

BUSINESS REPORT

1. Outline of Operations for the period from April 1, 2010 to March 31, 2011:

(1) Update and Results of Business -

In the fiscal year ended March 31, 2011, the Japanese economy moved into steady recovery in the first half with the support of government fiscal policies, but then came to a standstill in the second half, mainly due to the further appreciation of the yen and rising crude oil prices. In March 2011, the Great East Japan Earthquake struck just as corporate earnings were showing signs of improvement. The extensive quake damage had significant impact on the economy.

Though the real estate industry saw ongoing declines in land prices under these circumstances, the range of price drops narrowed across the country and prices even showed signs of a turnaround from the downward trend.

In the Building Leasing Business, vacancy rates peaked and were poised for an upturn. Nevertheless, the impact of corporate cost-cutting and persistent competition to attract tenants kept rental market values weak and conditions harsh.

The real estate investment market remained on its recovery trend as a whole. In the J-REIT (Real Estate Investment Trust) market, the market psychology changed for the better and sales of investment accounts quickened to a brisk pace, mainly thanks to the establishment of investment funds from the public and private sectors, further reorganization through mergers and acquisitions, and the purchase of investment accounts by the Bank of Japan.

The Housing Business saw signs of improvement. Housing starts and sales increased, emerging from a temporary recession, and the resulting inventories for sale decreased, mainly thanks to improvement in the supply and demand balance and the success of various measures to promote housing demand.

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

Leasing Division

In the Building Leasing Business out of this Division, the ongoing construction of CentRise

Sakae (Naka-ku, Nagoya-city) throughout the year brought in revenue, but leasing revenue decreased by ¥308 million (1.8%) as a result of measures such as the sales of buildings owned in the previous fiscal year.

Of the total, the Company earned ¥5,142 million in Stock Exchange Market Place Leasing Income, down by ¥1 million (0.0%) compared with the previous period. General Office Leasing Income decreased to ¥8,881 million, down by ¥421 million (4.5%) compared with the previous period. Commercial Facilities Leasing Income increased to ¥3,255 million, up by ¥115 million (3.7%) compared with the previous period. Building Income, including Land Leasing Income, totaled ¥17,411 million, down by ¥307 million (1.7%) compared with the previous period.

The vacancy rate of the Company's leased buildings (on a parent company basis) was 2.0% at the end of the fiscal year ended March 31, 2011.

Total income in this Division, including the operating revenue of the Housing Leasing Business, decreased to ¥18,244 million, down by ¥493 million (2.6%) compared with the previous period.

Real Estate Development Division

In the Real Estate Development Division, the development and sale of Shinsaibashi SI Bldg., etc. raised revenue, but sales of real estate development decreased as a whole. As a result, operating revenue from the real estate development and management businesses decreased by ¥5,701 million (62.9%) to ¥3,364 million. Total operating revenue in this Division, including the operating revenue of the Real Estate Brokerage Business, decreased by ¥5,673 million (59.4%) to ¥3,883 million.

Housing Development Division

In the Housing Development Division, condominium income amounted to ¥6,271 million, down by ¥5,142 million (45.1%) compared with the previous period. This income was earned from the sale of a total of 121 units, including the units at SOUTH ALL CITY (Sakai-city, Osaka). Total operating revenue in this Division, including the other operating revenue, decreased by ¥5,224 million (45.2%) to ¥6,338 million.

Other Divisions

Income from the Contract Construction Business and Building Management Business decreased to ¥1,115 million, down by ¥529 million (32.2%) compared with the previous period. Income from the Private Nursing Home Business increased to ¥440 million, up by ¥23 million

(5.6%) compared with the previous period. The operating revenue of Other Divisions, including “other operating revenue,” decreased by ¥477 million (22.3%) to ¥1,669 million for the fiscal year ended March 31, 2011.

In keeping with the medium- and long-term purposes of the Company, namely to expand its revenue base through the further development of its core building leasing business, the Company strengthened its financial base by issuing new shares through a public offering. The Company also executed a capital and business alliance agreement with Mitsubishi Estate Co., Ltd. and issued new shares through a third-party allotment with that company. We believe that these measures will enable us to take further advantage of the business bases and know-how of both companies, particularly with regard to our project to redevelop Nihonbashi Kabuto-cho, Chuo-ku, Tokyo, the district where the Company’s head office is based. We believe further that the issuance of new shares through the public offering and third-party allotment will enable us to flexibly and appropriately implement capital expenditures for the business development we will be addressing in the medium- and long-term under the capital and business alliance mentioned earlier.

In addition, as a result of the change in the segmentation starting from the first quarter for this consolidated fiscal year, the results in comparison with the previous fiscal year are displayed according to the new segment.

Overall Operating Results of the Group

The operating results of the Company group for the fiscal year ended March 31, 2011, are summarized below:

Operating Revenue decreased to ¥30,135 million, down by ¥11,869 million (28.3%) compared with the previous period. Operating Cost totaled ¥17,652 million, down by ¥13,862 million (44.0%) compared with the previous period, while Selling, General and Administrative Expenses totaled ¥4,078 million, down by ¥264 million (6.1 %) compared with the previous period.

Consequently, Operating Income for the fiscal year ended March 31, 2011, reached ¥8,403 million, up by ¥2,257 million (36.7%) compared with the previous period, while Ordinary Income reached ¥5,183 million, up by ¥2,288 million (79.0%) compared with the previous period.

For this fiscal year net income of ¥2,062 million (net loss of ¥8,706 million in the previous fiscal year) was recorded mainly as a result of ¥1,251 million extraordinary loss derived from items such as loss on revaluation of investment in securities and loss on disaster from the effects of the Great East Japan Earthquake of March 2011.

(2) Issues to be resolved by the Company -

The Great East Japan Earthquake of March 2011 seriously impacted the domestic economy, and contracting production and sluggish consumer spending are further concerns. The future prospects for the Japanese economy are expected to remain uncertain.

In addition, the heavy loss posted for the previous consolidated fiscal year compelled us to forego a year-end dividend distribution. The Company group accepts deterioration in these results sincerely enough. The Company group will also adjust to the severe changes in external circumstances, accelerate the selection and concentration of its businesses under the core strategies listed below, and pursue the establishment of a firm revenue base on a group-wide basis.

- 1) In the Leasing Division, the Company will maintain its high operating rates and steadily press ahead with its construction work on the Ichibancho Heiwa Bldg. This structure was originally scheduled for completion in July 2011, but the project has been delayed by the impacts of the Great East Japan Earthquake.
- 2) In the Real Estate Development Division, the Company will focus on increases in non-asset fee revenues, including support fees from HEIWA REAL ESTATE REIT, Inc.
- 3) In the Housing Development Division, the Company will continue to place the utmost priority on drastically reducing inventories.
- 4) In financial management, the Company will reinforce its financial strength through various measures, including efforts to reduce interest-bearing liabilities and improve the capital-to-assets ratio.

(Capital and Business Alliance with Mitsubishi Estate Co., Ltd.)

The Company believes that it will be necessary to improve the profitability of its building leasing business in the medium- and long-term. It will therefore be necessary, over the medium- and long-term, to enhance and promote projects to redevelop the business districts on which the Company focuses, especially Nihonbashi Kabuto-cho, Chuo-ku, Tokyo, the district where the Company's head office is located, and thereby create higher added value. Since the year before last, the Company has been examining a plan for a business alliance with a candidate that fully understands and shares the medium- and long-term purpose and policy of the future business development of the Company group and is able to cooperate in developing business.

