

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

Fiscal Year Ended December 31, 2002

Tokyo Tatemono Co., Ltd.

## MANAGEMENT REVIEW

### Operating Environment

In fiscal 2002, the Japanese economy was still in a severe condition in which corporate investment was restricted due to an uncertain future economic outlook as a result of deflation and reduced personal consumption due to severe employment, although there was some economic improvement arising from inventory adjustments and cost reductions.

In the real estate business, the building market deteriorated due to the worsening supply / demand balance caused by the decrease in office space demand and the increase in office space provided by the construction of large office buildings, resulting in the deterioration of the office space occupation rate. In the residential housing market, the Company (Tokyo Tatemono Co., Ltd. and its consolidated companies) maintained good sales mainly of condominiums in large-scale skyscrapers in the center of Tokyo, as a result of the current trend for people to work to the center of the Metropolitan area. However, customers became more choosy about the location and good product planning. Thus, the business environment surrounding the real estate business points to a continued uncertain future.

### Result

In the above business circumstances, the Company decided to take a customer-oriented business approach in order to be able to swiftly react to drastic changes in the market and developed aggressive operating strategies.

As a result, total revenue from operations in fiscal 2002 increased by 16.0% to ¥122,404 million (US\$1,025,459 thousand), compared with ¥105,515 million in fiscal 2001, and operating income in fiscal 2002 rose 20.3% to ¥17,693 million (US\$148,226 thousand), compared with ¥14,702 million in fiscal 2001. In addition, net income in fiscal 2002 increased by 71.1% to ¥6,422 million (US\$53,807 thousand), compared with ¥3,753 million in fiscal 2001, although a decline in the securities market resulted in losses on sale and a write-down of securities.

### Outlook

Looking into the future, the Japanese economy looks set to become even more settled, with future prospect of a decrease in export sales due to the slowdown in the U.S. economy, a continued slump in personal consumption due to the severe employment environment and pressure on personal income, and weakening corporate investment.

In the real estate business, the building market is sharing a decline due to the decrease in office space demand and the increase in supply of the large-scale office space arising from the construction of large buildings. In the residential housing market, there are some bright prospects due to the effect of the change in Gift Tax and Inheritance Tax. However, the residential housing market is becoming more and more competitive due to continued excess supply, which is lead to a much more severe business environment in the future.

### Foundation

In these business circumstances, the Company intends to do its best to achieve the maximum possible increase in the value of the Tokyo Tatemono Group as a whole, by pursuing profitability in the office building leasing and real estate sales businesses, the Company's main businesses. In addition, the Company aims to expand into a new business area by developing real estate securitization and promoting business activities to cope with the rapidly changing environment.

## FINANCIAL REVIEW

### Revenue and Income

#### *Office and Commercial Building Leasing*

In fiscal 2002, in the office and commercial building leasing business, the Company endeavored to improve its profitability and its operation by pursuing renewal construction, which maintained the Company's competitive position for existing leased buildings. In addition, the Company took positive action to seek new orders in the asset and property management business, by investing funds into profitable buildings using a Special Purpose Company, and selling a part of its own buildings to improve asset usage efficiency.

As a result, revenue from the leasing business in fiscal 2002 increased by 0.7% to ¥38,146 million (US\$319,578 thousand), compared with ¥37,885 million in the previous year. Operating income from the leasing business in fiscal 2002 dropped by 5.1% to ¥13,414 million (US\$112,383 thousand), compared with ¥14,134 million in the previous year.

#### *Real Estate Sales*

The Company's goal in the real estate sales business is to ascertain a "Safety", "Healthy" and "Comfortable" housing environment. In order to achieve this purpose, the Company has acquired land in its good location, has performed thorough products planning and has provided good administration services after the property has been occupied. In fiscal 2002, the Company received the proceeds from the sale of "Tokyo Twin Parks" (Minato-ku, Tokyo), "Latelier Kichijoji" (Mitaka City, Tokyo) and "Forest City Senrioka" (Suita City, Osaka), all condominiums, and "Vert Court Azamino" (Yokohama City), housing units. In addition, the Company developed high-quality rental condominiums in the center of the Metropolitan area and sold them to investors.

As a result, real estate business sales in fiscal 2002 increased by 27.7% to ¥65,876 million (US\$551,890 thousand), compared with ¥51,590 million in the previous year. Operating income from the real estate business in fiscal 2002 increased by 109.9% to ¥4,934 million (US\$41,343 thousand), compared with ¥2,351 million in the previous year.

#### *Related Services*

In fiscal 2002, the Company aggressively operated its related services businesses by putting into practice its fully experienced know-how in the areas of brokerage, appraisal and consulting in the real estate marketing business, resort development and leisure hotel business, reform business, media complex business, and real estate securitization business.

As a result, these operations in fiscal 2002 brought in revenue of ¥18,381 million (US\$153,991 thousand), a 14.6% increase over the ¥16,039 million of the previous year. Operating income from related service operations in fiscal 2002 increased by 18.3% to ¥3,535 million (US\$29,617 thousand), compared with ¥2,988 million in the previous year.

### Analysis of Income

Due mainly to increase in revenue in the real estate sales business, revenue in fiscal 2002 increased by 16.0% compared with that of the previous year. In addition, operating income in fiscal 2002 increased by 20.3% due mainly to the increase in real estate sales and a decrease in selling, general and administrative expenses. Net income in fiscal 2002 increased by 71.1% to 6,422 million (US\$53,807 thousand) due mainly to a decrease in the interest expense as well as losses on sale and write-down of securities.

### Financial Position

In fiscal 2002, total assets increased ¥6,775 million (US\$56,765 thousand) or 1.4% to ¥484,007 million (US\$4,054,856 thousand), resulting from an increase in current assets of ¥9,989 million (US\$83,685 thousand) and a decrease in assets other than current assets of ¥3,213 million (US\$26,920 thousand).

Debt, including short-term borrowings, increased ¥1,013 million (US\$8,494 thousand) or 0.3% to ¥307,554 million (US\$2,576,586 thousand).

Shareholders' equity increased ¥2,022 million (US\$16,946 thousand) or 2.3% to ¥91,628 million (US\$767,633 thousand), resulting from the addition of current net income and a decrease due mainly to the payment of cash dividends and the purchase of treasury stocks.

