

ANNUAL REPORT

Year ended March 31, 2005

Corporate Profile

Okasan Holdings, Inc. is a holding company of the Okasan Group, a family of companies that propose a comprehensive range of investment and asset management services.

Back on April 4, 1923, Seiji Kato founded the Okasan Company. This company was later changed to Okasan Securities Company Limited, and it still retains its status as an independent securities company to this day. While most major securities companies were established in large cities and branched out into local regions, Okasan Securities came on the scene in a local city and then moved to Tokyo. This is a unique success story for a securities company.

Okasan Securities has always preferred face-to-face sales as the most dependable style of securities service. In the more than eighty years since its founding, the company has developed a host of community-based sales activities in the same vein. The "Be Honest" spirit passed down from founder Seiji Kato has won the confidence of customers and supported Okasan Securities throughout its history.

On October 1, 2003, Okasan Securities Co., Ltd. restructured itself into a holding company and changed its name to Okasan Holdings, Inc. Under this new structure, we will construct a solid management foundation to properly respond to diversified investment and asset management needs and to raise the value of the Okasan brand as a creative asset management service company.

Contents

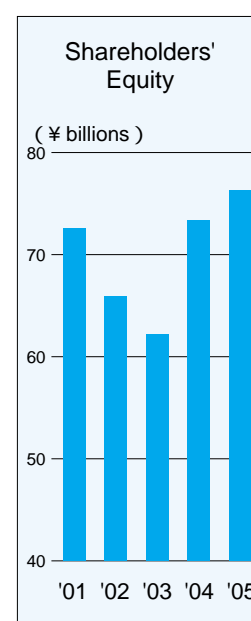
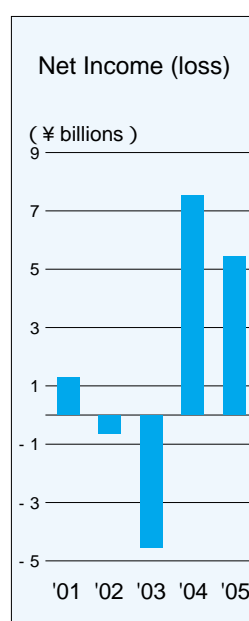
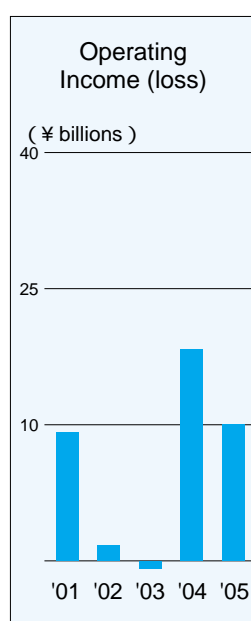
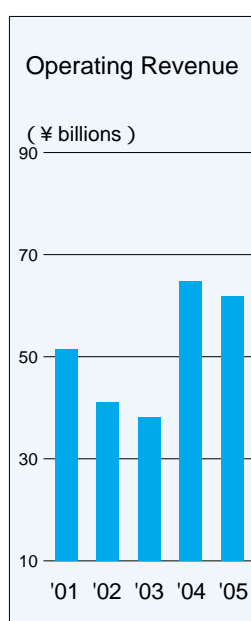
Corporate Profile	1
Consolidated Financial Highlights	2
Management Policy	3
Operating and Financial Review	5
Consolidated Balance Sheets	9
Consolidated Statements of Operations	11
Consolidated Statements of Retained Earnings	12
Consolidated Statements of Cash Flows	13
Notes to Consolidated Financial Statements	14
Independent Auditors' Report	33
Reference Data	
Okasan Securities Co.,Ltd. Non-Consolidated Balance Sheets	35
Non-Consolidated Statements of Operations	37
Corporate Data	38

Consolidated Financial Highlights

Okasan Holdings ,Inc. and Consolidated Subsidiaries Years ended March 31,2005 and 2004

	Millions of Yen		Thousands of U.S.Dollars (note)
	2005 (4/1/04 ~ 3/31/05)	2004 (4/1/03 ~ 3/31/03)	2005 (4/1/04 ~ 3/31/05)
Operating revenues	¥58,438	¥63,116	\$544,166
Operating income	10,091	18,780	93,666
Net income	5,574	7,632	51,904
Total assets	529,602	378,318	4,931,576
Shareholders' equity	76,222	72,501	709,768
Per share of common stock	Yen		U.S.dollars (note)
Basic net income	¥27.36	¥37.50	\$0.25
Cash dividends applicable to the year	15.00	15.00	0.14

Note: The translation of the yen amounts into U.S.dollars are included solely for the convenience of the reader,using the prevailing exchange rate at March 31,2005, which was ¥107.39 to U.S.\$1.



Management Policy

Okasan Holdings ,Inc. and consolidated Subsidiaries

1. Basic policy

We operate as a group, encompassing subsidiaries and an affiliate at home and abroad under the holding company Okasan Holdings, Inc. We are committed to realizing constant growth in our value through our "creative asset management services" with the key areas of securities and the related businesses. It is our primary objective to become a trustworthy company for our customers, shareholders and markets alike.

2. Principles on the distribution of profits

We regard returns to the shareholders as a priority of the management. Whilst ensuring that sufficient earnings are retained with the view to strengthening the management and moving further forward, we pay out dividends based on the Group's performance with the intention to maintain steady annual dividends.

3. Policy on the new unit stock system

We recognise the importance of reducing the number of shares per unit used in equity trading from a view point of cultivating a large investor base for the Japanese stock market and revitalizing it. We continue to study as to when and how to reduce the number of our stock per unit, taking into account relevant factors such as share price level and shareholding structure.

4. Target indicator for operating efficiency

Under the rapidly-changing market conditions, it is vital to produce steady reliable results. ROE (return on equity) is an important index for markets to managements with regard to performance. We, therefore, aim to achieve a 10% ROE on a consolidated basis to ensure operating efficiency.

5. Medium- to long-term management strategy

We are, as a group under a holding company, focused on securities-related activities such as securities brokerage and dealing and asset management. In regard to securities brokerage and dealing, according to our three year plan entitled "Okasan Securities Medium-term Vision", adopted in March 2003, we have carried out various measures, and continue to do so, to achieve the objective to becoming a securities firm with the best retail brokerage and the strongest dealing arms in its core area.

For the asset management operation, we are dedicated to creating innovative promising products, expanding market routes and developing ability and skill of asset management, through which to increase invested assets and secure solid earning sources. We seek to improve the management's ability to respond quickly to the challenges imposed by the rapidly changing environment in order to achieve the goal of the medium-term management strategy. For this, we are endeavouring to make appropriate and efficient allocation of our managerial resources both financial and human.

For example, during the year, Okasan Securities Co. Ltd., has strengthened its outlet network for face to face sales by moving 7 branches to more convenient locations as well as carrying out refurbishing and changing the layout of many sales points. We have also widened our coverage in research and analysis considerably, which is exemplified in our new "Information Service for Okasan Customers". Moreover, to pursue our customer-focused stance further, not only has an ATM connection been established between Sumitomo Mitsui Banking Corporation and UFJ Bank Limited respectively, but also a free collection service for stock certificates kept by investors (so-called "tansu-kabu") has been introduced. In addition, we have concentrated on obtaining consignment contracts in relation to the "securities intermediate service" in our attempt to develop a new channel.

6. Challenges

In April this year, the final "pay-off" measures were enforced against the background of ultra-low interest rates. While the labor force is peaking out, the generation of the post-war baby boom will reach their retirement age within a few years. With this backdrop, the need for comprehensive "asset management services" is certain to increase. Meanwhile, the rise of specialist internet securities, entry into the securities brokerage business by different types of institutions and the likelihood of mega-banks growing into "financial conglomerates" envisaged in the "Financial System Reform Program" will all spur competition among the securities houses.

With this background, the Okasan Group faces a big challenge. It is vital for the management to recognize the shift "from savings to investment" and respond appropriately to the increasingly diversified needs of individuals for investment and asset management services. Our approach to addressing this challenge is to provide creative products meeting customer needs effectively, while strengthening sales and customer services by ensuring professionalism of the staff and training employees to the best ability and skill. This will enhance the inflow of clients' asset in custody, enabling us to build up solid earnings power. We believe that the key to success in the security brokerage business is the "quality of the customer services". As the core operation, Okasan Securities Co. Ltd., is improving facilities of sales rooms, where we meet our customers, and adding community-based features to them. Last but not least, in regard to the "information services" with the highest added value, we would be pleased to help customers form and accumulate assets through our much improved accuracy of forecast.

7. Basic Approach to Corporate Governance and the State of Implementation of Related Measures

(1) Basic approach to corporate governance

As globalization progresses and a shift in management towards creation of enterprise value accelerates, the importance of corporate governance is increasing. In response to this environmental change, we are committed to high standards of corporate governance as we regard it as one of our management responsibilities. As we face the challenges of a rapidly changing business landscape, we have undertaken to deliver such solutions so as to speed up the decision-making process and to enhance efficiency of the managerial and supervisory systems.

