Consolidated Five-year Summary

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

	Millions of yen					Thousands of U.S. dollars
	2002	2003	2004	2005	**2006**	**2006**
Orders received	¥351,331	¥287,101	¥313,751	¥344,716	**¥296,046**	**$2,520,184**
Construction	351,331	287,101	313,751	344,716	**296,046**	**2,520,184**
Real estate development	—	—	—	—	**—**	**—**
Other	—	—	—	—	**—**	**—**
Net sales	440,662	386,861	331,170	345,266	**354,657**	**3,019,128**
Construction	430,474	374,169	314,626	334,802	**338,842**	**2,884,498**
Real estate development	2,149	3,560	6,240	2,368	**4,488**	**38,205**
Other	8,039	9,132	10,304	8,096	**11,327**	**96,425**
Contract backlog	502,980	396,657	392,377	398,369	**364,407**	**3,102,128**
Construction	502,980	396,657	392,377	398,369	**364,407**	**3,102,128**
Real estate development	—	—	—	—	**—**	**—**
Other	—	—	—	—	**—**	**—**
Total assets	509,541	472,849	443,193	411,322	**389,367**	**3,314,608**
Shareholders' equity	51,685	33,682	39,860	47,640	**66,891**	**569,430**
Ordinary income	8,351	1,846	7,440	8,864	**11,341**	**96,544**
Income (loss) before income taxes and minority interests	6,519	(21,316)	6,624	9,500	**10,019**	**85,290**
Net income (loss)	1,771	(16,261)	3,292	2,360	**3,876**	**32,996**
Cash dividends	904	—	—	—	**—**	**—**
Per share of common stock:	Yen					U.S. dollars
Shareholders' equity	¥143.01	¥93.21	¥110.31	¥120.55	**¥136.12**	**$1.16**
Net income (loss)	4.90	(45.00)	9.11	6.25	**8.57**	**0.07**
Cash dividends	2.50	—	—	—	**—**	**—**
Number of employees	4,549	3,934	3,767	3,684	**3,557**	

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 ¥117.47 per U.S.$1, prevailing on March 31, 2006.

Financial Review

Business Performance

Consolidated net sales for Penta-Ocean and its Consolidated Subsidiaries increased by 2.7% over the previous term to ¥354,657 million (US$3,019.1 million). Consolidated operating income rose 18.1% to ¥14,177 million (US$120.7 million) and consolidated ordinary income increased by 27.9% year-on-year to ¥11,341 million (US$96.5 million). Income before income taxes also increased, by 5.5% to ¥10,019 million (US$85.3 million). Consolidated net income increased substantially, by 64.2%, over the previous year to ¥3,876 million (US$33.0 million).

Segment Information

Consolidated sales for the Construction Segment increased slightly by 1.2% over the previous term, to ¥338,842 million (US$2,884.5 million), while consolidated operating income increased by 10.4% to ¥14,155 million (US$120.5 million).

Consolidated sales for the Development Segment increased substantially, by 79.9% year-on-year, to ¥4,760 million (US$40.5 million) thanks to the Company's strenuous efforts to promote real estate sales. No operating profit was recorded for the period. Consolidated sales losses in the term under review amounted to ¥188 million (US$1.6 million), despite the considerable reduction from the loss of ¥685 million (US$5.8 million) in the previous term.

In the Other Businesses Segment, which includes the Group's shipbuilding business, sales and leasing of construction materials and facilities, and the leasing of vessels, consolidated sales for the term increased by 24.3% to ¥18,807 million (US$160.1 million). Operating income amounted to ¥180 million (US$1.5 million), a substantial improvement from the operating loss of ¥174 million (US$1.5 million) in the previous term. This improvement was mainly attributable to reinforced shipbuilding facilities that led to remarkable improvements in production efficiency.

In reviewing business results by region, consolidated sales in Japan amounted to ¥314,258 million (US$2,675.2 million), a year-on-year increase of 2.3%. Operating income also increased, by 0.4%, to ¥14,746 million (US$125.5 million).

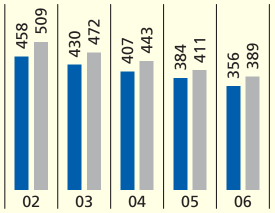
Consolidated net sales in the Southeast Asia region improved by 9.5% to ¥36,951 million (US$314.6 million) and no operating profits were secured, which was the case in the previous term. However, consolidated losses shrank by 44.1% to ¥586 million (US$5.0 million).

Consolidated sales for the Group's businesses in Bulgaria, Sri Lanka, and other countries amounted to ¥3,448 million (US$29.4 million), declining by 17.9% from the previous term. Operating profit was ¥17 million (US$145 thousand), substantially improved from the loss of ¥1,641million (US$14.0 million) in the previous term.

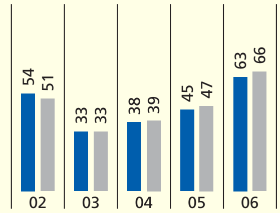
Orders Received and Contract Backlog

During the term under review, consolidated orders received by the Group amounted to ¥296,046 million (US$2,520.2 million), an increase of 14.1%. While orders received from the domestic construction market shrank by 15.4% year-on-year to ¥276,497 million (US$2,353.8 million). This amount includes overseas orders received, which accounted for 11.0% compared with 5.6% of the total in the previous term. Consolidated contract backlog decreased by 8.5% to ¥364,407 million (US$3,102.1 million).

