

BUSINESS REPORT

1. Outline of Operations for the period from April 1, 2008 to March 31, 2009:

(1) Update and Results of Business -

During the fiscal year ended March 31, 2009, corporate performance in Japan continued to face extremely severe constraints as a result of the worldwide recession touched off by the financial crisis in the United States. Corporate revenue weakened significantly due to substantial declines in both export and production, and capital expenditure and employment conditions worsened rapidly as well.

Under these circumstances, a succession of real estate companies (including listed companies) have been driven into bankruptcy since last summer, oppressed by factors such as a credit squeeze and sluggish housing sales. The sharp economic slowdown posed extremely severe business conditions in the real estate industry.

Business performance in the Building Division remained largely stable, while vacancy rates in office buildings continued to climb and rental market values fell due to lower corporate revenues resulting from the steep economic downturn.

Meanwhile, the business environment in the Housing Division remained stringent. Consumers became more conservative in their spending for the purchase of residences amidst the growing uncertainty caused by worsening employment and income conditions, and contract ratios slumped as well.

Several matters arose in the real estate investment market in Japan. Liquidity rapidly worsened due to sharp drop-offs in the supply of funds as a direct consequence of the global credit contraction. Specifically, J-REIT experienced its first bankruptcy.

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

Building Division

Operating revenue in the Building Division of the Company significantly increased, driven by the full-year operation of buildings completed in the previous fiscal year (e.g., the Nagoya Stock Exchange Building), rents earned from the Shin-Odori Building (Chuo-ku, Sapporo-city,

Hokkaido) acquired in May 2008, and the sale of buildings owned.

As a result, the Company earned ¥5,142 million in Stock Exchange Market Place Leasing Income, down by ¥14 million (0.3%) compared with the previous period. General Office Leasing Income rose to ¥9,715 million, up by ¥920 million (10.5%) compared with the previous period. Commercial Facilities Leasing Income decreased to ¥3,565 million, down by ¥22 million (0.6%) compared with the previous period. Building Income, including Land Leasing Income and income from the sale of buildings owned, totaled ¥25,634 million, up by ¥7,917 million (44.7%) compared with the previous period.

The vacancy rate of the Company's leased buildings (on a parent company basis) was 1.49% at the end of the fiscal year ended March 31, 2009.

Housing Division

In the Housing Division, the Company sold a total of only 139 units, mainly due to declining consumer motivation. Condominium income totaled ¥7,348 million, up by ¥2,475 million (50.8%) from the previous period.

Housing Leasing Income amounted to ¥783 million, up by ¥55 million (7.6%) compared with the previous period. Housing Income, including other income, amounted to ¥9,571 million, up by ¥3,818 million (66.4%) compared with the previous period.

Asset Development Division

Income from the real estate development and management businesses amounted to ¥14,608 million, up by ¥9,185 million (169.3%) compared with the previous period, in spite of the effect of deteriorating real estate liquidity.

Other Divisions

In the Real Estate Brokerage Business, sales activities in relation to corporations and investment funds produced ¥426 million in revenue in the Real Estate Brokerage Business, up by ¥90 million (27.0%) from the revenue reported during the previous period.

Income from the Contract Construction Business and Building Management Business decreased to ¥1,209 million, down by ¥535 million (30.7%) compared with the previous period.

Income from the Private Nursing Home Business increased to ¥383 million, up by ¥36 million (10.5%) compared with the previous period. Other Divisions operating revenue for the fiscal year ended March 31, 2009, decreased by ¥370 million (14.9%) to ¥2,120 million.

Overall Operating Results of the Group

The operating results of the Company group for the fiscal year ended March 31, 2009, are summarized below:

Operating Revenue amounted to ¥51,935 million, up by ¥20,550 million (65.5%) compared with the previous period. Operating Costs totaled ¥37,725 million, up by ¥19,244 million (104.1%) compared with the previous period, mainly as a result of the write-down of inventories, while Selling, General and Administrative Expenses totaled ¥5,211 million, up by ¥1,512 million (40.9 %) compared with the previous period.

Consequently, Operating Income for the fiscal year ended March 31, 2009, reached ¥8,998 million, down by ¥206 million (2.2%) compared with the previous period, while Ordinary Income reached ¥6,178 million, down by ¥997 million (13.9%) compared with the previous period. Net income reached ¥862 million, down by ¥2,874 million (76.9%) compared with the previous period, mainly due to a loss of ¥3,765 million on revaluation of investment securities.

In consideration of these operating results, full-time Directors and Statutory Auditors voluntarily returned parts of their compensation payments, in amounts determined in accordance with their respective positions within the Company.

(2) Issues to be resolved by the Company -

The Japanese economy has been deeply affected by the rapid deterioration of the global economy touched off by the financial crisis in the United States. We expect severe circumstances to continue for the time being, with concern over the prospect of further economic downturns in the future.

