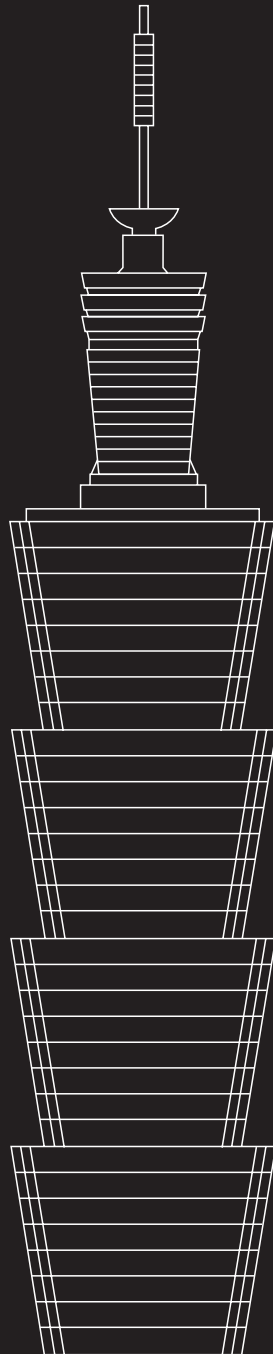


KUMAGAI GUMI

Annual Report
2005



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.

MESSAGE FROM THE PRESIDENT:

Overview of the fiscal year ended March 31, 2005:

The Japanese economy during this period saw improved corporate earnings and a continuing increase in capital investment from the manufacturing sector in particular. These factors, combined with solid personal spending, enabled the economy to continue its gradual improvement.

The construction industry saw increased corporate capital investment in offices and factories, as well as housing investment on a par with last year's levels. Public spending, however, while temporarily increasing as a result of rebuilding projects after this year's torrential rains and earthquakes, ultimately continued to fall, such that in this area new orders continued to be thin.

It was in this operating environment that we entered into the second year of the Three-Year Structural Reform Plan set out in April of 2003, and I am pleased to announce that not only did we succeed in meeting our interest-bearing debt reduction goal a year early, we also cleared our books of carry-over losses, such that we now appear likely to meet the goals of this Plan earlier than originally called for.

The Kumagai Gumi Group's consolidated net sales for this period came to ¥323.3 billion (down 5.4% compared with the previous period).

As regards profits, although our net sales fell, our construction profit margin increased, such that operating profits came to ¥9.7 billion (an increase of 22.7% compared with the previous period). In addition, the contribution from reductions in general and administrative expenses and lower interest payments enabled us to record recurring profits of ¥8.3 billion (up 202.2% compared with the previous period).

Our net profits for this period came to ¥4.3 billion, and we have now cleared our books of all carry-over losses.

Management Strategy:

The Japanese economy faces uncertainty about the impact of higher oil prices, but the corporate sector remains robust. Given these factors, the recovery of the Japanese economy is expected to continue in step with the recovery of the global economy.

In the construction industry, although corporate capital investment is expected to continue to increase, there are concerns that spending on housebuilding will decline due to over-supply. In addition, although temporarily increasing as a result of a supplementary budget for disaster rebuilding projects, public spending at both the national and regional levels is likely to continue to fall in the long-term, such that new orders will likely remain thin in this sector.

Within this operating environment, our company's number-one priority is to achieve the goals set out in our Three-Year Structural Reform Plan, of which this is the final fiscal year. Achieving this plan will allow us to move from "rebuilding" to "rebirth," and we are working to put in place the necessary structures to move into a growth phase after that.

As part of our goal of achieving a compact and maneuverable organizational structure, in April of this year

we consolidated our Corporate Planning and Administration Divisions into a new Administration Division, which joins our Civil Engineering Management and Architectural Management Divisions to give us a three-division structure. We have also created a CSR Promotion Section which reports to the company president in an effort to create a corporate environment optimally conducive to winning the trust of society.

In the area of civil engineering, we are strengthening the links between the technical specialists at our company headquarters and those in our regional branches in order to enable us to propose the latest technologies and win bids in the technologically advanced public works projects which are expected to increase in future. We are making efforts to move into new markets in areas such as public works renewal and mobile projects (including wireless base station construction for mobile phones, etc.), constantly striving to adapt swiftly to the changes in this shrinking market.

In the area of construction, we continue to work to increase our planning strengths, technology sales ability, and after-service programs in order to win the satisfaction of our customers. In addition, we are leveraging our rich experience in this industry to enter into the field of "structural revitalization," aimed at increasing demand for maintenance and renewal projects, as well as projects seeking to unearth new needs in order to realize new fee-based profit streams and win bids in joint venture projects. The goal of these efforts, it goes without saying, is to further strengthen our business base.

We are also strengthening our links with other Group companies operating in areas such as paving, building renovation, construction materials manufacturing, building management, environment-related industries, and external technology sales in order to deliver enhanced consolidated financial results.

The Kumagai Gumi Group slogan is "thrilling the customer," a mission we work to accomplish by consistently aiming to be #1 in the industry from the perspectives of quality, environmental friendliness, and safety. Our hope is to win the trust and satisfaction of everyone with whom we do business by delivering quality structures for our clients and other users to enjoy for many years, and by continuing to develop the technologies that ensure this commitment to quality. In addition, our commitment to being an "open corporation" quick to disclose necessary corporate information is another area in which we are working to win the trust and support of our clients, shareholders, and society at large.



