Consolidated Financial Statements

Consolidated Five-year Summary

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
Years ended March 31

	Millions of yen					Thousands of U.S. dollars
	2000	2001	2002	2003	**2004**	**2004**
Orders received	¥406,995	¥480,699	¥351,331	¥287,101	**¥313,751**	**$2,968,597**
Construction	406,995	480,699	351,331	287,101	**313,751**	**2,968,597**
Real estate development	—	—	—	—	**—**	**—**
Other	—	—	—	—	**—**	**—**
Net sales	463,952	440,141	440,662	386,861	**331,170**	**3,133,409**
Construction	436,910	428,367	430,474	374,169	**314,626**	**2,976,875**
Real estate development	17,283	5,844	2,149	3,560	**6,240**	**59,041**
Other	9,759	5,930	8,039	9,132	**10,304**	**97,493**
Contract backlog	486,989	545,246	502,980	396,657	**392,377**	**3,712,527**
Construction	486,989	545,246	502,980	396,657	**392,377**	**3,712,527**
Real estate development	—	—	—	—	**—**	**—**
Other	—	—	—	—	**—**	**—**
Total assets	510,665	497,114	509,541	472,849	**443,193**	**4,193,330**
Shareholders' equity	46,110	51,716	51,685	33,682	**39,860**	**377,141**
Ordinary income	8,824	10,494	8,351	1,846	**7,440**	**70,395**
Income (loss) before income taxes and minority interests	(19,054)	9,436	6,519	(21,316)	**6,624**	**62,674**
Net income (loss)	(13,395)	3,179	1,771	(16,261)	**3,292**	**31,148**
Cash dividends	904	1,807	904	—	**—**	**—**
Per share of common stock:	Yen					U.S. dollars
Shareholders' equity	¥127.58	¥143.10	¥143.01	¥93.21	**¥110.31**	**$1.04**
Net income (loss)	(37.06)	8.80	4.90	(45.00)	**9.11**	**0.09**
Cash dividends	2.50	5.00	2.50	—	**—**	**—**
Number of employees	4,176	4,114	4,549	3,934	**3,767**	

Note: The amounts of orders received and contract backlog related to real estate development and other business is not stated on the above summary, because those amounts were small and did not have a material effect to respective total amounts.

Figures in U.S. dollars are converted for convenience only, at the rate of ¥105.69 per U.S.$1, prevailing on March 31, 2004.

Financial Review

Business Performance

Although private sector investment, primarily in new housing, rose slightly during the term, local and federal governments alike held back on plans for new, publicly funded infrastructure projects, making the domestic market for construction companies even more severe than in the previous fiscal year.

In Southeast Asia, where Penta-Ocean has long been involved in very-large-scale land reclamation schemes and massive architectural engineering projects, a growing number of competitors competed for larger portions of government projects once held almost exclusively by Penta-Ocean.

In this business environment, consolidated net sales declined by 14.3% year-on-year to ¥331,170 million (US$3,133.4 million). Consolidated operating income increased by 74.9% to ¥10,734 million (US$101.5 million). Penta-Ocean strove to increase the efficiency of every project worldwide in order to increase profitability and enhance its competitiveness in a rapidly changing construction market.

Consolidated ordinary income increased by 303.0% over the previous term to ¥7,440 million (US$70.3 million). Income before income taxes amounted to 6,624 million (US$62.6 million) and consolidated net income totaled ¥3,292 million (US$31.1 million), reflecting a return to profitability from levels in the previous term. This gain was achieved, primarily, by the recording of a substantial amount of special losses in the previous term. Also, in fiscal 2003 as well, Penta-Ocean liquidated ¥1,318 million (US$12.4 million) in fixed assets, further strengthening its financial base.

Segment Information

When examining the Group's consolidated financial results by business segment, the domestic construction market, which represents the primary source of revenue, remained severe owing to the continuing falloff in public sector investment. The private sector, however, exhibited renewed activity, with investment in housing improving slightly over the previous term.

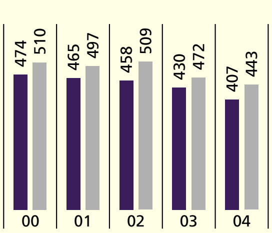
Under these circumstances, consolidated sales for the construction segment decreased by 15.9% to ¥314,625 million (US$2,976.8 million). Consolidated operating income, on the other hand, increased by 101.0% over the previous term to ¥11,712 million (US$110.8 million), owing to the Group's efforts to improve the profitability of individual projects. Personnel cuts in the previous term contributed significantly to the reductions in operating costs on many of the Group's projects.

Although the domestic real estate market, particularly in urban areas, exhibited signs of recovery during the term, the Group's development activities throughout Japan remained sluggish. Despite the harsh business environment, however, Group-wide efforts to promote the sale of real estate for sale held by Penta-Ocean, consolidated sales for this category increased 75.2% over the previous year's level to ¥6,240 million (US$59.0 million). Although the previous term recorded profits, the term under review indicated the loss of ¥678 million (US$6.4 million).

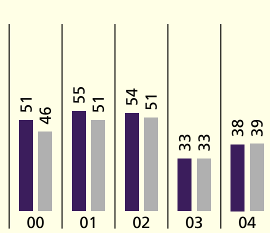
Penta-Ocean's non-construction business segment registered a 12.8% year-on-year increase in consolidated sales amounting to ¥10,305 million (US$97.5 million). The substantial contribution from the Group's shipbuilding business was credited with the increase. Its construction materials and facilities leasing and vessel leasing business also contributed. Owing to various factors, however, this segment did not record an operating profit for the term. Consolidated operating loss amounted to ¥411 million (US$3.8 million), an increase of 367.0% from the previous term.

Consolidated sales from business activities in Japan amounted to ¥296,812 million (US$2,808.3 million), a decrease of 9.0% from the previous year's level. Operating income increased by 45.9% to ¥12,367 million (US$117.0 million).

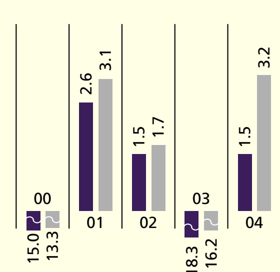
Total Assets
Billions of yen



Shareholders' Equity
Billions of yen



Net Income (Loss)
Billions of yen



■ Non-Consolidated ■ Consolidated

Consolidated net sales from business activities in Southeast Asia decreased by 45.3% to ¥27,333 million (US$258.6 million) and for the second year no operating profit was recorded. Notwithstanding, consolidated loss was reduced by 31.3% to ¥1,348 million (US$12.7 million).

Consolidated sales derived from the Group's business activities in Bulgaria, Romania, and other countries amounted to 7,025 million (US$66.4 million). This represented a decrease of 34.0% from the previous term. Operating loss reached ¥347 million (US$3.2 million), or 7.4% below the previous term's level.

Orders Received and Contract Backlog

Consolidated orders received by the Group during the term amounted to ¥313,751 million (US$2,968.5 million), an increase of 9.2% over the previous year.

While orders received in the domestic market increased by 9.2% for civil engineering and 5.1% for construction projects, orders from overseas also increased, by 12.5%, including orders for large-scale commercial facilities and harbor projects under the ODA.

Contract backlog decreased by 1.0% year-on-year to ¥392,377 million (US$3,712.5 million).

