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
	2001	2002	2003	2004	**2005**	**2005**
Orders received	¥ 480,699	¥ 351,331	¥287,101	¥ 313,751	**¥ 344,716**	**$ 3,209,945**
Construction	480,699	351,331	287,101	313,751	**344,716**	**3,209,945**
Real estate development	—	—	—	—	**—**	**—**
Other	—	—	—	—	**—**	**—**
Net sales	440,141	440,662	386,861	331,170	**345,266**	**3,215,066**
Construction	428,367	430,474	374,169	314,626	**334,802**	**3,117,627**
Real estate development	5,844	2,149	3,560	6,240	**2,368**	**22,050**
Other	5,930	8,039	9,132	10,304	**8,096**	**75,389**
Contract backlog	545,246	502,980	396,657	392,377	**398,369**	**3,709,554**
Construction	545,246	502,980	396,657	392,377	**398,369**	**3,709,554**
Real estate development	—	—	—	—	**—**	**—**
Other	—	—	—	—	**—**	**—**
Total assets	497,114	509,541	472,849	443,193	**411,322**	**3,830,170**
Shareholders' equity	51,716	51,685	33,682	39,860	**47,640**	**443,616**
Ordinary income	10,494	8,351	1,846	7,440	**8,864**	**82,540**
Income (loss) before income taxes						
and minority interests	9,436	6,519	(21,316)	6,624	**9,500**	**88,462**
Net income (loss)	3,179	1,771	(16,261)	3,292	**2,360**	**21,976**
Cash dividends	1,807	904	—	—	**—**	**—**
Per share of common stock:	Yen					U.S. Dollars
Shareholders' equity	¥ 143.10	¥ 143.01	¥ 93.21	¥ 110.31	**¥ 120.55**	**$ 1.12**
Net income (loss)	8.80	4.90	(45.00)	9.11	**6.25**	**0.06**
Cash dividends	5.00	2.50	—	—	**—**	**—**
Number of employees	4,114	4,549	3,934	3,767	**3,684**	

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 are small and do not have a material effect to respective total amounts.

Figures in U.S. dollars are converted for convenience only, at the rate of ¥107.39 per U.S.$1, prevailing on March 31, 2005.

Financial Review

Business Performance

In the fiscal year ended March 2005, the Japanese economy largely recorded a modest but solid growth. A steady improvement in corporate business results led to private sector capital investment growth and strong urban residential demand, which boosted investment in the construction industry. Public works investment, however, continued to decline. In Asia, our principal overseas market, construction spending expanded strongly in China but remained sluggish in other parts of the region.

Against this backdrop, with the current year, the final year of our medium term plan “Challenge 21” as a base, the Penta-Ocean Group strived hard to slim down and to regain profitability and a competitive edge. We are pleased to have been able to achieve the numerical targets in business results in the current year. Consolidated net sales increased by 4.3% year-on-year to ¥345,266 million (US$3,215.0 million), mainly due to a growth in domestic construction activities. Consolidated operating income increased by 11.8% to ¥12,000 million (US$111.7 million). Operating margin edged up from 3.2% in the previous term to 3.5%. Consolidated ordinary income increased by 19.1% over the previous term to ¥8,864 million (US$82.5 million). At the extraordinary level, early adoption of new accounting standards on impairment of fixed assets resulted in extraordinary losses of ¥8,324 million (US$77.5 million), which was more than offset by extraordinary gains from the dissolution of welfare pension funds of ¥12,502 million (US$116.4 million). Income before income taxes edged up 43.4% to ¥9,500 million (US$88.4 million). Consolidated net income, however, plunged 28.3% to ¥2,360 million (US$21.9 million) due to increases in corporate tax adjustments and other factors.

Segment Information

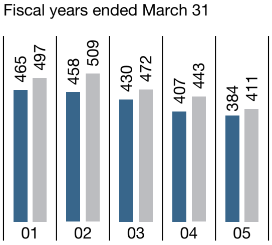
The construction business was boosted in Japan by private sector capital investment growth and strong urban residential demand but public works investment remained sluggish. Against this backdrop, Penta-Ocean Group’s construction segment recorded consolidated operating income of ¥12,825 million (US$119.4 million), up 9.5% from the previous year, on consolidated sales of ¥334,802 million (US$3,117.6 million), up 6.4% year-on-year. The Group continued its efforts to improve profitability on individual projects and successfully reduced operating costs.

The development activities segment, on the other hand, faced difficult conditions and we made group-wide efforts in promoting real estate for sale held by the Group. While consolidated sales more than halved to ¥2,646 million (US$24.6 million), operating loss was largely flat at ¥685 million (US$6.3 million), thanks to our internal restructuring efforts.

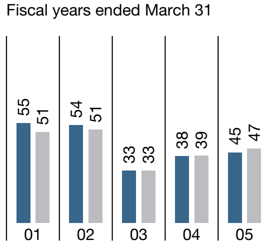
Penta-Ocean’s non-construction business segment includes shipbuilding, sales and leasing of construction materials and facilities, and vessel leasing. The segment recorded consolidated sales of ¥15,132 million (US$140.9 million), down 17.8% year-on-year. Consolidated operating loss, however, amounted to ¥174 million (US$1.6 million), which was significantly less than operating loss of ¥411 million (US$3.8 million) recorded in the previous term.