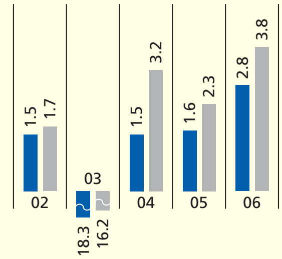
Total Assets
Billions of yen



Shareholders' Equity
Billions of yen



Net Income (Loss)
Billions of yen



■ Non-Consolidated ■ Consolidated

Financial Position

Total assets belonging to Penta-Ocean and its Consolidated Subsidiaries decreased by 5.3%, or ¥21,955 million (US$186.9 million), to ¥389,367 million (US$3,314.6 million). This decline was attributable mainly to the reduction in payments for uncompleted works, due to revised standards for works under progress and a reduction in deferred income tax assets.

Liabilities were reduced by ¥41,210 million (US$350.8 million), year-on-year, to ¥322,466 million (US$2,745.1 million), owing to a reduction in short-term debt and amounts received from uncompleted works. Capital increased by ¥19,251 million (US$163.9 million) to ¥66,891 million (US$569.4 million), and this was due to increases by exercise of conversion rights of corporate bonds with subscription warrants.

Cash Flows

Cash flow generated by sales activities decreased by ¥12,101 million (US$103.0 million) from the previous term, to a surplus of ¥9,772 million (US$83.2 million), in the term under review. This was due to a reduction in impairment loss not involving loss in the cash flow and a reduction in the amount received from uncompleted works, in spite of increased income from the reduction in incomes and expenditures related to the uncompleted works.

Cash flow from investment activities declined by ¥3,446 million (US$29.3 million) from the previous term, to a surplus of ¥2,320 million (US$19.8 million), owing to a reduction in income from sales of tangible fixed assets. This was in spite of increases in income by collected loans receivable and refunded preferential fund certificates.

Cash flow from financial activities indicated an increased payment of ¥14,965 million (US$127.4 million) thanks to a reduction in payments by ¥1,541 million (US$13.1 million) year-on-year, including income of ¥15,000 million (US$127.7 million), by issue of corporate bonds with subscription warrants, in spite of continued redemption of debts by ¥29,324 million (US$249.6 million).

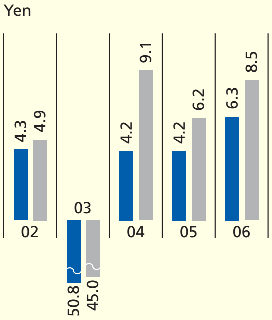
The amount of consolidated cash and cash equivalents reported by the Group at the end of the term decreased by 5.3%, year-on-year, or ¥3,597 million (US$30.6 million), to ¥64,678 million (US$550.6 million). The balance of interest-bearing liabilities at term end amounted to ¥135,699 million (US$1,155.2 million), including those held by Penta-Ocean, to ¥123,845 million (US$1,054.3 million).

Dividends

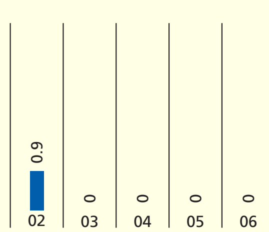
It is Penta-Ocean's basic policy to pay dividends to its shareholders in a consistent manner, while at the same time endeavoring to expand corporate profits and maintain sound management and a strong financial base. Internal reserves thus accumulated are allocated to reinforce its financial position and future development of its businesses, research and development activities, and capital investment.

Owing to prevailing market conditions and the financial results of the Group in fiscal 2005, however, it was decided, regrettably, to withhold payment of a dividend to shareholders.

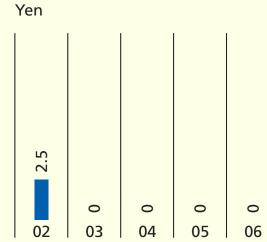
Net Income (Loss) per Share
Yen



Cash Dividends
Billions of yen



Cash Dividends per Share
Yen



Consolidated Balance Sheets

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars
ASSETS	2005	**2006**	**2006**
Current assets:			
Cash and deposits (Note 5)	¥ 70,381	**¥ 64,873**	**$ 552,252**
Securities (Notes 3(4), 4 and 5)	84	**91**	**775**
Trade receivables:			
Notes	9,969	**9,302**	**79,186**
Accounts	113,632	**121,246**	**1,032,144**
Inventories: (Note 3(7))			
Cost of uncompleted contracts	47,342	**33,077**	**281,578**
Real estate for trade and real estate in progress	37,226	**36,459**	**310,369**
Other inventories	3,253	**3,096**	**26,356**
Deferred tax assets (Note 15)	9,017	**5,779**	**49,195**
Other current assets	7,551	**4,813**	**40,972**
Allowance for doubtful accounts (Note 3(6))	(1,145)	**(1,038)**	**(8,836)**
Total current assets	297,310	**277,698**	**2,363,991**
Investments and non-current assets:			
Investment in securities (Notes 3(4), 4 and 5)	22,981	**29,103**	**247,748**
Long-term loans and accounts receivables	5,071	**4,687**	**39,900**
Sundry investments	14,943	**13,680**	**116,455**
Deferred tax assets (Note 15)	5,827	**1,384**	**11,782**
Allowance for doubtful accounts (Note 3(6))	(6,553)	**(5,689)**	**(48,429)**
Total investments and non-current assets	42,269	**43,165**	**367,456**
Property, plant and equipment (Note 3 (8)):			
Land (Note 5)	36,395	**36,017**	**306,606**
Buildings and structures (Note 5)	34,604	**33,806**	**287,784**
Machinery, equipment and vehicles	19,679	**19,308**	**164,365**
Dredgers and vessels	52,099	**51,905**	**441,858**
Construction in progress	15	**94**	**800**
Other property, plant and equipment	792	**788**	**6,708**
Total property, plant and equipment	143,584	**141,918**	**1,208,121**
Less accumulated depreciation	(72,385)	**(73,947)**	**(629,497)**
Property, plant and equipment — net	71,199	**67,971**	**578,624**
Other assets (Note 3 (9))	544	**533**	**4,537**
Total assets	¥411,322	**¥389,367**	**$3,314,608**

