

# OBAYASHI CORPORATION

## NON-CONSOLIDATED FINANCIAL STATEMENTS 2004



**Certified Public Accountants**

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### Report of Independent Auditors

The Board of Directors  
OBAYASHI CORPORATION

We have audited the accompanying non-consolidated balance sheets of OBAYASHI CORPORATION as of March 31, 2004 and 2003, and the related non-consolidated statements of income and shareholders' equity for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements referred to above present fairly, in all material respects, the non-consolidated financial position of OBAYASHI CORPORATION at March 31, 2004 and 2003, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 2 to the non-consolidated financial statements, the Company applied Accounting Standards for the Impairment of Fixed Assets for the year ended March 31, 2004.

The U.S. dollar amounts in the accompanying non-consolidated financial statements with respect to the year ended March 31, 2004 and 2003 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the non-consolidated financial statements.

Shin Nihon & Co.

June 30, 2004

A handwritten signature in black ink that reads "Shin Nihon &amp; Co." in a cursive, flowing script.

# Non-Consolidated Balance Sheets

OBUYASHI CORPORATION  
March 31, 2004 and 2003

## ASSETS

	Japanese Yen (million)		U.S. Dollars (thousand)	
	FY 2004	FY 2003	FY 2004	FY 2003
<b>CURRENT ASSETS:</b>				
Cash and deposits.....	¥ 80,821	¥ 87,709	\$ 764,697	\$ 829,867
Trade receivables:				
Notes.....	23,604	28,854	223,333	273,001
Accounts.....	197,513	254,672	1,868,792	2,409,616
Marketable securities.....	–	370	–	3,501
Inventories (Note 5).....	441,093	535,913	4,173,461	5,070,615
Other current assets (Notes 7 and 8).....	150,012	183,038	1,419,360	1,731,841
Allowance for doubtful receivables.....	(897)	(1,163)	(8,487)	(11,004)
<b>Total current assets.....</b>	<b>892,146</b>	<b>1,089,393</b>	<b>8,441,156</b>	<b>10,307,437</b>
<b>PROPERTY AND EQUIPMENT (Note 7):</b>				
Land.....	192,581	195,691	1,822,130	1,851,553
Buildings.....	116,732	108,649	1,104,472	1,027,996
Machinery and equipment.....	49,926	53,812	472,383	509,150
Construction in progress.....	260	675	2,463	6,390
Accumulated depreciation.....	(99,739)	(103,614)	(943,692)	(980,359)
<b>Net property and equipment.....</b>	<b>259,760</b>	<b>255,213</b>	<b>2,457,756</b>	<b>2,414,730</b>
<b>INVESTMENTS AND OTHER ASSETS:</b>				
Investment securities.....	329,027	225,610	3,113,129	2,134,638
Investments in subsidiaries and affiliates (Note 4).....	10,185	8,041	96,364	76,078
Long-term loans receivable (Note 7).....	30,293	31,718	286,626	300,100
Long-term loans receivable from subsidiaries and affiliates.....	18,434	17,988	174,416	170,199
Other (Note 8).....	37,444	89,153	354,282	843,536
Allowance for doubtful receivables.....	(17,973)	(14,633)	(170,050)	(138,450)
<b>Total investments and other assets.....</b>	<b>407,410</b>	<b>357,877</b>	<b>3,854,767</b>	<b>3,386,101</b>
<b>TOTAL ASSETS.....</b>	<b>¥ 1,559,316</b>	<b>¥ 1,702,483</b>	<b>\$ 14,753,679</b>	<b>\$ 16,108,268</b>

