ES-CON JAPAN Ltd.

Extending the Value Promise

ES-CON JAPAN Annual Report 2006

from January 1 to December 31, 2006

Profile

Since its establishment in 1995, ES-CON Japan has worked to supply quality condominiums at reasonable prices by concentrating its management resources on product planning activities using small teams of highly skilled experts. This business model has resulted in the development of the "Neverland" brand, a popular series of condominiums that combine high quality with aesthetic design and affordable prices. Broad-based market support for the Neverland concept has allowed ES-CON Japan to build a strong presence in Japan's two largest markets: the Tokyo metropolitan area and the Osaka area.

The excellence of ES-CON Japan products stems from core competencies in three key areas: site procurement, product planning and financial structuring. By focusing on approaches that allow it to fully leverage these capabilities, ES-CON Japan will reinforce its core condominium business and the asset development business, while evolving new businesses with potential to become mainstay income sources.

Wrapping up its first decade in business, in 2006 ES-CON Japan launched a medium-term plan meant to set the stage for a new decade of vigorous business development. Now entering its second year, "Neo-Promising 2008," promotes further growth under a new business structure evolved from its original and well-proven business model. ES-CON Japan aims to become a benchmark company in the real estate sector through the continuing adaptation of its business model to suit the times and changing market needs.

Contents

Philosophy

How should we live each day and participate in society? How can we contribute to society, and how can we achieve the happiness we seek as individual human beings through the benefits that our contribution brings to society? ES-CON Japan Ltd. strives to answer these questions by continually providing meaningful opportunities to its employees to help and encourage each other in the achievement of their full potential as individuals while experiencing the joy of contribution to society through their work.

Policy

ES-CON Japan seeks, in the creation of user-focused housing environments, to meet consistently market needs five years in the future by means of in-depth market research and advanced product development capabilities.

ES-CON Japan constantly strives to remain ahead of the competition through aggressive management combined with strong defensive strategies centering on in-depth control of cash flows and risk.

The use of small teams of highly skilled professionals is the key to ES-CON Japan's ability to adapt quickly in today's rapidly changing social environment.

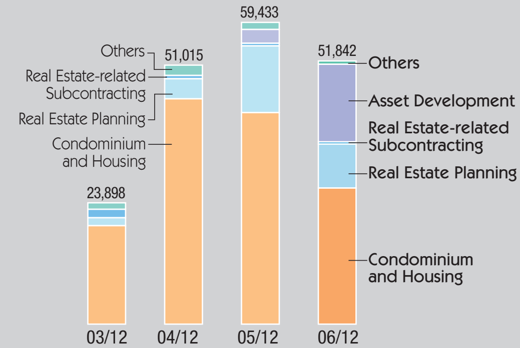
ES-CON Japan builds and maintains good cooperative relationships, both internally and externally, based on respect for and gratitude to colleagues and those in other organizations.

ES-CON Japan gives priority to compliance and maintains an open organizational structure in which ideas can flow freely from front-line staff to senior management.

	Business Competence		
Our Strength	Business development capabilities	Site procurement:	The ability to acquire quality sites
		Product planning:	The ability to propose products and create living spaces that take full advantage of site characteristics
		Financing structure development:	Knowledge of financing through SPCs and non-recourse loans

Business Segment

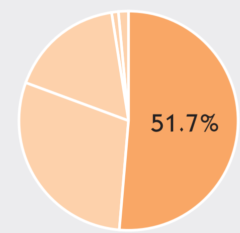
In February 2006, ES-CON Japan adopted a Group structure keyed to profit and added value through the selection and concentration of business areas and management resources. ES-CON Japan is determined to fulfill its corporate social responsibilities and to evolve from a condominium developer into an "estate value developer." It will use variety of methods to meet contemporary needs by developing the value of real estate. The aim of this transition is to build a future for ES-CON Japan as a high value-added enterprise.



Net Sales by Segment (Component Ratio)

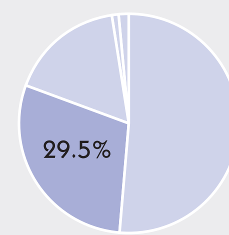
Condominium Business

ES-CON Japan's housing business has traditionally consisted of sales of condominiums, with an emphasis on the independently developed Neverland brand, and separate sales of detached houses by consolidated subsidiary UNIDIO CORPORATION. In February 2006, however, ES-CON Japan sold its shares in UNIDIO CORPORATION, separating the detached housing business from the Group. The purpose of the separation was to further boost productivity and achieve a more agile, tightly focused business organization, while restructuring group companies, strengthening the financial structure, and seeking stable growth for the condominium business.



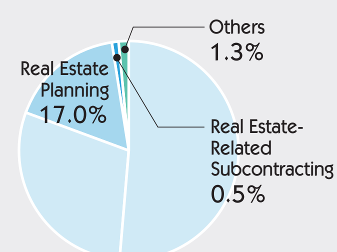
Asset Development Business

In the asset development business, ES-CON Japan will increase the diversity and sophistication of its consulting business and develop sites into residential properties, commercial complexes, and large-scale facilities while establishing a unique business model that will increase value added and realize high profitability and high asset efficiency. At the same time, the Company will contribute to the Group's earnings growth by taking advantage of financing structure diversification, establishing special purpose companies (SPCs) and private funds to secure both capital gains and income gains.



Other Businesses

In this segment, ES-CON Japan aims to contribute to stable income for the Group by further developing the condominium service and management business of consolidated subsidiary N S KANRI Ltd. and by actively entering the business of managing and operating the rental condominiums, parking lots, and large-scale commercial facilities developed in the asset management business.

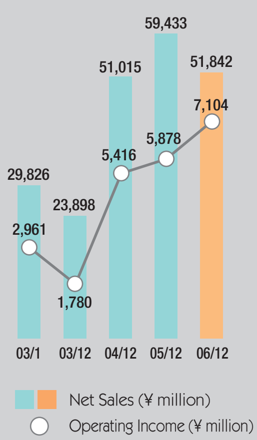


Financial Highlights

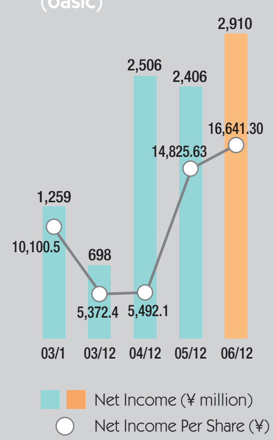
	Millions of yen except per share data		Thousands of U.S. dollars except per share data
	2005	2006	2006
For the year:			
Net sales	¥59,433	¥51,842	$435,208
Operating income	5,878	7,104	59,638
Income before income taxes and minority interest	4,268	5,175	43,444
Net income	2,406	2,910	24,429
Per share data:			
Earnings–Basic	¥14,825.63	¥ 16,641.30	$139.70
Earnings–Diluted	12,688.18	14,514.81	121.85
Net assets	85,007.70	102,270.86	858.55
At year-end:			
Total net assets	¥14,693	¥18,472	$155,071
Total assets	84,954	98,360	825,722
Ratio of total net assets to total assets	16.8%	18.8%	18.8%

Notes: 1. The U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥119.12=U.S.$1.00, the approximate closing rate of the Tokyo foreign exchange market as of December 31, 2006. (Note 1 in the Notes to Consolidated Financial Statements)
2. Per share data is calculated by using figures to the nearest yen.
3. Per share data for 2005 reflects the three-for-one stock split effective on April 1, 2006.

Net Sales and Operating Income

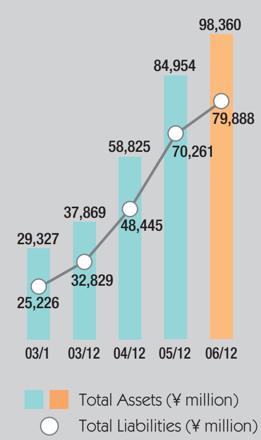


Net Income and Net Income Per Share (basic)

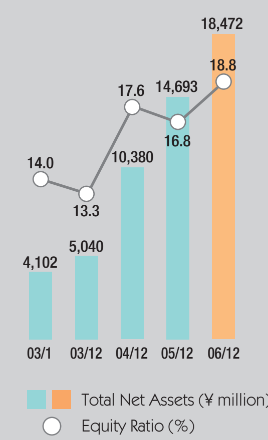


* Net income per share data reflects the three-for-one stock split effective on February 20, 2004 and April 1, 2006.

Total Assets and Total Liabilities



Total Net Assets and Equity Ratio



An Interview with the President

Proving the **Value** of New Strategies

ES-CON Japan Ltd. maintained steady growth in its condominium business in the year ended December 2006. With the establishment of its new Asset Development business segment, ES-CON Japan also undertook a major transition from condominium developer to a company dedicated to the continuing creation of new value in real estate.

Hirofumi Naoe
President and Representative Director

Q: Would you begin with an overview of your business operations in the year ended December 2006?

The year marked the launch of our "Neo-Promising 2008" plan. This medium-term plan aims to transform ES-CON Japan from a condominium developer into a company capable of using a wide array of techniques to develop new value in real estate and deliver that value to society.

Under this plan, we are energetically expanding our condominium business while also developing unique business structures and implementing strategies designed to reduce our reliance on the condominium business, including the development of new business activities and financing methods and the formation of alliances with other companies. Prioritized implementation of these measures in the year under review resulted in the restructuring of our existing group businesses and the full-scale start-up of our new asset development business. We eagerly accepted the wide-ranging challenge of this high-income, high-growth business, which we regard as the key to the future success of our new business model.

Q: How would you describe this new business and the impact of other specific measures on your business performance?

Our first step toward the creation of a new group structure was to separate our detached housing subsidiary from the ES-CON Japan Group as part of a restructuring process designed to improve profitability. Then, in our remaining businesses, activities that were spread among real estate planning and sales, real estate-related subcontracting and other business were then integrated to form the new business. The result is a structure that allows us to concentrate our management resources into two core segments: condominium business and asset development business.

Our strategy for the condominium business under this new structure called for an increased emphasis on high-return properties, especially large-scale properties and properties with enhanced added value. In the asset development business, we pursued aggressive strategies, including the development of large-scale commercial facilities and the new "Leaf Comfort" series of urban rental condominiums.

Results for the Year Ended December 2006

(¥ Million)

CONSOLIDATED	2006/12	2005/12	YoY increase (decrease)	Initial published forecast	Ratio to forecast
Net sales	51,842	59,433	–12.77%	50,500	+2.66%
Operating income	7,104	5,877	+21.57%	6,377	+13.16%
Ordinary income	5,324	4,346	+23.45%	5,220	+2.78%
Net income	2,910	2,405	+22.68%	3,100	–4.84%
Ratio of ordinary income to net sales	10.3%	7.3%		10.3%	

Taking into account the effects of the separation of the detached housing business, we initially predicted net sales of ¥50,500 million in the year to December 2006. In fact, we exceeded this forecast, reaching ¥51,842 million. Operating income was 20.9% higher at ¥7,104 million, while net income increased by 21.0% to ¥2,910 million. Both of these figures represent new records.

Although this was the first year for the asset development business, this segment accounted for 29% of net sales and 38% of operating income. These results indicate that asset development is already making a contribution commensurate with its status as a core segment alongside the condominium business.

Q: What specific steps have you taken to strengthen your financial structure?

We continued with several previous initiatives, including fundraising using a range of financing methods. In 2006, these included the issuance of new shares by third party allocation, and the establishment of a commitment line totaling ¥3,700 million with a syndicate of financial institutions. Bondholders continued to convert convertible bonds that mature in 2009. As of December 31, 2006, bonds worth ¥1,295 million had been converted, out of a total issue of ¥5,000 million.

In February 2006, ES-CON Japan was selected by the JASDAQ Securities Exchange for inclusion in its J-Stock Index. In December 2006, Japan Credit Rating Agency, Ltd. gave ES-CON Japan a long-term senior debt rating of “BBB-” (stable) and a short-term (CP program) rating of “J-2”. Market expectations toward ES-CON Japan continue to rise, along with our reputation in the market. I sense that we are increasingly seen as a company with medium-term and long-term growth potential.

Our basic policy is to raise shareholder value by applying internal reserves for reinvestment in our business activities. However, we are determined to provide appropriate returns to our shareholders, and we are giving positive consideration to an increase in the dividend payout ratio. This position was reflected in our decision to increase the current year’s dividend per share from the planned level of ¥1,334 to ¥1,500, compared with an actual figure of ¥1,200 in the previous year.

Q: How has business performance been affected by the expansion of the consolidation?

ES-CON Japan was an innovator in the use of development-type SPCs for real estate projects. In recent years, however, SPCs have become the focus of concern and debate because of financial impropriety surrounding financial reporting by some of them. In September 2006, the Accounting Standards Board of Japan issued practical guidelines concerning the application of standards for the control and influence of investment associations. We responded by including important development-type SPCs in our consolidation, starting in the year to December 2006.

