

(Attached Documents)

BUSINESS REPORT

1. Outline of Operations for the period from April 1, 2004 to March 31, 2005:

(1) Update and Results of Business -

During the consolidated fiscal year ended March 31, 2005, Japanese economic conditions saw the beginning of a gradual recovery, with improved corporate profits and increased capital investment. However the strong recovery for employment and personal consumption has not been strong. All in all, the situation can be characterizes as one of continued weak recovery.

In the real estate business, the “2003 issue”, which represented fears that a large number of office buildings would be supplied in 2003, coupled with decreasing rent prices has subsided. Now, the vacancy rate is improving in the metropolitan area, and rent prices are showing signs of having bottomed out.

In housing sales, we were concerned about a possible excess supply of condominiums, but the contract rate continues to see a strong upward trend in the metropolitan area, where there is convenient transportation, and product planning has been good.

In the real estate investment business, the listing REIT (real estate investment trust) has had 16 issues traded and the total market value of listed shares runs to ¥2 trillion. Securitization of real estate has performed well.

In this business environment, the company group has responded flexibly to changes in the market and made every effort to secure profit through the promotion of expansion of earnings. It also continues to accurately address customer needs through efficient management.

The operating results for the respective divisions are summarized below:

Building Leasing Division

In the Building Leasing Division, The Osaka Stock Exchange Market Place, one of the company groups' major issues of previous fiscal year, was completed on December 1, 2004 with full occupancy from the beginning. Furthermore, the rent for the Tokyo Stock Exchange Market Place, as of the consolidated fiscal year ended March 31, 2005, the time of revision, was fixed a the same historical rate.

“AEON Akishima Shopping Center” and “Nagoya Heiwa Building” have been operating for a full year. The Hotel Toyoko inn at Nihonbashi, Ningyocho was completed. Income from building leasing stands at record high of ¥14,456 million, and as at the end of the fiscal year ended March 31, 2005, the vacancy rate of leased buildings is 1.4%.

With described sectionally, “Stock Exchange Market Place Leasing Income” for the fiscal year ended March 31, 2005 was ¥5,025 million, which represents 34.8% of total building leasing income. “Commercial Facilities Leasing Income” was ¥3,217 million (representing 22.2% of total building leasing income), “General Leasing Income” was ¥6,212 million (representing 43.0% of total building leasing income).

Accordingly, “Rental income”, including “Income from securitization of real estate and Management fees” for the fiscal year ended March 31, 2005 totaling was ¥821 million, and “Land Leasing Income” for the fiscal year ended March 31, 2005 totaling ¥103 million, increased by ¥1,340 million (9.5%) to ¥15,381 million compared with the previous period.

Housing Business Division

In the Housing Sales Division, 99 condominium units were sold of La Villa Fuchu Tamagawa (Fuchu-city, Tokyo). However “Housing Sales Income” decreased by ¥4,740 million (51.5%) to ¥4,459 million compared with the previous period, because a large-scale project on condominium sales was postponed until the next fiscal year. Accordingly, “Housing income“ including “Housing Sales Income “amounted to ¥153 million, and “Housing Leasing Income” decreased by ¥4,669 million (50.3%) to ¥4,613 million compared with the previous period.

Real Estate Brokerage and Other Divisions

In the Real Estate Brokerage Division, the Company made aggressive efforts to develop its business, mainly in relation to brokerage on commercial use real estate. However, revenue in the Real Estate Brokerage Division for the fiscal year ended March 31, 2005 decreased by ¥49 million (18.1%) to ¥225 million compared with the previous periods.

Private Nursing home enjoyed on 87% occupancy rate ,and “Private Nursing Home Income“ decreased by ¥4 million (1.4%) to ¥284 million compared with the previous period.

“Income from the Contract Construction Business and Building Management Business” increased by ¥326 million (62.6%) to ¥847 million compared with the previous periods.

Accordingly, “Real Estate Brokerage and Other operating revenue” for the fiscal year ended March 31, 2005 increased by ¥272 million (25.1%) to ¥1,357 million.

The operating results of the Company group for the consolidated fiscal year ended March 31, 2005 are summarized below:

“Operating revenue” for the consolidated fiscal year ended March 31, 2005 amounted to ¥21,352 million, a decrease of ¥3,056 million (12.5%) compared with the previous period. On the other hand, “Operating costs” for the consolidated fiscal year ended March 31, 2005 decreased by ¥2,749 million (18.2%) to ¥12,332 million compared with the previous period, while “Selling, general and administrative expenses” for the consolidated fiscal year ended March 31, 2005 decreased by ¥21 million (0.8%) to ¥2,671 million compared with the previous period.

“Operating profit” decreased by ¥285 million (4.3%) to ¥6,348 million compared with the previous period, while “Ordinary income” for the fiscal year ended March 31, 2005 decreased by ¥55 million (1.1%) to ¥4,853 million compared with the previous period.

Net income for the consolidated fiscal year ended March 31, 2005, including “Gains on sale of fixed assets” and “Gains on the sale of investment securities” resulting from the investment returns from Crescendo Investment Corporation, increased by ¥502 million (20.1%) to ¥3,006 million compared with the previous period.

(2) Issues the Company has to resolve -

Considering the economic outlook in the near future in Japan, corporate earnings and the employment environment are tending towards a recovery. On the other hand, a full scale economic recovery will require more time because of the delay in inventory adjustment, sluggish individual consumer spending, rising oil prices, and concern about the slowdown of the U.S economy.

