

**A N N U A L R E V I E W 2 0 0 6**

Fiscal Year Ended December 31, 2006

Tokyo Tatemono Co., Ltd.

## MANAGEMENT REVIEW

### Operating Environment

In fiscal 2006, the Japanese economy continued to recover steadily. Supported by strong corporate earnings, capital expenditures expanded, production increased moderately, and the employment situation improved.

In the real-estate business the building market benefited from robust demand for offices, which led to a continuation of high building occupancy rates in urban districts and remarkable rises in rents for buildings that boasted good locations or superb functions. In the residential housing market, demand from second-generation baby boomers and senior citizens was firm, against a backdrop of continuing low interest rates and a growing belief that land prices had hit bottom. As a result, sales remained robust, led in particular by demand for large and high-rise condominiums. The real-estate securitization market including Japanese Real Estate Investment Trusts (J-REITs) and private offerings of real-estate funds continued to grow, and real-estate transactions were active, especially in urban areas.

### Results

In this business environment, the Company quickly responded to changes in the market and oriented its business to customer needs, striving to bolster earnings power and build a stable management base for the future.

As a result, total revenue from operations for the term increased from ¥176,468 million for the preceding fiscal year to ¥234,340 million (US\$1,970,657 thousand), rising 32.8% year on year. Ordinary income rose from ¥24,444 million to ¥31,289 million (US\$263,121 thousand), up 28.0%. Net income rose from ¥11,684 million to ¥17,406 million (US\$146,374 thousand), an increase of 49.0%.

Tokyo Tatemono Real Estate Sales Co., Ltd., a consolidated subsidiary, was listed in the Second Section of the Tokyo Stock Exchange in July 2006.

### Outlook

In the Japanese economy, corporate earnings are expected to remain strong, and personal spending will recover with an improvement in the employment and income environment, despite concerns such as oil price trends.

For the real estate business, in the building market, building occupancy rates should remain at high levels, especially in urban districts, and rents will continue to be high, supported by robust demand for offices. In the residential housing market, demand is expected to be firm given an improvement in the employment and income environment, despite concerns such as the implications of rising interest rates.

### Foundations

Given this operating environment, the Group intends to develop business centered on real-estate securitization, thus expanding operations and bolstering earning power. At the same time, the Group will provide high-quality products and services that will be regarded as the best in their class by customers, taking advantage of the collective strengths of the Tokyo Tatemono Group. Through these efforts, the Group intends to bolster its credibility and achieve rapid growth, building on the trust it has developed over the past 110 years.

## FINANCIAL REVIEW

### Revenue and Income

#### *Office and Commercial Building Leasing*

Tokyo Tatemono Co. Ltd. focused on tenant services, aiming to provide safe and comfortable spaces, thereby improving occupancy rates and profitability. Among its activities, the Company acquired the Ebisu Building (Shibuya-ku, Tokyo) and Watanabe Recruit Building (Osaka City), invested in the Sakae Building (Nagoya City) using Special Purpose Companies (SPCs), and was commissioned to manage Olinas Tower (Sumida-ku, Tokyo). In addition, the Company was actively engaged in the development and rental management of urban rental condominiums.

In fiscal 2006, the vacancy rate in the building leasing business at the end of the term was 2.1%, indicating that a high occupancy rate was sustained. Moreover, rents increased, the number of operating rental condominiums, including Apartments Shinonome Canal Court (Koto-ku, Tokyo), rose, and Shinjuku Square Tower Management Co.,Ltd. was made a consolidated subsidiary. As a result, revenue from the leasing business increased from ¥42,162 million for the preceding fiscal year to ¥43,505 million (US\$365,850 thousand), up 3.2% year on year, and operating income from ¥18,170 million to ¥19,193 million (US\$161,402 thousand), up 5.6%.

#### *Real Estate Sales*

To practice the concepts represented by the slogans “Refined housing” and “Comfortable and peaceful house,” which express the identity of the Brillia condominium brand, Tokyo Tatemono sought to acquire carefully selected sites and to plan customer-oriented products. The Company also placed emphasis on quality control, after-sales services and maintenance.

During the term, Tokyo Tatemono recorded sales of condominiums that included Brillia Tower Tokyo (Sumida-ku, Tokyo), Grand Esta (Koto-ku, Tokyo) and Brillia Kyoto Okazaki (Kyoto City), and detached houses such as Brillia Terrace Hibarigaoka (Nishi-Tokyo City, Tokyo). The proceeds of the sale of about 50% of the office tower and commercial facilities of Olinas (large-scale mixed-use complex) (Sumida-ku, Tokyo) were recorded under the land lot account. Consequently, revenue from the real estate sales business rose from ¥100,142 million to ¥155,494 million

(US\$1,307,608 thousand), rising 55.3%, and operating income increased from ¥8,349 million to ¥18,351 million (US\$154,322 thousand), an increase of 119.8%.

#### *Related Services*

Tokyo Tatemono has called on its considerable know-how to develop businesses including real-estate brokerage, appraisal and consulting, the resort, leisure and hotel business, renovation, restaurant services, the media complex business, and the hot spring spa business. J-Golf Kasumigaura (Itakoshi, Ibaraki) operated for a full year. New facilities including TSUTAYA Ueno (Taito-ku, Tokyo) and Ofuro no Osama Hanakoganei (Spa)(Kodaira-shi, Tokyo) have all opened.

Revenues from the resort, leisure and hotel business increased, mainly because of the full-year operation of golf courses. Other businesses including the real-estate agency and renovation businesses also performed well. Revenue from the “other” account fell from the previous term since SPC-related revenues (gain on sales of equity and dividends from asset sales) were recorded for the previous term. As a consequence, revenue from the related services business expanded from ¥34,162 million to ¥35,341 million (US\$297,198 thousand), rising 3.5%, while operating income fell from ¥8,332 million to ¥3,945 million (US\$33,180 thousand), a fall of 52.6%.

#### *Analysis of Profitability*

Mainly due to an increase in revenue in the real estate sales business, revenue from operations increased ¥57,872 million (US\$486,671 thousand) from the preceding fiscal year to ¥234,340 million (US\$1,970,657 thousand), and operating income increased ¥4,990 million (US\$41,970 thousand) to ¥34,461 million (US\$289,800 thousand).

Ordinary income rose ¥6,844 million (US\$57,559 thousand) to ¥31,289 million (US\$263,121 thousand) because of an increase in operating income and a fall in interest expenses.

Proceeds from the sale of shares of a consolidated subsidiary and a gain from a change in equity in a consolidated subsidiary were recorded in extraordinary income in association with the listing of Tokyo Tatemono Real Estate Sales. However, a loss on revaluation of real estate for sale was posted as extraordinary loss following a review of development plans.