Mitsubishi Estate Co., Ltd. ("Mitsubishi Estate"), which is the Company's partner for the Capital and Business Alliance, is one of the core companies of Mitsubishi group and a leading comprehensive real estate company in Japan, and has an excellent record in redevelopment in the area the center of which is the Marunouchi district of Chiyoda-ku, Tokyo. The Company and Mitsubishi Estate have jointly performed a number of real estate development projects so far, and have established a favorable cooperative relationship, with some joint projects being in

progress at present. Taking this track record into account, the Company concluded that Mitsubishi Estate is the best business alliance partner that cooperates in developing the business mentioned above. Last year, the Company and Mitsubishi Estate started to examine a joint plan for a business alliance that will take fuller advantage of the strengths of the Company and Mitsubishi Estate, particularly their business bases and know-how, and to actively cooperate in promoting a project to redevelop the Nihonbashi Kabuto-cho district. As a result of this examination and discussion with Mitsubishi Estate, the Company has concluded that the two companies can expect to deepen their ties in a cooperative business relationship by implementing a third-party allotment to Mitsubishi Estate concurrently with the business alliance. This will generate a business synergy and promote cooperation of both companies in the redevelopment project over the medium- and long-term.

Based on this examination and discussion, the Company determined that, in addition to the business alliance with Mitsubishi Estate, it will be the best for the Company's future business development to establish a firmer cooperative relationship under the business alliance by allocating new shares to Mitsubishi Estate by way of a third-party allotment. At the Board of Directors meeting held on February 17, 2011, the Company adopted a resolution for the conclusion of a capital and business alliance agreement with Mitsubishi Estate and the issuance of new shares through a third-party allotment with Mitsubishi Estate.

Under this agreement, the Company and Mitsubishi Estate will establish a comprehensive and cooperative relationship to promote the medium- and long-term Kabuto-cho redevelopment project, and will share their client bases and know-how in real estate development, real estate management, tenant leasing, fundraising, and other related businesses. In addition, the Company and Mitsubishi Estate agree to actively examine the possibility of establishing cooperative business relationships in spheres other than those described above.

(3) Investment in fixed assets -

The Company paid out total capital expenditures of ¥3,748 million, including the expenditure for the construction of Ichibancho Heiwa Bldg.

(4) Status of financing -

The Company issued its 12th series of unsecured bonds on September 30, 2010 (issued amount, ¥2 billion; date of maturity, September 30, 2015; annual interest, 0.76%).

In addition, the Company raised ¥11,214 million by issuing new shares through a public offering and third-party allotment on March 7, 2011, and raised another ¥175 million by issuing new shares through a third-party allotment on March 28, 2011.

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

Fiscal year Classification	The 88th fiscal year (From April 1, 2007 to March 31, 2008)	The 89th fiscal year (From April 1, 2008 to March 31, 2009)	The 90th fiscal year (From April 1, 2009 to March 31, 2010)	The 91st fiscal year (From April 2010 to March 31, 2011)
Operating revenue	¥31,384 million	¥51,935 million	¥42,004 million	¥30,135 million
Ordinary Income	7,176 million	6,178 million	2,895 million	5,183 million
Net income	3,737 million	862 million	(8,706 million)	2,062 million
Net income per share (in exact yen)	25.56	5.81	(58.50)	13.47
Total assets	298,728 million	317,439 million	303,456 million	296,058 million
Net assets	70,456 million	70,598 million	58,764 million	73,010 million
Net assets per share (in exact yen)	460.24	454.57	392.14	363.13

(Notes) 1. Amounts in parentheses for Net income and Net income per share are negative.

2. In the 90th fiscal year, ordinary income decreased by write-down of the book value of inventories, and we recorded a net loss resulting from a posting loss on the revaluation of fixed assets in extraordinary loss.
3. Net income (loss) per share is calculated based on the average number of shares issued during the fiscal year, and net assets per share are calculated based on the number of shares issued at the end of the fiscal year.

(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, management of company housing
HEIWA REAL ESTATE Asset Management CO., LTD.	¥295 million	100.0%	Investment advisory business (Management of investment corporation-type J-REIT (Real Estate Investment Trusts))
Cassiopeia Investment, Y.K	¥3 million	-	Acquisition, possession and management of trust beneficiary rights on real estate in trust through anonymous partnership agreement
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 REAL ESTATE Asset Management CO., LTD. changed its corporate name from Canal Investment Trust Co., Ltd. on July 1, 2010.

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

3. Titan Y.K and H2 Y.K, formerly consolidated subsidiaries, are excluded from the Company's scope of consolidation from the fiscal year under review because they have become less important.

(7) Contents of principal businesses of the Group -

Division	Business Activities
Leasing	Leasing, management and performance of stock exchange buildings, general office buildings, commercial facilities and houses, etc.
Real Estate Development	Development of profitable real estate, operation and management of assets, and agency and brokerage of real estate
Housing Development	Development and sales of residential real estate
Other	Management of buildings and facilities, etc., contracting of repair work, a private nursing home enterprise and insurance agency

(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.	Chuo-ku, Osaka-city
HEIWA REAL ESTATE Asset Management CO., LTD.	Minato-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>261</u>	<u>12</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>88</u>	<u>3</u>	<u>40.6</u>	<u>13.9</u>

(10) Principal creditors -

<u>Creditors</u>	<u>Balance</u>
	<u>(In millions of yen)</u>
Resona Bank, Ltd.	¥22,724
The 77 Bank, Ltd.	16,290
Mizuho Corporate Bank, Ltd.	14,165
Sumitomo Mitsui Banking Corporation	13,370
The Hokkaido Bank, Ltd.	8,430
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	7,900

2. Status of Shares:

- (1) Number of shares authorized - 550,000,000 shares
- (2) Number of shares issued and outstanding - 200,299,980 shares
(including 704,493 shares of treasury stock)

(Note)

The number of shares issued and outstanding increased by 50,796,000 as a result of the issuance of new shares through a public offering and third-party allotment on March 7, 2011 and through a third-party allotment on March 28, 2011.

- (3) Number of shareholders - 30,409
(Increase of 4,627 compared with prior period end)

- (4) Major shareholders -

Name	No. of shares (000's)	Percentage of ownership (%)
Mitsubishi Estate Co., Ltd.	21,370	10.71
Japan Trustee Services Bank, Ltd. (Trust Account)	8,805	4.41
The Master Trust Bank of Japan, Ltd. (Trust Account)	7,773	3.89
Goldman Sachs International	4,915	2.46
JPMorgan Securities Japan Co., Ltd.	3,476	1.74
Taisei Corporation	2,663	1.33
Trust & Custody Service Bank, Ltd. (Securities Investment Trust Account)	2,538	1.27
JAPAN SECURITIES FINANCE CO., LTD.	2,250	1.13
Resona Bank, Ltd	2,229	1.12
Sumitomo Mitsui Banking Corporation	2,010	1.01

(Note)

The percentage of ownership is calculated after deducting the number of shares held as treasury stock (704,493 shares).

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	20,590,960 shares
Issue price of stock acquisition rights	Free
Exercise period of stock acquisition rights	From August 1, 2007 to June 21, 2012

(Note)

The number of shares to be issued or transferred upon the exercise of stock acquisition rights is the result of a division of the amount of convertible bonds with stock acquisition rights by a conversion price of 971.30 yen. Following an offering of new shares issued on the payment due date of March 7, 2011, the conversion price was adjusted from 1,015 yen to 971.30 yen in accordance with the outsourcing agreement on bond management, on March 8, 2011.