June 2005

Hiroshi Ohta
President



CONSOLIDATED FINANCIAL HIGHLIGHTS

Kumagai Gumi Co., Ltd. and Consolidated Subsidiaries Years ended March 31, 2005 and 2004.

	(¥ million)		(US \$ thousand)
	2005	2004	2005
FOR THE YEAR:			
Net sales	¥ 323,353	¥ 341,739	\$ 3,021,990
Net income	4,388	280,213	41,006
AT YEAR-END:			
Total assets	¥ 276,233	¥ 301,464	\$ 2,581,617
Shareholders' equity	37,955	33,457	354,723
PER SHARE OF COMMON STOCK (¥ AND US \$):			
Net income	¥ 33.18	¥ 2,112.45	\$ 0.31

Note: Conversion into U.S. dollars has been made at the exchange rate of ¥107= US \$1 solely for convenience. Refer to Notes to the Financial Statements.

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FINANCIAL SECTION

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CONSOLIDATED BALANCE SHEETS

Kumagai Gumi Co., Ltd. and Consolidated Subsidiaries March 31, 2005 and 2004

ASSETS	(¥ million)		(US \$ thousand)
	2005	2004	2005
CURRENT ASSETS:			
Cash and cash equivalents (Note 8).....	¥ 49,508	¥ 61,443	\$ 462,691
Time deposits	114	112	1,067
Notes and accounts receivable, trade (Note 8).....	125,441	129,701	1,172,349
Allowance for doubtful accounts.....	(1,728)	(2,208)	(16,151)
Inventories (Note 5).....	14,634	15,193	136,767
Deferred income taxes (Note 12).....	3,927	2,726	36,701
Other current assets.....	25,637	32,675	239,597
	<u>217,533</u>	<u>239,642</u>	<u>2,033,021</u>
INVESTMENTS AND OTHER ASSETS (Note 8):			
Investment securities (Note 4).....	16,666	16,058	155,752
Investments in unconsolidated subsidiaries and affiliates	4,476	4,427	41,832
Long-term loans receivable.....	2,095	1,788	19,579
Long-term loans to unconsolidated subsidiaries and affiliates.....	95	95	892
Long-term receivables.....	2,631	1,790	24,593
Claims to companies in bankruptcy, reorganization, etc.....	1,198	2,534	11,199
Deferred income taxes (Note 12).....	9,245	11,024	86,400
Other.....	9,213	10,109	86,102
Allowance for doubtful accounts.....	(4,136)	(3,388)	(38,654)
	<u>41,483</u>	<u>44,437</u>	<u>387,695</u>
PROPERTY AND EQUIPMENT (Note 8):			
Land.....	11,430	11,395	106,821
Buildings	14,000	13,618	130,841
Machinery and equipment.....	17,245	15,454	161,170
Construction in progress.....	–	7	–
	<u>42,675</u>	<u>40,474</u>	<u>398,832</u>
Accumulated depreciation.....	(25,458)	(23,089)	(237,931)
	<u>17,217</u>	<u>17,385</u>	<u>160,901</u>
	<u>¥ 276,233</u>	<u>¥ 301,464</u>	<u>\$ 2,581,617</u>

The accompanying notes are an integral part of this statement.

LIABILITIES AND SHAREHOLDERS' EQUITY	<div style="text-align: center;">(¥ million)</div>		<div style="text-align: center;">(US \$ thousand)</div>
	2005	2004	2005
CURRENT LIABILITIES:			
Short-term borrowings (Note 6).....	¥ 7,081	¥ 3,065	\$ 66,174
Current portion of long-term debt (Note 6).....	651	12,870	6,088
Notes and accounts payable, trade.....	111,788	111,240	1,044,749
Advances received on uncompleted contracts (Note 9).....	13,232	19,140	123,663
Accrued expenses	2,331	1,726	21,779
Accrued income taxes (Note 12).....	1,041	312	9,732
Employees' savings deposits	2,137	2,167	19,972
Other current liabilities	22,064	32,816	206,208
	<u>160,325</u>	<u>183,336</u>	<u>1,498,365</u>
 LONG-TERM LIABILITIES:			
Long-term debt (Note 6).....	62,615	70,710	585,189
Accrued severance indemnities (Note 10).....	13,561	13,423	126,737
Other long-term liabilities	315	507	2,944
	<u>76,491</u>	<u>84,640</u>	<u>714,870</u>
 MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES.....	1,462	31	13,659
 CONTINGENT LIABILITIES (Note 15)			
 SHAREHOLDERS' EQUITY:			
Capital stock:			
Authorized— 774,000,000 shares in 2005 and 2004			
Issued — 193,646,504 shares in 2005 and 2004.....	13,341	13,341	124,684
Additional paid-in capital.....	9,927	9,927	92,775
Retained earnings.....	12,768	8,492	119,329
Unrealized gain on available-for-sale securities.....	2,211	1,957	20,665
Foreign currency statements translation adjustments	(41)	(69)	(385)
	<u>38,206</u>	<u>33,648</u>	<u>357,068</u>
Treasury stock, at cost.....	(251)	(191)	(2,345)
	<u>37,955</u>	<u>33,457</u>	<u>354,723</u>
	<u>¥ 276,233</u>	<u>¥ 301,464</u>	<u>\$ 2,581,617</u>

CONSOLIDATED STATEMENTS OF INCOME

Kumagai Gumi Co., Ltd. and Consolidated Subsidiaries Years ended March 31, 2005 and 2004

