

**A N N U A L R E V I E W 2 0 0 0**

Fiscal Year Ended December 31, 2000

Tokyo Tatemono Co., Ltd.

# MANAGEMENT REVIEW

## Operating Environment

During fiscal 2000, government economic stimulus measures took effect, which led to a continuous increase in capital investments and a self-sustaining recovery in the corporate sector. However, the unemployment rate was still at a high level and individual consumption did not increase. Thus a full-scale recovery was not achieved.

In the real estate industry, although demand for small-scale or medium-scale office buildings continued to falter, vacancy rates continuously improved as a whole with nearly full occupancy for newly constructed large-scale buildings in central Tokyo supported mainly by the needs of IT-related and foreign companies, and a decreasing trend in market rents stopped as a whole. In the residential housing market, despite an improvement in sales, selling prices continued to reduce and some signs of a downturn in sales appeared from last autumn, while tax credits for housing loans and low interest rates continued. Although there are some signs of recovery in the business environment surrounding our industry, future trends are unpredictable.

## Result

In the above challenging operating environment, we proceeded to focus on customer-oriented business to promptly deal with the dramatically-changing market. Consequently, in fiscal 2000, operating revenue rose 20.9% to ¥122,681 million (US\$1,067 million), compared with ¥101,478 million in fiscal 1999, operating income increased 31.5% to ¥14,078 million (US\$122 million), compared with ¥10,702 million in fiscal 1999 and net income showed a record of ¥11,127 million (US\$96 million) or 563.5% up from ¥1,677 million in fiscal 1999.

## Outlook

The Japanese economy is expected to gradually improve, supported mainly by a continuous increase in capital investments of IT-related companies and revenue in the corporate sector. However the trend toward recovery is anticipated to be slow in coming year, owing to a standstill in individual consumption and a recession in the United States economy.

In the real estate industry, although the balance between demand and supply in the commercial building market is expected to remain stable, continuous supply of large-scale office buildings is anticipated to affect the balance, and in the residential housing market, the future trends are unpredictable due to a downturn in demand for houses for individuals led by severe employment conditions and selection of houses by customers.

However, revision of the real estate investment trust (REIT) law and opening of the market for REIT on the Tokyo stock exchange are promoting separation of ownership and management of real estate and its liquidity, and thus the real estate business is expected to change considerably.

## Foundation

Under these circumstances, we are going to strengthen our mainstay business of office building leasing and sale of real estate to secure stable bases of profitability and further make a full-scale entry into the real estate investment trust business.

In the beginning of the 21st century, the Tokyo Tatemono Group will endeavor to aim at “improving the corporate value of the entire group”.

## FINANCIAL REVIEW

### Revenue and Income

#### *Office and Commercial Building Leasing*

In fiscal 2000, we aimed to improve vacancy rates and profitability of building leasing and to strengthen competitiveness by renovation of earthquake-proof buildings or renewal of old buildings. Some of sublease contracts were released for further profitability.

As a result, revenue from leasing rose 5.5% to ¥39,968 million (US\$347 million), compared with ¥37,889 million in the previous year and operating income increased 11.9% to ¥16,079 million (US\$139 million), compared with ¥14,363 million in the previous year.

#### *Real Estate Sales*

For this segment, revenue showed a favorable result of ¥70,568 million (US\$614 million) or 27.2% up from ¥55,482 million in the previous year, led by a special tax credit for acquisition of dwelling houses and low interest rates, and operating income was ¥1,723 million (US\$15 million), compared with a loss of ¥66 million in the previous year.

#### *Related Services*

The Related Service Dept. performed positive business activities using business know-how regarding development of resorts and leisure, hotel, reform, media complex business, etc. as well as brokerage, appraisal, consultation services, etc for property. As a result, revenue increased 49.8% to ¥12,144 million (US\$105 million), compared with ¥8,106 million in the previous year, and operating income showed a record of ¥1,572 million (US\$13million), or 117.4% up from ¥723 million in the previous year.

### Analysis of Income

Revenue from operations was up 20.9% and operating income was up 31.5% from the previous year, chiefly owing to an increase in sales of real estate and the related services.

In fiscal 2000, the Company has initially adopted the new accounting standards for consolidation and income taxes in Japan and in advance adopted the forthcoming accounting standards for impairment of long-lives assets, and

thus the consolidated balance sheet at the end of 2000 reflected losses on revaluation or disposal of property and equipment and real estate for sale based on the lower of cost or market method, which were offset against profit on sale of the Tokyo Tatemono Shinjuku Building. Losses on appraisal of land for business use purposes at market value were also recognized in conformity with the land revaluation law in Japan.

As a result, losses of ¥5,362 million (US\$46 million) on revaluation of real estate for sale, losses of ¥28,609 million (US\$248 million) on appraisal of real estate, provision for severance indemnities of ¥3,575 million (US\$31 million), etc. were recorded. However, these losses were partly offset against income taxes deferred of ¥6,953million (US\$60 million), resulted from the initial adoption of tax effect accounting, and net income in fiscal 2000 amounted to ¥11,127 million (US\$96 million) or 563.5% up, compared with ¥1,677 million in the previous year.

### Financial Position

In fiscal 2000, total assets decreased ¥29,350 million (US\$255 million) or 5.9% to ¥472,135 million (US\$4,109 million), resulted mainly from an increase in property and equipment of ¥29,152 million (US\$ 253 million) or 9.6% up from the previous year and a decrease in current assets of ¥44,908 million (US\$390 million) or 29.4% down from the previous year. The decrease in current assets resulted mainly from a decrease in inventories of ¥47,298 million (US\$411 million) including land for condominiums for sale 41.6% down from the previous year. The increase in property and equipment resulted chiefly from surplus from appraisal of land of ¥4,144 million (US\$36 million) in conformity with the land revaluation law and a transfer from real estate for sale of ¥42,564 million (US\$370 million).

Debt including short-term borrowings dropped ¥42,431 million (US\$369 million) or 12.0% to ¥309,730 million (US\$2,695 million) due to repayment of interest bearing debt which will continue to be reduced.

Shareholders' equity edged down 0.1% to ¥83,376 million (US\$725 million), compared with ¥83,466 million at the end of the previous year.

Tokyo Tatemono Co., Ltd.  
**CONSOLIDATED BALANCE SHEETS**

ASSETS	December 31		
	2000	1999	2000
	(Millions of yen)		(Thousands of U.S. dollars)
<b>Current assets:</b>			
Cash (Note 14) .....	¥ 9,513	¥ 9,216	\$ 82,795
Marketable securities (Notes 3 and 7) .....	19,942	20,640	173,566
Accounts receivable, trade .....	5,973	2,983	51,990
Inventories (Notes 4 and 7) .....	66,414	113,712	578,020
Deferred income taxes (Note 9) .....	1,685	—	14,668
Other current assets .....	4,429	6,296	38,549
Allowance for doubtful accounts .....	(24)	(6)	(213)
<b>Total current assets .....</b>	<b>107,934</b>	<b>152,842</b>	<b>939,378</b>
<b>Investments:</b>			
Investment securities (Notes 3 and 7) .....	3,916	4,512	34,089
Investments in unconsolidated subsidiaries and affiliates .....	2,629	2,638	22,883
Long-term loans (Note 6) .....	1,183	22,110	10,300
Guarantee deposits paid .....	10,530	11,470	91,650
Deferred income taxes (Note 9) .....	1,276	—	11,108
Other investments .....	4,526	5,244	39,395
Allowance for doubtful accounts (Note 6) .....	(1,651)	(8,817)	(14,369)
<b>Total investments .....</b>	<b>22,412</b>	<b>37,158</b>	<b>195,058</b>
<b>Property and equipment (Note 7):</b>			
Land .....	262,111	232,002	2,281,212
Buildings .....	119,541	120,729	1,040,396
Machinery and equipment .....	784	752	6,823
Furniture and fixtures .....	1,907	1,732	16,600
Construction in progress .....	541	110	4,711
<b>Total property and equipment .....</b>	<b>384,885</b>	<b>355,328</b>	<b>3,349,744</b>
Less accumulated depreciation .....	(50,685)	(50,280)	(441,128)
<b>Net property and equipment .....</b>	<b>334,199</b>	<b>305,047</b>	<b>2,908,615</b>
<b>Intangibles and other assets (Note 5) .....</b>	<b>7,589</b>	<b>6,437</b>	<b>66,049</b>
<b>Total assets .....</b>	<b>¥472,135</b>	<b>¥501,485</b>	<b>\$4,109,101</b>

The accompanying notes are an integral part of these statements.

