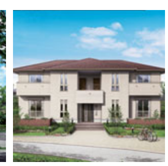
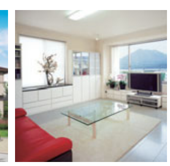
PanaHome

Building Solutions: Comfortable Living Environments

PanaHome Corporation

Annual Report 2007 For the year ended March 31, 2007

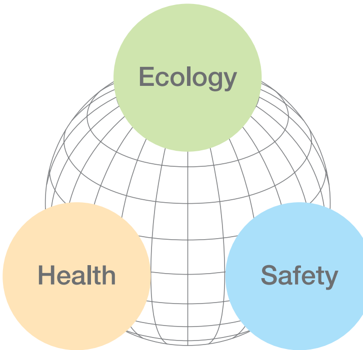
   

Contents

Corporate Profile

Since its establishment in 1963, PanaHome Corporation has strived to uphold the Matsushita Group's brand name as it develops its housing business. Guided by its basic "Putting Customers First" policy, PanaHome is dedicated to enabling people to lead healthy and comfortable lifestyles.

PanaHome's objective is to provide people- and environment-friendly living spaces, which it refers to as "Eco-Life Homes." Based on this concept, the Company is satisfying a widening range of customer demands in its capacity as a comprehensive housing company pursuing the three core businesses of detached housing, asset management, which includes rental apartment and medical and welfare facilities, and home remodeling. Furthermore, as a member of the Matsushita Group, the Company is providing comfortable living environments by developing businesses that fully utilize the comprehensive strengths of the Matsushita Group.



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.

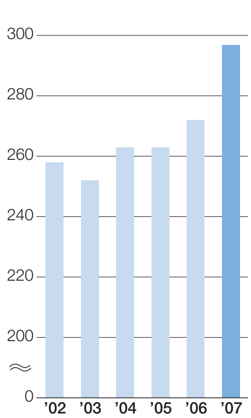
Financial Highlights

PanaHome Corporation and Subsidiaries
Years ended March 31, from 2002 to 2007

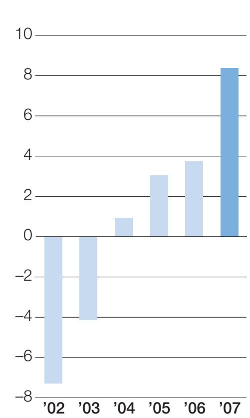
	Millions of yen						Thousands of U.S. dollars
	2002	2003	2004	2005	2006	2007	2007
Net Sales	¥258,032	¥252,706	¥263,755	¥263,826	¥272,294	¥296,817	$2,515,398
Operating Income (Loss)	(7,292)	(4,122)	921	3,045	3,738	8,363	70,873
Income (Loss) before Income Taxes	(12,204)	(13,982)	322	3,213	(1,779)	6,893	58,415
Net Income (Loss)	(9,017)	(10,500)	1,134	3,772	(2,701)	5,240	44,407
Total Assets	260,242	236,350	232,147	233,365	214,019	216,771	1,837,042
Equity	138,873	125,450	120,642	122,273	117,107	120,543	1,021,551
Return on Equity	(6.2)%	(7.9)%	0.9%	3.1%	(2.3)%	4.4%	
	Yen						U.S. dollars
Per Share Amounts:							
Net Income (Loss)	¥ (53.50)	¥ (62.40)	¥ 6.75	¥ 22.48	¥ (16.10)	¥ 31.21	$ 0.26
Diluted Net Income	–	–	6.75	22.47	–	31.18	0.26
Cash Dividends	15.00	15.00	15.00	15.00	15.00	15.00	0.13
Number of Employees at Year-end (Persons)	7,207	6,676	6,603	6,493	5,978	5,750	

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 ¥118=US$1, the approximate rate of exchange at March 31, 2007, 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.

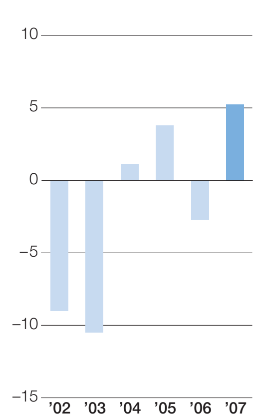
Net Sales
(Billions of Yen)



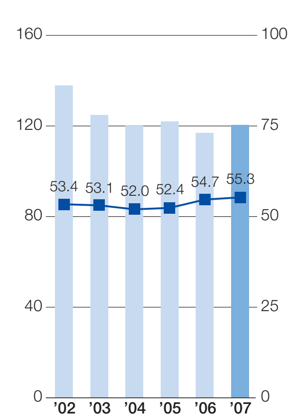
Operating Income (Loss)
(Billions of Yen)



Net Income (Loss)
(Billions of Yen)



Equity/Equity Ratio
Equity
Equity Ratio
(Billions of Yen) (%)



* Years ended March 31

A Message from the President

Tsutomu Ueda
President & CEO

Japan is a country prone to earthquakes. This reputation has fueled demand for housing with superior quake resistance and durability that can be effectively built on narrow lots of land. Another demand on housing construction is that dwellings be built to withstand the often severe seasonal changes in Japan's climate. PanaHome has built its reputation to date on delivering homes that adequately meet a wide range of such needs.

Given this domestic environment, PanaHome posted operating results in fiscal 2006, ended March 31, 2007, that reflected our ability to capture stable order flow thanks to our full and diverse lineup of products and proposed collaborations with the Matsushita Group, among other measures. Consolidated net sales rose 9% year on year to ¥296,817 million, with operating income up 124% to ¥8,363 million, and consolidated net income improving ¥7,941 million from the previous year to ¥5,240 million, for a fourth consecutive year of top- and bottom-line growth.

However, while from a profit standpoint our consolidated operating income margin improved to 2.8%, compared to 1.4% a year earlier, this level is still low compared to the 5.0% margin we were committed to as a member of the Matsushita Group. Suffice it to say, I am far from satisfied with this outcome.

In light of these results, we intend to take steps to boost productivity and enhance our management structure.
By establishing an business task flow based on standardization and equalization measures, we will push for noticeable growth in net sales and houses sold on a per-employee basis. On the production side, we will constantly review efficiency at our plants, in addition to cutting waste in product supply and other areas through ties with Matsushita Electric Works (MEW). These efforts are all part of our drive to build a lean management structure capable of raising corporate value.

As for performance in fiscal 2007, we are projecting ¥303,000 million in consolidated net sales, ¥9,500 million in consolidated operating income, and a consolidated operating income margin of 3.1%. We plan to develop our operations in ways that will bring our 5.0% operating income margin target within reach in as short a timeframe as possible.

I believe that in harnessing the collective strengths of the Matsushita Group, and with "Putting Customers First" as our motto, PanaHome is a housing company that can provide comfortable living solutions to our customers. Going forward, we will take the lead in forging ties with Matsushita Electric Industrial (MEI) and MEW, particularly with respect to the development of housing products, as we strive to deliver lifetime satisfaction to our customers.

Thank you for your continued support.

July 2007

Tsutomu Ueda
President & CEO

To Our Shareholders

An Interview with President Tsutomu Ueda

Roughly a year has passed since Tsutomu Ueda was named president of PanaHome in June 2006. From the start, President Ueda has sought to strengthen ties and pursue synergies with the Matsushita Group, and to set PanaHome apart from competing companies by promoting three concepts in its Eco-Life Homes—safety and security, health and comfort, and energy generation and conservation. In this interview, we talk with President Ueda about the situation at PanaHome today and future management policies one year after his appointment.

Q1 How do you perceive the operating environment that PanaHome is presently facing?

A1 Japan's housing industry has been greatly impacted by changes in the country's housing policy. To cope with a housing shortage, the government's policy until recently had been to encourage housing starts based on five-year plans. Overall, the policy was a success. In Japan today, there are 54 million homes for the nation's roughly 47 million households. So in June 2006, the government drafted the Basic Act for Housing, which focuses primarily on ensuring the stability of residential living and promoting improvements. The formulation of this law was a turning point for Japan's housing policy, which underwent a major shift from an emphasis on quantity to a focus on quality. The Japanese government has defined a "200-Year Vision," and in line with this, the government is trying to promote measures to raise the value of homes as worthwhile assets that can be passed down from children to grandchildren, as well as the formation of a quality housing stock in Japan. The general consensus is not only that the houses of today will have to be built for earthquake resistance and durability to become the "200-Year Homes" of tomorrow, but that moves by the country and its industries to proactively adapt to the longer useful lives of these houses will gain momentum going forward. Another keyword is "energy conservation." Although factories in particular are making inroads in conserving energy, the same cannot be said for ordinary households, where the installation of air conditioners and a host of other devices are becoming the norm. For this reason, comfort and energy conservation will be two key demands for homes.

Q2 Will this operating environment be a plus for PanaHome?

A2 PanaHome's basic strategy is to offer comfortable living solutions by harnessing the collective strengths of the Matsushita Group. These changes in the operating environment have actually brought it more in line with PanaHome's own strategies, so I think it will prove to be a plus for us. I want all of our employees to understand this as an opportunity to deliver spectacular, high-quality homes to our customers.

Q3 How was PanaHome's business performance in fiscal 2006?

A3 We recorded a fourth consecutive year of sales and earnings growth in fiscal 2006. Sales were up 9% year on year to ¥296,817 million. Operating income, meanwhile soared 124% to ¥8,363 million, and net income was ¥5,240 million, reversing the ¥2,701 million net loss we posted in the previous year. The operating income margin also increased from 1.4% to 2.8%. However, this figure remains below the 5.0% that Matsushita Group companies were committed to, so I am far from satisfied with this result.

Q4 Now that fiscal 2006 has ended, what key issues have emerged?

A4 There are two issues. One is how to make the transition to a profit-driven corporate structure. My focus right now is more on profit than sales, and I am absolutely committed to seeing us reach an operating income margin of 5.0%. So while we achieved higher sales and earnings in fiscal 2006, we still failed to meet our target for operating income. Low profit margins were definitely a factor, which is why I felt that we must bolster our management structure. Reaching our operating income margin target of 5.0% will undoubtedly require an even more extensive round of structural reforms.

