RAITO KOGYO CO., LTD.

Annual Report 2001

Contents

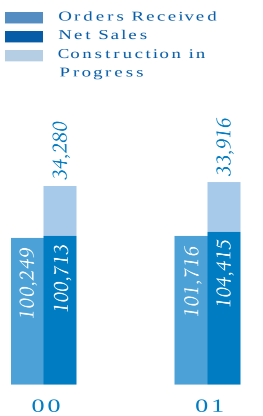
Raito

Consolidated Financial Highlights

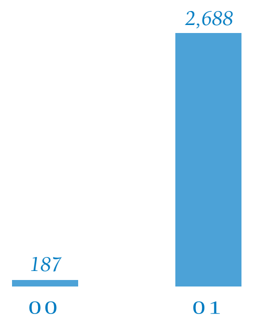
Years ended March 31	Millions of yen 2001	Millions of yen 2000	Thousands of U.S. dollars 2001
For the year:			
Orders received	¥101,716	¥100,249	$820,952
Net sales	104,415	100,713	842,735
Income before income taxes	4,900	1,003	39,549
Net income	2,688	187	21,695
At year-end:			
Total assets	¥ 83,284	¥ 85,430	$672,184
Shareholders' equity	46,599	44,781	376,101
Common stock	6,119	6,119	49,390
Amounts per share:			
(in yen and dollars)			
Net income	¥ 46.50	¥ 3.23	$ 0.38

Note: U.S. dollar amounts here and elsewhere in this annual report are translated from yen at the rate ¥123.90 = US$1.00, the rate on March 31, 2001, for the readers' convenience only.

Orders Received, Net Sales and Construction in Progress
(Millions of yen)

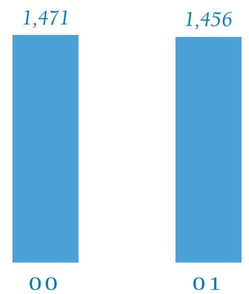


Net Income
(Millions of yen)

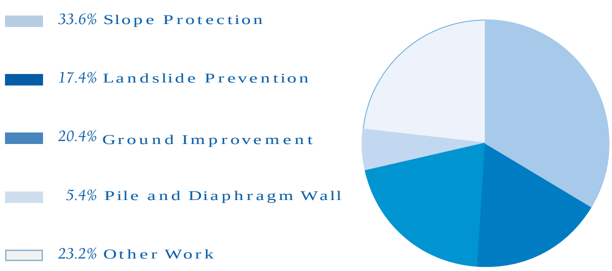


Shareholders' Equity and Total Assets
(Millions of yen)

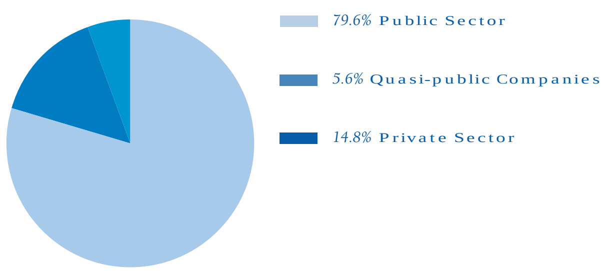
Number of Employees



Orders Received by Type of Work *(%)*



Orders Received by Type of Client *(%)*

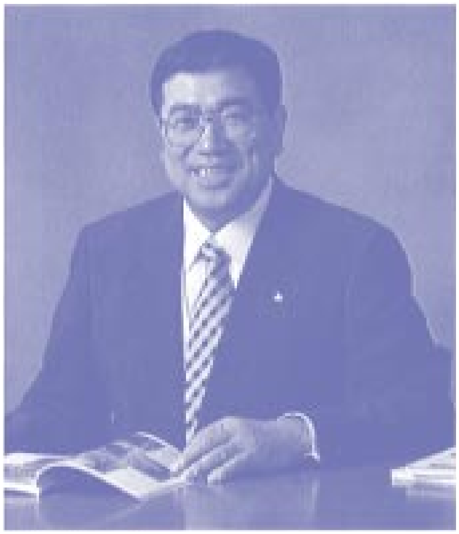


Operating Environment

During the fiscal year ended March 31, 2001, an upturn in the Japanese economy was undermined by heightened concerns for a recession due to a fall in stock prices triggered by the slowdown in the U.S. economy, a decline in production due to worsened corporate performance and the unresolved issue of clearing bad debt from the books of Japanese companies.

In the construction industry, a cutback in once robust private capital investment and restricted public works investment by municipal governments has created an extremely harsh operating environment for orders.

In this business environment, Raito Kogyo Co., Ltd. and its Group companies recorded consolidated net sales of ¥104,415 million (US$842,735 thousand) and income from operations of ¥5,019 million (US$40,507 thousand). The Company recorded extraordinary income for gain on securities contributed to employees' retirement benefit trusts of ¥1,244 million (US$10,038 thousand) and posted an extraordinary expense for amortization of transitional obligation of ¥1,195 million (US$9,646 thousand) to swiftly deal with differences arising from changes in accounting methods in accordance with the introduction of accounting methods for retirement benefits. In addition, the Company recorded extraordinary expenses for loss on revaluation of golf memberships of ¥139 million (US$1,123 thousand). As a result, net income totaled ¥2,688 million (US$21,695 thousand).



