Toyo Engineering Corporation

Annual Report 2004

Year ended March 31, 2004

Corporate Profile

For more than four decades, Toyo Engineering Corporation (TOYO) has been serving clients worldwide through its expertise in plant engineering. Flexibility has defined the Company's operations over the years; TOYO has constantly responded to market needs, shifting quickly in terms of market segments, geographic regions, project types and contract schemes. To date, TOYO has completed more than 1,400 projects around the world.

Comprehensive engineering technology and project management capabilities are our core strengths. TOYO is further distinguished by expertise in leveraging cutting-edge technology, adopting a global networking perspective and building optimum alliances. Backed by these strengths, we are dedicated to reflecting in each and every project our corporate philosophy of "providing total solutions that ensure the satisfaction and success of our clients."

Contents

FY2004 Highlights

Financial Summary

	Millions of yen		Thousands of U.S. dollars*
	2004	2003	**2004**
Net sales	**¥170,529**	¥179,168	**$1,613,484**
New orders	**241,528**	195,160	**2,285,249**
Backlog of contracts at end of the year	**350,574**	307,817	**3,317,007**
Net loss	**6,491**	923	**61,418**
Total assets	**201,133**	199,494	**1,903,047**
Total shareholders' equity	**24,724**	29,694	**233,930**
Per share data (in yen and U.S. dollars):			
Net loss	**37.00**	5.27	**0.35**

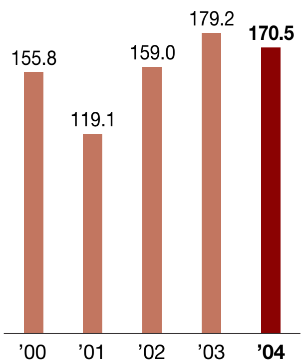
*U.S. dollar amounts are stated at ¥105.69 to $1, the exchange rate prevailing on March 31, 2004.

Operational Summary

- Revenue and earnings declined primarily due to increased losses on a petrochemical project in the Middle East.
- New orders totaled ¥241.5 billion, exceeding the year's target, supported by large orders for energy-related projects in Russia and Iran.
- Solid operating cash flows led to reduce interest-bearing debt by ¥16.0 billion, well above the target of ¥10.0 billion.

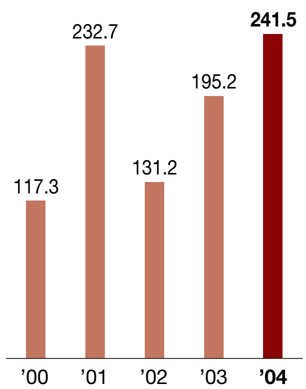
Net Sales

(¥ billion)



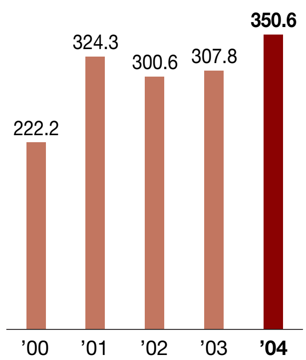
New Orders

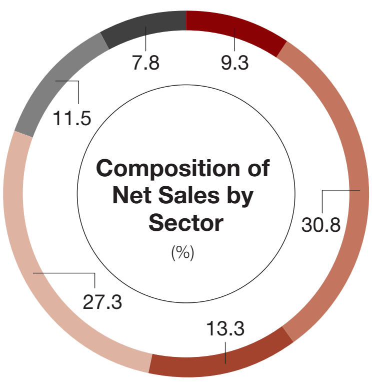
(¥ billion)

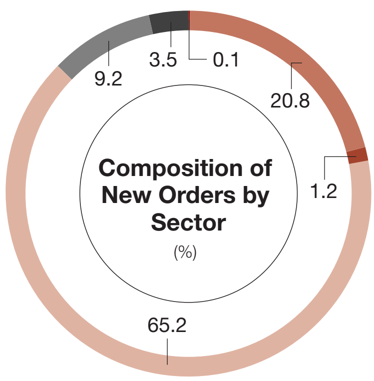


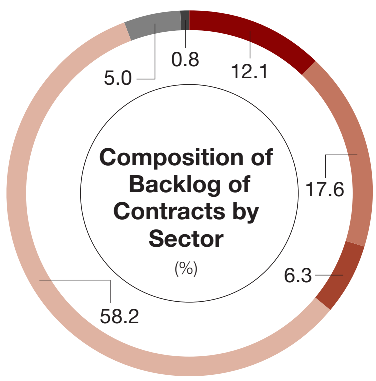
Backlog of Contracts

(¥ billion)









Chemical Fertilizers | Petrochemicals | Refinery | Energy-Related | General Manufacturing Facilities and Information Technology | Others

A Letter from the President

On May 1, 2004, Toyo Engineering Corporation (TOYO) reformed its management framework and entered a new stage of corporate development under my leadership as newly nominated president and chief executive officer.

Our most important objective is to restore the Company to normal profitability by achieving our profit target in fiscal 2005, ending March 31, 2005, and to realize sustainable growth in the following years.

I am strongly aware that accomplishing this objective is my principal mission as chief executive officer. I am eager to transform TOYO into a company that is trusted by its clients through the success of every project we undertake and is seen as a reliable long-term partner.

We, at TOYO, strive to be a continuously evolving company that can assist in generating new forms of value for clients while responding to the constantly changing nature of our business operations.

Yutaka Yamada
President and Chief Executive Officer

President & CEO, Yutaka Yamada

Fiscal 2004 Operating Environment and Operating Results

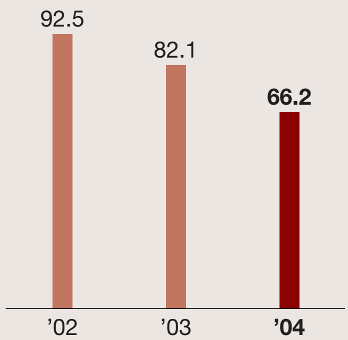
Operating Environment

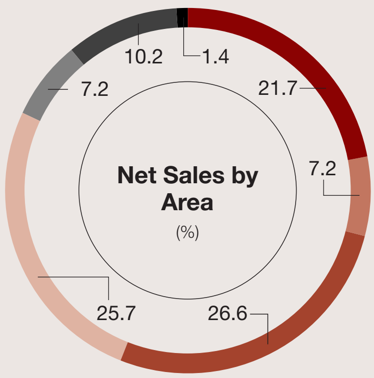
During fiscal 2004, ended March 31, 2004, overseas market was brisk, mainly due to active investment in natural gas-related projects in the energy sector, despite the unstable international situation, including the Middle East. However, in Asia, one of our core markets, the business environment remained generally sluggish and capital investment was slow, except in China. Regarding the domestic market, Japan's oil and petrochemical companies are increasing investments in China to enhance competitiveness. Also, the pharmaceutical industry made new investments in multi-purpose plants. In the IT-related sector, competition heated up as the cycle of brisk investment neared the end.

New Orders

Consolidated new orders rose above the previous year's level to ¥241.5 billion, consisting of ¥195.5 billion in overseas orders and ¥46.0 billion in domestic orders, allowing us to achieve our original target for fiscal 2004. Overseas, there were two very large orders received, one each with Chiyoda Corporation and JGC Corporation. One is for the construction of an LNG plant in Sakhalin, Russia, our first LNG project. The other is for the construction of a gas processing plant in Iran. Other significant orders included follow-up orders for a large ethylene oxide / ethylene glycol (EO/EG) plant in Saudi Arabia and for the world's largest fuel-use DME plant in China. These achievements reflect the clients' appreciation of TOYO's excellent project execution record and advanced technologies. In Japan, TOYO received an order for a large aniline plant and several orders from Japanese clients setting up operations in China.

Interest-Bearing Debt
(¥ billion)





(¥ billion)

Japan	37.1
Southeast Asia	12.3
Southwest Asia and Africa	45.3
Russia and Central Asia	43.8
Central and South America	12.2
China	17.4
U.S.A., Korea and Others	2.4

Revenue and Earnings

Consolidated net sales decreased ¥8.6 billion, or 4.8% from the previous year, to ¥170.5 billion, representing domestic sales of ¥37.1 billion and overseas sales of ¥133.4 billion. An operating loss of ¥3.3 billion and a net loss of ¥6.5 billion were recorded, primarily due to increased losses on a petrochemical plant project in the Middle East. However, operating cash flows were solid, providing adequate funds to reach TOYO's March 2005 debt reduction target one year ahead of schedule.

A Strategy for Sustainable Growth

The Strengths That Define TOYO

Flexibility to Respond to Shifts in Market Needs

For the past four decades, TOYO has constantly been responding to market needs, shifting quickly in terms of product lineup, geographic area, project types and other aspects of operations to match the changing needs of its clients. Thanks to this flexibility, we have completed more than 1,400 projects in 50 countries. By constantly drawing on this wealth of experience, we are continuously working to meet an increasingly diverse spectrum of client needs and to ensure the satisfaction of clients.

