

Non-Consolidated Financial Highlights

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

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1999	2000	2000
Orders received	¥470,010	¥404,259	\$3,808,375
Net sales	508,925	434,811	4,096,194
Contract backlog	527,702	487,252	4,590,221
Total assets	503,272	474,959	4,474,414
Shareholders' equity	44,606	51,634	486,425
Ordinary income	3,173	11,305	106,501
Income (Loss) before income taxes	(40,796)	(23,321)	(219,699)
Net income (loss)	(41,341)	(15,024)	(141,536)
Cash dividends	—	904	8,516
	Yen		U.S. Dollars
Per share of common stock:			
Shareholders' equity	¥123	¥143	\$1.35
Net income (loss)	(114.22)	(41.57)	(0.39)
Cash dividends	—	2.50	0.02

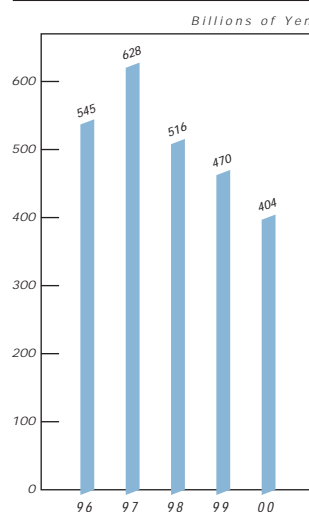
Note: Figures stated in U.S. dollars are converted for convenience only, at the rate of ¥106.15 per US\$1, prevailing on March 31, 2000.

Non-Consolidated Five-Year Summary

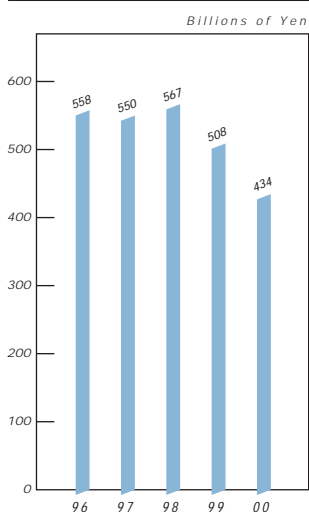
Penta-Ocean Construction Co., Ltd.
Years ended March 31

	Millions of Yen				
	1996	1997	1998	1999	2000
Orders received	¥545,085	¥628,185	¥516,020	¥470,010	¥404,259
Civil engineering	340,081	385,429	265,688	319,246	249,349
Architectural engineering	199,029	240,417	246,738	147,257	144,055
Real estate and others	5,975	2,339	3,594	3,507	10,855
Net sales	558,319	550,695	567,176	508,925	434,811
Civil engineering	333,199	335,046	319,165	280,180	270,443
Architectural engineering	216,882	212,551	244,604	225,525	153,288
Real estate and others	8,238	3,098	3,407	3,220	11,080
Contract backlog	550,976	634,771	571,317	527,702	487,252
Civil engineering	304,509	360,075	295,832	330,850	302,537
Architectural engineering	245,694	274,683	275,285	196,364	184,453
Real estate and others	773	13	200	488	262
Total assets	602,507	533,785	583,978	503,272	474,959
Shareholders' equity	84,190	88,616	88,978	44,606	51,634
Ordinary income	14,377	12,517	11,683	3,173	11,305
Income (Loss) before income taxes	12,785	13,231	9,478	(40,796)	(23,321)
Net income (loss)	4,315	3,807	3,209	(41,341)	(15,024)
Cash dividends	3,032	2,717	2,717	—	904
	Yen				
Per share of common stock:					
Shareholders' equity	¥ 236	¥ 245	¥ 246	¥ 123	¥ 143
Net income (loss)	12.19	10.56	8.86	(114.22)	(41.57)
Cash dividends	8.50	7.50	7.50	0.00	2.50
Number of employees	5,116	5,080	4,671	3,937	3,774