Financial Position

Total assets held by Penta-Ocean and it's consolidated subsidiaries decreased by 6.2%, or ¥29,656 million (US$280.5 million), to ¥443,193 million (US$4,193.3 million), during the term. This was attributable to several factors, including a reduction in new orders, the liquidation of non-active assets, the allocation of a substantial amount of reserves for research and development, and an adjustment for losses resulting from the liquidation of a subsidiary.

Cash Flows

An increase in cash flow generated from sales activities and other adjustments let to substantial improvement over the previous term, to ¥6,624 million (US$62.6 million). This gain reflected increased profitability from construction projects combined with a reduction in personnel expenses resulting from streamlining in the previous term, and a reduction in inventory, to ¥15,377 million (US$145.4 million). Income increased by ¥46,254 million (US$437.6 million) year-on-year to ¥33,228 million (US$314.3 million).

Cash flow from investment activities resulted in an excess expenditure of ¥4,206 million (US$39.7 million), a reduction of ¥2,008 million (US$18.9 million) from the previous term, as a result of contribution of funds for redeeming the debts of Green Port Co., Ltd., an affiliated company applied the equity method, for the purpose of eliminating the joint surety ship of its debts.

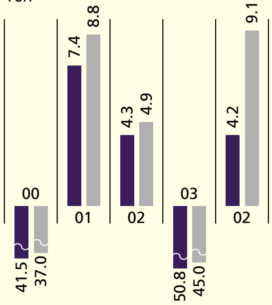
Cash flow from financial activities decreased by ¥38,491 million (US$364.1 million) from the previous term, reflecting excess payments of ¥20,574 million (US$194.6 million), mainly due to redemption of debts.

The amount of consolidated cash and cash equivalents reported by the Group at the end of the term increased by 16.9% year-on-year, or ¥8,380 million (US$79.2 million), to ¥57,701 million (US$545.9 million). The balance of interest-bearing liabilities held by the Group amounted to ¥186,703 million (US$1,766.5 million), including those held by Penta-Ocean, which amounted to ¥170,284 million (US$1,611.1 million).

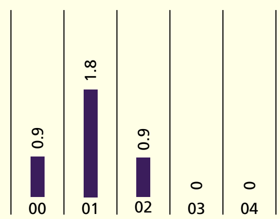
Dividends

It is Penta-Ocean's basic policy to pay dividends to its shareholders in a consistent manner, while at the same time endeavoring to accumulate internal reserves in order to maintain a strong financial base. Owing to the substantial number of special losses recorded during the previous term and a move to reduce paid-in capital in order to improve the Group's financial standing, Penta-Ocean was again unable to pay a dividend to shareholders.

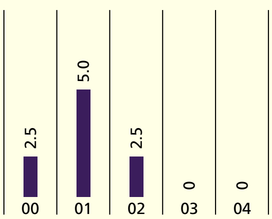
Net Income (Loss) per Share
Yen



Cash Dividends
Billions of yen



Cash Dividends per Share
Yen



Consolidated Balance Sheets

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
March 31, 2003 and 2004

	Millions of yen		Thousands of U.S. dollars
ASSETS	2003	**2004**	**2004**
Current assets:			
Cash and deposits (Note 5)	¥ 49,969	**¥ 58,129**	**$ 549,995**
Securities (Notes 3 (4), 4 and 5)	728	**201**	**1,902**
Trade receivables:			
Notes	14,316	**17,306**	**163,743**
Accounts	134,811	**111,237**	**1,052,484**
Inventories: (Note 3 (7))			
Cost of uncompleted contracts	50,355	**50,349**	**476,384**
Real estate for trade and real estate in progress	52,520	**39,347**	**372,287**
Other inventories	3,058	**2,269**	**21,468**
Deferred tax assets (Note 15)	10,500	**11,013**	**104,201**
Other current assets	5,414	**5,690**	**53,837**
Allowance for doubtful accounts (Note 3 (6))	(1,006)	**(1,158)**	**(10,957)**
Total current assets	320,665	**294,383**	**2,785,344**
Investments and non-current assets:			
Investment in securities (Notes 3 (4), 4 and 5)	18,743	**22,285**	**210,852**
Long-term loans and accounts receivables	7,480	**12,979**	**122,803**
Sundry investments (Note 5)	21,398	**15,572**	**147,337**
Deferred tax assets (Note 15)	15,550	**11,756**	**111,231**
Allowance for doubtful accounts (Note 3 (6))	(11,858)	**(6,706)**	**(63,450)**
Total investments and non-current assets	51,313	**55,886**	**528,773**
Property, plant and equipment (Note 3 (8)):			
Land (Note 5)	50,860	**48,240**	**456,429**
Buildings and structures (Note 5)	39,509	**38,979**	**368,805**
Machinery, equipment and vehicles	20,454	**20,151**	**190,661**
Dredgers and vessels	53,283	**52,203**	**493,926**
Construction in progress	1,851	**85**	**804**
Other property, plant and equipment	3,645	**3,642**	**34,460**
Total property, plant and equipment	169,602	**163,300**	**1,545,085**
Less accumulated depreciation	(69,332)	**(70,930)**	**(671,114)**
Property, plant and equipment — net	100,270	**92,370**	**873,971**
Other assets (Note 3 (9))	601	**554**	**5,242**
Total assets	¥472,849	**¥443,193**	**$4,193,330**

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	Millions of yen 2003	Millions of yen 2004	Thousands of U.S. dollars 2004
Current liabilities:			
Short-term debt (Note 6)	¥ 84,646	**¥ 71,426**	**$ 675,807**
Current portion of long-term debt (Note 6)	22,979	**34,346**	**324,969**
Trade payables:			
Notes	37,536	**34,619**	**327,552**
Accounts	87,125	**83,592**	**790,917**
Advance on contracts in progress	49,337	**51,309**	**485,467**
Deposits received	16,209	**15,534**	**146,977**
Accrued income taxes	649	**708**	**6,699**
Provision for loss on liquidation of an affiliated company (Note 3 (11))	10,245	**487**	**4,608**
Accrued expenses	2,430	**1,984**	**18,772**
Other current liabilities	4,691	**4,020**	**38,035**
Total current liabilities	315,847	**298,025**	**2,819,803**
Long-term liabilities:			
Long-term debt (Note 6)	99,633	**80,932**	**765,749**
Reserve for retirement benefits (Notes 3(12) and 19)	7,357	**7,729**	**73,129**
Reserve for directors' and statutory auditors' retirement pay (Note 3 (13))	694	**461**	**4,362**
Deferred tax liabilities for land revaluation excess (Note 17 (2))	4,012	**5,248**	**49,655**
Consolidation adjustments	1,402	**967**	**9,149**
Other long-term liabilities	10,222	**9,968**	**94,314**
Total long-term liabilities	123,320	**105,305**	**996,358**
Minority interests	—	**3**	**28**
Shareholders' equity:			
Common stock	33,971	**18,070**	**170,972**
Authorized — 599,135,000 shares			
Issued — 361,407,443 shares at March 31, 2003 and 2004			
Capital surplus (Note 17(1))	10,635	**10,106**	**95,619**
Earned surplus (deficit) (Note 2(5))	(17,008)	**889**	**8,411**
Land revaluation excess — net (Note 17(2))	5,800	**7,650**	**72,381**
Unrealized valuation gain (loss) on other securities — net (Note 17(3))	(64)	**2,982**	**28,215**
Cumulative foreign currency translation adjustments (Note 3(2))	352	**168**	**1,590**
Less: Tresury stock	(4)	**(5)**	**(47)**
Total shareholders' equity	33,682	**39,860**	**377,141**
Total liabilities, minority interests and shareholders' equity	¥472,849	**¥443,193**	**$4,193,330**