(2) Implementation of related measures

Management Organization

The Board of Directors, as the supreme management decision-making authority, makes decisions about legal matters and matters related to the articles of associations. It plans and implements group management strategy. The president of the company is responsible for execution of the board's decisions and overall control of management. The Board comprises 7 directors, which enables a speedy response in decision-making. There is no outside director at present. There are 2 advisory bodies to the president, "Group Management Strategy Conference", and "Group Management Supervisory Conference", to plan and decide an integrated and flexible management strategy and to enforce the supervisory system for group companies.

Corporate audit

We have adopted an audit system, comprising 4 auditors (of which one is a standing statutory auditor), including 2 independent auditors in conformity with article 18.1 of "the Commercial Code of Japan and the Securities and Exchange Law". We also have a separate internal audit department with 2 designated officers. The financial audit is conducted by Toyo & Co..

The auditors form the Audit Committee, and the Committee discusses and decides on audit plans based on the internal audit standards and guidelines, in compliance with relevant laws and articles and memorandum of associations. The Audit Committee deliberates on audit opinions based on auditors' reports and oversees the decision-making process and business execution by the Board of Directors to ensure accountability is observed. For this purpose, auditors attend directors meetings and other important meetings, interview directors, and inspect important documents including those related to settlement of accounts. The Audit Committee performs audits appropriately in cooperation with financial auditors and the Internal Audit Department.

Operating and Financial Review

Okasan Holdings, Inc. and consolidated Subsidiaries Years ended March 31, 2005 and 2004

I. Operating Review

During fiscal 2004 Japan experienced a recovery led by stronger foreign demand and capital investment in the first half, but saw a slight loss of momentum in recovery in the second half. It was due to production adjustment in the IT digital area and weaker overseas demand, reflecting a temporary slowdown of the US economy and the tightening of the Chinese monetary stance. In the corporate sector, company results continued to improve on the back of increased profitability, which supported capital expenditure. Consumer spending has grown since the beginning of this year, albeit briefly interrupted, in tandem with rising employment and income. Overall, recovery has been maintained by stronger private demand.

The stock market opened on a firm note, a trend continued from last year on the back of the bounce back in economic activities. This bullish sentiment culminated on 26 April with the Nikkei stock index (closing price) recording its highest level so far this year at ¥12,163.89. However, in May concern about possible US and China firming send the market to the lowest point of the fiscal year at ¥10,505.05. Share prices remained depressed in a nervous reaction to damaged prospects of economic recovery caused by weak indicators, rocketing oil prices and movement of the US stock market. Towards the end of the fiscal year, the market inched up as revived expectation for economic recovery spread and closed at ¥11,668.95.

The fixed income market was first in a narrow range against the backdrop of worldwide recovery expectations. Then in June due to a combination of bullish sentiment and a buoyant stock market, the yield of 10 year Government bonds rose rapidly to 1.940%. Later, however, interest rates declined generally as sentiment became dampened and the observation that the financial quantitative regulation would remain in force resurfaced.

In this environment, Okasan Securities Co. Ltd., the core business of the Okasan Group, undertook an active provision of information and opinions on stocks according to the developments in the market. Apart from stocks, we focused on broadening our product line with the launch of a fund linked to Indian stocks, as well as an investment trust with monthly payments and government bonds for individual investors. Moreover, we aimed at developing new products and increasing investment assets by organising seminars in taxation and other timely topics and obtaining shares that had been stock certificates kept by investors.

As a result, Okasan Group's gross operating revenue was ¥58,438 million (92.6% of the previous year), and net operating revenue ¥56,999 million (92.0%). Cost of sales and administrative costs increased to ¥46,908 (108.6%), reflecting higher personnel costs and other operating expenses. Recurring profits were ¥11,208 million (58.2%), and net income ¥5,574 million (73%).

1. Fees and commissions received

Total fees and commissions received increased to ¥37,942 million (106.7% of the previous year). The main items are explained as follows:

(1) Brokerage commissions

Fiscal 2004 was a good year for the Tokyo Stock Exchange. It reported its average daily turnover (of total domestic ordinary shares) during the year to be 1,634 million shares in volume and ¥1,424.7 billion in value. Taking advantage of this favourable environment, we sought to create business opportunities by actively providing information and investment proposals, while developing new products. For example, we held seminars on various topical themes such as a "stock seminar" and a "seminar on security investment and taxation" on many occasions to introduce shares with growth potential. Consequently, stock brokerage commissions advanced to ¥27,216 million (101.6%). Bond brokerage commissions were ¥65 million (53.1%). Together with other brokerage commissions total brokerage commissions were boosted to ¥27,310 million (101.4%).

(2) Underwriting fees and selling concessions

The underwriting operation achieved strong growth in volume and value terms alike, driven by companies' larger financing needs and an upsurge in IPO activity on the back of solid performance of the stock market. Total underwriting fees and selling concessions increased to ¥1,002 million (171.7%), comprising ¥960 million (174.1%) stock-related fees and concessions and ¥42 million (130.9%) bond-related revenue.

(3) Placement and other commissions

A large part of placement and other commissions is accounted for by investment trusts. This year we identified two areas to focus on. Firstly we aimed to accumulate assets by promoting sales of existing products such as the "World Sovereign Income" range with monthly payments. Secondly, we widened our product range by introducing various funds; funds through which to invest in Japanese small- to medium-sized companies, so-called "bull-bear funds" based on Hong Kong H share index futures trading, J REITs, Global REITs, and funds linked to Indian shares. As a result, placement commissions grew to ¥7,700 million (127.6%). Other commissions were ¥1,930 million (95.8%) with the main contribution from agency fees from investment trusts and commission on sales of variable annuity insurance and term insurance.

Fees and Commissions received
Breakdown by category

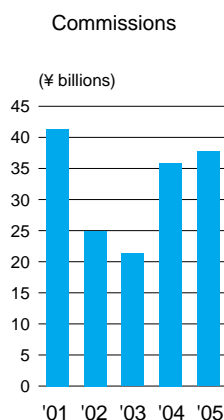
(Millions of YEN except percentage)

	2005<A> (4/1/04 ~ 3/31/05)	2004 (4/1/03 ~ 3/31/04)	Ratio <A>/
Brokerage commission	¥27,310	¥26,938	101.4
Equities	27,216	26,782	101.6
Bonds	65	123	53.1
Investment trusts	29	33	89.2
Underwriting fees and selling concessions	1,002	583	171.7
Equities	960	551	174.1
Bonds	42	32	130.9
Placement commissions	7,700	6,034	127.6
Other commissions	1,930	2,015	95.8
Total	¥37,942	¥35,570	106.7

Breakdown by Product

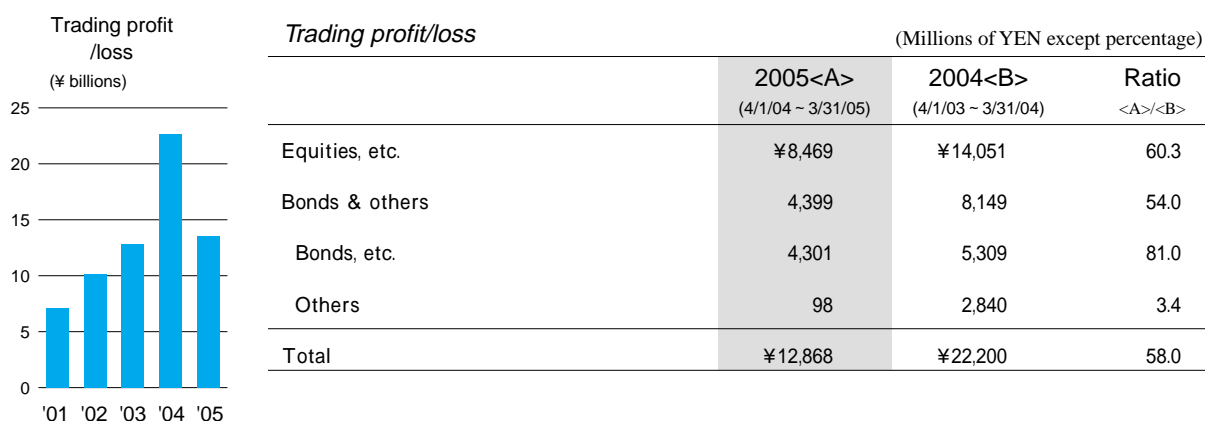
(Millions of YEN except percentage)

	2005<A> (4/1/04 ~ 3/31/05)	2004 (4/1/03 ~ 3/31/04)	Ratio <A>/
Equities	¥28,570	¥27,634	103.4
Bonds	497	367	135.5
Investment trusts	7,954	6,667	119.3
Others	921	902	102.1
Total	¥37,942	¥35,570	106.7



2. Trading profit/loss

With high interest rates overseas and rising oil prices during the year, world stock markets had little further upside. Because of this, gains from trading foreign shares and dealing accounts decreased, resulting in stock trading profits of ¥8,469 million (60.3%). As for income from bond trading, the stronger yen caused a decline in foreign bond trading. Together with a deceleration in underwriting operation for corporate customers, profits dwindled to ¥4,301 million (81.0%). With other trading income of ¥98 million (3.4%), total trading profits plummeted to ¥12,867 million (58.0%), compared with last year.



