Toyo Engineering Corporation

2005 Annual Report

Year ended March 31, 2005

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 flexibly responded to market needs, shifting quickly in terms of market segments, operating 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

CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

This annual report includes certain "forward-looking statements." These statements are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ due to changes in economic, business, competitive, technological, regulatory, and other factors.

FY2005 Highlights

Financial Summary	Millions of yen 2005	Millions of yen 2004	Thousands of U.S. dollars 2005
Net sales	**¥197,945**	¥170,529	**$1,844,440**
New orders	**192,600**	241,528	**1,794,633**
Backlog of contracts at end of the year	**337,760**	350,574	**3,147,223**
Net income (loss)	**3,598**	(6,491)	**33,522**
Total assets	**209,564**	201,133	**1,952,701**
Total shareholders' equity	**28,442**	24,724	**265,024**
Per share data (in yen and U.S. dollars):			
Net income (loss)	**20.51**	(37.00)	**0.19**

*U.S. dollar amounts are stated at ¥107.32 to $1, the exchange rate prevailing on March 31, 2005.

Operational Summary

Achieved increased revenues and profits

The Company posted the highest consolidated net income since it introduced the consolidated accounting system in fiscal 1995.

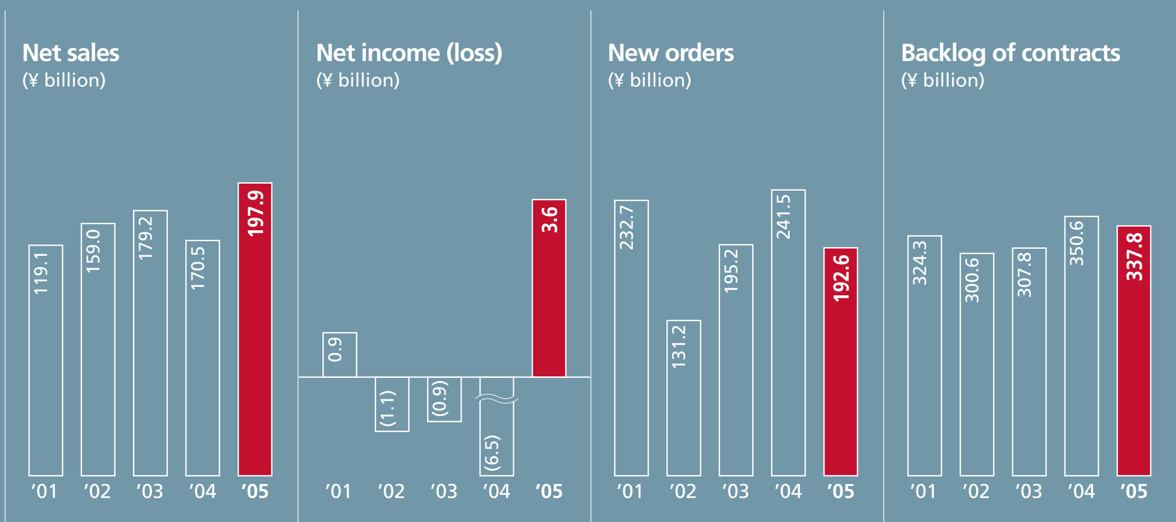
Resumed dividend payments after six fiscal years

Acquired ¥192.6 billion in new orders, exceeding the year's target of ¥180.0 billion

Energy-related projects accounted for 44% of new orders.

Steadily improved the Company's financial position

Interest-bearing debt was reduced by ¥12.1 billion through sound operating cash flows.



To Our Shareholders

In fiscal 2005, ended March 31, 2005, Toyo Engineering Corporation (TOYO) achieved its initial profit target and restored to normal profitability, which had been of main management concern. In fiscal 2006, we will pursue profits and new orders no less than in the previous year to ensure stable operations. While striving for rigorous project management to achieve profit targets at hand, we will also focus on upgrading our competitiveness in technologies and products as well as developing our human capital, which will reinforce a foundation for our sustainable growth.

Yutaka Yamada
President and Chief Executive Officer

Fiscal 2005 Operating Environment and Results

Operating Environment

In fiscal 2005, there were several negative factors, notably the higher price of steel and the yen's appreciation against the U.S. dollar. On the positive side, there was a trend of increasing capital investments both in Japan and overseas. This trend was boosted by rising demand for energy and chemical products especially in China, and the continuous price hike of crude oil. All these contributed to the improvement of clients' earnings, resulting in the strong willingness of investment. Region-wise, there were substantial energy-related investments in the Middle East as well as in the BRIC countries (Brazil, Russia, India and China). Investment needs have been growing mainly in oil and gas development projects and gas-related projects, centered on liquefied natural gas (LNG). These regions also saw growth in the petrochemical sector as companies started to resume or increase downstream investments.

New Orders

Consolidated new orders totaled ¥192.6 billion, comprising ¥124.6 billion in overseas orders and ¥68.0 billion in domestic orders. This was generally in line with our forecast for the fiscal year, although lower than in fiscal 2004, when orders for large projects in Russia and Iran were received. Overseas, major new orders were for a natural gas pipeline project in Brazil, an ammonia plant in Iran, and a bisphenol-A and polycarbonate plant in Russia. In Japan, major new orders were for a vinyl chloride monomer (VCM) plant and waste treatment facilities. Energy-related projects accounted for 44% of the fiscal year's new orders.

Revenue and Earnings

Consolidated net sales increased ¥27.4 billion, or 16% from the previous year, to ¥197.9 billion, representing domestic sales of ¥54.5 billion and overseas sales of ¥143.4 billion. Operating income was ¥4.5 billion compared with a fiscal 2004 loss of ¥3.3 billion, and net income was ¥3.6 billion compared with a loss of ¥6.5 billion one year earlier. Furthermore, we generated steady operating cash flows, allowing us to lower interest-bearing debt by ¥12.1 billion.

Fiscal 2006 Corporate Strategies

Marketing Strategy

Our priority in fiscal 2006 focuses on the energy-related sector, a market sector where substantial investments are being made. In addition, we will aim for new orders in fields where we can utilize our core technologies, especially petrochemicals and fertilizers, sectors in which steady investments are expected. Another target is investments in infrastructure, a sector of emerging needs. Our policy is to focus on businesses that are benefiting from market trends and can yield higher profit margins.

1) Energy-Related Field

We are building up a track record of energy-related projects across the entire energy supply chain, from upstream projects like gas and oil developments to downstream projects such as gas separation plants, pipelines and receiving terminals. In addition to projects at large gas fields, there are large numbers of medium-sized gas fields in the world. At these fields, there is a growing need for facilities to transform natural gas into methanol and fuel-use dimethyl ether (DME). This is an area where we can use our proprietary technologies to differentiate ourselves from competitors. Regarding DME, we are pursuing from projects at large gas fields to the development of DME chains.

2) Petrochemicals and Fertilizer Fields

In these market sectors, we focus on getting orders for plant construction in chemical derivatives used for consumer products and high-performance resins where substantial investments are taking place; aromatics, ethylene oxide / ethylene glycol (EO/EG), bisphenol-A and polycarbonate are prime examples. Other promising opportunities rest in new sources of demand for methanol and fertilizer projects to help feed the world's growing population. Again, we will highly utilize proprietary TOYO technologies to capture orders. Under the current trend of the integration of oil refining and petrochemical operations, there is a greater need to increase production of propylene. TOYO will meet client demand to increase propylene production by applying olefin conversion technology (OCT) licensed by ABB Lummus Global Inc., of the U.S., based on our long-standing collaboration.

3) Strategic Regions and Proposed Functions

We are placing emphasis on the BRIC countries, all of which are regions where we have accumulated considerable local know-how through a number of successful projects over many years. The Middle East, where there is a flood of investments, is another strategic region. We are also focusing on Japan, where clients continue to make strategic investments. In addition, we have high expectations for projects in Southeast Asia, another region of the world where we have much experience. We are ready to offer a spectrum of value-added solutions for our clients ranging from our expertise in engineering, procurement and construction (EPC) execution to our information technology skills to achieve optimal overall systems. Our solutions span the entire lifecycle of a project, including operations and maintenance (O&M).

Flexible Approach to Client Needs

Our second strategy is to respond to client needs in a flexible manner. It is therefore essential not only to complete large overseas EPC projects properly, but also to execute small to medium-scale projects, domestic projects, e-solution projects and other contracts, which are equally important for TOYO. This strategy will bring about a more diverse project portfolio and help us grow in a sustainable manner through dilution of risk exposure. We are convinced that our provision of these kinds of total solutions to clients will produce synergies that lead to expanded business opportunities.

Working with Clients Closely

Our third strategy is to build close relationships with our clients. In today's marketplace, clients place equal importance on a contractor's ability to offer value-added solutions and reliability of scheduled completion, quality and safety as well as on cost competitiveness.

We are required to serve as a trusted partner, assisting clients at a high level to execute their strategies and meet their needs. In order to earn the trust of clients and foster relationships of trust, we must be highly cost competitive and excellent in EPC execution and management. In addition, we feel that our customers highly value our regional know-how, a successful project record of achieving clients' satisfaction and involvement in projects from the initial planning stage.

