

# Consolidated Financial Results for First Half of Fiscal Year Ending March 31, 2008



October 31, 2007

Company Name: Heiwa Real Estate Co., Ltd.

Code Number: 8803

(URL: <http://www.heiwa-net.co.jp/>)

Stock Exchange Listing: Tokyo, Osaka, Nagoya, Fukuoka, Sapporo

Representative: Sakutaro Kimbara, Director and President

Scheduled date to submit the Semi-Annual Securities Report: December 19, 2007

Scheduled date to commencement of dividend payments: December 3, 2007

(Figures are rounded down to the nearest million yen)

## 1. Consolidated Financial Results for the First Half of Fiscal Year Ending March 31, 2008 (From April 1, 2007 to September 30, 2007)

### (1) Consolidated Results of Operations

(% indicates changes from the previous term)

	Operating revenue		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
First half ended September 30, 2007	13,012	25.9	4,887	27.6	4,124	32.4	2,338	28.0
First half ended September 30, 2006	10,333	(3.4)	3,830	4.4	3,115	(0.2)	1,826	17.8
Year ended March 31, 2007	31,912	—	9,637	—	8,164	—	4,534	—

	Net income per share	Fully diluted net income per share
	Yen	Yen
First half ended September 30, 2007	16.01	14.41
First half ended September 30, 2006	12.87	12.23
Year ended March 31, 2007	31.90	30.39

(Reference) Equity in earnings (losses) of affiliated companies: First half ended September 30, 2007: ¥68 million  
First half ended September 30, 2006: ¥5 million  
Year ended March 31, 2007: ¥28 million

### (2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
First half ended September 30, 2007	268,327	71,435	25.5	466.97
First half ended September 30, 2006	204,159	62,870	30.8	442.86
Year ended March 31, 2007	213,298	67,014	31.4	461.01

(Reference) Equity: First half ended September 30, 2007: ¥68,359 million  
First half ended September 30, 2006: ¥62,827 million  
Year ended March 31, 2007: ¥66,968 million

### (3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
First half ended September 30, 2007	(6,184)	(31,790)	40,759	7,240
First half ended September 30, 2006	(4,695)	(10,495)	14,714	2,942
Year ended March 31, 2007	8	(17,181)	17,872	4,118

## 2. Dividends

(Record date)	Cash dividends per share				
	End of 1Q	First half	End of 3Q	Year-end	Annual
Year ended March 31, 2007	Yen –	Yen 5.00	Yen –	Yen 5.00	Yen 10.00
Year ending March 31 2008	–	7.00	–	–	12.00
Year ending March 31 2008 (Forecast)	–	–	–	5.00	

(Note) Breakdown of first-half and year-end dividends for the year ending March 31, 2008:  
Commemorative dividends for our 60th anniversary: ¥2.00

## 3. Forecast of Consolidated Financial Results for Fiscal Year Ending March 31, 2008 (From April 1, 2007 to March 31, 2008)

(% indicates changes from the previous corresponding term)

	Operating revenue		Operating income		Ordinary income		Net income		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	40,900	28.3	9,800	2.4	8,200	0.5	4,200	(6.9)	28.98

## 4. Others

- (1) Significant changes of subsidiaries during period under review (affecting specific subsidiaries due to changes in scope of consolidation): Not applicable
- (2) Changes in the accounting principles, accounting procedures, presentation, etc., related to preparation of first-half consolidated financial statements (those to be described as Changes in Significant Matters that are the Basis for Preparing First-half Consolidated Financial Statements)
  - 1) Changes due to the revision of accounting standards, etc.: Yes
  - 2) Any changes other than 1) above: Yes
- (3) Total number of issued shares (common stock)
  - 1) Total number of issued shares at the end of fiscal year (including treasury stock):
    - First half ended September 30, 2007: 146,939,083 shares
    - First half ended September 30, 2006: 142,307,067 shares
    - Year ended March 31, 2007: 145,770,261 shares
  - 2) Total number of treasury shares at the end of fiscal year:
    - First half ended September 30, 2007: 551,034 shares
    - First half ended September 30, 2006: 440,072 shares
    - Year ended March 31, 2007: 507,762 shares