## LIABILITIES AND SHAREHOLDERS' EQUITY

	Japanese Yen (million)		U.S. Dollars (thousand)	
	FY 2004	FY 2003	FY 2004	FY 2003
<b>CURRENT LIABILITIES:</b>				
Short-term borrowings (Note 6).....	¥ 123,343	¥ 142,315	\$ 1,167,023	\$ 1,346,535
Current portion of long-term debt (Notes 6 and 7).....	39,438	47,997	373,148	454,130
Commercial paper (Note 6).....	-	10,000	-	94,616
Trade payables:				
Notes.....	79,404	123,631	751,295	1,169,755
Accounts.....	310,191	338,773	2,934,909	3,205,342
Income taxes payable.....	7,481	172	70,781	1,624
Advances received.....	337,992	420,527	3,197,964	3,978,874
Accrued expenses.....	13,057	12,371	123,538	117,051
Employees' savings deposits.....	29,165	30,299	275,947	286,681
Other current liabilities.....	100,330	127,607	949,289	1,207,367
<b>Total current liabilities.....</b>	<b>1,040,401</b>	<b>1,253,692</b>	<b>9,843,894</b>	<b>11,861,975</b>
<b>LONG-TERM LIABILITIES:</b>				
Long-term debt (Notes 6 and 7).....	82,427	74,765	779,894	707,399
Differed income taxes on reserve for land revaluation (Note 8).....	21,150	20,475	200,114	193,726
Reserve for retirement benefits.....	59,355	61,582	561,600	582,666
Reserve for losses on real estate business.....	10,353	25,963	97,958	245,652
Other long-term liabilities.....	10,009	11,810	94,701	111,741
<b>Total long-term liabilities.....</b>	<b>183,294</b>	<b>194,595</b>	<b>1,734,267</b>	<b>1,841,184</b>
<b>SHAREHOLDERS' EQUITY (Notes 9 and 12):</b>				
Common stock :				
Authorized; 1,224,335,000 shares				
Issued; 721,509,646 shares.....	57,753	57,753	546,435	546,435
Capital surplus.....	41,695	41,695	394,497	394,497
Retained earnings.....	101,544	87,678	960,769	829,574
Reserve for land revaluation (Note 2).....	31,072	30,194	293,994	285,688
Unrealized holding gains on securities.....	103,817	37,063	982,276	350,673
Treasury stock at cost:				
816,066 shares in 2004 and				
651,068 shares in 2003.....	(260)	(187)	(2,453)	(1,758)
<b>Total shareholders' equity.....</b>	<b>335,621</b>	<b>254,196</b>	<b>3,175,518</b>	<b>2,405,109</b>
<b>COMMITMENTS AND CONTINGENT LIABILITIES (Note 11)</b>				
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY.....</b>	<b>¥ 1,559,316</b>	<b>¥ 1,702,483</b>	<b>\$ 14,753,679</b>	<b>\$ 16,108,268</b>

The accompanying notes to the non-consolidated financial statements are an integral part of these statements.

