Annual Report 2008

For the year ended March 31, 2008

HASEKO Corporation

HASEKO

Profile

The Haseko Group has leveraged its capabilities in all condominium business fields – from gathering land information to planning, design, construction, sale, property management, renovation, brokering and renting. Thus, Haseko has conducted marketing activities in which it proposes product planning, selling strategies and other issues that cannot be matched by competitors. Since constructing its first condominium in 1968, Haseko has built a cumulative total of around 460,000 condominium units (as of the end of June 2008) and established itself as a leading condominium contractor in Japan.

With the new three-year Medium-Term Business Plan that started in April 2008, the Haseko Group strives to become an "only one" group of companies for housing. The Company will focus on the "flow" market centering on construction of new condominiums and on the "stock" market comprising existing condominiums that should steadily expand in the future, while endeavoring to implement continuous management innovation amid rapid changes in the management environment surrounding the Haseko Group.

Contents

■ Disclaimer concerning Forward-looking Statements

Please note that all present and future plans and objectives of Haseko entered in this Annual Report may differ from actual results due to various unforeseen factors.

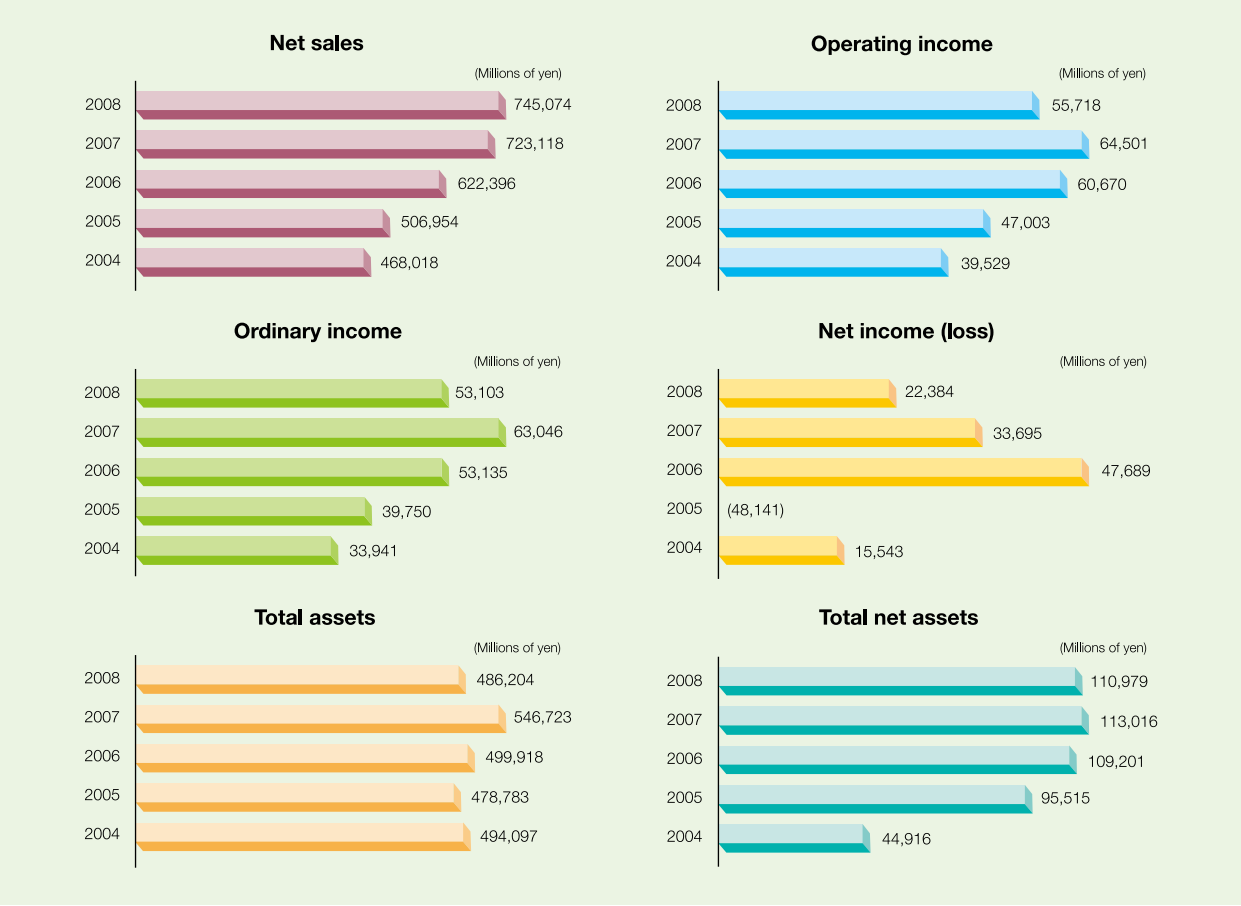
Financial Highlights

Haseko Corporation and its Subsidiaries

(Years ended March 31, 2004, 2005, 2006, 2007 and 2008)

	Millions of Yen					Thousands of U.S. Dollars
For the Year	2004	2005	2006	2007	**2008**	**2008**
Net sales	¥468,018	¥506,954	¥622,396	¥723,118	**¥745,074**	**$7,436,610**
Operating income	39,529	47,003	60,670	64,501	**55,718**	**556,123**
Ordinary income	33,941	39,750	53,135	63,046	**53,103**	**530,023**
Net income	15,543	(48,141)	47,689	33,695	**22,384**	**223,416**
At Year-end						
Total assets	494,097	478,783	499,918	546,723	**486,204**	**4,852,819**
Total net assets*	44,916	95,515	109,201	113,016	**110,979**	**1,107,685**
	Yen					U.S. Dollars
Per Share Data						
Net income	49.78	(122.03)	67.27	31.67	**9.36**	**0.09**
Net assets	(310.53)	(252.18)	(28.87)	23.22	**36.31**	**0.36**

Note: The U.S. dollar amounts represent translations of yen amounts at the rate of ¥100.19 = U.S. $1.00, the exchange rate at March 31, 2008.



Message from the Management

President and Chief Executive Officer, Takashi Iwao

Firstly, I would like to express my heartfelt gratitude for your continued loyal patronage of the Haseko Group.

During fiscal 2007 ended March 31, 2008, the sales situation in the domestic condominium market became increasingly severe as consumers were less willing to purchase, discouraged by the stagnant stock prices, price hikes of daily necessities and other factors as well as rising condominium prices. The number of newly supplied condominiums decreased to the 50,000-unit level in the Tokyo metropolitan area and to the 20,000-unit level in the Kinki area.

Under these circumstances, the Company's consolidated performance for the year ended March 31, 2008 saw an increase in net sales to 745.1 billion yen (up 3.0% compared to the year ended March 31, 2007; comparisons the same hereafter). On the other hand, operating income decreased to 55.7 billion yen (down 13.6%) and ordinary income decreased to 53.1 billion yen (down 15.8%) due to the increasing prices of materials and labor costs, delayed commencement of condominium construction in correlation with the enactment of the amended Building Standard Law, a harsh correction phase of condominium market conditions and other factors. Furthermore, as the Company has applied the "Accounting standard for measurement of inventories" early in view of improving its financial standing, 29.4 billion yen in losses, including loss on valuation of real estate inventories, were recorded in special income (losses). Consequently, net income was 22.4 billion yen (down 33.6%).

The Haseko Group has been implementing Group-wide efforts to strengthen profitability of business operations, reconstruct capital structures, reinforce technological capabilities and technical development abilities and enhance management systems among other goals under the New Medium-Term Business Plan (from the year ended March 31, 2006 to the year ended March 31, 2008), which began in April 2005 as the final phase for the completion of corporate revitalization. As a result, revenues from business operations have exceeded planned figures. In addition, the prospects for reconstruction of capital structures is generally looking bright as the purchase and redemption of preferred stocks have been steadily implemented based on the Capital Reorganization Plan announced in August 2005. Consequently, the Company has managed to resume the payment of dividends, which had been one of our top priorities.

The Haseko Group embarked on a new three-year medium-term plan named the "SHIN" Plan starting from April 2008. Positioning the next three years as a "new stage after the completion of corporate revitalization," the Haseko Group will strive to become the one and only corporate group to build upon both the 'flow' market centering on constructions and the 'stock' market that should steadily accumulate and grow, while continuously working on management innovation. The business environment surrounding the Haseko Group has been undergoing rapid changes. These include the shrinking domestic construction market, intensifying competition for orders, changes in the for-sale condominium market and the advent of the aging society and diminishing population. Under these conditions, we at the Haseko Group recognize that the most vital issue for us is to steadily implement the "SHIN" Plan.

Making it a point to maintain our sincere gratitude to our shareholders, business partners and customers, the Haseko Group will continue to aspire to become the "one and only corporate group for housing" that truly meets the needs of society. Your continued and further support and encouragement would be greatly appreciated.

June 2008

Takashi Iwao
President and Chief Executive Officer
Haseko Corporation

New Medium-Term Business Plan

"SHIN" PLAN

(from April 1, 2008 to March 31, 2011)

New stage after the completion of corporate revitalization

Aim to become an "only one" group of companies that endeavors to continuously innovate management and create urban life

■ Basic policy

1. Expand the business domains (in terms of sectors and areas) in addition to further evolving the mainstay business related to condominiums
2. Implement specific measures to secure reliability and extend the life of housing
3. Deploy business strategies that respond to changes in the for-sale condominium market
4. Perform corporate social responsibility activities concerning issues on global environment and the aging society with fewer children
5. Continue returning profits to shareholders while maintaining a sound financial foundation

■ Numerical targets

Achieve the following targets in the fiscal year ending March 2011:

Consolidated ordinary income of 60 billion yen

Non-consolidated ordinary income of 50 billion yen

Ordinary income of consolidated subsidiaries of 10 billion yen

Of which, 7 billion yen from service-related business group

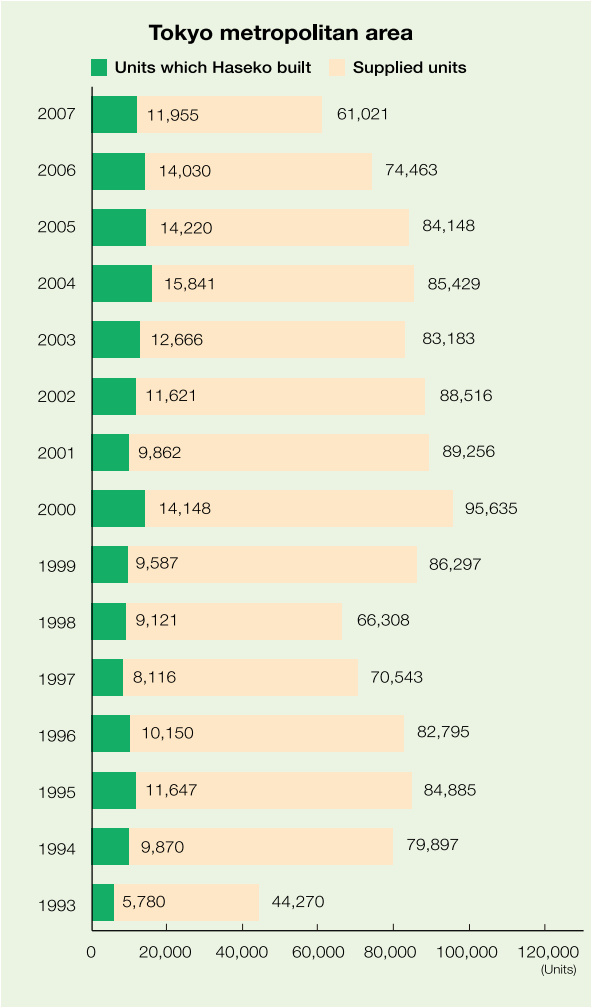
Domestic Condominium Market

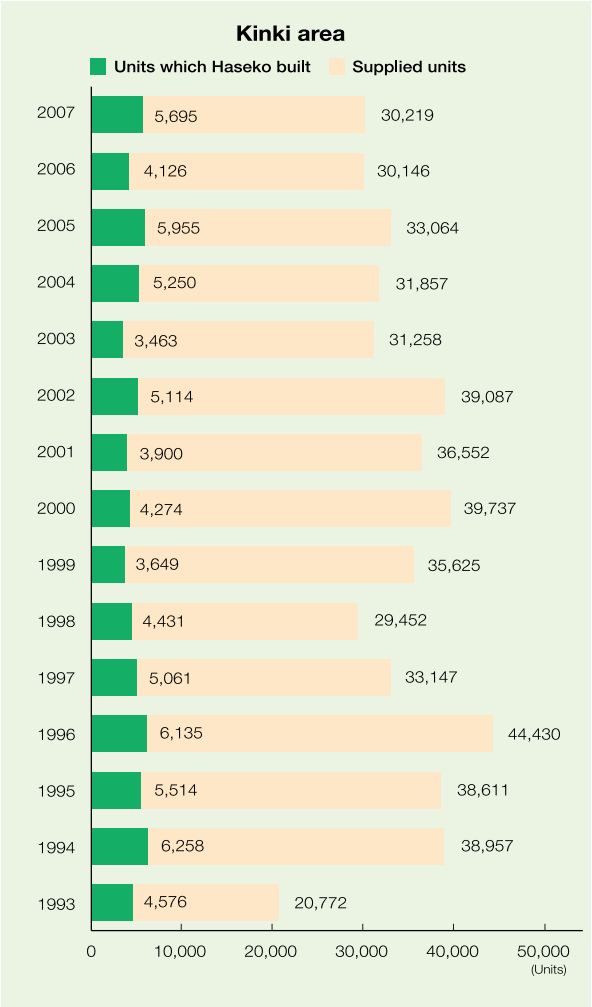
The condominium market in 2007 experienced changes in the Tokyo metropolitan area and the Kinki area, causing the number of new supply to decrease to 61,021 units and 30,219 units in the respective areas. Especially in the Tokyo metropolitan area, the figure dropped to the 60,000-unit level for the first time in nine years since 1998. In the meantime, the average condominium price in the Tokyo metropolitan area reached 46.44 million yen.

This has created a difficult situation for sales activities. This is because consumers have been discouraged from purchasing condominiums due to the rise in price coupled with such factors as sluggish growth in income and the increased prices of daily necessities accompanying the soaring crude oil prices.

On the other hand, latent demand has remained strong, mainly from Japanese baby boom juniors and the generations that follow. In addition, there is no doubt that consumers who have refrained from or postponed purchasing constitute an accumulation of latent demand. Looking ahead, supply of condominiums that match the buying ability of consumers will become an essential factor to evoke latent demand.

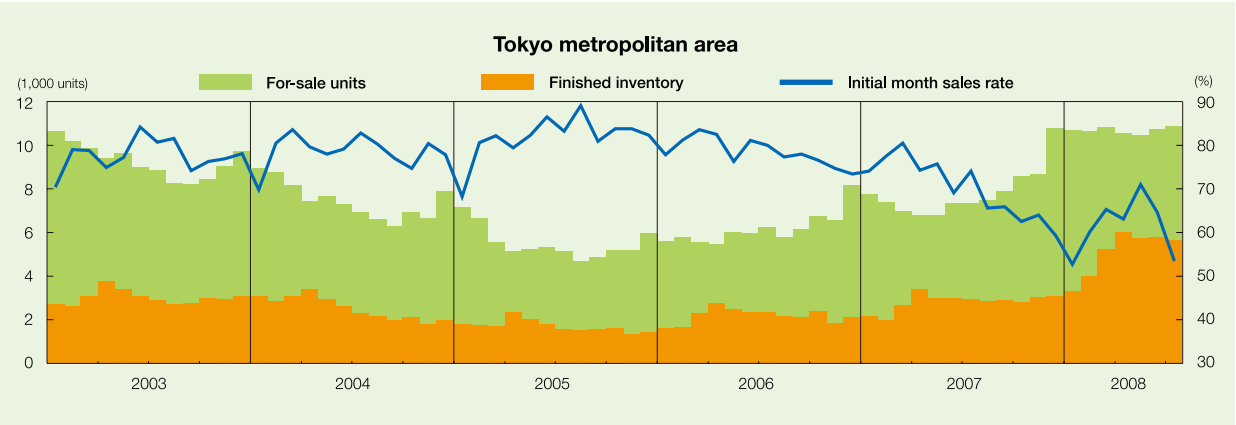
■History of condominium units supplied (1993-2007)

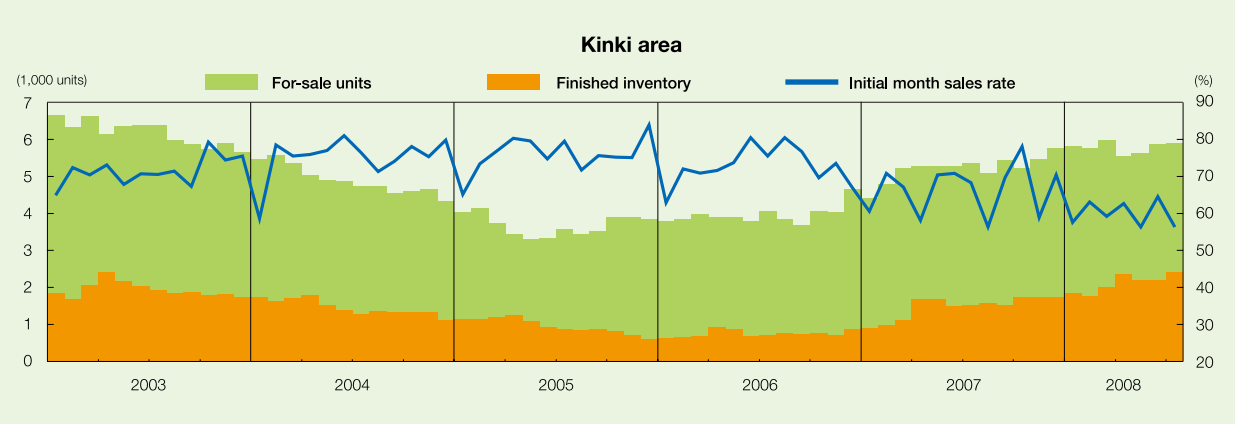




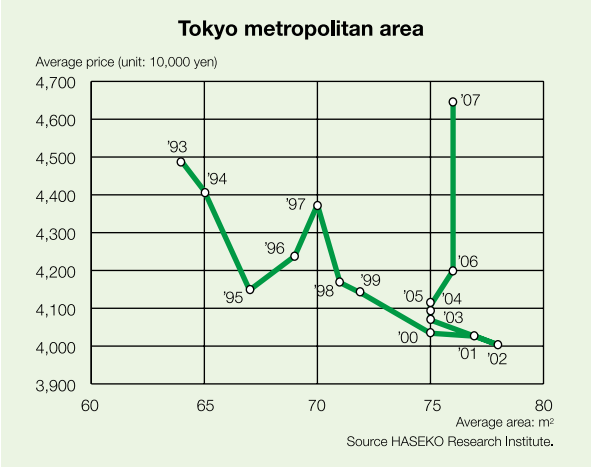
The supply of new units decreased year-on-year, primarily impacted by such factors as 1) passing up on sales and 2) providers limiting the number of units supplied per project, both due to the increasingly harsh sales conditions since the fall of 2007.

