RAITO KOGYO CO., LTD.

Annual Report 2004

Contents

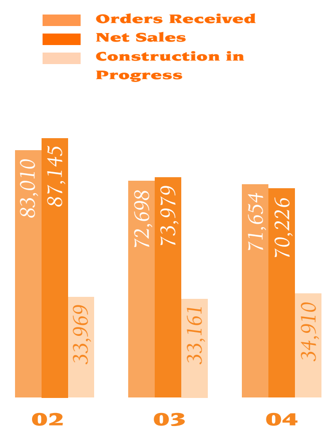
Raito

Consolidated Financial Highlights

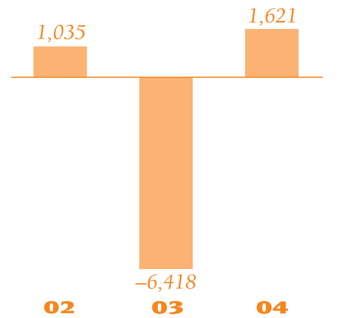
Years ended March 31	Millions of yen 2004	2003	2002	Thousands of U.S. dollars 2004
For the year:				
Orders received	¥ 71,654	¥ 72,698	¥83,010	$677,972
Net sales	70,226	73,979	87,145	664,451
Income (loss) before income taxes	1,689	(5,145)	2,347	15,977
Net income (loss)	1,621	(6,418)	1,035	15,336
At year-end:				
Total assets	¥ 68,244	¥ 68,124	¥80,549	$645,703
Shareholders' equity	40,424	38,810	47,282	382,479
Common stock	6,119	6,119	6,119	57,900
Amounts per share:				
(in yen and dollars)				
Net income (loss)	¥ 29.59	¥(116.36)	¥ 17.91	$ 0.28

Note: U.S. dollar amounts here and elsewhere in this annual report are translated from yen at the rate ¥105.69 = US$1.00, the rate on March 31, 2004, for the readers' convenience only.

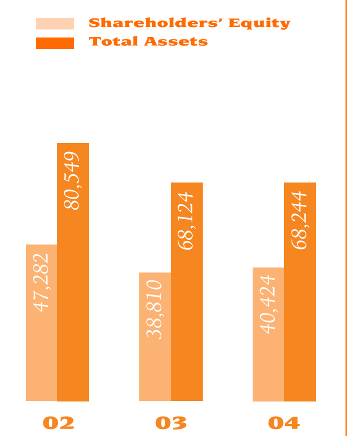
Orders Received, Net Sales and Construction in Progress
(Millions of yen)



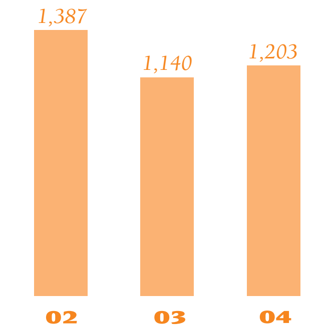
Net Income (Loss)
(Millions of yen)



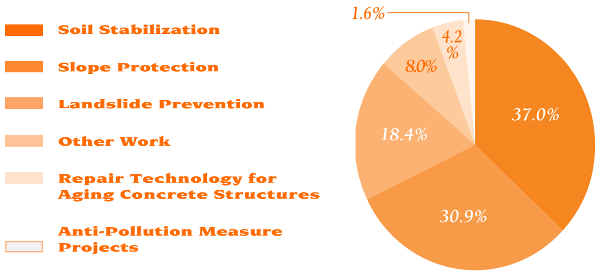
Shareholders' Equity and Total Assets
(Millions of yen)



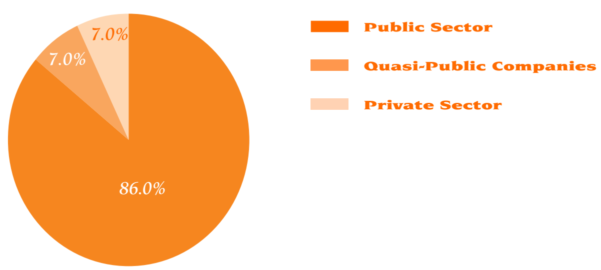
Number of Employees



Orders Received by Type of Work (%)



Orders Received by Type of Client (%)



Operating Environment

The fiscal year ended March 31, 2004, saw signs of a recovery in the Japanese economy. Growth in exports and capital investments provided the setting for a recovery in corporate earnings and consumer spending.

