

What  
we are  
and  
where  
we are.



## history

**Moving Forward – 109 years in business Meeting the challenges of a new era through the evolution of business**

### The First Period: Founding and Development

1896 First founded as Mizuno Gumi in Kure City, Hiroshima Prefecture

Meiji Period Focused primarily on naval contracts and port civil engineering in various places

Taisho Period Expanded nationally, ventured into civil engineering and architectural projects

Pre-World War II Constructed dredgers to strengthen the company's position in the dredging and reclamation industry and launched the ship-building business

### The Second Generation: Reconstruction and Expansion into Overseas Markets and Civil Engineering

Post-World War II Concentrated on port engineering while recovering from war damage

1954 Mizuno Gumi Co., Ltd. established

1961 Won the Suez Canal dredging contract in international bidding

1967 Company name changed to Penta-Ocean Construction Co., Ltd. Further development of the overseas business as a general contractor with expertise in marine engineering

### The Third Generation: Architectural Prowess Paves Way to General Construction

1970's-1980's Using technological development as a base to strengthen our architectural division. Progression to a well-balanced general constructor.

1990's Beginning of the second century in business. The end of the bubble economy marks the start of a major restructuring of operations with the aim of regaining our financial health

### The Fourth Generation: Corporate Returns and Beyond

2002 Management style that focused on income rather than scale through careful selection of projects

May 2005 Announcement of medium-term management program "Evolution 21". "Recovery" and "Advancement" strategies

### Orders Received

	(Millions of Yen) (Fiscal years ended March 31)				
	2001	2002	2003	2004	2005
Construction	467,640	316,016	259,430	291,875	324,108
Domestic Civil Engineering	185,182	159,981	131,397	143,424	180,824
Domestic Architectural Engineering	136,514	112,004	110,323	115,949	125,234
Overseas	145,943	44,030	17,709	32,501	18,049
Development and Other	5,384	2,157	6,174	6,204	2,799
<b>Total</b>	<b>473,024</b>	<b>318,174</b>	<b>265,604</b>	<b>298,079</b>	<b>326,908</b>

## Competitive Strength

### Domestic

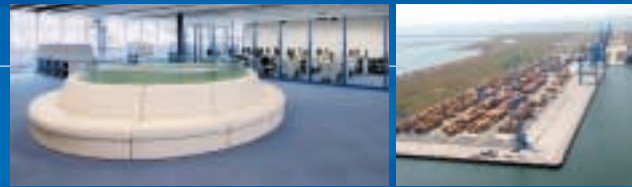
- Leading marine civil engineering industry. We have a long history in Japan and completed many projects throughout the world.
- Mid-ranked land civil engineering business
- A top-20 architectural engineering company

### Overseas

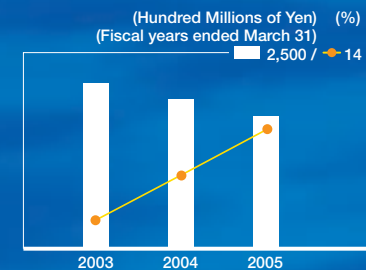
- Top-class marine contractor in the global market
- Excellent reputation earned from many successful projects completed in Southeast Asia

## Major Orders and Completed Projects for 2005

Major Orders			Completed Major Projects		
Customer	Project Name	Location	Customer	Project Name	Location
Kanto Regional Development Bureau	Tokyo International Airport D Runway Construction Project	Tokyo	Japan Public Highway Corporation	Second Tomei Expressway First Shimizu Tunnel Project	Shizuoka
Japan Atomic Power Company	Tsuruga Power Station Units 3 and 4 Breakwater and Revetment Project	Fukui	Hiroshima Prefecture	Shikawa Dam Project	Hiroshima
Japan Public Highway Corporation	Nihonkai Tohoku Expressway Kobato Tunnel Project	Yamagata	Kansai International Airport Land Development Co., Ltd	Airport Island Construction Second Phase Project (3rd secondary banking)	Osaka
Gold Crest Co., Ltd	(Pending) Crest Form Tsurumi VI New Construction Project	Kanagawa	Itochu Property Development Ltd. and Other	Laguna Tower New Construction Project	Tokyo
Fukuyama Transporting Co., Ltd.	(Pending) Hiroshima Distribution Center New Construction Project	Hiroshima	Gold Crest Co., Ltd.	(Pending) Crest Form Musashi New Castle G New Construction Project	Tokyo
Sunlive	SunLive City Kokura New Construction Project	Fukuoka	Kamigumi	(Pending) Multi-Purpose Distribution Center and Tokyo Container Center Construction Project	Tokyo
British Petroleum Berau Ltd.	Tangguh LNG Pier Project	Indonesia	Romanian Government	Constanta South Port Upgrade Project	Romania
Taipei Container Port Company Ltd.	One of the Taipei Port Container Center Projects Dredging and Reclamation	Taiwan	Vocational Training Council	Tsing Yi Vocational Training Center Project	Hong Kong



### Consolidated Interest-Bearing Debt Consolidated Equity Ratio



## High Growth

### Domestic Civil Engineering – Maintain our top rank in marine civil engineering and improve ranking in land civil engineering

- Capitalize on our marine/coastal engineering prowess with projects such as offshore airports, seaside roads, distribution centers
- Public works: Increase orders in environmental fields and disaster prevention and renovation

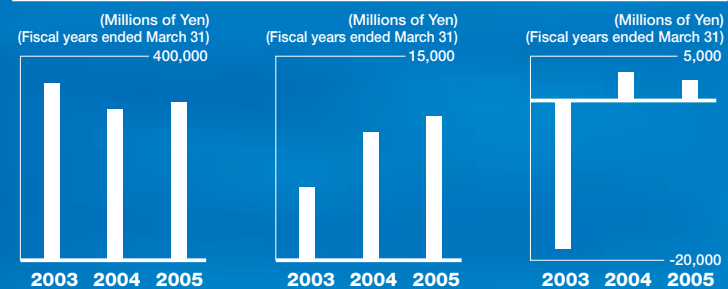
### Domestic Architectural Division – Steady expansion while maintaining profit-oriented core strategies

- Domestic Architectural Engineering: Restore profitability through order selection. Successful completion of projects in fields such as distribution warehousing, healthcare, food/drugs.
- Residential: proposal-based marketing with real estate holdings or with business proposals
- Expanding market needs in consulting-oriented marketing of business proposals by bundling land pieces or by using financial schemes

### Overseas Division – Focus on Fields of Expertise

- Marine Engineering Construction (Dredging/Reclamation): Aggressively expand from our home-turf of South East Asia into the East Asian and Middle Eastern markets.
- ODA Construction: Advancement into Africa and Oceania, markets expected to expand rapidly in the near future.
- Civil and Architectural Engineering: Project selection in prosperous regions such as Hong Kong and Singapore

### Consolidated Net Sales Consolidated Operating Income Consolidated Net Income



## The medium-term management program, "Challenge 21", is completed The new medium-term management program, "Evolution 21", begins

- Recovery of V-shaped earnings
- Financial improvement well above targets

# Highlights

We are now presenting briefly some exemplary projects in the current term and summarizing the results and financial conditions.



## The construction of submerged tunnel(No.2), Yumeshima Tunnel, Port of Osaka

This undersea tunnel connecting Yumeshima and Sakishima is part of "Techno Port Osaka", a project designed to increase the distribution efficiency at Osaka port. This project includes this tunnel and the previously completed Sakishima Tunnel featuring the world's first structures built using the V block construction method developed by Penta-Ocean. We were also involved in the shaft work extending the Yumeshima tunnel by 2.1km, in parallel with the railroads and other roadways. The shafts used for the foundation work have a thickness of 8 m, which is the calculated minimum thickness necessary to prevent settlement on this particular ground. Underground section 2 is currently under construction. Crown seal joints and the key element construction method that is used to implement the V block construction method developed by Penta-Ocean will be adopted in the final joints. These methods were also used in the Naha underground tunnel, that reduced construction time and costs.

Construction Period: Dec. 8, 2003 – Mar. 25, 2005

## Singapore Toa Payoh District Luxury Apartments New Construction

This project marks Singapore's first 40-storey residential structure with 926 apartments and a parking garage with five floors. Part of this complex of four buildings was built using the all-weather automatic construction method. Precast materials were used for over 80% of primary materials eliminating the need for external walling and scaffolding. This resulted in major labor savings and a much safer working environment. Needless to say, this is a pinnacle of achievement of residential construction in Singapore. This project also stands out as a real success in using the cost-effective automatic construction system to streamline the process and decrease the number of workers needed, which was necessary as it was difficult to bring in foreign workers as restricted by Singapore immigration. This is the first time this system has been used in an overseas project. The all-weather automatic construction method is a system that makes the on-site procurement, building, and operation easier to perform. The use of this system allows more project adaptability for projects in Singapore.

Construction Period: Sep. 2001 – Aug. 2004



## Consolidated Financial Highlights

	Millions of Yen		Thousands of U.S. Dollars
	2004	2005	2005
Orders received .....	313,751	344,716	3,209,945
Net sales.....	331,170	345,266	3,215,066
Contract backlog .....	392,377	398,369	3,709,554
Total assets .....	443,193	411,322	3,830,170
Shareholders' equity .....	39,860	47,640	443,616
Ordinary income .....	7,440	8,864	82,540
Income before income taxes and minority interests.....	6,624	9,500	88,462
Net income .....	3,292	2,360	21,976
Cash dividends .....	-	-	-

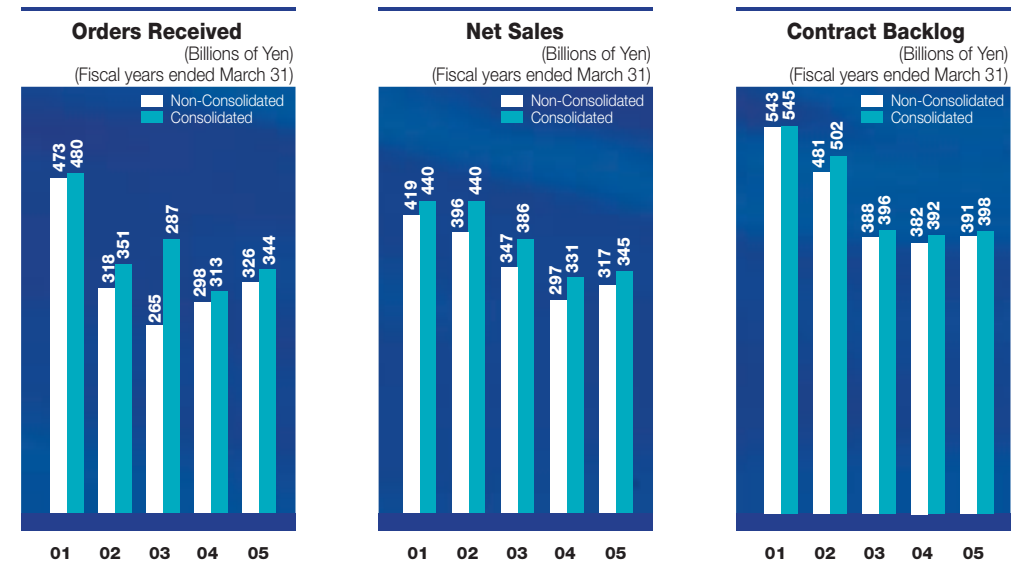
(Fiscal years ended March 31)

## per share of common stock

	Yen		U.S. Dollars
Shareholders' equity .....	110.31	120.55	1.12
Net income .....	9.11	6.25	0.06
Cash dividends .....	-	-	-

(Fiscal years ended March 31)

Note: Figures in U.S. dollars are converted for convenience only, at the rate of ¥107.39 per U.S.\$1, prevailing on March 31, 2005.



# Message from the President

I would like to extend my sincere appreciation to all shareholders for your understanding and support.

Being the vice-president at the time of president Hideaki Kato's passing, I succeeded as president in December of last year. We are now embarking on a new chapter in our history as we ended the medium-term management program "Challenge 21" and begin the new management program, "Evolution 21". "Challenge 21" was implemented to resuscitate the company during the time when the construction market had slumped. Because of everyone's dedication, we exceeded the profit and financial targets set forth in the program. We could not have made this happen were it not for the understanding of the shareholders and other concerned parties, and the unyielding perseverance of our directors and employees. Thank you very much.

The Japanese economy in the year ended March 2005 grew rapidly, which also led to a steady improvement in corporate business results. Private sector capital investment growth and strong urban residential demand boosted investment in the construction industry. Public works investment, however, continued to decline. In Asia, our principal overseas market, capital investment in China has expanded rapidly, but has become sluggish in other markets.

In response to these market conditions, we have restructured the company to regain profitability and competitive edge. As a result of this, consolidated sales for fiscal year ended March 2005 increased 4.3% over the previous term to ¥345.2 billion. Operating income also increased 11.8% to ¥11.9 billion, and ordinary income also increased 19.1% to ¥8.8 billion. However, due to increases in corporate taxes adjustments and other factors, net income plunged 28.3% to ¥2.3 billion.

At Penta-Ocean, we live by the philosophy of "The construction of superior infrastructure is our best contribution to society". As such, by providing reliable quality backed by advanced technology and regard for safety and the environment, we aim to continue advancing as a company that stands out not only to shareholders, customers, business partners, and employees, but as a model corporation respected by society. To instill this corporate culture, we established management principles and a medium-term vision that focuses on CSR (Corporate Social Responsibility) in April 2005. We created this new medium-term management program, called "Evolution 21", with the core strategies of "Challenge 21". This program is designed to increase our earning potential, stabilize the business, and set us in position to evolve to an even advanced construction entity. Specifically, this program will leverage our status as the number one marine engineering company capitalizing in our technological superiority, securing our share of the domestic civil engineering market, steadily expanding domestic architectural engineering business with emphasis on profitability, and generating earnings in the overseas market as the leading global marine contractor.

When this program ends in the year ending March 2008, we estimate the consolidated sales of ¥355.0 billion, ordinary income of ¥13.5 billion, and net income of ¥5.0 billion. While this is only a slight increase in actual sales over the fiscal year ended March 2005, it represents a significant increase in net income. Surplus capital can be secured if the second issuance of ¥15.0 billion in unsecured bonds issued in May 2005 is converted into stock. What we want to achieve by the final term is a more robust and efficient business condition as expressed by an equity ratio of over 20%, and a debt to total assets ratio under 30% resulting from an approximate ¥55.0 billion decrease in interest bearing liabilities.

