

(Attached Documents)

BUSINESS REPORT

1. Outline of Operations for the period from April 1, 2007 to March 31, 2008:

(1) Update and Results of Business -

During the fiscal year ended March 31, 2008, corporate performance in Japan remained strong, with exports and capital expenditure rising. Personal consumption also revived and trended favorably. Nonetheless, fluctuations in global capital markets touched off by the sub-prime mortgage debacle in the United States, soaring crude oil prices, and the strengthening of the yen had rapidly introduced a growing sense of unpredictability and uncertainty about the immediate future.

Under these circumstances, strong corporate demand kept rents high and vacancy rates low overall in the building leasing sector of the real estate industry, despite disparities depending on sites and other conditions.

In the Housing Division, the number of residential starts fell steeply under the impact of the implementation of the revised Building Codes; the number of new condominium units declined in the Tokyo metropolitan area. Land prices have continued to rise, on average, nationwide, for both residential and commercial property, with rises particularly large in the three major metropolitan areas, Tokyo, Osaka, and Nagoya. That rise, increased construction costs, delays in construction approvals, and other factors have pushed up housing prices. As a result, the market sentiment changed from the latter half of the last year in spite of the deep-rooted demand and thus entered adjustment phase as contrast rates declined due to potential customers holding off from making purchases.

Against the backdrop of the sub-prime mortgage debacle in the U.S., the financial market has been fluctuated severely and the real estate securitization market in Japan has been impacted by the tightened of inflow funds.

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

Building Leasing Division

In the Building Leasing Division, the Nagoya Stock Exchange Building was completed in August of 2007 and has had full occupancy since it opened. The improved occupancy rate for the Uchisaiwaicho Heiwa Building and increased rental income due to newly acquired properties in

Tokyo, Nagoya, Fukuoka, Sapporo, and Sendai contributed substantially to increased revenues overall.

As a result, the Company earned ¥5,156 million in Stock Exchange Market Place Leasing Income, down by ¥18 million (0.4%) compared with the previous period. General Leasing Income rose to ¥8,794 million, up by ¥712 million (8.8%) compared with the previous period. Commercial Facilities Leasing Income increased to ¥3,587 million, up by ¥275 million (8.3%) compared with the previous period. Building Leasing Income, including the above incomes and Land Leasing Income, totaled ¥17,717 million, up by ¥1,018 million (6.1%) compared with the previous period.

The vacancy rate of the Company's leased buildings (on a parent company basis) was 1.5% at the end of the fiscal year ended March 31, 2008.

Housing Division

Income from the Housing Division amounted to ¥4,873 million, down by ¥33 million (0.7%) from the previous period, because the Company sold fewer condominium units than forecast, for a total of 97 units.

Housing Leasing Income amounted to ¥728 million, up by ¥311 million (74.9%) compared with the previous period, as a result of the Company's efforts to expand the housing leasing business. Housing Income amounted to ¥5,752 million, up by ¥315 million (5.8%) compared with the previous period.

Asset Development and Securitization Division

Income from the real estate development and management businesses amounted to ¥5,423 million, down by ¥1,998 million (26.9%) compared with the previous period.

Other Divisions

In the Real Estate Brokerage Business, sales activities in relation to corporations and investment funds produced ¥335 million in revenue in the Real Estate Brokerage Business, down by ¥45 million (11.9%) from the revenue reported during the previous period.

Income from the Contract Construction Business and Building Management Business increased to ¥1,744 million, up by ¥142 million (8.9%) compared with the previous period. Income from

the Private Nursing Home Business increased to ¥346 million, up by ¥18 million (5.7%) compared with the previous period. Other Divisions operating revenue for the fiscal year ended March 31, 2008, increased by ¥136 million (5.8%) to ¥2,490 million.

Overall Operating Results of the Group

The operating results of the Company group for the fiscal year ended March 31, 2008, are summarized below:

Operating Revenue amounted to ¥31,384 million, down by ¥527 million (1.7%) compared with the previous period. Operating Costs totaled ¥18,480 million, down by ¥600 million (3.1%) compared with the previous period, while Selling, General and Administrative Expenses totaled ¥3,698 million, up by ¥506 million (15.9 %) compared with the previous period.

Consequently, Operating Income for the fiscal year ended March 31, 2008, reached ¥9,205 million, down by ¥432 million (4.5%) compared with the previous period, while Ordinary Income reached ¥7,176 million, down by ¥988 million (12.1%) compared with the previous period. Net income reached ¥3,737 million, down by ¥796 million (17.6%) compared with the previous period.

(2) Issues to be resolved by the Company -

Corporate earnings remained stagnant, though high, as a result of rising prices for crude oil and raw materials, and the Japanese economy as a whole seemed locked in a standstill. Under these circumstances, capital investments and personal consumption are forecasted to remain unchanged, and downside risks are expected to intensify due to concerns over the economic decline in the U.S. The economy, meanwhile, is expected to recover, backed by moderately rising exports and an expected pickup in housing construction.

Within this environment, the Company is entering the final year of the medium-term management plan, the "Growth 2009" plan established in November 2005.

The core strategies of the Growth 2009 plan 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 Division, 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 Division, 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 following specific measures are being taken for the achievement of the Growth 2009 plan and further growth thereafter.

In October 2007, the Company acquired the Ichibancho Heiwa Building as a stepping stone to developing the business of the Building Leasing Division in the Sendai area, launching the first of several aggressive moves to promote business in and around Sendai. In the Sakai area in Nagoya, the Company began constructing the Nagoya Stock Exchange Building and promoted the new construction project of the Nagoya Sakae Heiwa Building (provisional name), with plans to expand the operations of the Building Leasing Division and strengthen profitability while actively contributing to the revitalization of cities and localities.

In the Housing Division, the Company will continue to work in housing development in collaboration with its best partners while launching a housing development business of its own. While continuing to provide high-quality properties in response to the diversifying and more sophisticated needs of customers in the Housing Leasing Business, the Company has penetrated the new business area of "collective houses," the first of business area of its kind in Japan that matches the demands of the era.

In the Asset Development and Securitization Division, the Company is proactively developing businesses through strategies such as the use of SPCs and participating in large-scale developments in joint-ventures with other companies in Shiodome, Shinjuku, and other areas in Tokyo. The Company will also take a strategic approach to secure and expand stable profits through asset development business by acquiring commissions from asset and fund managements.

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. In the private nursing home enterprise business, Heiwa Healthcare Co., Ltd. continues to provide highly reliable and high-quality services to the localities in order to promote the CSR function in a society with a rapidly aging population and extremely low birthrates, while developing various new businesses, including a business to provide small-scale multiple-function nursing care at home. The Company also acquired Housing Service Co., Ltd. as subsidiary in February 2008 to further strengthen the Real Estate Brokerage Division.

(3) Investment in fixed assets -

The Company purchased 11 buildings during the consolidated fiscal year ended March 31, 2008, including the “Japan Information Processing Service Headquarters Building” (Chuo-ku, Tokyo), the “Ichibancho Heiwa Building” (Aoba-ku, Sendai-shi), the “Yamato Life Insurance Fukuoka Building” (Chuo-ku, Fukuoka-shi), and four rental condominium buildings, including “Antenia Minamisuna” (Koto-ku, Tokyo). As a result, the Company’s capital expenditure amounted to ¥55,268 million.

(4) Status of financing -

The Company issued its 7th series of unsecured convertible bonds with stock acquisition rights on June 22, 2007 (issued amount, ¥20 billion; date of maturity, June 22, 2012; no interest) and 7th series of unsecured bonds on September 12, 2007 (issued amount, ¥20 billion; date of maturity, September 12, 2013; annual interest, 1.91%).

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

Fiscal year Classification	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)	The 88th fiscal year (From April 1, 2007 to March 31, 2008)
Operating revenue	¥21,352 million	¥36,599 million	¥31,912 million	¥31,384 million
Ordinary Income	4,853 million	7,570 million	8,164 million	7,176 million
Net income	3,006 million	4,203 million	4,534 million	3,737 million
Net income per share (in exact yen)	26.40	34.64	31.90	25.56
Total assets	172,560 million	186,476 million	213,298 million	298,728 million
Net assets	42,094 million	62,100 million	67,014 million	70,456 million
Net assets per share (in exact yen)	376.81	437.80	461.01	460.24

(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, contracting of repair work
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.
Housing Service Co., Ltd.	¥95 million	100.0%	Real estate brokerage, consignment sales of new housing, management of company housing, real estate appraisal
Titan Y.K	¥3 million	-	Acquisition, possession and management of trust beneficiary rights on real estate in trust through anonymous partnership agreement
H2 Y.K	¥3 million	-	Same as above
Cassiopeia Investment, Y.K	¥3 million	-	Same as above
STAR 1 REALTY Y.K	¥3 million	-	Same as above
STAR 2 REALTY Y.K	¥3 million	-	Same as above
Charites Y.K	¥3 million	-	Same as above

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

2. The significance of Cassiopeia Investment Y.K, STAR 1 REALTY Y.K, and STAR 2 REALTY Y.K increased, and Charites Y.K acquired the interests of an anonymous partnership contribution. As a result, these companies are included in the Company's scope of consolidation from the fiscal year under review.

3. The Company acquired the shares of Housing Service Co., Ltd. on February 29, 2008, making Housing Service Co., Ltd. into a consolidated subsidiary.

(7) Contents of principal businesses of the Group -

Division	Business Activities
Building 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., contracting of repair work, and a private nursing home enterprise

(8) Principal sales offices -

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

(9) Employees of the Group -

<u>No. of Employees</u>	<u>Increase/(decrease) as compared with prior period end</u>
<u>237</u>	<u>62</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>91</u>	<u>6</u>	<u>38.7</u>	<u>13.1</u>

(10) Principal creditors -

<u>Creditors</u>	<u>Balance</u> (In millions of yen)
Resona Bank, Ltd.	¥24,991
Sumitomo Mitsui Banking Corporation	20,350
The 77 Bank, Ltd.	14,290
Mizuho Corporate Bank, Ltd.	14,027
The Hokkaido Bank, Ltd.	6,890
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	6,701

2. Status of Shares:

(1) Number of shares authorized - 550,000,000 shares

(2) Number of shares issued and outstanding - 147,084,095 shares

(Note) The number of shares issued and outstanding increased 1,313,834 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 - 24,794
(Decrease of 2,463 compared with prior period end)

(4) Major shareholders -

<u>Name</u>	<u>No. of shares</u> (000's)
Goldman Sachs and Company (Regular Account)	8,119
Japan Trustee Services Bank, Ltd. (Trust Account)	6,738
The Master Trust Bank of Japan, Ltd. (Trust Account)	6,618
Deutsche Securities Inc.	5,196
State Street Bank and Trust Company	5,109
Clariden Leu Limited	2,432
BNP Paribas Securities (Japan) Limited (BNP Paribas Securities)	2,403
Societe Generale Securities, Tokyo Branch	2,378
Bank of New York GCM Client Accounts ELRG	2,279
Resona Bank, Ltd	2,229

3. Stock acquisition rights:

Stock acquisition rights already issued are as follows:

(1) The fifth series of the unsecured convertible bonds with 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	1,170 million yen
Number of stock acquisition rights	1,170
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	2,532,467 shares
Issue price of stock acquisition rights	Free
Exercise period of stock acquisition rights	From August 2, 2004 to June 23, 2008

(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.

