

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



October 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: November 13, 2008

Scheduled date to commencement of dividend payments: November 26, 2008

(Figures are rounded down to the nearest million yen)

1. Consolidated Financial Results for the First Half of Fiscal Year Ending March 31, 2009 (From April 1, 2008 to September 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 half ended September 30, 2008	14,123	-	3,709	-	2,351	-	304	-
First half ended September 30, 2007	13,012	25.9	4,887	27.6	4,124	32.4	2,338	28.0

	Net income per share		Fully diluted net income per share	
	Yen	Yen	Yen	Yen
First half ended September 30, 2008	2.05	1.80		
First half ended September 30, 2007	16.01	14.41		

(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, 2008	305,973	70,882	22.2	456.07
Year ended March 31, 2008	298,728	70,456	22.6	460.24

(Reference) Equity: First half ended September 30, 2008: ¥67,900 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	Yen -	Yen 7.00	Yen -	Yen 5.00	Yen 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 in the period: 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 in the period: 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 half ended September 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 half ended September 30, 2008: 624,252 shares
 - Year ended March 31, 2008: 578,396 shares
 - 3) Average number of shares during period:
 - First half ended September 30, 2008: 148,117,559 shares
 - First half ended September 30, 2007: 145,960,327 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

In the first half of fiscal year ending March 31, 2009, national economies around the world recoiled under the deep impacts of the global financial crisis touched off by the sub-prime mortgage debacle. Economic circumstances in Japan rapidly worsened, with sharply dropping exports in reaction to the downturn of the global economy and sluggish personal spending.

In the real estate industry, demand for the office building kept steady, with operation rates for large-scale buildings remaining high, albeit with vacancy rates moving into a rising trend on the whole. On the other hand, sales in the housing market such as sales of condominiums entered a correction phase, mainly in the market for local and suburban properties, with lengthening sale periods and rising inventories in the face of declines in consumer confidence.

Under these circumstances, operating revenue in the Building Division of the Company for the first half of fiscal year ending March 31, 2009 amounted to ¥9,380 million, driven by the full-year operation of buildings completed in the previous fiscal year (e.g., the Nagoya Stock Exchange Building completed last August) and acquired in the previous fiscal year (e.g., the Tenjin 3 chome Heiwa Building), as well as rents earned from the Shin-Odori Building (Chuo-ku, Sapporo-city, Hokkaido) acquired this May.

In the Housing Division, the Company brought in operating revenue of ¥1,701 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 ¥2,448 million.

In the Asset Development Division, operating revenue from the real estate development and management businesses reached ¥1,285 million.

In the Other Divisions, operating revenue from the Real Estate Brokerage Business reached ¥228 million. Operating revenue from the Contract Construction Business and Building Management Business totaled ¥543 million. Operating revenue from the Private Nursing Home Business totaled ¥185 million. With the other operating revenue added to the above, the operating revenue for the Other Divisions in the first half of fiscal year ending March 31, 2009 stood at ¥1,009 million.

Accordingly, total operating revenue amounted to ¥14,123 million, cost of sales amounted to ¥8,416 million (including the write-down of inventories), and selling, general and administrative expenses amounted to ¥1,997 million. Consequently, operating income for the first half of fiscal year ending March 31, 2009 reached ¥3,709 million, ordinary income reached ¥2,351 million, and net income reached ¥304 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 first half of fiscal year ending March 31, 2009 increased by ¥7,244 million from the end of the previous fiscal year to ¥305,973 million. The assets breakdown is as follows: real estate for sale and real estate for sale in process increased by ¥4,891 million, while tangible fixed assets increased by ¥5,298 million, backed by the acquisition of the Shin-Odori Building.

Total liabilities increased by ¥6,818 million from the end of the previous fiscal year, mainly due to the procurement of long-term loans payable.

Total net assets increased by ¥426 million from the end of the previous fiscal year. The net assets breakdown is as follows: ¥304 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 half of fiscal year ending March 31, 2009 decreased by ¥1,307 million from the end of the previous fiscal year to ¥4,362 million.

Cash flows from operating activities decreased by ¥2,270 million. The breakdown is as follows: net income before income taxes was ¥708 million and the decrease in notes and accounts receivable–trade was ¥1,133 million while the increase in inventories was ¥5,013 million and the increase in operating investment was ¥2,574 million.

Cash flows from investing activities decreased by ¥8,453 million, mainly due to the acquisition of tangible fixed assets.

