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=¥120.20, the exchange rate prevailing on March 31, 2003. 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, 2003.

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 incurred between the balance sheet date and the consolidation date.

(3) Valuation of assets and liabilities of consolidated subsidiaries

Assets and liabilities of subsidiaries are recorded at fair value upon acquisition. The difference between fair value and book value is allocated to shareholders' equity and minority interest in proportion to their respective shareholdings.

(4) Consolidation adjustments

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

(5) Appropriation of retained earnings or deficit

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

3. Summary of significant accounting policies

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

Transactions in foreign currencies are converted into yen at the exchange rate prevailing at the time of the transactions.

Monetary receivables and payables denominated in foreign currencies including foreign cash are converted into yen at the exchange rate prevailing on the balance sheet date. Non monetary items denominated in foreign currencies are converted into yen at the historical rate. Held-to-maturity bonds denominated in foreign currencies are translated into yen at the exchange rate prevailing on the balance sheet date, securities for purpose of sales and investment in securities other than the above are converted into yen from the fair value based on foreign currencies at the exchange rate prevailing on the balance sheet date and investments in subsidiaries and affiliated companies at the exchange rate prevailing at the time of acquisition of the Company.

Also, securities denominated in foreign currencies are translated at the exchange rate prevailing on the balance sheet date based on the fair value or the actual value estimated in foreign currencies, and those are written down, when declined remarkably. The evaluation of derivative financial instruments resulting from derivative transaction denominated in foreign currencies are translated at the exchange rate prevailing on the balance sheet date based on the fair value or the actual value estimated in foreign currencies excluding those applying hedge accounting. Exchange gains or losses, realized or unrealized, are included in current income.

(2) Conversion method of foreign currency of overseas subsidiaries

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

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

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

(4) Securities
Held-to-maturity bonds are determined by the amortized cost method.

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

Other securities with fair value are stated at fair value based on the market price at the closing date. Valuation differences are included in Shareholders' equity as unrealized valuation gain or (loss) 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 receivables
Allowance for doubtful receivables is accounted for using the estimated bad debt ratio determined based on the past actual bad debt losses to general credits and the individual estimated amount to any specific uncollectible receivables.

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

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

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

(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) Provision for loss on liquidation of a subsidiary
For the purpose of liquidation of a subsidiary which was engaged in the real estate development business, the Company provided the estimated losses arising from its result as a provision for loss on liquidation of a subsidiary.

(12) Reserve for retirement benefits
Reserve for retirement benefits is provided for at the necessary amounts on an accrual basis based on the estimated amounts of retirement benefit obligations and pension fund assets at 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 by the straight-line method over ten years based on the average remaining employees' service years, and its amortization starts in the next year of the respective accrual years.

For the purpose of return of a role as an agent regarding the operations of welfare pension fund, the relinquishment of the entrusted government's portion of retirement benefit obligations and the exemption of future payment obligations, the Company applied to the Minister of Health, Labour and Welfare to obtain permission of them and was officially approved on the date of January 17, 2003.

Thereby, the Company considered the above date to be the returned date according to the transitional measures of Article 47-2 of "Practical Guideline of Accounting for Retirement Benefit (Interim Report)" of Accounting Committee Report No.13 published by the JICPA and recognized the difference ¥2,167 million (U.S.$18,028 thousand) between the obligations relinquished and the related pension fund assets as an extraordinary loss in the current fiscal year. The amounts of pension fund assets to be returned were ¥30,135 million (U.S.$250,707 thousand) at end of the current fiscal year.

In addition, the Company established the additional financial trust of ¥4,270 million (U.S.$35,524 thousand) to cover retirement benefit obligations at end of the current fiscal year.

The Company has established an employees' welfare pension system, a tax-qualified pension system and a lump-sum severance indemnity plan and the domestic consolidated subsidiaries an employees' welfare pension system and a lump-sum severance indemnity plan, as a defined retirement benefit system. And further, in response to necessity, they will pay a special supplementary retirement pay to retirement of employees.

In addition, the Company and two domestic consolidated subsidiaries have established the financial trust to cover retirement benefit obligations for employees.

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

(13) 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.

(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 potential stocks were not issued as of end of March 31, 2003.