All of the 17 SPCs added to the consolidation are the development entities for current development projects and have not yet started to generate income. For this reason, their inclusion in the consolidation has pushed down our earnings because of the resulting increase in costs, including selling, general and administrative expenses and interest costs. As development of these projects advances, however, the SPCs themselves will start to earn income from sales, rents and other sources. The inclusion of these earnings in their income statements will contribute to our consolidated income. In the year ended December 2006, the inclusion of the SPCs in the consolidation had a negative impact on income. In the year to December 2007 there will be a rapid improvement.

I believe that by building a sound, transparent business structure, we can move forward toward the important goal of an early listing on the first section of the Tokyo Stock Exchange. We are making steady progress, and we will continue to strengthen our financial position.

Q: What is your vision for the future of ES-CON Japan?

In the condominium market, a falling birthrate, the growth of the aged population, and changes in family structures are all causing significant change in the values that purchasers place on housing. Furthermore, with the economy in recovery mode, we cannot afford to be complacent about market changes resulting from higher land prices and construction costs. However, ES-CON Japan has anticipated these changes, and we will continue to use our product planning and land acquisition know-how, which are backed by years of experience, to supply competitive, high-added-value properties that reflect the diversified needs of our customers. By continuing to emphasize profit margins rather than net sales or the number of units supplied, we will achieve growth as a high-income business and build the foundations for the future development of our business activities.

In our asset development segment, we will focus first on the development of multi-tenant facilities that combine rental condominiums with shops and offices, especially in Tokyo, the Osaka area and major provincial cities. We will use the sophisticated product knowledge that we have accumulated through our condominium business to create innovative living spaces, and we will use our planning skills to extract the full potential from land. This approach will allow us to supply high-quality residential properties with the potential to generate reliable income in a rapidly changing market environment. At the same time, we will develop commercial facilities, including business hotels, wedding halls and shopping centers, and implement development projects with solid income potential. Another focus will be the revitalization of regional economies through comprehensive community development projects that combine large-scale, multi-tenant commercial facilities and multi-purpose facilities that include housing for the elderly and medical facilities. We will approach these asset development projects using our experience in the creation of financial structures to raise finance through special-purpose companies (SPCs). We will opt either for long-term ownership of tenanted properties with income flows, or for flexible exit strategies, such as the sale of properties to private funds or J-REITs. This combination of capital gain and income gain will contribute to higher earnings for the ES-CON Japan Group.

Q: What are your targets and expectations for ES-CON Japan?

As I stated earlier, we aim to achieve sustainable growth, and to anticipate trends in a drastically changing business environment. I have also described the steps that we have taken to move away from a structure that relies solely on the condominium business. We cannot achieve these goals simply through business expansion and the improvement of our earning power. We are also determined to contribute to society by applying our planning and development skills to structures that meet important social needs and offer excellent opportunities to complement our other projects. That is why we are moving beyond our role as a condominium developer. We plan to focus our research and development activities on fields that reflect important social needs, including projects suitable for the new social topography created by Japan's falling birthrate and expanding aged population. This work will lead to an involvement in projects with the potential to make an important contribution to society.

In preparation for these activities, we will further enhance our management soundness and transparency. We will also raise our corporate value by further strengthening our internal structures. At the same time, we will strengthen our financial structure and financial management. Human resource recruitment and development will remain an important priority, together with the development of our corporate culture. Another priority is compliance and the reinforcement of group-level governance. We will also work to fulfill our corporate social responsibilities (CSR).

Through these activities and initiatives, ES-CON Japan aims to achieve sustainable growth in its corporate value for its customers, shareholders, society and its employees. Our most important management goal as we move forward will be to build a business structure capable of matching the expectations of our shareholders, customers and suppliers, so that we can continue to earn their support by achieving further growth and progress through timely action in response to changing needs.

We look forward to your continuing support.

Hirofumi Naoe, President and Representative Director

Management Policies in the "Neo-Promising 2008" Medium-Term Plan

1	We will transform ES-CON Japan into an "estate value developer."
2	We will build a productivity-focused corporate structure.
3	We will shift to a corporate structure that is not solely reliant on the condominium business.
4	We will restructure our group companies to create a highly synergistic business group.

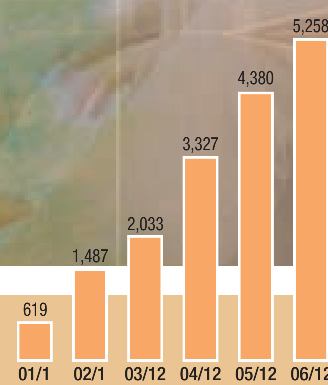
Activity Targets in the "Neo-Promising 2008" Medium-Term Plan

1	Pursuit of listing on the first section of the Tokyo Stock Exchange
2	Acquisition of a corporate rating (achieved)
3	Diversification of financing methods
4	Maintenance of high income growth (10% yearly growth in ordinary income, ordinary income of ¥8,000 million in the year to December 2008)
5	Reliable supply of condominiums
6	Improvement of financial structure (achievement of appropriate levels of shareholders' equity and interest-bearing debt)
7	Stabilization of performance through expansion of the asset development business and development of a high-income structure through accumulation of portfolio assets
8	Establishment of reliable cash flows through start-up of private funds
9	Toward the realization of higher earning power: expansion into new business areas to diversify income mix, achieve synergies and diversify risks

Raising our brand profile in the Condominium Business with high-value added properties

ES-CON Japan's sustained corporate growth has been driven by the steady expansion of its core condominium business. We aim to achieve further growth and success in a rapidly changing business environment by anticipating market needs five years in the future in our product development activities, and by continually raising our brand profile.

Sales of Condominium Units (Accumulated tatal)



Neverland Otsu Granbay

This major project was launched to mark ES-CON Japan's tenth anniversary and encapsulates all of ES-CON Japan's planning and development know-how. With 228 units, it is the largest condominium complex ever developed exclusively by ES-CON Japan. Designed as a resort-style residential complex, Neverland Otsu Granbay offers its residents a view of Lake Biwa.

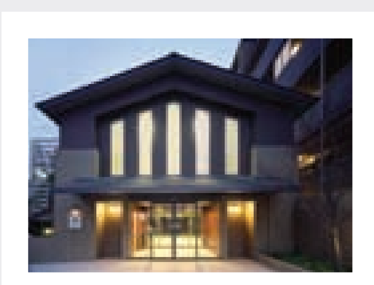
Operating as a compact team of highly skilled professionals, ES-CON Japan has no sales force. We have adopted a strategy of building strong brand appeal directly with customers through the quality of our products, while concentrating our management resources on site selection and product planning. This unique business model has been the foundation for our condominium business.

We have built a series of condominiums under our own "Neverland" brand, not only in the Osaka area, which has been a key market for ES-CON Japan since its establishment, but also in the Tokyo metropolitan area. These properties have earned us solid support from a wide spectrum of purchasers, thanks to their readily apparent quality, user-sensitive design and safety. Our reputation is reinforced by the efficiency of our facility maintenance systems and other after-sales services.

From the outset, the excellence of our products has been backed by our ability to secure superior sites and plan superior products. The site acquisition process begins with the collection of information through our extensive networks. Our negotiating skills and reputation for dependability facilitate rapid, responsible decision-making, allowing us to secure excellent sites on favorable terms. Once a site has been acquired, our advanced planning skills come into play. We exploit the full potential of each individual site to create attractive living spaces that offer superb added value.

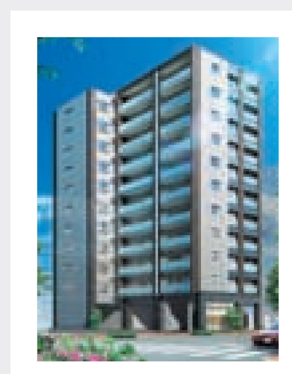
In the year ended December 2006, we sold and delivered 878 newly completed units in 11 new projects, including Neverland Kamogawa in Kyoto, Neverland Ibaraki-Shinchujo in Osaka, and Neverland Shin-Koiwa Brightce (*Bright Space*) in Tokyo. In the year to December 2007, we expect the number of new units supplied to reach 1,000, including 228 units in the Neverland Otsu Granbay project.

The condominium business is a core segment for ES-CON Japan. Our activities in this area are guided by our awareness of change in the market environment. Our strategy calls for further refinement of our ability to anticipate market needs five years in advance, and for continuing improvement in our brand potential. We see the dynamic development of large, high-added-value properties as the key to a rising brand profile and sustained growth.



Neverland Kamogawa
This unique condominium brings together Eastern and Western architecture. There are interesting contrasts between movement and stillness, combined with contrasting shadows created through interaction between the structure and light.

Neverland Ibaraki-Shinchujo
This unique urban residential complex offers both environmental excellence and convenience. Its elegantly simple exterior design blends with the tree-lined tranquility of the surrounding area.

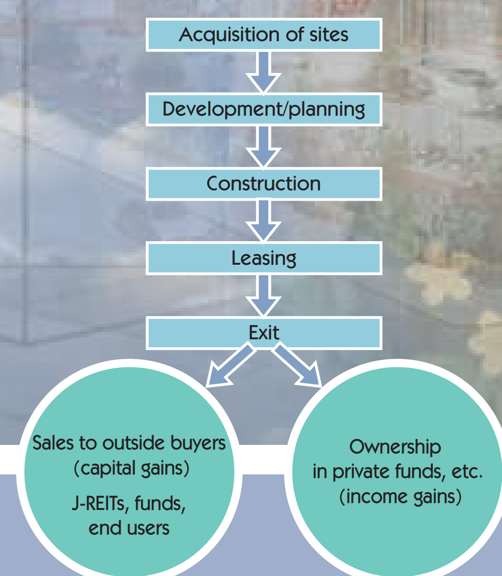


Neverland Shin-Koiwa Brightce
In addition to easy access to central Tokyo, this complex features a design that brings natural light into all units from three sides. Care was taken to enhance privacy, and ensure optimal comfort in bright, airy living spaces.

Developing assets—adding value in new fields with new forms of financing

In 2005, ES-CON Japan established the asset development business as a new business segment centered on high-value added real estate development beyond the condominium sector. In just over one year, this new activity has grown into a second core segment alongside the condominium business, and it made a significant contribution to business performance in the year ended December 2006.

Business model of asset development business



Sunadabashi Project—Higashi-ku, Nagoya City

ES-CON Japan developed this commercial facility in Nagoya City. It has a total floor area of 33,000 square meters and is tenanted by a home center and a mass retailer of sporting goods. This project was liquidated for over ¥ 7billion. It opened in April 2006.

ES-CON Japan created its Asset Development Department and began planning new projects in 2005. The aim of this move was to build a business structure that would not be totally reliant on the condominium business.

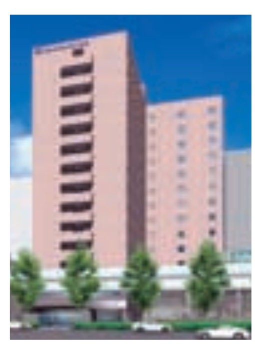
The asset development business is a diverse segment encompassing the application of various financing techniques, such as debt finance and SPCs, to site acquisition and the planning and development of properties. Development categories include commercial and multipurpose facilities as well as residential properties. It generates capital gains through sales to other companies or real estate funds, and income gains, including dividends and other forms of income from ownership and management, especially in private funds held by ES-CON Japan.

This business segment was created by taking our existing real estate regeneration business to a new level. Working closely with major financial institutions, we have used advanced financial know-how to create a high-added-value business model that we aim to build and develop into a new core income stream.

In the year ended December 2006, we developed a major commercial facility in Nagoya City, resulting in the liquidation of property worth over ¥7 billion. We are currently developing large-scale commercial facilities, hotels and other properties in major cities, including Tokyo and Osaka. In the residential project field, we are actively developing rental condominiums under our original "Leaf Comfort" brand in Tokyo and other major urban areas, including Kanagawa prefecture.

We also plan to become involved in projects relating to commercial and multipurpose facilities with the potential to contribute to regional economic revitalization, as well as projects that reflect important social needs, such as facilities for the aged. We will use our development, planning and asset management activities to acquire attractive sites and secure reliable income streams.

Leaf Comfort Kiyosumi-Shirakawa
Situated near central Tokyo, this rental condominium complex for singles was fully occupied immediately after completion. Its success reflects sophisticated design features and superb product characteristics.



Kawasaki Ekimae PJ (business hotel)
ES-CON Japan plans to build a business hotel near Kawasaki Station with retail outlets on its lower floors. Major companies have offices in this area. The project is to provide reliable income by leasing the building to a hotel management company.

Revaluing our group strategy in terms of synergy and continued high profitability

ES-CON Japan is restructuring its group business segments to create a platform for new growth and further expansion of its corporate value. Changes include the sell-off of our detached housing subsidiary from the ES-CON Japan Group, and the inclusion of special-purpose companies (SPCs) in the consolidation. These and other measures are reflected in steady progress toward the formation of a highly synergistic corporate group.

New Consolidated Subsidiaries

The consolidation now includes 17 development SPCs with total assets of ¥30,360 million and total debts of ¥20,438 million.

*All are linked to properties currently under development and have not yet started to generate income.