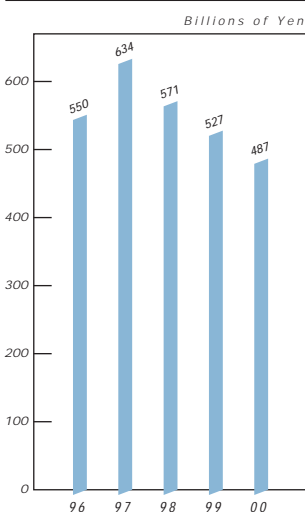
Orders Received



Net Sales



Contract Backlog



Non-Consolidated Balance Sheets

March 31, 1999 and 2000

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1999	2000	2000
Current assets:			
Cash and time deposits	¥ 40,875	¥ 30,521	\$ 287,527
Marketable securities (Notes 2(3), 3 and 4)	15,360	14,864	140,028
Trade receivables:			
Note	26,560	14,847	139,868
Account	169,033	150,433	1,417,174
Subsidiaries and affiliates	11,465	13,612	128,234
Allowance for doubtful receivables (Note 2(5))	(2,086)	(4,060)	(38,248)
Inventories: (Note 2(6))			
Cost of uncompleted contracts	63,675	58,458	550,711
Real estate for trade and real estate in progress	44,005	32,138	302,760
Raw materials and supplies	2,951	1,726	16,260
Deferred tax assets (Note 2(10) and 14)	—	16,767	157,956
Other current assets	4,387	6,761	63,693
Total current assets	376,225	336,067	3,165,963
Investments and non-current assets:			
Investments in and loans to subsidiaries and affiliates (Note 2(4))	10,074	23,130	217,899
Investment in securities (Notes 2(3), 3 and 4)	16,137	15,769	148,554
Long-term receivables	10,614	2,860	26,943
Sundry investments	22,253	20,498	193,104
Allowance for doubtful receivables (Note 2(5))	(7,999)	(9,238)	(87,028)
Deferred tax assets (Notes 2(10) and 14)	—	9,424	88,780
Total investments and non-current assets	51,079	62,443	588,252
Property and equipment (Note 2 (7)):			
Land	41,480	47,292	445,521
Buildings and structures	38,074	37,646	354,649
Machinery, equipment and vehicles	16,167	16,319	153,735
Dredgers and vessels	28,823	27,875	262,600
Construction in progress	1,126	152	1,432
Total property and equipment	125,670	129,284	1,217,937
Less accumulated depreciation	(52,710)	(53,741)	(506,274)
Property and equipment – net	72,960	75,543	711,663
Other assets (Note 2 (8))	3,008	906	8,536
Total assets	¥503,272	¥474,959	\$4,474,414

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1999	2000	2000
Current liabilities:			
Bank loans (Note 5)	¥129,568	¥127,726	\$1,203,260
Commercial paper	5,000	3,000	28,262
Current portion of long-term debt (Note 5)	15,861	22,306	210,137
Trade payables:			
Note	45,686	38,429	362,025
Account	103,138	91,370	860,763
Subsidiaries and affiliates	3,676	4,616	43,486
Advance on contracts in progress	63,111	46,959	442,383
Deposit received	11,252	8,790	82,807
Accrued taxes on income	423	211	1,988
Accrued expenses	10,960	8,123	76,524
Other current liabilities	3,891	3,064	28,865
Total current liabilities	392,566	354,594	3,340,500
Long-term debt (Note 5)	60,284	56,983	536,816
Accrued directors' and statutory auditors' and employees' severance indemnities (Note 2(11) and 2(12))	4,200	6,848	64,512
Deferred tax liabilities for land revaluation (Note 2(10) and 18)	—	3,358	31,634
Other long-term liabilities	1,616	1,542	14,527
Total long-term liabilities	66,100	68,731	647,489
Shareholders' equity:			
Common stock, ¥50 par value			
Authorized – 599,135,000 shares			
Issued – 361,407,443 shares at March 31, 1999	33,971	—	—
Issued – 361,407,443 shares at March 31, 2000	—	33,971	320,028
Additional paid-in capital (Note 16)	29,662	10,635	100,188
Land revaluation excess (Note 18)	—	4,628	43,599
Legal reserve (Note 17)	5,197	—	—
Retained earnings (deficit):			
Appropriated for general reserve	14,049	—	—
Unappropriated	(38,273)	2,400	22,610
Total shareholders' equity	44,606	51,634	486,425
Total liabilities and shareholders' equity	¥503,272	¥474,959	\$4,474,414
Commitments and contingent liabilities (Note 13)			

See accompanying Notes to Non-Consolidated Financial Statements.

