

During the past year, the Japanese economy came out of the worst of the recession and moved into a modest recovery mode. Although investment picked up in the information and communications fields, the number of investment projects fell in the oil and petrochemical industries owing to facility integration and elimination programs carried out as part of restructuring in these industries. On the other hand, some signs of economic recovery were seen in Southeast Asia and Latin America. Nevertheless, a number of investment plans were either postponed or put on the slow track. As a result, we were forced to compete fiercely with EU and U.S. companies, as well as Korean companies, for a limited number of investment projects. Clearly, the business environment in our industry remains challenging. Amid this harsh operating environment, TEC and its Group companies focused on selected projects capable of enhancing our corporate earnings, and engaged in aggressive sales efforts to obtain orders. However, we were not able to fully overcome the difficult market environment and ended up recording ¥117 billion (US\$1,105 million) in new orders.

Consolidated statement of operations

Net sales came to ¥156 billion (US\$1,468 million), down 34% year on year. Overseas sales came in at ¥111 billion (US\$1,046 million), while domestic sales accounted for ¥45 billion (US\$422 million).

We made an effort to prevent losses on individual projects, as well as to improve project execution and reduce fixed and other expenses. As a result, selling, general and administrative expenses contracted 14%, to ¥12 billion (US\$112 million), and operating income came in at ¥0.3 billion (US\$2.6 million), marking a turnaround from the loss posted the previous year.

However, we also incurred expenses for an early retirement incentive program, booked expenses related to the official implementation of new accounting rules at consolidated subsidiaries from the new fiscal year, and incurred corporate taxes, etc. Consequently, we recorded a net loss of ¥0.6 billion (US\$5.9 million).

Consolidated balance sheet

Total assets at the end of the fiscal year came to ¥238 billion (US\$2,241 million), down 10% year on year. Current assets accounted for ¥187 billion (US\$1,759 million), down 11%. The primary reason for the fall was a decrease in notes and accounts receivable for completed contracts resulting from our efforts to collect on unpaid accounts.

Total liabilities came to ¥206 billion (US\$1,936 million), down 12%. Long-term and short-term debt fell 3% year on year, to ¥131 billion (US\$1,230 million).

Cash flow

Net cash provided by operating activities totaled ¥4 billion (US\$38 million), comprising ¥0.6 billion (US\$5.9 million) in net loss and ¥8 billion (US\$73 million) in outflows from non-cash adjustments as well as ¥12 billion (US\$117 million) provided by net changes in operating assets and liabilities.

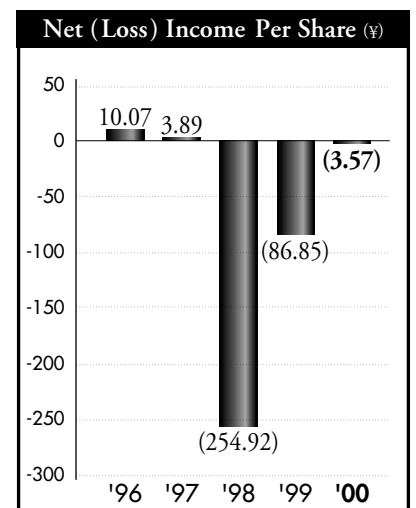
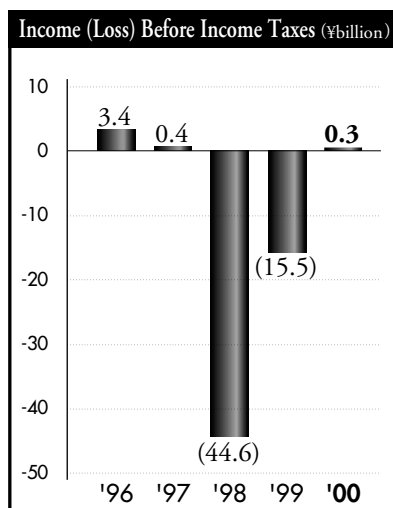
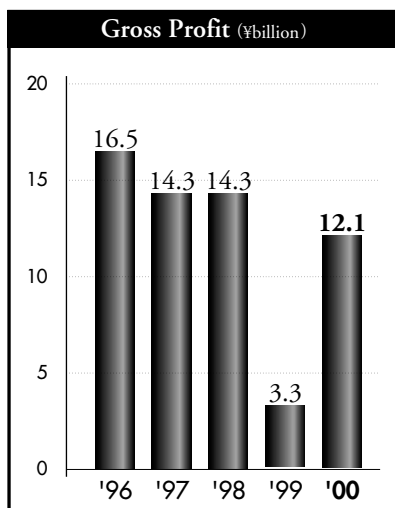
Net cash provided by investing activities amounted to ¥7 billion (US\$68 million). Net cash used in financing activities totaled ¥5 billion (US\$50 million), comprising cash outflows for the repayment of long-term debt, which offset inflows from an increase in short-term bank loans and proceeds from long-term debt.

