

Consolidated Financial Results for the Three Months ended June 30, 2009



July 31, 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: August 13, 2009

Scheduled date to commence dividend payments: -

(Figures are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Three Months ended June 30, 2009 (From April 1, 2009 to June 30, 2009)

(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	%
Three months ended June 30, 2009	6,916	(8.8)	2,243	(11.5)	1,472	(23.2)	171	(79.7)
Three months ended June 30, 2008	7,582	-	2,535	-	1,918	-	844	-

	Net income per share		Fully diluted net income per share	
	Yen		Yen	
Three months ended June 30, 2009	1.15		1.02	
Three months ended June 30, 2008	5.73		5.00	

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
Three months ended June 30, 2009	298,105	71,150	22.9	458.31
Year ended March 31, 2009	317,439	70,598	21.3	454.57

(Reference) Equity: Three months ended June 30, 2009: ¥68,213 million
Year ended March 31, 2009: ¥67,661 million

2. Dividends

(Record date)	Cash dividends per share				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Annual
Year ended March 31, 2009	Yen -	Yen 6.00	Yen -	Yen 6.00	Yen 12.00
Year ending March 31, 2010	-				
Year ending March 31, 2010 (Forecast)		3.00	-	3.00	6.00

(Note) Revision to the dividend forecast: No

3. Forecast of Consolidated Financial Results for Fiscal Year Ending March 31, 2010 (From April 1, 2009 to March 31, 2010)

(% 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
First half	14,000	(0.9)	4,000	7.9	2,400	2.1	600	97.4	4.00
Full year	40,000	(23.0)	8,000	(11.1)	4,500	(27.2)	1,600	85.6	10.70

(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.: Not applicable
 - 2) Any changes other than 1) above: Not applicable
- (4) Total number of issued shares (common stock)
 - 1) Total number of issued shares at end of period (including treasury stock):
 - Three months ended June 30, 2009: 149,503,980 shares
 - Year ended March 31, 2009: 149,503,980 shares
 - 2) Total number of treasury shares at end of period:
 - Three months ended June 30, 2009: 666,216 shares
 - Year ended March 31, 2009: 657,579 shares
 - 3) Average number of shares during period:
 - Three months ended June 30, 2009: 148,840,210 shares
 - Three months ended June 30, 2008: 147,349,068 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.

Qualitative Information and Financial Statements

1. Qualitative information on consolidated results of operations

The Japanese economy continued to face severe constraints in the three months ended June 30, 2009. The effects of the financial crisis ongoing from the year before led to a significant decrease in corporate revenue, slowing of capital expenditure, further deterioration of employment conditions and sluggish growth in personal consumption, though there were signs of recovery in export and production after a period of substantial declines.

In the real estate industry, the demand for office buildings shifted from a relatively stable condition to a weakened one, as vacancy rates in office buildings in major cities clearly worsened and the rental market values of office buildings fell in step with lower corporate revenues. Meanwhile, sales in the housing market, such as sales of condominiums, fell short of full-scale recovery, although consumers seemed to be encouraged by adjustments in sales prices and recent economic policies such as the reduced taxes for housing loans. Overall, the number of condominiums sold remained weak.

Under these circumstances, operating revenue in the Building Division of the Company for the three months ended June 30, 2009 decreased by ¥169 million (3.6%) from the same period of the previous fiscal year to ¥4,495 million, mainly due to a decrease in rental revenue resulting from the previous years' sales of buildings owned.

In the Housing Division, the Company sold total 21 condominiums, including The Kitahama (Chuo-ku, Osaka-city, Osaka), and operating revenue decreased by ¥481 million (31.0%) to ¥1,070 million. With the Housing Leasing Business added to the above, total operating revenue in this division decreased by ¥465 million (25.9%) to ¥1,330 million.

In the Asset Development Division, operating revenue from the real estate development and management businesses decreased by ¥92 million (16.3%) to ¥476 million.

