

## BUSINESS REPORT

### 1. Outline of Operations for the period from April 1, 2006 to March 31, 2007:

#### (1) Update and Results of Business -

During the consolidated fiscal year ended March 31, 2007, the Japanese economy continued to develop steadily, with improved corporate earnings and stronger capital investments. Employment conditions improved as well, and positive effects on household and personal consumption can be expected ahead. The current economic expansion is likely to become the longest postwar boom, surpassing the “Izanagi boom.”

Under these circumstances, lower vacancy rates prevailed nationwide in the building leasing sector of the real estate business because of the rising number of companies with plans to expand their offices. The upward trend of rent prices was prominent, especially in the inner city districts.

In housing sales, the price of residential land in Japan rose for the first time in sixteen years, since 1991. The price change has become evident. Under these circumstances, the upward trend in sales price of condominiums is notable, especially in the metropolitan area. The demand of the second-generation baby boomers, a population that has now reached the age of housing acquisition, is strong, however, and housing sales grew steadily in general.

In the real estate securitization market, meanwhile, the Tokyo Stock Exchange REIT index rose to a record high and was sustained near its high without significant declines. The real estate private placement funds, both domestic and overseas, also tended to accelerate their investments.

The operating results for the respective divisions are summarized below:

#### Building Leasing Division

Several factors contributed to the sales of the Building Leasing Division, including the full-year operation of properties (including Park East Sapporo), the improved operating rates of the Osaka Securities Exchange buildings, and the rents from the new properties acquired in Osaka and Fukuoka.

As a result, the Company earned ¥5,174 million in Stock Exchange Marketplace Leasing Income for the fiscal year ended March 31, 2007, matching the level earned in the previous year.

General Leasing Income rose to ¥8,081 million, an increase of ¥761 million yen (10.4%) compared with the previous period. Commercial Facilities Leasing Income increased to ¥3,312 million, up by ¥42 million (1.3%). Building Leasing Income, including the above incomes and Land Leasing Income, totaled ¥16,698 million, an increase of ¥272 million yen (1.7%) compared with the previous period.

The vacancy rate of leased buildings was 1.4% at the end of the consolidated fiscal year ended March 31, 2007.

#### Housing Business Division

In the Housing Business Division, the Company sold only 118 condominium units, including 72 units of Foresight Parks Saitama Shintoshin (Urawa-ku, Saitama-shi, Saitama) and 43 units of Be-Site (Motogo, Kawaguchi-shi, Saitama). Accordingly, Real Estate Sales Income amounted to ¥4,906 million, down by ¥11,609 million (70.3%) from the previous period.

Through the Company's efforts to expand the business from the previous period, Housing Leasing Income amounted to ¥416 million, up by ¥278 million, or 202.4%. Together with the related profits thereto, Housing Business Sales totaled ¥5,436 million, down by ¥11,293 million (67.5%) from the previous period.

#### Asset Development and Securitization Division

Assets of the Crescendo Investment Corporation sponsored by the Company and the "Heiwa Select Fund," the Company's private placement real estate fund, both increased steadily. Accordingly, income from the management of these assets and from real estate acquisitions and developments was ¥7,422 million, up by ¥5,545 million (295.3%) from the previous period.

#### Real Estate Brokerage and Other Divisions

The Company made aggressive efforts to develop its business in the Real Estate Brokerage Division, mainly in relation to corporations and investment funds. As a result, revenue in the Real Estate Brokerage Division for the fiscal year ended March 31, 2007 amounted to ¥381 million, up by ¥253 million (198.3%) from the revenue reported during the previous period.

Income from the Contract Construction Business and Building Management Business increased to ¥1,602 million, up by ¥525 million (48.8%) compared with the previous period. Private Nursing Home Income increased by ¥13 million (4.3%) to ¥328 million compared with the previous period. Accordingly, Real Estate Brokerage and Other operating revenue for the fiscal

year ended March 31, 2007 increased by ¥788 million (50.3%) to ¥2,354 million.

### Overall Operating Results of the Group

The operating results of the Company group for the consolidated fiscal year ended March 31, 2007 are summarized below:

Operating Revenue amounted to ¥31,912 million, down by ¥4,687 million (12.8%) compared with the previous period. Operating Costs totaled ¥19,081 million, down by ¥5,173 million (21.3%) million compared with the previous period, while Selling, General and Administrative Expenses totaled ¥3,192 million, a decrease of ¥526 million (14.2%) compared with the previous period.

Consequently, Operating Profit for the fiscal year ended March 31, 2007 reached ¥9,637 million, up by ¥1,012 million (11.7%) compared with the previous period, while Ordinary Income reached ¥8,164 million, up by ¥594 million (7.9%) compared with the previous period. Loss on Valuation of Inventory of ¥398 million was recorded by the early application of accounting principles to value inventory assets. As a result, Net Income reached ¥4,534 million, up by ¥330 million (7.9%) compared with the previous period.

### (2) Issues to be resolved by the Company -

The Japanese economy is on track for a long-term recovery backed by improved corporate earnings and higher capital investments. Though employment and consumption conditions continue to lag behind, the basic economy is expected to continue its upward trend for the time being and the economy is starting to move again toward a full-scale recovery.

Within this environment, the Company established in November 2005 “Growth 2009,” a medium-term management plan covering the period ending March 31, 2009.

The core strategies of Growth 2009 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 its profit structure, mainly by stepping up collaborations in housing development with its best partners and by newly launching its own housing development and housing leasing businesses.
- 3) In the Asset Development and Securitization Business, the Company will aim to expand its profit-earning opportunities and diversify income sources by utilizing the real estate securitization method in a proactive manner in new business development.
- 4) In financial management, the Company will secure funds for new investments and enhance shareholders’ equity by smooth and diversified fundraising activities. The Company will

also be further reinforcing its financial base by reducing interest-bearing liabilities to the maximum extent possible through commitment payments, etc.

The achievement of the Growth 2009 plan is the largest issue facing the Company. The following specific measures are being taken to succeed.

The Company opened the Sapporo Branch in August 2006 in order to aggressively promote the business of the Building Leasing Division in the Sapporo area. It has also started a new project to construct the Nagoya Securities Exchange buildings and has acquired office buildings in the Sakae area in Nagoya. The Company is also developing a new business, Hotel Brighton City Osaka Kitahama (tentative name), in the Osaka Kitahama area as part of its effort to expand business and strengthen profitability while working to actively contribute to the revitalization of cities and localities.

In the Housing Business, the Company will continue to work in housing development in collaboration with its best partners while launching a housing development business of its own. To respond to the diversifying and more sophisticated needs of customers in the Housing Leasing Business while continuing to provide high-quality properties, the Company will penetrate the new business area of “collective houses,” the first of business area of its kind in Japan, by introducing the new concept of “conversion.”

In the Asset Development and Securitization Business, the Company uses the real estate securitization method to proactively develop businesses while aiming to increase the assets of the Heiwa Select Fund, the company’s private placement fund. The Company will take a more strategic approach to expand profits through its development and management businesses.

