TOYO KANETSU K.K.

Annual Report 2006

Profile

Toyo Kanetsu K.K. (TKK) was established in the year of 1941. Since that time, TKK has continued to meet the requirements of the industry through our policy of "Customers First."

The Plant & Machinery Division was established in 1950 when in-house welding technology was developed for welded storage tanks. Since then, our expertise has expanded to provide customers various kinds of storage tanks consisting of more than 5,000 units varying from crude oil storage tanks to LNG storage tanks. Particularly, we are proud of our outstanding track record of LNG Storage Tank construction, with 25 tanks in Japan and 50 tanks in overseas sites in Asia, Africa, Middle East, Oceania and the Western Hemisphere. Our technical expertise and our outstanding record of Safety, Quality & Delivery have been recognized and appreciated by the major clients throughout the world.

The Building Construction Division was started in 1989 for construction of apartment houses with application of modular steel frame structures. The Division has expanded its activities to shop and office buildings with use of prefabricated construction methods as well as conventional construction methods.

The Material Handling Systems Division was begun in 1953 for manufacture and installation of highly standardized conveyors systems. Since that time, the Division has continued to develop the technology to meet the needs of our clients. The Division supplied one of the largest Airport Baggage Handling Systems in the world in 1998 at Kuala Lumpur International Airport in Malaysia. Also, as a leading provider company of Logistics Solutions in Japan, the Division has successfully completed numerous projects such as Distribution Center System, Truck Terminal System, Food Distribution Processing Center and Postal Sorting System. The Division became a subsidiary company of TKK under the name of Toyo Kanetsu Solutions K.K. in 2002 in order to maximize the efficiency and also to vitalize TKK Group companies.

TKK will continue to provide the advanced technology to answer the needs of its clients for today and tomorrow.

Contents

Toyo Kanetsu K.K. and Consolidated Subsidiaries

Financial Highlights

	Millions of yen					Thousands of U.S. dollars
	2006	2005	2004	2003	2002	***2006***
For the Years Ended 31st March:						
Net Sales	**¥ 45,530**	¥ 39,734	¥ 43,914	¥ 36,662	¥ 39,729	***$387,557***
Material Handling Systems Division	**20,909**	13,595	17,550	15,487	15,338	***177,983***
Plant & Machinery Division	**14,643**	15,217	10,386	7,543	7,342	***124,646***
Building Construction Division	**5,668**	7,533	9,280	9,499	10,808	***48,249***
Others	**4,310**	3,389	6,698	4,133	6,241	***36,679***
Operating Income (Loss)	**1,904**	1,349	923	372	(1,639)	***16,206***
Net Income (Loss)	**1,626**	1,011	1,042	(2,333)	(15,997)	***13,841***
Cash dividends	**277**	-	-	-	-	***2,357***
At 31st March:						
Current Assets	**25,309**	22,796	21,024	18,643	21,369	***215,435***
Net Property, Plant and Equipment	**16,566**	16,544	17,052	17,966	20,680	***141,014***
Investments and Advances	**24,852**	16,300	16,103	11,525	13,402	***211,542***
Intangibles and Deferred Charges	**413**	317	280	295	191	***3,513***
Total Assets	**67,140**	55,957	54,459	48,429	55,642	***571,504***
Current Liabilities	**20,084**	20,420	16,893	18,864	22,625	***170,964***
Long-Term Liabilities	**15,647**	11,507	13,534	10,014	12,716	***133,190***
Minority Interests in Consolidated Subsidiaries	**10**	25	19	20	20	***84***
Shareholders' Equity	**31,399**	24,005	24,013	19,531	20,281	***267,266***
Total Liabilities, Minority Interests and Shareholders' Equity	**67,140**	55,957	54,459	48,429	55,642	***571,504***
Order Backlog	**38,467**	34,232	34,701	40,266	35,767	***327,434***

	Yen					U.S. dollars
Per Share:						
Net Income (Loss)	**¥ 11.76**	¥ 7.31	¥7.53	¥ (16.85)	¥ (115.32)	***$ 0.10***
Cash dividends	**2.00**	-	-	-	-	***$ 0.02***
Shareholders' Equity	**227.11**	173.57	173.55	141.18	146.21	***$ 1.93***
Number of Shareholders	**17,005**	16,418	16,078	17,102	17,705	
Number of Employees	**552**	525	564	573	588	

; The U.S. dollar amounts in this annual report represent translations of Japanese yen at the rate of ￥117.48=$1.00, solely for the reader's convenience.

Message from the President

Overview of business

(1) Development of operations and results at the Corporate Group

During the fiscal year under review, the Japanese economy remained on a recovery track, despite such risk factors as sluggish exports hurt by slowdowns in the economies of the U.S. and China, and price hikes of oil and other resources. In the first half, the domestic economy emerged from its plateau phase, which started in mid-2004, thanks to strong domestic demand led by high-level capital investments and steady consumer spending as well as brisk exports reflecting the robust global economy, centering on the U.S. and China.

Under such macroeconomic conditions, the market of the Material Handling Systems Business picked up, as some sectors actively invested in logistics centers and other facilities due to the improvement and consolidation of logistics bases and joint delivery, which were accelerated by the expansion of logistics outsourcing and the reorganization of the logistics industry.

Looking at the Plant & Machinery Business, both producer and consumer nations increased their levels of energy-related investments amid the growing global demand for energy. Producing countries include those in the Middle East, Africa, Southeast Asia, Latin America, and Australia while consuming countries include the U.S., China, South Korea, and various European nations. These countries' investments concentrated on their storage facilities. Meanwhile, the Building Construction Business continuously faced a severe business environment mainly because of fierce competition to win orders and because of price surges in construction materials.

Under these market conditions, the Group's net sales for the fiscal term under review were JPY45.5 billion (US$388 million), up 14.6% from the previous year. This increase is attributable to robust sales at the Material Handling Systems Business, which offset reduced sales at other businesses. Operating income was JPY1.9 billion (US$16 million), up 41.2%, and current profit was JPY2.1 billion (US$18 million), up 22.5%. Net income rose sharply 60.9% year-on-year to JPY1.6 billion (US$14 million). The amount of orders received also jumped 26.7% year-on-year to JPY45.5 billion (US$387 million).

Operations by business are as follows:

In the Material Handling Systems Business, we implemented energetic sales activities during the fiscal year under review, while focusing on IT-based material handling systems such as our mainstay Picking System and Warehouse Management Systems (WMS). Net sales hit the highest levels seen since our corporate split-up in October 2002, primarily due to strong sales to co-op stores, retailers, wholesalers, mass retailers and subcontracted transport companies, as well as the on-schedule completion of large construction projects that were launched in the previous year. In addition to this increase in net sales, our efforts to continuously improve productivity brought a substantial rise in profits from a year earlier and we recorded the largest profit since the company's split-up.
As a result, net sales at this business posted JPY20.9 billion (US$178 million) in the year under review, up 53.8% from the preceding year, and orders received totaled JPY17.6 million (US$150 million), up 10.7%.