Cash flows from financing activities increased by ¥9,416 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 10, 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 half. 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 first half of the fiscal year ending March 31, 2009, each decreased by ¥49 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-Half Consolidated Financial Statements

(1) First-Half Consolidated Balance Sheets

(In millions of yen)

	Current first half (As of September 30, 2008)	Previous fiscal year (As of March 31, 2008) Condensed
Assets		
Current assets		
Cash and deposits	2,625	3,184
Accounts receivable – trade	329	1,462
Marketable securities	1,799	2,568
Real estate for sale	35,993	31,653
Real estate for sale in process	30,514	29,963
Other inventories	46	3
Operating investment	9,753	7,179
Other	668	2,667
Allowance for doubtful accounts	(9)	(55)
Total current assets	81,723	78,628
Fixed assets		
Tangible fixed assets		
Buildings and structures, net	81,743	81,164
Land	124,598	119,883
Other, net	1,158	1,155
Total tangible fixed assets	207,500	202,202
Intangible fixed assets		
Goodwill	43	48
Other	5,750	5,739
Total intangible fixed assets	5,794	5,787
Investments and other assets		
Other	10,925	11,975
Allowance for doubtful accounts	(92)	(0)
Total investments and other assets	10,832	11,975
Total fixed assets	224,127	219,964
Deferred assets	121	135
Total assets	305,973	298,728

(In millions of yen)

	Current first half (As of September 30, 2008)	Previous fiscal year (As of March 31, 2008) Condensed
Liabilities		
Current liabilities		
Notes and accounts payable – trade	488	3,492
Current portion of bonds	20,000	–
Current portion of convertible bonds (with stock acquisition rights)	–	1,170
Short-term loans payable	28,435	24,850
Current portion of long-term loans	5,290	6,910
Accrued corporation and other taxes	296	84
Provision	271	295
Other	2,827	2,793
Total current liabilities	57,608	39,595
Long-term liabilities		
Bonds	40,000	60,000
Convertible bonds (with stock acquisition rights)	20,000	20,000
Long-term loans payable	87,227	78,850
Provision	520	876
Negative goodwill	2	3
Other	29,732	28,947
Total long-term liabilities	177,482	188,677
Total liabilities	235,091	228,272
Net assets		
Shareholders' equity		
Common stock	15,797	15,238
Additional paid-in capital	14,025	13,466
Retained earnings	30,432	30,897
Treasury stock, at cost	(363)	(340)
Total shareholders' equity	59,892	59,262
Valuation and translation adjustments		
Unrealized gain on securities	(1,054)	(859)
Revaluation surplus of land	9,061	9,025
Total valuation and translation adjustments	8,007	8,165
Minority shareholders' equity	2,981	3,027
Total net assets	70,882	70,456
Total liabilities and net assets	305,973	298,728

(2) First-Half Consolidated Statement of Profit and Loss
 (First half ended September 30, 2008)

(In millions of yen)

	Current first half (From April 1, 2008 to September 30, 2008)
Operating revenue	14,123
Cost of sales	8,416
Gross profit	5,707
Selling, general and administrative expenses	1,997
Operating income	3,709
Non-operating income	
Interest income	9
Dividends earned	142
Interest on refund	57
Other	15
Total non-operating income	225
Non-operating expenses	
Interest expense	1,482
Other	100
Total non-operating expenses	1,583
Ordinary income	2,351
Special gains	
Reversal of allowance for doubtful accounts	1
Gain on sale of fixed assets	6
Total special gains	7
Special losses	
Loss on disposal of fixed assets	7
Loss on revaluation of investment securities	1,399
Other	244
Total special losses	1,651
Income before income taxes	708
Income taxes	333
Minority interests	70
Net income	304

(Second quarter ended September 30, 2008)

(In millions of yen)

	Current second quarter (From July 1, 2008 to September 30, 2008)
Operating revenue	6,541
Cost of sales	4,413
Gross profit	2,127
Selling, general and administrative expenses	954
Operating income	1,173
Non-operating income	
Interest income	5
Dividends earned	42
Interest on refund	57
Other	11
Total non-operating income	117
Non-operating expenses	
Interest expense	771
Other	86
Total non-operating expenses	857
Ordinary income	433
Special gains	
Reversal of allowance for doubtful accounts	0
Gain on sale of fixed assets	2
Total special gains	2
Special losses	
Loss on disposal of fixed assets	1
Loss on revaluation of investment securities	994
Other	244
Total special losses	1,240
Income (loss) before income taxes	(804)
Income taxes	(304)
Minority interests	40
Net income (loss)	(540)

