RAITO KOGYO CO., LTD.

Annual Report 2003

Contents

Raito

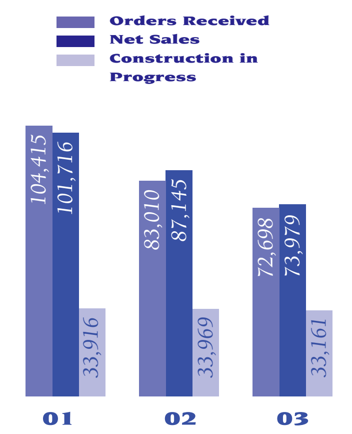
RAITO KOGYO CO., LTD. and its consolidated subsidiaries

Consolidated Financial Highlights

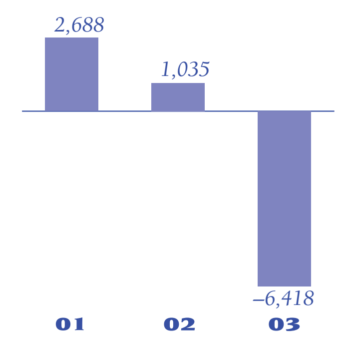
Years ended March 31	Millions of yen 2003	2002	2001	Thousands of U.S. dollars 2003
For the year:				
Orders received	¥ 72,698	¥83,010	¥101,716	$604,816
Net sales	73,979	87,145	104,415	615,463
Income (loss) before income taxes	(5,145)	2,347	4,900	(42,803)
Net income (loss)	(6,418)	1,035	2,688	(53,391)
At year-end:				
Total assets	¥ 68,124	¥80,549	¥ 83,284	$566,755
Shareholders' equity	38,810	47,282	46,599	322,878
Common stock	6,119	6,119	6,119	50,911
Amounts per share:				
(in yen and dollars)				
Net income (loss)	¥(116.36)	¥ 17.91	¥ 46.50	$ (0.97)

Note: U.S. dollar amounts here and elsewhere in this annual report are translated from yen at the rate ¥120.20 = US$1.00, the rate on March 31, 2003 for the readers' convenience only.

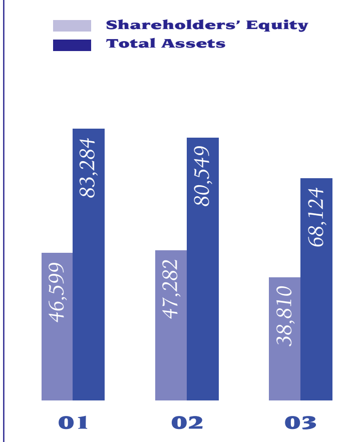
Orders Received, Net Sales and Construction in Progress *(Millions of yen)*



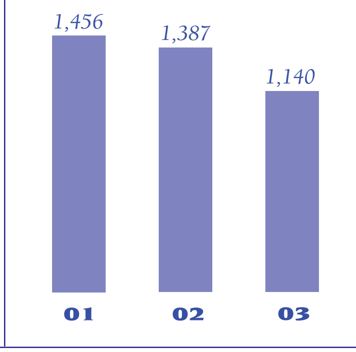
Net Income (Loss) *(Millions of yen)*



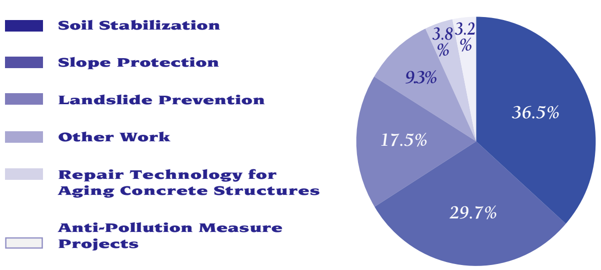
Shareholders' Equity and Total Assets *(Millions of yen)*



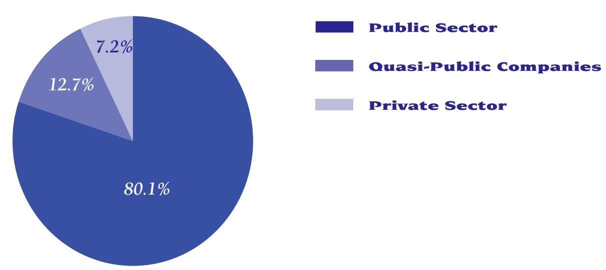
Number of Employees



Orders Received by Type of Work *(%)*



Orders Received by Type of Client *(%)*



Operating Environment

No signs of a business recovery were seen in the Japanese economy during the fiscal year ended March 31, 2003. Consumer spending remained weak against a backdrop of unclear international conditions, instability of the financial system, and other structural issues.

