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
	2003	2004	2005	2006	2007	2007
Orders received	¥287,101	¥313,751	¥344,716	¥296,046	**¥368,262**	**$3,119,543**
Construction	287,101	313,751	344,716	296,046	**368,262**	**3,119,543**
Net sales	386,861	331,170	345,266	354,657	**323,265**	**2,738,373**
Construction	374,169	314,626	334,802	338,842	**311,389**	**2,637,772**
Real estate development	3,560	6,240	2,368	4,488	**1,447**	**12,257**
Other	9,132	10,304	8,096	11,327	**10,429**	**88,344**
Contract backlog	396,657	392,377	398,369	364,407	**428,218**	**3,627,429**
Construction	396,657	392,377	398,369	364,407	**428,218**	**3,627,429**
Total assets	472,849	443,193	411,322	389,367	**355,069**	**3,007,785**
Net assets excluding minority interests	33,682	39,860	47,640	66,891	**57,581**	**487,768**
Ordinary income	1,846	7,440	8,864	11,341	**2,078**	**17,603**
Income (loss) before income taxes and minority interests	(21,316)	6,624	9,500	10,019	**(11,890)**	**(100,720)**
Net income (loss)	(16,261)	3,292	2,360	3,876	**(5,858)**	**(49,623)**
Cash dividends	—	—	—	—	**—**	**—**
Per share of common stock:	Yen					U.S. Dollars
Net assets excluding minority interests	¥93.21	¥110.31	¥120.55	¥136.12	**¥117.18**	**$0.99**
Net income (loss)	(45.00)	9.11	6.25	8.57	**(11.92)**	**(0.10)**
Cash dividends	—	—	—	—	**—**	**—**
Number of employees	3,934	3,767	3,684	3,557	**3,464**	

Notes:
1. The amounts of orders received and contract backlog related to real estate development and other business are not stated on the above summary, because those amounts are small and do not have a material effect to respective total amounts.
2. Figures in U.S. do llars are converted for convenience only, at the rate of ¥118.05 per U.S. $1, prevailing on March 31, 2007.
3. The Company adopted the Accounting Standard for Presentation of Net Assets in the Balance Sheet (Accounting Standards Board of Japan Statement No.5 issued by the Accounting Standards Board of Japan on December 9, 2005) and the Guidance on the Accounting Standard for Presentation of Net Assets in the Balance Sheet (Accounting Standards Board of Japan Guidance No.8 issued by the Accounting Standards Board of Japan on December 9, 2005) from the fiscal year ended March 31, 2007. The amount corresponding to the total shareholders' equity at March 31, 2007 under previous standards is ¥57,587 million.
4. The Company adopted the Accounting Standard for Earnings Per Share (Accounting Standards Board of Japan Statement No.2 issued by the Accounting Standards Board of Japan on January 31, 2006) and the Guidance on the Accounting Standard for Earnings Per Share (Accounting Standards Board of Japan Guidance No.4 issued by the Accounting Standards Board of Japan on January 31, 2006) from the fiscal year ended March 31, 2007.

Financial Review

Business Performance

Net sales for Penta-Ocean Construction and its consolidated subsidiaries decreased 8.9%, or ¥31,392 million, from the previous consolidated fiscal year, to ¥323,265 million. For earnings, consolidated operating income fell 67.2%, or ¥9,532 million, from the previous consolidated fiscal year, to ¥4,644 million, and consolidated ordinary income dropped 81.7%, or ¥9,263 million, to ¥2,078 million. To achieve financial soundness ahead of schedule, the Penta-Ocean Construction Group registered an extraordinary loss of ¥19,855 million, including a Development Segment loss of ¥8,678 million and an impairment loss of ¥1,773 million, in addition to an inventory real estate valuation loss of ¥7,956 million attributable to early application of the so-called lower-of-cost-or-market method to inventory assets. In spite of ¥5,422 million reported as gains on the sale of investment securities, the Group recorded a net loss of ¥5,858 million. This amount represented a loss of ¥9,734 million from the previous consolidated fiscal year when it reported ¥3,875 million in net income.

Segment Information

Consolidated construction revenue decreased 8.1%, or ¥27,453 million, from the previous consolidated fiscal year, to ¥311,389 million. Consolidated operating income also declined 71.4%, or ¥10,100 million, to ¥4,055 million.

Consolidated net sales for the Development Segment were down 64.1%, or ¥3,051 million, to ¥1,709 million, as a reaction to reserved floor sales in a redevelopment project in the previous consolidated fiscal year. However, the segment recorded consolidated operating income of ¥38 million. The amount represented gains of ¥226 million from the previous consolidated fiscal year when the segment reported ¥188 million in operating loss.

In the Other Businesses Segment, which includes the Group's shipbuilding business, sales of construction materials, leasing of equipment, and leasing of ships, consolidated net sales totaled ¥18,807 million, thanks to contributions made by favorable market conditions and production efficiency improvement in shipbuilding, a business that accounts for more than half of total sales. The consolidated net sales for the segment were almost equal to the ¥18,807 million the Group had achieved in the previous consolidated fiscal year. Meanwhile, consolidated operating income for the segment soared 227.1%, or ¥409 million, from the previous consolidated fiscal year, to ¥589 million.

Consolidated net sales in Japan decreased 14.2%, or ¥44,533 million, from the previous consolidated fiscal year to ¥269,725 million. Consolidated operating income in Japan also plunged 63.3%, or ¥9,339 million, to ¥5,407 million.