At the Plant & Machinery Business, there was strong overseas demand for oil, LPG and LNG storage tanks during the fiscal year under review. Taking advantage of this opportunity, we carried out brisk sales activities mainly in the Middle East and Southeast Asia, regions that we have supplied for many years, by making use of our technical capability, reliability and international competitiveness as a specialist manufacturer. As a consequence, we won an order from Yemen for two large LNG storage tanks in the first half of the fiscal term. In addition, in the latter half of the term we received an order from Vietnam for a total of thirty-five large oil tanks and products tanks, which are expected to be used at the nation's first oil refinery. Capitalizing on our strength in overseas processing bases, we also won an order from Qatar to process materials for use in various tanks. Furthermore, we received an order from Saudi Arabia for spherical tanks. Receiving orders from Yemen and Vietnam is one of the fruits of the Group's efforts to explore new markets for tanks. In response to an increase in orders from foreign countries, we quickly began to expand our overseas processing bases.
In the domestic market, we focused on sales activities aiming to win orders for new LNG tanks. In the area of maintenance work, there was high demand for quakeproofing work for floating roof tanks as a result of a partial amendment to the Fire Service Law. In response, we strengthened our maintenance-work related organization and sales activities. Consequently, we were able to receive more orders for such work.
Sales were strong and remained almost unchanged from the previous year, thanks to the completion of construction work for LPG and LNG tanks in both domestic and worldwide markets, as well as the favorable progression of processing large-scale work for LNG and oil tanks, products for which we received new orders. We strictly managed costs to secure profits and overcome the severe environment, which saw cost increases due to the sharp price rise in raw materials such as steel.
As a result, net sales at this business were JPY14.6 billion (US$125 million) in the fiscal year under review, down 3.8% from the previous year, and orders received totaled JPY22.4 billion (US$191 million), up 60.3%.

In the Building Construction Business in the fiscal year under review, we continued to focus our sales activities on profitability for our core sector: the construction of leased apartments. Although both sales and profits at this sector declined from a year earlier, we will continue to place top priority on ensuring stable profits at this sector. In other construction sectors, we are striving to expand our business scales and domains, and enhance and improve operations.
As a result, net sales at this business posted JPY5.7 billion (US$48 million) in the fiscal period under review, down 24.8% from the previous year. Orders received amounted to JPY5.5 billion (US$46 million), down 9.1%.

Subsidiaries and affiliates handling business other than those mentioned above made efforts to expand and develop their businesses in the year under review, and aggregate net sales posted JPY4.3 billion (US$37 million), up 27.2% from the preceding year.

(2) Future Issues for the Corporate Group

The Group will further improve corporate value by tackling the following four management issues on a group-wide basis, with the aim of "creating a sound, strong and dynamic corporate group."

1. To make corporate structure profitable and improve earnings power
   We will make further efforts to reform and strengthen our core businesses from the strategic and organizational perspectives, improve operational efficiency, and reduce costs.
2. To encourage vitality among personnel and efficiently use human resources
   We will strive to further enhance overall employee competence and organizational strength and invigorate the workplace, through the "reform and overhaul of personnel and training structures and systems."
3. To establish corporate governance and compliance management
   We will strengthen the functions of the board of directors and the board of auditors as well as improve the internal control and compliance structures, aiming to implement fair and transparent management.
4. To strengthen group management
   We will further boost the Group's comprehensive capability by unifying the Group's basic operation policies and reinforcing the management bases of the Group companies.

June 2006

Shigeaki Kiyota
President & Representative Director

Board of Directors and Corporate Auditors

Board of Directors

President & Representative Director .... Shigeaki Kiyota
Managing & Representative Director .... Takeshi Mizukami
Directors .... Sadao Arita
.... Shinji Shimazaki
.... Toru Yanagawa
Auditors .... Teruo Nojo
.... Masaharu Hino
.... Yoshihumi Murashige
.... Koichi Endo

Line of Business

Plant & Machinery Business:

Design & Engineering, Procurement,
Shop-Fabrication and Construction of:
Floating Roof Tank
Cone Roof Tank
Dome Roof Tank
－LNG/Ethylene Storage Tank, etc.
－LPG Storage Tank, etc.
Spherical Tank

Building Construction Business:

Design and Construction of:
Apartment House
Shop Building
Office and Warehouse Buildings

Real Estate Business:

Sale, Brokerage and Leasing of:
Office Building
Apartment House
Distribution Center
Real estate

Material Handling Systems Business:

Planning, Design, Manufacture, Construction and Marketing of:
Distribution Center System
Truck Terminal System
Production Line System
Airport Baggage Handling System
Postal Sorting System
Food Processing Center System
Apparel Center System
Warehouse Management System
Engineering, Manufacturing and Installation of System's Facilities,
their relative Civil Works and Architectural Works

Qualification

- Listed in primary stock exchanges (Tokyo).
- Quality Management System to ISO 9001 certified by Bureau Veritas Quality International (BVQI) for flat bottomed vertical cylindrical storage tank for low temperature service.
- Quality Management System to ISO 9001 certified by Bureau Veritas Quality International (BVQI) for Baggage Handling System, Slide Shoe Type Sorting Conveyor and Wheel Up Sorting Conveyor.

Subsidiaries, Affiliated Companies and Line of Business

Subsidiaries which are consolidated, and affiliated companies which are accounted for by the equity method, are as follows.

Consolidated Subsidiaries

Toyo Kanetsu Solutions K.K.
Share Capital : 100.0%
Line of Business : Logistics Solution Provider

K-Techno Inc.
Share Capital 100.0%
Line of Business Consulting & Maintenance of Material Handling System

TKL Co., Ltd.
Share Capital : 100.0%
Line of Business : Rental/Leasing, Insurance & Travel Agent

Toyo Service System K.K.
Share Capital : 100.0%
Line of Business : Real Estate Management, Welfare Facilities Management, Gardening/ Floriculture Business Property, Plant & Equipment Maintenance.

Global Eight Co.
Share Capital : 84.0%
Line of Business : Commodity & Foodstuffs Trading

P.T. Toyo Kanetsu Indonesia
Share Capital : 92.9%
Line of Business : Storage Tanks/ Pressure Vessels/ Onshore & Offshore Steel Structures

Al Ghallilah Engineering & Construction L.L.C.
Share Capital : 65.0%
Line of Business : Storage Tanks/ Pressure Vessels / Onshore & Offshore Steel Structures

TKK Engineering Pty. Ltd.
Share Capital : 100.0%
Line of Business : Storage Tanks/ Pressure Vessels/ Onshore & Offshore Steel Structures, Ranch Management, Tourism

TKK-USA,INC
Share Capital : 100.0%
Line of Business : Storage Tanks/ Pressure Vessels / Onshore & Offshore Steel Structures

Affiliated Companies
(Equity Method)

Toyo Koken K.K.
Share Capital : 39.3%
Line of Business : Electric-driven winches, Conveyors, Balancer & Robots

Toyo Miyama Co., Ltd.
Share Capital : 49.0%
Line of Business : Prefabrication of Unit House

Katayama Co.
Share Capital : 22.0%
Line of Business : Architectural Management

Manavis Co., Ltd.
Share Capital : 20.6%
Line of Business : Cosmetics, Cleaning Products

Toyo Kanetsu (Malaysia) Sdn. Bhd.
Share Capital : 49.0%
Line of Business : Material Handling Systems, Storage Tanks/ Pressure Vessels / Onshore & Offshore Steel Structures

Toyo Kanetsu K.K. and Consolidated Subsidiaries

Consolidated Balance Sheets

As at March 31, 2006 and 2005

ASSETS

	Millions of yen		*Thousands of U.S. dollars (Note 3)*
	2006	2005	***2006***
Current Assets:			
Cash on hand and at bank (Note 4)	**¥7,966**	¥6,605	***$67,807***
Marketable securities (Notes 4 and 5)	**2,000**	-	***17,021***
Notes and accounts receivable	**7,637**	9,764	***65,004***
Less: Allowance for doubtful accounts	**(101)**	(92)	***(857)***
	7,536	9,672	***64,147***
Inventories (Note 6)	**6,762**	5,823	***57,560***
Other current assets	**1,045**	696	***8,900***
Total current assets	**25,309**	22,796	***215,435***
Property, Plant and Equipment (Note 8)**:**			
Buildings and structures	**10,808**	11,089	***92,002***
Machinery and equipment	**4,023**	4,520	***34,245***
Land (Note 2(8))	**9,266**	9,822	***78,871***
Leased assets (Note 14)	**6,516**	4,972	***55,468***
Construction in progress	**70**	-	***590***
Less: Accumulated depreciation	**(14,117)**	(13,859)	***(120,162)***
Total property, plant and equipment	**16,566**	16,544	***141,014***
Investments and Advances:			
Investments in securities (Notes 7 and 8)	**21,005**	12,428	***178,795***
Long-term loans receivable	**1,523**	1,959	***12,964***
Other investments	**3,283**	2,955	***27,946***
Less: Allowance for doubtful accounts	**(959)**	(1,042)	***(8,163)***
Total investments and advances	**24,852**	16,300	***211,542***
Intangibles and Deferred Charges:			
Intangible fixed assets	**413**	317	***3,513***
Total intangibles and deferred charges	**413**	317	***3,513***
	¥67,140	¥55,957	***$571,504***

The accompanying notes are an integral part of the consolidated financial statements.

LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	***2006***
Current Liabilities:			
Short-term debt (Note 8)	**¥4,653**	¥9,497	***$39,605***
Notes and accounts payable	**2,227**	1,964	***18,953***
Accrued income taxes (Note 10)	**522**	172	***4,442***
Accrued liabilities	**4,472**	3,567	***38,066***
Advances from customers	**7,092**	4,521	***60,367***
Accrued bonuses	**182**	163	***1,550***
Reserve for losses on work in progress	**304**	157	***2,591***
Other current liabilities	**632**	379	***5,390***
Total current liabilities	**20,084**	20,420	***170,964***
Long-Term Liabilities:			
Long-term debt (Note 8)	**3,651**	2,844	***31,079***
Deferred tax liabilities on revaluation of land (Note 2(8))	**2,174**	2,409	***18,505***
Deferred tax liabilities	**6,179**	2,429	***52,597***
Accrued retirement benefits for employees (Note 9)	**3,526**	3,687	***30,013***
Accrued retirement benefits for directors and corporate auditors	**102**	133	***867***
Other long-term liabilities	**15**	5	***129***
Total long-term liabilities	**15,647**	11,507	***133,190***
Minority Interests in Consolidated Subsidiaries	**10**	25	***84***
Commitments and Contingent Liabilities (Note 16)			
Shareholders' Equity:			
Common stock:			
Authorized: 297,000,000 shares			
Issued: 138,730,741 shares	**18,580**	18,580	***158,155***
Additional paid-in capital	**1,104**	1,104	***9,398***
Accumulated earnings (deficit)	**2,546**	980	***21,668***
Unrealized gains on revaluation of land (Note 2(8))	**391**	331	***3,332***
Net unrealized holding gains on investment securities	**9,526**	3,720	***81,081***
Foreign currency translation adjustments	**(682)**	(657)	***(5,805)***
	31,465	24,058	***267,829***
Less: Treasury stock, at cost	**(66)**	(53)	***(563)***
Total shareholders' equity	**31,399**	24,005	***267,266***
	¥67,140	¥55,957	***$571,504***

The accompanying notes are an integral part of the consolidated financial statements.

Toyo Kanetsu K.K. and Consolidated Subsidiaries

Consolidated Statements of Operations

For the years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	***2006***
Net Sales	**¥45,530**	¥39,734	***$387,557***
Cost of Sales (Note 12)	**40,035**	35,185	***340,780***
Gross profit	**5,495**	4,549	***46,777***
Selling, General and Administrative Expenses (Notes 11 and 12)	**3,591**	3,200	***30,571***
Operating Income (Loss)	**1,904**	1,349	***16,206***
Other Income (Expenses):			
Interest and dividend income	**251**	216	***2,136***
Interest expense	**(327)**	(341)	***(2,787)***
Exchange gain (loss)	**119**	47	***1,014***
Equity in income of unconsolidated subsidiaries and affiliates	**120**	469	***1,018***
Derivative profit	**75**	-	***638***
Other, net	**(10)**	1	***(75)***
	228	392	***1,944***
Income (Loss) before special items	**2,132**	1,741	***18,150***
Special Profit (Loss):			
Loss on sale or disposal of property, plant and equipment, net	**(89)**	(192)	***(758)***
Impairment losses on fixed assets (Note 13)	**(895)**	-	***(7,622)***
Provision for bad debts	**(249)**	(24)	***(2,117)***
Reversal of provision for bad debts	**97**	38	***830***
Provision for retirement benefits for directors and corporate auditors for prior periods	**-**	(100)	***-***
Loss on write-down of investment securities	**0**	(264)	***(1)***
Loss on write-down of investments in golf club memberships	**-**	(136)	***-***
Gain on sale of investment securities	**568**	328	***4,838***
Gain on redemption of preferred investment bond	**130**	-	***1,107***
Extraordinary retirement benefits	**-**	(161)	***-***
Gain on dissolution of the retirement annuity system	**71**	-	***601***
Depreciation of leased assets	**(99)**	-	***(845)***
Other, net	**183**	(144)	***1,555***
	(283)	(655)	***(2,412)***
Income (Loss) before income taxes and minority interests	**1,849**	1,086	***15,738***
Income Taxes (Note 10)**:**			
Current	**511**	87	***4,352***
Deferred	**(248)**	(12)	***(2,116)***
	263	75	***2,236***
Minority Interests in Net Loss of Consolidated Subsidiaries	**40**	0	***339***
Net Income (Loss)	**¥1,626**	¥1,011	***$13,841***

	Yen		U.S. dollars (Note 3)
Per Share (Note 2 (18))			
Net income (loss)	**¥11.76**	¥7.31	***$0.10***

The accompanying notes are an integral part of the consolidated financial statements.

Toyo Kanetsu K.K. and Consolidated Subsidiaries

Consolidated Statements of Shareholders' Equity

For the years ended March 31, 2006 and 2005

		Millions of yen						
	Number of shares of common stock	Common stock	Additional paid-in capital	Accumulated earnings (deficit)	Unrealized gains on revaluation of land	Net unrealized holding gains (losses) on investment securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2004	138,730,741	¥18,580	¥3,064	¥(1,985)	¥1,619	¥3,418	¥(639)	¥(44)
Net income for the year	-	-	-	1,011	-	-	-	-
Transfer to deferred tax liabilities on revaluation of land	-	-	-	-	(1,288)	-	-	-
Realized losses on revaluation of land	-	-	-	(7)	-	-	-	-
Transfer from additional paid-in capital to accumulated deficit	-	-	(1,960)	1,961	-	-	-	-
Foreign currency translation adjustments	-	-	-	-	-	-	(18)	-
Net unrealized holding gains on investments	-	-	-	-	-	302	-	-
Repurchase of treasury stock	-	-	-	-	-	-	-	(9)
Balance at March 31, 2005	138,730,741	¥18,580	¥1,104	¥980	¥331	¥3,720	¥(657)	¥(53)
Net income for the year	**-**	**-**	**-**	**1,626**	**-**	**-**	**-**	**-**
Realized losses on revaluation of land	**-**	**-**	**-**	**(60)**	**60**	**-**	**-**	**-**
Net unrealized holding gains on investments	**-**	**-**	**-**	**-**	**-**	**5,806**	**-**	**-**
Foreign currency translation adjustments	**-**	**-**	**-**	**-**	**-**	**-**	**(25)**	**-**
Repurchase of treasury stock	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(13)**
Balance at March 31, 2006	**138,730,741**	**¥18,580**	**¥1,104**	**¥2,546**	**¥391**	**¥9,526**	**¥(682)**	**¥(66)**

