

# KUMAGAI GUMMI

Annual Report  
2004



# THE COMPANY

## **A CENTURY OF PROGRESS**

Kumagai Gumi traces its roots back to 1898 when Santaro Kumagai founded the company and embarked on constructing the stonework for the Shukununo Hydroelectric Plant in Fukui Prefecture. January 1998 marked the 100th anniversary of Kumagai Gumi's inception. Throughout those 100 years, the company has participated in a diverse array of projects, often with unprecedented challenges that required technological innovation. Kumagai Gumi, through its deeds, has established a place as one of Japan's leading general contractors.

## **RESEARCH AND DEVELOPMENT UNDERPINS TECHNOLOGICAL PROWESS**

Kumagai Gumi's Institute of Construction Technology, which is located in Tsukuba north of Tokyo, engages in wide-ranging research activities. Equipped with state-of-the-art facilities including seismic simulation equipment, wave tanks and environmental laboratories, the institute strives to develop more effective ways of meeting changing customer needs. A core tenet of R&D is enhancing quality and safety while realizing lower costs and shorter construction periods.

## **STRENGTHS AT HOME**

Kumagai Gumi is one of Japan's largest construction and engineering firms. In this capacity, the company has played a key role in the creation, expansion and improvement of the nation's infrastructure. The company's contributions range from the fields of transportation and power generation to living, working and leisure environments. Building on this long record of service to society, Kumagai Gumi is providing customers with reliable, high-quality construction services at a reasonable cost.

## **A SOLID OVERSEAS PRESENCE**

Kumagai Gumi has remained committed to overseas operations. The company has chalked up a list of achievements at myriad projects worldwide. Undersea tunnels, roads, dams, hotels, renovation of historic structures, and landmark office towers in locations including Hong Kong, Taipei and Bangkok attest to Kumagai Gumi's devotion to quality and social contributions. Most major cities in Asia, the focal area of the company's overseas operation, have benefited from the company's construction expertise.

# CONSOLIDATED FINANCIAL HIGHLIGHTS

Kumagai GumI Co., Ltd. and Consolidated Subsidiaries Years ended March 31, 2004 and 2003.

|   | (¥ million) |            | (US \$ thousand) |
|---|-------------|------------|------------------|
|   | 2004        | 2003       | 2004             |
| <b>FOR THE YEAR:</b>                              |             |            |                  |
| Net sales .....                                   | ¥ 341,739   | ¥ 522,337  | \$ 3,223,958     |
| Net income (loss) .....                           | 280,213     | (295,903)  | 2,643,521        |
| <b>AT YEAR-END:</b>                               |             |            |                  |
| Total assets .....                                | ¥ 301,464   | ¥ 576,030  | \$ 2,844,001     |
| Shareholders' equity .....                        | 33,457      | (272,899)  | 315,633          |
| <b>PER SHARE OF COMMON STOCK ( ¥ AND US \$ ):</b> |             |            |                  |
| Net income (loss) .....                           | ¥ 2,112.45  | ¥ (444.82) | \$ 19.93         |

Note: Conversion into U.S. dollars has been made at the exchange rate of ¥106= US \$1 solely for convenience. Refer to Notes to the Financial Statements.

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Photographs on front cover:

Right: Taipei 101 —Taiwan

Upper left: Davao Medical Center —Philippines

Lower left: Taipei Metropolitan Rapid Transit System, Tucheng Line CD551 —Taiwan

## Message from the President:

### Overview of the fiscal year ended in March 2004:

During this period, the Japanese economy entered a moderate recovery, spurred by export increases driven by the recovering overseas economies in Asia and the US, as well as by increased capital spending resulting from improved corporate earnings.

In the construction industry, although there was a minor increase in residential investment due to demand created by consumers rushing to take advantage of soon-to-be-abolished tax incentives on mortgages, spending on public works projects at both the national and regional level continues to fall, such that the orders book continued to face severe trading conditions in this period.

In this difficult environment, our company continues to work towards achieving the goals outlined in our Three-Year Structural Reform Plan set out in April of last year. This period represented the first year of the plan, during which time we split our company into two — one specializing in construction, the other specializing in real estate — in order to create a corporate structure enabling us to focus on our core competency of construction. In addition, we announced a 5-to-1 stock consolidation, a ¥30 billion capital reduction without compensation, received ¥268.4 billion in debt forgiveness, and successfully completed a ¥30 billion third-party preferred stock allocation, resulting in a dramatic improvement in our overall financial position.

I thank both our shareholders and the various financial institutions without whom the above would not have been possible.

The Kumagai Gumi Group's consolidated net sales for this period came to ¥341.7 billion (down 34.6% compared with the previous period). As regards profits, the fall in sales caused a reduction in gross profits from completed construction, such that operating profits came to ¥7.9 billion (down 9.2% YOY). At the same time, however, our construction profit margin increased, and reductions in our general administrative expenses and lower interest payments brought our recurring profits back into the black, totaling ¥2.7 billion. Our net profits for this period totaled ¥280.2 billion, reflecting our booking of the ¥268.4 billion in debt forgiveness we received from our main financial institution partners.

### Management Policy:

Although issues posed by the situations in Iraq and North Korea do represent elements of uncertainty, the Japanese economy is predicted to see moderate increases in production and capital spending, which in turn will improve employment and personal income numbers.

Within the construction industry, although we do expect to see investment in non-residential construction of offices, factories, etc. to increase as a result of improved corporate earnings, we see no factors suggesting



any increase in residential spending, and public works spending is anticipated to continue to decrease. As such, even as the overall economy improves, total investment in construction is likely to continue to decline.

Within this overall environment, we will continue to follow our Three-Year Structural Reform Plan in order to further strengthen our operating foundation, and will strive to win the trust and satisfaction of our customers through our service-oriented outlook and our efforts to be top in the industry in terms of quality, safety, and concern for the environment, in line with our motto of "Thrilling the customer."

As regards our merger with Tobishima Corp., we have established an Operations Integration Committee chaired by the presidents of both companies, and have organized sub-committees organized by business area — public works, construction, administration, information systems, human resources, and strategic planning — through which we are undertaking negotiations based on our intention to integrate our two companies. We are planning to finalize the integration in April 2005, and I am happy to announce that our two road-building subsidiaries have already merged as of April of this year, getting a new start as GAEART T.K. Co., Ltd.

The core management philosophy of our group is as follows: "We seek to be a corporate group contributing to society through the powerful strength of our construction-centered operating activities, focused on building places for human activity in harmony with nature both at home and abroad." In order to realize this vision, all company managers are aware of the need to put fully customer needs first in everything they do, in line with our corporate vision placing enhanced customer satisfaction as the most important element of our management strategy. In addition, by disclosing necessary corporate information to society at large in a timely fashion, we are working to establish ourselves as an "open corporation" in order to win the trust of our customers, shareholders, and all others with whom we do business.



June 2004

Kazutoshi Torikai  
President



## PROJECTS

### TAIPEI 101 —Taiwan— (Ongoing)

Owner : Taipei Financial Center Corporation  
Architect : CY LEE & PARTNERS  
RC and SRC structure (Substructure)  
SRC structure (Superstructure) 101/5  
Total floor area : 412,500m<sup>2</sup>  
Height: 508m



### NEW METRORAIL CITY PROJECT —Australia— (Ongoing)

Owner : Public Transport Authority Government of Western Australia  
Length of track line : 2,685m (including 2 stations)

### Contract No.C4420 Tsim Sha Tsui Station Modification Works —Hong Kong— (Ongoing)

Owner : MTR Corporation Limited  
Southern Extension of the Station Box & Station Improvement Works



## Design and Construction of Sewer Tunnels for Deep Tunnel Sewerage System (DTSS) —Singapore— (Ongoing)

Owner : Ministry of the Environment Agency  
Length of Sewerage Tunnel : 5,128m



## Southern Transport Development Project Highway Section From Kurundugahahetekma to Matara —Sri Lanka— (Ongoing)

Owner : Road Development Authority of Sri Lanka  
Length of the Road : 65km  
Road Capacity : 2 lanes

## Route 3- Eagle's Nest Tunnel and Associated Works —Hong Kong— (Ongoing)

Owner : Highways Department  
Length of Road Tunnel : 2km X2nos  
Length of Ventilation Adit : 400m





## Delhi Subway Contract MC1A —India— (Ongoing)

Owner : Delhi Metro Rail Corporation Limited (DMRC)  
 Length of subway line : 4,103m (including 4 stations)+434m (depot line)



## Renai Aoyama Bldg. —Japan

Owner : Sohgo Real Estate Co., Ltd.  
 Designer : Nikken Construction Inc.  
 Structure / scale : S/SRC, 9/2 levels, total floor area of 6,487 m<sup>2</sup>



## Motomachi-Chukagai Station —Japan

Construction project reference : MM Motomachi St. main building, etc.  
 Construction site : Motomachi 1-chome, Naka-ku, Yokohama  
 Construction client : Japan Railway Construction,  
 Transport and Technology Agency,  
 Railway Construction Division Tokyo Headquarters  
 Contractors : Kumagai, Toyo, Sotetsu JV  
 Structure / scale : Above and below-ground construction of structure with  
 2 above-ground stories, 4 basement levels, total floor area of 10,600 m<sup>2</sup>



# FINANCIAL SECTION

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# CONSOLIDATED BALANCE SHEETS

Kumagai Gumi Co., Ltd. and Consolidated Subsidiaries March 31, 2004 and 2003

| ASSETS   | (¥ million)      |                  | (US \$ thousand)    |
|--|------------------|------------------|---------------------|
|  | 2004             | 2003             | 2004                |
| <b>CURRENT ASSETS:</b>   |                  |                  |                     |
| Cash and cash equivalents (Note 2).....                            | ¥ 61,443         | ¥ 68,065         | \$ 579,649          |
| Time deposits (Note 2).....  | 112              | 3,873            | 1,055               |
| Notes and accounts receivable, trade.....                          | 129,701          | 179,452          | 1,223,593           |
| Allowance for doubtful accounts.....                               | (2,208)          | (2,059)          | (20,827)            |
| Inventories (Notes 2 and 6).....                                   | 15,193           | 58,962           | 143,333             |
| Other current assets.....  | 35,401           | 47,155           | 333,973             |
|  | <u>239,642</u>   | <u>355,448</u>   | <u>2,260,776</u>    |
| <b>INVESTMENTS AND OTHER ASSETS:</b>                               |                  |                  |                     |
| Investment securities (Notes 2 and 5).....                         | 16,058           | 16,762           | 151,492             |
| Investments in unconsolidated subsidiaries and affiliates .....    | 4,427            | 4,814            | 41,764              |
| Long-term loans receivable.....                                    | 1,788            | 14,814           | 16,866              |
| Long-term loans to unconsolidated subsidiaries and affiliates..... | 95               | 96               | 900                 |
| Long-term receivables.....   | 1,790            | 127,172          | 16,886              |
| Claims to companies in bankruptcy, reorganization, etc.....        | 2,534            | 108,189          | 23,910              |
| Other.....   | 21,133           | 33,297           | 199,364             |
| Allowance for doubtful accounts.....                               | (3,388)          | (195,055)        | (31,967)            |
|  | <u>44,437</u>    | <u>110,089</u>   | <u>419,215</u>      |
| <b>PROPERTY AND EQUIPMENT (Note 2):</b>                            |                  |                  |                     |
| Land.....  | 11,395           | 54,439           | 107,503             |
| Buildings .....  | 13,618           | 83,454           | 128,466             |
| Machinery and equipment.....                                       | 15,454           | 25,523           | 145,795             |
| Construction in progress.....                                      | 7                | 10               | 63                  |
|  | <u>40,474</u>    | <u>163,426</u>   | <u>381,827</u>      |
| Accumulated depreciation.....                                      | (23,089)         | (52,933)         | (217,817)           |
|  | <u>17,385</u>    | <u>110,493</u>   | <u>164,010</u>      |
|  | <u>¥ 301,464</u> | <u>¥ 576,030</u> | <u>\$ 2,844,001</u> |

