TOC CO., LTD.

ANNUAL REPORT

2004

Profile

TOC Co., Ltd. is a comprehensive urban developer in the Greater Tokyo metropolitan area. Though our primary focus is on the leasing of buildings and business space, we also are actively involved in many other phases of urban development, through all-inclusive operations from project planning to development and management, attuned to the ongoing evolution of social and business dynamics in the region.

In the Shinagawa-Osaki district, we have completed the TOC Building, TOC Building 2, TOC Building 3, TOC Front Building, TOC Building 5 and Osaki New City, a carefully coordinated project considered to be a pioneer in subcenter development. In the Asakusa district, we operate the Asakusa ROX, ROX-2, ROX-3 and ROX Dome buildings.

We commenced construction of the TOC Ariake building—also known as the TOC Building for the 21st Century—for the “Ariake Minami LM2-3 Zone” project in the Rinkai Subcenter in May 2004, and will continue to explore new opportunities to further expand our businesses.

Financial Highlights

TOC Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
For the Year			
Net sales	¥ **17,831**	¥ 18,551	$ **168,219**
Operating income	**5,554**	5,553	**52,393**
Net income	**2,577**	3,018	**24,309**
At Year-End			
Shareholders’ equity	¥ **56,276**	¥ 54,403	$ **530,903**
Total assets	**85,995**	89,074	**811,275**

	Yen		U.S. Dollars
	2004	2003	**2004**
Per Share			
Net income	¥ **39.14**	¥ 45.60	$ **0.37**
Cash dividends	**11.00**	11.00	**0.10**

Note: U.S. dollar amounts have been converted from yen, for convenience only, at the rate of ¥106 = US$1, the rate of exchange on March 31, 2004.

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Through Major New Building Projects, TOC Is Striving to Expand Shareholder Value and Assure a Brighter Future.

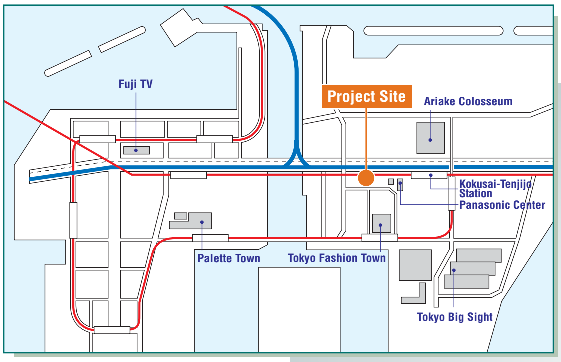
As we face the future, TOC aims to balance the properties we already own with carefully considered new projects, taking the utmost advantage of our long-accumulated expertise and strong brand recognition. Following are our development projects currently underway.

The "Ariake Minami LM2-3 Zone" project (site area: 18,088.47 square meters), for which we purchased land from the Tokyo Metropolitan Government, was designated as a "private urban development project" by the Ministry of Land, Infrastructure and Transport under the Urban Renaissance Special Measure Law. For this project, the "TOC Ariake" building is planned to cater to a wide variety of businesses, mainly for distribution purposes, as the "TOC Building for the 21st Century." Construction began in May 2004, with projected completion in May 2006.

As for the "Minato-Mirai 21-28 District" project (site area: 6,611.00 square meters), we bought additional land (1,644 square meters) adjacent to the project site from Urban Development Corporation in March 2004. This purchase dramatically expanded the site's frontage on a major road, enabling a more advantageous development. With a careful eye to the neighboring environment, we intend to construct a facility more fitting as a gateway to the whole "Minato-Mirai 21" district facing Sakuragi-cho Station, a major train station in Yokohama. With the prime location directly in front of the station, we are planning a multi-purpose commercial complex that will garner support from a wide range of clientele. Our long-standing know-how, gained in managing various commercial facilities attuned to the diverse needs of consumers and other end users, should prove valuable in this new project.

In September 2003, we sold the land that we owned for the "Tokyo Yaesu North Exit" project in order to streamline assets and concentrate management resources.

We intend to channel our utmost efforts and resources toward development of new projects, including those noted above, while promoting measures to provide a higher level of services at lower cost. Furthermore, we will strive to implement various financial measures, with particular emphasis on cash flows and capital efficiency, to achieve a management structure that enables us to raise revenue on an ongoing basis.



"Ariake Minami LM2-3 Zone" Project
(Artist's rendering; completed buildings may differ in appearance from the illustration above.)

Message from the President

The TOC Group undertakes its operations based on the corporate credo of "becoming a company useful to society." We believe it is our mission to provide fun, lively and relaxing venues that please both visitors and tenants. Our basic management policy is to improve the business performance of the Group as a whole and contribute, through development, to society at large by looking closely at the demands of the surrounding environment and ever-changing times.

Analysis of Operating Results for Fiscal 2004

The Japanese economy during the year ended March 31, 2004 began a gradual recovery on the back of an improvement in earnings at large corporations, an increase in capital investment, primarily in the manufacturing industry, and an upswing in the stock market. On the other hand, many small and medium-sized companies as well as regional economies did not participate in the upturn, and consumer spending still lagged due to a stagnant employment situation. Overall, the Japanese economy was divided by wide disparities among industries and regions.

Under these circumstances, TOC posted consolidated net sales of ¥17,831 million (US$168,219 thousand), down 3.9% from fiscal 2003. This was despite vigorous sales activities that emphasized our strengths and added values in accordance with our corporate credo. Operating income was ¥5,554 million (US$52,393 thousand), essentially unchanged from fiscal 2003. Ordinary income decreased 3.2% to ¥5,348 million (US$50,453 thousand). Net income amounted to ¥2,577 million (US$24,309 thousand), down 14.6%, as a result of posting an extraordinary loss that accompanied the sales of non-performing assets.

Results by business segment are as follows.

Real Estate Segment

The office building market in fiscal 2004 continued to be challenging. A massive supply of newly constructed office complexes in Tokyo has almost been completed, and the overall vacancy rate has declined. However, rent levels have not yet begun to rebound substantially.

