TOC Co., Ltd. and Consolidated Subsidiaries

Consolidated Financial Statements for the Year Ended March 31, 2001, and Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

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

We have examined the consolidated balance sheet of TOC Co., Ltd. and consolidated subsidiaries as of March 31, 2001, and the related consolidated statements of operations, shareholders' equity, and cash flows for the year then ended, all expressed in Japanese yen. Our examination was made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of TOC Co., Ltd. and consolidated subsidiaries as of March 31, 2001, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles and practices generally accepted in Japan applied on a basis consistent with that of the preceding year.

As discussed in Note 2, effective April 1, 2000, the consolidated financial statements have been prepared in accordance with new accounting standards for employees' retirement benefits and financial instruments.

Our examination 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.

June 28, 2001

TOC Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheet
March 31, 2001

ASSETS	Millions of Yen	Thousands of U.S. Dollars (Note 1)
CURRENT ASSETS:		
Cash and cash equivalents	¥ 9,602	$ 77,436
Short-term investments (Note 3)	722	5,823
Marketable securities (Note 4)	320	2,585
Receivables:		
Trade notes	77	620
Trade accounts (Note 11)	1,059	8,541
Allowance for doubtful receivables	(19)	(153)
Inventories (Note 5)	574	4,628
Deferred tax assets (Note 9)	170	1,372
Prepaid expenses and other current assets (Note 11)	486	3,917
Total current assets	12,991	104,769
PROPERTY, PLANT AND EQUIPMENT (Note 6):		
Land	29,572	238,485
Buildings and structures	47,822	385,658
Machinery and equipment	1,117	9,005
Construction in progress	799	6,440
Other	1,328	10,716
Total	80,638	650,304
Accumulated depreciation	(32,643)	(263,245)
Net property, plant and equipment	47,995	387,059
INVESTMENTS AND OTHER ASSETS:		
Investment securities	5,161	41,621
Investments in and advances to unconsolidated subsidiaries and associated companies	377	3,040
Leasehold deposits	6,966	56,181
Deferred tax assets (Note 9)	3,994	32,212
Allowance for doubtful receivables	(24)	(194)
Other assets	2,636	21,246
Total investments and other assets	19,110	154,106
TOTAL	¥ 80,096	$ 645,934

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen	Thousands of U.S. Dollars (Note 1)
CURRENT LIABILITIES:		
Short-term bank loans and borrowings (Note 6)	¥ 11,410	$ 92,016
Current portion of long-term debt	2	13
Payables:		
Trade accounts	504	4,065
Other (Note 11)	865	6,979
Income taxes payable	1,141	9,203
Accrued expenses	98	793
Other current liabilities (Note 11)	2,190	17,651
Total current liabilities	16,210	130,720
LONG-TERM LIABILITIES:		
Long-term bank loans (Note 6)	1,900	15,323
Deposits from tenants (Note 11)	10,214	82,373
Liability for employees' retirement benefits (Note 7)	207	1,671
Liability for directors and corporate auditors retirement benefits	207	1,667
Total long-term liabilities	12,528	101,034
MINORITY INTERESTS	348	2,804
SHAREHOLDERS' EQUITY (Note 8):		
Common stock, ¥50 par value— authorized, 272,825,000 shares; issued and outstanding, 67,370,416 shares	11,768	94,905
Additional paid-in capital	9,327	75,215
Retained earnings	30,155	243,189
Net unrealized loss on available-for-sale securities (Note 4)	(66)	(533)
Total	51,184	412,776
Treasury stock—at cost	(174)	(1,400)
Total shareholders' equity	51,010	411,376
TOTAL	¥ 80,096	$ 645,934

See notes to consolidated financial statements.

TOC Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Operations
Year Ended March 31, 2001

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
NET SALES (Note 11)	¥ 18,279	$ 147,409
COST OF SALES (Note 11)	10,483	84,540
Gross profit	7,796	62,869
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,476	19,969
Operating income	5,320	42,900
OTHER INCOME (EXPENSES):		
Interest and dividends	180	1,452
Interest expense	(190)	(1,535)
Gain on sales of property, plant and equipment	161	1,297
Loss on disposal of property, plant and equipment	(94)	(756)
Loss on devaluation of land and leasehold deposits	(9,035)	(72,859)
Equity in earnings of associated company	21	165
Other—net	(139)	(1,112)
Other expenses—net	(9,096)	(73,348)
LOSS BEFORE INCOME TAXES AND MINORITY INTERESTS	(3,776)	(30,448)
INCOME TAXES (Note 9):		
Current	2,192	17,682
Deferred	(3,792)	(30,580)
Total income taxes	(1,600)	(12,898)
MINORITY INTERESTS IN NET INCOME	5	38
NET LOSS	¥ (2,181)	$ (17,588)

	Yen	U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.m):		
Net loss	¥ 32.05	$ 0.26
Cash dividends applicable to the year	11.00	0.09

See notes to consolidated financial statements.