4. Matters related to Corporate Officers:

(1) Directors and Statutory Auditors -

Position	Name	Assignment; significant office(s) concurrently held
Representative Director and President and Chief Executive Officer	Sadao Yoshino	General Manager of General Affairs Headquarters
Director and Managing Executive Officer	Takashi Hayakawa	General Manager of Leasing Headquarters Director and President of Osaka Securities Building Co., Ltd.
Director and Managing Executive Officer	Kazuo Minamino	General Manager of Development Headquarters Director and President of Heiwa Healthcare Co., Ltd.
Director	Motoya Aizawa	Chairman, President and CEO of AIZAWA SECURITIES CO., LTD. Director of AIZAWA Investments Co., Ltd. Director of JAPAN Securities Incorporated
Director	Kunitaro Saida	Outside Auditor of NICHIREI CORPORATION External Director of Sumitomo Osaka Cement Co., Ltd.
Statutory Auditor (full-time)	Ichiro Sasaki	
Statutory Auditor (full-time)	Shigeo Ojima	
Statutory Auditor	Masahiko Kadotani	Corporate Auditor of Mizuho Securities Co., Ltd. Corporate Auditor of JAPAN PETROLEUM EXPLORATION CO., LTD. External Statutory Auditor of PRONEXUS INC.
Statutory Auditor	Yasutada Sasaki	

(Notes)

1. Motoya Aizawa and Kunitaro Saida are External Directors.
2. Shigeo Ojima, Masahiko Kadotani and Yasutada Sasaki are External Statutory Auditors.
3. External Statutory Auditor, Shigeo Ojima, has long experience at Osaka Securities Exchange and possesses substantial expertise and experience in finance and accounting.
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 possesses substantial expertise and experience in finance and accounting.

5. External Statutory Auditor, Yasutada Sasaki, has long experience at the Bank of Japan and possesses substantial expertise and experience in finance and accounting.

6. Directors, Motoya Aizawa and Kunitaro Saida, and Statutory Auditors, Shigeo Ojima, Masahiko Kadotani and Yasutada Sasaki are independent director/auditors subject to no possible conflicts of interest with general shareholders that the Company is required to designate under the rules of each stock exchange.

7. Directors assuming office during the term:

Motoya Aizawa and Kunitaro Saida
(Assumed office on June 25, 2010)

8. Directors retired during the term:

Sakutaro Kimbara, Hiroyuki Takahashi, and Kaoru Umehara
(Term of office expired on June 25, 2010)

9. Statutory Auditors assuming office during the term:

Yasutada Sasaki
(Assumed office on June 25, 2010)

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

Managing Officer	Masami Taniguchi	Deputy General Manager of Development Headquarters, Group Leader of Real Estate Development
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Managing Officer	Toshio Soeda	Manager of Fukuoka Branch, Leasing Headquarters
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Managing Officer	Kazuo Yamada	Deputy General Manager of General Affairs Headquarters, Group Leader of Planning Finance
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Managing Officer	Michio Yanagawa	Manager of Osaka
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Branch, Leasing
Headquarters

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

Category	Number of persons	Amount Paid	Note
Director	8	¥135 million	of which ¥12 million to 3 External Directors
Statutory Auditor	4	¥52 million	of which ¥32 million to 3 External Statutory Auditors
Total (Notes)	12	¥187 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 amount of remuneration above mentioned includes ¥20 million of bonuses for directors scheduled to be resolved at the 91st Ordinary General Shareholders' Meeting.
4. The number of members above mentioned includes three Directors who retired upon expiration of their terms at the conclusion of the 90th Ordinary General Shareholders' Meeting held on June 25, 2010.
5. 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. Under the above resolution, the Company paid retirement allowances totaling ¥127 million to the three Directors who retired during the current fiscal term (of which ¥6 million was paid to one External Director), in addition to the remuneration mentioned above.

(3) External Officers -

- 1) Relationship between the Company and other corporations, etc. in which Directors concurrently hold significant offices

Significant offices concurrently held by Motoya Aizawa, Director, Kunitaro Saida, Director, and Masahiko Kadotani, Statutory Auditor are as stated in “(1) Directors and Statutory Auditors.” There are no special matters to be stated with respect to the relationships between the Company and the corporations in which they hold offices concurrently.

2) 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)
Motoya Aizawa, Director	8 out of 9	-
Kunitaro Saida, Director	8 out of 9	-
Shigeo Ojima, Statutory Auditor	12 out of 12	7 out of 7
Masahiko Kadotani, Statutory Auditor	11 out of 12	7 out of 7
Yasutada Sasaki, Statutory Auditor	9 out of 9	4 out of 4

(Note)

Motoya Aizawa, Director, Kunitaro Saida, Director, and Yasutada Sasaki, Statutory Auditor, were elected at the Ordinary General Shareholders’ Meeting held on June 25, 2010. Accordingly, the above only describes their attendance after they had assumed their offices.

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

Motoya Aizawa, Director, has provided appropriate advice to contribute to the decision-making of the Board of Directors from an objective standpoint, taking advantage of his experience as a corporate executive.

Kunitaro Saida, Director, has provided appropriate advice to contribute to the decision-making of the Board of Directors from an objective standpoint, taking advantage of the professional knowledge and experience he has fostered in legal circles.

Shigeo Ojima, Statutory Auditor, carried out discussions on important matters relating to audits. He also posed questions and pointed out pertinent issues, as necessary, to ensure appropriate and suitable management of the decision-making process of the Board of Directors, taking advantage of his past experience as a corporate director.

Masahiko Kadotani, Statutory Auditor, carried out discussions on important matters relating to audits. He also posed questions and pointed out pertinent issues, as necessary, to ensure appropriate and suitable management of the decision-

making process of the Board of Directors, taking advantage of his past experience in performing duties in government, in other public offices, and in private companies, and in serving as a statutory auditor.

Yasutada Sasaki, Statutory Auditor, carried out discussions on important matters relating to audits. He also posed questions and pointed out pertinent issues, as necessary, to ensure appropriate and suitable management of the decision-making process of the Board of Directors, taking advantage of his past experience in performing duties in the Bank of Japan and in private companies.

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

27 million yen

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

27 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) Audits of subsidiaries -

HEIWA REAL ESTATE Asset Management CO., LTD., a subsidiary of the Company, is audited by an independent auditor other than the Independent Auditor of the Company.

(4) 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) Establishment of a corporate structure to ensure the proper conduct of business.

In its efforts to establish a lawful and efficient corporate structure, the Company maintains and operates 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, 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) The Company elects External Directors and External Auditors as independent directors/auditors to reinforce the management and supervisory functions of the Board of Directors and the audit function of the Board of Auditors.
- (2) The Company has established a “Code of Conduct” and “Compliance Regulations,” and requests the Directors, Corporate Officers, and employees of the Company to maintain fair and high ethical principles and strictly adhere to laws, regulations, and the articles of incorporation, in order to secure a management structure on which the community can rely.
- (3) Based on the “Internal Reporting Regulations,” the Company has established a compliance hotline as a contact point for notification when problems related to compliance occur, and detects and responds to any such problems as promptly as possible.
- (4) The Company responds 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 properly records the decision-making documents at the Board of Directors’ Meetings and other important meetings, approval documents, and information related to the performance of duties by the Directors, and properly stores and maintains these documents in accordance with the relevant laws and “Criteria for the Storage and Disposal of Documents.”

