

A N N U A L R E V I E W 2 0 0 5

Fiscal Year Ended December 31, 2005

Tokyo Tatemono Co., Ltd.

MANAGEMENT REVIEW

Operating Environment

In fiscal year 2005, the Japanese economy showed a movement for full-scale recovery in spite of remarkable rises in crude oil price. Due to steady performance, corporate earnings continued in favorable employment, income environments and personal consumption, which allowed company investments to increase.

In the real estate business, the expansion of office space demand based on the economic recovery has resulted in both the rise of rent charges in large-scale buildings with superior locations and functions as well as increase in operations. In the residential housing market, brisk sales have been sustained despite a high supply of large-scale high-rise apartment buildings due to steady level of demand from baby boomers and seniors based on the both the low interest environment and spreading prospects of bottoming out in the land market.

In addition, the real estate securitization market continues to grow, and become active in urban areas through the increase of new real estate investment trust (J-REIT) listings and private offerings of real estate fund.

However, ever since the findings of asbestos and camouflage of quakeproof strength occurred, public trust in the security and reassurance of buildings became unreliable, and resulted in a big social problem.

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 a stable management for the future as well as enhancing the Company's profitability.

As a result, total revenue from operations in fiscal year 2005 increased by 9.4% to ¥176,468 million (US\$1,502,113 thousand), compared with ¥161,296 million in fiscal year 2004. Operating income in fiscal year 2005 has also increased by 25.2% to ¥29,470 million (US\$250,857 thousand), compared with ¥23,545 million in fiscal year 2004. In addition, ordinary income in fiscal year 2005 increased by 36.2% to ¥24,444 million (US\$208,072 thousand), compared with ¥17,951 million in fiscal year 2004. Furthermore, net income in fiscal year 2005 increased

by 17.9% to ¥11,684 million (US\$99,460 thousand), compared with ¥9,906 million in fiscal year 2004.

Outlook

Prospectively, the Japanese economy is expected to continue its recovery due to an increase in corporate investments supported by continued good corporate earnings and improvements in the employment environment. As personal consumption rises, an increase in export and production levels is anticipated. Additionally, a breakaway from deflation is expected as economic recovery continues.

In the real estate business, the building market is expected to further improve with respect to office space demand/supply, resulting from a further decline in the office space vacancy rates and rising trend in office rental prices. In the residential housing market, strong demand is expected due to an improvement in the employment environment despite of the lowered consumer confidence caused by the quakeproof strength camouflage issue.

Foundation

Under these business circumstances, the Company intends to strengthen profitability in every business area, evolve the business model with an axis on real estate securitization, and expand the business area. In addition, the Company intends to further increase the value of the Tokyo Tatemono Group as a whole, by providing high quality products and services which will be rated as No. 1 by the customer. As we move into the future, the company will build on the trust from customers that has been cultivated for the past 110 years to move to "the future."

FINANCIAL REVIEW

Revenue and Income

Office and Commercial Building Leasing

In fiscal year 2005, the Company endeavored to maintain and improve its profitability along with its operation by pursuing full tenant service aimed at “producing a safe and comfortable space,” and took positive actions to expand new orders in the asset and property management business. In addition, to improve asset usage efficiency, the Company sold a part of its buildings and continued to invest funds in profitable buildings by using a Special Purpose Company. This year, large scale investments were made such as “Banyu Pharmaceutical Headquarters building / annex Building” (Chuo-ku, Tokyo) and “Maruzen Nagoya Building” (Nagoya-city).

In fiscal year 2005, in spite of partial sales of the building in the previous year, decrease of revenue from the Building leasing business was just slight because of high occupancy rate (vacancy rate 2.8%) in the end of this term, and dividend income from buildings owned by SPC (Special Purpose Company) increased as dividend was based on full year operations and sales.

As a result, revenue from the leasing business in fiscal year 2005 increased by 1.4% to ¥42,162 million (US\$358,893 thousand), compared with ¥41,580 million in the previous year. Operating income from the leasing business in fiscal year 2005 increased by 6.3% to ¥18,170 million (US\$154,665 thousand), compared with ¥17,093 million in the previous year.

Real Estate Sales

In order to promote “Refined housing” and “Comfortable and peaceful house,” which are the brand identifies of the “Brillia” real estate sales brand, the Company has acquired carefully selected land, performed customer-oriented product planning, and provided good quality administration services after the property is occupied. In fiscal year 2005, the Company received the proceeds from the sales of “Tokyo front court” (Koto-ku, Tokyo), “Takanawa The Residence” (Minato-ku, Tokyo) and “The Umeda Tower” (Osaka City), all condominiums, and “Brillia Terrace Yokohama Sorano Machi” (Yokohama City) a housing unit. In addition, the Company has received proceeds from the sales of part of a building.

As a result, sales of the real estate business in fiscal year 2005 increased by 5.1% to ¥100,142 million (US\$852,425 thousand), compared with ¥95,306 million in the previous year. Operating income from the real estate business in fiscal year 2005 increased by 5.7% to ¥8,349 million (US\$71,073 thousand), compared with ¥7,897 million in the previous year.

Related Services

In fiscal year 2005, the Company aggressively operated its related services by putting into practice its fully experienced knowledge 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.

The Company acquired golf courses such as “J golf Tsurugashima” (Hidaka-shi, Saitama) and started managing them as well as continued the promotion of business for the compound redevelopments, “Musashiurawa Station No. 8-1 blocks class town area the first redevelopment business” (Saitama-shi) “Musashiurawa shopping square” which is within the redevelopment opened in November, 2005.

In fiscal year 2005, revenue from related business increased due to, increase of brokerage revenue in “real estate transaction business”, start of full year operation of the golf courses purchased in “resort development and leisure hotel business” and increase of allotment income and an urban redevelopment business related revenue by utilizing SPC.

As a result, these operations in fiscal year 2005 brought in revenue of ¥34,162 (US\$290,794 thousand), 40.0% increase from ¥24,410 million in the previous year. Operating income from related service operations in fiscal year 2005 increased by 104.7% to 8,332 million (US\$70,926 thousand), compared with ¥4,071 million in the previous year.

