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 have been prepared in accordance with accounting principles and practices generally accepted and applied in Japan and regulations under the Securities and Exchange Law in Japan, which may differ in some material respects from the accounting principles and practices generally accepted in the countries and jurisdictions other than Japan and the notes to them include information which is not required under the accounting principles and practices generally accepted in Japan, but is presented herein as additional information and certain items presented therein have been reclassified and adjusted for readers outside 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=¥133.25, the exchange rate prevailing on March 31,2002. This is solely for the convenience of readers outside Japan and does not mean that assets and liabilities originating in yen can be converted into or settled in dollars at the above rate.

2. Consolidation

(1) Scope of consolidation and application of equity method

The Company has twenty-eight wholly owned subsidiaries and five affiliated companies at March 31,2002.

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 December 31 and March 31. As a result, adjustments were made to conform any material difference incurring 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. The difference between fair value and book value is allocated to shareholders' equity and minority interest in proportion to their respective shareholdings.

(4) Consolidation adjustments

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

(5) Appropriation of retained earnings or deficit

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

3. Summary of significant accounting policies

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

Transactions in foreign currencies are converted into yen at the exchange rate prevailing at the time of the transactions. Monetary receivables and payables denominated in foreign currencies including foreign money 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 securities other than the above are converted from the fair value based on foreign currencies at the exchange rate prevailing on the balance sheet date into yen and those 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 from the fair value or the actual value estimated in foreign currencies at the exchange rate prevailing on the balance sheet date, and those are written down, when declined remarkably. The evaluation of derivative financial instruments resulting from derivative transaction denominated in foreign currencies are translated from the fair value or the actual value estimated in foreign currencies at the exchange rate prevailing on the balance sheet date excluding those applying hedge accounting. Exchange gains or losses, realized or unrealized, are included in current income.

(2) Conversion method of foreign currency of overseas subsidiaries

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

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

(3) Recognition of contract revenue

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

(4) Securities

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

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

Other securities with fair value are stated at fair value based on the market price at the closing date. Valuation differences are included in Shareholders' equity as valuation difference of other securities, and sales costs are determined by the moving average method.

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

(5) Derivative financial transactions

Derivative financial instruments are stated at fair value.

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

(6) Allowance for doubtful receivables

Allowance for doubtful receivables is based on the amounts calculated by an estimated uncollectible rate considering the ratio of past actual bad debt losses to general credits, and on the estimated amounts in consideration of the possibility of collection to specific credits of apprehension credits of bad debt, etc.

(7) Inventories

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

(8) Property, plant and equipment

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

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

(9) Research and development costs, and computer software

Research and development costs are charged to expense 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 established the Employees' Welfare Pension System, Tax-qualified Pension System and a lump-sum severance indemnity plan as defined retirement benefit plans. Financial trust have been established to cover retirement benefit obligations. In response to necessity, the Company will pay a special supplementary retirement benefit to retirees.

The lump-sum severance indemnity plan and the Employees' Welfare Pension System were established by the Company and nine domestic subsidiaries, respectively, only the Company has adopted a tax-qualified pension plan.

Overseas subsidiaries do not have retirement benefit systems.

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

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

Prior service liabilities are recognized as an expense when incurred.

Actuarial gains or losses are equally amortized under the straight-line method over ten years based on the average remaining employees' service years, and its amortization is to be started from the next year.

(12) Reserve for directors' and statutory auditors' retirement

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

(13) Net income per share

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

Information assuming full dilution is not presented because convertible bonds and bonds with detachable warrants were not issued as of the end of March 31, 2002.

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

(15) Hedge accounting
1) Derivative transactions are accounted for using deferral hedge accounting.

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

Hedge items are bank loans and 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' Bylaw. The Examination Committee of Derivative Instruments and the Financial Division in the Company periodically evaluate the effectiveness of hedging.

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

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

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

4. Securities

The composition of securities as of March 31,2001 and 2002 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	**2002**	**2002**
Securities due within one year:			
Held-to-maturity bonds	¥ 65	**¥ 171**	**$ 1,283**
Investment trust bills	7	**6**	**45**
Total	¥ 72	**¥ 177**	**$ 1,328**
Investment in securities:			
Held-to-maturity bonds	¥ 537	**¥ 453**	**$ 3,400**
Investment trust bills	132	**318**	**2,386**
Stocks	19,977	**18,734**	**140,593**
Others	2,603	**4,107**	**30,822**
Total	¥23,249	**¥23,612**	**$177,201**

5. Pledged assets

(1) The following assets are pledged against fulfillment of construction contracts at March 31, 2001 and 2002.