Within this environment, the Group will seek to adjust to the harsh external circumstances and undertake business deployment under the core strategies below.

- 1) In the Building Division, the Company will continue to keep current high operating rates and focus on leasing to acquire tenants for the CenteRise Sakae (Naka-ku, Nagoya-city, Aichi) project now under construction.
- 2) In the Housing Division, the Company will place the utmost priority on drastically reducing inventories in the condominium business. The Company will maintain high operating rates

in the housing leasing business, as in the Building Division.

- 3) In the Asset Development Division, the Company will focus on tenant leasing for the current development projects now underway, while aiming to raise operating rates for these properties and sell them at an early stage.
- 4) In financial management, the Company will reduce interest-bearing liabilities and reinforce its financial base.

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

(3) Investment in fixed assets -

The Company paid out total capital expenditures of ¥10,859 million, including the expenditure for the acquisition of the Shin-Odori Building (Chuo-ku, Sapporo-city, Hokkaido).

(4) Status of financing -

The Company issued its 8th series of unsecured bonds on March 31, 2009 (issued amount, ¥5 billion; date of maturity, March 30, 2012; annual interest, 0.94%).

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

Fiscal year Classification	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)	The 89th fiscal year (From April 1, 2008 to March 31, 2009)
Operating revenue	¥36,599 million	¥31,912 million	¥31,384 million	¥51,935 million
Ordinary Income	7,570 million	8,164 million	7,176 million	6,178 million
Net income	4,203 million	4,534 million	3,737 million	862 million
Net income per share (in exact yen)	34.64	31.90	25.56	5.81
Total assets	186,476 million	213,298 million	298,728 million	317,439 million
Net assets	62,100 million	67,014 million	70,456 million	70,598 million
Net assets per share (in exact yen)	437.80	461.01	460.24	454.57

(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	100.0%	Management of buildings and facilities, contracting of repair work
Heiwa Healthcare Co., Ltd.	¥70 million	100.0%	Private nursing home enterprise
Osaka Securities Building Co., Ltd.	¥100 million	100.0%	Lease, management and operation of buildings and facilities, etc.
Housing Service Co., Ltd.	¥95 million	100.0%	Real estate brokerage, 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. Heiwa Service Co., Ltd. became a wholly owned subsidiary of the Company through the additional purchase of shares on March 31, 2009.

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

(7) Contents of principal businesses of the Group -

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

(Note) The names of two business segments are changed from the current fiscal year: the “Building Leasing Division” is renamed the “Building Division” and the “Asset Development and Securitization Division” is renamed the “Asset Development Division.”

(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
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>228</u>	<u>(9)</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>93</u>	<u>2</u>	<u>39.6</u>	<u>13.9</u>

(10) Principal creditors -

<u>Creditors</u>	<u>Balance</u>
	<u>(In millions of yen)</u>
Resona Bank, Ltd.	¥29,986
Sumitomo Mitsui Banking Corporation	18,682
The 77 Bank, Ltd.	16,530
Mizuho Corporate Bank, Ltd.	14,137
The Hokkaido Bank, Ltd.	9,270

2. Status of Shares:

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

(2) Number of shares issued and outstanding - 149,503,980 shares

(Note) The number of shares issued and outstanding increased 2,419,885 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 - 26,797
(Increase of 2,003 compared with prior period end)

(4) Major shareholders -

<u>Name</u>	<u>No. of shares</u> (000's)
Japan Trustee Services Bank, Ltd. (Trust Account)	9,840
The Master Trust Bank of Japan, Ltd. (Trust Account)	7,932
Japan Trustee Services Bank, Ltd. (Trust Account 4G)	6,034
JPMorgan Securities Japan Co., Ltd.	2,990
Trust & Custody Service Bank, Ltd. (Securities Investment Trust Account)	2,675
Taisei Corporation	2,663
Japan Trustee Services Bank, Ltd. (Trust Account 4)	2,659
Clariden Leu Limited	2,304
Resona Bank, Ltd	2,229
Sumitomo Mitsui Banking Corporation	2,010

3. Stock acquisition rights:

Stock acquisition rights already issued are as follows:

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

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

(Note)

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

4. Matters related to Corporate Officers:

(1) Directors and Statutory Auditors -

Name	Position	Representation of other companies
Sakutaro Kimbara	Director and President* and Chief Executive Officer	
Sadao Yoshino	Director* and Senior Executive Officer (Overall Management of Administration / Building Division / Branches / Affiliated Companies)	
Hiroyuki Takahashi	Director* and Senior Executive Officer (Asset Development Division / Real Estate Brokerage Division / Housing Division)	
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 Business Department, Building Construction 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, Yoshitake Kaneda, has long experience at Osaka Securities Exchange and possesses substantial expertise and experience in finance and accounting.
5. External Statutory Auditor, Masahiko Kadotani, held positions such as Director General of the Securities Bureau of the Ministry of Finance and Commissioner of the National Tax Agency and possesses substantial expertise and experience in finance and accounting.
6. The following four 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
Managing Officer	Katsuyuki Bessho	Director of Asset Development Division

