RAITO KOGYO CO., LTD.

Annual Report 2005

Contents

Raito

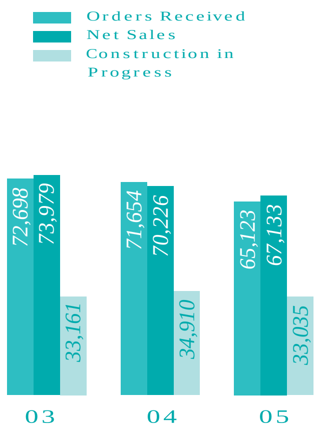
RAITO KOGYO CO., LTD.

Consolidated Financial Highlights

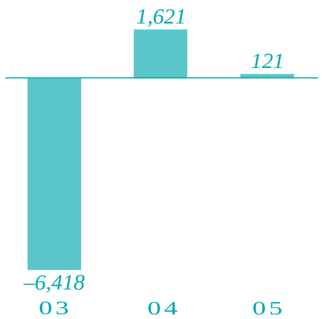
Years ended March 31	Millions of yen 2005	Millions of yen 2004	Millions of yen 2003	Thousands of U.S. dollars 2005
For the year:				
Orders received	¥ 65,123	¥ 71,654	¥ 72,698	$606,418
Net sales	67,133	70,226	73,979	625,129
Income (loss) before income taxes	292	1,689	(5,145)	2,719
Net income (loss)	121	1,621	(6,418)	1,127
At year-end:				
Total assets	¥ 68,252	¥ 68,244	¥ 68,124	$635,556
Shareholders' equity	39,527	40,424	38,810	368,066
Common stock	6,119	6,119	6,119	56,984
Amounts per share:				
(in yen and dollars)				
Net income (loss)	¥ 1.88	¥ 29.59	¥(116.36)	$ 0.02

Note: U.S. dollar amounts here and elsewhere in this annual report are translated from yen at the rate ¥107.39 = US$1.00, the rate on March 31, 2005, for the readers' convenience only.

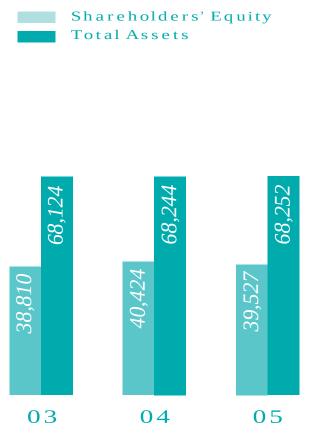
Orders Received, Net Sales and Construction in Progress
(Millions of yen)



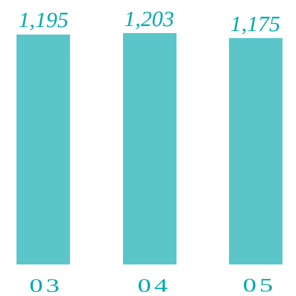
Net Income (Loss)
(Millions of yen)



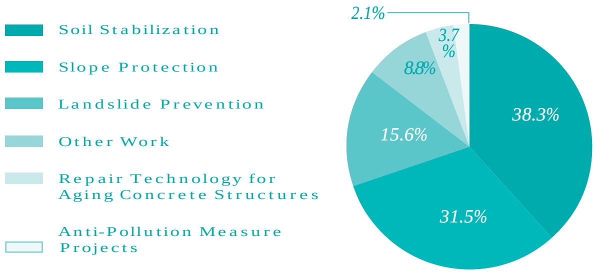
Shareholders' Equity and Total Assets
(Millions of yen)



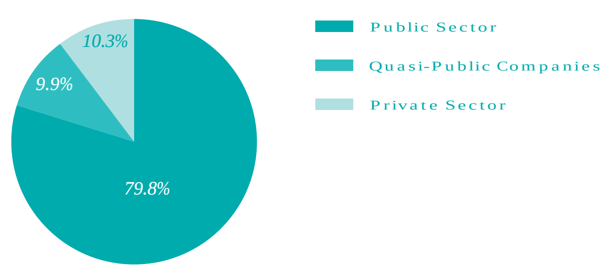
Number of Employees



Orders Received by Type of Work *(%)*



Orders Received by Type of Client *(%)*



Operating Environment

The Japanese economy during the fiscal year ended March 31, 2005 continued to experience a soft recovery, buoyed by improvement in corporate earnings and a turnaround in consumer spending. Conditions, however, were tempered by uncertainties prompted by the sharp increase in crude oil and other raw material prices.

