

**A N N U A L R E V I E W 2 0 0 4**

Fiscal Year Ended December 31, 2004

Tokyo Tatemono Co., Ltd.

## MANAGEMENT REVIEW

### Operating Environment

In fiscal year 2004, the Japanese economy showed positive signs in the expansion of corporate investment sustained by good corporate earnings, and also in rather strong personal consumption. However, the Japanese economy still experienced a slow recovery process due to the sluggish increase in export sales and weakening production caused by inventory adjustment in the IT related industry.

In the real estate business, the building market continued to see a declining trend in the price of office space. However, positive signs included the decline in the non-occupancy rate for office space due to an improvement in demand/supply caused by economic recovery and, in part of the metropolitan area, an end to the declining trend in office rent prices. In the residential housing market, the Company (Tokyo Tatemono Co., Ltd. and its consolidated companies) maintained good sales on the whole, due mainly to the expansion of the customer base, despite some weakening in the continued over-supply of large skyscrapers and increasing customers demands with respect to location and good product planning.

### Result

In the above business environment, the Company has swiftly responded to changes in the market, promoted the business based on the customer's view point and endeavored to establish the enhancement of profitability and stable management for the future.

As a result, total revenue from operations in fiscal year 2004 increased by 24.9% to ¥161,296 million (US\$1,554,219 thousand), compared with ¥129,130 million in fiscal year 2003, and operating income in fiscal year 2004 rose 19.9% to ¥23,545 million (US\$226,875 thousand), compared with ¥19,633 million in fiscal year 2003. In addition, net income in fiscal year 2004 increased by 26.0% to ¥9,906 million (US\$95,456 thousand), compared with ¥7,864 million in fiscal year 2003.

### Outlook

Looking to the future, the Japanese economy is expected to continue its recovery due to an increase in corporate investment supported by continued good corporate earnings and the improvement in the employment environment. However, it seems that the Japanese economy may take time to achieve a full recovery due to the economic influence of the US economy and rapid yen appreciation in the foreign exchange market.

In the real estate business, the building market is expected to further improve with respect to office space demand/supply, resulting a further decline in the office space non-occupancy rate and an end to the declining trend in office rent prices in the center of the metropolitan area. In the residential housing market, strong demand is expected due to a trend towards returning to the metropolitan area. However, unforeseeable condition seem set to continue due to two extreme trends in sales and customers' increasing demands with respect to location and product planning caused by the continuing over-supply of residential space.

### Foundation

Under these business circumstances, the Company intends to strengthen profitability in every business area, to evolve the business model with an axis on real estate securitization and to expand the business area. In addition, the Company has the strong will to further increase the value of the Tokyo Tatemono Group as a whole, by providing high quality products/services that will be rated No. 1 by the customer. This shall be done in response to the rapidly changing business environment with the basic stance of "Self-Revolution" • "Challenge" • "Speed", which are flagged in the Group mid-term business plan.

## FINANCIAL REVIEW

### Revenue and Income

#### ***Office and Commercial Building Leasing***

In fiscal year 2004, the Company endeavored to maintain and improve its profitability and its operation by pursuing full tenant service aimed at “producing safe and comfortable space” and took positive action to expand new orders in the asset and property management business. In addition, the Company continued to invest funds in profitable buildings by using a Special Purpose Company and by selling a part of its own buildings to improve asset usage efficiency. This year, large scale investments were made such as “Mizuho bank Otemachi Headquarters Building”/ “Otemachi Financial Center” (Chiyoda-ku Tokyo), and “Hamarikyu Parkside Place” (Chuo-ku Tokyo).

As a result, revenue from the leasing business in fiscal year 2004 increased by 7.4% to ¥41,580 million (US\$400,655 thousand), compared with ¥38,700 million in the previous year. Operating income from the leasing business in fiscal year 2004 increased by 20.1% to ¥17,093 million (US\$164,706 thousand), compared with ¥14,231 million in the previous year.

#### ***Real Estate Sales***

In order to promote “Refined housing” and “Comfortable and peaceful housing”, which are the brand identities of the “Brillia” real estate sales brand, the Company has acquired carefully selected land, performed completely customer-oriented product planning and provided good quality administration services after the property is occupied. In fiscal 2004, the Company received the proceeds from the sales of “Garden Associe” (Yokohama City), “Brillia Chofu Kokuryo” (Chofu City, Tokyo) and “Brillia Senri Fujishirodai” (Suita City, Osaka), all condominiums, and “Brillia Terrace Yokohama Sorano Machi” (Yokohama City), a housing unit. In addition, the Company has developed high quality rental condominiums in the center of the metropolitan area and sold such property as “Apartments Nishiazabu” to investors.

As a result, sales of the real estate business in fiscal year 2004 increased by 43.6% to ¥95,306 million (US\$918,353 thousand), compared with ¥66,387 million in the previous year. Operating income from the real estate business in fiscal year 2004 increased by 117.2% to ¥7,897 million

(US\$76,095 thousand), compared with ¥3,635 million in the previous year. In fiscal year 2004, the accounting method for sales expenses in the real estate business changed from an accrual basis to a sales recognition basis, resulting in an increase in operating income of ¥3,863 million (US\$37,229 thousand)

#### ***Related Services***

In fiscal year 2004, the Company aggressively operated its related services by putting into practice its fully experienced know-how in the areas of the brokerage, appraisal and consulting business, the resort development and leisure hotel business, the renovation business, the food and drink business, the media complex business, and the hot spring spa business.

As a result, these operations in fiscal year 2004 brought in revenue of ¥24,410 million (US\$235,210 thousand), 1.5% increase from ¥24,042 million in the previous year. Operating income from related service operations in fiscal year 2004 decreased by 35.7% to ¥4,071 million (US\$39,232 thousand), compared with ¥6,327 million in the previous year.