Looking at the geographical breakdown, Japan’s construction market represents the primary source of revenue and income for Penta-Ocean Group. In the current year, business activities in Japan contributed 89% of sales and all operating profits. The segment’s consolidated sales amounted to ¥307,326 million (US$2,861 million), an increase of 3.5% from the previous year’s level, while operating income was to ¥14,691 million (US$136.8 million), up 18.8% year-on year. Our emphasis on profitability

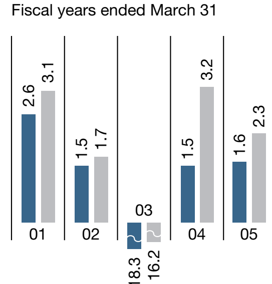
Total Assets
Billions of Yen
Fiscal years ended March 31



Shareholders’ Equity
Billions of Yen
Fiscal years ended March 31



Net Income (Loss)
Billions of Yen
Fiscal years ended March 31



■ Non-Consolidated ■ Consolidated

contributed to an improvement in margins from 4.2% in the previous term to 4.8%. In Southeast Asia, consolidated sales from business activities rose by 23.5% to ¥33,741 million (US$314.1 million). Although an operating loss was recorded for the third consecutive year, consolidated losses were further reduced by 22.1% to ¥1,050 million (US$9.7 million). Consolidated sales derived from the Group's business activities in Bulgaria, Romania, and other countries declined by 40.2% to ¥4,199 million (US$39.1 million) and operating loss reached ¥1,641 million (US$15.2 million).

Orders Received

Consolidated orders received by the Group during the term amounted to ¥344,716 million (US$3,209.9 million), an increase of 9.9% over the previous year. Looking at details on a parent basis, orders received in the domestic market surged by 9.1% to ¥306,058 million (US$2,849.9 million) while orders from overseas dropped by 44.5% to ¥18,049 million (US$168.0 million).

Financial Position

Total assets held by Penta-Ocean and its consolidated subsidiaries decreased by 7.2%, or ¥31,871 million (US$296.7 million), to ¥411,322 million (US$3,830.1 million) during the term under review. A decline in total assets was mainly attributable to early adoption of new accounting standards on impairment of fixed assets and a decrease in tax-deferred assets. In the meantime, shareholders' equity increased by 19.5%, or ¥7,780 million (US$72.4 million), to ¥47,640 million (US$443.6 million) due to issuance of the first ¥5.0 billion (US$46.6 million) warrant bonds. As a result, equity ratio rose from 9.0% in the previous term to 11.6%.

Cash Flows

Cash flow provided from operating activities amounted to ¥21,873 million (US$203.6 million), down ¥11,356 million (US$105.7 million) from the previous term. Income before income taxes and minority interests were ¥9,500 million (US$88.4 million), up ¥2,876 million (US$26.7 million) from the previous term which offset losses recorded of ¥8,324 million (US$77.5 million) for impairment of fixed assets.

Cash flow provided from investment activities resulted in excess of ¥9,971 million, (US$92.8 million) an increase of ¥4,206 million (US$39.1 million) from the previous term. This was mainly due to sales of idle land assets, resulting in proceeds of ¥9,107 million (US$84.8 million).

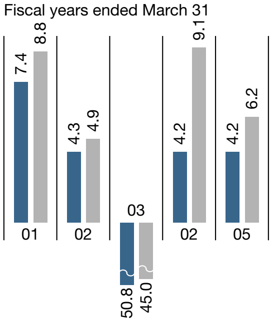
Cash flow used for financial activities was ¥16,506 million (US$153.7 million). Using free cash flow, the Company paid down ¥13,459 million (US$125.3 million) of long-term debt on a net basis and reduced current debts by ¥7,996 million (US$74.4 million), while the Company issued the first warrant bonds of ¥5.0 billion (US$46.6 million).

At the end of the term, consolidated cash and cash equivalents increased by 18.3% year-on-year, or ¥10,574 million (US$98.4 million), to ¥68,275 million (US$635.7 million).

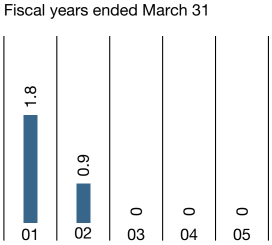
Dividends

Penta-Ocean's basic policy is to provide long-term stable dividends to its shareholders. However, its current focus is to build a surplus of internal reserves, which regrettably forces us to suspend dividend payments for the third consecutive term. We will make our best efforts to resume dividend payment in the near future. It is one of our primary targets for "Evolution 21", the new medium-term management program which started in April 2005.

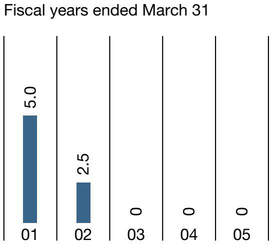
Net Income (Loss) per Share
Yen
Fiscal years ended March 31



Cash Dividends
Billions of Yen
Fiscal years ended March 31



Cash Dividends per Share
Yen
Fiscal years ended March 31



Consolidated Balance Sheets

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2004 and 2005

	Millions of Yen		Thousands of U.S. Dollars
ASSETS	2004	**2005**	**2005**
Current assets:			
Cash and deposits (Note 5)	¥ 58,129	**¥ 70,381**	**$ 655,377**
Securities (Notes 3(4), 4 and 5)	201	**84**	**782**
Trade receivables:			
Notes	17,306	**9,969**	**92,830**
Accounts	111,237	**113,632**	**1,058,125**
Inventories: (Note 3(7))			
Cost of uncompleted contracts	50,349	**47,342**	**440,842**
Real estate for trade and real estate in progress	39,347	**37,226**	**346,643**
Other inventories	2,269	**3,253**	**30,291**
Deferred tax assets (Note 15)	11,013	**9,017**	**83,965**
Other current assets	5,690	**7,551**	**70,314**
Allowance for doubtful accounts (Note 3(6))	(1,158)	**(1,145)**	**(10,662)**
Total current assets	294,383	**297,310**	**2,768,507**
Investments and non-current assets:			
Investment in securities (Notes 3(4), 4 and 5)	22,285	**22,981**	**213,996**
Long-term loans and accounts receivables	12,979	**5,071**	**47,221**
Sundry investments	15,572	**14,943**	**139,147**
Deferred tax assets (Note 15)	11,756	**5,827**	**54,260**
Allowance for doubtful accounts (Note 3(6))	(6,706)	**(6,553)**	**(61,021)**
Total investments and non-current assets	55,886	**42,269**	**393,603**
Property, plant and equipment: (Note 3(8))			
Land (Note 5)	48,240	**36,395**	**338,905**
Buildings and structures (Note 5)	38,979	**34,604**	**322,227**
Machinery, equipment and vehicles	20,151	**19,679**	**183,248**
Dredgers and vessels	52,203	**52,099**	**485,138**
Construction in progress	85	**15**	**140**
Other property, plant and equipment	3,642	**792**	**7,375**
Total property, plant and equipment	163,300	**143,584**	**1,337,033**
Less accumulated depreciation	(70,930)	**(72,385)**	**(674,039)**
Property, plant and equipment – net	92,370	**71,199**	**662,994**
Other assets: (Note 3(9))	554	**544**	**5,066**
Total assets	¥ 443,193	**¥ 411,322**	**$ 3,830,170**

