Financial Information

Consolidated Seven-year Summary

Daiwa House Industry Co., Ltd. and Subsidiaries
Years ended March 31, 1999 to 2005

	Millions of yen						
	2005	2004	2003	2002	2001	2000	1999
Net sales	**¥1,365,914**	¥1,224,648	¥1,184,544	¥1,197,925	¥1,016,237	¥ 951,073	¥ 896,006
Cost of sales	**1,082,133**	963,457	936,861	945,474	794,170	736,310	691,318
Selling, general and administrative expenses	**215,932**	201,530	202,411	206,420	177,777	167,266	164,473
Operating income	**67,849**	59,661	45,272	46,031	44,290	47,497	40,215
Income (loss) before income taxes and minority interests	**63,108**	67,897	(155,157)	9,538	12,796	32,123	21,414
Net income (loss)	**40,262**	37,257	(91,388)	5,217	6,256	17,450	16,699
Per share of common stock (in yen):							
Basic net income (loss)	**73.26**	68.16	(167.06)	9.55	12.05	33.52	31.88
Diluted net income						33.50	
Shareholders' equity	**959.08**	902.32	884.55	1,066.63	1,182.01	1,188.63	1,151.12
Property, plant and equipment, less accumulated depreciation	**441,388**	344,268	349,646	426,630	383,853	376,489	365,502
Total assets	**1,358,807**	1,087,658	1,094,441	1,187,127	1,066,457	981,893	950,701
Shareholders' equity	**524,110**	493,050	483,684	582,438	613,867	617,421	603,060
Return on equity (%)	**7.92**	7.63	(17.14)	0.85	1.02	2.86	2.79

Management's Discussion and Analysis (On a Consolidated Basis)

Year Ended March 31, 2005

Business Environment and Financial Strategy

During the term under review, the Japanese economy recovered steadily, with improving corporate earnings and an increase in private capital investment. The recovery stalled in the second half of the fiscal year, however, due to a slowdown in exports and a downturn in production of information technology products.

Turning to our industry, while growth in home ownership remained sluggish, the nationwide economic rebound was reflected in strong activity in rental properties and subdivisions, driving housing construction starts. In the area of general construction, private capital investment increased, but public investment remained restrained, and conditions continued to permit no optimism.

In this environment, the Group worked to strengthen a structure tailored to the community, and has built a fine-grained service system to meet individual customers' needs. In order to quickly respond to and reflect customers' requests in our products and services and to respond to the expectations of all stakeholders, we have enhanced our organization by establishing a new Customer Satisfaction Promotion Department, as well as a CSR Promotion Office as a dedicated unit to oversee matters relating to our social responsibility. Also, in order to deliver environmentally-friendly, safe and trouble-free products, we have reinforced our quality assurance system by establishing a new Quality Assurance Promotion Department.

At the same time, we worked to enhance Group operations by making Daiwa Kosho Lease Co., Ltd., formerly an equity-method accounting affiliate into a consolidated subsidiary, and by taking a stake in Osaka Marubiru Co., Ltd.

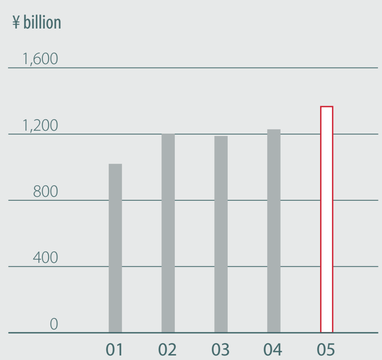
A half-century has passed since our company was established in 1955. Looking forward to the next half-century, we have set out the management vision of "Connecting Hearts" and established "Endless Heart" as a new symbol for the Group. Our intent is that this will enhance the brand image of the Group and contribute to assuring its differentiation and competitive superiority.

The Group has formulated a medium-term management plan, called "Challenge 2005," starting in FY2005, to address this business environment and these business challenges, and to enable us to make the next leap forward. We will push ahead to enhance Group operations in the future and strengthen the intragroup synergies, leveraging our dual strengths of customer base and experience in construction.

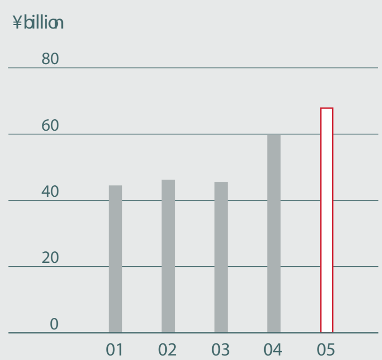
Consolidated sales are an indication of earning power, consolidated recurring profit is an indication of the value-added of our products and services, and return on equity (ROE) is an indication of the contribution to shareholders, three benchmarks to measure growth and development as management moves forward.

The goals the plan sets out for the three indicators are consolidated sales of ¥1,700 billion, consolidated recurring profit of ¥100 billion, and ROE of 9.0% or more in fiscal year 2007,

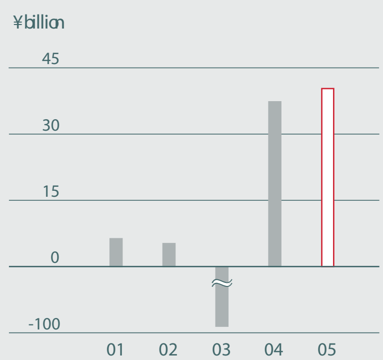
Net sales



Operating income



Net income (loss)



the final year of the medium-term management plan. Actual performance during the period under review exceeded announced targets for the Group, with consolidated sales of ¥1,365.9 billion (US$12,765.5 million), consolidated recurring profit of ¥74.2 billion (US$693.4 million), and ROE of 7.9%.

Of these three indicators, consolidated sales and consolidated recurring profit will be used to judge the level of progress and the feasibility of achieving the plan. For this reason, it is necessary to focus on improving the efficiency of management, taking into consideration the balance between capital investment which is necessary to strengthen the foundation of the business and the return of profits to shareholders. Our basic approach for the time being is to strive to attain ROE targets as the criteria to measure progress towards capital efficiency.

The 7.9% ROE for the period under review is a combination of the net income to sales ratio of 2.9%, the total assets turnover ratio of 1.12 times and financial leverage of 2.41. Raising financial leverage, one of the ROE constituent factors, was what succeeded in raising ROE for the period under review, if only slightly, since the net income to sales ratio in the reporting term and the total assets turnover ratio were at a level basically equivalent to the prior term. However, external capital such as borrowings and bonds, etc. brings with it fixed costs in the form of interest payments, and there is a possibility of impairing asset soundness. We continue to have ample internally-generated cash flow to cover the necessary level of investment funds however, we believe in the course of developing the business in the future development it will be necessary to consider the balance of fund procurement carefully.