3. Interest income

Interest receivables of ¥1,727 million (128.3%) offset interest payables of ¥1,439 million (124.9%), making net interest income of ¥288 million (148.5%).

4. Other operating income

There was ¥5,901 million income (147.5%) from operations other than securities-related business.

5. Costs of sales and administrative expenses

Sales and administrative costs rose to ¥46,908 million (108.6%) due to an increase in personnel cost stemming from the introduction of a performance-related salary system and in support services costs as a result of outsourcing of basic systems operations.

6. Non-operating gains and exceptional items

Non-operating profits and expenses were ¥1,653 million and ¥536 million respectively, while exceptional gains were ¥576 million and losses ¥575 million.

II. Financial review

Cash flows

During the year, cash and equivalents ("Funds") increased by ¥2,272 million (+7.5% y-o-y), registering ¥32,756 million at the year-end. While cash flows from operating activities was reduced, that from investment and financial activities increased.

< Cash flows from operating activities >

The Funds outflowing from operating activities amounted to ¥14,505 million (+6.7%). Gains of net profits before tax adjustment were offset by large net increases in the assets in relation to securities loans and margin trading.

< Cash flows from investment activities >

The Funds gained were ¥2,108 million (-5.0%). This represents the balances between gains from sales of investment securities and costs incurred in the purchase of investment securities and tangible fixed assets.

< Cash flows from financial activities >

The Funds gained from financial activities were ¥14,625 million (-5.4%). The main relevant items were a net increase in short-term debt and an inflow from long-term debt.

Consolidated Balance Sheets

Okasan Holdings, Inc. and Consolidated Subsidiaries At March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S.Dollars (note 3)
	2005	2004	2005
ASSETS			
Current assets:			
Cash on hand and in banks (notes 10 and 19)	¥ 37,555	¥ 34,200	\$ 349,707
Cash segregated as deposits for customers and others	27,477	29,921	255,862
Trading assets (notes 4 and 10)	154,910	87,223	1,442,499
Receivables arising from unsettled trades	-	7,092	-
Receivables on margin transactions (note 5)	104,403	89,050	972,185
Receivables on collateralized securities transactions (note 6)	139,836	61,952	1,302,132
Short-term investments (note 7)	1,329	1,397	12,375
Deferred income taxes (note 11)	797	1,035	7,422
Other current assets	5,524	7,796	51,439
Allowance for doubtful accounts	(145)	(136)	(1,350)
Total current assets	471,686	319,530	4,392,271
Property and equipment, net of accumulated depreciation of ¥8,740 million (\$81,386 thousand) in 2005 and ¥8,694 million in 2004 (note 10)	14,783	14,341	137,657
Intangible assets, net (note 10)	1,686	1,607	15,700
Investments and other assets:			
Investment securities (notes 7, 8 and 10)	31,885	32,944	296,908
Long-term guaranty deposits	3,066	3,492	28,550
Deferred income taxes (note 11)	5,067	4,768	47,183
Other investments and other assets	4,087	4,211	38,058
Allowance for doubtful accounts	(2,658)	(2,575)	(24,751)
Total investments and other assets	41,447	42,840	385,948
TOTAL	¥ 529,602	¥ 378,318	\$ 4,931,576

See accompanying notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S.Dollars (note 3)
	2005	2004	2005
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Trading liabilities (note 4)	¥ 120,471	¥ 56,490	\$ 1,121,808
Payables arising from unsettled trades	3,101	-	28,876
Payables on margin transactions (notes 5 and 10)	48,500	47,775	451,625
Payables on collateralized securities transactions (note 6)	98,119	37,715	913,670
Deposits received	19,430	20,134	180,929
Guaranty deposits received	14,278	14,355	132,955
Short-term borrowings (notes 9 and 10)	86,426	76,545	804,786
Income tax payables (note 11)	2,482	3,396	23,112
Other current liabilities (note 11)	3,745	4,054	34,873
Total current liabilities	396,552	260,464	3,692,634
Non-current liabilities:			
Long-term borrowings (notes 9 and 10)	23,011	15,199	214,275
Deferred income taxes (note 11)	3,016	1,818	28,085
Retirement and severance benefits (note 12)	8,411	8,283	78,322
Other non-current liabilities	2,532	915	23,578
Total non-current liabilities	36,970	26,215	344,260
Reserve for securities transactions (note 13)	671	400	6,248
Total liabilities	434,193	287,079	4,043,142
Minority interests	19,187	18,738	178,666
Shareholders' equity (notes 14 and 16):			
Common stock			
Authorized - 500,000,000 shares			
Issued - 197,864,969 shares in 2005 and 2004	12,897	12,897	120,095
Capital surplus	7,093	7,093	66,049
Retained earnings	52,504	50,059	488,910
Surplus on land revaluation (note 15)	196	91	1,825
Unrealized gain on other securities (note 7)	4,230	2,927	39,389
Foreign currency translation adjustments	(54)	(86)	(503)
Treasury stock, at cost 1,887,479 shares in 2005 and 1,494,724 shares in 2004	(644)	(480)	(5,997)
Total shareholders' equity	76,222	72,501	709,768
Commitments and contingencies (note 20)			
TOTAL	¥ 529,602	¥ 378,318	\$ 4,931,576

Consolidated Statements of Operations

Okasan Holdings, Inc. and Consolidated Subsidiaries Years ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S.Dollars (note 3)
	2005	2004	2005
Operating revenues:			
Commissions	¥ 37,942	¥ 35,570	\$ 353,310
Net gain on trading	12,868	22,200	119,825
Interest and dividend income	1,727	1,346	16,082
Service fee and other revenues	5,901	4,000	54,949
	<u>58,438</u>	<u>63,116</u>	<u>544,166</u>
Interest expense	1,439	1,152	13,400
Net operating revenue	56,999	61,964	530,766
Selling, general and administrative expenses (note 17)	46,908	43,184	436,800
Operating income	<u>10,091</u>	<u>18,780</u>	<u>93,966</u>
Other income (expenses):			
Dividend income	445	383	4,144
Amortization of consolidation difference	402	459	3,743
Interest expense	(295)	(390)	(2,747)
Gain on sale of fixed assets	3	2,975	28
Gain on sale of investment securities	573	881	5,336
Reversal of (provision for) reserve for securities transactions	(271)	379	(2,523)
Loss on sale of fixed assets	(131)	(7,772)	(1,220)
Other, net	392	(97)	3,650
	<u>1,118</u>	<u>(3,182)</u>	<u>10,411</u>
Income before income taxes and minority interests	<u>11,209</u>	<u>15,598</u>	<u>104,377</u>
Income taxes (note 11):			
Current	4,170	3,742	38,831
Deferred	106	2,602	987
	<u>4,276</u>	<u>6,344</u>	<u>39,818</u>
Minority interests	<u>(1,359)</u>	<u>(1,622)</u>	<u>(12,655)</u>
Net income	¥ 5,574	¥ 7,632	\$ 51,904

	Yen		U.S.Dollars (note 3)
	2005	2004	2005
Per share (notes 2.o and 18):			
Basic net income	¥ 27.36	¥ 37.50	\$ 0.25
Cash dividends applicable to the year	15.00	15.00	0.14

See accompanying notes to consolidated financial statements.

Consolidated Statements of Retained Earnings

Okasan Holdings, Inc. and Consolidated Subsidiaries Years ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S.Dollars (note 3)
	2005	2004	2005
Capital surplus			
Balance at beginning of year	¥ 7,093	¥ 7,093	\$ 66,049
Balance at end of year	¥ 7,093	¥ 7,093	\$ 66,049
Retained earnings			
Balance at beginning of year	¥ 50,059	¥ 43,468	\$ 466,142
Net income	5,574	7,632	51,904
Cash dividends	(2,801)	(914)	(26,082)
Bonuses to directors	(261)	(4)	(2,430)
Decrease arising from realization of surplus on land revaluation	(67)	(123)	(624)
Balance at end of year	¥ 52,504	¥ 50,059	\$ 488,910

