

Consolidated Financial Results for First Half of Fiscal Year Ending March 31, 2010



October 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: November 13, 2009

Scheduled date to commence dividend payments: December 1, 2009

(Figures are rounded down to the nearest million yen)

1. Consolidated Financial Results for the First Half of Fiscal Year Ending March 31, 2010 (From April 1, 2009 to September 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	%
First half ended September 30, 2009	14,199	0.5	3,669	(1.1)	2,107	(10.4)	549	80.6
First half ended September 30, 2008	14,123	-	3,709	-	2,351	-	304	-

	Net income per share		Fully diluted net income per share	
	Yen	Yen	Yen	Yen
First half ended September 30, 2009	3.69		3.26	
First half ended September 30, 2008	2.05		1.80	

(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, 2009	301,931	69,556	22.5	456.75
Year ended March 31, 2009	317,439	70,598	21.3	454.57

(Reference) Equity: First half ended September 30, 2009: ¥67,979 million
Year ended March 31, 2009: ¥67,661 million

2. Dividends

	Cash dividends per share				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2009	-	6.00	-	6.00	12.00
Year ending March 31, 2010	-	3.00			
Year ending March 31, 2010 (Forecast)			-	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
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):
First half ended September 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:
First half ended September 30, 2009: 672,751 shares
Year ended March 31, 2009: 657,579 shares
 - 3) Average number of shares during period:
First half ended September 30, 2009: 148,836,277 shares
First half ended September 30, 2008: 148,117,559 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 operation

The Japanese economy continued to face severe constraints in the first half of the fiscal year ending March 31, 2010. Although export and production showed moderate expansion, corporate revenue remained low and personal consumption grew at a sluggish pace, mainly due to the ongoing deterioration of employment and income conditions.

In the real estate industry, the demand for office buildings has been unpredictable. As a strategy to cut costs, companies have been transferring and consolidating office buildings to reduce rental spaces. As a result, the vacancy rates in office buildings have continued to worsen and the rental market values of office buildings have continued to fall. Meanwhile, sales in the housing market, such as sales of condominiums, moved into a recovery trend, with reductions in inventories of condominiums, as a result of recent economic policies and adjustments in sales prices. Overall, however, sales in the housing market fell short of full-scale recovery, mainly due to uncertainty about the future of the real economy.

Under these circumstances, operating revenue in the Building Division of the Company for the first half of fiscal year ending March 31, 2010 decreased by ¥397 million (4.2%) from the same period of the previous fiscal year to ¥8,983 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 50 condominiums, including The Kitahama (Chuo-ku, Osaka-city, Osaka), and operating revenue increased by ¥713 million (41.9%) to ¥2,414 million. With the Housing Leasing Business added to the above, total operating revenue in this division increased by ¥444 million (18.1%) to ¥2,892 million.

In the Asset Development Division, operating revenue from the real estate development and management businesses decreased by ¥39 million (3.1%) to ¥1,245 million.

In the Other Divisions, sales activities related to corporations produced ¥170 million in revenue in the Real Estate Brokerage Business, a decrease of ¥57 million (25.3%). Operating revenue from the Contract Construction Business and Building Management Business increased by ¥112 million (20.7%) to ¥655 million. Operating revenue from the Private Nursing Home Business increased by ¥21 million (11.5%) to ¥207 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, 2010 increased by ¥68 million (6.8%) to ¥1,078 million.

Accordingly, total operating revenue increased by ¥75 million (0.5%) to ¥14,199 million, cost of sales increased by ¥319 million (3.8%) to ¥8,736 million, and selling, general and administrative expenses decreased by ¥204 million (10.2%) to ¥1,793 million.

Consequently, operating income for the first half of fiscal year ending March 31, 2010 decreased by ¥39 million (1.1%) to ¥3,669 million, and ordinary income decreased by ¥244 million (10.4%) to ¥2,107 million. Net income increased by ¥245 million (80.6%) to ¥549 million, despite a loss on the disposal of fixed assets resulting from the dismantling of buildings.