		Thousands of U.S. dollars (Note 3)						
	Number of shares of common stock	*Common stock*	*Additional paid-in capital*	*Accumulated earnings (deficit)*	*Unrealized gains on revaluation of land*	*Net unrealized holding gains (losses) on investment securities*	*Foreign currency translation adjustments*	*Treasury stock*
Balance at March 31, 2005	*138,730,741*	*$158,155*	*$9,398*	*$8,338*	*$2,821*	*$31,668*	*$(5,589)*	*$(452)*
Net income for the year	**-**	**-**	**-**	***13,841***	**-**	**-**	**-**	**-**
Realized losses on revaluation of land	**-**	**-**	**-**	***(511)***	***511***	**-**	**-**	**-**
Net unrealized holding gains on investments	**-**	**-**	**-**	**-**	**-**	***49,413***	**-**	**-**
Foreign currency translation adjustments	**-**	**-**	**-**	**-**	**-**	**-**	***(216)***	**-**
Repurchase of treasury stock	**-**	**-**	**-**	**-**	**-**	**-**	**-**	***(111)***
Balance at March 31, 2006	***138,730,741***	***$158,155***	***$9,398***	***$21,668***	***$3,332***	***$81,081***	***$(5,805)***	***$(563)***

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	***2006***
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	**¥1,849**	¥1,086	***$15,738***
Adjustments for:			
Depreciation and amortization	**1,551**	1,240	***13,199***
Impairment losses on fixed assets (Note 2 (19))	**895**	-	***7,622***
Decrease in provision for allowance for doubtful accounts	**(76)**	(112)	***(646)***
Decrease in provision for employees' retirement benefits	**(161)**	(1,455)	***(1,368)***
Increase (decrease) in provision for retirement benefit for directors and corporate auditors	**(31)**	133	***(263)***
Increase in provision for losses on work in progress	**147**	157	***1,250***
Interest and dividend income	**(251)**	(216)	***(2,136)***
Interest expense	**327**	341	***2,787***
Equity in income of unconsolidated subsidiaries and affiliates	**(120)**	(469)	***(1,018)***
Loss on write-down of investment securities	**0**	264	***1***
Net gain on sale of investment securities	**(576)**	(328)	***(4,901)***
Loss on disposal of property, plant and equipment	**89**	220	***757***
(Increase) decrease in notes and accounts receivables	**2,128**	(406)	***18,110***
Increase in inventories	**(939)**	(2,088)	***(7,997)***
Increase in notes and accounts payable	**386**	326	***3,287***
Increase in advances from customers	**2,571**	2,624	***21,888***
Other	**(105)**	191	***(904)***
Sub total	**7,684**	1,508	***65,406***
Interest and dividend income received	**258**	224	***2,205***
Interest expense paid	**(322)**	(333)	***(2,745)***
Income taxes paid	**(161)**	(129)	***(1,375)***
Net cash provided by operating activities	**7,459**	1,270	***63,491***
Cash Flows from Investing Activities:			
(Increase) decrease in time deposits (over 3-month term)	**(66)**	4	***(560)***
Payments for purchase of property, plant and equipment	**(1,672)**	(1,302)	***(14,236)***
Proceeds from sales of property, plant and equipment	**46**	335	***395***
Payments for purchase of investment securities	**(512)**	(3)	***(4,361)***
Proceeds from sales of investment securities	**1,153**	758	***9,810***
Proceeds from redemption of preferred investment bond	**1,130**	-	***9,619***
Decrease in long-term loans receivable	**362**	1,048	***3,084***
Increase in long-term prepaid expenses	**(829)**	-	***(7,056)***
Payment for purchase of goodwill of affiliate	**(200)**	(92)	***(1,702)***
Proceeds from investment in capital	**147**	-	***1,254***
Other	**240**	(206)	***2,038***
Net cash provided by (used in) investing activities	**(201)**	542	***(1,715)***
Cash Flows from Financing Activities:			
Decrease in short-term debt, net	**(2,271)**	(592)	***(19,334)***
Proceeds from long-term debt	**3,110**	2,180	***26,473***
Repayment of long-term debt	**(4,876)**	(3,491)	***(41,502)***
Other	**(13)**	(9)	***(112)***
Net cash provided by (used in) financing activities	**(4,050)**	(1,912)	***(34,475)***
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**85**	(24)	***723***
Net Increase (Decrease) in Cash and Cash Equivalents	**3,293**	(124)	***28,024***
Cash and Cash Equivalents at Beginning of Year	**6,475**	6,599	***55,120***
Cash and Cash Equivalents at End of Year (Note 4)	**¥9,768**	¥6,475	***$83,144***

The accompanying notes are an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the years ended March 31, 2006 and 2005

1. Basis of Presenting the Consolidated Financial Statements

The accompanying consolidated financial statements of Toyo Kanetsu Kabushiki Kaisha (the "Company") and its subsidiaries (collectively, the "Companies") 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 accounts of overseas consolidated subsidiaries are based on their financial statements prepared in conformity with generally accepted accounting principles and practices prevailing in the respective countries in which the subsidiaries are incorporated.

Certain items presented in the consolidated financial statements submitted to the Director of Kanto Finance Bureau in Japan have been reclassified in these accounts for the convenience of readers outside Japan.

2. Summary of Significant Accounting Policies

(1) Principles of Consolidation and Investments in Affiliated Companies

The consolidated financial statements include the accounts of the Company and those of its subsidiaries in which it has control. The consolidated financial statements include, with exceptions that are not material, the accounts of its nine subsidiaries (ten subsidiaries in 2005). All significant inter-company transactions and accounts and unrealized inter-company profits are eliminated on consolidation.

Investments in unconsolidated subsidiaries and affiliated companies in which the Company has significant influence are accounted for under the equity method. These unconsolidated subsidiaries and affiliated companies to which the equity method is applied total five at March 31, 2006 and five at March 31, 2005. Consolidated net income includes the Company's equity in the current earnings of those companies after elimination of unrealized inter-company profits.

The excess of the cost over the underlying net equity of investments in consolidated subsidiaries as well as companies accounted for on an equity basis, is deferred and amortized on a straight-line basis over a period of five years from the date of acquisition.

Four subsidiaries were consolidated on the basis of their fiscal years ended at both December 31, 2005 and 2004. Material differences in inter-company transactions and accounts arising from the use of the different fiscal year ends are appropriately adjusted for on consolidation.

(2) Revaluation of Assets and Liabilities of the Subsidiaries

All assets and liabilities of the subsidiaries are fair valued as of the date of acquisition of control.

(3) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hand, bank deposits able to be withdrawn on demand and short-term investments with an original maturity of three months or less and which represent a minor risk of fluctuation in value.

(4) Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided at an amount for losses which are considered to have occurred but cannot be determined on a item-by-item or group basis, calculated using historical write-off experience from certain prior periods, plus an amount for expected losses on individual uncollectible receivables based on management's estimate.

(5) Inventories

Inventories are valued at cost as determined by the following methods:

Raw materials……………………….Weighted average method
Work in process and supplies ……… Accumulated materials and production cost

(6) Financial Instruments

(a) Derivatives

All derivatives are stated at fair value except for certain derivatives that are designated as "hedging instruments" (see (c) Hedge Accounting below).

(b) Securities

Securities held by the Company and its subsidiaries are classified into two categories:

"Investments of the Company in equity securities issued by unconsolidated subsidiaries and affiliates" are accounted for by the equity method.