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) In recognition of the importance of risk management as a management issue, the Company has established a set of “Risk Management Rules” and endeavors to secure the effectiveness of risk management by defining the targeted risk and the responsibility for management of the risk.

- (2) The Internal Audit Office regularly conducts business audits, including an audit on the state of risk management in all departments, and report the results to the Representative Director and President. The Internal Audit Office also exchanges information with Statutory Auditors and conducts an effective audit.
- 4) System to ensure the efficient performance of duties by the directors
 - (1) The Company has implemented a Corporate Officer system and endeavors to use the system to segregate the functions and responsibilities of management and business execution and to accelerate the process of decision-making.

The Company has also adopted a Business Headquarters system and Group system, and by doing so clarifies the authorities and responsibilities of business execution and responds swiftly and flexibly to changes in the business environment.
 - (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 works to achieve the efficient execution of duties by its Directors.
 - (3) By formulating annual business plans and other plans, the Company establishes 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 has formulated a set of “Administrative Rules on Subsidiaries and Affiliates” and endeavors to secure the propriety of operations as a company group by defining the responsibility for administration and the contents of prior reports to a parent company, etc.
 - (2) 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.
 - (3) The Company has established a management conference among subsidiaries and affiliates and an administrative contact committee among subsidiaries and affiliates in order to share ownership of business policies, management information, etc.
 - (4) 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 present at important conferences, including the Board of Directors' Meetings and Corporate Officers' Meetings, express their views, and obtain copies of the minutes of the meetings and approval documents. The Statutory Auditors also request to be briefed on these matters. Further, the Statutory Auditors regularly hold meetings with the Representative Director, the Internal Audit Office, or the Independent Auditor.

(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* –

At the 87th Ordinary General Shareholders' Meeting held on June 27, 2007, the Company's shareholders approved the introduction of the "Measures Against Large Volume Purchase Activities of the Shares of Our Company ("Defense Measures Against Takeover")."

Later, at the 89th Ordinary General Shareholders' Meeting held on June 25, 2009, the Company's shareholders approved the continued application of the Defense Measures Against Takeover, based on the "Takeover Defense Measures in Light of Recent Environmental Changes" announced by the Corporate Value Study Group working under the Ministry of Economy, Trade and Industry and the application of the Defense Measures Against Takeover to date.

An outline of the Defense Measures Against Takeover is as follows.

- 1) Basic Policy

The Company believes that the final judgment as to whether to accept an offer to purchase

a large volume of shares entailing a transfer of controlling rights in the Company should be based on the will of the Company's shareholders.

In addition, if any activities undertaken for the large volume purchase of Company shares are conducive to the corporate value of the Company and, ultimately, to the common interest of the shareholders, the Company will not act to stop the activities.

Some large volume purchase activities, however, (1) are performed without giving the shareholders of the Company the time or information necessary to appropriately examine activities, (2) fail to provide the Company with opportunities to negotiate with the purchaser, and (3) impair the corporate value of the Company and, ultimately, the common interest of shareholders.

The Company believes that any person who engages in inappropriate large volume purchase activities would be inappropriate as a person to be entrusted with control over decision-making on the financial and business policies of the Company. It also believes that it needs to take necessary and suitable measures against these large-volume purchase activities in order to ensure the corporate value of the Company and, ultimately, the common interest of shareholders.

2) Summary of Efforts to Contribute to the Realization of the Basic Policy

The Company was established 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. Presently, the Company expands three core operations, namely, lease, real estate development, and housing development.

Building leasing is the Company's core business among these operations, and the provision of facilities for stock exchanges forms the core of building leasing. The maintenance and improvement of stock exchange functions supported through the lease of facilities are also an important social mission and role imposed on the Company. To that end, the Company has promoted the reconstruction of the Tokyo, Osaka, and Nagoya stock exchange buildings.

In addition, the Company has determined that it will be necessary to prepare the Defense Measures Against Takeover as advance countermeasures against inappropriate large volume purchase activities that could hinder the Company's efforts to perform its mission and role, and thus introduces the Defense Measures Against Takeover.

3) Summary of Efforts to Keep Control over Decision-Making on Financial and Business Policies out of the Hands of Inappropriate Persons in Light of the Basic Policy

The Defense Measures Against Takeover introduced by the Company sets forth procedures the purchaser is required to comply with when purchasing shares of the Company over a certain volume. It aims to ensure that our shareholders have sufficient time and

information to examine the purchase proposal. Further, to prevent the Board of Directors from making arbitrary judgment as to whether the Company will implement the Defense Measures Against Takeover, the Company has separately established a committee independent of the management of the Company, and respects the committee's advice. The Defense Measures Against Takeover are subject to the Basic Policy of the Company and are assumed not to impair the common interest of shareholders or to seek to maintain the status of Directors of the Company.

At the Board of Directors meeting held on May 13, 2011, the Company resolved the continuance and renewal of the Measures Against Large Volume Purchase of Shares of the Company ("Defense Measures Against Takeover") subject to approval at the 91st Ordinary General Shareholders' Meeting. For the full text, please refer to pages 64 to 86.

CONSOLIDATED BALANCE SHEET

MARCH 31, 2011

ASSETS

(In millions of yen)

Current assets:	
Cash and deposits	¥19,921
Accounts receivable – trade	676
Marketable securities	18,150
Real estate for sale	14,078
Real estate for sale in process	10,179
Other inventories	3
Operating investment	2,749
Deferred tax assets	2,071
Other	774
Allowance for doubtful accounts	(46)
Total current assets	<u>68,559</u>
Fixed assets:	
Tangible fixed assets -	
Buildings and structures	78,739
Machinery, equipment and vehicles	423
Tools, furniture and fixtures	299
Land	123,251
Construction in progress	1,314
Total tangible fixed assets	<u>204,027</u>
Intangible fixed assets -	
Leasehold rights	4,558
Goodwill	401
Other	114
Total intangible fixed assets	<u>5,074</u>
Investments and other assets -	
Investment in securities	12,208
Long-term loans to employees	6
Deferred tax assets	3,418
Other	2,569
Allowance for doubtful accounts	(22)
Total investments and other assets	<u>18,180</u>
Total fixed assets	<u>227,281</u>
Deferred assets -	
Bond-issuing expenses	217
Total deferred assets	<u>217</u>
Total assets	<u><u>296,058</u></u>

CONSOLIDATED BALANCE SHEET

MARCH 31, 2011

LIABILITIES AND SHAREHOLDERS' EQUITY

(In millions of yen)