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	Millions of yen 2005	Millions of yen 2006	Thousands of U.S. dollars 2006
Current liabilities:			
Short-term debt (Note 6)	¥ 63,418	**¥ 41,862**	**$ 356,363**
Current portion of long-term debt (Note 6)	51,091	**38,842**	**330,655**
Trade payable:			
Notes	36,252	**35,150**	**299,225**
Accounts	85,995	**80,327**	**683,809**
Advance on contracts in progress	40,254	**30,689**	**261,250**
Deposits received	11,662	**11,250**	**95,769**
Accrued income taxes	1,496	**1,275**	**10,854**
Accrued expenses	2,232	**2,286**	**19,460**
Allowance for losses on construction works (Note 3(13))	687	**427**	**3,635**
Other current liabilities	3,824	**6,486**	**55,214**
Total current liabilities	296,911	**248,594**	**2,116,234**
Long-term liabilities:			
Long-term debt (Note 6)	50,728	**54,995**	**468,162**
Reserve for retirement benefits (Notes 3(12) and 19)	6,514	**6,752**	**57,479**
Reserve for directors' and statutory auditors' retirement pay (Note 3(14))	441	**451**	**3,839**
Deferred tax liabilities for land revaluation excess (Note 17(2))	3,270	**7,274**	**61,922**
Consolidation adjustments	480	**—**	**—**
Other long-term liabilities	5,332	**4,400**	**37,456**
Total long-term liabilities	66,765	**73,872**	**628,858**
Minority interests	6	**10**	**86**
Shareholders' equity:			
Common stock	20,570	**28,070**	**238,955**
Authorized — 599,135,000 shares			
Issued and outstanding shares			
March 31, 2006 491,527,820 shares			
March 31, 2005 395,264,852 shares			
Capital surplus (Note 17(1))	12,606	**20,106**	**171,158**
Earned surplus (Note 2(5))	6,132	**9,939**	**84,609**
Land revaluation excess — net (Note 17(2))	4,767	**879**	**7,483**
Unrealized valuation gain on other securities — net (Note 17(3))	3,412	**7,724**	**65,753**
Cumulative foreign currency translation adjustments (Note 3(2))	162	**186**	**1,583**
Less: Treasury stock	(9)	**(13)**	**(111)**
Total shareholders' equity	47,640	**66,891**	**569,430**
Total liabilities, minority interests and shareholders' equity	¥411,322	**¥389,367**	**$3,314,608**

Commitments and contingent liabilities (Note 14)

Consolidated Statements of Income

Penta-Ocean Construction Co., Ltd. and Consolidated Subsidiaries
For the two years ended March 31, 2006

	Millions of yen		Thousands of U.S. dollars
	2005	**2006**	**2006**
Construction business:			
Net sales	¥334,802	**¥338,842**	**$2,884,498**
Cost of sales	302,467	**305,346**	**2,599,353**
Gross profit	32,335	**33,496**	**285,145**
Real estate and other:			
Net sales	10,464	**15,815**	**134,630**
Cost of sales	10,761	**15,052**	**128,135**
Gross profit (loss)	(297)	**763**	**6,495**
Total net sales	345,266	**354,657**	**3,019,128**
Total cost of sales	313,228	**320,398**	**2,727,488**
Total gross profit	32,038	**34,259**	**291,640**
Selling, general and administrative expenses	20,038	**20,082**	**170,954**
Operating income	12,000	**14,177**	**120,686**
Other income:			
Interest and dividends	445	**777**	**6,614**
Other (Note 7)	1,012	**1,013**	**8,624**
	1,457	**1,790**	**15,238**
Other expenses:			
Interest	3,731	**3,412**	**29,046**
Other (Note 8)	862	**1,214**	**10,334**
	4,593	**4,626**	**39,380**
Ordinary income	8,864	**11,341**	**96,544**
Extraordinary gain (Note 9)	13,491	**388**	**3,303**
Extraordinary loss (Note 10)	12,855	**1,710**	**14,557**
Income before income taxes and minority interests	9,500	**10,019**	**85,290**
Income taxes (Notes 3 (18) and 15):			
Current	1,492	**1,366**	**11,629**
Income taxes deferred	5,648	**4,776**	**40,657**
	7,140	**6,142**	**52,286**
Minority interests	0	**(1)**	**(8)**
Net income	¥ 2,360	**¥ 3,876**	**$ 32,996**