President Yamada made a presentation titled "Toyo's Contribution to the Success of Projects in Iran" at the 7th annual Iran Petrochemical Forum in Tehran on May 7, 2005.

Outlook for Fiscal 2006

Prospects for New Orders

It is expected that strong investments will continue in association with the growing global demand for energy and basic materials. In conjunction with the integration of oil refining and petrochemical operations, prospects are also good for investments to raise the efficiency of production. In Japan, we foresee strategic investments driving clients to distinguish themselves from competitors. Many Japanese companies are faced with the decision of whether to promote the vertical integration of production in Japan or to shift their production bases abroad, mainly to China. On the other hand, we need to remain vigilant concerning the higher cost of raw materials, including special metals, and delivery management for the procurement of items in short supply. In addition, we will continue to adhere to our policy of fully hedging foreign currency exposure to shield our earnings from foreign exchange fluctuation.

New Orders, Revenue and Earnings

In fiscal 2006, we are forecasting a slight increase in consolidated new orders from the previous fiscal year to ¥200.0 billion. For the time being, energy-related projects will probably continue to account for a major share of new orders. Our goal is to achieve a well-balanced composition of orders among energy-related, petrochemicals and other sectors where we can offer highly differentiated products. Our forecast is for consolidated net sales of ¥200.0 billion, operating income of ¥5.0 billion and net income of ¥3.5 billion. Following the achievement of restoring normal profitability in fiscal 2005, we will remain focused on reaching our profit target in fiscal 2006 in order to secure a consistently profitable operating framework.

August 2005

Management System

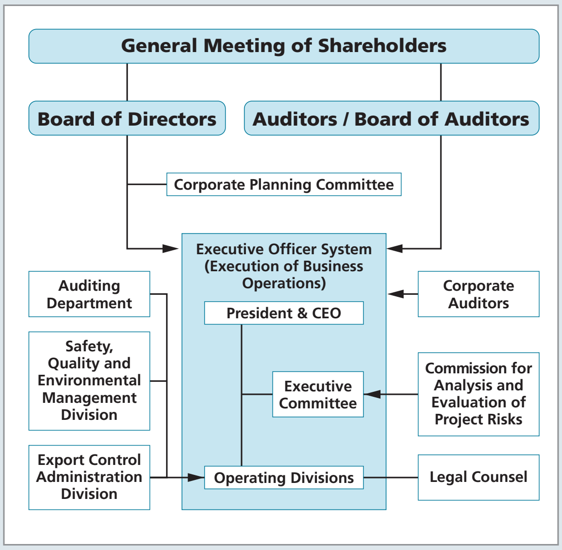
Corporate Governance

TOYO is dedicated to contributing to shareholders, clients and all other stakeholders, as well as to fulfilling its social obligations in Japan and worldwide. For this purpose, measures are taken to heighten management transparency from the standpoints of investors and the public. TOYO places importance on building a fair management system and ensuring the proper operation of that system as well as the suitable disclosure of information.

Corporate governance structure

By implementing structural reforms to enhance its management systems, such as reducing the number of directors and adopting the executive officer system, TOYO has established a framework for making management decisions smoothly and efficiently.
In addition, TOYO has reinforced the auditing system, including an internal control system, to ensure that management is transparent, sound and appropriate.

Corporate Governance Structure



Status of internal control system

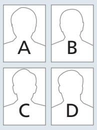
To provide an internal control system, the Auditing Department, which is under the direct control of the president, performs audits concerning the execution of business activities by all divisions. In addition, there are specialized units to perform other audits. The Safety, Quality and Environmental Management Division performs audits concerning safety, quality and environmental protection, and the Export Control Administration Division carries out export control to verify that no prohibited materials are being exported.

Status of risk management system

For risk management concerning project profitability and financial matters, all business operations are constantly monitored and supervised and reports are submitted to the Board of Directors, the Executive Committee and the Board of Auditors. In addition, matters of particular importance concerning individual bidding and projects undergo a risk analysis overseen by the Commission for Analysis and Evaluation of Project Risks, and reports are submitted to the Executive Committee. In addition, efforts will be made to ensure that our risk management system functions effectively by reinforcing the system of inter-divisional checks and balances. The Company has drawn up Crisis Management Policy to clearly set forth risk management procedures and increase risk awareness throughout the Company and forestall crises which have the potential to seriously affect the operations of the Company. In the event of a crisis, a Crisis Management Task Team reporting directly to management is quickly established. The Crisis Management Task Team takes up the crisis as an issue affecting the entire Company and implements measures to resolve the state of emergency.

Management



* Representative Director

President and Chief Executive Officer

Yutaka Yamada* (photo A)

Executive Vice President

Kazuhisa Marukawa* (photo B)

Directors and Senior Executive Officers

Yoshitaka Ogata (Chief Technical Officer)* (photo C)
Takuichi Murachi* (photo D)
Kazuomi Nishihara
Keiji Suda
Kuniaki Tsuyada
Hisashi Saigo
Kenji Soejima
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
Masahiro Suzuki
Yoshiaki Mizoguchi

Executive Officers

Osamu Okura
Shuji Ueki
Akichika Sumi
Akhilesh Kumar
Hidetsugu Fujii
Kiyoshi Nakao
Keiichi Matsumoto
Osamu Kawanobe
Kenji Niwa
Makoto Shimagaki

(As of June 28, 2005)

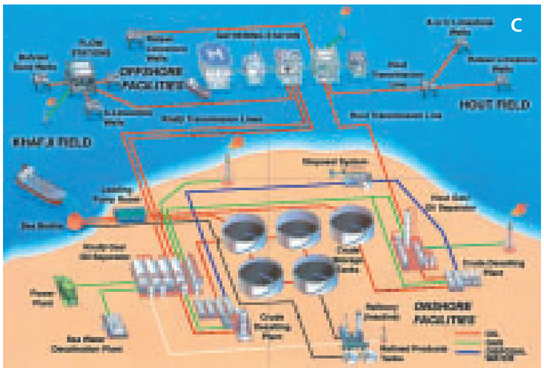
A large volume of investment is being made worldwide in oil, gas and other energy-related projects. The outlook is for a continuation of investment by the oil majors, oil-producing nations, BRIC countries and others. ***TOYO is aggressively pursuing these business opportunities to win orders by leveraging its experience, track record and regional know-how that spans the entire energy supply chain, from upstream to downstream projects.***

EPC Solutions Business Operations *(OVERSEAS)*

Gas & Oil

Achievements in Fiscal 2005

As in the previous fiscal year, TOYO benefited from extensive sales activities targeting energy-related projects, particularly those involving natural gas. As a result, new orders for energy-related projects totaled ¥85.1 billion, accounting for 44% of all new orders. However, this was 54% of the total of the previous fiscal year, when TOYO received orders for two large energy-related projects: an LNG plant on Sakhalin Island in Russia and a large gas processing plant in Iran. One highlight of fiscal 2005 was an order from Petroleo Brasileiro S.A. (PETROBRAS) for the construction of a natural gas pipeline approximately 500km in total length in northeastern Brazil. The energy-related sector accounted for 30% of total sales, making it the largest component by sector. Currently, TOYO is at work on three large-scale projects in this sector: the Sakhalin II LNG plant, the Iran South Pars gas processing plant and pipelines in Brazil.



A Construction site of South Pars gas processing project in Iran
B Gas pipeline project in Brazil
C Maintenance and modernization of the Al-Khafji oil field in Saudi Arabia

From Upstream to Downstream

In the upstream energy field, since 2002, TOYO has been working as a client-side alliance partner with Al-Khafji Joint Operations (KJO)* to provide technology services for the maintenance and modernization of the Al-Khafji offshore oil field in Saudi Arabia. During fiscal 2005, TOYO performed engineering for crude oil loading, crude oil production and offshore production facilities as well as for a condensate recovery system. In downstream activities, TOYO is now constructing a total of 1,400km of natural gas pipelines and related facilities in northeastern and southeastern Brazil for PETROBRAS. In the alternative clean energy fields, TOYO used its own technology for making methanol and DME from medium-sized natural gas field to build a fuel-use DME plant for Lutianhua Group Inc. in China. After completion of the world's first fuel-use DME in 2004, TOYO is working on building the DME chain.

Major Projects

Oil and Gas Development
- Technical services for Al-Khafji Joint Operations in Saudi Arabia

Gas Processing / LNG
- Gas processing plant for Petropars Ltd. in Iran
- LNG plant for Sakhalin Energy Investment Co., Ltd. in Russia

Pipeline
- Gas pipeline for PETROBRAS in Brazil

Alternative Clean Energy
- Fuel-use DME plant for Lutianhua Group Inc. in China

*A joint venture comprising Kuwait Oil Company and Saudi Aramco.