High Performance in Both EPC* and Technology

TOYO is an organization with two strong orientations, EPC and technology, key strengths that set it apart from competitors. As a construction- and commissioning-oriented EPC company, we are uniquely positioned to handle turnkey EPC projects. As a technology-oriented company, we can undertake front-end engineering designs (FEED) and co-create advanced technologies with our clients through R&D Engineering.

* EPC: Engineering, Procurement, Construction

Marketing Strategy

TOYO will develop business operations based on the marketing strategy described below to acquire a certain level of orders for preserving profitability and to invest the development of its next core businesses.

High Priority on the Energy Sector

TOYO is now vigorously involved in gas processing, pipeline and LNG-related projects as well as oil and gas development and alternative clean energy projects, such as gas-to-liquid (GTL) and dimethyl ether (DME). We will continue to pursue energy-related projects as our primary business field.

Intensified Sales Activities for Our Distinctive Petrochemical and Fertilizer Technologies

TOYO will actively pursue sales activities for distinctive technologies to meet growing client needs such as those for Olefins Conversion Technology (OCT) licensed by ABB Lummus Global Inc. for modifying ethylene plants to increase production of propylene, which is in high demand, and TOYO's proprietary technology for energy-saving and large-granule urea production.

Focus on Non-Hydrocarbon Investments and Facilities

We will increasingly seek opportunities in investments and facilities for non-hydrocarbon fields such as water and electricity. Population growth and expanding economies are creating high demand for these investments, which require our project management and risk analysis capabilities as well as regional know-how for project success.

Provision of Total Lifecycle Solutions

Going beyond the construction of facilities, we want to offer clients total lifecycle solutions, including consultation for investment planning and operations and maintenance (O&M).

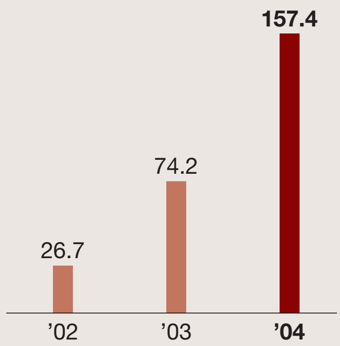
Business Development in Japan Centered on Client-Oriented Proposals

In Japan, we plan to expand business by utilizing our capabilities in client-oriented proposals to assist Japanese clients in setting up operations in China and provide R&D Engineering and e-solutions corresponding to client needs for structural reforms and advanced technology development.

Upgrade Technological and Product Capabilities Rooted in TOYO's Own Processes

We will use our proprietary process technologies—synthesis gas generation technology, large-scale methanol technology and DME technology—to differentiate ourselves and win more orders. One example is the world's first commercial DME plant for fuel-use in China.

New Orders in the Energy-Related Field
(¥ billion)



Outlook for Fiscal 2005

Prospects for New Orders

In fiscal 2005, we foresee a continuation in adverse market conditions due to such factors as the appreciation of the yen, a strong euro, high prices for steel, and other negative trends. On the other hand, we foresee substantial investments in gas processing and other energy-related facilities in South America, the Middle East and Africa as well as in the petrochemical field. We are off to a smooth start in fiscal 2005, having won orders for a large fertilizer plant in Iran, a large pipeline project in Brazil and a Vinyl Chloride Monomer (VCM) plant in Japan. We are projecting a decrease of about 25% in new orders, to ¥180.0 billion, representing a performance that is about the same as in past years. The year-on-year decline is the result of two extremely large projects that pushed orders in fiscal year under review to an unusually high level.

Revenue and Earnings

In fiscal 2005, we are projecting consolidated net sales of ¥180.0 billion, consolidated operating income of ¥5.0 billion and consolidated net income of ¥3.5 billion. Losses on a petrochemical plant project in the Middle East led to disappointing results in fiscal 2004. We have examined the causes for the losses in this project and have taken appropriate actions. Under a new management framework adopted in May 2004, each business unit is reinforcing its various functions, clarifying its lines of accountability and strengthening its inter-divisional check and controls, which will bolster risk management and prevent the occurrence of excess loss, and which will restore our operations to normal profitability.

August 2004

From left: Kazuhisa Marukawa, Yoshitaka Ogata, Yutaka Yamada, Takuichi Murachi

Board of Directors and Corporate Auditors

President and Chief Executive Officer
Yutaka Yamada*

Executive Vice President
Kazuhisa Marukawa*

Directors and Senior Executive Officers
Yoshitaka Ogata (Chief Technical Officer)*
Takuichi Murachi*
Keiji Suda
Kuniaki Tsuyada
Hisashi Saigo
Kenji Soejima
Kazuomi Nishihara
Makoto Fusayama

(The above directors hold the position of executive officer.)

Senior Corporate Auditor
Masayoshi Korasaki

Corporate Auditors
Kunimichi Gamo
Ryutaro Koyasu
Terutake Kato

Senior Executive Officers
Isao Ichikawa
Ken Wakazuki
Komei Ohta

Executive Officers
Osamu Okura
Shuji Ueki
Masahiro Suzuki
Yoshiaki Mizoguchi
Akichika Sumi
Akhilesh Kumar
Hidetsugu Fujii
Kiyoshi Nakao
Keiichi Matsumoto

* Representative Director

(As of June 25, 2004)

Overseas

EPC Solutions Business Operations | Overseas

Gas & Oil

Achievements in Fiscal 2004

The remarkable performance in this sector in fiscal 2004 was mainly the result of aggressive sales activities targeting energy-related projects, primarily natural gas. New orders in this field more than doubled, to ¥157.4 billion, almost six times the level of two years earlier. Energy-related projects accounted for 65% of new orders.

One major accomplishment was our first order from Sakhalin Energy Investment Co., Ltd. for a LNG plant on Sakhalin Island in Russia. This is a joint venture project led by Chiyoda Corporation together with two Russian companies. When completed, it will be the world's largest LNG plant, with a total capacity of 9,800,000t/y.

Another highlight of the fiscal year was the order received from Petropars Ltd. with JGC Corporation and Iranian and Korean companies for the construction of a gas processing plant, with a capacity of 3,000MMSCFD, in Iran. One of the largest facilities of its kind in the world, the plant will produce liquefied petroleum gas (LPG) and condensate from natural gas recovered from phases 6, 7 and 8 of the South Pars gas field in offshore Iran.

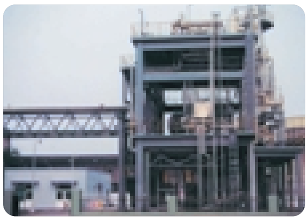
With regard to DME, which is gaining attention as an alternative clean energy, the world's first commercial plant for producing fuel-use DME with a capacity of 10,000t/y has been operating as planned at Lutianhua Group Inc. in China. This success led to a second order in fiscal 2004 to build a 110,000t/y fuel-use DME plant for the same client. Feedstock for DME production will be supplied by a 450,000t/y methanol plant, for which we provided the basic design and equipment procurement service, including TOYO's proprietary *MRF-Z® Reactor*.

Pipeline Business Grows

In the 1980s, TOYO constructed more than 2,000km of pipeline in total length in the Middle East and India. Recently, we have again started emphasizing this pipeline business as part of our energy-related activities.

In September 2003, we completed well ahead of tight schedule—only 17 months after contract effectuation—the construction of a 90km gas pipeline (40" and 28" diameter) and a compressor station near Baku, Azerbaijan for JSC Azerigaz.

Earthbreaking ceremony of gas processing plant for Petropars Ltd., Iran



DME plant for Lutianhua Group Inc., China

For Petroleo Brasileiro S.A. (PETROBRAS) in Brazil, we are constructing a gas pipeline (12"–16" diameter) about 440km in length in the northwest region that will link Guamare and Fortaleza, another gas pipeline (28" diameter) in southeastern Brazil that will be 460km long and link Campinas and Rio de Janeiro and related facilities. In fiscal 2004, we received another order to build a gas pipeline (26" and 14" diameter) approximately 500km in length between Catu and Pilar in northeastern Brazil. This order raises to 1,400km the total length of pipeline under construction by TOYO in Brazil.

Future Prospects

TOYO has extensive experience in the construction of fertilizer, ethylene and other chemical and petrochemical plants. In response to current market trends, we are placing greater emphasis on energy, a stance that has raised oil, gas and other energy-related projects to about half of the total volume of business.

We have completed a large number of energy-related projects in Southeast Asia, the Middle East, South America, Russia and other locations over the past two decades. In particular, we are confident that we are taking a lead in the oil and gas field development. The energy sector will therefore continue to be TOYO's highest priority and the Company will focus on winning more orders in this area.

EPC Solutions Business Operations **Overseas**

Petrochemicals & Chemicals

Achievements in Fiscal 2004

Fiscal 2004 was also a year of steady progress in our petrochemical and chemical operations. Total new orders for petrochemical and chemical projects were down 25% from the previous year to ¥50.2 billion, accounting for about 20% of total orders.

One highlight of the year was an order from Saudi Basic Industries Corporation (SABIC) to build a large EO/EG plant, with EG-equivalent capacity of 630,000t/y, in Saudi Arabia. This second plant will be constructed beside the first EO/EG plant of similar size now under construction by TOYO. Smooth execution of the first project earned TOYO the credibility and appreciation of the client, leading to the award of this second project on a non-bid basis.