Reflecting this environment, net sales totaled ¥11,840 million (US$111,701 thousand), a decrease of 1.3% from fiscal 2003. Operating income, however, grew 3.9% to ¥5,505 million (US$51,936 thousand). We focused on improving the strengths of individual buildings we own, continuously renewing and beautifying them to meet evolving needs, and heightening their added value. Through these steps, and by providing existing tenants with enhanced operating and maintenance services at lower cost, as well as attracting new tenants suited to the characteristics of the buildings, we achieved an occupancy rate of 96.8%, a 0.5% increase over the previous fiscal year. On the down side, rents remained essentially level overall, and income from the lease of exhibition halls and the parking business declined as a result of stagnant consumer spending.

Linen Supply Segment

This business segment depends on the hotel industry as its main source of income. Although performance improved in the second half of fiscal 2004, thanks to the general economic recovery, it couldn't make up for the sluggish performance that accompanied the SARS epidemic and stagnant economy during the first half of the fiscal year. Net sales amounted to ¥2,006 million (US$18,928 thousand), a decrease of 2.7% from fiscal 2003. Operating income declined 35.2% to ¥35 million (US$340 thousand).

Others Segment

Total net sales in the Others segment amounted to ¥3,985 million (US$37,590 thousand), down 11.2% from fiscal 2003, with a total operating loss of ¥1 million (US$11 thousand), a decrease of ¥193 million (US$1,821 thousand). Sales of Pharmaceuticals, a field in which we have been involved since the founding of the company in 1926, decreased, due primarily to an ongoing reconsideration of product lineup. Our Sports Club business continued to provide a steady source of income. Sales in the Bathing Facility business declined, on the other hand, due primarily to the entry of additional competitors into this market. Retail and Restaurant sectors also saw lower sales, due mainly to a decrease in available store space that accompanied the renovation of our ROX-2 building. Building Maintenance Services posted lower sales as well, reflecting a reduction in demand for interior refurbishing. Sales in the Environmental Protection and Energy-Saving businesses declined slightly.

We transferred our Pharmaceutical Division (manufacturing) to Hoshi Pharmaceutical Co., Ltd. (marketing), one of our consolidated subsidiaries, with the aim of optimizing our speed of response to a rapidly diversifying market. The renewed Hoshi Pharmaceutical re-started operations in October 2003, and has since been working on the manufacture and sales of new products that are expected to win the support of many customers.

Basic Policy Regarding Corporate Management

We regard corporate governance as one of the key management issues in regard to improved management soundness, transparency and efficiency. The TOC Group's upper management system encompasses the functions of such bodies as the board of directors, and meetings of the executive directors and executive councils, as well as management groups at individual divisions and subsidiaries. These bodies deliberate issues related to Japan's Commercial Code and other important management matters, and exchange divisional information and insights, in order to respond proactively to the variety of problems that may arise in the ever-changing world of business. At TOC, we do not employ a U.S.-style executive management system, but rather a unified management system where representative directors take joint responsibility for both management and business operations. We also strive to disclose information to our shareholders and other stakeholders as quickly and accurately as possible.

Business Outlook for Fiscal 2005

Overall, the domestic economy appears to be moving toward recovery, with an increase in capital investment accompanying revitalized performance by large corporations, especially those in the manufacturing sector. This recovery may be hampered or slowed, however, by uncertainties concerning such factors as a delay in the recovery of consumer spending and potential instabilities abroad.

Facing these conditions, we will focus on early completion of new development projects in the Real Estate segment, our mainstay business. We will also aggressively promote the renewal of existing buildings—a prime example of which is the comprehensive renovation of the ROX-2G building—by paying close attention to changes in operational status and the business environment. In other fields of business, we will seek reform as appropriate to achieve increased management efficiency in accordance with changes in the management environment.

For fiscal 2005, ending March 31, 2005, we forecast consolidated net sales of ¥17,900 million (US$168,868 thousand), an increase of 0.4% over fiscal 2004, operating income of ¥5,550 million (US$52,358 thousand), down 0.1%, ordinary income of ¥5,350 million (US$50,472 thousand), unchanged from fiscal 2004, and net income of ¥2,400 million (US$22,642 thousand), a decrease of 6.9%.

As we look to secure further growth in shareholder value, we respectfully request a continuation of the support we have enjoyed to date.

June 2004

President

Takuo Otani

TOC at a Glance

TOC is actively involved in a variety of business fields. These are categorized into three segments: Real Estate, our mainstay; Linen Supply; and Others, which includes our pharmaceuticals business.

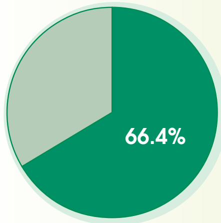
TOC Building


Osaki New City


Asakusa ROX

Real Estate Segment

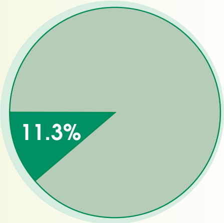
This is the largest of our business segments, accounting for 66.4% of consolidated net sales. This segment is responsible for planning, execution and management of urban development projects. By providing fun, lively and relaxing venues, and promoting urban redevelopment attuned to the needs and preferences of the times, we are contributing to the building of a more vibrant future and the betterment of society as a whole.




Exhibition hall in use for a fashion show

Linen Supply Segment

This segment, which accounts for 11.3% of consolidated net sales, is involved in renting a wide variety of linens used in hotels and restaurants. It also provides dry cleaning services to guests at hotels and sells items such as bathrobes and towels.



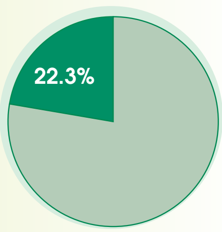

Atsugi Linen Cleaning Plant

Others Segment

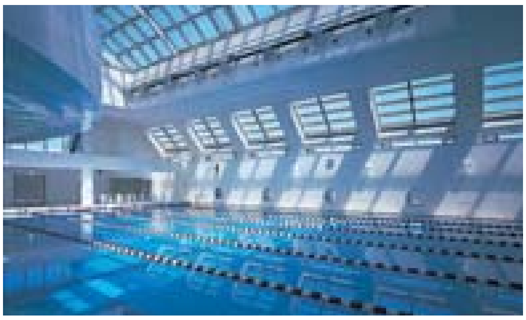
This segment accounts for 22.3% of consolidated net sales. It includes our pharmaceuticals business, building maintenance services, management of a sports club and a bathing facility, retail and restaurant businesses, and environmental protection and energy-saving businesses.