The construction industry benefited from a recovery of private-sector construction investment, but suffered a decline in public-sector construction investment on both the national and local levels. As a result, total construction investment declined year on year, creating an adverse operating environment.

In this operating environment, Raito Kogyo's consolidated net sales contracted by 5.1% to ¥70,226 million (US$664,451 thousand). Cost of sales totaled ¥59,559 million (US$563,519 thousand) and the cost of sales ratio was 84.8%. Gross profit declined to ¥10,667 million (US$100,932 thousand), and the gross profit ratio was 15.2%. Income from operations amounted to ¥1,846 million (US$17,466 thousand). After posting a net loss in the preceding fiscal year, the Company posted net income of ¥1,621 million (US$15,336 thousand).

Yuji Samaru
President

Sales and Orders

Orders received in the Raito Kogyo Group during the fiscal year ended March 31, 2004, totaled ¥71,654 million (US$677,972 thousand). Of this, slope protection projects accounted for ¥22,154 million (US$209,613 thousand), landslide prevention projects ¥13,184 million (US$124,739 thousand), soil stabilization projects ¥26,483 million (US$250,574 thousand), aging concrete structural repair projects ¥2,986 million (US$28,253 thousand), and anti-pollution measure projects ¥1,113 million (US$10,528 thousand). Under other construction projects, sewer construction accounted for ¥4,923 million (US$46,576 thousand), and other orders ¥813 million (US$7,690 thousand).

Net sales amounted to ¥70,226 million (US$664,451 thousand). Construction revenues from slope protection projects totaled ¥22,416 million (US$212,096 thousand), or 31.9% of construction revenues. Landslide prevention projects accounted for ¥12,328 million (US$116,646 thousand), or 17.6% of construction revenues, soil stabilization projects ¥24,837 million (US$234,996 thousand), or 35.4%, aging concrete structural repair projects ¥3,240 million (US$30,655 thousand), or 4.6%, and anti-pollution measure projects ¥1,128 million (US$10,674 thousand), or 1.6%.

In the other construction projects' category, construction revenues from sewer construction accounted for ¥4,999 million (US$47,298 thousand), or 7.1% of construction revenues, and other orders ¥911 million (US$8,624 thousand), or 1.3%. Sales of materials and products reached ¥366 million (US$3,462 thousand), representing 0.5% of net sales.

Principal construction projects completed included 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 repair work on the Toriyazaka Tunnel.

Projects in progress include the work at the Iwagi Interchange on the Northeast Japan Sea Expressway, work on the Imazato Dai-ichi Tunnel on the Dai-ni Tomei Expressway and the Kita Kanto Expressway Fukuhara Elevated Bridge (anchor) project. 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

Pressure from selling, general and administrative expenses and other factors held income from operations to ¥1,846 million (US$17,466 thousand), an increase of ¥296 million (US$2,797 thousand) over the previous fiscal year's figure.

Other income—net totaled ¥56 million (US$534 thousand), and interest and dividend income amounted to ¥86 million (US$811 thousand) was posted.

An extraordinary loss of ¥217 million (US$2,057 thousand) was posted, primarily loss on sale of property, plant and equipment and write-down of inventory of ¥76 million (US$725 thousand), and transfers to the provision for doubtful accounts of ¥75 million (US$711 thousand).

As a result, net income of ¥1,621 million (US$15,336 thousand) was posted.

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. Based on this policy, a dividend of ¥10 per share was declared for this fiscal year.