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

<u>Category</u>	<u>Number of persons</u>	<u>Amount Paid</u>	<u>Note</u>
Director	8	¥209 million	of which ¥7 million to 1 External Director
Statutory Auditor	3	¥34 million	of which ¥14 million to 2 External Statutory Auditors
Total (Notes)	11	¥244 million	

1. A resolution of the 88th Ordinary General Shareholders' Meeting held on June 26, 2008 limits the amount of remuneration for Directors (excluding External Directors) to ¥250 million per year (the amount of remuneration for Directors will not include the employee salaries of Directors who serve concurrently as employees) and the amount of remuneration for External Directors to ¥25 million per year.
2. A resolution of the 88th Ordinary General Shareholders' Meeting held on June 26, 2008 limits Statutory Auditors' remuneration to ¥60 million per year.

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

Amount recorded as Retirement Allowance for the current fiscal term:

¥15 million to Directors; ¥1 million to Statutory Auditors

(including ¥0 million to External Auditors)

The Company resolved to abolish the retirement allowances program for Directors and Statutory Auditors at the conclusion of the 88th Ordinary General Shareholders' Meeting held on June 26, 2008. With regard to Directors and Statutory Auditors who were to remain in office after the meeting, the Company resolved to provide each, upon his or her retirement, with a retirement allowance based on his or her term of office up to the abolishment of the retirement allowances program. The above amount recorded as Reserve for retirement allowances for directors and statutory auditors for the current fiscal term was accounted for before the abolishment of the retirement allowances program.

(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 Co., Ltd. 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 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	12 out of 15	-
Yoshitake Kaneda, Statutory Auditor	15 out of 15	7 out of 7
Masahiko Kadotani, Statutory Auditor	13 out of 15	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 Act

25 million yen

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

26 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 Act, the Board will request the Board of Directors to submit the agenda for the dismissal or the disapproval of reappointment of the Independent Auditor to the Shareholders' Meeting.

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

6. Corporate structure and policies:

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

In 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.

Since then, 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 developed a mid-term management plan and 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 this way, the Company has promoted its commitments in diverse ways to further increase its corporate value and serve the common interests of shareholders.

2. Objectives of introduction of the Plan

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 the Large Volume Purchaser who intends to purchase a certain volume or more of our shares to provide the Company with sufficient information in

advance according to 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.

Additionally, the Plan will expire at the conclusion of the 89th Ordinary General Shareholders’ Meeting. In light of the “Nature of Anti-takeover Measures based on Recent Change of Circumstances” issued in June of last year by the Society for Corporate Value of the Ministry of Economy, Trade and Industry, the Company has further reviewed the Plan from the viewpoint of its corporate value and the common interests of shareholders.

As a result, the Board of Directors of the Company decided to keep the basic policy and other contents of the Plan unchanged, to modify the Plan based on the “Nature of Anti-takeover Measures based on Recent Change of Circumstances,” and to make several required adjustments under the revisions of related laws and regulations. The Board of Directors also decided to continue implementing the Plan, subject to approval by the 89th Ordinary General Shareholders’ Meeting.

CONSOLIDATED BALANCE SHEET

MARCH 31, 2009

ASSETS

(In millions of yen)

Current assets:	
Cash and deposits	¥22,267
Accounts receivable – trade	1,399
Marketable securities	7,075
Real estate for sale	22,275
Real estate for sale in process	16,723
Other inventories	2
Operating investment	11,547
Deferred tax assets	186
Other	584
Allowance for doubtful accounts	(38)
Total current assets	<u>82,023</u>
Fixed assets:	
Tangible fixed assets -	
Buildings and structures	83,744
Machinery, equipment and vehicles	535
Tools, furniture and fixtures	383
Land	133,470
Construction in progress	1,557
Total tangible fixed assets	<u>219,691</u>
Intangible fixed assets -	
Leasehold rights	5,681
Goodwill	39
Other	74
Total intangible fixed assets	<u>5,795</u>
Investments and other assets -	
Investment in securities	6,473
Long-term loans to employees	13
Deferred tax assets	1,096
Other	2,978
Allowance for doubtful accounts	(841)
Total investments and other assets	<u>9,718</u>
Deferred assets -	
Bond-issuing expenses	209
Total deferred assets	<u>209</u>
Total fixed assets	<u>235,205</u>
Total assets	<u><u>317,439</u></u>

CONSOLIDATED BALANCE SHEET

MARCH 31, 2009

LIABILITIES AND SHAREHOLDERS' EQUITY

(In millions of yen)

