

Security Code 8803
June 2, 2010

To the Stockholders
of Heiwa Real Estate Co., Ltd.

Dear Sirs:

NOTICE CONCERNING THE CONVOCATION OF THE
90th ORDINARY GENERAL SHAREHOLDERS' MEETING

We are pleased to inform you that the 90th Ordinary General Shareholders' Meeting (the "Meeting") of Heiwa Real Estate Co., Ltd. (the "Company") will be held as specified in the attached notice. You are cordially invited to attend.

Yours faithfully,

Sakutaro Kimbara
President, Director
Heiwa Real Estate Co., Ltd.
1-10, Nihonbashi, Kabuto-cho,
Chuo-ku, Tokyo (103-8222)
Japan

Note: This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail. The Company assumes no responsibility for this translation or for direct, indirect or any other forms of damages arising from the translation.

NOTICE

The resolution of certain agenda items requires the quorum of the meeting. Therefore, if you cannot attend the meeting, you can exercise your voting rights by one of the following methods. We would appreciate your review of the reference materials attached from page 55 to 61 and your exercise of the voting rights.

[Voting by Mail]

Please indicate your vote for or against each of the agendas on the enclosed Voting Rights Exercise Form and return the form by the end of business hours (5:00 p.m.), Thursday, June 24, 2010.

[Voting via the Internet]

Please access (<http://www.e-kosi.jp>) with your browser and enter the proxy code and temporary password supplied on the enclosed Voting Rights Exercise Form. Then follow the instructions and enter your vote for each agenda by the end of business hours (5:00 p.m.), Thursday, June 24, 2010.

If voting rights are exercised by both methods, only voting rights exercised via the Internet will be counted.

If voting rights are exercised multiple times via the Internet, only the last recorded entry will be counted.

1. Date of the Meeting: June 25, 2010 (Friday), 10:00 a.m.
2. Place of the Meeting: The Tokyo Stock Exchange Bldg. 2F, TSE Hall
2-1, Nihonbashi-Kabutocho,
Chuo-ku, Tokyo, Japan
3. Items on Meeting Agenda
 - Items to be reported: 1 The Business Report, the Consolidated Financial Statements, and the Non-consolidated Financial Statements for the 90th fiscal year from April 1, 2009 to March 31, 2010; and
 - 2 Independent Auditor's Report of Consolidated Financial Statements and Audit Report of Consolidated Financial Statements by the Board of Statutory Auditors for the 90th fiscal year.

Items to be voted upon:

| | |
|--------------------|--------------------------------------|
| Agenda Item No. 1: | Proposed Appropriation of Surplus |
| Agenda Item No. 2: | Assignment of Two Directors |
| Agenda Item No. 3: | Assignment of Two Statutory Auditors |

(If you are attending the meeting, please submit the enclosed attendance sheet at the reception desk, without separating it from the proxy forms.)

(If any modifications are made to the Business Report, the Consolidated Financial Statements, and the Non-consolidated Financial Statements, the details will be published on the Company's website at <http://www.heiwa-net.co.jp/>)

(Attached Documents)

BUSINESS REPORT

1. Outline of Operations for the period from April 1, 2009 to March 31, 2010:

(1) Update and Results of Business -

During the fiscal year ended March 31, 2010, the Japanese economy remained stagnant as the momentum of autonomous recovery in personal consumption was weak with both employment and income conditions remaining sluggish, despite a hint of recovery in both export and production in some segment of the economy due to an improvement in the external economic environment.

Under these circumstances, although disturbance in the real estate industry derived from the global financial crisis is being stabilized, market conditions have kept slowing down as land prices went down in both residential and business districts across the country.

In the office building market, weak market conditions became all too clear as vacant inventories kept increasing because of the shrinking demand for office space as impacted by the sluggish real economy along with an increase in the floor space on offer through the new supply of office buildings, resulting in an even more fierce competition for tenants.

On the other hand, performance in the housing market including sales of condominiums largely remained solid, thanks to the ongoing adjustment of inventories and sales prices, while housing starts and sales remained low due to continuously severe conditions of employment and income.

The real estate investment market where supply of fund has been tight for a while, has been moving to a recovery trend such as the recent cases of acquisitions of properties through the issuance of investment corporation bond or public stock offerings as observed since the start of the year.

The operating results for the respective divisions of the Company under these circumstances are as summarized below.

Building Division

In this Division, while the construction of CentRise Sakae (Naka-ku, Nagoya-city) was completed in this February, its revenue and leasing revenue were badly decreased resulting from such measures as sales of buildings owned in the previous fiscal year.

As a result, the Company earned ¥5,144 million in Stock Exchange Market Place Leasing Income, up by ¥2 million (0.0%) compared with the previous period. General Office Leasing Income decreased to ¥9,302 million, down by ¥412 million (4.2%) compared with the previous period. Commercial Facilities Leasing Income decreased to ¥3,140 million, down by ¥425 million (11.9%) compared with the previous period. Building Income, including Land Leasing Income, totaled ¥17,963 million, down by ¥7,671 million (29.9%) compared with the previous period.

The vacancy rate of the Company's leased buildings (on a parent company basis) was 3.3% at the end of the fiscal year ended March 31, 2010. Overall vacancy rate of existing leased buildings excluding CentRise Sakae was 2.1%.

Housing Division

In the Housing Division, condominium income amounted to ¥11,413 million, up by ¥4,064 million (55.3%) compared with the previous period, by achieving the sales of 242 units in all including those at Shinka City Station Suite (Saiwai-ku, Kawasaki-city).

Housing Leasing Income decreased to ¥774 million, down by ¥9 million (1.2%) compared with the previous period. Housing Income, including other income, amounted to ¥12,337 million, up by ¥2,766 million (28.9%) compared with the previous period.

Asset Development Division

In the Asset Development Division, operating revenue from the real estate development and management businesses decreased by ¥5,513 million (37.7%) to ¥9,095 million, mainly due to a decrease in the sales of real estate development.

Other Divisions

In the Real Estate Brokerage Business, sales activities in relation to corporations and investment funds produced ¥461 million in revenue in the Real Estate Brokerage Business, up by ¥34 million (8.2%) from the revenue reported during the previous period.

Income from the Contract Construction Business and Building Management Business increased to ¥1,645 million, up by ¥435 million (36.0%) compared with the previous period. Income from the Private Nursing Home Business increased to ¥417 million, up by ¥33 million (8.9%) compared with the previous period. Other Divisions operating revenue for the fiscal year ended

March 31, 2010, increased by ¥487 million (23.0%) to ¥2,608 million.

Overall Operating Results of the Group

The operating results of the Company group for the fiscal year ended March 31, 2010, are summarized below:

Operating Revenue decreased to ¥42,004 million, down by ¥9,930 million (19.1%) compared with the previous period. Operating Costs totaled ¥31,515 million, down by ¥6,210 million (16.5%) compared with the previous period, as a result of the write-down of inventories, while Selling, General and Administrative Expenses totaled ¥4,343 million, down by ¥868 million (16.7 %) compared with the previous period.

Consequently, Operating Income for the fiscal year ended March 31,2010, reached ¥6,145 million, down by ¥2,852 million (31.7%) compared with the previous period, while Ordinary Income reached ¥2,895 million, down by ¥3,283 million (53.1%) compared with the previous period.

For this fiscal year net loss of ¥8,706 million was recorded as a result of ¥18,335 million extraordinary loss derived from loss on revaluation of fixed assets and operating investment, offsetting ¥2,734 million extraordinary income derived from the transfer of buildings owned in an effort to reinforce REIT operation, etc.

In consideration of this stringent business environment, we regret to inform you that we will not distribute any year-end dividends for the fiscal term. We sincerely apologize to our shareholders for these results.

(2) Issues to be resolved by the Company -

Although the world is seeing its economic disorder caused by the global financial crisis coming to an end, Japan is still experiencing a changing business environment. Going forward, while a modest and gradual recovery is expected, economic uncertainty is likely to remain for some time. The heavy loss posted for the current consolidated fiscal year compels us to forego a year-end dividend distribution. The Company group accepts deterioration in these results sincerely enough. The Company group will also adjust to the severe changes in external circumstances, accelerate the selection and concentration of its businesses under the core strategies listed below, and pursue the establishment of a firm revenue base on a group-wide basis.

- 1) In the Building Division, the Company will continue to keep current high operating rates and focus on the early profitability of CentRise Sakae completed in this February.

- 2) In the Asset Development Division, the Company will focus on increases in non-asset fee revenues, including support fees from CRESCENDO Investment Corporation.
- 3) In the Housing Division, the Company will continue to place the utmost priority on drastically reducing inventories.
- 4) In financial management, the Company will reinforce its financial strength through various measures, including efforts to reduce interest-bearing liabilities and improve the capital-to-assets ratio.

In all our endeavors, we will be grateful for your continuing understanding and support.

(3) Investment in fixed assets -

The Company paid out total capital expenditures of ¥7,850 million, including the expenditure for the construction of CentRise Sakae.

(4) Status of financing -

The Company issued its 9th series of unsecured bonds on September 30, 2009 (issued amount, ¥2 billion; date of maturity, September 30, 2016; annual interest, 1.04%), its 10th series of unsecured bonds on December 25, 2009 (issued amount, ¥7 billion; date of maturity, December 25, 2014; annual interest, 2.46%), and its 11th series of unsecured bonds on January 28, 2010 (issued amount, ¥7 billion; date of maturity, January 28, 2015; annual interest, 2.48%).

(5) Changes in asset status and profit and loss of the Group -

| Fiscal year Classification | The 87th fiscal year (From April 1, 2006 to March 31, 2007) | The 88th fiscal year (From April 1, 2007 to March 31, 2008) | The 89th fiscal year (From April 1, 2008 to March 31, 2009) | The 90th fiscal year (From April 1, 2009 to March 31, 2010) |
|--|--|--|--|--|
| Operating revenue | ¥31,912 million | ¥31,384 million | ¥51,935 million | ¥42,004 million |
| Ordinary Income | 8,164 million | 7,176 million | 6,178 million | 2,895 million |
| Net income | 4,534 million | 3,737 million | 862 million | (8,706 million) |
| Net income per share (in exact yen) | 31.90 | 25.56 | 5.81 | (58.50) |
| Total assets | 213,298 million | 298,728 million | 317,439 million | 303,456 million |
| Net assets | 67,014 million | 70,456 million | 70,598 million | 58,764 million |
| Net assets per share (in exact yen) | 461.01 | 460.24 | 454.57 | 392.14 |

(Notes) 1. Amounts in parentheses for Net income and Net income per share are negative.

2. The operation outline for the 90th fiscal year is as stated in the "Update and Results of Business."

(6) Status of significant parent companies and subsidiaries -

1) Status of parent companies

Not applicable

2) Status of significant subsidiaries

| <u>Company name</u> | <u>Common stock</u> | <u>Percentage of voting rights held by the Company</u> | <u>Major operating business</u> |
|-------------------------------------|---------------------|--|--|
| Heiwa Service Co., Ltd. | ¥134 million | 100.0% | Management of buildings and facilities, contracting of repair work |
| Heiwa Healthcare Co., Ltd. | ¥70 million | 100.0% | Private nursing home enterprise |
| Osaka Securities Building Co., Ltd. | ¥100 million | 100.0% | Lease, management and operation of buildings and facilities, etc. |
| Housing Service Co., Ltd. | ¥95 million | 100.0% | Real estate brokerage, management of company housing |
| Canal Investment Trust Co., Ltd. | ¥295 million | 100.0% | Investment advisory business (Management of investment corporation-type J-REIT (Real Estate Investment Trusts)) |
| Titan Y.K | ¥3 million | - | Acquisition, possession and management of trust beneficiary rights on real estate in trust through anonymous partnership agreement |
| H2 Y.K | ¥3 million | - | Same as above |
| Cassiopeia Investment, Y.K | ¥3 million | - | Same as above |
| STAR 1 REALTY Y.K | ¥3 million | - | Same as above |
| STAR 2 REALTY Y.K | ¥3 million | - | Same as above |
| Charites Y.K | ¥3 million | - | Same as above |

(Notes) 1. Canal Investment Trust Co., Ltd. became a wholly owned subsidiary of the Company through the additional purchase of shares on October 19, 2009.