The accompanying notes are an integral part of this statement.

| LIABILITIES AND SHAREHOLDERS' EQUITY  | (¥ million)      |                  | (US \$ thousand)    |
|---|------------------|------------------|---------------------|
|   | 2004             | 2003             | 2004                |
| <b>CURRENT LIABILITIES:</b>   |                  |                  |                     |
| Short-term borrowings (Note 7).....   | ¥ 3,065          | ¥ 2,255          | \$ 28,917           |
| Current portion of long-term debt (Note 7).....                             | 12,870           | 2,061            | 121,420             |
| Notes and accounts payable, trade.....                                      | 111,240          | 160,312          | 1,049,428           |
| Advances received on uncompleted contracts (Note 10).....                   | 19,140           | 13,504           | 180,566             |
| Accrued expenses.....   | 1,726            | 3,168            | 16,283              |
| Accrued income taxes (Notes 2).....   | 312              | 422              | 2,939               |
| Employees' savings deposits.....  | 2,167            | 2,640            | 20,440              |
| Other current liabilities.....  | 32,816           | 44,199           | 309,589             |
|   | <u>183,336</u>   | <u>228,561</u>   | <u>1,729,582</u>    |
| <b>LONG-TERM LIABILITIES:</b>   |                  |                  |                     |
| Long-term debt (Note 7).....  | 70,710           | 534,128          | 667,072             |
| Accrued severance indemnities (Notes 2 and 11).....                         | 13,423           | 2,911            | 126,631             |
| Other long-term liabilities.....  | 507              | 82,925           | 4,788               |
|   | <u>84,640</u>    | <u>619,964</u>   | <u>798,491</u>      |
| <b>MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES</b> .....                 | 31               | 404              | 295                 |
| <b>CONTINGENT LIABILITIES</b> (Note 17)                                     |                  |                  |                     |
| <b>SHAREHOLDERS' EQUITY:</b>  |                  |                  |                     |
| Capital stock:  |                  |                  |                     |
| Authorized— 774,000,000 shares in 2004 and<br>1,300,000,000 shares in 2003  |                  |                  |                     |
| Issued — 193,646,504 shares in 2004 and<br>668,232,523 shares in 2003 ..... | 13,341           | 33,412           | 125,860             |
| Additional paid-in capital.....   | 9,927            | 212              | 93,650              |
| Retained earnings (deficit) (Note 2).....                                   | 8,492            | (298,520)        | 80,115              |
| Unrealized gain on available-for-sale securities (Note 2).....              | 1,957            | 1,236            | 18,455              |
| Foreign currency statements translation adjustments (Note 2).....           | (69)             | (9,164)          | (649)               |
|   | <u>33,648</u>    | <u>(272,824)</u> | <u>317,431</u>      |
| Treasury stock, at cost.....  | (191)            | (75)             | (1,798)             |
|   | <u>33,457</u>    | <u>(272,899)</u> | <u>315,633</u>      |
|   | <u>¥ 301,464</u> | <u>¥ 576,030</u> | <u>\$ 2,844,001</u> |

# CONSOLIDATED STATEMENTS OF INCOME

Kumagai Gumi Co., Ltd. and Consolidated Subsidiaries Years ended March 31, 2004 and 2003

|  | (¥ million)       |                    | (US \$ thousand)    |
|--|-------------------|--------------------|---------------------|
|  | 2004              | 2003               | 2004                |
| <b>NET SALES</b> (Notes 2 and 16):                                   |                   |                    |                     |
| Contracts completed.....   | ¥ 319,705         | ¥ 481,770          | \$ 3,016,087        |
| Sales of real estate and other.....                                  | 22,034            | 40,567             | 207,871             |
|  | <u>341,739</u>    | <u>522,337</u>     | <u>3,223,958</u>    |
| <b>COST OF SALES</b> (Notes 2 and 16):                               |                   |                    |                     |
| Cost of construction.....  | 294,886           | 448,045            | 2,781,943           |
| Cost of real estate and other.....                                   | 18,621            | 35,727             | 175,675             |
|  | <u>313,507</u>    | <u>483,772</u>     | <u>2,957,618</u>    |
| Gross profit.....  | 28,232            | 38,565             | 266,340             |
| <b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b> .....            | 20,257            | 29,783             | 191,107             |
| Operating income.....  | 7,975             | 8,782              | 75,233              |
| <b>OTHER INCOME (EXPENSE):</b>                                       |                   |                    |                     |
| Interest and dividend income.....                                    | 1,133             | 3,857              | 10,688              |
| Interest expense.....  | (4,609)           | (11,849)           | (43,479)            |
| Equity in earnings of affiliates.....                                | 118               | 67                 | 1,116               |
| Other, net (Note 12).....  | 263,502           | (267,360)          | 2,485,872           |
| <b>Income (loss) before income taxes and minority interest</b> ..... | <u>268,119</u>    | <u>(266,503)</u>   | <u>2,529,430</u>    |
| <b>Income taxes</b> (Notes 2 and 13):                                |                   |                    |                     |
| Current.....   | 482               | 554                | 4,546               |
| Deferred.....  | (12,575)          | 28,858             | (118,633)           |
|  | <u>(12,093)</u>   | <u>29,412</u>      | <u>(114,087)</u>    |
| <b>Minority interest in consolidated subsidiaries</b> .....          | 1                 | 12                 | 4                   |
| <b>Net income (loss)</b> .....                                       | <u>¥ 280,213</u>  | <u>¥ (295,903)</u> | <u>\$ 2,643,521</u> |
| <b>PER SHARE OF COMMON STOCK</b> (Note 15):                          |                   |                    |                     |
| Net income (loss).....   | (¥)<br>¥ 2,112.45 | ¥ (444.82)         | (US \$)<br>\$ 19.93 |

The accompanying notes are an integral part of this statement.



# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Kumagai Gumi Co., Ltd. and Consolidated Subsidiaries Years ended March 31, 2004 and 2003

|   | Capital stock | Additional paid-in capital | Retained earnings (deficit) | Unrealized gain on available-for-sale securities | Foreign currency statements translation adjustments | Treasury stock |
|---|---------------|----------------------------|-----------------------------|--|---|----------------|
|   | ( ¥ million)  |                            |                             |  |   |                |
| Balance at March 31, 2002.....  | ¥ 33,412      | ¥ 212                      | ¥ (1,844)                   | ¥ 2,074  | ¥ (17,077)  | ¥ (5)          |
| Decrease resulting from inclusion of equity method affiliates.....  |               |                            | (764)                       |  |   |                |
| Net loss for the year.....  |               |                            | (295,903)                   |  |   |                |
| Bonuses to directors and corporate auditors...  |               |                            | (3)                         |  |   |                |
| Adjustments of deficit for other.....   |               |                            | (6)                         |  |   |                |
| Change in the current period .....  |               |                            |                             | (838)  | 7,913   |                |
| Treasury stock purchased and adjustment resulting from application of new accounting standard for treasury stock..... |               |                            |                             |  |   | (70)           |
| Balance at March 31, 2003.....  | ¥ 33,412      | ¥ 212                      | ¥(298,520)                  | ¥ 1,236  | ¥ (9,164)   | ¥ (75)         |
| Capital reduction.....  | (30,071)      |                            | 30,071                      |  |   |                |
| Reversal of additional paid-in capital.....   |               | (212)                      | 212                         |  |   |                |
| Issuance of preferred stock.....  | 15,000        | 15,000                     |                             |  |   |                |
| Decrease resulting from divisive reorganization of company.....   | (5,000)       | (5,073)                    |                             |  |   |                |
| Increase resulting from exclusion of equity method affiliates.....  |               |                            | 4,196                       |  |   |                |
| Decrease resulting from exclusion of consolidated subsidiaries.....   |               |                            | (7,680)                     |  |   |                |
| Net income for the year.....  |               |                            | 280,213                     |  |   |                |
| Change in the current period.....   |               |                            |                             | 721  | 9,095   |                |
| Treasury stock purchased.....   |               |                            |                             |  |   | (116)          |
| Balance at March 31, 2004.....  | ¥ 13,341      | ¥ 9,927                    | ¥ 8,492                     | ¥ 1,957  | ¥ (69)  | ¥ (191)        |

|   | (US \$ thousand) |           |               |           |             |            |
|---|------------------|-----------|---------------|-----------|-------------|------------|
| Balance at March 31, 2003.....                                      | \$ 315,204       | \$ 2,004  | \$(2,816,224) | \$ 11,657 | \$ (86,457) | \$ (705)   |
| Capital reduction.....  | (283,684)        |           | 283,684       |           |             |            |
| Reversal of additional paid-in capital.....                         |                  | (2,004)   | 2,004         |           |             |            |
| Issuance of preferred stock.....                                    | 141,510          | 141,510   |               |           |             |            |
| Decrease resulting from divisive reorganization of company.....     | (47,170)         | (47,860)  |               |           |             |            |
| Increase resulting from exclusion of equity method affiliates.....  |                  |           | 39,586        |           |             |            |
| Decrease resulting from exclusion of consolidated subsidiaries..... |                  |           | (72,456)      |           |             |            |
| Net income for the year.....  |                  |           | 2,643,521     |           |             |            |
| Change in the current period.....                                   |                  |           |               | 6,798     | 85,808      |            |
| Treasury stock purchased.....                                       |                  |           |               |           |             | (1,093)    |
| Balance at March 31, 2004.....                                      | \$ 125,860       | \$ 93,650 | \$ 80,115     | \$ 18,455 | \$ (649)    | \$ (1,798) |