Analysis of Profitability

As a result of the increase in revenue, largely in office and commercial building leasing, real estate sales business, and related services, revenue in fiscal year 2005 increased by ¥15,171 million (US\$129,139 thousand) compared with that of the previous year. In addition, operating income in

fiscal year 2005 increased by ¥5,925 million (US\$ 50,438 thousand) compared with that of the previous year, mainly due to the revenue in the urban redevelopment business. Ordinary income in fiscal year 2005 increased by ¥6,493 million (US\$55,270 thousand) compared with that of the previous year, due mainly to the decrease in interest expense. Net income in fiscal year 2005 increased by ¥1,778 million (US\$15,135 thousand) compared with that of the previous year, due mainly to write-down of real estate for sale and impairment losses on fixed assets.

Financial Position

In fiscal year 2005, total assets increased by ¥94,786 million (US\$806,833 thousand) to ¥614,307 million (US\$5,229,039 thousand), resulting from an increase in current assets of ¥53,141 million (US\$452,347 thousand) and non-current assets of ¥41,645 million (US\$354,485 thousand.)

Debt, including short-term borrowings, increased by ¥24,375 million (US\$207,484 thousand), to ¥412,587 million (US\$3,511,978 thousand), mainly due to the increase in other current liabilities. Interest-bearing debt decreased by 5,207 million (US\$ 44,325 thousand) to 273,983 million (US\$ 2,332,170 thousand).

Shareholders' equity increased by ¥70,330 million (US\$598,655 thousand) to ¥201,638 million (US\$1,716,366 thousand), resulting from the addition of current net income, including net unrealized holding gain on securities subscription corporate bond warrants. As a result, the ratio of shareholders equity increased by 7.5% to 32.8% and per share of net assets increased by ¥114.46 yen (US\$0.97 thousand) to ¥637.34 yen (US\$5.42 thousand).

Cash Flow

Cash and cash equivalents at the end of fiscal year 2005 decreased by ¥1,621 million (US\$13,806 thousand) compared with end of fiscal year 2004, resulting from a decrease in operating activities and investing activities of ¥941 million (US\$8,014 thousand) and ¥42,141 million (US\$358,713 thousand) respectively, and an increase in financing activities of ¥44,170 million (US\$375,982 thousand) in fiscal year 2005. Consequently, the Company had ¥8,241 million (US\$70,151 thousand) in cash and cash

equivalents at the end of fiscal year 2005.

Cash flow in operating activities

Operating activities in fiscal year 2005 decreased cash and cash equivalents by ¥941 million (US\$8,014 thousand), due mainly to an increase in net income before income tax of ¥20,958 million (US\$178,396 thousand), increase in deposit received of ¥20,477 million (US\$174,305 thousand), increase in inventory of ¥34,529 million (US\$293,922 thousand), and income taxes paid of 6,748 million (US\$57,444 thousand).

Cash flow in investing activities

Investing activities in fiscal year 2005 decreased cash and cash equivalents by ¥42,141 million (US\$358,713 thousand), due mainly to the payment for purchase of marketable and investment securities of ¥16,029 million (US\$136,444), investments in consortia of ¥13,679 million (US\$116,439), and payment for purchase of property and equipment of ¥14,982 million (US\$127,529).

Cash flow in financing activities

Financing activities in fiscal year 2005 increased cash and cash equivalents by ¥44,170 million (US\$375,982 thousand), due mainly to an income through the publication of a corporate bond subscription warrant corporate bond of ¥52,000 million (US\$442,628), and net decrease in borrowings and commercial paper of ¥5,207 million (US\$44,325).

Tokyo Tatemono Co., Ltd. and Subsidiaries
CONSOLIDATED BALANCE SHEETS

ASSETS	December 31		
	2005	2004	2005
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Current assets:			
Cash (Note 15)	¥ 8,274	¥ 6,692	\$ 70,434
Marketable securities (Note 3)	1,782	2,971	15,176
Accounts receivable, trade	9,991	5,375	85,048
Inventories (Notes 4 and 7)	113,680	71,883	967,655
Deferred income taxes (Note 10)	1,143	1,004	9,729
Other current assets	17,262	11,063	146,939
Allowance for doubtful accounts	(14)	(12)	(123)
Total current assets	152,120	98,978	1,294,860
Investments:			
Investment securities (Notes 3 and 7)	79,477	49,648	676,520
Investments in unconsolidated subsidiaries and affiliates	3,006	3,813	25,588
Long-term loans (Note 6)	1,047	1,560	8,912
Guarantee deposits paid	11,441	10,422	97,392
Deferred income taxes (Note 10)	812	835	6,917
Investments in consortia (Note 3)	44,206	33,730	376,290
Other investments (Note 3)	3,095	6,959	26,348
Allowance for doubtful accounts (Note 6)	(875)	(1,290)	(7,453)
Total investments	142,211	105,679	1,210,516
Property and equipment:			
Land (Note 7)	239,109	247,084	2,035,323
Buildings (Note 7)	141,173	115,330	1,201,681
Machinery and equipment	1,827	719	15,556
Furniture and equipment	3,398	1,905	28,926
Construction in progress	23	184	202
Other property and equipment	1,413	—	12,032
Total property and equipment	386,946	365,225	3,293,724
Less accumulated depreciation	(74,256)	(57,674)	(632,080)
Net property and equipment	312,689	307,550	2,661,643
Intangible and other assets (Note 5)	7,285	7,312	62,018
Total assets	¥614,307	¥519,520	\$5,229,039

The accompanying notes are an integral part of these statements.

LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY

	December 31		
	2005	2004	2005
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Current liabilities:			
Short-term borrowings (Note 7)	¥ 6,100	¥ 16,730	\$ 51,923
Current portion of long-term debt (Note 7)	72,647	88,286	618,386
Accounts payable, trade (Note 8)	7,977	10,900	67,906
Accrued income taxes	6,613	4,241	56,297
Accrued expenses	4,186	4,222	35,631
Advances received	16,185	14,745	137,771
Deferred income taxes (Note 10)	—	2	—
Other current liabilities	26,867	6,135	228,699
Total current liabilities	140,578	145,265	1,196,615
Long-term liabilities:			
Long-term debt (Note 7)	195,235	174,173	1,661,860
Accounts payable, other (Notes 7 and 8)	3,379	3,644	28,766
Guarantee deposits received	37,380	37,538	318,182
Deferred income taxes (Note 10)	13,549	7,031	115,330
Deferred income taxes on land revaluation (Note 2(f))	8,933	8,672	76,045
Accrued severance indemnities (Note 9)	4,743	4,745	40,373
Other	8,787	7,140	74,803
Total long-term liabilities	272,008	242,946	2,315,362
Total liabilities	412,587	388,212	3,511,978
Minority interests	81	—	694
Shareholders' equity (Note 13):			
Common stock, without par value—			
Authorized — 800,000,000 shares			
Issued — 318,059,168 shares	77,181	51,629	656,977
Additional paid-in capital	75,522	49,740	642,854
Retained earnings	18,549	9,562	157,891
Land revaluation excess (Note 2 (f))	13,016	12,635	110,798
Net unrealized gain on securities (Note 2 (d))	17,690	8,852	150,587
Foreign currency translation adjustments	(32)	(258)	(273)
Less: Treasury stock, at cost	(290)	(852)	(2,469)
Total shareholders' equity	201,638	131,308	1,716,366
Commitments and contingent liabilities (Note 14)			
Total liabilities, minority interests and shareholders' equity ...	¥614,307	¥519,520	\$5,229,039