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Okasan Holdings, Inc. and Consolidated Subsidiaries Years ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S.Dollars (note 3)
	2005	2004	2005
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 11,209	¥ 15,598	\$ 104,377
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation and amortization	789	615	7,347
Interest and dividend income	(2,237)	(1,798)	(20,831)
Interest expense	1,735	1,542	16,156
Loss on sale of fixed assets	119	7,765	1,108
Gain on sale of fixed assets	(3)	(2,956)	(28)
Gain on sale of investment securities	(573)	(881)	(5,336)
Decrease (increase) in deposits segregated for customer	2,460	(13,460)	22,907
Decrease (increase) in trading assets and increase (decrease) trading liabilities	6,487	(2,960)	60,406
Decrease (increase) in receivables on margin transactions and increase (decrease) in payables on margin transactions	(14,628)	(15,188)	(136,214)
Decrease (increase) in receivables on collateralized securities transactions and increase (decrease) in payables on collateralized securities transactions	(17,480)	(12,786)	(162,771)
Increase (decrease) in deposits received	(730)	6,193	(6,798)
Decrease (increase) in short-term guaranty deposits and increase (decrease) in guaranty deposits received	583	5,307	5,429
Increase in short-term loans	18	728	168
Other, net	2,820	(1,354)	26,259
Sub-total	(9,431)	(13,635)	(87,821)
Interest and dividend received	2,035	1,743	18,950
Interest paid	(1,716)	(1,111)	(15,979)
Income taxes paid	(5,393)	(590)	(50,219)
Net cash used in operating activities	(14,505)	(13,593)	(135,069)
Cash flows from investing activities:			
Payment for purchase of property and equipment	(1,174)	(314)	(10,932)
Proceeds from sale of property and equipment	111	3,226	1,034
Proceeds from sale of software	1,000	2,500	9,312
Payment for investment securities	(1,743)	(4,565)	(16,231)
Proceeds from sale of investment securities	5,455	2,415	50,796
Payment for investments in affiliates	(474)	(569)	(4,414)
Other, net	(1,067)	(473)	(9,936)
Net cash provided by investing activities	2,108	2,220	19,629
Cash flows from financing activities:			
Increase in short-term borrowings	10,782	15,582	100,400
Proceeds from long-term borrowings	10,550	9,595	98,240
Payments on long-term borrowings	(3,657)	(8,593)	(34,053)
Purchase of treasury stock	(86)	(107)	(801)
Dividends paid to shareholders	(2,801)	(914)	(26,083)
Dividends paid to minority shareholders of subsidiaries	(163)	(108)	(1,517)
Net cash provided by financing activities	14,625	15,455	136,186
Effect of exchange rate changes on cash and cash equivalents	44	(433)	410
Net increase in cash and cash equivalents	2,272	3,649	21,156
Cash and cash equivalents, beginning of year	30,484	26,835	283,863
Cash and cash equivalents, end of year (note 19)	¥ 32,756	¥ 30,484	\$ 305,019

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Okasan Holdings, Inc. and Consolidated Subsidiaries Years ended March 31, 2005 and 2004

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements include the accounts of Okasan Holdings, Inc. (the "Company"), a Japanese corporation, and its subsidiaries.

Okasan Holdings, Inc. changed its name from Okasan Securities Co., Ltd. and transformed into a holding company on October 1, 2003, and the Company transferred its securities business to Okasan Securities Spin-Off Preparation Co., Ltd., wholly owned subsidiary of the Company, in accordance with the approval regarding the transfer at the general meeting of shareholders held on June 28, 2003. This company changed its corporate name to (new) Okasan Securities Co., Ltd. on the same date.

The Company and its domestic subsidiaries maintain their books of account and prepare their financial statements in conformity with financial accounting standards of Japan, and its foreign subsidiary in conformity with those of the country of its domicile.

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan and applicable to Japanese securities companies.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the financial statements issued domestically in Japan in order to present them in a form which is more familiar to readers outside Japan. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Consolidation* - The consolidated financial statements for the year ended March 31, 2005 include the accounts of the Company and its 12 subsidiaries (12 subsidiaries in 2004). One company (one company in 2004) is accounted for by the equity method.

The "Accounting Standards for Consolidated Financial Statements " require the control or influence concept for the consolidation scope of subsidiaries and affiliates. Under the control or influence concept, a company in which the Company or its consolidated subsidiaries, directly or indirectly, are able to exercise control over operations is fully consolidated, and a company over which the Company and/or its consolidated subsidiaries have the ability to exercise significant influence is accounted for by the equity method. Investments in affiliates are accounted for by the equity method. The excess costs over underlying net assets at the dates of investment in subsidiaries or affiliates are being fully amortized in the year of investments.

All significant intercompany balances and transactions have been eliminated in consolidation.

- b. Cash and cash equivalents* - For the purposes of the statements of cash flows, the Company considers all highly liquid investments with insignificant risk of changes in value which have maturities of generally three months or less when purchased to be cash equivalents.

- c. Trading assets and liabilities* - Trading assets and liabilities, including securities and financial derivatives for trading purposes are recorded on a trade date basis at fair value. Revenues and expenses related to trading securities transactions are recorded on a trade date basis. Changes in the fair values are reflected in "net gain on trading" in the accompanying consolidated statements of operations. Gains and losses arose from derivatives held or issued for trading purposes are also reported as "net gain on trading" in the accompanying consolidated statements of operations, which includes realized gains and losses as well as changes in the fair values of such instruments. Securities owned for non-trading purpose, shown in the accompanying consolidated balance sheets as "Short-term investments" and "Investment securities" are discussed below.
- d. Securities* - The Company examines the intent of holding securities for non- trading purpose, and classifies those securities as (a) debt securities intended to be held to maturity ("held-to-maturity debt securities"), (b) equity securities issued by an affiliated company and (c) all other securities not classified in any of the above categories ("available-for-sale securities").

Held-to-maturity debt securities are stated at amortized cost. Available-for-sale securities with market value are stated at market value, based on quoted market prices. Realized gains and losses on sale of such securities are computed using the gross-average cost. Unrealized gains or losses on such securities, net of related taxes, are recorded in a separate component of the shareholders' equity. Debt securities classified as "available-for-sale securities" for which fair value is not available are stated at the amortized cost. Equity securities classified as "available-for-sale securities" for which market value is not available are stated at the gross-average cost.

- e. Hedging transaction* - The Company states derivative financial instruments at fair value and recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes. Valuation gains or losses on hedging instruments are mainly deferred as assets or liabilities until the gains or losses on underlying hedged instruments are realized. The Company and certain subsidiaries have entered into interest rate swap agreements for hedging interest rate exposures. The difference in amounts to be paid or received on interest rate swap agreements is recognized over the life of the agreement as an adjustment to interest expense.
- f. Collateralized securities transactions* - Collateralized securities transactions consist of Gensaki transactions and securities borrowed and loaned transactions. Gensaki transactions originate in the Japanese financial markets, and involve the selling ("Sell Gensaki")/purchasing ("Buy Gensaki") of commercial paper, certificates of deposit, Japanese government bonds and various other debt securities to/from an institution wishing to make a short-term investment, with the Company agreeing to repurchase/resell them from/to the institution on a specified date at a specified price. Under the "Accounting Standards for Financial Instruments", Gensaki transactions are accounted for as financing transactions. Gensaki transactions are carried at their contractual amounts. Securities borrowed transactions generally require the Company to provide the counterparty with collateral in the form of cash. And securities loaned transactions, the Company generally receives collateral in the form of cash. The Company monitors the market value of the securities borrowed or loaned and requires additional cash, as necessary, to ensure that such transactions are adequately collateralized. Under the "Uniform Accounting Standards of Securities Companies", securities borrowed and loaned transactions are accounted for as financing transactions. Securities borrowed or loaned that are cash collateralized are recorded at the amount of cash collateral advanced or received.
- g. Allowance for doubtful accounts* - Allowance for doubtful accounts of the Company and its domestic consolidated subsidiaries are provided on the estimated historical deterioration rate for normal accounts, and based on specifically assessed amounts for doubtful accounts. An overseas consolidated subsidiary provides specifically assessed amount for doubtful accounts.
- h. Property and equipment* - Property and equipment are stated at cost. Depreciation of property and equipment of the Company and its domestic consolidated subsidiaries is computed substantially by the declining-balance method at rates based on the estimated useful lives of the assets, while the straight-line method is applied to buildings purchased in Japan after April 1, 1998. And in an overseas subsidiary, depreciation is computed by the straight-line method. The range of useful lives is principally from 3 to 47 years for buildings and from 3 to 20 years for equipment.

- i. Intangible assets* - Intangible assets are carried at cost less amortization. Software for internal use is amortized under straight-line method based on internally estimated useful life (5 years). Amortization of other intangible assets is calculated by the straight-line method at rates based on the estimated useful lives of respective assets.
- j. Retirement and severance benefits* - The Company and its domestic consolidated subsidiaries have contributory and noncontributory pension plans, and unfunded retirement and severance plans to provide retirement and severance benefits to substantially all employees.
Under the "Accounting Standards for Retirement Benefits", provisions for defined benefit retirement and pension plans have been made in the accompanying consolidated financial statements based on the present value of the projected future retirement and severance benefits attributable to employee services rendered by the end of the year, less amounts funded under contributory and noncontributory pension plans.
- k. Leases* - Finance leases, except for those where the legal title of the underlying property is transferred from the lessor to lessee at the end of the lease term, are accounted for similarly to operating leases.
- l. Income Taxes* - Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporate tax, inhabitant tax and business tax.
The "Accounting Standards for Income Taxes" require that deferred income taxes be accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been included on the financial statements or tax return. Under this method, deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary difference are expected to be recovered or settled, and the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.
From the year ended March 31, 2004, the Company has filed consolidated tax returns in Japan.
- m. Appropriations of Retained Earnings* - Appropriations of retained earnings are reflected in the financial statements for the following year upon shareholders' approval.
- n. Foreign Currency Transactions* - Under the "Accounting Standards for Foreign Currency Transactions", receivables and payables denominated in foreign currencies are translated into yen at the rate of exchange as of the balance sheet dates and gains or losses resulting from the translation of foreign currencies are credited or charged to income. Assets and liabilities, and revenues and expenses of overseas subsidiary are translated into yen at the rate of exchange as of the balance sheet dates, a comprehensive adjustment resulting from translation is presented as "Foreign currency translation adjustments" in a component of shareholders' equity.
- o. Per Share Information* - Basic net income per share is based on the weighted-average number of shares of common stock outstanding during the respective years.
Cash dividends per share presented in the accompanying consolidated statements of operations are dividends applicable to the respective years including dividends to be paid after the end of the year.
- p. Reclassifications* - Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the presentation used in consolidated financial statements as of and for the year ended March 31, 2005.