Although the construction industry benefited from public spending under a revised budget, financial conditions resulted in a decline in public spending on construction at both the national and local levels. Private-sector capital investment also displayed a declining trend, as corporate capital investment declined and housing construction decreased. This caused the contraction of the construction market overall, and made for an extremely difficult operating environment.

In addition to the contraction of the construction market, the Raito Kogyo Group lost its status as a designated bidder on government contracts as a result of an antitrust violation in connection with slope protection projects. This set orders received on a downward course. The Group's consolidated orders received for the period of this report were ¥73,979 million (US$615,463 thousand), and operating income was ¥1,550 million (US$12,898 thousand). Cost of sales was ¥62,365 million (US$518,843 thousand), yielding a cost of sales ratio of 84.3%. Gross profit for the fiscal year totaled ¥11,614 million (US$96,620 thousand), and the gross profit ratio was 15.7%.

Extraordinary expenses of ¥2,097 million (US$17,449 thousand) in transfers to the reserve for retirement benefits were posted, and an allowance for doubtful receivables of subsidiaries of ¥3,300 million (US$27,454 thousand) was posted. Accordingly, a net loss of ¥6,418 million (US$53,391 thousand) was recorded.

Yuji Samaru
President

Sales and Orders

Of the ¥72,698 million (US$604,816 thousand) in orders received by the Raito Group during the fiscal year ended March 31, 2003, slope protection projects accounted for ¥21,597 million (US$179,680 thousand), landslide prevention projects for ¥12,749 million (US$106,071 thousand), soil stabilization projects for ¥26,494 million (US$220,423 thousand), repair technology for aging concrete structures projects for ¥2,743 million (US$22,827 thousand), anti-pollution measure projects for ¥2,329 million (US$19,379 thousand). In the category of "other construction projects," sewer construction accounted for ¥5,107 million (US$42,490 thousand) in orders received, and other orders for ¥1,676 million (US$13,946 thousand).

Construction revenues totaled ¥73,392 million (US$610,582 thousand). This was composed of ¥21,121 million (US$175,723 thousand) from slope protection projects, representing 28.6% of total construction revenues, ¥13,620 million (US$113,312 thousand) from landslide prevention projects, 18.4% of the total, ¥26,095 million (US$217,104 thousand) from soil stabilization projects, 35.3% of the total, ¥3,161 million (US$26,298 thousand) from repair technology for aging concrete structures projects, 4.3% of the total, and ¥1,844 million (US$15,345 thousand) from anti-pollution measure projects, 2.5% of the total. In the other projects, construction revenues from sewer construction were ¥5,066 million (US$42,151 thousand), representing 6.8% of total construction revenues, and construction revenues from other projects totaled ¥2,482 million (US$20,649 thousand), 3.3% of total construction revenues. Sales of materials and products totaled ¥587 million (US$4,881 thousand).

Principal construction projects completed during the fiscal year included base structure construction for the Sanwa Bridge on the Banetsu Expressway, the Tokyo Gaikan Expressway Takano-Kita viaduct, and work on the Imazato Dai-ichi Tunnel on the Dai-ni Tomei Expressway.

Major construction projects in progress include ground improvement work in the area surrounding the Kita-Senju entrance to the Chiyoda subway line, base structure construction for the Tokyo Gaikan Expressway Takasu-Kita viaduct, and earth retaining work for the Shin-Oyashirazu Tunnel Facilities Project on the Hokuriku Shinkansen Line. In accordance with the completed-contract accounting method, revenues from these projects will be reported in the year in which they are completed.

Net Income

Consolidated operating income was ¥1,550 million (US$12,898 thousand), a year-on-year decline of ¥1,513 million. Fees paid were ¥57 million (US$480 thousand) higher than in the previous fiscal year, which contributed to net interest expenses of ¥91 million (US$754 thousand). An extraordinary loss of ¥6,743 million was posted, which was composed primarily of a ¥3,300 million (US$27,454 thousand) transfer to the allowance for doubtful accounts, and a transfer of ¥2,097 million (US$17,449 thousand) to the reserve for retirement benefits in connection with the Company's adoption of the new accounting standard for the employees' retirement benefits. As a result of the foregoing, the Company posted a net loss of ¥6,418 million (US$53,391 thousand) for the fiscal year.

Dividends

Raito's fundamental policy regarding dividends is to balance the need to bolster internal reserves against the need for future development of new technologies and businesses with the imperative of providing stable dividends to shareholders.