Tokyo Tatemono Co., Ltd. and Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME

	Year ended December 31		
	2005	2004	2005
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Revenue from operations:			
Leasing of office and commercial buildings.....	¥ 42,162	¥ 41,580	\$ 358,893
Sales of real estate.....	100,142	95,306	852,425
Related services.....	34,162	24,410	290,794
	<u>176,468</u>	<u>161,296</u>	<u>1,502,113</u>
Cost of revenue:			
Leasing of office and commercial buildings.....	24,008	24,830	204,361
Sales of real estate.....	81,898	79,988	697,130
Related services.....	18,350	16,391	156,198
	<u>124,257</u>	<u>121,211</u>	<u>1,057,690</u>
Gross profit.....	52,210	40,085	444,422
Selling, general and administrative expenses.....	22,740	16,540	193,565
Operating income.....	29,470	23,545	250,857
Other income (expenses):			
Interest and dividend income.....	587	539	5,004
Interest expense.....	(5,464)	(6,481)	(46,516)
Gain (loss) on sales of property and equipment.....	745	(1,613)	6,342
Gain on sales of marketable and investment securities.....	317	1,445	2,702
Write-downs of real estate held for sale.....	(2,296)	(2,127)	(19,548)
Write-downs of marketable securities.....	—	(13)	—
Reversal of provision for losses on doubtful accounts.....	28	0	245
Equity in income of affiliated companies.....	74	245	637
Loss on impairment of fixed assets (Note 11).....	(2,258)	—	(19,226)
Other, net.....	(247)	(585)	(2,102)
	<u>(8,512)</u>	<u>(8,590)</u>	<u>(72,460)</u>
Income before income taxes and minority interest.....	20,958	14,954	178,396
Income taxes:			
Current.....	8,689	4,864	73,965
Deferred.....	583	(107)	4,970
	<u>9,273</u>	<u>4,756</u>	<u>78,936</u>
Income before minority interest.....	11,684	10,198	99,460
Minority interest.....	—	(291)	—
Net income.....	¥ 11,684	¥ 9,906	\$ 99,460
	Yen		U.S. dollars (Note 1)
Per share of common stock:			
Net income:			
Basic.....	¥42.31	¥41.64	\$0.36
Assuming dilution.....	40.74	41.38	0.34
Cash dividends applicable to the year.....	9.00	8.00	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)								
Balance at December 31, 2003	¥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
Balance at December 31, 2004	¥51,629	¥49,740	¥12,635	¥ 8,852	¥ 9,562	(¥ 258)	(¥ 852)	¥131,308
Net income	—	—	—	—	11,684	—	—	11,684
Cash dividends paid	—	—	—	—	(2,058)	—	—	(2,058)
Directors' and statutory auditors' bonuses ..	—	—	—	—	(123)	—	—	(123)
Increase arising from subscription to warrants on corporate bonds	25,552	25,446	—	—	—	—	—	50,998
Gain on sale of treasury stock	—	335	—	—	—	—	—	335
Transfer to land revaluation excess	—	—	381	—	(381)	—	—	—
Net increase in unrealized gain on available-for-sale securities, net of deferred income taxes	—	—	—	8,838	—	—	—	8,838
Net change in foreign currency translation adjustments	—	—	—	—	—	226	—	226
Net change in treasury stock	—	—	—	—	—	—	562	562
Adjustment for inclusion in consolidation ..	—	—	—	—	(134)	—	—	(134)
Balance at December 31, 2005	¥77,181	¥75,522	¥13,016	¥17,690	¥18,549	(¥ 32)	(¥ 290)	¥201,638

(Thousands of U.S. dollars) (Note 1)

Balance at December 31, 2004	\$439,474	\$423,391	\$107,555	\$75,355	\$81,392	(\$ 2,203)	(\$ 7,254)	\$1,117,710
Net income	—	—	—	—	99,460	—	—	99,460
Cash dividends paid	—	—	—	—	(17,522)	—	—	(17,522)
Directors' and statutory auditors' bonuses ..	—	—	—	—	(1,046)	—	—	(1,046)
Increase arising from subscription to warrants on corporate bonds	217,503	216,604	—	—	—	—	—	434,108
Gain on sale of treasury stock	—	2,858	—	—	—	—	—	2,858
Transfer to land revaluation excess	—	—	3,243	—	(3,243)	—	—	—
Net increase in unrealized gain on available-for-sale securities, net of deferred income taxes	—	—	—	75,232	—	—	—	75,232
Net change in foreign currency translation adjustments	—	—	—	—	—	1,930	—	1,930
Net change in treasury stock	—	—	—	—	—	—	4,784	4,784
Adjustment for inclusion in consolidation ..	—	—	—	—	(1,148)	—	—	(1,148)
Balance at December 31, 2005	\$656,977	\$642,854	\$110,798	\$150,587	\$157,891	(\$ 273)	(\$ 2,469)	\$1,716,366