As a result, cash and cash equivalents, end of the year, increased 11% compared with the previous fiscal year to ¥64 billion (US\$602 million).

Key financial ratios

The current ratio slipped to 141.0%, from 148.5% in the previous fiscal year.

The shareholders' equity ratio was 13.4%, up slightly from a year earlier. Shareholders' equity per share fell from ¥184.8 to ¥181.2 (US\$1.7).



CONSOLIDATED FIVE-YEAR SUMMARY

	Millions of yen					Thousands of U.S. dollars (Note 1)
	2000	1999	1998	1997	1996	2000
Net sales	¥ 155,812	¥ 237,505	¥ 251,209	¥ 208,280	¥ 171,451	\$ 1,467,847
Gross profit	12,143	3,272	14,254	14,263	16,519	114,394
Operating income (loss)	279	(11,015)	653	267	2,573	2,628
Income (loss) before income taxes and minority interests	334	(15,524)	(44,576)	380	3,357	3,146
Net (loss) income	(627)	(15,259)	(44,788)	683	1,769	(5,907)
Total assets	237,862	265,062	269,958	290,613	296,444	2,240,810
Total shareholders' equity	31,840	32,467	43,469	88,922	89,194	299,953
Long-term debt	69,435	87,053	82,968	64,113	46,015	654,122
Purchases of property, plant and equipment	774	3,318	2,777	1,380	671	7,292
Depreciation and amortization	1,434	1,563	1,263	1,283	1,327	13,509
Common stock	13,018	13,018	13,018	13,018	13,018	122,638
New orders *	117,344	116,535	239,000	176,957	190,916	1,105,455
Backlog of contracts at end of the year *	222,200	263,380	387,165	389,330	397,097	2,093,264

	Yen					U.S. dollars (Note 1)
	2000	1999	1998	1997	1996	2000
Per share:						
Net (loss) income	¥ (3.57)	¥ (86.85)	¥(254.92)	¥ 3.89	¥ 10.07	\$ (0.03)
Cash dividends	—	—	6.00	6.00	6.00	—
Net sales by sector*(%):						
Chemical fertilizers	4.5%	6.0%	3.7%	5.6%	13.8%	
Petrochemicals	54.5	57.4	37.6	35.3	35.0	
Refinery	11.5	15.1	20.4	13.8	19.6	
Energy-related	10.6	7.8	27.7	30.4	16.7	
Industrial systems and information technology	13.3	13.3	10.1	13.3	13.5	
Others	5.6	0.4	0.5	1.6	1.4	
(Overseas sales)	(71)	(85)	(88)	(69)	(74)	
Number of employees	1,607	1,509	1,532	1,562	1,578	

*The figures from 1996 through 1999 are on a non-consolidated basis.

CONSOLIDATED BALANCE SHEETS

Toyo Engineering Corporation and Consolidated Subsidiaries
March 31, 2000 and 1999

Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	1999	2000
Current assets:			
Cash	¥ 64,149	¥ 57,077	\$ 604,324
Marketable securities (Notes 4 and 12)	7,355	6,897	69,289
Notes and accounts receivable (Note 4)	59,506	80,195	560,584
Less: Allowance for doubtful receivables	1,088	2,445	10,250
	58,418	77,750	550,334
Contract work in progress	43,791	56,404	412,539
Prepaid expenses and other current assets (Note 5).....	13,006	12,607	122,525
Total current assets	186,719	210,735	1,759,011
Investments:			
Investment securities (Note 12).....	5,945	3,692	56,006
Investments in unconsolidated subsidiaries and affiliates	1,466	2,313	13,811
Long-term loans.....	762	3,654	7,178
Funded insurance premiums	738	784	6,952
Others.....	1,847	3,027	17,400
Total investments.....	10,758	13,470	101,347
Property, plant and equipment, at cost:			
Land (Note 4)	18,650	18,758	175,695
Buildings and structures (Note 4).....	26,530	28,391	249,929
Tools, furniture and fixtures	4,584	5,046	43,184
Construction in progress.....	6	7	57
Total.....	49,770	52,202	468,865
Less: Accumulated depreciation	13,457	13,856	126,774
Property, plant and equipment-net	36,313	38,346	342,091
Other assets (Note 5).....	3,380	2,236	31,842
Foreign currency translation adjustments.....	692	275	6,519
	¥ 237,862	¥ 265,062	\$ 2,240,810

See notes to consolidated financial statements.

Liabilities and Shareholders' Equity	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	1999	2000
Current liabilities:			
Short-term bank loans (Note 4)	¥ 41,061	¥ 31,419	\$ 386,821
Current portion of long-term debt (Note 4)	20,110	16,039	189,449
Notes and accounts payable	21,267	37,372	200,348
Income taxes (Note 5)	928	213	8,742
Advance receipts on uncompleted contracts	37,505	41,506	353,321
Other current liabilities	11,527	15,406	108,592
Total current liabilities	132,398	141,955	1,247,273
Long-term debt (Note 4)	69,435	87,053	654,122
Accrued retirement allowances (Note 6)	956	887	9,006
Other long-term liabilities (Note 5)	2,768	2,618	26,076
Contingent liabilities (Note 8)			
Minority interests	465	82	4,380
Shareholders' equity:			
Common stock, par value ¥50 per share:			
Authorized: 500,000,000 shares			
Issued: 175,692,539 shares	13,018	13,018	122,638
Additional paid-in capital	15,592	15,592	146,886
Retained earnings (Note 7)	3,230	3,857	30,429
	31,840	32,467	299,953
Less: Treasury stock	0	0	0
Total shareholders' equity	31,840	32,467	299,953
	¥ 237,862	¥ 265,062	\$ 2,240,810

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Toyo Engineering Corporation and Consolidated Subsidiaries
Years ended March 31, 2000 and 1999

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	1999	2000
Common stock:			
Balance at beginning of the year.....	¥ 13,018	¥ 13,018	\$ 122,638
Balance at end of the year	¥ 13,018	¥ 13,018	\$ 122,638
Additional paid-in capital			
Balance at beginning of the year.....	¥ 15,592	¥ 15,592	\$ 146,886
Balance at end of the year	¥ 15,592	¥ 15,592	\$ 146,886
Retained earnings (Note 7):			
Balance at beginning of the year.....	¥ 3,857	¥ 14,859	\$ 36,336
Add—Adjustment for the cumulative effect on prior years of applying the new method of accounting for income taxes (Note 5)	—	4,119	—
—Increase due to consolidation of subsidiaries nonconsolidated in the previous year.....	—	665	—
Deduct—Net loss	627	15,259	5,907
—Cash dividends	—	527	—
Balance at end of the year.....	¥ 3,230	¥ 3,857	\$ 30,429
Treasury stock:			
Balance at beginning of the year.....	¥ (0)	¥ (0)	\$ (0)
Add—increase	—	0	—
Deduct—decrease	0	—	0
Balance at end of the year.....	¥ (0)	¥ (0)	\$ (0)

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Toyo Engineering Corporation and Consolidated Subsidiaries
Years ended March 31, 2000 and 1999