Results of Operations

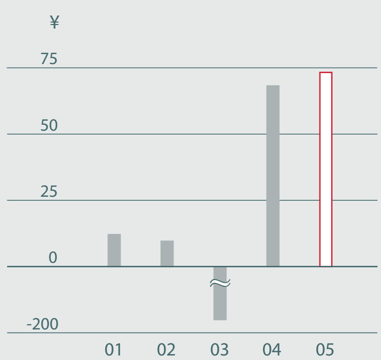
Net Sales

Consolidated sales for the period ended March 2005 were ¥1,365.9 billion (US$12,765.5 million), an 11.5% increase compared with the previous term. Primarily responsible this increase in revenue was the acquisition of Daiwa Kosho Lease Co., Ltd., previously an equity-method accounting affiliate. Another factor was that of new housing starts, apartments and subdivisions grew strongly, exhibiting year-on-year growth for the second straight year to 1.193 million units, thanks to the upward momentum of the economy, even though single-family houses slumped due to the reduction in mortgage loan tax breaks.

By segment, prior to consolidation adjustments for intrasegment transactions, all enjoyed increased sales, with housing at ¥854.5 billion (US$7,986.6 million), a 6.7% increase compared with the previous term, commercial construction at ¥363.8 billion (US$3,400.2 million), a 31.4% increase, resort hotels at ¥55.7 billion (US$521.0 million), a 4.0% increase, the home center business at ¥59.1 billion (US$552.9 million), a 3.4% increase, and other businesses at ¥104.1 billion (US$973.1 million), a 6.5% increase. One factor in the increased sales was the acquisition of Daiwa Kosho

Operating profit margin

Basic net income (loss) per share



Lease Co., Ltd., affecting commercial construction, housing, and other segments. Daiwa Kosho Lease Co., Ltd. benefited sales of commercial construction in particular due to its focus on modular housing construction and construction of retail and wholesale facilities.

Cost of Sales and, Selling and General Administrative Expenses

The cost of sales increased significantly to ¥1,082.1 billion (US$10,113.3 million), an increase of ¥118.6 billion over the previous term. The cost of sales ratio thus rose to 79.2%, exceeding the previous term by 0.5 points. Both internal and external factors were at play. The internal factor is the addition of cost of sales resulting from the acquisition of Daiwa Kosho Lease Co., Ltd. External factors included skyrocketing materials prices, mainly the rapid rise in prices for steel for construction, resulting in an increase in the cost of sales for completed work, as well as a decline in selling prices caused by fierce competition.

Sales and general administrative expenses were ¥215.9 billion (US$2,018.0 million), an increase of ¥14.4 billion compared to the previous term. Although labor and advertising expenses increased, the SG&A expense ratio of 15.8% showed a decrease of 0.6 points compared to the previous term.

Operating Income

Operating income was ¥67.8 billion (US$634.1 million), an increase of 13.7% compared to the previous term, due to an increase in revenue and a reduction in costs. Excluding the home center business, profits increased across the board, the resort hotels segment on a rise in revenue. Operating margins were 5.0% an increase of 0.1 points over to the previous term.

Business Overview by Segment

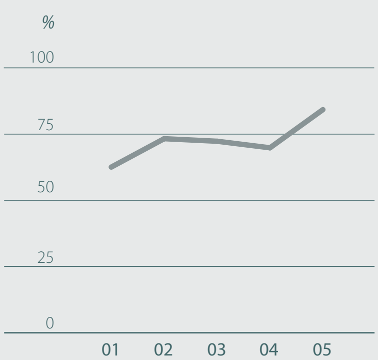
The analysis of segment-by-segment sales in the following includes intrasegment transactions.

Housing Business

In the single-family housing division, we introduced major new products such as stylishly-designed two-story and customizable two-story products. We also brought to market two-story housing with the feeling of being one step closer to luxury, utilizing an outer shell insulation system and an external wall material providing even better insulation characteristics and durability. We offered high quality wood housing products to expand sales in urban areas, such as an urban-type wooden three-story product with stylish exterior and dynamic space, as well as wooden two-story houses allowing the "second-generation baby boomers" who are the primary first-time buyers to express their personality.

In the home renovation business, we responded to the changing, diversifying needs associated with changes in family structure and life style . We have taken maximum advantage of expertise that only a housing producer would

Fixed ratio



Tangible fixed asset turnover ratio

possess with the full-service renovation brand "Renew," targeting a wide range of buildings such as condominiums and retail stores as well as housing.

Unit sales for single-family housing thus rose to 12,470, an increase of 2.7% compared to the previous term, yielding sales of ¥343.2 billion (US$3,207.4 million) on a non-consolidated basis, an increase of 5.2% compared to the previous term.

In the rental apartment buildings division, we came out with an urban-type three-story apartment building with a sophisticated and stylish exterior design and a variety of exterior variations, with the versatility to deal with a wide range of plans and be built efficiently in overpopulated areas and narrow or irregular lots in urban areas. As continuing extremely low interest rates left financial products unattractive, housing sales reached 26,658 units, an increase of 0.9% , with sales of ¥229.0 billion (US$2,140.1 million) (on a non-consolidated basis), an increase of 2.3% , as land owners' needs to make better use of their property increased.

In the condominium division, we announced developments based on local demand, including high rise buildings. We aggressively promoted life style proposals and new product concepts, such as developing new sales channels using the Internet and a condominium asset value support system we introduced. Unit sales, however, dropped to 3,727, a decrease of 2.9% compared to the previous term. In yen terms, nevertheless, sales (excluding sales of land) reached ¥83.5 billion (US$780.3 million), an increase of 4.2%.

Overall, housing segment sales amounted to ¥854.5 billion (US$7,986.6 million), an increase of 6.7% compared to the previous term, operating income was ¥49.7 billion (US$465.1 million), and operating margins were 5.8%.

Commercial Construction Business

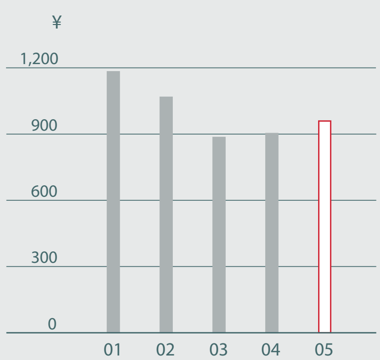
Business conditions for the commercial construction segment continued to provide no grounds for optimism, with public investment marked by restraint. Against such a background, we leveraged our strengths in information about land and expertise in supporting the store opening activities of tenant companies to move forward with the building of commercial spaces along the main roads near suburban residential areas and development of large, complex commercial facilities comprised of multiple specialty stores and restaurants on large open properties. As a result, total building sublet area, including Daiwa Kosho Lease Co., Ltd., doubled to 2,288,000 m^2, an increase of 108.2% compared to the previous term, with 3,490 tenant companies. With an eye to the superannuated society of the future, we also released a fee-based elderly care center product, the fruits of the expertise on medical and nursing care accumulated over the years by the Silver Age Research Center since its inception in 1989. Also, noting the growing efficiency and sophisticated service in the distribution industry, we widened the scope of our business through specialized partnerships under our partner coordination system, proposing distribution solutions.