	Millions of yen		Thousands of U.S. dollars
	2001	**2002**	**2002**
Special deposits	¥ —	**¥ 150**	**$1,126**
Securities	—	**142**	**1,066**
Investment in securities	1,040	**765**	**5,740**
Long-term time deposits	150	**—**	**—**
Total	¥1,190	**¥1,057**	**$7,932**

(2) The following assets were pledged to secure short-term bank loans and long-term debt at March 31, 2002.

	Millions of yen		Thousands of U.S. dollars
	2001	**2002**	**2002**
Time deposits	¥—	**¥300**	**$2,251**
Investment in securities	—	**3**	**23**
Land	—	**101**	**758**
Building	—	**113**	**848**
Total	¥—	**¥517**	**$3,880**

6. Loans and long-term debt

Short-term bank loans are represented primarily in the form of overdraft facility notes bearing annual interest rates ranging from 0.68 percent to 3.5 percent for the two fiscal years ended March 31, 2002. Long-term debt as of March 31, 2001 and 2002 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	**2002**	**2002**
1.71 percent bonds due September 2006	¥ —	**¥ 200**	**$ 1,500**
Long-term debt from banks and insurance companies maturing in 2018 (bearing annual interest rates ranging from 1.75 percent to 3.52 percent)	102,740	**106,833**	**801,749**
Less: current portion of long-term debt	(22,048)	**(20,437)**	**(153,373)**
Net	¥ 80,692	**¥ 86,596**	**$649,876**

The aggregate annual maturity of long-term debt after March 31, 2002 is as follows:

	Millions of yen	Thousands of U.S. dollars
	2002	**2002**
Year ending March 31,		
2003	**¥ 20,437**	**$153,373**
2004	**15,470**	**116,098**
2005	**19,516**	**146,462**
2006	**27,914**	**209,486**
2007 and after that	**23,696**	**177,830**
Total	**¥107,033**	**$803,249**

7. Other income

The composition of Other income-other for the two years ended March 31, 2002 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	**2002**	**2002**
Rental received from real estate	¥ 335	**¥ 318**	**$2,387**
Exchange gain	401	**—**	**—**
Amortization of consolidation adjustments	—	**435**	**3,265**
Other	306	**403**	**3,024**
Total	¥1,042	**¥1,156**	**$8,676**

8. Other expenses

The composition of Other expenses-other for the two years ended March 31, 2002 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	**2002**	**2002**
Equity loss of affiliates	¥330	**¥167**	**$1,253**
Other	235	**278**	**2,086**
Total	¥565	**¥445**	**$3,339**

9. Extraordinary gain

The composition of Extraordinary gain for the two years ended March 31, 2002 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	**2002**	**2002**
Gain on sales of investment in securities	¥ 3,833	**¥ 6**	**$ 45**
Gain on reversal of reserve for retirement benefits	—	**1,130**	**8,480**
Gain on establishment of financial trust in respect of retirement benefit obligations	8,069	**—**	**—**
Gain on redemption of long-term debt	4,172	**—**	**—**
Gain on sales of fixed assets	726	**361**	**2,709**
Prior period adjustments	430	**365**	**2,740**
Other	91	**20**	**150**
Total	¥17,321	**¥1,882**	**$14,124**

10. Extraordinary loss

The composition of Extraordinary gain for the two years ended March 31, 2002 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	**2002**	**2002**
Loss from sale of fixed assets	¥ 327	**¥1,266**	**$ 9,502**
Losses from disposition of fixed assets	63	**188**	**1,411**
Losses on revaluation of real estate for trade	204	**126**	**946**
Losses on revaluation of investment in securities	1,863	**849**	**6,371**
Cost for establishment of financial trusts in respect of retirement benefit obligations	14,845	**—**	**—**
Prior period adjustments	10	**189**	**1,418**
Others	1,067	**1,096**	**8,225**
Total	¥18,379	**¥3,714**	**$27,873**

11. Research and development costs

Research and development costs charged to expense for the fiscal year ended March 31, 2002 were ¥2,149 million (U.S.$16,128 thousand).

12. Summary of finance lease transactions

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

(1) Acquisition costs, accumulated depreciation and fair value of assets leased by the Company are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	**2002**	**2002**
Equipment	¥ 323	**¥1,164**	**$ 8,735**
Vehicles	676	**209**	**1,569**
Buildings	21	**40**	**300**
	1,020	**1,413**	**10,604**
Accumulated depriciation	(622)	**(734)**	**(5,508)**
Fair value	¥ 398	**¥ 679**	**$ 5,096**

Depreciation is calculated by the straight-line method assuming no scrap value.