Capital Investment and R&D Expenditures

During the fiscal year under review, the Company made capital investments totaling ¥746 million (US$7,062 thousand), for the purchase of construction machinery and other applications.

Research and development expenses for the fiscal year were ¥343 million (US$3,249 thousand). Principal R&D programs included:

1. Disaster-proof slope protection technology
2. Anti-liquefaction soil treatment and other earthquake countermeasures
3. Soil contamination countermeasures
4. Aging concrete structural repair projects
5. The development of technologies for reusing and reducing the volume of waste soil generated during ground improvement projects
6. Spatial information technology

Cash Flows

Net cash provided by operating activities was ¥4,206 million (US$39,794), in comparison with ¥895 million in the previous fiscal year. Advances received on uncompleted contracts decreased by ¥1,299 million (US$12,286 thousand), and income before income taxes amounted to ¥1,689 million (US$15,977 thousand), including depreciation and amortization of ¥1,460 million and an increase in reserve for employees' retirement benefits of ¥487 million.

Net cash used in investing activities was ¥1,320 million (US$12,487 thousand). Uses of cash included purchases of fixed assets (construction machinery) and other equipment of ¥846 million (US$8,001 thousand).

Net cash used in financing activities totaled ¥1,237 million (US$11,701 thousand), chiefly a ¥912 million (US$8,627 thousand) net decrease in short-term borrowing and cash dividends paid to shareholders of ¥536 million (US$5,071 thousand).

Shareholders' Equity

At March 31, 2004, shareholders' equity was ¥40,424 million (US$382,479 thousand) and the shareholders' equity ratio was 59.2%. Return on equity improved to 4.0%.

Corporate Governance

The fundamental policy of the Raito Kogyo Group is, "To enhance the prosperity of everyone connected with the Company, including customers, shareholders, and employees." To make this a reality, maintaining the health of the Company's management structure and systems is one of the most important management issues it faces.

Raito Kogyo has introduced an executive officer system, with the objective of optimizing 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. We are reinforcing the oversight functions of the Board of Directors, enhancing the soundness of management, and increasing management transparency.

Outlook

It is anticipated that the economic environment will display a recovery in consumer confidence, rising capital investment, and a shallow recovering trend in business conditions.

The construction industry will benefit from the growth in capital investment, and private-sector construction investment will be steady. However, public-sector construction investment will continue to decline.

Given these circumstances, Raito Kogyo will move forward with the development of liquefaction countermeasures and the vigorous promotion of environmentally friendly proprietary technologies, in addition to the Company's existing businesses.

The Company currently holds 261 patents, and has 150 patents pending.

We would like to request the continued support of each and every one of our shareholders.