In the Other Divisions, sales activities related to corporations produced ¥99 million in revenue in the Real Estate Brokerage Business, a decrease of ¥16 million (14.1%). Operating revenue from the Contract Construction Business and Building Management Business increased by ¥67 million (21.1%) to ¥387 million. Operating revenue from the Private Nursing Home Business increased by ¥8 million (9.3%) to ¥104 million. With the other operating revenue added to the above, the operating revenue for the Other Divisions in the three months ended June 30, 2009 increased by ¥61 million (11.2%) to ¥614 million.

Accordingly, total operating revenue decreased by ¥665 million (8.8%) to ¥6,916 million, cost of sales decreased by ¥220 million (5.5%) to ¥3,782 million, and selling, general and administrative expenses decreased by ¥153 million (14.7%) to ¥890 million. Consequently, operating income for the three months ended June 30, 2009 decreased by ¥292 million (11.5%) to ¥2,243 million, and ordinary income decreased by ¥445 million (23.2%) to ¥1,472 million. Net income decreased by ¥673 million (79.7%) to ¥171 million, mainly due to a loss on the disposal of fixed assets of ¥1,243 million resulting from the dismantling of buildings.

2. Qualitative information on the consolidated financial position

Total assets at the end of the three months ended June 30, 2009 decreased by ¥19,333 million from the end of the previous fiscal year to ¥298,105 million. The assets breakdown is as follows: cash and deposits decreased by ¥14,934 million, mainly due to redemption of bonds, and marketable securities decreased by ¥3,798 million. Total liabilities decreased by ¥19,885 million from the end of the previous fiscal year, mainly due to redemption of bonds.

Total net assets increased by ¥551 million from the end of the previous fiscal year. The net assets breakdown is as follows: ¥1,275 million of unrealized gain on securities increased net assets, while dividend payments for the previous fiscal year decreased retained earnings by ¥728 million.

<Consolidated cash flows>

Cash and cash equivalents ("Funds") on a consolidated basis at the end of the three months ended June 30, 2009 decreased by ¥18,830 million from the end of the previous fiscal year to ¥10,224 million.

Cash flows from operating activities decreased by ¥239 million. The breakdown is as follows: the decrease in notes and accounts payable – trade was ¥2,049 million and income taxes paid were ¥1,110 million.

Cash flows from investing activities decreased by ¥1,486 million, mainly due to the purchase of tangible fixed assets.

Cash flows from financing activities decreased by ¥17,104 million, mainly due to redemption of bonds.

3. Qualitative information on projected consolidated results

We have not revised our projection announced on April 30, 2009.

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 three months ended June 30, 2009. 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:

Not applicable

5. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(In millions of yen)

	Three months ended June 30, 2009 (As of June 30, 2009)	Previous fiscal year (As of March 31, 2009) Condensed
Assets		
Current assets		
Cash and deposits	7,333	22,267
Accounts receivable – trade	632	1,399
Marketable securities	3,277	7,075
Real estate for sale	21,331	22,275
Real estate for sale in process	18,045	16,723
Other inventories	2	2
Operating investment	11,465	11,547
Other	847	771
Allowance for doubtful accounts	(97)	(38)
Total current assets	62,838	82,023
Fixed assets		
Tangible fixed assets		
Buildings and structures, net	81,750	83,744
Land	133,468	133,470
Other, net	3,201	2,476
Total tangible fixed assets	218,419	219,691
Intangible fixed assets		
Goodwill	36	39
Other	5,802	5,756
Total intangible fixed assets	5,838	5,795
Investments and other assets		
Other	11,662	10,560
Allowance for doubtful accounts	(848)	(841)
Total investments and other assets	10,814	9,718
Total fixed assets	235,072	235,205
Deferred assets	194	209
Total assets	298,105	317,439

(In millions of yen)