Guided by this policy, we have liquidated the reserve for directors' retirement bonuses and a portion of some other reserves, and have allocated those funds to cover the net loss suffered this fiscal year and to fund a year-end dividend of ¥10 per share. A stable dividend payout is forecast for the coming fiscal year as well.

Capital Investment and R&D Expenditures

Capital investments during this fiscal year totaled ¥981 million (US$8,163 thousand), including investments in the purchase of construction machinery and equipment.

R&D expenditures for the term were ¥414 million (US$3,445 thousand), principally in the development of slope protection technology to withstand natural disasters; anti-liquefaction soil treatment measures and other earthquake countermeasures, methods for stabilizing soft ground; soil contamination countermeasures; repair technology for aging concrete structures; the development of technologies for reusing and reducing the volume of waste soil generated during ground improvement projects, and the development of spatial information technology.

Cash Flows

Net cash provided by operating activities totaled ¥895 million (US$7,445 thousand), a significant improvement over net cash used in operating activities of ¥3,082 million in the previous fiscal year. A ¥2,538 million reduction in the reserve for retirement benefits was a factor in this, as was an increase of ¥3,730 million in the allowance for doubtful accounts. In addition, accounts receivable declined by ¥3,193 million.

Net cash used in investing activities was ¥1,780 million (US$14,810 thousand), an increase of ¥1,230 million over the previous fiscal year. Principal factors in this were investments of ¥957 million in the acquisition of tangible fixed assets (industrial machinery), and investments of ¥555 million in the purchase of investment securities.

Net cash used in financing activities increased by ¥805 million to ¥1,139 million (US$9,477 thousand). A ¥2,930 million decrease in short-term borrowings was a factor in this.

Shareholders' Equity

At March 31, 2003, shareholders' equity stood at ¥38,810 million (US$322,878 thousand), and the shareholders' equity ratio was 57%.

Corporate Governance

One of the most important management issues bearing on putting into practice our basic business policy—to enhance the prosperity of everyone connected with the Company, including customers, shareholders, and employees—is maintaining the health of the Company's management structure and systems.

To build a management structure that will allow the Board of Directors to accelerate decision-making, we have optimized the number of directors on the Board. Together with this, we have established a General Managers' Committee to facilitate rapid and correct understanding of important management policies and pressing issues, while working to strengthen management functions.

Raito's management oversight structure is built around the corporate auditor system. The Company's auditors, half of whom are independent auditors, attend meetings of the Board of Directors and other important committees within the Company, thereby strengthening oversight of the activities of directors, enhancing the soundness of management, and increasing management transparency.

Outlook

Instability in employment and wages indicates that some time will yet be required before a recovery in consumer spending materializes. In addition, reflecting the uncertainties in the economic picture overseas, it is forecast that growth in exports and manufacturing will be sluggish.

The construction industry will see its extremely harsh operating environment persist, as the market continues to contract.

Raito Kogyo will meet these circumstances through qualitative changes in marketing, and by expanding revenues through vigorous promotion of environmentally friendly proprietary technologies. Together with this, the Company will press forward with the strengthening of its compliance systems, while working to secure both trust and earnings in the marketplace.

The Company currently holds 243 patents, and has 146 patents pending.

We would like to request the continued support of each of our shareholders as we meet the challenges facing us.