Another issue is PanaHome's business model. PanaHome has always operated as a building contractor for detached houses. But with contracting for this market now accounting for just 360 thousand units amid an overall housing demand of 1.3 million units, that leaves PanaHome with a very narrow range within which to operate. In reality, though, this is a limitation we have placed on ourselves. Moreover, there is real concern that a sole focus on business as a building contractor could eventually compromise our presence entirely. In urban centers, high land prices make detached housing virtually unaffordable. Consequently, such housing is invariably concentrated in suburban areas. On the other hand, there is exceptionally strong demand in urban centers for condominiums. High demand means higher profitability, and to overlook this point would be a missed business opportunity. I believe we have to diversify the business model for our housing operations, which is why we are moving quickly to implement our business policy for fiscal 2007, which includes measures aimed at bolstering our housing development business.

Fiscal 2007 Business Policy

Basic Strategy

◆ Harness the collective strengths of the Matsushita Group to offer comfortable living solutions

◆ Target Corporate Image

1. In Eco-Life Homes, deliver lifetime satisfaction to customers
2. Become an industry that encompasses both living and lifestyle

Basic Policy

◆ Management Structure Enhancements

◆ Growth Strategies

Q5 The next question pertains to your fiscal 2007 business policy. Your basic strategy says that PanaHome will "Harness the collective strengths of the Matsushita Group to offer comfortable living solutions" and that you have a "Target Corporate Image." First, what sort of ties are you planning to establish with other Group companies?

A5 One thing that has struck me from the start is the reason customers give for buying PanaHome houses. The answer most often given is that we are part of the Matsushita Group. There are actually many customers who already know that Matsushita is a name they can depend on. For our employees too, there is a special pride that comes with being part of the Matsushita Group.

Without even realizing it, we have been recognized as part of the Matsushita brand, which has helped to set us apart from others in a major way. I believe we should do more to take advantage of this brand power. Take showrooms, for example. Here, we combine PanaHome houses with the Panasonic and National brands for an "All Matsushita" product that makes us even more distinctive. Matsushita Electric Industrial (MEI) and Matsushita Electric Works (MEW) are pursuing collaborative efforts that are leading to a common "universal design" and other steps that are bringing the two brands closer to full integration. Since PanaHome is also part of the Matsushita Group, our own presence should increase as this trend gains momentum.
My hope is that PanaHome will seize the initiative in developing ties with Group companies so that we can continue to offer comfortable living solutions.

Q6 What is this "Target Corporate Image" that you refer to?

A6 In Eco-Life Homes, our goal is to offer lifetime satisfaction to our customers, and to become an industry that encompasses both living and lifestyle solutions.

Although we still lack capacity in this area, I want us to make the jump from a company focused solely on residential contracting to one that customers can consult for all of their living needs. Already we have seen changes like the drafting of the Basic Act for Housing, so it is likely that housing conditions and lifestyles will undergo change as well. Up until now, buying a house once, repaying the mortgage, and having that house be the center of one's life during a long period of continuous ownership was the norm for most Japanese people. But from now on, needs will emerge as some people decide to try out condominium life, for instance, meaning that people will not necessary be living in the same place indefinitely. I hope to see PanaHome make a name for itself as a company that can respond to whatever "home" demands customers have, whether its providing housing development lots, or buying houses from home sellers and refurbishing them for resale.

Looking ahead, we also plan to devote more attention and management resources to rental apartment housing. The number of single-person households in Japan is expected to rise, not only among students and single working women, but among senior citizens as well, as Japan's population grows older. And while in the past, companies owned dormitories and company housing as a means of retaining employees, most firms have since sold off these assets due to restructuring. This suggests that housing needs will also rise among the unmarried members of these companies. Meanwhile, rental apartments and condominiums in particular are likely to contain a number of potential clients for detached residential housing. These are the kinds of initiatives we intend to pursue in the urban areas of Tokyo, Nagoya, and Osaka.

In the U.S., where homes are viewed as merchandise, people are said to change residence around seven times over their lives. I think that a similar environment with respect to residential living will soon exist in Japan. If we hope to provide customers with lifetime satisfaction with their housing choices over the long term, then our mission should be to become a company that can consistently deliver services tailored to the lifecycles of our customers.

Q7 Your basic policy calls for "Management Structure Enhancements." What exactly do you have in mind?

A7 Our main objective is to enhance productivity. PanaHome's contracting business closely resembles a "made to order" operation, which means that it requires significant man-hours. Consequently, our net sales on a per-capita basis are low relative to those of other firms in the industry. To boost this figure, we plan to unify operations at the design and construction levels in order to push forward with standardizing and equalizing business tasks. Also, for a housing company, the quality of its sales staff can have a huge impact on customers. So we upgraded our performance-pegged remuneration system for salespeople as a way to heighten their level of motivation.

On the production side, we intend to dissolve businesses that overlap with products already offered by MEW. The difference between the products MEW produces and those from PanaHome is that MEW produces lots of them for sale to the general market, which keeps production costs low. This step will also enable more unified design. We have also moved to consolidate and realign our plants, with a view to obtaining further productivity improvements and greater efficiency.

Q8 Can you tell us more about plant consolidation and realignment?

A8 PanaHome is now carrying out production at four plants in Japan—the Head Office Plant in Shiga Prefecture, the Tsukuba Plant, the Kyushu Plant, and the Shizuoka Plant. 1996 was a peak year for PanaHome as a housing component manufacturer, when we produced 16,200 houses a year. Our current production figures, however, have fallen to around half that number. In response to this, we decided to close down the Kyushu and Shizuoka plants, and to consolidate and realign production around the Head Office and Tsukuba plants. This new framework will begin operating from September 1, 2007, with employees from the closed plants set for transfer to the two remaining plants. We have also chosen to enact an early retirement program as a safety net for those employees whom, for a variety of reasons, have opted to pursue other opportunities outside of PanaHome rather than transfer. We are also aiming to enhance the efficiency of business tasks and boost productivity outside of the Kyushu and Shizuoka plants by standardizing job assignments to right-size our workforce, and taking steps to streamline back-office departments. The plan is to bolster our sales capabilities by shifting the personnel freed up in the process to our sales divisions that interact directly with customers, with the goal of sparking further growth.

Q9 Can you tell us more about "Growth Strategies," the other key point of your basic policy?

A9 The core of our growth strategies is collaboration with the Matsushita Group. Here, we envision creating new value in living environments by unifying our design identity and through universal design. At our showrooms, we will actively leverage ties with the Matsushita Group to build model homes that can accommodate customers overnight, to allow them to experience firsthand what living in an all-electric home filled with Matsushita Group appliances is like. With showroom investment nearly complete, as we keep an eye on utilization rates, the next step will be to carry out a "scrap and build" program to further raise efficiency.

Q10 What initiatives are being considered for making the housing development business into the next core business after contracting?

A10 In making the break from a business model solely dependent on the contracting business, we will bolster the housing development business by buying prime land and targeting first-time homebuyers among the post-baby boomer generation. Since the previous year-end, we have increased land earmarked for housing developments by ¥11,000 million to ¥38,100 million, with housing development structures up more than ¥2,900 million to ¥10,000 million this year-end. Our largest housing developments will be set in the urban areas of Tokyo, Nagoya and Osaka. As for the detached houses in these developments, we will promote the "Eco-Life City" concept to create development blocks of good quality. We also intend to evenly distribute factory shipments and deliveries by moving housing

Eco-Life Town Misato Koen (Saitama Prefecture) development sales away from September and March, the months in which the handover of most contracted detached houses is concentrated. Where condominium developments are concerned, we will highlight PanaHome's unique appeal by, for example, incorporating the all-electric utilities concept into mid-range and upscale condominium developments.

Q11 In April 2007 you launched the sale of *SOLANA Bianca* homes, which appear in part to be based on a plan-based proposal model. Does this represent a strategic shift from a primarily "made to order" model?

A11 Unit prices per *tsubo* for our *SOLANA Bianca* homes start at ¥540,000, a price point that enables us to create a "white tile home" that can employ the superior dirt and grime-resistant qualities of photocatalysts. We endeavor to offer a number of proposed layout patterns to allow customers to choose the one best suited to their family makeup and lifestyle. We anticipate that using this sales strategy of plan-based proposals will also raise the productivity of our sales staff.


SOLANA Bianca: A white-tiled house

Q12 What do you consider to be PanaHome's strengths?

A12 PanaHome has made a name for its products by making safety and security, health and comfort, and energy generation and conservation keywords that define its Eco-Life Homes. All-electric and solar power generating homes that are clean and ecological, homes that can withstand repeated earthquakes, and "self-cleaning" homes that are easy to maintain thanks to photocatalytic tiles and glass, are all characteristics associated with our Eco-Life Homes. Other companies often refuse to handle homes with white exteriors because dirt shows up on them so easily. But thanks to our strengths in photocatalytic technology, PanaHome is introducing these homes, which have drawn particular praise from homemakers, at its showrooms.

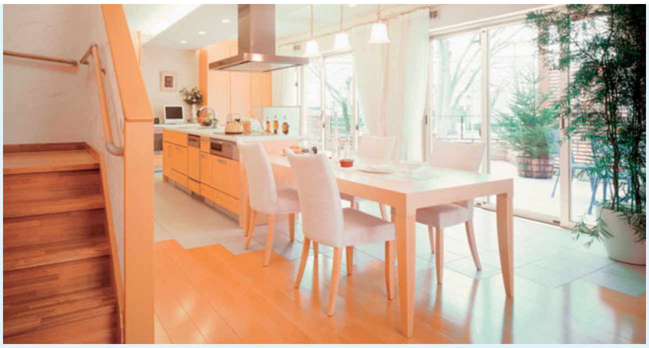
Q13 Finally, what initiatives are you pursuing to enhance corporate value?

