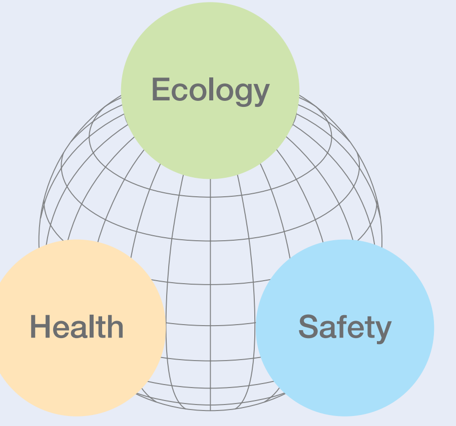
PanaHome

Stepping **Forward**

PanaHome Corporation

Annual Report 2008 For the year ended March 31, 2008

Corporate Profile



Since its establishment in 1963, PanaHome Corporation has strived to uphold the Matsushita Group's brand name as it develops its 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 four core businesses of custom-built detached housing, asset management, housing development, and home remodeling. Furthermore, as a housing company within the Matsushita Group, the Company is providing comfortable living environments by developing businesses that mobilize the comprehensive strengths of the Matsushita Group.

Contents

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

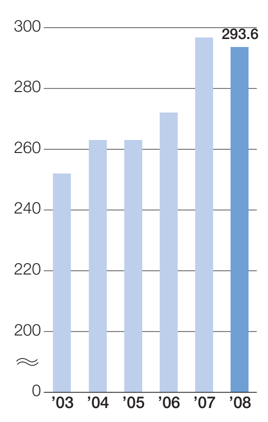
Financial Highlights

PanaHome Corporation and Subsidiaries
Years ended March 31, from 2003 to 2008

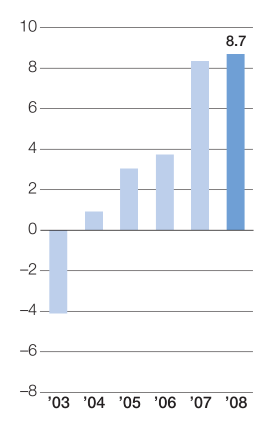
	Millions of yen						Thousands of U.S. dollars
	2003	2004	2005	2006	2007	2008	2008
Net Sales	¥252,706	¥263,755	¥263,826	¥272,294	¥296,817	¥293,617	$2,936,170
Operating Income (Loss)	(4,122)	921	3,045	3,738	8,363	8,757	87,570
Income (Loss) before Income Taxes							
and Minority Interests	(13,982)	322	3,213	(1,779)	6,893	(1,188)	(11,880)
Net Income (Loss)	(10,500)	1,134	3,772	(2,701)	5,240	(606)	(6,060)
Total Assets	236,350	232,147	233,365	214,019	216,771	206,750	2,067,500
Equity	125,450	120,642	122,273	117,107	120,543	117,357	1,173,570
Return on Equity	(7.9)%	0.9%	3.1%	(2.3)%	4.4%	(0.5)%	
	Yen						U.S. dollars
Per Share Amounts:							
Net Income (Loss)	¥ (62.40)	¥ 6.75	¥ 22.48	¥ (16.10)	¥ 31.21	¥ (3.61)	$ (0.04)
Diluted Net Income	–	6.75	22.47	–	31.18	–	–
Cash Dividends	15.00	15.00	15.00	15.00	15.00	15.00	0.15
Number of Employees							
at Year-end (Persons)	6,676	6,603	6,493	5,978	5,750	5,097	

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 ¥100=US$1, the approximate rate of exchange at March 31, 2008, 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.

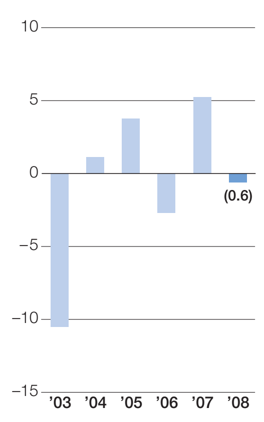
Net Sales
(Billions of Yen)



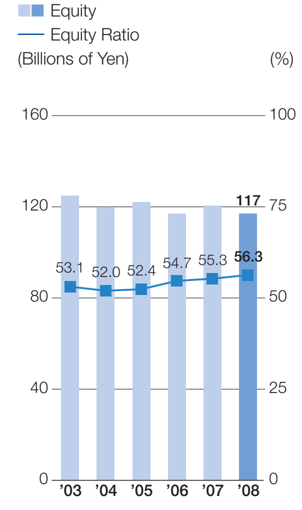
Operating Income (Loss)
(Billions of Yen)



Net Income (Loss)
(Billions of Yen)



Equity/Equity Ratio



* Years ended March 31

To Our Shareholders

Fiscal 2007, ended March 31, 2008, was an important year in which PanaHome developed its management foundation through structural reforms. The reforms we implemented included the consolidation and realignment of our four plants to two plants, opting to procure materials for housing interiors from the Matsushita Group rather than producing them in-house, and workforce streamlining. In line with the Japanese government's "200-Year Vision" for homes, each segment has been developing its business under the basic concept of creating comfortable Eco-Life Homes. These efforts notwithstanding, sales declined due to the extremely challenging business environment that presently grips our industry. On a more positive note, operating income increased as the benefits of our structural reforms emerged.

The environment surrounding the housing business in Japan is set to witness more turmoil in the year ending March 31, 2009. An amendment to the Architect Law of Japan has made it mandatory for builders to thoroughly explain important construction terms. The Law for Execution of Warranty Against Housing Defects has also come into force to protect new home buyers. Moreover, prices for steel and other raw materials are expected to rise, with the outlook for the economy increasingly uncertain due to these and other factors.

In order to succeed in this market environment, PanaHome will endeavor to further strengthen its business foundation by promoting comprehensive cost-cutting measures. These include bolstering human resources to enhance productivity, cutting losses by promoting overall operational standardization, and reducing the seasonal fluctuation of construction.

We will also regard these changes in the management environment as new opportunities to ensure growth by differentiating ourselves from our competition. For example, in order to promote the appeal of our products, we are opening overnight-stay model homes throughout Japan where prospective buyers can spend a night. We will also offer all-electric homes with the latest home appliances from the Matsushita Group to obtain the highest grade (S rank) of the Comprehensive Assessment System for Building Environmental Efficiency (CASBEE), the energy conservation standard of the housing industry.

We will also proceed with the housing stock business, including our home remodeling business and real estate business. In addition, we will expand our housing-related businesses, such as gardening and site-survey, beyond the Tokyo metropolitan area to the Nagoya and Osaka regions. Furthermore, by promoting the housing development business we will be able to meet a wider range of housing demands.

At the same time, we will keep the transparency of the Company's management and achieve continuous increases in corporate value by strengthening CSR, compliance, and risk management.

As for performance in fiscal 2008, the year ending March 31, 2009, we are projecting ¥300,000 million in consolidated net sales, ¥10,500 million in consolidated operating income, and a consolidated operating income margin of 3.5%. We aim to achieve a 5.0% operating income margin in as short a timeframe as possible.

The most important way we can help our customers to realize their dreams is through our customer service initiatives, built on the motto "Putting Customers First." We will identify with our customers and utilize the collective strengths of the Matsushita Group to offer comfortable living spaces that give our customers a place where they can truly relax. Furthermore, we are aiming to become a comprehensive housing company that delivers lifetime satisfaction through remodeling and home upgrades for PanaHome owners.

Thank you for your continued support.

July 2008

Tsutomu Ueda

Tsutomu Ueda
President & CEO

An Interview with President Tsutomu Ueda

Q1 What is your analysis of the market environment in the year ended March 31, 2008?

A1 The business environment surrounding PanaHome was extremely tough, with the number of factors with a negative impact on corporate income increased. There was uncertainty in the Japanese financial markets stemming from the sub-prime loan problem in the United States. In addition, raw materials prices rose sharply. The situation was also tough in the housing industry because the number of new housing starts declined substantially, triggered by the revised Building Standards Law, and due to a decline in consumer confidence, among other factors. According to the New Housing Starts Statistics published by the Ministry of Land, Infrastructure, Transport and Tourism, the number of new housing starts declined by a large 19.4% from the previous year to 1,035,000, the lowest figure since 1966.

From a long-term perspective, it is said that in Japan approximately 20% of waste material from construction is due to housing-related construction. The prevalence of the scrap-and-build practice in this country has created a large environmental burden. The average life of a house is roughly 30 years in Japan, in contrast to 77 years in the UK and 55 years in the US. The fact is that huge housing costs are incurred by Japanese citizens even as the asset value of their homes is eroding. Given these conditions, the Japanese government has launched the “200-Year Vision” for homes and is developing legal systems based on the Basic Act for Housing. It is expected that as a result of these housing policies, Japan’s market will gradually transform into a market like those in Europe and North America.

Q2 How was PanaHome’s business performance in fiscal 2007?