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Kumagai Gumi Co., Ltd. and Consolidated Subsidiaries Years ended March 31, 2004 and 2003

|   | (¥ million) |             | (US \$ thousand) |
|---|-------------|-------------|------------------|
|   | 2004        | 2003        | 2004             |
| <b>Cash flows from operating activities:</b>  |             |             |                  |
| Income (loss) before income taxes and minority interest.....  | ¥ 268,119   | ¥ (266,503) | \$ 2,529,430     |
| Depreciation and amortization .....   | 2,625       | 5,790       | 24,766           |
| Gain from discharge of debt.....  | (268,400)   | -           | (2,532,076)      |
| Increase (decrease) in provision for allowance for doubtful accounts.....   | (4,504)     | 60,490      | (42,491)         |
| Loss from bad debt.....   | -           | 69          | -                |
| Increase (decrease) in provision for the settlement of development projects..   | (7,614)     | 18,241      | (71,832)         |
| Increase (decrease) in accrued severance indemnities.....   | 10,535      | (1,193)     | 99,389           |
| Increase (decrease) in provision for loss on retirement allowance.....  | (23,160)    | 23,160      | (218,491)        |
| Interest and dividends revenue.....   | (1,133)     | (3,857)     | (10,687)         |
| Interest expenses.....  | 4,609       | 11,849      | 43,479           |
| Exchange losses.....  | 631         | 561         | 5,956            |
| Equity in earnings of affiliates.....   | (118)       | (67)        | (1,116)          |
| Loss on valuation of marketable and investment securities.....  | 204         | 1,375       | 1,921            |
| (Gains) Loss on sale of marketable and investment securities, net.....  | 898         | (400)       | 8,467            |
| Loss on disposal of property and equipment.....   | 275         | 266         | 2,592            |
| Loss on valuation of property and equipment.....  | 35          | 74,922      | 331              |
| Gains on sale of property and equipment, net.....   | (183)       | (6,975)     | (1,729)          |
| Decrease in notes and accounts receivable.....  | 49,311      | 5,710       | 465,200          |
| Decrease in uncompleted construction costs.....   | 2,110       | 19,604      | 19,906           |
| Decrease in inventories.....  | 3,476       | 57,815      | 32,797           |
| Increase (decrease) in notes and accounts payable.....  | (46,639)    | 5,903       | (439,991)        |
| Increase (decrease) in advances received on uncompleted contracts....   | 5,636       | (26,314)    | 53,166           |
| Decrease in other assets.....   | 14,002      | 17,430      | 132,098          |
| Other, net.....   | 5,362       | 223         | 50,587           |
| Sub-total.....  | 16,077      | (1,901)     | 151,672          |
| Interest and dividends received.....  | 1,795       | 3,253       | 16,938           |
| Interest paid.....  | (4,491)     | (12,495)    | (42,370)         |
| Income tax paid.....  | (568)       | (696)       | (5,361)          |
| Net cash provided by (used in) operating activities.....  | 12,813      | (11,839)    | 120,879          |
| <b>Cash flows from investing activities:</b>  |             |             |                  |
| Disbursements for acquisitions of marketable and investment securities....  | (117)       | (765)       | (1,103)          |
| Proceeds from sale of marketable and investment securities.....   | 1,954       | 3,267       | 18,432           |
| Proceeds from sale of investment in consolidated subsidiaries.....  | 471         | -           | 4,443            |
| Disbursements for acquisitions of property and equipment .....  | (4,893)     | (1,726)     | (46,159)         |
| Proceeds from sale of property and equipment .....  | 16,764      | 56,246      | 158,150          |
| Disbursements for loans.....  | (7,367)     | (1,274)     | (69,503)         |
| Proceeds from collection of loans .....   | 873         | 1,842       | 8,240            |
| Other, net.....   | 4,824       | 1,268       | 45,513           |
| Net cash provided by investing activities.....  | 12,509      | 58,858      | 118,013          |
| <b>Cash flows from financing activities:</b>  |             |             |                  |
| Increase (decrease) in short-term borrowings .....  | 12,260      | (1,395)     | 115,663          |
| Proceeds from long-term debt.....   | 24,737      | 42,446      | 233,366          |
| Disbursements for repayment of long-term debt.....  | (81,770)    | (81,125)    | (771,413)        |
| Proceeds from issuance of new shares.....   | 30,000      | -           | 283,019          |
| Other, net.....   | (3,872)     | (12)        | (36,530)         |
| Net cash used in financing activities.....  | (18,645)    | (40,086)    | (175,895)        |
| Translation differences on cash and cash equivalents.....   | (833)       | (988)       | (7,863)          |
| Increase in cash and cash equivalents.....  | 5,844       | 5,945       | 55,134           |
| Cash and cash equivalents at beginning of year.....   | 68,065      | 62,120      | 642,118          |
| Cash and cash equivalents which were succeeded by new company<br>formed through divisive reorganization of company..... | (3,082)     | -           | (29,075)         |
| Cash and cash equivalents of subsidiaries excluded from consolidation   | (9,384)     | -           | (88,528)         |
| Cash and cash equivalents at end of year.....   | ¥ 61,443    | ¥ 68,065    | \$ 579,649       |

The accompanying notes are an integral part of this statement.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Kumagai Gumi Co., Ltd. and Consolidated Subsidiaries Years ended March 31, 2004 and 2003

## 1. BASIS OF PRESENTING FINANCIAL STATEMENTS

The accompanying consolidated financial statements of KUMAGAI GUMI CO.,LTD. ( the "Company" ) and its consolidated subsidiaries have been prepared in accordance with generally accepted accounting principles and practices in Japan. In preparing the consolidated financial statements for purpose of inclusion in this Annual Report, certain reclassifications and rearrangements have been made to the financial statements issued domestically in Japan in order to present these statements in a form which is more familiar to the readers of these statements outside Japan. In addition, the notes to the consolidated financial statements include information which is not required under generally accepted accounting principles and practices in Japan but is presented herein as additional information for the Annual Report.

### Consolidation:

The Company applies the control or influence standard for determining the criteria of subsidiaries and affiliates included within the scope of consolidation.

The consolidated financial statements include the accounts of the Company, thirteen of its consolidated subsidiaries and five of its affiliates accounted for applying the equity method as at and for the year ended March 31, 2004.

In fiscal 2004, changes in the scope of consolidation were as follows:

|   | No. of companies  |
|---|---|
| * Newly equity method companies             | 0:  |
| * Companies excluded from consolidation     | -26: KG Crowne Corporation, Kumagai Australia Finance Ltd. and 24 other companies |
| * Companies excluded from the equity method | -5: Summa Kumagai, Inc. and 4 other companies                                     |
| Total                                       | -31   |

The subsidiaries which are consolidated with the Company are listed below:

| Company Name                     | Fiscal Year- End |
|----------------------------------|------------------|
| GAEART Kumagai Co., Ltd.         | 31 Mar. 2004     |
| Technos Co., Ltd.                | 31 Mar. 2004     |
| K&E Co., Ltd.                    | 31 Mar. 2004     |
| Techno-Space Creates Co., Ltd.   | 31 Mar. 2004     |
| Sun F Kogyo Co., Ltd.            | 31 Mar. 2004     |
| KN Facilities Co., Ltd.          | 31 Mar. 2004     |
| FATEC CO., LTD.                  | 31 Mar. 2004     |
| Technical Support Co.,Ltd.       | 31 Mar. 2004     |
| Khiva Limited.                   | 31 Mar. 2004     |
| HOUTECH 21 CO.,LTD.              | 31 Dec. 2003     |
| Taiwan Kumagai Co., Ltd.         | 31 Dec. 2003     |
| Thai Kumagai Co., Ltd.           | 31 Dec. 2003     |
| Kumagai Gumi (Malaysia) SDN.BHD. | 31 Dec. 2003     |

All significant intercompany accounts and transactions are eliminated in consolidation.

Investments in other unconsolidated subsidiaries and affiliates accounted for applying the equity method are stated at cost.

The Company consolidates such subsidiaries' financial statements as of each subsidiary's most recent year- end. Unusual significant transactions occurring between subsidiaries' year-ends and the Company's are adjusted on consolidation.

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Recognition of net sales and related costs

Net sales from and the related costs of construction contracts are recorded mainly by the percentage of completion method. The completed-contract method is applied for certain projects whose construction period is less than one year.

### (b) Foreign currency translations

Short-term and long-term receivables and payables in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. Investments in overseas subsidiaries and affiliates in foreign currencies are translated into Japanese yen at the historical rates of exchange. Overseas accumulated construction cost in progress in foreign currencies (included in inventories) is translated into Japanese yen at the monthly rates of exchange.

### (c) Foreign currency financial statements

The balance sheet accounts and revenue and expense accounts of the consolidated overseas subsidiaries and overseas affiliates accounted for on the equity method are translated into Japanese yen at the current rates of exchange at each balance sheet date except for shareholders' equity, which is translated at the historical rates of exchange at dates of acquisition.

Retained earnings of the consolidated overseas subsidiaries and overseas affiliates accounted for by the equity method at the end of every year are translated at the historical rates of exchange. Differences arising from such translation are included in "Foreign currency translation adjustments" in the accompanying consolidated financial statements.

### (d) Cash and cash equivalents

Cash and cash equivalents include an overnight bank deposit and time deposits, all of which have original maturities of three months or less.

### (e) Time deposits

Time deposits have original maturities of more than three months through one year.

### (f) Marketable and investment securities

The Company and its consolidated subsidiaries listed all the securities as available-for-sale which are stated at fair value, with unrealized gains and losses net of taxes under shareholders' equity. Cost of sales is determined by the moving-average method.

Other securities are stated at cost.

### (g) Inventories

Inventories other than materials and supplies are stated at accumulated construction cost for each project. Selling, general and administrative expenses are excluded from such cost. Materials and supplies are stated at cost determined by the moving-average method.

### (h) Property, equipment and depreciation

Property and equipment, including significant renewals and additions, are carried at cost. The cost of property and equipment retired or otherwise disposed of and accumulated depreciation in respect thereof are eliminated from the related accounts, and the resulting gain or loss is reflected in income. Maintenance and repairs, including minor renewals and improvements, are charged to income as incurred.

Depreciation is computed by the declining-balance method at rates based on estimated useful lives of the assets, according to general class, type of construction and use.

### (i) Accrued severance indemnities

To provide for employees' severance indemnities, net period pension cost, which represents the amount recognized as the cost of a pension plan for the year, is accounted for based on the projected benefit obligation and the plan assets.

The unrecognized transitional obligation is being amortized by the straight-line method over a period of 15 years.

The adjustment for actuarial assumptions is being amortized by the straight-line method over a period which is less than the average remaining years (5 to 9 years) of service of the active participants in the plans. Amortization is computed from the fiscal year subsequent to the year in which the adjustment was recorded.

Prior service cost is being amortized by the straight-line method over a period which is less than the average remaining years (5 to 9 years) of service of the active participants in the plans.



**(j) Income taxes**

Income taxes are accounted for by the asset and liability method.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards.

**(k) Appropriations of retained earnings and disposition of deficit**

Appropriations of retained earnings and disposition of deficit are reflected in the accompanying consolidated financial statements for the following year upon shareholders approval.

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**3. BUSINESS  
REVITALIZATION  
PLAN**

In April 2003, the Company developed a "Three-year Structural Reform Plan ("Plan")" based on a divisive reorganization aimed at enabling the Company and its group companies to reform and establish a business structure providing long-term stability and vitality.

Progress made along the lines of this Plan as of this year-end is as follows:

**I ) Changes in Shareholders' Equity**

The original ¥33,412 million (US\$315,204 thousand) in Common stock outstanding was reduced voluntarily by ¥30,071 million (US\$283,684 thousand), resulting in ¥3,341 million (US\$31,520 thousand) in total Common stock outstanding. The ¥30,071 million (US\$283,684 thousand) reduction was credited to cover the resulting capital deficiency on August 5, 2003.

