

# Corporate Information

(As of March 31, 2005)

## Corporate Data

Company Name: Leopalace21 Corporation  
 Head Office: 2-54-11 Honcho, Nakano-ku, Tokyo 164-0012  
 TEL: +81-3-5350-0001 (Main Line)  
 President and CEO: Yusuke Miyama  
 Established: August 17, 1973  
 Common Stock: ¥55,640.66 million  
 Number of Shares Outstanding: 159.54 million shares  
 Operations: Leopalace 21 apartment construction subcontracting, leasing, property management, operation of resort facilities, residential business, silver business, hotel business, etc.  
 Number of Employees: 6,457(Consolidated basis) 5,341 (Non-consolidated basis)  
 Building lots and buildings transaction business license:  
 Minister of Land, Infrastructure and Transport Permit (8) No. 2846  
 Construction business permit:  
 Minister of Land, Infrastructure and Transport Permit (Special-15) No. 11502  
 Registration of Class-1 architect office: Tokyo Governor Registration 36122  
 Loan business registration: Kanto Finance Bureau Chief Registration (7) No. 00581  
 Memberships: Japan Association of Home Suppliers  
 Japan Prefabricated Construction and Manufacturers Association

## Members of Board of Directors

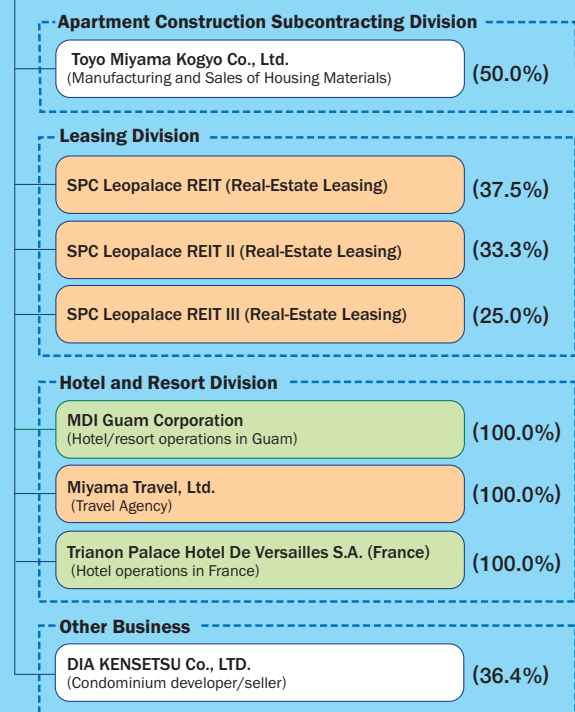
|                                  |                     |
|----------------------------------|---------------------|
| President and CEO                | Yusuke Miyama       |
| Executive Vice President         | Tomio Oba           |
| Senior Managing Director         | Yoshiteru Kitagawa  |
| Senior Managing Director         | Eisei Miyama        |
| Senior Managing Director         | Kuniaki Sasahara    |
| Executive Director of Management | Jiro Nishida        |
| Executive Director of Management | Yoshinori Uehara    |
| Director                         | Keiichiro Shinozaki |
| Director                         | Kou Kimura          |
| Director                         | Yasuhide Sakaguchi  |
| Director                         | Yoshikazu Miike     |
| Director                         | Satoshi Abe         |
| Director                         | Yousuke Kitagawa    |
| Director                         | Tadahiro Miyama     |
| Standing Auditor                 | Yoshitaka Kouda     |
| Standing Auditor                 | Masaru Katayama     |
| Standing Auditor                 | Katsumi Furuhashi   |
| Auditor                          | Eiichi Dobashi      |

# Leopalace21 Investors Guide 2005

For the year ended March 2005

## Corporate Structure

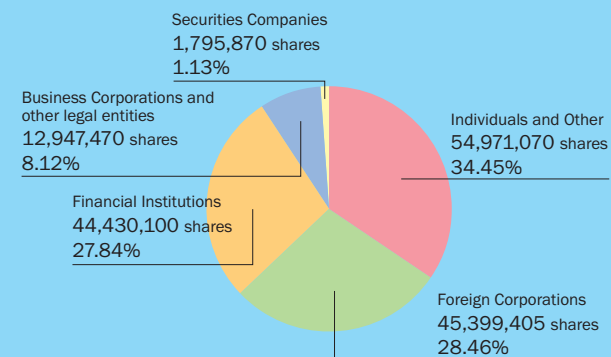
### Leopalace21 Corporation



Orange: Domestic Consolidated Subsidiary  
 Green: Foreign Consolidated Subsidiary  
 White: Equity-method affiliates

Note 1: Numbers within parentheses represent equity stakes held by Leopalace21.  
 Note 2: Apart from the companies listed above, there are three companies (100% owned indirectly by Leopalace21) with operational permits

## Shareholder Composition



## Major Shareholders (Top 10)

| Name of shareholder   | No. of shares | % of outstanding shares |
|---|---------------|-------------------------|
| Yusuke Miyama   | 23,949,774    | 15.01%                  |
| Japan Trustee Service Bank, Ltd. (for trust)                        | 14,482,400    | 9.08%                   |
| The Master Trust of Japan ,Ltd. (for trust accounts)                | 11,763,500    | 7.37%                   |
| BNY For GCM Client Accounts (E) ISG                                 | 5,418,987     | 3.40%                   |
| MR 21 Corporation   | 5,000,000     | 3.13%                   |
| Toyo Kanetsu K.K.   | 2,745,900     | 1.72%                   |
| State Street Bank and Trust Company 505103                          | 2,738,016     | 1.72%                   |
| The Chase Manhattan Bank, N. A. London SECS Lending Omnibus Account | 2,188,931     | 1.37%                   |
| Trust & Custody Services Bank, Ltd. (for pension trust)             | 1,840,200     | 1.15%                   |
| Morgan Stanley & Co. International Limited                          | 1,636,880     | 1.03%                   |

## Leopalace21 Corporation

2-54-11 Honcho, Nakano-ku, Tokyo 164-0012  
 TEL: +81-3-5350-0001 (Main Line) FAX: +81-3-5350-0058

Leopalace21 Corporation  
 Code No. 8848  
<http://www.leopalace21.com>



*As an industry forerunner, Leopalace21 constantly strives to create new values and aims to grow even further.*



**Yusuke Miyama**  
President and CEO

Our operating environment faces unprecedented large-scale changes. In addition to diversifying lifestyles and values, technological innovation has been rapidly progressing across all industries. Meanwhile, enterprises and society have been groping for new ways of coexist to suit the next-generation environment.

Since our establishment, Leopalace21 has cast aside conventional business ideas as a forerunner in the industry. We have consistently worked to achieve new value creation via development and introduction of innovative products and services. Our Leopalace21 business, representing our company name, has revolutionized the apartment leasing system in Japan, as an innovative total solution service enabling mutually beneficial relations between owners, tenants, and Leopalace21. Furthermore, we have promoted a series of new value-creating businesses, such as the Monthly Leopalace Flat, a property leasing-style based on new systems developed in the United States and Europe and redesigned to meet a broader range of market needs.

Based on the know-how network we have nurtured through the years, we will be participating in new

business operations, such as the Residential business involving the new development and sales of residential houses and condominium units primarily in the metropolitan area and the Silver business involving the implementation of nursing care services targeting the elderly, against a backdrop in the advent of a full-scale aging society. Furthermore, we will continue to promote new value-creating businesses, one after another, along with real estate securitization, broadband ISP, mail-order sales, and hotel/resort operations in Japan and overseas.

We will start the Evolution of Corporate Values as a general consumer industry enterprise aiming to leap forward in the future, with our tenet of creating new value as the basis for our efforts. Moreover, with our renewed self-awareness as a listed company, we will strive to maximize enterprise value for all related parties including shareholders, property owners, tenants, vendors, and employees. To this end, we will promote more disciplined corporate governance and a management style that focuses on CSR (Corporate Social Responsibility). We look forward to your continued support and guidance in the future.

### Corporate Vision

## We aim to create new value through housing

### Basic Policies

1. We view the apartment business as a social undertaking, which realizes the effective use of land and supply of high-quality dwellings.
2. We believe that successful leasing operations is our top priority in the apartment business.
3. We develop and introduce unique products based on a pioneering spirit.
4. We pursue client-first marketing approaches as well as prompt and systematic proactive operations.

### Medium-term Objectives

**Construction Division:** Revenue: ¥300 billion (annual orders of approximately 60,000 units)

**Leasing Division:** Revenue: ¥400 billion (500,000 units under management)

**Financial Position:** Aim to reduce interest-bearing liabilities to below ¥100 billion

### Medium-term Operating Strategy

#### 1) Strengthen Core Businesses

We plan to strengthen each of our two core businesses, the Apartment Construction Subcontracting Business (hereafter Construction Business) and Apartment Leasing Business with an aim to solidify synergies between these two areas. In the Construction Business, we will focus on selecting optimal locations for leased properties and continue to improve our capabilities to win orders. In the Leasing Business, we will reinforce our sales capability by increasing the number of sales offices and marketing personnel to ensure solid gross profit by maintaining high occupancy levels.

#### 2) Pursue New Opportunities

① *Start up new businesses of Residential Housing and Silver Services to further enhance the value-added businesses surrounding core operations*

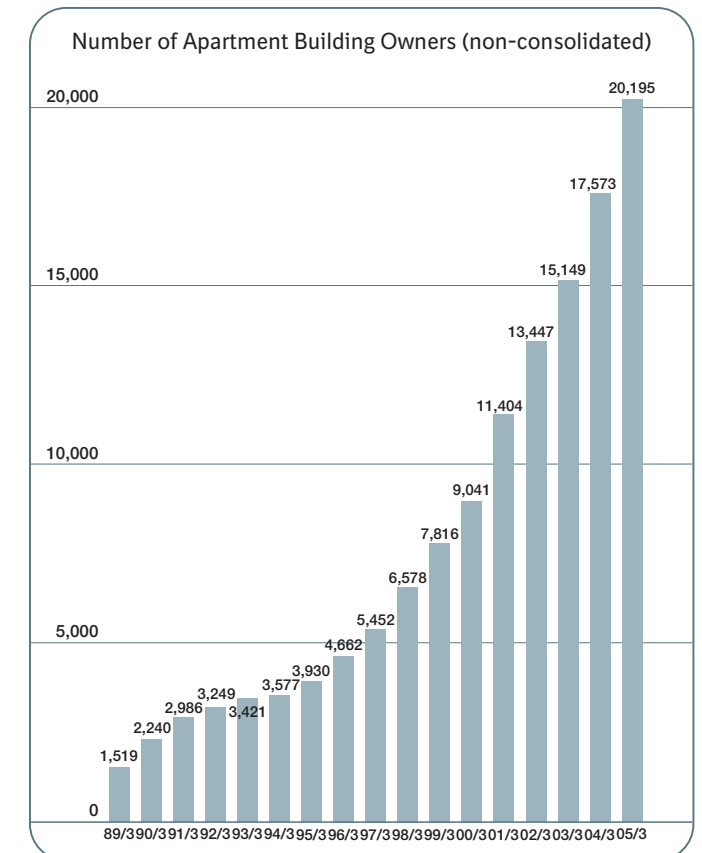
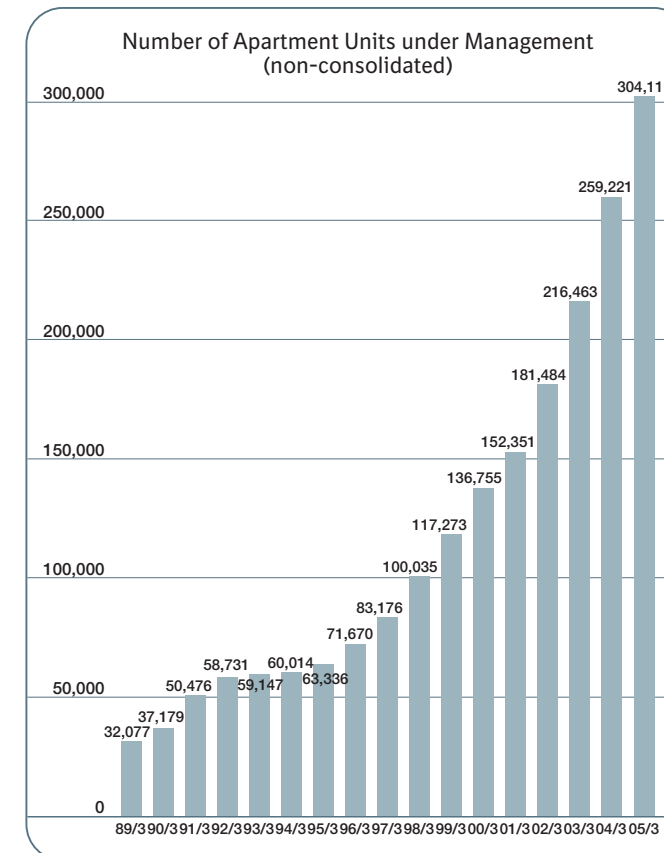
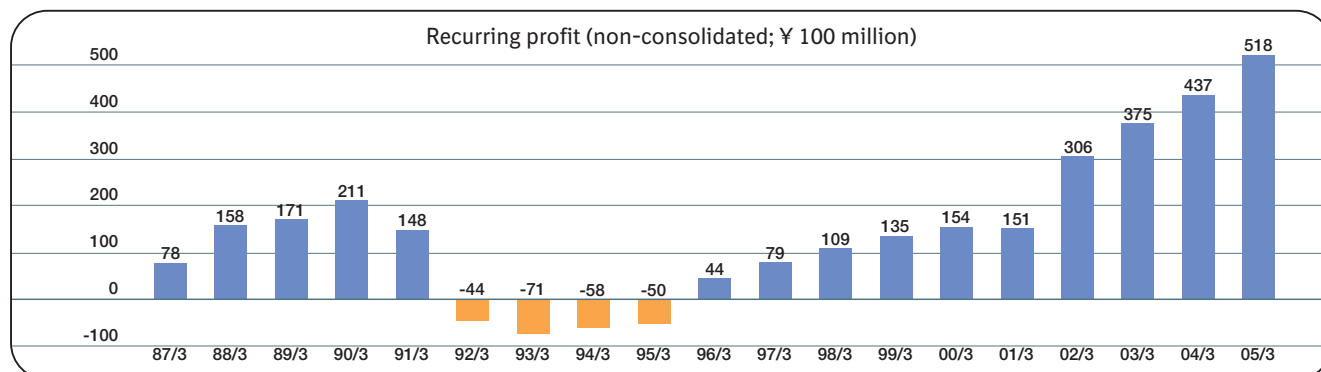
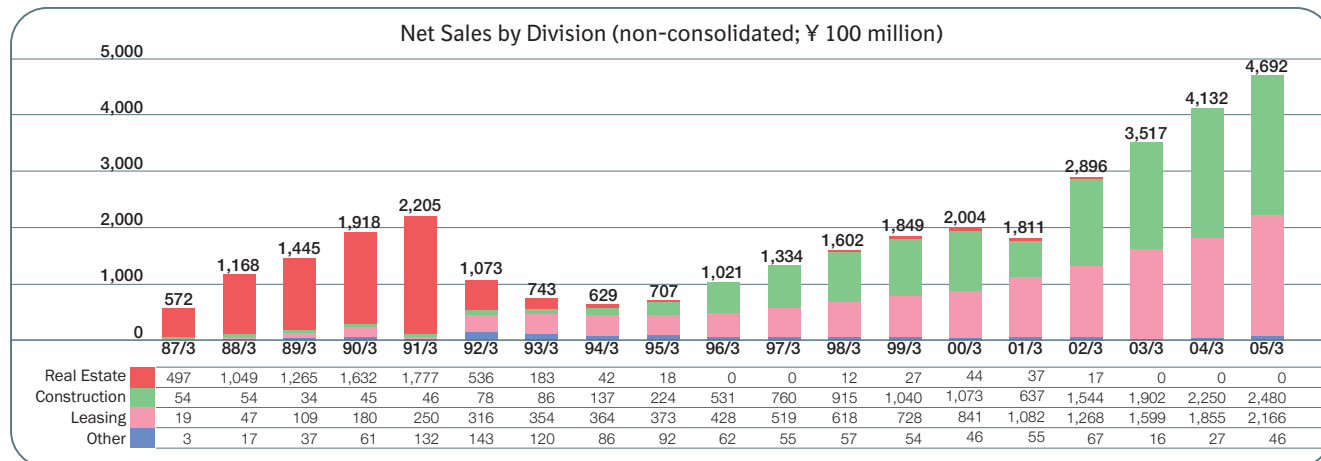
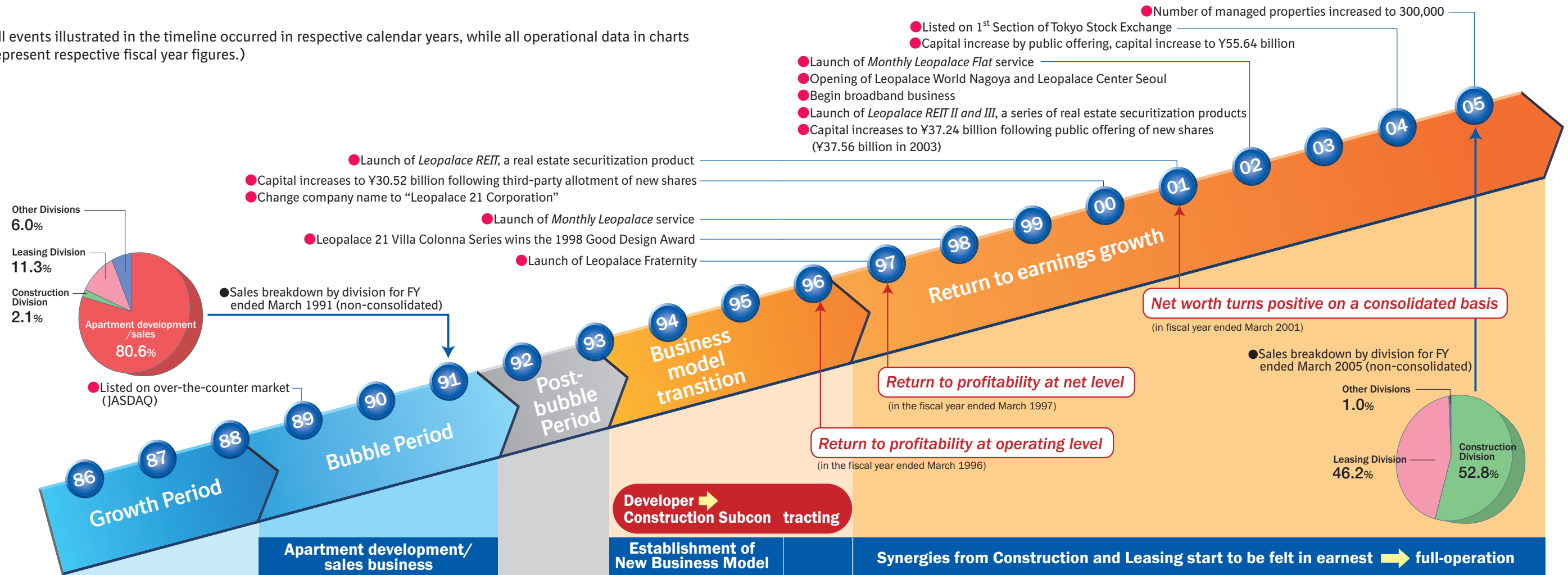
We plan to aggressively pursue the commercialization of peripheral and value-added businesses surrounding our core operations and create new values. We started up the Residential business (which includes the already established business of real-estate securitization) and Silver business. These, combined with our already established businesses of broadband ISP and domestic hotels will be pursued as a part of our efforts to develop new businesses, while proceeding to deepen our relationships with existing customers and acquire new customers, to continue our evolution as a general consumer industry enterprise.