Yuji Samaru
President

Sales and Orders

Total orders for the Group in the fiscal year ended March 31, 2001, amounted to ¥101,716 million (US$820,952 thousand), with construction projects accounting for ¥90,121 million (US$727,369 thousand) and goods sales representing ¥11,595 million (US$93,582 thousand). By type of work, slope protection orders were ¥34,134 million (US$275,464 thousand). Landslide prevention orders made up ¥17,665 million (US$142,575 thousand) of the total. Ground improvement orders accounted for ¥20,755 million (US$167,514 thousand) of total orders. Pile and diaphragm wall orders totaled ¥5,518 million (US$44,536 thousand). In the other work category, sewer construction was ¥7,243 million (US$58,458 thousand) and other orders were ¥4,803 million (US$38,765 thousand).

Net sales of construction projects totaled ¥92,820 million (US$749,155 thousand). By type of work, slope protection sales were ¥35,008 million (US$282,550 thousand), representing 33.5% of total net sales. Landslide prevention sales accounted for ¥16,614 million (US$134,092 thousand), or 15.9% of net sales. Ground improvement sales amounted to ¥23,407 million (US$188,918 thousand), representing 22.4% of net sales. Pile and diaphragm wall sales accounted for ¥6,905 million (US$55,730 thousand), or 6.6% of net sales. Of other work, sewer construction sales were ¥7,306 million (US$58,967 thousand), accounting for 7.0% of net sales. Other sales made up ¥3,577 million (US$28,870 thousand), or 3.5% of net sales. Goods sales totaled ¥11,595 million (US$93,582 thousand), comprising 11.1% of net sales.

Major projects completed during the term under review included ground improvement work for construction of Minami-Nagareyama Station on the Joban New Line; slope protection work on Route 166 Otsukuriko; and construction of a continuous wall for the Route 479 Suwa joint utility tunnel construction project.

Principal projects in progress include base structure construction of the Sanwa Bridge on the Banetsu Expressway; base structure construction of the Tokyo Gaikan Expressway Takano-Kita viaduct; and ground improvement work on areas surrounding the Chiyoda subway Kita-Senjyu entrance. Using the completed-contract method, these projects will be recorded as net sales in the year they are completed.

Cost of Sales

The cost of sales totaled ¥88,550 million (US$714,688 thousand), and the cost of sales ratio was 84.8%. Gross profit amounted to ¥15,865 million (US$128,048 thousand) with a gross profit margin of 15.2%.

Net Income

Consolidated operating income was ¥5,019 million (US$40,507 thousand). Interest and dividend income, net of interest expense, amounted to ¥44 million (US$358 thousand). Other income totaled ¥168 million (US$1,355 thousand), and other expenses were ¥97 million (US$782 thousand). As previously mentioned, extraordinary income of ¥1,244 million (US$10,038 thousand) for gain on securities contributed to employees' retirement benefit trusts and loss on revaluation of golf memberships of ¥139 million (US$1,123 thousand) were recorded. Extraordinary expenses of ¥1,195 million (US$9,646 thousand) for amortization of transitional obligation were also recorded. Consequently, net income amounted to ¥2,688 million (US$21,695 thousand). The ratio of net income to net sales was 2.6%.

Dividends

The Company's dividend policy is to achieve a balance between building internal reserves for future growth and maintaining stable dividend payments to shareholders. Accordingly, management implemented cash dividends of ¥12.00 (US$0.10) per share. We will apply retained earnings to investment in equipment and to strengthen our competitiveness.

Capital Investment and R&D Expenditures

Investment in equipment during the term totaled ¥879 million (US$7,094 thousand), which included purchases of construction equipment.

Research and development expenditures were ¥435 million (US$3,511 thousand). Major projects included the development of the following: slope protection technology for disaster prevention of inclined surfaces; liquefaction-resistant foundations and other earthquake-resistant engineering methods, and soft ground stabilization; soil contamination countermeasures; repair technology for aging concrete structures; and rooftop greenification technology.

Cash Flows and Financial Position

Net cash provided by operating activities totaled ¥1,899 million (US$15,327 thousand), owing mainly to an increase in notes and accounts payable. Net cash used in investing activities was ¥1,117 million (US$9,018 thousand), primarily due to a decrease in purchases of fixed assets. Net cash used in financing activities amounted to ¥1,174 million (US$9,479 thousand), owing to a net decrease in short-term borrowings.

Shareholders' Equity

Total shareholders' equity at fiscal year-end totaled ¥46,599 million (US$376,101 thousand) and the shareholders' equity ratio was 56.0%. Due to the increase in net income, the return on average equity was 5.9%.

Liquidity

Liquidity was high for the term under review at 1.66 months. With a current ratio of 184%, cash and time deposits accounted for 19.2% of current assets.

Outlook

In the operating environment, there are widespread expectations for deflationary pressures on the Japanese economy to build as a result of prospects for further cutbacks in once robust capital investment and a drop in consumer prices due to weak demand for products.

In the construction industry, companies are facing restrictions on public capital investment and demands for greater efficiency and selectivity due to the worsening financial conditions of local governments.

To cope with these circumstances, Raito Kogyo continues with management reforms, reviewing its business structure and focusing efforts on strengthening existing operations to bolster competitiveness and entering new business fields, including countermeasures to ground liquefaction, structural safety and environment-related businesses.

The Company currently holds 196 patents, with 189 patents pending.

We thank our shareholders for their continued support.