TOC Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Shareholders' Equity
Year Ended March 31, 2001

	Thousands	Millions of Yen				
	Outstanding Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Loss on Available-for-sale Securities	Treasury Stock
BALANCE, APRIL 1, 2000	68,670	¥ 11,768	¥ 9,327	¥ 33,988		¥ (3)
Adjustment of retained earnings for newly consolidated subsidiary				(8)		
Net loss				(2,181)		
Cash dividends, ¥11 per share				(753)		
Bonuses to directors				(29)		
Retirement of treasury stock	(1,300)			(862)		
Increase in net unrealized loss on available-for-sale securities					¥ (66)	
Increase in treasury stock—net						(171)
BALANCE, MARCH 31, 2001	67,370	¥ 11,768	¥ 9,327	¥ 30,155	¥ (66)	¥ (174)

	Thousands of U.S. Dollars (Note 1)				
	Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Loss on Available-for-sale Securities	Treasury Stock
BALANCE, APRIL 1, 2000	$ 94,905	$ 75,215	$ 274,097		$ (21)
Adjustment of retained earnings for newly consolidated subsidiary			(66)		
Net loss			(17,588)		
Cash dividends, $0.09 per share			(6,069)		
Bonuses to directors			(231)		
Retirement of treasury stock			(6,954)		
Increase in net unrealized loss on available-for-sale securities				$ (533)	
Increase in treasury stock—net					(1,379)
BALANCE, MARCH 31, 2001	$ 94,905	$ 75,215	$ 243,189	$ (533)	$ (1,400)

See notes to consolidated financial statements.

TOC Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows
Year Ended March 31, 2001

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
OPERATING ACTIVITIES:		
Loss before income taxes and minority interests	¥ (3,776)	$ (30,448)
Adjustments for:		
Income taxes—paid	(2,214)	(17,858)
Depreciation and amortization	1,622	13,081
Amortization of excess of acquired net assets over cost	3	26
Loss on devaluation of land and leasehold deposits	9,035	72,859
Provision for doubtful receivables	39	312
Provision for accrued bonuses to employees	12	95
Bonuses to directors and corporate auditors	(29)	(231)
Gain on sales and disposals of property, plant and equipment—net	(67)	(540)
Equity in earnings of associated company	(21)	(165)
Changes in assets and liabilities:		
Increase in trade notes and accounts receivable	(95)	(764)
Increase in inventories	(32)	(261)
Increase in trade accounts payable	126	1,013
Decrease in deposits from tenants	(160)	(1,294)
Decrease in accrued consumption tax	(30)	(244)
Decrease in liabilities for retirement benefits	(89)	(714)
Other—net	(65)	(523)
Total adjustments	8,035	64,792
Net cash provided by operating activities	4,259	34,344
INVESTING ACTIVITIES:		
Payment for purchases of time deposits	(1,730)	(13,952)
Proceeds from collection of time deposit	3,488	28,130
Payment for purchases of marketable securities	(200)	(1,614)
Proceeds from sales of marketable securities	297	2,396
Payment for purchases of property, plant and equipment	(6,583)	(53,086)
Proceeds from sales of property, plant and equipment	258	2,085
Payment for purchases of intangible assets	(3)	(21)
Payment for purchases of investment securities	(380)	(3,068)
Proceeds from sales of investment securities	20	161
Increase in long-term insurance assets	(260)	(2,097)
Disbursement for long-term loans	(760)	(6,129)
Payment for purchases of subsidiary securities	4	29
Net cash used in investing activities	(5,849)	(47,166)
FORWARD	¥ (1,590)	$ (12,822)

(Continued)

TOC Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows
Year Ended March 31, 2001

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
FORWARD	¥ (1,590)	$ (12,822)
FINANCING ACTIVITIES:		
Increase in short-term borrowings—net	2,680	21,613
Repayments of long-term bank loans	(80)	(650)
Payment for purchases of treasury stock	(1,033)	(8,330)
Cash dividends paid	(754)	(6,079)
Net cash provided by financing activities	813	6,554
NET DECREASE IN CASH AND CASH EQUIVALENTS	(777)	(6,268)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	10,379	83,704
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 9,602	$ 77,436

See notes to consolidated financial statements.

(Concluded)

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards. The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

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.