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	1999	2000
Operating activities:			
Income (loss) before income taxes and minority interests	¥ 334	¥ (15,524)	\$ 3,146
Adjustments to reconcile income (loss) before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	1,434	1,563	13,509
Gain on sales of marketable and investment securities-net.....	(6,648)	—	(62,628)
Loss (gain) on disposal of property, plant and equipment-net	(712)	80	(6,707)
Provision for (reversal of) doubtful receivables	(714)	2,348	(6,726)
Equity in earnings of affiliated companies	(176)	(200)	(1,658)
Interest and dividends received	2,256	3,036	21,253
Interest and dividends income	(2,295)	(2,586)	(21,620)
Interest expense.....	3,758	3,797	35,403
Interest paid.....	(3,701)	(3,872)	(34,866)
Income taxes paid	(332)	(257)	(3,127)
Other-net.....	(931)	—	(8,771)
Changes in operating assets and liabilities:			
Decrease in notes and accounts receivable.....	20,950	19,287	197,362
Decrease in contract work in progress	12,845	9,351	121,008
Decrease in notes and accounts payable	(16,200)	(2,047)	(152,614)
Decrease in advance receipts on uncompleted contracts	(4,757)	(12,818)	(44,814)
Other-net.....	(1,029)	1,392	(9,694)
Net cash provided by operating activities	4,082	3,550	38,456
Investing activities:			
Decrease in marketable securities	2,800	5,702	26,378
Purchases of property, plant and equipment	(774)	(3,318)	(7,292)
Proceeds from sales of property, plant and equipment	2,195	50	20,678
Proceeds from investment securities-net	2,375	524	22,374
Other-net	642	(3,785)	6,048
Net cash provided by (used in) investing activities.....	7,238	(827)	68,186
Financing activities:			
Increase in short-term bank loans.....	9,177	4,303	86,453
Proceeds from long-term debt.....	3,858	20,315	36,345
Repayment of long-term debt	(15,861)	(10,646)	(149,421)
Dividends paid	—	(527)	—
Other.....	(2,500)	—	(23,552)
Net cash (used in) provided by financing activities.....	(5,326)	13,445	(50,175)
Effect of exchange rate changes on cash and cash equivalents	(444)	(433)	(4,182)
Net increase in cash and cash equivalents	5,550	15,735	52,285
Cash and cash equivalents: beginning of the year	56,792	41,057	535,016
Increase in cash and cash equivalents as a result of newly consolidated subsidiary	1,597	—	15,045
Cash and cash equivalents: end of the year	¥ 63,939	¥ 56,792	\$ 602,346

See notes to consolidated financial statements.

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Toyo Engineering Corporation (the "Company") and its consolidated subsidiaries have been prepared in accordance with accounting principles and practices generally accepted in Japan and the regulations concerning consolidated financial statements issued by the Ministry of Finance which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

Relevant notes and consolidated statements of shareholders' equity which are not currently required have been added and certain reclassifications have been made to present the accompanying nonconsolidated 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 ¥106.15 to U.S.\$1 prevailing on March 31, 2000.

Due to a change in the regulations relating to accounting for consolidation and research and development costs, the Company and its consolidated subsidiaries adopted new standards. The adoptions of these standards have no material impact on the consolidated financial statements.

Change in criteria for inclusion of subsidiaries in consolidation

Effective the fiscal year ended March 31, 2000, the criteria for the scope of a subsidiary in the consolidated financial statements have been changed from one based strictly on the percentage of shareholding to one which reflects the entity which exercises *de facto* control.

Accounting for research and development costs

Effective the fiscal year ended March 31, 2000, the criteria for research and development costs are defined to exclude all activities other than activity such as planned search and exploration for discovering new knowledge, a process of translation of research findings and other knowledge into a plan or a design for new products, services and processes, or a plan for bringing significant improvements on the existing products. These costs must be charged to operations as incurred.

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 acquisition cost and equity in net assets at the time of acquisition is amortized in principle over five years or twenty years on a straight-line basis.

(b) Marketable Securities and Investments

Marketable securities and marketable investment securities listed on stock exchanges are primarily stated at the lower of cost or market. Other securities and investments in subsidiaries and affiliates not accounted for by the equity method are stated at cost. Cost 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 computed primarily on the declining-balance method over the estimated useful lives of the assets.

(e) Leases

Noncancelable lease transactions are primarily accounted for as operating leases except that lease agreements 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 for doubtful accounts principally at an estimated amount of probable and reasonably possible bad debts plus the maximum amount permitted to be charged to income under the Japanese tax law.

(g) Advance Receipts on Uncompleted Contracts

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

(h) Accrued Retirement Allowances

The Company has a noncontributory funded pension plan.

The accrued retirement allowances substantially represent the amount of directors' and statutory auditors' unfunded retirement allowances required to be paid if they terminated their service pursuant to internal policies of the Company.

