Penta-Ocean Construction

Annual Report 2007

Year Ended March 31, 2007

Cover picture:

VivoCity

The complex opened ahead of schedule in October 2006 as one of the largest shopping malls in Singapore. We provided buildings that satisfied the client by securing the cooperation of engineers at our headquarters and overseas offices in the construction of surf roofs (curved roofs) and feature walls (outer walls) designed by Mr. Toyo Ito, a renowned architect, with waves as their motif.

Contents:

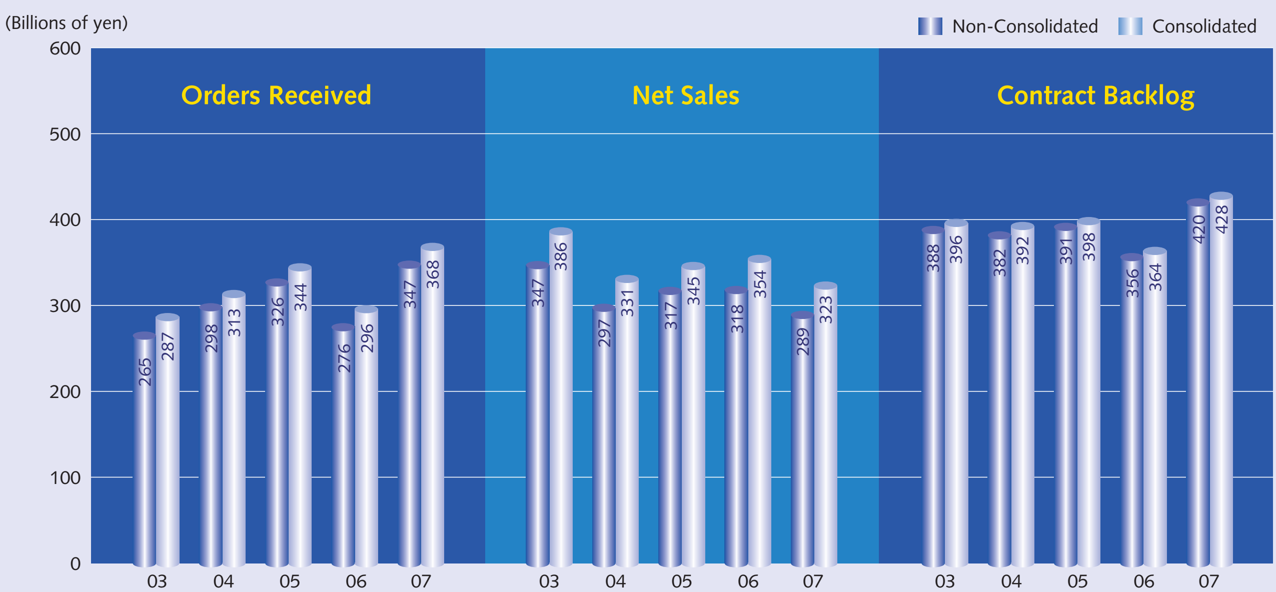
Consolidated Financial Highlights

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2006 and 2007

	Millions of Yen		Thousands of U.S. Dollars
	2006	**2007**	**2007**
Orders received	¥296,046	**¥368,262**	**$3,119,543**
Net sales	354,657	**323,265**	**2,738,373**
Contract backlog	364,407	**428,218**	**3,627,429**
Total assets	389,367	**355,069**	**3,007,785**
Shareholder's equity	66,891	**57,581**	**487,768**
Ordinary income	11,341	**2,078**	**17,603**
Income before income taxes and minority interests	10,019	**(11,890)**	**(100,720)**
Net income	3,876	**(5,858)**	**(49,623)**
Cash dividends	—	**—**	**—**

Per share of common stock	Yen		U.S. Dollars
Shareholder's equity	¥136.12	**¥117.18**	**$0.99**
Net income	8.57	**(11.92)**	**(0.10)**
Cash dividends	—	**—**	**—**

Notes:
1. Figures in U.S. dollars are converted for convenience only, at the rate of ¥118.05 per U.S. $1, prevailing on March 31, 2007.
2. 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.
3. 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).



Message from the President

To Our Shareholders:

I am pleased to report an overview of Penta-Ocean Construction Group's business performance in fiscal 2006 (57th business term), which covers the period from April 1, 2006 to March 31, 2007.

Management Conditions

During the term under review, the Japanese economy continued to stage a modest recovery, supported by capital investment growth. This recovery can be attributed to robust exports and a solid corporate performance, as well as the growing impact of improved employment and income conditions.

Construction investment in the private sector increased for the third consecutive year, on active private-sector and real estate investment. However, investment in the public sector continued to fall. Moreover, frequent low-price bidding and other challenges arose in a construction industry that is undergoing reforms to procurement procedures, from pure price competition to Technical Integrated Bid Evaluation System. The revision and strengthening of the Antimonopoly Law added to the difficult operating environment.

The emergency measures for ensuring the quality of public works announced in December 2006 proved effective, and was successful to an extent in stopping low-price bids. Nonetheless, it remained difficult to receive orders in both the public and private sectors throughout the fiscal year. In overseas construction markets, construction investment in Southeast Asia and the Middle East, areas that account for the majority of the Group's overseas operations, maintained their impressive performance from the previous term.

Business Results for the Term under Review

Responding to the intensifying competition for winning orders, the Penta-Ocean Group made concerted efforts to bolster the earnings capacity of its core operations and to improve its financial strength through gradual operational expansion, while adhering to a basic principle of emphasizing earnings. However, in addition to the intense competition for orders, factors such as the decline in winning bid ratio for public works, rising material and labor costs, less profitable projects carried over from the previous term, and bidding suspension and other penalties produced adverse effects, with the consequence that results for the term under review were substantially below projected figures. In particular, the bidding suspension and other administrative penalties imposed on us by the central government and local governments in March 2006 in connection with a bid-rigging case involving construction work for the Defense Facilities Administration Agency had a tremendous impact. Substantial decreases in the amount of completed civil engineering work in Japan and gross income on such completed work also had severe repercussions for our results. Compliance forms the core of corporate social responsibility (CSR). We solemnly accept these penalties, and have instituted a Group-wide commitment to preventing any recurrence of this situation, and to develop an organization for legal observance. At the same time, we are working to build an effective internal control system.

Consolidated business results fell substantially in the term under review. Consolidated net sales totaled ¥323,265 million (an 8.9% decrease year-on-year), consolidated operating income reached ¥4,644 million (a 67.2% decrease year-on-year), and consolidated ordinary income came to ¥2,078 million (an 81.7% decrease year-on-year). We also registered a consolidated extraordinary loss of ¥19,855 million, which included a ¥7,956 million loss on the evaluation of real estate on hand, a reflection of the early application of the so-called lower-of-cost-or-market method to inventory assets, an ¥8,679 million loss on development projects, and a ¥1,774 million impairment loss. In spite of ¥5,423 million reported as consolidated gains on sale of marketable securities, we produced a consolidated net loss of ¥5,858 million (compared with consolidated net income of ¥3,876 million in the previous term).

Challenges and Prospects for the Next Term

We have entered a new era in which genuine technical capabilities are required in both public and private sectors in Japan and internationally, as demonstrated by the introduction of Technical Integrated Bid Evaluation System. In view of this and other factors with implications with earnings, including rising labor and material costs, as well as the increased costs of technical proposals submitted to win orders, we expect that the operating environment will remain difficult for some time.

Under these circumstances, the Penta-Ocean Construction Group established a medium-term management plan called

"Evolution 21" (covering the period from fiscal 2005 to fiscal 2007). Under this plan, we are working to bolster the earnings capacity of our core operations and to strengthen our financial standing. In the next term (fiscal 2007), the final year for Evolution 21, we anticipate a solid recovery in performance, with consolidated net income rising to ¥2,000 million. However, with sincere regret, we must acknowledge here that achieving our initial targets has become difficult given the adverse effects of the rapid and adverse changes that have taken place in the operating environment surrounding construction companies.

The Penta-Ocean Construction Group is aiming to gradually expand its business and to increase the size of operating income in all segments, including domestic civil engineering, domestic building construction and overseas operations, while adhering strictly to the basic principles of not accepting loss-making construction projects and not allowing accepted construction projects to slip into the red. To achieve these goals, the Group is stepping up its activities in port zones, which enable it to make effective use of its 110 years of experience and technologies in areas ranging from marine civil engineering to building construction, including land civil engineering and distribution warehouses. As the leader in port zones, the Group is resolved to bolster its technical and price competitiveness based on our on-site construction technologies, and is committed to winning orders for profitable projects.