As a result, sales in the commercial construction segment reached ¥363.8 billion (US$3,400.2 million), an increase of

Current ratio

Shareholders' equity to total assets

Shareholders' equity per share



31.4% compared to the previous term, operating income rose to ¥27.3 billion (US$255.3 million), an increase of 32.2%, and operating margins were 7.5%.

Resort Hotel Business

In the resort hotels segment, we worked to bolster service levels by promoting small group CS (customer satisfaction) activities in hotels throughout Japan, also offering cuisines prepared by chefs in each hotel using local organic ingredients under the theme "Food Safety and Health." As a result, the annual number of guests at hotels passed the 3 million mark, with the occupancy rate increasing to around 49%.

As a result, sales in the resort hotels segment rose to ¥55.7 billion (US$521.0 million), an increase of 4.0% compared to the previous term, with operating income of ¥1.8 billion (US$17.5 million), an increase of 2,202.1%, and operating margins of 3.4%.

Home Center Business

We worked to expand the scope of the home center segment by opening three new stores and making Royal Vicks Co., Ltd. a consolidated subsidiary. As a result, total floor space as of the end of the term exceeded 190,000 m^2 and the total number of stores rose to 39. However, average purchase size has continued to decrease, reflecting the slowdown in individual consumption even though the number of purchasing customers has increased. In response, the Group is endeavoring to expand sales taking advantage of the demand for interior materials and home renovation, leveraging the track record and expertise we have built up as a housing producer.

Overall, the home center segment recorded sales of ¥59.1 billion (US$552.9 million), an increase of 3.4% compared to the previous term, operating income of ¥100 million (US$0.9 million), a decrease of 27.9%, and operating margins of 0.2%.

Other Businesses

In the other businesses segment, we worked to expand sales in the construction materials manufacturing and sales business unit by approaching housing manufacturers and building material trading companies to promote existing building materials for housing and exterior building materials for rental apartment buildings, and by introducing new products such as indoor stairs.

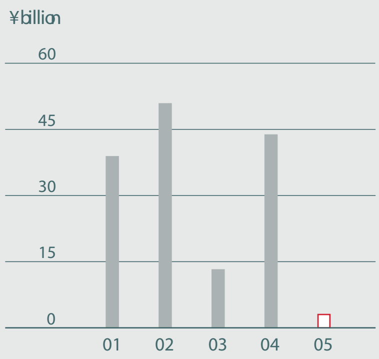
In the logistics business unit, we have decided to build eight distribution centers throughout Japan to improve logistics services, of which two have already begun operations.

We also reinforced Group operations by making Osaka Marubiru Co., Ltd. into a consolidated subsidiary.

Overall, sales in the other businesses segment reached ¥104.1 billion (US$973.1 million), an increase of 6.5% compared to the previous term, with operating income of ¥3.5 billion (US$33.0 million), an increase of 25.2%, and operating margins of 3.4%.

Return on equity

Free cash flows*



Free cash flows*=
Cash flow from operating activities
+Cash flow from investing activities

Other Income and Expenses

Other income was ¥13.9 billion, a decrease of ¥9.5 billion compared to the previous term, while other expenses were ¥18.7 billion, an increase of ¥3.4 billion. The net result of subtracting other expenses from other income is a loss of ¥4.7 billion (US$44.3 million), a decrease of ¥13.0 billion compared to the previous term.

The main reason for the decrease in other income was the decrease in income related to retirement and pension accounts. The ¥9.1 billion in income from amortization of variance in retirement and pension accounts booked as income the previous period decreased to ¥2.2 billion in this term, while the ¥5.9 billion of income in the previous term from amortization of variance of retirement and pension trust funds disappeared entirely this period. The factor underlying both of these is the reduction in the difference between actual performance and the expected investment income.

The main reason for the increase in other expenses was an increase in the amount of lump-sum amortization of employees' prior service obligation costs required for termination of operations of the Welfare Pension Fund for the government and expenses related to establishing the corporate brand.

Net Income

Net income for the period was thus ¥40.2 billion (US$376.2 million), an increase of 8.1% compared to the previous term, thanks to an increase of more than 13% in operating income and a lowered corporate tax burden under tax-effect accounting. Net income as a percentage of sales was 2.9%, roughly the same as in the prior period. Earnings per share came to ¥73.26 (US$0.68), the highest level for the past five years.

Liquidity and Capital Resources

Financial Position

Assets

Total assets on a non-consolidated basis at period end were ¥1,358.8 billion (US$12,699.1 million), an increase of 24.9% compared to the previous term-end. The main reason for the increase was the acquisition of Daiwa Kosho Lease Co., Ltd., accounting for approximately 80% of the increased amount.

Current assets were ¥612.5 billion (US$5,724.7 million), an increase of 23.4% compared to the previous term, with the dramatic increase in the real estate held for sale especially prominent. This is due to the acquisition of real estate for condominiums, and accounts for cash and cash equivalents not increasing significantly even with the added contribution from Daiwa Kosho Lease Co., Ltd. The increase in trade receivables, including accounts due for completed work, in attributable to an increase in Group sales, including the Daiwa Kosho Lease Co., Ltd.

Property, plant and equipment came to ¥441.3 billion

(US$4,125.1 million), an increase of 28.2% compared to the previous term. The one dramatic increase was buildings/structures and real estate. The contribution from Daiwa Kosho Lease Co., Ltd. was large, and investment in facilities also increased significantly. Investment in facilities this term jumped to ¥56.6 billion, an increase of 182.0% compared with the previous term, with the commercial construction segment, at ¥31.9 billion, accounting for the bulk of the rise.

Investments and other assets amounted to ¥304.8 billion (US$2,849.3 million), an increase of 23.4% over the previous term. The areas which increased significantly were deposits and guarantees. Construction cooperation fund and deposits held by Daiwa Kosho Lease Co., Ltd. contributed to this increase. Investment in securities declined, on the other hand, as the stockholdings in Daiwa Kosho Lease Co., Ltd. were offset by its shareholders' equity in conjunction with its acquisition.

Liabilities

Total liabilities at period end stood at ¥762.8 billion (US$7,129.8 million), an increase of 32.6% compared to the previous term.

Current liabilities were ¥385.2 billion (US$3,600.5 million), an increase of 37.9% compared with the previous term. Of this, the trade payables increased significantly in conjunction with the increase in sales, including Daiwa Kosho Lease Co., Ltd. Short-term borrowings and the current portion of long-term debt increased, thanks to the contribution of other consolidated subsidiaries, including subsidiaries of Daiwa Kosho Lease Co., Ltd. Therefore, Daiwa House Industry Co., Ltd., the parent, continues to hold no long-term interest-bearing obligations on a non-consolidated basis.

As a result, working capital (current assets less current liabilities) amounted to ¥227.2 billion, an increase of 4.8% compared with the previous term, and although the liquidity ratio decreased to 159.0% from 177.6% in the previous term, the Group's retains ample liquidity.