A2 The PanaHome Group implemented structural reforms in order to strengthen its management foundation, and in September 2007 we launched a new corporate structure. Regarding business promotion, in line with the “200-Year Vision” for homes being promoted by the Japanese government, we have positioned comfortable Eco-Life Homes as our basic concept in order to promote the supply of long-lived homes, which includes home maintenance as well as energy conservation and CO_2 reduction. We have developed our custom-built detached housing business, asset management business, housing development business, and remodeling business under the themes of safety and security, health and comfort, and energy generation and conservation.

Even though we adopted these policies for each business, the business environment in our industry was extremely adverse. Consequently, in fiscal 2007, consolidated net sales fell 1.1% year on year to ¥293,617 million. Consolidated operating income grew 4.7% to ¥8,757 million due to the emerging benefits of our structural reforms. We recorded a net loss of ¥606 million as a result of extraordinary losses of ¥10,613 million booked as restructuring costs. Consolidated order volume grew 3.6% to ¥294,979 million. We declared a full-year dividend of ¥15 per share.

Q3 **The revised Building Standards Law came into force in June 2007. What impact has this had on PanaHome?**

A3 The revised law imposes a mandatory structural calculation inspection to be carried out by a government-designated inspection institution when constructing a new building. Most of the products PanaHome sells have already acquired industrial certification as prefabricated houses, so there is little direct impact on our business performance. However, it is a fact that the revision obviously discouraged consumers from homeownership, so I think there has been a large indirect impact. The number of new housing starts was almost 20% lower in fiscal 2007 than in the previous year, the delay in starts was caused by the disruptions related to the structural calculation inspection procedures. Customers also showed a wait-and-see attitude as land prices rose and the threat of higher interest rates waned. As demand declines, the competition among companies becomes more intense. PanaHome had to fight hard in the second and third quarters, but in January 2008 we launched our new product *SOLANA eu Lucia*, and as a result, orders in the fourth quarter were very strong, 115% higher than in the same period in the previous year calculated on a unit basis.

Q4 **Your structural reforms produced benefits of ¥4,300 million in fiscal 2007. Please tell us about the details of these reforms.**

A4 In the year ended March 31, 2008, we worked on the following two structural reforms.

The first reform was the realignment of our production centers. We closed down the Kyushu Plant and the Shizuoka Plant, and consolidated and realigned production around the Head Office Plant (in Shiga Prefecture) and the Tsukuba Plant (in Ibaraki Prefecture). Furthermore, in order to eliminate duplication of businesses within the group, we ceased production of housing materials for interiors, such as fixtures, that we had previously been producing in-house and have switched to procuring them from Matsushita Electric Works, Ltd.

The second reform was the streamlining of our workforce. We have worked to right-size our workforce through the standardization of operations, resulting in a reduction of the workforce.

Through these reforms we reduced costs by ¥4,300 million over seven months in the year ended March 31, 2008, an annualized amount of ¥7,400 million.

Q5 **You have accelerated collaboration with the Matsushita Group and this has enabled PanaHome to more clearly differentiate itself from other companies in the same industry. Please explain PanaHome's competitive advantage.**

A5 We have realized once again that being a company in the Matsushita Group is really a huge strength. In Japan, most people want to live for a long time in the house they have purchased. It follows, then, that customers will not achieve the peace of mind they need if we are not a company that takes long-term care of the homes they live in for so many years. Considering these customs in Japan, it is no exaggeration to say that the reputation of a housing company is earned after it sells the house. In that sense as well, the Matsushita brand engenders the trust and expectation of our customers, giving them confidence that PanaHome will meet their needs to the end. Our collaborations with Matsushita Electric Industrial Co., Ltd. and Matsushita Electric Works, Ltd. also enable us to differentiate ourselves from other companies by providing our customers with houses that are wholly equipped with the latest Matsushita brand products and equipment.

Q6 **What specific policies do you plan to implement to strengthen marketing?**

A6 Approximately half of all of the Panahome salespeople who are in charge of marketing new houses have been at the company less than ten years. I intend to provide thorough training and educational programs to all of our salespeople so that they are fully aware of the competitive advantages of PanaHome and can present our products to our customers with confidence. Moreover, the salespeople are in the same age group as customers purchasing their first homes, so they can empathize with the customers' sensibilities and lifestyles. The growth of this demographic will enable us to open up new prospects in the future. What I want from marketing is productivity. Naturally, as people gain experience, their productivity tends to improve. The average productivity of salespeople who have been at the company fewer than five years is approximately 60% of that of salespeople who have been at the company from six to ten years. Our key task is to improve productivity through comprehensive educational programs. We are also fully utilizing three-dimensional digital presentation software. This software has a function for quick calculation of housing material requirements and can present proposals, estimates, and three-dimensional images of houses to customers. In these ways, we are aiming to make marketing both faster and more efficient.

Q7 **To promote differentiation you have commenced full-scale operation of model homes where prospective customers can stay overnight. Please tell us about the benefits of these new model homes compared to conventional showrooms.**

A7 Since fiscal 2006, we have been gradually increasing the number of overnight-stay model homes where customers can try staying overnight, and we are planning to open 100 more of them nationwide during the current period. It is also possible for customers to see actual living spaces and equipment at the showrooms, but of course if they can actually stay in and experience the house overnight, they are much more likely to appreciate it. In the year ended March 31, 2008, 18% of families that stayed at these houses signed contracts to purchase a home. We are aiming to raise this figure to 30% in the year ending March 31, 2009. These model homes are built on sections of subdivisions and we typically sell them within a year, so they are always furnished with the Matsushita Group's latest equipment and home appliances. Meanwhile, since we are able to hear opinions directly from the customers, we intend to contribute to the development of Matsushita Group products in the future.

Q8 **Please explain about the efficient housework (“*Kajiraku*”) concept that is new to PanaHome houses.**

A8 Similar to other companies in the industry, our marketing used to be centered on the more “concrete” aspects of a house, such as earthquake resistance and airtight construction. But we realized that for customers, these features had become standard expectations. We then conducted a number of group interviews and questionnaires targeted at women, who are important decision-makers when buying a home. This research made us realize that there was strong demand in a number of areas, including “making housework easier” and “making housework more fun.” Women also expressed a desire to have the time spent at home be valuable and have more free time to pay attention to themselves, as well as to simply have a high-quality, tasteful home. So we have proposed several new concepts, including adding value with the latest home appliances and equipment from Matsushita Electric Industrial and Matsushita Electric Works, such as home theaters and integrated kitchen systems. We also did research into where people walk in the house while doing housework in order to design layouts that reduce movement by 20%. A house that incorporates all of these concepts is the *SOLANA eu Lucia*, which we put on the market in January 2008. In fiscal 2008 we will continue to promote this “*Kajiraku*” style as a new concept for homebuilding.

Q9 **PanaHome won the House of the Year in Electric 2007 special prize. Please tell us about your approach regarding the environment.**

A9 In August 2003, the PanaHome Group issued our Eco-Life Homes Declaration, declaring to everyone inside and outside the company our intent to deliver houses that are friendly to people and the global environment. Since then, we have been promoting houses with outstanding heat insulation properties and furnished with the highly energy-conserving equipment and appliances of the Matsushita Group, in order to achieve these “Eco-Life Homes.” For example, all-electric equipment such as the induction heating unit for cooking and electric hot water supply equipment enable customers to save a huge amount on their utility bills each year. Furthermore, from the perspective of saving the global environment, it is possible to reduce CO_2 emissions by two metric tons per house in one year. I believe that we were awarded the special prize in the House of the Year in Electric 2007 awards in recognition of these kinds of initiatives. Going forward, I intend to continue our collaboration with the Matsushita Group and to incorporate new technologies and concepts so we can offer our customers houses that contribute to a healthy environment.

Q10 **Please tell us about the policies you are currently working on to ensure management stability for PanaHome.**

A10 Currently, we are promoting the equalization of construction and cost reductions. We are aiming to achieve the equalization of construction by ensuring a backlog of orders and controlling housing development construction starts. We have six specific policies regarding promotion of cost reductions.

The first is a policy to combat rising material prices. In particular the rise in steel prices is having a big impact on the cost of materials. We are attempting to absorb the increase in material costs by reducing the costs of back-office departments and losses from mistakes. Secondly, we are aiming to improve productivity by promoting what we call the Next Cell Production System which helps in reducing inventory and unit costs. Third, we are reducing the costs of products by studying structural design, reducing packaging materials, and promoting the development of alternative materials in cooperation with our suppliers.

Fourth, we are reviewing the material logistics system. Building materials are sent to construction sites either directly from our plants or indirectly from suppliers via our central warehouse. We are aiming to shorten the logistics cycle by sending materials from suppliers directly to a facility near the construction site, timed to match the progress of the construction process. Fifth, we are aiming to reduce the construction period by reviewing time-saving designs and construction systems. Previously, it took an average of 65 days from the framework to completion of the house, but we will reduce this by 20 days through our reviews of new construction methods and processes. It used to be that a single builder had responsibility for taking charge of the entire process, from the framework to completion of the house. Recently, however, we have been changing over to a two-person system, which also is helping us cope with the aging of builders and the training of their successors. Another way of shortening the construction period is by doing certain work that used to be done on the construction site at a plant. Finally, we will reduce the number of showrooms by 20 to 246 in the year ending March 31, 2009 in order to increase their productivity when receiving orders and to update them. We will strengthen our management foundation through these policies.