	Three months ended June 30, 2009 (As of June 30, 2009)	Previous fiscal year (As of March 31, 2009) Condensed
Liabilities		
Current liabilities		
Notes and accounts payable – trade	443	2,673
Current portion of bonds	570	20,370
Short-term loans payable	29,320	26,120
Current portion of long-term loans	31,824	24,024
Accrued corporation and other taxes	188	1,176
Provision	117	253
Other	3,060	3,121
Total current liabilities	65,525	77,739
Long-term liabilities		
Bonds	44,430	44,430
Convertible bonds (with stock acquisition rights)	20,000	20,000
Long-term loans payable	67,973	75,348
Provision	605	618
Negative goodwill	31	33
Other	28,389	28,671
Total long-term liabilities	161,430	169,101
Total liabilities	226,955	246,840
Net assets		
Shareholders' equity		
Common stock	15,797	15,797
Additional paid-in capital	14,025	14,025
Retained earnings	29,318	30,046
Treasury stock, at cost	(368)	(366)
Total shareholders' equity	58,773	59,503
Valuation and translation adjustments		
Unrealized gain on securities	325	(950)
Revaluation surplus of land	9,115	9,109
Total valuation and translation adjustments	9,440	8,158
Minority shareholders' equity	2,936	2,936
Total net assets	71,150	70,598
Total liabilities and net assets	298,105	317,439

(2) Quarterly Consolidated Statements of Profit and Loss
(Three months ended June 30, 2008 and 2009)

(In millions of yen)

	Three months ended June 30, 2008 (From April 1, 2008 to June 30, 2008)	Three months ended June 30, 2009 (From April 1, 2009 to June 30, 2009)
Operating revenue	7,582	6,916
Cost of sales	4,003	3,782
Gross profit	3,579	3,134
Selling, general and administrative expenses	1,043	890
Operating income	2,535	2,243
Non-operating income		
Interest income	3	6
Dividends earned	99	65
Other	4	5
Total non-operating income	108	76
Non-operating expenses		
Interest expense	711	801
Other	14	45
Total non-operating expenses	725	847
Ordinary income	1,918	1,472
Special gains		
Reversal of allowance for doubtful accounts	1	3
Gain on sale of fixed assets	4	0
Gain on sale of investment securities	—	160
Other	—	11
Total special gains	5	175
Special losses		
Loss on disposal of fixed assets	5	1,243
Loss on revaluation of investment securities	404	—
Total special losses	410	1,243
Income before income taxes	1,512	404
Income taxes	638	195
Minority interests	29	37
Net income	844	171

(3) Quarterly Consolidated Statements of Cash Flows

(In millions of yen)

	Three months ended June 30, 2008 (From April 1, 2008 to June 30, 2008)	Three months ended June 30, 2009 (From April 1, 2009 to June 30, 2009)
Cash flows from operating activities		
Income before income taxes	1,512	404
Depreciation	1,374	1,237
Loss (gain) on revaluation of investment securities	404	—
Loss on disposal of fixed assets	5	1,243
Increase (decrease) in allowance for doubtful accounts	15	65
Increase (decrease) in accrued bonuses	(119)	(135)
Increase (decrease) in accrued bonuses for directors and statutory auditors	(41)	0
Increase (decrease) in accrued severance indemnities for employees	3	(12)
Increase (decrease) in reserve for retirement allowances for directors and statutory auditors	23	—
Interest income and dividends earned	(103)	(71)
Interest expense	711	801
Amortization of bond-issuing expenses	6	14
Loss (gain) on sale of investment securities	—	(160)
Loss (gain) on sale of fixed assets	(4)	(0)
Decrease (increase) in notes and accounts receivable – trade	(220)	766
Decrease (increase) in inventories	(5,149)	(414)
Decrease (increase) in operating investment	(2,549)	81
Decrease (increase) in accrued expenses	77	14
Decrease (increase) in accounts receivable – other	(1,085)	9
Increase (decrease) in notes and accounts payable – trade	(2,433)	(2,049)
Increase (decrease) in advances received	(107)	(73)
Increase (decrease) in accrued consumption taxes	(27)	(488)
Increase (decrease) in deposits received and deposits of landlord	200	(137)
Other	170	69
Subtotal	(7,335)	1,166
Interest and dividends income received	103	71
Interest expenses paid	(367)	(366)
Income taxes (paid) refund	(135)	(1,110)
Net cash used in operating activities	(7,735)	(239)