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

| ASSETS  | December 31       |                 |                             |
|---|-------------------|-----------------|-----------------------------|
|   | 2002              | 2001            | 2002                        |
|   | (Millions of yen) |                 | (Thousands of U.S. dollars) |
| <b>Current assets:</b>  |                   |                 |                             |
| Cash (Note 14) .....  | ¥ 9,912           | ¥ 5,742         | \$ 83,040                   |
| Marketable securities (Note 3) .....                            | —                 | 80              | —                           |
| Accounts receivable, trade .....                                | 5,948             | 3,590           | 49,835                      |
| Inventories (Notes 4 and 7) .....                               | 80,922            | 75,556          | 677,943                     |
| Deferred income taxes (Note 10) .....                           | 585               | 868             | 4,907                       |
| Other current assets .....                                      | 3,813             | 5,323           | 31,947                      |
| Allowance for doubtful accounts .....                           | (46)              | (15)            | (391)                       |
| <b>Total current assets .....</b>                               | <b>101,135</b>    | <b>91,146</b>   | <b>847,281</b>              |
| <b>Investments:</b>   |                   |                 |                             |
| Investment securities (Notes 3 and 7) .....                     | 33,330            | 34,284          | 279,230                     |
| Investments in unconsolidated subsidiaries and affiliates ..... | 2,801             | 3,171           | 23,466                      |
| Long-term loans (Note 6) .....                                  | 1,157             | 1,153           | 9,700                       |
| Guarantee deposits paid .....                                   | 9,464             | 8,673           | 79,291                      |
| Deferred income taxes (Note 10) .....                           | 449               | 309             | 3,765                       |
| Investments in consortia .....                                  | 6,939             | 1,427           | 58,133                      |
| Other investments .....   | 2,632             | 4,179           | 22,054                      |
| Allowance for doubtful accounts .....                           | (1,621)           | (1,817)         | (13,584)                    |
| <b>Total investments .....</b>                                  | <b>55,153</b>     | <b>51,381</b>   | <b>462,057</b>              |
| <b>Property and equipment (Note 7):</b>                         |                   |                 |                             |
| Land .....  | 252,690           | 257,961         | 2,116,952                   |
| Buildings .....   | 116,350           | 115,603         | 974,741                     |
| Machinery and equipment .....                                   | 767               | 803             | 6,433                       |
| Furniture and fixtures .....                                    | 1,823             | 1,808           | 15,279                      |
| Construction in progress .....                                  | 1,876             | 1,841           | 15,719                      |
| <b>Total property and equipment .....</b>                       | <b>373,508</b>    | <b>378,018</b>  | <b>3,129,126</b>            |
| Less accumulated depreciation .....                             | (53,484)          | (50,981)        | (448,076)                   |
| <b>Net property and equipment .....</b>                         | <b>320,023</b>    | <b>327,037</b>  | <b>2,681,050</b>            |
| <b>Intangible and other assets (Note 5) .....</b>               | <b>7,695</b>      | <b>7,667</b>    | <b>64,466</b>               |
| <b>Total assets .....</b>                                       | <b>¥484,007</b>   | <b>¥477,232</b> | <b>\$4,054,856</b>          |

The accompanying notes are an integral part of these statements.

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

|   | December 31       |                 |                             |
|---|-------------------|-----------------|-----------------------------|
|   | 2002              | 2001            | 2002                        |
|   | (Millions of yen) |                 | (Thousands of U.S. dollars) |
| <b>Current liabilities:</b>   |                   |                 |                             |
| Short-term borrowings (Note 7) .....                                      | ¥ 38,380          | ¥ 37,218        | \$ 321,534                  |
| Current portion of long-term debt (Note 7) .....                          | 70,159            | 68,610          | 587,774                     |
| Accounts payable, trade (Note 8) .....                                    | 7,987             | 6,103           | 66,918                      |
| Accrued income taxes (Note 10) .....                                      | 465               | 479             | 3,896                       |
| Accrued expenses .....  | 4,026             | 3,915           | 33,732                      |
| Advances received .....   | 8,511             | 8,329           | 71,304                      |
| Deferred income taxes (Note 10) .....                                     | 3                 | 8               | 26                          |
| Other current liabilities .....   | 7,156             | 6,242           | 59,953                      |
| <b>Total current liabilities</b> .....                                    | <b>136,689</b>    | <b>130,906</b>  | <b>1,145,141</b>            |
| <b>Long-term liabilities:</b>   |                   |                 |                             |
| Long-term debt (Note 7) .....   | 199,014           | 200,711         | 1,667,276                   |
| Accounts payable, other (Notes 7 and 8) .....                             | 4,174             | 4,439           | 34,973                      |
| Guarantee deposits received .....   | 32,643            | 32,848          | 273,480                     |
| Deferred income taxes (Note 10) .....                                     | 4,628             | 5,054           | 38,773                      |
| Deferred income taxes on land revaluation (Note 2 (f)) .....              | 3,595             | 1,892           | 30,124                      |
| Accrued severance indemnities (Note 9) .....                              | 4,350             | 4,579           | 36,447                      |
| Other .....   | 6,526             | 6,584           | 54,675                      |
| <b>Total liabilities</b> .....  | <b>254,933</b>    | <b>256,111</b>  | <b>2,135,751</b>            |
| <b>Minority interest</b> .....  | <b>391,623</b>    | <b>387,018</b>  | <b>3,280,892</b>            |
| <b>Minority interest</b> .....  | <b>755</b>        | <b>608</b>      | <b>6,330</b>                |
| <b>Shareholders' equity (Note 11):</b>                                    |                   |                 |                             |
| Common stock, no par value—   |                   |                 |                             |
| Authorized — 800,000,000 shares   |                   |                 |                             |
| Issued — 228,141,634 shares .....   | 45,623            | 45,623          | 382,217                     |
| Additional paid-in capital .....  | 38,229            | 38,229          | 320,275                     |
| Land revaluation excess (Note 2 (f)) .....                                | 4,945             | 2,603           | 41,430                      |
| Net unrealized gain on available-for-sale securities (Note 2 (d)) .....   | 2,103             | 2,771           | 17,623                      |
| Retained earnings .....   | 3,253             | 344             | 27,255                      |
| Foreign currency translation adjustments .....                            | (12)              | 121             | (103)                       |
| Less: Treasury stock, at cost .....                                       | (2,514)           | (87)            | (21,067)                    |
| <b>Total shareholders' equity</b> .....                                   | <b>91,628</b>     | <b>89,605</b>   | <b>767,633</b>              |
| Commitments and contingent liabilities (Note 12)                          |                   |                 |                             |
| <b>Total liabilities, minority interest and shareholders' equity</b> .... | <b>¥484,007</b>   | <b>¥477,232</b> | <b>\$4,054,856</b>          |

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

|   | Year ended December 31 |                |                             |
|---|------------------------|----------------|-----------------------------|
|   | 2002                   | 2001           | 2002                        |
|   | (Millions of yen)      |                | (Thousands of U.S. dollars) |
| <b>Revenue from operations:</b>                               |                        |                |                             |
| Leasing of office and commercial buildings .....              | ¥ 38,146               | ¥ 37,885       | \$ 319,578                  |
| Sale of real estate .....                                     | 65,876                 | 51,590         | 551,890                     |
| Related services .....  | 18,381                 | 16,039         | 153,991                     |
|   | <b>122,404</b>         | <b>105,515</b> | <b>1,025,459</b>            |
| <b>Cost of revenue:</b>                                       |                        |                |                             |
| Leasing of office and commercial buildings .....              | 24,911                 | 23,798         | 208,699                     |
| Sale of real estate .....                                     | 53,762                 | 41,395         | 450,403                     |
| Related services .....  | 10,185                 | 9,153          | 85,334                      |
|   | <b>88,859</b>          | <b>74,347</b>  | <b>744,437</b>              |
| <b>Gross profit</b> .....                                     | <b>33,544</b>          | <b>31,167</b>  | <b>281,022</b>              |
| <b>Selling, general and administrative expenses</b> .....     | <b>15,851</b>          | <b>16,464</b>  | <b>132,795</b>              |
| <b>Operating income</b> .....                                 | <b>17,693</b>          | <b>14,702</b>  | <b>148,226</b>              |
| <b>Other income (expenses):</b>                               |                        |                |                             |
| Interest and dividend income .....                            | 335                    | 1,517          | 2,806                       |
| Interest expense .....  | (6,974)                | (7,392)        | (58,430)                    |
| (Loss) gain on sale of property and equipment .....           | (919)                  | 569            | (7,700)                     |
| Loss on sale of marketable and investment securities .....    | (163)                  | (1,338)        | (1,366)                     |
| Write-down of marketable securities .....                     | (499)                  | (1,392)        | (4,183)                     |
| Write-down of land and buildings .....                        | —                      | (739)          | —                           |
| Reversal of provision for losses on doubtful accounts .....   | 164                    | —              | 1,375                       |
| Equity in income of affiliated companies .....                | 90                     | 218            | 754                         |
| Other, net .....  | 13                     | (242)          | 108                         |
|   | <b>(7,953)</b>         | <b>(8,798)</b> | <b>(66,635)</b>             |
| <b>Income before income taxes and minority interest</b> ..... | <b>9,739</b>           | <b>5,904</b>   | <b>81,591</b>               |
| <b>Income taxes</b> (Note 10)                                 |                        |                |                             |
| Current .....   | 1,203                  | 616            | 10,083                      |
| Deferred .....  | 1,915                  | 1,383          | 16,046                      |
|   | <b>3,119</b>           | <b>1,999</b>   | <b>26,130</b>               |
| Income before minority interest .....                         | <b>6,620</b>           | <b>3,904</b>   | <b>55,461</b>               |
| Minority interest .....                                       | (197)                  | (150)          | (1,653)                     |
| <b>Net income</b> .....                                       | <b>¥ 6,422</b>         | <b>¥ 3,753</b> | <b>\$ 53,807</b>            |
|   | Yen                    |                | U.S. dollars                |
| <b>Per share of common stock:</b>                             |                        |                |                             |
| <b>Net income:</b>  |                        |                |                             |
| Basic .....   | ¥28.83                 | ¥16.49         | \$0.24                      |
| Assuming dilution .....                                       | 28.54                  | 16.46          | 0.24                        |
| Cash dividends applicable to the year .....                   | 6.00                   | 5.00           | 0.05                        |

