Annual Report 2006

Year ended March 31, 2006

TOYO ENGINEERING CORPORATION

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

DEFINITION OF TERMS

- Effective from the current fiscal year, TOYO has changed the fiscal year notation as follows:
  Fiscal 2005 means the fiscal year ended March 31, 2006 (April 1, 2005 -March 31, 2006).
- The word, mark, logo or any sign with a symbol "TM" means that it is a registered trademark of Toyo Engineering Corporation in Japan.

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.

Consolidated Financial Highlights

Financial Summary

Years ended March 31,	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars 2006
Net sales	**¥195,584**	¥197,945	**$1,664,824**
New orders	**257,840**	192,600	**2,194,756**
Backlog of contracts at end of the year	**373,518**	337,760	**3,179,414**
Net income	**3,350**	3,598	**28,518**
Total assets	**202,662**	209,564	**1,725,077**
Total shareholders' equity	**33,608**	28,442	**286,077**
Per share data (in yen and U.S. dollars):			
Net income	**¥ 19.11**	¥ 20.51	**$ 0.16**

* U.S. dollar amounts are stated at ¥117.48 to $1, the exchange rate prevailing on March 31, 2006.

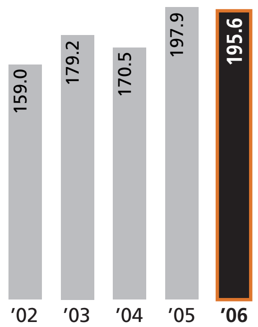
Operational Summary

>> Net sales, operating income and net income targets were cleared.

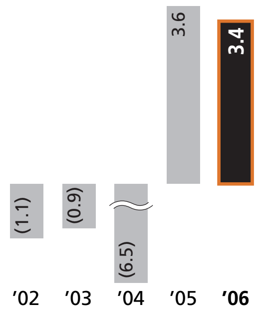
>> New orders reached ¥257.8 billion, 29% above fiscal 2005 target of ¥200.0 billion.

>> Interest-bearing debt was reduced by ¥6.7 billion.
Debt-to-equity ratio: 1.9 times → 1.4 times

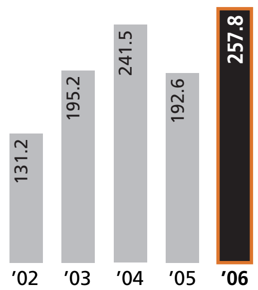
Net sales
(¥ billion)



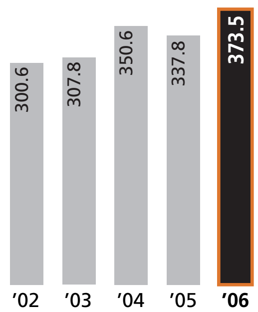
Net income (loss)
(¥ billion)



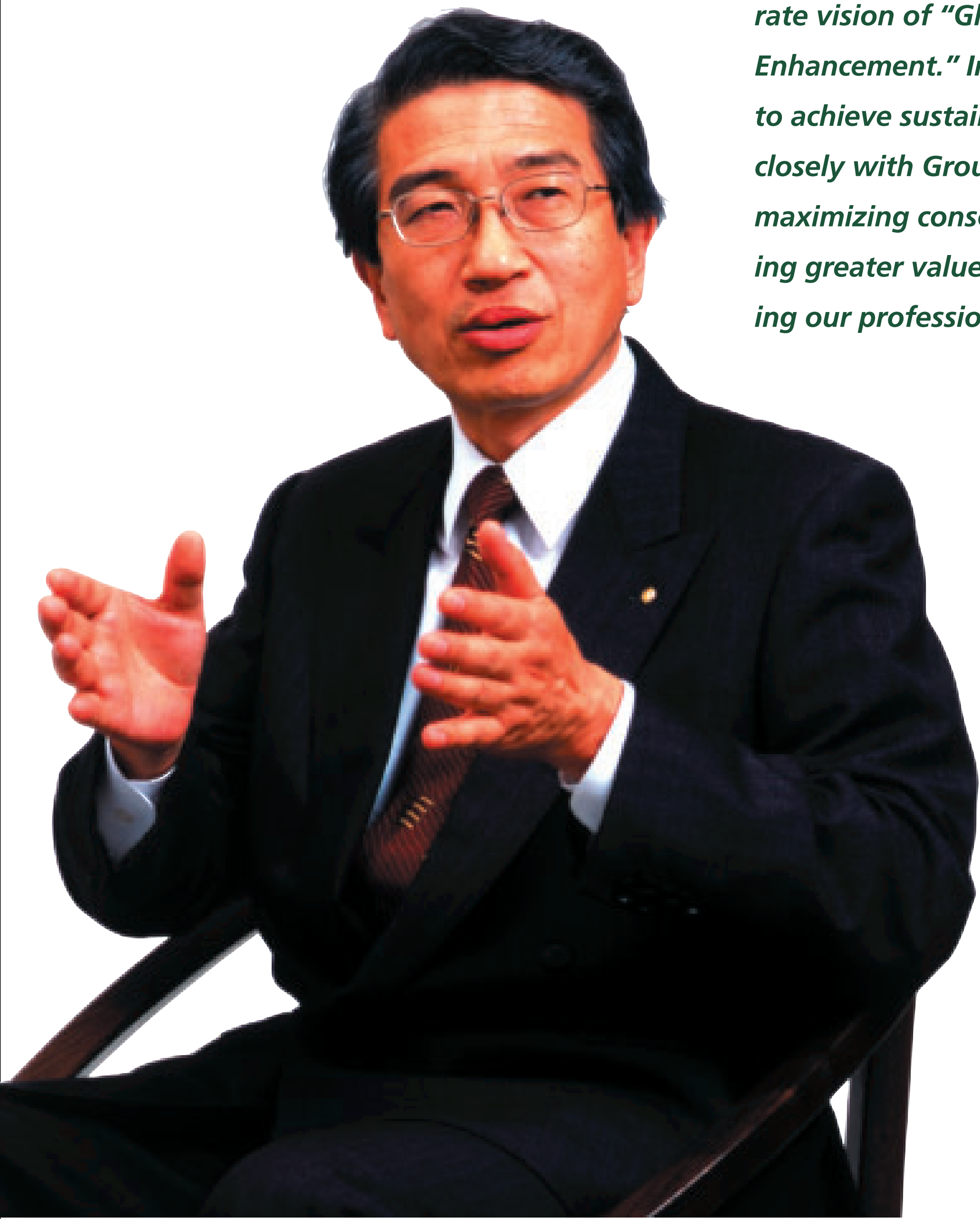
New orders
(¥ billion)



Backlog of contracts
(¥ billion)



To Our Shareholders



In fiscal 2005, ended March 31, 2006, Toyo Engineering Corporation (TOYO) recorded its second consecutive year of profitability as well as the highest level of new orders since it began reporting consolidated financial results. From April 2006, we started our new medium-term corporate strategic plan under our corporate vision of "Global TOYO for Client Value Enhancement." In this corporate plan, we aim to achieve sustainable growth by working closely with Group companies worldwide and maximizing consolidated earnings while offering greater value to our clients through providing our professional services.

August 2006
Yutaka Yamada
President and Chief Executive Officer

Fiscal 2005 Operating Environment and Results

Operating Environment

During fiscal 2005, ended March 31, 2006, market conditions remained favorable in Japan and overseas. The primary reasons were burgeoning global demand for energy sources and basic materials and growth in capital expenditures. However, there were several negative trends. The price of steel remained high and the cost of special metals rose sharply. Deliveries of equipment were delayed at manufacturers because of the large volume of order backlogs. Other problems were a worldwide shortage of qualified workers and the continued political instability in the Middle East. In response, TOYO concentrated on retaining its ability to provide the highly reliable and specialized services that the market demands. To accomplish this goal, we conducted business in an aggressive manner while quickly adapting to changing client needs.

New Orders

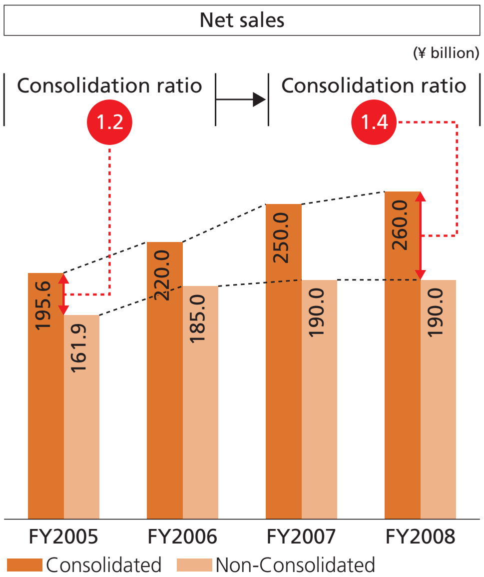
Consolidated new orders totaled ¥257.8 billion as overseas orders were ¥183.6 billion and domestic orders were ¥74.1 billion. This was 29% higher than our target figure. Major new orders included an ethylene glycol plant in Saudi Arabia, an oil refinery modernization in Brazil, a liquefied natural gas (LNG) receiving terminal in India and a petrochemical plant in Japan. New orders were well balanced in terms of regional and product categories. Significant sources of orders by region were Japan, the Middle East, India and Brazil and, by industry, petrochemicals, oil refining and energy-related fields.