2. The Company owns the shares of Heiwa Healthcare Co., Ltd. indirectly through Heiwa Service Co., Ltd.

(7) Contents of principal businesses of the Group -

| Division | Business Activities |
|-------------------|---|
| Building | Leasing, management and performance of stock exchange buildings, general office buildings and commercial facilities. |
| Housing | Sales and leasing of condominiums, detached houses, etc. |
| Asset Development | Development of profitable real estate and operation and management of assets |
| Other | Agency and brokerage related to trading and leasing of real estate, management of buildings and facilities, etc., contracting of repair work, and a private nursing home enterprise |

(8) Principal sales offices -

| | |
|-------------------------------------|---|
| The Company | Head Office: Chuo-ku, Tokyo Osaka Branch: Chuo-ku, Osaka-city Nagoya Branch: Naka-ku, Nagoya-city Fukuoka Branch: Chuo-ku, Fukuoka-city Sapporo Branch: Chuo-ku, Sapporo-city |
| Heiwa Service Co., Ltd | Head Office: Chuo-ku, Tokyo Osaka Branch: Chuo-ku, Osaka-city Nagoya Branch: Naka-ku, Nagoya-city |
| Heiwa Healthcare Co., Ltd | Abiko-city, Chiba-prefecture |
| Osaka Securities Building Co., Ltd. | Chuo-ku, Osaka-city |
| Housing Service Co., Ltd. | Head Office: Chuo-ku, Osaka-city Toyonaka Branch: Toyonaka-city, Osaka-fu |
| Canal Investment Trust Co., Ltd. | Minato-ku, Tokyo |
| Titan Y.K | Chuo-ku, Tokyo |
| H2 Y.K | Chuo-ku, Tokyo |
| Cassiopeia Investment, Y.K | Chuo-ku, Tokyo |
| STAR 1 REALTY Y.K | Chuo-ku, Tokyo |
| STAR 2 REALTY Y.K | Chuo-ku, Tokyo |
| Charites Y.K | Chuo-ku, Tokyo |

(9) Employees of the Group -

| <u>No. of Employees</u> | <u>Increase/(decrease) as compared with prior period end</u> |
|-----------------------------|--|
| <u>249</u> | <u>21</u> |

(Note) 1. Number of employees is number of ordinary employees.

2. Employees of the Company (number of ordinary employees) are as follows:

| <u>No. of Employees</u> | <u>Increase/(decrease) as compared with prior period end</u> | <u>Average age (years)</u> | <u>Average length of service (years)</u> |
|-----------------------------|--|--------------------------------|--|
| <u>85</u> | <u>(8)</u> | <u>40.6</u> | <u>14.3</u> |

(10) Principal creditors -

| <u>Creditors</u> | <u>Balance</u> |
|--|-----------------------------|
| | <u>(In millions of yen)</u> |
| Resona Bank, Ltd. | ¥24,063 |
| The 77 Bank, Ltd. | 15,450 |
| Sumitomo Mitsui Banking Corporation | 14,535 |
| Mizuho Corporate Bank, Ltd. | 13,797 |
| The Hokkaido Bank, Ltd. | 8,850 |
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. | 8,131 |

2. Status of Shares:

- (1) Number of shares authorized - 550,000,000 shares
- (2) Number of shares issued and outstanding - 149,503,980 shares
(including 682,986 shares of treasury stock)
- (3) Number of shareholders - 25,782
(Decrease of 1,015 compared with prior period end)
- (4) Major shareholders -

| Name | No. of shares (000's) | Percentage of ownership (%) |
|--|--------------------------|-----------------------------------|
| Japan Trustee Services Bank, Ltd. (Trust Account) | 8,575 | 5.76 |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 6,834 | 4.59 |
| JPMorgan Securities Japan Co., Ltd. | 3,265 | 2.19 |
| Taisei Corporation | 2,663 | 1.79 |
| Trust & Custody Service Bank, Ltd. (Securities Investment Trust Account) | 2,379 | 1.60 |
| Resona Bank, Ltd | 2,229 | 1.50 |
| Sumitomo Mitsui Banking Corporation | 2,010 | 1.35 |
| Japan Trustee Services Bank, Ltd. (Trust Account 4) | 1,856 | 1.25 |
| Mitsubishi UFJ Securities Co., Ltd. | 1,583 | 1.06 |
| Nihon Meccs Corporation | 1,500 | 1.01 |

(Note)

The percentage of ownership is calculated after deducting the number of shares held as treasury stock (682,986 shares).

3. Stock acquisition rights:

Stock acquisition rights already issued are as follows:

(1) The seventh series of the unsecured convertible bonds with stock acquisition rights

| | |
|--|--|
| Name | Heiwa Real Estate Co., Ltd the seventh series of unsecured convertible bonds with stock acquisition rights (limited inter-bonds pari passu clause) |
| Date of resolution to issue | June 7, 2007 |
| Amount of convertible bonds with stock acquisition rights | 20,000 million yen |
| Number of stock acquisition rights | 20,000 |
| Class of shares to be issued or transferred upon exercise of stock acquisition rights | Common stock |
| Number of shares to be issued or transferred upon exercise of stock acquisition rights | 19,704,433 shares |
| Issue price of stock acquisition rights | Free |
| Exercise period of stock acquisition rights | From August 1, 2007 to June 21, 2012 |

(Note)

Number of stock acquisition rights is result of division of amount of convertible bonds with stock acquisition rights by conversion price of 1,015 yen.

4. Matters related to Corporate Officers:

(1) Directors and Statutory Auditors -

| Position | Name | Assignment; significant office(s) concurrently held |
|---|--------------------|--|
| Director and President* and Chief Executive Officer | Sakutaro Kimbara | |
| Director* and Senior Executive Officer | Sadao Yoshino | Overall Management of Administration / Building Division / Branches / Affiliated Companies |
| Director* and Senior Executive Officer | Hiroyuki Takahashi | Overall Management of Asset Development Division / Real Estate Brokerage Division / Housing Division |
| Director and Managing Executive Officer | Takashi Hayakawa | Building Business Department / Building Construction Department / Branches Director and President of Osaka Securities Building Co., Ltd. |
| Director and Managing Executive Officer | Kazuo Minamino | Housing Development Department / Leasing Housing Department Executive Manager of Leasing Housing Business Department |
| Director | Kaoru Umehara | Director and President of Kyowa Securities Co., Ltd. |
| Statutory Auditor (full- time) | Ichiro Sasaki | |
| Statutory Auditor (full- time) | Shigeo Ojima | |
| Statutory Auditor (Notes) | Masahiko Kadotani | |

1. "*" above, indicates Representative Director.
2. Kaoru Umehara is an External Director.
3. Shigeo Ojima and Masahiko Kadotani are External Statutory Auditors.
4. External Statutory Auditor, Shigeo Ojima, has long experience at Osaka Securities Exchange and possesses substantial expertise and experience in finance and accounting.
5. External Statutory Auditor, Masahiko Kadotani, held positions such as Director General of the Securities Bureau of the Ministry of Finance and Commissioner of the National Tax Agency and possesses substantial expertise and experience in finance and accounting.
6. Director, Kaoru Umehara, and Statutory Auditors, Shigeo Ojima and Masahiko Kadotani are independent director/auditors subject to no possible conflicts of interest

with general shareholders that the Company is required to designate under the rules of each stock exchange.

7. Directors retired during the term: Masashi Ueda (Resigned on June 25, 2009)

Takeo Hino (Term of office expired on June 25, 2009)

8. Statutory Auditors assuming office during the term:

Ichiro Sasaki and Shigeo Ojima
(Assumed office on June 25, 2009)

9. Statutory Auditors retired during the term:

Kazuyuki Nakajima and Yoshitake Kaneda
(Terms of office expired on June 25, 2009)

10. The following four persons are Managing Officers other than the five Directors/ Managing Officers listed above, and their duties are as indicated hereunder:

| | | |
|------------------|------------------|---|
| Managing Officer | Masami Taniguchi | In charge of Real Estate Brokerage Department |
| Managing Officer | Toshio Soeda | Manager of Fukuoka Branch |
| Managing Officer | Katsuyuki Bessho | Director of Asset Development Department |
| Managing Officer | Kazuo Yamada | Director of Finance Department |

(2) Remuneration paid to Directors and Statutory Auditors for the current fiscal year-

| Category | Number of persons | Amount Paid | Note |
|-------------------|-------------------|--------------|---|
| Director | 8 | ¥165 million | of which ¥7 million to 1 External Director |
| Statutory Auditor | 5 | ¥44 million | of which ¥23 million to 3 External Statutory Auditors |
| Total (Notes) | 13 | ¥209 million | |

1. A resolution of the 88th Ordinary General Shareholders' Meeting held on June 26, 2008 limits the amount of remuneration for Directors (excluding External Directors) to ¥250 million per year (the amount of remuneration for Directors will not include the employee salaries of Directors who serve concurrently as employees) and the amount of remuneration for External Directors to ¥25 million per year.

2. A resolution of the 88th Ordinary General Shareholders' Meeting held on June 26, 2008 limits Statutory Auditors' remuneration to ¥60 million per year.
3. The number of members above mentioned includes two Directors and two Statutory Auditors who retired upon expiration of their terms at the conclusion of the 89th Ordinary General Shareholders' Meeting held on June 25, 2009.
4. The Company resolved to abolish the retirement allowances program for Directors and Statutory Auditors at the conclusion of the 88th Ordinary General Shareholders' Meeting held on June 26, 2008. With regard to Directors and Statutory Auditors who were to remain in office after the meeting, the Company resolved to provide each, upon his or her retirement, with a retirement allowance based on his or her term of office up to the abolishment of the retirement allowances program. Under the above resolution, the Company paid retirement allowances totaling ¥94 million to the two Directors who retired during the current fiscal term and ¥53 million to the two Statutory Auditors who retired during the current fiscal term (of which ¥2 million for an External Statutory Auditor), in addition to the remuneration mentioned above.

(3) External Officers -

- 1) Relationship between the Company and other corporations, etc. in which Directors concurrently hold significant offices

Kaoru Umehara, Director, serves concurrently as the Director and President of Kyowa Securities Co., Ltd.

There are no special matters to be stated between the Company and Kyowa Securities Co., Ltd.

- 2) Principal activities during the current fiscal year

- a. Attendance at Board of Directors' Meetings and Board of Statutory Auditors' Meetings.

| | Attendance at Board of Directors' Meetings (Number of times) | Attendance at Board of Statutory Auditors' Meetings (Number of times) |
|--------------------------------------|---|--|
| Kaoru Umehara, Director | 6 out of 11 | - |
| Shigeo Ojima, Statutory Auditor | 8 out of 8 | 4 out of 4 |
| Masahiko Kadotani, Statutory Auditor | 8 out of 11 | 6 out of 7 |

(Note)

Shigeo Ojima, Statutory Auditor, was elected at the Ordinary General Shareholders' Meeting held on June 25, 2009. Accordingly, the above only describes his attendance after taking office.

b. Statements made at Board of Directors' Meetings and Board of Statutory Auditors' Meetings

Kaoru Umehara, Director, has provided appropriate advice to contribute to the decision-making of the Board of Directors from the standpoint of an experienced corporate executive.

Shigeo Ojima, Statutory Auditor, attended all of the Board of Statutory Auditors' Meetings and carried out discussions to ensure appropriate management of the Board of Statutory Auditors. He also posed questions, as necessary, for the decision-making of the Board of Directors, based on his past experience as a corporate director.

Masahiko Kadotani, Statutory Auditor, attended almost all of the Board of Statutory Auditors' Meetings and carried out discussions to ensure appropriate management of the Board of Statutory Auditors. He also posed questions, as necessary, for the decision-making of the Board of Directors, based on his past experience in performing duties in government, in other public offices, and in private companies, and in serving as a statutory auditor. Discussions are carried out to ensure appropriate management of the Board of Statutory Auditors.

c. Details of the Agreement on Limitation of Liability

In accordance with the provisions in Article 427, Paragraph 1, of the Companies Act, the Company has entered agreements with the External Directors and the External Statutory Auditors to limit their liabilities for damages as set forth in Article 423, Paragraph 1, of the Companies Act; provided, however, that the limit of the liabilities for damages under such agreements shall be the amount prescribed in the Act.

5. Matters related to Independent Auditor:

(1) Name of Independent Auditor -

Toyo Horwath

(2) Amount of Independent Auditor's fee for the current fiscal term -

1) Total fee the Company will pay Independent Auditor for auditing based on Article 2, Paragraph 1, of the Certified Public Accountant Act

28 million yen

2) Total amount of money and other profits the Company and the Company's subsidiaries will pay

28 million yen

(Note) The total amount described in 1) above includes fee for audit based on the Securities and Exchange Law, because the Company does not classify fee for audit based on the Companies Act and fee for audit based on the Securities and Exchange Law by audit agreement between the Company and the Independent Auditor.

(3) Audits of subsidiaries -

Canal Investment Trust Co., Ltd., a subsidiary of the Company, is audited by an independent auditor other than the Independent Auditor of the Company.