Non-Consolidated Statements of Income

For the years ended March 31, 1999 and 2000

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1999	2000	2000
Construction business:			
Net sales	¥505,705	¥423,732	\$3,991,823
Cost of sales	464,386	378,458	3,565,313
	41,319	45,274	426,510
Real estate and others (Note 11):			
Net sales	3,220	11,080	104,381
Cost of sales	3,351	10,776	101,517
	(131)	304	2,864
Total net sales	508,925	434,812	4,096,204
Total cost of sales	467,737	389,234	3,666,830
Total gross profit	41,188	45,578	429,374
Selling, general and administrative expenses	35,504	29,831	281,027
Operating income	5,684	15,747	148,347
Other income:			
Interest and dividends	1,099	739	6,962
Interest and dividends from subsidiaries and affiliates	100	168	1,583
Other (Note 6)	1,465	567	5,341
	2,664	1,474	13,886
Other expenses:			
Interest	4,210	4,930	46,443
Other (Note 7)	965	986	9,289
	5,175	5,916	55,732
Ordinary income	3,173	11,305	106,501
Extraordinary gain (Note 8)	493	465	4,380
Extraordinary loss (Note 9)	44,462	35,091	330,580
Income (loss) before income taxes	(40,796)	(23,321)	(219,699)
Income taxes (Notes 2 (10) and 14)			
Current	545	470	4,428
Tax effect adjustment	—	(8,767)	(82,591)
Net income (loss)	¥ (41,341)	¥ (15,024)	\$ (141,536)
Income (loss) per share of common stock (Note 2 (14))			
	Yen		U.S. Dollars (Note 1)
Primary	¥(114.22)	¥(41.57)	\$(0.39)
Assuming full dilution	—	—	—

See accompanying Notes to Non-Consolidated Financial Statements.

Non-Consolidated Statements of Shareholders' Equity

For the years ended March 31, 1999 and 2000

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1999	2000	2000
Common stock:			
Balance at the beginning of the period	¥ 33,971	¥ 33,971	\$ 320,028
Balance at the end of the period	¥ 33,971	¥ 33,971	\$ 320,028
Additional paid-in capital (Note 16):			
Balance at the beginning of the period	¥ 29,866	¥ 29,662	\$ 279,435
Cancellation of treasury stocks	(204)	—	—
Reversal for covering the deficit	—	(19,027)	(179,247)
Balance at the end of the period	¥ 29,662	¥ 10,635	\$ 100,188
Legal reserve (Note 17):			
Balance at the beginning of the period	¥ 4,907	¥ 5,197	\$ 48,959
Reversal for covering the deficit	290	(5,197)	(48,959)
Balance at the end of the period	¥ 5,197	¥ —	\$ —
Retained earnings:			
Appropriated for general reserve (Note 2(13))			
Balance at the beginning of the period	¥ 14,163	¥ 14,049	\$ 132,350
Transfer to unappropriated retained earnings	(114)	—	—
Reversal for covering the deficit	—	(14,049)	(132,350)
Balance at the end of the period	¥ 14,049	¥ —	\$ —
Land revaluation excess: (Note 18)			
Balance at the beginning of the period	¥ —	¥ —	\$ —
Land revaluation excess	—	4,628	43,599
Balance at the end of the period	¥ —	¥ 4,628	\$ 43,599
Unappropriated: (Note 2(13))			
Balance at the beginning of the period	¥ 6,071	¥(38,273)	\$(360,556)
Net income (loss)	(41,341)	(15,024)	(141,536)
Prior period tax effect adjustment	—	17,424	164,146
Cash dividends	(2,717)	—	—
Directors' and statutory auditors' bonuses	(110)	—	—
Transfer to legal reserve	(290)	—	—
Reversal of legal reserve for covering the deficit	—	5,197	48,959
Reversal of additional paid-in capital for covering the deficit ...	—	19,027	179,247
Appropriated retained earnings	114	14,049	132,350
Balance at the end of the period	¥(38,273)	¥ 2,400	\$ 22,610

See accompanying Notes to Non-Consolidated Financial Statements.