2. Qualitative information on the consolidated financial position

Total assets at the end of the first half of fiscal year ending March 31, 2010 decreased by ¥15,508 million from the end of the previous fiscal year to ¥301,931 million. The assets breakdown is as follows: cash and deposits decreased by ¥15,826 million, mainly due to redemption of bonds.

Total liabilities decreased by ¥14,466 million from the end of the previous fiscal year, mainly due to redemption of bonds.

Total net assets decreased by ¥1,041 million from the end of the previous fiscal year. The net assets breakdown is as follows: ¥549 million of net income increased net assets, while ¥893 million of dividend payments and ¥1,358 million decrease in minority shareholders' equity decreased net assets.

<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, 2010 decreased by ¥12,872 million from the end of the previous fiscal year to ¥16,183 million.

Cash flows from operating activities increased by ¥2,890 million. The breakdown is as follows: net income

before income taxes was ¥1,118 million and depreciation was ¥2,475 million. (Cash flows from operating activities for the same period of the previous fiscal year were an outflow of ¥2,270 million.)

Cash flows from investing activities decreased by ¥3,146 million, mainly due to the acquisition of tangible fixed assets. (Cash flows from investing activities for the same period of the previous fiscal year were an outflow of ¥8,453 million.)

Cash flows from financing activities decreased by ¥12,615 million, mainly due to redemption of bonds. (Cash flows from financing activities for the same period of the previous fiscal year were an inflow of ¥9,416 million.)

3. Qualitative information on forecast of consolidated financial results

We have not revised our forecast 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

Note that we made an equity-method company Canal Investment Trust Co., Ltd. our wholly owned subsidiary on October 19, 2009.

- (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

Not applicable

4. First-Half Consolidated Financial Statements

(1) First-Half Consolidated Balance Sheets

(In millions of yen)

	Current first half (As of September 30, 2009)	Previous fiscal year (As of March 31, 2009) Condensed
Assets		
Current assets		
Cash and deposits	6,440	22,267
Accounts receivable – trade	786	1,399
Marketable securities	10,453	7,075
Real estate for sale	20,160	22,275
Real estate for sale in process	17,441	16,723
Other inventories	2	2
Operating investment	11,146	11,547
Other	867	771
Allowance for doubtful accounts	(98)	(38)
Total current assets	67,200	82,023
Fixed assets		
Tangible fixed assets		
Buildings and structures, net	80,739	83,744
Land	133,427	133,470
Other, net	4,594	2,476
Total tangible fixed assets	218,760	219,691
Intangible fixed assets		
Goodwill	33	39
Other	5,796	5,756
Total intangible fixed assets	5,829	5,795
Investments and other assets		
Other	10,758	10,560
Allowance for doubtful accounts	(848)	(841)
Total investments and other assets	9,909	9,718
Total fixed assets	234,500	235,205
Deferred assets	230	209
Total assets	301,931	317,439

(In millions of yen)

	Current first half (As of September 30, 2009)	Previous fiscal year (As of March 31, 2009) Condensed
Liabilities		
Current liabilities		
Notes and accounts payable – trade	499	2,673
Current portion of bonds	20,850	20,370
Short-term loans payable	27,300	26,120
Current portion of long-term loans	34,315	24,024
Accrued corporation and other taxes	346	1,176
Provision	234	253
Other	2,497	3,121
Total current liabilities	86,043	77,739
Long-term liabilities		
Bonds	25,865	44,430
Convertible bonds (with stock acquisition rights)	20,000	20,000
Long-term loans payable	70,462	75,348
Provision	598	618
Negative goodwill	28	33
Other	29,375	28,671
Total long-term liabilities	146,330	169,101
Total liabilities	232,374	246,840
Net assets		
Shareholders' equity		
Common stock	15,797	15,797
Additional paid-in capital	14,025	14,025
Retained earnings	29,577	30,046
Treasury stock, at cost	(370)	(366)
Total shareholders' equity	59,030	59,503
Valuation and translation adjustments		
Unrealized gain on securities	(285)	(950)
Revaluation surplus of land	9,233	9,109
Total valuation and translation adjustments	8,948	8,158
Minority shareholders' equity	1,577	2,936
Total net assets	69,556	70,598
Total liabilities and net assets	301,931	317,439