The construction industry in the year ending March 2006 is expected to see continued increases in private sector investment, but with no change in the sluggish public works sector, it will prove to be another difficult year for the industry. The "Act for Promoting Quality Assurance in Public Works" goes into effect in April 1, 2005, putting an end to conventional price wars, and instead, shifting the industry to a total value-oriented system based on price and quality. The private sector will also begin expecting a more quality-focused approach with sound management and technology-backed reliability. In order to persevere in this intense competition, we must strive even further to create a company with superior technology and management. Group financial targets for the year ending March 2006 are: increase of 4.3% in total sales over the previous term to ¥360 billion, increase of 30.7% in ordinary income to ¥11.5 billion, and a 52.2% increase in net income to ¥3.5 billion.

In closing, I would like to mention that our fundamental policy is to always provide long-term and stable dividends to all our shareholders. Our current focus is building a surplus of internal reserves, which regrettably, forces us to suspend dividend payments for the third consecutive term. All of us will continue to do what it takes to ensure that "Evolution 21", the new medium-term management program, leads us to the road of rapid resumption in dividend payment. I would like to thank our shareholders for your continued understanding and support.



A handwritten signature in black ink, appearing to read "K. Tetsumura". The signature is stylized and fluid.

President Kazujiro Tetsumura

# Outline of “Evolution 21”

## Basic Policy – From Recovery to Advancement

### Implementation of CSR (Corporate Social Responsibility) – The Compass for Evolution

At Penta-Ocean, we live by the philosophy of “The construction of superior infrastructure is our best contribution to society”. As such, by providing reliable quality backed by advanced technology and regard for safety and the environment, we aim to continue advancing as a company that stands out not only to shareholders, customers, business partners, and employees, but as a model corporation respected by society.

Compliance is the key to making CSR works, and will also have the benefit of improving risk management. Solid safety management must first start with a management system focusing on quality and the environment. A CSR implementation system must be established, and all directors and employees must be trained in CSR awareness.

### Increasing Earnings of Core Business – The Strategic Move for Evolution

“Evolution 21” retains core “Challenge 21” strategies such as “Profit-oriented, cash flow focus, and distinction and concentration”, which are used to manage each division individually.

In addition to assigning specific operating income targets to each division, we must also respond to the demands of the current market while cultivating promising markets. Specifically, we will further strengthen environmental-related efforts such as disaster prevention/renovation work to fortify structures against earthquakes and tsunami, prevent soil pollution, and build waste management facilities. This includes the development of supporting technology and exploiting existing technologies. In the domestic architectural division, we will also set up an urban development headquarters to promote the urban development business using proactive marketing in order to receive orders on a medium- to long-term basis. Additionally, we will utilize our reputation as the number one marine engineering business to further integrate and collaborate civil/architectural engineering, and domestic/overseas operations.

### Strengthening Business Conditions – Laying the Groundwork for Evolution

#### Restructuring of Administrative Operations

As the first step of “Evolution 21”, we established a new general management department at headquarters to centralize the administrative operations and make them efficient by combining the workload of branch offices. During the fiscal year ending March 2006, we will start this process in eastern Japan with full deployment company-wide in the fiscal year ending March 2007. This will eliminate overlapping operations between headquarters and branches, and enable a system where specialized staff at each branch can concentrate on risk management at the frontline of operations and construction.

#### Further Improvement of Our Financial Condition

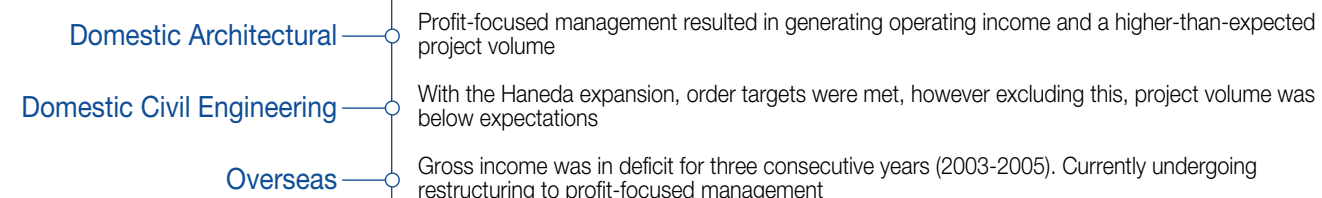
During “Challenge 21”, we achieved better than expected results including the write-off of losses generated by development operations at related companies, early adoption of asset impairment accounting, and reductions in costs/retirement benefit obligations due to the disintegration of the employee pension program. Furthermore, the issuance and complete conversion of ¥5.0 billion in convertible bonds restored the equity ratio to 11.9%, which is a complete recovery to the fiscal year ended March 2002 levels. However, interest bearing liabilities are still too high at 40% of total assets, which is having too much effect on tangible net worth. On top of this, we must aggressively promote the sale of idle real estate as well as real estate assets for sale (excluding urban real estate), prices of which continue to fall.

To further improve our financial condition, we must stabilize our base of operations, and improve earning potential. In May of 2005, we issued another ¥15.0 billion of convertible bonds. Assuming these are all converted to stock, our equity ratio will be over 20% with surplus capital by the last year of “Evolution 21”. In addition, we intend to lower consolidated interest-bearing debt by over ¥55.0 billion over the next 3 years.

### Medium-Term Management Program “Challenge 21” (2003 – 2005) Better Than Expected Results

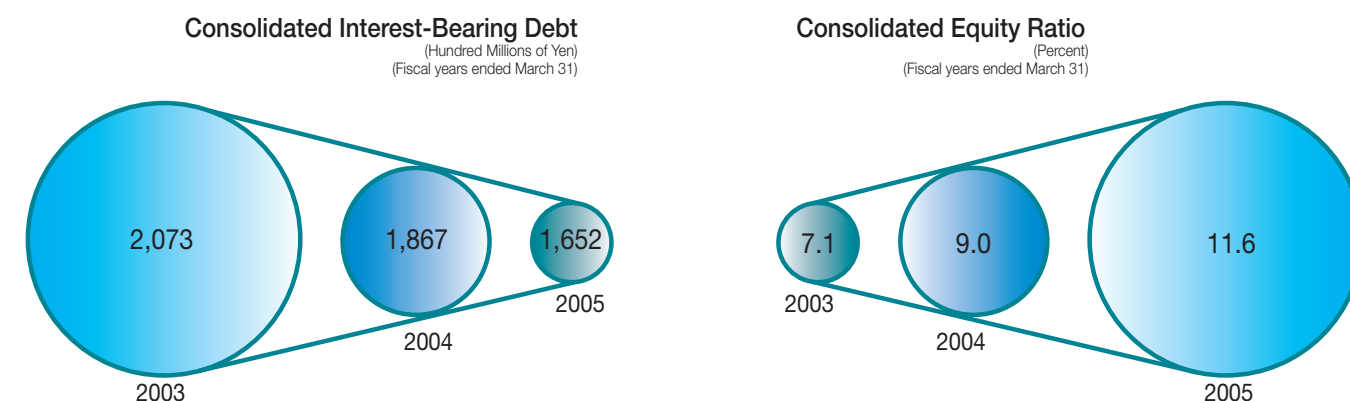
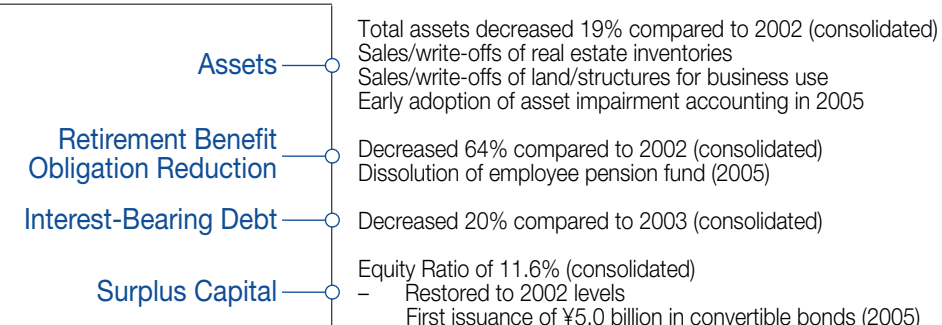
#### Income

Turning profitable in domestic architectural operations and decrease in expenses due to reduction in project volume, resulted in a V-shaped recovery.



#### Financial Position

Phenomenal improvement with results that exceeded expectations



# Domestic civil engineering



## Maintain our top rank in marine civil engineering and improve ranking in land civil engineering

Domestic civil engineering orders for the year ended March 2005 increased by a large 26% over the previous term. The 3-year average amount of orders for "Challenge 21" is ¥151.8 billion, which is approximately on target with the original plan. However, excluding the Haneda expansion project, orders for the year ended March 2005 fall about 16% compared to the previous term, leaving us with a reduction in project volume much lower than expectations.

In addition to our solid efforts, increases in capital investment in the private sector industry excluding power and private railways have provided the momentum to sustain the strong, steady increase in general private sector civil engineering orders for the last two years. The current target is over ¥20.0 billion in orders.

Conventional public sector projects have decreased, but orders in the environmental field, which we have aggressively competed in since the year ended March 2001, have grown steadily to over ¥10 billion. We are also beginning to see solid results in disaster prevention/renovation related projects using our brand technology. We will continue to aggressively pursue the disaster prevention/renovation and environmental related fields, as these fields are expected to boom in the coming years. All of these will help ensure maintaining our top rank in marine civil engineering and improving our ranking in land civil engineering.



### Kansai International Airport Island Reclamation Second Phase - Secondary sand Heaping Part 3

Ten layers of soil were laid to form a strong, even embankment for the airport island. Settlement management became a problem when reclaiming the thick soft clay on the seabed. Centrally managed IT-based systems and GPS-equipped heavy equipment were used to complete this large task quickly and efficiently.

**Construction Period: Sep. 17, 2003 – Oct. 31, 2005**

### Asanabe Dam Construction Project

The local residents have been eagerly waiting for a flood control program for the Asanabe River, a class 1 river that flows through western Tottori Prefecture. We have built a concrete gravity dam to prevent flood damage and control the supply of pooled water from the downstream of the dam. Mantle rock produced from the foundation excavation was used as raw material to make the concrete used for this project, which significantly lowered costs.

**Construction Period: Mar. 13, 2001 – Mar. 20, 2005**



### Goshiki Sakurabashi Bridge and Bridge Beams Earthquake Reinforcement Project

Earthquake reinforcement using Penta Ocean's NDR method was performed on the Goshiki Sakurabashi Bridge on the metropolitan expressway in Adachi Ward in Tokyo. This method is a temporary installation method that allows surveying and reinforcement of underwater structures in rivers and harbors under the same conditions as above-ground projects. A premade hollow steel unit is used to create the dry conditions, allowing restriction-free, high-quality, and low-cost operations.

**Construction Period: Apr. 14, 2004 – Jul. 3, 2006**



### Tohoku Shinkansen Shiriuchi Overpass

The Tohoku Shinkansen running from Morioka to Hachinohe was opened in December of 2002. We are currently building an overpass to extend the line from Hachinohe station to Shin-Aomori station. Once this extension is complete, travel time from Tokyo to Aomori will be cut to 3 hours 20 minutes and is expected to have a positive effect on economy and sightseeing.

**Construction Period: Mar. 27, 2001 – Sep. 26, 2004**



### Crest Form Musashi shinjo New Construction Project (The Crest City)

This large condominium complex was built on a lot with an area over 28,000 m<sup>2</sup>. The building is 10 stories with 638 units. Architectural designers and landscape planners were contracted for the total design and landscape planning work to make this complex distinctively attractive.

**Construction Period: Jun. 27, 2003 – Mar. 31, 2005**



### Matsuyama Central Park Pool Project

A total of seven pools were constructed, including the main 50-meter Olympic pool (with movable walls enabling it to become a 25-meter size pool), health pool for post-rehabilitation/sports cool down, indoor/outdoor children pools, and a water park type water-flowing pool. This is an environmental friendly facility that uses solar-power systems, natural ventilation systems and water-conserving pools. It also recycles waste heat and steam generated from a nearby waste facility.

**Construction Period: Jul. 7, 2003 – May 31, 2005**



### Kure City Maritime Museum Construction Project

The Kure City Maritime Museum, commonly called the Yamato Museum, was completed in April of 2005. The museum features naval/naval construction exhibits and showcases the history of Kure and the science and technology that formed the foundation of modern shipbuilding and steel manufacturing. Primarily constructed in brick, the museum also features an open and spacious glass curtain wall made with large glass sheets on the main floor.

**Construction Period: Dec. 17, 2002 – Mar. 18, 2005**

### Amagasaki - Nishinomiya - Ashiya Port Control Center Construction Project

Most of Amagasaki city is sea level, so the water level rises too high during high tides. Drainage and water cutoff functions needed to be built into the foundation of this waterfront facility. This project was a collective effort with the civil engineering division, and because of successful coordination between the two divisions, the project went smoothly.

**Construction Period: Mar. 3, 2003 – Jan. 10, 2005**



## Domestic architectural



### Domestic Architectural Engineering - Steady expansion while maintaining profit-oriented core strategies

The Domestic Architectural Engineering Division has earned greater than expected operating income for two consecutive years. Amidst intense competition in the year ended March 2005, private sector orders jumped 30% over the previous term, generating an 8% increase in total orders. We have completed many projects in residential development where proactive marketing with land sites provided and with business proposals have been effective, as well as in such fields as distribution warehousing, health care, and foods/drugs.

“Evolution 21” aims for steady project volume expansion while maintaining profit-oriented core strategies. In order to ensure profits in the Architectural Engineering Division in the medium to long term, it is essential to strengthen consulting-oriented marketing of business proposals by bundling land pieces or by using financial schemes. All projects, whether residential or non-residential, will now be managed from start to finish. We aim to get involved in more opportunities to receive orders. An urban development central office was established in April in the Architectural Division at headquarters to promote the urban redevelopment business and to receive orders on a medium-to long-term basis.





# Overseas Projects

## Focus on Fields of Expertise. Aiming for an Early Recovery in Operating Income.

“Challenge 21” was successful in restructuring project management in the Overseas Division as well as Domestic Divisions through such concepts as “Profit Focus” and “Distinction and Concentration”. As a result, gross income will return to black this year, and we expect a return to operating income profitability by the final year of “Evolution 21”

As the leading global marine contractor, we will concentrate on projects in the marine civil engineering field. We will be aggressively seeking marine civil engineering contracts, particularly dredging and reclamation jobs, throughout all of Asia, including Singapore, our base of operations in South East Asia, East Asia, and the Middle East. We will also be expanding into the Oceania and African markets with ODA projects.