<u>Liabilities</u>	
Current liabilities:	
Notes payable and accounts payable – trade	¥2,673
Current portion of bonds	20,370
Short-term loans payable	26,120
Current portion of long-term loans	24,024
Accrued corporation and other taxes	1,176
Accrued consumption taxes	699
Accrued bonuses for directors and statutory auditors	6
Accrued bonuses	247
Other	2,422
Total current liabilities	<u>77,739</u>
Long-term liabilities:	
Bonds	44,430
Convertible bonds (with stock acquisition rights)	20,000
Long-term loans payable	75,348
Long-term deposits received and deposits of landlord	21,939
Deferred tax liabilities	28
Deferred tax liabilities concerning revaluation	6,249
Long-term accounts payable	454
Accrued severance indemnities for employees	618
Negative goodwill	33
Total long-term liabilities	<u>169,101</u>
Total liabilities	<u>246,840</u>
<u>Net Assets</u>	
Shareholders' equity:	
Common stock	15,797
Additional paid-in capital	14,025
Retained earnings	30,046
Treasury stock, at cost	(366)
Total shareholders' equity	<u>59,503</u>
Valuation and translation adjustments:	
Unrealized gain on securities	(950)
Revaluation surplus of land	9,109
Total valuation and translation adjustments	<u>8,158</u>
Minority shareholders' equity	<u>2,936</u>
Total net assets	<u>70,598</u>
Total liabilities and net assets	<u><u>317,439</u></u>

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

FROM: APRIL 1, 2008

TO: MARCH 31, 2009

(In millions of yen)

Operating revenue -	
Building income	¥25,634
Revenue from housing business	9,571
Revenue from asset development	14,608
Other operating revenue	2,120
Total operating revenue	<u>51,935</u>
Cost of sales -	
Cost of building	17,051
Cost of housing business	11,335
Cost of asset development	8,109
Other operating cost	1,228
Total operating cost	<u>37,725</u>
Gross profit	14,209
Selling, general and administrative expenses	<u>5,211</u>
Operating income	8,998
Non-operating income -	
Interest income and dividends earned	244
Amortization of negative goodwill	1
Miscellaneous non-operating income	85
Total non-operating income	<u>331</u>
Non-operating expenses -	
Interest on debentures	922
Interest expense	2,044
Amortization of bond-issuing expenses	27
Equity in net loss of affiliates	66
Provision of allowance for doubtful accounts	18
Miscellaneous non-operating expenses	72
Total non-operating expenses	<u>3,150</u>
Ordinary income	6,178
Special gains-	
Gain on sales of fixed assets	10
Reversal of allowance for doubtful accounts	1
Total special gains	<u>11</u>
Special losses -	
Loss on disposal of fixed assets	133
Dismantling expense of buildings and building fixtures	192
Loss on revaluation of investment securities	3,765
Other	244
Total special losses	<u>4,335</u>
Income before income taxes	1,855
Corporation, inhabitants and enterprise taxes	1,307
Deferred income taxes	(463)
Minority interests	148
Net income	<u>862</u>

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

FROM: APRIL 1, 2008
TO: MARCH 31, 2009

(In millions of yen)

Shareholders' equity	
Common stock	
Balance at the end of previous period	15,238
Change during the period	
Issuance of stock	558
Total change during the period	<u>558</u>
Balance at the end of current period	<u>15,797</u>
Additional paid-in capital	
Balance at the end of previous period	13,466
Change during the period	
Issuance of stock	558
Total change during the period	<u>558</u>
Balance at the end of current period	<u>14,025</u>
Retained earnings	
Balance at the end of previous period	30,897
Change during the period	
Distribution of surplus	(1,625)
Net income	862
Disposal of treasury stock	(4)
Reversal of revaluation surplus of land	(83)
Total change during the period	<u>(851)</u>
Balance at the end of current period	<u>30,046</u>
Treasury stock	
Balance at the end of previous period	(340)
Change during the period	
Acquisition of treasury stock	(34)
Disposal of treasury stock	8
Total change during the period	<u>(25)</u>
Balance at the end of current period	<u>(366)</u>
Total shareholders' equity	
Balance at the end of previous period	59,262
Change during the period	
Issuance of stock	1,117
Distribution of surplus	(1,625)
Net income	862
Acquisition of treasury stock	(34)
Disposal of treasury stock	3
Reversal of revaluation surplus of land	(83)
Total change during the period	<u>241</u>
Balance at the end of current period	<u>59,503</u>

(In millions of yen)

Valuation and translation adjustments	
Unrealized gain on securities	
Balance at the end of previous period	(859)
Change during the period	
Net change in items other than shareholders' equity during the period	(90)
Total change during the period	(90)
Balance at the end of current period	(950)
Revaluation surplus of land	
Balance at the end of previous period	9,025
Change during the period	
Net change in items other than shareholders' equity during the period	83
Total change during the period	83
Balance at the end of current period	9,109
Total valuation and translation adjustments	
Balance at the end of previous period	8,165
Change during the period	
Net change in items other than shareholders' equity during the period	(7)
Total change during the period	(7)
Balance at the end of current period	8,158
Minority shareholders' equity	
Balance at the end of previous period	3,027
Change during the period	
Net change in items other than shareholders' equity during the period	(91)
Total change during the period	(91)
Balance at the end of current period	2,936
Total net assets	
Balance at the end of previous period	70,456
Change during the period	
Issuance of stock	1,117
Distribution of surplus	(1,625)
Net income	862
Acquisition of treasury stock	(34)
Disposal of treasury stock	3
Reversal of revaluation surplus of land	(83)
Net change in items other than shareholders' equity during the period	(98)
Total change during the period	142
Balance at the end of current period	70,598

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Going concern assumption

Not applicable

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.

