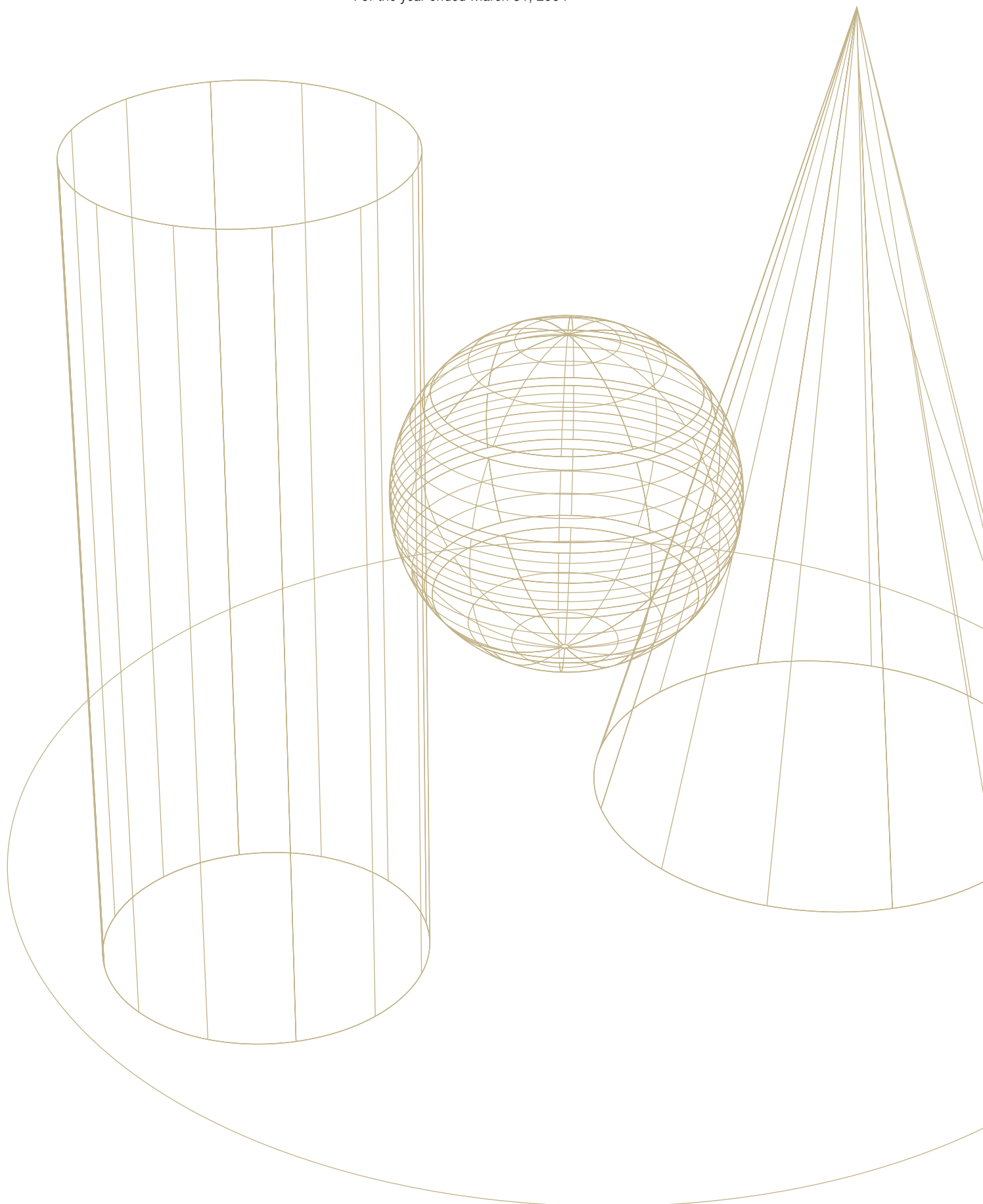


Annual Report 2004

For the year ended March 31, 2004



Profile

Haseko Corporation was founded in 1937. Since constructing its first condominium in 1968, Haseko has built a cumulative total of more than 390,000 condominium units and established itself as a leading condominium contractor in Japan. The Haseko Group generates its own unique business strategy and product planning with its broad-ranging specialties in all condominium-related business fields – from collecting property information to planning, design, construction, sale, property management, renovation, brokering and renting. Haseko is devoted to expanding its business through the creation and redevelopment of cities built around its condominium business as it strives to become the “number one company in the new urban business industry” suited for the 21st century.

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Disclaimer concerning Forward-looking Statements

Please note that all present plans and objectives of Haseko and future supply and demand projections concerning the condominium market and market trends entered in this Annual Report may potentially be affected by various factors, which can generate vastly different results.

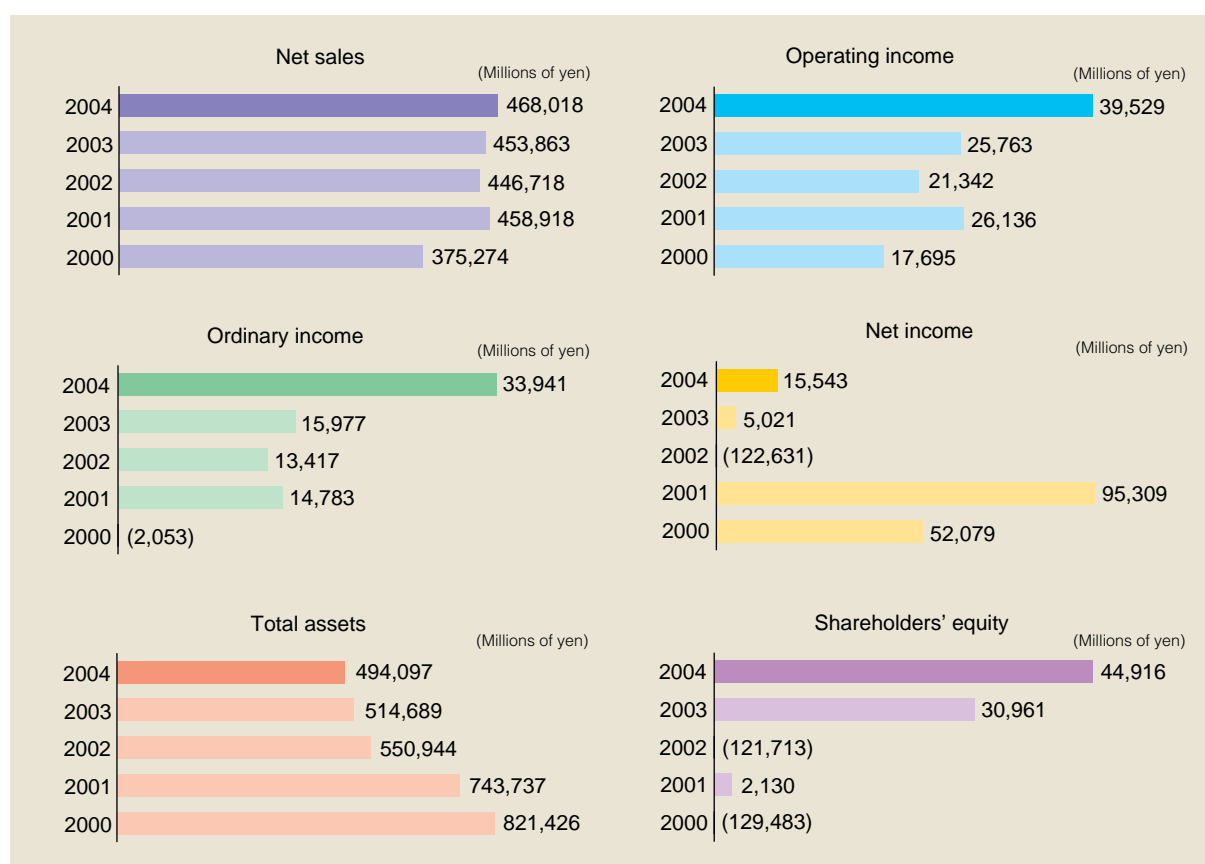
Financial Highlights

Haseko Corporation and its Subsidiaries (Years ended March 31, 2003 and 2004)

	Millions of Yen		Thousands of U.S. Dollars
	2003	2004	2004
For the Year			
Net sales	¥453,863	¥468,018	\$4,428,215
Operating income	25,763	39,529	374,009
Ordinary income	15,977	33,941	321,137
Net income	5,021	15,543	147,062
At Year-end			
Total assets	514,689	494,097	4,674,965
Shareholders' equity	30,961	44,916	424,979
Per Share Data			
	Yen	U.S. Dollars	
Net income	19.40	49.78	0.47
Shareholders' equity	(363.34)	(310.53)	(2.94)

Note: The U.S. dollar amounts represent translation of yen amounts at the rate of ¥105.69 = U.S. \$1.00, the exchange rate at March 31, 2004.

*The shareholders' equity per share is negative because it is calculated after deducting the preferential distribution of residual property of preferred stocks totaling 142.8 billion yen.



Message from the President

Staking Our Claim to Being Number One New Urban Business Industry

For Haseko, fiscal 2004, ended March 31, 2004 marks the completion of the second year in our Three-Year Medium-Term Plan, "New Urban Business Industry 21" (NUBI 21), and we successfully attained our targets for expanded profits and reduced interest-bearing debt. The following provides a report on our corporate group this fiscal year.

The number of new condominiums supplied to the Japanese condominium market this year was also quite high and the sales environment continued to be good thanks to continuation of low interest loans and other factors. Within these favorable conditions, the condominium business, a core business of the Haseko Group, successfully garnered orders for large projects in the Tokyo metropolitan area. Furthermore, we have begun achieving conspicuous results in the Kansai region of Western Japan including an increase in large project orders. This has been achieved through an increase in the number of businesses we are involved in and the formation of a consortium. As a result of these steps, our consolidated sales increased 3.1% year-on-year (hereafter, comparisons the same unless otherwise noted) to 468 billion yen and operating income increased 53.4% to 39.5 billion yen (as a principal result of improvement in our construction contracts profit ratio). Ordinary income increased 112.4% to 33.9 billion yen as a result of improvement in our financial balance generated by a reduction in interest-bearing debt. With 5.4 billion yen in special income caused by capital gains from the sale of fixed assets and a special loss of 15.5 billion yen caused by write-down of real estate for sale and provisions for doubtful accounts, our net income increased 209.6% after deducting tax expenses to reach 15.5 billion yen.

We strongly believe that the Japanese frontier in the 21st century consists of "major metropolises" and that there is a strong need in this area for "urban redevelopment = shifting property use," "effective utilization of our stock of condominiums and buildings" and "supporting the creation of comfortable urban life." Presently, we are applying our know-how and ability to propose and implement business to "establish a fee business" and "construct an inter-company network" throughout our corporate group, as we strive to reach our corporate target of being "the number one company in the new urban business industry" that is suitable for the 21st century. Our strategy for the time being is to continue with our group-wide goals of increasing earnings in our core businesses, streamlining operations of our core businesses and improving our financial soundness based on our three-year medium-term plan, which ends in March 2005.



President, Toshihisa Dake

The Haseko Group will continue to strengthen its comprehensive power built around our core condominium business and will remain dedicated to addressing the reinforcing of our business ability as a project manager, expanding our sales base through promotional efforts in all areas by building an organization that can meet the demands of all project owners, maintaining and improving our construction quality, and development of breakthrough technologies. Our consolidated performance forecast for the year ending in March 2005 is 496 billion yen for net sales, 43.5 billion yen in operating income, 37 billion yen in ordinary income and net income of 17 billion yen. Furthermore, we will pare down our consolidated interest-bearing debt to 250 billion yen or less in the year ending in March 2005.

The Haseko Group has positioned reliable achievement of our medium-term plan as our greatest priority and we have begun our last spurt towards achieving the objectives of the final year of the medium-term plan.

We ask for your continued support and patronage.

Toshihisa Dake

President, Toshihisa Dake

Performance Report

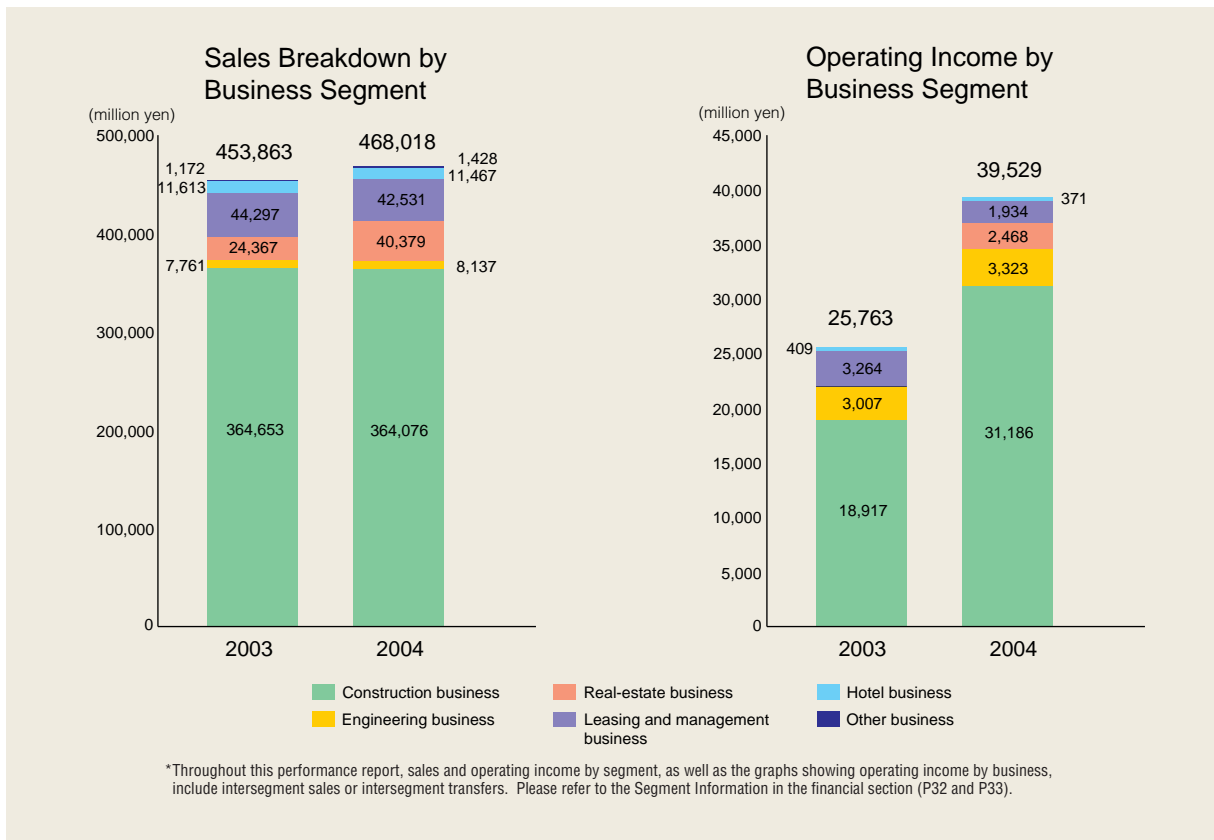
The Japanese condominium market remained favorable in fiscal 2004 and the consolidated sales of the Haseko Group increased 3.1% to 468 billion yen, operating income increased 53.4% to 39.5 billion yen, ordinary income increased 112.4% to 33.9 billion yen and our net income increased 209.6% to 15.5 billion yen. The following presents an overview of our performance by business segment.