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS’ EQUITY	Millions of Yen 2004	Millions of Yen 2005	Thousands of U.S. Dollars 2005
Current liabilities:			
Short-term debt (Note 6)	¥ 71,426	**¥ 63,418**	**$ 590,539**
Current portion of long-term debt (Note 6)	34,346	**51,091**	**475,752**
Trade payable:			
Notes	34,619	**36,252**	**337,573**
Accounts	83,592	**85,995**	**800,773**
Advance on contracts in progress	51,309	**40,254**	**374,839**
Deposits received	15,534	**11,662**	**108,595**
Accrued income taxes	708	**1,496**	**13,931**
Provision for loss on liquidation of an affiliated company (Notes 3(12))	487	**—**	**—**
Accrued expenses	1,984	**2,232**	**20,784**
Allowance for losses on construction works (Notes 3(14))	—	**687**	**6,397**
Other current liabilities	4,020	**3,824**	**35,609**
Total current liabilities	298,025	**296,911**	**2,764,792**
Long-term liabilities:			
Long-term debt (Note 6)	80,932	**50,728**	**472,372**
Reserve for retirement benefits (Notes 3(13) and 19)	7,729	**6,514**	**60,657**
Reserve for directors’ and statutory auditors’ retirement pay (Note 3(15))	461	**441**	**4,106**
Deferred tax liabilities for land revaluation excess (Note 17(2))	5,248	**3,270**	**30,450**
Consolidation adjustments	967	**480**	**4,470**
Other long-term liabilities	9,968	**5,332**	**49,651**
Total long-term liabilities	105,305	**66,765**	**621,706**
Minority interests	3	**6**	**56**
Shareholders’ equity:			
Common stock	18,070	**20,570**	**191,545**
Authorized – 599,135,000 shares			
Issued and outstanding shares			
March 31, 2005 395,264,852 shares			
March 31, 2004 361,407,443 shares			
Capital surplus (Note 17(1))	10,106	**12,606**	**117,385**
Earned surplus (Note 2(5))	889	**6,132**	**57,100**
Land revaluation excess – net (Note 17(2))	7,650	**4,767**	**44,390**
Unrealized valuation gain on other securities– net (Note 17(3))	2,982	**3,412**	**31,772**
Cumulative foreign currency translation adjustments (Note 3(2))	168	**162**	**1,508**
Less: Treasury stock	(5)	**(9)**	**(84)**
Total shareholders’ equity	39,860	**47,640**	**443,616**
Total liabilities, minority interests and shareholders’ equity	¥ 443,193	**¥ 411,322**	**$ 3,830,170**

Commitments and contingent liabilities (Note 14)

Consolidated Statements of Income

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
For the two years ended March 31, 2005

	Millions of Yen		Thousands of U.S. Dollars
	2004	**2005**	**2005**
Construction business:			
Net sales	¥ 314,626	**¥ 334,802**	**$ 3,117,627**
Cost of sales	282,248	**302,467**	**2,816,528**
Gross profit	32,378	**32,335**	**301,099**
Real estate and other:			
Net sales	16,544	**10,464**	**97,439**
Cost of sales	16,904	**10,761**	**100,205**
Gross profit (loss)	(360)	**(297)**	**(2,766)**
Total net sales	331,170	**345,266**	**3,215,066**
Total cost of sales	299,152	**313,228**	**2,916,733**
Total gross profit	32,018	**32,038**	**298,333**
Selling, general and administrative expenses	21,284	**20,038**	**186,591**
Operating income	10,734	**12,000**	**111,742**
Other income:			
Interest and dividends	435	**445**	**4,144**
Other (Note 7)	1,045	**1,012**	**9,423**
	1,480	**1,457**	**13,567**
Other expenses:			
Interest	3,798	**3,731**	**34,742**
Other (Note 8)	976	**862**	**8,027**
	4,774	**4,593**	**42,769**
Ordinary income	7,440	**8,864**	**82,540**
Extraordinary gain (Note 9)	2,502	**13,491**	**125,626**
Extraordinary loss (Note 10)	3,318	**12,855**	**119,703**
Income before income taxes and minority interests	6,624	**9,500**	**88,463**
Income taxes: (Notes 3(19) and 15)			
Current	888	**1,492**	**13,893**
Income taxes deferred	2,451	**5,648**	**52,594**
	3,339	**7,140**	**66,487**
Minority interests	7	**0**	**0**
Net income	3,292	**2,360**	**21,976**

Income per share of common stock (Note 3(16))	Yen		U.S. Dollars
Primary	¥ 9.11	**¥ 6.25**	**$ 0.06**
Assuming full dilution	—	**—**	**—**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders’ Equity

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
For the two years ended March 31, 2005