Commitments and contingent liabilities (Note 14)

Consolidated Statements of Income

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2003 and 2004

	Millions of yen		Thousands of U.S. dollars
	2003	**2004**	**2004**
Construction business:			
Net sales	¥374,169	**¥314,626**	**$2,976,876**
Cost of sales	340,170	**282,248**	**2,670,527**
Gross profit	33,999	**32,378**	**306,349**
Real estate and other:			
Net sales	12,692	**16,544**	**156,533**
Cost of sales	11,629	**16,904**	**159,939**
Gross profit (loss)	1,063	**(360)**	**(3,406)**
Total net sales	386,861	**331,170**	**3,133,409**
Total cost of sales	351,799	**299,152**	**2,830,466**
Total gross profit	35,062	**32,018**	**302,943**
Selling, general and administrative expenses	28,926	**21,284**	**201,381**
Operating income	6,136	**10,734**	**101,562**
Other income:			
Interest and dividends	477	**435**	**4,116**
Other (Note 7)	1,254	**1,045**	**9,887**
	1,731	**1,480**	**14,003**
Other expenses:			
Interest	3,462	**3,798**	**35,935**
Other (Note 8)	2,559	**976**	**9,235**
	6,021	**4,774**	**45,170**
Ordinary income	1,846	**7,440**	**70,395**
Extraordinary gain (Note 9)	2,561	**2,502**	**23,673**
Extraordinary loss (Note 10)	25,723	**3,318**	**31,394**
Income (loss) before income taxes and minority interests	(21,316)	**6,624**	**62,674**
Income taxes (Notes 3 (17) and 15):			
Current	812	**888**	**8,402**
Income taxes deferred	(5,867)	**2,451**	**23,190**
Minority interests	—	**7**	**66**
Net income (loss)	¥ (16,261)	**¥ 3,292**	**$ 31,148**

Income (loss) per share of common stock (Note 3 (14))	Yen		U.S. dollars
Primary	¥(45.00)	**¥9.11**	**$0.09**
Assuming full dilution	—	**—**	**—**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2003 and 2004

	Millions of yen		Thousands of U.S. dollars
	2003	**2004**	**2004**
Common stock:			
Balance at the beginning of the period	¥33,971	**¥33,971**	**$321,421**
Transferred to earned surplus and capital surplus	—	**(15,901)**	**(150,449)**
Balance at the end of the period	33,971	**18,070**	**170,972**
Capital surplus (Note 17 (1)):			
Balance at the beginning of the period	10,635	**10,635**	**100,624**
Transferred to earned surplus	—	**(10,635)**	**(100,624)**
Transferred from common stock	—	**10,106**	**95,619**
Balance at the end of the period	10,635	**10,106**	**95,619**
Earned surplus (Note 2 (5)):			
Balance at the beginning of the period	251	**(17,008)**	**(160,923)**
Transferred from common stock	—	**5,795**	**54,830**
Transferred from capital surplus	—	**10,635**	**100,624**
Decrease resulting from change in scope of consolidation	(23)	**—**	**—**
Cash dividends	(903)	**—**	**—**
Transferred from land revaluation excess — net	(72)	**(1,825)**	**(17,268)**
Net income (loss)	(16,261)	**3,292**	**31,148**
Balance at the end of the period	(17,008)	**889**	**8,411**
Land revaluation excess — net (Note 17 (2)):			
Balance at the beginning of the period	5,614	**5,800**	**54,877**
Transferred to earned surplus	72	**1,825**	**17,268**
Increase in excess — net	114	**25**	**236**
Balance at the end of the period	5,800	**7,650**	**72,381**
Unrealized valuation gain (loss) on other securities — net (Note 17 (3))	(64)	**2,982**	**28,215**
Cumulative foreign currency translation adjustments (Note 3 (2))	352	**168**	**1,590**
Tresury stock	¥ (4)	**¥ (5)**	**$ (47)**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2003 and 2004

	Millions of yen		Thousands of U.S. dollars
	2003	**2004**	**2004**
Cash flows from operating activities:			
Income (loss) before income taxes and minority interests	¥(21,316)	**¥6,624**	**$62,674**
Adjustment to reconcile income (loss) before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	6,016	**5,369**	**50,800**
Amortization of consolidation adjustments	(435)	**(435)**	**(4,116)**
Increase (decrease) in allowance for doubtful receivables	(924)	**(5,000)**	**(47,308)**
Increase (decrease) in reserve for retirement benefits	(2,265)	**371**	**3,510**
Interest and dividends receivable	(477)	**(435)**	**(4,116)**
Interest expense	3,555	**4,257**	**40,278**
Foreign exchange loss (gain)	754	**(11)**	**(104)**
Equity loss (gain)	569	**(55)**	**(520)**
Loss (gain) on sales and disposals of property, plant and equipment	283	**1,163**	**11,004**
Loss (gain) on sales of investment in securities	(5)	**(337)**	**(3,189)**
Write-down of securities and investment in securities	505	**15**	**142**
Change in assets and liabilities:			
(Increase) decrease in trade receivables	24,490	**13,521**	**127,931**
(Increase) decrease in cost of uncompleted contracts	12,817	**8**	**76**
(Increase) decrease in real estate for trade and real estate in progress and other inventories	517	**15,378**	**145,501**
Increase (decrease) in trade payables	(39,277)	**(4,603)**	**(43,552)**
Increase (decrease) in advance on contracts in progress	(8,229)	**1,972**	**18,658**
Increase (decrease) in accrued expenses	13,446	**(10,249)**	**(96,972)**
Other — net	1,287	**10,351**	**97,937**
Sub total	(8,689)	**37,904**	**358,634**
Interest and dividends received	528	**394**	**3,728**
Interest paid	(3,511)	**(4,241)**	**(40,127)**
Income taxes paid	(1,354)	**(829)**	**(7,844)**
Net cash provided by (used in) operating activities	(13,026)	**33,228**	**314,391**

See accompanying Notes to Consolidated Financial Statements.