(15) Cash and cash equivalents

Cash and cash equivalents included 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 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 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 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 taxes 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, 2002 and 2003 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
Securities due within one year:			
Held-to-maturity bonds	¥171	**¥117**	**$ 974**
Investment trust bills	6	**611**	**5,083**
Total	¥177	**¥728**	**$6,057**
Investment in securities:			
Held-to-maturity bonds	¥ 453	**¥ 353**	**$ 2,937**
Investment trust bills	318	**1,494**	**12,429**
Stocks	18,734	**15,396**	**128,087**
Others	4,107	**1,500**	**12,479**
Total	¥23,612	**¥18,743**	**$155,932**

5. Pledged assets

(1) The following assets are pledged for fulfillment of construction contracts at March 31, 2002 and 2003.

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Special deposits	¥ 150	**¥216**	**$1,797**
Securities	142	**91**	**757**
Investment in securities	765	**361**	**3,003**
Long-term time deposits	—	**187**	**1,556**
Total	¥1,057	**¥855**	**$7,113**

(2) The following assets were pledged to secure short-term bank loans and long-term debt at March 31, 2002 and 2003.

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Time deposits	¥300	**¥200**	**$1,664**
Investment in securities	3	**—**	**—**
Land	101	**101**	**840**
Building	113	**112**	**932**
Total	¥517	**¥413**	**$3,436**

6. Short-term and long-term debt

Short-term bank loans are represented primarily in the form of overdraft facility notes bearing annual interest rates ranging from 0.67 percent to 1.88 percent for the two fiscal years ended March 31, 2003. Long-term debt as of March 31, 2002 and 2003 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
1.71 percent bonds due September 2006	¥ 200	**¥ 200**	**$ 1,664**
Long-term debt from banks and insurance companies maturing in 2013 (bearing annual interest rates ranging from 1.75 percent to 3.52 percent)	106,833	**122,612**	**1,020,067**
Less: current portion of long-term debt	(20,437)	**(22,979)**	**(191,173)**
Net	¥ 86,596	**¥ 99,833**	**$ 830,558**

The aggregate annual maturity of long-term debt after March 31, 2003 is as follows:

	Millions of yen	Thousands of U.S. dollars
	2003	2003
Years ending March 31,		
2004	**¥ 22,979**	**$ 191,173**
2005	**29,721**	**247,263**
2006	**38,310**	**318,720**
2007	**18,388**	**152,978**
2008 and after that	**13,214**	**109,933**
Total	**¥122,612**	**$1,020,067**

7. Other income

The composition of Other income — other for the two years ended March 31, 2003 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
Rental received from real estate	¥ 318	**¥ 286**	**$ 2,380**
Amortization of consolidation adjustments	435	**435**	**3,619**
Other	403	**533**	**4,434**
Total	¥1,156	**¥1,254**	**$10,433**

8. Other expenses

The composition of Other expenses — other for the two years ended March 31, 2003 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
Equity loss of affiliates	¥167	**¥ 569**	**$ 4,734**
Exchange loss	—	**1,326**	**11,032**
Other	278	**664**	**5,524**
Total	¥445	**¥2,559**	**$21,290**

9. Extraordinary gain

The composition of Extraordinary gain for the two years ended March 31, 2003 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
Gain on sales of investment in securities	¥ 6	**¥ 5**	**$ 42**
Reversal of reserve for retirement benefits	1,130	**1,211**	**10,075**
Gain on sales of fixed assets	361	**201**	**1,672**
Provision for bad debt	—	**584**	**4,859**
Prior period adjustments	365	**129**	**1,073**
Other	20	**431**	**3,585**
Total	¥1,882	**¥2,561**	**$21,306**

10. Extraordinary loss

The composition of Extraordinary loss for the two years ended March 31, 2003 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
Loss from sales of fixed assets	¥1,266	**¥ 480**	**$ 3,993**
Loss from disposition of fixed assets	188	**153**	**1,273**
Write-down of real estate for trade	126	**1,977**	**16,448**
Write-down of investment in securities	849	**505**	**4,201**
Provision for loss on liquidation of a subsidiary	—	**10,245**	**85,233**
Provision for loss on real estate development business of affiliates	—	**4,081**	**33,960**
Special supplementary retirement pay	—	**3,418**	**28,436**
Loss on return of the entrusted government's portion of the welfare pension fund	—	**2,167**	**18,028**
Provision for bad debt	—	**1,607**	**13,369**
Prior period adjustments	189	**209**	**1,739**
Other	1,096	**880**	**7,321**
Total	¥3,714	**¥25,723**	**$214,001**

11. Research and development costs

Research and development costs charged to income for the two fiscal years ended March 31, 2003 were ¥2,149 million (U.S.$17,879 thousand) and¥1,765 million (U.S.$14,684 thousand), respectively.