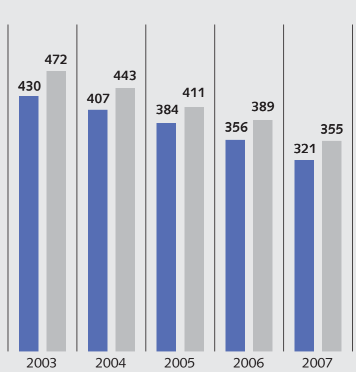
Consolidated net sales in Southeast Asia increased 26.2%, or ¥9,673 million, from the previous consolidated fiscal year, to ¥46,624 million, thanks to increased construction revenue in such major operating bases as Singapore, Hong Kong and Indonesia. The consolidated operating loss in Southeast Asia rose ¥492 million, to ¥1,078 million (the operating loss in the region totaled ¥586 million in the previous consolidated fiscal year).

Consolidated net sales in other regions grew 100.6% or 3,468 million from the previous consolidated fiscal year to ¥6,916 million, as a result of construction revenue growth in Qatar and other areas. Consolidated operating income in other regions increased 1,682.9% or ¥298 million from the previous consolidated fiscal year to ¥315 million yen.

Financial Position

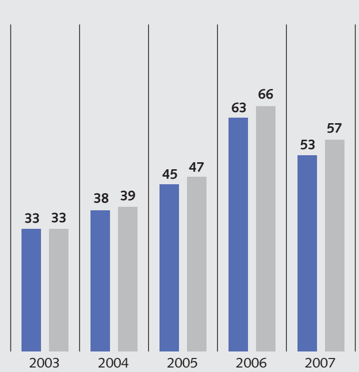
Total assets belonging to Penta-Ocean Construction and its consolidated subsidiaries decreased ¥34,298 million from the previous consolidated fiscal year, to ¥355,069 million.

Total Assets
Billions of yen

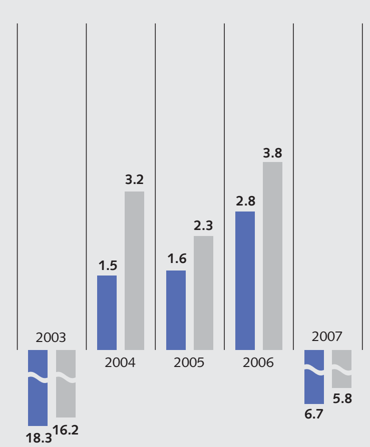


Non-Consolidated Consolidated

Shareholders' Equity
Billions of yen



Net Income (Loss)
Billions of yen



Major causes of this decline include a decrease in inventory real estate, the result of early application of the so-called lower-of-cost-or-market method to inventory assets and registration of a Development Segment loss, and a fall in cash and deposits owing to loan repayment. Consolidated liabilities decreased ¥25,000 million from the previous consolidated fiscal year, to ¥297,463 million, thanks to factors such as a decrease in loans payable. Meanwhile, net assets belonging to the Group fell ¥9,295 million, to ¥57,606 million, as a result of developments such as registration of a net loss and decreased gains on valuation of other negotiable securities attributable to the sale of investment securities.

Cash Flow

Among consolidated cash flows generated by Penta-Ocean Construction and its consolidated subsidiaries, cash flows from operating activities declined ¥5,051 million from the previous consolidated fiscal year to a surplus of ¥4,721 million. A major cause of this result was the posting of a net loss before taxes.

Consolidated cash flows from investing activities increased ¥3,238 million from the previous consolidated fiscal year to a surplus of ¥5,558 million, reflecting factors such as the sale of investment securities.

Including cash flows from operating and investing activities, free cash flows amounted to a surplus of ¥10,279 million. The free cash flows were added to funds on hand for use as a resource for loan repayment. As a result, cash flows from financing activities produced a deficit of ¥25,671 million.

The balance of cash and cash equivalents at the end of the term under review came to ¥49,124 million. The balance of interest-bearing liabilities at the end of the term under review amounted to ¥110,463 million (¥99,814 million on a non-consolidated basis).

Dividends

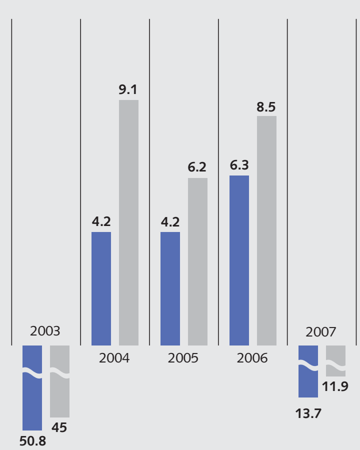
The Company adopts the basic policies of strengthening its management foundation in preparation for the future, and of paying stable, long-term dividends to its shareholders as affordable, in consideration of management conditions and results. The Company plans to use its internal reserves to invest in technological development, facility expansion and improvement, and also to fund other programs designed to bolster its corporate value, aiming to generate returns for shareholders through business expansion in the future.

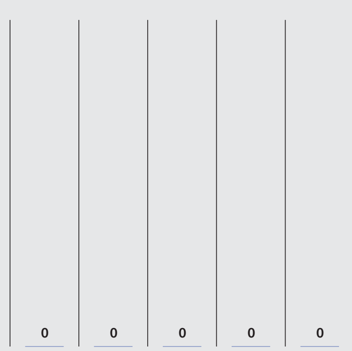
However, a pressure issue for the Company at present is to bolster its capital base. In the belief that prioritizing internal reserves would ultimately contribute to shareholders' interest, the Company decided to follow the practice in the previous fiscal year, and to pay no dividend for the term under review.

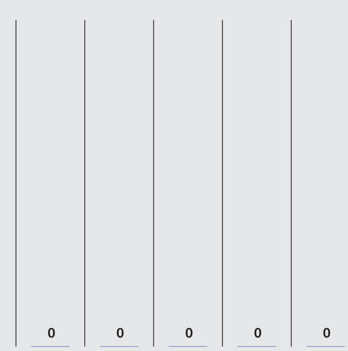
As a basic rule, the Company pays year-end dividends once each fiscal year. The general meeting of shareholders is the organization authorized to make dividend payment decisions at the Company.