The size of industrial plants is growing dramatically as is evidenced by a FEED order from Formosa Petrochemical Corporation in Taiwan for a 1,200,000t/y ethylene plant—one of the world's largest—following the order for a 900,000t/y ethylene plant we received in 1996.

In China, a 2,460t/d urea plant for Sichuan Chemical Works (Group) Ltd. came on stream recently. This facility incorporates *ACES21*® (Improved *ACES*), the latest version of TOYO's proprietary urea process, which realizes low energy consumption and low investment cost.

Signing ceremony for second ammonia and urea plant for PIDMCO, Iran

ACES21® urea plant for Sichuan Chemical Works (Group) Ltd., China

Aggressively Promoting Technology-Oriented Business

In the petrochemical and chemical sectors, we are putting our efforts on technology-oriented business development, forming alliances with licensors for sales and bidding, focusing on FEED work and promoting R&D Engineering to support clients for early commercialization of their new technologies.

In fiscal 2004, this approach was particularly successful in China. Examples are the start-up of commercial operations at a DME plant and an *ACES21*® urea plant. Both plants incorporate TOYO's latest proprietary technology. With regard to new orders, our technology orientation enabled us to secure basic design orders for a 1-4 butanediol (BDO) plant and a urea granulation plant.

Future Prospects

Accompanying growing demand for consumer goods in China, greater demand is expected for olefins, such as ethylene and propylene, as well as for value-added products. This expected demand indicates that investments will be growing both for new facilities and for revamps and upgrades at existing facilities in such areas as the Middle East, China and Southeast Asia.

In the current fiscal year, jointly with Chiyoda Corporation and an Iranian company, we received in April 2004 a contract from Petrochemical Industries Development Management Co. (PIDMCO) for the construction of a large fertilizer plant in Iran with a capacity of 2,050t/d for ammonia and 3,250t/d for urea. The consortium was awarded this project without competition because of the outstanding project management skills displayed at the ongoing fertilizer plant for the same client.

In Malaysia, our FEED work at a petrochemical plant executed in 2003 has led to the recent receipt of EPC orders.

Domestic

EPC Solutions Business Operations **Domestic**

Achievements in Fiscal 2004

As rapid economic growth continues in China, Japanese companies are increasingly pushing forward the segmentation of production bases between China and Japan by concentrating their operations solely on businesses where they are most competitive and profitable. In this setting, TOYO was able to generate results in domestic operations that exceeded its target for fiscal 2004.

Our accomplishments in the petrochemical plant sector were highlighted by an order received from Tosoh Corporation for the construction of an aniline plant with a capacity of 150,000t/y, one of the major projects in Japan's oil refining and petrochemical industry. Aniline is the primary ingredient of diphenylmethane diisocyanate (MDI), the raw material for rigid polyurethane foam.

Another notable order was received from Nippon Petrochemicals Co., Ltd. for the design work of the second plant in Japan to apply OCT licensed by ABB Lummus Global Inc. to increase propylene production. This marks the first time in Japan that butane from the Fluid Catalytic Cracking (FCC) plant of Nippon Petroleum Refining Co., Ltd. will be used as the main feedstock for the OCT unit, making a significant contribution to the planned integration of oil refining and petrochemical operations.

In the industrial plant sector, one of the highlights of the fiscal year was an order received from Tanaka Kikinzoku Kogyo K.K. to construct a new chemical plant.

Multi-purpose plant for Wako Pure Chemical Industries, Ltd., Japan

Earthbreaking ceremony of flame retardants plant for Daihachi Chemical Industry Co., Ltd., China

Assisting Japanese Clients Expand Operations in China

Over the past 30 years, TOYO has participated in more than 110 projects in China. We are using this wealth of experience to assist Japanese clients set up operations in China. Work is now proceeding on chemical products plants, electronic components plants and other projects.

In fiscal 2004, we received orders from Nippon Shokubai Co., Ltd. for the construction of a super absorbent polymer (SAP) plant and from Daihachi Chemical Industry Co., Ltd. for the construction of a flame retardants plant.

Having established agreements of friendship and cooperation with industrial development zones in Shanghai and surrounding major cities, we will work with our affiliated company in Shanghai to assist clients from the selection of a suitable site to plant construction. Our next goal is to extend operations to three provinces—Liaoning, Jilin and Heilongjiang—in northeastern China.

Future Prospects

We are placing even greater importance on alliances with clients and leveraging our extensive experience and proven record of reliability with the aim of raising orders for projects in Japan and China. Recently, Tosoh Corporation awarded TOYO a contract to construct a VCM plant with an initial capacity of 400,000t/y in Japan.

In the industrial plant sector, we plan to utilize the recent completion of a multi-purpose plant for Wako Pure Chemical Industries, Ltd. to win more orders from pharmaceutical companies. We also plan to develop markets for new products, such as *piXY*, a new type of *XY Router*® that is suitable for handling viscous materials.

By drawing on our advanced technological skills, we will strive for further achievements in R&D Engineering, which supports clients to realize early commercialization of their own technologies.

e-Solutions

e-Solutions Business Operations

Achievements in Fiscal 2004

IT investments remained flat during fiscal 2004, and the market situation for systems integration projects continues to be severe. Despite this challenging environment, there are solid needs at companies in every industry for business reforms that can boost efficiency and cost competitiveness. As a result, there is considerable demand for consulting and systems integration services that are able to meet these needs.

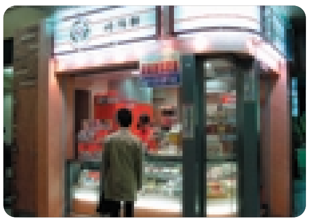
Fiscal 2004, the third year of our e-solutions business, was a period when we received orders for and completed a number of highly distinctive projects in our core business fields. One such order was in the supply chain management (SCM) solutions field. For a company that manufactures and sells food products, we provided supply chain consulting and solutions, building an integrated POS system to reduce loss resulting from limited shelf life of perishables. Another project involved engineering chain management (ECM), a field of expertise that is rooted in our EPC know-how. Here, we provided procurement support systems for environmental business companies. A third project was in the field of financial solutions, a new business category for TOYO. In this case, we developed an Internet-based securities trading front-office system for a securities company.

In addition to systems integration in SCM, ECM and financial solutions, we had accomplishments in the energy solutions field for electric power and the public sector, resulting in a diverse array of achievements for our e-solutions business in fiscal 2004.

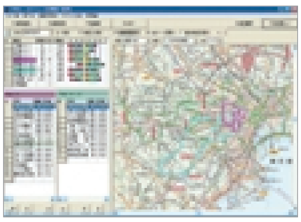
Future Prospects

In fiscal 2005, we plan to begin marketing two of our in-house-developed solutions—*Scheduling Komei®*, a schedule control system, and *Knowledge Bank*, a knowledge database. Work has been completed on refining both systems to meet the increasingly sophisticated demands of markets and clients.

While making effective use of these in-house-developed systems, we will extend an integrated line of support for clients' corporate renovations, from consulting-based planning through the engineering needed for project completion. Through these activities, we plan to supply clients with solutions that embody even greater value.



POS system for Kiyoken Co., Ltd., Japan



"*TRASy®2*" transportation planning system software

HSE+Quality

HSE & Quality

We have an uncompromising stance with regard to safety, the environment and quality that is deeply rooted in our corporate philosophy of "providing total solutions that ensure the satisfaction and success of our clients." In compliance with our corporate policies on Health, Safety and Environment (HSE) and Quality, we give the highest priority to providing materials and services with quality fully meeting clients' requirement and on completing projects without accidents or injuries. We view these capabilities as vital to winning the satisfaction of clients and as the very basis of our reputation as a trustworthy company.

Our dedication to product quality and construction safety is clearly evident in the safety record at recent projects. Moreover, for projects under way in Nanjing, China, we were awarded two prizes: Best Quality Management in 2003 for an acrylic acid (AA) / acrylic acid ester (AE) plant project and Best Safety Management in 2003 for an oxo-alcohol (OXO) plant project. These awards were from BASF-YPC Co., Ltd., a joint venture company owned by BASF, of Germany, and Sinopec Yangzi Petrochemical Co., Ltd., of China. This recognition is clearly proof of the excellent reputation we have earned among clients for our HSE and quality management.

Safety Record

Jubail United Petrochemical Co. (Saudi Arabia)	
2003–	Petrochemical plant: 6,000,000 Man-hr without LTA
BASF-YPC Co., Ltd. (China)	
2003–	Petrochemical plant: 2,700,000 Man-hr without LTA
JSC Azerigaz (Azerbaijan)	
2002-2003	Gas pipeline / related facilities: 800,000 Man-hr without LTA
KAO Corporation (Malaysia)	
2001-2002	Chemical plant: 1,400,000 Man-hr without LTA
Mitsui Bisphenol Singapore Pte. Ltd. (Singapore)	
2000-2002	Petrochemical plant: 1,200,000 Man-hr without LTA
Rayon Olefins Co., Ltd. (Thailand)	
2000-2001	Petrochemical plant: 2,200,000 Man-hr without LTA
Optimal Glycol (M) Sdn. Bhd. (Malaysia)	
1999-2001	Petrochemical plant: 5,200,000 Man-hr without LTA
Sidi Kerir Petrochemicals Co. (Egypt)	
1999-2000	Petrochemical plant: 8,100,000 Man-hr without LTA

LTA: Lost time accident

Best Quality Management Award 2003

Best Safety Management Award 2003

Management's Discussion and Analysis

In the fiscal year, ended March 31, 2004, TOYO recorded a net loss primarily due to increased losses on a petrochemical project in the Middle East and the partial reversal of deferred tax assets.