(Reference) Summary of Non-consolidated Financial Results

**1. Non-consolidated Financial Results for the First Half of Fiscal Year Ending March 31, 2008 (From April 1, 2007 to September 31, 2007)**

(1) Non-consolidated Results of Operations

(% indicates changes from the previous term)

	Operating revenue		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
First half ended September 30, 2007	11,356	20.9	4,669	25.4	3,985	28.3	2,321	26.5
First half ended September 30, 2006	9,395	(6.5)	3,724	5.0	3,106	0.7	1,835	19.0
Year ended March 31, 2007	27,721		9,411		8,078		4,505	

	Net income per share
	Yen
First half ended September 30, 2007	15.90
First half ended September 30, 2006	12.94
Year ended March 31, 2007	31.69

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
First half ended September 30, 2007	252,748	68,035	26.9	464.76
First half ended September 30, 2006	199,681	62,429	31.3	440.05
Year ended March 31, 2007	209,650	66,537	31.7	458.04

(Reference) Equity: First half ended September 30, 2007: ¥68,035 million  
 First half ended September 30, 2006: ¥62,429 million  
 Year ended March 31, 2007: ¥66,537 million

**2. Forecast of Non-consolidated Financial Results for Fiscal Year Ending March 31, 2008 (From April 1, 2007 to March 31, 2008)**

(% indicates changes from the previous corresponding term)

	Operating revenue		Operating income		Ordinary income		Net income		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	38,500	39.0	10,000	6.8	8,600	7.6	4,600	3.2	31.94

The information stated in this reference material was compiled based on data considered reasonable as of the date of compilation of this reference material, and is subject to various uncertain factors. Accordingly, we do not ensure or promise the accuracy or completeness of the information, and may revise the information without notice. We also bear no liability for any deficiencies or errors of the data or expressions used in this reference material.

## 1. Operating Results

### 1. Analysis of operating results

(1) Outline of operations (for the period from April 1, 2007 to September 30, 2007)

During the first half of fiscal year ending March 31, 2008, corporate performance in Japan remained at high levels despite the sluggish growth of personal consumption. Capital expenditure also continued climbing, and the Japanese economy grew steadily in general.

Under these circumstances, strong corporate demand kept vacancy rates low overall in the building leasing sector of the real estate industry. The declining tendency in vacancy rates tended to slow as the period progressed, however, and the rates even rose in buildings with higher effective ages. This gave rise to a polarization in vacancy rate patterns.

In the Housing Division, the average land price for all land uses collectively, including residential, rose for the second consecutive year in the three major metropolitan areas of Tokyo, Osaka, and Nagoya. Rising land prices had pervasive effects in the regional hub cities, including a notable rises in the sales prices for condominiums, mainly in metropolitan Tokyo. These trends triggered a slowdown in sales for some condominiums.

The real estate securitization market in Japan was impacted by the outbreak of the sub-prime loan debacle in the U.S. Signs of changes in investment patterns emerged, such as the trend in the Tokyo Stock Exchange REIT Index reversed from upwards to downwards. Investors and financial institutions grew more selective in choosing their investment targets.

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

(2) Operating results for the divisions

(Building Leasing Division)

In the Building Leasing Division, the Nagoya Stock Exchange Building was completed in August 23 and has had full occupancy since the start of operation. An improved operation rate for the Uchisaiwaicho Heiwa Building and incoming rent from newly acquired properties in Tokyo, Nagoya, Fukuoka, and Sapporo contributed to increased revenues overall.