Orders Received and Contract Backlog

Consolidated construction orders received by Penta-Ocean Construction and its consolidated subsidiaries received in Japan increased 13.7% from the year-ago period, to ¥302,150 million, thanks to robust sales. Consolidated construction orders received by the Group overseas grew 117.0% year on year, to ¥66,112 million, the result of a large order received in Singapore. Including Japan and overseas, consolidated construction orders totaled ¥368,262 million, a 24.4% increase from the previous consolidated fiscal year. The result caused the contract backlog to increase 14.9% from the previous year, to ¥428,218 million.







Consolidated Balance Sheets

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2006 and 2007

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Current assets:			
Cash and deposits	¥ 64,873	¥ 49,247	$ 417,171
Securities (Notes 3(4), 4 and 5)	91	103	872
Trade receivables:			
Notes	9,302	10,295	87,209
Accounts	121,246	127,083	1,076,518
Inventories (Note 3(7)):			
Cost of uncompleted contracts	33,077	28,779	243,786
Real estate for trade and real estate in progress	36,459	18,728	158,645
Other inventories	3,096	3,250	27,531
Deferred tax assets (Note 15)	5,779	9,593	81,262
Other current assets	4,813	3,796	32,156
Allowance for doubtful accounts (Note 3(6))	(1,038)	(1,089)	(9,225)
Total current assets	277,698	249,785	2,115,925
Investments and non-current assets:			
Investment in securities (Notes 3(4), 4 and 5)	29,103	21,880	185,345
Long-term loans and accounts receivables	4,687	3,870	32,783
Sundry investments	13,680	13,477	114,164
Deferred tax assets (Note 15)	1,384	7,177	60,796
Allowance for doubtful accounts (Note 3(6))	(5,689)	(5,660)	(47,946)
Total investments and non-current assets	43,165	40,744	345,142
Property, plant and equipment (Note 3(8)):			
Land (Note 5)	36,017	35,171	297,933
Buildings and structures (Note 5)	33,806	32,399	274,452
Machinery, equipment and vehicles	19,308	18,865	159,805
Dredgers and vessels	51,905	52,834	447,556
Construction in progress	94	38	322
Other property, plant and equipment	788	—	—
Total property, plant and equipment	141,918	139,307	1,180,068
Less accumulated depreciation	(73,947)	(75,356)	(638,340)
Property, plant and equipment — net	67,971	63,951	541,728
Other assets (Note 3(9)):	533	589	4,990
Total assets	¥389,367	¥355,069	$3,007,785

See accompanying Notes to Consolidated Financial Statements.

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Current liabilities:			
Short-term debt (Note 6)	¥ 41,862	¥ 32,215	$ 272,893
Current portion of long-term debt (Note 6)	38,842	31,632	267,954
Trade payable:			
Notes	35,150	37,769	319,941
Accounts	80,327	80,190	679,288
Advance on contracts in progress	30,689	36,621	310,216
Deposits received	11,250	9,832	83,287
Accrued income taxes	1,275	952	8,064
Accrued expenses	2,286	2,233	18,916
Allowance for losses on construction works (Note 3(12))	427	840	7,116
Other current liabilities	6,486	3,430	29,055
Total current liabilities	248,594	235,714	1,996,730
Long-term liabilities:			
Long-term debt (Note 6)	54,995	46,616	394,883
Reserve for retirement benefits (Notes 3(11) and 19)	6,752	6,577	55,714
Reserve for directors' and statutory auditors' retirement pay (Note 3(13))	451	438	3,710
Deferred tax liabilities for land revaluation excess (Note 17(2))	7,274	7,259	61,491
Other long-term liabilities	4,400	859	7,277
Total long-term liabilities	73,872	61,749	523,075
Total liabilities	322,466	297,463	2,519,805
Net assets (Note 3(18)):			
Common stock	28,070	28,070	237,781
Authorized — 599,135,000 shares			
Issued shares			
March 31, 2007 491,527,820 shares			
March 31, 2006 491,527,820 shares			
Capital surplus (Note 17(1))	20,106	20,106	170,318
Earned surplus	9,939	4,103	34,756
Less: Treasury stock	(13)	(15)	(127)
Unrealized valuation gain on other securities — net (Note 17(3))	7,724	4,277	36,230
Deferred gain (loss) on hedges	—	(6)	(51)
Land revaluation excess — net (Note 17(2))	879	857	7,260
Cumulative foreign currency translation adjustments (Note 3(2))	186	189	1,601
Minority interests	10	25	212
Total net assets	66,901	57,606	487,980
Total liabilities and net assets	¥389,367	¥355,069	$3,007,785

Commitments and contingent liabilities (Note 14)

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Operations

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
For the two years ended March 31, 2007

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Construction business:			
Net sales	¥338,842	**¥311,389**	**$2,637,772**
Cost of sales	305,346	**288,794**	**2,446,370**
Gross profit	33,496	**22,595**	**191,402**
Real estate and other:			
Net sales	15,815	**11,876**	**100,601**
Cost of sales	15,052	**10,704**	**90,673**
Gross profit	763	**1,172**	**9,928**
Total net sales	354,657	**323,265**	**2,738,373**
Total cost of sales	320,398	**299,498**	**2,537,043**
Total gross profit	34,259	**23,767**	**201,330**
Selling, general and administrative expenses	20,082	**19,123**	**161,991**
Operating income	14,177	**4,644**	**39,339**
Other income:			
Interest and dividends	777	**570**	**4,828**
Other (Note 7)	1,013	**737**	**6,244**
	1,790	**1,307**	**11,072**
Other expenses:			
Interest	3,412	**2,840**	**24,058**
Other (Note 8)	1,214	**1,033**	**8,750**
	4,626	**3,873**	**32,808**
Ordinary income	11,341	**2,078**	**17,603**
Extraordinary gain (Note 9)	388	**5,887**	**49,868**
Extraordinary loss (Note 10)	1,710	**19,855**	**168,191**
Income (loss) before income taxes and minority interests	10,019	**(11,890)**	**(100,720)**
Income taxes:			
Current	1,366	**1,034**	**8,759**
Income taxes deferred	4,776	**(7,080)**	**(59,975)**
	6,142	**(6,046)**	**(51,216)**
Minority interests	(1)	**(14)**	**(119)**
Net income (loss)	¥ 3,876	**¥ (5,858)**	**$ (49,623)**