Due to very strong demand, particularly in China, the outlook is for substantial investments in plants for basic chemicals and for performance chemicals and engineered materials accompanying rising demand for consumer products. Steady growth is foreseen in fertilizer plants due to increasing demand for food supplies. In addition, new investments are foreseen in conjunction with the integration of oil refining and petrochemical operations. ***TOYO is strongly seeking orders by differentiating itself through the utilization of proprietary technologies and technologies made available through alliances with licensers.***

EPC Solutions Business Operations (OVERSEAS)

Petrochemicals & Chemicals

Achievements in Fiscal 2005

There was a strong performance by the petrochemical sector, resulting in new orders in this category of ¥46.5 billion, which was 24% of all new orders. Major orders were for an ammonia plant for Petrochemical Industries Development Management Company (PIDMCO) in Iran; a propylene plant by Olefins Conversion Technology (OCT) for Korea Petrochemical Industry Co., Ltd.; a methanol plant for Oman Methanol Company L.L.C. (MAN Ferrostaal Aktiengesellschaft, of Germany); and a bisphenol-A and polycarbonate plant using the latest Japanese technologies for OAO Kazanorgsintez in the republic of Tatarstan, Russia. Major completions included a specialty bisphenol plant in eastern Germany for a joint venture company Hi-Bis GmbH*; an EO/EG plant for Jubail United Petrochemical Company in Saudi Arabia; and an acrylic acid (AA) / acrylic acid ester (AE) plant and OXO alcohol (OXO) plant in Nanjing, China, for BASF-YPC Co., Ltd., a joint venture of BASF, of Germany, and Sinopec Yangzi Petrochemical Co., Ltd., of China.

A Contract signing for methanol plant of Oman Methanol Company L.L.C.
B EO / EG plant of Jubail United Petrochemical Company in Saudi Arabia
C AA / AE plant of BASF-YPC Co., Ltd. in China

Distinguishing TOYO with Proprietary and Licensed Technology

A 3,000t/d methanol plant licensed and engineered by TOYO incorporates two proprietary TOYO technologies. One is methanol synthesis technology, incorporated with the *MRF-Z® Reactor*, a TOYO-developed technology that enables production of 6,000t/d of methanol in a single reactor vessel. The other is TOYO's steam reforming technology. In the urea sector, TOYO received three orders for urea granulation plants using exclusive TOYO technology from clients in Brazil, China and others. In 2004, operations began in China at the first urea plant using TOYO's *ACES21®*—TOYO's sophisticated energy-saving urea production technology. Regarding licensed technology, TOYO will go after new orders in the olefins field jointly with ABB Lummus Global Inc., of the U.S., by stressing new technologies such as the latest SRT-X furnace that enables the production of 300,000t/y of ethylene per furnace as well as OCT for increasing propylene production.

Major Projects

Fertilizer / Methanol
- Ammonia plant for PIDMCO in Iran
- Ammonia / Urea plant for P.T. Pupuk Kujang in Indonesia
- Methanol plant for Oman Methanol Company L.L.C. in Oman

Petrochemicals
- EO / EG plant for Jubail United Petrochemical Company in Saudi Arabia
- AA / AE plant and OXO plant for BASF-YPC Co., Ltd. in China
- Bisphenol-A / Polycarbonate plant for OAO Kazanorgsintez in Tatarstan, Russia
- Propylene plant by OCT for Korea Petrochemical Industry Co., Ltd. in Korea

*A joint venture company of Honshu Chemical Industry Co., Ltd., Mitsui & Co., Ltd. and Bayer AG.

In Japan, companies in all industries are shifting to a strategy of selective focus to differentiate themselves from competitors. As a result, there is a shift in production bases abroad, mainly to China, along with investments to integrate production systems vertically in Japan for specializing in specific products. Furthermore, investments are being made in Japan to integrate oil refining and petrochemical operations to achieve overall optimization. There are also investments in production facilities needed to match changes in demand. ***TOYO is actively pursuing orders associated with the investment plans of client companies in line with all these trends.***

EPC Solutions Business Operations (Domestic)

Achievements in Fiscal 2005

Due to aggressive sales activities, domestic operations recorded a big increase in new orders over the previous fiscal year. New orders in Japan totaled ¥68.0 billion. This was 35% of all new orders, ranking Japan first in the new order breakdown by region.

In the petrochemical field, a highlight of the year was an order to build a large VCM plant for Tosoh Corporation. Support services for Japanese companies expanding their operations outside Japan were another source of new business. Orders were received for a number of overseas production facilities, including fine chemical plants of Toyo Ink Mfg. Co., Ltd. and Otsuka Chemical Co., Ltd. in China as well as a super absorbent polymer (SAP) plant for Nippon Shokubai Co., Ltd. in Belgium.

Major projects completed in Japan included an aniline plant for Tosoh Corporation, a plant for Mitsui Chemicals, Inc. to increase propylene production by OCT, a multi-purpose bulk pharmaceuticals plant for Wako Pure Chemical Industries, Ltd., and R&D and production sites of positron emission tomography (PET) diagnostics for Nihon Medi-Physics Co., Ltd. In China, an SAP plant for Nippon Shokubai was completed and started operation.

A Aniline plant of Tosoh Corporation in Japan
B Opening ceremony for SAP plant of Nisshoku Chemical Industry (Zhangjiagang) Co., Ltd. in China
C Propylene plant of Mitsui Chemicals, Inc. in Japan

Growing Demand for Assisting Japanese Companies Expanding Operations in China

In 2004, TOYO established Toyo Engineering Corporation, China (TOYO-China), a company that is able to conduct all business operations including EPC under China's new legal framework for the construction industry. This company is actively engaged in assisting Japanese clients set up operations in China. TOYO-China is currently building many factories, including facilities to manufacture chemical products and electronic components. New orders during the fiscal year under review included an ink solvent plant for Toyo Ink Mfg./STIM, a potassium titanate fiber plant for Zhangjiagang Otsuka Chemical Co., Ltd. and a paper making chemicals plant for Seiko PMC (Zhangjiagang) Corporation. We have cooperative agreements with the economic development zones of Nanjing, Daqing and Jilin, adding to the four existing agreements in eastern China with Changshu, Zhangjiagang, Nantong and Zhenjiang. Thus, TOYO's service to help clients start operations in China has been extended to three northeastern provinces of China.

Major Projects

Petrochemicals
- VCM plant and Aniline plant for Tosoh Corporation
- Propylene plant for Mitsui Chemicals, Inc.

Industrial Plants
- Multi-purpose bulk pharmaceuticals plant for Wako Pure Chemical Industries, Ltd.
- R&D and production sites of PET diagnostics for Nihon Medi-Physics Co., Ltd.

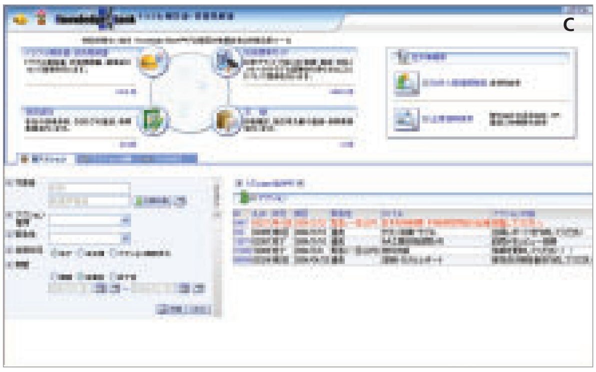
Projects in China
- SAP plant for Nisshoku Chemical Industry (Zhangjiagang) Co., Ltd.
- Fine chemical plant for Sankyo Chemical Co., Ltd.

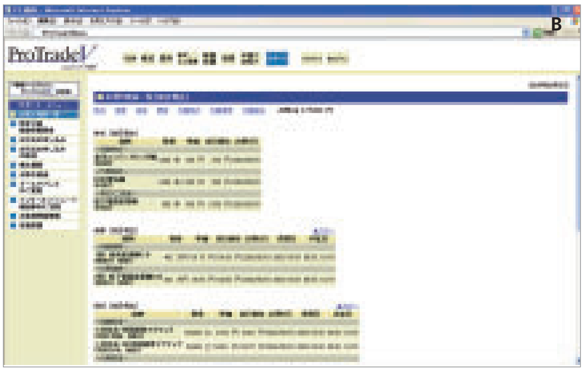
Strategic investments in the manufacturing, distribution and service sectors are climbing and needs associated with business reforms that can boost efficiency and competitiveness are growing as well. The result is increasing demand for consulting services and systems integration services that target these needs. In response, ***TOYO offers integrated solutions centered on its own products and services. These solutions extend from consulting services for renovation planning and systems design and development through the execution of a project.***

e-Solutions Business Operations

Achievements in Fiscal 2005

Fiscal 2005 orders in the IT sector were up sharply, rising 40% to ¥19.9 billion, which comprise domestic new orders. This accomplishment is primarily a reflection of the consistent progress being made by the e-solutions business, which is now in its fourth year of operation. In the supply chain management (SCM) solutions field, we received an order from Tohan Co., Ltd.—a leading distributor of books and magazines in Japan—for the construction of a reverse logistic center for books at its Okegawa Logistics Complex. By utilizing our expertise in the field of plant operation and maintenance, we have a business that provides support for building integrated facility maintenance systems for clients, including electric power companies. In the financial solutions field, a multichannel front-office system for securities trading that uses TOYO's proprietary ProTradeV® continues to perform well at SMBC Friend Securities Co., Ltd. Furthermore, a system for securities intermediary business was put into operation. In all, fiscal 2005 was highlighted by aggressive measures to establish systems, primarily by using TOYO products like *Komei7®*, a production schedule control system, and *Knowledge Bank®*, a knowledge management system that applies TOYO know-how.