In the domestic civil engineering segment, we will step up activities for public works bidding under Technical Integrated Bid Evaluation System, and strengthen civil engineering sales activities in the private sector. To maintain a technologically edge in both the public and private sectors, we intend to improve our ability to make technical proposals that suit market conditions and customer needs, and to enhance our cost competitiveness using our on-site construction technologies as a support.

In the domestic construction segment, we will bolster our sales activities based on business and technical proposals, and push forward with our strategy of rising about the competitive environment by differentiating ourselves from other companies. In particular, we will strengthen our sales activities for logistics facilities in port zones and their inland districts where we can take full advantage of the Group's strengths. Through these initiatives, we aspire to establish Penta-Ocean Construction as a brand.

In the overseas operations segment, we will implement comprehensive risk management at the time of bidding and at the time of construction. At the same time, we will maintain a firm policy of accepting orders with the emphasis on earnings, and will strive to secure profitable orders in close consultation and cooperation with our domestic divisions. We can also display our strength in port zones overseas. We will strive to win orders for plant construction in reclaimed sites, the development of port zones and building construction in such areas, in addition to land reclamation and dredging operations.

As described above, operating conditions for construction companies have undergone great changes. The environment for orders remains difficult. The Penta-Ocean Construction Group will respond appropriately and swiftly to the changing times, and will transform itself into a corporate group capable of generating stable earnings as the leader in port zones, excelling in technologies and management. Please let me take this opportunity to offer to our shareholders my profound apologies for our decision not to pay dividends in the 57th business term, the fifth consecutive period without such payment since the 53rd term. All directors and employees are resolved to increase corporate value and to resume dividend payments at an early stage.

We ask our shareholders for their continued understanding and support.

June 28, 2007

Y. Murashige

Yoshio Murashige
President

Management Philosophies/Medium-term Visions/Basic CSR Policies

Management Philosophies

➤ Affinity with society

➤ Establishing a rich environment

➤ Practicing the enterprising spirit

Medium-Term Visions

➤ A "creative company" on land and at sea
We seek to create attractive spaces as the leading construction company in port zones, and pursue customer satisfaction and social contribution as a proposal-oriented company.

➤ A "committed company" that guarantees solid quality
We build the relationship of trust with our customers and society through provision of high quality and safe products backed by solid technologies.

➤ A "future-oriented company" that leaves a rich environment to future generations
We establish a quality, rich environment through the course of our corporate activities, and pass on our dreams, hopes and possibilities to the next generation.

Basic CSR Policies

The Penta-Ocean Group takes the view that the construction of superior infrastructure is the greatest contribution we can make to society. We aim to transform ourselves into a group of attractive companies that is respected not only by our shareholders, customers, business partners, employees but also by local communities, by providing solid quality backed by advanced technology and having regard to safety and ecological considerations.

1. Honorable Corporate Activities
We take an honest approach to our business operations at all times, in addition to observing laws and ordinances, and respecting social norms and ethics.

2. Coexistence with the Environment and Nature
- We help preserve the global environment by seeking to develop environmentally friendly products and environmental technologies.
- We develop living spaces equipped to better withstand disasters by developing disaster-prevention technologies that can be incorporated into both systems and structures.
- In the event of emergency, we implement rapid-response support activities.

3. Respect for Humanity
- We seek to realize a working environment that motivates our employees, that respects their individuality and that enables them to fully demonstrate their abilities.
- We respect the human rights and diversity of not only our employees but of all people connected with the Company.

4. Communication with Society
We are committed to broad-based communications with our stakeholders (including shareholders, costumers, business partners, employees and the local community), and, at the same time, demonstrate maximum accountability by disclosing timely and appropriate information.

Introduction of the Takeover Defense, Reverse Stock Split and Reduction in Share Trading Unit

At the 57th ordinary general meeting of shareholders, held on June 28, 2007, Penta-Ocean Construction Co., Ltd. resolved to introduce takeover defense, conduct a reverse stock split, and revise its Articles of Incorporation to reduce the number of shares in one trading unit.

Overview of the Takeover Defense

Purpose: To prepare for a sudden takeover action (allowing time)

The purpose of adopting a takeover defense is to require a prospective purchaser to submit the necessary information to allow our shareholders to make an appropriate decision and to secure time for the board of directors to consider countermeasures and present alternatives on the premise that it is the shareholders, not the management, who should make a judgment on a takeover bid.

Large-scale purchase rules:

(1) A prospective large-scale purchaser (a purchase who seeks to hold 20 percent or more of the total voting rights) will be required to submit a letter of intent regarding a large-scale purchase to the board of directors.

(2) The board of directors shall ask the large-scale purchase to provide necessary and sufficient information.

(3) A large-scale purchase will commence only after a certain assessment period for the board of directors has elapsed.

Initiation of takeover defense (countermeasure):

- If a large-scale purchaser follows the large-scale purchase rules, countermeasures will not be taken, as a general rule.
- Cases in which countermeasures will be taken, as an exception (When it is considered that the corporate value of the company or the common interests of shareholders will be seriously damaged)
  (1) a green mailer, (2) an intent to conduct a scorched-earth management, (3) an intent to divert assets, (4) an intent to take advantage of opportunities afforded by a sudden rise in share prices and temporarily high dividends, (5) a coercive two-tiered acquisition, (6) inappropriate acquisition terms and conditions, (7) the possibility that the corporate value could be impaired, (8) a purchase with ties to anti-social organization or with a business that is against public order and morals

Establishment of an independent committee:

The independent committee will consist of three members, including one external director and two external auditors, to eliminate the arbitrary initiation of countermeasures by the Board of Directors.

Term of validity of takeover defense:

It is effective for three years from the general meeting of shareholders held on June 28 until a general meeting of shareholders in 2010.

Reverse Stock Split

Purpose: To increase the effectiveness of the hostile takeover defense

- The issue of stock acquisition rights is one of the effective countermeasures against large-scale purchasers when they do not observe the large-scale purchase rules
- However, we do not have scope to issue stock acquisition rights since the total number of shares outstanding is 491,527,820, compared with the total number of authorized shares of 599,135,000.
- Potential solutions include (1) increasing the total number of authorized shares or (2) consolidating our shares outstanding. Considering dilution and the level of earnings per share when issuing stock acquisition rights, we have determined that the implementation of stock consolidation in (2) together with reduction in share trading unit would be a reasonable measure from the perspective of not impairing shareholder values and the rights of shareholders.

Method of the reverse stock split:

Two shares were consolidated into one share.

- Total number of shares issued:
  491,527,820
- Number of shares to be consolidated:
  491,527,820
- Reduction in number of shares through consolidation:
  245,763,910
- Total number of shares issued after consolidation:
  245,763,910

Reduction in Share Trading Unit

Purpose: To avoid as much as possible any impact on the rights (the exercise of voting rights) of shareholders and investment convenience and liquidity in the market, the number of shares per unit was changed at the time the reverse stock split comes into effect.

Details of the change:

The number of shares per unit was changed from 1,000 shares to 500 shares.

Effective date of the reverse stock split the and reduction in Share Trading Unit

August 7, 2007	Effective date of stock consolidation
October 4, 2007	Delivery of new shares

Progress of the Medium-term Management Plan "Evolution 21"

POLICIES FOR ACTIVITIES IN FISCAL 2007 (58th business term)

Stay alive in the tough competitive environment that is expected to continue a little longer

Basic policies

(1) Full implementation of compliance and development of an effective internal control system
(2) Reinforcement of the earnings capacity of core operations
Improve our capabilities as a leader in port zones.
- Firmly maintain basic policy of emphasizing earnings and not accepting loss-making projects and not allowing accepted projects to move into the red.
- Strengthen our strategy for receiving orders, leveraging our technological capabilities.

(3) Continuous corporate streamlining
- Respond adequately to the retirement of the baby boomer generation.
- Rebuild our sales organization in response to changes in the operating environment.

(4) Sustained activities to improve our financial situation
(5) Reinforce Group management and clarify strategies for the future

Basic policies by segment

Domestic civil engineering:
- Strengthen the technological competiveness and the cost competitiveness, and streamline segment operations.
(Strengthen response to the comprehensive evaluation system, step up sales activities in the private sector, squeeze costs, and streamline operations.)

Domestic construction:
- Gradually expand the business volume and operating income by boosting competitiveness.
(Raise competitiveness by rising above the competition, establish Penta-Ocean Construction as a brand, and committing to a policy of emphasizing earnings.)

Overseas operations:
- Secure volume and income by cultivating the global market for marine civil engineering.
(Increase the ship operating ratio, commit fully to a policy of emphasizing earnings, and implement comprehensive risk management.)

Administration:
- Increase efficiency through greater focus and develop an effective internal control system.
(Develop a Group-wide internal control system and another internal control system on audit reports, strengthen management supervisory functions, and increase administrative efficiency through greater focus.)