Net income (loss) per share of common stock (Note 3(14))	Yen		U.S. Dollars
Primary	¥8.57	**¥(11.92)**	**$(0.10)**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Changes in Net Assets

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
For the two years ended March 31, 2007

	Millions of Yen				
	Owners' equity				
	Common stock	Capital surplus	Earned surplus	Treasury Stock	Total Owners' equity
Balance at March 31, 2005	¥20,570	¥12,606	¥6,132	¥ (9)	¥39,299
Changes of items during the period					
Net income			3,876		3,876
Exercise of subscription right	7,500	7,500			15,000
Transferred from land revaluation excess			(69)		(69)
Purchases of treasury stock				(4)	(4)
Net changes of items other than owners' equity					
Total changes of items during the period	7,500	7,500	3,807	(4)	18,803
Balance at March 31, 2006	¥28,070	¥20,106	¥9,939	¥(13)	¥58,102

	Millions of Yen						
	Valuation and translation adjustments						
	Unrealized valuation gain on other securities	Deferred gain (loss) on hedges	Land revaluation excess	Cumulative foreign currency translation adjustments	Total Valuation and translation adjustments	Minority interests	Total Net Assets
Balance at March 31, 2005	¥3,412	¥—	¥4,767	¥162	¥8,341	¥ 6	¥47,646
Changes of items during the period							
Net income							3,876
Exercise of subscription right							15,000
Transferred from land revaluation excess							(69)
Purchases of treasury stock							(4)
Net changes of items other than owners' equity	4,312	—	(3,888)	24	448	4	452
Total changes of items during the period	4,312	—	(3,888)	24	448	4	19,255
Balance at March 31, 2006	¥7,724	¥—	¥ 879	¥186	¥8,789	¥10	¥66,901

	Millions of Yen				
	Owners' equity				
	Common stock	Capital surplus	Earned surplus	Treasury Stock	Total Owners' equity
Balance at March 31, 2006	¥28,070	¥20,106	¥9,939	¥(13)	¥58,102
Changes of items during the period					
Net income (loss)			(5,858)		(5,858)
Transferred from land revaluation excess			22		22
Purchases of treasury stock				(2)	(2)
Net changes of items other than owners' equity					
Total changes of items during the period			(5,836)	(2)	(5,838)
Balance at March 31, 2007	¥28,070	¥20,106	¥4,103	¥(15)	¥52,264

	Millions of Yen						
	Valuation and translation adjustments						
	Unrealized valuation gain on other securities	Deferred gain (loss) on hedges	Land revaluation excess	Cumulative foreign currency translation adjustments	Total Valuation and translation adjustments	Minority interests	Total Net Assets
Balance at March 31, 2006	¥7,724	¥—	¥879	¥186	¥8,789	¥10	¥66,901
Changes of items during the period							
Net income (loss)							(5,858)
Transferred from land revaluation excess							22
Purchases of treasury stock							(2)
Net changes of items other than owners' equity	(3,447)	(6)	(22)	3	(3,472)	15	(3,457)
Total changes of items during the period	(3,447)	(6)	(22)	3	(3,472)	15	(9,295)
Balance at March 31, 2007	¥4,277	¥(6)	¥857	¥189	¥5,317	¥25	¥57,606

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
For the two years ended March 31, 2007

	Thousands of U.S. Dollars				
	Owners' equity				
	Common stock	Capital surplus	Earned surplus	Treasury Stock	Total Owners' equity
Balance at March 31, 2006	$237,781	$170,318	$84,193	$(110)	$492,182
Changes of items during the period					
Net income (loss)			(49,623)		(49,623)
Transferred from land revaluation excess			186		186
Purchases of treasury stock				(17)	(17)
Net changes of items other than owners' equity					
Total changes of items during the period	—	—	(49,437)	(17)	(49,454)
Balance at March 31, 2007	$237,781	$170,318	$34,756	$(127)	$442,728

	Thousands of U.S. Dollars						
	Valuation and translation adjustments						
	Unrealized valuation gain on other securities	Deferred gain (loss) on hedges	Land revaluation excess	Cumulative foreign currency translation adjustments	Total Valuation and translation adjustments	Minority interests	Total Net Assets
Balance at March 31, 2006	$65,430	$ —	$7,446	$1,576	$74,452	$ 85	$566,719
Changes of items during the period							
Net income (loss)							(49,623)
Transferred from land revaluation excess							186
Purchases of treasury stock							(17)
Net changes of items other than owners' equity	(29,200)	(51)	(186)	25	(29,412)	127	(29,285)
Total changes of items during the period	(29,200)	(51)	(186)	25	(29,412)	127	(78,739)
Balance at March 31, 2007	$36,230	$(51)	$7,260	$1,601	$45,040	$212	487,980

Consolidated Statements of Cash Flows

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
For the two years ended March 31, 2007