August 2004

Yuji Samaru
President

Consolidated Balance Sheets

March 31, 2004 and 2003	*Millions of yen* 2004	2003	*Thousands of U.S. dollars (Note 1)* 2004
ASSETS			
Current assets:			
Cash and time deposits (Note 3)	¥ 8,909	¥ 6,666	$ 84,290
Marketable securities (Notes 3, 5)	1,231	1,831	11,643
Notes and accounts receivable, trade:			
Notes	3,948	4,187	37,351
Accounts	18,486	18,963	174,910
Allowance for doubtful accounts	(431)	(402)	(4,078)
Inventories (Note 4)	6,621	7,652	62,644
Deferred tax assets (Note 12)	521	486	4,927
Other current assets	861	980	8,143
Total current assets	40,144	40,363	379,830
Property and equipment:			
Land (Note 6)	9,826	9,894	92,971
Buildings	9,072	9,060	85,837
Machinery and equipment	24,142	24,167	228,425
Construction in progress	75	4	710
Others	63	70	598
	43,179	43,196	408,541
Accumulated depreciation	(25,888)	(25,080)	(244,947)
Net property and equipment	17,290	18,116	163,594
Investment and other assets:			
Investment in securities (Note 5)	2,527	1,325	23,912
Investment in non-consolidated subsidiaries and affiliates	170	170	1,608
Long-term loans to non-consolidated subsidiaries and affiliates	150	230	1,419
Long-term receivable	8,389	8,300	79,377
Deferred tax assets (Note 12)	983	1,338	9,304
Others	2,542	2,159	24,052
Allowance for doubtful accounts	(3,952)	(3,877)	(37,393)
Total investment and other assets	10,810	9,645	102,279
Total assets	¥68,244	¥68,124	$645,703
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank loans payable (Note 7)	¥ 616	¥ 828	$ 5,832
Current portion of long-term bank loans payable (Note 7)	800	800	7,569
Notes and accounts payable, trade:			
Notes	4,925	4,342	46,595
Accounts	10,877	10,815	102,917
Notes and accounts payable, other:			
Notes	95	188	896
Accounts	127	208	1,203
Advance received on uncompleted contracts	3,843	5,161	36,360
Accrued expenses	1,498	1,594	14,169
Accrued income taxes	226	323	2,142
Other current liabilities	576	598	5,454
Total current liabilities	23,583	24,857	223,137
Long-term liabilities:			
Long-term bank loans payable, less current portion (Note 7)	2,611	3,200	24,708
Deferred liabilities (Note 12)	10	1	90
Deferred liabilities on revaluation of land (Note 6)	235	258	2,225
Reserve for employees' retirement benefit (Note 8)	978	491	9,254
Reserve for directors' retirement benefit	374	480	3,536
Other long-term liabilities	29	29	274
Total long-term liabilities	4,237	4,457	40,087
Total liabilities	27,820	29,314	263,224
Contingent liabilities (Note 14)			
Shareholders' equity (Note 9):			
Common stock:			
Authorized—198,000,000 shares			
Issued, no par value, 57,804,450 shares as of March 31, 2004	6,119	6,119	57,900
Additional paid-in capital	6,358	6,358	60,158
Retained earnings	28,338	27,220	268,128
Revaluation surplus of land (Note 6)	345	378	3,262
Unrealized gain on available-for-sale securities	608	10	5,752
Foreign currency translation adjustments	(37)	32	(346)
Total	41,732	40,118	394,854
Treasury stock—at cost, 4,205,991 shares in 2004 and 4,205,321 shares in 2003 (Note 10)	(1,308)	(1,308)	(12,375)
Total shareholders' equity	40,424	38,810	382,479
Total liabilities and shareholders' equity	¥68,244	¥68,124	$645,703

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income

For the years ended March 31, 2004 and 2003	Millions of yen 2004	Millions of yen 2003	Thousands of U.S. dollars (Note 1) 2004
Net sales:			
Sales of construction	¥69,860	¥73,392	$660,989
Sales of goods	366	587	3,462
Cost of sales:			
Cost of construction	59,243	61,908	560,531
Cost of goods sales	316	457	2,988
Gross profit	10,667	11,614	100,932
Selling, general and administrative expenses	8,821	10,063	83,466
Income from operations	1,846	1,550	17,466
Other income (expenses):			
Interest and dividend income	86	34	811
Interest expense	(65)	(63)	(617)
Additional retirement payment	—	(2,097)	—
Provision for doubtful accounts	(75)	(3,300)	(711)
Write-down of inventory	—	(735)	—
Gain (Loss) on sales or disposal of property and equipment	(46)	(53)	(438)
Other—net	(56)	(480)	(534)
Other expenses—net	(157)	(6,695)	(1,489)
Income (Loss) before income taxes	1,689	(5,145)	15,977
Income taxes (Note 12)**:**			
Current	172	453	1,627
Deferred	(104)	820	(986)
	68	1,273	641
Minority interest in net income	—	—	—
Net income (loss)	¥ 1,621	¥(6,418)	$ 15,336

	Yen 2004	Yen 2003	U.S. dollars (Note 1) 2004
Amounts per share:			
Net income	¥29.59	¥(116.36)	$0.28