Q11 Please tell us how you will achieve growth in the future and give a message to the shareholders.

A11 Fiscal 2007 was a year in which we strengthened our management foundation through our business structure reforms. We also built a structure that will enable us to put new products on the market regularly once a year. For example, we hold study sessions about our new products for all of our employees and run media promotions ahead of the release. Moreover, we put in place a new sales tool—our overnight-stay model homes—and strengthening our marketing capacity. Our recent televised campaigns are aimed at raising awareness of our new "*Kajiraku*" concept, backed up by the Matsushita brand, which is only available through PanaHome. In these ways we are creating our own unique business model that takes full advantage of our products, concepts, marketing capacity, infrastructure, and brand. However, I am not complacent. Going forward, we will aim to further strengthen the management foundation of the Company and achieve an operating income margin of 5.0% as soon as we can. My mission is to achieve our targets, and I will aim to ensure PanaHome's further growth by steadily implementing policies to overcome each challenge that we face.

Business Operations

Custom-built Detached Housing Business

SOLANA eu Lucia

PanaHome's people- and environment-friendly Eco-Life Homes focus on three themes: safety and security, health and comfort, and energy generation and conservation.

We are making concerted efforts to improve long-term basic performance of PanaHome houses through proprietary technological development. For example, PanaHome technologies enable superior earthquake resistance, able to withstand even repeated earthquakes, as well as our Eco-Life ventilation system and humidity-regulating building materials that produce comfortable room environments. We are also seeking to reduce the life-cycle costs of our houses by shifting to all-electric power supply and incorporating solar power generation systems and photocatalytic KIRATECH tiles.

solbios eu Lucia

Moreover, through our lifetime support system, which offers 60 years of maintenance support, we not only deliver PanaHome owners with long-term quality assurance, but also with lifelong satisfaction.

Looking ahead, PanaHome aims to respond flexibly to the diversifying housing market and provide the most comfortable homes in Japan. To this end, the Company will take advantage of the collective strengths of the Matsushita Group to develop truly livable Eco-Life Homes that save energy and will last for years to come.

Topics

"*Fureai*" Kitchen

One-stop Chore Zone

PanaHome collaborated with the Matsushita Group in developing two new types of housing that incorporate the opinions and requests of female customers: *SOLANA eu Lucia*, launched in January 2008, and the *solbios eu Lucia* three-story urban home, which launched in February 2008.

Through many surveys, as well as monitoring research of women living in custom-built PanaHome houses and from the general public, we gained a firm understanding of women's lifestyle and housekeeping needs. Our broad-based research efforts also included observational studies of the flow of a homemaker's typical day.

The major theme that emerged from our investigation of the housing wants and needs of contemporary Japanese women was the desire to make housework easier and more efficient. Based on this discovery, we proposed and developed the "*Kajiraku*" efficient housework layout, which reduces the need to move around the house during chores by 20%. Key features of this layout are the "*Fureai*" Kitchen*, which facilitates family interaction, and the One-stop Chore Zone, which helps homemakers to optimize their workflow. Through these innovations, PanaHome offers homes where women can thrive and spend more quality time with their families.

* The "*Fureai*" Kitchen is the heart of the home where the family comes together. The design emphasizes a warm and happy family space, with the kitchen open to the dining area to make cooking and cleaning up a family activity.

Asset Management Business

In its Asset Management Business, the Company has developed a comprehensive asset management system for apartment complex owners as well as an attractive product lineup that occupants find appealing. In September 2007, PanaHome established real estate agent subsidiary PanaHome Real Estate Corporation. We leverage the overall strength of the Matsushita Group to provide its customers with end-to-end support. Offerings include rental packages tailored to individual property conditions and customer needs, design and construction of residential properties, rental property management and tenant recruitment, and building renovations. The support system encourages customers to entrust the Company with the full range of asset management needs.

In the product development process, the Asset Management Business has adapted the comfortable Eco-Life Homes concept developed in the Detached Housing Business to provide occupants with a comfortable and economical living space, which boosts tenant retention. Product development also seeks to reduce maintenance costs, such as by using photocatalytic tiles for home exteriors and employing a new indoor cleaning system during tenant turnover periods to enable stable property management by owners.

Topics

In June 2007, PanaHome's Asset Management Business launched the *El Maison Next* series of all-electric rental housing. *El Maison Next* features the highest caliber of earthquake-resistance capabilities, and was the first in the industry to incorporate photocatalytic tiles on the outer walls as a standard feature. In addition to the initial maisonette and split-entrance designs, the Company expanded the series lineup with shared-stairwell and exterior-stairway designs in January 2008.

PanaHome plans to build overnight-stay model apartments featuring all-electric furnishings and appliances and tile exteriors much like those used in the Detached Housing Business. This initiative will give owners and their families the opportunity to experience firsthand the quality of PanaHome products.

El Maison Next Series Lineup


Split-entrance type


Maisonette type


Shared-stairwell type


Exterior-stairway type

Housing Development Business

Concerto Hills Kyoso no Oka Yokohama Kami Hoshikawa

PanaHome's Housing Development Business sells detached housing and condominiums, focusing on properties in Tokyo, Nagoya, and Osaka. Our primary customer base is second-generation baby boomers buying homes for the first time.

The Company develops Eco-Life Cities such as *PanaHome City Seishin Minami III* (located in Kobe City, total of 120 units), providing occupants with a comfortable living space while minimizing environmental impact. We also collaborate with other Matsushita Group companies on detached housing projects such as *Concerto Hills Kyoso no Oka Yokohama Kami Hoshikawa* (Yokohama City, 36 units), situated on property formerly used for Matsushita Group welfare facilities. Condominium housing projects *Parknade Tsunashima Higashi Koen* (Yokohama City, 22 units) and *Parknade Kamakura Hase Seaside Villa* (Kanagawa Prefecture, Kamakura City, 26 units) are all-electric units built in collaboration with other Matsushita Group companies.

Parknade Kamakura Hase Seaside Villa

Going forward, PanaHome will pay close attention to land price trends, increasing our turnover and optimizing our portfolio through acquisition of carefully selected properties.

Home Remodeling Business

PanaHome's proposal packages of plumbing system

PanaHome's Home Remodeling Business collaborates with its real estate subsidiary to strengthen customer ties and boost orders. The Company holds remodeling consultations all over Japan and providing remodeling consulting services by professionals who appear on a popular home-improvement television program. The Company also markets theme-based ready-made proposal packages classified by lifestyle and interior style, all featuring the latest Matsushita Group furnishings and appliances. Furthermore, the Company is utilizing expertise developed over many years in the Detached Housing Business to boost orders for remodeling of wooden detached homes. Going forward, PanaHome will further expand its range of operations through consulting services and leveraging the overall strength of the Matsushita Group.

Topics

In February 2008, PanaHome joined forces with Tokyo Electric Power Company, Inc. (TEPCO) to stage an exhibit at TEPCO's showroom in the fashionable Ginza district of Tokyo. The Company's displays featured natural building materials, examples of condominium remodeling projects, and all-electric appliances such as induction heating units for cooking. This public event allowed potential customers to experience firsthand the quality of PanaHome's and the Matsushita Group's products.

PanaHome's exhibit at TEPCO's showroom

Special Feature

Overnight-stay Model Homes

PanaHome operates overnight-stay model homes that allow potential buyers to experience an overnight stay in one of our houses. This concept gives potential buyers a chance to experience for themselves the convenience of a living space that features the latest appliances and home electronics, taking advantage of the comprehensive strengths of the Matsushita Group.

A home is likely to be the most expensive purchase our customers ever make. Letting prospective buyers spend a night in a model home rather than relying on descriptions to explain our products gives every member of the family the opportunity to explore for themselves the advantages of an all-Matsushita home, understand our approach to home construction, and experience the comfort of living in a PanaHome house. This strategy has proven to be a highly persuasive marketing tool, giving PanaHome a competitive advantage.

EL·PanaHome Shukugawa

Switch! House Setagaya

Our overnight-stay model homes are built in the same area as other homes in the development project, and are the same size as the regular houses offered for sale. PanaHome aims to sell these model homes within a year of construction so that the Company can always feature its newest houses, furnished with the Matsushita Group's latest equipment and appliances.

PanaHome aims to boost the contract completion ratio for customers who spend a night in a model home, and plans to build 100 of these units throughout Japan in fiscal 2008.

A kitchen in an overnight-stay model home

A home theater in an overnight-stay model home

Corporate Governance and Compliance

Corporate Governance

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

PanaHome's corporate governance structure comprises the Board of Directors, which makes important decisions on business execution and supervises the business execution of individual directors, and the Corporate Auditors and Board of Corporate Auditors, which audit the conduct of the Directors independently from the Board of Directors.