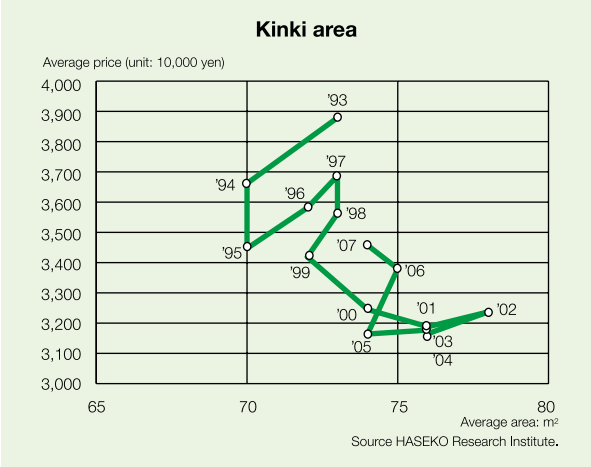
■ History of No. of for-sale units and finished inventory (January 2003-July 2008)





■ Average area and average price history (1993-2007)

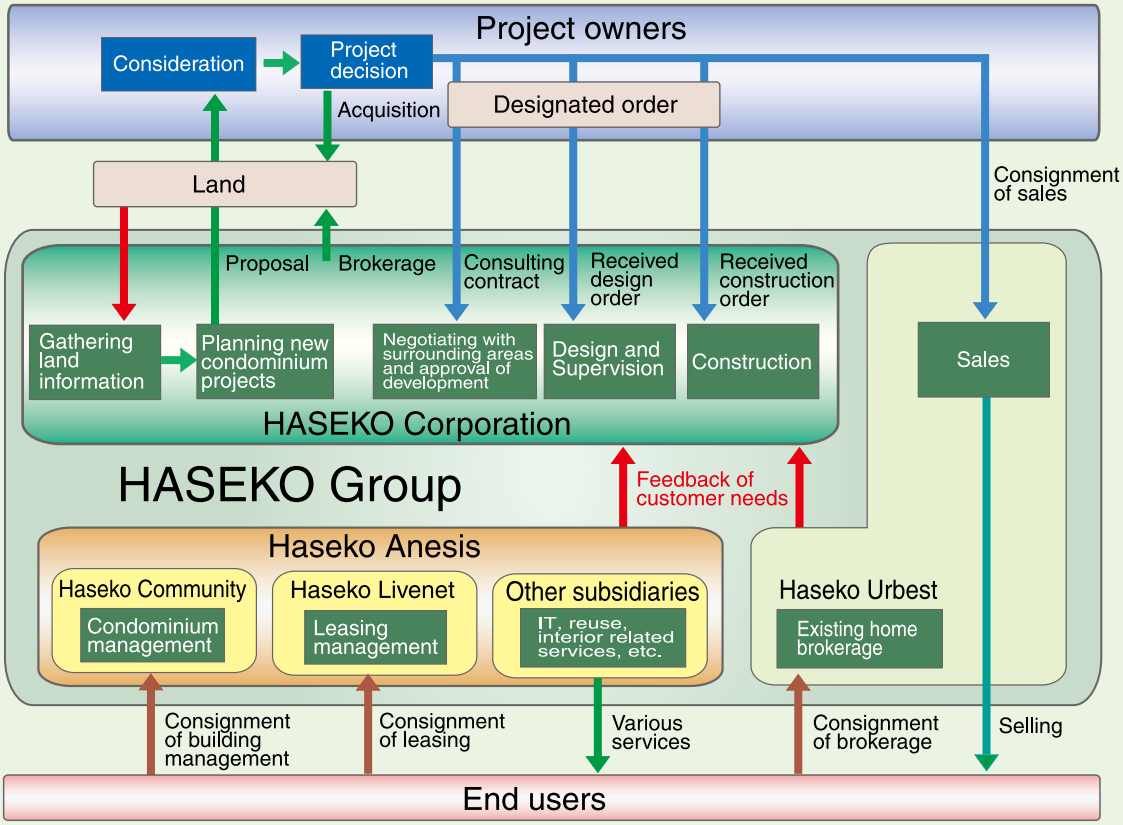




The unit price for for-sale condominiums rose 10.7% year-on-year to 614,000 yen/m² in the entire Tokyo metropolitan area and 4.7% to 470,000 yen/m² in the entire Kinki area, partly due to the intensification of the competition to acquire land for construction of for-sale condominiums as well as the rise in costs associated with acquiring land and construction materials. As a result, the average unit price for for-sale condominiums also increased, rising 10.6% year-on-year to 46.44 million yen in the Tokyo metropolitan area and 2.9% to 34.78 million yen in the Kinki area.

Business Model

Haseko Corporation features a business model that allows it to completely conduct all aspects of the condominium business, from securing land information through creating and proposing business plans to consulting with local governments, designing plans and managing construction. Combined with the expertise of the group companies engaged in selling, management, brokering and leasing, Haseko has firmly established its position as the top contractor of condominiums.



Haseko Features the Securing of Orders through Proposals (Preparing Land)

Haseko receives orders in the form of Haseko Designated Orders by proposing condominium projects. Based on its long track record and enriched marketing functions from strong capabilities in gathering land information and accumulated databases, Haseko has established a relationship of trust with business partners and project owners through its marketing style of creating and proposing extremely precise construction plans, business revenue plans and work schedules in a short period of time.

Construction Business

Construction

Haseko has been specialized in condominium construction for a long time. This has enabled Haseko to establish highly skilled engineers, including subcontractors, and has secured robust competitiveness in every aspect of its construction accuracy, schedules and costs.

Haseko has established a construction management system that is efficient (no reconstruction) and highly precise (few complaints), always taking into consideration the "main-taining of safe and comfortable conditions at construction sites," "grasping costs and working on rationalization," and "delivering buildings on schedule with quality that earns the trust of customers."

In addition, Haseko adopts new products and technologies developed on the basis of R&D activities at its Technology Research Institute. This has enabled Haseko to provide condominiums that realize shorter construction schedules and quality that does not compromise the trust of its customers. While employing state-of-the-art construction methods, Haseko works to establish an efficient construction management system that keeps to budgets and promotes smooth implementation of project schedules. These measures are what have maintained Haseko's high productivity, which serves as a source of its high profitability.

Work Consignment

Haseko features the securing of orders in the form of Haseko Designated Orders by proposing condominium projects. This means that, aside from construction, Haseko also receives orders for other tasks that accompany construction work. In particular, Haseko demonstrates its superb ability to ensure the speedy approval of development, as it negotiates with neighboring residents, prepares shadow maps, and participates in development briefings after confirming the project owner's desire to proceed with the project.

In addition, in large-scale projects that will lead urban development, Haseko proactively works to develop the city in close coordination with neighboring residents and governmental offices.

Engineering Business

Design

It is vital for condominium design to plan products that meet the diversifying needs of customers. The design divisions are always pursuing "what is best for residents." Feedback from customers is received and design work is conducted from the viewpoint of end users. Haseko has built a presentation space, called "LIPS," for our condominiums, and at the condominium design stage after confirmation of the project has been finalized, decisions regarding the products to be used are made while looking at displayed products with the project owner. It is possible to realize prompt, reliable designs since our actual experience with various and cutting-edge products facilitates the smooth selection of parts, materials and products.

Furthermore, close collaboration with the construction divisions is conducted in order to realize designs that facilitate construction and are economical. This has achieved a system that effectively lowers costs by winning orders through the integration of design and construction.

Real Estate Business

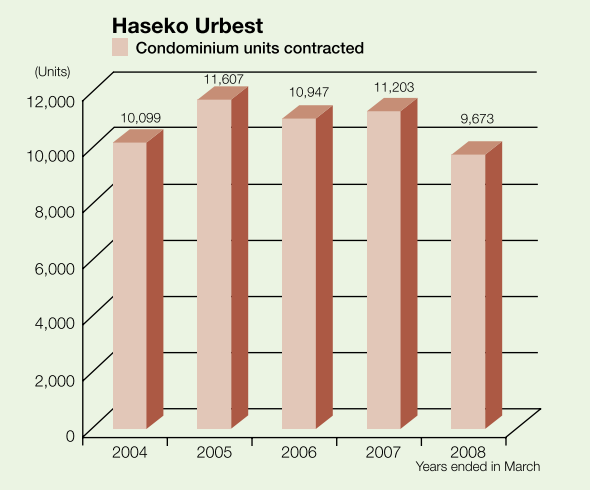
Land Brokerage

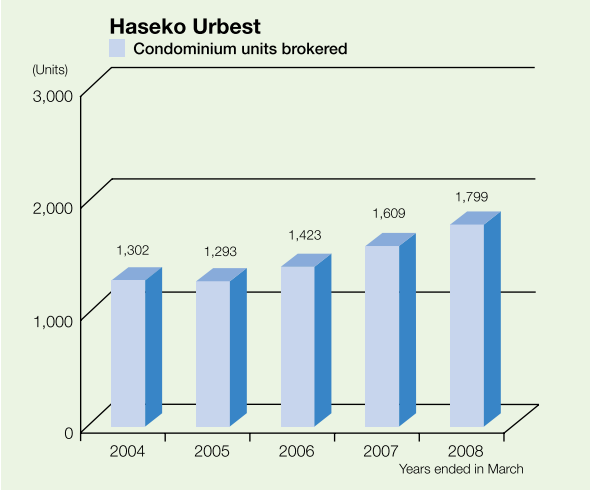
Haseko has a section that specializes in gathering information on land, which is the foundation of the condominium business, that is demonstrating a highly advanced information gathering ability. Haseko conducts not only site research but also research on prices of neighboring lands and their right holders, and solves various problems that may hinder selling. This enables Haseko to construct trusted relationships with customers who sell their properties as well as with business partners and project owners who purchase land.

Commissioned Selling and Brokerage:

HASEKO Urbest

Haseko Urbest is engaged in commissioned selling of new for-sale condominiums and brokering of real estate. Its commissioned selling divisions boast concluding sales contracts for approximately 10,000 units annually and they have established leading positions as commissioned sellers of condominiums. On the other hand, its brokerage divisions conduct brokering, primarily of large-scale projects that the Haseko Group designed, constructed and sold, at its 17 branches in the Tokyo metropolitan area and 12 branches in the Kinki area (as of the end of June 2008).





Leasing and Management Business

Supervision of Service Related Business:

HASEKO Anesis

The Japanese frontier in the 21st century is the Large Metropolis and we believe there is a demand for "efficient application of stock" and "support of a comfortable urban lifestyle." The aging of society with fewer children is also expected to lead to a declining population.

Haseko Anesis was established as a second mainstay business after the construction of condominiums to provide service related businesses for the Haseko Group, and the company has extended complete businesses that satisfy the needs of the 21st century that are based on new concepts unbound by the ties of our Group's business to date. Haseko Anesis is developing new markets and business lines in interior design and recycling.

Condominium Building Management:

HASEKO Community

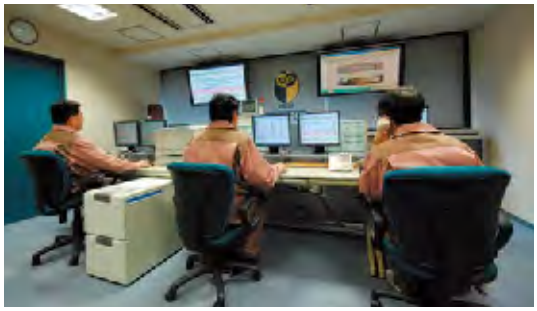
Haseko Community conducts the condominium management business based on abundant know-how gained from its record of managing over 190,000 condominium units.

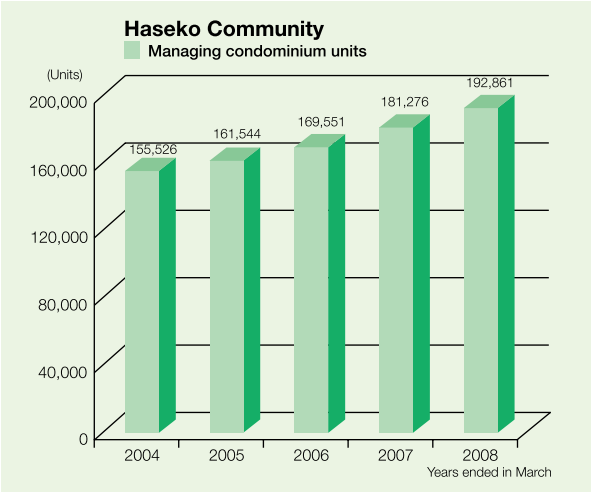
In managing condominiums, it proposes assistance in condominium lifestyle that includes risk management measures and preparation of long-term repair plans, while providing administrative work, administrators, facility management, cleaning and complete monitoring. Through its administrative work, which is closest to residents, Haseko Community is positioned to quickly grasp the voices of customers so that it can provide even better condominiums.

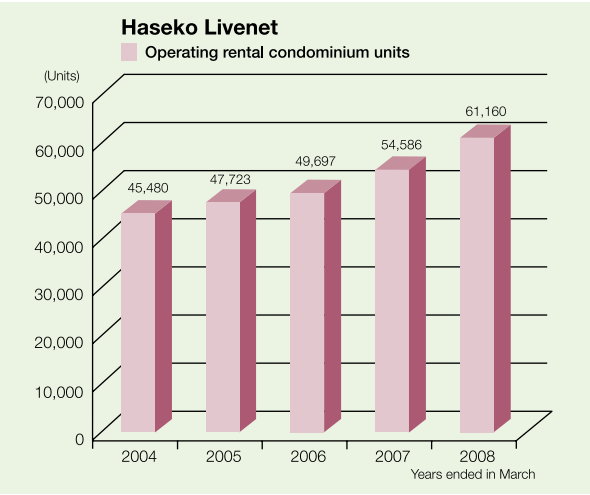
Leasing Management and Operation of Condominiums:

HASEKO Livenet

Haseko Livenet is engaged in the leasing management and operation of condominiums, and maintains a high occupancy level of rental condominiums. Haseko Livenet provides management systems from the viewpoint of property owners. Haseko Livenet leases all available units and pursues a "Sublease system" which provides the owners stable rents, and works as an agent for a variety of procedures and work related to leasing operations.







Other Business Segments

Senior Living Business:

Century Life

Century Life has been working on a "proposal for preparing housing and living means for the elderly" in anticipation of demand in Japan due to the rapid advancement of the aging society.

By applying our skills and know-how in condominium design and construction, our strongest merits, Century Life is embarking on the planning and operation of paid elderly living facilities with long-term care functions from the perspective of "living," which differentiates them from medical facilities. The Company opened Century City Tokiwadai, the first such facility in Tokyo, in July 2008 and Century City Miyakojima, the first such facility in the Kansai region, in September 2008, raising the total number of facilities it operates to six.

Century City Tokiwadai
Address: Itabashi-ku, Tokyo
Number of rooms: 64
Design and construction: Haseko Corporation
Opened: July 2008

Century City Miyakojima
Address: Miyakojima-ku, Osaka-shi
Number of rooms: 66
Design and construction: Haseko Corporation
Opened: September 2008

Hotel Business:

Brighton Corporation

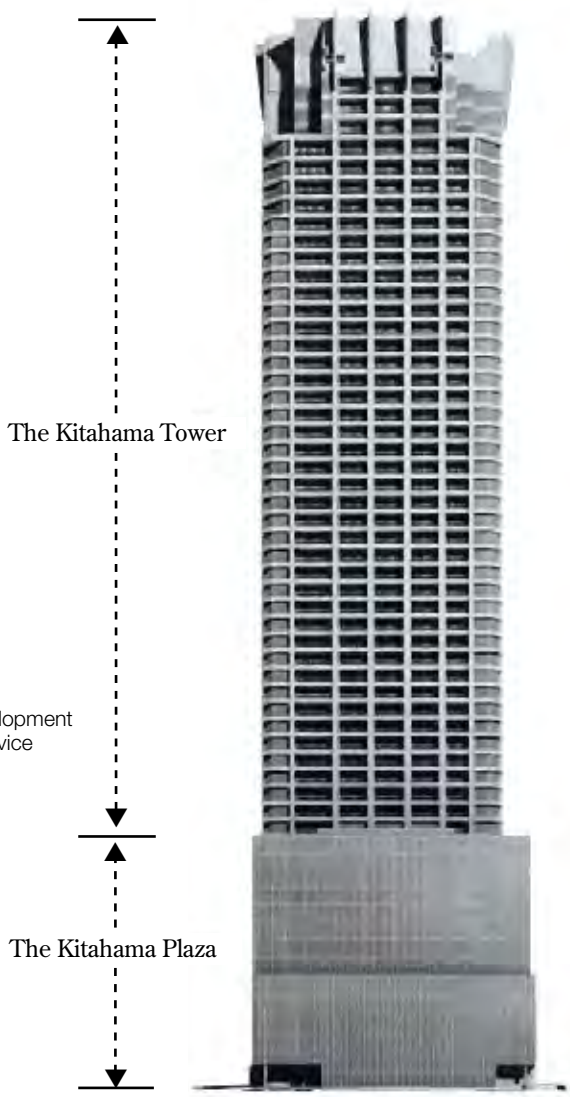
Engaged in hotel operations, Brighton Corporation has achieved original operations with innovative thinking and a focus on the requirements of individual users. With the opening of the new Hotel Brighton City Osaka Kitahama on April 14, 2008, the company now operates five hotels including the Kyoto Brighton Hotel, Urayasu Brighton Hotel, Tateshina Brighton Club and Hotel Brighton City Kyoto Yamashina. Its business goes beyond hotel operations and encompasses consultancy on hotel businesses and consigned operations of hotels.

Hotel Brighton City Osaka Kitahama
Address: Chuo-ku, Osaka-shi
Number of guest rooms: 234
Design and construction:
Haseko Corporation
Opened: April 2008

Kitahama Project

The Kitahama Tower & Plaza

The Kitahama Tower & Plaza is an ultra-skyscraper tower condominium project under way, featuring a height of 209m above ground with 54 stories and 465 units in total. The retail facilities zones on the lower floors will feature multi-use facilities including a shopping zone, a clinic zone and a fitness club, realizing a high value-added living environment that concentrates the functions of "commerce," "medicine" and "health" derived from "living." The project, whose owners eventually totaled ten companies, is scheduled to be completed in March 2009.