Long-term liabilities were ¥377.6 billion (US$3,529.3 million), an increase of ¥81.8 billion over the prior period. The main reason for the significant increase in long-term deposits and guarantees was the inclusion of construction cooperation funds and long term deposits from Daiwa Kosho Lease Co., Ltd. Although Daiwa House Industry Co., Ltd., the parent, has no interest-bearing obligations on a non-consolidated basis, long-term obligations held by subsidiaries of Daiwa Kosho Lease Co., Ltd. and other consolidated subsidiaries increased. However, the debt-to-equity ratio is 4.0% when both short-term and long-term borrowings are included, meaning the Group continues to be effectively debt-free.

Minority Interests

Minority interests amounted to ¥71.7 billion (US$671.0 million), a significant increase of 270.2% over the previous term. This is because in the process of making approximately Daiwa Kosho Lease Co., Ltd. a consolidated subsidiary, the approximately 60% of its shares remaining after deduction of the approximately 40% already owned were recorded as minority interests.

Shareholders' Equity

Shareholders' equity at term-end stood at ¥524.1 billion (US$4,898.2 million), an increase of 6.3% over the previous term. Retained earnings increased, reflecting the increase in profit. The equity ratio declined 6.7 points to 38.6%, due to the increases in total assets and minority interests. However, ROE (return on equity) reached 7.9%, an increase of 0.3 points over the previous term, and ROA (return on assets) came in at 3.3%, slightly below the level of the previous term.

Dividend Policy

The Company's fundamental stance is to sustain dividends at an appropriate level, taking into consideration the balance between sharing returns with shareholders and the necessary level of retained earnings for future business development and reinforcing the foundation of the business. In accordance with this policy, the dividend for this term has been set at ¥17 (US$0.16), an increase of ¥2. As for the current term, we plan an annual dividend of ¥20, including a 50th anniversary dividend of ¥3.

Cash Flows

Cash and cash equivalents at the end of the period amounted to ¥150.4 billion (US$1,406.1 million), an increase of ¥8.9 billion over the prior period end. Net cash flow from operating activities decreased by ¥13.5 billion to ¥56.0 billion (US$524.2 million), which is attributable to an increase in inventory.

The main reason was the significant increase in inventories, due to significant purchases of real estate held for sale. Trade receivables increased due to the rise in sales, which was offset, however, by an increase in trade payables.

Net cash used in investing activities amounted to ¥53.0 billion (US$495.9 million), an increase of ¥27.1 billion over the previous term. The main reason for this expenditure was the push to acquire property, plant and equipment, mainly building sites for large-scale rental housing facilities.

Net cash provided by financing activities was ¥5.8 billion (US$55.0 million), compared with a net outflow of ¥6.1 billion for the previous term. The increase in long-term debt for investments in facilities resulted in a fund inflow, which more than offset increased dividend payments due to the dividend increase.

Resulting free cash flow, the total of the cash flow from operating activities and investing activities, was ¥3.0 billion, down by ¥40.6 billion from the prior period.

Outlook for the Current Fiscal Year, Ending March 2006

Although a recovery is expected in Japan's economy in fiscal 2005, with continuing improvement in corporate earnings, the future is wrought with uncertainty, with the many grounds for concern including pressure on corporate profits due to the skyrocketing prices of crude oil and other raw materials, and a possible downturn in external demand stemming from a slowdown in the world economy.

For our industry as well, conditions will continue to be unpredictable, with no rebound in personal consumption in sight, and no major stimulus for growth in demand to be found.

In this environment, the Group will work to strengthen its community-oriented business approach and develop products and services responsive to our customers' needs. In particular, we intend to push forward with developing the Group, under the medium-term management plan entitled "Challenge 2005," which kicks off in fiscal 2005, and to reinforce synergies within the Group based on dual strengths: our customer base and the construction track record we have established to date. The entire Group will dedicate itself to being sensitive to the multifaceted needs of our customers, raising customer satisfaction levels by establishing a series of customer centers in each region to deal with customers' needs in an integrated fashion, and by improving operations based on opinions and comments elicited from customers. We will work to strategically improve the brand recognition and favorability ratings of the Group, by establishing an organization for that purpose, in an effort to obtain a superior competitive position for the Group's businesses. Furthermore, we will endeavor to expand and strengthen our businesses by means of reinforcing our service organization.

We view corporate social responsibility (CSR) as a top management priority, and will also devote our efforts to building an organization responsive to the demands of all stakeholders enhancing company training regarding the corporate ethics guidelines of the Daiwa House Group, compliance with laws and regulations, and human rights. We shall enhance enterprise value by furthering our existing environmental preservation initiatives, deliver reliable, secure products and services, and contribute to society by leveraging our unique technologies for the construction of medical and nursing care facilities.

For the current fiscal year, ending March 2006, on a consolidated basis, we foresee sales of ¥1,500 billion, operating income of ¥75 billion, recurring income of ¥77 billion, and net income of ¥41 billion.

Please note that amortization of variance in retirement and pension accounts is omitted from the forecast since it depends on changes in the operating conditions of pension assets in the coming year.

Consolidated Balance Sheets

Daiwa House Industry Co., Ltd. and Subsidiaries
March 31, 2005 and 2004

Assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Current assets:			
Cash and cash equivalents	¥ 150,461	¥ 141,546	$ 1,406,178
Marketable securities (Note 3)	25	65	234
Short-term investments (Note 2-d)	279	59	2,607
Receivables (Note 6):			
Trade notes	8,010	5,431	74,860
Trade accounts	62,294	47,299	582,187
Allowance for doubtful receivables	(1,861)	(1,772)	(17,393)
Inventories (Notes 4 and 6)	324,239	267,920	3,030,271
Deferred tax assets (Note 11)	31,058	22,552	290,262
Prepaid expenses and other current assets	38,038	13,191	355,495
Total current assets	612,543	496,291	5,724,701
Property, plant and equipment:			
Land (Notes 5 and 6)	243,699	210,677	2,277,561
Buildings and structures (Note 6)	466,359	378,761	4,358,495
Accumulated depreciation	(311,645)	(260,849)	(2,912,570)
Machinery and equipment	78,000	50,536	728,972
Accumulated depreciation	(55,076)	(41,690)	(514,729)
Furniture and fixtures	35,446	34,527	331,271
Accumulated depreciation	(29,075)	(28,738)	(271,729)
Construction in progress	13,680	1,044	127,851
Net property, plant and equipment	441,388	344,268	4,125,122
Investments and other assets:			
Investment securities (Note 3)	57,688	46,131	539,140
Investments in and advances to associated companies (Note 2-c)	9,758	46,921	91,196
Long-term loans	4,819	5,466	45,037
Deferred tax assets (Note 11)	75,405	76,577	704,720
Lease deposits (Note 6)	140,057	80,942	1,308,944
Other assets	25,445	70	237,804
Allowance for doubtful accounts	(8,296)	(9,008)	(77,533)
Total investments and other assets	304,876	247,099	2,849,308
Total	¥1,358,807	¥1,087,658	$12,699,131

See notes to consolidated financial statements.