In the construction industry, private-sector construction investment was steady. This, however, was offset by a drop in the level of public-sector construction orders leading to overall uncertainty and difficult operating conditions.

In this operating environment, Raito Kogyo's consolidated net sales for the fiscal year under review contracted 4.4% compared with the previous fiscal year to ¥67,132 million.

On the earnings front, gross profit declined 15.5% year on year to ¥9,017 million owing to the decrease in construction revenues and construction profit margins, as well as the impact of low-profit construction work by the Company's U.S.-based operations. As a result, income before income taxes was ¥292 million, a fall of 82.7% compared with the previous fiscal year. During the fiscal year under review, Raito Kogyo recorded an extraordinary loss. Accordingly, net income declined 92.5% to ¥121 million.

Yuji Samaru
President

Sales and Orders

In its construction business, Raito Kogyo's mainstay activity, consolidated net sales totaled ¥66,777 million, a decrease of 4.4% compared with the previous fiscal year. Of this amount sales of the parent company were ¥63,396 million, down 5.0% year on year, while sales of its U.S.-based subsidiary amounted to ¥3,381 million, up 6.9%.

Construction orders for the fiscal year under review fell 9.1% year on year to ¥65,123 million. Of this, slope protection projects accounted for ¥30,714 million, a decrease of 13.1% reflecting a drop in orders from local government authorities and the decline in disaster-related projects. Orders for ground improvement projects amounted to ¥24,912 million, a decline of 5.9%. In this area, the steady performance recorded in improvement projects in the United States was offset by a year-on-year decline in Japan for major works related to road construction. While structural repair projects for elevated bridges were strong, orders for tunnel repair projects declined. Private-sector orders for soil contamination remediation projects were up. As a result of these factors, overall orders for aging concrete structural repair projects and anti-pollution projects fell 9.1% year on year to ¥3,727 million. Under other construction projects, orders edged up 0.6% to ¥5,767 million. Principal components were sewer construction projects, which declined due to public-sector budgetary constraints and their impact on new projects. This was offset by a rise in elevated bridge projects for expressways.

New Three-Year Medium-Term Management Plan

In the next fiscal year, the construction market is expected to temporarily pick up on the back of an upswing in public-sector budgets for restoration projects in connection with recent natural disasters. In the medium term, however, difficult operating conditions are forecast.

Against this backdrop, the Raito Kogyo Group formulated its Three-Year Medium-Term Management Plan, which commenced in fiscal 2005, and adopted the following initiatives with the aim of securing solid recovery over the medium term.

1. Reinforce Existing Businesses

To increase productivity and further cement the Group's competitive advantage in the specialized civil engineering field, focusing on effective marketing and promotion of our proprietary methods.

2. Expand New Markets

To step up our efforts in disaster prevention areas, such as liquefaction prevention and port and embankment reinforcement. In addition, to expand activities in the contaminated soil stabilization and containment market by applying our proprietary methods as well as the unrivalled earthquake-resistant continuous wall technique.

Complementing existing techniques, to further develop businesses especially in the repair field utilizing image analysis technology including a variety of techniques such as surveys, analyses and simulations based on spacial information.

Moreover, to position overseas markets as a key to the future for the entire Group and to enhance its development accordingly.

3. Develop Environmentally Friendly Proprietary Processes and Equipment

To reinforce competitive advantage in the specialized civil engineering field by developing methods and equipment in tune with trends toward a recycling-oriented society. This includes techniques for the reuse of construction by products such as waste soil and cut trees produced on site, earth excavation methods that prevent the incidence of sludge, and other techniques.

4. Bolster Earnings Structure

To strengthen the Company's profit structure by improving marketing and construction activities through enhancing capabilities of technical proposals for proprietary techniques and reviewing construction management systems as well as by streamlining the Company's structure and reallocating its resources to new business developments.

5. Address Environmental Issues

To position the reduction of environmental impact as an integral component of the Company's business activities as a means to fulfill its corporate social responsibility. Based on the Raito Kogyo Environmental Philosophy, to promote environmental management systems across the Group.

