set up on subdivided lots and urban rebuilding lots for limited periods of time to enable potential customers to see the houses in which they could actually live; the promotion of community-based marketing; and the initiation of a campaign to celebrate the one-year anniversary of *EL•SOLANA* housing.

In addition to securing a substantial number of orders through sales of *EL•SOLANA KIRATECH*, a housing line that is both beautiful and inexpensive to maintain thanks to the novel use of photocatalytic tile technology on the exterior walls, PanaHome has launched sales of the *solbios NOA5*, a five-story residential building that provides spacious living quarters even in densely populated urban centers.

Regarding our tract housing business, we are striving to improve urban development by drawing on the strengths of the PanaHome Group, such as housing that boasts security and solar power generating systems.

### ▶ Asset Management Business

In our asset management business, we have launched sales of the *FLATZA TESTA*, which has a durable design that dramatically lowers building maintenance costs, and have established a stronger foundation from which to contribute to the management of leased residences and enhanced our lease management system to help ensure stable occupancy and encourage long-term leasing.

*Eco-Life Parks enable visitors to experience firsthand all aspects of Eco-Life housing.*

In the area of medical and nursing care facility construction, PanaHome has increased the number of orders for nursing-related facilities by promoting Nursing Home Loans, which are designed especially to finance nursing-related businesses.

In addition, we have assembled a line of products that can be adapted to a broad range of customer needs, including *SUN RESTA* leased housing for senior citizens capable of unassisted living; *Doctor Cure Care* combined medical and nursing facilities aimed at the medical practitioner market; and *Nursing Village* small-scale residences for rental to senior citizens.

In our real estate business, we enlarged our information network for residential real estate agency services, transforming it into a system that is extremely sensitive to the needs of customers who are thinking about changing residences or buying or selling real estate.

To accommodate the advent of a "graying society," PanaHome has improved its line of customer services by entering into a business alliance with the Sumitomo Trust and Banking Co., Ltd., to provide testamentary-trust services.

### ► Home Remodeling Business

We have made concerted efforts to increase the number of home remodeling contracts entered into by customers living in PanaHome-constructed houses; developed *EL tile*, a naturally textured exterior-use tile that gives homes a unique appearance; enlarged and trained our full-time sales force; and established standards for our Eco-Life Remodeling activities.

Moreover, to strengthen its remodeling consulting business, PanaHome has begun offering "expert remodeling" solutions to create sensitive living spaces that incorporate new architectural concepts based on the Company's technologies and expertise.

In addition, the Company has taken steps to cultivate demand for remodeling products and services by holding remodeling fairs at showrooms owned by Matsushita Electric Industrial Co., Ltd., and Matsushita Electric Works, Ltd.

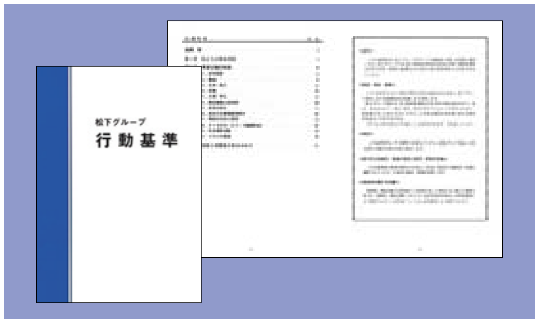
Against this background, sluggish demand in the custom-built housing market offset efforts to increase new orders, resulting in consolidated net orders of ¥251,729 million, a 5.2% decrease compared with fiscal 2003, and consolidated net sales of ¥263,826 million, almost the same amount as in fiscal 2003.

In terms of profit and loss, cost reductions across the Company outweighed the adverse effects of higher priced materials, resulting in operating income of ¥3,045 million, a 230.4% increase compared with fiscal 2003, and consolidated net income of ¥3,772 million, a 232.7% increase.

### ► Industry Conditions

Since peaking at 1.629 million in fiscal 1996, the number of new housing starts has languished amid uncertainty about the future. The bottom was reached in fiscal 2002, when the number of new housing starts dropped to 1.146 million. However, in fiscal 2004, supported by an increase in the number of first-time buyers, the number of new housing starts increased for the second straight year, to 1.193 million, reflecting a 4.6% year-on-year increase in starts of tract housing and a 1.9% increase in starts of rental housing. On the other hand, demand among second-time housing purchasers, centered around the rebuilding of homes on their own lots, showed no improvement and sales were weak, posting a decline of 1.6%.

In a 2003 study by the Ministry of Internal Affairs and Communications, it was revealed that 30% of the housing of Japan's approximately 47 million households (or roughly




*The Code of Conduct of the Matsushita Group, which specifically clarifies the corporate philosophy and employee action guidelines common to all companies in the Matsushita Group in an easily understandable form*

14 million housing units) does not meet the new earthquake resistance standards. Approximately 12 million of the 14 million substandard units comprised detached housing, accounting for 42% 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 a potential source of future demand for rebuilding and remodeling.

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 homebuyers. 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, rental housing for senior citizens and nursing facilities 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 2010.

### ► Future Business Strategies

PanaHome always puts customers first. Moreover, it strives to be the most dependable company in the industry so that customers will say, "PanaHome, the first choice for the family." To achieve these goals, the Company is accelerating the development of its core businesses by drawing on its three key strengths: the Eco-Life concept, ensuring customer satisfaction through home maintenance and remodeling services, and contributing to local communities and society through medical and nursing businesses.

In detached housing, PanaHome is offering Eco-Life Homes, which represent an improvement in ecological thinking by providing safe and healthy family living spaces with reduced environmental impact.

To increase sales of the Company's Eco-Life Homes, PanaHome has augmented its *EL•SOLANA* series, which are equipped with solar-power generating systems, by adding *EL•SOLANA KIRATECH NEW*, a home that features external tile and windows based on photocatalytic technologies.

In the markets for urban residences and tract housing, we have strengthened our sales capabilities to meet the demand for urban rebuilding and the construction of homes for first-time buyers.

In its asset management business, PanaHome has launched sales of attractive multiunit residences designed to meet the precise needs of tenants and strengthened its sales capabilities in the major cities of the Tokyo metropolitan area, central Japan, and the Kinki region. Moreover, we have strengthened our Rental Apartment Management Department and reinforced our system for providing customer support.