August 2003

Y. Samaru

Yuji Samaru
President

Consolidated Balance Sheets

March 31, 2003 and 2002	Millions of yen 2003	Millions of yen 2002	Thousands of U.S. dollars (Note 3) 2003
ASSETS			
Current assets:			
Cash and time deposits (Note 14)	¥ 6,666	¥ 8,655	$ 55,455
Marketable securities (Note 6, 14)	1,831	1,830	15,229
Notes and accounts receivable, trade:			
Notes	4,187	8,335	34,831
Accounts	18,963	26,305	157,770
Allowance for doubtful accounts	(402)	(297)	(3,347)
Inventories (Note 4)	7,652	9,846	63,660
Deferred tax assets (Note 13)	486	749	4,045
Other current assets	980	1,112	8,153
Total current assets	40,363	56,535	335,796
Property and equipment:			
Land (Note 7)	9,894	9,972	82,314
Buildings	9,060	8,976	75,378
Machinery and equipment	24,167	24,491	201,058
Construction in progress	4	1	37
Others	70	70	583
	43,196	43,510	359,370
Accumulated depreciation	(25,080)	(24,591)	(208,656)
Net property and equipment	18,116	18,919	150,714
Investment and other assets:			
Investment in securities (Note 6)	1,325	885	11,026
Investment in non-consolidated subsidiaries and affiliates	170	190	1,414
Long-term loans to non-consolidated subsidiaries and affiliates	230	70	1,913
Long-term receivable	8,300	—	69,048
Deferred tax assets (Note 13)	1,338	1,947	11,133
Others	2,159	2,253	17,963
Allowance for doubtful accounts	(3,877)	(251)	(32,252)
Total investment and other assets	9,645	5,094	80,245
Total assets	¥68,124	¥80,549	$566,755
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank loans payable (Note 8)	¥ 828	¥ 3,286	$ 6,890
Current portion of long-term bank loans payable (Note 8)	800	529	6,656
Notes and accounts payable, trade:			
Notes	4,342	6,738	36,127
Accounts	10,815	8,278	89,975
Notes and accounts payable, other:			
Notes	188	147	1,563
Accounts	208	103	1,727
Advance received on uncompleted contracts	5,161	5,714	42,938
Accrued expenses	1,594	2,574	13,260
Accrued income taxes	323	1,252	2,685
Other current liabilities	598	498	4,972
Total current liabilities	24,857	29,118	206,793
Long-term liabilities:			
Long-term bank loans payable, less current portion (Note 8)	3,200	208	26,622
Deferred liabilities (Note 13)	1	7	5
Deferred liabilities on revaluation of land (Note 7)	258	266	2,146
Reserve for employees' retirement benefit (Note 9)	491	3,028	4,081
Reserve for directors' retirement benefit	480	542	3,990
Other long-term liabilities	29	96	240
Total long-term liabilities	4,457	4,148	37,084
Total liabilities	29,314	33,266	243,877
Contingent liabilities (Note 12)			
Shareholders' equity (Note 10)**:**			
Common stock:			
Authorized—198,000,000 shares			
Issued—57,804,450 shares as of March 31, 2003	6,119	6,119	50,911
Additional paid-in capital	6,358	6,358	52,896
Retained earnings	27,220	34,367	226,457
Revaluation surplus of land (Note 7)	378	370	3,147
Unrealized gain on available-for-sale securities	10	(21)	83
Foreign currency translation adjustments	32	89	263
Total	40,118	47,282	333,757
Treasury stock—at cost, 4,205,321 shares in 2003 and 268 shares in 2002 (Note 11)	(1,308)	(0)	(10,879)
Total shareholders' equity	38,810	47,282	322,878
Total liabilities and shareholders' equity	¥68,124	¥80,549	$566,755

The accompanying notes are an integral part of this statement.

Consolidated Statements of Operations

For the years ended March 31, 2003 and 2002	*Millions of yen* 2003	2002	*Thousands of U.S. dollars (Note 3)* 2003
Net sales:			
Sales of construction	¥73,392	¥81,559	$610,582
Sales of goods	587	5,585	4,881
Cost of sales:			
Cost of construction	61,908	68,438	515,043
Cost of goods sales	457	5,286	3,800
Gross profit	11,614	13,421	96,620
Selling, general and administrative expenses	10,063	10,357	83,722
Income from operations	1,550	3,064	12,898
Other income (expenses):			
Interest and dividend income	34	75	279
Interest expense	(63)	(98)	(525)
Additional retirement payment	(2,097)	(385)	(17,449)
Provision for doubtful accounts	(3,300)	—	(27,454)
Write-down of inventory	(735)	—	(6,115)
Other—net	(534)	(309)	(4,437)
Other expenses—net	(6,695)	(717)	(55,701)
Income (loss) before income taxes	(5,145)	2,347	(42,803)
Income taxes (Note 13)**:**			
Current	453	1,327	3,765
Deferred	820	(14)	6,823
	1,273	1,312	10,588
Minority interest in net income	—	—	—
Net income (loss)	¥ (6,418)	¥ 1,035	$ (53,391)

	Yen		*U.S. dollars (Note 3)*
Amounts per share:			
Net income (loss)	¥(116.36)	¥17.91	$(0.97)