Outlook

Raito Kogyo has identified certain concerns regarding future economic conditions. While corporate earnings are anticipated to remain positive, the domestic economy is expected to feel the impacts of a deceleration in overseas economies, and subdued consumer spending reflecting increases in taxes and out-of-pocket expenditures for health. In the construction industry, operating conditions will remain difficult. Despite a temporary upswing in supplementary budgets related to disaster recovery construction, local government finances are expected to contract. Against this backdrop, Raito Kogyo will focus on the specialized civil engineering field and work to develop proprietary technologies and pursue the commercial viability of its environmentally friendly methods. The Company is committed to securing business volume and will actively promote liquefaction and contamination prevention measures, and repair technologies for aging concrete structures.

Underpinned by its view of the future, Raito Kogyo is forecasting consolidated net sales of ¥68.0 billion and net income of ¥0.9 billion for fiscal 2006. Furthermore, in the current fiscal year, the Company expects to declare a dividend per common share of ¥10, unchanged from the period under review.

We hope this annual report provides readers with a better understanding of the Company's results for the fiscal year ended March 31, 2005 and ask for your continued support and understanding.

August 2005

Yuji Samaru
President

Consolidated Balance sheets

March 31, 2005 and 2004	Millions of yen 2005	Millions of yen 2004	Thousands of U.S. dollars (Note 1) 2005
ASSETS			
Current assets:			
Cash and time deposits (Note 3)	¥ 8,283	¥ 8,909	$ 77,125
Marketable securities (Notes 3, 5)	885	1,231	8,240
Notes and accounts receivable, trade:			
Notes	4,664	3,948	43,431
Accounts	21,825	18,486	203,233
Allowance for doubtful accounts	(251)	(431)	(2,337)
Inventories (Note 4)	7,538	6,621	70,193
Deferred tax assets (Note 12)	536	521	4,995
Other current assets	1,425	861	13,266
Total current assets	44,905	40,144	418,146
Property and equipment:			
Land (Note 6)	9,784	9,826	91,109
Buildings	8,940	9,072	83,250
Machinery and equipment	24,735	24,205	230,324
Construction in progress	63	75	588
	43,522	43,179	405,271
Accumulated depreciation	(26,318)	(25,888)	(245,072)
Net property and equipment	17,204	17,290	160,199
Investment and other assets:			
Investment in securities (Note 5)	2,511	2,527	23,386
Investment in non-consolidated subsidiaries and affiliate	224	170	2,083
Long-term loans to non-consolidated subsidiaries and affiliate	145	150	1,346
Long-term receivable	4,286	8,983	39,913
Allowance for doubtful accounts	(4,406)	(3,952)	(41,023)
Deferred tax assets (Note 12)	990	983	9,215
Others	2,394	1,948	22,291
Total investment and other assets	6,144	10,810	57,211
Total assets	¥68,252	¥68,244	$635,556
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank loans payable (Note 7)	¥ 1,328	¥ 616	$ 12,366
Current portion of long-term bank loans payable (Note 7)	800	800	7,449
Notes and accounts payable, trade:			
Notes	5,024	4,925	46,786
Accounts	12,468	10,877	116,096
Notes and accounts payable, other:			
Notes	99	95	925
Accounts	278	127	2,586
Advance received on uncompleted contracts	3,823	3,843	35,598
Accrued expenses	1,405	1,498	13,079
Accrued income taxes	196	226	1,821
Other current liabilities	276	576	2,573
Total current liabilities	25,696	23,583	239,279
Long-term liabilities:			
Long-term bank loans payable, less current portion (Note 7)	1,815	2,611	16,898
Deferred liabilities (Note 12)	30	10	280
Deferred liabilities on revaluation of land (Note 6)	227	235	2,117
Reserve for employees' retirement benefit (Note 8)	561	978	5,220
Reserve for directors' retirement benefit	368	374	3,430
Other long-term liabilities	29	29	266
Total long-term liabilities	3,030	4,237	28,211
Total liabilities	28,726	27,820	267,490
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, 2005 and 2004	6,119	6,119	56,984
Additional paid-in capital	6,358	6,358	59,206
Retained earnings	27,900	28,338	259,799
Revaluation surplus of land (Note 6)	333	345	3,104
Unrealized gain on available-for-sale securities	538	608	5,005
Foreign currency translation adjustments	(26)	(37)	(247)
Total	41,222	41,732	383,851
Treasury stock—at cost, 5,132,099 shares in 2005 and 4,205,991 shares in 2004 (Note 10)	(1,695)	(1,308)	(15,785)
Total shareholders' equity	39,527	40,424	368,066
Total liabilities and shareholders' equity	¥68,252	¥68,244	$635,556

The accompanying notes are an integral part of this statement.