The accompanying notes are an integral part of these statements.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

|  | Common<br>stock | Additional<br>paid-in<br>capital | Land<br>revaluation<br>excess | Unrealized<br>gain on<br>available-<br>for-sale<br>securities | Retained<br>earnings<br>(Accumulated<br>deficit) | Foreign<br>currency<br>translation<br>adjustments | Treasury<br>stock | Total<br>shareholders'<br>equity |
|--|-----------------|----------------------------------|-------------------------------|---|--|---|-------------------|----------------------------------|
| (Millions of yen)  |                 |                                  |                               |   |  |   |                   |                                  |
| <b>Balance at December 31, 2000</b> .....  | ¥45,623         | ¥38,229                          | ¥2,399                        | ¥ —   | (¥ 2,750)  | (¥ 39)  | (¥ 86)            | ¥83,376                          |
| Net income .....   | —               | —                                | —                             | —   | 3,753  | —   | —                 | 3,753                            |
| Cash dividends paid .....  | —               | —                                | —                             | —   | (455)  | —   | —                 | (455)                            |
| Transfer to land revaluation excess .....  | —               | —                                | 203                           | —   | (203)  | —   | —                 | —                                |
| Net increase in unrealized gain on<br>available-for-sale securities,<br>net of deferred income taxes .....   | —               | —                                | —                             | 2,771   | —  | —   | —                 | 2,771                            |
| Net change in foreign currency<br>translation adjustments .....  | —               | —                                | —                             | —   | —  | 160   | —                 | 160                              |
| Increase in treasury stock .....   | —               | —                                | —                             | —   | —  | —   | (1)               | (1)                              |
| <b>Balance at December 31, 2001</b> .....  | 45,623          | 38,229                           | 2,603                         | 2,771   | 344  | 121   | (87)              | 89,605                           |
| Net income .....   | —               | —                                | —                             | —   | 6,422  | —   | —                 | 6,422                            |
| Cash dividends paid .....  | —               | —                                | —                             | —   | (1,138)  | —   | —                 | (1,138)                          |
| Transfer to land revaluation excess .....  | —               | —                                | 2,342                         | —   | (2,342)  | —   | —                 | —                                |
| Net decrease in unrealized gain on<br>available-for-sale securities,<br>net of deferred income taxes .....   | —               | —                                | —                             | (668)   | —  | —   | —                 | (668)                            |
| Net change in foreign currency<br>translation adjustments .....  | —               | —                                | —                             | —   | —  | (133)   | —                 | (133)                            |
| Increase in treasury stock .....   | —               | —                                | —                             | —   | —  | —   | (2,427)           | (2,427)                          |
| Transfer to minority interest<br>due to increase in consolidated<br>subsidiaries and affiliated companies<br>accounted for under the equity method ... | —               | —                                | —                             | —   | (33)   | —   | —                 | (33)                             |
| <b>Balance at December 31, 2002</b> .....  | ¥45,623         | ¥38,229                          | ¥ 4,945                       | ¥ 2,103   | ¥ 3,253  | (¥ 12)  | (¥ 2,514)         | ¥91,628                          |
| (Thousands of U.S. dollars)  |                 |                                  |                               |   |  |   |                   |                                  |
| <b>Balance at December 31, 2001</b> .....  | \$382,217       | \$320,275                        | \$21,807                      | \$23,220  | \$ 2,886   | \$ 1,015  | (\$ 736)          | \$750,687                        |
| Net income .....   | —               | —                                | —                             | —   | 53,807   | —   | —                 | 53,807                           |
| Cash dividends paid .....  | —               | —                                | —                             | —   | (9,536)  | —   | —                 | (9,536)                          |
| Transfer to land revaluation excess .....  | —               | —                                | 19,623                        | —   | (19,623)   | —   | —                 | —                                |
| Net decrease in unrealized gain on<br>available-for-sale securities,<br>net of deferred income taxes .....   | —               | —                                | —                             | (5,596)   | —  | —   | —                 | (5,596)                          |
| Net change in foreign currency<br>translation adjustments .....  | —               | —                                | —                             | —   | —  | (1,118)   | —                 | (1,118)                          |
| Increase in treasury stock .....   | —               | —                                | —                             | —   | —  | —   | (20,331)          | (20,331)                         |
| Transfer to minority interest<br>due to increase in consolidated<br>subsidiaries and affiliated companies<br>accounted for under the equity method ... | —               | —                                | —                             | —   | (278)  | —   | —                 | (278)                            |
| <b>Balance at December 31, 2002</b> .....  | \$382,217       | \$320,275                        | \$41,430                      | \$17,623  | \$27,255   | (\$ 103)  | (\$21,067)        | \$767,633                        |