The Company also has Executive Officers under the governance of the Directors. Executive Officers are held responsible for individual business execution.

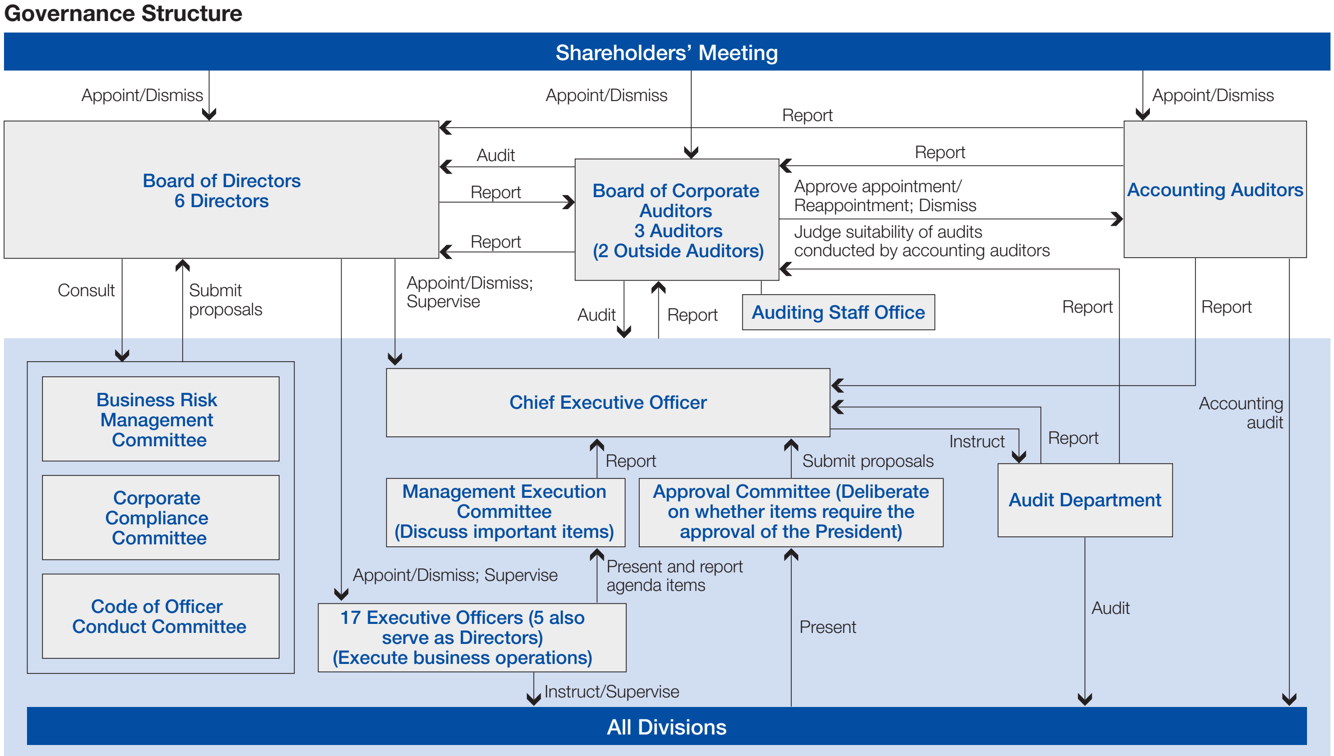
Regarding internal control systems, the Company conducts business operations in line with its Basic Policy Regarding the Establishment of Internal Control Systems.

Compliance

Turning to compliance, the Company adheres to the Code of Conduct of the Matsushita Group, which was enacted in 2005. In addition to distributing the *Compliance Guidebook* to PanaHome Group employees, each October is designated Compliance Month, and we carry on continuous training via the Internet. In order to quickly identify and resolve ethical and legal violations, the Company has established and operates three internal hotlines: a corporate ethics hotline, a sexual harassment/power harassment hotline, and an auditor reporting system.

In response to the need for risk management, each year PanaHome, led by the Business Risk Management Committee, conducts a risk assessment that compiles and evaluates risk information for the entire Company in an integrated and thorough manner. PanaHome has also formed a Corporate Compliance Committee to rigorously ensure that the Company maintains no improper relationships with individuals or groups involved in corporate extortion.

Governance Structure



Business Risks

1. Trends in the Housing Market

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.

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, 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, the Company cannot guarantee that quality issues will never occur in any housing unit.

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, including building inspections and other emergency measures, which could interfere with production activities.

5. Retirement Benefit Liability

With regard to the retirement and pension plans applicable to eligible employees, unrecognized actuarial pension losses may increase and potentially lead to increased net periodic benefit costs for pension plans due to changes in actuarial assumptions and management of pension assets.

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 imposed in May 2007 accompanying an amendment to the Consumer Product Safety Law. In the event that any of these statutory regulations are amended or new legal regulations are established, or in the case that violations of any of these statutory regulations occur, business activities may be restricted.

7. Protection of Personal Information

Due to the nature of its business, the PanaHome Group handles a large amount of personal customer information. Although the Group implements measures to protect personal information on an ongoing basis throughout the Group, should a leak of customer information occur, it could inflict substantial damage to the public trust.

Corporate Social Responsibility

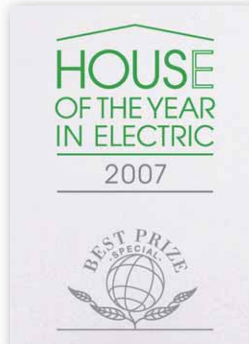
Environmental Initiatives

In line with the Matsushita Group's Eco Ideas strategy, PanaHome strives to reduce CO_2 emissions at every stage of the home construction process.

1) Eco Ideas for Products

Through our comfortable Eco-Life Homes and Eco-Life remodeling businesses, we offer houses that are comfortable to live in and energy efficient, resulting in reduced CO_2 emissions. Customers have responded well to our *SOLANA* homes series, which won a special prize in the House of the Year in Electric 2007 awards for energy efficiency and low CO_2 emissions. PanaHome achieved this environmentally friendly system through a carefully considered combination of frame structure and features, including building materials, systems, and appliances.

In Japan, the environmental efficiency of buildings is evaluated using the Comprehensive Assessment System for Building Environmental Efficiency (CASBEE), with buildings assigned one of five rankings (S, A, B+, B–, or the lowest ranking, C). PanaHome's standard houses all received A rankings. In cooperation with other Matsushita Group companies, we are working to earn S-rankings for individual homes by planning external landscaping to increase the level of greenery, installing high-efficiency air conditioning systems, and other measures.



Selected by Japan Center for Area Development Research (MLITT[*1] survey)

- 18,450 Eco-Life Homes sold only 4 years after their launch
- Overnight-stay model homes let buyers experience staying in a home before deciding to purchase
- Top-caliber, earthquake-resistance capabilities
- An original integrated hybrid air ventilation system
- Photcatalytic KIRATECH tiles need no cleaning for 60 years
- Using original software to simulate future lifestyles
- Overall home energy performance improved by 50% (compared with 1990 PanaHome data)
- 78% adoption of all-electric power supply
- No. 1 in customer satisfaction in 2007 (METI[*2] survey)

[*1] MLITT: Ministry of Land, Infrastructure, Transport and Tourism
[*2] METI: Ministry of Economy, Trade and Industry

2) Eco Ideas for Manufacturing

PanaHome's housing material manufacturing plants have been implementing energy-saving activities for years. These efforts won public recognition when PanaHome was awarded the Economy, Trade, and Industry Minister's Prize for excellence in factory energy management (through the Energy Conservation Center, Japan). In the area of logistics, we have conducted a modal shift, reevaluating how we package and ship materials to our construction sites and introducing bio-diesel-powered factory-floor forklifts and trucks. In our marketing activities as well, we are in the process of switching to eco-cars (low-emission vehicles).

3) Eco Ideas for Everybody, Everywhere

Accurate information helps employees put environmental initiatives into practice. PanaHome conducts Internet-based environmental education programs for our employees. We have also adopted "cool-biz" and "warm-biz" dress code policies that limit use of air conditioning and allow employees to vary their wardrobes seasonally, and are introducing lower intensity neon commercial signage.

Social Contribution Activities

PanaHome is helping to create a healthy and spiritually rich society by engaging in social contribution activities rooted in local communities. Many of our organizational units, including branch offices and plants, are involved in a wide range of initiatives within their own communities. Typical areas of activity include human resource development programs and education, the arts, culture, sports, social welfare, environmental preservation and volunteer work.

Providing public facilities with left-over building materials

A sewing class at our showroom

Employee-directed Initiatives

PanaHome has introduced a system of programs designed to support employees who balance work with caring for children or other family commitments. Available programs include leave days for self-development and volunteer activities, child-care leave, telecommuting, and other flexible options. Through these initiatives, we aim to allow all our employees to make the most of their capabilities.