	Millions of yen		Thousands of U.S. dollars
	2003	**2004**	**2004**
Cash flows from investing activities:			
Purchases of securities.	(523)	**(7,101)**	**(67,187)**
Proceeds from sales of securities	183	**7,944**	**75,163**
Purchases of investment in securities	(1,179)	**(501)**	**(4,740)**
Proceeds from sales of investment in securities	1,558	**2,154**	**20,380**
Purchases of property, plant and equipment	(3,955)	**(2,901)**	**(27,448)**
Proceeds from sales of property, plant and equipment	1,002	**2,688**	**25,433**
Loans made	(5,106)	**(7,223)**	**(68,341)**
Collection of loans receivable	1,470	**709**	**6,708**
Other — net	336	**25**	**236**
Net cash provided by (used in) investing activities	(6,214)	**(4,206)**	**(39,796)**
Cash flows from financing activities:			
Net increase (decrease) in short-term bank loans	3,159	**(13,205)**	**(124,941)**
Borrowings	36,883	**17,406**	**164,689**
Repayment of long-term debt	(21,222)	**(24,780)**	**(234,459)**
Cash dividends paid	(900)	**(4)**	**(38)**
Other — net	(3)	**9**	**85**
Net cash provided by (used in) financing activities	17,917	**(20,574)**	**(194,664)**
Difference resulting from conversion of foreign cash and cash equivalents to yen	(732)	**(68)**	**(643)**
Net increase (decrease) in cash and cash equivalents	(2,055)	**8,380**	**79,288**
Cash and cash equivalents at beginning of the period	51,376	**49,321**	**466,658**
Cash and cash equivalents at end of the period	¥49,321	**¥57,701**	**$545,946**
(Note) Cash and cash equivalents are comprised as follows:			
Cash and deposits	¥49,969	**¥58,129**	**$549,995**
Less-Time deposits which can be drawn over three months	(648)	**(428)**	**(4,049)**
Cash and cash equivalents (Note 3 (15))	¥49,321	**¥57,701**	**$545,946**

Notes to Consolidated Financial Statements

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries

1. Basis of preparation of consolidated financial statements

The accompanying consolidated financial statements of Penta-Ocean Construction 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.

The accounting principles and practices adopted by the overseas consolidated subsidiaries conform to those adopted by the Company. The figures in these financial statements are shown in U.S. dollars at the conversion rate of U.S.$1=¥105.69, the exchange rate prevailing on March 31, 2004. This is solely for the convenience of readers outside Japan and does not mean that assets and liabilities originating in yen can be converted into or settled in dollars at the above rate.

2. Consolidation

(1) Scope of consolidation and application of equity method

The Company has twenty-eight wholly owned subsidiaries and five affiliated companies at March 31, 2003.

The Company consolidated all subsidiaries and applied the equity method to all affiliated companies.

(2) Consolidation date

The balance sheet date of overseas subsidiaries other than the Company, domestic subsidiaries and seven overseas subsidiaries including Penta-Ocean Dredging Panama whose balance sheet date is March 31, is December 31.

The Company compiled the consolidated financial statements using the financial statements of each company's closing date. As a result, adjustments were made for any material difference incurred between the balance sheet date and the consolidation date.

(3) Valuation of assets and liabilities of consolidated subsidiaries

Assets and liabilities of subsidiaries are recorded at fair value upon acquisition. The difference between fair value and book value is allocated to shareholders' equity and minority interest in proportion to their respective shareholdings.

(4) Consolidation adjustments

Consolidation adjustments are amortized over five years by the straight-line method.

(5) Appropriation of retained earnings or deficit

Appropriation of retained earnings or deficit approved at the shareholders' meeting held during the current fiscal year, is reflected in the consolidated financial statements.

3. Summary of significant accounting policies

(1) Conversion method of foreign currency transactions of the Company and its domestic subsidiaries and affiliated companies

Transactions in foreign currencies are converted into yen at the exchange rate prevailing at the time of the transactions. Monetary receivables and payables denominated in foreign currencies including foreign cash are converted into yen at the exchange rate prevailing on the balance sheet date. Non monetary items denominated in foreign currencies are converted into yen at the historical rate. Held-to-maturity bonds denominated in foreign currencies are translated into yen at the exchange rate prevailing on the balance sheet date, securities for purpose of sales and investment in securities other than the above are converted into yen from the fair value based on foreign currencies at the exchange rate prevailing on the balance sheet date and investments in subsidiaries and affiliated companies at the exchange rate prevailing at the time of acquisition of the Company.

Also, securities denominated in foreign currencies are translated at the exchange rate prevailing on the balance sheet date based on the fair value or the actual value estimated in foreign currencies, and those are written down, when declined remarkably. The evaluation of derivative financial instruments resulting from derivative transaction denominated in foreign currencies are translated at the exchange rate prevailing on the balance sheet date based on the fair value or the actual value estimated in foreign currencies excluding those applying hedge accounting. Exchange gains or losses, realized or unrealized, are included in current income.

(2) Conversion method of foreign currency of overseas subsidiaries

Financial statements stated in foreign currency are translated into yen at the exchange rate prevailing on the balance sheet date except for the components of shareholder' equity which are translated at the exchange rate prevailing at the time of acquisition of the Company and at the historical rate to their increase thereafter.

Exchange differences arising from conversion of balance sheet accounts are stated as cumulative foreign currency translation adjustments in shareholders' equity.

(3) Recognition of contract revenue

The Company generally recognizes revenue upon the completed-contract method excluding the percentage of completion method to recognize revenue derived from large, long-term construction projects which conform to a certain specified term. Advances received in excess of revenue incurred on long-term contracts are shown as a current liability. Cost of uncompleted contracts is included in inventories.

(4) Securities

Held-to-maturity bonds are determined by the amortized cost method.

Discounts and premiums are amortized by the straight-line method.

Other securities with fair value are stated at fair value based on the market price at the closing date. Valuation differences are included in Shareholders' equity as unrealized valuation gain (loss) on other securities-net, and sales costs are determined by the moving average method.

Other securities with no fair value are stated at moving average cost.

(5) Derivative financial transactions

Derivative financial instruments are stated at fair value.

Hedge accounting is adopted for derivative financial instruments which conform to requirements of hedge accounting.

(6) Allowance for doubtful receivables

Allowance for doubtful receivables is accounted for using the estimated bad debt ratio determined based on the past actual bad debt losses to general credits and the individual estimated amount to any specific uncollectible receivables.

(7) Inventories

Inventories are stated at specific cost, except for raw materials and supplies which are determined by the first-in first-out method.

(8) Property, plant and equipment

Property, plant and equipment of the Company and domestic subsidiaries are stated at cost and depreciation is calculated using the declining balance method, except for buildings (other than equipment fixed inside buildings) acquired on and after April 1, 1998, which are calculated by the straight-line method. The straight-line method is applied to property, plant and equipment of overseas subsidiaries.

At the time of sale or disposal, cost and related accumulated depreciation are eliminated from the accounts, and gains or losses are reflected in income. Maintenance and repair costs, including minor renewals and improvements and purchases of small equipment, are included in expenses during the fiscal year.

(9) Research and development costs, and computer software

Research and development costs are charged to income as incurred.

Computer software purchased for internal use is amortized assuming no scrap value by the straight-line method over five years based on the estimated useful life of internal use.

(10) Accounting for finance lease

Finance lease transactions other than those which are deemed to transfer the ownership of the assets to the lessees, are accounted for as operating leases.

(11) Provision for loss on liquidation of an affiliated company

For the purpose of liquidation of an affiliated company which is engaged in the real estate development business, the Company provides a reserve on the estimated losses arising from its result as a provision for loss on liquidation of the affiliated company.

(12) Reserve for retirement benefits

Reserve for retirement benefits is provided for at the necessary amounts on an accrual basis based on the estimated amounts of retirement benefit obligations and pension fund assets at end of the current fiscal year.

Effects of the amendments on the application of the new accounting standards for retirement benefits are equally amortized over fifteen years.

Prior service liabilities are recognized as an expense when incurred.

Actuarial gains or losses are equally amortized by the straight-line method over ten years based on the average remaining employees' service years, and its amortization starts in the next year of the respective accrual years.

For the purpose of return of a role as an agent regarding the operations of welfare pension fund, the relinquishment of the entrusted government's portion of retirement benefit obligations and the exemption of future payment obligations, the Company applied to the Minister of Health, Labour and Welfare to obtain permission of them and was officially approved on the date of January 17, 2003.