The accompanying notes are an integral part of these statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | Year ended December 31 |                |                             |
|---|------------------------|----------------|-----------------------------|
|   | 2002                   | 2001           | 2002                        |
|   | (Millions of yen)      |                | (Thousands of U.S. dollars) |
| <b>Operating activities:</b>  |                        |                |                             |
| <b>Income before income taxes and minority interest</b> .....                               | ¥ 9,739                | ¥ 5,904        | \$ 81,591                   |
| Depreciation and amortization .....   | 3,497                  | 3,636          | 29,304                      |
| Equity in income of affiliated companies .....  | (90)                   | (218)          | (754)                       |
| (Reversal of) provision for losses on doubtful accounts .....                               | (164)                  | 420            | (1,380)                     |
| Reversal of severance indemnities, less payments .....                                      | (229)                  | (175)          | (1,920)                     |
| (Reversal of) reserve for bonuses to employees .....  | (14)                   | 40             | (124)                       |
| Interest and dividend income .....  | (335)                  | (1,517)        | (2,806)                     |
| Interest expense .....  | 6,974                  | 7,392          | 58,430                      |
| Write-down of marketable securities .....   | 499                    | 1,392          | 4,183                       |
| Loss on sale of marketable and investment securities .....                                  | 163                    | 1,338          | 1,366                       |
| Loss (gain) on sale of property and equipment .....   | 919                    | (569)          | 7,700                       |
| Write-down of land and buildings .....  | —                      | 739            | —                           |
| (Increase) decrease in accounts receivable, trade .....                                     | (2,349)                | 2,407          | (19,683)                    |
| Increase in inventories .....   | (3,423)                | (12,289)       | (28,678)                    |
| (Increase) decrease in guarantee deposits paid .....  | (312)                  | 1,473          | (2,619)                     |
| Increase in accounts payable, trade .....   | 191                    | 82             | 1,601                       |
| Decrease in guarantee deposits received .....   | (211)                  | (3,538)        | (1,773)                     |
| Other .....   | 2,130                  | 2,672          | 17,848                      |
| <b>Subtotal</b> .....   | <b>16,983</b>          | <b>9,190</b>   | <b>142,285</b>              |
| Interest and dividends received .....   | 643                    | 1,225          | 5,393                       |
| Interest paid .....   | (6,943)                | (7,380)        | (58,169)                    |
| Income taxes paid .....   | (1,217)                | (189)          | (10,196)                    |
| <b>Net cash provided by operating activities</b> .....                                      | <b>9,467</b>           | <b>2,844</b>   | <b>79,311</b>               |
| <b>Investing activities:</b>  |                        |                |                             |
| Proceeds from sale of marketable and investment securities .....                            | 3,835                  | 2,270          | 32,128                      |
| Payment for purchase of marketable and investment securities .....                          | (4,773)                | (11,060)       | (39,992)                    |
| Proceeds from sale of property and equipment .....  | 7,731                  | 10,272         | 64,771                      |
| Payment for purchase of property and equipment .....  | (5,291)                | (5,455)        | (44,329)                    |
| Investments in consortia .....  | (9,279)                | (11,653)       | (77,737)                    |
| Sale of investments in consortia .....  | 3,766                  | 10,226         | 31,558                      |
| Increase in long-term loans .....   | (41)                   | (25)           | (348)                       |
| Collection of long-term loans .....   | 37                     | 55             | 312                         |
| Other .....   | 1,333                  | 3,249          | 11,167                      |
| <b>Net cash used in investing activities</b> .....  | <b>(2,681)</b>         | <b>(2,120)</b> | <b>(22,468)</b>             |
| <b>Financing activities:</b>  |                        |                |                             |
| Increase (decrease) in short-term borrowings .....  | 1,148                  | (8,684)        | 9,617                       |
| Increase in long-term debt .....  | 152,420                | 60,560         | 1,276,923                   |
| Repayment of long-term debt .....   | (137,833)              | (40,330)       | (1,154,718)                 |
| Acquisition of treasury stock .....   | (2,240)                | —              | (18,774)                    |
| Repayment of corporate bonds .....  | (15,000)               | (15,000)       | (125,664)                   |
| Other .....   | —                      | (5)            | —                           |
| Dividends paid .....  | (1,140)                | (454)          | (9,557)                     |
| <b>Net cash used in financing activities</b> .....  | <b>(2,646)</b>         | <b>(3,915)</b> | <b>(22,173)</b>             |
| Effect of exchange rate changes on cash and cash equivalents .....                          | (84)                   | 5              | (708)                       |
| Net increase (decrease) in cash and cash equivalents .....                                  | 4,053                  | (3,185)        | 33,961                      |
| Cash and cash equivalents at beginning of year .....  | 5,668                  | 8,854          | 47,492                      |
| Increase in cash and cash equivalents resulting from change in consolidated subsidiaries .. | 115                    | —              | 971                         |
| <b>Cash and cash equivalents at end of year</b> (Note 14) .....                             | <b>¥ 9,838</b>         | <b>¥ 5,668</b> | <b>\$ 82,425</b>            |

The accompanying notes are an integral part of these statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of Preparation of Financial Statements

The accompanying consolidated financial statements have been prepared from the consolidated financial statements filed with the Ministry of Finance, Japan, as required by the Japanese Securities and Exchange Law in accordance with accounting principles generally accepted in Japan.

In addition, 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.

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 ¥119.365 to US\$1, prevailing on December 31, 2002, has been used for translation of U.S. dollar amounts in the accompanying consolidated financial statements.

#### (a) Consolidation

### 2. Significant Accounting Policies

The consolidated financial statements include the accounts of Tokyo Tatemono Co., Ltd. ("the Parent") and its fifteen significant domestic subsidiaries and its one foreign subsidiary.

The Parent has adopted the accounting standard for consolidation in Japan, under which the consolidated financial statements include the accounts of the Parent and any significant companies that are controlled directly or indirectly by the Parent, as well as the accounts of companies over which the Parent exercises significant influence in terms of their operating and financial policies.

Significant intercompany transactions and accounts have been eliminated on consolidation. However, when the market value of inventories traded among the consolidated companies is less than the acquisition cost, the unrealised inter-company loss is not eliminated.

The difference between the cost of an acquisition and the fair value of the net assets of the acquired subsidiary / associated company at the date of acquisition is reported in the balance sheet under other assets and / or other liabilities and is amortized using the straight-line method over five years.

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

Investments in three unconsolidated subsidiaries (more than 50% owned) and two affiliates (20% to 50% owned) are carried at cost, rather than being accounted for on the 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 Parent's books when they are approved by the shareholders.

#### (b) Cash equivalents

The Parent considers all highly liquid investments with a maturity of three months or less at the time of purchase 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, 2001, and December 31, 2001 and 2002, is presented in Note 14.

**(c) Allowance for doubtful accounts**

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

**(d) Marketable and investment securities**

Until the year ended December 31, 2000, marketable and investment securities listed on stock exchanges were stated at the lower of cost or market value, cost being determined by the average cost method.

Effective from the year ended December 31, 2001, the Parent and its consolidated subsidiaries (the Company) adopted the new accounting standard for financial instruments, including marketable and investment securities.

The standard requires all applicable securities to be classified and accounted for, depending on management's intent, as follows:

i) trading securities, which are held for the purpose of earning capital gains in the near term, are reported at fair value and the related unrealized gains and losses are included in earnings, ii) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at amortized cost and iii) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value with unrealized gains and losses, net of applicable taxes, being reported as a separate component of shareholders' equity. Such unrealized gains and losses are not available for distribution in the form of dividends.

**(e) Inventories**

Inventories are stated at the accumulated acquisition or construction cost for each project. Interest on borrowings relating to acquisition or construction of inventories is excluded from such cost.

The Company has adopted as accounting policy to write-down inventories to 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 using the straight-line method, except in the case of furniture and fixtures on which depreciation is provided using the declining-balance method at rates determined based on the estimated useful lives of the respective assets. However, depreciation of property and equipment held by foreign consolidated subsidiaries is provided using the straight-line method over the estimated useful lives of the assets.

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

Under the "Land Revaluation Law", promulgated and revised on March 31, 1998 and 1999 respectively, the Parent elected for 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 an unrealized appreciation in the value of the land and is stated, net of income taxes, as a separate component of shareholders' equity. This revaluation excess is not available for distribution in the form of dividends.

There was no effect on the statement of income.

