Business Performance

1. Summary of Business Performance for the Financial Year from April 1, 2004 to March 31, 2005

OVERVIEW

While the Japanese economy did enter a “soft patch” toward the latter half of the period, weakening export performance and inventory adjustments in the IT sector were offset by strong corporate earnings and capital expenditures. Coupled with a slight uptick in jobs and payroll, the economy overall appears to be holding up.

This period saw domestic construction markets bottom out in the aggregate. Active investments in manufacturing and urban real estate drove the growth of private-sector construction, while the expansion of Haneda Airport and reconstruction activities following natural disasters helped shore up the otherwise weak public works demand.

This, in our view, may represent a kind of cyclical improvement that does not change the secular downtrend in domestic construction demand. We thus believe that general contractors will continue to face severe market conditions.

Against this economic backdrop, the Companies worked to achieve the goals in the Medium-Term Business Plan, a three-year effort through March 31, 2006, aiming to build a business platform that is strong enough to generate the required return on investment consistently.

Consolidated construction contract awards reached ¥1,619.3 billion, up 23.4% year on year, primarily due to an increase in building contract awarded to the Company and its consolidated overseas subsidiaries. Non-consolidated construction contract awards came in at ¥1,339.3 billion, up 22.6% year on year, with ¥343.6 billion from civil works, up 19.0%, and ¥995.6 billion from building construction works, up 23.9%, respectively, year on year.

Consolidated revenues for this financial year came in at ¥1,687.3 billion, up 4.0% from last year, reflecting the increase in construction revenues of consolidated overseas subsidiaries.

Despite the year-on-year drop of gross profit by 2.6% due to construction segment underperformance by consolidated overseas subsidiaries, consolidated operating income advanced to ¥47.1 billion, up 1.5% from last year, due to the successful reduction of selling, general and administrative expenses of the Company and its consolidated subsidiaries as well as to the better non-operating income/expense results. Consolidated net income of ¥13.2 billion (as opposed to a consolidated net loss of ¥4.4 billion last year) resulted even after the extraordinary loss of ¥24.4 billion, including ¥1.7 billion in impairment loss recorded in connection with the early adoption of Accounting Standard for Impairment of Fixed Assets and ¥15.3 billion in loss on restructuring of affiliates.

SEGMENT PERFORMANCE

(a) Construction Operations

Consolidated revenues rose to ¥1,375.8 billion, up 4.4% from last year, primarily attributable to the rise in revenue to the Company and its consolidated overseas subsidiaries.

Consolidated gross profit on completed projects for this period declined to ¥102.6 billion, down ¥3.0 billion from last year. While gross profit declined sharply in overseas subsidiaries, the Company achieved higher gross profit. The Company’s gross profit margin for this period improved to 9.1% from 8.2% last year.

Consolidated operating income climbed to ¥27.1 billion, up 12.3% from last year, due to the successful reduction of selling, general and administrative expenses.

(b) Real Estate Operations

Consolidated revenues from real estate operations climbed to ¥204.2 billion, up 9.7% from last year, reflecting the sale of a large-scale real estate development project posted by the Company. Consequently, consolidated operating income came in at ¥19.5 billion, up 21.8% from last year.

(c) Other Operations

Other segments, consisting mainly of processed construction materials and design/engineering and property management services, reported consolidated revenues of ¥107.3 billion (down 9.2% from last year) and consolidated operating income of ¥0.6 billion, down 34.1% against last year.

2. Declaration of Dividends

We plan on declaring an ordinary annual payout of ¥6.0 per share, up ¥1.0 from the initial plan (with the semiannual payout remaining at ¥2.5).

3. Business Performance Forecast for the Full Financial Year

Although the slow-growing Japanese economy may eventually reaccelerate onto a full-fledged growth path, the current global economic uncertainties point to a near-term likelihood of Japan remaining in a “soft patch.”

Domestic construction demand may suffer as some concern exists that both business and residential investments could weaken in the months ahead while the public works volume tends to continue shrinking. On the brighter side, construction demand is expected to grow in such sub-markets as urban renewal, private finance initiative (PFI) projects as well as natural hazard mitigation and environmental protection.

Finally, the Company projects its consolidated financial performance for the financial year ending March 31, 2006 as follows:

Revenues are projected at ¥1,640 billion, down 2.8% from the preceding year. Net income is projected at ¥24 billion, based on an anticipated improvement in net income of consolidated companies and the lower real estate sales anticipated for the coming year as fewer large-scale real estate projects are scheduled for completion.

The above projections/forecasts are based on information available as of the release of this document and are subject to risks and uncertainties that may cause the actual results to vary.

Risk Factors

Investors should consider the following risk factors before making any decision concerning the Group. Forward-looking statements contained herein are based on judgments made as of March 31, 2005. The Group companies seek to mitigate, as much as practically possible, the impact that these various risks and uncertainties may have on their business performance by removing, diversifying and/or hedging them.

(1) Changes in Market Conditions

Should market conditions change beyond what we currently assume (e.g., steep declines in construction demand, upsurges in construction material prices, major fluctuations of real estate markets), the Group's business performance and financial conditions may turn out to be materially different from our projections and forecasts.

(2) Fluctuations of Interest Rates and Foreign Exchange Rates

Interest rate spikes and/or foreign exchange volatility may cause the Group's business performance and financial conditions to differ from our projections and forecasts.

(3) Asset Value Fluctuations

Should the prices of assets owned by the Group (e.g., real estate for sale and marketable securities) or the cash flow from the income-producing properties drop substantially, the Group's business performance and financial conditions may turn out to be materially different from our projections and forecasts.

(4) Changed Political/Economic Conditions of Foreign Countries

The Group companies conduct business in foreign countries including the United States and countries in Europe and Asia. Should political/economic conditions or the legal systems in these countries change beyond what we currently assume, the Group's business performance and financial conditions may turn out to be materially different from our projections and forecasts.

(5) Changes Affecting PFI Projects

Should changes beyond what we currently assume occur that affect PFI projects during the course of their long-term operation, the Group's business performance and financial conditions may turn out to be materially different from our projections and forecasts.

(6) Deferred Income Tax Assets

Although we expect deferred income tax assets outstanding as of March 31, 2005 to be fully utilized to offset the Group's future taxable income, changes in tax laws may partially prevent the Group from doing so.

(7) Legal Restrictions

The Group companies operate in the construction industry where the companies are required to comply with various statutes including Construction Business Act, Building Standard Act, Real Estate Business Transaction Act, Land Use Planning Act, Urban Planning Act and Antitrust Law. Should there be changes to or abolitions of the above laws, the imposition of new legal constraints, or changes to the applicable standards, the Group's business performance and financial conditions may turn out to be materially different from our projections and forecasts.