	Millions of Yen		Thousands of U.S. Dollars
	2004	**2005**	**2005**
Common stock:			
Balance at the beginning of the period	33,971	**18,070**	**168,265**
Transferred to earned surplus and capital surplus	(15,901)	**—**	**—**
Exercise of subscription right	—	**2,500**	**23,280**
Balance at the end of the period	18,070	**20,570**	**191,545**
Capital surplus: (Note 17(1))			
Balance at the beginning of the period	10,635	**10,106**	**94,105**
Transferred to earned surplus	(10,635)	**—**	**—**
Transferred from common stock	10,106	**—**	**—**
Exercise of subscription right	—	**2,500**	**23,280**
Balance at the end of the period	10,106	**12,606**	**117,385**
Earned surplus: (Note 2(5))			
Balance at the beginning of the period	(17,008)	**889**	**8,278**
Transferred from common stock	5,795	**—**	**—**
Transferred from capital surplus	10,635	**—**	**—**
Transferred from land revaluation excess - net	(1,825)	**2,883**	**26,846**
Net income	3,292	**2,360**	**21,976**
Balance at the end of the period	889	**6,132**	**57,100**
Land revaluation excess – net: (Note 17(2))			
Balance at the beginning of the period	5,800	**7,650**	**71,236**
Transferred to earned surplus	1,825	**(2,883)**	**(26,846)**
Increase in excess – net	25	**—**	**—**
Balance at the end of the period	7,650	**4,767**	**44,390**
Unrealized valuation gain(loss) on other securities – net: (Note 17(3))			
Balance at the beginning of the period	(64)	**2,982**	**27,768**
Net change	3,046	**430**	**4,004**
Balance at the end of the period	2,982	**3,412**	**31,772**
Cumulative foreign currency translation adjustments: (Note 3(2))			
Balance at the beginning of the period	352	**168**	**1,564**
Net change	(184)	**(6)**	**(56)**
Balance at the end of the period	168	**162**	**1,508**
Treasury stock			
Balance at the beginning of the period	(4)	**(5)**	**(47)**
Purchases of treasury stock	(1)	**(4)**	**(37)**
Sales of treasury stock	—	**—**	**—**
Balance at the end of the period	(5)	**(9)**	**(84)**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
For the two years ended March 31, 2005

	Millions of Yen		Thousands of U.S. Dollars
	2004	**2005**	**2005**
Cash flows from operating activities			
Income before income taxes and minority interests	¥ 6,624	**¥ 9,500**	**$ 88,462**
Adjustment to reconcile income (loss) before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	5,369	**4,622**	**43,040**
Loss on impairment of fixed assets	—	**8,324**	**77,512**
Amortization of consolidation adjustments	(435)	**(484)**	**(4,507)**
Increase (decrease) in allowance for doubtful accounts	(5,000)	**(166)**	**(1,546)**
Increase (decrease) in reserve for retirement benefits	371	**(1,215)**	**(11,314)**
Interest and dividends receivable	(435)	**(445)**	**(4,144)**
Interest expense	4,257	**4,095**	**38,132**
Foreign exchange loss(gain)	(11)	**531**	**4,945**
Equity loss(gain)	(55)	**(57)**	**(531)**
Loss (gain) on sales and disposals of property, plant and equipment	1,163	**705**	**6,565**
Loss (gain) on sales of investment in securities	(337)	**9**	**84**
Write-down of securities and investment in securities	15	**20**	**186**
Change in assets and liabilities:			
(Increase) decrease in trade receivables	13,521	**4,102**	**38,197**
(Increase) decrease in cost of uncompleted contracts	8	**3,007**	**28,001**
(Increase) decrease in real estate for trade and real estate in progress and other inventories	15,378	**1,029**	**9,582**
Increase (decrease) in trade payables	(4,603)	**4,345**	**40,460**
Increase (decrease) in advance on contracts in progress	1,972	**(11,055)**	**(102,942)**
Increase (decrease) in accrued expenses	(10,249)	**(3,656)**	**(34,044)**
Other – net	10,351	**3,380**	**31,474**
Sub total	37,904	**26,591**	**247,612**
Interest and dividends received	394	**388**	**3,613**
Interest paid	(4,241)	**(4,102)**	**(38,198)**
Income taxes paid	(829)	**(1,004)**	**(9,349)**
Net cash provided by (used in) operating activities	33,228	**21,873**	**203,678**

See accompanying Notes to Consolidated Financial Statements.

	Millions of Yen		Thousands of U.S. Dollars
	2004	**2005**	**2005**
Cash flows from investing activities:			
Purchases of securities	(7,101)	**(1)**	**(9)**
Proceeds from sales of securities	7,944	**201**	**1,872**
Purchases of investment in securities	(501)	**(631)**	**(5,876)**
Proceeds from sales of investment in securities	2,154	**616**	**5,736**
Purchases of property, plant and equipment	(2,901)	**(1,384)**	**(12,888)**
Proceeds from sales of property, plant and equipment	2,688	**9,107**	**84,803**
Loans made	(7,223)	**(968)**	**(9,014)**
Collection of loans receivable	709	**622**	**5,792**
Other – net	25	**(1,796)**	**(16,724)**
Net cash provided by (used in) investing activities	(4,206)	**5,766**	**53,692**
Cash flows from financing activities:			
Net increase (decrease) in short-term bank loans	(13,205)	**(7,996)**	**(74,458)**
Borrowings	17,406	**21,140**	**196,853**
Repayment of long-term debt	(24,780)	**(34,599)**	**(322,181)**
Proceeds from issue bond with subscription right	—	**5,000**	**46,559**
Cash dividends paid	(4)	**(2)**	**(18)**
Other – net	9	**(49)**	**(456)**
Net cash provided by (used in) financing activities	(20,574)	**(16,506)**	**(153,701)**
Difference resulting from conversion of foreign cash and cash equivalents to yen	(68)	**(559)**	**(5,205)**
Net increase (decrease) in cash and cash equivalents	8,380	**10,574**	**98,464**
Cash and cash equivalents at beginning of the period	49,321	**57,701**	**537,303**
Cash and cash equivalents at end of the period	¥ 57,701	**¥ 68,275**	**$ 635,767**

(Notes) (1) Cash and cash equivalents are comprised as follows:			
Cash and deposits	¥ 58,129	**¥ 70,381**	**$ 655,377**
Less-Time deposits with maturity over three months	(428)	**(2,106)**	**(19,610)**
Cash and cash equivalents (Note 3(17))	¥ 57,701	**¥ 68,275**	**$ 635,767**
(2) Content of significant non-cash transaction:			
Increase in common stock resulting from exercise of subscription right	—	**¥ 2,500**	**$ 23,280**
Increase in capital surplus resulting from exercise of subscription right	—	**2,500**	**23,280**
Decrease in bonds with subscription rights resulting from exercise of subscription right	—	**¥ 5,000**	**$ 46,560**

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=¥107.39, the exchange rate prevailing on March 31, 2005. 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-five subsidiaries and five affiliated companies at March 31, 2005.