(4) Policy on determining the dismissal or disapproval of reappointment of the Independent Auditor -

If any of the provisions in Article 340, Paragraph 1, of the Companies Act applies to the Independent Auditor, the Board of Statutory Auditors will dismiss the Independent Auditor upon unanimous approval of all the Statutory Auditors. Further, if the Independent Auditor is determined to be inappropriate as the Company's Independent Account as a result of any breach of the Certified Public Accountant Act, the Board will request the Board of Directors to submit the agenda for the dismissal or the disapproval of reappointment of the Independent Auditor to the Shareholders' Meeting.

If the Independent Auditor is determined to be inappropriate as the Company's Independent Auditor as a result of any breach of the Certified Public Accountant Act, the Board of Directors will submit the agenda for the dismissal or disapproval of reappointment of the Independent Auditor to the Shareholders' Meeting upon the approval of the Board of Statutory Auditors.

6. Corporate structure and policies:

- (1) Establishment of a corporate structure to ensure the proper conduct of business.

In its efforts to establish a lawful and efficient corporate structure, the Company will maintain and operate a structure to ensure that the Directors comply with laws and the articles of incorporation in the execution of their operations, and other structures to ensure the proper conduct of business of the Company, as follows.

- 1) Corporate structure to ensure legal compliance and compliance with the articles of incorporation in the execution of operations by Directors and employees

- (1) The Company has established a “Code of Conduct” and “Compliance Regulations,” and will request the Directors, Corporate Officers, and employees of the Company to maintain fair and high ethical principles and strictly adhere to laws, regulations, and the articles of incorporation, in order to secure a management structure on which the community can rely.
- (2) Based on the “Internal Reporting Regulations,” the Company has established a compliance hotline as a contact point for notification when problems related to compliance occur and will detect and respond to any such problems as promptly as possible.
- (3) The Company will respond firmly against antisocial forces that jeopardize the order and safety of the civil society.

- 2) System for the storage and maintenance of information in relation to the performance of duties by the Directors

The Company will properly record the decision-making documents at the Board of Directors’ Meetings and other important meetings, approval documents, and information related to the performance of duties by the Directors, and properly store and maintain these documents in accordance with the relevant laws and “Criteria for the Storage and Disposal of Documents.”

Directors and Statutory Auditors may access these documents at any time.

- 3) Rules related to the management of the risk of loss and other systems

- (1) In recognition of the importance of risk management as a management issue, the Company has established a set of “Risk Management Rules” and will endeavor to secure the effectiveness of risk management by defining the targeted risk and the responsibility for management of the risk.
- (2) The Internal Audit Office will regularly conduct business audits, including an audit on the state of risk management in all departments, and report the results to

the Representative Director and President and Statutory Auditors.

- 4) System to ensure the efficient performance of duties by the directors
 - (1) The Company has implemented a Corporate Officer system and will endeavor to use the system to segregate the functions and responsibilities of management and business execution, to accelerate the process of decision-making, and to enhance the efficiency of management.
 - (2) Through the system for allocating Directors-in-charge, the system for job authorization, and the system for decision-making provided in various in-company regulations, including the “Regulations of the Board of Directors’ Meetings,” the “Regulations of the Corporate Officers’ Meetings,” and the “Rules on the Division of Authorities,” the Company will work to achieve the efficient execution of duties by its Directors.
 - (3) By formulating annual business plans and other plans, the Company will establish company-wide objectives to promote the efficient execution of business.

- 5) System to ensure the proper execution of business by the Company group made up of the Company and its subsidiaries
 - (1) The Company has formulated a set of “Administrative Rules on Subsidiaries and Affiliates” and will endeavor to secure the propriety of operations as a company group by defining the responsibility for administration and the contents of prior reports to a parent company, etc.
 - (2) The Company dispatches its personnel to serve as Directors and Statutory Auditors of the subsidiaries. The Directors of the Company oversee the performance of the duties of the Directors of the subsidiaries, and the Statutory Auditors of the Company oversee the execution of business of the subsidiaries.
 - (3) The Company has formulated a set of “Basic Principles for the Maintenance and Operation of Internal Control Related to Financial Reporting,” in order to secure reliable financial reporting. The Company has also established an “Internal Control Liaison Committee Related to Financial Reporting” to maintain a cooperative structure that cuts across the whole Company group for the purpose of realizing the aforesaid principles.

- 6) Matters concerning employees who are to assist Statutory Auditors in their work and matters related to the independence of those employees from Directors
The Company has established an Auditors Office and deploys dedicated staff to the office to assist Statutory Auditors in matters related to auditing and the duties performed by the Statutory Auditors.
Employees are appointed and transferred to the Auditors Office to assist the Statutory

Auditors, with the consent of the Statutory Auditors, and are assessed based sufficiently on the Statutory Auditors' views.

7) System of reporting to Statutory Auditors and system to ensure effective auditing by the Statutory Auditors

(1) The Statutory Auditors are authorized to be present at important conferences, including the Board of Directors' Meetings and Corporate Officers' Meetings, to express their views and obtain copies of the minutes of the meetings and approval documents. The Statutory Auditors may also request to be briefed on these matters. Further, the Statutory Auditors will hold meetings with the Representative Director regularly, and with the Internal Audit Office or the Independent Auditor when necessary, to discuss those matters.

(2) If a Director discovers any matters that may cause material damage to the Company, he or she will immediately notify the Board of Statutory Auditors of those matters.

(2) Basic principles concerning the control of *kabushiki kaisha* –

At the 87th Ordinary General Shareholders' Meeting held on June 27, 2007, the Company resolved to introduce the "Measures Against Large Volume Purchase Activities of the Shares of Our Company ("Defense Measures Against Takeover")" (hereinafter the "Plan"). Later, at the 89th Ordinary General Shareholders' Meeting held on June 25, 2009, the Company received the approval of our shareholders to continue the Plan. An outline of the Plan is as follows.

With regard to the details of the Plan, the Company announced a "Continuation of Measures Against Large Volume Purchase Activities of the Shares of Our Company ("Defense Measures Against Takeover")" on May 15, 2009. Please visit the Company's website (address below) to access the full text.

(<http://www.heiwa-net.co.jp/news/pdf/090515b.pdf>)

1) Efforts to increase corporate value and to ensure the common interest of shareholders

The Company was established in 1947 (Showa 22) as the owner of assets and buildings of the Tokyo, Osaka, Nagoya and other stock exchanges, which perform and play the core function and role in Japan's financial market.

Since then, the Company has successfully expanded its business with many users' solid confidence in and high evaluation of the Company, in three core operations, namely, lease, sale, and asset development and securitization of real estate, by responding to diversified users' needs.

Specifically, the business includes reconstruction of the stock exchange buildings in Tokyo,

Nagoya, and Osaka, the development of office buildings, commercial facilities, and hotels, the sale of large-scale condominiums in collaboration with other corporations, and development projects utilizing securitization methods.

We strongly believe that these efforts will lead to an increase in the corporate value of the Company and subsequently the common interest of our shareholders, and consequently contribute to the interests of our shareholders and other stakeholders and support their strong confidence in the Company.

2) Objectives of the Plan

The Plan aims to ensure or increase the corporate value of the Company and subsequently the common interest of our shareholders by ensuring that our shareholders have sufficient time and information to examine the purchase proposal, by ensuring that the Company has the opportunities necessary to negotiate with a large volume purchaser for and on behalf of the shareholders, and by preventing any large volume purchase that would damage the Company's corporate value and subsequently the common interest of our shareholders, in the event that any party offers to purchase the shares of our company in a large volume.

3) Definition of Large Volume Purchase

Any purchase that falls under (i) or (ii) below shall be referred to as the "Large Volume Purchase" and the person who proposes or undertakes such Large Volume Purchase shall be referred to as the "Large Volume Purchaser":

- (i) a purchase or any other type of acquisition of "share certificates, etc." issued by the Company by a "holder," if the "holding ratio of share certificates, etc." of the holder, when combined with such ratio of its joint holder(s), becomes twenty (20) percent or more after the acquisition; or
- (ii) a purchase of "share certificates, etc." issued by the Company by "tender offer," if the "ratio of ownership of share certificates, etc." of the tender offeror, when combined with such ratio of a "person having special relationship" with the tender offerer, becomes twenty (20) percent or more after the purchase.

4) Provision of information by Large Volume Purchaser

Prior to the initiation of a Large Volume Purchase, a Large Volume Purchaser will be requested to prepare and provide the Board of Directors with a document stating that it will comply with the Purchase Procedures and a document stating the matters stated in (i) to (viii) below for the decision of our shareholders and the formation of the opinions of the

Board of Directors in Japanese.

The Board of Directors or the Independent Committee may also request the Large Volume Purchaser to provide additional information, when necessary.

- (i) details of the Large Volume Purchaser and its group;
- (ii) the purpose, method, contents of the Large Volume Purchase;
- (iii) if any communication is made with any third party other than the Large Volume Purchaser in relation to the Large Volume Purchase, information about the other party and the content of such communication;
- (iv) the basis of calculation of the price for the Large Volume Purchase;
- (v) financial backing of the funds for the Large Volume Purchase;
- (vi) the management policy, business plan, capital policy and dividend policy of the Company and the Company group after the Large Volume Purchase;
- (vii) the policy on stakeholders of our Company and Company group after the Large Volume Purchase; and
- (viii) all other information the Board of Directors or the Independent Committee reasonable considers necessary.

5) Establishment of Independent Committee, the Authority of the Committee, etc.

For the purpose of preventing any arbitrary judgment or excessive countermeasures from being made or taken by the Board of Directors, the Company will establish the Independent Committee, comprised of outside directors and outside statutory auditors of the Company who have significant insight on corporate management and are independent of the top management of the Company who execute the operations of the Company.

The Independent Committee shall examine and resolve on, among other issues, whether the Large Volume Purchaser complies with the Purchase Procedures and whether such Large Volume Purchase would damage our corporate value and subsequently the common interest of our shareholders, and shall advise the Board of Directors on such results.

The period for the Independent Committee to perform the above examination is sixty (60) business days from the day following the day all information is deemed by the Independent Committee to have been provided by the Large Volume Purchaser, provided that such examination period of the Independent Committee may be extended to up to thirty (30) business days, if any due reason to do so exists.

If the Independent Committee considers that the Large Volume Purchaser has failed or will fail to comply with the Purchase Procedures, the Independent Committee will advise the Board of Directors to take countermeasures in principle. If the Independent Committee considers that the Large Volume Purchaser is complying with the Purchase Procedures, in principle, the Independent Committee will advise the Board of Directors not to take countermeasures.

However, even if the Independent Committee considers that the Large Volume Purchaser is complying with the Purchase Procedures, the Independent Committee will advise the Board of Directors to take countermeasures if the Large Volume Purchase by the Large Volume Purchaser falls under any of the provisions of (i) to (ix) listed below and is deemed to significantly damage the corporate value and subsequently the common interest of shareholders of the Company.

- (i) In the case of a so-called “green mailer” (i.e. if the Large Volume Purchase is intended to raise the share price of the Company’s shares and make the Company or its related parties buy them back.).
- (ii) In the case of so-called “scorched-earth tactics” (i.e. the Large Volume Purchase is intended to temporarily take control of the management of the Company or the Company group to acquire critical assets of the Company such as management know-how, trade secrets, main suppliers and customers at a low price, and consequently realize the management of the Company or the Company group in a way beneficial to the Large Volume Purchaser or its group at the cost of the Company or the Company group).
- (iii) Where the Large Volume Purchase is intended to use assets of the Company or the Company group as collateral or source of repayment of debts of the Large Volume Purchaser or its group.
- (iv) Where the Large Volume Purchase is intended to dispose of real property, securities and other assets of the Company or the group of the Company, to temporarily distribute high dividends based on profits earned therefrom, or to sell the shares of the Company after a rise of the share price due to such high return.
- (v) Where the Large Volume Purchase is likely to, in effect, force our shareholders to sell their shares, such as in the case of a so-called “coercive two-tier takeover scheme” (refers to a share purchase by way of tender offer that does not solicit a purchase of the entire shares at the initial stage but sets less favorable conditions or does not clearly set any conditions for the second stage).
- (vi) Where the Large Volume Purchase is made without giving the Company a reasonably necessary time to consider an alternative for such Large Volume Purchase.
- (vii) Where conditions (the price and type of consideration to be paid and the basis of calculation of price of consideration), contents, time and method, etc. of the Large Volume Purchase by the Large Volume Purchaser are significantly insufficient or inappropriate in light of the corporate value of the Company.
- (viii) Where by the acquisition of control of the Company by the Large Volume Purchaser, the corporate value of the Company including interest of our shareholders and other stakeholders including customers, suppliers and employees is expected to be significantly damaged or the maintenance and improvement of corporate value of the Company is expected to be significantly hindered; or, the corporate value of the

Company that can be achieved in the medium- or long-term future in the case of acquisition of control of the Company by the Large Volume Purchaser is apparently lower than that in the case of no acquisition of control of the Company by the Large Volume Purchaser.

