NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

TOA CORPORATION and its consolidated subsidiaries

(1) Summary of Significant Accounting Policies

(a) Basis of presenting consolidated financial statements:

The accompanying consolidated financial statements have been prepared from the accounts maintained by TOA CORPORATION, (the "Company") and its consolidated subsidiaries together "the Companies", in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards.

Certain items presented in the consolidated financial statements filed with the Ministry of Finance in Japan, (the "MOF"), as required by the Securities and Exchange Law of Japan have been reclassified for the convenience of readers outside Japan.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash follows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

Consolidated statement of cash flows has been required to be prepared with effect for the year ended March 31, 2000, in accordance with a new accounting standard.

(b) Basis of consolidation:

The Company had 16 majority-owned subsidiaries as of March 31, 2000 (10 as of March 31, 1999).

The consolidated financial statements for the years ended March 31, 1999 and 2000 include the accounts of the Company and three and 12 of its majority-owned subsidiaries, respectively.
The consolidated subsidiaries for 2000 included TOA Real Estate Co., Ltd., TOA Tekko Co., Ltd., TOA Kikai Kogyo Co., Ltd., TOA Agency Co., Ltd., Tagawa Real Estate Co., Ltd., TOA Builtec Co., Ltd., TOA Agency Nishinihon Co., Ltd., TOA Doboku Co., Ltd., TOA Kaiun Sangyo Co., Ltd., Shinko Corporation, Tsurumi Rinko Co., Ltd., and TOA Concrete Co., Ltd.

Other subsidiaries were not consolidated as they were not significant in terms of total assets, net sales, retained earnings or net income.

Investment in non-consolidated subsidiaries and affiliates (companies owned 15% to 40%), are stated at cost.

All significant intercompany accounts and transactions have been eliminated in consolidation.

(c) Foreign currency translation:

Foreign currencies and short-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Long-term receivables and payables are translated into Japanese yen at rates prevailing when the related assets were acquired or the related liabilities were incurred.

(d) Cash and cash equivalents:

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

(e) Securities:

Securities both in current assets and investments are stated at moving average cost.

(f) Inventories:

Cost on contracts in progress and real estate for sale are stated at specific cost for each lot. Materials and supplies are stated at moving average cost.

(g) Investments in subsidiaries and affiliates:

Investments in subsidiaries and affiliates are stated at cost.

(h) Allowance for doubtful accounts:

Allowance for doubtful accounts is established in amounts considered to be appropriate based primarily upon the Companies' past credit loss experience and an evaluation of potential losses in the receivables outstanding.

(i) Property, plant and equipment, and depreciation:

Property, plant and equipment, including significant renewals and additions, are carried at cost. Maintenance, repairs and purchase of small equipment are recorded as expenses as incurred. When retired or otherwise disposed of, the cost and related depreciation are eliminated from the respective accounts and the difference less, any amounts realized on disposition, is reflected in current income. Depreciation is principally computed by a declining-balance method at rates based on the estimated useful lives of the related assets. However, according to the change in the income tax law for the fiscal 1998, depreciation of building of the Companies is amortized on a straight-line basis over the shortened estimated period.

(j) Accrued severance indemnities:

The Companies have an unfunded plan for lump-sum severance payments for employees, the amount of which is generally determined by reference to the length of service and current basic salary at the time of termination of employment or retirement. The Companies provide for this liability to the extent of 40% of the amount which would be required if all employees terminate their service voluntarily with the Companies at the balance sheet dates.

With respect to corporate officers, directors and statutory auditors, the Companies provide for lump-sum severance indemnities on the basis of 100% of the amount required in the event of ordinary retirement at the balance sheet dates.

Previously, with respect to corporate officers, directors and statutory auditors, the Company provided for lump-sum severance indemnities on the basis of 50% of the amount required in the event of ordinary retirement at the balance sheet dates. However, from the fiscal year ended March 31, 2000, the Company provided for lump-sum severance indemnities on the basis of 100% of the amount required. This accounting change was made to allocate costs for services of corporate officers, period appropriately considering the fact that it is unnecessary to discount severance indemnities to present value because their service period has shorten recent years. The accounting change resulted in increasing accrued severance indemnities by ¥639 million, (US$ 6,028 thousand) and decreasing operating income by ¥71 million (US$670 thousand) and income before income taxes by ¥639 million (US$6,028 thousand).

The Company has also adopted a contributory pension plan covering substantially all of its employees. This plan provides for an annuity payable over a ten-year period subsequent to a designated retirement age. The annual provision for pension benefits includes current service costs, additional reserves to the past service costs and administration cost of the fund.