As a consequence, net income increased ¥5,721 million (US\$48,114 thousand) to ¥17,406 million (US\$146,374 thousand).

## **Financial Position**

Total assets at the end of the term rose ¥60,960 million (US\$512,635 thousand) to ¥675,267 million (US\$5,678,573 thousand). The principal factor was an increase of ¥25,838 million (US\$211,732 thousand) in investment and other assets.

Total liabilities at the end of the term increased ¥47,800 million (US\$401,976 thousand) to ¥460,388 million (US\$3,871,574 thousand).

While other current liabilities fell ¥16,331 million (US\$137,340 thousand), interest-bearing debt rose ¥45,239 million (US\$380,431 thousand), and other long-term liabilities increased ¥8,868 million (US\$74,580 thousand).

The balance of interest-bearing debt at the end of the term was ¥319,222 million (US\$2,684,458 thousand).

Net assets at the end of the term amounted to ¥214,879 million (US\$1,806,999 thousand), an increase of ¥10,347 million (US\$87,012 thousand) from the previous year when minority interests are excluded.

The main factor was a rise of ¥9,935 million (US\$83,549 thousand) in retained earnings from net income.

Minority interests increased ¥2,812 million (US\$23,647 thousand) compared with the end of the previous year, the result of the fall of the Company's equity associated with the listing of Tokyo Tatemono Real Estate Sales.

## **Cash Flows**

Consolidated cash and cash equivalents (hereinafter "cash") at the end of fiscal 2006 decreased ¥733 million (US\$6,171 thousand) from the end of fiscal 2005, to ¥7,507 million (US\$63,132 thousand). Cash from operating activities fell ¥3,983 million (US\$33,497 thousand), cash from investing activities fell ¥42,699 million (US\$359,075 thousand), while cash from financing activities increased by ¥44,994 million (US\$378,379 thousand).

### ***Cash flow from operating activities***

Operating activities decreased cash by ¥3,983 million (US\$33,497 thousand). Net income before income tax of ¥31,648 million (US\$266,141 thousand) and depreciation and amortization expenses of ¥4,188 million (US\$35,220 thousand) were more than offset by ¥16,833 million (US\$141,559 thousand) outlaid on inventory, a ¥16,463 million (US\$138,447 thousand) decrease in deposits received, and ¥10,812 million (US\$90,930 thousand) in income taxes paid.

### ***Cash flow from investing activities***

Investing activities decreased cash by ¥42,699 million (US\$359,075 thousand). The principal factors were ¥9,094 million (US\$76,476 thousand) from investments in special purpose companies and ¥3,767 million (US\$31,682 thousand) in proceeds from sales of shares of common stock of subsidiaries, offset by decreases of ¥34,175 million (US\$287,395 thousand) in payments for the purchase of property and equipment and ¥20,539 million (US\$172,723 thousand) in the net amount of sales and purchases of marketable and investment securities.

### ***Cash flow from financing activities***

Financing activities increased cash by ¥44,994 million (US\$378,379 thousand), mainly due to increases of ¥45,239 million (US\$380,431 thousand) in borrowings (including commercial paper) and ¥3,835 million (US\$32,251 thousand) in proceeds from the issuing of new stock, offsetting ¥3,494 million (US\$29,387 thousand) in dividends paid.

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

ASSETS	December 31,		
	2006	2005	2006
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
<b>Current assets:</b>			
Cash (Note 19) .....	¥ 7,532	¥ 8,274	\$ 63,341
Marketable securities (Note 3) .....	1,782	1,782	14,993
Accounts receivable, trade .....	11,120	9,991	93,512
Inventories (Notes 4 and 7) .....	120,222	113,680	1,010,993
Deferred income taxes (Note 14) .....	1,499	1,143	12,613
Other current assets .....	12,798	17,262	107,626
Allowance for doubtful accounts .....	(11)	(14)	(98)
<b>Total current assets .....</b>	<b>154,943</b>	<b>152,120</b>	<b>1,302,981</b>
<b>Property and equipment:</b>			
Land (Notes 7 and 10) .....	256,027	239,109	2,153,026
Buildings (Notes 7 and 10) .....	150,043	141,173	1,261,768
Machinery and equipment .....	1,974	1,827	16,605
Furniture and equipment .....	3,825	3,398	32,166
Construction in progress .....	899	23	7,567
Other property and equipment .....	1,409	1,413	11,849
<b>Total property and equipment .....</b>	<b>414,179</b>	<b>386,946</b>	<b>3,482,984</b>
Less accumulated depreciation .....	(75,651)	(74,256)	(636,177)
<b>Net property and equipment .....</b>	<b>338,528</b>	<b>312,689</b>	<b>2,846,807</b>
<b>Intangible and other assets</b> (Note 5 and 10) .....	<b>14,405</b>	<b>7,285</b>	<b>121,143</b>
<b>Investments:</b>			
Investment securities (Notes 3, 7 and 11) .....	97,769	79,477	822,182
Investments in unconsolidated subsidiaries and affiliates .....	4,051	3,006	34,067
Long-term loans (Note 6) .....	952	1,047	8,012
Guarantee deposits paid (Note 10) .....	11,621	11,441	97,727
Deferred income taxes (Note 14) .....	884	812	7,440
Investments in silent partnerships (Notes 3 and 11) .....	49,571	44,206	416,868
Other investments (Notes 3 and 11) .....	3,342	3,095	28,104
Allowance for doubtful accounts (Note 6) .....	(803)	(875)	(6,760)
<b>Total investments .....</b>	<b>167,389</b>	<b>142,211</b>	<b>1,407,641</b>
<b>Total assets .....</b>	<b>¥675,267</b>	<b>¥614,307</b>	<b>\$5,678,573</b>