Project participants: Sanyo Homes, Art Planning, NTT Urban Development, Shinko Real Estate, Heiwa Real Estate, Meitetsu Real Estate Development, Mitsubishi Electric Life Service, Kinki Ryoju Estate, Unitika Estate, Haseko Corporation

Design and supervision: Mitsubishi Jisho Sekkei, Nihon Sekkei, Kajima Corporation and Haseko Corporation

Construction: Kajima Corporation and Haseko Corporation

Address: Koraibashi and Fushimicho, Chuo-ku, Osaka City

Site area: 4,700.02m²

Construction area: 3,325.49m²

Total floor area: 79,605.68m²

Structure and size: RC. 54F (residence zone), C. 6F (commercial zone)

Number of units: 465 units

Construction completion: March 2009

Providing Reliable Condominiums

The Haseko Group has established a principle to "Implement specific measures to secure reliability and extend the life of housing" in the Basic Policies of the new Medium-Term Business Plan. Below are some of examples of these efforts.

Preparedness for Earthquakes:

Efforts in Base Isolation Structure Condominiums

Japan is an earthquake-prone country. The country had more than thirty earthquakes in the past ten years that caused damage to buildings and human life. Haseko, in the belief that it is the Company's mission to supply condominiums that protect the life and fortunes of customers and minimize damages from earthquakes, has conducted research on earthquake-proofing, damping and base isolation structures at the Technology Research Institute over many years. In particular, its base isolation structures boast characteristics that can alleviate not only damage to buildings themselves but also within housing units. Haseko proactively works to apply these structures if, after conducting ground inves-tigations at sites planned for construction, they are chosen as the most appropriate construction method in consideration of the special features of the land.

Condominiums with base isolation structures have the advantage that users can use and cherish them over a long period of time, as they do not allow the building to tremble and thus prevent cracks from occurring, on top of securing safety. In the coming "stock" society where an increasing number of buildings are used over a longer term, it is important to activate transactions and establish the market of existing condominiums. In such a market, risk of damage from earthquakes and the possibility of inexpensive repairs in the case of damage may be reflected in the asset values, and seismic isolated condominiums may be evaluated and priced more highly than current levels.

In Japan, a country that is not free from earthquakes, seismic isolated condominiums play an important role as a specific measure for securing reliability and extending the life of housing by protecting human life and fortunes from earthquakes.

■ **Principal structures for measures against earthquakes**

Earthquake-proof structure

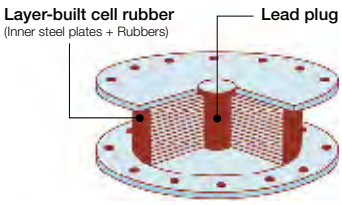
Beams and walls are built stoutly to make the entire building strong. By doing so, the building is protected from the vibration magnitude with capabilities to bear the earthquake energy.

Damping structure

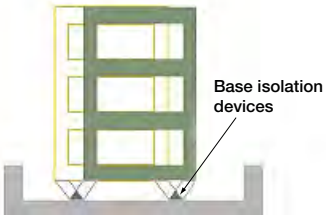
Damping devices absorb earthquake energy to disperse and reduce the vibration magnitude.

Base isolation structure

Base isolation devices separate the building and the ground to reduce the earthquake energy transmitted to the building.



■ **Base isolation structure**



■ **Base isolation structure condominium**

Nagoya Center Tower
(Naka-ku, Nagoya-shi, 29 stories with 153 units)

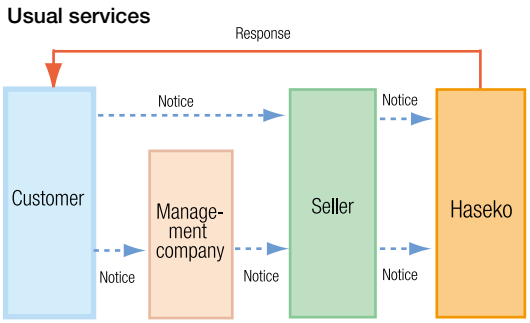
Haseko Premium After-sales Services:

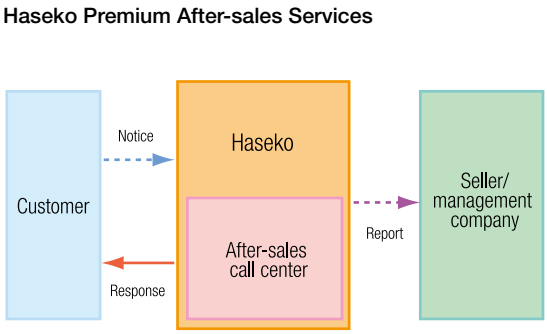
Enhancing Security, Satisfaction and Added Value

The Haseko Premium After-sales Services is a system in which Haseko, as a contractor of condominiums, directly listens to customers to grasp the conditions of their condominiums and provide adjustments and repairs so that customers can use them over a long period of time.

Under the system, Haseko will significantly extend the period in which the Company provides after-sales services for both the exclusive and common areas of condominiums it sells, and work to enhance the sense of security and satisfaction of residents and improve added value by reinforcing its regular services. In order to realize quick responses, the Company will set up call centers to directly receive after-sales service requests from residents.

■ **Direct request system**





Through its proprietary Long-term After-sales Services, Haseko has extended the service period for exclusive areas from the conventional 2-5 years to 5-10 years, and for common areas from 10 years to 15 years. In conducting Enhancement of Periodical Services, the Company has extended its periodical services, in which it repairs failures in exclusive areas that residents find through their self-inspections, from a maximum 2 years to up to 5 years, and has newly established a 5-year inspection service by Haseko in common areas where no such service had been available.

Moreover, Haseko has prepared a "Maintenance Handbook for Housing," which is a collection of the content of the services, certificates, self-maintenance guidance and other items, and distributed it to all units in its condominiums. Moreover, the Company will distribute a "Tool Kit for Maintenance" that allows residents to conduct maintenance by themselves by referring to the self-maintenance guidance.

Creating Environment-conscious Condominiums

Haseko Corporation has established its environmental policy as a Company and acquired ISO14001 certification. Each business unit implements environmental preservation activities by setting specific objectives including reduction of construction waste and promotion of recycling. Moreover, our internal audit and external review are being appropriately executed. Based on these results, another review is conducted to realize continual improvement.

Reduction of Construction Waste

In order to prevent unnecessary waste, we have asked our subcontractors to simplify packaging materials they use when delivering to Haseko. For example, we use returnable packaging materials we developed jointly with Noritz Corporation, instead of packaging equipment in cardboard, for transporting water heaters, leading to a reduction of cardboard waste from construction sites.

We also use an "Eco tote bag" for carrying materials and waste on the construction sites, in place of conventionally used sandbags or rice bags. The tote bag, which has improved the shortcomings of such conventional bags, is tough, easy to carry, user-friendly and environment-friendly, and can be used repeatedly. Moreover, Haseko conducts questionnaires on the sites where the bag is used, in order to collect information on what should be improved or how it is used, so that we can work to further expand its use.

Returnable packaging materials

Eco tote bag

Promotion of Ecology in Daily Living

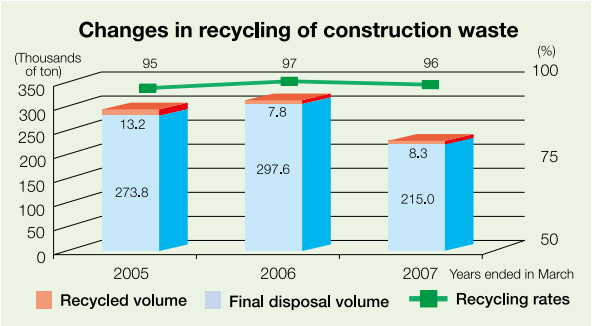
From the viewpoint of environmental preservation and environmental consciousness, we arranged "Ecocute" with our unique know-how in June 2002, and promoted the use of next-generation all-electric condominiums that realize energy conservation. At the same time, we are proactively applying "Ecojozu" gas-based hot-water supply systems that are more thermal efficient than conventional systems.

Moreover, Haseko has jointly developed the "New Eco Poser" for condominiums, an environmentally-friendly garbage disposal system that reduces garbage volume and decreases the drainage contamination load. Haseko is proactively proposing employment of this equipment.

New Eco Poser 530 Minipo

Promotion of Recycling

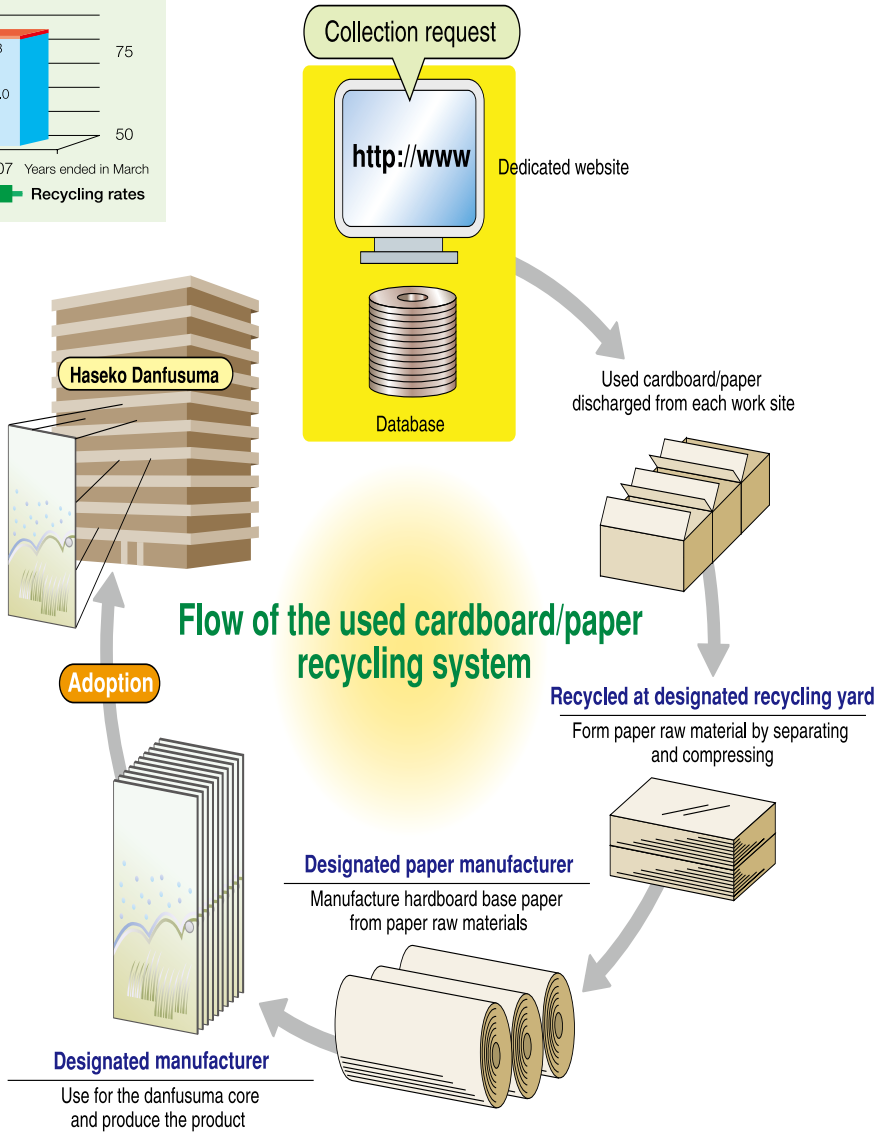
Our construction sites are working to reduce waste based on the waste reduction policy of "Don't Let In, Don't Generate and Don't Throw Away." To achieve this objective, Haseko has established the following goals for its measures to reduce construction waste: "reduce the waste generated," "reduce the drainage generated," and "reduce the waste volume." We have proceeded to reduce the generated waste by utilizing partially constructed parts and materials and simplifying the packaging materials, suppressed drainage through the reuse of unnecessary soil generated on the grounds and reduced waste volume by promoting recycling. As a result, our recycling rates have risen to 97% of waste excluding sludge, 90% for waste from constructing new condominiums, and 99% for those from demolition work.



Examples of Recycling

Haseko built a circulatory recycling system that integrated the processing methods of cardboard used for carrying materials. The processed cardboard is effectively recycled for use with sliding doors (Haseko Danfusuma) in Japanese-style rooms of condominiums.

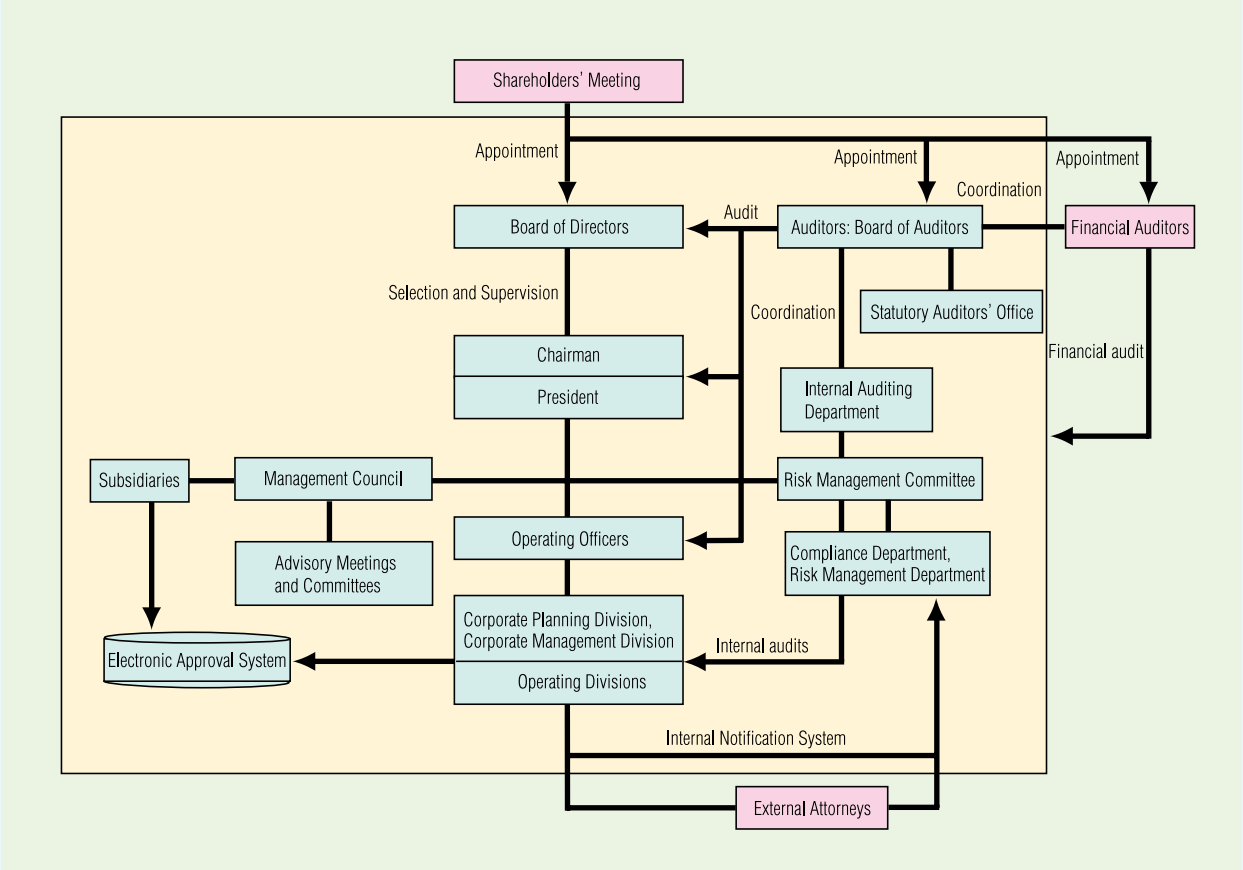
Sliding doors



Corporate Governance

The basic management policy of Haseko is to contribute to society and win trust through business operations that put customers first. Furthermore, Haseko has positioned reinforcement of corporate governance as one of the greatest management priorities for the reason that management transparency and objectivity are indispensable to operations in order to maximize corporate value in a stable manner over the long term and to assure the benefits of shareholders.

Diagram of company institutions and internal governance



(1) Board of directors
The Board of Directors holds regular meetings once a month and additional special meetings as necessary, and is responsible for decision-making and regular reports on matters related to management. Further, operating officers make operational reports on a regular basis to the Board.

(2) Management council
The Management Council consists of ten directors, five of whom are the president, as the chairperson, and executive officers; and the other five are senior operating officers designated by the chairperson. The Council meets twice a month to hold advance discussions on important items to be decided by the Board of Directors and conduct flexible decision-making on daily operational items within the scope entrusted to them by the Board of Directors.

(3) Board of auditors
The Board of Auditors attends the Board of Directors meetings, the Management Council meetings and other important meetings, and holds regular meetings of the Board of Auditors once a month as well as special meetings as necessary. The President exchanges opinions on a regular basis with the Auditors in order to assure smooth, mutual communication. The Board of Auditors explains its annual audit plans and focus items concerning audits at the Board of Directors meetings and seeks the cooperation of directors. Directors are required to meet these requests.

(4) Operating officer
Haseko has introduced the "operating officer system" in order to define operational responsibilities and construct a structure for the operational system that is appropriate for the business environment.

(5) Compliance department
The Compliance Department was created to promote and instruct on compliance based on the corporate regulations on compliance. The Department has established an internal notification system for providing consultations on compliance and reporting on actions that breach laws, by setting up a point of contact that is also accessible to parties outside the Company. The Company also established the Haseko Group Standards of Conduct in April 2003 with the recognition that intensive compliance is indispensable for the existence and continuity of a corporation. With the Standards, Haseko is working to establish a management system so that all directors and staff not only comply with all laws and the Company's articles of incorporation, but also respect societal standards and take a sensible course of action in keeping with their responsibilities as members of society to win the confidence of society.

(6) Internal auditing department
In April 2005, the Company created the Internal Auditing Department, which investigates and evaluates individual department activities to determine whether they are compliant with laws and the Company's articles of incorporation as well as other regulations and policies in accordance with internal corporate regulations concerning internal audits. Based on the results, the Department has the individual departments improve activities.

(7) Risk management department
Considering a variety of risks, Haseko endeavors to collect risk-related information and prepares preventive measures and appropriate countermeasures in advance against risks according to their magnitude and possibility of arising. Through these efforts, Haseko aims to minimize the potential losses and to systematically cope with risk management centering on the Risk Management Department established in April 2006.

(8) Approval system
The decision-making process of the approval system, which serves as a decision-making system and record for work implementation, was digitized in April 2002. This system enables auditors and the Management Division to view and check content at any time.