In April 2001, we opened a bathing facility, the largest to be established in a building complex in Tokyo, in our Asakusa ROX building. It offers 11 types of baths, including an open-air bath overlooking the city from a height of 30 meters, an aesthetic salon and a massage center. In conjunction with a sports club in the same building, this provides an environment where people can relax both physically and mentally. The number of users for both facilities continues to rise. In the twelve months ended March 31, 2004, the bathing facility welcomed more than 700,000 users.

"Hoshi Kumazasa Extract," the flagship product of our pharmaceutical line, is extracted through our proprietary technique from the young leaves of kumazasa bamboo. Rich in polysaccharides, this product has become widely popular as a naturally derived nutritional supplement highly beneficial to the health.




"Asakusa ROX Matsuri-Yu" bathing facility


"ROX FITNESS CLUB begin"


Hoshi Kumazasa Extract

Financial Review

Net Sales

Consolidated net sales for fiscal 2004 amounted to ¥17,831 million, a decrease of ¥720 million (3.9%) from fiscal 2003. This occurred despite concerted sales activities that emphasized our strengths and added values throughout the consolidated Group, in accordance with our corporate credo of "becoming a company useful to society."

By segment, net sales in the Real Estate segment totaled ¥11,840 million, a decrease of ¥160 million (1.3%). Though our occupancy rate improved to 96.8%, a 0.5% increase over fiscal 2003, the rent level for new tenants did not rise. Decreases in exhibition hall and parking income also had an adverse effect. Net sales in the Linen Supply segment amounted to ¥2,006 million, a decrease of ¥55 million (2.7%). Drawing its clientele primarily from the hotel industry, this segment was adversely affected by sluggish industry-wide performance resulting from the SARS epidemic in the first half of fiscal 2004, despite brisk business in the second half brought on by the onset of economic recovery. Net sales in the Others segment totaled ¥3,985 million, a decrease of ¥505 million (11.2%). Increased sales in the Sports Club sector were offset by a decrease in sales of the Pharmaceuticals business as a result of a reevaluation of our product lineup, ongoing from fiscal 2003. Sales in the Bathing Facility, Retail and Restaurant, and Building Maintenance Services businesses also declined.

Cost of Sales and Selling, General and Administrative Expenses

Cost of sales for fiscal 2004 decreased ¥629 million (6.0%) from fiscal 2003 to ¥9,912 million, while the cost of sales to net sales ratio fell 1.2% to 55.6%. Selling, general and administrative (SGA) expenses decreased ¥92 million (3.7%) to ¥2,365 million, and the ratio of SGA expenses to net sales was 13.3%, unchanged from fiscal 2003.

Operating Income

Operating income for fiscal 2004 amounted to ¥5,554 million, a slight increase over fiscal 2003. The ratio of operating income to net sales improved from 29.9% to 31.1%. By segment, operating income was ¥5,505 million for the Real Estate segment and ¥35 million for the Linen Supply segment. The Others segment, on the contrary, recorded an operating loss of ¥1 million.

Net Income

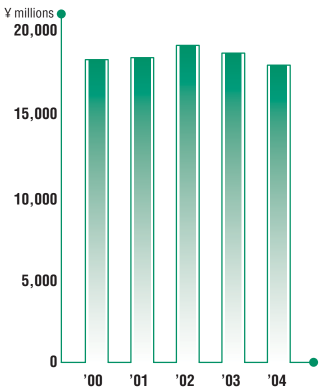
Net income for fiscal 2004 amounted to ¥2,577 million, down ¥441 million (14.6%) from fiscal 2003. On a per-share basis, net income fell from ¥45.60 to ¥39.14.

Financial Position

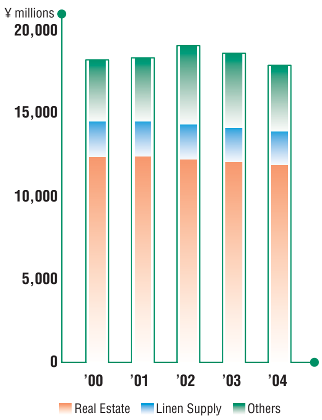
Total assets as of the end of fiscal 2004 stood at ¥85,995 million, a decrease of ¥3,079 million (3.5%) from fiscal 2003.

Current assets dropped by ¥4,029 million (21.3%) to

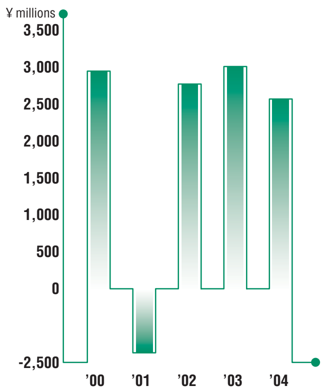
Net Sales



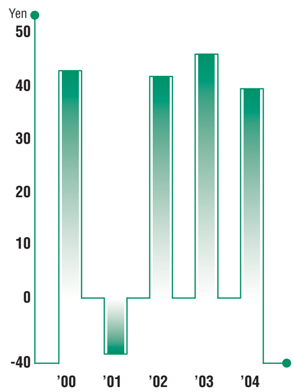
Net Sales by Segment



Net Income/Loss



Net Income per Share



¥14,908 million, due mainly to decreases in cash and cash equivalents and deferred tax assets. Inventories increased ¥40 million (7.9%) to ¥548 million, while cash and cash equivalents fell ¥3,148 million (24.5%) to ¥9,694 million. Property, plant and equipment increased ¥7,578 million (16.5%) to ¥53,609 million, attributable to a significant increase in land purchased for the "Ariake Minami LM2-3 Zone" and "Minato-Mirai 21-28 District" projects. Intangible assets decreased ¥7,858 million (52.7%) to ¥7,050 million, due to a large decrease in leaseholds. Investments and other assets amounted to ¥17,478 million, a decrease of ¥6,628 million (27.5%).