Financial Section

Financial Review

Sales, Costs, Expenses and Income

Net Sales

During the fiscal year under review, the Japanese housing market was sluggish. Contributing factors were a significant decline in new housing starts due to confusion regarding procedures under the revised Building Standards Law, as well as a drop in consumer eagerness to purchase homes amid a deteriorating economic outlook in Japan triggered by the U.S. sub-prime loan issue. Under these conditions, PanaHome struggled to obtain orders up to the third quarter. However, a new product released in January 2008 performed strongly, resulting in a consolidated order volume of ¥294,979 million (US$2,949 million), 3.6% higher than in the previous fiscal year. Consolidated net sales declined 1.1% year on year to ¥293,617 million (US$2,936 million) due to weak orders up to the third quarter.

Cost of Sales and Selling, General & Administrative Expenses

Along with the decline in net sales, cost of sales was down 0.8% to ¥223,585 million (US$2,236 million). During the fiscal year, rationalization of design and procurement offset rising raw materials prices, and the Company carried out business structure reforms. Nevertheless, the cost of sales ratio increased 0.2 of a percentage point to 76.1% due to changes in the sales mix, specifically a decrease in the custom-built housing business and an increase in the housing development business.

Although the Company made upfront investments to secure sales, including advertisements for new products, selling, general and administrative (SG&A) expenses fell 2.8% to ¥61,275 million (US$613 million). This decrease reflected the ongoing Cost Busters Project, Matsushita Group's wide-ranging cost review that reduced Companywide costs, as well as lower personnel costs accompanying structural reforms.

Profit

The effects of structural reforms outweighed the decrease in sales, resulting in consolidated operating income of ¥8,757 million (US$88 million), up 4.7% over the previous year.

The Company, however, recorded a consolidated net loss of ¥606 million (US$6 million) due to ¥10,613 million (US$106 million) in restructuring costs, including consolidating and reorganizing factories, and extraordinary payment of additional retirement benefits.

The consolidated net loss per share for the year under review was ¥3.61 (US$0.04).

Financial Position

As of March 31, 2008, total assets amounted to ¥206,750 million (US$2,068 million), down 4.6% from the previous fiscal year-end.

Current assets were ¥128,104 million (US$1,281 million), down 1.3% from a year earlier. This decline was mainly due to a decrease in financial assets accompanying extraordinary payment of additional retirement benefits. Current liabilities fell by 6.3% to ¥70,009 million (US$700 million), largely due to a decrease in deposits received resulting from the fall in contracts in progress and accounts payable on construction. As a result, working capital rose ¥2,974 million (US$30 million) from ¥55,121 million at the fiscal 2006 year-end, to ¥58,095 million (US$581 million). The current ratio was 183.0%, a 9.2 percentage-point increase compared to the end of the previous fiscal year.

Property, plant, and equipment decreased 10.9% to ¥40,639 million (US$406 million) compared to the previous fiscal year-end, largely as a result of integration of plants. Investments and other assets fell 8.1% to ¥38,007 million (US$380 million), primarily due to a decline in financial assets resulting from a transfer to current assets. Long-term liabilities declined by 10.0% to ¥19,384 million (US$194 million), chiefly reflecting a reversal of liability for employees' retirement benefits accompanying a decrease in personnel.

Equity decreased 2.6% to ¥117,357 million (US$1,174 million), reflecting a decline in retained earnings due to such factors as the net loss during the period under review and payment of dividends.

Dividend Policy

Since its establishment, PanaHome has considered returning profits to shareholders as one of its key management strategies. Based on this strategy, maintaining stable dividends is the Company's first priority. 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, 2008, PanaHome has declared a full-year dividend of ¥15 (US$0.15) per share, including interim and year-end dividends of ¥7.5 (US$0.08), the same as the previous year.

Cash Flows

Net cash used in operating activities was ¥10,167 million (US$102 million), primarily reflecting the payments related to structural reforms.

Net cash provided by investing activities was ¥4,177 million (US$42 million). Key contributing factors were proceeds from sales of property, plant and equipment, and proceeds from sales and redemption of securities and investment securities.

Net cash used in financing activities was ¥2,753 million (US$28 million), due in large part to the payment of dividends.

As a result, cash and cash equivalents as of March 31, 2008 stood at ¥48,874 million (US$489 million), down 13.7% compared to the previous fiscal year-end.

Consolidated Balance Sheets

PanaHome Corporation and Subsidiaries
March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2008	2007	2008
CURRENT ASSETS:			
Cash and cash equivalents	¥ 48,874	¥ 56,631	$ 488,740
Marketable securities (Note 3)	2,145	1,110	21,450
Short-term investments (Note 2-d)	20	6	200
Receivables:			
Trade notes	5	24	50
Trade accounts	4,318	3,978	43,180
Other	6,727	1,070	67,270
Allowance for doubtful receivables	(151)	(19)	(1,510)
Inventories (Note 4)	56,288	59,186	562,880
Deferred income tax assets (Note 11)	8,021	6,612	80,210
Other current assets	1,857	1,215	18,570
Total current assets	128,104	129,813	1,281,040
PROPERTY, PLANT AND EQUIPMENT:			
Land (Notes 5 and 6)	21,252	23,436	212,520
Buildings and structures (Note 6)	46,426	49,658	464,260
Machinery and equipment (Note 6)	21,740	29,164	217,400
Construction in progress	228	352	2,280
Total	89,646	102,610	896,460
Less accumulated depreciation	(49,007)	(56,999)	(490,070)
Net property, plant and equipment	40,639	45,611	406,390
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3)	6,289	10,541	62,890
Investments in associated companies	7,737	8,045	77,370
Long-term loans (Note 7)	5,327	5,290	53,270
Long-term loans to employees	650	850	6,500
Prepaid pension costs (Note 8)	4,643	3,270	46,430
Deferred income tax assets (Note 11)	7,944	8,239	79,440
Intangibles and other assets (Note 6)	6,401	6,079	64,010
Allowance for doubtful accounts	(984)	(967)	(9,840)
Total investments and other assets	38,007	41,347	380,070
TOTAL	¥ 206,750	¥ 216,771	$ 2,067,500

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen 2008	Millions of Yen 2007	Thousands of U.S. Dollars (Note 1) 2008
CURRENT LIABILITIES:			
Short-term bank loans (Note 7)	¥ 950	¥ 502	$ 9,500
Payables:			
Trade notes	94	178	940
Trade accounts	33,883	35,623	338,830
Other	7,575	7,950	75,750
Accrued income taxes	429	420	4,290
Deposits received	15,444	18,201	154,440
Accrued expenses and other current liabilities	11,634	11,817	116,340
Total current liabilities	70,009	74,691	700,090
LONG-TERM LIABILITIES:			
Long-term debt (Note 7)	3,788	4,498	37,880
Liability for employees' retirement benefits (Note 8)	4,160	5,492	41,600
Deferred income tax liabilities on land revaluation (Note 5)	2,129	2,215	21,290
Long-term deposits received	8,834	8,888	88,340
Other long-term liabilities	473	444	4,730
Total long-term liabilities	19,384	21,537	193,840
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 2008 and 2007	28,376	28,376	283,760
Capital surplus	31,982	31,970	319,820
Retained earnings	62,761	65,797	627,610
Net unrealized gains on available-for-sale securities (Note 2-c)	416	592	4,160
Land revaluation difference (Note 5)	(6,765)	(6,673)	(67,650)
Foreign currency translation adjustments	(119)	25	(1,190)
Treasury stock - at cost, 424,237 shares in 2008 and 507,485 shares in 2007	(218)	(251)	(2,180)
Total	116,433	119,836	1,164,330
Minority interests	924	707	9,240
Total equity	117,357	120,543	1,173,570
TOTAL	¥ 206,750	¥ 216,771	$ 2,067,500

Consolidated Statements of Operations

PanaHome Corporation and Subsidiaries
Years ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
NET SALES	¥ 293,617	¥ 296,817	$ 2,936,170
COST OF SALES	223,585	225,399	2,235,850
Gross profit	70,032	71,418	700,320
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 12 and 15)	61,275	63,055	612,750
Operating income	8,757	8,363	87,570
OTHER INCOME (EXPENSES):			
Interest and dividend income	388	351	3,880
Amortization of negative goodwill	169	43	1,690
Interest expense	(249)	(214)	(2,490)
Equity in earnings of affiliated companies	192	378	1,920
Gain on sales of property, plant and equipment	119	63	1,190
Loss on disposal and sales of property, plant and equipment	(385)	(379)	(3,850)
Loss on liquidation of subsidiaries	—	(180)	—
Loss on impairment of long-lived assets (Note 6)	(12)	(180)	(120)
Gain on sales of investment securities	174	—	1,740
Restructuring costs (Note 13)	(10,613)	(1,851)	(106,130)
Other - net	272	499	2,720
Other expenses - net	(9,945)	(1,470)	(99,450)
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS	(1,188)	6,893	(11,880)
INCOME TAXES (Note 11):			
Current	315	279	3,150
Deferred	(863)	1,322	(8,630)
Total	(548)	1,601	(5,480)
MINORITY INTERESTS	(34)	52	(340)
NET INCOME (LOSS)	¥ (606)	¥ 5,240	$ (6,060)
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2-o):			
Basic net income (loss)	¥ (3.61)	¥ 31.21	$ (0.04)
Diluted net income	—	31.18	—
Cash dividends applicable to the year	15.00	15.00	0.15