② *Develop the overseas resort business (via consolidated subsidiary)*

Our Guam Resort business, which opened its doors in 1993, is a new challenge for us and is a part of our major strategy to expand our customer base. Currently we are making the most of the facilities improved in the second phase of construction (October 2000-December 2003) to differentiate ourselves from competitors and develop a greater customer pull. Thus, we aim to improve operating performance in the overseas resort business and return to profitability at the net level at an early stage.

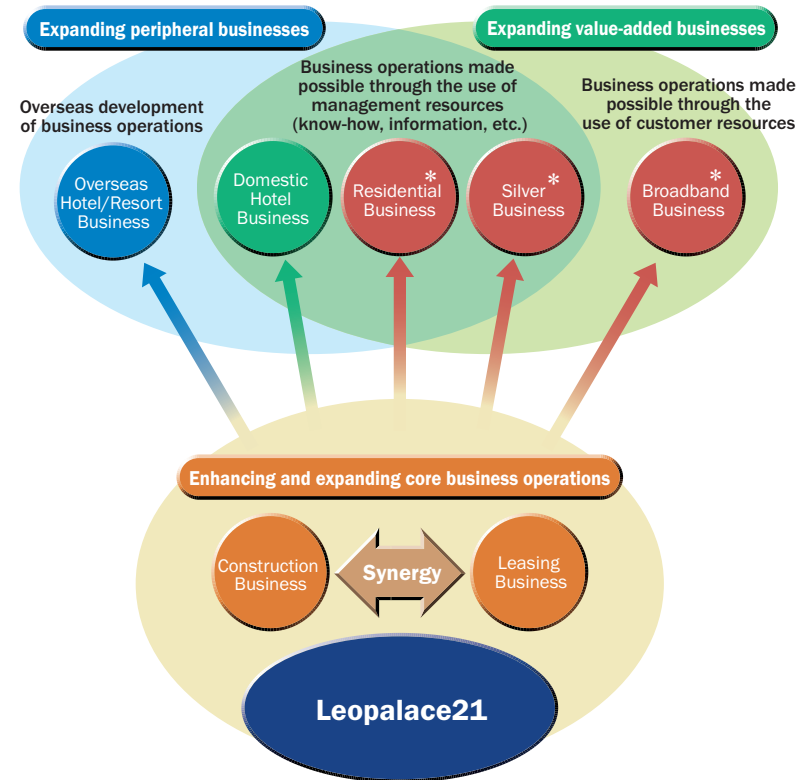


(● All events illustrated in the timeline occurred in respective calendar years, while all operational data in charts represent respective fiscal year figures.)



## Status of Business Expansion

We consider Construction and Leasing businesses, relating to apartment management, as our two core businesses and we utilize management resources, nurtured over the years, to conduct peripheral businesses as well as value-added businesses in order to enhance our relationship with existing customers and expand our new customer base to realize Efficient Business Expansion.



Those marked with an asterisk (\*) are new business operations that started in 2005.  
 ● The Residential business and Silver business started in the fiscal term ending in March 2005 (the Real Estate Securitization business is considered to be a part of the Residential business).  
 ● The Broadband business started in August 2002, while a full-scale operation was launched in the fiscal term ending in March 2005.

### Enhancing and Expanding Core Operations

The fundamental base of our business management is the strong synergy of our Construction business and Leasing business. We are able to maintain steady growth through the enhancement and expansion of these two core operations by maintaining a good balance between the demand (tenancy rate) and supply (received orders) in our business operations.

### Expanding value-creating businesses

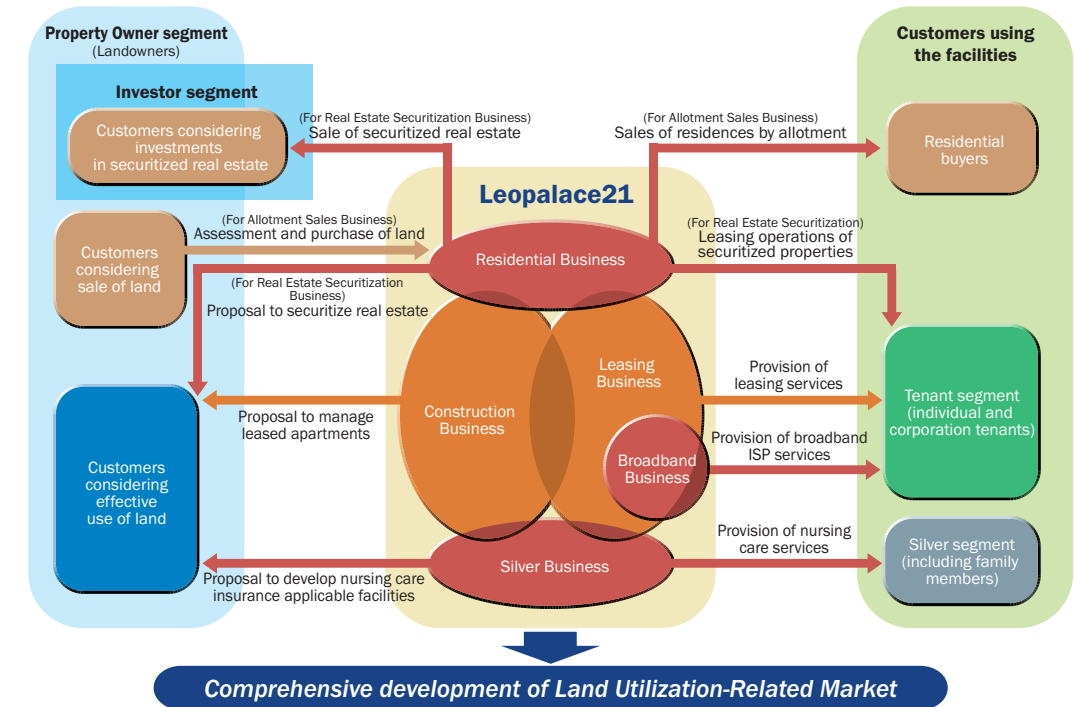
We will promote development of new businesses through the expansion of revenue-making opportunities by making effective use of the management resources (customers, know-how, information, etc.) that we have built through the development of our two core businesses. We are currently expanding our multifaceted approach to our existing customers by implementing operations that raise the added value of our core businesses by offering the Broadband business that provides various attractive information to prospective tenants, the Domestic Hotel business, Residential business and Silver business, which expands the breadth of our proposals to our property owner base.

### Expanding peripheral businesses

We are seeking to participate in promising markets in businesses surrounding our core operations in order to increase the potential for expanding our business scope. We are aggressively promoting the acquisition of a new customer base, along with maintaining our existing customers with our Domestic Hotel business, Residential business and Silver business, while promoting the creation of businesses that exceed the limits of our daily lives by developing our Overseas Hotel/Resort business.

## Overall Image of Business Operations (excluding overseas operations)

Implement multifaceted business operations for customers of both the Property Owner base and User base by setting a comprehensive target that widely considers the entire "Land Utilization-Related Market".



Build business models that aim to maximize the use of customer resources with the two core operations

With the Construction business and Leasing business as our core operations, we are conducting business operations from various perspectives as a go-between for the customers who own properties and the customers who are using the facilities that are built and managed by us.

Construction and Leasing businesses are the two operations at the core of such activities. The synergic effects on peripheral businesses are extremely powerful resulting from a high degree of credibility and recognition secured through dealing with our customers who are property owners and our customers who are users. This has become our business model with the aim to maximize the use of customer resources.

Customers on both ends of the business are not only in a relationship with the entrance and exit of operations, but rather, they should be positioned as critical business management resources that bring operating revenue.

Realizing Maximized Business Opportunities by Implementing Various Approaches for the Property Owners

Aside from the Construction business, which is one of our core operations, we also have new business operations, such as the Residential business and Silver business that can be included in our proposals to property owners.

The needs of our customers vary from "effective use of land" to "sale of land" and "investment in securitized real estate". We, therefore, offer our proposals on these three business operations, suggesting Management of Rental Apartments, Securitization of Real Estate and Development of Nursing Care Insurance Applicable Facilities depending on their needs, while conducting the Assessment and Purchase of Land for customers who are considering selling their property and providing services related to the Sale of Securitized Real Estate, such as Leopalace REIT to those customers who are interested in investing in securitized real estate.

We are realizing a maximization of business opportunities through such various approaches.

Expanding Customer Base through Diversification of Approaches Implemented to Users

Approaches employed to aid users are conducted by four business operations, including the Leasing business, which is a core operation, along with the Broadband business, Residential business and Silver business.

Along with properties managed by the Leasing business, we perform leasing operations for properties, which have been securitized by the Residential business and provide leasing services to the individual and corporate tenant base. Furthermore, we are increasing the attraction of leasing properties and connect it to the acquisition of business revenue by offering both free and for-fee Broadband ISP services (Leopalace B.B.) to the tenant base. Furthermore, we will sell residences (houses and condominium units) that has been developed by the Residential business to prospective home buyers, while various nursing care services are provided to those in need of nursing care (including families of patients) by the Silver business.

We will be expanding the customer base of users through the operation of these businesses and promote diversification of our revenue sources.

## Summary of Operations

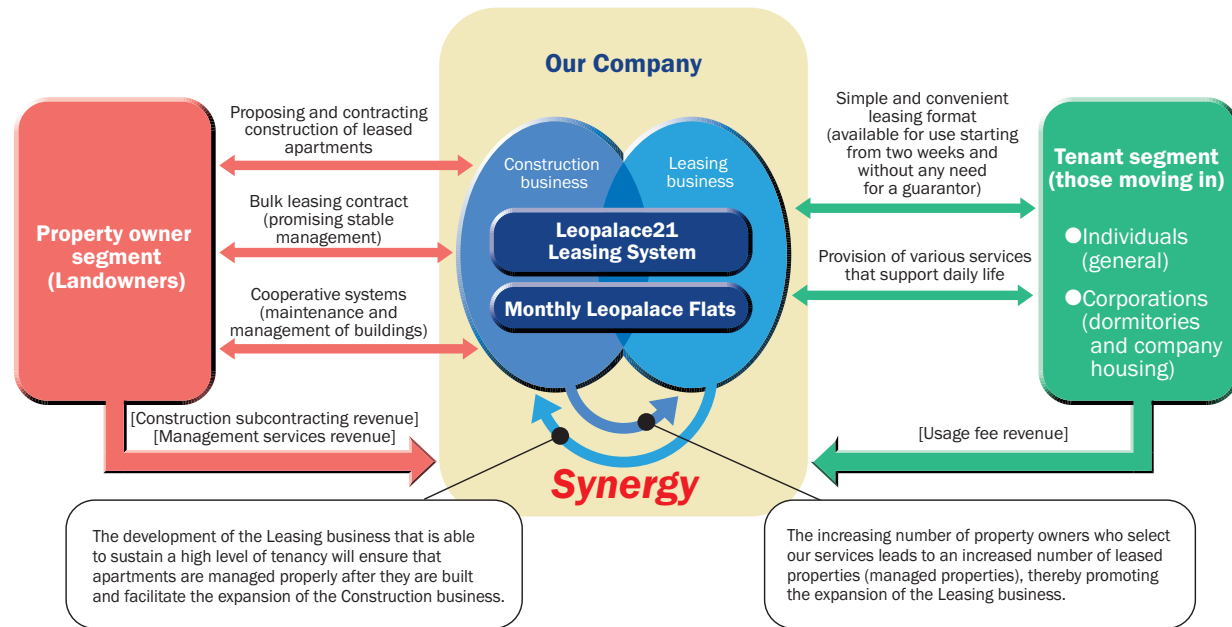
- Construction Business**: We provide products with strong overall features offering high performance functions that are required of leased residential properties, such as low cost, energy saving and high durability, as well as sophisticated designs and user-friendly functionality to complement a unique total-support system, which provides powerful support for the management of residential leasing properties and ultimately their owners.
- Leasing Business**: We are leasing residential properties based on our Leopalace21 Leasing System which offers features, such as no security deposit and no key money payments, as well as the Monthly Leopalace Flat that provides furnished rooms with furniture and consumer appliances on a weekly and monthly basis. We are responding to a wide range of prospective tenant needs to secure an extremely high rate of tenancy.
- Overseas Hotel/Resort Business**: We are engaged in major resort business operations at two locations in Guam, one in the central district and the other in the northwestern section of the island, through our wholly owned subsidiary, MDI Guam.

- Silver Business**: We will respond to the full-scale onset of an aging society and provide community-based Group Homes and Day Services and offer various nursing care facilities and services, such as planning, developing, administering and managing Private Nursing Homes and Short Stay Services (specified short-term nursing home care).
- Residential Business**: We will continue to conduct our Residential Housing Allotment Sales business, Condominium Units Sales business and Leopalace Flat business that deal with urban-type medium to high rise studio units, as well as Leopalace REIT through our Real Estate Securitization business.
- Domestic Hotel Business**: We are operating hotel businesses in major cities around the country, aiming to manage hotels that are accessible to our customers by providing new services that are in line with the times and by setting reasonable prices.
- Broadband Business**: Our Broadband ISP service business, Leopalace B.B., includes digital rental video services, satellite television broadcasting services, internet access services and IP telephone services for the tenants of leased apartments that we manage throughout the country.



## Core Business Model

Our fundamental strength is the “Model of Synergies between Construction and Leasing”



Building a Unique Business Model with the Fusion of Construction Business and Leasing Business Based on the Concept that “Apartment Management Exists Only Because of Leasing”

We are building our business based on the basic policy that states “Apartment Management Exists Only Because of Leasing” and with our belief that apartment building construction and leased property management are inseparable businesses. From the perspective of property owners, the biggest concern regarding their decision to build an apartment building is “whether it would be possible to continue securing an adequate number of tenants throughout the years”. Consequently, we provide a “Bulk Leasing System” to the property owners by conducting the Leasing business on our own and by building an organization that can sustain a high rate of tenancy. We resolve the concerns regarding apartment building management for property owners and provide them with a mechanism that makes it possible to commission us with the construction of an apartment building by realizing a “Model of Synergies between Construction and Leasing”.

By owning such a unique synergy between Construction and Leasing, we are able to realize extremely high stability in our business operations.

Exhibiting an Extremely Strong Competitiveness in the Industry by Facilitating Compatibility Between Benefits for Property Owners and Benefits for Tenants

Our customers are from both the property owner base, owners of the real property, as well as tenants, who wish to move into leased properties. The strength of the “Model of Synergies between Construction and Leasing” is borne out of various mechanisms that maximize the benefits for both parties.

We established a “Total System for Apartment Operations” that not only offers the members of the property owner base recruitment and management of tenants, through a bulk property leasing system and cooperative system, but also includes maintenance and management of the buildings through the provision of comprehensive support.

Furthermore, to the members of the tenant base, we provide not only the development and provision of leased properties that feature superior designs and functionality, but also simple application procedures that require no guarantors or units furnished with consumer electronics by providing leasing formats (such as Leopalace21 Leasing System and Monthly Leopalace Flat) to respond to the diverse life styles of modern times.

Our business model that offers significant benefits to both parties exhibits an extremely strong competitiveness.

Aiming to Expand Leasing Market for Students and Supplementing Business Model with Alliances

The targeted tenants for our Leasing business include “households of single persons less than 35 years of age”. We created new mechanisms intended for students, a group that is showing an increasing trend in usage rates.

One such mechanism is a sales promotion alliance provided through an agreement made with businesses that have a large number of students in their correspondence study businesses, targeting students for low, medium and high rise buildings. This is a system wherein special discounts are provided for the contract deposit of the lease for Leopalace21 apartments to individuals having student loan contracts with our alliance partners.

Furthermore, we established a new payment option that allows for monthly payments for the use of Monthly Leopalace Flats, providing the possibility of making payments necessary to move into the leased properties as if they were being paid as rent on a monthly basis, through a business alliance with credit card companies.

We are aiming to further expand the leasing market for students through such new mechanisms.

## Construction/Leasing Synergies

Studios (less than 30m<sup>2</sup>): Construction Division’s Main Product

In the apartment business, accurately assessing the changing needs of specific customer groups over the next 20-30 years is essential. In this context, we have developed products primarily targeting single individuals, who account for the majority of apartment tenants. Thus, we offer studios of less than 30 square meters as our main product in the Construction Division. Indeed, proposals we submit to owners are for the construction of apartment buildings located in areas where we expect large lease demand based on our detailed marketing analysis.

Membership-based leases for long-term occupancy and *Monthly Leopalace Flat* for short-term stays: the Leasing Division’s two main products

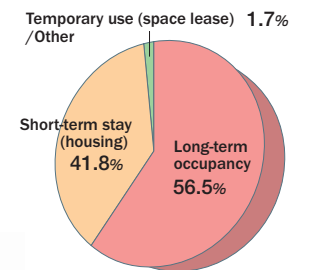
The Leasing Division offers products designed for long-term occupancy and short-term stays. The former responds to the long-term occupancy through the Leopalace21 Leasing System that allows for the switching of leased properties nationwide, while the latter is Monthly Leopalace Flat, which is provided with furniture and consumer electronics and includes utility expenses.

To cope with the diversifying needs of tenants in recent years, we have approached product development with an eye to convenience and amenity for short-term stays.