RAITO KOGYO CO., LTD.

Consolidated Statements of Operations

For the years ended March 31, 2005 and 2004	Millions of yen 2005	Millions of yen 2004	Thousands of U.S. dollars (Note 1) 2005
Net sales:			
Sales of construction	¥66,778	¥69,860	$621,824
Sales of goods	355	366	3,305
Cost of sales:			
Cost of construction	57,807	59,243	538,286
Cost of goods sales	308	316	2,870
Gross profit	9,018	10,667	83,973
Selling, general and administrative expenses	8,316	8,821	77,435
Income from operations	702	1,846	6,538
Other income (expenses):			
Interest and dividend income	85	86	793
Interest expense	(81)	(65)	(753)
Gain on sales of investment securities	393	0	3,660
Loss on sales or disposal of property and equipment	(68)	(46)	(638)
Additional retirement payment	(34)	(10)	(315)
Provision for doubtful accounts	(372)	(75)	(3,461)
Write-off of doubtful accounts	(206)	—	(1,921)
Other—net	(127)	(46)	(1,184)
Other expenses—net	(410)	(157)	(3,819)
Income before income taxes	292	1,689	2,719
Income taxes (Note 12):			
Current	134	172	1,246
Deferred	37	(104)	346
	171	68	1,592
Minority interest in net income	—	—	—
Net income	¥ 121	¥ 1,621	$ 1,127

	Yen 2005	Yen 2004	U.S. dollars (Note 1) 2005
Amounts per share:			
Net income	¥ 1.88	¥ 29.59	$ 0.02

RAITO KOGYO CO., LTD.

Consolidated Statements of Shareholders' Equity

For the years ended March 31, 2005 and 2004	Millions of yen 2005	Millions of yen 2004	Thousands of U.S. dollars (Note 1) 2005
Common stock:			
Balance at beginning of the year	¥ 6,119	¥ 6,119	$ 56,984
Balance at end of year	6,119	6,119	56,984
Additional paid-in capital:			
Balance at beginning of the year	¥ 6,358	¥ 6,358	$ 59,206
Balance at end of year	6,358	6,358	59,206
Retained earnings:			
Balance at beginning of the year	¥28,338	¥27,220	$263,884
Transfer from revaluation surplus of land	11	34	105
Net income for the year	121	1,621	1,127
Cash dividends	(536)	(536)	(4,991)
Bonuses to directors and statutory auditors	(35)	—	(326)
Balance at end of year	27,900	28,338	259,799
Revaluation surplus of land (Note 6):			
Balance at beginning of the year	¥ 345	¥ 378	$ 3,209
Sales of revaluated land	(11)	(34)	(105)
Balance at end of year	333	345	3,104
Unrealized gain on available-for-sale securities:			
Balance at beginning of the year	¥ 608	¥ 10	$ 5,661
Net change during the year	(70)	598	(656)
Balance at end of year	538	608	5,005
Foreign currency translation adjustments:			
Balance at beginning of the year	¥ (37)	¥ 32	$ (341)
Net change during the year	10	(68)	94
Balance at end of year	(26)	(37)	(247)
Treasury stock (Note 10):			
Balance at beginning of the year	¥(1,308)	¥(1,308)	$(12,179)
Increase in treasury stock	(387)	(0)	(3,606)
Balance at end of year	(1,695)	(1,308)	(15,785)

The accompanying notes are an integral part of this statement.