The most significant points concerning operating results in fiscal 2004 were as follows:

1. Operating loss due to losses at a specific project

Large losses were recorded at a petrochemical project in the Middle East, primarily the result of increased costs incurred due to substantial delays in construction schedule. To prevent the occurrence of losses at other projects, TOYO is thoroughly examining other ongoing projects so that more accurate earnings projections can be established.

2. High volume of new orders due to contribution of large-scale projects

Orders received during fiscal 2004 totaled ¥241.5 billion ($2,285.2 million), a figure that includes orders at large energy projects in Russia and Iran. The backlog of contracts at the end of the year totaled ¥350.6 billion ($3,317.0 million). This equates to approximately two years' revenue for TOYO, which is a sufficient volume to establish a stable base of operations.

3. Significant progress in reducing interest-bearing debt

During fiscal 2004, operating cash flows were solid and adequate enough to reduce interest-bearing debt by ¥16.0 billion to ¥66.2 billion ($626.0 million).

Revenue and Earnings

Net sales decreased ¥8.6 billion to ¥170.5 billion ($1,613.5 million), mainly due to the effect of fluctuations in exchange rates. The operating loss was ¥3.3 billion ($30.8 million), a decrease of ¥8.7 billion from the previous fiscal year's operating income. This was mainly attributable to losses at a petrochemical project. In addition, a partial reversal of deferred income taxes and other items led to a net loss of ¥6.5 billion ($61.4 million).

Cash Flows

Net cash provided by operating activities was ¥17.6 billion ($166.3 million). There was a decrease in notes and accounts receivable because of measures to speed up collection of trade receivables and an increase in advance receipts on uncompleted contracts. Joint-venture projects also contributed to increasing cash flows.

Net cash used in investing activities was ¥0.6 billion ($5.6 million), mainly the result of the acquisition of intangible fixed assets involving the development and upgrading of our own software for the e-solutions business.

Net cash used in financing activities was ¥15.7 billion ($148.6 million) as cash was used to repay interest-bearing debt in accordance with the debt reduction plan.

After including the effect of exchange rate changes on yen conversions of foreign currency denominated cash and cash equivalents, there was a net increase of ¥1.1 billion in cash and cash equivalents compared with the end of the previous fiscal year to ¥43.6 billion ($412.7 million).

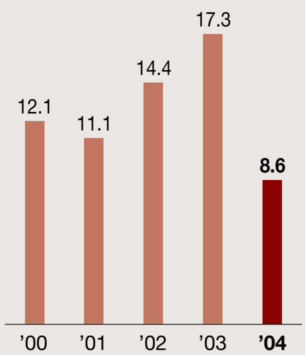
Consolidated Five-Year Summary

Toyo Engineering Corporation and Consolidated Subsidiaries
Years ended March 31

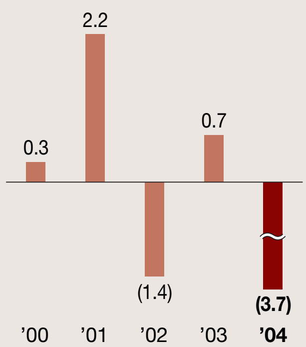
	Millions of yen 2004	2003	2002	2001	2000	Thousands of U.S. dollars (Note 1) 2004
Net sales	**¥170,529**	¥179,168	¥158,963	¥119,067	¥155,812	**$1,613,484**
Gross profit	**8,640**	17,291	14,415	11,136	12,143	**81,745**
Operating income (loss)	**(3,257)**	5,424	2,961	147	279	**(30,820)**
Income (loss) before income taxes and minority interests	**(3,714)**	657	(1,370)	2,194	334	**(35,138)**
Net income (loss)	**(6,491)**	(923)	(1,081)	912	(627)	**(61,418)**
Total assets	**201,133**	199,494	196,177	239,778	237,170	**1,903,047**
Total shareholders' equity	**24,724**	29,694	30,906	32,089	31,148	**233,930**
Long-term debt	**39,691**	41,840	46,038	28,765	69,435	**375,540**
Purchases of property, plant and equipment	**241**	282	272	334	774	**2,279**
Depreciation and amortization	**1,315**	1,347	1,339	1,304	1,434	**12,448**
Common stock	**13,018**	13,018	13,018	13,018	13,018	**123,169**
New orders	**241,528**	195,160	131,211	232,666	117,344	**2,285,249**
Backlog of contracts at end of the year	**350,574**	307,817	300,636	324,259	222,200	**3,317,007**

	Yen					U.S. dollars (Note 1)
Per share:						
Net income (loss)	**¥(37.00)**	¥(5.27)	¥(6.15)	¥5.19	¥(3.57)	**$(0.35)**
Cash dividends	**—**	—	—	—	—	**—**
Net sales by sector (%):						
Chemical fertilizers	**9.3%**	7.1%	11.2%	8.7%	4.5%	
Petrochemicals	**30.8**	32.9	41.8	30.6	54.5	
Refinery	**13.3**	21.3	14.5	7.1	11.5	
Energy-related	**27.3**	19.2	11.9	23.9	10.6	
General manufacturing facilities and information technology	**11.5**	12.2	16.4	19.7	13.3	
Others	**7.8**	7.3	4.2	10.0	5.6	
(Overseas sales)	**(78)**	(79)	(74)	(72)	(71)	
Number of employees	**2,310**	2,146	1,939	1,475	1,607	

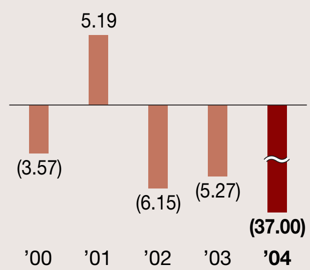
Gross Profit
(¥ billion)



Income (Loss) before Income Taxes and Minority Interests
(¥ billion)



Net Income (Loss) Per Share
(¥)



Consolidated Balance Sheets

Toyo Engineering Corporation and Consolidated Subsidiaries
March 31, 2004 and 2003

Assets	Millions of yen 2004	Millions of yen 2003	Thousands of U.S. dollars (Note 1) 2004
Current assets:			
Cash and deposits (Note 3)	¥ 44,098	¥ 42,773	$ 417,237
Notes and accounts receivable (Note 3)	37,247	51,996	352,417
Less: Allowance for doubtful receivables	2,117	1,281	20,025
	35,130	50,715	332,392
Contract work in progress	62,659	41,876	592,860
Prepaid expenses and other current assets (Note 4)	7,465	11,400	70,627
Total current assets	149,352	146,764	1,413,116
Investments:			
Investment securities (Note 12)	5,771	4,745	54,600
Investments in unconsolidated subsidiaries and affiliates (Note 12)	3,871	3,290	36,629
Long-term loans	3,239	4,415	30,645
Other	6,169	6,814	58,368
Less: Allowance for doubtful receivables	3,903	4,315	36,933
Total investments	15,147	14,949	143,309
Property, plant and equipment, at cost:			
Land (Note 3)	18,803	18,650	177,908
Buildings and structures (Note 3)	25,738	25,741	243,528
Tools, furniture and fixtures	4,423	4,601	41,845
Construction in progress	—	1	—
Total	48,964	48,993	463,281
Less: Accumulated depreciation	15,758	15,179	149,097
Property, plant and equipment, net	33,206	33,814	314,184
Other assets (Note 4)	3,428	3,967	32,438
	¥201,133	¥199,494	$1,903,047

See notes to consolidated financial statements.

