

BUSINESS REPORT

1. Outline of Operations for the period from April 1, 2005 to March 31, 2006:

(1) Update and Results of Business -

During the consolidated fiscal year ended March 31, 2006, the Japanese economy recovered, steadily with stronger capital investment and improved employment conditions.

In the real estate business, the building leasing sector enjoyed lower vacancy rates and improved rent prices.

In housing sales, the number of sales units and contract rates remained strong. Contributing factors were favorable employment conditions and expansion in the leasing condominium business.

Meanwhile, over 30 issues of listed REITs (real estate investment trusts) have been traded, and real estate investment funds have increased. These developments have had great impact on the real estate market.

In this business environment, the Company group acquired new lease buildings and focused on enhancing its real estate securitization business. The Company group also established a "Residential Leasing Business Department" and "Sapporo Branch Establishment-Preparation Section" as strategic moves to improve profitability.

The operating results for the respective divisions are summarized below:

Building Leasing Division

In the Building Leasing Division, the Company acquired a new building in Sapporo and land for a new building in Nagoya.

This, together with the full-year operation of The Osaka Securities Exchange buildings, amounted to ¥5,174 million in Stock Exchange Marketplace Leasing Income for the fiscal year ended March 31, 2006, an increase of ¥149 million (3.0%) compared with the previous year. General Leasing Income rose to ¥7,319 million, an increase of ¥1,104 million yen (17.8%) compared with the previous period, because of the full-year operation of leased offices of The Osaka Securities Exchange buildings and the acquisition of Park East Sapporo. Commercial Facilities Leasing Income increased to ¥3,270 million, up by ¥52 million (1.6%) from the previous period.

Building Leasing Income, including the above incomes and Land Leasing Income, totaled ¥16,425 million, an increase of ¥1,845 million yen (12.7%) compared with the previous period. The vacancy rate of leased buildings as 1.1% at the end of the fiscal year ended March 31, 2006.

Housing Business Division

In the Housing Business Division, the Company sold 387 condominium units, including 194 units of Tokyo Front Court (Toyosu, Koto-ku, Tokyo) and 130 units of Five Star (Shinsuna, Koto-ku, Tokyo). Though the sales of the Five Star units were supposed to have started and to have been recorded in the previous fiscal year, they were recorded in the consolidated fiscal year ended March 31, 2006 because of postponements in the scheduling for the sales necessitated by measures to comply with local government requirements. Accordingly, Real Estate Sales Income significantly increased to ¥16,515 million, up by ¥12,056 million (270.4%) from the previous period.

Housing Business Sales, including the Real Estate Sales Income and Housing Leasing Income, etc., totaled ¥16,729 million, up by ¥12,116 million yen (262.7%) from the previous period.

Asset Development and Securitization Division

Income from real estate transactions and trading commissions was ¥1,877 million, up by ¥1,077 million (134.5%) from the previous period. The improvement was driven by the increased assets of the “Heiwa Select Fund,” a private placement real estate fund established on April 2005 by the Company and the Crescendo Investment Corporation sponsored by the Company.

Real Estate Brokerage and Other Divisions

In the Real Estate Brokerage Division, the Company made aggressive efforts for brokerage on commercial-use real estate. However, revenue in the Real Estate Brokerage Division for the fiscal year ended March 31, 2006 decreased to ¥127 million, or ¥97 million (43.3%) less than the revenue reported during the previous period.

Income from the Contract Construction Business and Building Management Business increased by ¥266 million (32.9%) to ¥1,076 million compared with the previous period. Private Nursing Home Income increased by ¥29 million (10.5%) to ¥314 million compared with the previous period. Accordingly, Real Estate Brokerage and Other operating revenue for the fiscal year ended March 31, 2006 increased by ¥208 million (15.3%) to ¥1,565 million.

Overall Operating Results of the Group

The operating results of the Company group for the consolidated fiscal year ended March 31, 2006 are summarized below:

Operating Revenue amounted to ¥36,599 million, an increase of ¥15,247 million (71.4%) compared with the previous period. On the other hand, Operating Costs increased by ¥11,922 million (96.7%) to ¥24,254 million compared with the previous period, while Selling, General and Administrative Expenses increased by ¥1,047 million (39.2%) to ¥3,719 million compared with the previous period.