(9) Advisory meetings and committees
In regard to those cases forwarded to the Board of Directors and Management Council that involve many departments or require specialized knowledge, the establishment of advisory meetings and committees allows sufficient advanced verification. In addition, the making of periodical reports of the monitoring results is an established obligation for cases requiring monitoring.

(10) Risk management committee
The Company established the Risk Management Committee, chaired by the president, in May 2006 with the aim of strengthening the risk management system of Haseko and its entire Group. As a result, a system was constructed in which cross-sectional collection of information, analysis, evaluation and handling of risks are conducted in accordance with the internal corporate regulations concerning risk management.

(11) Description of director remuneration

	Number of people (Persons)	Remuneration (Million yen)
Directors	12	481
Auditors	5	75
(External auditors in the above)	(3)	(34)
Total	17	556

(12) Status of financial audits and description of auditor remuneration
Certified public accountant: Ernst & Young Shin Nihon

	Remuneration (Million yen)
Remuneration based on operations regulated in Article 2-1 of the Certified Public Accountants Law	117
(Remuneration that Haseko should pay in the above)	(57)
Remuneration based on other work	5

Risk Information

The following information on risks has been disclosed in the Yukashoken-Houkokusho for the year ended March 31, 2008.

The performance and financial conditions of the Haseko Group have the potential of being impacted by a variety of factors and we have described the primary items related to business and other risks that we feel can potentially have a material impact on the decisions of investors. The Haseko Group recognizes that there can be a variety of risks in addition to those listed below and is striving to prevent, disperse or avoid these as much as possible. However, there is also the potential that the performance and financial conditions of the Haseko Group will be impacted by external factors not under our control and by other items, etc. that are presently judged to have little potential of actually occurring.

Furthermore, any items referring to the future that appear in the following text are based on judgments made as of the end of this consolidated fiscal year.

(1) Dependence on the condominium business

The core business of the Haseko Group is related to for-sale condominiums in the Tokyo, Kinki and Nagoya metropolitan areas, and the Group is significantly dependent on the business of constructing for-sale condominiums. As such, the amount of orders received and volume of the for-sale condominium business may be largely impacted by trends involving the supply of new for-sale condominiums, their sales, the supply of land for constructing for-sale condominiums, the business scale of the developers Haseko conducts business with, the government's housing policies, the tax system on residences and interest rates, etc. Fluctuations in these factors may impact the Group's performance and financial condition.

Furthermore, Haseko's primary business model involves securing orders by providing land for project owners, built on our capabilities in gathering land information and managing for-sale condominium projects. There is no guarantee, however, that this business model will continue to give us a competitive edge and enable us 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 the condominium construction industry, leading to intensified price competition with rivals in the industry, amid the shrinking trend in the construction market. 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) Legal and administrative regulations and litigations, etc. on condominium construction

Partial revisions to the Building Standard Law and Architect Law were enforced on June 20, 2007, in order to secure the safety of buildings. With these revisions, more stringent regulations in building construction authorization and inspections may cause delays in the commencing of construction and have other negative impacts on the Company's performance. Furthermore, the performance of the Haseko Group may be negatively impacted when the commencing of building construction is delayed or suspended due to such factors as legal regulations on condominium construction, administrative regulations, anti-construction activities of local residents and accompanying 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 amounts of allowances and the occurrence of damage compensation that cannot be covered by insurance may have an impact on the performance of the Group.

If any warranty responsibility should occur, it may cause a loss of trust that society has placed in us, damage the corporate image, and negatively impact the Group's performance including decreasing sales.

(5) Accidents and other incidents in the construction business

The Company does its utmost with regards to safety management, including implementation of safety education and inspection tours, in order to eliminate accidents and disasters. Furthermore, the Company conducts construction by preparing safe work environments that includes creating elaborate construction plans when starting construction. However, if material construction accidents, industrial accidents or other disasters should occur, they may have a negative impact on the Company's performance.

In addition, if such accidents occur, they may cause a loss of trust that society has placed in us, damage the corporate image, and negatively impact the Group's performance including decreasing sales.

(6) Credit risk of clients

A characteristic of the construction industry is that the amounts of money involved in contracts for a single transaction are substantial and, in many cases, the construction costs are paid for in installments or large payments are made upon and after delivery of the property subject to the contract. Therefore, when a business partner suffers from poor credit prior to having paid for the construction costs, it may have an impact on the performance and financial situation of the Haseko Group.

(7) Owned real estate
The Haseko Group owns real estate out of necessity of its business activities. However, real estate has an inherent risk of fluctuations in market prices and, due to its generally low liquidity, may not be able to be sold at the market price, depending on the supply-demand conditions at the time of sale. As for real estate that has been acquired for sale, it may not be possible to secure the scheduled collection amount depending on the progress of the business plan, or the plan may have to be suspended due to various factors. As for fixed assets, the Haseko Group may not be able to achieve the scheduled cash flows due to deterioration of leasing conditions and business accounts or other factors. If such situations occur, the Company may have to recognize valuation losses, impairment losses, losses on sales and other losses, which would impact the performance and financial condition of the Haseko Group.

(8) Unbalanced business areas
The Haseko Group concentrates its business areas in the Tokyo, Kinki and Nagoya metropolitan areas in order to realize efficient use of the Company's management resources. Due to this, the performance, business operations and financial condition of the Haseko Group may be negatively impacted if earthquakes, storms, floods or other natural disasters, accidents, fire or other human-made disasters occur in or around the Tokyo, Kinki and Nagoya metropolitan areas, causing delays in construction periods, discouraging consumers to buy, or damaging owned assets.

(9) Operational risks
In conducting operations, the Haseko Group may experience a variety of operational risks, including misconduct by employees, inappropriate behavior, mistakes in handling tasks or problems concerning labor management. The Haseko Group has established risk management regulations and, by managing and responding to operational risks and other various risks related to business operations, endeavors to reduce as much as possible and control risk factors that may hinder the realization of the Group's management policies. Nevertheless, there is a possibility that such operational risks as mentioned above may arise and have a negative impact on the performance and financial condition of the Haseko Group.

In addition, if such accidents occur, they may cause a loss of trust that society has placed in us, damage the corporate image, and negatively impact the Group's performance including decreasing sales.

(10) Protection of personal information
The Haseko Group possesses large amounts of personal information on customers who have purchased or are considering the purchasing of condominiums, residents of condominiums managed by Haseko, etc., and manages a large amount of computer data including sales and purchasing information.

Haseko has established internal rules (basic policies, regulations and detailed rules) for handling personal information and prepared organizations to meet the regulations in line with the full implementation of the Personal Information Protection Law from April 2005. As for the handling of other information, each department is also committed to the management of information 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 as the result of a criminal act. These types of incidents may cause the Group to lose its societal standing, hurt its corporate image, and have a significant impact on the Group's performance by lowering sales and generating liability for damages.

(11) Interest payments
Haseko has primarily obtained its capital through borrowings from financial institutions and most of these borrowings are subject to variable interest rates. Therefore, any sudden change in interest rates or borrowing terms with financial institutions may potentially have an impact on our performance and financial condition.

(12) Preferred stocks
The preferred stocks Haseko has issued have redemption clauses established, and the Company has announced a plan to redeem Preferred Stocks Class A IV by the fiscal year ending March 2009 and Preferred Stocks Class B I in three years from the fiscal year ending March 2010. However, such redemption requires profits that produce dividends. Accordingly, there is a possibility that part of the redemption may not be implemented when the necessary profit is not produced during the planned periods or during the redemption periods designated in the redemption clauses. On the other hand, preferred shareholders have been granted the right to request redemption. Therefore, the Company's equity may be reduced to a certain limit if the Company has a certain amount of retained earnings, and claims for redemption are made despite the Company's intentions.

Moreover, since the shareholders of these preferred stocks have been granted the right to request conversion to common stocks, there is a possibility that these preferred stocks will be converted to common stocks if they are not redeemed. Those that are not requested to be converted during the period in which requests for conversion can be made will be forcefully converted to common stocks. They will reduce the net income per share when they are converted into common stocks and, when they are sold in the market, may also potentially have a negative impact on the market price of our common stocks depending on the supply-demand conditions at that point. Moreover, the mere existence of such preferred stocks can have a negative impact on the market price of common stocks.

Financial Section

Five-Year Summary
Haseko Corporation and its Subsidiaries
(Years ended March 31, 2004, 2005, 2006, 2007 and 2008)

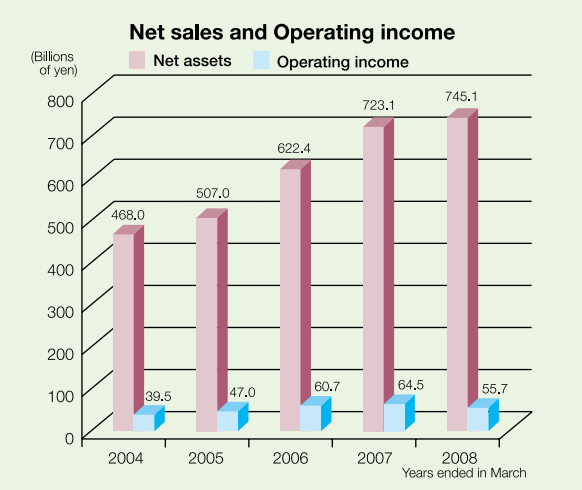
	Millions of Yen				
	2004	2005	2006	2007	**2008**
For the Year:					
Net sales	¥468,018	¥506,954	¥622,396	¥723,118	**¥745,074**
Operating income	39,529	47,003	60,670	64,501	**55,718**
Ordinary income	33,941	39,750	53,135	63,046	**53,103**
Net income (loss)	15,543	(48,141)	47,689	33,695	**22,384**
At Year-end:					
Total assets	¥494,097	¥478,783	¥499,918	¥546,723	**¥486,204**
Total net assets	44,916	95,515	109,201	113,016	**110,979**
	Yen				
Per Share Data:					
Net income (loss)	¥49.78	¥(122.03)	¥67.27	¥31.67	**¥9.36**
Net assets	(310.53)	(252.18)	(28.87)	23.22	**36.31**
	%				
Ratios:					
Equity ratio	9.1	19.9	21.8	20.7	**22.8**
Return on equity	41.0	–	46.6	30.4	**20.0**

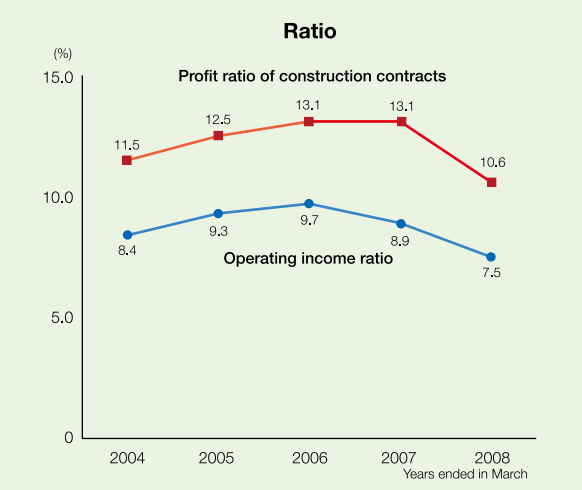
Analyses of Financial Condition and Business Performance

(1) Business performance

During fiscal 2007 ended March 31, 2008, the number of new units supplied in the condominium market decreased because of the unwillingness to sell and postponement of sales by condominium providers. The sales situation was further worsened as consumers increasingly adopted the wait-and-see attitude due to such factors as soaring condominium prices, stagnant stock prices and price hikes of daily necessities seen in the latter half of the year.

Under these circumstances, the Haseko Group achieved an increase of 22 billion yen in net sales to 745.1





billion yen, up 3.0% from the previous consolidated fiscal year. This sales growth was mainly due to an increase of 44.3 billion yen in construction contracts from the high volume of orders received during the previous fiscal year, despite a decrease of 28.4 billion yen in real estate sales. However, as a result of a negative impact from hikes in construction material prices and labor costs, as well as delays in construction starts in line with the enforcement of the revised Building Standard Law, operating income decreased by 8.8 billion yen to 55.7 billion yen and ordinary income dropped 9.9 billion yen to 53.1 billion yen, down 13.6% and 15.8% year-on-year, respectively. In addition, the Company filed an early application of the Accounting Standard for Measurement of Inventories in an effort to strengthen its financial standing. This led the Company to record a loss of 29.4 billion yen including valuation loss of inventory assets as special losses. As a result, income before income taxes was 23.7 billion yen and net income after excluding income taxes and other tax expenses totaled 22.4 billion yen.

(2) Financial condition

Net cash provided by operating activities was a surplus of 14.4 billion yen, decreasing by 7.8 billion yen from the previous consolidated fiscal year. The decrease was mainly due to a drop of 15.4 billion yen in the balance of notes and accounts receivable and 20.5 billion yen in the balance of notes and accounts payable, although the balance of real estate for sale and others (excluding the impact of valuation losses) increased by 33.1 billion yen.

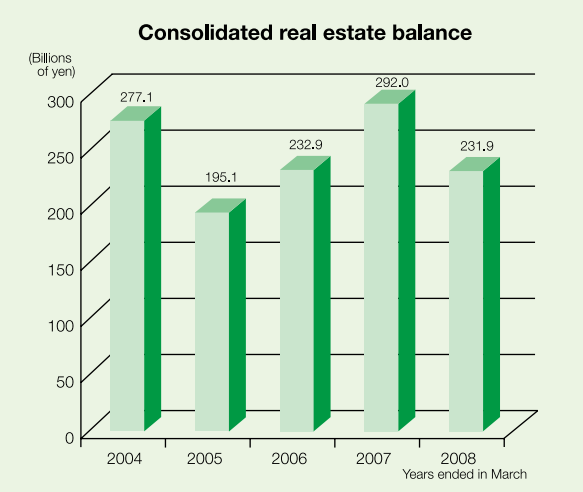
Net cash provided by investing activities was a surplus of 27.3 billion yen, increasing 31.0 billion yen from the net reduction in cash in the previous consolidated fiscal year. The improvement was primarily due to gains on the sale of property and equipment increasing by 37.8 billion yen, overriding an increase of 3.5 billion yen in expenditure through purchase of investment securities.

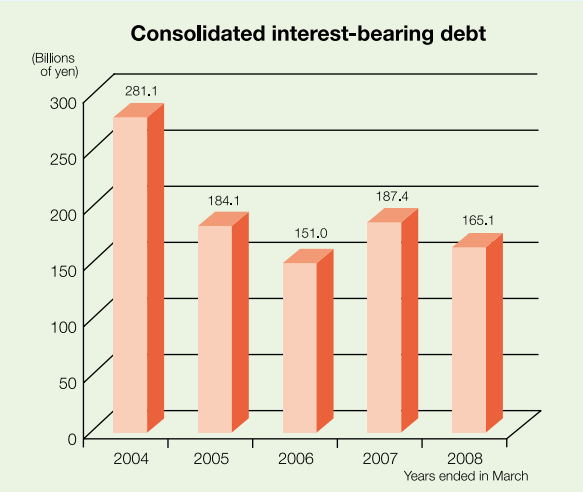
Net reduction in cash from financing activities was 44.8 billion yen, with expenditures increasing by 15.2 billion yen from the previous consolidated fiscal year. This was primarily due to the impact of a 48.6 billion yen reduction in cash in the balance of long-term debt, despite a 25.2 billion yen increase in funds in the balance of short-term borrowings and 12.0 billion yen through a decrease in expenditures related to the purchase of treasury stocks.

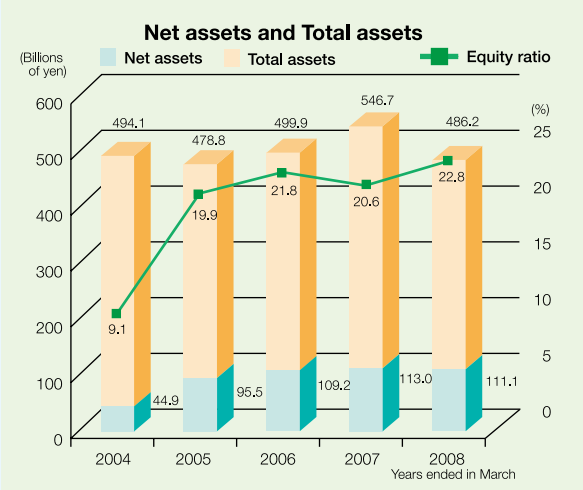
As a result, cash and cash equivalents at the end of the consolidated fiscal year totaled 62.4 billion yen, a decrease of 3.6 billion yen from 66.0 billion yen at the end of the previous consolidated fiscal year.

Under the New Medium-Term Business Plan that ended with the consolidated fiscal year under review, the Company adopted the Accounting Standard for Measurement of Inventories ahead of schedule in the first half of the fiscal year to reinforce its financial standing. Additionally, the Company sold the assets owned by Ecology REIT Corporation, a consolidated subsidiary, at the end of 2007 in view of the deteriorating J-REIT market. As a result of these moves, consolidated total assets decreased by 60.5 billion yen to 486.2 billion yen from 546.7 billion yen at the end of the previous consolidated fiscal year, and the balance of interest-bearing debt was 165.1 billion yen, a decrease of 22.4 billion yen from 187.4 billion yen as of the end of the previous consolidated fiscal year.

On the other hand, consolidated net assets decreased by 2.0 billion yen to 111.0 billion yen from 113.0 billion yen at the end of the previous fiscal year, despite recording 22.4 billion as net income. This is because the Company conducted partial redemption and retirement of the preferred stock Class A IV and also acquired treasury stocks in common stock format to allow more dynamic







capital policies that correspond to the changes in the management environment. However, the equity ratio rose 2.2 percentage points to 22.8% from 20.6% as of the end of the previous consolidated fiscal year due to the decrease in consolidated total assets.

(3) Conditions by segment

Construction Business

During the consolidated fiscal year, orders were stagnant in the first half as a result of the negative impact of the revisions to the Building Standard Law. The orders recovered in the second half, however, and the Company secured orders for 32 large projects, each with 200 or more total units, in eastern and western Japan. At present, the construction market is experiencing negative conditions where the construction costs are rising due to the soaring prices of crude oil, cement, steel and other materials. Nevertheless, the Company is working to directly receive orders for for-sale condominium constructions from large-scale developers by taking advantage of our cost competitiveness and product planning capabilities as the largest contractor of condominiums, as well as executing the Company's traditional business model of securing designated orders by providing land for condominium projects.

As a result, sales in the construction business segment during this consolidated fiscal year totaled 483.9 billion yen, a year-on-year increase of 10.2%, while operating income was 36.2 billion yen, down 17.7% from the previous fiscal year.

