

# Consolidated Financial Results for First Half of Fiscal Year Ending March 31, 2012 [JGAAP]

October 26, 2011

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: Sadao Yoshino, Director and President

Scheduled date to submit the Quarterly Securities Report: November 11, 2011

Scheduled date to commence dividend payments: December 1, 2011

Availability of supplementary briefing material on quarterly results: Available

Schedule of quarterly results briefing session: Scheduled (for institutional investors and analysts)

(Figures are rounded down to the nearest million yen)

## 1. Consolidated Financial Results for the First Half of Fiscal Year Ending March 31, 2012 (From April 1, 2011 to September 30, 2011)

### (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, 2011	16,654	18.2	3,762	(5.0)	2,388	(0.6)	1,206	36.4
First half ended September 30, 2010	14,084	(0.8)	3,961	7.9	2,404	14.1	884	61.1

(Note) Comprehensive income: First half ended September 30, 2011: ¥212 million (-86.2%)

First half ended September 30, 2010: ¥1,547 million (-%)

	Net income per share	Fully diluted net income per share
	Yen	Yen
First half ended September 30, 2011	6.05	5.48
First half ended September 30, 2010	5.94	5.25

### (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, 2011	294,765	72,822	24.5	362.48
Year ended March 31, 2011	296,058	73,010	24.5	363.13

(Reference) Equity: First half ended September 30, 2011: ¥72,346 million

Year ended March 31, 2011: ¥72,479 million

## 2. Dividends

	Annual dividends per share				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2011	-	2.00	-	2.00	4.00
Year ending March 31, 2012	-	2.00			
Year ending March 31, 2012 (Forecast)			-	2.00	4.00

(Note) Revision to the forecasts of dividends from recently announced figures: No

### 3. Forecast of Consolidated Financial Results for Fiscal Year Ending March 31, 2012 (From April 1, 2011 to March 31, 2012)

(% 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	29,000	(3.8)	6,500	(22.7)	3,400	(34.4)	2,000	(3.0)	9.90

(Note) Revision to the forecast of consolidated financial results from recently announced figures: 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 special accounting treatment for preparing quarterly consolidated financial statements: Yes  
For details, see “Adoption of special accounting treatment for preparing quarterly consolidated financial statements” on page 4.
- (3) Changes in accounting policies, changes in accounting estimates and corrections of errors
  - 1) Changes in accounting policies accompanying the revisions to items such as accounting standards: Not applicable
  - 2) Changes in accounting policies other than 1) above: Not applicable
  - 3) Changes in accounting estimates: Not applicable
  - 4) Corrections of errors: 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, 2011	200,299,980 shares
Year ended March 31, 2011	200,299,980 shares

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

First half ended September 30, 2011	709,382 shares
Year ended March 31, 2011	704,493 shares

##### 3) Average number of shares during period

First half ended September 30, 2011	199,592,965 shares
First half ended September 30, 2010	148,818,112 shares

\*These quarterly financial results are prepared outside the quarterly review required under the Financial Instruments and Exchange Act. As such, the quarterly review required under the Financial Instruments and Exchange Act has not been completed at the time of the disclosure of these quarterly financial results.

\*(Notes on forward-looking statements)

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. For information on the above forecasts, see “Qualitative information on projected consolidated results” on page 4.

(How to obtain supplementary briefing material on quarterly results and agenda of quarterly results briefing session)  
We plan to hold a briefing session for institutional investors and analysts on Wednesday, November 16, 2011. The video footage of the briefing session and the briefing material on quarterly results distributed during the briefing session will be posted on our website immediately after the briefing session.

## 1. Qualitative Information on Consolidated Results for the First Half of Fiscal Year Ending March 31, 2012

### (1) Qualitative information on consolidated results of operations

The Japanese economy in the first half of fiscal year ending March 31, 2012 showed signs of recovery in terms of corporate and consumer sentiment, thanks to rapid normalization of the supply chain, which had been disrupted as a result of the Great East Japan Earthquake. However, the future economic outlook remains uncertain partly due to the slowdown in overseas economies and the yen's appreciation.

Under these circumstances, the real estate industry has continued to see improvements in office vacancy rates, while housing sales, condominiums in particular, are showing signs of recovery after a temporary dip in the aftermath of the Great East Japan Earthquake.