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 translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥124 to $1, the approximate rate of exchange at March 31, 2001. Such translations should not be construed as representations 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 six significant subsidiaries (together, the "Group").

Under the control or influence concept, those companies in which the Parent, directly or indirectly, is able to exercis e 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.

Investments in the associated company are accounted for by the equity method. Investments in the unconsolidated subsidiaries are stated at cost. If the equity method of accounting had been applied to the investments in these companies, 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 marketable securities 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 or become due 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—***Prior to April 1, 2000, marketable and investment securities listed on stock exchanges were stated at the lower of cost, determined by the average method, or market.

Effective April 1, 2000, the Group adopted a new accounting standard for financial instruments, including marketable and investment securities.

The standard requires all applicable securities to be classified and accounted for, depending on management's intent, as follows: (1) trading securities, which are held for the purpose of earning capital gains in the near term are reported at fair value, and the related unrealized gains and losses are included in earnings, (2) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost and (3) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity.

The effect of adoption of the new standard was to decrease loss before income taxes and minority interests by ¥46 million ($371 thousand).

Marketable securities classified as current assets decreased by ¥34 million ($274 thousand) and investment securities increased by the same amount as of April 1, 2000.

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 60 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.

Prior to April 1, 2000, the annual provision for retirement benefits is calculated to state the liability at 40% to 100% of the amount that would be required under the unfunded retirement plans if all employees voluntarily terminated their employment at each balance sheet date. The policy for the funded pension plans is to fund and charge to operations normal cost as accrued on the basis of an accepted actuarial method plus amortization of prior service costs.

Effective April 1, 2000, the Group adopted a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

The full amount of the transitional obligation of ¥57 million ($461 thousand), determined as of the beginning of year, is credited to income and included in selling, general and administrative expenses in the statement of operations.

As a result, net periodic benefit costs as compared with the prior method, decreased by ¥52 million ($419 thousand) and loss before income taxes and minority interests decreased by the same amount.

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 statement of operations. 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 accounting standard requires that for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

m. ***Per Share Information*—**The computation of net income per share is based on the weighted average number of shares of common stock outstanding during the year, retroactively adjusted for stock splits. The weighted average number of common shares used in the computation was 68,037 thousand shares.

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

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

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, 2001, consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Current:		
Government and corporate bonds	¥ 300	$ 2,421
Trust fund investments and other	20	164
Total	¥ 320	$ 2,585
Non-current:		
Marketable equity securities	¥ 290	$ 2,339
Non-marketable equity securities	2,872	23,160
Government and corporate bonds	1,916	15,448
Trust fund investments and other	83	674
Total	¥ 5,161	$ 41,621

Information regarding the securities classified as available-for-sale at March 31, 2001, was as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	¥ 291	¥ 46	¥ 47	¥ 290
Government and corporate bonds	2,333	19	136	2,216
Trust fund investments and other	102	1		103
Total	¥ 2,726	¥ 66	¥ 183	¥ 2,609

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	$ 2,344	$ 377	$ 382	$ 2,339
Government and corporate bonds	18,811	153	1,095	17,869
Trust fund investments and other	824	14		838
Total	$ 21,979	$ 544	$ 1,477	$ 21,046

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2001, were as follows:

	Carrying Amount	
	Millions of Yen	Thousands of U.S. Dollars
Non-marketable equity securities	¥ 2,872	$ 23,160
Total	¥ 2,872	$ 23,160

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale with specific maturity dates at March 31, 2001, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due in one year or less	¥ 320	$ 2,585
Due after one year through five years	163	1,310
Due after five years through ten years	2	19
Total	¥ 485	$ 3,914

5. INVENTORIES

Inventories at March 31, 2001, consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Merchandise	¥ 93	$ 747
Finished products	322	2,599
Work in process	34	275
Raw materials	76	616
Supplies	49	391
Total	¥ 574	$ 4,628

6. SHORT-TERM BANK LOANS, BORROWINGS AND LONG-TERM BANK LOANS

Short-term bank loans and borrowings at March 31, 2001, consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the short-term bank loans and borrowings ranged from 0.6% to 1.9% at March 31, 2001.