Liabilities and Shareholders' Equity	Millions of yen 2004	Millions of yen 2003	Thousands of U.S. dollars (Note 1) 2004
Current liabilities:			
Short-term bank loans (Note 3)	**¥ 11,916**	¥ 25,637	**$ 112,739**
Current portion of long-term debt (Note 3)	**14,555**	14,638	**137,712**
Notes and accounts payable	**30,147**	33,228	**285,242**
Income taxes payable (Note 4)	**528**	826	**4,998**
Advance receipts on uncompleted contracts	**61,915**	38,854	**585,819**
Reserve for anticipated loss on contract work	**468**	321	**4,429**
Other current liabilities	**10,038**	7,414	**94,977**
Total current liabilities	**129,567**	120,918	**1,225,916**
Long-term debt (Note 3)	**39,691**	41,840	**375,540**
Accrued retirement benefits (Note 5)	**2,660**	2,313	**25,169**
Other long-term liabilities (Note 4)	**2,621**	2,616	**24,799**
Contingent liabilities (Note 7)			
Minority interests	**1,870**	2,113	**17,693**
Shareholders' equity:			
Common stock			
Authorized: 500,000,000 shares			
Issued: 175,480,492 shares	**13,018**	13,018	**123,169**
Additional paid-in capital	**15,593**	15,592	**147,537**
Retained earnings (Note 6)	**(4,278)**	2,216	**(40,479)**
Net unrealized gain (loss) on securities	**1,231**	(541)	**11,649**
Foreign currency translation adjustments	**(805)**	(566)	**(7,613)**
	24,759	29,719	**234,263**
Less: Treasury stock, at cost: 212,047 shares	**35**	25	**333**
Total shareholders' equity	**24,724**	29,694	**233,930**
	¥201,133	¥199,494	**$1,903,047**

Consolidated Statements of Operations

Toyo Engineering Corporation and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Net sales (Note 8)	**¥170,529**	¥179,168	**$1,613,484**
Cost of sales	**161,889**	161,877	**1,531,739**
Gross profit	**8,640**	17,291	**81,745**
Selling, general and administrative expenses (Note 9)	**11,897**	11,867	**112,565**
Operating income (loss)	**(3,257)**	5,424	**(30,820)**
Other income:			
Interest and dividend income	**1,743**	2,156	**16,487**
Gain on sales of investment securities	**452**	—	**4,278**
Reversal of allowance for doubtful receivables	**—**	315	**—**
Other	**162**	112	**1,540**
	2,357	2,583	**22,305**
Other expenses:			
Interest expense	**1,719**	2,149	**16,268**
Foreign exchange loss	**252**	2,758	**2,387**
Loss on valuation of investment securities	**481**	1,303	**4,548**
Other (Note 10)	**362**	1,140	**3,420**
	2,814	7,350	**26,623**
Income (loss) before income taxes and minority interests	**(3,714)**	657	**(35,138)**
Income taxes (Note 4)			
Current	**712**	1,282	**6,741**
Deferred	**1,882**	(47)	**17,811**
	2,594	1,235	**24,552**
Minority interests	**(183)**	(345)	**(1,728)**
Net loss	**¥ 6,491**	¥ 923	**$ 61,418**

Per share of common stock:	Yen		U.S. dollars (Note 1)
Net loss	**¥ 37.00**	¥ 5.27	**$ 0.35**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Toyo Engineering Corporation and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Common stock:			
Balance at beginning of the year	**¥13,018**	¥13,018	**$123,169**
Balance at end of the year	**¥13,018**	¥13,018	**$123,169**
Additional paid-in capital			
Balance at beginning of the year	**¥15,592**	¥15,592	**$147,531**
Add–gain on disposal of treasury stock	**1**	—	**6**
Balance at end of the year	**¥15,593**	¥15,592	**$147,537**
Retained earnings (Note 6):			
Balance at beginning of the year	**¥ 2,216**	¥ 3,051	**$ 20,968**
Add–increase in consolidated subsidiaries	**—**	94	**—**
Deduct–net loss	**6,491**	923	**61,418**
–Bonuses to directors	**3**	6	**29**
Balance at end of the year	**¥ (4,278)**	¥ 2,216	**$ (40,479)**
Net unrealized gain (loss) on securities:			
Balance at beginning of the year	**¥ (541)**	¥ (281)	**$ (5,123)**
Adjustment for the year	**1,772**	(260)	**16,772**
Balance at end of the year	**¥ 1,231**	¥ (541)	**$ 11,649**
Foreign currency translation adjustments:			
Balance at beginning of the year	**¥ (566)**	¥ (471)	**$ (5,353)**
Adjustment for the year	**(239)**	(95)	**(2,260)**
Balance at end of the year	**¥ (805)**	¥ (566)	**$ (7,613)**
Treasury stock:			
Balance at beginning of the year	**¥ (25)**	¥ (3)	**$ (234)**
Shares increased, net	**(10)**	(22)	**(99)**
Balance at end of the year	**¥ (35)**	¥ (25)	**$ (333)**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Toyo Engineering Corporation and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Operating activities:			
Income (loss) before income taxes and minority interests	**¥ (3,714)**	¥ 657	**$ (35,138)**
Adjustments to reconcile income (loss) before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**1,315**	1,347	**12,448**
Loss (gain) on sales of marketable and investment securities, net	**(452)**	0	**(4,280)**
Loss on valuation of investment securities	**481**	1,303	**4,548**
Loss on disposal of property, plant and equipment, net	**—**	98	**—**
Allowance for (reversal of) doubtful receivables	**425**	(1,679)	**4,020**
Allowance for anticipated loss on contract work	**147**	28	**1,388**
Equity in earnings of affiliated companies	**(32)**	(32)	**(305)**
Increase in retirement benefits	**299**	1,219	**2,835**
Interest and dividends received	**1,783**	3,559	**16,868**
Interest and dividend income	**(1,743)**	(2,156)	**(16,487)**
Interest expense	**1,719**	2,149	**16,268**
Interest paid	**(1,762)**	(2,210)	**(16,675)**
Income taxes paid	**(961)**	(882)	**(9,092)**
Other, net	**6,117**	372	**57,876**
Changes in operating assets and liabilities:			
(Increase) decrease in notes and accounts receivable	**14,663**	3,971	**138,740**
(Increase) decrease in contract work in progress	**(21,058)**	(10,108)	**(199,244)**
Increase (decrease) in notes and accounts payable	**(2,878)**	6,077	**(27,231)**
Increase (decrease) in advance receipts on uncompleted contracts	**23,228**	5,107	**219,772**
Net cash provided by operating activities	**17,577**	8,820	**166,311**
Investing activities:			
Purchases of investment securities	**(138)**	(108)	**(1,308)**
Proceeds from sales of marketable securities and investment securities	**1,015**	516	**9,602**
Purchases of property, plant and equipment	**(241)**	(282)	**(2,279)**
Proceeds from sales of property, plant and equipment	**—**	57	**—**
Purchases of other assets	**(913)**	(460)	**(8,638)**
Other, net	**(318)**	19	**(3,009)**
Net cash used in investing activities	**(595)**	(258)	**(5,632)**
Financing activities:			
Decrease in short-term bank loans, net	**(13,727)**	(6,248)	**(129,876)**
Proceeds from long-term debt	**12,050**	11,470	**114,013**
Repayment of long-term debt	**(14,863)**	(15,241)	**(140,625)**
Proceeds from issuance of bonds	**1,000**	—	**9,462**
Other	**(167)**	(58)	**(1,582)**
Net cash used in financing activities	**(15,707)**	(10,077)	**(148,608)**
Effect of exchange rate changes on cash and cash equivalents	**(191)**	(132)	**(1,808)**
Net increase (decrease) in cash and cash equivalents	**1,084**	(1,647)	**10,263**
Cash and cash equivalents, beginning of the year	**42,531**	43,476	**402,410**
Increase in cash and cash equivalents addition to consolidation	**—**	702	**—**
Cash and cash equivalents, end of the year	**¥ 43,615**	¥ 42,531	**$ 412,673**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Toyo Engineering Corporation and Consolidated Subsidiaries

1. BASIS OF PREPARATION

The accompanying consolidated financial statements of Toyo Engineering Corporation (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

The relevant notes and consolidated statements of shareholders' equity have been added and certain reclassifications have been made to present the accompanying consolidated financial statements in a format that is familiar to readers outside Japan. For the convenience of the readers, the accompanying consolidated financial statements have also been presented in U.S. dollars by translating all Japanese yen amounts at the exchange rate of ¥105.69 to U.S.$1.00 prevailing on March 31, 2004.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. Investment in significant affiliates is accounted for by the equity method. Intercompany accounts and transactions are eliminated in consolidation. The difference between the acquisition cost and the equity in the net assets at the time of acquisition is amortized in principle over twenty years on a straight-line basis.

(b) Securities

All debt and equity securities is classified into one of three categories: trading, available-for-sale or held-to-maturity securities. Trading securities are bought and held principally for the purpose of selling them in the near term. Held-to-maturity securities are those securities in which the Company and its domestic subsidiaries have the ability and intent to hold until maturity. All securities not included in trading or held-to-maturity are classified as available-for-sale.

Trading and available-for-sale securities are recorded at fair value. Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization or accumulation of premiums or discounts. Unrealized gains or losses on trading securities are included in earnings. Unrealized gains or losses on available-for-sale securities are excluded from earnings and are reported, net of the related tax effect, as a separate component of shareholders' equity.

Cost of securities sold is determined by the moving average-method.

(c) Contract Work in Progress

Contract work in progress is stated at cost, determined by the identified-cost method.

(d) Depreciation

Depreciation of property, plant and equipment is principally computed by the declining-balance method based on the estimated useful lives of the assets.

(e) Leases

Noncancelable leases are primarily accounted for as operating leases except that leases which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases.

(f) Allowance for Doubtful Receivables

The Company and its domestic subsidiaries have provided an allowance for doubtful receivables principally at an estimated amount of probable and reasonably possible bad debts plus an estimated amount computed on the actual percentage of credit losses.

(g) Advance Receipts on Uncompleted Contracts

Advance receipts on uncompleted contracts from customers are shown as a liability, not as a deduction from the amount of contract work in progress.

