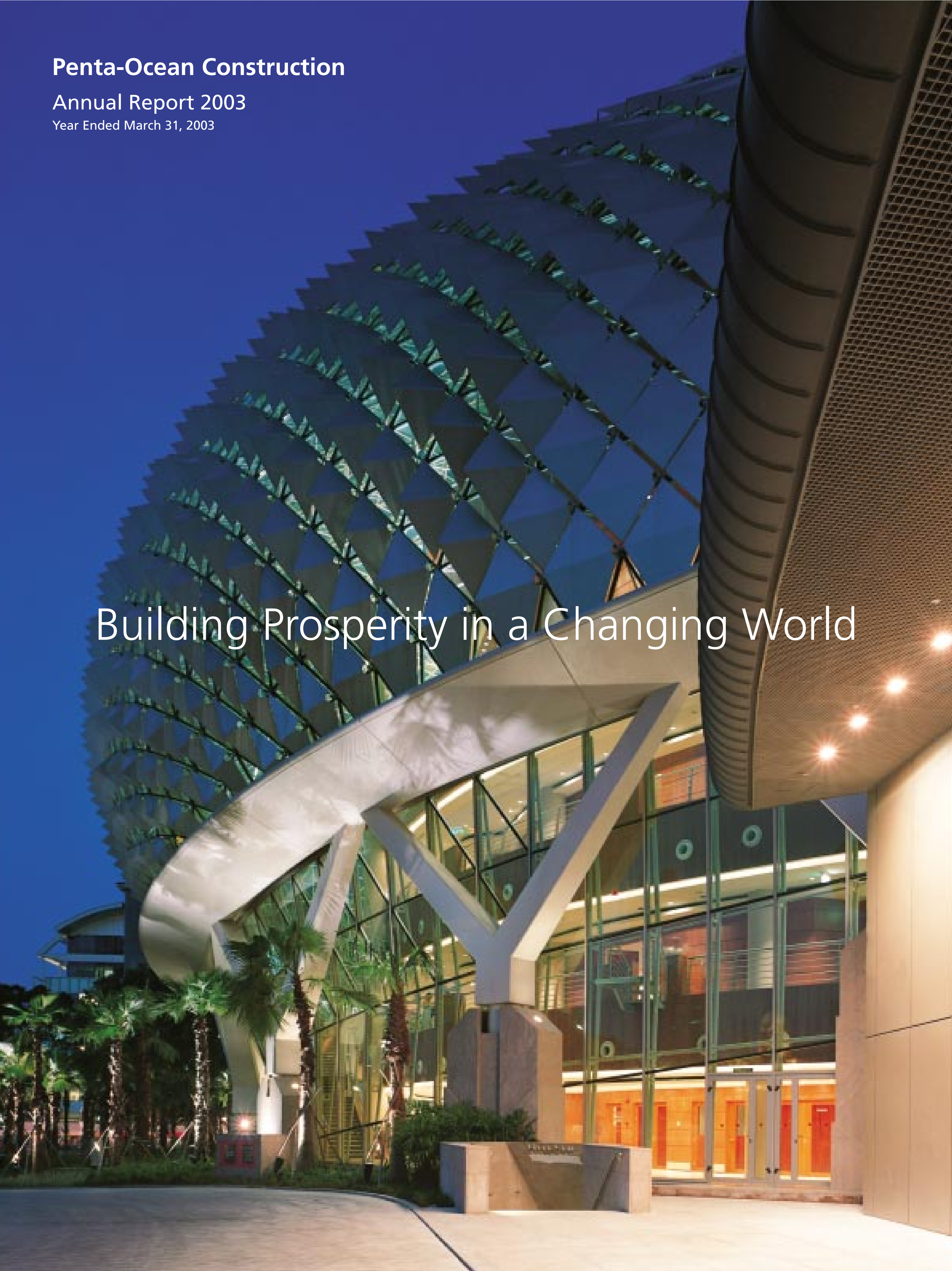
Penta-Ocean Construction

Annual Report 2003

Year Ended March 31, 2003



Building Prosperity in a Changing World

Penta-Ocean Construction Co., Ltd. is one of Japan's leading comprehensive construction companies, with 28 subsidiaries and five affiliates making up the Penta-Ocean Group. It is a leading producer of construction technology, developing materials and machinery for technologically advanced and geologically challenging construction projects. Penta-Ocean is involved in many very-large-scale civil and architectural engineering projects in Japan and overseas, and celebrated its 107th year in operation in fiscal 2002.

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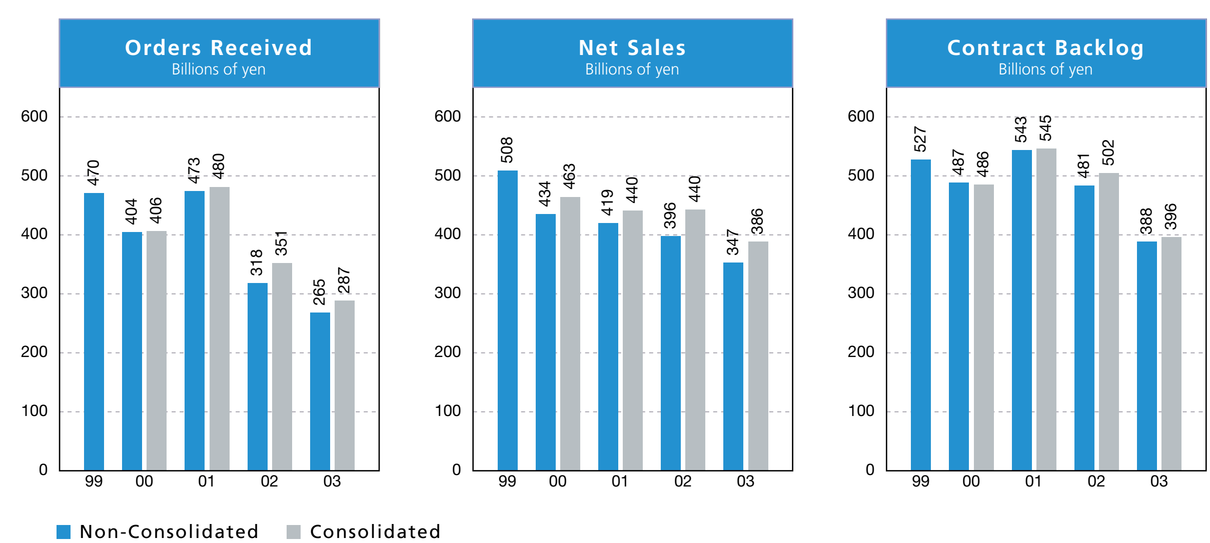
Front cover

Singapore's Esplanade-Theatres on the Bay represents the pinnacle of achievement for Penta-Ocean Construction.

Consolidated Financial Highlights

	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
Orders received	¥351,331	**¥287,101**	**$2,388,527**
Net sales	440,662	**386,861**	**3,218,478**
Contract backlog	502,980	**396,657**	**3,299,975**
Total assets	509,541	**472,849**	**3,933,852**
Shareholders' equity	51,685	**33,682**	**280,216**
Ordinary income	8,351	**1,846**	**15,357**
Income (loss) before income taxes	6,519	**(21,316)**	**(177,338)**
Net income (loss)	1,771	**(16,261)**	**(135,283)**
Cash dividends	904	**—**	**—**
Per share of common stock	Yen		U.S. dollars
Shareholders' equity	¥143.01	**¥93.21**	**$0.77**
Net income (loss)	4.90	**(45.00)**	**(0.37)**
Cash dividends	2.50	**—**	**—**

Note: Figures in U.S. dollars are converted for convenience only, at the rate of ¥120.20 per U.S.$1, prevailing on March 31, 2003.



Message from the President

Fiscal 2002, the year ended March 31, 2003, marked Penta-Ocean's 53rd business term and 107th year in business. During this period, the Japanese economy remained stagnated, mirroring the uncertain state of the global economy. The problems in Iraq, deflationary trends worldwide, and a weak stock market in Japan all contributed to the slowdown in economic growth.

In the Japanese construction market, investment in public sector projects dropped below the previous term's level, owing to the ongoing downturn in government spending. In the private sector, housing investments also declined from the previous term's level, due to growing uncertainty about job security and other issues. Overseas, in the Southeast Asian markets where Penta-Ocean is most involved, growth remained marginal, reflecting a worldwide slowdown in investment in new construction caused by slowing economic growth.

Owing to these circumstances, in October 2002, the Company and its consolidated subsidiaries formulated a two-year medium-term management plan, "Challenge 21." The plan aims to improve performance by increasing profitability. Further downsizing and streamlining of the Group's operations is key to adapting to the rapidly changing business environment surrounding waterfront and coastal civil engineering and construction projects, Penta-Ocean's primary area of expertise.

The new action plan offered early retirement incentives and called for drastic cost-cutting measures that included the dissolution of the employee pension fund system, and the recording of losses in subsidiary company development projects on Penta-Ocean's consolidated balance sheet. It also called for a more closely monitored compliance system.

Business Results for the Term under review

During the term under review, consolidated sales for the Group's development business amounted to ¥3,560 million (US$29.6 million), a year-on-year decrease of 65.6%. Consolidated sales for other categories, however, increased by 13.5% over the previous term to ¥9,132 million (US$75.9 million). Consolidated sales for Penta-Ocean's main construction business declined by 13.0% year-on-year to ¥374,169 million (US$3,112 million). This resulted in a 12.2% decrease in consolidated net sales for the Group for fiscal 2002 to ¥386,861 million (US$3,218 million).