**LIABILITIES, MINORITY INTEREST AND SHAREHOLDERS' EQUITY**

	December 31		
	2000	1999	2000
	(Millions of yen)		(Thousands of U.S. dollars)
<b>Current liabilities:</b>			
Short-term borrowings (Note 7) .....	¥ 45,902	¥ 59,827	\$ 399,499
Current portion of long-term debt (Note 7) .....	51,718	61,609	450,114
Accounts payable, trade (Note 8) .....	7,990	2,577	69,540
Accrued income taxes (Note 9) .....	52	39	460
Accrued expenses .....	4,536	3,383	39,480
Advances received .....	6,259	7,915	54,479
Deferred income taxes (Note 9) .....	26	—	230
Other current liabilities .....	4,691	4,801	40,830
<b>Total current liabilities</b> .....	<b>121,177</b>	<b>140,153</b>	<b>1,054,635</b>
<b>Long-term liabilities:</b>			
Long-term debt (Note 7) .....	212,109	230,725	1,846,038
Accounts payable, other (Notes 7 and 8) .....	4,704	4,969	40,946
Guarantee deposits received .....	36,303	37,357	315,960
Deferred income taxes (Note 9) .....	3,591	—	31,258
Deferred income taxes on land revaluation (Note 2 (f)) .....	1,744	—	15,186
Accrued severance indemnities .....	4,754	1,066	41,383
Other .....	3,909	3,564	34,024
<b>Total liabilities</b> .....	<b>267,119</b>	<b>277,682</b>	<b>2,324,798</b>
<b>Minority interest</b> .....	<b>462</b>	<b>183</b>	<b>4,021</b>
<b>Shareholders' equity (Note 11):</b>			
Common stock of ¥50 par value—			
Authorized — 800,000,000 shares			
Issued — 228,141,634 shares .....	45,623	45,623	397,070
Additional paid-in capital .....	38,229	38,229	332,721
Land revaluation excess (Note 2 (f)) .....	2,399	—	20,885
Accumulated deficit .....	(2,750)	(386)	(23,939)
Foreign currency translation adjustments .....	(39)	—	(341)
Less — Treasury stock, at cost (Note 7) .....	(86)	(0)	(751)
<b>Total shareholders' equity</b> .....	<b>83,376</b>	<b>83,466</b>	<b>725,645</b>
Commitments and contingent liabilities (Note 12)			
<b>Total liabilities, minority interest and shareholders' equity</b> ....	<b>¥472,135</b>	<b>¥501,485</b>	<b>\$4,109,101</b>

Tokyo Tatemono Co., Ltd.  
**CONSOLIDATED STATEMENTS OF INCOME**

	Year ended December 31			
	2000	1999	1998	2000
	(Millions of yen)			(Thousands of U.S. dollars)
<b>Revenue from operations:</b>				
Leasing of office and commercial buildings .....	¥ 39,968	¥ 37,889	¥ 36,037	\$347,856
Sales of real estate .....	70,568	55,482	41,601	614,169
Related services .....	12,144	8,106	8,213	105,697
	<u>122,681</u>	<u>101,478</u>	<u>85,853</u>	<u>1,067,723</u>
<b>Cost of revenue:</b>				
Leasing of office and commercial buildings .....	23,798	23,599	24,599	207,125
Sales of real estate .....	61,217	48,879	33,304	532,789
Related services .....	7,746	5,440	5,059	67,416
	<u>92,762</u>	<u>77,919</u>	<u>62,963</u>	<u>807,330</u>
<b>Gross profit</b> .....	<b>29,919</b>	<b>23,559</b>	<b>22,890</b>	<b>260,392</b>
<b>Selling, general and administrative expenses</b> (Note 10) .....	<b>15,840</b>	<b>12,856</b>	<b>11,522</b>	<b>137,863</b>
<b>Operating income</b> .....	<b>14,078</b>	<b>10,702</b>	<b>11,367</b>	<b>122,528</b>
<b>Other income (expenses):</b>				
Interest and dividend income .....	432	767	823	3,763
Interest expenses .....	(9,003)	(8,127)	(7,618)	(78,355)
Gain (loss) on sale of property and equipment .....	39,489	(86)	(25)	343,687
Gain (loss) on sale of marketable securities .....	883	1,736	(466)	7,687
Write-down of marketable securities .....	(699)	(901)	(2,412)	(6,084)
Write-down of real estate for sale .....	(5,362)	(1,743)	—	(46,668)
Write-down of land and buildings .....	(28,609)	—	—	(248,998)
Provision for severance indemnities .....	(3,575)	—	—	(31,121)
Provision for losses on doubtful accounts .....	(1,667)	—	—	(14,511)
Equity in income of affiliated companies (Note 10) .....	43	134	—	381
Other, net .....	(1,736)	(759)	282	(15,113)
	<u>(9,804)</u>	<u>(8,980)</u>	<u>(9,418)</u>	<u>(85,333)</u>
<b>Income before income taxes and minority interest</b> .....	<b>4,273</b>	<b>1,722</b>	<b>1,949</b>	<b>37,195</b>
<b>Income taxes</b> (Note 9)				
Current .....	81	59	113	711
Deferred .....	(6,953)	—	—	(60,514)
	<u>(6,871)</u>	<u>59</u>	<u>113</u>	<u>(59,802)</u>
Income before minority interest .....	11,145	1,662	1,835	96,998
Minority interest .....	(17)	15	(49)	(149)
Income from consolidated companies .....	11,127	1,677	1,786	96,848
Equity in income of affiliated companies (Note 10) .....	—	—	97	—
Amortization of goodwill on consolidation (Note 10) .....	—	—	(41)	—
<b>Net income</b> .....	<b>¥ 11,127</b>	<b>¥ 1,677</b>	<b>¥ 1,842</b>	<b>\$ 96,848</b>
		Yen		U.S. dollars
<b>Per share of common stock:</b>				
Net income .....	¥48.88	¥7.35	¥8.08	\$0.42
Cash dividends applicable to the year .....	4.00	3.00	3.00	0.03