Tokyo Tatemono Co.,Ltd. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31		
	2005	2004	2005
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Operating activities:			
Income before income taxes and minority interests	¥ 20,958	¥ 14,954	\$ 178,396
Depreciation and amortization.....	4,500	3,496	38,307
Equity in income of affiliated companies.....	(74)	(245)	(637)
(Decrease) increase in allowance for doubtful accounts	(413)	16	(3,519)
Provision for accrued severance indemnities, less payments	(2)	265	(19)
Increase in reserve for bonuses to employees.....	39	54	336
Interest and dividend income.....	(587)	(539)	(5,004)
Interest expense.....	5,464	6,481	46,516
(Gain) loss on sale of property and equipment	(745)	1,613	(6,342)
Loss on impairment of on fixed assets	2,258	—	19,226
Gain on sales of marketable and investment securities.....	(317)	(1,445)	(2,702)
Write-downs of real estate held for sale	2,296	2,127	19,548
Write-downs of marketable securities.....	—	13	—
Increase in accounts receivable, trade.....	(4,162)	(2,384)	(35,431)
(Increase) decrease in inventories.....	(34,529)	3,081	(293,922)
Decrease (increase) in guarantee deposits paid.....	170	(2,301)	1,448
Increase in accounts payable, trade.....	500	445	4,259
(Decrease) increase in guarantee deposits received	(172)	5,320	(1,472)
Increase in deposits received.....	20,477	—	174,305
Other	(4,820)	1,888	(41,035)
Subtotal	10,838	32,845	92,255
Interest and dividends received.....	624	573	5,318
Interest paid	(5,656)	(6,449)	(48,145)
Income taxes paid	(6,748)	(2,050)	(57,444)
Net cash (used in) provided by operating activities	(941)	24,918	(8,014)
Investing activities:			
Proceeds from sales of marketable and investment securities.....	1,486	4,950	12,650
Increase in marketable and investment securities	(16,029)	(4,737)	(136,444)
Proceeds from sales of property and equipment.....	4,948	2,817	42,122
Increase in property and equipment	(14,982)	(2,753)	(127,529)
Increase in investments in consortia	(13,679)	(27,620)	(116,439)
Proceeds from sales of investments in consortia.....	3,056	2,569	26,020
Increase in loans.....	(1,042)	(460)	(8,870)
Increase in collection of loans.....	283	45	2,412
Acquisition of shares of common stock of subsidiaries.....	(7,479)	—	(63,662)
Purchase of business	(1,500)	—	(12,768)
Decrease in investments in special purpose companies	4,427	—	37,688
Other	(1,632)	(2,424)	(13,892)
Net cash used in investing activities.....	(42,141)	(27,613)	(358,713)
Financing activities:			
Decrease in short-term borrowings.....	(11,030)	(2,450)	(93,888)
Increase in commercial paper	400	300	3,404
Increase in long-term debt.....	95,270	64,140	810,946
Repayment of long-term debt	(89,847)	(70,794)	(764,788)
Proceeds from issuance of new stock	55	11,970	472
Proceeds from sales of treasury stock	6	9,762	54
Acquisition of treasury stock	(109)	(1,299)	(932)
Repayment of corporate bonds.....	—	(6,615)	—
Dividends paid.....	(2,054)	(2,101)	(17,484)
Repayment of long-term accounts payable	(265)	(265)	(2,256)
Issuance of corporate bonds with warrants	52,000	—	442,628
Other	(255)	(72)	(2,175)
Net cash used in financing activities	44,170	2,574	375,982
Effect of exchange rate changes on cash and cash equivalents.....	10	(4)	90
Net increase (decrease) in cash and cash equivalents.....	1,097	(126)	9,344
Cash and cash equivalents at beginning of year	6,619	6,745	56,345
Increase in cash and cash equivalents resulting from inclusion in consolidation ..	524	—	4,461
Cash and cash equivalents at end of year (Note 15)	¥ 8,241	¥ 6,619	\$ 70,151

The accompanying notes are an integral part of these statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**1. Basis of Preparation of Financial Statements**

The Company and its domestic consolidated subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, and its overseas consolidated subsidiaries maintain their books of account in conformity with those of their countries of domicile. The accompanying consolidated financial statements have been compiled from the accounts prepared by the Company in accordance with the provisions set forth in the Securities and Exchange Law of Japan and with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

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. 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, amounts of less than one million yen have been omitted. As a result, the totals in yen in the accompanying consolidated financial statements do not necessarily agree with the sums of the individual amounts.

The U.S. dollar amounts presented in the accompanying consolidated financial statements are included solely for the convenience of readers outside Japan. The exchange rate of ¥117.48 to US\$1.00 prevailing on December 31, 2005 has been used in the translation of U.S. dollar amounts in the accompanying consolidated financial statements. It should not be construed that Japanese yen amounts have been or could in the future be converted into dollar amounts at the above or any other rate.

2. Significant Accounting Policies**(a) Basis of consolidation**

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

The consolidated financial statements include the accounts of the Company and any significant companies which it controls directly or indirectly, as well as the accounts of companies over which the Company exercises significant influence in terms of their operating and financial policies.

Significant intercompany transactions and accounts have been eliminated on consolidation. However, if the market value of inventories traded among the consolidated companies is less than their related acquisition cost, the unrealized intercompany loss is not eliminated.

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

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

Investments in six unconsolidated subsidiaries (owned more than 50%) and four affiliates (owned 20% to 50%) are carried at cost rather than being accounted for by the equity method because their aggregate net income and retained earnings were not material to the accompanying consolidated financial statements. Cash dividends from these companies are recorded on the Company's books when they are approved by the shareholders.

(b) Cash and cash equivalents

The Company and its consolidated subsidiaries substantially consider all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents. A reconciliation between cash reflected in the balance sheets and cash and cash equivalents at December 31, 2005 and 2004 is presented in Note 15.

(c) Allowance for doubtful accounts

The allowance for doubtful accounts, including a specific allowance, is 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 intentions, as follows:

i) Held-to-maturity debt securities, which are expected to be held to maturity, are reported at amortized cost, and ii) Available-for-sale securities, for which market quotations are determinable, are reported at their fair value with unrealized gain or loss, net of the applicable taxes, being reported as a separate component of shareholders' equity. Unrealized gain is not available for distribution in the form of cash dividends. Available-for-sale securities for which market quotations are not determinable are stated at cost, except as stated in the paragraph below.

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

(e) Inventories

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

The Company has adopted the accounting policy of writing-down inventories to their fair value if the fair value is substantially less than cost and the decline 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 calculated by the straight-line method, except in the case of furniture and fixtures on which the declining-balance method at rates determined based on the estimated useful lives of the respective assets is applied. However, depreciation of property and equipment held by the overseas consolidated subsidiary is determined by 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 a portion of their cost during the period of construction.