Consolidated Statements of Shareholders' Equity

For the years ended March 31, 2003 and 2002	*Millions of yen* 2003	2002	*Thousands of U.S. dollars (Note 3)* 2003
Common stock:			
Balance at beginning of the year	¥ 6,119	¥ 6,119	$ 50,911
Balance at end of year	6,119	6,119	50,911
Additional paid-in capital:			
Balance at beginning of the year	¥ 6,358	¥ 6,358	$ 52,896
Balance at end of year	6,358	6,358	52,896
Retained earnings:			
Balance at beginning of the year	¥34,367	¥34,096	$285,917
Increase due to inclusion in consolidation	24	—	201
Net income (loss) for the year	(6,418)	1,035	(53,391)
Cash dividends	(694)	(694)	(5,771)
Bonuses to directors and statutory auditors	(60)	(70)	(499)
Balance at end of year	27,220	34,367	226,457
Revaluation surplus of land (Note 13)**:**			
Balance at beginning of the year	¥ 370	¥ 370	$ 3,078
Due to tax rate change	8	—	69
Balance at end of year	378	370	3,147
Unrealized gain on available-for-sale securities:			
Balance at beginning of the year	¥ (21)	¥ (2)	$ (175)
Net change during the year	31	(19)	258
Balance at end of year	10	(21)	83
Foreign currency translation adjustments:			
Balance at beginning of the year	¥ 89	¥ 28	$ 737
Net change during the year	(57)	61	(474)
Balance at end of year	32	89	263
Treasury stock (Note 11)**:**			
Balance at beginning of the year	¥ (0)	¥ (0)	$ (1)
Increase in treasury stock	(1,308)	(0)	(10,878)
Balance at end of year	(1,308)	(0)	(10,879)

The accompanying notes are an integral part of this statement.

Consolidated Statements of Cash Flows

For the years ended March 31, 2003 and 2002	Millions of yen 2003	Millions of yen 2002	Thousands of U.S. dollars (Note 3) 2003
Cash flows from operating activities:			
Income (loss) before income taxes	¥(5,145)	¥ 2,347	$(42,803)
Adjustments to reconcile income (loss) before income taxes to net cash provided by (used in) operating activities:			
Depreciation and amortization	1,726	2,002	14,359
Increase (decrease) in allowance for doubtful accounts	3,730	17	31,033
Increase (decrease) in reserve for employees' retirement benefits	(2,538)	(847)	(21,113)
Increase (decrease) in reserve for directors' retirement benefits	(62)	70	(518)
Interest income and dividends received recognized on statement of operations	(34)	(75)	(279)
Interest payment recognized on statement of operations	63	98	525
Decrease (increase) in notes and accounts receivable	3,193	(400)	26,564
Decrease (increase) in accumulated construction cost in progress	1,477	(879)	12,286
Decrease (increase) in other inventories	(53)	(698)	(443)
Increase (decrease) in notes and accounts payable	(752)	(3,380)	(6,258)
Increase (decrease) in advance received on uncompleted contracts	(553)	536	(4,598)
Write-down of inventory	735	—	6,115
Others	519	218	4,321
Subtotal	2,307	(991)	19,191
Interest income and dividends received (cash basis)	34	75	279
Interest payment (cash basis)	(63)	(98)	(525)
Income taxes paid	(1,379)	(2,049)	(11,472)
Others	(3)	(19)	(28)
Net cash provided by (used in) operating activities	895	(3,082)	7,445
Cash flows from investing activities:			
Purchases of fixed assets	(957)	(1,050)	(7,963)
Proceeds from sales of fixed assets	37	17	305
Purchases of investment securities	(555)	(419)	(4,615)
Proceeds from sales of investment securities	27	610	221
Others	(331)	292	(2,758)
Net cash used in investing activities	(1,780)	(550)	(14,810)
Cash flows from financing activities:			
Net increase (decrease) in short-term borrowings	(2,930)	389	(24,372)
Proceeds from long-term borrowings	4,000	—	33,278
Repayment of long-term borrowings	(208)	(29)	(1,734)
Purchases of treasury stock	(1,308)	—	(10,878)
Dividends paid to minority shareholders	(694)	(694)	(5,771)
Net cash used in financing activities	(1,139)	(334)	(9,477)
Effects of changes in exchange rates on cash and cash equivalents	(3)	6	(26)
Net decrease in cash and cash equivalents	(2,027)	(3,960)	(16,868)
Cash and cash equivalents at beginning of the year	10,485	14,445	87,231
Increase due to inclusion in consolidation	39	—	321
Cash and cash equivalents at end of the year (Note 14)	¥ 8,496	¥10,485	$ 70,684

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 million 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 three significant subsidiaries (TWENTY ONE CREATE CO., LTD., and RAITO, INC. and AURA LUGAR CO., LTD), after the elimination of all significant intercompany transactions, balances and unrealized profits.

The consolidated financial statements do not include the accounts of EDO ENTERPRISE CO., LTD., C.E. CREATE CO., LTD., TOHOKU REALIZE CO., LTD., KYUSHU REALIZE 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 an affiliate (Sol Data JAPAN K.K) is 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 this 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) Consolidation adjustments

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.

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 investments in securities

Securities are classified into three categories: trading, held-to-maturity or available-for-sale securities, which are not classified as either trading or held-to-maturity securities.

