

# Consolidated Financial Results for the Nine Months ended December 31, 2008



January 30, 2009

Company Name: Heiwa Real Estate Co., Ltd.

Code Number: 8803

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

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

Representative: Sakutaro Kimbara, Director and President

Scheduled date to submit the Quarterly Securities Report: February 12, 2009

(Figures are rounded down to the nearest million yen)

## 1. Consolidated Financial Results for the Nine Months ended December 31, 2008 (From April 1, 2008 to December 31, 2008)

### (1) Consolidated Results of Operations (cumulative)

(% 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	%
Nine months ended December 31, 2008	27,926	-	6,650	-	4,577	-	554	-
Nine months ended December 31, 2007	20,587	35.4	7,258	28.0	5,886	29.1	2,999	11.8

	Net income per share	Fully diluted net income per share
	Yen	Yen
Nine months ended December 31, 2008	3.73	3.28
Nine months ended December 31, 2007	20.52	18.24

### (2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
Nine months ended December 31, 2008	302,213	70,257	22.3	451.95
Year ended March 31, 2008	298,728	70,456	22.6	460.24

(Reference) Equity: Nine months ended December 31, 2008: ¥67,276 million  
Year ended March 31, 2008: ¥67,428 million

## 2. Dividends

(Record date)	Cash dividends per share				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2008	-	7.00	-	5.00	12.00
Year ending March 31 2009	-	6.00	-	-	-
Year ending March 31 2009 (Forecast)	-	-	-	6.00	12.00

(Note) Revision to the dividend forecast: No

Dividends for the second quarter of fiscal year ended March 31, 2008:

Commemorative dividends for our 60th anniversary: ¥2.00

### 3. Forecast of Consolidated Financial Results for Fiscal Year Ending March 31, 2009 (From April 1, 2008 to March 31, 2009)

(% 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	48,500	54.5	9,100	(1.1)	6,000	(16.4)	2,200	(41.1)	14.80

(Note) Revision to the forecast of consolidated financial results: No

#### 4. Others

- (1) Significant changes of subsidiaries during period under review (affecting specific subsidiaries due to changes in scope of consolidation): Not applicable
  - (2) Adoption of simplified accounting methods and special accounting treatment for preparing quarterly consolidated financial statements: Yes  
(Note) For details, please refer to Qualitative Information and Financial Statements 4. Others on Page 4.
  - (3) Changes in the accounting principles, accounting procedures, presentation, etc., related to preparation of quarterly consolidated financial statements (those to be described as Changes in Significant Matters that are the Basis for Preparing Quarterly Consolidated Financial Statements)
    - 1) Changes due to the revision of accounting standards, etc.: Yes
    - 2) Any changes other than 1) above: Not applicable  
(Note) For details, please refer to Qualitative Information and Financial Statements 4. Others on Page 4.
  - (4) Total number of issued shares (common stock)
    - 1) Total number of issued shares at end of period (including treasury stock):
      - Nine months ended December 31, 2008: 149,503,980 shares
      - Year ended March 31, 2008: 147,084,095 shares
    - 2) Total number of treasury shares at end of period:
      - Nine months ended December 31, 2008: 646,738 shares
      - Year ended March 31, 2008: 578,396 shares
    - 3) Average number of shares during period:
      - Nine months ended December 31, 2008: 148,368,543 shares
      - Nine months ended December 31, 2007: 146,115,660 shares
- 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.
  - Effective from the fiscal year ending March 31, 2009, the “Accounting Standard for Quarterly Financial Reporting” (ASBJ Statement No. 12) and the “Guidance on Accounting Standard for Quarterly Financial Reporting” (ASBJ Guidance No. 14) have been adopted. The quarterly consolidated financial statements are prepared in accordance with “Regulations for Quarterly Consolidated Financial Statements.”

## Qualitative Information and Financial Statements

### 1. Qualitative information on consolidated results of operation

The world economy stalled during the nine months ended December 31, 2008, as the real economy was affected by the financial crisis touched off by the sub-prime mortgage debacle in the U.S. In Japan, corporate revenue and household income were also affected. Domestic companies decreased their production and exports and cut back on capital investment, while employment conditions deteriorated. The Japanese economy thus faced difficult conditions.

