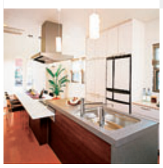
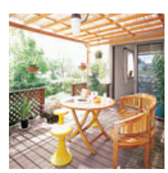
PanaHome



Toward Renewed Growth Potential

PanaHome Corporation

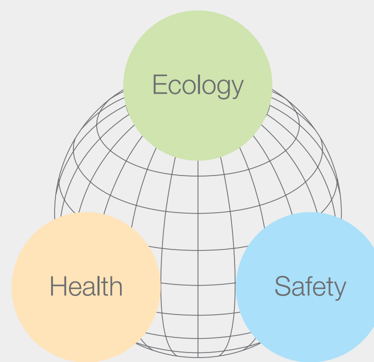
Annual Report 2006 For the year ended March 31, 2006



Corporate Profile

Since its establishment in 1963, while striving to uphold the Matsushita Group's brand name, PanaHome Corporation has developed a business dedicated to housing with the aim to provide healthy and comfortable living using the basic principle of "Putting Customers First."

PanaHome's vision is to provide environmentally friendly living spaces, namely "Eco-Life Homes." Based on this concept, with detached housing, asset management and home remodeling as its three core businesses, the Company has been meeting its growing customer demands as a comprehensive housing company. Further, as a member of the Matsushita Group, the Company is realizing comfortable living solutions through the development of a business that utilizes the comprehensive strengths of the Matsushita Group.



Contents

Forward-Looking Statements

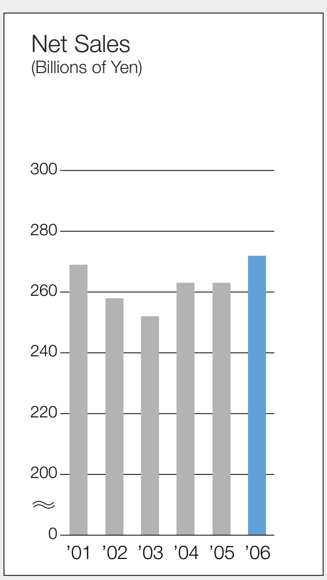
This annual report contains forward-looking statements, including PanaHome's plans and strategies, as well as statements that report historical results. Forward-looking statements involve such known and unknown risks and uncertainties as economic conditions; market trends; fluctuations in land prices;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

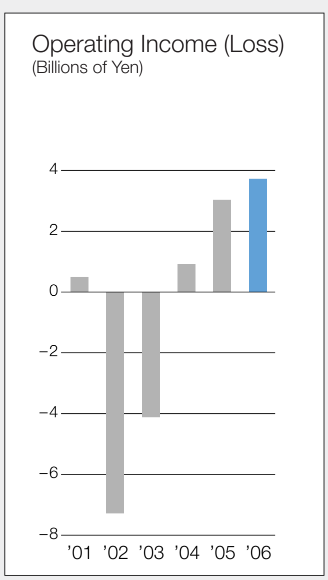
Financial Highlights

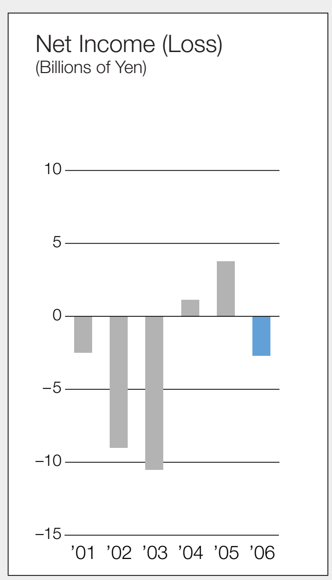
PanaHome Corporation and Subsidiaries
Years ended March 31, from 2001 to 2006

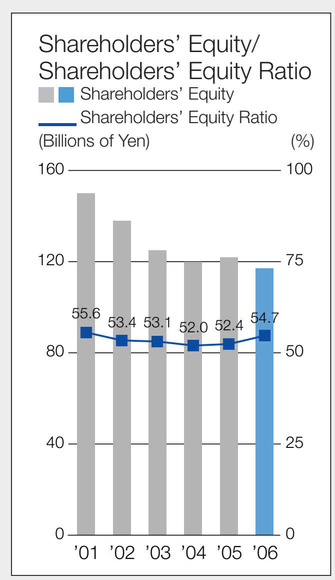
	Millions of yen						Thousands of U.S. dollars
	2001	2002	2003	2004	2005	2006	2006
Net Sales	¥269,472	¥258,032	¥252,706	¥263,755	¥263,826	¥272,294	$2,327,299
Operating Income (Loss)	504	(7,292)	(4,122)	921	3,045	3,738	31,949
Income (Loss) before Income Taxes	(784)	(12,204)	(13,982)	322	3,213	(1,779)	(15,205)
Net Income (Loss)	(2,485)	(9,017)	(10,500)	1,134	3,772	(2,701)	(23,085)
Total Assets	270,728	260,242	236,350	232,147	233,365	214,019	1,829,222
Shareholders' Equity	150,439	138,873	125,450	120,642	122,273	117,107	1,000,914
Return on Equity	(1.6)%	(6.2)%	(7.9)%	0.9%	3.1%	(2.3)%	
	Yen						U.S. dollars
Per Share Amounts:							
Net income (loss)	¥ (14.65)	¥ (53.50)	¥ (62.40)	¥ 6.75	¥ 22.48	¥ (16.10)	$ (0.14)
Diluted net income	–	–	–	6.75	22.47	–	–
Cash dividends	15.00	15.00	15.00	15.00	15.00	15.00	0.13
Number of Employees at Year-end (Persons)	7,482	7,207	6,676	6,603	6,493	5,978	

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 ¥117=US$1, the approximate rate of exchange at March 31, 2006, solely for the convenience of the reader.
2. Cash dividends per share are those declared with respect to income for each fiscal year, and cash dividends charged to retained earnings are those actually paid.









* Years ended March 31

A Message from the President

Tsutomu Ueda
President & CEO

For most people, their home is their largest asset. At PanaHome, we also view homes as products with extraordinarily long useful lives—purchases that often remain with us for 30, 40 or 50 years, if not longer.

Building homes that are gentle on the environment, and the creation of living environments that help families to enjoy healthy, comfortable lives, are both part of PanaHome's "Eco-Life Homes" concept that has proven so popular. We've also witnessed an overwhelming response to our ad campaign, where we showcased the appeal of our safe, worry-free homes offering reliable earthquake resistance.

Today, we live in an era where land prices and interest rates are projected to rise, and where the baby-boomer generation is fast approaching retirement age. In this environment, the demand for highly functional homes will be greater than ever before.

By incorporating the superior products and systems created by Matsushita Electric Industrial Co., Ltd. (MEI) and Matsushita Electric Works, Ltd. (MEW) into the living spaces we produce, PanaHome is committed to delivering solutions for the entire home prefaced on safety and security, health and comfort, and energy generation and conservation.

Guided by our corporate motto, "With Your Dreams," the entire PanaHome family is united in the challenge to practice and realize this commitment. As always, your support will be essential to our success.

To Our Shareholders

Performance Report for Fiscal 2005

In fiscal 2005, ended March 31, 2006, we conducted marketing and product strategies centered primarily on Eco-Life Homes—housing friendly to people and the environment. These efforts resulted in consolidated net sales of ¥272,294 million (US$2,327 million), up 3.2% from the previous fiscal year. Operating income climbed 22.7% to ¥3,738 million (US$32 million), as cost reductions absorbed escalating prices for raw materials. However, we posted a consolidated net loss of ¥2,701 million (US$23 million), compared to ¥3,772 million in net income the previous fiscal year. This resulted from the booking of an extraordinary loss in connection with structural reforms.