August 2001

Yuji Samaru
President

Consolidated Balance Sheets

March 31, 2001 and 2000	Millions of yen 2001	Millions of yen 2000	Thousands of U.S. dollars (Note 3) 2001
ASSETS			
Current assets:			
Cash and time deposits (Note 13)	¥ 11,143	¥ 11,657	$ 89,939
Marketable securities (Notes 6 and 13)	3,302	4,026	26,649
Notes and accounts receivable, trade:			
Notes	9,549	5,880	77,068
Accounts	24,581	24,974	198,393
Non-consolidated subsidiaries and affiliate	63	57	505
Allowance for doubtful accounts	(412)	(108)	(3,324)
Inventories (Note 4)	8,281	9,395	66,834
Deferred tax assets (Note 12)	573	446	4,623
Other current assets	1,012	1,119	8,164
Total current assets	58,091	57,445	468,851
Property and equipment:			
Land	9,335	9,364	75,345
Buildings	8,977	8,968	72,455
Machinery and equipment	23,675	22,747	191,080
Construction in progress	15	234	120
Others	68	68	552
	42,071	41,381	339,552
Accumulated depreciation	(22,949)	(21,131)	(185,220)
Net property and equipment	19,122	20,250	154,332
Investment and other assets:			
Investment in securities (Note 6)	1,192	2,674	9,617
Investment in non-consolidated subsidiaries and affiliate	140	50	1,130
Deferred tax assets (Note 12)	2,052	2,083	16,561
Others	2,808	3,150	22,665
Allowance for doubtful accounts	(120)	(242)	(972)
Total investment and other assets	6,071	7,714	49,001
Foreign currency translation adjustments	—	21	—
Total assets	¥ 83,284	¥ 85,430	$ 672,184
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank loans payable (Note 7)	¥ 2,863	¥ 3,105	$ 23,105
Current portion of long-term bank loans payable (Note 7)	29	179	232
Notes and accounts payable, trade:			
Notes	8,278	8,812	66,811
Accounts	10,091	9,987	81,442
Non-consolidated subsidiaries and affiliate	28	6	227
Notes and accounts payable, other:			
Notes	174	572	1,401
Accounts	292	414	2,361
Non-consolidated subsidiaries and affiliate	1	—	10
Advance received on uncompleted contracts	5,172	5,238	41,742
Accrued expenses	2,041	2,081	16,475
Accrued income taxes	1,974	1,921	15,932
Other current liabilities	628	412	5,065
Total current liabilities	31,570	32,727	254,803
Long-term liabilities:			
Long-term bank loans payable, less current portion (Note 7)	737	614	5,950
Reserve for retirement allowance	—	7,274	—
Reserve for employees' retirement benefits (Note 8)	3,875	—	31,277
Reserve for directors' retirement benefits	471	—	3,805
Other long-term liabilities	31	34	248
Total long-term liabilities	5,115	7,921	41,280
Total liabilities	36,685	40,648	296,083
Minority interest	—	1	—
Contingent liabilities (Note 11)			
Shareholders' equity (Note 9):			
Common stock, ¥50 par value:			
Authorized—198,000,000 shares			
Issued—57,804,450 shares as of March 31, 2001	6,119	6,119	49,390
Additional paid-in capital	6,358	6,358	51,316
Retained earnings	34,096	32,303	275,188
Unrealized gain on available-for-sale securities	(2)	—	(16)
Foreign currency translation adjustments	28	—	224
Total	46,599	44,781	376,102
Treasury stock	(0)	(0)	(1)
Total shareholders' equity	46,599	44,781	376,101
Total liabilities and shareholders' equity	¥ 83,284	¥ 85,430	$ 672,184

The accompanying notes are an integral part of this statement.

Consolidated Statements of Income

For the years ended March 31, 2001 and 2000	Millions of yen 2001	Millions of yen 2000	Thousands of U.S. dollars (Note 3) 2001
Net sales:			
Sales of construction	¥92,820	¥100,713	$749,153
Sales of goods	11,595	—	93,582
Cost of sales:			
Cost of construction	77,479	84,807	625,333
Cost of goods sales	11,071	—	89,354
Gross profit	15,865	15,906	128,048
Selling, general and administrative expenses	10,846	11,200	87,541
Income from operations	5,019	4,706	40,507
Other income (expenses):			
Interest and dividend income	159	109	1,287
Interest expense	(115)	(83)	(929)
Special charge for reserve for retirement allowance	—	(3,461)	—
Gain on securities contributed to employees' retirement benefit trusts	1,244	—	10,038
Amortization of transitional obligation	(1,195)	—	(9,646)
Other—net	(212)	(269)	(1,708)
Income before income taxes	4,900	1,003	39,549
Income taxes (Note 12):			
Current	2,306	2,614	18,614
Deferred	(95)	(1,798)	(764)
	2,212	816	17,850
Minority interest in net income	1	0	4
Net income	¥ 2,688	¥ 187	$ 21,695

	Yen 2001	Yen 2000	U.S. dollars (Note 3) 2001
Amounts per share (Note 10):			
Net income	¥ 46.50	¥ 3.23	$ 0.38

The accompanying notes are an integral part of this statement.