In the Building Leasing Business of the Leasing Business, although "CentRise Sakae" (Naka-ku, Nagoya-city) and "Kayabacho 1 chome Heiwa Building" (Chuo-ku, Tokyo) reported an increase in rental revenue, we suffered a decline in rental revenue from "Tokyo Stock Exchange Bldg." (Chuo-ku, Tokyo), etc., and operating revenue for the first half of fiscal year ending March 31, 2012 decreased to ¥8,606 million (0.5%) from the same period of the previous fiscal year. Together with operating revenue in the Housing Leasing Business, total operating revenue in this business increased to ¥9,072 million (0.0%).

In the Real Estate Development Business, operating revenue from the Real Estate Development and Management Businesses decreased to ¥1,011 million (20.2%) from the same period of the previous fiscal year, as an increase in rental revenue from developed real estate was offset by a drop in dividend income from anonymous associations, etc. With operating revenue from the Real Estate Brokerage Business added to the above, total operating revenue in this business decreased to ¥1,224 million (16.3%).

In the Housing Development Business, condominium income increased to ¥5,341 million (96.4%), by selling 143 units of "GRANSYMPHONIA" (Toda-city, Saitama Prefecture), etc. With the other operating revenue added to the above, total operating revenue in this business increased to ¥5,378 million (95.5%).

In the Other Business, operating revenue from the Contract Construction Business and Building Management Business increased to ¥678 million (27.1%). Operating revenue from the Private Nursing Home Business increased to ¥232 million (7.9%). With the other operating revenue added to the above, operating revenue for the Other Business increased to ¥978 million (22.2%).

Accordingly, total operating revenue increased to ¥16,654 million (18.2%), cost of sales increased to ¥10,538 million (29.2%), and selling, general and administrative expenses increased to ¥2,352 million (19.7%). Consequently, operating income for the first half of fiscal year ending March 31, 2012 decreased to ¥3,762 million (5.0%), and ordinary income decreased to ¥2,388 million (0.6%). Net income increased to ¥1,206 million (36.4%) thanks to a decline in extraordinary loss.

### (2) Qualitative information on the consolidated financial position

Total assets at the end of second quarter decreased by ¥1,293 million from the end of the previous fiscal year to ¥294,765 million. The decline in total assets is largely attributable to a decrease in investment securities.

Total liabilities decreased by ¥1,106 million from the end of the previous fiscal year, mainly due to a decrease in accounts payable - trade.

Total net assets decreased by ¥187 million from the end of the previous fiscal year mainly due to an increase in retained earnings by ¥807 million and a decrease in unrealized gain on securities by ¥939 million.

<Consolidated cash flows>

Cash and cash equivalents ("Funds") at the end of the first half of fiscal year ending March 31, 2012

decreased by ¥13,066 million from the end of the previous fiscal year to ¥24,943 million.

Cash flows from operating activities increased by ¥1,696 million (an increase of ¥7,065 million in the same period of the previous fiscal year). The breakdown is as follows: income before income taxes was ¥2,131 million, an increase in notes and accounts receivable – trade was ¥3,810 million and a decrease in inventories was ¥2,932 million.

Cash flows from investing activities decreased by ¥14,173 million (a decrease of ¥1,330 million in the same period of the previous fiscal year), as payment worth ¥14,128 million was made for purchase of tangible fixed assets.

Cash flows from financing activities decreased by ¥589 million (a decrease of ¥16,888 million in the same period of the previous fiscal year). The decrease is largely attributable to repayment of long-term loans payable worth ¥10,719 million and redemption of bonds worth ¥625 million, offsetting proceeds from short-term loans payable worth ¥700 million and proceeds from long-term loans payable worth ¥10,500 million.

(3) Qualitative information on projected consolidated results

We have not revised our projection announced on April 28, 2011.

**2. Matters Related to Summary Information (Other Information)**

(1) Significant changes of subsidiaries during period under review

Not applicable.

The Group absorbed and merged with Osaka Securities Building Co., Ltd., a wholly-owned subsidiary, as of October 1, 2011.

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

With regard to the 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 second quarter (from July 1, 2011 to September 30, 2011). 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 accounting policies, changes in accounting estimates and corrections of errors

Not applicable.

