

Consolidated Financial Results for the First Quarter of Fiscal Year Ending March 31, 2009



July 31, 2008

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, 2008

(Figures are rounded down to the nearest million yen)

1. Consolidated Financial Results for the First Quarter of Fiscal Year Ending March 31, 2009 (From April 1, 2008 to June 30, 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	%
First quarter ended June 30, 2008	7,582	-	2,535	-	1,918	-	844	-
First quarter ended June 30, 2007	6,880	35.9	3,033	57.5	2,736	65.9	1,556	60.1

	Net income per share		Fully diluted net income per share	
	Yen		Yen	
First quarter ended June 30, 2008	5.73		5.00	
First quarter ended June 30, 2007	10.69		10.00	

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
First quarter ended June 30, 2008	310,334	71,998	22.2	463.19
Year ended March 31, 2008	298,728	70,456	22.6	460.24

(Reference) Equity: First quarter ended June 30, 2008: ¥68,972 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
Year ended March 31, 2008	-	7.00	-	5.00	12.00
Year ending March 31 2009	-	-	-	-	-
Year ending March 31 2009 (Forecast)	-	6.00	-	6.00	12.00

(Note) Revision to the dividend forecast in the first quarter of fiscal year ending March 31, 2009: 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
First half	14,500	11.4	4,000	(18.2)	2,500	(39.4)	1,400	(40.1)	9.40
Full year	54,500	73.7	12,500	35.8	9,700	35.2	5,500	47.2	37.00

(Note) Revision to the forecast of consolidated financial results in the first quarter of fiscal year ending March 31, 2009: 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):

First quarter ended June 30, 2008: 149,503,980 shares

Year ended March 31, 2008: 147,084,095 shares

2) Total number of treasury shares at end of period:

First quarter ended June 30, 2008: 597,076 shares

Year ended March 31, 2008: 578,396 shares

3) Average number of shares during period:

First quarter ended June 30, 2008: 147,349,068 shares

First quarter ended June 30, 2007: 145,575,369 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 Statements” (ASBJ Statement No. 12) and the “Implementation Guidance for Accounting Standards for Quarterly Financial Statements” (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 Japanese economy faced a downturn during the first quarter of fiscal year ending March 31, 2009. Corporate revenue decreased in the face of the U.S. economic slowdown touched off by the sub-prime mortgage debacle and soaring prices for crude oil and other raw materials. Capital expenditure and growth in personal consumption were also sluggish. In the real estate industry, sales in the office building market remained steady, with firm growth in the demand for new large-scale buildings. Meanwhile, sales in the housing market, such as sales of condominiums, clearly moved into a downward trend, especially for local and suburban properties.

Under these circumstances, operating revenue in the Building Division of the Company for the first quarter amounted to ¥4,665 million, driven by the full-year operation of buildings completed or acquired in the previous fiscal year, such as the Nagoya Stock Exchange Building completed last August, and rent earned through the acquisition of the Shin-Odori Building (Chuo-ku, Sapporo-city, Hokkaido).

In the Housing Division, the Company sold total 21 condominiums, including WELLITH KOMAGOME RESIDENCE (Toshima-ku, Tokyo), bringing in operating revenue of ¥1,551 million. With the Housing Leasing Business added to the above, total operating revenue in this division amounted to ¥1,795 million.

In the Asset Development Division, operating revenue from the real estate development and management businesses reached ¥569 million.

In the Other Divisions, sales activities related to corporations produced ¥115 million in revenue in the Real Estate Brokerage Business. Operating revenue from the Contract Construction Business and Building Management Business totaled ¥320 million. Operating revenue from the Private Nursing Home Business totaled ¥95 million. With the other operating revenue added to the above, the operating revenue for the Other Divisions in the first quarter of fiscal year ending March 31, 2009 stood at ¥552 million.