A Okegawa logistics complex of Tohan Co., Ltd.
B ProTradeV® for multichannel front-office system for securities trading
C *Knowledge Bank®*—knowledge management system

Knowledge Support System for Field Operators at Oil Refinery

In July 2004, TOYO began developing a program called Knowledge Support System for Field Operators at Oil Refinery, a three-year joint project with the Research Institute of Human Engineering for Quality Life sponsored by Japan's Ministry of Economy, Trade and Industry. The purpose of the system is to pass down the know-how of veteran workers and enhance the skills of younger workers in order to prevent industrial accidents. In fiscal 2005, an explosion-protected wearable camera and a knowledge support system were developed. In fiscal 2006, the newly developed devices will be used for demonstration experiment at two oil refineries in Japan. Video recordings will be used to examine the movements of workers using a human engineering analysis method to create a database of the resulting know-how. In the final year of this project, educational tools will be developed for young workers. The new equipment and educational tools are to be adapted for use at oil refineries, petrochemical plants, LNG plants and other facilities.

Major Projects

Publishing distribution industry
- Logistics center for distributor of books and magazines (Tohan Co., Ltd.)

Beverage industry
- Manufacturing execution system *Komei®* (Asahi Soft Drinks Co., Ltd.)

Oil industry
- Manufacturing execution system *Komei®* (Showa Shell Sekiyu K.K.)

Financial industry
- Multichannel front-office system ProTradeV® (SMBC Friend Securities Co., Ltd.)

Electric utility industry
- Knowledge management system *Knowledge Bank®* (Tokyo Electric Power Company)
- Improvement of the maintenance system (Japan Atomic Power Co.)

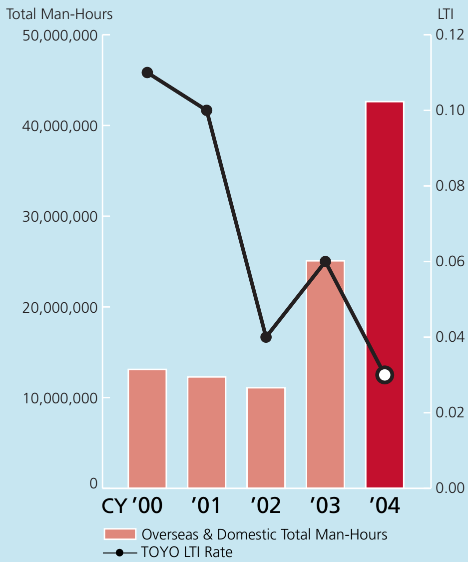
HSE+Quality

Safety Record

During calendar 2004, TOYO's incidence rate for lost-time injuries and illnesses (LTI), as defined by U.S. OSHA*, was 0.03, the lowest in the past five years. Our LTI rate has been constantly decreasing.

*Number of persons per 200,000 man-hours

TOYO Safety Record



Petropars Ltd. (Iran)

ongoing

Gas Processing Plant:

13,000,000 LTI-free man-hours

Jubail United Petrochemical Company (Saudi Arabia)

ongoing

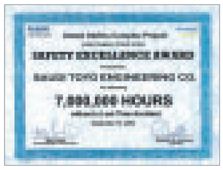
Petrochemical Plant (No.2 EO/EG):

2,500,000 LTI-free man-hours

2003–2004 (Sept.) (completed)

Petrochemical Plant (No.1 EO/EG):

7,000,000 LTI-free man-hours



BASF-YPC Co., Ltd. (China)

2003–2004 (Dec.) (completed)

Petrochemical Plant (AA/AE):

7,000,000 LTI-free man-hours

Petrochemical Plant (OXO):

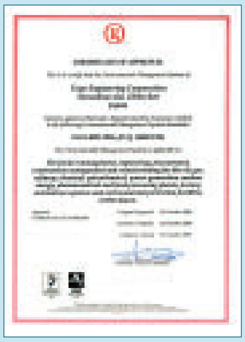
5,000,000 LTI-free man-hours

New Corporate Safety, Quality and Environment Policy

TOYO has established a new Corporate Safety, Quality and Environment Policy. Based on our Corporate Philosophy, the policy is structured to meet ISO demands, thus fulfilling the Company's mission as an engineering company. The policy has five elements: the supply of products and services that are safe and have the least burden on the environment; the creation of a safety-oriented culture; the preservation of the regional and global environments; adherence to ethics and compliance with laws and regulations regarding Safety, Quality and Environment; and continuous improvements based on the belief that safety, quality and environmental protection are the basis of an ongoing concern. The policy also includes elements from the standpoint of business continuity management. Moreover, the policy unifies separate policies for product quality and safety, health and the environment to integrate all management systems.

ISO 14001 Certification

TOYO received ISO 14001 certification in October 2004. Certification covers oil, gas, refinery, chemical and petrochemical plants as well as industrial plants, including power generation, nuclear energy, pharmaceutical and food processing plants, and environmental protection facilities. We have an Environmental Planning Department within our Safety, Quality and Environmental Management Division that is overseen directly by the president and is independent of all other TOYO divisions. This department is responsible for management activities associated with operating and improving our environmental management system.

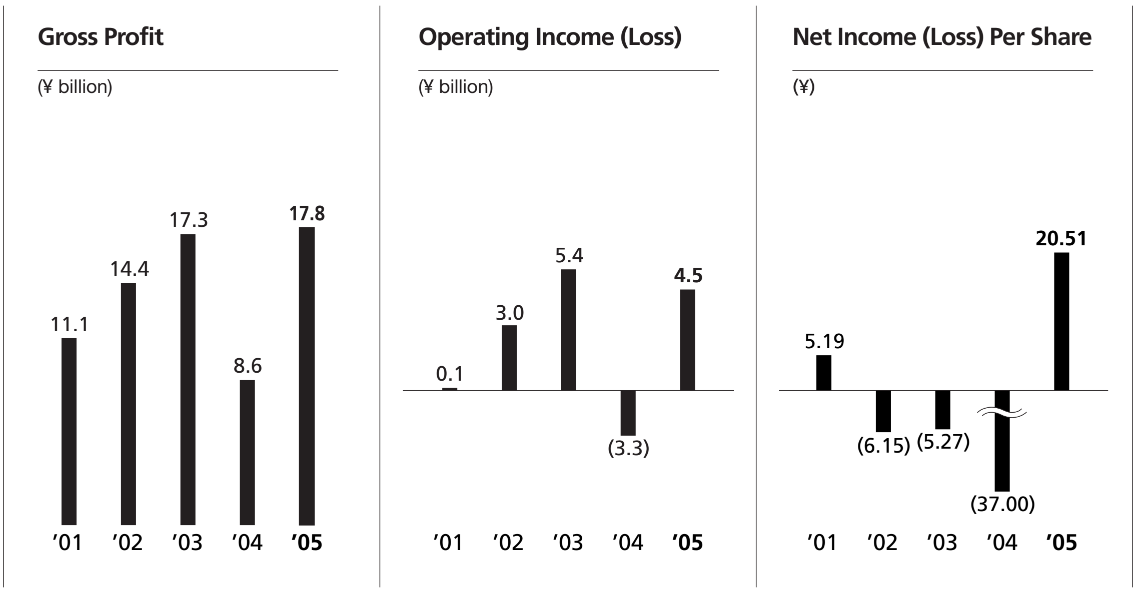


Consolidated Five-Year Summary

Toyo Engineering Corporation and Consolidated Subsidiaries   Years ended March 31

	Millions of yen					Thousands of U.S. dollars (Note 1)
	2005	2004	2003	2002	2001	**2005**
Net sales	**¥197,945**	¥170,529	¥179,168	¥158,963	¥119,067	**$1,844,440**
Gross profit	**17,770**	8,640	17,291	14,415	11,136	**165,578**
Operating income (loss)	**4,540**	(3,257)	5,424	2,961	147	**42,301**
Income (loss) before income taxes and minority interests	**3,698**	(3,714)	657	(1,370)	2,194	**34,458**
Net income (loss)	**3,598**	(6,491)	(923)	(1,081)	912	**33,522**
Total assets	**209,564**	201,133	199,494	196,177	239,778	**1,952,701**
Total shareholders' equity	**28,442**	24,724	29,694	30,906	32,089	**265,024**
Long-term debt	**36,454**	39,691	41,840	46,038	28,765	**339,674**
Purchases of property, plant and equipment	**2,096**	241	282	272	334	**19,528**
Depreciation and amortization	**1,453**	1,315	1,347	1,339	1,304	**13,535**
Common stock	**13,018**	13,018	13,018	13,018	13,018	**121,298**
New orders	**192,600**	241,528	195,160	131,211	232,666	**1,794,633**
Backlog of contracts at end of the year	**337,760**	350,574	307,817	300,636	324,259	**3,147,223**