- (ix) Where the acquisition of control of the Company by the Large Volume Purchaser is inappropriate in light of the maintenance of public order and morals such as the case where persons related to an anti-social group are included in the top management or major shareholders of the Large Volume Purchaser.

6) Resolution at a meeting of the Board of Directors

The Board of Directors shall respect as much as possible the above advice provided by the Independent Committee, and make a final decision on whether the Company will set the Plan into motion or not, or change or cancel the Plan set into motion. In addition, the Board of Directors shall immediately disclose a summary of such decision, a summary of the advice by the Independent Committee, and other matters that the Board of Directors deems appropriate.

After starting the procedures under the Plan, and until the Board of Directors makes a resolution to or not to set the Plan into motion, the Large Volume Purchaser shall not initiate the Large Volume Purchase. In the case the Plan is set into motion, the Company shall not provide the Large Volume Purchaser with any economic consideration such as cash.

In the case that the preconditions on which the Board of Directors made a decision to set the Plan into motion are changed, or that the Board of Directors considers that it is inappropriate to set the Plan into motion, the Board of Directors may change or cancel the Plan set into motion.

In this case, the allotment of stock acquisition rights without charge shall be cancelled if it is before the effective date of the allotment of stock acquisition rights without charge, or obtain such stock acquisition rights without charge if it is after the effective date of the allotment of the stock acquisition rights without charge and before the start of the exercise period.

7) Summary of Countermeasures

The Company may, under the Plan, take countermeasures permitted by laws and regulations and the Articles of Incorporation of the Company, including the allotment of stock acquisition rights without charge, based on the resolution of the Board of Directors.

The Stock Acquisition Rights to be allotted without charge under the Plan shall be allotted

to each of the shareholders listed or recorded on the last register of shareholders as of the recorded date for allotment at a rate of one (1) Stock Acquisition Rights per common share of the Company owned by such shareholder, and shall be equal in number to the last total number of shares issued and outstanding (excluding the number of treasury stock) as of the same date.

The value of assets to be contributed upon the exercise of each Stock Acquisition Rights shall be one (1) yen. Capital increase when new shares are issued upon the exercise of the Stock Acquisition Rights and capital reserve shall be separately determined by the Board of Directors.

The exercise period of the Stock Acquisition Rights ending no later than the lapse of two (2) months after the effective date of the Stock Acquisition Rights, as separately determined by the Board of Directors.

A transfer of the Stock Acquisition Rights requires the approval of the Board of Directors.

Any person who falls under any of the following may not exercise the Stock Acquisition Rights.

- (i) a Large Volume Purchaser;
- (ii) a joint holder of a Large Volume Purchaser;
- (iii) a person having a special relationship with a Large Volume Purchaser;
- (iv) when the Stock Acquisition Rights are transferred or succeeded from a person who falls under any of the above (i) to (iii) without the approval of the Board of Directors, a person to whom or by whom the Stock Acquisition Rights are transferred; and
- (v) a person related to a person who falls under any of the above (i) to (iv).

In exercising the Stock Acquisition Rights, in the event that a person pending in a foreign jurisdiction is required under applicable foreign laws and regulations, to perform prescribed procedures and satisfy prescribed conditions, in principle, the person may not exercise the Stock Acquisition Rights unless all of the procedures and conditions are performed or satisfied.

Even if a person who holds the Stock Acquisition Rights is unable to exercise the Stock Acquisition Rights pursuant to the above provisions, in no event shall the Company be held liable for damages nor does it assume any responsibility to the person holding the Stock Acquisition Rights.

The Company may, by a resolution of the Board of Directors, acquire the Stock Acquisition Rights held by a person who does not fall under any of the provisions of the above (i) to (v), by issuing one (1) common share of the Company for one (1) Stock Acquisition Right, at any time until the exercise period for the Stock Acquisition Rights expires.

8) Effective Term of the Plan, etc.

The Plan will continue to be in effect until the date of the Ordinary General Meeting of

Shareholders concerning the closing of accounts for the 2010 fiscal year (scheduled to be held in June 2011), provided that even during this effective term, the Plan may be abolished if a resolution to abolish the Plan is adopted at the General Meeting of Shareholders or such resolution is adopted at a meeting of the Board of Directors.

9) Rationality of the Plan

For the following reasons, the Plan is assumed not to impair the common interest of shareholders or to seek to maintain the status of Directors: 1) The Plan completely satisfies the three principles stipulated in “Guidelines concerning Defense Measures against Takeover to Ensure or to Increase Corporate Value and the Common Interest of Shareholders;” 2) The Plan was approved by our shareholders at the Ordinary General Shareholders’ Meeting; 3) The effective term of the Plan is stipulated and the Plan may be abolished at any time by the Board of Directors; 4) The Board of Directors will respect the advice of the Independent Committee after the establishment of the objective requirements upon the implementation of the Plan.

10) Effects on our Shareholders and Investors

Even after the introduction of the Plan, there will be no specific effects on the rights and interest of our shareholders and investors if any stock acquisition rights are not allotted.

If any stock acquisition rights are allotted without charge, the Company will allot stock acquisition rights at a rate of one (1) share acquisition right per common share held by the shareholder. In this case, there may be dilution of the value per share held by a shareholder who is determined not to have exercised any stock acquisition rights stipulated above in 7). In addition, if some shareholders do not take prescribed procedures in exercising their stock acquisition rights within the period during which the stock acquisition rights may be exercised, then there may be dilution of the value per share held by the shareholder, provided that there will be no dilution of the value per share held by the shareholder if the Company acquires the stock acquisition rights in exchange for the shares of the Company.

If, after shareholders to whom stock acquisition rights are to be allotted without charge are determined, the Company cancels to allot stock acquisition rights or acquires without charge stock acquisition rights that were allotted without charge, there will be no resulting dilution of value per share, and thus, investors who purchased or sold shares of the Company on the assumption that dilution of value per share would occur might incur damages due to fluctuation of share value.

CONSOLIDATED BALANCE SHEET

MARCH 31, 2010

ASSETS

(In millions of yen)

| | |
|------------------------------------|-----------------------|
| Current assets: | |
| Cash and deposits | ¥16,066 |
| Accounts receivable – trade | 822 |
| Marketable securities | 21,554 |
| Real estate for sale | 19,708 |
| Real estate for sale in process | 7,755 |
| Other inventories | 3 |
| Operating investment | 3,841 |
| Deferred tax assets | 4,029 |
| Other | 2,179 |
| Allowance for doubtful accounts | (73) |
| Total current assets | <u>75,888</u> |
| Fixed assets: | |
| Tangible fixed assets - | |
| Buildings and structures | 81,497 |
| Machinery, equipment and vehicles | 533 |
| Tools, furniture and fixtures | 350 |
| Land | 121,428 |
| Construction in progress | 458 |
| Total tangible fixed assets | <u>204,267</u> |
| Intangible fixed assets - | |
| Leasehold rights | 5,681 |
| Goodwill | 191 |
| Other | 111 |
| Total intangible fixed assets | <u>5,984</u> |
| Investments and other assets - | |
| Investment in securities | 10,706 |
| Long-term loans to employees | 7 |
| Deferred tax assets | 3,777 |
| Other | 3,392 |
| Allowance for doubtful accounts | (848) |
| Total investments and other assets | <u>17,036</u> |
| Total fixed assets | <u>227,288</u> |
| Deferred assets - | |
| Bond-issuing expenses | 279 |
| Total deferred assets | <u>279</u> |
| Total assets | <u><u>303,456</u></u> |

CONSOLIDATED BALANCE SHEET

MARCH 31, 2010

LIABILITIES AND SHAREHOLDERS' EQUITY

(In millions of yen)

| <u>Liabilities</u> | |
|--|-----------------------|
| Current liabilities: | |
| Notes payable and accounts payable – trade | ¥1,487 |
| Current portion of bonds | 18,250 |
| Short-term loans payable | 28,900 |
| Current portion of long-term loans | 26,438 |
| Accrued corporation and other taxes | 79 |
| Accrued consumption taxes | 55 |
| Accrued bonuses | 210 |
| Other | 2,196 |
| Total current liabilities | <u>77,616</u> |
| Long-term liabilities: | |
| Bonds | 39,440 |
| Convertible bonds (with stock acquisition rights) | 20,000 |
| Long-term loans payable | 75,844 |
| Long-term deposits received and deposits of landlord | 20,742 |
| Deferred tax liabilities | 26 |
| Deferred tax liabilities concerning revaluation | 10,185 |
| Long-term accounts payable | 279 |
| Accrued severance indemnities for employees | 533 |
| Negative goodwill | 23 |
| Total long-term liabilities | <u>167,075</u> |
| Total liabilities | <u>244,691</u> |
| <u>Net Assets</u> | |
| Shareholders' equity: | |
| Common stock | 15,797 |
| Additional paid-in capital | 14,025 |
| Retained earnings | 14,263 |
| Treasury stock, at cost | (373) |
| Total shareholders' equity | <u>43,713</u> |
| Valuation and translation adjustments: | |
| Unrealized gain on securities | (200) |
| Revaluation surplus of land | 14,846 |
| Total valuation and translation adjustments | <u>14,645</u> |
| Minority shareholders' equity | <u>405</u> |
| Total net assets | <u>58,764</u> |
| Total liabilities and net assets | <u><u>303,456</u></u> |

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

FROM: APRIL 1, 2009

TO: MARCH 31, 2010

(In millions of yen)

| | |
|--|---------------|
| Operating revenue - | |
| Building income | ¥17,963 |
| Revenue from housing business | 12,337 |
| Revenue from asset development | 9,095 |
| Other operating revenue | 2,608 |
| Total operating revenue | <u>42,004</u> |
| Cost of sales - | |
| Cost of building | 9,171 |
| Cost of housing business | 13,025 |
| Cost of asset development | 7,711 |
| Other operating cost | 1,607 |
| Total operating cost | <u>31,515</u> |
| Gross profit | 10,489 |
| Selling, general and administrative expenses | <u>4,343</u> |
| Operating income | 6,145 |
| Non-operating income - | |
| Interest income and dividends earned | 240 |
| Amortization of negative goodwill | 9 |
| Miscellaneous non-operating income | 40 |
| Total non-operating income | <u>291</u> |
| Non-operating expenses - | |
| Interest on debentures | 918 |
| Interest expense | 2,351 |
| Amortization of bond-issuing expenses | 68 |
| Equity in net loss of affiliates | 2 |
| Provision of allowance for doubtful accounts | 6 |
| Miscellaneous non-operating expenses | 193 |
| Total non-operating expenses | <u>3,541</u> |
| Ordinary income | 2,895 |
| Extraordinary income - | |
| Gain on sale of fixed assets | 2,481 |
| Reversal of allowance for doubtful accounts | 1 |
| Gain on sale of investment securities | 235 |
| Other | 14 |
| Total extraordinary income | <u>2,734</u> |
| Extraordinary loss - | |
| Loss on sale of fixed assets | 1,640 |
| Loss on disposal of fixed assets | 1,269 |
| Dismantling expense of buildings and building fixtures | 192 |
| Loss on revaluation of operating investment | 4,607 |
| Impairment loss | 10,626 |
| Total extraordinary loss | <u>18,335</u> |
| Loss before income taxes | 12,706 |
| Corporation, inhabitants and enterprise taxes | 105 |
| Deferred income taxes | (3,032) |
| Minority interests in loss | 1,072 |
| Net loss | <u>8,706</u> |

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

FROM: APRIL 1, 2009
TO: MARCH 31, 2010

(In millions of yen)

| | |
|---|-----------------|
| Shareholders' equity | |
| Common stock | |
| Balance at the end of previous period | 15,797 |
| Change during the period | |
| Total change during the period | — |
| Balance at the end of current period | <u>15,797</u> |
| Additional paid-in capital | |
| Balance at the end of previous period | 14,025 |
| Change during the period | |
| Total change during the period | — |
| Balance at the end of current period | <u>14,025</u> |
| Retained earnings | |
| Balance at the end of previous period | 30,046 |
| Change during the period | |
| Distribution of surplus | (1,339) |
| Net loss | (8,706) |
| Disposal of treasury stock | (0) |
| Reversal of revaluation surplus of land | (5,737) |
| Total change during the period | <u>(15,783)</u> |
| Balance at the end of current period | <u>14,263</u> |
| Treasury stock | |
| Balance at the end of previous period | (366) |
| Change during the period | |
| Acquisition of treasury stock | (7) |
| Disposal of treasury stock | 0 |
| Total change during the period | <u>(6)</u> |
| Balance at the end of current period | <u>(373)</u> |
| Total shareholders' equity | |
| Balance at the end of previous period | 59,503 |
| Change during the period | |
| Distribution of surplus | (1,339) |
| Net loss | (8,706) |
| Acquisition of treasury stock | (7) |
| Disposal of treasury stock | 0 |
| Reversal of revaluation surplus of land | (5,737) |
| Total change during the period | <u>(15,790)</u> |
| Balance at the end of current period | <u>43,713</u> |