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

PanaHome Corporation and Subsidiaries
Years ended March 31, 2008 and 2007

	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, 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
Net loss	—	—	—	(606)	—
Cash dividends, ¥15.00 per share	—	—	—	(2,521)	—
Reversal of land revaluation difference	—	—	—	91	—
Purchase of treasury stock	(58)	—	—	—	—
Disposal of treasury stock	141	—	12	—	—
Net change in the year	—	—	—	—	(176)
BALANCE, MARCH 31, 2008	168,139	¥ 28,376	¥ 31,982	¥ 62,761	¥ 416

	Thousands of U.S. Dollars (Note 1)			
	Common stock	Capital surplus	Retained earnings	Net unrealized gains on available-for-sale securities
BALANCE, MARCH 31, 2007	$ 283,760	$ 319,700	$ 657,970	$ 5,920
Net loss	—	—	(6,060)	—
Cash dividends, $0.15 per share	—	—	(25,210)	—
Reversal of land revaluation difference	—	—	910	—
Purchase of treasury stock	—	—	—	—
Disposal of treasury stock	—	120	—	—
Net change in the year	—	—	—	(1,760)
BALANCE, MARCH 31, 2008	$ 283,760	$ 319,820	$ 627,610	$ 4,160

(Continued)

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity (Continued)

PanaHome Corporation and Subsidiaries
Years ended March 31, 2008 and 2007

Millions of Yen

	Land revaluation difference	Foreign currency translation adjustments	Treasury stock	Total	Minority interests	Total equity
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
Net loss	—	—	—	(606)	—	(606)
Cash dividends, ¥15.00 per share	—	—	—	(2,521)	—	(2,521)
Reversal of land revaluation difference	—	—	—	91	—	91
Purchase of treasury stock	—	—	(42)	(42)	—	(42)
Disposal of treasury stock	—	—	75	87	—	87
Net change in the year	(92)	(144)	—	(412)	217	(195)
BALANCE, MARCH 31, 2008	¥ (6,765)	¥ (119)	¥ (218)	¥ 116,433	¥ 924	¥ 117,357

Thousands of U.S. Dollars (Note 1)

	Land revaluation difference	Foreign currency translation adjustments	Treasury stock	Total	Minority interests	Total equity
BALANCE, MARCH 31, 2007	$ (66,730)	$ 250	$ (2,510)	$ 1,198,360	$ 7,070	$ 1,205,430
Net loss	—	—	—	(6,060)	—	(6,060)
Cash dividends, $0.15 per share	—	—	—	(25,210)	—	(25,210)
Reversal of land revaluation difference	—	—	—	910	—	910
Purchase of treasury stock	—	—	(420)	(420)	—	(420)
Disposal of treasury stock	—	—	750	870	—	870
Net change in the year	(920)	(1,440)	—	(4,120)	2,170	(1,950)
BALANCE, MARCH 31, 2008	$ (67,650)	$ (1,190)	$ (2,180)	$ 1,164,330	$ 9,240	$ 1,173,570

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

PanaHome Corporation and Subsidiaries
Years ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income (loss) before income taxes and minority interests	¥ (1,188)	¥ 6,893	$ (11,880)
Adjustments for:			
Depreciation	3,115	3,374	31,150
Loss on impairment of long-lived assets	12	180	120
Provision for retirement and severance benefits	(2,950)	(1,701)	(29,500)
Interest and dividend income	(388)	(351)	(3,880)
Interest expense	249	214	2,490
Loss on liquidation of subsidiaries	—	180	—
Equity in earnings of affiliated companies	(192)	(378)	(1,920)
Gain on sales of investment securities	(174)	—	(1,740)
Loss on disposal and sales of property, plant and equipment	385	379	3,850
Restructuring costs	10,613	1,851	106,130
Amortization of goodwill (negative goodwill)	(169)	34	(1,690)
Decrease (increase) in trade receivables	(495)	2,221	(4,950)
Decrease (increase) in other receivables	(5,652)	160	(56,520)
Decrease (increase) in inventories	3,623	(14,742)	36,230
Increase (decrease) in trade payables	(2,087)	1,089	(20,870)
Increase (decrease) in advances received	(2,983)	2,290	(29,830)
Other	(1,720)	(2,566)	(17,200)
Sub total	(1)	(873)	(10)
Interest and dividend income received	429	352	4,290
Interest expense paid	(252)	(279)	(2,520)
Restructuring costs paid	(10,079)	—	(100,790)
Income taxes paid	(264)	(315)	(2,640)
Net cash used in operating activities	(10,167)	(1,115)	(101,670)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales and redemption of securities	1,335	1,500	13,350
Additions to property, plant and equipment	(1,153)	(1,017)	(11,530)
Proceeds from sales of property, plant and equipment	2,929	385	29,290
Additions to intangibles	(799)	(1,260)	(7,990)
Proceeds from sales and redemption of investment securities	1,594	1,145	15,940
Proceeds from sales of long-term loans to employees	—	9,786	—
Other	271	454	2,710
Net cash provided by investing activities	4,177	10,993	41,770
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase (decrease) in short-term bank loans	442	(395)	4,420
Proceeds from long-term debt	551	—	5,510
Repayments of long-term debt	(1,261)	(46)	(12,610)
Purchase of treasury stock	(42)	(63)	(420)
Cash dividends paid	(2,520)	(2,518)	(25,200)
Disbursement of deposits with held from employees	—	(6,193)	—
Other	77	171	770
Net cash used in financing activities	(2,753)	(9,044)	(27,530)
Effect of exchange rate changes on cash and cash equivalents	2	8	20
Net increase (decrease) in cash and cash equivalents	(8,741)	842	(87,410)
Cash and cash equivalents at beginning of year	56,631	54,221	566,310
Cash and cash equivalents of newly consolidated subsidiaries (Note 18)	984	1,568	9,840
Cash and cash equivalents at end of year (Note 2-b)	¥ 48,874	¥ 56,631	$ 488,740

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 Financial Instruments and Exchange Law (formerly, 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.

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 2007 financial statements to conform to the classifications used in 2008.

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 ¥100 to $1, the approximate rate of exchange at March 31, 2008. 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 Company, 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 fourteen (fifteen in 2007) 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 the fair value of net assets of subsidiaries acquired is amortized over their respective estimated useful lives not exceeding 20 years. Any recognized intangible asset whose useful life is not determinable 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 Group is eliminated.

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

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

i. ***Retirement and Pension Plans -*** The Company and domestic subsidiaries have contributory funded defined benefit pension plans and unfunded retirement benefit plans, and may grant additional benefits for retired employees.

A substantial number of employees retired under the implementation of the early retirement and mid-career assistance program due to the restructuring during the year, and the Company applied accounting treatments specified in the guidance issued by the Accounting Standards Board of Japan (the "ASBJ"). As a result, the Company recognized a lump-sum amortization of unrecognized gain and loss related to the mass retirees as benefit costs for mass retirements of ¥164 million ($1,640 thousand), which was included in restructuring costs in the statement of operations for the year ended March 31, 2008.

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 or assets, as the case may be, 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 was effective for fiscal years ending on or after May 1, 2006. The balances of such items as of March 31, 2006 were reclassified as separate components of equity as of April 1, 2006 in the consolidated statement of changes in equity.

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. ***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.

m. ***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.

n. ***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.

o. *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 2008 is not disclosed because it is anti-dilutive due to 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.

p. *New Accounting Pronouncements*

Measurement of Inventories - Under generally accepted accounting principles in Japan ("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. 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.

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 shall be capitalized recognizing lease assets and lease obligations in the balance sheet.