The accompanying notes are an integral part of these statements.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common stock	Additional paid-in capital	Land revaluation excess	Legal reserve	Accumulated deficit	Foreign currency translation adjustments	Treasury stock	Total shareholders' equity
(Millions of yen)								
<b>Balance at December 31, 1997</b> .....	¥45,623	¥44,886	¥ —	¥11,424	(¥21,257)	¥ —	(¥ 0)	¥80,677
Net income .....	—	—	—	—	1,842	—	—	1,842
Transfer from legal reserve .....	—	—	—	(11,405)	11,405	—	—	—
Transfer from additional paid-in capital ...	—	(6,657)	—	—	6,657	—	—	—
Adjustment of deficit for newly consolidated subsidiaries .....	—	—	—	—	(45)	—	—	(45)
Decrease in treasury stock .....	—	—	—	—	—	—	0	0
<b>Balance at December 31, 1998</b> .....	45,623	38,229	—	18	(1,396)	—	(0)	82,474
Net income .....	—	—	—	—	1,677	—	—	1,677
Cash dividends paid .....	—	—	—	—	(684)	—	—	(684)
Transfer from legal reserve .....	—	—	—	(18)	18	—	—	—
Deficit of affiliates newly applied on an equity basis .....	—	—	—	—	(1)	—	—	(1)
Increase in treasury stock .....	—	—	—	—	0	—	(0)	(0)
<b>Balance at December 31, 1999</b> .....	45,623	38,229	—	—	(386)	—	(0)	83,466
Net income .....	—	—	—	—	11,127	—	—	11,127
Cash dividends paid .....	—	—	—	—	(1,111)	—	—	(1,111)
Cumulative effect of adopting tax-effect accounting .....	—	—	—	—	(7,628)	—	—	(7,628)
Adjustment of deficit for newly consolidated subsidiaries .....	—	—	—	—	(4,751)	—	—	(4,751)
Land revaluation excess, net of deferred income taxes .....	—	—	2,399	—	—	—	—	2,399
Net change in foreign currency translation adjustments .....	—	—	—	—	—	(39)	—	(39)
Increase in treasury stock .....	—	—	—	—	—	—	(85)	(85)
<b>Balance at December 31, 2000</b> .....	¥45,623	¥38,229	¥ 2,399	¥ —	(¥ 2,750)	(¥ 39)	(¥ 86)	¥83,376

	(Thousands of U.S. dollars)							
<b>Balance at December 31, 1999</b> .....	\$397,070	\$332,721	\$ —	\$ —	(\$ 3,364)	\$ —	(\$ 4)	\$726,423
Net income .....	—	—	—	—	96,848	—	—	96,848
Cash dividends paid .....	—	—	—	—	(9,675)	—	—	(9,675)
Cumulative effect of adopting tax-effect accounting .....	—	—	—	—	(66,392)	—	—	(66,392)
Adjustment of deficit for newly consolidated subsidiaries .....	—	—	—	—	(41,356)	—	—	(41,356)
Land revaluation excess, net of deferred income taxes .....	—	—	20,885	—	—	—	—	20,885
Net change in foreign currency translation adjustments .....	—	—	—	—	—	(341)	—	(341)
Increase in treasury stock .....	—	—	—	—	—	—	(747)	(747)
<b>Balance at December 31, 2000</b> .....	\$397,070	\$332,721	\$20,885	\$ —	(\$23,939)	(\$ 341)	(\$ 751)	\$725,645

Tokyo Tatemono Co., Ltd.  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year ended December 31, 2000	
	(Millions of yen)	(Thousands of U.S. dollars)
<b>Operating activities:</b>		
<b>Income before income taxes and minority interests</b> .....	¥ 4,273	\$ 37,195
Depreciation and amortization .....	3,894	33,890
Equity in income of affiliated companies .....	(43)	(381)
Provision for losses on doubtful accounts .....	1,614	14,050
Provision for severance indemnities, less payments .....	3,667	31,920
Reversal of reserve for bonuses to employees .....	(26)	(229)
Write-down of real estate for sale .....	5,362	46,668
Interest and dividend income .....	(432)	(3,763)
Interest expenses .....	9,003	78,355
Write-down of marketable securities .....	671	5,843
Gain on sale of marketable securities .....	(883)	(7,687)
Gain on sale of property and equipment .....	(39,402)	(342,931)
Write-down of land and buildings .....	28,609	248,998
Increase in accounts receivable, trade .....	(2,846)	(24,771)
Decrease in inventories .....	8,462	73,647
Decrease in guarantee deposits paid .....	1,234	10,747
Increase in accounts payable, trade .....	801	6,973
Decrease in guarantee deposits received .....	(2,858)	(24,878)
Other .....	624	5,433
<b>Subtotal</b> .....	<b>21,725</b>	<b>189,082</b>
Interest and dividends received .....	500	4,353
Interest paid .....	(9,561)	(83,216)
Income taxes paid .....	(71)	(625)
<b>Net cash provided by operating activities</b> .....	<b>12,592</b>	<b>109,593</b>
<b>Investing activities:</b>		
Proceeds from sale of marketable and investment securities .....	3,320	28,898
Purchase of marketable and investment securities .....	(300)	(2,616)
Proceeds from sale of property and equipment .....	51,350	446,914
Payment for purchases of property and equipment .....	(2,933)	(25,531)
Increase in long-term loans .....	(589)	(5,134)
Collection of long-term loans .....	628	5,471
Other .....	338	2,945
<b>Net cash provided by investing activities</b> .....	<b>51,813</b>	<b>450,948</b>
<b>Financing activities:</b>		
Decrease in short-term borrowings .....	(13,944)	(121,366)
Increase in long-term debt .....	41,760	363,446
Repayment of long-term debt .....	(71,470)	(622,023)
Proceeds from issuance of corporate bonds .....	5,000	43,516
Repayments of corporate bonds .....	(25,600)	(222,802)
Other .....	(84)	(734)
Dividends paid .....	(1,102)	(9,593)
<b>Net cash used in financing activities</b> .....	<b>(65,442)</b>	<b>(569,557)</b>
Effect of exchange rate changes on cash and cash equivalents .....	1	8
Net decrease in cash and cash equivalents .....	(1,035)	(9,015)
Cash and cash equivalents at beginning of year .....	8,766	76,296
Increase in cash and cash equivalents resulting from change in consolidated subsidiaries .....	1,122	9,769
<b>Cash and cash equivalents at end of year</b> (Note 14) .....	<b>¥ 8,854</b>	<b>\$ 77,059</b>

The accompanying notes are an integral part of these statements.

Tokyo Tatemono Co., Ltd.  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year ended December 31	
	1999	1998
	(Millions of yen)	
<b>Operating activities:</b>		
<b>Net income</b> .....	<b>¥ 1,677</b>	¥ 1,842
Adjustments to reconcile net income to net cash provided by (used in) operating activities —		
Depreciation and amortization .....	3,522	3,299
Exchange gains .....	—	(132)
(Reversal of) provision for losses on doubtful accounts .....	(67)	5
Provision for severance indemnities, less payments .....	3	149
Loss on sale of property and equipment .....	106	85
(Gain) loss on sale of marketable securities .....	(1,736)	466
Write-down of marketable securities .....	901	2,412
Write-down of real estate for sale .....	1,743	—
Equity in income of affiliated companies .....	(134)	(97)
Minority interest in income of consolidated subsidiaries .....	(15)	49
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable, trade .....	2,813	(2,100)
Decrease (increase) in inventories .....	12,823	(18,687)
(Increase) decrease in other current assets .....	(1,196)	864
Decrease (increase) in guarantee deposits paid .....	828	(345)
(Decrease) increase in accounts payable, trade .....	(2,094)	2,830
(Decrease) increase in accrued income taxes .....	(71)	55
(Decrease) increase in advances received .....	(140)	1,008
(Decrease) increase in accrued expenses and other current liabilities .....	(4,535)	4,393
(Decrease) increase in guarantee deposits received .....	(2,549)	1,034
Other .....	4,097	138
<b>Net cash provided by (used in) operating activities</b> .....	<b>15,976</b>	(2,726)
<b>Investing activities:</b>		
Payment for purchases of property and equipment .....	(2,311)	(20,274)
Proceeds from sale of property and equipment .....	178	4,148
Investments in marketable securities .....	(4,178)	(29)
Proceeds from sale of marketable securities .....	4,594	295
Decrease (increase) in short-term and long-term loans .....	6,433	(2,163)
Increase in other assets .....	(3,645)	(107)
<b>Net cash provided by (used in) investing activities</b> .....	<b>1,071</b>	(18,132)
<b>Financing activities:</b>		
Proceeds from long-term debt .....	53,600	55,630
Repayment of long-term debt .....	(30,585)	(35,973)
Decrease in short-term borrowings .....	(41,385)	(469)
Dividends paid .....	(684)	—
<b>Net cash (used in) provided by financing activities</b> .....	<b>(19,055)</b>	19,186
Effect of exchange rate changes on cash and cash equivalents .....	(447)	(33)
Net decrease in cash and cash equivalents .....	(2,453)	(1,705)
Cash and cash equivalents at beginning of year .....	11,670	13,375
<b>Cash and cash equivalents at end of year</b> .....	<b>¥ 9,216</b>	¥11,670
Supplemental information on cash flows:		
Cash paid during the year for —		
<b>Interest</b> .....	¥ 8,581	¥ 8,634
<b>Income taxes paid</b> .....	¥ 210	¥ 179