Heiwa Service Co., Ltd., the Company’s subsidiary, will continue its contributions to enhance the corporate value of the whole group through management and renovation of the Company’s buildings and other businesses related to property management. Amidst the rapid aging of the population and extremely low birthrates, the private nursing home enterprise business, Heiwa Healthcare Co., Ltd., will continue to provide the highly reliable and high-quality services that it has been offering to date, while working to develop new businesses, including the business of small-scale multiple-function type nursing care at home.

### (3) Investment in fixed assets -

During the consolidated fiscal year ended March 31, 2007, the Company purchased the “Under Tree Umeda Dai-Ichi Building” and rental condominiums (including “Antenia Mita Keidai-mae”). As a result, the Company’s capital expenditure amounted to ¥15,032 million.

### (4) Status of financing -

The Company issued its 6th series of unsecured bonds on August 14, 2006 (issued amount, ¥20

billion; date of maturity, August 13, 2010; annual interest, 1.89%).

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

Fiscal year Classification	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)	The 87th fiscal year (From April 1, 2006 to March 31, 2007)
Operating revenue	¥24,408 million	¥21,352 million	¥36,599 million	¥31,912 million
Ordinary Profit	4,908 million	4,853 million	7,570 million	8,164 million
Net income	2,504 million	3,006 million	4,203 million	4,534 million
Net income per share (in exact yen)	21.86	26.40	34.64	31.90
Total assets	174,319 million	172,560 million	186,476 million	213,298 million
Net assets	39,866 million	42,094 million	62,100 million	67,014 million
Net assets per share (in exact yen)	356.21	376.81	437.80	461.01

(Note) From the 87th fiscal year, the Company adopts the “Accounting Standard for Presentation of Net Assets in the Balance Sheet” (Accounting Standards Board of Japan, Statement No. 5, December 9, 2005) and the “Guidance on Accounting Standard for the Presentation of Net Assets in the Balance Sheet” (Accounting Standards Board of Japan, Guidance No. 8, December 9, 2005).

(6) Status of significant parent companies and subsidiaries -

1) Status of parent companies

Not applicable

2) Status of significant subsidiaries

<u>Company name</u>	<u>Common stock</u>	<u>Percentage of voting rights held by the Company</u>	<u>Major operating business</u>
Heiwa Service Co., Ltd.	¥134 million	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.
Taitan, Ltd.	¥3 million	-	Acquisition, possession and management of trust beneficiary rights on real estate in trust through anonymous <i>kumiai</i> agreement
Eichi Two, Ltd.	¥3 million	-	Acquisition, possession and management of trust beneficiary rights on real estate in trust through anonymous <i>kumiai</i> agreement

(Notes) 1. Percentage of voting rights for Heiwa Healthcare Co., Ltd. held by the Company includes an indirect holding of 93.2%.

2. The Company made Taitan, Ltd. and Eichi Two, Ltd. (both of which were established to contribute to the asset development and securitization business) consolidated subsidiaries of the Company in accordance with the “Practical Solution on Application of Control Criteria and Influence Criteria to Investment Associations” (Accounting Standards Board of Japan, Practical Issues Task Force No. 20, September 8, 2006).

(7) 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, detached houses, 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

(8) Principal sales offices -

The Company	Head Office: Chuo-ku, Tokyo Osaka Branch: Chuo-ku, Osaka-city Nagoya Branch: Naka-ku, Nagoya-city Fukuoka Branch: Chuo-ku, Fukuoka-city Sapporo Branch: Chuo-ku, Sapporo-city
Heiwa Service Co., Ltd	Head Office: Chuo-ku, Tokyo Osaka Branch: Chuo-ku, Osaka-city
Heiwa Healthcare Co., Ltd	Abiko-city, Chiba-prefecture
Osaka Securities Building Co., Ltd.	Chuo-ku, Osaka-city
Taitan, Ltd.	Chuo-ku, Tokyo
Eichi Two, Ltd.	Chuo-ku, Tokyo

(Note) Sapporo Branch of the Company was opened on August 10, 2006.

(9) Employees of the Group -

<u>No. of Employees</u>	<u>Increase/(decrease) as compared with prior period end</u>
<u>175</u>	<u>22</u>

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

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

<u>No. of Employees</u>	<u>Increase/(decrease) as compared with prior period end</u>	<u>Average age (years)</u>	<u>Average length of service (years)</u>
<u>85</u>	<u>1</u>	<u>40.4</u>	<u>14.0</u>

(10) Principal creditors -

<u>Creditors</u>	<u>Balance</u>
	<u>(In millions of yen)</u>
Resona Bank, Ltd.	¥14,786
Sumitomo Mitsui Banking Corporation	13,240
The 77 Bank, Ltd.	10,600
Mizuho Corporate Bank, Ltd.	8,462
The Hokkaido Bank, Ltd.	4,880
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	3,886
The Tokyo Star Bank, Limited.	2,300

(Note) ¥2,300 million from The Tokyo Star Bank, Limited is a nonrecourse borrowing.

## 2. Status of Shares:

(1) Number of shares authorized - 299,171,000 shares

(2) Number of shares issued and outstanding - 145,770,261 shares

(Note) The number of shares issued and outstanding increased 3,673,142 shares compared with prior period end by exercise of stock acquisition rights with the 5th series of the unsecured convertible bonds with stock acquisition rights.

(3) Number of shareholders - 27,257  
(Decrease of 1,883 compared with prior period end)

### (4) Major shareholders -

<u>Name</u>	<u>No. of shares</u> (000's)
The Master Trust Bank of Japan, Ltd. (Trust Account)	10,176
Japan Trustee Services Bank, Ltd. (Trust Account)	9,919
Deutsche Bank AG, London 610	3,548
Clariden Bank	3,387
Deutsche Securities Inc.	2,375
BNP Paribas Securities (Japan) Limited (BNP Paribas Securities)	2,362
UBS AG London Asia Equities	2,291
Resona Bank, Ltd	2,229
Yamato Life Insurance Co., Ltd.	2,139
Credit Suisse Securities (Europe) Ltd.	1,751

3. Stock acquisition rights:

- (1) Descriptions of Stock Acquisition Rights held by Directors and Executive Officers of the Company -

Not applicable.

- (2) Descriptions of the Stock Acquisition Rights delivered to employees as consideration for the performance of their duties during the fiscal term under review -

Not applicable.

- (3) Other descriptions of the Stock Acquisition Rights -

Stock acquisition rights already issued are as follows:

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	1,777 million yen
Number of stock acquisition rights	1,777
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	3,846,320 shares
Issue price of stock acquisition rights	Free

(Note)

Number of stock acquisition rights is result of division of amount of convertible bonds with stock acquisition rights by conversion price of 462 yen.