(2) Future lease payments as of March 31, 2001 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	**2002**	**2002**
Within one year	¥129	**¥257**	**$1,928**
Over one year	304	**463**	**3,475**
Total	¥433	**¥720**	**$5,403**

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

	Millions of yen		Thousands of U.S. dollars
	2001	**2002**	**2002**
Lease payments	¥200	**¥398**	**$2,987**
Depreciation	180	**374**	**2,807**
Interest expense	18	**24**	**180**

13. Derivative financial transactions

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

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

14. Commitments and contingent liabilities

As of March 31, 2002, commitments for the purchase of machinery and equipment and other assets were ¥2,065 million (U.S.$15,497 thousand), and the Company had contingent liabilities for bank loans amounting to ¥25,068 million (U.S.$188,128 thousand) in respect of affiliated companies and customers.

15. Tax effect accounting

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

	Millions of yen		Thousands of U.S. dollars
	2001	**2002**	**2002**
Deferred tax assets			
Loss on revaluation of real estate for trade	¥ 6,034	**¥ 4,794**	**$ 35,977**
Deficit carried forward on tax	4,641	**2,239**	**16,803**
Disapproval on tax purpose concerning allowance for doubtful receivables	2,307	**2,674**	**20,068**
Financial trust in respect of retirement benefit obligation	2,849	**2,888**	**21,674**
Disapproval on tax purpose concerning reserve for retirement benefits	2,592	**3,150**	**23,640**
Disapproval on tax purpose concerning reserve for bonuses	584	**842**	**6,319**
Reserve for directors' and statutory auditors' retirement	517	**598**	**4,488**
Loss on revaluation of investment in securities	—	**526**	**3,947**
Others	2,163	**2,824**	**21,193**
Total: deferred tax assets	21,687	**20,535**	**154,109**
Less: valuation allowance	(997)	**(185)**	**(1,389)**
Deferred tax assets	20,690	**20,350**	**152,720**
Deferred tax assets			
Valuation difference of other securities	(1,281)	**(623)**	**(4,675)**
Amendment for reduction of allowance for doubtful receivables	(120)	**(127)**	**(953)**
Others	(133)	**(138)**	**(1,036)**
Total: deferred tax liabilities	(1,534)	**(888)**	**(6,664)**
Net: deferred tax assets	¥19,156	**¥19,462**	**$146,056**

The material differences between the legal effective tax rate and the actual burden tax rate and the actual burden tax rate after application of tax effect accounting are as follows:

	2001	**2002**
Legal effective tax rate	42.05%	**42.05%**
Permanent exclusion from expenses	14.85	**18.99**
Tax free income	(1.88)	**(1.08)**
Capital levy on inhabitant taxes	5.35	**8.64**
Unrecognized tax effect concerning deficit carried forward on tax	2.94	**3.03**
Unrecognized tax effect on consolidation adjustments	2.69	**(1.15)**
Other	0.31	**2.35**
Actual burden tax rate after application of tax effect accounting	66.31%	**72.83%**

16. Consumption tax

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

Consumption tax is eliminated from transferences (including services) and purchases stated in the statement of income.

17. Shareholders' equity

(1) Legal reserve and additional paid-in capital

The Japanese Commercial Code requires to provide as a legal reserve over 10% of cash out flow each fiscal year, that is, payment of dividends and/or directors' and statutory auditors' bonuses approved by a Shareholders' meeting, until the amount of additional paid-in capital and legal reserve reaches 25% of common stock.

In the consolidated financial statements, this legal reserve is summed up retained earnings.

(2) Land revaluation excess

The Company revalued land used for its own business purpose based on the appraised value in accordance with Article 2 No.4 and 5 of an Enforcement Ordinance No.119 of the Law concerning Land Revaluation promulgated on March 31, 1999.

Date of the revaluation: March 31, 2000

As a result, a revaluation excess and deferred tax liabilities were recognized, the net amount being presented in Shareholders' equity as a Land Revaluation Excess. This excess is also available for cancellation of treasury stocks.

The revaluation difference (loss) between the fair value as of March 31,2002 and book value after the initial enforcement of the Law, is ¥4,293 million (U.S.$32,218 thousand).

(3) Valuation difference of other securities

Net valuation difference after application of tax effect accounting based on the difference between fair market value and book value at the closing date on March 31. This amounted to ¥859 million (U.S.$ 6,447 thousand) as of March 31, 2002.

Deferred tax liabilities amounted to ¥623 million (U.S.$ 4,675 thousand).