As a result, the Company earned ¥2,586 million in Stock Exchange Market Place Leasing Income, down by ¥1 million (0.0%) compared with the first half of last year. General Leasing Income rose to ¥4,282 million, up by ¥213 million (5.2%) compared with the first half of last year. Commercial Facilities Leasing Income increased to ¥1,689 million, up by ¥35 million (2.2%) compared with the first half of last year. Building Leasing Income, including the above incomes and Land Leasing Income, totaled ¥8,628 million, up by ¥251 million (3.0%) compared with the first half of last year.

The vacancy rate of leased buildings was 1.2% at the end of the first half of fiscal year ending March 31, 2008.

(Housing Division)

In the Housing Division, the Company sold 22 condominiums, including Be-Site (Motogo, Kawaguchi-city, Saitama). This brought in Real Estate Sales Income of ¥894 million, up by ¥708 million (381.5%) from the previous period. Most of the Real Estate Sales Income forecasted for the fiscal year ended March 31, 2008 is expected to be earned in the second half of the fiscal year.

Housing Leasing Income amounted to ¥320 million, up by ¥162 million (102.5%) compared with the first half of last year, as a result of the Company's efforts to expand the housing leasing business. Housing Income, including income related to Housing Leasing Income, amounted to ¥1,276 million, up by ¥866 million (211.7%) compared with the first half of last year.

(Asset Development and Securitization Division)

Income from the real estate development and management businesses amounted to ¥1,830 million, up by ¥1,205 million (192.8%) compared with the first half of last year.

#### (Other Divisions)

Despite the Company's proactive efforts to develop the Real Estate Brokerage Business, mainly in relation to corporations and investment funds, revenue in the Real Estate Brokerage Business for the first half of fiscal year ending March 31, 2008, amounted to only ¥76 million, down by ¥131 million (63.3%) from the revenue reported during the previous period.

Income from the Contract Construction Business and Building Management Business increased to ¥1,004 million, up by ¥474 million (89.5%) compared with the first half of last year. Income from the Private Nursing Home Business increased to ¥165 million, up by ¥4 million (3.1%) compared with the first half of last year. With the other sales added to the above, Other Divisions operating revenue for the first half of fiscal year ending March 31, 2008, increased by ¥355 million (38.5%) to ¥1,277 million.

#### (3) Overall Operating Results of the Group

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

Operating Revenue amounted to ¥13,012 million, up by ¥2,678 million (25.9%) compared with the first half of last year. Operating Costs totaled ¥6,378 million, up by ¥1,306 million (25.8%) compared with the first half of last year, while Selling, General and Administrative Expenses totaled ¥1,746 million, up by ¥315 million (22.0%) compared with the first half of last year.

Consequently, Operating Income for the first half of fiscal year ending March 31, 2008, reached ¥4,887 million, up by ¥1,056 million (27.6%) compared with the first half of last year, while Ordinary Income reached ¥4,124 million, up by ¥1,008 million (32.4%) compared with the first half of last year. Net income reached ¥2,338 million, up by ¥511 million (28.0%) compared with the first half of last year.

#### (4) Full-year Financial Prospects

The Japanese economy is expected to remain strong, but there have been indications of risk factors related to the problem of sub-prime loans and the impact of the price of crude oil.

Under these circumstances, the Building Leasing Division of the Company group is expected to earn Operating Revenue of ¥17.5 billion, ¥0.8 billion (5.0%) more than it earned in the previous period, mainly from buildings acquired in Tokyo, Nagoya, Fukuoka, Sapporo, and Sendai.

In the Housing Division, the Company expects to record revenue of ¥12.0 billion, an increase of ¥7.1 billion (145.5%) compared with the first half of last year, from the sales of condominiums in collaboration with other companies in the Tokyo metropolitan area. The revenue forecast for the housing leasing business is expected to reach ¥0.6 billion, an increase of ¥0.2 billion (64.9%) compared with the first half of last year. Operating Revenue for the Housing Division, including revenue related to the above incomes, is expected to reach ¥12.8 billion, an increase of ¥7.4 billion (136.3%) compared with the first half of last year.