Forging a stronger business structure—the net loss in fiscal 2005

In October 2002, the PanaHome Group's 28 principal subsidiaries merged, marking the start of a new company, PanaHome Corporation, specializing in housing. This reconfiguration was prompted by our desire to enhance management efficiency. In December 2005, we aggressively shifted personnel, mainly from back-office divisions, to our frontline sales force to bolster our sales framework. This was done to secure further growth potential and solidify our corporate structure.

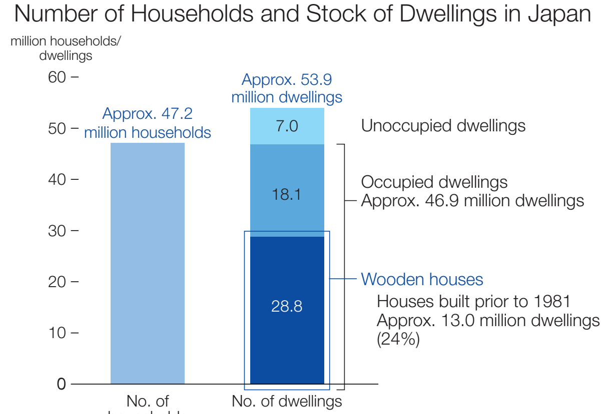
In taking this step, we chose to respect the decision by some personnel to seek employment outside of PanaHome, and set up a special job placement system to financially assist these employees in their transition. In total, 391 people applied for these benefits. This led to the booking of a charge of ¥4,371 million (US$37 million) as an extraordinary loss, and the consequent net loss posted for fiscal 2005. On the plus side, this workforce downsizing has been accompanied by a reduction of roughly ¥700 million (US$6 million) in personnel costs.

PanaHome Business Strategies

Japan's housing market—smaller population, but more homebuyers

Although Japan's population has been declining since 2005, the number of people aged 35 to 49, the key age demographic for homebuyers, is expected to increase until 2015. Similarly, the number of households headed by people 65 and older is also projected to rise. But while the roughly 54 million homes in Japan exceeds the approximate 47 million Japanese households, about 24% of those homes are wooden houses built prior to 1981 to now outdated earthquake-resistance standards. This housing stock is therefore likely to contain substantial future rebuilding demand. The business strategies we intend to pursue in this environment are outlined as follows:

Number of Households and Stock of Dwellings in Japan



*Source: "Housing and Land Survey" (2003) published by Statistics Bureau, Ministry of Internal Affairs and Communications

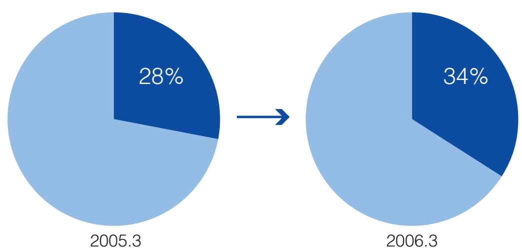
Enhance sales capabilities and interaction with customers

We have positioned this as a key sales strategy. In fiscal 2005, we bolstered our sales force numerically and in terms of quality by reassigning staff from administrative divisions to sales divisions. At the same time, we followed a more robust recruitment policy in our continuing effort to quickly gain competitive advantage. Our salespeople also took part in seminars that will enable them to incorporate a variety of perspectives into their proposal-based sales approach. Furthermore, we actively opened new model homes, and rebuilt and remodeled others, providing additional points of interaction with customers and opportunities for them to experience our new homes. As of March 31, 2006, PanaHome counted a total of 262 model homes, including 48 new or rebuilt models, and 23 refurbished models.

Expand sales of Eco-Life Homes tailored to Japanese consumer needs

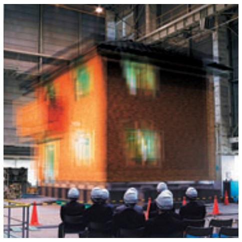
Accounting for 28% of the homes we sold in the previous fiscal year, the percentage of Eco-Life Homes has risen sharply to 34%. The average unit price per home has also increased. Three concepts are embodied in the Eco-Life Homes we build—safety and security, health and comfort, and energy generation and conservation. The ability to identify these areas reflects an accurate grasp of consumer needs that emerge from conditions inherent to Japanese living.

Share of Eco-Life Homes



* Based on orders received

Japan's reputation as one of the world's most earthquake-prone countries, for example, is driving demand for homes with greater earthquake resistance. Here, we again verified and demonstrated the resistance of PanaHome-built homes to earthquakes by running repeated quake simulations on full-scale models of Eco-Life Homes. We invested substantially in TV commercials to showcase the resistance of our homes even to multiple earthquakes to consumers. Growing health consciousness is another burgeoning area of need. To meet it, we are building homes in ways that allow residents to live in the health and comfort they seek. One example is by incorporating in homes the Eco-Life ventilation system, a configuration that takes advantage of natural ventilation. Another is the use of diatomaceous earth from Japan‘s Wakkanai region, which has superior humidity control and gas absorption qualities, in building materials designed to control humidity. Moreover, one such need pertains to growing environmental awareness. In response, we now offer environment-friendly products that incorporate solar power generation systems and take advantage of photocatalytic technology. Built with environmental awareness in mind, these homes also allow customers to lower their utilities and maintenance costs. To raise added-value further, we have turned to the superior products and systems of Group companies MEI and MEW, incorporating them to deliver high-quality living spaces throughout the entire home.



Earthquake simulations using actual home models demonstrate the resistance of our homes to repeated earthquakes

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

Enhancing sales capabilities and points of interaction with customers are the two main sales strategies that will guide our focus on the development and sale of Eco-Life Homes. Moreover, in boosting the pace of market penetration of these homes, we hope to map out a course to sustainable growth.

Bolstering medical and nursing care facilities, rental apartments and condominiums

In the asset management business, too, we are responding to revisions to Japan's Long-term Care Insurance System in light of the increasing number of senior citizens. We are redoubling efforts to expand sales of rental housing that is modest in scale, multifunctional and tailored to seniors. Accordingly, we also plan to aggressively expand sales of rental apartment housing where Japan's population density is the highest, namely in the Tokyo metropolitan area, and the Chubu and Kinki regions. Meanwhile, efforts to sell prime condominiums will see us leverage PanaHome's skills as a homebuilder, particularly in the development of small-scale projects in blocks of 20 to 50 units, a scale avoided by most large developers.

Customer Satisfaction as Our Corporate Culture

PanaHome has forged close ties with customers in the course of striving to understand their hopes and needs, and selling homes directly to them. Long-term relationships with customers are indeed a hallmark of the housing business. I place great value on having points of contact between our employees and customers, through which we can hopefully build greater levels of trust. To do so, I am committed alongside the rest of the PanaHome family to continuing our push to create a corporate culture founded on one basic principal—putting customers first.

As shareholders, your support and encouragement will be essential to our future growth and prosperity.