	(¥ million)		(US \$ thousand)
	2005	2004	2005
NET SALES (Note 14):			
Contracts completed.....	¥ 323,353	¥ 319,705	\$ 3,021,990
Sales of real estate and other.....	—	22,034	—
	<u>323,353</u>	<u>341,739</u>	<u>3,021,990</u>
COST OF SALES (Note 14):			
Cost of construction.....	296,723	294,886	2,773,108
Cost of real estate and other.....	—	18,621	—
	<u>296,723</u>	<u>313,507</u>	<u>2,773,108</u>
Gross profit.....	26,630	28,232	248,882
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES			
	<u>16,842</u>	<u>20,257</u>	<u>157,402</u>
Operating income.....	9,788	7,975	91,480
OTHER INCOME (EXPENSE):			
Interest and dividend income	480	1,133	4,487
Interest expense.....	(2,042)	(4,609)	(19,088)
Equity in earnings of affiliates	172	118	1,605
Other, net (Note 11).....	(2,593)	263,502	(24,233)
Income before income taxes and minority interest	<u>5,805</u>	<u>268,119</u>	<u>54,251</u>
Income taxes (Note 12):			
Current.....	972	482	9,088
Deferred.....	370	(12,575)	3,458
	<u>1,342</u>	<u>(12,093)</u>	<u>12,546</u>
Minority interest in consolidated subsidiaries	<u>(75)</u>	<u>1</u>	<u>(699)</u>
Net income	<u>¥ 4,388</u>	<u>¥ 280,213</u>	<u>\$ 41,006</u>
PER SHARE OF COMMON STOCK (Note 13):			
Net income.....	¥ 33.18	¥ 2,112.45	\$ 0.31

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, 2005 and 2004

	Capital stock	Additional paid-in capital	Retained earnings (deficit)	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Treasury stock
	(¥ million)					
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 a 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)
Net income for the year.....			4,388			
Bonuses to directors and corporate auditors...			(1)			
Adjustments of deficit for other.....			(111)			
Change in the current period.....				254	28	
Treasury stock purchased.....						(60)
Balance at March 31, 2005.....	¥ 13,341	¥ 9,927	¥ 12,768	¥ 2,211	¥ (41)	¥ (251)

(US \$ thousand)

Balance at March 31, 2004.....	\$ 124,684	\$ 92,775	\$ 79,366	\$ 18,283	\$ (643)	\$ (1,781)
Net income for the year.....			41,006			
Bonuses to directors and corporate auditors...			(4)			
Adjustments of deficit for other.....			(1,039)			
Change in the current period.....				2,382	258	
Treasury stock purchased.....						(564)
Balance at March 31, 2005.....	\$ 124,684	\$ 92,775	\$ 119,329	\$ 20,665	\$ (385)	\$ (2,345)

CONSOLIDATED STATEMENTS OF CASH FLOWS

Kumagai Gumi Co., Ltd. and Consolidated Subsidiaries Years ended March 31, 2005 and 2004

	(¥ million)		(US \$ thousand)
	2005	2004	2005
Cash flows from operating activities:			
Income before income taxes and minority interest	¥ 5,805	¥ 268,119	\$ 54,251
Depreciation and amortization	1,275	2,625	11,918
Gain from discharge of debt.....	-	(268,400)	-
Increase (decrease) in provision for allowance for doubtful accounts.....	152	(4,504)	1,424
Increase (decrease) in provision for the settlement of development projects..	-	(7,614)	-
Increase (decrease) in accrued severance indemnities.....	(131)	10,535	(1,228)
Increase (decrease) in provision for loss on retirement allowance.....	-	(23,160)	-
Interest and dividends revenue.....	(480)	(1,133)	(4,487)
Interest expenses.....	2,042	4,609	19,088
Exchange losses.....	(218)	631	(2,040)
Equity in earnings of affiliates.....	(172)	(118)	(1,605)
Loss on valuation of marketable and investment securities.....	20	204	189
(Gains) loss on sale of marketable and investment securities, net.....	(153)	898	(1,432)
Loss on disposal of property and equipment.....	184	275	1,719
Loss on valuation of property and equipment.....	9	35	82
(Gains) loss on sale of property and equipment, net.....	123	(183)	1,151
Decrease in notes and accounts receivable.....	8,081	49,311	75,521
Decrease in uncompleted construction costs.....	1,376	2,110	12,859
Decrease in inventories.....	-	3,476	-
Increase (decrease) in notes and accounts payable.....	(3,196)	(46,639)	(29,867)
Increase (decrease) in advances received on uncompleted contracts....	(6,893)	5,636	(64,418)
Decrease in other assets.....	2,918	14,002	27,271
Other, net.....	(5,065)	5,362	(47,340)
Sub-total.....	5,677	16,077	53,056
Interest and dividends received.....	466	1,795	4,359
Interest paid.....	(1,979)	(4,491)	(18,499)
Income tax paid.....	(326)	(568)	(3,045)
Net cash provided by (used in) operating activities	3,838	12,813	35,871
Cash flows from investing activities:			
Disbursements for acquisitions of marketable and investment securities....	(68)	(117)	(640)
Proceeds from sale of marketable and investment securities.....	519	1,954	4,848
Proceeds from sale of investment in consolidated subsidiaries.....	39	471	369
Disbursements for acquisitions of property and equipment	(832)	(4,893)	(7,780)
Proceeds from sale of property and equipment	125	16,764	1,173
Disbursements for loans.....	(1,116)	(7,367)	(10,428)
Proceeds from collection of loans	756	873	7,064
Other, net.....	400	4,824	3,741
Net cash provided by investing activities	(177)	12,509	(1,653)
Cash flows from financing activities:			
Increase (decrease) in short-term borrowings	37	12,260	345
Proceeds from long-term debt.....	-	24,737	-
Disbursements for repayment of long-term debt.....	(16,335)	(81,770)	(152,664)
Proceeds from issuance of new shares.....	-	30,000	-
Other, net.....	(114)	(3,872)	(1,065)
Net cash used in financing activities.....	(16,412)	(18,645)	(153,384)
Translation differences on cash and cash equivalents.....	152	(833)	1,424
Increase (decrease) in cash and cash equivalents.....	(12,599)	5,844	(117,742)
Cash and cash equivalents at beginning of year.....	61,443	68,065	574,232
Cash and cash equivalents which were succeeded by new company formed through divisive reorganization of company.....	-	(3,082)	-
Cash and cash equivalents increased by merger of consolidated subsidiaries.....	730	-	6,823
Cash and cash equivalents of subsidiaries excluded from consolidation	(66)	(9,384)	(622)
Cash and cash equivalents at end of year.....	¥ 49,508	¥ 61,443	\$ 462,691