(2) First-Half Consolidated Statement of Profit and Loss
(First half ended September 30, 2008 and 2009)

	(In millions of yen)	
	Previous first half (From April 1, 2008 to September 30, 2008)	Current first half (From April 1, 2009 to September 30, 2009)
Operating revenue	14,123	14,199
Cost of sales	8,416	8,736
Gross profit	5,707	5,463
Selling, general and administrative expenses	1,997	1,793
Operating income	3,709	3,669
Non-operating income		
Interest income	9	11
Dividends earned	142	89
Interest on refund	57	—
Other	15	20
Total non-operating income	225	121
Non-operating expenses		
Interest expense	1,482	1,590
Other	100	93
Total non-operating expenses	1,583	1,683
Ordinary income	2,351	2,107
Special gains		
Reversal of allowance for doubtful accounts	1	2
Gain on sale of fixed assets	6	4
Gain on sale of investment securities	—	235
Other	—	11
Total special gains	7	255
Special losses		
Loss on disposal of fixed assets	7	1,244
Loss on revaluation of investment securities	1,399	—
Other	244	—
Total special losses	1,651	1,244
Income before income taxes	708	1,118
Income taxes	333	481
Minority interests	70	87
Net income	304	549

(Second quarter ended September 30, 2008 and 2009)

(In millions of yen)

	Previous second quarter (From July 1, 2008 to September 30, 2008)	Current second quarter (From July 1, 2009 to September 30, 2009)
Operating revenue	6,541	7,283
Cost of sales	4,413	4,953
Gross profit	2,127	2,329
Selling, general and administrative expenses	954	902
Operating income	1,173	1,426
Non-operating income		
Interest income	5	4
Dividends earned	42	24
Interest on refund	57	—
Other	11	18
Total non-operating income	117	47
Non-operating expenses		
Interest expense	771	788
Other	86	51
Total non-operating expenses	857	839
Ordinary income	433	634
Special gains		
Reversal of allowance for doubtful accounts	0	—
Gain on sale of fixed assets	2	3
Gain on sale of investment securities	—	75
Total special gains	2	79
Special losses		
Loss on disposal of fixed assets	1	0
Loss on revaluation of investment securities	994	—
Other	244	—
Total special losses	1,240	0
Income (loss) before income taxes	(804)	713
Income taxes	(304)	286
Minority interests	40	49
Net income (loss)	(540)	377

(3) First-Half Consolidated Statements of Cash Flows

(In millions of yen)

	Previous first half (From April 1, 2008 to September 30, 2008)	Current first half (From April 1, 2009 to September 30, 2009)
Cash flows from operating activities		
Income before income taxes	708	1,118
Depreciation	2,770	2,475
Loss (gain) on revaluation of investment securities	1,399	—
Loss on disposal of fixed assets	7	1,244
Increase (decrease) in allowance for doubtful accounts	45	67
Increase (decrease) in accrued bonuses	5	(25)
Increase (decrease) in accrued bonuses for directors and statutory auditors	(29)	6
Increase (decrease) in accrued severance indemnities for employees	75	(19)
Increase (decrease) in reserve for retirement allowances for directors and statutory auditors	23	—
Interest income and dividends earned	(151)	(101)
Interest expense	1,482	1,590
Amortization of bond-issuing expenses	13	29
Loss (gain) on sale of investment securities	—	(235)
Loss (gain) on sale of fixed assets	(6)	(4)
Decrease (increase) in notes and accounts receivable – trade	1,133	612
Decrease (increase) in inventories	(5,013)	1,322
Decrease (increase) in operating investment	(2,574)	401
Decrease (increase) in accrued expenses	(62)	(137)
Decrease (increase) in accounts receivable – other	544	8
Increase (decrease) in notes and accounts payable – trade	(2,900)	(2,016)
Increase (decrease) in advances received	(257)	120
Increase (decrease) in accrued consumption taxes	125	(504)
Increase (decrease) in deposits received and deposits of landlord	277	(402)
Other	49	17
Subtotal	(2,333)	5,568
Interest and dividends income received	151	101
Interest expenses paid	(1,475)	(1,611)
Income taxes (paid) refund	1,386	(1,167)
Net cash provided by (used in) operating activities	(2,270)	2,890