A13 PanaHome works to increase earnings power by boosting productivity. At the same time, it aims to improve ROE by raising the efficiency of invested capital through improved turnover of assets such as inventories and fixed assets, and by strengthening the company's management framework. Specifically, PanaHome uses two benchmarks to measure performance—Capital Cost Management (CCM)*, a unique Matsushita Group indicator which measures return on capital, and cash flows to measure the company's overall ability to generate cash.

My hope is that by carefully explaining the strengths of our Eco-Life Homes—safety and security, health and comfort, and energy generation and conservation—that we can get more customers to understand what is good about PanaHome. I want PanaHome to be a company that even more customers come to on recommendations from customers living comfortably in our homes. Going forward, as we seek the best balance between raising productivity and growth strategies, we will take steps to make the transition from an emphasis on quantity, to a focus on quality.

Capital Cost Management (CCM)* = Earnings from operations (Income before income taxes – interest income + interest expense) – Costs associated with assets invested in businesses (Fixed assets, inventories, accounts receivable, investments, etc.)

SOLANA Bianca: A white-tiled house



An island kitchen

Detached Housing Business (Eco-Life Homes)

PanaHome builds Eco-Life Homes that are friendly to both people and the environment, focusing on the three themes of safety and security, health and comfort, and energy generation and conservation.

PanaHome's unique capabilities in the fundamentals of home-building will support our customers' dwellings and lifestyles for many years to come. These capabilities include superior earthquake resistance, even in the event of repeated earthquakes, as well as our Eco-Life ventilation system and humidity-regulating building materials that produce comfortable room environments. Furthermore, we are making concerted efforts to reduce the costs of day-to-day living by such means as an all-electric power supply, a solar power generation system and the use of photocatalytic KIRATECH tiles.

Urban housing in Japan requires the optimal use of small plots of land. PanaHome proposes dwellings that take advantage of natural light, make use of unused spaces such as stairwells for storage, and housing units that combine a residential section and a section leased to stores or other commercial ventures.

After a customer has moved into a dwelling, PanaHome provides not only long-term quality assurance but also lifelong satisfaction through our lifetime support systems. Looking ahead, PanaHome aims to respond flexibly to diversifying lifestyles and life stages, as well as provide Japan's most comfortable dwellings. To this end, the Company will distill the collective strengths of the Matsushita Group to develop healthy and comfortable Eco-Life Homes that save energy and last for a long time.

Living theater

EL• SOLANA Tri: Urban housing with the feel of nature

EL MAISON NEXT: All-electric rental housing that incorporates photocatalytic tiles on the outer walls and the highest caliber of earthquake-resistant capabilities

Remodeled living spaces incorporating impressive features

Rental Apartment Housing Business

EL • MAISON: All-electric rental housing designed to be safe, comfortable and economical

An induction heating unit for cooking that is both safe and does not contaminate the air in the room

PanaHome is pursuing product development that incorporates its "Eco-Life Homes" concept into rental apartment housing. In November 2006, PanaHome was the first company in the Japanese housing industry to offer all-electric rental housing, thereby providing dwellings that are safe, comfortable and economical. Providing rental properties offering these attributes both attracts and retains occupants, and enables stable property management by owners.

Looking ahead, PanaHome will continue providing a range of services to make its rental apartments highly appealing for owners. Such services include proposing land-use options based on the NEOS land-asset utilization system, an owners' club that provides total support to facilitate long-term stable management of a building after construction, and a real-estate rental management system.

Home Remodeling Business

As the baby-boomer generation nears retirement age in record numbers, the home remodeling industry has enjoyed a boost. PanaHome anticipates an increase in the number of large remodeling projects, and growth in average contract value. The Company will tap this demand by leveraging the Matsushita Group's state-of-the-art building equipment and materials, and technological expertise cultivated over many years of housing construction. To attract customers, the Company will emphasize consultation-based remodeling that provides the optimum solution for every customer.

At the same time, PanaHome has prepared a variety of easy-to-understand theme-based remodeling proposals. These ready-made proposals have provided an alternative way to sell remodeling services: PanaHome offers advice, but customers can make their own choices. By furnishing clear price options, PanaHome increases the customer's reassurance and satisfaction, steadily standardizes marketing practices and reduces construction costs, and realizes the additional benefits of shortening negotiation times and increasing profitability.

Going forward, PanaHome will continue to develop a wide range of businesses. The Company will maintain its focus on existing owners of its homes, as well as strengthen initiatives to obtain customer referrals through close collaboration with Matsushita Group companies.

Remodeled as a Japanese-style living-room where guests can enjoy the tea ceremony

Topics


EL• PanaHome Shukugawa


PanaHome-City Tsuda-Yamate (Osaka)


Times Peace Square (Osaka)

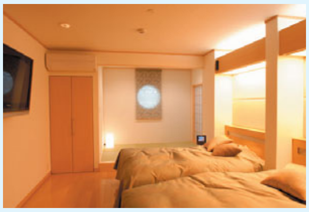
Overnight Show House

In July 2006, the show house Switch! House Setagaya was opened in Setagaya Ward, Tokyo. A joint project with the Tokyo Electric Power Company, Inc. (TEPCO), this all-electric show house allows potential customers to actually stay overnight in it. Since the opening, over 2,100 people have visited the show house and 137 families stayed overnight, of which 32 families signed contracts to buy a house (figures correct as of April, 2007). The show house is furnished with the Matsushita Group's latest home appliances and equipment, enabling the families who stayed overnight to experience the comfort of all-electric living. Facilities include a home movie theater, a bedroom environment regulation system to ensure a good night’s sleep and an induction heating unit for cooking. Staying overnight also helped potential homebuyers in planning their homes and confirming patterns of movement through living spaces in the course of daily life.

Switch! House Setagaya is not merely an all-electric dwelling. The entire show house employs PanaHome’s Eco-Life Homes technologies, including an earthquake-resistant steel-frame structure, photocatalytic tiles on the outer walls, the Company's unique ventilation system, and designs that makes the most of the natural elements and natural materials . The result is a high-performance all-electric home that is one step ahead of the industry.

In June 2007, PanaHome opened EL PanaHome Fukuoka in Fukuoka City, an all-electric show house in which visitors can stay overnight, with support provided by Kyushu Electric Power Co., Inc. In July, PanaHome and the Kansai Electric Power Co., Inc. opened EL PanaHome Shukugawa in Nishinomiya City, Hyogo, another show house of the same type.


Switch! House Setagaya


Main bedroom incorporating an environment regulation system to ensure a good night’s sleep


Kitchen built into the living-room area

Detached Housing Development: Est Life Nogawa Kikunodai

In August 2006, all 20 detached houses in the Est Life Nogawa Kikunodai development located in Chofu City, Tokyo, were sold. The development was a joint project between the Matsushita Group and TEPCO. Envisaging houses nestling in a natural environment, PanaHome made full use of the location near the Nogawa River to build a community of environmentally friendly detached housing units amidst abundant nature.


Est Life Nogawa Kikunodai

These houses are equipped with all-electric utilities made possible by the collaboration with TEPCO, and a range of standard features drawing on the integrated capabilities of the Matsushita Group, including the Emit Home System, enabling electricity usage to be monitored, and flat-screen LCD televisions. The houses proved extremely popular and sold out on the day they became available, with a rate of competition for some properties of over seven applicants per unit.

Condominium Business: Parknard Tsunashima Higashi Koen

In its condominium business, PanaHome develops and markets mid- and high-grade condominiums with a focus on convenient location—within walking distance of a station, for example. The Company offers these condominiums primarily in the Tokyo metropolitan, Tokai and Kinki regions.

The Parknard Tsunashima Higashi Koen, located in Yokohama City, is an all-electric condominium development (scheduled to be completed in September 2007) that embodies both PanaHome's home-building expertise developed in the course of the detached housing business, and the "Eco-Life Homes" concept. The condominiums can accommodate the varied needs of their future occupants; floor-plans and specifications for fixtures and fittings can be adjusted as if for a custom-built home. Moreover, the units offer safe, comfortable and economical living environments, underpinned by the all-electric utilities and other state-of-the-art technologies and equipment of the Matsushita Group. These condominiums showcase the combined technological capabilities of the Matsushita Group and offer considerable potential as a new growth area.


Parknard Tsunashima Higashi Koen

Corporate Governance and Compliance

Corporate Governance

PanaHome recognizes that strengthening corporate governance is an important management objective.

To ensure that managerial decision-making and operational supervision is separate from business execution, we have introduced an executive officer system. Under this system, the Board of Directors, representing the profit interests of shareholders, decides the final management policy and strategy, supervises the conduct of individual directors and executive officers, and decides the way in which executive officers set performance targets and discharge their duties. The Board of Directors is composed of six members, each with a one-year tenure to better clarify management accountability.

Further, in accordance with the audit plan formulated by the Board of Corporate Auditors, three auditors (of which two are outside auditors) carry out their auditing responsibilities by attending important meetings, gathering reports from directors, executive officers, employees and accounting auditors, and auditing major business worksites.