**LIABILITIES AND NET ASSETS**

	December 31,		
	2006	2005	2006
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
<b>Current liabilities:</b>			
Short-term borrowings (Notes 7 and 9) .....	¥ 19,500	¥ 6,100	\$ 163,982
Current portion of long-term debt (Note 7) .....	82,089	72,647	690,321
Accounts payable, trade (Notes 8 and 9) .....	8,009	7,977	67,354
Accrued income taxes .....	7,258	6,613	61,038
Accrued expenses .....	4,216	4,186	35,457
Advances received .....	15,837	16,185	133,179
Other current liabilities .....	11,111	26,867	93,444
<b>Total current liabilities .....</b>	<b>148,022</b>	<b>140,578</b>	<b>1,244,779</b>
<b>Long-term liabilities:</b>			
Long-term debt (Notes 7 and 9) .....	217,632	195,235	1,830,153
Accounts payable, other (Notes 7, 8 and 9) .....	3,114	3,379	26,190
Guarantee deposits received .....	41,616	37,380	349,969
Deferred income taxes (Note 14) .....	13,376	13,549	112,490
Deferred income taxes on land revaluation (Note 2(f)) .....	13,765	8,933	115,763
Accrued severance indemnities (Note 12) .....	4,830	4,743	40,622
Other long-term liabilities .....	18,028	8,787	151,604
<b>Total long-term liabilities .....</b>	<b>312,365</b>	<b>272,008</b>	<b>2,626,794</b>
<b>Total liabilities .....</b>	<b>460,388</b>	<b>412,587</b>	<b>3,871,574</b>
Commitments and contingent liabilities (Note 18)			
<b>Net assets:</b>			
<b>Shareholders' equity (Note 17):</b>			
Common stock, without par value:			
Authorized — 800,000,000 shares			
Issued — 318,059,168 shares .....			
	77,181	77,181	649,049
Additional paid-in capital .....	75,523	75,522	635,104
Retained earnings .....	28,484	18,549	239,535
Less: Treasury stock, at cost .....	(439)	(290)	(3,696)
<b>Total shareholders' equity .....</b>	<b>180,750</b>	<b>170,963</b>	<b>1,519,993</b>
<b>Accumulated gains from valuation and translation adjustments:</b>			
Land revaluation excess (Note 2(f)) .....	14,564	13,016	122,477
Net unrealized gain on available-for-sale securities (Note 2(d)) .....	16,677	17,690	140,247
Foreign currency translation adjustments .....	(6)	(32)	(51)
<b>Total accumulated gains from valuation and translation adjustments .....</b>	<b>31,235</b>	<b>30,675</b>	<b>262,672</b>
<b>Minority interests .....</b>	<b>2,893</b>	<b>81</b>	<b>24,333</b>
<b>Total net assets .....</b>	<b>214,879</b>	<b>201,720</b>	<b>1,806,999</b>
<b>Total liabilities and net assets .....</b>	<b>¥ 675,267</b>	<b>¥ 614,307</b>	<b>\$5,678,573</b>

See accompanying notes to consolidated financial statements.

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

	Year ended December 31,		
	2006	2005	2006
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
<b>Revenue from operations:</b>			
Leasing of office and commercial buildings .....	¥ 43,505	¥ 42,162	\$ 365,850
Sales of real estate.....	155,494	100,142	1,307,608
Related services .....	35,341	34,162	297,198
	<u>234,340</u>	<u>176,468</u>	<u>1,970,657</u>
<b>Cost of revenue:</b>			
Leasing of office and commercial buildings .....	24,640	24,008	207,206
Sales of real estate.....	125,141	81,898	1,052,358
Related services .....	20,264	18,350	170,414
	<u>170,046</u>	<u>124,257</u>	<u>1,429,978</u>
<b>Gross profit.....</b>	<b>64,294</b>	<b>52,210</b>	<b>540,678</b>
<b>Selling, general and administrative expenses (Note 13).....</b>	<b>29,833</b>	<b>22,740</b>	<b>250,877</b>
<b>Operating income .....</b>	<b>34,461</b>	<b>29,470</b>	<b>289,800</b>
<b>Other income (expenses):</b>			
Interest and dividend income.....	634	587	5,335
Interest expense.....	(4,649)	(5,464)	(39,103)
(Loss) gain on sales of property and equipment.....	(6)	745	(54)
Gain on sales of marketable and investment securities.....	—	317	—
Gain on sale of investment in a subsidiary.....	2,695	—	22,668
Gain on change in interest in a consolidated subsidiary.....	1,966	—	16,539
Equity in earnings of an investment limited partnership .....	908	—	7,637
Write-downs of real estate held for sale .....	(3,661)	(2,296)	(30,788)
Write-downs of marketable securities.....	(101)	—	(857)
Reversal of provision for losses on doubtful accounts .....	—	28	—
Equity in earnings of affiliated companies.....	229	74	1,926
Loss on impairment of fixed assets (Note 15).....	(324)	(2,258)	(2,727)
Other, net.....	(503)	(247)	(4,235)
	<u>(2,813)</u>	<u>(8,512)</u>	<u>(23,659)</u>
<b>Income before income taxes and minority interests .....</b>	<b>31,648</b>	<b>20,958</b>	<b>266,141</b>
<b>Income taxes:</b>			
Current.....	11,624	8,689	97,758
Deferred .....	2,739	583	23,036
	<u>14,364</u>	<u>9,273</u>	<u>120,794</u>
Income before minority interests .....	17,283	11,684	145,346
Minority interests .....	122	—	1,027
<b>Net income .....</b>	<b>¥ 17,406</b>	<b>¥ 11,684</b>	<b>\$ 146,374</b>
		Yen	U.S. dollars (Note 1)
<b>Per share of common stock:</b>			
<b>Net income:</b>			
Basic .....	¥55.10	¥42.31	\$0.46
Diluted .....	—	40.74	—
Cash dividends applicable to the year .....	12.00	9.00	0.10

See accompanying notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**

	Year ended December 31,		
	2006	2005	2006
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
<b>Common stock</b>			
Balance at beginning of the year.....	¥ 77,181	¥ 51,629	\$ 649,049
Increase arising from subscription to warrants of corporate bonds.....	—	25,552	—
<b>Balance at end of the year .....</b>	<b>¥ 77,181</b>	<b>¥ 77,181</b>	<b>\$ 649,049</b>
<b>Additional paid-in capital</b>			
Balance at beginning of the year.....	¥ 75,522	¥ 49,740	\$ 635,096
Increase arising from subscription to warrants of corporate bonds.....	—	25,446	—
Sales of treasury stock .....	0	335	8
<b>Balance at end of the year .....</b>	<b>¥ 75,523</b>	<b>¥ 75,522</b>	<b>\$ 635,104</b>
<b>Retained earnings</b>			
Balance at beginning of the year.....	¥ 18,549	¥ 9,562	\$ 155,985
Net income.....	17,406	11,684	146,374
Cash dividends paid.....	(3,498)	(2,058)	(29,416)
Bonuses to directors and statutory auditors.....	(189)	(123)	(1,593)
Transfer to land revaluation excess.....	(3,783)	(381)	(31,814)
Adjustment for inclusion in consolidation .....	—	(134)	—
<b>Balance at end of the year .....</b>	<b>¥ 28,484</b>	<b>¥ 18,549</b>	<b>\$ 239,535</b>
<b>Treasury stock, at cost</b>			
Balance at beginning of the year.....	¥ (290)	¥ (852)	\$ (2,440)
Decrease in sales of treasury stock .....	7	671	64
Purchases of treasury stock.....	(157)	(109)	(1,321)
<b>Balance at end of the year .....</b>	<b>¥ (439)</b>	<b>¥ (290)</b>	<b>\$ (3,696)</b>
<b>Land revaluation excess</b>			
Balance at beginning of the year.....	¥ 13,016	¥ 12,635	\$ 109,461
Transfer to land revaluation excess.....	1,547	381	13,015
<b>Balance at end of the year .....</b>	<b>¥ 14,564</b>	<b>¥ 13,016</b>	<b>\$ 122,477</b>
<b>Net unrealized gain on available-for-sale securities</b>			
Balance at beginning of the year.....	¥ 17,690	¥ 8,852	\$ 148,770
Net change in unrealized gain on available-for-sale securities, net of deferred income taxes.....	(1,013)	8,838	(8,522)
<b>Balance at end of the year .....</b>	<b>¥ 16,677</b>	<b>¥ 17,690</b>	<b>\$ 140,247</b>
<b>Foreign currency translation adjustments</b>			
Balance at beginning of the year.....	¥ (32)	¥ (258)	\$ (270)
Net change in foreign currency translation adjustments.....	25	226	218
<b>Balance at end of the year .....</b>	<b>¥ (6)</b>	<b>¥ (32)</b>	<b>\$ (51)</b>
<b>Minority interests.....</b>	<b>¥ 2,893</b>	<b>¥ 81</b>	<b>\$ 24,333</b>
<b>Total net assets .....</b>	<b>¥214,879</b>	<b>¥201,720</b>	<b>\$1,806,999</b>