(In millions of yen)

	Three months ended June 30, 2008 (From April 1, 2008 to June 30, 2008)	Three months ended June 30, 2009 (From April 1, 2009 to June 30, 2009)
Cash flows from investing activities		
Net decrease (increase) in time deposits	(100)	1
Purchase of marketable securities	(100)	(100)
Proceeds from sales and redemption of marketable securities	19	—
Purchase of investment securities	(79)	(104)
Proceeds from sales and redemption of investment securities	—	217
Purchase of tangible fixed assets	(5,483)	(1,482)
Proceeds from sales of tangible fixed assets	37	8
Purchase of intangible fixed assets	(9)	—
Purchase of long-term prepaid expenses	(5)	(7)
Payments for guarantee deposits	(3)	(26)
Proceeds from collection of guarantee deposits	17	4
Other	0	2
Net cash used in investing activities	(5,706)	(1,486)
Cash flows from financing activities		
Increase (decrease) in short-term loans payable	2,985	3,200
Proceeds from long-term loans payable	10,000	2,000
Repayment of long-term loans payable	(575)	(1,575)
Redemption of bonds	—	(17,100)
Cancellation by purchase of bonds	—	(2,702)
Redemption of convertible bonds (with stock acquisition rights)	(52)	—
Purchase of treasury stock	(9)	(4)
Payments of dividends	(687)	(843)
Payments of dividends to minority shareholders	(2)	(79)
Other	—	0
Net cash provided by (used in) financing activities	11,658	(17,104)
Effect of exchange rate changes on cash and cash equivalents	—	—
Increase (decrease) in cash and cash equivalents	(1,783)	(18,830)
Balance of cash and cash equivalents at beginning of period	5,670	29,055
Balance of cash and cash equivalents at end of period	3,887	10,224

(4) Note on going concern assumption

Not applicable

(5) Segment information

[Business segment information]

Three months ended June 30, 2008 (From April 1, 2008 to June 30, 2008)

(In millions of yen)

	Building	Housing	Asset Development	Other	Total	Eliminations or Corporate	Consolidated
Operating revenue							
(1) Operating revenue from external customers	4,665	1,795	569	552	7,582	—	7,582
(2) Intersegment revenue and transfer	8	0	39	173	221	(221)	—
Total	4,673	1,795	608	725	7,803	(221)	7,582
Operating income (loss)	2,204	330	303	(25)	2,813	(278)	2,535

Three months ended June 30, 2009 (From April 1, 2009 to June 30, 2009)

(In millions of yen)

	Building	Housing	Asset Development	Other	Total	Eliminations or Corporate	Consolidated
Operating revenue							
(1) Operating revenue from external customers	4,495	1,330	476	614	6,916	—	6,916
(2) Intersegment revenue and transfer	6	0	40	273	320	(320)	—
Total	4,501	1,330	516	888	7,237	(320)	6,916
Operating income (loss)	2,168	131	240	10	2,550	(307)	2,243

Notes:

1. Business segments are classified according to the types of business transactions.
2. Contents of principal businesses of the Group:
 - (1) Building.....Leasing, management, and operation of buildings, facilities, and real estate
 - (2) HousingDevelopment, sales, and leasing of residential real estate
 - (3) Asset DevelopmentDevelopment 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. The above amounts are exclusive of consumption tax.

[Geographical segment information]

Three months ended June 30, 2008 (From April 1, 2008 to June 30, 2008) and 2009 (From April 1, 2009 to June 30, 2009)

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]

Three months ended June 30, 2008 (From April 1, 2008 to June 30, 2008) and 2009 (From April 1, 2009 to June 30, 2009)

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