Liabilities and shareholders' equity

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Current liabilities:			
Short-term bank loans (Note 6)	¥ 13,175	¥ 550	$ 123,131
Current portion of long-term debt (Note 6)	1,368	51	12,785
Payables:			
Trade notes	29,062	20,020	271,607
Trade accounts	127,911	102,421	1,195,430
Other accounts	81,227	55,400	759,131
Deposits received from customers	48,005	39,719	448,645
Income taxes payable	15,699	14,218	146,720
Accrued bonuses	15,242	12,837	142,448
Provision for product warranties	4,874	4,864	45,551
Accrued expenses and other current liabilities	48,693	29,373	455,075
Total current liabilities	385,256	279,453	3,600,523
Long-term liabilities:			
Long-term debt (Note 6)	6,555	911	61,262
Liability for employees' retirement benefits (Note 7)	99,871	103,237	933,374
Long-term deposits received from the Company's club members	57,023	60,854	532,925
Lease deposits received	148,831	84,841	1,390,944
Other long-term liabilities	65,362	45,919	610,860
Total long-term liabilities	377,642	295,762	3,529,365
Minority interests	71,799	19,393	671,019
Shareholders' equity (Notes 2-c, 2-n, 5, 8 and 16)**:**			
Common stock, authorized, 1,900,000,000 shares; issued, 550,664,416 shares in both 2005 and 2004	110,120	110,120	1,029,159
Capital surplus	147,759	147,757	1,380,925
Retained earnings	325,893	313,215	3,045,729
Land revaluation difference	(69,230)	(86,200)	(647,009)
Net unrealized gain on available-for-sale securities	14,663	12,958	137,037
Foreign currency translation adjustments	(927)	(917)	(8,664)
Treasury stock — at cost, 4,441,777 shares in 2005 and 4,238,236 shares in 2004	(4,168)	(3,883)	(38,953)
Total shareholders' equity	524,110	493,050	4,898,224
Total	¥1,358,807	¥1,087,658	$12,699,131

Consolidated Statements of Operations

Daiwa House Industry Co., Ltd. and Subsidiaries
Years Ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2004	2003	2005
Net sales	¥1,365,914	¥1,224,648	¥1,184,544	$12,765,551
Cost of sales	1,082,133	963,457	936,861	10,113,392
Gross profit	283,781	261,191	247,683	2,652,159
Selling, general and administrative expenses (Note 12)	215,932	201,530	202,411	2,018,056
Operating income	67,849	59,661	45,272	634,103
Other income (expenses):				
Interest income and dividends	1,067	651	546	9,972
Interest expense	(736)	(423)	(723)	(6,879)
Write-down of marketable and investment securities	(3)	(61)	(9,773)	(28)
Write-down of inventories	(2,252)	(3,285)	(22,900)	(21,047)
Loss on sales and disposal of property, plant and equipment	(1,978)	(641)	(3,488)	(18,486)
Prior service benefit (cost) (Note 7)	(2,282)		6,736	(21,327)
Amortization of transitional obligation for employees' retirement benefits (Notes 2-i and 7)			(8,780)	
Amortization of actuarial gain (loss) for employees' retirement benefits (Note 7)	2,214	15,460	(4,925)	20,692
Actuarial loss on retirement benefits (Notes 2-i and 7)			(49,888)	
Actuarial loss due to a change of discount rate (Notes 2-i and 7)			(31,733)	
Extraordinary depreciation for property, plant and equipment (Note 2-f)			(75,183)	
Other — net (Note 10)	(771)	(3,465)	(318)	(7,206)
Other income (expenses) — net	(4,741)	8,236	(200,429)	(44,309)
Income (loss) before income taxes and minority interests	63,108	67,897	(155,157)	589,794
Income taxes (Note 11)**:**				
Current	21,825	10,409	17,792	203,972
Deferred	(1,468)	19,199	(81,370)	(13,720)
Total	20,357	29,608	(63,578)	190,252
Minority interests in net (income) loss of subsidiaries	(2,489)	(1,032)	191	(23,262)
Net income (loss)	¥ 40,262	¥ 37,257	¥ (91,388)	$ 376,280
	Yen			U.S. dollars
Per share of common stock (Note 2-o)**:**				
Basic net income (loss)	¥73.26	¥68.16	¥(167.06)	$0.68
Cash dividends applicable to the year	17.00	15.00	10.00	0.16

See notes to consolidated financial statements.0.16

Consolidated Statements of Shareholders' Equity

Daiwa House Industry Co., Ltd. and Subsidiaries
Years Ended March 31, 2005, 2004 and 2003

	Thousands	Millions of yen						
	Issued number of shares of common stock	Common stock	Capital surplus	Retained earnings	Land revaluation difference	Net unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Treasury stock
Balance, April 1, 2002	550,664	¥110,120	¥147,755	¥387,591	¥(59,910)	¥ 1,358	¥(809)	¥(3,667)
Net loss				(91,388)				
Cash dividends, ¥10.0 per share				(5,461)				
Bonuses to directors and corporate auditors				(19)				
Effect of change in statutory tax rate and other					(1,382)			
Transfer due to sales of land				(883)	883			
Net decrease in unrealized gain on available-for-sale securities (Note 2-c)						(581)		
Foreign currency translation adjustments (Note 2-n)							(72)	
Net decrease in treasury stock								149
Balance, March 31, 2003	550,664	110,120	147,755	289,840	(60,409)	777	(881)	(3,518)
Net income				37,257				
Cash dividends, ¥10.0 per share				(5,457)				
Transfer due to sales of land				(8,425)	8,425			
Devaluation of deferred tax assets on land revaluation and other					(34,216)			
Net increase in unrealized gain on available-for-sale securities (Note 2-c)						12,181		
Foreign currency translation adjustments (Note 2-n)							(36)	
Net increase in treasury stock			2					(365)
Balance, March 31, 2004	550,664	110,120	147,757	313,215	(86,200)	12,958	(917)	(3,883)
Net income				40,262				
Cash dividends, ¥15.0 per share				(8,185)				
Decrease due to newly consolidation of subsidiaries				(1,953)				
Decrease due to exclusion from consolidation of former subsidiaries				(517)				
Decrease due to exclusion from equity method accounting of former associated companies				(125)				
Transfer due to sales of land				(16,804)	16,804			
Net decrease in land revaluation difference					166			
Net increase in unrealized gain on available-for-sale securities (Note 2-c)						1,705		
Foreign currency translation adjustments (Note 2-n)							(10)	
Net increase in treasury stock			2					(285)
Balance, March 31, 2005	550,664	¥110,120	¥147,759	¥325,893	¥(69,230)	¥14,663	¥(927)	¥(4,168)