In fiscal year 2004, the accounting method for sales expenses in the related services business changed from an accrual basis to a sales recognition basis, resulting in an increase in operating income of ¥437 million (US\$4,213 thousand)

#### ***Analysis of Profitability***

Due mainly to an increase in revenue in the real estate sales business, revenue in fiscal year 2004 increased by 24.9% compared with that of the previous year. In addition operating income in fiscal year 2004 increased by 19.9% due mainly to the increase in the real estate sales business. Net income in fiscal year 2004 increased by 26.0% to ¥9,906 million (US\$95,456 thousand), due mainly to an increase in the real estate sales business.

#### ***Financial Position***

In fiscal year 2004, total assets increased by ¥35,282 million (US\$339,976 thousand) or 7.3% to ¥519,520 million (US\$5,005,980 thousand), resulting from an increase in current assets of ¥8,150 million (US\$78,533 thousand) and

assets other than current assets of ¥27,132 million (US\$261,443 thousand).

Debt, including short-term borrowings, decreased by ¥15,419 million (US\$148,581 thousand) or 5.2% to ¥279,190 million (US\$2,690,216 thousand).

Shareholders' equity increased by ¥31,823 million (US\$306,643 thousand) or 32.0% to ¥131,308 million (US\$1,265,260 thousand), resulting from the addition of current net income and net unrealized gain on available-for-sale securities.

## **Cash Flow**

Cash and cash equivalents at the end of fiscal year 2004 decreased by ¥126 million (US\$1,219 thousand) compared with that at the end of the previous year, resulting from an increase in operating activities and financing activities of ¥24,918 million (US\$240,104 thousand) and ¥2,574 million (US\$24,803 thousand) respectively, and a decrease in investing activities of ¥27,613 million (US\$266,080 thousand) in fiscal year 2004.

### ***Cash flow in operating activities***

Operating activities in fiscal year 2004 increased cash and cash equivalents by ¥24,918 million (US\$240,104 thousand), due mainly to an increase in net income before income tax of ¥14,954 million (US\$144,101 thousand), depreciation and amortization expenses of ¥3,496 million (US\$33,695 thousand) and a decrease in inventory of ¥3,081 million (US\$29,694 thousand).

### ***Cash flow in investing activities***

Investing activities in fiscal year 2004 decreased cash and cash equivalents by ¥27,613 million (US\$266,080 thousand), due mainly to the investment of ¥27,620 million (US\$266,142 thousand) in consortia, which are used for making investments in profitable buildings through utilizing a Special Purpose Company.

### ***Cash flow in financing activities***

Financing activities in fiscal year 2004 increased cash and cash equivalents by ¥2,574 million (US\$24,803 thousand), due mainly to proceeds from the issuance of new stock of ¥11,970 million (US\$115,343 thousand) and of sales of

treasury stock of ¥9,762 million (US\$94,069 thousand), net decrease in short-term borrowings and long-term debt of ¥9,069 million (US\$87,394 thousand), and repayment of corporate bonds of ¥6,615 million (US\$63,740 thousand).

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

ASSETS	December 31		
	2004	2003	2004
	(Millions of yen)		(Thousands of U.S. dollars)
<b>Current assets:</b>			
Cash (Note 14) .....	¥ 6,692	¥ 6,819	\$ 64,490
Marketable securities (Note 3) .....	2,971	462	28,632
Accounts receivable, trade .....	5,375	2,991	51,795
Inventories (Notes 4 and 7) .....	71,883	75,800	692,652
Deferred income taxes (Note 10) .....	1,004	556	9,682
Other current assets .....	11,063	4,213	106,604
Allowance for doubtful accounts .....	(12)	(15)	(125)
<b>Total current assets</b> .....	<b>98,978</b>	90,828	<b>953,733</b>
<b>Investments:</b>			
Investment securities (Notes 3 and 7) .....	50,996	48,627	491,393
Investments in unconsolidated subsidiaries and affiliates .....	2,461	2,273	23,720
Long-term loans (Note 6) .....	1,560	1,180	15,032
Guarantee deposits paid .....	10,422	8,133	100,427
Deferred income taxes (Note 10) .....	835	825	8,049
Investments in consortia .....	33,730	8,707	325,020
Other investments .....	6,962	5,085	67,091
Allowance for doubtful accounts .....	(1,290)	(1,271)	(12,435)
<b>Total investments</b> .....	<b>105,679</b>	73,562	<b>1,018,299</b>
<b>Property and equipment (Note 7):</b>			
Land .....	247,084	250,185	2,380,853
Buildings .....	115,330	115,326	1,111,300
Machinery and equipment .....	719	749	6,936
Furniture and fixtures .....	1,905	1,857	18,359
Construction in progress .....	184	53	1,777
<b>Total property and equipment</b> .....	<b>365,225</b>	368,172	<b>3,519,226</b>
Less accumulated depreciation .....	(57,674)	(55,619)	(555,741)
<b>Net property and equipment</b> .....	<b>307,550</b>	312,553	<b>2,963,485</b>
<b>Intangible and other assets (Note 5)</b> .....	<b>7,312</b>	7,294	<b>70,463</b>
<b>Total assets</b> .....	<b>¥519,520</b>	¥484,237	<b>\$5,005,980</b>

The accompanying notes are an integral part of these statements.