(k) Income taxes:

The Companies have adopted the asset-liability method of tax effect amounting to recognize the effect of all temporary differences in the recognition of tax basis assets and liabilities and their financial reporting amounts.

(l) Consumption tax:

In Japan, consumption tax at the flat rates of 5% for 2000 and 1999 on all domestic consumption of goods and services (with certain exemptions) is levied.

The Companies have adopted the accounting method by which the consumption tax does not primarily affect net income.

(m) Legal reserve:

Under the Japanese Commercial Code, a company is required to appropriate an amount equal to at least 10% of cash dividends paid and other cash distributions from retained earnings to a legal reserve until the reserve equals 25% of the common stock amount.

This reserve is not available for dividend payments, but may be used to reduce deficits by a resolution of the shareholders or may be transferred to the stated capital by a resolution of the Board of Directors.

(n) Recognition of contract revenue:

The Company follows the completed contract method of accounting for revenue from contracts except for projects in amounts of ¥2 billion (US$19 million) and over and those requiring more than one year for completion. These are accounted for by the percentage of completion method, measured by the ratio of the costs incurred to the estimated total costs for each contract.

The amounts of contract revenues which are accounted for by the percentage of completion method were ¥39,821 million (US$375,670 thousand) for 2000 and ¥30,861 million for 1999.

(o) Appropriation of retained earnings:

Appropriation of retained earnings approved by shareholders subsequent to the balance sheet date are recorded as if such approval was made at the respective balance sheet dates in the accompanying financial statements.

(p) Leases:

Finance leases other than those which are deemed to transfer the ownership of the leased assets to the lessees are principally accounted for by the method that is applicable to ordinary operating leases.

(q) Net income and cash dividend per share:

Net income per share assuming no dilution is based on the weighted average number of shares of common stock outstanding during the respective years.

Net income per share assuming full dilution was not disclosed in 2000 and 1999, due to the fact that there were no bonds with warrants and convertible bonds at the end of 2000 and 1999.

Cash dividends per share for each year represent the dividends declared as applicable to the respective years.

(2) U.S. Dollar Amounts

The dollar amounts included in the financial statements and notes thereto represent the arithmetical results of translating yen to dollars at rate of ¥106 = US$1, the approximate rate of exchange effective at March 31, 2000. The inclusion of such dollar amounts is solely for convenience of readers outside of Japan and is not intended to imply that yen and assets and liabilities originating in yen have been or could be readily converted, realized or settled in dollars at this or at any other rates.

(3) Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2000 consisted of:

	Millions of Japanese Yen	Thousands of U.S. Dollars
	2000	2000
Cash and bank deposits	¥ 42,135	$ 397,504
Time deposits with deposit term of 3 months	(1,228)	(11,589)
Cash and cash equivalents ...	¥ 40,907	$ 385,915

(4) Marketable Securities and Investments in Securities

Marketable securities and investments in securities as of March 31, 2000 consisted of the following:

	Millions of Japanese Yen	Thousands of U.S. Dollars
	2000	2000
Current:		
Market quotations available		
Marketable equity securities..	¥ 13,631	$ 128,594
Debentures.....................	20	185
Other...........................	345	3,256
Total	¥ 13,996	$ 132,035
Non-Current:		
Market quotations available		
Marketable equity securities..	¥ 1,008	$ 9,512
Debentures.....................	10	91
Other...........................	—	—
Total	¥ 1,018	$ 9,603

Securities for which market quotations are not available are principally non-listed securities excluding over-the-counter securities.

The carrying values and aggregate market values of securities for which market quotations are available included in marketable securities and investments in securities as of March 31, 2000 were as follows.

	Millions of Japanese Yen	Thousands of U.S. Dollars
	2000	2000
Current:		
Carrying value.................	¥ 13,996	$ 132,035
Aggregate market value......	15,465	145,900
Unrealized gain...............	¥ 1,469	$ 13,865
Non-Current:		
Carrying value.................	¥ 1,018	$ 9,603
Aggregate market value......	1,211	11,424
Unrealized gain..............	¥ 193	$ 1,821

(5) Short-term Borrowings and Long-term Debt

Short-term borrowings were represented generally by 365-day notes in 2000 and 1999 issued by the Companies and bore interest principally at the short-term primary interest rates in effect in 2000 and 1999.

As is customary in Japan, the Company and its consolidated domestic subsidiaries maintain deposit balances with banks with which they have short-term banks loans or long-term debt.