Consolidated operating income declined by 42.4% from the previous term, to ¥6,136 million (US$51.0 million), while consolidated ordinary income dropped 77.9% year-on-year to ¥1,846 million (US$15.3 million). Aiming to improve the Group's financial condition, a large volume of special losses were recorded for the term, including ¥10,245 million (US$85.2 million) taken in charges for loss allowance for liquidation of development projects, and ¥4,081 million (US$33.9 million) for development projects. As a result, consolidated loss before income taxes amounted to ¥21,316 million (US$177 million) for the term under review. Net loss amounted to ¥16,261 million (US$135 million).

Consolidated orders received for the construction segment during the term amounted to ¥287,101 million (US$2,388 million), or 18.3% below the previous term's level. Domestic orders accounted for ¥267,739 million (US$2,227 million) for a year-on-year decrease of 12.7%. Overseas orders represented ¥19,362 million (US$161 million), a decline of 56.5%. Orders independently received by the construction segment amounted to ¥259,430 million (US$2,158 million), a 17.9% decrease from the previous year's level. This decline was attributed to both an increase in competition for new orders and the Group's decision to reject less profitable projects. It was further hampered by Penta-Ocean being barred from participating in bidding for certain projects for the first half of the fiscal term. In these circumstances, regrettably, the Group was unable to pay a dividend to its shareholders for the term under review, as promised last October.

Creating Momentum for Growth

Economic forecasters predict negligible growth in the Japanese economy for the foreseeable future. With capital investment and consumer spending at all-time lows, and a general slowdown in the U.S. and global economies, hard times still lie ahead for Japanese companies.

The protracted falloff in investment for both private and public sector construction projects has created an extremely harsh operating environment for companies in the construction field. This situation has led to increasingly severe competition for projects exhibiting high projected profit margins. To compete successfully in this marketplace, Japanese construction companies must not only take an aggressive approach to business by maintaining solid financial standings and operating profitably, they must also actively market their technological prowess and project execution skills in order to win the highly sought-after very-large-scale projects planned by the governments of emerging economies throughout Southeast Asia. Penta-Ocean is well on its way to becoming the leading contender in this burgeoning new market.

Under the circumstances, our business group has to promote the medium-term management program, "Challenge 21" that was formulated in October 2002 and make company-wide efforts to improve profitability.

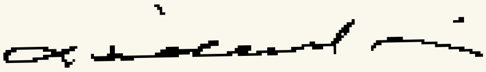
In the current term, Penta-Ocean's domestic civil engineering segment will focus on procurement of construction projects in marine environments throughout Japan and will utilize its formidable technological expertise to outpace its competitors. The domestic construction segment will continue to monitor project selection with extreme caution, a practice that has all but eliminated unprofitable projects in recent years.

Through these efforts, we anticipate a reversal in the current downturn in profitability and a return to sustainable economic growth. As we work towards this goal, we will continue to improve transparency and more closely

monitor management practices and performance, while continuing to streamline the Company and unify the efforts of its subsidiary and affiliate companies.

In these challenging times, we ask our shareholders for their forbearance, and for their understanding concerning the reallocation of legal reserves to dispose of losses for the purpose of improving the Company's financial standing in anticipation of a reduction in paid-in capital.

June 27, 2003

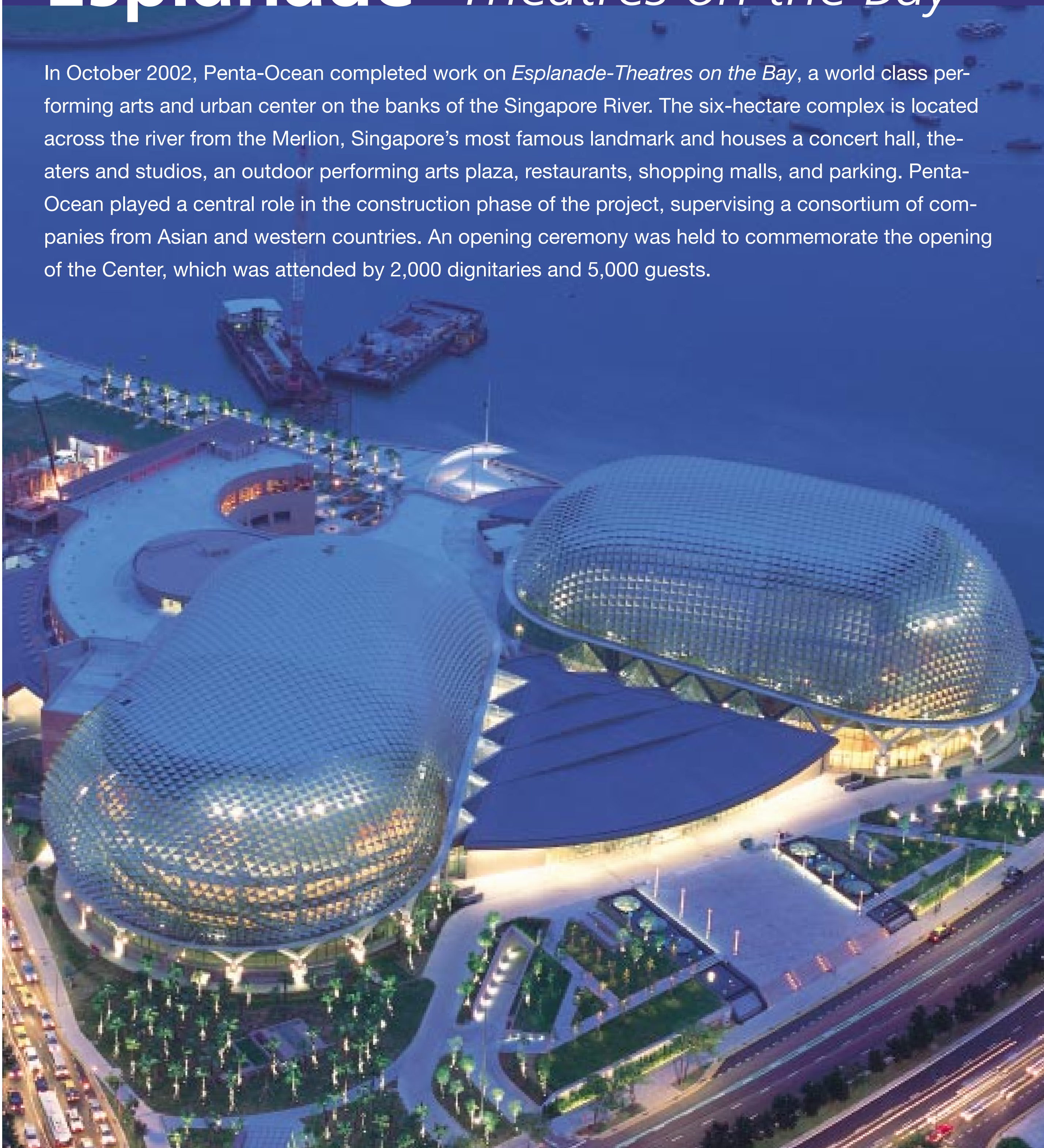


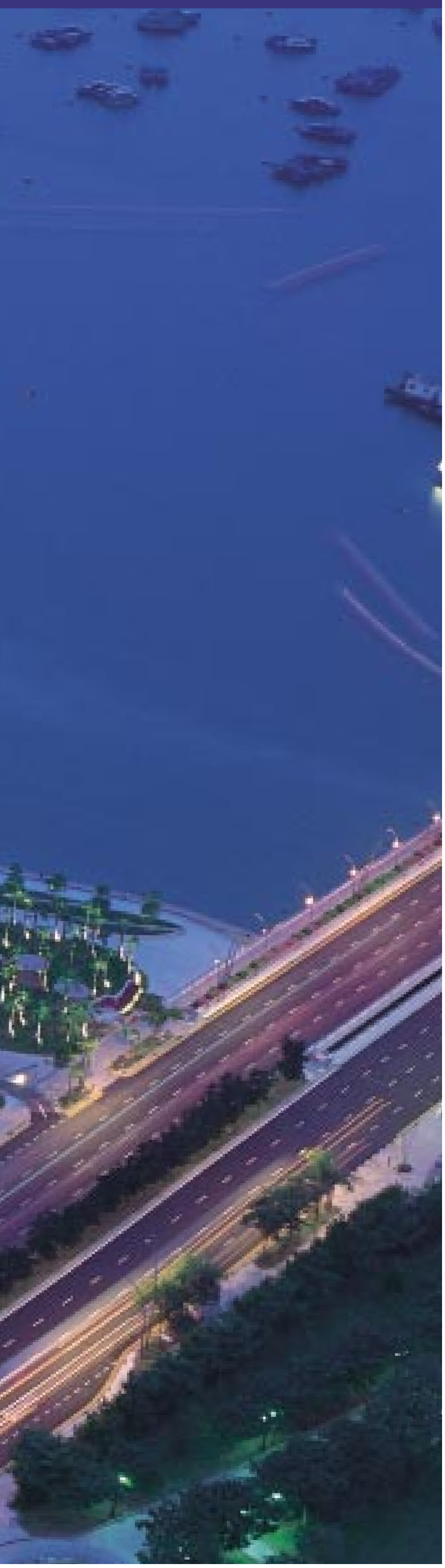
Hideaki Kato,
President

Topics

Esplanade- *Theatres on the Bay*

In October 2002, Penta-Ocean completed work on *Esplanade-Theatres on the Bay*, a world class performing arts and urban center on the banks of the Singapore River. The six-hectare complex is located across the river from the Merlion, Singapore's most famous landmark and houses a concert hall, theaters and studios, an outdoor performing arts plaza, restaurants, shopping malls, and parking. Penta-Ocean played a central role in the construction phase of the project, supervising a consortium of companies from Asian and western countries. An opening ceremony was held to commemorate the opening of the Center, which was attended by 2,000 dignitaries and 5,000 guests.