#### 4. Matters related to Corporate Officers:

##### (1) Directors and Statutory Auditors -

Name	Position	Representation of other companies
Kenichi Isaka	Senior Advisor, Member of the Board*	
Sakutaro Kinbara	Director* and President	
Hiroyuki Takahashi	Senior Managing Director* (Overall management, General Manager of Business Development Department)	
Masashi Ueda	Managing Director (Executive Manager of Osaka and Fukuoka Branch)	Director and President of Osaka Securities Building Co., Ltd.
Takashi Hayakawa	Director (General Manager of Building Project Department) (Executive Manager of Building Business Department, Nagoya Branch and Sapporo Branch)	
Kazuo Minamino	Director (General Manager of Finance Department)	
Takeo Hino	Director (General Manager of Housing Development Department – II) (Executive Manager of Housing Development Department – I and Residential Leasing Business Department)	
Kaoru Umehara	Director	Director and President of Kyowa Securities Co., Ltd.
Kazuyuki Nakajima	Statutory Auditor (full-time)	
Yoshitake Kaneda	Statutory Auditor	
Masahiko Kadotani	Statutory Auditor	

(Notes)

1. “\*” above, indicates Representative Director.
2. Kaoru Umehara is an External Director.
3. Yoshitake Kaneda and Masahiko Kadotani are External Statutory Auditors.
4. External Statutory Auditor, Masahiko Kadotani, held positions such as Director General of the Securities Bureau of the Ministry of Finance and Commissioner of the National Tax Agency and possess expertise and experience in finance and accounting.
5. Director who was elected during the period:
 

Director	Shigeki Amino	(Elected on June 28, 2006)
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6. Statutory Auditor who was elected during the period:

Statutory Auditor Masahiko Kadotani (Elected on June 28, 2006)

(2) Director and Statutory Auditor who retired during the period -

<u>Position Held at Time of Retirement</u>	<u>Name</u>	<u>Position in charge at Time of Retirement</u>	<u>Date of Retirement</u>
Statutory Auditor	Yasukuni Watanabe	-	June 28, 2006
Director	Shigeki Amino	Executive Manager of Project Planning	March 31, 2007

(3) Remuneration paid to Directors and Statutory Auditors -

<u>Category</u>	<u>Number of persons</u>	<u>Amount Paid</u>	<u>Note</u>
Director	9	¥239 million	of which ¥7 million to 1 External Director
Statutory Auditor	3	¥38 million	of which ¥13 million to 2 External Statutory Auditors
Total	12	¥277 million	

(Notes) 1. As has been the case until now, the amount of remuneration for Directors will not include the employee salaries of Directors who serve concurrently as employees.

2. A resolution of the 74th Ordinary General Shareholders' Meeting held on June 29, 1994 limits Directors' remuneration to ¥15 million per month (employee salaries not included).

3. A resolution of the 82nd Ordinary General Shareholders' Meeting held on June 27, 2002 limits Statutory Auditors' remuneration to ¥3 million per month.

4. The following amounts are included in the above remuneration amount:

Bonus to Officers expected to be resolved at the 87th Ordinary General Shareholders' Meeting:

¥44 million to Directors (including ¥1 million to External Directors)

¥ 8 million to Statutory Auditors (including ¥2 million to External Auditors)

Amount recorded as Retirement Allowance for the current fiscal term:

¥62 million to Directors (including ¥0 million to External Directors)

¥ 6 million to Statutory Auditors (including ¥1 million to External Auditors)

(4) External Officers -

- 1) Directors who concurrently hold positions as executive officers in other corporations  
Kaoru Umehara, Director, serves concurrently as the Director and President of Kyowa Securities Co., Ltd.

No special relationship exists between Kyowa Securities and the Company.

- 2) Directors who concurrently hold positions as External Directors in other corporations  
Kaoru Umehara, Director, serves concurrently as an External Auditor of Tosho Computer Systems, Co., Ltd.

Masahiko Kadotani, Statutory Auditor, serves concurrently as the External Statutory Auditor of Mizuho Financial Group, Inc., Mizuho Securities Co., Ltd., Mizuho Financial Strategy Co., Ltd., PRONEXUS INC., Japan Petroleum Exploration Co., Ltd., and Nikkei Inc.

- 3) Principal activities during the current fiscal year

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

	Attendance at Board of Directors' Meetings (Number of times)	Attendance at Board of Statutory Auditors' Meetings (Number of times)
Kaoru Umehara, Director	10 out of 10	-
Yoshitake Kaneda, Statutory Auditor	10 out of 10	7 out of 7
Masahiko Kadotani, Statutory Auditor	4 out of 5	4 out of 4

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

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

Yoshitake Kaneda, Statutory Auditor, has posed questions, as necessary, for the decision-making of the Board of Directors based on his past experience as a corporate director and statutory auditor. Discussions are carried out to ensure appropriate management of the Board of Statutory Auditors.

Masahiko Kadotani, Statutory Auditor, has posed questions, as necessary, for the decision-making of the Board of Directors based on his past experiences in performing his duties and serving as a statutory auditor. Discussions are carried out to ensure appropriate management of the Board of Statutory Auditors.

- c. Details of the Agreement on Limitation of Liability

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

## 5. Matters related to Independent Accountant:

(1) Name of Independent Accountant -

Toyo Horwath

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

1) Total fee the Company will pay Independent Accountants for auditing based on article 2-(1) of the Certified Public Accountant Law of Japan

20 million yen

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

20 million yen

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

(3) Policy on determining the dismissal or disapproval of reappointment of the Independent Accountant -

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

## 6. Corporate structure and policies:

(1) Corporate structure to ensure legal compliance and compliance with the articles of incorporation in the execution of operations by directors, and corporate structure to ensure the proper conduct of business.

In accordance with the provisions of the Corporate Law the Company sets forth principles calling for "The development of a corporate structure to ensure that the directors comply with laws and the articles of incorporation in the execution of operations, and the development of a corporate structure stipulated by Ordinance of the Ministry of Justice to

be necessary to ensure that the Company properly conducts the business as a *kabushiki kaisha*.” Under these structures, the Company will work to ensure legality and efficiency in the performance of its business and the management of risk, and respond to the diversifying environment that surrounds the Company. The Company will also continue to conduct reviews and make efforts to further improve its corporate structure.

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

Based on its understanding that strict legal compliance is essential for the achievement of its social role and mission, the Company ensures that each director and employee will work to pursue business based on fair and strict ethical principles in order to establish a management structure on which the community can rely.

As measures to ensure that directors and employees adhere to laws and regulations and comply with the articles of incorporation, the Company has set up a “Code of Conduct” and “Compliance Regulations.” In addition, the Company has established an “Internal Reporting System,” a system to enable directors and employees to report any acts they discover which may give rise to doubts on legal compliance or compliance with the articles of incorporation.

Further, the Statutory Auditor of the Company oversees, from an independent point of view, the conduct of the directors in performing their duties including maintenance and operation of an internal control system. The Statutory Auditor also establish an Internal Audit Office to confirm and check the efficient functioning of the internal control system.

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

The Company will properly record documents related to the decision-making at the Board of Directors’ Meetings and other important meetings, documents approved by each director in accordance with the “Document Approval Regulations,” and information related to the performance of duties by the directors, and store and maintain these documents in accordance with the relevant laws and “Criteria for the Storage and Disposal of Documents” for a specified period of time.

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

The Company has established an Internal Audit Office under the direct supervision of the President. The Internal Audit Office will regularly verify the items audited and methods for audit implementation to ensure that no items are left out, and will revise the audit methods when necessary.

With respect to any business action that bears a risk of loss due to breach of laws, regulations, the articles of incorporation, or otherwise, the Company has established a

system under which the details of the risk discovered and the level of loss that may result are immediately reported to the relevant departments through the Internal Audit Office when such action is discovered through an audit by the Internal Audit Office.