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Cash flows from operating activities:			
Income (loss) before income taxes and minority interests	¥10,019	¥(11,890)	$(100,720)
Adjustment to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	4,160	4,166	35,290
Loss on impairment of fixed assets	286	1,774	15,028
Amortization of consolidation adjustments	(480)	—	—
Increase (decrease) in allowance for doubtful accounts	(971)	21	178
Increase (decrease) in reserve for retirement benefits	238	(174)	(1,474)
Interest and dividends receivable	(777)	(570)	(4,828)
Interest expense	3,745	3,174	26,887
Foreign exchange loss (gain)	666	173	1,465
Equity loss (gain)	220	(173)	(1,465)
Loss (gain) on sales and disposals of property, plant and equipment	(35)	(193)	(1,635)
Loss (gain) on sales of investment in securities	0	(5,391)	(45,667)
Write-down of securities and investment in securities	83	27	229
Change in assets and liabilities:			
(Increase) decrease in trade receivables	(7,291)	(13,672)	(115,815)
(Increase) decrease in cost of uncompleted contracts	14,265	4,298	36,408
(Increase) decrease in real estate for trade and real estate in progress and other inventories	3,877	17,583	148,945
Increase (decrease) in trade payables	(5,177)	2,919	24,727
Increase (decrease) in advance on contracts in progress	(8,354)	4,436	37,577
Increase (decrease) in accrued expenses	(239)	373	3,160
Other — net	(202)	1,793	15,187
Sub total	14,033	8,674	73,477
Interest and dividends received	792	549	4,651
Interest paid	(3,631)	(3,184)	(26,971)
Income taxes paid	(1,422)	(1,318)	(11,165)
Net cash provided by (used in) operating activities	9,772	4,721	39,992
Cash flows from investing activities:			
Purchases of securities	(1)	(112)	(949)
Proceeds from sales of securities	64	202	1,711
Purchases of investment in securities	(383)	(490)	(4,151)
Proceeds from sales of investment in securities	1,108	6,946	58,839
Purchases of property, plant and equipment	(1,691)	(2,540)	(21,516)
Proceeds from sales of property, plant and equipment	380	763	6,464
Loans made	(93)	(69)	(584)
Collection of loans receivable	1,133	936	7,929
Other — net	1,803	(78)	(661)
Net cash provided by (used in) investing activities	2,320	5,558	47,082

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Cash flows from financing activities:			
Net increase (decrease) in short-term bank loans	(21,542)	**(9,648)**	**(81,728)**
Borrowings	43,823	**23,253**	**196,976**
Repayment of long-term debt	(51,605)	**(38,854)**	**(329,132)**
Proceeds from issue bond with subscription right	15,000	**—**	**—**
Cash dividends paid	(1)	**(1)**	**(9)**
Other — net	(640)	**(421)**	**(3,566)**
Net cash provided by (used in) financing activities	(14,965)	**(25,671)**	**(217,459)**
Difference resulting from conversion of foreign cash and cash equivalents to yen	(724)	**(162)**	**(1,373)**
Net increase (decrease) in cash and cash equivalents	(3,597)	**(15,554)**	**(131,758)**
Cash and cash equivalents at the beginning of the period	68,275	**64,678**	**547,886**
Cash and cash equivalents at the end of the period	¥64,678	**¥49,124**	**$416,129**

(Notes)

(1) Cash and cash equivalents are comprised as follows:

Cash and deposits	¥64,873	**¥49,247**	**$417,171**
Less-Time deposits with maturity over three months	(195)	**(123)**	**(1,042)**
Cash and cash equivalents (Note 3(15))	¥64,678	**¥49,124**	**$416,129**

(2) Content of significant non-cash transaction:

Increase in common stock resulting from exercise of subscription right	¥ 7,500	**¥—**	**$—**
Increase in capital surplus resulting from exercise of subscription right	7,500	**—**	**—**
Decrease in bonds with subscription rights resulting from exercise of subscription right	¥15,000	**¥—**	**$—**

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=¥118.05, the exchange rate prevailing on March 31, 2007. 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-six subsidiaries and three affiliated companies at March 31, 2007.
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 Net assets, except minority interests and minority interests in proportion to their respective shareholdings.

(4) Good will

Good will is amortized over five years by the straight-line method.

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 Net assets 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 Net assets.

(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 Net assets 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.

In the case that the net selling value falls below the acquisition cost at the end of the period, inventories except for cost of uncompleted contracts are carried at the net selling value on the balance sheet, when profitability of assets is decreased.

(Change of accounting method)

The company made an early adoption of the Accounting Standard for Measurement of Inventories (Accounting Standards Board of Japan Statement No.9 issued by the Accounting Standards Board of Japan on July 5, 2006) effective for the current fiscal year prior to April 1, 2008.

The impact of change included in the beginning inventories (¥7,956 million) assuming that this new standard is applied to the inventories at the beginning of the year was accounted for as extraordinary loss. In addition, the Company wrote down the year-end inventories due to decreased profitability of assets in the current fiscal year and the write-down loss (¥230 million) was accounted for as cost of sales. As a result, gross profit, operating income and ordinary income decreased by ¥230 million, respectively, and loss before income taxes and minority interests increased by ¥8,186 million.

(8) Property, plant and equipment

Property, plant and equipment are stated at cost and for the Company and domestic subsidiaries 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.

(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) Reserve for retirement benefits

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 is 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.

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.

Reserve for operating officers' retirement benefits are included in reserve for retirement benefits.

(12) Allowance for losses on construction works

The Company prepares reasonable estimated amount for future losses from construction works outstanding at fiscal year-end.

(13) 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.

(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 there were no potential stocks as of March 31, 2007.

(15) 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.

(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 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.

(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 7.6 percent on taxable income after certain adjustments, and (c) prefectural and municipal taxes averaging 20.4 percent of corporation tax. Enterprise tax paid 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.

(18) Change of accounting method

The Company adopted the Accounting Standard for Presentation of Net Assets in the Balance Sheet (Accounting Standards Board of Japan Statement No.5 issued by the Accounting Standards Board of Japan on December 9, 2005) and the Guidance on the Accounting Standard for Presentation of Net Assets in the Balance Sheet (Accounting Standards Board of Japan Guidance No.8 issued by the Accounting Standards Board of Japan on December 9, 2005) from the fiscal year ended March 31, 2007.

The prior year presentation of balance sheet has been modified to conform to the current year's presentation.