Finally, in medical and nursing facility construction, the Company is aggressively developing ideas to meet the needs of a "graying society," including proposals for new nursing facilities and rental housing for senior citizens.

In its remodeling business, PanaHome is carrying out aggressive sales activities to increase remodeling orders. These activities include the provision of better services for

Katsuhiko Tajiri
*President & CEO*

customers living in houses built by PanaHome, efforts to improve customer satisfaction, and the provision of remodeling solutions for people living in general detached houses or condominiums.

With these business developments in view, PanaHome is increasing the size of its sales management team, providing additional sales management training, and working to ensure the optimal placement of human resources within the Company. At the same time, to secure a stable influx of new orders, we are capitalizing on our position in the Matsushita Group to gain access to new sales routes.

### ► Corporate Governance and Compliance

Recognizing the key role that corporate governance plays in building trust in the community and increasing corporate value, PanaHome is working hard to improve its corporate governance system.

In June 2002, PanaHome introduced an operating officer system under which managerial decision making, operational supervision, and business execution are separated into distinct functions. Under the new system, the Board of Directors supervises the conduct of individual directors and operating officers, and decides the way in which operating officers set performance targets and discharge their duties.

PanaHome has decreased the size of its Board of Directors to six members. Moreover, we have reduced each director's term of office from two years to one year to make directors more accountable for their performance.

PanaHome's four statutory auditors, two of whom are from outside the Company, carried out their auditing responsibilities by attending important meetings, auditing important business sites, and conducting other investigations.

In fiscal 2004, PanaHome became a consolidated subsidiary of Matsushita Electric Industrial. As a result, the Company is now subject to Matsushita Electric Industrial's internal control system, as required under the United States' Sarbanes-Oxley Act.

Regarding corporate ethics, PanaHome adheres to the Code of Conduct of the Matsushita Group, which was created in January 2005. Moreover, the directors and operating officers have pledged to comply with the Code of Conduct for Officers, which was revised in March 2005. Finally, with the social responsibility of corporations growing, in August 2003 the Company strengthened its corporate compliance system by establishing a corporate ethics hotline to enable consultation and the transfer of information related to corporate ethics.

Responding to the need for risk management, in December 2004 PanaHome created the Corporate Compliance Committee to ensure that the Company maintains no improper relationships with anti-social groups or individuals. In addition, to further strengthen our corporate value, in March 2005 we restructured our former "Business Risk Management Committee" and renamed it the "Risk Management Committee."

We appreciate your continuing support.

July 2005

Katsuhiko Tajiri

Katsuhiko Tajiri
President & CEO

*PanaHome staff assist in removing mud left by flooding*

*Strong, highly durable steel-frame construction*

### ► Striving to Be a Dependable Company: Measures to Ensure Safe and Secure Living

In 2004, we saw many earthquakes, typhoons, and other natural disasters. In Japan, many people saw their property suffer water damage from torrential rains. PanaHome has established a Disaster Policy Department at its Head Office and at regional locations around the country to ensure immediate response to natural disasters. For example, in October 2004, we responded to the crisis caused by typhoon number 23, assembling a support team comprising employee volunteers from throughout Japan who enthusiastically helped customers in affected regions.

One of the major challenges facing every homebuilder is how to construct houses that are disaster-resistant. In addition, we believe it is important to create systems that instantaneously gather the information of residents hit by disasters as well as provide support during the recovering process. PanaHome, whose customers suffered no loss of life or even partial property damage in the Chuetsu Earthquake in Niigata Prefecture or the Seihouoki Earthquake in Fukuoka Prefecture, has established a mechanism for responding quickly to natural disasters and enabling the provision of support that is effective beyond the Company's organizational structure or operating regions. The PanaHome Group recognizes that it must play an important role in the provision of housing that is safe and secure at times of crisis and in daily life.

### ► Environment-Friendly Living: Eco-Life Homes

PanaHome's Eco-Life Homes provide comfortable living spaces and enable residents to decrease energy use, thereby making a significant contribution to the reduction of $CO_2$ emissions. In addition, by combining efforts with those of the entire Matsushita Group, PanaHome is working to reduce the impact of households on the environment, covering aspects that range from electronic products to residential facilities.

#### Helping to Prevent Global Warming through Efficient Energy Use

**(1) Next-generation energy conservation standards**

Next-generation energy conservation standards call for superior airtight thermal insulation for all detached housing. As a result, we are able to substantially reduce air conditioning related energy consumption.

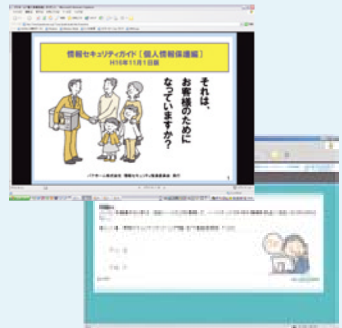
**(2) Solar power generation system and reliance on electricity for all power needs**

PanaHome has made it possible for a residence to boast a highly efficient solar power generation system without detriment to its external appearance. Solar power generation systems convert sunlight into energy without emitting $CO_2$. Moreover, the electricity generated can be used to satisfy all regular residential power needs, with the surplus energy sold to utility companies. This environment-friendly technology created by PanaHome dramatically reduces energy bills and thus household expenses.

**(3) Multifunctional *Eco Cute***

This hot water supply system is built around an electric water heater that conserves energy and lowers costs by making use of ambient heat in the atmosphere and $CO_2$ coolants. It can also be used as a floor heating system.

*High-efficiency solar power generation system that preserves the beauty of a home’s appearance*



*Our “information security” intranet site and “e-test” for ensuring security awareness among all employees*

### Protecting Nature While Making Use of Nature’s Energy and Other Gifts

**(1) Eco-Life ventilation system and air-cleaning tower**

Our efficient mechanical ventilation system employs ambient air to ensure the circulation of clean air throughout a residence, with the air-cleaning tower drawing on the cooling properties of the Earth below the first floor level to save energy. Moreover, a high-performance filter ensures the air is of the highest quality.