Thereby, the Company considered the above date to be the returned date according to the transitional measures of Article 47-2 of "Practical Guideline of Accounting for Retirement Benefit (Interim Report)" of Accounting Committee Report No.13 published by the JICPA and recognized the difference ¥2,167 million (U.S.$18,028 thousand) between the obligations relinquished and the related pension fund assets as an extraordinary loss in the current fiscal year. The amounts of pension fund assets to be returned were ¥30,135 million (U.S.$250,707 thousand) at end of the current fiscal year.

In addition, the Company established the additional financial trust of ¥4,270 million (U.S.$35,524 thousand) to cover retirement benefit obligations at end of the current fiscal year.

The Company has established an employees' welfare pension system, a tax-qualified pension system and a lump-sum severance indemnity plan and the domestic consolidated subsidiaries an employees' welfare pension system and a lump-sum severance indemnity plan, as a defined retirement benefit system. And further, in response to necessity, they will pay a special supplementary retirement pay to retirement of employees.

In addition, the Company and two domestic consolidated subsidiaries have established the financial trust to cover retirement benefit obligations for employees.

The overseas consolidated subsidiaries do not have a retirement benefit system.

(13) Reserve for directors' and statutory auditors' retirement pay

The Company provides reserve for retirement equal to the amount required if all directors and statutory auditors retired on the balance sheet date.

(14) Net income per share

Primary net income per share is calculated by the weighted average number of outstanding common stocks during the period.

Net income per share assuming full dilution is not presented because potential stocks were not issued as of March 31, 2004.

(15) Cash and cash equivalents

Cash and cash equivalents included in the statements of cash flows, consist of cash, deposits which can be drawn out freely and easily converted into cash and short-term investments which have an original maturity of three months or less and are not exposed to significant valuation risks.

(16) Hedge accounting

1) Derivative transactions are accounted for primarily using deferral hedge accounting .

2) Hedge instruments and hedged items
Hedge instruments are interest rate swap agreements and forward exchange contracts.

Hedged items are bank loans and receivables and debts and credits denominated in foreign currencies.

3) The Company enters into interest rate swap agreements and forward exchange contracts to hedge risk from fluctuations in interest rate and forward exchange rates, respectively.

4) Evaluation of the effectiveness of hedge accounting
Control procedures for hedge transactions are executed according to the Company' Bylaw. The Examination Committee of Derivative Instruments and the Financial Division in the Company periodically evaluates the effectiveness of hedging.

(17) Income taxes

The Company and consolidated domestic subsidiaries declare corporation and other taxes on the basis of taxable income calculated under the provisions of the Corporation Tax Law and other tax regulations. Taxable income thus calculated is different from earnings in the account book.

Japanese corporation and other taxes applicable to the Company and consolidated domestic subsidiaries comprise (a) corporation tax of 30.0 percent on taxable income, (b) enterprise tax of 9.6 percent on taxable income after certain adjustments, and (c) prefectural and municipal taxes averaging 20.4 percent of corporation tax. When paid, enterprise tax is deductible for income tax purposes.

Enterprise tax rate on taxable income is to be reduced from 9.6 percent to 7.6 percent in the next fiscal year by adopting the pro forma standard taxation.

Foreign subsidiaries declare income taxes at the rate applicable in each country. Foreign tax credit related to the amount of income taxes paid to foreign tax offices by the Company directly or indirectly, is approved subject to certain limitations in accordance with Japanese tax regulations.

4. Securities

The composition of securities as of March 31, 2003 and 2004 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	**2004**	**2004**
Securities due within one year:			
Held-to-maturity bonds	¥ 117	**¥ 201**	**$ 1,902**
Investment trust bills	611	**—**	**—**
Total	¥ 728	**¥ 201**	**$ 1,902**
Investment in securities:			
Held-to-maturity bonds	¥ 353	**¥ 153**	**$ 1,448**
Investment trust bills	1,494	**332**	**3,141**
Stocks	15,396	**20,300**	**192,071**
Others	1,500	**1,500**	**14,192**
Total	¥18,743	**¥22,285**	**$210,852**

5. Pledged assets

(1) The following assets are pledged for fulfillment of construction contracts at March 31, 2003 and 2004.

	Millions of yen		Thousands of U.S. dollars
	2003	**2004**	**2004**
Special deposits	¥216	**¥ 150**	**$ 1,419**
Securities	91	**1**	**9**
Investment in securities	361	**2,283**	**21,602**
Long-term time deposits	187	**—**	**—**
Total	¥855	**¥2,434**	**$23,030**

(2) The following assets were pledged to secure short-term bank loans and long-term debt at March 31, 2003 and 2004.

	Millions of yen		Thousands of U.S. dollars
	2003	**2004**	**2004**
Time deposits	¥200	**¥200**	**$1,892**
Investment in securities	—	**103**	**975**
Land	101	**101**	**955**
Building	112	**110**	**1,041**
Total	¥413	**¥514**	**$4,863**

6. Short-term and long-term debt

Short-term bank loans are represented primarily in the form of overdraft facility notes. The weighted average interest rates for the two fiscal years ended March 31, 2004 are 1.50% and 1.82%. Long-term debts as of March 31, 2003 and 2004 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	**2004**	**2004**
1.71 percent bonds due September 2006	¥ 200	**¥ 200**	**$ 1,892**
Long-term debt from banks and insurance companies maturing in 2013 (The weighted average interest rates for the two fiscal years ended March 31, 2004 are 2.15% and 2.33%.)	122,412	**115,078**	**1,088,826**
Less: current portion of long-term debt	(22,979)	**(34,346)**	**(324,969)**
Net	¥ 99,633	**¥ 80,932**	**$ 765,749**

The aggregate annual maturity of long-term debt after March 31, 2004 is as follows:

	Millions of yen	Thousands of U.S. dollars
	2004	**2004**
Years ending March 31,		
2005	**¥ 34,346**	**$ 324,969**
2006	**43,578**	**412,319**
2007	**20,756**	**196,386**
2008	**8,094**	**76,582**
2009 and after that	**8,304**	**78,570**
Total	**¥115,078**	**$1,088,826**

7. Other income

The composition of Other income — other for the two years ended March 31, 2004 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	**2004**	**2004**
Rental received from real estate	¥ 286	**¥ 228**	**$2,157**
Amortization of consolidation adjustments	435	**436**	**4,125**
Equity gain	—	**55**	**520**
Other	533	**326**	**3,084**
Total	¥1,254	**¥1,045**	**$9,887**

8. Other expenses

The composition of Other expenses — other for the two years ended March 31, 2004 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	**2004**	**2004**
Equity loss of affiliates	¥ 569	**¥ —**	**$ —**
Exchange loss	1,326	**842**	**7,967**
Other	664	**134**	**1,268**
Total	¥2,559	**¥976**	**$9,235**

9. Extraordinary gain

The composition of Extraordinary gain for the two years ended March 31, 2004 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	**2004**	**2004**
Gain on sales of investment in securities	¥ 5	**¥ 347**	**$ 3,283**
Reversal of reserve for retirement benefits	1,211	**1,028**	**9,727**
Gain on sales of fixed assets	201	**156**	**1,475**
Reversal of provision for bad debt	584	**305**	**2,886**
Prior period adjustments	129	**357**	**3,378**
Other	431	**309**	**2,924**
Total	¥2,561	**¥2,502**	**$23,673**