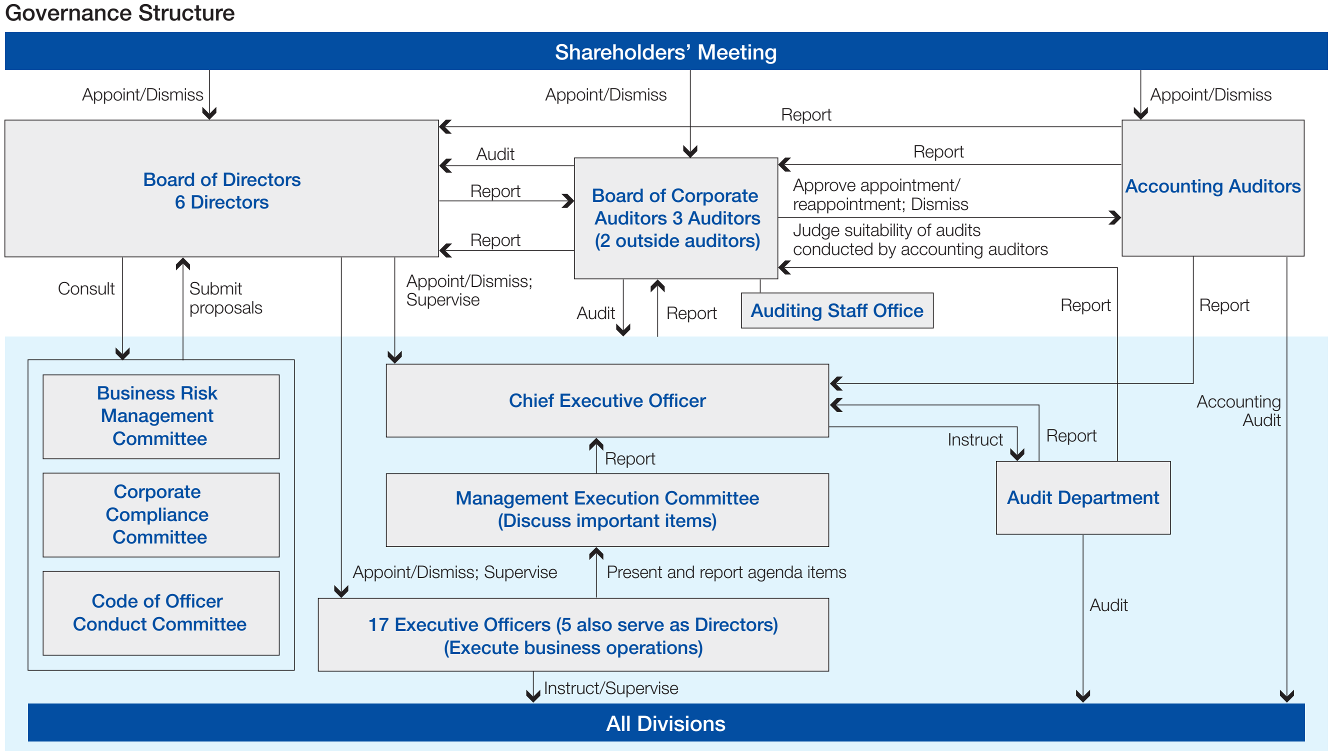
Compliance

Regarding internal control systems, in May 2006 the Board of Directors approved the Basic Policy Regarding the Establishment of Internal Control Systems, and the Company subsequently conducted business operations in line with this basic policy.

Turning to corporate ethics, the Company adheres to the Code of Conduct of the Matsushita Group, which was enacted in January 2005. Furthermore, all directors and executive officers have pledged compliance to the Code of Conduct for Officers, which was revised in March 2005. In addition, to further strengthen the Company's compliance framework, a corporate ethics hotline was set up in August 2003 as a means for reporting compliance issues and fielding related inquiries.

In response to a need for greater risk management, the Business Risk Management Committee was reestablished in March 2005 in a move to further enhance our corporate value. In December 2004, a Corporate Compliance Committee was formed to rigorously ensure that the Company maintains no improper relationships with individuals or groups involved in corporate extortion.

Governance Structure



Corporate Social Responsibility

Environmental Initiatives

1 As a housing manufacturer, PanaHome aims to achieve the Kyoto Protocol's greenhouse gas reduction targets for CO_2 by implementing initiatives to reduce the volume of CO_2 emissions generated after its homes are occupied.

PanaHome's Eco-Life Homes, with their superior thermal insulation properties, enable the amount of energy needed for air conditioning to be reduced. By offering these Eco-Life Homes, we are increasing the number of customers who use solar power generation systems and high-efficiency hot-water systems producing minimal CO_2 emissions.

Furthermore, we employ photocatalytic tile technology for the exterior walls of our Eco-Life Homes in the form of our KIRATECH tiles which are both self-cleaning and purify the air.

PanaHome collaborates with its customers in protecting the global environment by working to popularize its Eco-Life Homes, which provide comfortable living spaces as well as reduce impact on the surrounding environment.

2 Our plants manufacturing housing materials have been carrying out energy-saving activities for many years. These efforts received public recognition when PanaHome was the first housing company to be awarded the Economy, Trade and Industry Minister's prize for excellence in factory energy management.

We also act to prevent global warming in areas other than our plants. In our offices, we reduce CO_2 emissions through ongoing efforts to set air conditioning at temperatures that reduce energy consumption, and to reduce the amount of lighting used in our neon-light advertising.

Looking ahead, we will focus on reducing the energy consumed in transporting housing materials from plants to construction sites, and in running our commercial vehicles.

In addition, we are proactively working to reduce the amount of waste generated from our plants and construction sites, and to separate our waste in order to recycle it as much as possible.

Awarded the Economy, Trade and Industry Minister's prize for excellence in factory energy management

Social Contribution Activities

PanaHome undertakes social contribution activities rooted in local communities with the aim of helping create a healthy and spiritually rich society. Many of our organizational units, including branch offices and plants, are supporting a wide range of initiatives within their own communities. Typical areas of activity include workplace-experience programs for children and education, the arts, culture, sport, social welfare, environmental preservation and voluntary work.


Lessons to provide experience of housing construction aimed at middle-school students


Volleyball tournament sponsored by PanaHome

Employee-directed Initiatives

PanaHome is working to refine its existing systems supporting employees who combine work with caring for children or other family commitments, including a system that encourages the taking of child-care leave, and to attain a workplace environment which facilitates the use of these systems. To this end, we formulated a plan of action whose initiatives were subsequently officially accredited under the Law for Measures to Support the Development of the Next Generation drafted by the Ministry of Health, Labour and Welfare.

子育てサポートしています
2007年認定事業主
Accreditation Mark

Business Risks

1. Industry Trends and Competition

- Orders may be adversely affected by changes in external conditions, including, but not limited to, changes in the job market, land prices, interest rates and housing tax policy.
- The already fierce price competition with rival housing-construction and specialist housing-renovation companies is expected to further intensify.
- In the rental property management business, income and expenditure may be adversely affected by any new construction within close proximity of rental property. Further, the number of new participants in the medical and welfare facility construction field is expected to increase, which could further intensify competition.

2. Increases in Cost of Raw Materials and Resources

Procurement prices may potentially rise due to a sudden sharp increase in the cost of materials fundamental to housing construction, such as steel and timber.

3. Quality Guarantees

The Company maintains strict quality control with regard to the development, production and purchase of materials, components and fittings, and with regard to housing construction. However, the Company cannot guarantee that quality issues will never occur in any housing unit because of the large variations in the quality of materials and processes (in particular, construction processes will vary according to each different construction site) and degradation of materials and components over time.

4. Natural Disasters

In the event of major natural disasters, including earthquakes and typhoons, the Company could incur massive costs for repairing damage to company-owned facilities, as well as for initial and ongoing customer support, which includes building inspections and other emergency measures.

5. Retirement Benefit Liability

With regard to the retirement and pension plans applicable to eligible employees in Japan, there could be reductions in the fair value of plan assets due to decreases in share price, or reductions in the discount rates affecting projected benefit obligations due to lower interest rates. As a result, unrecognized actuarial losses may increase and potentially lead to increased net periodic benefit costs for pension plans.

6. Statutory Regulations

The PanaHome Group acquires building enterprise permits, real estate transaction licenses and architect authorizations in the course of operating its business. It also complies with statutory regulations regarding the environment and recycling. Further, statutory regulations concerning the obligation to report consumer product accidents were implemented on May 14, 2007 accompanying an amendment to the Consumer Product Safety Law. In the event that any of these statutory regulations are not adhered to, Group business activities may be restricted, which may potentially lead to increased costs.

Financial Section

Financial Review

Sales, Costs, Expenses and Income

Net Sales

During fiscal 2006, ended March 31, 2007, the Japanese housing market was firm overall. In this environment, PanaHome aggressively developed marketing and product strategies based around the "Eco-Life Homes" concept. In the first half of the fiscal year, consolidated order volume was strong, on a par with the previous fiscal year, reflecting the increased market penetration of our "Eco-Life Homes" and rising customer willingness to invest in housing before anticipated interest rate hikes take effect. From the start of the second half of the fiscal year, however, this threat of higher interest rates waned temporarily. As a result, consolidated order volume rose only 0.4% from the previous year to ¥284,799 million (US$2,414 million). Buoyant orders continued from the previous year into the first half of the year under review, contributing directly to sales. Consolidated net sales increased 9.0% to ¥296,817 million (US$2,515 million) compared to the previous fiscal year.

Cost of Sales and Selling, General & Administrative Expenses

The cost of sales increased 8.6% year on year to ¥225,399 million (US$1,910 million). While there were increases in the prices of some materials, the cost of sales ratio nonetheless decreased 0.4 of a percentage point to 75.9%. This reflected such measures as procurement rationalization through joint purchasing with the Matsushita Group and design rationalization. Selling, general and administrative (SG&A) expenses, however, increased 3.5% to ¥63,055 million (US$534 million). This increase resulted largely from marketing investment in such areas as the opening of new showrooms and the strengthening of customer services, and from the impact of two newly consolidated sales subsidiaries, and came despite continued Companywide cost-cutting measures and reductions in personnel costs accompanying structural reforms implemented last fiscal year.

Profit

Due to the benefits of the structural reforms implemented last fiscal year and the increased sales outlined above, consolidated operating income increased 123.7% to ¥8,363 million (US$71 million). However, as a result of ¥1,851 million (US$16 million) in structural reform costs arising from the realignment and streamlining of plants to improve productivity, PanaHome booked a consolidated net income of ¥5,240 million (US$44 million) for the year under review, reversing last year's net loss. The net income per share for the year under review was ¥31.21 (US$0.26).