Consolidated Statements of Shareholders' Equity

For the years ended March 31, 2004 and 2003	Millions of yen 2004	Millions of yen 2003	Thousands of U.S. dollars (Note 1) 2004
Common stock:			
Balance at beginning of the year	¥ 6,119	¥ 6,119	$ 57,900
Balance at end of year	6,119	6,119	57,900
Additional paid-in capital:			
Balance at beginning of the year	¥ 6,358	¥ 6,358	$ 60,158
Balance at end of year	6,358	6,358	60,158
Retained earnings:			
Balance at beginning of the year	¥27,220	¥34,367	$257,546
Increase due to inclusion in consolidation	—	24	—
Transfer from revaluation surplus of land	34	—	317
Net income for the year	1,621	(6,418)	15,336
Cash dividends	(536)	(694)	(5,071)
Bonuses to directors and statutory auditors	—	(60)	—
Balance at end of year	28,338	27,220	268,128
Revaluation surplus of land (Note 6)**:**			
Balance at beginning of the year	¥ 378	¥ 370	$ 3,579
Due to tax rate change	—	8	—
Sales of revaluated land	(34)	—	(317)
Balance at end of year	345	378	3,262
Unrealized gain on available-for-sale securities:			
Balance at beginning of the year	¥ 10	¥ (21)	$ 95
Net change during the year	598	31	5,657
Balance at end of year	608	10	5,752
Foreign currency translation adjustments:			
Balance at beginning of the year	¥ 32	¥ 89	$ 300
Net change during the year	(68)	(57)	(646)
Balance at end of year	(37)	32	(346)
Treasury stock (Note 10)**:**			
Balance at beginning of the year	¥(1,308)	¥ (0)	$(12,373)
Increase in treasury stock	(0)	(1,308)	(2)
Balance at end of year	(1,308)	(1,308)	(12,375)

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

For the years ended March 31, 2004 and 2003	*Millions of yen* 2004	*Millions of yen* 2003	*Thousands of U.S. dollars (Note 1)* 2004
Cash flows from operating activities:			
Income (loss) before income taxes	¥ 1,689	¥ (5,145)	$15,977
Adjustments to reconcile income before income taxes to net cash provided by (used in) operating activities:			
Depreciation and amortization	1,460	1,726	13,811
Increase (decrease) in allowance for doubtful accounts	104	3,730	985
Increase (decrease) in reserve for employees' retirement benefits	487	(2,538)	4,612
Increase (decrease) in reserve for directors' retirement benefits	(106)	(62)	(1,001)
Interest income and dividends received recognized on statement of operations	(86)	(34)	(811)
Interest payment recognized on statement of income	65	63	617
Decrease (increase) in notes and accounts receivable	449	3,193	4,252
Decrease (increase) in accumulated construction cost in progress	1,012	1,477	9,577
Decrease (increase) in other inventories	11	(53)	104
Increase (decrease) in notes and accounts payable	489	(752)	4,631
Increase (decrease) in advance received on uncompleted contracts	(1,299)	(553)	(12,286)
Write-down of inventory	—	735	—
Others	162	519	1,534
Subtotal	4,439	2,307	42,002
Interest income and dividends received (cash basis)	86	34	811
Interest payment (cash basis)	(65)	(63)	(617)
Income taxes paid	(249)	(1,379)	(2,360)
Others	(4)	(3)	(42)
Net cash provided by operating activities	4,206	895	39,794
Cash flows from investing activities:			
Purchases of fixed assets	(846)	(957)	(8,001)
Proceeds from sales of fixed assets	103	37	970
Purchases of investment securities	(199)	(555)	(1,878)
Proceeds from sales of investment securities	0	27	1
Others	(378)	(331)	(3,578)
Net cash used in investing activities	(1,320)	(1,780)	(12,486)
Cash flows from financing activities:			
Net increase (decrease) in short-term borrowings	(912)	(2,930)	(8,627)
Proceeds from long-term borrowings	211	4,000	2,000
Repayment of long-term borrowings	—	(208)	—
Purchases of treasury stock	(0)	(1,308)	(2)
Cash dividends paid	(536)	(694)	(5,071)
Net cash used in financing activities	(1,237)	(1,139)	(11,700)
Effects of changes in exchange rates on cash and cash equivalents	(7)	(3)	(63)
Net decrease in cash and cash equivalents	1,643	(2,027)	15,545
Cash and cash equivalents at beginning of the year	8,496	10,485	80,388
Increase due to inclusion in consolidation	—	39	—
Cash and cash equivalents at end of the year (Note 3)	¥10,139	¥ 8,496	$95,933