In the real estate business as a whole, the development of urban residences as typified by super high-rise condominiums is continuing. The real estate securitization market is growing and , land prices remain unchanged or are beginning to rise. There factors seem likely to restore the vitality of the economy.

“Operating Profits of Building Leasing Business” will reach a high record, with an increase of ¥710 million (4.6%) compared with previous consolidated fiscal year, bringing the total to ¥ ¥16,091 million. Much of this was due to the operation of the “Osaka Stock Exchange Market Place”, which was completed on December 2004.

With regard to the Housing Business, a delayed large-scale condominium project at Koto-ku, Tokyo, has now begun and Housing Sales should amount to 391 housing units (a increase of 292 units compared with the previous year), “Operating profits of Housing Business” are expected to increase by ¥12,279 million (266.2%) to ¥16,892 million compared with the previous consolidated fiscal year ended March 31, 2005.

Including profits from Real Estate Brokerage Business, Contract Construction and Building Management Business, and Private Nursing Home Business, Consolidated Company Operating Profits are expected to reach a record high of ¥34,234 million, an increase of ¥12,882 million (60.3%) compared with the fiscal year ended March 31, 2005.

In addition, "Operating Profit" will amount to ¥7,285 million, a increase of 937 million (14.8%). "Ordinary income" will increase by ¥991 million (20.4%) to ¥5,844 million, and "Net profit" for the consolidated fiscal year ended March 31, 2006 is expected to increase by ¥154 million(5.1%) to ¥3,160 million compared with the consolidated fiscal year ended March 31, 2005.

(3) Investment in fixed assets -

During the consolidated fiscal year ended March 31, 2005, "Osaka Stock Exchange Market Place" was re-constructed, and "The Hotel Toyoko inn at Nihonbashi, Ningyocho" was constructed. As a result, Company's capital expenditure amounted to ¥8,940 million.

(4) Status of financing -

On June 24, 2004, the Company issued the 5th series of the unsecured convertible bonds with stock acquisition rights issued amount of ¥10 billion.

(5) Changes in results of operations and asset status of the Group and the Company -

① Changes in results of operations and asset status of the Group

(In millions of yen, except for net income per share and net assets per share)

Fiscal year Classification	The 82nd fiscal year (From April 1, 2001 to March 31, 2002)	The 83rd fiscal year (From April 1, 2002 to March 31, 2003)	The 84th fiscal year (From April 1, 2003 to March 31, 2004)	The 85 th fiscal year (From April 1, 2004 to March 31, 2005)
Operating revenue	¥20,374	¥29,591	¥24,408	¥21,352
Ordinary Profit	2,711	5,981	4,908	4,853
Net income	1,181	2,725	2,504	3,006
Net income per share (in exact yen)	10.49	23.71	21.86	26.40
Total assets	147,654	167,201	174,319	172,560
Net assets	36,349	38,129	39,866	42,094
Net assets per share(in exact yen)	322.97	340.00	356.21	376.81

(Note) 1. The Company makes consolidated financial statements based on Article 19-2 of the "Special Law of the Commercial Code Concerning the Audit, etc. of Stock

Corporations (Kabusiki-Kaisya)" of Japan from the 85th fiscal year. The amounts of consolidated financial statements from 82nd fiscal year to 84th fiscal year aren't based on consolidated financial statements audited by the Independent Accountants and Statutory Auditors based on the article 19-2-(3) of the above law.

2. Net income per share is computed based on the average total number of shares of common stock issued and outstanding during each period. From the 82nd fiscal year, the number of treasury stock had been deducted from the average total number of common stock issued and outstanding during each period.

From the 83rd fiscal year, the amount which does not belong to common shareholders has been deducted from net income in accordance with "Accounting standard regarding the net income per share" (Statement of Accounting Standards Board of Japan No.2) and "Guideline for the application of the accounting standard regarding the net income per share" (Guideline of Accounting Standards Board of Japan No.4).

② Changes in results of operations and asset status of the Company

(In millions of yen, except for net income per share and net assets per share)

Fiscal year Classification	The 82 nd fiscal year (From April 1, 2001 to March 31, 2002)	The 83 rd fiscal year (From April 1, 2002 to March 31, 2003)	The 84 th fiscal year (From April 1, 2003 to March 31, 2004)	The 85 th fiscal year (From April 1, 2004 to March 31, 2005)
Operating revenue	¥19,475	¥28,828	¥23,569	¥20,191
Ordinary Profit	2,782	5,973	4,906	4,802
Net income	1,249	2,724	2,509	2,974
Net income per share (in exact yen)	11.09	23.71	21.91	26.11
Total assets	146,834	166,200	173,114	171,470
Net assets	36,053	37,828	39,570	41,766
Net assets per share(in exact yen)	320.33	337.31	353.56	373.87

(Note) Net income per share is computed based on the average total number of shares of common stock issued and outstanding during each period. From the 82nd fiscal year, the number of treasury stock had been deducted from the average total number of common stock issued and outstanding during each period.

From the 83rd fiscal year, the amount which does not belong to common shareholders has been deducted from net income in accordance with "Accounting standard regarding the net income per share" (Statement of Accounting Standards

Board of Japan No.2) and “Guideline for the application of the accounting standard regarding the net income per share” (Guideline of Accounting Standards Board of Japan No.4).