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

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

(Note)

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

4. Matters related to Corporate Officers:

(1) Directors and Statutory Auditors -

<u>Name</u>	<u>Position</u>	<u>Representation of other companies</u>
Sakutaro Kimbara	Director and President* and Chief Executive Officer	
Sadao Yoshino	Director* and Senior Executive Officer (Overall Management of Administration / Affiliated Companies)	
Hiroyuki Takahashi	Director* and Senior Executive Officer (Overall Management of Business Divisions / Branches)	
Masashi Ueda	Director and Managing Executive Officer	Director and President of Heiwa Service Co., Ltd.
Takashi Hayakawa	Director and Managing Executive Officer (Executive Manager of Building Project Department, Building Business Department, Nagoya Branch and Sapporo Branch)	
Kazuo Minamino	Director and Managing Executive Officer (Executive Manager of Osaka Branch and Fukuoka Branch)	Director and President of Osaka Securities Building Co., Ltd.
Takeo Hino	Director and Managing Executive Officer (Executive Manager of Housing Development Department – I, Housing Development Department – II 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 substantial expertise and experience in finance and accounting.

5. Director who was elected during the period:

Director Sadao Yoshino (Elected on June 27, 2007)

6. The following three persons are Managing Officers other than the seven Directors/ Managing Officers listed above, and their duties are as indicated hereunder:

Managing Officer Ichiro Sasaki Director of General Affairs

Managing Officer Masami Taniguchi Director of Real Estate Brokerage Division

Managing Officer Toshio Soeda Manager of Fukuoka Branch

(2) Remuneration paid to Directors and Statutory Auditors -

Category	Number of persons	Amount Paid	Note
Director	8	¥271 million	of which ¥8 million to 1 External Director
Statutory Auditor	3	¥38 million	of which ¥16 million to 2 External Statutory Auditors
Total (Notes)	11	¥309 million	

1. A resolution of the 74th Ordinary General Shareholders' Meeting held on June 29, 1994 limits Directors' remuneration to ¥15 million per month (the amount of remuneration for Directors will not include the employee salaries of Directors who serve concurrently as employees.)

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

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

Bonus to Officers expected to be resolved at the 88th Ordinary General Shareholders' Meeting:

¥41 million to Directors ; ¥ 6 million to Statutory Auditors
(including ¥3 million to External Officers)

Amount recorded as Retirement Allowance for the current fiscal term:

¥59 million to Directors; ¥ 6 million to Statutory Auditors
(including ¥3 million to External Auditors)

(3) 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. and Director of The Tokyo Shoken Building Inc.

No special relationship exists between the Company and Kyowa Securities or The Tokyo Shoken Building Inc.

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., 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	11 out of 13	-
Yoshitake Kaneda, Statutory Auditor	12 out of 13	7 out of 7
Masahiko Kadotani, Statutory Auditor	10 out of 13	7 out of 7

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

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

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

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

appropriate management of the Board of Statutory Auditors.

c. Details of the Agreement on Limitation of Liability

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

5. Matters related to Independent Auditor:

(1) Name of Independent Auditor -

Toyo Horwath

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

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

25 million yen

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

25 million yen

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

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

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

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

6. Corporate structure and policies:

- (1) 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.

The Company resolved as follows regarding the partial amendment of the “Basic Principles on the Establishment of the Internal Control System” at the Board of Directors’ Meeting held on March 28, 2008.

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

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

- (1) Based on the “Code of Conduct” and “Compliance Regulations,” and by maintaining fair and high ethical principles and strictly adhering to laws, regulations, and the articles of incorporation, the Directors, Corporate Officers, and employees of the Company will work to secure a management structure on which the community can rely.
- (2) Based on “Compliance Regulations,” the Company will work to maintain a compliance structure and understand problematic issues.
- (3) If a problem related to compliance is discovered, the Company will work to solve and prevent the recurrence of the problem through the compliance hotline established in accordance with the “Internal Reporting Regulations.”
- (4) The Company will respond firmly against antisocial forces that jeopardize the order and safety of the civil society.

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

The Company will properly record documents related to the decision-making at the Board of Directors’ Meetings and other important meetings, approval documents, 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.

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

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

- (1) The Company will work to identify the risks existing in its departments and establish a set of “Risk Management Rules” to manage those risks comprehensively. Through these Rules, the Company will endeavor to achieve appropriate risk management by securing its capabilities to smoothly transmit information and maintain an emergency system.
 - (2) The Internal Audit Office will regularly conduct business audits, including an audit on the state of risk management in all departments, and report the results to the Representative Director and President and Statutory Auditors.
- 4) System to ensure the efficient performance of duties by the directors
- (1) The Company has implemented a Corporate Officer system in order to segregate the functions and responsibilities of management and business execution, to accelerate the process of decision-making, and to enhance the efficiency of management.
 - (2) Through the system for allocating Directors-in-charge, the system for job authorization, and the system for decision-making provided in various in-company regulations, including the “Regulations of the Board of Directors’ Meetings,” the “Regulations of the Corporate Officers’ Meetings,” and the “Rules on the Division of Authorities,” the Company will work to achieve the efficient execution of duties by its Directors.
 - (3) By formulating medium-term management plans and annual business plans, the Company will establish company-wide objectives to promote the efficient execution of business.
- 5) System to ensure the proper execution of business by the Company group made up of the Company and its subsidiaries
- (1) The Company dispatches its personnel to serve as Directors and Statutory Auditors of the subsidiaries. The Directors of the Company oversee the performance of the duties of the Directors of the subsidiaries, and the Statutory Auditors of the Company oversee the execution of business of the subsidiaries.
 - (2) The subsidiaries, in principle, will develop their own internal control systems while maintaining close coordination with the Company and sharing information with the Company.
 - (3) The Company has formulated a set of “Basic Principles for the Maintenance and Operation of Internal Control Related to Financial Reporting,” in order to secure reliable financial reporting. The Company has also established an “Internal Control Liaison Committee Related to Financial Reporting” to maintain a cooperative structure that cuts across the whole Company group for the purpose of realizing the aforesaid principles.

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

The Company has established an Auditors Office and deploys dedicated staff to the office to assist Statutory Auditors in matters related to auditing and the duties performed by the Statutory Auditors.

Employees are appointed and transferred to the Auditors Office to assist the Statutory Auditors, with the consent of the Statutory Auditors, and are assessed based sufficiently on the Statutory Auditors' views.

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

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

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

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

The Company resolved to implement “Measures against a Large-scale Purchase of the Company's Shares (Defensive Measures against Takeovers)” (hereinafter the “Plan”) as follows at the Ordinary General Shareholders' Meeting held on June 27, 2007.

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

The Company was established in 1947 (Showa 22) as the owner of assets and buildings of the Tokyo, Osaka, Nagoya and other stock exchanges, which perform and play the core function and role in Japan's financial market, and this year marks our 60th anniversary.

During all these years, under the management policy - “provision of a comfortable office environment and living space that is truly satisfactory to the people living in such space,” the Company has successfully expanded its business with many users' solid confidence in and high evaluation of the Company, in three core operations, namely, lease, sale, and asset development and securitization of real estate, by predicting trends of the future and responding to diversified users' needs at all times.

In addition, in November 2005, the Company developed, to further increase our corporate value and ensure the common interest of our shareholders, a medium-term management plan named “Growth 2009” for a three-year period to the fiscal term ending March 2009.

In this Plan, various measures for the continuous growth of our corporate value toward the future are presented, and the Company's commitment to utilizing its characteristics as a "company that supports the dynamism of the securities market" is clearly expressed. In particular, as for our building lease operation, a facility lease to stock exchanges forms its core. Needless to say, stock exchanges are the foundation of our financial market and are highly public organizations. Therefore, the Company, as a provider of their facilities, is expected to play and execute an important role and mission, that is to say, “to support the stock exchanges to maintain and improve their functions as a public organ in terms of facilities.” From this viewpoint, we are currently reconstructing the building of the Nagoya Stock Exchange, following Tokyo and Osaka Stock Exchanges.

Furthermore, we are committed to developing office buildings, commercial facilities, hotels, etc., in Kabuto-cho (Tokyo), Kitahama (Osaka) and Ise-machi (Nagoya) to revitalize the areas, expand our operations, and strengthen our profitability.

With increasingly diversified values of customers toward real estate, in the area of residential house development the Company has expanded its operations to its own residential house development in addition to sales of large scale condominiums in collaboration with other companies, and in the area of residential leasing, the Company is actively expanding into a new business area, namely “Collective House.”

In the area of asset development and securitization, the Company is not only pursuing development projects by utilizing securitization methods but also further expanding its fee business such as asset management. The Company is also undertaking the strategic development of private funds, such as the expansion of assets.

We strongly believe that the Company's commitment to the steady realization of our medium-term management plan through the leasing and selling of real estate and asset development and securitization in diverse ways will lead to an increase in corporate value and a subsequent increase in shareholder value of the Company, and consequently the Company will be able to respond to our stakeholders' strong confidence in the Company and contribute to maximizing their interest.

(Growth 2009)

1. Consolidated sales: 32,000,000,000 yen

2. Consolidated operating income: 10,000,000,000 yen
3. Consolidated ordinary income: 9,000,000,000 yen
4. Consolidated net income: 5,000,000,000 yen
5. EBITDA: over 14,000,000,000 yen
6. D/E ratio: less than 1.5 times
7. ROA: over 5.0%
8. ROE: over 7.0%

2. Objectives of introduction of the Plan

As stated earlier, the Company intends to further promote an increase of our corporate value and ensuring the common interest of our shareholders under a three-year medium-term management plan, “Growth 2009.” However, in recent years, we have seen cases where a large volume of shares was suddenly purchased without sufficient negotiation with the company. We believe that whether such offer of purchase of shares should be accepted should be finally determined by our shareholders, and that the Company should also accept such offer based on whether such purchase would result in higher corporate value and serve the common interest of our shareholders.

However, in order to make such decisions, it is necessary for the Company to thoroughly understand the objectives, conditions and other information about the purchase, examine whether such purchase will not damage our mission, corporate value and common interest of our shareholders of the Company, and express the Company’s view.

Therefore, the Company decided to introduce the Plan, which demonstrates in a clear and specific manner the procedures to be taken by the person who intends to purchase our shares, prior to executing actual purchasing activities.