The fair value of the revalued land as of December 31, 2002 was less than ¥265 million (US\$2,220 thousand), compared with the original revaluation amount.

**(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**

Until the year ended December 31, 2000, the annual provision for retirement benefits, under the employees' retirement plan, was calculated to state employee severance indemnities at the present value of the projected benefits allotted to the services provided up to the balance sheet date, minus the fair value of the pension assets, and in the case of the consolidated subsidiaries, at an amount equals to 100 percent of employee severance indemnities based on voluntary retirement.

However, effective for the year ended December 31, 2001, the Company adopted the new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on the projected benefit obligations minus the plan assets at the balance sheet date.

**(i) Derivatives and Hedging Activities**

The Company uses derivative financial instruments to manage its exposure to fluctuations in interest rates. Interest rate swaps are utilized by the Company to reduce interest rate risks. The Company does not enter into derivatives for trading or speculative purposes.

Effective from the year ended December 31, 2001, the Company adopted the new accounting standard for derivative financial instruments and the revised accounting standard for foreign currency transactions. These standards require that: a) all derivatives be recognized as either assets or liabilities and be measured at fair value, and that gains or losses on derivative transactions be recognized on the income statement and b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives be deferred until maturity of the hedged transactions.

Interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements is recognized and included under interest expense or income.

The Company enters into interest rate swap contracts to manage its interest rate exposures on certain liabilities.

It is the Company's policy to use derivatives only for the purpose of reducing market risk.

Since the counterparties to these derivatives are limited to major international financial institutions, the Company does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the accounting department have been made in accordance with internal policies which regulate authorization.

Each derivative transaction is periodically reported to the Board of Directors.

**(j) 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 contract exchange rates.

The assets, liabilities, and income and expense items of consolidated foreign subsidiaries are translated into Japanese yen at the relevant year-end exchange rates. Other components of shareholders' equity are translated into Japanese yen at historical rates. The resulting exchange differences are presented as foreign currency translation adjustments as a separate component of shareholders' equity.

**(k) Net income per share**

Computations of net income per share are based on the weighted average number of shares outstanding during each period. In addition, diluted net income per share is also computed on the weighted average number of diluted shares during each period.

**(l) Income taxes**

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

However, in accordance with the new accounting standard for income taxes, effective for periods beginning on or after April 1, 1999, deferred tax assets and liabilities was initially recognized in the consolidated financial statements for the year ended December 31, 2000, for the differences between the financial reporting and tax basis of recording 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.

**(m) Reclassifications**

Certain reclassification of the consolidated financial statements for the year ended December 31, 2001 have been made to conform to the presentation for the year ended December 31, 2002.

**3. Marketable Securities and Investment Securities**

Marketable securities and investment securities consist of the following:

|  | December 31       |         |                             |
|--|-------------------|---------|-----------------------------|
|  | 2002              | 2001    | 2002                        |
|  | (Millions of yen) |         | (Thousands of U.S. dollars) |
| <b>Marketable securities:</b>              |                   |         |                             |
| Government bonds and corporate bonds ..... | ¥ —               | ¥ 80    | \$ —                        |
|  | ¥ —               | ¥ 80    | \$ —                        |
| <b>Investment securities:</b>              |                   |         |                             |
| Corporate stocks .....                     | ¥15,866           | ¥20,285 | \$132,922                   |
| Government bonds and corporate bonds ..... | 1,159             | 1,098   | 9,710                       |
| Other equity securities .....              | 16,305            | 12,901  | 136,599                     |
|  | ¥33,330           | ¥34,284 | \$279,230                   |

**4. Inventories**

Inventories consist of the following:

|                                  | December 31       |         |                             |
|----------------------------------|-------------------|---------|-----------------------------|
|                                  | 2002              | 2001    | 2002                        |
|                                  | (Millions of yen) |         | (Thousands of U.S. dollars) |
| <b>Real estate for sale:</b>     |                   |         |                             |
| Completed .....                  | ¥ 8,689           | ¥ 7,932 | \$ 72,800                   |
| Undeveloped and in-process ..... | 72,232            | 67,624  | 605,143                     |
|                                  | ¥80,922           | ¥75,556 | \$677,943                   |

**5. Intangible Assets**

Intangible assets consist of the following:

|                      | December 31       |        |                             |
|----------------------|-------------------|--------|-----------------------------|
|                      | 2002              | 2001   | 2002                        |
|                      | (Millions of yen) |        | (Thousands of U.S. dollars) |
| Leasehold land ..... | ¥6,994            | ¥6,992 | \$58,600                    |
| Other .....          | 672               | 659    | 5,637                       |
|                      | ¥7,667            | ¥7,652 | \$64,238                    |

**6. Long-Term Loans**

Long-term loans as at December 31, 2002 and 2001 included doubtful debts of ¥2,698 million (\$22,606 thousand) and ¥2,698 million, respectively. The debts consisted of loans and interest thereon. The Company has provided an allowance for doubtful accounts in the amount of ¥2,698 million, and has offset this allowance against "long-term loans".

## 7. Short-Term Borrowings and Long-Term Debt

Short-term borrowings as at December 31, 2002 were unsecured.

The average interest rate for short-term borrowings was 1.08% and 1.04% as at December 31, 2002 and 2001, respectively. The average amount of short-term borrowings outstanding was approximately ¥51,300 million (\$429,774 thousand) and ¥54,195 million during the years ended December 31, 2002 and 2001, respectively.

Long-term debt consists of the following:

|   | December 31       |                 | 2002<br>(Thousands of<br>U.S. dollars) |
|---|-------------------|-----------------|--|
|   | 2002              | 2001            |  |
|   | (Millions of yen) |                 |  |
| <b>Secured loans:</b>   |                   |                 |  |
| With banks and insurance companies, carrying interest rates principally between 1.65% and 5.95%, maturing serially through 2015 ..... | ¥ 32,202          | ¥ 33,009        | \$ 269,777                             |
| <b>Unsecured:</b>   |                   |                 |  |
| With banks, carrying interest rates principally between 1.34% and 3.24%, maturing serially through 2022 .....                         | 216,057           | 200,398         | 1,810,054                              |
| 1.8% yen convertible debentures, due 2004 .....   | 6,615             | 6,615           | 55,418                                 |
| 3.3% yen bonds, due 2003 .....  | 9,300             | 9,300           | 77,912                                 |
| 3.4% yen bonds, due 2002 .....  | —                 | 10,000          | —                                      |
| 2.5% yen bonds, due 2002 .....  | —                 | 5,000           | —                                      |
| 1.96% yen bonds, due 2003 .....   | 2,000             | 2,000           | 16,755                                 |
| 2.32% yen bonds, due 2003 .....   | 3,000             | 3,000           | 25,132                                 |
|   | <b>269,174</b>    | <b>269,322</b>  | <b>2,255,051</b>                       |
| Less-amounts due within one year .....  | 70,159            | 68,610          | 587,774                                |
|   | <b>¥199,014</b>   | <b>¥200,711</b> | <b>\$1,667,276</b>                     |