2. Outline of the Group and the Company (as of March 31, 2005):

(1) Contents of principal businesses of the Group -

Division	Business Activities
Buildings Leasing	Leasing, management and performance of securities exchange buildings, office buildings and commercial facilities.
Housing	Sales and leasing of condominiums etc.
Other	Agency and brokerage related to trading and leasing of real estate, management of buildings and facilities, etc., and a private nursing home enterprise

(2) Principal sales offices of the Group -

① Principal sales offices of the Company

Name	Location
Head Office	Chuo-ku, Tokyo
Osaka Branch	Chuo-ku, Osaka-city
Nagoya Branch	Naka-ku, Nagoya-city
Fukuoka Branch	Chuo-ku, Fukuoka-city

② Principal sales offices of the significant subsidiaries

Subsidiaries	Name	Location
Heiwa Service CO., Ltd	Head Office	Chuo-ku, Tokyo
Heiwa Health CO., Ltd	Head Office	Abiko-city, Chiba-prefecture

(3) Employees of the Group-

① Employees of the Group-

	<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>
Total or average	<u>145</u>	<u>2</u>	<u>40.93</u>	<u>9.28</u>

(Note) Number of employee is number of ordinary employee.

② Employees of the Company-

	<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>
Total or average	<u>80</u>	<u>(5)</u>	<u>39.05</u>	<u>14.18</u>

(Note) Number of employee is number of ordinary employee.

(4) Status of business combination –

① 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	93.2%	Management of buildings and facilities, etc.
Heiwa Healthcare Co., Ltd	¥70million	93.2%	Private nursing home enterprise

(Note) Percentage of voting for Heiwa Health Co., Ltd held by the company includes an indirect holding of 93.2%.

② Process and results of combined business:

Heiwa Service Co., Ltd. spun off a private nursing home enterprise in order to establish Heiwa Healthcare Co., Ltd as of April 1st, 2004.

During the fiscal year ending March 31, 2005, the Company was required to consolidate the above subsidiaries. Consolidated net sales and net income for the fiscal year ending March 31, 2005, amounted to ¥21,352million (a decrease of 12.5% compared with the previous year) and 3,006 million (a increase of 20.1% compared with the previous year), respectively.

(5) Status of Shares –

① Number of shares authorized	299,171,000 shares
② Number of shares issued and outstanding	111,762,578 shares
③ Number of shares which constitutes one unit (Tangen)	500 shares
④ Number of shareholders	26,983 (Decrease of 991 as compared with prior period end)

(Note) Number of shares issued and out standing increased to 2,164 shares by exercise of stock acquisition rights with the 5th series of the unsecured convertible bonds with stock acquisition rights.

⑤ Major shareholders

Name	Investment in the Company		Investment in the shareholders by the Company	
	No. of shares (000's)	Percentage of voting rights (%)	No. of shares (000's)	Percentage of investment (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	6,173	5.64		
Japan Trustee Services Bank, Ltd. (Trust Account)	5,446	4.98	-	-
Banca intessa clients omnibus account	2,931	2.68	-	-
Societe Generale Paris OBE dept	2,359	2.16		
Carillon DMA OTC	2,289	2.09		
BNP Paribas Securities (Japan) Limited	1,997	1.83		
Deutsche Bank AG ,London 610	1,892	1.73		
Resona Bank, Ltd	1,808	1.65	Note 2	Note 2
Sumitomo Mitsui Banking Corporation	1,710	1.56	Note 3	Note 3
Trust and Custody Services Bank Ltd. (Investment Trust Account)	1,391	1.27	-	-

- (Note) 1. The above number of shares held by the trust bank includes shares in the form of an investment trust account, etc.
2. The Company holds 160,000 shares (0.00% of voting stock) of Resona Holdings, Inc.
3. The Company holds 270 shares (0.00% of voting stock) of Sumitomo Mitsui Financial Group, Inc.

(6) Acquisition, reissuance, and balance of treasury stock

1) Acquisition due to repurchase of shares less than one unit:	
Number of common stock	200,646 shares
Total acquisition cost	¥78 million
2) Offering and proceed to be lapsed shares:	
Number of common stock	No items
3) Balance at the end of current period:	
Number of common stock	206,489 shares

(7) Stock acquisition rights

Issued stock acquisition rights.

Name	Heiwa Real Estate Co., Ltd fifth series of unsecured convertible bonds with stock acquisition rights (limited inter-bonds pari passu clause)
Date of resolution to issue	June 8, 2004
Amount of convertible bonds with stock acquisition rights	9,999 million yen
Number of stock acquisition rights	9,999
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	21,642,857 shares
Issue price of stock acquisition rights	Free

(Note) Number of stock acquisition rights is result of division Amount of convertible bonds with stock acquisition rights by conversion price of 462 yen.

(8) Principal creditors -

Creditors	Balance (In millions of yen)	No. of shares held by creditors	
		(In thousand of shares)	Percentage of voting rights held by creditors (%)
Resona Bank, Limited. Sumitomo Mitsui Banking Corporation	¥14,713	1,808	1.65
The 77 Bank, Ltd.	12,040	1,710	1.56
Mizuho Corporate Bank, Ltd.	6,340	666	0.61
The Bank of Tokyo-Mitsubishi, Ltd.	6,270	-	-
	2,065	-	-

(9) Directors and statutory auditors -

Position	Name	Responsibility
Director and President*	Kenichi Isaka	
Executive Managing Director*	Sakutaro Kinbara	In-charge of Finance and Accounting Department, Building Project Department, Building Business Department and Fukuoka Branch operation
Managing Director*	Hiromu Enomoto	In-charge of Real Estate Brokerage Department and in-charge of Housing Business Department
Managing Director	Kiyoshi Kurosu	In-charge of Osaka and Nagoya Branch operation
Managing Director	Hiroyuki Takahashi	In-charge of General Affairs Department and Business Development Department
Director	Masashi Ueda	Executive Manager of Kansai area
Director	Takashi Hayakawa	Executive Manager of Chubu area

Director	Kazuo Minamino	Manager of Finance and Accounting Department
Director	Takeo Hino	Manager of Building Project Department
Director	Kaoru Umehara	Director and President of Kyowa Securities K.K.
Statutory Auditor	Kouichi Nishimura	Full-time
Statutory Auditor	Kazuyuki Nakajima	Full-time
Statutory Auditor	Yasukuni Watanabe	Director and President of Marukuni Securities K.K.
Statutory Auditor	Tomoaki Murakami	Statutory auditor of Jasdq Securities Exchange K.K.