The Plan aims to enable our shareholders to make a proper decision on the proposed purchase by ensuring the collection of information and an appropriate period necessary for the Board of Directors of the Company to examine the purchase proposal, including any alternate plan, and to prevent any large volume purchase with malicious intent that would damage our corporate value and the common interest of our shareholders.

The Plan was prepared in compliance with all relevant laws and regulations, legal precedents, regulations concerning the introduction of defense measures against takeovers provided by the Tokyo Stock Exchange, and “Guidelines concerning Defense Measures Against Takeover to Ensure or to Increase Corporate Value and the Common Interest of Shareholders” issued by the Ministry of Economy, Trade and Industry, and the Ministry of Justice.

3. Summary of the Plan

The Plan aims to require a person who intends to purchase a certain volume or more of our shares (as defined in “4. Purchase Procedures,” hereinafter referred to as the “Large Volume Purchaser”) to provide the Company with sufficient information in advance according to the procedures prescribed in “4. Purchase Procedures” (hereinafter referred to as the “Purchase Procedures”), and to ensure that the Company has sufficient time to examine based on such information whether the purchase by the Large Volume Purchaser should be accepted.

To achieve this goal, the Company may take countermeasures (however, there may be a case where the Company does not take such countermeasures), if: ① the Board of Directors of the Company considers that the Large Volume Purchaser does not or will not comply with the Purchase Procedures; or ② the Board of Directors of the Company considers that the purchase by the Large Volume Purchaser is for a wrongful purpose such as to significantly damage the corporate value or common interest of our shareholders of the Company. In making such decision, the Board of Directors of the Company will respect as much as possible any advice provided by a committee consisting of outside directors, outside statutory auditors of the Company and outside experts, (hereinafter referred to as the “Independent Committee”) who are independent of the top management of the Company who execute the operations of the Company.

The aforementioned countermeasures under the Plan shall be countermeasures permitted by laws and regulations and the Articles of Incorporation of the Company, including the allotment of stock acquisition rights without charge.

4. Purchase Procedures

(1) Definitions

Any purchase that falls under ① or ② below shall be referred to as the “Large Volume Purchase” and the person who proposes or undertakes such Large Volume Purchase shall be referred to as the “Large Volume Purchaser”:

- ① a purchase or any other type of acquisition of “share certificates, etc.” of the Company (*1) by a “holder” (*2) ,if the “holding ratio of share certificates, etc.” (*3) of the holder, combined with such ratio of its joint holder(s) (*4), becomes 20 percent or more after the purchase, etc; or
- ② a purchase of “share certificates, etc.” of the Company (*5) by “tender offer” (*6), if the “ratio of ownership of share certificates, etc.” (*7) of the tender offeror, combined with such ratio of its “person having special relationship” (*8), becomes 20 percent

or more after the tender offer.

- *1 Refers to “share certificates, etc.” as defined in Article 27-23, Paragraph 1, of the Securities and Exchange Law.
- *2 Refers to a “holder” as defined in Article 27-23, Paragraph 1, of the Securities and Exchange Law including a person deemed as a holder under Paragraph 3 of the same article (including a person who is recognized by the Board of Directors of the Company as a person falling under such definition)..
- *3 Refers to the “holding ratio of share certificates, etc.” as defined in Article 27-23, Paragraph 4, of the Securities and Exchange Law.
- *4 Refers to a “joint holder” as defined in Article 27-23, Paragraph 5, of the Securities and Exchange Law including a person deemed as a joint holder under Paragraph 6 of the same article (including a person who is recognized by the Board of Directors of the Company as a person falling under such definition)
- *5 Refers to the “share certificates, etc.” as defined in Article 27-2, Paragraph 1, of the Securities and Exchange Law.
- *6 Refers to the “tender offer” as defined in Article 27-2, Paragraph 6, of the Securities and Exchange Law.
- *7 Refers to the “ratio of ownership of share certificates, etc.” as defined in Article 27-2, Paragraph 8, of the Securities and Exchange Law (including a person who is recognized by the Board of Directors of the Company as a person falling under such definition).
- *8 Refers to a “person having a special relationship” as defined in Article 27-2, Paragraph 7, of the Securities and Exchange Law.

Unless otherwise provided for, the same shall apply hereunder.

(2) Provision of information by Large Volume Purchaser

Prior to the initiation of a Large Volume Purchase, a Large Volume Purchaser will be requested to provide the Board of Directors of the Company with a document stating that it will follow the Purchase Procedures (hereinafter referred to as the “Statement of Acceptance of Purchase Procedures”) and a document stating the matters stated in ① to ⑧ below (hereinafter referred to as the “Statement of Purchase Information”). The Large Volume Purchaser will be requested to prepare all such documents in Japanese. When the “Statement of Acceptance of Purchase Procedures” or the “Statement of Purchase Information” is provided, the matters the Board of Directors of the Company or the Independent Committee considers appropriate to be disclosed will be immediately disclosed to our shareholders.

The Board of Directors of the Company or the Independent Committee may request the Large Volume Purchaser to provide information stated in ⑧ within 10 business days after the receipt of the above two documents, and thereafter, the Board of Directors of

the Company and the Independent Committee may also request the Large Volume Purchaser to provide additional information, when necessary:

- ① details (including the name, address, contact in Japan, capital relationship, composition of finances, description of business and members) of the Large Volume Purchaser and all parties within its group (including major shareholders and investors, important subsidiaries, affiliated companies, joint holders and persons having a special relationship, and in the case of a fund, major partners, investors (whether direct or indirect) and other members, managing partners and persons who continuously provide investment advice);
- ② the purpose, method, contents (price and type of consideration of the Large Volume Purchase, time of purchase, structure of relevant transactions, legality of method of the Large Volume Purchase, feasibility of execution of the Large Volume Purchase, etc.) of the Large Volume Purchase;
- ③ if any communication is made with any third party other than the Large Volume Purchaser in relation to the Large Volume Purchase, information about the other party and the content of such communication;
- ④ the basis of calculation of the price for the Large Volume Purchase (including facts and assumptions on which the calculation is based, calculation method, information about the values used in the calculation, and the expected amount and the basis of calculation of synergy arising from the Large Volume Purchase);
- ⑤ financial backing of the funds for the Large Volume Purchase (including the specific name of the fund provider including real fund provider, method of raising funds, and information about relevant transactions);
- ⑥ the management policy, business plan, capital policy and dividend policy of the Company group after the Large Volume Purchase (including sale and swap of our shares, delisting, sale or withdrawal of business, change of business policy, sale of assets, changes in liabilities and changes in top management);
- ⑦ the policy on stakeholders (including employees, suppliers and customers) of our Company group after the Large Volume Purchase; and
- ⑧ all other information the Board of Directors of the Company or the Independent Committee reasonably considers necessary.

5. Decision of the Board of Directors of the Company

(1) Independent Committee

① Establishment of Independent Committee

In introducing the Plan, the Company will establish, to prevent any arbitrary judgment related to the execution of countermeasures or excessive countermeasures from being made or taken by the Board of Directors of the Company, the Independent Committee comprised of outside directors and outside statutory

auditors of the Company and/or outside experts (professionals such as attorneys and certified public accountants) who have significant insight on corporate management and are independent of the top management of the Company who execute the operation of the Company.

The number of members of the Independent Committee shall be 3 or more.

② Authority of Independent Committee, etc.

When the Board of Directors of the Company makes a decision on whether the allotment of stock acquisition rights without charge should be made as a countermeasure against the Large Volume Purchase, the Independent Committee shall examine and resolve on, among other issues, whether such Large Volume Purchase is in accordance with the Purchase Procedures and whether such Large Volume Purchase is intended to be made for a wrongful purpose, and shall present the results with reasons and grounds for such results to the Board of Directors of the Company, as advice to the Board. In making a decision on whether countermeasures should be taken, the Board of Directors of the Company will respect such advice presented by the Independent Committee as much as possible.

The period for the Independent Committee to perform the above examination is 60 business days from the day following the day all information is deemed by the Independent Committee to have been provided by the Large Volume Purchaser, provided that such examination period of the Independent Committee may be extended to a necessary extent within 30 business days, if any due reason to do so exists. During the above examination period of the Independent Committee, the Large Volume Purchaser will be required to refrain from commencing the Large Volume Purchase.

For details about the Independent Committee, please refer to Schedule 3, "Independent Committee Regulations" and Schedule 4, "Biographical Outline of Independent Committee Members."

(2) Where the Large Volume Purchaser fails to comply with Purchase Procedures

If the Independent Committee considers that the Large Volume Purchaser has failed or will fail to comply with the Purchase Procedures, unless it is apparent that to increase the corporate value or to ensure common interest of shareholders of the Company, it is necessary not to take any countermeasures, or unless specific circumstances exist, in principle, the Independent Committee will advise the Board of Directors of the Company to take countermeasures.

(3) Where the Large Volume Purchaser complies with the Purchase Procedures

If the Independent Committee considers that the Large Volume Purchaser is complying

with the Purchase Procedures, in principle, the Independent Committee will advise the Board of Directors of the Company not to take countermeasures, provided that, even if the Independent Committee considers that the Large Volume Purchaser is complying with the Purchase Procedures, the Independent Committee will advise the Board of Directors of the Company to take countermeasures if the Large Volume Purchase by the Large Volume Purchaser is deemed to be intended for a wrongful purpose such as to significantly damage the corporate value and common interest of shareholders of the Company. More specifically, if the Independent Committee considers that the Large Volume Purchase falls under any of the following, the Independent Committee will advise the Board of Directors of the Company to take countermeasures.

- ① In the case of a so-called “green mailer”. In other words, if the Large Volume Purchaser is intended to raise the share price of the Company’s shares and make the Company or its related parties buy them back.
- ② In the case of so-called “scorched-earth tactics”. In other words, the Large Volume Purchase is intended to temporarily take control of the management of the Company to acquire critical assets of the Company such as management know-how, trade secrets, main suppliers and customers at a low price, and consequently realize the management of the Company in a way beneficial to the Large Volume Purchaser at the cost of the Company.
- ③ Where the Large Volume Purchase is intended to use assets of the Company as collateral or source of repayment of debts of the Large Volume Purchaser.
- ④ Where the Large Volume Purchase is intended to dispose of real property, securities and other assets of the Company, to temporarily distribute high dividends based on profits earned therefrom, or to sell the shares of the Company after a rise of the share price due to such high return.
- ⑤ Where the Large Volume Purchase is likely to, in effect, force our shareholders to sell their shares, such as in the case of a so-called “coercive two-tier takeover scheme” (refers to a share purchase by way of tender offer that does not solicit a purchase of the entire shares at the initial stage but sets less favorable conditions or does not clearly set any conditions for the second stage, etc.).
- ⑥ Where conditions (the price and type of consideration to be paid and the basis of calculation of price of consideration), contents, time and method, etc. of the Large Volume Purchase by the Large Volume Purchaser are insufficient or inappropriate in the light of the corporate value of the Company.
- ⑦ Where by the acquisition of control of the Company by the Large Volume Purchaser, the corporate value of the Company including interest of our shareholders and other stakeholders including customers, suppliers and employees is expected to be significantly damaged or the maintenance and improvement of corporate value of the Company is expected to be significantly hindered; or, the corporate value of the Company that can be achieved in a medium- or long-term future in the case of

acquisition of control of the Company by the Large Volume Purchaser is apparently lower than that in the case of no acquisition of control of the Company by the Large Volume Purchaser.