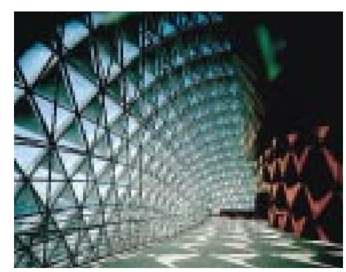


Lyric Theatre
The Lyric Theatre has seating for 2,000 and is equipped with a wide stage that can accommodate full-scale ballet and opera performances. The state-of-the-art stage system has more than 100 functions for hoisting, illumination and screening, and offers more than a thousand variations in stage settings.

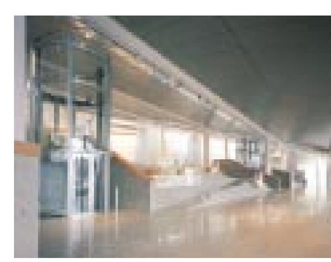
Concert Hall
The centerpiece of the concert hall is an enormous pipe organ, located behind the stage with large side panels of glass fiber reinforced gypsum covered with Thai silk. This humidity resistant material has exceptional acoustical properties and has been used to create perfect sound in the hall. The ultra-quiet interior is said to make the Hall so quiet that the heartbeats of the guests can be heard.

Grand Foyer
The Grand Foyer is the showcase of *Esplanade-Theatres on the Bay* and is the meeting place for guests attending performances and meetings.

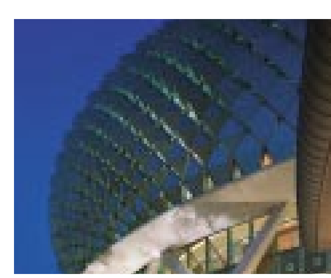
Three types of specially manufactured sheet glass have been utilized to provide high insulation value while shielding occupants from the sun's infrared rays. The panoramic view of the surrounding city is nothing less than breathtaking.



Entrance
Guests enter through a courtyard and walk down a concourse laid out in a zigzag design that leads to the main concert hall on the left, the theatre on the right, and to the shopping mall straight ahead.



Spectacular Design
The concert hall and the theatre are designed to resemble the appearance of a durian and are constructed of spherical concrete roofs and glass panels supported by specially designed framing. The durian-shaped sunshades have elaborately designed fins angled in various directions to catch the suns rays as it moves across the sky. The linking garters supported by V-shaped columns are three-dimensional and have been constructed to eliminate electrical distortion, a key factor in providing an interference-free environment for computers.



Review of Operations

Overseas Projects >>

Among the overseas projects in which the Company and its consolidated subsidiaries engaged in the term under review, the most notable is the completion of the *Esplanade-Theatres on the Bay* in Singapore. The project included excavation and the construction of an underground foundation structure that required advanced construction technology capabilities and expertise in marine construction, for which Penta-Ocean is best known. The Group also won the bid to build the superstructure, owing to its highly successful cost-saving proposals, which included the facility's spectacular steel truss roof. This project represents the pinnacle of Penta-Ocean's technology and business expertise.

The substructure and superstructure portions were completed through a painstaking effort of collaboration with designers of the overall structure, the facilities and equipment, acoustic and theater requirements, exterior and interior designers, and special facilities. The collaboration was an international effort, with designers coming from Singapore, the U.S., the U.K., Germany, Hong Kong, and other countries. The majority of large-scale projects in Singapore is carried out by overseas construction companies and as such, is carried out predominantly in five languages. Penta-Ocean receives many of these projects owing to its exceptional supervisory skills multinational working environments.

The grand opening festival for the *Esplanade-Theatres on the Bay* was held in Singapore in October 2002, followed by strenuous efforts to complete the mammoth project in a record 3.9 years.

Other completed works included the Port of Colombo Extension Project for the development of a north pier, from the Bureau of Port and Harbor, the Government of the Democratic Socialist Republic of Sri Lanka. The new facility has greatly expanded cargo loading and unloading capabilities at the port. The project was completed in three stages — the Urgent Plan Project (Stage I), the Major Works Project (Stage II), and the Equipment Project (Stage III).

Notwithstanding these accomplishments, consolidated net sales for overseas markets in the term under review declined by 22.2% year-on-year to ¥60,644 million (US$504 million). In the Southeast Asian market, in particular, Penta-Ocean suffered a 27.7% drop in consolidated net sales to ¥49,997 million (US$415 million), owing to the falloff in economic growth in the region.

During the term, the Group received a major order for Engineering Infrastructure Works for Pak Shek Kok Development Package I from the Territory Development Department of the Hong Kong Government, SAR. This project represents the first phase of a very-large-scale infrastructure improvement project in Hong Kong and includes a science park, recreation facilities, and large residential buildings. Construction is expected to take three years. As the Government of Hong Kong is planning full-scale redevelopment of the area, Penta-Ocean's long-term involvement in the mega-project is anticipated.

Also in Hong Kong, the Group received an order for construction of the Lockhart Road Commercial Building project at Wanchai. The project involves construction of a 25-storied 87-meter-high commercial office building, to be completed in March 2004. Penta-Ocean has also received an order to construct a 7-story, 36.6-meter-high building that will house 24 classrooms at the Chai Wan Elementary School. Completion is scheduled for May 2004. Another project, to rebuild Hong Kong's St. Andrew's Church, will reach completion in March 2004.

In Singapore, Penta-Ocean succeeded in receiving an order from the Land Transport Authority of the Singaporean Government for construction of the MRT Circle Line Harbour Front Interchange Station building.

The Grand Foyer of Esplanade-Theatres on the Bay, Singapore

This project will involve the construction of new platforms and concourses that will connect the station with the neighboring Harbour Front Station building. Construction is expected to take two years.

Other projects included an order for road improvement for the State of Yap, from the Ministry of Foreign Affairs of the Government of Micronesia. This is an asphalt concrete pavement work project covering a total of 14.4 kilometer, two-lane road. During the term, Penta-Ocean also received an order for the construction of the Fiji Pharmaceutical Services Center building in Fiji.

Civil Engineering Projects >>

The Japanese construction market continued to be depressed during the term under review. Tightened financial conditions and the resulting falloff in public and private sector investment exacerbated the situation. In the private sector, housing investment and capital investment were down from the previous year's level, fueled by uncertainty about employment security and a lethargic stock market.

Under these circumstances, consolidated net sales of domestic civil engineering and construction amounted to ¥326,217 million (US$2,713 million), a decrease of 10.0% from the previous term.


Hanshin Highway, Kita-Kobe route, Hyogo

Major project completions during the term included:

Phase II of the Kansai International Airport Island revetment construction work (Order for Phase III received from the Kansai International Airport Land Developing Co., Ltd.), Penta-Ocean has been the sole contractor for this work.

Phase III of airport island construction work for the Central Japan International Airport Co., Ltd., Penta-Ocean completed this project at the end of April despite resource shortages and an exceptionally short turn-around schedule. Construction of the airport is being carried out at an accelerated pace in order for completion to coincide with the opening of the Aichi International Exhibition in March 2005.

The Fujieda Tunnel No. 1 project for Tomei Highway No. 2 in Shizuoka Prefecture, ordered by the Japan Highway Public Corporation.

The Nakajo Interchange on the Tohoku Highway along the Sea of Japan, ordered by the Japan Highway Public Corporation. On October 20, 2002, the Highway opened service to the Nakajo Interchange in northern Niigata. Since this highway connects Niigata and Aomori along the Sea of Japan, this opening will contribute significantly to the development of industry and tourism in the region.

A triple tracking, grade separation project between Nakamurabashi and Fujimidai stations on the Seibu Ikebukuro Line in Tokyo, ordered from the Seibu Railway Co. This grade separation project took nine years to complete owing to heavy road and rail traffic during construction. The grade separation and double tracking in each direction has helped alleviate traffic congestion in the vicinity.

The Oji Chip Yard project in Tokushima Prefecture ordered by Oji Paper Co., Ltd. is now accepting wood chips on a 24-hour basis.

The South Kotokuji-dai Housing Lots Development ordered by Nangoku Land Service Co., Ltd. aims at relieving a housing shortage in Kagoshima City and offers housing lots for 89 buildings that will accommodate 1,360 families.

Central Japan International Airport“ centrair, ”Aichi

Oji Paper, Tomioka Mill Chip Yard, Tokushima

Aki-Nada submarine pipe-embedding work site, Hiroshima

The Aki-nada No. 6 submarine pipe-embedding project in Hiroshima Prefecture has increased the supply of city water to 30,000 island residents. Penta-Ocean's super-large submarine pipe-embedding vessel, the *Tekkai* was used to complete the work. Submarine pipes, 400 mm in diameter, were connected one after another to span approximately 3.5 kilometers, at the maximum sea depth of about 60 meters. The Group's expertise in marine construction and advanced technology made it possible to complete the large-scale project.