Income per share of common stock (Note 3 (15))	Yen		U.S. dollars
Primary	¥6.25	**¥8.57**	**$0.07**
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, 2006

	Millions of yen		Thousands of U.S. dollars
	2005	**2006**	**2006**
Common stock:			
Balance at the beginning of the period	¥18,070	**¥20,570**	**$175,109**
Exercise of subscription right	2,500	**7,500**	**63,846**
Balance at the end of the period	20,570	**28,070**	**238,955**
Capital surplus (Note 17 (1)):			
Balance at the beginning of the period	10,106	**12,606**	**107,312**
Exercise of subscription right	2,500	**7,500**	**63,846**
Balance at the end of the period	12,606	**20,106**	**171,158**
Earned surplus (Note 2 (5)):			
Balance at the beginning of the period	889	**6,132**	**52,201**
Transferred from (to) land revaluation excess — net	2,883	**(69)**	**(588)**
Net income	2,360	**3,876**	**32,996**
Balance at the end of the period	6,132	**9,939**	**84,609**
Land revaluation excess — net (Note 17 (2)):			
Balance at the beginning of the period	7,650	**4,767**	**40,581**
Transferred from (to) earned surplus	(2,883)	**69**	**587**
Transferred from deferred tax liabilities for land revaluation excess	—	**(3,957)**	**(33,685)**
Balance at the end of the period	4,767	**879**	**7,483**
Unrealized valuation gain on other securities — net (Note 17 (3)):			
Balance at the beginning of the period	2,982	**3,412**	**29,046**
Net change	430	**4,312**	**36,707**
Balance at the end of the period	3,412	**7,724**	**65,753**
Cumulative foreign currency translation adjustments (Note 3 (2)):			
Balance at the beginning of the period	168	**162**	**1,379**
Net change	(6)	**24**	**204**
Balance at the end of the period	162	**186**	**1,583**
Treasury stock:			
Balance at the beginning of the period	(5)	**(9)**	**(77)**
Purchases of treasury stock	(4)	**(4)**	**(34)**
Sales of treasury stock	—	**—**	**—**
Balance at the end of the period	¥ (9)	**¥ (13)**	**$ (111)**

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, 2006

	Millions of yen		Thousands of U.S. dollars
	2005	**2006**	**2006**
Cash flows from operating activities:			
Income before income taxes and minority interests	¥9,500	**¥10,019**	**$85,290**
Adjustment to reconcile income (loss) before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	4,622	**4,160**	**35,413**
Loss on impairment of fixed assets	8,324	**286**	**2,435**
Amortization of consolidation adjustments	(484)	**(480)**	**(4,086)**
Increase (decrease) in allowance for doubtful accounts	(166)	**(971)**	**(8,266)**
Increase (decrease) in reserve for retirement benefits	(1,215)	**238**	**2,026**
Interest and dividends receivable	(445)	**(777)**	**(6,614)**
Interest expense	4,095	**3,745**	**31,880**
Foreign exchange loss (gain)	531	**666**	**5,670**
Equity loss (gain)	(57)	**220**	**1,873**
Loss (gain) on sales and disposals of property, plant and equipment	705	**(35)**	**(298)**
Loss (gain) on sales of investment in securities	9	**0**	**0**
Write-down of securities and investment in securities	20	**83**	**707**
Change in assets and liabilities:			
(Increase) decrease in trade receivables	4,102	**(7,291)**	**(62,067)**
(Increase) decrease in cost of uncompleted contracts	3,007	**14,265**	**121,435**
(Increase) decrease in real estate for trade and real estate in progress and other inventories	1,029	**3,877**	**33,004**
Increase (decrease) in trade payables	4,345	**(5,177)**	**(44,071)**
Increase (decrease) in advance on contracts in progress	(11,055)	**(8,354)**	**(71,116)**
Increase (decrease) in accrued expenses	(3,656)	**(239)**	**(2,035)**
Other — net	3,380	**(202)**	**(1,720)**
Sub total	26,591	**14,033**	**119,460**
Interest and dividends received	388	**792**	**6,742**
Interest paid	(4,102)	**(3,631)**	**(30,910)**
Income taxes paid	(1,004)	**(1,422)**	**(12,105)**
Net cash provided by (used in) operating activities	21,873	**9,772**	**83,187**

See accompanying Notes to Consolidated Financial Statements.