Long-term debt at March 31, 2001, consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Unsecured 2.1% yen loans from bank, due 2018	¥ 1,900	$ 15,323
Unsecured 2.6% yen loans from bank, due 2001	2	13
Total	1,902	15,336
Less current portion	(2)	(13)
Long-term debt, less current portion	¥ 1,900	$ 15,323

Annual maturities of long-term debt at March 31, 2001, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2002	¥ 2	$ 13
2003	90	726
2004	120	968
2005	120	968
2006	120	968
2007 and thereafter	1,450	11,693
Total	¥ 1,902	$ 15,336

The carrying amounts of assets pledged as collateral for the above short-term bank loans and debt March 31, 2001, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Buildings and structures	¥ 5,936	$ 47,875
Land	689	5,554
Total	¥ 6,625	$ 53,429

7. RETIREMENT AND PENSION PLANS

Employees whose service with the Company 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, 2001, consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Projected benefit obligation	¥ 698	$ 5,630
Fair value of plan assets	(491)	(3,959)
Net liability	¥ 207	$ 1,671

The components of net periodic benefit costs are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Service cost	¥ 135	$ 1,087
Transitional obligation	(57)	(461)
Net periodic benefit costs	¥ 78	$ 626

8. SHAREHOLDERS' EQUITY

The Japanese Commercial Code (the "Code") requires at least 50% of the issue price of new shares, with a minimum of the par value thereof, to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital are credited to additional paid-in capital.

The Code also requires companies to appropriate from retained earnings to a legal reserve an amount equal to at least 10% of all cash payments which are made as an appropriation of retained earnings until such reserve equals 25% of stated capital. The Company's reserve amount, which is included in retained earnings, totals ¥2,897 million ($23,365 thousand) as of March 31, 2001, and is not available for dividends but may be used to reduce a deficit by resolution of shareholders.

Under the Code, the amount available for dividends is based on retained earnings as recorded on the Company's books. At March 31, 2001, retained earnings recorded on the Company's books were ¥26,414 million ($213,016 thousand) which is available for future dividends subject to the approval of the shareholders and legal reserve requirements.

Under the Code, companies may issue new common shares to existing shareholders without consideration as a stock split pursuant to resolution of the Board of Directors. Companies may make such a stock split to the extent that the aggregate par value of the shares outstanding after the stock split does not exceed the stated capital. However, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the stock split cannot be less than ¥50.

At the general shareholders meeting held on June 29, 2000, the Company's shareholders revised its articles of incorporation and approved the following purchase of treasury stock for retirement and the related reduction of retained earnings and additional paid-in capital:

a. Purchase of treasury stock for retirement and the related reduction of retained earnings

   The Board of Directors is authorized to repurchase, up to 6,700 thousand shares of the Company's stock for the purpose of canceling the shares and charging such amounts to retained earnings.

b. Purchase of treasury stock for retirement and the related reduction of additional paid-in capital

   The Board of Directors is authorized to repurchase, up to 6,000 thousand shares of the Company's stock (aggregate amount of ¥4,500 million) for the purpose of canceling the shares and charging such amounts to additional paid-in capital.

On September 19, 2000, based on the revised articles of incorporation noted above, the Board of Directors approved the purchase of up to 1,500 thousand shares of the Company's stock (aggregate amount of ¥1,200 million) for the purpose of canceling the shares and charging such amounts to retained earnings. During the year ended March 31, 2001, the Company purchased 1,008 thousand shares of the Company's stock for ¥678 million ($5,468 thousand). In addition, the Company repurchased 292 thousand shares, which were authorized by shareholders in June 1998.

The balance of treasury stock recorded in the shareholders' equity section as of March 31, 2001, represents treasury stock purchased for the purpose of granting stock options to directors and key employees. As of March 31, 2001, stock options for 218,000 shares have been granted and are exercisable through June 30, 2005.

Exercise price is ¥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 year ended March 31, 2001.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2001, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Deferred tax assets:		
Accrued enterprise taxes	¥ 104	$ 841
Retirement benefits for directors and corporate auditors	87	701
Unrealized gain on sales of property	41	327
Unrealized loss on available-for-sale securities	49	395
Devaluation of land and leasehold deposits	3,799	30,637
Tax loss carryforwards of subsidiaries	202	1,626
Other	128	1,044
Less valuation allowance	(232)	(1,875)
Total	4,178	33,696
Deferred tax liabilities:		
Unrealized gain on available-for-sale securities	1	9
Deferred gains on sales of property	13	103
Total	14	112
Net deferred tax assets	¥ 4,164	$ 33,584

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

10. LEASES

The Group leases certain machinery and equipment and other assets.