Consequently, Operating Profit for the fiscal year ended March 31, 2006 increased by ¥2,276 million (35.9%) to ¥8,625 million compared with the previous period, while Ordinary Income increased by ¥2,717 million (56.0%) to ¥7,570 million compared with the previous period.

Net Income improved by ¥1,196 million (39.8%) to ¥4,203 million compared with the previous period.

(2) Issues to be resolved by the Company -

Steady growth in the Japanese economy is very likely to continue, though rising interest rates are cause for concern.

In the real estate business as a whole, rising land prices are another factor to consider in addition to the rising interest rates. With today's drastic changes in business value in the possession and use of real estate—most notably, the rapid growth of robust real estate investment funds—we need to shift to a new business model.

In response to the changing business environment, the Company established a medium-term management plan for the period ending March 31, 2009—"Growth 2009: the New Business Scheme For The Growth Towards 2009." The plan was established in November 2005.

The core strategies are as follows:

- (1) In the Building Leasing Division, the Company will strive to increase assets by acquiring and developing profitable buildings in a proactive manner and improving the added value of its real estate holdings.
- (2) In the Housing Business, the Company will expand and stabilize profit structure, mainly by stepping up collaborations in housing development in collaboration with its best partners, and by newly launching its own housing development and housing leasing businesses.
- (3) In the Asset Development and Securitization Business, we aim to expand profit-earning opportunities and diversify income sources by utilizing the real estate securitization method in a proactive manner in new business development, we will be.

(4) In financial management, we will secure funds for new investments and enhance shareholders' equity by smooth and diversified fundraising activities. We will also be further reinforcing our financial base by reducing interest-bearing liabilities to the maximum extent possible through commitment payments, etc.

Newly launched initiatives have included the development of the housing leasing business, construction of a new building in Nagoya, construction of a super high-rise condominium and hotel development in Osaka, and reinforcement of our alliance with Crescendo Investment Corporation. In addition, we will establish a new Housing Development Department II and a Sapporo Branch by the end of fiscal year ending March 31, 2007 in order to develop and sell housing in our own style.

In the previous medium-term management plan we almost achieved a targeted balance between our sources of leasing income, with equal shares coming from leasing income from stock exchange marketplaces, general offices, and commercial buildings.

Meanwhile, under the above "Growth 2009" strategies, we intend to promote balanced growth of the Building Leasing business, Housing business, and Asset Development and Securitization business.

(3) Investment in fixed assets -

During the consolidated fiscal year ended March 31, 2006, the Company purchased land for a new building in Nagoya and three buildings (including the "Park East Sapporo") in Sapporo). As a result, the Company's capital expenditure amounted to ¥12,942 million.

(4) Status of financing -

The Company issued its 5th series of unsecured bonds on June 22, 2005 (the issued amount, ¥20 billion; date of maturity, June 22, 2009; annual interest, 0.81%) and its 6th series of unsecured convertible bonds with stock acquisition rights on October 24, 2005 (the issued amount, ¥10 billion; date of maturity, October 24, 2007; annual interest, 0.00%).

(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 83rd fiscal year (From April 1,2002 to March 31, 2003)	The 84th fiscal year (From April 1, 2003 to March 31, 2004)	The 85th fiscal year (From April 1, 2004 to March 31, 2005)	The 86th fiscal year (From April 1, 2005 to March 31, 2006)
Operating revenue	¥29,591	¥24,408	¥21,352	¥36,599
Ordinary Profit	5,981	4,908	4,853	7,570
Net income	2,725	2,504	3,006	4,203
Net income per share (in exact yen)	23.71	21.86	26.40	34.64
Total assets	167,201	174,319	172,560	186,476
Net assets	38,129	39,866	42,094	62,100
Net assets per share (in exact yen)	340.00	356.21	376.81	437.80

(Note) 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 83rd 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) 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 83rd fiscal year (From April 1,2002 to March 31, 2003)	The 84th fiscal year (From April 1, 2003 to March 31, 2004)	The 85th fiscal year (From April 1, 2004 to March 31, 2005)	The 86th fiscal year (From April 1, 2005 to March 31, 2006)
Operating revenue	¥28,828	¥23,569	¥20,191	¥34,975
Ordinary Profit	5,973	4,906	4,802	7,424
Net income	2,724	2,509	2,974	4,134
Net income per share (in exact yen)	23.71	21.91	26.11	34.12
Total assets	166,200	173,114	171,470	185,130
Net assets	37,828	39,570	41,766	61,675
Net assets per share (in exact yen)	337.31	353.56	373.87	434.84

(Note) Due to the “Ministerial Ordinance for Partial Amendment of the Enforcement Regulations of the Commercial Code” (Ministry of Justice Ordinance, No.7,

February 28, 2003), the Company changed the phrases “Net income (toki rieki)” and “Net income per share (hitokabu atari toki rieki)” to “Net income (toki junrieki)” and “Net income per share (hitokabu atari toki junrieki),” respectively, in the Japanese version from the 84th fiscal term.