New Osaka Head Office

In May, we relocated our Osaka Head Office to Midosuji Avenue in the heart of the business district. It has not only the space we need to grow our business activities, but also showcases our highly original facility planning capabilities. Each meeting room is unique and provides attractive views of the landscaped exterior. The result is a rich environment for the development of unique business ideas.

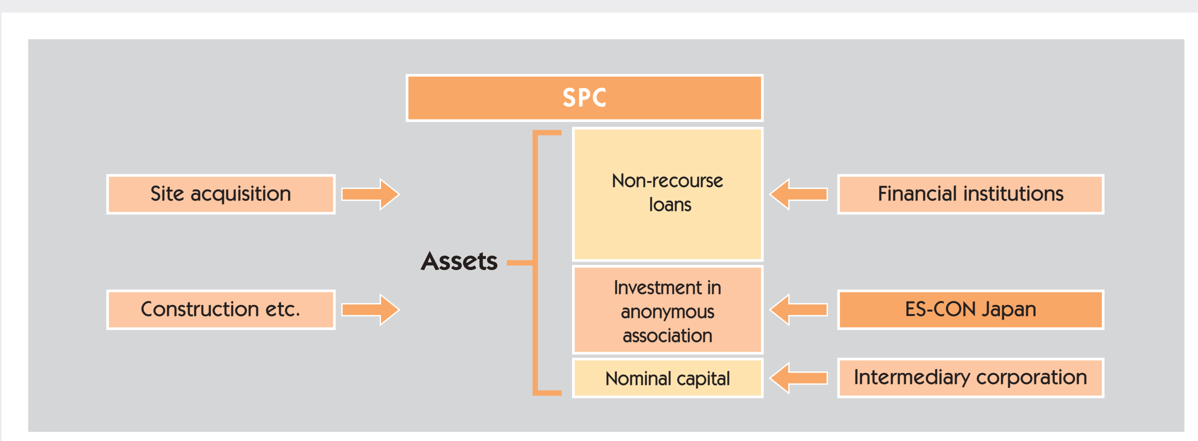
In line with policies defined in its medium-term management plan, “Neo-Promising 2008”, ES-CON Japan is implementing a range of measures designed to maximize group-level synergy benefits through a restructuring of group companies. The first of these measures affected the detached housing company Unidio Corporation, which was split off from the ES-CON Japan Group and sold in February 2006. Many companies in the detached housing business are strengthening their business bases by concentrating on special regions. Nationwide expansion was critical if Unido Corporation was to increase the scope of its activities while avoiding area risk resulting from competition, and further development and growth in this segment would have required aggressive forward-looking capital investment. We were concerned about the possible impact on group-level income ratios, and by the shift toward a business structure that would conflict with our management strategy of building a profit-focused structure based on high-added-value activities driven by a small team. On this basis, we saw the separation of Unidio Corporation as a progressive step that would result in improved group-level profitability.

The effect of this measure has been to create a structure that allows us to concentrate our management assets more efficiently into our core condominium business, and into the asset development business, which has already grown into an independent segment. In this way, we have achieved further progress in our evolution toward a highly profitable business model.

In the year ended December 2006, we included all 17 of our development-related SPCs in the consolidation. SPCs will play an increasingly active role in our business operations in the future, and we embraced their inclusion in our consolidation as a way to ensure that our intentions would be reflected in the management of these companies. These days, the general public around the world is calling for greater transparency from corporate managements. ES-CON Japan is responding positively to these requests by providing transparent disclosure of corporate information, and by maintaining sound management systems.

We will accelerate the formation of new group companies through investment, development and other activities in new segments. In parallel, we will develop new financial techniques, actively using M&A and other methods, and forge business partnerships with companies across traditional industry boundaries. Our aim is to improve our group-level profitability and build a corporate group with strong synergy potential on various levels, including the use of private funds.

Development of profit-earning real estate using non-recourse loans to development SPCs



Strengthening our foundations with an eye toward sustained growth

One of the ways in which ES-CON Japan is strengthening its internal structures in preparation for a new growth stage is through measures to strengthen its financial structure and ensure effective financial management. By improving our shareholder value through sustained growth, we aim to achieve listing on the first section of the Tokyo Stock Exchange.

Kasuga Forest City (Provisional Name)

This large-scale comprehensive development project is located on the outskirts of Fukuoka City, Kyushu. It will result in the creation of a next-generation community based on a totally new concept. The development will include commercial facilities, housing, a general recreational area, and medical facilities. This next-generation community is made possible by ES-CON Japan's solid financial foundations. ES-CON Japan's continued success has been sustained by our ability to use various financing methods and access reliable sources of funds.

This is a time of rapid social and economic change. The real estate industry as a whole is affected by an over-supply situation, and yet there is escalating competition for superior project sites. The situation is further complicated by other factors, including the growth of demand for housing suitable for an aging society, and increasing buyer selectivity toward products and suppliers. It was in this environment that ES-CON Japan achieved record income in the year ended December 2006. The dynamic development of our condominium and asset development businesses played a major role in this success, as did our initiatives to strengthen and stabilize our financial structure.

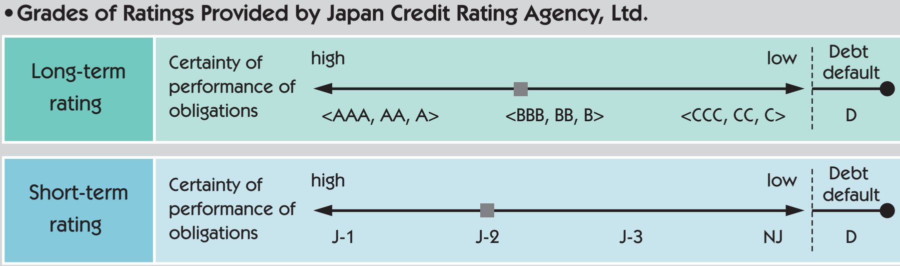
We raised funds using various financing methods, including a private placement of new shares, and the establishment of a commitment line with a syndicate of financial institutions. In December 2006 we obtained ratings from Japan Credit Rating Agency, Ltd. (JCR). JCR gave ES-CON Japan a long-term senior debt rating of “BBB-” (stable) and a short-term (CP program) rating of “J-2.” Objective third-party assessments will further enhance our management transparency and financial soundness. They will also help us to diversify and stabilize our financing methods and build flexible financing structures to meet needs created by changes in the business environment.

The business environment in our industry is expected to become increasingly competitive in the years ahead. We see the development of a more robust financial structure as essential to the maintenance of our advantage and the achievement of continuing growth under these conditions. ES-CON Japan is working to diversify its financing methods in various ways, including the active development of relationships with financial institutions, and the use of equity financing in ways that are compatible with the interests of existing shareholders. These strategies will allow us to secure the flexible finance that we need for our projects while also strengthening our financial management and building a sound, robust management structure as part of our preparations for listing on the first section of the Tokyo Stock Exchange.

ES-CON Japan’s Ratings

Long-term rating (long-term senior debt)	BBB−
Short-term rating (commercial paper)	J-2

• Grades of Ratings Provided by Japan Credit Rating Agency, Ltd.



* The rating symbols (“+” and “–”) indicate the relative position within each grade.

Strengthening the Corporate Governance Structure

There is growing public interest in corporate social responsibility, and one way that ES-CON Japan meets this expectation is through sound, effective corporate governance. Improvements in corporate governance enhance management soundness and transparency and help to lift corporate value. Our management policies also include a fundamental commitment to compliance. We aim to ensure compliance with laws and regulations, and to maintain business behavior that reflects our social responsibilities. We will continue to strengthen our corporate governance and compliance systems so as to fulfill our role and responsibilities as a corporate citizen on all levels, including cooperation with local communities, and the disclosure of information.

Corporate Governance Measures

(1) Our corporate governance structure

ES-CON Japan operates under the “statutory auditor” system, and the performance of its operations is managed and supervised by the Board of Directors and Board of Auditors.

(2) Board of Directors and Executive Officers

In principle the Board of Directors meets at least once a month to deliberate on important agenda items. ES-CON Japan has also introduced an executive officer system, the aim of which is to speed up operational and executive functions and clarify chains of authority and accountability.

(3) Board of Auditors

For enhanced management transparency, the three members of the Board of Auditors are all outside auditors. They attend board meetings and other important management meetings to provide appropriate supervision of management activities. They also hold regular exchanges of views with management and the accounting auditors.

(4) Compliance

ES-CON Japan is continually improving its employee education programs to ensure the full implementation of basic compliance policies. We also review our internal regulations at appropriate intervals. Compliance officers have been appointed to strengthen internal management and supervision of operations.

(5) Timely Information Disclosure

ES-CON Japan recognizes the importance of timely disclosure and is improving its internal infrastructure to allow earlier distribution of interim financial reports and other information. We are constantly improving our investor information services, including the active use of our website to speed up disclosure of information from corporate briefings.

(6) Internal Audit System

Internal audits are the responsibility of the Corporate Management Department, which systematically audits all organizational units and reports its findings directly to the President. Audit results are fed back to the departments concerned and used to provide guidance, including the identification of areas requiring improvement.

Measures to Strengthen Corporate Governance

(1) Changes to Board of Directors

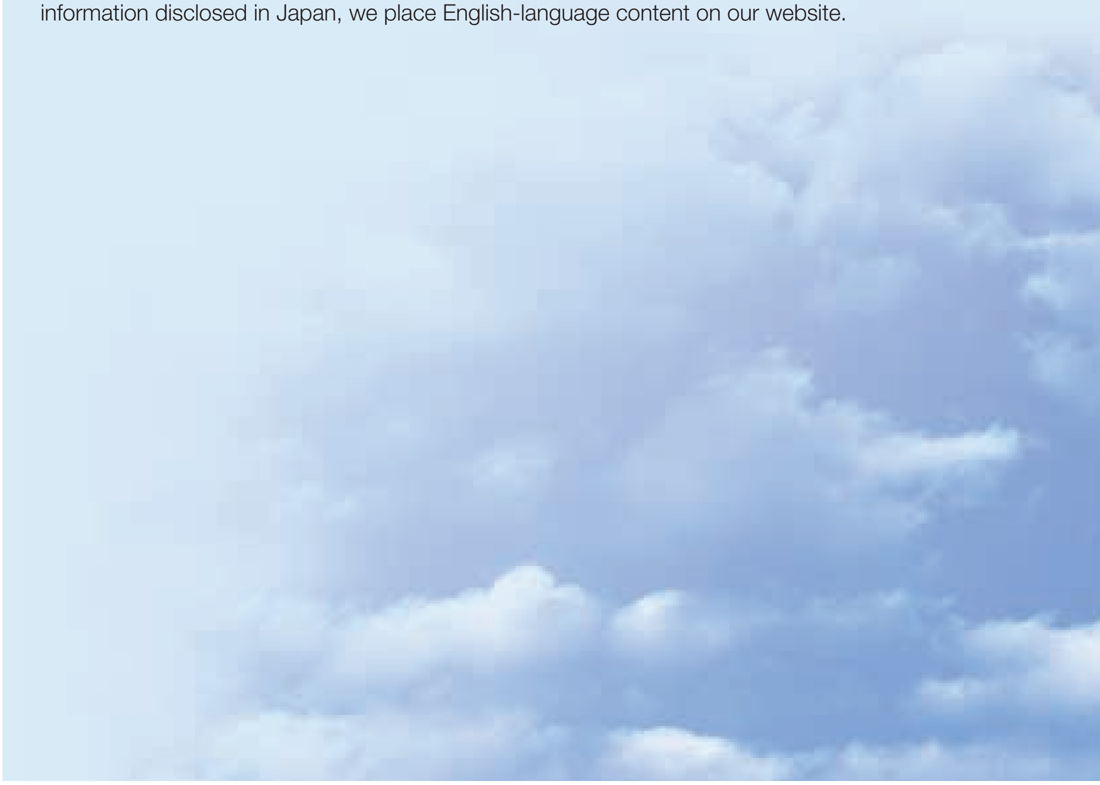
At the general meeting of shareholders held on March 23, 2007, two new directors were elected, bringing the total number to six.

(2) Introduction of the Executive Officer System

On July 1, 2005, we separated management decision-making and supervisory functions from executive functions by introducing an executive officer system.

(3) Active IR Program

Timely disclosure is a fundamental priority for ES-CON Japan, and we are actively working to ensure that all investor relations activities are conducted fairly and promptly. We hold corporate briefings to explain, interim and final results. Other activities include the production of annual reports, and responses to individual information requests from securities analysts, fund managers and media organizations. To ensure that overseas investors have timely access to information disclosed in Japan, we place English-language content on our website.



Concern for the Environment

For many years ES-CON Japan has been aware that environmental soundness, energy efficiency and the protection of human health would emerge as important criteria for housing in the future. We actively design our projects to reduce resource and energy consumption and create spaces enriched by natural features, including greenery, light and water. Each project is assessed for its contribution to environmental conservation. The results are reflected in subsequent projects as part of a continuing evolution toward housing that can exist in harmony with the natural environment.

ISO 14001 Certification

In May 2001, ES-CON Japan became the first company in the real estate industry to achieve ISO 14001 accreditation. Our efforts to create products that help to protect the environment have been paralleled by initiatives under our environmental management system to reduce our corporate power and energy consumption and the amount of paper used.