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, 2005 and 2004

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, eleven of its consolidated subsidiaries and five of its affiliates accounted for applying the equity method as at and for the year ended March 31, 2005.

In fiscal 2005, changes in the scope of consolidation were as follows:

	No. of companies
* Companies excluded from consolidation	-2 : HOUTECH 21 CO.,LTD. Sun F Kogyo Co.,Ltd.
Total	-2

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

Company Name	Fiscal Year- End
GAEART TK Co., Ltd.	31 Mar. 2005
Technos Co., Ltd.	31 Mar. 2005
K&E Co., Ltd.	31 Mar. 2005
Techno-Space Creates Co., Ltd.	31 Mar. 2005
KN Facilities Co., Ltd.	31 Mar. 2005
FATEC CO., LTD.	31 Mar. 2005
Technical Support Co.,Ltd.	31 Mar. 2005
Khiva Limited.	31 Mar. 2005
Taiwan Kumagai Co., Ltd.	31 Dec. 2004
Thai Kumagai Co., Ltd.	31 Dec. 2004
Kumagai Gumi (Malaysia) SDN.BHD.	31 Dec. 2004

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**(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

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

3. 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 ¥107 = US\$1, which was the approximate exchange rate at March 31, 2005. 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.

4. MARKETABLE AND INVESTMENT SECURITIES

The breakdown of available-for-sale securities as of March 31, 2005 is as follows:

	Cost	Fair value (Carrying amount)	Difference
	(¥ million)		
Marketable equity securities.....	¥ 8,802	¥ 12,535	¥ 3,733
Debentures.....	463	463	0
Fund trust and other.....	—	—	—
Total.....	¥ 9,265	¥ 12,998	¥ 3,733
	(US \$ thousand)		
Marketable equity securities.....	\$ 82,265	\$ 117,154	\$ 34,889
Debentures.....	4,326	4,326	0
Fund trust and other.....	—	—	—
Total.....	\$ 86,591	\$ 121,480	\$ 34,889

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

5. INVENTORIES

Inventories comprised the following:

<i>March 31, 2005 and 2004</i>	2005	2004	2005
	(¥ million)		(US \$ thousand)
Cost of uncompleted contracts.....	¥ 14,305	¥ 14,768	\$ 133,687
Materials and supplies.....	329	425	3,080
	¥ 14,634	¥ 15,193	\$ 136,767

6. **SHORT-TERM BORROWINGS AND LONG-TERM DEBT** The weighted average interest rates on short-term bank loans were 1.81% and 1.65% at March 31, 2005 and 2004, respectively.

Long-term debt comprised the following:

March 31, 2005 and 2004

	2005	2004	2005
	(¥ million)		(US \$ thousand)
Loans, principally from banks and insurance, bearing weighted average interest of 2.15% and 2.18% at March 31, 2005 and 2004, respectively.....	¥ 63,266	¥ 83,580	\$ 591,278
Less current portion.....	651	12,870	6,088
	<u>¥ 62,615</u>	<u>¥ 70,710</u>	<u>\$ 585,189</u>

The aggregate annual maturities of long-term debt (including current portion) at March 31, 2005 were as follows:

Years ending March 31

	(¥ million)	(US \$ thousand)
2005.....	¥ 651	\$ 6,088
2006.....	555	5,187
2007.....	1,775	16,590
2008.....	190	1,772
2009 and thereafter.....	60,095	561,641
	<u>¥ 63,266</u>	<u>\$ 591,278</u>

7. **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.

8. **PLEGDED ASSETS** Assets pledged as collateral for short-term borrowings, long-term debt and other obligation were as follows:

March 31, 2005

	(¥ million)	(US \$ thousand)
Assets pledged as collateral:		
Cash and Cash equivalents.....	¥ 100	\$ 935
Notes and accounts receivable, trade.....	300	2,804
Investments and other assets.....	120,039	112,515
Property and equipment.....	9,913	92,646
	<u>¥ 22,352</u>	<u>\$ 208,900</u>
Liabilities secured thereby:		
Short-term borrowings, long-term debt and other obligation.....	¥ 8,328	\$ 77,832

9. 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.

10. 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.