The Company's major financial institution partners accepted shares valued at ¥30,000 million (US\$283,019 thousand) with an effective value date of October 1, 2003 as repayment for loans outstanding.

**II ) Gains resulting from debt forgiveness**

On September 18, 2003, the Company received discharge of debt totaling ¥268,400 million (US\$2,532,076 thousand) from the Sumitomo Mitsui Banking Corporation and other major financial institutions, recording a gain for the same amount in the Company's Statement of Income.

**III ) Spin-off of real estate businesses**

On October 1, 2003, the Company undertook a separation, incorporating a new company called the "New Real Property Corporation" with Common stock of ¥5,000 million (US\$47,170 thousand) and Additional paid-in capital of ¥5,073 million (US\$ 47,860 thousand), with a resulting Company-side reduction of Shareholder's equity. Through this separation, the Company has devolved its real estate business, loan and investment business related to overseas PFI operations, etc., and debt collection business on the newly incorporated company.

**IV) Operations integration**

The Company and Tobishima Corporation have reached a "Comprehensive Operating Partnership Agreement," the main point of which is to complete operations integration by April 2005 in order to effect the realization of a company with superlative technology and management. The Company reached an agreement with Tobishima Corporation on November 25, 2003 calling for the two companies to continue discussing the form this consolidating integration will take.

As a result, the financial position of the Company and its consolidated subsidiaries has significantly improved as of the March 2004 close of the fiscal year.

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**4. UNITED  
STATES  
DOLLAR  
AMOUNTS**

The United States dollar amounts included in the accompanying consolidated financial statements are presented solely for convenience and are stated, as a matter of arithmetical computation only, at the rate of ¥106 = US\$1, which was the approximate exchange rate at March 31, 2004. These translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into United States dollars at that rate.

**5. MARKETABLE AND INVESTMENT SECURITIES**

The breakdown of available-for-sale securities as of March 31, 2004 is as follows:

|                                   | Cost      | Fair value<br>(Carrying amount)<br>(¥ million) | Difference |
|-----------------------------------|-----------|--|------------|
| Marketable equity securities..... | ¥ 8,706   | ¥ 12,044                                       | ¥ 3,338    |
| Debentures.....                   | 10        | 10   | —          |
| Fund trust and other.....         | —         | —  | —          |
| Total.....                        | ¥ 8,716   | ¥ 12,054                                       | ¥ 3,338    |
| (US \$ thousand)                  |           |  |            |
| Marketable equity securities..... | \$ 82,129 | \$ 113,619                                     | \$ 31,490  |
| Debentures.....                   | 90        | 90   | —          |
| Fund trust and other.....         | —         | —  | —          |
| Total.....                        | \$ 82,219 | \$ 113,709                                     | \$ 31,490  |

The breakdown of available-for-sale securities as of March 31, 2003 is as follows:

|                                   | Cost     | Fair value<br>(Carrying amount)<br>(¥ million) | Difference |
|-----------------------------------|----------|--|------------|
| Marketable equity securities..... | ¥ 10,388 | ¥ 12,480                                       | ¥ 2,092    |
| Debentures.....                   | 19       | 19   | —          |
| Fund trust and other.....         | 53       | 53   | —          |
| Total.....                        | ¥ 10,460 | ¥ 12,552                                       | ¥ 2,092    |

**6. INVENTORIES**

Inventories comprised the following:

| <i>March 31, 2004 and 2003</i>        | 2004<br>(¥ million) | 2003     | 2004<br>(US \$ thousand) |
|---------------------------------------|---------------------|----------|--------------------------|
| Cost of uncompleted contracts.....    | ¥ 14,768            | ¥ 16,897 | \$ 139,325               |
| Real estate for sale.....             | —                   | 8,177    | —                        |
| Development projects in progress..... | —                   | 33,075   | —                        |
| Materials and supplies.....           | 425                 | 813      | 4,008                    |
|                                       | ¥ 15,193            | ¥ 58,962 | \$ 143,333               |

**7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT**

The weighted average interest rates on short-term bank loans were 1.65% and 1.00% at March 31, 2004 and 2003, respectively.

Long-term debt comprised the following:

| <i>March 31, 2004 and 2003</i>  | 2004<br>(¥ million) | 2003      | 2004<br>(US \$ thousand) |
|---|---------------------|-----------|--------------------------|
| Loans, principally from banks and insurance, bearing weighted average interest of 2.18% and 1.24% at March 31, 2004 and 2003, respectively..... | ¥ 83,580            | ¥ 536,189 | \$ 788,492               |
| Less current portion.....   | 12,870              | 2,061     | 121,420                  |
|   | ¥ 70,710            | ¥ 534,128 | \$ 667,072               |

The aggregate annual maturities of long-term debt (including current portion) at March 31, 2004 were as follows:

*Years ending March 31*

|                          | (¥ million) | (US \$ thousand) |
|--------------------------|-------------|------------------|
| 2005.....                | ¥ 12,870    | \$ 121,420       |
| 2006.....                | 7,545       | 71,182           |
| 2007.....                | 2,130       | 20,098           |
| 2008.....                | 201         | 1,891            |
| 2009 and thereafter..... | 60,834      | 573,901          |
|                          | ¥ 83,580    | \$ 788,492       |

## 8. LEASES

The lease payments under noncancelable financing leases are principally accounted for as rental expenses, and no asset or liability (other than a short-term liability for accrued rent payable) relating to the lease is recorded.

## 9. PLEDGED ASSETS

Assets pledged as collateral for short-term borrowings and long-term debt were as follows:

*March 31, 2004*

|  | (¥ million) | (US \$ thousand) |
|--|-------------|------------------|
| Assets pledged as collateral:                  |             |                  |
| Investment securities.....                     | ¥ 11,114    | \$ 104,852       |
| Other investments.....                         | 310         | 2,920            |
| Land.....                                      | 7,861       | 74,158           |
| Buildings.....                                 | 2,354       | 22,210           |
|  | ¥ 21,639    | \$ 204,140       |
| Liabilities secured thereby:                   |             |                  |
| Short-term borrowings and long-term debt ..... | ¥ 9,495     | \$ 89,577        |

## 10. ADVANCES RECEIVED ON UNCOMPLETED CONTRACTS

As is the customary practice in Japan, the Company receives progress payments from customers in accordance with the terms of the respective construction contracts.

## 11. ACCRUED SEVERANCE INDEMNITIES AND PENSION EXPENSES FOR EMPLOYEES

Employees (excluding directors and corporate auditors) whose service with the Company and its consolidated domestic subsidiaries is terminated are, under most circumstances, entitled to lump-sum severance indemnities determined by reference to rank and length of time served in each rank until the termination occurs.

In addition to the lump-sum indemnities, a consolidated domestic subsidiary has both contributory and non-contributory funded pension plans. Although the Company had a contributory funded pension plan, it was ended this year in accordance with "Three-year Structural Reform Plan".

The Company and its consolidated domestic subsidiaries accounted for the liability for retirement benefit based on projected benefits obligations and plan assets at each balance sheet date.

The liability(asset)for employees' retirement benefits and the components of net periodic benefit costs were as follows:

(1) The liability (asset) for employees' retirement benefits

| <i>As of March 31, 2004 and 2003</i>                   | 2004        | 2003        | 2004             |
|--|-------------|-------------|------------------|
|  | (¥ million) |             | (US \$ thousand) |
| Projected benefit obligation .....                     | ¥ (30,598)  | ¥ (125,172) | \$ (288,662)     |
| Fair value of plan assets.....                         | 492         | 41,177      | 4,645            |
| Unrecognized transition obligation.....                | 12,330      | 39,771      | 116,321          |
| Unrecognized prior service cost and actuarial loss.... | 4,353       | 41,313      | 41,066           |
| Net liability.....                                     | ¥ (13,423)  | ¥ (2,911)   | \$ (126,630)     |

(2) The components of net periodic benefit costs

| <i>For the year ended March 31, 2004 and 2003</i>                                 | 2004        | 2003     | 2004             |
|---|-------------|----------|------------------|
|   | (¥ million) |          | (US \$ thousand) |
| Service cost.....   | ¥ 2,140     | ¥ 2,701  | \$ 20,190        |
| Interest cost.....  | 2,859       | 5,057    | 26,967           |
| Expected return on plan assets.....   | (621)       | (2,139)  | (5,862)          |
| Amortization of transitional obligation.....                                      | 6,508       | 3,314    | 61,400           |
| Amortization of prior service cost and actuarial loss..                           | 7,033       | 1,455    | 66,351           |
| Provision for retirement allowance accompanying<br>the end of a pension plan..... | 1,627       | —        | 15,348           |
| Net periodic benefit cost.....  | ¥ 19,546    | ¥ 10,388 | \$ 184,394       |

(3) Assumptions used for the years ended March 31, 2004 and 2003

|   | 2004         | 2003          |
|---|--------------|---------------|
| Discount rate.....                                  | 2.0%         | 2.5% to 3.0%  |
| Expected rate of return on plan assets .....        | 2.0%         | 2.0%          |
| Amortization period of prior service cost.....      | 5 to 9 years | 15 years      |
| Recognition period of actuarial gain/loss.....      | 5 to 9 years | 5 to 12 years |
| Amortization period of transitional obligation..... | 15 years     | 15 years      |

**12. OTHER, NET IN OTHER INCOME (EXPENSES)**

Other, net in other income (expenses) comprised the following:

| <i>March 31, 2004 and 2003</i>  | 2004        | 2003        | 2004             |
|---|-------------|-------------|------------------|
|   | (¥ million) |             | (US \$ thousand) |
| Gain from discharge of debt   | ¥ 268,400   | ¥ —         | \$ 2,532,076     |
| (Loss) gain on disposal of property and equipment, net                            | (91)        | 6,709       | (863)            |
| Loss on valuation of inventories.....   | (10)        | (47,154)    | (92)             |
| Loss on valuation of fixed assets.....  | (35)        | (74,922)    | (331)            |
| Loss from bad debt.....   | (21)        | (280)       | (195)            |
| Provision for allowance for the settlement of<br>development projects.....        | (1,277)     | (18,241)    | (12,048)         |
| Provision for allowance for doubtful accounts.....                                | (1,160)     | (72,572)    | (10,939)         |
| Provision for loss on retirement allowance.....                                   | —           | (23,160)    | —                |
| Provision for retirement allowance.....   | (1,627)     | —           | (15,348)         |
| Loss on valuation of marketable and<br>investment securities.....                 | (204)       | (1,375)     | (1,921)          |
| Write-off of investments.....   | 0           | (47)        | (1)              |
| Gain on sale of marketable and investment<br>securities, net.....                 | 352         | 400         | 3,316            |
| Loss on sale of investments in unconsolidated<br>subsidiaries and affiliates..... | (1,249)     | —           | (11,784)         |
| Foreign exchange loss, net.....   | (977)       | (762)       | (9,219)          |
| Other, net.....   | 1,401       | (35,956)    | 13,221           |
|   | ¥ 263,502   | ¥ (267,360) | \$ 2,485,872     |