Civil Engineering and Architectural Engineering will focus on selecting projects in Hong Kong and Singapore, which are expected to remain strong markets.

In addition, credit management, elimination of delay claims, elimination of country risk, and cash flow focus must all be properly accounted, while efforts to secure sufficient income will be made even during bidding. After taking orders, construction management systems and support systems must also be revamped.



### Vietnam Haiphong Port Rehabilitation Project

Haiphong Port, near the capital city of Hanoi, is Vietnam's largest commercial port. This project required the removal of sediment that tends to accumulate in river ports from the waterways and an increase in container freight handling capacity. The river and waterways were dredged, and a breakwater was constructed. Facilities were also expanded to improve the functionality of the port.

**Construction Period: March 2004 – June 2006**



### Hong Kong Tsing Yi Vocational Training Center New Construction Project

Penta Ocean constructed the cafeteria, library, and the main building of this Information Technology College, which features a multi-purpose music hall with seating for up to 1900 people. Site leveling, with a maximum elevational difference of 21 m, a delayed transfer of the project over to us, construction work when classes were being held, and a short construction period of 430 days to complete were difficult conditions. We successfully completed the project under these extreme circumstances on time and without any accidents.

**Construction Period: Jul. 9, 2003 – Sep. 10, 2004**



### Singapore Vivo City Construction Project

Vivo City is a commercial facility set next to the bridge that connects with Sentosa Island, a sightseeing place in Singapore. World-renowned architect Toyoo Ito created an original design under the concept of “Surfing Scheme”, making the entire complex feel as though it were a moving wave. The 280,000 m<sup>2</sup> complex will open in October 2006 as Singapore's largest shopping center.

**Construction Period: Jan. 1, 2004 – Oct. 5, 2006**



### Romania Constanta South Port Container Terminal Upgrade Project

The Constanta Port, which faces the Black Sea, is Romania's largest trade port. A terminal yard, crane foundations, and a construction control building were constructed to accommodate the sudden increase in container traffic. This project has received excellent reviews for total construction quality and design, and won the 2004 Award in Architectural Excellence from the Romanian Ministry of Transport, Constructions and Tourism.

**Construction Period: January, 2002 – June, 2003**





# Technology R&D

## Developing Technology with Focus on the Environment and Disaster Prevention

Contributing to the society through development, improvement and adoption of technology is the basic philosophy behind Penta-Ocean's R&D Division. Developed technologies had tremendous impact on civil engineering projects received in the year ended March 2005. Results of proactive marketing that capitalize on developed technology can also be seen in the architectural engineering field. Specifically, engineering contributed to 60% of orders received in the foods/drugs

industry, 30% in the healthcare industry, and 10% in the renovation field, which in aggregate represents approximately 30% of total orders. In the year ending March 2006, we will dedicate 80% of the ¥1.55 billion R&D budget (same as the previous term) to developing technology in these three key fields:

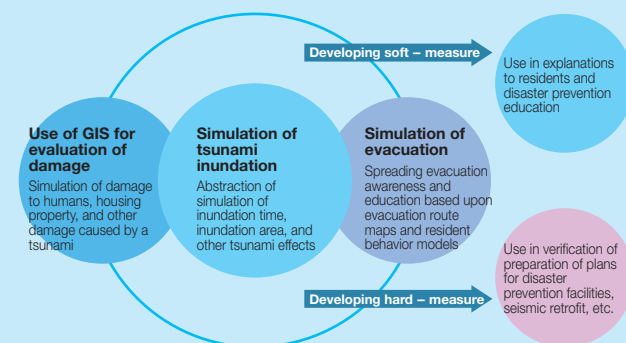
- (1) Environmental/Recycling
- (2) Disaster Prevention/Renovation
- (3) Foods/Medicals/Transportation Engineering.

### Recent Major Technological Developments

#### Tsunami Disaster Prevention and Mitigation

Although Japan is always concerned about the eruption of major earthquakes, there is just as much potential for damage caused by tsunamis/tidal waves, and disaster prevention measures must be taken. Penta Ocean takes a total comprehensive approach in creating disaster prevention plans. The "Tsunami Inundation Simulation" technology takes geographical and other data and creates a tsunami simulation indicating tsunami movement, inundation, and other information. This simulation is used as the basis for forming a disaster prevention plan. The "GIS Damage Assessment" is used to predict how much damage could be caused. This can be used to formulate even more precise disaster prevention plans. The "Evacuation Simulation" software combines data produced from the "Tsunami Inundation Simulation" and "GIS Damage Assessment" to simulate possible evacuation conditions and is used in raising awareness and workshops.

#### Image of Penta Ocean Tsunami Countermeasure



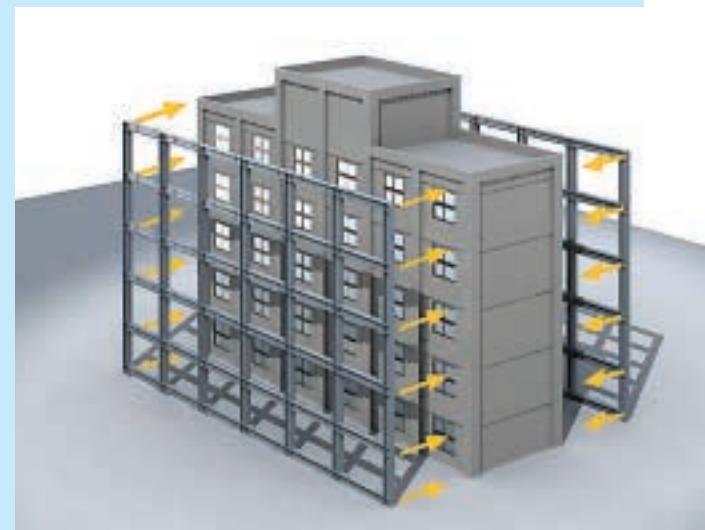
#### Simulation of evacuation



#### Seismic Retrofitting "Portal Grid Method"

The "Portal Grid Method", developed in conjunction with Engineering Department at Osaka University from 2001, is a brace-less seismic retrofitting method that allows buildings to withstand up to 7th degree on the seismic scale. This method reduces the retrofitting construction term compared to the steel brace strengthening method. As the procedure is completely external, the building can be used normally during the installation. Architects can design building facades utilizing the retrofitting grids. For this "Portal Grid Method", the Assessment of Technology for Building Construction has been attained from General Building Research Corporation of Japan, in March of 2005. The method can be applied for condominium complexes, office buildings, hospitals and school buildings. So far, we designed and constructed three applications using "Portal Grid Method". Now, we are planning to adapt this method for several school buildings, welfare institutions and department stores.

#### Retrofitting image of Portal Grid Method



#### Man-Made Seamount Construction



Man-made seamounts are constructed in deep water areas of about 50 - 100 meters using a mound structure to artificially create upwelling current. The upwelling current, which is generated from the seabed, transports rich nutrient salts from the bottom to the surface, where the salts come into contact with sunlight. This produces phytoplankton, which eventually creates a plentiful fishing ground due to the food-cycle

effect. This technology was introduced in the creation of the man-made seamount in a 90-meter deep section off the coast of Tsushima in Nagasaki Prefecture. Last year two systems were used in this project; one to determine the optimum location for injecting the materials predicting their movements due to complex tidal current in the sea, and one to guide ships to proper locations. This year, technology that estimates the sedimentation pattern for each injection will be introduced, and an injection method that improves sedimentation pattern decreasing the spread of injected materials during their falling has been developed. Currently, a special type of block is under development. It is made from recycled seashells that are considered ocean waste and is becoming increasingly used as injection material.

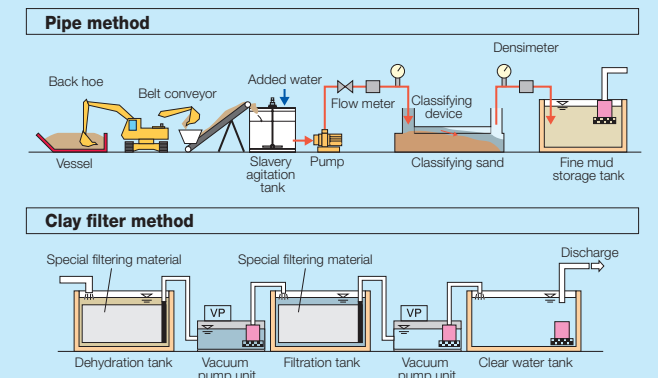
#### Classifier System for Dredging Sediment



Example implemented on a ship

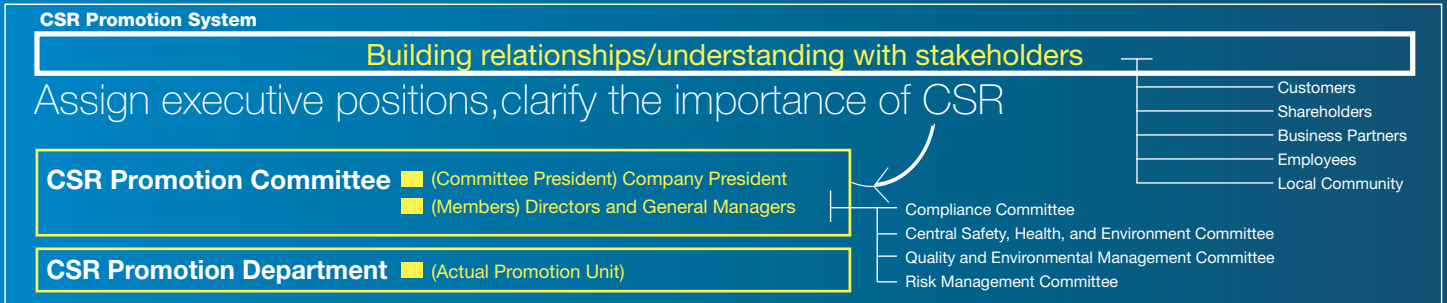
This system classifies and collects the recyclable sand from soft dredging soil. This reduces the amount of wasted soil during dredge projects, thereby reducing the capacity volume and increasing the usage life of reclamation processing facilities. This system is based on two new construction methods: the pipe method, which classifies the dredging soil; and the clay filter method, which processes fine particles from dirty water that has been processed by the pipe method. The pipe method separates the sand and fine particles by pressurizing the soil through the pipes, and collects only the sand. The clay filter method uses a special filtering material system with a filtering effect to filter and collect fine particles and to remove and directly discharge processed water.

#### Construction flow for dredged soil filtering



# CSR (Corporate Social Responsibility)

The new medium-term management program "Evolution 21" is an important part of the company-wide CSR basic policy. Having defined our management principles and medium-term vision, we are implementing these changes throughout the entire company. The details of the CSR basic policy will be discussed below. A CSR promotion committee has also been established. Executive positions have been assigned, with the company president as committee president, and all directors and general managers as members.



## CSR Basic Policy

At Penta-Ocean, we live by the philosophy of "Build a better society through the construction of superior infrastructure". As such, by providing reliable quality backed by advanced technology and regard for safety and the environment, we aim to be a company that stands out not only to stockholders, customers, business partners, and employees, but as a model corporation respected by society.

- 1 Honorable Corporate Activities**  
Business activities must be in accordance with the law, socially acceptable, and morally just.
- 2 Coexistence with the Environment and Nature**
  - Construct environmental friendly structures and develop environmental technology to preserve the planet earth.
  - Develop comprehensive disaster prevention technology to produce structures that provide a high quality living strong enough against disasters.
  - Implement rapid response support activities for times of emergency.
- 3 Respect for Humanity**
  - Respect the individuality of each employee, and create a working environment where each one can demonstrate their best and be rewarded.
  - Respect for human rights and the diversity of all people connected with the company.
- 4 Communication with Society**  
Strive for excellent communication with stakeholders (shareholders, customers, business partners, employees, and the local community), the timely appropriate disclosure of information and maximum accountability.

## Examples of CSR in Action

### Okinawa Naha Underground Tunnel Study on Barrier-Free Construction

The Naha underground tunnel connects the Okinawa's Naha Airport and Migushiku in Naha City. The sections of the tunnel have no internal barriers and a temporary staircase with hand railing and slope was set up so that the handicapped and elderly could participate in the study. The study included such highlights as models of the "Bellows Joint", developed by Penta Ocean and used for the first time in this tunnel, videos showcasing the underground tunnel, and panel exhibits. The study was a success and the participants thoroughly enjoyed the event.



### Fukuoka Takehara Tunnel On-Site PR Activities

The Takehara Tunnel was awarded the special "Citizens Award" at the "First Citizens Choice Civil Engineering Publicity Awards" hosted last year by Nikkei Construction. Receiving this award demonstrates the success of our PR campaign in improving the image of civil engineering with the public. We aggressively sought to interact with the people living in the surrounding area of the site during the construction of the Takehara Tunnel. Pictures of the construction process were displayed in the office near the tunnel entrance. Tours of the tunnel entrance were provided, and the special food of the area was introduced as a seasonal gift idea to all company employees. Through this, we built relationships with and earned the trust of the local people.



# Consolidated Financial Statements

## Consolidated Five-year Summary

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

	Millions of Yen					Thousands of U.S. Dollars
	2001	2002	2003	2004	2005	2005
Orders received .....	¥ 480,699	¥ 351,331	¥287,101	¥ 313,751	<b>¥ 344,716</b>	<b>\$ 3,209,945</b>
Construction .....	480,699	351,331	287,101	313,751	<b>344,716</b>	<b>3,209,945</b>
Real estate development.....	—	—	—	—	—	—
Other .....	—	—	—	—	—	—
Net sales .....	440,141	440,662	386,861	331,170	<b>345,266</b>	<b>3,215,066</b>
Construction .....	428,367	430,474	374,169	314,626	<b>334,802</b>	<b>3,117,627</b>
Real estate development.....	5,844	2,149	3,560	6,240	<b>2,368</b>	<b>22,050</b>
Other .....	5,930	8,039	9,132	10,304	<b>8,096</b>	<b>75,389</b>
Contract backlog .....	545,246	502,980	396,657	392,377	<b>398,369</b>	<b>3,709,554</b>
Construction .....	545,246	502,980	396,657	392,377	<b>398,369</b>	<b>3,709,554</b>
Real estate development.....	—	—	—	—	—	—
Other .....	—	—	—	—	—	—
Total assets .....	497,114	509,541	472,849	443,193	<b>411,322</b>	<b>3,830,170</b>
Shareholders' equity .....	51,716	51,685	33,682	39,860	<b>47,640</b>	<b>443,616</b>
Ordinary income .....	10,494	8,351	1,846	7,440	<b>8,864</b>	<b>82,540</b>
Income (loss) before income taxes						
and minority interests.....	9,436	6,519	(21,316)	6,624	<b>9,500</b>	<b>88,462</b>
Net income (loss) .....	3,179	1,771	(16,261)	3,292	<b>2,360</b>	<b>21,976</b>
Cash dividends .....	1,807	904	—	—	—	—
Per share of common stock:			Yen			U.S. Dollars
Shareholders' equity .....	¥ 143.10	¥ 143.01	¥ 93.21	¥ 110.31	<b>¥ 120.55</b>	<b>\$ 1.12</b>
Net income (loss) .....	8.80	4.90	(45.00)	9.11	<b>6.25</b>	<b>0.06</b>
Cash dividends .....	5.00	2.50	—	—	—	—
Number of employees.....	4,114	4,549	3,934	3,767	<b>3,684</b>	

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 are small and do not have a material

effect to respective total amounts.