**(2) *EL tile KIRATECH***

Used on exterior walls, *EL tile KIRATECH* harnesses the power of light to clean itself and purify the air. Photocatalytic materials in the tile facilitate the breakdown of dust, which is then washed away when it rains. Moreover, the photocatalytic materials generate oxygen radicals that help break down and filter harmful nitrogen oxides from the atmosphere.

**(3) Building materials that adjust humidity levels in houses (Wakkanai diatomite)**

PanaHome has developed Wakkanai diatomite tile, humidity-adjusting gypsum board, and other humidity-control materials that make use of Wakkanai diatomite, which has excellent properties for absorbing and releasing moisture.

## ► Environmental Management System

The Company’s President and Environmental Director are responsible for the Group’s environmental management system, which is run by managers who have been appointed to each of the PanaHome Group’s business units.

### Measures to Reduce Emissions of Greenhouse Gases and Contribute to the Prevention of Global Warming

By making use of efficient air compressors, lighting with optimal illumination intensity, and air exchange motors that operate intermittently as well as cutting back the standby power, PanaHome has achieved its goal of reducing factory $CO_2$ emissions per production volume unit by 10% compared with fiscal 1999 levels.

### Achieving 100% Factory Waste Recycling by Efficiently Using Resources

In fiscal 2002, PanaHome recycled 100% (achieved zero emissions) of the waste materials discharged from its factories. To achieve zero emissions at construction sites by fiscal 2005, the Company is improving recycling rates by cultivating new recycling routes and thoroughly classifying waste construction materials. Moreover, by conserving packaging materials, PanaHome has reduced packaging waste by 1.5$m^3$ per building.

### Reducing the Use of Chemical Substances Harmful to the Environment

PanaHome is making progress in reducing factory emissions and the use of chemical substances targeted under the Pollutant Release and Transfer Register Law. For example, in fiscal 2004, the Company achieved a 63% reduction from fiscal 2001 in the use of dichloromethane and xylene.

## ► Responsibility to Society

In response to society’s increasing dependence on IT, in April 2005, Japan enacted the Law Protecting Personal Information, thereby increasing the care with which data must be managed. A housing corporation like PanaHome gathers a significant amount of data from customers. Believing that protecting this data is a core business responsibility that entails a substantial degree of accountability, in May 2004 PanaHome created the Information Security Committee, appointed information security managers throughout the organization, established a Company-wide information management system, and took other steps to strengthen the protection of personal information.

# Housing That Is Friendly to People and the Environment

## Eco-Life Homes

It is precisely because families spend so much time at home that PanaHome wants to make its houses environment-friendly. Based on this goal, PanaHome makes homes that enable healthy and comfortable living by skillfully bringing together what nature provides with solar power generation systems, all-electric systems, and other technologies for generating and conserving energy. Our dynamic living spaces allow for a high degree of design flexibility while making use of strong, durable steel-frame construction that will not collapse in earthquakes.

PanaHome will continue to fuse environmental protection with comfortable living . . . that's the goal of Eco-Life Homes.

EL•SOLANA KIRATECH NEW: *Photocatalytic technology enables comfortable, environment-friendly living*

*Capitalizing on nature's bounty to create healthy, comfortable living spaces*

## Eco-Life Remodeling

PanaHome provides Eco-Life Remodeling for healthy, comfortable, and ecological living that reduces the environmental impact of customers' daily lives. By making use of the special characteristics of natural materials, PanaHome is able to create comfortable living spaces made from pristine wood materials grown in Japan, building materials that make use of Wakkanai diatomite to adjust humidity levels inside homes, and other products that are easy on people and the environment. In addition, PanaHome puts customer security and comfort first with housing that incorporates universal design principles, that is, 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 that residents feel secure living in their PanaHome housing for their entire lives.

*The exterior of a building remodeled with beautiful* EL tile

*After remodeling*

*Before remodeling*

*Wakkanai diatomite tile naturally regulates the amount of humidity in buildings to create comfortable, healthy living spaces.*

*Remodeling using an abundance of cedar from Akita Prefecture*

## FLATZA TESTA

Highly durable external tile and other features protect the stately appearance of *FLATZA TESTA* rental apartment housing, making it possible to preserve their long-term value as assets. By dramatically reducing maintenance costs, it is possible to manage these rental units in a highly economical manner.

PanaHome is making use of the Matsushita Group's comprehensive strengths to provide visionary rental housing designs that meet a diverse range of needs and are equipped with broadband infrastructure to allow tenants to enjoy a networked lifestyle; pet-friendly facilities designed in conjunction with veterinarians; and *Securio* features that meet tenants' security needs. In this way, PanaHome enables a new type of rental housing business that is suitable for the modern era.

FLATZA TESTA: *Tile is used for the exterior walls of this rental apartment housing*

## Elderly Care and Housing

At present, in response to the "graying of society" and the introduction of nursing-care insurance, PanaHome is seeking to provide safe, comfortable living spaces for the elderly. To this end, the Company is drawing on its expertise in the field of home construction to build medical-care facilities, day-service centers, group homes, fee-based retirement homes, and other buildings needed by the medical and welfare industry. In this way, PanaHome is providing rental apartments for senior citizens that incorporate novel ideas adapted to the times as well as other housing solutions that are sensitive to the needs of an aging society.

*Gardening seminar for residents*

*Horyuji Community Housing provides unassisted living-type rental accommodations for senior citizens*

# Financial Review

## Sales, Costs, Expenses, and Income

In fiscal 2004, ended March 31, 2005, the recovering Japanese economy increased demand for tract housing, but growth in custom-built housing remained stagnant. As a result, although sales of tract housing for first-time buyers increased, sales of custom-built detached housing fell, resulting in consolidated net sales of ¥263,826 million ($2,466 million), virtually the same amount as in fiscal 2003.

The cost of sales ratio remained virtually unchanged from fiscal 2003, at 75.5%, as the effects of cost-cutting measures were offset by dramatic increases in the prices of materials in the second half of the term. However, thanks to these cost reductions, which were made throughout the Company, selling, general, and administrative expenses decreased 3.4% from fiscal 2003, to ¥61,607 million ($576 million).