Financial Position

As of March 31, 2007, total assets were ¥216,771 million (US$1,837 million), up 1.3% from the previous fiscal year-end. This increase was mainly due to the impact of two newly consolidated sales subsidiaries.

Current assets were ¥129,813 million (US$1,100 million), up 11.0% from a year earlier. This increase was mainly due to increased purchases of land for condominiums and detached housing for sale. Current liabilities fell by 5.5% to ¥74,691 million (US$633 million), largely due to a disbursement of deposits received following the abolishment of the employee housing provision system. As a result, working capital increased ¥17,197 million (US$146 million) from ¥37,924 million at the fiscal 2005 year-end, to ¥55,121 million (US$467 million). The current ratio was 173.8%, a 25.8 percentage-point increase compared to the end of the previous fiscal year.

Fixed assets decreased 10.4% to ¥86,958 million (US$737 million) compared to the previous fiscal year-end, largely due to the assignment of the credit of PanaHome employee housing loan receivables, as well as reductions in investment securities and buildings and structures. Long-term liabilities increased 25.6% to ¥21,537 million (US$183 million), largely due to an increase in long-term debt from financial institutions by a newly consolidated special purpose company (SPC).

Equity increased 2.9% to ¥120,543 million (US$1,022 million), reflecting an increase in retained earnings, due primarily to the net income recorded for the year.

Dividend Policy

Since its establishment, the Company has consistently viewed returning profits to shareholders as one of its key management strategies. Based on this strategy, PanaHome's first priority is to maintain stable dividends. Dividend increases will be based on thorough consideration of prevailing business and financial conditions, and commitments with regard to strengthening the business foundation.

For the fiscal year ended March 31, 2007, PanaHome has declared a full-year dividend of ¥15 (US$0.13) per share, including an interim dividend of ¥7.5 (US$0.06), the same as the previous year.

Cash Flows

Net cash used in operating activities was ¥1,115 million (US$9 million). This was largely due to increased purchases of land for condominiums and detached housing for sale, which were partially offset by increases in income before income taxes and deposits received for contracts in progress.

Net cash provided by investing activities was ¥10,993 million (US$93 million), largely due to assignment of the credit of PanaHome employee housing loan receivables.

Net cash used in financing activities was ¥9,044 million (US$77 million). This was largely due to the disbursement of deposits received following abolishment of the employee housing provision system, and the payment of dividends.

As a result, cash and cash equivalents as of March 31, 2007 stood at ¥56,631 million (US$480 million), up 4.4% compared to the previous fiscal year-end.

Consolidated Balance Sheets

PanaHome Corporation and Subsidiaries
Years ended March 31, 2007 and 2006

ASSETS	Millions of Yen 2007	Millions of Yen 2006	Thousands of U.S. Dollars (Note 1) 2007
CURRENT ASSETS:			
Cash and cash equivalents	¥ 56,631	¥ 54,221	$ 479,924
Marketable securities (Note 3)	1,110	1,500	9,407
Short-term investments (Note 2-d)	6	215	51
Receivables:			
Trade notes	24	195	203
Trade accounts	3,978	6,014	33,712
Allowance for doubtful receivables	(19)	(30)	(161)
Inventories (Note 4)	59,186	44,300	501,576
Deferred income tax assets (Note 11)	6,612	6,787	56,034
Other current assets	2,285	3,749	19,364
Total current assets	129,813	116,951	1,100,110
PROPERTY, PLANT AND EQUIPMENT:			
Land (Notes 5 and 6)	23,436	23,878	198,610
Buildings and structures (Note 6)	49,658	51,687	420,830
Machinery and equipment (Note 6)	29,164	30,599	247,153
Construction in progress	352	581	2,983
Total	102,610	106,745	869,576
Less accumulated depreciation	(56,999)	(56,830)	(483,042)
Net property, plant and equipment	45,611	49,915	386,534
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3)	10,541	13,032	89,331
Investments in associated companies	8,045	7,737	68,178
Long-term loans (Note 7)	5,290	534	44,830
Long-term loans to employees	850	9,969	7,203
Prepaid pension costs (Note 8)	3,270	1,880	27,712
Deferred income tax assets (Note 11)	8,239	9,254	69,822
Intangibles and other assets (Note 6)	6,079	5,646	51,517
Allowance for doubtful accounts	(967)	(899)	(8,195)
Total investments and other assets	41,347	47,153	350,398
TOTAL	¥ 216,771	¥ 214,019	$ 1,837,042

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen 2007	Millions of Yen 2006	Thousands of U.S. Dollars (Note 1) 2007
CURRENT LIABILITIES:			
Short-term bank loans (Note 7)	¥ 502	¥ 544	$ 4,254
Payables:			
Trade notes	178	227	1,508
Trade accounts	35,623	33,840	301,890
Accrued income taxes	420	445	3,559
Deposits received	18,201	15,945	154,246
Accrued expenses and other current liabilities	19,767	28,025	167,517
Total current liabilities	74,691	79,026	632,974
LONG-TERM LIABILITIES:			
Long-term debt (Note 7)	4,498	—	38,119
Liability for employees' retirement benefits (Note 8)	5,492	5,720	46,542
Deferred income tax liabilities on land revaluation (Note 5)	2,215	2,248	18,771
Long-term deposits received	8,888	8,660	75,322
Other long-term liabilities	444	522	3,763
Total long-term liabilities	21,537	17,150	182,517
MINORITY INTERESTS	—	736	—
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 15, 16 and 17)			
EQUITY (Notes 9 and 19):			
Common stock, authorized - 596,409,000 shares, issued - 168,563,533 shares in 2007 and 2006	28,376	28,376	240,475
Capital surplus	31,970	31,962	270,932
Retained earnings	65,797	63,029	557,602
Net unrealized gains on available-for-sale securities (Note 2-c)	592	758	5,017
Land revaluation difference (Note 5)	(6,673)	(6,625)	(56,551)
Foreign currency translation adjustments	25	(42)	212
Treasury stock - at cost, 507,485 shares in 2007 and 761,770 shares in 2006	(251)	(351)	(2,127)
Total	119,836	117,107	1,015,560
Minority interests	707	—	5,991
Total equity	120,543	117,107	1,021,551
TOTAL	¥ 216,771	¥ 214,019	$ 1,837,042

Consolidated Statements of Operations

PanaHome Corporation and Subsidiaries
Years ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
NET SALES	¥ 296,817	¥ 272,294	$ 2,515,398
COST OF SALES	225,399	207,628	1,910,161
Gross profit	71,418	64,666	605,237
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 12 and 15)	63,055	60,928	534,364
Operating income	8,363	3,738	70,873
OTHER INCOME (EXPENSES):			
Interest and dividend income	351	567	2,975
Amortization of negative goodwill	43	310	364
Interest expense	(214)	(525)	(1,814)
Equity in gains of affiliated companies	378	80	3,203
Write-down of real estate for sale	(49)	(2)	(415)
Loss on disposal of property, plant and equipment	(379)	(304)	(3,212)
Loss on liquidation of subsidiaries	(180)	—	(1,525)
Loss on impairment of long-lived assets (Note 6)	(180)	(1,527)	(1,525)
Restructuring costs (Note 13)	(1,851)	(4,729)	(15,686)
Other - net	611	613	5,177
Other expenses - net	(1,470)	(5,517)	(12,458)
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS	6,893	(1,779)	58,415
INCOME TAXES (Note 11):			
Current	279	337	2,364
Deferred	1,322	595	11,203
Total	1,601	932	13,567
MINORITY INTERESTS	52	(10)	441
NET INCOME (LOSS)	¥ 5,240	¥ (2,701)	$ 44,407

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2-p):			
Basic net income (loss)	¥ 31.21	¥ (16.10)	$ 0.26
Diluted net income	31.18	—	0.26
Cash dividends applicable to the year	15.00	15.00	0.13

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

PanaHome Corporation and Subsidiaries
Years ended March 31, 2007 and 2006

	Thousands	Millions of Yen			
	Outstanding number of shares of common stock	Common stock	Capital surplus	Retained earnings	Net unrealized gains on available for-sale securities
BALANCE, APRIL 1, 2005	167,803	¥ 28,376	¥ 31,838	¥ 68,344	¥ 666
Net loss	—	—	—	(2,701)	—
Cash dividends, ¥15.00 per share	—	—	—	(2,518)	—
Increase (decrease) due to merger	—	—	121	(121)	—
Net change in treasury stock	(2)	—	—	—	—
Gain on sales of treasury stock	—	—	3	—	—
Net increase in unrealized gain on available-for-sale securities	—	—	—	—	92
Net change due to disposal of land	—	—	—	25	—
Net change in foreign currency translation adjustments	—	—	—	—	—
BALANCE, MARCH 31, 2006	167,801	28,376	31,962	63,029	758
Reclassified balance as of March 31, 2006 (Note 2-j)	—	—	—	—	—
Net income	—	—	—	5,240	—
Cash dividends, ¥15.00 per share	—	—	—	(2,518)	—
Bonuses to directors	—	—	—	(2)	—
Reversal of land revaluation difference	—	—	—	48	—
Purchase of treasury stock	(72)	—	—	—	—
Disposal of treasury stock	327	—	8	—	—
Net change in the year	—	—	—	—	(166)
BALANCE, MARCH 31, 2007	168,056	¥ 28,376	¥ 31,970	¥ 65,797	¥ 592

	Thousands of U.S. Dollars (Note.1)			
	Common stock	Capital surplus	Retained earnings	Net unrealized gains on available for-sale securities
BALANCE, MARCH 31, 2006	$ 240,475	$ 270,864	$ 534,144	$ 6,424
Reclassified balance as of March 31, 2006 (Note 2-j)	—	—	—	—
Net income	—	—	44,407	—
Cash dividends, $0.13 per share	—	—	(21,339)	—
Bonuses to directors	—	—	(17)	—
Reversal of land revaluation difference	—	—	407	—
Purchase of treasury stock	—	—	—	—
Disposal of treasury stock	—	68	—	—
Net change in the year	—	—	—	(1,407)
BALANCE, MARCH 31, 2007	$ 240,475	$ 270,932	$ 557,602	$ 5,017