12. Summary of finance lease transactions

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

(1) Estimated acquisition costs, accumulated depreciation and estimated value of assets leased by the Company are as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
Equipment	¥1,164	**¥ 864**	**$7,188**
Vehicles	209	**156**	**1,298**
Buildings	40	**40**	**333**
	1,413	**1,060**	**8,819**
Accumulated depriciation	(734)	**(621)**	**(5,167)**
Estimated value	¥ 679	**¥ 439**	**$3,652**

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

(2) Future lease payments as of March 31, 2002 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
Within one year	¥257	**¥131**	**$1,090**
Over one year	463	**346**	**2,878**
Total	¥720	**¥477**	**$3,968**

(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
	2002	**2003**	**2003**
Lease payments	¥398	**¥275**	**$2,288**
Depreciation	(374)	**(254)**	**(2,113)**
Interest expense	¥ 24	**¥ 18**	**$ 150**

13. Derivative financial transactions

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

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

14. Commitments and contingent liabilities

As of March 31, 2003, commitments for the purchase of machinery and equipment and other assets were ¥2,809 million (U.S.$23,369 thousand), and the Company had contingent liabilities for bank loans amounting to ¥12,815 million (U.S.$106,614 thousand) in respect of affiliated companies and customers.

The Company also had the guarantee amounting to ¥3,224 million (U.S.$26,822 thousand) to purchasers concerning deposits for purchase of the condominium apartments.

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
	2002	**2003**	**2003**
Deferred tax assets			
Write-down of real estate for trade	¥ 4,794	**¥ 3,966**	**$ 32,995**
Deficit carried forward on tax	2,239	**3,694**	**30,732**
Disapproval on tax purpose concerning allowance for doubtful receivables	2,674	**3,125**	**25,998**
Loss on establishment of financial trust in respect of retirement benefit obligations	2,888	**4,234**	**35,225**
Disapproval on tax purpose concerning reserve for retirement benefits	3,150	**2,372**	**19,734**
Disapproval on tax purpose concerning reserve for bonuses	842	**753**	**6,265**
Reserve for directors' and statutory auditors' retiremen	598	**—**	**—**
Write-down of investment in securities	526	**527**	**4,384**
Provision for loss on liquidation of affiliates	—	**4,308**	**35,840**
Provision for loss on real estate of affiliates	—	**1,668**	**13,877**
Other	2,824	**3,263**	**27,146**
Total: deferred tax assets	20,535	**27,910**	**232,196**
Less : valuation allowance	(185)	**(1,711)**	**(14,234)**
Deferred tax assets	20,350	**26,199**	**217,962**
Deferred tax liabilities			
Unrealized valuation gain on other securities	(623)	**—**	**—**
Reduction for amendment of allowance for doubtful receivables	(127)	**(28)**	**(233)**
Other	(138)	**(121)**	**(1,007)**
Total: deferred tax liabilities	(888)	**(149)**	**(1,240)**
Net: deferred tax assets	¥19,462	**¥26,050**	**$216,722**

The Company changed 42.05 percent into 40.89 percent concerning the statutory effective tax rate, at which the amounts of deferred tax assets and liabilities relating to transitory differences dissolved on and after April 1, 2004 are calculated in accordance with the partial revision of the Local Tax Law (Cabinet Order No.9 promulgated on March 31, 2003).

As the result of this change, deferred tax assets at end of the current fiscal year decreased by ¥456 million (U.S.$3,794 thousand) and income taxes deferred stated as tax expenses increased by the same amounts, and also, deferred tax liabilities for land revaluation excess decreased by ¥113 million (U.S.$940 thousand) and land revaluation excess-net increased by the same amounts.