Figures in U.S. dollars are converted for convenience only, at the rate of ¥107.39 per U.S.\$1, prevailing on March 31, 2005.

# Financial Review

## Business Performance

In the fiscal year ended March 2005, the Japanese economy largely recorded a modest but solid growth. A steady improvement in corporate business results led to private sector capital investment growth and strong urban residential demand, which boosted investment in the construction industry. Public works investment, however, continued to decline. In Asia, our principal overseas market, construction spending expanded strongly in China but remained sluggish in other parts of the region.

Against this backdrop, with the current year, the final year of our medium term plan "Challenge 21" as a base, the Penta-Ocean Group strived hard to slim down and to regain profitability and a competitive edge. We are pleased to have been able to achieve the numerical targets in business results in the current year. Consolidated net sales increased by 4.3% year-on-year to ¥345,266 million (US\$3,215.0 million), mainly due to a growth in domestic construction activities. Consolidated operating income increased by 11.8% to ¥12,000 million (US\$111.7 million). Operating margin edged up from 3.2% in the previous term to 3.5%. Consolidated ordinary income increased by 19.1% over the previous term to ¥8,864 million (US\$82.5 million). At the extraordinary level, early adoption of new accounting standards on impairment of fixed assets resulted in extraordinary losses of ¥8,324 million (US\$77.5 million), which was more than offset by extraordinary gains from the dissolution of welfare pension funds of ¥12,502 million (US\$116.4 million). Income before income taxes edged up 43.4% to ¥9,500 million (US\$88.4 million). Consolidated net income, however, plunged 28.3% to ¥2,360 million (US\$21.9 million) due to increases in corporate tax adjustments and other factors.

## Segment Information

The construction business was boosted in Japan by private sector capital investment growth and strong urban residential demand but public works investment remained sluggish. Against this backdrop, Penta-Ocean Group's construction segment recorded consolidated operating income of ¥12,825 million (US\$119.4 million), up 9.5% from the previous year, on consolidated sales of ¥334,802 million (US\$3,117.6 million), up 6.4% year-on-year. The Group continued its efforts to improve profitability on individual projects and successfully reduced operating costs.

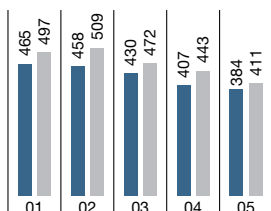
The development activities segment, on the other hand, faced difficult conditions and we made group-wide efforts in promoting real estate for sale held by the Group. While consolidated sales more than halved to ¥2,646 million (US\$24.6 million), operating loss was largely flat at ¥685 million (US\$6.3 million), thanks to our internal restructuring efforts.

Penta-Ocean's non-construction business segment includes shipbuilding, sales and leasing of construction materials and facilities, and vessel leasing. The segment recorded consolidated sales of ¥15,132 million (US\$140.9 million), down 17.8% year-on-year. Consolidated operating loss, however, amounted to ¥174 million (US\$1.6 million), which was significantly less than operating loss of ¥411 million (US\$3.8 million) recorded in the previous term.

Looking at the geographical breakdown, Japan's construction market represents the primary source of revenue and income for Penta-Ocean Group. In the current year, business activities in Japan contributed 89% of sales and all operating profits. The segment's consolidated sales amounted to ¥307,326 million (US\$2,861 million), an increase of 3.5% from the previous year's level, while operating income was ¥14,691 million (US\$136.8 million), up 18.8% year-on-year. Our emphasis on profitability

### Total Assets

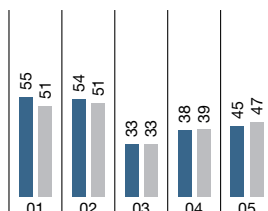
Billions of Yen  
Fiscal years ended March 31



■ Non-Consolidated    ■ Consolidated

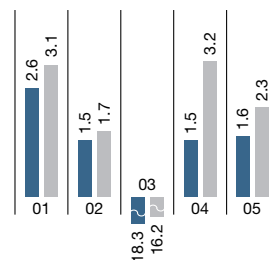
### Shareholders' Equity

Billions of Yen  
Fiscal years ended March 31



### Net Income (Loss)

Billions of Yen  
Fiscal years ended March 31



contributed to an improvement in margins from 4.2% in the previous term to 4.8%. In Southeast Asia, consolidated sales from business activities rose by 23.5% to ¥33,741 million (US\$314.1 million). Although an operating loss was recorded for the third consecutive year, consolidated losses were further reduced by 22.1% to ¥1,050 million (US\$9.7 million). Consolidated sales derived from the Group's business activities in Bulgaria, Romania, and other countries declined by 40.2% to ¥4,199 million (US\$39.1 million) and operating loss reached ¥1,641 million (US\$15.2 million).

## Orders Received

Consolidated orders received by the Group during the term amounted to ¥344,716 million (US\$3,209.9 million), an increase of 9.9% over the previous year. Looking at details on a parent basis, orders received in the domestic market surged by 9.1% to ¥306,058 million (US\$2,849.9 million) while orders from overseas dropped by 44.5% to ¥18,049 million (US\$168.0 million).

## Financial Position

Total assets held by Penta-Ocean and its consolidated subsidiaries decreased by 7.2%, or ¥31,871 million (US\$296.7 million), to ¥411,322 million (US\$3,830.1 million) during the term under review. A decline in total assets was mainly attributable to early adoption of new accounting standards on impairment of fixed assets and a decrease in tax-deferred assets. In the meantime, shareholders' equity increased by 19.5%, or ¥7,780 million (US\$72.4 million), to ¥47,640 million (US\$443.6 million) due to issuance of the first ¥5.0 billion (US\$46.6 million) warrant bonds. As a result, equity ratio rose from 9.0% in the previous term to 11.6%.

## Cash Flows

Cash flow provided from operating activities amounted to ¥21,873 million (US\$203.6 million), down ¥11,356 million (US\$105.7 million) from the previous term. Income before income taxes and minority interests were ¥9,500 million (US\$88.4 million), up ¥2,876 million (US\$26.7 million) from the previous term which offset losses recorded of ¥8,324 million (US\$77.5 million) for impairment of fixed assets.

Cash flow provided from investment activities resulted in excess of ¥9,971 million, (US\$92.8 million) an increase of ¥4,206 million (US\$39.1 million) from the previous term. This was mainly due to sales of idle land assets, resulting in proceeds of ¥9,107 million (US\$84.8 million).

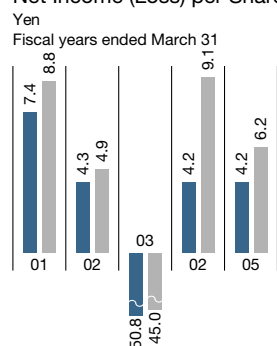
Cash flow used for financial activities was ¥16,506 million (US\$153.7 million). Using free cash flow, the Company paid down ¥13,459 million (US\$125.3 million) of long-term debt on a net basis and reduced current debts by ¥7,996 million (US\$74.4 million), while the Company issued the first warrant bonds of ¥5.0 billion (US\$46.6 million).

At the end of the term, consolidated cash and cash equivalents increased by 18.3% year-on-year, or ¥10,574 million (US\$98.4 million), to ¥68,275 million (US\$635.7 million).

## Dividends

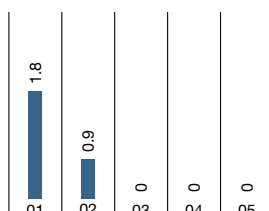
Penta-Ocean's basic policy is to provide long-term stable dividends to its shareholders. However, its current focus is to build a surplus of internal reserves, which regrettably forces us to suspend dividend payments for the third consecutive term. We will make our best efforts to resume dividend payment in the near future. It is one of our primary targets for "Evolution 21", the new medium-term management program which started in April 2005.

### Net Income (Loss) per Share



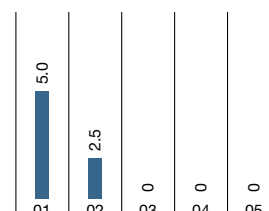
### Cash Dividends

Billions of Yen  
Fiscal years ended March 31



### Cash Dividends per Share

Yen  
Fiscal years ended March 31



# Consolidated Balance Sheets

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries  
As of March 31, 2004 and 2005

ASSETS	Millions of Yen		Thousands of U.S. Dollars
	2004	2005	2005
<b>Current assets:</b>			
Cash and deposits (Note 5) .....	¥ 58,129	¥ 70,381	\$ 655,377
Securities (Notes 3(4), 4 and 5) .....	201	84	782
Trade receivables:			
Notes .....	17,306	9,969	92,830
Accounts .....	111,237	113,632	1,058,125
Inventories: (Note 3(7))			
Cost of uncompleted contracts .....	50,349	47,342	440,842
Real estate for trade and real estate in progress .....	39,347	37,226	346,643
Other inventories .....	2,269	3,253	30,291
Deferred tax assets (Note 15) .....	11,013	9,017	83,965
Other current assets .....	5,690	7,551	70,314
Allowance for doubtful accounts (Note 3(6)) .....	(1,158)	(1,145)	(10,662)
Total current assets .....	294,383	297,310	2,768,507
<b>Investments and non-current assets:</b>			
Investment in securities (Notes 3(4), 4 and 5) .....	22,285	22,981	213,996
Long-term loans and accounts receivables .....	12,979	5,071	47,221
Sundry investments .....	15,572	14,943	139,147
Deferred tax assets (Note 15) .....	11,756	5,827	54,260
Allowance for doubtful accounts (Note 3(6)) .....	(6,706)	(6,553)	(61,021)
Total investments and non-current assets .....	55,886	42,269	393,603
<b>Property, plant and equipment: (Note 3(8))</b>			
Land (Note 5) .....	48,240	36,395	338,905
Buildings and structures (Note 5) .....	38,979	34,604	322,227
Machinery, equipment and vehicles .....	20,151	19,679	183,248
Dredgers and vessels .....	52,203	52,099	485,138
Construction in progress .....	85	15	140
Other property, plant and equipment .....	3,642	792	7,375
Total property, plant and equipment .....	163,300	143,584	1,337,033
Less accumulated depreciation .....	(70,930)	(72,385)	(674,039)
Property, plant and equipment – net .....	92,370	71,199	662,994
<b>Other assets: (Note 3(9))</b>	554	544	5,066
<b>Total assets</b> .....	¥ 443,193	¥ 411,322	\$ 3,830,170

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars
	2004	2005	2005
<b>Current liabilities:</b>			
Short-term debt (Note 6) .....	¥ 71,426	¥ 63,418	\$ 590,539
Current portion of long-term debt (Note 6).....	34,346	51,091	475,752
Trade payable:			
Notes .....	34,619	36,252	337,573
Accounts .....	83,592	85,995	800,773
Advance on contracts in progress .....	51,309	40,254	374,839
Deposits received .....	15,534	11,662	108,595
Accrued income taxes .....	708	1,496	13,931
Provision for loss on liquidation of an affiliated company (Notes 3(12)) .....	487	—	—
Accrued expenses.....	1,984	2,232	20,784
Allowance for losses on construction works (Notes 3(14)).....	—	687	6,397
Other current liabilities .....	4,020	3,824	35,609
Total current liabilities .....	298,025	296,911	2,764,792
<b>Long-term liabilities:</b>			
Long-term debt (Note 6) .....	80,932	50,728	472,372
Reserve for retirement benefits (Notes 3(13) and 19) .....	7,729	6,514	60,657
Reserve for directors' and statutory auditors' retirement pay (Note 3(15)).....	461	441	4,106
Deferred tax liabilities for land revaluation excess (Note 17(2)).....	5,248	3,270	30,450
Consolidation adjustments .....	967	480	4,470
Other long-term liabilities .....	9,968	5,332	49,651
Total long-term liabilities .....	105,305	66,765	621,706
<b>Minority interests</b> .....	3	6	56
<b>Shareholders' equity:</b>			
Common stock .....	18,070	20,570	191,545
Authorized – 599,135,000 shares			
Issued and outstanding shares			
March 31, 2005   395,264,852 shares			
March 31, 2004   361,407,443 shares			
Capital surplus (Note 17(1)) .....	10,106	12,606	117,385
Earned surplus (Note 2(5)) .....	889	6,132	57,100
Land revaluation excess – net (Note 17(2)) .....	7,650	4,767	44,390
Unrealized valuation gain on other securities– net (Note 17(3)).....	2,982	3,412	31,772
Cumulative foreign currency translation adjustments (Note 3(2)) .....	168	162	1,508
Less: Treasury stock .....	(5)	(9)	(84)
Total shareholders' equity.....	39,860	47,640	443,616
<b>Total liabilities, minority interests and shareholders' equity</b> .....	¥ 443,193	¥ 411,322	\$ 3,830,170
<b>Commitments and contingent liabilities (Note 14)</b>			

# Consolidated Statements of Income

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries  
For the two years ended March 31, 2005

	Millions of Yen		Thousands of U.S. Dollars
	2004	2005	2005
<b>Construction business:</b>			
Net sales.....	¥ 314,626	¥ 334,802	\$ 3,117,627
Cost of sales.....	282,248	302,467	2,816,528
Gross profit.....	32,378	32,335	301,099
<b>Real estate and other:</b>			
Net sales.....	16,544	10,464	97,439
Cost of sales.....	16,904	10,761	100,205
Gross profit (loss).....	(360)	(297)	(2,766)
Total net sales.....	331,170	345,266	3,215,066
Total cost of sales.....	299,152	313,228	2,916,733
Total gross profit.....	32,018	32,038	298,333
<b>Selling, general and administrative expenses</b> .....	21,284	20,038	186,591
Operating income.....	10,734	12,000	111,742
<b>Other income:</b>			
Interest and dividends.....	435	445	4,144
Other (Note 7).....	1,045	1,012	9,423
	1,480	1,457	13,567
<b>Other expenses:</b>			
Interest.....	3,798	3,731	34,742
Other (Note 8).....	976	862	8,027
	4,774	4,593	42,769
Ordinary income.....	7,440	8,864	82,540
<b>Extraordinary gain (Note 9)</b> .....	2,502	13,491	125,626
<b>Extraordinary loss (Note 10)</b> .....	3,318	12,855	119,703
Income before income taxes and minority interests.....	6,624	9,500	88,463
<b>Income taxes: (Notes 3(19) and 15)</b>			
Current.....	888	1,492	13,893
Income taxes deferred.....	2,451	5,648	52,594
	3,339	7,140	66,487
<b>Minority interests</b> .....	7	0	0
Net income.....	3,292	2,360	21,976
<b>Income per share of common stock (Note 3(16))</b>			
	Yen		U.S. Dollars
Primary.....	¥ 9.11	¥ 6.25	\$ 0.06
Assuming full dilution.....	—	—	—

See accompanying Notes to Consolidated Financial Statements.