Resource-Efficient Residences

ES-CON Japan has introduced a wide range of home systems designed to reduce resource and energy consumption. Examples include all-electric homes, water-saving toilets, water-recycling baths and composting garbage disposal units. Other environment-related innovations currently under consideration include systems to reuse rainwater or generate power through solar cells.

Solar Power Generation

At its Neverland Fushimi-tanbabashi complex, ES-CON Japan installed a solar energy system developed through a government-affiliated joint research program in which it participated. Electricity generated by the system is used as a shared energy resource in the condominium complex. ES-CON Japan is also supporting government research and technology development activities by collecting and supplying power generation data from the system.

Living Spaces That Incorporate Greenery and Natural Light

ES-CON Japan is helping to alleviate the “heat island” effect by developing roof gardens and planting larger areas with trees. We are also contributing to energy conservation by using design features, such as sunrooms and skylights, to bring natural light into room interiors.

Environment-Friendly and People-Friendly Construction Material

ES-CON Japan is helping to eliminate the “sick house” syndrome by using low-irritation materials, such as low-formaldehyde flooring, and by increasing the use of natural materials, including bamboo, paulownia wood, kenaf, cork and Japanese cypress, as well as environment-friendly wallpapers.

Senri Dear Hills—Multi-Generation Housing in Harmony with Nature

Located in Suita City, Osaka, this integrated development structure represents a new stage in ES-CON Japan’s evolution from a condominium business into an integrated developer. The site is located in a wooded area on low hills about 15 kilometers from central Osaka and provides panoramic views of the city. The development theme calls for the maintenance of harmony with the environment and scenic values by creating an environment-friendly multi-generational community. Within the site we have preserved forestland amounting to the area of approximately three American football fields.

With 431 condominium units and 145 detached housing lots, the development also includes welfare facilities for the aged. It is the biggest integrated development structure in the Hokusetsu area between Osaka and Kyoto. When completed in August 2008, it will be a garden community in which people of many generations can enjoy enriched lifestyles.

Five-Year Summary

ES-CON JAPAN Ltd. and its Consolidated Subsidiaries
Year ended January 31, 2003 and subsequent years ended December 31,
due to the change of the accounting period.

Millions of Yen
(except per share data, ratios, operating data)

	2003/Jan.	2003/Dec. (11 months)	2004/Dec.	2005/Dec.	2006/Dec.
Operating results					
Net sales	¥29,826	¥23,898	¥51,015	¥59,433	**¥51,842**
Operating expenses	4,511	3,640	6,710	7,046	**4,643**
Operating income	2,961	1,780	5,416	5,878	**7,104**
Net income	1,259	699	2,506	2,406	**2,910**
Segment information (1)					
Net sales:					
Condominium and housing	¥26,754	¥19,392	¥44,378	¥41,667	**26,805**
Real estate planning	516	1,568	3,951	13,133	**8,814**
Real estate-related subcontracting	1,893	1,664	657	530	**281**
Asset development	—	—	—	2,711	**15,288**
Other	662	1,273	2,029	1,392	**654**
Segment information (2)					
Operating income:					
Condominium and housing	¥ 1,905	¥945	¥ 3,348	¥ 4,082	**¥ 3,145**
Real estate planning	47	127	1,557	1,185	**1,439**
Real estate-related subcontracting	1,581	1,284	455	183	**258**
Asset development	—		—	1,241	**2,985**
Other	60	29	567	215	**(29)**
Elimination	(632)	(605)	(511)	(1,028)	**(694)**
Financial Position					
Total assets	¥29,328	¥37,869	¥58,826	¥84,954	**¥98,360**
Interest-bearing liabilities	21,364	26,567	37,496	54,507	**66,054**
Total net assets	4,102	5,040	10,380	14,693	**18,472**
Cash flows					
Cash flows from operating activities	(¥ 2,651)	(¥ 7,917)	(¥ 7,752)	(¥ 8,903)	**(¥25,721)**
Cash flows from investing activities	(2,762)	1,487	(5,116)	507	**(3,473)**
Cash flows from financing activities	8,469	7,669	15,860	19,334	**26,328**
Per share data (yen)					
Earnings (basic)	¥10,100.47	¥5,372.39	¥5,492.11	¥14,825.63	**¥16,641.30**
Earnings (diluted)	—	5,106.48	4,833.65	12,688.18	**14,514.81**
Cash dividends	3,000.00	2,500.00	1,500.00	1,200.00	**1,500.00**
Ratios (%)					
Return on average equity (ROE)	36.5	15.8	33.7	19.8	**17.8**
Ratio of net income to average assets (ROA)	5.4	2.1	5.2	3.3	**3.2**
Equity ratio	14.0	13.3	17.6	16.8	**18.8**
Other data					
Depreciation	67	58	61	70	**58**
Interest expense	747	822	1,154	1,553	**1,808**
Operating Data					
Number of consolidated subsidiaries	4	7	8	9	**20**
Number of employees	92	98	163	228	**134**
Condominium–unit sales	868	589	1,294	1,053	**868**
Stand-alone housing–unit sales	9	49	157	294	**10**

Notes: 1. Per share data is calculated by using figures to the nearest yen.
2. Per share data for 2005 reflects the three-for-one stock split effective on February 20, 2004 and April 1, 2006.

Overview of Performance (January 1 to December 31, 2006)

Sales and Income

Strong, positive trends continued in the condominium sales industry. One of the factors contributing to this buoyant mood in the industry was a surge of demand triggered by the conjunction of the return to rising land prices and the announcement of higher interest rates. Another positive factor was the higher demand for commercial properties resulting from a recovery in business earnings. The ES-CON Japan Group was well positioned to benefit from these trends. There were also continuing reminders that participants in the market could not afford to be complacent. Buyers are applying increasingly rigorous criteria when choosing products and companies, and there is escalating competition for the best building sites. Another factor that looms large in our industry is the continuing diversification of housing needs.

ES-CON Japan's strategies in the current economic environment included changes to its group structure. Unidio Corporation Ltd., which is involved in the detached housing business, was one of three group companies removed from consolidation through share sales. Despite the fact that these companies were no longer contributing, consolidated net sales surpassed the initial forecast and reached ¥51,842 million, which is 12.8% below the previous year's level. This pleasing result signals our success at creating a structure that will allow the ES-CON Japan Group to concentrate its management resources on its core condominium business. Performance also benefited from excellent progress toward the establishment of the asset development business under the "Neo-Promising 2008" medium-term plan. The cost of sales declined 13.8% year on year to ¥40,095 million, while the cost ratio was 1.0 point lower at 77.3%. Selling, general and administrative expenses were 34.1% below the previous year's level at ¥4,643 million, and the SG&A ratio declined by 2.9 points to 9.0%.

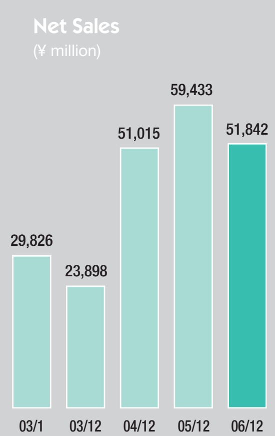
These trends were reflected in operating income, which rose by 20.9% year on year to ¥7,104 million. The operating income ratio was up 3.9 points at 13.7%. There was an overall improvement in income ratios. This resulted from the separation of the detached housing business, which was less profitable than other businesses, and from increased sales in the highly profitable asset development business.

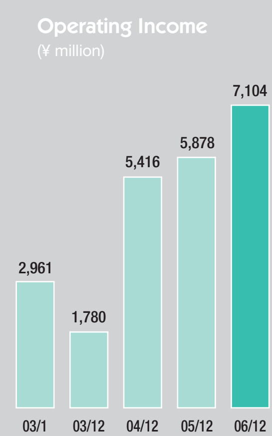
Other income and expenses were affected by higher interest payments, but this was offset by proceeds from sales of investment shares and shares in group companies. As a result, net income before income taxes and minority interests was 21.3% higher year on year at ¥5,175 million. Net income after provision for taxes and minority interests in losses amounted to ¥2,910 million, a year-on-year increase of 21.0%.

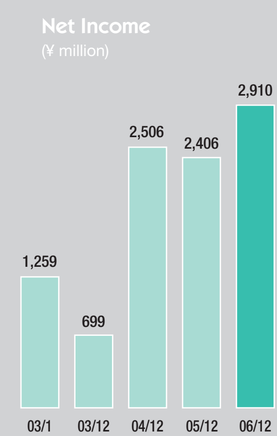
Segment Information

Overview

There has been sustained growth in earnings from the asset development business, which was previously divided between the real estate planning and real estate-related subcontracting business. Starting from the current year, this area will be shown in the accounts as a separate business, reflecting the increasing importance of its contribution to overall performance.







Condominium and Housing

Activities in this business proceeded generally according to plan. There were 11 new projects. Projects in the Osaka Area included Neverland Kamogawa in and Sakyo-ku, Kyoto, Neverland Tachibana Ekimae in Amagasaki City, Hyogo Prefecture, and Neverland Nishinomiya in Nishinomiya City, Hyogo Prefecture. Among the new projects in the Tokyo Metropolitan Area was Neverland Shin-Koiwa Brightce (*Bright Space*) in Katsushika-ku. A total of 878 units were completed and sold. Net sales in this business were 35.7% below the previous year's level at ¥26,805 million, and operating income was 22.5% lower at ¥3,145 million.

Real Estate Planning

Results for this business were in line with the initial business plan. ES-CON Japan continued to sell planning services based on its knowledge of the development business, especially in the Osaka Area and the Tokyo Metropolitan Area. Net sales in the real estate planning business declined by 32.9% year on year to ¥8,814 million. However, operating income was 21.4% higher at ¥1,439 million.

Real Estate-related Subcontracting

In line with initial planning, sales in this business came mainly from small-scale consulting services. Continuing growth in the asset development area resulted in the creation of a new business, which includes portion of the activities formerly included in this business. As a result, net sales in the real estate-related subcontracting business were 47.0% below the previous year's result at ¥281 million, but operating income was 41.0%higher at ¥258 million.

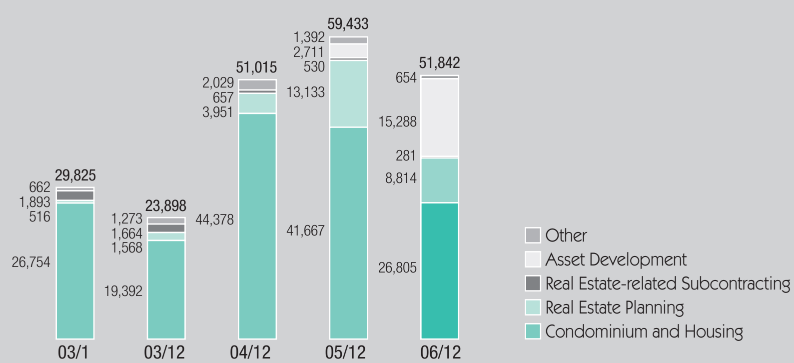
Asset Development

ES-CON Japan created this new business in response to the expansion of its activities in this area. Activities proceeded largely according to plan, including the opening of a new commercial retail facility at Sunadabashi in Higashi-ku, Nagoya City, with a home center and a mass retailer of sporting goods as anchor tenants. There were also sales of new income-generating properties. Activities that were previously spread among three segments, real estate planning, real estate-related subcontracting and other activities, were integrated to form this new business. Net sales amounted to ¥15,288 million, and operating income was ¥2,985 million.

Other Activities

Sources of income in this segment include the condominium management business, which provides opportunities for synergies with ES-CON Japan's condominium business. Rental revenues from the Osaka head office building also contribute to sales. Part of this segment was transferred to the newly created asset development segment, with the result that sales were 53.8% below the previous year's level at ¥654 million. There was an operating loss of ¥29 million, compared with operating income of ¥215 million in the previous consolidated accounting year.

Net Sales by Segment
(¥ million)



Financial Position

Assets

Current assets increased by ¥14,956 million, or 19.7%, during the year ended December 2006 to ¥90,736 million, mainly because of increases in inventory assets, notes receivable and trade accounts receivable. Fixed assets declined by ¥1,549 million, or 16.9%, to ¥7,624 million, reflecting lower figures for land, buildings and structures and other categories, as well as declines in investment securities, capital investments and other assets. Total assets increased by ¥13,406 million, or 15.8%, to a year-end total of ¥98,360 million.

Liabilities and Net Assets

Despite a reduction in short-term loans, current liabilities increased by ¥10,044 million, or 21.3%, year on year to a year-end total of ¥57,228 million. This reflects higher figures for other items, including long-term loans repayable within one year, bonds redeemable within one year, and advances received.

Total long-term liabilities declined by 1.8% to a year-end total of ¥22,660 million. Total liabilities increased by ¥7,459 million, or 13.7%, to ¥79,888 million.

Interest-bearing liabilities increased by ¥11,547 million year on year to ¥66,054 million. The ratio of interest-bearing liabilities to total assets was 3.0 points higher at 67.2%.