July 2006

Tsutomu Ueda

Tsutomu Ueda

President & CEO

Corporate Governance and Compliance

Corporate Governance

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

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

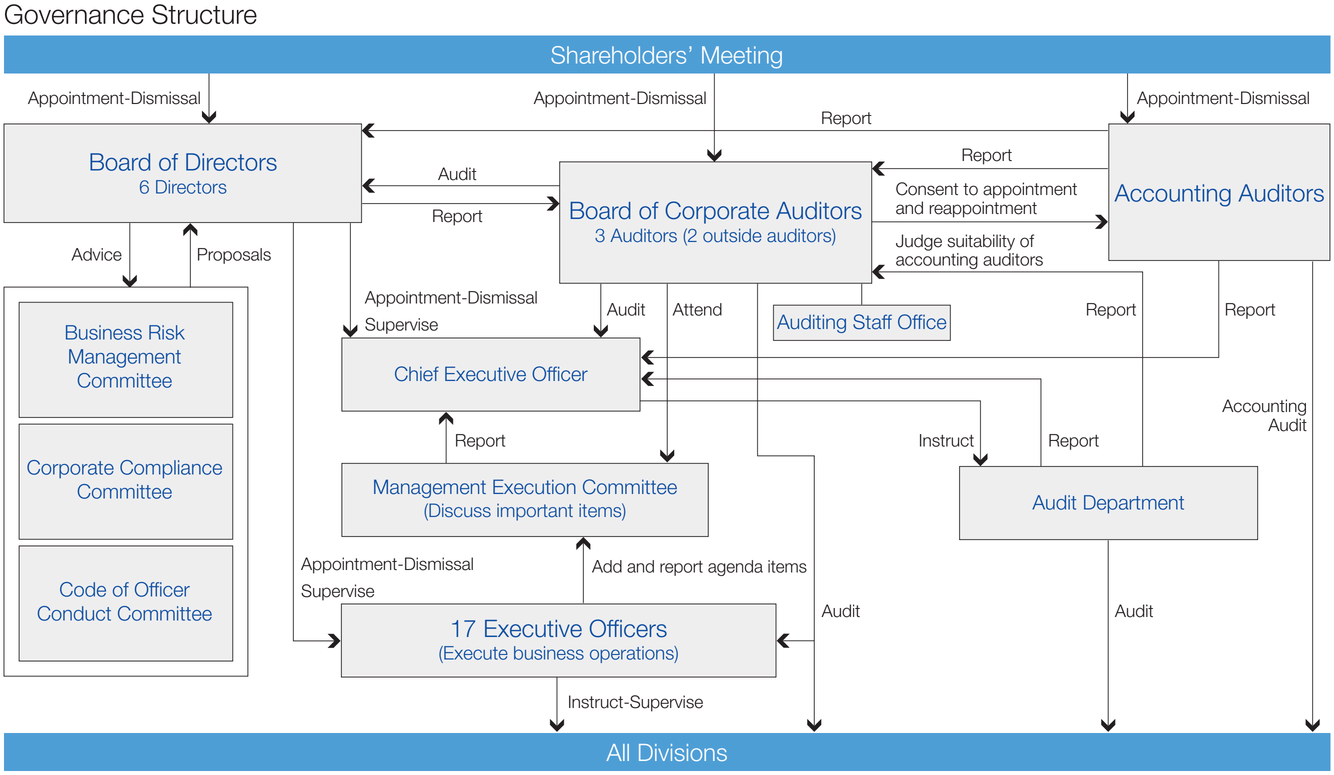
Further, in accordance with the audit plan formulated by the Board of Corporate Auditors, three auditors (of which two are outside auditors) carry out their auditing responsibilities by attending important meetings, gathering reports from directors, executive officers, employees and accounting auditors,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

Compliance

In addition to the established audits carried out by the internal audit division and legal department, the operation of internal control systems has been compliant with the establishment of such systems as prescribed by the United States' Sarbanes-Oxley Act since fiscal 2004. Regarding corporate ethics, the Company adheres to the Code of Conduct of the Matsushita Group, which was enacted in January 2005. Further, all directors and executive officers have pledged compliance to the Code of Conduct for Officers, which was revised in March 2005. In addition, to further strengthen the Company's compliance framework, a corporate ethics hotline was set up in August 2003 as a means for reporting compliance issues and fielding related inquiries.

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

Governance Structure



Corporate Social Responsibility

Environmental Initiatives

Preventing Global Warming

PanaHome is reducing CO_2 emissions to prevent global warming.

1. Reducing CO_2 from the entire house

PanaHome's environment-friendly Eco-Life Homes reduce the volume of CO_2 emissions generated in everyday living through the use of a solar power generation system, an all-electric system, and the Eco-Life ventilation system.

2. Reducing CO_2 from the entire town (PanaHome-City Tsuda-Yamate)

PanaHome-City Tsuda-Yamate: A housing development filled with Eco-Life Homes, underpinned by the concepts of environment, health and comfort.

Recognized as the industry's first "environmental symbiotic housing development," PanaHome-City has been widely praised for its solar power generation system to create and conserve energy, its harmony with the surrounding area, and its healthy and comfortable living environment.

3. Reducing CO_2 from business activities

PanaHome's production plants promote energy conservation by making rational use of fuel and electricity, and have received the Director-General Award of the Agency of Natural Resources and Energy. We have implemented the government's "cool biz" and "warm biz" campaigns; and as a member of the Matsushita Group, participated in the "light down" campaign to turn off neon signs and other illuminated advertisements.

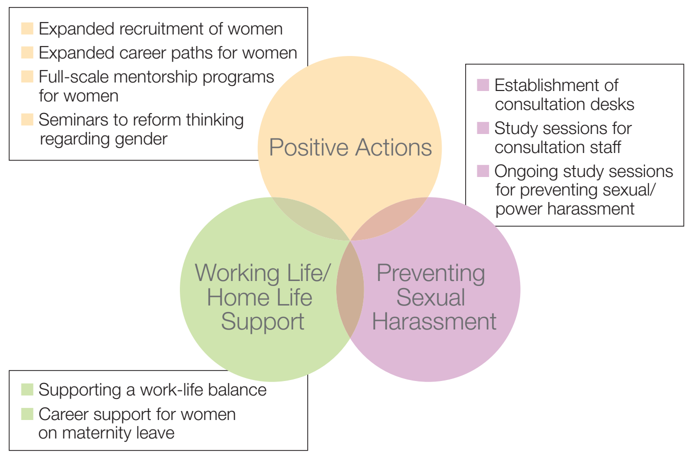
Attaining a Resource Recycling Society

PanaHome actively promotes the 3Rs (reuse, reduce and recycle) as a means of realizing a sustainable society.

In fiscal 2005, we reached 100% recycling at construction and waste collection sites through conscientious separation of waste material, and achieved zero waste emissions from new construction sites. Along with the zero emissions level already accomplished at production sites, these measures bring us closer to attaining a recycling society.

Responsibility to Society

PanaHome has formulated the PanaHome Equal Partnership Declaration to help realize a gender-equal society in which men and women both hold responsibility and respect each other's rights. We are working to attain a work climate of gender coexistence that allows anyone with motivation and ability to flourish.



Proposals for New Styles of Living from the Matsushita Group

The Matsushita Group is pursuing a style of business driven by the notion of "new prosperity," combining improvements in the quality of life with reductions in environmental impact. The centerpiece to promote this initiative is the Eco & Ud HOUSE, a new type of home designed around coexistence with the environment (Eco) and elements of universal design (UD), and incorporating the technology and expertise of MEI, MEW, and PanaHome.

Eco & Ud HOUSE: Offers comfort even in large spaces through an earthquake-resistant steel frame structure and superior insulation

Business Operations

Detached Housing Business (Eco-Life Homes)

EL·SOLANA: An Eco-Life Home for elegant living built on the themes of health and comfort

PanaHome, with its uncompromising commitment to ecological and economical considerations, hopes to spearhead the evolution of prefabricated housing technology with its Eco-Life Homes. Product development for these homes, friendly to both people and the environment, is driven by three themes: safety and security, health and comfort, and energy generation and conservation.

During the year under review, PanaHome aggressively developed products utilizing photocatalytic technology, which promoted easier-to-clean exteriors and cleaner air, and demonstrated the superior earthquake resistance of its homes through quake simulations conducted on actual-size models.

By bringing the collective strengths of the Matsushita Group to bear, PanaHome is striving to become a company capable of proposing lifestyle and comfort solutions involving the entire home that address a variety of issues in day-to-day living. When conceptualizing its homes, PanaHome constantly incorporates the customers' viewpoint, tailoring homes to diverse lifestyles and life stages. This is true whether taking advantage of natural light to propose high-quality, comfortable living that minimizes environmental load, or proposing homes designed with sunny, open spaces that foster family interaction.