# Consolidated Statements of Shareholders' Equity

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries  
For the two years ended March 31, 2005

	Millions of Yen		Thousands of U.S. Dollars
	2004	2005	2005
<b>Common stock:</b>			
Balance at the beginning of the period .....	33,971	18,070	168,265
Transferred to earned surplus and capital surplus.....	(15,901)	—	—
Exercise of subscription right.....	—	2,500	23,280
Balance at the end of the period.....	18,070	20,570	191,545
<b>Capital surplus: (Note 17(1))</b>			
Balance at the beginning of the period .....	10,635	10,106	94,105
Transferred to earned surplus.....	(10,635)	—	—
Transferred from common stock .....	10,106	—	—
Exercise of subscription right.....	—	2,500	23,280
Balance at the end of the period.....	10,106	12,606	117,385
<b>Earned surplus: (Note 2(5))</b>			
Balance at the beginning of the period .....	(17,008)	889	8,278
Transferred from common stock .....	5,795	—	—
Transferred from capital surplus .....	10,635	—	—
Transferred from land revaluation excess - net .....	(1,825)	2,883	26,846
Net income.....	3,292	2,360	21,976
Balance at the end of the period.....	889	6,132	57,100
<b>Land revaluation excess – net: (Note 17(2))</b>			
Balance at the beginning of the period .....	5,800	7,650	71,236
Transferred to earned surplus.....	1,825	(2,883)	(26,846)
Increase in excess – net .....	25	—	—
Balance at the end of the period.....	7,650	4,767	44,390
<b>Unrealized valuation gain(loss) on other securities – net: (Note 17(3))</b>			
Balance at the beginning of the period .....	(64)	2,982	27,768
Net change .....	3,046	430	4,004
Balance at the end of the period.....	2,982	3,412	31,772
<b>Cumulative foreign currency translation adjustments: (Note 3(2))</b>			
Balance at the beginning of the period .....	352	168	1,564
Net change .....	(184)	(6)	(56)
Balance at the end of the period.....	168	162	1,508
<b>Treasury stock</b>			
Balance at the beginning of the period .....	(4)	(5)	(47)
Purchases of treasury stock .....	(1)	(4)	(37)
Sales of treasury stock .....	—	—	—
Balance at the end of the period.....	(5)	(9)	(84)

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statements of Cash Flows

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries  
For the two years ended March 31, 2005

	Millions of Yen		Thousands of U.S. Dollars
	2004	2005	2005
<b>Cash flows from operating activities</b>			
Income before income taxes and minority interests .....	¥ 6,624	¥ 9,500	\$ 88,462
Adjustment to reconcile income (loss) before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization.....	5,369	4,622	43,040
Loss on impairment of fixed assets .....	—	8,324	77,512
Amortization of consolidation adjustments .....	(435)	(484)	(4,507)
Increase (decrease) in allowance for doubtful accounts .....	(5,000)	(166)	(1,546)
Increase (decrease) in reserve for retirement benefits .....	371	(1,215)	(11,314)
Interest and dividends receivable .....	(435)	(445)	(4,144)
Interest expense .....	4,257	4,095	38,132
Foreign exchange loss(gain) .....	(11)	531	4,945
Equity loss(gain) .....	(55)	(57)	(531)
Loss (gain) on sales and disposals of property, plant and equipment .....	1,163	705	6,565
Loss (gain) on sales of investment in securities.....	(337)	9	84
Write-down of securities and investment in securities.....	15	20	186
Change in assets and liabilities:			
(Increase) decrease in trade receivables .....	13,521	4,102	38,197
(Increase) decrease in cost of uncompleted contracts.....	8	3,007	28,001
(Increase) decrease in real estate for trade and real estate in progress and other inventories.....	15,378	1,029	9,582
Increase (decrease) in trade payables .....	(4,603)	4,345	40,460
Increase (decrease) in advance on contracts in progress .....	1,972	(11,055)	(102,942)
Increase (decrease) in accrued expenses .....	(10,249)	(3,656)	(34,044)
Other – net.....	10,351	3,380	31,474
Sub total .....	37,904	26,591	247,612
Interest and dividends received .....	394	388	3,613
Interest paid.....	(4,241)	(4,102)	(38,198)
Income taxes paid.....	(829)	(1,004)	(9,349)
Net cash provided by (used in) operating activities .....	33,228	21,873	203,678

See accompanying Notes to Consolidated Financial Statements.

	Millions of Yen		Thousands of U.S. Dollars
	2004	2005	2005
<b>Cash flows from investing activities:</b>			
Purchases of securities.....	(7,101)	(1)	(9)
Proceeds from sales of securities .....	7,944	201	1,872
Purchases of investment in securities .....	(501)	(631)	(5,876)
Proceeds from sales of investment in securities.....	2,154	616	5,736
Purchases of property, plant and equipment .....	(2,901)	(1,384)	(12,888)
Proceeds from sales of property, plant and equipment.....	2,688	9,107	84,803
Loans made .....	(7,223)	(968)	(9,014)
Collection of loans receivable .....	709	622	5,792
Other – net .....	25	(1,796)	(16,724)
Net cash provided by (used in) investing activities .....	(4,206)	5,766	53,692
<b>Cash flows from financing activities:</b>			
Net increase (decrease) in short-term bank loans .....	(13,205)	(7,996)	(74,458)
Borrowings.....	17,406	21,140	196,853
Repayment of long-term debt.....	(24,780)	(34,599)	(322,181)
Proceeds from issue bond with subscription right .....	—	5,000	46,559
Cash dividends paid.....	(4)	(2)	(18)
Other – net .....	9	(49)	(456)
Net cash provided by (used in) financing activities .....	(20,574)	(16,506)	(153,701)
<b>Difference resulting from conversion of foreign cash and cash equivalents to yen .....</b>			
	(68)	(559)	(5,205)
<b>Net increase (decrease) in cash and cash equivalents.....</b>	<b>8,380</b>	<b>10,574</b>	<b>98,464</b>
<b>Cash and cash equivalents at beginning of the period.....</b>	<b>49,321</b>	<b>57,701</b>	<b>537,303</b>
<b>Cash and cash equivalents at end of the period .....</b>	<b>¥ 57,701</b>	<b>¥ 68,275</b>	<b>\$ 635,767</b>
<b>(Notes) (1) Cash and cash equivalents are comprised as follows:</b>			
Cash and deposits	¥ 58,129	¥ 70,381	\$ 655,377
Less-Time deposits with maturity over three months .....	(428)	(2,106)	(19,610)
Cash and cash equivalents (Note 3(17)).....	¥ 57,701	¥ 68,275	\$ 635,767
<b>(2) Content of significant non-cash transaction:</b>			
Increase in common stock resulting from exercise of subscription right .....	—	¥ 2,500	\$ 23,280
Increase in capital surplus resulting from exercise of subscription right .....	—	2,500	23,280
Decrease in bonds with subscription rights resulting from exercise of subscription right.....	—	¥ 5,000	\$ 46,560

# Notes to Consolidated Financial Statements

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries

## 1. Basis of preparation of consolidated financial statements

The accompanying consolidated financial statements of Penta-Ocean Construction Co., Ltd. (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the

Securities and Exchange Law of Japan.

The accounting principles and practices adopted by the overseas consolidated subsidiaries conform to those adopted by the Company.

The figures in these financial statements are shown in U.S. dollars at the conversion rate of U.S.\$1=¥107.39, the exchange rate prevailing on March 31, 2005. 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-five subsidiaries and five affiliated companies at March 31, 2005.

The Company consolidated all subsidiaries and applied the equity method to all affiliated companies.

### (2) Consolidation date

The balance sheet date of overseas subsidiaries other than the Company, domestic subsidiaries and seven overseas subsidiaries including Penta-Ocean Dredging Panama whose balance sheet date is March 31, is December 31.

The Company compiled the consolidated financial statements using the financial statements of each company's closing date, and adjustments were made for any material difference incurred between the balance sheet date and the consolidation date.

### (3) Valuation of assets and liabilities of consolidated subsidiaries

Assets and liabilities of subsidiaries are recorded at fair value upon acquisition. The difference between fair value and book value is allocated to 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 valuation amount of derivative financial instruments resulting from derivative transaction denominated in foreign currencies are translated at the exchange rate prevailing on the balance sheet date based on the fair value or the actual value estimated in foreign currencies excluding those applying hedge accounting. Exchange gains or losses, realized or unrealized, are included in current income.

### (2) Conversion method of foreign currency of overseas subsidiaries

Financial statements stated in foreign currency are translated into yen at the exchange rate prevailing on the balance sheet date except for the components of 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 on other securities-net, and sales costs are determined by the moving average method.

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

#### *(5) Derivative financial transactions*

Derivative financial instruments are stated at fair value. Hedge accounting is adopted for derivative financial instruments which conform to requirements of hedge accounting.

#### *(6) Allowance for doubtful accounts*

Allowance for doubtful accounts is accounted for using the estimated bad debt ratio determined based on the past actual bad debt losses to general credits and the individual estimated amount to any specific uncollectible receivables.

#### *(7) Inventories*

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

#### *(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 when incurred.

*(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) Stock issue cost and bond issue cost*

Stock issue cost and bond issue cost were amortized fully when incurred.

#### *(11) 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.

#### *(12) Provision for loss on liquidation of an affiliated company*

For the purpose of liquidation of an affiliated company which is engaged in the real estate development business, the Company provides a reserve against the estimated losses arising from liquidation of the affiliated company.

#### *(13) Reserve for retirement benefits*

Reserve for retirement benefits is provided for on an accrual basis based on the estimated amounts of retirement benefit obligations and pension fund assets at end of the fiscal year. Effects of the amendments on the application of the new accounting standards for retirement benefits are equally amortized over fifteen years.

Prior service liabilities are recognized as an expense when incurred.

Actuarial gains or losses are equally amortized by the straight-line method over the average remaining employees' service years, which should be within 10 years and its amortization starts in the next year of the respective accrual years.

The Company has a defined benefit pension plan and a lump-sum severance indemnity plan and the domestic consolidated subsidiaries have a lump-sum severance indemnity plan, as a defined retirement benefit plan. And further, in some cases, a special additional retirement payment are made to employees.

In addition, the Company has established the financial trust to cover retirement benefit obligations for employees.

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

The application for dissolution of Penta-Ocean construction employees' welfare pension fund was filed to the welfare Minister of Labor on May 24, 2004 and was approved on June 30, 2004.

Gain on the employees' welfare pension plan dissolution of ¥12,502 million (\$ 116,417 thousand) is hereby accounted for as extraordinary gain in accordance with "Accounting Treatment for Transfers Between Retirement Benefit Plans" (Financial Accounting Standard Practical Guidance No.1 issued by Accounting Standard Board of Japan).

On October 1, 2004 the Company newly introduced the cash balance plan as the retirement benefit plan and changed into the Defined Benefit Pension Plan from the tax-qualified pension plan.

*(14) Allowance for losses on construction works*

The Company prepares reasonable estimated amount for future losses from construction works outstanding at fiscal year-end.

*(15) Reserve for directors' and statutory auditors' retirement pay*

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

*(16) Net income per share*

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

Net income per share assuming full dilution is not presented because there were no potential stocks as of March 31, 2005.

*(17) Cash and cash equivalents*

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

*(18) Hedge accounting*

1) Derivative transactions are accounted for primarily using deferral hedge accounting.

2) Hedge instruments and hedged items

Hedge instruments are interest rate swap agreements and forward exchange contracts.

Hedged items are interest on bank loans and monetary receivables and payables denominated in foreign currencies.

3) The Company enters into interest rate swap agreements and forward exchange contracts to hedge risk from fluctuations in interest rate and forward exchange rates, respectively.

4) Evaluation of the effectiveness of hedge accounting

Control procedures for hedge transactions are executed

according to the Company's Bylaw. The Examination Committee of Derivative Instruments and the Financial Division in the Company periodically evaluates the effectiveness of hedging.

*(19) Income taxes*

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

Japanese corporation and other taxes applicable to the Company and consolidated domestic subsidiaries comprise (a) corporation tax of 30.0 percent on taxable income, (b) enterprise tax of 7.6 percent on taxable income after certain adjustments, and (c) prefectural and municipal taxes averaging 20.4 percent of corporation tax. 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 subject to certain limitations in accordance with Japanese tax regulations.

*(20) Change of accounting policy*

The Company adopted Accounting Standard for Impairment of Fixed Assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Council on August 9, 2002) and Practical Guidance on Accounting for Impairment of Fixed Assets (Financial Accounting Standard Practical Guidance No.6 issued by Accounting Standard Board of Japan on October 31, 2003) effective for fiscal year ended March 31, 2004 or later. As a result, operating income and ordinary income increased by ¥ 77 million (\$ 717 thousand), respectively, and income before income taxes and minority interests decreased by ¥ 8,226 million (\$ 76,599 thousand). Accumulated loss on impairment was directly deducted from the related assets in accordance with the revised Regulations of the Consolidated Financial Statements.

#### 4. Securities

The composition of securities as of March 31, 2004 and 2005 is as follows:

	Millions of Yen		Thousands of
	2004	2005	U.S. Dollars
Securities due within one year:			2005
Held-to-maturity bonds.....	¥ 201	¥ 84	\$ 782
Total .....	¥ 201	¥ 84	\$ 782
Investment in securities:			
Held-to-maturity bonds.....	¥ 153	¥ 70	\$ 652
Investment trust bills .....	332	415	3,865
Stocks .....	20,300	21,296	198,305
Other .....	1,500	1,200	11,174
Total .....	¥ 22,285	¥ 22,981	\$ 213,996

#### 5. Pledged Assets

(1)The following assets are pledged for fulfillment of construction contracts at March 31, 2004 and 2005.