2. Outline of the Group and the Company (as of March 31, 2006):

(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.
Asset Development and Securitization	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., 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 Healthcare Co., Ltd	Head Office	Abiko-city, Chiba-prefecture
Osaka Securities Building Co., Ltd.	Head Office	Chuo-ku, Osaka

(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>
<u>153</u>	<u>8</u>	<u>41.0</u>	<u>9.4</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>
<u>84</u>	<u>4</u>	<u>39.7</u>	<u>13.8</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.	¥70 million	93.2%	Private nursing home enterprise
Osaka Securities Building Co., Ltd.	¥100 million	100.0%	Lease, management and operation of buildings and facilities, etc.

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

2) Process and results of combined business

The Company acquired 100% shares of the Osaka Securities Building Co., Ltd. from the Osaka Securities Exchange Co., Ltd., making the Osaka Securities Building Co., Ltd. a consolidated subsidiary as of May 24, 2005.

The Company has the above three consolidated subsidiaries. Consolidated net sales and net income for the fiscal year ending March 31, 2006, amounted to ¥36,599 million (an increase of 71.4% compared with the previous year) and ¥4,203 million (an increase of 39.8% 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	142,097,119 shares
3) Number of shares which constitutes one unit (Tangen)	500 shares
4) Number of shareholders	29,140 (Increase of 2,157 compared with prior period end)

(Note) The number of shares issued and outstanding increased to 30,334,541 shares by exercise of stock acquisition rights with the 5th and 6th 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 (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	11,274	8.07	-	-
The Master Trust Bank of Japan, Ltd. (Trust Account)	9,538	6.83	-	-
Bank of New York GCM Client Accounts EISG	5,206	3.73	-	-
Clariden Bank	3,205	2.29	-	-
Deutsche Bank AG ,London 610	2,734	1.96	-	-
Resona Bank, Ltd	2,229	1.59	Note 2	Note 2
Yamato Life Insurance Co.	2,139	1.53	10	3.58
Japan Securities Finance Co., Ltd.	1,871	1.34	-	-
Sumitomo Mitsui Banking Corporation	1,710	1.22	Note 3	Note 3
Mitsubishi UFJ Trust and Banking Corporation (Trust Account)	1,691	1.21	-	-

(Notes) 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 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	179,695 shares
Total acquisition cost	¥117 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	386,184 shares

(7) Stock acquisition rights -

Issued stock acquisition rights

Name	Heiwa Real Estate Co., Ltd the 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	3,474 million yen
Number of stock acquisition rights	3,474
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	7,519,480 shares
Issue price of stock acquisition rights	Free

(Notes)

1. Number of stock acquisition rights is result of division amount of convertible bonds with stock acquisition rights by conversion price of 462 yen.
2. In regard to the sixth series of unsecured convertible bonds with stock acquisition rights issued on October 24, 2005, all stock acquisition rights were exercised on March 27, 2006.

(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, Ltd.	¥11,555	2,229	1.59
Sumitomo Mitsui Banking Corporation	9,780	1,710	1.22
The 77 Bank, Ltd.	6,460	1,016	0.73
Mizuho Corporate Bank, Ltd.	5,582	-	-
The Hokkaido Bank, Ltd.	3,000	1,000	0.72
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,171	-	-
The Tottori Bank, Ltd.	500	-	-

(9) Directors and Statutory Auditors -

Position	Name	Responsibility
Director and President*	Kenichi Isaka	Overall management
Director and Vice President*	Sakutaro Kinbara	
Managing Director*	Hiroyuki Takahashi	In-charge of General Affairs Department, Business Development Department and Brokerage Department
Managing Director	Masashi Ueda	Executive Manager of Osaka and Fukuoka Branch
Director	Takashi Hayakawa	General Manager of Building Project Department, In-charge of Building Business Department and Nagoya Branch
Director	Kazuo Minamino	General Manager of Finance and Accounting Department
Director	Takeo Hino	General Manager of Housing Development Department and Housing Leasing Business Department
Director	Kaoru Umehara	Director and President of Kyowa Securities Co., Ltd.
Statutory Auditor	Kazuyuki Nakajima	Full-time
Statutory Auditor	Yasukuni Watanabe	Director and President of Marukuni Securities K.K.
Statutory Auditor	Yoshitake Kaneda	Director of Japan Securities Research Institute