Consolidated Statements of Shareholders' Equity

For the years ended March 31, 2001 and 2000	Millions of yen 2001	Millions of yen 2000	Thousands of U.S. dollars (Note 3) 2001
Common stock:			
Balance at beginning of the year	¥ 6,119	¥ 6,119	$ 49,390
Balance at end of the year	6,119	6,119	49,390
Additional paid-in capital:			
Balance at beginning of the year	¥ 6,358	¥ 6,358	$ 51,316
Balance at end of the year	6,358	6,358	51,316
Retained earnings:			
Balance at beginning of the year	¥32,303	¥32,293	$260,718
Net income for the year	2,688	187	21,695
Cumulative effect to recognize deferred tax	—	731	—
Cash dividends	(809)	(809)	(6,531)
Bonuses to directors and statutory auditors	(86)	(98)	(694)
Balance at end of the year	34,096	32,303	275,188
Unrealized gain on available-for-sale securities:			
Balance at beginning of the year	¥ —	¥ —	$ —
Net change during the year	(2)	—	(16)
Balance at end of the year	(2)	—	(16)
Foreign currency translation adjustments:			
Balance at beginning of the year	¥ —	¥ —	$ —
Net change during the year	28	—	224
Balance at end of the year	28	—	224
Treasury stock			
Balance at beginning of the year	¥ (0)	¥ (0)	$ (1)
Increase in treasury stock	(0)	(0)	(0)
Balance at end of the year	(0)	(0)	(1)

The accompanying notes are an integral part of this statement.

Consolidated Statements of Cash Flows

For the years ended March 31, 2001 and 2000	Millions of yen 2001	Millions of yen 2000	Thousands of U.S. dollars (Note 3) 2001
Cash flows from operating activities:			
Income before income taxes	¥ 4,900	¥ 1,003	$ 39,549
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	2,203	2,370	17,778
Increase (decrease) in allowance for doubtful accounts	182	(197)	1,471
Increase in reserve for retirement allowance	—	3,590	—
Decrease in reserve for employees' retirement benefits	(386)	—	(3,119)
Decrease in reserve for directors' retirement benefits	(118)	—	(950)
Amortization of transitional obligation	1,195	—	9,646
Gain on securities contributed to employees' retirement benefit trusts	(1,244)	—	(10,038)
Interest income and dividends received recognized on statement of income	(159)	(109)	(1,287)
Interest payment recognized on statement of income	115	83	929
Increase in notes and accounts receivable	(3,256)	(305)	(26,277)
Decrease in accumulated construction cost in progress	237	1,187	1,917
Decrease (increase) in other inventories	908	(1,146)	7,329
Increase (decrease) in notes and accounts payable	(408)	992	(3,296)
Decrease in advance received on uncompleted contracts	(66)	(1,058)	(536)
Others	43	(32)	343
Subtotal	4,146	6,377	33,459
Interest income and dividend received (cash basis)	159	109	1,287
Interest payment (cash basis)	(115)	(83)	(929)
Income taxes paid	(2,253)	(3,236)	(18,186)
Others	(38)	—	(304)
Net cash provided by operating activities	1,899	3,168	15,327
Cash flows from investing activities:			
Payments for time deposits	—	(119)	—
Purchases of marketable securities	—	(478)	—
Proceeds from sales of marketable securities	—	306	—
Purchases of fixed assets	(939)	(2,491)	(7,575)
Proceeds from sales of fixed assets	39	12	319
Purchases of investment securities	(336)	(131)	(2,709)
Proceeds from sales of investment securities	92	52	743
Others	25	354	204
Net cash used in investing activities	(1,117)	(2,495)	(9,018)
Cash flows from financing activities:			
Net increase (decrease) in short-term borrowing	(339)	1,403	(2,734)
Proceeds from long-term borrowing	152	—	1,230
Repayment of long-term borrowing	(179)	(208)	(1,443)
Proceeds from issuing commercial paper	—	1,000	—
Repayment of commercial paper	—	(1,000)	—
Dividends paid to minority shareholders	(809)	(809)	(6,532)
Net cash provided by (used in) financing activities	(1,174)	386	(9,479)
Effects of changes in exchange rates on cash and cash equivalents	2	(0)	19
Net increase (decrease) in cash and cash equivalents	(390)	1,059	(3,151)
Cash and cash equivalents at beginning of the year	14,836	13,776	119,738
Cash and cash equivalents at end of the year (Note 13)	¥14,445	¥14,836	$116,587

The accompanying notes are an integral part of this statement.

Notes to Consolidated Financial Statements

1. Basis of Presenting Financial Statements

The accompanying consolidated financial statements have been prepared from the accounts maintained by RAITO KOGYO CO., LTD. (the Company) and its consolidated subsidiaries in accordance with the provisions set forth in the Japanese Commercial Code and Securities and Exchange Law, and in conformity with accounting principles and practices generally accepted in Japan, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In order to facilitate the understanding of readers outside Japan, certain reclassifications have been made to the consolidated financial statements prepared for domestic purposes and relevant notes and statements of shareholders' equity have been added. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

The amounts are rounded to the nearest millions of yen. Therefore, total or subtotal amounts do not correspond with the aggregation of such account balance.

2. Summary of Significant Accounting Policies

a) Principles of consolidation

(i) Consolidated subsidiaries

The consolidated financial statements include the accounts of the Company and its 2 significant subsidiaries (TWENTY ONE CREATE CO., LTD., and RAITO, INC.), after the elimination of all significant intercompany transactions, balances and unrealized profits.