Other investments in debt and equity securities are classified as "Other securities". The adoption of mark-to-market accounting for "Other securities" with market quotations becomes effective for the year ended March 31, 2006. As a result of this change, "Other securities" with market quotations are stated at fair value with any unrealized holding gains and losses, net of tax, being reported in Shareholders' equity as "Net unrealized holding gains or losses on investment securities". "Other securities" without market quotations are stated at cost. "Other securities" which have the characteristics of cash equivalents are presented as Marketable Securities (current) while the remainder of "Other securities" are presented as Investments in Securities (non-current). The costs of "Other securities" sold are determined by the weighted average method.

(c) Hedge Accounting
Gains or losses arising from changes in the fair value of the derivatives designated as "hedging instruments" are deferred as an asset or liability and included in net profit or loss in the same period during which the gains and losses on the hedged items or transactions are recognized. However, in cases where forward exchange contracts used as hedges meet certain hedging criteria, the existing foreign currency receivables or payables are translated at their contract rates. In addition, if interest rate swap contracts meet certain hedging criteria, the net amount to be paid or received under these swap contracts is added to or deducted from the interest on the related hedged liabilities.

Deferral accounting is not applied to that part of interest rate swaps to which do not meet the requirements for applying hedge accounting.

Derivatives designated as hedging instruments by the Company are principally interest swaps and forward exchange contracts. The related hedged items are trade accounts receivable and payable, and long-term bank loans.

The Company has a policy for utilizing the above hedging instruments in order to reduce the Company's exposure to the risk of foreign exchange and interest rate fluctuations. Thus, the Company's purchases of hedging instruments are limited to, at maximum, the amounts of the related hedged items.

The Company evaluates the effectiveness of its hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related hedged items beginning from the commencement of the hedges.

(7) Property, Plant and Equipment
Property, plant and equipment are stated at cost. The cost of maintenance, repairs and minor renewals is charged to current operations; major renewals and betterments are capitalized. Depreciation is mainly computed using the declining-balance method, except for buildings acquired after April 1, 1998, to which the straight-line method is applied for the Company and its domestic subsidiaries. The principal estimated useful lives range from 3 to 50 years for buildings and from 10 to 15 years for machinery and equipment. Depreciation of overseas subsidiaries is computed using the straight-line method.

(8) Revaluation of Land
In accordance with the "Law on Land Revaluation" issued on March 31, 1998 and the "Law Related to the Revision of the Law of Land Revaluation" issued on March 31, 2001, the Company revalued its business-purpose land. Of the revaluation difference, the amount related to tax is recognized as a deferred tax liability and the revaluation difference, net of tax, is recognized as a component of shareholders' equity.

Method of the revaluation
The revaluation was performed based on the fixed asset tax revaluation amount set in the "Law on Land Revaluation" No.2 article 3, and is calculated based on land prices set in the "Law on Land Revaluation" No.2 article 4, with certain reasonable adjustments as follows:

Date of the revaluation:	March 31, 2002
Land before revaluation:	¥7,189 million
Land after revaluation:	¥ 10,844 million

The excess of the book value over the current market value of such revalued land held at March 31, 2006 amounted to ¥3,670 million ($31,238 thousand).

(9) Intangible Assets
Amortization of intangible assets is computed using the straight-line method. Software for internal use is amortized over its expected useful life (5 years), on a straight-line basis.

(10) Reserve for losses on work in progress
A reserve for losses on work in progress is provided based on an estimate of the total losses which can be anticipated for the next fiscal year and beyond in respect of construction projects on which eventual losses are deemed inevitable and amounts thereof can reasonably be estimated.

(11) Income Taxes
The income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local inhabitants' taxes and enterprise taxes.

Income taxes are determined using the asset and liability approach, whereby deferred tax assets and liabilities are recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the consolidated financial statements.

(12) Accrued Bonuses
Accrued bonuses to employees are provided for the estimated amounts which the Company and its consolidated subsidiaries are obligated to pay to employees after the fiscal year-end, based on services provided during the current period.

(13) Accrued Retirement Benefits for Employees
Accrued retirement benefits to employees of the Company and its major consolidated subsidiaries are provided based on the estimated present value of projected benefit obligations and fair value of funded plan assets. For other insignificant consolidated subsidiaries, accrued retirement benefits to employees are calculated using the simplified method. Actuarial gains (losses) are recognized as deductions from expenses or included in expenses, respectively, in the year of occurrence.

(14) Accrued Retirement Benefits for Directors and Corporate Auditors
Accrued retirement benefits for directors and corporate auditors of the Company and its subsidiaries are provided for in accordance with the Companies' established policies on the accrual basis.

(15) Accounting for Finance Leases
Leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as capital leases. Leases not transferring ownership of the assets at the end of the lease term are accounted for as operating leases, in accordance with accounting principles and practices generally accepted in Japan.

(16) Depreciation of Leased Assets
Leased assets are depreciated over the term of the lease on a straight-line basis.

(Change in accounting method and the term of depreciation)
From the year ended March 31, 2006, the method of depreciating the leased assets has been changed to the straight-line method over the term of the lease from the declining-balance method over the estimated economic useful life. As a result of this change, Selling, General and Administrative Expenses of segment "Other" has decreased by ¥20 million ($166 thousand), and Operating Income of that segment has increased by the same amount, as compared with the calculation using the former method.
The ¥20 million decrease in Selling, General and Administrative Expenses resulted from a decrease of ¥179 million ($1,521 thousand) in change in accounting method, and an increase of ¥159 million ($1,355 thousand) in change in term of depreciation.

(17) Revenue Recognition
The Company uses the percentage-of-completion method for the recognition of sales and gross profit in respect of certain contracts that take more than one year to complete. In all other cases, sales and gross profit are recorded when the relevant items are completed or delivered. One consolidated subsidiary recognizes revenue on the installment basis.

(18) Earnings Per Share
The computation of net income per common share is based on the weighted average number of outstanding shares of common stock.

(19) Accounting standard for impairment of fixed assets
On August 9, 2002, the Business Accounting Council in Japan issued "Accounting Standard for Impairment of Fixed Assets". The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of net selling price and value in use.

The effect of adopting "Accounting Standard for Impairment of Fixed Assets" on Income before income taxes and minority interests was ¥895 million ($7,622 thousand) at March 31, 2006.

3. United States Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥117.48=U.S. $1.00, the approximate rate of exchange prevailing at March 31, 2006, has been used in translation. The inclusion of such amounts are not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at this rate or any other rates.

4. Cash and Cash Equivalents

Cash and Cash Equivalents as at March 31, 2006 and 2005 consisted of:

	Millions of yen		*Thousands of U.S. dollars*
March 31	**2006**	2005	***2006***
Cash on hand and at bank	**¥7,966**	¥6,605	***$67,807***
Time deposits, over 3-month term	**(196)**	(130)	***(1,669)***
Short-term investments included in marketable securities	**2,000**	-	***17,021***
Other	**(2)**	-	***(15)***
Cash and cash equivalents	**¥9,768**	¥6,475	***$83,144***

5. Marketable Securities

Marketable securities as at March 31, 2006 and 2005 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
March 31	**2006**	2005	***2006***
Commercial paper	**¥2,000**	-	***$17,021***

6. Inventories

Inventories as at March 31, 2006 and 2005 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
March 31	**2006**	2005	***2006***
Work in process	**¥ 6,166**	¥ 5,280	***$52,487***
Other	**596**	543	***5,073***
	¥6,762	¥5,823	***$57,560***

7. Investments in Securities

Investments in securities as at March 31, 2006 and 2005 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
March 31	**2006**	2005	***2006***
Listed equity securities and bonds	**¥18,669**	¥9,535	***$158,910***
Unlisted equity securities and bonds	**2,336**	2,893	***19,885***
	¥21,005	¥12,428	***$178,795***
Investments in unconsolidated subsidiaries and affiliates included in investments in securities	**¥1,537**	¥1,094	***$13,079***