In the Asset Development and Securitization Division, the Company expects to aggressively expand its development projects which utilize special-purpose companies and other schemes, while endeavoring to increase revenue from fee income earning businesses such as asset and fund management. Consequently, the Company expects to raise Operating Revenue of ¥8.1 billion, or ¥0.7 billion (9.7%) more than it raised during the previous period.

Operating Revenue for the Company group, totaling revenue from the above three divisions and revenue from other divisions (including the Real Estate Brokerage Business, Contract Construction Business and Building Management Business, and Private Nursing Home Business), is expected to stand at ¥40.9 billion, an increase of ¥8.9 billion (28.3%) compared with the first half of last year.

Further, Operating Income is expected to reach ¥9.8 billion, up by ¥0.2 billion (2.4%), and Ordinary Income is expected to reach ¥8.2 billion, up by ¥0.0 billion (0.5%), from the previous period. After recognition of ¥0.7 billion as expenses for dismantling and disposal of the existing building incidental to the new construction of Nagoya Sakae Heiwa Building (tentative name), net income is expected to be ¥4.2 billion, down by ¥0.3 billion (6.9%) compared with the first half of last year.

## 2. Status of Financing

(1) Assets, Liabilities and Net Assets as of the end of the first half of fiscal year ending March 31, 2008

- 1) Total assets increased, mainly due to consolidation of Cassiopeia Investment, Ltd., an increase in current assets of ¥27,140 million from investments in the housing business and asset development and securitization business, and an increase in fixed assets of ¥27,738 million from investments in the building leasing business and housing leasing business.
- 2) Total liabilities increased, mainly due to an increase in straight bonds of ¥20,000 million and an increase in convertible bonds with stock acquisition rights of ¥19,460 million.
- 3) Net assets increased, mainly due to an increase in retained earnings of ¥1,490 million and minority shareholders' equity of ¥3,030 million.

(Consolidated)

(In millions of yen)

	As of the end of the first half of fiscal year ending March 31, 2008	Comparison with the first half of last year
Total Assets	268,327	55,028
Total Liabilities	196,891	50,607
Net Assets	71,435	4,421
Interest-bearing Liabilities	163,122	50,190

(Non-consolidated)

(In millions of yen)

	As of the end of the first half of fiscal year ending March 31, 2008	Comparison with the first half of last year
Total Assets	252,748	43,097
Total Liabilities	184,712	41,599
Net Assets	68,035	1,498
Interest-bearing Liabilities	151,802	41,340

#### 4. First-half Consolidated Financial Statements

##### (1) First-half Consolidated Balance Sheets

(In millions of yen)

Account item	Previous fiscal year (As of March 31, 2007) Condensed		Current first half (As of September 30, 2007)		Year-on- Year Increase/ Decrease	Previous first half (As of September 30, 2006)	
	Amount	Composi- tion ratio (%)	Amount	Composi- tion ratio (%)		Amount	Composi- tion ratio (%)
(Assets)							
I Current assets							
1 Cash and deposits	3,157		3,253		96	1,805	
2 Accounts receivable – trade	216		301		84	299	
3 Marketable securities	1,037		4,068		3,030	1,258	
4 Inventories	24,222		34,448		10,225	17,399	
5 Beneficiary right of real estate in trust	—		13,214		13,214	4,322	
6 Deferred tax assets	754		752		(2)	529	
7 Other	605		1,096		491	841	
Allowance for doubtful accounts	(12)		(13)		(1)	(20)	
Total current assets	29,981	14.1	57,122	21.3	27,140	26,434	12.9
II Fixed assets							
1 Tangible fixed assets							
Buildings, building fixtures and structures	76,460		81,720		5,259	75,222	
Machinery, equipment and vehicles	640		654		13	706	
Furniture and fixtures	410		406		(4)	406	
Land	87,617		109,298		21,680	85,718	
Construction in progress	554		1,134		580	368	
Total tangible fixed assets	165,684	77.7	193,213	72.0	27,529	162,422	79.6
2 Intangible fixed assets							
Leasehold rights	3,715		4,558		842	3,715	
Other	50		55		5	54	
Total intangible fixed assets	3,766	1.7	4,614	1.7	848	3,770	1.8
3 Investments and other assets							
Investment in securities	11,165		11,504		339	8,817	
Long-term loans to employees	14		14		0	13	
Deferred tax assets	73		142		69	60	
Other	2,614		1,572		(1,042)	2,649	
Allowance for doubtful accounts	(0)		(5)		(5)	(9)	
Total investments and other assets	13,867	6.5	13,227	4.9	(639)	11,532	5.7
Total fixed assets	183,317	85.9	211,056	78.6	27,738	177,724	87.1
III Deferred assets	—	—	149	0.1	149	—	—
Total assets	213,298	100.0	268,327	100.0	55,028	204,159	100.0