The Company classifies all of marketable securities and investments in securities as available-for-sale securities.

Marketable available-for-sale securities are carried at fair market value at year end. The cost of securities sold is determined based on the moving average method. Unrealized holding gain or loss on available-for-sale securities, net of the applicable income taxes, is charged to shareholders' equity.

Non-marketable available-for-sale securities are carried at cost by the moving average method.

Impairments of non-marketable securities are reduced to net realized value by a charge to income.

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 transaction

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 five 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

Accrued retirement benefits are provided for the payment of retirement benefits at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets at the end of the current fiscal year.

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

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

Retirement benefit 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.

i) Income taxes

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) Per share data
The Company has adopted the new "Financial Accounting Standards for Earnings per Share" and the new "Implementation Guidance on Financial Accounting Standards for Earnings per Share" effective from April 1, 2002.

The effect of the adoption of the new standard and implementation guidance on the consolidated financial statements is immaterial for the year ended March 31, 2003.

l) Consumption tax
Consumption tax is taken out from all the revenue and expense items and balance sheet items, and recorded separately, except mainly for receivables and payables.

m) Reclassification
Certain reclassifications have been made to the accompanying 2002 financial statements to conform to the 2003 presentation.

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 ¥120.20=US$1.00, which was the exchange rate prevailing at March 31, 2003.

4. Inventories
Inventories as of March 31, 2003 and 2002 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Accumulated construction cost in progress	¥7,413	¥8,921	$61,668
Materials and supplies	239	925	1,992
	¥7,652	¥9,846	$63,660

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, 2003 and 2002 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
	2003	2002	2003
Machinery and equipment:			
Acquisition cost equivalent	¥659	¥560	$5,481
Accumulated depreciation equivalent	292	254	2,429
Net book value equivalent	¥367	¥306	$3,052

Undiscounted future lease payments as of March 31, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Due within one year	¥124	¥102	$1,028
Thereafter	243	203	2,024
	¥367	¥306	$3,052

Lease payments for the years ended March 31, 2003 and 2002 are ¥124 million ($1,035 thousand) and ¥104 million, respectively. Depreciation expense equivalent is computed on a straight-line basis over the lease term with no residual value, and amounted to ¥124 million ($1,035 thousand) and ¥104 million for the years ended March 31, 2003 and 2002, respectively.

b) Future payments of operating lease as of March 31, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Due within one year	¥15	¥20	$128
Thereafter	20	34	164
	¥35	¥54	$292

6. Marketable Securities and Investment in Securities
The market value of listed securities, which are classified as available-for-sale securities, as of March 31, 2003 and 2002, are as follows:

	Millions of yen		
		Fair Value	
As of March 31, 2003	Cost	(Carrying amount)	Unrealized gain (loss)
Marketable equity securities	¥285	¥363	¥ 78
Debentures	—	—	—
Fund trust and other	534	472	(62)
Total	¥819	¥835	¥ 16

	Thousands of U.S. dollars		
		Fair Value	
As of March 31, 2003	Cost	(Carrying amount)	Unrealized gain (loss)
Marketable equity securities	$2,372	$3,023	$ 651
Debentures	—	—	—
Fund trust and other	4,443	3,926	(517)
Total	$6,815	$6,949	$ 134

	Millions of yen		
		Fair Value	
As of March 31, 2002	Cost	(Carrying amount)	Unrealized gain (loss)
Marketable equity securities	¥284	¥332	¥ 48
Debentures	0	0	0
Fund trust and other	563	478	(85)
Total	¥847	¥811	¥(37)

7. Revaluation of Land
Under the "Law of Land Revaluation," promulgated on March 31, 1998 and revised on March 31, 2001, the Company has elected a one-time revaluation of its own-use land.

The resulting land revaluation excess represents unrealized appreciation of land and is stated, net of income taxes, as a component of shareholders' equity. There is no effect on the statements of operations. Continuous readjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the land revaluation excess account and related deferred tax liabilities.

As of March 31, 2003, the carrying amount of the land after one-time revaluation exceeded the market value by ¥780 million ($6,486 thousand).