*Monthly Leopalace Flat* has multiple functions

In recent years, *Monthly Leopalace Flat* has been employed by a diverse group of tenants. Simply put, long-term occupancy tenants account for some 60% of *Monthly Leopalace Flat* tenants and short-term tenants make up the remaining 40%. Long-term occupancy functions include ordinary residential use, company and school dormitories, and housing for job transferees away from families. Meanwhile, reasons for short-term stays include business trips (mainstay), job training, entrance examinations and lectures, temporary housing during moves and home renovation, and sightseeing. As mentioned earlier, the success of the *Monthly Leopalace Flat* service owes to our accurate response to diverse customer needs.

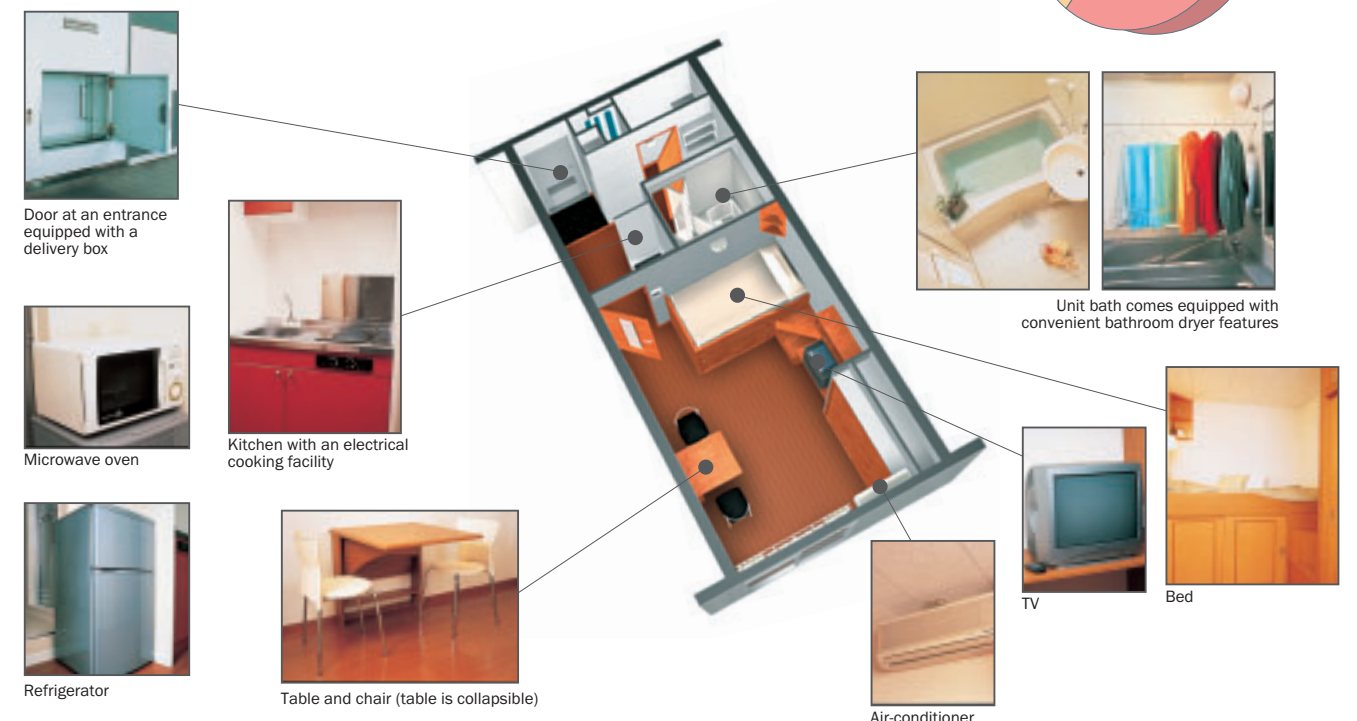
● Breakdown of *Monthly Leopalace Flat* tenants (for fiscal year ended March 2005)



“Leopalace21 Series” exterior view



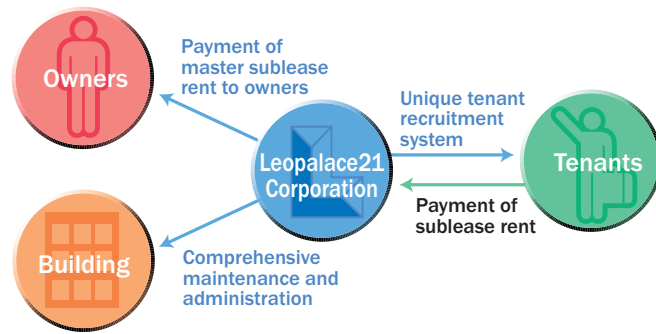
“Leopalace21 Series” Interior view



## Characteristics and Competitiveness 1 Master sublease system and owners' mutual insurance

With our unique supply plan, we promise 30 years of stable management

Based on our belief that successful leasing operations are the key to the apartment business, we introduced a master sublease system which guarantees 30 years of stable apartment operations, ahead of industry rivals. Under the system, we first draft apartment supply plans based on our research on market potential and tenant needs in each of the 987 segmented areas across the country. Based on these plans, we make proposals to prospective apartment owners, offering comprehensive support for the apartment business from construction to maintenance and administration. The master sublease system, which ensures stable rent income over the maximum 30-year period, and Leopalace owners' mutual insurance system, which guarantees apartment building maintenance and administration, represents our key support systems for apartment owners.



## system ensure smooth maintenance and administration

Three unique points that support the master-lease system

### Multiple tenant recruitment channels

Without successful tenant recruitment, the apartment business would not run smoothly. Our thorough research in local market's potential backed by our nationwide marketing activities enables independent, nationwide tenant recruitment. We employ various recruitment media, including our nationwide office network, web sites, apartment rental publications, and TV commercials to ensure efficient tenant recruitment. Meanwhile, prospective tenants are able to search for housing units, anytime, anywhere from all over Japan.

### Innovative leasing systems

Our products cover short-term stay as well as conventional long-term housing needs, aided by our unique systems. Moreover, we have introduced innovative business practices not requiring lease deposits, key money, and guarantors. Thus, we have successfully recruited a broad range of tenant groups unrivaled by competitors, meeting multiple needs of both individuals and corporations.

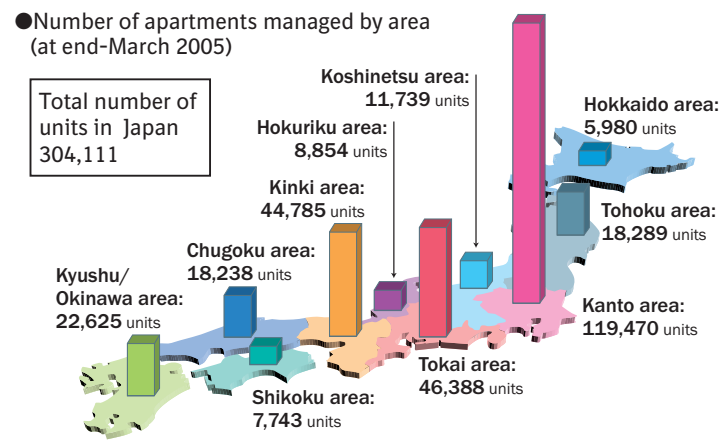
### Reliable proxy maintenance and administration

On behalf of apartment owners, we carry out operations from building maintenance to tenant administration. By maintaining the asset value of buildings at high levels through consistent maintenance efforts, we endeavor to secure stable apartment operations. Furthermore, building maintenance, which is long-term in nature, is guaranteed by the Leopalace Owners' Mutual Insurance System, which protects owner lifestyles from unforeseeable situations.

## Characteristics and Competitiveness 2 Nationwide studio apartment network, supported by

Apartment buildings under master sublease contracts with Leopalace21 are available nationwide

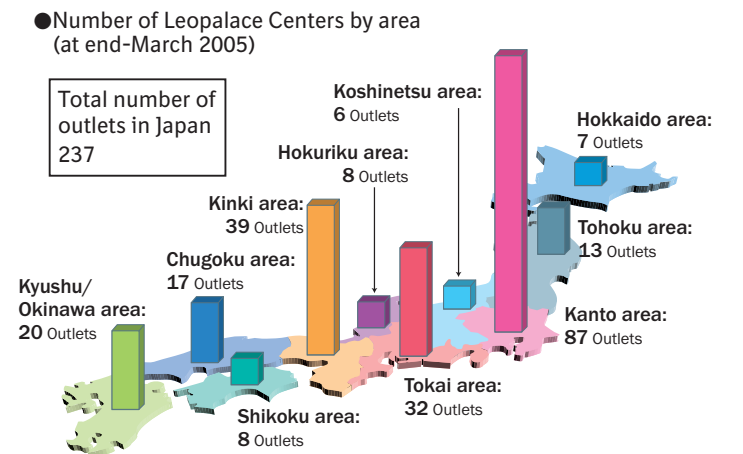
Studios for which we have subcontracted construction and have carried out maintenance and administration are located all over Japan, totaling some 300,000 units. These studios were built in areas where we estimated reasonable potential demand based on thorough market research, in order to meet needs of prospective tenants. We are the only industry player with this many studios nationwide.



## online search capabilities

Domestic network of 237 Leopalace Centers

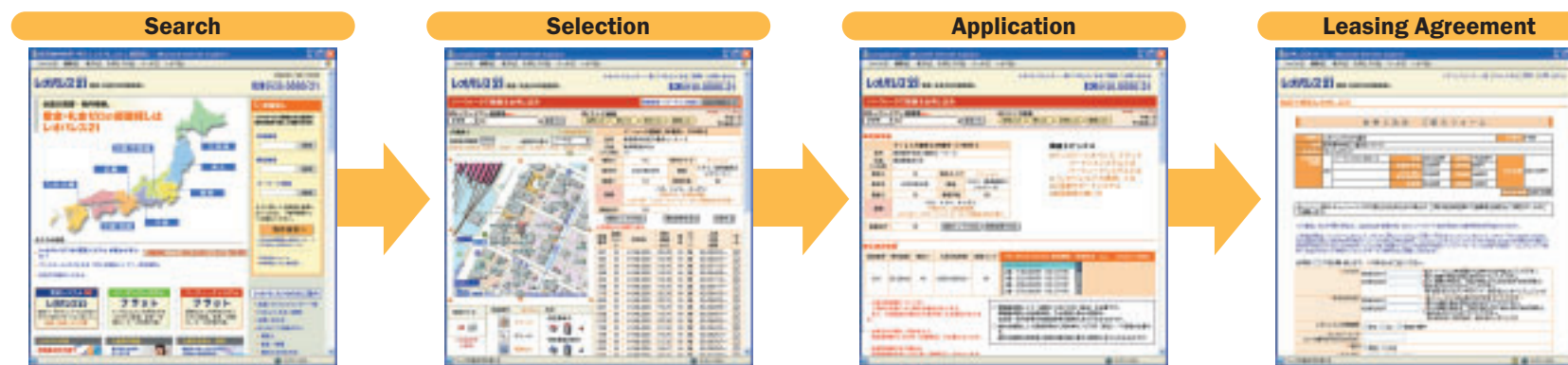
Visitors to Leopalace Centers at 237 locations nationwide can search real-time for studios using our online network. For example, a person who lives in Tokyo can look for the most up-to-date information about studios for lease available in other areas such as Hokkaido and Kyushu, apply for the apartment, and sign the contract on the spot. The nationwide sales center network combined with our online network guarantees our ability to meet a variety of needs among prospective corporate and individual tenants.



## Characteristics and Competitiveness 3 Real-time web search possible anywhere, anytime

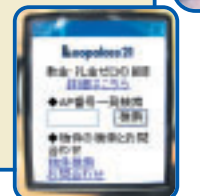
Powerful web research based on nationwide network

Visitors to our web sites can search real-time for the most up-to-date information on studios available across the country, and apply for the apartment and sign a contract on the spot. With some 300,000 studios managed nationwide, we are the only industry player that can provide prospective tenants with real-time search capabilities of studios available nationwide even using our mobile Internet site.



### Real-time search on our mobile Internet site

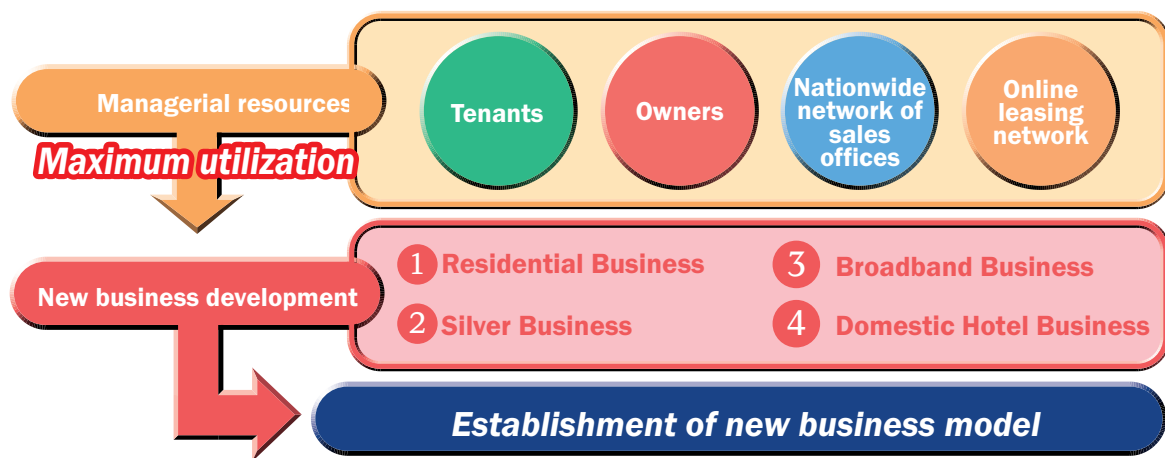
Real-time search of our rental studios can also be performed on our mobile Internet. Similar to accessing our main home page, visitors to the wireless site can gather information regarding rental studios, view floor plans, and make payments by credit card.





# New Challenge-1: Peripheral and Value-Added Businesses

Our pursuit of synergies between apartment construction subcontracting and leasing has begun to create values which should enable the launch of new businesses. Our managerial resources, including tenants, apartment owners, a nationwide sales office network, and an online network for studio leases, have continued to steadily grow in volume and quality. Making the most of these resources, we aim to promote the commercialization of peripheral and value-added businesses and to establish a new business model.

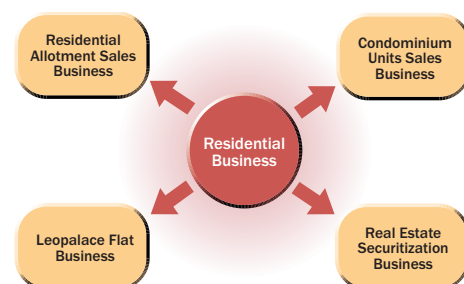


## 1 Residential Business

We started our new business, the Residential business, which involves the development and sales of residential houses and condominiums, mainly in metropolitan areas. This business is comprised of four business operations including Residential Allotment Sales business, Condominium Units Sales business, Leopalace Flat business and Real Estate Securitization business.

### Residential Allotment Sales Business & Condominium Units Sales Business

We will be planning, developing and selling residences that are comfortable to live in and offer an abundance of utilities that provide Good Location, Superior Buildings and Prices that Match the Needs by taking advantage of management resources in the Construction business and Leasing business, which have enjoyed a lot of support from many members of the property owner base and tenant base. We are aggressively gathering information regarding real estate currently being considered for sale by property owners, in our search for development properties.



### Leopalace Flat Business

The planning and development of Leopalace Flats, which we offer as leased studio apartments in medium to high rise buildings in urban areas, will be positioned as the Residential business for our aggressive developments to meet the wide ranging needs of single persons living in urban areas and to further enhance the synergic effects with the Leasing business.

### Real Estate Securitization Business

Early on, we launched our real estate securitization business utilizing an SPC (special purpose company). We now have three SPCs (265 buildings with asset securitization worth ¥32 billion), the first of which was Leopalace REIT. We are in possession of numerous real properties that are provided to us through a variety of means, such as acquisition, development and consigned management. We will be promoting securitization of real estate in an aggressive manner in the future to further the effective use of these management resources.

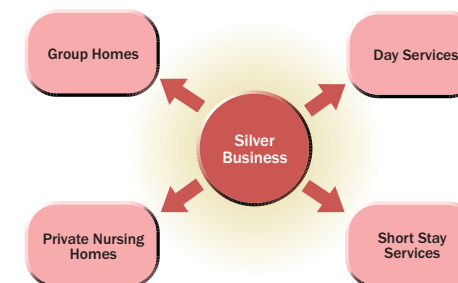
#### Real estate securitization

|                                    | Number of apartment buildings | Total securitized assets | First class preferred equity (public offering) | Number of shares (one share=¥50,000) |
|------------------------------------|-------------------------------|--------------------------|--|--------------------------------------|
| Leopalace REIT (August 2001)       | 79 Buildings                  | ¥8 Billion               | ¥5 Billion                                     | 100,000 shares                       |
| Leopalace REIT II (September 2002) | 114 Buildings                 | ¥18 Billion              | ¥8 Billion                                     | 160,000 shares                       |
| Leopalace REIT III (December 2002) | 72 Buildings                  | ¥6 Billion               | ¥4.5 Billion                                   | 90,000 shares                        |

\*The value of Leopalace REIT II securitized assets includes a non-recourse loan of ¥6 billion.

## 2 Silver Business

There is a need to facilitate a comfortable living environment for the elderly, as our society goes through the full-scale onset of an aging society. We will be providing community-based Group Homes, Day Services, Private Nursing Homes and Short Stay Services as well as offering various nursing care facilities and services, such as the planning, developing, administering and managing of such facilities, relying on our carefully laid out network throughout the country and based on the know-how we derive from the bulk management of leased properties that number more than 300,000.



## 3 Broadband Business

Tenants in leased apartments under our management are a notable managerial resource.

In 2002, we began offering broadband ISP services in apartments under our management. Tenants can enjoy a variety of services using a set top box (LEO-NET terminal) in each room. These include LEO-NET standard services with which tenants can view seven CS channels and pay-per-view movies, in addition to always-on broadband Internet connection and e-mail. The optional premium services provide access to 11 fee-based CS channels (CS Plus) and LEO-PHONE, VoIP for which no fixed line subscription is required. At the end of March 2005, the number of studios installed with set top boxes was over 150,000.



●Set Top Box (STB)

Furthermore, we are also undertaking new ventures on a trial basis to seek out new revenue sources by inaugurating a free classified advertisement paper for tenants, "SEEK" and developing a survey system for marketing, which utilizes television sets. There are plans to expand these services by providing them as OEM services to other businesses.