In ordinary times, the Company will reduce the risks existing in each department by working to eliminate them. In emergencies, the Company will take measures on an all-Company basis in accordance with the “Crisis and Risk Management Rules.”

4) System to ensure the efficient performance of duties by the directors

The Company holds Board of Directors’ Meetings regularly and as necessary, and the Board makes decisions on significant matters and oversees the execution of duties by the directors.

With regard to the execution of duties in accordance with the decisions of the Board of Directors, the responsible persons, regulations on the allocation of responsibilities, and details of the procedures on the execution of duties are established in the “Job Organization Rules” and in the “Rules on the Division of Authorities.”

Mid-term business plans and annual business projects are drawn up to establish company-wide objectives.

The progress of the plans and projects is reported to the Board of Directors.

5) System to ensure the proper execution of business by the Company group made up of the Company and its subsidiaries

The Company dispatches its personnel as Directors and Statutory Auditors of the subsidiaries. The Directors of the Company oversee the performance of duties of the Directors of the subsidiaries, and the Statutory Auditors of the Company oversee the execution of business of the subsidiaries.

The subsidiaries, in principle, will develop their own internal control systems while maintaining close coordination with the Company and sharing information with the Company.

6) Matters concerning employees who are to assist Statutory Auditors in their work, and matters related to the independence of such employees from Directors.

The Company establishes an Auditors Office to assist Statutory Auditors and deploys dedicated staff to perform its duties.

Appointments and transfers of the employees to the Auditors Office to assist Statutory Auditors are carried out with the consent of the Statutory Auditors and assessed based sufficiently on the Statutory Auditors’ views.

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

The Statutory Auditors are authorized to be present at important conferences, including the Board of Directors' Meetings, to express their views and obtain copies of the minutes of the meetings. The Statutory Auditors will also obtain copies of documents, including approval documents, and may request to be briefed on these matters.

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

The Statutory Auditor will hold meetings with the Internal Audit Office or the Independent Accountant, as necessary, to discuss those matters.

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

The Company will further increase its efforts to promote and endeavor to enhance the corporate value of the Company and secure the common interests of shareholders under "Growth 2009," the medium-term management plan established on November 2005 for implementation over a period of three fiscal years. We definitely believe that the various efforts to steadily realize the target of the medium-term management plan will secure and enhance the corporate value of the Company and the common interests of shareholders, contribute to the interests of shareholders and all other stakeholders, and thereby gain the profound trust from shareholders and all other stakeholders.

The Board of Directors, as the body entrusted with the management of the Company by the shareholders, believes that it is our natural responsibility to defend the mission and value of the Company and the interests of shareholders and other stakeholders from the hand of purchasers who are deemed to clearly impair the corporate value of the Company and common interests of shareholders. In addition, there are now cases in which purchasers suddenly force through purchases of large numbers of shares of a targeted company without sufficiently consulting the management of the targeted company. The Company believes that, in these cases, the final judgment as to whether to accept such purchase offer should be based on the will of the shareholders.

However, in order to ensure that the shareholders sufficiently grasp information such as the purpose and conditions of such a purchase, deliberate whether such a purchase will impair the mission and value of the Company and the common interests of shareholders, and thereupon make appropriate decisions, the Company believes that it is necessary to clearly and specifically present the procedure that the prospective purchaser shall undergo before undertaking specific purchasing activities, gather information, and secure sufficient time necessary for the Board of Directors to examine the proposal of purchase and deliberate the alternative plans.

Accordingly, the Company intends to introduce defensive measures against takeovers in order to ensure that the shareholders make appropriate decisions with respect to the proposal of purchase and to restrain vicious large-scale purchases of the Company shares that impair the corporate value of the Company and common interests of its shareholders.

We plan to introduce the defensive measures against takeovers subject to the approval of shareholders.

CONSOLIDATED BALANCE SHEET

MARCH 31, 2007

ASSETS

(In millions of yen)

Current assets:	
Cash and deposits	¥3,157
Accounts receivable – trade	216
Marketable securities	1,037
Real estate for sale	2,185
Suspense account for real estate for sale	22,033
Expenditure for construction in progress	0
Merchandise	3
Deferred tax assets	754
Prepaid expenses	264
Short-term loans	113
Accounts receivable – other	176
Other current assets	50
Allowance for doubtful accounts	(12)
Total current assets	<u>29,981</u>
Fixed assets:	
Tangible fixed assets -	
Buildings and building fixtures	75,934
Structures	526
Machinery and equipment	634
Vehicles	6
Furniture and fixtures	410
Land	87,617
Construction in progress	554
Total tangible fixed assets	<u>165,684</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	11,165
Investment in partnerships	1,174
Deferred tax assets	73
Other investments	1,455
Allowance for doubtful accounts	(0)
Total investments and other assets	<u>13,867</u>
Total fixed assets	<u>183,317</u>
Total assets	<u><u>213,298</u></u>

CONSOLIDATED BALANCE SHEET

MARCH 31, 2007

LIABILITIES AND SHAREHOLDERS' EQUITY

(In millions of yen)

<u>Liabilities</u>	
Current liabilities:	
Notes payable	¥159
Accounts payable – trade	1,223
Current portion of bonds	10,000
Short-term loans payable	20,970
Current portion of long-term loans	10,100
Accounts payable – other	293
Accrued corporation and other taxes	1,985
Accrued consumption taxes	138
Accrued expenses	203
Advances received-construction in progress	3
Advances received	1,259
Short-term deposits received	1,109
Accrued bonuses for directors and statutory auditors	52
Accrued bonuses	214
Total current liabilities	<u>47,712</u>
Long-term liabilities:	
Bonds	40,000
Convertible bonds (with stock acquisition rights)	1,777
Long-term loans payable	30,085
Deposits received	4,419
Deposits of landlord	16,345
Deferred tax liabilities	917
Deferred tax liabilities concerning revaluation	4,338
Reserve for retirement allowances for directors and statutory auditors	409
Accrued severance indemnities for employees	276
Goodwill	2
Total long-term liabilities	<u>98,571</u>
Total liabilities	<u>146,284</u>
<u>Net Assets</u>	
Shareholders' equity	
Common stock	59,540
Additional paid-in capital	14,935
Retained earnings	13,162
Treasury stock, at cost	31,726
Valuation and translation adjustments	(284)
Unrealized gain on securities	7,428
Revaluation surplus of land	1,104
Minority shareholders' equity	6,323
Total net assets	<u>67,014</u>
Total liabilities and net assets	<u>213,298</u>

## CONSOLIDATED STATEMENT OF PROFIT AND LOSS

FROM: APRIL 1, 2006

TO: MARCH 31, 2007

(In millions of yen)