The aggregate acquisition cost, gross unrealized gains and losses and carrying amount on the balance sheet, which were measured at fair value, of other securities with market quotations at March 31, 2006 and 2005 were as follows:

	At March 31, 2006			
	Millions of yen			
	Acquisition cost	Unrealized gains	Unrealized losses	Carrying amount
Equity securities	**¥2,983**	**¥15,183**	**-**	**¥18,166**
Bonds	**-**	**-**	**-**	**-**
Other	**500**	**3**	**-**	**503**
Total	**¥3,483**	**¥15,186**	**-**	**¥18,669**

	At March 31, 2005			
	Millions of yen			
	Acquisition cost	Unrealized gains	Unrealized losses	Carrying amount
Equity securities	¥3,534	¥5,986	¥(11)	¥9,509
Bonds	-	-	-	-
Other	31	-	(5)	26
Total	¥3,565	¥5,986	¥(16)	¥9,535

	At March 31, 2006			
	Thousands of U.S. dollars			
	Acquisition cost	*Unrealized gains*	*Unrealized losses*	*Carrying amount*
Equity securities	***$25,393***	***$129,236***	**-**	***$154,629***
Bonds	**-**	**-**	**-**	**-**
Other	***4,254***	***27***	**-**	***4,281***
Total	***$29,647***	***$129,263***	**-**	***$158,910***

The Company writes down the book value of other securities when the market value declines by more than 50%, or the market value declines by than 30% but less than 50% and the Company management determines the decline to be other than temporary.

Proceeds from sale of other securities were ¥1,153 million ($9,810 thousand) and ¥756 million for the years ended March 31, 2006 and 2005, respectively. On those sales, gross realized gains were ¥568 million ($4,838 thousand) and ¥328 million for the years ended March 31, 2006 and 2005, respectively. There were no gross realized losses for the years ended March 31, 2006 and 2005.

8. Short-Term Debt and Long-Term Debt

Short-term debt consists principally of bank overdraft, bearing interest at a weighted average annual rate of 3.8% and 2.4% at March 31, 2006 and 2005, respectively.

Short-term debt as at March 31, 2006 and 2005 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
March 31	**2006**	2005	***2006***
Bank overdraft			
Secured	**¥1,938**	¥2,333	***$16,493***
Unsecured	**559**	2,435	***4,761***
Current portion of long-term debt	**2,156**	4,729	***18,351***
	¥4,653	¥9,497	***$39,605***

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

	Millions of yen		*Thousands of U.S. dollars*
March 31	**2006**	2005	***2006***
Payable to domestic banks, insurance companies and other, with interest rates shown below (* 1)			
Secured	**¥975**	¥3,451	***$8,299***
Unsecured	**4,832**	4,122	***41,131***
	5,807	7,573	***49,430***
Less: Current portion of long-term debt	**(2,156)**	(4,729)	***(18,351)***
	¥3,651	¥2,844	***$31,079***

March 31	**2006**	2005
(*1) Interest rates	**1.3% to 3.0%**	1.4 % to 3.4 %

Annual maturities of long-term debt at March 31, 2006 were as follows:

Year ending on March 31,	Millions of yen	*Thousands of U.S. dollars*
2007	¥2,156	*$18,351*
2008	1,279	*10,887*
2009	883	*7,521*
2010	610	*5,192*
2011 and thereafter	879	*7,479*
	¥5,807	*$49,430*

Assets pledged as collateral for short-term debt and long-term debt as at March 31, 2006 and 2005 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
March 31	**2006**	2005	***2006***
Investments in securities	**¥5,035**	¥3,613	***$42,863***
Buildings (at net book value)	**1,409**	1,588	***11,992***
Machinery (at net book value)	**27**	33	***229***
Land	**6,372**	7,208	***54,239***
	¥12,843	¥12,442	***$109,323***

9. Retirement Benefit Plan

Employees whose service with the Company and certain domestic subsidiaries is terminated are, in most circumstances, entitled to lump-sum severance payments determined by reference to current basic rate of pay, length of service and the circumstances in which the termination occurs.

The Company and its domestic subsidiaries have a funded non-contributory and contributory pension plan for employees. Under the plan, employees are entitled to receive a pension for 10 years from their retirement date, determined by reference to current basic rates of pay at the time of termination, length of service and the conditions under which the termination occurred.

In the Company and its consolidated subsidiary, TKSL, a part of the approved retirement annuity system was shifted to a defined contribution annuity plan.

The accrued retirement benefits as of March 31, 2006 and 2005 were analyzed as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2006	2005	***2006***
Projected benefit obligations	**¥(3,531)**	¥(5,442)	***$(30,059)***
Plan assets	**5**	1,755	***46***
Net unreserved projected benefit obligations	**(3,526)**	(3,687)	***(30,013)***
Accrued retirement benefits recognized in balance sheets	**¥(3,526)**	¥(3,687)	***$(30,013)***

Net pension and severance costs related to the retirement benefit plans for the years ended March 31, 2006 and 2005 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2006	2005	***2006***
Service costs	**¥166**	¥251	***$1,415***
Interest cost	**58**	84	***496***
Expected return on plan assets	**-**	(4)	***-***
Net amortization	**(57)**	(79)	***(488)***
Amortization of prior service costs	**-**	3	***-***
Transfer to defined contribution pension plan	**49**	-	***415***
Net pension and severance costs	**¥216**	¥255	***$1,838***

Assumptions used in calculation of the above information were as follows:

	As of March 31	
	2006	2005
Discount rate	**1.5 %**	1.5 %
Expected rate of return on plan assets	**-**	1.0 %
Method of attributing the projected benefit obligations to periods of service	Straight- line basis	Straight- line basis
Amortization of unrecognized actuarial differences	Expensed in the year of occurrence	Expensed in the year of occurrence

10. Income Taxes

The Company and its domestic subsidiaries are subject to several taxes based on income, which in the aggregate resulted in the statutory income tax rate of approximately 40.69% for the years ended March 31, 2006 and 2005. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The reconciliation of the statutory income tax rate to the effective income tax rate for the years ended March 31, 2006 and 2005 were as follows:

	2006	2005
Statutory income tax rate	**40.69%**	40.69%
Reconciliation		
Valuation allowance	**27.41**	(35.69)
Nondeductible expenses	**12.42**	4.71
Tax loss carryforwards	**(65.39)**	(3.53)
Other	**(0.93)**	0.80
Effective income tax rate	**14.20%**	6.98%

At March 31, 2006 and 2005, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2006	2005	***2006***
Deferred tax assets			
Tax loss carryforwards	**¥4,496**	¥4,861	***$38,270***
Accrued enterprise tax	**66**	46	***563***
Accrued severance and pension costs for employees	**1,433**	1,498	***12,193***
Accrued bonuses	**73**	65	***625***
Allowance for doubtful accounts	**928**	1,144	***7,900***
Reserve for losses on work in progress	**87**	64	***744***
Accrued severance and pension costs for directors and corporate auditors	**41**	54	***353***
Impairment losses on fixed assets	**408**	-	***3,475***
Depreciation and amortization	**84**	-	***716***
Loss on write-down of investments	**413**	372	***3,516***
Loss on write-down of inventories	**15**	16	***126***
Other	**435**	186	***3,696***
	8,479	8,306	***72,177***
Less: valuation allowance	**(8,445)**	(8,286)	***(71,886)***
Gross deferred tax assets	**34**	20	***291***
Deferred tax liabilities			
Deferred tax liabilities on revaluation of land	**2,174**	2,409	***18,505***
Net unrealized gains on investments in securities	**6,179**	2,429	***52,598***
Gross deferred tax liabilities	**¥ 8,353**	¥ 4,838	***$71,103***

11. Selling, General and Administrative Expenses

Selling, General and Administrative expenses for the years ended March 31, 2006 and 2005 comprised of the following:

	Millions of yen		*Thousands of U.S. dollars*
Year ended March 31	**2006**	2005	***2006***
Salaries and benefits	**¥1,158**	¥1,189	***$9,855***
Accrued bonuses	**59**	59	***502***
Pension and severance costs	**159**	152	***1,355***
Other	**2,215**	1,800	***18,859***
	¥3,591	¥3,200	***$30,571***

12. Research and Development Costs

Research and development costs charged to manufacturing costs and selling, general and administrative expenses for the years ended March 31, 2006 and 2005 were ¥271 million ($2,307 thousand) and ¥84 million, respectively.