Current liabilities totaled ¥7,629 million, down ¥6,206 million (44.9%) from fiscal 2003, mainly reflecting a decrease in short-term borrowings, which fell by ¥5,015 million (57.6%) to ¥3,685 million. Long-term liabilities amounted to ¥21,786 million, an increase of ¥1,265 million (6.2%). This was due primarily to an increase in long-term debt, up ¥1,658 million (15.7%) to a total of ¥12,198 million.

Shareholders' equity grew ¥1,873 million (3.4%) to ¥56,276 million. The shareholders' equity ratio increased 4.3 percentage points from 61.1% to 65.4%.

Cash Flows

Total cash and cash equivalents stood at ¥9,694 million at the end of March 2004, a decrease of ¥3,148 million (24.5%) from fiscal 2003.

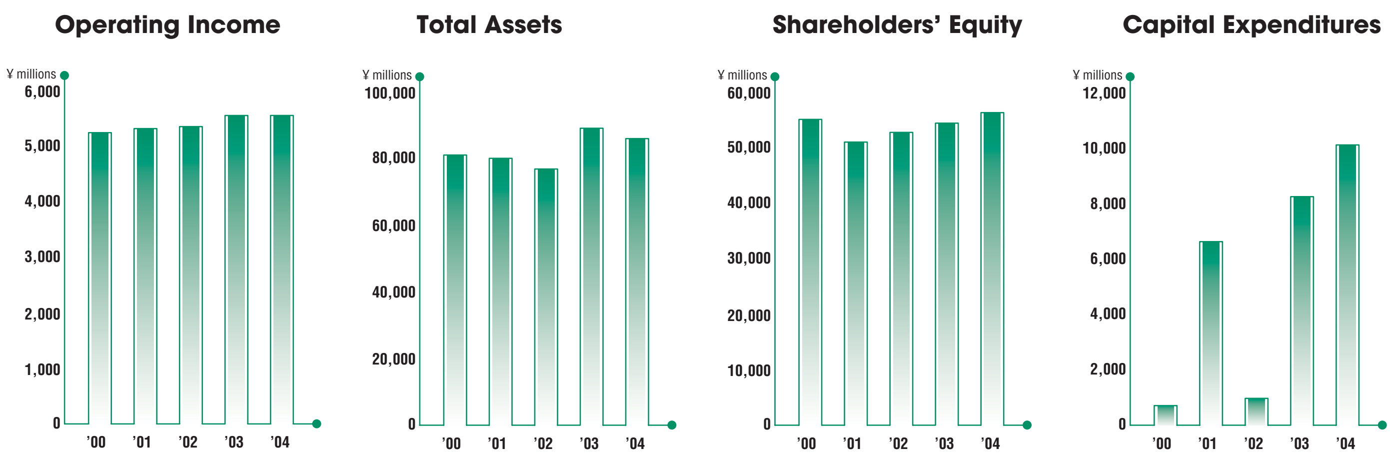
Net cash and cash equivalents provided by operating activities amounted to ¥3,364 million. Income before income taxes and minority interests in the amount of ¥4,722 million was offset by income taxes paid. Compared with fiscal 2003, net cash and cash equivalents decreased ¥1,317 million (28.1%), due to a drop in deposits from tenants.

Net cash and cash equivalents used in investing activities fell sharply by ¥6,483 million to ¥2,785 million. Although we posted proceeds from sales of land related to the "Tokyo Yaesu North Exit" project, it was outweighed by payments for purchases of land related to the "Ariake Minami LM2-3 Zone" and "Minato-Mirai 21-28 District" projects, as well as payment for purchases of investment securities.

Net cash and cash equivalents used for financing activities totaled ¥3,727 million, compared with ¥9,276 million in net cash and cash equivalents provided by financing activities in fiscal 2003. Borrowings related to the "Ariake Minami LM2-3 Zone" project were offset by repayments of long-term debt related to the "Tokyo Yaesu North Exit" project.

Dividends

Cash dividends for fiscal 2004 were ¥11.0 per share, representing a payout ratio of 28.0%.



Consolidated Balance Sheets

March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	2004
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	¥ 9,694	¥ 12,842	$ 91,454
Short-term investments (Note 3)	57	59	538
Marketable securities (Note 4)	61	20	575
Receivables:			
Trade notes	39	60	372
Trade accounts (Note 11)	885	867	8,345
Allowance for doubtful receivables	(12)	(22)	(116)
Inventories (Note 5)	548	508	5,174
Deferred tax assets (Note 9)	3,259	3,942	30,743
Prepaid expenses and other current assets (Notes 11 and 12)	377	661	3,557
Total current assets	14,908	18,937	140,642
PROPERTY, PLANT AND EQUIPMENT (Note 6):			
Land	38,297	29,669	361,294
Buildings and structures	48,930	49,117	461,605
Machinery and equipment	1,100	1,082	10,373
Construction in progress	239	57	2,256
Other	1,386	1,389	13,074
Total	89,952	81,314	848,602
Accumulated depreciation	(36,343)	(35,283)	(342,859)
Net property, plant and equipment	53,609	46,031	505,743
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 4)	3,645	3,406	34,386
Investments in and advances to unconsolidated subsidiaries and associated company	1,362	559	12,847
Long-term loans	2,750	2,750	25,943
Leasehold	6,966	14,821	65,722
Deferred tax assets (Note 9)	191	160	1,801
Other assets	2,564	2,410	24,191
Total investments and other assets	17,478	24,106	164,890
TOTAL	¥ 85,995	¥ 89,074	$ 811,275

See notes to consolidated financial statements.