**13. INCOME TAXES** Tax effects of significant temporary differences and loss carryforwards that result in deferred tax assets or liabilities were as follows:

| March 31, 2004 and 2003                            | 2004        |           | 2003      | 2004             |
|--|-------------|-----------|-----------|------------------|
|  | (¥ million) |           |           | (US \$ thousand) |
| Deferred Tax Assets:                               |             |           |           |                  |
| Inventories.....                                   | ¥           | –         | ¥ 26,874  | \$ –             |
| Marketable and investment securities.....          |             | –         | 51,463    | –                |
| Property and equipment.....                        |             | 1,551     | 14,791    | 14,629           |
| Accrued severance indemnities.....                 |             | 4,556     | –         | 42,983           |
| Provision for loss on retirement allowance.....    |             | –         | 9,426     | –                |
| Tax loss carry-forwards.....                       |             | 101,044   | 141,142   | 953,243          |
| Others.....  |             | 14,387    | 19,233    | 135,737          |
| Subtotal.....                                      |             | 121,538   | 262,929   | 1,146,592        |
| Valuation Allowance.....                           |             | (106,127) | (259,680) | (1,001,197)      |
| Total.....   |             | 15,411    | 3,249     | 145,395          |
| Deferred Tax Assets:                               |             |           |           |                  |
| Unrealized gain on available-for-sale securities.. |             | (1,380)   | (1,353)   | (13,020)         |
| Others.....  |             | (282)     | (139)     | (2,663)          |
| Total.....   |             | (1,662)   | (1,492)   | (15,683)         |
| Net deferred tax assets.....                       |             | ¥ 13,749  | ¥ 1,757   | \$ 129,712       |

**14. BUSINESS SEGMENT INFORMATION**

**(a) Industry segment information**

| Years ended<br>March 31, 2004<br>and 2003 | Construction     |          | Real estate<br>and other |          | Elimination |             | Consolidated |          |
|---|------------------|----------|--------------------------|----------|-------------|-------------|--------------|----------|
|   | 2004             | 2003     | 2004                     | 2003     | 2004        | 2003        | 2004         | 2003     |
|   | (¥ million)      |          |                          |          |             |             |              |          |
| Net sales:                                |                  |          |                          |          |             |             |              |          |
| Customers.....                            | ¥319,705         | ¥481,770 | ¥ 22,034                 | ¥ 40,567 | ¥ –         | –           | ¥341,739     | ¥522,337 |
| Intersegment....                          | –                | –        | 860                      | 1,053    | (860)       | (1,053)     | –            | –        |
| Total.....                                | 319,705          | 481,770  | 22,894                   | 41,620   | (860)       | (1,053)     | 341,739      | 522,337  |
| Operating expenses.....                   | 313,759          | 475,121  | 20,821                   | 39,526   | (815)       | (1,092)     | 333,765      | 513,555  |
| Operating income.....                     | ¥ 5,946          | ¥ 6,649  | ¥ 2,073                  | ¥ 2,094  | ¥ (45)      | ¥ 39        | ¥ 7,974      | ¥ 8,782  |
| Identifiable assets.....                  | ¥211,291         | ¥483,033 | ¥ 3,286                  | ¥148,883 | ¥ 3,928     | ¥ (126,972) | ¥218,505     | ¥504,944 |
| Depreciation and amortization...          | 1,879            | 2,802    | 746                      | 2,988    | –           | –           | 2,625        | 5,790    |
| Capital expenditure....                   | 4,655            | 1,359    | 735                      | 716      | –           | –           | 5,390        | 2,075    |
|   | (US \$ thousand) |          |                          |          |             |             |              |          |
| Net sales:                                |                  |          |                          |          |             |             |              |          |
| Customers.....                            | \$3,016,087      |          | \$ 207,871               |          | \$ –        |             | \$3,223,958  |          |
| Intersegment....                          | –                |          | 8,117                    |          | (8,117)     |             | –            |          |
| Total.....                                | 3,016,087        |          | 215,988                  |          | (8,117)     |             | 3,223,958    |          |
| Operating expenses.....                   | 2,959,992        |          | 196,427                  |          | (7,694)     |             | 3,148,725    |          |
| Operating income.....                     | \$ 56,095        |          | \$ 19,561                |          | \$ (423)    |             | \$ 75,233    |          |
| Identifiable assets.....                  | \$1,993,311      |          | \$ 31,003                |          | \$ 37,051   |             | \$2,061,365  |          |
| Depreciation and amortization...          | 17,726           |          | 7,040                    |          | –           |             | 24,766       |          |
| Capital expenditure....                   | 43,919           |          | 6,934                    |          | –           |             | 50,853       |          |

**(b) Geographic information**Years ended  
March 31, 2004  
and 2003

|                          | Domestic |          | Overseas  |          | Elimination |           | Consolidated |           |
|--------------------------|----------|----------|-----------|----------|-------------|-----------|--------------|-----------|
|                          | 2004     | 2003     | 2004      | 2003     | 2004        | 2003      | 2004         | 2003      |
| (¥ million)              |          |          |           |          |             |           |              |           |
| Net sales:               |          |          |           |          |             |           |              |           |
| Customers .....          | ¥324,604 | ¥487,129 | ¥ 17,135  | ¥ 35,208 | ¥ -         | ¥ -       | ¥ 341,739    | ¥ 522,337 |
| Intersegment ....        | -        | -        | 68        | 66       | (68)        | (66)      | -            | -         |
| Total .....              | 324,604  | 487,129  | 17,203    | 35,274   | (68)        | (66)      | 341,739      | 522,337   |
| Operating expenses.....  | 314,975  | 479,718  | 18,806    | 33,937   | (16)        | (100)     | 333,765      | 513,555   |
| Operating income.....    | ¥ 9,629  | ¥ 7,411  | ¥ (1,603) | ¥ 1,337  | ¥ (52)      | ¥ 34      | ¥ 7,974      | ¥ 8,782   |
| Identifiable assets..... | ¥207,406 | ¥454,449 | ¥ 9,639   | ¥ 63,673 | ¥ 1,460     | ¥(13,178) | ¥ 218,505    | ¥ 504,944 |

|                          |             |  |             |  |           |  |              |  |
|--------------------------|-------------|--|-------------|--|-----------|--|--------------|--|
| (US \$ thousand)         |             |  |             |  |           |  |              |  |
| Net sales:               |             |  |             |  |           |  |              |  |
| Customers .....          | \$3,062,308 |  | \$ 161,650  |  | \$ -      |  | \$ 3,223,958 |  |
| Intersegment ....        | -           |  | 647         |  | (647)     |  | -            |  |
| Total .....              | 3,062,308   |  | 162,297     |  | (647)     |  | 3,223,958    |  |
| Operating expenses.....  | 2,971,467   |  | 177,416     |  | (158)     |  | 3,148,725    |  |
| Operating income.....    | \$ 90,841   |  | \$ (15,119) |  | \$ (489)  |  | \$ 75,233    |  |
| Identifiable assets..... | \$1,956,654 |  | \$ 90,938   |  | \$ 13,773 |  | \$ 2,061,365 |  |

The following reconciles identifiable assets to total assets:

|                          | 2004        | 2003      | 2004             |
|--------------------------|-------------|-----------|------------------|
|                          | (¥ million) |           | (US \$ thousand) |
| Identifiable assets..... | ¥ 218,505   | ¥ 504,944 | \$2,061,365      |
| Corporate assets.....    | 82,959      | 71,086    | 782,636          |
| Total assets.....        | ¥ 301,464   | ¥ 576,030 | \$2,844,001      |

**15. PER SHARE DATA**

The weighted average number of common shares used in computing net income per share for the years ended March 31, 2004 and 2003 were as follows:

|           | Number of shares<br>(thousand) |
|-----------|--------------------------------|
| 2003..... | 665,229                        |
| 2004..... | 132,649                        |

**16. TRANSACTIONS WITH UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES**

Purchases from and sales to unconsolidated subsidiaries and affiliates for the respective periods were as follows:

|                | 2004        | 2003    | 2004             |
|----------------|-------------|---------|------------------|
|                | (¥ million) |         | (US \$ thousand) |
| Purchases..... | ¥ 182       | ¥ 8,697 | \$ 1,722         |
| Sales.....     | -           | 13      | -                |

**17. CONTINGENT LIABILITIES**

The Company and its consolidated subsidiaries were contingently liable for guarantees of debt of customers, unconsolidated subsidiaries and affiliates, in the amount of ¥2,622 million (US\$24,735 thousand) at March 31, 2004. The guarantees are in respect of loans relating to purchases and development of land for civil engineering and architectural construction projects.

# REPORT OF THE INDEPENDENT PUBLIC ACCOUNTANTS (CONSOLIDATED)

To the Board of Directors of  
Kumagai Gumi Co., Ltd.

We have examined the consolidated balance sheets of Kumagai Gumi Co., Ltd. and its consolidated subsidiaries at March 31, 2004 and 2003, and the related consolidated statements of income shareholders' equity and cash flows for each of the two years in the period ended March 31, 2004, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated 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 managements, as well as evaluating the overall consolidated 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 the financial position of Kumagai Gumi Co., Ltd. and its consolidated subsidiaries at March 31, 2004 and 2003, and the results of their operations and their cash flows for each of the two years in the period ended March 31, 2004, in conformity with generally accepted accounting principles and practices in Japan applied on a consistent basis.

The United States dollar amounts shown in the consolidated financial statements referred to above have been translated solely for convenience. We have reviewed this translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis described in Note 4.