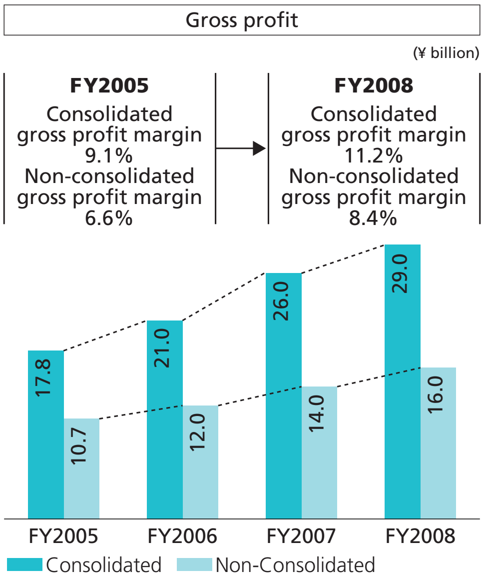
Revenue and Earnings

Consolidated net sales decreased from fiscal 2004 by a marginal ¥2.4 billion to ¥195.6 billion, comprising ¥63.1 billion in domestic sales and ¥132.5 billion in overseas sales. Earnings were also down slightly. Operating income declined from ¥4.5 billion to ¥4.2 billion and net income declined from ¥3.6 billion to ¥3.4 billion. In spite of this short-term slip in performance, TOYO achieved its second consecutive year of profitability and lowered the consolidated debt-to-equity ratio to 1.4 times.

The Medium-Term Corporate Strategic Plan for Fiscal 2006 to 2008

Financial targets in three-year time horizon





On April 1, 2006, TOYO started a new medium-term corporate strategic plan under the new corporate vision "Global TOYO for Client Value Enhancement." The concept underpinning "Client Value Enhancement" is the ability to combine our project management, engineering and technological skills to deliver professional services that boost value for clients. Furthermore, we want to work closely with clients so that we can together promote value creation that integrates quality, cost and delivery (QCD); health, safety, security and the environment (HSSE); and other elements. "Global TOYO" expresses our goal of building a framework in which autonomous Group companies worldwide work together to raise the Group's consolidated earnings and the value of the TOYO Group.

Financial Targets

The accompanying graphs detail the financial targets we will work for over the next three years as a means to raise consolidated earnings. The consolidation ratio of net sales is projected to rise from 1.2 in fiscal 2005 to 1.4 in fiscal 2008; in the same year, consolidated net sales are expected to rise to ¥260.0 billion against ¥195.6 billion in fiscal 2005. Consolidated gross profit is targeting to rise from ¥17.8 billion to ¥29.0 billion over the three-year period. The sources of this growth are an increase in gross profit accompanying expected growth in aggregated net sales at overseas Group companies and an improvement in earnings due to the shift in TOYO-Japan's profit structure.

Market Trends

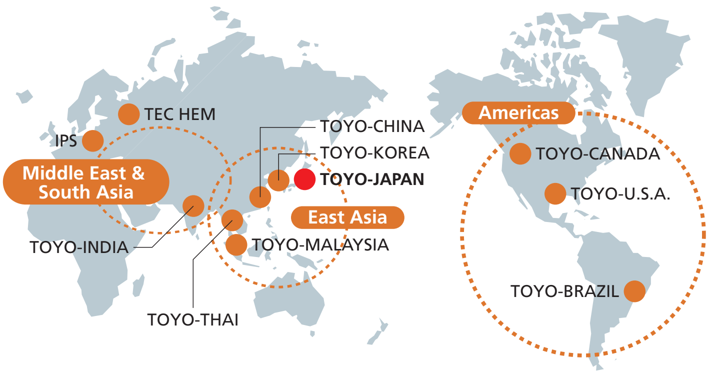
When executing our medium-term corporate strategic plan, we will reflect our outlook for the operating environment over a time span of about five years. One key factor is that crude oil prices are likely to remain at their current high levels. When crude oil prices are high, companies have an even broader range of options with regard to energy-related investments. Moreover, clients benefiting from the higher prices are eager to invest aggressively. A second key factor is the rising interest in natural gas as a source of clean energy. There are growing numbers of projects for LNG plants and LNG receiving terminal projects. We are also seeing numerous large-scale projects for gas to liquid (GTL) plants and gas pipelines. A third key factor is growth in demand for basic materials in China, India and neighboring countries in East Asia. This demand is spawning massive investments. A fourth key factor is the very high demand for social infrastructure projects in such areas as water, power and transportation. Infrastructure investments are strong especially in the BRIC countries, where economic growth rates are high, and in energy-producing nations where population numbers are climbing. Industrialized nations will accelerate investments to meet this demand. A fifth key factor is the high level of capital spending by manufacturers in Japan, who were reluctant to make investments until the nation's deflationary environment ended. Japan is also witnessing the realignment of a number of industries, which is another source of new investments. The TOYO Group is deeply involved in all of these trends that influence investments by clients.

Key Initiatives

TOYO is executing the following five key initiatives to achieve its corporate vision. First, we will strengthen the global network for business development to provide strategic support in different regions and for all clients. Second, we will shift to a framework that will allow our overseas operating bases to take the leading role in all engineering, procurement and construction (EPC) tasks for medium-sized EPC projects in fields where they have experience. Third, TOYO-Japan will concentrate on large-scale and complex projects; new types of projects, such as infrastructure projects; and projects for clients in Japan. Fourth, we will place an emphasis on HSSE, while prioritizing the three core goals of every project—quality, cost and delivery—as in the past. All of these parameters are used worldwide to guide investment decisions. We are determined to continue to manage projects from the client's perspective in order to achieve client satisfaction. Fifth, we will reinforce our human capital in both numbers and quality. People are undoubtedly the most valuable capital for an engineering contractor like us. Along with these actions, we will upgrade and enlarge our corporate infrastructure, including IT.

Creating a Global TOYO

Global TOYO EPC services delivery network

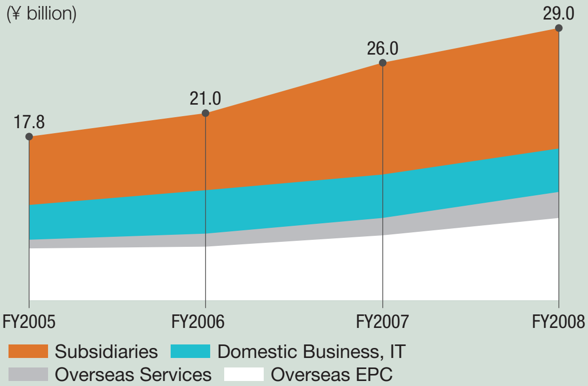


The central objective of the medium-term corporate strategic plan is to make TOYO a more global organization. The Group will be concentrating on the three regional markets shown in the above map. We already have Group companies in each region. TOYO-India, TOYO-Korea, TOYO-Thai and other companies capture orders independently or in concert with their own partners, and they have established a solid reputation for reliability and overall excellence among their clients. But we need to further enlarge our overseas network to benefit from the substantial growth in investments foreseen in the coming years. A larger network will enable us to conduct operations on a global scale. Realizing this growth requires that we plan a 50% increase in our workforce at overseas Group companies from the current 2,000 to 3,000. Our plan is to raise the total Group workforce to about 6,000 in fiscal 2008.

Consolidated Profit Structure

The transfer of EPC projects to Group companies is expected to raise their contribution to consolidated gross profit. TOYO-Japan plans to improve the gross profit margin and contribute to growth in consolidated gross profit. As the graph below shows, TOYO-Japan will in general handle large-scale, complex projects or new fields of business. In addition, TOYO-Japan will handle overseas service contracts that have a relatively high gross profit margin and other businesses in Japan as the Group's base load. We believe that these measures will improve our profit margin and raise the non-consolidated gross profit of TOYO-Japan.

Consolidated gross profit structure



Outlook for Fiscal 2006

Prospects for New Orders

Substantial investments are foreseen in fiscal 2006 that are associated with the ongoing growth in global demand for energy and basic materials. We also anticipate significant investments for the integration of oil refineries and petrochemical operations to further raise efficiency. In Japan, client companies are making strategic investments to differentiate themselves from competitors. As in recent years, many companies are faced with the decision of either conducting vertically integrated production in Japan or moving manufacturing bases to China or other overseas locations. We will need to pay close attention to the price hikes in special metals and other raw materials and to the management of equipment delivery. In addition, we will continue to shield our earnings from foreign exchange rate volatility by maintaining our policy of fully hedging foreign currency exposure.

Outlook for Revenue and Earnings

We believe that energy-related projects will account for a large share of new orders for the time being. However, we are working on raising orders in petrochemicals and other sectors where we can provide differentiated products. Our goal is to achieve a well-balanced composition of new orders. Based on this outlook, for fiscal 2006, we are targeting net sales of ¥220.0 billion, operating income of ¥6.0 billion and net income of ¥4.0 billion.

Increase in Shareholders' Equity due to Sale of Stock

On May 31, 2006, TOYO increased its capital by a third-party allocation, which was all acquired by Mitsui & Co., Ltd. A total of 17.1 million shares were issued, which was almost 10% of all shares issued prior to this capital increase. Following this allocation, Mitsui & Co., Ltd. holds about 23% of TOYO's equity. This capital increase was conducted to procure funds for working capital requirements of large-scale projects and new investment in line with the medium-term corporate strategic plan as well as to enhance TOYO's financial strength. Furthermore, TOYO intends to reinforce the relationship with Mitsui & Co., Ltd. for increasing orders and developing its sales activities by capturing more synergies between the two companies.

As TOYO succeeded in achieving a normal level of profitability in fiscal 2005 under review, efforts will continue to reach fiscal 2006 earnings targets with the goal of building a sound base for stable sales and earnings.