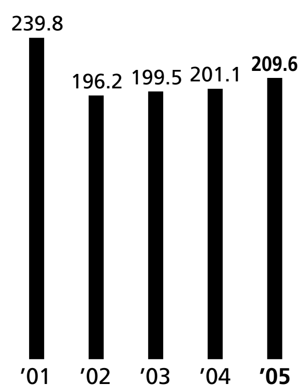
	Yen					U.S. dollars (Note 1)
Per share:						
Net income (loss)	**¥20.51**	¥(37.00)	¥(5.27)	¥(6.15)	¥5.19	**$0.19**
Cash dividends	**3.00**	—	—	—	—	**0.03**



	2005	2004	2003	2002	2001
Net sales by sector (%):					
Chemical fertilizers	15.8%	9.3%	7.1%	11.2%	8.7%
Petrochemicals	27.4	30.8	32.9	41.8	30.6
Refinery	7.7	13.3	21.3	14.5	7.1
Energy-related	29.5	27.3	19.2	11.9	23.9
General manufacturing facilities and information technology	14.7	11.5	12.2	16.4	19.7
Others	4.9	7.8	7.3	4.2	10.0
(Overseas sales)	(72)	(78)	(79)	(74)	(72)
Number of employees	2,376	2,310	2,146	1,939	1,475

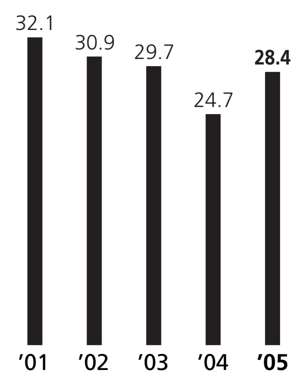
Total Assets

(¥ billion)



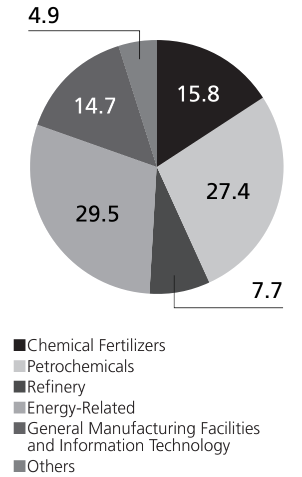
Total Shareholders' Equity

(¥ billion)



Composition of Net Sales by Sector

(%)



Management's Discussion and Analysis

In fiscal 2005, ended March 31, 2005, TOYO posted large increases in sales and earnings. Net income rose to the highest level since TOYO began reporting consolidated results in fiscal 1995. On a non-consolidated basis, TOYO resumed paying a dividend for the first time since the dividend applicable to fiscal 1998. The following items are particularly noteworthy achievements of the fiscal year under review.

1) New orders surpassed our target

Fiscal 2005 consolidated new orders totaled ¥192.6 billion ($1,795 million). This was less than in fiscal 2004 when orders were received for large projects in Russia and Iran. However, energy-related orders were strong as in the previous fiscal year and new orders of domestic operations increased. The backlog of contracts at the end of the fiscal year was ¥337.8 billion ($3,147 million), which equates to about 1.8 years of forecasted fiscal 2006 net sales. This provides an adequate backlog of contracts to give TOYO a stable base of operations.

2) Significant improvement in cash provided by changes in operating assets and liabilities and reduction in interest-bearing debt

Due to a significant improvement in cash provided by changes in operating assets and liabilities, sufficient operating cash flows were generated to reduce interest-bearing debt. As a result, interest-bearing debt totaled ¥54.1 billion ($504 million) at the end of the fiscal year, ¥12.1 billion (US$113 million) less than one year earlier.

Sales and Earnings

Consolidated net sales increased ¥27.4 billion (US$255 million) to ¥197.9 billion ($1,844 million), due in part to satisfactory progress in implementing large projects. At the operating level, TOYO returned to profitability with operating income of ¥4.5 billion ($42 million), an improvement of ¥7.8 billion (US$73 million) over the fiscal 2004 operating loss. This was achieved even though earnings were slightly less than had been planned on average. Net income was ¥3.6 billion ($34 million) as planned.

Cash Flows

Net cash provided by operating activities was ¥16.0 billion ($149 million). The principal sources of cash were income before income taxes and minority interests of ¥3.7 billion ($34 million), in addition to an increase in advance receipts on uncompleted work. Another reason for the improvement was the positive effect on cash flows of progress in construction work at joint venture projects. Net cash used in investing activities was ¥2.1 billion ($20 million). This was mainly attributable to the purchases of property, plant and equipment. Net cash used in financing activities was ¥12.2 billion ($114 million) as repayments of interest-bearing debt were made based on the debt reduction plan. The net result of the above cash flows, after including the effect of exchange rate changes, was a net increase of ¥1.8 billion ($17 million) in cash and cash equivalents compared with the end of the previous fiscal year to ¥45.4 billion ($423 million).

Business Risk and Other Risks

The following is a list of potential risks associated with the information concerning operating results and financial condition in this annual report that may have a significant bearing on investors' decisions. This is not intended to be a complete list of these potential risks.

1. Overseas business risk

The nature of TOYO Group business activities, which mainly involve conducting projects outside Japan, is exposed to the following risks. (1) War, civil commotion, riots, revolutions, sudden changes in governments and other unusual events in the country where the project is carried out or in a neighboring country. (2) Regional risks that occur particularly in an area near a project site, such as a surge of political unrest and a serious outbreak of a contagious disease. (3) Extraordinary natural phenomenon, such as earthquakes, floods, typhoons and other storms as well as unusual weather, such as extreme heat or cold. (4) Drastic changes in industrial or financial policies in the host country affecting the permission, laws and regulations involving import duties, immigration, foreign exchange, telecommunications, taxation and other items. (5) A sudden and substantial reduction of investments globally in business fields where TOYO is active. Any interruption or suspension in work due to the above risks could have an adverse effect on TOYO's consolidated operating results and financial condition. The Group is aware of the possibility that these risks may occur and is taking actions to reduce exposure to these risks by using export credit insurance, maintaining a risk management system and taking other steps.

2. Foreign exchange fluctuation

For overseas plant construction contracts denominated in foreign currencies, the appreciation of the yen relative to the applicable foreign currency causes a reduction in the yen equivalent amount received. In addition, the yen's appreciation makes TOYO less price competitive when competing for new orders in foreign currencies. This could have an adverse effect on TOYO's consolidated operating results and financial condition. In response, the Group uses foreign exchange forward contracts, procures materials and equipment in foreign currencies, utilizes the resources of its overseas bases, and takes all other possible steps to minimize exposure to foreign exchange risk.

3. Sudden increases in prices of equipment and materials

A large share of contracts signed with clients involves turnkey lump-sum projects. Therefore, the possibility exists of sudden and steep rises in the cost of equipment and materials, transportation, labor and other items associated with a project, or of problems caused by tight demand and supplies of these items, due to rapid change in the international situation. The possibility also exists of a supplier becoming insolvent. These events may deteriorate the profitability of a project affected by soaring cost, delivery delay and other problems. Such events may therefore have a detrimental effect on TOYO's consolidated operating results and financial condition. To reduce its exposure to these risks, TOYO utilizes its experience to enter into contracts that incorporate measures to offset these risks and gathers information on market trends. To avoid an undue reliance on a particular supplier, TOYO works on placing orders with a large number of suppliers and stringently monitors the financial condition of suppliers.

Consolidated Balance Sheets

Toyo Engineering Corporation and Consolidated Subsidiaries March 31, 2005 and 2004

Assets	Millions of yen 2005	Millions of yen 2004	Thousands of U.S. dollars (Note 1) 2005
Current assets:			
Cash and deposits	**¥ 45,972**	¥ 44,098	**$ 428,359**
Notes and accounts receivable (Note 3)	**40,155**	37,247	**374,160**
Less: Allowance for doubtful receivables	**(3,637)**	(2,117)	**(33,884)**
	36,518	35,130	**340,276**
Contract work in progress	**61,788**	62,659	**575,734**
Prepaid expenses and other current assets (Note 4)	**14,742**	7,465	**137,370**
Total current assets	**159,020**	149,352	**1,481,739**
Investments:			
Investment securities (Note 12)	**5,648**	5,771	**52,623**
Investments in unconsolidated subsidiaries and affiliates (Note 12)	**3,717**	3,871	**34,636**
Long-term loans	**1,394**	3,239	**12,989**
Other	**6,081**	6,169	**56,666**
Less: Allowance for doubtful receivables	**(3,654)**	(3,903)	**(34,050)**
Total investments	**13,186**	15,147	**122,864**
Property, plant and equipment, at cost:			
Land (Note 3)	**19,408**	18,803	**180,841**
Buildings and structures (Note 3)	**26,411**	25,738	**246,098**
Tools, furniture and fixtures	**3,418**	4,423	**31,843**
Construction in progress	**181**	—	**1,689**
Total	**49,418**	48,964	**460,471**
Less: Accumulated depreciation	**(15,186)**	(15,758)	**(141,500)**
Property, plant and equipment, net	**34,232**	33,206	**318,971**
Other assets (Note 4)	**3,126**	3,428	**29,127**
	¥209,564	¥201,133	**$1,952,701**

See notes to consolidated financial statements.