(Note)

1. “*” above, indicates Representative Director.
2. Kaoru Umehara is an external director as prescribed by Article 188 - (2), 7-2 of the Commercial Code.
3. Yasukuni Watanabe and Tomoaki Murakami are external statutory auditors as prescribed by Article 18 - (1) of the Special Law of the Commercial Code concerning the Audit, etc. of Stock Corporations.

(10) Amount of independent accountant's fee –

- ① A total amount of fee which the Company and the subsidiaries will pay independent accountants
18 million yen
- ② A total amount of fee which the Company and the subsidiaries will pay independent accountants for audit based on article 2-(1) of the Certified Public Accountant Law of Japan(audit certificate) within the above total amount
18 million yen
- ③ A total amount of fee which the Company will pay independent accountants within the above total amount
18 million yen

(Note) The above total amount includes fee for audit based on the Securities and Exchange Law, because the company doesn't classify fee for audit based on the Certified Public Accountant Law of Japan and fee for audit based on the Securities and Exchange Law by audit agreement between the Company and the independent accountants.

3. Significant subsequent events of the Company:

The Company will issue the fifth series of the unsecured bond at the latter part of June 2005 by resolution of board of directors at May 31, 2005.the detail terms of this issuance were as follows.

Total amount of the bonds	20 billion yen
Redemption price	¥100 pre ¥100 in face value
Period of redemption	Four years
Use of funds raised	Redemption of bonds

CONSOLIDATED BALANCE SHEET

MARCH 31, 2005

ASSETS

(In millions of yen)

Current assets:	
Cash and deposits	¥1,296
Accounts receivable – trade	212
Marketable securities	841
Real estate for sale	1,384
Suspense account for real estate for sale	5,988
Merchandise	5
Deferred tax assets	507
Prepaid expenses	820
Short-term loans	142
Accounts receivable – other	1,646
Other current assets	18
Allowance for doubtful accounts	(4)
Total current assets	<u>12,858</u>
Fixed assets:	
Tangible fixed assets -	
Buildings and building fixtures	70,462
Structures	630
Machinery and equipment	615
Vehicles	9
Furniture and fixtures	505
Land	<u>70,467</u>
Total tangible fixed assets	<u>142,691</u>
Intangible fixed assets -	
Leasehold rights	3,678
Other intangible Assets	<u>61</u>
Total intangible fixed assets	<u>3,739</u>
Investments and other assets -	
Investment in securities	6,376
Investment in partnerships	5,437
Deferred tax assets	65
Other investments	1,394
Allowance for doubtful accounts	(4)
Total investments and other assets	<u>13,270</u>
Total fixed assets	<u>159,701</u>
Total assets	<u>172,560</u>

CONSOLIDATED BALANCE SHEET

MARCH 31, 2005

LIABILITIES AND SHAREHOLDERS' EQUITY

(In millions of yen)

<u>Liabilities</u>	
Current liabilities:	
Notes payable	¥385
Accounts payable – trade	581
Current portion of bonds	20,000
Short-term loans payable	7,570
Current portion of long-term loans	20,764
Accounts payable – other	151
Accrued corporation and other taxes	35
Accrued consumption taxes	8
Accrued expenses	199
Advances received-construction in progress	3
Advances received	1,633
Short-term deposits received	876
Accrued bonuses	193
Total current liabilities	<u>52,405</u>
Long-term liabilities:	
Bonds	30,000
Convertible bonds(with stock acquisition rights)	9,999
Long-term loans payable	13,264
Deposits received	9,722
Deposits of landlord	9,790
Deferred tax liabilities	716
Deferred tax liabilities concerning revaluation	3,650
Reserve for retirement allowances for directors and statutory auditors	441
Accrued severance indemnities for employees	439
Total long-term liabilities	<u>78,023</u>
Total liabilities	<u>130,428</u>
 <u>Minority shareholders' equity</u>	
Minority shareholders' equity	<u>36</u>
 <u>Shareholders' equity</u>	
Common stock	5,814
Additional paid-in capital	4,061
Retained earnings:	26,751
Revaluation surplus of land	5,321
Unrealized gain on securities	262
Treasury stock, at cost	(81)
Total shareholders' equity	<u>42,094</u>
Total liabilities, minority equities and shareholders' equity	<u>172,560</u>

Notes to Consolidated Balance Sheet

1. The figures shown above are rounded down to the nearest million yen.
2. Significant accounting policies are stated separately.
3. Accumulated depreciation of tangible fixed assets ¥40,185million
4. Pledged assets

Buildings and building fixtures	¥22,162million
Land	¥48,635million
Total	¥70797million
5. Guarantees due from the Company ¥448million
6. Pursuant to the Law Concerning Land Revaluation (March 31, 1998 - Law No.34) and the Revision of the Law Concerning Land Revaluation (March 31, 2001 - Law No.19), the Company revalued its land used for business purposes and the resultant unrealized gains on revaluation, net of the related deferred tax liabilities, were recorded as a separate component of shareholders' equity on the balance sheet.