Consolidated Statements of Cash Flows

For the years ended March 31, 2005 and 2004	Millions of yen 2005	Millions of yen 2004	Thousands of U.S. dollars (Note 1) 2005
Cash flows from operating activities:			
Income before income taxes	¥ 292	¥ 1,689	$ 2,719
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	1,355	1,460	12,614
Gain on sales of investment securities	(393)	(0)	(3,660)
Increase (decrease) in allowance for doubtful accounts	273	104	2,546
Increase (decrease) in reserve for employees' retirement benefits	(417)	487	(3,887)
Increase (decrease) in reserve for directors' retirement benefits	(5)	(106)	(50)
Interest income and dividends received recognized on statement of income	(85)	(86)	(793)
Interest payment recognized on statement of income	81	65	753
Decrease (increase) in notes and accounts receivable	483	449	4,493
Decrease (increase) in accumulated construction cost in progress	(906)	1,012	(8,436)
Decrease (increase) in other inventories	(68)	11	(636)
Increase (decrease) in notes and accounts payable	1,593	489	14,830
Increase (decrease) in advance received on uncompleted contracts	(20)	(1,299)	(187)
Others	(639)	162	(5,949)
Subtotal	1,542	4,439	14,357
Interest income and dividend received (cash basis)	85	86	793
Interest payment (cash basis)	(81)	(65)	(753)
Income taxes paid	(199)	(249)	(1,855)
Others	(1)	(4)	(7)
Net cash provided by operating activities	1,346	4,206	12,535
Cash flows from investing activities:			
Purchases of fixed assets	(1,313)	(846)	(12,227)
Proceeds from sales of fixed assets	31	103	291
Purchases of investment securities	(1,382)	(199)	(12,871)
Proceeds from sales of investment securities	1,671	0	15,559
Others	(308)	(378)	(2,865)
Net cash used in investing activities	(1,301)	(1,320)	(12,113)
Cash flows from financing activities:			
Net increase (decrease) in short-term borrowing	705	(912)	6,566
Proceeds from long-term borrowing	—	211	—
Repayment of long-term borrowing	(800)	—	(7,449)
Purchases of treasury stock	(387)	(0)	(3,606)
Cash dividends paid	(536)	(536)	(4,991)
Net cash used in financing activities	(1,018)	(1,237)	(9,480)
Effects of changes in exchange rates on cash and cash equivalents	1	(7)	(8)
Net increase (decrease) in cash and cash equivalents	(972)	1,643	(9,050)
Cash and cash equivalents at beginning of the year	10,139	8,496	94,415
Cash and cash equivalents at end of the year (Note 3)	¥ 9,167	¥10,139	$85,365

The accompanying notes are an integral part of this statement.

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 balance.

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 ¥107.39=US$1.00, which was the exchange rate prevailing at March 31, 2005.

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 3 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., Sol Data JAPAN.K.K, 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 are not carried using the equity method, since the effect of applying the equity method in these subsidiaries is not material.

Investments in unconsolidated subsidiaries 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 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 collectability.

g) Property and equipment, depreciation and lease transaction

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.

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) Impairment of Fixed Assets

Effective April 1, 2004, as accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No.6 issued by the Accounting Standard Board of Japan on October 31, 2003) can be applied to the consolidated financial statement relating to the consolidated fiscal year ending March 31, 2004, the Company and its consolidated subsidiaries adopted the new accounting standard and the guidance.

The effect of the adoption of the new standard and implementation guidance on Income before taxes and minority interest is immaterial for the year ended March 31, 2005.

o) Enterprise Taxes

With the implementation of the "Revision of the Local Tax Law" (Legislation No.9, March, 2003) on March 31, 2003, a part of tax basis of enterprise taxes was changed to amount of value-added and amount of capital in the fiscal year started April 1, 2004.

Enterprise taxes computed based on amount of value-added and amount of capital, amounting to ¥62 million ($577 thousand), were recognized as "Selling, general and administrative expenses" based on Practical Treatment of Presentation in Income Statement for Enterprise Taxes through External Standards Taxation (February 13, 2004, Accounting Standards Board of Japan Report of Practical Issues No.12).

p) Reclassification

Certain reclassifications have been made to the accompanying 2004 financial statements to conform to the 2005 presentation.