Liabilities and Shareholders' Equity	Millions of yen 2005	Millions of yen 2004	Thousands of U.S. dollars (Note 1) 2005
Current liabilities:			
Short-term bank loans (Note 3)	**¥ 6,514**	¥ 11,916	**$ 60,697**
Current portion of long-term debt (Note 3)	**11,109**	14,555	**103,510**
Notes and accounts payable	**31,715**	30,147	**295,522**
Income taxes payable (Note 4)	**244**	528	**2,272**
Advance receipts on uncompleted contracts	**73,756**	61,915	**687,260**
Reserve for anticipated loss on contract work	**1,628**	468	**15,167**
Other current liabilities (Note 4)	**12,582**	10,038	**117,237**
Total current liabilities	**137,548**	129,567	**1,281,665**
Long-term debt (Note 3)	**36,454**	39,691	**339,674**
Accrued retirement benefits (Note 5)	**2,477**	2,660	**23,075**
Other long-term liabilities (Note 4)	**2,762**	2,621	**25,738**
Contingent liabilities (Note 7)			
Minority interests	**1,881**	1,870	**17,525**
Shareholders' equity:			
Common stock			
Authorized: 500,000,000 shares			
Issued: 175,692,539 shares	**13,018**	13,018	**121,298**
Additional paid-in capital	**15,594**	15,593	**145,303**
Retained earnings (Note 6)	**(606)**	(4,278)	**(5,645)**
Net unrealized gain on securities	**1,133**	1,231	**10,562**
Foreign currency translation adjustments	**(638)**	(805)	**(5,945)**
	28,501	24,759	**265,573**
Less: Treasury stock, at cost: 291,522 shares	**(59)**	(35)	**(549)**
Total shareholders' equity	**28,442**	24,724	**265,024**
	¥209,564	¥201,133	**$1,952,701**

Consolidated Statements of Operations

Toyo Engineering Corporation and Consolidated Subsidiaries Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	**2005**
Net sales (Note 8)	**¥197,945**	¥170,529	**$1,844,440**
Cost of sales	**180,175**	161,889	**1,678,862**
Gross profit	**17,770**	8,640	**165,578**
Selling, general and administrative expenses (Note 9)	**13,230**	11,897	**123,277**
Operating income (loss)	**4,540**	(3,257)	**42,301**
Other income:			
Interest and dividend income	**1,225**	1,743	**11,410**
Gain on sales of investment securities	**36**	452	**334**
Gain on revision of pension plan	**248**	—	**2,309**
Other	**169**	162	**1,578**
	1,678	2,357	**15,631**
Other expenses:			
Interest expense	**1,391**	1,719	**12,956**
Foreign exchange loss	**406**	252	**3,782**
Loss on valuation of investment securities	**130**	481	**1,212**
Other (Note 10)	**593**	362	**5,524**
	2,520	2,814	**23,474**
Income (loss) before income taxes and minority interests	**3,698**	(3,714)	**34,458**
Income taxes (Note 4)			
Current	**407**	712	**3,795**
Deferred	**(326)**	1,882	**(3,035)**
	81	2,594	**760**
Minority interests	**(19)**	(183)	**(176)**
Net income (loss)	**¥ 3,598**	¥ (6,491)	**$ 33,522**

Per share of common stock:	Yen		U.S. dollars (Note 1)
Net income (loss)	**¥20.51**	¥(37.00)	**$0.19**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Toyo Engineering Corporation and Consolidated Subsidiaries Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	**2005**
Common stock:			
Balance at beginning of the year	**¥13,018**	¥13,018	**$121,298**
Balance at end of the year	**¥13,018**	¥13,018	**$121,298**
Additional paid-in capital			
Balance at beginning of the year	**¥15,593**	¥15,592	**$145,296**
Add–gain on disposal of treasury stock	**1**	1	**7**
Balance at end of the year	**¥15,594**	¥15,593	**$145,303**
Retained earnings (Note 6):			
Balance at beginning of the year	**¥(4,278)**	¥ 2,216	**$(39,864)**
Add–net income	**3,598**	—	**33,522**
–Increase due to newly consolidated subsidiaries	**77**	—	**726**
Deduct–net loss	**—**	6,491	**—**
–Bonuses to directors	**3**	3	**29**
Balance at end of the year	**¥ (606)**	¥(4,278)	**$ (5,645)**
Net unrealized gain (loss) on securities:			
Balance at beginning of the year	**¥ 1,231**	¥ (541)	**$ 11,472**
Adjustment for the year	**(98)**	1,772	**(910)**
Balance at end of the year	**¥ 1,133**	¥ 1,231	**$ 10,562**
Foreign currency translation adjustments:			
Balance at beginning of the year	**¥ (805)**	¥ (566)	**$ (7,497)**
Adjustment for the year	**167**	(239)	**1,552**
Balance at end of the year	**¥ (638)**	¥ (805)	**$ (5,945)**
Treasury stock:			
Balance at beginning of the year	**¥ (35)**	¥ (25)	**$ (328)**
Shares increased, net	**(24)**	(10)	**(221)**
Balance at end of the year	**¥ (59)**	¥ (35)	**$ (549)**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Toyo Engineering Corporation and Consolidated Subsidiaries   Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	**2005**
Operating activities:			
Income (loss) before income taxes and minority interests	**¥ 3,698**	¥ (3,714)	**$ 34,458**
Adjustments to reconcile income (loss) before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**1,453**	1,315	**13,535**
Gain on sales of marketable and investment securities, net	**(36)**	(452)	**(334)**
Loss on valuation of investment securities	**130**	481	**1,213**
Allowance for doubtful receivables	**1,269**	425	**11,830**
Allowance for anticipated loss on contract work	**1,160**	147	**10,805**
Equity in earnings of affiliated companies	**(18)**	(32)	**(171)**
Increase (decrease) in retirement benefits	**(19)**	299	**(173)**
Interest and dividends received	**1,380**	1,783	**12,857**
Interest and dividend income	**(1,225)**	(1,743)	**(11,410)**
Interest expense	**1,390**	1,719	**12,956**
Interest paid	**(1,400)**	(1,762)	**(13,045)**
Income taxes paid	**(968)**	(961)	**(9,024)**
Other, net	**(2,122)**	6,117	**(19,772)**
Changes in operating assets and liabilities:			
(Increase) decrease in notes and accounts receivable	**(2,666)**	14,663	**(24,837)**
(Increase) decrease in contract work in progress	**1,281**	(21,058)	**11,933**
Increase (decrease) in notes and accounts payable	**1,358**	(2,878)	**12,654**
Increase (decrease) in advance receipts on uncompleted contracts	**11,287**	23,228	**105,169**
Net cash provided by operating activities	**15,952**	17,577	**148,644**
Investing activities:			
Purchases of investment securities	**(20)**	(138)	**(189)**
Proceeds from sales of marketable securities and investment securities	**99**	1,015	**927**
Purchases of property, plant and equipment	**(2,096)**	(241)	**(19,528)**
Purchases of other assets	**(871)**	(913)	**(8,119)**
Proceeds from collection of long-term loans	**570**	—	**5,307**
Other, net	**219**	(318)	**2,037**
Net cash used in investing activities	**(2,099)**	(595)	**(19,565)**
Financing activities:			
Decrease in short-term bank loans, net	**(5,401)**	(13,727)	**(50,330)**
Proceeds from long-term debt	**6,038**	12,050	**56,262**
Repayment of long-term debt	**(14,770)**	(14,863)	**(137,627)**
Proceeds from issuance of bonds	**2,000**	1,000	**18,636**
Other	**(65)**	(167)	**(605)**
Net cash used in financing activities	**(12,198)**	(15,707)	**(113,664)**
Effect of exchange rate changes on cash and cash equivalents	**121**	(191)	**1,129**
Net increase in cash and cash equivalents	**1,776**	1,084	**16,544**
Cash and cash equivalents, beginning of the year	**43,615**	42,531	**406,405**
Increase in cash and cash equivalents due to newly consolidated subsidiaries	**56**	—	**523**
Cash and cash equivalents, end of the year	**¥45,447**	¥ 43,615	**$423,472**

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 ¥107.32 to U.S.$1.00 prevailing on March 31, 2005.

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 are 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) Reserve for anticipated loss on contract work

Reserve for anticipated loss on contract work is provided in case the material loss is forecasted for a certain large-scale contract work.

(i) Accrued Retirement Benefits

The accrued retirement benefits at the year-end are 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 ¥3,701 million ($34,490 thousand) is amortized over fifteen years on a straight-line basis. Actuarial loss is amortized over mainly fifteen years starting following the year of recognition. Prior service cost is amortized over fifteen years.

Amendment was made to the pension plan on June 1, 2004 to limit future pension annuity payment to pensioners. In accordance with the provision stipulated in "Accounting for transfer between pension plan", gain on the amendment of pension plan, in the amount of ¥248 million ($2,309 thousand), is recorded as other income for the year ended March 31, 2005.

(j) 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.

(k) 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.

(l) 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.

(m) 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 2005 or 2004.

(n) 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.

(o) Consolidated Tax Return

Effective from the year ended March 31, 2005, the Company files a consolidated tax return with certain domestic subsidiaries.