Notes to Non-Consolidated Financial Statements

(Information with respect to 1999 and 2000 is unaudited)

1. Basis of non-consolidated financial statements

These non-consolidated financial statements in English are based on the Company's accounts in Japanese. They have been prepared in accordance with **auditing standards, procedures and practices generally accepted and applied in Japan**. Except for the recording of unappropriated retained earnings, these financial statements have been reclassified from those submitted to the Director of Kanto Local Finance Bureau of Japan.

The figures in these financial statements are shown in U.S. dollars at the conversion rate of U.S.\$1=¥106.15, the exchange rate prevailing on March 31, 2000. This is solely for the convenience of the 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.

The accompanying Non-consolidated Financial Statements of the Company for the fiscal years ended March 31, 1999 and 2000 had been prepared in conformity with the accounting and reporting standards for annual financial statements which had been promulgated by the Business Accounting Deliberation Council, an Advisory Committee of the Japanese Minister of Finance, however the above standards and its related regulations were revised and enforced on/from April 1, 1999, as a result, both the accompanying non-consolidated financial statements in 1999 and 2000 were prepared according to the revised standards and regulations due to comparison for two years.

2. Summary of significant accounting policies*(1) Foreign currency conversion*

Transactions in foreign currencies are converted into yen at the exchange rate prevailing at the time of the transactions. Short-term receivables and payables denominated in foreign currencies are converted into yen at the exchange rate prevailing on the balance sheet date. The other items denominated in foreign currencies are converted into yen at the exchange rate prevailing at time when assets were acquired or liabilities were incurred. Exchange gains or losses, realized or unrealized, are included in current income.

(2) Recognition of contract revenue

The Company generally recognizes revenue upon the completed-contract method. However it uses the percentage of completion method to recognize revenue derived from large, long-term construction projects which meet a certain specified term. Advances received in excess of revenue incurred on long-term contracts are shown as a current liability. Unbilled costs are included in inventories.

(3) Securities

Securities included in current assets and investments are stated at cost determined by the moving average method except for those of a remarkable fall in market price.

(4) Investments in subsidiaries and affiliates

Investments in subsidiaries and affiliates are stated at cost determined by the moving average method.

(5) Allowance for doubtful receivables

The Company declared estimated amounts based on the ratio of actual bad debt to monetary credit balances and certain amounts for individual receivables which are considered uncollectable.

(6) Inventories

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

(7) Property and equipment

Property and equipment is stated at cost and its depreciation is calculated under the declining balance method using the estimated useful lives stipulated by Japanese tax regulations except buildings (except for equipment fixed inside buildings) which were acquired on/after April 1, 1998 and which are calculated under the straight-line method.

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

(8) Research and development costs, and Computer software

Research and development costs are charged to income as they are incurred. Computer software (¥745 million (U.S.\$7,018 thousand)) which has been purchased for internal use was reclassified from Sundry investments to Other assets in the current fiscal year, according to Accounting Standards for Research and Development Costs which was promulgated by Business Accounting Deliberation Council on March 13, 1998. The computer software is amortized as no scrap values by the straight-line method for five years based on the estimated useful lives of internal use.

(9) Accounting for finance lease

To transactions of finance lease other than these which the right of ownership to lease assets is recognized to belong to lessee, the same accounting method as that of operating is adopted.