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, and 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 valuation amount 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 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 accounts
Allowance for doubtful accounts 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 when incurred.

(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) Stock issue cost and bond issue cost
Stock issue cost and bond issue cost were amortized fully when incurred.

(11) 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.

(12) 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 against the estimated losses arising from liquidation of the affiliated company.

(13) Reserve for retirement benefits
Reserve for retirement benefits is provided for on an accrual basis based on the estimated amounts of retirement benefit obligations and pension fund assets at end of the 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 the average remaining employees' service years, which should be within 10 years and its amortization starts in the next year of the respective accrual years.

The Company has a defined benefit pension plan and a lump-sum severance indemnity plan and the domestic consolidated subsidiaries have a lump-sum severance indemnity plan, as a defined retirement benefit plan. And further, in some cases, a special additional retirement payment are made to employees.

In addition, the Company has established the financial trust to cover retirement benefit obligations for employees.

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

The application for dissolution of Penta-Ocean construction employees' welfare pension fund was filed to the welfare Minister of Labor on May 24, 2004 and was approved on June 30, 2004.

Gain on the employees' welfare pension plan dissolution of ¥12,502 million ($ 116,417 thousand) is hereby accounted for as extraordinary gain in accordance with "Accounting Treatment for Transfers Between Retirement Benefit Plans" (Financial Accounting Standard Practical Guidance No.1 issued by Accounting Standard Board of Japan).

On October 1, 2004 the Company newly introduced the cash balance plan as the retirement benefit plan and changed into the Defined Benefit Pension Plan from the tax-qualified pension plan.

(14) Allowance for losses on construction works
The Company prepares reasonable estimated amount for future losses from construction works outstanding at fiscal year-end.

(15) Reserve for directors' and statutory auditors' retirement pay
The Company provides reserve for retirement pay equal to the amount required if all directors and statutory auditors retired on the balance sheet date.

(16) 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 there were no potential stocks as of March 31, 2005.

(17) Cash and cash equivalents
Cash and cash equivalents 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.

(18) 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 interest on bank loans and monetary receivables and payables 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's Bylaw. The Examination Committee of Derivative Instruments and the Financial Division in the Company periodically evaluates the effectiveness of hedging.

(19) 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 7.6 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.

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 subject to certain limitations in accordance with Japanese tax regulations.

(20)Change of accounting policy
The Company adopted Accounting Standard for Impairment of Fixed Assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Council on August 9, 2002) and Practical Guidance on Accounting for Impairment of Fixed Assets (Financial Accounting Standard Practical Guidance No.6 issued by Accounting Standard Board of Japan on October 31, 2003) effective for fiscal year ended March 31, 2004 or later. As a result, operating income and ordinary income increased by ¥ 77 million ($ 717 thousand), respectively, and income before income taxes and minority interests decreased by ¥ 8,226 million ($ 76,599 thousand). Accumulated loss on impairment was directly deducted from the related assets in accordance with the revised Regulations of the Consolidated Financial Statements.

4. Securities

The composition of securities as of March 31, 2004 and 2005 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	**2005**	**2005**
Securities due within one year:			
Held-to-maturity bonds	¥ 201	**¥ 84**	**$ 782**
Total	¥ 201	**¥ 84**	**$ 782**
Investment in securities:			
Held-to-maturity bonds	¥ 153	**¥ 70**	**$ 652**
Investment trust bills	332	**415**	**3,865**
Stocks	20,300	**21,296**	**198,305**
Other	1,500	**1,200**	**11,174**
Total	¥ 22,285	**¥ 22,981**	**$ 213,996**

5. Pledged Assets

(1)The following assets are pledged for fulfillment of construction contracts at March 31, 2004 and 2005.

	Millions of Yen		Thousands of U.S. Dollars
	2004	**2005**	**2005**
Deposits	¥ 150	**¥ —**	**$ —**
Securities	1	**71**	**661**
Investment in securities	2,283	**2,096**	**19,518**
Total	¥ 2,434	**¥ 2,167**	**$ 20,179**

(2)The following assets are in pledge to short-term bank loans and long-term debt at March 31, 2004 and 2005.

	Millions of Yen		Thousands of U.S. Dollars
	2004	**2005**	**2005**
Deposits	¥ 200	**¥ 200**	**$ 1,862**
Investment in securities	103	**5**	**47**
Land	101	**101**	**940**
Buildings	110	**106**	**987**
Total	¥ 514	**¥ 412**	**$ 3,836**

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, 2005 are 1.82% and 1.98%. Long-term debts as of March 31, 2004 and 2005 is summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	**2005**	**2005**
1.71 percent bonds due September 2005	¥ 200	**¥ 200**	**$ 1,863**
Long-term debt from banks and insurance companies maturing in 2013	115,078	**101,619**	**946,261**
(The weighted average interest rate is 2.52%.)			
Less: current portion of long-term debt	(34,346)	**(51,091)**	**(475,752)**
Net	¥ 80,932	**¥ 50,728**	**$ 472,372**

The aggregate annual maturity of long-term debt after March 31, 2005 is as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2005	**2005**
Year ending March 31,		
2006	**¥ 51,091**	**$ 475,752**
2007	**27,699**	**257,929**
2008	**12,755**	**118,773**
2009	**3,266**	**30,413**
2010 and after that	**7,008**	**65,257**
Total	**¥ 101,819**	**$ 948,124**

7. Other income

The composition of Other income – other for the two years ended March 31, 2005 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	**2005**	**2005**
Rental received from real estate	¥ 228	**¥ 212**	**$ 1,974**
Amortization of consolidation adjustments	436	**484**	**4,507**
Equity gain	55	**57**	**531**
Other	326	**259**	**2,411**
Total	¥ 1,045	**¥ 1,012**	**$ 9,423**