	Millions of Yen		Thousands of
	2004	2005	U.S. Dollars
Deposits .....	¥ 150	¥ —	\$ —
Securities .....	1	71	661
Investment in securities.....	2,283	2,096	19,518
Total .....	¥ 2,434	¥ 2,167	\$ 20,179

(2)The following assets are in pledge to short-term bank loans and long-term debt at March 31, 2004 and 2005.

	Millions of Yen		Thousands of
	2004	2005	U.S. Dollars
Deposits .....	¥ 200	¥ 200	\$ 1,862
Investment in securities.....	103	5	47
Land .....	101	101	940
Buildings .....	110	106	987
Total .....	¥ 514	¥ 412	\$ 3,836

## 6. Short-term and long-term debt

Short-term bank loans are represented primarily in the form of overdraft facility notes. The weighted average interest rates for the two fiscal years ended March 31, 2005 are

1.82% and 1.98%. Long-term debts as of March 31, 2004 and 2005 is summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2005	2005
1.71 percent bonds due September 2005 .....	¥ 200	¥ 200	\$ 1,863
Long-term debt from banks and insurance companies maturing in 2013..... (The weighted average interest rate is 2.52%. )	115,078	101,619	946,261
Less: current portion of long-term debt .....	(34,346)	(51,091)	(475,752)
Net .....	¥ 80,932	¥ 50,728	\$ 472,372

The aggregate annual maturity of long-term debt after March 31, 2005 is as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2005	2005
Year ending March 31,		
2006 .....	¥ 51,091	\$ 475,752
2007 .....	27,699	257,929
2008 .....	12,755	118,773
2009 .....	3,266	30,413
2010 and after that.....	7,008	65,257
Total .....	¥ 101,819	\$ 948,124

## 7. Other income

The composition of Other income – other for the two years ended March 31, 2005 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2005	2005
Rental received from real estate .....	¥ 228	¥ 212	\$ 1,974
Amortization of consolidation adjustments.....	436	484	4,507
Equity gain .....	55	57	531
Other.....	326	259	2,411
Total .....	¥ 1,045	¥ 1,012	\$ 9,423

## 8. Other expenses

The composition of Other expenses - other for the two years ended March 31, 2005 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2005	2005
Exchange loss.....	¥ 842	¥ 461	\$ 4,293
Other.....	134	401	3,734
Total .....	¥ 976	¥ 862	\$ 8,027



## 9. Extraordinary gain

The composition of Extraordinary gain for the two years ended March 31, 2005 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2005	2005
Prior period adjustments .....	¥ 357	¥ 169	\$ 1,574
Gain on sales of fixed assets .....	156	197	1,834
Gain on dissolution of the welfare pension fund .....	—	12,502	116,417
Reversal of reserve for retirement benefits .....	1,028	357	3,324
Gain on sales of investment in securities .....	347	—	—
Reversal of provision for bad debt .....	305	—	—
Other .....	309	266	2,477
Total .....	¥ 2,502	¥ 13,491	\$ 125,626

## 10. Extraordinary loss

The composition of Extraordinary loss for the two years ended March 31, 2005 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2005	2005
Prior period adjustments .....	¥ 323	¥ 201	\$ 1,871
Loss on sales of fixed assets .....	1,318	902	8,400
Loss on disposition of fixed assets .....	48	94	875
Write-down of real estate for trade .....	512	13	121
Write-down of investment in securities .....	15	20	186
Loss on impairment of fixed assets* .....	—	8,324	77,512
Loss on real estate development business of an affiliated company .....	—	2,152	20,039
Provision for bad debt .....	15	667	6,211
Provision for loss on liquidation of an affiliated company .....	482	—	—
Special supplementary retirement pay .....	25	—	—
Other .....	580	482	4,488
Total .....	¥ 3,318	¥ 12,855	\$ 119,703

\*The Company recognized loss on impairment for the following group of assets in the current fiscal year ended March 31, 2005

Location	Kyushu area		Other area	
Classification of group	Golf course (1 object)		Idle real estates(12 objects)	
Loss on impairment	Land and other	¥ 6,521 million	Land	¥ 117 million
		(\$ 60,722 thousand)		(\$ 1,089 thousand)
	Buildings and other	¥ 1,684 million		
		(\$ 15,681 thousand)		

The Company and consolidated subsidiaries classified the fixed assets by business control unit such as company, branch office, and business line, which controls its revenue and expenditure continuously.

Book values of the above assets and the group of assets were written down to the recoverable amounts due to significant decline in profitability of the golf course business and decrease in the land prices in recent years. The impairment losses (¥8,324 million (\$ 77,512 thousand) ) was accounting for as the extraordinary loss.

Recoverable amount of assets related to the golf course is the value appraised by real estate appraisers and that of the idle real estate is measured by net realizable amounts based on the posted land price.

## 11. Research and development costs

Research and development costs charged to income for the two fiscal years ended March 31, 2005 were ¥1,558 million(U.S.\$14,508 thousand) and ¥1,480million (U.S.\$13,782 thousand), respectively.

## 12. Summary of finance lease transaction

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
	2004	2005	2005
Estimated acquisition costs			
Equipment .....	¥ 855	¥ 880	\$ 8,194
Vehicles .....	151	108	1,006
Buildings .....	40	—	—
	1,046	988	9,200
Accumulated depreciation .....	(697)	(760)	(7,077)
Estimated value .....	¥ 349	¥ 228	\$ 2,123

(2) Future lease payments as of March 31, 2004 and 2005 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2005	2005
Within one year .....	¥ 135	¥ 117	\$ 1,089
Over one year .....	248	136	1,266
Total .....	¥ 383	¥ 253	\$ 2,355

(3) Lease payments, depreciation and interest expenses for the year ended March 31, 2004 and 2005

	Millions of Yen		Thousands of U.S. Dollars
	2004	2005	2005
Lease payments .....	¥ 155	¥ 169	\$ 1,574
Depreciation .....	137	150	1,397
Interest expense .....	13	11	102

## 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, by which are clarified purposes and management and execution procedures for transaction.

## 14. Commitments and contingent liabilities

As of March 31, 2005, commitments for the purchase of machinery and equipment and other assets were ¥10 million (U.S. \$93 thousand), and the Company had liabilities for guarantee to bank loans made by customers amounting to ¥2,151 million (U.S.

\$20,030 thousand).

The Company also had the guarantee amounting to ¥308 million (U.S. \$2,868 thousand) to purchasers concerning deposits for purchase of the condominium apartments.

## 15. Tax effect accounting

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

	Millions of Yen		Thousands of U.S. Dollars
	2004	2005	2005
<b>Deferred tax assets</b>			
Write-down of real estate for trade.....	¥ 3,506	¥ 2,960	\$ 27,563
Deficit carried forward on tax .....	8,009	—	—
Disapproval on tax purpose concerning allowance for doubtful accounts.....	1,919	1,898	17,674
Loss on establishment of financial trust in respect of retirement benefit obligations.....	4,126	1,109	10,327
Disapproval on tax purpose concerning reserve for retirement benefits.....	2,879	2,474	23,037
Reserve for bonuses.....	669	660	6,146
Write-down of investment in securities.....	504	—	—
Provision for loss on liquidation of affiliates.....	251	—	—
Provision for loss on real estate development business of affiliates.....	1,620	3,570	33,243
Impairment of fixed assets .....	—	3,881	36,139
Other .....	3,188	5,142	47,882
Total: deferred tax assets.....	26,671	21,694	202,011
Less : valuation allowance .....	(1,717)	(4,380)	(40,786)
Deferred tax assets.....	¥ 24,954	¥ 17,314	\$ 161,225
<b>Deferred tax liabilities</b>			
Unrealized valuation gain on other securities.....	¥ (2,048)	¥ (2,346)	\$ (21,845)
Reduction for amendment of allowance for doubtful accounts.....	(27)	(28)	(261)
Other .....	(110)	(95)	(885)
Total: deferred tax liabilities.....	(2,185)	(2,469)	(22,991)
Net: deferred tax assets.....	¥ 22,769	¥ 14,845	\$ 138,234

2. The principal details of the material differences between the statutory effective tax rate and the actual burden tax rate after application of tax-effect accounting

	2004	2005
The statutory effective tax rate .....	42.05%	40.69%
(Adjustments)		
Permanent exclusion from expenses.....	16.39%	9.29%
Tax free income .....	(0.26%)	(0.37%)
Per capita levy on inhabitant tax.....	8.91%	6.17%
Deferred tax assets not to have recognized tax-effect in the previous year.....	(17.20%)	—
Reduction adjustment on deferred tax assets resulting from change in the statutory effective tax rate .....	3.76%	—
Consolidated adjustments not to have recognized tax-effect .....	(4.12%)	(2.07%)
Increase in valuation allowance .....	—	15.75%
Other .....	0.88%	5.70%
Actual burden tax rate after the application of tax effect accounting.....	50.41%	75.16%

## 16. Consumption tax

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

## 17. Shareholders' Equity

### (1) Earned surplus reserve and capital surplus reserve

The Japanese Commercial Code requires to provide an earned surplus reserve over 10 percent of cash out flow, that is, payment of dividends and/or directors' and statutory auditors' bonuses approved by the Shareholders' meeting every fiscal years, until the total amounts of earned surplus reserve plus capital surplus reserve or either of them reach 25 percent of common stock.

In the consolidated financial statements, those are included in earned surplus and capital surplus, respectively.

### (2) Land revaluation excess

The Company revaluated lands used for business purposes on March 31, 2000 based on the Law concerning Land Revaluation (Law No.34, promulgated on March 31, 1998) and on the partial revision of the Law concerning Land Revaluation (Law No.24, promulgated on March 31, 1999). Relating to revaluation excess, the amounts corresponding to deferred tax on the tax effect accounting 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
	2004	2005	2005
The difference between the appraisal value of land at end of the current fiscal year and the book value .....	¥ 8,395	¥ 10,356	\$ 96,434

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.

after application of tax effect accounting as of March 31, 2005. Deferred tax liabilities amounted to ¥2,346 million (U.S. \$ 21,846 thousand).

### (3) Unrealized valuation gain on other securities-net

Unrealized valuation gain on other securities is based on the difference between fair market value and book value at March 31. This amounted to ¥3,412 million (U.S. \$ 31,772 thousand) gain

### (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 benefits obligations

	Millions of Yen		Thousands of U.S. Dollars
	2004	2005	2005
a. Retirement benefit obligations .....	¥ (52,497)	¥ (36,214)	\$ (337,219)
b. Pension fund assets .....	25,014	12,151	113,148
c. Unrecognized retirement benefit obligations.....	(27,483)	(24,063)	(224,071)
d. Unrecognized effects of the amendments on the application of the new accounting standards for retirement benefits .....	14,946	13,017	121,213
e. Unrecognized actuarial gain or loss.....	4,808	4,532	42,201
f. Unrecognized prior service liabilities .....	—	—	—
g. Net retirement benefit obligations.....	(7,729)	(6,514)	(60,657)
h. Prepaid pension cost .....	—	—	—
i. Reserve for retirement benefits.....	¥ (7,729)	¥ (6,514)	\$ (60,657)

## II. Retirement benefit costs

	Millions of Yen		Thousands of U.S. Dollars
	2004	2005	2005
a. Service costs .....	¥ 1,674	¥ 1,415	\$ 13,176
b. Interest costs .....	1,339	831	7,738
c. Expected return on pension fund assets .....	(231)	(170)	(1,583)
d. Amortization of effects of the amendments on the application of the new accounting standards for retirement benefits .....	1,360	1,316	12,254
e. Amortization of actuarial gain or loss .....	1,748	755	7,031
f. Recognition of prior service liabilities .....	(973)	(357)	(3,324)
g. Retirement benefit costs .....	4,917	3,790	35,292
h. Gain on dissolution of the welfare pension fund .....	—	(12,502)	(116,417)
Total .....	¥ 4,917	¥ (8,712)	\$ (81,125)

## III. Calculation basis of retirement benefit obligations, etc.

a. Recognition method of the projected retirements benefit obligations .....	Straight-line method
b. Discount rate .....	2.00%
c. Expected return rate on pension fund assets .....	0.00%~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 (almost 10 years)
f. Amortization term of effects of the amendments on the application of the new accounting standards for retirement benefits .....	15 years

## 20. Segment information

### (1) Business segment

Business segment is primarily composed of the followings:

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

Year ended March 31, 2004	Millions of Yen				Elimination and/or addition	Consolidated
	Construction	Real estate development	Other	Total		
Net sales:						
Customers .....	¥ 314,625	¥ 6,240	¥ 10,305	¥ 331,170	¥ —	¥ 331,170
Internal sales or transfer .....	670	264	8,123	9,057	(9,057)	—
Total.....	315,295	6,504	18,428	340,227	(9,057)	331,170
Operating expenses .....	303,583	7,182	18,839	329,604	(9,168)	320,436
Operating income (loss) .....	11,712	(678)	(411)	10,623	111	10,734
Assets.....	283,933	55,088	34,090	373,111	70,082	443,193
Depreciation .....	2,914	215	2,283	5,412	(42)	5,370
Capital expenditures .....	2,488	93	516	3,097	—	3,097

Year ended March 31 , 2005	Millions of Yen					Elimination and/or addition	Consolidated
	Construction	Real estate development	Other	Total			
Net sales:							
Customers .....	¥ 334,802	¥ 2,368	¥ 8,096	¥ 345,266	¥ —	¥ 345,266	
Internal sales or transfer .....	—	278	7,036	7,314	(7,314)	—	
Total.....	334,802	2,646	15,132	352,580	(7,314)	345,266	
Operating expenses.....	321,977	3,331	15,306	340,614	(7,348)	333,266	
Operating income (loss) .....	12,825	(685)	(174)	11,966	34	12,000	
Assets.....	248,570	52,802	26,685	328,057	83,265	411,322	
Depreciation .....	2,293	59	2,304	4,656	(34)	4,622	
Loss on impairment of fixed assets .....	117	—	8,207	8,324	—	8,324	
Capital expenditures .....	884	15	597	1,496	—	1,496	

Year ended March 31 , 2005	Thousands of U.S. Dollars					Elimination and/or addition	Consolidated
	Construction	Real estate development	Other	Total			
Net sales:							
Customers .....	\$ 3,117,627	\$ 22,050	\$ 75,389	\$ 3,215,066	\$ —	\$ 3,215,066	
Internal sales or transfer .....	—	2,589	65,518	68,107	(68,107)	—	
Total.....	3,117,627	24,639	140,907	3,283,173	(68,107)	3,215,066	
Operating expenses.....	2,998,203	31,018	142,527	3,171,748	(68,424)	3,103,324	
Operating income (loss) .....	119,424	(6,379)	(1,620)	111,425	317	111,742	
Assets.....	2,314,648	491,684	248,487	3,054,819	775,351	3,830,170	
Depreciation .....	21,352	549	21,455	43,356	(316)	43,040	
Loss on impairment of fixed assets .....	1,089	—	76,423	77,512	—	77,512	
Capital expenditures .....	8,232	140	5,559	13,931	—	13,931	

Notes :

(1) All operating expenses are allocated to the respective segments.