New orders received during the term included the following.

Japan Highway Public Corporation has placed an order for the new Arimatsu ramp on East Meihan Highway. This is part of a project to construct a highway between National Highway No. 1 and the Nagoya South IC/JCT, together with a new ramp for relieving traffic concentrating in central Nagoya City.

Hiroshima City has placed an order for the construction of a pumping station in its western coastal area. This pumping station is constructed to protect the commercial and industrial centers in Nishi Ward, Hiroshima City from typhoons. The construction period is set for four years.

The Bureau of Port and Harbor, Tokyo Metropolitan Government has placed an order for a revetment construction project (Part II) in the Block G West of a new landfill disposal site for Fiscal 2005. This project is to construct revetments for securing a site for final disposal of household and industrial waste as well as construction waste in the coastal area around Tokyo Bay.

The Kansai-kan of the National Diet Library, Kyoto

Architectural Projects >>

Architectural projects completed in the term under review included several condominiums. The *Alpha Grande Narita* residential building No. 2 ordered from Starts Co., Ltd. was completed in July 2002. The facility is located at the center of Narita New City and is designed as if it was an art museum and fully equipped with an advanced security system. The design of the building reflects the developer's desire to create as much privacy as possible for the occupants. *Estaterra Shonan-dan Manshion*, in Fujisawa City, Kanagawa Prefecture, was built for Itochu Urban Development Co., Ltd. In the center of the complex are the Plaza Tower and six other buildings containing a total of 619 apartments housing approximately 3,000 people. This residential facility is beautifully designed and includes a daycare center, meeting and multipurpose rooms, surrounded by lush gardens.

Another project, completed by Penta-Ocean in April, is *Life Pal Ichikawa*, built for Hitachi Metals Estate Co., Ltd. Located in Ichikawa City, Chiba Prefecture, the condominium was designed and constructed by Penta-Ocean and is comprised of rental compartments that accommodate family pets. The condominium has two entrances, a central one and a second for residents with pets that features a foot bathing and grooming area for animals. Penta-Ocean also developed an optical deodorizing parallel beam installed in the entrance that deodorizes and sterilizes pets as they pass through. Due consideration has also been given in the design for extra indoor ventilation.

In February 2003, *Refill Nihonbashi Hamacho* was completed for Yasuda Real Estate Co., Ltd., a fashionable 12-storied condominium designed to create a calm atmosphere in a central urban area. The complex is located within the Nihonbashi Hamacho redevelopment project, an area Penta-Ocean has been actively involved in.

Shirone-Ohdori Hospital, Niigata

During the term under review, Penta-Ocean completed design and construction work on several physical distribution centers, including the *Aeon Kanto RDC* and *Fukuyama Transport Kanto Distribution Center* for the Fukuyama Transport Co., Ltd. *Kamigumi Idetamachi Vegetable and Fruit Center* in Kanagawa Ward in Yokohama City was built for Kamigumi Co., Ltd., as was the *Kamigumi Constant-Temperature Warehouse,* in Niigata, were also designed and built by the Group.

During the term, Penta-Ocean also completed work on several medical facilities, including the *Shirone Ohdori Hospital,* in Niigata, for the *Medical Corporation Hakubikai* and *Tobata Rehabilitation Hospital*, in Fukuoka, for the Kyoaikai Medical Corporation. Both hospitals have the appearance of hotels, an unusual concept in Japan, and both were designed and constructed by Penta-Ocean.

The comprehensive research building of *National Muroran Institute of Technology*, completed November 2002, is a multipurpose building housing a museum on the first floor and research facilities on the third and fourth floors. The structure was designed to reflect the heritage of the region in which it is located.

Construction work on the *Ujina passenger terminal building*, in Minami Ward, Hiroshima was completed at the end of 2002. The structure is highly rated as the new maritime entrance to Hiroshima Port.

Penta-Ocean also completed construction of a gymnasium belonging to the Shimonada Athletic Park in Sokai-cho, Ehime Prefecture. The region is famous for its sunsets and pristine forests, and local timber was used in the construction of the uniquely shaped gymnasium.

Other architecture-related works included the construction of the head office building of Isewan Marine Transport Co., Ltd. in Aichi Prefecture and *Clear Garden Mochida Condominium*, for the Central Comprehensive Development Co., Ltd. in Matsuyama City, Ehime Prefecture.

During the term, a group of companies headed by Itochu Urban Development Co., Ltd. placed an order with Penta-Ocean for the construction of a 31-storied, 501-compartment condominium, *Laguna Tower*, to be completed in February 2005, in the Tennozu Isle Area. The project has attracted considerable attention as a result of the opening of the Japan Railways Rinkai Line service. Penta-Ocean will handle all design, supervision and construction work for the project.

The construction work the Group has accepted from an urban redevelopment association in the Nihonbashi Hamacho area, includes the construction of a 10-storied composite building, the *Nihonbashi Yasuda Sky Gate*, an intelligent building that will offer comfortable office environments suitable for the era of advanced information in the 21st century.

Nihonbashi Yasuda Sky Gate, Tokyo

Construction of the *Kamigumi Comprehensive Physical Distribution Center*, on an artificial island (Port Island) in the Port of Kobe has begun with a construction period of one year. The facility is a comprehensive physical distribution warehouse, equipped with constant-temperature storing rooms and constant-temperature fumigating areas, as well as ordinary storage areas.

Tobata Rehabilitation Hospital, Fukuoka

R&D as a Business Strategy >>

Penta-Ocean is involved in four areas, creating environmentally safe marine disposal sites, recycling and environmental cleanup, maintenance, updating, and seismic reinforcement, and urban renewal. Drawing upon its accumulated technological expertise in a wide range of disciplines, the Group is rapidly developing this segment of its operations into a major business area.

Penta-Ocean is developing new technologies that meet the rapidly evolving demands of public and private sector clients in both civil and architectural engineering, and this effort is expected to generate sustainable business growth in multiple areas for the long-term future. Reflecting this commitment to maintaining its technological edge, Penta-Ocean invested ¥1,764 million (US$14.6 million) in research and development projects during the term under review.

Principal R&D projects and results in the term under review follow:

Vacuum consolidation draining method

This method was designed to improve extremely soft ground. An airtight cap and a water-discharging hose are coupled to a drainage system and then directly connected to a vacuum pump. This process gives load to the drainage and improves the soil. Not requiring conventional sealing sheets or sand mats, the new method is both cost and time efficient, and since it does not use any solidifying agents, it is friendly to the environment.


Clay Guard method work site

Clay Guard Method (Deformation-following water-sealing method)

This method seals out water by using a deformation-following water-sealing material made by adding gap-regulating and gelling agents to marine clay and keeping the clay from solidifying so that it can follow any changes in ground formation. Since the clay does not crack even when it moves to the contours of changing formations, it has high water-sealing characteristics. This method has been applied in the construction of final waste disposal sites in marine environments, a common practice in Japan.

Environmental Dredging Method (END Method)

This bottom-dredging method uniformly removes silt to a minimum soil depth. The method combines a thin-layer dredging grab developed by Cable Arm Corp. of the U.S. with dredge/vessel-controlling system technology developed by Penta-Ocean. The method is most suited for removing obstacles embedded in riverbeds and estuaries. This dredging system is considered environmentally friendly, owing to its minimum displacement of muddy water during operation, and has been employed in the dredging of the fairway in the Port of Hiroshima.

Remote control earthmoving system

This remote-control system makes it possible to operate machinery using a local area wireless network in locations deemed unsafe or impractical for operators. By transmitting a large amount of data in a single frequency range through the wireless LAN system, radio interference, a common problem of remote systems, is avoided. This has expanded the range of use for this technology to areas such as disaster restoration work in earthquake-stricken areas.

Remote control earthmoving system and control room

END method work site

On-site dioxins decomposition system

Dioxins decomposition technology

Environmental concern over dioxins has become more heightened in recent years, as the public has become more aware of their negative effects on humans and the environment. In Japan, incinerating facilities that cannot meet new pollution control laws are being closed down and dismantled. Penta-Ocean has acted quickly in securing this new market by developing a portable, dioxin-neutralizing system that can be transported by disassembly into modules. The remote-control operated machinery has also been utilized in dismantling incinerator chimneys.

In the architectural business segment, the Group took part in joint research with nine private companies to develop software for diagnosing degradation of concrete structures. The advanced diagnostic system will be used to monitor and repair a wide variety of structures.

Penta-Ocean is also involved in physical distribution facilities, and during the term under review developed a *double twister* air shower system used for sealing airflow at entrances and exits of food-processing and other factories. This is accomplished by adopting a swirling induction system so that dust and dirt does not adhere to surrounding components.

New Business, Real Estate Development and Other Businesses >>


Tokyo Coastal Wind Plant, Tokyo

The New Business Promotion Division was established in fiscal 2000 to handle the Group's growing environmental businesses. Revenues from this division have continued to rise steadily. Penta-Ocean has expanded the scope of its environmental business to include wind-powered electric generation plants, drawing on its formidable R&D capabilities and accumulated experience in the field of infrastructure construction.