13. Impairment losses on fixed assets

The Company and its consolidated subsidiaries have recognized impairment losses of ¥895 million ($7,622 thousand), for the following group of assets as of March 31, 2006.

Location	Use	Category
Kisarazu, Chiba	Dormant assets	Land, Building
Saigou-mura, Fukushima etc.	Dormant assets	Land
Yokohama, Kanagawa etc.	Leased assets	Land
Guam, USA	Leased assets	Land, Building

The Company and its consolidated subsidiaries have assessed impairment of each group of assets, which are grouped based on management reporting and investment decision-making purposes.

Due to the decline in real estate value and poor performance of assets, operating profitability has worsened substantially. Therefore, the Company and its subsidiaries have decided to mark the assets down to their recoverable value, and accrued impairment losses of ¥895 million ($7,622 thousand), which comprises of land amounting to ¥726 million ($6,181 thousand) and building amounting to ¥169 million ($1,441 thousand).

The recoverable value is determined as the higher of the net selling value and the value in use. The net selling value is based on appraisals provided by professional real estate valuators, and the value in use is calculated as future cash flows discounted mostly by 3.0% ~ 4.0%.

14. Leases

A. Lessee

Leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as capital leases. Leases not transferring ownership of the assets at the end of the lease term are accounted for as operating leases, in accordance with accounting principles and practices generally accepted in Japan.

Leased assets under finance leases that do not transfer ownership of the leased assets at the end of the lease term, if capitalized, comprised of the following:

	At March 31, 2006		
	Millions of yen		
	Acquisition cost	Accumulated Depreciation	Net book value
Machinery, equipment and delivery equipment	**¥1,797**	**¥1,178**	**¥619**
Tools, furniture and fixtures	**2,255**	**1,335**	**920**
Total	**¥4,052**	**¥2,513**	**¥1,539**

	At March 31, 2005		
	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery, equipment and delivery equipment	¥1,498	¥741	¥757
Tools, furniture and fixtures	2,255	881	1,374
Total	¥3,753	¥1,622	¥2,131

	At March 31, 2006		
	Thousands of U.S. dollars		
	Acquisition cost	*Accumulated depreciation*	*Net book value*
Machinery, equipment and delivery equipment	***$15,296***	***$10,026***	***$5,270***
Tools, furniture and fixtures	***19,194***	***11,361***	***7,833***
Total	***$34,490***	***$21,387***	***$13,103***

The amounts of outstanding future lease payments due at March 31 including the portion of interest thereon were summarized as follows:

	Millions of yen		*Thousands of U.S. dollars*
March 31	**2006**	2005	***2006***
Future lease payment			
Within one year	**¥762**	¥697	***$6,488***
Over one year	**870**	1,531	***7,401***
	¥1,632	¥2,228	***$13,889***

Lease rental expense on such finance lease contracts for the years ended March 31, 2006 and 2005 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
Year ended March 31	**2006**	2005	***2006***
Lease rental expense	**¥807**	¥748	***$6,867***
Depreciation	**738**	686	***6,286***
Interest expense	**66**	80	***566***

B. Lessor

Finance leases that do not transfer ownership of the leased property to lessor are accounted for as rental transactions.

Leased assets under financial leases comprise of the following:

	At March 31, 2006		
	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
Buildings and structures	**¥2,083**	**¥1,340**	**¥743**
Machinery, equipment and delivery equipment	**1,247**	**743**	**504**
Tools, furniture and fixtures	**3,186**	**1,302**	**1,884**
Total	**¥6,516**	**¥3,385**	**¥3,131**

	At March 31, 2005		
	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
Buildings and structures	¥2,082	¥1,000	¥1,082
Machinery, equipment and delivery equipment	1,365	705	660
Tools, furniture and fixtures	1,525	912	613
Total	¥4,972	¥2,617	¥2,355

	At March 31, 2006		
	Thousands of U.S. dollars		
	Acquisition cost	*Accumulated depreciation*	*Net book value*
Buildings and structures	***$17,728***	***$11,407***	***$6,321***
Machinery, equipment and delivery equipment	***10,614***	***6,323***	***4,291***
Tools, furniture and fixtures	***27,126***	***11,087***	***16,039***
Total	***$55,468***	***$28,817***	***$26,651***

The amounts of outstanding future lease revenue due at March 31 including the portion of interest thereon were summarized as follows:

	Millions of yen		*Thousands of U.S. dollars*
March 31	**2006**	2005	***2006***
Future lease revenue			
Within one year	**¥1,985**	¥2,139	***$16,894***
Over one year	**3,346**	4,237	***28,483***
	¥5,331	¥6,376	***45,377***

Lease rental revenue, depreciation and interest income equivalent on such finance lease contracts for the years ended March 31, 2006 and 2005 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
Year ended March 31	**2006**	2005	***2006***
Lease rental revenue	**¥1,963**	¥960	***$16,706***
Depreciation	**981**	673	***8,346***
Interest income	**982**	287	***8,360***

15. Derivative and Hedging Activities

The Companies use forward currency exchange contracts to hedge against the exchange rate risk associated with monetary receivables and payables denominated in foreign currencies. Interest rate swap transactions are used in order to minimize the risk of fluctuation in interest rates on borrowings.

The Companies have established a control environment that includes policies and procedures for risk assessment and for the approval, reporting and monitoring of transactions involving derivative financial instruments. The Companies do not hold or issue derivative financial instruments for trading purposes.

The Companies are exposed to certain market risks arising from their forward exchange contracts and swap agreements. The Companies are also exposed to the risk of credit loss in the event of non-performance by the counterparties to the currency and interest; however, the Companies do not anticipate non-performance by any of these counterparties, all of whom are financial institutions with high credit ratings.

16. Commitments and Contingent Liabilities

As at March 31, 2006, the Companies were contingently liable for notes receivable discounted and endorsed and guarantees of loans made to unconsolidated subsidiaries and affiliates as follows:

March 31, 2006	Millions of yen	*Thousands of U.S. dollars*
Guarantees of loans from banks	**¥ 1,246**	***$10,609***

17. Segment Information

(1) Industry Segment Information

The operations of the Company and its consolidated subsidiaries for the years ended March 31, 2006 and 2005 were summarized by product group as follows:

	Millions of yen						
Year ended March 31, 2006	Material Handling Systems Division	Plant & Machinery Division	Building Construction Division	Other	Sub Total	Elimination or Corporate Assets*	Consolidated Total
Sales							
Sales to external customers	**¥20,909**	**¥14,643**	**¥5,668**	**¥4,310**	**¥45,530**	**¥ -**	**¥ 45,530**
Inter-segment sales	**-**	**-**	**(1)**	**959**	**958**	**(958)**	**-**
Total	**20,909**	**14,643**	**5,667**	**5,269**	**46,488**	**(958)**	**45,530**
Operating costs and expenses	**19,566**	**14,094**	**5,570**	**5,115**	**44,345**	**(719)**	**43,626**
Operating income	**1,343**	**549**	**97**	**154**	**2,143**	**(239)**	**1,904**
Assets	**15,933**	**11,136**	**14,744**	**11,009**	**52,822**	**14,318**	**67,140**
Depreciation	**211**	**117**	**16**	**1,181**	**1,525**	**26**	**1,551**
Impairment losses on fixed assets	**-**	**-**	**-**	**269**	**269**	**626**	**895**
Capital expenditure	**29**	**401**	**37**	**2,129**	**2,596**	**52**	**2,648**