**3. Significant Matters Related to Going Concern Assumption**

Not applicable.

#### 4. First-Half Consolidated Financial Statements

##### (1) First-Half Consolidated Balance Sheets

(In millions of yen)

	Previous fiscal year (As of March 31, 2011)	Current first half (As of September 30, 2011)
<b>Assets</b>		
Current assets		
Cash and deposits	19,921	15,741
Accounts receivable – trade	676	4,487
Marketable securities	18,150	9,263
Real estate for sale	14,078	15,093
Real estate for sale in process	10,179	6,160
Other inventories	3	22
Operating investment	2,749	3,575
Other	2,846	2,656
Allowance for doubtful accounts	(46)	(56)
Total current assets	68,559	56,943
Fixed assets		
Tangible fixed assets		
Buildings and structures, net	78,739	81,151
Land	123,251	131,724
Other, net	2,036	2,808
Total tangible fixed assets	204,027	215,684
Intangible fixed assets		
Goodwill	401	350
Other	4,672	4,661
Total intangible fixed assets	5,074	5,011
Investments and other assets		
Other	18,203	16,974
Allowance for doubtful accounts	(22)	(21)
Total investments and other assets	18,180	16,953
Total fixed assets	227,281	237,649
Deferred assets	217	172
<b>Total assets</b>	<b>296,058</b>	<b>294,765</b>

(In millions of yen)

	Previous fiscal year (As of March 31, 2011)	Current first half (As of September 30, 2011)
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable – trade	1,269	679
Current portion of bonds	4,540	4,255
Current portion of convertible bonds (with stock acquisition rights)	–	20,000
Short-term loans payable	16,850	17,550
Current portion of long-term loans	28,839	29,869
Accrued corporation and other taxes	185	1,013
Provision	214	233
Other	3,355	2,165
Total current liabilities	55,254	75,765
Long-term liabilities		
Bonds	34,400	34,060
Convertible bonds (with stock acquisition rights)	20,000	–
Long-term loans payable	81,729	80,479
Provision	610	666
Asset retirement obligations	188	190
Negative goodwill	19	16
Other	30,846	30,764
Total long-term liabilities	167,794	146,177
Total liabilities	223,048	221,942
<b>Net assets</b>		
Shareholders' equity		
Common stock	21,492	21,492
Additional paid-in capital	19,720	19,720
Retained earnings	15,992	16,799
Treasury stock, at cost	(378)	(378)
Total shareholders' equity	56,827	57,634
Accumulated other comprehensive income		
Unrealized gain on securities	776	(163)
Revaluation surplus of land	14,875	14,875
Total accumulated other comprehensive income	15,652	14,712
Minority shareholders' equity	530	476
Total net assets	73,010	72,822
<b>Total liabilities and net assets</b>	<b>296,058</b>	<b>294,765</b>

(2) Quarterly Consolidated Statements of Profit and Loss and Comprehensive Income

(Quarterly Consolidated Statements of Profit and Loss)

(First half ended September 30, 2010 and 2011)

(In millions of yen)

	Previous first half (From April 1, 2010 to September 30, 2010)	Current first half (From April 1, 2011 to September 30, 2011)
Operating revenue	14,084	16,654
Cost of sales	8,157	10,538
Gross profit	5,926	6,115
Selling, general and administrative expenses	1,965	2,352
Operating income	3,961	3,762
Non-operating income		
Interest income	13	11
Dividends earned	216	249
Other	44	15
Total non-operating income	274	277
Non-operating expenses		
Interest expense	1,689	1,516
Other	142	135
Total non-operating expenses	1,831	1,651
Ordinary income	2,404	2,388
Extraordinary income		
Reversal of allowance for doubtful accounts	84	–
Gain on sale of fixed assets	6	9
Total extraordinary income	90	9
Extraordinary loss		
Loss on sale of fixed assets	–	1
Loss on disposal of fixed assets	8	2
Dismantling expense of buildings and building fixtures	90	–
Loss on adjustment for changes of accounting standard for asset retirement obligations	168	–
Loss on revaluation of investment securities	425	262
Total extraordinary loss	692	266
Income before income taxes	1,802	2,131
Income taxes	812	979
Income before minority interests	990	1,152
Minority interests in income (loss)	105	(54)
Net income	884	1,206