(h) Accrued Retirement Benefits

The accrued retirement benefits at the year-end is stated in accordance with the projected plan assets and the projected retirement benefit obligation. The difference arising from the adoption of the new standard of accounting of ¥4,021 million ($38,044 thousand) is amortized over fifteen years on a straight-line basis. Actuarial loss is amortized over mainly fifteen years starting following year of recognition. Prior service cost is amortized over fifteen years.

(i) Derivative Financial Instruments

Derivative financial instruments are carried at fair value with changes in unrealized gain or loss charged or credited to operations, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as an asset or a liability. Receivables and payables hedged by qualified forward foreign exchange contracts are translated at the corresponding foreign exchange contract rates.

(j) Foreign Currency Translation

Both short-term and long-term receivables in foreign currencies are translated at the exchange rates at the balance sheet date. The balance sheet accounts of the consolidated foreign subsidiaries are translated at the rate of exchange in effect at the balance sheet date, except for common stock and additional paid-in capital, which are translated at their historical exchange rates. Revenues, expenses and net income for the year are translated at the rate of exchange in effect at the balance sheet date.

Differences arising from translation are presented as "Foreign currency translation adjustments" in the accompanying consolidated balance sheets.

(k) Recognition of Revenues

Revenues are recognized on the completion of construction work and acceptance by the client, except for the following contracts.

For contracts with prices equal to or in excess of ¥5 billion ($47 million) and construction periods in excess of two years, revenues are recognized by the percentage-of-completion method. According to this method, the revenue is computed by multiplying the contract price by the ratio of costs incurred at the balance sheet date to the total estimated cost.

(l) Net Income (Loss) per Share

Net income (loss) per share is computed based on the weighted average number of shares outstanding during each year. Diluted net income (loss) per share is not presented since there was no potential for dilution by the issuance of common stock in 2004 or 2003.

(m) Income Taxes
Deferred tax assets and liabilities are determined based on the differences between carrying amounts of existing assets and liabilities in the financial statements and their respective tax bases and operating loss carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates and laws which will be in effect when the differences are expected to be reversed.

(n) Cash and Cash Equivalents
For the purposes of the consolidated statements of cash flows, the Company and its consolidated subsidiaries consider all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

3. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans are represented by notes maturing generally within 180 days or overdrafts. The annual interest rates applicable to the loans outstanding at March 31, 2004 ranged principally from 0.69% to 2.12% and at March 31, 2003 ranged from 0.68% to 2.12%. Customarily, these notes are renewed at maturity without difficulty, and management anticipates that this method of financing will continue.

Long-term debt at March 31, 2004 and 2003 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
Years ended March 31,	**2004**	2003	**2004**
Loans, principally from banks, at interest rates ranging from zero to 6.800%, due 2004-2033:			
Secured	**¥25,211**	¥28,851	**$238,535**
Unsecured	**28,035**	27,627	**265,255**
1.080% bonds, due 2007	**1,000**	—	**9,462**
Total long-term debt	**54,246**	56,478	**513,252**
Less: Current portion	**14,555**	14,638	**137,712**
	¥39,691	¥41,840	**$375,540**

The following assets at March 31, 2004 and 2003 were pledged as collateral principally for long-term debt:

	Millions of yen		Thousands of U.S. dollars
Years ended March 31,	**2004**	2003	**2004**
Notes and accounts receivable	**¥ 7,881**	¥10,666	**$ 74,564**
Land and buildings, net of accumulated depreciation	**27,760**	28,323	**262,655**
Cash and deposits	**—**	50	**—**
	¥35,641	¥39,039	**$337,219**

The following schedule shows the maturities of long-term debt subsequent to March 31, 2004:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2005	¥14,555	$137,712
2006	10,270	97,167
2007	20,978	198,482
2008	3,303	31,255
2009	1,818	17,205
2010 and thereafter	3,322	31,431
	¥54,246	$513,252

The Company and its subsidiaries had committed line of credit of ¥10 billion ($94,616 thousand) at March 31, 2004. There were no borrowings outstanding under the line of credit.

4. INCOME TAXES

The statutory tax rate applicable to the Company and its domestic subsidiaries was approximately 41.8% for the years ended March 31, 2004 and 2003. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

(1) The effective tax rates on income before income taxes in the accompanying consolidated statements of operations differed from the above-mentioned statutory tax rate for the following reasons:

Year ended March 31, 2004

The details of effective tax rate are omitted because of the loss taken up instead of income before taxes in the accompanying statements of operations for the year.

Year ended March 31, 2003	
Statutory tax rate in Japan	41.8%
Adjustments:	
Permanently nondeductible expenses	36.9
Permanently nontaxable dividends received	(13.5)
Effect on operating loss carryforwards, etc.	93.0
Other	29.8
Effective tax rate	188.0%

(2) Significant components of the deferred income tax assets and liabilities at March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Deferred tax assets:			
Allowance for doubtful receivables	**¥1,573**	¥1,071	**$14,888**
Accrued retirement benefits	**845**	719	**7,994**
Difference in net sales recognized by the percentage-of-completion method	**405**	1,776	**3,831**
Difference in net unrealized loss on securities	**—**	325	**—**
Provision for anticipated loss on contract work	**—**	123	**—**
Other	**777**	1,686	**7,352**
Total deferred tax assets	**3,600**	5,700	**34,065**
Deferred tax liabilities offset to deferred tax assets:			
Difference in net unrealized gain on securities	**(726)**	—	**(6,873)**
Reserve for overseas investment losses	**(8)**	(13)	**(76)**
Depreciation expense	**(126)**	(51)	**(1,191)**
Other	**(36)**	(2)	**(343)**
Total deferred tax liabilities	**(896)**	(66)	**(8,483)**
Net deferred tax assets	**¥2,704**	¥5,634	**$25,582**

Note: The Company and its subsidiaries had operating loss carryforwards equivalent to unrecognized tax assets of ¥6,503 million ($61,530 thousand) and ¥8,474 million at March 31, 2004 and 2003, respectively, which are available to be offset against future taxable income.

(3) Net deferred tax assets at March 31, 2004 and 2003 are included in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Current assets–prepaid expenses and other current assets	**¥1,136**	¥2,937	**$10,746**
Other assets	**1,729**	2,750	**16,358**
Other long-term liabilities	**(161)**	(53)	**(1,522)**
Net deferred tax assets	**¥2,704**	¥5,634	**$25,582**

5. RETIREMENT BENEFITS

The Company and certain subsidiaries have defined benefit pension plans which provide for pension annuity payments or lump-sum payments to eligible employees upon retirement.

The Company also has defined contribution pension plan, which was transferred from a portion of defined benefit pension plan in May, 2003.

(1) Accrued retirement benefits for employees at March 31, 2004 consisted of the following:

Year ended March 31, 2004	Millions of yen	Thousands of U.S. dollars
Projected benefit obligation	¥(16,612)	$(157,177)
Plan assets	8,197	77,552
Unreserved projected benefit obligation	(8,415)	(79,625)
Unamortized obligation at transition	2,957	27,981
Unamortized actuarial loss	5,288	50,037
Unrecognized prior service cost	(2,150)	(20,342)
Accrued retirement benefits for employees	¥ (2,320)	$ (21,949)

The consolidated balance sheet includes directors' and statutory auditors' retirement allowances of ¥340 million ($3,220 thousand) in addition to the accrued retirement benefits for employees presented above.

(2) Net periodic pension cost for the year ended March 31, 2004 consisted of the following:

Year ended March 31, 2004	Millions of yen	Thousands of U.S. dollars
Components of net periodic benefit cost:		
Service cost	¥ 515	$ 4,871
Interest cost	381	3,604
Expected return on plan assets	(184)	(1,743)
Amortization of unrecognized retirement benefit obligation at transition	268	2,536
Amortization of unrecognized actuarial loss	374	3,542
Amortization of prior service cost	(140)	(1,324)
Other	90	854
Net periodic pension cost	¥1,304	$12,340

(3) Basis of calculation of projected benefit obligation

Method of allocation of estimated pension cost	Straight-line method
Discount rate	Mainly 2.0%
Expected rate of return on plan assets	Mainly 2.5%
Amortization period for unrecognized actuarial loss	Mainly 15 years
Amortization period for unrecognized obligation at transition	15 years
Amortization period for unrecognized prior service cost	15 years

6. RETAINED EARNINGS

The Commercial Code of Japan has provided that earnings in an amount equal to at least 10% of appropriations of retained earnings to be paid in cash be appropriated as a legal reserve until total additional paid-in capital and legal reserve equals 25% of stated common stock. Either additional paid-in capital or legal reserve may be available for dividends by resolution of the shareholders to the extent that the amount of total additional paid-in capital and legal reserve exceeds 25% of stated common stock.

7. CONTINGENT LIABILITIES

At March 31, 2004, the Company and its subsidiaries were contingently liable as guarantors of loans to others in the aggregate amount of ¥3,900 million ($36,900 thousand).