	Thousands of U.S. dollars (Note 1)						
	Common stock	Capital surplus	Retained earnings	Land revaluation difference	Net unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Treasury stock
Balance, March 31, 2004	$1,029,159	$1,380,906	$2,927,243	$(805,607)	$121,103	$(8,570)	$(36,290)
Net income			376,280				
Cash dividends, $0.09 per share			(76,495)				
Decrease due to newly consolidation of subsidiaries			(18,252)				
Decrease due to exclusion from consolidation of former subsidiaries			(4,832)				
Decrease due to exclusion from equity method accounting of former associated companies			(1,168)				
Transfer due to sales of land			(157,047)	157,047			
Net decrease in land revaluation difference				1,551			
Net increase in unrealized gain on available-for-sale securities (Note 2-c)					15,934		
Foreign currency translation adjustments (Note 2-n)						(94)	
Net increase in treasury stock		19					(2,663)
Balance, March 31, 2005	$1,029,159	$1,380,925	$3,045,729	$(647,009)	$137,037	$(8,664)	$(38,953)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Daiwa House Industry Co., Ltd. and Subsidiaries
Years Ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2004	2003	2005
Operating activities:				
Income (loss) before income taxes and minority interests	¥ 63,108	¥ 67,897	¥(155,157)	$ 589,794
Adjustments to reconcile income (loss) before income taxes and minority interests to net cash provided by operating activities:				
Income taxes — paid	(22,809)	(4,671)	(6,230)	(213,168)
Depreciation	19,243	15,165	21,386	179,841
Write-down of golf club membership	121	62	147	1,131
Write-down of marketable and investment securities	3	61	9,773	28
Loss on sales and disposal of property, plant and equipment	1,978	641	3,488	18,486
Extraordinary depreciation for property, plant and equipment			75,183	
Impairment loss on property, plant and equipment	1,204	370		11,252
Equity in earnings of associated companies	(1,611)	(2,384)	(278)	(15,056)
Provision for (reversal of) employees' retirement benefits, net of payments	6,350	(30,067)	85,002	59,346
Changes in certain assets and liabilities, net of consolidation:				
Decrease (increase) in receivables	(3,090)	9,568	3,571	(28,879)
Decrease (increase) in inventories	(48,814)	(13,447)	32,872	(456,206)
Increase (decrease) in payables — trade	25,733	9,618	(31,453)	240,495
Increase in deposits received from customers	8,353	3,639	4,260	78,066
Other — net	6,326	13,207	(2,105)	59,122
Total adjustments	(7,013)	1,762	195,616	(65,542)
Net cash provided by operating activities	56,095	69,659	40,459	524,252
Investing activities:				
Purchases of property, plant and equipment	(56,331)	(21,647)	(26,464)	(526,458)
Purchases of marketable and investment securities	(7,876)	(514)	(4,269)	(73,607)
Increase in investments in and advances to associated companies	(85)	(2,549)	(1,275)	(794)
Proceeds from sales of marketable and investment securities	1,570	220	2,814	14,673
Proceeds from sales of property, plant and equipment	4,905	2,207	1,244	45,841
Purchases of investments in subsidiaries	(1,257)	(559)		(11,748)
Proceeds from sales of shares of subsidiaries	655			6,121
Net increase (decrease) from sales of shares of the former consolidated subsidiaries	639	(640)		5,972
Net proceeds from purchases of shares of the newly consolidated subsidiaries	9,164		1,489	85,645
Increase in lease deposits	(2,383)	(4,028)	(5,415)	(22,271)
Net decrease (increase) in other assets	(2,070)	1,573	4,560	(19,346)
Net cash used in investing activities	(53,069)	(25,937)	(27,316)	(495,972)
Financing activities:				
Net increase (decrease) in short-term bank loans	750	(250)	(52,005)	7,009
Proceeds from long-term debt	7,039		1,237	65,785
Repayments of long-term debt	(78)	(38)	(1,000)	(729)
Net of purchases and proceeds from sales of treasury stock	(132)	(109)	(200)	(1,233)
Dividends paid to shareholders	(8,185)	(5,457)	(5,461)	(76,495)
Dividends paid to minority shareholders of subsidiaries	(773)	(272)	(284)	(7,224)
Proceeds from receivables sold to trust	8,446			78,934
Remittance to trust of receivables collected	(1,178)			(11,009)
Net cash provided by (used in) financing activities	5,889	(6,126)	(57,713)	55,038
Net increase (decrease) in cash and cash equivalents	8,915	37,596	(44,570)	83,318
Cash and cash equivalents, beginning of year	141,546	103,950	148,520	1,322,860
Cash and cash equivalents, end of year	¥150,461	¥141,546	¥ 103,950	$1,406,178

(Continued)

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2004	2003	2005
Non-cash investing and financing activities:				
Net proceeds from purchases of shares of the newly consolidated subsidiaries for the year ended March 31, 2005 resulted principally from purchases of shares of Daiwa Kosho Lease Co., Ltd., former the associated companies including its subsidiaries. Assets and liabilities increased by purchases of shares of Daiwa Kosho Lease Co., Ltd. and associated proceeds consisted of the followings:				
Current assets	¥ 65,096			$ 608,374
Long-term assets	140,084			1,309,196
Current liabilities	(43,093)			(402,738)
Long-term liabilities	(69,313)			(647,785)
Consolidation differences	(1,701)			(15,897)
Minority interests	(55,403)			(517,785)
Company's interest prior to acquisition	(32,551)			(304,215)
Acquisition cost	(3,119)			(29,150)
Cash and cash equivalents of the consolidated subsidiaries	11,729			109,617
Net proceeds from purchases of shares of the newly consolidated subsidiaries	¥ 8,610			$ 80,467
Assets and liabilities decreased by sales of shares of the former consolidated subsidiaries and associated proceeds and gain for the year ended March 31, 2004 consisted of the followings:				
Current assets		¥19,139		
Long-term assets		6,598		
Current liabilities		(13,000)		
Long-term liabilities		(6,851)		
Minority interests		(3,337)		
Company's interest prior to acquisition		(1,252)		
Gain on sales of securities		77		
Proceeds from sales of securities		1,374		
Cash and cash equivalents of the subsidiaries		(2,014)		
Net decrease in cash from sales of shares of the former consolidated subsidiaries		¥ (640)		
Assets and liabilities increased by purchases of shares of the associated company and associated proceeds for the year ended March 31, 2003 consisted of the followings:				
Current assets			¥3,621	
Long-term assets			5,642	
Consolidation differences			98	
Current liabilities			(2,418)	
Long-term liabilities			(4,844)	
Minority interests			(973)	
Company's interest prior to acquisition			(1,094)	
Acquisition cost			(32)	
Cash and cash equivalents of the consolidated subsidiary			1,521	
Net proceeds from purchases of shares of the newly consolidated subsidiary			¥1,489	

See notes to consolidated financial statements.