(Notes)

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 Yoshitake Kaneda are an External Statutory Auditors as prescribed by Article 18-(1) of the Special Law of the Commercial Code Concerning the Audit, etc. of Stock Corporations (Kabusiki-Kaisya).
4. Statutory Auditor who were elected during the fiscal term:
Statutory Auditor Yoshitake Kaneda (elected on June 28, 2005)

5. Directors who retired during the fiscal term

Managing Director Hiromu Enomoto (retired on June 28, 2005)

Managing Director Kiyoshi Kurosu (resigned on June 28, 2005)

6. Statutory Auditors who retired during the fiscal term

Statutory Auditor Kouichi Nishimura (resigned on June 28, 2005)

Statutory Auditor Tomoaki Murakami (retired on June 28, 2005)

(10) Amount of Independent Accountant's fee -

- 1) A total amount of fee which the Company and the subsidiaries will pay Independent Accountants

21 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

21 million yen

- 3) A total amount of fee which the Company will pay Independent Accountants within the above total amount

21 million yen

(Note) The total amount described in 3) above includes fee for audit based on the Securities and Exchange Law, because the company doesn't classify fee for audit based on Special Law of the Commercial Code Concerning the Audit, etc. of Stock Corporations (Kabusiki-Kaisya) 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 Group:

None.

CONSOLIDATED BALANCE SHEET

MARCH 31, 2006

ASSETS

(In millions of yen)

Current assets:	
Cash and deposits	¥2,559
Accounts receivable – trade	220
Marketable securities	768
Real estate for sale	181
Suspense account for real estate for sale	12,817
Merchandise	5
Deferred tax assets	675
Prepaid expenses	158
Short-term loans	128
Accounts receivable – other	594
Other current assets	23
Allowance for doubtful accounts	(7)
Total current assets	<u>18,125</u>
Fixed assets:	
Tangible fixed assets -	
Buildings and building fixtures	72,420
Structures	569
Machinery and equipment	773
Vehicles	9
Furniture and fixtures	441
Land	76,949
Construction in progress	205
Total tangible fixed assets	<u>151,369</u>
Intangible fixed assets -	
Leasehold rights	3,715
Other intangible assets	54
Total intangible fixed assets	<u>3,770</u>
Investments and other assets -	
Investment in securities	6,914
Investment in partnerships	4,895
Deferred tax assets	60
Other investments	1,340
Allowance for doubtful accounts	(0)
Total investments and other assets	<u>13,211</u>
Total fixed assets	<u>168,351</u>
Total assets	<u><u>186,476</u></u>

CONSOLIDATED BALANCE SHEET

MARCH 31, 2006

LIABILITIES AND SHAREHOLDERS' EQUITY

(In millions of yen)

<u>Liabilities</u>	
Current liabilities:	
Notes payable	¥56
Accounts payable – trade	1,741
Current portion of bonds	20,000
Short-term loans payable	6,500
Current portion of long-term loans	3,964
Accounts payable – other	159
Accrued corporation and other taxes	2,852
Accrued consumption taxes	461
Accrued expenses	152
Advances received-construction in progress	3
Advances received	784
Short-term deposits received	267
Accrued bonuses	220
Total current liabilities	37,164
Long-term liabilities:	
Bonds	30,000
Convertible bonds (with stock acquisition rights)	3,474
Long-term loans payable	27,785
Deposits received	4,409
Deposits of landlord	15,732
Deferred tax liabilities	742
Deferred tax liabilities concerning revaluation	4,338
Reserve for retirement allowances for directors and statutory auditors	334
Accrued severance indemnities for employees	344
Goodwill	6
Total long-term liabilities	87,166
Total liabilities	124,331
<u>Minority shareholders' equity</u>	
Minority shareholders' equity	44
<u>Shareholders' equity</u>	
Common stock	14,086
Additional paid-in capital	12,314
Retained earnings:	28,739
Revaluation surplus of land	6,323
Unrealized gain on securities	835
Treasury stock, at cost	(199)
Total shareholders' equity	62,100
Total liabilities, minority equities and shareholders' equity	186,476