<u>Liabilities</u>	
Current liabilities:	
Notes payable and accounts payable – trade	¥1,269
Current portion of bonds	4,540
Short-term loans payable	16,850
Current portion of long-term loans	28,839
Accrued corporation and other taxes	185
Accrued consumption taxes	528
Accrued bonuses for directors and statutory auditors	25
Accrued bonuses	188
Other	2,826
Total current liabilities	<u>55,254</u>
Long-term liabilities:	
Bonds	34,400
Convertible bonds (with stock acquisition rights)	20,000
Long-term loans payable	81,729
Long-term deposits received and deposits of landlord	20,419
Deferred tax liabilities	80
Deferred tax liabilities concerning revaluation	10,205
Long-term accounts payable	137
Accrued severance indemnities for employees	610
Negative goodwill	19
Asset retirement obligations	188
Other	3
Total long-term liabilities	<u>167,794</u>
Total liabilities	<u>223,048</u>
<u>Net Assets</u>	
Shareholders' equity:	
Common stock	21,492
Additional paid-in capital	19,720
Retained earnings	15,992
Treasury stock, at cost	(378)
Total shareholders' equity	<u>56,827</u>
Accumulated other comprehensive income:	
Unrealized gain on securities	776
Revaluation surplus of land	14,875
Total valuation and translation adjustments	<u>15,652</u>
Minority shareholders' equity	<u>530</u>
Total net assets	<u>73,010</u>
Total liabilities and net assets	<u><u>296,058</u></u>

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

FROM: APRIL 1, 2010

TO: MARCH 31, 2011

(In millions of yen)

Operating revenue -	
Leasing income	¥18,244
Revenue from real estate development	3,883
Revenue from housing development	6,338
Other operating revenue	1,669
Total operating revenue	<u>30,135</u>
Cost of sales -	
Cost of leasing	10,043
Cost of real estate development	903
Cost of housing development	5,578
Other operating cost	1,127
Total operating cost	<u>17,652</u>
Gross profit	12,482
Selling, general and administrative expenses	<u>4,078</u>
Operating income	8,403
Non-operating income -	
Interest income and dividends earned	438
Amortization of negative goodwill	6
Subsidy income	13
Income for non-operating trustee services	11
Miscellaneous non-operating income	36
Total non-operating income	<u>505</u>
Non-operating expenses -	
Interest on debentures	899
Interest expense	2,357
Amortization of bond-issuing expenses	87
Stock-issuing expenses	118
Miscellaneous non-operating expenses	263
Total non-operating expenses	<u>3,725</u>
Ordinary income	5,183
Extraordinary income -	
Gain on sale of fixed assets	6
Reversal of allowance for doubtful accounts	90
Total extraordinary income	<u>96</u>
Extraordinary loss -	
Loss on sale of fixed assets	3
Loss on disposal of fixed assets	124
Dismantling expense of buildings and building fixtures	90
Loss on adjustment for changes of accounting standard for asset retirement obligations	56
Loss on revaluation of investment in securities	448
Loss on revaluation of golf club membership	56
Impairment loss	212
Loss on disaster	255
Other	2
Total extraordinary loss	<u>1,251</u>
Income before income taxes	4,028
Corporation, inhabitants and enterprise taxes	126
Deferred income taxes	1,715
Income before minority interests	<u>2,186</u>
Minority interests	124
Net income	<u>2,062</u>

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

FROM: APRIL 1, 2010
TO: MARCH 31, 2011

(In millions of yen)

Shareholders' equity	
Common stock	
Balance at the end of previous period	15,797
Change during the period	
Issuance of stock	5,694
Total change during the period	<u>5,694</u>
Balance at the end of current period	<u>21,492</u>
Additional paid-in capital	
Balance at the end of previous period	14,025
Change during the period	
Issuance of stock	5,694
Total change during the period	<u>5,694</u>
Balance at the end of current period	<u>19,720</u>
Retained earnings	
Balance at the end of previous period	14,263
Change during the period	
Distribution of surplus	(297)
Net income	2,062
Change of scope of consolidation	(5)
Disposal of treasury stock	(0)
Reversal of revaluation surplus of land	(29)
Total change during the period	<u>1,729</u>
Balance at the end of current period	<u>15,992</u>
Treasury stock	
Balance at the end of previous period	(373)
Change during the period	
Acquisition of treasury stock	(5)
Disposal of treasury stock	0
Total change during the period	<u>(4)</u>
Balance at the end of current period	<u>(378)</u>
Total shareholders' equity	
Balance at the end of previous period	43,713
Change during the period	
Issuance of stock	11,389
Distribution of surplus	(297)
Net income	2,062
Change of scope of consolidation	(5)
Acquisition of treasury stock	(5)
Disposal of treasury stock	0
Reversal of revaluation surplus of land	(29)
Total change during the period	<u>(13,114)</u>
Balance at the end of current period	<u>56,827</u>

(In millions of yen)

Accumulated other comprehensive income	
Unrealized gain on securities	
Balance at the end of previous period	(200)
Change during the period	
Net change in items other than shareholders' equity during the period	976
Total change during the period	976
Balance at the end of current period	776
Revaluation surplus of land	
Balance at the end of previous period	14,846
Change during the period	
Net change in items other than shareholders' equity during the period	29
Total change during the period	29
Balance at the end of current period	14,875
Total accumulated other comprehensive income	
Balance at the end of previous period	14,645
Change during the period	
Net change in items other than shareholders' equity during the period	1,006
Total change during the period	1,006
Balance at the end of current period	15,652
Minority shareholders' equity	
Balance at the end of previous period	405
Change during the period	
Net change in items other than shareholders' equity during the period	124
Total change during the period	124
Balance at the end of current period	530
Total net assets	
Balance at the end of previous period	58,764
Change during the period	
Issuance of stock	11,389
Distribution of surplus	(297)
Net income	2,062
Change of scope of consolidation	(5)
Acquisition of treasury stock	(5)
Disposal of treasury stock	0
Reversal of revaluation surplus of land	(29)
Net change in items other than shareholders' equity during the period	1,130
Total change during the period	14,245
Balance at the end of current period	73,010

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Going concern assumption

Not applicable

2. Basis of presenting consolidated financial statements

(1) Basis of consolidation:

Consolidated subsidiaries: 9

Names of the consolidated subsidiaries: Heiwa Service Co., Ltd., Heiwa Healthcare Co., Ltd., Osaka Securities Building Co., Ltd., HEIWA REAL ESTATE Asset Management CO., LTD. (formerly Canal Investment Trust Co., Ltd.), Cassiopeia Investment, Y.K, STAR 1 REALTY Y.K, STAR 2 REALTY Y.K, Charites Y.K, Housing Service Co., Ltd.

Because the significance of Titan Y.K. and H2 Y.K, which were formerly consolidated subsidiaries, decreased, they are excluded from the Company's scope of consolidation from the fiscal year under review.

(2) Basis of applying the equity method:

1) Non-consolidated subsidiaries accounted for by the equity method: 0

2) Affiliates accounted for by the equity method: None

(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 (excluding lease 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.

2) Intangible fixed assets (excluding lease 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) Lease assets -

Lease assets are depreciated by the straight-line method over the lease period without residual value.

Finance lease transactions without ownership-transfer started on or before March 31, 2008 are accounted for by the accounting method used for ordinary lease transactions.

(5) Method of accounting of deferred assets:

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

Stock-issuing expenses are charged as expenses as incurred.

(6) Principles for providing accruals and reserves:

1) Allowance for doubtful accounts -

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

2) Accrued bonuses for directors and statutory auditors-

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

3) Accrued bonuses -

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

4) 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) Method and period of amortization of goodwill and negative goodwill -

Goodwill and negative goodwill are amortized by the straight-line method over five years.

(8) 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.

(9) Changes in accounting standards:

1) Adoption of accounting standard for asset retirement obligations -

From this consolidated fiscal year, the Company adopts the “Accounting Standard for Asset Retirement Obligations” (Accounting Standard Board of Japan (ASBJ) Statement No. 18, March 31, 2008) and the “Guidance on Accounting Standard for Asset Retirement Obligations,” ASBJ Guidance No. 21, March 31, 2008).