3. Cash and Cash Equivalents

Reconciliation between cash and time deposits and marketable securities on the consolidated balance sheet as of March 31, 2005 and 2004 and cash and cash equivalents at end of year on the statement of cash flows for the year ended March 31, 2005 and 2004, is as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2005	*2004*	*2005*
Cash and time deposits on the consolidated balance sheet	¥8,283	¥ 8,909	$77,125
Marketable securities on the consolidated balance sheet	885	1,231	8,240
Cash and cash equivalents on the statement of cash flows	¥9,167	¥10,139	$85,365

4. Inventories

Inventories as of March 31, 2005 and 2004 comprised the following:

	Millions of yen		*Thousands of U.S. dollars*
	2005	*2004*	*2005*
Accumulated construction cost in progress	¥7,312	¥6,395	$68,085
Materials and supplies	226	226	2,108
	¥7,538	¥6,621	$70,193

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, 2005 and 2004, are as follows:

	Millions of yen		
		Fair Value	
As of March 31, 2005	*Cost*	*(Carrying amount)*	*Unrealized gain (loss)*
Marketable equity securities	¥ 372	¥1,303	¥931
Fund trust and other	1,149	1,123	(27)
Total	¥1,522	¥2,426	¥904

	Thousands of U.S. dollars		
		Fair Value	
As of March 31, 2005	*Cost*	*(Carrying amount)*	*Unrealized gain (loss)*
Marketable equity securities	$ 3,468	$12,135	$8,667
Fund trust and other	10,702	10,454	(248)
Total	$14,170	$22,589	$8,419

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

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 onetime 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, 2005, the carrying amount of the land after onetime revaluation exceeds the market value by ¥1,733 million ($16,137 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, 2005, are as follows:

Year ending March 31	*Millions of yen*	*Thousands of U.S. dollars*
2006	¥ 800	$7,449
2007	1,014	9,449
2008	800	7,449

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, 2005 and 2004, consists of the followings:

	Millions of yen		*Thousands of U.S. dollars*
	2005	*2004*	*2005*
Projected benefit obligation	¥(11,992)	¥(13,365)	$(111,670)
Plan assets at fair value	8,158	7,563	75,962
Retirement benefit trust	3,353	2,934	31,224
Unrecognized actuarial loss	1,098	2,009	10,223
Unrecognized prior service cost	(1,177)	(120)	(10,959)
Net liability	¥ (561)	¥ (978)	$ (5,220)

The components of net periodic benefit costs for the year ended March 31, 2005 and 2004, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Service cost	¥ 563	¥ 682	$ 5,244
Interest cost	267	284	2,489
Expected return on plan assets	(303)	—	(2,817)
Amortization of actuarial loss	187	434	1,739
Amortization of prior service cost	(9)	(9)	(83)
Net periodic benefit costs	¥ 706	¥1,391	$ 6,572

Assumptions used for the year ended March 31,2005 and 2004, are set forth as follows:

	2005	2004
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	4.0%	0.0%
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 holds 5,132,099 shares of treasury stock as of March 31, 2005 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.

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, 2005 and 2004 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
	2005	2004	2005
Machinery and equipment:			
Acquisition cost equivalent	¥734	¥650	$6,836
Accumulated depreciation equivalent	404	306	3,760
Net book value equivalent	¥330	¥344	$3,076

Undiscounted future lease payments as of March 31, 2005 and 2004, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Due within one year	¥133	¥127	$1,235
Thereafter	198	217	1,841
	¥330	¥344	$3,076

Lease payments for the years ended March 31, 2005 and 2004, are ¥141 million ($1,312 thousand) and ¥123 million, respectively. Depreciation expense equivalent is computed on a straight-line basis over the lease term with no residual value, and amounted to ¥141 million ($1,312 thousand) and ¥123 million for the years ended March 31, 2005 and 2004, respectively.

b) Future payments of operating lease as of March 31, 2005 and 2004, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Due within one year	¥ 7	¥3	$ 62
Thereafter	15	4	139
	¥22	¥7	$201

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 40.6 percent and 41.9 percent in 2005 and 2004, respectively, these income taxes resulted in effective tax rates of approximately 58.5 percent and 4.0 percent for the years ended March 31, 2005 and 2004, respectively.

The following table reconciles above statutory tax rate to the Company's effective tax rate for the years ended March 31, 2005 and 2004.