## 4 Domestic Hotel Business

Utilizing our know-how in the apartment business, we are launching hotel operations in major cities nationwide (currently seven locations). Our strategy is to pursue a hotel system that is more up-to-date to today's needs. With this in mind, Leopalace21's goal is to manage community-based hotels that are priced reasonably and play an important role in the lives of not only business users but also long-term visitors and the local community.

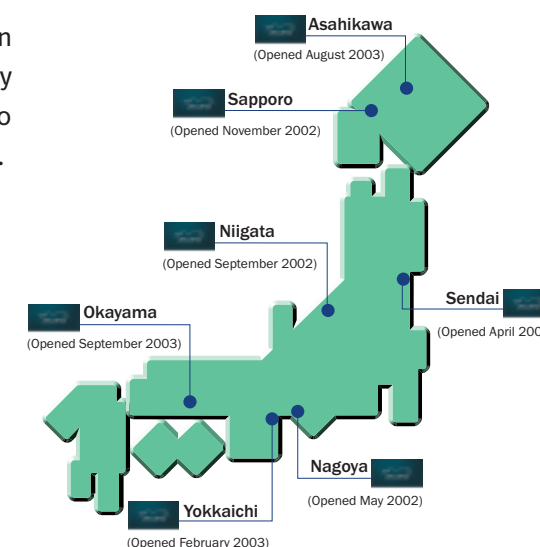
All our hotels include a sales office for the Construction Division and Leopalace Center for the Leasing Division on site. Thus, they serve as branch offices of their respective operational areas to establish partnerships with apartment owners and studio tenants.



●Hotel Leopalace Niigata



●Hotel Leopalace Sendai

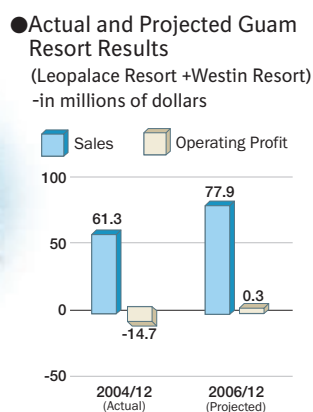




## Business Profile

Our fully-owned subsidiary, MDI Guam, manages a large-scale resort business comprised of the Leopalace Resort and Westin Resort on the tropical island of Guam; three and a half hours from Japan. The first phase of construction for the Leopalace Resort in central Guam was completed in 1993, and the beachfront Westin Resort in the northwestern portion of the island opened in 1996.

Both resorts began the second phase of construction in 2000 with the goal of eliminating capacity shortages and improving the facilities, and this was completed in December 2003. This improvement in business infrastructure is expected to increase net sales of MDI Guam to US\$77.9 million by December 2006. In addition, we believe this move will help the subsidiary achieve profitability at the operating level.



### Leopalace Resort

Spread over approximately 5.2 million square meters, the Leopalace Resort is a full-line hotel/condominium resort with various sports facilities (e.g. baseball, soccer, tennis, and swimming) and a golf course. In fact, no other resort in Guam compares to the Leopalace Resort when it comes to the range of its guest facilities.



### Westin Resort

The Westin Resort, which is managed by the world-famous Stawood Group on our behalf, is one of the best in Guam. The facility's "Elegant Tropical Resort" theme provides the perfect backdrop for the flawless, high-quality service and luxurious rooms offered to guests.



## Main Strategies for Achieving the Medium-term Plan

### 1) Taking on increasing demands for personal travel

We will be providing lodgings that suit the needs of travelers, such as hotels and condominiums, a diverse range of restaurants and fully equipped activity facilities that enhance the environment of tropical resorts, which include such amenities as swimming pools. These will be used not only to take on the demands of our stakeholders, but also for stable business operations by gathering tourists through major travel agencies.

### 2) Responding to bridal demands

We established chapels at the Westin Resort and the Leopalace Resort in order to respond to the rising passionate demands for wedding ceremonies, which are held overseas. With the Leo Bridal Salon bases situated at three locations in Japan (Tokyo, Osaka and Nagoya), we are gathering customers through direct sales and major travel agencies.

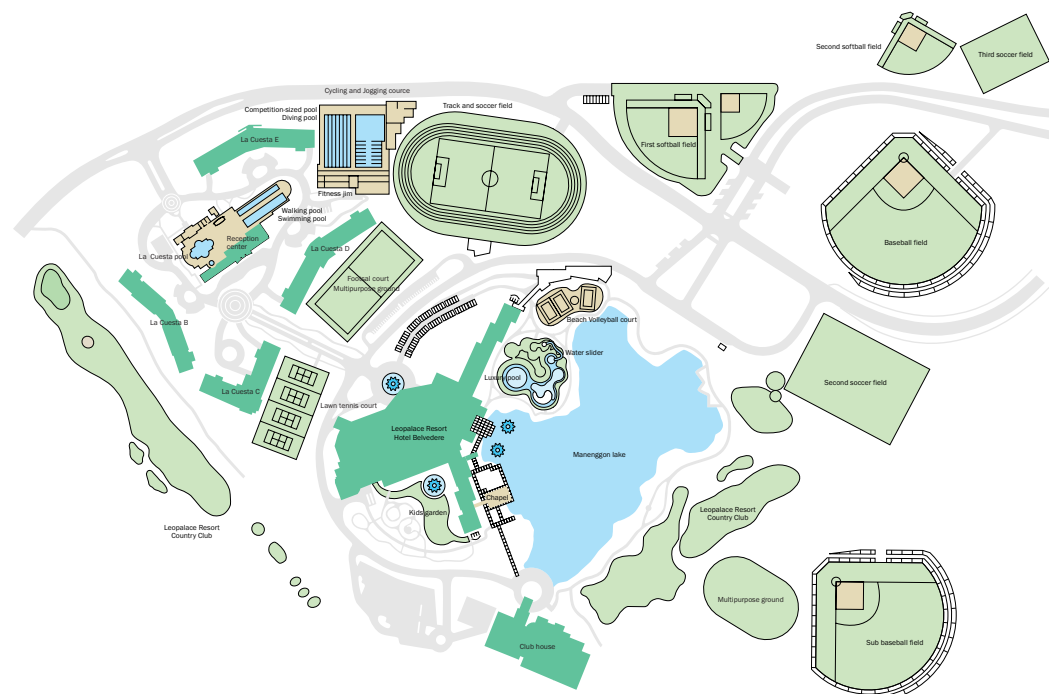
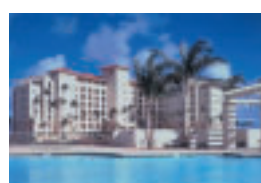
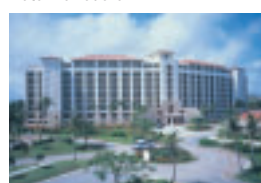
### 3) Responding to golf demands

Our golf course in Guam attracts the most guests and is the only course that offers 36 holes in Guam. We intend to gather customers through major travel agencies as well as by holding events, such as golf competitions.

### 4) Taking on group customers participating in sport teams, school trips, company trips and organized tours

Our comprehensive sports facility, the only one of its kind, was completed in the second phase construction that was conducted as a part of our efforts with the theme of creating a Sports Paradise. The facility is already in use for various purposes, not only by the members of professional baseball leagues and J-League soccer teams from Japan, but also by top athletes during their preparation for speed swimming, synchronized swimming, softball and other various competitions held during the Olympic games, along with a wide range of amateur athletes as well. Furthermore, through the substantiated lodging facilities, the intake of school trips is on the rise, and we intend to aggressively take on group tours such as company trips and organized tours.

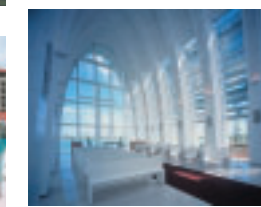
### Lodging Facilities (Leopalace Resort)



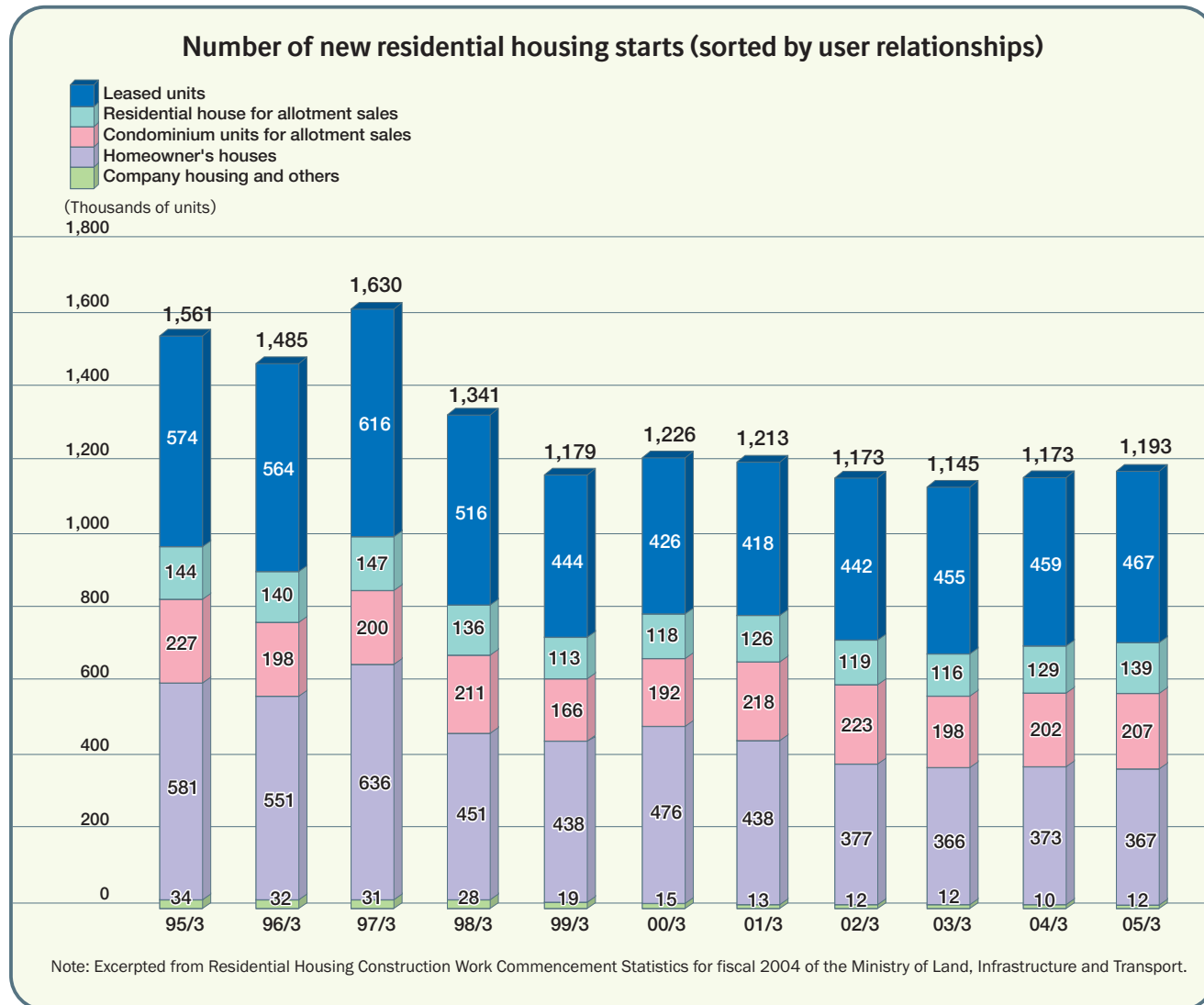
### Sports Facilities (Leopalace Resort)



### St. Leo Del' Anello Chapel (Leopalace Resort)







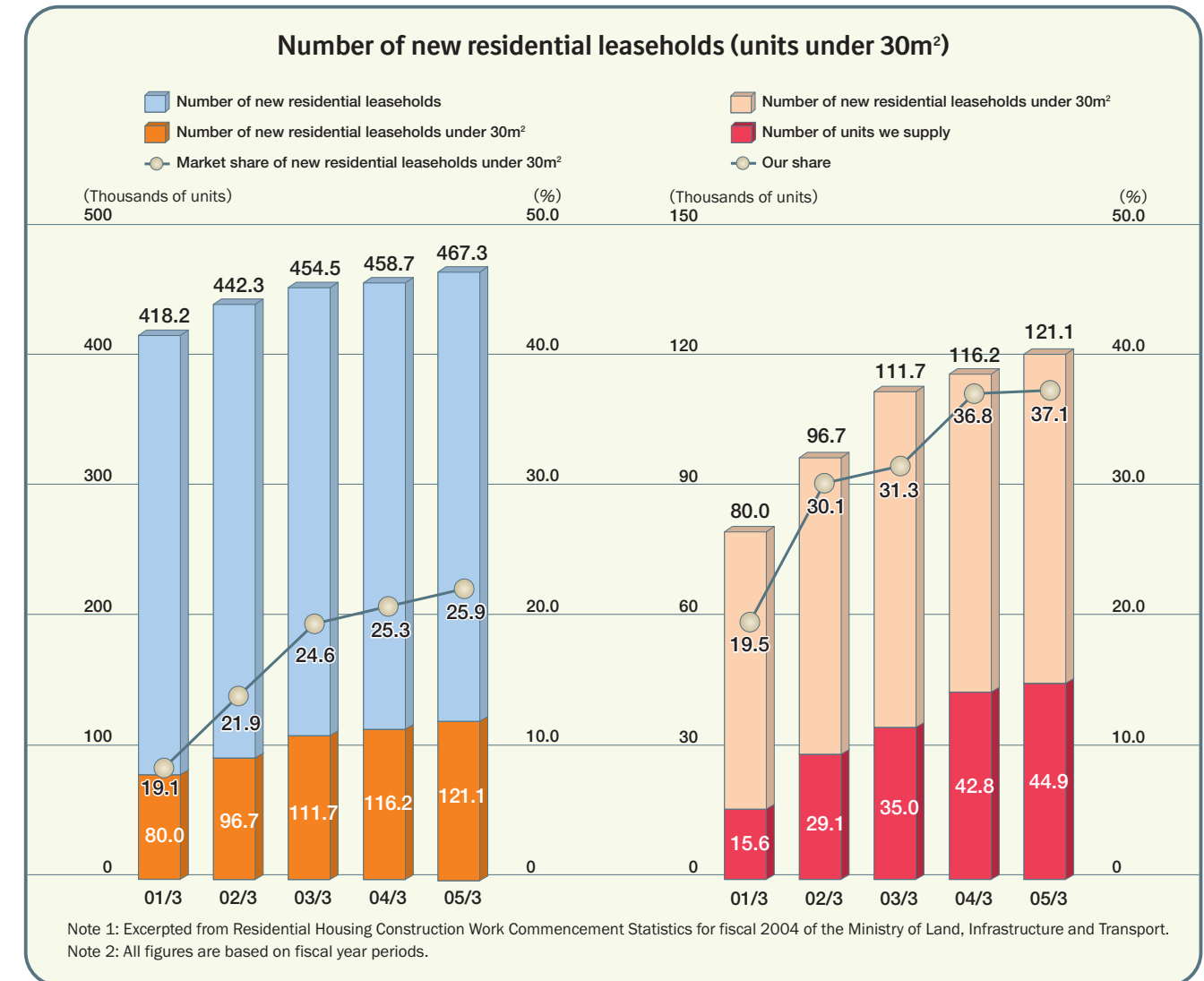
**Residential housing supply status recovering slowly while undergoing changes in terms of market share makeup**

According to the Residential Housing Construction Work Commencement Statistics of the Ministry of Land, Infrastructure and Transport, the number of newly built residential housing units peaked in fiscal 1996 (ending March 1997) with 1.63 million units, while the figures changed to 1.179 million in fiscal 1998 (ending March 1997) and thereafter continued to hover around 1.2 million units. In the past two years the trend has been showing a slow recovery.

Homeowner's housing, however, continued to go down during the same period, while leased units and residential housing for allotment sales increased in number, resulting in a dramatic shift in the market share makeup.

**Central roles played by the shifting of the market share makeup for residential housing supplies (commencement of construction for new residential housing), include an increase in the number of leased units and residential housing for allotment sales and a decrease in the number of homeowner's residential housing**

A look at the trends for commencing new residential housing in recent years in terms of user relationships indicates that leased units and residential housing for allotment sales are supporting the slow overall recovery trends. Of all the residential housing for allotment sales, condominium units are increasing slightly, while residential houses are increasing dramatically, showing an increase of 11.2% over the previous year in fiscal 2003 (ending in March 2004) and 7.8% in fiscal 2004 (ending in March 2005). Furthermore, leased units have recorded a slow but consecutive increase for four years since fiscal 2001 (ending in March 2003), gaining the highest share of the market by dominating 39.1% in fiscal 2004 (ending in March 2005) for all new units of residential housing construction.