	Millions of yen		Thousands of U.S. dollars
	2005	**2006**	**2006**
Cash flows from investing activities:			
Purchases of securities	(1)	**(1)**	**(9)**
Proceeds from sales of securities	201	**64**	**545**
Purchases of investment in securities	(631)	**(383)**	**(3,260)**
Proceeds from sales of investment in securities	616	**1,108**	**9,432**
Purchases of property, plant and equipment	(1,384)	**(1,691)**	**(14,395)**
Proceeds from sales of property, plant and equipment	9,107	**380**	**3,235**
Loans made	(968)	**(93)**	**(792)**
Collection of loans receivable	622	**1,133**	**9,645**
Other — net	(1,796)	**1,803**	**15,349**
Net cash provided by (used in) investing activities	5,766	**2,320**	**19,750**
Cash flows from financing activities:			
Net increase (decrease) in short-term bank loans	(7,996)	**(21,542)**	**(183,383)**
Borrowings	21,140	**43,823**	**373,057**
Repayment of long-term debt	(34,599)	**(51,605)**	**(439,304)**
Proceeds from issue bond with subscription right	5,000	**15,000**	**127,692**
Cash dividends paid	(2)	**(1)**	**(8)**
Other — net	(49)	**(640)**	**(5,448)**
Net cash provided by (used in) financing activities	(16,506)	**(14,965)**	**(127,394)**
Difference resulting from conversion of foreign cash and cash equivalents to yen	(559)	**(724)**	**(6,164)**
Net increase (decrease) in cash and cash equivalents	10,574	**(3,597)**	**(30,621)**
Cash and cash equivalents at beginning of the period	57,701	**68,275**	**581,213**
Cash and cash equivalents at end of the period	¥68,275	**¥64,678**	**$550,592**

(Notes):

(1) Cash and cash equivalents are comprised as follows:

	2005	**2006**	**2006**
Cash and deposits	¥70,381	**¥64,873**	**$552,252**
Less-Time deposits with maturity over three months	(2,106)	**(195)**	**(1,660)**
Cash and cash equivalents (Note 3 (16))	¥68,275	**¥64,678**	**$550,592**

(2) Content of significant non-cash transaction:

	2005	**2006**	**2006**
Increase in common stock resulting from exercise of subscription right	¥ 2,500	**¥ 7,500**	**$ 63,846**
Increase in capital surplus resulting from exercise of subscription right	2,500	**7,500**	**63,846**
Decrease in bonds with subscription rights resulting from exercise of subscription right	¥ 5,000	**¥15,000**	**$127,692**

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=¥117.47, the exchange rate prevailing on March 31, 2006. 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-seven subsidiaries and five affiliated companies at March 31, 2006.

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 shareholders' 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.

(The change of accounting policy)

The Company changed the scope of contracts for application of the percentage of completion method from those with ¥1,000 million and above and the construction period of 2 years or longer or the fiscal term of 3 terms or longer to those with ¥100 million and above and the construction period exceeding 1 year. This change has been made due to amounts of orders received being smaller in size because of change of economic conditions, which is likely to continue.

As a result of this change of the accounting policy, sales for year ended March 31, 2006 increased by ¥21,643 million compared to what would have been recorded under the previous accounting policy. Consequently, gross profit, operating income, ordinary income and income before income taxes for the year ended March 31, 2006 increased by ¥2,084 million each, as compared to those recorded under the previous accounting policy.

(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 receivables

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.

(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 are 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) Reserve for retirement benefits

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.

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.

(13) Allowance for losses on construction works

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

(14) 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.

(15) 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, 2006.

(16) 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.

(17) 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) 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.

(18) 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.

4. Securities

The composition of securities as of March 31, 2005 and 2006 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	**2006**	**2006**
Securities due within one year:			
Held-to-maturity bonds	¥ 84	**¥ 91**	**$ 775**
Total	¥ 84	**¥ 91**	**$ 775**
Investment in securities:			
Held-to-maturity bonds	¥ 70	**¥ 39**	**$ 332**
Investment trust bills	415	**361**	**3,073**
Stocks	21,296	**28,503**	**242,641**
Others	1,200	**200**	**1,702**
Total	¥22,981	**¥29,103**	**$247,748**

5. Pledged assets

(1) The following assets are pledged for fulfillment of construction contracts at March 31, 2005 and 2006.

	Millions of yen		Thousands of U.S. dollars
	2005	**2006**	**2006**
Securities	¥ 71	**¥ 41**	**$ 349**
Investment in securities	2,096	**535**	**4,554**
Total	¥2,167	**¥576**	**$4,903**

(2) The following assets were pledged to secure short-term bank loans and long-term debt at March 31, 2005 and 2006.

	Millions of yen		Thousands of U.S. dollars
	2005	**2006**	**2006**
Deposits	¥200	**¥ —**	**$ —**
Investment in securities	5	**—**	**—**
Land	101	**102**	**868**
Buildings	106	**103**	**877**
Total	¥412	**¥205**	**$1,745**

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, 2006 are 1.98% and 1.48%. Long-term debts as of March 31, 2005 and 2006 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	**2006**	**2006**
1.71 percent bonds due September 2005	¥ 200	**¥ —**	**$ —**
Long-term debt from banks and insurance companies maturing in 2013 (The weighted average interest rates is 2.64%.)	101,619	**93,837**	**798,817**
Less: current portion of long-term debt	(51,091)	**(38,842)**	**(330,655)**
Net	¥ 50,728	**¥ 54,995**	**$ 468,162**

The aggregate annual maturity of long-term debt after March 31, 2006 is as follows:

	Millions of yen	Thousands of U.S. dollars
	2006	**2006**
Years ending March 31,		
2007	**¥38,842**	**$330,655**
2008	**24,207**	**206,070**
2009	**14,556**	**123,912**
2010	**13,886**	**118,209**
2011 and after that	**2,346**	**19,971**
Total	**¥93,837**	**$798,817**