16. Consumption tax

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

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

17. Shareholders' Equity

(1) Earned surplus reserve and capital surplus reserve

The Japanese Commercial Code requires to provide as an earned surplus reserve over 10 percent of cash out flow every fiscal years, that is, payment of dividends and/or directors' and statutory auditors' bonuses approved by the Shareholders' meeting, until the total amounts earned surplus reserve and 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 (Cabinet Order No. 34, promulgated on March 31, 1998) and on the partial revision of the Law concerning Land Revaluation (Cabinet Order No. 24, promulgated on March 31, 1999). Relating to revaluation excess, the amounts corresponding to deferred tax on the tax effect accounting was accounted for as a long-term deferred tax liabilities and its remains were accounted for as land revaluation excess-net constituting shareholders' equity.

	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
The difference between the appraisal value of land at end of the current fiscal year and the book value	¥4,292	**¥6,377**	**$53,062**

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 or (loss) on other securities-net

Unrealized valuation gain or (loss) on other securities is based on the difference between fair market value and book value at the closing date on March 31. This after application of tax effect accounting amounted to ¥64 million (U.S.$532 thousand) loss as of March 31, 2003.

Deferred tax assets amounted to ¥45 million (U.S.$374 thousand).

(4) Restriction of dividends

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

18. Authorized shares

The Articles of Incorporation provides that their number must be deducted from authorized shares if retirement of shares will be carried out.

19. Retirement benefits

I. Retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
a. Retirement benefit obligation	¥(100,981)	**¥(53,796)**	**$(447,554)**
b. Pension fund assets	48,556	**15,335**	**127,579**
c. Unrecognized retirement benefit obligation	(52,425)	**(38,461)**	**(319,975)**
d. Unrecognized effects of the amendments on the application of the new accounting standards for retirement benefits	20,541	**16,316**	**135,740**
e. Unrecognized actuarial gain or loss	23,841	**15,761**	**131,123**
f. Unrecognized prior service liabilities	(1,579)	**(973)**	**(8,094)**
g. Net retirement benefit obligations	(9,622)	**(7,357)**	**(61,206)**
h. Prepaid pension cost	—	**—**	**—**
i. Reserve for retirement benefits	¥ (9,622)	**¥ (7,357)**	**$ (61,206)**

II. Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
a. Service costs	¥2,517	**¥2,256**	**$18,769**
b. Interest costs	2,906	**2,632**	**21,897**
c. Expected return on pension fund assets	(1,310)	**(574)**	**(4,775)**
d. Amortization of effects of the amendments on the application of the new accounting standards for retirement benefits	1,580	**1,525**	**12,687**
e. Amortization of actuarial gain or loss	1,674	**2,173**	**18,078**
f. Recognized of prior service liabilities	1,130	**(1,207)**	**(10,042)**
g. Retirement benefit costs	6,237	**6,805**	**56,614**
h. Loss on return of the entrusted govemnt's portion of the welfare pension fund	—	**2,167**	**18,028**
Total	¥6,237	**¥8,972**	**$74,642**

III. Calculation basis of retirement benefit obligations, etc.

a. Recognition method of the projected retirement benefit obligations	Straight-line method
b. Discount rate	2.53%
c. Expected return rate on pension fund assets	1.00%~1.50%
d. Recognition term of prior service liabilities	Fully recognized as incurred
e. Amortization term of actuarial gain or loss	Actuarial gains or losses are amortized by the straight-line method over 10 years, based on the average remaining employees' service years from the next year of the respective accrual years
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 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, shipbuilding, etc.

	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

	Millions of yen					
Year ended March 31, 2003	Construction	Real estate development	Others	Total	Eliminations and/or addition	Consolidated
Net sales:						
Customers	**¥374,169**	**¥ 3,560**	**¥ 9,132**	**¥386,861**	**¥ —**	**¥386,861**
Internal sales or transfer	**212**	**334**	**8,722**	**9,268**	**(9,268)**	**—**
Total	**374,381**	**3,894**	**17,854**	**396,129**	**(9,268)**	**386,861**
Operating expenses	**368,557**	**3,393**	**17,941**	**389,891**	**(9,166)**	**380,725**
Operating income	**5,824**	**501**	**(87)**	**6,238**	**(102)**	**6,136**
Assets	**314,197**	**74,687**	**29,309**	**418,193**	**54,656**	**472,849**
Depreciation	**4,006**	**40**	**2,021**	**6,067**	**(51)**	**6,016**
Capital expenditures	**2,834**	**652**	**581**	**4,067**	**(44)**	**4,023**