Management System

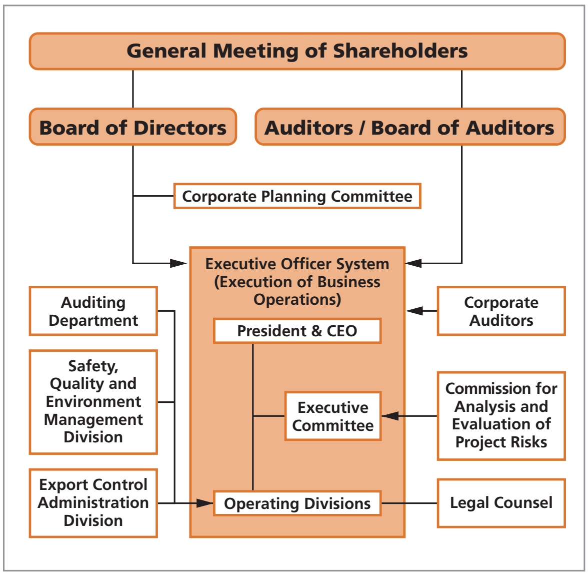
Corporate Governance

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 Environment 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. Also, 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 the Crisis Management Policy to clearly set forth risk management procedures, increase risk awareness throughout the Company and forestall crises that 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

Chairman	Yushi Nagata
President and Chief Executive Officer	Yutaka Yamada*
Executive Vice Presidents	Kazuhisa Marukawa*
	Yoshitaka Ogata (Chief Technical Officer)*
Directors and Senior Executive Officers	Takuichi Murachi*
	Kazuomi Nishihara*
	Kuniaki Tsuyada
	Hisashi Saigo
	Kenji Soejima
	Makoto Fusayama
	Isao Ichikawa
	Keiichi Matsumoto

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

Senior Corporate Auditor	Kunimichi Gamo
Corporate Auditors	Keiji Suda
	Ryutaro Koyasu
	Masato Shiode
Senior Executive Officers	Ken Wakazuki
	Komei Ohta
	Masahiro Suzuki
	Yoshiaki Mizoguchi
	Osamu Kawanobe
Executive Officers	Osamu Okura
	Shuji Ueki
	Akhilesh Kumar
	Hidetsugu Fujii
	Kiyoshi Nakao
	Kenji Niwa
	Makoto Shimagaki
	Tatsuo Yasunaga

(As of June 28, 2006)

EPC Solutions Business Operations OVERSEAS

Growing demand for energy and basic materials around the world is stimulating large investments in numerous projects involving oil, gas and other energy sources and in basic chemicals, high-performance resins and other petrochemical fields. The outlook is particularly bright in the BRIC countries, the Middle East and Asian countries.

Results of Operations

TOYO's aggressive sales activities targeting energy-related and petrochemical fields raised the share of overseas projects to 71% of all new orders received in fiscal 2005. Total overseas new orders were up 147% of fiscal 2004 to ¥183.6 billion, including orders from Japanese clients investing in shifting production bases to China, which were handled by Domestic Sales and Operations.

There were many significant events. In the energy-related field, large new orders included an oil refinery modernization for Petróleo Brasileiro S.A. (PETROBRAS), Brazil's national oil company; an LNG receiving terminal for Petronet LNG Ltd. in India; and a plant for extracting natural gas liquids (NGL) from LNG for Oil and Natural Gas Company Limited (ONGC) in India. Other significant orders were for the topside modules of a floating production, storage and offloading (FPSO) facility in Australia and a large coal-based dimethyl ether (DME) plant in China.

In the petrochemical field, new orders included an ethylene glycol plant for Saudi Basic Industries Corporation (SABIC) and a basic design and engineering package for a world-scale ethylene cracker for Shell Eastern Petroleum (Pte) Ltd. Significant project completions included two large fertilizer projects and a lead-free gasoline production facility in Indonesia and an oil refinery modernization project in Russia. Three large overseas energy-related projects are currently under way: the Sakhalin II LNG project; the Iran gas processing project; and the construction of natural gas pipelines in Brazil.

Initiatives of Overseas Sales and Operations

TOYO will put emphasis on clean alternative energy that replaces petroleum and other clean energy sources, a response to the high cost of crude oil, in order to adapt flexibly to changes in market demand. TOYO also aims to expand its business to meet the growing demand for water, power, transportation and other infrastructure projects. Under the Global TOYO framework, TOYO Group companies in India, Thailand, Korea and other overseas locations will take the leading position in conventional EPC projects involving energy, fertilizer, petrochemicals and other fields. The first step toward the Global TOYO framework is the joint award of contracts and execution of projects by TOYO-Japan and TOYO Group companies. Through this process, TOYO-Japan intends to increase its awards in large and complex EPC projects as well as new types of projects, such as infrastructure projects. In EPC for power generation, water and utility centers, TOYO will cooperate with partner companies that can offer the necessary complementary technology and skills.

TOYO also seeks to increase sales from overseas service operations that can produce a steady stream of revenues with low risk, such as front end engineering design (FEED), engineering services, cost reimbursement jobs as part of EPC work and services for new types of infrastructure projects, upstream projects and operations and maintenance (O&M). TOYO is dedicated to achieving excellence in quality, cost and delivery as well as HSSE in every project. Potential problems will be anticipated and quickly identified, so that proper responses can be taken immediately. We will establish a global resource management system to reflect the further globalization of operations and a global IT infrastructure. These and other actions will reinforce TOYO's ability to compete successfully on a global scale.

Start-up of 2nd EO / EG plant of Jubail United Petrochemical Company in Saudi Arabia

Ammonia / urea plant for PT Pupuk Kujang in Indonesia

Oil refinery in Yaroslavl in Russia

EPC Solutions Business Operations DOMESTIC

The domestic market is witnessing robust investment activities by Japanese companies seeking to execute differentiation strategies that lever their respective strengths. One example is the shift of the production of general-purpose products to China and other overseas locations. On the other hand, companies are building vertically integrated production systems for special products in Japan, integrating oil refining and petrochemical operations to achieve overall optimization and investing in renovation of production facilities needed to meet changes in demand.

Results of Operations

New orders received in Japan were well above the initial target, due to significant growth in operations that assist Japanese companies in setting up plants and other bases in other countries. Total new orders in Japan rose 109% of fiscal 2004 to ¥74.1 billion and accounted for 29% of all new orders in fiscal 2005. Orders included the second aniline plant for Tosoh Corporation in the petrochemical category; a propylene splitter unit for the Sendai Refinery of Nippon Petroleum Refining Co., Ltd. and naphtha desulfurization units for Tonen General Sekiyu K.K. and Kyokuto Petroleum Industries, Ltd. in the oil refining category; and an active pharmaceutical ingredient (API) plant for Shiratori Pharmaceutical Co., Ltd. in the industrial plant category. In the field of foreign direct investment, major new orders included a synthetic rubber plant for a Chinese affiliate of Bridgestone Corporation and a methanol derivatives production plant for a Chinese company, Lingtian (Nanjing) Fine Chemical Corporation, a joint venture of Mitsubishi Gas Chemical Co., Inc. and the ITOCHU Group.

During fiscal 2005, TOYO established business alliance agreements with economic development zones in China—Jinan (Shandong Province), Tianjin and Shenyang (Liaoning Province)—raising the number of such agreements to 11 in total. Major project completions were a large vinyl chloride monomer (VCM) plant for Tosoh Corporation, a propylene splitter unit for the Mizushima Refinery of Nippon Petroleum Refining Co., Ltd. and a fine chemicals plant for the Chinese subsidiary of Otsuka Chemical Co., Ltd.

Initiatives of Domestic Sales and Operations

Domestic Sales and Operations greatest strengths is teams of experts covering a wide range of fields, including hydrocarbon plants, industrial plants, setting up of overseas operations, nuclear and electric power, O&M, R&D and many other activities. The depth of its capabilities gives TOYO the flexibility required to meet the needs of clients in Japan and overseas, regardless of the scale, nature and location of the project. The result has been steady growth in new orders.

In the oil refining and petrochemical field, part of the hydrocarbon plant category, TOYO will consolidate a more competitive operating base. In the industrial plant category, the focus will be on expanding business with clients who consistently place orders with us and on raising the number of those clients. Regarding assistance for clients shifting to overseas locations, TOYO will continue to concentrate on China while, at the same time, preparing for the "Post-China" era of overseas investments by Japanese companies. In the nuclear and electric power category, engineering services will remain the primary activity, as TOYO explores possibilities for starting EPC operations in the future.

TOYO established the New Business Development Dept. in April 2006 and aims to use this dedicated organization to create a new business model that encompasses R&D, O&M, systems and integration, facilities, the environment and other elements. Domestic Sales and Operations will set out to become a diversified player in terms of products and regions, avoiding an over-reliance on any particular product or market sector, and to build trusted relationships with clients. Based on the "Co-Creative" slogan, TOYO is dedicated to integrating its ideas with those of its clients. This process will make it possible to work as one with clients and to engineer and build production facilities of the highest possible quality.

Mizushima Refinery of
Nippon Petroleum Refining Co., Ltd.
in Japan

Groundbreaking ceremony of methanol derivatives
plant for Lingtian (Nanjing) Fine Chemical Corporation
in China

No. 3 VCM plant of Tosoh Corporation in Japan

Business Solutions Operations

As Japan's economy recovers, an upturn in capital expenditures is occurring that is driven mainly by the recurrence of Japan as the manufacturing base for strategic and value-added products. All projects require the start of production as quickly as possible. With its expertise in raising productivity and quality, TOYO can meet these demands by offering the integrated solutions required by complex and difficult issues.