Construction Business

Our construction business secured orders for 30 large condominium projects of more than 200 units each in the Tokyo metropolitan area and Osaka metropolitan area combined. To continue increasing orders we will build an organization that can meet the demands of all project owners based on promotional efforts in all areas so that we can proactively attract new clients. In fiscal 2004, the construction business received 361.2 billion yen in orders (0.6% increase), and posted sales of 365 billion yen (0.3% decrease) and operating income of 31.2 billion yen (64.9% increase).



PRIVE BLUE Tokyo (Total units: 513, Completion: March 2005 estimate)



Engineering Business

Our engineering business successfully developed the “Super High Soundproof Double Floor,” a floor with among the highest soundproof performance in Japan, and commercialized the “New Eco Poser 530 Kaisoku-kun,” the fastest kitchen disposal unit in the industry. The division also developed and introduced the Sel-Fit system, a new system that enables buyers to select layouts and interiors for their condominiums from a broad selection in correlation with their lifestyles. In fiscal 2004, the engineering business received 8.4 billion yen (9.4% increase) in orders and posted sales of 8.1 billion yen (4.7% increase) and operating income of 3.3 billion yen (10.5% increase).

Real-estate Business

In our commissioned condominium sales, the Group has striven to capture the trust of business owners by maintaining a high sales rate through the establishment of a differentiated product from other companies within environment of continuing a high level of supply and the intensifying sales competition. Our real-estate business enjoyed an increase in sales related to the sale of properties accompanying



New Eco Poser 530 Kaisoku-kun

construction orders and joint condominium projects. As a result, the overall real-estate business secured sales of 40.5 billion yen (65.0% increase), and an operating income of 2.5 billion yen.

New Condominium Supply System “Sel-Fit”

Haseko has developed a new planning and supplying system for condominiums called “Sel-Fit.” The system remarkably expanded the customers’ range of choices by placing greater emphasis on the basic performance of the condominium unit as a residence, and the system was adopted for the first time ever with “Mapa Green Laguna Koshien.” The primary feature of this product is the enhancement of basic performances including noise proof performance, insulating efficiency, energy conservation and expansive living space. The second feature of this product is the rearranging of frames and layouts that are considered to be optimal based on our years of experience in the field, by offering a selection of 10 frames and 312 layouts. In addition, we have prepared seven color variations and options that provide customers with the ability to freely choose an optimal living space that suits their family structure, lifestyle and budget.



Mapa Green Laguna Koshien
(Total units: 533, Completion: March 2005 estimate)

Leasing and Management Business

The Haseko Group reorganized service related businesses within the Group led by Haseko Anesis Corporation and established a system that can provide good quality services. Our service providing building management for condominiums increased in managed units centering on large condominium projects with 500 or more units each. Identically, our leasing management secured a dramatic increase in the number of units managed through proactive promotion of our property management business. Despite these efforts, the deflationary economic conditions continued harsh demands for lower condominium management fees and lease rates thus sales ended up totaling 44.4 billion yen (3.9% decrease) and operating income 1.9 billion yen (40.7% decrease).



Kyoto Brighton Hotel



Urayasu Brighton Hotel

Hotel Business

The Kyoto Brighton Hotel and Urayasu Brighton Hotel respectively celebrated their 15th and 10th anniversaries and strove to increase guests by carrying on commemorative events and selling new guest packages. As a result, the lodging division secured the best occupancy since opening at the Kyoto Brighton Hotel and guest room occupancy on the 80% level at the Urayasu Brighton Hotel shows their strong performance was sustained. On the other hand, the wedding division struggled to increase the number of couples serviced due to intensified market competition. As a whole, sales decreased 1.5% to 11.6 billion yen but continued execution of cost reductions contributed to securing an operating income of 371 million yen (9.3% decrease).

Other

In our Senior Living business (housing business for the elderly), Century City Omiya Koen, a condominium with services for the elderly, continued to generate high occupancy levels and the number of tenants reached 155 people, the highest level ever. In addition, Century City Kita Urawa, which opened in March 2003, has increased its performance steadily through occupancy at a level greater than initially planned and an increase in individuals using it for short-term stays. As a result, our other business, posted sales of 2.1 billion yen (13.8% increase) and an improvement in operating loss of 31 million yen to 70 million yen.



Century City Kita Urawa

Three-Year Medium-Term Plan

New Urban Business Industry 21 (NUBI 21) (April 2002 – March 2005)

The Haseko Group is pursuing enlarged earnings from our core businesses, streamlined operations and improved financial soundness based on NUBI21.

Basic Policy

- Reinforcing our profitability through group-wide business reorganization as we continue to strive to become number one in the new urban business industry
- Early realization of a financially sound organization by implementing dramatic financial restructuring including conformity to the ensuing impairment accounting

Framework of the Plan

Implementing a further reorganization of operations to increase earnings

- Further solidifying Haseko's unique project management (PM) and construction management (CM) businesses
- Further solidifying our service related businesses
- Withdrawing from sales activities that target public works projects

Shift to a new management format

- Shifting to a management format with an eye on a holding company structure

Implementation of measures to improve financial soundness

- Implementing a bold disposal of owned real estate (appropriation of a special loss of about 200 billion yen)
- Implementing various capital measures (withdrawal of 15.6 billion yen in capital reserves, reduction of paid-in capital by 53.4 billion yen and 150 billion yen debt for equity swap)

- Executing a dramatic reduction in the consolidated balance of interest-bearing liabilities (512.9 billion yen as of the year ended in March 2002 → 250 billion yen as of the year ending in March 2005 [target])

Further promotion of business rationalization

- Reducing the personnel and total personnel costs (Group-wide personnel costs to be reduced by about 10% in 3 years)

Application for certification under the Law on Special Measures for Industrial Revitalization

- Filed for certification under the Law on Special Measures for Industrial Revitalization to heighten transparency and effectiveness of our plans (Approved in June 2002)

Implementing a further reorganization of operations to increase earnings

Establishing the Haseko PM and CM business

The Haseko Group is working to establish fee businesses. The plan specifically calls for Haseko Corporation to further shift its business from a business centered on contracted construction to one that also gains income from fee businesses. The target is for 30% or more of all profit to be garnered from fee businesses in the year ending in March 2005.

Establishment of service businesses

Haseko Anesis was established in April 2003 as the main entity for the promotion of the service business. The company is presently working to reinforce profitability from management and operation businesses, and tackling the expansion of our service menu offerings. As a part of these efforts, it is establishing alliances with excellent firms in a variety of industries.

Withdrawing from sales activities that target public works projects

Haseko abolished its sales organization for public works construction at the end of June 2002 as a means to eliminate unprofitable businesses and clarify its business shift and has completely withdrawn from sales activities.

Progress in Increasing Income and Earnings (Comparison of Planned Value and Performance)

(Billions of yen)

	2002	2003		2004		2005	
	Performance	Plan	Performance	Plan	Performance	Plan	Projection
Net sales	446.7	425.0	453.9	421.0	468.0	420.0	496.0
Operating income	21.3	22.7	25.8	38.9	39.5	42.3	43.5
Ordinary income	13.4	13.0	16.0	32.0	33.9	37.0	37.0
Net income (loss)	(122.6)	4.0	5.0	16.5	15.5	17.0	17.0
Interest-bearing debt	512.9	338.5	305.3	288.5	281.1	250.0	250.0

Progress in Streamlining Operations

Personnel (Number of employees at end of March 31)

(People)

	2002	2003	2004
Non-consolidated	1,879	1,891	1,805
Consolidated	3,308	3,300	3,223

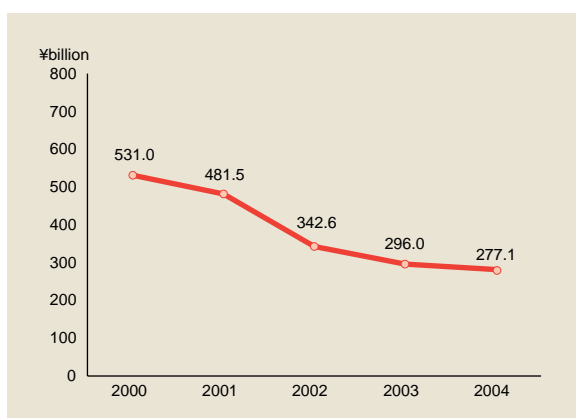
General and administrative expenses

(Billions of yen)

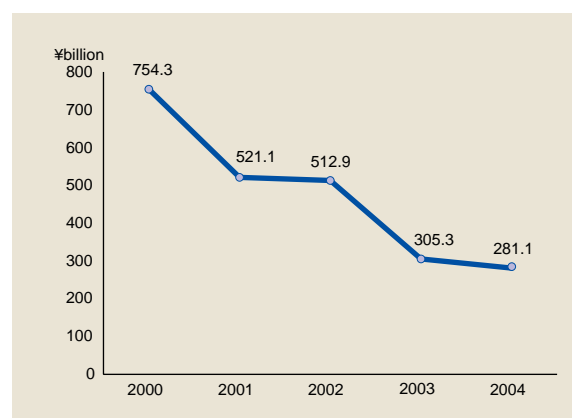
	2002	2003	2004
Non-consolidated	14.1	13.6	12.3
Consolidated	19.5	18.3	17.4

Progress in reducing of consolidated real-estate balance and interest-bearing debt

Real-estate balance



Interest-bearing debt



Business Model

Know-how born from the cumulative construction of 390,000 condominium units

Haseko boasts having constructed about 10% of all condominium units in Japan. This has enabled the Group to amass a substantial and extensive know-how on the design and construction for both sale and leasing.

Advanced information gathering ability

Haseko has a section within its group that specializes in gathering information on properties, which are the foundation of the condominium business, and is demonstrating a highly advanced information gathering ability.

All necessary functions for the condominium business

The Haseko Group is able to perform all necessary functions for the condominium business: from securing properties to design, construction and sale (Haseko Urbest), and management (Haseko Community). In addition, the Group also has a function for operating tenant rental condominiums (Haseko Livenet).

Characteristic of operation

(1) Ability to make creative business proposals

The Haseko Group possesses a creative marketing style that secures special orders through our ability

to propose new condominium projects. Based on our unique marketing, we establish plans and create business performance ideas for project owners, and do so in a short period of time.

(2) Principle of handling everything from design to construction

The Haseko Group operates on the principle of securing comprehensive orders for operations from design to construction based on our product planning ability. The Group not only compiles accurate cost estimates but has realized a system that can generate value engineering (VE) and other cost reducing effects.

(3) Ability to coordinate large-scale projects

The Haseko Group also excels at organizing and coordinating multiple project owners to assure the receipt of construction orders for development and such of large condominium projects.

Strength of support function

(1) Technological development function

Our technology research institute has a Housing Performance Test Building, which is a reconstruction of a condominium at scale, and this is used to research the performance and quality of condominiums. In addition, the Institute utilizes information gleaned from contact with end users such as information from the feedback of residents through the sale and management of condominiums. This is a strength of our technology development organization



that applies these to improving technology and developing products.

(2) Sales strength and marketing function

Haseko Urbest boasts strong marketing functions. Haseko Urbest's data is based on a timely analysis of condominium supply conditions, customer trends and other information and is applied to marketing and actual projects of Haseko Corporation.

(3) Development promotion function

Haseko has established a dedicated development promotion section to ensure the speedy approval of development and this section enables the Group to demonstrate superb coordinating ability with governmental offices and neighboring private and commercial residents.

Design and Construction Ability

(1) Ability to design

As described, Haseko excels at the planning of products and proposing of projects for building superior condominiums that sell well. This ability can be seen in the pioneering efforts in standardizing designs by the designing divisions. The designs of these divisions also contribute to profits through improvements to construction and designs attuned reducing cost. This was made possible through the close collaboration with the construction divisions.

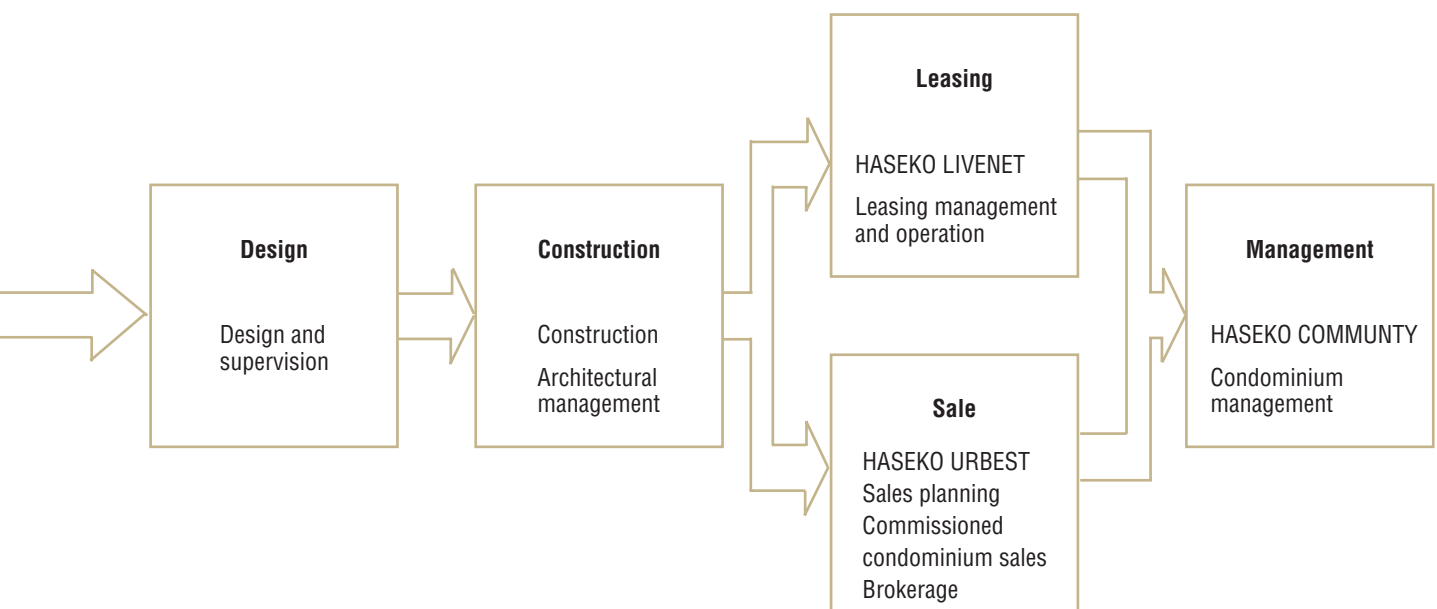


Housing Performance Test Building

(2) Ability to construct

The Haseko Group's long-term specialization in condominium construction has established a highly skilled engineers, including subcontractor, in construction and has secured robust competitiveness in our construction accuracy, construction schedules and costs.

Haseko is also working to eliminate claims from customers through the construction management abilities of our site staff that has been accumulated through a wealth of experience and voluntary management activities of our cooperating firms.



Condominium Market

● Supply of new units

Although new condominium units were supplied to the market in 2003 with due caution, 83,183 units (year-on-year decrease of 6.0%; hereafter all comparisons are the same unless otherwise indicated) were supplied to the Tokyo metropolitan area (TMA) and 31,258 units (decrease of 20.0%) to the Osaka metropolitan area (OMA), both being high levels. In addition, this high level has been maintained in the first half of 2004 with 40,527 units (increase of 1.0%) supplied to TMA and 15,823 units (increase of 3.6%) to OMA.

● Sales conditions

There has been a positive upturn in the purchasing mind of consumers (buyers) brought about by the economic recovery and the average number of units sold in the initial month on the market reached 79.3% (increase of 1.0 percentage point) in TMA and 76.5% (increase of 6.4 percentage points) in OMA during

the first half of 2004, paces that exceed the 78.1% in TMA and 71.9% in OMA performance of 2003. In particular, the sale of large condominium projects is performing favorably and the initial month sales of projects with more than 400 units in the first half of 2004 reached 95.8% in TMA and 91.9% in OMA. Thus these projects exceeded the area average by more than 15 points and it has been revealed that the larger the project the greater the initial month of sales.