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

As of March 31, 2005 and 2004

	2005	2004	2005
	(¥ million)		(US \$ thousand)
Projected benefit obligation	¥ (29,720)	¥ (30,598)	\$ (277,759)
Fair value of plan assets.....	804	492	7,520
Unrecognized transition obligation.....	11,209	12,330	104,758
Unrecognized prior service cost and actuarial loss....	4,146	4,353	38,744
Net liability.....	¥ (13,561)	¥ (13,423)	\$ (126,737)

(2) The components of net periodic benefit costs

For the year ended March 31, 2005 and 2004

	2005	2004	2005
	(¥ million)		(US \$ thousand)
Service cost.....	¥ 1,421	¥ 2,140	\$ 13,277
Interest cost.....	627	2,859	5,864
Expected return on plan assets.....	(26)	(621)	(241)
Amortization of transitional obligation.....	1,121	6,508	10,476
Amortization of prior service cost and actuarial loss..	599	7,033	5,597
Provision for retirement allowance accompanying the end of a pension plan.....	-	1,627	-
Net periodic benefit cost.....	¥ 3,742	¥ 19,546	\$ 34,973

(3) Assumptions used for the years ended March 31, 2005 and 2004

	2005	2004
Discount rate.....	2.0%	2.0%
Expected rate of return on plan assets	2.0%	2.0%
Amortization period of prior service cost.....	5 to 9 years	5 to 9 years
Recognition period of actuarial gain/loss.....	5 to 9 years	5 to 9 years
Amortization period of transitional obligation.....	15 years	15 years

11. OTHER, NET IN OTHER INCOME (EXPENSES)

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

<i>March 31, 2005 and 2004</i>	2005	2004	2005
	<i>(¥ million)</i>		<i>(US \$ thousand)</i>
Gain from discharge of debt	¥ -	¥ 268,400	\$ -
Loss on disposal of property and equipment, net	(307)	(91)	(2,870)
Loss on valuation of inventories.....	-	(10)	-
Loss on valuation of fixed assets.....	(9)	(35)	(82)
Loss from bad debt.....	(30)	(21)	(281)
Provision for allowance for the settlement of development projects.....	-	(1,277)	-
Provision for allowance for doubtful accounts.....	(2,034)	(1,160)	(19,011)
Provision for retirement allowance.....	-	(1,627)	-
Loss on valuation of marketable and investment securities.....	(20)	(204)	(189)
Gain on sale of marketable and investment securities, net.....	222	352	2,073
Loss on sale of investments in unconsolidated subsidiaries and affiliates.....	(69)	(1,249)	(641)
Foreign exchange loss, net.....	227	(977)	2,121
Other, net.....	(573)	1,401	(5,353)
	¥ (2,593)	¥ 263,502	\$ (24,233)

12. 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, 2005 and 2004</i>	2005	2004	2005
	<i>(¥ million)</i>		<i>(US \$ thousand)</i>
Deferred Tax Assets:			
Loss on valuation of property and equipment.....	¥ 1,522	¥ 1,551	\$ 14,227
Accrued severance indemnities.....	5,341	4,556	49,911
Loss on valuation of golf club membership right and other.....	1,692	1,803	15,812
Tax loss carry-forwards.....	98,957	101,044	924,836
Others.....	8,130	12,584	75,979
Subtotal.....	115,642	121,538	1,080,765
Valuation Allowance.....	(100,720)	(106,127)	(941,309)
Total.....	14,922	15,411	139,456
Deferred Tax Assets:			
Unrealized gain on available-for-sale securities..	(1,538)	(1,380)	(14,374)
Others.....	(212)	(282)	(1,981)
Total.....	(1,750)	(1,662)	(16,355)
Net deferred tax assets.....	¥ 13,172	¥ 13,749	\$ 123,101

13. PER SHARE DATA

The weighted average number of common shares used in computing net income per share for the years ended March 31, 2005 and 2004 were as follows:

	Number of shares (thousand)
2004.....	132,649
2005.....	132,231

14. TRANSACTIONS WITH UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES

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

March 31, 2005 and 2004

	2005	2004	2005
	(¥ million)		(US \$ thousand)
Purchases.....	¥ 285	¥ 182	\$ 2,664
Sales.....	4	-	38

15. 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 ¥642 million (US\$5,999 thousand) at March 31, 2005. The guarantees are in respect of loans relating to purchases and development of land for civil engineering and architectural construction projects.

16. CANCELLATION OF THE MERGER PLAN

The Company and Tobishima Corporation have agreed to cancel the merger plan "Comprehensive Operating Partnership Agreement" and it was signed on November 15, 2004.

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, 2005 and 2004, and the related consolidated statements of income shareholders' equity and cash flows for each of the two years in the period ended March 31, 2005, 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, 2005 and 2004, and the results of their operations and their cash flows for each of the two years in the period ended March 31, 2005, 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 3.