10. Extraordinary loss

The composition of Extraordinary loss for the two years ended March 31, 2004 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	**2004**	**2004**
Loss from sales of fixed assets	¥ 480	**¥1,318**	**$12,470**
Loss from disposition of fixed assets	153	**48**	**454**
Write-down of real estate for trade	1,977	**512**	**4,844**
Write-down of investment in securities	505	**15**	**142**
Provision for loss on liquidation of a affiliated company	10,245	**482**	**4,561**
Provision for loss on real estate development business of affiliates	4,081	**—**	**—**
Special supplementary retirement pay	3,418	**25**	**237**
Loss on return of the entrusted government's portion of the welfare pension fund	2,167	**—**	**—**
Provision for bad debt	1,607	**15**	**142**
Prior period adjustments	209	**323**	**3,056**
Other	881	**580**	**5,488**
Total	¥25,723	**¥3,318**	**$31,394**

11. Research and development costs

Research and development costs charged to income for the two fiscal years ended March 31, 2004 were ¥1,765 million (U.S.$16,700 thousand) and¥1,558 million (U.S.$14,741 thousand), respectively.

12. Summary of finance lease transactions

The Company has entered into finance lease contracts. They are summarized as follows:

(1) Estimated acquisition costs, accumulated depreciation and estimated value of assets leased by the Company are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	**2004**	**2004**
Equipment	¥ 864	**¥ 855**	**$8,090**
Vehicles	156	**151**	**1,429**
Buildings	40	**40**	**378**
	1,060	**1,046**	**9,897**
Accumulated depriciation	(621)	**(697)**	**(6,595)**
Estimated value	¥ 439	**¥ 349**	**$3,302**

(2) Future lease payments as of March 31, 2003 and 2004 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	**2004**	**2004**
Within one year	¥131	**¥135**	**$1,278**
Over one year	346	**248**	**2,346**
Total	¥477	**¥383**	**$3,624**

(3) The difference between the aggregate payments and the acquisition costs of lease assets is regarded as an interest and is allocated to respective accounting periods over the term of the lease by the interest-method:

	Millions of yen		Thousands of U.S. dollars
	2003	**2004**	**2004**
Lease payments	¥275	**¥155**	**$1,467**
Depreciation	254	**137**	**1,296**
Interest expense	¥ 18	**¥ 13**	**$ 123**

13. Derivative financial transactions

The Company and its consolidated subsidiaries have entered into interest rate swap agreements and forward exchange contracts only to hedge risks from fluctuation in interest rates and foreign exchange rates, not for speculative purposes.

The derivative financial transactions are mainly performed by the Company, and have been made in accordance with the Bylaw which clarified relevant purposes and management and execution procedures.

14. Commitments and contingent liabilities

As of March 31, 2004, commitments for the purchase of machinery and equipment and other assets were ¥70 million (U.S.$662 thousand), and the Company had contingent liabilities for bank loans amounting to ¥2,236 million (U.S.$21,156 thousand) in respect of affiliated companies and customers.

The Company also had the guarantee amounting to ¥1,750 million (U.S.$16,558 thousand) to purchasers concerning deposits for purchase of the condominium apartments.

15. Tax effect accounting

The significant components of deferred tax assets and liabilities are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	**2004**	**2004**
Deferred tax assets			
Write-down of real estate for trade	¥3,966	**¥3,506**	**$33,172**
Deficit carried forward on tax	3,694	**8,009**	**75,778**
Disapproval on tax purpose concerning allowance for doubtful receivables	3,125	**1,919**	**18,157**
Loss on establishment of financial trust in respect of retirement benefit obligations	4,234	**4,126**	**39,039**
Disapproval on tax purpose concerning reserve for retirement benefits	2,372	**2,879**	**27,240**
Reserve for bonuses	753	**669**	**6,330**
Write-down of investment in securities	527	**504**	**4,769**
Provision for loss on liquidation of affiliates	4,308	**251**	**2,375**
Provision for loss on real estate development business of affiliates	1,669	**1,620**	**15,328**
Other	3,262	**3,188**	**30,163**
Total: deferred tax assets	27,910	**26,671**	**252,351**
Less : valuation allowance	(1,711)	**(1,717)**	**(16,245)**
Deferred tax assets	¥26,199	**¥24,954**	**$236,106**
Deferred tax liabilities			
Unrealized valuation gain on other securities	¥ —	**¥ (2,048)**	**$ (19,377)**
Reduction for amendment of allowance for doubtful receivables	(28)	**(27)**	**(255)**
Other	(120)	**(110)**	**(1,042)**
Total: deferred tax liabilities	(148)	**(2,185)**	**(20,674)**
Net: deferred tax assets	¥26,051	**¥22,769**	**$215,432**

As described Notes 3 (17) Income taxes of Summary of significant accounting policies, enterprise tax rate is to be reduced in the next fiscal year. Thereby, the statutory effective tax rate was pulled down from 40.89 percent to 40.69 percent. However the effect of this change on the deferred tax assets and the financial statements was immaterial.

16. Consumption tax

Consumption tax is usually levied at the rate of 5 percent on all transactions in connection with transferences (including services) and purchases, except for tax-free transactions. Consumption tax is eliminated from transferences (including services) and purchases stated in the statements of income.

17. Shareholders' Equity

(1) Earned surplus reserve and capital surplus reserve

The Japanese Commercial Code requires to provide an earned surplus reserve over 10 percent of cash out flow, that is, payment of dividends and/or directors' and statutory auditors' bonuses approved by the Shareholders' meeting every fiscal years, until the total amounts of earned surplus reserve plus capital surplus reserve or either of them reach 25 percent of common stock.

In the consolidated financial statements, those are included in earned surplus and capital surplus, respectively.

(2) Land revaluation excess

The Company revaluated lands used for business purposes on March 31, 2000 based on the Law concerning Land Revaluation (Law No.34, promulgated on March 31, 1998) and on the partial revision of the Law concerning Land Revaluation (Law No.24, promulgated on March 31, 1999). Relating to revaluation excess, the amounts corresponding to deferred tax on the tax effect accounting was accounted for as a long-term deferred tax liabilities and its remains were accounted for as land revaluation excess-net constituting shareholders' equity.

	Millions of yen		Thousands of U.S. dollars
	2003	**2004**	**2004**
The difference between the appraisal value of land at end of the current fiscal year and the book value	¥6,377	**¥8,395**	**$79,430**

Fair values were determined on the basis of Article 2 No.4 and 5 of an Enforcement ordinance No.119 of the Law concerning Land Revaluation promulgated on March 31, 1998.

(3) Unrealized valuation gain (loss) on other securities-net

Unrealized valuation gain (loss) on other securities is based on the difference between fair market value and book value at March 31. This amounted to ¥2,982 million (U.S. $ 28,215 thousand) loss, after application of tax effect accounting, as of March 31, 2004.

Deferred tax liabilities amounted to ¥2,048 million (U.S. $ 19,377 thousand).

(4) Restriction of dividends

It is regulated by the Japanese Commercial Code that the unrealized valuation difference from assets evaluated by fair value is not available for payment of dividends.

18. Authorized shares

The Articles of Incorporation provides that their number must be deducted from authorized shares if retirement of shares will be carried out.