● Haseko's construction share

Our construction performance in calendar year 2003 was 339 projects or 12,666 units (9.0% increase) in TMA for a market share of 15.2%. In OMA, we performed construction on 113 projects or 3,463 units (32.3% decrease) for an 11.1% share. In the first half of 2004, Haseko's market share in TMA was 19.7% with construction of 8,003 units (37.9% increase) and 15.2% in OMA with 2,410 units (30.3% increase).

Supply and Initial Month Sales Conditions by Condominium Project Size

TMA	2002				2003				2004 (Jan – June)			
	Total	By HC	HC's Share	Initial Month Sales Rate	Total	By HC	HC's Share	Initial Month Sales Rate	Total	By HC	HC's Share	Initial Month Sales Rate
Under 30 units	6,996	57	0.8%	57.3%	6,177	23	0.4%	58.7%	2,314	5	0.2%	59.6%
30-49 units	15,983	294	1.8%	63.7%	13,621	368	2.7%	66.9%	5,665	104	1.8%	66.7%
50-99 units	22,352	1,415	6.3%	69.7%	20,091	1,205	6.0%	70.8%	9,508	245	2.6%	72.0%
100-199 units	17,253	1,639	9.5%	78.2%	18,136	2,763	15.2%	79.1%	8,153	1,115	13.7%	78.2%
200-399 units	15,404	3,043	19.8%	86.2%	12,770	1,751	13.7%	92.0%	6,721	1,452	21.6%	88.2%
400 units or more	10,528	5,173	49.1%	97.1%	12,388	6,556	52.9%	95.9%	8,166	5,082	62.2%	95.8%
Total	88,516	11,621	13.1%	75.4%	83,183	12,666	15.2%	78.1%	40,527	8,003	19.7%	79.3%

OMA	2002				2003				2004 (Jan – June)			
	Total	By HC	HC's Share	Initial Month Sales Rate	Total	By HC	HC's Share	Initial Month Sales Rate	Total	By HC	HC's Share	Initial Month Sales Rate
Under 30 units	2,424	15	0.6%	57.9%	1,938	0	-	59.6%	605	0	-	58.3%
30-49 units	7,079	233	3.3%	62.5%	5,263	39	0.7%	64.4%	2,433	82	3.4%	61.2%
50-99 units	12,113	1,007	8.3%	64.2%	10,335	638	6.2%	66.9%	4,689	403	8.6%	67.7%
100-199 units	8,915	1,163	13.0%	75.4%	6,816	1,425	20.9%	75.2%	3,871	700	18.1%	86.6%
200-399 units	6,284	1,689	26.9%	83.6%	5,471	1,073	19.6%	84.9%	2,948	480	16.3%	87.0%
400 units or more	2,272	1,007	44.3%	92.6%	1,435	288	20.1%	86.6%	1,277	745	58.3%	91.9%
Total	39,087	5,114	13.1%	70.8%	31,258	3,463	11.1%	71.9%	15,823	2,410	15.2%	76.5%

Note: TMA stands for Tokyo metropolitan area, OMA stands for Osaka metropolitan area and HC stands for Haseko Corporation.

Initial Month Sales Rate: $\frac{\text{Newly sold units (units for which purchase offers have been received of newly supplied units)}}{\text{Newly supplied units (number of condominium units newly released for sale during the concerned period)}}$

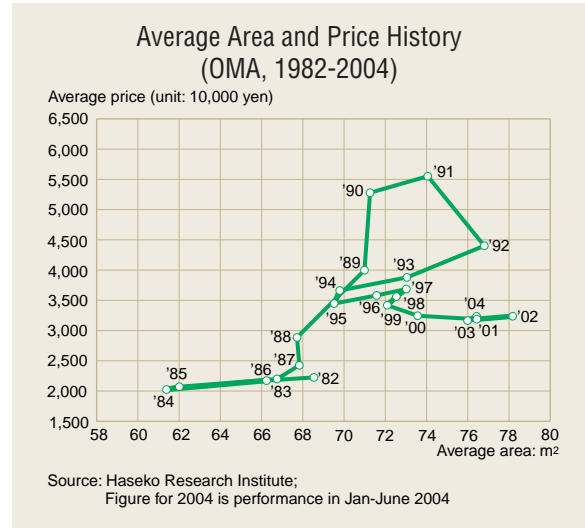
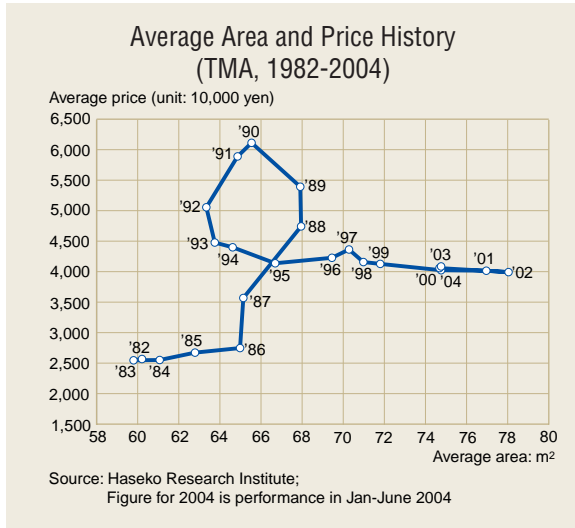
*The Initial Month Sales Rate in the table represents the entire market.

Source: Haseko Research Institute

● Composition of condominium products provided

The average area of condominium units peaked in 2002 but price per m² is increasing. This trend is due to the increase in compact units of less than 50m²

centering on downtown Tokyo in TMA and an increase in studio condominiums in OMA.



● Future supply and demand forecasts

Presently there is still a strong business motivation among developers and site acquisition and net condominium construction starts remain at a high level. Consequently, Haseko foresees the supply of condominiums in TMA and OMA to remain elevated. Since supply is determined by the economic climate and market conditions, there is always a short-term variation in supply; however, Haseko expects the supply

to match the latent demand (80,000 units in TMA and around 30,000 units in OMA). Therefore, Haseko forecasts between 75,000 and 85,000 units in TMA and in the low 30,000s for OMA.

New Condominium Unit Supply and Haseko Share:

TMA			
	New Units Supplied	HC's Construction	HC's Share
1991	25,910	2,643	10.2%
1992	26,248	2,235	8.5%
1993	44,270	5,512	12.5%
1994	79,897	9,354	11.7%
1995	84,885	10,952	12.9%
1996	82,795	9,731	11.8%
1997	70,543	7,778	11.0%
1998	66,308	9,121	13.8%
1999	86,297	9,587	11.1%
2000	95,635	14,148	14.8%
2001	89,256	9,862	11.0%
2002	88,516	11,621	13.1%
2003	83,183	12,666	15.2%
2004	82,000		
2005			
2006			
2007			
2008			

} Supply will continue within 5,000 units of the 80,000 unit latent demand

Dramatic decreases in supplied units in 1997 and 1998 when the financial crises occurred

OMA			
	New Units Supplied	HC's Construction	HC's Share
	12,255	1,890	15.4%
	12,121	2,253	18.6%
	20,772	4,220	20.3%
	38,957	5,753	14.8%
	38,611	5,154	13.3%
	44,430	5,894	13.3%
	33,147	5,007	15.1%
	29,452	4,431	15.0%
	35,625	3,649	10.2%
	39,737	4,274	10.8%
	36,552	3,900	10.7%
	39,087	5,114	13.1%
	31,258	3,463	11.1%
	32,000		

} Supply will continue around the lower 30,000s, the latent demand

Note) TMA stands for Tokyo metropolitan area OMA stands for Osaka metropolitan area and HC stands for Haseko Corporation.

Source: Haseko Research Institute

Completed Projects



Location: Shimomaruko, Ota-ku, Tokyo
 Total units: 758
 Completed: August 2003
 Project owners: Sohgo Real-estate, Nichimo, World Trade Center Building, Shoei, Developer Sanshin

Tokyo Sir House



Newton Place

Location: Shiohama, Koto-ku, Tokyo
 Total units: 989
 Completed: September 2003
 Project owners: Yuraku real estate, Toray Construction, Shinnihon Tatemono, Nichimo, Nissho Iwai Real Estate



Citia

Location: Abiko, Abiko-shi, Chiba
 Total units: 851
 Completed: July 2003
 Project owners: Kowa Real Estate, Total Housing, Nichimo, Sanco-real, Kondo Sangyo, Haseko Corporation



Location: Irifune, Urayasu-shi, Chiba
 Total units: 430
 Completed: December 2003
 Project owners: Nissho Iwai (present Sojitz),
 Nissho Iwai Real Estate,
 Housing Capital V

Air Residence Shinurayasu Premier Towers



Royal Ark Hanasuito Osaka

Location: Tenmabashi, Kita-ku, Osaka-shi, Osaka
 Total units: 221
 Completed: March 2004
 Project owner: Eisen Realty



Towers Land Kitanoda

Location: Kitanoda, Sakai-shi, Osaka
 Total units: 464
 Completed: December 2003 (1st phase),
 March 2004 (2nd phase)
 Project owner: Space Design

Corporate Governance

(1) Basic approach to corporate governance

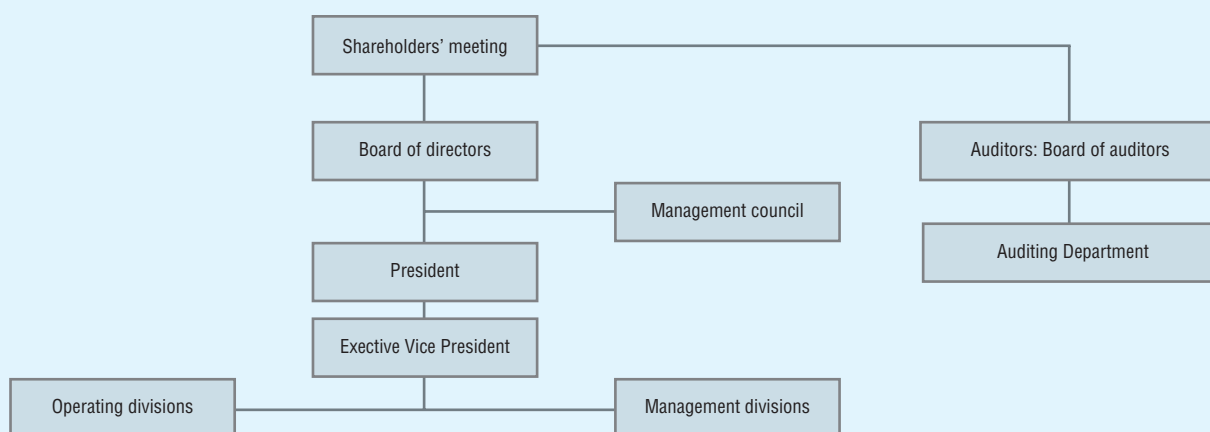
Reinforcement of corporate governance has been positioned as one of our greatest management priorities. This is because we believe that management transparency and objectivity are indispensable to our operations.

(2) Company institutions and status of the establishment of an internal governance system

a. Basic description of company institutions

Haseko adopts a directors and auditors system and corporate governance is being enhanced led by our auditors, which includes three external auditors.

b. Diagram of company institutions and internal governance



Primary Management Council and Committees	Objectives and Discussion Content
Board of Directors	Determines management policy and supervises actions conducted by directors
Board of Auditors (auditors)	Receives reports on information thought to be needed for audits and audits the work of directors, company operations and asset conditions
Management Council	Deliberates on material items and material projects related to management
Primary Advisory Council and Committees	
• Compliance Committee	Promotes execution of and administers measures for Compliance Rules in compliance with the Haseko Group Standards of Conduct
• Technological Strategy Council	Discusses material items related to technological strategies and development
• Environmental Promotion Council	Establishes policies for resource and energy conservation, improving living environments, reducing waste, recycling and other activities based on Haseko's Environmental Policy
• IT Committee	In regards to IT, establishes policies from a management perspective and studies specific investment opportunities

c. Company institutions and internal governance system

(Clarifying of decision-making rules)

The organization operates by basic management policy being decided by the Board of Directors and implementation of regular work based on such policy being conducted by the Management Council (established in June 1998), which is comprised of the President (chair of the meeting), Senior Managing Director and senior executives and members desig-

nated by the President; and responsible parties designated with authority by the Council. This organizational structure has enabled the clarification of individual roles, responsibilities and authority.

(Enhancing the compliance system)

The Haseko Group Standards of Conduct were established in June 2003 to improve compliance and a Compliance Department was also created at this time within the management division. A system has

also been prepared for holding meetings of the Compliance Committee that is chaired by the President.

Haseko is working to further enhance the system so that all directors and staff not only comply with all laws and ordinances, but also respect societal standards and take a sensible course of action in keeping with their responsibility as members of society.

(3) Preparation of Risk Management System

Risk management is conducted in a system where auditors take the lead subject to checks by each department in the management division according to each of their roles.

In regards to those cases forwarded to the Board of Directors and Management Council that are complex and involve many departments or require specialized knowledge, sufficient advanced verification is conducted by advisory meetings and committees established under the Board of Directors and Management Council. In addition, ratified decisions are monitored thereafter and the making of periodical reports of the monitoring results to the Management Council is an established obligation.

Moreover, the ringi (circular) system that serves

as a decision-making system and record for work implementation had the decision-making process digitized in April 2002. The ensuing sophisticated system enables auditors and the Management Division to view and check content at all times.

(4) Description of Director Compensation

Compensation Paid to Directors and Auditors

Directors	17 people	183 million yen (compensation ceiling: 350 million yen)
Auditors	4 people	41 million yen (compensation ceiling: 100 million yen)
Total	21 people	224 million yen

(Note) In addition to the above, employee salaries totaling 56 million yen were paid to directors concurrently serving as employees.

(5) Description of Auditor Compensation

The compensation paid to Haseko's auditing corporation, ChuoAoyama PricewaterhouseCoopers Compensation for certification of audit based on the auditing contract: 36 million yen

(Note) Description of Corporate Governance present figures for Haseko Corporation on a non-consolidated basis.

Environmental Measures

Haseko Corporation continually works toward the creation of an optimal environment for the city and people as its societal duty. Haseko believes that creation of a truly wealthy environment can only be achieved by realizing a society in which it is possible to preserve the global environment and achieve sustainable growth. Based on this belief, the Haseko Group is striving to preserve and create an even better global environment.

Acquisition of ISO14001

Haseko Corporation obtained ISO14001 certification, the international standard for environmental management systems, for both its Tokyo and Kansai operations in 2001. Haseko has established measures for grasping the environmental burden of our corporate activities and identified these burdens as remarkable environmental factors. In addition, we have established environmental policies based on

laws and ordinances as well as our management philosophy.

Environmental Conservation Policy

- 1) Haseko will establish, operate and continually improve an environmental management system for promoting environmental conservation activities and strive to prevent pollution.
- 2) Haseko will comply with laws, treaties and other legal requirements concerning the environment, and Haseko will also establish and operate a voluntary set of standards when deemed necessary.
- 3) Haseko will evaluate the environmental impact of our business activities and establish objectives and targets for environmental conservation within a scope that is technologically and economically feasible. In addition, we will regularly review our environmental conservation objectives and targets.

- 4) The following items will be focused on and addressed in order to promote environmental conservation activities.
- A. Reduction and recycling of construction waste, and construction that is conscious of the surrounding environment
 - B. Proposal of environmentally conscious designs
 - C. Use reduction and recycling of paper, separation of different forms of waste, and office administration that is conscious of energy conservation
- 5) Haseko will notify our employees of our environmental policy and heighten awareness concerning the environment among our employees while also notifying cooperating firms of this policy and requesting their cooperation with it.