(10) Income taxes

The Company declares corporation and other taxes for the current fiscal year on the basis of the 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 comprise of (a) corporation tax of 30.0 percent on taxable income, (b) enterprise tax of 9.6 percent on taxable income after a certain adjustment, and (c) prefectural and municipal taxes

averaging 20.4 percent on the amount of corporation tax after a certain adjustment. When paid, enterprise tax is deductible for income tax purposes. Tax-effect accounting was applied in the current year. As a result, deferred tax assets were recognized by ¥26,190 million (U.S.\$246,726 thousand), net loss decreased by ¥8,767 million (U.S.\$82,591 thousand), and appropriate retained earnings increase by ¥26,190 million (U.S.\$246,726 thousand) compared with those in the case where tax-effect accounting is not applied.

(11) Accrued employees' severance indemnities

The Company has a plan which is provided for lump-sum severance benefits to employees whose services with the Company are terminated. The amount to be paid is generally determined by reference to length of service and current basic salary at the time of termination or retirement. Previously the Company set aside the amount which is 40 percent of the amount which would be required to be paid, if all employees voluntarily terminated their service at the balance sheet date. The Company determined to change from 40 percent to 100 percent for the above calculation from March 31, 2000. This change was decided by the reason why the Company reexamined the plan of lump-sum retirement benefits based on investigations of the changes in an age structure, length of service with the Company or retirement circumstances and surroundings of employees who applied the extra retirement pay, together with foreseeing increase of liability of retirement severance benefits which will be required the large retirement pay in future, and the Company promotes further more sound financial position and presents periodic income or loss more fairly. Consequently, the current service costs were charged to income as a general and administrative expenses, cost of sales and cost of uncompleted contracts and those were ¥59 million (U.S.\$556 thousand), ¥74 million (U.S.\$697 thousand), and ¥11 million (U.S.\$104 thousand), the past service costs were charged to income as an extraordinary loss and it was ¥3,309 million (U.S.\$31,173 thousand).

The Company established retirement annuity funds with private life insurance companies and trust banks in the fiscal year ended March 31, 1992. These have been to cover 70 percent of the amount which would be required to be paid, if all employees voluntarily terminated their service at the balance sheet date. Japanese tax regulations require deduction of the amount contributed to the retirement annuity fund from the basic amount of the calculations

3. Marketable securities

Marketable securities current and non-current at March 31, 1999 and 2000 are summarized as follows:

which the regulations allow companies to reserve as accrued employees' severance indemnities referred to above.

Employees can require lump-sum severance benefits when they reach the retirement age of 60, and the amount to be paid is satisfied by 70 percent from the retirement annuity fund and 30 percent from the Company.

They can select a method to be paid as a pension only after fifteen years of service at the time of their retirement. When employees whose length of service with the Company is fifteen years or over, voluntarily terminate their service before retirement age, they are also entitled to receive pension payments which continue to be payable as a survivors' annuity upon death.

The total amount of pension assets was ¥7,235 million (U.S.\$68,158 thousand) as of March 31, 2000. Past service cost must be amortized for ten years, and such amounts charged to income as an expense were ¥1,919 million (U.S.\$18,078 thousand) for the fiscal year ended March 31, 2000.

(12) Accrued directors' and statutory auditors' retirement allowance

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

(13) Appropriations of retained earnings or deficit

Appropriations of retained earnings or deficits are reflected in the accompanying non-consolidated financial statements when approved by shareholders.

(14) Net income per share

Primary net income per share is calculated on the basis of the weighted average number for a period of outstanding common stocks from the beginning to the end of the fiscal period.

Assuming full dilution has not been presented with the results that convertible bonds and bonds with detachable warrant have not been issued as of the end of March 31, 2000.

(15) Derivative transactions

The Company enters into interest rate swap agreements and forward exchange contracts to hedge risks from fluctuations in interest rate and foreign exchange rate respectively.