(p) 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, 2005 ranged principally from 0.94% to 6.8% and at March 31, 2004 ranged from 0.69% 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, 2005 and 2004 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
Years ended March 31,	**2005**	2004	**2005**
Loans, principally from banks, at interest rates ranging from zero to 6.800%, due 2005-2033:			
Secured	**¥22,955**	¥25,211	**$213,887**
Unsecured	**21,608**	28,035	**201,343**
1.080% bonds, due 2007	**1,000**	1,000	**9,318**
1.470% bonds, due 2007	**2,000**	—	**18,636**
Total long-term debt	**47,563**	54,246	**443,184**
Less: Current portion	**11,109**	14,555	**103,510**
	¥36,454	¥39,691	**$339,674**

The following assets at March 31, 2005 and 2004 were pledged as collateral principally for long-term debt:

	Millions of yen		Thousands of U.S. dollars
Years ended March 31,	**2005**	2004	**2005**
Notes and accounts receivable	**¥ 6,705**	¥ 7,881	**$ 62,476**
Land and buildings, net of accumulated depreciation	**25,340**	27,760	**236,121**
	¥32,045	¥35,641	**$298,597**

The following schedule shows the maturities of long-term debt subsequent to March 31, 2005:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2006	¥11,109	$103,510
2007	22,370	208,442
2008	7,468	69,589
2009	2,225	20,729
2010	1,694	15,780
2011 and thereafter	2,697	25,134
	¥47,563	$443,184

The Company and its subsidiaries had committed line of credit of ¥10 billion ($93,179 thousand) at March 31, 2005. There were no borrowings outstanding under the line of credit.

4 INCOME TAXES

The statutory tax rates applicable to the Company and its domestic subsidiaries for the year ended March 31, 2005 and 2004 were approximately 40.4% and 41.8%, respectively. 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, 2005	
Statutory tax rate in Japan	40.4%
Adjustments:	
Permanently nondeductible expenses	7.3
Permanently nontaxable dividends received	(0.3)
Effect on operating loss carryforwards, etc.	(52.0)
Other	6.8
Effective tax rate	2.2%

Year ended March 31, 2004

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

(2) Significant components of the deferred income tax assets and liabilities at March 31, 2005 and 2004 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Deferred tax assets:			
Allowance for doubtful receivables	**¥1,331**	¥1,573	**$12,402**
Accrued retirement benefits	**838**	845	**7,809**
Provision for anticipated loss on contract work	**588**	—	**5,483**
Difference in net sales recognized by the percentage-of-completion method	**—**	405	**—**
Other	**1,151**	777	**10,722**
Total deferred tax assets	**3,908**	3,600	**36,416**
Deferred tax liabilities offset to deferred tax assets:			
Difference in net unrealized gain on securities	**(680)**	(726)	**(6,336)**
Reserve for overseas investment losses	**(3)**	(8)	**(32)**
Depreciation expense	**(113)**	(126)	**(1,054)**
Other	**(46)**	(36)	**(427)**
Total deferred tax liabilities	**(842)**	(896)	**(7,849)**
Net deferred tax assets	**¥3,066**	¥2,704	**$28,567**

Note: The Company and its subsidiaries had operating loss carryforwards equivalent to unrecognized tax assets of ¥5,005 million ($46,634 thousand) and ¥6,503 million at March 31, 2005 and 2004, respectively, which are available to be offset against future taxable income.

(3) Net deferred tax assets at March 31, 2005 and 2004 are included in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Current assets–prepaid expenses and other current assets	**¥2,112**	¥1,136	**$19,674**
Other assets	**1,113**	1,729	**10,374**
Other current liabilities	**(1)**	—	**(7)**
Other long-term liabilities	**(158)**	(161)	**(1,474)**
Net deferred tax assets	**¥3,066**	¥2,704	**$28,567**

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, 2005 consisted of the following:

Year ended March 31, 2005	Millions of yen	Thousands of U.S. dollars
Projected benefit obligation	¥(15,402)	$(143,512)
Plan assets	8,212	76,520
Unreserved projected benefit obligation	(7,190)	(66,992)
Unamortized obligation at transition	2,476	23,073
Unamortized actuarial loss	4,408	41,074
Unrecognized prior service cost	(1,997)	(18,611)
Accrued retirement benefits for employees	¥ (2,303)	$ (21,456)

The consolidated balance sheet includes directors' and statutory auditors' retirement allowances of ¥174 million ($1,619 thousand) in addition to the accrued retirement benefits for employees presented above.

(2) Net periodic pension cost for the year ended March 31, 2005 consisted of the following:

Year ended March 31, 2005	Millions of yen	Thousands of U.S. dollars
Components of net periodic benefit cost:		
Service cost	¥ 568	$ 5,288
Interest cost	298	2,774
Expected return on plan assets	(206)	(1,916)
Amortization of unrecognized retirement benefit obligation at transition	250	2,332
Amortization of unrecognized actuarial loss	383	3,565
Amortization of prior service cost	(153)	(1,422)
Other	120	1,119
Net periodic pension cost	1,260	11,740
Gain on revision of pension plan	(248)	(2,309)
Total	¥1,012	$ 9,431

(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, 2005, the Company and its subsidiaries were contingently liable as guarantors of loans to others in the aggregate amount of ¥2,770 million ($25,815 thousand).

8 NET SALES

Net sales include revenues recognized by the percentage-of-completion method as described in Note 2 (l).
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,	**2005**	2004	**2005**
	¥126,496	¥109,235	**$1,178,682**

9 RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in selling, general and administrative expenses for the years ended March 31, 2005 and 2004 amounted to ¥654 million ($6,098 thousand) and ¥550 million, respectively.

10 OTHER EXPENSES

"Other" in "Other expenses" for the years ended March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
Years ended March 31,	**2005**	2004	**2005**
Loss on prior-period adjustment	**¥162**	¥118	**$1,514**
Loss on liquidation of nonconsolidated subsidiaries	**—**	17	**—**
Loss on retirement of property, plant and equipment	**179**	—	**1,664**
Other	**252**	227	**2,346**
Total	**¥593**	¥362	**$5,524**

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, 2005 and 2004 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,	**2005**	2004	**2005**
Acquisition costs:			
Tools, furniture and fixtures	**¥730**	¥749	**$6,805**
Accumulated depreciation:			
Tools, furniture and fixtures	**397**	389	**3,700**
Net book value:			
Tools, furniture and fixtures	**333**	360	**3,105**

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2005 for finance leases accounted for as operating leases are summarized as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2006	¥174	$1,617
2007 and thereafter	193	1,801
Total	¥367	$3,418

Lease payments relating to finance leases accounted for as operating leases for the years ended March 31, 2005 and 2004 amounted to ¥199 million ($1,854 thousand) and ¥210 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, 2005 for finance leases accounted for as operating leases are summarized as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2006	¥19	$177
2007 and thereafter	15	144
Total	¥34	$321

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, 2005 for noncancelable operating leases are summarized as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2006	¥1	$11
2007 and thereafter	3	32
Total	¥4	$43

(b-2) Operating Leases (as Lessor)

Future minimum lease receivables subsequent to March 31, 2005 for noncancelable operating leases are summarized as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2006	¥ 1,144	$ 10,663
2007 and thereafter	12,555	116,986
Total	¥13,699	$127,649

12 INVESTMENT SECURITIES

The cost, unrealized gain and loss and the related fair value of investment securities in Investments at March 31, 2005 are summarized as follows:

	Millions of yen			
At March 31, 2005	Cost	Unrealized Gain	Unrealized Loss	Fair Value
Investment securities classified as:				
Available-for-sale:				
Equity securities	¥5,250	¥1,656	¥(402)	¥6,504
Debt securities	367	594	—	961

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

At March 31, 2005	Millions of yen	Thousands of U.S. dollars
Due within one year	¥ 13	$ 118
Due after one year through five years	167	1,560
Due after five years through ten years	251	2,338
Due after ten years	532	4,953
Total	¥963	$8,969

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

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, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
At March 31,	**2005**	2004	**2005**
(i) Forward foreign exchange contracts to sell U.S. dollars:			
Contract amounts	**¥—**	¥862	**$—**
Related market value	**—**	827	**—**
Net gain	**¥—**	¥ 35	**$—**
(ii) Forward foreign exchange contracts to buy U.S. dollars:			
Contract amounts	**¥30**	¥122	**$284**
Related market value	**30**	118	**288**
Net gain (loss)	**¥ 0**	¥ (4)	**$ 4**

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, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
At March 31,	**2005**	2004	**2005**
Notional amounts	**¥800**	¥1,000	**$7,454**
Related market value	**2**	3	**17**
Net gain	**¥ 2**	¥ 3	**$ 17**

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, 2005	Millions of yen				
	EPC Business	Real Estate	Total	Eliminations and Other	Consolidated
I Net sales and operating income:					
Net sales					
(1) Net sales to outside customers	**¥195,654**	**¥ 2,291**	**¥197,945**	**¥ —**	**¥197,945**
(2) Inter-segment net sales	**2**	**252**	**254**	**(254)**	**—**
Total	**195,656**	**2,543**	**198,199**	**(254)**	**197,945**
Operating expenses	**192,171**	**1,495**	**193,666**	**(261)**	**193,405**
Operating income	**3,485**	**1,048**	**4,533**	**7**	**4,540**
II Assets, depreciation and capital expenditures:					
Assets	**¥186,695**	**¥15,804**	**¥202,499**	**¥7,065**	**¥209,564**
Depreciation	**1,067**	**394**	**1,461**	**(0)**	**1,461**
Capital expenditures	**1,115**	**1,842**	**2,957**	**(0)**	**2,957**

Year ended March 31, 2004	Millions of yen				
	EPC Business	Real Estate	Total	Eliminations and Other	Consolidated
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

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, 2005 and 2004 totaling ¥7,349 million ($68,478 thousand) and ¥7,643 million primarily consisted of investment in securities.