	Millions of Yen 2004	Millions of Yen 2003	Thousands of U.S. Dollars (Note 1) 2004
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term borrowings (Note 6)	¥ 3,685	¥ 8,700	$ 34,764
Current portion of long-term debt (Note 6)	992	670	9,364
Payables:			
Trade accounts	209	410	1,969
Other (Note 11)	788	695	7,435
Income taxes payable	343	1,203	3,237
Accrued bonuses	92	94	869
Accrued expenses and other current liabilities (Notes 11 and 12)	1,520	2,063	14,335
Total current liabilities	7,629	13,835	71,973
LONG-TERM LIABILITIES:			
Long-term debt (Note 6)	12,198	10,540	115,074
Deposits from tenants (Note 11)	9,042	9,688	85,303
Liability for employees' retirement benefits (Note 7)	159	163	1,496
Liability for retirement allowance for directors and corporate auditors (Note 7)	151	130	1,427
Other long-term liabilities	236	—	2,229
Total long-term liabilities	21,786	20,521	205,529
MINORITY INTERESTS	304	315	2,870
COMMITMENTS (Note 10)			
SHAREHOLDERS' EQUITY (Notes 8 and 13):			
Common stock—authorized, 271,217,000 shares; issued, 66,770,416 shares	11,768	11,768	111,021
Capital surplus	9,335	9,327	88,061
Retained earnings	35,903	34,064	338,710
Unrealized gain on available-for-sale securities	28	17	265
Total	57,034	55,176	538,057
Treasury stock—at cost, 1,356,548 shares in 2004 and 1,384,334 shares in 2003	(758)	(773)	(7,154)
Total shareholders' equity	56,276	54,403	530,903
TOTAL	¥ 85,995	¥ 89,074	$ 811,275

Consolidated Statements of Income

Years Ended March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	2004
NET SALES (Note 11)	¥ 17,831	¥ 18,551	$ 168,219
COST OF SALES (Note 11)	9,912	10,541	93,511
Gross profit	7,919	8,010	74,708
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,365	2,457	22,315
Operating income	5,554	5,553	52,393
OTHER INCOME (EXPENSES):			
Interest and dividends	64	113	601
Interest expense	(284)	(168)	(2,675)
Loss on sales of property, plant and equipment	(137)	—	(1,294)
Loss on disposal of property, plant and equipment	(129)	(15)	(1,213)
Equity in earnings of associated company	24	16	222
Other—net	(370)	(222)	(3,489)
Other expenses—net	(832)	(276)	(7,848)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	4,722	5,277	44,545
INCOME TAXES (Note 9):			
Current	1,511	2,317	14,256
Deferred	645	(17)	6,080
Total income taxes	2,156	2,300	20,336
MINORITY INTERESTS IN NET LOSS	(11)	(41)	(100)
NET INCOME	¥ 2,577	¥ 3,018	$ 24,309

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.m):			
Basic net income	¥ 39.14	¥ 45.60	$ 0.37
Cash dividends applicable to the year	11.00	11.00	0.10

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Years Ended March 31, 2004 and 2003

	Thousands	Millions of Yen				
	Issued Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain (Loss) on Available-for-sale Securities	Treasury Stock
BALANCE, APRIL 1, 2002	66,770	¥ 11,768	¥ 9,327	¥ 31,794	¥ (6)	¥ (166)
Net income	—	—	—	3,018	—	—
Cash dividends, ¥11 per share	—	—	—	(726)	—	—
Bonuses to directors	—	—	—	(22)	—	—
Increase in unrealized gain on available-for-sale securities	—	—	—	—	23	—
Increase in treasury stock—net (1,172,000 shares)	—	—	—	—	—	(607)
BALANCE, MARCH 31, 2003	66,770	11,768	9,327	34,064	17	(773)
Net income	—	—	—	2,577	—	—
Cash dividends, ¥11 per share	—	—	—	(720)	—	—
Bonuses to directors	—	—	—	(18)	—	—
Disposal of treasury stock—net (27,786 shares)	—	—	8	—	—	15
Increase in unrealized gain on available-for-sale securities	—	—	—	—	11	—
BALANCE, MARCH 31, 2004	66,770	¥ 11,768	¥ 9,335	¥ 35,903	¥ 28	¥ (758)

	Thousands of U.S. Dollars (Note 1)				
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain (Loss) on Available-for-sale Securities	Treasury Stock
BALANCE, MARCH 31, 2003	$ 111,021	$ 87,988	$ 321,356	$ 158	$ (7,288)
Net income	—	—	24,309	—	—
Cash dividends, $0.10 per share	—	—	(6,785)	—	—
Bonuses to directors	—	—	(170)	—	—
Disposal of treasury stock—net (27,786 shares)	—	73	—	—	134
Increase in unrealized gain on available-for-sale securities	—	—	—	107	—
BALANCE, MARCH 31, 2004	$ 111,021	$ 88,061	$ 338,710	$ 265	$ (7,154)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years Ended March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	2004
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 4,722	¥ 5,277	$ 44,545
Adjustments for:			
Income taxes—paid	(2,371)	(2,220)	(22,369)
Depreciation and amortization	1,384	1,493	13,056
Loss on devaluation of investment securities	20	32	189
Write-down of golf club membership	—	13	—
Loss from revision of business plan	—	116	—
Reversal of reserves for doubtful receivables	(10)	(26)	(93)
Bonuses to directors	(18)	(22)	(170)
Loss on sales and disposals of property, plant and equipment—net	239	15	2,251
Equity in earnings of associated company	(24)	(16)	(222)
Changes in assets and liabilities—net:			
Decrease in trade notes and accounts receivable	3	219	24
(Increase) decrease in inventories	(85)	9	(805)
(Decrease) increase in trade accounts payable	(150)	64	(1,413)
Decrease in accrued expenses	(1)	(1)	(14)
Decrease in deposits from tenants	(628)	(206)	(5,927)
(Decrease) increase in liability for employees' retirement benefits	(5)	26	(43)
Increase (decrease) in liability for retirement allowance for directors and corporate auditors	21	(12)	198
Other—net	267	(80)	2,527
Total adjustments	(1,358)	(596)	(12,811)
Net cash provided by operating activities	3,364	4,681	31,734
INVESTING ACTIVITIES:			
Payments into time deposits	(58)	(59)	(545)
Proceeds from withdrawal of time deposits	60	92	564
Proceeds from sales of marketable securities	20	20	189
Payment for purchases of property, plant and equipment	(10,039)	(470)	(94,706)
Proceeds from sales of property, plant and equipment	8,520	—	80,378
Payment for purchases of other assets	(15)	(7,875)	(142)
Payment for purchases of investment securities	(1,103)	(556)	(10,410)
Proceeds from sales of investment securities	10	1,559	94
Repayment of long-term debt	—	(1,990)	—
Other—net	(180)	11	(1,692)
Net cash used in investing activities	(2,785)	(9,268)	(26,270)
FINANCING ACTIVITIES:			
(Repayments of) proceeds from short-term borrowings—net	(5,015)	1,300	(47,311)
Proceeds from long-term debt	2,800	9,400	26,415
Repayments of long-term debt	(820)	(90)	(7,732)
Proceeds from sales of treasury stock	37	—	345
Payment for purchases of treasury stock	(15)	(606)	(138)
Cash dividends paid	(714)	(728)	(6,743)
Net cash provided by (used in) financing activities	(3,727)	9,276	(35,164)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,148)	4,689	(29,700)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	12,842	8,153	121,154
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 9,694	¥ 12,842	$ 91,454