OVERVIEW OF PROGRESS (from fiscal 2005 to fiscal 2007)

Results for core operations

Changes in the operating environment not anticipated at the time of the plan establishment occurred.
(Structural reforms in the construction industry, adverse effects of penalties including bidding suspension, etc.)

Fiscal 2005
- Ordinary income growth for the third consecutive year
- Ordinary income of ¥11,341 million (virtually according to the plan)
- Net income of ¥3,876 million (in excess of the plan)

Fiscal 2006
- First deficit settlement in four years, but strong order receipts
- Substantial increase in the volume of construction orders received (a 25% increase year-on-year)
- Substantially decreased ordinary income of ¥2,078 million (a ¥9,263 million decrease year-on-year, mainly because of the decreased number of completed projects and decreased income under the effects of penalties including bidding suspension)
- Reported extraordinary income of ¥5,887 million (consisting mainly of gains on the sale of marketable securities amounting to ¥5,423 million)
- Reported extraordinary loss of ¥19,855 million (mainly attributable to factors including a loss on the valuation of real estate on hand with the early application of the lower-of-cost-or-market method to inventory assets, loss on development projects, and impairment loss)
- Net loss of ¥5,858 million

Fiscal 2007
- Increase in both sales and income
- Performance in core operations to recover steadily, thanks to the substantial increase in orders in fiscal 2006 and commencement of construction work for the re-expansion of the Haneda Airport
- Net sales of ¥370,000 million (a ¥46,700 million increase from the previous term)
- Ordinary income of ¥6,500 million (a ¥4,400 million increase from the previous term)
- Net income of ¥2,000 million (a ¥7,800 million increase from the previous term)

Improving our financial situation

Measures for improving our financial situation were implemented ahead of schedule, and they achieved results almost according to the plan.

Capital reinforcement:
- Stability increased.
- Unsecured convertible bonds with stock acquisition rights worth ¥15,000 million were issued and converted (in fiscal 2005).
- Net assets of ¥57,606 million and a shareholders' equity ratio of 16.2% were secured, in spite of their declines due to deficit registration (at the end of fiscal 2006).

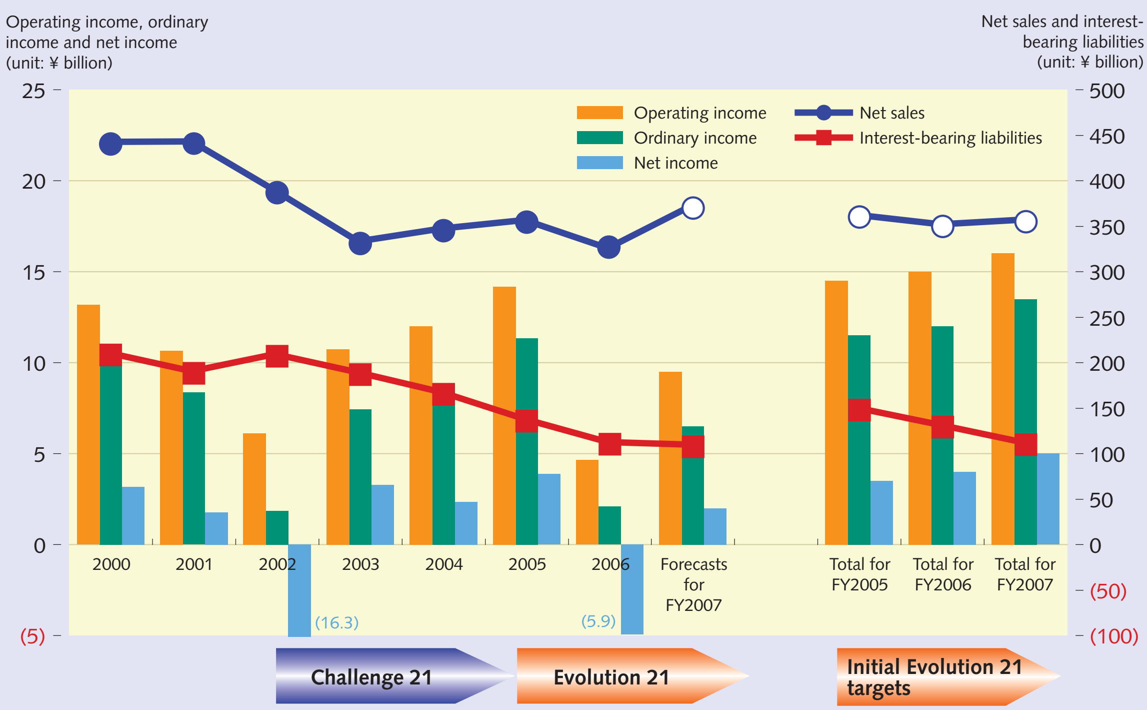
Reduction in interest-bearing liabilities:
- Targets were virtually achieved ahead of schedule.
- Targets for the balance of interest-bearing liabilities, ¥110,462 million at the end of fiscal 2006 and ¥110,000 million at the end of fiscal 2007, were nearly achieved.

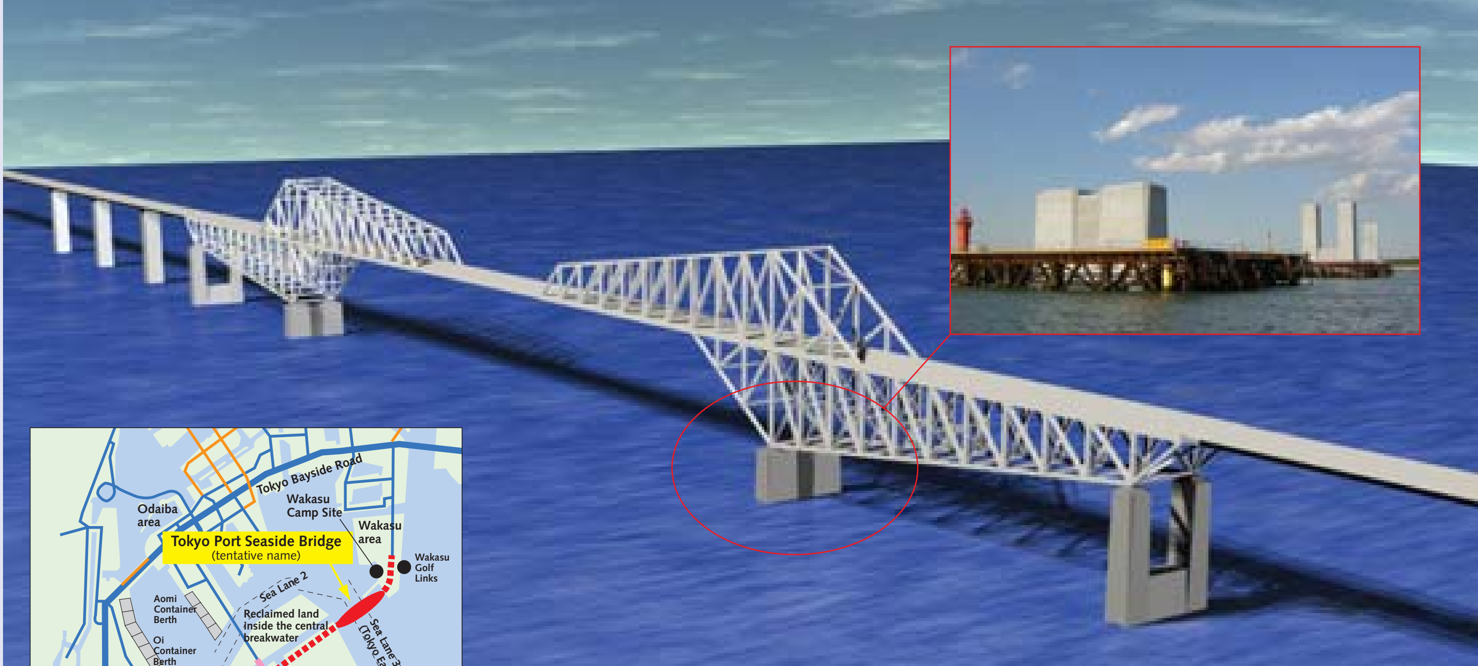
Asset reduction:
- Asset reduction outpaced the plan.
- Loss on valuation of real estate on hand with early application of the lower-of-cost-or-market method to inventory assets, loss on development projects owing to the attempt at bulk sale, impairment loss for golf courses and other assets (in fiscal 2006)
- Steady sale of assets with reduced value (in fiscal 2006 and subsequent terms)

Evolution 21 Targets and Results (fractions omitted)

(Units: ¥ billion and %, fractions less than ¥0.1 billion and 1.0% are omitted.)