As a result, consolidated operating income amounted to ¥3,045 million ($28 million). Consolidated net income increased dramatically from the previous fiscal year, to ¥3,772 million ($35 million).

Net income per share amounted to ¥22.48 ($0.21), while cash dividends per share totaled ¥15.00 ($0.14), (¥7.50 ($0.07) each for the interim and year-end dividends), the same amount as in fiscal 2003.

## Financial Position

At the end of fiscal 2004, total assets had increased 0.5%, to ¥233,365 million ($2,181 million).

Due to a rise in cash deposits, current assets increased 2.8% from fiscal 2003, to ¥121,923 million ($1,139 million), while current liabilities increased 28.7%, to ¥89,402 million ($836 million), reflecting the transfer from long-term liabilities of corporate bonds with maturities of less than one year. As a result, working capital decreased from ¥49,150 million at the fiscal 2003 year-end, to ¥32,521 million ($304 million) at

# Five-Year Summary

| | Millions of yen | | | | | Thousands of U.S. dollars |
|---|---|---|---|---|---|---|
| Years ended March 31 | **2005** | 2004 | 2003 | 2002 | 2001 | **2005** |
| Net Sales | **¥263,826** | ¥263,755 | ¥252,706 | ¥258,032 | ¥269,472 | **$2,465,664** |
| Operating Income (Loss) | **3,045** | 921 | (4,122) | (7,292) | 504 | **28,459** |
| Income (Loss) before Income Taxes | **3,213** | 322 | (13,982) | (12,204) | (784) | **30,028** |
| Net Income (Loss) | **3,772** | 1,134 | (10,500) | (9,017) | (2,485) | **35,252** |
| Total Assets | **233,365** | 232,147 | 236,350 | 260,242 | 270,728 | **2,180,981** |
| Shareholders' Equity | **122,273** | 120,642 | 125,450 | 138,873 | 150,439 | **1,142,738** |
| Return on Equity (%) | **3.1%** | 0.9% | (7.9)% | (6.2)% | (1.6)% | |
| | Yen | | | | | U.S. dollars |
| Per Share Amounts: | | | | | | |
| Net income (loss) | **¥22.48** | ¥ 6.75 | ¥(62.40) | ¥(53.50) | ¥(14.65) | **$0.21** |
| Diluted net income | **22.47** | 6.75 | — | — | — | **0.21** |
| 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 ¥107=US$1, the approximate rate of exchange at March 31, 2005, 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.

the fiscal 2004 year-end. The current ratio decreased 34.4 percentage points compared with fiscal 2003, to 136.4%.

Fixed assets decreased 1.8% from the fiscal 2003 year-end, to ¥111,442 million ($1,042 million), due to depreciation expenses associated with buildings and other structures. Long-term liabilities dropped 48.8% compared with the fiscal 2003 year-end, to ¥21,340 million ($199 million), owing to the aforementioned transfer of corporate bonds. Shareholders' equity increased 1.4% compared with the previous fiscal year-end, to ¥122,273 million ($1,143 million), reflecting an increase in retained earnings.

## Cash Flows

Net cash provided by operating activities amounted to ¥8,554 million ($80 million), compared with ¥7,640 million provided by operating activities in the previous term. This was primarily attributable to a substantial jump in income before income taxes and the recording of depreciation expenses.

Net cash used in investing activities totaled ¥2,455 million ($23 million), compared with net cash used in investing activities of ¥5,315 million in fiscal 2003, and was mainly used for the acquisition of property, plant and equipment and intangibles.

Net cash used in financial activities amounted to ¥2,678 million ($25 million), compared with ¥3,463 million used in financing activities in fiscal 2003, and mainly comprised to the payment of dividends on common stock.

As a result, the outstanding balance of cash and cash equivalents at the end of fiscal 2004 was ¥68,004 million ($636 million), a 5.3% increase from fiscal 2003.

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

# Consolidated Balance Sheets

PanaHome Corporation and Subsidiaries

**March 31, 2005 and 2004**

| ASSETS | Millions of Yen 2005 | Millions of Yen 2004 | Thousands of U.S. Dollars (Note 1) 2005 |
|---|---|---|---|
| CURRENT ASSETS: | | | |
| Cash and cash equivalents | ¥ 68,004 | ¥ 64,578 | $ 635,551 |
| Marketable securities (Note 3) | 5,034 | 4,100 | 47,047 |
| Short-term investments (Note 2-d) | 40 | 53 | 374 |
| Receivables: | | | |
| Trade notes | 283 | 342 | 2,645 |
| Trade accounts | 6,280 | 9,018 | 58,692 |
| Allowance for doubtful receivables | (49) | (145) | (458) |
| Inventories (Note 4) | 34,198 | 32,720 | 319,607 |
| Deferred income tax assets (Note 9) | 5,016 | 5,114 | 46,878 |
| Other current assets | 3,117 | 2,839 | 29,131 |
| Total current assets | 121,923 | 118,619 | 1,139,467 |
| PROPERTY, PLANT AND EQUIPMENT: | | | |
| Land (Note 5) | 24,245 | 24,154 | 226,589 |
| Buildings and structures | 52,066 | 52,618 | 486,598 |
| Machinery and equipment | 33,013 | 34,138 | 308,533 |
| Construction in progress | 542 | 239 | 5,065 |
| Total | 109,866 | 111,149 | 1,026,785 |
| Less accumulated depreciation | (56,770) | (56,290) | (530,561) |
| Net property, plant and equipment | 53,096 | 54,859 | 496,224 |
| INVESTMENTS AND OTHER ASSETS: | | | |
| Investment securities (Note 3) | 19,908 | 20,324 | 186,056 |
| Investments in associated companies | 8,638 | 8,158 | 80,729 |
| Long-term loans to employees | 10,881 | 10,941 | 101,692 |
| Deferred income tax assets (Note 9) | 11,789 | 11,099 | 110,177 |
| Intangibles and other assets | 7,941 | 8,989 | 74,215 |
| Allowance for doubtful accounts | (811) | (842) | (7,579) |
| Total investments and other assets | 58,346 | 58,669 | 545,290 |
| TOTAL | ¥ 233,365 | ¥ 232,147 | $ 2,180,981 |

See notes to consolidated financial statements.