(i) Foreign Currency Translation

Short-term receivables and payables in foreign currencies are translated at current exchange rates at the balance sheet date. Long-term receivables and payables in foreign currencies are translated at historical exchange rates. 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 historical exchange rates. Revenue, expense 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.

(j) Recognition of Revenues

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

For contracts, the contract prices of which are equal to or in excess of ¥5 billion (\$47 million) and the construction periods of which will extend for a period in excess of two years, revenues are recognized by the percentage-of-completion method. According to the 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.

(k) Net Loss per Share

Net loss per share is computed based on the weighted average number of shares outstanding during each year.

Diluted net loss per share information is not shown since there was no potential common stock in 2000 and 1999.

(l) Income Taxes

Deferred tax assets and liabilities are determined based on the differences between financial statement carrying amounts of existing assets and liabilities 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 settled.

(m) Cash and cash equivalents

For 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. The prior year's consolidated statements of cash flows have been reclassified to conform to the above accounting policy. The effect of this change is to increase net cash provided by investment activity by ¥75 million (\$707 thousand).

Effective the year ended March 31, 2000, the Company changed its method of accounting for the noncontributory pension contributions of past service cost to the plan assets to reclassify as selling, general and administrative expenses and manufacturing costs. In prior years, these contributions were accounted for as other expenses when paid. This change was made to achieve further improvement of the Company's cost accounting. The effect of this change was to increase income before income taxes and minority interests by ¥19 million (\$178 thousand).

Short-term bank loans are represented by notes maturing generally in 180 days or overdraft. The annual interest rate applicable to the loans outstanding at March 31, 2000 ranged principally from 0.6978% to 6.95% and at March 31, 1999 ranged from 0.7069% to 2.3%. Customarily, these notes are renewed at maturity without difficulty, and management anticipates that this financing method will be continued.

Long-term debt at March 31, 2000 and 1999 is summarized as follows :

March 31,	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Loans, principally from banks, at interest rates ranging from 0.6978% to 6.95%, due 2000-2033:			
Secured	¥ 49,496	¥ 49,223	\$ 466,284
Unsecured	40,049	53,869	377,287
Total long-term borrowings	89,545	103,092	843,571
Less: Current portion	20,110	16,039	189,449
	¥ 69,435	¥ 87,053	\$ 654,122

The following assets at March 31, 2000 and 1999 are pledged as collateral mainly for long-term debt:

March 31,	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Marketable securities	¥ 5,772	¥ 670	\$ 54,376
Notes and accounts receivable	11,788	15,783	111,050
Land and buildings, net of accumulated depreciation	30,332	30,847	285,747
	¥ 47,892	¥ 47,300	\$ 451,173

3. ACCOUNTING CHANGE

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

5. INCOME TAXES

The following schedule shows the maturities of long-term borrowings outstanding at March 31, 2000:

	Millions of yen	Thousands of U.S. dollars
2001	¥ 20,110	\$ 189,449
2002	21,066	198,455
2003	30,285	285,304
2004	6,679	62,921
2005	2,630	24,776
2006 and after.....	8,775	82,666
	¥ 89,545	\$ 843,571

The normal statutory tax rate of income taxes applicable to the Company and its domestic subsidiaries is approximately 41.8% and 47.4% for the years ended March 31, 2000 and 1999, respectively. Income taxes of foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

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

Years ended March 31,	2000	1999
Normal statutory income tax rate in Japan	41.8%	47.4%
Adjustment:		
Permanently nondeductible expenses	64.1	(2.2)
Permanently nontaxable dividends received.....	(1.4)	0.2
Effect on operating loss carryforwards, etc.	14.5	(42.3)
Effect on elimination of intercompany transactions	117.3	—
Others.....	49.5	(1.4)
Effective income tax rate	285.8	1.7

(2) Significant components of the deferred income tax assets and liabilities at March 31, 2000 and 1999 are as follows :

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Deferred tax assets:			
Allowance for doubtful receivables.....	¥ 1,359	¥ 1,618	\$ 12,803
Accrued retirement allowances	350	312	3,297
Difference in the net sales recognized by the percentage-of-completion method.....	596	2,401	5,615
Difference in securities and investment securities.....	1,640	4	15,450
Others	961	500	9,053
Deferred tax assets total—gross	4,906	4,835	46,218
Deferred tax liabilities offset to deferred tax assets:			
Reserve for overseas investment losses	(38)	(45)	(358)
Deferred assets	—	(21)	—
Reserve for overseas market development.....	(104)	—	(980)
Others	(100)	(51)	(942)
Deferred tax assets total—net.....	¥ 4,664	¥ 4,718	\$ 43,938