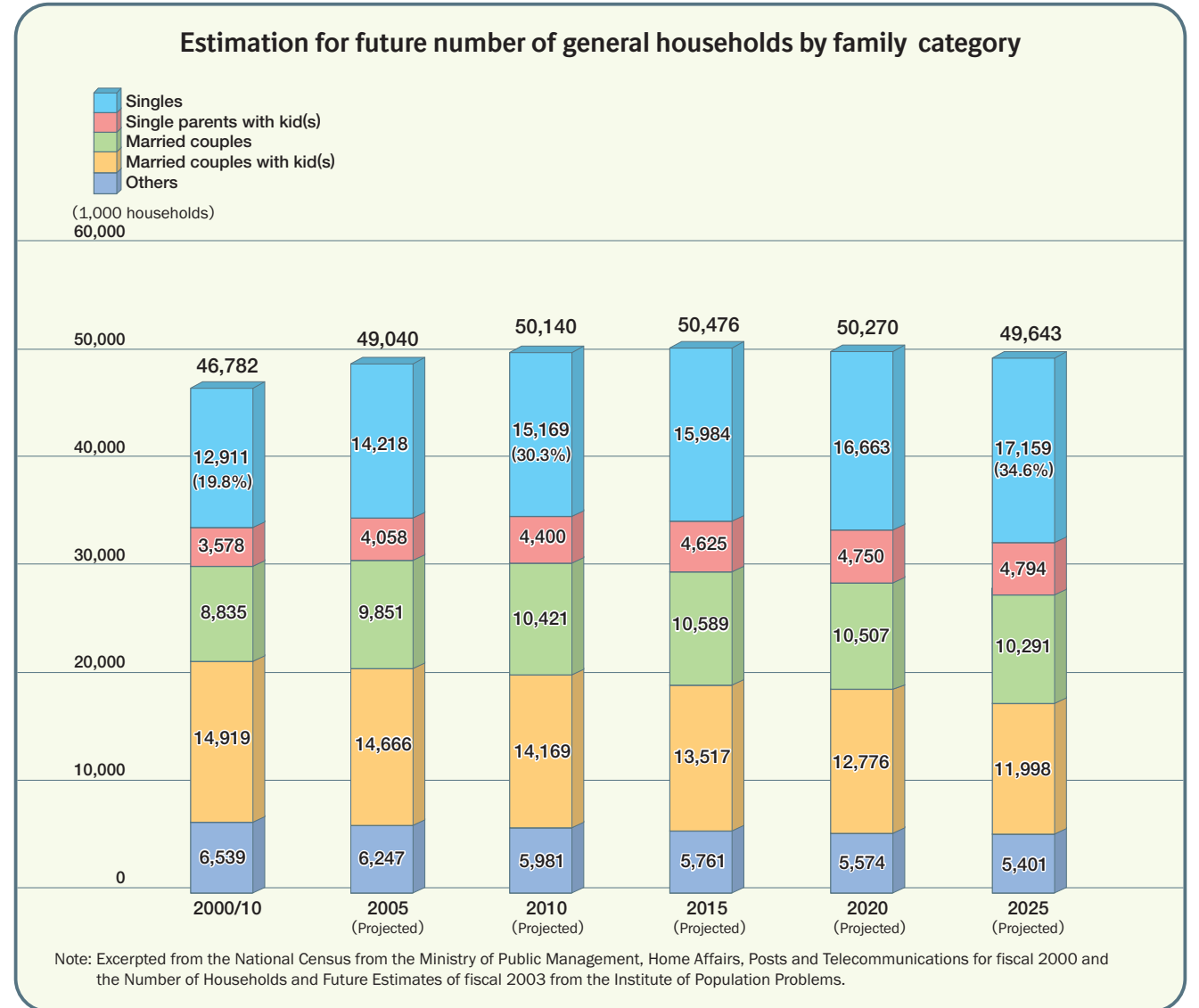
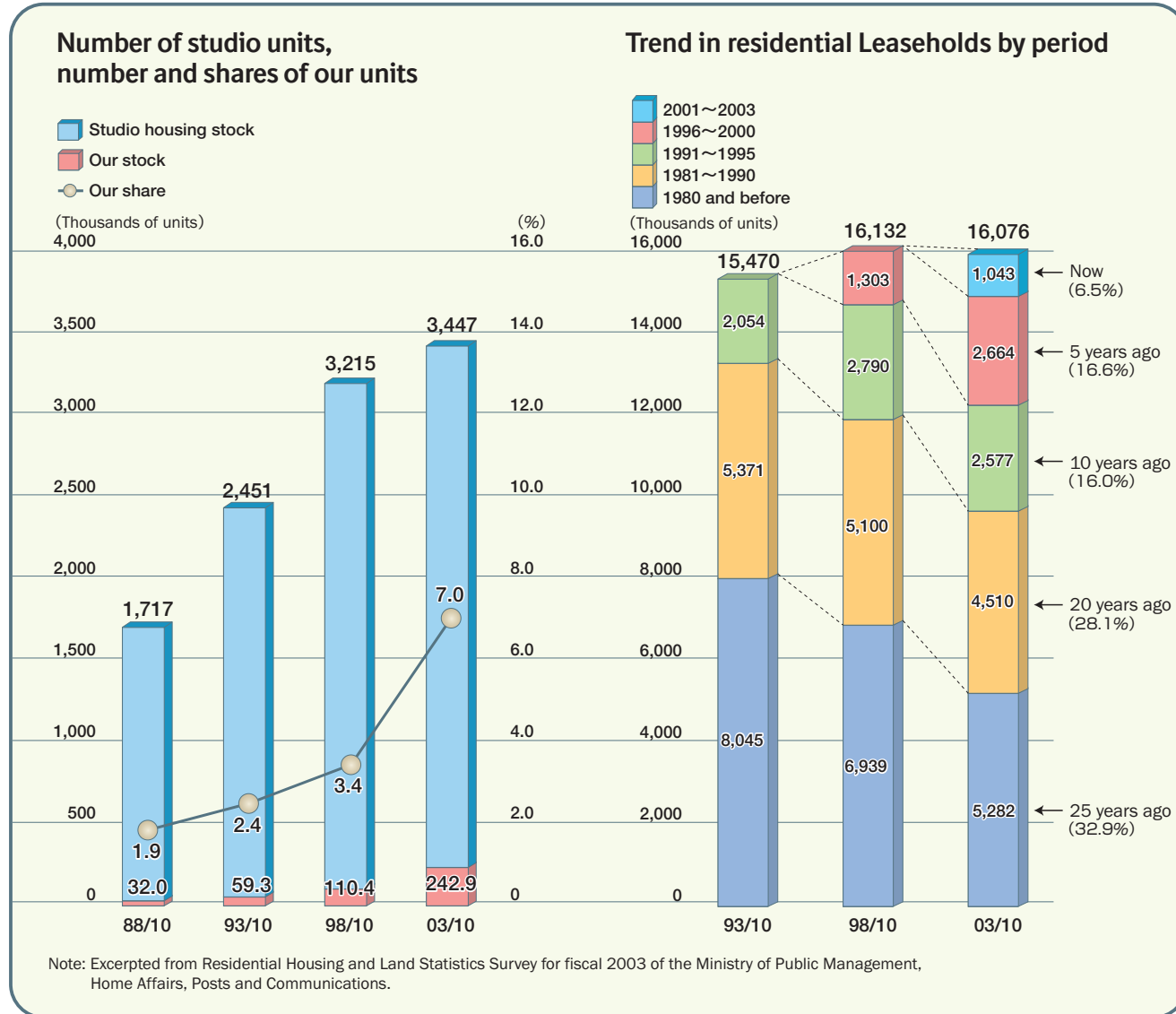
**Construction of leased units under 30m² are steadily recovering**

Leased units under 30m² comprise our core field and are showing a rapid increase in recent years. The number of construction work commencing in fiscal 1999 (ending in March 2000), for leased units under 30m², bottomed at 73,000 units but showed a recovery in fiscal 2001 (ending in March 2002) by reaching 97,000 units and 100,000 units by fiscal 2002 (ending in March 2003). Furthermore, the proportion of residential units under 30m² among the overall total number of leased units being constructed has increased and reached 25.9% in fiscal 2004 (ending in March 2005).

**Our share of supply for studio apartments is 37.1%**

The reason behind this increase in leased units under 30m², is the increase in the number of young and single households in urban areas that are seeking a new life style, along with the birth of new demand, such as the outsourcing of corporate dormitories and company housing.

Furthermore, the graph shown on the right represents the number of new units supplied by our studio apartment operations (Construction business) for the construction of leased units under 30m². In fiscal 2004 (ending in March 2005) we experienced an increase in our share by 0.3 points, thereby sustaining a 37.1% share of all supplied units in the market. It is clear that we are in possession of a formidable market share in this field.



**Increasing studio stocks**

On the other hand, the stocks of studios are in a steadily increasing trend. According to the Residential Housing Construction and Land Statistics Survey, conducted every five years by the Ministry of Public Management, Home Affairs, Posts and Telecommunications, the number of studio units as of October 2003 was 3.447 million units. This is an increase of 996,000 units above figures taken ten years ago, with a growth rate of 40.6%, showing an outstanding performance in comparison with the growth rate for the residential housing stock for the same period (17.6%). Furthermore, our market share of stocks has also increased by 7.0%.

**Market for rebuilding residential leaseholds has gigantic potential for residential leasehold construction**

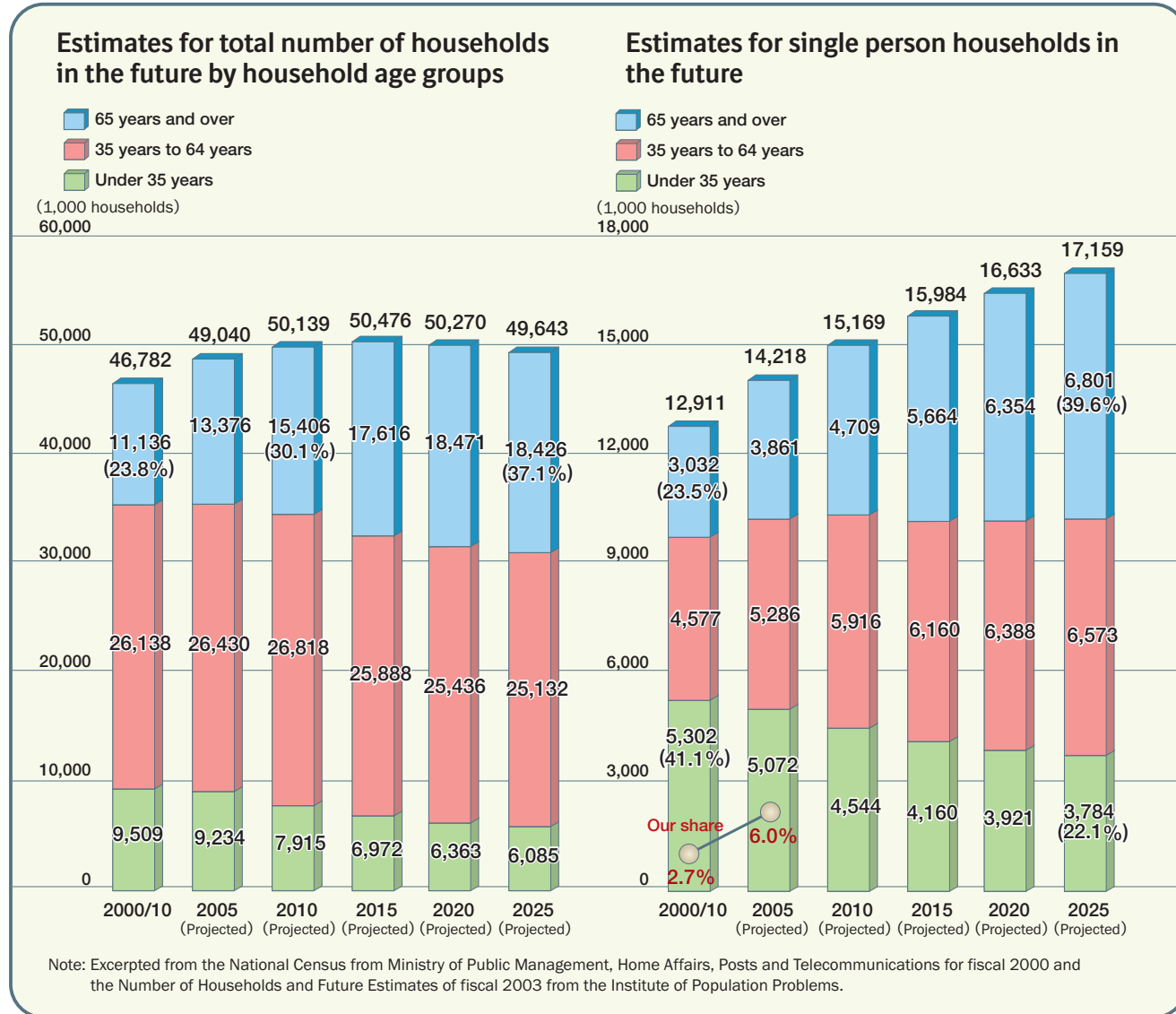
The graph shown on the right represents the data of trends for the overall residential leaseholds sorted by construction period. Figures have remained stable for the past five years, while during those five years 2.46 million units of residential leaseholds constructed in 1995 and earlier (ten years ago) were lost, while approximately 2.4 million new units were built to replace them. This indicates that this is a market with a gigantic demand for rebuilding in the future.

**Large market need exists for studios that will be sustained over a long period**

With declining birth rates and an aging society, the population problem in Japan is an issue that needs to be considered. In terms of family categories, singles consisted of 12.91 million in 2000, which comprised 19.8% share of the market. It is anticipated that this will increase to 15.16 million by 2010 and comprise over 30.3% of the market share. Furthermore, an estimate for 2025 shows the number of households will reach approximately 17.15 million and comprise 34.6% of the market share, undergoing a rapid increase in this period. This indicates that the household makeup in Japan will be moving toward the formation of a gigantic single person household base very rapidly.

The market needs for studios provided by us is large and will be sustained over a long period in the future, as indicated by this data on future estimates.





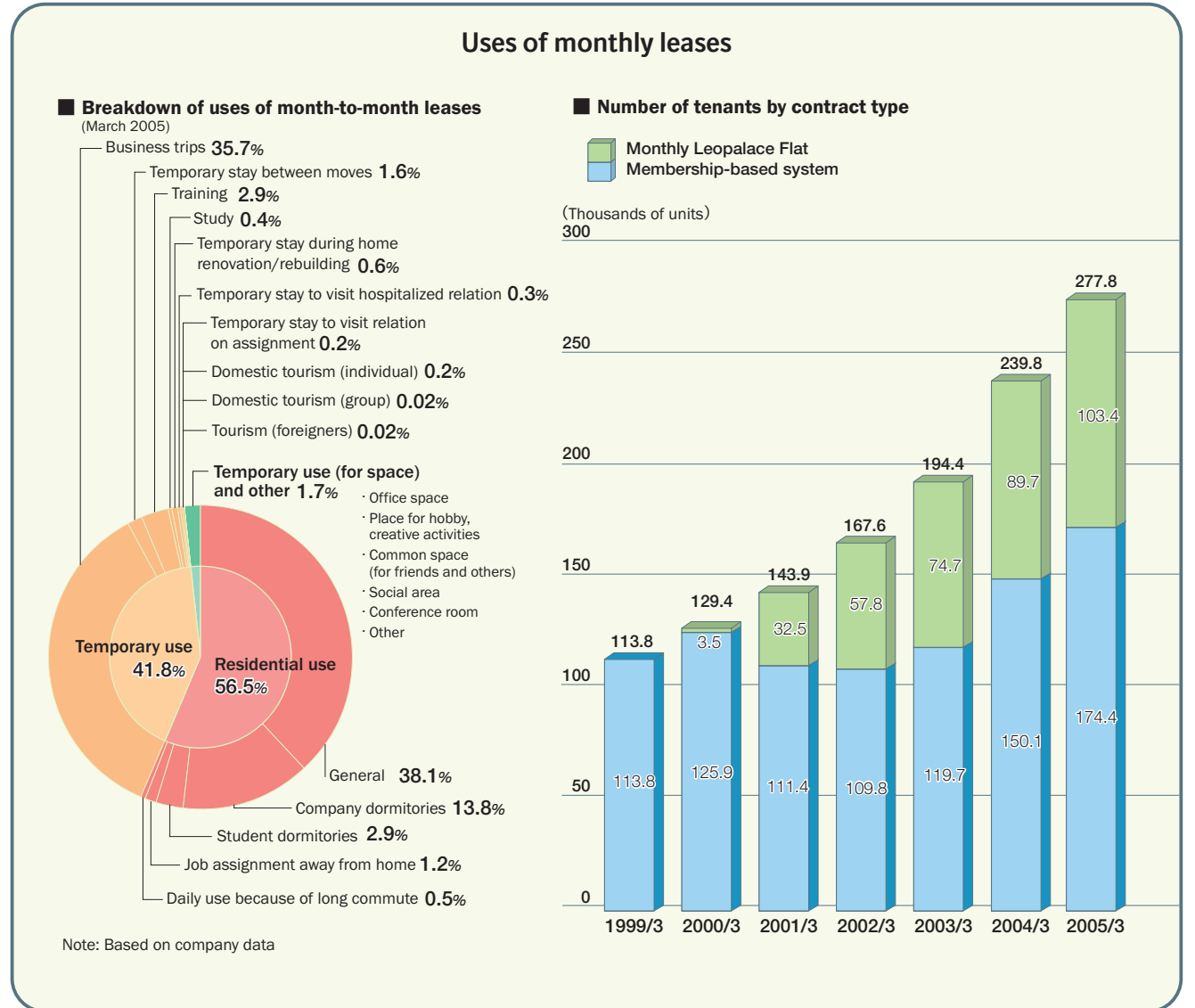
**Anticipated emergence of gigantic silver services market based on estimated figures for future number of households by age group**

The graph shown on the left is made up of data from page 18, the Estimation for the future number of general households by family categories, as viewed in terms of age group. The so-called silver population base, comprised of people 65 and over, will exceed the 30% share of makeup in 2010 and their share of the makeup will reach 37.1% by 2025. This means that a gigantic silver services market, comprised of one out of three households, will emerge.

**In terms of single person households categorized by age group, the silver population base emerges together with the under 35s as target populations for our core businesses**

Furthermore, the graph, shown to the right, represents data prepared by categorizing the extracted information regarding single person households obtained from the Estimation for the future number of general households by family category, shown on page 18, by age group. Targets comprised of the under 35 population base of corporate users and silver services market, comprised of those 65 and over, for whom there are increasing needs in terms of hobby and nursing care, are emerging.

Our share in the market of the single person household base for under 35s was 2.7% in 2000, although it reached a level of 6.0% in 2005.