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

1. Basis of Preparation

The accompanying consolidated financial statements of RAITO KOGYO CO., LTD. (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of 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 balances.

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 ¥105.69=US$1.00, which was the exchange rate prevailing at March 31, 2004.

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 the unconsolidated subsidiaries above mentioned and affiliate (Sol Data JAPAN.K.K) are not carried using the equity method, since the effect of applying the equity method in these subsidiaries and this affiliate is not material.

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

(iii) 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) 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.

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 its 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 shareholder's 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) 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.

f) 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 collectibility.

g) Property and equipment, depreciation and lease transactions

Property and equipment are carried at cost.

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.

h) 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).

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) Reserve for retirement benefit

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.

k) 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.

l) 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 was immaterial for the year ended March 31, 2003.

m) 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.

n) Reclassification

Certain reclassifications have been made to the accompanying 2003 financial statements to conform to the 2004 presentation.

3. Cash and Cash Equivalents

Reconciliation between cash and time deposits and marketable securities on the consolidated balance sheet as of March 31, 2004 and 2003 and cash and cash equivalents at end of year on the statement of cash flows for the year ended March 31, 2004 and 2003, is as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2004	*2003*	*2004*
Cash and time deposits on the consolidated balance sheet	¥ 8,909	¥6,666	$84,290
Marketable securities on the consolidated balance sheet	1,231	1,831	11,643
Cash and cash equivalents on the statement of cash flows	¥10,139	¥8,496	$95,933

4. Inventories

Inventories as of March 31, 2004 and 2003 comprised the following:

	Millions of yen		*Thousands of U.S. dollars*
	2004	*2003*	*2004*
Accumulated construction cost in progress	¥6,395	¥7,413	$60,508
Materials and supplies	226	239	2,136
	¥6,621	¥7,652	$62,644

5. Marketable Securities and Investment in Securities

The market value of listed securities, which are classified as available-for-sale securities, as of March 31, 2004 and 2003, are as follows:

	Millions of yen		
		Fair Value	
As of March 31, 2004	*Cost*	*(Carrying amount)*	*Unrealized gain (loss)*
Marketable equity securities	¥ 494	¥1,486	¥ 993
Debentures	—	—	—
Fund trust and other	938	967	28
Total	¥1,432	¥2,453	¥1,021

	Thousands of U.S. dollars		
		Fair Value	
As of March 31, 2004	*Cost*	*(Carrying amount)*	*Unrealized gain (loss)*
Marketable equity securities	$ 4,673	$14,064	$9,391
Debentures	—	—	—
Fund trust and other	8,879	9,145	266
Total	$13,552	$23,209	$9,657

	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

6. 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, 2004, the carrying amount of the land after one-time revaluation exceeds the market value by ¥1,116 million ($10,563 thousand).