	Results and forecasts			Initial targets (as of May 2005)		
	Results for FY2005	Results for FY2006	Forecasts for FY2007	2005	2006	2007
Performance targets						
Construction orders received (non-consolidated)	274.4	343	315	280	282.5	285
Net sales	354.6	323.2	370	360	350	355
Gross profit	34.2	23.7	27.7	34.3	34.3	34.8
Selling, general and administrative expenses	20	19.1	18.2	19.8	19.3	18.8
Operating income	14.1	4.6	9.5	14.5	15	16
Ordinary income	11.3	2	6.5	11.5	12	13.5
Net income	3.8	(5.8)	2	3.5	4	5
Net income per share (in yen)	8.6 yen	(11.9 yen)	4.1 yen			10 yen or more
Financial targets						
Total assets	389.3	355	350	405		
Net assets	66.8	57.6	59.6	66.1		
Shareholders' equity ratio	17.2%	16.2%	17.0%	16.3%		20% or higher
Interest-bearing liabilities	135.6	110.4	107.5	144.7		110 or less
Ratio to total assets	34.9%	31.1%	30.7%	35.7%		30% or lower





Steel pipe sheet pile foundation (at a temporary cofferdam point)

Artist's conception of the completed Tokyo Port Seaside Bridge (tentative name)
Length: 760 meters

The Tokyo Port Seaside Bridge (tentative name) is a large bridge measuring 2,933 meters long in its entirety (1,618 meters long in its seaborne section only). It connects the reclaimed land outside the central breakwater and the Wakasu area. When it is fully opened to motor traffic in 2011, the Tokyo Port Seaside Road should generate economic effects worth ¥30,000 million a year by facilitating commodity distribution in and around the Tokyo Port, a gateway for international trade, and by easing traffic congestion in roads serving the Tokyo Bay area. This major bridge is set to become a genuine new symbol of the Tokyo Port, and to serve the port as a "bridge to the future."

Domestic Civil Engineering Segment

Foundation Construction of the Tokyo Portside Road / Tokyo

Construction of the foundation for the lower portion of a highway bridge in the south section (Phase II section) of the Tokyo Port Seaside Road was completed in March 2007. The lower foundation constructed by the Company (MP3) is the main pier that supports this composite box truss bridge, one of the largest bridges of its kind in the world (extending 760 meters). The pier is strong enough to sustain the weight of passing vehicles and earthquakes, in addition to the weight of the gigantic bridge itself.

Extremely soft clay covers the bottom of the Tokyo Bay where the pier is located. The clay layer is at least 30 meters thick. In this construction project, we adopted the "steel pipe sheet pile well foundation," a method in which temporary steel pipe sheet pile cofferdams double as the foundation. We were able to demonstrate our commitment to protecting the environment with the adoption of this method, which reduces the volume of soil produced through construction. It also helped us to lower construction expenses. Moreover, we used reinforcement bars with an epoxy coated surface for rust prevention. The pier is a highly durable structure designed to stay in use for 100 years.

Shin-Itoman Ship Yard Construction / Okinawa

Construction period: July 2005 to September 2006

Client: Shin-Itoman Ship Yard Co., Ltd.

Construction summary:
- Hoist foundation construction (dock): L = 100 m × 2 units
- Rail foundation construction = 6,377 m^2
- Syncro lift hoist installation 375 t × 18 units
- Syncro lift platform manufacture and installation 25 × 80 m × 1 unit
- Crisscrossing platform truck manufacture: 21 units

In this project, we constructed a new shipyard equipped with a syncro lift system in Itoman City, Okinawa Prefecture. This is the second shipyard of its kind in Japan. It is larger than the first one. Through this construction project, we established a procedure for installing syncro lift facilities, and accumulated shipyard construction know-how that covers such areas as civil engineering structures, power facilities and piping systems. From this point on, shipyards in different locations are expected to reach their renovation period, and capital investment should increase for both new and existing shipyards. In addition to shipyards introducing a syncro lift system, we can expect to boost sales for shipyards in general by offering comprehensive support to clients in our service fields of planning, design and construction.

Seibu Oceanfront Pump Station Construction / Hiroshima

Construction period: March 2003 to March 2007

Client: Hiroshima City

Construction summary:
- Work on a continuous underground wall: H = 63 m
- Existing pile work: N = 108 (L = 35 m to 41 m)
- Excavation work: V = 55,310 m^3
- Earth retaining support work: 3,360 t
- Concrete work: V = 23,000 m^3

This construction project was part of the rainwater drainage improvement work ordered by the Facilities Section under the Facilities Department of the Sewerage Bureau of Hiroshima City. The project was aimed at constructing the new Seibu Oceanfront Pump Station for the purpose of preventing flooding in the Shoko Center district in Nishi-ku, Hiroshima City. Construction of the pump station required a particularly deep cutting operation. For this work, we adopted the "excavated earth recycling continuous underground wall construction method," which reduces surplus earth, an excavation by-product. The method enabled us to reuse excavated earth, which was impossible in the preceding methods, and realized reduction in the volume of the construction by-product. In October 2005, the 3R Promotion Committee honored our achievement.

Awarded an encouragement prize from the Minister of Health, Labour and Welfare

Sanwa Dock Construction / Hiroshima

Construction period: December 2005 to May 2007

Client: Sanwa Dock Co., Ltd.

Design and administration: Penta-Ocean Construction Co., Ltd.

Construction summary:
- Steel pile work (ϕ1000 to ϕ1400), L = 6.0 m to 47.5 m, n = 240
- Main construction work: L = 300 m, W = 22.4 m to 25.0 m
- Complete set of incidental facilities work

This is a project to build a fitting facility at a dock within the yard of Sanwa Dock Co. Ltd., a leading repairer of medium-sized ships. The pier attached to the seabed made the work extremely difficult and dangerous, but we were able to complete it without incident. Mobilizing our marine technologies, we satisfied the client's requests for functions and quality sufficiently in areas ranging from design to construction, and, by so doing, built a solid relationship based on mutual trust.

The entrance hall is reminiscent of a resort hotel on the island of Bali
We built the complex with careful attention to noise and ensured that the transport of material and machinery to and from the construction site did not inconvenience neighbors, as the site was located in a quiet residential area.

Domestic Architectural Segment

Adenium Kichijoji / Tokyo

Created in Mitaka City, Tokyo, where vestiges of the once green Musashino area remain, Adenium Kichijoji is a condominium complex that features a touch of Asia. Owned by the JOINT Corporation, Adenium Kichijoji was built on a site of approximately 10,000 square meters, consisting of the site formerly occupied by Penta-Ocean Construction's company housing and adjacent plots. These condominiums are reinforced concrete structures (partly steel structures). There are a total of 216 condominium units in the complex. Penta-Ocean Construction was responsible for the condominiums' design and construction.

The main theme for Adenium Kichijoji is "creating a healing space reminiscent of a resort hotel on the island of Bali." Visualizing a green forest that is believed to have existed in this part of Tokyo since ancient times, we developed our plan with a basic concept of keeping the forest and arranging buildings within the forest. The idea of benefiting from the healing power of nature through coexistence, rather than a controlling nature, is indeed an approach peculiar to Bali and broader Asia. Our main design concept for the complex, "Asian Identity," originated from this approach.

Buyou-no-Mori (tentative name) / Kanagawa

Construction period: November 2005 to November 2006

Client: Buyou-no-Mori Co., Ltd.

Design and administration: Tange Associates

Construction summary: Reinforced concrete building with six aboveground floors
• Building area: 1,402.62 m^2
• Total floor space: 6,922.92 m^2

A six-story private nursing home for the elderly with 150 rooms was completed in Hakone Sengokuhara, a holiday home district in a rich natural environment that does not seem only an hour and 30 minutes away from central Tokyo.

Incorporating an existing garden, the home's exterior blends harmoniously with the surrounding nature of Hakone. Meanwhile, the interior of the building features Japanese designs as a basic tone across the board. Features are based on traditional Japanese designs.

Consisting of a big communal tub and special bathtubs, spa facilities at the home use natural hot springs water taken from the source. Both natural steams of Owakudani in the distance and the famous field of silver grass of Sengokuhara are visible from the bright dining room.

Fisheries Management Improvement Project / Toyama

Construction period: August 2006 to March 2007

Client: Himi Fishermen's Cooperative Association

Design and administration: Tohata Architects & Engineers

Construction summary:
• Additional construction: one steel-structure floor above the ground
• Building area: 430 m^2
• Total floor space: 550 m^2

Renovation: new ceiling construction, bird net and wire installation, seawater intake facility renovation, cold seawater system renovation

We renovated the building accommodating the Himi Fish Market, renowned for its Himi yellowtails in the cold season, in a construction project that was without precedent in Japan. We improved the existed building without causing any operational interruptions, instead of constructing a new facility with advanced hygiene control. We believe our achievements in this project will serve as models for fisheries officials seeking to introduce advanced hygiene control.