See accompanying notes to consolidated financial statements.

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

	Year ended December 31,		
	2006	2005	2006
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
<b>Operating activities</b>			
Income before income taxes and minority interests .....	¥ 31,648	¥ 20,958	\$ 266,141
<b>Adjustments to reconcile income before income taxes and minority interests to net cash used in operating activities:</b>			
Depreciation and amortization .....	4,219	4,500	35,482
Equity in earnings of affiliated companies .....	(229)	(74)	(1,926)
Decrease in allowance for doubtful accounts .....	(74)	(413)	(625)
Provision for (reversal of) accrued severance indemnities, less payments ..	87	(2)	735
(Decrease) increase in reserve for bonuses to employees.....	(1)	39	(8)
Interest and dividend income .....	(634)	(587)	(5,335)
Interest expense.....	4,649	5,464	39,103
Loss (gain) on sales of property and equipment.....	6	(745)	54
Loss on impairment of fixed assets .....	324	2,258	2,727
Gain on sales of marketable and investment securities .....	—	(317)	—
Gain on sale of investment in a subsidiary.....	(2,695)	—	(22,668)
Gain on change in interest in a consolidated subsidiary.....	(1,966)	—	(16,539)
Equity in earnings of an investment limited partnership.....	(908)	—	(7,637)
Write-downs of real estate held for sale .....	3,661	2,296	30,788
Write-downs of marketable securities.....	101	—	857
Increase in accounts receivable, trade.....	(1,006)	(4,162)	(8,461)
Increase in inventories.....	(16,833)	(34,529)	(141,559)
(Increase) decrease in guarantee deposits paid.....	(134)	170	(1,134)
(Decrease) increase in accounts payable, trade.....	(678)	500	(5,702)
Increase (decrease) in guarantee deposits received.....	2,892	(172)	24,325
(Decrease) increase in deposits received.....	(16,463)	20,477	(138,447)
Other .....	4,111	(4,820)	34,573
<b>Subtotal .....</b>	<b>10,077</b>	<b>10,838</b>	<b>84,742</b>
Interest and dividends received.....	1,425	624	11,983
Interest paid .....	(4,672)	(5,656)	(39,292)
Income taxes paid .....	(10,812)	(6,748)	(90,930)
<b>Net cash used in operating activities.....</b>	<b>(3,983)</b>	<b>(941)</b>	<b>(33,496)</b>
<b>Investing activities</b>			
Proceeds from sales of marketable and investment securities.....	17,592	1,486	147,939
Purchases of marketable and investment securities .....	(38,131)	(16,029)	(320,662)
Proceeds from sales of property and equipment.....	3,872	4,948	32,563
Purchases of property and equipment.....	(34,175)	(14,982)	(287,395)
Purchases of investments in silent partnerships.....	(6,302)	(13,679)	(52,999)
Proceeds from sales of investments in silent partnerships.....	929	3,056	7,819
Repayment of loans.....	(107)	(1,042)	(904)
Proceeds from collection of loans .....	166	283	1,402
Proceeds from sales (payments for purchases) of shares of common stock of subsidiaries ..	3,767	(7,479)	31,680
Proceeds from sale of a subsidiary's stock resulting in change in scope of consolidation ..	182	—	1,531
Purchase of a business .....	—	(1,500)	—
Decrease in investments in special purpose companies .....	9,094	4,427	76,476
Other .....	412	(1,632)	3,472
<b>Net cash used in investing activities.....</b>	<b>(42,699)</b>	<b>(42,141)</b>	<b>(359,075)</b>
<b>Financing activities</b>			
Increase (decrease) in short-term borrowings.....	3,500	(11,030)	29,432
Increase in commercial paper .....	9,900	400	83,252
Proceeds from long-term debt .....	104,500	95,270	878,778
Repayment of long-term debt .....	(72,660)	(89,847)	(611,033)
Proceeds from issuance of new stock .....	3,835	55	32,251
Proceeds from sales of treasury stock .....	8	6	72
Acquisition of treasury stock .....	(139)	(109)	(1,176)
Dividends paid.....	(3,495)	(2,054)	(29,396)
Repayment of long-term accounts payable .....	(265)	(265)	(2,228)
Issuance of corporate bonds with warrants .....	—	52,000	—
Other.....	(187)	(255)	(1,575)
<b>Net cash provided by financing activities .....</b>	<b>44,994</b>	<b>44,170</b>	<b>378,379</b>
Effect of exchange rate changes on cash and cash equivalents.....	8	10	70
Net (decrease) increase in cash and cash equivalents.....	(1,679)	1,097	(14,122)
Cash and cash equivalents at beginning of year .....	8,241	6,619	69,304
Increase in cash and cash equivalents resulting from inclusion in consolidation ..	945	524	7,950
<b>Cash and cash equivalents at end of year (Note 19) .....</b>	<b>¥ 7,507</b>	<b>¥ 8,241</b>	<b>\$ 63,132</b>

See accompanying notes to consolidated financial statements.

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

Tokyo Tatemono Co., Ltd. (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 respective 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 ¥118.915 to U.S.\$1.00 prevailing on December 31, 2006 has been used in the translation of yen amounts into 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 U.S. 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 the Company and its twenty-eight significant domestic subsidiaries and three overseas subsidiaries for the year ended December 31, 2006.

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 corresponding unrealized intercompany loss is not eliminated.