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, 2004, are as follow:

Years ending March 31	*Millions of yen*	*Thousands of U.S. dollars*
2005	¥ 800	$7,569
2006	800	7,569
2007	1,011	9,570
2008	800	7,569

8. 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, 2004 and 2003, consists of the following:

	Millions of yen		*Thousands of U.S. dollars*
	2004	*2003*	*2004*
Projected benefit obligation	¥(13,365)	¥(14,192)	$(126,457)
Plan assets at fair value	7,563	6,298	71,557
Retirement benefit trusts	2,935	1,375	27,775
Unrecognized actuarial loss	2,009	6,157	19,010
Unrecognized prior service cost	(120)	(129)	(1,139)
Net liability	¥ (978)	¥ (491)	$ (9,254)

The components of net periodic benefit costs for the year ended March 31, 2004 and 2003, are as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2004	*2003*	*2004*
Service cost	¥ 682	¥ 635	$ 6,449
Interest cost	284	418	2,685
Expected return on plan assets	—	(256)	—
Amortization of actuarial loss	434	238	4,109
Amortization of prior service cost	(9)	(4)	(84)
Net periodic benefit costs	¥1,391	¥1,030	$13,159

Assumptions used for the year ended March 31, 2004 and 2003, are set forth as follows:

	2004	2003
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	0.0%	4.0%
Amortization period of actuarial gain/loss	15 years	15 years
Amortization period of prior service cost	15 years	15 years

9. 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 income and retained earnings are included in the years to which they relate.

10. Treasury Stock

The Company held 4,205,991 shares of treasury stock as of March 31, 2004 based on approval by the annual shareholder's 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 was immaterial for the year ended March 31, 2003.

11. 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, 2004 and 2003 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
	2004	2003	2004
Machinery and equipment:			
Acquisition cost equivalent	¥650	¥659	$6,153
Accumulated depreciation equivalent	306	292	2,895
Net book value equivalent	¥344	¥367	$3,258

Undiscounted future lease payments as of March 31, 2004 and 2003, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Due within one year	¥127	¥124	$1,201
Thereafter	217	243	2,057
	¥344	¥367	$3,258

Lease payments for the years ended March 31, 2004 and 2003, were ¥123 million ($1,166 thousand) and ¥124 million, respectively. Depreciation expense equivalent is computed on a straight-line basis over the lease term with no residual value, and amounted to ¥123 million ($1,166 thousand) and ¥124 million for the years ended March 31, 2004 and 2003, respectively.

b) Future operating lease payments as of March 31, 2004 and 2003, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Due within one year	¥3	¥15	$27
Thereafter	4	20	36
	¥7	¥35	$63

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 4.0 percent and –24.7 percent for the years ended March 31, 2004 and 2003, respectively.

The following table reconciles above statutory tax rate to the Company's effective tax rate for the years ended March 31, 2004 and 2003.

	2004	2003
Statutory rate:	41.9 %	41.9 %
Non-deductible items	7.5	(2.1)
Non-taxable items	(0.2)	0.1
Inhabitant minimum taxes	4.8	(1.6)
Net operating loss carryforwards	(68.0)	(26.6)
Allowance for doubtful accounts	—	(27.1)
Write-down of inventory	—	(6.8)
Deferred income taxes due to tax rate change	—	(0.6)
Write-down of membership	4.9	—
Reserve for employee's retirement benefit	12.5	—
Other, net	0.6	(1.9)
Effective tax rate	4.0%	(24.7) %

The significant components of the Company's deferred tax assets and liabilities as of March 31, 2004 and 2003, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Deferred tax assets:			
Reserve for employees' retirement benefits	¥1,061	¥ 824	$10,037
Reserve for directors' retirement benefits	152	196	1,434
Amortization of transitional obligation	485	485	4,585
Accrued expenses	284	238	2,,686
Net operating loss carryforwards	279	1,349	2,637
Allowance for doubtful accounts	1,586	1,572	15,005
Other	811	716	7,672
Subtotal	4,656	5,380	44,056
Valuation allowance	(2,171)	(3,005)	(20,537)
Total deferred tax assets	¥2,486	¥2,376	$23,519
Deferred tax liabilities:			
Gain on securities contributed to employees' retirement benefits	504	504	4,772
Special depreciation allowance for tax purposes	38	40	361
Other	449	7	4,245
Total deferred tax liabilities	¥ 991	¥ 551	$ 9,378
Total net deferred tax assets	¥1,495	¥1,824	$14,141

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 ¥0 million and unrealized gain on securities and revaluation surplus of land increased by ¥0 million and ¥8 million as of March 31, 2003, respectively, and deferred income taxes increased by ¥31 million for the year ended March 31, 2003.