As a result, operating income and ordinary income each decreased by ¥29 million, and income before income taxes decreased by ¥85 million.

2) Adoption of accounting standards for business combinations-

From this consolidated fiscal year, the Company adopts the “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, December 26, 2008), the “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, December 26, 2008), the “Partial amendments to Accounting Standard for Research and Development Costs” (ASBJ Statement No. 23, December 26, 2008), the “Revised Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, December 26, 2008), the “Revised Accounting Standard for Equity Method of Accounting for Investments” (ASBJ Statement No. 16, December 26, 2008), and the “Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, December 26, 2008).

(10) Changes of presentation:

Consolidated Statement of Profit and Loss -

From this consolidated fiscal year, based on the “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, December 26, 2008), the Company adopts the “Cabinet Office Ordinance Partially Revising Regulation on Terminology, Forms and Preparation of Financial Statements” (Cabinet Office Ordinance No. 5, March 24, 2009). As a result, “Income before minority interests” is presented in the consolidated statements of profit and loss.

3. Notes to the consolidated balance sheet

(1) Pledged assets

1) Assets pledged as collateral

Real estate for sale	¥8,995 million
Buildings	¥21,844 million
Land	¥35,254 million
Total	¥66,094 million

2) Secured liabilities

Current portion of bonds	¥3,860 million
Current portion of long-term loans	¥7,484 million
Deposit received	¥340 million
Long-term loans payable	¥12,823 million
Long-term deposits received and deposits of landlord	¥4,383 million
Total	¥28,890 million

(2) Accumulated depreciation of tangible fixed assets ¥63,820 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.	¥530 million
Total	¥530 million

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

(1) Issued shares

Common stock	200,299,980 shares
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(2) Treasury stock

Common stock	704,493 shares
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(3) Distribution of surplus

1) Payments of dividends

The following was resolved and approved at the Ordinary General Shareholders' Meeting held on October 29, 2010.

Distribution of common stock

• Total amount of distribution	¥297 million
• Distribution per share	¥2
• Record date	September 30, 2010
• Effective date	December 1, 2010

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 28, 2011.

Distribution of common stock

• Total amount of distribution	¥399 million
• Source of distribution	Retained earnings
• Distribution per share	¥2
• Record date	March 31, 2011
• Effective date	June 29, 2011

(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	20,590,960 shares
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5. Notes to financial instruments

(1) Financial instruments

The Company limits fund management to short-term deposits, etc. and procures funds by borrowing money from banks and other financial institutions.

Loans payable are used for working capital (chiefly for short-term purposes) and funds for capital investments (for long-term purposes). The Company fixes interest expenses by applying interest rate swap transactions to a portion of the long-term loans payable with interest rate volatility risk.

(2) Fair value, etc. of financial instruments

The balance sheet amount, the fair value, and the difference between the two were as follows as of March 31, 2011 (settlement date of the current consolidated fiscal year):

	Consolidated balance sheet amount (*)	Fair value (*)	Difference
(1) Cash and deposits	19,921	19,921	—
(2) Accounts receivable – trade	676	676	—
(3) Marketable securities	18,150	18,150	0
(4) Investment in securities	10,212	10,214	1
(5) Notes payable and accounts payable – trade	(1,269)	(1,269)	—
(6) Bonds	(38,940)	(38,272)	667
(7) Convertible bonds (with stock acquisition rights)	(20,000)	(19,770)	230
(8) Short-term loans payable	(16,850)	(16,850)	—
(9) Long-term loans payable	(110,568)	(110,204)	364
(10) Derivative transactions	—	—	—

(*) Figures in parentheses are presented in Liabilities.

(Notes)

1. Method for calculating the fair value of financial instruments, and matters related to

marketable securities and derivative transactions

(1) Cash and deposits and (2) Accounts receivable – trade

Because their fair value is almost equal to their book value due to settlement in short periods, they are posted at their book value.

(3) Marketable securities and (4) Investment in securities

The fair value of a share, etc. is based on a price on an exchange, while that of a claim is either based on a price on an exchange or a price quoted by a financial institution, etc.

(5) Notes payable and accounts payable – trade

Because their fair value is almost equal to their book value due to settlement in short periods, they are posted at their book value.

(6) Bonds

The fair value of bonds is posted at the present value of the bonds and is equal to the total of capital and interests discounted by the remaining terms and interest rates adjusted for credit risk.

(7) Convertible bonds (with stock acquisition rights)

The fair value of a convertible bond (with a stock acquisition right) is based on the price of the bond on an exchange.

(8) Short-term loans payable

Because their fair value is almost equal to their book value due to settlement in short periods, they are posted at their book value.

(9) Long-term loans payable

The fair value of long-term loans payable is calculated by discounting the total principal and interest by the assumed interest rate for a new borrowing under the same terms and conditions. Long-term loans payable with floating rates are subject to exceptional treatment for interest-rate swaps (Refer to (10) below). Accordingly, they are calculated by discounting the total of principal and interest accounted for as a unit with the interest-rate swap by an assumed interest rate reasonably estimated for a borrowing under the same terms and conditions.

(10) Derivative transactions

A derivative transaction subject to exceptional treatment for interest-rate swaps is accounted for as a unit together with long-term loans payable subject to hedge. For this reason, the fair value of such a transaction is included in the fair value of the long-term loans payable (Refer to (9) above).

2. The fair value of unlisted investment securities, etc. (amount on consolidated balance sheet: ¥1,995 million) is considered to be quite difficult to calculate, as there are no market prices and no valuations of future cash flows. For this reason, they are not included in (4) Investment in securities.

3. Long-term deposits received and deposits of landlord (amount on consolidated balance sheet: ¥20,419 million) have no market prices, and their cash flows are

considered quite difficult to reasonably estimate due to the difficulty in calculating substantial lease periods from the start of occupation by lessees to the dates of evacuation. For this reason, they are not subject to the disclosure of fair value.

6. Notes to lease properties, etc.

(1) Lease properties, etc.

The Company and some subsidiaries own lease office buildings, lease commercial facilities, and lease housing, etc. in Tokyo and other areas.

(2) Fair value of lease properties, etc.

• Consolidated balance sheet amount	¥206,833 million
• Fair value	¥241,546 million

(Notes)

1. The consolidated balance sheet amount is equal to the acquisition cost minus the accumulated depreciation and accumulated impairment cost.
2. With regard to principal properties, the fair value at the end of this consolidated fiscal year is an amount based on a certificate of real property appraisal by independent real property appraisers. With regard to other properties, the fair value at the end of this term is an amount calculated by the Company based on the Real Estate Appraisal Standard (including that adjusted using indexes, etc.)

7. Per share data

(1) Net assets per share	¥363.13
(2) Net income per share	¥13.47

8. Subsequent events

Not applicable.

9. Other notes

Impairment loss

The Company group recorded impairment loss on the following asset groups in this consolidated fiscal year.

Area	Principal use	Category	Impairment loss
Tokyo metropolitan area	Parking lots, buildings for lease, houses for lease, etc.	Land and Buildings, etc.	¥212 million

* Details of impairment loss by area

Tokyo metropolitan area: ¥212 million (of which Land accounted for ¥184 million and Buildings, etc. accounted for ¥27 million)

The Company group bundles assets based on the minimum unit generating cash flows in a manner generally independent of cash flows provided by other assets or asset groups.