Market value of current and non-current marketable securities against book value is listed below.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1999	2000	2000
Marketable securities:			
Listed stocks	¥13,675	¥14,103	\$132,859
Bonds and debentures	1,427	636	5,992
Total	¥15,102	¥14,739	\$138,851
Investments in marketable securities:			
Listed stocks	¥10,506	¥10,631	\$100,151
Other	30	120	1,130
Total	¥10,536	¥10,751	\$101,281

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1999	2000	2000
Market value of listed securities included in:			
Marketable securities	¥21,228	¥21,662	\$204,070
Investments in marketable securities	21,815	21,632	203,787
Total	¥43,043	¥43,294	\$407,857
Net unrealized gain	¥17,405	¥17,804	\$167,725

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1999	2000	2000
Not available for sale			
Current:			
Unlisted bond (within 1 year)	¥ 258	¥ 125	\$ 1,177
Non Current:			
Unlisted stocks	¥3,101	¥2,518	\$23,721
Privately placed internal bond	2,500	2,500	23,552

4. Pledged assets

The following assets were placed instead of guaranty money relating to fulfillment of construction contracts at March 31, 1999 and 2000.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1999	2000	2000
Marketable securities	¥438	¥359	\$3,382
Investment in securities	311	265	2,496
Total	¥749	¥624	\$5,878

5. Loans and long-term debt

Short-term bank loans as of March 31, 1999 and 2000 are represented primarily in the form of overdraft facility notes bearing annual interest rates ranging from 0.595 percent to 1.875 percent for the two fiscal

years ended March 31, 1999 and 2000. Long-term debt as of March 31, 1999 and 2000 is summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1999	2000	2000
Long-term loans from banks and insurance companies maturing in 2010 (bearing annual interest rates ranging from 1.380 percent to 3.500 percent)	¥76,145	¥79,289	\$746,953
Less: current portion of long-term debt	(15,861)	(22,306)	(210,137)
Total	¥60,284	¥56,983	\$536,816

The aggregate annual maturing amounts of long-term loans after March 31, 2000 are as follows:

Years ending March 31,	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1999	2000	2000
2001	¥22,306		\$210,137
2002	19,568		184,343
2003	13,485		127,037
2004	7,684		72,388
2005 and after that	16,246		153,048
Total	¥79,289		\$746,953

6. Other income

The composition of "other income-others" for the two years ended March 31, 1999 and 2000 is as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1999	2000	2000
Rent received from real estate	¥ 299	¥261	\$2,459
Gain on sale of marketable securities	736	11	104
Others	430	295	2,778
Total	¥1,465	¥567	\$5,341

7. Other expenses

The composition of "other expenses-others" for the two years ended March 31, 1999 and 2000 is as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1999	2000	2000
Foreign exchange loss	¥586	¥778	\$7,329
Others	379	208	1,960
Total	¥965	¥986	\$9,289

8. Extraordinary gain

The composition of "Extraordinary gain" for the two years ended March 31, 1999 and 2000 is as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1999	2000	2000
Gain on sale of marketable securities	¥217	¥ 16	\$ 151
Gain on sale of fixed assets	13	13	122
Prior period adjustments	232	424	3,994
Others	31	12	113
Total	¥493	¥465	\$4,380

9. Extraordinary loss

The composition of "Extraordinary loss" for the two years ended March 31, 1999 and 2000 is as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1999	2000	2000
Loss from sale of fixed assets	¥ 59	¥ 380	\$ 3,580
Loss from disposition of fixed assets	93	410	3,862
Extra pay for voluntary retirement	5,857	199	1,875
Loss from disposition of plants to collect and convey earth and sand	5	—	—
Bad debt written off	2,517	—	—
Provision for bad debt	7,150	3,020	28,450
Loss from sale of real estate	4,745	—	—
Loss on revaluation of real estate for trade	11,059	18,469	173,990
Loss on liquidation of affiliated companies	7,050	3,471	32,699
Loss from sale of securities	284	—	—
Loss on securities revaluation	2,224	154	1,451
Loss resulting from cancellation of interest rate swap agreements	—	3,441	32,416
Loss resulting from recognizing the shortage of past service costs by the change in accounting	—	3,309	31,173
Others	3,419	2,238	21,084
Total	¥44,462	¥35,091	\$330,580

10. The summary of finance lease transactions

The Company has entered into contracts of finance lease transactions. The summary of those is as follows:

(1) Fair value of properties leased by the Company, accumulated depreciation and present value of them are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1999	2000	2000
Machinery	¥ 341	¥ —	\$ —
Equipment	1,442	620	5,841
Vehicles	439	259	2,440
Buildings	22	21	197
	2,244	900	8,478
Accumulated depreciation	(1,661)	(555)	(5,228)
Present value	¥ 583	¥345	\$3,250

Depreciation is calculated under the straight-line method for lease periods and the scrap value is zero.