Under the "Land Revaluation Law," promulgated and revised on March 31, 1998 and 1999, respectively, the Company elected for a one-time revaluation of land held for its own use to a value based on real estate appraisals at December 31, 2000. The resulting land revaluation excess represents an unrealized appreciation in the value of this 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 related effect on the accompanying consolidated statements of income.

(g) Bond and share issuance expenses

Expenses relating to the issuance of bonds or shares are charged to income when incurred.

(h) Derivatives and hedging activities

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

The Company enters into interest-rate swap contracts to manage its exposure to interest-rate fluctuation with respect to certain of its liabilities. It is the Company's policy to utilize derivatives only for the purpose of reducing market risk. Since the counterparties to these derivatives transactions are limited to major

international financial institutions, the Company does not anticipate any losses arising from credit risk. Derivatives transactions entered into by the Accounting Department are made in accordance with internal corporate policies which regulate their authorization and monitoring. All open derivatives positions are periodically reported to the Company's Board of Directors.

(i) Foreign currency translation

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

Assets, liabilities, and income and expense items of the consolidated overseas subsidiary are translated into Japanese yen at the relevant year-end exchange rates. Other components of shareholders' equity are translated into Japanese yen at their historical rates. The resulting exchange differences are presented as foreign currency translation adjustments, 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 year. In addition, diluted net income per share is also computed on the weighted-average number of diluted shares during each year.

(k) Income taxes

Deferred taxes are determined based on the differences between the amounts determined for financial reporting purposes and tax bases of 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) Loss on impairment of fixed assets

Effective January 1, 2005, the Company and its domestic consolidated subsidiaries have adopted a new accounting standard for the impairment of fixed assets, "Opinion Concerning Establishment of Accounting Standard for impairment of Fixed Assets" (Business Accounting Council, August 9, 2002) and "Implementation Guidance on Accounting for Impairment of Fixed Assets" (Accounting Standard Implementation Guidance No. 6, ASBJ, October 31, 2003).

The effect of adopting this standard was to decrease income before taxes and minority interests by ¥2,258 million (\$19,226 thousand) from the amount which would have been reported if the previous treatment had been applied consistently. The accumulated impairment loss has been deducted from the respective assets.

(2) Revision of Local Tax Law

With the promulgation of the "Revision of Local Tax Law" (Legislation No. 9, 2003) on March 31, 2003, the tax bases for assessing enterprise tax consisted of "amount of income," "amount of added value" and "amount of capital" effective April 1, 2004. Enterprise tax based on "amount of added value" and "amount of capital," was included in "Selling, general and administrative expenses" commencing the year ended March 31, 2005 pursuant to "Practical Solutions on Presentation for Size-Based Components of Corporate Enterprise Tax on the Income Statement" (Accounting Standards Board, "Practical Solution Report No. 12" issued on February 13, 2004).

As a result of adopting this law, "Selling, general and administrative expenses" increased by ¥429 million (\$3,654 thousand), and "operating income" and "income before income taxes and minority interests" decreased by the same amount from the amount which would have been reported if the previous treatment had been applied consistently.

(m) Reclassifications

Certain reclassifications of the consolidated financial statements for the year ended December 31, 2004 have been made to conform to the presentation for the year ended December 31, 2005.

3. Marketable Securities and Investment Securities

Marketable securities and investment securities consisted of the following:

	December 31		
	2005	2004	2005
	(Millions of yen)		(Thousands of U.S. dollars)
Marketable securities:			
Other equity securities	¥ 1,782	¥ 2,971	\$ 15,176
	<u>¥ 1,782</u>	<u>¥ 2,971</u>	<u>\$ 15,176</u>
Investment securities:			
Corporate stocks	¥ 37,323	¥28,590	\$ 317,704
Government bonds and corporate bonds	1,101	1,142	9,378
Other equity securities	89,812	21,263	764,495
	<u>¥128,238</u>	<u>¥50,996</u>	<u>\$1,091,579</u>

Investments in SPCs (“Special Purpose Companies”) are summarized as follows:

	December 31		
	2005	2004	2005
	(Millions of yen)		(Thousands of U.S. dollars)
Marketable securities.....	¥ 1,782	¥ 2,971	\$ 15,176
Investment securities.....	24,811	12,649	211,194
Investments in consortia	44,206	33,730	376,290
Other investments	400	—	3,409
	<u>¥71,201</u>	<u>¥49,351</u>	<u>\$ 606,070</u>

4. Inventories

Inventories consisted of the following:

	December 31		
	2005	2004	2005
	(Millions of yen)		(Thousands of U.S. dollars)
Real estate for sale:			
Completed	¥ 30,519	¥14,552	\$259,788
Undeveloped and in-progress	83,160	57,330	707,866
	<u>¥113,680</u>	<u>¥71,883</u>	<u>\$967,655</u>

For 2005, the Company reclassified its category to real estate for sale from the previous real estate held on certain land and, accordingly, the inventory balance increased by ¥12,052 million (\$102,594 thousand).

5. Intangible Assets

Intangible assets consisted of the following:

	December 31		
	2005	2004	2005
	(Millions of yen)		(Thousands of U.S. dollars)
Leasehold land	¥ 6,813	¥ 6,759	\$ 57,995
Other	471	553	4,011
	<u>¥ 7,284</u>	<u>¥ 7,312</u>	<u>\$ 62,006</u>

6. Long-Term Loans

Long-term loans at December 31, 2005 and 2004 included doubtful debts of ¥2,698 million (\$22,968 thousand) and ¥2,698 million, respectively. These debts consisted of loans and the related interest. At December 31, 2005, the Company 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, 2005 were unsecured.

The average interest rates for short-term borrowings were 0.335% and 0.86% at December 31, 2005 and 2004, respectively. Short-term borrowings outstanding averaged approximately ¥28,768 million (\$244,875 thousand) and ¥23,460 million for the years ended December 31, 2005 and 2004, respectively.