| LIABILITIES AND SHAREHOLDERS' EQUITY | Millions of Yen 2005 | Millions of Yen 2004 | Thousands of U.S. Dollars (Note 1) 2005 |
|---|---|---|---|
| CURRENT LIABILITIES: | | | |
| Short-term bank loans (Note 6) | ¥ 387 | ¥ 525 | $ 3,617 |
| Payables: | | | |
| Trade notes | 1,091 | 1,222 | 10,196 |
| Trade accounts | 30,413 | 31,870 | 284,234 |
| Current portion of long-term debt (Note 6) | 20,000 | — | 186,916 |
| Accrued income taxes | 506 | 110 | 4,729 |
| Deposits received | 13,418 | 10,055 | 125,402 |
| Accrued expenses and other current liabilities | 23,587 | 25,688 | 220,439 |
| Total current liabilities | 89,402 | 69,470 | 835,533 |
| LONG-TERM LIABILITIES: | | | |
| Long-term debt (Note 6) | — | 20,000 | — |
| Liability for employees' retirement benefits (Note 7) | 6,969 | 8,034 | 65,131 |
| Deferred income tax liabilities on land revaluation (Note 5) | 2,303 | 2,303 | 21,523 |
| Long-term deposits received | 11,688 | 11,168 | 109,234 |
| Other long-term liabilities | 380 | 191 | 3,551 |
| Total long-term liabilities | 21,340 | 41,696 | 199,439 |
| MINORITY INTERESTS | 350 | 339 | 3,271 |
| 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 2005 and 2004 | 28,376 | 28,376 | 265,196 |
| Capital surplus | 31,838 | 31,835 | 297,551 |
| Land revaluation difference (Note 5) | (6,600) | (6,600) | (61,682) |
| Retained earnings | 68,344 | 67,090 | 638,729 |
| Net unrealized gains on available-for-sale securities (Note 2-c) | 666 | 330 | 6,224 |
| Foreign currency translation adjustments | (21) | (87) | (196) |
| Treasury stock - at cost, 760,119 shares in 2005 and 720,733 shares in 2004 | (330) | (302) | (3,084) |
| Total shareholders' equity | 122,273 | 120,642 | 1,142,738 |
| TOTAL | ¥ 233,365 | ¥ 232,147 | $ 2,180,981 |

# Consolidated Statements of Income

PanaHome Corporation and Subsidiaries

**Years Ended March 31, 2005 and 2004**

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| NET SALES | ¥ 263,826 | ¥ 263,755 | $ 2,465,664 |
| COST OF SALES | 199,174 | 199,043 | 1,861,439 |
| Gross profit | 64,652 | 64,712 | 604,225 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 10 and 12) | 61,607 | 63,791 | 575,766 |
| Operating income | 3,045 | 921 | 28,459 |
| OTHER INCOME (EXPENSES): | | | |
| Interest and dividend income | 686 | 658 | 6,411 |
| Interest expense | (559) | (626) | (5,224) |
| Equity in gains (losses) of affiliated companies | 305 | (168) | 2,850 |
| Write-down of real estate for sale | (326) | (354) | (3,047) |
| Loss on disposal of property, plant and equipment | (322) | (401) | (3,009) |
| Past period service cost of employees' retirement benefit (Note 7) | — | (40) | — |
| Other - net | 384 | 332 | 3,588 |
| Other income (expenses) - net | 168 | (599) | 1,569 |
| INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS | 3,213 | 322 | 30,028 |
| INCOME TAXES (Note 9): | | | |
| Current | 248 | 252 | 2,318 |
| Deferred | (819) | (1,089) | (7,654) |
| Total | (571) | (837) | (5,336) |
| MINORITY INTERESTS | 12 | 25 | 112 |
| NET INCOME | ¥ 3,772 | ¥ 1,134 | $ 35,252 |

| | Yen | | U.S. Dollars |
|---|---|---|---|
| PER SHARE OF COMMON STOCK (Note 2-n): | | | |
| Basic net income | ¥22.48 | ¥ 6.75 | $ 0.21 |
| Diluted net income | 22.47 | 6.75 | 0.21 |
| 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, 2005 and 2004**

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| COMMON STOCK (Note 8): | | | |
| Balance at beginning of year | ¥ 28,376 | ¥ 28,376 | $ 265,196 |
| Balance at end of year | ¥ 28,376 | ¥ 28,376 | $ 265,196 |
| CAPITAL SURPLUS (Note 8): | | | |
| Balance at beginning of year | ¥ 31,835 | ¥ 31,832 | $ 297,523 |
| Gain on sales of treasury stock | 3 | 3 | 28 |
| Balance at end of year | ¥ 31,838 | ¥ 31,835 | $ 297,551 |
| LAND REVALUATION DIFFERENCE (Note 5): | | | |
| Balance at beginning of year | ¥ (6,600) | ¥ (2,553) | $ (61,682) |
| Reversal of deferred tax assets on land revaluation | — | (4,042) | — |
| Net change due to disposal of land | — | (5) | — |
| Balance at end of year | ¥ (6,600) | ¥ (6,600) | $ (61,682) |
| RETAINED EARNINGS (Note 8): | | | |
| Balance at beginning of year | ¥ 67,090 | ¥ 68,470 | $ 627,010 |
| Net income | 3,772 | 1,134 | 35,252 |
| Cash dividends, ¥15.00 ($0.14) per share in 2005 and 2004 | (2,518) | (2,518) | (23,533) |
| Reversal of land revaluation difference | — | 4 | — |
| Balance at end of year | ¥ 68,344 | ¥ 67,090 | $ 638,729 |
| NET UNREALIZED GAINS ON AVAILABLE-FOR-SALE SECURITIES (Note 2-c): | | | |
| Balance at beginning of year | ¥ 330 | ¥ (217) | $ 3,084 |
| Net change | 336 | 547 | 3,140 |
| Balance at end of year | ¥ 666 | ¥ 330 | $ 6,224 |
| FOREIGN CURRENCY TRANSLATION ADJUSTMENTS: | | | |
| Balance at beginning of year | ¥ (87) | ¥ (175) | $ (813) |
| Translation adjustments during year | 66 | 88 | 617 |
| Balance at end of year | ¥ (21) | ¥ (87) | $ (196) |
| TREASURY STOCK AT COST (Note 8): | | | |
| Balance at beginning of year | ¥ (302) | ¥ (283) | $ (2,822) |
| Net change | (28) | (19) | (262) |
| Balance at end of year | ¥ (330) | ¥ (302) | $ (3,084) |