(2) The future lease payments in the fiscal years ended March 31, 1999 and 2000 are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1999	2000	2000
Within less than one year	¥224	¥188	\$1,771
Later years	373	170	1,602
Total	¥597	¥358	\$3,373

(3) The difference between the aggregate payment amounts of lease properties and the acquisition fair value of them is regarded as an interest to be paid and it is allocated to each of the accounting periods

through the lease period of initial contracts by the interest-method and its summary is as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1999	2000	2000
Lease payment	¥436	¥242	\$2,280
Depreciation	400	225	2,120
Interest expense	21	14	132

11. Rental fee-received, sales on real estate and others

The summary of rental fee-received on operating leases and of sales on real estate and others are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1999	2000	2000
Land	¥2,178	¥10,009	\$ 94,291
Rental	1,034	1,024	9,647
The others	8	47	443
Total	¥3,220	¥11,080	\$104,381

12. Derivative transactions

The Company has entered into interest rate swap agreements to hedge risk incurring from fluctuating of interest rate.

At March 31, 2000

	Millions of Yen			Thousands of U.S. Dollars (Note 1)		
	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)
Non-market transactions						
Interest rate swap						
Floating rate receipt, fixed rate payment	¥ 95,000	¥ (48)	¥ (48)	\$ 894,960	\$ (452)	\$ (452)
Floating rate payment, fixed rate receipt	50,000	2,533	2,533	471,032	23,863	23,863
Fixed rate payment, floating rate receipt	96,000	(6,770)	(6,770)	904,380	(63,778)	(63,778)
Total	¥241,000	¥(4,285)	¥(4,285)	\$2,270,372	\$(40,367)	\$(40,367)

Fair value is based on the price offered by the banks concluding the derivative agreements.

Derivative transactions information of the Company of March 31, 2000

was omitted according to the revised standards and regulation. Consolidated derivative transactions information of March 31, 2000 are presented on Notes of Consolidated Financial statements.

13. Commitments and contingent liabilities

As of March 31, 1999 and 2000, commitments for the purchase of machinery and equipment and other assets are ¥872 million (U.S.\$8,215 thousand) and ¥75 million (U.S.\$707 thousand) respectively.

As of March 31, 1999 and 2000 the Company is contingently liable for

the borrowings of its subsidiaries, affiliates and others amounting to ¥37,671 million (U.S.\$354,885 thousand) and ¥24,862 million (U.S.\$234,216 thousand), respectively.

14. Income taxes

Deferred tax assets and deferred tax liabilities result from time differences between financial reporting purpose and tax reporting purposes

and those are summarized as follows:

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
Deferred tax assets		
Deficit incurred on tax return	¥ 9,685	\$ 91,239
Loss on revaluation real estate for trade	8,576	80,791
Loss on liquidation of affiliated companies	2,039	19,209
Excess allowance for doubtful receivables	1,749	16,477
Excess accrued employees' severance indemnities	1,622	15,280
Others	2,612	24,606
Total: deferred tax assets	<u>¥26,283</u>	<u>\$247,602</u>
Deferred tax liabilities		
Others	¥ (92)	\$ (866)
Total: deferred tax liabilities	<u>¥ (92)</u>	<u>\$ (866)</u>
Net: deferred tax assets	<u>¥26,191</u>	<u>\$246,736</u>

15. Consumption tax

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

from transferances (including services) and purchases stated in the statement of income.