(Continued)

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity (Continued)

PanaHome Corporation and Subsidiaries
Years ended March 31, 2007 and 2006

	Millions of Yen					
	Land revaluation difference	Foreign currency translation adjustments	Treasury stock	Total	Minority interests	Total equity
BALANCE, APRIL 1, 2005	¥ (6,600)	¥ (21)	¥ (330)	¥ 122,273	¥ —	¥ 122,273
Net loss	—	—	—	(2,701)	—	(2,701)
Cash dividends, ¥15.00 per share	—	—	—	(2,518)	—	(2,518)
Increase (decrease) due to merger	—	—	—	—	—	—
Net change in treasury stock	—	—	(21)	(21)	—	(21)
Gain on sales of treasury stock	—	—	—	3	—	3
Net increase in unrealized gain on available-for-sale securities	—	—	—	92	—	92
Net change due to disposal of land	(25)	—	—	—	—	—
Net change in foreign currency translation adjustments	—	(21)	—	(21)	—	(21)
BALANCE, MARCH 31, 2006	(6,625)	(42)	(351)	117,107	—	117,107
Reclassified balance as of March 31, 2006 (Note 2-j)	—	—	—	—	736	736
Net income	—	—	—	5,240	—	5,240
Cash dividends, ¥15.00 per share	—	—	—	(2,518)	—	(2,518)
Bonuses to directors	—	—	—	(2)	—	(2)
Reversal of land revaluation difference	—	—	—	48	—	48
Purchase of treasury stock	—	—	(63)	(63)	—	(63)
Disposal of treasury stock	—	—	163	171	—	171
Net change in the year	(48)	67	—	(147)	(29)	(176)
BALANCE, MARCH 31, 2007	¥ (6,673)	¥ 25	¥ (251)	¥ 119,836	¥ 707	¥ 120,543

	Thousands of U.S. Dollars (Note.1)					
	Land revaluation difference	Foreign currency translation adjustments	Treasury stock	Total	Minority interests	Total equity
BALANCE, MARCH 31, 2006	$ (56,144)	$ (356)	$ (2,974)	$ 992,433	$ —	$ 992,433
Reclassified balance as of March 31, 2006 (Note 2-j)	—	—	—	—	6,237	6,237
Net income	—	—	—	44,407	—	44,407
Cash dividends, $0.13 per share	—	—	—	(21,339)	—	(21,339)
Bonuses to directors	—	—	—	(17)	—	(17)
Reversal of land revaluation difference	—	—	—	407	—	407
Purchase of treasury stock	—	—	(534)	(534)	—	(534)
Disposal of treasury stock	—	—	1,381	1,449	—	1,449
Net change in the year	(407)	568	—	(1,246)	(246)	(1,492)
BALANCE, MARCH 31, 2007	$ (56,551)	$ 212	$ (2,127)	$1,015,560	$ 5,991	$1,021,551

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

PanaHome Corporation and Subsidiaries
Years ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income (loss) before income taxes and minority interests	¥ 6,893	¥ (1,779)	$ 58,415
Adjustments for:			
Depreciation	3,374	3,808	28,593
Loss on impairment of long-lived assets	180	1,527	1,525
Provision for retirement and severance benefits	(1,701)	(2,449)	(14,415)
Interest and dividend income	(351)	(567)	(2,975)
Interest expense	214	525	1,814
Loss on liquidation of subsidiaries	180	—	1,525
Write-down of real estate for sale	49	2	415
Equity in gains of affiliated companies	(378)	(80)	(3,203)
Loss on disposal of property, plant and equipment	379	304	3,212
Restructuring costs	1,851	4,729	15,686
Amortization of goodwill (negative goodwill)	34	(310)	288
Decrease in trade receivables	2,221	284	18,822
Increase in inventories	(14,742)	(9,328)	(124,932)
Increase in trade payables	1,089	2,114	9,229
Increase in advances received	2,290	1,850	19,407
Other	(2,455)	303	(20,805)
Sub total	(873)	933	(7,399)
Interest and dividend income received	352	604	2,983
Interest expense paid	(279)	(548)	(2,364)
Restructuring expenses	—	(4,165)	—
Income taxes paid	(315)	(260)	(2,669)
Net cash used in operating activities	(1,115)	(3,436)	(9,449)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales and redemption of securities	1,500	5,053	12,712
Additions to property, plant and equipment	(1,017)	(1,180)	(8,619)
Proceeds from sales of property, plant and equipment	385	98	3,263
Additions to intangibles	(1,260)	(794)	(10,678)
Proceeds from sales of intangibles	—	46	—
Purchases of investment securities	—	(1,000)	—
Proceeds from sales and redemption of investment securities	1,145	6,522	9,703
Decrease in short-term investments	272	34	2,305
Proceeds from sales of long-term loans to employees	9,786	—	82,933
Other	182	2,232	1,542
Net cash provided by investing activities	10,993	11,011	93,161
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase (decrease) in short-term bank loans	(395)	136	(3,347)
Redemption of bonds	—	(20,000)	—
Purchase of treasury stock	(63)	(54)	(534)
Cash dividends paid	(2,518)	(2,517)	(21,339)
Disbursement of deposits held from employees	(6,193)	—	(52,483)
Other	125	35	1,059
Net cash used in financing activities	(9,044)	(22,400)	(76,644)
Effect of exchange rate changes on cash and cash equivalents	8	8	68
Net increase (decrease) in cash and cash equivalents	842	(14,817)	7,136
Cash and cash equivalents at beginning of year	54,221	68,004	459,500
Cash and cash equivalents of newly consolidated subsidiaries (Note 18)	1,568	1,034	13,288
Cash and cash equivalents at end of year (Note 2-b)	¥ 56,631	¥ 54,221	$ 479,924

See notes to consolidated financial statements.

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations 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.

On December 27, 2005, the Accounting Standards Board of Japan (the "ASBJ") published a new accounting standard for the statement of changes in equity, which is effective for fiscal years ending on or after May 1, 2006. The consolidated statement of shareholders' equity, which was previously voluntarily prepared in line with the international accounting practices, is now required under generally accepted accounting principles in Japan ("Japanese GAAP") and has been renamed "the consolidated statement of changes in equity" in the current fiscal year.

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. In addition, certain reclassifications have been made in the 2006 financial statements to conform to the classifications used in 2007.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which PanaHome Corporation (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 ¥118 to $1, the approximate rate of exchange at March 31, 2007. 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 fifteen associated companies are accounted for by the equity method. The investment in one associated company is stated at cost. If the equity method of accounting had been applied to the investment 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, 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 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 more than three months from 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. ***Long-lived Assets -*** In August 2002, the Business Accounting Council (BAC) issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets", and in October 2003 the ASBJ issued ASBJ Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets". These new pronouncements were 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 Group adopted the new accounting standard for impairment of fixed assets as of April 1, 2005.

The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate 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.

h. ***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.

i. ***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.

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

j. ***Presentation of Equity -*** On December 9, 2005, the ASBJ published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of equity. Such items include stock acquisition rights, minority interests, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006. The consolidated balance sheet as of March 31, 2007 is presented in line with this new accounting standard.

k. ***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.

l. ***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 or resolution at the Board of Directors' meeting.

m. ***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.

n. ***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 equity, which is translated at historical exchange rates. Revenue and expense accounts of the consolidated foreign subsidiaries are 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 equity.

o. ***Derivative Financial Instruments -*** The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts and interest rate swaps are utilized by the Group to reduce foreign currency exchange and interest rate risks. 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.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential received under the swap agreements are recognized and included in interest income.

p. ***Per Share Information -*** Basic net income (loss) per share is computed by dividing net income (loss) 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 2006 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.

q. ***New Accounting Pronouncements***

Measurement of Inventories - Under Japanese GAAP, inventories are currently measured either by the cost method, or at the lower of cost or market. On July 5, 2006, the ASBJ issued ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories", which is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard also requires that inventories held for trading purposes be measured at the market price.

Lease Accounting - On March 30, 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions", which revised the existing accounting standard for lease transactions issued on June 17, 1993.

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements.

The revised accounting standard requires that all finance lease transactions should be capitalized. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements - Under Japanese GAAP, a company currently can use the financial statements of foreign subsidiaries which are prepared in accordance with generally accepted accounting principles in their respective jurisdictions for its consolidation process unless they are clearly unreasonable. On May 17, 2006, the ASBJ issued ASBJ Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements". The new task force prescribes: 1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, 2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used for the consolidation process, 3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material;

(1) Amortization of goodwill
(2) Actuarial gains and losses of defined benefit plans recognized outside profit or loss
(3) Capitalization of intangible assets arising from development phases
(4) Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and intangible assets
(5) Retrospective application when accounting policies are changed
(6) Accounting for net income attributable to a minority interest

The new task force is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Current:			
Government and corporate bonds	¥ 1,110	¥ 1,500	$ 9,407
Non-current:			
Marketable equity securities	¥ 1,617	¥ 1,944	$ 13,704
Government and corporate bonds	8,924	11,088	75,627
Total	¥ 10,541	¥ 13,032	$ 89,331

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2007 and 2006 were as follows:

	Millions of Yen			
	2007			
Securities classified as:	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥ 490	¥ 1,010	¥ —	¥ 1,500
Debt securities	3,069	0	20	3,049
Held-to-maturity	6,985	7	216	6,776

	Millions of Yen			
	2006			
Securities classified as:	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥ 490	¥ 1,321	¥ —	¥ 1,811
Debt securities	3,516	1	64	3,453
Held-to-maturity	9,135	17	343	8,809

	Thousands of U.S. Dollars			
	2007			
Securities classified as:	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	$ 4,153	$ 8,559	$ —	$ 12,712
Debt securities	26,009	0	170	25,839
Held-to-maturity	59,195	60	1,831	57,424

Available-for-sale securities whose fair values are not readily determinable as of March 31, 2007 and 2006 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
Available-for-sale:	2007	2006	2007
Equity securities	¥ 117	¥ 133	$ 992
Total	¥ 117	¥ 133	$ 992

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2007 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due in one year or less	¥ 1,110	$ 9,407
Due after one year through five years	4,743	40,195
Due after five years through ten years	4,200	35,593
Total	¥ 10,053	$ 85,195

4. INVENTORIES

Inventories at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Real estate for sale	¥ 48,089	¥ 34,118	$ 407,534
Contracts in progress	8,746	7,383	74,118
Finished goods	1,534	1,671	13,000
Work in process, raw materials and supplies	817	1,128	6,924
Total	¥ 59,186	¥ 44,300	$ 501,576

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 equity. There was no effect on the statement of operations. Continuous readjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the land revaluation difference and related deferred tax liabilities.