Net assets (shown as "shareholders' equity" in previous years) increased by ¥3,779 million to a year-end total of ¥18,472 million. The shareholders' equity ratio was 18.8%.

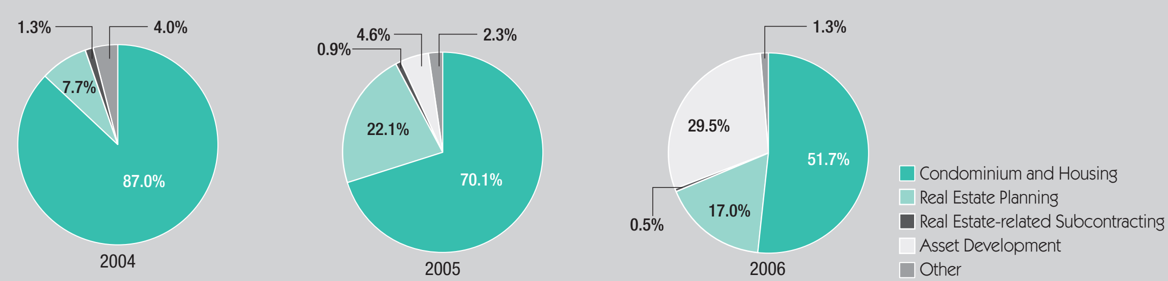
Cash Flows

The balance of cash and cash equivalents (hereinafter "cash") at the end of the current consolidated accounting period declined by ¥1,813 million from the position at the start of the year to ¥18,867 million, compared with ¥20,680 million at the end of the previous year. The decline occurred despite an increase in borrowing and was attributable to the acquisition of inventory assets needed for business expansion (including real estate for projects in progress), and expenditure on interest and income taxes.

Cash Flows Used for Operating Activities

Income before provision for taxes and minority interests amounted to ¥5,175 million. Expenditure items included the acquisition of inventory assets needed for the expansion of asset-related business activities (including real estate for projects in progress), and payments of interest and income taxes. As a result, net cash used in operating activities amounted to ¥25,721 million, compared with ¥8,904 million in the previous year.

Sales Composition by Segment
(¥ million)



Net Sales: ¥51,015 million

Net Sales: ¥59,433 million

Net Sales: ¥51,842 million

Cash Flows Used for Investment Activities

Net cash used for investment activities amounted to ¥3,473 million, compared with ¥507 million provided by investment activities in the previous year. Expenditure items included the acquisition of shares in group companies as a result of changes to the scope of consolidation.

Cash Flows Used for Financing Activities

Net cash provided by financing activities was ¥26,328 million, compared with ¥19,334 million in the previous year. The higher figure reflects increased borrowing, mostly to provide funding for projects.

Shares Issued and Per Share Data

During the year ended December 2006, ES-CON Japan implemented a three-for-one stock split in April 2006 and a private placement of new shares in June 2006. New shares were also issued through the exercise of stock option rights on five occasions. As a result, the total number of shares issued and outstanding as of December 31, 2006 was 180,273.47. As a result, basic net income and diluted net income per share were ¥16,641.30 and ¥14,514.81, respectively.

Dividend Policy and Dividends

ES-CON Japan has a basic policy of providing reliable dividends after provision for the internal reserves required for future business development and the improvement of the financial structure. It was resolved at the general meeting of shareholders on April 23, 2007 that the total dividend payout for the year ended December 31, 2006 would be ¥270 million, and the dividend per share would be increased by ¥300 over the previous year's level to ¥1,500. As a result, the dividend payout ratio increased by 4.2 points to 6.9%.

SPCs included in consolidation to provide enhanced disclosure

In recent years, special-purpose companies (SPCs) have become the focus of concern and debate because of instances of impropriety in financial reporting, both in Japan and overseas. In September 2006, the Accounting Standards Board of Japan issued practical guidelines concerning investment associations. Starting in the year to December 2006, all SPCs over which ES-CON Japan can exert significant control have been included in the consolidation. The 17 development-related SPCs added to the consolidation had total assets of ¥30,360 million and total debts of ¥20,438 million as of December 31, 2006. All are involved in current development projects and have not yet started to generate income. For this reason, the inclusion of the SPCs in the consolidation has had a negative impact on income for the year ended December 2006, because only their costs, including interest payments, are currently reflected in our income statement. As development of these projects unfolds, however, the SPCs themselves will start to earn income, and we anticipate sustained improvement in the coming year and beyond.

Consolidated Balance Sheets

ES-CON JAPAN Ltd. and its Consolidated Subsidiaries
As of December 31, 2005 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2006	2006
ASSETS			
Current assets:			
Cash and cash equivalents	¥20,680	¥18,867	$158,387
Time deposits with maturities more than three months	595	115	965
Notes receivables and accounts receivables-trade (Note 8)	1,071	1,426	11,971
Inventories	48,635	65,122	546,692
Advances	1,269	528	4,433
Prepaid expenses	1,631	1,464	12,290
Deferred tax assets (Note 9)	641	1,169	9,814
Other	1,264	2,047	17,184
Less allowance for doubtful accounts	(5)	(2)	(17)
Total current assets	75,781	90,736	761,719
Property and equipment, at cost (Note 6):			
Buildings and structures	725	675	5,667
Equipment	9	8	67
Land	505	505	4,239
Construction in progress	636	659	5,532
Other	126	106	890
	2,001	1,953	16,395
Less accumulated depreciation	(222)	(246)	(2,065)
Total property and equipment, net	1,779	1,707	14,330
Intangible assets	78	56	470
Investments and other assets:			
Investment securities (Notes 3 & 6)	4,401	4,222	35,443
Capital investments	1,518	752	6,313
Long-term loans receivable	400	400	3,358
Deferred tax assets (Note 9)	73	—	—
Other	1,137	527	4,424
Less allowance for doubtful accounts	(213)	(40)	(335)
Total investments and other assets	7,316	5,861	49,203
Total assets	¥84,954	¥98,360	$825,722

The accompanying notes are an integral part of these financial statements.

	2005	Millions of Yen 2006	Thousands of U.S. Dollars (Note 1) 2006
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term debt (Note 6)	¥21,779	¥12,823	$107,648
Long-term debt due within one year (Note 6)	16,403	35,015	293,947
Notes and accounts payable-trade	990	28	235
Accounts payable-other	1,654	1,288	10,813
Deposits received on security of sales contracts	1,363	1,455	12,214
Accrued income taxes	2,135	1,993	16,731
Advances received	1,774	3,707	31,120
Accrued bonuses to directors	—	81	680
Other	1,086	838	7,035
Total current liabilities	47,184	57,228	480,423
Long-term liabilities:			
Long-term debt due after one year (Note 6)	21,330	21,926	184,067
Deferred income taxes (Note 9)	865	290	2,434
Other	882	444	3,727
Total long-term liabilities	23,077	22,660	190,228
Total liabilities	70,261	79,888	670,651
Commitment and contingencies (Notes 5 & 8)			
Net assets			
Shareholders' equity (Note 10):			
Common stock			
Authorized: 81,000 shares at December 31, 2005 and 243,000 shares at December 31, 2006			
Issued: 55,755.23 shares at December 31, 2005 and 180,273.47 shares at December 31, 2006	2,672	3,795	31,859
Capital surplus:			
Additional paid-in capital	2,727	3,850	32,320
Earnings surplus:			
Retained earnings	7,570	10,274	86,249
Treasury stock: 22.23 shares at December 31, 2005 and 81 shares at December 31, 2006	(8)	(12)	(101)
Total shareholders' equity	12,961	17,907	150,327
Accumulated other comprehensive income:			
Unrealized holding gain on investment securities	1,292	558	4,684
Unrealized loss from cash flow hedges	—	(37)	(310)
Total accumulated other comprehensive income	1,292	521	4,374
Minority interests in consolidated subsidiaries	440	44	370
Total net assets	14,693	18,472	155,071
Total liabilities and net assets	¥84,954	¥98,360	$825,722

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Income

ES-CON JAPAN Ltd. and its Consolidated Subsidiaries
For the years ended December 31, 2005 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2006	2006
Net sales	¥59,433	¥51,842	$435,208
Cost of sales	46,509	40,095	336,593
Gross profit	12,924	11,747	98,615
Selling, general and administrative expenses (Note 11)	7,046	4,643	38,977
Operating income	5,878	7,104	59,638
Other income (expenses):			
Interest and dividend income	63	75	630
Gain from cancellation of sales contracts	34	14	117
Gain on consumption tax exemption	—	168	1,410
Gain on sale of investment securities, net	2	131	1,100
Loss on change of interests in subsidiaries	(9)	—	—
Interest expense	(1,553)	(1,808)	(15,178)
Loss on disposal of property and equipment, net	(12)	(382)	(3,207)
Bond issue costs	(45)	(7)	(59)
Loss on devaluation of investment securities due to permanent declines in fair values	—	(33)	(277)
Provision for doubtful accounts	(50)	—	—
Other, net	(40)	(87)	(730)
Other expenses, net	(1,610)	(1,929)	(16,194)
Income before income taxes and minority interests in income of consolidated subsidiaries	4,268	5,175	43,444
Income taxes:			
Current	2,157	2,913	24,454
Deferred (Note 9)	(376)	(629)	(5,280)
	1,781	2,284	19,174
Minority interests in income (loss) of consolidated subsidiaries	81	(19)	(159)
Net income	¥ 2,406	¥ 2,910	$ 24,429

Per share data		Yen	U.S. Dollars (Note 1)
Earnings per share:			
Basic	¥14,825.63	¥ 16,641.30	$139.70
Diluted	12,688.18	14,514.81	121.85
Net assets	85,007.70	102,270.86	858.55

Shares used in per share calculation		
Basic	159,576	174,901
Diluted	186,459	200,525

Note: Per share data and share used in per share calculation for 2005 have been retroactively adjusted for the three-for-one stock split effective on April 1, 2006.
The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Changes in Net Asset

ES-CON JAPAN Ltd. and its Consolidated Subsidiaries
For the years ended December 31, 2005 and 2006

Millions of Yen

	Number of Shares of Common Stock Issued	Shareholders' equity				
		Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total Shareholders' Equity
Balance at December 31, 2004	52,442.23	¥2,167	¥2,221	¥ 5,283	¥ (8)	¥9,663
Stock purchase right exercised	313	6	6	—	—	12
Stock allotment to a third party	3,000	499	500	—	—	999
Net income	—	—	—	2,406	—	2,406
Cash dividends paid	—	—	—	(79)	—	(79)
Bonuses to directors and statutory auditors	—	—	—	(40)	—	(40)
Balance at December 31, 2005	55,755.23	2,672	2,727	7,570	(8)	12,961
Three-for-one stock split	113,800.68	—	—	—	—	—
Stock purchase right exercised	6,017.56	653	653	—	—	1,306
Stock allotment to a third party	4,700	470	470	—	—	940
Net income	—	—	—	2,910	—	2,910
Cash dividends paid	—	—	—	(66)	—	(66)
Bonuses to directors and statutory auditors	—	—	—	(40)	—	(40)
Increase of subsidiaries	—	—	—	(150)	—	(150)
Decrease of subsidiaries	—	—	—	50	—	50
Treasury stock purchased	—	—	—	—	(4)	(4)
Balance at December 31, 2006	180,273.47	¥3,795	¥3,850	¥10,274	¥(12)	¥17,907

Millions of Yen

	Accumulated other comprehensive income			Minority interests	Total net asset
	Unrealized holding gain on investment securities	Unrealized loss from cash flow hedge	Total accumulated other comprehensive income		
Balance at December 31, 2004	¥ 422	¥ —	¥ 422	¥ 295	¥10,380
Increase (decrease) during the period	870	—	870	145	4,313
Balance at December 31, 2005	1,292	—	1,292	440	14,693
Increase (decrease) during the period	(734)	(37)	(771)	(396)	3,779
Balance at December 31, 2006	¥ 558	¥(37)	¥ 521	¥ 44	¥18,472

Thousands of U.S. Dollars (Note 1)

	Shareholders' equity				
	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total Shareholders' Equity
Balance at December 31, 2005	$22,431	$22,892	$63,549	$ (67)	$108,805
Three-for-one stock split	—	—	—	—	—
Stock purchase right exercised	5,482	5,482	—	—	10,964
Stock allotment to a third party	3,946	3,946	—	—	7,892
Net income	—	—	24,429	—	24,429
Cash dividends paid	—	—	(554)	—	(554)
Bonuses to directors and statutory auditors	—	—	(336)	—	(336)
Increase of subsidiaries	—	—	(1,259)	—	(1,259)
Decrease of subsidiaries	—	—	420	—	420
Treasury stock purchased	—	—	—	(34)	(34)
Balance at December 31, 2006	$31,859	$32,320	$86,249	$(101)	$150,327

Thousands of U.S. Dollars (Note 1)