# Non-Consolidated Statements of Income

OBAYASHI CORPORATION

For the years ended March 31, 2004 and 2003

	Japanese Yen (million)		U.S. Dollars (thousand)	
	FY 2004	FY 2003	FY 2004	FY 2003
<b>REVENUES</b> (Note 10):				
Construction.....	¥ 1,161,593	¥ 1,171,118	\$ 10,990,563	\$ 11,080,686
Real estate and other.....	37,164	31,056	351,640	293,842
	<b>1,198,757</b>	1,202,174	<b>11,342,203</b>	11,374,528
<b>COST OF REVENUES</b> (Note 10):				
Construction.....	1,066,458	1,081,216	10,090,434	10,230,072
Real estate and other.....	30,491	26,113	288,495	247,070
	<b>1,096,949</b>	1,107,329	<b>10,378,929</b>	10,477,142
Gross profit.....	<b>101,808</b>	94,845	<b>963,274</b>	897,386
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b> .....	<b>68,355</b>	68,210	<b>646,753</b>	645,379
Operating profit.....	<b>33,453</b>	26,635	<b>316,521</b>	252,007
<b>OTHER INCOME(EXPENSES):</b>				
Interest and dividend income.....	4,604	4,416	43,557	41,780
Interest expenses.....	(3,146)	(3,526)	(29,765)	(33,358)
Gain on sales of marketable securities.....	7,337	2,933	69,421	27,757
Provision for doubtful accounts.....	(683)	(3,220)	(6,466)	(30,468)
Foreign currency transaction losses, net.....	(840)	(1,331)	(7,946)	(12,592)
Impairment loss on fixed assets.....	(4,974)	-	(47,059)	-
Loss on write-down of real estate for sale.....	(1,441)	-	(13,630)	-
Loss on write-down of investments in securities and other investments.....	(837)	(12,632)	(7,915)	(119,515)
Loss on real estate business.....	-	(5,071)	-	(47,984)
Bad debt loss.....	(29)	(7)	(275)	(67)
Other, net.....	841	3,864	7,946	36,561
Total.....	<b>832</b>	(14,574)	<b>7,868</b>	(137,886)
<b>INCOME BEFORE INCOME TAXES</b> .....	<b>34,285</b>	12,061	<b>324,389</b>	114,121
<b>INCOME TAXES</b> (Note 8):				
Current.....	7,960	510	75,315	4,825
Deferred.....	7,208	8,636	68,201	81,718
Total.....	<b>15,168</b>	9,146	<b>143,516</b>	86,543
<b>NET INCOME</b> .....	<b>¥ 19,117</b>	¥ 2,915	<b>\$ 180,873</b>	\$ 27,578
<b>PER SHARE DATA</b> (Note 12):				
Net income :				
Basic.....	¥ 26.52	¥ 4.04	\$ 0.25	\$ 0.04
Diluted.....	26.49	-	0.25	-
Cash dividends.....	8.00	6.00	0.08	0.06

The accompanying notes to the non-consolidated financial statements are an integral part of these statements.

# Non-Consolidated Statements of Shareholders' Equity

OBUYASHI CORPORATION

For the years ended March 31, 2004 and 2003

	Japanese Yen (million)		U.S. Dollars (thousand)	
	FY 2004	FY 2003	FY 2004	FY 2003
<b>COMMON STOCK</b> (Note 9):				
Balance at beginning of year.....	¥ 57,753	¥ 57,753	\$ 546,435	\$ 546,435
Balance at end of year.....	¥ 57,753	¥ 57,753	\$ 546,435	\$ 546,435
<b>CAPITAL SURPLUS</b> (Note 9):				
Balance at beginning of year.....	¥ 41,695	¥ 41,695	\$ 394,497	\$ 394,497
Balance at end of year.....	¥ 41,695	¥ 41,695	\$ 394,497	\$ 394,497
<b>RETAINED EARNINGS</b> (Note 9):				
Balance at beginning of year.....	¥ 87,678	¥ 95,876	\$ 829,575	\$ 907,146
Transfer from legal reserve.....	–	14,438	–	136,607
Net income for the year.....	19,117	2,915	180,873	27,578
Cash dividends paid.....	(4,325)	(5,049)	(40,921)	(47,778)
Reversal of reserve for land revaluation.....	(926)	(20,502)	(8,758)	(193,978)
Balance at end of year.....	¥ 101,544	¥ 87,678	\$ 960,769	\$ 829,575
<b>RESERVE FOR LAND REVALUATION</b> (Note 2):				
Balance at beginning of year.....	¥ 30,194	¥ 8,937	\$ 285,688	\$ 84,562
Reversal of reserve for land revaluation.....	926	20,502	8,758	193,978
Effect of change in the statutory tax rate.....	(48)	755	(452)	7,148
Balance at end of year.....	¥ 31,072	¥ 30,194	\$ 293,994	\$ 285,688
<b>UNREALIZED HOLDING GAINS ON SECURITIES:</b>				
Balance at beginning of year.....	¥ 37,063	¥ 65,445	\$ 350,673	\$ 619,216
Increase (decrease).....	66,754	(28,382)	631,603	(268,543)
Balance at end of year.....	¥ 103,817	¥ 37,063	\$ 982,276	\$ 350,673
<b>TREASURY STOCK:</b>				
Balance at beginning of year.....	¥ (187)	¥ (31)	\$ (1,769)	\$ (294)
Purchases of treasury stock.....	(73)	(156)	(684)	(1,464)
Balance at end of year.....	¥ (260)	¥ (187)	\$ (2,453)	\$ (1,758)

The accompanying notes to the non-consolidated financial statements are an integral part of these statements.