(3) Net deferred tax assets at March 31, 2000 and 1999 are included in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Current assets-prepaid expenses and other current assets.....	¥ 2,893	¥ 3,381	\$ 27,254
Other assets	1,975	1,359	18,606
Other current liabilities.....	(25)	—	(236)
Other long-term liabilities	(179)	(22)	(1,686)
Net deferred tax assets.....	¥ 4,664	¥ 4,718	\$ 43,938

The Company and its subsidiaries have operating loss carryforwards equivalent to unrecognized tax assets of ¥14,554 million (\$137,108 thousand) and ¥14,448 million at March 31, 2000 and 1999, respectively, which are available as an offset against future taxable income.

6. ACCRUED RETIREMENT ALLOWANCES

Accrued retirement allowances include directors' and statutory auditors' retirement allowances of ¥655 million (\$6,171 thousand) and ¥550 million at March 31, 2000 and 1999, respectively.

7. RETAINED EARNINGS

The amount of legal reserve included in retained earnings is ¥1,771 million (\$16,684 thousand) at March 31, 2000 and 1999. In accordance with the provisions of the Commercial Code of Japan, the Company provides that an amount equal to at least 10% of cash payments paid by the Company as an appropriation of retained earnings (including cash dividends and bonuses to directors) be appropriated as a legal reserve until such reserve equals 25% of its common stock. The legal reserve may be used to reduce a deficit or may be transferred to common stock through the appropriate shareholders' action. The legal reserve is not available for dividend payments.

8. CONTINGENT LIABILITIES

At March 31, 2000, the Company and its subsidiaries were contingently liable as guarantors of loans to others in the amount of ¥7,597 million (\$71,569 thousand).

9. NET SALES

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

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
	¥ 88,877	¥ 151,301	\$ 837,277

The following table shows overseas sales included in net sales:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
	¥ 111,132	¥ 196,976	\$ 1,046,934

10. OTHER EXPENSES

The components of "Other" in "Other expenses" for the years ended March 31, 2000 and 1999 are as follows:

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Loss on liquidation of canceled contract.....	¥ —	¥ 1,152	\$ —
Provision for bad debt.....	—	2,463	—
Unrealized loss on securities.....	617	1,276	5,813
Foreign exchange losses.....	1,644	453	15,487
Others.....	1,826	2,216	17,202
Total	¥ 4,087	¥ 7,470	\$ 38,502

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, 2000 and 1999 which would have been reflected in the balance sheets if finance lease accounting had been applied to the finance lease transactions currently accounted for as operating leases:

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Acquisition costs:			
Tools, furniture and fixtures	¥ 1,536	¥ 1,754	\$ 14,470
Accumulated depreciation:			
Tools, furniture and fixtures	1,072	1,132	10,099
Net book value:			
Tools, furniture and fixtures	464	621	4,371

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2000 for finance lease transactions accounted for as operating leases are summarized as follows:

Years ended March 31, 2000	Millions of yen	Thousands of U.S. dollars
2001	¥ 269	\$ 2,534
2002 and after.....	304	2,864
Total	¥ 573	\$ 5,398

Lease payments relating to finance lease transactions accounted for as operating leases for the years ended March 31, 2000 and 1999 amounted to ¥294 million (\$2,770 thousand) and ¥397 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, 2000 for finance lease transactions accounted for as operating leases are summarized as follows:

Years ended March 31, 2000	Millions of yen	Thousands of U.S. dollars
2001	¥ 59	\$ 556
2002 and after.....	60	565
Total	¥ 119	\$ 1,121

All of the above lease receivables are derived from sublease business. As every sublease property is leased to third parties through the Company's subsidiary on approximately the same conditions, approximately the same amount of the above future lease receivables is included in table (a-1) as the amount of future lease payments.