8. NET SALES

Net sales include revenues recognized by the percentage-of-completion method as described in Note 2 (k).
The following table shows net sales recognized by the percentage-of-completion method:

	Millions of yen		Thousands of U.S. dollars
Years ended March 31,	**2004**	2003	**2004**
	¥109,235	¥106,038	**$1,033,540**

9. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in selling, general and administrative expenses for the years ended March 31, 2004 and 2003 amounted to ¥550 million ($5,205 thousand) and ¥781 million, respectively.

10. OTHER EXPENSES

"Other" in "Other expenses" for the years ended March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
Years ended March 31,	**2004**	2003	**2004**
Loss on liquidation of nonconsolidated subsidiaries	**¥ 17**	¥ 124	**$ 164**
Loss on prior-period adjustment	**118**	754	**1,114**
Loss on valuation of property, plant and equipment	**—**	53	**—**
Other	**227**	209	**2,142**
Total	**¥362**	¥1,140	**$3,420**

11. LEASES

(a) Finance Leases
(a-1) Finance Leases (as Lessee)
The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of leased property as of March 31, 2004 and 2003 which would have been reflected in the balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen		Thousands of U.S. dollars
Years ended March 31,	**2004**	2003	**2004**
Acquisition costs:			
Tools, furniture and fixtures	**¥749**	¥787	**$7,091**
Accumulated depreciation:			
Tools, furniture and fixtures	**389**	382	**3,680**
Net book value:			
Tools, furniture and fixtures	**360**	405	**3,411**

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2004 for finance leases accounted for as operating leases are summarized as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2005	¥192	$1,815
2006 and thereafter	201	1,906
Total	¥393	$3,721

Lease payments relating to finance leases accounted for as operating leases for the years ended March 31, 2004 and 2003 amounted to ¥210 million ($1,984 thousand) and ¥209 million, respectively, which were equal to the depreciation expense of the leased assets computed by the straight-line method over the respective lease terms.

(a-2) Finance Leases (as Lessor)
Future minimum lease receivables (including the interest portion thereon) subsequent to March 31, 2004 for finance leases accounted for as operating leases are summarized as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2005	¥15	$143
2006 and thereafter	18	169
Total	¥33	$312

All the above lease receivables were derived from the subleasing business. As every subleased property was leased to third parties through the Company's subsidiary on approximately the same terms, approximately the same amount of future lease receivables as those presented above are included in Table (a-1) as the amount of the future sublease payments.

(b) Operating Leases
(b-1) Operating Leases (as Lessee)
Future minimum lease payments subsequent to March 31, 2004 for noncancelable operating leases are summarized as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2005	¥ 1	$ 6
2006 and thereafter	—	—
Total	¥ 1	$ 6

(b-2) Operating Leases (as Lessor)
Future minimum lease receivables subsequent to March 31, 2004 for noncancelable operating leases are summarized as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2005	¥ 1,162	$ 10,989
2006 and thereafter	13,609	128,765
Total	¥14,771	$139,754

12. INVESTMENT SECURITIES

The cost, unrealized gain and loss and the related fair value of investment securities in Investments at March 31, 2004 are summarized as follows:

	Millions of yen			
At March 31, 2004	Cost	Unrealized Gain	Unrealized Loss	Fair Value
Investment securities classified as:				
Available-for-sale:				
Equity securities	¥5,296	¥1,649	¥(212)	¥6,733
Debt securities	367	569	—	936

The contractual maturities of debt securities classified as available-for-sale were as follows:

At March 31, 2004	Millions of yen	Thousands of U.S. dollars
Due within one year	¥ 0	$ 1
Due after one year through five years	124	1,170
Due after five years through ten years	251	2,380
Due after ten years	563	5,326
Total	¥938	$8,877

The cost, unrealized gain and loss and the related fair value of investment securities in Investments at March 31, 2003 are summarized as follows:

	Millions of yen			
At March 31, 2003	Cost	Unrealized Gain	Unrealized Loss	Fair Value
Investment securities classified as:				
Available-for-sale:				
Equity securities	¥5,686	¥ 52	¥(1,437)	¥4,301
Debt securities	367	569	—	936

The contractual maturities of debt securities classified as available-for-sale were as follows:

At March 31, 2003	Millions of yen	Thousands of U.S. dollars
Due within one year	¥ 2	$ 14
Due after one year through five years	85	703
Due after five years through ten years	251	2,090
Due after ten years	602	5,012
Total	¥940	$7,819

13. DERIVATIVE TRANSACTIONS

The Company operates internationally in circumstances which give rise to exposure to market risks from fluctuations in foreign currency exchange rates and interest rates. In order to limit those risks, the Company enters into forward foreign exchange contracts, currency swaps and interest rate swaps, etc. in accordance with the Company's own internal risk control rules. The Company does not have derivative positions for speculative trading purposes. The Company is subject to credit risk incurred by the default of counter parties to the derivatives. As the Company enters into such agreement only with credible counter parties, the risk of any such default is deemed negligible. The Company's Finance Division is in charge of entering into and monitoring the Company's derivative positions in order to ensure risk control.

Forward foreign exchange contracts

The Company has entered into forward foreign exchange contracts to reduce its exposure to adverse fluctuations in foreign exchange rates relating to receivables and payables denominated in foreign currencies. The contract amounts and the related market values of those contracts without firm commitments related to receivables or payables at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
At March 31,	**2004**	2003	**2004**
(i) Forward foreign exchange contracts to sell U.S. dollars:			
Contract amounts	**¥862**	¥ —	**$8,154**
Related market value	**827**	—	**7,825**
Net gain	**¥ 35**	¥ —	**$ 329**
(ii) Forward foreign exchange contracts to buy U.S. dollars:			
Contract amounts	**¥122**	¥13,763	**$1,154**
Related market value	**118**	14,247	**1,116**
Net gain (loss)	**¥ (4)**	¥ 484	**$ (38)**
(iii) Forward foreign exchange contracts to buy other currencies:			
Contract amounts	**¥ —**	¥ 604	**$ —**
Related market value	**—**	739	**—**
Net gain	**¥ —**	¥ 135	**$ —**

Foreign currency options contracts

	Millions of yen		Thousands of U.S. dollars
At March 31,	**2004**	2003	**2004**
Buy:			
Call			
Contract amounts	**¥—**	¥49	**$—**
Related market value	**—**	50	**—**
Net gain	**¥—**	¥ 1	**$—**

The contract and related market value amounts above exclude forward foreign exchange contracts designated as hedges on forecasted transactions with a firm commitment to the hedged items since such contracts are accounted for in the financial statements in conjunction with the computation of foreign exchange gain and loss by the deferral of gain and loss.

The contract and related market value amounts above do not directly indicate the level of market risk or credit risk incurred, as these amounts do not indicate the potential risk of the forward foreign exchange contracts.

Interest rate swaps

The Company has entered into interest rate swap agreements to reduce its interest expense or its exposure to adverse fluctuations in interest rates relating to loans payable. The total notional amounts and related market value of these interest rate swap agreements at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
At March 31,	**2004**	2003	**2004**
Notional amounts	**¥1,000**	¥1,200	**$9,462**
Related market value	**3**	4	**26**
Net gain	**¥ 3**	¥ 4	**$ 26**

The notional amounts and related market value amounts above exclude interest rate swaps agreements designated as hedges on forecasted transactions with a firm commitment to the hedged items since such agreements are or will be accounted for in the financial statements as interest on borrowings allocated periodically based on fixed rate.

14. SEGMENT INFORMATION

(1) Business Segments

Year ended March 31, 2004	EPC Business	Real Estate	Total	Eliminations and Other	Consolidated
	Millions of yen				
I Net sales and operating income (loss):					
Net sales					
(1) Net sales to outside customers	**¥168,155**	**¥ 2,374**	**¥170,529**	**¥ —**	**¥170,529**
(2) Inter-segment net sales	**3**	**255**	**258**	**(258)**	**—**
Total	**168,158**	**2,629**	**170,787**	**(258)**	**170,529**
Operating expenses	**172,606**	**1,418**	**174,024**	**(238)**	**173,786**
Operating income (loss)	**(4,448)**	**1,211**	**(3,237)**	**(20)**	**(3,257)**
II Assets, depreciation and capital expenditures:					
Assets	**¥178,271**	**¥15,219**	**¥193,490**	**¥7,643**	**¥201,133**
Depreciation	**915**	**396**	**1,311**	**0**	**1,311**
Capital expenditures	**855**	**11**	**866**	**(0)**	**866**

Year ended March 31, 2003	EPC Business	Real Estate	Total	Eliminations and Other	Consolidated
	Millions of yen				
I Net sales and operating income:					
Net sales					
(1) Net sales to outside customers	¥176,380	¥ 2,788	¥179,168	¥ —	¥179,168
(2) Inter-segment net sales	42	244	286	(286)	—
Total	176,422	3,032	179,454	(286)	179,168
Operating expenses	172,592	1,454	174,046	(302)	173,744
Operating income	3,830	1,578	5,408	16	5,424
II Assets, depreciation and capital expenditures:					
Assets	¥178,331	¥16,112	¥194,443	¥5,051	¥199,494
Depreciation	861	404	1,265	—	1,265
Capital expenditures	637	2	639	1	640

Notes:
1. The classification of the business segments adopted is based on the Company segmentation which is determined by the similarity of each business.
2. The Companies' reportable operating segments consist of the following two business groups:
   EPC Business — Engineering, procurement and construction for chemical fertilizer and petrochemical plants, energy-related businesses, general manufacturing facilities and information technology
   Real Estate — Rent and administration of real estate
3. All administrative department expenses of the Company and consolidated subsidiaries are allocated to the corresponding business segments.
4. Assets included in "Eliminations and Other" for the years ended March 31, 2004 and 2003 totaling ¥7,643 million ($72,320 thousand) and ¥5,040 million primarily consisted of investment in securities.