3. BASIS OF FINANCIAL STATEMENT TRANSLATION

The translations of the yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 2005, which was ¥107.39 to U.S. \$1.

The convenience translations should not be construed as representations that the yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

4. TRADING ASSETS AND LIABILITIES

Trading assets and trading liabilities at March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S.Dollars
	2005	2004	2005
Trading assets:			
Equity securities and warrants	¥ 1,496	¥ 2,934	\$ 13,931
Government, corporate and other bonds	132,405	70,790	1,232,936
Commercial paper and certificates of deposit	20,997	13,499	195,521
Beneficiary certificates	1	-	9
Derivatives	11	-	102
	¥ 154,910	¥ 87,223	\$ 1,442,499

	Millions of Yen		Thousands of U.S.Dollars
	2005	2004	2005
Trading liabilities:			
Equity securities and warrants	¥ 100	¥ 254	\$ 931
Government, corporate and other bonds	119,859	52,736	1,116,109
Commercial paper and certificates of deposit	500	3,499	4,656
Derivatives	12	1	112
	¥ 120,471	¥ 56,490	\$ 1,121,808

5. MARGIN TRANSACTIONS

Margin transactions at March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S.Dollars
	2005	2004	2005
Assets:			
Loans receivable from customers	¥ 86,661	¥ 87,522	\$ 806,974
Cash deposits as collateral for securities borrowed from securities finance companies	17,742	1,528	165,211
	<u>¥ 104,403</u>	<u>¥ 89,050</u>	<u>\$ 972,185</u>
Liabilities:			
Borrowings from securities finance companies	¥ 25,938	¥ 41,092	\$ 241,531
Proceeds from securities sold for customers' accounts	22,562	6,683	210,094
	<u>¥ 48,500</u>	<u>¥ 47,775</u>	<u>\$ 451,625</u>

Loans receivable from customers are stated at amounts equal to the purchase price of the relevant securities, which are collateralized by customers' securities and customers' deposits in the form of cash or securities. Proceeds from securities sold for customers' accounts are stated at the sales prices of the relevant securities on the respective transaction dates.

6. COLLATERALIZED SECURITIES TRANSACTIONS

Collateralized securities transactions at March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S.Dollars
	2005	2004	2005
Assets:			
Securities borrowed transactions	<u>¥ 139,836</u>	<u>¥ 61,952</u>	<u>\$ 1,302,132</u>
Liabilities:			
Securities loaned transactions	¥ 81,620	¥ 27,715	\$ 760,034
Sell Gensaki transactions	16,499	10,000	153,636
	<u>¥ 98,119</u>	<u>¥ 37,715</u>	<u>\$ 913,670</u>

7. SECURITIES FOR NON-TRADING PURPOSES

Acquisition cost, balance sheet amount, gross unrealized gain and gross unrealized loss of available-for-sale securities with fair value at March 31, 2005 and 2004 is summarized as follows:

		Millions of Yen			
		Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
March 31, 2005					
Current:					
Government, corporate and other bonds	¥	1,179	¥ 2	¥ -	¥ 1,181
Beneficiary certificates and other		150	-	(2)	148
	¥	1,329	¥ 2	¥ (2)	¥ 1,329
Non-current					
Equity securities	¥	12,039	¥ 8,487	¥ (136)	¥ 20,390
Government, corporate and other bonds		6,817	39	-	6,856
Beneficiary certificates and other		36	-	(1)	35
	¥	18,892	¥ 8,526	¥ (137)	¥ 27,281
March 31, 2004					
Current:					
Government, corporate and other bonds	¥	1,394	¥ 3	¥ -	¥ 1,397
Non-current					
Equity securities	¥	11,852	¥ 5,950	¥ (166)	¥ 17,636
Government, corporate and other bonds		6,482	38	(1)	6,519
Beneficiary certificates and other		78	4	(5)	77
	¥	18,412	¥ 5,992	¥ (172)	¥ 24,232
		Thousands of U.S.Dollars			
		Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
March 31, 2005					
Current:					
Government, corporate and other bonds	\$	10,978	\$ 19	\$ -	\$ 10,997
Beneficiary certificates and other		1,397	-	(19)	1,378
	\$	12,375	\$ 19	\$ (19)	\$ 12,375
Non-current					
Equity securities	\$	112,106	\$ 79,030	\$ (1,267)	\$ 189,869
Government, corporate and other bonds		63,479	363	-	63,842
Beneficiary certificates and other		335	-	(9)	326
	\$	175,920	\$ 79,393	\$ (1,276)	\$ 254,037

Securities classified as available-for-sale securities for which fair value is not available are mainly unlisted equity securities amounting to ¥3,445 million (\$32,079 thousand) and ¥8,712 million as of March 31, 2005 and 2004, respectively.

Projected future redemption of available-for-sale securities with maturities at March 31, 2005 are summarized as follows:

	Millions of Yen			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Debt securities:				
Government bond securities	¥ 60	¥ 4,900	¥ -	¥ -
Corporate bond securities	720	1,151	-	-
Other debt securities	401	805	-	-
Beneficiary certificates and other	-	-	159	-
Total	¥ 1,181	¥ 6,856	¥ 159	¥ -

	Thousands of U.S.Dollars			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Debt securities:				
Government bond securities	\$ 559	\$ 45,628	\$ -	\$ -
Corporate bond securities	6,704	10,718	-	-
Other debt securities	3,734	7,496	-	-
Beneficiary certificates and other	-	-	1,481	-
Total	\$ 10,997	\$ 63,842	\$ 1,481	\$ -

For the years ended March 31, 2005 and 2004, proceeds from sales of available-for-sale securities are ¥5,455 million (\$50,796 thousand) and ¥2,415 million, the gross realized gains are ¥591 million (\$5,503 thousand) and ¥898 million, and the gross realized losses are ¥17 million (\$158 thousand) and ¥17 million, respectively.

Investments in limited partnership and similar partnership regarded as securities due to the amendment of Securities and Exchange Law in 2004. The amounts of such investments included in "Other investments and other assets" at March 31, 2004 was ¥346 million, and the amounts include in "Investments securities" at March 31, 2005 is ¥280 million (\$2,607 thousand).

8. INVESTMENTS IN AN AFFILIATE

The aggregate carrying amounts of investments in an affiliate at March 31, 2005 and 2004 are ¥879 million (\$8,185 thousand) and ¥519 million, respectively.

9. BORROWINGS

The weighted-average interest rates applicable to the short-term borrowings were 0.99% and 1.14% at March 31, 2005 and 2004, respectively.

Long-term borrowings at March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S.Dollars
	2005	2004	2005
Borrowings, maturing in installments through 2010; bearing weighted average interest of 2.82% and 3.05% at March 31, 2005 and 2004, respectively	¥ 26,704	¥ 19,311	\$ 248,664
Less current installments	3,693	4,112	34,389
	¥ 23,011	¥ 15,199	\$ 214,275

- (1) Current installments of long-term borrowings were included in short-term borrowings in the accompanying balance sheets.
- (2) Long-term borrowings include subordinated borrowings provided in Article 2 of the "Cabinet Office Ordinance on the Capital Adequacy Rule for Securities Companies" (the Prime Minister's Office Ordinance No. 23, 2001) as follows:

	Millions of Yen		Thousands of U.S.Dollars
	2005	2004	2005
Current installments of long-term borrowings	¥ 2,000	¥ 2,000	\$ 18,624
Long-term borrowings	12,500	10,500	116,398

Annual maturities of long-term borrowings at March 31, 2005, were as follows:

Year ending March 31	Millions of Yen	Thousands of U.S.Dollars
2007	¥ 11,259	\$ 104,842
2008	6,876	64,028
2009	3,973	36,996
2010	903	8,409

At March 31, 2005, the Company had unused committed lines of credit amounting to ¥24,000 million (\$223,484 thousand) with 10 banks whom the Company has committed line contracts to finance efficiently.

As is customary in Japan, both short-term and long-term bank borrowings are made under general agreements which provide that security and guarantees for present and future indebtedness will be given upon request of the bank, and that the bank shall have the right to offset cash deposits against obligations that have become due or, in the event of default, against all obligations due the bank.