- ⑧ Where the fact that the Large Volume Purchaser acquires control of the Company itself is expected to significantly damage the corporate value of the Company, such as a loss of major customers of the Company.
- ⑨ Where the acquisition of control of the Company by the Large Volume Purchaser is inappropriate in light of the maintenance of public order and morals such as the case where persons related to an anti-social group are included in the top management or major shareholders of the Large Volume Purchaser.
- ⑩ In the event of any other cases similar to the cases stated in the above ① to ⑨ where the Large Volume Purchase is deemed to cause significant damage to the corporate value or common interest of the shareholders of the Company.

6. Specific countermeasures under the Plan

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

For details on the allotment of stock acquisition rights without charge as a countermeasure under the Plan, please refer to Schedule 2, “Terms and Conditions of Stock Acquisition Rights.”

7. Disclosure of information

The Company will immediately disclose to our shareholders the content of advice presented by the Independent Committee to the Board of Directors of the Company explained in the above section 5(2) and 5(3) and the specifics of countermeasures under the Plan explained in the above section 6.

8. Effective term, abolishment and amendment of the Plan

The Plan will take effect as of the time the Plan is approved by a majority of the votes of shareholders present at the Ordinary General Shareholders’ Meeting to be held on June 27, 2007, and will continue to be in effect until the date of the Ordinary General Shareholders’ Meeting concerning the closing of accounts for the 2008 fiscal year (scheduled to be held in June 2009), provided that even during this effective term, the Plan may be abolished if a resolution to abolish the Plan is adopted at the General Shareholders’ Meeting of the Company or such resolution is adopted at a meeting of the Board of Directors of the

Company.

In the event that, during the effective term of the Plan, any amendment to any of the provisions of or definitions of the terms used in the Plan becomes necessary due to implementation of, amendments to, or abolishment of laws and regulations or rules of securities exchanges, the Board of Directors of the Company may amend the affected provisions of or definitions of the terms used in the Plan to a reasonable extent in consideration of the purpose of such implementation, amendments or abolishment.

If the Plan is abolished or amended, the Company will immediately disclose such fact to our shareholders.

9. Effects on our shareholders and investors

(1) Effects at the time of introduction of the Plan

There will be no allotment of stock acquisition rights at the time of introduction of the Plan. Therefore, there will be no specific effects on the rights and interest of our shareholders and investors.

(2) Effects at the time of execution of countermeasures under the Plan (at the time of allotment and exercise of stock acquisition rights)

In the event that a resolution to allot stock acquisition rights without charge as a countermeasure is adopted, the Company will publicly announce the record date for allotment and allot stock acquisition rights without charge to the shareholders listed or recorded on the last register of shareholders or the last register of beneficial shareholders as of the recorded date, and thus, shareholders who have not completed a transfer of their shares are required to take share transfer procedures in a prompt manner.

At the time of allotment of stock acquisition rights, stock acquisition rights will be allotted without charge to each of our shareholders as of the allotment date that will be separately determined by the Board of Directors of the Company, at a rate of 1 share acquisition right per common share held by the shareholder. In this case, those who fall under the exception clause, such as a Large Volume Purchaser who committed any violation of the Plan and those who have certain relationship with such Large Volume Purchaser, may not exercise stock acquisition rights. As a result, the exercise of stock acquisition rights by other shareholders is likely to adversely affect the legal rights or economic interest of the Large Volume Purchaser. In addition, if some shareholders do not take prescribed procedures in exercising their stock acquisition rights within the

period during which the stock acquisition rights may be exercised, then the exercise of stock acquisition rights by other shareholders is likely to adversely affect the legal rights to or economic interest of the said shareholder.

If the Company elects to apply the provision allowing the Company to acquire stock acquisition rights in exchange for the shares of the Company, our shareholders are not required to take any procedures for the exercise of their stock acquisition rights.

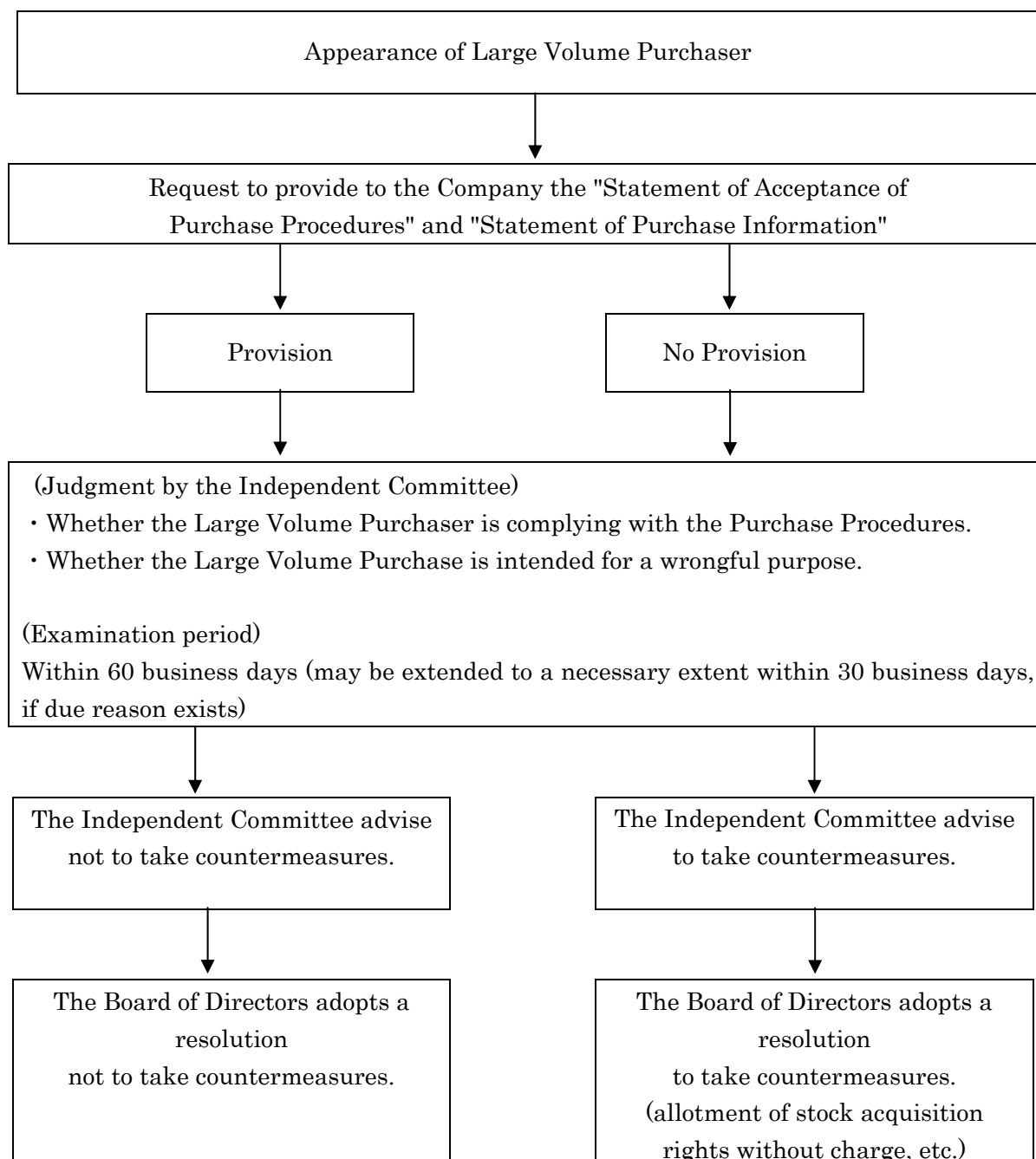
In the event that the Board of Directors of the Company adopts a resolution to allot stock acquisition rights without charge as a countermeasure, if, after shareholders to whom stock acquisition rights are to be allotted without charge are determined, the Company cancels to allot stock acquisition rights or acquires without charge stock acquisition rights that were allotted without charge, due to, for example, withdrawal of the Large Volume Purchase by the Large Volume Purchaser, there will be no resulting dilution of value per share, and thus, investors who purchased or sold shares of the Company on the assumption that dilution of value per share would occur might incur damages due to fluctuation of share value.

- Schedule 1 Contents of the Plan (Flowchart in the case of initiation of Large Volume Purchase)
- Schedule 2 Terms and Conditions of Stock acquisition rights
- Schedule 3 Independent Committee Regulations
- Schedule 4 Biographical Outline of Independent Committee Members

Note: The Securities and Exchange Law was renamed to the Financial Instruments and Exchange Act and was enforced on September 30, 2007.

Schedule 1

Contents of the Plan (Flowchart in the case of initiation of Large Volume Purchase)



Note:

The above flowchart was prepared to make it easier to understand the "Measures against large volume purchase activities of the shares of the Company (defense measures against takeover). "

For details, please refer to the main text of the above notice.

Terms and Conditions of Stock Acquisition Rights

I. Description of the Stock Acquisition Rights

- (a) Type and number of shares for which the Stock Acquisition Rights are issued
The type of shares for which the Stock Acquisition Rights are issued shall be common shares of the Company. The total number of shares for which the Stock Acquisition Rights are issued shall be equal to the final aggregate number of the issued shares (that is, the number of the outstanding shares excluding the number of common shares of the Company held by the Company) as of the recorded date for allotment which shall be separately determined by the Board of Directors of the Company.
- (b) Issue price of each Stock Acquisition Rights
Each Stock Acquisition Rights shall be issued without charge.
- (c) Value of assets to be contributed upon exercise of each Stock Acquisition Rights
The value of assets to be contributed upon the exercise of each Stock Acquisition Rights shall be 1 yen.
- (d) Capital increase when new shares are issued upon the exercise of the Stock Acquisition Rights and capital reserve
As separately determined by the Board of Directors of the Company.
- (e) Restrictions on transfer of the Stock Acquisition Rights
A transfer of the Stock Acquisition Rights requires the approval of the Board of Directors of the Company.
- (f) Conditions for exercise of the Stock Acquisition Rights
- 1) Any person who falls under any of the following may not exercise the Stock Acquisition Rights:
 - ① a Large Volume Purchaser (Note 1);
 - ② a joint holder of a Large Volume Purchaser (Note 2);
 - ③ a person having a special relationship with a Large Volume Purchaser (Note 3);
 - ④ where the Stock Acquisition Rights are transferred or succeeded from a person who falls under any of the above ① to ③ without the approval of the Board of Directors of the Company, a person to whom or by whom the Stock Acquisition Rights are transferred; and
 - ⑤ a person related to a person who falls under any of the above ① to ④ (refers to a person who is recognized by the Board of Directors of the Company as a person

who substantially controls, is controlled by, is jointly controlled with, a Large Volume Purchaser, or a person who is recognized by the Board of Directors of the Company as a person who acts in collaboration with a Large Volume Purchaser).