# Notes to Non-Consolidated Financial Statements

OBAYASHI CORPORATION

For the years ended March 31, 2004 and 2003

## 1. Basis of presenting non-consolidated financial statements

The accompanying non-consolidated financial statements of OBAYASHI CORPORATION (the "Company") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the non-consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan. For the purposes of this report, certain reclassifications have been made to present the accompanying non-consolidated financial statements in a format which is familiar to readers outside Japan. The Company has prepared the non-consolidated statements of shareholders' equity and certain additional information for the purpose of inclusion in this report, although such statements and information are not customarily prepared in Japan.

## 2. Summary of significant accounting policies

### (a) Recognition of revenues and related costs

Revenues from construction contracts and the related costs are recorded on a completed-contract basis, except for those related to large-scale contracts with long-term construction periods of more than 2 years and contracted amounts in excess of ¥5 billion which are recognized by the percentage-of-completion method.

### (b) Foreign currency translation

All foreign currency denominated receivables and payables are translated at the rate of exchange in effect at the balance sheet date.

### (c) Marketable securities and investment securities

Securities are classified into two categories: held-to-maturity or other securities.

Held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in shareholders' equity.

Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

### (d) Investments in subsidiaries and affiliates

Investments in subsidiaries and affiliates are stated at cost determined based on the moving average method. The Company had 66 subsidiaries and 21 affiliates as of March 31, 2004.

### (e) Inventories

Inventories other than materials and supplies are stated at cost as determined on a specific project basis. Materials and supplies are stated at cost as determined on the first-in first-out method.

### (f) Property and equipment

Property and equipment is stated principally at cost. Depreciation is computed principally by the declining-balance method over the estimated useful lives of the respective assets as follows:

Buildings: 3 - 50 years

Machinery and equipment: 3 - 15 years

### (g) Reserve for retirement benefits

Reserve for retirement benefits for employees is provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets, as adjusted for unrecognized actuarial gain and loss and unrecognized prior service cost.

Actuarial gain and loss are amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over 10 years which are shorter than the average remaining years of service of the employees.

Prior service cost is being amortized by the straight-line method over 10 years which are shorter than the average remaining years of service of the employees.

### (h) Income taxes

The Company applies deferred tax accounting for income taxes which requires recognition of income taxes by the asset/liability method.

Under the asset/liability method, deferred tax assets and liabilities are determined based on the difference between financial reporting basis and the tax basis of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

### (i) Appropriations of retained earnings

Appropriations of retained earnings are accounted for and reflected in the accompanying non-consolidated financial statements when approved by the shareholders.

### (j) Allowance for doubtful receivables

The allowance for doubtful receivables has been provided based on the Company's historical experience with respect to write-offs and based on an estimate of the amount of specific uncollectible accounts.

### (k) Lease

Finance leases other than those which are deemed to transfer the ownership of leased property to lessees are accounted for in the same manner as operating leases.

### (l) Land revaluation

Pursuant to the "Law Concerning the Revaluation of Land", land used for the business operations was revalued on March 31, 2000. The excess of the revalued carrying amount over the book value before revaluation has been included in shareholders' equity as reserve for land revaluation. The revaluation of the land was determined based on the official standard notice prices in accordance with Article 2, paragraph 1 of the "Enforcement Ordinance Concerning Land Revaluation" and the appraisal value made by the certified real estate appraisers in accordance with Article 2, paragraph 5 of the same Ordinance with certain necessary adjustments.

The excess of the revalued carrying amount over the market value at March 31, 2004, was ¥ 19,200 million (\$181,661 thousand).