Accounting policy with regard to revaluation prescribed by Article 3, paragraph 3 of the Law Concerning Land Revaluation -

The land prices were calculated based on the Enforcement Ordinance Concerning Land Revaluation (Government Ordinance No.119 on March 31,1998) Article 2(4). That is to say that the land prices were calculated based on the official notice published by the Commissioner of the National Tax Agency, which was in order to calculate tax value of land value tax in accordance with Land Value Tax Law Article 16, with reasonable adjustments.

Revaluation date -

March 31, 2001

The Difference between market value as at March 31, 2005 and the revaluation date -

¥12,006 million

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

FROM: APRIL 1, 2004

TO: MARCH 31, 2005

(In millions of yen)

(Ordinary profit and loss)	
Operating profit and loss:	
Operating revenue -	
Rental income-buildings	¥15,381
Revenue from housing business	4,613
Other operating revenue	1,357
Total operating revenue	<u>21,352</u>
Operating cost -	
Cost of rental-buildings	7,713
Cost of housing business	3,820
Other operating cost	797
Selling, general and administrative expenses	2,671
Total operating cost	<u>15,003</u>
Operating profit	6,348
Non-operating profit and loss:	
Non-operating income -	
Interest income and dividends earned	80
Gain on investment in partnerships	76
Other non-operating income	46
Total non-operating income	<u>204</u>
Non-operating expenses -	
Interest on debentures	736
Interest expense	861
Bond-issuing expenses	36
Provision of allowance for bad debt	4
Other non-operating expenses	61
Total non-operating expenses	<u>1,699</u>
Ordinary income	4,853
(Special gains and losses)	
Special losses:	
Gain on sales of fixed assets	317
Gain on sales of investment securities	26
Total special gains	<u>343</u>
Special losses:	
Loss on disposal of fixed assets scrapped	87
Total special losses	<u>87</u>
Income before income taxes	5,108
Corporation, inhabitants and enterprise taxes	44
Deferred income taxes	2,055
Minority interests	2
Net income for the period	<u>3,006</u>

Notes to Statement of Profit and Loss

1. The figures shown above are rounded down to the nearest million yen.
2. Significant accounting policies are stated separately.
3. Gain on sales of fix assets

Land & buildings(Suitengu-heiwa building)	¥275million
Land & buildings(Nihonbashi-heiwa building)	¥41million
4. Loss on disposal of fixed assets scrapped

Buildings and building fixtures	¥78million
Furniture and fixtures and others	¥9million
5. Net income per share - ¥26.40

Basis of presenting Consolidated financial statements

1. Basis of consolidation

All subsidiaries are consolidated.

The subsidiaries are the following 2 companies.

Heiwa Service Co., Ltd

Heiwa Healthcare Co., Ltd

2. Basis of applying equity method

There are no items to report.

3. Fiscal year of consolidated subsidiaries

All financial statements included in a set of consolidated financial statements are prepared as of the same date.

4. Significant accounting policies

(1) Method and basis of valuation of assets:

Inventory -

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

Marketable securities and other investments-

Trading securities: The company does not hold any trading securities.

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:

Securities with market quotations are valued at fair value with unrealized gains and losses included as a component of shareholders' equity, net of applicable taxes. Realized gains and losses are determined using the periodic average cost method and are reflected in income.

b. Securities without market quotations:

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

(2) Depreciation method for significant fixed assets:

Tangible fixed 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 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, building fixtures, and structures	8-50 years
Machinery, equipment, and vehicles	6-15 years
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.

Intangible fixed 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) Principles for providing accruals and reserves:

Allowance for doubtful accounts -

An allowance for doubtful accounts is provided to cover losses bad debt at an amount estimated based on past experience plus any amounts deemed necessary to cover possible losses on an individual accounts basis.

Accrued bonuses -

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

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 .One of the consolidated subsidiaries has defined contribution retirement plants. Accrued severance indemnities for employ aren't calculated at the subsidiaries.

Reserve for retirement allowances for directors and statutory auditors -

The "Reserve for retirement allowances for directors and statutory auditors" is calculated based on the Rules for Retirement Allowances for Directors and Statutory Auditors.

(4) Accounting for leases-

Finance leases other than those, which are deemed to transfer the ownership of the leased assets to the lessees, are accounted for by the method similar to that applicable to ordinary operating leases.

(5) Hedge accounting

Hedge accounting method

Interest rate swaps that accounted by the short-cut method since they meet certain criteria

Hedging instrument and risk hedge

Hedging instrument : Interest rate swaps

Risk hedged :Interest rate hike on borrowings

Hedging policy

To reduce exposure to risks from fluctuations in interest rates. Identification of the hedging instrument and risk hedged is carried out for each hedge transaction.

Assessing the effectiveness of a hedge

The company does not assess the effectiveness of a hedge transaction, given the high correlation and high degree of effectiveness in offsetting or limiting the effect of interest rate fluctuations between the hedging instrument and the risk hedged.

(6) 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.

Supplementary Information

The company has adopted the new accounting standard(ASBJ Accounting Standard Implementation Guidance No.12 (February 13, 2004):"Implementation Guidance on Presentation of the Size-based Portion of Enterprise Taxes in Statements of Income."Accordingly , the amount of enterprise taxes that have a tax basis on the "amount of added value" and the "amount of capital" are presented as a component of selling, general, and administrative expenses. The effort this change was to increase selling, general and administrative expenses by 35 million yen.