(2) Geographic Segments

Year ended March 31, 2004	Japan	Others	Total	Eliminations and Other	Consolidated
	Millions of yen				
I Net sales and operating income (loss):					
Net sales					
(1) Net sales to outside customers	**¥160,217**	**¥10,312**	**¥170,529**	**¥ —**	**¥170,529**
(2) Inter-segment net sales	**97**	**23,718**	**23,815**	**(23,815)**	**—**
Total	**160,314**	**34,030**	**194,344**	**(23,815)**	**170,529**
Operating expenses	**163,630**	**34,013**	**197,643**	**(23,857)**	**173,786**
Operating income (loss)	**(3,316)**	**17**	**(3,299)**	**42**	**(3,257)**
II Assets:					
Assets	**189,532**	**21,875**	**211,407**	**(10,274)**	**201,133**

Year ended March 31, 2003	Japan	Others	Total	Eliminations and Other	Consolidated
	Millions of yen				
I Net sales and operating income:					
Net sales					
(1) Net sales to outside customers	¥169,536	¥ 9,632	¥179,168	¥ —	¥179,168
(2) Inter-segment net sales	432	36,337	36,769	(36,769)	—
Total	169,968	45,969	215,937	(36,769)	179,168
Operating expenses	165,976	44,595	210,571	(36,827)	173,744
Operating Income	3,992	1,374	5,366	58	5,424
II Assets:					
Assets	188,465	28,303	216,768	(17,274)	199,494

Notes: 1. Geographic segmentation is according to geographic proximity.
2. Countries included in Others:
Korea, Malaysia, India, Luxembourg, U.S.A.
3. Net sales and Assets included in “Eliminations and Other” are mainly due to inter-segment transaction.

(3) Sales to Foreign Customers

Year ended March 31, 2004	Southeast Asia	Southwest Asia and Africa	Russia and Central Asia	Central and South America	Others	Total
	Millions of yen					
Overseas sales (A)	**¥12,329**	**¥45,259**	**¥43,806**	**¥12,210**	**¥19,845**	**¥133,449**
Consolidated sales (B)						**170,529**
Overseas sales ratio A/B	**7.2%**	**26.6%**	**25.7%**	**7.2%**	**11.6%**	**78.3%**

Year ended March 31, 2003	Southeast Asia	Southwest Asia and Africa	Russia and Central Asia	Central and South America	Others	Total
	Millions of yen					
Overseas sales (A)	¥19,037	¥55,126	¥7,292	¥39,800	¥20,076	¥141,331
Consolidated sales (B)						179,168
Overseas sales ratio A/B	10.6%	30.8%	4.1%	22.2%	11.2%	78.9%

Each area represents the following countries:

Southeast Asia: Indonesia, Singapore, Thailand, Malaysia

Southwest Asia and Africa: India, Egypt, Saudi Arabia, Iran

Russia and Central Asia: Russia, Azerbaidjan

Central and South America: Brazil

Others: U.S.A., PR China, Korea, European countries

Independent Auditors' Report

Shin Nihon & Co.

Certified Public Accountants
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Chiyoda-ku, Tokyo 100-0011
C.P.O. Box 1196, Tokyo 100-8641

Phone:03 3503-1100
Fax: 03 3503-1197

Report of Independent Auditors

The Board of Directors
Toyo Engineering Corporation

We have audited the accompanying consolidated balance sheets of Toyo Engineering Corporation and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Toyo Engineering Corporation and consolidated subsidiaries at March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1.

Shin Nihon & Co.

June 25, 2004

Transnational Structure

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Moscow 123610, Russia
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Fax: 7-095-258-2065

● **Tehran**
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MAJOR SUBSIDIARIES AND AFFILIATED COMPANIES

Domestic

● **TEC Estate, Ltd.**
Property development and real estate business
7-7-1 Yatsu Narashino-shi,
Chiba 275-0026, Japan
Tel: 81-47-470-8381 Fax: 81-47-474-7381

● **Suntec Corporation**
Real estate and building maintenance
2-2-7 Honcho Funabashi-shi,
Chiba 273-0005, Japan
Tel: 81-47-433-4511 Fax: 81-47-433-4593

● **Toyo Logistics Corporation**
Sea and land transportation, packaging for plant components
2-2-7 Honcho Funabashi-shi,
Chiba 273-0005, Japan
Tel: 81-47-495-7111 Fax: 81-47-495-7112

● **TEC Software & Technical Services Corporation**
Staffing services, Job placement service, Translation/Interpretation
7-11-5 Honcho Funabashi-shi,
Chiba 273-0005, Japan
Tel: 81-47-425-8461 Fax: 81-47-425-8464

● **Tecno Frontier Co., Ltd.**
Environmental engineering and construction of facilities
7-7-1 Honcho Funabashi-shi,
Chiba 273-0005, Japan
Tel: 81-47-422-8123 Fax: 81-47-422-8145

Group Management

TOYO conducts its business activities as a cohesive organization that includes subsidiaries and affiliated companies in Japan and overseas. In the EPC business, we have established a worldwide network to become even more competitive on a global scale. Components of this network include Toyo Engineering India Ltd., Toyo Engineering Korea Ltd., Toyo Engineering & Construction Sdn. Bhd. in Malaysia, Toyo-Thai Corporation Ltd. and other companies. In the IT-related business, Toyo Business Engineering Corporation provides high added-value solutions centered on building Enterprise Resource Planning (ERP) systems.

● **TEC Air Service Corporation**
Travel and insurance services
2-6-7 Ginza Chuo-ku, Tokyo 104-0061, Japan
Tel: 81-3-3564-0130 Fax: 81-3-3564-0530

● **Toyo Business Engineering Corporation**
System consulting and solutions provider
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● **Chiba Data Center Corporation**
Data input service, documentation using word processors and printing
6-5-3 Tendai Inage-ku, Chiba-shi, Chiba 263-0016, Japan
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● **TEC Accounting & Consulting Ltd.**
Business support and consulting for accounting and accounting system development
2-8-1 Akanehama, Narashino-shi, Chiba 275-0024, Japan
Tel: 81-47-454-1690 Fax: 81-47-454-1289

Overseas

● **International Procurement & Service Corporation**
Procurement services in Europe
25, Route D'Esch, L-1470, Luxembourg
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● **Toyo U.S.A., Inc.**
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Tel: 60-3-2078-5796 Fax: 60-3-2078-5798

(As of June 25, 2004)

Corporate Data

Founded:
May 1, 1961

Paid-in Capital:
¥13,018 million

Number of Employees:
959

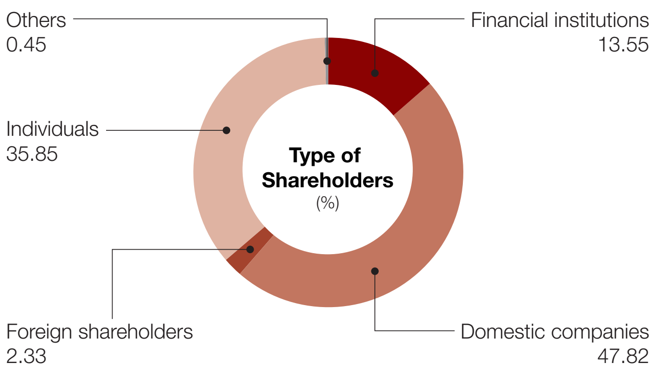
Stock Exchange Listing:
Tokyo Stock Exchange

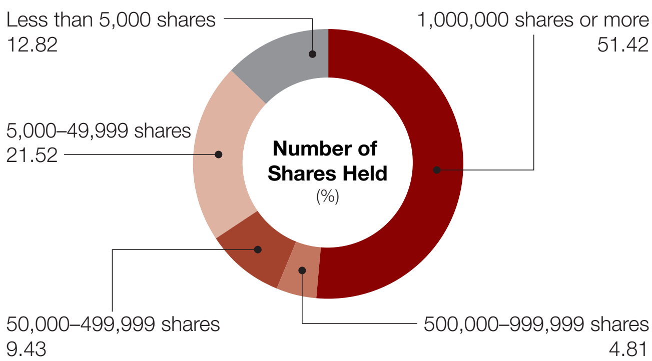
Authorized Shares:
500,000,000

Capital Stock Issued:
175,692,539

Number of Shareholders:
20,017

Transfer Agent:
The Chuo Mitsui Trust and Banking Co., Ltd.
3-33-1, Shiba, Minato-ku, Tokyo 105-8574, Japan





(As of March 31, 2004)

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