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

FROM: APRIL 1, 2005

TO: MARCH 31, 2006

(In millions of yen)

(Ordinary profit and loss)

Operating profit and loss:

Operating revenue -

Rental income-buildings	¥16,425
Revenue from housing business	16,729
Revenue from asset development and securitization	1,877
Other operating revenue	1,565
Total operating revenue	<u>36,599</u>

Operating cost -

Cost of rental-buildings	8,674
Cost of housing business	13,544
Cost of asset development and securitization	998
Other operating cost	1,037
Selling, general and administrative expenses	3,719
Total operating cost	<u>27,973</u>

Operating profit 8,625

Non-operating profit and loss:

Non-operating income -

Interest income and dividends earned	205
Amortization of goodwill	1
Gain on investment in partnerships	105
Other non-operating income	71
Total non-operating income	<u>383</u>

Non-operating expenses -

Interest on debentures	663
Interest expense	644
Bond-issuing expenses	127
Other non-operating expenses	1
Total non-operating expenses	<u>1,438</u>

Ordinary income 7,570

Special gains and losses

Special gains-

Reversal of allowance for doubtful accounts	1
Gain on redemption of investment securities	115
Total special gains	<u>117</u>

Special losses -

Loss on sale of fixed assets	60
Loss on disposal of fixed assets scrapped	86
Impairment loss	392
Total special losses	<u>539</u>

Income before income taxes 7,148

Corporation, inhabitants and enterprise taxes 2,793

Deferred income taxes 143

Minority interests 7

Net income for the period 4,203

Basis of presenting consolidated financial statements

1. Basis of consolidation

All subsidiaries are consolidated.

The subsidiaries are the following 3 companies.

Heiwa Service Co., Ltd.

Heiwa Healthcare Co., Ltd.

Osaka Securities Building Co., Ltd.

The Osaka Securities Building Co., Ltd. was included in the scope of consolidation for the consolidated fiscal year ended March 31, 2006 because the Company acquired shares of the Osaka Securities Building Co., Ltd., making it the Company's subsidiary.

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:

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 end of the consolidated fiscal term. (Differences in valuation are included directly in shareholders' equity 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.

(2) Depreciation method for significant 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 (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, 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.

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) 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 -

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

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

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.

(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:

1) Hedge accounting method -

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

2) Hedging instrument and hedged item -

Hedging instrument: Interest rate swaps

Hedged item: Interest rate hike on borrowings

3) Hedging policy -

The Company conducts interest rate swap transactions for the purpose of mitigating interest volatility risks on loan payable.

4) Assessing the effectiveness of a hedge -

The company does not assess the effectiveness of a hedge transaction as of March 31, 2006 because it meets the criteria of the short-cut method for interest rate swaps.

(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 consolidated period under review in which the consumption taxes are paid.

5. Evaluation of assets and liabilities of consolidated subsidiaries

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

6. Amortization of Goodwill

Goodwill arising from the consolidation process is amortized on a straight-line basis over five years.

Change in accounting standards

Accounting standards for impairment of fixed assets

From the consolidate fiscal year under review, the Company adopted the accounting standard for impairment of fixed assets "Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" (Business Accounting Council, August 9, 2002) and "Guideline on Accounting Standards for Impairment of Fixed Assets" (Application Guideline of Business Accounting Standard No.6, October 31, 2003). As a result, income before income taxes decreased by ¥392 million.

Cumulative impairment losses are deducted directly from the amount for each asset based on the revised rules for preparing consolidated balance sheets.

Supplementary Information

1. All figures are rounded down to the nearest million yen.

2. Notes to consolidated balance sheet

(1) Accumulated depreciation of tangible fixed assets	¥45,133 million
(2) Pledged assets	
Buildings and building fixtures	¥13,023 million
Land	¥27,342 million
Total	¥40,366 million
(3) Guarantees due from the Company	¥580 million

(4) 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, 2006 and the revaluation date - ¥11,710 million

3. Notes to statement of profit and loss

(1) Loss on sales of fix assets

Land & buildings (Kakigara-cho-heiwa building)	¥60 million
------------------------------------------------	-------------

(2) Loss on disposal of fixed assets scrapped

Buildings and building fixtures	¥66 million
Furniture and fixtures	¥19 million

(3) Asset impairment accounting

In the fiscal year ended March 31, 2006, asset impairment accounting has been applied to the following assets of the Group.