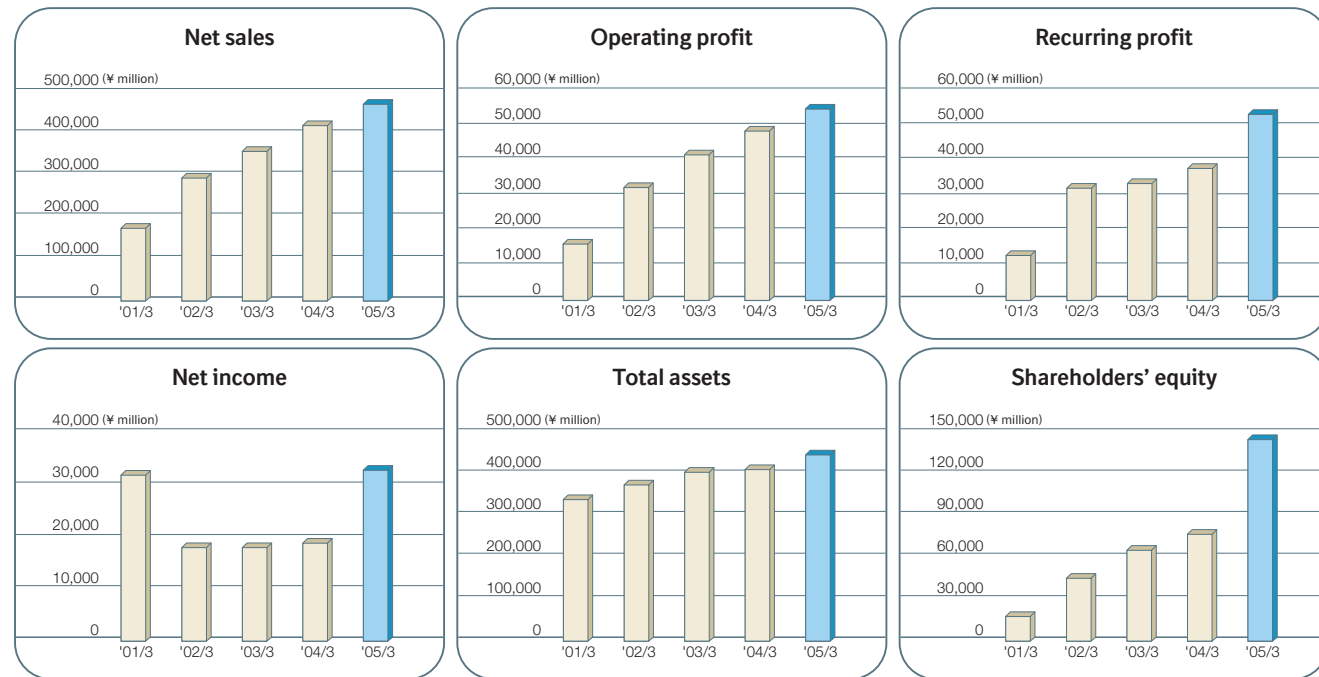
**Pioneering new markets through monthly leasing**

We are pioneering into new markets outside the existing leasing markets by implementing Monthly Leoplace, which is available for short or long-term leasing, along with the Membership System intended for long-term tenants. The purposes for using the monthly leasing service can be categorized into “residential use” and “temporary use”. In terms of the residential use, the purposes for using the service are expanding, such as “dormitory (for employees and students)”, “job assignment away from home”, “daily use because of long commute”, besides the “general use of rooms”. Furthermore, as for “temporary use”, the purposes vary, including “business trips”, which is the most often cited purpose, as well as accommodation during moving, taking seminars, taking exams and tourism.

**Steady increase of a user base for monthly leasing responding to various needs**

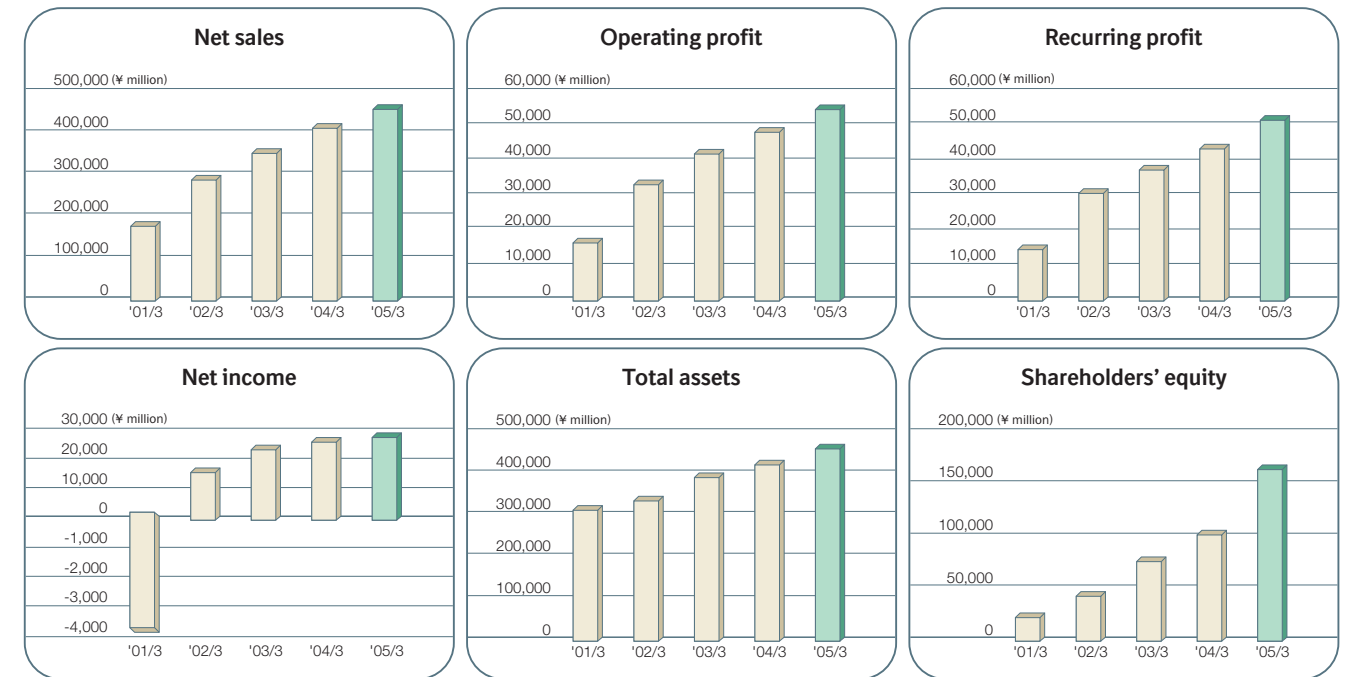
The trend for number of tenants by contract type indicates that since Monthly Leoplace provides furniture, consumer electronics and utility expenses, launched in March 2000, the number of transactions for monthly leasing increased rapidly, which indicates the service matched the needs of the market. Furthermore, Monthly Leoplace Flats was launched in March 2002, offering tenancy periods in shorter segments, responding appropriately to the changing needs of the market. The number of units for this service increased to 103,400 units by the fiscal term ending in March 2005.

## Consolidated



|                                    | 2001/3  | 2002/3  | 2003/3  | 2004/3  | 2005/3         |
|------------------------------------|---------|---------|---------|---------|----------------|
| Net sales                          | 186,991 | 295,683 | 357,496 | 418,873 | <b>476,266</b> |
| Operating profit                   | 16,394  | 32,672  | 41,650  | 48,317  | <b>54,682</b>  |
| Recurring profit                   | 13,176  | 32,255  | 33,442  | 37,905  | <b>53,227</b>  |
| Net income                         | 32,843  | 18,763  | 18,781  | 18,999  | <b>33,250</b>  |
| Total assets                       | 343,039 | 372,954 | 404,853 | 411,925 | <b>444,095</b> |
| Shareholders' equity               | 17,386  | 44,759  | 65,307  | 76,458  | <b>144,825</b> |
| Common stock                       | 31,134  | 33,274  | 37,500  | 37,500  | <b>55,640</b>  |
| Shareholders' equity per share (¥) | 158.73  | 363.00  | 470.44  | 550.12  | <b>909.82</b>  |
| Net income per share (¥)           | 307.86  | 155.12  | 147.36  | 136.80  | <b>220.71</b>  |

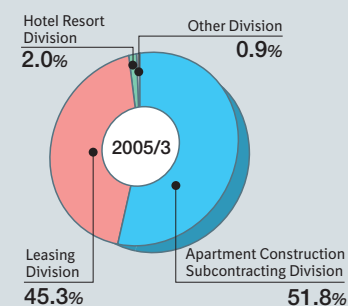
## Non-consolidated



|                                      | 2001/3  | 2002/3  | 2003/3  | 2004/3  | 2005/3          |
|--------------------------------------|---------|---------|---------|---------|-----------------|
| Net sales                            | 181,078 | 289,562 | 351,775 | 413,239 | <b>469,181</b>  |
| Operating profit                     | 16,910  | 33,514  | 42,017  | 48,429  | <b>54,879</b>   |
| Recurring profit                     | 15,060  | 30,613  | 37,516  | 43,710  | <b>51,779</b>   |
| Net income                           | -39,644 | 15,831  | 23,733  | 25,883  | <b>28,738</b>   |
| Total assets                         | 316,556 | 340,183 | 396,220 | 423,314 | <b>460,128</b>  |
| Shareholders' equity                 | 24,496  | 44,083  | 76,446  | 100,607 | <b>163,483</b>  |
| Common stock                         | 31,134  | 33,274  | 37,500  | 37,500  | <b>55,640</b>   |
| Shares outstanding (thousand shares) | 109,606 | 123,412 | 139,543 | 139,543 | <b>159,543</b>  |
| Shareholders' equity per share (¥)   | 223.49  | 357.52  | 548.34  | 721.80  | <b>1,025.74</b> |
| Net income per share (¥)             | -371.40 | 130.88  | 185.32  | 185.68  | <b>190.39</b>   |
| Dividends per share (¥)              | 0.00    | 0.00    | 15.00   | 15.00   | <b>15.00</b>    |

## Segment information

### Sales breakdown (Consolidated)



|  | 2001/3  | 2002/3  | 2003/3  | 2004/3  | 2005/3         |
|--|---------|---------|---------|---------|----------------|
| Apartment Construction Subcontracting Division | 60,711  | 150,842 | 190,216 | 225,011 | <b>248,032</b> |
| Leasing Division                               | 114,114 | 135,026 | 159,896 | 185,516 | <b>216,593</b> |
| Hotel Resort Division                          | 7,611   | 7,582   | 6,688   | 7,056   | <b>9,561</b>   |
| Other Division                                 | 4,995   | 2,774   | 1,458   | 2,590   | <b>4,361</b>   |
| Eliminations/Unallocated                       | (441)   | (542)   | (764)   | (1,300) | <b>(2,282)</b> |
| Total  | 186,991 | 295,683 | 357,496 | 418,873 | <b>476,266</b> |

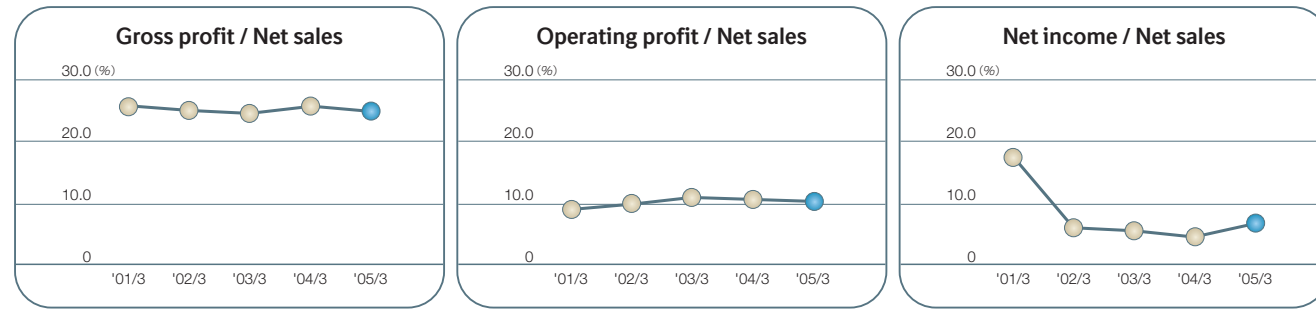
### Operating profit (Consolidated)

|  | 2001/3 | 2002/3  | 2003/3  | 2004/3  | 2005/3         |
|--|--------|---------|---------|---------|----------------|
| Apartment Construction Subcontracting Division | 8,428  | 26,250  | 41,433  | 54,090  | <b>57,051</b>  |
| Leasing Division                               | 10,786 | 11,047  | 6,579   | 4,136   | <b>7,243</b>   |
| Hotel Resort Division                          | -2,101 | -3,569  | -2,736  | -3,849  | <b>-3,928</b>  |
| Other Division                                 | 221    | 371     | -1,234  | -3,514  | <b>-2,640</b>  |
| Eliminations/Unallocated                       | (941)  | (1,427) | (2,391) | (2,545) | <b>(3,043)</b> |
| Total  | 16,394 | 32,672  | 41,650  | 48,317  | <b>54,682</b>  |



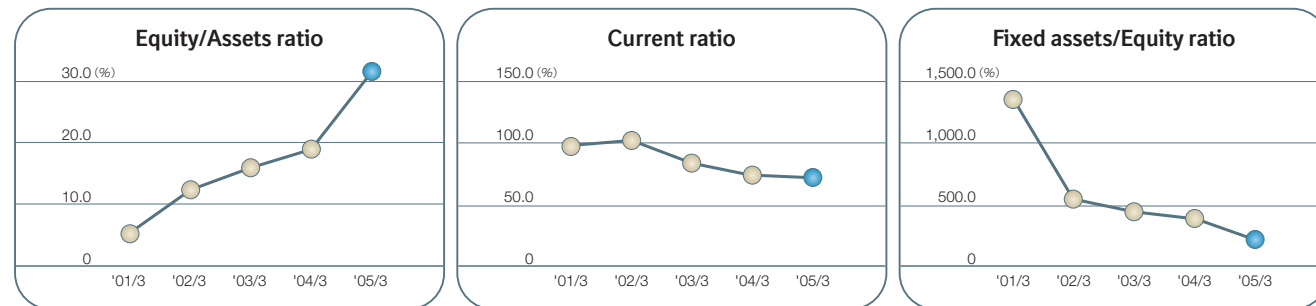
## Consolidated

### Profitability



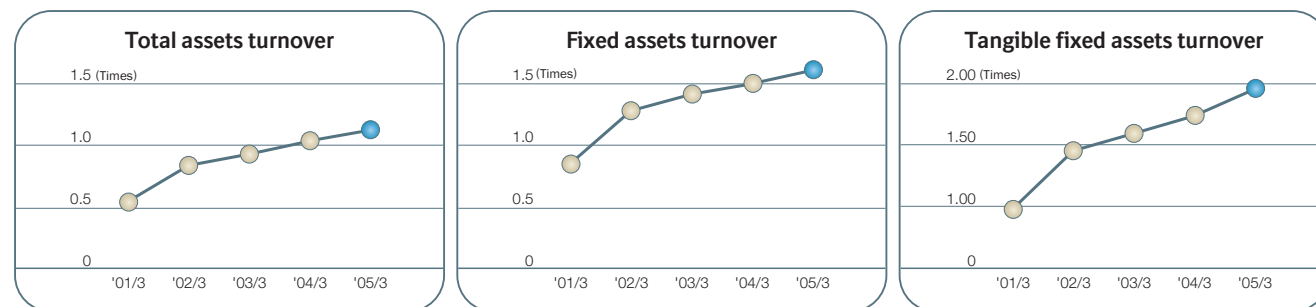
|                                  | 2001/3 | 2002/3 | 2003/3 | 2004/3 | 2005/3       |
|----------------------------------|--------|--------|--------|--------|--------------|
| Gross profit / Net sales (%)     | 25.45  | 25.32  | 24.79  | 25.25  | <b>24.92</b> |
| Operating profit / Net sales (%) | 8.76   | 11.04  | 11.65  | 11.53  | <b>11.48</b> |
| Net income / Net sales (%)       | 17.56  | 6.34   | 5.25   | 4.53   | <b>6.98</b>  |

### Stability



|                               | 2001/3   | 2002/3 | 2003/3 | 2004/3 | 2005/3        |
|-------------------------------|----------|--------|--------|--------|---------------|
| Equity/Assets ratio (%)       | 5.06     | 12.00  | 16.13  | 18.56  | <b>32.61</b>  |
| Current ratio (%)             | 98.39    | 103.52 | 87.21  | 78.30  | <b>78.20</b>  |
| Fixed assets/Equity ratio (%) | 1,333.70 | 518.85 | 423.30 | 367.89 | <b>203.31</b> |

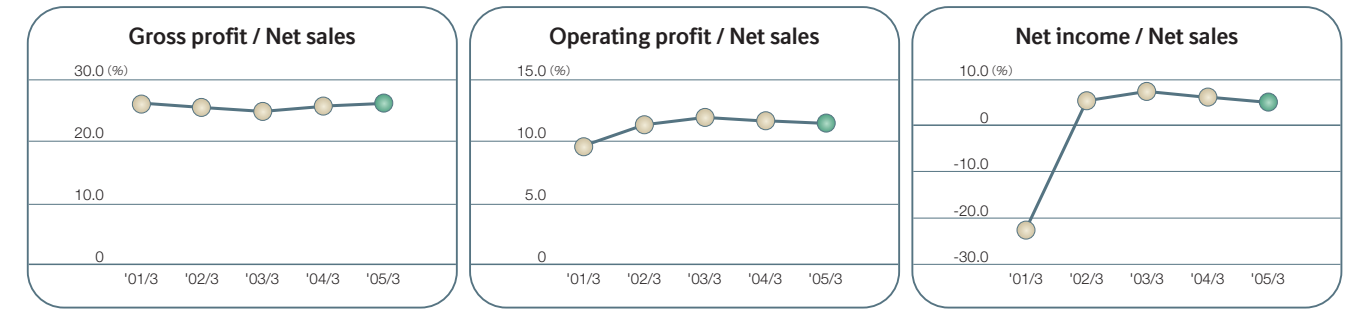
### Efficiency



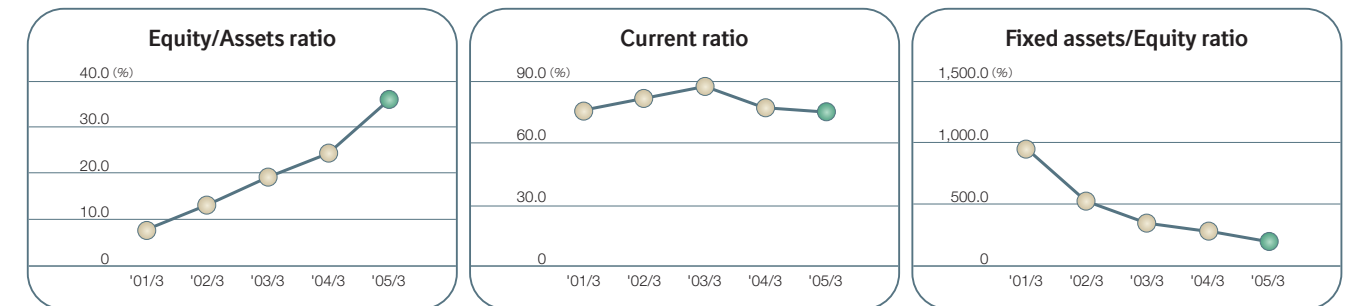
|  | 2001/3 | 2002/3 | 2003/3 | 2004/3 | 2005/3      |
|--|--------|--------|--------|--------|-------------|
| Total assets turnover (times)          | 0.54   | 0.82   | 0.91   | 1.02   | <b>1.11</b> |
| Fixed assets turnover (times)          | 0.84   | 1.27   | 1.40   | 1.50   | <b>1.65</b> |
| Tangible fixed assets turnover (times) | 0.96   | 1.46   | 1.58   | 1.73   | <b>1.97</b> |

Note: Total assets, fixed assets, and tangible fixed assets are expressed as an average of the relevant numbers at the beginning and end of each fiscal year, respectively.