BALANCE SHEET

MARCH 31, 2005

ASSETS

84

(In millions of yen)

Current assets:	
Cash and deposits	¥739
Accounts receivable – trade	156
Marketable securities	817
Real estate for sale	1,384
Suspense account for real estate for sale	5,988
Prepaid expenses	816
Deferred tax assets	491
Short-term loans	140
Accounts receivable – other	1,645
Other current assets	18
Allowance for doubtful accounts	(4)
Total current assets	<u>12,193</u>
Fixed assets:	
Tangible fixed assets -	
Buildings and building fixtures	70,164
Structures	627
Machinery and equipment	614
Vehicles	9
Furniture and fixtures	476
Land	70,347
Total tangible fixed assets	<u>142,240</u>
Intangible fixed assets -	
Leasehold rights	3,678
Other intangible Assets	59
Total intangible fixed assets	<u>3,738</u>
Investments and other assets -	
Investment in securities	6,365
Investment in subsidiaries	136
Investment in partnerships	5,436
Other investments	1,364
Allowance for doubtful accounts	(4)
Total investments and other assets	<u>13,298</u>
Total fixed assets	<u>159,276</u>
Total assets	<u><u>171,470</u></u>

BALANCE SHEET

MARCH 31, 2005

LIABILITIES AND SHAREHOLDERS' EQUITY

(In millions of yen)

<u>Liabilities</u>	
Current liabilities:	
Notes payable	¥385
Accounts payable – trade	265
Current portion of bonds	20,000
Short-term loans payable	7,400
Current portion of long-term loans	20,764
Accounts payable – other	146
Accrued expenses	192
Advances received	1,623
Short-term deposits received	817
Accrued bonuses	164
Total current liabilities	<u>51,759</u>
Long-term liabilities:	
Bonds	30,000
Convertible bonds(with stock acquisition rights)	9,999
Long-term loans payable	13,264
Long-term deposits received	19,418
Deferred tax liabilities	743
Deferred tax liabilities concerning revaluation	3,650
Reserve for retirement allowances for directors and statutory auditors	431
Accrued severance indemnities for employees	436
Total long-term liabilities	<u>77,944</u>
Total liabilities	<u>129,703</u>
 <u>Shareholders' equity</u>	
Common stock	5,814
Additional paid-in capital	
Capital reserve	4,061
Total additional paid-in capital	<u>4,061</u>
Retained earnings:	
Legal reserve	1,453
Reserve for deferral of gains on fixed assets	1,406
Reserve for special depreciation of fixed assets	112
Reserve for research and development costs	30
Reserve for general purposes	20,115
Unappropriated retained earnings	3,270
Total retained earnings	<u>26,386</u>
Revaluation surplus of land	5,321
Unrealized gain on securities	263
Treasury stock, at cost	(81)
Total shareholders' equity	<u>41,766</u>
Total liabilities and shareholders' equity	<u><u>171,470</u></u>

Notes to Balance Sheet

1. The figures shown above are rounded down to the nearest million yen.
2. Significant accounting policies are stated separately.
3. Payables to subsidiaries

Short-term receivables	¥1 million
Short-term payables	¥18 million
4. Accumulated depreciation of tangible fixed assets ¥39,759 million
5. Pledged assets

Buildings and building fixtures	¥22,198 million
Land	¥48,635 million
Total	¥70,833 million
6. Guarantees due from the Company ¥618 million
7. The “Reserve for retirement allowances for directors and statutory auditors” has been made in accordance with Article 43 of the Commercial Code Enforcement regulations.
8. The “Reserve for deferral of gains on fixed assets” is based on the provisions of the Special Taxation Measures Law.
9. The “Reserve for special depreciation of fixed assets” is based on the provisions of the Special Taxation Measures Law and the Special Measures Law for Earthquake Disasters.
10. Pursuant to the Law Concerning Land Revaluation (March 31, 1998 - Law No.34) and the Revision of the Law Concerning Land Revaluation (March 31, 2001 - Law No.19), the Company revalued its land used for business purposes and the resultant unrealized gains on revaluation, net of the related deferred tax liabilities, were recorded as a separate component of shareholders’ equity on the balance sheet.

Accounting policy with regard to revaluation prescribed by Article 3, paragraph 3 of the Law Concerning Land Revaluation -

The land prices were calculated based on the Enforcement Ordinance Concerning Land Revaluation (Government Ordinance No.119 on March 31,1998) Article 2(4). That is to say that the land prices were calculated based on the official notice published by the Commissioner of the National Tax Agency, which was in order to calculate tax value of land value tax in accordance with Land Value Tax Law Article 16, with reasonable adjustments.

Revaluation date - March 31, 2001

The Difference between market value as at
March 31, 2005 and the revaluation date - ¥12,006 million

11. Amounts of net assets increases by ¥263 million due to market revaluation of securities, which is restricted to be appropriated to dividends in accordance with Article 124-(3) of the Commercial Code Enforcement regulations.