Note 1: A "Large Volume Purchaser" shall refer to: 1) a holder (refers to a "holder" as defined in Article 27-23, Paragraph 1, of the Securities and Exchange Law, including a person deemed as a holder under Paragraph 3 of the same article of the said Law (including a person who is recognized by the Board of Directors of the Company as a person falling under such definition)) of the "share certificate, etc." (as defined in Article 27-23, Paragraph 1, of the said Law) of the Company, if the "holding ratio of share certificates, etc." (as defined in Article 27-23, Paragraph 4, of the said Law) of the holder, combined with such ratio of its joint holder (as defined in Note 2 below), has become or is deemed by the Board of Directors of the Company to have become 20 percent or more; or 2) the person who purchase "share certificates, etc." of the Company (a defined in Article 27-2, Paragraph 1) by "tender offer" (as defined in Article 27-2, Paragraph 6), if the "ratio of ownership of share certificates, etc." (as defined in Article 27-2, Paragraph 8) of the tender offeror, combined with such ratio of its "person having special relationship" (as defined in Note 3 below), becomes 20 percent or more after the tender offer.

Note 2: A "joint holder" shall refer to a "joint holder" as defined in Article 27-23, Paragraph 5, of the Securities and Exchange Law including a person who is deemed to be a joint holder under Paragraph 6 of the same article of the said Law (including a person who is recognized by the Board of Directors of the Company as a person falling under such definition).

Note 3: A "person having a special relationship" shall refer to a "person having a special relationship" as defined in Article 27-2, Paragraph 7, of the Securities and Exchange Law (including a person who is recognized by the Board of Directors of the Company as a person falling under such definition).

- 2) In exercising the Stock Acquisition Rights, in the event that a person residing in a foreign jurisdiction is required under applicable foreign laws and regulations, to: ① perform prescribed procedures; ② satisfy prescribed conditions (including prohibition of exercise of such Stock Acquisition Rights for a certain period of time and submission of prescribed documents); or ③ to do both (hereinafter collectively referred to as "Procedures and Conditions under the Governing Law"), the person residing in such jurisdiction may exercise the Stock Acquisition Rights only after all Procedures and Conditions under the Governing Law are performed or satisfied, provided, however, that the Company shall have no obligation to perform or satisfy the Procedures and Conditions under the Governing Law that are required to be performed or satisfied by

the Company to enable the person residing in such jurisdiction to exercise the Stock Acquisition Rights. In the event that a person residing in such jurisdiction is not permitted to exercise the Stock Acquisition Rights under the said laws and regulations, the person residing in such jurisdiction may not exercise the Stock Acquisition Rights.

- 3) Notwithstanding the above 2), a person residing in the United States may exercise the Stock Acquisition Rights only if: ① the person represents and warrants to the Company that it is an accredited investor as defined in the U.S. Securities Act of 1933, Rule 501(a); and ② the person pledges to the Company that common shares of the Company which the person will become to own by exercising the Stock Acquisition Rights held by it will be transferred only through a regular transaction (without any prior arrangement and without any prior soliciting) at the Tokyo Stock Exchange. Only in such case, the Company will perform or satisfy the Procedures and Conditions under the Governing Law relating to the U.S. Securities Act of 1933, Regulation D and relevant U.S. state laws that are required to be performed or satisfied by the Company to enable the person residing in the United States to exercise the Stock Acquisition Rights. Notwithstanding the foregoing, if, due to amendments to the relevant laws and regulations of the United States or for any other reasons, the Board of Directors of the Company considers that the Company should not permit a person residing in the United States to legally exercise the Stock Acquisition Rights under the U.S. Securities Act even if the person satisfies the requirements stipulated in the above ① and ②, the person residing in the United States may not exercise the Stock Acquisition Rights.
- 4) Even if a person who holds the Stock Acquisition Rights is unable to exercise the Stock Acquisition Rights pursuant to the above 1) to 3), in no event shall the Company be held liable for damages nor does it assume any responsibility to the person holding the Stock Acquisition Rights.

(g) Exercise period of the Stock Acquisition Rights

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

(h) Acquisition of Stock Acquisition Rights by the Company

The Company may, by a resolution of the Board of Directors of the Company, acquire the Stock Acquisition Rights held by a person who does not fall under any of the provisions of the above (f) 1) ①-⑤, by issuing 1 common share of the Company for 1 Stock Acquisition Rights, on the day designated by the Board of Directors of the Company, which shall occur within the period from the effective date of the allotment of the Stock Acquisition Rights without charge to the expiration of the exercise period of the Stock Acquisition Rights.

- (i) Issuance of Stock Acquisition Rights in the case of merger, corporate division, share exchange and share transfer and conditions therefor
As separately determined by the Board of Directors of the Company.
- (j) Restrictions on the issuance of new Stock Acquisition Rights certificates
No certificates shall be issued for the Stock Acquisition Rights.
- (k) Reasons for the cancellation of Stock Acquisition Rights, etc.
No reasons and conditions for cancellation of the Stock Acquisition Rights shall be prescribed.

II. Number of Stock Acquisition Rights allotted to shareholders

The Stock Acquisition Rights shall be allotted without charge to each of the shareholders listed or recorded on the last register of shareholders or the last register of beneficial shareholders as of the recorded date for allotment that shall be separately determined by the Board of Directors of the Company, at a rate of 1 Stock Acquisition Rights per common share of the Company (excluding common shares of the Company owned by the Company) owned by such shareholder.

III. Effective date of allotment of the Stock Acquisition Rights without charge

As separately determined by the Board of Directors of the Company.

IV. Amendments due to amendments to laws and regulations, etc.

In the event that any amendment to any of the above provisions, definitions of the terms used, etc., becomes necessary due to implementation of, amendments to or abolishment of relevant laws and regulations, the affected provisions or definitions, etc. shall be amended to the reasonable extent to properly reflect such changes in consideration of the purpose of such implementation, amendments or abolishment.

The End.

HEIWA REAL ESTATE CO., LTD. INDEPENDENT COMMITTEE REGULATIONS

Article 1 (Objective)

1. The Independent Committee shall be established, in the case where a large volume of shares of the Company are to be purchased or were purchased, to: determine, from a fair, neutral and independent perspective, whether the Large Volume Purchaser who intends to purchase or purchased such large volume of shares are complying or complied with the Purchase Procedures and whether such Large Volume Purchase is or was made for a wrongful purpose such as to damage the corporate value of the Company or the Company's shareholders' common interest; advise the Board of Directors as to whether it is appropriate for the Board of Directors to take countermeasures against such Large Volume Purchase including the allotment of stock acquisition rights without charge; and prevent any arbitrary judgment or excessive countermeasures from being made or taken by the Board of Directors of the Company.
2. Unless otherwise expressly stipulated, the terms used in these Regulations shall have the same meanings as defined in the Plan (refers to the "Measures against large volume purchase activities of the shares of the Company (defense measures against takeover)," which was adopted at a meeting of the Board of Directors of the Company and approved by the General Shareholders' Meeting of the Company).

Article 2 (Establishment)

The Independent Committee shall be established by the Board of Directors of the Company.

Article 3 (Organization)

1. The Independent Committee shall be composed of all members of the Independent Committee.
2. The number of members of the Independent Committee shall be 3 or more.
3. The members of the Independent Committee shall be appointed by the Board of Directors from the outside directors of the Company, outside statutory auditors of the Company and outside experts (professionals such as attorneys and certified public accountants) who satisfy the following requirements:
 - (1) a person who is not or was not a director (excluding outside directors, hereinafter the same), statutory auditor (excluding outside statutory auditors, hereinafter the same), etc., of the Company or any subsidiary or affiliated company of the Company (hereinafter collectively referred to as the "Company, Etc.");
 - (2) a person who is not or was not a close relative of a director or statutory auditor of the Company, Etc., and
 - (3) a person who has no special interest in the Company, Etc.

4. A member of the Independent Committee shall be a person who entered into an agreement separately designated by the Board of Directors of the Company containing, among other provisions, the provision concerning the duty of care of a prudent manager.

Article 4 (Term)

The term of a member of the Independent Committee shall be until the end of the second General Shareholders' Meeting from his/her appointment, unless any of the following paragraphs is applicable. If:

- (1) the effective term of the Plan expires for the first time after the assumption of office;
or
- (2) a member of the Independent Committee who is an outside director or an outside statutory auditor of the Company ceases to be a director or a statutory auditor.

Article 5 (Duties)

1. The Independent Committee shall discuss and resolve the following issues based on the information stated in the Statement of Purchase Information submitted by a Large Volume Purchaser to the Board of Directors of the Company, and, within 60 business days from the following day of the day the provision of information from the Large Volume Purchaser is completed (such period may be extended to a necessary extent within 30 business days, if any due reason exists), provide advice to the Board of Directors of the Company on:
 - (1) whether such Large Volume Purchase is or was made for a wrongful purpose such as to significantly damage the corporate value of the Company or the Company's shareholders' common interest;
 - (2) whether stock acquisition rights should be allotted without charge; and
 - (3) any other matters related to the Plan to be determined by the Board of Directors on which the Independent Committee is consulted by the Board of Directors of the Company.
2. In providing advice under the preceding paragraph, the Independent Committee shall present its views in the light of whether the matter is beneficial to the corporate value and the common interest of shareholders of the Company, and shall not attempt to forward the personal interests of the members or any of the directors of the Company.
3. In addition to the matters stipulated in each sub-paragraph of Paragraph 1, the Independent Committee shall perform the following duties:
 - (1) determine the timing and content of disclosure of information concerning the Plan to the shareholders, including information obtained from the Large Volume Purchaser and decisions of the Independent Committee and the Board of Directors of the Company;
 - (2) determine the information which should be provided to the Independent Committee by the Large Volume Purchaser and the Board of Directors of the Company and the time

- limit for the submission of a response;
- (3) provide judgment on whether the Large Volume Purchaser is complying with the Purchase Procedures; and
 - (4) proceed with other matters that are allowed to be dealt with by the Independent Committee according to the Plan.
4. In the event that the Independent Committee considers that the contents of the Statement of Purchase Information is not sufficient, the Independent Committee may request, by itself or through the Board of Directors of the Company, the Large Volume Purchaser to submit additional information.
 5. In the event that the Statement of Purchase Information, or any additional information requested by the Board of Directors of the Company or the Independent Committee, is submitted by the Large Volume Purchaser, the Independent Committee may, within the designated reasonable period, request the Board of Directors of the Company to submit, among other things, opinions concerning the Large Volume Purchase by the Large Volume Purchaser and their supporting materials, and information and materials the Independent Committee consider necessary such as an alternative plan.
 6. The Independent Committee may, to collect necessary information, request any director, statutory auditor, employee of the Company or any other person the Independent Committee considers necessary, to attend a meeting and provide explanations about the matters inquired by the Independent Committee.
 7. The Independent Committee may, at the cost of the Company, obtain advice from an independent third party (professionals such as investment banks, securities companies, financial advisors, attorneys and certified public accountants).