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

PanaHome Corporation and Subsidiaries

**Years Ended March 31, 2005 and 2004**

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Income before income taxes and minority interests | ¥ 3,213 | ¥ 322 | $ 30,028 |
| Adjustments for: | | | |
| Depreciation | 4,142 | 4,570 | 38,710 |
| Provision for retirement and severance benefits | (1,065) | (499) | (9,953) |
| Interest and dividend income | (686) | (658) | (6,411) |
| Interest expense | 558 | 626 | 5,215 |
| Write-down of real estate for sale | 326 | 354 | 3,047 |
| Equity in losses (gains) of affiliated companies | (305) | 168 | (2,850) |
| Loss on disposal of property, plant and equipment | 322 | 401 | 3,009 |
| Decrease (increase) in trade receivables | 2,778 | (3) | 25,963 |
| Decrease (increase) in inventories | (1,878) | 4,439 | (17,551) |
| Increase (decrease) in trade payables | (1,594) | 198 | (14,897) |
| Increase (decrease) in advances received | 2,757 | (2,643) | 25,766 |
| Other | 40 | 586 | 373 |
| Sub total | 8,608 | 7,861 | 80,449 |
| Interest and dividend income received | 664 | 675 | 6,205 |
| Interest expense paid | (581) | (647) | (5,430) |
| Income taxes paid | (137) | (249) | (1,280) |
| Net cash provided by operating activities | 8,554 | 7,640 | 79,944 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Payments for purchase of securities | (4,000) | (2,572) | (37,383) |
| Proceeds from sales of securities | 5,106 | 3,582 | 47,720 |
| Additions to property, plant and equipment | (1,295) | (1,322) | (12,103) |
| Proceeds from sales of property, plant and equipment | 20 | 222 | 187 |
| Additions to intangibles | (595) | (557) | (5,561) |
| Purchases of investment securities | (5,400) | (11,299) | (50,467) |
| Proceeds from sales and redemption of investment securities | 4,341 | 6,721 | 40,570 |
| Purchases of equity in companies, resulting in new consolidated subsidiaries | — | (31) | — |
| Decrease in short-term investments | 13 | 18 | 121 |
| Other | (645) | (77) | (6,028) |
| Net cash used in investing activities | (2,455) | (5,315) | (22,944) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Decrease in short-term bank loans | (134) | (785) | (1,252) |
| Purchase of treasury stock | (45) | (30) | (421) |
| Cash dividends paid | (2,518) | (2,518) | (23,533) |
| Other | 19 | (130) | 178 |
| Net cash used in financing activities | (2,678) | (3,463) | (25,028) |
| **Effect of exchange rate changes on cash and cash equivalents** | 5 | 16 | 46 |
| **Net increase (decrease) in cash and cash equivalents** | 3,426 | (1,122) | 32,018 |
| **Cash and cash equivalents at beginning of year** | 64,578 | 65,225 | 603,533 |
| **Cash and cash equivalents of newly consolidated subsidiaries** | — | 475 | — |
| **Cash and cash equivalents at end of year (Note 2-b)** | ¥ 68,004 | ¥ 64,578 | $ 635,551 |

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 Financial Reporting 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 ¥107 to $1, the approximate rate of exchange at March 31, 2005. 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 are 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 commercial paper, 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, 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 income. 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 income 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.
Cash dividends per share presented in the accompanying consolidated statements of income 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, 2005 and 2004 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Current: | | | |
| Government and corporate bonds | ¥ 5,034 | ¥ 4,100 | $ 47,047 |
| Non-current: | | | |
| Marketable equity securities | ¥ 1,735 | ¥ 1,177 | $ 16,215 |
| Government and corporate bonds | 17,673 | 18,555 | 165,168 |
| Trust fund investments and other | 500 | 592 | 4,673 |
| Total | ¥ 19,908 | ¥ 20,324 | $ 186,056 |

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2005 and 2004 were as follows:

| | Millions of Yen | | | |
|---|---|---|---|---|
| | 2005 | | | |
| Securities classified as: | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Available-for-sale: | | | | |
| Equity securities | ¥ 489 | ¥ 1,141 | ¥ 29 | ¥ 1,601 |
| Debt securities | 5,672 | 2 | 1 | 5,673 |
| Held-to-maturity | 17,034 | 89 | 137 | 16,986 |

| | 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 |

| | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|
| | 2005 | | | |
| Securities classified as: | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Available-for-sale: | | | | |
| Equity securities | $ 4,570 | $ 10,664 | $ 271 | $ 14,963 |
| Debt securities | 53,009 | 19 | 9 | 53,019 |
| Held-to-maturity | 159,196 | 832 | 1,280 | 158,748 |

Available-for-sale securities whose fair values are not readily determinable as of March 31, 2005 and 2004 were as follows:

| | Carrying Amount | | |
|---|---|---|---|
| | Millions of Yen | | Thousands of U.S. Dollars |
| Available-for-sale: | 2005 | 2004 | 2005 |
| Equity securities | ¥ 134 | ¥ 145 | $ 1,252 |
| Other | 500 | 500 | 4,673 |
| Total | ¥ 634 | ¥ 645 | $ 5,925 |

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2005 were as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Due in one year or less | ¥ 5,035 | $ 47,056 |
| Due after one year through five years | 7,172 | 67,028 |
| Due after five years through ten years | 10,500 | 98,131 |
| Due after ten years | 1 | 9 |
| Total | ¥ 22,708 | $ 212,224 |

## 4. INVENTORIES

Inventories at March 31, 2005 and 2004 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Real estate for sale | ¥ 25,224 | ¥ 24,602 | $ 235,738 |
| Contracts in progress | 6,062 | 5,362 | 56,654 |
| Finished goods | 1,559 | 1,778 | 14,570 |
| Work in process, raw materials and supplies | 1,353 | 978 | 12,645 |
| Total | ¥ 34,198 | ¥ 32,720 | $ 319,607 |

## 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 income 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, 2005, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥4,222 million.