(b-1) Operating Leases (as Lessee)

Future minimum lease payments subsequent to March 31, 2000 for noncancelable operating leases are summarized as follows:

Years ended March 31, 2000	Millions of yen	Thousands of U.S. dollars
2001	¥ 26	\$ 245
2002 and after.....	6	56
Total	¥ 32	\$ 301

(b-2) Operating Leases (as Lessor)

Future minimum lease receivables subsequent to March 31, 2000 for noncancelable operating leases are summarized as follows:

Years ended March 31, 2000	Millions of yen	Thousands of U.S. dollars
2001	¥ 1,280	\$ 12,058
2002 and after.....	18,567	174,913
Total	¥ 19,847	\$ 186,971

12.

MARKETABLE AND INVESTMENT SECURITIES

The carrying value and related aggregate market value of current and noncurrent marketable securities included in marketable securities, investment securities and investments in unconsolidated subsidiaries and affiliates at March 31, 2000 were as follows:

At March 31, 2000	Millions of yen	Thousands of U.S. dollars
Acquisition costs:		
Current:		
Carrying value.....	¥ 6,665	\$ 62,788
Aggregate market value	9,888	93,151
Net unrealized gain	¥ 3,223	\$ 30,363
Noncurrent:		
Carrying value.....	¥ 3,250	\$ 30,617
Aggregate market value	3,623	34,131
Net unrealized gain	¥ 373	\$ 3,514

13.

DERIVATIVE TRANSACTIONS

(a) Foreign Exchange Contracts

The Company and its consolidated subsidiaries have entered into foreign exchange contracts to reduce their exposure to adverse fluctuations in foreign exchange rates relating to receivables and payables denominated in foreign currencies. The contract amounts and related market values at March 31, 2000 were as follows:

At March 31, 2000	Millions of yen	Thousands of U.S. dollars
(i) Forward exchange contracts to sell U.S. dollars:		
Contract amounts	¥ 1,691	\$ 15,930
Related market value*1	1,680	15,826
Net unrealized gain	¥ 11	\$ 104
(ii) Forward exchange contracts to buy U.S. dollars:		
Contract amounts	¥ 3,179	\$ 29,948
Related market value*1	3,211	30,249
Net unrealized loss	¥ 32	\$ 301
(iii) Forward exchange contracts to buy other currencies:		
Contract amounts	¥ 1,527	\$ 14,385
Related market value*1	1,472	13,867
Net unrealized gain	¥ 55	\$ 518

*1 Related market values at March 31, 2000 were based on the forward rate at March 31, 2000.

The contract amounts exclude contracts entered into to hedge receivables and payables denominated in foreign currencies, which have been translated and reflected in the corresponding contracted rates in the accompanying balance sheet.

(b) Interest Rate Swap Agreements

The Company and its consolidated subsidiaries have entered into interest rate swap agreements to reduce their interest expense or their exposure to adverse fluctuations in interest rates relating to loans payable. The total notional amounts of these interest rate swap agreements at March 31, 2000 were as follows:

At March 31, 2000	Millions of yen	Thousands of U.S. dollars
Notional amounts*2	¥ 1,800	\$ 16,957
Related market value	1,808	17,032
Net unrealized gain	¥ 8	\$ 75

*2 Notional amounts included in these figures whose remaining terms extend more than one year after the balance sheet date were follows :

At March 31, 2000	Millions of yen	Thousands of U.S. dollars
Notional amount	¥ 1,600	\$ 15,073



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The Board of Directors and Shareholders
Toyo Engineering Corporation

We have audited the consolidated balance sheets of Toyo Engineering Corporation and consolidated subsidiaries as of March 31, 2000 and 1999, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, all expressed in yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements, expressed in yen, present fairly the consolidated financial position of Toyo Engineering Corporation and consolidated subsidiaries at March 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis except for the change, with which we concur, in the method of accounting for the noncontributory pension contributions of past service cost to the plan assets as described in Note 3 to the consolidated financial statements.

As described in Note 1 to the consolidated financial statements, Toyo Engineering Corporation and consolidated subsidiaries have adopted new accounting standards for consolidation, research and development costs in the preparation of the consolidated financial statements for the year ended March 31, 2000.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2000 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 to the consolidated financial statements.

Century Ota Showa & Co.

June 29, 2000

See note 1 to the consolidated financial statements which explains the basis of preparing the consolidated financial statements of Toyo Engineering Corporation under Japanese accounting principles and practices.