LIABILITIES, MINORITY INTEREST AND SHAREHOLDERS' EQUITY	December 31		
	2004	2003	2004
	(Millions of yen)		(Thousands of U.S. dollars)
<b>Current liabilities:</b>			
Short-term borrowings (Note 7) .....	¥ 16,730	¥ 18,880	\$ 161,206
Current portion of long-term debt (Note 7) .....	88,286	75,671	850,711
Accounts payable, trade (Note 8) .....	10,900	7,346	105,030
Accrued income taxes (Note 10) .....	4,241	1,264	40,867
Accrued expenses .....	4,222	5,215	40,690
Advances received .....	14,745	8,514	142,088
Deferred income taxes (Note 10) .....	2	0	28
Other current liabilities .....	6,135	6,035	59,120
<b>Total current liabilities</b> .....	<b>145,265</b>	<b>122,927</b>	<b>1,399,743</b>
<b>Long-term liabilities:</b>			
Long-term debt (Note 7) .....	174,173	200,058	1,678,299
Accounts payable, other (Notes 7 and 8) .....	3,644	3,909	35,117
Guarantee deposits received .....	37,538	32,216	361,708
Deferred income taxes (Note 10) .....	7,031	7,210	67,757
Deferred income taxes on land revaluation (Note 2 (f)) .....	8,672	6,440	83,564
Accrued severance indemnities (Note 9) .....	4,745	4,479	45,725
Other .....	7,140	6,501	68,804
<b>Total liabilities</b> .....	<b>388,212</b>	<b>260,816</b>	<b>2,340,977</b>
<b>Minority interest</b> .....	<b>—</b>	<b>1,008</b>	<b>—</b>
<b>Shareholders' equity</b> (Note 11):			
Common stock, no par value—			
Authorized — 800,000,000 shares			
Issued — 254,141,634 shares .....	51,629	45,623	497,489
Additional paid-in capital .....	49,740	38,229	479,283
Land revaluation excess (Note 2 (f)) .....	12,635	9,384	121,753
Net unrealized gain on available-for-sale securities (Note 2 (d)) .....	8,852	6,278	85,302
Retained earnings .....	9,562	4,845	92,137
Foreign currency translation adjustments .....	(258)	(173)	(2,494)
Less: Treasury stock, at cost .....	(852)	(4,702)	(8,211)
<b>Total shareholders' equity</b> .....	<b>131,308</b>	<b>99,485</b>	<b>1,265,260</b>
Commitments and contingent liabilities (Note 12)			
<b>Total liabilities, minority interest and shareholders' equity ....</b>	<b>¥519,520</b>	<b>¥484,237</b>	<b>\$5,005,980</b>

## CONSOLIDATED STATEMENTS OF INCOME

	Year ended December 31		
	2004	2003	2004
	(Millions of yen)		(Thousands of U.S. dollars)
<b>Revenue from operations:</b>			
Leasing of office and commercial buildings .....	¥ 41,580	¥ 38,700	\$ 400,655
Sale of real estate .....	95,306	66,387	918,353
Related services .....	24,410	24,042	235,210
	<b>161,296</b>	<b>129,130</b>	<b>1,554,219</b>
<b>Cost of revenue:</b>			
Leasing of office and commercial buildings .....	24,830	24,851	239,261
Sale of real estate .....	79,988	53,305	770,755
Related services .....	16,391	13,902	157,947
	<b>121,211</b>	<b>92,059</b>	<b>1,167,964</b>
<b>Gross profit</b> .....	<b>40,085</b>	<b>37,070</b>	<b>386,255</b>
<b>Selling, general and administrative expenses</b> .....	<b>16,540</b>	<b>17,436</b>	<b>159,379</b>
<b>Operating income</b> .....	<b>23,545</b>	<b>19,633</b>	<b>226,875</b>
<b>Other income (expenses):</b>			
Interest and dividend income .....	539	466	5,199
Interest expense .....	(6,481)	(6,723)	(62,450)
Loss on sale of property and equipment .....	(1,613)	(615)	(15,551)
Gain (loss) on sale of marketable and investment securities .....	1,445	(11)	13,925
Write-down of real estate for sale .....	(2,127)	—	(20,497)
Write-down of marketable securities .....	(13)	(42)	(134)
Reversal of provision for losses on doubtful accounts .....	0	27	5
Equity in income of affiliated companies .....	245	235	2,368
Other, net .....	(585)	(614)	(5,641)
	<b>(8,590)</b>	<b>(7,277)</b>	<b>(82,774)</b>
<b>Income before income taxes and minority interest</b> .....	<b>14,954</b>	<b>12,356</b>	<b>144,101</b>
<b>Income taxes</b> (Note 10)			
Current .....	4,864	1,773	46,873
Deferred .....	(107)	2,460	(1,040)
	<b>4,756</b>	<b>4,233</b>	<b>45,833</b>
Income before minority interest .....	<b>10,198</b>	<b>8,122</b>	<b>98,267</b>
Minority interest .....	<b>(291)</b>	<b>(257)</b>	<b>(2,811)</b>
<b>Net income</b> .....	<b>¥ 9,906</b>	<b>¥ 7,864</b>	<b>\$ 95,456</b>
		Yen	U.S. dollars
<b>Per share of common stock:</b>			
<b>Net income:</b>			
Basic .....	¥41.64	¥37.31	\$0.40
Assuming dilution .....	41.38	36.82	0.39
Cash dividends applicable to the year .....	8.00	7.00	0.07

The accompanying notes are an integral part of these statements.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common stock	Additional paid-in capital	Land revaluation excess	Net unrealized gain on available-for-sale securities	Retained earnings	Foreign currency translation adjustments	Treasury stock at cost	Total shareholders' equity
(Millions of yen)								
<b>Balance at December 31, 2002</b> .....	¥45,623	¥38,229	¥ 4,945	¥ 2,103	¥ 3,253	(¥ 12)	(¥ 2,514)	¥91,628
Net income .....	—	—	—	—	7,864	—	—	7,864
Cash dividends paid .....	—	—	—	—	(1,921)	—	—	(1,921)
Directors' and statutory auditors' bonuses ..	—	—	—	—	(60)	—	—	(60)
Transfer to land revaluation excess .....	—	—	4,291	—	(4,291)	—	—	—
Net increase in land revaluation excess, net of deferred income taxes .....	—	—	148	—	—	—	—	148
Net increase in unrealized gain on available-for-sale securities, net of deferred income taxes .....	—	—	—	4,175	—	—	—	4,175
Net change in foreign currency translation adjustments .....	—	—	—	—	—	(161)	—	(161)
Increase in treasury stock .....	—	—	—	—	—	—	(2,188)	(2,188)
<b>Balance at December 31, 2003</b> .....	¥45,623	¥38,229	¥ 9,384	¥ 6,278	¥ 4,845	(¥ 173)	(¥ 4,702)	¥99,485
Net income .....	—	—	—	—	9,906	—	—	9,906
Cash dividends paid .....	—	—	—	—	(1,834)	—	—	(1,834)
Directors' and statutory auditors' bonuses ..	—	—	—	—	(103)	—	—	(103)
Issuance of new stock .....	6,006	5,964	—	—	—	—	—	11,970
Gain on sale of treasury stock .....	—	5,545	—	—	—	—	—	5,545
Transfer to land revaluation excess .....	—	—	3,251	—	(3,251)	—	—	—
Net increase in unrealized gain on available-for-sale securities, net of deferred income taxes .....	—	—	—	2,574	—	—	—	2,574
Net change in foreign currency translation adjustments .....	—	—	—	—	—	(85)	—	(85)
Net change in treasury stock .....	—	—	—	—	—	—	3,850	3,850
<b>Balance at December 31, 2004</b> .....	¥51,629	¥49,740	¥12,635	¥ 8,852	¥ 9,562	(¥ 258)	(¥ 852)	¥131,308