	Thousands of U.S. dollars					
Year ended March 31, 2003	Construction	Real estate development	Others	Total	Eliminations and/or addition	Consolidated
Net sales:						
Customers	**$3,112,887**	**$ 29,617**	**$ 75,974**	**$3,218,478**	**$ —**	**$3,218,478**
Internal sales or transfer	**1,764**	**2,779**	**72,562**	**77,105**	**(77,105)**	**—**
Total	**3,114,651**	**32,396**	**148,536**	**3,295,583**	**(77,105)**	**3,218,478**
Operating expenses	**3,066,198**	**28,228**	**149,260**	**3,243,686**	**(76,256)**	**3,167,430**
Operating income	**48,453**	**4,168**	**(724)**	**51,897**	**(849)**	**51,048**
Assets	**2,613,952**	**621,356**	**243,835**	**3,479,143**	**454,709**	**3,933,852**
Depreciation	**33,328**	**333**	**16,814**	**50,475**	**(424)**	**50,051**
Capital expenditures	**23,577**	**5,424**	**4,833**	**33,835**	**(366)**	**33,469**

(2) Geographic segment

Geographic segment is primarily composed of the followings:

Japan

Southeast Asia .... Singapore, Hong Kong, Vietnam, Cambodia and Malaysia

Others .... Egypt, Micronesia, Sri Lanka and Bulgaria

	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

	Millions of yen					
Year ended March 31, 2003	Japan	Southeast Asia	Others	Total	Eliminations and/or addition	Consolidated
Net sales:						
Customers	**¥326,217**	**¥49,997**	**¥10,647**	**¥386,861**	**¥ —**	**¥386,861**
Internal sales or transfer	**—**	**—**	**—**	**—**	**—**	**—**
Total	**326,217**	**49,997**	**10,647**	**386,861**	**—**	**386,861**
Operating expenses	**317,741**	**51,963**	**11,021**	**380,725**	**—**	**380,725**
Operating income	**8,476**	**(1,966)**	**(374)**	**6,136**	**—**	**6,136**
Assets	**362,690**	**47,934**	**5,190**	**415,814**	**57,035**	**472,849**

	Thousands of U.S. dollars					
Year ended March 31, 2003	Japan	Southeast Asia	Others	Total	Eliminations and/or addition	Consolidated
Net sales:						
Customers	**$2,713,952**	**$415,948**	**$88,578**	**$3,218,478**	**$ —**	**$3,218,478**
Internal sales or transfer	**—**	**—**	**—**	**—**	**—**	**—**
Total	**2,713,952**	**415,948**	**88,578**	**3,218,478**	**—**	**3,218,478**
Operating expenses	**2,643,436**	**432,304**	**91,690**	**3,167,430**	**—**	**3,167,430**
Operating income	**70,516**	**(16,356)**	**(3,112)**	**51,048**	**—**	**51,048**
Assets	**3,017,388**	**398,785**	**43,178**	**3,459,351**	**474,501**	**3,933,852**

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 ¥57,035 million (U.S.$474,501 thousand)at March 31, 2003.

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

(3) Overseas sales

	Millions of yen		
For the year ended March 31, 2002	Southeast Asia	Others	Total
Overseas sales	¥69,231	¥8,732	¥ 77,963
Consolidated sales			¥440,662
The proportion of overseas sales to consolidated sales	15.7%	2.0%	17.7%

	Millions of yen		
For the year ended March 31, 2003	Southeast Asia	Others	Total
Overseas sales	**¥49,997**	**¥10,647**	**¥ 60,644**
Consolidated sales			**¥386,861**
The proportion of overseas sales to consolidated sales	**12.9%**	**2.8%**	**15.7%**