Article 6 (Convening)

1. Each member of the Independent Committee and the Board of Directors of the Company may convene a meeting of the Independent Committee when a Large Volume Purchase occurred, or at any other time.
2. A notice of the convening of a meeting of the Independent Committee shall be transmitted to each member of the Independent Committee at least 3 days before the date of the meeting, provided, however, that such period may be shortened in the case of emergency.
3. A meeting of the Independent Committee may be convened without the convening procedure stipulated in the preceding paragraph, if unanimous consent of all the members of the Independent Committee is obtained.

Article 7 (Chairperson)

1. The person designated in advance by the Independent Committee shall serve as the Chairperson of the Independent Committee.
2. In the case where the person stipulated in the preceding paragraph is unable to chair the meeting, another member of the Independent Committee who is selected in accordance

with the sequence predetermined by the Independent Committee shall act on his/her behalf.

Article 8 (Method of Resolution)

1. A resolution of a meeting of the Independent Committee shall be adopted by a majority of the votes of members present at the meeting at which all members of the Independent Committee are present, provided, however, that if any member of the Independent Committee is unable to attend the meeting due to accident or any other unavoidable reason, a resolution may be adopted at the meeting at which a majority of members of the Independent Committee are present by a majority of the votes of members present.
2. In the event that any member of the Independent Committee is unable to attend a meeting of the Independent Committee, such member shall, in principle, notify the Secretariat in writing thereof and the reason therefor at least 1 day before the date of the meeting.
3. Any member of the Independent Committee who has special interest in the matter to be resolved at a meeting of the Independent Committee shall not vote on such resolution.
4. The Independent Committee shall promptly advise the Board of Directors of the Company the result of resolutions and reasons therefor.
5. The Board of Directors of the Company shall, in making the final decision, respect the advice of the Independent Committee stipulated in the preceding paragraph as much as possible.

Article 9 (Minutes)

Two copies of minutes stating a summary of proceedings and results of the items discussed at a meeting of the Independent Committee shall be prepared, and members of the Independent Committee present at the meeting shall affix their signatures and seals.

Article 10 (Disclosure of information to shareholders, etc.)

A summary of the matters advised by the Independent Committee shall be disclosed at the time of disclosure of resolutions of a meeting of the Board of Directors of the Company related to such matters.

Article 11 (Amendment and Abolishment)

Amendments and abolishment of these Regulations shall be made by a resolution of the Board of Directors of the Company.

[Supplementary Provisions]

These Regulations shall take effect as from June 27, 2007.

The End.

Schedule 4

Biographical Outline of Independent Committee Members

< Outside Director >

Kaoru Umehara

(Business Experience)

July 2004: Governor, Japan Securities Dealers Association
June 2004: Auditor, Jasdaq Securities Exchange, Inc.
July 1999: Chairperson, Association of Tokyo Stock Exchange Regular Members
June 1998-Present: Outside Director, Heiwa Real Estate Co., Ltd.
November 1981-Present: President, Kyowa Securities Co., Ltd.
November 1960: Director, Kyowa Securities Co., Ltd.
April 1957: Joined Kyowa Securities Co., Ltd.

< External Statutory Auditor >

Yoshitake Kaneda

(Business Experience)

August 2005-Present: Director, Japan Securities Research Institute
June 2005-Present: External Statutory Auditor, Heiwa Real Estate Co., Ltd.
June 2004: Director, Osaka Securities Exchange Co., Ltd.
June 2002: Auditor, Osaka Securities Exchange Co., Ltd.
February 2001: Manager of Investigation Department, Osaka Securities Exchange Co., Ltd.
April 1969: Joined Osaka Securities Exchange

< External Statutory Auditor >

Masahiko Kadotani

(Business Experience)

June 2006-Present: External Statutory Auditor, Heiwa Real Estate Co., Ltd.
June 2004-Present: Auditor, Mizuho Financial Group, Inc.
January 2000: Adviser, The Industrial Bank of Japan, Limited
December 1994: President, Japan Finance Corporation for Small and Medium Enterprise
June 1990: Commissioner, National Tax Agency Japan
June 1988: Head of the Securities Bureau, Ministry of Finance Japan
June 1983: Director of Tokai Local Finance Bureau, Ministry of Finance Japan
April 1958: Joined Ministry of Finance Japan

* For the time being the Independent Committee consists of those 3 members listed above. The number of the member will be increased as needed.

CONSOLIDATED BALANCE SHEET

MARCH 31, 2008

ASSETS

(In millions of yen)

Current assets:	
Cash and deposits	¥3,184
Accounts receivable – trade	1,462
Marketable securities	2,568
Real estate for sale	18,500
Suspense account for real estate for sale	29,963
Beneficiary right of real estate in trust	13,153
Expenditure for construction in progress	0
Merchandise	3
Operating investment	7,179
Deferred tax assets	49
Prepaid expenses	354
Short-term loans	118
Accounts receivable – other	2,107
Other current assets	37
Allowance for doubtful accounts	(55)
Total current assets	<u>78,628</u>
Fixed assets:	
Tangible fixed assets -	
Buildings and building fixtures	80,633
Structures	531
Machinery and equipment	656
Vehicles	12
Furniture and fixtures	483
Land	119,883
Construction in progress	2
Total tangible fixed assets	<u>202,202</u>
Intangible fixed assets -	
Leasehold rights	5,681
Other intangible assets	105
Total intangible fixed assets	<u>5,787</u>
Investments and other assets -	
Investment in securities	9,810
Investment in partnerships	3
Deferred tax assets	652
Other investments	1,509
Allowance for doubtful accounts	(0)
Total investments and other assets	<u>11,975</u>
Deferred assets -	
Bond-issuing expenses	135
Total deferred assets	<u>135</u>
Total fixed assets	<u>219,964</u>
Total assets	<u><u>298,728</u></u>

CONSOLIDATED BALANCE SHEET

MARCH 31, 2008

LIABILITIES AND SHAREHOLDERS' EQUITY

(In millions of yen)

<u>Liabilities</u>	
Current liabilities:	
Notes payable	¥1,562
Accounts payable – trade	1,929
Current portion of bonds	1,170
Short-term loans payable	24,850
Current portion of long-term loans	6,910
Accounts payable – other	73
Accrued corporation and other taxes	84
Accrued consumption taxes	49
Deferred tax liabilities	13
Accrued expenses	245
Advances received-construction in progress	3
Advances received	1,873
Short-term deposits received	534
Accrued bonuses for directors and statutory auditors	54
Accrued bonuses	241
Total current liabilities	<u>39,595</u>
Long-term liabilities:	
Bonds	60,000
Convertible bonds (with stock acquisition rights)	20,000
Long-term loans payable	78,850
Deposits received	4,117
Deposits of landlord	18,609
Deferred tax liabilities	28
Deferred tax liabilities concerning revaluation	6,192
Reserve for retirement allowances for directors and statutory auditors	431
Accrued severance indemnities for employees	445
Negative goodwill	3
Total long-term liabilities	<u>188,677</u>
Total liabilities	<u>228,272</u>
<u>Net Assets</u>	
Shareholders' equity:	
Common stock	15,238
Additional paid-in capital	13,466
Retained earnings	30,897
Treasury stock, at cost	(340)
Total shareholders' equity	<u>59,262</u>
Valuation and translation adjustments:	
Unrealized gain on securities	(859)
Revaluation surplus of land	9,025
Total valuation and translation adjustments	<u>8,165</u>
Minority shareholders' equity	<u>3,027</u>
Total net assets	<u>70,456</u>
Total liabilities and net assets	<u><u>298,728</u></u>

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

FROM: APRIL 1, 2007

TO: MARCH 31, 2008

(In millions of yen)

Operating revenue -	
Building leasing income	¥17,717
Revenue from housing business	5,752
Revenue from asset development and securitization	5,423
Other operating revenue	2,490
Total operating revenue	<u>31,384</u>
Cost of sales -	
Cost of building leasing	9,550
Cost of housing business	4,369
Cost of asset development and securitization	2,867
Other operating cost	1,693
Total operating cost	<u>18,480</u>
Gross profit	12,903
Selling, general and administrative expenses	<u>3,698</u>
Operating income	9,205
Non-operating income -	
Interest income and dividends earned	185
Amortization of negative goodwill	1
Equity in net income of affiliates	45
Gain on investment in partnerships	52
Miscellaneous non-operating income	24
Total non-operating income	<u>309</u>
Non-operating expenses -	
Interest on debentures	873
Interest expense	1,414
Amortization of bond-issuing expenses	18
Miscellaneous non-operating expenses	31
Total non-operating expenses	<u>2,338</u>
Ordinary income	7,176
Special gains-	
Reversal of allowance for doubtful accounts	0
Gain on sales of fixed assets	338
Gain on sale of investment securities	9
Reversal of accrued bonuses	0
Total special gains	<u>349</u>
Special losses -	
Loss on sales of fixed assets	48
Loss on disposal of fixed assets	599
Dismantling expense of buildings and building fixtures	160
Loss on revaluation of investment securities	71
Total special losses	<u>878</u>
Income before income taxes	6,646
Corporation, inhabitants and enterprise taxes	214
Deferred income taxes	2,548
Minority interests	146
Net income	<u>3,737</u>

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

FROM: APRIL 1, 2007
TO: MARCH 31, 2008

(In millions of yen)

	Shareholders' equity				
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2007	14,935	13,162	31,726	(284)	59,540
Change during the period					
Issuance of stock	303	303			606
Distribution of surplus			(1,751)		(1,751)
Net income			3,737		3,737
Decrease resulting from increase of the number of consolidated subsidiaries			(113)		(113)
Acquisition of treasury stock				(55)	(55)
Reversal of revaluation surplus of land			(2,701)		(2,701)
Net change in items other than shareholders' equity during the period					
Total change during the period	303	303	(829)	(55)	(278)
Balance as of March 31, 2008	15,238	13,466	30,897	(340)	59,262

(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, 2007	1,104	6,323	7,428	45	67,014
Change during the period					
Issuance of stock					606
Distribution of surplus					(1,751)
Net income					3,737
Decrease resulting from increase of the number of consolidated subsidiaries					(113)
Acquisition of treasury stock					(55)
Reversal of revaluation surplus of land					(2,701)
Net change in items other than shareholders' equity during the period	(1,964)	2,701	737	2,982	3,720
Total change during the period	(1,964)	2,701	737	2,982	3,441
Balance as of March 31, 2008	(859)	9,025	8,165	3,027	70,456

NOTES TO 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:

Consolidated subsidiaries: 10

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

The significance of Cassiopeia Investment Y.K, STAR 1 REALTY Y.K, and STAR 2 REALTY Y.K increased, and Charites Y.K acquired the interests of an anonymous partnership contribution. As a result, these companies are included in the Company's scope of consolidation from this consolidated fiscal year.