Numbers of companies included in the scope of consolidation at December 31, 2006 and 2005 were as follows:

	2006	2005
Consolidated subsidiaries	31	28

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 or other liabilities and is amortized by the straight-line method over a period of five years.

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

Investments in eight 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 at December 31, 2006 and 2005 and cash and cash equivalents for the years then ended is presented in Note 19.

**(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 respective fair value with unrealized gain or loss, net of the applicable taxes, being reported as a separate component of net assets. 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 respective 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 applies the accounting policy of writing down inventories to their respective fair value if the fair value is substantially less than cost and the decline is considered to be permanent.

**(f) Property and equipment, and depreciation**

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 subsidiaries is determined by the straight-line method over the estimated useful lives of the respective 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 net assets. 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) Share issuance expenses**

Expenses relating to the issuance of 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 differentials paid or received under the respective swap agreements are 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) Accrued severance indemnities**

Accrued severance indemnities are stated at the amount required to cover the liability as of the balance sheet date and is based on the Company's estimates of its liability for retirement benefits and its pension fund assets as of the balance sheet date.

The retirement benefit obligation is attributed to each period by the straight-line method over the estimated remaining years of service of the eligible employees.

Actuarial gain and loss are amortized, commencing the year following the year in which the gain or loss is recognized, by the straight-line method over a period of 10 years which is shorter than the average remaining years of service of the eligible employees in the plans.

**(j) Foreign currency translation**

Assets and liabilities denominated in foreign currencies are translated at the year-end exchange rates.

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

**(k) Net income per share**

Computations of net income per share are based on the weighted-average number of shares of common stock outstanding during each year. Diluted net income per share is also computed based on the weighted-average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares to be issued.

**(l) Income taxes**

Deferred taxes are determined based on the differences between the amounts determined for financial reporting purposes and the 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.

**(m) Accounting changes**

(1) Accounting Standard for Directors' Bonuses

Effective the year ended December 31, 2006, the Company and its domestic consolidated subsidiaries have adopted a new accounting standard for directors' bonuses.

The effect of the adoption of this standard was to decrease operating income and income before income taxes and minority interests by ¥259 million for the year ended December 31, 2006 from the corresponding amounts which would have been recorded under the previous method.

(2) Accounting Standard for Presentation of Net Assets in the Balance Sheet

Effective the year ended December 31, 2006, the Company has adopted a new accounting standard for the presentation of net assets in the balance sheet and the related implementation guidance. In addition, effective the year ended December 31, 2006, the Company is required to prepare consolidated statements of changes in net assets instead of consolidated statements of shareholders' equity. In this connection, the previously reported consolidated balance sheet as of December 31, 2005 and consolidated statement of shareholders' equity for the year then ended have been restated to conform to the presentation and disclosure of the consolidated financial statements for the year ended December 31, 2006.

(3) Loss on impairment of fixed assets

Effective January 1, 2005, the Company and its domestic consolidated subsidiaries adopted an accounting standard for the impairment of fixed assets and the related implementation guidance.

The effect of the adoption of this standard for the year ended December 31, 2005 was to decrease income before income taxes and minority interests by ¥2,258 million from the corresponding amount which would have been recorded under the previous method. The accumulated impairment loss was deducted directly from the carrying amounts of the respective assets.

**(n) Reclassifications**

Certain reclassifications of the consolidated financial statements for the year ended December 31, 2005 have been made to conform them to the presentation for the year ended December 31, 2006.

**3. Marketable Securities and Investment Securities**

Information regarding marketable securities classified as other securities at December 31, 2006 and 2005 is summarized as follows:

**(1) Marketable other securities**

	2006					
	Acquisition cost	Carrying value	Unrealized gain(loss)	Acquisition cost	Carrying value	Unrealized gain(loss)
	(Millions of yen)			(Thousands of U.S. dollars)		
<b>Securities whose carrying value exceeds their acquisition cost:</b>						
Stock .....	¥ 11,727	¥ 32,850	¥ 21,122	\$ 98,618	\$ 276,249	\$ 177,630
Government bonds.....	27	27	0	227	232	5
Other .....	5,860	12,657	6,797	49,283	106,442	57,158
	<u>17,614</u>	<u>45,535</u>	<u>27,920</u>	<u>148,129</u>	<u>382,924</u>	<u>234,794</u>
<b>Securities whose carrying value does not exceed their acquisition cost:</b>						
Stock .....	874	775	(98)	7,351	6,523	(828)
Government bonds.....	73	72	(0)	616	612	(4)
	<u>947</u>	<u>848</u>	<u>(98)</u>	<u>7,968</u>	<u>7,135</u>	<u>(832)</u>
Total .....	<u>¥ 18,562</u>	<u>¥ 46,383</u>	<u>¥ 27,821</u>	<u>\$ 156,097</u>	<u>\$ 390,060</u>	<u>\$ 233,962</u>

	2005		Unrealized gain(loss)
	Acquisition cost	Carrying value	
	(Millions of yen)		
<b>Securities whose carrying value exceeds their acquisition cost:</b>			
Stock .....	¥ 11,380	¥ 37,210	¥ 25,829
Government bonds.....	90	91	1
Other .....	5,860	9,698	3,837
	<u>17,331</u>	<u>47,000</u>	<u>29,669</u>
<b>Securities whose carrying value does not exceed their acquisition cost:</b>			
Stock .....	135	113	(21)
Government bonds.....	10	9	(0)
	<u>145</u>	<u>123</u>	<u>(22)</u>
Total .....	<u>¥ 17,477</u>	<u>¥ 47,124</u>	<u>¥ 29,647</u>

(2) Sales of securities classified as other securities and the related aggregate gain and loss are summarized as follows:

	December 31,		2006
	2006	2005	
	(Millions of yen)		(Thousands of U.S. dollars)
Sales proceeds .....	¥ 0	¥ 4,872	\$ 0
Aggregate gain .....	—	3,479	—
Aggregate loss .....	—	—	—

(3) Investments in SPCs (special purpose companies) are summarized as follows:

	December 31,		2006
	2006	2005	
	(Millions of yen)		(Thousands of U.S. dollars)
Marketable securities.....	¥ 1,782	¥ 1,782	\$ 14,993
Investment securities.....	44,708	24,811	375,970
Investments in silent partnerships .....	49,571	44,206	416,868
Other investments .....	630	400	5,302
	<u>¥96,693</u>	<u>¥71,201</u>	<u>\$813,134</u>

## 4. Inventories

Effective the year ended December 31, 2006, the Company has determined to utilize and reclassify real estate held on certain land which was previously categorized as real estate for sale. As a result of this reclassification, the inventory balance decreased by ¥7,016 million (\$59,002 thousand) at December 31, 2006.