8. 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, 2003 are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2004	¥800	$6,656
2005	800	6,656
2006	800	6,656
2007	800	6,656
2008	800	6,656

c) Pledged assets

A summary of assets pledged as collateral for long-term and short-term bank loans as of March 31, 2003 and 2002 is as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2003	*2002*	*2003*
Land	¥ —	¥412	$ —
Buildings	—	393	—

9. Employees' Retirement Benefit and Pension Plan

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

The liability for employees' retirement benefits obligation at March 31, 2003 and 2002 consists of the following:

	Millions of yen		*Thousands of U.S. dollars*
	2003	*2002*	*2003*
Projected benefit obligation	¥(14,192)	¥(14,914)	$(118,067)
Plan assets at fair value	6,298	6,406	52,398
Retirement benefit trusts	1,375	2,034	11,443
Unrecognized actuarial loss	6,157	3,446	51,221
Unrecognized prior service cost	(129)	—	(1,076)
Net liability	¥ (491)	¥ (3,028)	$ (4,081)

The components of net periodic benefit costs for the years ended March 31, 2003 and 2002 are as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2003	*2002*	*2003*
Service cost	¥ 635	¥ 664	$ 5,283
Interest cost	418	426	3,474
Expected return on plan assets	(256)	(248)	(2,132)
Amortization of actuarial loss	238	120	1,978
Amortization of prior service cost	(4)	—	(37)
Net periodic benefit costs	¥1,030	¥ 963	$ 8,566

Assumptions used for the years ended March 31, 2003 and 2002 are set forth as follows:

	2003	*2002*
Discount rate	2.0%	2.8%
Expected rate of return on plan assets	4.0%	4.0%
Amortization period of actuarial gain/loss	15 years	15 years
Amortization period of prior service cost	15 years	—

10. Shareholders' Equity

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. However, dividends per share shown in the accompanying statements of operations and retained earnings are included in the years to which they relate.

11. Treasury Stock

The Company holds 4,205,321 shares of treasury stock as of March 31, 2003 based on approval by the annual shareholders' meeting.

The Company has adopted the new "Financial Accounting Standards for Treasury Stock and Reduction of Legal Reserves" effective from April 1, 2002.

The effect of the adoption of the new standards on the consolidated financial statements is immaterial for the year ended March 31, 2003.

12. Contingent Liabilities

As of March 31, 2003 and 2002, the Company and its consolidated subsidiaries were contingently liable as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2003	*2002*	*2003*
Notes receivable discounted	¥2,494	¥1,719	$20,745
Notes receivable endorsed	13	1,310	112

13. 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 –24.7 percent and 55.9 percent for the years ended March 31, 2003 and 2002, respectively.

The following table reconciles above statutory tax rate to the Company's effective tax rate for the years ended March 31, 2003 and 2002.

	2003	*2002*
Statutory rate:	41.9 %	41.9 %
Non-deductible items	(2.1)	6.9
Non-taxable items	0.1	(0.1)
Inhabitant minimum taxes	(1.6)	3.5
Net loss in subsidiaries	—	0.3
Net operating loss carryforwards	(26.6)	—
Allowance for doubtful accounts	(27.1)	—
Write-down of inventory	(6.8)	—
Deferred income taxes due to tax rate change	(0.6)	—
Other, net	(1.9)	3.4
Effective tax rate	(24.7)%	55.9 %

The significant components of the Company's deferred tax assets and liabilities as of March 31, 2003 and 2002 are as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2003	*2002*	*2003*
Deferred tax assets:			
Reserve for employees' retirement benefits	¥ 824	¥1,406	$ 6,853
Reserve for directors' retirement benefits	196	227	1,633
Amortization of transitional obligation	485	500	4,032
Accrued expenses	238	363	1,984
Enterprise tax payable	—	108	—
Net operating loss carryforwards	1,349	—	11,225
Allowance for doubtful accounts	1,572	130	13,077
Other	716	526	5,953
Subtotal	5,380	3,261	44,757
Valuation allowance	(3,005)	—	(24,997)
Total deferred tax assets	¥ 2,376	¥3,261	$ 19,760
Deferred tax liabilities:			
Gain on securities contributed to employees' retirement benefits	504	520	4,196
Special depreciation allowance for tax purposes	40	43	334
Other	7	7	57
Total deferred tax liabilities	¥ 551	¥ 571	$ 4,587
Total net deferred tax assets	¥ 1,824	¥2,690	$ 15,173

Due to the change in local tax law which will be effective from April 1, 2004, the normal statutory rate used for the measurement of deferred tax assets and liabilities, which those temporary differences are expected to be recovered or settled after April 1, 2004, is reduced to 40.6 percent from 41.9 percent.

As a result, deferred tax assets decreased by ¥30 million ($254 thousand) and unrealized gain on securities and revaluation surplus of land increased by ¥0 million ($2 thousand) and ¥8 million ($69 thousand) as of March 31, 2003, respectively, and deferred income taxes increased by ¥31 million ($255 thousand) for the year ended as March 31, 2003.