The amount corresponding to the total shareholders' equity under previous standards is ¥57,587 million.

4. Securities

The composition of securities as of March 31, 2006 and 2007 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Securities due within one year:			
Held-to-maturity bonds	¥ 91	¥ 2	$ 17
Investment trust bills	—	101	855
Total	¥ 91	¥ 103	$ 872
Investment in securities:			
Held-to-maturity bonds	¥ 39	¥ 67	$ 568
Investment trust bills	361	270	2,287
Stocks	28,503	21,341	180,779
Other	200	202	1,711
Total	¥29,103	¥21,880	$185,345

5. Pledged assets

(1) The following assets are pledged for fulfillment of construction contracts at March 31, 2006 and 2007.

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Securities	¥ 41	¥ 2	$ 17
Investment in securities	535	531	4,498
Total	¥576	¥533	$4,515

(2) The following assets are in pledge to short-term bank loans and long-term debt at March 31, 2006 and 2007.

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Land	¥102	¥ 35	$ 296
Buildings	103	101	856
Total	¥205	¥136	$1,152

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, 2007 are 1.48% and 1.48%. Long-term debts as of March 31, 2006 and 2007 is summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Long-term debt from banks and insurance companies maturing in 2013	¥93,837	¥78,248	$662,837
(The weighted average interest rate is 2.96%.)			
Less: current portion of long-term debt	(38,842)	(31,632)	(267,954)
Net	¥54,995	¥46,616	$394,883

The aggregate annual maturity of long-term debt after March 31, 2007 is as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2007	2007
Years ending March 31,		
2008	¥31,632	$267,954
2009	22,490	190,512
2010	18,753	158,857
2011	4,132	35,002
2012 and after that	1,241	10,512
Total	¥78,248	$662,837

7. Other income

The composition of Other income—other for the two years ended March 31, 2007 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Rental received from real estate	¥ 255	¥217	$1,839
Amortization of consolidation adjustments	480	—	—
Equity gain	—	173	1,465
Other	278	347	2,940
Total	¥1,013	¥737	$6,244

8. Other expenses

The composition of Other expenses—other for the two years ended March 31, 2007 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Equity loss	¥ 220	¥ —	$ —
Exchange loss	257	423	3,583
Other	737	610	5,167
Total	¥1,214	¥1,033	$8,750

9. Extraordinary gain

The composition of Extraordinary gain for the two years ended March 31, 2007 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Prior period adjustments	¥ 46	¥ 212	$ 1,796
Gain on sales of fixed assets	145	224	1,897
Gain on sales of investment in securities	—	5,423	45,938
Reversal of allowance for doubtful accounts	141	—	—
Other	56	28	237
Total	¥388	¥5,887	$49,868

10. Extraordinary loss

The composition of Extraordinary loss for the two years ended March 31, 2007 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Prior period adjustments	¥ 118	¥ 148	$ 1,254
Loss on sales of fixed assets	110	32	271
Write-down of real estate for trade	559	7,956	67,395
Loss on impairment of fixed assets*1	286	1,774	15,027
Loss on real estate development business	-	8,679	73,520
Other	637	1,266	10,724
Total	¥1,710	¥19,855	$168,191

*1 The Company recognized loss on impairment for the following group of assets in the current fiscal year ended March 31, 2007

Location	Classification	Loss on impairment
Kanto area	Rental assets (1 object)	Buildings and other ¥212 million ($1,796 thousand)
Kyushu area	Golf course (1 object)	Land ¥1,307 million ($11,071 thousand)
		Buildings and other ¥255 million ($2,160 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 the group of assets were written down to the recoverable amounts due to the continous the operating loss of golf business and to decision on retirement of the rental assets. The impairment loss (¥1,774 million (U.S. $15,027 thousand)) is accounted for as the extraordinary loss.

The recoverable amounts related to the golf course are evaluated at net realizable amounts determined by appraisal and that related to the rental assets are zero.

11. Research and development costs

Research and development costs charged to income for the two fiscal years ended March 31, 2007 are ¥1,443 million and ¥1,371million (U.S. $11,614 thousand), respectively.

12. Summary of finance lease transaction

The Company has entered into finance lease contracts. The finance lease transactions other than those where a title is transferred to the lease 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
	2006	2007	2007
Estimated acquisition costs			
Equipment	¥783	¥262	$2,219
Vehicles	110	61	517
	893	323	2,736
Accumulated depreciation	(724)	(233)	(1,974)
Estimated value	¥169	¥ 90	$ 762

(2) Future lease payments as of March 31, 2006 and 2007 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Within one year	¥101	¥44	$373
Over one year	84	50	423
Total	¥185	¥94	$796

(3) Lease payments, depreciation equivalents and interest expenses equivalents for the years ended March 31, 2006 and 2007:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Lease payments	¥132	¥104	$881
Depreciation equivalents	115	89	754
Interest expense equivalents	6	3	25

13. Derivative financial transactions

(1) Matters concerning derivative financial transactions

The Company and its consolidated subsidiaries have entered into interest rate swap agreements and forward exchange contracts only for hedging 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 clearly describes purposes, execution and control for transaction.

(2) Matters concerning fair value

No derivative financial transactions except for transactions for which hedge accounting is applied for the year ended March 31, 2006 and 2007.

14. Commitments and contingent liabilities

As of March 31, 2007, the Company has liabilities for guarantee to bank loans made by customers amounting to ¥1,919 million (U.S. $16,256 thousand).

The Company also has the guarantee amounting to ¥943 million (U.S. $7,988 thousand) to purchasers concerning deposits for purchase of the condominium apartments.

The Company has agreements on commitment line with 31 banks totaling ¥35,000 million for the purpose of flexible financing. There is no amount of loans using the line as of March 31, 2007.