The business environment in the real estate industry has also become increasingly severe. Businesses are failing in the face of the credit squeeze and funding difficulties, vacancy rates in office buildings continue to climb, and sales in the housing market, such as sales of condominiums, have substantially decreased, with uncontracted inventories rising.

Under these circumstances, operating revenue in the Building Division of the Company for the nine months ended December 31, 2008 amounted to ¥14,101 million, driven by the full-year operation of buildings completed in the previous fiscal year (e.g., the Nagoya Stock Exchange Building), as well as rents earned from the Shin-Odori Building (Chuo-ku, Sapporo-city, Hokkaido) acquired in May, 2008.

In the Housing Division, the Company brought in operating revenue of ¥2,412 million, mainly from the sale of condominiums, including WELLITH KOMAGOME RESIDENCE (Toshima-ku, Tokyo). With the Housing Leasing Business added to the above, total operating revenue in this division amounted to ¥3,378 million.

In the Asset Development Division, operating revenue from the real estate development and management businesses reached ¥8,952 million.

In the Other Divisions, operating revenue from the Real Estate Brokerage Business reached ¥300 million. Operating revenue from the Contract Construction Business and Building Management Business totaled ¥827 million. Operating revenue from the Private Nursing Home Business totaled ¥284 million. With the other operating revenue added to the above, the operating revenue for the Other Divisions in the nine months ended December 31, 2008 stood at ¥1,494 million.

Accordingly, total operating revenue amounted to ¥27,926 million, cost of sales amounted to ¥18,283 million (including the write-down of inventories), and selling, general and administrative expenses amounted to ¥2,993 million. Consequently, operating income for the nine months ended December 31, 2008 reached ¥6,650 million, ordinary income reached ¥4,577 million, and net income reached ¥554 million due to loss on revaluation of investment securities and other factors.

### 2. Qualitative information on the consolidated financial position

Total assets at the end of the nine months ended December 31, 2008 increased by ¥3,484 million from the end of the previous fiscal year to ¥302,213 million. The assets breakdown is as follows: tangible fixed assets increased by ¥4,719 million, backed by the acquisition of the Shin-Odori Building.

Total liabilities increased by ¥3,682 million from the end of the previous fiscal year, mainly due to the procurement of long-term loans payable.

Total net assets decreased by ¥198 million from the end of the previous fiscal year. The net assets breakdown is as follows: ¥554 million of net income and ¥1,117 million from the conversion of convertible bonds (with stock acquisition rights) increased the net assets, while dividend payments decreased the net assets by ¥1,625 million.

#### <Consolidated cash flows>

Cash and cash equivalents (“Funds”) on a consolidated basis at the end of the nine months ended December 31, 2008 increased by ¥2,203 million from the end of the previous fiscal year to ¥7,874 million.

Cash flows from operating activities increased by ¥7,047 million. The breakdown is as follows: net income before income taxes was ¥1,237 million and depreciation was ¥4,164 million while the increase in operating investment was ¥2,633 million.

Cash flows from investing activities decreased by ¥9,427 million, mainly due to the acquisition of tangible fixed assets.

Cash flows from financing activities increased by ¥4,583 million, driven mainly by proceeds from long-term loans payable.

### 3. Qualitative information on forecast of consolidated financial results

We have not revised our forecast announced on October 31, 2008.

### 4. Others

- (1) Significant changes of subsidiaries during period under review (affecting specific subsidiaries due to changes in scope of consolidation):

Not applicable

- (2) Adoption of simplified accounting methods and special accounting treatment for preparing quarterly consolidated financial statements

(Simplified accounting methods)

Valuation of inventories

We estimated the net saleable value only for inventories whose profitability had apparently declined and wrote down their book values.

(Application of special accounting treatment for preparing quarterly consolidated financial statements)

Calculation of tax expenses

We reasonably estimated the effective tax rate after applying tax-effect accounting to net income before income taxes for the fiscal year, including the nine months ended December 31, 2008. Accordingly, we computed tax expenses by multiplying net income before income taxes by the estimated effective tax rate.

Additionally, we include deferred income taxes in the income taxes.

