

KUMAGAI GUMAI

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
FOR THE YEAR:			
Net sales	¥ 341,739	¥ 522,337	\$ 3,223,958
Net income (loss)	280,213	(295,903)	2,643,521
AT YEAR-END:			
Total assets	¥ 301,464	¥ 576,030	\$ 2,844,001
Shareholders' equity	33,457	(272,899)	315,633
PER SHARE OF COMMON STOCK (¥ AND US \$):			
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 : 412,500m²
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 Raod : 65km
Road Capacity : 2 lanes

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

Owner : Highways Department
Lemghth of Raod 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 : Sohgoh Real Estate Co., Ltd.
Designer : Nikken Construction Inc.
Structure / scale : S/SRC, 9/2 levels, total floor area of 6,487 m²



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 m²

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
CURRENT ASSETS:			
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>
INVESTMENTS AND OTHER ASSETS:			
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>
PROPERTY AND EQUIPMENT (Note 2):			
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
CURRENT LIABILITIES:			
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>
LONG-TERM LIABILITIES:			
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>
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES	31	404	295
CONTINGENT LIABILITIES (Note 17)			
SHAREHOLDERS' EQUITY:			
Capital stock:			
Authorized — 774,000,000 shares in 2004 and 1,300,000,000 shares in 2003			
Issued — 193,646,504 shares in 2004 and 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
NET SALES (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>
COST OF SALES (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
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES			
	<u>20,257</u>	<u>29,783</u>	<u>191,107</u>
Operating income.....	7,975	8,782	75,233
OTHER INCOME (EXPENSE):			
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
Income (loss) before income taxes and minority interest	<u>268,119</u>	<u>(266,503)</u>	<u>2,529,430</u>
Income taxes (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>
Minority interest in consolidated subsidiaries	1	12	4
Net income (loss)	<u>¥ 280,213</u>	<u>¥ (295,903)</u>	<u>\$ 2,643,521</u>
PER SHARE OF COMMON STOCK (Note 15):			
Net income (loss)	¥ 2,112.45	¥ (444.82)	\$ 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
Cash flows from operating activities:			
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
Cash flows from investing activities:			
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
Cash flows from financing activities:			
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.....			
Increase in cash and cash equivalents.....	(833)	(988)	(7,863)
Cash and cash equivalents at beginning of year.....	5,844	5,945	55,134
Cash and cash equivalents which were succeeded by new company formed through divisive reorganization of company.....	68,065	62,120	642,118
Cash and cash equivalents of subsidiaries excluded from consolidation.....	(3,082)	–	(29,075)
Cash and cash equivalents at end of year.....	(9,384)	–	(88,528)
	¥ 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	<p>(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.</p> <p>(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.</p> <p>(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.</p> <p>(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.</p> <p>(e) Time deposits Time deposits have original maturities of more than three months through one year.</p> <p>(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.</p> <p>(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.</p> <p>(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.</p> <p>(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.</p>
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(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.

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 voluntary 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.

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 (Carrying amount)	Difference
	(¥ million)		
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 (Carrying amount)	Difference
	(¥ million)		
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:

March 31, 2004 and 2003	2004	2003	2004
	(¥ million)		(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:

March 31, 2004 and 2003	2004	2003	2004
	(¥ million)		(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
	<hr/>	<hr/>
	¥ 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.
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9. PLEDGED ASSETS	Assets pledged as collateral for short-term borrowings and long-term debt were as follows: <i>March 31, 2004</i>		
	(¥ 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
		<hr/>	<hr/>
	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.
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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.
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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

As of March 31, 2004 and 2003

	2004 (¥ million)	2003 (¥ million)	2004 (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.....	<u>¥ (13,423)</u>	<u>¥ (2,911)</u>	<u>\$ (126,630)</u>

(2) The components of net periodic benefit costs

For the year ended March 31, 2004 and 2003

	2004 (¥ million)	2003 (¥ million)	2004 (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 the end of a pension plan.....	1,627	—	15,348
Net periodic benefit cost.....	<u>¥ 19,546</u>	<u>¥ 10,388</u>	<u>\$ 184,394</u>

(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:

March 31, 2004 and 2003

	2004 (¥ million)	2003 (¥ million)	2004 (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 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 investment securities.....	(204)	(1,375)	(1,921)
Write-off of investments.....	0	(47)	(1)
Gain on sale of marketable and investment securities, net.....	352	400	3,316
Loss on sale of investments in unconsolidated subsidiaries and affiliates.....	(1,249)	—	(11,784)
Foreign exchange loss,net.....	(977)	(762)	(9,219)
Other, net.....	1,401	(35,956)	13,221
	<u>¥ 263,502</u>	<u>¥ (267,360)</u>	<u>\$ 2,485,872</u>