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years Ended March 31, 2004 and 2003

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications and rearrangements have been made in the 2003 financial statements to conform to classifications and presentations used in 2004.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which TOC Co., Ltd. (the "Company") is incorporated and operates. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥106 to $1, the approximate rate of exchange at March 31, 2004. Such translation should not be construed as representation that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. **Consolidation**—The consolidated financial statements include the accounts of the Company and its seven significant subsidiaries (together, the "Group").

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investment in an associated company is accounted for by the equity method. Investment in an unconsolidated subsidiary is stated at cost. If the equity method of accounting had been applied to the investment in this company, the effect on the accompanying consolidated financial statements would not be material.

The excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition is charged to income when incurred.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

b. **Cash Equivalents**—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits and bond funds, which mature within three months of the date of acquisition.

c. **Inventories**—Merchandise is principally stated at cost determined by the retail method as generally applied for the retail industry in Japan.

Finished products, work in process, raw materials and supplies are stated at cost determined by the moving-average method.

d. **Marketable and Investment Securities**—Marketable and investment securities are classified as available-for-sale securities and are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

e. **Property, Plant and Equipment**—Property, plant and equipment are stated at cost. Depreciation is computed by the declining-balance method while the straight-line method is applied to buildings acquired after April 1, 1998. The range of useful lives is principally from 3 to 50 years for buildings and structures.

f. **Allowance for Doubtful Accounts**—The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

g. **Retirement and Pension Plans**—The Company and certain consolidated subsidiaries have funded and unfunded retirement plans.

Liability for retirement benefits is based on the projected benefit obligations and plan assets at the balance sheet date.

h. **Retirement Allowances for Directors and Corporate Auditors**—Retirement allowances for directors and corporate auditors are recorded to state the liability at the amount that would be required if all directors and corporate auditors retired at each balance sheet date.

i. **Leases**—All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

j. **Income Taxes**—The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

k. **Appropriations of Retained Earnings**—Appropriations of retained earnings are reflected in the financial statements for the following year upon shareholders' approval.

l. **Derivatives and Hedging Activities**—The Group uses derivative financial instruments to manage its exposures to fluctuations in interest rates. Interest rate swaps are utilized by the Group to reduce interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

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

m. **Per Share Information**—Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share is not disclosed because it is anti-dilutive.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective year including dividends to be paid after the end of the year.

n. **New Accounting Pronouncements**—In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan ("ASB") issued ASB Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The new accounting standard requires an entity to review its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The Company is currently in the process of assessing the effect of adoption of these pronouncements.

3. SHORT-TERM INVESTMENTS

Short-term investments consisted of time deposits which become due over three months.

4. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2004 and 2003, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Current:			
Government and corporate bonds	**¥ 41**	¥ —	**$ 382**
Trust fund investments and other	**20**	20	**193**
Total	**¥ 61**	¥ 20	**$ 575**
Non-current:			
Marketable equity securities	**¥ 332**	¥ 312	**$ 3,131**
Non-marketable equity securities	**3,282**	3,002	**30,967**
Government and corporate bonds	**10**	51	**95**
Trust fund investments and other	**21**	41	**193**
Total	**¥ 3,645**	¥ 3,406	**$ 34,386**

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2004 and 2003, were as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2004				
Securities classified as available-for-sale:				
Equity securities	¥ 305	¥ 59	¥ 32	¥ 332
Government and corporate bonds	33	18	—	51
Trust fund investments and other	40	1	—	41
March 31, 2003				
Securities classified as available-for-sale:				
Equity securities	305	8	1	312
Government and corporate bonds	33	18	—	51
Trust fund investments and other	60	1	—	61

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2004				
Securities classified as available-for-sale:				
Equity securities	$ 2,873	$ 555	$ 297	$ 3,131
Government and corporate bonds	308	169	—	477
Trust fund investments and other	377	9	—	386

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2004 and 2003, were ¥3,282 million ($30,967 thousand) and ¥3,002 million, respectively.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale with specific maturity dates at March 31, 2004, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due in one year or less	¥ 61	$ 575
Due after one year through five years	30	288
Total	¥ 91	$ 863

5. INVENTORIES

Inventories at March 31, 2004 and 2003, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Merchandise	**¥ 38**	¥ 56	**$ 356**
Finished products	**271**	282	**2,559**
Work in process	**143**	49	**1,346**
Raw materials	**62**	56	**590**
Supplies	**34**	65	**323**
Total	**¥ 548**	¥ 508	**$ 5,174**

6. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at March 31, 2004 and 2003, mainly consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the short-term borrowings ranged from 0.7% to 1.8% at March 31, 2004 and 2003.

Long-term debt at March 31, 2004 and 2003, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Unsecured loans from banks, 1.2% to 2.1%, due 2018	**¥ 6,517**	¥ 6,810	**$ 61,481**
Unsecured loans from banks, 1.0% to 1.3%, due 2007	**5,536**	3,700	**52,227**
Unsecured loans from life insurance company, 1.2% to 1.3%, due 2007	**1,137**	700	**10,730**
Total	**13,190**	11,210	**124,438**
Less current portion	**(992)**	(670)	**(9,364)**
Long-term debt, less current portion	**¥ 12,198**	¥ 10,540	**$ 115,074**

Annual maturities of long-term debt at March 31, 2004, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2005	¥ 992	$ 9,364
2006	993	9,364
2007	6,086	57,417
2008	466	4,396
2009	466	4,396
2010 and thereafter	4,187	39,501
Total	¥ 13,190	$ 124,438

The carrying amounts of assets pledged as collateral for the short-term borrowings of ¥1,520 million ($14,340 thousand) at March 31, 2004, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Buildings and structures	¥ 4,578	$ 43,193
Land	689	6,498
Total	¥ 5,267	$ 49,691

7. RETIREMENT AND PENSION PLANS

Employees whose service with the Company and one of its subsidiaries is terminated are, under most circumstances, entitled to retirement and pension benefits determined by reference to basic rates of pay at the time of termination, length of service and conditions under which the termination occurs. If the termination is involuntary, caused by retirement at the mandatory retirement age or caused by death, the employee is entitled to greater payment than in the case of voluntary termination.