*M. Serizawa & Co.*

Tokyo, Japan  
June 29, 2004

**M. Serizawa & Co.**  
**Certified Public Accountants**

Shin-Yurakucho Bldg., 12-1, Yurakucho 1-chome, Chiyoda-ku, Tokyo, Japan

# NON-CONSOLIDATED BALANCE SHEETS

Kumagai Gumi Co., Ltd. (Company Only) March 31, 2004 and 2003

| ASSETS  | (¥ million)      |                  | (US \$ thousand)    |
|---|------------------|------------------|---------------------|
|   | 2004             | 2003             | 2004                |
| <b>CURRENT ASSETS:</b>                                      |                  |                  |                     |
| Cash and cash equivalents (Note 2) .....                    | ¥ 58,665         | ¥ 57,832         | \$ 553,441          |
| Time deposits (Note 2) .....                                | 5                | 3,633            | 47                  |
| Notes and accounts receivable, trade .....                  | 106,501          | 155,682          | 1,004,726           |
| Allowance for doubtful accounts.....                        | (1,357)          | (1,485)          | (12,802)            |
| Inventories (Notes 2 and 5) .....                           | 11,349           | 42,290           | 107,064             |
| Other current assets.....                                   | 34,404           | 40,856           | 324,572             |
|   | <u>209,567</u>   | <u>298,808</u>   | <u>1,977,048</u>    |
| <b>INVESTMENTS AND OTHER ASSETS:</b>                        |                  |                  |                     |
| Investment securities (Note 2).....                         | 11,885           | 12,570           | 112,122             |
| Investments in subsidiaries and affiliates (Note 2).....    | 4,103            | 32,188           | 38,711              |
| Long-term loans receivable.....                             | 1,330            | 1,892            | 12,543              |
| Long-term loans to subsidiaries and affiliates.....         | 542              | 271              | 5,116               |
| Long-term receivable .....                                  | 1,865            | 209,046          | 17,594              |
| Claims to companies in bankruptcy, reorganization, etc..... | 1,545            | 144,963          | 14,574              |
| Other .....   | 20,546           | 16,864           | 193,826             |
| Allowance for doubtful accounts .....                       | (2,243)          | (287,490)        | (21,161)            |
|   | <u>39,573</u>    | <u>130,304</u>   | <u>373,325</u>      |
| <b>PROPERTY AND EQUIPMENT (Note 2):</b>                     |                  |                  |                     |
| Land .....  | 7,693            | 10,113           | 85,405              |
| Buildings.....  | 9,053            | 34,656           | 82,339              |
| Machinery and equipment.....                                | 8,728            | 11,081           | 72,580              |
| Construction in progress .....                              | 3                | 1                | 30                  |
|   | <u>25,477</u>    | <u>55,851</u>    | <u>240,354</u>      |
| Accumulated depreciation.....                               | (14,653)         | (24,227)         | (138,238)           |
|   | <u>10,824</u>    | <u>31,624</u>    | <u>102,116</u>      |
|   | <u>¥ 259,964</u> | <u>¥ 460,736</u> | <u>\$ 2,452,489</u> |

The accompanying notes are an integral part of this statement.

| LIABILITIES AND SHAREHOLDERS' EQUITY  | (¥ million)      |                  | (US \$ thousand)    |
|---|------------------|------------------|---------------------|
|   | 2004             | 2003             | 2004                |
| <b>CURRENT LIABILITIES:</b>   |                  |                  |                     |
| Short-term borrowings .....   | ¥ 1,465          | ¥ 1,807          | \$ 13,823           |
| Current portion of long-term debt.....                                      | 12,520           | 1,611            | 118,118             |
| Notes and accounts payable, trade .....                                     | 98,571           | 146,808          | 929,917             |
| Advances received on uncompleted contracts (Note 8) .....                   | 16,635           | 11,292           | 156,931             |
| Accrued expenses .....  | 1,608            | 2,092            | 15,171              |
| Accrued income taxes (Notes 2).....   | 132              | 250              | 1,243               |
| Employees' savings deposits.....  | 2,166            | 2,616            | 20,434              |
| Other current liabilities .....   | 28,765           | 34,512           | 271,365             |
|   | <u>161,862</u>   | <u>200,988</u>   | <u>1,527,002</u>    |
| <b>LONG-TERM LIABILITIES:</b>   |                  |                  |                     |
| Long-term debt .....  | 67,200           | 495,918          | 633,959             |
| Accrued severance indemnities (Note 2).....                                 | 10,076           | 1,225            | 95,053              |
| Other long-term liabilities.....  | 507              | 46,524           | 4,788               |
|   | <u>77,783</u>    | <u>543,667</u>   | <u>733,800</u>      |
| <b>CONTINGENT LIABILITIES</b> (Note 12)                                     |                  |                  |                     |
| <b>SHAREHOLDERS' EQUITY:</b>  |                  |                  |                     |
| Capital stock:  |                  |                  |                     |
| Authorized — 774,000,000 shares in 2004 and<br>1,300,000,000 shares in 2003 |                  |                  |                     |
| Issued — 193,646,504 shares in 2004 and<br>668,232,523 shares in 2003.....  |                  |                  |                     |
|   | 13,341           | 33,412           | 125,860             |
| Additional paid-in capital.....   | 9,927            | 212              | 93,650              |
| Retained earnings (deficit) (Note 2).....                                   | (4,441)          | (318,457)        | (41,900)            |
| Unrealized gain on available-for-sale securities.....                       | 1,561            | 928              | 14,728              |
| Treasury stock, at cost.....  | (69)             | (14)             | (651)               |
|   | <u>20,319</u>    | <u>(283,919)</u> | <u>191,687</u>      |
|   | <u>¥ 259,964</u> | <u>¥ 460,736</u> | <u>\$ 2,452,489</u> |

# NON-CONSOLIDATED STATEMENTS OF INCOME

Kumagai Gumi Co., Ltd. (Company Only) Years ended March 31, 2004 and 2003

|   | (¥ million)      |                   | (US \$ thousand)    |
|---|------------------|-------------------|---------------------|
|   | 2004             | 2003              | 2004                |
| <b>NET SALES</b> (Note 2):                                |                  |                   |                     |
| Contracts completed.....                                  | ¥ 269,486        | ¥ 430,873         | \$ 2,542,321        |
| Sales of real estate.....                                 | 6,275            | 12,666            | 59,192              |
|   | <u>275,761</u>   | <u>443,539</u>    | <u>2,601,513</u>    |
| <b>COST OF SALES</b> (Note 2):                            |                  |                   |                     |
| Cost of construction.....                                 | 248,289          | 401,247           | 2,342,348           |
| Cost of real estate.....                                  | 5,459            | 13,247            | 51,498              |
|   | <u>253,748</u>   | <u>414,494</u>    | <u>2,393,846</u>    |
| Gross profit.....   | <u>22,013</u>    | <u>29,045</u>     | <u>207,667</u>      |
| <b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b> ..... | <u>14,764</u>    | <u>23,226</u>     | <u>139,284</u>      |
| Operating income.....                                     | <u>7,249</u>     | <u>5,819</u>      | <u>68,383</u>       |
| <b>OTHER INCOME (EXPENSES):</b>                           |                  |                   |                     |
| Interest and dividend income.....                         | 1,408            | 4,450             | 13,279              |
| Interest expense.....                                     | (3,650)          | (8,232)           | (34,429)            |
| Other, net (Note 9).....                                  | 266,472          | (293,163)         | 2,513,886           |
| <b>Income (Loss) before income taxes</b> .....            | <u>271,479</u>   | <u>(291,126)</u>  | <u>2,561,119</u>    |
| <b>Income taxes</b> (Notes 2 and 10):                     |                  |                   |                     |
| Current.....  | 324              | 280               | 3,061               |
| Deferred.....   | (12,578)         | 29,060            | (118,663)           |
| <b>Net income (loss)</b> .....                            | <u>¥ 283,733</u> | <u>¥(320,466)</u> | <u>\$ 2,676,721</u> |
| <b>PER SHARE OF COMMON STOCK</b> (Note 11):               |                  |                   |                     |
| Net income (loss).....                                    | ¥ 2,128.46       | ¥ (479.93)        | \$ 20.08            |
| Cash dividends applicable to the period.....              | —                | —                 | —                   |

The accompanying notes are an integral part of this statement.



# NON-CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Kumagai Gumi Co., Ltd. (Company Only) Years ended March 31, 2004 and 2003

|  | Number of<br>shares issued<br>(thousand) | Capital<br>stock | Additional<br>paid-in<br>capital | Retained<br>earnings<br>(deficit)<br>(¥ million) | Unrealized<br>gain on<br>available-<br>for-sale<br>securities | Treasury<br>stock |
|--|--|------------------|----------------------------------|--|---|-------------------|
| Balance at March 31, 2002 .....                                    | 668,233                                  | ¥ 33,412         | ¥ 212                            | ¥ 2,009  | ¥ 1,579   | ¥ (5)             |
| Net loss for the year.....   |  |                  |                                  | (320,466)  |   |                   |
| Change in the current period.....                                  |  |                  |                                  |  | (651)   |                   |
| Treasury stock purchased.....                                      |  |                  |                                  |  |   | (9)               |
| Balance at March 31, 2003 .....                                    | 668,233                                  | ¥ 33,412         | ¥ 212                            | ¥ (318,457)                                      | ¥ 928   | ¥ (14)            |
| Capital reduction.....   |  | (30,071)         |                                  | 30,071   |   |                   |
| Reversal of additional paid-in capital.....                        |  |                  | (212)                            | 212  |   |                   |
| Stock binding at a 5-1 ratio.....                                  | (534,586)                                |                  |                                  |  |   |                   |
| Issuance of preferred stock.....                                   | 60,000                                   | 15,000           | 15,000                           |  |   |                   |
| Decrease resulting from divisive<br>reorganization of company..... |  | (5,000)          | (5,073)                          |  |   |                   |
| Net income for the year.....                                       |  |                  |                                  | 283,733  |   |                   |
| Change in the current period .....                                 |  |                  |                                  |  | 633   |                   |
| Treasury stock purchased.....                                      |  |                  |                                  |  |   | (55)              |
| Balance at March 31, 2004 .....                                    | 193,647                                  | ¥ 13,341         | ¥ 9,927                          | ¥ (4,441)  | ¥ 1,561   | ¥ (69)            |

(US \$ thousand)

|  |            |           |                |           |          |
|--|------------|-----------|----------------|-----------|----------|
| Balance at March 31, 2003 .....                                    | \$ 315,204 | \$ 2,004  | \$ (3,004,309) | \$ 8,756  | \$ (133) |
| Capital reduction.....   | (283,684)  |           | 283,684        |           |          |
| Reversal of additional paid-in capital.....                        |            | (2,004)   | 2,004          |           |          |
| Issuance of preferred stock.....                                   | 141,510    | 141,510   |                |           |          |
| Decrease resulting from divisive<br>reorganization of company..... | (47,170)   | (47,860)  |                |           |          |
| Net income for the year.....                                       |            |           | 2,676,721      |           |          |
| Change in the current period .....                                 |            |           |                | 5,972     |          |
| Treasury stock purchased.....                                      |            |           |                |           | (518)    |
| Balance at March 31, 2004 .....                                    | \$ 125,860 | \$ 93,650 | \$ (41,900)    | \$ 14,728 | \$ (651) |

The accompanying notes are an integral part of this statement.

# NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS

Kumagai Gumi Co., Ltd. (Company Only) Years ended March 31, 2004 and 2003

## 1. BASIS OF PRESENTING FINANCIAL STATEMENTS

The accompanying non-consolidated financial statements of KUMAGAI GUMI CO., LTD. (the "Company") have been prepared in accordance with generally accepted accounting principles and practices in Japan. Non-consolidated statements of shareholders' equity have been prepared for the purpose of this Annual Report to supply additional information. In preparing the non-consolidated financial statements for the purpose of inclusion in this Annual Report, certain reclassifications and rearrangements have been made to the financial statements issued domestically in Japan in order to present these statements in a form which is more familiar to the readers of these statements outside Japan. In addition, the notes to the non-consolidated financial statements include information which is not required under generally accepted accounting principles and practices in Japan but is presented herein as additional information for this Annual Report.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Recognition of net sales and related costs

Net sales from and the related costs of construction contracts are recorded mainly by the percentage of completion method. The completed-contract method is applied for certain projects whose construction period is less than one year.

### (b) Foreign currency translations

Short-term and long-term receivables and payables in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. Investments in overseas subsidiaries and affiliates in foreign currencies are translated into Japanese yen at the historical rates of exchange. Overseas accumulated construction cost in progress in foreign currencies (included in inventories) is translated into Japanese yen at the monthly rates of exchange.