	Accumulated other comprehensive income			Minority interests	Total net assets
	Unrealized holding gain on investment securities	Unrealized loss from cash flow hedge	Total accumulated other comprehensive income		
Balance at December 31, 2005	$10,846	$ —	$10,846	$ 3,694	$123,345
Increase (decrease) during the period	(6,162)	(310)	(6,472)	(3,324)	31,726
Balance at December 31, 2006	$ 4,684	$(310)	$ 4,374	$ 370	$155,071

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

ES-CON JAPAN Ltd. and its Consolidated Subsidiaries
For the years ended December 31, 2005 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2006	2006
Operating activities:			
Income before income taxes and minority interests in income	¥ 4,268	¥ 5,175	$ 43,444
Adjustments to reconcile income before income taxes and minority interests in income to net cash used in operating activities:			
Depreciation and amortization	77	58	487
Bond issue costs	45	7	59
Gain on sale of investment securities, net	(2)	(131)	(1,100)
Gain on sale of investment in subsidiaries	—	(168)	(1,410)
Loss on devaluation of investment securities due to permanent declines in fair values	—	33	277
Loss on change of interests in subsidiaries	9	—	—
Loss on disposal /sales of property and equipment, net	12	382	3,207
Provision for doubtful accounts	60	1	8
Interest and dividend income	(63)	(75)	(630)
Interest expenses	1,553	1,808	15,178
Bonuses paid to directors	(40)	(40)	(336)
Provision for bonuses to directors	—	81	680
Changes in operating assets and liabilities:			
Notes and accounts receivable - trade	(482)	(911)	(7,648)
Inventories	(12,892)	(27,653)	(232,144)
Prepaid expenses	(180)	150	1,259
Accounts payable-trade	192	2	17
Accounts payable-other	1,132	(339)	(2,846)
Advances received	677	550	4,617
Other, net	366	(44)	(369)
Subtotal	(5,268)	(21,114)	(177,250)
Interest and dividends received	24	74	621
Interest paid	(1,688)	(1,832)	(15,379)
Income taxes paid	(1,971)	(2,849)	(23,917)
Net cash used in operating activities	(8,903)	(25,721)	(215,925)
Investing activities:			
Investment in time deposits in banks	(34)	(119)	(999)
Maturity of time deposits in banks	1,117	594	4,987
Purchase of investment securities	(1,377)	(2,476)	(20,786)
Proceeds from sales of investment securities	77	662	5,557
Sales of subsidiaries' interest resulting in change of consolidation scope	—	(1,158)	(9,721)
Additional acquisition of subsidiaries' interest	—	(50)	(420)
Purchase of property and equipment	(3,990)	(1,277)	(10,720)
Proceeds from sale of property and equipment	4,944	1,035	8,689
Deposits received	73	(77)	(646)
Loans receivable	(663)	(607)	(5,096)
Collection of loans receivable	360	—	—
Net cash (used in) provided by investing activities	507	(3,473)	(29,155)
Financing activities:			
Proceeds from short-term loans	38,895	29,763	249,857
Repayments of short-term loans	(24,904)	(23,983)	(201,335)
Proceeds from long-term loans	27,261	42,095	353,383
Repayment of long-term loans	(25,528)	(22,479)	(188,709)
Repayment of commercial paper borrowings	(200)	—	—
Deposits received on security of sales contracts	1,363	91	764
Proceeds from issuance of bonds	1,754	292	2,451
Payment for redemption of bonds	(310)	(310)	(2,602)
Proceeds from issuance of stock purchase rights	25	—	—
Proceeds from issuance of shares of common stock	1,000	929	7,799
Cash receipt from minority shareholders due to change of consolidation scope	57	—	—
Acquisition of treasury stock	—	(4)	(34)
Cash dividends paid	(79)	(66)	(554)
Net cash provided by financing activities	19,334	26,328	221,020
Net increase (decrease) in cash and cash equivalents	10,938	(2,866)	(24,060)
Cash and cash equivalents at beginning of the period	9,742	20,680	173,607
Cash increased with acquisition of new subsidiaries	—	1,053	8,840
Cash and cash equivalents at end of the period	¥ 20,680	¥ 18,867	$158,387
Supplemental disclosure of non-cash financing activities:			
Common stock increased by exercising stock purchase rights	¥ —	¥ 647	$ 5,431
Additional paid-in capital increased by exercising stock purchase rights	—	647	5,431

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

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

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

The consolidated financial statements are stated in Japanese yen. The translations of the Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers, using the prevailing exchange rate at December 31, 2006, which is ¥119.12 to U.S.$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The effective control approach is applied to determine the scope of consolidation. Under the effective control approach, all majority-owned companies are consolidated and, additionally, companies in which the parent's ownership share is less than or equals 50% may be required to be consolidated in case where such companies are effectively controlled by the parent company.

The difference between the total acquisition cost and underlying fair value of the net equity of investments in a subsidiary at acquisition is stated as "excess of cost over net assets acquired" or "excess of net assets acquired over cost" which is amortized on a straight-line basis over a period of five years. When the difference is insignificant, it is charged to income as incurred. ¥24 million and ¥17 million ($143 thousand) of the excess of cost over net assets acquired are included in intangible assets in the consolidated balance sheets at December 31, 2005 and 2006, respectively.

The accompanying consolidated financial statements include the accounts of the Company and its all subsidiaries (Collectively, the "Companies"). All significant inter-company transactions and account balances and unrealized inter-company profits among the Companies, after adjustment for minority interests, are eliminated upon consolidation.

A company, whose financial and operating decision-making is influenced to a material degree through investment, personnel, finance, technology or other relationships with another entity, is defined as an affiliate. Under this concept, all 20% to 50% owned companies, except for those being consolidated, are, in principle, required to be accounted for using the equity method. An investment of less than 20% of voting rights of an investee may be required to be accounted for using the equity method in cases where the investor has the ability to exercise significant influence over the investee. The Company had no affiliates at December 31, 2005 and 2006.

Scope of Consolidation

Number of subsidiaries at December 31, 2005 and 2006 is as follows:

	2005	2006
Consolidated subsidiaries	9	20
Unconsolidated subsidiaries	0	0

The name and its interest percentage of major subsidiaries directly and indirectly owned by the Company at December 31, 2004 and 2005 are as follows:

Name	2005	2006
UNIDIO CORPORATION Ltd.	60.1%	—%
UNIDIO LIVES Ltd., a subsidiary of UNIDIO CORPORATION Ltd.	60.1	—
NSSF Ltd.	100.0	—
E-STATE Ltd.	89.0	94.5
N S KANRI Ltd.	62.5	62.5
CONSTELLATION ONE Ltd.	100.0	100.0
PRONET ES-CON EIGHT Ltd.	100.0	100.0
CONSTELLATION SEVEN Ltd.	100.0	100.0

Due to sale of all ownership interest of UNIDIO CORPORATION Ltd. in February 2006, UNIDIO CORPORATION Ltd. and its two subsidiaries including UNIDIO LIVES Ltd. are not consolidated subsidiaries at December 31, 2006.

When the Company sold ownership interest of UNIDIO CORPORATION Ltd., assets and liabilities owned by three subsidiaries above are as follows:

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
Current assets	¥25,614	$215,027
Non-current assets	695	5,834
Current liabilities	(19,442)	(163,213)
Non-current liabilities	(5,900)	(49,530)
Total	¥967	$8,118

Due to liquidation of NSSF Ltd. in March 2006, NSSF Ltd. is not a consolidated subsidiary at December 31, 2006.

The Accounting Standards Boards of Japan issued "Practical Guideline for Application of Control Criteria and Influence Criteria to Invest Associations" (Practical Solution Report No. 20, September 8, 2006). The Company adopted the guideline and 17 special purpose companies are consolidated into the accompanying consolidated financial statements for the year ended December 31, 2006.

Cash Equivalents

Cash equivalents on the statements of cash flows are defined as low-risk, highly liquid, short-term investments with an initial maturity of three months or less that are readily convertible to cash.

Inventory Valuation

Real estate held for sale: At cost determined by the specific identification method
Construction in process for the purpose of sale: At cost determined by the specific identification method
Cost accrued on construction contract: At cost determined by the specific identification method
Merchandise: At cost determined by the weighted-average method
Supplies: At last cost

Securities

Held-to-maturity securities are either amortized or accumulated to face value. Other securities with quoted market prices are carried at market value. The difference between the acquisition costs and the carrying value of other securities for trading purposes, both realized and unrealized, is credited or charged to income while, for other securities held for investment purposes, the difference, including unrealized gain and loss, net of the applicable income taxes, is recognized as a component of shareholders' equity and is reflected as "net unrealized holding gain or loss on investment securities." Other securities without quoted market prices are stated at cost based on the moving-average method.

For the investment securities that suffer a permanent decline in fair value by more than 50% of its acquisition cost at the balance sheet date or suffer a decline in market value by 30% to 50% of its acquisition cost over the most recent two years, the Companies reduce its acquisition cost to net realizable value by charging such losses to income for the year.

The cost of other securities sold is computed by the moving-average method.

Due to the application of the Article 2 in Section 2 of the Securities and Exchange Law amended by the Law in connection with "Partial Amendment to the Securities and Exchange Law" (Law No. 97, 2004) on December 1, 2004 and the revision of "Practical Guideline for Financial Instruments" (JICPA Accounting Committee Report No. 14) on February 15, 2005, capital investments in limited liability premierships and other similar partnerships engaging in investment business are classified as investment securities. The amount of such investment securities on December 31, 2005 was ¥864 million.

Depreciation and Amortization

For tangible assets: Buildings are depreciated by using the straight-line method and other tangible assets are depreciated by using the declining-balance method.
For intangible assets: Intangible assets primarily consist of internal-use software, which is amortized using the straight-line method over five years.

Accrued bonuses for directors

Prior to May 1, 2006, the effective date of the Corporation Law promulgated on July 26, 2005, the Companies accounted for bonuses to directors to be paid solely by resolution of shareholders and charged them directly to retained earnings when paid , which Japanese GAAP allowed.

Accounting Standards Board of Japan issued Statement of Financial Accounting Standards No. 4 (SFAS No. 4), "Accounting for bonuses to directors" on November 29, 2005. SFAS No. 4 is required to be adopted in May 1, 2006, the effective date of the Corporation Law. The Companies adopted these standards for the year ending December 31, 2006. In accordance with the new accounting standards, the Companies changed an accounting treatment for directors' bonuses from a cash basis to an accrual basis by charging them to income as incurred.

As a result of an adoption of SFAS No. 4, sales, general and administrative expenses increased by ¥81 million and income before taxes decreased by the same amount.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is reported as an amount determined by adding the individually estimated uncollectible amounts to a general reserve calculated by applying a rate based on past collection experience.

Derivatives and Hedging Accounting

The accounting standards for financial instruments:

Derivative financial instruments are stated at fair value and changes in fair value are recognized as gains or losses unless derivatives financial instruments are used for hedging purposes. If derivative financial instruments are used as hedges and meet certain hedging criteria, a company defers recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related gains or losses on the hedged items are recognized.

Companies' policy for derivative activities:

The Companies utilize derivative financial instruments such as interest rate swap and interest rate cap contracts for the purpose of reduction of the risks of fluctuations in future interest payments on loan transactions. The Companies do not enter into derivative transactions for trading or speculative purposes.

Risk management for derivative transactions:

The Companies enter into the derivative transactions only with major international financial institutions with favorable credit ratings, thereby reducing credit risk exposure for non-performance. The Companies evaluate hedge effectiveness periodically by comparing the cumulative changes in cash flows or the changes in fair value of hedged items and the corresponding changes in the hedging derivative instruments. The finance department is engaged in derivative transactions with approval of the Board of Directors. The derivative transactions are executed in accordance with the established policies and within the specified limits on the amounts of derivative transactions allowed.

Income Taxes

The Companies use the asset and liability method to account for income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in income in the period the change is enacted. A valuation allowance is established to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

Leases

Under Japanese accounting standards for leases, financial leases that are deemed to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain “as if capitalized” information is disclosed in the notes to the lessee’s financial statements. In compliance with this standard, all lease transactions of the Companies are accounted for as operating leases.

Appropriations of Retained Earnings

Under the Corporation Law and the Articles of Incorporation of the Company, the plan for appropriation of retained earnings (primarily for cash dividend payments and bonuses paid to directors) proposed by the Board of Directors should be approved by the shareholders’ meeting which must be held within three months after the end of each fiscal year. The appropriation of retained earnings reflected in the accompanying consolidated financial statements represents the results of such appropriations which relate to the immediately preceding fiscal year but are approved by the shareholders’ meeting and disposed of during that year.

Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted average number of common share outstanding during the period. Diluted earnings per share is computed similar to basic earnings per share except that it reflects the potential dilution that could occur if dilutive securities or other obligations to issue common stock were exercised or converted into common stock. For the period when the Companies incur net losses, potential common stock is excluded from computation of diluted earnings per share since potential common stock would be considered antidilutive. Earnings per share for prior years is retroactively adjusted with stock splits.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in Japan requires management to make certain estimates and assumptions which affect the accounts reported in the financial statements and accompanying notes. The actual results could differ from those estimates.

Reclassification

Certain reclassifications have been made to conform to the presentation of the year ended December 31, 2006. These reclassifications have no effect on previously reported net income and shareholders' equity.