(2) Basis of applying the equity method:

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

2) Affiliates accounted for by the equity method: 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 and structures	8-50 years
Machinery, equipment, and vehicles	6-10 years
Tools, furniture and fixtures	5-15 years

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

(Additional Information)

The Company begins to apply useful life under the revised Corporate Tax Law to the depreciation of machinery and equipment from the current fiscal year. As a result of this change, operating income, ordinary income, and income before income taxes each decreased by ¥100 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) Accrued severance indemnities for employees -

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

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

Accounting for consumption taxes -

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

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

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

(9) Changes in accounting standards:

Accounting for lease assets -

Previously, finance lease transactions without ownership-transfer were accounted for as operating leases. The Company has adopted the “Accounting Standard for Lease Transactions” (Accounting Standards Board of Japan (ASBJ), Statement No. 13, March 30, 2007) and the “Guidance on Accounting Standard for Lease Transactions” (ASBJ, Guidance No. 16, March 30, 2007), and is accounting for those finance lease transactions as sales transactions from this consolidated fiscal year.

With regard to finance lease transactions without ownership-transfer whose lease inception predate the first applicable consolidated fiscal year, the Company continues to apply the accounting method for operating leases.

This change has no effects on operating income, ordinary income, or income before income taxes.

(10) Changes of presentation:

1) Beneficiary right of real estate in trust -

The beneficiary right in trust subject to real estate for sale, an item formerly presented as “Beneficiary right of real estate in trust” (¥12,999 million at the end of the previous consolidated fiscal year), is included in “Real estate for sale” from this consolidated fiscal year, in consideration of the actual conditions and nature of this item. The balance of “Beneficiary right of real estate in trust” at the end of the previous consolidated fiscal year was ¥13,153 million.

2) Deposits received and Deposits of landlord -

“Deposits received” and “Deposits of landlord,” items previously recorded individually, are presented as “Long-term deposits received and deposits of landlord” from this consolidated

fiscal year, in consideration of the actual conditions and nature of these items. The balances of “Deposits received” and “Deposits of landlord” at the end of this consolidated fiscal year were ¥4,047 million and ¥17,891 million, respectively.

(Additional Information)

1) Change in purposes of holding assets -

A total of ¥12,307 million of “Real estate for sale” and “Real estate for sale in process,” items formerly stated in current assets, is transferred to “Land” and “Buildings” at the end of this consolidated fiscal year because of a change in the purpose of holding these assets.

2) Abolition of the retirement allowances program for directors and statutory auditors -

The abolition of the retirement allowances program for Directors and Statutory Auditors and the payment of the retirement allowances to Directors and Statutory Auditors for termination upon their retirement from office were approved by the resolution of the Ordinary General Shareholders’ Meeting held in June, 2008. Accordingly, the Company and its consolidated subsidiaries reversed in full the balance of the “Reserve for retirement allowances for directors and statutory auditors,” and included ¥454 million of accrued retirement allowances for directors and statutory auditors for termination in the “Long-term accounts payable” stated in long-term liabilities. The balance of the “Reserve for retirement allowances for directors and statutory auditors” at the end of the previous consolidated fiscal year was ¥431 million.

3. Notes to the consolidated balance sheet

(1) Pledged assets

1) Assets pledged as collateral

Real estate for sale	¥12,200 million
Buildings	¥20,546 million
Land	¥30,968 million
Total	¥63,715 million

2) Secured liabilities

Current portion of bonds	¥570 million
Current portion of long-term loans	¥12,390 million
Bonds	¥4,430 million
Long-term loans payable	¥12,820 million
Long-term deposits received and deposits of landlord	¥4,865 million
Total	¥35,075 million

(2) Accumulated depreciation of tangible fixed assets ¥56,718 million

(3) Guarantees due from the Company

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

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

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

(1) Issued shares

Common stock	149,503,980 shares
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(2) Treasury stock

Common stock	657,579 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 26, 2008.

Distribution of common stock

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

b. The following was resolved the meeting of the Board of Directors held on October 31, 2008.

Distribution of common stock

• Total amount of distribution	¥893 million
• Distribution per share	¥6
• Record date	September 30, 2008
• Effective date	November 26, 2008

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 25, 2009.