Results of Operations

There was a 150% increase in sales in the IT sector to ¥20.1 billion due to the completion of the large logistics center for books at the Okegawa Logistics Complex of Tohan Co., Ltd. Fiscal 2005 new orders decreased about 25% of fiscal 2004 to ¥14.8 billion but sustained about the same level as in recent years. TOYO and Toyo Business Engineering Corporation have formed an alliance aimed at increasing sales and earnings. TOYO will offer consulting on production management and logistics that targets chiefly the manufacturing and distribution sectors. Under the alliance, we will also strengthen measures to serve clients in new fields, such as securities and finance.

There were several major orders in fiscal 2005. In the supply chain management (SCM) field, orders were received from an electronic materials manufacturer for a manufacturing technology innovation project and from a Tohan subsidiary, Book Liner Co., Ltd., for the rebuilding of an individual book shipping system. In the TOYO original IT solution field, TOYO received an order from Toppan Printing Co., Ltd. for *Komei*™*7*, a production scheduling system, and associated systems. *Knowledge Bank*™, a knowledge management system for passing on technological skills to younger workers, was sold to companies in the transportation industry. Other orders included business process improvement consulting for Tokyo Electric Power Company; business process analysis consulting for Mitsui Chemicals, Inc.; a project to raise operating efficiency to offset the shortage of workers in the manufacturing sector; and in the financial solutions sector, an order from a large securities company for assistance in constructing an IT system.

Initiatives of Business Solution Sales and Operations

Reflecting the need to meet increasingly complex client demands, the e-Solutions Business Operations was reorganized in April 2006 and renamed Business Solution Sales and Operations. The new organization concentrates on four business fields: SCM, which involves support for the composite engineering of the production and logistics activities of manufacturers; maintenance, where TOYO will assist in execution of maintenance operations at electric power companies and petrochemical companies; "own solutions," based on providing optimized solutions derived from two proprietary TOYO IT products, the *Komei*™*7* production scheduling system and the *Knowledge Bank*™ knowledge management system; and finance, where the focus of activity is the construction of securities transactions systems. In each field, TOYO provides a variety of solutions that create value by meeting the specific needs of clients' business activities through collaboration with Toyo Business Engineering. The goal is to gain recognition as a true partner for every client, constantly able to generate new approaches that create value by solving specific problems.

To further enhance the quality of its solutions, TOYO earned ISO 9001 certification in 2005 and, in the financial solutions field, received Information Security Management System (ISMS) certification. These actions reinforced TOYO's ability to meet clients' expectations for overall reliability.

Azusa-no-Mori Plant of Suntory Limited in Japan, where *Komei* ™ *7* is in operation

Niigata Plant of Toppan Printing Co., Ltd. in Japan, where Advanced Planning & Scheduling (APS) system was delivered

Automatic fast sorting line at Okegawa SCM Center of Tohan Co.,Ltd. in Japan

HSSE+Quality

A review of our safety record for the year shows that we completed a large number of projects without any casualties or accidents. However, there were 24 accidents overseas that resulted in lost time, so clearly there is room for improvement.

We are responding by implementing a range of programs that will create a "safety–oriented culture." Measures include raising awareness among all employees of the importance of risk assessment and modifying work procedures and the work environment to forestall accidents. Our clients and the society at large also demand that businesses give priority to a policy of "safety first." TOYO is convinced that it needs a deep, strong commitment to safety as a prerequisite for business continuity. Our motto is to keep safety first and foremost. TOYO, its cooperating companies and all employees involved in construction projects are committed to making every possible effort to forestall accidents and enhance safety.

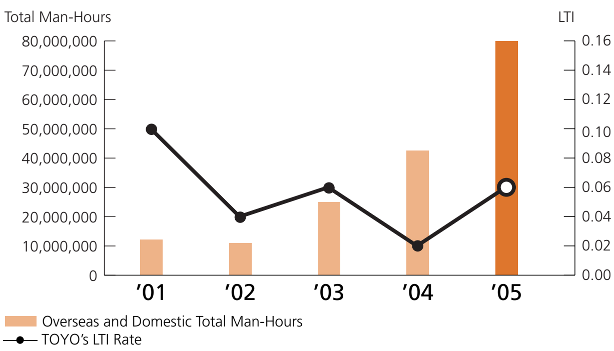
ISO 9001 Certification

TOYO passed the fourth Renewal Assessment in April 2006. Also we added into ISO 9001 the approval area of "Development of information processing systems for logistics, production controls and financial business." The original approval areas are "Project management, engineering, procurement, construction management and commissioning for the oil, gas, refinery, chemical, petrochemical, power generation, nuclear energy, pharmaceutical and food processing plants, and environmental protection facilities."

BS7799-2:2002 ISMS Certification

TOYO obtained the BS7799-2:2002 certificate for ISMS in relation to design, development and maintenance of computer systems for financial businesses from Lloyd's Register Quality Assurance in March 2006.

TOYO's safety record



During year 2005, TOYO's incident rate for lost time injuries and illnesses (LTI)*, as defined by OSHA, was 0.06. This is a slight increase from the previous three years. The incident rate covers both domestic and overseas projects. Head office and all construction site offices are carrying out a proactive safety management and awareness campaign to bring the LTI rate down.

*Number of persons per 200,000 man-hours

Financial Section

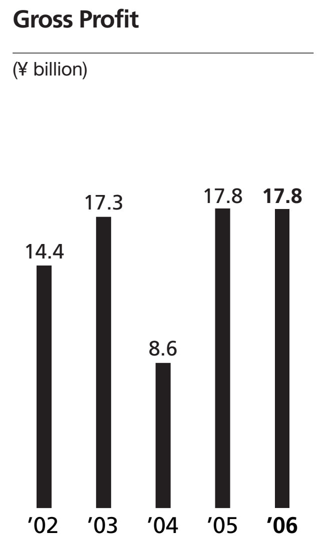
Contents

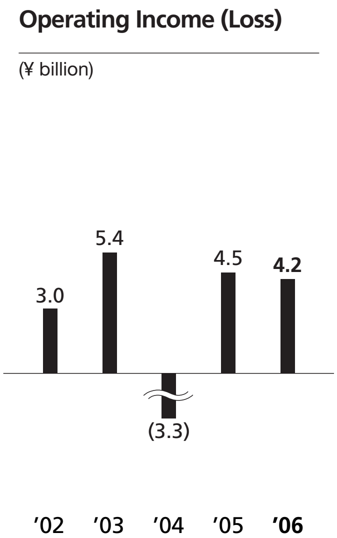
Consolidated Five-Year Summary

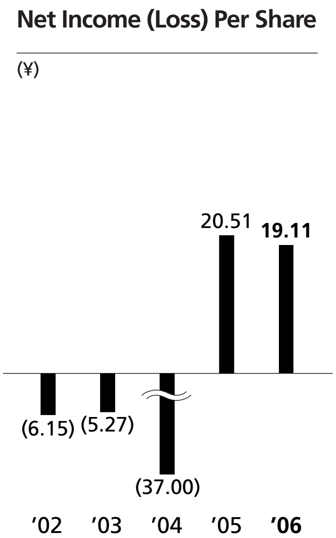
Toyo Engineering Corporation and Consolidated Subsidiaries Years ended March 31

	Millions of yen					Thousands of U.S. dollars (Note 1)
	2006	2005	2004	2003	2002	**2006**
Net sales	**¥195,584**	¥197,945	¥170,529	¥179,168	¥158,963	**$1,664,824**
Gross profit	**17,825**	17,770	8,640	17,291	14,415	**151,727**
Operating income (loss)	**4,195**	4,540	(3,257)	5,424	2,961	**35,710**
Income (loss) before income taxes and minority interests	**4,360**	3,698	(3,714)	657	(1,370)	**37,111**
Net income (loss)	**3,350**	3,598	(6,491)	(923)	(1,081)	**28,518**
Total assets	**202,662**	209,564	201,133	199,494	196,177	**1,725,077**
Total shareholders' equity	**33,608**	28,442	24,724	29,694	30,906	**286,077**
Long-term debt	**19,990**	36,454	39,691	41,840	46,038	**170,155**
Purchases of property, plant and equipment	**3,455**	2,096	241	282	272	**29,406**
Depreciation and amortization	**1,701**	1,453	1,315	1,347	1,339	**14,478**
Common stock	**13,018**	13,018	13,018	13,018	13,018	**110,808**
New orders	**257,840**	192,600	241,528	195,160	131,211	**2,194,756**
Backlog of contracts at end of the year	**373,518**	337,760	350,574	307,817	300,636	**3,179,414**

	Yen					U.S. dollars (Note 1)
Per share:						
Net income (loss)	**¥19.11**	¥20.51	¥(37.00)	¥(5.27)	¥(6.15)	**$0.16**
Cash dividends	**3.00**	3.00	—	—	—	**0.03**



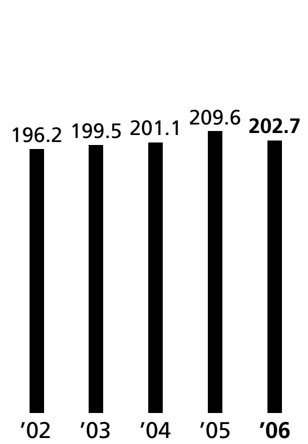




	2006	2005	2004	2003	2002
Net sales by sector (%):					
Chemical fertilizers	**7.8%**	15.8%	9.3%	7.1%	11.2%
Petrochemicals	**24.9**	27.4	30.8	32.9	41.8
Refinery	**3.0**	7.7	13.3	21.3	14.5
Energy-related	**44.2**	29.5	27.3	19.2	11.9
General manufacturing facilities and information technology	**14.9**	14.7	11.5	12.2	16.4
Others	**5.2**	4.9	7.8	7.3	4.2
(Overseas sales)	**(68)**	(72)	(78)	(79)	(74)
Number of employees	**2,668**	2,376	2,310	2,146	1,939