(In millions of yen)

| | |
|---|-----------------|
| Valuation and translation adjustments | |
| Unrealized gain on securities | |
| Balance at the end of previous period | (950) |
| Change during the period | |
| Net change in items other than shareholders' equity during the period | 750 |
| Total change during the period | 750 |
| Balance at the end of current period | <u>(200)</u> |
| Revaluation surplus of land | |
| Balance at the end of previous period | 9,109 |
| Change during the period | |
| Net change in items other than shareholders' equity during the period | 5,737 |
| Total change during the period | 5,737 |
| Balance at the end of current period | <u>14,846</u> |
| Total valuation and translation adjustments | |
| Balance at the end of previous period | 8,158 |
| Change during the period | |
| Net change in items other than shareholders' equity during the period | 6,487 |
| Total change during the period | 6,487 |
| Balance at the end of current period | <u>14,645</u> |
| Minority shareholders' equity | |
| Balance at the end of previous period | 2,936 |
| Change during the period | |
| Net change in items other than shareholders' equity during the period | (2,530) |
| Total change during the period | <u>(2,530)</u> |
| Balance at the end of current period | <u>405</u> |
| Total net assets | |
| Balance at the end of previous period | 70,598 |
| Change during the period | |
| Distribution of surplus | (1,339) |
| Net loss | (8,706) |
| Acquisition of treasury stock | (7) |
| Disposal of treasury stock | 0 |
| Reversal of revaluation surplus of land | (5,737) |
| Net change in items other than shareholders' equity during the period | 3,956 |
| Total change during the period | <u>(11,833)</u> |
| Balance at the end of current period | <u>58,764</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Going concern assumption

Not applicable

2. Basis of presenting consolidated financial statements

(1) Basis of consolidation:

Consolidated subsidiaries: 11

Names of the consolidated subsidiaries: Heiwa Service Co., Ltd., Heiwa Healthcare Co., Ltd., Osaka Securities Building Co., Ltd., Canal Investment Trust Co., Ltd., Titan Y.K., H2 Y.K, Cassiopeia Investment, Y.K, STAR 1 REALTY Y.K, STAR 2 REALTY Y.K, Charites Y.K, Housing Service Co., Ltd.

Canal Investment Trust Co., Ltd., a company formerly accounted for by the equity method, became a subsidiary through an additional share acquisition by the Company and is therefore excluded from application of the equity method from this consolidated fiscal year.

(2) Basis of applying the equity method:

1) Non-consolidated subsidiaries accounted for by the equity method: None

2) Affiliates accounted for by the equity method: 0

Because Canal Investment Trust Co., Ltd. became a subsidiary through an additional share acquisition by the Company, it is excluded from application of the equity method from this consolidated fiscal year.

(3) Method and basis of valuation of assets:

1) Marketable securities and other investments-

Held-to-maturity bonds: Held-to-maturity bonds as valued at cost, cost being determined by the amortized cost method

Other marketable securities and investments:

a. Securities with market quotations:

Market value method based on the market price as of the settlement date of the consolidated fiscal term. (Differences in valuation are included directly in net assets and costs of securities sold are calculated using the moving-average method.)

b. Securities without market quotations:

Securities without market quotations are valued at cost, cost being determined by the aggregate average method.

2) Inventory -

Inventories are valued at cost, cost being determined by the aggregate average method.

(The value on the consolidated balance sheet is appraised by write-down of the book value of inventories based on deterioration in profitability.)

(4) Depreciation method for fixed assets:

1) Tangible fixed assets (excluding lease assets) -

Depreciation of tangible assets is computed using the declining balance method, except for the Tokyo Stock Exchange building and two other buildings, and buildings (excluding attached facilities) which were acquired on or after April 1, 1998, for which the straight-line method is used. Depreciation of consolidated subsidiary's tangible assets is computed using the straight-line method. The principal useful lives of tangible fixed assets are as follows.

| | |
|------------------------------------|------------|
| Buildings and structures | 8-50 years |
| Machinery, equipment, and vehicles | 6-10 years |
| Tools, furniture and fixtures | 5-15 years |

Depreciation of small-sum items (100 thousand yen and more/less than 200 thousand yen) is calculated by the straight-line method, assuming useful life to be three years.

2) Intangible fixed assets (excluding lease assets) -

Amortization of intangible assets is computed using the straight-line method. Software costs for internal use are amortized using the straight-line method based on the expected useful life of the software (five years).

3) Lease assets -

Lease assets are depreciated by the straight-line method over the lease period without residual value.

Finance lease transactions without ownership-transfer started on or before March 31, 2008 are accounted for by the accounting method used for ordinary lease transactions.

(5) Method of accounting of deferred assets:

Bond-issuing expenses are amortized by the straight-line method over the period until the bond redemption.

(6) Principles for providing accruals and reserves:

1) Allowance for doubtful accounts -

An allowance for doubtful accounts is provided to cover losses bad debt at an amount estimated based on historical write-off ratio plus any amounts deemed necessary to cover possible losses on an individual accounts basis.

2) Accrued bonuses for directors and statutory auditors-

The accrual for bonuses to directors and statutory auditors is calculated based on the estimated payment basis.

3) Accrued bonuses -

The accrual for bonuses to employees is calculated based on the estimated payment basis.

4) Accrued severance indemnities for employees -

Accrued severance indemnities for employees are calculated at an amount equal to the projected benefit obligation minus the fair value of pension assets. Accrued severance indemnities for employees are not calculated at any consolidated subsidiary that has a defined contribution retirement plan.

(7) Other basic matters for the preparation of consolidated financial statements:

Accounting for consumption taxes -

Profit and loss accounts are stated net of consumption tax. Where consumption taxes paid are not fully credited against consumption taxes received, the non-credited portion is charged as an expense in the consolidated period under review in which the consumption taxes are paid.

(8) Evaluation of assets and liabilities of consolidated subsidiaries -

All assets and liabilities of consolidated subsidiaries are stated at market value.

3. Notes to the consolidated balance sheet

(1) Pledged assets

1) Assets pledged as collateral

| | |
|----------------------|-----------------|
| Real estate for sale | ¥9,102 million |
| Buildings | ¥22,861 million |
| Land | ¥35,254 million |
| Total | ¥67,218 million |

2) Secured liabilities

| | |
|---|-----------------|
| Current portion of bonds | ¥570 million |
| Current portion of long-term loans | ¥7,253 million |
| Deposit received | ¥141 million |
| Bonds | ¥3,860 million |
| Long-term loans payable | ¥15,167 million |
| Long-term deposits received and deposits of landlord | ¥4,723 million |
| Total | ¥31,715 million |

(2) Accumulated depreciation of tangible fixed assets ¥59,508 million

(3) Guarantees due from the Company

The Company-guaranteed loans payable to banks are as follows.

| | |
|---|--------------|
| Housing loans for employees of Heiwa Real Estate Co., Ltd. | ¥430 million |
| Total | ¥430 million |

4. Notes to the consolidated statement of changes in net assets

(1) Issued shares

| | |
|--------------|--------------------|
| Common stock | 149,503,980 shares |
|--------------|--------------------|

(2) Treasury stock

| | |
|--------------|----------------|
| Common stock | 682,986 shares |
|--------------|----------------|

(3) Distribution of surplus

1) Payments of dividends

a. The following was resolved and approved at the Ordinary General Shareholders' Meeting held on June 25, 2009.

Distribution of common stock

| | |
|--------------------------------|----------------|
| • Total amount of distribution | ¥893 million |
| • Distribution per share | ¥6 |
| • Record date | March 31, 2009 |
| • Effective date | June 26, 2009 |

b. The following was resolved the meeting of the Board of Directors held on October 30, 2009.

| | |
|--------------------------------|--------------------|
| Distribution of common stock | |
| • Total amount of distribution | ¥446 million |
| • Distribution per share | ¥3 |
| • Record date | September 30, 2009 |
| • Effective date | December 1, 2009 |

- (4) Number of shares issued by the Company as of the end of the current consolidated fiscal years, which are shares to be issued or transferred upon exercise of stock acquisition rights
- | | |
|--------------|-------------------|
| Common stock | 19,704,433 shares |
|--------------|-------------------|

5. Notes to financial instruments

(1) Financial instruments

The Company limits fund management to short-term deposits, etc. and procures funds by borrowing money from banks and other financial institutions.

Loans payable are used for working capital (chiefly for short-term purposes) and funds for capital investments (for long-term purposes). The Company fixes interest expenses by applying interest rate swap transactions to a portion of the long-term loans payable with interest rate volatility risk.

(2) Fair value, etc. of financial instruments

The balance sheet amount, the fair value, and the difference between the two were as follows as of March 31, 2010 (settlement date of the current consolidated fiscal year):

| | (In millions of yen) | | |
|--|---|----------------|------------|
| | Consolidated balance sheet amount (*) | Fair value (*) | Difference |
| (1) Cash and deposits | 16,066 | 16,066 | - |
| (2) Accounts receivable – trade | 822 | 822 | - |
| (3) Marketable securities | 21,554 | 21,554 | 0 |
| (4) Investment in securities | 8,821 | 8,821 | (0) |
| (5) Notes payable and accounts payable – trade | (1,487) | (1,487) | - |
| (6) Bonds | (57,690) | (56,432) | 1,257 |
| (7) Convertible bonds (with stock acquisition rights) | (20,000) | (19,260) | 740 |
| (8) Short-term loans payable | (28,900) | (28,900) | - |
| (9) Long-term loans payable | (102,282) | (101,542) | 740 |
| (10) Derivative transactions | - | - | - |

(*) Figures in parentheses are presented in Liabilities.

(Notes)

1. Method for calculating the fair value of financial instruments, and matters related to marketable securities

(1) Cash and deposits and (2) Accounts receivable – trade

Because their fair value is almost equal to their book value due to settlement in short periods, they are posted at their book value.

(3) Marketable securities and (4) Investment in securities

The fair value of a share, etc. is based on a price on an exchange, while that of a claim is either based on a price on an exchange or a price quoted by a financial institution, etc.

(5) Notes payable and accounts payable – trade

Because their fair value is almost equal to their book value due to settlement in short periods, they are posted at their book value.

(6) Bonds

The fair value of bonds is posted at the present value of the bonds and is equal to the total of capital and interests discounted by the remaining terms and interest rates adjusted for credit risk.

(7) Convertible bonds (with stock acquisition rights)

The fair value of a convertible bond (with a stock acquisition right) is based on the price of the bond on an exchange.

(8) Short-term loans payable

Because their fair value is almost equal to their book value due to settlement in short periods, they are posted at their book value.

(9) Long-term loans payable

The fair value of long-term loans payable is calculated by discounting the total principal and interest by the assumed interest rate for a new borrowing under the same terms and conditions. Long-term loans payable with floating rates are subject to exceptional treatment for interest-rate swaps (Refer to (10) below). Accordingly, they are calculated by discounting the total of principal and interest accounted for as a unit with the interest-rate swap by an assumed interest rate reasonably estimated for a borrowing under the same terms and conditions.

(10) Derivative transactions

A derivative transaction subject to exceptional treatment for interest-rate swaps is accounted for as a unit together with long-term loans payable subject to hedge. For this reason, the fair value of such a transaction is included in the fair value of the long-term loans payable (Refer to (9) above).

2. The fair value of unlisted investment securities, etc. (amount on consolidated balance sheet: ¥1,884 million) is considered to be quite difficult to calculate, as there are no market prices and no valuations of future cash flows. For this reason, they are not

included in (4) Investment in securities.

3. Long-term deposits received and deposits of landlord (amount on consolidated balance sheet: ¥20,742 million) have no market prices, and their cash flows are considered quite difficult to reasonably estimate due to the difficulty in calculating substantial lease periods from the start of occupation by lessees to the dates of evacuation. For this reason, they are not subject to the disclosure of fair value.