- 6) Haseko will disclose our environmental policy when so requested by an outside party.

In our endeavor to design and construct condominiums that will be environmentally friendly and satisfy our customers, Haseko continues to enhance our quality control and assurance system, which is in compliance with the international quality control and assurance standard ISO9001 that we have already obtained and are administering. We will continue to act as a company striving for even greater global environmental conservation and improvement.

Risk Information

The following information on risks has been disclosed in Yukashoken-Houkokusho for the year ended March 31, 2004.

The business risks that can possibly impact the Haseko Group's performance and financial conditions are as follows. Based on the recognition that these risks may occur, the Haseko Group makes every effort to avoid their occurrence and to establish measures for when and if they occur. Moreover, any forward-looking items that appear below are based on judgments made as of the end of the consolidated fiscal year; however, there may be additional possible risks which are not listed below.

(1) Dependence on the condominium business

The Haseko Group is significantly dependent on the business of constructing condominiums in the Tokyo metropolitan area and Osaka metropolitan area. The amount of orders received and volume of the condominium business may be largely impacted by trends involving the supply of new condominiums, their sales, the supply of properties for constructing condominiums and the business scale of the developer. Furthermore, Haseko's primary business model involves securing properties and proposing development projects to developers. This model is based on our ability to gather information on properties and our ability to manage condominium projects. There

is no guarantee, however, that we will keep our competitive advantage with this business model, and be able to maintain or enlarge our market share and profitability.

(2) Construction market trends

The performance and financial condition of the Haseko Group may be negatively impacted if the trend in the overall performance of the construction industry causes increasing entries to condominium construction industry leading to intensified price competition with rivals in the industry. In addition, a negative impact could be produced if prices for construction materials and labor suddenly increase and securing of materials and labor becomes difficult or if our production capacity decreases due to a failure to secure cooperating companies for other reasons.

(3) Governmental regulations of condominium construction

The performance of the Haseko Group may be negatively impacted when the commencing of construction is delayed or suspended due to unforeseen governmental regulations, anti-construction activities of area citizens and ensuing lawsuits.

(4) Warranty responsibility

Although the Haseko Group does its best to maintain and improve construction quality, the occurrence of a warranty responsibility that exceeds appropriated amount and the occurrence of damage compensation that can't be covered by insurance may have an impact on the performance of the Group.

(5) Credit risk of clients

A characteristic of the construction industry is that the amounts of money involved in contracts for individual transactions are substantial and, in many cases, the construction costs are paid for in installments or large payments are made upon delivery of the property subject to the contract. Therefore, when a business partner suffers from poor credit prior to having paid for the construction, there is a possibility that this will impact the performance and financial situation of the Haseko Group.

(6) Protection of personal information

The Haseko Group possesses large amounts of personal information and manages a large amount of computer data including sales and purchasing information. As for the handling of this information, internal rules have been established and each department is also committed to the management and preparation of individual security policies (basic policy, countermeasure standards and execution procedures). However, there is always the possibility that information will be leaked due to a computer system problem or that information may be leaked at the result of a criminal act. These types of incidents will cause the Group to lose its societal standing, and may hurt its corporate image, lower sales and generate liability for damages.

(7) Owned real estate

Real estate has an inherent risk of fluctuations in market prices and the risk of low liquidity not allowing the real estate to be sold at the market price. This is due to the relationship between supply and demand at the time of sale. Depending on the progress of the business plan or suspension of the plan due to various factors, real estate that has been acquired for sale has the risk of not being able to secure the scheduled collection amount and may lead to losses. In addition, the Haseko Group has not applied impairment accounting as of the end of this consolidated fiscal year. As a result, we may have to recog-

nize losses on fixed assets that are recorded based on their acquisition price when impairment accounting is applied. This has the potential of impacting the performance and financial condition of the Haseko Group.

(8) Properties sold to the Organization for Promoting Urban Development

The property that was sold to the Organization for Promoting Urban Development (Minto) may have its property sell back rights executed by Minto. The sell back rights may lead to the company suffering losses depending on the extent to which the business plan has progressed.

(9) Interest payments

The performance of the Haseko Group may be impacted by sudden changes in interest rates and changes in borrowing terms with financial institutions.

(10) Allowances and provisions for doubtful accounts

In regards to our outstanding loans to vendors and affiliates, etc. of the Haseko Group, we have appropriated an allowance for doubtful accounts based on an estimated amount that would become problematic in the event that the borrowers become unable to pay. Therefore, when the financial condition of the borrowers deteriorates and causes a decrease in their ability to make payments, there is a possibility that an additional allowance will need to be secured and that losses from doubtful accounts will be generated.

(11) Retirement benefit obligations

The retirement benefit costs and retirement benefit obligations towards employees of the Haseko Group are calculated based on projections established through discount rates and on other actuarial calculations and expected profitability of pension assets. When actual results differ from projections or the projections are changed, the impact of such are accumulated and regularly recognized in the future, and thus impact the recognized costs and appropriated obligations. Therefore, reduction in the discount rate and deterioration of the managed return may negatively impact the performance of the Haseko Group.

(12) Deferred tax assets

The Haseko Group has appropriated an allowance based on assessment for deferred tax assets, but this calculation depends on estimates regarding future taxable income and there is the possibility that actual results will differ from the estimate. When the Haseko Group decides that all or part of deferred tax assets can't be collected based on the estimate for future taxable income, deferred tax assets will be reduced and appropriated as an expense. On the other hand, when it is decided that deferred tax assets greater than the appropriated amount can be collected, this is registered as a profit and would impact the performance of the Haseko Group.

(13) The Haseko Group New Restructuring Plan and Three-Year Medium-Term Plan

The Haseko Group is presently implementing a Three-Year Medium-Term Plan, with the year ending in March 2005 as its last year, while, at the same time maintaining the framework of the Haseko Group New Restructuring Plan that was started in May 1999. In the first two years of the Medium-term Plan, target values of the plan were largely attained and performance was steady. However, the performance of the Haseko Group may be impacted by a wide variety of factors including the business environment. Therefore there is no guarantee that target values will continue to be attained and there is the possibility that the planned financial effects will not materialize.

(14) Relationship with our Major Financial Institutions and Financial Institutions Providing Support

Presently, the Haseko Group has concluded agreements with supporting financial institutions concerning financial support based on the Haseko Group New Restructuring Plan and these financial institutions are maintaining balances outside of borrowing repayments in accordance with our performance. Furthermore, in addition to maintaining our borrowing balance, our major financial institutions – Resona Bank, Chuo-Mitsui Trust and Banking and Mizuho

Corporate Bank – have also provided substantial amounts of capital in the form of borrowing working capital and preferred stocks. If various factors lead to a change in this support structure in the future, there is the possibility that such will negatively impact the performance and financial condition of the Haseko Group.

In addition, when preferred stocks, with rights to request conversions to common stocks are exercised in the future by our major financial institutions holding them (for which the conversion request period hasn't yet arrived), there is a possibility of a decrease in the net income per share and a negative impact on the stock price when stocks are sold on the market.

(15) Material lawsuits

As described in note "21. Lawsuits" on page 34, we are presently in the midst of a lawsuit with Fujita Corporation concerning 3,583,214,183 yen in construction costs for the construction of the Hotel Sherena PR building, the penalties for delay in payment of same, and payment of legal commercial interest. Haseko is claiming that we have no obligation to pay but the outcome of the lawsuit may lead to our having to bear a large financial burden.

Financial Section

Analysis of Financial Conditions and Business Performance

(1) Business Performance

As for the business performance of the Haseko Group in fiscal 2004, ended March 31, 2004, net sales increased 3.1% to 468 billion yen. Performance was positively influenced by an improved gross profit rate in condominium construction, an increase in profit in consulting contracts generated by our reinforced fee business, and continued reductions in selling, general and administrative expenses. Consequently, our operating income increased 13.8 billion yen to 39.5 billion yen, an increase of 53.4%.

In addition, ordinary income more than doubled with an increase of 18 billion yen to reach 33.9 billion yen, an increase of 112.4%, primary as a result of a dramatic reduction in interest expenses generated by reducing interest-bearing debt. As for special income and losses, the Group booked a special income of 5.4 billion yen from capital gains generated through the sale of a tenant rental building and other measures. However, the Group also booked a special loss of 15.5 billion yen.

As a result, income before income taxes was 23.8 billion yen, an increase of 144.7%, and subtraction of 8.3 billion yen in corporate tax adjustment, net income totaled 15.5 billion yen, an increase of 209.6%. Net income per share climbed from 19.40 yen in the previous year to 49.78 yen, and diluted net income per share, which includes latent shares from the conversion of preferred shares, climbed from 3.96 yen in the previous year to 6.77 yen.

(2) Financial Condition

The Haseko Group does not have any large capital investment plans and thus we will continue to apply cash gained from cash flows from operating and investing activities to repay long-term debt and reduce interest-bearing debt. At the same time, as a rule, expenses needed for operating activities are generated by income from operating activities and insufficient working capital during the fiscal year is procured through short-term debt from our major financial institutions.

Cash and cash equivalents at the end of the year decreased 4.2 billion yen to total 30.6 billion yen.

Net cash provided by operating activities was 13.3 billion yen, a decrease of 28.7 billion yen. The result was due to the effects of concentrated handing

over of completed constructions at the end of the previous year leading to construction charges being appropriated to the previous year, the payment of purchasing obligations this year and a reduction in discounted notes.

Net cash provided by investing activities was 5.5 billion yen, 11.4 billion yen less than the previous year. The result was caused by a decrease in income due to the sale of fixed assets centering on owned buildings although reducing expenses that were primarily in maintenance and renovation expenses of capital equipment.

Net cash from financing activities was a 23 billion yen reduction in cash, 25.5 billion yen less than the previous year.

Gross assets at the end of this year declined 4.0% from the previous year to 494.1 billion yen, primary due to reductions in real estate for sale and property and equipment. Interest-bearing debt declined 24.2 billion yen from 305.3 billion yen to 281.1 billion yen. As for shareholders' equity, accumulated deficit improved from -115.7 billion yen to -25.6 billion yen due to the reversal of 75 billion yen in additional paid-in capital and appropriation of net income of 15.5 billion yen. Combined with a decrease in cumulative translation adjustment related to consolidated overseas subsidiaries and the sale of treasury stock, shareholders' equity increased 45.1% to 44.9 billion yen. Accordingly, the ratio of shareholders' equity increased 3.1 points to 9.1%.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

AS OF MARCH 31, 2003 AND 2004

ASSETS

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2004	2004
ASSETS			
Current Assets:			
Cash and bank deposits (Notes 9 and 14)	¥ 35,342	¥ 31,097	\$ 294,228
Notes and accounts receivable, trade (Note 10)	59,771	65,589	620,579
Costs incurred on uncompleted contracts	16,105	19,014	179,903
Real estate for sale (Notes 5 and 9)	152,331	142,097	1,344,470
Short-term loans	14,108	13,756	130,154
Deferred tax assets (Note 17)	7,915	8,387	79,355
Other current assets	6,422	10,836	102,527
Allowance for doubtful accounts	(5,720)	(5,414)	(51,225)
Total current assets	286,274	285,362	2,699,991
Investments and Other Assets:			
Investments in securities (Note 6)	3,864	3,872	36,635
Long-term loans	33,891	35,922	339,881
Long-term deferred tax assets (Note 17)	31,966	23,622	223,503
Other assets	17,850	16,302	154,243
Allowance for doubtful accounts	(4,068)	(6,867)	(64,973)
Total investments and other assets	83,503	72,851	689,289
Property and Equipment (Notes 7, 9 and 12)	141,078	132,854	1,257,016
Intangible Assets (Notes 7 and 9)	3,834	3,030	28,669
Total assets	¥514,689	¥494,097	\$4,674,965

The accompanying notes are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2003 AND 2004
LIABILITIES AND SHAREHOLDERS' EQUITY

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2004	2004
LIABILITIES			
Current Liabilities:			
Short-term debt (Notes 8, 9 and 20)	¥ 9,924	¥ 1,262	\$ 11,941
Notes and accounts payable	118,838	111,528	1,055,237
Income taxes payable	344	527	4,986
Advances received on uncompleted contracts	23,739	23,882	225,963
Advances received for real estate sales	1,532	2,201	20,825
Warranty reserve	881	1,157	10,947
Accrued bonuses to employees	2,011	1,967	18,611
Other current liabilities	19,336	15,268	144,460
Total current liabilities	<u>176,605</u>	<u>157,792</u>	<u>1,492,970</u>
Long-term Liabilities:			
Long-term debt (Notes 8, 9 and 20)	295,382	279,838	2,647,724
Reserve for employees' retirement benefits (Note 16)	19	1,154	10,919
Other long-term liabilities	11,722	10,397	98,373
Total long-term liabilities	<u>307,123</u>	<u>291,389</u>	<u>2,757,016</u>
Total liabilities	<u>483,728</u>	<u>449,181</u>	<u>4,249,986</u>
Commitments and contingent liabilities (Notes 10 and 12)			
Shareholders' Equity:			
Capital stock (Note 11)	75,500	75,500	714,353
Additional paid-in capital	75,000	-	-
Accumulated deficit	(115,730)	(25,619)	(242,398)
Net unrealized gain (loss) on other securities (Note 2(3))	(40)	30	284
Cumulative translation adjustments	(2,331)	(4,925)	(46,598)
Treasury stock, at cost — 7,920,068 shares in 2003	(1,438)		
— 506,751 shares in 2004		(70)	(662)
Total shareholders' equity	<u>30,961</u>	<u>44,916</u>	<u>424,979</u>
Total shareholders' equity and liabilities	<u>¥ 514,689</u>	<u>¥494,097</u>	<u>\$4,674,965</u>

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED MARCH 31, 2003 AND 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2004	2004
Net Sales (Note 13)	¥453,863	¥468,018	\$4,428,215
Costs of Sales	409,798	411,123	3,889,895
Gross profit	44,065	56,895	538,320
Selling, General and Administrative Expenses (Note 13)	18,302	17,366	164,311
Operating Income	25,763	39,529	374,009
Other Income (Expenses):			
Interest and dividend income	232	219	2,072
Interest expense	(8,517)	(5,700)	(53,931)
Equity in loss of an affiliate	(185)	(310)	(2,933)
Foreign currency exchange gain, net	—	132	1,249
Other, net	(1,316)	71	671
	<u>(9,786)</u>	<u>(5,588)</u>	<u>(52,872)</u>
Ordinary income	15,977	33,941	321,137
Special Income (Losses):			
Gain (Loss) on disposal or sale of property and equipment, net (Note 7)	(5,897)	4,235	40,070
Gain on debt redemption	8,761	—	—
Gain from the settlement of employee pension liabilities (Note 16)	3,167	—	—
Write-down of investment in securities	(122)	(30)	(284)
Loss on liquidation of real estate for sale	(8,669)	(985)	(9,320)
Write-down of real estate for sale	(2,473)	(9,215)	(87,189)
Provision for doubtful accounts	—	(3,251)	(30,760)
Other, net	(1,013)	(883)	(8,354)
	<u>(6,246)</u>	<u>(10,129)</u>	<u>(95,837)</u>
Income before Income Taxes	9,731	23,812	225,300
Income Taxes (Note 17):			
Current	206	418	3,955
Deferred	4,504	7,851	74,283
	<u>4,710</u>	<u>8,269</u>	<u>78,238</u>
Net Income	<u>¥ 5,021</u>	<u>¥ 15,543</u>	<u>\$ 147,062</u>
Net Income per Share (Note 18):			
Basic	¥ 19.40	¥ 49.78	\$ 0.47
Diluted	¥ 3.96	¥ 6.77	\$ 0.06