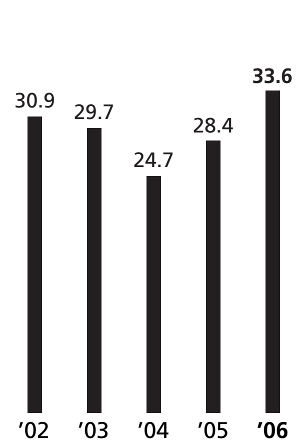
Total Assets

(¥ billion)



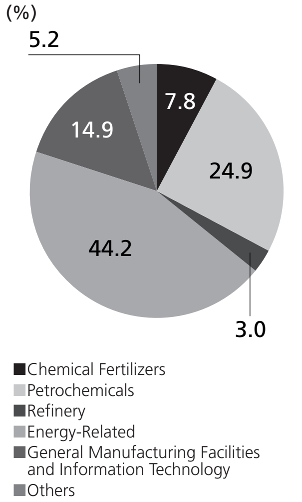
Total Shareholders' Equity

(¥ billion)



Composition of Net Sales by Sector (FY2005)

(%)



Management's Discussion and Analysis

In fiscal 2005, ended March 31, 2006, TOYO reached its sales and earnings targets, although sales and earnings were lower than in fiscal 2004. New orders reached the highest level since TOYO began reporting consolidated operating results in fiscal 1995. On a non-consolidated basis, TOYO was profitable as in fiscal 2004. The following items are particularly noteworthy achievements of the fiscal year under review.

1. New orders far above our target

Fiscal 2005 consolidated new orders totaled ¥257.8 billion ($2,195 million), a reflection of overseas orders for oil refineries, petrochemical plants and other large-scale projects and of a substantial increase in orders in Japan. The backlog of contracts at the end of March 2006 was ¥373.5 billion ($3,179 million), which equates to about 1.7 years of forecasted fiscal 2006 net sales. This provides an adequate backlog of contracts to give TOYO a stable base of operations.

2. Reduction in interest-bearing debt

Interest-bearing debt declined ¥6.7 billion compared with the previous fiscal year-end to ¥47.4 billion ($403 million) as TOYO actively made loan repayments.

Sales and Earnings

Consolidated net sales decreased ¥2.4 billion to ¥195.6 billion ($1,665 million) because of delays in the completions of some projects. The decline in sales caused operating income to decrease ¥0.3 billion to ¥4.2 billion ($36 million), which was slightly below the level TOYO had planned for fiscal 2005. Net income was ¥3.4 billion ($29 million), which was less than one year earlier but higher than the plan for the fiscal year under review.

Cash Flows

Net cash used in operating activities was ¥5.5 billion ($47 million). The principal source of cash was income before income taxes and minority interests of ¥4.4 billion ($37 million). However, cash was used by an increase in contract work in progress, a decrease in notes and accounts payable and a decrease in deposits received at joint venture projects. Net cash used in investing activities was ¥4.6 billion ($39 million). This mainly represented purchases of property, plant and equipment. Net cash used in financing activities was ¥7.5 billion ($64 million) as repayment of interest-bearing debt was made based on the debt reduction plan. The net result of the above cash flows was a net decrease of ¥17.1 billion in cash and cash equivalents compared with one year earlier to ¥28.3 billion ($241 million). This figure includes ¥5.9 billion ($50 million) of deposits received in conjunction with joint venture projects.

Business Risk and Other Risks

The following is a list of potential risks associated with the information concerning TOYO's consolidated 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, coup d'état, terrorism 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, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	**2006**	2005	**2006**
Current assets:			
Cash and deposits	**¥ 28,884**	¥ 45,972	**$ 245,868**
Notes and accounts receivable (Note 3)	**29,229**	40,155	**248,801**
Less: Allowance for doubtful receivables	**(2,735)**	(3,637)	**(23,284)**
	26,494	36,518	**225,517**
Contract work in progress	**74,090**	61,788	**630,659**
Prepaid expenses and other current assets (Note 4)	**19,250**	14,742	**163,860**
Total current assets	**148,718**	159,020	**1,265,904**
Investments:			
Investment securities (Note 12)	**7,437**	5,648	**63,308**
Investments in unconsolidated subsidiaries and affiliates (Note 12)	**5,149**	3,717	**43,830**
Long-term loans	**214**	1,394	**1,818**
Other	**5,378**	6,081	**45,779**
Less: Allowance for doubtful receivables	**(2,072)**	(3,654)	**(17,637)**
Total investments	**16,106**	13,186	**137,098**
Property, plant and equipment, at cost:			
Land (Note 3)	**18,528**	19,408	**157,708**
Buildings and structures (Note 3)	**26,628**	26,411	**226,658**
Tools, furniture and fixtures	**3,573**	3,418	**30,410**
Construction in progress	**3,085**	181	**26,264**
Total	**51,814**	49,418	**441,040**
Less: Accumulated depreciation (Note 3)	**(16,190)**	(15,186)	**(137,808)**
Property, plant and equipment, net	**35,624**	34,232	**303,232**
Other assets (Note 4)	**2,214**	3,126	**18,843**
	¥202,662	¥209,564	**$1,725,077**

See notes to consolidated financial statements.

Liabilities and Shareholders' Equity	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars (Note 1) 2006
Current liabilities:			
Short-term bank loans	**¥ 4,205**	¥ 6,514	**$ 35,793**
Current portion of long-term debt (Note 3)	**22,178**	11,109	**188,784**
Bonds due within one year (Note 3)	**1,000**	—	**8,512**
Notes and accounts payable	**22,679**	31,715	**193,042**
Income taxes payable	**693**	244	**5,895**
Advance receipts on uncompleted contracts	**82,894**	73,756	**705,603**
Reserve for anticipated loss on contract work	**1,135**	1,628	**9,664**
Other current liabilities (Note 4)	**6,847**	12,582	**58,281**
Total current liabilities	**141,631**	137,548	**1,205,574**
Long-term debt (Note 3)	**19,990**	36,454	**170,155**
Accrued retirement benefits (Note 5)	**2,727**	2,477	**23,214**
Other long-term liabilities (Note 4)	**2,665**	2,762	**22,686**
Contingent liabilities (Note 7)			
Minority interests	**2,041**	1,881	**17,371**
Shareholders' equity:			
Common stock			
Authorized: 500,000,000 shares			
Issued: 175,692,539 shares	**13,018**	13,018	**110,808**
Additional paid-in capital	**15,595**	15,594	**132,745**
Retained earnings (Note 6)	**2,218**	(606)	**18,882**
Net unrealized gain on securities	**3,062**	1,133	**26,069**
Foreign currency translation adjustments	**(167)**	(638)	**(1,419)**
	33,726	28,501	**287,085**
Less: Treasury stock, at cost: 403,553 shares	**(118)**	(59)	**(1,008)**
Total shareholders' equity	**33,608**	28,442	**286,077**
	¥202,662	¥209,564	**$1,725,077**

Consolidated Statements of Operations

Toyo Engineering Corporation and Consolidated Subsidiaries Years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	**2006**
Net sales (Note 8)	**¥195,584**	¥197,945	**$1,664,824**
Cost of sales	**177,759**	180,175	**1,513,097**
Gross profit	**17,825**	17,770	**151,727**
Selling, general and administrative expenses (Note 9)	**13,630**	13,230	**116,017**
Operating income	**4,195**	4,540	**35,710**
Other income:			
Interest and dividend income	**1,301**	1,225	**11,075**
Gain on sales of investment securities	**880**	36	**7,486**
Gain on revision of pension plan	**—**	248	**—**
Other	**328**	169	**2,793**
	2,509	1,678	**21,354**
Other expenses:			
Interest expense	**1,192**	1,391	**10,145**
Foreign exchange loss	**204**	406	**1,741**
Loss on valuation of investment securities	**31**	130	**263**
Loss on impairment of fixed assets	**616**	—	**5,242**
Other (Note 10)	**301**	593	**2,562**
	2,344	2,520	**19,953**
Income before income taxes and minority interests	**4,360**	3,698	**37,111**
Income taxes (Note 4):			
Current	**786**	407	**6,688**
Deferred	**76**	(326)	**648**
	862	81	**7,336**
Minority interests	**(148)**	(19)	**(1,257)**
Net income	**¥ 3,350**	¥ 3,598	**$ 28,518**