(Concluded)

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements have been prepared from the consolidated financial statements issued for domestic reporting purposes in accordance with the provisions set forth in the Japanese Securities and Exchange Law. Daiwa House Industry Co., Ltd. (the "Company") and its domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code (the "Code") and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and its foreign subsidiaries in conformity with those of their countries of domicile.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥107 to $1, the approximate rate of exchange at March 31, 2005. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. Summary of significant accounting policies

a. Consolidation

The consolidated financial statements include the accounts of the Company and all subsidiaries (together the "Group") based on the control or influence concept. Under the control or influence concept, those companies over whose operations the Parent, directly or indirectly, is able to exercise control are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

The differences between the cost and underlying net equity of investments in subsidiaries and associated companies at acquisition, are amortized over five years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

During the year ended March 31, 2003, Nihon Jyutaku Ryutu Co., Ltd., formerly an associated company, has been included in consolidation as a result of the additional acquisition of its shares.

During the year ended March 31, 2004, Daiwa System Co., Ltd. and three subsidiaries, have been excluded from consolidation as a result of sales of their shares.

During the year ended March 31, 2005, Daiwa Kosho Lease Co., Ltd. and its four subsidiaries and one other subsidiary which were formerly associated companies, have been included in the consolidation as a result of the additional acquisition of their shares.

b. Cash and cash equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits and certificate of deposits, all of which mature or become due within three months of the date of acquisition.

c. Marketable and investment securities

Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: i) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost and ii) available-for-sale securities, which are not classified as held-to-maturity.

Non-marketable available-for-sale securities are stated at cost, determined by the moving-average method. For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

Investment in an associated company pledged as collateral for a loan of the associated company was ¥20 million ($187 thousand) as of March 31, 2005.

d. Short-term investments

Short-term investments are time deposits and certificates of deposit, all of which mature or become due later than three months after the date of acquisition. Time deposits pledged as collateral as substitutes of deposits for certain construction and advertisement contracts were both ¥29 million ($271 thousand) as of March 31, 2005 and 2004.

e. Inventories

Inventories are stated at cost. Inventories of land, residential homes and condominiums, and construction projects in progress include all costs of land, land development and construction. The cost of construction materials and supplies is determined by the average method. However, appropriate write-downs are recorded for inventories with values considered to have been permanently or substantially impaired.

f. Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation is computed substantially by the declining-balance method while the straight-line method is applied to buildings acquired after April 1, 1998. The range of useful lives is principally from 15 to 50 years for buildings and structures, from 10 to 13 years for machinery and equipment and from 5 to 15 years for furniture and fixtures.

Extraordinary depreciation for property, plant and equipment was charged to income for the year ended March 31, 2003, for depreciable assets in which utilization declined significantly. These assets consist of resort hotels, club-houses on golf courses and commercial buildings for rent. The extraordinary depreciation recorded was ¥73,369 million, ¥856 million, and ¥958 million, for buildings and structures, machinery and equipment, and furniture and fixtures, respectively.

g. Long-lived assets

In August 2002, the Business Accounting Council issued a Statement of Opinion, *Accounting for Impairment of Fixed Assets*, and in October 2003 the Accounting Standards Board of Japan (ASB) issued ASB Guidance No. 6, *Guidance for Accounting Standard for Impairment of Fixed Assets*. These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The Group adopted the new accounting standard for impairment of fixed assets from the year ended March 31, 2004. The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The effects of adoption of the new accounting standard for impairment of fixed assets were to decrease income before income taxes and minority interests for the years ended March 31, 2005 and 2004 by ¥1,204 million ($11,252 thousand) and ¥370 million, respectively.

h. Leases

All leases are accounted for as operating leases. Under Japanese accounting standard for leases, finance leases that are deemed to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

i. Retirement and pension plans

The Company and its domestic subsidiaries have unfunded retirement benefit plans and a contributory funded pension plan.

Effective April 1, 2000, the Company and its domestic consolidated subsidiaries adopted a new accounting standard for employees' retirement benefits and account for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

The transitional obligation of ¥43,221 million, determined as of April 1, 2000, was reduced by an immediate charge to income in the amount of the fair value of the contribution of available-for-sale securities in August 2000. The remaining transitional obligation of ¥28,489 million is principally being amortized over three years.

Due to the deterioration of the stock market and the revision of the discount rate from 3.5% to 2.5%, the amount of unrecognized actuarial losses accumulated to 40% of the projected benefit obligation during 2003. With the government's approval of the Group's application for the exemption from future obligations related to the substitutional portion of the pension program (Note 7), the revision of the retirement benefit plans, and the reexamination of investment policy, the actuarial loss, which was amortized evenly over principally 10 years under the Group's previous method, was changed to be recognized when incurred in order to disclose information about retirement and pension plans more timely. As a result, the loss before income taxes and minority interests for the year ended March 31, 2003 increased by ¥81,621 million, compared with what would have been recorded under the previous method.

j. Revenue and profit recognition

Sales and related profits are generally recorded when sales contracts are completed and customers have satisfied the down payment and other requirements stipulated by the contracts. Land and land development costs are allocated to units sold based upon relative area.

k. Income taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

l. Appropriations of retained earnings

Appropriations of retained earnings at each year end are reflected in the financial statements of the following year after shareholders' approval has been obtained.

m. Foreign currency transactions

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the statements of operations.

n. Foreign currency financial statements

The balance sheet accounts of the consolidated foreign subsidiaries and associated companies are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at historical exchange rates. Revenue and expense accounts of the consolidated foreign subsidiaries and associated companies are translated into yen at the current exchange rate.

Differences arising from such translation are shown as "Foreign currency translation adjustments" as a separate component of shareholders' equity.

o. Per share information

Basic net income per share is computed by dividing net income available to common shareholders, by the weighted-average number of common shares outstanding for the year.

The weighted-average number of common shares outstanding for the years ended March 31, 2005, 2004 and 2003 were 546,329 thousand, 546,625 thousand and 547,045 thousand, respectively.

Diluted net income per share of common stock for the years ended March 31, 2005 and 2004 are not disclosed because it is anti-dilutive. Diluted net income per share of common stock for the year ended March 31, 2003 is not disclosed because the Company incurred a net loss.

Cash dividends per share presented in the accompanying consolidated statements of operations are dividends applicable to the respective years including dividends to be paid after the end of the year.

p. Treasury stock

Effective April 1, 2002, the Company adopted a new accounting standard for treasury stock issued by the ASB. Under the new standard, the stock of the Company, which is held by its subsidiaries and associated companies, is stated as treasury stock according to the percentage of ownership.

q. Reclassifications

Certain reclassifications have been made in the 2004 and 2003 financial statements to conform to the classifications used in 2005.