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED MARCH 31, 2003 AND 2004

	Millions of Yen					
	Capital stock	Additional paid-in capital	Accumulated deficit	Net unrealized gains (loss) on securities	Cumulative translation adjustments	Treasury stock
Balance at March 31, 2002	¥53,931	¥15,597	¥(189,779)	¥(36)	¥ 0	¥(1,426)
Net income for the year ended March 31, 2003	—	—	5,021	—	—	—
Capital increase upon issuance of common stock and preferred stock	75,000	75,000	—	—	—	—
Reversal of additional paid-in capital to compensate deficit	—	(15,597)	15,597	—	—	—
Capital reduction	(53,431)	—	53,431	—	—	—
Net change in unrealized loss on other securities	—	—	—	(4)	—	—
Cumulative translation adjustments	—	—	—	—	(2,331)	—
Net change in treasury stock	—	—	—	—	—	(12)
Balance at March 31, 2003	¥75,500	¥75,000	¥(115,730)	¥(40)	¥(2,331)	¥(1,438)
Net income for the year ended March 31, 2004	—	—	15,543	—	—	—
Reversal of additional paid-in capital to compensate deficit	—	(75,000)	75,000	—	—	—
Net change in unrealized gain on other securities	—	—	—	70	—	—
Cumulative translation adjustments	—	—	—	—	(2,594)	—
Net change in treasury stock	—	—	—	—	—	1,368
Losses on disposition of treasury stock	—	—	(432)	—	—	—
Balance at March 31, 2004	¥75,500	¥ —	¥ (25,619)	¥ 30	¥(4,925)	¥ (70)

	Thousands of U.S. Dollars (Note 3)					
	Capital stock	Additional paid-in capital	Accumulated deficit	Net unrealized gains (loss) on securities	Cumulative translation adjustments	Treasury stock
Balance at March 31, 2003	\$714,353	\$709,622	\$(1,094,995)	\$(378)	\$(22,055)	\$(13,606)
Net income for the year ended March 31, 2004	—	—	147,062	—	—	—
Reversal of additional paid-in capital to compensate deficit	—	(709,622)	709,622	—	—	—
Net change in unrealized gain on other securities	—	—	—	662	—	—
Cumulative translation adjustments	—	—	—	—	(24,543)	—
Net change in treasury stock	—	—	—	—	—	12,944
Losses on disposition of treasury stock	—	—	(4,087)	—	—	—
Balance at March 31, 2004	\$714,353	\$ —	\$ (242,398)	\$ 284	\$(46,598)	\$ (662)

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2003 AND 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2004	2004
Cash Flows from Operating Activities:			
Income before income taxes	¥ 9,731	¥23,812	\$225,300
Depreciation	3,757	3,452	32,662
Provision for doubtful accounts	186	2,493	23,588
Interest and dividend income	(232)	(219)	(2,072)
Interest expenses	8,517	5,700	53,931
Foreign currency exchange (gain) loss	502	(83)	(785)
Equity in loss of an affiliate	185	310	2,933
Write-down of investment in securities	122	30	284
(Gain) loss on disposal or sale of property and equipment, net	5,897	(4,235)	(40,070)
Gain on debt redemption	(8,761)	—	—
Write-down of real estate for sale	2,473	9,215	87,189
Increase in notes and accounts receivable	(10,724)	(5,818)	(55,048)
(Increase) decrease in costs incurred on uncompleted contracts	3,999	(2,910)	(27,533)
(Increase) decrease in real estate inventories	14,954	(1,746)	(16,520)
(Decrease) increase in notes, accounts payable and accrued expenses	24,260	(7,205)	(68,171)
Increase (decrease) in amounts received for uncompleted contracts	(646)	143	1,353
Other	(4,641)	(3,719)	(35,188)
Sub total	49,579	19,220	181,853
Interest and dividends received	236	215	2,034
Interest paid	(7,770)	(5,770)	(54,594)
Income taxes paid	(93)	(364)	(3,444)
Net Cash Provided by Operating Activities	41,952	13,301	125,849
Cash Flows from Investing Activities:			
Transfer to time deposits	(2,310)	—	—
Transfer from time deposits	1,850	—	—
Payment for purchase of property and equipment and intangible assets	(2,154)	(1,537)	(14,543)
Proceeds from sale of property and equipment and intangible assets	18,700	8,957	84,748
Payment for purchase of investment in securities	(111)	(79)	(747)
Proceeds from sale of investment in securities	24	142	1,344
Payment for loans receivable	(1,541)	(2,673)	(25,291)
Collection of loans receivable	1,951	640	6,055
Payment for lease deposits	(352)	(310)	(2,933)
Refund of lease deposits	676	330	3,122
Other	143	32	303
Net Cash Provided by Investing Activities	16,876	5,502	52,058
Cash Flows from Financing Activities:			
Decrease in short-term debt	(1,168)	(8,662)	(81,957)
Proceeds from long-term debt	1,256	2,684	25,395
Repayment of long-term debt	(182,667)	(18,042)	(170,707)
Payment for redemption of bond and convertible bond	(15,547)	—	—
Proceeds from issuance of common stock and preferred stock	150,000	—	—
Proceeds from sales of treasury stock	—	1,084	10,256
Other	(323)	(59)	(557)
Net Cash Used in Financing Activities	(48,449)	(22,995)	(217,570)
Effect of Exchange Rate Change on Cash and Cash Equivalents	(66)	(53)	(502)
Net (Decrease) Increase in Cash and Cash Equivalents	10,313	(4,245)	(40,165)
Cash and Cash Equivalents at Beginning of Year	24,569	34,882	330,041
Cash and Cash Equivalents at End of Year (Note 14)	¥ 34,882	¥30,637	\$289,876

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Haseko Corporation and Consolidated Subsidiaries
For the years ended March 31, 2003 and 2004

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Haseko Corporation (the "Company") and its consolidated domestic subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan. The accounts of HASEKO America, Inc. and its subsidiaries (HASEKO America) are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the United States of America.

Certain items presented in the consolidated financial statements submitted to the Director of Kanto Finance Bureau in Japan have been reclassified in these accounts for the convenience of readers outside Japan.

2. Summary of Significant Accounting Policies

(1) Scope of consolidation

The consolidated financial statements include the accounts of the Company and its 23 significant subsidiaries (22 subsidiaries in 2003). Investments in unconsolidated subsidiaries are stated at cost. The equity method of accounting is applied to one affiliate, in consideration of the material impact on the consolidated financial statements. The Company's equity in the negative net assets of the affiliate accounted for on the equity method is ¥6,548 million (¥6,241 million at March 31, 2003) and deducted from the account receivable from it.

The excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary ("goodwill") at the date of acquisition is reported in the balance sheet under other assets and is amortized under the straight-line method over five years.

(2) Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank deposits that may be withdrawn on demand and time deposits that can be easily withdrawn and have no risk of value fluctuation.

(3) Investment in securities

Securities classified as available-for-sale securities ("other securities") for which market quotations are available are stated at fair value. Net unrealized gains or losses on these securities are reported as a separate item in the shareholders' equity at a net-of-tax amount. Cost of sales is computed by using the moving-average method. Other securities for which market quotations are not available are stated at cost, cost being determined by the moving-average method.

(4) Derivatives and hedge accounting

All derivatives are stated at fair value, with changes in fair value included in net profit or loss for the period in which they arise, except for derivatives that are designated as "hedging instruments."

The Company uses interest rate swap/cap contracts to hedge interest rate fluctuation risk on the long-term debt with variable interest rates. Certain interest rate swap contracts which meet specific hedging criteria for effective hedge are not

measured at market value but the differences between paid and received amounts under the swap agreements are recognized and included in interest income or expenses as incurred.

(5) Inventories

Costs incurred on uncompleted contracts are construction contracts in progress and are stated at cost, cost being determined by the individual cost method. Real estate for sale is also stated at cost by the individual cost method except for HASEKO America, where they are stated at the lower of cost or market.

Some consolidated subsidiaries have incorporated the interest paid for funds used for real-estate development business into the costs for real estate for sale.

(6) Property and equipment

Property and equipment are principally stated at cost. Depreciation has been principally computed using the declining-balance method while the straight-line method is applied to buildings acquired after April 1, 1998, and for certain domestic subsidiaries and HASEKO America. The same standard as the method regulated in the Corporate Income Tax Law in Japan is used for the estimated useful lives and residual value for the Company and its domestic subsidiaries.

(7) Intangible assets

The Company and consolidated subsidiaries adopts the straight-line method to amortize intangible assets except for land leasehold rights, which are not amortized. Software for internal use are amortized by the straight-line method over the estimated useful lives of 5 years.

(8) Allowance for doubtful accounts

Allowance for doubtful accounts is provided for the estimated future bad debt loss. It is estimated using the Company's experience of loss ratio and the respective estimation of known doubtful accounts.

(9) Warranty reserve

Warranty reserve is provided for the estimated repair expense owed by the Company in the event of defects found in the constructions after handover.

(10) Accrued bonuses to employees

Accrued bonuses to employees are provided for the estimated amount of bonuses to employees which is expected to be paid for the services up to the balance sheet date.

(11) Reserve for employees' retirement benefits

The Company and its consolidated domestic subsidiaries have funded and /or unfunded retirement benefit plans covering all of their employees.

The employees' retirement benefits are provided for the liability for retirement benefits at projected benefit obligations minus fair value of plan assets at the balance sheet date except for unrecognized amounts.

The transition amount is amortized by the straight-line method over 15 years.

Prior service costs are amortized using the straight-line method for the employees' average remaining service period (11-15 years) at the time of occurrence.

Actuarial differences are amortized from the fiscal year after the year in which the difference occurred using the straight line method for the employees' average remaining service period (11-15 years).

The Company and its consolidated domestic subsidiaries recognized ¥3,167 million of a settlement gain for the substitutional portion of the Welfare Pension Fund based on the approval by the Minister of Health, Labor and Welfare on November 1, 2002 for exemption of payment of future pension obligation for such portion. This exemption was granted in correlation with the implementation of the Welfare Pension Insurance Law.

(12) Foreign currency transaction

Receivables and payables in foreign currencies are translated at the foreign exchange rates prevailing at the respective balance sheet dates and a net exchange loss/gain is included in net income. Furthermore, the assets/liabilities and earnings/expenses of overseas consolidated subsidiaries were translated at the foreign exchange rates prevailing at the respective balance sheet dates and the resulting translation adjustments are reported as "Cumulative translation adjustments" of Shareholders' Equity.

(13) Accounting for leases

Finance leases contracts other than those that are deemed to transfer the ownership of the leased assets to lessees are accounted for by the method similar to that applicable to ordinary operating leases.

(14) Sales recognition

Sales for the construction contracts with both construction periods of twelve months or more and contract amounts of ¥500 million or more are recognized on a percentage-of-completion bases. The Company recognizes sales for other construction contracts are on a completed-contract basis.

(15) Income taxes

Accrued income taxes are stated at the estimated amount payable for corporation, enterprise, and inhabitant taxes. 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 basis of assets and liabilities. The Company adopted the consolidated taxation system option for 2003 and 2004, which provides the ability to offset taxable income and losses of the Company and its consolidated domestic subsidiaries.

Consumption taxes excluded in net sales, cost of sales, and selling, general and administrative expenses.

(16) Accounting for impairment of fixed assets

On August 9, 2002, the Business Accounting Council in Japan issued "Accounting Standard for Impairment of Fixed Assets." The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of net selling price or value in use.

The standard shall be effective for fiscal years beginning

April 1, 2005. However, an earlier adoption is permitted for fiscal years beginning April 1, 2004 and for fiscal years ending between March 31, 2004 and March 30, 2005.

The Company has not yet applied this new standard nor has determined the effect of applying it on the Company's consolidated financial statements.

3. U.S. Dollar Amounts

The U.S. dollar amounts are included solely for convenience and have been translated, as a matter of arithmetical computation only, at the rate of ¥105.69 = U.S. \$1, the rate of exchange on March 31, 2004. These translations should not be construed as a representation that the yen amounts actually represent, or have been or could be converted into U.S. dollars.

4. Three-Year Medium-Term Plan

On May 21, 1999, the Company started the "Haseko Group New Restructuring Plan" with the agreement and support of all relevant financial institutions. On February 21, 2002, the Company established the "Three-Year Medium-Term Plan," an integral part of the New Restructuring Plan. The objectives of this Medium-Term Plan are to reorganize operations on a group-wide basis and to significantly shorten the restructuring period of the New Restructuring Plan without changing the framework of the New Restructuring Plan.

The Company considers that executing the Medium-Term Plan is its most important management issue. In addition, in implementing the Medium-Term Plan, the Ministry of Land, Infrastructure and Transport has certified it as a "Certification of Business Reconstruction Plan" based on the regulations of Article 3 Item 1 in the Law on Special Measures for Industrial Revitalization.

In fiscal 2003, ended March 31, 2003, additional financial support was provided by our three major financial institutions (Resona Bank, Mizuho Corporate Bank and, Chuo-Mitsui Trust and Banking) in the form of a debt equity swap, and eliminated the capital deficiency which was a principal result of the write-down of real estate for sale and property and equipment in fiscal 2002, ended March 31, 2002, as planned.

On June 10, 2003, the Prime Minister decided to recapitalize Resona Bank based on the regulations of Article 102 item 1-1 in the Deposit Insurance Law; however, this matter has no effect on the implementation of the Medium-Term Plan.

The plan has progressed well so far. The Company continues to execute the "Three-Year Medium-Term Plan" including getting financial support in accordance with the "New Restructuring Plan."