The book values of eight (8) real properties for lease with significant declines in profitability due to significantly lower rents for real property for lease and continuous declines in land prices were written down to a recoverable amount. The Company group recorded the amount written off as impairment loss in extraordinary loss (¥212 million).

The recoverable amounts of the above asset groups are determined by net sales values mainly based on the appraisal values determined by real property appraisers.

NON-CONSOLIDATED BALANCE SHEET

MARCH 31, 2011

ASSETS

(In millions of yen)

Current assets:	
Cash and deposits	¥17,550
Accounts receivable – trade	250
Marketable securities	18,142
Real estate for sale	4,292
Real estate for sale in process	10,179
Operating investment	2,749
Prepaid expenses	285
Deferred tax assets	2,057
Accrued income	0
Short-term loans	426
Accounts receivable – other	313
Advances paid	35
Suspense payments	6
Allowance for doubtful accounts	(88)
Total current assets	<u>56,203</u>
Fixed assets:	
Tangible fixed assets -	
Buildings	78,013
Structures	433
Machinery and equipment	427
Vehicles	0
Tools, furniture and fixtures	266
Land	122,991
Construction in progress	1,199
Total tangible fixed assets	<u>203,331</u>
Intangible fixed assets -	
Leasehold rights	4,558
Trademark rights	4
Software	56
Telephone subscription right	9
Right of using facilities	12
Total intangible fixed assets	<u>4,641</u>
Investments and other assets -	
Investment in securities	11,990
Investment in securities of affiliates	2,274
Investment in other securities of affiliates	4,961
Investment in partnerships	2
Deferred tax assets	3,208
Long-term loans receivable from employees	3
Long-term prepaid expenses	864
Guarantee deposits	427
Insurance funds	91
Allowance for doubtful accounts	(22)
Total investments and other assets	<u>23,801</u>
Total fixed assets	<u>231,774</u>
Deferred assets -	
Bond-issuing expenses	217
Total deferred assets	<u>217</u>
Total assets	<u><u>288,195</u></u>

NON-CONSOLIDATED BALANCE SHEET

MARCH 31, 2011

LIABILITIES AND SHAREHOLDERS' EQUITY

(In millions of yen)

<u>Liabilities</u>	
Current liabilities:	
Accounts payable – trade	1,064
Current portion of bonds	4,540
Short-term loans payable	16,930
Current portion of long-term loans	28,839
Accounts payable – other	109
Accrued expenses	215
Accrued corporation and other taxes	92
Accrued consumption taxes	504
Advances received	1,262
Deposits received	828
Accrued bonuses for directors and statutory auditors	20
Accrued bonuses	131
Other	247
Total current liabilities	<u>54,785</u>
Long-term liabilities:	
Bonds	34,400
Convertible bonds(with stock acquisition rights)	20,000
Long-term loans payable	76,129
Long-term deposits received and deposits of landlord	19,359
Deferred tax liabilities concerning revaluation	10,205
Long-term accounts payable	104
Accrued severance indemnities for employees	594
Asset retirement obligations	184
Total long-term liabilities	<u>160,978</u>
Total liabilities	<u>215,763</u>
<u>Net assets</u>	
Shareholders' equity:	
Common stock	21,492
Additional paid-in capital	
Capital reserve	19,720
Total additional paid-in capital	<u>19,720</u>
Retained earnings:	
Legal reserve	1,453
Other retained earnings:	
Reserve for deferral of gains on fixed assets	1,127
Reserve for special depreciation	320
Reserve for research and development costs	30
Reserve for general purposes	10,115
Unappropriated retained earnings	2,904
Total other retained earnings	<u>14,497</u>
Total retained earnings	<u>15,590</u>
Treasury stock, at cost	<u>(378)</u>
Total shareholders' equity	<u>56,785</u>
Valuation and translation adjustments:	
Unrealized gain on securities	770
Revaluation surplus of land	14,875
Total valuation and translation adjustments	<u>15,646</u>
Total net assets	<u>72,431</u>
Total liabilities and net assets	<u>288,195</u>

NON-CONSOLIDATED STATEMENT OF PROFIT AND LOSS

FROM: APRIL 1, 2010

TO: MARCH 31, 2011

(In millions of yen)

Operating revenue -	
Leasing income	¥18,212
Revenue from real estate development	2,144
Revenue from housing development	6,338
Total operating revenue	<u>26,695</u>
Cost of sales -	
Cost of leasing	10,283
Cost of real estate development	658
Cost of housing development	5,578
Total operating cost	<u>16,520</u>
Gross profit	10,174
Selling, general and administrative expenses	<u>2,537</u>
Operating income	7,637
Non-operating income -	
Interest income and dividends earned	623
Income for non-operating trustee services	102
Miscellaneous non-operating income	33
Total non-operating income	<u>758</u>
Non-operating expenses -	
Interest on debentures	899
Interest expense	2,189
Amortization of bond-issuing expenses	87
Stock-issuing expenses	118
Miscellaneous non-operating expenses	241
Total non-operating expenses	<u>3,535</u>
Ordinary income	4,860
Extraordinary income -	
Reversal of allowance for doubtful accounts	58
Gain on sale of fixed assets	6
Total extraordinary income	<u>65</u>
Extraordinary loss -	
Loss on sale of fixed assets	3
Loss on disposal of fixed assets	4
Dismantling expense of buildings and building fixtures	29
Loss on revaluation of investment in securities	448
Impairment loss	212
Loss on revaluation of golf club membership	56
Loss on disaster	255
Loss on adjustment for changes of accounting standard for asset retirement obligations	43
Total extraordinary loss	<u>1,055</u>
Income before income taxes	3,870
Corporation, inhabitants and enterprise taxes	9
Deferred income taxes	<u>1,650</u>
Net income	<u>¥2,210</u>

NON-CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

FROM: APRIL 1, 2010
TO: MARCH 31, 2011

(In millions of yen)

Shareholders' equity	
Common stock	
Balance at the end of previous period	15,797
Change during the period	
Issuance of stock	5,694
Total change during the period	<u>5,694</u>
Balance at the end of current period	<u>21,492</u>
Additional paid-in capital	
Capital reserve	
Balance at the end of previous period	14,025
Change during the period	
Issuance of stock	5,694
Total change during the period	<u>5,694</u>
Balance at the end of current period	<u>19,720</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	1,169
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>1,127</u>
Special depreciation reserve	
Balance at the end of previous period	388
Change during the period	
Reversal of special depreciation reserve	(68)
Total change during the period	<u>(68)</u>
Balance at the end of current period	<u>320</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	
Reversal of general reserve	(15,500)
Total change during the period	<u>(15,500)</u>
Balance at the end of current period	<u>10,115</u>
Retained earnings carried forward	
Balance at the end of previous period	(14,588)
Change during the period	
Distribution of surplus	(297)
Reversal of reserve for advanced depreciation of fixed assets	42
Reversal of special depreciation reserve	68
Reversal of general reserve	15,500
Net income	2,210
Disposal of treasury stock	(0)
Reversal of revaluation surplus of land	(29)
Total change during the period	<u>17,492</u>
Balance at the end of current period	<u>2,904</u>

(In millions of yen)