Crest Forme Kachidoki / Tokyo

Construction period: February 2005 to March 2007

Client: Gold Crest Co., Ltd.

Construction summary:
• Building use: apartment building (491 units)
• Structure and floors: reinforced concrete structure with one basement floor and 18 floors above ground
• Building area: 2,927.63 m^2
• Total floor space: 39,846.62 m^2

In this project, we completed large condominiums with 491 residential units. We undertook construction work for the project by keeping in mind the need to maintain a smooth operational flow, as properties were high-rise reinforced concrete structures and the construction schedule was tight. We completed the project without incident to the extreme delight of the client. These condominiums feature panoramic views of the Hamarikyu Garden and the Tsukiji Fish Market on the west side, the Rainbow Bridge on the east, and the Kachidoki Bridge from the hallways. The buildings offer ideas for the further development of the Kachidoki area in the future.

Overseas Segment

< New order: July 2006 >

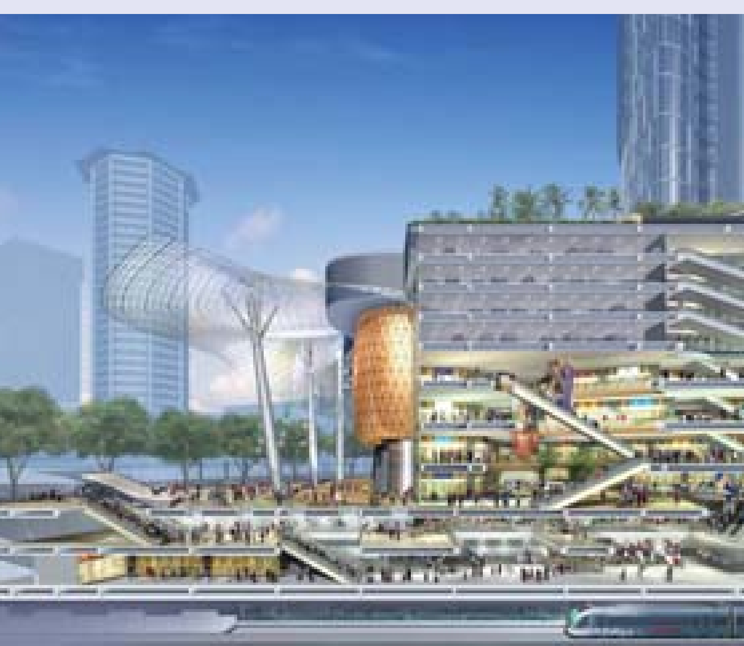
Seated at the ultimate prime site of Singapore's commercial and shopping artery, at the junction of Orchard Road and Paterson Road which marks the gateway to Orchard Road, the Orchard Turn Development will tower over it's neighbours at 218 m high. Dubbed as the 'Crown Jewel' of Orchard Road, the Orchard Turn scheme consists of two primary elements featuring a vibrant retail podium and an iconic high-rise tower.

At the heart of the scheme is an eight-level retail centre, with four levels above ground and four below. Much of the retail podium has active, double-height frontage along Orchard Road and Paterson Road providing ample opportunity for signature flagship stores from the world's leading retailers. Large media walls on the retail centre's façade front onto a new public square for the nation.

A public art gallery is integrated within the retail centre, symbolically and physically breaking down barriers between high culture and the public.

Adjacent to the podium is a 56 level residential tower crowned with a magnificent double-height public observation deck.

The entire building is built above the Orchard Road MRT (metro) stop, one of the country's busiest.



Orchard Turn Project / Singapore

Construction period: 38 months from July 2006 to August 2009

Client: Orchard Turn Developments Pte Ltd.

Basic design: RSP Architects Planners & Engineers Pte Ltd.

Structural design and construction: Penta-Ocean Construction Co., Ltd.

Construction summary:
- Land area: 21,700 m^2
- Total floor area: 190,000 m^2
- Construction: RC-structured, 4 basement levels, 56 stories above ground (218 meters at its highest point)
- Application: Residential and commercial building use

< On Going >

Keppel Marina Club / Singapore

Construction period: February 2006 to August 2008

Client: Keppel Bay Pte Ltd

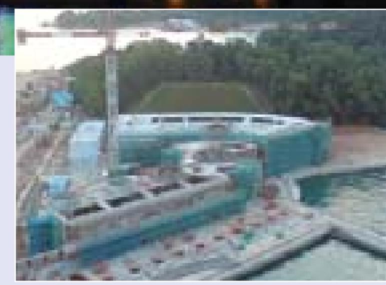
Design and administration:
- Architect: Alfred Wong Partnership Pte Ltd
- Civil & Structural: T Y Lin International Pte Ltd
- M&E: Beca Carter Holdings & Ferner (SE Asia) Pte Ltd
- QS: Davis Langdon & Seah Singapore Pte Ltd
- Landscape: CICADA Pte Ltd

Construction summary:
- Structure: reinforced concrete (building frame) and steel (roof) structure with one basement level and two floors aboveground
- Ground area: 9,383 m^2
- Total building floor space: 11,587 m^2
- Marine anchorage area: 43,989 m^2
- Breakwater area: 1,718 m^2

Keppel Marina Club is being constructed on Keppel Island and its environs, an area undergoing development across a channel from Sentosa Island, a well-known tourist attraction. The club is currently under construction in parallel with a cable-stayed bridge between Keppel Island and the main island, construction of which we had started in advance of the Keppel Marina Club construction.

The clubhouse and marina facilities for anchoring vessels are the main buildings being constructed in the project. The clubhouse will feature a composite-structure roof that consists of an aluminum dome and an envelope structure. The anchoring facilities in the marina will have capacity for 75 vessels, ranging in size from 40 to 200 feet.

The construction site is located next to a terminal for large passenger vessels. Once the cable-stayed bridge and entire Keppel Marina Club are completed, the large passenger boats, the bridge with its ship's mast design, yachts of diverse sizes, and cruisers and other vessels will produce a new scene in Singapore.



VivoCity / Singapore

Construction period: January 2004 to October 2006

Client: Mapletree Investments Pte. Ltd.

Design and administration: DP Architects and Ito Toyo Architectural Design Office

Construction summary:
- Ground area: 89,140.6 m^2
- Total floor space: 286,850 m^2
- Use: A shopping mall, restaurants, entertainment facilities and parking lots
- Floor height: two basement and three above-ground levels (seven-story parking tower)
- Structure: reinforced concrete (post-tensioning)

VivoCity, Singapore's largest commercial and entertainment complex, was completed in early October 2006 in the HarbourFront area of the island nation, across the narrow strait from Sentosa Island. The complex features exquisite architectural designs and is the work of renowned Japanese architect Toyo Ito.

The design concept for VivoCity is "surfing." Elegant curves characterize all buildings in the complex. In particular, "surf roofs" undulate as they overlap each other, and gigantic, wave-like "feature walls" extending from the roofs and arranged on the north and east sides of the complex grab the attention of visitors.

We conducted repeated studies and trials to successfully embody the designer's aim of "expressing unrestrained curves with concrete." We succeeded in embodying this design concept with techniques that included the use of the fiber-reinforced mortar spraying method for the feature walls.

A subway station adjoins the complex on the north side. We also constructed the building for this station. Constructing such a large facility above an existing subway line was an enormous challenge.

Creation of a Man-made Tidal Flat in the Gulf of Kuwait

Red tide and fish deaths have reached epidemic proportions around the Gulf of Kuwait. Concerned parties led by the Kuwait Environment Public Authority are now undertaking activities to improve the marine environment in the region.

As part of the "model project for cooperation among oil-producing and gas-producing countries," a consortium including Penta-Ocean Construction built a sea-area monitoring system, and conducted demonstration experiments for environmental improvement using a man-made tidal flat.

The Japan External Trade Organization (JETRO) is undertaking this project, under contract for the Ministry of Economy, Trade and Industry, to transfer Japanese environmental technologies to Kuwait.

Penta-Ocean Construction formed a man-made tidal flat and installed monitoring buoys in the project, making practical use of the expertise in natural environment rehabilitation it has acquired over a number of years.