8. Other expenses

The composition of Other expenses - other for the two years ended March 31, 2005 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	**2005**	**2005**
Exchange loss	¥ 842	**¥ 461**	**$ 4,293**
Other	134	**401**	**3,734**
Total	¥ 976	**¥ 862**	**$ 8,027**

9. Extraordinary gain

The composition of Extraordinary gain for the two years ended March 31, 2005 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	**2005**	**2005**
Prior period adjustments	¥ 357	**¥ 169**	**$ 1,574**
Gain on sales of fixed assets	156	**197**	**1,834**
Gain on dissolution of the welfare pension fund	—	**12,502**	**116,417**
Reversal of reserve for retirement benefits	1,028	**357**	**3,324**
Gain on sales of investment in securities	347	**—**	**—**
Reversal of provision for bad debt	305	**—**	**—**
Other	309	**266**	**2,477**
Total	¥ 2,502	**¥ 13,491**	**$ 125,626**

10. Extraordinary loss

The composition of Extraordinary loss for the two years ended March 31, 2005 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	**2005**	**2005**
Prior period adjustments	¥ 323	**¥ 201**	**$ 1,871**
Loss on sales of fixed assets	1,318	**902**	**8,400**
Loss on disposition of fixed assets	48	**94**	**875**
Write-down of real estate for trade	512	**13**	**121**
Write-down of investment in securities	15	**20**	**186**
Loss on impairment of fixed assets*	—	**8,324**	**77,512**
Loss on real estate development business of an affiliated company	—	**2,152**	**20,039**
Provision for bad debt	15	**667**	**6,211**
Provision for loss on liquidation of an affiliated company	482	**—**	**—**
Special supplementary retirement pay	25	**—**	**—**
Other	580	**482**	**4,488**
Total	¥ 3,318	**¥ 12,855**	**$ 119,703**

*The Company recognized loss on impairment for the following group of assets in the current fiscal year ended March 31,2005

Location	Kyushu area		Other area	
Classification of group	Golf course (1 object)		Idle real estates(12 objects)	
Loss on impairment	Land and other	¥ 6,521 million	Land	¥ 117 million
		($ 60,722 thousand)		($ 1,089 thousand)
	Buildings and other	¥ 1,684 million		
		($ 15,681 thousand)		

The Company and consolidated subsidiaries classified the fixed assets by business control unit such as company, branch office, and business line, which controls its revenue and expenditure continuously.

Book values of the above assets and the group of assets were written down to the recoverable amounts due to significant decline in profitability of the golf course business and decrease in the land prices in recent years. The impairment losses (¥8,324 million ($ 77,512 thousand)) was accounting for as the extraordinary loss.

Recoverable amount of assets related to the golf course is the value appraised by real estate appraisers and that of the idle real estate is measured by net realizable amounts based on the posted land price.

11. Research and development costs

Research and development costs charged to income for the two fiscal years ended March 31, 2005 were ¥1,558 million(U.S.$14,508 thousand) and ¥1,480million (U.S.$13,782 thousand), respectively.

12. Summary of finance lease transaction

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
	2004	**2005**	**2005**
Estimated acquisition costs			
Equipment	¥ 855	**¥ 880**	**$ 8,194**
Vehicles	151	**108**	**1,006**
Buildings	40	**—**	**—**
	1,046	**988**	**9,200**
Accumulated depreciation	(697)	**(760)**	**(7,077)**
Estimated value	¥ 349	**¥ 228**	**$ 2,123**

(2) Future lease payments as of March 31, 2004 and 2005 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	**2005**	**2005**
Within one year	¥ 135	**¥ 117**	**$ 1,089**
Over one year	248	**136**	**1,266**
Total	¥ 383	**¥ 253**	**$ 2,355**

(3) Lease payments, depreciation and interest expenses
for the year ended March 31, 2004 and 2005

	Millions of Yen		Thousands of U.S. Dollars
	2004	**2005**	**2005**
Lease payments	¥ 155	**¥ 169**	**$ 1,574**
Depreciation	137	**150**	**1,397**
Interest expense	13	**11**	**102**

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, by which are clarified purposes and management and execution procedures for transaction.

14. Commitments and contingent liabilities

As of March 31, 2005, commitments for the purchase of machinery and equipment and other assets were ¥10 million (U.S. $93 thousand), and the Company had liabilities for guarantee to bank loans made by customers amounting to ¥2,151 million (U.S. $20,030 thousand).

The Company also had the guarantee amounting to ¥308 million (U.S. $2,868 thousand) to purchasers concerning deposits for purchase of the condominium apartments.

15. Tax effect accounting

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

	Millions of Yen		Thousands of U.S. Dollars
	2004	**2005**	**2005**
Deferred tax assets			
Write-down of real estate for trade	¥ 3,506	**¥ 2,960**	**$ 27,563**
Deficit carried forward on tax	8,009	**—**	**—**
Disapproval on tax purpose concerning allowance for doubtful accounts	1,919	**1,898**	**17,674**
Loss on establishment of financial trust in respect of retirement benefit obligations	4,126	**1,109**	**10,327**
Disapproval on tax purpose concerning reserve for retirement benefits	2,879	**2,474**	**23,037**
Reserve for bonuses	669	**660**	**6,146**
Write-down of investment in securities	504	**—**	**—**
Provision for loss on liquidation of affiliates	251	**—**	**—**
Provision for loss on real estate development business of affiliates	1,620	**3,570**	**33,243**
Impairment of fixed assets	—	**3,881**	**36,139**
Other	3,188	**5,142**	**47,882**
Total: deferred tax assets	26,671	**21,694**	**202,011**
Less : valuation allowance	(1,717)	**(4,380)**	**(40,786)**
Deferred tax assets	¥ 24,954	**¥ 17,314**	**$ 161,225**
Deferred tax liabilities			
Unrealized valuation gain on other securities	¥ (2,048)	**¥ (2,346)**	**$ (21,845)**
Reduction for amendment of allowance for doubtful accounts	(27)	**(28)**	**(261)**
Other	(110)	**(95)**	**(885)**
Total: deferred tax liabilities	(2,185)	**(2,469)**	**(22,991)**
Net: deferred tax assets	¥ 22,769	**¥ 14,845**	**$ 138,234**