(4) Restriction of dividends

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

18. Authorized shares

The Articles of Incorporation require the Company to deduct the number of shares being retired from authorized shares.

19. Retirement benefits

I. Retirement benefit obligations.

	Millions of yen		Thousands of U.S. dollars
	2001	**2002**	**2002**
a. Retirement benefit obligation	¥(96,088)	**¥(100,981)**	**$(757,831)**
b. Pension fund assets	50,803	**48,556**	**364,398**
c. Unrecognized retirement benefit obligation	(45,285)	**(52,425)**	**(393,433)**
d. Unrecognized effects of the amendments on the application of the new accounting standards for retirement benefits	21,290	**20,541**	**154,154**
e. Unrecognized actuarial gain or loss	15,965	**23,841**	**178,919**
f. Unrecognized prior service liabilities	—	**(1,579)**	**(11,850)**
g. Net retirement benefit obligations	(8,030)	**(9,622)**	**(72,210)**
h. Prepaid pension cost	—	**—**	**—**
i. Reserve for retirement benefits	¥(8,030)	**¥(9,622)**	**$(72,210)**

II. Retirement benefit costs for the year ended March 31, 2002.

	Millions of yen		Thousands of U.S. dollars
	2001	**2002**	**2002**
a. Service costs	¥ 2,109	**¥2,517**	**$18,889**
b. Interest costs	2,946	**2,906**	**21,809**
c. Expected return on pension fund assets	(1,989)	**(1,310)**	**(9,831)**
d. Amortization of effects of the amendments on the application of the new accounting standards for retirement benefits	16,371	**1,580**	**11,857**
e. Amortization of actuarial gain or loss	—	**1,674**	**12,563**
f. Recognized of prior service liabilities	—	**(1,130)**	**(8,480)**
g. Retirement benefit costs	¥19,437	**¥6,237**	**$46,807**

III. Calculation basis of retirement benefit obligations, etc.

a. Recognition method of the projected retirement benefit obligations	Straight-line method
b. Discount rate	3.0%
c. Expected return rate on pension fund assets	3.0%
d. Recognition term of prior service liabilities	Fully recognized as incurred
e. Amortization term of actuarial gain or loss	10 years
f. Amortization term of effects of the amendments on the application of new accounting standards for retirement benefits	15 years

20. Segment information

(1) Business segments

Business segments are primarily composed of the following:

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

	Millions of yen					
Year ended March 31, 2001	Construction	Real estate development	Others	Total	Eliminations and/or addition	Consolidated
Net sales:						
Customers	¥428,367	¥ 5,843	¥ 5,931	¥440,141	¥ —	¥440,141
Internal sales or transfer	2	91	8,983	9,076	(9,076)	—
Total	428,369	5,934	14,914	449,217	(9,076)	440,141
Operating expenses	415,807	5,070	14,995	435,872	(8,893)	426,979
Operating income	12,562	864	(81)	13,345	(183)	13,162
Assets	335,882	64,473	36,960	437,315	59,799	497,114
Depreciation	3,234	148	1,565	4,947	—	4,947
Capital expenditures	2,340	5	2,932	5,277	—	5,277

	Millions of yen					
Year ended March 31, 2002	Construction	Real estate development	Others	Total	Eliminations and/or addition	Consolidated
Net sales:						
Customers	**¥430,474**	**¥ 2,149**	**¥ 8,039**	**¥440,662**	**¥ —**	**¥440,662**
Internal sales or transfer	**1**	**234**	**10,420**	**10,655**	**(10,655)**	**—**
Total	**430,475**	**2,383**	**18,459**	**451,317**	**(10,655)**	**440,662**
Operating expenses	**419,521**	**2,620**	**18,572**	**440,713**	**(10,706)**	**430,007**
Operating income	**10,954**	**(237)**	**(113)**	**10,604**	**51**	**10,655**
Assets	**349,218**	**69,265**	**32,206**	**450,689**	**58,852**	**509,541**
Depreciation	**4,159**	**115**	**2,309**	**6,583**	**(44)**	**6,539**
Capital expenditures	**3,089**	**1**	**966**	**4,056**	**(64)**	**3,992**