Branded Technologies

Shark Bit Method

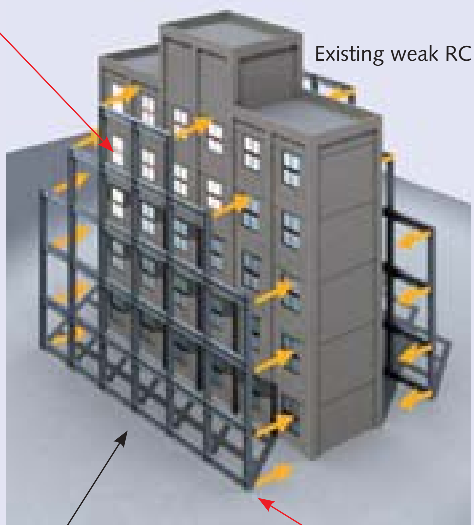
West Okayama Shield / Okayama

Construction period: March 2004 to March 2007

Client: Chugoku Regional Development Bureau of the Ministry of Land, Infrastructure and Transport

Construction summary: West Okayama Shield is a construction project to extend a multipurpose underground conduit by 830 meters, using a mud pressure shield with an external diameter of 4,530 millimeters. As a special condition, the project required construction work traversing such important structures as JR Sanyo Shinkansen Line and JR Sanyo Main Line immediately above.

For the first time, we adopted a number of new proprietary technologies such as the eco-screw system and the shark bit method in the mud pressure shield. The first attempt proved very challenging. Of special note is that we won the 3R Promotion Committee's Chairman's Award for the project. The Ministry of Land, Infrastructure and Transport also gave high marks to our new technologies. The Ministry sent a letter to the mayor of Okayama, expressing its appreciation for the contributions the project made to the technical training of its staff members.



PG (Portal Grid) Method

Miyata PG Renovation / Aichi

Construction period: June 2006 to April 2007

Client: Miyata Shoten Co., Ltd.

Design and administration: AXS Satow Inc. (design and structure) and Penta-Ocean Construction Co., Ltd. (structure)

Construction summary:
- Ground area: 678.68 m^2
- Building area: 582.14 m^2
- Total floor space: 3990.45 m^2

Earthquake-resisting reinforcement work on areas stated above, employing the PG method for front walls and carbon fiber for column reinforcement

The Fushimi Building we renovated is an office building that adjoins the Fushimi Subway Station and faces the Fushimi Boulevard. In view of the location, we were especially cautious to ensure that our construction did not block passers-by or present risks to them. We adopted the Portal Grid (PG) Method, our own patented earthquake-proof reinforcement method, in this project in consideration of the need to keep the scenery unobstructed, while also taking into account construction with occupants, the reliability of the construction method and the cost. The classy external appearance is receiving high marks from the client and tenants of the building. The project was the first in the Chubu region to use the PG method. During construction, we organized study tours of the building. With this work as construction experience, we plan vigorous sales activities to win orders for many more construction projects employing the PG method.

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.

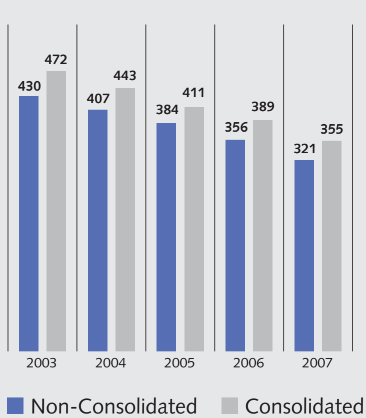
Consolidated net sales in Southeast Asia increased 26.2%, or ¥9,673 million, from the previous consolidated fiscal year, to ¥46,624 million, thanks to increased construction revenue in such major operating bases as Singapore, Hong Kong and Indonesia. The consolidated operating loss in Southeast Asia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

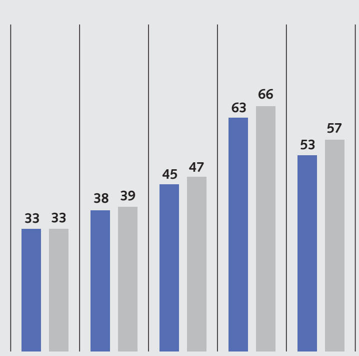
Financial Position

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.

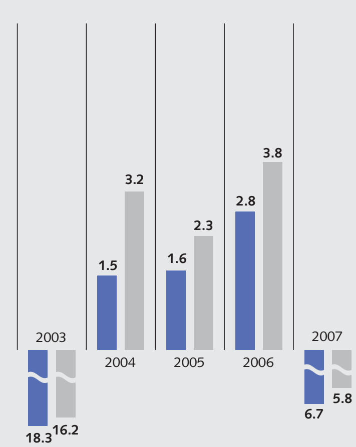
Total Assets
Billions of yen



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

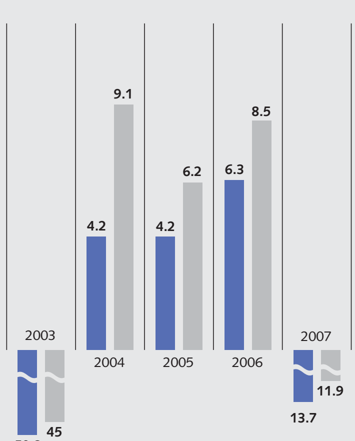
The Company adopts the basic policies of strengthening its management foundation in preparation for the future, and of paying stable, long-term dividends to its shareholders as affordable, in consideration of management conditions and results. The Company plans to use its internal reserves to invest 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.

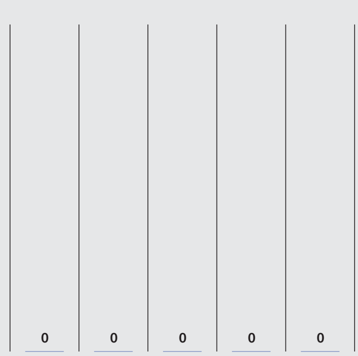
However, a pressure issue for the Company at present is to bolster its capital base. In the belief that prioritizing internal reserves would ultimately contribute to shareholders' interest, the Company decided to follow the practice in the previous fiscal year, and to pay no dividend for the term under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

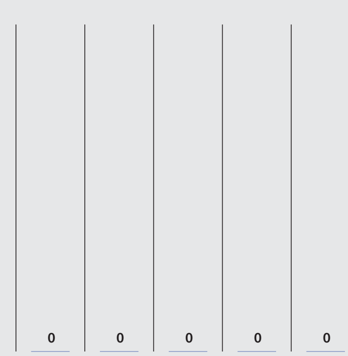
As a basic rule, the Company pays year-end dividends once each fiscal year. The general meeting of shareholders is the organization authorized to make dividend payment decisions at the Company.

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.

	Millions of Yen					
Year ended March 31, 2006	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

	Millions of Yen					
Year ended March 31, 2007	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

	Thousands of U.S. Dollars					
Year ended March 31, 2007	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

	Millions of Yen					
Year ended March 31, 2006	Japan	Southeast Asia	Other	Total	Elimination and/or addition	Consolidated
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

	Millions of Yen					
Year ended March 31, 2007	Japan	Southeast Asia	Other	Total	Elimination and/or addition	Consolidated
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**

	Thousands of U.S. Dollars					
Year ended March 31, 2007	Japan	Southeast Asia	Other	Total	Elimination and/or addition	Consolidated
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

	Millions of Yen		
Year ended March 31, 2006	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%

	Millions of Yen		
Year ended March 31, 2007	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%**

	Thousands of U.S. Dollars		
Year ended March 31, 2007	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

	Millions of Yen		
Transactions	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

Non-Consolidated Financial Statements

Non-Consolidated Five-year Summary

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

	Millions of Yen					Thousands of U.S. Dollars
	2003	2004	2005	2006	2007	2007
Orders received	¥265,605	¥298,079	¥326,909	¥276,497	**¥347,389**	**$2,942,728**
Civil engineering	140,578	151,789	197,567	135,405	**149,595**	**1,267,217**
Architectural engineering	118,852	140,086	126,542	139,057	**193,416**	**1,638,425**
Real estate and other	6,175	6,204	2,800	2,035	**4,378**	**37,086**
Net sales	347,176	297,389	317,359	318,960	**289,270**	**2,450,402**
Civil engineering	206,779	168,438	158,300	171,437	**152,937**	**1,295,527**
Architectural engineering	136,512	123,124	156,360	142,864	**134,636**	**1,140,500**
Real estate and other	3,884	5,827	2,699	4,659	**1,697**	**14,375**
Contract backlog	388,128	382,317	391,032	356,623	**420,384**	**3,561,067**
Civil engineering	259,832	237,238	275,937	246,554	**248,469**	**2,104,778**
Architectural engineering	125,851	142,257	112,172	109,771	**168,935**	**1,431,046**
Real estate and other	2,445	2,822	2,923	298	**2,980**	**25,243**
Total assets	430,632	407,119	384,089	356,148	**321,606**	**2,724,320**
Net assets	33,918	38,533	45,574	63,772	**53,574**	**453,824**
Ordinary income	1,478	6,640	7,649	9,585	**466**	**3,947**
Income (loss) before income taxes	(24,117)	5,587	7,811	7,786	**(13,503)**	**(114,384)**
Net income (loss)	(18,388)	1,548	1,616	2,855	**(6,744)**	**(57,128)**
Cash dividends	—	—	—	—	**—**	**—**
Per share of common stock:	Yen					U.S. Dollars
Net assets	¥93.86	¥106.64	¥115.33	¥129.77	**¥109.02**	**$0.92**
Net income (loss)	(50.88)	4.28	4.28	6.31	**(13.72)**	**(0.12)**
Cash dividends	—	—	—	—	—	—
Number of employees	3,121	3,043	2,965	2,880	**2,838**	

Notes:
1. Figures in U.S. dollars are converted for convenience only, at the rate of ¥118.05 per U.S. $1, prevailing on March 31, 2007.
2. 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 sum of the section on equity at March 31, 2007 under previous standards is ¥53,580 million.
3. 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.