10. PLEDGED ASSETS

At March 31, 2005 and 2004, the carrying value of assets pledged are as follows:

	Millions of Yen		Thousands of U.S.Dollars
	2005	2004	2005
Cash in banks	¥ 3,923	¥ 2,734	\$ 36,530
Trading assets	13,498	14,597	125,692
Property and equipment	9,118	8,862	84,906
Intangible assets	402	401	3,743
Investment securities	18,641	19,916	173,582
	¥ 45,582	¥ 46,510	\$ 424,453

Assets in the above table were pledged for the following liabilities:

	Millions of Yen		Thousands of U.S.Dollars
	2005	2004	2005
Short-term borrowings	¥ 28,924	¥ 30,438	\$ 269,336
Borrowings from securities finance companies	1,807	1,644	16,827
Long-term borrowings	10,426	4,452	97,085
	¥ 41,157	¥ 36,534	\$ 383,248

In addition to above, trading assets amounting to ¥23,704 (\$220,728) and ¥1,749 million were deposited as guarantee for settlement of trading accounts at March 31, 2005 and 2004, respectively.

The fair value of the securities pledged as collateral at March 31, 2005 and 2004, except for those disclosed in the above table, are as follows:

	Millions of Yen		Thousands of U.S.Dollars
	2005	2004	2005
Securities loaned on margin transactions	¥ 23,267	¥ 7,772	\$ 216,659
Securities pledged for borrowings on margin transactions	28,961	41,652	269,681
Securities loaned	84,559	27,526	787,401
Securities sold on Gensaki transactions	16,498	10,000	153,627
Other	44,977	71,479	418,819
	¥ 198,262	¥ 158,429	\$ 1,846,187

The fair value of the securities received as collateral at March 31, 2005 and 2004 are as follows:

	Millions of Yen		Thousands of U.S.Dollars
	2005	2004	2005
Securities received on margin transactions	¥ 82,946	¥ 90,278	\$ 772,381
Securities borrowed	142,532	65,911	1,327,237
Securities pledged as collateral	96,108	71,104	894,944
Other	20,341	4,325	189,412
	¥ 341,927	¥ 231,618	\$ 3,183,974

11. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese corporate, inhabitant and business taxes based on income which, in the aggregate, resulted in a statutory tax rate of approximately 40.5% in 2005 and 41.0% in 2004.

Amendments to Japanese tax regulations were enacted on March 31, 2003, the pro forma standard taxation system was introduced to the business tax effective for fiscal year starting April 1, 2004. As a result of these amendments, the normal income tax rate is to be reduced from approximately 41.0% to 40.5% effective from the Company's fiscal year beginning April 1, 2004.

The business tax which was not based on income of ¥ 278 million (\$2,589 thousand) was recorded in selling, general and administrative expenses for the year ended March 31, 2005.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and deferred tax liabilities at March 31, 2005 and 2004 are as follows:

	Millions of Yen		Thousands of U.S.Dollars
	2005	2004	2005
Deferred tax assets:			
Retirement and severance benefits	¥ 3,298	¥ 3,136	\$ 30,711
Tax loss carryforwards	1,283	1,246	11,947
Allowance for doubtful accounts	959	812	8,930
Accrued bonuses	476	561	4,432
Loss on devaluation of investment securities	379	339	3,529
Reserve for securities transactions	272	163	2,533
Depreciation and amortization	228	240	2,123
Accrued business tax	210	405	1,956
Unrealized loss on other securities	49	58	456
Other	523	556	4,870
	<u>7,677</u>	<u>7,516</u>	<u>71,487</u>
Valuation allowance	(236)	(301)	(2,198)
Total	<u>7,441</u>	<u>7,215</u>	<u>69,289</u>
Deferred tax liabilities:			
Unrealized gain on other securities	(3,454)	(2,431)	(32,163)
Land revaluation excess	(1,079)	(709)	(10,047)
Other	(69)	(99)	(643)
Total	<u>(4,602)</u>	<u>(3,239)</u>	<u>(42,853)</u>
Net deferred tax assets	<u>¥ 2,839</u>	<u>¥ 3,976</u>	<u>\$ 26,436</u>

Net deferred tax assets as of March 31, 2005 and 2004 are reflected in the accompanying consolidated balance sheets under the following captions:

	Millions of Yen		Thousands of U.S.Dollars
	2005	2004	2005
Current assets - Deferred income taxes	¥ 797	¥ 1,035	\$ 7,422
Investments and other assets - Deferred income taxes	5,067	4,768	47,183
Current liabilities - Other current liabilities	(9)	(9)	(84)
Non-current - Deferred income taxes	(3,016)	(1,818)	(28,085)
	<u>¥ 2,839</u>	<u>¥ 3,976</u>	<u>\$ 26,436</u>

A reconciliation of the statutory tax rate and the effective tax rate as a percentage of income before income taxes and minority interests for the year ended March 31, 2005 is follows:

	2005
Statutory tax rate	40.5%
Expenses not deductible for tax purposes	1.5
Per capita tax	0.7
Income not credited for tax purposes	(0.1)
Other	(4.4)
Effective tax rate	<u>38.2%</u>

The reconciliation for the year ended March 31, 2004 was not subject to disclosure as the difference between the rates is less than 5%.

12. RETIREMENT AND PENSION PLANS

The Company and its domestic consolidated subsidiaries have defined benefit retirement and pension plans, which consist of unfunded retirement and severance plan that provide for lump-sum payment of benefits, tax qualified noncontributory pension plan and pension plan provided under the Welfare Pension Insurance Law of Japan. The welfare pension plan consisted of two tiers, the substitution portion, in lieu of the government's social insurance program, collected contributions, funded them and paid benefits to the employees with respect to the pay-related portion of the old-age pension benefits prescribed by the Welfare Pension Insurance Law of Japan, and the corporate portion which was established at the discretion of the Japan Securities Dealers Employees Pension Fund as an industry-wide multi-employer noncontributory plan. The plan assets of the welfare pension fund cannot be specifically allocated to the individual participants nor to the substitution and corporate portions. However, based on the Company's proportion of the contribution to the aggregate pension contributions, the plan assets amounts at March 31, 2004 were estimated to be ¥32,742 million.

On March 25, 2005, the Japan Securities Dealers Employees Pension Fund obtained the approval for its liquidation from the Minister of Health, Labour and Welfare. The plan assets amount at March 31, 2005 cannot be estimated, because the fund is under liquidation.

In April 2005, the Company introduced a defined contribution retirement and pension plan.

Contributions for the welfare pension fund were ¥230 million (\$2,142 thousand) and ¥388 million for the years ended March 31, 2005 and 2004, respectively, and the amount is included in "Service cost" in the below table.

The funded status of retirement and pension plans at March 31, 2005 and 2004 consisted of the followings:

	Millions of Yen		Thousands of U.S.Dollars
	2005	2004	2005
Projected benefit obligations	¥ (12,851)	¥ (12,888)	\$ (119,666)
Fair value of plan assets	5,007	4,967	46,624
Unrecognized actuarial gain	(567)	(362)	(5,280)
Amount recognized in the consolidated balance sheets	<u>¥ (8,411)</u>	<u>¥ (8,283)</u>	<u>\$ (78,322)</u>

The components of net periodic benefit cost for the years ended March 2005 and 2004 are as follows:

	Millions of Yen		Thousands of U.S.Dollars
	2005	2004	2005
Service cost	¥ 785	¥ 981	\$ 7,310
Interest cost	256	262	2,384
Expected return on plan assets	(24)	(20)	(223)
Recognized actuarial loss	(18)	100	(168)
Net periodic pension cost	¥ 999	¥ 1,323	\$ 9,303

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

	2005	2004
Periodic allocation method for projected benefit	Straight-line	Straight-line
Discount rate	2.1%	2.1%
Expected rate of return on plan assets	0.5%	0.5%
Recognition period of actuarial gain / loss	5 years	5 years

13. RESERVE FOR SECURITIES TRANSACTIONS

The Securities and Exchange Law of Japan requires a securities company to set aside a reserve in proportion to its securities transactions and other related trading to cover possible customer losses incurred by default of the securities company on securities transactions.

14. SHAREHOLDERS' EQUITY

Under the Commercial Code of Japan (the "Code"), the entire amount of the issue price of shares is required to be designated as stated common stock account although a company in Japan may, by resolution of its Board of Directors, account for an amount not exceeding 50% of the issue price of new shares as additional paid-in capital.

The Code provides that an amount equal to at least 10% of appropriations paid in cash be appropriated as a legal reserve until an aggregated amount of such reserve and additional paid-in capital equal 25% of common stock. Either additional paid-in capital or the legal reserve may be available for dividends by resolution of the shareholders to the extent that the amount of total additional paid-in capital and legal reserve exceeds 25% of stated common stock. Balances of the legal reserve are included in retained earnings in the accompanying consolidated balance sheets.

The amount available for dividends is based on the amount recorded in the Company's non-consolidated books of account in accordance with the Code.

In accordance with the Code, proposed appropriations of retained earnings have not been reflected in the financial statements at the end of each fiscal year.

15. SURPLUS ON LAND REVALUATION

At March 31, 2002, a consolidated subsidiary revaluated its own land for business activities in accordance with the "Law Concerning Land Revaluation" (the "Law") effective March 31, 1998. The net unrealized gain, net of related taxes and minority interests, are reported as "Surplus on land revaluation" in a component of shareholders' equity and the related deferred tax liabilities are included in the deferred income taxes of the non-current liabilities.