Engineering Business

Our engineering business has been conducting designing plans and planning, for both hardware and software, from creating products that sell with a recognition of social conditions, market trends and profitability as a business, to securing quality and performance as housing. Haseko aims to create superior products with refined designs most suitable for respective projects while working to realize harmony with local conditions and giving the utmost care to environmental and safety aspects.

Despite these endeavors, our engineering business posted decreases in sales and operating income as some of the building confirmation applications planned for the consolidated fiscal year were postponed to the next fiscal year in accordance with the enforcement of the revised Building Standard Law in June 2007. Sales totaled 9.5 billion yen, a year-on-year decrease of 11.6%, and operating income was 2.8 billon yen, down 36.5% from the previous year's results.

Real Estate Business

The commissioned contracted condominium sales in the real estate business saw reductions in supply and the number of sold units due to the impact of the enforcement of the revised Building Standard Law.

In the real estate for-sale business, the number of joint for-sale condominium projects newly handled increased, although real estate transactions aimed to secure construction orders for large-scale projects, etc. decreased in number from the previous consolidated fiscal year. Sales and profits decreased for the for-sale housing business Haseko conducts in Oahu, Hawaii as a result of a negative impact from the deteriorating housing market in the U.S. Nevertheless, the project successfully maintained high profitability.

As a result of the above, sales totaled 187.8 billion yen, a year-on-year decrease of 13.1%, and operating income was 10.5 billion yen, a year-on-year decrease of 11.4%.

Leasing and Management Business

In conducting building management of condominiums, Haseko continued to provide consigned management of condominiums centering on large projects and proactively worked to secure orders for consigned management of properties constructed by other contractors. These efforts helped increase the number of managed units by 10,000 units, reaching beyond 190,000 total units. The number of managed units and consigned units also steadily increased for our leasing management and outsourced management of corporate housing.

Backed by the steady increase in the number of handled units, the leasing and management business as a whole achieved sales of 53.5 billion yen, a year-on-year increase of 16.0%, and operating income of 5.2 billion yen, a year-on-year increase of 40.9%.

Hotel Business

The restaurant division and the accommodations division achieved good sales, surpassing sales results of the previous consolidated fiscal year, although the sales of the entire hotel business decreased slightly year-on-year. In addition, our efforts in cost reduction and improvement of our financial standing contributed greatly, helping to secure profits for this business in contrast to the operating loss in the previous consolidated fiscal year.

As a result, sales of the overall hotel business totaled 11.2 billion yen, a year-on-year decrease of 1.8%, and operating income reached 0.5 billion yen compared with the operating loss of 16 million yen recorded in the previous fiscal year.

Other Business Segments

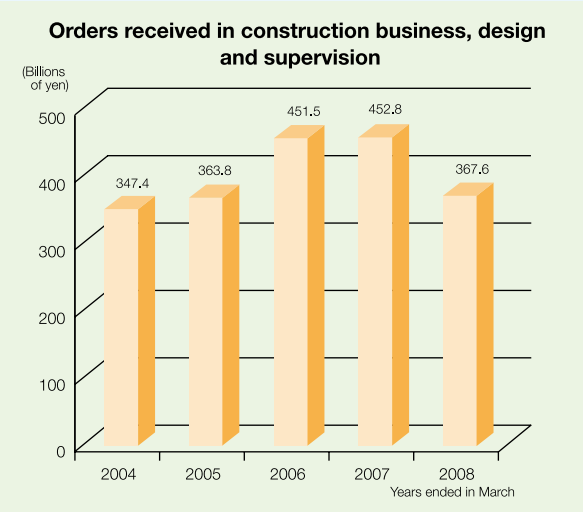
In the senior living business (housing business for the elderly), three condominiums with services for the elderly are currently in operation. These properties successfully maintained high occupancy rates throughout the consolidated fiscal year.

Printing services achieved a sales increase through the introduction of new products, but posted a slight decrease in profits. However, our rental and general insurance agent operations continued to show good results. Consequently, the entire other business segment achieved sales of 5.5 billion yen, a year-on-year increase of 8.9%, and operating income of 0.8 billion yen, up 20.6% from the previous fiscal year.

4) Status of orders

During the consolidated fiscal year under review, the condominium market saw a sudden change in demand, which had been very strong until then, in around the middle of the period. The conditions turned difficult and severe, as the number of new supply decreased while inventories increased due to sluggish sales. In addition, the costs to acquire land for condominium projects and construction costs (labor costs and material costs) have continued to rise. These factors are challenging companies engaged in the condominium business. Despite these situations, we have secured designated orders, centering on construction of for-sale condominiums, building on our proprietary "total produce" business model that enables implementation of condominium-related projects from start to end within the Group.

On a non-consolidated basis, Haseko Corporation received orders of 367.6 billion yen in construction business, design and supervision, comprising 356.7 billion yen for the construction business (including 318.3 billion yen for for-sale condominium construction in the private sector) and 10.9 billion yen for design and supervision. Most of the orders were designated orders, which is a characteristic of Haseko, accounting for 99.9% of all orders and also for construction with design orders, which accounted for 90.1%. By size, we successfully received a combined total of 32 orders in eastern and western Japan for large-scale projects with 200 units or more. Such projects with 200 units or more accounted for 61.0%, or the majority of the total number of units we received orders for, while super large-scale projects with 400 units or more accounted for 22.0% of the total orders.



Orders received (Non-consolidated basis)

(Billions of yen)

	2004	2005	2006	2007	2008
Total orders	347.4	363.8	451.5	452.8	367.6
Construction business	339.0	354.9	441.3	440.4	356.7
Design and supervision	8.4	9.0	10.2	12.4	10.9
Ratio of Haseko designated orders	98.9%	96.7%	98.3%	99.7%	99.9%
Ratio of construction with design	91.0%	91.8%	94.9%	91.7%	90.1%

CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2007 AND 2008
ASSETS

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	**2008**	**2008**
ASSETS			
Current Assets:			
Cash and bank deposits (Notes 8 and 13)	¥ 66,528	**¥ 62,639**	**$ 625,202**
Notes and accounts receivable, trade (Notes 9 and 20)	81,340	**94,837**	**946,572**
Costs incurred on uncompleted contracts	18,503	**11,974**	**119,513**
Real estate for sale (Note 4)	184,310	**162,149**	**1,618,415**
Short-term loans	861	**1,840**	**18,365**
Deferred tax assets (Note 15)	6,831	**17,012**	**169,797**
Other current assets	19,098	**9,361**	**93,433**
Allowance for doubtful accounts	(150)	**(171)**	**(1,707)**
Total current assets	377,321	**359,641**	**3,589,590**
Property and Equipment (Notes 6, 8 and 10)	106,777	**68,867**	**687,364**
Intangible Assets (Note 6)	2,560	**2,406**	**24,014**
Investments and Other Assets:			
Investment securities (Note 5)	6,086	**8,363**	**83,471**
Long-term loans (Note 19)	12,822	**4,439**	**44,306**
Long-term deferred tax assets (Note 15)	43,049	**33,575**	**335,113**
Other assets	10,612	**11,522**	**115,002**
Allowance for doubtful accounts	(12,504)	**(2,609)**	**(26,041)**
Total investments and other assets	60,065	**55,290**	**551,851**
Total assets	¥546,723	**¥486,204**	**$4,852,819**

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2007 AND 2008
LIABILITIES AND NET ASSETS

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	**2008**	**2008**
LIABILITIES			
Current Liabilities:			
Short-term borrowings (Note 7)	¥ 899	**¥ 15,424**	**$ 153,947**
Current portion of long-term debt (Notes 7 and 8)	31,800	**31,800**	**317,397**
Notes and accounts payable	153,898	**131,427**	**1,311,778**
Income taxes payable	1,260	**851**	**8,494**
Advances received on uncompleted contracts	28,281	**30,792**	**307,336**
Advances received for real estate sales	13,731	**5,731**	**57,201**
Warranty reserve	1,893	**3,128**	**31,221**
Accrued bonuses for employees	2,107	**2,573**	**25,681**
Accrued bonuses for directors	–	**179**	**1,787**
Other current liabilities	27,514	**26,358**	**263,080**
Total current liabilities	261,383	**248,263**	**2,477,922**
Long-term Liabilities:			
Long-term debt (Notes 7 and 8)	154,724	**117,828**	**1,176,046**
Reserve for employees' retirement benefits (Note 14)	1,994	**1,555**	**15,521**
Reserve for loss on litigation	7,757	**–**	**–**
Other long-term liabilities	7,849	**7,579**	**75,645**
Total long-term liabilities	172,324	**126,962**	**1,267,212**
Total liabilities	433,707	**375,225**	**3,745,134**
Commitments and contingent liabilities (Notes 9 and 10)			
NET ASSETS			
Shareholders' Equity:			
Capital stock (Note 12)	50,000	**50,000**	**499,052**
Retained earnings	64,463	**68,573**	**684,430**
Treasury stock, at cost — 505,476 shares in 2007	(154)	**–**	**–**
(Note 12) — 17,552,974 shares in 2008	–	**(3,637)**	**(36,302)**
Total shareholders' equity	114,309	**114,936**	**1,147,180**
Valuation and translation adjustments:			
Net unrealized gain on other securities (Note 5)	116	**(224)**	**(2,236)**
Cumulative translation adjustments	(1,674)	**(4,051)**	**(40,433)**
Total valuation and translation adjustments	(1,558)	**(4,275)**	**(42,669)**
Minority interests	265	**318**	**3,174**
Total net assets	113,016	**110,979**	**1,107,685**
Total liabilities and net assets	¥546,723	**¥486,204**	**$4,852,819**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED MARCH 31, 2007 AND 2008

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	**2008**	**2008**
Net Sales (Note 11)	¥723,118	**¥745,074**	**$7,436,610**
Cost of Sales (Note 11)	634,498	**662,151**	**6,608,953**
Gross profit	88,620	**82,923**	**827,657**
Selling, General and Administrative Expenses (Note 11)	24,119	**27,205**	**271,534**
Operating Income	64,501	**55,718**	**556,123**
Other Income (Expenses):			
Interest and dividend income	438	**684**	**6,827**
Penalty income	300	**–**	**–**
Interest expense	(2,057)	**(2,964)**	**(29,584)**
Syndicated loan fee	(398)	**(668)**	**(6,667)**
Equity in loss of an affiliate	(173)	**(271)**	**(2,705)**
Other, net	435	**604**	**6,029**
	(1,455)	**(2,615)**	**(26,100)**
Ordinary income	63,046	**53,103**	**530,023**
Special Income (Losses):			
Gain on disposal or sale of property and equipment, net (Note 6)	(87)	**371**	**3,703**
Gain on reversal of doubtful account	77	**1,288**	**12,856**
Gain on assignment of the goodwill	530	**–**	**–**
Gain on prior periods adjustment	620	**–**	**–**
Compensation received	333	**–**	**–**
Provision for doubtful accounts	(286)	**(545)**	**(5,440)**
Impairment loss on fixed assets (Note 6)	(19,454)	**(942)**	**(9,402)**
Provision for loss on litigation	(7,757)	**–**	**–**
Loss on litigation	–	**(1,380)**	**(13,774)**
Write down of investment securities	–	**(1,630)**	**(16,269)**
Valuation loss on inventory assets	–	**(26,434)**	**(263,839)**
Other, net	(370)	**(166)**	**(1,657)**
	(26,394)	**(29,438)**	**(293,822)**
Income before Income Taxes and Minority Interests	36,652	**23,665**	**236,201**
Income Taxes (Note 15):			
Current	1,506	**1,954**	**19,503**
Deferred	1,415	**(724)**	**(7,226)**
	2,921	**1,230**	**12,277**
Minority Interests	36	**51**	**508**
Net Income	¥ 33,695	**¥ 22,384**	**$ 223,416**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGE IN NET ASSETS
FOR THE YEARS ENDED MARCH 31, 2007 AND 2008

	Millions of yen							
	Capital stock	Additional paid-in capital	Retained earnings	Treasury stock	Net unrealized gain (loss) on securities	Cumulative translation adjustments	Minority interest	Total
Balance at March 31, 2006	¥50,000	¥12,817	¥ 48,200	¥ (103)	¥ 249	¥(1,985)	¥ 23	¥109,201
Net income for the year ended March 31, 2007	–	–	33,695	–	–	–	–	33,695
Appropriation of retained earnings for additional paid-in capital	–	17,432	(17,432)	–	–	–	–	–
Purchase of treasury stock	–	–	–	(30,306)	–	–	–	(30,306)
Cancellation of treasury stock	–	(30,251)	–	30,251	–	–	–	–
Gain on disposition of treasury stock	–	2	–	4	–	–	–	6
Other changes	–	–	–	–	(133)	311	242	420
Balance at March 31, 2007	¥50,000	¥ –	¥ 64,463	¥ (154)	¥ 116	¥(1,674)	¥265	¥113,016
Net income for the year ended March 31, 2008	–	–	22,384	–	–	–	–	22,384
Appropriation of retained earnings for additional paid-in capital	–	18,274	(18,274)	–	–	–	–	–
Purchase of treasury stock	–	–	–	(21,764)	–	–	–	(21,764)
Cancellation of treasury stock	–	(18,274)	–	18,274	–	–	–	–
Gain on disposition of treasury stock	–	(0)	–	7	–	–	–	7
Other changes	–	–	–	–	(340)	(2,377)	53	(2,664)
Balance at March 31, 2008	**¥50,000**	**¥ –**	**¥ 68,573**	**¥(3,637)**	**¥(224)**	**¥(4,051)**	**¥318**	**¥110,979**

	Thousands of U.S. dollars (Note 3)							
	Capital stock	Additional paid-in capital	Retained earnings	Treasury stock	Net unrealized gain (loss) on securities	Cumulative translation adjustments	Minority interest	Total
Balance at March 31, 2007	$499,052	$ –	$643,407	$ (1,537)	$ 1,158	$(16,708)	$2,645	$1,128,017
Net income for the year ended March 31, 2008	–	–	223,416	–	–	–	–	223,416
Appropriation of retained earnings for additional paid-in capital	–	182,393	(182,393)	–	–	–	–	–
Purchase of treasury stock	–	–	–	(217,227)	–	–	–	(217,227)
Cancellation of treasury stock	–	(182,393)	–	182,393	–	–	–	–
Gain on disposition of treasury stock	–	(0)	–	69	–	–	–	69
Other changes	–	–	–	–	(3,394)	(23,725)	529	(26,590)
Balance at March 31, 2008	**$499,052**	**$ –**	**$684,430**	**$(36,302)**	**$(2,236)**	**$(40,433)**	**$3,174**	**$1,107,685**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2007 AND 2008

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	**2008**	**2008**
Cash Flows from Operating Activities:			
Income before income taxes	¥36,652	**¥23,665**	**$236,201**
Depreciation	3,260	**3,647**	**36,401**
Impairment loss on fixed assets	19,454	**942**	**9,402**
Loss on litigation	-	**1,380**	**13,774**
(Reversal of) provision for allowance for doubtful accounts	187	**(678)**	**(6,767)**
Interest and dividend income	(438)	**(684)**	**(6,827)**
Interest expense	2,057	**2,964**	**29,584**
Equity in loss of an affiliate	173	**271**	**2,705**
Write down of investment securities	-	**1,630**	**16,269**
(Loss) gain on disposal or sale of property and equipment, net	87	**(371)**	**(3,703)**
Valuation loss on inventory assets	-	**26,434**	**263,839**
(Increase) decrease in notes and accounts receivable	1,891	**(13,497)**	**(134,714)**
Decrease in costs incurred on uncompleted contracts	4,987	**6,530**	**65,176**
Increase in real estate inventories	(39,227)	**(6,144)**	**(61,323)**
Decrease in notes, accounts payable and accrued expenses	(1,819)	**(22,325)**	**(222,827)**
Increase (decrease) in amounts received for uncompleted contracts	(8,786)	**2,512**	**25,072**
Other	6,739	**(7,259)**	**(72,453)**
Subtotal	25,217	**19,017**	**189,809**
Interest and dividends received	432	**681**	**6,797**
Interest paid	(2,045)	**(2,953)**	**(29,474)**
Compensation for damage paid	-	**(828)**	**(8,264)**
Income taxes paid	(1,409)	**(1,503)**	**(15,001)**
Net Cash Provided by Operating Activities	22,195	**14,414**	**143,867**
Cash Flows from Investing Activities:			
Refund of time deposits	127	**35**	**349**
Purchases of property and equipment and intangible assets	(7,065)	**(5,550)**	**(55,395)**
Proceeds from sale of property and equipment and intangible assets	1,884	**39,673**	**395,978**
Purchases of investment securities	(1,707)	**(5,177)**	**(51,672)**
Proceeds from sale of investment securities	1,712	**588**	**5,869**
Purchase of subsidiary's stock resulting in changes in scope of consolidation	(147)	**-**	**-**
Payment for loans receivable	(545)	**(3,271)**	**(32,648)**
Collection of loans receivable	2,368	**1,349**	**13,464**
Payment for lease deposits	(273)	**(568)**	**(5,669)**
Refund of lease deposits	91	**176**	**1,757**
Other	(72)	**69**	**689**
Net Cash Provided by (Used in) Investing Activities	(3,627)	**27,324**	**272,722**
Cash Flows from Financing Activities:			
Increase (decrease) in short-term borrowings, net	(10,629)	**14,525**	**144,975**
Increase in long-term debt	40,003	**30,197**	**301,397**
Repayment of long-term debt	(28,304)	**(67,100)**	**(669,728)**
Purchase of treasury stock	(12,000)	**-**	**-**
Redemption of treasury stock	(18,251)	**(18,274)**	**(182,393)**
Acquisition of treasury stock	-	**(3,490)**	**(34,834)**
Syndicated loan fee	(409)	**(691)**	**(6,897)**
Other	(101)	**(11)**	**(110)**
Net Cash Used in Financing Activities	(29,691)	**(44,844)**	**(447,590)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	47	**(480)**	**(4,791)**
Net Decrease in Cash and Cash Equivalents	(11,076)	**(3,586)**	**(35,792)**
Cash and Cash Equivalents at Beginning of the Year	77,088	**66,012**	**658,868**
Cash and Cash Equivalents at End of the Year (Note 13)	¥66,012	**¥62,426**	**$623,076**

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Haseko Corporation and Consolidated Subsidiaries
For the years ended March 31, 2007 and 2008

1. Basis of Presentation

Haseko Corporation (the "Company") and its consolidated domestic subsidiaries maintain their books of account in conformity with the financial accounting standards of Japan, and Haseko America Inc. and its subsidiaries ("Haseko America") maintain their books of account in conformity with the financial accounting standards of United States of America.

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

Certain reclassifications or summaries of accounts have been made to present the consolidated financial statements in a form which is more familiar to foreign readers.