7. Other income

The composition of Other income — other for the two years ended March 31, 2006 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	**2006**	**2006**
Rental received from real estate	¥ 212	**¥ 255**	**$2,171**
Amortization of consolidation adjustments	484	**480**	**4,086**
Equity gain	57	**—**	**—**
Other	259	**278**	**2,367**
Total	¥1,012	**¥1,013**	**$8,624**

8. Other expenses

The composition of Other expenses — other for the two years ended March 31, 2006 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	**2006**	**2006**
Equity loss of affiliates	¥ —	**¥ 220**	**$ 1,837**
Exchange loss	461	**257**	**2,188**
Other	401	**737**	**6,273**
Total	¥862	**¥1,214**	**$10,334**

9. Extraordinary gain

The composition of Extraordinary gain for the two years ended March 31, 2006 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	**2006**	**2006**
Prior period adjustments	¥ 169	**¥ 46**	**$ 392**
Gain on sales of fixed assets	197	**145**	**1,234**
Gain on dissolution of the welfare pension fund	12,502	**—**	**—**
Reversal of reserve for retirement benefits	357	**—**	**—**
Reversal of allowance for doubtful accounts	—	**141**	**1,200**
Other	266	**56**	**477**
Total	¥13,491	**¥388**	**$3,303**

10. Extraordinary loss

The composition of Extraordinary loss for the two years ended March 31, 2006 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	**2006**	**2006**
Prior period adjustments	¥ 201	**¥ 118**	**$ 1,005**
Loss on sales of fixed assets	902	**110**	**936**
Write-down of real estate for trade	—	**559**	**4,759**
Loss on impairment of fixed assets*	8,324	**286**	**2,435**
Loss on real estate development business of an affiliated company	2,152	**—**	**—**
Other	1,276	**637**	**5,422**
Total	¥12,855	**¥1,710**	**$14,557**

* The Company recognized loss on impairment for the following group of assets in the current fiscal year ended March 31, 2006

Location	**Kanto area**
Classification of group	Company dormitory (1 object)
Loss on impairment	Land .... ¥81 million (U.S.$690 thousand)
	Buildings .... ¥205 million (U.S.$1,745 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 were written down to the recoverable amounts, because the Company decided to sell the Company's dormitory classified as a common property. The impairment losses (¥286 million (U.S.$2,435 thousand)) is accounted for as the extraordinary loss.

The recoverable amounts are measured by net realizable amounts based on the estimated contract amounts.

11. Research and development costs

Research and development costs charged to income for the two fiscal years ended March 31, 2006 are ¥1,480 million and ¥1,443million (U.S.$12,284 thousand), respectively.

12. Summary of finance lease transactions

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

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

	Millions of yen		Thousands of U.S. dollars
	2005	**2006**	**2006**
Estimated acquisition costs			
Equipment	¥880	**¥783**	**$6,666**
Vehicles	108	**110**	**936**
	988	**893**	**7,602**
Accumulated depriciation	(760)	**(724)**	**(6,163)**
Estimated value	¥228	**¥169**	**$1,439**

(2) Future lease payments as of March 31, 2005 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	**2006**	**2006**
Within one year	¥117	**¥101**	**$ 860**
Over one year	136	**84**	**715**
Total	¥253	**¥185**	**$1,575**

(3) Lease payments, depreciation equivalents and interest expenses equivalents for the year ended March 31, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars
	2005	**2006**	**2006**
Lease payments	¥169	**¥132**	**$1,124**
Depreciation equivalents	150	**115**	**979**
Interest expense equivalents	11	**6**	**51**

13. Derivative financial transactions

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

The derivative financial transactions are mainly performed by the Company, and have been made in accordance with the Bylaw, which clearly describes purposes, execution and control for transaction.

14. Commitments and contingent liabilities

As of March 31, 2006, the Company had liabilities for guarantee to bank loans made by customers amounting to ¥2,041 million (U.S.$17,375 thousand).

The Company also had the guarantee amounting to ¥1,172 million (U.S.$9,977 thousand) to purchasers concerning deposits for purchase of the condominium apartments.

The Company has agreements on commitment line with 22 banks totaling ¥20,000 million for the purpose of flexible financing. There is no amount of loans as of March 31, 2006.

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
	2005	**2006**	**2006**
Deferred tax assets			
Write-down of real estate for trade	¥ 2,960	**¥ 3,110**	**$ 26,475**
Net operating loss carried forward	—	**1,432**	**12,190**
Allowance for doubtful accounts	1,898	**1,827**	**15,553**
Loss on establishment of financial trust in respect of retirement benefit obligations	1,109	**1,119**	**9,526**
Reserve for retirement benefits	2,474	**2,746**	**23,376**
Reserve for bonuses	660	**718**	**6,112**
Provision for loss on real estate development business of affiliates	3,570	**—**	**—**
Impairment of fixed assets	3,881	**3,430**	**29,199**
Other	5,142	**3,086**	**26,270**
Total: deferred tax assets	21,694	**17,468**	**148,701**
Less : valuation allowance	(4,380)	**(4,917)**	**(41,857)**
Deferred tax assets	¥17,314	**¥12,551**	**$106,844**
Deferred tax liabilities			
Unrealized valuation gain on other securities	¥(2,346)	**¥(5,301)**	**$(45,127)**
Reduction for amendment of allowance for doubtful accounts	(28)	**(24)**	**(204)**
Other	(95)	**(63)**	**(536)**
Total: deferred tax liabilities	(2,469)	**(5,388)**	**(45,867)**
Net: deferred tax assets	¥14,845	**¥ 7,163**	**$ 60,977**