Use	Type	Location
Leasing asset and others (total 4 assets)	Land	Abiko-shi, Chiba, etc.

Calculations of impairment losses were conducted by grouping assets in the smallest cash flow generating unit that was largely independent of other assets or asset groups.

Accordingly, in the fiscal year ended March 31, 2006, four assets including the asset group of which the market value was significantly below book value in line with the continued fall in land prices have been reduced from book value to recoverable value, and a special loss on application of impairment accounting of ¥392 million recorded.

The recoverable value was determined based on net sales value or utility value.

The net sales value was assessed based on the evaluation for real estate. The utility value was calculated by discounting future cash flows at 5%.

4. Net income per share - ¥34.64

Leases

The value of financial leases, other than those that transfer ownership of the leased assets to the lessee, as of March 31, 2006

As a lessee

1. Acquisition cost of leased assets, accumulated depreciation, accumulated impairment loss, and net book value

Furniture and fixtures	(Millions of yen)
Acquisition cost	¥71
Accumulated depreciation	¥46
Net book value	¥24

2. Future minimum lease payments, etc.

Future minimum lease payments (Millions of yen)	
Due within one year	¥10
Due after one year	¥14

Total ¥24

The amounts equivalent to acquisition cost of leased assets and future minimum lease payments are calculated based on the imputed interest expense method because the future minimum lease payments account for only a small proportion of fixed assets.

3. Lease payments, reversal of impairment loss for leased assets, equivalent depreciation, and impairment loss

(Millions of yen)

Lease payments ¥13

Equivalent depreciation ¥13

4. Method of calculating depreciation amount for leases

The depreciation amount of the lease is calculated using the straight line method using the remaining balance divides by the remaining years in the lease term.

Impairment loss

No impairment loss was allocated in the leased assets.

Independent Accountants' Report
(English Translation)

May 11, 2006

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

Toyo Audit Corporation

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

We have audited, pursuant to Article 19-2-(3) of the former "Special Law of the Commercial Code Concerning the Audit, etc. of Stock Corporations (Kabusiki-Kaisya)" 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 86th fiscal year from April 1, 2005 to March 31, 2006. 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.

As disclosed in "Change in accounting standards," the Company adopted accounting standards for impairment of fixed assets beginning in this consolidated fiscal year. As this change of accounting policy has been made in conjunction with the change in the accounting standards, we consider this change to be proper.

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 86th fiscal year from April 1, 2005 to March 31, 2006. 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 15, 2006

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

Statutory Auditor (Full-time)
Kazuyuki Nakajima

Statutory Auditor
Yasukuni Watanabe

Statutory Auditor
Yoshitake Kaneda

Note: Yasukuni Watanabe, Statutory Auditor and Yoshitake Kaneda, Statutory Auditor are External Statutory Auditors as defined in Article 18-(1) of the former Special Law of the Commercial Code Concerning the Audit, etc. of Stock Corporations (Kabusiki-Kaisya).

BALANCE SHEET

MARCH 31, 2006

ASSETS

(In millions of yen)

Current assets:	
Cash and deposits	¥1,739
Accounts receivable – trade	122
Marketable securities	701
Real estate for sale	181
Suspense account for real estate for sale	12,817
Prepaid expenses	150
Deferred tax assets	652
Short-term loans	126
Accounts receivable – other	572
Other current assets	22
Allowance for doubtful accounts	(7)
Total current assets	<u>17,081</u>
Fixed assets:	
Tangible fixed assets -	
Buildings and building fixtures	71,748
Structures	556
Machinery and equipment	772
Vehicles	9
Furniture and fixtures	395
Land	76,685
Construction in progress	205
Total tangible fixed assets	<u>150,374</u>
Intangible fixed assets -	
Leasehold rights	3,715
Other intangible assets	50
Total intangible fixed assets	<u>3,766</u>
Investments and other assets -	
Investment in securities	6,834
Investment in subsidiaries	871
Investment in partnerships	4,895
Other investments	1,307
Allowance for doubtful accounts	(0)
Total investments and other assets	<u>13,909</u>
Total fixed assets	<u>168,049</u>
Total assets	<u><u>185,130</u></u>

BALANCE SHEET

MARCH 31, 2006

LIABILITIES AND SHAREHOLDERS' EQUITY

(In millions of yen)