M. Serizawa & Co

Tokyo, Japan
June 29, 2005

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, 2005 and 2004

ASSETS	(¥ million)		(US \$ thousand)
	2005	2004	2005
CURRENT ASSETS:			
Cash and cash equivalents	¥ 45,563	¥ 58,665	\$ 425,822
Time deposits	5	5	47
Notes and accounts receivable, trade	101,886	106,501	952,208
Allowance for doubtful accounts.....	(1,406)	(1,357)	(13,140)
Inventories (Note 4).....	11,553	11,349	107,969
Deferred income taxes (Note 9).....	3,685	2,515	34,440
Other current assets.....	24,292	31,889	227,027
	<u>185,578</u>	<u>209,567</u>	<u>1,734,373</u>
INVESTMENTS AND OTHER ASSETS (Note 6):			
Investment securities	11,716	11,885	109,495
Investments in subsidiaries and affiliates.....	4,752	4,103	44,411
Long-term loans receivable.....	1,624	1,330	15,181
Long-term loans to subsidiaries and affiliates.....	366	542	3,424
Long-term receivable	1,824	1,865	17,046
Claims to companies in bankruptcy, reorganization, etc.....	31	1,545	286
Deferred income taxes (Note 9).....	7,525	8,991	70,322
Other.....	10,182	11,555	95,163
Allowance for doubtful accounts	(1,124)	(2,243)	(10,503)
	<u>36,896</u>	<u>39,573</u>	<u>344,825</u>
PROPERTY AND EQUIPMENT (Note 6):			
Land	7,556	7,693	70,615
Buildings.....	8,705	9,053	81,360
Machinery and equipment.....	6,929	8,728	64,755
Construction in progress	—	3	—
	<u>23,190</u>	<u>25,477</u>	<u>216,730</u>
Accumulated depreciation.....	(12,951)	(14,653)	(121,040)
	<u>10,239</u>	<u>10,824</u>	<u>95,690</u>
	<u>¥ 232,713</u>	<u>¥ 259,964</u>	<u>\$ 2,174,888</u>

The accompanying notes are an integral part of this statement.

LIABILITIES AND SHAREHOLDERS' EQUITY	¥ million		(US \$ thousand)
	2005	2004	2005
CURRENT LIABILITIES:			
Short-term borrowings	¥ 1,172	¥ 1,465	\$ 10,955
Current portion of long-term debt.....	3,995	12,520	37,338
Notes and accounts payable, trade	95,758	98,571	894,931
Advances received on uncompleted contracts (Note 7)	11,145	16,635	104,161
Accrued expenses	2,113	1,608	19,745
Accrued income taxes (Notes 9).....	446	132	4,168
Employees' savings deposits.....	2,130	2,166	19,902
Other current liabilities	20,181	28,765	188,611
	<u>136,940</u>	<u>161,862</u>	<u>1,279,811</u>
LONG-TERM LIABILITIES:			
Long-term debt	59,977	67,200	560,535
Accrued severance indemnities	10,098	10,076	94,377
Other long-term liabilities.....	314	507	2,934
	<u>70,389</u>	<u>77,783</u>	<u>657,846</u>
CONTINGENT LIABILITIES (Note 11)			
SHAREHOLDERS' EQUITY:			
Capital stock:			
Authorized — 774,000,000 shares in 2005 and 2004			
Issued — 193,646,504 shares in 2005 and 2004.....	13,341	13,341	124,684
Additional paid-in capital.....	9,927	9,927	92,775
Retained earnings (deficit)	734	(4,441)	6,854
Unrealized gain on available-for-sale securities.....	1,565	1,561	14,627
Treasury stock, at cost.....	(183)	(69)	(1,709)
	<u>25,384</u>	<u>20,319</u>	<u>237,231</u>
	<u>¥ 232,713</u>	<u>¥ 259,964</u>	<u>\$ 2,174,888</u>

NON-CONSOLIDATED STATEMENTS OF INCOME

Kumagai Gumi Co., Ltd. (Company Only) Years ended March 31, 2005 and 2004

	(¥ million)		(US \$ thousand)
	2005	2004	2005
NET SALES:			
Contracts completed.....	¥ 249,214	¥ 269,486	\$ 2,329,104
Sales of real estate.....	—	6,275	—
	<u>249,214</u>	<u>275,761</u>	<u>2,329,104</u>
COST OF SALES :			
Cost of construction.....	228,240	248,289	2,133,086
Cost of real estate.....	—	5,459	—
	<u>228,240</u>	<u>253,748</u>	<u>2,133,086</u>
Gross profit.....	<u>20,974</u>	<u>22,013</u>	<u>196,018</u>
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES			
	<u>12,821</u>	<u>14,764</u>	<u>119,823</u>
Operating income	<u>8,153</u>	<u>7,249</u>	<u>76,195</u>
OTHER INCOME (EXPENSES):			
Interest and dividend income.....	415	1,408	3,881
Interest expense	(1,969)	(3,650)	(18,401)
Other, net (Note 8).....	(808)	266,472	(7,550)
Income (Loss) before income taxes	<u>5,791</u>	<u>271,479</u>	<u>54,125</u>
Income taxes (Note 9):			
Current.....	322	324	3,010
Deferred.....	(294)	12,578	(2,752)
	<u>616</u>	<u>(12,254)</u>	<u>5,762</u>
Net income	<u>¥ 5,175</u>	<u>¥ 283,733</u>	<u>\$ 48,363</u>

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, 2005 and 2004

	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, 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 a 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)
Net income for the year.....				5,175		
Change in the current period					4	
Treasury stock purchased.....						(114)
Balance at March 31, 2005.....	193,647	¥ 13,341	¥ 9,927	¥ 734	¥ 1,565	¥ (183)

(US \$ thousand)

Balance at March 31, 2004.....	\$ 124,684	\$ 92,775	\$ (41,509)	\$ 14,590	\$ (644)
Net income for the year.....			48,363		
Change in the current period				37	
Treasury stock purchased.....					(1,065)
Balance at March 31, 2005.....	\$ 124,684	\$ 92,775	\$ 6,854	\$ 14,627	\$ (1,709)

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, 2005 and 2004

-
- 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

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

3. 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 ¥107=US\$1, which was the approximate exchange rate at March 31, 2005. 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.