Distribution of common stock

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

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

Common stock	19,704,433 shares
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5. Per share data

(1) Net assets per share	¥454.57
(2) Net income per share	¥5.81

6. Subsequent events

Not applicable.

NON-CONSOLIDATED BALANCE SHEET

MARCH 31, 2009

ASSETS

(In millions of yen)

Current assets:	
Cash and deposits	¥20,565
Accounts receivable – trade	1,214
Marketable securities	7,028
Real estate for sale	9,276
Real estate for sale in process	16,723
Operating investment	11,292
Prepaid expenses	351
Deferred tax assets	165
Accrued income	0
Short-term loans	209
Accounts receivable – other	7
Advances paid	35
Suspense payments	3
Allowance for doubtful accounts	(37)
Total current assets	<u>66,835</u>
Fixed assets:	
Tangible fixed assets -	
Buildings	82,206
Structures	413
Machinery and equipment	532
Vehicles	5
Tools, furniture and fixtures	356
Land	130,272
Construction in progress	1,557
Total tangible fixed assets	<u>215,343</u>
Intangible fixed assets -	
Leasehold rights	5,803
Trademark rights	5
Software	31
Telephone subscription right	9
Right of using facilities	16
Total intangible fixed assets	<u>5,867</u>
Investments and other assets -	
Investment in securities	6,164
Investment in securities of affiliates	1,617
Capital investment in affiliates	3,392
Investment in partnerships	2
Deferred tax assets	878
Long-term loans receivable from employees	8
Claims provable in bankruptcy, claims provable in rehabilitation and other	823
Long-term prepaid expenses	798
Guarantee deposits	811
Insurance funds	91
Allowance for doubtful accounts	(841)
Total investments and other assets	<u>13,746</u>
Deferred assets -	
Bond-issuing expenses	209
Total deferred assets	<u>209</u>
Total fixed assets	<u>234,956</u>
Total assets	<u>302,002</u>

NON-CONSOLIDATED BALANCE SHEET

MARCH 31, 2009

LIABILITIES AND SHAREHOLDERS' EQUITY

(In millions of yen)

<u>Liabilities</u>	
Current liabilities:	
Notes payable	¥509
Accounts payable – trade	1,669
Current portion of bonds	20,370
Short-term loans payable	26,170
Current portion of long-term loans	12,974
Accounts payable – other	143
Accrued expenses	196
Accrued corporation and other taxes	1,165
Accrued consumption taxes	676
Advances received	1,265
Deposits received	519
Accrued bonuses	193
Total current liabilities	<u>65,851</u>
Long-term liabilities:	
Bonds	44,430
Convertible bonds(with stock acquisition rights)	20,000
Long-term loans payable	75,348
Long-term deposits received and deposits of landlord	21,494
Deferred tax liabilities concerning revaluation	6,249
Long-term accounts payable	380
Accrued severance indemnities for employees	610
Total long-term liabilities	<u>168,512</u>
Total liabilities	<u>234,364</u>
<u>Net assets</u>	
Shareholders' equity:	
Common stock	15,797
Additional paid-in capital	
Capital reserve	14,025
Total additional paid-in capital	<u>14,025</u>
Retained earnings:	
Legal reserve	1,453
Other retained earnings:	
Reserve for deferral of gains on fixed assets	1,211
Reserve for special depreciation	24
Reserve for research and development costs	30
Reserve for general purposes	25,615
Unappropriated retained earnings	1,661
Total other retained earnings	<u>28,543</u>
Total retained earnings	<u>29,996</u>
Treasury stock, at cost	<u>(366)</u>
Total shareholders' equity	<u>59,453</u>
Valuation and translation adjustments:	
Unrealized gain on securities	(925)
Revaluation surplus of land	9,109
Total valuation and translation adjustments	<u>8,184</u>
Total net assets	<u>67,637</u>
Total liabilities and net assets	<u>302,002</u>

NON-CONSOLIDATED STATEMENT OF PROFIT AND LOSS

FROM: APRIL 1, 2008

TO: MARCH 31, 2009

(In millions of yen)

Operating revenue -	
Building income	¥25,602
Revenue from housing business	9,542
Revenue from asset development	13,669
Revenue from other business	19
Total operating revenue	<u>48,834</u>
Cost of sales -	
Cost of building	17,252
Cost of housing business	11,309
Cost of asset development	7,703
Total operating cost	<u>36,265</u>
Gross profit	12,569
Selling, general and administrative expenses	<u>4,064</u>
Operating income	8,505
Non-operating income -	
Interest income and dividends earned	290
Income for non-operating trustee services	91
Miscellaneous non-operating income	69
Total non-operating income	<u>451</u>
Non-operating expenses -	
Interest on debentures	922
Interest expense	1,840
Amortization of bond-issuing expenses	27
Provision of allowance for doubtful accounts	18
Miscellaneous non-operating expenses	61
Total non-operating expenses	<u>2,869</u>
Ordinary income	6,087
Special gains -	
Gain on sale of fixed assets	10
Total special gains	<u>10</u>
Special losses -	
Loss on disposal of fixed assets	46
Dismantling expense of buildings and building fixtures	192
Loss on revaluation of investment securities	3,662
Other	244
Total special losses	<u>4,145</u>
Income before income taxes	1,952
Corporation, inhabitants and enterprise taxes	1,263
Deferred income taxes	(473)
Net income	<u><u>¥1,161</u></u>