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, 2002 which is subject to adjustments under the terms of the agreement. The debentures are redeemable, at the option of the Parent, 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 3.3% yen bonds due in 2003, the 1.96% yen bonds due 2003 and the 2.32% yen bonds due 2003 can be repurchased at any time and at any price in the open market or elsewhere. The Parent 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 Parent 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, 2002 are summarized below:

| Year ending December 31:  | Millions of yen | Thousands of<br>U.S. dollars |
|---------------------------|-----------------|------------------------------|
| 2003 .....                | ¥ 70,159        | \$ 587,774                   |
| 2004 .....                | 59,989          | 502,567                      |
| 2005 .....                | 59,202          | 495,974                      |
| 2006 .....                | 27,570          | 230,972                      |
| 2007 and thereafter ..... | 52,253          | 437,761                      |
| Total .....               | <b>¥269,174</b> | <b>\$2,255,051</b>           |

Net book values of assets pledged or mortgaged as security for long-term debt and long-term accounts payable, other (as described in Note 8) at December 31, 2002 are as follows:

|                             | Millions of yen | Thousands of<br>U.S. dollars |
|-----------------------------|-----------------|------------------------------|
| Land .....                  | ¥44,468         | \$372,542                    |
| Buildings .....             | 15,336          | 128,488                      |
| Inventories .....           | 3,736           | 31,305                       |
| Investment securities ..... | 1,668           | 13,977                       |
| Total.....                  | <u>¥65,210</u>  | <u>\$546,313</u>             |

**8. Long-Term Accounts Payable, Other** At December 31, 2002, long-term payables for the purchase of property were included in long-term accounts payable, other and accounts payable, trade at an amount of ¥4,174 million (\$34,973 thousand) and ¥265 million (\$2,220 thousand), respectively. These payables mature from 2003 to 2019 and bear interest at the rate of 3.449%. Property is mortgaged as security for the payables.

**9. Accrued Severance Indemnities and Pension Plan** Employees whose service with the Company is terminated are, under most circumstances, entitled to lump-sum severance indemnities determined by reference to their basic rate of pay and length of service at that time and the conditions under which termination occurs. The minimum payment is an amount based on voluntary retirement.

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

The projected benefit obligation, net periodic pension cost and assumptions used in the calculation of accrued severance indemnities are as follows:

|                                     | December 31       |         |                                |
|-------------------------------------|-------------------|---------|--------------------------------|
|                                     | 2002              | 2001    | 2002                           |
|                                     | (Millions of yen) |         | (Thousands of<br>U.S. dollars) |
| Projected benefit obligation:       |                   |         |                                |
| Projected benefit obligation .....  | <b>¥8,699</b>     | ¥ 7,888 | <b>\$72,879</b>                |
| Fair value of plan assets .....     | <b>(3,120)</b>    | (3,039) | <b>(26,145)</b>                |
|                                     | <u>5,578</u>      | 4,848   | <u>46,733</u>                  |
| Unrecognized actuarial loss .....   | <b>(1,227)</b>    | (268)   | <b>(10,286)</b>                |
| Accrued severance indemnities ..... | <b>¥4,350</b>     | ¥4,579  | <b>\$36,447</b>                |

|                                      | Year ended December 31 |      |                                |
|--------------------------------------|------------------------|------|--------------------------------|
|                                      | 2002                   | 2001 | 2002                           |
|                                      | (Millions of yen)      |      | (Thousands of<br>U.S. dollars) |
| Net periodic pension cost:           |                        |      |                                |
| Service cost .....                   | <b>¥375</b>            | ¥367 | <b>\$3,144</b>                 |
| Interest cost .....                  | <b>221</b>             | 213  | <b>1,856</b>                   |
| Expected return on plan assets ..... | <b>(91)</b>            | (84) | <b>(763)</b>                   |
| Recognized actuarial loss .....      | <b>26</b>              | —    | <b>225</b>                     |
| Net periodic pension cost .....      | <b>¥532</b>            | ¥496 | <b>\$4,462</b>                 |

| Assumptions:                                     | Years-of-service<br>approach | Years-of-service<br>approach |
|--|------------------------------|------------------------------|
| Discount rate                                    | 2.5%                         | 3.0%                         |
| Rate of expected return on plan assets           | 3.0%                         | 3.0%                         |
| Amortization period of actuarial gains or losses | 10years                      | 10years                      |

## 10. Income Taxes

Income taxes in Japan applicable to the Parent and its domestic consolidated subsidiaries consist of corporation tax, inhabitant taxes and enterprise tax, which in the aggregate result in a statutory rate of approximately 42.1%. The income taxes of foreign consolidated subsidiaries are based generally on the tax rates applicable in their respective countries of incorporation. The effective tax rates reflected in the accompanying consolidated statements of income for the years ended December 31, 2002 and 2001 differ from the statutory rates primarily because of the effect of timing differences in the recognition of certain income and expense items for tax and financial reporting purposes, as well as the effects of permanently non-tax-deductible expenses and non-taxable income.

The effective tax rate reflected in the consolidated statements of income for the years ended December 31, 2002 and 2001, differs from the statutory tax rate for the following reasons:

|   | Year ended December 31 |       |
|---|------------------------|-------|
|   | 2002                   | 2001  |
| Statutory tax rate .....                                      | 42.1%                  | 42.1% |
| Increase (decrease) in income taxes resulting from:           |                        |       |
| Tax rate difference between the Parent and subsidiaries ..... | (0.1)                  | (0.4) |
| Reversal of valuation allowance for deferred tax assets ..... | (10.8)                 | (8.7) |
| Non-deductible expenses .....                                 | 1.3                    | 1.9   |
| Non-taxable income .....                                      | (0.7)                  | (1.2) |
| Par capita of inhabitant taxes .....                          | 0.2                    | 0.4   |
| Other .....   | (0.1)                  | (0.1) |
| Effective tax rate .....                                      | 32.0%                  | 33.9% |

The significant components of deferred tax assets and liabilities as of December 31, 2002 and 2001, are as follows:

|   | December 31       |          |                             |
|---|-------------------|----------|-----------------------------|
|   | 2002              | 2001     | 2002                        |
|   | (Millions of yen) |          | (Thousands of U.S. dollars) |
| Deferred tax assets:  |                   |          |                             |
| Write-down of property and equipment ....   | ¥ 5,263           | ¥ 5,694  | \$ 44,094                   |
| Write-down of stocks of subsidiaries and affiliated companies .....                       | 2,150             | 2,150    | 18,017                      |
| Allowance for doubtful accounts, in excess of tax deductible portion .....                | 378               | 463      | 3,174                       |
| Accrued severance indemnities, in excess of tax deductible portion .....                  | 1,489             | 1,553    | 12,475                      |
| Net operating loss carryforwards .....  | 1,350             | 2,027    | 11,311                      |
| Write-down of investment securities .....   | 510               | 935      | 4,272                       |
| Other .....   | 1,300             | 1,135    | 10,893                      |
|   | 12,442            | 13,960   | 104,239                     |
| Valuation allowance .....   | (10,889)          | (12,240) | (91,231)                    |
| Total deferred tax assets .....   | ¥ 1,552           | ¥ 1,719  | \$ 13,007                   |
| Deferred tax liabilities:   |                   |          |                             |
| Reversal of deferred tax liabilities based on revaluation of assets of subsidiaries ..... | 3,568             | 3,580    | 29,898                      |
| Net unrealized gain on available-for-sale securities .....                                | 1,576             | 2,016    | 13,210                      |
| Other .....   | 3                 | 8        | 26                          |
| Total deferred tax liabilities .....  | 5,148             | 5,604    | 43,135                      |
| Net deferred tax liabilities .....  | ¥ 3,596           | ¥ 3,884  | \$ 30,127                   |

## **11. Shareholders' Equity**

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which certain amendments were made effective from October 1, 2001.