4. INVENTORIES

<i>March 31, 2005 and 2004</i>	2005	2004	2005
	(¥ million)		(US \$ thousand)
Cost of uncompleted contracts.....	¥ 11,474	¥ 11,175	\$ 107,232
Materials and supplies	79	174	737
	¥ 11,553	¥ 11,349	\$ 107,969

5. 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.

6. PLEDGED ASSETS

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

<i>March 31, 2005</i>	(¥ million)	(US \$ thousand)
	Assets pledged as collateral:	
Investment and other assets.....	¥ 7,703	\$ 71,993
Property and equipment.....	9,540	89,160
	¥ 17,243	\$ 161,153
Liabilities secured thereby:		
Short-term borrowings, long-term debt and other obligation	¥ 3,665	\$ 34,256

7. 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.

8. OTHER, NET IN OTHER INCOME (EXPENSES)	Other, net in other income (expenses) comprised the following: <i>March 31, 2005 and 2004</i>	2005	2004	2005
		(¥ million)		(US \$ thousand)
		¥	¥	\$
	Gain from discharge of debt.....	–	268,400	–
	Gain (loss) on disposal of property and equipment, net.....	(12)	224	(112)
	Loss on valuation of marketable and investment securities....	(14)	(74)	(136)
	Gain on sale of marketable and investment securities, net....	197	186	1,841
	Loss on valuation of inventories.....	–	(9)	–
	Loss on valuation of property and equipment.....	(1)	(35)	(12)
	Provision for allowance for doubtful accounts.....	(535)	(2,417)	(4,996)
	Provision for allowance for the settlement of development projects	–	(41)	–
	Loss on valuation of investments in subsidiaries and affiliates..	–	(1,596)	–
	Foreign exchange (loss), net.....	253	(959)	2,366
	Other, net.....	(696)	2,793	(6,501)
		<u>¥ (808)</u>	<u>¥ 266,472</u>	<u>\$ (7,550)</u>

9. 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, 2005 and 2004</i>			
	2005	2004	2005	
	(¥ million)		(US \$ thousand)	
Deferred Tax Assets:				
	Loss on valuation of property and equipment.....	¥ 1,522	¥ 1,551	\$ 14,227
	Accrued severance indemnities	4,110	4,101	38,412
	Loss on valuation of golf club membership right and other.....	1,606	1,695	15,008
	Tax loss carry-forwards.....	97,879	100,718	914,760
	Others.....	5,810	9,167	54,299
	Subtotal.....	110,927	117,232	1,036,706
	Valuation Allowance	(98,563)	(104,493)	(921,156)
	Total.....	<u>12,364</u>	<u>12,739</u>	<u>115,550</u>
Deferred Tax Assets:				
	Unrealized gain on available-for-sale securities.....	(1,074)	(1,072)	(10,039)
	Others.....	(80)	(160)	(749)
	Total.....	<u>(1,154)</u>	<u>(1,232)</u>	<u>(10,788)</u>
	Net deferred tax assets.....	<u>¥ 11,210</u>	<u>¥ 11,507</u>	<u>\$ 104,762</u>

10. PER SHARE DATA

The weighted average number of common shares used in computing net income per share for the years ended March 31, 2005 and 2004 were as follows:

	Number of shares (thousand)
2004	133,304
2005	132,849

11. CONTINGENT LIABILITIES

The Company was contingently liable for guarantees of debt of customers, subsidiaries and affiliates, in the amount of ¥3,065 million (US\$28,642 thousand) at March 31, 2005. The guarantees are in respect of loans relating to purchases and development of land for civil engineering and architectural construction projects.

12. CANCELLATION OF THE MERGER PLAN

The Company and Tobishima Corporation have agreed to cancel the merger plan "Comprehensive Operating Partnership Agreement" and it was signed on November 15, 2004.

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, 2005 and 2004, and the related non-consolidated statements of income shareholders' equity for each of the two years in the period ended March 31, 2005, 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, 2005 and 2004, and the results of their operations for each of the two years in the period ended March 31, 2005, 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 3.

M. Serizawa & Co

Tokyo, Japan
June 29, 2005

M. Serizawa & Co.
Certified Public Accountants

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2-1, Tsukudo-cho, Shinjuku,
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

23rd Floor, Le Concorde
Tower 202, Rachadapisek
Road, Huaykwang, Bangkok
10320 Thailand
Telephone: 66-2694-1190/94
Facsimile: 66-2694-1195

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
#07-04/08 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

**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**

Section 427, Allotment 3,
Islander Drive, Waigani NCD
Papua New Guinea
Telephone: 675-325-3688
Facsimile: 675-325-0629

GAEART TK Co., Ltd.

Head Office: Tokyo, Japan
President: Toshikazu Fujii
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
equipment.

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
President: Shizuo Tashiro
Capital: NT\$301,200,000
(US\$9,480,944)
Major Activities:
Construction business in
Taiwan.

Thai Kumagai Co., Ltd.

Head Office: Bangkok,
Thailand
President: Masahiko Fujita
Capital: B30,000,000
(US\$762,641)
Major Activities:
Construction business in
Thailand.