2. The principal details of the material differences between the statutory effective tax rate and the actual burden tax rate after application of tax-effect accounting

	2004	**2005**
The statutory effective tax rate	42.05%	**40.69%**
(Adjustments)		
Permanent exclusion from expenses	16.39%	**9.29%**
Tax free income	(0.26%)	**(0.37%)**
Per capita levy on inhabitant tax	8.91%	**6.17%**
Deferred tax assets not to have recognized tax-effect in the previous year	(17.20%)	**—**
Reduction adjustment on deferred tax assets resulting from change in the statutory effective tax rate	3.76%	**—**
Consolidated adjustments not to have recognized tax-effect	(4.12%)	**(2.07%)**
Increase in valuation allowance	—	**15.75%**
Other	0.88%	**5.70%**
Actual burden tax rate after the application of tax effect accounting	50.41%	**75.16%**

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
	2004	**2005**	**2005**
The difference between the appraisal value of land at end of the current fiscal year and the book value	¥ 8,395	**¥ 10,356**	**$ 96,434**

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 on other securities-net

Unrealized valuation gain on other securities is based on the difference between fair market value and book value at March 31. This amounted to ¥3,412 million (U.S. $ 31,772 thousand) gain after application of tax effect accounting as of March 31, 2005. Deferred tax liabilities amounted to ¥2,346 million (U.S. $ 21,846 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 benefits obligations

	Millions of Yen		Thousands of U.S. Dollars
	2004	**2005**	**2005**
a. Retirement benefit obligations	¥ (52,497)	**¥ (36,214)**	**$ (337,219)**
b. Pension fund assets	25,014	**12,151**	**113,148**
c. Unrecognized retirement benefit obligations	(27,483)	**(24,063)**	**(224,071)**
d. Unrecognized effects of the amendments on the application of the new accounting standards for retirement benefits	14,946	**13,017**	**121,213**
e. Unrecognized actuarial gain or loss	4,808	**4,532**	**42,201**
f. Unrecognized prior service liabilities	—	**—**	**—**
g. Net retirement benefit obligations	(7,729)	**(6,514)**	**(60,657)**
h. Prepaid pension cost	—	**—**	**—**
i. Reserve for retirement benefits	¥ (7,729)	**¥ (6,514)**	**$ (60,657)**

Ⅱ. Retirement benefit costs

	Millions of Yen		Thousands of U.S. Dollars
	2004	**2005**	**2005**
a. Service costs	¥ 1,674	**¥ 1,415**	**$ 13,176**
b. Interest costs	1,339	**831**	**7,738**
c. Expected return on pension fund assets	(231)	**(170)**	**(1,583)**
d. Amortization of effects of the amendments on the application of the new accounting standards for retirement benefits	1,360	**1,316**	**12,254**
e. Amortization of actuarial gain or loss	1,748	**755**	**7,031**
f. Recognition of prior service liabilities	(973)	**(357)**	**(3,324)**
g. Retirement benefit costs	4,917	**3,790**	**35,292**
h. Gain on dissolution of the welfare pension fund	—	**(12,502)**	**(116,417)**
Total	¥ 4,917	**¥ (8,712)**	**$ (81,125)**

Ⅲ. Calculation basis of retirement benefit obligations, etc.

a. Recognition method of the projected retirements benefit obligations	Straight-line method
b. Discount rate	2.00%
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 (almost 10 years)
f.Amortization term of effects of the amendments on the application of the new accounting standards for retirement benefits	15 years

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, leasing, shipbuilding, etc.

	Millions of Yen					
Year ended March 31 , 2004	Construction	Real estate development	Other	Total	Elimination 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	2,488	93	516	3,097	—	3,097

Year ended March 31 , 2005	Millions of Yen					
	Construction	Real estate development	Other	Total	Elimination and/or addition	Consolidated
Net sales:						
Customers	**¥ 334,802**	**¥ 2,368**	**¥ 8,096**	**¥ 345,266**	**¥ —**	**¥ 345,266**
Internal sales or transfer	**—**	**278**	**7,036**	**7,314**	**(7,314)**	**—**
Total	**334,802**	**2,646**	**15,132**	**352,580**	**(7,314)**	**345,266**
Operating expenses	**321,977**	**3,331**	**15,306**	**340,614**	**(7,348)**	**333,266**
Operating income (loss)	**12,825**	**(685)**	**(174)**	**11,966**	**34**	**12,000**
Assets	**248,570**	**52,802**	**26,685**	**328,057**	**83,265**	**411,322**
Depreciation	**2,293**	**59**	**2,304**	**4,656**	**(34)**	**4,622**
Loss on impairment of fixed assets	**117**	**—**	**8,207**	**8,324**	**—**	**8,324**
Capital expenditures	**884**	**15**	**597**	**1,496**	**—**	**1,496**

Year ended March 31 , 2005	Thousands of U.S. Dollars					
	Construction	Real estate development	Other	Total	Elimination and/or addition	Consolidated
Net sales:						
Customers	**$ 3,117,627**	**$ 22,050**	**$ 75,389**	**$ 3,215,066**	**$ —**	**$ 3,215,066**
Internal sales or transfer	**—**	**2,589**	**65,518**	**68,107**	**(68,107)**	**—**
Total	**3,117,627**	**24,639**	**140,907**	**3,283,173**	**(68,107)**	**3,215,066**
Operating expenses	**2,998,203**	**31,018**	**142,527**	**3,171,748**	**(68,424)**	**3,103,324**
Operating income (loss)	**119,424**	**(6,379)**	**(1,620)**	**111,425**	**317**	**111,742**
Assets	**2,314,648**	**491,684**	**248,487**	**3,054,819**	**775,351**	**3,830,170**
Depreciation	**21,352**	**549**	**21,455**	**43,356**	**(316)**	**43,040**
Loss on impairment of fixed assets	**1,089**	**—**	**76,423**	**77,512**	**—**	**77,512**
Capital expenditures	**8,232**	**140**	**5,559**	**13,931**	**—**	**13,931**

Notes :

(1) 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. $675,528 thousand) at March 31, 2004 and ¥84,833 million (U.S. $ 789,952 thousand) at March 31, 2005.These principally are consisted of cash and time deposits, securities, investment in securities and sundry assets.