	Yen		U.S. dollars (Note 1)
Per share of common stock:			
Net income	**¥ 19.11**	¥20.51	**$ 0.16**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Toyo Engineering Corporation and Consolidated Subsidiaries Years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	**2006**
Common stock:			
Balance at beginning of the year	**¥13,018**	¥13,018	**$110,808**
Balance at end of the year	**¥13,018**	¥13,018	**$110,808**
Additional paid-in capital:			
Balance at beginning of the year	**¥15,594**	¥15,593	**$132,736**
Add–gain on disposal of treasury stock	**1**	1	**9**
Balance at end of the year	**¥15,595**	¥15,594	**$132,745**
Retained earnings (Note 6):			
Balance at beginning of the year	**¥ (606)**	¥ (4,278)	**$ (5,157)**
Add–net income	**3,350**	3,598	**28,518**
–Increase due to newly consolidated subsidiaries	**—**	77	**—**
Deduct–Dividends	**526**	—	**4,479**
–Bonuses to directors	**—**	3	**—**
Balance at end of the year	**¥ 2,218**	¥ (606)	**$ 18,882**
Net unrealized gain on securities:			
Balance at beginning of the year	**¥ 1,133**	¥ 1,231	**$ 9,649**
Adjustment for the year	**1,929**	(98)	**16,420**
Balance at end of the year	**¥ 3,062**	¥ 1,133	**$ 26,069**
Foreign currency translation adjustments:			
Balance at beginning of the year	**¥ (638)**	¥ (805)	**$ (5,431)**
Adjustment for the year	**471**	167	**4,012**
Balance at end of the year	**¥ (167)**	¥ (638)	**$ (1,419)**
Treasury stock:			
Balance at beginning of the year	**¥ (59)**	¥ (35)	**$ (501)**
Shares increased, net	**(59)**	(24)	**(507)**
Balance at end of the year	**¥ (118)**	¥ (59)	**$ (1,008)**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Toyo Engineering Corporation and Consolidated Subsidiaries Years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	**2006**
Operating activities:			
Income before income taxes and minority interests	**¥ 4,360**	¥ 3,698	**$ 37,111**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**1,701**	1,453	**14,478**
Loss on impairment of fixed assets	**616**	—	**5,242**
Gain on sales of marketable and investment securities, net	**(880)**	(36)	**(7,486)**
Loss on valuation of investment securities	**31**	130	**263**
Allowance for doubtful receivables	**(2,488)**	1,269	**(21,175)**
Allowance for anticipated loss on contract work	**(492)**	1,160	**(4,192)**
Equity in earnings of affiliated companies	**(85)**	(18)	**(721)**
Increase (decrease) in retirement benefits	**237**	(19)	**2,021**
Interest and dividends received	**1,443**	1,380	**12,284**
Interest and dividend income	**(1,301)**	(1,225)	**(11,075)**
Interest expense	**1,192**	1,390	**10,145**
Interest paid	**(1,192)**	(1,400)	**(10,148)**
Income taxes paid	**(277)**	(968)	**(2,355)**
Other, net	**(6,564)**	(2,122)	**(55,877)**
Changes in operating assets and liabilities:			
(Increase) decrease in notes and accounts receivable	**11,354**	(2,666)	**96,645**
(Increase) decrease in contract work in progress	**(11,794)**	1,281	**(100,395)**
Increase (decrease) in notes and accounts payable	**(9,359)**	1,358	**(79,660)**
Increase (decrease) in advance receipts on uncompleted contracts	**7,964**	11,287	**67,791**
Net cash provided by (used in) operating activities	**(5,534)**	15,952	**(47,104)**
Investing activities:			
Purchases of property, plant and equipment	**(3,455)**	(2,096)	**(29,406)**
Purchases of other assets	**(787)**	(871)	**(6,704)**
Purchases of investment securities	**(5)**	(20)	**(40)**
Proceeds from sales of marketable securities and investment securities	**1,331**	99	**11,329**
(Increase) decrease in loans, net	**(2,007)**	600	**(17,085)**
Other, net	**353**	189	**3,005**
Net cash provided by (used in) investing activities	**(4,570)**	(2,099)	**(38,901)**
Financing activities:			
Decrease in short-term bank loans, net	**(2,309)**	(5,401)	**(19,654)**
Proceeds from long-term debt	**8,151**	6,038	**69,382**
Repayment of long-term debt	**(12,713)**	(14,770)	**(108,210)**
Proceeds from issuance of bonds	**—**	2,000	**—**
Cash dividends paid	**(526)**	—	**(4,479)**
Other	**(127)**	(65)	**(1,083)**
Net cash provided by (used in) financing activities	**(7,524)**	(12,198)	**(64,044)**
Effect of exchange rate changes on cash and cash equivalents	**487**	121	**4,142**
Net increase (decrease) in cash and cash equivalents	**(17,141)**	1,776	**(145,907)**
Cash and cash equivalents, beginning of the year	**45,447**	43,615	**386,849**
Increase in cash and cash equivalents due to newly consolidated subsidiaries	**—**	56	**—**
Cash and cash equivalents, end of the year	**¥28,306**	¥45,447	**$240,942**

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 ¥117.48 to U.S.$1.00 prevailing on March 31, 2006.

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 ¥3,696 million ($31,460 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.

(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 ($43 million) and construction periods in excess of eighteen months, 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.

Effective from April 1, 2005, the company changed its scope of contracts whose revenues are recognized by the percentage-of-completion method with respect to the construction period from exceeding two years to exceeding eighteen months.

The company made this change in accounting policy in order to achieve appropriate recognition of periodic accounting profit and loss, in light of the recent trend that large construction contracts with short-term periods are increasing. (and in accordance with the international accounting standards.)

As a result of this change, net sales increased by ¥790 million ($6,728 thousands). Operating income and income before income taxes and minority interests increased by ¥96 million ($824 thousands), compared with the amounts which would have been recognized under the previous method of accounting.

(m) Net Income per Share

Net income per share is computed based on the weighted average number of shares outstanding during each year. Diluted net income per share is not presented since there was no potential for dilution by the issuance of common stock in 2006 or 2005.

(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

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.

(q) Impairment of Fixed Assets

Effective from April 1, 2005, the Company and its consolidated subsidiaries adopted the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standard Board of Japan on October 31, 2003). As a result, income before income taxes decreased by ¥616 million ($5,242 thousand) compared with the amounts which would have been recognized under previous methods of accounting. Accumulated losses are included in the accumulated depreciation.

3 LONG-TERM DEBT

Long-term debt at March 31, 2006 and 2005 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
Years ended March 31,	**2006**	2005	**2006**
Secured Loans	**¥19,149**	¥22,955	**$163,000**
Unsecured Loans	**21,019**	21,608	**178,915**
1.080% bonds, due 2007	**1,000**	1,000	**8,512**
1.470% bonds, due 2007	**2,000**	2,000	**17,024**
Total long-term debt	**43,168**	47,563	**367,451**
Less: Current portion	**23,178**	11,109	**197,296**
	¥19,990	¥36,454	**$170,155**

The following assets at March 31, 2006 and 2005 were pledged as collateral principally for long-term debt:

	Millions of yen		Thousands of U.S. dollars
Years ended March 31,	**2006**	2005	**2006**
Notes and accounts receivable	**¥ 4,430**	¥ 6,705	**$ 37,706**
Land and buildings, net of accumulated depreciation	**22,238**	25,340	**189,294**
	¥26,668	¥32,045	**$227,000**

The following schedule shows the maturities of long-term debt subsequent to March 31, 2006:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2007	¥23,178	$197,296
2008	9,179	78,132
2009	5,502	46,837
2010	1,986	16,906
2011	1,491	12,689
2012 and thereafter	1,832	15,591
	¥43,168	$367,451

In order to maintain access to a stable and effective source of operating capital, the company has entered into commitment-line contracts with eight trading banks.

The balance of unused commitment-line based on these contracts at the end of the consolidated reporting period is ¥11,960 million ($101,805 thousand) in 2006 and ¥10,000 million in 2005.

4 INCOME TAXES

The statutory tax rates applicable to the Company and its domestic subsidiaries for the year ended March 31, 2006 and 2005 were approximately 40.4%, 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, 2006	
Statutory tax rate in Japan	40.4%
Adjustments:	
Permanently nondeductible expenses	6.1
Permanently nontaxable dividends received	(0.7)
Effect on operating loss carryforwards, etc.	(28.0)
Other	2.0
Effective tax rate	19.8%

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%

(2) Significant components of the deferred income tax assets and liabilities at March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Deferred tax assets:			
Allowance for doubtful receivables	**¥ 379**	¥1,331	**$ 3,227**
Accrued retirement benefits	**998**	838	**8,499**
Provision for anticipated loss on contract work	**410**	588	**3,494**
Other	**2,067**	1,151	**17,594**
Total deferred tax assets	**3,854**	3,908	**32,814**
Deferred tax liabilities offset to deferred tax assets:			
Difference in net unrealized gain on securities	**(1,894)**	(680)	**(16,124)**
Reserve for overseas investment losses	**(1)**	(3)	**(9)**
Depreciation expense	**(111)**	(113)	**(945)**
Other	**(60)**	(46)	**(516)**
Total deferred tax liabilities	**(2,066)**	(842)	**(17,594)**
Net deferred tax assets	**¥1,788**	¥3,066	**$15,220**

Note: The Company and its subsidiaries had operating loss carryforwards equivalent to unrecognized tax assets of ¥4,053 million ($34,498 thousand) and ¥5,005 million at March 31, 2006 and 2005, respectively, which are available to be offset against future taxable income.

(3) Net deferred tax assets at March 31, 2006 and 2005 are included in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Current assets–prepaid expenses and other current assets	**¥1,767**	¥2,112	**$15,039**
Other assets	**193**	1,113	**1,642**
Other current liabilities	**—**	(1)	**—**
Other long-term liabilities	**(172)**	(158)	**(1,461)**
Net deferred tax assets	**¥1,788**	¥3,066	**$15,220**

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, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Projected benefit obligation	**¥(15,611)**	¥(15,402)	**$(132,887)**
Plan assets	**9,193**	8,212	**78,250**
Unreserved projected benefit obligation	**(6,418)**	(7,190)	**(54,637)**
Unamortized obligation at transition	**2,226**	2,476	**18,949**
Unamortized actuarial loss	**3,491**	4,408	**29,718**
Unrecognized prior service cost	**(1,845)**	(1,997)	**(15,702)**
Accrued retirement benefits for employees	**¥ (2,546)**	¥ (2,303)	**$ (21,672)**

The consolidated balance sheet includes directors' and statutory auditors' retirement allowances of ¥181 million ($1,543 thousand) and ¥174 million at March 31, 2006 and 2005, respectively, in addition to the accrued retirement benefits for employees presented above. The retirement benefit plan for directors and statutory auditors had been terminated at June 28, 2005. The balance of reserves recorded as of March 31, 2006 are the cumulative amounts up to the period for the above termination of retirement benefit plan.