In April 2001, the Group's first wind generator was set up at the Nakaumi Agricultural Park in Yasugi, Shimane Prefecture. In March 2002, a total of 28 generators were installed at Horobetsu in Hokkaido. Penta-Ocean also took charge of 17 of the 28 generators at the Otonrui Wind Plant, as well as the construction of substations and an administration/warehouse building. The large-scale power plant facilities form a straight line 3 km from north to south. Each wind plant generates 750 kW, the total output being 21,000 kW. The facility is located near the Sarobetsu Wilderness and Flower Park and commands a fine view of Mt. Rishiri. The area is a popular tourist destination.

The Tokyo Coastal Wind Plant, completed in March 2003, is located in Koto Ward, Tokyo and is the first wind generation project located in the Tokyo metropolitan area. The Tokyo Municipal Government carried out the project and Jay Wind Co., Ltd. Penta-Ocean constructed the foundations for the facility, which is capable of generating enough electric power to sustain 800 households.


Setting up wind generation electricity plant at Setana coast, Hokkaido

Off the coast of Setana, Hokkaido, another wind power station is currently under construction. Scheduled for completion during the current term, the Setana plant will be Japan's first floating wind power station. The project is part of a larger project underway to build multipurpose wharfs to protect coastal areas in that region. The wharf foundation, constructed by Penta-Ocean, has been specially designed to provide a habitat for native marine life.

Despite the continued slump in the domestic real estate market, consolidated sales in the Group's development business segment increased by 65.6% over the previous term's level to ¥3,560 million (US$29 million). Operating amounted to ¥501 million (US$4.1 million). Consolidated sales from the Other Businesses segment totaled ¥9,132 million (US$75 million), a 13.5% year-on-year increase. However, no operating profit was recorded. Consolidated operating loss in the term under review was ¥88 million (US$0.7 million), a decline of 22.1% from the previous term.

Financial Statements

Consolidated Summary

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

	Millions of yen				Thousands of U.S. dollars
	2000	2001	2002	**2003**	**2003**
Orders received	¥406,995	¥480,699	¥351,331	**¥287,101**	**$2,388,527**
Construction	406,995	480,699	351,331	**287,101**	**2,388,527**
Real estate development	—	—	—	**—**	**—**
Other	—	—	—	**—**	**—**
Net sales	463,952	440,141	440,662	**386,861**	**3,218,478**
Construction	436,910	428,367	430,474	**374,169**	**3,112,887**
Real estate development	17,283	5,844	2,149	**3,560**	**29,617**
Other	9,759	5,930	8,039	**9,132**	**75,974**
Contract backlog	486,989	545,246	502,980	**396,657**	**3,299,975**
Construction	486,989	545,246	502,980	**396,657**	**3,299,975**
Real estate development	—	—	—	**—**	**—**
Other	—	—	—	**—**	**—**
Total assets	510,665	497,114	509,541	**472,849**	**3,933,852**
Shareholders' equity	46,110	51,715	51,685	**33,682**	**280,216**
Ordinary income	8,824	10,494	8,351	**1,846**	**15,357**
Income (loss) before income taxes	(19,054)	9,436	6,519	**(21,316)**	**(177,338)**
Net income (loss)	(13,395)	3,179	1,771	**(16,261)**	**(135,283)**
Cash dividends	904	1,807	904	**—**	**—**
Per share of common stock:	Yen				U.S. dollars
Shareholders' equity	¥127.59	¥143.10	¥143.01	**¥93.21**	**$0.77**
Net income (loss)	(37.06)	8.80	4.90	**(45.00)**	**(0.37)**
Cash dividends	2.50	5.00	2.50	**—**	**—**
Number of employees	4,176	4,114	4,549	**3,934**	

Note: The amounts of orders received and contract backlog related to real estate development and other business is not stated on the above summary, because those amounts were small and did not have a material effect to respective total amounts.
U.S.$1=¥120.20 as at March 31, 2003

Financial Review

Business Performance

The domestic construction market, Penta-Ocean's main area of business, remained very depressed during the term under review, while government investment in public works projects dropped below the previous year's level.

In the private sector, housing investment also decline, owing to uncertainty about future employment conditions and lower consumer spending. In the Southeast Asian market, the Group's main area of business outside Japan, economic growth continued on an upward, albeit uncertain path. The slowdown in the U.S. economy also fueled worry that the global economy was slowing.

Against this backdrop, consolidated net sales decreased by 12.2% from the previous term's level to ¥386,861 million (US$3,218.4 million). Consolidated operating income also declined, by 42.4% year-on-year to ¥6,136 million (US$51.0 million), while consolidated ordinary income dropped by 77.9% year-on-year to ¥1,846 million (US$15.3 million). Both loss before income taxes and consolidated net loss recorded substantial losses of ¥21,316 million (US$177.3 million) and ¥16,261 million (US$135.2 million), respectively. These unfavorable results were generated by the Group's improved financial condition, owing to the recording of large amounts of special losses, including ¥10,245 million (US$85.2 million) taken in charges for loss allowance for liquidating development projects, and ¥4,081 million (US$33.9 million) added to the loss allowance for development projects.

Segment Information

When examining the Group's consolidated financial results by business segment, the domestic construction market accounted for the majority of revenues. Throughout fiscal 2002, the environment surrounding the construction industry remained harsh, owing to the downturn in public investment at both the national and local government levels. Private capital and housing investments also dropped to levels below the previous term.

Under these circumstances, consolidated sales for the construction segment decreased by 13.0% to ¥5,825 million (US$48.4 million). This included both domestic and overseas results. Consolidated operating income amounted to ¥5,825 million (US$48.4 million).

In the development segment, consolidated sales increased by 63.4% over the previous term, to ¥3,894 million (US$32.3 million), despite a weak domestic real estate market. Although in the previous term Penta-Ocean recorded an operation loss, in the term under review, operating income amounted to ¥501 million (US$4.1 million).

Total consolidated sales for other businesses amounted to ¥17,853 million (US$148.5 million), a decrease of 3.3% year-on-year. This total included revenues from shipbuilding, sales and leasing of construction machinery and equipment, and rental of ocean vessels. The Group's golf business performed poorly, and so no operating profit was recorded. Operating loss amounted to ¥88 million (US$0.7 million), representing a 22.1% drop from the previous year's level.

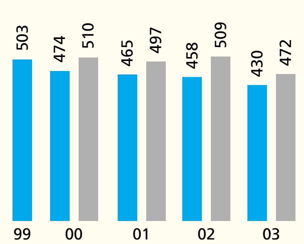
In analyzing business results by region, consolidated sales in Japan amounted to ¥326,217 million (US$2,713.9 million), a decrease of 10.1% year-on-year. Operating income declined by 7.7% year-on-year to ¥8,476 million (US$70.5 million).

Consolidated net sales in the Southeast Asian region decreased by 27.8% to ¥49,997 million (US$415.9 million) and operating loss amounted to ¥1,966 million (US$16.3 million).

Consolidated net sales in other regions increased by 21.9% year-on-year to ¥10,647 million (US$88.5 million), thanks mainly to the completion of construction works in Rumania and Bulgaria. However, the Group did not record any operating profit: Operating loss amounted to ¥375 million (US$3.1 million).

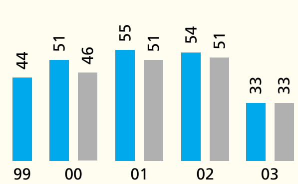
Total Assets

Billions of yen



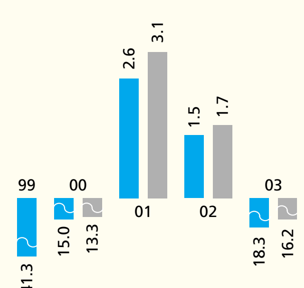
Shareholders' Equity

Billions of yen



Net Income (Loss)

Billions of yen



Orders Received and Contract Backlog

Consolidated orders received by the Group amounted to ¥287,101 million (US$2,388.5 million) in the term under review. This represented a decline of 18.3% from the previous term. While orders received from the domestic market decreased by 12.7% year-on-year to ¥267,739 million (US$2,227.4 million), orders from overseas markets dropped substantially, by 56.5%, to ¥19,362 million (US$161.0 million). This decline was the result of increased competition for new orders and the Group's decision to reject less profitable projects. It was further hampered by Penta-Ocean being barred from participating in bidding for certain projects for the first half of the fiscal term. Contract backlog decreased by 21.1% year-on-year to ¥396,657 million (US$3,299.9 million).

Financial Position

Total assets belonging to the Penta-Ocean Group decreased by 7.2%, or ¥36,692 million (US$305.2 million) from the previous year to ¥472,849 million (US$3,933.8 million). This was due largely to the reduction in accounts receivable from completed works, payments to uncompleted works, and notes payable/debt service related to these projects. The Group received fewer orders during the term, and it made strenuous efforts to collect accounts receivable from completed works earlier than usual. Net losses amounted to ¥17,259 million (US$143.5 million).

Cash Flows

For cash flow generated by sales activities, net profit before tax and other adjustments decreased by ¥38,136 million (US$317.2 million) for an excess payment of ¥13,026 million (US$108.3 million). As a result of an increase of ¥24,490 million (US$203.7 million) owing to a reduction in trade receivables against decreases in net loss before tax and other adjustments of ¥21,316 million (US$177.3 million) in term under review, trade payables amounted to ¥39,277 million (US$326.7 million).

Cash flow from investment activities resulted in an excess expenditure of ¥6,214 million (US$51.6 million), a reduction of ¥9,775 million (US$81.3 million) from the previous term, as a result of acquisition of new fixed assets and payments for loans.