Fair values of the land were determined based on the values specified in Article 2-1, 2-3 and 2-5 of the Enforcement Ordinance of the Law concerning Land Revaluation.

The difference between the book value after revaluation and the fair value as of March 31, 2005 was ¥761 million (\$7,086 thousand).

16. CAPITAL ADEQUACY REQUIREMENTS

In Japan, securities companies are subjected to risk-based capital adequacy rules established and administered by the Financial Services Agency. Securities subsidiaries report their capital adequacy ratio as defined pursuant to these rules. The authorities will take certain administrative measures if such ratio declines below 140%. Capital adequacy ratios of Okasan Securities Co., Ltd. were 294.5% and 291.7% as at March 31, 2005 and 2004, respectively.

17. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Major elements of selling, general and administrative expenses for the years ended March 31, 2005 and 2004 were summarized as follows:

	Millions of Yen		Thousands of
	2005	2004	U.S.Dollars
Commissions and brokerage	¥ 7,608	¥ 7,034	\$ 70,845
Employees' compensation and benefits	26,339	25,586	245,265
Occupancy and rental	5,931	5,363	55,229
Data processing and office supplies	4,163	2,885	38,765
Depreciation and amortization	789	615	7,347
Taxes other than income taxes	578	338	5,382
Reserve for doubtful accounts	49	251	456
Other	1,451	1,112	13,511
	¥ 46,908	¥ 43,184	\$ 436,800

18. NET INCOME PER SHARE INFORMATION

Reconciliation of the numbers and the amounts used in the basic net income per share computations for the years ended March 31, 2005 and 2004 are as follows:

	Millions of Yen		Thousands of U.S.Dollars
	2005	2004	2005
Net income	¥ 5,574	¥ 7,632	\$ 51,904
Net income not applicable to common shareholders:			
Directors' bonuses	209	266	1,946
Net income applicable to common shareholders	<u>5,365</u>	<u>7,366</u>	<u>49,958</u>
	Number of shares (Thousand)		
	2005	2004	
Weighted average number of shares on which basic net income per share is calculated	196,056	196,456	

19. SUPPLEMENTARY CASH FLOW INFORMATION

Reconciliation between "Cash on hand and in banks" in the accompanying consolidated balance sheets and "Cash and cash equivalents" in the accompanying consolidated statements of cash flows as of March 31, 2005 and 2004 are as follows:

	Millions of Yen		Thousands of U.S.Dollars
	2005	2004	2005
Cash on hand and in banks	¥ 37,555	¥ 34,200	\$ 349,707
Time deposits that have maturities of over three months when acquired	(4,799)	(3,716)	(44,688)
	<u>32,756</u>	<u>30,484</u>	<u>305,019</u>

20. COMMITMENTS AND CONTINGENCIES

At March 31, 2005 and 2004, the Company and certain subsidiaries have guaranteed approximately ¥ 385 million (\$3,585 thousand) and ¥ 520 million of employee mortgage loans to financial institutions, respectively. If an employee defaults on his/her loan payments, the Company and/or certain subsidiaries are required to perform under the guarantee.

21. LEASES

Acquisition cost, accumulated depreciation and net carrying amount of leased assets, if they had been capitalized at March 31, 2005 and 2004 were as follows:

	Millions of Yen					
	2005			2004		
	Furniture and Fixtures	Others	Total	Furniture and Fixtures	Others	Total
Acquisition cost	¥ 2,749	¥ 1,766	¥ 4,515	¥ 3,218	¥ 1,268	¥ 4,486
Accumulated depreciation	1,664	791	2,455	1,909	617	2,526
	¥ 1,085	¥ 975	¥ 2,060	¥ 1,309	¥ 651	¥ 1,960

	Thousands of U.S. dollars		
	2005		
	Furniture and Fixtures	Others	Total
Acquisition cost	\$ 25,598	\$ 16,445	\$ 42,043
Accumulated depreciation	15,495	7,366	22,861
	\$ 10,103	\$ 9,079	\$ 19,182

Future minimum payments required under finance leases at March 31, 2005 and 2004 are as follows:

	Millions of Yen		Thousands of U.S.Dollars
	2005	2004	2005
	Due within one year	¥ 786	¥ 927
Due after one year	1,332	1,091	12,404
	¥ 2,118	¥ 2,018	\$ 19,723

Lease payments, depreciation expense and interest expense for the years ended March 31, 2005 and 2004 are as follows:

	Millions of Yen		Thousands of U.S.Dollars
	2005	2004	2005
	Lease payments	¥ 1,106	¥ 1,166
Depreciation expense	1,048	1,067	9,759
Interest expense	57	70	531

Depreciation expense and interest expense are computed by the straight-line method and the interest method, respectively.

22. DERIVATIVES

Derivatives utilized for trading purposes

In the normal course of business, the Company enters into derivative financial instruments to meet customer needs and reduce its own exposure to loss due to adverse fluctuations in market prices of securities, interest rates, foreign currency exchange rates or other market factors. These financial instruments include exchange-traded financial derivatives such as stock index futures and bond futures, and options in these futures instruments, as well as non-exchange-traded financial derivatives such as forward foreign exchange transactions.

Such derivative financial instruments involve market and credit risk arising from future changes in the market values of securities, interest rates, foreign currency exchange rates, and default by the counterparty.

The Company seeks to minimize its exposure to risk arising from its use of these derivative financial instruments by strengthening risk management system in order to secure sound management and efficient use of management resources. Market risk is controlled principally through position limits, and credit risk is controlled principally through credit limits based on the counterparty's credit rating. Trading department and risk control department monitor the profit and changes in position, and assess the risks, on daily basis. The trading position is regularly reviewed by the directors in charge and reported to the management meeting.

The contract or notional amounts disclosed below do not represent straightforwardly the extent of market risk or credit risk of the derivatives.

The contract or notional amounts and fair value of derivative financial instruments for trading purposes held as of March 31, 2005 and 2004 are summarized as follows:

	Millions of Yen		
	Contract or notional amounts	Fair value	Valuation gain (loss)
<u>March 31, 2005</u>			
Over the counter stock options:			
Written	¥ 18	¥ 11	¥ 7
Purchased	14	11	(3)
Bond futures:			
Written	1,812	1,812	-
Purchased	2,788	2,788	-
Forward foreign exchange:			
Written:			
U.S. dollar	565	567	(2)
Swiss Franc	1,668	1,784	(116)
Other	1,219	1,206	13
Purchased:			
U.S. dollar	399	400	1
Swiss Franc	1,668	1,784	116
Other	889	898	9

		Millions of Yen		
		Contract or notional amounts	Fair value	Valuation gain (loss)
<u>March 31, 2004</u>				
Stock index futures:				
Written	¥	113	¥ 118	¥ (5)
Purchased		113	118	5
Bond futures:				
Written		1,513	1,513	-
Purchased		4,814	4,814	-
Interest options:				
Purchased		1,000	-	(21)
Forward foreign exchange:				
Written:				
U.S. dollar		1,278	1,277	1
Swiss Franc		4,257	4,350	(93)
Other		514	509	5
Purchased:				
U.S. dollar		1,164	1,166	2
Swiss Franc		4,257	4,350	93
Other		341	341	-

		Thousands of U.S.Dollars		
		Contract or notional amounts	Fair value	Valuation gain (loss)
<u>March 31, 2005</u>				
Over the counter stock options:				
Written	\$	167	\$ 102	\$ 65
Purchased		130	102	(28)
Bond futures:				
Written		16,873	16,873	-
Purchased		25,961	25,961	-
Forward foreign exchange:				
Written:				
U.S. dollar		5,261	5,280	(19)
Swiss Franc		15,532	16,612	(1,080)
Other		11,351	11,230	121
Purchased:				
U.S. dollar		3,715	3,724	9
Swiss Franc		15,532	16,612	1,080
Other		8,278	8,362	84

The fair value of stock index futures, bond futures and forward foreign exchange is computed using prices on the market, and the fair value of over the counter stock options and interest options is estimated based on the fair value of underlying securities, volatility and interest rate.

Derivatives utilized for non-trading purposes

The Company enters into interest rate swap agreements for the purposes of managing interest rate risk exposures. Interest rate swap involve market risk arising from future changes in the market values of interest rates, and the Company concludes the interest rate swap contracts only with the counterparties from which the Company was borrowed. The difference in amounts to be paid or received on interest rate swap agreements is recognized over the life of the agreement as an adjustment to interest expense, if the agreements meet certain hedging criteria.

The contract or notional amounts disclosed below do not represent straightforwardly the extent of market risk or credit risk of the derivatives.

The contract or notional amounts and fair value of interest rate swap agreements for non-trading purposes held as of March 31, 2005 and 2004 are summarized as follows:

	Millions of Yen		
	Contract or notional amounts	Fair value	Valuation gain (loss)
<u>March 31, 2005</u>			
Variable rate received for fixed rate	¥ 1,795	¥ (26)	¥ (26)
<u>March 31, 2004</u>			
Variable rate received for fixed rate	1,760	(23)	(23)

	Thousands of U.S.Dollars		
	Contract or notional amounts	Fair value	Valuation gain (loss)
<u>March 31, 2005</u>			
Variable rate received for fixed rate	\$ 16,715	\$ (242)	\$ (242)

The fair value of interest rate swap agreements is estimated based on quotes from counterparties.