	2005	2004
Statutory rate	40.6%	41.9%
Non-deductible items	48.3	7.5
Non-taxable items	(1.7)	(0.2)
Inhabitant minimum taxes	31.1	4.8
Net operating loss carryforwards	306.7	(68.0)
Allowance for doubtful accounts	(270.3)	—
Write-down of inventory	(97.3)	—
Write-down of membership	—	4.9
Reserve for employee's retirement benefit	—	12.5
Other, net	1.1	0.6
Effective tax rate	58.5%	4.0%

The significant components of the Company's deferred tax assets and liabilities as of March 31, 2005 and 2004, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Deferred tax assets:			
Reserve for employees' retirement benefit	¥ 1,060	¥ 1,061	$ 9,870
Reserve for directors' retirement benefit	149	152	1,391
Amortization of transitional obligation	485	485	4,513
Accrued expenses	223	284	2,077
Net operating loss carryforwards	1,128	279	10,508
Allowance for doubtful accounts	1,603	1,586	14,931
Other	573	811	5,333
Subtotal	5,222	4,656	48,623
Valuation Allowance	(2,789)	(2,171)	(25,970)
Total deferred tax assets	¥ 2,433	¥ 2,486	$ 22,653
Deferred tax liabilities:			
Gain on securities contributed to employees' retirement benefit	504	504	4,696
Special depreciation allowance for tax purposes	36	38	333
Unrealized gain on available-for-sale securities	366	412	3,414
Other	30	35	280
Total deferred tax liabilities	¥ 936	¥ 991	$ 8,723
Total net deferred tax assets	¥ 1,496	¥ 1,495	$ 13,930

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.

13. Segment Information

(1) Industry segments

Summarized financial information by industry segment for the years ended as of March 31, 2005 and 2004 is as follows:

	Millions of Yen				
	Year ended March 31, 2005				
	Construction	Goods sales	Total	Elimination	Consolidated
Revenues:					
Customers	¥66,778	¥ 355	¥67,133	¥ —	¥67,133
Inter-segments	25	1,279	1,304	(1,304)	—
Total	66,802	1,634	68,436	(1,304)	67,132
Operating expenses	66,134	1,585	67,719	(1,289)	66,430
Operating income	¥ 668	¥ 49	¥ 717	¥ (15)	¥ 702
Assets	¥53,828	¥1,254	¥55,082	¥13,170	¥68,252
Depreciation	1,341	14	1,355	(1)	1,355
Capital expenditures	1,352	1	1,353	—	1,353

	Thousands of U.S. dollars				
	Year ended March 31, 2005				
	Construction	Goods sales	Total	Elimination	Consolidated
Revenues:					
Customers	$621,824	$ 3,305	$625,129	$ —	$625,129
Inter-segments	229	11,912	12,141	(12,141)	—
Total	622,053	15,217	637,270	(12,141)	625,129
Operating expenses	615,828	14,761	630,589	(11,998)	618,591
Operating income	$ 6,225	$ 456	$ 6,681	$ (143)	$ 6,538
Assets	$501,240	$11,674	$512,914	$122,642	$635,556
Depreciation	12,487	133	12,620	(6)	12,614
Capital expenditures	12,590	6	12,596	—	12,596

	Millions of Yen				
	Year ended March 31, 2004				
	Construction	Goods sales	Total	Elimination	Consolidated
Revenues:					
Customers	¥69,860	¥ 366	¥70,226	¥ —	¥70,226
Inter-segments	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

(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, 2005 and 2004, the Company and its consolidated subsidiaries were contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Notes receivable discounted	¥502	¥1,703	$4,677

15. Subsequent Event

On June 29, 2005, 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, 2005)	¥527	$4,905

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 2005, 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 2005, 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, 2005 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, 2005
Tokyo, Japan

Ernst & Young ShinNihon
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 Ogawa
Nobuyuki Akiyama
Katsunori Negishi
Katsumi Murao
Haruto Kawashima
Shin Yoshizawa
Haruo Aoki
Masayoshi Nakamura

Directors
Tatsuhiko Yamamoto
Fumio Takeda
Yoshitaka Mitsuse
Izumi Hasegawa
*Tadashi Shibata**
*Outside Director

Standing Auditors
Kazuhiko Sonokawa

Auditors
*Kenichi Kondo**
*Shuichiro Kobayashi**
*Outside Auditor

(as of June 29, 2005)

Share Information

Common Stock:

Authorized shares
198,000,000 shares (as of March 31, 2005)

Issued and outstanding shares
57,804,450 shares (as of June 29, 2005)

Number of shareholders
11,004 (as of March 31, 2005)

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
(¥107.39=US$1.00)
(as of March 31, 2005)

Date of Establishment:
September 28, 1948

Stock Trading:
Tokyo Stock Exchange,
First Section

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

Employees:
1,175 (as of March 31, 2005)

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