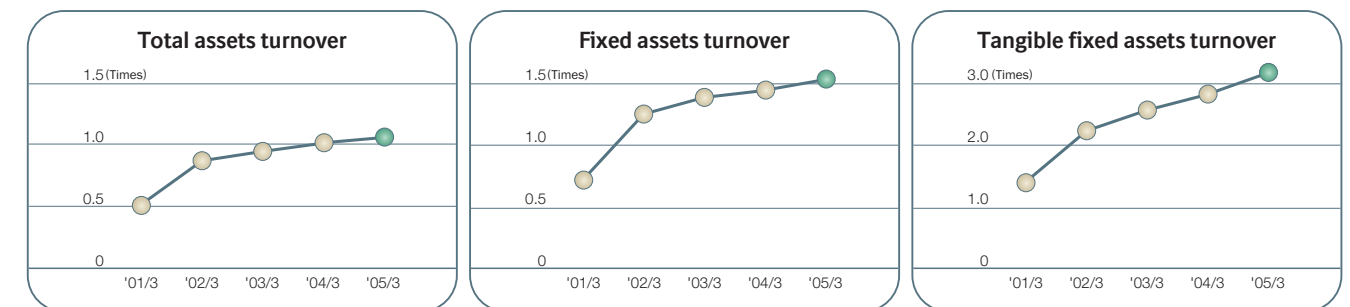
## Non-consolidated



|                                  | 2001/3 | 2002/3 | 2003/3 | 2004/3 | 2005/3       |
|----------------------------------|--------|--------|--------|--------|--------------|
| Gross profit / Net sales (%)     | 26.03  | 25.76  | 24.94  | 25.28  | <b>25.64</b> |
| Operating profit / Net sales (%) | 9.33   | 11.57  | 11.94  | 11.71  | <b>11.69</b> |
| Net income / Net sales (%)       | -21.89 | 5.46   | 6.74   | 6.26   | <b>6.12</b>  |



|                               | 2001/3 | 2002/3 | 2003/3 | 2004/3 | 2005/3        |
|-------------------------------|--------|--------|--------|--------|---------------|
| Equity/Assets ratio (%)       | 7.73   | 12.95  | 19.29  | 23.76  | <b>35.52</b>  |
| Current ratio (%)             | 76.54  | 82.99  | 87.59  | 77.96  | <b>76.93</b>  |
| Fixed assets/Equity ratio (%) | 950.33 | 522.66 | 354.12 | 294.33 | <b>192.29</b> |

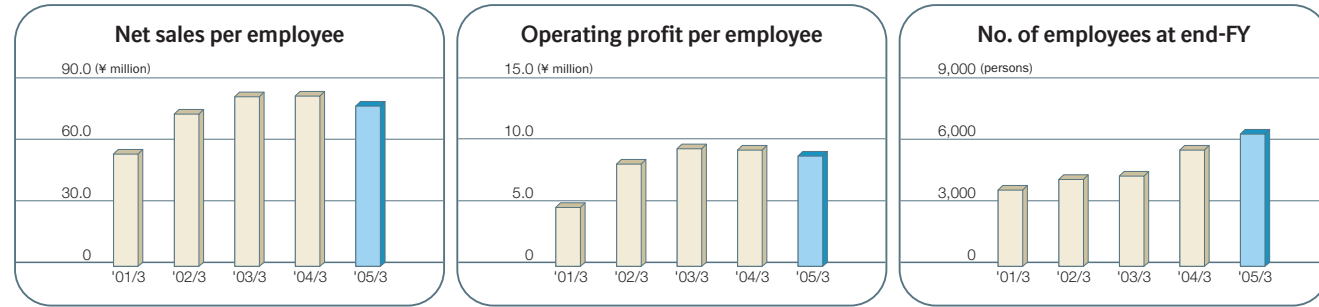


|  | 2001/3 | 2002/3 | 2003/3 | 2004/3 | 2005/3      |
|--|--------|--------|--------|--------|-------------|
| Total assets turnover (times)          | 0.52   | 0.88   | 0.95   | 1.00   | <b>1.06</b> |
| Fixed assets turnover (times)          | 0.70   | 1.25   | 1.40   | 1.45   | <b>1.53</b> |
| Tangible fixed assets turnover (times) | 1.42   | 2.26   | 2.58   | 2.83   | <b>3.13</b> |

Note: Total assets, fixed assets, and tangible fixed assets are expressed as an average of the relevant numbers at the beginning and end of each fiscal year, respectively.

## Consolidated

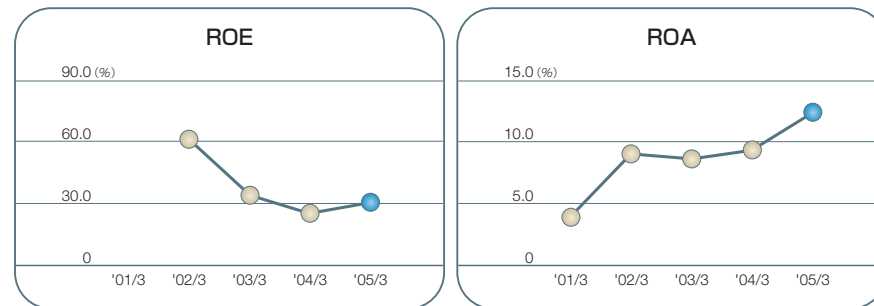
### Productivity



|   | 2001/3 | 2002/3 | 2003/3 | 2004/3 | 2005/3       |
|---|--------|--------|--------|--------|--------------|
| Net sales per employee (¥ million)        | 56.28  | 74.65  | 83.01  | 83.05  | <b>78.33</b> |
| Operating profit per employee (¥ million) | 4.93   | 8.24   | 9.67   | 9.58   | <b>8.99</b>  |
| No. of employees at end-FY (persons)      | 3,693  | 4,228  | 4,385  | 5,702  | <b>6,457</b> |

Note: Net sales per employee and operating income per employee are calculated using the average number of employees during the year.

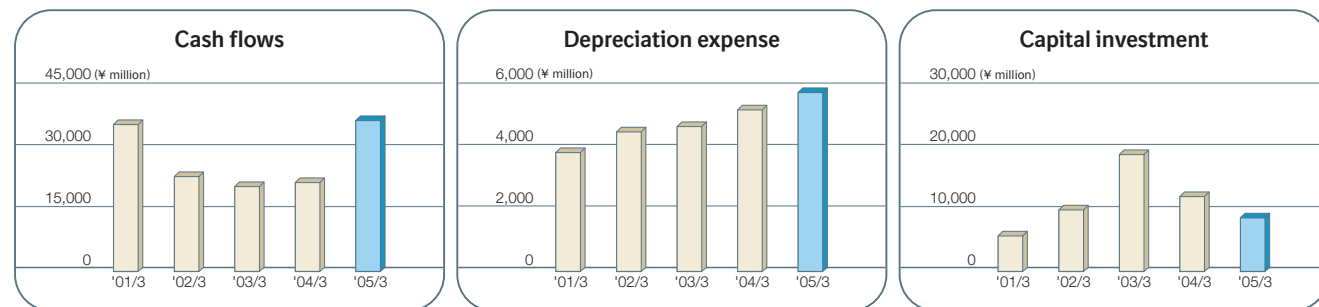
### Investment Indices



|         | 2001/3 | 2002/3 | 2003/3 | 2004/3 | 2005/3       |
|---------|--------|--------|--------|--------|--------------|
| ROE (%) | —      | 60.38  | 34.12  | 26.80  | <b>30.05</b> |
| ROA (%) | 3.87   | 9.00   | 8.59   | 9.28   | <b>12.43</b> |

Note: Total assets, fixed assets, and tangible fixed assets are expressed as an average of the relevant numbers at the beginning and end of each fiscal year, respectively.

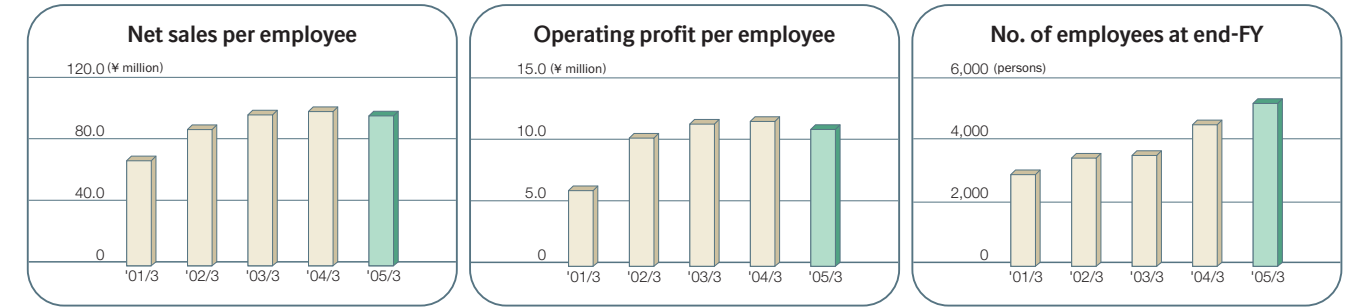
### Cash Flows



|                                  | 2001/3 | 2002/3 | 2003/3 | 2004/3 | 2005/3        |
|----------------------------------|--------|--------|--------|--------|---------------|
| Cash flows (¥ million)           | 36,754 | 23,318 | 21,397 | 22,160 | <b>37,015</b> |
| Depreciation expense (¥ million) | 3,911  | 4,555  | 4,707  | 5,251  | <b>5,855</b>  |
| Capital investment (¥ million)   | 5,239  | 10,020 | 19,023 | 12,715 | <b>8,919</b>  |

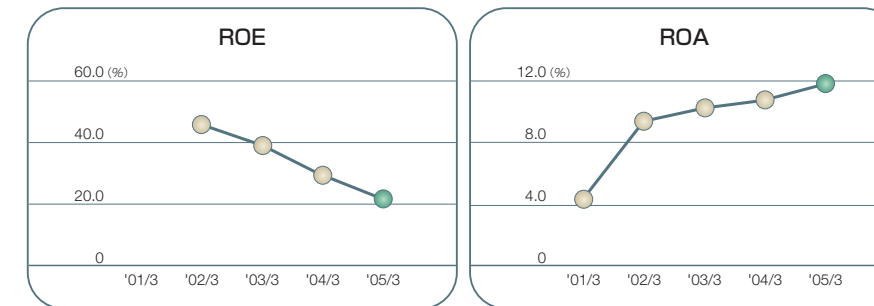
Note: Cash flows = Net income + Depreciation expense - Dividends - Directors' bonuses

## Non-consolidated



|   | 2001/3 | 2002/3 | 2003/3 | 2004/3 | 2005/3       |
|---|--------|--------|--------|--------|--------------|
| Net sales per employee (¥ million)        | 68.53  | 88.78  | 97.97  | 100.38 | <b>94.65</b> |
| Operating profit per employee (¥ million) | 6.40   | 10.27  | 11.70  | 11.76  | <b>11.07</b> |
| No. of employees at end-FY (persons)      | 3,003  | 3,520  | 3,661  | 4,572  | <b>5,341</b> |

Note: Net sales per employee and operating income per employee are calculated using the average number of employees during the year.

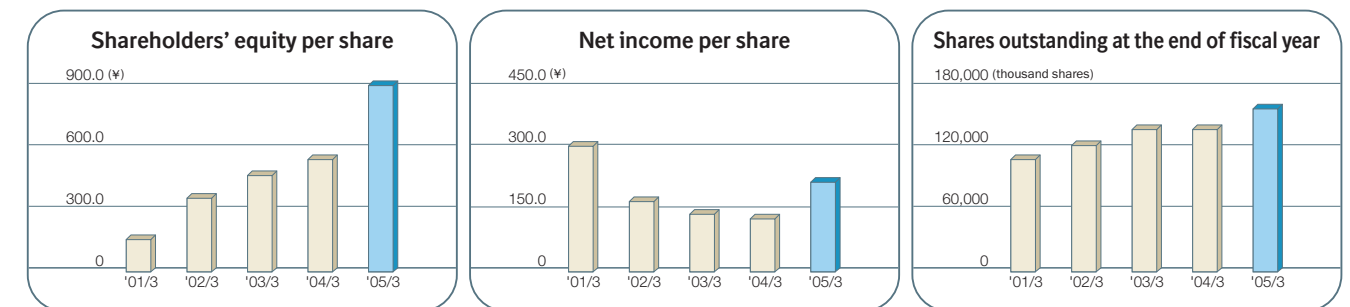


|         | 2001/3 | 2002/3 | 2003/3 | 2004/3 | 2005/3       |
|---------|--------|--------|--------|--------|--------------|
| ROE (%) | —      | 46.16  | 39.38  | 29.23  | <b>21.76</b> |
| ROA (%) | 4.35   | 9.32   | 10.18  | 10.66  | <b>11.72</b> |

Note: Total assets, fixed assets, and tangible fixed assets are expressed as an average of the relevant numbers at the beginning and end of each fiscal year, respectively.

## Consolidated

### Per Share Data



|  | 2001/3  | 2002/3  | 2003/3  | 2004/3  | 2005/3         |
|--|---------|---------|---------|---------|----------------|
| Shareholders' equity per share (¥)                             | 158.73  | 363.00  | 470.44  | 550.12  | <b>909.82</b>  |
| Net income per share (¥)                                       | 307.86  | 155.12  | 147.36  | 136.80  | <b>220.71</b>  |
| Shares outstanding at the end of fiscal year (thousand shares) | 109,533 | 123,303 | 138,821 | 138,984 | <b>159,180</b> |



# Balance Sheets

|  | Consolidated       |                |                | Non-consolidated |                |                |
|--|--------------------|----------------|----------------|------------------|----------------|----------------|
|  | 2003/3             | 2004/3         | 2005/3         | 2003/3           | 2004/3         | 2005/3         |
|  | (Unit : ¥ million) |                |                |                  |                |                |
| <b>Assets</b>  |                    |                |                |                  |                |                |
| <b>Current assets</b>  | <b>128,351</b>     | <b>130,210</b> | <b>149,418</b> | <b>125,505</b>   | <b>126,804</b> | <b>145,555</b> |
| Cash and cash equivalents  | 41,367             | 30,735         | 39,991         | 39,219           | 28,168         | 37,225         |
| Trade receivables and accounts receivable for completed projects | 29,241             | 31,699         | 41,588         | 28,898           | 31,038         | 40,654         |
| Operating loans  | 20,137             | 16,737         | 13,142         | 20,137           | 16,737         | 13,142         |
| Marketable securities  | 19                 | 164            | 151            | 19               | 124            | 151            |
| Real estate for sale/property inventories                        | —                  | 133            | 477            | —                | 133            | 477            |
| Payment for construction in progress                             | 3,716              | 3,747          | 3,248          | 3,716            | 3,747          | 3,248          |
| Supplies   | —                  | —              | —              | 295              | 552            | 261            |
| Prepaid expenses   | —                  | —              | —              | 7,728            | 13,518         | 16,032         |
| Other inventories  | 480                | 746            | 455            | —                | —              | —              |
| Deferred tax assets  | 6,064              | 9,493          | 2,466          | 6,063            | 9,493          | 2,466          |
| Other accounts receivable  | 19,820             | 24,017         | 29,412         | 19,703           | 24,016         | 29,409         |
| Other  | 9,208              | 14,358         | 19,660         | 1,408            | 884            | 3,650          |
| Allowance for doubtful accounts                                  | -1,705             | -1,623         | -1,175         | -1,686           | -1,612         | -1,163         |
| <b>Fixed assets</b>  | <b>276,450</b>     | <b>281,283</b> | <b>294,456</b> | <b>270,714</b>   | <b>296,117</b> | <b>314,376</b> |
| <b>Tangible fixed assets</b>                                     | <b>243,644</b>     | <b>238,655</b> | <b>243,010</b> | <b>143,544</b>   | <b>147,492</b> | <b>151,427</b> |
| Buildings and structures   | 96,445             | 114,790        | 117,004        | 38,859           | 41,314         | 42,971         |
| Land   | 105,127            | 106,458        | 109,740        | 101,493          | 102,710        | 105,927        |
| Construction in progress   | 39,977             | 14,053         | 12,697         | 2,026            | 1,707          | 719            |
| Other  | 2,093              | 3,353          | 3,568          | 1,163            | 1,759          | 1,808          |
| <b>Intangible fixed assets</b>                                   | <b>619</b>         | <b>570</b>     | <b>579</b>     | <b>609</b>       | <b>563</b>     | <b>564</b>     |
| <b>Investments and other assets</b>                              | <b>32,186</b>      | <b>42,056</b>  | <b>50,866</b>  | <b>126,560</b>   | <b>148,061</b> | <b>162,384</b> |
| Investment securities  | 6,436              | 7,697          | 9,815          | 6,431            | 4,591          | 5,401          |
| Shares of subsidiaries and affiliates                            | —                  | —              | —              | 68,161           | 70,061         | 64,293         |
| Corporate bonds issued by subsidiaries and affiliates            | —                  | —              | —              | —                | 1,200          | 1,200          |
| Long-term loans receivable                                       | 2,567              | 2,444          | 2,415          | 531              | 735            | 738            |
| Long-term loans to employees                                     | —                  | —              | —              | 6                | 4              | 1              |
| Long-term loans to subsidiaries and affiliates                   | —                  | —              | —              | 34,700           | 45,886         | 56,673         |
| Long-term trade receivables                                      | 17,100             | 15,821         | 10,979         | 17,100           | 15,821         | 10,979         |
| Long-term prepaid expenses                                       | 18,525             | 26,119         | 32,827         | 14,322           | 22,532         | 29,062         |
| Deferred tax assets  | 246                | 1,330          | 2,164          | 246              | 1,330          | 2,164          |
| Other  | 3,246              | 3,560          | 3,341          | 3,272            | 3,508          | 3,354          |
| Allowance for doubtful accounts                                  | -15,936            | -14,918        | -10,676        | -18,212          | -17,612        | -11,485        |
| <b>Deferred assets</b>   | <b>51</b>          | <b>431</b>     | <b>220</b>     | <b>—</b>         | <b>392</b>     | <b>196</b>     |
| Organization costs   | 51                 | 39             | 24             | —                | —              | —              |
| Bond issuance costs  | —                  | 392            | 196            | —                | 392            | 196            |
| <b>Total assets</b>  | <b>404,853</b>     | <b>411,925</b> | <b>444,095</b> | <b>396,220</b>   | <b>423,314</b> | <b>460,128</b> |