Rental Apartment Housing Business

FOREST YUTAKANO: Rental housing development incorporating a unique environmental design

solbios 5U: A five-story "Eco-Life" residential building incorporating commercial spaces that is friendly to people, cities and the environment

In this business, PanaHome is committed to building properties that show care for people and the environment, and that facilitate management of rental properties. Here, too, PanaHome is pursuing product development that incorporates its "Eco-Life Home" concept into rental apartment housing. By creating housing that enables occupants to live in health, comfort and security, thus raising a building's asset value, PanaHome has proposed property management that satisfies property owners. Moreover, by leveraging a stronger support system, including the NEOS land-asset utilization system, an owners' club, and a real-estate rental management system, PanaHome is determined to create apartments highly appealing to both occupants and owners.

Home Remodeling Business

As the baby-boomer generation nears retirement age in record numbers, the home remodeling market is being seen by many as an increasingly attractive one. In responding to this demographic cohort's new stage of life, the market is poised to generate some ¥1 trillion in value, particularly over the next five years.

In step with this emerging trend, PanaHome established a Customer Center during the year under review as a separate division specializing in maintenance and upkeep for its remodeling operations. The Home Remodeling Division will now specialize solely in upgrading equipment and in large remodeling projects. These changes have resulted in an organizational structure that will enable the Company to maintain the profitability of remodeling operations and to better cope with coming demand.

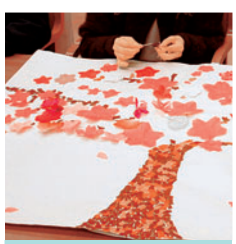
Home Remodeling Seminar attended by expert architects from across Japan

While preserving the traditional one-story layout, this renovation is designed to give cafés a retro look

Going forward, PanaHome will further strengthen its capabilities not only in remodeling the homes of previous customers, but also in wooden houses, condominiums and other existing housing. Driven by the concept of "expert remodeling," the Company will also push forward with business expansion through consulting prefaced on highly satisfying remodeling proposals.

Elderly Care and Housing Business

Care Village Senri Furuedai:
Private rest homes built on a care concept of providing greater comfort than at home and personalized living environments



Care Village residents creating artwork

PanaHome has built a total of 738 medical and welfare facilities nationwide since operations commenced in this business.

In addition to *Sunresta Moriguchi*, an ISO 9001-certified rental apartment housing development for seniors capable of unassisted living, the Company in October 2005 commenced management of *Care Village Senri Furuedai*, a new fee-based retirement home with a focus on nursing care. Preparations for acquiring ISO 9001 certification at these facilities are also under way. PanaHome seeks to leverage expertise gained from the management of these rest communities in the development of future products and in proposal-based business activities. The latter will see the Company offer clients who manage similar properties a comprehensive range of services, from facility design and construction through to actual operation.

Furthermore, *PanaHome Aging Home*, a new type of detached residence designed for at-home nursing care, is fully compatible with amendments enacted in April 2006 to Japan's Long-term Care Insurance System that strengthen support for such care. This new product is the culmination of PanaHome's expertise in nursing-care management, and is expected to be in widespread use in the near future.

Financial Review

Sales, Costs, Expenses and Income

Net Sales

During fiscal 2005, ended March 31, 2006, the Japanese housing market, while experiencing a continual downward trend in custom-built housing demand, nonetheless witnessed overall growth in new housing starts, mainly supported by demand for tract housing and rental properties. In this environment, we aggressively developed marketing and product strategies based around the "Eco-Life Homes" concept. The effect of the market penetration of this concept can be seen in the increase in consolidated order volume, which rose to ¥283,712 million (US$2,425 million), up 12.7% from the previous year. Buoyant orders have contributed directly to sales, with consolidated net sales increasing 3.2% to ¥272,294 million (US$2,327 million) compared to the previous fiscal year.

Cost of Sales and Selling, General & Administrative Expenses

The cost of sales increased 4.2% year on year to ¥207,628 million (US$1,775 million). While the increase in the price of materials has been partially absorbed by cost rationalization initiatives, the cost of sales ratio nonetheless increased 0.8 of a percentage point to 76.3%. This outcome was due to a lower gross profit margin resulting from the sale of dead stock buildings and land, and forward-looking investments to acquire the design and construction know-how for building facilities tailored to the elderly. Selling, general and administrative (SG&A) expenses, however, declined 1.1% to ¥60,928 million (US$521 million). This decrease resulted largely from companywide cost-cutting measures and reductions in personnel costs accompanying structural reforms, and came despite the continuation of aggressive marketing investment in showroom management, advertising and other areas.

Profit

Due to the increased sales and cost reductions outlined above, consolidated operating income increased 22.7% to ¥3,738 million (US$32 million). In contrast, PanaHome booked a consolidated net loss of ¥2,701 million (US$23 million) for the year under review, due to ¥4,729 million (US$40 million) in restructuring costs following mainly the implementation of a retirement and mid-career assistance program, and an impairment loss on long-lived assets of ¥1,527 million (US$13 million) following the adoption of impairment accounting measures.

The net loss per share for the year under review was ¥16.10 (US$0.14).

Financial Position

As of March 31, 2006, total assets were ¥214,019 million (US$1,829 million), down 8.3% from the previous fiscal year-end. This decrease was mainly due to the using of cash and deposits and cash from the redemption of marketable securities as capital for the repayment of corporate bonds totaling ¥20,000 million (US$171 million).

Current assets were ¥116,951 million (US$1,000 million), down 4.1% from a year earlier. Although inventory levels increased during the year, current assets nonetheless declined due to the decrease in cash and marketable securities outlined above. Current liabilities fell by 11.6% to ¥79,026 million (US$675 million), largely due to the repayment of corporate bonds. As a result, working capital increased ¥5,403 million (US$46 million) from ¥32,521 million at the fiscal 2004 year-end, to ¥37,924 million (US$324 million). The current ratio was 148.0%, an 11.6 percentage-point increase compared to the end of the previous fiscal year. Fixed assets decreased 12.9% to ¥97,068 million (US$830 million) compared to the previous fiscal year-end, largely due to reductions in investment securities, and buildings and structures. Long-term liabilities decreased 19.6% to ¥17,150 million (US$147 million), largely due to a reduction in long-term deposits received following the abolishment of the employee housing provision system.

Shareholders' equity, meanwhile, was ¥117,107 million (US$1,001 million), or 4.2% lower than a year ago, due to a decrease in retained earnings caused by the net loss recorded for the year.

Dividend Policy

The Company views the continuation of stable dividends as one of its key strategies for returning profits to shareholders. To this end, PanaHome has declared a full-year dividend of ¥15 (US$0.13) per share, including an interim dividend of ¥7.5 (US$0.06), the same as the previous year.

Cash Flows

Net cash used in operating activities was ¥3,436 million (US$29 million). This was largely due to the purchase of land for sales and restructuring payments, which were partially offset by increases in trade payables and deposits received for construction in progress.

Net cash provided by investing activities was ¥11,011 million (US$94 million), largely due to the redemption of marketable securities and investment securities.

Net cash used in financing activities was ¥22,400 million (US$191 million). This was largely due to a ¥20,000 million (US$171 million) payment for the redemption of bonds and the payment of dividends.

As a result, cash and cash equivalents as of March 31, 2006 stood at ¥54,221 million (US$463 million), down 20.3% compared to the previous fiscal year-end.

Business Risks

1. Industry Trends and Competition

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

2. Increases in Cost of Raw Materials and Resources

The cost price may potentially rise due to a sudden sharp increase in the cost of materials fundamental to house construction, such as steel and timber.