Total rental expenses under the above leases for the year ended March 31, 2001 were ¥58 million ($466 thousand), including ¥41 million ($327 thousand) 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 year ended March 31, 2001, was as follows:

	Millions of Yen		
	Machinery and Equipment	Other	Total
Acquisition cost	¥ 157	¥ 49	¥ 206
Accumulated depreciation	126	32	158
Net leased property	¥ 31	¥ 17	¥ 48

	Thousands of U.S. Dollars		
	Machinery and Equipment	Other	Total
Acquisition cost	$ 1,264	$ 397	$ 1,661
Accumulated depreciation	1,012	260	1,272
Net leased property	$ 252	$ 137	$ 389

Obligations under finance leases:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	¥ 26	$ 206
Due after one year	26	211
Total	¥ 52	$ 417

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, which are not reflected in the accompanying consolidated statement of operations, computed by the straight-line method and the interest method were ¥36 million ($293 thousand) and ¥2 million ($24 thousand), respectively, for the year ended March 31, 2001.

The minimum rental commitments under noncancelable operating leases at March 31, 2001, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	¥ 7	$ 56
Due after one year	2	14
Total	¥ 9	$ 70

11. RELATED PARTY TRANSACTIONS

a. Transactions of the Company with OSAKI SAIKAIHATSU BUILDING Co., Ltd. (the associated company), whose representative director is also the representative director of the Company, for the year ended March 31, 2001 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Sales	¥ 294	$ 2,374
Purchases	329	2,652

The balances due from/to OSAKI SAIKAIHATSU BUILDING Co., Ltd. at March 31, 2001, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Accounts receivable	¥ 4	$ 30
Prepaid expenses	27	221
Other payable	49	393
Other current liabilities	31	251
Deposits from tenants	791	6,381

b. Transactions of the Company with HRT NEW OTANI Co., Ltd., whose representative director is also the representative director of the Company, for the year ended March 31, 2001 was as follows:

	Millions of Yen	Thousands of U.S. Dollars
Sales	¥ 626	$ 5,046
Purchases	5	41

The balances due from/to HRT NEW OTANI Co., Ltd. at March 31, 2001, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Accounts receivable	¥ 68	$ 545
Deposits from tenants	684	5,516

12. DERIVATIVES

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

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

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.

13. SUBSEQUENT EVENT

The following appropriations of retained earnings at March 31, 2001, were approved at the Company's shareholders meeting held on June 28, 2001:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥5.50 ($0.04) per share	¥ 369	$ 2,979
Bonuses to directors and corporate auditors	22	182

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 service.

Other—consisting of selling goods, restaurants business, production and distribution of medicine, management of gym, building maintenance service, carpentry work service, environment protection and energy-saving business.

Information about industry segments for the year ended March 31, 2001, was as follows:

Industry Segments

a. Sales and Operating Income

	Millions of Yen					
	Real Estate	Linen Supply and Laundry	Other	Total	Eliminations/ Corporate	Consolidation
Sales to customers	¥ 12,334	¥ 2,127	¥ 3,818	¥ 18,279		¥ 18,279
Intersegment sales	395	13	100	508	¥ (508)	
Total sales	12,729	2,140	3,918	18,787	(508)	18,279
Operating expenses	7,697	2,118	3,664	13,479	(520)	12,959
Operating income	¥ 5,032	¥ 22	¥ 254	¥ 5,308	¥ 12	¥ 5,320

b. Assets, Depreciation and Capital Expenditures

	Millions of Yen					
	Real Estate	Linen Supply and Laundry	Other	Total	Eliminations/ Corporate	Consolidation
Assets	¥ 54,108	¥ 1,021	¥ 3,751	¥ 58,880	¥ 21,216	¥ 80,096
Depreciation	1,460	78	96	1,634	(11)	1,623
Capital expenditures	6,536	37	34	6,607		6,607

a. Sales and Operating Income

	Thousands of U.S. Dollars					
	Real Estate	Linen Supply and Laundry	Other	Total	Eliminations/ Corporate	Consolidation
Sales to customers	$ 99,466	$ 17,152	$ 30,791	$ 147,409		$ 147,409
Intersegment sales	3,188	105	801	4,094	$ (4,094)	
Total sales	102,654	17,257	31,592	151,503	(4,094)	147,409
Operating expenses	62,074	17,077	29,549	108,700	(4,191)	104,509
Operating income	$ 40,580	$ 180	$ 2,043	$ 42,803	$ 97	$ 42,900

b. Assets, Depreciation and Capital Expenditures

	Thousands of U.S. Dollars					
	Real Estate	Linen Supply and Laundry	Other	Total	Eliminations/ Corporate	Consolidation
Assets	$ 436,354	$ 8,232	$ 30,251	$ 474,837	$ 171,097	$ 645,934
Depreciation	11,773	625	775	13,173	(87)	13,086
Capital expenditures	52,711	299	270	53,280		53,280

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