- (3) Changes in the accounting principles, accounting procedures, presentation, etc. related to preparation of quarterly consolidated financial statements

Effective from the fiscal year ending March 31, 2009, the “Accounting Standard for Quarterly Financial Reporting” (ASBJ Statement No. 12) and the “Guidance on Accounting Standard for Quarterly Financial Reporting” (ASBJ Guidance No. 14) have been adopted. The quarterly consolidated financial statements are prepared in accordance with “Regulations for Quarterly Consolidated Financial Statements.”

(Additional information)

- (a) With the revision of the Corporate Income Tax Law, we apply the revised useful lives to machinery effective from the first quarter of fiscal year ending March 31, 2009. As a result, operating income, ordinary income, and net income before income taxes for the nine months ended December 31, 2008, each decreased by ¥74 million, compared with the total calculated by the previous method. We also stated the effects on segment information on the relevant points.

- (b) At the General Shareholders’ Meeting held on June 2008, the Company and its consolidated subsidiaries received approval of the abolition of the retirement allowances program for Directors and Statutory Auditors and the payment of retirement allowances for termination resulting from the abolition, upon retirement. Accordingly, we reversed the entire amount of reserve for retirement allowances for directors and statutory auditors. We also included ¥454 million of the amount payable to Directors and Statutory Auditors for the payment of retirement allowances for termination resulting from the abolition in the Other category under Long-term liabilities. Additionally, the total reserve for retirement allowances for directors and statutory auditors included in the Provision under the Long-term liabilities at the end of the previous fiscal year was ¥431 million.

#### 4. Quarterly Consolidated Financial Statements

##### (1) Quarterly Consolidated Balance Sheets

(In millions of yen)

	Nine months ended December 31, 2008 (As of December 31, 2008)	Previous fiscal year (As of March 31, 2008) Condensed
<b>Assets</b>		
Current assets		
Cash and deposits	4,986	3,184
Accounts receivable – trade	442	1,462
Marketable securities	2,950	2,568
Real estate for sale	30,173	31,653
Real estate for sale in process	30,884	29,963
Other inventories	2	3
Operating investment	9,813	7,179
Other	791	2,667
Allowance for doubtful accounts	(14)	(55)
Total current assets	80,030	78,628
Fixed assets		
Tangible fixed assets		
Buildings and structures, net	80,885	81,164
Land	124,632	119,883
Other, net	1,404	1,155
Total tangible fixed assets	206,922	202,202
Intangible fixed assets		
Goodwill	40	48
Other	5,748	5,739
Total intangible fixed assets	5,788	5,787
Investments and other assets		
Other	9,449	11,975
Allowance for doubtful accounts	(92)	(0)
Total investments and other assets	9,357	11,975
Total fixed assets	222,068	219,964
Deferred assets	115	135
Total assets	302,213	298,728

(In millions of yen)

	Nine months ended December 31, 2008 (As of December 31, 2008)	Previous fiscal year (As of March 31, 2008) Condensed
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable – trade	859	3,492
Current portion of bonds	20,000	–
Current portion of convertible bonds (with stock acquisition rights)	–	1,170
Short-term loans payable	25,070	24,850
Current portion of long-term loans	16,140	6,910
Accrued corporation and other taxes	475	84
Provision	163	295
Other	3,501	2,793
<b>Total current liabilities</b>	<b>66,208</b>	<b>39,595</b>
Long-term liabilities		
Bonds	40,000	60,000
Convertible bonds (with stock acquisition rights)	20,000	20,000
Long-term loans payable	75,802	78,850
Provision	605	876
Negative goodwill	1	3
Other	29,336	28,947
<b>Total long-term liabilities</b>	<b>165,746</b>	<b>188,677</b>
<b>Total liabilities</b>	<b>231,955</b>	<b>228,272</b>
<b>Net assets</b>		
Shareholders' equity		
Common stock	15,797	15,238
Additional paid-in capital	14,025	13,466
Retained earnings	29,764	30,897
Treasury stock, at cost	(364)	(340)
<b>Total shareholders' equity</b>	<b>59,223</b>	<b>59,262</b>
Valuation and translation adjustments		
Unrealized gain on securities	(1,029)	(859)
Revaluation surplus of land	9,082	9,025
<b>Total valuation and translation adjustments</b>	<b>8,053</b>	<b>8,165</b>
Minority shareholders' equity	2,980	3,027
<b>Total net assets</b>	<b>70,257</b>	<b>70,456</b>
<b>Total liabilities and net assets</b>	<b>302,213</b>	<b>298,728</b>