(In millions of yen)

Account item	Previous fiscal year (As of March 31, 2007) Condensed		Current first half (As of September 30, 2007)		Year-on- Year Increase/ Decrease	Previous first half (As of September 30, 2006)	
	Amount	Composi- tion ratio (%)	Amount	Composi- tion ratio (%)		Amount	Composi- tion ratio (%)
(Liabilities)							
I Current liabilities							
1 Notes and accounts payable – trade	1,382		1,189		(192)	611	
2 Current portion of bonds	10,000		10,000		–	–	
3 Current portion of convertible bonds (with stock acquisition rights)	–		1,237		1,237	–	
4 Short-term loans payable	20,970		16,070		(4,900)	17,470	
5 Current portion of long-term loans	10,100		6,340		(3,760)	11,282	
6 Accrued corporation and other taxes	1,985		1,706		(279)	1,179	
7 Accrued consumption taxes	138		108		(30)	76	
8 Accrued bonuses for directors and statutory auditors	52		38		(14)	24	
9 Accrued bonuses	214		235		21	221	
10 Other	2,869		3,200		330	1,803	
Total current liabilities	47,712	22.4	40,125	15.0	(7,587)	32,667	16.0
II Long-term liabilities							
1 Bonds	40,000		60,000		20,000	50,000	
2 Convertible bonds (with stock acquisition rights)	1,777		20,000		18,223	3,377	
3 Long-term loans payable	30,085		49,475		19,390	28,485	
4 Deposits received	4,419		4,385		(34)	4,488	
5 Deposits of landlord	16,345		17,390		1,044	16,755	
6 Deferred tax liabilities	917		499		(417)	507	
7 Deferred tax liabilities concerning revaluation	4,338		4,343		5	4,338	
8 Reserve for retirement allowances for directors and statutory auditors	409		352		(56)	367	
9 Accrued severance indemnities for employees	276		317		40	298	
10 Negative goodwill	2		2		(0)	3	
Total long-term liabilities	98,571	46.2	156,766	58.4	58,195	108,621	53.2
Total liabilities	146,284	68.6	196,891	73.4	50,607	141,289	69.2
(Net assets)							
I Shareholders' equity							
1 Common stock	14,935	7.0	15,205	5.6	269	14,135	6.9
2 Additional paid-in capital	13,162	6.1	13,432	5.0	269	12,362	6.0
3 Retained earnings	31,726	14.9	33,217	12.4	1,490	29,728	14.6
4 Treasury stock, at cost	(284)	(0.1)	(320)	(0.1)	(36)	(235)	(0.1)
Total shareholders' equity	59,540	27.9	61,534	22.9	1,994	55,990	27.4
II Valuation and translation adjustments							
1 Unrealized gain on securities	1,104	0.5	493	0.2	(611)	513	0.3
2 Revaluation surplus of land	6,323	3.0	6,331	2.3	7	6,323	3.1
Total valuation and translation adjustments	7,428	3.5	6,824	2.5	(603)	6,837	3.4
III Minority shareholders' equity	45	0.0	3,076	1.2	3,030	42	0.0
Total net assets	67,014	31.4	71,435	26.6	4,421	62,870	30.8
Total liabilities and net assets	213,298	100.0	268,327	100.0	55,028	204,159	100.0