<u>Liabilities</u>	
Current liabilities:	
Notes payable	¥56
Accounts payable – trade	1,381
Current portion of bonds	20,000
Short-term loans payable	6,300
Current portion of long-term loans	3,964
Accounts payable – other	154
Accrued corporation and other taxes	2,789
Accrued consumption taxes	449
Accrued expenses	144
Advances received	777
Short-term deposits received	207
Accrued bonuses	182
Total current liabilities	<u>36,408</u>
Long-term liabilities:	
Bonds	30,000
Convertible bonds(with stock acquisition rights)	3,474
Long-term loans payable	27,785
Long-term deposits received	20,042
Deferred tax liabilities	748
Deferred tax liabilities concerning revaluation	4,338
Reserve for retirement allowances for directors and statutory auditors	317
Accrued severance indemnities for employees	340
Total long-term liabilities	<u>87,047</u>
Total liabilities	<u>123,455</u>
 <u>Shareholders' equity</u>	
Common stock	14,086
Additional paid-in capital	
Capital reserve	12,314
Total additional paid-in capital	<u>12,314</u>
Retained earnings:	
Legal reserve	1,453
Voluntary reserve	21,624
Reserve for deferral of gains on fixed assets	1,365
Reserve for special depreciation of fixed assets	114
Reserve for research and development costs	30
Reserve for general purposes	20,115
Unappropriated retained earnings	5,266
Total retained earnings	<u>28,345</u>
Revaluation surplus of land	6,323
Unrealized gain on securities	803
Treasury stock, at cost	(199)
Total shareholders' equity	<u>61,675</u>
Total liabilities and shareholders' equity	<u>185,130</u>

STATEMENT OF PROFIT AND LOSS

FROM: APRIL 1, 2005

TO: MARCH 31, 2006

(In millions of yen)

(Ordinary profit and loss)	
Operating profit and loss:	
Operating revenue -	
Rental income-buildings	¥16,269
Revenue from housing business	16,699
Revenue from asset development and securitization	1,877
Revenue from brokerages	127
Total operating revenue	<u>34,975</u>
Operating cost -	
Cost of rental-buildings	8,814
Cost of housing business	13,518
Cost of asset development and securitization	998
Selling, general and administrative expenses	3,278
Total operating cost	<u>26,609</u>
Operating profit	8,365
Non-operating profit and loss:	
Non-operating income -	
Interest income and dividends earned	229
Income for non-operating trustee services	113
Gain on investment in partnerships	105
Other non-operating income	46
Total non-operating income	<u>495</u>
Non-operating expenses -	
Interest on debentures	663
Interest expense	643
Bond-issuing expenses	127
Other non-operating expenses	1
Total non-operating expenses	<u>1,436</u>
Ordinary income	7,424
Special gains and losses:	
Special gains -	
Reversal of allowance for doubtful accounts	1
Gain on redemption of investment securities	115
Total special gains	<u>117</u>
Special losses -	
Loss on sale of fixed assets	60
Loss on disposal of fixed assets scrapped	86
Impairment loss	392
Total special losses	<u>539</u>
Income before income taxes	7,002
Corporation, inhabitants and enterprise taxes	2,706
Deferred income taxes	161
Net income for the period	4,134
Unappropriated retained earnings brought forward	2,636
Reversal of revaluation surplus of land	(1,002)
Interim dividends	501
Unappropriated retained earnings at the end of the period	<u>¥5,266</u>

Supplementary information

1. All figures are rounded down to the nearest million yen.

2. 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 majority-owned subsidiaries: 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 end of the consolidated fiscal term. (Differences in valuation are included directly in shareholders' equity 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.

(2) Depreciation method for significant 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 (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, 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.

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) Method of accounting of deferred assets:

Bond-issuing expenses...All expenses are recorded upon payment.

(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 employees -

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 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.

(6) Hedge accounting:

1) Hedge accounting method -

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

2) Hedging instrument and hedged item -

Hedging instrument: Interest rate swaps

Hedged item: Interest rate hike on borrowings

3) Hedging policy -

The Company conducts interest rate swap transactions for the purpose of mitigating interest volatility risks on loan payable.

4) Assessing the effectiveness of a hedge -

The company does not assess the effectiveness of a hedge transaction as of March 31, 2006 because it meets the criteria of the short-cut method for interest rate swaps.