(2) Quarterly Consolidated Statement of Profit and Loss  
(Nine months ended December 31, 2008)

(In millions of yen)

	Nine months ended December 31, 2008 (From April 1, 2008 to December 31, 2008)
Operating revenue	27,926
Cost of sales	18,283
Gross profit	9,643
Selling, general and administrative expenses	2,993
Operating income	6,650
Non-operating income	
Interest income	12
Dividends earned	197
Interest on refund	57
Other	20
Total non-operating income	288
Non-operating expenses	
Interest expense	2,225
Other	135
Total non-operating expenses	2,360
Ordinary income	4,577
Special gains	
Reversal of allowance for doubtful accounts	3
Gain on sale of fixed assets	11
Total special gains	14
Special losses	
Loss on disposal of fixed assets	43
Loss on revaluation of investment securities	2,875
Other	436
Total special losses	3,355
Income before income taxes	1,237
Income taxes	585
Minority interests	97
Net income	554

(Third quarter ended December 31, 2008)

(In millions of yen)

	Current third quarter (From October 1, 2008 to December 31, 2008)
Operating revenue	13,802
Cost of sales	9,866
Gross profit	3,936
Selling, general and administrative expenses	995
Operating income	2,941
Non-operating income	
Interest income	2
Dividends earned	55
Other	4
Total non-operating income	62
Non-operating expenses	
Interest expense	743
Other	34
Total non-operating expenses	777
Ordinary income	2,226
Special gains	
Reversal of allowance for doubtful accounts	1
Gain on sale of fixed assets	5
Total special gains	7
Special losses	
Loss on disposal of fixed assets	36
Loss on revaluation of investment securities	1,475
Other	192
Total special losses	1,703
Income before income taxes	529
Income taxes	251
Minority interests	27
Net income	250

### (3) Quarterly Consolidated Statement of Cash Flows

(In millions of yen)

	Nine months ended December 31, 2008 (From April 1, 2008 to December 31, 2008)
Cash flows from operating activities	
Income before income taxes	1,237
Depreciation	4,164
Loss (gain) on revaluation of investment securities	2,875
Loss on disposal of fixed assets	43
Increase (decrease) in allowance for doubtful accounts	50
Increase (decrease) in accrued bonuses	(115)
Increase (decrease) in accrued bonuses for directors and statutory auditors	(17)
Increase (decrease) in accrued severance indemnities for employees	159
Increase (decrease) in reserve for retirement allowances for directors and statutory auditors	23
Interest income and dividends earned	(209)
Interest expense	2,225
Amortization of bond-issuing expenses	20
Loss (gain) on sale of fixed assets	(11)
Decrease (increase) in notes and accounts receivable – trade	1,020
Decrease (increase) in inventories	442
Decrease (increase) in operating investment	(2,633)
Decrease (increase) in accrued expenses	(107)
Decrease (increase) in accounts receivable – other	525
Increase (decrease) in notes and accounts payable – trade	(2,514)
Increase (decrease) in advances received	(203)
Increase (decrease) in accrued consumption taxes	490
Increase (decrease) in deposits received and deposits of landlord	(128)
Other	65
Subtotal	7,404
Interest and dividends income received	209
Interest expenses paid	(1,846)
Income taxes (paid) refund	1,279
Net cash provided by operating activities	7,047

(In millions of yen)