23. SEGMENT INFORMATION

(a) Industry segment information

The Company and its consolidated subsidiaries' primary business activities include (1) trading in securities and derivatives, (2) brokerage for trading in securities and derivatives, (3) underwriting and distribution of securities, (4) public offering and secondary distribution of securities and (5) private offering of securities. These activities include financing and other services. The Company and its consolidated subsidiaries operate predominantly in a single industry segment as investment and financial services.

(b) Geographic segment information

Both domestic sales and assets located in Japan are over 90% of those for all segments for the years ended March 31, 2005 and 2004.

(c) Overseas sales

Overseas sales, which include export sales of the Company and its domestic subsidiaries, are less than 10% of consolidated sales for the years ended March 31, 2005 and 2004.

24. SUBSEQUENT EVENT

The proposed appropriation of retained earnings at March 31, 2005 of cash dividends of ¥15 (\$0.14) per common share aggregating ¥2,960 million (\$27,563 thousand) and bonuses to directors of ¥100 million (\$931 thousand) was approved at the Company's general shareholders meeting held on June 29, 2005.

Toyo & Co.

Member Horwath International

Independent Auditors' Report

To the Board of Directors of Okasan Holdings, Inc.:

We have audited the accompanying consolidated balance sheets of Okasan Holdings, Inc. and its consolidated subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of operations, retained earnings and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Okasan Holdings, Inc. and its consolidated subsidiaries as of March 31, 2005 and 2004, 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 accompanying consolidated financial statements as of and for the year ended March 31, 2005 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in yen have been translated into United States dollars on the basis described in Note 3 to the consolidated financial statements.

Toyo & Co.

June 29, 2005
Tokyo, Japan

REFERENCE DATA

Non - Consolidated Balance Sheets

Okasan Securities Co. , Ltd. At March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S.Dollars
	2005	2004	2005
ASSETS			
Current assets:			
Cash on hand and in banks	¥ 11,538	¥ 12,005	\$ 107,440
Cash segregated as deposits for customers and others	22,257	25,157	207,254
Trading assets	153,638	85,341	1,430,655
Receivables arising from unsettled trades	-	7,300	-
Receivables on margin transactions	94,026	77,141	875,556
Receivables on collateralized securities transactions	139,836	61,916	1,302,132
Deferred income taxes	517	819	4,814
Other current assets	4,148	4,862	38,626
Allowance for doubtful accounts	(126)	(117)	(1,173)
Total current assets	<u>425,834</u>	<u>274,424</u>	<u>3,965,304</u>
Property and equipment, net of accumulated depreciation of ¥2,548 million (\$23,727 thousand) in 2005 and ¥2,604 million in 2004	1,464	1,359	13,632
Intangible assets, net	185	179	1,723
Investments and other assets:			
Investment securities	150	-	1,397
Long-term guaranty deposits	3,011	4,878	28,038
Deferred income taxes	3,919	3,647	36,493
Other investments and other assets	2,256	2,223	21,008
Allowance for doubtful accounts	(1,703)	(1,591)	(15,858)
Total investments and other assets	<u>9,282</u>	<u>10,695</u>	<u>86,433</u>
TOTAL	<u>¥ 435,116</u>	<u>¥ 285,119</u>	<u>\$ 4,051,737</u>

	Millions of Yen		Thousands of U.S.Dollars
	2005	2004	2005
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities:			
Trading liabilities	¥ 120,396	¥ 56,489	\$ 1,121,110
Payables arising from unsettled trades	2,923	-	27,219
Payables on margin transactions	45,971	43,612	428,075
Payables on collateralized securities transactions	98,119	37,715	913,670
Deposits received	14,366	15,084	133,774
Guaranty deposits received	13,096	12,747	121,948
Short-term borrowings	74,015	56,315	689,217
Income tax payables	239	1,170	2,225
Other current liabilities	4,605	5,444	42,881
Total current liabilities	<u>373,730</u>	<u>228,576</u>	<u>3,480,119</u>
Non-current liabilities:			
Long-term borrowings	13,500	10,500	125,710
Retirement and severance benefits	8,010	7,867	74,588
Other non-current liabilities	418	382	3,892
Total non-current liabilities	<u>21,928</u>	<u>18,749</u>	<u>204,190</u>
Reserve for securities transactions	435	184	4,051
Total liabilities	<u>396,093</u>	<u>247,509</u>	<u>3,688,360</u>
Shareholder's equity:			
Common stock			
Authorized - 240,000 shares			
Issued - 100,000 shares in 2005 and 2004	5,000	5,000	46,560
Capital surplus	29,200	29,200	271,906
Retained earnings	4,823	3,410	44,911
Total shareholder's equity	<u>39,023</u>	<u>37,610</u>	<u>363,377</u>
TOTAL	<u>¥ 435,116</u>	<u>¥ 285,119</u>	<u>\$ 4,051,737</u>

Non – Consolidated Statements of Operations

Okasan Securities Co., Ltd. Years ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S.Dollars
	2005	2004	2005
Operating revenues:			
Commissions	¥ 36,477	¥ 17,661	\$ 339,668
Net gain on trading	11,270	10,305	104,945
Interest and dividend income	1,452	600	13,521
	49,199	28,566	458,134
Interest expense	1,209	547	11,258
Net operating revenue	47,990	28,019	446,876
Selling, general and administrative expenses	43,345	21,460	403,622
Operating income	4,645	6,559	43,254
Other income (expenses):			
Provision for reserve for securities transactions	(250)	(185)	(2,328)
Loss on sale of fixed assets	(80)	(16)	(745)
Other, net	213	20	1,983
	(117)	(181)	(1,090)
Income before income taxes	4,528	6,378	42,164
Income taxes:			
Current	1,995	3,463	18,577
Deferred	31	(495)	289
	2,026	2,968	18,866
Net income	¥ 2,502	¥ 3,410	\$ 23,298

Note: Okasan Securities Co., Ltd. actually operated for 6 months in the year ended March 31, 2004.
(See note 1 to consolidated financial statements.)

CORPORATE DATA

(as of March 31, 2005)

Company Name

OKASAN HOLDINGS, INC.

Date of Establishment

August 25, 1944

Head Office

1-17-6 Nihonbashi, Chuo-ku,
Tokyo 103-8278, Japan

Phone Number

+81-3-3272-2222

Paid-in Capital

12,897 Million Yen

Subsidiaries and Affiliates

14 companies

Listed Stock Exchanges

Tokyo Stock Exchange
Osaka Securities Exchange
Nagoya Stock Exchange

BOARD OF DIRECTORS

(as of March 31, 2005)

Chairman

Seiichi Kato

President

Tetsuo Kato

Executive Vice President

Ryohei Sekimoto

Kenichi Tanaka

Managing Director

Hiroyuki Shinshiba

Director

Masanori Kanai

Kazuhiko Nonaka

Statutory Auditors

Yasunori Tan

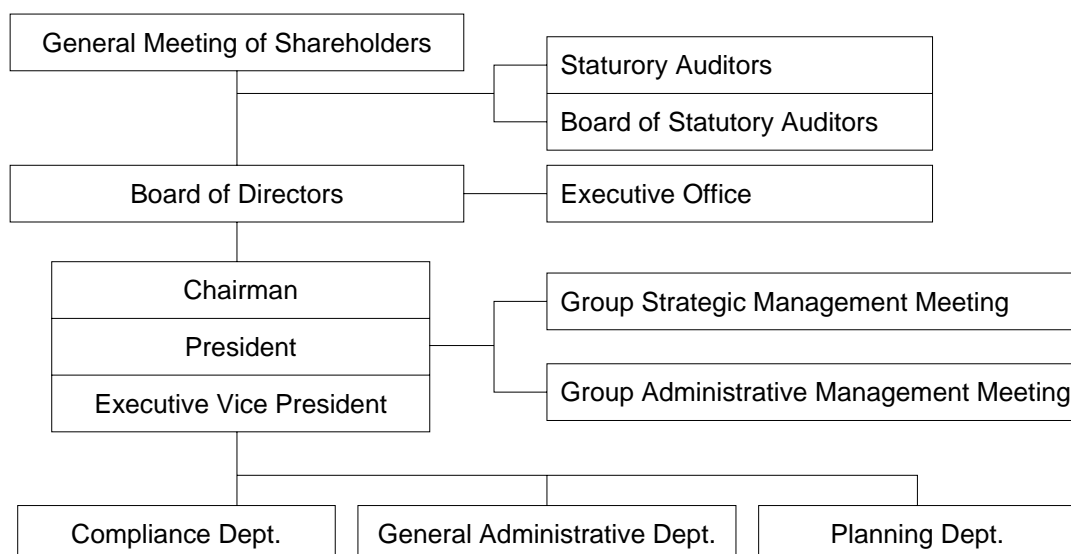
Shinsaku Machida

Akira Tadokoro

Yoichi Taoka

ORGANIZATION CHART

(as of March 31, 2005)



OKASAN HOLDINGS, INC.

<http://www.okasan.co.jp/holdings/>