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

For short-term bank loans at March 31, 2005 and 2004, the annual interest rates ranged from 1.50% to 4.45% and from 1.41% to 4.40%, respectively.

Current portion of long-term debt at March 31, 2005, and long-term debt at March 31, 2004 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.

Effective October 1, 2004, the Company united its retirement allowance plans to the "point-based" system, and amended its contributory funded defined benefit pension plans by introducing a cash balance plan. As a result, unrecognized prior service benefit increased.

The liability for employees' retirement benefits at March 31, 2005 and 2004 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Projected benefit obligation | ¥ 36,733 | ¥ 44,250 | $ 343,299 |
| Fair value of plan assets | (21,804) | (20,299) | (203,776) |
| Unrecognized prior service benefit | 9,756 | 181 | 91,178 |
| Unrecognized actuarial loss | (18,433) | (16,098) | (172,271) |
| Prepaid pension cost | 717 | — | 6,701 |
| Net liability | ¥ 6,969 | ¥ 8,034 | $ 65,131 |

The components of net periodic benefit costs were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Service cost | ¥ 1,961 | ¥ 2,094 | $ 18,327 |
| Interest cost | 938 | 1,114 | 8,766 |
| Expected return on plan assets | (591) | (471) | (5,523) |
| Prior service benefit | (1,027) | (17) | (9,598) |
| Recognized actuarial loss | 913 | 719 | 8,533 |
| Past period service cost of employees' retirement benefit | — | 40 | — |
| Net periodic benefit costs | ¥ 2,194 | ¥ 3,479 | ¥ 20,505 |

Assumptions used for the years ended March 31, 2005 and 2004 were set forth as follows:

| | 2005 | 2004 |
|---|---|---|
| Discount rate | 2.5% | 2.5% |
| Expected rate of return on plan assets | Principally 3.0% | Principally 3.0% |
| 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").

The Code requires that all shares of common stock are 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. The Code permits 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 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 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 Code allows Japanese companies to repurchase treasury stock 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 shareholders meeting.

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. The amount of retained earnings available for dividends under the Code was ¥49,199 million ($459,804 thousand) as of March 31, 2005, based on the amount recorded in the Company's general books of account.

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.

The Company adopted a stock option plan as an incentive plan for the directors and corporate executive officers of the Company and its affiliates. Under the plan by the resolution of the general meeting of shareholders held on June 27, 2002 and the Board of directors held on September 24, 2002, stock options are exercisable from April 1, 2003 to March 31, 2007 at the exercise prices calculated by a formula approved at the shareholders' meeting. Under the plan by the resolution of the general meeting of shareholders held on June 27, 2003 and the Board of directors held on September 24, 2003, stock options are exercisable from April 1, 2004 to March 31, 2008 at the exercise prices calculated by a formula approved at the shareholders' meeting. The number of shares granted was 310,000 and 310,000, respectively.

## 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 40.7% and 42.1% for the years ended March 31, 2005 and 2004, respectively.

The significant components of deferred tax assets and liabilities at March 31, 2005 and 2004 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Deferred tax assets: | | | |
| Loss carryforward | ¥ 9,174 | ¥ 9,790 | $ 85,738 |
| Accrued expenses | 2,720 | 2,763 | 25,421 |
| Depreciation | 1,245 | 1,436 | 11,636 |
| Employees' retirement benefits | 2,067 | 2,343 | 19,318 |
| Write-down of inventories | 1,301 | 1,362 | 12,159 |
| Other | 1,987 | 1,424 | 18,569 |
| Subtotal | 18,494 | 19,118 | 172,841 |
| Valuation allowance | (1,237) | (2,680) | (11,561) |
| Total | 17,257 | 16,438 | 161,280 |
| Deferred tax liabilities: | | | |
| Unrealized gains on available-for-sale securities | (452) | (225) | (4,224) |
| Total | (452) | (225) | (4,224) |
| Net deferred tax assets | ¥ 16,805 | ¥ 16,213 | $ 157,056 |

Reconciliations between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2005 and 2004 were as follows:

| | 2005 | 2004 |
|---|---|---|
| Normal effective statutory rate | 40.7% | 42.1% |
| Per capita levy | 5.4 | 63.3 |
| Expenses permanently not deductible for income tax purposes | 9.5 | 167.2 |
| Decrease of valuation allowance | (65.9) | (362.1) |
| Realization of tax benefits (losses of liquidation of subsidiaries) | (4.3) | (243.3) |
| Recognized tax effects not on unprofitable subsidiaries | 0.8 | 20.2 |
| Equity in (gains) losses of affiliated companies | (3.8) | 19.7 |
| Unrealized profit | 0.0 | 4.1 |
| Effect of tax rate change | — | 30.8 |
| Other - net | (0.2) | (1.3) |
| Actual effective rate | (17.8) % | (259.3) % |

## 10. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to operations were ¥2,310 million ($21,589 thousand) and ¥2,809 million for the years ended March 31, 2005 and 2004, respectively.

## 11. RELATED PARTY TRANSACTIONS

Sales to associated companies for the years ended March 31, 2005 and 2004 were ¥36,148 million ($337,832 thousand) and ¥36,398 million, respectively. Trade accounts receivable due from associated companies at March 31, 2005 and 2004 were ¥1,970 million ($18,411 thousand) and ¥1,713 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 ¥1,927 million ($18,009 thousand) and ¥2,587 million for the years ended March 31, 2005 and 2004, 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, 2005 and 2004 were as follows:

| | Millions of Yen | | | |
|---|---|---|---|---|
| | 2005 | | | |
| | Buildings and Structures | Machinery and Equipment | Intangibles | Total |
| Acquisition cost | ¥ 5,028 | ¥ 1,257 | ¥ 17 | ¥ 6,302 |
| Accumulated depreciation | 2,979 | 709 | 13 | 3,701 |
| Net leased property | ¥ 2,049 | ¥ 548 | ¥ 4 | ¥ 2,601 |

| | 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 |

| | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|
| | 2005 | | | |
| | Buildings and Structures | Machinery and Equipment | Intangibles | Total |
| Acquisition cost | $ 46,991 | $ 11,747 | $ 159 | $ 58,897 |
| Accumulated depreciation | 27,841 | 6,626 | 122 | 34,589 |
| Net leased property | $ 19,150 | $ 5,121 | $ 37 | $ 24,308 |

Obligations under such finance leases as of March 31, 2005 and 2004 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Due within one year | ¥ 1,276 | ¥ 1,850 | $ 11,925 |
| Due after one year | 1,325 | 1,412 | 12,383 |
| Total | ¥ 2,601 | ¥ 3,262 | $ 24,308 |

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 income, computed by the straight-line method were ¥1,927 million ($18,009 thousand) and ¥2,587 million for the years ended March 31, 2005 and 2004, respectively.