3. Quality Guarantees

The Company strives to maintain strict quality control with regard to the development, production and purchase of raw materials, components and furnishings, and home construction. However, the Company cannot guarantee that quality issues will not occur in any home due to large variations in the quality of material and processes (in particular, construction will vary according to each different construction site) and degradation of materials and components over time.

4. Natural Disasters

In the event of major natural disasters, including earthquakes and typhoons, the Company stands to incur massive costs due to the repair of damage of company-owned facilities, plus initial and on-going support for customers, which includes building inspections and other emergency measures.

5. Retirement Benefit Liability

With regard to the retirement and pension plans applicable to employees in Japan who fulfill the requirements for eligibility, the potential exists for a reduction in the fair value of plan assets due to decreases in share price, or reductions in the discount ratio affecting projected benefit obligations due to low interest rates. As a result, unrecognized actuarial losses may increase and potentially lead to increased net periodic benefit costs for pension plans.

6. Statutory Regulations

The PanaHome Group operates its business having acquired building enterprise permits, real estate transaction licenses and architect authorizations, as well as adopting statutory regulations in regard to the environment and recycling. In the event that these statutory regulations are not adhered to, Group business activities may be restricted, which may potentially lead to increased costs.

Consolidated Balance Sheets

PanaHome Corporation and Subsidiaries
March 31, 2006 and 2005

ASSETS	Millions of Yen 2006	Millions of Yen 2005	Thousands of U.S. Dollars (Note 1) 2006
CURRENT ASSETS:			
Cash and cash equivalents	¥ 54,221	¥ 68,004	$ 463,427
Marketable securities (Note 3)	1,500	5,034	12,821
Short-term investments (Note 2-d)	215	40	1,837
Receivables:			
Trade notes	195	283	1,667
Trade accounts	6,014	6,280	51,402
Allowance for doubtful receivables	(30)	(49)	(256)
Inventories (Note 4)	44,300	34,198	378,632
Deferred income tax assets (Note 10)	6,787	5,016	58,008
Other current assets	3,749	3,117	32,043
Total current assets	116,951	121,923	999,581
PROPERTY, PLANT AND EQUIPMENT:			
Land (Note 5 and 6)	23,878	24,245	204,085
Buildings and structures (Note 6)	51,687	52,066	441,769
Machinery and equipment (Note 6)	30,599	33,013	261,530
Construction in progress	581	542	4,966
Total	106,745	109,866	912,350
Less accumulated depreciation	(56,830)	(56,770)	(485,726)
Net property, plant and equipment	49,915	53,096	426,624
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3)	13,032	19,908	111,385
Investments in associated companies	7,737	8,638	66,128
Long-term loans to employees	9,969	10,881	85,205
Deferred income tax assets (Note 10)	9,254	11,789	79,094
Intangibles and other assets (Note 6)	8,060	7,941	68,889
Allowance for doubtful accounts	(899)	(811)	(7,684)
Total investments and other assets	47,153	58,346	403,017
TOTAL	¥ 214,019	¥ 233,365	$ 1,829,222

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2006	Millions of Yen 2005	Thousands of U.S. Dollars (Note 1) 2006
CURRENT LIABILITIES:			
Short-term bank loans (Note 7)	¥ 544	¥ 387	$ 4,650
Payables:			
Trade notes	227	1,091	1,940
Trade accounts	33,840	30,413	289,231
Current portion of long-term debt (Note 7)	—	20,000	—
Accrued income taxes	445	506	3,803
Deposits received	15,945	13,418	136,282
Accrued expenses and other current liabilities	28,025	23,587	239,530
Total current liabilities	79,026	89,402	675,436
LONG-TERM LIABILITIES:			
Liability for employees' retirement benefits (Note 8)	5,720	6,969	48,889
Deferred income tax liabilities on land revaluation (Note 5)	2,248	2,303	19,214
Long-term deposits received	8,660	11,688	74,017
Other long-term liabilities	522	380	4,461
Total long-term liabilities	17,150	21,340	146,581
MINORITY INTERESTS	736	350	6,291
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 14 and 15)			
SHAREHOLDERS' EQUITY (Note 9):			
Common stock, authorized - 596,409,000 shares, issued - 168,563,533 shares in 2006 and 2005	28,376	28,376	242,530
Capital surplus	31,962	31,838	273,179
Land revaluation difference (Note 5)	(6,625)	(6,600)	(56,624)
Retained earnings	63,029	68,344	538,709
Net unrealized gains on available-for-sale securities (Note 2-c)	758	666	6,479
Foreign currency translation adjustments	(42)	(21)	(359)
Treasury stock - at cost, 761,770 shares in 2006 and 760,119 shares in 2005	(351)	(330)	(3,000)
Total shareholders' equity	117,107	122,273	1,000,914
TOTAL	¥ 214,019	¥ 233,365	$ 1,829,222

Consolidated Statements of Operations

PanaHome Corporation and Subsidiaries
Years ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
NET SALES	¥ 272,294	¥ 263,826	$ 2,327,299
COST OF SALES	207,628	199,174	1,774,598
Gross profit	64,666	64,652	552,701
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 11 and 14)	60,928	61,607	520,752
Operating income	3,738	3,045	31,949
OTHER INCOME (EXPENSES):			
Interest and dividend income	567	686	4,846
Amortization of negative goodwill	310	—	2,650
Interest expense	(525)	(559)	(4,487)
Equity in gains of affiliated companies	80	305	684
Write-down of real estate for sale	(2)	(326)	(17)
Loss on disposal of property, plant and equipment	(304)	(322)	(2,598)
Loss on impairment of long-lived assets (Note 6)	(1,527)	—	(13,051)
Restructuring costs (Note 12)	(4,729)	—	(40,419)
Other - net	613	384	5,238
Other income (expenses) - net	(5,517)	168	(47,154)
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS	(1,779)	3,213	(15,205)
INCOME TAXES (Note 10):			
Current	337	248	2,880
Deferred	595	(819)	5,085
Total	932	(571)	7,965
MINORITY INTERESTS	(10)	12	(85)
NET INCOME (LOSS)	¥ (2,701)	¥ 3,772	$ (23,085)

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2-o):			
Basic net income (loss)	¥ (16.10)	¥ 22.48	$ (0.14)
Diluted net income	—	22.47	—
Cash dividends applicable to the year	15.00	15.00	0.13

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

PanaHome Corporation and Subsidiaries
Years ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
COMMON STOCK (Note 9):			
Balance at beginning of year	¥ 28,376	¥ 28,376	$ 242,530
Balance at end of year	¥ 28,376	¥ 28,376	$ 242,530
CAPITAL SURPLUS (Note 9):			
Balance at beginning of year	¥ 31,838	¥ 31,835	$ 272,120
Surplus from merged company	121	—	1,034
Gain on sales of treasury stock	3	3	25
Balance at end of year	¥ 31,962	¥ 31,838	$ 273,179
LAND REVALUATION DIFFERENCE (Note 5):			
Balance at beginning of year	¥ (6,600)	¥ (6,600)	$ (56,410)
Net change due to disposal of land	(25)	—	(214)
Balance at end of year	¥ (6,625)	¥ (6,600)	$ (56,624)
RETAINED EARNINGS (Note 9):			
Balance at beginning of year	¥ 68,344	¥ 67,090	$ 584,136
Net income (loss)	(2,701)	3,772	(23,085)
Cash dividends, ¥15.00 ($0.13) per share in 2006 and 2005	(2,518)	(2,518)	(21,522)
Reversal of land revaluation difference	25	—	214
Decrease due to merger	(121)	—	(1,034)
Balance at end of year	¥ 63,029	¥ 68,344	$ 538,709
NET UNREALIZED GAINS ON AVAILABLE-FOR-SALE SECURITIES (Note 2-c):			
Balance at beginning of year	¥ 666	¥ 330	$ 5,692
Net change	92	336	787
Balance at end of year	¥ 758	¥ 666	$ 6,479
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS:			
Balance at beginning of year	¥ (21)	¥ (87)	$ (179)
Translation adjustments during year	¥ (21)	66	$ (180)
Balance at end of year	¥ (42)	¥ (21)	$ (359)
TREASURY STOCK AT COST (Note 9):			
Balance at beginning of year	¥ (330)	¥ (302)	$ (2,821)
Net change	(21)	(28)	(179)
Balance at end of year	¥ (351)	¥ (330)	$ (3,000)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