5. Real Estate for Sale

Real estate for sale as of March 31, 2003 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2004	2004
Land and buildings held for sale	¥ 26,938	¥ 24,119	\$ 228,205
Costs and advances for real estate operations	65,060	67,729	640,827
Real estate for development projects	60,333	50,249	475,438
	<u>¥152,331</u>	<u>¥142,097</u>	<u>\$1,344,470</u>

6. Investment in Securities

(1) Other securities whose fair value is available as of March 31, 2003 and 2004 consisted of the following:

	<i>Millions of Yen</i>					
	2003			2004		
	Acquisition cost	Carrying value	Unrealized gain/(loss)	Acquisition cost	Carrying value	Unrealized gain/(loss)
(Securities whose carrying value exceed their acquisition cost)						
Equity securities	¥ 20	¥ 21	¥ 1	¥26	¥ 79	¥53
Japanese national government bonds	31	32	1	29	30	1
Subtotal	51	53	2	55	109	54
(Securities whose carrying value does not exceed their acquisition cost)						
Equity securities	130	88	(42)	44	41	(3)
Total	¥181	¥141	¥(40)	¥99	¥150	¥51

	<i>Thousands of U.S. Dollars</i>		
	2004		
	Acquisition cost	Carrying value	Unrealized gain/(loss)
(Securities whose carrying value exceed their acquisition cost)			
Equity securities	\$246	\$ 747	\$501
Japanese national government bonds	274	284	10
Subtotal	520	1,031	511
(Securities whose carrying value does not exceed their acquisition cost)			
Equity securities	416	388	(28)
Total	\$936	\$1,419	\$483

(2) Other securities sold during the year

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2003	2004	2004
Proceeds	¥24	¥142	\$1,344
Total gain on sale	1	45	426
Total loss on sale	-	(9)	(85)

(3) Book value of securities without fair value

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2003	2004	2004
Subsidiaries and affiliates	¥3,447	¥3,487	\$32,993
Other securities			
Unlisted securities (except over-the-counter traded securities)	276	234	2,214

(4) Scheduled redemption amount of other securities that have matured

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2003	2004	2004
Within 1 year	¥ -	¥30	\$284
Over 1 year within 5 years	32	-	-

7. Property and Equipment and Intangible Assets

(1) Property and Equipment as of March 31, 2003 and 2004 consisted of the following:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2003	2004	2004
Buildings and structures	¥ 82,683	¥ 78,915	\$ 746,665
Machinery, vehicle, equipment and furniture	9,919	10,353	97,956
Land	79,361	76,562	724,402
Construction in progress	-	9	85
Accumulated depreciation	(30,885)	(32,985)	(312,092)
	¥141,078	¥132,854	\$1,257,016

(2) Intangible assets at March 31, 2003 and 2004 consisted of the following:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2003	2004	2004
Land leasehold rights	¥2,633	¥2,115	\$20,011
Goodwill	760	570	5,393
Other	441	345	3,265
	¥3,834	¥3,030	\$28,669

- (3) Gain on sales of property and equipment and intangible assets in 2003 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2004	2004
Buildings and structures	¥22	¥1,225	\$11,591
Machinery, vehicle, equipment and furniture	0	0	0
Land	25	3,234	30,599
Land leasehold rights	—	397	3,756
	¥47	¥4,856	\$45,946

- (4) Loss on disposal of property and equipment and intangible assets in 2003 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2004	2004
Buildings and structures	¥1,341	¥206	\$1,949
Machinery, vehicle, equipment and furniture	58	100	946
Land	3,264	280	2,649
Land leasehold rights	1,280	—	—
Other	1	35	330
	¥5,944	¥621	\$5,874

8. Short-term Debt and Long-term Debt

Short-term debt and long-term debt at March 31, 2003 and 2004 were as follows:

	Average interest rate	Millions of Yen		Thousands of U.S. Dollars
		2003	2004	2004
Short-term debt	0.58%	¥ 9,924	¥ 1,262	\$ 11,941
Long-term debt due from April 2004 to March 2014	1.78%	295,382	279,838	2,647,724
Total	—	¥305,306	¥281,100	\$2,659,665

Notes 1) The weighted average interest rate for the end-of-year balance of outstanding debt is shown as the "average interest rate."

2) Based on the agreement between the Company and financial institutions concerning the "Haseko Group New Restructuring Plan," it was arranged that borrowings from such institutions would be maintained over the plan period. Such borrowings have been indicated as long-term debt. In addition, the repayment of these borrowings will be dependent upon asset sale and earnings performance during the plan period, the annual maturities of long-term debt over the five-year period subsequent to the balance sheet date are not described.

9. Collateral

- (1) The assets provided as collateral as of March 31, 2003 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2004	2004
Land and buildings held for sale	¥ 21,862	¥ 1,671	\$ 15,810
Costs and advances for real estate operations	48,081	21,303	201,561
Real estate for development projects	37,311	23,663	223,891
Buildings and structures	51,912	18,990	179,676
Land	69,393	26,674	252,380
Land leasehold rights	327	—	—
	¥228,886	¥92,301	\$873,318

In addition to the aforementioned assets provided as collateral, the Company has provided ¥460 million of time deposits as collateral for entrusted guarantors of deposits received in connection with the sale of real estate as of March 31, 2003 and 2004.

- (2) The liabilities with collateral as of March 31, 2003 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2004	2004
Short-term debt	¥ 8,639	¥ —	\$ —
Long-term debt	168,615	133,364	1,261,841
	¥177,254	¥133,364	\$1,261,841

10. Contingent Liabilities

- (1) The Company was contingently liable for guarantees on bank loans and other as of March 31, 2003 and 2004 as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2004	2004
TH Corporation	¥2,090	¥ —	\$ —
Customers using housing loans and loans to purchase real estate	2,666	1,709	16,170
Tateshina Dam Development Co., Ltd.	442	408	3,860
Others	1,841	580	5,488
	¥7,039	¥2,697	\$25,518

Note) TH Corporation and Tateshina Dam Development Co., Ltd. are the Company's affiliates.

- (2) The Company was contingently liable for notes receivable discounted or endorsed and transferred as of March 31, 2003, and 2004 as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2004	2004
Notes receivable discounted	¥16,401	¥ —	\$ —
Notes receivable endorsed and transferred	3,347	1,000	9,462

11. Capital Stock

Capital stock consists of common stock and preferred stock. The number of shares of common stock and preferred stock outstanding excluding treasury stock as of March 31, 2003 and 2004 were as follows:

	Number of shares issued	
	2003	2004
Common stock	307,804,714	315,218,031
Preferred stock (Class AI)	37,599,500	37,599,500
Preferred stock (Class AII)	40,000,000	40,000,000
Preferred stock (Class AIII)	40,000,000	40,000,000
Preferred stock (Class AIV)	78,000,000	78,000,000
Preferred stock (Class BI)	90,000,000	90,000,000
Total	593,404,214	600,817,531

12. Lease Transaction

Finance leases transactions, other than those that are deemed to transfer the ownership of leased assets to the lessee, for the years ended March 31, 2003 and 2004 were as follows:

(As lessee)

Equivalent of acquisition cost, accumulated depreciation and net book value of the leased assets (machinery and equipment) were summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2004	2004
Acquisition cost	¥309	¥285	\$2,697
Accumulated depreciation	186	197	1,864
Net book value	¥123	¥ 88	\$ 833

Equivalent of acquisition cost includes interest portion, because the total amount of future lease payments is not significant compared with the total amount of property and equipment.

Outstanding future lease payments:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2004	2004
Within one year	¥ 50	¥ 43	\$407
Over one year	79	57	539
Total	¥129	¥100	\$946

Note) The above amount includes future lease payments for sub-leases.

Outstanding future lease payments includes interest portion, because the total amount of future lease payments is not significant compared with the total amount of property and equipment.

Lease payments and Depreciation:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2004	2004
Lease payments	¥54	¥47	\$445
Depreciation	54	47	445

Note) Depreciation is computed based on the straight-line method assuming that the lease period corresponds to the useful lives of the asset and a residual value is zero.

(As lessor)

Acquisition cost, accumulated depreciation and net book value of the rental assets (machinery and equipment and buildings and structures) were summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2004	2004
Acquisition cost	¥852	¥875	\$8,279
Accumulated depreciation	502	554	5,242
Net book value	¥350	¥321	\$3,037

Outstanding future lease payments to be received:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2004	2004
Within one year	¥210	¥212	\$2,006
Over one year	236	178	1,684
Total	¥446	¥390	\$3,690

Note) The above amount includes future lease payments to be received for sub-leases.

The amount of outstanding future lease payments to be received includes interest portion, because the total amount of future lease payments is not significant compared with the total amount of accounts receivable, trade.

Lease income and Depreciation:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2004	2004
Lease income	¥200	¥235	\$2,223
Depreciation	160	157	1,485

13. Supplementary Profit and Loss Information

(1) Sales from construction contracts according to percentage-of-completion method were ¥275,874 million and ¥285,256 million for the year ended March 31, 2003 and 2004, respectively.

(2) Selling, general and administration expenses for the years ended March 31, 2003 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2004	2004
Salaries and wages	¥ 6,499	¥ 6,277	\$ 59,391
Provision for accrued bonus to employees	733	615	5,819
Rents	1,610	1,778	16,823
Depreciation	431	358	3,387
Other	9,029	8,338	78,891
	¥18,302	¥17,366	\$164,311

(3) Research and development costs included in selling, general and administration expenses for the years ended March 31, 2003 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2004	2004
Research and development costs	¥462	¥499	\$4,721

14. Cash and Cash Equivalents

Reconciliation between cash and cash equivalents on the consolidated statements of cash flows and the amounts disclosed on the consolidated balance sheets for 2003 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2004	2004
Cash and bank deposits	¥35,342	¥31,097	\$294,228
Time deposits pledged as collateral	(460)	(460)	(4,352)
Cash and cash equivalents	¥34,882	¥30,637	\$289,876

15. Derivatives

It is our policy to limit derivative transactions to those with subject assets and liabilities as a means to avoid risk and efficiently manage these assets and liabilities. The Company and its consolidated subsidiaries don't conduct speculative derivatives transactions or those aiming to gain capital losses and gains in the short-term. The Company and its consolidated subsidiaries conduct cap transactions for variable interest loan payments in order to limit the impact of future interest rate increases on cash flow to a certain extent and conducts interest swaps to avoid this impact.

The total balance of derivative transactions conducted by the Company and its consolidated subsidiaries are within the scope of debt subject to risk avoidance measures that were generated by on-balance sheet transactions. Since derivative transactions and subject debt work to mutually offset market risk, we believe there is no material risk from market value fluctuations of derivative transactions. All contractual counterparties for our derivative transactions are highly trusted Japanese financial institutions and thus we judge there is almost no credit risk.

(1) Financial derivative information as of March 31, 2003 and 2004 were summarized as follows:

Derivatives for Interest

		<i>Millions of Yen</i>							
		2003				2004			
		Notional amount		Fair value	Unrealized gain/(loss)	Notional amount		Fair value	Unrealized gain/(loss)
		Total	Over one year			Total	Over one year		
Transactions outside of market trading	Interest rate swap Receive: floating Pay: fixed	¥41,522	¥41,522	¥(799)	¥(799)	¥43,012	¥0	¥(167)	¥(167)
<i>Thousands of U.S. Dollars</i>									
2004									
		Notional amount		Fair value	Unrealized gain/(loss)	Notional amount		Fair value	Unrealized gain/(loss)
		Total	Over one year			Total	Over one year		
Transactions outside of market trading	Interest rate swap Receive: floating Pay: fixed	\$406,964	\$0	\$(1,580)	\$(1,580)				

Notes 1) Market value calculation is based on prices provided by financial institutions.

2) The notional amounts are assumed principals and do not represent real receipts and payments. Therefore, they do not indicate the actual risk level of derivative transactions.

Derivatives transactions to which hedge accounting is applied are excluded from the table above.

16. Retirement Benefit Plan

The Company and its consolidated subsidiaries provide an employee welfare pension plan as a defined benefit funded plan. Further, some consolidated subsidiaries have adopted a lump-sum retirement allowance plan.

issued by the Japanese Institute of Certified Public Accountants) and the settlement of the substitutional portion of the Welfare Pension Fund was recognized at the date of approval from the Japanese Ministry of Health, Labor and Welfare. The amount of plan assets reserved for settlement was ¥13,851 million as of March 31, 2003.

(1) A reconciliation between pension liabilities and reserve for employees' retirement benefits as of March 31, 2003 and 2004 were as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2003	2004	2004
Projected benefit obligations	¥(28,157)	¥(33,467)	\$(316,652)
Plan assets	14,662	21,058	199,243
Unfunded pension obligation	(13,495)	(12,409)	(117,409)
Unrecognized transition amount	2,590	2,374	22,462
Unrecognized actuarial differences	10,993	8,881	84,028
Net retirement benefit obligations	88	(1,154)	(10,919)
Prepaid pension cost	107	-	-
Reserve for employees' retirement benefits	¥ (19)	¥ (1,154)	\$ (10,919)

(2) The components of net periodic pension cost for the years ended March 31, 2003 and 2004 were as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2003	2004	2004
Service cost	¥1,517	¥1,000	\$ 9,462
Interest cost	1,260	844	7,985
Expected return on plan assets	(1,245)	(440)	(4,163)
Amortization of transition amount	336	216	2,044
Amortization of actuarial differences	1,089	953	9,017
Amortization of prior service cost	(148)	-	-
Net periodic pension cost	2,809	2,573	24,345
Gain from the settlement of employee pension liabilities	(3,167)	-	-
Total	¥ (358)	¥2,573	\$24,345

Note) In 2003, the Company applied transitional provisions as prescribed in paragraph 47-2 of the "Practical Guidelines of Accounting for Retirement Benefits (Interim Report)" (Accounting Committee Report No. 13

(3) Assumptions used in calculation of the retirement benefit information in 2003 and 2004 were as follows:

	2003	2004
Discount rate:	3.0%	2.5%
Expected rate of return on plan assets:	5.0%	3.0%
Periods over which the prior service cost is amortized	11-15 years (straight line method based on average remaining service period of employees at the time of occurrence)	
Periods over which the actuarial difference are amortized	11-15 years (The straight line method based on the average remaining service period of employees from the next year in which the difference arises)	11-15 years (The straight line method based on the average remaining service period of employees from the next year in which the difference arises)
Periods over which the transaction amount is amortized	15 years	15 years

17. Income Taxes

(1) The significant components of deferred tax assets and liabilities at March 31, 2003 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2004	2004
Deferred tax assets:			
Allowance for doubtful accounts	¥ 3,602	¥ 4,538	\$ 42,937
Warranty reserve	308	471	4,456
Accrued bonuses to employees	672	889	8,411
Reserve for employees' retirement benefits	-	469	4,438
Write-down of real estate for sale	35,310	37,149	351,490
Write-down of property and equipment	7,600	409	3,870
Unrealized profits	4,500	4,379	41,433
Tax loss carryforwards	64,351	55,785	527,817
Other	4,456	6,257	59,201
Subtotal	120,799	110,346	1,044,053
Valuation allowance	(80,880)	(78,317)	(741,006)
Total deferred tax assets	39,919	32,029	303,047
Deferred tax liabilities:			
Prepaid pension cost	(38)	-	-
Unrealized gain on other securities	-	(20)	(189)
Total deferred tax liabilities	(38)	(20)	(189)
Net deferred tax assets	¥ 39,881	¥ 32,009	\$ 302,858

(2) A reconciliation of the statutory tax rate to the effective income tax rate in 2003 and 2004 were as follows:

	2003	2004
Statutory tax rate (Adjusted)	42.1%	42.1%
Expenses not deductible for income taxes	5.0	2.0
Inhabitants tax per capita	0.6	0.3
Unrecognized tax effect on unrealized profits	10.1	(5.8)
Valuation allowance	(6.9)	(4.4)
Other	(2.5)	0.5
Effective income tax rate	48.4%	34.7%

18. Per Share Information

(1) Per share information for the years ended March 31, 2003 and 2004 were as follows:

	Yen		U.S. Dollars
	2003	2004	2004
Shareholders' equity per share	¥(363.34)	¥(310.53)	\$(2.94)
Net income per share	19.40	49.78	0.47
Diluted income per share	3.96	6.77	0.06

(2) The following are the basis for calculating the net income per share, and diluted income per share:

(a) Net income per share

	2003	2004
Net income (millions of yen)	¥ 5,021	¥ 15,543
Weighted average number of shares outstanding (thousands of shares)	258,886	312,246

(b) Diluted income per share

Diluted income per share is computed assuming full dilution of the following common stock equivalents with dilutive effect.

	(thousands of shares)	
	2003	2004
Increase in common stock:		
Preferred stock (Class AI)	133,058	261,108
Preferred stock (Class AII)	141,553	277,778
Preferred stock (Class AIII)	141,553	277,778
Preferred stock (Class AIV)	276,027	541,667
Preferred stock (Class BI)	318,493	625,000
Total	1,010,684	1,983,331

19. Segment Information

The Company and its consolidated subsidiaries ("Haseko Group") operate primary within six business segments: construction, engineering, real estate, leasing and management, hotel and other. Description of our primary business is included in the Note 1) to the following table, which presents certain information regarding the Haseko Group's industry segment for the years ended March 31, 2003 and 2004.