Total retained earnings	
Balance at the end of previous period	14,067
Change during the period	
Distribution of surplus	(297)
Net income	2,210
Disposal of treasury stock	(0)
Reversal of revaluation surplus of land	(29)
Total change during the period	<u>1,882</u>
Balance at the end of current period	<u>15,950</u>
Treasury stock	
Balance at the end of previous period	(373)
Change during the period	
Acquisition of treasury stock	(5)
Disposal of treasury stock	0
Total change during the period	<u>(4)</u>
Balance at the end of current period	<u>(378)</u>
Total shareholders' equity	
Balance at the end of previous period	43,518
Change during the period	
Issuance of stock	11,389
Distribution of surplus	(297)
Net income	2,210
Acquisition of treasury stock	(5)
Disposal of treasury stock	0
Reversal of revaluation surplus of land	(29)
Total change during the period	<u>13,267</u>
Balance at the end of current period	<u>56,785</u>
Valuation and translation adjustments	
Unrealized gain on securities	
Balance at the end of previous period	(178)
Change during the period	
Net change in items other than shareholders' equity during the period	<u>949</u>
Total change during the period	<u>949</u>
Balance at the end of current period	<u>770</u>
Revaluation surplus of land	
Balance at the end of previous period	14,846
Change during the period	
Net change in items other than shareholders' equity during the period	<u>29</u>
Total change during the period	<u>29</u>
Balance at the end of current period	<u>14,875</u>
Total valuation and translation adjustments	
Balance at the end of previous period	14,667
Change during the period	
Net change in items other than shareholders' equity during the period	<u>978</u>
Total change during the period	<u>978</u>
Balance at the end of current period	<u>15,646</u>
Total net assets	
Balance at the end of previous period	58,185
Change during the period	
Issuance of stock	11,389
Distribution of surplus	(297)
Net income	2,210
Acquisition of treasury stock	(5)
Disposal of treasury stock	0
Reversal of revaluation surplus of land	(29)
Net change in items other than shareholders' equity during the period	<u>978</u>
Total change during the period	<u>14,246</u>
Balance at the end of current period	<u>72,431</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 (excluding lease 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.

2) Intangible fixed assets (excluding lease 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) Lease assets -

Lease assets are depreciated by the straight-line method over the lease period without residual value.

Finance lease transactions without ownership-transfer started on or before March 31, 2008 are accounted for by the accounting method used for ordinary lease transactions.

(3) Method of accounting of deferred assets:

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

Stock-issuing expenses are charged as expenses as incurred.

(4) Principles for providing accruals and reserves:

1) Allowance for doubtful accounts -

An allowance for doubtful accounts is provided to cover losses bad debt at an amount estimated based on 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 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.

(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:

Adoption of accounting standard for asset retirement obligations -

From this consolidated fiscal year, the Company adopts the “Accounting Standard for Asset Retirement Obligations” (Accounting Standard Board of Japan (ABSJ), Statement No. 18, March 31, 2008) and the “Guidance on Accounting Standard for Asset Retirement Obligations,” ABSJ Guidance No. 21, March 31, 2008).

As a result, operating income and ordinary income each decreased by ¥34 million, and income before income taxes decreased by ¥77 million.

3. Notes to the non-consolidated balance sheet

(1) Pledged assets

1) Assets pledged as collateral

Buildings	¥21,912 million
Land	¥35,254 million
Total	¥57,167 million

2) Secured liabilities

Current portion of bonds	¥3,860 million
Current portion of long-term loans	¥7,484 million
Long-term loans payable	¥7,223 million
Long-term deposits received and deposits of landlord	¥4,383 million
Deposit received	¥340 million
Total	¥23,290 million

(2) Accumulated depreciation of tangible fixed assets ¥62,997 million

(3) Guarantees due from the Company

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

Heiwa Healthcare Co., Ltd. (Subsidiary)	¥100 million
STAR 1 REALTY Y.K. (Subsidiary)	¥2,900 million
Housing loans for employees of Heiwa Real Estate Co., Ltd.	¥530 million
Total	¥3,530 million

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

Assets	¥386 million
Debts	¥1,134 million

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

Transactions with subsidiaries and affiliates

Operating transactions	¥2,084 million
Non-operating transactions	¥287 million

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

Treasury stock

Common stock	704,493 shares
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6. Income taxes

(1) Deferred tax assets (current)

Accrued corporation tax	¥29 million
Accrued bonuses	¥53 million
Loss on revaluation of operating investment	¥557 million
Net loss carried forward	¥1,302 million
Other	¥115 million
Total	<u>¥2,057 million</u>

(2) Deferred tax assets (noncurrent)

Impairment loss	¥4,846 million
Accrued severance indemnities for employees	¥242 million
Reserve for deferral of gains on fixed assets	(¥773 million)
Reserve for special depreciation	(¥219 million)
Allowance for doubtful accounts	¥9 million
Unrealized gain on securities	(¥528 million)
Net loss carried forward	¥1,496 million
Other	¥132 million
Sub-total	<u>¥5,205 million</u>
Valuation allowance	<u>(¥1,996million)</u>
Total	¥3,208 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

Not applicable

9. Per share data

(1) Net assets per share	¥362.89
(2) Net income per share	¥14.44

10. Subsequent events

Not applicable.

11. Adoption of dividend restrictions on a consolidated basis

The Company will be subject to dividend restrictions on a consolidated basis once the end of this fiscal year becomes the end of a fiscal year whose financial statements are approved.

12. Other notes

Impairment loss

The Company recorded impairment loss on the following asset groups in this fiscal year.

Area	Principal use	Category	Impairment loss
Tokyo metropolitan area	Parking lots, buildings for lease, and houses for lease, etc.	Land and Buildings, etc.	¥212 million

* Details of impairment loss

Tokyo metropolitan area: ¥212 million (of which Land accounted for ¥184 million and Construction in progress accounted for ¥27 million)

The Company bundles assets based on the minimum unit generating cash flows in a manner generally independent of cash flows provided by other assets or asset groups.

The book values of eight (8) real properties for lease with significant declines in profitability due to significantly lower rents for real property for lease and continuous declines in land prices were written down to a recoverable amount. The Company recorded the amount written off as impairment loss in extraordinary loss (¥212 million).

The recoverable amounts of the above asset groups are determined by the net sales values mainly based on the appraisal values determined by real property appraisers.

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

Independent Auditor's Report
(English Translation)

May 10, 2011

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

Toyo Horwath

Mitsuhiko Fukuda, CPA, Engagement Partner
Yasuo Muramoto, CPA, Engagement Partner
Mitsuhide Nansen, 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 91st fiscal year from April 1, 2010 to March 31, 2011. 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 10, 2011

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

Toyo Horwath

Mitsuhiro Fukuda, CPA, Engagement Partner
Yasuo Muramoto, CPA, Engagement Partner
Mitsuhide Nansen, 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 91st fiscal year from April 1, 2010 to March 31, 2011. 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 91st fiscal year from April 1, 2010 to March 31, 2011, 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.

With regard to 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 stated in the business reports, 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, each Statutory Auditor regularly received reports from directors and employees on the status of the establishment and operations thereof and requested them for explanations as necessary. The contents of the basic policy set forth in Article 118, Item 3 (i), of the Enforcement Regulations of the Companies Act stated in the business reports and each approach set forth in Item 3 (ii) 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, 2011.

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, 2011.

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 the content of the business reports description on 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 118, Item 3 (ii), 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 13, 2011

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

External Statutory Auditor (Full-time)
Shigeo Ojima

External Statutory Auditor
Masahiko Kadotani

External Statutory Auditor
Yasutada Sasaki