Long-term debt consisted of the following:

	December 31		
	2005	2004	2005
	(Millions of yen)		(Thousands of U.S. dollars)
Secured loans:			
With banks and insurance companies, at interest rates principally from 1.45% to 4.75%, maturing serially through 2015.....	¥ 7,620	¥ 24,857	\$ 64,863
Unsecured:			
With banks, at interest rates principally from 0.69% to 5.95%, maturing serially through 2022	260,263	237,603	2,215,382
	267,883	262,460	2,280,246
Less: amounts due within one year.....	(72,647)	(88,286)	(618,386)
	¥195,235	¥174,173	\$1,661,860

The aggregate annual maturities of long-term debt subsequent to December 31, 2005 are summarized as follows:

Year ending December 31:	Millions of yen	Thousands of U.S. dollars
2006	¥ 72,647	\$ 618,386
2007	72,605	618,021
2008	60,390	514,050
2009	29,053	247,305
2010 and thereafter	33,186	282,482
Total	¥267,883	\$2,280,246

The 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, 2005 were as follows:

	Millions of yen	Thousands of U.S. dollars
Land	¥14,765	\$125,681
Buildings	3,350	28,516
Inventories	13,072	111,273
Investment securities	1,445	12,304
Total	¥32,633	\$277,776

8. Long-Term Accounts Payable, Other

At December 31, 2005, long-term payables for the purchase of property included in long-term accounts payable, other and accounts payable, trade amounted to ¥3,379 million (\$28,766 thousand) and ¥265 million (\$2,256 thousand), respectively. These payables are scheduled to mature from 2006 to 2019 and bear interest at 3.655%. Property is mortgaged as security for these payables.

9. Accrued Severance Indemnities and Pension Plan

Employees whose services with the Company are terminated are, under most circumstances, entitled to lump-sum severance payments 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 an unfunded retirement benefit plan, the Company has a defined benefit plan which provides for an annuity payable subsequent to retirement or a lump-sum payment under certain conditions for employees who terminate their employment after at least 17 years of service. The annuity is payable from the age of 60 to those employees who retire at or after age 50, and the 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 summarized as follows:

	December 31		
	2005	2004	2005
	(Millions of yen)		(Thousands of U.S. dollars)
Projected benefit obligation:			
Projected benefit obligation	¥10,661	¥10,381	\$ 90,750
Fair value of plan assets.....	(5,206)	(4,116)	(44,319)
	5,454	6,265	46,430
Unrecognized actuarial loss.....	(711)	(1,519)	(6,056)
Accrued severance indemnities.....	¥ 4,743	¥4,745	\$ 40,373
	Year ended December 31		
	2005	2004	2005
	(Millions of yen)		(Thousands of U.S. dollars)
Net periodic pension cost:			
Service cost	¥499	¥492	\$4,250
Interest cost	204	225	1,742
Expected return on plan assets	(61)	(72)	(525)
Recognized actuarial loss.....	180	128	1,532
Net periodic pension cost	¥822	¥772	\$7,001
Assumptions:			
Discount rate	2.0%	2.0%	
Anticipated rates of return on plan assets	1.5%	2.0%	
Amortization period of actuarial gain or loss	10 years	10 years	

10. Income Taxes

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax, inhabitants' taxes and enterprise tax, which in the aggregate resulted in statutory tax rates of approximately 40.7% in 2005 and 42.1% in 2004, respectively. The income tax the overseas consolidated subsidiary is based generally on the tax rate applicable in the country of incorporation.

The effective tax rates reflected in the consolidated statements of income for the years ended December 31, 2005 and 2004 differ from the statutory tax rates for the following reasons:

	Year ended December 31	
	2005	2004
Statutory tax rates.....	40.7%	42.1%
Increase (decrease) in income taxes resulting from:		
Tax rate difference between the Parent and subsidiaries	0.1	(0.3)
Reversal of valuation allowance for deferred tax assets	2.8	(11.0)
Non-deductible expenses.....	0.4	0.6
Non-taxable income.....	(0.3)	(2.4)
Inhabitants' per capita taxes	0.1	0.1
Change in effective tax rate	—	0.4
Other.....	0.4	2.3
Effective tax rates.....	44.2%	31.8%

The significant components of deferred tax assets and liabilities as of December 31, 2005 and 2004 were as follows:

	December 31		
	2005	2004	2005
	(Millions of yen)		(Thousands of U.S. dollars)
Deferred tax assets:			
Write-downs of property and equipment....	¥ —	¥ 4,237	\$ —
Write-downs of stocks of subsidiaries and affiliated companies	2,002	2,002	17,044
Allowance for doubtful accounts, in excess of tax deductible portion.....	263	439	2,239
Accrued severance indemnities, in excess of tax-deductible portion	1,827	1,779	15,554
Net operating loss carryforwards.....	3,738	952	31,823
Write-downs of investment securities	469	469	3,996
Appraisal of loss on real estate held for sale .	3,273	—	27,863
Loss on impairment of fixed assets	1,535	—	13,072
Appraisal of loss on fixed assets	11,889	—	101,208
Other.....	3,018	2,478	25,689
	28,018	12,359	238,492
Valuation allowance.....	(22,486)	(8,124)	(191,411)
Total deferred tax assets.....	¥ 5,531	¥ 4,235	\$ 47,081
Deferred tax liabilities:			
Reversal of deferred tax liabilities based on revaluation of assets of subsidiaries.....	4,590	3,428	39,072
Net unrealized gain on available-for-sale securities	12,066	5,990	102,709
Reversal of reserve for deferred capital gain on land.....	459	—	3,909
Other	8	11	73
Total deferred tax liabilities	17,124	9,429	145,765
Net deferred tax liabilities.....	¥11,593	¥ 5,194	\$ 98,683

11. Loss on Impairment of Fixed Assets

The Company and its certain consolidated subsidiaries have recognized impairment losses for the following groups of assets for the year ended December 31, 2005:

<u>Company</u>	<u>Major use</u>	<u>Asset category</u>	<u>Place</u>	<u>(Millions of yen)</u>	<u>(Thousands of U.S. dollars)</u>
Tokyo Tatemono Co., Ltd.	Resort	Land	Iwase-gun, Fukushima Prefecture	¥ 766	\$ 6,525
Tokyo Tatemono Co., Ltd.	Estimated sales assets, etc.	Land, buildings	Naka-ku, Yokohama City, Kanagawa Prefecture, others	109	935
Consolidated subsidiaries	Rental assets, etc.	Land, buildings, others	Ota-ku, Tokyo Prefecture, others	1,382	11,765
				<u>¥2,258</u>	<u>\$19,226</u>

The aggregate impairment loss of ¥2,258 million (\$19,226 thousand) consisted of ¥2,061 million (\$17,546 thousand) on land, ¥188 million (\$1,603 thousand) on buildings, and ¥9 million (\$76 thousand) on other assets. The net sales prices of these assets were used as the estimated recoverable amounts in measuring the impairment loss. Either a valuation provided by a real estate appraiser or the estimated sales price was used as the fair value.