## (2) First-half Consolidated Statements of Profit and Loss

(In millions of yen)

Account item	Previous first half (From April 1, 2006 to September 30, 2006)		Current first half (From April 1, 2007 to September 30, 2007)		Year-on- Year Increase/ Decrease	Previous fiscal year (From April 1, 2006 to March 31, 2007) Condensed			
	Amount	Composi- tion ratio (%)	Amount	Composi- tion ratio (%)		Amount	Composi- tion ratio (%)		
I Operating revenue		10,333	100.0	13,012	100.0	2,678	31,912	100.0	
II Cost of sales		5,072	49.1	6,378	49.0	1,306	19,081	59.8	
Gross profit		5,261	50.9	6,633	51.0	1,372	12,830	40.2	
III Selling, general and administrative expenses		1,431	13.8	1,746	13.4	315	3,192	10.0	
Operating income		3,830	37.1	4,887	37.6	1,056	9,637	30.2	
IV Non-operating income									
Interest income	6			14			10		
Dividends earned	82			91			123		
Gain on investment in partnerships	23			9			1		
Amortization of negative goodwill	0			0			1		
Equity in net income of affiliates	5			68			28		
Subsidy income	—			37			—		
Miscellaneous non- operating income	14	132	1.2	13	236	1.8	43	209	0.7
V Non-operating expenses									
Interest expense	739			982			1,571		
Bond-issuing expenses	94			—			94		
Amortization of bond- issuing expenses	—			4			—		
Provision of allowance for doubtful accounts	9			5			0		
Miscellaneous non- operating expenses	3	847	8.2	6	999	7.7	15	1,682	5.3
Ordinary income		3,115	30.1	4,124	31.7	1,008	8,164	25.6	
VI Special gains									
Reversal of allowance for doubtful accounts	0			0			—		
Reversal of accrued bonuses	1			—			1		
Gain on sale of fixed assets	—			1			—		
Gain on sale of investment securities	—	1	0.1	—	1	0.0	30	31	0.1
VII Special losses									
Loss on revaluation of inventories	—			—			398		
Loss on disposal of fixed assets scrapped	—			0			29		
Loss on revaluation of investment securities	—	—	—	58	59	0.4	—	428	1.4
Income before income taxes		3,116	30.2	4,067	31.3	950	7,767	24.3	
Corporation, inhabitants and enterprise taxes	1,155			1,657			3,334		
Deferred income taxes	133	1,289	12.5	5	1,663	12.8	(105)	3,229	10.1
Minority interests		1	0.0	66	0.5	64	4	0.0	
Net income		1,826	17.7	2,338	18.0	511	4,534	14.2	

(3) First-half Consolidated Statement of Changes in Net Assets  
 Current first half (From April 1, 2007 to September 30, 2007)

(In millions of yen)

	Shareholders' equity				
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2007	14,935	13,162	31,726	(284)	59,540
Change during the period					
Issuance of stock	269	269			539
Distribution of surplus			(726)		(726)
Net income			2,338		2,338
Decrease resulting from increase of the number of consolidated subsidiaries			(113)		(113)
Acquisition of treasury stock				(36)	(36)
Reversal of revaluation surplus of land			(7)		(7)
Net change in items other than shareholders' equity during the period					
Total change during the period	269	269	1,490	(36)	1,994
Balance as of September 30, 2007	15,205	13,432	33,217	(320)	61,534

(In millions of yen)