	(Thousands of U.S. dollars)							
<b>Balance at December 31, 2003</b> .....	\$439,616	\$368,372	\$90,422	\$60,494	\$46,687	(\$ 1,667)	(\$45,309)	\$958,616
Net income .....	—	—	—	—	95,456	—	—	95,456
Cash dividends paid .....	—	—	—	—	(17,679)	—	—	(17,679)
Directors' and statutory auditors' bonuses ..	—	—	—	—	(995)	—	—	(995)
Issuance of new stock .....	57,872	57,471	—	—	—	—	—	115,343
Gain on sale of treasury stock .....	—	53,439	—	—	—	—	—	53,439
Transfer to land revaluation excess .....	—	—	31,331	—	(31,331)	—	—	—
Net increase in unrealized gain on available-for-sale securities, net of deferred income taxes .....	—	—	—	24,808	—	—	—	24,808
Net change in foreign currency translation adjustments .....	—	—	—	—	—	(827)	—	(827)
Net change in treasury stock .....	—	—	—	—	—	—	37,097	37,097
<b>Balance at December 31, 2004</b> .....	\$497,489	\$479,283	\$121,753	\$85,302	\$92,137	(\$ 2,494)	(\$ 8,211)	\$1,265,260

The accompanying notes are an integral part of these statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31		
	2004	2003	2004
	(Millions of yen)		(Thousands of U.S. dollars)
<b>Operating activities:</b>			
<b>Income before income taxes and minority interest</b> .....	<b>¥ 14,954</b>	<b>¥ 12,356</b>	<b>\$ 144,101</b>
Depreciation and amortization .....	3,496	3,535	33,695
Equity in income of affiliated companies .....	(245)	(235)	(2,368)
Increase (decrease) in allowance for doubtful accounts .....	16	(380)	157
Increase in (reversal of) accrued severance indemnities, less payments ..	265	(129)	2,561
Increase in reserve for bonuses to employees .....	54	15	521
Interest and dividend income .....	(539)	(466)	(5,199)
Interest expense .....	6,481	6,723	62,450
Loss on sale of property and equipment .....	1,613	615	15,551
(Gain) loss on sale of marketable and investment securities .....	(1,445)	11	(13,925)
Write-down of real estate for sale .....	2,127	—	20,497
Write-down of marketable securities .....	13	42	134
(Increase) decrease in accounts receivable, trade .....	(2,384)	2,927	(22,972)
Decrease in inventories .....	3,081	6,211	29,694
(Increase) decrease in guarantee deposits paid .....	(2,301)	1,332	(22,172)
Increase in accounts payable, trade .....	445	288	4,296
Increase (decrease) in guarantee deposits received .....	5,320	(388)	51,271
Other .....	1,888	402	18,195
<b>Subtotal</b> .....	<b>32,845</b>	<b>32,859</b>	<b>316,488</b>
Interest and dividends received .....	573	511	5,521
Interest paid .....	(6,449)	(6,689)	(62,149)
Income taxes paid .....	(2,050)	(1,017)	(19,756)
<b>Net cash provided by operating activities</b> .....	<b>24,918</b>	<b>25,663</b>	<b>240,104</b>
<b>Investing activities:</b>			
Proceeds from sale of marketable and investment securities .....	4,950	585	47,701
Payment for purchase of marketable and investment securities .....	(4,737)	(9,462)	(45,653)
Proceeds from sale of property and equipment .....	2,817	4,010	27,144
Payment for purchase of property and equipment .....	(2,753)	(3,792)	(26,533)
Investments in consortia .....	(27,620)	(2,991)	(266,142)
Proceeds from sale of investments in consortia .....	2,569	1,252	24,761
Increase in long-term loans .....	(460)	(51)	(4,435)
Collection of long-term loans .....	45	29	443
Other .....	(2,424)	(989)	(23,365)
<b>Net cash used in investing activities</b> .....	<b>(27,613)</b>	<b>(11,409)</b>	<b>(266,080)</b>
<b>Financing activities:</b>			
Decrease in short-term borrowings .....	(2,150)	(19,500)	(20,716)
Increase in long-term debt .....	64,140	78,350	618,038
Repayment of long-term debt .....	(71,059)	(57,758)	(684,715)
Proceeds from issuance of new stock .....	11,970	—	115,343
Proceeds on sale of treasury stock .....	9,762	—	94,069
Acquisition of treasury stock .....	(1,299)	(2,191)	(12,523)
Repayment of corporate bonds .....	(6,615)	(14,300)	(63,740)
Dividends paid .....	(2,101)	(1,917)	(20,254)
Other .....	(72)	—	(697)
<b>Net cash used in financing activities</b> .....	<b>2,574</b>	<b>(17,317)</b>	<b>24,803</b>
Effect of exchange rate changes on cash and cash equivalents .....	(4)	(29)	(47)
Net decrease in cash and cash equivalents .....	(126)	(3,092)	(1,219)
Cash and cash equivalents at beginning of year .....	6,745	9,838	65,002
<b>Cash and cash equivalents at end of year</b> (Note 14) .....	<b>¥ 6,619</b>	<b>¥ 6,745</b>	<b>\$ 63,783</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 ¥103.780 to US\$1, prevailing on December 31, 2004, has been used for translation of U.S. dollar amounts in the accompanying consolidated financial statements.