**5. Intangible Assets** Intangible assets consisted of the following:

	December 31,		2006 (Thousands of U.S. dollars)
	2006 (Millions of yen)	2005	
Leasehold land .....	¥ 14,075	¥ 6,813	\$ 118,361
Other .....	330	471	2,781
	<u>¥ 14,405</u>	<u>¥ 7,284</u>	<u>\$ 121,143</u>

**6. Long-Term Loans** Long-term loans at December 31, 2006 and 2005 were offset against doubtful debts of ¥2,698 million (\$22,691 thousand) and ¥2,698 million, respectively. These debts consisted of loans and the related interest.

**7. Short-Term Borrowings and Long-Term Debt** Long-term debt consisted of the following:

	December 31,		2006 (Thousands of U.S. dollars)
	2006 (Millions of yen)	2005	
<b>Secured loans:</b>			
With banks and insurance companies, at interest rates principally from 2.15% to 4.75%, maturing serially through 2015 .....	¥ 6,291	¥ 7,620	\$ 52,908
<b>Unsecured loans:</b>			
With banks, at interest rates principally from 0.69% to 5.95%, maturing serially through 2022 .....	293,430	260,263	2,467,567
	<u>299,722</u>	<u>267,883</u>	<u>2,520,475</u>
Less: Current portion of long-term debt .....	(82,089)	(72,647)	(690,321)
	<u>¥217,632</u>	<u>¥195,235</u>	<u>\$1,830,153</u>

The aggregate annual maturities of long-term debt subsequent to December 31, 2006 are summarized as follows:

Year ending December 31,	(Millions of yen)	(Thousands of U.S. dollars)
2007 .....	¥ 82,089	\$ 690,321
2008 .....	84,507	710,655
2009 .....	53,795	452,386
2010 .....	49,830	419,040
2011 and thereafter .....	29,499	248,071
Total .....	<u>¥299,722</u>	<u>\$2,520,475</u>

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, 2006 were as follows:

	December 31,		
	2006	2005	2006
	(Millions of yen)		(Thousands of U.S. dollars)
Inventories .....	¥ 510	¥13,072	\$ 4,289
Buildings .....	3,189	3,350	26,821
Land .....	14,765	14,765	124,164
Investment securities.....	1,193	1,445	10,037
Total.....	¥19,658	¥32,633	\$165,312

**8. Long-Term Accounts Payable, Other** At December 31, 2006, long-term payables for the purchase of property included in long-term accounts payable, other and accounts payable, trade amounted to ¥3,114 million (\$26,190 thousand) and ¥265 million (\$2,228 thousand), respectively. These payables are scheduled to mature from 2007 to 2019 and bear interest at 3.691%. Property has been mortgaged as security for these payables.

**9. Secured Debt** Secured debt consisted of the following:

	December 31,		
	2006	2005	2006
	(Millions of yen)		(Thousands of U.S. dollars)
Short-term borrowings.....	¥ 248	¥ 1,328	\$ 2,090
Accounts payable, trade .....	265	265	2,228
Long-term debt.....	6,043	6,291	50,817
Accounts payable, other .....	3,114	3,379	26,190
	¥ 9,671	¥11,264	\$ 81,327

**10. Real Estate Held for Specific Partnership Project (under a Silent Partnership Agreement)** Real estate held for a specific partnership project (under a Silent Partnership Agreement) consisted of the following:

	December 31,		
	2006	2005	2006
	(Millions of yen)		(Thousands of U.S. dollars)
Buildings .....	¥ 15,200	¥ 9,964	\$ 127,824
Land .....	9,743	2,209	81,936
Lease of land.....	3,917	736	32,940
Guarantee deposits paid.....	718	723	6,045
	¥ 29,579	¥13,633	\$ 248,746

At December 31, 2006, the portion of other long-term liabilities which corresponded to the above project amounted to ¥16,629 million (\$139,840 thousand).

## 11. Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates consisted of the following:

	December 31,		
	2006	2005	2006
	(Millions of yen)		(Thousands of U.S. dollars)
Investment securities.....	¥ 4,164	¥ 3,453	\$ 35,020
Investments in silent partnerships.....	445	—	3,742
Other investments.....	560	477	4,709

## 12. Accrued Severance Indemnities and Pension Plans

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, 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,		
	2006	2005	2006
	(Millions of yen)		(Thousands of U.S. dollars)
Projected benefit obligation:			
Projected benefit obligation.....	¥11,276	¥10,661	\$ 94,831
Fair value of plan assets.....	(5,789)	(5,206)	(48,687)
	5,487	5,454	46,144
Unrecognized actuarial gain.....	(656)	(711)	(5,521)
Accrued severance indemnities.....	¥ 4,830	¥ 4,743	\$ 40,622
Year ended December 31,			
	2006	2005	2006
	(Millions of yen)		(Thousands of U.S. dollars)
Net periodic pension cost:			
Service cost.....	¥496	¥499	\$4,177
Interest cost.....	209	204	1,761
Expected return on plan assets.....	(78)	(61)	(656)
Recognized actuarial loss.....	117	180	985
Net periodic pension cost.....	¥745	¥822	\$6,268
Assumptions:			
Discount rate	2.0%	2.0%	
Anticipated rate of return on plan assets	1.5%	1.5%	
Amortization period of actuarial gain or loss	10 years	10 years	

**13. Selling, General and Administrative Expenses**

Major components of selling, general and administrative expenses are summarized as follows:

	Year ended December 31,		
	2006	2005	2006
	(Millions of yen)		(Thousands of U.S. dollars)
Advertisement expenses.....	<b>¥ 4,804</b>	¥ 3,642	<b>\$ 40,406</b>
Salaries.....	<b>5,962</b>	4,960	<b>50,136</b>
Provision for accrued bonuses .....	<b>127</b>	123	<b>1,071</b>
Provision for accrued bonuses for directors .....	<b>259</b>	—	<b>2,178</b>
Retirement benefit expenses.....	<b>428</b>	487	<b>3,604</b>
Provision for accrued directors' retirement benefits.....	<b>139</b>	107	<b>1,173</b>

## 14. 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 a statutory tax rate of approximately 40.7% for the years ended December 31, 2006 and 2005. Income taxes of the overseas consolidated subsidiaries are based generally on the tax rates applicable in their respective countries of incorporation.