Accordingly, total operating revenue amounted to ¥7,582 million, cost of sales amounted to ¥4,003 million, and selling, general and administrative expenses amounted to ¥1,043 million. Consequently, operating income for the first quarter of fiscal year ending March 31, 2009 reached ¥2,535 million, ordinary income reached ¥1,918 million, and net income reached ¥844 million.

2. Qualitative information on the consolidated financial position

Total assets at the end of the first quarter increased by ¥11,605 million from the end of the previous fiscal year to ¥310,334 million. The assets breakdown is as follows: real estate for sale and real estate for sale in process increased by ¥5,112 million, while tangible fixed assets increased by ¥4,151 million, backed by the acquisition of the Shin-Odori Building.

Total liabilities increased by ¥10,063 million from the end of the previous fiscal year, mainly due to the procurement of long-term loans payable.

Total net assets increased by ¥1,542 million from the end of the previous fiscal year. The net assets breakdown is as follows: ¥844 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 for the previous fiscal year decreased the net assets by ¥732 million.

<Consolidated cash flows>

Cash and cash equivalents (“Funds”) on a consolidated basis at the end of the first quarter decreased by ¥1,783 million from the end of the previous fiscal year to ¥3,887 million.

Cash flows from operating activities decreased by ¥7,735 million. The breakdown is as follows: net income before income taxes was ¥1,512 million, while the increase in inventories was ¥5,149 million and the increase in operating investment was ¥2,549 million.

Cash flows from investing activities decreased by ¥5,706 million, mainly due to the acquisition of tangible fixed assets.

Cash flows from financing activities increased by ¥11,658 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 April 30, 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 first quarter. 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 Corporation, inhabitants and enterprise taxes.

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

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

(b) In former periods, the beneficiary right in trust (¥13,114 million at the end of the first quarter) subject to real estate for sale was shown as the Beneficiary right of real estate in trust. Taking into consideration its reality and features, we include it in Real estate for sale, effective from the first quarter of fiscal year ending March 31, 2009. The Beneficiary right of real estate in trust at the end of the previous fiscal year amounted to ¥13,153 million.

(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 each decreased by ¥24 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. First-Quarter Consolidated Financial Statements

(1) First-Quarter Consolidated Balance Sheets

(In millions of yen)

	Current first quarter (As of June 30, 2008)	Previous fiscal year (As of March 31, 2008) Condensed
Assets		
Current assets		
Cash and deposits	2,601	3,184
Accounts receivable – trade	1,683	1,462
Marketable securities	1,548	2,568
Real estate for sale	36,742	31,653
Real estate for sale in process	29,987	29,963
Other inventories	1	3
Operating investment	9,729	7,179
Other	3,710	2,667
Allowance for doubtful accounts	(71)	(55)
Total current assets	85,932	78,628
Fixed assets		
Tangible fixed assets		
Buildings and structures, net	82,661	81,164
Land	122,614	119,883
Other, net	1,077	1,155
Total tangible fixed assets	206,354	202,202
Intangible fixed assets		
Goodwill	45	48
Other	5,744	5,739
Total intangible fixed assets	5,790	5,787
Investments and other assets	12,129	11,975
Total fixed assets	224,273	219,964
Deferred assets	128	135
Total assets	310,334	298,728

(In millions of yen)