(2) As described in change in accounting policies, the Company adopted Accounting Standard for Impairment of Fixed Assets from the fiscal year ended March 31,2005. As a result, operating expenses and operating loss in other on the column of the above table decreased by ¥77 million ($ 717 thousand) compared with the previous method.

(2) Geographic segment

Geographic segment is primarily composed of the followings:

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

Year ended March 31 , 2004	Millions of Yen					
	Japan	Southeast Asia	Other	Total	Elimination and/or addition	Consolidated
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 (loss	12,367	(1,348)	(347)	10,672	62	10,734
Assets	323,344	42,533	4,771	370,648	72,545	443,193

	Millions of Yen					
Year ended March 31 , 2005	Japan	Southeast Asia	Other	Total	Elimination and/or addition	Consolidated
Net sales:						
Customers	**¥ 307,326**	**¥ 33,741**	**¥ 4,199**	**¥ 345,266**	**¥ —**	**¥ 345,266**
Internal sales or transfer	**—**	**—**	**—**	**—**	**—**	**—**
Total	**307,326**	**33,741**	**4,199**	**345,266**	**—**	**345,266**
Operating expenses	**292,635**	**34,791**	**5,840**	**333,266**	**—**	**333,266**
Operating income (loss)	**14,691**	**(1,050)**	**(1,641)**	**12,000**	**—**	**12,000**
Assets	**280,195**	**41,700**	**4,594**	**326,489**	**84,833**	**411,322**

	Thousands of U.S. Dollars					
Year ended March 31 , 2005	Japan	Southeast Asia	Other	Total	Elimination and/or addition	Consolidated
Net sales:						
Customers	**$ 2,861,775**	**$ 314,191**	**$ 39,100**	**$ 3,215,066**	**$ —**	**$ 3,215,066**
Internal sales or transfer	**—**	**—**	**—**	**—**	**—**	**—**
Total	**2,861,775**	**314,191**	**39,100**	**3,215,066**	**—**	**3,215,066**
Operating expenses	**2,724,974**	**323,969**	**54,381**	**3,103,324**	**—**	**3,103,324**
Operating income (loss)	**136,801**	**(9,778)**	**(15,281)**	**111,742**	**—**	**111,742**
Assets	**2,609,135**	**388,304**	**42,779**	**3,040,218**	**789,952**	**3,830,170**

Notes :

(1) 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. $ 675,528 thousand) at March 31, 2004 and ¥ 84,833 million (U.S. $789,952 thousand) at March 31, 2005.
These principally are consisted of cash and time deposits, securities, investment in securities and sundry assets.

(2) As described in change in accounting policies, the Company adopted Accounting Standard for Impairment of Fixed Assets from the fiscal year ended March 31,2005. As a result, operating expenses in Japan on the column of the above table decreased by ¥77 million ($ 717 thousand) and operating income increased by the same amount compared with the previous method.

(3) Oversea sales

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

	Millions of Yen		
For the year ended March 31 , 2005	Southeast Asia	Other	Total
Overseas sales	**¥ 33,741**	**¥ 4,199**	**¥ 37,940**
Consolidated sales			**¥ 345,266**
Proportion of overseas sales to consolidated sales	**9.8%**	**1.2%**	**11.0%**

	Thousands of U.S.Dollars		
For the year ended March 31 , 2005	Southeast Asia	Other	Total
Overseas sales	**$ 314,191**	**$ 39,100**	**$ 353,291**
Consolidated sales			**$ 3,215,066**
Proportion of overseas sales to consolidated sales	**9.8%**	**1.2%**	**11.0%**

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 : Bulgaria, Romania and Sri Lanka

21. Related party transactions

For the year ended March 31 , 2004

Attribution	Affiliated company
Name of 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 (Notes 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 , 2005

None

22. Significant subsequent event

The Company's Board of Directors resolved to issue the second unsecured convertible bonds with subscription rights on April 25, 2005 and issued them on May 11, 2005.The outline is as follows.

(1) Total amount of issue: 15 billion yen
(2) Issue price: At ¥ 100 per ¥ 100 in the face value
Issue price of subscription rights is free.
(3) Interest rate: Free
(4) Due date of payment: May 11, 2005
(5) Due date of redemption: May 11, 2007
(6) Details of the subscription rights:
① Total number of subscription rights: 150
② Issue price: Free
③ Type of stock issued by subscription rights: Common stock
④ Number of stock issued by subscription rights:
The bondholders with subscription rights are entitled to exercise rights during the period from May 12, 2005 to May 10, 2007.
The amount payable on exercise of one subscription right equals to the issue price of the Bonds.
The amount payable for per share on exercise of one subscription right is ¥ 193.8 for a while.
(7) Guarantees: There is no pledge or guarantees on the Bonds with subscription right, and no assets which is reserved particularly for the Bonds with subscription right.
(8) Use of funds: Use for operating activities and investment in certain facilities
(9) Method of flotation: All bonds are allocated to Mizuho Securities Co.,Ltd.

Report of Independent Auditors

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, 2004 and 2005, 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, 2004 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 3 (20), the Company adopted Accounting Standard for Impairment of Fixed Assets from the consolidated fiscal year ended March 31, 2005 and compiled the consolidated financial statements in accordance with this accounting standard.

In addition, as described in Note 22, the Company's Board of Directors resolved to issue the second unsecured convertible bonds with subscription rights on April 25, 2005 and issued them on May 11, 2005.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

June 29, 2005

Ernst & Young ShinNihon

ERNST & YOUNG SHINNIHON

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.