### (c) Cash and cash equivalents

Cash and cash equivalents include time deposits which have original maturities of three months or less.

### (d) Time deposits

Time deposits have original maturities of more than three months through one year.

### (e) Marketable and investment securities

The Company listed all the securities as available-for-sale which are stated at fair value, with unrealized gains and losses net of taxes under shareholders' equity section. Cost of sales is determined by the moving-average method.

Other securities are stated at cost.

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**(f) Investments in subsidiaries and affiliates**

Investments in subsidiaries and affiliates are stated at cost.

**(g) Inventories**

Inventories other than materials and supplies are stated at accumulated construction cost for each project. Selling, general and administrative expenses are excluded from such cost. Materials and supplies are stated at cost determined by the moving-average method.

**(h) Property, equipment and depreciation**

Property and equipment, including significant renewals and additions, are carried at cost. The cost of property and equipment retired or otherwise disposed of and accumulated depreciation in respect thereof are eliminated from the related accounts, and the resulting gain or loss is reflected in income. Maintenance and repairs, including minor renewals and improvements, are charged to income as incurred.

Depreciation is computed by the declining-balance method at rates based on estimated useful lives of the assets, according to general class, type of construction and use.

**(i) Accrued severance indemnities**

To provide for employees' severance indemnities, net period pension cost, which represents the amount recognized as the cost of a pension plan for the year, is accounted for based on the projected benefit obligation and the plan assets.

The unrecognized obligation at transition is being amortized by the straight-line method over a period of 15 years.

The adjustment for actuarial assumptions is being amortized by the straight-line method over a period which is less than the average remaining years (9 years) of service of the active participants in the plans. Amortization is computed from the fiscal year subsequent to the year in which the adjustment was recorded.

Prior service cost is being amortized by the straight-line method over a period which is less than the average remaining years (9 years) of service of the active participants in the plans.

**(j) Income taxes**

Income taxes are accounted for by the asset and liability method.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards.

**(k) Appropriations of retained earnings and disposition of deficit**

Appropriations of retained earnings and disposition of deficit are reflected in the accompanying non-consolidated financial statements for the following year upon shareholders approval.

### 3. BUSINESS REVITALIZATION PLAN

In April 2003, the Company developed a "Three-year Structural Reform Plan" ("Plan") based on a divisive reorganization aimed at enabling the Company and its group companies to reform and establish a business structure providing long-term stability and vitality.

Progress made along the lines of this Plan as of this year-end is as follows:

#### I ) Changes in Shareholders' Equity

The original ¥33,412 million (US\$315,204 thousand) in Common stock outstanding was reduced voluntarily by ¥30,071 million (US\$283,684 thousand), resulting in ¥3,341 million (US\$31,520 thousand) in total Common stock outstanding. The ¥30,071 million (US\$283,684 thousand) reduction was credited to cover the resulting capital deficiency on August 5, 2003.

The Company's major financial institution partners accepted shares valued at ¥30,000 million (US\$283,019 thousand) with an effective value date of October 1, 2003 as repayment for loans outstanding.

#### II ) Gains resulting from debt forgiveness

On September 18, 2003, the Company received discharge of debt totaling ¥268,400 million (US\$2,532,076 thousand) from the Sumitomo Mitsui Banking Corporation and other major financial institutions, recording a gain for the same amount in the Company's Statement of Income.

#### III ) Spin-off of real estate businesses

On October 1, 2003, the Company undertook a separation, incorporating a new company called the "New Real Property Corporation" with Common stock of ¥5,000 million (US\$47,170 thousand) and Additional paid-in capital of ¥5,073 million (US\$ 47,860 thousand), with a resulting Company-side reduction of Shareholder's equity. Through this separation, the Company has devolved its real estate business, loan and investment business related to overseas PFI operations, etc., and debt collection business on the newly incorporated company.

#### IV ) Operations integration

The Company and Tobishima Corporation have reached a "Comprehensive Operating Partnership Agreement," the main point of which is to complete operations integration by April 2005 in order to effect the realization of a company with superlative technology and management. The Company reached an agreement with Tobishima Corporation on November 25, 2003 calling for the two companies to continue discussing the form this consolidating integration will take.

As a result, the financial position of the Company has significantly improved as of the March 2004 close of the fiscal year.

### 4. UNITED STATES DOLLAR AMOUNTS

The United States dollar amounts included in the accompanying non-consolidated financial statements are presented solely for convenience and are stated, as a matter of arithmetical computation only, at the rate of ¥106=US\$1, which was the approximate exchange rate at March 31, 2004. These translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into United States dollars at that rate.

### 5. INVENTORIES

Inventories comprised the following:

| <i>March 31, 2004 and 2003</i>         | 2004        | 2003     | 2004             |
|--|-------------|----------|------------------|
|  | (¥ million) |          | (US \$ thousand) |
| Cost of uncompleted contracts.....     | ¥ 11,175    | ¥ 13,796 | \$ 105,424       |
| Real estate for sale .....             | —           | 7,750    | —                |
| Development projects in progress ..... | —           | 20,342   | —                |
| Materials and supplies .....           | 174         | 402      | 1,640            |
|  | ¥ 11,349    | ¥ 42,290 | \$ 107,064       |

**6. LEASES** The lease payments under noncancelable financing leases are accounted for as rental expenses, and no asset or liability (other than a short-term liability for accrued rent payable) relating to the lease is recorded.

**7. PLEDGED ASSETS** Assets pledged as collateral for short-term borrowings and long-term debt were as follows:  
*March 31, 2004*

|  | (¥ million)     | (US \$ thousand)  |
|--|-----------------|-------------------|
| Assets pledged as collateral:                    |                 |                   |
| Investment securities .....                      | ¥ 6,002         | \$ 56,621         |
| Investments in subsidiaries and affiliates ..... | 1,654           | 15,603            |
| Land .....                                       | 7,693           | 72,580            |
| Buildings .....                                  | 2,354           | 22,210            |
| Other investments.....                           | 310             | 2,920             |
|  | <u>¥ 18,013</u> | <u>\$ 169,934</u> |
| Liabilities secured thereby:                     |                 |                   |
| Short-term borrowings and long-term debt .....   | ¥ 4,330         | \$ 40,851         |

**8. ADVANCES RECEIVED ON UNCOMPLETED CONTRACTS** As is the customary practice in Japan, the Company receives progress payments from customers in accordance with the terms of the respective construction contracts.

**9. OTHER, NET IN OTHER INCOME (EXPENSES)** Other, net in other income (expenses) comprised the following:  
*March 31, 2004 and 2003*

|  | 2004             | 2003              | 2004                |
|--|------------------|-------------------|---------------------|
|  | (¥ million)      |                   | (US \$ thousand)    |
| Gain from discharge of debt.....                                   | ¥ 268,400        | ¥ -               | \$ 2,532,076        |
| Gain (loss) on disposal of property and equipment, net.....        | 224              | (686)             | 2,114               |
| Loss on valuation of marketable and investment securities....      | (74)             | (1,374)           | (699)               |
| Gain on sale of marketable and investment securities, net.....     | 186              | 517               | 1,758               |
| Loss on valuation of inventories.....                              | (9)              | (31,240)          | (82)                |
| Loss on valuation of property and equipment.....                   | (35)             | (37,521)          | (331)               |
| Provision for allowance for doubtful accounts.....                 | (2,417)          | (108,083)         | (22,803)            |
| Provision for loss on retirement allowance.....                    | -                | (23,160)          | -                   |
| Provision for allowance for the settlement of development projects | (41)             | (11,934)          | (389)               |
| Loss on valuation of investments in subsidiaries and affiliates..  | (1,596)          | (63,878)          | (15,060)            |
| Foreign exchange loss, net.....                                    | (959)            | (614)             | (9,050)             |
| Other, net .....   | 2,793            | (15,190)          | 26,352              |
|  | <u>¥ 266,472</u> | <u>¥(293,163)</u> | <u>\$ 2,513,886</u> |

**10. INCOME TAXES** Tax effects of significant temporary differences and loss carryforwards that result in deferred tax assets or liabilities were as follows:

| <i>March 31, 2004 and 2003</i>                     | <u>2004</u>      | <u>2003</u>      | <u>2004</u>       |
|--|------------------|------------------|-------------------|
|  | (¥ million)      |                  | (US \$ thousand)  |
| Deferred Tax Assets:                               |                  |                  |                   |
| Inventories.....                                   | ¥ —              | ¥ 26,874         | \$ —              |
| Marketable and investment securities.....          | —                | 51,463           | —                 |
| Property and equipment.....                        | 1,551            | 14,791           | 14,629            |
| Accrued severance indemnities.....                 | 4,101            | —                | 38,687            |
| Provision for loss on retirement allowance.....    | —                | 9,426            | —                 |
| Tax loss carry-forwards.....                       | 100,718          | 141,070          | 950,170           |
| Others.....  | 10,862           | 16,056           | 102,475           |
| Subtotal.....                                      | <u>117,232</u>   | <u>259,680</u>   | <u>1,105,961</u>  |
| Valuation Allowance.....                           | <u>(104,493)</u> | <u>(259,680)</u> | <u>(985,787)</u>  |
| Total.....   | <u>12,739</u>    | <u>—</u>         | <u>120,174</u>    |
| Deferred Tax Assets:                               |                  |                  |                   |
| Unrealized gain on available-for-sale securities.. | (1,072)          | (637)            | (10,108)          |
| Others.....  | (160)            | —                | (1,511)           |
| Total.....   | <u>(1,232)</u>   | <u>(637)</u>     | <u>(11,619)</u>   |
| Net deferred tax assets.....                       | <u>¥ 11,507</u>  | <u>¥ (637)</u>   | <u>\$ 108,555</u> |

**11. PER SHARE DATA**

The weighted average number of common shares used in computing net income per share for the years ended March 31, 2004 and 2003 were as follows:

|            | Number of shares<br>(thousand) |
|------------|--------------------------------|
| 2003 ..... | 667,739                        |
| 2004 ..... | 133,304                        |

**12. CONTINGENT LIABILITIES**

The Company was contingently liable for guarantees of debt of customers, subsidiaries and affiliates, in the amount of ¥5,162 million (US\$48,697 thousand) at March 31, 2004. The guarantees are in respect of loans relating to purchases and development of land for civil engineering and architectural construction projects.



# REPORT OF THE INDEPENDENT PUBLIC ACCOUNTANTS (NON-CONSOLIDATED)

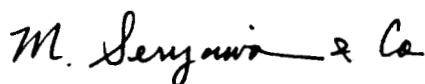
To the Board of Directors of  
Kumagai Gumi Co., Ltd.

We have examined the non-consolidated balance sheets of Kumagai Gumi Co., Ltd. at March 31, 2004 and 2003, and the related non-consolidated statements of income shareholders' equity for each of the two years in the period ended March 31, 2004, expressed in Japanese yen. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-consolidated 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 non-consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the non-financial statements. An audit also includes assessing the accounting principles used and significant estimates made by managements, as well as evaluating the overall non-consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the non-consolidated financial statements referred to above present fairly the financial position of Kumagai Gumi Co., Ltd. at March 31, 2004 and 2003, and the results of their operations for each of the two years in the period ended March 31, 2004, in conformity with generally accepted accounting principles and practices in Japan applied on a consistent basis.