The consolidated financial statements do not include the accounts of RAITO STAFF SERVICE CO., LTD., EDO ENTERPRISE CO., LTD., C.E. CREATE CO., LTD., since the combined total assets, sales, net income, and retained earnings of these subsidiaries are not significant and would not have a material impact on the consolidated financial statements.

(ii) Equity method

Investments in unconsolidated subsidiaries above mentioned and affiliate (FUGRO GEOSCIENCE CO., LTD.) are not carried using the equity method, since the effect of applying the equity method in these subsidiaries and affiliate is not material.

Investments in unconsolidated subsidiaries and affiliate have been carried at cost.

(iii) Balance sheet date of subsidiaries

The fiscal year-ends of all the consolidated subsidiaries are March 31.

(iv) Goodwill on consolidation

Any difference between the cost of an investment in consolidated subsidiaries and the amount of the underlying equity in the fair value of the net assets of the subsidiaries is charged to income in the year in which it occurs.

Such goodwill on consolidation amounted to ¥1 million ($10 thousand) at March 31, 2001.

b) Recognition of net sales and related costs

Net sales and the related costs of construction contracts are recorded on the completed-contract method regarding the Company and its domestic subsidiaries, and on the percentage-of-completion method regarding the foreign subsidiaries.

In addition, during the construction period, accumulated costs on uncompleted contracts are included as inventories and advances received on uncompleted contracts are stated in current liabilities by the completed-contract method.

c) Marketable securities and investment in securities

Prior to April 1, 2000, securities listed on stock exchanges, which included marketable securities and investment in securities, were stated at the lower of the cost or market value. Carrying cost is determined by the moving-average method. Other securities were stated at cost determined by the moving-average method.

Effective April 1, 2000, the Company and its consolidated subsidiaries adopted a new accounting standard for financial instruments, including marketable securities and investment in securities. It requires all applicable securities to be classified and accounted for, depending on management's intent, as follows:

(i) Trading securities, which are held for the purpose of earning capital gains in near term, are reported at fair value and the related unrealized gains and losses are included in the earnings;
(ii) Held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at amortized cost;
(iii) Available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of stockholders' equity.

The Company and its consolidated subsidiaries classify all of marketable securities and investment in securities as available-for-sale securities, which are carried at cost determined by the moving-average method.

As a result of the application of this standard, certain securities amounting to ¥827 million ($6,675 thousand) were reclassified from current assets to non-current assets at the beginning of the year.

The effect of adoption of the new standard was to decrease income before income taxes by ¥397 million ($3,202 thousand).

d) Inventories

Inventories other than materials and supplies are stated at accumulated construction cost for each project. Selling, general and administrative expenses are excluded from such cost.

Materials and supplies are stated at cost determined by the first-in, first-out method.

e) Property and equipment, depreciation and lease transactions

Property and equipment, including significant renewals and additions, are carried at cost. Maintenance and repairs, including minor renewals and improvements, are charged to income as incurred.

Regarding the Company and its domestic subsidiaries, depreciation for buildings acquired before April 1, 1998, machinery and equipment is mainly computed by the declining balance method, and depreciation for buildings acquired after April 1, 1998 is computed by the straight-line method over the applicable useful lives.

Regarding the foreign subsidiaries, depreciation is mainly computed by the straight-line method over the estimated useful lives.

Finance lease transactions, except for those which meet the condition that the ownership of the leased asset is substantially transferred to the lessee, are accounted for the same as operating lease transactions.

f) Software

Software used by the Company and its consolidated subsidiaries is depreciated using the straight-line method, based on the useful life as determined by the Company and its consolidated subsidiaries (generally 5 years).

g) Allowance for doubtful accounts

Allowance for doubtful accounts of the Company and its consolidated subsidiaries are provided as follows:

For general receivables, allowance is provided at rates derived from historical credit loss experiences.

For doubtful receivables, allowance is provided at the amount considered uncollectible based on respective assessment of collectability.

h) Reserve for retirement benefits

Effective April 1, 2000, the Company and its consolidated subsidiaries adopted the new accounting standard for the employees' retirement benefits and accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at each balance sheet date.

Unrecognized actuarial gains or losses are recognized as income or expenses from the following fiscal year under the straight-line method over the average remaining service period of the current employee.

The full amount of the transitional obligation of ¥1,195 million ($9,646 thousand) at the beginning of the year is charged to income and presented as other expense in the consolidated statements of income.

As a result of the application of this standard, the related cost increased by ¥491 million ($3,965 thousand), and operating income and income before income taxes decreased by ¥468 million ($3,776 thousand).

In September 2000, the Company contributed certain available-for-sale securities with a fair value to employees' retirement benefit trusts and recognized a non-cash gain of ¥1,244 million ($10,038 thousand) as other income in the consolidated statements of income. The securities held in these trusts are qualified as plan assets.

For the fiscal year ended March 31, 2000, the Company has changed its accounting method as follows. Liabilities for employees' retirement benefits under the lump-sum benefit plan are provided to 47% of the liabilities periodically accrued on a voluntary retirement basis at the balance sheet date instead of 40% of those as applied for the fiscal year ended March 31, 1999. The Company also recognized the past service obligation under the non-contributory tax-qualified pension plans on the accrual basis instead of the cash basis as applied for the fiscal year ended March 31, 1999.

The effect of this change was recognized as special charge for retirement allowance in the consolidated statements of income to decrease income before income taxes by ¥3,461 million for the fiscal year ended March 31, 2000.