**(m) Derivative financial instruments**

The Company has entered into various derivative transactions in order to manage certain risks arising from adverse fluctuations in foreign currency exchange rates and interest rates.

Receivables and payables hedged by qualified forward foreign exchange contracts are translated at the corresponding foreign exchange contract rates.

As for interest rate swaps, used for converting receipts or payments of interest on a liability, if principal terms of the interest rate swaps such as notional amount, index of interest rates, date and interval of interest payments, contract period are essentially the same as those of the hedged liability, such interest rate swaps may not be measured at fair value, but the related interests may be adjusted to the interests on the hedged liability on an accrual basis.

**(n) Reserve for losses on real estate business**

Reserve for losses on real estate business is provided for the estimated losses to be incurred in restructuring the real estate-related business.

**(o) Accounting Standards for the Impairment of Fixed Assets**

Effective the year ended March 31, 2004, the Company opted for early adoption of "Accounting Standards for the Impairment of Fixed Assets" issued by the Business Accounting Council (August 9, 2002) as well as "Guidance for the Impairment of Fixed Assets" issued by the Accounting Standards Board of Japan (October 31, 2003). As a result, property and equipment and income before income taxes each decreased by ¥4,974 million (\$47,059 thousand). Accumulated impairment has been directly deducted from each respective asset in accordance with the revised Regulations Concerning the Terminology, Forms and Preparation Methods of Non-Consolidated Financial Statements.

**3. United States dollar amounts**

The United States dollar amounts included herein are presented solely for convenience. The translations should not be construed as representations that Japanese yen have been, could have been or could in the future be converted into United States dollars. Such dollar amounts have been translated from yen at the exchange rate of ¥105.69=\$1, the approximate exchange rate prevailing on March 31, 2004.

**4. Investment in subsidiaries with fair value**

Certain investments in subsidiaries are marketable equity securities, which have carrying value of ¥2,004 million (\$18,963 thousand) and fair value of ¥4,461 million (\$42,215 thousand) at March 31, 2004. The corresponding amounts at March 31, 2003 were ¥2,004 million (\$18,963 thousand) and ¥3,299 million (\$31,218 thousand).

**5. Inventories**

Inventories comprised the following:

	Japanese Yen (million)		U.S. Dollars (thousand)	
	March 31		March 31	
	FY 2004	FY 2003	FY 2004	FY 2003
Construction projects in progress.....	¥ 368,804	¥ 455,481	\$ 3,489,486	\$ 4,309,597
Real estate for sale.....	56,948	62,653	538,818	592,799
Development projects in progress.....	14,140	16,454	133,783	155,681
Materials and supplies.....	1,201	1,325	11,374	12,538
Total.....	¥ 441,093	¥ 535,913	\$ 4,173,461	\$ 5,070,615

**6. Short-term borrowings and long-term debt**

Short-term bank loans are represented generally by 180-day or 365-day notes issued by the Companies to banks and overdrafts with banks and bore interest at the average annual rate of 0.58 per cent. at March 31, 2004 (0.60 per cent. at March 31, 2003).

Long-term loans bore interest at the average annual rate of 1.30 per cent. at March 31, 2004. (1.61 per cent. at March 31, 2003).

**(a) Short-term borrowings comprised the following:**

	Japanese Yen (million)		U.S. Dollars (thousand)	
	March 31		March 31	
	FY 2004	FY 2003	FY 2004	FY 2003
Short-term loans from banks.....	¥ 123,343	¥ 141,858	\$ 1,167,023	\$ 1,342,213
Short-term loans from a subsidiary.....	-	457	-	4,322
Total.....	¥ 123,343	¥ 142,315	\$ 1,167,023	\$ 1,346,535

(b) Long-term debt comprised the following:

	Japanese Yen (million) March 31		U.S. Dollars (thousand) March 31	
	FY 2004	FY 2003	FY 2004	FY 2003
1.6 per cent. bond due August, 2004	¥ 20,000	¥ 20,000	\$ 189,233	\$ 189,233
2.03 per cent. bond due August, 2006	10,000	10,000	94,616	94,616
0.9 per cent. bond due July, 2007	10,000	10,000	94,616	94,616
0.49 per cent. bond due June, 2008	10,000	–	94,616	–
1.07 per cent. bond due June, 2013	10,000	–	94,616	–
1.48 per cent. bond due November, 2010	10,000	–	94,616	–
1.6 per cent. convertible bond due March, 2004	–	9,969	–	94,323
Loans from Japanese banks	24,525	38,286	232,048	362,248
Loans from Japanese insurance companies	26,190	33,081	247,800	313,000
Loans from other financial institutions	1,150	1,426	10,881	13,493
	<b>121,865</b>	122,762	<b>1,153,042</b>	1,161,529
Less: Current portion of long-term debt	<b>(39,438)</b>	(47,997)	<b>(373,148)</b>	(454,130)
Total	<b>¥ 82,427</b>	¥ 74,765	<b>\$ 779,894</b>	\$ 707,399

The aggregate annual maturities of long-term debt (including current portion) subsequent to March 31, 2004 were as follows:

Year ended March 31,	Japanese Yen (million)	U.S. Dollars (thousand)
2005	¥ 39,438	\$ 373,148
2006	10,391	98,316
2007	18,394	174,037
2008	17,608	166,600
2009 and thereafter	36,034	340,941
Total	¥ 121,865	\$ 1,153,042

As is customary in Japan, long-term and short-term bank loans are made under general agreements, which provide that additional security and guarantees for present and future indebtedness will be given under certain circumstances at the request of banks and that any collateral so furnished will be applicable to all indebtedness due to banks. In addition, the agreements provide that banks have the right to offset cash deposited against any long-term and short-term debt that becomes due and, in case of default and certain other specified events, against all other debts payable to banks. Such rights have never been exercised by banks against the company.

(c) Commercial paper

	Japanese Yen (million) March 31		U.S. Dollars (thousand) March 31	
	FY 2004	FY 2003	FY 2004	FY 2003
Commercial paper (which matures within one year)	¥ –	¥ 10,000	\$ –	\$ 94,616

## 7. Pledged assets

Assets pledged as collateral for long-term debt were as follows:

	Japanese Yen (million) March 31		U.S. Dollars (thousand) March 31	
	FY 2004	FY 2003	FY 2004	FY 2003
<b>ASSETS PLEDGED AS COLLATERAL:</b>				
Land*	¥ 5,190	¥ 10,350	\$ 49,104	\$ 97,929
Buildings	1,066	1,127	10,087	10,666
Short-term loans receivable (Real estate convertible loan)	293	293	2,772	2,772
Long-term loans receivable (Real estate convertible loan)	24,547	24,840	232,254	235,026
Total	<b>¥ 31,096</b>	¥ 36,610	<b>\$ 294,217</b>	\$ 346,393
<b>LIABILITIES SECURED THEREBY:</b>				
Current portion of long-term debt	¥ 549	¥ 549	\$ 5,194	\$ 5,194
Long-term debt	¥ 4,598	¥ 5,147	\$ 43,505	\$ 48,699
Long-term debt of Obayashi Real Estate, Ltd. (the Company's subsidiary)*	–	8,692	–	82,240
Total	<b>¥ 5,147</b>	¥ 14,388	<b>\$ 48,699</b>	\$ 136,133

\* The Company pledged its land in the amount of ¥5,160 million (\$48,825 thousand) to secure the long-term debt of Obayashi Real Estate, Ltd as of March 31, 2003.



## 8. Income taxes

Income taxes applicable to the Company comprised corporation tax, inhabitants' taxes and enterprise tax which, in the aggregate, resulted in a statutory tax rate of approximately 41.9% at 2004 and 2003.

On March 31, 2003, new legislation of enterprise tax was enacted, which resulted in an decrease in the statutory tax rate used to determine deferred income taxes on temporary differences to be reversed on and after April 1, 2004, from 41.9% to 40.4%.