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							
	<i>Years ended March 31, 2004 and 2003</i>		Construction		Real estate and other		Elimination	Consolidated
			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
Net sales:					(US \$ thousand)			
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	
<i>The following reconciles identifiable assets to total assets:</i>								
					2004		2003	
						(¥ 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 (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:	
March 31, 2004 and 2003	
	2004
	(¥ million)
Purchases	¥ 182
Sales.....	—
	2003
	(US \$ thousand)
¥ 8,697	\$ 1,722
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
	2004	2003	
CURRENT ASSETS:			
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>
INVESTMENTS AND OTHER ASSETS:			
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>
PROPERTY AND EQUIPMENT (Note 2):			
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
	2004	2003	
CURRENT LIABILITIES:			
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>
LONG-TERM LIABILITIES:			
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>
CONTINGENT LIABILITIES (Note 12)			
SHAREHOLDERS' EQUITY:			
Capital stock:			
Authorized — 774,000,000 shares in 2004 and 1,300,000,000 shares in 2003			
Issued — 193,646,504 shares in 2004 and 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
NET SALES (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>
COST OF SALES (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	22,013	29,045	207,667
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES			
Operating income	14,764	23,226	139,284
	<u>7,249</u>	<u>5,819</u>	<u>68,383</u>
OTHER INCOME (EXPENSES):			
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
Income (Loss) before income taxes	271,479	(291,126)	2,561,119
Income taxes (Notes 2 and 10):			
Current.....	324	280	3,061
Deferred.....	(12,578)	29,060	(118,663)
Net income (loss).....	¥ 283,733	¥(320,466)	\$ 2,676,721
PER SHARE OF COMMON STOCK (Note 11):			
Net income (loss).....	¥ 2,128.46	¥ (479.93)	(US\$) 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 shares issued (thousand)	Capital stock	Additional paid-in capital	Retained earnings (deficit) (¥ million)	Unrealized gain on available- for-sale securities	Treasury 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 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 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.

(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 voluntary 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>	<i>2004</i>	<i>2003</i>	<i>2004</i>
	(¥ 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: <i>March 31, 2004</i>		
		(¥ 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
		¥ 18,013	\$ 169,934
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: <i>March 31, 2004 and 2003</i>			
		2004 (¥ million)	2003 —	2004 (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
		¥ 266,472	¥(293,163)	\$ 2,513,886

10. 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.....		4,101	—	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.....		117,232	259,680	1,105,961
Valuation Allowance.....		(104,493)	(259,680)	(985,787)
Total.....		12,739	—	120,174
Deferred Tax Assets:				
Unrealized gain on available-for-sale securities..		(1,072)	(637)	(10,108)
Others.....		(160)	—	(1,511)
Total.....		(1,232)	(637)	(11,619)
Net deferred tax assets.....	¥	11,507	¥ (637)	\$ 108,555

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 (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

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(As of Sep 1, 2004)

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(Overseas Division)

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Facsimile: 66-2245-7706

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

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	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.	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.	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.
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	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.	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.	Thai Kumagai Co., Ltd. Head Office: Bangkok, Thailand President: Masahiko Fujita Capital: B30,000,000 (US\$757,877) Major Activities: Construction business in Thailand.
PAPUA NEW GUINEA BRANCH Level 1, Suite 5, Garden City Angau Drive, Boroko, NCD, Papua New Guinea Telephone: 675-3253688 Facsimile: 675-3250629			Conversion into U.S. dollars at the rate of ¥105.69=US\$1.00 US\$1.00=Rp8523.387100 =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:	Contracts completed in fiscal 2004:	Contracts carried over to fiscal 2004:
CIVIL ENGINEERING	CIVIL ENGINEERING	CIVIL ENGINEERING
<ul style="list-style-type: none"> ■ 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. 	<ul style="list-style-type: none"> ■ 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 	<ul style="list-style-type: none"> ■ 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	ARCHITECTURE	ARCHITECTURE
<ul style="list-style-type: none"> ■ 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 	<ul style="list-style-type: none"> ■ Sham Tseng Residential Development Owner: Salisburgh 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 ■ Shinanochō-Danchi Residential Construction Project Owner: Urban Development Corporation 	<ul style="list-style-type: none"> ■ 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

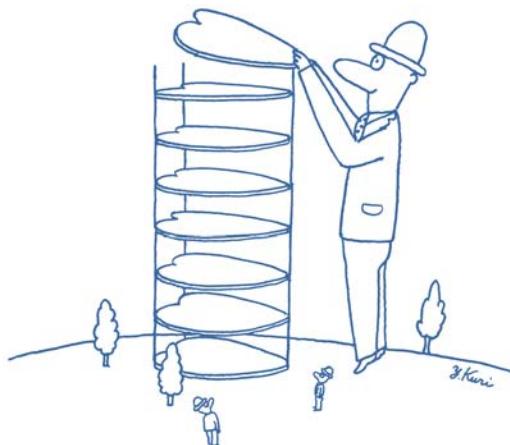
Number of Employees:

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.

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