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

	2005	**2006**
The statutory effective tax rate	40.69%	**40.69%**
(Adjustments)		
Permanent differences	9.29%	**10.95%**
Tax free income	(0.37%)	**(0.39%)**
Per capita levy on inhabitant tax	6.17%	**4.92%**
Consolidated adjustments not to have recognized tax-effect	(2.07%)	**(1.18%)**
Increase in valuation allowance	15.75%	**5.83%**
Other	5.70%	**0.48%**
Actual burden tax rate after the application of tax effect accounting	75.16%	**61.30%**

16. Consumption tax

Consumption tax is usually levied at the rate of 5 percent on all transactions in connection with sales and purchases, except for tax-free transactions. Consumption tax is eliminated from sales 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.

The Company reduced the deferred tax asset for land revaluation excess by ¥3,957 million (U.S.$33,685 thousand) for which there is negative evidence for future realization of the tax benefit in accordance with guidance of Japanese Institute of Certified Public Accountants published on February 22, 2006. As a result, land revaluation excess - net in shareholders' equity decreased by ¥3,957 million (U.S.$33,685 thousand) and deferred tax liabilities for land revaluation excess in long-term liabilities increased by the same amounts.

	Millions of yen		Thousands of U.S. dollars
	2005	**2006**	**2006**
The difference between the appraisal value of land at end of the current fiscal year and the book value	¥10,356	**¥11,438**	**$97,370**

Fair values were determined on the basis of Article 2 No.4 and 5 of an Enforcement ordinance No.119 of the Law concerning Land Revaluation promulgated on March 31, 1998.

(3) Unrealized valuation gain 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 ¥7,724 million (U.S.$65,753 thousand) gain after application of tax effect accounting as of March 31, 2006.

The related deferred tax liabilities amounted to ¥5,301 million (U.S.$45,127 thousand).

(4) Restriction of dividends

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

18. Authorized shares

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

19. Retirement benefits

I. Retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2005	**2006**	**2006**
a. Retirement benefit obligations	¥(36,214)	**¥(36,532)**	**$(310,990)**
b. Pension fund assets	12,151	**16,871**	**143,620**
c. Unfunded retirement benefit obligations	(24,063)	**(19,661)**	**(167,370)**
d. Unrecognized effects of the amendments on the application of the new accounting standards for retirement benefits	13,017	**11,715**	**99,727**
e. Unrecognized actuarial gain or loss	4,532	**1,194**	**10,164**
f. Net retirement benefit obligations	(6,514)	**(6,752)**	**(57,479)**
g. Reserve for retirement benefits	¥ (6,514)	**¥ (6,752)**	**$ (57,479)**

II. Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2005	**2006**	**2006**
a. Service costs	¥ 1,415	**¥1,309**	**$11,143**
b. Interest costs	831	**716**	**6,095**
c. Expected return on pension fund assets	(170)	**(161)**	**(1,371)**
d. Amortization of effects of the amendments on the application of the new accounting standards for retirement benefits	1,316	**1,302**	**11,084**
e. Amortization of actuarial gain or loss	755	**736**	**6,266**
f. Recognition of prior service liabilities	(357)	**—**	**—**
g. Retirement benefit costs	3,790	**3,902**	**33,217**
h. Gain on dissolution of the welfare pension fund	(12,502)	**—**	**—**
Total	¥ (8,712)	**¥3,902**	**$33,217**

III. Calculation basis of retirement benefit obligations, etc.

a. Recognition method of the projected retirement benefit obligations	Straight-line method
b. Discount rate	1.90%
c. Expected return rate on pension fund assets	1.00%~1.50%
d. Recognition term of prior service liabilities	Fully recognized as incurred
e. Amortization term of actuarial gain or loss	Actuarial gains or losses are amortized by the straight-line method over 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 new accounting standards for retirement benefits	15 years

20. Segment information

(1) Business segment

Business segment is primarily composed of the followings:

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

	Millions of yen					
Year ended March 31, 2005	Construction	Real estate development	Others	Total	Eliminations and/or addition	Consolidated
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

	Millions of yen					
Year ended March 31, 2006	Construction	Real estate development	Others	Total	Eliminations and/or addition	Consolidated
Net sales:						
Customers	**¥338,842**	**¥ 4,488**	**¥11,327**	**¥354,657**	**¥ —**	**¥354,657**
Internal sales or transfer	**—**	**272**	**7,480**	**7,752**	**(7,752)**	**—**
Total	**338,842**	**4,760**	**18,807**	**362,409**	**(7,752)**	**354,657**
Operating expenses	**324,687**	**4,948**	**18,627**	**348,262**	**(7,782)**	**340,480**
Operating income (loss)	**14,155**	**(188)**	**180**	**14,147**	**30**	**14,177**
Assets	**232,931**	**45,639**	**24,681**	**303,251**	**86,116**	**389,367**
Depreciation	**2,036**	**32**	**2,118**	**4,186**	**(26)**	**4,160**
Loss on impairment of fixed assets	**286**	**—**	**—**	**286**	**—**	**286**
Capital expenditures	**1,196**	**9**	**601**	**1,806**	**—**	**1,806**