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of Financial Statements

The accompanying consolidated financial statements have been prepared from the consolidated financial statements filed with the Financial Service Agency, as required by the Japanese Securities and Exchange Law in accordance with accounting principles generally accepted in Japan, which are different in certain respects to the application and disclosure requirements of International Accounting Standards.

In addition, the consolidated statement of shareholders' equity and the notes to the consolidated financial statements include financial information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information, and certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is familiar to readers outside Japan.

In March 1998, the Business Accounting Deliberation Council of Japan issued a new accounting standard for consolidated statements of cash flows, which is effective for the periods beginning on or after April 1, 1999. Prior to the issuance of this standard, there existed no accounting standard for the preparation of consolidated statements of cash flows in Japan and, accordingly, the Company had prepared its consolidated statements of cash flows in a format similar to that required under accounting standards generally accepted in the United States of America.

The Company adopted the new accounting standard for the year ended December 31, 2000, and the accompanying consolidated statement of cash flows for the year ended December 31, 2000, has been prepared in accordance with this standard. However, the consolidated statements of cash flows for the years ended December 31, 1999 and 1998, have not been restated.

As permitted by the Securities and Exchange Law of Japan, amounts of less than one million yen have been disregarded. As a result, the totals in yen shown in the accompanying consolidated financial statements do not necessarily agree with the sums of the individual amounts.

U.S. dollar amounts presented in the accompanying consolidated financial statements are included solely for convenience and it should not be construed that Japanese yen amounts have been or could in the future be converted into dollar amounts. The rate of ¥114.90 to US\$1, prevailing on December 31, 2000, has been used for translation into U.S. dollar amounts in the accompanying financial statements.

### 2. Significant Accounting Policies

#### (a) Consolidation

The consolidated financial statements include the accounts of Tokyo Tatemono Co., Ltd. ("the Company") and its twelve significant domestic subsidiaries and its two foreign subsidiaries.

Until the year ended December 31, 1999, the consolidated financial statements included the accounts of the Company and its significant subsidiaries (more than 50% owned), and investments in significant affiliates (20% to 50% owned) were accounted for by the equity method.

Effective January 1, 2000, the Company has initially adopted the new accounting standards for consolidation in Japan, under which consolidated financial statements include the accounts of the Company and its significant companies controlled directly or indirectly by the Company, and companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements. The consolidated financial statements for the year ended December 31, 1999 are not retroactively adjusted. The change of retained earnings arising from the change in the consolidation scope is recognized as "Adjustment of deficit for newly consolidated subsidiaries" in the Consolidated Statements of Shareholders' Equity for the year ended December 31, 2000.

Significant intercompany transactions and accounts have been eliminated in consolidation.

However, when the market value of inventories traded between the consolidated companies is less than the acquisition cost, the unrealised inter-company loss is not eliminated.

The excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary / associated company at the date of acquisition are reported in the balance sheet as other assets and are amortized using the straight-line method over five years.

The equity basis accounting is applied to four affiliated companies, in consideration of the material impact on the consolidated financial statements.

Investments in three unconsolidated subsidiaries (more than 50% owned) and one affiliate (20% to 50% owned) are carried at cost, rather than on an equity basis, because the aggregate net income and retained earnings of these companies are not material to the consolidated financial statements. Cash dividends from these companies are recorded in the Company's books when they are approved by the shareholders.

**(b) Cash equivalents**

As a result of the adoption of this new accounting standard, the Company changed its definition of cash equivalents and now considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Thus, time deposits with a maturity of more than three months have been excluded and marketable securities with a maturity of three months or less have been included in cash and cash equivalents. A reconciliation between cash in the balance sheet and cash and cash equivalents at January 1, 2000, and December 31, 2000, is presented in Note 14.

**(c) Allowance for doubtful accounts**

Allowances for doubtful accounts, including a specific allowance, are provided at the amount, which is considered sufficient to cover possible losses on collection.

**(d) Marketable and investment securities**

Listed corporate stocks are stated at the lower of cost or market, cost being determined using the average method. Other securities are stated at average cost.

**(e) Inventories**

Until the year ended December 31, 1999, inventories were stated at accumulated acquisition or construction cost for each project. Interest on borrowings relating to acquisition or construction of inventories is excluded from such cost.

Effective the year ended December 31, 2000, the Company and its consolidated subsidiaries have adopted the accounting policy to revalue inventories at fair value, when the fair value is substantially less than cost and the decline in fair value is considered to be permanent.

**(f) Property and equipment**

Property and equipment are carried at cost, less accumulated depreciation.

Depreciation of property and equipment is provided on the straight-line method, except for furniture and fixtures on which depreciation is provided on the declining-balance method, at rates determined based on the estimated useful lives of the respective assets.

Interest on borrowings relating to the construction of new buildings is capitalized as part of the cost of the new buildings during their construction period.

Under the "Law of Land Revaluation", promulgated and revised on March 31, 1998 and 1999, respectively, the Company elected a one-time revaluation of its own-use land to a value based on real estate appraisal information as of December 31, 2000.

The resulting land revaluation excess represents unrealized appreciation of land and is stated, net of income taxes, as a component of shareholders' equity.

There is no effect on the statement of income. The details of the one-time revaluation as of December 31, 2000 were as follows:

Land before revaluation : ¥230,661 million (\$2,007,494 thousand)  
Land after revaluation : ¥234,805 million (\$2,043,566 thousand)  
Land revaluation excess : ¥ 4,144 million (\$ 36,072 thousand)  
(net of income taxes of ¥2,399 million)(\$20,885 thousand)

**(g) Bond and new share issue expenses**

Expenses relating to bond and new share issues are charged to income when incurred.

**(h) Accrued severance indemnities and pension plan**

Employees whose service with the Company and its consolidated subsidiaries is terminated are, under most circumstances, entitled to lump-sum severance indemnities determined by reference to current basic rate of pay, length of service and conditions under which the termination occurs. The minimum payment is an amount based on voluntary retirement.

In addition to the unfunded retirement plan, the Company has a contributory defined benefit pension plan which provides for an annuity payable subsequent to retirement or lump-sum payments under certain conditions for employees who terminate employment after 17 years of service. The annuity is payable commencing at the age of 60 to those employees who retire at or after age of 50 and the lump-sum payments are payable at the time of retirement.

Until the year ended December 31, 1999, the Company and its consolidated subsidiaries provided for 40 percent of the severance indemnities based on voluntary retirement and charged pension premiums to income. In 2000, the Company changed its policy to record the employee severance indemnities at the present value of the projected benefits allotted to the services provided up to the balance sheet date minus fair value of the pension assets, and the consolidated subsidiaries changed their policy to provide for 100 percent of the employee severance indemnities based on voluntary retirement. The liabilities are not funded.