### 2. Significant Accounting Policies

#### (a) Consolidation

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

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 five 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, 2003, and December 31, 2003 and 2004, 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**

Securities are classified and accounted for, depending on management's intent, as follows:

i) 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 ii) available-for-sale securities, for which market quotations are available, are reported at their 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.

Available-for-sale securities for which market quotations are unavailable are stated at cost, except as stated in the paragraph below.

In cases where the fair value of equity securities issued by unconsolidated subsidiaries and affiliates or other securities has declined significantly and such impairment of the value is not deemed temporary, those securities are written down to their fair value and the resulting losses are included in the net income for the period.

**(e) Inventories**

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

The Company has adopted the accounting policy of writing-down inventories to their 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 statements of income.

The fair value of the revalued land as of December 31, 2004 was ¥4,236 million (US\$40,819 thousand), less than 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) Derivatives and hedging activities**

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.

**(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 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.

**(j) 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.

**(k) Income taxes**

Deferred taxes are determined using the asset and liability approach, whereby deferred tax assets and liabilities are recognized with respect to temporary differences between the financial reporting and tax basis of recording assets and liabilities, and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

**(l) Accounting changes**

(1) Accounting for sales expenses in the real estate sales and the brokerage businesses

In fiscal year 2004, the Company changed its accounting for the real estate sales expenses (advertising, miscellaneous, and sales personnel expenses) from recognizing them when they are incurred to deferring recognition of such expenses until the related revenues are recorded. This change is due to the Company's recognition that the supply of condominium and housing units will increase remarkably and the period from the beginning of the marketing to recognition of sales (based on delivery) has been extending particularly for larger Tower condominiums, etc. This change in accounting is for better matching of revenue and expenses of the real estate segment in each period.

In fiscal year 2004, in a part of consolidated subsidiaries, a similar change in accounting for expenses was made in relating to the brokerage business ("Other" segment) with third parties.

As a result of these changes, cost of revenue and selling, general and administrative expenses decreased by ¥437 million (US\$4,213 thousand) and ¥3,491 million (US\$33,645 thousand), respectively, and operating income and income before income taxes and minority interest increased by ¥3,929 million (US\$37,859 thousand) compared to what it would have been had the previous method been used.

(2) Retirement benefits for directors and statutory auditors

In fiscal year 2004, the Company changed its accounting for lump-sum retirement benefits for directors and statutory auditors from the method in which such benefits are recorded when they are paid to the method where an accrual is provided based on the estimated amount incurred up to the balance sheet date based on the internal rule even though the payment is subject to the shareholders' approval. This change is for the better matching of such expenses to the income of the periods when directors and statutory auditors provide their services to the Company.

As a result of the change, selling, general and administrative expenses and other expenses increased by ¥118 million (US\$1,139 thousand) and ¥503 million (US\$4,849 thousand), respectively, and income before income taxes and minority interest decreased by ¥621 million (US\$5,988 thousand) compared to what it would have been had the previous method been used.

**(m) Reclassifications**

Certain reclassifications of the consolidated financial statements for the year ended December 31, 2003 have been made to conform to the presentation for the year ended December 31, 2004.

**3. Marketable Securities and Investment Securities**

Marketable securities and investment securities consist of the following:

	December 31		2004 (Thousands of U.S. dollars)
	2004	2003	
	(Millions of yen)		
<b>Marketable securities:</b>			
Other equity securities .....	¥ 2,971	¥ 462	\$ 28,632
	<u>¥ 2,971</u>	<u>¥ 462</u>	<u>\$ 28,632</u>
<b>Investment securities:</b>			
Corporate stocks .....	28,590	¥24,680	275,493
Government bonds and corporate bonds .....	1,142	1,141	11,009
Other equity securities .....	21,263	22,805	204,891
	<u>¥50,996</u>	<u>¥48,627</u>	<u>\$491,393</u>

As of December 31, 2004, other equity securities of marketable securities and investment securities included investments in SPC (Special Purpose Company) in the amount of ¥2,971 million (US\$28,632 thousand) (¥462 million in 2003) and ¥12,649 million (US\$121,886 thousand) (¥12,359 million in 2003), respectively.

**4. Inventories**

Inventories consist of the following:

	December 31		2004 (Thousands of U.S. dollars)
	2004	2003	
	(Millions of yen)		
<b>Real estate for sale:</b>			
Completed .....	¥14,552	¥10,134	\$140,229
Undeveloped and in-progress .....	57,330	65,665	552,423
	<u>¥71,883</u>	<u>¥75,800</u>	<u>\$692,652</u>

**5. Intangible Assets**

Intangible assets consist of the following:

	December 31		2004 (Thousands of U.S. dollars)
	2004	2003	
	(Millions of yen)		
Leasehold land .....	¥ 6,759	¥ 6,864	\$ 65,129
Other .....	551	429	5,316
	<u>¥ 7,310</u>	<u>¥ 7,294</u>	<u>\$ 70,446</u>

**6. Long-Term Loans**

Long-term loans as at December 31, 2004 and 2003 included doubtful debts of ¥2,698 million (\$26,000 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, 2004 were unsecured.

The average interest rate for short-term borrowings was 0.86% and 1.09% as at December 31, 2004 and 2003, respectively. The average amount of short-term borrowings outstanding was approximately ¥23,460 million (\$226,061 thousand) and ¥36,477 million during the years ended December 31, 2004 and 2003, respectively.