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
	2006	2007	2007
Deferred tax assets			
Write-down of real estate for trade	¥ 3,110	¥ 7,917	$ 67,065
Net operating loss carried forward	1,432	4,132	35,002
Reserve for retirement benefits	2,746	2,525	21,389
Allowance for doubtful accounts	1,827	1,993	16,883
Loss on establishment of financial trust in respect of retirement benefit obligations	1,119	1,133	9,597
Reserve for bonuses	718	709	6,006
Loss on impairment of fixed assets	3,430	509	4,312
Other	3,086	2,939	24,896
Total: deferred tax assets	17,468	21,857	185,150
Less : valuation allowance	(4,917)	(2,244)	(19,009)
Deferred tax assets	¥12,551	¥19,613	$166,141
Deferred tax liabilities			
Unrealized valuation gain on other securities	¥(5,301)	¥ (2,763)	$ (23,405)
Reduction for amendment of allowance for doubtful accounts	(24)	(22)	(187)
Other	(63)	(58)	(491)
Total: deferred tax liabilities	(5,388)	(2,843)	(24,083)
Net: deferred tax assets	¥7,163	¥16,770	$142,058

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

	2006
The statutory effective tax rate	40.69%
(Adjustments)	
Permanent differences	10.95%
Tax free income	(0.39%)
Per capita levy on inhabitant tax	4.92%
Consolidated adjustments not to have recognized tax-effect	(1.18%)
Increase in valuation allowance	5.83%
Other	0.48%
Actual burden tax rate after the application of tax effect accounting	61.30%

*The description of the current fiscal year is omitted, because income before income taxes and minority interests became a loss.

16. Consumption tax

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

17. Net assets

(1) Earned surplus reserve and capital surplus reserve

The Japanese Corporate Law requires to provide an earned surplus reserve over 10 percent of cash out flow, that is, payment of dividends 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 are accounted for as a long-term deferred tax liabilities and its remains are accounted for as land revaluation excess-net constituting net assets.

	Millions of Yen		Thousands of U.S. Dollars
	2006	**2007**	**2007**
The difference between the appraisal value of land at the end of the current fiscal year and the book value	¥(11,438)	**¥(12,314)**	**$(104,312)**

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 ¥4,277 million (U.S. $36,230 thousand) gain after application of tax effect accounting as of March 31, 2007.

The related deferred tax liabilities amounted to ¥2,763 million (U.S. $23,405 thousand).

(4) Restriction of dividends

It is regulated by the Japanese Corporate Law 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 if retirement of shares is carried out, the corresponding number of shares must be deducted from authorized shares.

19. Retirement benefits

I. Retirement benefits obligations

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
a. Retirement benefit obligations	¥(36,532)	**¥(36,223)**	**$(306,845)**
b. Pension fund assets	16,871	**18,740**	**158,746**
c. Unfunded retirement benefit obligations	(19,661)	**(17,482)**	**(148,090)**
d. Unrecognized effects of the amendments on the application of the new accounting standards for retirement benefits	11,715	**10,414**	**88,217**
e. Unrecognized actuarial gain or loss	1,194	**859**	**7,277**
f. Net retirement benefit obligations	(6,752)	**(6,210)**	**(52,605)**
g. Prepaid pension cost	—	**367**	**3,109**
h. Reserve for retirement benefits	¥ (6,752)	**¥ (6,577)**	**$ (55,714)**

II. Retirement benefit costs

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
a. Service costs	¥1,309	**¥1,333**	**$11,292**
b. Interest costs	716	**686**	**5,811**
c. Expected return on pension fund assets	(161)	**(590)**	**(4,998)**
d. Amortization of effects of the amendments on the application of the new accounting standards for retirement benefits	1,302	**1,302**	**11,029**
e. Amortization of actuarial gain or loss	736	**476**	**4,032**
f. Retirement benefit costs	¥3,902	**¥3,207**	**$27,166**

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	3.50%
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 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.

Year ended March 31, 2006	Millions of Yen					
	Construction	Real estate development	Other	Total	Elimination and/or addition	Consolidated
Net sales:						
Customers	¥338,842	¥ 4,488	¥11,327	¥354,657	¥ —	¥354,657
Internal sales or transfer	—	272	7,480	7,752	(7,752)	—
Total	338,842	4,760	18,807	362,409	(7,752)	354,657
Operating expenses	324,687	4,948	18,627	348,262	(7,782)	340,480
Operating income (loss)	14,155	(188)	180	14,147	30	14,177
Assets	232,931	45,639	24,681	303,251	86,116	389,367
Depreciation	2,036	32	2,118	4,186	(26)	4,160
Loss on impairment of fixed assets	286	—	—	286	—	286
Capital expenditures	1,196	9	601	1,806	—	1,806

Year ended March 31, 2007	Millions of Yen					
	Construction	Real estate development	Other	Total	Elimination and/or addition	Consolidated
Net sales:						
Customers	¥311,389	¥ 1,447	¥10,429	¥323,265	¥ —	¥323,265
Internal sales or transfer	—	262	8,378	8,640	(8,640)	—
Total	311,389	1,709	18,807	331,905	(8,640)	323,265
Operating expenses	307,334	1,671	18,218	327,223	(8,602)	318,621
Operating income	4,055	38	589	4,682	(38)	4,644
Assets	239,041	31,706	21,830	292,577	62,492	355,069
Depreciation	2,100	30	2,058	4,188	(22)	4,166
Loss on impairment of fixed assets	—	—	1,774	1,774	—	1,774
Capital expenditures	2,257	23	459	2,739	(44)	2,695

Year ended March 31, 2007	Thousands of U.S. Dollars					
	Construction	Real estate development	Other	Total	Elimination and/or addition	Consolidated
Net sales:						
Customers	$2,637,772	$ 12,258	$88,343	$2,738,373	$ —	$2,738,373
Internal sales or transfer	—	2,219	70,970	73,189	(73,189)	—
Total	2,637,772	14,477	159,313	2,811,562	(73,189)	2,738,373
Operating expenses	2,603,422	14,155	154,324	2,771,901	(72,867)	2,699,034
Operating income	34,350	322	4,989	39,661	(322)	39,339
Assets	2,024,913	268,581	184,922	2,478,416	529,369	3,007,785
Depreciation	17,789	254	17,433	35,476	(186)	35,290
Loss on impairment of fixed assets	—	—	15,028	15,028	—	15,028
Capital expenditures	19,119	195	3,888	23,202	(373)	22,829

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 ¥87,594 million at March 31, 2006 and ¥63,959 million (U.S. $541,796 thousand) at March 31, 2007.