	Thousands of U.S. dollars					
Year ended March 31, 2006	Construction	Real estate development	Others	Total	Eliminations and/or addition	Consolidated
Net sales:						
Customers	**$2,884,498**	**$ 38,205**	**$ 96,425**	**$3,019,128**	**$ —**	**$3,019,128**
Internal sales or transfer	**—**	**2,315**	**63,676**	**65,991**	**(65,991)**	**—**
Total	**2,884,498**	**40,520**	**160,101**	**3,085,119**	**(65,991)**	**3,019,128**
Operating expenses	**2,763,999**	**42,121**	**158,568**	**2,964,688**	**(66,246)**	**2,898,442**
Operating income (loss)	**120,499**	**(1,601)**	**1,533**	**120,431**	**255**	**120,686**
Assets	**1,982,898**	**388,516**	**210,105**	**2,581,519**	**733,089**	**3,314,608**
Depreciation	**17,332**	**272**	**18,030**	**35,634**	**(221)**	**35,413**
Loss on impairment of fixed assets	**2,435**	**—**	**—**	**2,435**	**—**	**2,435**
Capital expenditures	**10,181**	**77**	**5,116**	**15,374**	**—**	**15,374**

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 ¥84,833 million at March 31, 2005 and ¥87,594 million (U.S.$745,671 thousand) at March 31, 2006.
These principally are consisted of cash and time deposits, securities, investment in securities and sundry assets.

(2) Geographic segment

Geographic segment is primarily composed of the followings:

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

	Millions of yen					
Year ended March 31, 2005	Japan	Southeast Asia	Others	Total	Eliminations and/or addition	Consolidated
Net sales:						
Customers	¥307,326	¥33,741	¥4,199	¥345,266	¥ —	¥345,266
Internal sales or transfe	—	—	—	—	—	—
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

	Millions of yen					
Year ended March 31, 2006	Japan	Southeast Asia	Others	Total	Eliminations and/or addition	Consolidated
Net sales:						
Customers	**¥314,258**	**¥36,951**	**¥3,448**	**¥354,657**	**¥ —**	**¥354,657**
Internal sales or transfer	**—**	**—**	**—**	**—**	**—**	**—**
Total	**314,258**	**36,951**	**3,448**	**354,657**	**—**	**354,657**
Operating expenses	**299,512**	**37,537**	**3,431**	**340,480**	**—**	**340,480**
Operating income (loss)	**14,746**	**(586)**	**17**	**14,177**	**—**	**14,177**
Assets	**255,128**	**42,699**	**3,946**	**301,773**	**87,594**	**389,367**

	Thousands of U.S. dollars					
Year ended March 31, 2006	Japan	Southeast Asia	Others	Total	Eliminations and/or addition	Consolidated
Net sales:						
Customers	**$2,675,219**	**$314,557**	**$29,352**	**$3,019,128**	**$ —**	**$3,019,128**
Internal sales or transfer	**—**	**—**	**—**	**—**	**—**	**—**
Total	**2,675,219**	**314,557**	**29,352**	**3,019,128**	**—**	**3,019,128**
Operating expenses	**2,549,689**	**319,546**	**29,207**	**2,898,442**	**—**	**2,898,442**
Operating income (loss)	**125,530**	**(4,989)**	**145**	**120,686**	**—**	**120,686**
Assets	**2,171,856**	**363,489**	**33,592**	**2,568,937**	**745,671**	**3,314,608**

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 ¥84,833 million at March 31, 2005 and ¥87,594 million (U.S.$745,671 thousand) at March 31, 2006.
These principally are consisted of cash and time deposits, securities, investment in securities and sundry assets.

(3) Overseas sales

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

For the year ended March 31, 2006	Millions of yen		
	Southeast Asia	Others	Total
Overseas sales	**¥36,951**	**¥3,448**	**¥ 40,399**
Consolidated sales			**¥354,657**
The proportion of overseas sales to consolidated sales	**10.4%**	**1.0%**	**11.4%**

For the year ended March 31, 2006	Thousands of U.S. dollars		
	Southeast Asia	Others	Total
Overseas sales	**$314,557**	**$29,352**	**$ 343,909**
Consolidated sales			**$3,019,128**
The proportion of overseas sales to consolidated sales	**10.4%**	**1.0%**	**11.4%**

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: Sri Lanka, Bulgaria and Romania

21. Related party transactions

For the year ended March 31, 2005

None

For the year ended March 31, 2006

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

	Millions of yen		
Transactions	Amounts	Account	Ending balance
Debt forgiveness (Note)	¥8,723	—	—

Notes:
Transaction details
1. The Company forgave the debt for the completion of liquidation of Green Port Co., Ltd. in the current fiscal year.
2. Transaction amounts of debt forgiveness of the above table includes the amounts ¥8,704 million.
3. The amounts had been already accounted for as equity loss or provision for loss on liquidation of affiliated company in the prior fiscal year.

Report of Independent Auditor

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, 2005 and 2006, 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, 2005 and 2006, 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 (3), from the year ended March 31, 2006, the Company changed the scope of contracts, for which the percentage of completion method is applied.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 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, 2006

Ernst & Young Shinnihon

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.