Because Housing Service Co., Ltd. became a subsidiary by share acquisition in this consolidated fiscal year, it was included in the scope of consolidation.

(2) Basis of applying the equity method:

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

Because Cassiopeia Investment, Y.K became influential within the Group, it was included in the scope of consolidation 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.

(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.

(Additional Information)

With regard to assets acquired on or before March 31, 2007, the difference between the amount equal to 5% of the acquisition cost and the memorandum value will be depreciated on a straight-line basis over a period of five years starting from the consolidated fiscal year following the consolidated fiscal year when the accumulated depreciation reaches 5% of the acquisition cost resulting from depreciation under the former Corporate Tax Law, in accordance with the amendment of the Corporate Tax Law.

As a result, operating income and ordinary income each decreased by ¥143 million. Income before income taxes decreased by ¥142 million.

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) Method of accounting of deferred assets:

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

(6) Principles for providing accruals and reserves:

1) Allowance for doubtful accounts -

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

2) Accrued bonuses for directors and statutory auditors-

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

3) Accrued bonuses -

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

4) 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. Accrued severance indemnities for employees are not calculated at any consolidated subsidiary that has a defined contribution retirement plan.

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

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) Changes in depreciation of tangible fixed assets -

In accordance with the amendment of the Corporate Tax Law, tangible fixed assets acquired on or after April 1, 2007 are depreciated using the depreciation method stipulated in the amended Corporate Tax Law, from this consolidated fiscal year onward.

As a result, operating income, ordinary income, and income before income taxes each decreased by ¥106 million.

2) Accounting for deferred assets (Bond issue expenses) -

Previously, bond issue expenses were all charged to income upon expenditure. From this consolidated fiscal year, the Company adopts the “Tentative Solution on Accounting for Deferred Assets” (Accounting Standards Board of Japan, PITF No. 19, August 11, 2006) and changes to the method whereby bond issue expenses are amortized using the straight-line method over a period until redemption. As a result, ordinary income and income before income taxes each increased by ¥135 million, compared with the previous method.

(10) Changes of presentation:

1) Presentation of negotiable deposits -

Negotiable deposits, which formerly were included in “Cash and Deposits” (¥1,300 million for this consolidated fiscal year), are presented in “Marketable securities” from this consolidated fiscal year in accordance with the revision of the “Practical Guidelines on Accounting Standards for Financial Instruments (Accounting System Committee Report No. 14, July 4, 2007 (finally amended)) and the “Q & A on Accounting Standards for Financial Instruments (Accounting System Committee, November 6, 2007 (finally amended)). In addition, the balance of negotiable deposits, an item included in “Cash and Deposits” at the end of the previous consolidated fiscal year, was ¥1,100 million.

2) Investments for development and sale of real estate -

Investments for development and sale of assets, which were formerly included in “Investment in securities,” are presented in “Operating investments” from this consolidated fiscal year. In addition, the balance of “Operating investments,” an item included in “Investment in securities” at the end of the previous consolidated fiscal year, was ¥1,251 million.

(Additional Information)

Change in purposes holding assets -

¥9,405 million of “Land” and “Furniture and fixtures,” an amount formerly stated in fixed assets, was transferred to “Real estate for sale” at the end of this consolidated fiscal year due to a change in the purpose of holding the assets.

3. Notes to the consolidated balance sheet

(1) Pledged assets

1) Assets pledged as collateral

Real estate for sale	¥6,932 million
Suspense account for real estate for sale	¥3,463 million
Beneficiary right of real estate in trust	¥12,349 million
Buildings and building fixtures	¥7,957 million
Land	¥19,009 million
Total	¥49,711 million

2) Secured liabilities

Current portion of long-term loans	¥3,640 million
Long-term loans payable	¥17,210 million
Deposits received	¥3,405 million
Deposits of landlord	¥2,293 million
Total	¥26,549 million

(2) Accumulated depreciation of tangible fixed assets ¥51,644 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.	¥467 million
Total	¥467 million

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

(1) Issued shares

Common stock	147,084,095 shares
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(2) Treasury stock

Common stock	578,396 shares
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(3) Distribution of surplus

1) Payments of dividends

a. The following was resolved and approved at the Ordinary General Shareholders' Meeting held on June 27, 2007.

Distribution of common stock

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

b. The following was resolved the meeting of the Board of Directors held on October 31, 2007.

Distribution of common stock

• Total amount of distribution	¥1,024 million
--------------------------------	----------------

• Distribution per share	¥7
• Record date	September 30, 2007
• Effective date	December 3, 2007

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 Shareholders' Meeting to be held on June 26, 2008.

Distribution of common stock

• Total amount of distribution	¥732 million
• Resource of distribution	Retained earnings
• Distribution per share	¥5
• Record date	March 31, 2008
• Effective date	June 27, 2008

5. Per share data

(1) Net assets per share	¥460.24
(2) Net income per share	¥25.56

6. Subsequent events

Not applicable.

NON-CONSOLIDATED BALANCE SHEET

MARCH 31, 2008

ASSETS

(In millions of yen)

Current assets:	
Cash and deposits	¥1,426
Accounts receivable – trade	1,298
Marketable securities	2,522
Real estate for sale	18,500
Suspense account for real estate for sale	29,963
Operating investment	6,915
Prepaid expenses	345
Short-term loans	107
Accounts receivable – other	2,073
Other current assets	18
Allowance for doubtful accounts	(55)
Total current assets	<u>63,116</u>
Fixed assets:	
Tangible fixed assets -	
Buildings and building fixtures	79,294
Structures	505
Machinery and equipment	656
Vehicles	8
Furniture and fixtures	449
Land	116,684
Construction in progress	2
Total tangible fixed assets	<u>197,602</u>
Intangible fixed assets -	
Leasehold rights	5,803
Other intangible assets	44
Total intangible fixed assets	<u>5,848</u>
Investments and other assets -	
Investment in securities	9,361
Investment in securities of affiliates	1,602
Capital investment in affiliates	3,470
Investment in partnerships	2
Deferred tax assets	441
Other investments	1,400
Allowance for doubtful accounts	(0)
Total investments and other assets	<u>16,278</u>
Deferred assets -	
Bond-issuing expenses	135
Total deferred assets	<u>135</u>
Total fixed assets	<u>219,730</u>
Total assets	<u><u>282,981</u></u>

NON-CONSOLIDATED BALANCE SHEET

MARCH 31, 2008

LIABILITIES AND SHAREHOLDERS' EQUITY

(In millions of yen)

<u>Liabilities</u>	
Current liabilities:	
Notes payable	¥1,562
Accounts payable – trade	1,429
Current portion of bonds	1,170
Short-term loans payable	24,600
Current portion of long-term loans	6,910
Accounts payable – other	66
Accrued expenses	200
Deferred tax liabilities	13
Advances received	1,753
Short-term deposits received	468
Accrued bonuses for directors and statutory auditors	48
Accrued bonuses	188
Total current liabilities	<u>38,412</u>
Long-term liabilities:	
Bonds	60,000
Convertible bonds(with stock acquisition rights)	20,000
Long-term loans payable	67,800
Long-term deposits received	22,640
Deferred tax liabilities concerning revaluation	6,192
Reserve for retirement allowances for directors and statutory auditors	360
Accrued severance indemnities for employees	438
Total long-term liabilities	<u>177,432</u>
Total liabilities	<u>215,844</u>
<u>Net assets</u>	
Shareholders' equity:	
Common stock	15,238
Additional paid-in capital	
Capital reserve	13,466
Total additional paid-in capital	<u>13,466</u>
Retained earnings:	
Legal reserve	1,453
Other retained earnings:	
Reserve for deferral of gains on fixed assets	1,253
Reserve for special depreciation of fixed assets	80
Reserve for research and development costs	30
Reserve for general purposes	25,615
Unappropriated retained earnings	2,115
Total other retained earnings	<u>29,094</u>
Total retained earnings	<u>30,548</u>
Treasury stock, at cost	<u>(340)</u>
Total shareholders' equity	<u>58,913</u>
Valuation and translation adjustments:	
Unrealized gain on securities	(801)
Revaluation surplus of land	9,025
Total valuation and translation adjustments	<u>8,224</u>
Total net assets	<u>67,137</u>
Total liabilities and net assets	<u>282,981</u>

NON-CONSOLIDATED STATEMENT OF PROFIT AND LOSS

FROM: APRIL 1, 2007

TO: MARCH 31, 2008

(In millions of yen)

Operating revenue -	
Building leasing income	¥17,666
Revenue from housing business	5,723
Revenue from asset development and securitization	4,544
Revenue from brokerages	277
Total operating revenue	<u>28,212</u>
Cost of sales -	
Cost of building leasing	9,700
Cost of housing business	4,342
Cost of asset development and securitization	2,449
Total operating cost	<u>16,492</u>
Gross profit	11,719
Selling, general and administrative expenses	<u>3,075</u>
Operating income	8,644
Non-operating income -	
Interest income and dividends earned	219
Income for non-operating trustee services	93
Other non-operating income	18
Total non-operating income	<u>331</u>
Non-operating expenses -	
Interest on debentures	873
Interest expense	1,208
Amortization of bond-issuing expenses	18
Other non-operating expenses	20
Total non-operating expenses	<u>2,121</u>
Ordinary income	6,854
Special gains -	
Gain on sale of fixed assets	338
Gain on sale of investment securities	9
Total special gains	<u>348</u>
Special losses -	
Loss on sale of fixed assets	47
Loss on disposal of fixed assets	607
Dismantling expense of buildings and building fixtures	160
Loss on revaluation of investment securities	71
Total special losses	<u>886</u>
Income before income taxes	6,316
Corporation, inhabitants and enterprise taxes	104
Deferred income taxes	<u>2,519</u>
Net income	<u><u>¥3,691</u></u>

NON-CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

FROM: APRIL 1, 2007
TO: MARCH 31, 2008

(In millions of yen)

	Shareholders' equity		
	Common stock	Additional paid-in capital	
		Capital reserve	Total additional paid-in capital
Balance as of March 31, 2007	14,935	13,162	13,162
Change during the period			
Issuance of stock	303	303	303
Distribution of surplus			
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			
Net income			
Acquisition of treasury stock			
Reversal of revaluation surplus of land			
Net change in items other than shareholders' equity during the period			
Total change during the period	303	303	303
Balance as of March 31, 2008	15,238	13,466	13,466