Assets which could not be allocated relate to the general control division in the head office of the Company and subsidiaries and amount to ¥72,545 million (U.S. \$675,528 thousand) at March 31, 2004 and ¥84,833 million (U.S. \$ 789,952 thousand) at March 31, 2005. These principally are consisted of cash and time

deposits, securities, investment in securities and sundry assets.

(2) As described in change in accounting policies, the Company adopted Accounting Standard for Impairment of Fixed Assets from the fiscal year ended March 31, 2005. As a result, operating expenses and operating loss in other on the column of the above table decreased by ¥77 million (\$ 717 thousand) compared with the previous method.

(2) Geographic segment

Geographic segment is primarily composed of the followings:

Japan	
Southeast Asia.....	Singapore, Hong Kong and Vietnam
Other .....	Bulgaria, Romania and Sri Lanka

Year ended March 31 , 2004	Millions of Yen					Elimination and/or addition	Consolidated
	Japan	Southeast Asia	Other	Total			
Net sales:							
Customers .....	¥ 296,812	¥ 27,333	¥ 7,025	¥ 331,170	¥ —	¥ 331,170	
Internal sales or transfer .....	—	—	—	—	—	—	
Total.....	296,812	27,333	7,025	331,170	—	331,170	
Operating expenses.....	284,445	28,681	7,372	320,498	(62)	320,436	
Operating income (loss) .....	12,367	(1,348)	(347)	10,672	62	10,734	
Assets.....	323,344	42,533	4,771	370,648	72,545	443,193	

Year ended March 31 , 2005	Millions of Yen				Elimination and/or addition	Consolidated
	Japan	Southeast Asia	Other	Total		
Net sales:						
Customers .....	¥ 307,326	¥ 33,741	¥ 4,199	¥ 345,266	¥ —	¥ 345,266
Internal sales or transfer .....	—	—	—	—	—	—
Total.....	307,326	33,741	4,199	345,266	—	345,266
Operating expenses.....	292,635	34,791	5,840	333,266	—	333,266
Operating income (loss) .....	14,691	(1,050)	(1,641)	12,000	—	12,000
Assets.....	280,195	41,700	4,594	326,489	84,833	411,322

Year ended March 31 , 2005	Thousands of U.S. Dollars				Elimination and/or addition	Consolidated
	Japan	Southeast Asia	Other	Total		
Net sales:						
Customers .....	\$ 2,861,775	\$ 314,191	\$ 39,100	\$ 3,215,066	\$ —	\$ 3,215,066
Internal sales or transfer .....	—	—	—	—	—	—
Total.....	2,861,775	314,191	39,100	3,215,066	—	3,215,066
Operating expenses.....	2,724,974	323,969	54,381	3,103,324	—	3,103,324
Operating income (loss) .....	136,801	(9,778)	(15,281)	111,742	—	111,742
Assets.....	2,609,135	388,304	42,779	3,040,218	789,952	3,830,170

Notes :

(1) All operating expenses are allocated to the respective segments.

Assets which could not be allocated relate to the general control division in the head office of the Company and subsidiaries and amount to ¥ 72,545 million (U.S. \$ 675,528 thousand) at March 31, 2004 and ¥ 84,833 million (U.S. \$789,952 thousand) at March 31, 2005.

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

(2) As described in change in accounting policies, the Company adopted Accounting Standard for Impairment of Fixed Assets from the fiscal year ended March 31, 2005. As a result, operating expenses in Japan on the column of the above table decreased by ¥77 million (\$ 717 thousand) and operating income increased by the same amount compared with the previous method.

(3) Oversea sales

For the year ended March 31 , 2004	Millions of Yen		
	Southeast Asia	Other	Total
Overseas sales .....	¥ 27,333	¥ 7,025	¥ 34,358
Consolidated sales .....			¥ 331,170
Proportion of overseas sales to consolidated sales .....	8.3%	2.1%	10.4%

For the year ended March 31 , 2005	Millions of Yen		
	Southeast Asia	Other	Total
Overseas sales .....	¥ 33,741	¥ 4,199	¥ 37,940
Consolidated sales .....			¥ 345,266
Proportion of overseas sales to consolidated sales .....	9.8%	1.2%	11.0%

For the year ended March 31 , 2005	Thousands of U.S.Dollars		
	Southeast Asia	Other	Total
Overseas sales .....	\$ 314,191	\$ 39,100	\$ 353,291
Consolidated sales .....			\$ 3,215,066
Proportion of overseas sales to consolidated sales .....	9.8%	1.2%	11.0%

Segments of countries or areas are set up on the basis of geographical closeness.

Principal countries and areas included in each category  
— Southeast Asia : Singapore, Hong Kong and Vietnam  
— Others : Bulgaria, Romania and Sri Lanka

## 21. Related party transactions

For the year ended March 31 , 2004

Attribution .....	Affiliated company
Name of 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
Loans receivable (Note 1)	¥ 4,244	Long-term loans receivable	¥ 8,160
Orders received of construction (Notes 2)	17	—	—

Notes :

Transaction's term and policy

1. The Company exempts from interest payable.
2. The Company offers the estimated sheets of construction to Green-port Co., Ltd and receives the order after negotiation.

3. Amounts in ending balance of the above table include consumption taxes and those of transactions exclude them.

For the year ended March 31 , 2005

None

## 22. Significant subsequent event

The Company's Board of Directors resolved to issue the second unsecured convertible bonds with subscription rights on April 25, 2005 and issued them on May 11, 2005. The outline is as follows.

- (1) Total amount of issue: 15 billion yen
- (2) Issue price: At ¥ 100 per ¥ 100 in the face value  
Issue price of subscription rights is free.
- (3) Interest rate: Free
- (4) Due date of payment: May 11, 2005
- (5) Due date of redemption: May 11, 2007
- (6) Details of the subscription rights:
  - ① Total number of subscription rights: 150
  - ② Issue price: Free
  - ③ Type of stock issued by subscription rights: Common stock
  - ④ Number of stock issued by subscription rights:

The bondholders with subscription rights are entitled to exercise rights during the period from May 12, 2005 to May 10, 2007.

The amount payable on exercise of one subscription right equals to the issue price of the Bonds.

The amount payable for per share on exercise of one subscription right is ¥ 193.8 for a while.

- (7) Guarantees: There is no pledge or guarantees on the Bonds with subscription right, and no assets which is reserved particularly for the Bonds with subscription right.
- (8) Use of funds: Use for operating activities and investment in certain facilities
- (9) Method of flotation: All bonds are allocated to Mizuho Securities Co.,Ltd.



## Report of Independent Auditors

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, 2004 and 2005, 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 express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of PENTA-OCEAN CONSTRUCTION CO., LTD. and consolidated subsidiaries at March 31, 2004 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 3 (20), the Company adopted Accounting Standard for Impairment of Fixed Assets from the consolidated fiscal year ended March 31, 2005 and compiled the consolidated financial statements in accordance with this accounting standard.

In addition, as described in Note 22, the Company's Board of Directors resolved to issue the second unsecured convertible bonds with subscription rights on April 25, 2005 and issued them on May 11, 2005.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

June 29, 2005



ERNST & YOUNG SHINNIHON

*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 Financial Statements

## Non-Consolidated Five-year Summary

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

	Millions of Yen					Thousands of U.S. Dollars
	2001	2002	2003	2004	2005	2005
Orders received .....	¥ 473,024	¥ 318,174	¥ 265,605	¥ 298,079	<b>¥ 326,909</b>	<b>\$ 3,044,129</b>
Civil engineering .....	316,349	191,157	140,578	151,789	<b>197,567</b>	<b>1,839,715</b>
Architectural engineering .....	151,291	124,860	118,852	140,086	<b>126,542</b>	<b>1,178,341</b>
Real estate and other .....	5,384	2,157	6,175	6,204	<b>2,800</b>	<b>26,073</b>
Net sales.....	419,382	396,743	347,176	297,389	<b>317,359</b>	<b>2,955,201</b>
Civil engineering .....	250,937	238,582	206,779	168,438	<b>158,300</b>	<b>1,474,066</b>
Architectural engineering .....	163,308	155,649	136,512	123,124	<b>156,360</b>	<b>1,456,002</b>
Real estate and other .....	5,137	2,512	3,884	5,827	<b>2,699</b>	<b>25,133</b>
Contract backlog .....	543,262	481,621	388,128	382,317	<b>391,032</b>	<b>3,641,233</b>
Civil engineering .....	369,569	336,254	259,832	237,238	<b>275,937</b>	<b>2,569,485</b>
Architectural engineering .....	173,184	145,212	125,851	142,257	<b>112,172</b>	<b>1,044,529</b>
Real estate and other .....	509	154	2,445	2,822	<b>2,923</b>	<b>27,219</b>
Total assets .....	465,121	458,078	430,632	407,119	<b>384,089</b>	<b>3,576,581</b>
Shareholders' equity .....	55,167	54,013	33,918	38,533	<b>45,574</b>	<b>424,379</b>
Ordinary income .....	10,917	7,250	1,478	6,640	<b>7,649</b>	<b>71,226</b>
Income (loss) before income taxes .....	7,481	5,571	(24,117)	5,587	<b>7,811</b>	<b>72,735</b>
Net income (loss) .....	2,674	1,557	(18,388)	1,548	<b>1,616</b>	<b>15,048</b>
Cash dividends .....	1,807	904	—	—	—	—
Per share of common stock:			Yen			U.S. Dollars
Shareholders' equity .....	¥ 152.64	¥ 149.46	¥ 93.86	¥ 106.64	<b>¥ 115.33</b>	<b>\$ 1.07</b>
Net income .....	7.40	4.31	(50.88)	4.28	<b>4.28</b>	<b>0.04</b>
Cash dividends .....	5.00	2.50	—	—	—	—
Number of employees.....	3,710	3,655	3,121	3,043	<b>2,965</b>	

U.S.\$1=¥107.39 as at march 31, 2005

# Non-Consolidated Statements of Income

Penta-Ocean Construction Co., Ltd.

For the two years ended March 31, 2005

	Millions of Yen		Thousands of U.S. Dollars
	2004	2005	2005
<b>Construction business:</b>			
Net sales .....	¥ 291,562	¥ 314,660	\$ 2,930,068
Cost of sales .....	261,272	284,400	2,648,291
Gross profit .....	30,290	30,260	281,777
<b>Real estate development and other :</b>			
Net sales .....	5,827	2,699	25,133
Cost of sales .....	6,866	3,585	33,383
Gross profit (loss) .....	(1,039)	(886)	(8,250)
Total net sales .....	297,389	317,359	2,955,201
Total cost of sales .....	268,138	287,985	2,681,674
Total gross profit .....	29,251	29,374	273,527
<b>Selling, general and administrative expenses</b>			
Operating income .....	18,914	18,123	168,759
Operating income .....	10,337	11,251	104,768
<b>Other income:</b>			
Interest and dividends .....	412	414	3,855
Interest and dividends from subsidiaries and affiliates .....	91	110	1,024
Other .....	407	381	3,548
	910	905	8,427
<b>Other expenses:</b>			
Interest .....	3,679	3,654	34,026
Other .....	928	853	7,943
	4,607	4,507	41,969
Ordinary income .....	6,640	7,649	71,226
<b>Extraordinary gain</b> .....	2,141	12,872	119,862
<b>Extraordinary loss</b> .....	3,194	12,710	118,353
Income before income taxes .....	5,587	7,811	72,735
<b>Income taxes</b>			
Current .....	485	1,170	10,895
Income taxes deferred .....	3,554	5,025	46,792
	4,039	6,195	57,687
Net income .....	¥ 1,548	¥ 1,616	\$ 15,048
Retained earnings (deficit) brought forward .....	(5,794)	(276)	(2,570)
Covering deficit on capital decrease .....	5,794	—	—
Reversal of land revaluation excess .....	(1,824)	2,883	26,846
Unappropriated retained earnings (deficit) .....	¥ (276)	¥ 4,223	\$ 39,324
<b>Income per share of common stock</b>			
	Yen		U.S. Dollars
Primary .....	¥ 4.28	¥ 4.28	\$ 0.04
Assuming full dilution .....	—	—	—

# Non-Consolidated Balance Sheets

Penta-Ocean Construction Co., Ltd.  
As of March 31, 2004 and 2005

ASSETS	Millions of Yen		Thousands of U.S. Dollars
	2004	2005	2005
<b>Current assets:</b>			
Cash and deposits .....	¥ 50,294	¥ 64,065	\$ 596,564
Securities .....	201	84	782
Trade receivables:			
Notes .....	14,756	7,501	69,848
Accounts .....	104,788	106,752	994,059
Subsidiaries and affiliates .....	4,945	14,825	138,048
Inventories:			
Cost of uncompleted contracts .....	47,093	44,627	415,560
Real estate for trade and real estate in progress .....	38,067	35,995	335,180
Raw materials and supplies .....	600	634	5,904
Deferred tax assets .....	10,605	8,638	80,436
Other current assets .....	4,448	4,652	43,319
Allowance for doubtful accounts .....	(940)	(910)	(8,474)
Total current assets .....	274,857	286,863	2,671,226
<b>Investments and non-current assets:</b>			
Investments in and loans to subsidiaries and affiliates .....	14,225	3,153	29,361
Investment in securities .....	21,859	22,476	209,293
Long-term accounts receivable .....	4,262	4,692	43,691
Sundry investments .....	14,819	14,348	133,606
Deferred tax assets .....	10,488	5,157	48,021
Allowance for doubtful accounts .....	(6,561)	(6,523)	(60,741)
Total investments and non-current assets .....	59,092	43,303	403,231
<b>Property, plant and equipment:</b>			
Land .....	46,080	34,468	320,961
Buildings and structures .....	36,564	32,246	300,270
Machinery, equipment and vehicles .....	14,722	14,034	130,683
Dredgers and vessels .....	24,911	24,858	231,474
Construction in progress .....	83	13	121
Other property, plant and equipment .....	3,639	792	7,375
Total property, plant and equipment .....	125,999	106,411	990,884
Less accumulated depreciation .....	(53,326)	(52,981)	(493,352)
Property, plant and equipment – net .....	72,673	53,430	497,532
<b>Other assets</b> .....	498	493	4,592
<b>Total assets</b> .....	¥ 407,120	¥ 384,089	\$ 3,576,581