These changes in accounting were made in order to recognize the shortage of liabilities for severance indemnities and pensions when the liabilities were calculated based on the present value of the projected benefits, and were made for better presentation of these liabilities.

The effect of these changes in 2000 was to increase accrued severance indemnities by ¥3,575 million (\$31,121 thousand) and to decrease income before income taxes and minority interest by the same amount.

The Company's policy is to fund amounts as necessary on an actuarial basis to provide assets sufficient to meet the benefits to be paid to the plan members. Assets of the plan are administered by independent trustees.

The assets and unamortized prior service costs of the plan are as follows:

	September 30		
	2000	1999	2000
	(Millions of yen)		(Thousands of U.S. dollars)
Assets .....	¥2,733	¥2,450	\$23,791
Prior service costs .....	1,297	800	11,295

Until the year ended December 31, 1999, the prior service costs were being amortized over a 10 year period for the funding purpose. However, in 2000, the amortization period was shortened to 5 years.

**(i) Translation of foreign currencies**

Assets and liabilities denominated in foreign currencies are translated at year-end exchange rates, excluding those covered by long-term forward exchange contracts, which are translated using the contracted exchange rates.

Assets, liabilities, income and expense items of the consolidated foreign subsidiaries are translated into Japanese yen at related year-end exchange rates. Other components of shareholders' equity are translated into Japanese yen at their historical rates. The resulting exchange differences are presented as foreign currency translation adjustments as a component of shareholders' equity as at December 31, 2000 while they are included in other assets (¥149million) at December 31, 1999 due to the amendment of regulations for presentation of consolidated financial statements in Japan.

**(j) Net income per share**

Computations of net income per share are based on the weighted average number of shares outstanding during each period.

**(k) Free distribution of shares**

Free distributions of shares are allowed under the Japanese Commercial Code. Certain free distributions of shares, including those which have been made by the Company, do not purport to be distributions of earnings and, in Japan, are not taxable to shareholders.

**(l) Income taxes**

Up to 1999, income taxes were provided for amounts currently payable each year.

In accordance with a new accounting standard for income taxes, which is effective for the periods beginning on or after April 1, 1999, deferred tax assets and liabilities have been initially recognized in the consolidated financial statements for the year ended December 31, 2000, with respect to the differences between financial reporting and the tax bases of the assets and liabilities, and have been measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

The effect of this change in accounting was to increase total assets by ¥2,961 million (\$25,777 thousand), total liabilities by ¥3,618 million (\$31,488 thousand), and to increase net income by ¥6,953 million (\$60,514 thousand) for the year ended December 31, 2000. The cumulative effect of this change as of January 1, 2000, amounted to ¥7,628 million (\$66,392 thousand) and has been presented as an addition to accumulated deficit at the beginning of the year.

**3. Marketable Securities and Investment Securities**

Marketable securities and investment securities consist of the following:

	December 31		
	2000	1999	2000
	(Millions of yen)		(Thousands of U.S. dollars)
<b>Marketable securities:</b>			
Corporate stocks .....	¥19,544	¥20,097	\$170,102
Government bonds and corporate bonds .....	33	37	288
Mutual funds .....	364	505	3,176
	¥19,942	¥20,640	\$173,566
<b>Investment securities:</b>			
Corporate stocks .....	¥ 659	¥ 855	\$ 5,738
Government bonds and corporate bonds .....	249	127	2,171
Other equity securities .....	3,008	3,530	26,179
	¥ 3,916	¥ 4,512	\$ 34,089

**4. Inventories**

Inventories consist of the following:

	December 31		
	2000	1999	2000
	(Millions of yen)		(Thousands of U.S. dollars)
<b>Real estate for sale:</b>			
Completed .....	¥ 8,343	¥ 21,465	\$ 72,617
Undeveloped and in process .....	58,070	92,247	505,402
	¥66,414	¥113,712	\$578,020

**5. Intangible assets** Intangible assets consist of the following:

	December 31		
	2000	1999	2000
	(Millions of yen)		(Thousands of U.S. dollars)
Leasehold land .....	¥6,970	¥6,148	\$60,662
Other .....	604	129	5,262
	<u>¥7,574</u>	<u>¥6,277</u>	<u>\$65,925</u>

**6. Long-Term Loans** Long-term loans as at December 31, 1999 included doubtful debt of ¥8,763 million. The debt consisted of loans and interest thereon. In 2000, the doubtful debt of ¥8,763 million, which was fully provided by an allowance for doubtful accounts, was offset against an allowance for doubtful accounts.

**7. Short-Term Borrowings and Long-Term Debt** Short-term borrowings as at December 31, 2000 are unsecured except for ¥69 million (\$604 thousand), that is secured by marketable and investment securities.

The average interest rate for short-term borrowings was 1.33% and 1.17% as at December 31, 2000 and 1999, respectively. The average amount of short-term borrowings outstanding was approximately ¥69,604 million (\$605,785 thousand) and ¥79,983 million during the years ended December 31, 2000 and 1999, respectively.

Long-term debt consists of the following:

	December 31		
	2000	1999	2000
	(Millions of yen)		(Thousands of U.S. dollars)
<b>Secured:</b>			
Banks and insurance companies, principally at 1.55%–5.95%, maturing serially through 2015 .....	¥ 39,879	¥ 22,353	\$ 347,075
<b>Unsecured:</b>			
Banks, principally at 1.50%–3.24%, maturing serially through 2022 .....	173,033	198,466	1,505,952
1.8% yen convertible debentures, due 2004 .....	6,615	6,615	57,571
5.0% yen bonds, due 2000 .....	—	10,000	—
5.2% yen bonds, due 2003 .....	—	10,000	—
2.85% yen bonds, due 2001 .....	10,000	10,000	87,032
3.3% yen bonds, due 2003 .....	9,300	9,900	80,939
3.4% yen bonds, due 2002 .....	10,000	10,000	87,032
2.9% yen bonds, due 2000 .....	—	5,000	—
2.3% yen bonds, due 2001 .....	5,000	5,000	43,516
2.5% yen bonds, due 2002 .....	5,000	5,000	43,516
1.96% yen bonds, due 2003 .....	2,000	—	17,406
2.32% yen bonds, due 2003 .....	3,000	—	26,109
	<u>263,827</u>	<u>292,334</u>	<u>2,296,152</u>
Less-amounts due within one year .....	51,718	61,609	450,114
	<u>¥212,109</u>	<u>¥230,725</u>	<u>\$1,846,038</u>

The 1.8% yen convertible debentures may be surrendered through June 29, 2004 for conversion into shares of common stock at ¥1,428.20 per share as at December 31, 2000 which is subject to adjustments under the terms of the agreement. The debentures are redeemable, at the option of the Company, in whole or in part, at any time on or after August 1, 1988 and prior to maturity, upon not less than 60 day's notice, at prices commencing at 106% and declining to 100% of the principal amount.

The 2.85% yen bonds due in 2001, the 3.3% yen bonds due in 2003, the 3.4% yen bonds due in 2002, the 2.3% yen bonds due 2001, the 2.5% yen bonds due in 2002, the 1.96% yen bonds due 2003 and 2.32% yen bonds due 2003 can be repurchased at any time and at any price in the open market or otherwise. The Company or any subsidiary may, at its option, retain such bonds for its own account, resell or cancel or otherwise deal with them at its discretion. The bonds so purchased, while held by or on behalf of the Company or any subsidiary, shall not entitle the holder to vote at any meetings of the bond holders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the bondholders.