At March 31, 2007, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥4,604 million ($39,017 thousand).

6. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of the year ended March 31, 2007 and 2006.

As a result, for the year ended March 31, 2007, the Group recognized an impairment loss of ¥1,897 million ($16,076 thousand) as other expenses for certain rental properties in Miyagi Prefecture due to substantial declines in the fair market value and sluggish rental market value, certain idle assets in Ibaragi Prefecture and others due to substantial declines in the fair market value, and certain business properties to be disposed of due to realignment of the Kyushu Plant, Shizuoka Plant and Head Plant to streamline and reorganize the production system. The carrying amount of those assets was written down to the recoverable amount. The recoverable amounts of the rental properties and idle assets were measured by their net selling price at disposition, principally calculated by the appraisal value. The recoverable amount of the business properties to be disposed of due to realignment was measured at their value in use until disposal. The amount of impairment loss recognized related to certain business properties to be disposed of due to realignment was included in restructuring costs in the consolidated statement of operations.

For the year ended March 31, 2006, the Group recognized an impairment loss of ¥1,527 million as other expenses for certain rental properties in Saitama Prefecture and others due to substantial declines in the fair market value and sluggish rental market value, certain idle assets in Hokkaido Prefecture and others due to substantial declines in the fair market value, and certain business properties in New Zealand and others due mainly to a continuous operating losses. The carrying amount of those assets was written down to the recoverable amount. The recoverable amount of the rental properties was measured at their value in use and the discount rate used for computation of present value of future cash flows was from 2% to 5%. The recoverable amounts of the idle assets and the business properties were measured by their net selling price at disposition, principally calculated by the appraisal value.

Impairment losses which the Group recognized for the years ended March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Rental properties:			
Land	¥ 11	¥ 170	$ 93
Buildings and structures	3	59	25
Total	¥ 14	¥ 229	$ 118
Idle assets:			
Land	¥ 60	¥ 295	$ 509
Buildings and structures	100	355	847
Other	6	47	51
Total	¥ 166	¥ 697	$ 1,407
Business properties:			
Land	¥ —	¥ 39	$ —
Buildings and structures	839	377	7,110
Machinery and equipment	873	180	7,398
Other	5	5	43
Total	¥ 1,717	¥ 601	$ 14,551

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

For short-term bank loans at March 31, 2007 and 2006, the annual interest rates ranged from 1.38% to 4.51% and from 1.50% to 4.45%, respectively.

Long-term debt at March 31, 2007 consisted of collateralized loans from banks of ¥4,498 million ($38,119 thousand) due serially to 2027, with the annual interest rate of 2.13%.

Annual maturities of long-term debt at March 31, 2007, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2008	¥ 126	$ 1,068
2009	209	1,771
2010	217	1,839
2011	224	1,898
2012	231	1,958
2013 and thereafter	3,491	29,585
Total	¥ 4,498	$ 38,119

At March 31, 2007, long-term loans of ¥5,002 million ($42,390 thousand) were pledged as collateral for long-term debt of ¥4,498 million ($38,119 thousand).

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.

8. 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 plans, 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, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Projected benefit obligation	¥ 38,388	¥ 36,581	$ 325,322
Fair value of plan assets	(29,922)	(26,222)	(253,576)
Unrecognized prior service benefit	6,693	8,225	56,720
Unrecognized actuarial loss	(12,937)	(14,744)	(109,636)
Prepaid pension cost	3,270	1,880	27,712
Net liability	¥ 5,492	¥ 5,720	$ 46,542

The components of net periodic benefit costs for the years ended March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Service cost	¥ 1,765	¥ 1,846	$ 14,958
Interest cost	903	910	7,652
Expected return on plan assets	(781)	(651)	(6,619)
Prior service benefit	(1,532)	(1,532)	(12,983)
Recognized actuarial loss	975	1,145	8,263
Net periodic benefit costs	¥ 1,330	¥ 1,718	¥ 11,271

Assumptions used for the years ended March 31, 2007 and 2006 were set forth as follows:

	2007	2006
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

9. EQUITY

On and after May 1, 2006, Japanese companies are subject to a new corporate law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan (the "Code") with various revisions that are, for the most part, applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Corporate Law provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases/decreases and transfer of common stock, reserve and surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula. Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity. The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

10. STOCK OPTIONS

The stock option outstanding as of March 31, 2007 is as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2002 Stock Option	8 directors and 8 executive officers of the Company, and 19 directors of its associated companies	360,000 shares	2002.10.02	¥ 479 ($ 4)	From April 1, 2003 To March 31, 2007
2003 Stock Option	8 directors and 6 executive officers of the Company, 1 director of its subsidiary, and15 directors of its associated companies	310,000 shares	2003.10.02	¥ 615 ($ 5)	From April 1, 2004 To March 31, 2008

The stock option activity is as follows:

	2002 Stock Option (Shares)	2003 Stock Option (Shares)
For the year ended March 31, 2006		
Non-vested		
March 31, 2005 - Outstanding	—	—
Granted	—	—
Canceled	—	—
Vested	—	—
March 31, 2006 - Outstanding	—	—
Vested		
March 31, 2005 - Outstanding	310,000	310,000
Vested	—	—
Exercised	60,000	10,000
Canceled	—	—
March 31, 2006 - Outstanding	250,000	300,000
For the year ended March31, 2007		
Non-vested		
March 31, 2006 - Outstanding	—	—
Granted	—	—
Canceled	—	—
Vested	—	—
March 31, 2007 - Outstanding	—	—
Vested		
March 31, 2006 - Outstanding	250,000	300,000
Vested	—	—
Exercised	230,000	90,000
Canceled	20,000	—
March 31, 2007 - Outstanding	—	210,000
Exercise price	¥ 479 ($ 4)	¥ 615 ($ 5)
Average stock price at exercise	¥ 854 ($ 7)	¥ 855 ($ 7)
Fair value price at grant date	—	—

11. 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% for the years ended March 31, 2007 and 2006, respectively.

The significant components of deferred tax assets and liabilities at March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Deferred tax assets:			
Loss carryforward	¥ 6,766	¥ 10,349	$ 57,339
Accrued expenses	2,901	2,795	24,585
Depreciation	1,406	1,417	11,915
Employees' retirement benefits	950	1,555	8,051
Write-down of inventories	988	1,057	8,373
Other	3,566	2,524	30,220
Subtotal	16,577	19,697	140,483
Valuation allowance	(1,323)	(3,144)	(11,212)
Total	15,254	16,553	129,271
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(403)	(512)	(3,415)
Total	(403)	(512)	(3,415)
Net deferred tax assets	¥ 14,851	¥ 16,041	$ 125,856

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 year ended March 31, 2007 was as follows (2006 was not presented because of the net loss for the period):

	2007
Normal effective statutory rate	40.7 %
Per capita levy	2.5
Expenses permanently not deductible for income tax purposes	2.1
Decrease of valuation allowance	(13.1)
Equity in gains of affiliated companies	(2.2)
Recognized tax effects on loss of liquidation of subsidiaries	(7.3)
Other - net	0.5
Actual effective rate	23.2 %

12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to operations were ¥1,614 million ($13,678 thousand) and ¥2,139 million for the years ended March 31, 2007 and 2006, respectively.

13. RESTRUCTURING COSTS

Restructuring cost for the year ended March 31, 2007 included ¥1,717 million ($14,551 thousand) of impairment loss recognized related to certain business properties to be disposed of due to realignment, and ¥134 million ($1,135 thousand) of loss on removal and abandonment of machinery and equipment to streamline and reorganize the production system. Restructuring cost for the year ended March 31, 2006 included ¥4,371 million of additional retirement payment under the implementation of the retirement and mid-career assistance program, and ¥358 million of loss on a liquidation of overseas subsidiary.

14. RELATED PARTY TRANSACTIONS

Sales to associated companies were ¥33,912 million ($287,390 thousand) and ¥34,859 million for the years ended March 31, 2007 and 2006, respectively. Trade accounts receivable due from associated companies were ¥1,547 million ($13,110 thousand) and ¥1,690 million at March 31, 2007 and 2006, respectively.