	Thousands of U.S. dollars		
For the year ended March 31, 2003	Southeast Asia	Others	Total
Overseas sales	**$415,948**	**$88,578**	**$ 504,526**
Consolidated sales			**$3,218,478**
The proportion of overseas sales to consolidated sales	**12.9%**	**2.8%**	**15.7%**

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, Vietnam, Cambodia and Malaysia
— Others: Egypt, Micronesia, Sri Lanka and Bulgaria

21. Related party transactions

For the year ended March 31, 2002

Attribution	Affiliated company
Name of the company	Green-port Co., Ltd.
Address	Natori-shi, Miyagi
Common stock	¥50 million
Principal business	Real estate development
Percentage of voting right	20% directly
Relationship	
Number of interlocking directors and corporate auditors	2
Operating relation	Orders received of construction

	Millions of yen		
Transactions	Amounts	Account	Ending balance
The Company's share of joint liabilities on guarantee ¥20,424 million	¥2,726	—	—
Loans receivable (Note 2)	1,061	Long-term loans receivable	¥2,576
Orders received of construction (Note 3)	111	Accounts receivable-trade	492

For the year ended March 31, 2003

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

Transactions	Millions of yen		
	Amounts	Account	Ending balance
The Company's share of joint liabilities on guarantee ¥10,669 million	—	—	—
Loans receivable (Note 2)	¥1,340	Long-term loans receivable	¥3,916
Orders received of construction (Note 3)	(21)		

For the year ended March 31, 2003

Attribution	Affiliated company
Name of the company	Green-port Co., Ltd.
Address	Natori-shi, Miyagi
Common stock	U.S.$415 thousand
Principal business	Real estate development
Percentage of voting right	25% directly
Relationship	
Number of interlocking directors and corporate auditors	2
Operating relation	Orders received of construction

Transactions	Thousands of U.S. dollars		
	Amounts	Account	Ending balance
The Company's share of joint liabilities on guarantee U.S.$88,760 thousand	—	—	—
Loans receivable (Note 2)	$11,148	Long-term loans receivable	$32,579
Orders received of construction (Note 3)	(174)		

Notes:
Transaction's term and policy
1. The Company has liabilities on guarantee for bank loans of Green-port Co., Ltd.
2. The Company determines the interest rate for loan based on market rates.
3. The Company offers estimated sheets of construction to Green-port Co., Ltd. and receives the order after negotiation.
4. Amounts in ending balance of the above table include consumption taxes and those of transactions exclude them.

22. Significant subsequent event

At its meeting of the Board of Directors held on May 23, 2003, the Company decided to submit the reduction of its capital as a matter to be resolved by the special resolution at the fifty-third General Shareholders' Meeting on June 27, 2003, and the above matter was resolved by its Shareholders' Meeting.

1. Reason for Reduction of Capital:

This measure is proposed for the purpose of correcting the capital structure by eliminating the deficit that would otherwise have to be carried forward. Reducing its capital will enable the Company to lay the groundwork for sounds and adapt to change of management circumstances flexibly.

2. Contents of Reduction of Capital

(1) Amount of capital reduced:

The Company's paid-in capital is to be reduced by ¥15,901,047,369 (U.S.$132,288,247.66). As a result, paid-in capital is to be ¥18,070,372,150 (U.S.$150,335,874.79).

(2) Method of capital decrease:

Paid-in capital will be decreased in gratis leaving the number of shares owned by the shareholders unchanged. Of the amount capital to be reduced, ¥5,794,821,508 (U.S.$48,209,829.52) shall be used to cover the deficit of capital and its remains ¥10,106,225,861 (U.S.$84,078,418.14) shall be transferred to capital surplus.

In addition, the date of those effectiveness shall be August 2, 2003.

The capital reduction will neither result in reduction of total shareholders' equity nor accompany any disbursement of cash (reduction of capital without compensation).

Independent Auditors' Report

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, 2003 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to independently 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, procedures and practices 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, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

As described in Note 22 Significant subsequent event to the consolidated financial statements, the Company decided to reduce paid-in capital for the purpose of eliminating the deficit in accordance with the ratification of the fifty-third General Shareholders' Meeting on June 27, 2003 based on the resolution of the Board of Directors on May 23, 2003.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2003 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.

Tokyo, Japan
June 27, 2003

Shin Nihon & Co.
Shin Nihon & Co.

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