(a) Reconciliation between the statutory tax rate and the effective tax rate for the year ended March 31, 2004 and 2003 is summarized as follows:

	March 31	
	FY 2004	FY 2003
Statutory tax rate.....	41.9 %	41.9 %
Reconciliation:		
Permanent non-deductible items.....	4.2	13.6
Permanent non-recognized income.....	(1.4)	(11.0)
Change in statutory tax rate.....	-	29.3
Credit against tax.....	(2.3)	-
Other.....	1.8	2.0
Effective tax rate.....	44.2 %	75.8 %

(b) The major components of deferred tax assets and liabilities as of March 31, 2004 and 2003 are summarized as follows:

	Japanese Yen (million)		U.S. Dollars (thousand)	
	March 31		March 31	
	FY 2004	FY 2003	FY 2004	FY 2003
Deferred tax assets:				
Impairment loss on fixed assets.....	¥ 36,978	¥ 38,631	\$ 349,876	\$ 365,517
Loss on revaluation of real estate for sale.....	18,127	17,361	171,516	164,267
Reserve for retirement benefits.....	20,386	18,643	192,885	176,393
Allowance for doubtful receivables.....	9,193	10,046	86,981	95,052
Tax loss carryforwards.....	-	8,535	-	80,755
Loss on revaluation of investments in and receivables from subsidiaries and affiliated companies.....	1,267	3,640	11,988	34,440
Other.....	20,219	15,959	191,298	150,991
Total deferred tax assets.....	¥ 106,170	¥ 112,815	\$ 1,004,544	\$ 1,067,415
Deferred tax liabilities:				
Unrealized holding gains on securities.....	¥ (70,665)	¥ (25,123)	\$ (668,608)	\$ (237,704)
Deferred gain with respect to property for tax purposes.....	(353)	(360)	(3,344)	(3,402)
Other.....	(354)	(411)	(3,349)	(3,889)
Total deferred tax liabilities.....	¥ (71,372)	¥ (25,894)	\$ (675,301)	\$ (244,995)
Net deferred tax assets.....	¥ 34,798	¥ 86,921	\$ 329,243	\$ 822,420

In addition to the above, the Company recognized a deferred tax liability of ¥21,150 million (\$200,114 thousand) and of ¥20,475 million (\$193,726 thousand) related to reserve for land revaluation at March 31, 2004 and 2003, respectively.

## 9. Shareholders' equity

The Japanese Commercial Code (the "JCC") requires that an amount equal to at least 10% of cash dividends and other distributions, including directors' and statutory auditors' bonuses, from retained earnings paid by the Company be appropriated as a legal reserve to the extent that the total amount of additional paid-in capital and the legal reserve equals 25% of the common stock.

The JCC also provides that to the extent that the sum of the additional paid-in capital and the legal reserve exceed 25% of the common stock, the amount of the excess, if any, is available for appropriations by the resolution of the shareholders prescribed by the JCC.

## 10. Transactions with subsidiaries and affiliates

Purchases from and sales to subsidiaries and affiliates for the years ended March 31, 2004 and 2003 were as follows:

	Japanese Yen (million)		U.S. Dollars (thousand)	
	FY 2004	FY 2003	FY 2004	FY 2003
Purchases.....	<b>¥ 77,334</b>	¥ 78,113	<b>\$ 731,704</b>	\$ 739,076
Sales.....	<b>10,036</b>	22,960	<b>94,961</b>	217,238

## 11. Commitments and contingent liabilities

### (a) Commitments

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2004 and 2003 for finance lease transactions accounted for as operating leases, except for lease agreements which stipulate the transfer of ownership of the leased property to the Company and non cancellable operating lease, are summarized as follows:

	Japanese Yen (million)		U.S. Dollars (thousand)	
	March 31		March 31	
	FY 2004	FY 2003	FY 2004	FY 2003
Finance lease with no ownership transaction:				
Due within one year.....	<b>¥ 1,009</b>	¥ 770	<b>\$ 9,545</b>	\$ 7,283
Due after one year.....	<b>482</b>	533	<b>4,563</b>	5,047
Total future payments.....	<b>¥ 1,491</b>	¥ 1,303	<b>\$ 14,108</b>	\$ 12,330
Operating lease:				
Due within one year.....	<b>¥ 21</b>	¥ 27	<b>\$ 196</b>	\$ 255
Due after one year.....	<b>11</b>	30	<b>106</b>	280
Total future payments.....	<b>¥ 32</b>	¥ 57	<b>\$ 302</b>	\$ 535

### (b) Contingent liabilities

The Company is contingently liable for the following:

	Japanese Yen (million)		U.S. Dollars (thousand)	
	March 31		March 31	
	FY 2004	FY 2003	FY 2004	FY 2003
Guarantees of long-term debt of customers, subsidiaries and affiliates.....	<b>¥ 776</b>	¥ 1,019	<b>\$ 7,345</b>	\$ 9,640
Commitments of guarantees for short-term and long-term debt of customers, subsidiaries and affiliates.....	<b>95,640</b>	116,801	<b>904,914</b>	1,105,130

## 12. Amounts per share

Basic net income per share has been computed based on the weighted average number of shares of common stock outstanding during the year. Diluted net income per share has been computed based on the weighted average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of the shares of common stock to be issued upon the conversion of convertible bonds. Net assets per share have been computed based on the number of shares of common stock outstanding at the balance sheet date. Net income and net assets per share for the years ended and at March 31, 2004 and 2003 are as follows:

	Japanese Yen (million) March 31		U.S. Dollars (thousand) March 31	
	FY 2004	FY 2003	FY 2004	FY 2003
Net income per share of common stock				
Basic	¥ 26.52	¥ 4.04	\$ 0.25	\$ 0.04
Diluted*	26.49	—	0.25	—
Net assets per share of common stock	465.69	352.63	4.41	3.34

The following table sets forth the computation of net income per share of common stock for the years ended March 31, 2004 and 2003:

	Year ended March 31, 2004		Year ended March 31, 2003	
	(Millions of yen, except share)	(Thousands of U.S.dollar, except share)	(Millions of yen, except share)	(Thousands of U.S.dollar, except share)
Net income available to shareholders of common stock (numerator)				
Net income	¥ 19,117	\$ 180,873	¥ 2,915	\$ 27,578
Less: appropriation of bonuses to directors and statutory auditors	—	—	—	—
	¥ 19,117	\$ 180,873	¥ 2,915	\$ 27,578
Weighted average shares of common stock outstanding (denominator)	720,510		720,788	

\* Diluted net income per share has not been presented for the years ended March 31, 2003 since the 1.6 per cent. ¥9,969 million (\$94,323 thousand) convertible bond due March 2004 was antidilutive.

## 13. Impairment loss on fixed assets

For the year ended March 31, 2004, the Company recognized a loss on the impairment of certain buildings and land of golf clubs, land leased to others, and unused buildings and land, which are grouped separately for the assessment of impairment.

As a result of a recent unexpected decline in real estate value and the worsening performance of golf clubs, the carrying value of the above assets has been reduced to their recoverable amounts. Accordingly, an impairment loss of ¥4,974 million (\$47,059 thousand) was recognized which consisted of ¥528 million (\$5,000 thousand) on buildings, ¥349 million (\$3,303 thousand) on fixture, ¥1 million (\$5 thousand) on machinery and equipment, and ¥4,096 million (\$38,751 thousand) on land.

The recoverable amount utilized in the calculation was the higher of the net selling price or value in use. The net selling price is the appraised value less the costs of disposal, whereas value in use is the sum of the net projected future cash flows discounted at 2.5%.

## 14. Subsequent event

On June 29, 2004, the following appropriations of retained earnings were approved at the shareholders' meeting of the company.

	Japanese Yen (million)	U.S. Dollars (thousand)
Cash dividends	¥ 3,603	\$ 34,095



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