Retirement benefits to directors and corporate auditors are provided at the amount which would be required, if all directors and corporate auditors retired at the balance sheet date.

At March 31, 2001 and 2000, retirement benefits for directors and corporate auditors in the amount of ¥471 million ($3,805 thousand) and ¥589 million, respectively, is included in the liability for "Reserve for directors' retirement benefits" and "Reserve for retirement allowance" respectively.

i) Income taxes

Effective April 1, 1999, the Company and its consolidated subsidiaries have adopted the accounting for income taxes which recognized deferred income taxes under the asset-liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effects of deferred tax assets and liabilities on a change in tax rates are recognized in income in the period that includes the enacted date.

j) Appropriations of retained earnings

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

k) Foreign currency translation

Effective April 1, 2000, the Company and its consolidated domestic subsidiary adopted a revised accounting standard for foreign currency transaction. In accordance with the revised standard, all monetary receivables and payables in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income.

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as at the balance sheet date except for shareholders' equity, which is translated at the historical rate.

Effective April 1, 2000, differences arising from translations were shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity in accordance with the revised accounting standard for foreign currency transactions.

The effect of the adoption of the revised standard on the consolidated financial statement is immaterial for the year ended March 31, 2001.

3. United States Dollar Amounts

The United States dollar amounts presented in the accompanying financial statements are included solely for convenience and are stated, as a matter of arithmetical computation only, at the rate of ¥123.90=US$1.00, which was the exchange rate prevailing at March 31, 2001.

4. Inventories

Inventories as of March 31, 2001 and 2000 comprised the following:

	Millions of yen		*Thousands of U.S. dollars*
	2001	*2000*	*2001*
Accumulated construction cost in progress	¥8,040	¥8,248	$64,892
Materials and supplies	241	1,147	1,942
	¥8,281	¥9,395	$66,834

5. Leases

a) The following is certain information on finance leases accounted for in the same manner as operating leases since ownership of the leased assets is not substantially transferred to the lessee.

The analysis of the leased assets as of March 31, 2001 and 2000 is as follows. The acquisition cost equivalent is computed based on undiscounted lease payments at the inception of the leases.

	Millions of yen		*Thousands of U.S. dollars*
	2001	*2000*	*2001*
Machinery and equipment:			
Acquisition cost equivalent	¥523	¥1,030	$4,222
Accumulated depreciation equivalent	260	803	2,098
Net book value equivalent	¥263	¥ 227	$2,124

Undiscounted future lease payments as of March 31, 2001 and 2000, are as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2001	*2000*	*2001*
Due within one year	¥ 93	¥ 80	$ 750
Thereafter	170	147	1,374
	¥263	¥227	$2,124

Lease payments for the years ended March 31, 2001 and 2000, are ¥99 million ($795 thousand) and ¥130 million, respectively. Depreciation expense equivalent is computed on a straight-line basis over the lease term with no residual value, and amounted to ¥99 million ($795 thousand) and ¥130 million for the years ended March 31, 2001 and 2000, respectively.

b) Future payments of operating lease as of March 31, 2001 and 2000, are as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2001	*2000*	*2001*
Due within one year	¥ 45	¥ 39	$362
Thereafter	65	91	522
	¥110	¥130	$884

6. Marketable Securities and Investment in Securities

Effective April 1, 2000, the Company and its consolidated subsidiaries adopted a new accounting standard for financial instruments, including marketable securities and investment in securities. (See Note 2. c)

The market value of listed securities, which are classified as available-for-sale securities, as of March 31, 2001, is as follows:

	Millions of yen		
		Fair Value	
	Cost	*(Carrying amount)*	*Unrealized gain (loss)*
Marketable equity securities	¥ 158	¥ 221	¥ 63
Debentures	0	0	0
Fund trust and other	999	932	(67)
Total	¥1,156	¥1,153	¥ (3)

	Thousands of U.S. dollars		
		Fair Value	
	Cost	*(Carrying amount)*	*Unrealized gain (loss)*
Marketable equity securities	$1,273	$1,783	$ 510
Debentures	1	1	0
Fund trust and other	8,059	7,522	(537)
Total	$9,333	$9,306	$ (27)

The breakdown of marketable securities and investment in securities as of March 31, 2000 is as follows:

	Millions of yen		
	Cost (Carrying amount)	*Market value*	*Unrealized gain (loss)*
Current			
Marketable equity securities	—	—	—
Debentures	—	—	—
Fund trust and other	¥728	¥768	¥40
Subtotal	¥728	¥768	¥40
Non-Current			
Marketable equity securities	¥2,519	¥4,243	¥1,724
Debentures	0	0	0
Fund trust and other	—	—	—
Subtotal	¥2,519	¥4,243	¥1,724
Total	¥3,247	¥5,011	¥1,764

7. Short-term Bank Loans Payable and Long-term Bank Loans Payable

a) Short-term bank loans payable

Short-term bank loans payable are mostly unsecured loans bearing interest at market rates.

b) Long-term bank loans payable

The annual maturities of long-term bank loans payable outstanding as of March 31, 2001, are as follows:

Year ending March 31,	*Millions of yen*	*Thousands of U.S. dollars*
2002	¥ 29	$ 232
2003	179	1,443
2004	529	4,268
2005	29	232
2006 and thereafter	1	6

c) Pledged assets

A summary of assets pledged as collateral for long-term and short-term bank loans as of March 31, 2001 and 2000, is as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2001	*2000*	*2001*
Land	¥412	¥412	$3,324
Buildings	417	445	3,369

8. Employees' Retirement Benefits and Pension Plans

The Company and its consolidated subsidiaries have severance payment plans for employees.