16. Additional paid-in capital

It was provided in the articles of incorporation by the resolution of the Shareholders' meeting held at June 26, 1998 that the Company could repurchase treasury stocks within the limit of 18,000,000 shares and ¥5,400 million on behalf of cancellation of stocks by additional paid-in capital and the Board of Directors meeting held immediately after that decided to repurchase 1,000,000 shares of the number of above stocks

according to Article 3 of the Law Concerning Special Measures under the commercial code with respect to procedures of cancellation of stocks as to the procedure of the cancellation of stocks enforced in 1997.

The Company repurchased 865,000 shares of par value common stock at a total amount of ¥204 million (U.S.\$1,922 thousand) and cancelled all of them by the resolution of the Board of Directors' meeting.

17. Legal reserve

The Japanese Commercial Code provides that an amount equivalent to at least 10 percent of cash dividends and directors' bonus paid in each fiscal period will be appropriated as a legal reserve until such reserve reaches 25 percent of stated capital. This reserve is not available for

dividend payments, but it may be used to reduce deficits by a resolution of the shareholders' meeting or transferred to capital by a resolution of the Board of Directors.

18. Land revaluation excess

The Company revalued the land of ownership used for its own business purposes based on the value appraised by an appraiser who is regulated by Article 2 No. 4 and 5 of an Enforcement Ordinance No. 119 of the Law concerning Land Revaluation promulgated on March 31, 1999.

As its result the revaluation excess was recognized and taxes to be levied to its excess in future was declared as a deferred tax liability and net excess having deducted the above taxes was presented in shareholders' equities as a Land Revaluation Excess.

The day of the revaluation: On March 31, 2000

Book value	¥39,305 million (U.S.\$370,278 thousand)
Appraisal value	¥47,292 million (U.S.\$445,520 thousand)

The Board of Directors

Penta-Ocean Construction Co., Ltd.

We have audited the non-consolidated balance sheets of Penta-Ocean Construction Co., Ltd. as of March 31, 1999 and 2000 and the related non-consolidated statements of income and shareholders' equity for the two years ended March 31, 1999 and 2000, all stated 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, procedures and practices generally accepted and applied 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 includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentations.

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of Penta-Ocean Construction Co., Ltd. as of March 31, 1999 and 2000, and the results of their operations and their shareholders' equity for the two years then ended in conformity with accounting principles and practices in Japan generally accepted and applied on a consistent basis excepting the following affair.

As described in Summary of significant accounting policies Note 2(11), Previously the Company had reserved for lump-sum severance benefits of 40 percent of the amount which would be required to be paid if all employees voluntarily terminated their service at the balance sheet date, but the Company determined to change from the above method to the method which provided 100 percent of the above benefits from the current year.

This change was decided by the reason why the Company reexamined the plan of lump-sum retirement benefits based on investigations of the changes in an age structure, length of service with the Company or retirement circumstances and surroundings of employees who applied the extra retirement pay, together with foreseeing increase of liability of retirement severance benefits which will be required the large retirement pay in future, and the Company promotes further more sound financial position and presents periodic income or loss more fairly. We accepted it as the change under rational reason.

The current service costs were charged to income as general and administrative expenses and cost of sales and those were ¥59million (U.S.\$556 thousand) and ¥74million (U.S.\$697 thousand) respectively. The past service costs were charged ¥3,309million (U.S.\$31,173 thousand) to income as an extraordinary loss. As the result of this change, operating income and ordinary income decreased by ¥134million (U.S.\$1,262 thousand), and loss before income taxes increase by ¥3,444million (U.S.\$32,445 thousand) compare with the previous accounting measures.

The accompanying non-consolidated financial statements expressed in United States dollar have been translated into dollar solely for convenience of the reader. We have reviewed the translation and, in our opinion, the non-consolidated financial statements expressed in yen have been translated into dollar on the basis described in Note 1 to the non-consolidated financial statements.

Tokyo, Japan

June 29, 2000

Century Ota Showa & Co.

CENTURY OTA SHOWA & CO.

See notes to the non-consolidated financial statements which explains the basis of preparing the non-consolidated financial statements of Penta-Ocean Construction Co., Ltd. under Japanese accounting principles and practices.