(As of March 31, 2005)

Conversion into U.S. dollars
at the rate of
¥107.39=US\$1.00
US\$1.00=NT\$31.76899
=B39.33700

(As of March 31, 2005)

MAJOR CONTRACTS

Contracts awarded in fiscal year 2005:

CIVIL ENGINEERING

- Tokuyama Dam Construction Project, Phase 3 Construction
Owner: Japan Water Agency
- Isawa Dam, Rude Ore Mountain Material Mining (Phase I) Construction Project
Owner: Ministry of Land, Infrastructure and Transport, Tohoku Regional Development Bureau
- Kenodo Expressway Shiroyama Hachioji Tunnel (Part 1) Construction Project
Owner: Ministry of Land, Infrastructure and Transport, Kanto Regional Development Bureau
- New Tomei Expressway Inasa Junction North Construction Project
Owner: Japan Highway Public Corporation Shizuoka Construction Bureau
- Tomishiro Tunnel (Part 1) Construction Project
Owner: Okinawa General Bureau

ARCHITECTURE

- Itoyacho Project (Tentative Name) Construction
Owner: Daikyo Inc., Kanden Fudosan Co., Ltd.
- Teyose District Class 1 Urban Redevelopment Project Facilities Buildings Construction
Owner: Teyose District Urban Redevelopment Project Union
- Gardens Court Musashikosugi Construction
Owner: Mistui Fudosan Co., Ltd.
- Masuda Station District Construction, Class 1 Urban Redevelopment Project Facilities Buildings (buildings A and C) Construction
Owner: Masuda City
- Kobe Diesel Co., Ltd. Headquarters Factory Construction Project
Owner: Kinki Ryoju Estate Co., Ltd.

Contracts completed in fiscal year 2005:

CIVIL ENGINEERING

- Ookitagawa River Comprehensive Development Project No. 1-1, Oyama Dam Construction Project
Owner: Ibaraki Prefectural Government
- New Tomei Expressway Fujigawa Tunnel West (Part 3) Construction Project
Owner: Japan Highway Public Corporation Shizuoka Construction Bureau
- Kandagawa River Circular Route 7 Subsurface Reservoir (Phase 2) Shield Construction Project
Owner: Finance Department of Tokyo Metropolitan Government
- Waste Disposal and Treatment Facility Construction Project, Maenosho Community Plant Construction
Owner: Yumesaki-town
- Fukuikoei Station 2BL Construction & 2 Other Projects
Owner: West Japan Railway Company

ARCHITECTURE

- Park City Nokendai Broad Air Construction Project
Owner: Mistui Fudosan Co., Ltd.
- Keikyuu City Oppama Collective Housing Construction Project
Owner: Keihin Electric Express Railway Co., Ltd., Keihin Real Estate Co., Ltd.
- The New Medical City Project
Owner: The Medical City
- Tokyo Horse Race Course Spectators' Stands Reconstruction Project, Phase II (Zone 1)
Owner: Japan Racing Association (JRA)
- HannStar FAB III Project
Owner: HannStar Display Corp.

Contracts carried over to fiscal year 2006:

CIVIL ENGINEERING

- New Metrorail City Project
Owner: Western Australia Public Transport Authority
- Civil Engineering Works (Channel Zone) for Kannagawa Power Station Construction Project (Phase 1)
Owner: The Tokyo Electric Power Company, Inc.
- Route8-Eagle's Nest Tunnel and Associated Works Project
Owner: The Government of Hong Kong SAR, Highways Department
- Zone SJ 11 (4) _ Zone 31 (Outer Route) Tunnel Construction Project
Owner: Metropolitan Expressway
- Daishojigawa River Comprehensive Development, Kutani Dam Construction Project
Owner: Ishikawa Prefectural Government

ARCHITECTURE

- Taipei Financial Center (TAIPEI 101) Project
Owner: Taipei Financial Center Corporation
- New City Higashitotsuka (Tentative Name), Central District, Building A Construction Project
Owner: Mitsui Fudosan Co., Ltd.
- Musashiurawa Station, District 8-1, Urban Redevelopment Project, Facility Building Construction
Owner: Musashiurawa Station District 8-1 Urban Redevelopment Union
- Yokohama Minato Mirai Manyo Club (Tentative Name) Construction Project
Owner: Manyo Club Co., Ltd.
- Tosabori Park Tower (Tentative Name) Construction Project
Owner: Mitsui Fudosan Co., Ltd.

CORPORATE DATA

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

Shareholders' Equity:
¥25,384 million
(US\$237,231 thousand)
(As of March 31, 2005)

Major Activities:

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

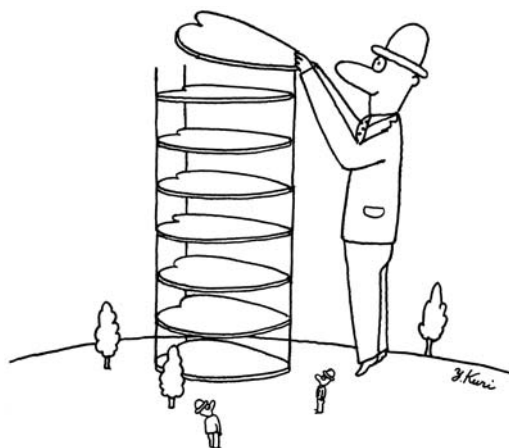
Number of Employees:

Civil Engineers.....	946
Architectural Engineers.....	1,084
Electrical Engineers.....	45
Mechanical Engineers.....	36
Administrative Staff.....	567
Others.....	3
Total.....	2,681

(As of March 31, 2005)

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

We build with heart.



KUMAGAI GUMI

Head Office

2-1, Tsukudo-cho, Shinjuku-ku Tokyo 162-8557, Japan

Telephone

81-3-3235-8641

Facsimile

81-3-5229-7090

<http://www.kumagaigumi.co.jp>