	Valuation and translation adjustments			Minority shareholders' equity	Total net assets
	Unrealized gain on securities	Revaluation surplus of land	Total valuation and translation adjustments		
Balance as of March 31, 2007	1,104	6,323	7,428	45	67,014
Change during the period					
Issuance of stock					539
Distribution of surplus					(726)
Net income					2,338
Decrease resulting from increase of the number of consolidated subsidiaries					(113)
Acquisition of treasury stock					(36)
Reversal of revaluation surplus of land					(7)
Net change in items other than shareholders' equity during the period	(611)	7	(603)	3,030	2,427
Total change during the period	(611)	7	(603)	3,030	4,421
Balance as of September 30, 2007	493	6,331	6,824	3,076	71,435

## (4) First-half Consolidated Statements of Cash Flows

(In millions of yen)

	Previous first half (From April 1, 2006 to September 30, 2006)	Current first half (From April 1 2007, to September 30, 2007)	Previous fiscal year (From April 1, 2006 to March 31, 2007) Condensed
	Amount	Amount	Amount
I. Cash flows from operating activities			
Income before income taxes	3,116	4,067	7,767
Depreciation	2,186	2,410	4,436
Loss on revaluation of inventories	—	—	398
Amortization of negative goodwill	(0)	(0)	(1)
Loss on revaluation of investment securities	—	58	—
Gain on investment in partnerships	(23)	(9)	(1)
Loss on disposal of fixed assets scrapped	—	0	29
Increase in allowance for doubtful accounts	22	6	5
Increase (decrease) in accrued bonuses	1	21	(5)
Increase (decrease) in accrued bonuses for directors and statutory auditors	24	(14)	52
Increase (decrease) in accrued severance indemnities for employees	(46)	40	(68)
Increase (decrease) in reserve for retirement allowances for directors and statutory auditors	33	(56)	74
Interest income and dividends earned	(88)	(105)	(134)
Interest expense	739	982	1,571
Amortization of bond-issuing expenses	—	4	—
Gain on sale of investment securities	—	—	(30)
Decrease in short-term loans	2	3	14
Decrease (increase) in notes and accounts receivable – trade	2	(49)	85
Increase in inventories	(4,395)	(10,225)	(11,617)
Decrease (increase) in beneficiary right of real estate in trust	(2,799)	(808)	1,523
Increase in accrued expenses	(97)	(255)	(95)
Decrease (increase) in accounts receivable– other	202	(99)	425
Decrease in notes and accounts payable – trade	(1,169)	(735)	(399)
Increase in advances received	250	420	433
Decrease in accrued consumption taxes	(426)	(30)	(364)
Increase in deposits received and deposits of landlord	1,093	841	1,132
Payments for bonuses to directors and statutory auditors	(59)	—	(59)
Other	156	101	426
Subtotal	(1,273)	(3,432)	5,601
Interest and dividends income received	88	105	134
Interest expenses paid	(719)	(931)	(1,543)
Corporation and other taxes paid	(2,791)	(1,926)	(4,184)
Net cash provided by (used in) operating activities	(4,695)	(6,184)	8