Additional information:

The Accounting Standards Board of Japan issued Statement of Financial Accounting Standards No. 5, "Accounting for presentation of the section of net asset on the balance sheet" on December 9, 2005 and issued the implementation guidance for the accounting standard for presentation of the section of net asset on the balance sheet, "the Financial Accounting Standard Implementation Guidance No. 8" on December 9, 2005. The new accounting standards is required to be adopted in periods beginning on or after April 1, 2005. The Companies adopted these standards for the year ending December 31, 2006 and the adoption did not result in changes to earnings or financial position of the Companies. The section of net asset for the year ended December 31, 2005 restated in order to tally with the presentation of that for the year ended December 31, 2006.

The Business Accounting Deliberation Council issued the new accounting standard for impairment of fixed assets, "Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" on August 9, 2002 and the Accounting Standards Board of Japan issued the implementation guidance for the accounting standard for impairment of fixed assets, "the Financial Accounting Standard Implementation Guidance No. 6" on October 31, 2003. The new accounting standards is required to be adopted in periods beginning on or after April 1, 2005, but the standard does not prohibit earlier adoption. The Companies adopted these standards for the year ending December 31, 2006 and the adoption does not result in changes to earnings or financial position of the Companies.

3. INVESTMENT SECURITIES

(1) The following table summarizes acquisition cost, and fair value of investment securities with market value at December 31, 2005 and 2006:

2005

Millions of Yen

	Acquisition cost	Fair value	Unrealized gain
Securities with fair value in excess of acquisition cost			
Equity securities	¥131	¥2,306	¥2,175
Debt securities	—	—	—
Other	—	—	—
	131	2,306	2,175
Securities with fair value not in excess of acquisition cost			
Equity securities	—	—	—
Debt securities	—	—	—
Other	—	—	—
	—	—	—
Total	¥131	¥2,306	¥2,175

2006

Millions of Yen

	Acquisition cost	Fair value	Unrealized gain
Securities with fair value excess acquisition cost			
Equity securities	¥118	¥1,070	¥952
Debt securities	—	—	—
Other	—	—	—
	118	1,070	952
Securities with fair value not excess acquisition cost			
Equity securities	129	117	(12)
Debt securities	—	—	—
Other	—	—	—
	129	117	(12)
Total	¥247	¥1,187	¥940

2006

Thousands of U.S. Dollars (Note 1)	Acquisition cost	Fair value	Unrealized gain (loss)
Securities with fair value in excess of acquisition cost			
Equity securities	$ 991	$8,983	$7,992
Debt securities	—	—	—
Other	—	—	—
	991	8,983	7,992
Securities with fair value not in excess of acquisition cost			
Equity securities	1,083	982	(101)
Debt securities	—	—	—
Other	—	—	—
	1,083	982	(101)
Total	$2,074	$9,965	$7,891

(2) Non-marketable investment securities are stated at cost. The following table summarizes acquisition cost of non-marketable investment securities at December 31, 2005 and 2006:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2006	2006
Equity securities	¥ 227	¥ 192	$ 1,612
Debt securities	—	2,516	21,121
Other	1,868	326	2,737
Total	¥2,095	¥3,034	$25,470

(3) The following table summarizes maturities of long-term investments in debt securities at December 31, 2005 and 2006:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2006	2006
Within one year	¥ —	¥ —	$ —
Over one year and within five years	500	1,000	8,395
Over five years and within ten years	—	1,000	8,395
Over ten years	200	200	1,679

4. DERIVATIVE TRANSACTIONS

The following summarizes hedging derivative financial instruments used by the Companies and items hedged:

Hedge instruments are interest swap contracts and interest rate cap contracts.

Hedge item is interest on loan contracts.

The Companies adopt hedge accounting for all derivative transactions the companies enter and, therefore, the Company omits disclosures for the fair value information about derivative transaction outstanding at December 31, 2005 and 2006 in accordance with the accounting standards for financial instruments.

5. LEASES

(1) Finance lease

The Companies lease certain equipment, software and vehicles under several finance lease contracts without ownership transfer to lessee. Assumed amounts of acquisition cost, accumulated depreciation and net book value at December 31, 2005 and 2006 are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2006	2006
Acquisition cost			
Machinery and equipment	¥678	¥70	$587
Other	36	4	34
Total	714	74	621
Accumulated depreciation			
Machinery and equipment	283	23	193
Other	10	1	8
Total	293	24	202
Net book value equivalent	¥421	¥50	$419

Depreciation expenses for these leased assets for the years ended December 31, 2005 and 2006 would have been ¥143 million and ¥81 million ($680 thousand), respectively, if they are computed in accordance with the straight-line method over the periods of these capital leases, assuming no remaining value. Lease payments for the years ended December 31, 2005 and 2006 are ¥150 million and ¥84 million ($705 thousand), respectively.

Future lease payments are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2006	2006
Due within one year	¥143	¥47	$395
Due after one year	291	3	25
Total	¥434	¥50	$420

The total interest amount paid during a lease period represents the difference between the total lease payment and the acquisition cost of the leased asset. The interest is expensed over the period of the lease contract based on the remaining outstanding balance of the lease obligation. Interest expense related to capital leases for the years ended December 31, 2005 and 2006 are ¥9 million and ¥3 million ($25 thousand), respectively.

6. SHORT-TERM DEBT AND LONG-TERM DEBT

(1) Short-term debt

Short-term debt loaned from financial institutions at December 31, 2005 and 2006 is ¥21,779 million and ¥12,823 million ($107,648 thousand), respectively. A weighted average of period-end interest rate at December 31, 2005 and 2006 is 3.2% and 2.7% per annum, respectively.

(2) Long-term debt

Long-term debt consists of long-term loans due within and after one year and bonds due within and after one year. Both long-term loans due within one year and bonds due within one year are presented as current liabilities.

On July 30, 2004, the Company issued the aggregate principal amount of ¥5,000 million of convertible bonds (zero coupon notes with stock purchase rights) with 1,000 notes in the denomination of ¥5,000 thousand each. The issue price is 100% of the principal amount and the issue price of the stock purchase rights are zero. The due date of the bonds is July 30, 2009. The conversion price per share is ¥175,277.10 ($1,471.43) at December 31, 2006 and exercisable period for the conversion is from August 6, 2004 through July 16, 2009. When a bondholder exercises the conversion, the Company purchases a fractional portion of common stock at market value at the conversion date instead of not issuing the fractional portion. Upon exercise of stock purchase right attached on a bond, the bond deems to be redeemed.

UNIDIO LIVES Ltd. issued ¥100 million of unsecured bonds in March 2005 (Note a) and UNIDIO CORPORATION Ltd. issued ¥400 million of convertible bonds in September 2005 (Note b). As mentioned in Note 2, both companies are not consolidated subsidiaries at December 31, 2006 and, therefore, the balances of bonds issued by those companies are not included in the balance of long-term debt at December 31, 2006.

Long-term debt outstanding at December 31, 2005 and 2006 consists of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2006	2006
Long-term loans due within one year	¥16,143	¥33,531	$281,490
Long-term loans due after one year	14,176	17,801	149,438
1.12% unsecured bonds, due July 25, 2008	110	110	923
1.33% unsecured bonds, due August 27, 2008	110	110	923
Zero coupon convertible bonds, due December 21, 2007	4	4	34
Zero coupon convertible bonds, due July 30, 2009	5,000	3,705	31,103
0.50% unsecured bonds, due September 21, 2007	340	180	1,511
2.15% unsecured bonds, due December 17, 2007	100	100	840
1.62% unsecured bonds issued March 15, 2005 (Note a)	100	—	—
0.52% unsecured bonds , due May 31, 2007	500	500	4,197
0.51% unsecured bonds, due February 20, 2007	500	500	4,197
0.51% unsecured bonds, ¥100 ($839) due in 2007 and the remainder due June 30, 2008	250	150	1,259
1.00% unsecured convertible bonds issued September 27, 2005 (Note b)	400	—	—
1.14% unsecured convertible bonds, $100 ($839) due in 2007 and the remainder due September 27, 2009	—	250	2,099
	37,733	56,941	478,014
Less: Current portion of long-term debt	16,403	35,015	293,947
Total long-term debts excluding current portion	¥21,330	¥21,926	$184,067

Weighted average interest for current portion and non-current portion of long-term loans were 2.30% and 2.50% per annum at December 31, 2005, respectively and 2.2% and 2.0% per annum at December 31, 2006, respectively.

The aggregate amounts of annual maturity of long-term loans with due after one year are as follows:

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
Year ending December 31,		
2008	¥13,869	$116,429
2009	578	4,852
2010	53	445
2011	3,173	26,637
Thereafter	128	1,075
Total long-term loans excluding current portion	¥17,801	$149,438

(3) Assets pledged as collateral

The Companies pledge certain assets as collateral under some loan arrangements made with financial institutions. The financial institutions may obtain the collateral in the event of financial default or delinquent payments as provided for in the loan agreements. The assets, at carrying value, pledged as collateral for short-term loans and long-term loans and the secured short-term and long-term loans at December 31, 2005 and 2006 are as follows:

Pledged assets	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2006	2006
Inventories	¥40,206	¥57,863	$485,754
Buildings and structures	506	482	4,046
Land	390	390	3,274
Total assets pledged as collateral	¥41,102	¥58,735	$493,074

Secured loans	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2006	2006
Short-term loans	¥19,753	¥ 8,243	$ 69,199
Current portion of long-term loans	15,649	30,305	254,407
Long-term loans, less current portion	9,381	17,226	144,611
Total secured loans	¥44,783	¥55,774	$468,217

7. RETIREMENT BENEFITS

The Companies have no retirement benefit plans for their employees and their directors.

8. CONTINGENCIES

The Companies contingent liabilities from notes receivable delivered with endorsement to subsidiaries' suppliers of ¥11 million at December 31, 2005. The balance at December 31, 2005 guaranteed by Companies for their customers who borrowed from banks as temporary housing loans was ¥946 million. At December 31, 2006, the Companies do not have any contingent liabilities.

9. INCOME TAXES

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

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2006	2006
Deferred tax assets:			
Net operating loss carry-forwards	¥197	¥486	$4,080
Accrued local business taxes	164	151	1,268
Provision for doubtful accounts in excess of tax deductible amount	88	—	—
Loss on devaluation of inventories	223	222	1,864
Accrued interest not booked	—	60	504
Unrealized gain on inventories	—	216	1,813
Devaluation of capital investments	—	31	260
Other	64	93	781
	736	1,259	10,570
Deferred tax liabilities			
Revaluation gain on investment securities	(883)	(381)	(3,199)
Other	(4)	—	
	(887)	(381)	(3,199)
Net deferred tax assets (liabilities)	¥(151)	¥878	$7,371

The aggregate statutory income tax rate used for calculation of deferred income tax assets and liabilities is 40.7% for the years ended December 31, 2005 and 2006.

Since the differences between the statutory corporate tax and the effective income tax rate for the years ended December 31, 2005 was less than 5% of the statutory corporate tax, the difference-reconciliation is omitted in accordance with the accounting standards for income taxes.

Reconciliation between effective tax rate and statutory tax rate for 2006 is as follows:

Statutory tax rate	40.7%
(Reconciliation)	
Gain on sale of investment securities adjusted for consolidation purposes	2.7%
Other	0.7%
Effective tax rate	44.1%

With the implementation of the "Revision of the Local Tax Law" (Legislation No. 9, 2003) on March 31, 2003, the tax basis of enterprise taxes comprises "amount of income", "amount of added value" and "amount of capital" from this fiscal year commenced April 1, 2004. Enterprise taxes based on "amount of added value" and "amount of capital" are included in "Selling, general and administrative expenses" from this fiscal year pursuant to "Practical Solutions on Presentation for Size-Based Components of Corporate Enterprise Tax on Income Statement" (Accounting Standards Board, Practical Solution Report No.12 issued on February 13, 2004). As a result of this change, the selling, general and administrative expenses increased by ¥48 million, and the operating income and the income before income taxes and minority interest decreased by the same amount for the year ended December 31, 2005.

10. SHAREHOLDERS' EQUITY

Prior to May 1, 2006, the effective date of the Corporation Law promulgated on July 26, 2005, a corporation was complied with the Commercial Code, (the Code) which regulated commercial activities in general. On and after May 1, 2006, a corporation is complied with the Corporation Law (the Law), which focuses on a corporation's business activities.

Under the Law as well as the Code, an entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by resolution of its Board of Directors, account not exceeding one-half of the issue prices of the new shares as additional paid-in capital, which is included in capital surplus. The Law requires that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. The total amount of legal earnings reserve and additional paid-in capital has reached 25% of common stock at January 31, 2004 and, therefore, the Company is not required to provide legal earnings reserve any more. The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution or the Board of Directors. On condition that the total amount of legal earnings reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for distribution by the resolution of shareholders' meeting. Legal earnings reserve is included in retained earnings in the accompanying consolidated financial statements. The legal earnings reserve included in retained earnings is ¥11 million and ¥11 million ($92 thousand) at December 31, 2005 and 2006, respectively.

Annual dividends are to be approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semi-annual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Law. The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Law.