Prior to October 1, 2001, the Code required at least 50% of the issue price of new shares, with a minimum of the par value thereof, to be designated as stated capital as determined by a resolution of the Board of Directors. Proceeds in excess of the amounts designated as stated capital were credited to additional paid-in capital. However, effective from October 1, 2001, the Code was revised and common stock par values were eliminated resulting in all shares being recorded with no par value.

Prior to October 1, 2001, the Code also provided that an amount equal to at least 10% of the aggregate amount of cash dividends and certain other cash payments made as an appropriation of retained earnings applicable to each fiscal period be appropriated and set aside as a legal reserve until such reserve equals 25% of the stated capital. However, effective from October 1, 2001, the revised Code requires appropriations to be set aside as a legal reserve until the total of the additional paid-in capital and the legal reserve together equal 25% of the stated capital. Additional paid-in capital and / or the legal reserve can be reduced by resolution of the shareholders, to the extent that they are taken together, in excess of 25% of the stated capital and are available for distribution to shareholders. The Parent's legal reserve of ¥228 million as of December 31, 2001 was reversed to retained earnings this year, resulting in a zero legal reserve balance at the end of December 2002. Under the Code, companies may issue new common shares to existing shareholders without considerations as a stock split following the passing of a resolution by the Board of Directors. Prior to October 1, 2001, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the stock split could not be less than ¥50. The revised Code eliminated this restriction.

Prior to October 1, 2001, the Code imposed certain restrictions on the repurchase and use of treasury stock. Effective from October 1, 2001, the Code eliminated these restrictions allowing companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders' meeting and dispose of such treasury stock by resolution of the Board of Directors after December 31, 2001. The repurchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of the stated capital, additional paid-in capital and legal reserve to be reduced in the case where such reduction was resolved at the same general shareholders' meeting.

The Code permits companies to transfer a portion of their additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The Code also permits companies to transfer a portion of their unappropriated retained earnings, available for dividends, to stated capital by a resolution of the shareholders at the general shareholders' meeting.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semi-annual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

## **12. Commitments and Contingent Liabilities**

At December 31, 2002, the Parent was contingently liable for guarantees on loans to its customers and employees amounting to approximately ¥2,115 million (\$17,724 thousand). The Parent has rights to various forms of collateral against the above guarantees for customers and employees.

At December 31, 2002, the Parent was also contingently liable for guarantees on loans to its three affiliated companies and a customer amounting to approximately ¥3,356 million (\$28,120 thousand). The Parent holds no collateral from these affiliated companies or this a customer.

As at December 31, 2002 the Parent 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, 2002 and 2001 were ¥10,035 million (\$84,072 thousand) and ¥8,881 million, respectively, and were included in the cost of revenue.

**13. Subsequent Events** On March 28, 2003, the shareholders approved payment of cash dividends to shareholders, as recorded in the shareholders' register as of December 31, 2002, at ¥6 (\$0.05) per share, totaling of ¥1,303 million (\$10,919 thousand).

The shareholders gave their approval for (a) the Parent to repurchase common stock as treasury stock up to a maximum of 10 million shares or ¥4,000 million (US\$33,510 thousand) during the period from the end of the shareholders' meeting held on March 28, 2003 to the end of the next shareholders' meeting, and (b) the Parent to change its Articles of Incorporation in a conformity with a change in the Japanese Commercial Code. Effective from May 1, 2002, it was enacted to extend the Statutory Auditors' legal term of office to four years from three years and to establish a new legal procedure for lost stock.

**14. Supplemental Cash Flow Information**

The following table represents a reconciliation of cash and cash equivalents as of January 1, 2001, December 31, 2002 and December 31, 2001.

|   | December 31       |        | January 1 | December 31                 |
|---|-------------------|--------|-----------|-----------------------------|
|   | 2002              | 2001   | 2001      | 2002                        |
|   | (Millions of yen) |        |           | (Thousands of U.S. dollars) |
| Cash .....  | ¥9,912            | ¥5,742 | ¥9,513    | \$83,040                    |
| Time deposits with a maturity of more than three months ..... | (73)              | (73)   | (659)     | (615)                       |
| Cash and cash equivalents.....                                | ¥9,838            | ¥5,668 | ¥8,854    | \$82,425                    |

**15. Business Segment Information**

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

The following table presents certain information regarding the Company's industry segments for the years ended December 31, 2002 and 2001:

**Industry Segments:**

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

|   | (Millions of yen)            |                   |          |          |             |              |
|---|------------------------------|-------------------|----------|----------|-------------|--------------|
|   | Year ended December 31, 2002 |                   |          |          |             |              |
|   | Leasing                      | Real estate sales | Other    | Total    | Elimination | Consolidated |
| <b>Revenue from operations</b>            |                              |                   |          |          |             |              |
| (1) Customers .....                       | ¥ 38,146                     | ¥ 65,876          | ¥ 18,381 | ¥122,404 | ¥ —         | ¥122,404     |
| (2) Intersegment .....                    | 461                          | 76                | 1,861    | 2,400    | (2,400)     | —            |
| Total .....                               | 38,608                       | 65,953            | 20,242   | 124,804  | (2,400)     | 122,404      |
| <b>Costs and operating expenses .....</b> | 25,193                       | 61,018            | 16,707   | 102,919  | 1,791       | 104,710      |
| <b>Operating income .....</b>             | ¥ 13,414                     | ¥ 4,934           | ¥ 3,535  | ¥ 21,884 | ¥ (4,191)   | ¥ 17,693     |

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

|                                   | Leasing  | Real estate sales | Other    | Total    | Portion not classified to segments, less elimination | Consolidated |
|-----------------------------------|----------|-------------------|----------|----------|--|--------------|
|                                   | (Note 1) |                   |          |          |  |              |
| <b>Assets .....</b>               | ¥333,873 | ¥ 88,314          | ¥ 31,459 | ¥453,647 | ¥ 30,360   | ¥484,007     |
| <b>Depreciation .....</b>         | ¥ 3,052  | ¥ 20              | ¥ 233    | ¥ 3,307  | ¥ 113  | ¥ 3,420      |
| <b>Capital expenditures .....</b> | ¥ 4,777  | ¥ 1               | ¥ 487    | ¥ 5,266  | ¥ 77   | ¥ 5,344      |

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

(Millions of yen)  
Year ended December 31, 2001

|   | Leasing  | Real estate sales | Other    | Total    | Elimination | Consolidated |
|---|----------|-------------------|----------|----------|-------------|--------------|
| <b>Revenue from operations</b>            |          |                   |          |          |             |              |
| (1) Customers .....                       | ¥ 37,885 | ¥ 51,590          | ¥ 16,039 | ¥105,515 | ¥ —         | ¥105,515     |
| (2) Intersegment .....                    | 408      | 61                | 2,692    | 3,161    | (3,161)     | —            |
| Total .....                               | 38,294   | 51,651            | 18,731   | 108,677  | (3,161)     | 105,515      |
| <b>Costs and operating expenses .....</b> | 24,159   | 49,300            | 15,743   | 89,203   | 1,609       | 90,812       |
| <b>Operating income .....</b>             | ¥ 14,134 | ¥ 2,351           | ¥ 2,988  | ¥ 19,473 | (¥ 4,770)   | ¥ 14,702     |