	Thousands of U.S. dollars					
Year ended March 31, 2002	Construction	Real estate development	Others	Total	Eliminations and/or addition	Consolidated
Net sales:						
Customers	**$3,230,574**	**$ 16,128**	**$ 60,330**	**$3,307,032**	**$ —**	**$3,307,032**
Internal sales or transfer	**8**	**1,756**	**78,199**	**79,962**	**(79,962)**	**—**
Total	**3,230,581**	**17,884**	**138,529**	**3,386,994**	**(79,962)**	**3,307,032**
Operating expenses	**3,148,376**	**19,663**	**139,377**	**3,307,415**	**(80,345)**	**3,227,070**
Operating income	**82,206**	**(1,779)**	**(848)**	**79,579**	**383**	**79,962**
Assets	**2,620,773**	**519,812**	**241,696**	**3,382,281**	**441,666**	**3,823,947**
Depreciation	**31,212**	**863**	**17,328**	**49,403**	**(330)**	**49,073**
Capital expenditures	**23,182**	**8**	**7,249**	**30,439**	**(480)**	**29,959**

(2) Geographic segment

Geographic segment is primarily composed of the followings:

Japan
Southeast Asia .... Singapore, Hong Kong, Malaysia
Others .... Egypt, Micronesia, Sri Lanka

	Millions of yen					
Year ended March 31, 2001	Japan	Southeast Asia	Others	Total	Eliminations and/or addition	Consolidated
Net sales:						
Customers	¥368,899	¥64,302	¥6,940	¥440,141	¥ —	¥440,141
Internal sales or transfer	—	—	—	—	—	—
Total	368,899	64,302	6,940	440,141	—	440,141
Operating expenses	357,090	63,089	6,800	426,979	—	426,979
Operating income	11,809	1,213	140	13,162	—	13,162
Assets	374,953	46,691	5,718	427,362	69,752	497,114

	Millions of yen					
Year ended March 31, 2002	Japan	Southeast Asia	Others	Total	Eliminations and/or addition	Consolidated
Net sales:						
Customers	**¥362,699**	**¥69,231**	**¥8,732**	**¥440,662**	**¥ —**	**¥440,662**
Internal sales or transfer	—	—	—	—	—	—
Total	**362,699**	**69,231**	**8,732**	**440,662**	**—**	**440,662**
Operating expenses	**353,482**	**68,905**	**7,620**	**430,007**	**—**	**430,007**
Operating income	**9,217**	**326**	**1,112**	**10,655**	**—**	**10,655**
Assets	**384,214**	**55,624**	**8,737**	**448,575**	**60,966**	**509,541**

	Thousands of U.S. dollars					
Year ended March 31, 2002	Japan	Southeast Asia	Others	Total	Eliminations and/or addition	Consolidated
Net sales:						
Customers	**$2,721,944**	**$519,557**	**$65,531**	**$3,307,032**	**$ —**	**$3,307,032**
Internal sales or transfer	—	—	—	—	—	—
Total	**2,721,944**	**519,557**	**65,531**	**3,307,032**	**—**	**3,307,032**
Operating expenses	**2,652,773**	**517,111**	**57,186**	**3,227,070**	**—**	**3,227,070**
Operating income	**69,171**	**2,446**	**8,345**	**79,962**	**—**	**79,962**
Assets	**2,883,407**	**417,441**	**65,568**	**3,366,416**	**457,531**	**3,823,947**

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 amounted to ¥60,966 million (U.S.$457,531 thousand)at March 31, 2002.

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

(3) Overseas sales

For the year ended March 31, 2001	Millions of yen Southeast Asia	Others	Total
Overseas sales	¥64,302	¥6,940	¥ 71,242
Consolidated sales			¥440,141
The proportion of overseas sales to consolidated sales	14.6%	1.6%	16.2%

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, Malaysia.
— Others: Egypt, Micronesia, Sri Lanka.

	Millions of yen			Thousands of U.S. dollars
For the year ended March 31, 2002	Southeast Asia	Others	Total	Total
Overseas sales	**¥69,231**	**¥8,732**	**¥ 77,963**	**$ 585,088**
Consolidated sales			**¥440,662**	**$3,307,032**
The proportion of overseas sales to consolidated sales	**15.7%**	**2.0%**	**17.7%**	**17.7%**

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, Malaysia.
— Others: Egypt, Micronesia, Sri Lanka and Bulgaria.

Independent Auditors' Report

The Board of Directors
Penta-Ocean Construction Co., Ltd.

We have audited the consolidated balance sheets of PENTA-OCEAN CONSTRUCTION CO., LTD. and consolidated subsidiaries as of March 31, 2002 and 2001, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above, expressed in yen, present fairly the financial position of PENTA-OCEAN CONSTRUCTION CO., LTD. and consolidated subsidiaries at March 31, 2002 and 2001, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles and practices generally accepted in Japan, applied on a consistent basis.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2002 are presented solely for the convenience of the readers. 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.

Tokyo, Japan
June 27, 2002

Shin Nihon & Co.

Shin Nihon & Co.

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