(2) Net periodic pension cost for the year ended March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Components of net periodic benefit cost:			
Service cost	**¥ 646**	¥ 568	**$ 5,500**
Interest cost	**293**	298	**2,493**
Expected return on plan assets	**(205)**	(206)	**(1,749)**
Amortization of unrecognized retirement benefit obligation at transition	**246**	250	**2,097**
Amortization of unrecognized actuarial loss	**368**	383	**3,135**
Amortization of prior service cost	**(153)**	(153)	**(1,299)**
Other	**121**	120	**1,025**
Net periodic pension cost	**1,316**	1,260	**11,202**
Payments of special retirement benefits	**98**	(248)	**838**
Total	**¥1,414**	¥1,012	**$12,040**

(3) Basis of calculation of projected benefit obligation for the year ended 2006 and 2005, respectively.

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

The Company and its subsidiaries were contingently liable as guarantors of loans to others in the aggregate amount of ¥4,576 million ($38,953 thousand) and ¥2,770 million at March 31, 2006 and 2005, respectively.

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,	**2006**	2005	**2006**
	¥121,575	¥126,496	**$1,034,854**

9 RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in selling, general and administrative expenses for the years ended March 31, 2006 and 2005 amounted to ¥550 million ($4,678 thousand) and ¥654 million, respectively.

10 OTHER EXPENSES

"Other" in "Other expenses" for the years ended March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
Years ended March 31,	**2006**	2005	**2006**
Loss on prior-period adjustment	**¥ —**	¥162	**$ —**
Loss on retirement of property, plant and equipment	**—**	179	**—**
Payments of special retirement benefits	**98**	—	**838**
Other	**203**	252	**1,724**
Total	**¥301**	¥593	**$2,562**

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, 2006 and 2005 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,	**2006**	2005	**2006**
Acquisition costs:			
Tools, furniture and fixtures	**¥659**	¥730	**$5,605**
Accumulated depreciation:			
Tools, furniture and fixtures	**347**	397	**2,952**
Net book value:			
Tools, furniture and fixtures	**312**	333	**2,653**

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2006 and 2005 for finance leases accounted for as operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
Years ended March 31,	**2006**	2005	**2006**
Within one year	**¥154**	¥174	**$1,308**
Over one year	**181**	193	**1,540**
Total	**¥335**	¥367	**$2,848**

Lease payments relating to finance leases accounted for as operating leases for the years ended March 31, 2006 and 2005 amounted to ¥176 million ($1,496 thousand) and ¥199 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, 2006 and 2005 for finance leases accounted for as operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
Years ended March 31,	**2006**	2005	**2006**
Within one year	**¥18**	¥19	**$153**
Over one year	**6**	15	**49**
Total	**¥24**	¥34	**$202**

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, 2006 and 2005 for noncancelable operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
Years ended March 31,	**2006**	2005	**2006**
Within one year	**¥2**	¥1	**$21**
Over one year	**3**	3	**25**
Total	**¥5**	¥4	**$46**

(b-2) Operating Leases (as Lessor)

Future minimum lease receivables subsequent to March 31, 2006 and 2005 for noncancelable operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
Years ended March 31,	**2006**	2005	**2006**
Within one year	**¥ 1,142**	¥ 1,144	**$ 9,719**
Over one year	**11,594**	12,555	**98,688**
Total	**¥12,736**	¥13,699	**$108,407**

12 INVESTMENT SECURITIES

The cost, unrealized gain and loss and the related fair value of investment securities in Investments at March 31, 2006 are summarized as follows:

	Millions of yen			
At March 31, 2006	Cost	Unrealized Gain	Unrealized Loss	Fair Value
Investment securities classified as:				
Available-for-sale:				
Equity securities	¥5,171	¥4,861	¥(14)	¥10,018
Debt securities	412	249	(93)	568

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

At March 31, 2006	Millions of yen	Thousands of U.S. dollars
Due within one year	¥ 2	$ 15
Due after one year through five years	46	395
Due after five years through ten years	107	911
Due after ten years	413	3,510
Total	¥568	$4,831

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

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, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
At March 31,	**2006**	2005	**2006**
Forward foreign exchange contracts to buy U.S. dollars:			
Contract amounts	**¥38**	¥30	**$320**
Related market value	**38**	30	**321**
Net gain	**¥ 0**	¥ 0	**$ 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, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
At March 31,	**2006**	2005	**2006**
Notional amounts	**¥600**	¥800	**$5,107**
Related market value	**1**	2	**9**
Net gain	**¥ 1**	¥ 2	**$ 9**

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.

Credit derivative swaps

The Company has entered into credit derivative swap agreement to reduce its credit exposure relating to collection of receivables. The total notional amounts and related market value of credit derivative swap agreements at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
At March 31,	**2006**	2005	**2006**
Notional amounts	**¥940**	¥—	**$8,000**
Related market value	**1**	—	**0**
Net loss	**¥ (6)**	¥—	**$ (55)**

14 SEGMENT INFORMATION

(1) Business Segments

	Millions of yen				
Year ended March 31, 2006	EPC Business	Real Estate	Total	Eliminations and Other	Consolidated
I Net sales and operating income:					
Net sales					
(1) Net sales to outside customers	**¥193,418**	**¥ 2,166**	**¥195,584**	**¥ —**	**¥195,584**
(2) Inter-segment net sales	**3**	**322**	**325**	**(325)**	**—**
Total	**193,421**	**2,488**	**195,909**	**(325)**	**195,584**
Operating expenses	**190,297**	**1,394**	**191,691**	**(302)**	**191,389**
Operating income	**3,124**	**1,094**	**4,218**	**(23)**	**4,195**
II Assets, depreciation and capital expenditures:					
Assets	**¥173,826**	**¥18,327**	**¥192,153**	**¥10,509**	**¥202,662**
Depreciation	**1,284**	**418**	**1,702**	**(1)**	**1,701**
Capital expenditures	**1,448**	**2,794**	**4,242**	**(0)**	**4,242**

	Millions of yen				
Year ended March 31, 2005	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

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, 2006 and 2005 totaling ¥10,923 million ($92,980 thousand) and ¥7,349 million primarily consisted of investment in securities.

5. The effect of the change on the scope of application of the percentage-of-completion method described in Note, 2 (l) was to increase Net sales to outside customers and Operating income of EPC Business for the year ended March 31, 2006 by ¥790 million ($6,728 thousand) and ¥96 million ($824 thousand), respectively.

6. The impairment losses were recorded in EPC Business and Real estate for the year ended March 31, 2006 by ¥445 million ($3,785 thousand) and ¥171 million ($1,457 thousand), respectively.

(2) Geographic Segments

	Millions of yen				
Year ended March 31, 2006	Japan	Others	Total	Eliminations and Other	Consolidated
I Net sales and operating income:					
Net sales					
(1) Net sales to outside customers	**¥181,837**	**¥13,747**	**¥195,584**	**¥ —**	**¥195,584**
(2) Inter-segment net sales	**425**	**10,212**	**10,637**	**(10,637)**	**—**
Total	**182,262**	**23,959**	**206,221**	**(10,637)**	**195,584**
Operating expenses	**178,598**	**23,529**	**202,127**	**(10,738)**	**191,389**
Operating income	**3,664**	**430**	**4,094**	**101**	**4,195**
II Assets:					
Assets	**190,327**	**17,714**	**208,041**	**(5,379)**	**202,662**

Year ended March 31, 2005	Japan	Others	Total	Eliminations and Other	Consolidated
	Millions of yen				
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

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, 2006	Southeast Asia	Southwest Asia, Middle East and Africa	Russia and Central Asia	Central and South America	Others	Total
	Millions of yen					
Overseas sales (A)	**¥8,420**	**¥54,717**	**¥44,890**	**¥8,115**	**¥16,340**	**¥132,482**
Consolidated sales (B)						**195,584**
Overseas sales ratio (A/B)	**4.3%**	**28.0%**	**23.0%**	**4.1%**	**8.3%**	**67.7%**

Year ended March 31, 2005	Southeast Asia	Southwest Asia, Middle East and Africa	Russia and Central Asia	Central and South America	Others	Total
	Millions of yen					
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%

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

15 SUBSEQUENT EVENT

Issue of new ordinary shares to third parties

At the Company's Board of director's meeting held on May 12, 2006, the Company resolved the issue of new ordinary shares to designated third parties, effective on May 31, 2006. Details are as follows.

(1) Number of shares to be issued	Ordinary shares, 17,100,000 shares
(2) Issue price	¥605 per share
(3) Aggregate issue amount	¥10,346 million ($88,062 thousand)

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, 2006 and 2005, 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, 2006 and 2005, 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.