11. BREAKDOWN OF SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended December 31, 2005 and 2006 comprised the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2006	2006
Advertisement and marketing	¥2,494	¥1,552	$13,029
Sales commission	1,329	998	8,378
Directors' remuneration	224	223	1,872
Employees' compensation	1,121	709	5,952
Taxes	320	283	2,376
Other	1,558	878	7,370
Total	¥7,046	¥4,643	$38,977

12. CREDIT LINE

In 2006, the Companies entered into credit line agreements with five financial institutions for the purpose of efficient management for operation and project funds. The following is the summary of the credit line at December 31, 2006:

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
Total of credit line	¥3,700	$31,061
Balance of borrowings	—	—
Unused credit line	¥3,700	$31,061

13. STOCK OPTION

(1). General information

	Stock option granted in 2001	Stock option granted in 2006
Number of persons granted	Directors of the Company: 1 Employees of the Company: 32	Directors of the Company: 4 Employees of the Company: 75
Number of stock option	Common stock: 7,344 shares	Common stock: 9,000 shares
Grant date	April 26, 2001	April 28, 2006
Qualification for grant of stock option	—	—
Vested period	—	—
Exercisable period	From: August 1, 2003 To: March 31, 2011	From: April 1, 2008 To: March 31, 2013

(2). Movement of number of stock option

	Stock option granted in 2001	Stock option granted in 2006
Outstanding at December 31, 2005	2,598 shares	—
Granted	—	9,000 shares
Exercised	954 shares	—
Forfeited	—	224 shares
Outstanding at December 31, 2006	1,644 shares	8,776 shares

Number of common share has been recalculated in consideration of stock splits made after grant date.

(3). Price information

		Yen
	Stock option granted in 2001	Stock option granted in 2006
Exercise price per stock	¥ 12,778	¥270,184
Average stock price at exercise	234,000	—
Fair value per stock	—	—

		U.S. Dollars (Note 1)
Exercise price per stock	$ 107	$2,868
Average stock price at exercise	1,964	—
Fair value per stock at grant date	—	—

Exercise price per stock has been determined in consideration of stock splits made after grant date. Average stock price at exercise is determined on the assumption that stock splits were made at the beginning of the period.

14. SEGMENT INFORMATION

(1) Business Segment

The Companies are primarily engaged in the real estate business. Their business segments are classified in terms of the nature of each operation or service. Their business segment consists of five segments: Condominium and Housing Sales business, Real Estate Planning Sales business, Real Estate Related Subcontracting business, Asset development business and Other business. Asset development business is recognized as an independent business segment for the year ended December 31, 2006 due to its rapid growth during 2006. The segment information for the year ended December 31, 2005 was restated in order to tally with the presentation of that for the year ended December 31, 2006.

The business segment information of the Companies for the years ended December 31, 2005 and 2006 is summarized as follows:

2005 — Millions of Yen

	Condominium and Housing Sales	Real Estate Planning Sales	Real Estate-related Subcontracting	Asset Development	Other	Total	Elimination and/or Corporate	Consolidation
Sales from external customers	¥41,667	¥13,133	¥530	¥ 2,711	¥1,392	¥59,433	¥ —	¥59,433
Inter-segment or transfers	—	—	17	50	4,000	4,067	(4,067)	—
Total sales	41,667	13,133	547	2,761	5,392	63,500	(4,067)	59,433
Operating expense	37,585	11,948	364	1,520	5,177	56,594	(3,039)	53,555
Operating income	¥ 4,082	¥ 1,185	¥183	¥ 1,241	¥ 215	¥ 6,906	¥(1,028)	¥ 5,878
Total assets	¥25,743	¥13,268	¥245	¥18,126	¥2,097	¥59,479	¥25,475	¥84,954
Depreciation	¥ 32	¥ 10	¥ 0	¥ 2	¥ 19	¥ 63	¥ 7	¥ 70
Capital expenditure	¥ 48	¥ 27	¥ 2	¥ 1	¥ 122	¥ 200	¥ 19	¥ 219

2006 — Millions of Yen

	Condominium and Housing Sales	Real Estate Planning Sales	Real Estate-related Subcontracting	Asset Development	Other	Total	Elimination and/or Corporate	Consolidation
Sales from external customers	¥26,805	¥8,814	¥ 281	¥15,288	¥ 654	¥51,842	¥ —	¥51,842
Inter-segment or transfers	—	—	25	—	—	25	(25)	—
Total sales	26,805	8,814	306	15,288	654	51,867	(25)	51,842
Operating expense	23,660	7,375	48	12,303	683	44,069	669	44,738
Operating income	¥ 3,145	¥1,439	¥ 258	¥ 2,985	¥ (29)	¥ 7,798	¥ (694)	¥ 7,104
Total assets	¥26,303	¥5,538	¥1,222	¥53,423	¥1,921	¥88,407	¥9,953	¥98,360
Depreciation	¥ 10	¥ 4	¥ 1	¥ 12	¥ 22	¥ 49	¥ 9	¥ 58
Capital expenditure	¥ 125	¥ 53	¥ 10	¥ 137	¥ 24	¥ 349	¥ 97	¥ 446

2006 — Thousands of U.S. Dollars (Note 1)

	Condominium and Housing Sales	Real Estate Planning Sales	Real Estate-related Subcontracting	Asset Development	Other	Total	Elimination and/or Corporate	Consolidation
Sales from external customer	$225,025	$73,993	$ 2,359	$128,341	$ 5,490	$435,208	$ —	$435,208
Inter-segment or transfers	—	—	210	—	—	210	(210)	—
Total sales	225,025	73,993	2,569	128,341	5,490	435,418	(210)	435,208
Operating expense	198,623	61,912	403	103,282	5,734	369,954	5,616	375,570
Operating income	$ 26,402	$12,081	$ 2,166	$ 25,059	$ (244)	$ 65,464	$(5,826)	$59,638
Total assets	$220,811	$46,491	$10,259	$448,480	$16,127	$742,168	$83554	$825,722
Depreciation	$ 84	$ 33	$ 8	$ 101	$ 185	$ 411	$ 76	$ 487
Capital expenditure	$ 1,049	$ 445	$ 84	$ 1,150	$ 202	$ 2,930	$ 814	$ 3,744

(2) Geographic Segment

The Companies operate their business only within Japan and, therefore, the Companies do not disclose geographical information and the information for revenues from overseas.

15. SUBSEQUENT EVENTS

At the general meeting of the Company's shareholders held on March 23, 2007, the shareholders approved the following:

a) Payment of the year-end cash dividends per share of ¥1,500.00 ($12.59) or total of ¥270 million ($2,267 thousand).

b) Payment of bonuses to directors of ¥81 million ($680 thousand).

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of ES-CON JAPAN Ltd.

We have audited the accompanying consolidated balance sheets of ES-CON JAPAN Ltd. and its consolidated subsidiaries as of December 31, 2005 and 2006, and the related consolidated statements of income, changes in net assets and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ES-CON JAPAN Ltd. and its consolidated subsidiaries as of December 31 ended 2005 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2006 are presented solely for the convenience of readers outside Japan. Our audit also included the translation of yen amounts into the U.S. dollar amounts and, in our opinion, such translation has been made on the basis set forth in Note 1 to the consolidated financial statements.

Additional information:

1. As mentioned in Note 2, the Company adopted the Practical Guideline for Application of Control Criteria and Influence Criteria to Invest Associations (Practical Solution Report No. 20, September 8, 2006) issued by the Accounting Standards Board of Japan and prepared the accompanying consolidated financial statements for the year ended December 31, 2006.

2. As mentioned in Note 2, The Accounting Standards Board of Japan issued new accounting standards for accounting for bonuses to directors. The Companies adopted these standards and prepared the accompanying consolidated financial statements for the year ended December 31, 2006.

3. As mentioned in Note 2, the Business Accounting Deliberation Council issued new accounting standards for impairment of fixed assets. The Companies adopted these standards and prepared the accompanying consolidated financial statements for the year ended December 31, 2006.

4. As mentioned in Note 14, business segments are classified in terms of the nature of each operation or service. Due to a rapid growth of Asset development business during 2006, the business is recognized as a separate segment. Business segment for the year ended December 31 consists of five segments: Condominium and Housing Sales business, Real Estate Planning Sales business, Real Estate-related Subcontracting business, Asset development business and Other business for the year ended December 31, 2006. The segment information for the year ended December 31, 2005 restated in order to tally with the presentation of that for the year ended December 31, 2006.

BDO Sanyu & Co.

BDO Sanyu & Co.
Osaka, Japan
March 24, 2007

Organization

(As of April 9, 2007)

- President
  Board of Directors
  - Business Coordination Group
    - Residential Development Division
    - Asset Development Division
    - Business Development Office
    - Tokyo Residential Development Division
  - Management and Coordination Group
    - General Administration Department
    - Accounting and Finance Department
    - Corporate Management Department
    - Public Relations and Investor Relations Office

Directors and Auditors

(As of March 23, 2007)

President and Representative Director

HIROFUMI NAOE

Managing Director

TAKATOSHI ITO

Directors

MASATOSHI YAMASHITA
HIROYUKI HASHIMOTO
HIDEKI FUKUDOME
MASAMI SAKAI

Standing Auditor

MINORU NOGUCHI

Auditors

KAZUYOSHI YAMAMOTO
MASANAO IECHIKA

Executive Officer

(As of April 1, 2007)

Executive Officer
(Asset Development Division and
Tokyo Residential Development Division)

TAKAHARU TERAUCHI

Corporate History

Apr. 1995	DESERT INN Ltd. established in Kita-ku, Osaka City.
Apr. 1996	Trade name changed to ES-CON JAPAN Ltd. Company prepares for operations to begin. Building Lots and Building Transaction Business License certified by the Governor of Osaka Prefecture. Commencement of real estate and subcontracting businesses.
Jun. 1996	Building Lots and Building Transaction Business License certified by the Governor of Osaka Prefecture. Commencement of real estate and subcontracting businesses.
Aug. 1996	Primary planning project commences. A location in Nara City is the site of our first project aimed at developers.
Dec. 1997	First condominium business project—Neverland Nishinomiya-Ekimae—started.
Jul. 1998	CONSULTING STAFF Ltd. established to develop new sectors and work on subcontracting issues (On Feb 1 st, 2003 the name was changed to UNIDIO CORPORATION Ltd., a consolidated subsidiary).
Jul. 1999	NS KANRI Ltd. established to manage property maintenance issues (now a consolidated subsidiary).
Jul. 2000	Building Lots and Buildings Transaction Business License certified by the Minister of Construction. OCTTRUST Ltd. established to work on product. development of building materials and fittings (On May 1 st, 2003 the name was changed to UNIDIO ARTS Ltd., a consolidated subsidiary).
Nov. 2000	Registered as a First Class Builders Office. Admitted to the Japan Association of High-Rise Housing.
Apr. 2001	Head Office moves to Chuo-ku, Osaka City. Admitted to the Real Estate Companies Association of Japan. Admitted to the Real Estate Fair Trade Council.
May 2001	Certification of ISO 14001.
Aug. 2001	Stock traded on the JASDAQ Exchange.
Sep. 2001	Tokyo Branch Office is renamed as the Tokyo Head Office.
May 2003	Principal registry moved from Osaka Head Office to Tokyo Head Office.
Dec. 2003	Accounting period changed from January 31 to December 31.
Apr. 2004	Corporate structure was re-organized.
Feb. 2006	Selected as a JASDAQ Securities Exchange J-Stock.
Feb. 2006	Consolidated subsidiary, UNIDO CORPORATION Ltd. separated from Group.
Sep. 2006	Permission to begin real estate syndication.
Dec. 2006	Acquisition of corporate credit rating from JCR, “BBB–” (long-term), “ J-2” (short-term).

Directory

(As of May 28, 2007)

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4-1-1 Fushimi-machi, Chuo-ku, Osaka 541-0044 Japan
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N S KANRI Ltd.

Head Office: 1-4-3 Tanimachi, Chuo-ku, Osaka 540-0012 Japan
Phone: +81-6-4794-1700 Fax:+81-6-4794-1701

Major Subsidiaries

(As of March 23, 2007)

Name	Location	Capital or investment (¥ thousands)	Principal activities
N S KANRI Ltd.	Chuo-ku, Osaka	40,000	Maintenance and management of condominiums and other properties supplied by ES-CON Japan
E-STATE Ltd.	Chuo-ku, Osaka	910,000	Real estate trading and consulting

Corporate Information

(As of March 23, 2007)

Company Name	: ES-CON JAPAN Ltd. (Registered name)
Location of Head Office	: Tokyo
Telephone Number	: +81-3-5512-7020
Code	: 8892
Web Site	: http://www.es-conjapan.co.jp/
Representative	: Hirofumi Naoe, President and Representative Director
Contact for Inquiries	: Hideki Fukudome, Director
Date of the Board of Directors' Meeting to Approve Accounts	: February 23, 2007
US GAAP	: Not applicable
Accounting Period	: From January 1 to December 31

ES-CON JAPAN Ltd.

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URL http://www.es-conjapan.co.jp/

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