(Additional Information)

From this consolidated fiscal year, the Company adopts the “Accounting Standard for Financial Instruments” (Accounting Standards Board of Japan (ASBJ), Statement No. 10, March 10, 2008) and the “Guidance on Disclosure about Fair Value of Financial Instruments” (ASBJ, Guidance No. 19, March 10, 2008).

6. Notes to lease properties, etc.

(1) Lease properties, etc.

The Company and some subsidiaries own lease office buildings, lease commercial facilities, and lease housing in Tokyo and other areas.

(2) Fair value of lease properties, etc.

| | |
|-------------------------------------|------------------|
| • Consolidated balance sheet amount | ¥207,678 million |
| • Fair value | ¥245,052 million |

(Notes)

1. The consolidated balance sheet amount is equal to the acquisition cost minus the accumulated depreciation and accumulated impairment cost.
2. With regard to principal properties, the fair value at the end of this consolidated fiscal year is an amount based on a certificate of real property appraisal by independent real property appraisers. With regard to other properties, the fair value at the end of this term is an amount calculated by the Company based on the Real Estate Appraisal Standard (including that adjusted using indexes, etc.)

(Additional Information)

From this consolidated fiscal year, the Company adopts the “Accounting Standard for Disclosures about Fair Value of Investment and Rental Property” (ASBJ, Statement No. 20, November 28, 2008) and the “Guidance on Accounting Standard for Disclosures about Fair Value of Investment and Rental Property” (ASBJ, Guidance No. 23, November 28, 2008).

7. Per share data

| | |
|--------------------------|---------|
| (1) Net assets per share | ¥392.14 |
| (2) Net loss per share | ¥58.50 |

8. Subsequent events

Not applicable.

9. Other notes

Impairment loss

The Company group recorded impairment loss on the following asset groups in this consolidated fiscal year.

| Area | Principal use | Category | Impairment loss |
|-------------------------|-------------------------|-----------------------------------|-----------------|
| Tokyo metropolitan area | Two buildings for lease | Land and Construction in progress | ¥7,501 million |
| Other areas | Two buildings for lease | Land and Buildings | ¥3,125 million |

* Details of impairment loss by area

Tokyo metropolitan area: ¥7,501 million (of which Land accounted for ¥6,523 million and Construction in progress accounted for ¥978 million)

Other areas: ¥3,125 million (of which Land accounted for ¥2,328 million and Buildings accounted for ¥797 million)

The Company group bundles assets based on the minimum unit generating cash flows in a manner generally independent of cash flows provided by other assets or asset groups.

The book values of four (4) real properties for lease with significant declines in profitability due to significantly lower rents for real property for lease and continuous declines in land prices were written down to a recoverable amount. The Company group recorded the amount written off as impairment loss in extraordinary loss (¥10,626 million).

The recoverable amounts of the above asset groups are determined by net sales values mainly based on the appraisal values determined by real property appraisers.

NON-CONSOLIDATED BALANCE SHEET

MARCH 31, 2010

ASSETS

(In millions of yen)

| | |
|---|-----------------------|
| Current assets: | |
| Cash and deposits | ¥13,697 |
| Accounts receivable – trade | 407 |
| Marketable securities | 21,547 |
| Real estate for sale | 9,812 |
| Real estate for sale in process | 7,755 |
| Operating investment | 3,841 |
| Prepaid expenses | 148 |
| Deferred tax assets | 3,970 |
| Accrued income | 0 |
| Short-term loans | 170 |
| Accounts receivable – other | 1,830 |
| Advances paid | 40 |
| Suspense payments | 3 |
| Allowance for doubtful accounts | (84) |
| Total current assets | <u>63,140</u> |
| Fixed assets: | |
| Tangible fixed assets - | |
| Buildings | 80,525 |
| Structures | 532 |
| Machinery and equipment | 533 |
| Vehicles | 3 |
| Tools, furniture and fixtures | 319 |
| Land | 121,168 |
| Construction in progress | 458 |
| Total tangible fixed assets | <u>203,540</u> |
| Intangible fixed assets - | |
| Leasehold rights | 5,681 |
| Trademark rights | 5 |
| Software | 71 |
| Telephone subscription right | 9 |
| Right of using facilities | 14 |
| Total intangible fixed assets | <u>5,782</u> |
| Investments and other assets - | |
| Investment in securities | 10,583 |
| Investment in securities of affiliates | 2,280 |
| Investment in other securities of affiliates | 4,961 |
| Investment in partnerships | 2 |
| Deferred tax assets | 3,577 |
| Long-term loans receivable from employees | 3 |
| Claims provable in bankruptcy, claims provable in rehabilitation and other | 823 |
| Long-term prepaid expenses | 944 |
| Guarantee deposits | 478 |
| Insurance funds | 91 |
| Allowance for doubtful accounts | (848) |
| Total investments and other assets | <u>22,898</u> |
| Total fixed assets | <u>232,221</u> |
| Deferred assets - | |
| Bond-issuing expenses | 279 |
| Total deferred assets | <u>279</u> |
| Total assets | <u><u>295,641</u></u> |

NON-CONSOLIDATED BALANCE SHEET

MARCH 31, 2010

LIABILITIES AND SHAREHOLDERS' EQUITY

(In millions of yen)

| <u>Liabilities</u> | |
|--|-----------------------|
| Current liabilities: | |
| Notes payable | ¥223 |
| Accounts payable – trade | 1,118 |
| Current portion of bonds | 18,250 |
| Short-term loans payable | 28,950 |
| Current portion of long-term loans | 26,438 |
| Accounts payable – other | 39 |
| Accrued expenses | 259 |
| Advances received | 1,002 |
| Deposits received | 557 |
| Accrued bonuses | 154 |
| Total current liabilities | <u>76,992</u> |
| Long-term liabilities: | |
| Bonds | 39,440 |
| Convertible bonds(with stock acquisition rights) | 20,000 |
| Long-term loans payable | 70,244 |
| Long-term deposits received and deposits of landlord | 19,841 |
| Deferred tax liabilities concerning revaluation | 10,185 |
| Long-term accounts payable | 231 |
| Accrued severance indemnities for employees | 520 |
| Total long-term liabilities | <u>160,463</u> |
| Total liabilities | <u>237,456</u> |
| <u>Net assets</u> | |
| Shareholders' equity: | |
| Common stock | 15,797 |
| Additional paid-in capital | |
| Capital reserve | 14,025 |
| Total additional paid-in capital | <u>14,025</u> |
| Retained earnings: | |
| Legal reserve | 1,453 |
| Other retained earnings: | |
| Reserve for deferral of gains on fixed assets | 1,169 |
| Reserve for special depreciation | 388 |
| Reserve for research and development costs | 30 |
| Reserve for general purposes | 25,615 |
| Unappropriated retained earnings | (14,588) |
| Total other retained earnings | <u>12,614</u> |
| Total retained earnings | <u>14,067</u> |
| Treasury stock, at cost | <u>(373)</u> |
| Total shareholders' equity | <u>43,518</u> |
| Valuation and translation adjustments: | |
| Unrealized gain on securities | (178) |
| Revaluation surplus of land | 14,846 |
| Total valuation and translation adjustments | <u>14,667</u> |
| Total net assets | <u>58,185</u> |
| Total liabilities and net assets | <u><u>295,641</u></u> |

NON-CONSOLIDATED STATEMENT OF PROFIT AND LOSS

FROM: APRIL 1, 2009

TO: MARCH 31, 2010

(In millions of yen)

| | |
|--|----------------|
| Operating revenue - | |
| Building income | ¥17,947 |
| Revenue from housing business | 12,317 |
| Revenue from asset development | 7,865 |
| Revenue from other business | 87 |
| Total operating revenue | <u>38,218</u> |
| Cost of sales - | |
| Cost of building | 9,413 |
| Cost of housing business | 13,008 |
| Cost of asset development | 5,011 |
| Total operating cost | <u>27,433</u> |
| Gross profit | 10,785 |
| Selling, general and administrative expenses | <u>3,067</u> |
| Operating income | 7,717 |
| Non-operating income - | |
| Interest income and dividends earned | 269 |
| Income for non-operating trustee services | 99 |
| Miscellaneous non-operating income | 24 |
| Total non-operating income | <u>393</u> |
| Non-operating expenses - | |
| Interest on debentures | 918 |
| Interest expense | 2,149 |
| Amortization of bond-issuing expenses | 68 |
| Provision of allowance for doubtful accounts | 6 |
| Miscellaneous non-operating expenses | 171 |
| Total non-operating expenses | <u>3,314</u> |
| Ordinary income | 4,796 |
| Extraordinary income - | |
| Gain on sale of fixed assets | 2,481 |
| Gain on sale of investment securities | 235 |
| Total extraordinary income | <u>2,717</u> |
| Extraordinary loss - | |
| Loss on sale of fixed assets | 1,645 |
| Loss on disposal of fixed assets | 1,265 |
| Dismantling expense of buildings and building fixtures | 192 |
| Loss on revaluation of operating investment | 4,607 |
| Impairment loss | 10,626 |
| Other | 1,097 |
| Total extraordinary loss | <u>19,435</u> |
| Loss before income taxes | 11,922 |
| Corporation, inhabitants and enterprise taxes | 9 |
| Deferred income taxes | <u>(3,080)</u> |
| Net loss | <u>¥8,851</u> |

NON-CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

FROM: APRIL 1, 2009
TO: MARCH 31, 2010

(In millions of yen)

| | |
|---|-----------------|
| Shareholders' equity | |
| Common stock | |
| Balance at the end of previous period | 15,797 |
| Change during the period | |
| Total change during the period | — |
| Balance at the end of current period | <u>15,797</u> |
| Additional paid-in capital | |
| Capital reserve | |
| Balance at the end of previous period | 14,025 |
| Change during the period | |
| Total change during the period | — |
| Balance at the end of current period | <u>14,025</u> |
| Retained earnings | |
| Legal reserve | |
| Balance at the end of previous period | 1,453 |
| Change during the period | |
| Total change during the period | — |
| Balance at the end of current period | <u>1,453</u> |
| Other retained earnings | |
| Reserve for advanced depreciation of fixed assets | |
| Balance at the end of previous period | 1,211 |
| Change during the period | |
| Reversal of reserve for advanced depreciation of fixed assets | (42) |
| Total change during the period | <u>(42)</u> |
| Balance at the end of current period | <u>1,169</u> |
| Special depreciation reserve | |
| Balance at the end of previous period | 24 |
| Change during the period | |
| Provision of special depreciation reserve | 375 |
| Reversal of special depreciation reserve | (11) |
| Total change during the period | <u>363</u> |
| Balance at the end of current period | <u>388</u> |
| Reserve for research and development | |
| Balance at the end of previous period | 30 |
| Change during the period | |
| Total change during the period | — |
| Balance at the end of current period | <u>30</u> |
| General reserve | |
| Balance at the end of previous period | 25,615 |
| Change during the period | |
| Total change during the period | — |
| Balance at the end of current period | <u>25,615</u> |
| Retained earnings carried forward | |
| Balance at the end of previous period | 1,661 |
| Change during the period | |
| Distribution of surplus | (1,339) |
| Reversal of reserve for advanced depreciation of fixed assets | 42 |
| Provision of special depreciation reserve | (375) |
| Reversal of special depreciation reserve | 11 |
| Net loss | (8,851) |
| Disposal of treasury stock | (0) |
| Reversal of revaluation surplus of land | (5,737) |
| Total change during the period | <u>(16,250)</u> |
| Balance at the end of current period | <u>(14,588)</u> |

| | (In millions of yen) |
|---|----------------------|
| Total retained earnings | |
| Balance at the end of previous period | 29,996 |
| Change during the period | |
| Distribution of surplus | (1,339) |
| Net loss | (8,851) |
| Disposal of treasury stock | (0) |
| Reversal of revaluation surplus of land | (5,737) |
| Total change during the period | <u>(15,928)</u> |
| Balance at the end of current period | <u>14,067</u> |
| Treasury stock | |
| Balance at the end of previous period | (366) |
| Change during the period | |
| Acquisition of treasury stock | (7) |
| Disposal of treasury stock | 0 |
| Total change during the period | <u>(6)</u> |
| Balance at the end of current period | <u>(373)</u> |
| Total shareholders' equity | |
| Balance at the end of previous period | 59,453 |
| Change during the period | |
| Distribution of surplus | (1,339) |
| Net loss | (8,851) |
| Acquisition of treasury stock | (7) |
| Disposal of treasury stock | 0 |
| Reversal of revaluation surplus of land | (5,737) |
| Total change during the period | <u>(15,935)</u> |
| Balance at the end of current period | <u>43,518</u> |
| Valuation and translation adjustments | |
| Unrealized gain on securities | |
| Balance at the end of previous period | (925) |
| Change during the period | |
| Net change in items other than shareholders' equity during the period | 746 |
| Total change during the period | <u>746</u> |
| Balance at the end of current period | <u>(178)</u> |
| Revaluation surplus of land | |
| Balance at the end of previous period | 9,109 |
| Change during the period | |
| Net change in items other than shareholders' equity during the period | 5,737 |
| Total change during the period | <u>5,737</u> |
| Balance at the end of current period | <u>14,846</u> |
| Total valuation and translation adjustments | |
| Balance at the end of previous period | 8,184 |
| Change during the period | |
| Net change in items other than shareholders' equity during the period | 6,483 |
| Total change during the period | <u>6,483</u> |
| Balance at the end of current period | <u>14,667</u> |
| Total net assets | |
| Balance at the end of previous period | 67,637 |
| Change during the period | |
| Distribution of surplus | (1,339) |
| Net loss | (8,851) |
| Acquisition of treasury stock | (7) |
| Disposal of treasury stock | 0 |
| Reversal of revaluation surplus of land | (5,737) |
| Net change in items other than shareholders' equity during the period | 6,483 |
| Total change during the period | <u>(9,452)</u> |
| Balance at the end of current period | <u>58,185</u> |

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

1. Going concern assumption

Not applicable

2. Matters pertaining to significant accounting policies

(1) Method and basis of valuation of assets:

1) Marketable securities and other investments -

Held-to-maturity bonds: Held-to-maturity bonds as valued at cost, cost being determined by the amortized cost method

Stocks of subsidiaries and affiliates:

Securities without market quotations are valued at cost, cost being determined by the aggregate average method.