The effective tax rates reflected in the consolidated statements of income for the years ended December 31, 2006 and 2005 differed from the statutory tax rate for the following reasons:

	Year ended December 31,	
	2006	2005
Statutory tax rate .....	40.7%	40.7%
Increase (decrease) in income taxes resulting from:		
Tax rate difference between the Company and subsidiaries .....	—	0.1
Reversal of valuation allowance for deferred tax assets .....	4.4	2.8
Non-deductible expenses.....	0.8	0.4
Non-taxable income.....	(0.3)	(0.3)
Inhabitants' per capita taxes .....	(0.1)	0.1
Other.....	(0.3)	0.4
Effective tax rates.....	45.4%	44.2%

The significant components of deferred tax assets and liabilities as of December 31, 2006 and 2005 were as follows:

	December 31,		
	2006	2005	2006
	(Millions of yen)		(Thousands of U.S. dollars)
Deferred tax assets:			
Loss on impairment of fixed assets .....	¥ 11,638	¥ 11,889	\$ 97,871
Loss on appraisal of real estate held for sale....	4,526	3,273	38,062
Net operating loss carryforwards.....	4,162	3,738	35,001
Accrued severance indemnities in excess of tax-deductible portion .....	1,924	1,827	16,187
Write-downs of stocks of subsidiaries and affiliated companies .....	1,639	2,002	13,783
Loss on appraisal of fixed assets.....	1,321	1,535	11,109
Accrued enterprise tax.....	599	574	5,045
Unrealized dividend on investment in silent partnerships.....	555	—	4,672
Write-downs of investment securities .....	503	469	4,230
Other.....	3,403	2,707	28,623
Gross deferred tax assets.....	30,274	28,018	254,586
Valuation allowance.....	(24,120)	(22,486)	(202,838)
Total deferred tax assets.....	¥ 6,153	¥ 5,531	\$ 51,748
Deferred tax liabilities:			
Net unrealized gain on available-for-sale securities .....	¥ 11,323	¥ 12,066	\$ 95,222
Reversal of deferred tax liabilities based on revaluation of assets of subsidiaries.....	4,551	4,590	38,272
Gain on change in interest in a consolidated subsidiary .....	800	—	6,731
Reversal of reserve for deferred capital gain on land.....	459	459	3,862
Other .....	11	8	95
Total deferred tax liabilities .....	17,145	17,124	144,185
Net deferred tax liabilities.....	¥ 10,992	¥ 11,593	\$ 92,437

**15. Loss on Impairment of Fixed Assets**

The Company and certain consolidated subsidiaries have recognized impairment losses for the following groups of assets for the year ended December 31, 2006:

<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>
Consolidated subsidiaries	Golf course institution	Land, buildings, other	Nikko city, Tochigi Prefecture, other	¥ 324	\$ 2,727
				<u>¥ 324</u>	<u>\$ 2,727</u>

The aggregate loss on impairment of fixed assets of ¥324 million (\$2,727 thousand) consisted of ¥76 million (\$639 thousand) on land, ¥132 million (\$1,110 thousand) on buildings, and ¥116 million (\$976 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.

## 16. 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, 2006 and 2005, 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,		
	2006	2005	2006
	(Millions of yen)		(Thousands of U.S. dollars)
Acquisition costs:			
Buildings .....	¥ 42	¥ —	\$ 355
Machinery and equipment.....	—	4	—
Vehicles .....	106	140	894
Furniture and equipment.....	625	547	5,259
Intangible assets (software) .....	490	729	4,120
	<u>¥1,264</u>	<u>¥1,421</u>	<u>\$10,630</u>
Accumulated depreciation:			
Buildings .....	¥ 9	¥ —	\$ 82
Machinery and equipment.....	—	1	—
Vehicles .....	70	85	592
Furniture and equipment.....	233	307	1,967
Intangible assets (software) .....	274	382	2,306
	<u>¥ 588</u>	<u>¥ 776</u>	<u>\$ 4,949</u>
Net book value:			
Buildings .....	¥ 32	¥ —	\$ 273
Machinery and equipment.....	—	2	—
Vehicles .....	35	55	301
Furniture and equipment.....	391	239	3,291
Intangible assets (software) .....	215	346	1,814
	<u>¥ 675</u>	<u>¥ 644</u>	<u>\$ 5,681</u>
Future minimum payments:			
Within one year.....	¥ 276	¥ 305	\$ 2,321
Over one year .....	399	338	3,359
	<u>¥ 675</u>	<u>¥ 644</u>	<u>\$ 5,681</u>
Lease payments (assumed depreciation) .....	<u>¥ 315</u>	<u>¥ 325</u>	<u>\$ 2,656</u>

Depreciation was calculated by the straight-line method over the respective lease periods assuming a nil residual value.

### (2) Operating leases (Lessor)

	December 31,		
	2006	2005	2006
	(Millions of yen)		(Thousands of U.S. dollars)
Future minimum payments:			
Within one year.....	¥2,172	¥1,676	\$18,270
Over one year .....	3,877	3,789	32,607
	<u>¥6,050</u>	<u>¥5,466</u>	<u>\$50,877</u>

## 17. Shareholders' Equity

The new Corporation Law of Japan (the "Law"), which superseded most of the provisions of the Commercial Code of Japan, went into effect on May 1, 2006. The Law provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

The following appropriation of retained earnings for the year ended December 31, 2006 was duly approved at the annual general meeting of the shareholders held on March 29, 2007:

	(Millions of yen)	(Thousands of U.S. dollars)
Cash dividends ¥6 (U.S.\$0.05) per share .....	¥1,907	\$16,041

## 18. Commitments and Contingent Liabilities

At December 31, 2006, the Company was contingently liable for guarantees on loans to its customers and employees which amounted to approximately ¥4,951 million (\$41,637 thousand). The Company has rights to various types of collateral offered as security against the above guarantees to its customers and employees.

At December 31, 2006, 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, 2006 and 2005 were ¥7,419 million (\$62,396 thousand) and ¥7,881 million, respectively, and have been included in cost of revenue.

## 19. Supplemental Cash Flow Information

The following table represents a reconciliation of cash and cash equivalents at December 31, 2006 and 2005:

	December 31,		2006 (Thousands of U.S. dollars)
	2006 (Millions of yen)	2005	
Cash .....	¥7,532	¥8,274	\$63,341
Time deposits with a maturity of more than three months .....	(24)	(33)	(208)
Cash and cash equivalents .....	<u>¥7,507</u>	<u>¥8,241</u>	<u>\$63,132</u>

## 20. Segment Information

The Company operates principally within three industry segments: office and commercial building leasing (“leasing”), real estate sales and other. The 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, 2006 and 2005:

### Business Segments:

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

	(Millions of yen)				Eliminations or corporate (Note a)	Consolidated
	Year ended December 31, 2006					
	Leasing	Real estate sales	Other	Total		
<b>Revenue from operations:</b>						
Customers .....	¥ 43,505	¥155,494	¥ 35,341	¥234,340	¥ —	¥234,340
Intersegment .....	658	172	2,416	3,246	(3,246)	—
Subtotal .....	44,163	155,666	37,757	237,587	(3,246)	234,340
<b>Costs and operating expenses .....</b>	24,970	137,315	33,811	196,097	3,781	199,879
<b>Operating income .....</b>	¥ 19,193	¥ 18,351	¥ 3,945	¥ 41,490	¥ (7,028)	¥ 34,461