Effective April 1, 2000, the Company and its consolidated subsidiaries adopted a new accounting standard for employees' retirement benefits.

The liability for employees' retirement benefit obligation at March 31, 2001, consists of the following:

	Millions of yen	*Thousands of U.S. dollars*
	2001	*2001*
Projected benefit obligation	¥(15,219)	$(122,833)
Plan assets at fair value	6,191	49,965
Retirement benefit trusts	3,352	27,054
Unrecognized actuarial loss	1,801	14,537
Net liability	¥ (3,875)	$ (31,277)

The components of net periodic benefit costs for the year ended March 31, 2001, are as follows:

	Millions of yen	*Thousands of U.S. dollars*
	2001	*2001*
Service cost	¥ 601	$ 4,850
Interest cost	491	3,965
Expected return on plan assets	(246)	(1,987)
Amortization of transitional obligation	1,195	9,646
Net periodic benefit costs	¥2,041	$16,474

Assumptions used for the year ended March 31, 2001, are set forth as follows:

Discount rate	2.8%
Expected rate of return on plan assets	4.0%
Amorization period of actuarial gain/loss	15 years
Amortization period of transitional obligation	1 year

9. Additional Paid-in Capital, Legal Reserve, and Dividends

Under the Japanese Commercial Code, at least 50 percent of the issue price of new shares with a minimum of the par value, is designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of the amount designated as stated capital have been credited to additional paid-in capital.

The Commercial Code provides that an amount equivalent to at least 10 percent of the total amount of cash dividends paid and bonuses to directors and statutory auditors with respect to each fiscal period may be appropriated to a legal reserve until such reserve equals 25 percent of the stated capital.

The Commercial Code also provides that both additional paid-in capital and legal reserve are not available for dividends, but may be used to reduce a capital deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors.

Dividends may be approved by the shareholders after the end of each fiscal period. In accordance with the Commercial Code, these dividends and the related appropriations of retained earnings are not reflected in the financial statements at the end of such fiscal year but are recorded at the time they are approved.

In addition, due to the revision of the Securities and Exchange Law of Japan, legal reserve of the Company which is provided by the Commercial Code of Japan is included in the retained earnings on the consolidated balance sheet.

10. Net Income per Share

Net income per share is based upon the weighted average number of shares of common stock outstanding during each year.

11. Contingent Liabilities

As of March 31, 2001 and 2000, the Company and its consolidated subsidiaries were contingently liable as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2001	*2000*	*2001*
Notes receivable discounted	¥4,166	¥2,503	$33,622
Notes receivable endorsed	1,411	1,285	11,388
Guarantees of loans	44	121	357

12. Income Taxes

Income taxes applicable to the Company and its consolidated subsidiaries comprise (1) corporation tax, (2) enterprise tax, and (3) inhabitant tax. While the normal statutory tax rates were approximately 41.9 percent, these income taxes resulted in effective tax rates of approximately 45.1 percent and 81.3 percent for the years ended March 31, 2001 and 2000, respectively.

The following table reconciles above statutory tax rate to the Company's effective tax rate for the years ended March 31, 2001 and 2000.

	2001	*2000*
Statutory rate	41.9%	41.9%
Non-deductible items	4.1	24.2
Non-taxable items	(0.2)	(1.5)
Inhabitant minimum taxes	1.6	7.8
Net loss in subsidiary	0.3	5.5
Other, net	(2.6)	3.4
Effective tax rate	45.1%	81.3%

The significant components of the Company's deferred tax assets and liabilities as of March 31, 2001 and 2000, are as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2001	*2000*	*2001*
Deferred tax assets:			
Reserve for retirement allowance	¥ —	¥1,931	$ —
Reserve for employees' retirement benefits	1,590	—	12,837
Reserve for directors' retirement benefits	197	—	1,592
Amortization of transitional obligation	500	—	4,037
Accrued expenses	258	185	2,084
Enterprise tax payable	161	162	1,298
Other	484	299	3,906
Total deferred tax assets	¥3,191	¥2,577	$25,754
Deferred tax liabilities:			
Gain on securities contributed to employees' retirement benefits	520	—	4,201
Special depreciation allowance for tax purposes	46	48	369
Total deferred tax liabilities	¥ 566	¥ 48	$ 4,570
Total net deferred tax assets	¥2,625	¥2,529	$21,184

13. Cash and Cash Equivalents

For the purpose of the consolidated statements of cash flows, the Company and its consolidated subsidiaries consider all highly liquid investments with insignificant risk of changes in value and original maturity of three months or less at the date of acquisition to be cash equivalents.

Reconciliation between cash and time deposits and marketable securities on the consolidated balance sheet as of March 31, 2001 and 2000 and cash and cash equivalents at end of the year on the statement of cash flows for the years ended March 31, 2001 and 2000, is as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Cash and time deposits on the consolidated balance sheet	¥11,143	¥11,657	$89,939
Marketable securities on the consolidated balance sheet	3,302	4,026	26,649
Time deposits with maturity on over three months	—	(119)	—
Securities with significant risk of changes in value	—	(728)	—
Cash and cash equivalents on the statement of cash flows	¥14,445	¥14,836	$116,588

14. Segment Information

(1) Industry segments

The industry segment information for the year ended March 31, 2000 is omitted since one segment occupied more than 90%. Based on the Securities and Exchange Law in Japan, such information is not required to be disclosed. Therefore, the figures of the fiscal year ended March 31, 2000 are not available and there is no comparison with these figures on this report.