	Previous first half (From April 1, 2006 to September 30, 2006)	Current first half (From April 1 2007, to September 30, 2007)	Previous fiscal year (From April 1, 2006 to March 31, 2007) Condensed
	Amount	Amount	Amount
<b>II. Cash flows from investing activities</b>			
Net decrease in time deposits	—	5	45
Proceeds from sales and redemption of marketable securities	—	10	—
Purchase of investment securities	(1,980)	(2,636)	(3,727)
Proceeds from sales and redemption of investment securities	1,209	88	1,713
Proceeds from return of investment in partnerships	40	1,172	82
Purchase of tangible fixed assets	(9,564)	(29,373)	(14,976)
Proceeds from sales of tangible fixed assets	—	10	0
Purchase of intangible fixed assets	(1)	(883)	(5)
Increase in Long-term prepaid expenses	(14)	(15)	(112)
Payments of long-term loans to employees	(1)	(3)	(4)
Collection of long-term loans to employees	3	3	5
Payments for guarantee deposits	(174)	(284)	(191)
Proceeds from return of guarantee deposits	8	96	11
Purchase of insurance funds	(21)	—	(21)
Proceeds from cancellation of insurance funds	—	21	—
Net cash used in investing activities	(10,495)	(31,790)	(17,181)
<b>III. Cash flows from financing activities</b>			
Increase (decrease) in short-term loans payable	10,970	(4,900)	14,470
Proceeds from long-term loans payable	7,200	15,700	10,200
Repayment of long-term loans payable	(2,532)	(8,820)	(5,114)
Proceeds from issuance of bonds	20,000	20,000	20,000
Redemption of bonds	(20,000)	—	(20,000)
Proceeds from issuance of convertible bonds (with stock acquisition rights)	—	20,000	—
Purchase of treasury stock	(49)	(34)	(99)
Payments of dividends	(776)	(728)	(1,486)
Payments of dividends to minority shareholders	(2)	(129)	(2)
Repayments of investment in partnerships to minority shareholders	—	(173)	—
Other	(94)	(153)	(94)
Net cash provided by financing activities	14,714	40,759	17,872
<b>IV. Effect of exchange rate changes on cash and cash equivalents</b>	—	—	—
<b>V. Increase (decrease) in cash and cash equivalents</b>	(476)	2,785	699
<b>VI. Balance of cash and cash equivalents at beginning of period</b>	3,217	4,118	3,217
<b>VII. Balance of cash and cash equivalents of newly consolidated subsidiaries at beginning of period</b>	202	336	202
<b>VIII. Balance of cash and cash equivalents at end of period</b>	2,942	7,240	4,118

Current first half (From April 1, 2007 to September 30, 2007)

(In millions of yen)

	Building Leasing	Housing	Asset Development and Securitization	Other	Total	Eliminations or Corporate	Consolidated
Operating revenue							
(1) Operating revenue from external customers	8,628	1,276	1,830	1,277	13,012	-	13,012
(2) Intersegment revenue and transfer	14	-	130	487	632	(632)	-
Total	8,642	1,276	1,960	1,765	13,644	(632)	13,012
Operating expenses	4,748	1,199	482	1,725	8,156	(31)	8,125
Operating income	3,893	76	1,477	39	5,487	(600)	4,887

Notes:

1. Business segments are classified according to the types of business transactions.
2. Contents of principal businesses of the Group:
  - (1) Building Leasing .....Leasing, management and operation of buildings, facilities, and real estate
  - (2) Housing .....Development, sales, and leasing of residential real estate
  - (3) Asset Development and Securitization .Development of profitable real estate and operation and management of assets
  - (4) Other.....Real estate brokerage business, management and renovation of buildings, facilities, etc., insurance agency business, and private nursing home enterprise
3. Of the operating expenses, the amount of unallocatable costs included in “Eliminations or corporate” for the current first half was ¥631 million, and this consisted mainly of expenses incurred by the head office administration division of the companies submitting the first-half consolidated financial statements.
4. The above amounts are exclusive of consumption tax.
5. Change in accounting principles  
The depreciation method prescribed by the taxation system after the revision of the Corporate Tax Law of 2007 will be applied for depreciable fixed assets acquired on or after April 1, 2007, starting from the current first half.  
As a result of this change, operating expense for the Building Leasing increased by ¥18 million and the operating income decreased by the same amount. The impact of the change in other sectors was minimal.
6. Additional information  
In accordance with the revision of the Corporate Tax Law of 2007, the Company will continue to apply the depreciation method to existing tangible fixed assets acquired on or prior to March 31, 2007 in accordance with the Corporate Tax Law before the revision, and after depreciation to the ceiling value of 5% of the acquisition amount, will depreciate the amount of difference between 5% of the acquisition amount and the memorandum amount, in equal amounts over a period of 5 years beginning from the next consolidated fiscal year.  
As a result of this change, operating expenses for the Building Leasing Division increased ¥70 million and the operating income decreased by the same amount. The impact of the change in other sectors was minimal.