STATEMENT OF PROFIT AND LOSS

FROM: APRIL 1, 2004

TO: MARCH 31, 2005

(In millions of yen)

(Ordinary profit and loss)	
Operating profit and loss:	
Operating revenue -	
Rental income-buildings	¥15,388
Revenue from housing business	4,583
Other operating revenue	220
Total operating revenue	<u>20,191</u>
Operating cost -	
Cost of rental-buildings	7,870
Cost of housing business	3,793
Selling, general and administrative expenses	2,285
Total operating cost	<u>13,949</u>
Operating profit	6,242
Non-operating profit and loss:	
Non-operating income -	
Interest income and dividends earned	87
Income for non-operating trustee services	49
Gain on investment in partnerships	76
Other non-operating income	44
Total non-operating income	<u>257</u>
Non-operating expenses -	
Interest on debentures	736
Interest expense	859
Bond-issuing expenses	36
Provision of allowance for bad debt	4
Other non-operating expenses	61
Total non-operating expenses	<u>1,697</u>
Ordinary income	4,802
(Special gains and losses)	
Special losses:	
Gain on sales of fixed assets	316
Gain on sales of investment securities	26
Total special gains	<u>342</u>
Special losses:	
Loss on disposal of fixed assets scrapped	87
Total special losses	<u>87</u>
Income before income taxes	5,056
Corporation, inhabitants and enterprise taxes	10
Deferred income taxes	<u>2,072</u>
Net income for the period	2,974
Unappropriated retained earnings brought forward	3,707
Reversal of revaluation surplus of land	(3,021)
Interim dividends	<u>390</u>
Unappropriated retained earnings at the end of the period	<u>¥3,270</u>

Notes to Statement of Profit and Loss

1. The figures shown above are rounded down to the nearest million yen.

2. Significant accounting policies are stated separately.

3. Transactions with subsidiaries:

Operating revenue	¥20 million
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Operating cost	¥1,691 million
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Transactions other than operating transactions	¥56 million
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4. Net income per share -	¥26.11
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Significant accounting policies

1. Method and basis of valuation of assets:

(1) Inventory -

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

(2) Marketable securities and other investments-

Trading securities: The company does not hold any trading securities.

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

Subsidiary stock: Subsidiary stock is valued at cost, cost being determined by the periodic average method

Other marketable securities and investments:

a. Securities with market quotations:

Securities with market quotations are valued at fair value with unrealized gains and losses included as a component of shareholders' equity, net of applicable taxes. Realized gains and losses are determined using the periodic average cost method and are reflected in income.

b. Securities without market quotations:

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

2. Depreciation method for fixed assets:

(1) Tangible fixed 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 which were acquired on or after April 1, 1998, for which the straight-line method is used. The principal useful lives of tangible fixed assets are as follows.

Buildings, building fixtures, and structures	8-50 years
Machinery, equipment, and vehicles	6-15 years
Furniture and fixtures	5-15 years

(2) Intangible fixed 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. Amortization method for deferred assets:

Bond-issuing expenses -

Bond-issuing expenses are charged to income as incurred.

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 past experience plus any amounts deemed necessary to cover possible losses on an individual accounts basis.

(2) Accrued bonuses -

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

(3) 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.

(4) Reserve for retirement allowances
for directors and statutory auditors -

The “Reserve for retirement allowances for directors and statutory auditors” is calculated based on the Rules for Retirement Allowances for Directors and Statutory Auditors.

5. Accounting for consumption taxes:

Profit and loss accounts are stated net of consumption tax.

Supplementary Information

The company has adopted the new accounting standard (ASBJ Accounting Standard Implementation Guidance No.12 (February 13, 2004):”Implementation Guidance on Presentation of the Size-based Portion of Enterprise Taxes in Statements of Income.”Accordingly , the amount of enterprise taxes that have a tax basis on the “amount of added value” and the “amount of capital” are presented as a component of selling, general, and administrative expenses. The effort this change was to increase selling, general and administrative expenses by 34 million yen.

PROPOSED APPROPRIATION OF RETAINED EARNINGS

(In exact yen)

Unappropriated retained earnings at the end of the period	¥3,270,002,754
Reversal of "Reserve for deferral of gains on fixed assets"	40,587,396
Reversal of "Reserve for special depreciation of fixed assets"	46,566,404
Total	<u>3,357,156,554</u>

This will be appropriated as follows:

Dividends (Ordinary dividend ¥4 per share, Dividend in commemoration of the completion of the Osaka Securities Exchange buildings ¥1.5 per share)	613,558,490
Directors' bonuses	45,000,000
Statutory auditors' bonuses	13,400,000
Provision of "Reserve for special depreciation of fixed assets"(Note 4)	48,847,319
Total	<u>720,805,809</u>

Retained earnings to be carried forward	<u><u>2,636,350,745</u></u>
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(Note)

The Company's Board of Directors declared interim cash dividends of ¥390,874,740 (¥3.5 per share) on December 1, 2004.

Independent Accountants' Report
(English Translation)

May 11, 2005

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

Toyo Audit Corporation

Kiichi Noguchi, CPA, Engagement Partner
Isao Takaoka, CPA, Engagement Partner
Yasuo Muramoto, CPA, Engagement Partne

We have audited, pursuant to Article 19-2-(3) of the "Special Law of the Commercial Code Concerning the Audit, etc. of Stock Corporations (Kabusiki-Kaisyu)" of Japan, the consolidated financial statements, which consist of the consolidated balance sheet and consolidated profit and loss statement of Heiwa Real Estate Co., Ltd and consolidated subsidiaries for the 85th fiscal year from April 1, 2004 to March31, 2005. 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. Our audit included auditing procedures applied to subsidiaries of the Company as were considered necessary.

As a result of our audit, it is our opinion that:

The consolidated financial statements present fairly the financial position and results of operation of the Heiwa Real Estate Co., Ltd and consolidated subsidiaries in conformity with the applicable laws and regulations of Japan and the Articles of Incorporation.

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 Law of Japan.