19. Retirement benefits

I. Retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2003	**2004**	**2004**
a. Retirement benefit obligations	¥(53,796)	**¥(52,497)**	**$(496,707)**
b. Pension fund assets	15,335	**25,014**	**236,673**
c. Unrecognized retirement benefit obligation	(38,461)	**(27,483)**	**(260,034)**
d. Unrecognized effects of the amendments on the application of the new accounting standards for retirement benefits	16,316	**14,946**	**141,413**
e. Unrecognized actuarial gain or loss	15,761	**4,808**	**45,492**
f. Unrecognized prior service liabilities	(973)	**—**	**—**
g. Net retirement benefit obligations	(7,357)	**(7,729)**	**(73,129)**
h. Prepaid pension cost	—	**—**	**—**
i. Reserve for retirement benefits	¥ (7,357)	**¥ (7,729)**	**$ (73,129)**

II. Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2003	**2004**	**2004**
a. Service costs	¥2,256	**¥1,674**	**$15,839**
b. Interest costs	2,632	**1,339**	**12,669**
c. Expected return on pension fund assets	(574)	**(231)**	**(2,186)**
d. Amortization of effects of the amendments on the application of the new accounting standards for retirement benefits	1,525	**1,360**	**12,868**
e. Amortization of actuarial gain or loss	2,173	**1,748**	**16,539**
f. Recognition of prior service liabilities	(1,207)	**(973)**	**(9,206)**
g. Retirement benefit costs	6,805	**4,917**	**46,523**
h. Loss on return of the entrusted government's portion of the welfare pension fund	2,167	**—**	**—**
Total	¥8,972	**¥4,917**	**$46,523**

III. Calculation basis of retirement benefit obligations, etc.

a. Recognition method of the projected retirement benefit obligations	Straight-line method
b. Discount rate	2.10%
c. Expected return rate on pension fund assets	0.00%~1.50%
d. Recognition term of prior service liabilities	Fully recognized as incurred
e. Amortization term of actuarial gain or loss	Actuarial gains or losses are amortized by the straight-line method over 10 years, based on the average remaining employees' service years from the next year of the respective accrual years
f. Amortization term of effects of the amendments on the application of new accounting standards for retirement benefits	15 years

The Company and some subsidiaries obtained the permission of the exemption of the future payment obligations regarding the entrusted government's portion of retirement benefit obligations from the Minister of Health, Labour and Welfare in the previous fiscal year. Thereby they applied the transitional measure of Article 47-2 of "Practical Guideline of Accounting for Retirement Benefit (Interim Report)" of Accounting Committee Report No.13 published by JICPA, and recognized the difference between the obligations relinquished and the related pension assets as an extraordinary loss.

The amounts of pension fund assets to be returned were ¥29,652 (U.S. $280,556 thousand) million at end of the current fiscal year.

20. Segment information

(1) Business segment

Business segment is primarily composed of the followings:

Construction	Civil engineering, construction, etc.
Real estate development	Sale or rental of real estate
Other	Sale of construction materials, shipbuilding, etc.

	Millions of yen					
Year ended March 31, 2003	Construction	Real estate development	Others	Total	Eliminations and/or addition	Consolidated
Net sales:						
Customers	¥374,169	¥ 3,560	¥ 9,132	¥386,861	¥ —	¥386,861
Internal sales or transfer	212	334	8,721	9,268	(9,268)	—
Total	374,382	3,894	17,853	396,129	(9,268)	386,861
Operating expenses	368,557	3,393	17,941	389,891	(9,166)	380,725
Operating income (loss)	5,825	501	(88)	6,238	(102)	6,136
Assets	314,197	74,687	29,309	418,193	54,656	472,849
Depreciation	4,006	40	2,021	6,067	(51)	6,016
Capital expenditures	2,834	652	581	4,067	(44)	4,023

Year ended March 31, 2004	Millions of yen Construction	Real estate development	Others	Total	Eliminations and/or addition	Consolidated
Net sales:						
Customers	¥314,625	¥ 6,240	¥10,305	¥331,170	¥ —	¥331,170
Internal sales or transfer	670	264	8,123	9,057	(9,057)	—
Total	315,295	6,504	18,428	340,227	(9,057)	331,170
Operating expenses	303,583	7,182	18,839	329,604	(9,168)	320,436
Operating income (loss)	11,712	(678)	(411)	10,623	111	10,734
Assets	283,933	55,088	34,090	373,111	70,082	443,193
Depreciation	2,914	215	2,283	5,412	(42)	5,370
Capital expenditures	2,524	93	682	3,299	—	3,299

Year ended March 31, 2004	Thousands of U.S. dollars Construction	Real estate development	Others	Total	Eliminations and/or addition	Consolidated
Net sales:						
Customers	$2,976,866	$ 59,041	$ 97,502	$3,133,409	$ —	$3,133,409
Internal sales or transfer	6,339	2,498	76,857	85,694	(85,694)	—
Total	2,983,205	61,539	174,359	3,219,103	(85,694)	3,133,409
Operating expenses	2,872,391	67,953	178,248	3,118,592	(86,745)	3,031,847
Operating income (loss)	110,814	(6,414)	(3,889)	100,511	1,051	101,562
Assets	2,686,471	521,222	322,547	3,530,240	663,090	4,193,330
Depreciation	27,571	2,034	21,601	51,206	(397)	50,809
Capital expenditures	23,881	880	6,453	31,214	—	31,214

(2) Geographic segment

Geographic segment is primarily composed of the followings:

Japan
Southeast Asia .... Singapore, Hong Kong and Vietnam
Others .... Sri Lanka, Bulgaria and Romania

Year ended March 31, 2003	Millions of yen Japan	Southeast Asia	Others	Total	Eliminations and/or addition	Consolidated
Net sales:						
Customers	¥326,217	¥49,997	¥10,647	¥386,861	¥ —	¥386,861
Internal sales or transfer	—	—	—	—	—	—
Total	326,217	49,997	10,647	386,861	—	386,861
Operating expenses	317,741	51,962	11,022	380,725	—	380,725
Operating income (loss)	8,476	(1,965)	(375)	6,136	—	6,136
Assets	362,690	47,934	5,190	415,814	57,035	472,849

Year ended March 31, 2004	Japan	Southeast Asia	Others	Total	Eliminations and/or addition	Consolidated
	Millions of yen					
Net sales:						
Customers	**¥296,812**	**¥27,333**	**¥7,025**	**¥331,170**	**¥ —**	**¥331,170**
Internal sales or transfer	**—**	**—**	**—**	**—**	**—**	**—**
Total	**296,812**	**27,333**	**7,025**	**331,170**	**—**	**331,170**
Operating expenses	**284,445**	**28,681**	**7,372**	**320,498**	**(62)**	**320,436**
Operating income	**12,367**	**(1,348)**	**(347)**	**10,672**	**62**	**10,734**
Assets	**323,344**	**42,533**	**4,771**	**370,648**	**72,545**	**443,193**

Year ended March 31, 2004	Japan	Southeast Asia	Others	Total	Eliminations and/or addition	Consolidated
	Thousands of U.S. dollars					
Net sales:						
Customers	**$2,808,326**	**$258,615**	**$66,468**	**$3,133,409**	**$ —**	**$3,133,409**
Internal sales or transfer	**—**	**—**	**—**	**—**	**—**	**—**
Total	**2,808,326**	**258,615**	**66,468**	**3,133,409**	**—**	**3,133,409**
Operating expenses	**2,691,314**	**271,369**	**69,751**	**3,032,434**	**(587)**	**3,031,847**
Operating income (loss)	**117,012**	**(12,754)**	**(3,283)**	**100,975**	**587**	**101,562**
Assets	**3,059,363**	**402,432**	**45,141**	**3,506,936**	**686,394**	**4,193,330**

All operating expenses are allocated to the respective segments.