Summarized financial information by industry segment for the year ended March 31, 2001 is as follows:

	Millions of Yen				
	Year ended March 31, 2001				
	Construction	Goods sales	Total	Elimination	Consolidated
Revenues:					
Customers	¥92,820	¥11,595	¥104,415	¥ —	¥104,415
Inter-segment	3	1,135	1,138	(1,138)	—
Total	92,823	12,730	105,553	(1,138)	104,415
Operating expenses	88,130	12,386	100,517	(1,121)	99,396
Operating income	¥ 4,693	¥ 344	¥ 5,036	¥ (17)	¥ 5,019
Assets	¥61,253	¥ 4,400	¥ 65,653	¥17,630	¥ 83,284
Depreciation	2,169	35	2,204	(2)	2,203
Capital expenditures	881	—	881	(1)	881

	Thousands of U.S. dollars				
	Year ended March 31, 2001				
	Construction	Goods sales	Total	Elimination	Consolidated
Revenues:					
Customers	$749,153	$ 93,582	$842,735	$ —	$842,735
Inter-segment	25	9,162	9,187	(9,187)	—
Total	749,178	102,744	851,922	9,187	842,735
Operating expenses	711,303	99,971	811,274	(9,046)	802,228
Operating income	$ 37,875	$ 2,773	$ 40,648	$ (141)	$ 40,507
Assets	$494,375	$ 35,516	$529,891	$142,293	$672,184
Depreciation	17,509	282	17,791	(13)	17,778
Capital expenditures	7,114	—	7,114	(7)	7,107

(2) Geographical segment and overseas sales

Disclosure of geographical segment information and overseas sales has been omitted due to immateriality.

Report of the Independent Certified Public Accountants on the Consolidated Financial Statements of the Company

To the Board of Directors of
RAITO KOGYO CO., LTD.

We have audited the consolidated balance sheets of RAITO KOGYO CO., LTD. and its consolidated subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of income, shareholders' equity and cash flows for each of the two years in the period ended March 31, 2001, expressed in Japanese yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of RAITO KOGYO CO., LTD. and its consolidated subsidiaries as of March 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for the years ended March 31, 2001 and 2000, in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

As described in Note 2 c) h) k) to the consolidated financial statements, RAITO KOGYO CO., LTD. and its consolidated subsidiaries have adopted new accounting standards for employees' retirement benefits and financial instruments and a revised accounting standard for foreign currency transactions in the preparation of their consolidated financial statements for the year ended March 31, 2001.

The United States dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2001 are presented solely for convenience. Our audit also included the translation of yen amounts into United States dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

June 28, 2001
Tokyo, Japan

Century Ota Showa & Co.

Century Ota Showa & Co.
Certified Public Accountants

See Note 1 to the consolidated financial statements which explains the basis of preparing the consolidated financial statements of RAITO KOGYO CO., LTD. and its consolidated subsidiaries under Japanese accounting principles and practices.

RAITO KOGYO CO., LTD.

Board of Directors and Auditors

President
Yuji Samaru

Senior Managing Directors
Takao Umehara
Minoru Taku
Nobuyuki Akiyama
Masaji Kobayashi
Katsunori Negishi

Managing Directors
Yoshitomo Kinoshita
Takao Ogawa
Isao Ozawa
Tsuneo Motegi
Yasunori Yoshida
Katsumi Murao

Directors
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Sueo Kokubo
Yutaka Tsujii
Kenji Kurosaka
Tatsuhiko Yamamoto
Haruto Kawashima
Shin Yoshizawa
Gojiro Nishida

Standing Auditors
Takatomo Matsunaga
Ryosuke Sakai

Auditors
Kenichi Kondo
Hidenori Miyake

(as of June 28, 2001)

Share Information

Common Stock:

Authorized shares
198,000,000 shares (as of March 31, 2001)

Issued and outstanding shares
57,804,450 shares (as of June 28, 2001)

Number of shareholders
12,940 (as of March 31, 2001)

Fiscal Year-End:
End of March each year

Annual Meeting:
In June of each year in Tokyo, Japan

Transfer Agent, Registrar and Dividend Payments:
The Chuo Mitsui Trust and Banking Co., Ltd.
3-33-1 Shiba, Minato-ku,
Tokyo 105-8574, Japan
Phone: 81-3-5232-8618
Fax: 81-3-5232-8698

Dividends:
Dividends are normally paid in the month of June.

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Corporate Data

Head Office:
4-2-35 Kudan-kita, Chiyoda-ku,
Tokyo 102-8236, Japan

Capital:
¥6,119,475,000
US$49,390,435
(as of March 31, 2001)

Date of Establishment:
September 28, 1948

Stock Trading:
Tokyo Stock Exchange,
First Section

Major Shareholders:
Sumitomo Mitsui Banking Corp.
The Taiyo Mutual Life Insurance Co.
Nippon Life Insurance Company, and others
The Asahi Bank, Ltd.
The Hokuriku Bank, Ltd.

Employees:
1,456 (as of March 31, 2001)

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