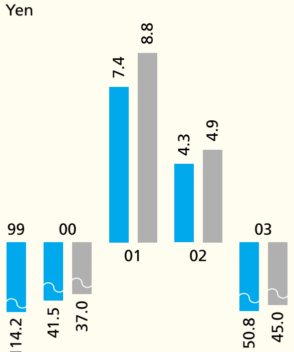
Cash flow from financial activities increased by ¥48,934 million (US$407.1 million) year-on-year to an excess income of ¥17,917 million (US$149.0 million): Long and short-term debts increased by ¥15,662 million (US$130.2 million) and ¥3.1 million (US$25.7 million), respectively.

The amount of consolidated cash and cash equivalents reported by the Group at the end of the term decreased by ¥2,055 million (US$17.0 million), or 4.0%, to ¥49,321 million (US$410.3 million). The balance of interest-bearing liabilities amounted to ¥207,256 million (US$1,724.2 million).

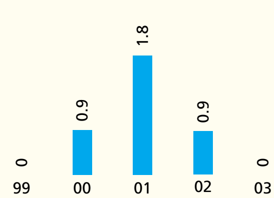
Dividends

It is Penta-Ocean's basic policy to pay dividends to its shareholders in a consistent manner, while at the same time endeavoring to accumulate internal reserves in order to maintain a strong financial base. In the term under review, however, it was decided not to pay a dividend, owing to a substantial net loss in the term under review. This was due in part to the reporting of a large number of special losses in order to strengthen the Group's financial standing.

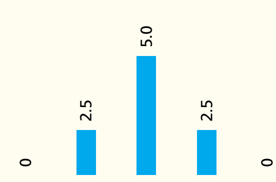
Net Income (Loss) per Share
Yen



Cash Dividends
Billions of yen



Cash Dividends per Share
Yen



Non-Consolidated Consolidated

Consolidated Balance Sheets

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
March 31, 2002 and 2003

	Millions of yen		Thousands of U.S. dollars
ASSETS	2002	**2003**	**2003**
Current assets:			
Cash and deposits (Note 5)	¥ 52,423	**¥ 49,969**	**$ 415,715**
Securities (Notes 3 (4), 4, and 5)	177	**728**	**6,057**
Trade receivable:			
Notes	14,455	**14,316**	**119,101**
Accounts	158,733	**134,811**	**1,121,556**
Inventories: (Note 3 (7))			
Cost of uncompleted contracts..	63,172	**50,355**	**418,927**
Real estate for trade and real estate in progress	53,828	**52,520**	**436,938**
Other inventories	2,351	**3,058**	**25,441**
Deferred tax assets (Note 15)	8,966	**10,500**	**87,354**
Other current assets	4,423	**5,414**	**45,042**
Allowance for doubtful accounts (Note 3 (6))	(1,585)	**(1,006)**	**(8,369)**
Total current assets	356,943	**320,665**	**2,667,762**
Investments and non-current assets:			
Investment in securities (Notes 3 (4), 4 and 5)	23,612	**18,743**	**155,932**
Long-term loans and accounts receivable	4,236	**7,480**	**62,230**
Sundry investments	22,451	**21,398**	**178,019**
Deferred tax assets (Note 15)	10,496	**15,550**	**129,368**
Allowance for doubtful accounts (Note 3 (6))	(12,203)	**(11,858)**	**(98,652)**
Total investments and non-current assets	48,592	**51,313**	**426,897**
Property, plant and equipment: (Note 3(8))			
Land (Note 5)	51,309	**50,860**	**423,128**
Buildings and structures (Note 5)	39,885	**39,509**	**328,694**
Machinery, equipment and vehicles	22,752	**20,454**	**170,166**
Dredgers and vessels	52,387	**53,283**	**443,287**
Construction in progress	652	**1,851**	**15,399**
Other property and equipment	3,740	**3,645**	**30,324**
Total property, plant and equipment	170,725	**169,602**	**1,410,998**
Less accumulated depreciation	(67,490)	**(69,332)**	**(576,805)**
Property, plant and equipment — net	103,235	**100,270**	**834,193**
Other assets	771	**601**	**5,000**
Other (Note 3 (9))			
Total assets	¥509,541	**¥472,849**	**$3,933,852**

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2002	Millions of yen 2003	Thousands of U.S. dollars 2003
Current liabilities:			
Short-term debt (Note 6)	¥ 81,459	**¥ 84,646**	**$ 704,210**
Current portion of long-term debt (Note 6)	20,437	**22,979**	**191,173**
Trade payable:			
Notes	62,816	**37,536**	**312,280**
Accounts	98,530	**87,125**	**724,834**
Advance on contract works in progress	57,566	**49,337**	**410,458**
Deposits received	16,478	**16,209**	**134,850**
Accrued income taxes	1,192	**649**	**5,398**
Provision for loss on liquidation of a subsidiary (Note 3 (11))	—	**10,245**	**85,233**
Accrued expenses	3,273	**2,430**	**20,216**
Other current liabilities	6,553	**4,691**	**39,027**
Total current liabilities	348,304	**315,847**	**2,627,679**
Long-term liabilities:			
Long-term debt (Note 6)	86,596	**99,833**	**830,558**
Reserve for retirement benefits (Notes 3 (12) and 19)	9,622	**7,357**	**61,206**
Reserve for directors' and statutory auditors' retirement (Note 3 (13))	1,422	**694**	**5,774**
Deferred tax liabilities for land revaluation (Note 17 (2))	4,074	**4,012**	**33,378**
Consolidation adjustments	1,838	**1,402**	**11,664**
Other long-term liabilities	6,000	**10,022**	**83,377**
Total long-term liabilities	109,552	**123,320**	**1,025,957**
Shareholders' equity:			
Common stock	33,971	**33,971**	**282,621**
Authorized — 599,135,000 shares			
Issued — 361,407,443 shares at March 31, 2002 and 2003			
Capital surplus reserve (Note 17 (1))	10,635	**10,635**	**88,478**
Retained earnings (deficit) (Note 2 (5))	251	**(17,008)**	**(141,499)**
Land revaluation excess (Note 17 (2))	5,614	**5,800**	**48,253**
Unrealized valuation gain or (loss) on other securities — net (Note 17 (3))	859	**(64)**	**(532)**
Cumulative foreign currency translation adjustments (Note 3 (2))	356	**352**	**2,928**
Less: Tresury stock	(1)	**(4)**	**(33)**
Total shareholders' equity	51,685	**33,682**	**280,216**
Total liabilities and shareholders' equity	¥509,541	**¥472,849**	**$3,933,852**

Commitments and contingent liabilities (Note 14)

Consolidated Statements of Income, and Retained Earnings or Deficit

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2002 and 2003

	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
Construction business:			
Net sales	¥430,474	**¥374,169**	**$3,112,887**
Cost of sales	385,840	**340,170**	**2,830,033**
	44,634	**33,999**	**282,854**
Real estate and other:			
Net sales	10,188	**12,692**	**105,591**
Cost of sales	9,655	**11,629**	**96,747**
Gross profit	533	**1,063**	**8,844**
Total net sales	440,662	**386,861**	**3,218,478**
Total cost of sales	395,495	**351,799**	**2,926,780**
Total gross profit	45,167	**35,062**	**291,698**
Selling, general and administrative expenses	34,512	**28,926**	**240,650**
Operating income	10,655	**6,136**	**51,048**
Other income:			
Interest and dividends	514	**477**	**3,968**
Other (Note 7)	1,156	**1,254**	**10,433**
	1,670	**1,731**	**14,401**
Other expenses:			
Interest	3,529	**3,462**	**28,802**
Other (Note 8)	445	**2,559**	**21,290**
	3,974	**6,021**	**50,092**
Ordinary income	8,351	**1,846**	**15,357**
Extraordinary gain (Note 9)	1,882	**2,561**	**21,306**
Extraordinary loss (Note 10)	3,714	**25,723**	**214,001**
Income (loss) before income taxes	6,519	**(21,316)**	**(177,338)**
Income taxes: (Notes 3 (17) and 15)			
Current	1,748	**812**	**6,755**
Income taxes deferred	3,000	**(5,867)**	**(48,810)**
Net income (loss)	1,771	**(16,261)**	**(135,283)**

Income per share of common stock (Note 3 (14))	Yen		U.S. dollars
Primary	¥4.90	**¥(45.00)**	**$(0.37)**
Assuming full dilution	—	**—**	**—**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2002 and 2003

	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
Common stock:			
Balance at the beginning of the period	¥33,971	**¥33,971**	**$282,621**
Balance at the end of the period	33,971	**33,971**	**282,621**
Capital surplus: (Note 17 (1))			
Balance at the beginning of the period	10,635	**10,635**	**88,478**
Balance at the end of the period	10,635	**10,635**	**88,478**
Earned surplus: (Note 2 (5))			
Balance at the beginning of the period	317	**251**	**2,088**
Increase resulting from change in scope of consolidation	873	**—**	**—**
Decrease resulting from change in scope of consolidation	—	**(23)**	**(192)**
Cash dividends	(1,807)	**(903)**	**(7,513)**
Transferred from land revaluation excess — net	(903)	**(72)**	**(599)**
Net income (loss)	1,771	**(16,261)**	**(135,283)**
Balance at the end of the period	251	**(17,008)**	**(141,499)**
Land revaluation excess — net: (Note 17 (2))			
Balance at the beginning of the period	4,711	**5,614**	**46,705**
Transferred to earned surplus	903	**72**	**599**
Increase in excess — net	0	**114**	**949**
Balance at the end of the period	5,614	**5,800**	**48,253**
Unrealized valuation gain or (loss) on other securities — net (Note 17 (3))	859	**(64)**	**(532)**
Cumulative foreign currency translation adjustments (Note 3 (2))	¥ 356	**¥ 352**	**$ 2,928**
Treasure stock	¥ (1)	**¥ (4)**	**$ (33)**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2002 and 2003