	Current first quarter (As of June 30, 2008)	Previous fiscal year (As of March 31, 2008) Condensed
Liabilities		
Current liabilities		
Notes and accounts payable – trade	1,063	3,492
Current portion of bonds	20,000	–
Current portion of convertible bonds (with stock acquisition rights)	–	1,170
Short-term loans payable	27,835	24,850
Current portion of long-term loans	8,322	6,910
Accrued corporation and other taxes	625	84
Provision	134	295
Other	3,167	2,793
Total current liabilities	61,149	39,595
Long-term liabilities		
Bonds	40,000	60,000
Convertible bonds (with stock acquisition rights)	20,000	20,000
Long-term loans payable	86,862	78,850
Provision	448	876
Negative goodwill	2	3
Other	29,873	28,947
Total long-term liabilities	177,187	188,677
Total liabilities	238,336	228,272
Net assets		
Shareholders' equity		
Common stock	15,797	15,238
Additional paid-in capital	14,025	13,466
Retained earnings	30,979	30,897
Treasury stock, at cost	(350)	(340)
Total shareholders' equity	60,451	59,262
Valuation and translation adjustments		
Unrealized gain on securities	(535)	(859)
Revaluation surplus of land	9,056	9,025
Total valuation and translation adjustments	8,521	8,165
Minority shareholders' equity	3,025	3,027
Total net assets	71,998	70,456
Total liabilities and net assets	310,334	298,728

(2) First-Quarter Consolidated Statement of Profit and Loss

(In millions of yen)

	Current first quarter (From April 1, 2008 to June 30, 2008)
Operating revenue	7,582
Cost of sales	4,003
Gross profit	3,579
Selling, general and administrative expenses	1,043
Operating income	2,535
Non-operating income	
Interest income	3
Dividends earned	99
Other	4
Total non-operating income	108
Non-operating expenses	
Interest expense	711
Other	14
Total non-operating expenses	725
Ordinary income	1,918
Special gains	
Reversal of allowance for doubtful accounts	1
Gain on sale of fixed assets	4
Total special gains	5
Special losses	
Loss on disposal of fixed assets	5
Loss on revaluation of investment securities	404
Total special losses	410
Income before income taxes	1,512
Corporation, inhabitants and enterprise taxes	638
Total income taxes	638
Minority interests	29
Net income	844

(3) First-Quarter Consolidated Statement of Cash Flows

(In millions of yen)

	Current first quarter (From April 1, 2008 to June 30, 2008)
Cash flows from operating activities	
Income before income taxes	1,512
Depreciation	1,374
Loss (gain) on revaluation of investment securities	404
Loss on disposal of fixed assets	5
Increase (decrease) in allowance for doubtful accounts	15
Increase (decrease) in accrued bonuses	(119)
Increase (decrease) in accrued bonuses for directors and statutory auditors	(41)
Increase (decrease) in accrued severance indemnities for employees	3
Increase (decrease) in reserve for retirement allowances for directors and statutory auditors	23
Interest income and dividends earned	(103)
Interest expense	711
Amortization of bond-issuing expenses	6
Gain on sale of fixed assets	(4)
Decrease (increase) in notes and accounts receivable – trade	(220)
Decrease (increase) in inventories	(5,149)
Decrease (increase) in operating investment	(2,549)
Decrease (increase) in accrued expenses	77
Decrease (increase) in accounts receivable – other	(1,085)
Increase (decrease) in notes and accounts payable – trade	(2,433)
Increase (decrease) in advances received	(107)
Increase (decrease) in accrued consumption taxes	(27)
Increase (decrease) in deposits received and deposits of landlord	200
Other	170
Subtotal	(7,335)
Interest and dividends income received	103
Interest expenses paid	(367)
Income taxes paid	(135)
Net cash used in operating activities	(7,735)

(In millions of yen)

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

Effective from the fiscal year ending March 31, 2009, the “Accounting Standard for Quarterly Financial Statements” (ASBJ Statement No. 12) and the “Implementation Guidance for Accounting Standards for Quarterly Financial Statements” (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

a. Business segment information

Current first quarter (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

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) Housing Development, sales, and leasing of residential real estate
 - (3) Asset Development 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. The above amounts are exclusive of consumption tax.
4. 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.
5. 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 decreased by ¥24 million compared with that calculated by the previous method. There was no significant effect on any of the other segments.

b. Geographical segment information

Current first quarter (From April 1, 2008 to June 30, 2008)

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

c. Overseas operating revenue

Current first quarter (From April 1, 2008 to June 30, 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