Operating revenue -	
Rental income-buildings	¥16,698
Revenue from housing business	5,436
Revenue from asset development and securitization	7,422
Other operating revenue	2,354
Total operating revenue	<u>31,912</u>
Cost of sales -	
Cost of rental-buildings	8,579
Cost of housing business	4,230
Cost of asset development and securitization	4,686
Other operating cost	1,584
Total operating cost	<u>19,081</u>
Gross profit	12,830
Selling, general and administrative expenses	<u>3,192</u>
Operating profit	9,637
Non-operating income -	
Interest income and dividends earned	134
Amortization of goodwill	1
Equity in net income of affiliates	28
Gain on investment in partnerships	1
Miscellaneous non-operating income	43
Total non-operating income	<u>209</u>
Non-operating expenses -	
Interest on debentures	713
Interest expense	858
Bond-issuing expenses	94
Allowance for doubtful accounts	0
Miscellaneous non-operating expenses	15
Total non-operating expenses	<u>1,682</u>
Ordinary income	8,164
Special gains-	
Gain on sale of investment securities	30
Reversal of accrued bonuses	1
Total special gains	<u>31</u>
Special losses -	
Loss on revaluation of inventories	398
Loss on disposal of fixed assets scrapped	29
Total special losses	<u>428</u>
Income before income taxes	7,767
Corporation, inhabitants and enterprise taxes	3,334
Deferred income taxes	(105)
Minority interests	4
Net income for the period	<u>4,534</u>

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

FROM: APRIL 1, 2006  
TO: MARCH 31, 2007

(In millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2006	14,086	12,314	28,739	(199)	54,941
Change during the period					
Issuance of stock	848	848			1,696
Distribution of surplus			(1,488)		(1,488)
Bonuses to directors and statutory auditors			(58)		(58)
Net income			4,534		4,534
Increase resulting from increase of the number of consolidated subsidiaries			0		0
Acquisition of treasury stock				(85)	(85)
Reversal of revaluation surplus of land			(0)		(0)
Net change in items other than shareholders' equity during the period					
Total change during the period	848	848	2,987	(85)	4,598
Balance as of March 31, 2007	14,935	13,162	31,726	(284)	59,540

(In millions of yen)

	Valuation and translation adjustments			Minority interests	Total net assets
	Unrealized gain on securities	Revaluation surplus of land	Total valuation and translation adjustments		
Balance as of March 31, 2006	835	6,323	7,159	44	62,145
Change during the period					
Issuance of stock					1,696
Distribution of surplus					(1,488)
Bonuses to directors and statutory auditors					(58)
Net income					4,534
Increase resulting from increase of the number of consolidated subsidiaries					0
Acquisition of treasury stock					(85)
Reversal of revaluation surplus of land					(0)
Net change in items other than shareholders' equity during the period	269	0	269	0	269
Total change during the period	269	0	269	0	4,868
Balance as of March 31, 2007	1,104	6,323	7,428	45	67,014

## Notes to the Consolidated Financial Statements

### 1. Going concern assumption

There are no events or situations that raise significant doubts.

### 2. Basis of presenting consolidated financial statements

#### (1) Basis of consolidation:

##### 1) Consolidated subsidiaries: 5

Names of the consolidated subsidiaries: Heiwa Service Co., Ltd., Heiwa Healthcare Co., Ltd., Osaka Securities Building Co., Ltd., Taitan, Ltd., Eichi Two, Ltd.

From this consolidated fiscal year, the Company adopts the “Practical Solution on Application of Control Criteria and Influence Criteria to Investment Associations” (Accounting Standards Board of Japan, Practical Issues Task Force No. 20, September 8, 2006). Accordingly, the Company includes Taitan, Ltd. and Eichi Two, Ltd. in the scope of consolidation from this consolidated fiscal year.

##### 2) Names of non-consolidated subsidiaries: Cassiopeia Investment, Ltd.

(Reason for exclusion from the scope of consolidation)

Cassiopeia Investment, Ltd. is insignificant in size, and its total assets, net sales, net income (on the equity basis), retained earnings (on the equity basis), etc. have no significant impact on the consolidated financial statements.

#### (2) Basis of applying the equity method:

##### 1) Non-consolidated subsidiaries accounted for by the equity method: 1

Names of non-consolidated subsidiaries accounted for by the equity method: Cassiopeia Investment, Ltd.

From this consolidated fiscal year, the Company adopts the “Practical Solution on Application of Control Criteria and Influence Criteria to Investment Associations” (Accounting Standards Board of Japan, Practical Issues Task Force No. 20, September 8, 2006). Accordingly, Cassiopeia Investment, Ltd. is a non-consolidated subsidiary accounted for by the equity method from this consolidated fiscal year.

##### 2) Affiliates accounted for by the equity method: 1

Names of affiliates accounted for by the equity method: Canal Investment Trust Co., Ltd.

Canal Investment Trust Co., Ltd. became one of the Company’s affiliates through a share acquisition during this consolidated fiscal year. Accordingly, it is accounted for by the equity method.

#### (3) Method and basis of valuation of assets:

##### 1) Marketable securities and other investments:

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

Other marketable securities and investments:

a. Securities with market quotations:

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

b. Securities without market quotations:

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

2) Inventory -

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

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

(4) Depreciation method for fixed assets:

1) Tangible fixed assets -

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

Buildings, 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).

(5) Accounting method for deferred charges:

Bond issuing expenses are charged as expenses when incurred.

(6) Principles for providing accruals and reserves:

1) Allowance for doubtful accounts -

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

2) Accrued bonuses for directors and statutory auditors-

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

3) Accrued bonuses -

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

4) 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) 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.

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

1) 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.

2) Accounting for consumption taxes -

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

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

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

(9) Changes in accounting standards:

1) Accounting standards for bonuses for directors and statutory auditors -

From this consolidated fiscal year, the Company adopts the "Accounting Standard for Directors'

Bonus” (Accounting Standards Board of Japan, Statement No. 4, November 29, 2005).

As a result, the total of operating income, ordinary income, and income before income taxes and minority interests decreased by ¥52 million compared to the corresponding total under the previous standard.

2) Accounting standards for the measurement of inventories -

Because the “Accounting Standard for Measurement of Inventories” (Accounting Standards Board of Japan, Statement No. 9, July 5, 2006) has become applicable to the consolidated financial statements for the consolidated fiscal year starting on and before March 31, 2008, the Company has adopted the standard.

As a result, the total of income before income taxes and minority interests decreased by ¥398 million compared to the corresponding total under the previous standard.

3) Accounting standards for the presentation of net assets in the consolidated balance sheet -

From this consolidated fiscal year, the Company adopts the “Accounting Standard for Presentation of Net Assets in the Balance Sheet” (Accounting Standards Board of Japan, Statement No. 5, December 9, 2005) and the “Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet” (Accounting Standards Board of Japan, Guidance No. 8, December 9, 2005).

This adoption has no effect on profit and loss.

The amount equal to the total amount of the former Shareholders’ equity is ¥66,968 million.

Net Assets in the consolidated balance sheet for this consolidated fiscal year are prepared in accordance with the Ordinance on the Company Computation.

4) Partial amendment of the accounting standard for treasury stock and the appropriation of legal reserve -

From this consolidated fiscal year, the Company adopts the revised “Accounting Standard for Treasury Shares and Appropriation of Legal Reserve” (Accounting Standards Board of Japan, Statement No. 1, August 11, 2006) and the “Guidance on Accounting Standard for Treasury Shares and Appropriation of Legal Reserve” (Accounting Standards Board of Japan, Guidance No. 2, August 11, 2006).

This adoption has no effect on profit and loss.