Supplemental Information

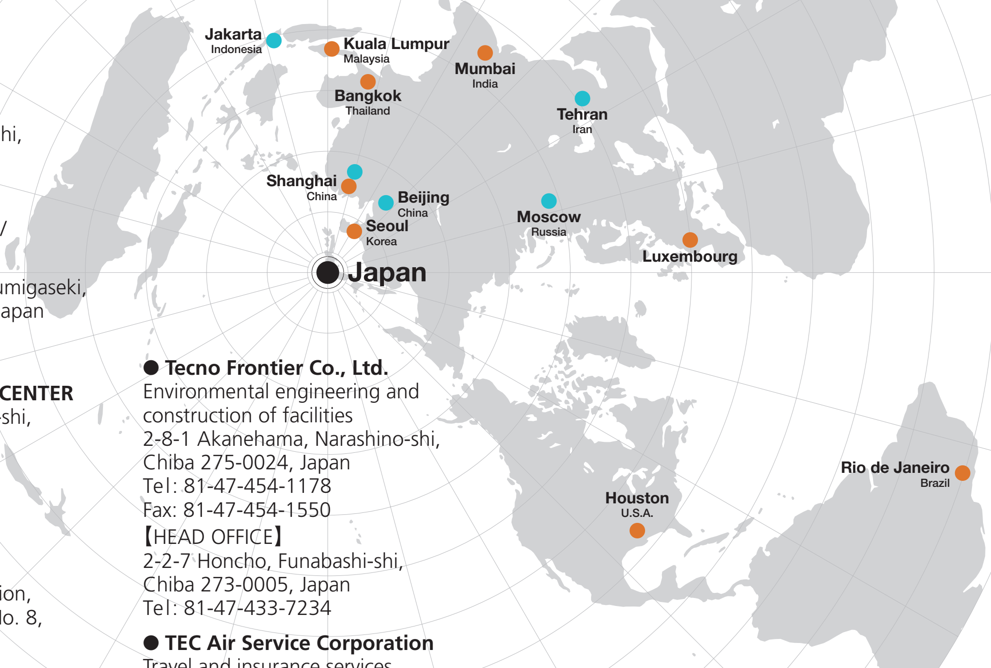
1. As described in Note 2 to the consolidated financial statements, the Company changed the scope of contracts whose revenues are recognized by the percentage-of-the completion method in fiscal year ended March 31, 2006.
2. As described in Note 2 to the consolidated financial statements, the Company adopted a new accounting standard for impairment of fixed assets in fiscal year ended March 31, 2006.
3. As described in Note 15 to the consolidated financial statements, the Company issued new ordinary shares to third parties effective on May 31, 2006.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 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, 2006

Worldwide Network



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

● **Suntec Corporation**
Real estate and building maintenance
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Tel: 81-47-433-4511
Fax: 81-47-433-4593

● **TEC Software & Technical Services Corporation**
Staffing services, job placement services
and translation / interpretation
7-11-5 Honcho, Funabashi-shi,
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Fax: 81-47-425-8464

● **Tecno Frontier Co., Ltd.**
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Tel: 81-47-433-7234

● **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
17th / 20th Fl., KDDI Otemachi Bldg.,
1-8-1 Otemachi, Chiyoda-ku,
Tokyo 100-0004, Japan
Tel: 81-3-3510-1600
Fax: 81-3-3510-1624

● **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
Tel: 81-43-284-3611
Fax: 81-43-284-3533

● **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
Tel: 352-497511
Fax: 352-487555

● **Toyo U.S.A., Inc.**
Procurement services and market
development in the U.S.
15415 Katy Freeway, Suite 600,
Houston, TX 77094, U.S.A.
Tel: 1-281-579-8900
Fax: 1-281-599-9337

● **Toyo do Brasil–Consultoria E Construcoes Industriais Ltda.**
Engineering and construction for
plants and facilities
Praia de Botafogo, 228-Sala 801C-Ala B,
Botafogo, 22359-900, Rio de Janeiro-RJ, Brazil
Tel: 55-21-2551-1829
Fax: 55-21-2551-2048

● **Toyo Engineering Corporation, China**
Engineering and construction for
plants and facilities
17th Fl., Shanghai Zhongrong Plaza,
No. 1088 Pudong South Road, Pudong
New District, Shanghai 200122, China
Tel: 86-21-5888-9935
Fax: 86-21-5888-8864/8874

● **Toyo Engineering Corporation (China) Procurement**
Procurement services in China
17th Fl., Shanghai Zhongrong Plaza,
No. 1088 Pudong South Road, Pudong
New District, Shanghai 200122, China
Tel: 86-21-5888-9935
Fax: 86-21-5888-8864/8874

● **Toyo Engineering India Limited**
Engineering and construction for
plants and facilities
"Toyo House", L.B.S. Marg, Kanjurmarg
(West), Mumbai-400 078, India
Tel: 91-22-2579-9001
Fax: 91-22-2579-9061/9062

● **Toyo Engineering Korea Limited**
Engineering and construction for
plants and facilities
Toyo Bldg., 677-17, Yeoksam-1 Dong,
Kangnam-ku, Seoul, 135-081, Korea
Tel: 82-2-2189-1619
Fax: 82-2-2189-1891

● **Toyo-Thai Corporation Ltd.**
Engineering and construction for
plants and facilities
22nd Fl., Serm-Mit Tower, 159 Soi Asoke,
Sukhumvit 21 Road, Bangkok 10110,
Thailand
Tel: 66-2-260-8505
Fax: 66-2-260-8525/8526

● **Toyo Engineering & Construction Sdn. Bhd.**
Engineering and construction for
plants and facilities
Suite 25.4, 25th Fl., Menara Haw Par,
Jalan Sultan Ismail, 50250 Kuala Lumpur,
Malaysia
Tel: 60-3-2078-5796
Fax: 60-3-2078-5798

(As of June 28, 2006)

Corporate Data

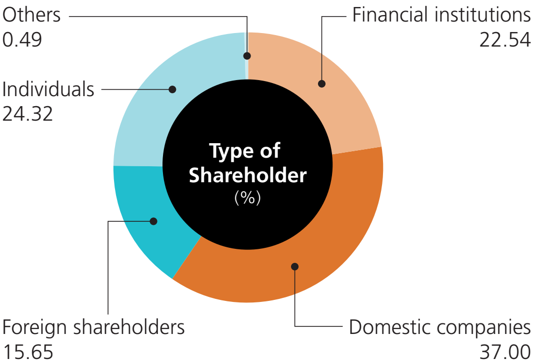
(As of March 31, 2006)

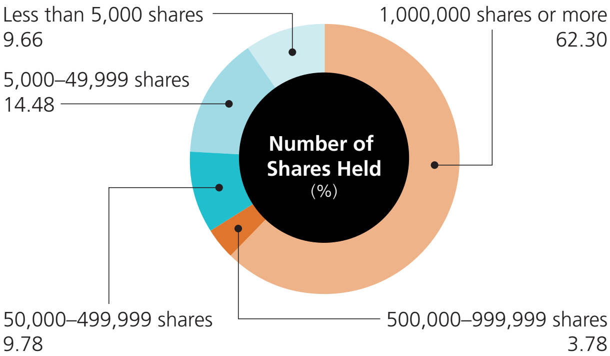
Founded:	May 1, 1961
Paid-in Capital:	¥13,018 million
Number of Employees:	995
Stock Exchange Listing:	Tokyo Stock Exchange
Authorized Shares:	500,000,000
Capital Stock Issued:	175,692,539
Number of Shareholders:	15,882
Administrator of Shareholders' Register:	The Chuo Mitsui Trust and Banking Co., Ltd. 3-33-1 Shiba, Minato-ku, Tokyo 105-8574, Japan

Major Shareholders:

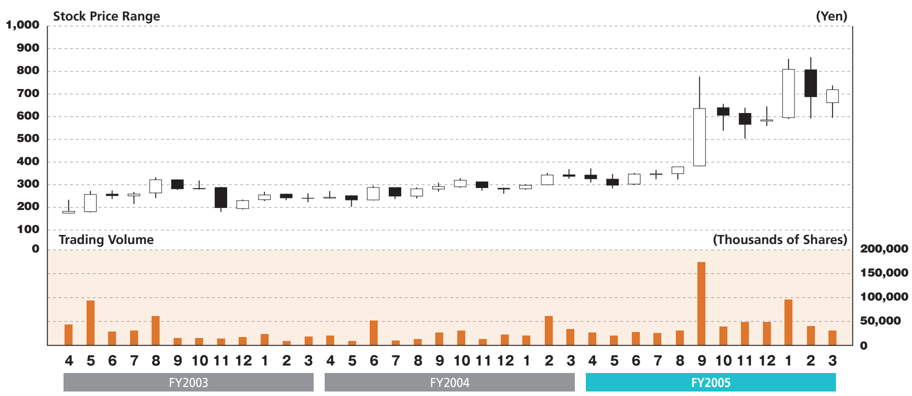
	Number of shares (thousands)	Percentage of total (%)
Mitsui & Co., Ltd.	26,670	15.17
Mitsui Chemicals, Inc.	25,343	14.42
Japan Trustee Services Bank, Ltd.	18,000	10.24
The Chase Manhattan Bank, N.A. London S.L. Omnibus Account	4,024	2.29
Taisei Corporation	4,000	2.27
Kanto Natural Gas Development Co., Ltd.	3,956	2.25
Bank of New York, GCM Client Accounts EISG	3,877	2.20
Japan Securities Finance Co., Ltd.	2,771	1.57
HSBC Bank Plc-Clients Nontax Treaty	2,750	1.56
Sumitomo Mitsui Banking Corporation	2,350	1.33

Note: On May 31, 2006, the Company increased its capital through a private placement of 17.1 million shares with Mitsui & Co., Ltd.





Stock Price:



Toyo Engineering Corporation (TEC)

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