(1) Sales and operating income

<i>Millions of Yen</i>								
2003								
	Construction	Engineering	Real estate	Leasing and management	Hotel	Other	Elimination/Corporate	Consolidated
Sales to external customers	¥364,653	¥7,761	¥24,367	¥44,297	¥11,613	¥1,172	¥ -	¥453,863
Intersegment sales	1,363	17	157	1,919	175	700	(4,331)	-
Total sales	366,016	7,778	24,524	46,216	11,788	1,872	(4,331)	453,863
Operating expenses	347,099	4,771	24,585	42,952	11,379	1,973	(4,659)	428,100
Operating income (loss)	¥ 18,917	¥3,007	¥ (61)	¥ 3,264	¥ 409	¥ (101)	¥ 328	¥ 25,763

<i>Millions of Yen</i>								
2004								
	Construction	Engineering	Real estate	Leasing and management	Hotel	Other	Elimination/Corporate	Consolidated
Sales to external customers	¥364,076	¥8,137	¥40,379	¥42,531	¥11,467	¥1,428	¥ -	¥468,018
Intersegment sales	927	4	94	1,885	140	703	(3,753)	-
Total sales	365,003	8,141	40,473	44,416	11,607	2,131	(3,753)	468,018
Operating expenses	333,817	4,818	38,005	42,482	11,236	2,201	(4,070)	428,489
Operating income (loss)	¥ 31,186	¥3,323	¥ 2,468	¥ 1,934	¥ 371	¥ (70)	¥ 317	¥ 39,529

<i>Thousands of U.S. Dollars</i>								
2004								
	Construction	Engineering	Real estate	Leasing and management	Hotel	Other	Elimination/Corporate	Consolidated
Sales to external customers	\$3,444,754	\$76,989	\$382,051	\$402,413	\$108,497	\$13,511	\$ -	\$4,428,215
Intersegment sales	8,771	38	889	17,835	1,325	6,652	(35,510)	-
Total sales	3,453,525	77,027	382,940	420,248	109,822	20,163	(35,510)	4,428,215
Operating expenses	3,158,454	45,586	359,589	401,949	106,311	20,825	(38,508)	4,054,206
Operating income (loss)	\$ 295,071	\$31,441	\$ 23,351	\$ 18,299	\$ 3,511	\$ (662)	\$ 2,998	\$ 374,009

(2) Assets, depreciation and capital expenditures

<i>Millions of Yen</i>								
2003								
	Construction	Engineering	Real estate	Leasing and management	Hotel	Other	Elimination/Corporate	Consolidated
Assets	¥89,788	¥3,369	¥191,223	¥99,468	¥54,737	¥34,707	¥41,397	¥514,689
Depreciation	231	44	63	1,558	1,319	600	(58)	3,757
Capital expenditures	56	7	38	780	252	1,120	(38)	2,215

<i>Millions of Yen</i>								
2004								
	Construction	Engineering	Real estate	Leasing and management	Hotel	Other	Elimination/Corporate	Consolidated
Assets	¥101,049	¥3,961	¥183,973	¥92,409	¥53,926	¥35,089	¥23,690	¥494,097
Depreciation	233	21	60	1,254	1,292	650	(58)	3,452
Capital expenditures	136	4	33	353	470	547	-	1,543

Thousands of U.S. Dollars

	2004							
	Construction	Engineering	Real-estate	Leasing and management	Hotel	Other	Elimination/Corporate	Consolidated
Assets	\$956,089	\$37,478	\$1,740,685	\$874,340	\$510,228	\$331,999	\$224,146	\$4,674,965
Depreciation	2,205	199	568	11,865	12,224	6,150	(549)	32,662
Capital expenditures	1,287	38	312	3,340	4,447	5,176	-	14,600

Notes 1) The following are the primary business segments of the Haseko Group and the description of our primary businesses.

Construction business: Contracting for construction, civil engineering and all other general construction work; and the consignment of work incidental to construction work

Engineering business: Planning, design, supervising and other consulting for buildings

Real-estate business: Buying, selling, exchanging, brokering and commissioned condominium selling

Leasing and management business: Leasing, property management and lease management for office buildings and condominiums

Hotel business: Planning and operation of hotels

Other businesses: Senior living business, financing business, etc.

2) Corporate assets included in "Elimination/Corporate," were ¥65,391 million in 2003 and ¥50,385 million in 2004. These assets are primarily comprised of surplus fund of the Company (cash), long-term investment funds (investment securities) and assets related to the administration divisions.

Geographical segment information is omitted as overseas sales for the years ended March 31, 2003 and 2004 were less than 10% of the consolidated sales.

20. Related Party Transactions

(1) Transactions and balances with principal corporate shareholders for the years ended March 31, 2003 and 2004 were as follows:

(a) Transactions

Name of company	Type of business	Type of transaction	Millions of Yen		Thousands of U.S. Dollars
			2003	2004	2004
Resona Bank	Banking service	Borrowing short-term business fund	¥32,294	¥18,279	\$172,949
		Note receivable discounting	6,560	-	-
		Interest payment	370	242	2,290
Chuo-Mitsui Trust and Banking	Banking service	Borrowing short-term business fund	15,770	3,796	35,916
		Note receivable discounting	4,920	-	-
		Interest payment	297	70	662
Mizuho Corporate Bank	Banking service	Borrowing short-term business fund	15,885	3,944	37,317
		Note receivable discounting	4,920	-	-
		Interest payment	305	78	738

(b) Balances of related receivables/payables

Name of company	Type of business	Account	Millions of Yen		Thousands of U.S. Dollars
			2003	2004	2004
Resona Bank	Banking service	Short-term debt	¥ 2,640	¥13,860	\$131,138
		Long-term debt	28,156	26,562	251,320
Chuo-Mitsui Trust and Banking	Banking service	Short-term debt	1,980	6,575	62,210
		Long-term debt	16,603	15,765	149,163
Mizuho Corporate Bank	Banking service	Short-term debt	1,980	8,388	79,364
		Long-term debt	27,963	27,952	264,472

Notes 1) Resona Bank, Chuo-Mitsui Trust and Banking and Mizuho Corporate Bank, became the principal shareholders of the Company through the third party allotment of the common stocks on September 27, 2002. However, by sale of their holding shares of the Company during June 20, 2003 to August 8, 2003, these three principal financial institutions are no longer recognized as related parties. Therefore, the amounts of transactions represent those for the period when they were principal shareholders and the balances of related receivables/payables for 2004 represent those at the date when they lost their status as related parties.

2) The transaction amounts of borrowing short-term business fund represent the average outstanding balance of such borrowings for the period.

3) Interest rates of short-term and long-term debt with principal shareholders are set referring to the market rate.

(2) Transactions and balances with affiliates for the years ended March 31, 2003 and 2004 were as follows:

(a) Transactions

Name of company	Type of business	Type of transaction	Millions of Yen		Thousands of U.S. Dollars
			2003	2004	2004
Takarazuka Development Co., Ltd.	Real estate	Financing business fund	¥154	¥148	\$1,400

(b) Balances of receivables/payables

Name of company	Type of business	Account	Millions of Yen		Thousands of U.S. Dollars
			2003	2004	2004
Takarazuka Development Co., Ltd.	Real estate	Long-term loan	¥14,776	¥14,736	\$139,427

Note) The interest for the financing business fund is set rationally after consideration of the market rate and business conditions. However, presently a portion of the interest has been exempt.

21. Lawsuit

In May 1991, Meiyō K.K. (hereinafter "Meiyō") obtained a certificate for completion of building inspection for the "Hotel Sherena PR Building Construction (Motomachi Dori 6-Chome, Chuo-Ku Kobe-Shi)." Fujita Corporation (hereinafter "Fujita") filed a lawsuit against the Company in the Osaka District Court on May 14, 2002 in connection with payment for related subcontracting costs. On May 27, 2004, the Court issued its verdict.

(1) Background of Lawsuit

In furtherance of this construction project, the parties had a written contract under which the order was placed by Meiyō, the primary contractor was the Company and Fujita was the subcontractor. However, the actual arrangement under this contract was that Fujita directly contracted with Meiyō and the Company served as the primary contractor in name only in order to acquire permission to carry out related construction. After the inspection certificate was obtained, Meiyō complained that the construction was imperfect and did not pay the construction costs. In May 1994, the Company complied with the request of Fujita, and initiated a lawsuit as plaintiff in order to assist Fujita in demanding payment of primary construction fees. As the Company initiated this lawsuit, the Company and Fujita considered that the actual arrangement under the contract was important, and agreed that, if the collection of construction costs from Meiyō were to be impossible, Company would assign its collection rights to Fujita, and Fujita would then be responsible for any losses arising from the inability to collect amounts owed by Meiyō.

After the above court's determination in favor the Company, and Meiyō was determined to be insolvent, Fujita disregarded the above agreement and filed a lawsuit against the Company with the Osaka District Court seeking the

payment of subcontracted construction charges totaling ¥3,583,214,183, including a penalty for late payment and interest under the Commercial Code. (Osaka District Court 2002 (wa) 4615 Subcontracting Charges Invoicing Case)

With regard to such claimed amounts, the Company asserted and attempted to prove that the authority and responsibility to collect the construction charges lay with Fujita, and that there was a valid contractual rider stating that once funds were paid by Meiyō, the Company would pay Fujita, and thus no obligation to pay construction charges to Fujita existed as long as the Company did not receive any payment from Meiyō.

(2) Explanation of Verdict

The defendant (Company) was ordered to pay the plaintiff (Fujita) ¥3,583,214,183 and 36.5% annual interest on a ¥2,796,000,000 portion of such for the period from June 1, 1991 to March 7, 1994 and also the period from May 30, 2002 until payment is completed. In addition, the Company was ordered to pay Fujita 6% annual interest on the remaining ¥787,214,183 portion for the period from May 30, 2002 until payment is completed.

(3) Future Prospects

It is truly regrettable that the Company's position wasn't accepted by the court. The Company is convinced that the history and agreement between the parties clearly presents no reason for the Company to pay Fujita any sum of money.

The Company completely disagrees with the verdict and is convinced that it contains many misinterpretations of fact. The Company immediately filed an appeal on May 28, 2004 with the Osaka High Court and thus plans to continue with the lawsuit.

Report of Independent Auditors

To the Board of Directors and Shareholders of Haseko Corporation

We have audited the accompanying consolidated balance sheets of Haseko Corporation and its subsidiaries as of March 31, 2003 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements 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 Haseko Corporation and its subsidiaries as of March 31, 2003 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 4 to the accompanying consolidated financial statements, Haseko Corporation and its subsidiaries are executing a "Three-Year Medium-Term Plan."

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the accompanying consolidated financial statements.


ChuoAoyama PricewaterhouseCoopers
Tokyo, Japan
June 29, 2004

NON-CONSOLIDATED FINANCIAL STATEMENTS

NON-CONSOLIDATED BALANCE SHEETS

AS OF MARCH 31, 2003 AND 2004

ASSETS

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2004	2004
ASSETS			
Current Assets:			
Cash and bank deposits	¥ 30,023	¥ 22,699	\$ 214,770
Notes and accounts receivable, trade	58,146	64,208	607,513
Costs incurred on uncompleted contracts	13,143	15,049	142,388
Real estate for sale	63,895	64,671	611,893
Deferred tax assets	7,540	8,176	77,358
Other current assets	3,012	8,825	83,499
Allowance for doubtful accounts	(326)	(111)	(1,050)
Total current assets	175,433	183,517	1,736,371
Investments and Other Assets:			
Investments in securities	360	278	2,630
Long-term loans	25,190	25,611	242,322
Investments in subsidiaries and affiliates	54,420	55,043	520,797
Long-term loans to subsidiaries and affiliates	251,505	225,702	2,135,510
Long-term deferred tax assets	27,527	19,257	182,203
Other assets	16,354	14,410	136,341
Allowance for doubtful accounts	(81,460)	(75,110)	(710,663)
Total investments and other assets	293,896	265,191	2,509,140
Property and Equipment	44,116	41,700	394,550
Intangible Assets	783	226	2,138
Total assets	¥514,228	¥490,634	\$4,642,199

NON-CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2003 AND 2004
LIABILITIES AND SHAREHOLDERS' EQUITY

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2004	2004
LIABILITIES			
Current Liabilities:			
Short-term debt	¥ 6,599	¥ —	\$ —
Notes and accounts payable	117,656	105,954	1,002,498
Income taxes payable	36	38	360
Advances received on uncompleted contracts	22,430	22,352	211,486
Advances received for real estate sales	1,072	1,700	16,085
Warranty reserve	788	1,066	10,086
Accrued bonus to employees	1,208	1,148	10,862
Other current liabilities	4,733	4,535	42,908
Total current liabilities	154,522	136,793	1,294,285
Long-term Liabilities:			
Long-term debt	294,170	279,817	2,647,526
Security deposits received	3,073	1,845	17,457
Reserve for employees' retirement benefits	—	783	7,408
Total long-term liabilities	297,243	282,445	2,672,391
Total liabilities	451,765	419,238	3,966,676
Commitments and contingent liabilities			
Shareholders' Equity:			
Capital stock	75,500	75,500	714,353
Additional paid-in capital	75,000	—	—
Accumulated deficit	(87,987)	(4,043)	(38,253)
Net unrealized gains (loss) on other securities	(38)	9	85
Treasury stock, at cost — 7,920,068 shares in 2003	(12)		
— 506,751 shares in 2004		(70)	(662)
	62,463	71,396	675,523
Total shareholders' equity and liabilities	¥514,228	¥490,634	\$4,642,199

NON-CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED MARCH 31, 2003 AND 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2004	2004
Net Sales	¥365,242	¥371,936	\$3,519,122
Costs of Sales	332,880	327,191	3,095,761
Gross profit	32,362	44,745	423,361
Selling, General and Administrative Expenses	13,559	12,320	116,568
Operating Income	18,803	32,425	306,793
Other Income (Expenses):			
Interest and dividend income	2,253	1,503	14,221
Interest expense	(6,603)	(5,662)	(53,572)
Foreign currency exchange gain, net	342	125	1,183
Other, net	(1,270)	(38)	(359)
	(5,278)	(4,072)	(38,527)
Ordinary income	13,525	28,353	268,266
Special Income (Losses):			
Gain (Loss) on sale of property and equipment, net	(510)	881	8,336
Gain on debt redemption	8,761	–	–
Gain from the settlement of employee pension liabilities	1,947	–	–
Loss on liquidation of real estate for sale	(4,957)	(668)	(6,320)
Write-down of real estate for sale	(787)	(955)	(9,036)
Loss on forgiveness of loan to subsidiaries	(1,872)	–	–
Provision for doubtful accounts	(9,489)	(12,686)	(120,030)
Other, net	(759)	(55)	(552)
	(7,666)	(13,483)	(127,572)
Income before Income Taxes	5,859	14,870	140,694
Income Taxes:			
Current	(1,368)	(1,702)	(16,104)
Deferred	3,199	7,628	72,173
	1,831	5,926	56,069
Net Income	¥ 4,028	¥ 8,944	\$ 84,625

Non-consolidated Orders Received, Sales and Balance Brought Forward to Next Term

1. Orders *Of the ratio, figures in the parentheses represent the percentage of construction

(¥million)

	2003		2004		Changes	
	Amount	Ratio	Amount	Ratio	Amount	Rate
Private-sector condominiums	316,956	(96.5%)	308,330	(94.1%)	-8,626	-2.7%
Other work	8,006	(2.4%)	13,416	(4.1%)	5,411	67.6%
Building construction	324,962	(98.9%)	321,746	(98.2%)	-3,216	-1.0%
Civil engineering	3,454	(1.1%)	5,823	(1.8%)	2,369	68.6%
Total construction	328,416	95.3%	327,569	94.3%	-847	-0.3%
Consulting contract	8,576	2.5%	11,417	3.3%	2,841	33.1%
Construction business total	336,992	97.8%	338,986	97.6%	1,993	0.6%
Design and supervision	7,710	2.2%	8,410	2.4%	700	9.1%
Grand Total	344,702	100.0%	347,396	100.0%	2,694	0.8%