|  | Consolidated       |                |                | Non-consolidated |                |                |
|--|--------------------|----------------|----------------|------------------|----------------|----------------|
|  | 2003/3             | 2004/3         | 2005/3         | 2003/3           | 2004/3         | 2005/3         |
|  | (Unit : ¥ million) |                |                |                  |                |                |
| <b>Liabilities</b>   |                    |                |                |                  |                |                |
| <b>Current liabilities</b>   | <b>147,164</b>     | <b>166,278</b> | <b>191,061</b> | <b>143,285</b>   | <b>162,640</b> | <b>189,182</b> |
| Accounts payable including payables for completed projects         | 59,771             | 72,921         | 91,046         | 59,585           | 72,732         | 90,805         |
| Short-term borrowings  | 33,042             | 24,203         | 30,098         | 18,568           | 8,459          | 14,857         |
| Long-term borrowings due within one year                           | —                  | —              | —              | 13,557           | 14,815         | 14,941         |
| Bonds due within one year  | —                  | 1,435          | 1,435          | —                | 1,435          | 1,435          |
| Unpaid expenses  | 9,677              | 10,572         | 10,102         | 7,613            | 8,557          | 9,294          |
| Accrued expenses   | 59                 | 52             | 48             | 45               | 41             | 40             |
| Accrued income taxes   | 13,323             | 16,755         | 12,416         | 13,319           | 16,750         | 12,412         |
| Advances received  | 14,232             | 21,699         | 28,274         | 14,090           | 21,657         | 28,215         |
| Customer advances for projects in progress                         | 11,602             | 10,418         | 8,732          | 11,602           | 10,418         | 8,732          |
| Deposits payable   | —                  | —              | —              | 2,688            | 3,832          | 4,390          |
| Allowance for employees' bonuses                                   | 1,423              | 1,689          | 2,224          | 1,423            | 1,689          | 2,224          |
| Other  | 4,030              | 6,531          | 6,683          | 787              | 2,249          | 1,831          |
| <b>Long-term liabilities</b>                                       | <b>174,864</b>     | <b>151,505</b> | <b>90,555</b>  | <b>176,489</b>   | <b>160,066</b> | <b>107,461</b> |
| Bonds  | —                  | 14,197         | 12,762         | —                | 14,197         | 12,762         |
| Directors' long-term borrowings                                    | 150,004            | 122,829        | 64,489         | 132,355          | 109,493        | 59,464         |
| Long-term borrowings   | —                  | —              | —              | 25,532           | 22,154         | 22,126         |
| Retirement benefit reserves  | 1,429              | 1,958          | 2,556          | 1,417            | 1,944          | 2,541          |
| Lease/guarantee deposits received                                  | 17,183             | 12,276         | 10,566         | 17,183           | 12,276         | 10,566         |
| Long-term unpaid expenses  | 6,201              | 201            | —              | —                | —              | —              |
| Other  | 45                 | 42             | 179            | —                | —              | —              |
| <b>Total liabilities</b>   | <b>322,028</b>     | <b>317,784</b> | <b>281,616</b> | <b>319,774</b>   | <b>322,707</b> | <b>296,644</b> |
| <b>Minority interests</b>  |                    |                |                |                  |                |                |
| Minority interests   | 17,516             | 17,683         | 17,653         | —                | —              | —              |
| <b>Shareholders' equity</b>  |                    |                |                |                  |                |                |
| <b>Share capital</b>   | <b>37,500</b>      | <b>37,500</b>  | <b>55,640</b>  | <b>37,500</b>    | <b>37,500</b>  | <b>55,640</b>  |
| <b>Capital surplus</b>   | <b>15,407</b>      | <b>15,495</b>  | <b>33,759</b>  | <b>15,375</b>    | <b>15,375</b>  | <b>33,495</b>  |
| <b>Retained earnings</b>   | <b>19,519</b>      | <b>36,428</b>  | <b>67,123</b>  | <b>23,733</b>    | <b>47,525</b>  | <b>74,173</b>  |
| <b>Net unrealized gains on 'other securities'</b>                  | <b>-106</b>        | <b>291</b>     | <b>258</b>     | <b>-106</b>      | <b>291</b>     | <b>266</b>     |
| <b>Translation adjustments</b>                                     | <b>-6,649</b>      | <b>-12,964</b> | <b>-11,761</b> | <b>—</b>         | <b>—</b>       | <b>—</b>       |
| <b>Treasury stock</b>  | <b>-364</b>        | <b>-293</b>    | <b>-195</b>    | <b>-56</b>       | <b>-85</b>     | <b>-91</b>     |
| <b>Total shareholders' equity</b>                                  | <b>65,307</b>      | <b>76,458</b>  | <b>144,825</b> | <b>76,466</b>    | <b>100,607</b> | <b>163,483</b> |
| <b>Total liability, minority interest and shareholders' equity</b> | <b>404,853</b>     | <b>411,925</b> | <b>444,095</b> | <b>396,220</b>   | <b>423,314</b> | <b>460,128</b> |

# Statements of Income

|   | Consolidated       |                |                | Non-consolidated |                |                |
|---|--------------------|----------------|----------------|------------------|----------------|----------------|
|   | 2003/3             | 2004/3         | 2005/3         | 2003/3           | 2004/3         | 2005/3         |
|   | (Unit : ¥ million) |                |                |                  |                |                |
| <b>Ordinary income and loss</b>                     |                    |                |                |                  |                |                |
| <b>Net sales</b>                                    | <b>357,496</b>     | <b>418,873</b> | <b>476,266</b> | <b>351,775</b>   | <b>413,239</b> | <b>469,181</b> |
| Sales from Contracting Division                     | 190,216            | 225,011        | 248,032        | 190,216          | 225,011        | 248,032        |
| Sales from Leasing Division                         | 159,893            | 185,513        | 216,590        | 159,925          | 185,524        | 216,599        |
| Sales from Other Division                           | 7,386              | 8,349          | 11,643         | 1,633            | 2,704          | 4,550          |
| <b>Cost of sales</b>                                | <b>268,856</b>     | <b>313,084</b> | <b>357,546</b> | <b>264,037</b>   | <b>308,734</b> | <b>348,882</b> |
| Cost of Contracting Division                        | 130,049            | 147,266        | 163,176        | 130,049          | 147,266        | 163,176        |
| Cost of Leasing Division                            | 130,950            | 154,080        | 177,671        | 131,934          | 156,036        | 179,507        |
| Cost of Other Division                              | 7,856              | 11,737         | 16,698         | 2,053            | 5,430          | 6,198          |
| <b>Gross profit</b>                                 | <b>88,639</b>      | <b>105,788</b> | <b>118,720</b> | <b>87,737</b>    | <b>104,505</b> | <b>120,299</b> |
| <b>Selling, general and administrative expenses</b> | <b>46,989</b>      | <b>57,471</b>  | <b>64,038</b>  | <b>45,720</b>    | <b>56,075</b>  | <b>65,419</b>  |
| Advertising expense                                 | 7,863              | 8,004          | 7,889          | 7,736            | 7,999          | 7,867          |
| Selling fees  | 1,358              | 1,555          | 2,401          | 2,859            | 3,492          | 5,124          |
| Provisions for allowance for doubtful accounts      | 210                | 118            | 387            | 210              | 118            | 387            |
| Director compensation                               | 375                | 358            | 364            | 365              | 347            | 353            |
| Salaries and bonuses                                | 15,735             | 19,485         | 23,161         | 15,063           | 18,595         | 22,711         |
| Provisions for allowance for employees' bonuses     | 1,029              | 1,105          | 1,518          | 1,029            | 1,105          | 1,518          |
| Provisions for retirement benefit reserves          | 375                | 487            | 590            | 373              | 485            | 589            |
| Welfare expenses                                    | —                  | —              | —              | 3,031            | 3,474          | 4,616          |
| Fees paid   | —                  | —              | —              | 2,724            | 4,171          | 4,194          |
| Rents paid  | 2,520              | 3,031          | 3,928          | 2,514            | 3,061          | 3,947          |
| Depreciation expense                                | 1,910              | 2,407          | 1,585          | 1,082            | 1,501          | 1,584          |
| Taxes and public charges                            | 1,133              | 1,999          | 2,135          | 940              | 1,769          | 1,735          |
| Other   | 14,476             | 18,918         | 20,075         | 7,786            | 9,952          | 10,787         |
| <b>Operating profit</b>                             | <b>41,650</b>      | <b>48,317</b>  | <b>54,682</b>  | <b>42,017</b>    | <b>48,429</b>  | <b>54,879</b>  |
| <b>Non-operating profit and loss</b>                |                    |                |                |                  |                |                |
| <b>Non-operating profit</b>                         | <b>973</b>         | <b>1,521</b>   | <b>3,270</b>   | <b>671</b>       | <b>1,306</b>   | <b>1,201</b>   |
| Interest income                                     | 73                 | 52             | 24             | 72               | 53             | 27             |
| Dividend income                                     | —                  | —              | —              | 130              | 336            | 261            |
| Gain on securities sales                            | 27                 | 299            | 100            | 27               | 299            | 100            |
| Equity method income                                | 351                | 321            | 1,481          | —                | —              | —              |
| Income from cancellation of resort memberships      | 199                | 26             | 28             | 199              | 26             | 28             |
| Income from cancellation of construction contracts  | 86                 | 121            | 293            | 86               | 121            | 293            |
| Foreign currency translation gain                   | —                  | —              | 915            | —                | —              | 192            |
| Unrealized gains on interest rate swaps             | —                  | 268            | 52             | —                | 268            | 52             |
| Other   | 235                | 431            | 374            | 156              | 200            | 245            |
| <b>Non-operating expenses</b>                       | <b>9,181</b>       | <b>11,932</b>  | <b>4,725</b>   | <b>5,172</b>     | <b>6,026</b>   | <b>4,301</b>   |
| Interest expense                                    | 4,457              | 5,113          | 3,902          | 3,927            | 4,454          | 3,352          |
| Bond interest expense                               | —                  | —              | —              | —                | 82             | 155            |
| Amortization of bond issuance costs                 | —                  | —              | —              | —                | 196            | 196            |
| Foreign exchange loss                               | 4,207              | 6,405          | —              | 743              | 1,084          | —              |
| Other   | 517                | 413            | 822            | 501              | 208            | 598            |
| <b>Recurring profit</b>                             | <b>33,442</b>      | <b>37,905</b>  | <b>53,227</b>  | <b>37,516</b>    | <b>43,710</b>  | <b>51,779</b>  |
| <b>Extraordinary income and losses</b>              |                    |                |                |                  |                |                |
| <b>Extraordinary income</b>                         | <b>215</b>         | <b>1,479</b>   | <b>1,011</b>   | <b>209</b>       | <b>1,461</b>   | <b>1,678</b>   |
| Gain on sales of fixed assets                       | 85                 | 22             | 7              | 85               | 22             | 6              |
| Gain on sale of investment securities               | —                  | 1,439          | —              | —                | 1,439          | —              |
| Reversal of allowance for doubtful accounts         | 35                 | 17             | 4              | 30               | —              | 671            |
| Gain from forgiveness of debt                       | 94                 | —              | 1,000          | 94               | —              | 1,000          |
| <b>Extraordinary losses</b>                         | <b>3,527</b>       | <b>2,733</b>   | <b>1,662</b>   | <b>3,159</b>     | <b>2,532</b>   | <b>6,279</b>   |
| Loss on sales of fixed assets                       | 84                 | 17             | 6              | 84               | 16             | 6              |
| Write-offs of fixed assets                          | 251                | 762            | 373            | 240              | 761            | 335            |
| Markdown on investment securities                   | 1,207              | 30             | —              | 1,207            | 30             | —              |
| Loss on evaluation of subsidiary stock              | —                  | —              | —              | —                | —              | 5,768          |
| Provision for allowance for doubtful accounts       | 1,667              | 1,393          | 1,109          | 1,467            | 1,193          | —              |
| Amortization of transition obligation               | 157                | 157            | 157            | 157              | 157            | 157            |
| Directors' retirement benefit                       | —                  | 300            | —              | —                | 300            | —              |
| Other   | 159                | 72             | 15             | 1                | 72             | 11             |
| <b>Net income before taxes and adjustments</b>      | <b>30,129</b>      | <b>36,651</b>  | <b>52,577</b>  | <b>34,567</b>    | <b>42,639</b>  | <b>47,179</b>  |
| Corporate, residential, and enterprise taxes        | 13,231             | 21,491         | 12,243         | 13,223           | 21,468         | 12,230         |
| Income tax adjustments                              | -2,389             | -4,713         | 6,210          | -2,389           | -4,713         | 6,210          |
| Minority interest                                   | 505                | 873            | 873            | —                | —              | —              |
| <b>Net income</b>                                   | <b>18,781</b>      | <b>18,999</b>  | <b>33,250</b>  | <b>23,733</b>    | <b>25,883</b>  | <b>28,738</b>  |
| Retained earnings brought forward                   | —                  | —              | —              | —                | 21,642         | 45,435         |
| Unappropriated retained earnings (loss)             | —                  | —              | —              | 23,733           | 47,525         | 74,173         |

# Statements of Cash Flows

|  | Consolidated       |                |                |
|--|--------------------|----------------|----------------|
|  | 2003/3             | 2004/3         | 2005/3         |
|  | (Unit : ¥ million) |                |                |
| <b>Cash flows from operating activities</b>                              |                    |                |                |
| Net income before taxes and adjustments                                  | 30,129             | 36,651         | 52,577         |
| Depreciation expense   | 4,707              | 5,251          | 5,855          |
| Increase (Decrease) in allowance for doubtful accounts                   | 1,495              | 1,252          | 1,454          |
| Interest and dividends income  | -78                | -68            | -61            |
| Interest expense   | 4,971              | 5,579          | 4,268          |
| Gain from forgiveness of debt  | -94                | —              | -1,000         |
| Foreign exchange loss (gain)   | 4,207              | 6,405          | -915           |
| Equity method income   | -351               | -321           | -1,481         |
| Loss on sale of tangible fixed assets                                    | 84                 | 17             | 6              |
| Write-offs of tangible fixed assets                                      | 251                | 762            | 373            |
| Gain on sale of investment securities                                    | —                  | -1,439         | —              |
| Markdown on investment securities  | 1,207              | 30             | —              |
| Loss on sale of securities   | -27                | -299           | -100           |
| Decrease (Increase) in accounts receivable                               | -12,576            | -3,684         | -12,841        |
| Decrease (Increase) in inventories                                       | 1,398              | -449           | 452            |
| Increase (Decrease) in long-term prepaid expenses                        | -14,551            | -14,358        | -8,794         |
| Increase (Decrease) in accounts payable                                  | 11,005             | 13,514         | 19,949         |
| Increase (Decrease) or decrease in amount received for uncompleted works | —                  | —              | -1,685         |
| Increase (Decrease) in advances received                                 | 2,946              | 6,383          | 6,558          |
| Increase (Decrease) in guarantee deposits received                       | -1,677             | -3,348         | -1,855         |
| Increase (Decrease) in accrued consumption tax                           | -257               | 160            | -705           |
| Other  | 1,372              | 2,975          | -920           |
| Subtotal   | 33,909             | 55,014         | 61,133         |
| Interest and dividends received  | 332                | 72             | 55             |
| Interest paid  | -11,446            | -5,530         | -3,992         |
| Income taxes paid  | 552                | -18,064        | -16,900        |
| <b>Net cash provided by operating activities</b>                         | <b>23,347</b>      | <b>31,492</b>  | <b>40,295</b>  |
| <b>Cash flows from investing activities</b>                              |                    |                |                |
| Payment for purchase of tangible fixed assets                            | -19,023            | -12,715        | -8,919         |
| Proceeds from sale of tangible fixed assets                              | 204                | 56             | 45             |
| Commissions paid on sale and disposal of tangible fixed assets           | -56                | -52            | -16            |
| Payment for purchase of shares of affiliates                             | —                  | -1,800         | —              |
| Payment for purchase of bonds of affiliates                              | —                  | -1,200         | —              |
| Payment for purchase of investment securities                            | -3,632             | -1,099         | -1,743         |
| Proceeds from sale of investment securities                              | 378                | 4,949          | 952            |
| Payment for loans made   | -1,634             | -1,499         | -1,020         |
| Proceeds from collection of loans  | 3,234              | 1,487          | 1,466          |
| Other  | -481               | -658           | -689           |
| <b>Net cash provided by (used in) investing activities</b>               | <b>-21,011</b>     | <b>-12,532</b> | <b>-9,925</b>  |
| <b>Cash flows from financing activities</b>                              |                    |                |                |
| Proceeds from short-term debt  | 563                | 28,754         | 39,405         |
| Repayment of short-term debt   | -1,673             | -36,357        | -46,434        |
| Proceeds from long-term debt   | 14,500             | 18,908         | 10,000         |
| Repayment of long-term debt  | -27,649            | -47,325        | -54,346        |
| Payment for accounts payable for long-term projects                      | -7,339             | -6,325         | -1,436         |
| Proceeds from shares issued  | 8,452              | —              | 36,260         |
| Proceeds from issuance of privately placed bonds                         | —                  | 15,761         | —              |
| Payment for redemptions of privately placed bonds                        | —                  | -717           | -1,435         |
| Proceeds from equity investments by minority shareholders                | 12,500             | —              | —              |
| Dividends paid to minority shareholders                                  | -350               | -706           | -875           |
| Payment for purchase of treasury stock                                   | -13                | -29            | -6             |
| Dividend paid for shareholders   | —                  | -2,091         | -2,090         |
| <b>Net cash (used in) provided by financing activities</b>               | <b>-1,010</b>      | <b>-30,129</b> | <b>-20,959</b> |
| <b>Effect of exchange rate changes on cash and cash equivalents</b>      | <b>-9</b>          | <b>686</b>     | <b>-154</b>    |
| <b>Net increase in cash and cash equivalents</b>                         | <b>1,316</b>       | <b>-10,482</b> | <b>9,256</b>   |
| <b>Cash and cash equivalents at beginning of year</b>                    | <b>39,901</b>      | <b>41,217</b>  | <b>30,735</b>  |
| <b>Cash and cash equivalents at end of year</b>                          | <b>41,217</b>      | <b>30,735</b>  | <b>39,991</b>  |