Non-Consolidated Balance Sheets

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

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Current assets:			
Cash and deposits	¥ 58,064	¥ 41,157	$ 348,640
Securities	91	102	864
Trade receivables:			
Notes	6,207	6,964	58,992
Accounts	116,784	121,193	1,026,624
Subsidiaries and affiliates	4,308	4,546	38,509
Inventories:			
Cost of uncompleted contracts	29,436	26,577	225,133
Real estate for trade and real estate in progress	35,183	17,556	148,717
Raw materials and supplies	537	569	4,820
Deferred tax assets	5,518	9,406	79,678
Other current assets	4,303	2,897	24,541
Allowance for doubtful accounts	(838)	(905)	(7,666)
Total current assets	259,593	230,062	1,948,852
Investments and non-current assets:			
Investments in and loans to subsidiaries and affiliates	2,808	2,139	18,119
Investment in securities	28,784	21,639	183,304
Long-term accounts receivable	4,290	3,464	29,343
Sundry investments	13,072	12,949	109,691
Deferred tax assets	1,029	6,916	58,585
Allowance for doubtful accounts	(5,637)	(5,621)	(47,615)
Total investments and non-current assets	44,346	41,486	351,427
Property, plant and equipment:			
Land	34,065	33,242	281,593
Buildings and structures	31,507	30,034	254,418
Machinery, equipment and vehicles	13,631	13,335	112,961
Dredgers and vessels	24,679	26,004	220,279
Construction in progress	84	35	296
Other property, plant and equipment	788	—	—
Total property, plant and equipment	104,754	102,650	869,547
Less accumulated depreciation	(53,018)	(53,098)	(449,793)
Property, plant and equipment — net	51,736	49,552	419,754
Other assets	473	506	4,287
Total assets	¥356,148	¥321,606	$2,724,320

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Current liabilities:			
Short-term debt			
Bank	¥ 39,782	¥ 30,112	$ 255,078
Current portion of long-term debt	37,614	30,414	257,637
Trade payable:			
Notes	25,159	26,921	228,047
Accounts	73,360	74,235	628,844
Subsidiaries and affiliates	8,397	5,664	47,980
Advance on contracts in progress	27,645	32,710	277,086
Deposits received	10,897	9,203	77,958
Accrued income taxes	616	426	3,609
Accrued expenses	2,019	1,948	16,501
Allowance for losses on construction works	383	836	7,082
Other current liabilities	2,239	2,303	19,509
Total current liabilities	228,111	214,772	1,819,331
Long-term liabilities:			
Long-term debt	46,449	39,288	332,808
Reserve for retirement benefits	6,516	6,305	53,409
Reserve for directors'and statutory auditors' retirement pay	207	167	1,415
Deferred tax liabilities for land revaluation excess	7,274	7,259	61,491
Other long-term liabilities	3,819	241	2,042
Total long-term liabilities	64,265	53,260	451,165
Total liabilities	292,376	268,032	2,270,496
Net assets:			
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			
Capital surplus reserve	10,000	10,000	84,710
Other capital surplus	10,106	10,106	85,608
Total capital surplus	20,106	20,106	170,318
Earned surplus			
General reserve	4,000	4,000	33,884
Earned surplus brought forward	3,009	(3,714)	(31,461)
Total earned surplus	7,009	286	2,423
Land revaluation excess — net	879	857	7,259
Unrealized valuation gain on other securities — net	7,721	4,276	36,221
Deferred gain (loss) on hedges	—	(6)	(51)
Less: Treasury stock	(13)	(15)	(127)
Total net assets	63,772	53,574	453,824
Total liabilities and net assets	¥356,148	¥321,606	$2,724,320

Non-Consolidated Statements of Operations

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

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Construction business:			
Net sales	¥314,301	¥287,573	$2,436,027
Cost of sales	283,403	266,943	2,261,271
Gross profit	30,898	20,630	174,756
Real estate development and other:			
Net sales	4,659	1,697	14,375
Cost of sales	4,804	1,712	14,502
Gross profit (loss)	(145)	(15)	(127)
Total net sales	318,960	289,270	2,450,402
Total cost of sales	288,207	268,655	2,275,773
Total gross profit	30,753	20,615	174,629
Selling, general and administrative expenses	18,155	17,321	146,726
Operating income	12,598	3,294	27,903
Other income:			
Interest and dividends	742	533	4,515
Interest and dividends from subsidiaries and affiliates	89	83	703
Other	413	456	3,863
	1,244	1,072	9,081
Other expenses:			
Interest	3,380	2,831	23,982
Other	877	1,069	9,055
	4,257	3,900	33,037
Ordinary income	9,585	466	3,947
Extraordinary gain	349	5,765	48,835
Extraordinary loss	2,148	19,734	167,166
Income (loss) before income taxes	7,786	(13,503)	(114,384)
Income taxes			
Current	589	490	4,150
Income taxes deferred	4,342	(7,249)	(61,406)
	4,931	(6,759)	(57,256)
Net income (loss)	¥ 2,855	¥ (6,744)	$ (57,128)

	Yen		U.S. Dollars
Net income (loss) per share of common stock			
Primary	¥6.31	¥(13.72)	$(0.12)
Assuming full dilution	—	—	—

Company Data
(As of June 28, 2007)

Company Outline

Company Name	Penta-Ocean Construction Co., Ltd.
Established	April 1896
Head Office	2-8, Koraku 2-chome, Bunkyo-ku, Tokyo 112-8576, Japan
	Telephone: 81-3-3817-7181
	Facsimile: 81-3-3817-7642
Paid-in Capital	¥28,070 million (US$237.8 million)
No. of Employees	2,838 (As of March 31, 2007)
Website	www.penta-ocean.co.jp