14. 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 sheets as of March 31, 2003 and 2002 and cash and cash equivalents at end of year on the statements of cash flows for the years ended March 31, 2003 and 2002 is as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2003	*2002*	*2003*
Cash and time deposits on the consolidated balance sheet	¥6,666	¥ 8,655	$55,455
Marketable securities on the consolidated balance sheet	1,831	1,830	15,229
Cash and cash equivalents on the statement of cash flows	¥8,496	¥10,485	$70,684

15. Segment Information

(1) Industry segments

Summarized financial information by industry segment for the years ended as of March 31, 2003 and 2002 is as follows:

	Millions of Yen				
	Year ended March 31, 2003				
	Construction	*Goods sales*	*Total*	*Elimination*	*Consolidated*
Revenues:					
Customers	¥73,392	¥ 587	¥73,979	¥ —	¥73,979
Inter-segment	19	1,330	1,349	(1,349)	—
Total	73,411	1,917	75,327	(1,349)	73,979
Operating expenses	71,859	1,921	73,780	(1,352)	72,428
Operating income (loss)	¥ 1,552	¥ (5)	¥ 1,547	¥ 3	¥ 1,550
Assets	¥55,153	¥6,797	¥61,950	¥ 6,174	¥68,124
Depreciation	1,700	27	1,727	(1)	1,726
Capital expenditures	1,051	1	1,052	—	1,052

	Thousands of U.S. dollars				
	Year ended March 31, 2003				
	Construction	*Goods sales*	*Total*	*Elimination*	*Consolidated*
Revenues:					
Customers	$610,582	$ 4,881	$615,463	$ —	$615,463
Inter-segment	157	11,064	11,221	(11,221)	—
Total	610,739	15,945	626,684	(11,221)	615,463
Operating expenses	597,828	15,984	613,812	(11,247)	602,565
Operating income (loss)	$ 12,911	$ (39)	$ 12,872	$ 26	$ 12,898
Assets	$458,844	$56,547	$515,391	$ 51,364	$566,755
Depreciation	14,147	221	14,368	(9)	14,359
Capital expenditures	8,743	6	8,749	—	8,749

	Millions of Yen				
	Year ended March 31, 2002				
	Construction	*Goods sales*	*Total*	*Elimination*	*Consolidated*
Revenues:					
Customers	¥81,559	¥ 5,585	¥87,145	¥ —	¥87,145
Inter-segment	1	1,195	1,196	(1,196)	—
Total	81,561	6,780	88,341	(1,196)	87,145
Operating expenses	78,739	6,580	85,319	(1,239)	84,081
Operating income	¥ 2,822	¥ 200	¥ 3,022	¥ 42	¥ 3,064
Assets	¥62,185	¥11,140	¥73,325	¥ 7,223	¥80,549
Depreciation	1,972	31	2,003	(1)	2,002
Capital expenditures	1,029	2	1,031	0	1,031

(2) Geographical segment and overseas sales

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

16. Subsequent Event

On June 27, 2003, the following appropriations of retained earnings were approved at the shareholders' meeting of the Company:

	Millions of yen	*Thousands of U.S. dollars*
Cash dividends of ¥10.0 ($0.08) per share (final for the year ended March 31, 2003)	¥536	$4,459

Report of the Independent Certified Public Accountants

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, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of RAITO KOGYO CO., LTD. and its consolidated subsidiaries as of March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

The United States dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2003 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 27, 2003
Tokyo, Japan

Shin Nihon & Co.

Shin Nihon & 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
Nobuyuki Akiyama
Katsunori Negishi

Managing Directors
Tsuneo Motegi
Yasunori Yoshida
Katsumi Murao
Haruto Kawashima
Shin Yoshizawa
Haruo Aoki

Directors
Takao Ogawa
Tatsuhiko Yamamoto
Gojiro Nishida

Standing Auditors
Ryosuke Sakai
Eiji Nakagawa

Auditors
Kenichi Kondo
Shuichiro Kobayashi

(as of June 27, 2003)

Share Information

Common Stock:

Authorized shares
198,000,000 shares (as of March 31, 2003)

Issued and outstanding shares
57,804,450 shares (as of June 27, 2003)

Number of shareholders
12,022 (as of March 31, 2003)

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 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$50,910,773
(¥120.20=US$1.00)
(as of March 31, 2003)

Date of Establishment:
September 28, 1948

Stock Trading:
Tokyo Stock Exchange,
First Section

Major Shareholders:
TAIYO LIFE INSURANCE COMPANY
UFJ Trust Bank Limited (Trust Account A)
Sumitomo Mitsui Banking Corporation
Nippon Life Insurance Company
The Master Trust Bank of Japan, Ltd.

Employees:
1,140 (as of March 31, 2003)

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