	Nine months ended December 31, 2008 (From April 1, 2008 to December 31, 2008)
<b>Cash flows from investing activities</b>	
Net decrease (increase) in time deposits	(0)
Proceeds from sales and redemption of marketable securities	19
Purchase of investment securities	(529)
Proceeds from sales and redemption of investment securities	9
Purchase of tangible fixed assets	(8,786)
Proceeds from sales of tangible fixed assets	87
Purchase of intangible fixed assets	(19)
Purchase of long-term prepaid expenses	(208)
Payments for guarantee deposits	(28)
Proceeds from collection of guarantee deposits	22
Proceeds from cancellation of insurance funds	3
Other	2
Net cash used in investing activities	(9,427)
<b>Cash flows from financing activities</b>	
Increase (decrease) in short-term loans payable	220
Proceeds from long-term loans payable	12,000
Repayment of long-term loans payable	(5,817)
Redemption of convertible bonds (with stock acquisition rights)	(52)
Purchase of treasury stock	(29)
Payments of dividends	(1,625)
Payments of dividends to minority shareholders	(72)
Repayments of investments in capital to minority shareholders	(43)
Other	3
Net cash provided by financing activities	4,583
Effect of exchange rate changes on cash and cash equivalents	-
Increase (decrease) in cash and cash equivalents	2,203
Balance of cash and cash equivalents at beginning of period	5,670
Balance of cash and cash equivalents at end of period	7,874

Effective from the fiscal year ending March 31, 2009, the “Accounting Standard for Quarterly Financial Reporting” (ASBJ Statement No. 12) and the “Guidance on Accounting Standard for Quarterly Financial Reporting” (ASBJ Guidance No. 14) have been adopted. The quarterly consolidated financial statements are prepared in accordance with “Regulations for Quarterly Consolidated Financial Statements.”

(4) Note on going concern assumption

Not applicable

(5) Segment information

[Business segment information]

Current third quarter (From October 1, 2008 to December 31, 2008)

(In millions of yen)

	Building	Housing	Asset Development	Other	Total	Eliminations or Corporate	Consolidated
Operating revenue							
(1) Operating revenue from external customers	4,720	930	7,667	484	13,802	—	13,802
(2) Intersegment revenue and transfer	6	0	40	438	485	(485)	—
Total	4,726	930	7,707	923	14,288	(485)	13,802
Operating income (loss)	2,167	(1,166)	2,267	(65)	3,203	(261)	2,941

Nine months ended December 31, 2008 (From April 1, 2008 to December 31, 2008)

(In millions of yen)

	Building	Housing	Asset Development	Other	Total	Eliminations or Corporate	Consolidated
Operating revenue							
(1) Operating revenue from external customers	14,101	3,378	8,952	1,494	27,926	—	27,926
(2) Intersegment revenue and transfer	21	0	120	826	969	(969)	—
Total	14,122	3,378	9,073	2,320	28,895	(969)	27,926
Operating income (loss)	6,447	(1,850)	3,040	(153)	7,483	(833)	6,650

Notes:

- Business segments are classified according to the types of business transactions.
- Contents of principal businesses of the Group:
  - Building..... Leasing, management, and operation of buildings, facilities, and real estate
  - Housing ..... Development, sales, and leasing of residential real estate
  - Asset Development ..... Development of profitable real estate and operation and management of assets
  - Other..... Real estate brokerage business, management and renovation of buildings, facilities, etc., insurance agency business, and private nursing home enterprise
- The above amounts are exclusive of consumption tax.
- Effective from the first quarter of fiscal year ending March 31, 2009, we revise the names of business segments from the Building Leasing Division to the Building Division, and from the Asset Development and Securitization Division to the Asset Development Division.
- Additional information

As stated in 4. Others (3) under the Qualitative Information and Financial Statements, we apply the revised useful lives to machinery, effective from the first quarter of fiscal year ending March 31, 2009, according to the revision of the Corporate Income Tax Law. As a result of this change, operating income in the Building Business for the nine months ended December 31, 2008 decreased by ¥73 million compared with

that calculated by the previous method. There was no significant effect on any of the other segments.

[Geographical segment information]

Current third quarter (From October 1, 2008 to December 31, 2008) and the nine months ended December 31, 2008 (From April 1, 2008 to December 31, 2008)

Because we have neither consolidated subsidiaries nor significant foreign branches located in countries or areas other than Japan, there are no applicable issues.

[Overseas operating revenue]

Current third quarter (From October 1, 2008 to December 31, 2008) and the nine months ended December 31, 2008 (From April 1, 2008 to December 31, 2008)

Because we have no overseas operating revenue, there are no applicable issues.

(6) Notes on significant changes in the amount of shareholders' equity

Not applicable