12 Lease Transactions

(1) Finance leases (Lessee)

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property as of December 31, 2005 and 2004, which would have been reflected in the consolidated balance sheets if the finance leases currently accounted for as operating leases had been capitalized:

	December 31		
	2005	2004	2005
	(Millions of yen)		(Thousands of U.S. dollars)
Acquisition costs:			
Machinery and equipment.....	¥ 4	¥ 4	\$ 34
Vehicles.....	140	26	1,198
Furniture and equipment.....	547	622	4,658
Intangible assets (software)	729	598	6,205
	<u>¥1,421</u>	<u>¥1,251</u>	<u>\$12,096</u>
Accumulated depreciation:			
Machinery and equipment.....	¥ 1	¥ 0	\$ 9
Vehicles.....	85	15	725
Furniture and equipment.....	307	363	2,617
Intangible assets (software)	382	269	3,259
	<u>¥ 776</u>	<u>¥ 649</u>	<u>\$ 6,612</u>
Net book value:			
Machinery and equipment.....	¥ 2	¥ 3	\$ 25
Vehicles.....	55	10	472
Furniture and equipment.....	239	259	2,040
Intangible assets (software)	346	328	2,945
	<u>¥ 644</u>	<u>¥ 602</u>	<u>\$ 5,484</u>
Future minimum payments:			
Within one year.....	¥ 305	¥ 262	\$ 2,600
Over one year	338	339	2,883
	<u>¥ 644</u>	<u>¥ 602</u>	<u>\$ 5,484</u>
Lease payments (assuming depreciation).....	<u>¥ 325</u>	<u>¥ 254</u>	<u>\$ 2,768</u>

Depreciation was calculated by the straight-line method over the lease period assuming the residual value to be zero.

(2) Operating leases (Lessor)

	December 31		
	2005	2004	2005
	(Millions of yen)		(Thousands of U.S. dollars)
Future minimum payments:			
Within one year.....	¥1,676	¥1,676	\$14,270
Over one year	3,789	5,466	32,259
	<u>¥5,466</u>	<u>¥7,142</u>	<u>\$46,530</u>

13. Shareholders' Equity

The retained earnings account includes a legal reserve provided in accordance with the Commercial Code. In principle, this reserve is not available for dividends, but it may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors. The Code, however, does provide that if the total amount of capital surplus and the legal reserve exceeds 25% of the amount of common stock, the excess may be distributed to the shareholders either as a return of capital or as dividends subject to the approval of the shareholders.

Appropriations of retained earnings for the year ended December 31, 2005 were duly approved at the annual general meeting of the shareholders held on March 30, 2006 as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends ¥5 (U.S.\$0.04) per share	¥1,590	\$13,535
Bonuses to directors	150	1,276

14. Commitments and Contingent Liabilities

At December 31, 2005, the Company was contingently liable for guarantees on loans to its customers and employees which amounted to approximately ¥17,307 million (\$147,326 thousand). The Company has rights to various types of collateral offered as security against the above guarantees for its customers and employees.

At December 31, 2005, the Company was also contingently liable for guarantees on loans to two affiliated companies which totalled ¥5,715 million (\$48,646 thousand). The Company holds no collateral from these affiliated companies.

At December 31, 2005, the Company had cancelable and non-cancelable long-term lease agreements, principally for the subleasing of office space and buildings.

Rent expenses for the years ended December 31, 2005 and 2004 were ¥7,881 million (\$67,085 thousand) and ¥8,973 million, respectively, and have been included in the cost of revenue.

15. Supplemental Cash Flow Information

The following table represents a reconciliation of cash and cash equivalents at December 31, 2005:

	2005	December 31 2004	2005
	(Millions of yen)		(Thousands of U.S. dollars)
Cash	¥8,274	¥6,692	\$70,434
Time deposits with a maturity of more than three months	(33)	(73)	(283)
Cash and cash equivalents	<u>¥8,241</u>	<u>¥6,619</u>	<u>\$70,151</u>

16. 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 is engaged in the leasing of land, buildings, houses, and so forth as well as in office and building management. The real estate sales segment relates to sales of residential lots, houses, condominiums, and so forth. The other segment carries out brokerage, appraisal, consulting and sales agency activities related to real estate, and so forth.

The following table presents certain information regarding the Company's business segments for the years ended December 31, 2005 and 2004:

Business Segments:

I. Revenue from operations and operating income —

	(Millions of yen)				Eliminations or corporate (Note 1)	Consolidated
	Year ended December 31, 2005					
	Leasing	Real estate sales	Other	Total		
Revenue from operations:						
(1) Customers.....	¥ 42,162	¥100,142	¥ 34,162	¥176,468	¥ —	¥176,468
(2) Intersegment.....	593	142	2,971	3,707	(3,707)	—
Total	42,756	100,285	37,134	180,175	(3,707)	176,468
Costs and operating expenses	24,586	91,935	28,801	145,323	1,673	146,997
Operating income	¥ 18,170	¥ 8,349	¥ 8,332	¥ 34,852	¥ (5,381)	¥ 29,470

II. Assets, depreciation and capital expenditures—

	(Millions of yen)				Eliminations or corporate (Note 2)	Consolidated
	Year ended December 31, 2005					
	Leasing	Real estate sales	Other	Total		
Assets.....	¥368,220	¥126,140	¥ 77,161	¥571,523	¥ 42,784	¥614,307
Depreciation	¥ 3,113	¥ 14	¥ 535	¥ 3,663	¥ 56	¥ 3,719
Loss on impairment of fixed assets	¥ 2,115	¥ —	¥ 35	¥ 2,151	¥ 107	¥ 2,258
Capital expenditures	¥ 8,124	¥ 24	¥ 18,668	¥ 26,818	¥ (24)	¥ 26,793

I. Revenue from operations and operating income —

	(Millions of yen)				Eliminations or corporate (Note 1)	Consolidated
	Year ended December 31, 2004					
	Leasing	Real estate sales	Other	Total		
Revenue from operations						
(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	(2907)	161,296
Costs and operating expenses	25,049	87,512	22,580	135,142	2,609	137,751
Operating income	¥ 17,093	¥ 7,897	¥ 4,071	¥ 29,061	¥ (5,516)	¥ 23,545