2. Summary of Significant Accounting Policies

(1) Scope of consolidation

The consolidated financial statements as of March 31, 2007 and 2008 include the accounts of the Company and its 33 subsidiaries and 30 subsidiaries. Investments in unconsolidated subsidiaries are stated at cost. The equity method of accounting is applied to one affiliate and two affiliates as of March 31, 2007 and 2008 in consideration of the material impact on the consolidated financial statements. The Company's equities in the negative net assets of the affiliate accounted for using the equity method as of March 31, 2007 and 2008 were ¥14,180 million and ¥14,268 million ($142,409 thousand) and deducted from the accounts receivable.

A fiscal year of Haseko America is ended December 31. Significant transactions occurring during a period from January 1 to March 31 are adjusted in these consolidated financial statements. In addition, effective the year ended March 31, 2008, Ecology REIT Corporation has changed its fiscal year to end on December 31.

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 using the straight-line method over five years, except minor goodwill which is expensed as incurred.

(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 bear no risk of value fluctuation.

(3) Investment 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 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) Tokumei kumiai (Silent partnerships)

An amount corresponding to equity in assets of silent partnerships is appropriated under investment securities. The Company appropriates investment securities at the time of investment in silent partnerships and it appropriates the amount corresponding to the equity in the net loss or income obtained by the silent partnerships under operating income (loss), adjusting investment securities by the same amount.

(5) Inventories

Costs incurred on uncompleted contracts are stated at cost determined by the individual cost method. The amounts on the balance sheets are determined by the method of writing down based on the fall in profitability. Real estate for sale is also stated at cost determined by the individual cost method except for Haseko America, where they are stated at the lower of cost or market. Properties for lease are depreciated in accordance as property and equipment.

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

Effective the year ended March 31, 2008, the Company and its consolidated domestic subsidiaries have adopted "Accounting Standard for Measurement of Inventories" (Accounting Standards Board of Japan Statement No. 9 issued on July 5, 2006)

As a result of adoption, operating income and ordinary income decreased by ¥2,041 million ($20,371 thousand) and income before income taxes and minority interests decreased by ¥28,475 million ($284,210 thousand). Furthermore, the impact on segment information is outlined in the relevant section.

(6) Property and equipment

Property and equipment are principally stated at cost. Depreciation is principally computed by declining-balance method while the straight-line method is applied to buildings acquired after April 1, 1998, and for certain consolidated domestic subsidiaries.

Effective the year ended March 31, 2008, the Company and its consolidated domestic subsidiaries have changed the method of depreciation for property and equipment acquired on or after April 1, 2007 to the method of depreciation permitted under the revision of the Corporation Tax Law of Japan and related regulations. Upon the revision of the Corporation Tax Law of Japan, the Company and its consolidated domestic subsidiaries depreciate the residual value of the property and equipment acquired on or before March 31, 2007 over five years by the straight-line method as permitted under the revision of Corporation Tax Law of Japan. The residual value has represented 5% of the acquisition cost of the asset under the previous Corporation Tax Law of Japan. The effect on the profit or loss due to this change is immaterial.

(7) Intangible assets
The Company and its consolidated subsidiaries apply the straight-line method to amortize intangible assets except for land leasehold rights, which are not amortized.

Expenditures relating to computer software developed for internal use are amortized on the straight-line method over the estimated useful period, which is five years.

(8) Allowance for doubtful accounts
Allowance for doubtful accounts is provided for the estimated future loss on bad debt. It is estimated using the Company's experience of loss ratio and the respective estimate 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 for employees
Accrued bonuses for employees are provided for the estimated amount of bonuses which is expected to be paid to employees for the services renders by the balance sheet date.

(11) Accrued bonuses for directors
Accrued bonuses for directors are provided for the estimated amount of bonuses which is expected to be paid to directors. Effective the year ended March 31, 2008, the Company has adopted "Accounting Standard for Directors' Bonus" (Accounting Standards Board of Japan Statement No. 4 issued on November 29, 2005). Consequently, operating income, ordinary income, and income before income taxes and minority interests decreased by ¥179 million ($1,787 thousand).

(12) 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 the 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 (13-16 years) at the time of occurrence.

Actuarial differences are amortized from the next year in which the difference arises using the straight-line method for the employees' average remaining service period. (10-18 years) .

(13) Reserve for loss on litigation
Reserve for loss on litigation is provided at an estimated amount of loss based on the state of developments in the case.

(14) Foreign currency translation
Receivables and payables denominated in foreign currencies are translated into Japanese yen 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 are 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 net assets.

(15) Accounting for leases
Finance leases, except for those leases for which the ownership of the leased assets is transferred to the lessees, are accounted for as operating leases.

(16) 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 base. The Company recognizes sales for other construction contracts are on a completed-contract basis.

(17) Income taxes
Deferred tax assets and liabilities have been recognized in the consolidated financial statements with respect to the differences between financial reporting and the tax bases of the assets and liabilities, and were measured using the enacted tax rates and laws which will be in effect when the differences are expected to reserve.

(18) Accounting standard for presentation of net assets in the balance sheet
Effective the year ended March 31, 2007, the Company has adopted "Accounting Standards for Presentation of Net Assets in the Balance Sheet (Accounting Standards Board of Japan Statement No. 5), and "Implementation Guidance for Accounting Standards for Presentation of Net Assets in the Balance Sheets (Accounting Standards of Japan Guidance No. 8)" both issued by the Accounting Standard Board of Japan on December 9, 2005.

(19) Changes in presentation
(Consolidated Statements of Income)
"Gain on prior periods adjustment," which had been presented in its own classification in the year ended March 31, 2007 has been presented as a component of "Other, net" effective the year ended March 31, 2008 as the amount is no longer material. "Gain on prior periods adjustment" was ¥51 million ($509 thousand) in the year ended March 31, 2008.

(Consolidated Statements of Cash Flows)
"Acquisition of treasury stock" which was included in "Other" under cash flows from financing activities in the year ended March 31, 2007 has been presented in its own classification effective the year ended March 31, 2008 as the amount has grown material. "Acquisition of treasury stock" was ¥55 million in the year ended March 31, 2007.

3. U.S. Dollar Amounts
The U.S. dollar amounts are included solely for convenience of readers outside Japan, at the prevailing exchange rate on March 31, 2008, which was ¥100.19 = U.S. $1. The translations should not be converted into U.S. dollar at the above or any other rate of exchange.

4. Real Estate for Sale
Real estate for sale as of March 31, 2007 and 2008 consisted of the following:

	Millions of yen		*Thousands of U.S. dollars*
	2007	**2008**	**2008**
Land and buildings held for sale	¥ 66,707	**¥ 71,299**	**$ 711,638**
Costs and advances for real estate operations	58,742	**46,009**	**459,217**
Real estate for development projects	58,861	**44,841**	**447,560**
	¥184,310	**¥162,149**	**$1,618,415**

5. Investment Securities
(1) Other securities whose fair value is available as of March 31, 2007 and 2008 consisted of the following:

	Millions of yen					
	2007			**2008**		
	Acquisition cost	Carrying value	Unrealized gain/(loss)	Acquisition cost	Carrying value	Unrealized gain/(loss)
(Securities whose carrying value exceeds their acquisition cost)						
Equity securities	¥571	¥ 873	¥302	**¥ 16**	**¥ 37**	**¥ 21**
(Securities whose acquisition cost exceeds their carrying value)						
Equity securities	375	282	(93)	**1,621**	**1,431**	**(190)**
Total	¥946	¥1,155	¥209	**¥1,637**	**¥1,468**	**¥(169)**

	Thousands of U.S. dollars		
	2008		
	Acquisition cost	Carrying value	Unrealized gain/(loss)
(Securities whose carrying value exceeds their acquisition cost)			
Equity securities	**$ 160**	**$ 369**	**$ 209**
(Securities whose acquisition cost exceeds their carrying value)			
Equity securities	**16,179**	**14,283**	**(1,896)**
Total	**$16,339**	**$14,652**	**$(1,687)**

Note) In the year ended March 31, 2008, ¥1,145 million ($11,428 thousand) in impairment loss was recorded for marketable securities that are classified as other securities. Impairment loss is recognized for the entire amount when the fair value at the end of the fiscal year declines 50% or more from the acquisition cost and for the amount deemed necessary in light of recoverability when the fair value at the end of the fiscal year declines between 30 to 50% from the acquisition cost.

(2) Other securities sold for the years ended March 31, 2007 and 2008 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2007	**2008**	**2008**
Proceeds	¥2	**¥78**	**$779**
Total gain on sale	1	**1**	**10**
Total loss on sale	–	**–**	**–**

(3) Book value of securities without fair value as of March 31, 2007 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	**2008**	**2008**
Equity securities of subsidiaries and affiliates			
Equity securities of subsidiaries and affiliates	¥2,562	**¥2,581**	**$25,761**
Equity investment in Tokumei Kumiai (Silent partnership)	1,263	**3,048**	**30,422**
Other securities			
Unlisted securities	756	**996**	**9,941**
Preferred subscription certification	300	**270**	**2,695**
Others	50	**–**	**–**

Note) In the year ended March 31, 2008, of securities without fair value, ¥461 million ($4,601 thousand) in impairment loss was recorded for equity securities of subsidiaries and affiliates that are classified as equity securities of subsidiaries and affiliates, and ¥25 million ($250 thousand) in impairment loss was recorded for unlisted securities that are classified as other securities.

6. Property and Equipment and Intangible Assets

(1) Property and equipment as of March 31, 2007 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	**2008**	**2008**
Buildings and structures	¥ 74,557	**¥ 56,852**	**$ 567,442**
Machinery, vehicle, equipment and furniture	11,122	**10,408**	**103,883**
Land	57,841	**35,091**	**350,245**
Construction in progress	695	**3,308**	**33,017**
Sub-total	144,215	**105,659**	**1,045,587**
Accumulated depreciation	(37,438)	**(36,792)**	**(367,223)**
	¥106,777	**¥ 68,867**	**$ 687,364**

(2) Intangible assets as of March 31, 2007 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	**2008**	**2008**
Land leasehold rights	¥ 904	**¥ 898**	**$ 8,963**
Other	1,656	**1,508**	**15,051**
	¥2,560	**¥2,406**	**$24,014**

(3) Gain on sales of property and equipment and intangible assets for the years ended March 31, 2007 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	**2008**	**2008**
Buildings and structures	¥ 0	**¥828**	**$8,264**
Land	14	**114**	**1,138**
Other	0	**0**	**0**
	¥14	**¥942**	**$9,402**

(4) Loss on disposal or sale of property and equipment and intangible assets for the years ended March 31, 2007 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	**2008**	**2008**
Buildings and structures	¥ 76	**¥271**	**$2,705**
Machinery, vehicle, equipment and furniture	17	**44**	**439**
Land	8	**254**	**2,535**
Other	0	**2**	**20**
	¥101	**¥571**	**$5,699**

(5) Impairment of fixed assets

The Company and its consolidated domestic subsidiaries recognized impairment losses on the following assets for the year ended March 31, 2007 and 2008.

2008

Use	Type	Location	No.of Cases
Real estate for its own business	Land and buildings	Urayasu-shi, Chiba	1
Real estate for lease	Land and buildings etc.	Urayasu-shi, Chiba etc.	11
Hotel	Land leasehold rights and buildings	Chino-shi, Nagano	1
Idle assets	Equipment and furniture etc.	Minato-ku, Tokyo	2

2007

Use	Type	Location	No.of Cases
Real estate for its own business	Land and buildings	Urayasu-shi, Chiba	1
Real estate for lease	Land and buildings etc.	Shinagawa-ku, Tokyo etc.	20
Hotel	Land and buildings etc.	Urayasu-shi, Chiba etc.	2
Idle assets	Land	Chino-shi, Nagano	1

The Company and its consolidated domestic subsidiaries recognized losses on the impairment of certain real estate for its own business, lease, hotel and idle assets, which are grouped separately for the assessment of impairment.

As a result of a recent decline in real estate value and flagging rental rates, the carrying value of the above assets has been reduced to their recoverable amounts by ¥19,454 million and ¥942 million ($9,402 thousand) at March 31, 2007 and 2008, which was recorded as an impairment loss in special losses. The details by fixed assets were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	**2008**	**2008**
Buildings and structures	¥10,486	**¥396**	**$3,952**
Equipment and furniture	26	**322**	**3,214**
Land	8,687	**218**	**2,176**
Land leasehold rights	255	**6**	**60**
	¥19,454	**¥942**	**$9,402**

The recoverable amount was the higher of the net selling price or value in use. The net selling price is the appraisal value less the cost of disposal for real estate and the comparison approach value for assets other than real estate. Value in use is the sum of the net discounting estimated future cash flows to which a 5.0% discount rate was applied.

7. Short-term Borrowings and Long-term Debt

(1) Short-term borrowings, current portion of long-term debt and long-term debt as of March 31, 2007 and 2008 were as follows:

	Average interest rate	Millions of yen		Thousands of U.S. dollars
		2007	**2008**	**2008**
Short-term borrowings	1.36%	¥ 899	**¥ 15,424**	**$ 153,947**
Current portion of long-term debt	1.85%	31,800	**31,800**	**317,397**
Long-term debt due from April 2009 to March 2017	1.68%	154,724	**117,828**	**1,176,046**
Total	–	¥187,423	**¥165,052**	**$1,647,390**

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

(2) The annual maturities of long-term debt (including the current portion) as of March 31, 2008 were as follow:

Year ending March, 31	*Millions of yen*	*Thousands of U.S. dollars*
2009	**¥ 31,800**	**$ 317,397**
2010	**51,800**	**517,018**
2011	**61,800**	**616,828**
2012	**4,000**	**39,924**
2013	**–**	**–**
Over 2014	**228**	**2,276**
Total	**¥149,628**	**$1,493,443**

(3) The Company has committed line of credit available for immediate and stable borrowings with certain 3 financial institutions and 5 financial institutions, as of March 31, 2007 and 2008, respectively. The amounts of line of credit and unused line of credit as of March 31, 2007 and 2008 were as follows.

	Millions of yen		Thousands of U.S. dollars
	2007	**2008**	**2008**
Line of credit	¥45,000	**¥60,000**	**$598,862**
Amount utilized	–	**15,000**	**149,716**
Unused line of credit	¥45,000	**¥45,000**	**$449,146**

8. Collateral

(1) The assets provided as collateral as of March 31, 2007 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	**2008**	**2008**
Buildings and structures	¥14,590	**¥ –**	**$ –**
Machinery, vehicle, equipment and furniture	309	**–**	**–**
Land	21,355	**–**	**–**
Construction in progress	293	**2,197**	**21,928**
	¥36,547	**¥2,197**	**$21,928**

The Company provided time deposits as collateral for construction work as of March 31, 2007. The amount was ¥35 million as of Mach 31, 2007.

(2) The liabilities with collateral as of March 31, 2007 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	**2008**	**2008**
Long-term debt	¥35,303	**¥207**	**$2,066**

9. Contingent Liabilities

(1) The Company was contingently liable for guarantees on bank loans and other guarantees as of March 31, 2007 and 2008 as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	**2008**	**2008**
Customers using housing loans and other loans to purchase real estate	¥22,569	**¥11,442**	**$114,203**
Others	1,732	**602**	**6,009**
	¥24,301	**¥12,044**	**$120,212**

(2) The Company was contingently liable for notes receivable endorsed and transferred as of March 31, 2007 and 2008 as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	**2008**	**2008**
Notes receivable endorsed and transferred	¥148	**¥84**	**$838**

10. Lease Transactions

(1) Finance lease transactions other than those that are deemed to transfer the ownership of leased assets to the lessee as of and for the years ended March 31, 2007 and 2008 were as follows:

(As lessee)

The 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
	2007	**2008**	**2008**
Acquisition cost	¥169	**¥179**	**$1,787**
Accumulated depreciation	87	**71**	**709**
Net book value	¥ 82	**¥108**	**$1,078**

The equivalent of acquisition cost includes the 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 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	**2008**	**2008**
Within one year	¥ 43	**¥ 49**	**$ 489**
Over one year	61	**84**	**838**
Total	¥104	**¥133**	**$1,327**

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

Outstanding future lease payments includes the 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
	2007	**2008**	**2008**
Lease payments	¥39	**¥43**	**$429**
Depreciation	39	**43**	**429**

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

(As lessor)

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

	Millions of yen		Thousands of U.S. dollars
	2007	**2008**	**2008**
Acquisition cost	¥283	**¥321**	**$3,204**
Accumulated depreciation	170	**177**	**1,767**
Net book value	¥113	**¥144**	**$1,437**

Outstanding future lease income:

	Millions of yen		Thousands of U.S. dollars
	2007	**2008**	**2008**
Within one year	¥ 75	**¥ 75**	**$ 749**
Over one year	123	**119**	**1,188**
Total	¥198	**¥194**	**$1,937**

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

The amount of outstanding future lease income includes the 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
	2007	**2008**	**2008**
Lease income	¥80	**¥85**	**$848**
Depreciation	54	**61**	**609**

(2) Operating lease transactions

(As lessee)

Outstanding future lease payments were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	**2008**	**2008**
Within one year	¥1,183	**¥1,183**	**$11,808**
Over one year	7,013	**5,830**	**58,189**
Total	¥8,196	**¥7,013**	**$69,997**

11. Supplementary Profit and Loss Information

(1) Sales from construction contracts calculated according to the percentage-of-completion method were ¥329,385 million and ¥375,982 million ($3,752,690 thousand) for the years ended March 31, 2007 and 2008, respectively.

(2) Valuation loss of real estate for sale amounted to ¥4,336 million and ¥6,550 million ($66,374 thousand) were included in cost of real estate for sale for the year ended March 31, 2007 and 2008, respectively.