(2) Geographic Segments

Year ended March 31, 2005	Millions of yen Japan	Others	Total	Eliminations and Other	Consolidated
I Net sales and operating income:					
Net sales					
(1) Net sales to outside customers	**¥190,447**	**¥ 7,498**	**¥197,945**	**¥ —**	**¥197,945**
(2) Inter-segment net sales	**83**	**15,802**	**15,885**	**(15,885)**	**—**
Total	**190,530**	**23,300**	**213,830**	**(15,885)**	**197,945**
Operating expenses	**186,207**	**22,943**	**209,150**	**(15,745)**	**193,405**
Operating income	**4,323**	**357**	**4,680**	**(140)**	**4,540**
II Assets:					
Assets	**200,823**	**17,338**	**218,161**	**(8,597)**	**209,564**

Year ended March 31, 2004	Millions of yen Japan	Others	Total	Eliminations and Other	Consolidated
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

Notes: 1. Geographic segmentation is according to geographic proximity.
2. Countries included in Others: Korea, Malaysia, India, Luxembourg, U.S.A. and PR China
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, 2005	Millions of yen Southeast Asia	Southwest Asia, Middle East and Africa	Russia and Central Asia	Central and South America	Others	Total
Overseas sales (A)	**¥26,586**	**¥44,151**	**¥39,647**	**¥8,690**	**¥24,370**	**¥143,444**
Consolidated sales (B)						**197,945**
Overseas sales ratio (A/B)	**13.5%**	**22.3%**	**20.0%**	**4.4%**	**12.3%**	**72.5%**

Year ended March 31, 2004	Millions of yen Southeast Asia	Southwest Asia, Middle East and Africa	Russia and Central Asia	Central and South America	Others	Total
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%

Each area represents the following countries:
Southeast Asia: Indonesia, Singapore, Thailand and Malaysia
Southwest Asia, Middle East and Africa: India, Egypt, Saudi Arabia and Iran
Russia and Central Asia: Russia and Azerbaidjan
Central and South America: Brazil
Others: U.S.A., PR China, Korea and European countries

ERNST & YOUNG SHINNIHON

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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, 2005 and 2004, 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.

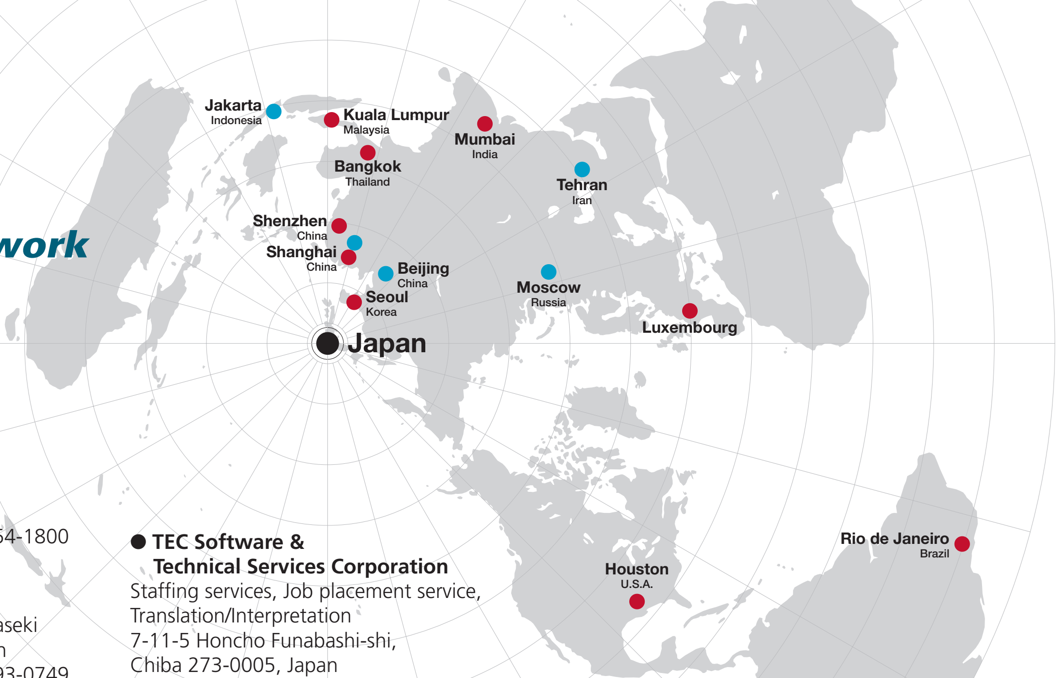
In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Toyo Engineering Corporation and consolidated subsidiaries at March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for 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, 2005 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.

Ernst & Young ShinNihon

June 28, 2005

Worldwide Network



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● **Suntec Corporation**
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● **Toyo Logistics Corporation**
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● **TEC Software & Technical Services Corporation**
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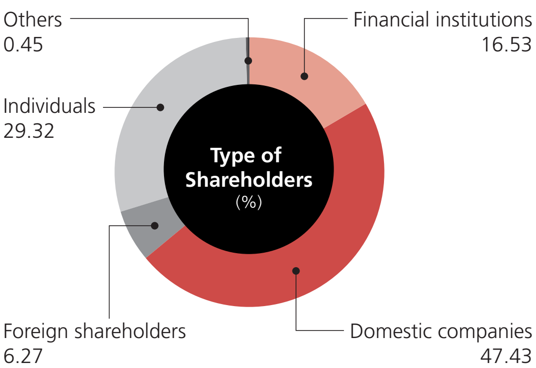
(As of June 28, 2005)

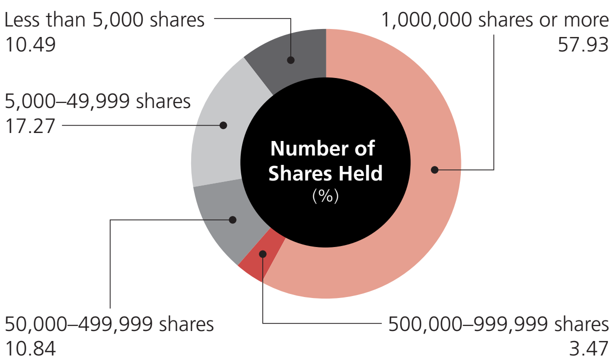
Corporate Data

Founded:	May 1, 1961
Paid-in Capital:	¥13,018 million
Number of Employees:	973
Stock Exchange Listing:	Tokyo Stock Exchange
Authorized Shares:	500,000,000
Capital Stock Issued:	175,692,539
Number of Shareholders:	17,063
Transfer Agent:	The Chuo Mitsui Trust and Banking Co., Ltd. 3-33-1, Shiba, Minato-ku, Tokyo 105-8574, Japan

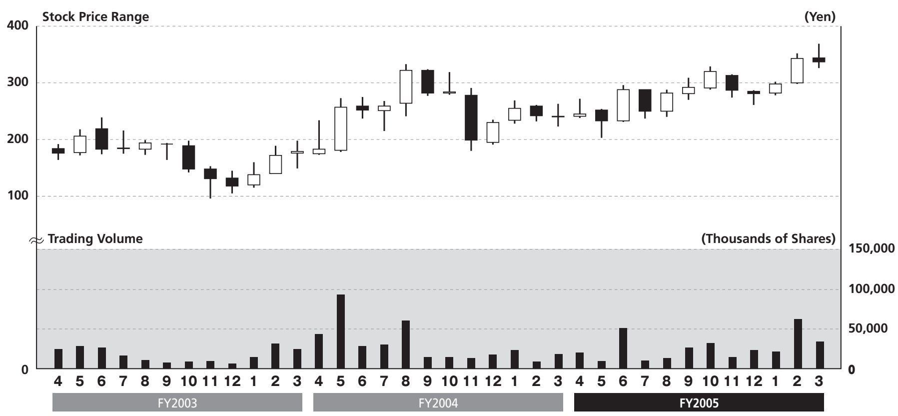
Major Shareholders:

	Number of shares (thousands)	Percentage of total (%)
Mitsui Chemicals, Inc.	43,343	24.67
Mitsui & Co., Ltd.	26,670	15.17
Japan Securities Finance Co., Ltd.	4,015	2.28
Taisei Corporation	4,000	2.27
Kanto Natural Gas Development Co., Ltd.	3,956	2.25
The Master Trust Bank of Japan, Ltd.	3,845	2.18
Sumitomo Mitsui Banking Corporation	2,350	1.33
Japan Trustee Services Bank, Ltd.	2,258	1.28
Trust & Custody Services Bank, Ltd.	2,047	1.16
Taisei Welfare Co.	2,000	1.13





Stock Price:



(As of March 31, 2005)

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