(In millions of yen)

	Previous first half (From April 1, 2008 to September 30, 2008)	Current first half (From April 1, 2009 to September 30, 2009)
Cash flows from investing activities		
Net decrease (increase) in time deposits	—	(448)
Purchase of marketable securities	—	(100)
Proceeds from sales and redemption of marketable securities	19	124
Purchase of investment securities	(370)	(124)
Proceeds from sales and redemption of investment securities	9	451
Purchase of tangible fixed assets	(7,952)	(3,129)
Proceeds from sales of tangible fixed assets	46	143
Purchase of intangible fixed assets	(15)	(50)
Purchase of long-term prepaid expenses	(207)	(37)
Payments for guarantee deposits	(11)	(26)
Proceeds from collection of guarantee deposits	22	246
Proceeds from cancellation of insurance funds	3	—
Other	1	(197)
Net cash used in investing activities	(8,453)	(3,146)
Cash flows from financing activities		
Increase (decrease) in short-term loans payable	3,585	1,180
Proceeds from long-term loans payable	12,000	9,000
Repayment of long-term loans payable	(5,242)	(3,595)
Proceeds from issuance of bonds	—	2,000
Redemption of bonds	—	(17,385)
Cancellation by purchase of bonds	—	(2,702)
Redemption of convertible bonds (with stock acquisition rights)	(52)	—
Purchase of treasury stock	(24)	(4)
Payments of dividends	(734)	(891)
Payments of dividends to minority shareholders	(72)	(166)
Repayments of investments in capital to minority shareholders	(43)	—
Other	0	(51)
Net cash provided by (used in) financing activities	9,416	(12,615)
Effect of exchange rate changes on cash and cash equivalents	—	—
Increase (decrease) in cash and cash equivalents	(1,307)	(12,872)
Balance of cash and cash equivalents at beginning of period	5,670	29,055
Balance of cash and cash equivalents at end of period	4,362	16,183

(4) Note on going concern assumption

Not applicable

(5) Segment information

[Business segment information]

Previous 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 second quarter (From July 1, 2009 to September 30, 2009)

(In millions of yen)

	Building	Housing	Asset Development	Other	Total	Eliminations or Corporate	Consolidated
Operating revenue							
(1) Operating revenue from external customers	4,488	1,562	769	463	7,283	—	7,283
(2) Intersegment revenue and transfer	6	0	40	295	342	(342)	—
Total	4,494	1,562	809	758	7,625	(342)	7,283
Operating income (loss)	2,130	59	(438)	(14)	1,736	(310)	1,426

Previous 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

Current first half (From April 1, 2009 to September 30, 2009)

(In millions of yen)

	Building	Housing	Asset Development	Other	Total	Eliminations or Corporate	Consolidated
Operating revenue							
(1) Operating revenue from external customers	8,983	2,892	1,245	1,078	14,199	—	14,199
(2) Intersegment revenue and transfer	13	0	80	568	663	(663)	—
Total	8,996	2,892	1,326	1,647	14,862	(663)	14,199
Operating income (loss)	4,298	191	(198)	(4)	4,287	(617)	3,669

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
 - HousingDevelopment, sales, and leasing of residential real estate
 - Asset DevelopmentDevelopment 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.

[Geographical segment information]

Previous second quarter (From July 1, 2008 to September 30, 2008), Current second quarter (From July 1, 2009 to September 30, 2009), previous first half (From April 1, 2008 to September 30, 2008) and current first half (From April 1, 2009 to September 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]

Previous second quarter (From July 1, 2008 to September 30, 2008), Current second quarter (From July 1, 2009 to September 30, 2009), previous first half (From April 1, 2008 to September 30, 2008) and current first half (From April 1, 2009 to September 30, 2009)

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

- Notes on significant changes in the amount of shareholders' equity
Not applicable