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

(2) Geographic segment

Geographic segment is primarily composed of the followings:

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

Year ended March 31, 2006	Japan	Southeast Asia	Other	Total	Elimination and/or addition	Consolidated
	Millions of Yen					
Net sales:						
Customers	¥314,258	¥36,951	¥3,448	¥354,657	¥ —	¥354,657
Internal sales or transfer	—	—	—	—	—	—
Total	314,258	36,951	3,448	354,657	—	354,657
Operating expenses	299,512	37,537	3,431	340,480	—	340,480
Operating income (loss)	14,746	(586)	17	14,177	—	14,177
Assets	255,128	42,699	3,946	301,773	87,594	389,367

Year ended March 31, 2007	Japan	Southeast Asia	Other	Total	Elimination and/or addition	Consolidated
	Millions of Yen					
Net sales:						
Customers	¥269,725	¥46,624	¥ 6,916	¥323,265	¥ —	¥323,265
Internal sales or transfer	—	—	—	—	—	—
Total	269,725	46,624	6,916	323,265	—	323,265
Operating expenses	264,318	47,702	6,601	318,621	—	318,621
Operating income (loss)	5,407	(1,078)	315	4,644	—	4,644
Assets	242,823	35,742	12,545	291,110	63,959	355,069

Year ended March 31, 2007	Japan	Southeast Asia	Other	Total	Elimination and/or addition	Consolidated
	Thousands of U.S. Dollars					
Net sales:						
Customers	$2,284,837	$394,951	$ 58,585	$2,738,373	$ —	$2,738,373
Internal sales or transfer	—	—	—	—	—	—
Total	2,284,837	394,951	58,585	2,738,373	—	2,738,373
Operating expenses	2,239,034	404,083	55,917	2,699,034	—	2,699,034
Operating income (loss)	45,803	(9,132)	2,668	39,339	—	39,339
Assets	2,056,950	302,770	106,269	2,465,989	541,796	3,007,785

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 ¥87,594 million at March 31, 2006 and ¥63,959 million (U.S. $541,796 thousand) at March 31, 2007.

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

(3) Overseas sales

Year ended March 31, 2006	Millions of Yen		
	Southeast Asia	Other	Total
Overseas sales	¥36,951	¥3,448	¥ 40,399
Consolidated sales			¥354,657
Proportion of overseas sales to consolidated sales	10.4%	1.0%	11.4%

Year ended March 31, 2007	Millions of Yen		
	Southeast Asia	Other	Total
Overseas sales	**¥46,624**	**¥6,916**	**¥ 53,540**
Consolidated sales			**¥323,265**
Proportion of overseas sales to consolidated sales	**14.4%**	**2.1%**	**16.6%**

Year ended March 31, 2007	Thousands of U.S. Dollars		
	Southeast Asia	Other	Total
Overseas sales	**$394,951**	**$58,585**	**$ 453,536**
Consolidated sales			**$2,738,373**
Proportion of overseas sales to consolidated sales	**14.4%**	**2.1%**	**16.6%**

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
Other .... Sri Lanka, Bulgaria and Romania

21. Related party transactions

For the year ended March 31, 2006

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

Transactions	Millions of Yen		
	Amounts	Account	Ending balance
Debt forgiveness (Note)	8,723	—	—

Notes:
Transaction details
1. The Company forgave the debt for the completion of liquidation of GreenPort Co., Ltd. in the current fiscal year.
2. Transaction amounts of debt forgiveness of the above table includes the amounts of ¥8,704 million which had been already accounted for as equity loss or provision for loss on liquidation of affiliated company in the prior fiscal year.

For the year ended March 31, 2007

None

22. Significant subsequent event

Reverse stock split
The Company's Board of Directors resolved to revise the articles of incorporation to provide for a reverse stock split and change of unit of shares system on May 18, 2007. This resolution was approved by the general shareholders at the meeting held on June 28, 2007.

(1) Summary of reserve stock split

a. Purpose of reverse stock split
The Company's Board of Directors resolved to adopt a policy toward Large-scale Purchases of the Company Shares (Takeover Defense Measures). If a Large-scale Purchaser dose not comply with the Large-scale Purchase Rules, the Company's Board of Directors may take countermeasures which include the issuance of stock acquisition rights to all shareholders. However, because of residual shares against authorized shares are few, Takeover Defense Measures become effective by reverse stock split.

b. Method of reverse stock split
Each two shares are combined to one share for all issued common stock.

c. Effective day
August 7, 2007

d. Per share date assuming a reverse stock split had been made at the beginning of fiscal year 2006 is as follows:

	Yen		U.S. Dollars
	2006	2007	2007
Net assets per share	¥272.24	**¥234.35**	**$1.99**
Net income (loss) per share	17.14	**(23.84)**	**(0.20)**

(2) Change of unit of shares system
The number of shares for a unit changed from 1,000 to 500.

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, 2006 and 2007, and the related consolidated statements of operations, changes in net assets, 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, 2006 and 2007, 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 (7), from the year ended March 31, 2007, the Company compiled the consolidated financial statements by adopting the Accounting Standard for Measurement of Inventories.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 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 28, 2007

Ernst & Young Shinnihon

ERNST & YOUNG SHINNIHON