NON-CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

FROM: APRIL 1, 2008
TO: MARCH 31, 2009

(In millions of yen)

Shareholders' equity	
Common stock	
Balance at the end of previous period	15,238
Change during the period	
Issuance of stock	558
Total change during the period	<u>558</u>
Balance at the end of current period	<u>15,797</u>
Additional paid-in capital	
Balance at the end of previous period	13,466
Change during the period	
Issuance of stock	558
Total change during the period	<u>558</u>
Balance at the end of current period	<u>14,025</u>
Retained earnings	
Legal reserve	
Balance at the end of previous period	1,453
Change during the period	
Total change during the period	<u>—</u>
Balance at the end of current period	<u>1,453</u>
Other retained earnings	
Reserve for advanced depreciation of fixed assets	
Balance at the end of previous period	1,253
Change during the period	
Reversal of reserve for advanced depreciation of fixed assets	(42)
Total change during the period	<u>(42)</u>
Balance at the end of current period	<u>1,211</u>
Special depreciation reserve	
Balance at the end of previous period	80
Change during the period	
Reversal of special depreciation reserve	(56)
Total change during the period	<u>(56)</u>
Balance at the end of current period	<u>24</u>
Reserve for research and development	
Balance at the end of previous period	30
Change during the period	
Total change during the period	<u>—</u>
Balance at the end of current period	<u>30</u>
General reserve	
Balance at the end of previous period	25,615
Change during the period	
Total change during the period	<u>—</u>
Balance at the end of current period	<u>25,615</u>
Retained earnings carried forward	
Balance at the end of previous period	2,115
Change during the period	
Distribution of surplus	(1,625)
Reversal of reserve for advanced depreciation of fixed assets	42
Reversal of special depreciation reserve	56
Net income	1,161
Disposal of treasury stock	(4)
Reversal of revaluation surplus of land	(83)
Total change during the period	<u>(453)</u>
Balance at the end of current period	<u>1,661</u>

(In millions of yen)

Treasury stock	
Balance at the end of previous period	(340)
Change during the period	
Acquisition of treasury stock	(34)
Disposal of treasury stock	8
Total change during the period	<u>(25)</u>
Balance at the end of current period	<u>(366)</u>
Total shareholders' equity	
Balance at the end of previous period	58,913
Change during the period	
Issuance of stock	1,117
Distribution of surplus	(1,625)
Net income	1,161
Acquisition of treasury stock	(34)
Disposal of treasury stock	3
Reversal of revaluation surplus of land	(83)
Total change during the period	<u>540</u>
Balance at the end of current period	<u>59,453</u>
Valuation and translation adjustments	
Unrealized gain on securities	
Balance at the end of previous period	(801)
Change during the period	
Net change in items other than shareholders' equity during the period	(123)
Total change during the period	<u>(123)</u>
Balance at the end of current period	<u>(925)</u>
Revaluation surplus of land	
Balance at the end of previous period	9,025
Change during the period	
Net change in items other than shareholders' equity during the period	83
Total change during the period	<u>83</u>
Balance at the end of current period	<u>9,109</u>
Total net assets	
Balance at the end of previous period	67,137
Change during the period	
Issuance of stock	1,117
Distribution of surplus	(1,625)
Net income	1,161
Acquisition of treasury stock	(34)
Disposal of treasury stock	3
Reversal of revaluation surplus of land	(83)
Net change in items other than shareholders' equity during the period	(40)
Total change during the period	<u>500</u>
Balance at the end of current period	<u>67,637</u>

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

1. Going concern assumption

Not applicable

2. Matters pertaining to significant accounting policies

(1) Method and basis of valuation of assets:

1) Marketable securities and other investments -

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

Stocks of subsidiaries and affiliates:

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

Other marketable securities and investments:

a. Securities with market quotations:

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

b. Securities without market quotations:

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

2) Inventory -

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

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

(2) Depreciation method for significant fixed assets:

1) Tangible fixed assets -

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

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

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

(Additional Information)

The Company begins to apply useful life under the revised Corporate Tax Law to the depreciation of machinery and equipment from the current fiscal year. As a result of this change, operating income, ordinary income, and income before income taxes each decreased by ¥100 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) Accrued severance indemnities -

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

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

Accounting for consumption taxes -

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

(6) Changes in accounting standards:

Accounting for lease assets -

Previously, finance lease transactions without ownership-transfer were accounted for as operating leases. The Company has adopted the “Accounting Standard for Lease Transactions” (Accounting Standards Board of Japan (ASBJ), Statement No. 13, March 30, 2007) and the “Guidance on Accounting Standard for Lease Transactions” (ASBJ, Guidance No.16, March 30, 2007), and is accounting for those finance lease transactions as sales transactions from this fiscal year.