The minimum rental commitments under noncancellable operating leases at March 31, 2005 were as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Due within one year | ¥ 7 | $ 65 |
| Due after one year | 26 | 243 |
| Total | ¥ 33 | $ 308 |

## 13. COMMITMENTS AND CONTINGENCIES

***Guarantees of Loans -*** At March 31, 2005, the Group had contingent liabilities principally related to guarantees of customer housing loans in the amount of ¥11,116 million ($103,888 thousand).

## 14. SUBSEQUENT EVENTS

***Appropriations of Retained Earnings -*** The following appropriations of retained earnings at March 31, 2005 were approved at the general shareholders meeting held on June 29, 2005:

| | Millions of Yen | Thousands of U.S. Dollars |
| --- | --- | --- |
| Year-end cash dividends, ¥7.50 ($0.07) per share | ¥1,259 | $11,766 |

# Independent Auditors' Report

Deloitte.

**Deloitte Touche Tohmatsu**
Osaka Kokusai Building
2-3-13, Azuchi-machi
Chuo-ku, Osaka 541-0052
Japan

Tel: +81 6 6261 1381
Fax:+81 6 6261 1238
www.deloitte.com/jp

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, 2005 and 2004, and the related consolidated statements of income, 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, 2005 and 2004, 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, 2005

Member of
**Deloitte Touche Tohmatsu**

# Management (As of June 30, 2005)

### 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*
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*
Akira Kobayashi
Koji Watanabe
Yukimitsu Kodama
Hiroshi Yamada
Etsurou Tanbara
Hiroki Umiguchi
Tomiharu Yamada
Makoto Hatakeyama

# Corporate Data (As of March 31, 2005)

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

*Established*
July 1, 1963

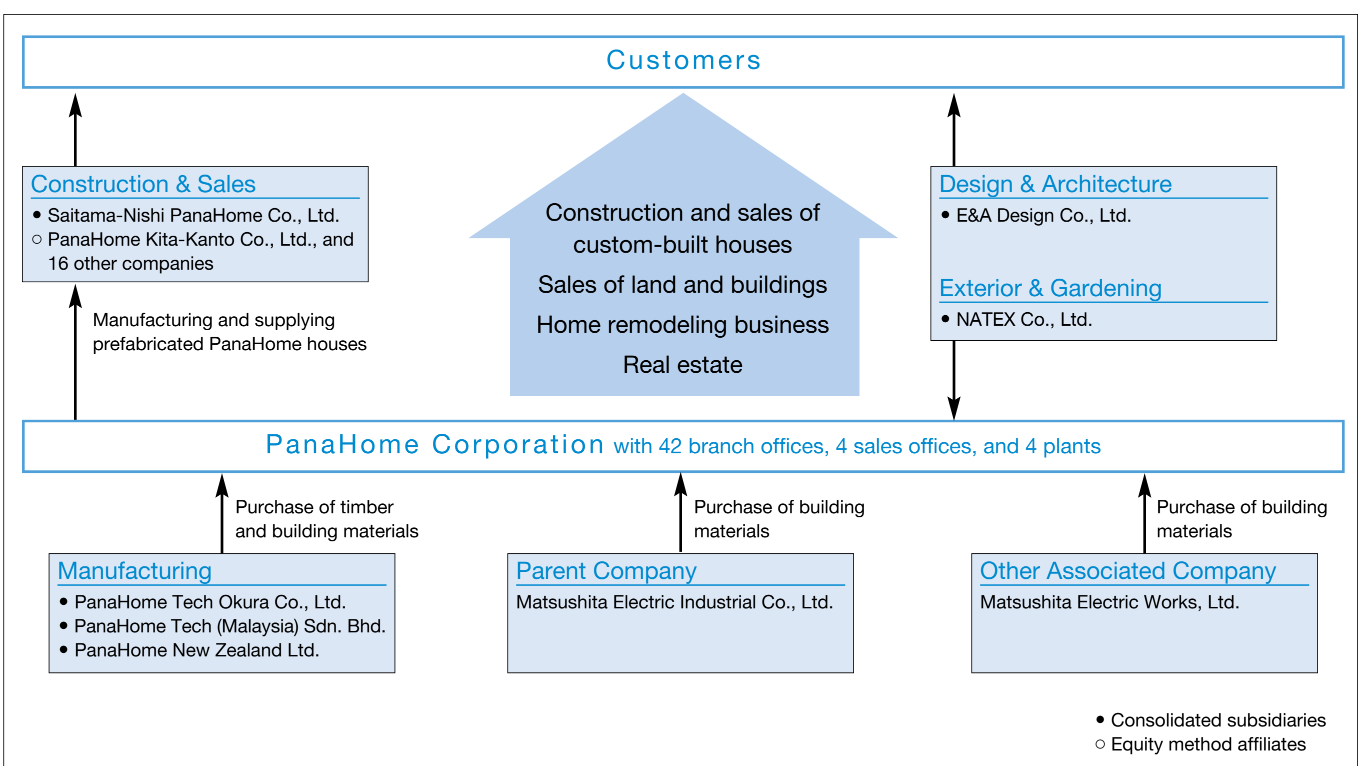
*Stock Exchange Listings*
Tokyo, Osaka

*Capital*
¥28,376 million

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

*Number of Shareholders*
10,019

# Subsidiaries and Affiliates (As of March 31, 2005)



http://www.panahome.jp/english/

PanaHome

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PanaHome Corporation

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