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 its foreign subsidiaries which have been 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 standard 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 standard is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

Construction Contracts - Under the current Japanese GAAP, either the completed-contract method or the percentage-of-completion method is permitted to account for construction contracts. On December 27, 2007, the ASBJ published a new accounting standard for construction contracts. Under this accounting standard, the construction revenue and construction costs should be recognized by the percentage-of-completion method, if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs and the stage of completion of the contract at the balance sheet date can be reliably measured, the outcome of a construction contract can be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method shall be applied. When it is probable that total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for loss on construction contracts. This standard is applicable to construction contracts and software development contracts and effective for fiscal years beginning on or after April 1, 2009 with early adoption permitted for fiscal years beginning on or before March 31, 2009 but after December 27, 2007.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Current:			
Government and corporate bonds	¥ 2,145	¥ 1,110	$ 21,450
Non-current:			
Marketable equity securities	¥ 1,040	¥ 1,617	$ 10,400
Government and corporate bonds	5,249	8,924	52,490
Total	¥ 6,289	¥ 10,541	$ 62,890

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2008 and 2007 were as follows:

	Millions of Yen			
	2008			
Securities classified as:	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥ 535	¥ 488	¥ —	¥ 1,023
Debt securities	2,449	—	5	2,444
Held-to-maturity	4,950	—	99	4,851

	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

	Thousands of U.S. Dollars			
	2008			
Securities classified as:	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	$ 5,350	$ 4,880	$ —	$ 10,230
Debt securities	24,490	—	50	24,440
Held-to-maturity	49,500	—	990	48,510

Available-for-sale securities whose fair values are not readily determinable as of March 31, 2008 and 2007 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
Available-for-sale:	2008	2007	2008
Equity securities	¥ 17	¥ 117	$ 170
Total	¥ 17	¥ 117	$ 170

Proceeds from sales of available-for-sale securities for the year ended March 31, 2008 were ¥235 million ($2,350 thousand). Gross realized gains on those sales, computed on the moving average cost basis, were ¥174 million ($1,740 thousand), for the year ended March 31, 2008.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2008 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due in one year or less	¥ 2,147	$ 21,470
Due after one year through five years	3,052	30,520
Due after five years through ten years	2,200	22,000
Total	¥ 7,399	$ 73,990

4. INVENTORIES

Inventories at March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Real estate for sale	¥ 48,331	¥ 48,089	$ 483,310
Contracts in progress	6,391	8,746	63,910
Finished goods	1,148	1,534	11,480
Work in process, raw materials and supplies	418	817	4,180
Total	¥ 56,288	¥ 59,186	$ 562,880

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, 2008, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥4,006 million ($40,060 thousand).

6. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of March 31, 2008 and 2007.

As a result, for the year ended March 31, 2008, the Group recognized an impairment loss of ¥393 million ($3,930 thousand) as other expenses for certain idle assets in Chiba Prefecture and others due to substantial declines in the fair market value, and certain business properties of the Shizuoka Plant and others to be disposed of due to realignment. The carrying amount of those assets was written down to the recoverable amount. The recoverable amounts of those assets were measured by their net selling price at disposition, principally calculated by the appraisal value. The amount of impairment loss recognized related to a part of certain idle assets and 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, 2007, the Group recognized an impairment loss of ¥1,897 million as other expenses for certain rental properties in Miyagi Prefecture due to substantial declines in the fair market value and a sluggish rental market, 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.

Impairment losses which the Group recognized for the years ended March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Rental properties:			
Land	¥ —	¥ 11	$ —
Buildings and structures	—	3	—
Total	¥ —	¥ 14	$ —
Idle assets:			
Land	¥ 91	¥ 60	$ 910
Buildings and structures	23	100	230
Other	11	6	110
Total	¥ 125	¥ 166	$ 1,250
Business properties:			
Land	¥ 242	¥ —	$ 2,420
Buildings and structures	—	839	—
Machinery and equipment	26	873	260
Other	—	5	—
Total	¥ 268	¥ 1,717	$ 2,680

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

For short-term bank loans at March 31, 2008 and 2007, the annual interest rates ranged from 1.55% to 1.88% and from 1.38% to 4.51%, respectively.

Long-term debt at March 31, 2008 consisted of collateralized loans from banks of ¥3,788 million ($37,880 thousand) due serially to 2027, with the annual interest rate of 2.35%.

Annual maturities of long-term debt at March 31, 2008, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2009	¥ 185	$ 1,850
2010	191	1,910
2011	198	1,980
2012	205	2,050
2013	211	2,110
2014 and thereafter	2,798	27,980
Total	¥ 3,788	$ 37,880

At March 31, 2008, long-term loans of ¥4,748 million ($47,480 thousand) were pledged as collateral for long-term debt of ¥3,788 million ($37,880 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 plans.

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, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Projected benefit obligation	¥ 34,716	¥ 38,388	$ 347,160
Fair value of plan assets	(26,015)	(29,922)	(260,150)
Unrecognized prior service benefit	4,195	6,693	41,950
Unrecognized actuarial loss	(13,379)	(12,937)	(133,790)
Prepaid pension costs	4,643	3,270	46,430
Net liability	¥ 4,160	¥ 5,492	$ 41,600

The components of net periodic benefit costs for the years ended March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Service cost	¥ 1,614	¥ 1,765	$ 16,140
Interest cost	873	903	8,730
Expected return on plan assets	(889)	(781)	(8,890)
Prior service benefit	(1,365)	(1,532)	(13,650)
Recognized actuarial loss	819	975	8,190
Benefit costs for mass retirements	164	—	1,640
Net periodic benefit costs	¥ 1,216	¥ 1,330	$ 12,160

The Company recognized a lump-sum amortization of unrecognized gain and loss related to the mass retirees as benefit costs for mass retirements, which was included in restructuring costs in the statement of operations for the year ended March 31, 2008.

Assumptions used for the years ended March 31, 2008 and 2007 were set forth as follows:

	2008	2007
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

Since May 1, 2006, Japanese companies have been subject to the Corporate Law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan. The significant provisions 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, 2008 is as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2003 Stock Option	8 directors and 6 executive officers of the Company, 1 director of its subsidiary, and 15 directors of its associated companies	310,000 shares	2003.10.02	¥615 ($6)	From April 1, 2004 To March 31, 2008

The stock option activity is as follows:

	2003 Stock Option (Shares)
For the year ended March 31, 2007	
Non-vested	
March 31, 2006 - Outstanding	—
Granted	—
Canceled	—
Vested	—
March 31, 2007 - Outstanding	—
Vested	
March 31, 2006 - Outstanding	300,000
Vested	—
Exercised	90,000
Canceled	—
March 31, 2007 - Outstanding	210,000
For the year ended March 31, 2008	
Non-vested	
March 31, 2007 - Outstanding	—
Granted	—
Canceled	—
Vested	—
March 31, 2008 - Outstanding	—
Vested	
March 31, 2007 - Outstanding	210,000
Vested	—
Exercised	131,000
Canceled	79,000
March 31, 2008 - Outstanding	—
Exercise price	¥615 ($6)
Average stock price at exercise	¥682 ($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, 2008 and 2007, respectively.

The significant components of deferred tax assets and liabilities at March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Deferred tax assets:			
Loss carryforward	¥ 10,215	¥ 6,766	$ 102,150
Accrued expenses	2,785	2,901	27,850
Depreciation	1,144	1,406	11,440
Employees' retirement benefits	182	950	1,820
Write-down of inventories	1,028	988	10,280
Other	2,843	3,566	28,430
Subtotal	18,197	16,577	181,970
Valuation allowance	(1,783)	(1,323)	(17,830)
Total	16,414	15,254	164,140
Deferred tax liabilities:			
Employees' retirement benefits	(383)	—	(3,830)
Unrealized gains on available-for-sale securities	(66)	(403)	(660)
Total	(449)	(403)	(4,490)
Net deferred tax assets	¥ 15,965	¥ 14,851	$ 159,650

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 (2008 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 ¥1,446 million ($14,460 thousand) and ¥1,614 million for the years ended March 31, 2008 and 2007, respectively.

13. RESTRUCTURING COSTS

Restructuring cost for the year ended March 31, 2008 included ¥9,447 million ($94,470 thousand) of additional retirement payment under the implementation of the early retirement and mid-career assistance program, ¥381 million ($3,810 thousand) of impairment loss concerning realignment of the Shizuoka Plant and others, ¥164 million ($1,640 thousand) of benefit costs for mass retirements, and ¥621 million ($6,210 thousand) of the other costs concerning realignment. Restructuring cost for the year ended March 31, 2007 included ¥1,717 million of impairment loss recognized related to certain business properties to be disposed of due to realignment, and ¥134 million of loss on removal and abandonment of machinery and equipment to streamline and reorganize the production system.

14. RELATED PARTY TRANSACTIONS

Sales to associated companies were ¥28,799 million ($287,990 thousand) and ¥33,912 million for the years ended March 31, 2008 and 2007, respectively. Trade accounts receivable due from associated companies were ¥1,132 million ($11,320 thousand) and ¥1,547 million at March 31, 2008 and 2007, respectively.

Purchases from Matsushita Electric Works, Ltd., a majority-owned subsidiary of Matsushita Electric Industrial Co., Ltd., the parent company of the Company, were ¥4,612 million ($46,120 thousand) and ¥3,840 million for the years ended March 31, 2008 and 2007, respectively. Trade accounts payable due to Matsushita Electric Works, Ltd. were ¥2,070 million ($20,700 thousand) and ¥1,052 million at March 31, 2008 and 2007, respectively.