Long-term debt consists of the following:

	December 31		2004 (Thousands of U.S. dollars)
	2004	2003	
	(Millions of yen)		
<b>Secured loans:</b>			
With banks and insurance companies, carrying interest rates principally between 1.73% and 5.95%, maturing serially through 2015 .....	¥ 24,857	¥ 25,915	\$ 239,516
<b>Unsecured:</b>			
With banks, carrying interest rates principally between 1.08% and 3.24%, maturing serially through 2022 .....	237,603	243,200	2,289,494
1.8% yen convertible debentures, due 2004 .....	—	6,615	—
	<u>237,603</u>	<u>249,815</u>	<u>2,289,494</u>
	<b>262,460</b>	<b>275,730</b>	<b>2,529,010</b>
Less-amounts due within one year .....	88,286	75,671	850,711
	<u>¥174,173</u>	<u>¥200,058</u>	<u>\$1,678,299</u>

The aggregate annual maturities of long-term debt subsequent to December 31, 2004 are summarized below:

Year ending December 31:	Millions of yen	Thousands of U.S. dollars
2005 .....	¥ 88,286	\$ 850,711
2006 .....	58,319	561,957
2007 .....	54,624	526,345
2008 .....	39,658	382,136
2009 and thereafter .....	21,571	207,858
Total .....	<u>¥262,460</u>	<u>\$2,529,010</u>

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, 2004 are as follows:

	Millions of yen	Thousands of U.S. dollars
Land .....	¥47,745	\$460,065
Buildings .....	12,493	120,388
Inventories .....	4,263	41,084
Investment securities .....	2,191	21,116
Total .....	<u>¥66,694</u>	<u>\$642,654</u>

## 8. Long-Term Accounts Payable, Other

At December 31, 2004, long-term payables for the purchase of property were included in long-term accounts payable, other and accounts payable, trade at an amount of ¥3,644 million (\$35,117 thousand) and ¥265 million (\$2,554 thousand), respectively. These payables mature from 2005 to 2019 and bear interest at the rate of 3.625%. 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		
	2004	2003	2004
	(Millions of yen)		(Thousands of U.S. dollars)
Projected benefit obligation:			
Projected benefit obligation .....	¥10,381	¥9,256	\$100,035
Fair value of plan assets .....	(4,116)	(3,645)	(39,663)
	<b>6,265</b>	5,611	<b>60,371</b>
Unrecognized actuarial loss .....	(1,519)	(1,132)	(14,645)
Accrued severance indemnities .....	¥ 4,745	¥4,479	\$ 45,725
Year ended December 31			
	2004	2003	2004
	(Millions of yen)		(Thousands of U.S. dollars)
Net periodic pension cost:			
Service cost .....	¥492	¥410	\$4,742
Interest cost .....	225	203	2,168
Expected return on plan assets .....	(72)	(62)	(702)
Recognized actuarial loss .....	128	125	1,237
Other .....	—	264	—
Net periodic pension cost .....	¥772	¥941	\$7,446
Assumptions:			
Allocation method of projected benefits	Years-of-service approach	Years-of-service approach	
Discount rate	2.0%	2.0 – 2.5%	
Rate of expected return on plan assets	2.0%	2.0%	
Amortization period of actuarial gains or losses	10 years	10 years	

## 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 rate reflected in the consolidated statements of income for the years ended December 31, 2004 and 2003, differs from the statutory tax rate for the following reasons:

	Year ended December 31	
	2004	2003
Statutory tax rate .....	<b>42.1%</b>	42.1%
Increase (decrease) in income taxes resulting from:		
Tax rate difference between the Parent and subsidiaries .....	<b>(0.3)</b>	0.0
Reversal of valuation allowance for deferred tax assets .....	<b>(11.0)</b>	(6.3)
Non-deductible expenses .....	<b>0.6</b>	0.8
Non-taxable income .....	<b>(2.4)</b>	(0.3)
Par capita of inhabitant taxes .....	<b>0.1</b>	0.2
Change in effective tax rate .....	<b>0.4</b>	(1.4)
Other .....	<b>2.3</b>	(0.8)
Effective tax rate .....	<b>31.8%</b>	34.3%

The significant components of deferred tax assets and liabilities as of December 31, 2004 and 2003, are as follows:

	December 31		
	2004	2003	2004
	(Millions of yen)		(Thousands of U.S. dollars)
Deferred tax assets:			
Write-down of property and equipment ....	<b>¥ 4,237</b>	¥ 4,858	<b>\$ 40,827</b>
Write-down of stocks of subsidiaries and affiliated companies .....	<b>2,002</b>	2,002	<b>19,295</b>
Allowance for doubtful accounts, in excess of tax deductible portion .....	<b>439</b>	206	<b>4,239</b>
Accrued severance indemnities, in excess of tax deductible portion .....	<b>1,779</b>	1,592	<b>17,147</b>
Net operating loss carryforwards .....	<b>952</b>	1,255	<b>9,175</b>
Write-down of investment securities .....	<b>469</b>	508	<b>4,524</b>
Other .....	<b>2,478</b>	1,353	<b>23,886</b>
	<b>12,359</b>	11,777	<b>119,096</b>
Valuation allowance .....	<b>(8,124)</b>	(9,827)	<b>(78,286)</b>
Total deferred tax assets .....	<b>¥ 4,235</b>	¥ 1,950	<b>\$ 40,809</b>
Deferred tax liabilities:			
Reversal of deferred tax liabilities based on revaluation of assets of subsidiaries .....	<b>3,428</b>	3,439	<b>33,033</b>
Net unrealized gain on available-for-sale securities .....	<b>5,990</b>	4,332	<b>57,718</b>
Other .....	<b>11</b>	7	<b>111</b>
Total deferred tax liabilities .....	<b>9,429</b>	7,779	<b>90,863</b>
Net deferred tax liabilities .....	<b>¥ 5,194</b>	¥ 5,828	<b>\$ 50,053</b>

## **11. Shareholders' Equity**

Under the Japanese Commercial Code (the "Code") 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 shall be appropriated and 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.

Under the Code the Parent is able 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. 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 a reduction was resolved at the same 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, 2004, the Parent was contingently liable for guarantees on loans to its customers and employees amounting to approximately ¥4,811 million (\$46,359 thousand). The Parent has rights to various forms of collateral against the above guarantees for customers and employees.