The aggregate annual maturities of long-term debt subsequent to December 31, 2000 are summarized below:

Year ending December 31:	Millions of yen	Thousands of U.S. dollars
2001 .....	¥ 51,718	\$ 450,114
2002 .....	63,439	552,128
2003 .....	50,747	441,667
2004 .....	37,974	330,501
2005 and thereafter .....	59,947	521,739
Total .....	¥263,827	\$2,296,152

Net book values of assets pledged or mortgaged as security for short-term borrowings, long-term debt and long-term accounts payable, other described in Note 8 at December 31, 2000 are as follows:

	Millions of yen	Thousands of U.S. dollars
Land .....	¥45,984	\$400,209
Buildings .....	15,809	137,590
Marketable securities .....	3,498	30,452
Inventories .....	3,736	32,522
Investment securities .....	145	1,267
Treasury stock .....	86	748
Total .....	¥69,260	\$602,790

## **8. Long-Term Accounts Payable, Other**

At December 31, 2000 long-term payables for the purchase of property were included in long-term accounts payable, other and accounts payable, trade in the amount of ¥4,704 million (\$40,946 thousand) and ¥265 million (\$2,306 thousand), respectively. These payables mature from 2001 to 2019 and bear interest at the rate of 3.56%. Property is mortgaged as security for the payables.

## 9. Income Taxes

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax, inhabitants' taxes and enterprise tax, which in the aggregate, resulted in statutory rates of approximately 42.1% for 2000, 47.7% for 1999 and 51.4% for 1998. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation. The effective tax rates reflected in the accompanying consolidated statements of income for the years ended December 31, 1999 and 1998, differ from the statutory rates primarily because of the effect of timing differences in the recognition of certain income and expenses for tax and financial reporting purposes and the effects of permanently non-deductible expenses.

The effective tax rate reflected in the consolidated statement of income for the year ended December 31, 2000, differs from the statutory tax rate for the following reasons:

Statutory tax rate .....	42.1%
Increase (decrease) in income taxes resulting from:	
Reversal of valuation allowance for deferred tax assets .....	(108.1)
Reversal of deferred tax liabilities based on revaluation of assets of subsidiaries .....	(94.7)
Non-deductible expenses .....	1.8
Non-taxable income .....	(2.0)
Other .....	0.1
Effective tax rate .....	<u>(160.8%)</u>

The significant components of deferred tax assets and liabilities as of December 31, 2000, were as follows:

	Millions of yen	Thousands of U.S. dollars
Deferred tax assets:		
Write-down of property and equipment .....	¥ 3,325	\$ 28,942
Write-down of stocks of subsidiaries and affiliated companies .....	2,152	18,731
Allowance for doubtful accounts, in excess of tax deductible portion .....	1,857	16,163
Accrued severance indemnities, in excess of tax deductible portion .....	1,592	13,860
Net operating loss carryforwards .....	1,571	13,674
Write-down of investment securities .....	336	2,929
Other .....	997	8,677
	<u>11,832</u>	<u>102,979</u>
Valuation allowance .....	(8,870)	(77,201)
Total deferred tax assets .....	¥ 2,961	\$ 25,777
Deferred tax liabilities:		
Reversal of deferred tax liabilities based on revaluation of assets of subsidiaries .....	3,591	31,258
Other .....	26	230
Total deferred tax liabilities .....	<u>3,618</u>	<u>31,488</u>
Net deferred tax liabilities .....	¥ 656	\$ 5,710

## 10. Equity in income of affiliated companies and amortization of goodwill on consolidation

In 2000 and 1999, equity in income of affiliated companies of ¥43 million (\$381 thousand) and ¥134 million, respectively, is included in other income and amortization of goodwill on consolidation of ¥78 million (\$681 thousand) and ¥41 million, respectively, is included in selling, general and administrative expenses in conformity with the revised regulations of consolidated financial statements in Japan.

## 11. Shareholders' Equity

The Commercial Code of Japan provides that an amount equal to at least 10% of cash dividends paid and other cash outflows shall be appropriated and set aside as a legal reserve until such reserve equals 25% of the amount of stated capital. The legal reserve is not available for dividends but may be used to eliminate or reduce a deficit following a shareholders' meeting resolution or may be capitalized by a resolution of the Board of Directors.

The Commercial Code of Japan also provides that the entire issue price of shares may be credited to common stock, if such a resolution is passed by the Board of Directors. Up to one half of such issue price may be credited to additional paid-in capital, so long as the common stock is equal to at least the aggregate par value of the shares issued.

The portion of the issue price of new shares, accounted for as common stock, in excess of the par value of such new shares may be distributed, by resolution of the Board of Directors, in the form of free distribution of shares to shareholders.

## 12. Commitments and Contingent Liabilities

At December 31, 2000 the Company was contingently liable for guarantees on loans to its customers and employees amounting to approximately ¥2,359 million (\$20,532 thousand). The Company has rights to various forms of collateral against the above guarantees for customers and employees.

At December 31, 2000 the Company was also contingently liable for guarantees on loans to its three affiliated companies amounting to approximately ¥2,841 million (\$24,730 thousand). The Company has no collateral from these affiliated companies.

As at December 31, 2000 the Company had cancellable and non-cancellable long-term lease agreements, principally for the sub-leasing of office space and buildings.

Rental expenses for the years ended December 31, 2000 and 1999 were ¥9,081 million (\$79,037 thousand) and ¥9,575 million, respectively, which were included in the cost of revenue.

## 13. Subsequent Events

The following appropriations of retained earnings of the Company as at December 31, 2000, were approved at the general meeting of shareholders held on 29th March, 2001.

	Millions of yen	Thousands of U.S. dollars
Cash dividends .....	¥456	\$3,971
Transfer to legal reserve .....	45	397

## 14. Supplemental Cash Flow Information

The following table represents a reconciliation of cash and cash equivalents as of January 1, 2000, and December 31, 2000.

	December 31, 2000	January 1, 2000	December 31, 2000
	(Millions of yen)		(Thousands of U.S. dollars)
Cash .....	¥9,513	¥9,216	\$82,795
Time deposits with a maturity of more than three months .....	(659)	(449)	(5,736)
Cash and cash equivalents .....	<u>¥8,854</u>	<u>¥8,766</u>	<u>\$77,059</u>

## 15. Business Segment Information

The Company operates principally within three industry segments: office and commercial building leasing, real estate sale and other. The office and commercial building leasing segment consists of the leasing of land, buildings, houses, etc. as well as office and building management. The real estate sale segment consists of the sales of residential lots, houses, condominiums, etc. The other segment carries out brokerage, appraisal, consulting and selling agent activities relating to real estate, etc.