Other marketable securities and investments:

a. Securities with market quotations:

Market value method based on the market price as of the settlement date of the consolidated fiscal term. (Differences in valuation are included directly in net assets and costs of securities sold are calculated using the moving-average method.)

b. Securities without market quotations:

Securities without market quotations are valued at cost, cost being determined by the aggregate average method.

2) Inventory -

Inventories are valued at cost, cost being determined by the aggregate average method.

(The value on the non-consolidated balance sheet is appraised by write-down of the book value of inventories based on deterioration in profitability)

(2) Depreciation method for significant fixed assets:

1) Tangible fixed assets (excluding lease assets) -

Depreciation of tangible assets is computed using the declining balance method, except for the Tokyo Stock Exchange Building and two other buildings, and buildings (excluding attached facilities) which were acquired on or after April 1, 1998, for which the straight-line method is used. Depreciation of subsidiary's tangible assets is computed using the straight-line method. The principal useful lives of tangible fixed assets are as follows.

| | |
|------------------------------------|------------|
| Buildings and structures | 8-50 years |
| Machinery, equipment, and vehicles | 6-10 years |
| Tools, furniture and fixtures | 5-15 years |

Depreciation of small-sum items (100 thousand yen and more/less than 200 thousand yen) is calculated by the straight-line method, assuming useful life to be three years.

2) Intangible fixed assets (excluding lease assets) -

Amortization of intangible assets is computed using the straight-line method. Software costs for internal use are amortized using the straight-line method based on the expected useful life of the software (five years).

3) Lease assets -

Lease assets are depreciated by the straight-line method over the lease period without residual value.

Finance lease transactions without ownership-transfer started on or before March 31, 2008 are accounted for by the accounting method used for ordinary lease transactions.

(3) Method of accounting of deferred assets:

Bond-issuing expenses are amortized by the straight-line method over the period until the bond redemption.

(4) Principles for providing accruals and reserves:

1) Allowance for doubtful accounts -

An allowance for doubtful accounts is provided to cover losses bad debt at an amount estimated based on historical write-off ratio plus any amounts deemed necessary to cover possible losses on an individual accounts basis.

2) Accrued bonuses for directors and statutory auditors-

The accrual for bonuses to directors and statutory auditors is calculated based on the estimated payment basis.

3) Accrued bonuses for employees -

The accrual for bonuses to employees is calculated based on the estimated payment basis.

4) Accrued severance indemnities -

Accrued severance indemnities for employees are calculated at an amount equal to the projected benefit obligation minus the fair value of pension assets.

(5) Other basic matters for the preparation of non-consolidated financial statements:

Accounting for consumption taxes -

Profit and loss accounts are stated net of consumption tax. Where consumption taxes paid are not fully credited against consumption taxes received, the non-credited portion is charged as an expense in the period in which the consumption taxes are paid.

3. Notes to the non-consolidated balance sheet

(1) Pledged assets

1) Assets pledged as collateral

| | |
|-----------|-----------------|
| Buildings | ¥22,932 million |
| Land | ¥35,254 million |
| Total | ¥58,187 million |

2) Secured liabilities

| | |
|--|-----------------|
| Current portion of bonds | ¥570 million |
| Current portion of long-term loans | ¥7,253 million |
| Bonds | ¥3,860 million |
| Long-term loans payable | ¥9,567 million |
| Long-term deposits received and deposits of landlord | ¥4,723 million |
| Deposit received | ¥141 million |
| Total | ¥26,115 million |

(2) Accumulated depreciation of tangible fixed assets ¥58,172 million

(3) Guarantees due from the Company

The Company-guaranteed loans payable to banks are as follows.

| | |
|--|----------------|
| Heiwa Service Co., Ltd. (Subsidiary) | ¥100 million |
| Heiwa Healthcare Co., Ltd. (Subsidiary) | ¥100 million |
| STAR 1 REALTY Y.K. (Subsidiary) | ¥2,900 million |
| Housing loans for employees of Heiwa Real Estate Co., Ltd. | ¥430 million |
| Total | ¥3,530 million |

(4) Assets or debts due from or to subsidiaries and affiliates

| | |
|--------|--------------|
| Assets | ¥134 million |
| Debts | ¥652 million |

4. Notes to the non-consolidated statement of profit and loss

Transactions with subsidiaries and affiliates

| | |
|----------------------------|----------------|
| Operating transactions | ¥2,044 million |
| Non-operating transactions | ¥97 million |

5. Notes to the non-consolidated statement of changes in net assets

Treasury stock

| | |
|--------------|----------------|
| Common stock | 682,986 shares |
|--------------|----------------|

6. Income taxes

(1) Deferred tax assets (current)

| | |
|---|----------------|
| Accrued bonuses | ¥62 million |
| Loss on revaluation of operating investment | ¥2,557 million |
| Net loss carried forward | ¥1,302 million |
| Other | ¥48 million |
| Total | ¥3,970 million |

(2) Deferred tax assets (noncurrent)

| | |
|---|------------------|
| Impairment loss | ¥4,769 million |
| Accrued severance indemnities for employees | ¥211 million |
| Reserve for deferral of gains on fixed assets | (¥802 million) |
| Reserve for special depreciation | (¥266 million) |
| Allowance for doubtful accounts | ¥177 million |
| Unrealized gain on securities | ¥122 million |
| Net loss carried forward | ¥1,055 million |
| Other | ¥131 million |
| Sub-total | ¥5,398 million |
| Valuation allowance | (¥1,821 million) |
| Total | ¥3,577 million |

7. Leased assets

Apart from fixed assets stated on the non-consolidated balance sheet, the Company uses a portion of “Machinery and equipment” and a portion of “Tools, furniture and fixtures” under finance lease agreements without ownership-transfer.

8. Transactions with affiliated parties

| Type | Name of company | Ownership percentage of voting rights | Relationship with affiliated parties | Details of transactions | Amount of transaction | Account | Balance as of the end of fiscal term |
|------------|-----------------|---------------------------------------|---|---|-----------------------|---------|--------------------------------------|
| Subsidiary | Titan Y.K. | — | Management of beneficiary interest in real estate trust | Sale and purchase of beneficiary interest in real estate trust (Note) | ¥3,370 million | — | — |

Trade terms and policy for trade terms, etc.

(Note) The transaction amount is determined based on the appraisal value determined by real property appraisers.

9. Per share data

| | |
|--------------------------|---------|
| (1) Net assets per share | ¥390.98 |
| (2) Net loss per share | ¥59.47 |

10. Subsequent events

Not applicable.

11. Other notes

Impairment loss

The Company recorded impairment loss on the following asset groups in this fiscal year.

| Area | Principal use | Category | Impairment loss |
|-------------------------|-------------------------|-----------------------------------|-----------------|
| Tokyo metropolitan area | Two buildings for lease | Land and Construction in progress | ¥7,501 million |
| Other areas | Two buildings for lease | Land and Buildings | ¥3,125 million |

* Details of impairment loss by area

Tokyo metropolitan area: ¥7,501 million (of which Land accounted for ¥6,523 million and Construction in progress accounted for ¥978 million)

Other areas: ¥3,125 million (of which Land accounted for ¥2,328 million and Buildings accounted for ¥797 million)

The Company bundles assets based on the minimum unit generating cash flows in a manner generally independent of cash flows provided by other assets or asset groups.

The book values of four (4) real properties for lease with significant declines in profitability due to significantly lower rents for real property for lease and continuous declines in land prices were written down to a recoverable amount. The Company recorded the amount written off as impairment loss in extraordinary loss (¥10,626 million).

The recoverable amounts of the above asset groups are determined by the net sales values mainly based on the appraisal values determined by real property appraisers.

A COPY OF THE AUDIT REPORT OF THE ACCOUNTING AUDITOR ON THE
CONSOLIDATED FINANCIAL STATEMENTS

Independent Auditor's Report
(English Translation)

May 11, 2010

To the Board of Directors
Heiwa Real Estate Co., Ltd.

Toyo Horwath

Mitsuhiro Fukuda, CPA, Engagement Partner
Yasuo Muramoto, CPA, Engagement Partner

We have audited, pursuant to Article 444, Paragraph 4, of the Companies Act, the consolidated financial statements, which consist of the consolidated balance sheet, consolidated statement of profit and loss, consolidated statement of changes in net assets and notes to the consolidated financial statements of the Heiwa Real Estate Co., Ltd. and consolidated subsidiaries for the 90th fiscal year from April 1, 2009 to March 31, 2010. 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 audit.

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

It is our opinion that the above consolidated financial statements fairly present, in every material aspect, the financial position and results of operations of the consolidated group consisting of the Heiwa Real Estate Co., Ltd and consolidated subsidiaries for the relevant term of the consolidated financial statements, in accordance with the business accounting standards generally accepted in Japan.

We have no interest in or relationship with the Company, which is required to be disclosed pursuant to the provisions of the Certified Public Accountant Act.

A COPY OF THE AUDIT REPORT OF THE ACCOUNTING AUDITOR ON THE NON-
CONSOLIDATED FINANCIAL STATEMENTS

Independent Auditor's Report
(English Translation)

May 11, 2010

To the Board of Directors
Heiwa Real Estate Co., Ltd.

Toyo Horwath

Mitsuhiro Fukuda, CPA, Engagement Partner
Yasuo Muramoto, CPA, Engagement Partner

We have audited, pursuant to Article 436, Paragraph 2, Item 1, of the Companies Act, the non-consolidated financial statements, which consist of the non-consolidated balance sheet, non-consolidated statement of profit and loss, non-consolidated statement of changes in net assets, notes to the non-consolidated financial statements and supplementary schedules of Heiwa Real Estate Co., Ltd. (hereinafter referred to as the "Company") for the 90th fiscal year from April 1, 2009 to March 31, 2010. These non-consolidated financial statements and supplementary schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and supplementary schedules based on our audit.

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

It is our opinion that the above non-consolidated financial statements and supplementary schedules fairly present, in every material aspect, the financial position and results of operations of the Company for the relevant term of the non-consolidated financial statements and supplementary schedules, in accordance with the business accounting standards generally accepted in Japan.

We have no interest in or relationship with the Company, which is required to be disclosed pursuant to the provisions of the Certified Public Accountant Act.

A COPY OF THE AUDIT REPORT OF THE BOARD OF STATUTORY AUDITORS

AUDIT REPORT

We, the Board of Statutory Auditors, having deliberated the issues based on the reports made by each Statutory Auditor concerning the methods and results of their audit of the business activities of the directors for the 90th fiscal year from April 1, 2009 to March 31, 2010, prepared this Audit Report and hereby submit to you as follows:

1. Outline of auditing method applied by the Statutory Auditors and the Board of Statutory Auditors:

The Board of Statutory Auditors established the auditing policies and the audit plan, received reports and explanations regarding the status of audits and the results thereof from each Statutory Auditor, as well as reports and explanations regarding the status of the execution of duties from the Directors and Accounting Auditor, and requested explanation as necessary.