PanaHome Corporation and Subsidiaries
Years ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income (loss) before income taxes and minority interests	¥ (1,779)	¥ 3,213	$ (15,205)
Adjustments for:			
Depreciation	3,808	4,142	32,547
Loss on impairment of long-lived assets	1,527	—	13,051
Provision for retirement and severance benefits	(2,449)	(1,065)	(20,932)
Interest and dividend income	(567)	(686)	(4,846)
Interest expense	525	558	4,487
Write-down of real estate for sale	2	326	17
Equity in gains of affiliated companies	(80)	(305)	(684)
Loss on disposal of property, plant and equipment	304	322	2,598
Restructuring costs	4,729	—	40,419
Amortization of negative goodwill	(310)	—	(2,650)
Decrease in trade receivables	284	2,778	2,427
Increase in inventories	(9,328)	(1,878)	(79,726)
Increase (decrease) in trade payables	2,114	(1,594)	18,068
Increase in advances received	1,850	2,757	15,812
Other	303	40	2,591
Sub total	933	8,608	7,974
Interest and dividend income received	604	664	5,162
Interest expense paid	(548)	(581)	(4,684)
Restructuring expenses	(4,165)	—	(35,598)
Income taxes paid	(260)	(137)	(2,222)
Net cash provided by (used in) operating activities	(3,436)	8,554	(29,368)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for purchase of securities	—	(4,000)	—
Proceeds from sales and redemption of securities	5,053	5,106	43,188
Additions to property, plant and equipment	(1,180)	(1,295)	(10,085)
Proceeds from sales of property, plant and equipment	98	20	837
Additions to intangibles	(794)	(595)	(6,786)
Proceeds from sales of intangibles	46	—	393
Purchases of investment securities	(1,000)	(5,400)	(8,547)
Proceeds from sales and redemption of investment securities	6,522	4,341	55,744
Decrease in short-term investments	34	13	291
Other	2,232	(645)	19,076
Net cash provided by (used in) investing activities	11,011	(2,455)	94,111
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase (decrease) in short-term bank loans	136	(134)	1,163
Redemption of bonds	(20,000)	—	(170,940)
Purchase of treasury stock	(54)	(45)	(462)
Cash dividends paid	(2,517)	(2,518)	(21,513)
Other	35	19	299
Net cash used in financing activities	(22,400)	(2,678)	(191,453)
Effect of exchange rate changes on cash and cash equivalents	8	5	68
Net increase (decrease) in cash and cash equivalents	(14,817)	3,426	(126,642)
Cash and cash equivalents at beginning of year	68,004	64,578	581,231
Cash and cash equivalents of newly consolidated subsidiaries (Note 16)	1,034	—	8,838
Cash and cash equivalents at end of year (Note 2-b)	¥ 54,221	¥ 68,004	$ 463,427

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

PanaHome Corporation and Subsidiaries

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥117 to $1, the approximate rate of exchange at March 31, 2006. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

d. ***Short-term Investments -*** Short-term investments are time deposits, which mature or become due more than three months from the date of acquisition.

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

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

g. Long-Lived Assets - In August 2002, the Business Accounting Council (BAC) issued a Statement of Opinion, *"Accounting for Impairment of Fixed Assets"*, and in October 2003 the Accounting Standards Board of Japan (ASBJ) issued ASBJ Guidance No.6, *"Guidance for Accounting Standard for Impairment of Fixed Assets"*. These new pronouncements were effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The Group adopted the new accounting standard for impairment of fixed assets as of April 1, 2005.

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

The effect of adoption of the new accounting standard for impairment fixed assets was to increase loss before income taxes and minority interests for the year ended March 31, 2006 by ¥1,494 million ($12,769 thousand).

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

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

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

j. 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.

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

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 shareholders' 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 shareholders' equity.

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

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

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 2006 is not disclosed because it is anti-dilutive (because of the Company's net loss position).

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

p. *New Accounting Pronouncements*

Business Combination and Business Separation - In October 2003, the BAC issued a Statement of Opinion, *"Accounting for Business Combinations,"* and on December 27, 2005 the ASBJ issued *"Accounting Standard for Business Separations"* and ASBJ Guidance No. 10, *"Guidance for Accounting Standard for Business Combinations and Business Separations."* These new accounting pronouncements are effective for fiscal years beginning on or after April 1, 2006.

The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. These specific criteria are as follows:

(a) the consideration for the business combination consists solely of common shares with voting rights,
(b) the ratio of voting rights of each predecessor shareholder group after the business combination is nearly equal, and
(c) there are no other factors that would indicate any control exerted by any shareholder group other than voting rights.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures. Goodwill, including negative goodwill, is to be systematically amortized over 20 years or less, but is also subject to an impairment test.

Under the accounting standard for business separations, in a business separation where the interests of the investor no longer continue and the investment is settled, the difference between the fair value of the consideration received for the transferred business and the book value of net assets transferred to the separated business is recognized as a gain or loss on business separation in the statement of operations. In a business separation where the interests of the investor continue and the investment is not settled, no such gain or loss on business separation is recognized.

Stock Options - On December 27, 2005, the ASBJ issued *"Accounting Standard for Stock Options* and *related guidance."* The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006.

This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of shareholders' equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

Bonuses to Directors and Corporate Auditors - Prior to the fiscal year ended March 31, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders meeting. The ASBJ issued ASBJ Practical Issues Task Force No. 13, *"Accounting treatment for bonuses to directors and corporate auditors,"* which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Current:			
Government and corporate bonds	¥ 1,500	¥ 5,034	$ 12,821
Non-current:			
Marketable equity securities	¥ 1,944	¥ 1,735	$ 16,616
Government and corporate bonds	11,088	17,673	94,769
Trust fund investments and other	—	500	—
Total	¥ 13,032	¥ 19,908	$ 111,385

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2006 and 2005 were as follows:

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

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

	Thousands of U.S. Dollars			
	2006			
Securities classified as:	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	$ 4,188	$ 11,291	$ —	$ 15,479
Debt securities	30,052	8	547	29,513
Held-to-maturity	78,076	146	2,931	75,291

Available-for-sale securities whose fair values are not readily determinable as of March 31, 2006 and 2005 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
Available-for-sale:	2006	2005	2006
Equity securities	¥ 133	¥ 134	$ 1,137
Other	—	500	—
Total	¥ 133	¥ 634	$ 1,137

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2006 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due in one year or less	¥ 1,500	$ 12,821
Due after one year through five years	6,451	55,137
Due after five years through ten years	4,700	40,171
Total	¥ 12,651	$ 108,129

4. INVENTORIES

Inventories at March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Real estate for sale	¥ 34,118	¥ 25,224	$ 291,606
Contracts in progress	7,383	6,062	63,103
Finished goods	1,671	1,559	14,282
Work in process, raw materials and supplies	1,128	1,353	9,641
Total	¥ 44,300	¥ 34,198	$ 378,632

5. LAND REVALUATION

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

The resulting land revaluation difference represents unrealized depreciation of land and is stated, net of income taxes, as a component of shareholders' equity. There 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, 2006, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥4,627 million ($39,547 thousand).

6. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of the year ended March 31, 2006. As a result, the Group recognized an impairment loss of ¥1,527 million ($13,051 thousand) as other expenses for certain rental properties in Saitama Prefecture and others due to substantial declines in the fair market value and sluggish rental market value, certain idle assets in Hokkaido Prefecture and others due to substantial declines in the fair market value, and certain business properties in New Zealand and others due mainly to a continuous operating losses. The carrying amount of those assets was written down to the recoverable amount.

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

	Millions of Yen	Thousands of U.S. Dollars
Rental properties:		
Land	¥ 170	$ 1,453
Buildings and structures	59	504
Total	¥ 229	$ 1,957
Idle assets:		
Land	¥ 295	$ 2,521
Buildings and structures	355	3,034
Other	47	402
Total	¥ 697	$ 5,957
Business properties:		
Land	¥ 39	$ 333
Buildings and structures	377	3,222
Machinery and equipment	180	1,539
Other	5	43
Total	¥ 601	$ 5,137

The recoverable amount of the rental properties was measured at their value in use and the discount rate used for computation of present value of future cash flows was from 2% to 5%.The recoverable amounts of the idle assets and the business properties were measured by their net selling price at disposition, principally calculated by the appraisal value.

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

For short-term bank loans at March 31, 2006 and 2005, the annual interest rates ranged from 1.50% to 4.45%, respectively.

Current portion of long-term debt at March 31, 2005 consisted of the unsecured 1.0% bonds, which were redeemed during the year ended March 31, 2006.

As is customary in Japan, the Company maintains deposit balances with banks with which it has bank loans. Such deposit balances are not legally or contractually restricted as to withdrawal.
In addition, collateral must be provided if requested by the lending banks and certain banks have the right to offset cash deposited with them against any bank loan or obligation that becomes due and, in case of default and certain other specified events, against all other debt payables to the bank concerned. The Company has never received any such request.

8. RETIREMENT AND PENSION PLANS

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

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

Effective October 1, 2004, the Company united its retirement allowance plans to the "point-based" system, and amended its contributory funded defined benefit pension plans by introducing a cash balance plan. As a result, unrecognized prior service benefit increased for the year ended March 31, 2005.

The liability for employees' retirement benefits at March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Projected benefit obligation	¥ 36,581	¥ 36,733	$ 312,658
Fair value of plan assets	(26,222)	(21,804)	(224,119)
Unrecognized prior service benefit	8,225	9,756	70,299
Unrecognized actuarial loss	(14,744)	(18,433)	(126,017)
Prepaid pension cost	1,880	717	16,068
Net liability	¥ 5,720	¥ 6,969	$ 48,889

The components of net periodic benefit costs were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Service cost	¥ 1,846	¥ 1,961	$ 15,778
Interest cost	910	938	7,778
Expected return on plan assets	(651)	(591)	(5,564)
Prior service benefit	(1,532)	(1,027)	(13,094)
Recognized actuarial loss	1,145	913	9,786
Net periodic benefit costs	¥ 1,718	¥ 2,194	¥ 14,684

Assumptions used for the years ended March 31, 2006 and 2005 were set forth as follows:

	2006	2005
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. SHAREHOLDERS' EQUITY

Through May 1, 2006, Japanese companies are subject to the Commercial Code of Japan (the "Code").

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

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

The Code allows Japanese companies to purchase treasury stock and dispose of such treasury stock upon resolution of the Board of Directors. The aggregate purchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the annual general meeting of shareholders.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash outlays, the Code also imposes certain limitations on the amount of capital surplus and retained earnings available for dividends. The amount of capital surplus and retained earnings available for dividends under the Code was ¥43,168 million ($368,957 thousand) as of March 31, 2006, based on the amount recorded in the parent company's general books of account.

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

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

(a) Dividends

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

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. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also 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 Code, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the shareholders. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. 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 shareholders' 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 shareholders' equity or deducted directly from stock acquisition rights.

On December 9, 2005, the ASBJ published a new accounting standard for presentation of shareholders' equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of shareholders' equity. Such items include stock acquisition rights, minority interest, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006.

The Company adopted an incentive stock option plan for the directors and corporate executive officers of the Company and its affiliates. Under the plan by the resolutions of the general meeting of shareholders held on June 27, 2002 and the Board of directors held on September 24, 2002, stock options are exercisable from April 1, 2003 to March 31, 2007 at the exercise prices calculated by a formula approved at the shareholders' meeting. Under the plan by the resolution of the general meeting of shareholders held on June 27, 2003 and the Board of directors held on September 24, 2003, stock options are exercisable from April 1, 2004 to March 31, 2008 at the exercise prices calculated by a formula approved at the shareholders' meeting. The number of shares granted was 250,000 and 300,000, respectively.

10. 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, 2006 and 2005, respectively.

The significant components of deferred tax assets and liabilities at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Deferred tax assets:			
Loss carryforward	¥ 10,349	¥ 9,174	$ 88,453
Accrued expenses	2,795	2,720	23,889
Depreciation	1,417	1,245	12,111
Employees' retirement benefits	1,555	2,067	13,290
Write-down of inventories	1,057	1,301	9,034
Other	2,524	1,987	21,573
Subtotal	19,697	18,494	168,350
Valuation allowance	(3,144)	(1,237)	(26,872)
Total	16,553	17,257	141,478
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(512)	(452)	(4,376)
Total	(512)	(452)	(4,376)
Net deferred tax assets	¥ 16,041	¥ 16,805	$ 137,102

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, 2005 was as follows (2006 was not presented because of the net loss for the period):

	2005
Normal effective statutory rate	40.7%
Per capita levy	5.4
Expenses permanently not deductible for income tax purposes	9.5
Decrease of valuation allowance	(65.9)
Realization of tax benefits (losses of liquidation of subsidiaries)	(4.3)
Recognized tax effects not on unprofitable subsidiaries	0.8
Equity in gains of affiliated companies	(3.8)
Unrealized profit	0.0
Other - net	(0.2)
Actual effective rate	(17.8) %

11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to operations were ¥2,139 million ($18,282 thousand) and ¥2,310 million for the years ended March 31, 2006 and 2005, respectively.

12. RESTRUCTURING COSTS

This restructuring cost included ¥4,371 million ($37,359 thousand) of additional retirement payment under the implementation of the retirement and mid-career assistance program, and ¥358 million ($3,060 thousand) of loss on a liquidation of overseas subsidiary.

13. RELATED PARTY TRANSACTIONS

Sales to associated companies for the years ended March 31, 2006 and 2005 were ¥34,859 million ($297,940 thousand) and ¥36,148 million, respectively. Trade accounts receivable due from associated companies at March 31, 2006 and 2005 were ¥1,690 million ($14,444 thousand) and ¥1,970 million, respectively.

14. LEASES

Total lease payments under finance leases that are not deemed to transfer ownership of the leased property to the lessee were ¥1,576 million ($13,470 thousand) and ¥1,927 million for the years ended March 31, 2006 and 2005, 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, 2006 and 2005 were as follows:

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

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

	Thousands of U.S. Dollars			
	2006			
	Buildings and Structures	Machinery and Equipment	Intangibles	Total
Acquisition cost	$ 41,385	$ 7,726	$ 94	$ 49,205
Accumulated depreciation	16,009	4,427	17	20,453
Net leased property	$ 25,376	$ 3,299	$ 77	$ 28,752

Obligations under such finance leases as of March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Due within one year	¥ 1,357	¥ 1,276	$ 11,598
Due after one year	2,007	1,325	17,154
Total	¥ 3,364	¥ 2,601	$ 28,752

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

Depreciation expenses, which are not reflected in the accompanying statements of operations, computed by the straight-line method were ¥1,576 million ($13,470 thousand) and ¥1,927 million for the years ended March 31, 2006 and 2005, respectively.