At December 31, 2004, the Parent was also contingently liable for guarantees on loans to its two affiliated companies and others amounting to ¥2,308 million (\$22,242 thousand). The Parent holds no collateral from these affiliated companies.

As at December 31, 2004, 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, 2004 and 2003 were ¥8,973 million (\$86,462 thousand) and ¥10,439 million, respectively, and were included in the cost of revenue.

## **13. Subsequent Events**

On March 30, 2005, the shareholders approved payment of cash dividends to shareholders, as recorded in the shareholders' register as of December 31, 2004, at ¥4 (\$0.03) per share, totaling of ¥1,011 million (\$9,745 thousand).

The shareholders were informed at the general shareholders' meeting held on March 30, 2005 that the Board of Directors approved the repurchase of common stock as treasury stock of 2,000,000 shares or ¥1,299 million (US\$ 12,523 thousand) for the year ended December 31, 2004.

## 14. Supplemental Cash Flow Information

The following table represents a reconciliation of cash and cash equivalents as of January 1, 2003, December 31, 2004 and December 31, 2003.

	December 31		January 1	December 31
	2004	2003	2003	2004
		(Millions of yen)		(Thousands of U.S. dollars)
Cash .....	¥6,692	¥6,819	¥9,912	\$64,490
Time deposits with a maturity of more than three months .....	(73)	(73)	(73)	(707)
Cash and cash equivalents.....	¥6,619	¥6,745	¥9,838	\$63,783

On December 1, 2004, the Parent exchanged its common shares held by itself with common shares of five consolidated subsidiaries held by each shareholder other than the Parent for the purpose of holding the 100 percent ownership. As a result, additional paid-in capital increased by ¥284 million (US\$2,738 thousand) without an increase in cash and cash equivalents.

## 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, 2004 and 2003:

### Industry Segments:

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

	(Millions of yen)				Portion not classified into segments, less elimination (Note 1)	Consolidated
	Year ended December 31, 2004					
	Leasing	Real estate sales	Other	Total		
<b>Revenue from operations</b>						
(1) Customers .....	¥ 41,580	¥ 95,306	¥ 24,410	¥161,296	¥ —	¥161,296
(2) Intersegment .....	562	102	2,242	2,907	(2,907)	—
Total .....	42,142	95,409	26,652	164,204	(2,907)	161,296
<b>Costs and operating expenses .....</b>	25,049	87,512	22,580	135,142	2,609	137,751
<b>Operating income .....</b>	¥ 17,093	¥ 7,897	¥ 4,071	¥ 29,061	¥ (5,516)	¥ 23,545

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

	(Millions of yen)				Portion not classified into segments, less elimination (Note 2)	Consolidated
	Year ended December 31, 2004					
	Leasing	Real estate sales	Other	Total		
<b>Assets .....</b>	¥356,925	¥ 82,867	¥ 41,773	¥481,566	¥ 37,954	¥519,520
<b>Depreciation .....</b>	¥ 2,951	¥ 12	¥ 303	¥ 3,268	¥ 63	¥ 3,331
<b>Capital expenditures .....</b>	¥ 1,543	¥ 50	¥ 1,063	¥ 2,657	¥ 109	¥ 2,766

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

(Millions of yen)  
Year ended December 31, 2003

	Leasing	Real estate sales	Other	Total	Portion not classified into segments, less elimination (Note 1)	Consolidated
<b>Revenue from operations</b>						
(1) Customers .....	¥ 38,700	¥ 66,387	¥ 24,042	¥129,130	¥ —	¥129,130
(2) Intersegment .....	576	97	2,124	2,798	(2,798)	—
Total .....	39,276	66,485	26,166	131,928	(2,798)	129,130
<b>Costs and operating expenses .....</b>	25,044	62,849	19,838	107,733	1,763	109,496
<b>Operating income .....</b>	¥ 14,231	¥ 3,635	¥ 6,327	¥ 24,194	¥ (4,561)	¥ 19,633

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

	Leasing	Real estate sales	Other	Total	Portion not classified into segments, less elimination (Note 2)	Consolidated
<b>Assets .....</b>	¥330,565	¥ 82,225	¥ 40,137	¥452,928	¥ 31,309	¥484,237
<b>Depreciation .....</b>	¥ 3,000	¥ 12	¥ 304	¥ 3,318	¥ 95	¥ 3,414
<b>Capital expenditures .....</b>	¥ 2,421	¥ 5	¥ 1,157	¥ 3,583	¥ 18	¥ 3,601

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

(Thousands of U.S. dollars)  
Year ended December 31, 2004

	Leasing	Real estate sales	Other	Total	Portion not classified into segments, less elimination (Note 1)	Consolidated
<b>Revenue from operations</b>						
(1) Customers .....	\$ 400,655	\$ 918,353	\$ 235,210	\$1,554,219	\$ —	\$1,554,219
(2) Intersegment .....	5,421	989	21,604	28,015	(28,015)	—
Total .....	406,077	919,342	256,814	1,582,234	(28,015)	1,554,219
<b>Costs and operating expenses .....</b>	241,371	843,247	217,582	1,302,200	25,142	1,327,343
<b>Operating income .....</b>	\$ 164,706	\$ 76,095	\$ 39,232	\$ 280,033	(\$ 53,158)	\$ 226,875

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

	Leasing	Real estate sales	Other	Total	Portion not classified into segments, less elimination (Note 2)	Consolidated
<b>Assets .....</b>	\$3,439,255	\$ 798,492	\$ 402,516	\$4,640,264	\$ 365,716	\$5,005,980
<b>Depreciation .....</b>	\$ 28,441	\$ 124	\$ 2,928	\$ 31,494	\$ 608	\$ 32,103
<b>Capital expenditures .....</b>	\$ 14,872	\$ 485	\$ 10,248	\$ 25,606	\$ 1,054	\$ 26,660

Note1.: Operating expenses not classified into segments totaled ¥4,888 million (\$47,109 thousand) and ¥4,440 million before elimination, at December 31, 2004 and 2003, respectively.