The United States dollar amounts shown in the non-consolidated financial statements referred to above have been translated solely for convenience. We have reviewed this translation and, in our opinion, the non-consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis described in Note 4.



Tokyo, Japan  
June 29, 2004

**M. Serizawa & Co.**  
**Certified Public Accountants**

Shin-Yurakucho Bldg., 12-1, Yurakucho 1-chome, Chiyoda-ku, Tokyo, Japan

## HEAD OFFICE:

2-1, Tsukudo-cho, Shinjuku-ku, Tokyo 162-8557, Japan  
Telephone: 81-3-3235-8641  
Facsimile: 81-3-5229-7090  
(Overseas Division)

## OVERSEAS BRANCHES:

### HONG KONG BRANCH

22nd Floor  
No. 625 King's Road  
North Point, Hong Kong  
Telephone: 852-2203-0888  
Facsimile: 852-2203-0555

### MALAYSIA BRANCH

Level 8, Menara Chan 138  
Jalan Ampang  
50450 Kuala Lumpur,  
Malaysia  
Telephone: 60-3-2166-3211  
Facsimile: 60-3-2167-2373

### THAILAND BRANCH

5th Floor, Chaiyo Building  
91/1 Rama IX Rd  
Huay Kwang, Huay Kwang  
Bangkok 10320,  
Thailand  
Telephone: 66-2246-1560  
Facsimile: 66-2245-7706

### TAIWAN BRANCH

Room No. 1407, 12th Floor  
International Trade Building  
205 Section 1, Tun Hua  
South Road Taipei, Taiwan,  
Republic of China  
Telephone: 886-2-2721-0427  
Facsimile: 886-2-2741-2476

### INDONESIA BRANCH

3A Fl., Setiabudi 2 Bldg.  
Suite 3A05 Jl. H.R. Rasuna  
Said Kav.62, Kuningan,  
Jakarta 12920  
Indonesia  
Telephone: 62-21-525-0900  
Facsimile: 62-21-525-0708

### SINGAPORE BRANCH

210 Middle Road  
#07-04/05 IOI Plaza,  
Singapore 188994  
Telephone: 65-6338-5352  
Facsimile: 65-6337-5082

### PHILIPPINES BRANCH

2nd Floor, S&L Building  
No.101 Dela Rosa Coner,  
Esteban Streets,  
Legaspi Village, Makati City  
Metro Manila, Philippines  
Telephone: 63-2-815-4660  
Facsimile: 63-2-818-1756

### SHANGHAI BRANCH

0710 New Caohejing Tower,  
509 Cao Bao Road,  
Shanghai 200233  
People's Republic of China  
Telephone: 86-21-6485-2498  
Facsimile: 86-21-6485-1487

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**PRINCIPAL SUBSIDIARIES  
AND AFFILIATES:**

**SRI LANKA BRANCH**

Level 2A, Valiant Towers  
46/7 Navam Mawatha  
Colombo 2, Sri Lanka  
Telephone: 94-11-2387424 ~7  
Facsimile: 94-11-2387423

**VIETNAM BRANCH**

Unit 205-207, 2nd Floor,  
V-Tower, 649 Kim Ma Street,  
Ba Dinh District,  
Hanoi, Vietnam  
Telephone: 84-4-7661501  
Facsimile: 84-4-7661506

**PAPUA NEW GUINEA  
BRANCH**

Level 1, Suite 5, Garden City  
Angau Drive, Boroko, NCD,  
Papua New Guinea  
Telephone: 675-3253688  
Facsimile: 675-3250629

**GAEART TK Co., Ltd.**

Head Office: Tokyo, Japan  
President: Yasuo Yamaguchi  
Capital: ¥1,000,000,000  
(US\$9,461,633)  
Major Activities:  
Construction and pavement  
of roads and airports, other  
civil engineering works and  
architecture.

**K&E Co., Ltd.**

Head Office: Tokyo, Japan  
President: Yasushi Higuchi  
Capital: ¥300,000,000  
(US\$2,838,489)  
Major Activities:  
Consulting and reform  
building business  
Installation of building  
equip-  
ment.

**FATEC CO., LTD.**

Head Office: Tokyo, Japan  
President: Takayuki Aono  
Capital: ¥20,000,000  
(US\$189,232)  
Major Activities:  
Sales of construction  
materials and equipment  
developed by Kumagai's  
various technologies.

**Technos Co., Ltd.**

Head Office: Toyokawa  
Aichi, Japan  
President: Yoshiaki  
Nagashima  
Capital: ¥470,000,000  
(US\$4,446,967)  
Major Activities:  
Production and sale of  
construction machinery and  
materials.  
Construction of  
underground diaphragm  
walls and noiseless  
vibration-free piles.

**Taiwan Kumagai Co., Ltd.**

Head Office: Taipei, Taiwan  
Chairman: He Lien Lin  
President: Shizuo Tashiro  
Capital: NT\$311,200,000  
(US\$9,342,537)  
Major Activities:  
Construction business in  
Taiwan.

**Thai Kumagai Co., Ltd.**

Head Office: Bangkok,  
Thailand  
President: Masahiko Fujita  
Capital: B30,000,000  
(US\$757,877)  
Major Activities:  
Construction business in  
Thailand.

Conversion into U.S. dollars  
at the rate of  
¥105.69=US\$1.00  
US\$1.00=Rp8523.38710  
=HK\$7.80000=NT\$33.31001  
=P55.62632=A\$1.32543  
=£0.54736=B39.58427  
(As of March 31, 2004)

# MAJOR CONTRACTS

## Contracts awarded in fiscal 2004:

### CIVIL ENGINEERING

- Route9-Eagle's Nest Tunnel and Associated Works  
Owner: Hong Kong SAR Government, Highways Department
- New Metrorail City Project  
Owner: Public Transport Authority Government of Western Australia
- Second Keihan Highway (Osaka North Road) Kurachi District Lower-Part Structure  
Owner: Ministry of Land, Infrastructure and Transport
- Neyagawa River Daito Central Reservoir Construction Project (Main Structure)  
Owner: Osaka Prefectural Government
- Line No.13 Takada A Line Work Zone Civil Works  
Owner: Tokyo Metro Co., Ltd.

### ARCHITECTURE

- Musashiurawa Station 8-1 District Urban Redevelopment  
Owner: Musashiurawa Station 8-1 District Urban Redevelopment Union
- InnoLux Display Fabrication Building work , Zhu-nan ,Taiwan  
Owner: InnoLux Display Corporation
- Yokohama Minatomirai Manyo Club Construction Project  
Owner: Manyo Club
- Keikyu City Oppama Residential Construction Project  
Owner: Keihin Electric Express Railway Co., Ltd.
- Iwate Prefectural Iwai Hospital, Nanko Hospital Construction Project  
Owner: Iwate Prefectural Government Medical Bureau

## Contracts completed in fiscal 2004:

### CIVIL ENGINEERING

- Tokuyama Dam Construction Project  
Owner: Water Resources Development Public Corporation
- Taipei Metropolitan Rapid Transit System, Tucheng Line CD551  
Owner: Department of Rapid Transit Systems
- Otaki Dam  
Owner: Ministry of Land, Infrastructure and Transport
- Second Tomei Highway Kakegawa Second Tunnel  
Owner: The Japan Highway Public Corporation
- Joban New Line Kotobuki Tunnel  
Owner: Japan Railway Construction, Transport and Technology Agency

### ARCHITECTURE

- Sham Tseng Residential Development  
Owner: Salisbury Company Limited
- Nishi-Kanda 3-chome North West District Urban Redevelopment  
Owner: Nishi-Kanda 3-chome Urban Redevelopment Union
- New City Higashitotsuka Central District B Building Construction Project  
Owner: Mitsui Fudosan Co., Ltd. / ORIX Real Estate Corporation
- Ritsumeikan University, Biwako-Kusatsu Campus, Information, Science and Technology Development Building  
Owner: Ritsumeikan University
- Shinanocho-Danchi Residential Construction Project  
Owner: Urban Development Corporation

## Contracts carried over to fiscal 2004:

### CIVIL ENGINEERING

- Kannagawa Power Generation Plant (Phase I), Civil Works (Headrace Work Zone)  
Owner: Tokyo Electric Power Company
- Delhi Metro Corridor Contract MC1A  
Owner: Delhi Metro Rail Corporation Limited (DMRC)
- Southern Transport Development Project Highway Section From Kurundugahahetekma to Matara  
Owner: Road Development Authority of Sri Lanka
- Oyama Dam Construction Project  
Owner: Ibaraki Prefectural Government
- Kutani Dam Construction Project  
Owner: Ishikawa Prefectural Government

### ARCHITECTURE

- Taipei 101  
Owner: Taipei Financial Center Corporation
- New City Higashitotsuka Central District A Building Construction Project  
Owner: Mitsui Fudosan Co., Ltd.
- City Nokendai B-3 District Construction Project  
Owner: Mitsui Fudosan Co., Ltd.
- Tokyo Horse Race course Stand Rebuilding, Phase II (No.1 Work Zone)  
Owner: Japan Racing Association (JRA)
- Aichi Gakuin University Nissin Campus No.14 Building Construction Project  
Owner: Aichi Gakuin University

## CORPORATE DATA

Date Incorporated:  
January 6, 1938 (Inaugurated in 1898)

Shareholders' Equity:  
¥20,319 million  
(US\$191,687 thousand)  
(As of March 31, 2004)

Major Activities:

1. Engineering, architecture, and general construction
2. Design, manufacture, and sale of construction machinery and equipment
3. Construction-related consulting services

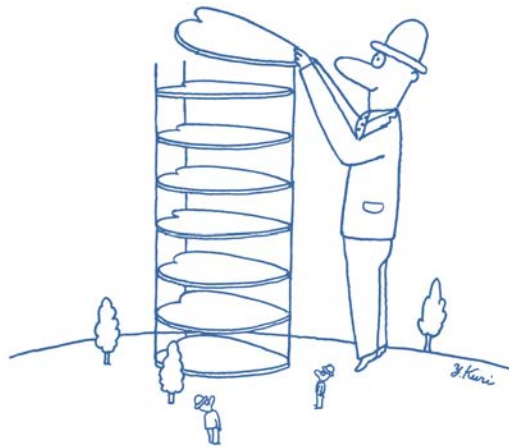
Number of Employees:

|                              |       |
|------------------------------|-------|
| Civil Engineers.....         | 1,024 |
| Architectural Engineers..... | 1,193 |
| Electrical Engineers.....    | 51    |
| Mechanical Engineers.....    | 39    |
| Administrative Staff.....    | 625   |
| Others.....                  | 3     |
| Total.....                   | 2,935 |

(As of March 31, 2004 )

For further information, please contact the  
nearest local branch or the Overseas  
Division at the Head Office.

We build with heart.



**KUMAGAI GUMI CO.,LTD.**

Head Office

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Telephone

81-3-3235-8641

Facsimile

81-3-5229-7090

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