13. Segment Information

(1) Industry segments

Summarized financial information by industry segment for the years ended March 31, 2004 and 2003 is as follows:

	Millions of Yen				
	Year ended March 31, 2004				
	Construction	Goods sales	Total	Elimination	Consolidated
Revenues:					
Customers	¥69,860	¥ 366	¥70,226	¥ —	¥70,226
Intersegment	14	1,578	1,593	(1,593)	—
Total	69,874	1,944	71,818	(1,593)	70,226
Operating expenses	68,179	1,906	70,085	(1,705)	68,380
Operating income	¥ 1,695	¥ 38	¥ 1,733	¥ 113	¥ 1,846
Assets	¥52,889	¥6,459	¥59,348	¥8,897	¥68,244
Depreciation	1,437	23	1,461	(1)	1,460
Capital expenditures	806	—	806	—	806

	Thousands of U.S. dollars				
	Year ended March 31, 2004				
	Construction	Goods sales	Total	Elimination	Consolidated
Revenues:					
Customers	$660,989	$ 3,462	$664,451	$ —	$664,451
Intersegment	134	14,934	15,068	(15,068)	—
Total	661,123	18,396	679,519	(15,068)	664,451
Operating expenses	645,085	18,033	663,118	(16,133)	646,985
Operating income	$ 16,038	$ 363	$ 16,401	$ 1,065	$ 17,466
Assets	$500,414	$61,113	$561,527	$84,176	$645,703
Depreciation	13,600	220	13,820	(9)	13,811
Capital expenditures	7,623	—	7,623	—	7,623

	Millions of Yen				
	Year ended March 31, 2003				
	Construction	Goods sales	Total	Elimination	Consolidated
Revenues:					
Customers	¥73,392	¥ 587	¥73,979	¥ —	¥73,979
Intersegment	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	¥ 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

(2) Geographical segment and overseas sales
Disclosure of geographical segment information and overseas sales have been omitted due to immateriality.

14.Contingent Liabilities

As of March 31, 2004 and 2003, the Company and its consolidated subsidiaries were contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Notes receivable discounted	¥1,703	¥2,494	$16,114
Notes receivable endorsed	—	13	—

15. Subsequent Event

On June 29, 2004, 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 ($0.09) per share (final for the year ended March 31, 2004)	¥536	$5,071

Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of RAITO KOGYO CO.,LTD. and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of operations, shareholders' equity, 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 RAITO KOGYO CO.,LTD. and consolidated subsidiaries at March 31, 2004 and 2003, 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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 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 1.

June 29, 2004
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
Katsumi Murao
Haruto Kawashima
Shin Yoshizawa
Haruo Aoki

Directors
Takao Ogawa
Tatsuhiko Yamamoto
Masayoshi Nakamura
Fumio Takeda
*Tadashi Shibata**
*Outside Director

Standing Auditors
Ryosuke Sakai
Eiji Nakagawa

Auditors
Kenichi Kondo
Shuichiro Kobayashi

(as of June 29, 2004)

Share Information

Common Stock:

Authorized shares
198,000,000 shares (as of March 31, 2004)

Issued and outstanding shares
57,804,450 shares (as of June 29, 2004)

Number of shareholders
10,989 (as of March 31, 2004)

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$57,900,277
(¥105.69=US$1.00)
(as of March 31, 2004)

Date of Establishment:
September 28, 1948

Stock Trading:
Tokyo Stock Exchange,
First Section

Major Shareholders:
The Master Trust Bank of Japan, Ltd.
Japan Trustee Service Bank, Ltd.
TAIYO LIFE INSURANCE COMPANY
Sumitomo Mitsui Banking Corporation
Nippon Life Insurance Company

Employees:
1,142 (as of March 31, 2004)

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