Such operating expenses consisted mainly of those of the administration departments of the Company.

Note2.: Assets not classified into segments totaled ¥61,349 million (\$591,145 thousand) and ¥56,539 million before elimination, at December 31, 2004 and 2003, respectively. Such assets consisted mainly of cash, marketable securities, investment securities and other assets belonging to the administration departments of the Company.

Note3.: As described in Note 2 (l) (1), in fiscal year 2004, the Company changed its accounting for sales expenses in the real estate sales segment and in a part of other businesses. As a result of the change, costs and operating expenses for real estate sales and those for other decreased by ¥3,863 million (US\$37,229 thousand) and ¥437 million (US\$4,213 thousand), respectively, and "portion not classified into segments, less elimination" increased by ¥371 million (US\$3,583 thousand) compared to what it would have been had the previous method been used.

Note4.: As described in Note 2 (l) (2), in fiscal year 2004, the Company changed its accounting for retirement benefits for directors and statutory auditors. As a result, costs and operating expenses for "portion not classified into segments, less elimination" increased by ¥118 million (US\$1,139 thousand) compared to what it would have been had the previous method been used.

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, 2004 and 2003 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, 2004 and 2003, 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.

As described in Note 2 (l) (1) and (2), effective from the year ended December 31, 2004, Tokyo Tatemono Co., Ltd. and its consolidated subsidiaries changed their accounting for sales expenses in the real estate sales and the brokerage businesses and for retirement benefits for directors and statutory auditors.

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 30, 2005

## CONDENSED NON-CONSOLIDATED BALANCE SHEETS

	December 31		
	2004	2003	2004
	(Millions of yen)		(Thousands of U.S. dollars)
Assets:			
Current assets .....	¥ 92,714	¥ 85,901	\$ 893,376
Investments .....	109,696	79,088	1,057,012
Property and equipment .....	268,283	273,338	2,585,120
Intangible and other assets .....	6,868	6,947	66,187
	<b>¥477,564</b>	<b>¥445,276</b>	<b>\$4,601,697</b>
Liabilities and shareholders' equity:			
Current liabilities .....	¥ 123,095	¥117,820	\$1,186,115
Long-term liabilities .....	227,852	230,563	2,195,532
Shareholders' equity .....	126,616	96,892	1,220,048
	<b>¥ 477,564</b>	<b>¥445,276</b>	<b>\$4,601,697</b>

## CONDENSED NON-CONSOLIDATED STATEMENTS OF INCOME

	Year ended December 31		
	2004	2003	2004
	(Millions of yen)		(Thousands of U.S. dollars)
Revenue from operations .....	¥132,716	¥104,496	\$1,278,828
Operating income .....	20,391	16,209	196,483
Income before income taxes .....	12,717	9,633	122,547
Net income .....	8,447	5,474	81,393
	Yen		U.S. dollars
Per share of common stock:			
Net income:			
Basic .....	¥35.30	¥25.66	\$0.34
Assuming dilution .....	35.10	25.42	0.33

Note: Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of ¥103.780=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.

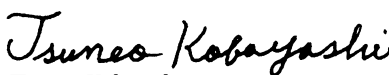
We have audited, in accordance with auditing standards, procedures and practices generally accepted and applied in Japan, the non-consolidated balance sheets of Tokyo Tatemono Co., Ltd. as at December 31, 2004 and 2003, and the related non-consolidated statements of income for the years then ended (not presented herein); and in our reports dated March 30, 2005 and March 30, 2004, 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, is fairly stated in all material respects in relation thereto.

As described in Note 2 (l) (1) and (2), effective from the year ended December 31, 2004, Tokyo Tatemono Co., Ltd. changed its accounting for sales expenses in the real estate sales businesses and for retirement benefits for directors and statutory auditors.



Sukenori Mori  
Certified Public Accountant



Tsuneo Kobayashi  
Certified Public Accountant

Tokyo, Japan  
March 30, 2005

## BOARD OF DIRECTORS

**President and Chief Executive Officer**  
*Keisuke Minami*

**Senior Managing Directors**  
*Makoto Hatanaka*  
*Setsuya Morita*

**Managing Directors**  
*Hajime Sakuma*  
*Hisashi Gomyou*  
*Mitsuru Fujii*

**Directors**  
*Shinichi Nara*  
*Kazumasa Kato*  
*Seigo Maruta*  
*Tatsuo Usui*  
*Seiken Saito*  
*Hisao Shibayama*  
*Satoshi Okubo*  
*Shinji Ayaki*

**Statutory Auditors**  
- Full time  
*Masatoshi Kanazawa*  
*Toshio Matsumi*  
- Part time  
*Tomohiro Kamio*  
*Kouji Suzuki*

(as at May 31, 2005)

## CORPORATE DATA

**Tokyo Tatemono Co., Ltd.**

**Date of Establishment**  
*October 1, 1896*

**Capital**  
*¥51,629 million*

**Number of Employees**  
*298*

**Number of Shareholders**  
*18,526*  
*(as at December 31, 2004)*

**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.**  
*222 North Sepulveda Blvd. Suite 1730,*  
*El Segundo, CA 90245 U.S.A.*  
*Tel. (310) 607-0355*  
*Fax. (310) 607-0357*

**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) 85-2528*  
*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.**  
*2-2, Kanda tsukasamachi Chiyoda-ku,*  
*Tokyo 101-0048 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*

**Y.K.Hakusan Holding**  
*9-9, Yaesu 1-chome, Chuo-ku,*  
*Tokyo 103-8285 Japan*

### 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*

**Tokyo Realty Investment Management, Inc.**  
*9-9, Yaesu 1-chome, Chuo-ku,*  
*Tokyo 103-8285 Japan*  
*Tel. (03) 3516-1591*  
*Fax. (03) 3274-7775*

<http://www.tatemono.com>

**Tokyo Tatemono Co., Ltd.**

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

Tel. (03) 3274-0111