15. LEASES

Total lease payments under finance leases that are not deemed to transfer ownership of the leased property to the lessee were ¥2,327 million ($23,270 thousand) and ¥1,915 million for the years ended March 31, 2008 and 2007, 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, 2008 and 2007 were as follows:

	Millions of Yen			
	2008			
	Buildings and Structures	Machinery and Equipment	Intangibles	Total
Acquisition cost	¥ 8,583	¥ 321	¥ 3	¥ 8,907
Accumulated depreciation	4,068	204	2	4,274
Net leased property	¥ 4,515	¥ 117	¥ 1	¥ 4,633

	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

	Thousands of U.S. Dollars			
	2008			
	Buildings and Structures	Machinery and Equipment	Intangibles	Total
Acquisition cost	$ 85,830	$ 3,210	$ 30	$ 89,070
Accumulated depreciation	40,680	2,040	20	42,740
Net leased property	$ 45,150	$ 1,170	$ 10	$ 46,330

Obligations under such finance leases as of March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Due within one year	¥ 2,033	¥ 2,114	$ 20,330
Due after one year	2,600	3,466	26,000
Total	¥ 4,633	¥ 5,580	$ 46,330

For the year ended March 31, 2007, the amount of acquisition cost and obligations under finance leases excludes the imputed interest expense portion. Effective April 1, 2007, the Company changed method of computing interest expense, and therefore, that the amount of acquisition cost and obligations under finance leases included the imputed interest expense portion at March 31, 2008. The effect of this change was negligible.

Depreciation expense and interest expense under finance leases for the years ended March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Depreciation expense	¥ 2,327	¥ 1,878	$ 23,270
Interest expense	—	49	—
Total	¥ 2,327	¥ 1,927	$ 23,270
Lease payments	¥ 2,327	¥ 1,915	$ 23,270

Depreciation expense, which is not reflected in the accompanying statements of operations, is computed by the straight-line method. Interest expense for the year ended March 31, 2007, 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, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Due within one year	¥ 20	¥ 21	$ 200
Due after one year	23	38	230
Total	¥ 43	¥ 59	$ 430

16. DERIVATIVES

The Group enters into foreign currency forward contracts to hedge foreign exchange risk associated with trade payables 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, 2008 and 2007.

17. CONTINGENT LIABILITIES

Guarantees of Loans - At March 31, 2008, the Group had contingent liabilities principally related to guarantees of customer housing loans in the amount of ¥8,431 million ($84,310 thousand).

18. SUPPLEMENTARY CASH FLOWS INFORMATION

Assets and liabilities of newly consolidated subsidiaries, at the inception of consolidation for the years ended March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Current assets	¥ 1,813	¥ 2,178	$ 18,130
Non-current assets	526	5,281	5,260
Current liabilities	(626)	(1,307)	(6,260)
Non-current liabilities	(253)	(6,415)	(2,530)
Minority interests	(295)	(6)	(2,950)
Goodwill (Negative goodwill)	(151)	51	(1,510)
Equity at the inception of consolidation	(1,014)	218	(10,140)
Acquired price of stocks	—	—	—
Cash and cash equivalents of newly consolidated subsidiaries	984	1,568	9,840
Difference	¥ 984	¥ 1,568	$ 9,840

19. SUBSEQUENT EVENT

Appropriation of Retained Earnings - The following appropriation of retained earnings at March 31, 2008 was resolved at the Board of Directors' meeting held on April 25, 2008:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥7.50 ($0.08) per share	¥1,261	$12,610

Independent Auditors' Report

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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, 2008 and 2007, 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, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

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

Deloitte Touche Tohmatsu

June 24, 2008

Member of
Deloitte Touche Tohmatsu

Corporate Information

Corporate Data (As of March 31, 2008)

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

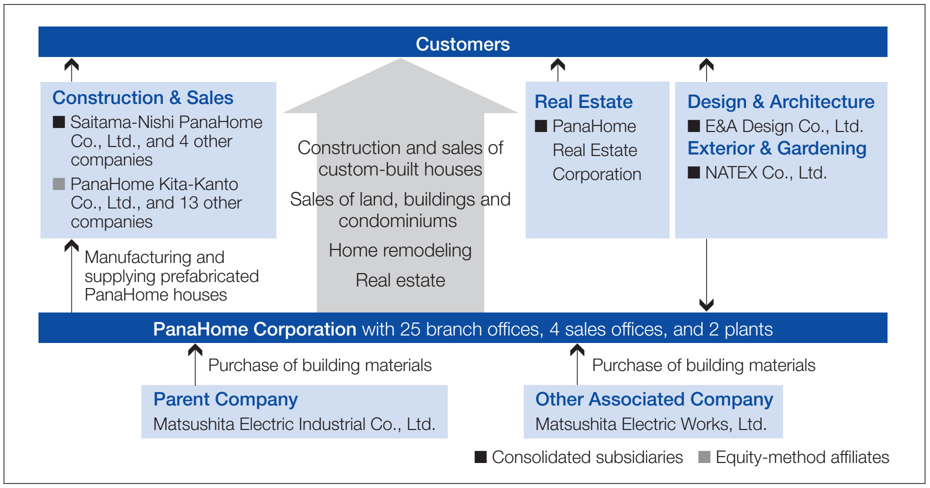
Capital
¥28,376 million

Shares

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

Number of Shareholders
8,342

Subsidiaries and Affiliates (As of March 31, 2008)



Management (As of June 25, 2008)

Members of the Board

President & Chief Executive Officer
Tsutomu Ueda

Directors
Mitsuo Kusunoki
Akira Kobayashi
Koji Watanabe
Hidehiko Nonomura
Hirofumi Yasuhara

Corporate Auditors

Senior Standing Corporate Auditor
Yukimitsu Kodama

Standing Corporate Auditor
Shigeru Nakatani

Corporate Auditor
Jun Demizu

Corporate Executive Officers

Senior Managing Executive Officer
Mitsuo Kusunoki

Managing Executive Officers
Akira Kobayashi
Koji Watanabe
Hidehiko Nonomura

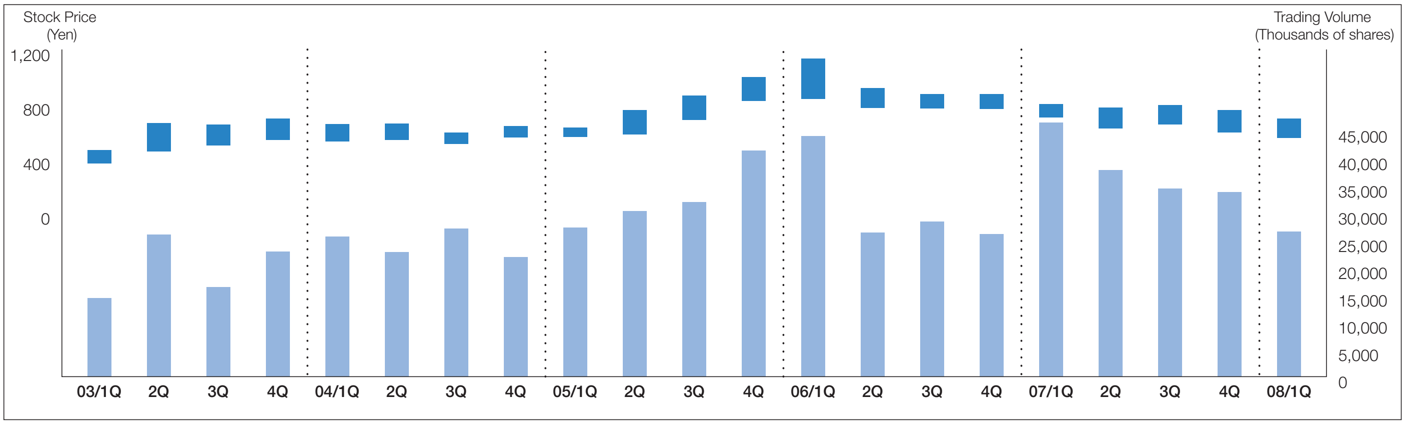
Executive Officers
Hirofumi Yasuhara
Etsurou Tanbara
Hiroki Umiguchi
Tomiharu Yamada
Makoto Hatakeyama
Yoshifumi Tsuruta
Hirohiko Nagata
Hiroshi Hirasawa
Toshimitsu Sakai
Mitsuhiko Nakata
Kazuo Kitagawa
Masato Nadamoto
Tadashi Manabe

Major Shareholders (As of March 31, 2008)

Name	Thousands of Shares Held	Shareholding Ratio (%)
Matsushita Electric Industrial Co., Ltd.	45,518	27.00
Matsushita Electric Works, Ltd.	45,518	27.00
Northern Trust Company (AVFC) Sub-account American Client	4,905	2.90
Japan Trustee Services Bank, Ltd. (trust account)	4,066	2.41
The Master Trust Bank of Japan, Ltd. (trust account)	3,996	2.37
National Mutual Insurance Federation of Agricultural Cooperatives	3,697	2.19
Trust & Custody Services Bank, Ltd. (security investment trust account)	2,532	1.50
Sumitomo Mitsui Banking Corporation	2,358	1.39
PanaHome Employee Shareholding Association	2,065	1.22
The Bank of New York, Treaty Jasdec Account	1,950	1.15

Note: PanaHome holds 388,388 shares of its own common stock.

Stock Price Range and Trading Volume (Tokyo Stock Exchange)



PanaHome

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

PanaHome Corporation