Such deposit balance are not legally or contractually restricted as to withdrawal.

Long-term debt as of March 31, 2000 and 1999 consisted of the following:

	Millions of Japanese Yen 2000	Millions of Japanese Yen 1999	Thousands of U.S. Dollars 2000
3.20% bond, due 1996–2002	¥ 3,700	¥ 4,000	$ 34,906
3.45% bond, due 1996–2003	5,900	6,000	55,660
3.55% bond, due 1996–2004	4,100	6,000	38,679
Loans from banks and insurance companies with interest ranging from 1.40% to 2.30%, due various dates through 2005:			
Collaterulized or guaranteed	¥27,171	¥ 20,566	$256,326
Total	40,871	36,566	385,571
Current portion included in current liabilities	(6,260)	(3,792)	(59,055)
Total	¥34,611	¥ 32,774	$326,516

Certain of the Companies' long-term debt agreements provide, among other things, that the lender may request the Companies to submit proposals for appropriations of retained earnings (including payment of dividends) for review and, in some instances, approval prior to presentation to the stockholders. However, the Companies has never received such a request.

In addition, as is customary in Japan, substantially all of the Companies' bank borrowings are subject to general agreements with each bank which provide, among other things, that the relevant bank may treat any security furnished to the bank as well as cash deposited with it as security for all present and future indebtedness and may, when the bank deems it necessary, request additional security for the loans.

Assets pledged as collateral for short-term borrowings and long-term debt at March 31, 2000 were as follows:

	Millions of Japanese Yen	Thousands of U.S. Dollars
Assets pledged as collateral:		
Land	¥ 2,927	$ 27,612
Building and structures	880	8,299
Marketable securities and investment securities	6,844	64,567
Cash and time deposits	45	430
	¥ 10,696	$ 100,908

	Millions of Japanese Yen	Thousands of U.S. Dollars
Liabilities secured thereby:		
Current portion of long-term debt	¥ 1,319	$ 12,443
Long-term debt	¥ 4,786	$ 45,151

The aggregate annual maturities of long-term loans (including current portion) as of March 31, 2000 were as follows:

Year Ending March 31	Millions of Japanese Yen	Thousands of U.S. Dollars
2001	¥ 6,260	$ 59,055
2002	4,648	43,846
2003	5,997	56,571
2004	7,753	73,145
2005	1,793	16,913
2006 and thereafter	720	6,796
Total	¥ 27,171	$256,326

(6) Advances on Contracts in Progress

The Company usually receives payments from customers in the public sector on a progress basis in accordance with terms of the respective construction contracts.

(7) Accrued Severance Indemnities and Pension Plan

Upon retirement or termination of employment for reasons other than dismissal, employees of the Companies are entitled to lump sum payments based on the current rate of pay and length of service. If the termination is involuntary or caused by death, the severance payment is grater than those in the case of voluntary termination. In addition to the lump-sum severance indemnity regulations, the Company has contributory funded defined benefit pension plan, which are pursuant to the Japanese Welfare Pension Insurance Law. The contributory pension plans cover a portion of the governmental welfare pension program, under which the contributions are made by the Company and its employees, and an additional portion.

The plan assets, at cost, totaled ¥14,953 million (US$141,066 thousand) and ¥13,707 million (US $129,311 thousand) at March 31, 2000 and 1999, respectively. The unfounded prior service cost of the pension plan were amortized over approximately 18 years.

(8) Income Taxes

(a) The significant components of deferred tax assets and liabilities at March 31, 2000 were as follows.

Deferred Tax Assets:	Millions of Japanese Yen	Thousands of U.S. Dollars
Allowance for doubtful accounts	¥ 1,617	$ 15,255
Inventories	1,230	11,604
Reserve for retirement benefits to directors	685	6,463
Revaluation of securities	671	6,330
Accrued bonus to employees	347	3,274
Tax loss carryforwards	141	1,330
Other	2,682	25,301
Subtotal	7,373	69,557
Valuation Allowance	(251)	(2,369)
Deferred Tax Assets	7,122	67,188
Deferred Tax Liabilities:		
Property and equipment	(1,537)	(14,504)
Other	(57)	(541)
Deferred Tax Liabilities	(1,594)	(15,045)
Net Deferred Tax Assets	¥ 5,528	$ 52,143

(b) A Reconciliation between the normal effective statutory tax rate for the year ended March 31, 2000 and the actual effective tax rates reflected in the accompanying consolidated statements of operations is as follows:

Normal effective statutory tax rate	41.7 %
Expenses not deductible for income tax purposes	10.4
Non-taxable income	(0.7)
Per capita levy of inhabitant taxes	3.3
Valuation allowance	4.1
Other-net	2.9
Actual effective tax rate	61.7 %

(9) Shareholders' Equity

Under the Japanese Commercial Code, the entire amount of the issue price of new Shares is required to be accounted for as stated capital, although the Companies may account for an amount not exceeding 50% such issue price as additional paid-in capital (subject to the remainder being not less than the total par value of the new Shares being issued). The Board of Directors may transfer the whole or any part of additional paid-in capital and legal reserve to stated capital and grant to shareholders additional Shares free of charge by way of a stock split, without affecting the par value thereof, by reference to the whole or any part of the amount of additional paid-in capital and legal reserve so transferred to stated capital; such additional Shares may also be granted by reference to the amount representing the portion of the issue price of Shares in excess of the par value thereof which has been accounted for as stated capital. In either case, as a result of such granting to the shareholders of additional Shares by way of a stock split, the total par value of the Shares in issue may not exceed the stated capital. Further, the net assets of the Companies (as appearing in the latest balance sheet) divided by the number of Shares in issue must be at least ¥50.

The Japanese Commercial Code permits the Companies to make a partially free distribution to shareholders by way of rights issue at a subscription price per Share which is less than the par value there of if (a) the difference between the subscription price and the par value does not exceed the amount of the stated capital minus the aggregate par value of all outstanding Shares, divided by the number of new Shares to be issued pursuant to such rights issue, (b) the sum of the net assets of the Companies (as appearing on the latest balance sheet) and the total subscription price, divided by the number of the Shares in issue immediately after the issue of the new Shares, is at least ¥50 and (c) the subscription rights are made transferable. In order to satisfy the requirement mentioned in (a) above, the Board of Directors may transfer the whole or any part of additional paid-in capital or legal reserve to stated capital.

The Japanese Commercial Code permits the Companies to transfer profits distributable as dividends to stated capital by resolution of the shareholders and distribute additional Shares to shareholders by way of a stock split without affecting the par value of the Shares.

The Japanese Commercial Code also provides that neither additional paid-in capital nor the legal reserve are available for each dividends, but may be used to reduce a capital deficit by a resolution of a shareholders' meeting or may be capitalized by a resolution of the Board of Directors.

(10) Leases

The Companies lease tools, vehicles and certain other assets under operating leases. Leases qualifying as capital leases at March 31, 2000 and 1999 were as follows :

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2000	1999	2000
Machinery, vehicles, tools and others	¥ 765	¥1,316	$ 7,217
Accumulated depreciation	513	846	4,840
	¥ 252	¥ 470	$ 2,377

The scheduled maturities of future lease rental payments, including an interest portion on such lease contracts as of March 31, 2000 and 1999 are as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2000	1999	2000
Due within one year	¥ 140	¥ 201	$ 1,320
Due over one year	112	269	1,057
	¥ 252	¥ 470	$ 2,377

Under Japanese accounting regulations, finance leases other than those which are deemed to transfer the ownership of the leased assets to lessees are permitted to be accounted for by using an accounting method similar to that applicable to ordinary operating leases, if certain information is disclosed in the notes to the financial statements.

Lease rental expenses incurred in connection with finance leases other than those which are deemed to transfer the ownership of the leased assets to lessees amount to ¥158 million (US$1,491 thousand) and ¥251 million for the years ended March 31, 2000 and 1999, respectively.

(11) Commitments and Contingent Liabilities

There were no commitments outstanding at March 31, 2000 and 1999 for the purchase of property, plant and equipment.

The Companies are contingently liable for the following at March 31, 2000 and 1999:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2000	1999	2000
Trade notes receivable endorsed	¥ 456	¥ 625	$ 4,302
Contingently liable for guarantees of short-term and long-term debt of customers, unconsolidated subsidiaries and affiliates	¥ 6,467	¥15,637	$ 61,013

(12) Segment Information

a. Business Segments

Business segments are principally composed of the followings:

Construction ....
Civil Engineering and Architectural Construction
Real Estate ....
Development of Land and Buildings
Other Areas ....
Architecture, Engineering and any other relevant business

Information by business segments for the years ended March 31, 2000 and 1999 was not shown since aggregate sales of construction business were more than 90% of total net sales of all segments and aggregate assets of operations were more than 90% of total assets of all segments.

b. Geographical Segments

Each area primarily refers to the following countries:

Southeast Asia .... Singapore, Philippines and Viet Nam

Year Ended March 31, 2000 — Millions of Japanese Yen

	Japan	Southeast Asia	Other Areas	Total	Elimination	Consolidated
Net sales:						
Customers	¥ 245,825	¥ 16,846	¥ 4,136	¥ 266,807	¥ —	¥ 266,807
Intersegment	—	—	—	—	(—)	—
Total	245,825	16,846	4,136	266,807	(—)	266,807
Operating expenses	235,844	16,187	3,571	255,602	(—)	255,602
Operating profit	9,981	659	565	11,205	(—)	11,205
Total assets	¥ 250,693	¥ 8,619	¥ 1,522	¥ 260,834	¥ 43,041	¥ 303,875

Year Ended March 31, 1999 — Millions of Japanese Yen

	Japan	Southeast Asia	Other Areas	Total	Elimination	Consolidated
Net sales:						
Customers	¥ 238,536	¥ 17,483	¥ 1,614	¥ 257,633	¥ —	¥ 257,633
Intersegment	—	—	—	—	(—)	—
Total	238,536	17,483	1,614	257,633	(—)	257,633
Operating expenses	232,788	17,299	1,268	251,355	(—)	251,355
Operating profit	5,748	184	346	6,278	(—)	6,278
Total assets	¥ 217,909	¥ 10,001	¥ 1,693	¥ 229,603	¥ 50,739	¥ 280,342

Year Ended March 31, 2000 — Thousands of U.S. Dollars

	Japan	Southeast Asia	Other Areas	Total	Elimination	Consolidated
Net sales:						
Customers	$2,319,099	$ 158,930	$ 39,014	$ 2,517,043	$ —	$ 2,517,043
Intersegment	—	—	—	—	(—)	—
Total	$2,319,099	158,930	39,014	2,517,043	(—)	2,517,043
Operating expenses	2,224,940	152,707	33,686	2,411,333	(—)	2,411,333
Operating profit	94,159	6,223	5,328	105,710	(—)	105,710
Total assets	$2,365,030	$ 81,313	$ 14,353	$ 2,460,696	$ 406,051	$ 2,866,747

c. Overseas Net Sales

Each area primarily refers to the following countries:

Southeast Asia …………………….. Singapore, Philippines and Viet Nam

Year Ended March 31, 2000			Millions of Japanese Yen
	Southeast Asia	Other Areas	Total
Overseas net sales ……………………………………	¥ 16,846	¥ 4,136	¥ 20,982
Consolidated net sales ………………………………..	—	—	266,807
Overseas / Consolidated ……………………………..			
Ratio (%) ……………………………………………..	6.3	1.6	7.9

Year Ended March 31, 1999			Millions of Japanese Yen
Overseas net sales ……………………………………	¥ 17,482	¥ 1,614	¥ 19,097
Consolidated net sales ………………………………..	—	—	257,633
Overseas / Consolidated ……………………………..			
Ratio (%) ……………………………………………..	6.8	0.5	7.4

Year Ended March 31, 2000			Thousands of U.S. Dollars
Overseas net sales ……………………………………	$ 158,930	$ 39,014	$ 197,944
Consolidated net sales ………………………………..	—	—	2,517,043

(13) Derivative Transactions

Derivative transactions of the Companies at March 31, 2000 are as follows:

a. Status of Derivative Transactions

The Companies utilize interest rate swaps and interest rate options to mitigate fluctuation risk in interest rates or to reduce financing costs. The Companies also enter into forward foreign exchange contracts to hedge foreign exchange risk. The Companies' derivative positions related to interest rate swaps, interest rate options and forward foreign exchange contracts are exposed to the fluctuation of market interest rates and foreign exchange rates. The Companies trade derivative transactions solely with internationally recognized, highly rated financial institutions and therefore considers its counterparty credit risks to be almost entirely eliminated.

During the fiscal year, the Companies have entered into interest rate swap agreements.

b. Estimated Fair Value of Derivative Transactions

Interest Rate-Related Derivatives:

2000				Millions of Japanese Yen
	Contract amount			
Unlisted transactions	Total	Due after one year	Estimated fair Value	Unrealized gain (loss)
Interest rate swaps:				
Pay Fix / Receive Float ……………………………	¥ 10,981	¥ 9,781	¥ (203)	¥ (203)
Receive Fix / Pay Float ……………………………	1,000	1,000	1	1
Total ………………………………………………..	¥ 11,981	¥ 10,781	¥ (202)	¥ (202)