15. LEASES

Total lease payments under finance leases that are not deemed to transfer ownership of the leased property to the lessee were ¥1,915 million ($16,229 thousand) and ¥1,576 million for the years ended March 31, 2007 and 2006, 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, 2007 and 2006 were as follows:

	Millions of Yen			
	2007			
	Buildings and Structures	Machinery and Equipment	Intangibles	Total
Acquisition cost	¥ 8,093	¥ 588	¥ 11	¥ 8,692
Accumulated depreciation	2,784	350	5	3,139
Net leased property	¥ 5,309	¥ 238	¥ 6	¥ 5,553

	Millions of Yen			
	2006			
	Buildings and Structures	Machinery and Equipment	Intangibles	Total
Acquisition cost	¥ 4,842	¥ 904	¥ 11	¥ 5,757
Accumulated depreciation	1,873	518	2	2,393
Net leased property	¥ 2,969	¥ 386	¥ 9	¥ 3,364

	Thousands of U.S. Dollars			
	2007			
	Buildings and Structures	Machinery and Equipment	Intangibles	Total
Acquisition cost	$ 68,585	$ 4,983	$ 93	$ 73,661
Accumulated depreciation	23,593	2,966	42	26,601
Net leased property	$ 44,992	$ 2,017	$ 51	$ 47,060

Obligations under such finance leases as of March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Due within one year	¥ 2,114	¥ 1,357	$ 17,915
Due after one year	3,466	2,007	29,373
Total	¥ 5,580	¥ 3,364	$ 47,288

Prior to April 1, 2006, the amount of acquisition cost and obligations under finance leases included the imputed interest expense portion. Effective April 1, 2006, the Company changed method of computing interest expense to the interest method, and therefore, the amount of acquisition cost and obligations under finance leases excludes the imputed interest expense portion at March 31, 2007. The effect of this change was negligible.

Depreciation expense and interest expense under finance leases for the years ended March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Depreciation expense	¥ 1,878	¥ 1,576	$ 15,915
Interest expense	49	—	415
Total	¥ 1,927	¥ 1,576	$ 16,330
Lease payments	¥ 1,915	¥ 1,576	$ 16,229

Depreciation expense, which is not reflected in the accompanying statements of operations, is computed by the straight-line method. Effective April 1, 2006, interest expense, which is not reflected in the accompanying statements of operations, is computed by the interest method.

The minimum rental commitments under noncancellable operating leases at March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Due within one year	¥ 21	¥ 22	$ 178
Due after one year	38	48	322
Total	¥ 59	¥ 70	$ 500

16. DERIVATIVES

The Group enters into foreign currency forward contracts to hedge foreign exchange risk associated with trade payable denominated in foreign currencies. The Group also enters into interest rate swap agreements to hedge its interest rate risk associated with loans.

The Group uses derivatives only for the purpose of reducing foreign currency exchange and interest rate risks. It is the Group's policy not to use derivatives for speculative purposes.

Because the counterparties to these derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Group have been executed in accordance with internal policies which prohibits investing activities for speculative purposes. The operations and controls of derivative transactions are managed by the Accounting Department of the Company cooperating with the applicable departments.

The Group did not have any derivative transaction excluding some that to qualify for hedge accounting at March 31, 2007 and 2006.

17. CONTINGENT LIABILITIES

Guarantees of Loans - At March 31, 2007, the Group had contingent liabilities principally related to guarantees of customer housing loans in the amount of ¥5,802 million ($49,169 thousand).

18. SUPPLEMENTARY CASH FLOWS INFORMATION

Assets and liabilities of newly consolidated subsidiaries, at the inception of consolidation for the years ended March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Current assets	¥ 2,178	¥ 2,777	$ 18,458
Non-current assets	5,281	729	44,754
Current liabilities	(1,307)	(1,353)	(11,076)
Non-current liabilities	(6,415)	(84)	(54,364)
Minority interests	(6)	(530)	(51)
Goodwill (Negative goodwill)	51	(304)	432
Equity at the inception of consolidation	218	(1,235)	1,847
Acquired price of stocks	—	—	—
Cash and cash equivalents of newly consolidated subsidiaries	1,568	1,034	13,288
Difference	¥ 1,568	¥ 1,034	$ 13,288

19. SUBSEQUENT EVENT

Appropriation of Retained Earnings - The following appropriation of retained earnings at March 31, 2007 was resolved at the Board of Directors' meeting held on April 25, 2007:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥7.50 ($0.06) per share	¥1,261	$10,686

INDEPENDENT AUDITORS' REPORT

Deloitte.

Deloitte Touche Tohmatsu
Nakanoshima Central Tower
2-2-7, Nakanoshima, Kita-ku
Osaka-shi, Osaka 530-0005
Japan

Tel: +81 6 4560 6000
Fax: +81 6 4560 6001
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, 2007 and 2006, and the related consolidated statements of operations, changes in 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, 2007 and 2006, 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

July 2, 2007

Member of
Deloitte Touche Tohmatsu

Corporate Information

Corporate Data (As of March 31, 2007)

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

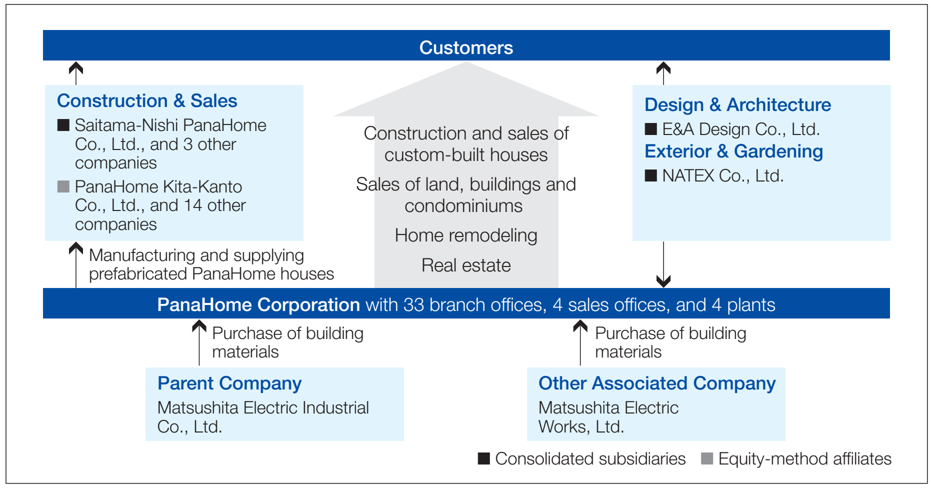
Capital
¥28,376 million

Shares

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

Number of Shareholders
8,842

Subsidiaries and Affiliates (As of March 31, 2007)



Management (As of June 27, 2007)

Members of the Board

President & Chief Executive Officer
Tsutomu Ueda

Executive Vice President
Shinya Koga

Directors
Takaaki Ikeda
Mitsuo Kusunoki
Akira Kobayashi
Koji Watanabe

Corporate Auditors

Senior Standing Corporate Auditor
Yukimitsu Kodama

Standing Corporate Auditor
Shigeru Nakatani

Corporate Auditor
Jun Demizu

Corporate Executive Officers

Executive Vice President & Officer
Shinya Koga

Senior Managing Executive Officers
Takaaki Ikeda
Mitsuo Kusunoki
Yuji Kinoshita

Managing Executive Officers
Akira Kobayashi
Koji Watanabe

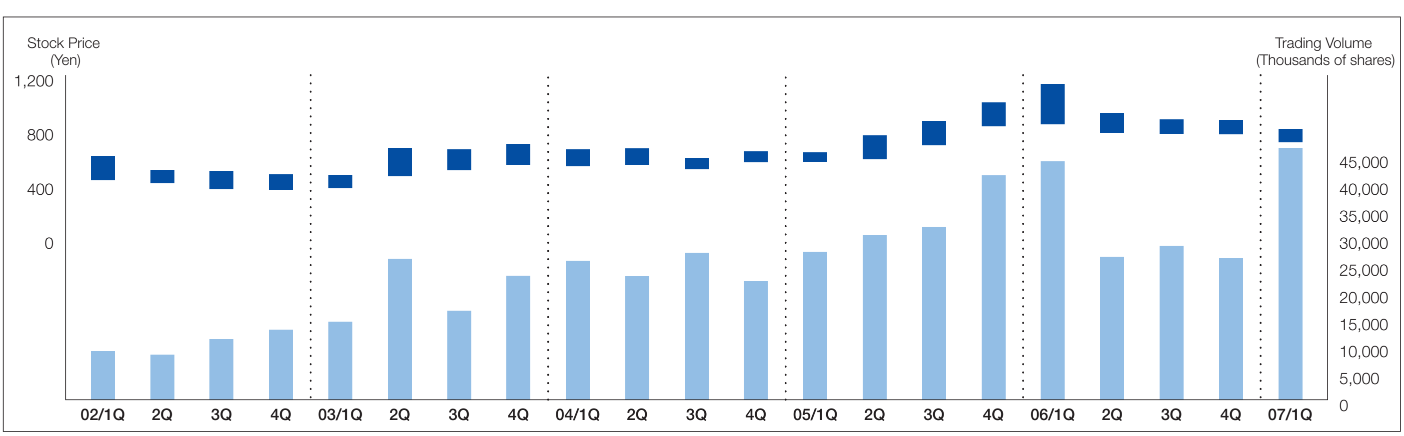
Executive Officers
Hiroshi Yamada
Etsurou Tanbara
Hiroki Umiguchi
Tomiharu Yamada
Makoto Hatakeyama
Yoshifumi Tsuruta
Hirohiko Nagata
Hiroshi Hirasawa
Toshimitsu Sakai
Mitsuhiko Nakata
Kazuo Kitagawa

Major Shareholders (As of March 31, 2007)

Name	Thousands of Shares Held	Shareholding Ratio (%)
Matsushita Electric Industrial Co., Ltd.	45,518	27.00
Matsushita Electric Works, Ltd.	45,518	27.00
Japan Trustee Services Bank, Ltd. (trust account)	5,797	3.43
National Mutual Insurance Federation of Agricultural Cooperatives	3,697	2.19
The Master Trust Bank of Japan, Ltd. (trust account)	2,731	1.62
Sumitomo Mitsui Banking Corporation	2,358	1.39
Northern Trust Company (AVFC) Sub-account American Client	2,290	1.35
PanaHome Employee Shareholding Association	2,229	1.32
The Bank of New York, Treaty Jasdec Account	1,934	1.14
Goldman Sachs International	1,689	1.00

Note: PanaHome holds 471,636 shares of its own common stock.

Stock Price Range and Trading Volume (Tokyo Stock Exchange)



PanaHome

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

PRINTED WITH SOY INK

This entire report is printed with soy ink on paper that is 100% recycled.
Printed in Japan