(In millions of yen)

	Shareholders' equity								
	Retained earnings							Treasury stock	Total shareholders' equity
	Regal reserve	Other retained earnings					Total 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, 2007	1,453	1,295	94	30	23,115	5,320	31,309	(284)	59,122
Change during the period									
Issuance of stock							—		606
Distribution of surplus						(1,751)	(1,751)		(1,751)
Reversal of reserve for deferral of gains on fixed assets		(42)				42	—		—
Reserve for special depreciation of fixed assets			9			(9)	—		—
Reversal of reserve for special depreciation of fixed assets			(23)			23	—		—
Reserve for general purposes					2,500	(2,500)	—		—
Net income						3,691	3,691		3,691
Acquisition of treasury stock							—	(55)	(55)
Reversal of revaluation surplus of land						(2,701)	(2,701)		(2,701)
Net change in items other than shareholders' equity during the period							—		—
Total change during the period	—	(42)	(13)	—	2,500	(3,204)	(760)	(55)	(209)
Balance as of March 31, 2008	1,453	1,253	80	30	25,615	2,115	30,548	(340)	58,913

(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, 2007	1,090	6,323	7,414	66,537
Change during the period				
Issuance of stock				606
Distribution of surplus				(1,751)
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				—
Net income				3,691
Acquisition of treasury stock				(55)
Reversal of revaluation surplus of land				(2,701)
Net change in items other than shareholders' equity during the period	(1,891)	2,701	809	809
Total change during the period	(1,891)	2,701	809	600
Balance as of March 31, 2008	(801)	9,025	8,224	67,137

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

(2) Depreciation method for significant fixed assets:

1) Tangible fixed assets -

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.

(Additional Information)

With regard to assets acquired on or before March 31, 2007, the difference between the amount equal to 5% of the acquisition cost and the memorandum value will be depreciated on a straight-line basis over a period of five years starting from the fiscal year following the fiscal year when the accumulated depreciation reaches 5% of the acquisition cost resulting from depreciation under the former Corporate Tax Law, in accordance with the amendment of the Corporate Tax Law.

As a result, operating income and ordinary income each decreased by ¥136 million. Income before income taxes decreased by ¥135 million.

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

(4) Principles for providing accruals and reserves:

1) Allowance for doubtful accounts -

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

2) Accrued bonuses for directors and statutory auditors-

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

3) Accrued bonuses for employees -

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

4) 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 non-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 period in which the consumption taxes are paid.

(6) Changes in accounting standards:

1) Changes in depreciation of tangible fixed assets -

In accordance with the amendment of the Corporate Tax Law, tangible fixed assets acquired on or after April 1, 2007 are depreciated using the depreciation method stipulated in the amended Corporate Tax Law, from this fiscal year onward.

As a result, operating income, ordinary income and income before income taxes each decreased by ¥105 million.

2) Accounting for deferred assets (Bond issue expenses) -

Previously, bond issue expenses were all charged to income upon expenditure. From this fiscal year, the Company adopts the “Tentative Solution on Accounting for Deferred Assets” (Accounting Standards Board of Japan, PITF No. 19, August 11, 2006) and changes to the method whereby bond issue expenses are amortized using the straight-line method over a period until redemption. As a result, ordinary income and income before income taxes each increased by ¥135 million, compared with the previous method.

(7) Changes of presentation:

1) Presentation of negotiable deposits -

Negotiable deposits, which formerly were included in “Cash and Deposits” (¥1,300 million for this fiscal year), are presented in “Marketable securities” from this fiscal year in accordance

with the revision of the “Practical Guidelines on Accounting Standards for Financial Instruments (Accounting System Committee Report No. 14, July 4, 2007 (finally amended)) and the “Q & A on Accounting Standards for Financial Instruments (Accounting System Committee, November 6, 2007 (finally amended)). In addition, the balance of negotiable deposits, an item included in “Cash and Deposits” at the end of the previous fiscal year, was ¥1,100 million.

2) Investments for development and sale of real estate -

Investments for development and sale of assets, which were formerly included in “Investment in securities,” are presented in “Operating investments” from this fiscal year. In addition, the balance of “Operating investments,” an item included in “Investment in securities” at the end of the previous fiscal year, was ¥1,251 million.

(Additional Information)

Change in purposes holding assets -

¥9,405 million of “Land” and “Furniture and fixtures,” an amount formerly stated in fixed assets, was transferred to “Real estate for sale” at the end of this fiscal year due to a change in the purpose of holding assets.

3. Notes to the non-consolidated balance sheet

(1) Pledged assets

1) Assets pledged as collateral

Real estate for sale	¥6,932 million
Suspense account for real estate for sale	¥3,463 million
Buildings and building fixtures	¥7,328 million
Land	¥16,196 million
Total	¥33,919 million

2) Secured liabilities

Current portion of long-term loans	¥3,640 million
Long-term loans payable	¥6,160 million
Deposits received	¥3,405 million
Deposits of landlord	¥2,293 million
Total	¥15,499 million

(2) Accumulated depreciation of tangible fixed assets ¥49,919 million

(3) Guarantees due from the Company

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

Heiwa Healthcare Co., Ltd. (Subsidiary)	¥250 million
Housing loans for employees of Heiwa Real Estate Co., Ltd.	¥467 million
Total	¥717 million

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

Assets	¥23 million
Debts	¥155 million

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

Transactions with subsidiaries and affiliates

Operating transactions	¥757 million
Non-operating transactions	¥93 million

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

(1) Issued shares

Common stock	147,084,095 shares
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(2) Treasury stock

Common stock	578,396 shares
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(3) Distribution of surplus

1) Payments of dividends

a. The following was resolved and approved at the Ordinary General Shareholders' Meeting held on June 27, 2007.

Distribution of common stock

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

b. The following was resolved and approved at the meeting of the Board of Directors held on October 31, 2007.

Distribution of common stock

• Total amount of distribution	¥1,024 million
• Distribution per share	¥7
• Record date	September 30, 2007
• Effective date	December 3, 2007

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 Shareholders' Meeting to be held on June 26, 2008.

Distribution of common stock

• Total amount of distribution	¥732 million
• Resource of distribution	Retained earnings
• Distribution per share	¥5
• Record date	March 31, 2008
• Effective date	June 27, 2008

6. Income taxes

(1) Deferred tax liabilities

Corporation tax refundable	(¥84 million)
Accrued bonuses	¥76 million
Other	(¥6 million)
Total	(¥13 million)

(2) Deferred tax assets

Impairment loss	¥445 million
Reserve for deferral of gains on fixed assets	(¥860 million)
Unrealized gain on securities	¥549 million
Other	¥306 million
Total	¥441 million

7. Leased assets

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

8. Transactions with affiliated parties

There are no significant transactions.

9. Per share data

(1) Net assets per share	¥458.25
(2) Net income per share	¥25.25

10. Subsequent events

Not applicable.

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

Independent Auditor's Report
(English Translation)

May 8, 2008

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 the Companies Act, the consolidated financial statements, which consist of the consolidated balance sheet, consolidated statement of profit and loss, consolidated statement of changes in net assets and notes to the consolidated financial statements of the Heiwa Real Estate Co., Ltd. and consolidated subsidiaries for the 88th fiscal year from April 1, 2007 to March 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

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

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

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

Independent Auditor's Report
(English Translation)

May 8, 2008

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 Companies Act, the non-consolidated financial statements, which consist of the non-consolidated balance sheet, non-consolidated statement of profit and loss, non-consolidated statement of changes in net assets, notes to the non-consolidated financial statements and supplementary schedules of Heiwa Real Estate Co., Ltd. (hereinafter referred to as the "Company") for the 88th fiscal year from April 1, 2007 to March 31, 2008. These non-consolidated financial statements and supplementary schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and supplementary schedules based on our audit.

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

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

We have no interest in or relationship with the Company, which is required to be disclosed pursuant to the provisions of the Certified Public Accountant 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 88th fiscal year from April 1, 2007 to March 31, 2008, prepared this Audit Report and hereby submit to you as follows:

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

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

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

Each Statutory Auditor monitored and verified the resolutions adopted by the Board of Directors regarding the establishment of the system for ensuring that the directors' duties are performed in conformity of laws, regulations and the Articles of Incorporation of the Company, and the establishment of the system necessary to ensure proper business operations of the company set forth in Article 100, Paragraph 1 and 3, of Enforcement Regulations of the Companies Act, and the systems (Internal Control System) established in accordance with the resolution of the Board of Directors. The contents of the basic policy set forth in Article 127, Item 1, of the Enforcement Regulations of the Companies Act stated in the business reports and each approach set forth in Item 2 of the same article are reviewed based on the status of deliberations of the Board of Directors and other management entities. Full-time Statutory Auditors concurrently served as Statutory Auditors of subsidiaries, received from subsidiaries their business reports as necessary through communication and information sharing with their directors and statutory auditors, and visited the subsidiaries to conduct necessary examinations. In accordance with the procedures mentioned above, we reviewed the business reports and supplementary schedules for the year ended on March 31, 2008.

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 non-consolidated financial statements (the non-consolidated balance sheet, non-consolidated statement of profit and loss, non-consolidated statement of changes in net assets and notes to the non-consolidated financial statements), and the supplementary schedules, as well as the consolidated financial statements (the consolidated balance sheet, consolidated statement of profit and loss, consolidated statement of changes in net assets and notes to the consolidated financial statements), and the supplementary schedules, for the year ended on March 31, 2008.

2. Results of Audit

(1) Results of audit of business report

- 1) The business reports and supplementary schedules present fairly the financial condition of the Company in conformity with related laws, regulations, and the Articles of Incorporation of the Company;
- 2) Regarding the performance of duties by Directors, there were no instances of misconduct

- or material matters in violation of laws, regulations, nor the Articles of Incorporation of the Company; and
- 3) Resolution of the Board of Directors regarding the internal control system is fair and reasonable. There are no matters requiring additional mention regarding such internal control and the execution of duties by Directors.
 - 4) There are no matters requiring additional mention with respect to the basic policy on the control of companies stated in the business reports. We acknowledge that, among the approaches set forth in Article 127, Item 2, of the Enforcement Regulations of the Companies Act, those stated in the business reports conform with the basic policy, are in no way obstructive of any common interests of shareholders, and are not adopted with the intention of maintaining the positions of Directors and Statutory Auditors.
- (2) Results of audit of non-consolidated financial statements and supplementary schedules
The auditing methods and results of the Accounting Auditor, Toyo Horwath, are fair and reasonable.
- (3) Results of audit of consolidated financial statements and supplementary schedules
The auditing methods and results of the Accounting Auditor, Toyo Horwath, are fair and reasonable.

May 14, 2008

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

External Statutory Auditor
Yoshitake Kaneda

External Statutory Auditor
Masahiko Kadotani