(Quarterly Consolidated Statements of Comprehensive Income)

(First half ended September 30, 2010 and 2011)

(In millions of yen)

	Previous first half (From April 1, 2010 to September 30, 2010)	Current first half (From April 1, 2011 to September 30, 2011)
Income before minority interests	990	1,152
Other comprehensive income		
Unrealized gain on securities	557	(939)
Total other comprehensive income	557	(939)
Comprehensive income	1,547	212
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	1,442	267
Comprehensive income attributable to minority interests	105	(54)

### (3) First-Half Consolidated Statements of Cash Flows

(In millions of yen)

	Previous first half (From April 1, 2010 to September 30, 2010)	Current first half (From April 1, 2011 to September 30, 2011)
Cash flows from operating activities		
Income before income taxes	1,802	2,131
Depreciation	2,535	2,429
Loss (gain) on revaluation of investment securities	425	262
Loss on disposal of fixed assets	8	2
Increase (decrease) in allowance for doubtful accounts	(847)	8
Increase (decrease) in accrued bonuses	(13)	32
Increase (decrease) in accrued bonuses for directors and statutory auditors	12	(13)
Increase (decrease) in accrued severance indemnities for employees	64	55
Interest income and dividends earned	(229)	(261)
Interest expense	1,689	1,516
Amortization of bond-issuing expenses	42	45
Loss (gain) on sale of fixed assets	(6)	(8)
Decrease (increase) in notes and accounts receivable – trade	1,006	(3,810)
Decrease (increase) in inventories	1,399	2,932
Decrease (increase) in operating investment	86	(826)
Decrease (increase) in accrued expenses	(93)	68
Decrease (increase) in accounts receivable – other	217	(173)
Increase (decrease) in notes and accounts payable – trade	(1,321)	(610)
Increase (decrease) in advances received	(43)	(208)
Increase (decrease) in accrued consumption taxes	261	(504)
Increase (decrease) in deposits received and deposits of landlord	(85)	(54)
Other	141	(224)
Subtotal	7,053	2,793
Interest and dividends income received	230	261
Interest expenses paid	(1,687)	(1,528)
Income taxes (paid) refund	1,469	170
Net cash provided by operating activities	7,065	1,696

(In millions of yen)

	Previous first half (From April 1, 2010 to September 30, 2010)	Current first half (From April 1, 2011 to September 30, 2011)
<b>Cash flows from investing activities</b>		
Net decrease (increase) in time deposits	300	–
Proceeds from sales and redemption of marketable securities	400	–
Purchase of investment securities	(681)	(29)
Proceeds from sales and redemption of investment securities	0	0
Purchase of tangible fixed assets	(1,329)	(14,128)
Proceeds from sales of tangible fixed assets	36	66
Purchase of intangible fixed assets	(5)	(2)
Purchase of long-term prepaid expenses	(23)	(72)
Payments for guarantee deposits	(85)	(19)
Proceeds from collection of guarantee deposits	58	11
Other	(0)	1
<b>Net cash used in investing activities</b>	<b>(1,330)</b>	<b>(14,173)</b>
<b>Cash flows from financing activities</b>		
Increase (decrease) in short-term loans payable	(8,150)	700
Proceeds from long-term loans payable	21,450	10,500
Repayment of long-term loans payable	(14,314)	(10,719)
Proceeds from issuance of bonds	2,000	–
Redemption of bonds	(14,725)	(625)
Cancellation by purchase of bonds	(3,115)	–
Purchase of treasury stock	(4)	–
Payments of dividends	(1)	(395)
Other	(26)	(49)
<b>Net cash used in financing activities</b>	<b>(16,888)</b>	<b>(589)</b>
Effect of exchange rate changes on cash and cash equivalents	–	–
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(11,152)</b>	<b>(13,066)</b>
<b>Balance of cash and cash equivalents at beginning of period</b>	<b>36,610</b>	<b>38,010</b>
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	(50)	–
<b>Balance of cash and cash equivalents at end of period</b>	<b>25,407</b>	<b>24,943</b>

(4) Notes on going concern assumption

Not applicable.