The following table presents certain information regarding the Company's industry segments for the years ended December 31, 2000 and 1999:

### Industry Segments:

#### I. Revenue from operations and operating income —

	(Millions of yen)					
	Year ended December 31, 2000					
	Leasing	Real estate sale	Other	Total	Elimination	Consolidated
<b>Revenue from operations</b>						
(1) Customers .....	¥ 39,968	¥ 70,568	¥ 12,144	¥122,681	¥ —	¥122,681
(2) Intersegment .....	377	67	1,862	2,308	(2,308)	—
Total .....	40,346	70,635	14,007	124,989	(2,308)	122,681
<b>Costs and operating expenses .....</b>	24,267	68,912	12,434	105,614	2,988	108,602
<b>Operating income .....</b>	¥ 16,079	¥ 1,723	¥ 1,572	¥ 19,375	(¥ 5,297)	¥ 14,078

#### II. Assets, depreciation and capital expenditures—

	(Millions of yen)				Portion not classified to segments, less elimination (Note 1)	Consolidated
	Year ended December 31, 1999					
	Leasing	Real estate sale	Other	Total		
<b>Assets .....</b>	¥348,110	¥ 73,579	¥ 13,150	¥434,840	¥ 37,295	¥472,135
<b>Depreciation .....</b>	¥ 3,487	¥ 17	¥ 180	¥ 3,685	¥ 130	¥ 3,815
<b>Capital expenditures .....</b>	¥ 2,013	¥ 59	¥ 738	¥ 2,811	¥ 121	¥ 2,933

#### I. Revenue from operations and operating income —

	(Millions of yen)					
	Year ended December 31, 1999					
	Leasing	Real estate sale	Other	Total	Elimination	Consolidated
<b>Revenue from operations</b>						
(1) Customers .....	¥ 37,889	¥ 55,482	¥ 8,106	¥101,478	¥ —	¥101,478
(2) Intersegment .....	260	—	840	1,101	(1,101)	—
Total .....	38,149	55,482	8,947	102,579	(1,101)	101,478
<b>Costs and operating expenses .....</b>	23,786	55,549	8,224	87,559	3,216	90,776
<b>Operating income (loss) .....</b>	¥ 14,363	(¥ 66)	¥ 723	¥ 15,020	(¥ 4,317)	¥ 10,702

#### II. Assets, depreciation and capital expenditures—

	(Millions of yen)				Portion not classified to segments, less elimination (Note 1)	Consolidated
	Year ended December 31, 1999					
	Leasing	Real estate sale	Other	Total		
<b>Assets .....</b>	¥319,524	¥116,570	¥ 11,235	¥447,331	¥ 54,154	¥501,485
<b>Depreciation .....</b>	¥ 3,275	¥ 4	¥ 86	¥ 3,365	¥ 30	¥ 3,396
<b>Capital expenditures .....</b>	¥ 2,379	¥ 12	¥ 54	¥ 2,446	¥ 33	¥ 2,480

**I. Revenue from operations and operating income —**

(Thousands of U.S. dollars)  
Year ended December 31, 2000

	Leasing	Real estate sale	Other	Total	Elimination	Consolidated
<b>Revenue from operations</b>						
(1) Customers .....	\$ 347,856	\$ 614,169	\$ 105,697	\$1,067,723	\$ —	\$1,067,723
(2) Intersegment .....	3,289	589	16,212	20,091	(20,091)	—
Total .....	351,145	614,759	121,910	1,087,815	(20,091)	1,067,723
<b>Costs and operating expenses .....</b>	211,203	599,757	108,223	919,183	26,010	945,194
<b>Operating income .....</b>	\$ 139,942	\$ 15,002	\$ 13,687	\$ 168,631	(\$ 46,102)	\$ 122,528

**II. Assets, depreciation and capital expenditures—**

	Leasing	Real estate sale	Other	Total	Portion not classified to segments, less elimination (Note 1)	Consolidated
<b>Assets .....</b>	\$3,029,682	\$ 640,381	\$ 114,447	\$3,784,511	\$ 324,589	\$4,109,101
<b>Depreciation .....</b>	\$ 30,348	\$ 150	\$ 1,572	\$ 32,071	\$ 1,137	\$ 33,209
<b>Capital expenditures .....</b>	\$ 17,519	\$ 521	\$ 6,429	\$ 24,470	\$ 1,060	\$ 25,531

Note: 1. Assets not classified into segments totaled ¥38,720 million (\$336,994 thousand) and ¥54,352 million before elimination, at December 31, 2000 and 1999, respectively. The assets consist mainly of cash, marketable securities, investment securities and other assets for administration departments of the consolidated companies to the consolidated financial statements.

2. As discussed in Note 2 (l) to the consolidated financial statements, the Company adopted tax-effect accounting for the first time for the year ended December 31, 2000. The effect of this adoption was to increase total assets by ¥4 million (\$38 thousand) under "Leasing", by ¥246 million (\$2,144 thousand) under "Other", and ¥2,711 million (\$23,594 thousand) under "Elimination" for the business segment information.

3. The accounting changes described in Note 2 (h) to the consolidated financial statements have no effect on the disclosures of business segment information.

Information regarding geographic areas and overseas sales is not presented since the sales of the consolidated foreign subsidiaries are less than 10% of the consolidated sales.

## REPORT OF THE INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the Board of Directors  
Tokyo Tatemono Co., Ltd.

We have audited the accompanying consolidated balance sheets of Tokyo Tatemono Co., Ltd. and its consolidated subsidiaries as at December 31, 2000 and 1999 and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2000, expressed in Japanese yen. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the aforementioned consolidated financial statements, expressed in yen present fairly, in all material respects, the financial position of Tokyo Tatemono Co., Ltd. and its consolidated subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles and practices generally accepted in Japan.

As discussed in Note 2 (h) to the consolidated financial statements, the Company and its consolidated domestic subsidiaries changed their method of accounting for employee severance indemnities in 2000.

The United States dollar amounts shown in the aforementioned financial statements have been translated solely for convenience. We have reviewed this translation and, in our opinion, the aforementioned financial statements expressed in Japanese yen have been translated into United States dollars on the basis described in Note 1.



Sukenori Mori  
Certified Public Accountant



Tsuneo Kobayashi  
Certified Public Accountant

Tokyo, Japan  
March 29, 2001

**CONDENSED NON-CONSOLIDATED BALANCE SHEETS**

	Year ended December 31		
	2000	1999	2000
	(Millions of yen)		(Thousands of U.S. dollars)
Assets:			
Current assets .....	¥ 95,180	¥145,505	\$ 828,374
Investments .....	32,250	55,394	280,686
Property and equipment .....	295,886	259,392	2,575,167
Intangible and other assets .....	7,211	6,112	62,766
	<b>¥430,529</b>	<b>¥466,405</b>	<b>\$3,746,995</b>
Liabilities and shareholders' equity:			
Current liabilities .....	¥107,145	¥115,177	\$ 932,513
Long-term liabilities .....	236,040	265,851	2,054,308
Shareholders' equity .....	87,343	85,376	760,173
	<b>¥430,529</b>	<b>¥466,405</b>	<b>\$3,746,995</b>

**CONDENSED NON-CONSOLIDATED STATEMENTS OF OPERATIONS**

	Year ended December 31			
	2000	1999	1998	2000
	(Millions of yen)			(Thousands of U.S. dollars)
Revenue from operations .....	¥105,950	¥92,603	¥76,524	\$922,114
Operating income .....	11,528	9,640	9,832	100,334
(Loss) income before income taxes .....	(1,070)	1,128	1,096	(9,313)
Net (loss) income .....	(3,861)	1,120	1,088	(33,603)
		Yen		U.S. dollars
Net (loss) income per share .....	(¥ 16.92)	¥ 4.91	¥ 4.77	(\$ 0.15)

Note: 1. Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of ¥114.90=US\$1.

2. Employees whose service with the Company is terminated are, under most circumstances, entitled to lump-sum severance indemnities determined by reference to current basic rate of pay, length of service and conditions under which the termination occurs. The minimum payment is an amount based on voluntary retirement.

In addition to the unfunded retirement plan, the Company has a contributory defined benefit pension plan which provides for an annuity payable subsequent to retirement or lump-sum payments under certain conditions for employees who terminate employment after 17 years of service. The annuity is payable commencing at the age of 60 to those employees who retire at or after age of 50 and the lump-sum payments are payable at the time of retirement.

Until the year ended December 31, 1999, the Company provided for 40 percent of the severance indemnities based on voluntary retirement and charged pension premiums to income. In 2000, the Company changed its policy to record the employee severance indemnities at the present value of the projected benefits allotted to the services provided up to the balance sheet date minus fair value of the pension assets.