II. Assets, depreciation and capital expenditures—

	(Millions of yen)				Eliminations or corporate (Note 2)	Consolidated
	Year ended December 31, 2004					
	Leasing	Real estate sales	Other	Total		
Assets	¥356,925	¥ 82,867	¥ 41,773	¥481,566	¥ 37,954	¥519,520
Depreciation	¥ 2,951	¥ 12	¥ 303	¥ 3,268	¥ 63	¥ 3,331
Capital expenditures	¥ 1,543	¥ 50	¥ 1,063	¥ 2,657	¥ 109	¥ 2,766

I. Revenue from operations and operating income —

(Thousands of U.S. dollars)
Year ended December 31, 2005

	Leasing	Real estate sales	Other	Total	Eliminations or corporate (Note 1)	Consolidated
Revenue from operations						
(1) Customers	\$ 358,893	\$ 852,425	\$ 290,794	\$1,502,113	\$ —	\$1,502,113
(2) Intersegment	5,054	1,210	25,294	31,560	(31,560)	—
Total	363,947	853,635	316,089	1,533,673	(31,560)	1,502,113
Costs and operating expenses	209,281	782,562	245,163	1,237,007	14,248	1,251,255
Operating income	\$ 154,665	\$ 71,073	\$ 70,926	\$ 296,666	(\$ 45,808)	\$ 250,857

II. Assets, depreciation and capital expenditures—

	Leasing	Real estate sales	Other	Total	Eliminations or corporate (Note 2)	Consolidated
Assets	\$3,134,327	\$1,073,719	\$ 656,809	\$4,864,856	\$ 364,182	\$5,229,039
Depreciation	\$ 26,499	\$ 119	\$ 4,561	\$ 31,180	\$ 480	\$ 31,661
Loss on impairment of fixed assets	\$ 18,009	\$ —	\$ 302	\$ 18,311	\$ 914	\$ 19,226
Capital expenditures	\$ 69,160	\$ 212	\$ 158,910	\$ 228,282	\$ (211)	\$ 228,071

Note1.: Unallocatable operating expenses included under “Eliminations or corporate” totaled ¥5,372 million (\$45,730 thousand) and ¥4,888 million before eliminations at December 31, 2005 and 2004, respectively. Such operating expenses consisted primarily of expenses incurred by the administration departments of the Company.

Note2.: Corporate assets included under “Eliminations or corporate” totaled ¥85,104 million (\$724,413 thousand) and ¥61,349 million before eliminations, at December 31, 2005 and 2004, respectively. Such assets consisted mainly of cash, marketable securities, investment securities and other assets at the administration departments of the Company.

Information regarding geographic areas and overseas sales has not been presented since sales of the overseas consolidated subsidiary represents less than 10% of consolidated sales.

REPORT OF THE INDEPENDENT AUDITORS

The Board of Directors
Tokyo Tatemono Co., Ltd.

We have audited the accompanying consolidated balance sheet of Tokyo Tatemono Co., Ltd. and consolidated subsidiaries as of December 31, 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended, all expressed in 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 audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tokyo Tatemono Co., Ltd. and consolidated subsidiaries at December 31, 2005, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 2(1), Tokyo Tatemono Co., Ltd. and consolidated subsidiaries adopted a new accounting standard for the impairment of fixed assets for the fiscal year ended December 31, 2005.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2005 are presented solely for convenience. Our audit also included a translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1.

Ernst & Young Shin Nihon

March 30, 2006

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

BOARD OF DIRECTORS

Chairman, Director

Keisuke Minami

President, Representative Director

Makoto Hatanaka

Senior Managing

Director, Representative Director

Hajime Sakuma

Managing Directors

Hisashi Gomyou

Mitsuru Fujii

Shinichi Nara

Akisato Saruta

Kazumasa Kato

Directors

Seigo Maruta

Tatsuo Usui

Seiken Saito

Hisao Shibayama

Satoshi Okubo

Shinji Ayaki

Toshiyuki Hata

Akira Okubo

Standing Auditors

Masatoshi Kanazawa

Toshio Matsumi

Auditors

Tomohiro Kamio

Kouji Suzuki

(as at May 31, 2006)

CORPORATE DATA

Tokyo Tatemono Co., Ltd.

Date of Establishment

October 1, 1896

Capital

¥77,181 million

Number of Employees

315

Number of Shareholders

15,686

(as at December 31, 2005)

Head Office

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

Tokyo 103-8285 Japan

Branches

Kansai Branch

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

Osaka 541-0041 Japan

Tel. (06)6202-0111

Fax. (06)6202-0298

Sapporo Branch

2-6, Kitananajonishi 1-chome, Kita-ku,

Sapporo, Hokkaido 060-0807 Japan

Tel. (011)717-0111

Fax. (011)717-5330

Kyushu Branch

8-49, Tenjin 2-chome, Chuo-ku,

Fukuoka 810-0001 Japan

Tel. (092)761-0110

Fax. (092)736-6586

Nagoya Branch

2-7, Sakae 3-chome, Naka-ku, Nagoya-shi

Aichi 460-0008 Japan

Tel. (052)249-0100

Fax. (052)249-0200

Principal Subsidiaries

Tokyo Tatemono Real Estate Sales Co., Ltd.

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

Tokyo 163-0647 Japan

Tel. (03)3342-6277

Fax. (03)3349-0822

Totate International Bldg. Co., Ltd.

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

Tokyo 103-0027 Japan

Tel. (03)3275-4711

Fax. (03)3275-4722

Tokyo Tatemono (USA), 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.

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

Tokyo 103-0027 Japan

Tel. (03)3274-0865

Fax. (03)3275-1440

Tokyo Tatemono Fund Management Co., Ltd.

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

Tokyo 103-0028 Japan

Tel. (03)3274-3944

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)3272-0290

Hatoriko Highland Resina Forest Co., Ltd.

39, Takatoya, Ozawa 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

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

J-Golf, Inc.

Ranmen Building 5F, 1-4, Yaesu 2-chome,

Chuo-ku, Tokyo 104-0028 Japan

Tel. (03)3275-2555

Fax. (03)3275-2939

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

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