#### II. Total assets, depreciation, loss on impairment of fixed assets and capital expenditures—

	(Millions of yen)				Eliminations or corporate (Note b)	Consolidated
	Year ended December 31, 2006					
	Leasing	Real estate sales	Other	Total		
<b>Total assets .....</b>	¥419,921	¥144,482	¥ 73,317	¥637,721	¥ 37,546	¥675,267
<b>Depreciation .....</b>	¥ 3,263	¥ 13	¥ 880	¥ 4,156	¥ 31	¥ 4,188
<b>Loss on impairment of fixed assets .....</b>	¥ —	¥ —	¥ 324	¥ 324	¥ —	¥ 324
<b>Capital expenditures .....</b>	¥ 30,493	¥ 46	¥ 4,357	¥ 34,897	¥ 360	¥ 35,257

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

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

#### II. Total assets, depreciation, loss on impairment of fixed assets and capital expenditures—

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

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

(Thousands of U.S. dollars)  
Year ended December 31, 2006

	Leasing	Real estate sales	Other	Total	Eliminations or corporate (Note a)	Consolidated
<b>Revenue from operations:</b>						
Customers .....	\$ 365,850	\$1,307,608	\$ 297,198	\$1,970,657	\$ —	\$1,970,657
Intersegment .....	5,535	1,451	20,317	27,304	(27,304)	—
Subtotal .....	371,386	1,309,059	317,516	1,997,961	(27,304)	1,970,657
<b>Costs and operating expenses .....</b>	209,983	1,154,736	284,335	1,649,055	31,800	1,680,856
<b>Operating income .....</b>	\$ 161,402	\$ 154,322	\$ 33,180	\$ 348,905	\$ (59,105)	\$ 289,800

**II. Total assets, depreciation, loss on impairment of fixed assets and capital expenditures—**

	Leasing	Real estate sales	Other	Total	Eliminations or corporate (Note b)	Consolidated
<b>Total assets .....</b>	\$3,531,270	\$1,215,009	\$ 616,554	\$5,362,833	\$ 315,740	\$5,678,573
<b>Depreciation .....</b>	\$ 27,443	\$ 113	\$ 7,400	\$ 34,957	\$ 263	\$ 35,220
<b>Loss on impairment of fixed assets .....</b>	\$ —	\$ —	\$ 2,727	\$ 2,727	\$ —	\$ 2,727
<b>Capital expenditures .....</b>	\$ 256,431	\$ 388	\$ 36,646	\$ 293,465	\$ 3,031	\$ 296,496

Note a: Unallocatable operating expenses included under “Eliminations or corporate” totaled ¥7,007 million (\$58,926 thousand) and ¥5,372 million before eliminations for the years ended December 31, 2006 and 2005, respectively. Such operating expenses consisted primarily of expenses incurred by the administration departments of the Company.

Note b: Corporate assets included under “Eliminations or corporate” totaled ¥80,726 million (\$678,862 thousand) and ¥85,104 million before eliminations, at December 31, 2006 and 2005, 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 subsidiaries represented less than 10% of consolidated sales for the years ended December 31, 2006 and 2005.

**21. Subsequent Events** On March 19, 2007, the Company issued ¥10,000 million (\$84,093 thousand) of 1.60% domestic straight bonds due 2012, and ¥10,000 million (\$84,093 thousand) of 1.76% domestic straight bonds due 2013. The intended usage of the funds is repayment of bank borrowings.

## REPORT OF 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, 2006 and 2005, and the related consolidated statements of income, changes in net assets, and cash flows for the years 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 audits.

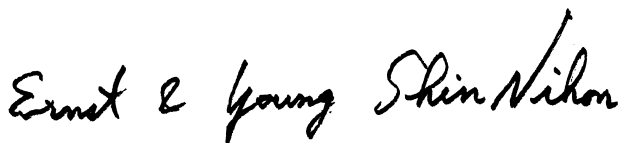
We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, 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 audits provide 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, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

### *Supplemental Information*

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

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2006 are presented solely for convenience. Our audit also included the 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.



March 29, 2007

## BOARD OF DIRECTORS

### Chairman & Director

*Keisuke Minami*

### President & Representative Director

*Makoto Hatanaka*

### Senior Managing

### Director & Representative Director

*Hajime Sakuma*

### Managing Director

*Hisashi Gomyou*

*Shinichi Nara*

*Akisato Saruta*

*Kazumasa Kato*

*Seiken Saito*

### Director

*Seigo Maruta*

*Tatsuo Usui*

*Hisao Shibayama*

*Satoshi Ookubo*

*Shinji Ayaki*

*Toshiyuki Hata*

*Akira Ookubo*

*Takeo Inui*

### Standing Corporate Auditor

*Toshio Matsumi*

*Masami Kubota*

### Corporate Auditor

*Kouji Suzuki*

*Osamu Kita*

(as at May 31, 2007)

## CORPORATE DATA

### Tokyo Tatemono Co., Ltd.

#### Date of Establishment

*October 1, 1896*

#### Capital

*¥77,181 million*

#### Number of Employees

*336*

#### Number of Shareholders

*14,962*

*(as at December 31, 2006)*

#### Head Office

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

*Tokyo 103-8285 Japan*

*Tel. +81-3-3274-0111*

*Fax. +81-3-3274-0256*

#### Branches

##### Kansai Branch

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

*Osaka 541-0041 Japan*

*Tel. +81-6-6202-0111*

*Fax. +81-6-6202-0298*

##### Sapporo Branch

*2-6, Kitananajyonishi 1-chome, Kita-ku,*

*Sapporo, Hokkaido 060-0807 Japan*

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*Fax. +81-11-717-5330*

##### Kyushu Branch

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

*Fukuoka 810-0001 Japan*

*Tel. +81-92-761-0110*

*Fax. +81-92-736-6586*

##### Nagoya Branch

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

*Aichi 460-0008 Japan*

*Tel. +81-52-249-0100*

*Fax. +81-52-249-0200*

#### Principal Subsidiaries

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

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

*Tokyo 163-0647 Japan*

*Tel. +81-3-3342-1009*

*Fax. +81-3-3343-3466*

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

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

*Tokyo 103-0027 Japan*

*Tel. +81-3-3275-4711*

*Fax. +81-3-3275-4722*

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

*1-3, Taihei 4-chome, Sumida-ku,*

*Tokyo 130-0012 Japan*

*Tel. +81-3-5608-7652*

*Fax. +81-3-5608-7534*

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

*1-3, Taihei 4-chome, Sumida-ku,*

*Tokyo 130-0012 Japan*

*Tel. +81-3-3612-3232*

*Fax. +81-3-3612-7262*

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

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

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