The liability for employees' retirement benefits at March 31, 2004 and 2003, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Projected benefit obligation	¥ 750	¥ 685	$ 7,071
Fair value of plan assets	(591)	(522)	(5,575)
Net liability	¥ 159	¥ 163	$ 1,496

The components of net periodic benefit costs for the years ended March 31, 2004 and 2003, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Service cost	¥ 69	¥ 97	$ 654
Net periodic benefit costs	¥ 69	¥ 97	$ 654

8. SHAREHOLDERS' EQUITY

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

The Code was revised whereby common stock par value was eliminated resulting in all shares being recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The revised Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of the balance of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock balance may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders meeting and dispose of such treasury stock by resolution of the Board of Directors beginning April 1, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

The amount of retained earnings available for dividends under the Code was ¥31,686 million ($298,920 thousand) as of March 31, 2004, based on the amount recorded in the parent company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

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

The balance of treasury stock recorded in the shareholders' equity section as of March 31, 2004, represents treasury stock purchased for the purpose of granting stock options to directors and key employees. As of March 31, 2004, stock options for 218,000 shares have been granted and are exercisable through June 30, 2005, with an exercise price of ¥762. This exercise price will change if the Company makes a stock split or issues stock at amounts less than fair value.

9. INCOME TAXES

The Company and its subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 42% for the years ended March 31, 2004 and 2003.

On March 31, 2003, a tax reform law concerning enterprise tax was enacted in Japan which changed the normal effective statutory tax rate from 42% to 41%, effective for years beginning on or after April 1, 2004. The deferred tax assets and liabilities which will realize on or after April 1, 2004, are measured at the effective tax rate of 41% at March 31, 2004 and 2003.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2004 and 2003, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Deferred tax assets:			
Accrued enterprise taxes	¥ 31	¥ 108	$ 292
Retirement benefits for directors and corporate auditors	62	55	581
Unrealized gain on sales of property	27	30	254
Devaluation of land and leasehold	3,189	3,784	30,089
Tax loss carryforwards of subsidiaries	312	270	2,939
Other	250	224	2,369
Less valuation allowance	(390)	(345)	(3,682)
Total	3,481	4,126	32,842
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	19	11	182
Deferred gains on sales of property	12	13	116
Total	31	24	298
Net deferred tax assets	¥ 3,450	¥ 4,102	$ 32,544

The valuation allowance mainly consisted of tax loss carryforwards of certain subsidiaries.

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the year ended March 31, 2004, is as follows:

	2004
Normal effective statutory tax rate	42%
Increase in valuation allowance	1
Effect of tax rate reduction	2
Other—net	1
Actual effective tax rate	46%

10. LEASES

The Group leases certain machinery and equipment, as well as other assets.

(1) Financing Leases

Total rental expenses under the above leases for the years ended March 31, 2004 and 2003, were ¥14 million ($135 thousand) and ¥24 million, respectively, including ¥10 million ($93 thousand) and ¥21 million of lease payments under finance leases.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance lease, depreciation expense, interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2004 and 2003, was as follows:

	Millions of Yen					
	2004			2003		
	Machinery and Equipment	Other	Total	Machinery and Equipment	Other	Total
Acquisition cost	¥ 11	¥ 25	¥ 36	¥ 40	¥ 63	¥ 103
Accumulated depreciation	7	14	21	31	42	73
Net leased property	¥ 4	¥ 11	¥ 15	¥ 9	¥ 21	¥ 30

	Thousands of U.S. Dollars		
	2004		
	Machinery and Equipment	Other	Total
Acquisition cost	$ 104	$ 234	$ 338
Accumulated depreciation	68	132	200
Net leased property	$ 36	$ 102	$ 138

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Due within one year	**¥ 7**	¥ 10	**$ 67**
Due after one year	**8**	15	**77**
Total	**¥ 15**	¥ 25	**$ 144**

The imputed interest expense portion which is computed using the interest method is excluded from the above obligations under finance leases.

Depreciation expense and interest expense under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Depreciation expense	**¥ 9**	¥ 19	**$ 89**
Interest expense	**1**	1	**6**
Total	**¥ 10**	¥ 20	**$ 95**

Depreciation expense and interest expense, which are not reflected in the accompanying consolidated statements of income, are computed by the straight-line method and the interest method, respectively.

(2) Operating Leases

The minimum rental commitments under noncancelable operating leases at March 31, 2004 and 2003, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Due within one year	**¥ 4**	¥ 5	**$ 42**
Due after one year	**1**	5	**8**
Total	**¥ 5**	¥ 10	**$ 50**

11. RELATED PARTY TRANSACTIONS

Transactions of the Company with OSAKI SAIKAIHATSU BUILDING Co., Ltd. (an associated company), whose representative director is also a representative director of the Company, for the year ended March 31, 2003, were as follows:

	Millions of Yen
	2003
Sales	¥ 269
Purchases	483

The balances due from/to OSAKI SAIKAIHATSU BUILDING Co., Ltd. at March 31, 2003, were as follows:

	Millions of Yen
	2003
Accounts receivable	¥ 3
Prepaid expenses	28
Other payable	16
Other current liabilities	14
Deposits from tenants	774

Related party transactions for the year ended March 31, 2004, were not significant.

12. DERIVATIVES

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

Derivative transactions are entered into to hedge interest rate risk within the Company. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities.

