

MESSAGE FROM THE PRESIDENT

In the fiscal 2004 (ended March 31, 2004), Japanese economy was buoyed by favorable exports with variations in business sentiment apparent by industry and region. Capital investment has turned positive with the improvement in corporate earnings and the progress of stocktaking, and in a severe employment environment, even personal consumption shows gradual recovery. Thus business conditions have shown some glimmer of light since the beginning of last autumn and are in transition. Under the circumstances, domestic sales amounted to ¥189,212 million (a 13.6% reduction from the previous fiscal year on a consolidated basis) and the operating profit amounted to ¥5,447 million (a 22.9% increase from the previous fiscal year on a consolidated basis).

In the construction industry, some signs of recovery in private investment can be seen. Residential housing starting at a low level firmed up, though public investment declined reflecting a long-term policy of budget reduction by central and local government. The total demand for construction could not escape from its downward trend, and together with intensifying price competition, this has placed the business environment in a still more severe situation.

Under the circumstances, in order to adapt to this age of rapid change, we have overhauled our business structure on one hand, and have been promoting, made efforts to increase orders and to press forward with a low cost orientation so as to insure profits and to strengthen our financial structure. As a result, though sales fell by 12.4% from the previous fiscal year to ¥201,557 million on a consolidated basis, the consolidated operating profit increased 26.2% from the previous fiscal year and stood at ¥4,719 million by promoting the cost reduction.

In the real estate business, efforts were made to preserve stable returns. Compared with the previous fiscal year, consolidated proceeds fell by 3.4% to ¥6,893 million, but operating profits rose by 104.9% to ¥664 million from the previous fiscal year. Consolidated proceeds from other business declined by 14.0% to ¥4,197 million from the previous fiscal year, and operating profits fell by 85.1% to ¥28 million from the previous fiscal year.

Consolidated net profits for the current period stand at ¥1,051 million, which is an increase of ¥821 million from the previous fiscal year. There was an improvement in special profits and losses due to improvement in operating profits and the ending of premium severance pay that accompanied the recruitment of voluntary retirees in the previous consolidated fiscal year. There was also a virtual end to appraisal losses from retained stock such as occurred in the previous consolidated fiscal year resulting from a fall in stock prices. As a result in

this period, the net profit per unit of stock was ¥5.33.

Cash flow environment

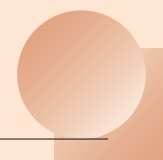
For fiscal 2004, cash flows from operating activities amounted to a capital increase of ¥6,561 million, considering net profits before taxes and depreciation cost for the period (cf. capital decrease of ¥13,462 million in consolidated fiscal 2003). For cash flows from investment activities, sales of tangible fixed assets and securities for investments brought an increase in capital of ¥2,860 million (cf. decrease of ¥4,055 million in consolidated fiscal 2003). For cash flows from financing activities, there was a capital decrease of ¥10,457 million, through redemption of bonds and cutting interest-bearing debt (cf. increase of ¥1,960 million in consolidated fiscal 2003). As a result, the balance at the end of the consolidated fiscal 2004 for cash and cash equivalents amounted to ¥24,430 million, decreasing ¥1,429 million compared to the end of the consolidated fiscal 2003.

The state of corporate governance

TOA is creating a solid management framework to increase management efficiency and transparency and to make and execute decisions swiftly and flexibly to deal with changes in the business environment. We are also implementing fair management with a high level of trustworthiness, centering our focus on shareholders by ongoing activity to ensure compliance with laws and ordinances relating to company activities and also compliance with social norms and ethics.

Progress in implementing various policies relating to corporate governance

1. As a rule, the board of directors meets once every month to review and discuss substantial matters, make decisions, and supervise the level of business performance. Of those issues reviewed and decided by the board of directors, matters of special importance are previously discussed at management meetings. In addition, we are taking an Executive Officer system with the decision making function separated from the function of administering corporate business, and this is aimed to make management more efficient and to strengthen its function. Also, in order to construct management system best prepared to adapt to the changes in the business environment, term of office of the director is reduced to one year. In addition, at the directors' meeting on May 21 2004, the compensation system for directors and auditors was reviewed as a part of the management reforms. As a result, retirement allowance for directors was abolished and they will be paid based on business performance each year. The number of directors was reduced from 14 to 11 duly executed at the regular



shareholders meeting convened on June 29 2004.

2. The company adopts an auditor system and amongst 4 auditors present, 3 auditors are from outside the company. The auditors attend directors' meetings, management meetings and other significant meetings under a system that allows them to observe directors' work.
3. The internal control system is set up by top management and there is a management office to check how the control system is functioning.
4. In order to take in how thoroughly company activities are based on enterprise ethics and a law abiding approach, a compliance committee has been set up and the company, as a whole, is addressing the compliance rule. Activities are also being carried out to implement the laws and ordinances such as the committee holding regular monthly meetings and receiving reports of activities from each of the departments.
5. In order to increase transparency of management for all shareholders and investors, top management carry out regular IR activities and make timely press releases. Also IR information and news is actively displayed on the company home page.

Outstanding tasks

The future prospects for the economy have received a boost from the government policies promoting restructure, stabilizing the financial capital markets and overcoming deflation. An increasing brightness can be discerned due to an improvement in company profits supported by ongoing favorable exports and a trend to recovery in capital investment. This is accompanied by briskness expected in personal consumption.

In the construction industry, central and local government bodies are keeping to their policy of restraint in public works, and although change for the better can be hoped for in demand of the private sector against a background of enterprise profit rising and personal consumption reviving, overall construction demand continues to decrease and it is thought that competition for orders will become increasingly severe, putting the very survival of enterprises at risk, we are following medium-term management plan developed in 2002. We will do our best to maintain orders and profits in the civil engineering sector, and architectural sector established its principal to an independent structure and set up the Metropolitan Architecture Division in April 2004 based on this decision. Regarding the international division, we are expanding our business in the areas and new business field and



Masao Watanabe,
President and Representative Director
President and Chief Executive Officer

conversion to a strong enterprise structure is being implemented.

As a basic strategy relating to taking orders:

- Expansion into the following business fields: renovation, disaster prevention work, medical and welfare facilities, facilities for family ceremonial occasions, facilities for HACCP (hazards analysis and critical control points).
- Active advancement into: urban renewal work, private finance initiative (PFI) projects and environment related work.

In the area of profit:

- Increase gross profit through strengthening estimating skills for construction works and increase efficiency in management execution.
- Reduce costs and personnel expenses.

On the financial structure and management efficiency side:

- Further promote reduction of interest bearing liabilities and improvement in the financial structure.
- Place the new core system on track directed to systematize information and further develop the database.

These strategies will be vigorously promoted and it is intended to build a strong, healthy financial structure and we look forward to improved results.

We seek the increased support and cooperation of all shareholders.

June 2004

Masao Watanabe
President and Representative Director
President and Chief Executive Officer