In addition, the amendment of the presentation of the consolidated balance sheet resulting from the implementation of the Ordinance on the Company Computation is as follows.

Treasury stock, an item presented at the end of Net assets as a deduction from Net assets in the previous consolidated fiscal year, is presented at the end of Shareholders’ equity as a deduction from Shareholders’ equity from this consolidated fiscal year.

5) Accounting for contributions to investment associations -

From this consolidated fiscal year, in accordance with the “Practical Solutions on Application of Control Criteria and Influence Criteria to Investment Associations” (Accounting Standards

Board of Japan, Practical Issues Task Force No. 20, September 8, 2006), Taitan, Ltd. and Eichi Two, Ltd. are included as consolidated subsidiaries and Cassiopeia Investment, Ltd. is included as a non-consolidated subsidiary accounted for by the equity method.

These changes increased the total assets, net sales, ordinary income, and income before income taxes and minority interests by ¥2,518 million, ¥1,997 million, ¥0 million and ¥0 million, respectively, as compared to the corresponding amounts that would have been recorded if the previous methods had been followed.

### 3. Notes to the consolidated balance sheet

#### (1) Pledged assets

##### 1) Assets pledged as collateral

Suspense account for real estate for sale	¥3,451 million
Buildings and building fixtures	¥13,990 million
Land	¥30,176 million
Total	¥47,619 million

##### 2) Secured liabilities

Current portion of long-term loans	¥5,740 million
Long-term loans payable	¥12,100 million
Deposits received	¥3,405 million
Deposits of landlord	¥2,293 million
Total	¥23,539 million

#### (2) Accumulated depreciation

Tangible fixed assets	¥49,471 million
Intangible fixed assets	¥45 million
Long-term prepaid expenses	¥352 million
Total	¥49,869 million

#### (3) Guarantees due from the Company

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

Housing loans for employees of Heiwa Real Estate Co., Ltd.	¥514 million
Total	¥514 million

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

#### (1) Issued shares

Common stock	145,770,261 shares
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#### (2) Treasury stock

Common stock	507,762 shares
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#### (3) Distribution of surplus

##### 1) Payments of dividends

a. The following was resolved and approved at the Ordinary General Meeting of Shareholders held on June 28, 2006.

Distribution of common stock

• Total amount of distribution	¥779 million
• Distribution per share	¥5.5
• Record date	March 31, 2006
• Effective date	June 29, 2006

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

2006.

Distribution of common stock

• Total amount of distribution	¥709 million
• Distribution per share	¥5
• Record date	September 30, 2006
• Effective date	December 1, 2006

- 2) Dividends with the effective distribution dates fall during the following consolidated fiscal year, among dividends with record dates falling in the current consolidated fiscal year

We will propose the following agenda for the Ordinary General Meeting of Shareholders to be held on June 27, 2007.

Distribution of common stock

• Total amount of distribution	¥726 million
• Resource of distribution	Retained earnings
• Distribution per share	¥5
• Record date	March 31, 2007
• Effective date	June 28, 2007

5. Per share data

(1) Net assets per share	¥461.01
(2) Net income per share	¥31.90

6. Subsequent events

Not applicable.

BALANCE SHEET

MARCH 31, 2007

ASSETS

(In millions of yen)

Current assets:	
Cash and deposits	¥2,091
Accounts receivable – trade	139
Marketable securities	991
Real estate for sale	2,185
Suspense account for real estate for sale	22,033
Prepaid expenses	256
Deferred tax assets	733
Short-term loans	112
Accounts receivable – other	168
Other current assets	47
Allowance for doubtful accounts	(12)
Total current assets	<u>28,746</u>
Fixed assets:	
Tangible fixed assets -	
Buildings and building fixtures	74,608
Structures	514
Machinery and equipment	634
Vehicles	6
Furniture and fixtures	374
Land	84,540
Construction in progress	497
Total tangible fixed assets	<u>161,177</u>
Intangible fixed assets -	
Leasehold rights	3,715
Other intangible assets	46
Total intangible fixed assets	<u>3,762</u>
Investments and other assets -	
Investment in securities	9,448
Investment in securities of affiliates	1,218
Capital investment in affiliates	2,722
Investment in partnerships	1,174
Other investments	1,401
Allowance for doubtful accounts	(0)
Total investments and other assets	<u>15,964</u>
Total fixed assets	<u>180,904</u>
Total assets	<u><u>209,650</u></u>

## BALANCE SHEET

MARCH 31, 2007

### LIABILITIES AND SHAREHOLDERS' EQUITY

(In millions of yen)

<u>Liabilities</u>	
Current liabilities:	
Notes payable	¥159
Accounts payable – trade	1,009
Current portion of bonds	10,000
Short-term loans payable	20,800
Current portion of long-term loans	10,100
Accounts payable – other	242
Accrued corporation and other taxes	1,933
Accrued consumption taxes	37
Accrued expenses	186
Advances received	1,209
Short-term deposits received	1,045
Accrued bonuses for directors	48
Accrued bonuses	178
Total current liabilities	<u>46,950</u>
Long-term liabilities:	
Bonds	40,000
Convertible bonds(with stock acquisition rights)	1,777
Long-term loans payable	27,785
Long-term deposits received	20,672
Deferred tax liabilities	937
Deferred tax liabilities concerning revaluation	4,338
Reserve for retirement allowances for directors and statutory auditors	382
Accrued severance indemnities for employees	270
Total long-term liabilities	<u>96,163</u>
Total liabilities	<u>143,113</u>
<u>Net assets</u>	
Shareholders' equity	59,122
Common stock	14,935
Additional paid-in capital	
Capital reserve	13,162
Total additional paid-in capital	<u>13,162</u>
Retained earnings:	
Legal reserve	1,453
Other retained earnings	29,855
Reserve for deferral of gains on fixed assets	1,295
Reserve for special depreciation of fixed assets	94
Reserve for research and development costs	30
Reserve for general purposes	23,115
Unappropriated retained earnings	5,320
Total retained earnings	<u>31,309</u>
Treasury stock, at cost	(284)
Valuation and translation adjustments	7,414
Unrealized gain on securities	1,090
Revaluation surplus of land	6,323
Total net assets	<u>66,537</u>
Total liabilities and net assets	<u>209,650</u>

## STATEMENT OF PROFIT AND LOSS

FROM: APRIL 1, 2006

TO: MARCH 31, 2007

(In millions of yen)

Operating revenue -	
Rental income-buildings	¥16,598
Revenue from housing business	5,406
Revenue from asset development and securitization	5,334
Revenue from brokerages	381
Total operating revenue	<u>27,721</u>
Cost of sales -	
Cost of rental-buildings	8,750
Cost of housing business	4,203
Cost of asset development and securitization	2,658
Total operating cost	<u>15,612</u>
Gross profit	12,109
Selling, general and administrative expenses	<u>2,697</u>
Operating profit	9,411
Non-operating income -	
Interest income and dividends earned	161
Income for non-operating trustee services	91
Gain on investment in partnerships	1
Other non-operating income	26
Total non-operating income	<u>280</u>
Non-operating expenses -	
Interest on debentures	713
Interest expense	796
Bond-issuing expenses	94
Provision of allowance for doubtful accounts	0
Other non-operating expenses	8
Total non-operating expenses	<u>1,614</u>
Ordinary income	8,078
Special gains -	
Gain on sale of investment securities	<u>30</u>
Total special gains	30
Special losses -	
Loss on revaluation of inventories	398
Loss on disposal of fixed assets scrapped	29
Total special losses	<u>428</u>
Income before income taxes	7,680
Corporation, inhabitants and enterprise taxes	3,264
Deferred income taxes	<u>(89)</u>
Net income for the period	<u><u>¥4,505</u></u>