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

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

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

Fair Value of Derivative Financial Instruments

The fair value of the Group's derivative financial instruments at March 31, 2004, is as follows:

	Millions of Yen		
	2004		
	Contract Amount	Fair Value	Unrealized Loss
Interest rate swaps—Pay fixed/receive floating	¥ 3,000	¥ (236)	¥ (236)

	Thousands of U.S. Dollars		
	2004		
	Contract Amount	Fair Value	Unrealized Loss
Interest rate swaps—Pay fixed/receive floating	$ 28,302	$ (2,229)	$ (2,229)

Interest rate swaps which qualify for hedge accounting for the years ended March 31, 2004 and 2003, and such amounts which are assigned to the associated assets and liabilities and are recorded on the balance sheets at March 31, 2004 and 2003, are excluded from disclosure of market value information.

13. SUBSEQUENT EVENTS

a. Appropriations of Retained Earnings

The following appropriations of retained earnings at March 31, 2004, were approved at the Company's shareholders meeting held on June 29, 2004:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥5.50 ($0.05) per share	¥ 360	$ 3,394
Bonuses to directors and corporate auditors	18	170

b. Purchase of Treasury Stock

Pursuant to the revision of the Code, the Company revised its articles of incorporation so the Company could repurchase its common stock as treasury stock by resolution of the Board of Directors.

14. SEGMENT INFORMATION

The Company operates in the following industries:

Real estate—consisting of rental rooms, exhibition halls and parking lots.

Linen supply and laundry—consisting of linen supply and laundry services.

Other—consisting of selling goods, restaurant businesses, production and distribution of medicine, management of a gym and a bathhouse, building maintenance services, carpentry work services, environmental protection and energy-saving businesses.

Information about industry segments for the years ended March 31, 2004 and 2003, was as follows:

Industry Segments

a. Sales and Operating Income

	Millions of Yen											
	2004											
	Real Estate		Linen Supply and Laundry		Other		Total		Eliminations/ Corporate		Consolidation	
Sales to customers	¥	11,840	¥	2,006	¥	3,985	¥	17,831		—	¥	17,831
Intersegment sales		814		47		95		956	¥	(956)		—
Total sales		12,654		2,053		4,080		18,787		(956)		17,831
Operating expenses		7,149		2,018		4,081		13,248		(971)		12,277
Operating income	¥	5,505	¥	35	¥	(1)	¥	5,539	¥	15	¥	5,554

	Millions of Yen											
	2003											
	Real Estate		Linen Supply and Laundry		Other		Total		Eliminations/ Corporate		Consolidation	
Sales to customers	¥	12,000	¥	2,061	¥	4,490	¥	18,551		—	¥	18,551
Intersegment sales		813		49		94		956	¥	(956)		—
Total sales		12,813		2,110		4,584		19,507		(956)		18,551
Operating expenses		7,514		2,056		4,392		13,962		(964)		12,998
Operating income	¥	5,299	¥	54	¥	192	¥	5,545	¥	8	¥	5,553

	Thousands of U.S. Dollars											
	2004											
	Real Estate		Linen Supply and Laundry		Other		Total		Eliminations/ Corporate		Consolidation	
Sales to customers	$	111,701	$	18,928	$	37,590	$	168,219		—	$	168,219
Intersegment sales		7,683		447		901		9,031	$	(9,031)		—
Total sales		119,384		19,375		38,491		177,250		(9,031)		168,219
Operating expenses		67,448		19,035		38,502		124,985		(9,159)		115,826
Operating income	$	51,936	$	340	$	(11)	$	52,265	$	128	$	52,393

b. Assets, Depreciation and Capital Expenditures

	Millions of Yen											
	2004											
	Real Estate		Linen Supply and Laundry		Other		Total		Eliminations/ Corporate		Consolidation	
Assets	¥	63,175	¥	1,041	¥	3,549	¥	67,765	¥	18,230	¥	85,995
Depreciation		1,231		73		87		1,391		(7)		1,384
Capital expenditures		9,997		54		34		10,085		—		10,085

	Millions of Yen											
	2003											
	Real Estate		Linen Supply and Laundry		Other		Total		Eliminations/ Corporate		Consolidation	
Assets	¥	62,435	¥	1,081	¥	3,791	¥	67,307	¥	21,767	¥	89,074
Depreciation		1,334		59		108		1,501		(8)		1,493
Capital expenditures		8,134		50		54		8,238		—		8,238

	Thousands of U.S. Dollars											
	2004											
	Real Estate		Linen Supply and Laundry		Other		Total		Eliminations/ Corporate		Consolidation	
Assets	$	595,987	$	9,818	$	33,486	$	639,291	$	171,984	$	811,275
Depreciation		11,616		689		816		13,121		(66)		13,055
Capital expenditures		94,314		507		324		95,145		(3)		95,142

As the majority of operations and sales are domestic, information for geographical segments and sales to foreign customers is not applicable to the Group.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of TOC Co., Ltd.:

We have audited the accompanying consolidated balance sheets of TOC Co., Ltd. and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of TOC Co., Ltd. and consolidated subsidiaries as of March 31, 2004 and 2003, 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.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 29, 2004

Corporate Data

(as of March 31, 2004)

Corporate Name: TOC Co., Ltd.

Head Office: 7-22-17 Nishi-Gotanda, Shinagawa-ku, Tokyo
Tel: +81-3-3494-2111 Fax: +81-3-3494-2024
URL: www.toc.co.jp/toc/

Established: 1926

Paid-in Capital: 11,768,191,630 yen

Authorized Number of Shares: 66,770,416 shares

Number of Employees: 70

Subsidiaries:
TO Linen Supply Co., Ltd.
ROX Health Plaza Co., Ltd.
TOC Supply Co., Ltd.
Hoshi Pharmaceutical Co., Ltd.
Tokyo Oroshiuri Center Distribution Group Co., Ltd.
ANIMA JAPAN Co., Ltd.
TOL Co., Ltd.

Board of Directors and Corporate Auditors (as of June 29, 2004)

Chairman:	Kazuhiko Otani
President:	Takuo Otani
Managing Director:	Takashi Ikeda
Directors:	Motokazu Habiro
	Yoshinori Matsuzaki
	Masao Ohashi
	Osamu Kawamura
	Kazuo Iwai
Standing Corporate Auditor:	Shuji Nagatani
Corporate Auditors:	Katsutoshi Nagasawa
	Masataka Terasawa

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