	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
Cash flows from operating activities:			
Income before income taxes..	¥ 6,519	**¥(21,316)**	**$(177,338)**
Adjustment to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	6,539	**6,016**	**50,050**
Amortization of consolidation adjustments	(435)	**(435)**	**(3,619)**
Increase (decrease) in allowance for doubtful receivables	(1,626)	**(924)**	**(7,687)**
Increase (decrease) in reserve for retirement benefits	1,481	**(2,265)**	**(18,844)**
Increase (decrease) in reserve for directors' and statutory auditors' retirement	81	**—**	**—**
Interest and dividends received	(514)	**(477)**	**(3,968)**
Interest expense	4,053	**3,555**	**29,576**
Foreign exchange loss (gain)	(141)	**754**	**6,273**
Equity loss of affiliates	167	**569**	**4,734**
Loss (gain) on sales and disposals of property, plant and equipment	905	**283**	**2,354**
Loss (gain) on sales of investment in securities	3	**(5)**	**(42)**
Write-down of securities and investment in securities	849	**505**	**4,201**
Change in assets and liabilities:			
Decrease in trade receivables	17,467	**24,490**	**203,744**
(Increase) decrease in cost of uncompleted contracts	(2,232)	**12,817**	**106,631**
(Increase) decrease in real estate for trade and real estate in progress and other inventories	(599)	**517**	**4,301**
Increase (decrease) in trade payables	(9,871)	**(39,277)**	**(326,764)**
Increase (decrease) in advance on contracts in progress	(1,757)	**(8,229)**	**(68,461)**
Increase (decrease) in accrued expenses	(178)	**13,446**	**111,864**
Other — net	9,344	**1,287**	**10,707**
Sub total	30,055	**(8,689)**	**(72,288)**
Interest and dividends received	504	**528**	**4,394**
Interest paid	(3,903)	**(3,511)**	**(29,210)**
Income taxes paid	(1,546)	**(1,354)**	**(11,265)**
Net cash provided by (used in) operating activities	25,110	**(13,026)**	**(108,369)**

See accompanying Notes to Consolidated Financial Statements.

	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
Cash flows from investing activities:			
Purchases of securities	(17)	**(523)**	**(4,351)**
Proceeds from sales of securities	90	**183**	**1,522**
Purchases of investment in securities	(2,748)	**(1,179)**	**(9,809)**
Proceeds from sales of investment in securities	39	**1,558**	**12,962**
Purchases of property, plant and equipment	(3,771)	**(3,955)**	**(32,903)**
Proceeds from sales of property, plant and equipment	3,223	**1,002**	**8,336**
Loans made	(2,563)	**(5,106)**	**(42,479)**
Collection of loans receivable	102	**1,470**	**12,230**
Acquisition of new cosolidated subsidiaries, net of cash and cash equivalents acquired	9,239	**—**	**—**
Other — net	(32)	**336**	**2,795**
Net cash provided by (used in) investing activities	3,561	**(6,214)**	**(51,697)**
Cash flows from financing activities:			
Net decrease in short-term bank loans	(25,106)	**3,159**	**26,281**
Net decrease in commercial paper	(3,000)	**—**	**—**
Borrowings	21,838	**36,883**	**306,847**
Repayment of long-term debt	(22,960)	**(21,222)**	**(176,555)**
Cash dividends paid	(1,788)	**(900)**	**(7,488)**
Other — net	(1)	**(3)**	**(25)**
Net cash provided by (used in) financing activities	(31,017)	**17,917**	**149,060**
Difference resulting from conversion of foreign cash and cash equivalents to yen	253	**(732)**	**(6,091)**
Net increase (decrease) in cash and cash equivalents	(2,093)	**(2,055)**	**(17,097)**
Cash and cash equivalents at beginning of the period	53,632	**51,376**	**427,421**
Decrease in cash and cash equivalents resulting from change in scope of consolidation	(163)	**—**	**—**
Cash and cash equivalents at end of the period	¥51,376	**¥49,321**	**$410,324**
(Note) Cash and cash equivalents are comprised as follows:			
Cash and deposits	¥52,423	**¥49,969**	**$415,715**
Less — Time deposits which can be drawn over three months	(1,047)	**(648)**	**(5,391)**
Cash and cash equivalents (Note 3 (15))	¥51,376	**¥49,321**	**$410,324**

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

For the year ended March 31, 2002	Millions of yen 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%

For the year ended March 31, 2003	Millions of yen 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%**

For the year ended March 31, 2003	Thousands of U.S. dollars 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

Transactions	Millions of yen 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.

Non-Consolidated Five-year Summary

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

	Millions of yen					Thousands of U.S. dollars
	1999	2000	2001	2002	**2003**	**2003**
Orders received	¥470,010	¥404,259	¥473,024	¥318,174	**¥265,605**	**$2,209,692**
Civil engineering	319,246	249,349	316,349	191,157	**140,578**	**1,169,534**
Architectual engineering	147,257	144,055	151,291	124,860	**118,852**	**988,786**
Real estate and others	3,507	10,855	5,384	2,157	**6,175**	**51,373**
Net sales	508,925	434,812	419,382	396,743	**347,176**	**2,888,320**
Civil engineering	280,180	270,443	250,937	238,582	**206,779**	**1,720,291**
Architectual engineering	225,525	153,288	163,308	155,649	**136,512**	**1,135,707**
Real estate and others	3,220	11,080	5,137	2,512	**3,884**	**32,313**
Contract backlog	527,702	487,252	543,262	481,621	**388,128**	**3,229,018**
Civil engineering	330,850	302,537	369,569	336,254	**259,832**	**2,161,664**
Architectual engineering	196,364	184,453	173,184	145,212	**125,851**	**1,047,013**
Real estate and others	488	262	509	154	**2,445**	**20,341**
Total assets	503,272	474,959	465,121	458,078	**430,632**	**3,582,629**
Shareholders' equity	44,606	51,634	55,167	54,013	**33,918**	**282,180**
Ordinary income	3,173	11,305	10,917	7,250	**1,478**	**12,296**
Income (Loss) before income taxes	(40,796)	(23,321)	7,481	5,571	**(24,117)**	**(200,641)**
Net income(loss)	(41,341)	(15,024)	2,674	1,557	**(18,388)**	**(152,978)**
Cash dividends	—	904	1,807	904	**—**	**—**
Per share of common stock:	Yen					U.S. dollars
Shareholders' equity	¥123.42	¥142.87	¥152.64	¥149.46	**¥93.86**	**$0.78**
Net income(loss)	(114.22)	(41.57)	7.40	4.31	**(50.88)**	**(0.42)**
Cash dividends	—	2.50	5.00	2.50	**—**	—
Number of employees	3,937	3,774	3,710	3,121	**3,121**	

U.S.$1=¥120.20 as at March 31, 2003

Non-Consolidated Statements of Income

Penta-Ocean Construction Co., Ltd.
For the years ended March 31, 2002 and 2003

	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
Construction business:			
Net Sales	¥394,231	**¥343,292**	**$2,856,007**
Cost of sales	353,167	**312,066**	**2,596,223**
Gross profit	41,064	**31,226**	**259,784**
Real estate and others:			
Net Sales	2,512	**3,884**	**32,313**
Cost of sales	2,859	**3,762**	**31,298**
Gross profit	(347)	**122**	**1,015**
Total net sales	396,743	**347,176**	**2,888,320**
Total cost of sales	356,026	**315,828**	**2,627,521**
Total gross profit	40,717	**31,348**	**260,799**
Selling, general and administrative expenses	30,808	**25,751**	**214,235**
Operating income	9,909	**5,597**	**46,564**
Other income:			
Interest and dividends	528	**468**	**3,894**
Interest and dividends from subsidiaries and affiliates	77	**137**	**1,140**
Others	529	**545**	**4,533**
	1,134	**1,150**	**9,567**
Other expenses:			
Interest	3,427	**3,402**	**28,303**
Others	366	**1,867**	**15,532**
	3,793	**5,269**	**43,835**
Ordinary income	7,250	**1,478**	**12,296**
Extraordinary gain	1,717	**2,542**	**21,148**
Extraordinary loss	3,396	**28,137**	**234,085**
Income (loss) before income taxes	5,571	**(24,117)**	**(200,641)**
Income taxes			
Current	822	**285**	**2,371**
Income taxes deferred	3,192	**(6,014)**	**(50,034)**
Net income (loss)	¥1,557	**¥(18,388)**	**$(152,978)**
Retained earnings brought forward	1,990	**1,740**	**14,476**
Reversal of land revaluation excess	(903)	**(71)**	**(591)**
Unappropriated retained earnings (deficit)	¥2,644	**¥(16,719)**	**$(139,093)**