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars
	2004	2005	2005
<b>Current liabilities:</b>			
Short-term debt			
Bank.....	¥ 69,326	¥ 61,108	\$ 569,029
Current portion of long-term debt.....	32,669	48,345	450,181
Trade payable:			
Notes .....	24,075	26,268	244,604
Accounts.....	74,593	79,595	741,177
Subsidiaries and affiliates.....	6,381	4,433	41,279
Advance on contracts in progress .....	48,537	36,991	344,455
Deposits received.....	15,236	11,373	105,904
Accrued income taxes.....	361	1,285	11,966
Provision for loss on liquidation of a subsidiary .....	617	—	—
Provision for loss on real estate development business of affiliates .....	—	8,704	81,050
Accrued expenses.....	1,667	1,789	16,659
Allowance for losses on construction works .....	—	687	6,397
Other current liabilities .....	2,264	2,212	20,598
Total current liabilities .....	275,726	282,790	2,633,299
<b>Long-term liabilities:</b>			
Long-term debt.....	68,289	40,954	381,358
Reserve for retirement benefits .....	7,022	6,302	58,683
Reserve for directors' and statutory auditors' retirement pay .....	270	229	2,132
Deferred tax liabilities for land revaluation excess.....	5,248	3,270	30,450
Other long-term liabilities .....	12,031	4,970	46,280
Total long-term liabilities .....	92,860	55,725	518,903
<b>Shareholders' equity:</b>			
Common stock .....	18,070	20,570	191,545
Authorized – 599,135,000 shares			
Issued and outstanding shares			
March 31, 2005   395,264,852 shares			
March 31, 2004   361,407,443 shares			
Capital surplus			
Capital surplus reserve .....	—	2,500	23,280
Other capital surplus.....	10,106	10,106	94,105
Total capital surplus.....	10,106	12,606	117,385
Earned surplus			
Unappropriated retained earnings (deficit).....	(276)	4,223	39,324
Total earned surplus.....	(276)	4,223	39,324
Land revaluation excess-net.....	7,650	4,767	44,390
Unrealized valuation gain on other securities-net .....	2,989	3,417	31,819
Less: Treasury stock.....	(5)	(9)	(84)
Total shareholders' equity.....	38,534	45,574	424,379
<b>Total liabilities and shareholders' equity .....</b>	<b>¥ 407,120</b>	<b>¥ 384,089</b>	<b>\$ 3,576,581</b>

## Company Data

(As of June 29, 2005)

### Company Outline

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<b>Company Name</b>	Penta-Ocean Construction Co., Ltd.
<b>Established</b>	April 1896
<b>Head Office</b>	2-8, Koraku 2-chome, Bunkyo-ku, Tokyo 112-8576, Japan Telephone: 81-3-3817-7181 Facsimile: 81-3-3817-7642
<b>Paid-in Capital</b>	20,570million of Yen (US\$ 191.5 million)
<b>No. of Employees</b>	2,965
<b>Website</b>	<a href="http://www.penta-ocean.co.jp">www.penta-ocean.co.jp</a>

### Board of Directors and Auditors

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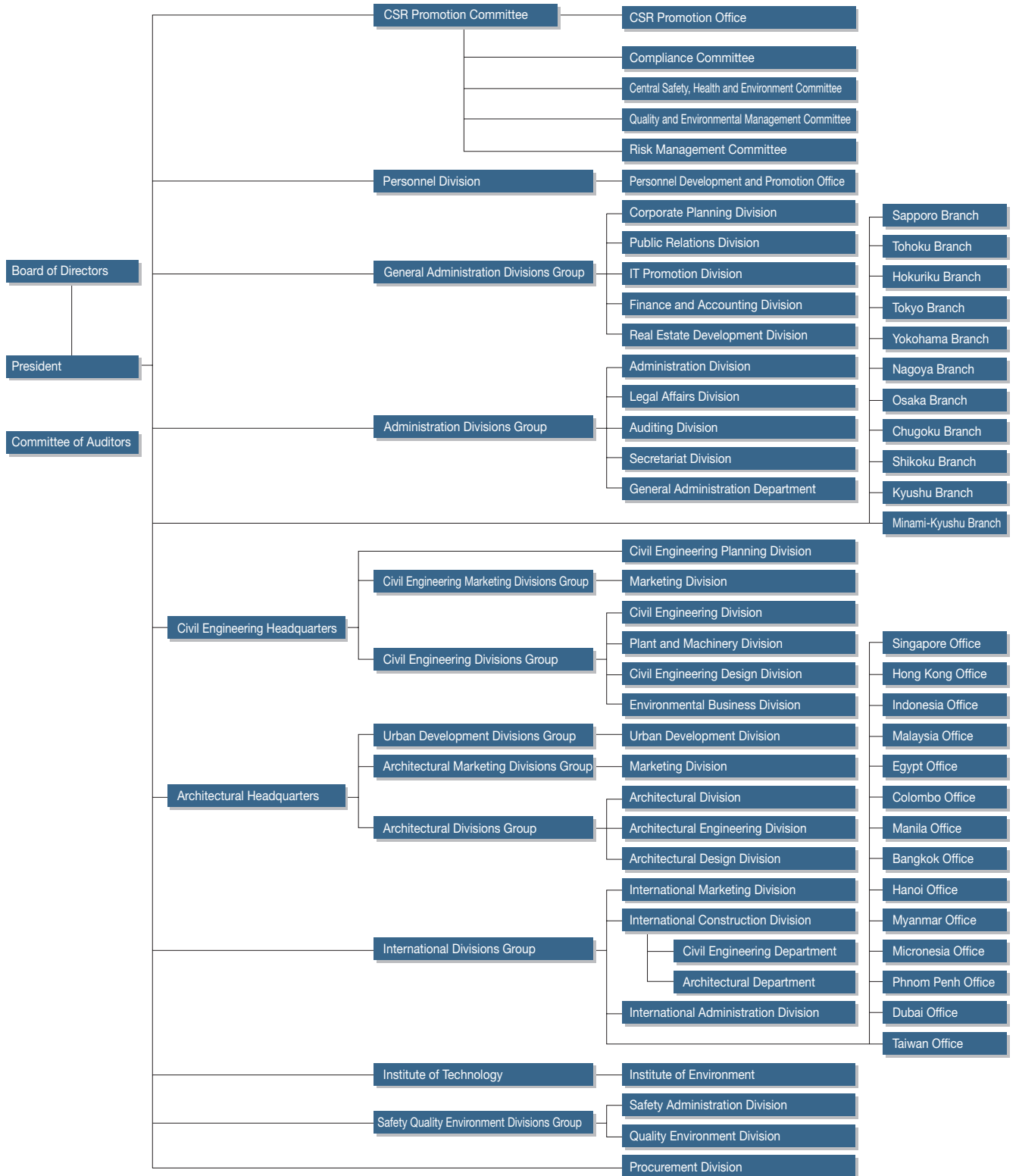
**President** Kazujiro Tetsumura\*

**Directors** Yoshio Murashige\*  
Kazuyuki Kawakami\*  
Hayuru Tsuda  
Toshinori Tajimi  
Junichi Kamise  
Kosuke Kondo  
Yoshihisa Takimoto  
Masafumi Saito  
Yoshihisa Tomoda

**Corporate Auditors** Hirosuke Kawamoto  
Kaoru Kurokawa  
Keiji Yokooji  
Yoshiteru Iwasaki

\* Representative Director  
(As of June 29, 2005)

# Organization Chart



## Penta-Ocean Network



### 1 Head Office

2-8 Koraku 2-chome, Bunkyo-ku  
Tokyo 112-8576, Japan  
Tel: 81-3-3817-7181  
Fax: 81-3-3817-7642

### 2 Singapore Office

1 Kim Seng Promenade, #13-01/02  
Great World City, East Tower  
Singapore 237994  
Tel: 65-6338-8966  
Fax: 65-6337-0987

### 3 Hong Kong Office

30th Floor, 248 Queen's Road East  
Wanchai, Hong Kong  
Tel: 852-2833-1098  
Fax: 852-2572-4080

### 4 Indonesia Office

Midplaza II, 15th Floor  
JL. Jenderal Sudirman Kav.  
10-11 Jakarta 10220, Indonesia  
Tel: 62-21-570-5484  
Fax: 62-21-570-5485

### 5 Malaysia Office

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

### 6 Egypt Office

27 El Falah Street off Shehab Street  
Flat No. 5, 2nd Floor, Mohandeseen  
Giza, Egypt  
Tel: 20-2-345-3207  
Fax: 20-2-345-3206

### 7 Colombo Office

P.O. Box 383, Kochchi-Kade, Gate No. 6  
Colombo Port, Colombo 13, Sri Lanka  
Tel: 94-112-449-978  
Fax: 94-112-449-979

### 8 Manila Office

Unit A1, 2nd Floor, Almeda Arcade  
1014 Pasay Road, Makati City, Philippines  
Tel: 63-2-752-8997  
Fax: 63-2-752-8996

### 9 Bangkok Office

11th Floor, Room 1106, Vanit II Building 1126/2  
New Petchburi Road, Makkasan Rajthevee  
Bangkok 10400, Thailand  
Tel: 66-2-655-2183  
Fax: 66-2-655-2185

### 10 Hanoi Office

2nd Floor, 18 Tran Hung Dao Street  
Hoan Kiem, Hanoi, Vietnam  
Tel: 84-4-824-1360  
Fax: 84-4-824-1444

### 11 Myanmar Office

No.156, 4th Floor, 47th Street  
Botahtaung Township  
Yangon, Myanmar  
Tel: 95-1-203-076  
Fax: 95-1-203-076

### 12 Micronesia Office

P.O. Box 2201, Kolonia, Ponpei  
Federated States of Micronesia 96941  
Tel: 691-320-2855  
Fax: 691-320-2855

### 13 Phnom Penh Office

P.O.Box 2422, Phnom Penh III  
No. F20, France Street  
Norodom Road, Borei Chamkamorn  
Khan Chamkamorn  
Phnom Penh, Cambodia  
Tel 855-23-3-60463  
Fax: 855-23-3-60462

### 14 Dubai Office

LOB 16-612, Jebel Ali Free Zone  
P.O. Box 61498, Dubai  
United Arab Emirates  
Tel: 971-4-8872992  
Fax: 971-4-8872982

### 15 Taiwan Office

Room 301, 12th Floor, No.51  
Hengyang Road, Zhongzheng District  
Taipei City 100, Taiwan (R.O.C.)  
Tel: 886-2-8630-5276  
Fax: 886-2-8630-1102



## Penta-Ocean Group

### Consolidated Subsidiaries

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Penta-Ocean Dredging Co., Ltd.	Tokyo, Japan
Yoshin Construction Co., Ltd.	Hiroshima, Japan
Penta Builders Corporation	Tokyo, Japan
Penta Builders Nishi-Nihon Corporation	Hiroshima, Japan
Kyushu Yoshin Construction Co., Ltd.	Fukuoka, Japan
Obama Marine Co., Ltd.	Nagasaki, Japan
Penta Techno Service Co., Ltd.	Tochigi, Japan
Kegoya Dock Co., Ltd.	Hiroshima, Japan
Sand Techno Co., Ltd.	Chiba, Japan
Nagasaki Sogo Kanri Co., Ltd.	Nagasaki, Japan
Domi Environmental Solutions	Tokyo, Japan
Penta-Ocean Construction (Malaysia) Sdn. Bhd.	Malaysia
Siam Goyo Co., Ltd.	Thailand
Modern Mind Co., Ltd.	Hong Kong
Nicosia Co., Ltd.	Hong Kong
Brichwood Co., Ltd.	Hong Kong
Penta-Ocean Dredging Panama Inc.	Panama
Penta-Ocean Construction (Hong Kong) Ltd.	Hong Kong
Belleza Del Mar Transport Inc.	Panama
Viento Del Mar Transport Inc.	Panama
Reina Del Mar Transport Inc.	Panama
Sol Del Mar Transport Inc.	Panama
Cosmo Transport Panama Inc.	Panama
Gloria Transport Inc.	Panama
Angkutlaut Ltd.	Malaysia
Penta-Ocean Technology Information Advisory (Shenzhen) Ltd.	China

### Consolidated Affiliates

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Green Port Co., Ltd.	Miyagi, Japan
Keisoku Joho System Co., Ltd.	Tokyo, Japan
Omori Building Co., Ltd.	Tokyo, Japan
Jiwat Co., Ltd.	Miyagi, Japan
JA Gifu Agri Kaihatsu Co., Ltd.	Gifu, Japan

## Investor Information

(As of March 31, 2005)

<b>Head Office</b>	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
<b>Established</b>	April 1896
<b>Financial Year</b>	April 1 to March 31
<b>Common Stock</b>	Authorized: 599,135,000 Issued: 395,264,852
<b>Stock Listing</b>	Tokyo, Nagoya and Osaka Stock Exchanges, First Section
<b>Shareholders</b>	44,313
<b>Transfer Agency</b>	Mizuho Trust & Banking Co., Ltd. 2-1, Yaesu 1-chome, Chuo-ku, Tokyo 103-8670, Japan

## Major Shareholders

Shareholders	Shares held (thousands)	Percentage
Japan Trustee Services Bank, Ltd.	30,227	7.7
The Master Trust Bank of Japan (Trust Account)	18,642	4.7
Mizuho Corporate Bank, Ltd.	14,119	3.6
Meiji Yasuda Life Insurance Co.	13,312	3.4
Sompo Japan Insurance Inc.	12,226	3.1
The Tokyo Marine & Fire Insurance Co., Ltd.	8,567	2.2
Mizuho Trust & Banking Co., Ltd.	6,940	1.8
Trust & Custody Services Bank, Ltd. (Trust Account B)	5,678	1.4
Penta-Ocean Employees' Shareholding Association	5,198	1.3
Morgan Stanley & Co. International Ltd.	5,190	1.3





[www.penta-ocean.co.jp](http://www.penta-ocean.co.jp)