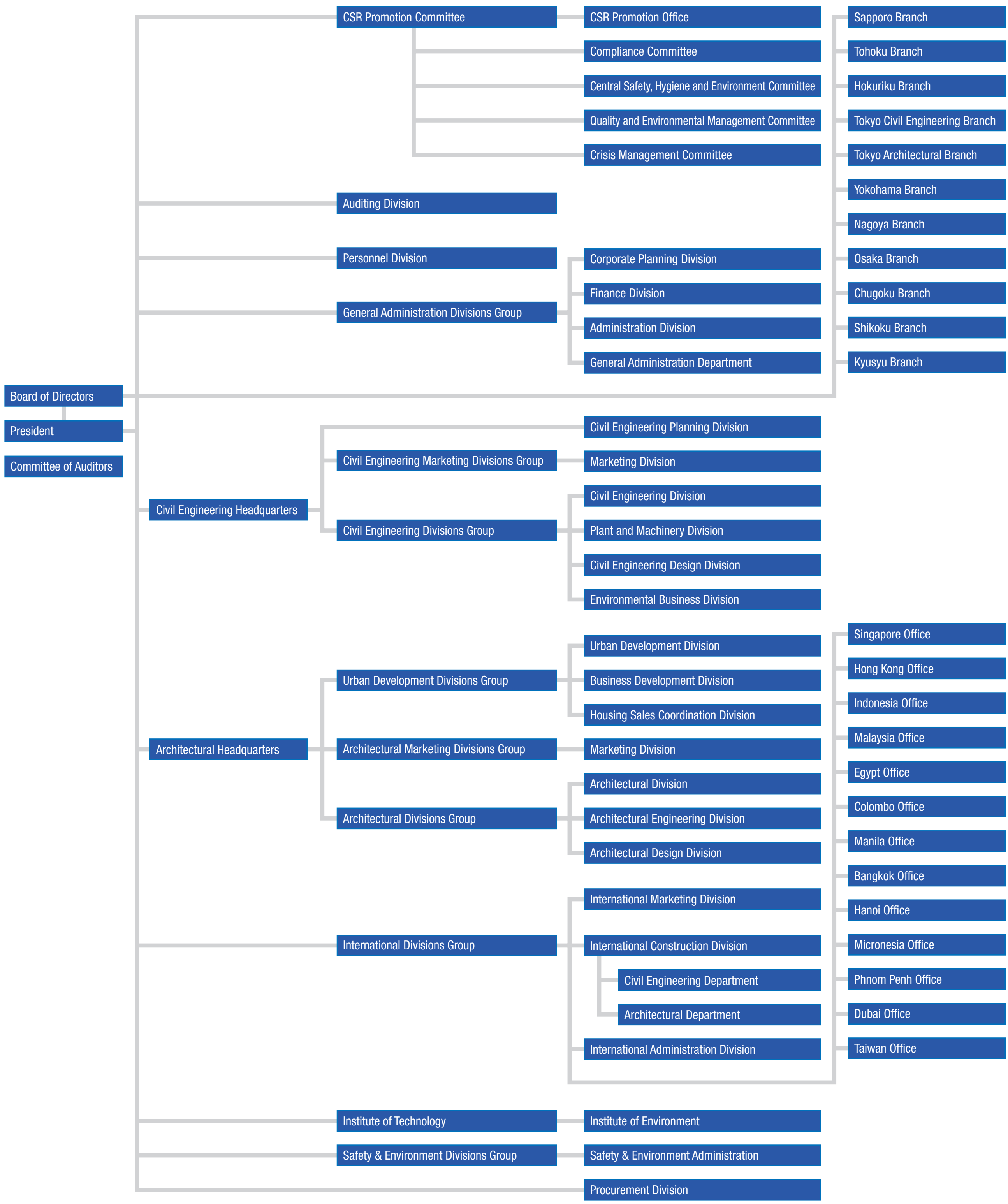
Board of Directors and Auditors

President	Yoshio Murashige*
Directors	Kazuyuki Kawakami*
	Hayuru Tsuda*
	Junichi Kamise
	Kosuke Kondo
	Yoshihisa Takimoto
	Masafumi Saito
	Yoshihisa Tomoda
Corporate Auditors	Hirosuke Kawamoto
	Kaoru Kurokawa
	Keiji Yokoooji
	Takaaki Komatsu

*Representative Director
(As of June 28, 2007)

Organization Chart

(As of April 1, 2007)



Penta-Ocean Construction Group

Consolidated Subsidiaries

Penta-Ocean Dredging Co., Ltd.	Koto-ku, Tokyo, Japan
Yoshin Construction Co., Ltd.	Hiroshima, Japan
Penta Builders Corporation	Shinjuku-ku, Tokyo, Japan
Kyushu Yoshin Construction Co., Ltd.	Fukuoka, Japan
Obama Marine Co., Ltd.	Unzen, Nagasaki, Japan
Penta Techno Service Co., Ltd.	Nasushiobara, Tochigi, Japan
Kegoya Dock Co., Ltd.	Kure, Hiroshima, Japan
Sand Techno Co., Ltd.	Ichikawa, Chiba, Japan
Nagasaki Sogo Kanri Co., Ltd.	Nishisonogi, Nagasaki, Japan
Domi Environmental Solutions	Bunkyo-ku, Tokyo, Japan
Penta-Ocean Construction (Malaysia) SDN. BHD.	Malaysia
Siam Goyo Co., Ltd.	Thailand
Thai Penta-Ocean Co., Ltd.	Thailand
Modern Mind Co., Ltd.	Hong Kong
Nicosia Co., Ltd.	Hong Kong
Brichwood Co., Ltd.	Hong Kong
Penta-Ocean Dredging Panama Inc.	Panama
Penta-Ocean Construction (Hong Kong) Ltd.	Hong Kong
Belleza Del Mar Transport Inc.	Panama
Viento Del Mar Transport Inc.	Panama
Reina Del Mar Transport Inc.	Panama
Sol Del Mar Transport Inc.	Panama
Cosmo Transport Panama Inc.	Panama
Gloria Transport Inc.	Panama
Angkutlaut Ltd.	Malaysia
Penta-Ocean Technology Information Advisory (Shenzhen) Ltd.	China

Consolidated Affiliates

Keisoku Joho System Co., Ltd.	Chuo-ku, Tokyo, Japan
Jiwat Co., Ltd.	Sendai, Miyagi, Japan
Haneda Airport International Airline Apron PFI	Shinjuku-ku, Tokyo, Japan

Penta-Ocean Construction Network

❶ **Head Office**
2-8 Koraku 2-chome, Bunkyo-ku
Tokyo 112-8576, Japan
Telephone: 81-3-3817-7181
Facsimile: 81-3-3817-7642

❷ **Singapore Office**
1 Kim Seng Promenade, #13-01/02
Great World City, East Tower
Singapore 237994
Telephone: 65-6338-8966
Facsimile: 65-6337-0987

❸ **Hong Kong Office**
Unit 601, K Wah Center
191 Java Road, North Point
Hong Kong
Telephone: 852-2833-1098
Facsimile: 852-2572-4080

❹ **Indonesia Office**
Mid Plaza II, 15th Floor, JL.
Jenderal Sudirman Kav.
10-11 Jakarta 10220, Indonesia
Telephone: 62-21-570-5484
Facsimile: 62-21-570-5485

❺ **Malaysia Office**
508 5th Floor, Block A, Kelana
Business Centre 97, Jalan SS 7/2
Kelana Jaya, 47301 Petaling Jaya
Selangor Darul Ehsan, Malaysia
Telephone: 60-3-7492-2208
Facsimile: 60-3-7492-2209

❻ **Egypt Office**
27 El Falah Street off Shehab
Street, Flat No. 5, 2nd Floor
Mohandeseen, Giza, Egypt
Telephone: 20-2-3345-3207
Facsimile: 20-2-3345-3206

❼ **Colombo Office**
Gate No. 4, Kochikade
Port Premises
Port of Colombo
Colombo 13, Sri Lanka
Telephone: 94-112-449-978
Facsimile: 94-112-449-979

❽ **Manila Office**
Unit A1, 2nd Floor
Almeda Arcade 1014
Pasay Road, Makati City
Philippines
Telephone: 63-2-752-8997
Facsimile: 63-2-752-8996

❾ **Bangkok Office**
11th Floor, Room 1106,
Vanit II Bldg. 1126/2
New Petchburi Road
Makkasan Rajthevee
Bangkok 10400, Thailand
Telephone: 66-2-655-2183
Facsimile: 66-2-655-2185

❿ **Hanoi Office**
2nd Floor, 18 Tran Hung
Dao Street, Hanoi, Vietnam
Telephone: 84-4-824-1360
Facsimile: 84-4-824-1444

⓫ **Phnom Penh Office**
Phnom Penh III No. F20
France Street, Norodom Road
Borei Chamkamorn
Khan Chamkamorn, Phnom Penh
Cambodia
Telephone: 855-23-3-60463
Facsimile: 855-23-3-60462

⓬ **Dubai Office**
P.O. Box 118791
#612, AlKhaleej Centre
bur Dubai, Dubai, U.A.E.
Telephone: 971-(0)4-359-8677
Facsimile: 971-(0)4-359-8678

Investor Information

(As of March 31, 2007)

Head Office
Penta-Ocean Construction Co., Ltd.
2-8, Koraku 2-chome, Bunkyo-ku, Tokyo 112-8576, Japan
Telephone: 81-3-3817-7181
Facsimile: 81-3-3817-7642

Established
April 1896

Financial Year
April 1 to March 31

Common Stock
Authorized: 599,135,000
Issued: 491,527,820

Stock Listing
Tokyo, Nagoya and Osaka Stock Exchanges, First Section

Shareholders
48,994

Transfer Agency
Mizuho Trust & Banking Co., Ltd.
2-1, Yaesu 1-chome, Chuo-ku, Tokyo 103-8670, Japan

Major Shareholders

Shareholders	Shares held (thousands)	Voting right ratio (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	22,113	4.50
Mizuho Corporate Bank, Ltd.	14,119	2.87
Meiji Yasuda Life Insurance Co.	13,312	2.71
Sompo Japan Insurance Inc.	12,226	2.49
Bank of New York GCM Client Accounts EISG	11,851	2.41
Trust & Custody Services Bank, Ltd. (Trust Account B)	11,145	2.27
The Master Trust Bank of Japan (Trust Account)	10,163	2.07
Tokyo Marine & Nichido Fire Insurance Co., Ltd.	7,869	1.60
Japan Trustee Services Bank, Ltd. (Trust Account)	7,573	1.54
HSBC Bank PLC-Clients Nontax Treaty	7,400	1.51

PENTA-OCEAN CONSTRUCTION CO.,LTD.
五洋建設

www.penta-ocean.co.jp

Printed in Japan