2. Sales *Of the ratio, figures in the parentheses represent the percentage of construction

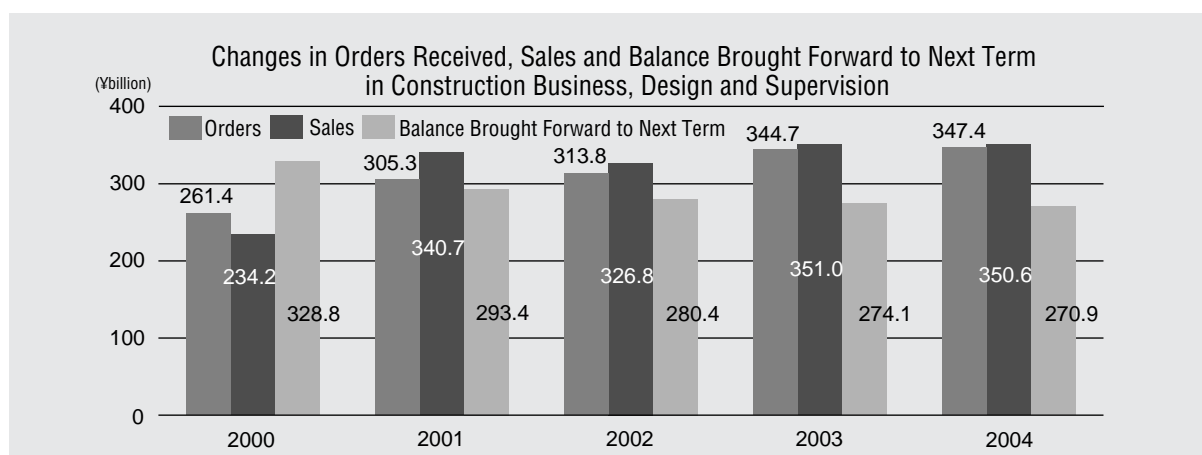
(¥million)

	2003		2004		Changes	
	Amount	Ratio	Amount	Ratio	Amount	Rate
Private-sector condominiums	295,419	(87.9%)	310,565	(93.6%)	15,146	5.1%
Other work	23,923	(7.1%)	12,414	(3.8%)	-11,509	-48.1%
Building construction	319,342	(95.0%)	322,979	(97.4%)	3,637	1.1%
Civil engineering	16,696	(5.0%)	8,724	(2.6%)	-7,972	-47.7%
Total construction	336,038	95.7%	331,703	94.6%	-4,335	-1.3%
Consulting contract	7,228	2.1%	10,736	3.1%	3,508	48.5%
Construction business total	343,266	97.8%	342,439	97.7%	-827	-0.2%
Design and supervision	7,778	2.2%	8,141	2.3%	363	4.7%
Grand Total	351,044	100.0%	350,580	100.0%	-464	-0.1%

3. Balance Brought Forward to Next Term *Of the ratio, figures in the parentheses represent the percentage of construction

(¥million)

	2003		2004		Changes	
	Amount	Ratio	Amount	Ratio	Amount	Rate
Private-sector condominiums	249,971	(93.3%)	247,736	(93.9%)	-2,235	-0.9%
Other work	12,622	(4.7%)	13,625	(5.2%)	1,003	7.9%
Building construction	262,593	(98.0%)	261,361	(99.1%)	-1,232	-0.5%
Civil engineering	5,288	(2.0%)	2,386	(0.9%)	-2,902	-54.9%
Total construction	267,881	97.7%	263,747	97.4%	-4,134	-1.5%
Consulting contract	1,490	0.5%	2,170	0.8%	680	45.6%
Construction business total	269,371	98.3%	265,917	98.2%	-3,454	-1.3%
Design and supervision	4,693	1.7%	4,963	1.8%	270	5.8%
Grand Total	274,064	100.0%	270,880	100.0%	-3,184	-1.2%



Overview of Preferred Stocks/Change in Quantity of Outstanding Stock and Paid-in Capital

Overview of Preferred Stocks

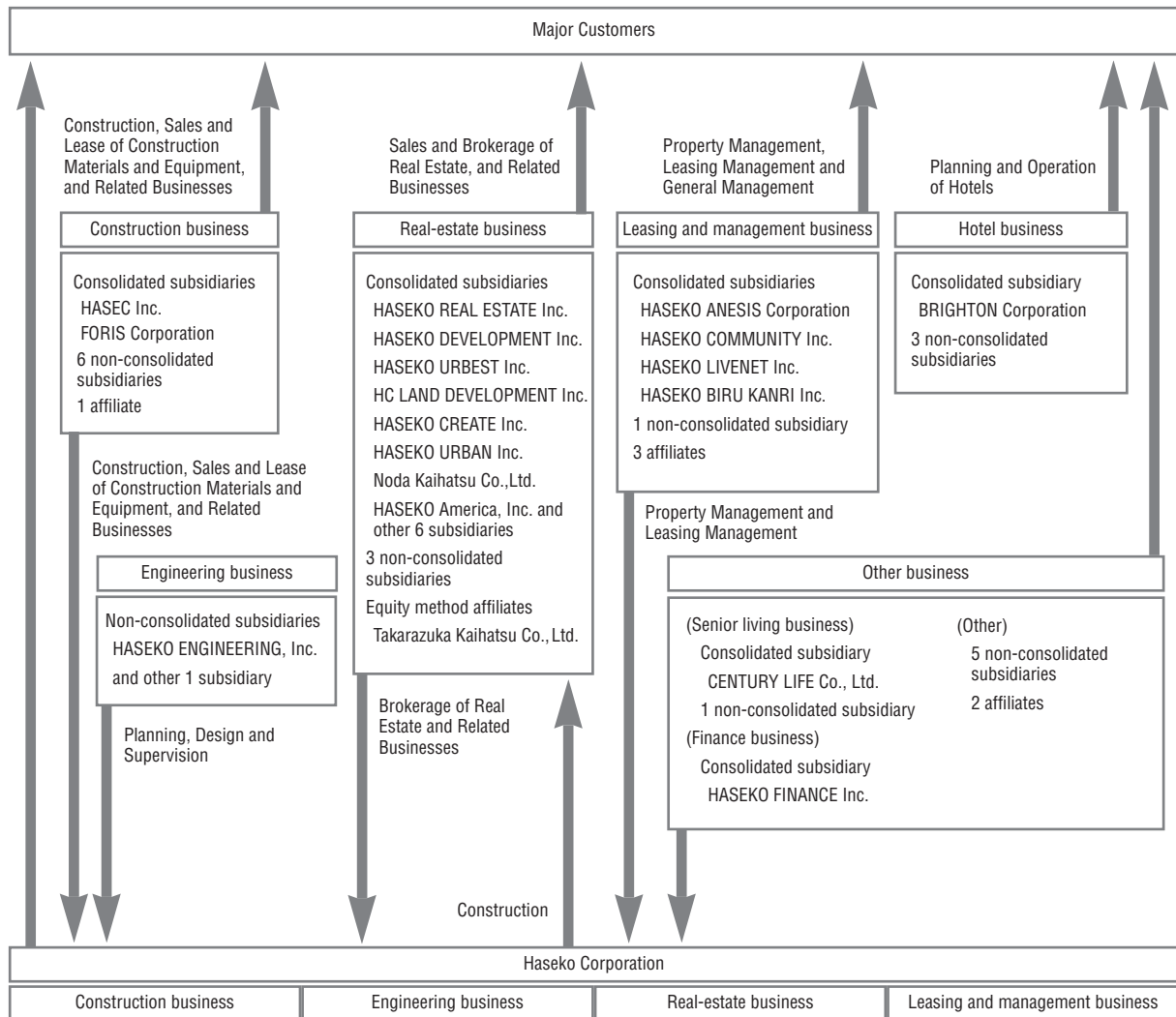
Class	Class AI	Class AII	Class AIII
Total issued price	18.8 billion yen	20 billion yen	20 billion yen
Number of issued shares	37,599,500 shares	40,000,000 shares	40,000,000 shares
Issued price	@500 yen	@500 yen	@500 yen
Voting rights	No	No	No
Preferred dividends	Japanese yen TIBOR (6-months) +0.5%	Japanese yen TIBOR (6-month) +0.75%	Japanese yen TIBOR (6-month) +0.75%
Ceiling	10 yen for seven years (2%) 50 yen from 8th year (10%)	10 yen for seven years (2%) 50 yen from 8th year (10%)	10 yen for seven years (2%) 50 yen from 8th year (10%)
Participation	No	No	No
Cumulative	No	No	No
Distribution of residual property	@500 yen	@500 yen	@500 yen
Redemption and cancellation	Can redeem and cancel with profit that should be paid to shareholders		
Repayment requesting right	-		
Conversion reservation right	Convert to common stock	Convert to common stock	Convert to common stock
Conversion requesting period	October 1, 2006 to September 30, 2011	October 1, 2007 to September 30, 2014	October 1, 2008 to September 30, 2026
Initial conversion price	@72 yen	@72 yen	@72 yen
Revision of conversion price	Revise upwards/downwards Last day of March and September after March 31, 2007	Revise upwards/downwards Last day of March and September after March 31, 2008	Revise upwards/downwards Last day of March and September after March 31, 2009
Conversion ceiling price	150% of initial conversion price (@108yen)	200% of initial conversion price (@144yen)	200% of initial conversion price (@144yen)
Conversion floor price	60% of initial conversion price (@43yen)	50% of initial conversion price (@36yen)	50% of initial conversion price (@36yen)
Mandatory conversion	From October 1, 2011	From October 1, 2014	From October 1, 2026

Class	Class AIV	Class BI	Remarks
Total issued price	39 billion yen	45 billion yen	Total: 142.8 billion yen
Number of issued shares	78,000,000 shares	90,000,000 shares	Total: 285,599,500 shares
Issued price	@500 yen	@500 yen	
Voting rights	No	No	
Preferred dividends	Japanese yen TIBOR (6-month) +1.00% TIBOR (6-month) +1.80% from 13th year	Japanese yen TIBOR (6-month) +1.00% TIBOR (6-month) +1.80% from 13th year	
Ceiling	10 yen for seven years (2%) 50 yen from 8th year (10%)	10 yen for seven years (2%) 50 yen from 8th year (10%)	
Participation	No	8th year on: Simple participation	
Cumulative	No	8th year on: Cumulative for next fiscal year alone	
Distribution of residual property	@500 yen	@500 yen	
Redemption and cancellation	Can redeem and cancel with profit that should be paid to shareholders		
Repayment requesting right	-	13th year on: Up to 1/2 may be requested when unappropriated income exceeds 20 billion yen for that year	
Conversion reservation right	Convert to common stock	Convert to common stock	
Conversion requesting period	October 1, 2012 to September 30, 2028	October 1, 2015 to September 30, 2032	
Initial conversion price	@72 yen	Market price 1 year before conversion start date (however, not below @72 yen)	
Revision of conversion price	Revise upwards/downwards Last day of March and September after March 31, 2013	Revise upwards/downwards Last day of March and September after March 31, 2016	
Conversion ceiling price	300% of initial conversion price (@216yen)	300% of initial conversion price	
Conversion floor price	50% of initial conversion price (@36yen)	50% of initial conversion price	
Mandatory conversion	From October 1, 2028	From October 1, 2032	

Change in Quantity of Outstanding Stock and Paid-in Capital

Date	Variation in quantity of outstanding stock	Balance of outstanding stock	Variation in capital stock (million yen)	Balance of capital stock (million yen)	Variation in paid-in capital (million yen)	Balance of paid-in capital (million yen)
June 27, 2002 Note (1)		1,078,623,912		53,931	(15,597)	
August 2, 2002 Note (2)	(862,899,130)	215,724,782		53,931		
August 3, 2002 Note (3)		215,724,782	(53,431)	500		
September 27, 2002 Note (4)	385,599,500	601,324,282	74,999	75,499	74,999	74,999
June 27, 2003 Note (5)		601,324,282		75,500	(75,000)	

Corporate Group Organizational Chart



Note (1) Decrease from processing of losses.

Note (2) Decrease from merging of five outstanding common shares into one share based on the general shareholders meeting on June 27, 2002.

Note (3) Decrease from covering of losses caused by decrease in capital stock (unpaid) based on a resolution of the general shareholders meeting on June 27, 2002.

Note (4) Increase in capital through third party allotment to three primary financial institutions based on a decision of the board of directors on August 22, 2002.

Common Stock	100,000,000 shares	paid	Issue price ¥ 72	Amount incorporated into capital ¥ 36
Preferred Stock Class AI	37,599,500 shares	paid	Issue price ¥500	Amount incorporated into capital ¥250
Preferred Stock Class AII	40,000,000 shares	paid	Issue price ¥500	Amount incorporated into capital ¥250
Preferred Stock Class AIII	40,000,000 shares	paid	Issue price ¥500	Amount incorporated into capital ¥250
Preferred Stock Class AIV	78,000,000 shares	paid	Issue price ¥500	Amount incorporated into capital ¥250
Preferred Stock Class BI	90,000,000 shares	paid	Issue price ¥500	Amount incorporated into capital ¥250

Note (5) Decrease from processing of losses.

Company Data

Overview (as of March 31, 2004)

Name: Haseko Corporation
 Founded: February 1937
 Established: August 1946
 Paid-in capital: 75,499,875,000 yen
 Employees: 3,223 (Consolidated)
 Head office: 32-1 Shiba 2-chome, Minato-ku,
 Tokyo 105-8507
 Tel: 03-3456-5451
 Osaka: 5-7 Hiranomachi1-chome, Chuo-ku,
 Osaka 541-0046
 Tel: 06-6203-5661

Share Overview (as of March 31, 2004)

Total shares authorized to issue:	Common stock	2,100,000,000 shares
	Preferred stock	300,000,000 shares
Outstanding shares:	Common stock	315,724,782 shares
	Preferred stock	285,599,500 shares
Shareholders:	Common stock	50,323 parties
	Preferred stock	3 parties

Breakdown of shareholders

Financial institutions:	16.61%
Securities firms:	1.44%
Other corporations:	8.28%
Foreign corporations, etc.:	37.48%
Individuals, others:	36.19%

Directors (as of June 29, 2004)

President: Toshihisa Dake*
 Executive Vice President: Takashi Iwao*
 Senior Managing Directors: Kazunobu Kanai*
 Koji Kato
 Managing Directors: Toshio Onishi
 Hiroyuki Nobuta
 Akiteru Miyata
 Keitaro Mitsui
 Masuo Shindo
 Noriaki Tsuji
 Ikuo Oguri
 Directors: Koji Kato
 Hiroyuki Kawano
 Masanori Oka
 Teruo Kojima
 Atsushi Hasegawa
 Minoru Nishino
 Full-time Auditors: Jiro Tanaka
 Masahiro Hatashita
 Auditors: Yasuyuki Wakahara
 Haruo Akimine

Overview of major shareholders (Common stock)

Shareholder	Shares (1,000 shares)	Voting Rights
Resona Bank, Limited	15,035	4.88%
Mizuho Corporate Bank, Ltd.	15,035	4.88%
The Master Trust Bank of Japan, Ltd. (trust units)	14,549	4.72%
Royal Trust Corporation of Canada Client Account	14,123	4.58%
Goldman Sachs International	12,375	4.02%
Haseko Group Employee Shareholders Association	7,927	2.57%
Northern Trust Company AVFC Subaccount American Client	6,082	1.97%
State Street Bank and Trust Company	5,451	1.77%
The Bank of New York, Treaty JASDEC Account	5,115	1.66%
Morgan Stanley and Company International, Ltd.	4,948	1.60%

*Representative Director



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