Assets which could not be allocated relate to the general control division in the head office of the Company and subsidiaries and amount to ¥72,545 million (U.S. $686,394 thousand) at March 31, 2004 and ¥57,035 million (U.S. $539,644 thousand) at March 31, 2003.

These principally are consisted of cash and time deposits, securities, investment in securities and sundry assets.

(3) Overseas sales

For the year ended March 31, 2003	Southeast Asia	Others	Total
	Millions of yen		
Overseas sales	¥49,997	¥10,647	¥ 60,644
Consolidated sales			¥386,861
The proportion of overseas sales to consolidated sales	12.9%	2.8%	15.7%

For the year ended March 31, 2004	Southeast Asia	Others	Total
	Millions of yen		
Overseas sales	**¥27,333**	**¥7,025**	**¥ 34,358**
Consolidated sales			**¥331,170**
The proportion of overseas sales to consolidated sales	**8.3%**	**2.1%**	**10.4%**

For the year ended March 31, 2004	Southeast Asia	Others	Total
	Thousands of U.S. dollars		
Overseas sales	**$258,615**	**$66,468**	**$ 325,083**
Consolidated sales			**$3,133,409**
The proportion of overseas sales to consolidated sales	**8.3%**	**2.1%**	**10.4%**

Segments of countries or areas are set up on the basis of geographical closeness.

Principal countries and areas included in each category.

– Southeast Asia: Singapore, Hong Kong and Vietnam

– Others: Sri Lanka, Bulgaria and Romania

21. Related party transactions

For the year ended March 31, 2003

Attribution	Affiliated company
Name of the company	Green-port Co., Ltd.
Address	Natori-shi, Miyagi
Common stock	¥50 million
Principal business	Real estate development
Percentage of voting right	25% directly
Relationship	
Number of interlocking directors and corporate auditors	2
Operating relation	Orders received of construction

	Millions of yen		
Transactions	Amounts	Account	Ending balance
The Company's share of joint liabilities on guarantee ¥10,669 million (Note 1)	—	—	—
Loans receivable (Note 2)	¥1,340	Long-term loans receivable	¥3,916
Orders received of construction (Note 3)	(21)	—	—

Notes:
Transaction's term and policy
1. The Company has liabilities on guarantee for bank loans of Green-port Co., Ltd.
2. The Company determines the interest rate for loan based on market rates.
3. The Company offers estimated sheets of construction to Green-port Co., Ltd. and receives the order after negotiation.
4. Amounts in ending balance of the above table include consumption taxes and those of transactions exclude them.

For the year ended March 31, 2004

Attribution	Affiliated company
Name of the company	Green-port Co., Ltd.
Address	Natori-shi, Miyagi
Common stock	¥50 million
Principal business	Real estate development
Percentage of voting right	25% directly
Relationship	
Number of interlocking directors and corporate auditors	2
Operating relation	Orders received of construction

	Millions of yen		
Transactions	Amounts	Account	Ending balance
Loans receivable (Note 1)	¥4,244	Long-term loans receivable	¥8,160
Orders received of construction (Note 2)	17	—	—

Notes:
Transaction's term and policy
1. The Company exempts from interest payable.
2. The Company offers the estimated sheets of construction to Green-port Co., Ltd. and receives the order after negotiation.
3. Amounts in ending balance of the above table include consumption taxes and those of transactions exclude them.

For the year ended March 31, 2004

Attribution	Affiliated company
Name of the company	Green-port Co., Ltd.
Address	Natori-shi, Miyagi
Common stock	U.S.$473 thousand
Principal business	Real estate development
Percentage of voting right	25% directly
Relationship	
Number of interlocking directors and corporate auditors	2
Operating relation	Orders received of construction

	Thousands of U.S. dollars		
Transactions	Amounts	Account	Ending balance
Loans receivable (Note 1)	$40,155	Long-term loans receivable	$77,207
Orders received of construction (Note 2)	161	—	—

Notes:
Transaction's term and policy
1. The Company exempts from interest payable.
2. The Company offers the estimated sheets of construction to Green-port Co., Ltd. and receives the order after negotiation.
3. Amounts in ending balance of the above table include consumption taxes and those of transactions exclude them.

22. Significant subsequent event

At the opportunity of enforcement of the Defined Benefit Corporation Pension Law, on January 17, 2003, the Company and some subsidiaries obtained the permission of the exemption of the future payment obligations regarding the entrusted government's portion of retirement benefit obligations from the Minister of Health, Labour and Welfare on purpose to shift from the former system of the social welfare pension fund to the new system. Thereby they applied the transitional measure of Article 47-2 of "Practical Guideline of Accounting for Retirement Benefit (Interim Report)" of Accounting Committee Report No. 13 published by JICPA on the accounting treatment in the previous fiscal year.

At the pension program committee, the board of trustee and the representative committee constituted by the persons concerned of enterprises who entered the employees' welfare pension plan, they had examined the new employee's welfare pension plan after the relinquishment of the entrusted governments' portion of the retirement benefit obligations. As a result, they found it impossible for the Company and some consolidated subsidiaries to shift to a defined benefit pension plan and they reached a conclusion that there was no other way to dissolve the employees' welfare pension fund due to the following reasons.

1. A number of new subscribers will not increase in not only the Company, but some consolidated subsidiaries through the future.

2. The qualified recipients of the employees' welfare pension fund will be increased and aged rapidly.

3. When the Company and some consolidated subsidiaries shift to a defined benefit pension plan, they will be required to contribute a large sum of funds, and to raise up a premium of pension fund largely. Accordingly, the burden of funds to them will be increased remarkably.

The representative committee determined to dissolve the employees' welfare pension fund on May 21, 2004, and board of directors approved the resolution on May 24, 2004. The Company and some consolidated subsidiaries filed the permission of dissolution of the employees' welfare pension to the Minister of Health, Labour and Welfare. The permission of dissolution of its pension funds will be issued on June 30, 2004.

Once the permission of the dissolution is issued, on the accounting treatment, extraordinary gains are expected approximately by ¥10,000 million (U.S. $94,616 thousand). However, the most of pension assets are operated by stocks which are affected by the movement of market prices largely, therefore, the exact impact on the financial statements will become clear on the day of dissolution.

Report of Independent Auditor

The Board of Directors
PENTA-OCEAN CONSTRUCTION CO., LTD.

We have audited the accompanying consolidated balance sheets of PENTA-OCEAN CONSTRUCTION CO., LTD. and consolidated subsidiaries as of March 31, 2003 and 2004, and the related consolidated statements of income, 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of PENTA-OCEAN CONSTRUCTION CO., LTD. and consolidated subsidiaries at March 31, 2003 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 U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

June 29, 2004

Shin Nihon & Co.

Shin Nihon & Co.

See *Notes to the consolidated financial statements which explain the basis of preparation of the consolidated financial statements of PENTA-OCEAN CONSTRUCTION CO., LTD. and consolidated subsidiaries under Japanese accounting principles and practices.*