	Yen		U.S. dollars
Income (loss) per share of common stock			
Primary	¥4.31	**¥(50.88)**	**$(0.42)**
Assuming full dilution	—	**—**	**—**

NON-Consolidated Balance Sheets

Penta-Ocean Construction Co., Ltd.
March 31, 2002 and 2003

	Millions of yen		Thousands of U.S. dollars
ASSETS	2002	**2003**	**2003**
Current assets:			
Cash and deposits	¥43,498	**¥43,681**	**$363,403**
Securities	177	**728**	**6,057**
Trade receivables:			
Notes	10,372	**10,198**	**84,842**
Accounts	149,479	**127,949**	**1,064,468**
Subsidiaries and affiliates	7,851	**22,437**	**186,664**
Inventories:			
Cost of uncompleted contracts	52,345	**43,176**	**359,201**
Real estate for trade and real estate in progress	37,096	**36,002**	**299,517**
Raw materials and supplies	1,189	**762**	**6,339**
Deferred tax assets	8,643	**10,794**	**89,800**
Other current assets	3,543	**3,017**	**25,100**
Allowance for doubtful accounts	(1,381)	**(753)**	**(6,265)**
Total current assets	312,812	**297,991**	**2,479,126**
Investments and non-current assets:			
Investments in and loans to subsidiaries and affiliates	24,400	**10,463**	**87,047**
Investment in securities	23,259	**18,365**	**152,787**
Long-term accounts receivable	923	**2,854**	**23,744**
Sundry investments	21,370	**20,250**	**168,469**
Deferred tax assets	10,101	**14,681**	**122,138**
Allowance for doubtful accounts	(13,813)	**(11,537)**	**(95,982)**
Total investments and non-current assets	66,240	**55,076**	**458,203**
Property, plant and equipment:			
Land	47,914	**47,497**	**395,150**
Buildings and structures	37,185	**36,687**	**305,216**
Machinery, equipment and vehicles	16,348	**14,959**	**124,451**
Dredgers and vessels	25,911	**26,018**	**216,456**
Construction in progress	523	**1,845**	**15,349**
Other property and equipment	3,689	**3,642**	**30,300**
Total property and equipment	131,570	**130,648**	**1,086,922**
Less accumulated depreciation	(53,258)	**(53,628)**	**(446,157)**
Property and equipment — net	78,312	**77,020**	**640,765**
Other assets	714	**545**	**4,535**
Total assets	¥458,078	**¥430,632**	**$3,582,629**

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2002	Millions of yen 2003	Thousands of U.S. dollars 2003
Current liabilities:			
Short-term debt			
Bank	¥79,286	**¥82,375**	**$685,316**
Subsidiaries and affiliates	1,100	**—**	**—**
Current portion of long-term debt	18,474	**21,283**	**177,063**
Trade payable:			
Notes	47,081	**24,906**	**207,205**
Accounts	89,595	**78,430**	**652,496**
Subsidiaries and affiliates	7,314	**6,623**	**55,100**
Advance on contracts in progress	48,694	**42,282**	**351,764**
Deposits received	15,682	**15,644**	**130,150**
Accrued income taxes	482	**271**	**2,255**
Provision for loss on liquidation of a subsidiary	—	**11,737**	**97,646**
Accrued expenses	2,824	**13,784**	**114,675**
Other current liabilities	3,065	**2,432**	**20,232**
Total current liabilities	313,597	**288,030**	**2,396,256**
Long-term liabilities:			
Long-term debt	70,545	**85,278**	**709,468**
Reserve for retirement benefits	9,139	**6,521**	**54,251**
Reserve for directors'and statutory auditors' retirement	1,165	**518**	**4,309**
Deferred tax liabilities for land revaluation excess	4,074	**4,012**	**33,378**
Other long-term liabilities	5,545	**12,355**	**102,787**
Total long-term liabilities	90,468	**108,684**	**904,193**
Shareholders' equity:			
Common stock			
Authorized — 599,135,000 shares			
Issued — 361,407,443 shares at March 31, 2002 and 2003	33,971	**33,971**	**282,621**
Capital surplus			
Capital surplus reserve	10,635	**10,635**	**88,478**
Total capital surplus	10,635	**10,635**	**88,478**
Earned surplus			
Earned surplus reserve	290	**290**	**2,413**
Unappropriated retained earnings (deficit)	2,644	**(16,719)**	**(139,093)**
Total earned surplus	2,934	**(16,429)**	**(136,680)**
Land revaluation excess — net	5,614	**5,800**	**48,253**
Unrealized valuation gain or (loss) on other securities — net	860	**(55)**	**(458)**
Less: treasury stock	(1)	**(4)**	**(34)**
Total shareholders' equity	54,013	**33,918**	**282,180**
Total liabilities and shareholders' equity	¥458,078	**¥430,632**	**$3,582,629**

Company Data

(As of June 27, 2003)

Company Outline

Company Name	Penta-Ocean Construction Co., Ltd.
Established	April 1896
Head Office	2-8, Koraku 2-chome, Bunkyo-ku, Tokyo 112-8576, Japan
	Telephone: 81-3-3817-7181
	Facsimile: 81-3-3817-7642
Paid-in Capital	¥33,971 million (US$282.6 milion)
No. of Employees	3,121
Website	www.penta-ocean.co.jp

Board of Directors and Auditors

President	Hideaki Kato*
Directors	Jitsuo Takashina*
	Kazujiro Tetsumura*
	Kazuyuki Kawakami
	Hayuru Tsuda
	Yoshihisa Tomoda
Corporate Auditors	Nobuki Koizumi
	Yuji Watanabe
	Toshiaki Yamane
	Tatsuhiko Tsukuda

* Representative Director
(As of June 27, 2003)

Organization Chart

Penta-Ocean Network

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

❷ Singapore Office
1 Kim Seng Promenade, #13-01/03
Great World City, East Tower,
Singapore 237994
Telephone: 65-6338-8966
Facsimile: 65-6337-0987

❸ Hong Kong Office
30th Floor, MLC Tower
248 Queen's Road East,
Wan Chai, Hong Kong
Telephone: 852-2833-1098
Facsimile: 852-2572-4080

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

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

❻ Egypt Office
6 Aswan Square, Mohandeseen,
Giza, Arab Republic of Egypt
Telephone: 20-2-345-3207
Facsimile: 20-2-345-3206

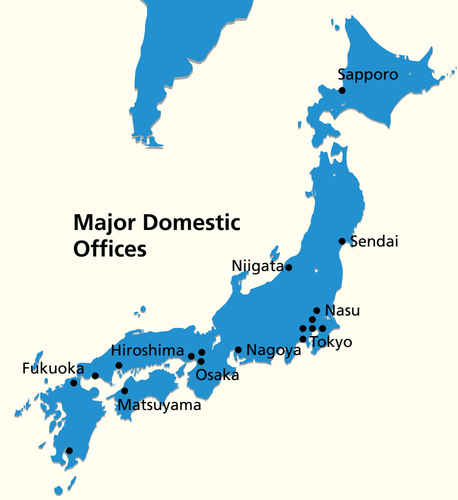
❼ Colombo Office
P.O. Box 383, Kochchi-Kade,
Gate No. 6 Colombo Port,
Colombo 13, Sri Lanka
Telephone: 94-112-449-978
Facsimile: 94-112-449-979

❽ Manila Office
Unit 1908 Herrera Tower,
Herrera St., Corner Valero States,
Salcedo Village, Makati City,
Philippines
Telephone: 63-2-753-1611
Facsimile: 63-2-845-0592

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

❿ Hanoi Office
2nd Floor, 18 Tran Hung Dao St.
Hoan Kiem, Hanoi, Vietnam
Telephone: 84-4-824-1360
Facsimile: 84-4-824-1444

Major Domestic Offices



⓫ Myanmar Office
156 4th Floor, 47th Street,
Botahtaung Township,
Yangon, Myanmar
Telephone: 95-1-203-076
Facsimile: 95-1-203-076

⓬ Micronesia Office
P.O. Box 2201, Kolonia,
Pohnpei, Federated States of
Micronesia 96941
Telephone: 691-320-2855
Facsimile: 691-320-2855

⓭ Phnom Penh Office
500 Norodom Blvd (Road #2),
Phnom Penh, Cambodia
Telephone: 855-23-3-60463
Facsimile: 855-23-3-60462

⓮ Dubai Office
P.O. Box 61498, Dubai
United Arab Emirates
Telephone: 971-4-8872992
Facsimile: 971-4-8872982

Investor Information

(As of June 27, 2003)

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

Established
April 1896

Financial Year
April 1 to March 31

Common Stock
Authorized: 599,135,000
Issued: 361,407,443

Stock Listing
Tokyo Stock Exchange, First Section

Shareholders
43,709

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

Major Shareholders

Shareholder	Shares held (thousands)	Percentage
Mizuho Corporate Bank, Ltd.	16,919	4.68
Sompo Japan Insurance Inc.	16,302	4.51
The Yasuda Mutual Life Insurance Co.	13,112	3.63
Resona Bank, Ltd.	12,513	3.46
Mizuho Trust & Banking Co., Ltd.	9,861	2.73
The Tokyo Marine & Fire Insurance Co., Ltd.	8,569	2.37
Japan Trustee Services Bank, Ltd.	7,679	2.12
Nippon Life Insurance Co.	5,145	1.42
The Master Trast Bank of Japan, Ltd.	5,100	1.41
The Hiroshima Bank, Ltd.	5,093	1.41

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