With regard to finance lease transactions without ownership-transfer whose lease inceptions predate the first applicable consolidated fiscal year, the Company continues to apply the accounting method for operating leases. This change has no effects on operating income, ordinary income, or income before income taxes.

(Additional Information)

1) Change in holding purposes -

A total of ¥12,307 million of “Real estate for sale” and “Real estate for sale in process,” items formerly stated in current assets, is transferred to “Land” and “Buildings” at the end of this consolidated fiscal year because of a change in the purpose of holding these assets.

2) Abolition of the retirement allowances program for directors and statutory auditors -

The abolition of the retirement allowances program for Directors and Statutory Auditors and the payment of the retirement allowances to Directors and Statutory Auditors for termination upon their retirement from office were approved by the resolution of the Ordinary General Shareholders’ Meeting held in June, 2008. Accordingly, the Company reversed in full the balance of the “Reserve for retirement allowances for directors and statutory auditors,” and included ¥380 million of accrued retirement allowances for directors and statutory auditors for termination in the “Long-term accounts payable” stated in long-term liabilities. The balance of the “Reserve for retirement allowances for directors and statutory auditors” at the end of the previous fiscal year was ¥360 million.

3. Notes to the non-consolidated balance sheet

(1) Pledged assets

1) Assets pledged as collateral

Buildings	¥19,971 million
Land	¥28,155 million
Total	¥48,127 million

2) Secured liabilities

Current portion of bonds	¥570 million
Current portion of long-term loans	¥1,340 million
Bonds	¥4,430 million
Long-term loans payable	¥12,820 million
Long-term deposits received and deposits of landlord	¥4,865 million
Total	¥24,025 million

(2) Accumulated depreciation of tangible fixed assets ¥55,162 million

(3) Guarantees due from the Company

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

Heiwa Healthcare Co., Ltd. (Subsidiary)	¥100 million
Housing loans for employees of Heiwa Real Estate Co., Ltd.	¥430 million
Total	¥530 million

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

Assets	¥133 million
Debts	¥700 million

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

Transactions with subsidiaries and affiliates

Operating transactions	¥2,303 million
Non-operating transactions	¥141 million

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

Treasury stock

Common stock	657,579 shares
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6. Income taxes

(1) Deferred tax assets (current)

Corporation tax refundable	¥110 million
Accrued bonuses	¥78 million
Other	(¥24 million)
Total	¥165 million

(2) Deferred tax assets (noncurrent)

Impairment loss	¥445 million
Reserve for deferral of gains on fixed assets	(¥802 million)
Unrealized gain on securities	¥634 million
Other	¥600 million
Total	¥878 million

7. Leased assets

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

8. Transactions with affiliated parties

There are no significant transactions.

9. Per share data

(1) Net assets per share	¥454.41
(2) Net income per share	¥7.82

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, 2009

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 89th fiscal year from April 1, 2008 to March 31, 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

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

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

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

Independent Auditor's Report
(English Translation)

May 8, 2009

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 89th fiscal year from April 1, 2008 to March 31, 2009. These non-consolidated financial statements and supplementary schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and supplementary schedules based on our audit.

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

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

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

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

AUDIT REPORT

We, the Board of Statutory Auditors, having deliberated the issues based on the reports made by each Statutory Auditor concerning the methods and results of their audit of the business activities of the directors for the 89th fiscal year from April 1, 2008 to March 31, 2009, 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, 2009.

Further, Statutory Auditors monitored and verified that Accounting Auditor maintains independence and conduct the audits appropriately. Each Statutory Auditor also received reports of the status of the execution of duties from Accounting Auditor and requested explanation as necessary. In addition, we were informed of the arrangement of the "System for ensuring that the duties are performed appropriately" (matters stipulated in the items of Article 131 of the Corporate Calculation Regulations in accordance with "Standards for the Quality Control of Audits" (Business Accounting Council, October 28, 2005)) from the Accounting Auditor and requested explanations as necessary. In accordance with the procedures mentioned above, we reviewed the non-consolidated financial statements (the non-consolidated balance sheet, non-consolidated statement of profit and loss, non-consolidated statement of changes in net assets and notes to the non-consolidated financial statements), and the supplementary schedules, as well as the consolidated financial statements (the consolidated balance sheet, consolidated statement of profit and loss, consolidated statement of changes in net assets and notes to the consolidated financial statements), and the supplementary schedules, for the year ended on March 31, 2009.

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, 2009

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