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

Portion not classified to segments, less elimination  
(Note 1)

|                                   | Leasing  | Real estate sales | Other    | Total    | Elimination | Consolidated |
|-----------------------------------|----------|-------------------|----------|----------|-------------|--------------|
| <b>Assets .....</b>               | ¥337,317 | ¥ 80,559          | ¥ 29,094 | ¥446,970 | ¥ 30,261    | ¥477,232     |
| <b>Depreciation .....</b>         | ¥ 3,229  | ¥ 18              | ¥ 197    | ¥ 3,445  | ¥ 112       | ¥ 3,557      |
| <b>Capital expenditures .....</b> | ¥ 3,556  | ¥ 67              | ¥ 1,194  | ¥ 4,819  | ¥ 28        | ¥ 4,847      |

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

(Thousands of U.S. dollars)  
Year ended December 31, 2002

|   | Leasing    | Real estate sales | Other      | Total       | Elimination | Consolidated |
|---|------------|-------------------|------------|-------------|-------------|--------------|
| <b>Revenue from operations</b>            |            |                   |            |             |             |              |
| (1) Customers .....                       | \$ 319,578 | \$ 551,890        | \$ 153,991 | \$1,025,459 | \$ —        | \$1,025,459  |
| (2) Intersegment .....                    | 3,869      | 644               | 15,595     | 20,110      | (20,110)    | —            |
| Total .....                               | 323,447    | 552,535           | 169,586    | 1,045,569   | (20,110)    | 1,025,459    |
| <b>Costs and operating expenses .....</b> | 211,064    | 511,191           | 139,969    | 862,225     | 15,007      | 877,233      |
| <b>Operating income .....</b>             | \$ 112,383 | \$ 41,343         | \$ 29,617  | \$ 183,344  | (\$ 35,117) | \$ 148,226   |

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

Portion not classified to segments, less elimination  
(Note 1)

|                                   | Leasing     | Real estate sales | Other      | Total       | Elimination | Consolidated |
|-----------------------------------|-------------|-------------------|------------|-------------|-------------|--------------|
| <b>Assets .....</b>               | \$2,797,077 | \$ 739,872        | \$ 263,561 | \$3,800,510 | \$ 254,345  | \$4,054,856  |
| <b>Depreciation .....</b>         | \$ 25,576   | \$ 175            | \$ 1,953   | \$ 27,705   | \$ 946      | \$ 28,652    |
| <b>Capital expenditures .....</b> | \$ 40,024   | \$ 12             | \$ 4,085   | \$ 44,123   | \$ 649      | \$ 44,772    |

Note1.: Assets not classified into segments totaled ¥50,761 million (\$425,260 thousand) and ¥50,285 million before elimination, at December 31, 2002 and 2001, respectively. Such assets consisted mainly of cash, marketable securities, investment securities and other assets belonging to the administration departments of the Company.

Information regarding geographic areas and overseas sales is not presented since the sales of consolidated foreign subsidiaries are less than 10% of 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, 2002 and 2001 and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, 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 audits 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, 2002 and 2001, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

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 28, 2003

Tokyo Tatemono Co.,Ltd.  
**CONDENSED NON-CONSOLIDATED BALANCE SHEETS**

|                                       | Year ended December 31 |                 |                             |
|---------------------------------------|------------------------|-----------------|-----------------------------|
|                                       | 2002                   | 2001            | 2002                        |
|                                       | (Millions of yen)      |                 | (Thousands of U.S. dollars) |
| Assets:                               |                        |                 |                             |
| Current assets .....                  | ¥ 97,920               | ¥ 89,423        | \$ 820,345                  |
| Investments .....                     | 62,624                 | 56,897          | 524,643                     |
| Property and equipment .....          | 279,774                | 288,398         | 2,343,856                   |
| Intangible and other assets .....     | 7,293                  | 7,201           | 61,104                      |
|                                       | <u>¥447,612</u>        | <u>¥441,921</u> | <u>\$3,749,950</u>          |
| Liabilities and shareholders' equity: |                        |                 |                             |
| Current liabilities .....             | ¥132,703               | ¥124,767        | \$1,111,746                 |
| Long-term liabilities .....           | 223,324                | 225,823         | 1,870,934                   |
| Shareholders' equity .....            | 91,585                 | 91,331          | 767,269                     |
|                                       | <u>¥447,612</u>        | <u>¥441,921</u> | <u>\$3,749,950</u>          |

Tokyo Tatemono Co.,Ltd.  
**CONDENSED NON-CONSOLIDATED STATEMENTS OF INCOME**

|                                  | Year ended December 31 |         |                             |
|----------------------------------|------------------------|---------|-----------------------------|
|                                  | 2002                   | 2001    | 2002                        |
|                                  | (Millions of yen)      |         | (Thousands of U.S. dollars) |
| Revenue from operations .....    | ¥97,818                | ¥84,935 | \$819,491                   |
| Operating income .....           | 13,532                 | 11,597  | 113,371                     |
| Income before income taxes ..... | 5,891                  | 3,435   | 49,356                      |
| Net income .....                 | 4,022                  | 1,899   | 33,701                      |
|                                  | Yen                    |         | U.S. dollars                |
| <b>Net income:</b>               |                        |         |                             |
| Basic .....                      | ¥17.94                 | ¥8.33   | \$0.15                      |
| Assuming dilution .....          | 17.88                  | 8.33    | 0.15                        |

Note: Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of ¥119.365=US\$1.

## 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, 2002 and 2001, and the related non-consolidated statements of income for the years then ended (not presented herein); and in our reports dated March 28, 2003 and 2002, 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 derive, are fairly stated in all material respects in relation thereto.



Sukenori Mori  
Certified Public Accountant



Tsuneo Kobayashi  
Certified Public Accountant

Tokyo, Japan  
March 28, 2003

## BOARD OF DIRECTORS

### President and Chief Executive Officer

Keisuke Minami

### Senior Managing Directors

Katsumasa Inoue  
Makoto Hatanaka  
Setsuya Morita

### Managing Directors

Kazushige Tsuboi  
Hajime Sakuma

### Directors

Kazuo Eiki  
Shoji Kaneko  
Hajime Ogawa  
Hisashi Gomyo  
Mitsuru Fujii  
Norio Watanabe  
Shinichi Nara  
Kazumasa Kato

### Standing Auditors

Masatoshi Kanazawa  
Toshiaki Fujii

### Auditors

Hiroshi Ishikawa  
Tomohiro Kamio

(as at May 31, 2003)

## CORPORATE DATA

### Tokyo Tatemono Co., Ltd.

#### Date of Establishment

October 1, 1896

#### Capital

¥45,623 million

#### Number of Employees

287

#### Number of Shareholders

20,870

(as at December 31, 2002)

#### 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

##### Fukuoka Branch

8-49, Tenjin 2-chome, Chuo-ku,  
Fukuoka 810-0001 Japan  
Tel. (092) 761-0110  
Fax. (092) 736-6586

#### 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

##### 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

##### Amenity Staff Co., Ltd.

4-12, Yaesu 1-chome, Chuo-ku,  
Tokyo 103-0028 Japan  
Tel. (03) 3273-0251  
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

##### E-state Online Co., Ltd.

2-21, Kanda awajicho, Chiyoda-ku,  
Tokyo 101-0063 Japan  
Tel. (03) 5209-2666  
Fax. (03) 5209-2667

##### Qualityworks Co., Ltd.

25-1, Nishishinjuku 1-chome, Shinjuku-ku,  
Tokyo 163-0603 Japan  
Tel. (03) 3343-4241  
Fax. (03) 3343-4240

#### 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