(3) First-Half Consolidated Statement of Cash Flows

(In millions of yen)

	Current first half (From April 1, 2008 to September 30, 2008)
Cash flows from operating activities	
Income before income taxes	708
Depreciation	2,770
Loss (gain) on revaluation of investment securities	1,399
Loss on disposal of fixed assets	7
Increase (decrease) in allowance for doubtful accounts	45
Increase (decrease) in accrued bonuses	5
Increase (decrease) in accrued bonuses for directors and statutory auditors	(29)
Increase (decrease) in accrued severance indemnities for employees	75
Increase (decrease) in reserve for retirement allowances for directors and statutory auditors	23
Interest income and dividends earned	(151)
Interest expense	1,482
Amortization of bond-issuing expenses	13
Gain on sale of fixed assets	(6)
Decrease (increase) in notes and accounts receivable – trade	1,133
Decrease (increase) in inventories	(5,013)
Decrease (increase) in operating investment	(2,574)
Decrease (increase) in accrued expenses	(62)
Decrease (increase) in accounts receivable – other	544
Increase (decrease) in notes and accounts payable – trade	(2,900)
Increase (decrease) in advances received	(257)
Increase (decrease) in accrued consumption taxes	125
Increase (decrease) in deposits received and deposits of landlord	277
Other	49
Subtotal	(2,333)
Interest and dividends income received	151
Interest expenses paid	(1,475)
Income taxes (paid) refund	1,386
Net cash used in operating activities	(2,270)

(In millions of yen)

Current first half
(From April 1, 2008
to September 30, 2008)

Cash flows from investing activities	
Proceeds from sales and redemption of marketable securities	19
Purchase of investment securities	(370)
Proceeds from sales and redemption of investment securities	9
Purchase of tangible fixed assets	(7,952)
Proceeds from sales of tangible fixed assets	46
Purchase of intangible fixed assets	(15)
Purchase of long-term prepaid expenses	(207)
Payments for guarantee deposits	(11)
Proceeds from collection of guarantee deposits	22
Proceeds from cancellation of insurance funds	3
Other	1
Net cash used in investing activities	(8,453)
Cash flows from financing activities	
Increase (decrease) in short-term loans payable	3,585
Proceeds from long-term loans payable	12,000
Repayment of long-term loans payable	(5,242)
Redemption of convertible bonds (with stock acquisition rights)	(52)
Purchase of treasury stock	(24)
Payments of dividends	(734)
Payments of dividends to minority shareholders	(72)
Repayments of investments in capital to minority shareholders	(43)
Other	0
Net cash provided by financing activities	9,416
Effect of exchange rate changes on cash and cash equivalents	-
Increase (decrease) in cash and cash equivalents	(1,307)
Balance of cash and cash equivalents at beginning of period	5,670
Balance of cash and cash equivalents at end of period	4,362

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 second quarter (From July 1, 2008 to September 30, 2008)

(In millions of yen)

	Building	Housing	Asset Development	Other	Total	Eliminations or Corporate	Consolidated
Operating revenue							
(1) Operating revenue from external customers	4,715	652	716	456	6,541	—	6,541
(2) Intersegment revenue and transfer	6	0	40	214	262	(262)	—
Total	4,722	653	757	671	6,804	(262)	6,541
Operating income (loss)	2,075	(1,014)	468	(60)	1,468	(294)	1,173

Current first half (From April 1, 2008 to September 30, 2008)

(In millions of yen)

	Building	Housing	Asset Development	Other	Total	Eliminations or Corporate	Consolidated
Operating revenue							
(1) Operating revenue from external customers	9,380	2,448	1,285	1,009	14,123	—	14,123
(2) Intersegment revenue and transfer	15	0	80	387	483	(483)	—
Total	9,396	2,448	1,365	1,397	14,607	(483)	14,123
Operating income (loss)	4,280	(684)	772	(88)	4,280	(571)	3,709

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 for the first half of the fiscal year ending March 31, 2009 decreased by ¥49 million

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

[Geographical segment information]

Current second quarter (From July 1, 2008 to September 30, 2008) and current first half (From April 1, 2008 to September 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.

[Overseas operating revenue]

Current second quarter (From July 1, 2008 to September 30, 2008) and current first half (From April 1, 2008 to September 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