Independent Accountants' Report
(English Translation)

May 11, 2005

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

Toyo Audit Corporation

Kiichi Noguchi, CPA, Engagement Partner
Isao Takaoka, CPA, Engagement Partner
Yasuo Muramoto, CPA, Engagement Partner

We have audited, pursuant to Article 2-(1) of the "Special Law of the Commercial Code Concerning the Audit, etc. of Stock Corporations (Kabusiki-Kaisyu)" of Japan, the financial statements, which consist of the balance sheet, profit and loss statement, business report (limited to the accounting figures included therein) and proposal for appropriation, and supplementary schedules (limited to the accounting figures included therein) of Heiwa Real Estate Co., Ltd. (hereinafter referred to as the "Company") for the 85th fiscal year from April 1, 2004 to March 31, 2005. The portion of the business report and supplementary schedules subject to our audit are those derived from the accounting books and records of the Company. These 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 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 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. Our audit included auditing procedures applied to subsidiaries of the Company as were considered necessary.

As a result of our audit, it is our opinion that:

- (1) The balance sheet and profit and loss statement present fairly the financial position and results of operation of the Company in conformity with the applicable laws and regulations of Japan and the Articles of Incorporation.
- (2) The business report of the Company (limited to the accounting figures included therein) presents fairly the Company's affairs in conformity with the applicable laws and regulations of Japan and the Articles of Incorporation.
- (3) The proposal for appropriation is presented in conformity with the applicable laws and regulations of Japan and the Articles of Incorporation.
- (4) There is nothing in respect of the supplementary schedules (limited to the accounting figures included therein) that is required to be mentioned by the provisions of the Commercial Code of 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 Law of Japan.

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

AUDIT REPORT

We, the Board of Statutory Auditors, have received reports from each Statutory Auditor informing us of their method and providing us with the results of their audit of consolidated financial statements(consolidated balance sheets and consolidated profit and loss statement) for the 85th fiscal year from April 1, 2004 to March 31, 2005. As a result of the discussions based upon these reports, we hereby report to you as follows:

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

Based upon the auditing policies and work responsibility determined by the Board of Statutory Auditors, each Statutory Auditor heard report of consolidated financial statements(consolidated balance sheets and consolidate profit and loss statement) from directors and Independent Accountants and audited consolidated financial statements(consolidated balance sheets and consolidate profit and loss statement).

2. Results of audit:

The auditing methods employed by Toyo Audit Corporation and the results of their audit are in order.

May 12, 2005

Board of Statutory Auditors
Heiwa Real Estate Co., Ltd.

Statutory Auditor (Full-time)
Kouichi Nishimura

Statutory Auditor (Full-time)
Kazuyuki Nakajima

Statutory Auditor
Yasukuni Watanabe

Statutory Auditor
Tomoaki Murakami

Note: Yasukuni Watanabe, Statutory Auditor and Tomoaki Murakami, Statutory Auditor are external Statutory Auditors as defined in Article 18 - (1) of the Special Law of the Commercial Code concerning the Audit, etc. of Stock Corporations.

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

AUDIT REPORT

We, the Board of Statutory Auditors, have received reports from each Statutory Auditor informing us of their method and providing us with the results of their audit of the business activities of the directors for the 85th fiscal year from April 1, 2004 to March 31, 2005. As a result of the discussions based upon these reports, we hereby report to you as follows:

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

Based upon the auditing policies and work responsibility determined by the Board of Statutory Auditors, each Statutory Auditor attended the meetings of the Board of Directors and other important meetings, heard reports on the condition of the business from directors, reviewed written decisions on important matters, reviewed the operational and financial position of the head office and main branch offices and, as deemed necessary, obtained reports of operations and financial condition of from the Company's subsidiaries. Furthermore, after receiving the reports from the Independent Accountants, we examined the balance sheet, the related statement of profit and loss, the business report, the proposed appropriation of retained earnings profit and the supplementary schedules.

We made detailed examinations of any transactions by the Directors as the Company's rival, any conflicts of interest between the Directors and the Company, any donations by the Company to its specific shareholders, irregular transactions by the Company with its subsidiaries or its shareholders, and the acquisition and reissuance of treasury stock through the auditing method described above and, as deemed necessary, based upon reports from the Directors.

2. Results of audit:

- (1) The auditing methods employed by Toyo Audit Corporation and the results of their audit are in order.
- (2) The business report fairly presents the situation of the Company in conformity with the applicable regulations and the Articles of Incorporation.
- (3) The proposed appropriation of retained earnings is presented based on the applicable regulations, and there are no matters that should be pointed about the financial position or other conditions of the Company.

- (4) The supplementary schedules present what they are supposed to present and there are no matters that need to be pointed out.
- (5) There is no evidence of malpractice in the Directors' performance of duties or evidence of any violation of the applicable regulations or the Articles of Incorporation.

Further, we are also of the opinion that there was no breach of duties by the Directors in connection with any transactions by the Directors as the Company's rival, any conflicts of interest between the Directors and the Company, any donations by the Company to its specific shareholders, irregular transactions by the Company with its subsidiaries or its shareholders, and the acquisition and reissuance of treasury stock.

- (6) As a result of the examination of the subsidiary, as stated above, there are no matters in respect of the Directors' performance that need reporting.

May 12, 2005

Board of Statutory Auditors
Heiwa Real Estate Co., Ltd.

Statutory Auditor (Full-time)
Kouichi Nishimura

Statutory Auditor (Full-time)
Kazuyuki Nakajima

Statutory Auditor
Yasukuni Watanabe

Statutory Auditor
Tomoaki Murakami

Note: Yasukuni Watanabe, Statutory Auditor and Tomoaki Murakami, Statutory Auditor are external Statutory Auditors as defined in Article 18 - (1) of the Special Law of the Commercial Code concerning the Audit, etc. of Stock Corporations.