(5) Segment information

[Business segment information]

I For previous first half (From April 1, 2010 to September 30, 2010)

1. Information regarding operating revenue and income/loss by the reported segments

(In millions of yen)

	Reported Segments				Others (Note 1)	Total	Adjustments (Note 2)	Account in consolidated financial statements (Note 3)
	Leasing Business	Real Estate Development Business	Housing Development Business	Subtotal				
Operating revenue								
Operating revenue from external customers	9,069	1,462	2,750	13,283	800	14,084	–	14,084
Intersegment revenue and transfer	12	85	–	97	378	476	(476)	–
Total	9,082	1,547	2,750	13,380	1,179	14,560	(476)	14,084
Segment income	3,784	710	38	4,533	49	4,582	(621)	3,961

Notes:

1. “Others” means business segments which are not included in the reported segments and includes management and renovation of buildings, facilities, etc., insurance agency business, and private nursing home business.
2. Adjustments to segment income, reducing ¥621 million, mainly include corporate expenses, representing ¥671 million reduction, which belong to the administration division and are not allocated to any of the reported segments.
3. Adjustments to segment income are related to operating income in the quarterly consolidated statements of profit and loss.

II For current first half (From April 1, 2011 to September 30, 2011)

1. Information regarding operating revenue and income/loss by the reported segments

(In millions of yen)

	Reported Segments				Others (Note 1)	Total	Adjustments (Note 2)	Account in consolidated financial statements (Note 3)
	Leasing Business	Real Estate Development Business	Housing Development Business	Subtotal				
Operating revenue								
Operating revenue from external customers	9,072	1,224	5,378	15,675	978	16,654	–	16,654
Intersegment revenue and transfer	13	85	–	99	540	639	(639)	–
Total	9,085	1,309	5,378	15,774	1,518	17,293	(639)	16,654
Segment income	3,967	67	302	4,336	89	4,425	(663)	3,762

Notes:

1. “Others” means business segments which are not included in the reported segments and includes management and renovation of buildings, facilities, etc., insurance agency business, and private nursing home business.
2. Adjustments to segment income, reducing ¥663 million, mainly include corporate expenses, representing ¥672 million reduction, which belong to the administration division and are not allocated to any of the reported segments.
3. Adjustments to segment income are related to operating income in the quarterly consolidated statements of profit and loss.

2. Information regarding impairment loss or goodwill, etc. in fixed assets by the reported segments

Not applicable.

(6) Notes in case of large changes in shareholder's equity

Not applicable.

(7) Significant subsequent events

Not applicable.

(8) Others

ES-CON JAPAN Ltd. has brought a lawsuit against the Company before Tokyo District Court seeking payment of purchase price (hereinafter "Lawsuit"). Details of the Lawsuit are as follows.

1) The party initiated the Lawsuit

Location: 2-2-2, Uchisaiwai-cho, Chiyoda-ku, Tokyo

Trade name: ES-CON JAPAN, Ltd.

Representative: President and Representative Director, Takatoshi Ito

2) Date of filing of the Lawsuit

July 8, 2010

3) Contents of the Lawsuit and amount of claim

The Company executed the Trust Beneficiary Right Sale and Purchase Agreement dated May 28, 2008 (hereinafter "Agreement") with ES-CON JAPAN Ltd. regarding land and building located in the city of Osaka. However, ES-CON JAPAN Ltd. failed to satisfy the conditions for closing the transaction by March 31, 2009, the last day of the period within which transaction stated to be closed, as set forth in the Agreement. As a result, the planned transaction was not executed and the Agreement was terminated by the Agreement itself as of the same day.

ES-CON JAPAN Ltd. argues that the Company failed to close the transaction without just cause and initiated the Lawsuit seeking payment of the purchase price of ¥2,865 million and interests on it at the rate of 6% per annum for the period from April 1, 2009 to the date on which payment is made, in exchange for the transfer of registration of ownership right in the abovementioned land and building and actual transfer thereof, or transfer of beneficiary right regarding the abovementioned land and building. The claim is based on an argument that a sale and purchase agreement regarding the land and building was separately made as the primary argument, or based on provisions of the Agreement as the supplementary argument.

4) Opinion of the Company and prospect

The Company will advocate legality of its conducts and respond appropriately through the Lawsuit.