The minimum rental commitments under noncancellable operating leases at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Due within one year	¥ 22	¥ 7	$ 188
Due after one year	48	26	410
Total	¥ 70	¥ 33	$ 598

15. CONTINGENT LIABILITIES

Guarantees of Loans - At March 31, 2006, the Group had contingent liabilities principally related to guarantees of customer housing loans in the amount of ¥10,554 million ($90,205 thousand).

16. SUPPLEMENTARY CASH FLOWS INFORMATION

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

	Millions of Yen	Thousands of U.S. Dollars
Current assets	¥ 2,777	$ 23,735
Non-current assets	729	6,231
Current liabilities	(1,353)	(11,564)
Non-current liabilities	(84)	(718)
Minority interests	(530)	(4,530)
Negative goodwill	(304)	(2,598)
Equity at the inception of consolidation	(1,235)	(10,556)
Acquired price of stocks	—	—
Cash and cash equivalents of newly consolidated subsidiaries	1,034	8,838
Difference	¥ 1,034	$ 8,838

17. SUBSEQUENT EVENT

Appropriation of Retained Earnings - The following appropriation of retained earnings at March 31, 2006 was approved at the general shareholders meeting held on June 29, 2006:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥7.50 ($0.06) per share	¥1,259	$10,761

Independent Auditors' Report

Deloitte.

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

Tel: +81 6 4560 6000
Fax: +81 6 4560 6001
www.deloitte.com/jp

To the Board of Directors of PanaHome Corporation:

We have audited the accompanying consolidated balance sheets of PanaHome Corporation and subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards, generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of PanaHome Corporation and subsidiaries as of March 31, 2006 and 2005, 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.

As discussed in Note 2.g to the consolidated financial statements, the Company and its subsidiaries adopted the new accounting standard for impairment of fixed assets as of April 1, 2005.

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

Deloitte Touche Tohmatsu

June 29, 2006

Member of
Deloitte Touche Tohmatsu

Corporate Information

Corporate Data (As of March 31, 2006)

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

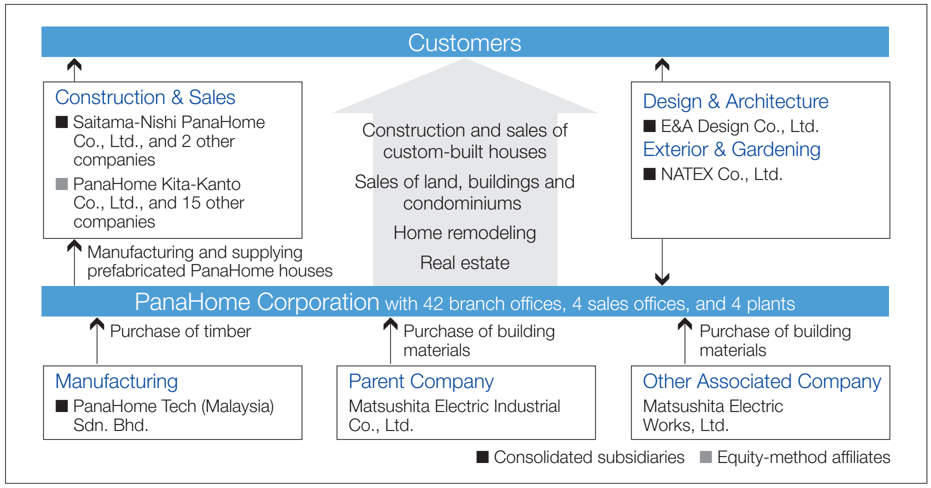
Stock Exchange Listings
Tokyo, Osaka

Capital
¥28,376 million

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

Number of Shareholders
8,435

Subsidiaries and Affiliates (As of March 31, 2006)



Management (As of June 30, 2006)

Members of the Board

President & Chief Executive Officer
Tsutomu Ueda

Executive Vice President
Shinya Koga

Directors
Takaaki Ikeda
Yuji Kinoshita
Motoyuki Yano
Akira Kobayashi

Corporate Auditors

Standing Corporate Auditor
Masahiko Keino

Corporate Auditors
Jun Demizu
Shigeru Nakatani

Corporate Executive Officers

Executive Vice President & Officer
Shinya Koga

Senior Managing Executive Officers
Takaaki Ikeda
Yuji Kinoshita

Managing Executive Officers
Motoyuki Yano
Akira Kobayashi
Mitsuo Kusunoki
Kenji Kondo

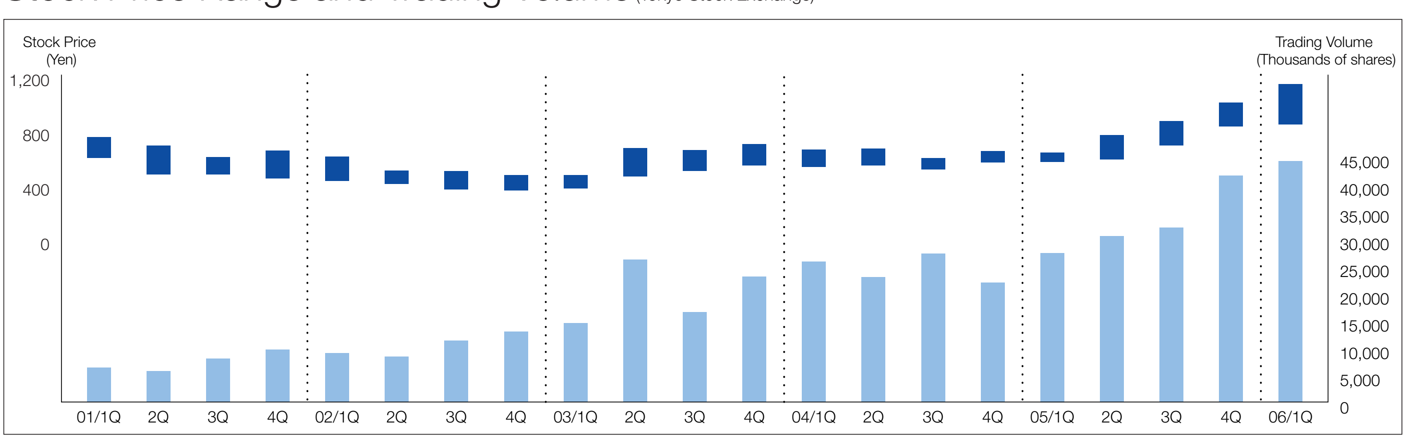
Executive Officers
Koji Watanabe
Yukimitsu Kodama
Hiroshi Yamada
Etsurou Tanbara
Hiroki Umiguchi
Tomiharu Yamada
Makoto Hatakeyama
Yoshifumi Tsuruta
Hirohiko Nagata
Hiroshi Hirasawa

Major Shareholders (As of March 31, 2006)

Name	Thousands of Shares Held	Shareholding Ratio (%)
Matsushita Electric Industrial Co., Ltd.	45,518	27.00
Matsushita Electric Works, Ltd.	45,518	27.00
Japan Trustee Services Bank, Ltd. (trust account)	6,724	3.98
National Mutual Insurance Federation of Agricultural Cooperatives	3,697	2.19
The Master Trust Bank of Japan, Ltd. (trust account)	3,286	1.94
Morgan Stanley & Co. Inc.	3,063	1.81
Sumitomo Mitsui Banking Corporation	2,358	1.39
PanaHome Employee Shareholding Association	2,036	1.20
Bank of New York GCM Client Accounts EISG	1,802	1.06
State Street Bank and Trust Co. 505019	1,591	0.94

Note: PanaHome holds 725,921 shares of its own common stock.

Stock Price Range and Trading Volume (Tokyo Stock Exchange)



PanaHome

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

PanaHome Corporation

PRINTED WITH SOY INK™

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