	Millions of yen						
Year ended March 31, 2005	Material Handling Systems Division	Plant & Machinery Division	Building Construction Division	Other	Sub Total	Elimination or Corporate Assets*	Consolidated Total
Sales							
Sales to external customers	¥13,595	¥15,217	¥7,533	¥3,389	¥39,734	¥ -	¥ 39,734
Inter-segment sales	6	29	628	919	1,582	(1,582)	-
Total	13,601	15,246	8,161	4,308	41,316	(1,582)	39,734
Operating costs and expenses	13,266	14,233	8,010	4,121	39,630	(1,245)	38,385
Operating income	335	1,013	151	187	1,686	(337)	1,349
Assets	15,195	12,261	7,032	9,490	43,978	11,979	55,957
Depreciation	222	135	20	826	1,203	37	1,240
Capital expenditure	78	75	10	1,112	1,275	(3)	1,272

* Corporate assets consist of cash on hand and at bank, investments in securities and the assets belonging to the administration department of the Company. Corporate assets at March 31, 2006 and 2005 were ¥15,737 million ($ 133,956 thousand) and ¥14,171 million, respectively.

	Thousands of U.S. dollars						
Year ended March 31, 2006	*Material Handling Systems Division*	*Plant & Machinery Division*	*Building Construction Division*	*Other*	*Sub Total*	*Elimination or Corporate Assets**	*Consolidated Total*
Sales							
Sales to external customers	***$177,983***	***$124,646***	***$48,249***	***$36,679***	***$387,557***	***$ -***	***$387,557***
Inter-segment sales	***-***	***-***	***(10)***	***8,168***	***8,158***	***(8,158)***	***-***
Total	***177,983***	***124,646***	***$48,239***	***44,847***	***395,715***	***(8,158)***	***387,557***
Operating costs and expenses	***166,544***	***119,968***	***47,415***	***43,543***	***377,470***	***(6,119)***	***371,351***
Operating income	***11,439***	***4,678***	***824***	***1,304***	***18,245***	***(2,039)***	***16,206***
Assets	***135,622***	***94,788***	***125,503***	***93,715***	***449,628***	***121,876***	***571,504***
Depreciation	***1,796***	***994***	***132***	***10,053***	***12,975***	***224***	***13,199***
Impairment losses on fixed assets	***-***	***-***	***-***	***2,294***	***2,294***	***5,328***	***7,622***
Capital expenditure	***247***	***3,413***	***314***	***18,123***	***22,097***	***444***	***22,541***

(2) Geographic Segment Information

Segment information classified by geographic area was omitted because a majority of the Companies' operations were conducted in Japan.

(3) Export sales and sales by overseas subsidiaries

	Millions of yen			
Year ended March 31, 2006	South-east Asia	Middle East	Other	Total
Overseas sales	**¥5,953**	**¥1,907**	**¥1,851**	**¥9,711**
Consolidated Sales	**-**	**-**	**-**	**¥45,530**
Ratio	**13.1%**	**4.2%**	**4.0%**	**21.3%**

	Millions of yen			
Year ended March 31, 2005	South-east Asia	Middle East	Other	Total
Overseas sales	¥636	¥4,112	¥2,232	¥6,980
Consolidated sales	-	-	-	¥39,734
Ratio	1.6%	10.4%	5.6%	17.6%

	Thousand of U.S. dollars			
Year ended March 31, 2006	*South -east Asia*	*Middle East*	*Other*	*Total*
Overseas sales	***$50,674***	***$16,232***	***$15,757***	***$82,663***
Consolidated sales	***-***	***-***	***-***	***$387,557***
Ratio	***13.1%***	***4.2%***	***4.0%***	***21.3%***

* Major countries included in the above geographic areas were as follows:
South-east Asia:….. Indonesia, Malaysia
Middle East:……….Iran, Qatar
Other: ……………...Trinidad and Tobago, Australia

18. Related Party Transactions

Material transactions of the Company with its related companies and individuals, excluding transactions with consolidated subsidiaries which are eliminated in the consolidated financial statements and other than those disclosed elsewhere in these financial statements, for the years ended March 31, 2006 and 2005 were as follows:

					Millions of yen / Thousands of U.S. dollars				
					Transactions		Resulting Accounting Balance		
					Year ended March 31			At March 31,	
Name of Related Company	Paid-in Capital	Principal Business	Equity Ownership Percentage by the Company	Description of the Company's Transactions	**2006**	2005	Account	**2006**	2005
Toyo Koken K.K.	¥897 million	Production and sale of electric-driven winches	39%	Loans made	-	-	Short-term loans	**¥113** ***$(960)***	¥113
					-	¥1,182	Long-term loans	**¥1,262** ***$(10,741)***	¥1,633
Toyo Miyama Co., Ltd.	¥100 million	Architectural business	49%	Guarantee obligation	**¥1,192** ***$(10,146)***	¥1,009			

The terms and conditions of the above transactions are on an arm's-length basis.

19. Subsequent Events

1) In the Company and its consolidated subsidiary, TKSL, the system of additional severance pay for early retirement, which was a part of former retirement plan, has been abolished at April 30, 2006. The profit of ¥191 million ($1,626 thousand) will be realized for the year ended March 31, 2007.

2) In the consolidated subsidiary, TKE, a gain from Sales of Fixed Assets of 2 million Australian Dollar has been made owing to the sale of the land and building at May 1, 2006. The profit of the equivalent Japanese Yen will be realized for the year ended March 31, 2007.

ChuoAoyama PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS

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Report of Independent Auditors

To the Board of Directors and Shareholders
Toyo Kanetsu Kabushiki Kaisya:

We have audited the accompanying consolidated balance sheets of Toyo Kanetsu Kabushiki Kaisha and its subsidiaries as of March 31, 2005 and 2006, and the related consolidated statements of operation, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Toyo Kanetsu Kabushiki Kaisya and its subsidiaries as of March 31, 2005 and 2006, 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.

As described in Note 18, effective for the year ended March 31, 2006, Toyo Kanetsu Kabushiki Kaisya and its subsidiaries adopted the accounting standards for impairment of fixed assets.

As described in Note 2(15), effective for the year ended March 31, 2006, Toyo Kanetsu Kabushiki Kaisya and its subsidiaries changed their accounting policy for the leased assets to the straight-line method over the leasing term from the declining-balance method over the estimated economical useful life.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the accompanying consolidated financial statements.

ChuoAoyama PricewaterhouseCoopers

Tokyo, Japan
June 29, 2006

Corporate Data

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Fax: (03) 5657-3170
URL: http://www.toyokanetsu.co.jp

Date of Establishment
16th May, 1941

Common Stock

Par Value	: ¥50
Authorized	: 297,000,000
Issued	: 138,730,741

Security Traded
Tokyo Stock Exchange Market, 1st Section

Transfer Agent and Registrar
The Mitsubishi UFJ Trust and Banking Corporation
4-5, Marunouchi 1-Chome, Chiyoda-ku,
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Annual Meeting
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Offices, Subsidiaries and Affiliates

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TOYO KANETSU K.K.

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