In accordance with the auditing standards for Statutory Auditors determined by the Board of Statutory Auditors and the auditing policies and the audit plan, each Statutory Auditor endeavored to collect information and established auditing circumstances through communication with internal audit staff and other employees, and attended the Board of Directors' meeting and other important meetings to receive reports regarding performance of duties from directors and employees and requested explanations as necessary. Each Statutory Auditor also inspected the significant approved documents and examined the status of operations and conditions of assets at its head office and principal offices.

Each Statutory Auditor monitored and verified the resolutions adopted by the Board of Directors regarding the establishment of the system for ensuring that the directors' duties are performed in conformity of laws, regulations and the Articles of Incorporation of the Company, and the establishment of the system necessary to ensure proper business operations of the company set forth in Article 100, Paragraph 1 and 3, of Enforcement Regulations of the Companies Act, and the systems (Internal Control System) established in accordance with the resolution of the Board of Directors. The contents of the basic policy set forth in Article 118, Item 3 (i), of the Enforcement Regulations of the Companies Act stated in the business reports and each approach set forth in Item 3 (ii) of the same article are reviewed based on the status of deliberations of the Board of Directors and other management entities. Full-time Statutory Auditors concurrently served as Statutory Auditors of subsidiaries, received from subsidiaries their business reports as necessary through communication and information sharing with their directors and statutory auditors, and visited the subsidiaries to conduct necessary examinations. In accordance with the procedures mentioned above, we reviewed the business reports and supplementary schedules for the year ended on March 31, 2010.

Further, Statutory Auditors monitored and verified that Accounting Auditor maintains independence and conduct the audits appropriately. Each Statutory Auditor also received reports of the status of the execution of duties from Accounting Auditor and requested explanation as necessary. In addition, we were informed of the arrangement of the "System for ensuring that the duties are performed appropriately" (matters stipulated in the items of Article 131 of the Corporate Calculation Regulations in accordance with "Standards for the Quality Control of Audits" (Business Accounting Council, October 28, 2005)) from the Accounting Auditor and requested explanations as necessary. In accordance with the procedures mentioned above, we reviewed the non-consolidated financial statements (the non-consolidated balance sheet, non-consolidated statement of profit and loss, non-consolidated statement of changes in net assets and notes to the non-consolidated financial statements), and the supplementary schedules, as well as the consolidated financial statements (the consolidated balance sheet, consolidated statement of profit and loss, consolidated statement of changes in net assets and notes to the consolidated financial statements), and the supplementary schedules, for the year ended on March 31, 2010.

2. Results of Audit

(1) Results of audit of business report

- 1) The business reports and supplementary schedules present fairly the financial condition of the Company in conformity with related laws, regulations, and the Articles of Incorporation of the Company;

- 2) Regarding the performance of duties by Directors, there were no instances of misconduct or material matters in violation of laws, regulations, nor the Articles of Incorporation of the Company; and
 - 3) Resolution of the Board of Directors regarding the internal control system is fair and reasonable. There are no matters requiring additional mention regarding such internal control and the execution of duties by Directors.
 - 4) There are no matters requiring additional mention with respect to the basic policy on the control of companies stated in the business reports. We acknowledge that, among the approaches set forth in Article 118, Item 3 (ii), of the Enforcement Regulations of the Companies Act, those stated in the business reports conform with the basic policy, are in no way obstructive of any common interests of shareholders, and are not adopted with the intention of maintaining the positions of Directors and Statutory Auditors.
- (2) Results of audit of non-consolidated financial statements and supplementary schedules
The auditing methods and results of the Accounting Auditor, Toyo Horwath, are fair and reasonable.
- (3) Results of audit of consolidated financial statements and supplementary schedules
The auditing methods and results of the Accounting Auditor, Toyo Horwath, are fair and reasonable.

May 13, 2010

Board of Statutory Auditors
Heiwa Real Estate Co., Ltd.
Statutory Auditor (Full-time)
Ichiro Sasaki

External Statutory Auditor (Full-time)
Shigeo Ojima

External Statutory Auditor
Masahiko Kadotani

REFERENCE DOCUMENTS FOR
THE GENERAL SHAREHOLDERS' MEETING

Agenda Item No. 1 “Proposed Appropriation of Surplus”

The Company recorded a net loss, as stated in the Business Report. Accordingly, we regret to inform you that we will not distribute dividends for the current term.

In order to eliminate the loss of unappropriated retained earnings and thereby enable the distribution of dividends upon recording profit, the Company wishes to propose the appropriation of part of the reserve for general purposes as follows.

Appropriation of surplus

(1) Decreasing surplus and the amount

| | |
|------------------------------|-----------------|
| Reserve for general purposes | ¥15,500,000,000 |
|------------------------------|-----------------|

(2) Increasing surplus and the amount

| | |
|----------------------------------|-----------------|
| Unappropriated retained earnings | ¥15,500,000,000 |
|----------------------------------|-----------------|

Agenda Item No. 2: “Assignment of Two Directors”

The Company proposes the election of two Directors due to the expiration of the office term at the close of this meeting of the following three present Directors: Sakutaro Kimbara, Hiroyuki Takahashi, and Kaoru Umehara.

The candidates for Directorship of the Company are as follows:

| No. | Name and date of birth | Number of shares of the Company owned by the candidate | Career summary, position and assignment of the Company, and significant office(s) concurrently held |
|-----|----------------------------------|--|---|
| 1* | Motoya Aizawa August 25, 1942 | 9 | <p>April 1965 Joined Nippon Kangyo Securities Co., Ltd. (current Mizuho Investors Securities Co., Ltd.)</p> <p>November 1973 Managing Director of AIZAWA SECURITIES CO., LTD.</p> <p>December 1979 President and CEO of AIZAWA SECURITIES CO., LTD.</p> <p>June 1998 Chairman of AIZAWA SECURITIES CO., LTD. (to date)</p> <p>June 2008 President and CEO of AIZAWA SECURITIES CO., LTD. (to date)</p> <p>(Significant office concurrently held) Chairman, President and CEO of AIZAWA SECURITIES CO., LTD.</p> |

| No. | Name and date of birth | Number of shares of the Company owned by the candidate | Career summary, position and assignment of the Company, and significant office(s) concurrently held | | |
|-----|-------------------------------|--|---|------|--|
| 2 * | Kunitaro Saida May 4, 1943 | 0 | April | 1969 | Appointed public prosecutor |
| | | | November | 2001 | Chief public prosecutor of the Tokyo District Public Prosecutor's Office |
| | | | February | 2003 | Superintendent public prosecutor of the Takamatsu High Public Prosecutors Office |
| | | | June | 2004 | Superintendent public prosecutor of the Hiroshima High Public Prosecutors Office |
| | | | August | 2005 | Superintendent public prosecutor of the Osaka High Public Prosecutors Office |
| | | | May | 2006 | Retired from office |
| | | | May | 2006 | Registered attorney (Daiichi Tokyo BAR Association) |
| | | | June | 2007 | External Statutory Auditor of Nichirei Corporation (to date) |
| | | | June | 2008 | External Director of Sumitomo Osaka Cement Co., Ltd. (to date) |

(Notes)

1. * denotes newly appointed candidates for Director.
2. No conflict of interest exists between the Company and the candidates for Director above.
3. Mr. Motoya Aizawa and Mr. Kunitaro Saida are candidates for External Directors. They are also candidates for independent directors/auditors subject to no possible conflicts of interest with general shareholders that the Company is required to designate under the rules of each stock exchange.
4. Notes on the candidates for External Statutory Auditor are as follows.
 - (1) The Company anticipates that Mr. Motoya Aizawa will reflect the in-depth knowledge and experience he has accumulated through his career as a corporate director in the management of the Company. Therefore, the Company proposes that he be elected as an External Director.
 - (2) Even though Mr. Kunitaro Saida has never been directly involved in corporate management, the Company anticipates that Mr. Kunitaro Saida will reflect the professional knowledge and experience he has accumulated at bar in the

management of the Company. Therefore, the Company proposes that he be elected as an External Director.

- (3) If their elections are approved, the Company plans to enter into agreements with Mr. Motoya Aizawa and Mr. Kunitaro Saida to limit their liabilities for damages as set forth in Article 423, Paragraph 1, of the Companies Act in accordance with Article 427, Paragraph 1 of the Act under the Articles of Incorporation; provided, however, that the limit of the liabilities for damages under such agreement shall be the amount prescribed in the Act.

Agenda Item No. 3: “Assignment of Two Statutory Auditors”

The Company proposes the election of two Statutory Auditors due to the expiration of the office term and the retirement from the position at the close of this meeting of the present Statutory Auditor, Masahiko Kadotani, and the improvement of the auditing system.

The Board of Statutory Auditors previously gave its approval.

The candidates for Statutory Auditors of the Company are as follows:

| No. | Name and date of birth | Number of shares of the Company owned by the candidate | Career summary, position and assignment of the Company, and significant office(s) concurrently held | | |
|-----|--|--|---|------|---|
| 1 | Masahiko Kadotani February 14, 1936 | 0 | April | 1958 | Joined Ministry of Finance |
| | | | June | 1983 | Director of Tokai Financial Bureau |
| | | | June | 1988 | Director of Securities Bureau of Ministry of Finance |
| | | | June | 1990 | Director of National Tax Agency |
| | | | December | 1994 | Director General of Japan Finance Corporation for Small and Medium Enterprise (currently Japan Finance Corporation) |
| | | | January | 2000 | Advisor to The Industrial Bank of Japan |
| | | | June | 2006 | External Statutory Auditor of the Company (to date) |
| 2 * | Yasutada Sasaki October 14, 1943 | 0 | April | 1966 | Joined The Bank of Japan |
| | | | July | 1994 | Chief Examiner of Management Administrative Bureau, The Bank of Japan |
| | | | October | 1996 | Standing Director of Nippon Joint Securities Foundation |
| | | | June | 1999 | Auditor of The Norinchukin Bank |
| | | | June | 2004 | Special Advisor to Tokyo Head Office, Anabuki Construction Inc. |
| | | | April | 2005 | Auditor of The Bank of Japan |
| | | | April | 2009 | Advisor to Meiji Yasuda Life Insurance Company (to date) |

(Notes)

1. * denotes newly appointed candidates for Statutory Auditor.
2. No conflict of interest exists between the Company and the candidates for Statutory Auditor above.
3. Mr. Masahiko Kadotani is a candidate for External Statutory Auditor. The Company has submitted the Notification of Independent Directors/Auditors to confirm that Mr. Masahiko Kadotani is an independent director/auditor subject to no possible conflicts of interest with general shareholders that the Company is required to designate under the rules of each stock exchange.
4. Mr. Masahiko Kadotani is currently an External Statutory Auditor of the Company and his term of office will be four years at the close of this meeting.
5. Mr. Yasutada Sasaki is a candidate for External Statutory Auditor. He is also a candidate for an independent director/auditor subject to no possible conflicts of interest with general shareholders that the Company is required to designate under the rules of each stock exchange.
6. Notes on the candidates for External Statutory Auditor are as follows.
 - (1) The Company anticipates that Mr. Masahiko Kadotani will reflect the in-depth knowledge and experience he has accumulated through his career as a Director of the Securities Bureau of the Ministry of Finance, a Director of the National Tax Agency, etc. in the management audits of the Company. Therefore, the Company proposes that he be elected as an External Statutory Auditor.
 - (2) The Company anticipates that Mr. Yasutada Sasaki will reflect the in-depth knowledge and experience he has accumulated at The Bank of Japan in the management audits of the Company. Therefore, the Company proposes that he be elected as an External Statutory Auditor.
 - (3) The Company has entered into an agreement with Mr. Masahiko Kadotani to limit his liabilities for damages as set forth in Article 423, Paragraph 1, of the Companies Act in accordance with Article 427, Paragraph 1 of the Act. The limit of the liabilities for damages under such agreement shall be the amount prescribed in the Act. If his reelection is approved, the Company plans to continue such agreement with him.
 - (4) If the election of Mr. Yasutada Sasaki is approved, the Company plans to enter into an agreement with Mr. Yasutada Sasaki to limit his liabilities for damages as set forth in Article 423, Paragraph 1, of the Companies Act in accordance with Article 427, Paragraph 1 of the Act under the Articles of Incorporation; provided, however, that the limit of the liabilities for damages under such agreement shall be the amount prescribed in the Act.
 - (5) Mizuho Securities Co., Ltd., a company where Mr. Masahiko Kadotani concurrently serves as External Statutory Auditor (part-time), received a business improvement

order from the Financial Services Agency in October 2007. Mr. Masahiko Kadotani was not involved in any facts related to the order. Moreover, Mr. Masahiko Kadotani expressed his support for measures to prevent recurrence and discharged his responsibilities after the occurrence of the facts.