(7) 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. Change in accounting standards

Accounting standards for impairment of fixed assets

The accumulated impairment losses will be directly deducted from the balance sheet amounts of the relevant assets based on the revised rules for preparing balance sheets.

From the consolidated fiscal year under review, the Company adopted the accounting standard for impairment of fixed assets "Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" (Business Accounting Council, August 9, 2002) and "Guideline on Accounting Standards for Impairment of Fixed Assets" (Application Guideline of Business Accounting Standard No.6, October 31, 2003). As a result, income before income taxes decreased by ¥392 million.

Cumulative impairment losses are deducted directly from the amount for each asset based on the revised rules for preparing consolidated balance sheets.

4. Notes to balance sheet

(1) Payables to subsidiaries

Short-term receivables	¥0 million
Short-term payables	¥66 million

(2) Accumulated depreciation of tangible fixed assets

¥43,724 million

(3) Pledged assets

Buildings and building fixtures	¥13,030 million
Land	¥27,342 million
Total	¥40,372 million

(4) Guarantees due from the Company

¥780 million

(5) The Reserve for retirement allowances for directors and statutory auditors has been made in accordance with Article 43 of the Commercial Code Enforcement regulations.

(6) The Reserve for deferral of gains on fixed assets is based on the provisions of the Special Taxation Measures Law.

(7) 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.

(8) 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, 2006 and the revaluation date -

¥11,710 million

- (9) Amounts of net assets increases by ¥803 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.

5. Notes to statement of profit and loss

(1) Transactions with subsidiaries:

Operating revenue	¥24 million
Operating cost	¥1,605 million
Transactions other than operating transactions	¥138 million

(2) Asset impairment accounting

In the fiscal year ended March 31, 2006, asset impairment accounting has been applied to the following assets of the Group.

Use	Type	Location
Leasing asset and others (total 4 assets)	Land	Abiko-shi, Chiba, etc.

Calculations of impairment losses were conducted by grouping assets in the smallest cash flow generating unit that was largely independent of other assets or asset groups. Accordingly, in the fiscal year ended March 31, 2006, four assets including the asset group of which the market value was significantly below book value in line with the continued fall in land prices have been reduced from book value to recoverable value, and a special loss on application of impairment accounting of ¥392 million recorded.

The recoverable value was determined based on net sales value or utility value.

The net sales value was assessed based on the evaluation for real estate. The utility value was calculated by discounting future cash flows at 5%.

(3) Net income per share -

¥34.12

PROPOSED APPROPRIATION OF RETAINED EARNINGS

(In exact yen)

Unappropriated retained earnings at the end of the period	¥5,266,972,749
Reversal of reserve for deferral of gains on fixed assets	35,857,755
Reversal of reserve for special depreciation of fixed assets	20,594,327
Total	<u>5,323,424,831</u>

This will be appropriated as follows:

Dividends (¥5.5 per share)	779,410,143
Directors' bonuses	44,760,000
Statutory auditors' bonuses	7,550,000
Provision of reserve for special depreciation of fixed assets	12,269,448
Reserve for general purposes	3,000,000,000
Total	<u>3,843,989,591</u>

Retained earnings to be carried forward	<u><u>1,479,435,240</u></u>
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(Note)

The Company's Board of Directors declared interim cash dividends of ¥501,608,813 (¥4.5 per share) on December 1, 2005.

Independent Accountants' Report
(English Translation)

May 11, 2006

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

Toyo Audit Corporation

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

We have audited, pursuant to Article 2-(1) of the former "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 86th fiscal year from April 1, 2005 to March 31, 2006. 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.

As disclosed in "Change in accounting standards," the Company adopted accounting standards for impairment of fixed assets beginning in this consolidated fiscal year. As this change of accounting policy has been made in conjunction with the change in the accounting standards, we consider this change to be proper.

- (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 former 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 the business activities of the directors for the 86th fiscal year from April 1, 2005 to March 31, 2006. 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 15, 2006

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

Statutory Auditor (Full-time)
Kazuyuki Nakajima

Statutory Auditor
Yasukuni Watanabe

Statutory Auditor
Yoshitake Kaneda

Note: Yasukuni Watanabe, Statutory Auditor and Yoshitake Kaneda, Statutory Auditor are External Statutory Auditors as defined in Article 18-(1) of the former Special Law of the Commercial Code Concerning the Audit, etc. of Stock Corporations (Kabusiki-Kaisya).