(3) Selling, general and administrative expenses for the years ended March 31, 2007 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	**2008**	**2008**
Salaries and allowances	¥ 9,468	**¥10,407**	**$103,874**
Accrued bonuses for employees	679	**740**	**7,386**
Accrued bonuses for directors	–	**179**	**1,787**
Retirement benefit expenses	540	**401**	**4,002**
Rent	2,049	**2,243**	**22,387**
Depreciation	391	**693**	**6,917**
Other	10,992	**12,542**	**125,182**
	¥24,119	**¥27,205**	**$271,534**

(4) Research and development costs included in selling, general and administrative expenses for the years ended March 31, 2007 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	**2008**	**2008**
Research and development costs	¥534	**¥651**	**$6,498**

12. Capital Stock

(1) Capital stock consists of common stock and preferred stock. The change in number of common stock and preferred stock issued and treasury stock during the year from March 31, 2006 through March 31, 2007 was as follows:

	Number of shares			
	2006	Increase	Decrease	2007
Shares issued				
Common stock (Note 1)	793,472,690	261,107,633	–	1,054,580,323
Preferred stock				
Class A I (Note 2)	37,599,500	–	37,599,500	–
Class A II (Note 2)	40,000,000	–	5,454,500	34,545,500
Class A IV (Note 2)	78,000,000	–	26,000,000	52,000,000
Class B I	90,000,000	–	–	90,000,000
Total	1,039,072,190	261,107,633	69,054,000	1,231,125,823
Treasury stock				
Common stock (Notes 3, 4)	392,014	128,238	14,776	505,476
Preferred stock				
Class A I (Note 5)	–	37,599,500	37,599,500	–
Class A II (Note 6)	–	5,454,500	5,454,500	–
Class A IV (Note 7)	–	26,000,000	26,000,000	–
Total	392,014	69,182,238	69,068,776	505,476

Notes 1) Increased by requested conversion of preferred stock Class A I to common stock.
2) Decreased by retirement of treasury stocks.
3) Increased by the requested for purchase of common stock less than one round lot.
4) Decreased by the requested for sale of common stock less than one round lot.
5) Increased by the requested conversion to common stock and decreased by retirement.
Converted period: From October 2, 2006 to February 20, 2007
Date of retirement: March 22, 2007
6) Increased by acquisition and decreased by retirement of preferred stock Class A II
Date of acquisition: July 31, 2006
Date of cancellation: August 24, 2006
Number of acquisition: 5,454,500 shares
Acquisition price: ¥2,200
Acquisition amount: ¥11,999,900,000
7) Increased by redemption and decreased by retirement of preferred stock Class A IV
Date of redemption: July 31, 2006
Date of retirement: August 24, 2006
Number of acquisition: 26,000,000 shares
Acquisition price: ¥701.96
Acquisition amount: ¥18,250,960,000

The change in number of common stock and preferred stock issued and treasury stock during the year from March 31, 2007 through March 31, 2008 was as follows:

	Number of shares			
	2007	Increase	Decrease	**2008**
Shares issued				
Common stock (Note 1)	1,054,580,323	239,899,300	–	**1,294,479,623**
Preferred stock				
Class A II (Note 2)	34,545,500	–	34,545,500	**–**
Class A IV (Note 2)	52,000,000	–	26,000,000	**26,000,000**
Class B I	90,000,000	–	–	**90,000,000**
Total	1,231,125,823	239,899,300	60,545,500	**1,410,479,623**
Treasury stock				
Common stock (Notes 3, 4)	505,476	17,071,072	23,574	**17,552,974**
Preferred stock				
Class A II (Note 5)	–	34,545,500	34,545,500	**–**
Class A IV (Note 6)	–	26,000,000	26,000,000	**–**
Total	505,476	77,616,572	60,569,074	**17,552,974**

Notes 1) Increased by requested conversion of preferred stock Class A II to common stock.
2) Decreased by retirement of treasury stocks.
3) Increased by acquisition of treasury stock based on resolution by the Board of Directors and the requested purchase of common stock less than one round lot.
Summary of acquisition of treasury stock based on resolution by the Board of Directors:
Acquisition period (trade date basis): From November 20, 2007 to November 27, 2007
Number of shares acquired: 17,000,000 shares
Acquisition amount: ¥3,468,444,500
4) Decreased by the requested for sale of common stock less than one round lot.
5) Increased by the requested conversion to common stock and decreased by retirement.
Converted period: From October 1, 2007 to March 14, 2008
Date of retirement: March 19, 2008
6) Increased by redemption and decreased by retirement of preferred stock Class A IV
Date of redemption: July 31, 2007
Date of retirement: August 9, 2007
Number of acquisition: 26,000,000 shares
Acquisition price: ¥702.85
Acquisition amount: ¥18,274,100,000

(2) Dividends
Of the dividends with reference dates falling within the year ended March 31, 2008, dividends that are payable during the year ending March 31, 2009.

Resolution	Type of shares	Total amount of dividend (Million yen)	Dividend per share (Yen)	Source of funds	Record date	Effective date
Annual meeting of shareholders on June 27, 2008	Common shares	3,831	3.00	Retained earnings	March 31, 2008	June 30, 2008
	Preferred stock Class A IV	235	9.05			
	Preferred stock Class B I	815	9.05			
–	Total	4,881	–	–	–	–

13. Cash and Cash Equivalents

(1) Reconciliation between cash and cash equivalents on the consolidated statements of cash flows and the amounts disclosed on the consolidated balance sheets as of March 31, 2007 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	**2008**	**2008**
Cash and bank deposits	¥66,528	**¥62,639**	**$625,202**
Time deposits pledged as collateral	(35)	**–**	**–**
Saving accounts as insurance agency	(481)	**(213)**	**(2,126)**
Cash and cash equivalents	¥66,012	**¥62,426**	**$623,076**

(2) The following is a summary of the assets and liabilities of Ecology REIT Corporation, which is a newly consolidated subsidiary, and the contribution for the acquisition.

	Millions of yen		Thousands of U.S. dollars
	2007	**2008**	**2008**
Current assets	¥ 2,020	**¥–**	**$–**
Fixed assets	36,305	**–**	**–**
Current liabilities	(602)	**–**	**–**
Fixed liabilities	(35,609)	**–**	**–**
Minority interest	(206)	**–**	**–**
Negative goodwill	(13)	**–**	**–**
Contribution for the acquisition of the newly consolidated subsidiary	1,895	**–**	**–**
Cash and cash equivalents in the newly consolidated subsidiary	(1,748)	**–**	**–**
Net payment for contribution to the newly consolidated	¥ 147	**¥–**	**$–**

14. Retirement Benefit Plan

The Company and its consolidated subsidiaries transferred their employee welfare pension plan from defined benefit funded plan to corporate pension funded plan due to approval from the Minister of Health, Labor and Welfare based on the Welfare Pension Insurance Law on July 31, 2005. Furthermore, certain consolidated subsidiaries have applied a lump-sum retirement allowance plan or pooled funded type of defined benefit funded plan.

Effective the year ended March 31, 2008, the Company has adopted "Partial Amendments to Accounting Standard for Retirement Benefits (Part 2)" (Accounting Standards Board of Japan Statement No. 14 issued on May 15, 2007).

(1) Matters concerning the multi-employer pension plan that accounts for required contributions as benefit retirement expenses are as follows:

The status of reserve of all plans as of March 31, 2007 was as follows:

Pension assets	¥59,150 million
Retirement benefit obligations under pension funding programs	¥57,698 million
Difference	¥1,452 million

Group's contributions as a percentage of total contributions made to all plans, as of March 31, 2008 was 2.19%.

(2) The funded and reserved status of the defined benefit pension plans, and the amounts recognized in the consolidated balance sheets as of March 31, 2007 and 2008 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	**2008**	**2008**
Projected benefit obligations	¥(31,321)	**¥(32,961)**	**$(328,985)**
Plan assets	32,887	**29,607**	**295,509**
Unfunded pension obligation	1,566	**(3,354)**	**(33,476)**
Unrecognized transition amount	1,726	**1,511**	**15,081**
Unrecognized actuarial differences	464	**5,598**	**55,874**
Unrecognized prior service cost	(5,750)	**(5,310)**	**(53,000)**
Net retirement benefit obligations	(1,994)	**(1,555)**	**(15,521)**
Prepaid pension cost	26	**–**	**–**
Reserve for employees' retirement benefits	¥ (2,020)	**¥ (1,555)**	**$ (15,521)**

Notes 1) Certain consolidated subsidiaries apply the conventional approach method to compute their projected benefit obligations.
2) The plan assets of the multi-employer defined benefit pension plan were not included in plans assets balance. The balances based on a contribution ratio were ¥1,094 million as of March 31, 2007.

(3) The components of net benefit retirement expenses for the years ended March 31, 2007 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	**2008**	**2008**
Service costs	¥ 853	**¥1,025**	**$10,231**
Interest costs	744	**774**	**7,725**
Expected return on plan assets	(890)	**(981)**	**(9,791)**
Amortization of transition amount	216	**216**	**2,156**
Amortization of actuarial differences	664	**606**	**6,049**
Amortization of prior service cost	(441)	**(441)**	**(4,402)**
Net benefit retirement expenses	¥1,146	**¥1,199**	**$11,968**

(4) Assumptions used in accounting for above plans for the years ended March 31, 2007 and 2008 were as follows:

	2007	**2008**
Method of attributing the projected benefits to period of service	Straight-line method	**Straight-line method**
Discount rate	2.5%	**2.5%**
Expected rate of return on plan assets	3.0%	**3.0%**

15. Income Taxes

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

	Millions of yen		Thousands of U.S. dollars
	2007	**2008**	**2008**
Deferred tax assets:			
Allowance for doubtful accounts	¥ 11,392	**¥ 6,789**	**$ 67,761**
Warranty reserve	770	**1,097**	**10,949**
Accrued bonuses for employees	952	**1,063**	**10,616**
Reserve for employees' retirement benefits	811	**666**	**6,647**
Write-down of real estate for sale	25,877	**34,406**	**343,408**
Impairment loss on fixed assets	28,342	**21,424**	**213,834**
Write-down of investment securities	–	**10,300**	**102,805**
Tax loss carry forwards	45,182	**34,379**	**343,138**
Other	8,467	**4,883**	**48,736**
Sub-total	121,794	**115,007**	**1,147,888**
Loss: Valuation allowance	(71,820)	**(64,412)**	**(647,898)**
Total deferred tax assets	49,974	**50,595**	**504,990**
Deferred tax liabilities:			
Unrealized gain on other securities	(94)	**(8)**	**(80)**
Total deferred tax liabilities	(94)	**(8)**	**(80)**
Net deferred tax assets	¥ 49,880	**¥ 50,587**	**$ 504,910**

(2) Reconciliations of the statutory tax rate to the effective income tax rate for the years ended March 31, 2007 and 2008 were as follows:

	2007	**2008**
Statutory tax rate	40.7%	**40.7%**
(Adjustment)		
Non-deductible expenses	1.0	**1.8**
Gross revenue permanently excluded	(5.7)	**–**
Inhabitant tax per capita	0.2	**0.3**
Adjustment to past corporate income taxes	–	**12.5**
Change in valuation allowance	(28.6)	**(49.9)**
Other	0.3	**(0.2)**
Effective income tax rate	8.0%	**5.2%**

16. Per Share Information

(1) Per share information for the years ended March 31, 2007 and 2008 was as follows:

	Yen		*U.S. dollars*
	2007	**2008**	**2008**
Net assets per share	¥23.22	**¥36.31**	**$0.36**
Net income per share	31.67	**9.36**	**0.09**
Diluted net income per share	16.08	**8.35**	**0.08**

(2) The following is the basis for calculating the net income per share and diluted income per share

(a) Net income per share

	2007	**2008**
Net income (millions of yen)	¥ 33,695	**¥ 22,384**
Net income not attributable to common shareholders (millions of yen):		
The difference between the redemption amount and the issued amount of Class A IV preferred stock, which was executed based on article of incorporation;		
Executed on July 31, 2006	5,251	**–**
Executed on July 31, 2007	–	**5,274**
Executed on May 30, 2008	–	**5,240**
Preferred dividend		
Class A IV	–	**235**
Class B I	–	**815**
Net income attributable to common shareholders (millions of yen)	28,444	**10,820**
Weighted average number of shares outstanding (thousands of shares)	898,150	**1,156,353**

(b) Diluted net income per share

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

	2007	**2008**
Preferred dividend: (millions of yen)		
Preferred stock (Class B I)	–	**815**
Increase in common stock: (thousands of shares)		
Preferred stock (Class A I)	155,998	**–**
Preferred stock (Class A II)	252,456	**131,775**
Preferred stock (Class A IV)	361,111	**–**
Preferred stock (Class B I)	101,351	**104,651**

(c) An overview of the dilutive securities that were not included in the calculation of diluted income per share since there was no dilution effect was as follows:

	(thousands of shares)	
	2007	**2008**
Increase in common stock:		
Preferred stock (Class A IV)	59,855	**240,247**

(3) The following is the basis for calculating the net assets per share.

	Millions of yen		*Thousands of U.S. dollars*
	2007	**2008**	**2008**
Net assets	¥113,016	**¥110,979**	**$1,107,685**
Amount, which was not attribute to common shareholders			
Preferential distribution of residual property	88,273	**58,000**	**578,900**
The difference between the redemption amount and the issued amount of Class A IV preferred stock (Note)	–	**5,240**	**52,301**
Preferred dividend;			
Class A IV	–	**235**	**2,346**
Class B I	–	**815**	**8,135**
Minority interests	265	**318**	**3,174**
Net assets attribute to common shareholders	¥ 24,478	**¥ 46,371**	**$462,829**

Note) The difference between the redemption amount and the issued amount of Class A IV preferred stock, which was executed on May 30, 2008, based on article of incorporation.

17. Business Combinations

Haseko Real Estate Inc., Haseko Development Inc., Noda Kaihatsu Co., Ltd. and Haseko Finance Inc., which have been included in the scope of consolidation in previous fiscal years, have been dissolved through a merger by absorbing the companies into the Company effective March 1, 2008.

1. Companies involved in business combination and their business description, legal proceeding of business combination, trade name after business combination, and reasons for transaction and other transaction details

(1) Companies involved in business combination and their business description

Surviving company

Trade name: Haseko Corporation
Business description: General construction

Absorbed company

Trade name: Haseko Real Estate Inc.
Business description: Real estate

Trade name: Haseko Development Inc.
Business description: Real estate

Trade name: Haseko Finance Inc.
Business description: Other financial services

Trade name: Noda Kaihatsu Co., Ltd.
Business description: Real estate

(2) Legal form of business combination
Pursuant to the simple merger procedure stipulated in Article 796-1 of the Corporate Act.

(3) Trade name after business combination
Haseko Corporation

(4) Reasons for transaction and other transaction details

① Reason for merger
As a result of changes in the business environment the roles of Haseko Real Estate Inc., Haseko Development Inc., Haseko Finance Inc. and Noda Kaihatsu Co., Ltd. within the management of the Haseko Group has ended. The absorption of these companies is being conducted to improve the operating efficiency, reduce expenses, improve management efficiency of owned assets and improve the efficiency of the disposal of these assets.

② Merger date
March 1, 2008

③ Merger method
The Company employed an absorption method in which it was the surviving company and the following companies were dissolved: Haseko Real Estate Inc., Haseko Development Inc., Haseko Finance Inc. and Noda Kaihatsu Co., Ltd.

④ Merger ratios
The Company owns all of the outstanding stocks in Haseko Real Estate Inc., Haseko Development Inc., Haseko Finance Inc. and Noda Kaihatsu Co., Ltd. and there were no issuance of new stocks or increase in capital stock through the merger.

⑤ Conditions after the merger
After the merger, the trade name, business description, head office address, representative, capital stock and fiscal year of the Company all remain as before the merger. As for the excessive debt of the companies being absorbed, the Company has already set aside allowance for doubtful accounts concerning loans to each of the companies being absorbed and so the impact on the non-consolidated performance of this merger was minimal and there was no impact on the consolidated performance since these were mergers with consolidated subsidiaries.

2. Overview of Accounting Implemented
The merger was accounted for as a transaction under common control based on "Accounting Standards for Business Combinations" (issued by Business Accounting Council on October 31, 2003) and "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (Accounting Standards Board of Japan Guidance No. 10 issued on December 22, 2006).

18. Segment Information

The Company and its consolidated subsidiaries ("Haseko Group") operate primarily within six business segments: construction, engineering, real estate, leasing and management, hotel and other. A description of the Company's 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, 2007 and 2008.

(1) Sales and operating income

	Millions of yen							
	2007							
	Construction	Engineering	Real estate	Leasing and management	Hotel	Other	Elimination/ Corporate	Consolidated
Sales to external customers	¥437,530	¥10,765	¥215,893	¥43,885	¥11,280	¥3,765	¥ –	¥723,118
Intersegment sales	1,480	7	70	2,187	89	1,287	(5,120)	–
Total sales	439,010	10,772	215,963	46,072	11,369	5,052	(5,120)	723,118
Operating expenses	395,005	6,386	204,083	42,416	11,385	4,405	(5,063)	658,617
Operating income (loss)	¥ 44,005	¥ 4,386	¥ 11,880	¥ 3,656	¥ (16)	¥ 647	¥ (57)	¥ 64,501

	Millions of yen							
	2008							
	Construction	Engineering	Real estate	Leasing and management	Hotel	Other	Elimination/ Corporate	Consolidated
Sales to external customers	¥481,833	¥9,495	¥187,478	¥51,101	¥11,098	¥4,069	¥ –	¥745,074
Intersegment sales	2,025	30	292	2,359	70	1,433	(6,209)	–
Total sales	483,858	9,525	187,770	53,460	11,168	5,502	(6,209)	745,074
Operating expenses	447,660	6,740	177,249	48,307	10,677	4,722	(5,999)	689,356
Operating income (loss)	¥ 36,198	¥2,785	¥ 10,521	¥ 5,153	¥ 491	¥ 780	¥ (210)	¥ 55,718

	Thousands of U.S. dollars							
	2008							
	Construction	Engineering	Real estate	Leasing and management	Hotel	Other	Elimination/ Corporate	Consolidated
Sales to external customers	$4,809,192	$94,770	$1,871,225	$510,041	$110,770	$40,612	$ –	$7,436,610
Intersegment sales	20,212	299	2,914	23,545	699	14,303	(61,972)	–
Total sales	4,829,404	95,069	1,874,139	533,586	111,469	54,915	(61,972)	7,436,610
Operating expenses	4,468,110	67,272	1,769,129	482,154	106,568	47,130	(59,876)	6,880,487
Operating income (loss)	$ 361,294	$27,797	$ 105,010	$ 51,432	$ 4,901	$ 7,785	$ (2,096)	$ 556,123

(2) Assets, depreciation and capital expenditures

	Millions of yen							
	2007							
	Construction	Engineering	Real estate	Leasing and management	Hotel	Other	Elimination/ Corporate	Consolidated
Assets	¥114,856	¥5,092	¥217,178	¥88,283	¥30,327	¥29,920	¥61,067	¥546,723
Depreciation	331	31	82	651	1,379	800	(14)	3,260
Impairment loss on fixed assets	47	–	86	8,764	10,557	–	–	19,454
Capital expenditures	933	93	551	370	4,261	965	–	7,173

	Millions of yen							
	2008							
	Construction	Engineering	Real estate	Leasing and management	Hotel	Other	Elimination/ Corporate	Consolidated
Assets	¥126,661	¥5,487	¥162,727	¥75,926	¥31,102	¥9,298	¥75,003	¥486,204
Depreciation	692	64	110	900	1,106	788	(13)	3,647
Impairment loss on fixed assets	–	–	24	485	111	–	322	942
Capital expenditures	433	18	2,023	623	1,486	1,349	33	5,965

	Thousands of U.S. dollars							
	2008							
	Construction	Engineering	Real estate	Leasing and management	Hotel	Other	Elimination/ Corporate	Consolidated
Assets	**$1,264,208**	**$54,766**	**$1,624,184**	**$757,820**	**$310,430**	**$92,803**	**$748,608**	**$4,852,819**
Depreciation	**6,907**	**639**	**1,098**	**8,983**	**11,039**	**7,865**	**(130)**	**36,401**
Impairment loss on fixed assets	**–**	**–**	**240**	**4,841**	**1,108**	**–**	**3,213**	**9,402**
Capital expenditures	**4,322**	**180**	**20,192**	**6,218**	**14,832**	**13,464**	**329**	**59,537**

Notes 1) The following are the primary business segments of the Haseko Group and the description of the Company's 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, supervision and other consultation related to buildings
Real estate business: Buying, selling, exchanging, brokering and commissioned condominium sales
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 ¥88,722 million as of March 31, 2007 and ¥80,055 million ($799,032 thousand) as of March 31, 2008. These assets are primarily comprised of surplus funds of the Company (cash), long-term investment funds (investment securities), deferred tax assets and assets related to the administration divisions.