The effect of these changes in 2000 was to increase accrued severance indemnities by ¥3,319 million (\$28,892 thousand) and to decrease income before income taxes by the same amount.

The assets and unamortised prior service costs of the plan are as follows:

	September 30		
	2000	1999	2000
	(Millions of yen)		(Thousands of U.S. dollars)
Assets .....	¥2,733	¥2,450	\$23,791
Prior service costs .....	1,297	800	11,295

Until the year ended December 31, 1999, the prior service costs were being amortized over a 10 year period for the funding purpose. However, in 2000, the amortization period was shortened to 5 years.

## REPORT OF THE INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON THE CONDENSED NON-CONSOLIDATED FINANCIAL STATEMENTS

To the Board of Directors  
Tokyo Tatemono Co., Ltd.

We have audited, in accordance with auditing standards, procedures and practices generally accepted and applied in Japan, the non-consolidated balance sheets of Tokyo Tatemono Co., Ltd. as at December 31, 2000 and 1999, and the related non-consolidated statements of income for each of the three years in the period ended December 31, 2000 (not presented herein); and in our reports dated March 29, 2001 and March 30, 2000 and 1999, we expressed unqualified opinions on those financial statements.

In our opinion, the information set forth in the accompanying condensed non-consolidated financial statements, when read in conjunction with the non-consolidated financial statements from which they have been derived, are fairly stated in all material respects in relation thereto.

As discussed in Note 2 to the condensed non-consolidated statements of income, the Company changed its method of accounting for employee severance indemnities in 2000.



Sukenori Mori  
Certified Public Accountant



Tsuneo Kobayashi  
Certified Public Accountant

Tokyo, Japan  
March 29, 2001

## BOARD OF DIRECTORS

### President and Chief Executive Officer

Keisuke Minami

### Senior Managing Directors

Yuji Suwa

Katsumasa Inoue

### Managing Directors

Hiroshi Ishikawa

Makoto Hatanaka

Setsuya Morita

Takahisa Hayashi

Kazushige Tsuboi

### Directors

Hiroshi Watanabe

Kazuo Eiki

Shoji Kaneko

Hajime Ogawa

Hisashi Gomyo

Mitsuru Fujii

### Standing Auditors

Setsuo Ashida

Masatoshi Kanazawa

Hideki Ono

### Auditor

Toshiaki Fujii

(as at May 31, 2001)

## CORPORATE DATA

### Tokyo Tatemono Co., Ltd.

#### Date of Establishment

October 1, 1896

#### Capital

¥45,623 million

#### Number of Employees

1,153

#### Number of Shareholders

20,750

(as at December 31, 2000)

#### Head Office

9-9, Yaesu 1-chome, Chuo-ku,

Tokyo 103-8285 Japan

Tel. (03) 3274-0111

Fax. (03) 3274-0256

#### Branches

##### Osaka Branch

7-12, Kitahama 3-chome, Chuo-ku,

Osaka 541-0041 Japan

Tel. (06) 6202-0111

Fax. (06) 6202-0298

##### Sapporo Branch

2-6, Kitananajyonishi 1-chome, Kita-

ku, Sapporo, Hokkaido 060-0807 Japan

Tel. (011) 717-0111

Fax. (011) 717-5330

#### Consolidated Subsidiaries

##### Tokyo Tatemono Real Estate Sales Co., Ltd.

4-14, Yaesu 1-chome, Chuo-ku,

Tokyo 103-0028 Japan

Tel. (03) 3231-0170

Fax. (03) 3231-0218

##### Totate International Bldg. Co., Ltd.

12-19, Shibuya 2-chome, Shibuya-ku,

Tokyo 150-0002 Japan

Tel. (03) 3400-0373

Fax. (03) 3499-6341

##### Tokyo Tatemono (U.S.A.), Inc.

333 South Hope St., Suite 2660,

Los Angeles, CA 90071 U.S.A.

Tel. (213) 626-1102

Fax. (213) 626-1713

##### T.T.500 West Monroe Corporation c/o

Tokyo Tatemono (U.S.A.), Inc,

333 South Hope St., Suite 2660,

Los Angeles, CA 90071 U.S.A.

Tel. (213) 626-1102

Fax. (213) 626-1713

##### Tokyo Tatemono Resort Co., Ltd.

4-12, Yaesu 1-chome, Chuo-ku,

Tokyo 103-0028 Japan

Tel. (03) 3274-0865

Fax. (03) 3275-1440

##### Tokyo Tatemono Property Management Co., Ltd.

9-8, Yaesu 1-chome, Chuo-ku,

Tokyo 103-0028 Japan

Tel. (03) 3272-3944

Fax. (03) 3272-4011

##### Tokyo Tatemono Techno-build Co., Ltd.

9-9, Yaesu 1-chome, Chuo-ku,

Tokyo 103-0028 Japan

Tel. (03) 3274-0134

Fax. (03) 3274-0290

##### Hatoriko Highland Resina Forest Co., Ltd.

39, Takatoya, Oaza Hatori, Tenei-mura,

Iwase-gun, Fukushima 962-0623 Japan

Tel. (0248) 85-2525

Fax. (0248) 85-2526

##### Tokyo Tatemono Finance Co., Ltd.

9-9, Yaesu 1-chome, Chuo-ku,

Tokyo 103-0028 Japan

Tel. (03) 3274-2394

Fax. (03) 3274-0257

##### Tokyo Tatemono Amenity Support Co., Ltd.

4-14, Yaesu 1-chome, Chuo-ku,

Tokyo 103-8280 Japan

Tel. (03) 3273-0111

Fax. (03) 3273-0366

##### Informa Co., Ltd.

3-13, Nihonbashi 1-chome, Chuo-ku,

Tokyo 103-0027 Japan

Tel. (03) 3517-6371

Fax. (03) 3517-5971

##### Hotness Co., Ltd.

3-13, Nihonbashi 1-chome, Chuo-ku,

Tokyo 103-0027 Japan

Tel. (03) 3281-3636

Fax. (03) 3517-5970

##### Totate Building Co., Ltd.

9-9, Yaesu 1-chome, Chuo-ku,

Tokyo 103-0028 Japan

Tel. (03) 3274-2305

Fax. (03) 3274-0013

##### Kyodo Building Management Co., Ltd.

7-12, Kitahama 3-chome, Chuo-ku,

Osaka 541-0041 Japan

Tel. (06) 6201-1877

Fax. (06) 6201-1851

#### Affiliated Companies

##### Tokyo Real Estate Management Co., Ltd.

4-14, Yaesu 1-chome, Chuo-ku,

Tokyo 103-0028 Japan

Tel. (03) 3243-1831

Fax. (03) 3241-0394

##### Tokyo Building Service Co., Ltd.

3-18, Nihonbashi muromachi 4-chome,

Chuo-ku, Tokyo 103-0022 Japan

Tel. (03) 3279-8555

Fax. (03) 3279-8556

##### Shinjuku Center Building Management Co., Ltd.

25-1, Nishishinjuku 1-chome, Shinjuku-ku,

Tokyo 163-0604 Japan

Tel. (03) 3345-1281

Fax. (03) 3345-1286

##### M.R.H. DEVELOPMENT Co., Ltd.

8 Kaba Aye Pagoda Road,

Ward No. 10, Mayangone Township,

Yangon, Myanmar

Tel. (95-1) 650651

Fax. (95-1) 650630

**<http://www.tatemono.com>**

Tokyo Tatemono Co., Ltd.

9-9, Yaesu 1-chome, Chuo-ku, Tokyo 103-8285 Japan

Tel. (03) 3274-0111