## STATEMENT OF CHANGES IN NET ASSETS

FROM: APRIL 1, 2006  
TO: MARCH 31, 2007

(In millions of yen)

	Shareholders' equity		
	Common stock	Capital surplus	
		Additional paid-in capital	Total capital surplus
Balance as of March 31, 2006	14,086	12,314	12,314
Change during the period			
Issuance of stock	848	848	848
Distribution of surplus			—
Bonuses to directors and statutory auditors			—
Reversal of reserve for deferral of gains on fixed assets			—
Reserve for special depreciation of fixed assets			—
Reversal of reserve for special depreciation of fixed assets			—
Reserve for general purposes			—
Acquisition of treasury stock			—
Reversal of revaluation surplus of land			—
Net income			—
Net change in items other than shareholders' equity during the period			—
Total change during the period	848	848	848
Balance as of March 31, 2007	14,935	13,162	13,162

(In millions of yen)

	Shareholders' equity								Treasury stock	Total shareholders' equity
	Regal reserve	Retained earnings						Total retained earnings		
		Other retained earnings								
		Reserve for deferral of gains on fixed assets	Reserve for special depreciation of fixed assets	Reserve for research and development costs	Reserve for general purposes	Unappropriated retained earnings				
Balance as of March 31, 2006	1,453	1,365	114	30	20,115	5,266	28,345	(199)	54,547	
Change during the period										
Issuance of stock							—		1,696	
Distribution of surplus						(1,488)	(1,488)		(1,488)	
Bonuses to directors and statutory auditors						(52)	(52)		(52)	
Reversal of reserve for deferral of gains on fixed assets		(69)				69	—		—	
Reserve for special depreciation of fixed assets			23			(23)	—		—	
Reversal of reserve for special depreciation of fixed assets			(42)			42	—		—	
Reserve for general purposes					3,000	(3,000)	—		—	
Acquisition of treasury stock							—	(85)	(85)	
Reversal of revaluation surplus of land						(0)	(0)		(0)	
Net income						4,505	4,505		4,505	
Net change in items other than shareholders' equity during the period							—		—	
Total change during the period	—	(69)	(19)	—	3,000	53	2,963	(85)	4,575	
Balance as of March 31, 2007	1,453	1,295	94	30	23,115	5,320	31,309	(284)	59,122	

(In millions of yen)

	Valuation and translation adjustments			Total net assets
	Unrealized gain on securities	Revaluation surplus of land	Total valuation and translation adjustments	
Balance as of March 31, 2006	803	6,323	7,127	61,675
Change during the period				
Issuance of stock			—	1,696
Distribution of surplus			—	(1,488)
Bonuses to directors and statutory auditors			—	(52)
Reversal of reserve for deferral of gains on fixed assets			—	—
Reserve for special depreciation of fixed assets			—	—
Reversal of reserve for special depreciation of fixed assets			—	—
Reserve for general purposes			—	—
Acquisition of treasury stock			—	(85)
Reversal of revaluation surplus of land			—	(0)
Net income			—	4,505
Net change in items other than shareholders' equity during the period	286	0	286	286
Total change during the period	286	0	286	4,862
Balance as of March 31, 2007	1,090	6,323	7,414	66,537

## NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

### 1. Going concern assumption

There are no events or situations raising significant doubts.

### 2. Matters pertaining to significant accounting policies

#### (1) Method and basis of valuation of assets:

##### 1) Marketable securities and other investments -

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

Stocks of subsidiaries and affiliates:

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

Other marketable securities and investments:

##### a. Securities with market quotations:

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

##### b. Securities without market quotations:

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

##### 2) Inventory -

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

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

#### (2) Depreciation method for significant fixed assets:

##### 1) Tangible fixed assets -

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 directors and statutory auditors-

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

3) Accrued bonuses for employees -

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

4) 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) Accrued severance indemnities -

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

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

1) 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.

2) 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.

(6) Changes in accounting standards:

1) Accounting standards for bonuses for directors and statutory auditors -

From this fiscal year, the Company adopts the “Accounting Standard for Directors’ Bonus” (Accounting Standards Board of Japan, Statement No. 4, November 29, 2005).

As a result, the total of operating income, ordinary income, and income before income taxes decreased by ¥48 million compared to the corresponding total under the previous standard.

2) Accounting standard for the measurement of inventories -

Because the “Accounting Standard for Measurement of Inventories” (Accounting Standards Board of Japan, Statement No. 9, July 5, 2006) has become applicable to the financial statements for the fiscal year starting on and before March 31, 2008, the Company has adopted the standard.

As a result, income before income taxes decreased by ¥398 million compared to the corresponding amount under the previous standard.

3) Accounting standards for the presentation of net assets in the balance sheet -

From this fiscal year, the Company adopts the “Accounting Standard for Presentation of Net Assets in the Balance Sheet” (Accounting Standards Board of Japan, Statement No. 5, December 9, 2005) and the “Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet” (Accounting Standards Board of Japan, Guidance No. 8, December 9, 2005).

This adoption has no effect on profit and loss.

The amount equal to the total amount of the former Shareholders’ equity is ¥66,537 million.

Net Assets in the balance sheet for this fiscal year are prepared in accordance with the Ordinance on the Company Computation.

4) Partial amendment of the accounting standard for treasury stock and the appropriation of legal reserve -

From this fiscal year, the Company adopts the revised “Accounting Standard for Treasury Shares and Appropriation of Legal Reserve” (Accounting Standards Board of Japan, Statement No. 1, August 11, 2006) and the “Guidance on Accounting Standard for Treasury Shares and

Appropriation of Legal Reserve” (Accounting Standards Board of Japan, Guidance No. 2, August 11, 2006).

This adoption has no effect on profit and loss.

In addition, the amendment of the presentation of the balance sheet resulting from the implementation of the Ordinance on the Company Computation is as follows.

Treasury stock, an item presented at the end of Net Assets as a deduction from Net assets in the previous fiscal year, is presented at the end of Shareholders’ equity as deduction from Shareholders’ equity from this fiscal year.