3) As outlined in "Summary of Significant Accounting Policies," the Company has applied "Accounting Standard for Directors' Bonus" effective the year ended March 31, 2008. The impact of this on segment information is minimal.

4) As outlined in "Summary of Significant Accounting Policies," the Company has applied "Accounting Standard for Measurement of Inventories" effective the year ended March 31, 2008. In correlation with this change, concerning "(1) Sales and operating income," operating expenses of the "real estate business" increased ¥2,041 million and operating income (loss) decreased by the same amount compared to the accounting method used in previous fiscal years. In addition, concerning "(2) Assets, depreciation and capital expenditures," the assets of the "real estate business" decreased ¥28,399 million and the assets of the "leasing and management business" decreased ¥15 million.

5) As Haseko Corporation has absorbed Haseko Finance Inc. through a merger, the finance business is no longer a part of "Other." Consequently, the assets of "Other" in "(2) Assets, depreciation and capital expenditures" decreased.

6) Of real estate for sale, the assets and depreciation for properties for lease are presented as part of the "leasing and management business."

Geographical segment information is omitted as the amount of net sales and asset in Japan exceeded 90% of the amount of consolidated net sales and asset for the years ended March 31, 2007 and 2008.

Oversea sales information is omitted, as the sales to overseas customers are less than 10% of consolidated sales for the years ended March 31, 2007 and 2008.

19. Related Party Transactions

Transactions and balances with affiliates for the years ended March 31, 2007 and 2008 were as follows:

(Transactions)

				Millions of yen		Thousands of U.S. dollars
Type	Name of company	Type of business	Type of transaction	2007	**2008**	**2008**
Affiliate	Takarazuka Development Co., Ltd.	Real estate	Financing business	¥145	**¥142**	**$1,417**

(Balances of receivables/ payables)

				Millions of yen		Thousands of U.S. dollars
Type	Name of company	Type of business	Account	2007	**2008**	**2008**
Affiliate	Takarazuka Development Co., Ltd.	Real estate	Long-term loan	¥14,736	**¥14,486**	**$144,585**

Note) The interest on the long-term loan is set taking into consideration the market rate and business conditions. However, presently a portion of the interest has been exempt.

20. Subsequent Events

1. Purchasing treasury stock from shareholders in opposition to absorbing subsidiaries
The Company purchased some of its treasury stock, as described below, in response to a share holder that submitted a claim for such pursuant to Article 797-1 of the Corporate Act. The shareholder opposed the absorption of four wholly owned subsidiaries, including Haseko Real Estate Inc., through a simple merger procedure on March 1, 2008.

(1) Number of opposing shareholders:
One shareholder

(2) Date when claim for purchase of shares was made:
February 12, 2008

(3) Number of shares in claim for purchase:
17,218,000 (common stock)

(4) Number of shares purchased:
11,578,000 (common stock)
*The opposing shareholder withdrew the claim for purchase of the 5,640,000 shares that are the difference between the number of shares in the original claim for purchase and the actual number of shares purchased.

(5) Purchase price:
¥1,678,810,000 (¥145 per stock)

(6) Date of purchase:
May 2, 2008

(7) Method of purchase:
Off-exchange trading

2. Acquisition (mandatory redemption) and retirement of preferred stock Class A IV
Concerning preferred stock Class A IV, acquisition of the stock for redemption was resolved at a meeting of the Board of Directors held on May 15, 2008 and retirement of the stock was resolved at a meeting of the Board of Directors held on June 27, 2008.

(1) Objective:
Implement the redemption schedule depicted in the capital reconfiguration plan established to respond to the pre ferred stocks issued in the form of a debt-equity swap, as part of our capital policy in the New Medium-term Business Plan.

(2) Description of redemption stocks:
Preferred stock (Class A IV)
Number of stocks 26,000,000
Value ¥18,240,300,000 ($182,057,092)

(3) Date of redemption:
May 30, 2008

(4) Date of retirement:
June 27, 2008

3. Concerns regarding delay in collection or uncollectible amounts due from Kondo Sangyo Co., Ltd.
Kondo Sangyo Co., Ltd., one of the Company's business partner, declared to start bankruptcy proceedings to the Osaka District Court as of May 30, 2008. As a result, the Company has identified concerns of delay in collection or uncollectible amounts due from Kondo Sangyo, as described below:

(1) Overview of Kondo Sangyo Co., Ltd.:

① Trade name	Kondo Sangyo Co., Ltd.
② Address	4-1-1 Fushimimachi, Chuo-ku, Osaka-shi, Osaka
③ Representative	Kohei Izawa, President and Representative Director
④ Paid-in capital	800 million yen
⑤ Business description	Planning, development and sale of real estate

(2) Type and Amount due from Kondo Sangyo Co., Ltd.:

Notes receivable	¥2,103 million
Accounts receivable for construction	¥2,384 million
Total	¥4,487 million
(equivalent to 4.85% of the net asset)	

In addition to the above, the consolidated subsidiaries of the Company have accounts receivable and other credits amounting to ¥30 million from Kondo Sangyo Co., Ltd.

(3) Future Outlook:
With regard to the estimated uncollectible amounts, the Company plans to recognize to appropriate losses or provision for doubtful accounts and other items in the fiscal year ending March 31, 2009. The collectability is currently under examination.

ERNST & YOUNG SHINNIHON

■ Certified Public Accountants
Hibiya Kokusai Bldg.
2-2-3, Uchisaiwai-cho
Chiyoda-ku, Tokyo, Japan 100-0011
C.P.O. Box 1196, Tokyo, Japan 100-8641

■ Tel: 03 3503 1100
Fax: 03 3503 1197

Report of Independent Auditors

The Board of Directors
Haseko Corporation

We have audited the accompanying consolidated balance sheets of Haseko Corporation and consolidated subsidiaries as of March 31, 2007 and 2008, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Haseko Corporation and consolidated subsidiaries at March 31, 2007 and 2008, 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.

Supplemental Information

As described in Notes 2 (5), the Company and its consolidated domestic subsidiaries have adopted "Accounting Standard for Measurement of Inventories" (Accounting Standards Board of Japan Statement No. 9 issued on July 5, 2006) effective the year ended March 31, 2008.

As described in Notes 20.2, acquisition of its preferred stock Class A IV for redemption was resolved at a meeting of the Board of Directors held on May 15, 2008 and retirement of stock was resolved at a meeting of the Board of Directors held on June 28, 2008.

As described in Notes 20.3, the Company identified concerns of delay in collection or uncollectible amounts due from Kondo Sangyo Co., Ltd., as a result of declaration of bankruptcy proceedings by Kondo Sangyo.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

June 27, 2008

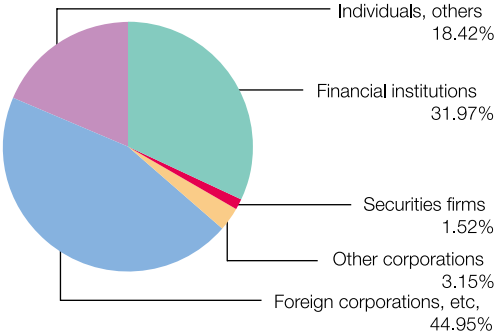
Share Information

Share overview *(as of March 31, 2008)*

Total shares authorized to issue:	Common stock	2,100 million shares
	Preferred stock	246 million shares
	(Class A)	156 million shares
	(Class B)	90 million shares
Outstanding shares:	Common stock	1,294 million shares
	Class A IV preferred stock	26 million shares
	Class B I preferred stock	90 million shares
Shareholders:	Common stock	61,542 parties
	Class A IV preferred stock	3 parties
	Class B I preferred stock	3 parties

Note 1. Shares of less than million shares have been rounded off.
2. Concerning preferred stock Class A IV (26 million shares,) the Company redeemed the stock on May 30, 2008 and completed retirement of the stock on June 27, 2008.

Breakdown of shareholders



Principal shareholders *(as of March 31, 2008)*

(Common stock)

Shareholder	Shares (1,000 shares)	Voting Rights
The Master Trust Bank of Japan, Ltd. (trust units)	106,004	8.32%
Japan Trustee Service Bank, Ltd. (trust units)	83,882	6.59%
Resona Bank, Limited	63,336	4.97%
Mizuho Corporate Bank, Ltd.	63,335	4.97%
Goldman Sachs International	37,603	2.95%
State Street Bank & Trust Company 505103	33,715	2.64%
The Bank of New York Jasdaq Treaty Account	31,126	2.44%
State Street Bank & Trust Company	27,669	2.17%
The Bank of New York Jasdaq Non-treaty Account	20,941	1.64%
UBS AG London Account IPB Segregated Client Account	20,542	1.61%

(Preferred stock)

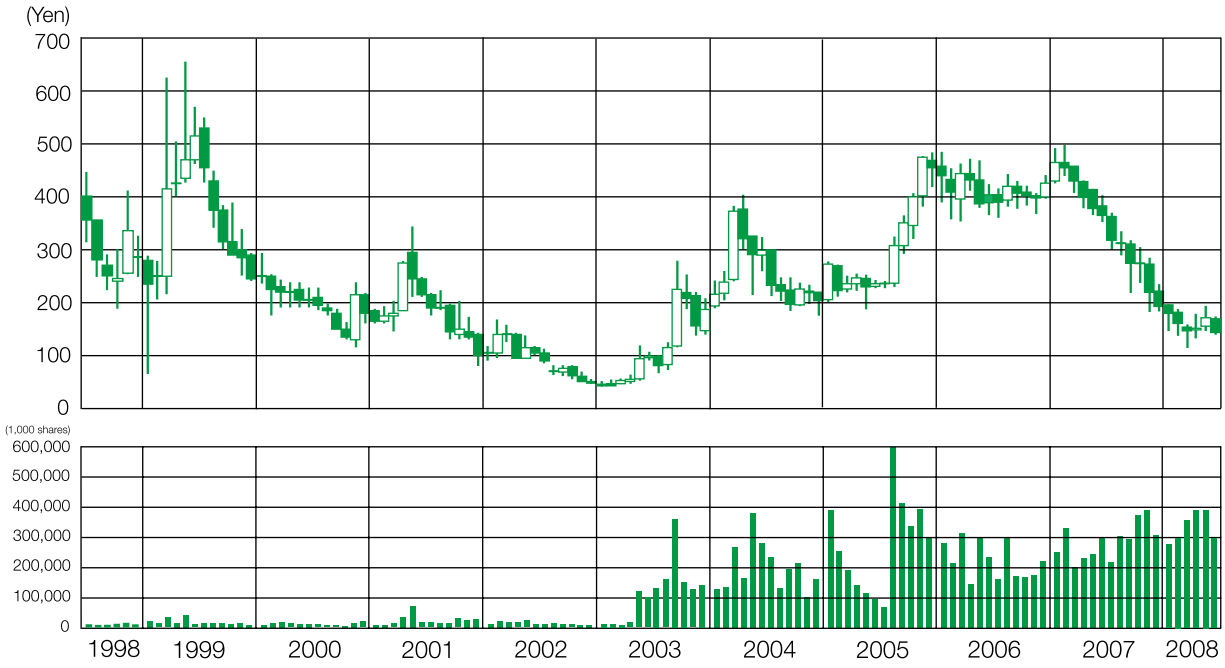
Shareholder	Shares (1,000 shares)
Class A IV	
Resona Bank, Limited	9,499
The Chuo Mitsui Trust and Banking Company, Limited	9,152
Mizuho Corporate Bank, Ltd.	7,349
Class B I	
Resona Bank, Limited	32,880
The Chuo Mitsui Trust and Banking Company, Limited	31,680
Mizuho Corporate Bank, Ltd.	25,440

Note 1. The shareholdings of The Master Trust Bank of Japan, Ltd. and Japan Trustee Services Bank, Ltd are all interests in trust.
2. Both Preferred stocks Class A IV and Preferred stocks Class B I are shares with no voting rights.
3. All owned shares of less than 1,000 shares have been rounded off.
4. All decimals from the 1,000th place have been rounded off in indicating the percentage of voting rights.

Overview of preferred stocks *(As of June 30, 2008)*

Class	Class B I
Issued amount	45,000 million yen
Issued date	September 27, 2002
Number of issued shares	90,000 thousand shares
Issued price	500 yen
Voting rights	No
Preferred dividends	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%)
Participation	8th year on: Simple participation
Cumulative	8th year on: Cumulative for next fiscal year alone
Distribution of residual property	500 yen
Redemption and retirement	Can redeem and retire with profit that should be paid to shareholders.
Redemption requesting right	From the date when all Class A IV preferred stocks of FY2009 are redeemed or during the period from July 1 to July 31 of each fiscal year from FY2010 up to FY2032, in case the amount of unappropriated retained earnings of the Company at the end of the fiscal year immediately before the said period exceeds ¥10 billion, the Shareholders shall be entitled to request the redemption with respect to the certain limited amount and number of stocks, at a redemption price per share equal to ¥500 plus the accumulated unpaid dividend and accrued dividend equivalent.
Mandatory redemption right	The Company shall be entitled mandatory redemption at a redemption price per share equal to ¥500 plus the accumulated unpaid dividend and accrued dividend equivalent after Class A IV preferred stocks are all redeemed at FY2009 or during the FY2010 to September 30 of FY2014. (from April 1, 2010 to September 30, 2014)
Conversion reservation right	Convert to common stock
Conversion requesting period	October 1, 2015 to September 30, 2032
Initial conversion price	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, 2016
Conversion ceiling price	300% of initial conversion price
Conversion floor price	50% of initial conversion price
Mandatory conversion	From October 1, 2032

Common stock price range & trading volume



Corporate Information

Corporate data *(as of March 31, 2008)*

Overview

Name:
Haseko Corporation

Founded:
February 1937

Established:
August 1946

Paid-in capital:
50,000 million yen

Employees:
2,020 (Non-consolidated)
3,916 (Consolidated)

Stock exchange listing:
Tokyo Stock Exchange 1st section,
Osaka Securities Exchange 1st section

Ticker code:
1808

Shares per trading units:
500 shares

Tokyo Head office:
32-1 Shiba 2-chome, Minato-ku,
Tokyo 105-8507
Tel: 813-3456-5451

Osaka:
5-7 Hiranomachi 1-chome, Chuo-ku,
Osaka 541-0046
Tel: 816-6203-5661

Other branchs:
Yokohama
Saitama
Chiba
Kobe
Nagoya

Number of consolidated subsidiaries:
30

Number of companies accounted for by the equity method:
2

Transfer agent and registrar:
Mitsubishi UFJ Trust and Banking Corporation

Independent auditor:
ERNST & YOUNG SHIN NIHON

Board of Directors, Corporate Auditors and Operating Officers *(as of July 1, 2008)*

Directors

Chairman:
Toshihisa Dake

President:
Takashi Iwao*

Executive Operating Officers:
Noriaki Tsuji*
Ikuo Oguri*

Senior Operating Officers:
Atsushi Hasegawa*
Minoru Nishino*
Ryuichiro Yoshida
Shosuke Muratsuka
Yuhei Imanaka
Tadao Yonekawa
Morio Shimada

Operating Officers:
Kinichi Kitamura

*Representative Director

Full-time Corporate Auditors

Toshio Onishi
Teruo Kojima

Coporate Auditors

Haruo Akimine
Haruya Uchikawa
Masahiko Nakamichi

Senior Operating Officers:
Hiroyuki Kawano
Haruki Bando
Katsuyuki Kakura
Hideki Nakata
Masaki Sato

Operating Officers:
Tomihiro Oda
Naobumi Tago
Yutaka Okada
Fujio Hirano
Matsuo Shinozaki
Satoshi Amano
Keijiro Sekioka
Kazuo Ikegami
Junichi Tani
Naoki Hayasaka
Akira Shiizuka
Takeshi Tsunematsu
Junji Kawamura
Takashi Kawamura
Syoji Naraoka

Principal consolidated subsidiaries *(as of June 30, 2008)*

Haseko Anesis Corporation

Main business: Interior design, recycling and marketing
2-3 Shiba 4-chome, Minato-ku, Tokyo

Haseko Community, Inc.

Main business: Management and maintenance of condominiums, and renovation of condominiums
6-6 Shiba 4-chome, Minato-ku, Tokyo

Haseko Livenet, Inc.

Main business: Leasing management and operation of condominiums, and consulting services
29-14 Shiba 2-chome, Minato-ku, Tokyo

Century Life, Co., Ltd.

Main business: Management of paid care housing for the elderly and consulting services
32-1 Shiba 2-chome, Minato-ku, Tokyo

Haseko Systems Inc.

Main business: Information processing services, printing, DM shipment agent, insurance against loss agent
15-14 Shiba 1-chome, Minato-ku, Tokyo

Haseko Intech, Inc.

Main business: Sale of furniture for houses and consulting services
2-3 Shiba 4-chome, Minato-ku, Tokyo

Brighton Corporation

Main business: Management and operation of hotels and restaurants
9 Mihama 1-chome, Urayasu-shi, Chiba

Haseko Urbest, Inc.

Main business: Commissioned selling of new for-sale condominiums and brokering of real estate
32-1 Shiba 2-chome. Minato-ku, Tokyo

Hasec, Inc.

Main business: Sale and agency service of construction materials and temporary materials
15-14 Shiba 1-chome, Minato-ku, Tokyo

Foris Corporation

Main business: Production, supply, sale and lease of interior articles
20-2 Nishikamata 8-chome, Ota-ku, Tokyo

Fuji Kensetsu Co., Ltd.

Main business: General construction
5-5 Shiba 3-chome, Minato-ku, Tokyo

Haseko America, Inc.

Main business: Real estate development and housing construction
91-1001 Kaimailie Street, #205 Ewa Beach, Hawaii 96706, U.S.A.

HASEKO

Printed in Japan