### 3. Notes to the balance sheet

#### (1) Pledged assets

##### 1) Assets pledged as collateral

Suspense account for real estate for sale	¥3,451 million
Buildings and building fixtures	¥13,293 million
Land	¥27,363 million
Total	¥44,108 million

##### 2) Secured liabilities

Current portion of long-term loans	¥5,740 million
Long-term loans payable	¥9,800 million
Deposits received	¥3,405 million
Deposits of landlord	¥2,293 million
Total	¥21,239 million

##### (2) Accumulated depreciation

Tangible fixed assets	¥47,884 million
Intangible fixed assets	¥44 million
Long-term prepaid expenses	¥344 million
Total	¥48,273 million

##### (3) Guarantees due from the Company

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

Heiwa Healthcare Co., Ltd. (Subsidiary)	¥170 million
Housing loans for employees of Heiwa Real Estate Co., Ltd.	¥514 million
Total	¥684 million

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

Assets	¥71 million
Debts	¥225 million

#### 4. Notes to the statement of profit and loss

##### Transactions with subsidiaries and affiliates

Operating transactions	¥4,682 million
Non-operating transactions	¥124 million

#### 5. Notes to the statement of changes in net assets

##### (1) Issued shares

Common stock	145,770,261 shares
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##### (2) Treasury stock

Common stock	507,762 shares
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##### (3) Distribution of surplus

###### 1) Payments of dividends

- a. The following was resolved and approved at the Ordinary General Meeting of Shareholders held on June 28, 2006.

###### Distribution of common stock

• Total amount of distribution	¥779 million
• Distribution per share	¥5.5
• Record date	March 31, 2006
• Effective date	June 29, 2006

- b. The following was resolved and approved at the meeting of the Board of Directors held on October 30, 2006.

###### Distribution of common stock

• Total amount of distribution	¥709 million
• Distribution per share	¥5
• Record date	September 30, 2006
• Effective date	December 1, 2006

- 2) Dividends with the effective distribution dates fall during the following consolidated fiscal year, among the dividends with record dates falling in the current consolidated fiscal year

We will propose the following agenda for the Ordinary General Meeting of Shareholders to be held on June 27, 2007.

###### Distribution of common stock

• Total amount of distribution	¥726 million
• Resource of distribution	Retained earnings
• Distribution per share	¥5
• Record date	March 31, 2007
• Effective date	June 28, 2007

#### 6. Income taxes

(1) Deferred tax assets	
Loss on revaluation of inventories	¥528 million
Accrued corporation tax	¥157 million
Accrued bonuses	¥72 million
Other	(¥24 million)
Total	¥733 million

(2) Deferred tax liabilities	
Impairment loss	¥445 million
Reserve for deferral of gains on fixed assets	(¥866 million)
Unrealized gain on securities	(¥748 million)
Other	¥231 million
Total	(¥937 million)

#### 7. Leased assets

(1) Amounts equivalent to acquisition cost	¥70 million
(2) Amounts equivalent to accumulated depreciation	¥47 million
(3) Amounts equivalent to prepaid lease	¥22 million

#### 8. Transactions with affiliated parties

There are no significant transactions.

#### 9. Per share data

(1) Net assets per share	¥458.04
(2) Net income per share	¥31.69

#### 10. Subsequent events

Not applicable.

Independent Accountants' Report  
(English Translation)

May 10, 2007

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

Toyo Horwath

Tsukasa Inoue, CPA, Engagement Partner  
Yasuo Muramoto, CPA, Engagement Partner

We have audited, pursuant to Article 444, Paragraph 4, of Corporate Law, the consolidated financial statements, which consist of the consolidated balance sheet, consolidated profit and loss statement, consolidated statement of changes in the net assets and notes to the consolidated financial statements of the Heiwa Real Estate Co., Ltd. and consolidated subsidiaries for the 87th fiscal year from April 1, 2006 to March 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

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

**Additional Information**

As disclosed in the "Changes in accounting standards," the "Accounting Standard for the Measurement of Inventories" has become applicable to the consolidated financial statements for the fiscal year starting on and before March 31, 2008. Accordingly, the Company adopts the standard from this consolidated fiscal year.

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 10, 2007

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

Toyo Horwath

Tsukasa Inoue, CPA, Engagement Partner  
Yasuo Muramoto, CPA, Engagement Partner

We have audited, Pursuant to Article 436, Paragraph 2, Item 1 of the Corporate Law, the financial statements, which consist of the balance sheet, profit and loss statement, non-consolidated statement of changes in the net assets, notes to the consolidated financial statements and supplementary schedules of Heiwa Real Estate Co., Ltd. (hereinafter referred to as the "Company") for the 87th fiscal year from April 1, 2006 to March 31, 2007. 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.

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

**Additional Information**

As disclosed in the "Changes in accounting standards," the "Accounting Standard for the Measurement of Inventories" has become applicable to the financial statements for the fiscal year starting on and before March 31, 2008. Accordingly, the Company adopts the standard from this fiscal year.

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, having deliberated the issues based on the reports made by each Statutory Auditor concerning the methods and results of their audit of the business activities of the directors for the 87th fiscal year from April 1, 2006 to March 31, 2007, prepared this Audit Report and hereby submit to you as follows::

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

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

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

Each Statutory Auditor monitored and verified the resolutions adopted by the Board of Directors regarding the establishment of the system for ensuring that the directors' duties are performed in conformity of laws, regulations and the Articles of Incorporation of the Company, and the establishment of the system necessary to ensure proper business operations of the company set forth in Items 1 and 3 of Article 100 of Enforcement Regulations of the Company Law, and the systems (Internal Control System) established in accordance with the resolution of the Board of Directors. Statutory Auditors received from subsidiaries their business reports as necessary through communication and information sharing with their directors and statutory auditors, and visited the subsidiaries and conducted necessary examination. In accordance with the procedures mentioned above, we reviewed the business reports and supplementary schedules for the year ended on March 31, 2007.

Further, Statutory Auditors monitored and verified that Accounting Auditor maintains independence and conduct the audits appropriately. Each Statutory Auditor also received reports of the status of the execution of duties from Accounting Auditor and requested explanation as necessary. In addition, we were informed of the arrangement of the "System for ensuring that the duties are performed appropriately" (matters stipulated in the items of Article 159 of the Corporate Calculation Regulations in accordance with "Standards for the Quality Control of Audits" (Business Accounting Council, October 28, 2005)) from the Accounting Auditor and requested explanations as necessary. In accordance with the procedures mentioned above, we reviewed the financial statements (the balance sheet, statement of profit and loss, statement of changes in net assets and notes to the financial statements), and the supplementary schedules, as well as the consolidated financial statements (the consolidated balance sheet, consolidated statement of profit and loss, consolidated statement of changes in net assets and notes to the consolidated financial statements), and the supplementary schedules, for the year ended on March 31, 2007.

#### 2. Results of Audit

##### (1) Results of audit of business report

- 1) The business reports and supplementary schedules present fairly the financial condition of the Company in conformity with related laws, regulations, and the Articles of Incorporation of the Company;
- 2) Regarding the performance of duties by Directors, there were no instances of misconduct or material matters in violation of laws, regulations, nor the Articles of Incorporation of the Company; and
- 3) Resolution of the Board of Directors regarding the internal control system is fair and reasonable. There are no matters requiring additional mention regarding such internal control and the execution of duties by Directors.

(2) Results of audit of financial statements and supplementary schedules

The auditing methods and results of the Accounting Auditor, Toyo Horwath, are fair and reasonable.

(3) Results of audit of consolidated financial statements and supplementary schedules

The auditing methods and results of the Accounting Auditor, Toyo Horwath, are fair and reasonable.

May 16, 2007

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

Statutory Auditor  
Yoshitake Kaneda

Statutory Auditor  
Masahiko Kadotani