3. Marketable and investment securities

Marketable and investment securities as of March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Current:			
Government and corporate bonds	¥ 25	¥ 65	$ 234
Non-current:			
Equity securities	¥56,644	¥45,767	$529,383
Government and corporate bonds	9	34	84
Investments in limited liability partnership	1,035	330	9,673
Total	¥57,688	¥46,131	$539,140

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2005 and 2004 were as follows:

	Millions of yen			
	2005			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥25,280	¥25,954	¥352	¥50,882
Held-to-maturity	34			34

	Millions of yen			
	2004			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥18,523	¥21,610	¥100	¥40,033
Held-to-maturity	99			99

	Thousands of U.S. dollars			
	2005			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	$236,262	$242,561	$3,290	$475,533
Held-to-maturity	318			318

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2005 and 2004 were as follows:

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Available-for-sale:			
Equity securities	¥5,762	¥5,734	$53,850
Investments in limited liability partnership	1,035	330	9,673
Total	¥6,797	¥6,064	$63,523

The carrying values of debt securities by contractual maturities for securities classified as held-to-maturity at March 31, 2005 are as follows:

	Held to maturity	
	Millions of yen	Thousands of U.S. dollars
Due in one year or less	¥25	$234
Due in five to ten years	9	84
Total	¥34	$318

4. Inventories

Inventories at March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Finished residential homes and condominiums	¥ 27,521	¥ 29,378	$ 257,206
Construction projects in progress	35,248	31,593	329,421
Residential homes and condominiums in process	27,426	26,496	256,318
Land held:			
For resale	174,177	123,863	1,627,822
Under development	34,099	34,291	318,682
Undeveloped	11,669	11,687	109,056
Merchandise, construction materials and others	14,099	10,612	131,766
Total	¥324,239	¥267,920	$3,030,271

The Group engages in two principal business activities. They manufacture and construct pre-fabricated houses and structures and also engage in various contracted construction projects, primarily for the construction of large-scale commercial and residential buildings. To further such business, the Group purchases land for development and resale.

5. Land revaluation

Under the "Law of Land Revaluation," the Company and certain subsidiaries elected a one-time revaluation of their own-use land to a value based on real estate appraisal information as of March 31, 2002.

The resulting land revaluation difference represents unrealized depreciation of land and is stated, net of income taxes, as a component of shareholders' equity. There was no effect on the statement of operations. Continuous readjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the land revaluation difference account and related deferred tax liabilities.

As of March 31, 2005, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥2,763 million ($25,822 thousand).

As to significant change in the land revaluation difference, see the consolidated statements of shareholders' equity.

6. Short-term bank loans and long-term debt

Short-term bank loans at March 31, 2005 and 2004 consisted of bank loans. The annual interest rates for the short-term bank loans ranged from 0.4% to 1.9% and were 1.4% at March 31, 2005 and 2004, respectively.

Long-term debt at March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Loans from banks, 0.5% to 3.0% (1.3% in 2004), due on various dates through 2025:			
Collateralized	¥2,423	¥962	$22,645
Unsecured	5,500		51,402
Total	7,923	962	74,047
Less current portion	1,368	51	12,785
Long-term debt, net of current portion	¥6,555	¥911	$61,262

Annual maturities of long-term debt at March 31, 2005, were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2006	¥1,368	$12,785
2007	2,228	20,823
2008	160	1,495
2009	163	1,523
2010	2,885	26,963
2011 and thereafter	1,119	10,458
Total	¥7,923	$74,047

At March 31, 2005, assets pledged as collateral for secured long-term debt were as follows:

	Millions of yen	Thousands of U.S. dollars
Receivables	¥ 2,063	$ 19,280
Inventories	1,805	16,869
Buildings and structures	4,612	43,103
Land	6,930	64,766
Lease deposits	450	4,206
Total	¥15,860	$148,224

As is customary in Japan, a company maintains deposit balances with banks with which it has bank loans. Such deposit balances are not legally or contractually restricted as to withdrawal. In addition, collateral must be provided if requested by the lending banks and certain banks have the right to offset cash deposited with them against any bank loan or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the bank concerned. The Group has never received any such request.

7. Retirement and pension plans

Under the unfunded employees' retirement benefit plan, employees of the Company and certain subsidiaries terminating their employment are entitled, in most circumstances, to lump-sum severance payments determined by reference to wage rates at the time of termination and years of service. In addition, the Company, together with certain subsidiaries and associated companies, has adopted a contributory funded defined benefit pension plan covering most of their employees.

The liability for employees' retirement benefits at March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Projected benefit obligation	¥241,123	¥207,238	$2,253,486
Fair value of plan assets	(141,342)	(104,078)	(1,320,953)
Net liability	99,781	103,160	932,533
Prepaid benefit costs	90	77	841
Liability for employees' retirement benefits	¥ 99,871	¥103,237	$ 933,374

The components of net periodic benefit costs are as follows:

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Service cost	¥12,578	¥11,647	¥ 10,845	$117,552
Interest cost	5,395	4,856	7,182	50,421
Expected return on plan assets	(5)	(4)	(3,181)	(47)
Prior service cost (benefit)	2,282		(6,736)	21,327
Recognized actuarial loss (gain)	(2,214)	(15,460)	86,546	(20,692)
Amortization of transitional obligation			8,780	
Net periodic benefit costs	¥18,036	¥ 1,039	¥103,436	$168,561

Prior service benefit for the year ended March 31, 2003 represents the effect of a decrease in the benefit obligation from the adoption of the revised retirement benefit plan concerning the lump-sum severance payments.

Prior service cost for the year ended March 31, 2005 represents the net effect of (1) an increase in the benefit obligation of ¥2,732 million ($25,533 thousand) from the adoption of the revised contributory funded defined benefit pension plan and (2) a decrease in the benefit obligation of ¥450 million (¥4,206 thousand) from the adoption of the revised benefit plan concerning the lump-sum severance payments of a subsidiary.

Assumptions used for the years ended March 31, 2005 and 2004 are set forth as follows:

	2005	2004
Discount rate	2.5%	2.5%
Expected rate of return on plan assets	Principally 0%	Principally 0%
Recognition period of actuarial gain/loss	1 year	1 year

The contributory funded defined benefit pension plan, which is established under the Japanese Welfare Pension Insurance Law, covers a substitutional portion of the governmental pension program managed by the company on behalf of the government and a corporate portion established at the discretion of the company. According to the enactment of the Defined Benefit Pension Plan Law in April 2002, the Company applied for an exemption from obligation to pay benefits for employee services related to the substitutional portion which would result in the transfer of the pension obligations and related assets to the government by another subsequent application. The Company obtained an approval of exemption from future obligation by the Ministry of Health, Labour and Welfare on October 28, 2002. As a result of this exemption, the Company and certain subsidiaries recognized a gain on exemption from pension obligation of the governmental program in the amount of ¥8,575 million in accordance with a transitional measurement of the accounting standard for employees' retirement benefits for the year ended March 31, 2003. The substitutional portion of the plan assets which will be transferred to the government in the subsequent year is measured to be approximately ¥38,040 million as of March 31, 2003. The Company applied for transfer of the substitutional portion of past pension obligations to the government and obtained approval by the Ministry of Health, Labour and Welfare on June 1, 2004. The actual transfer of the pension obligations and related assets to the government is to take place subsequently after the government's approval.

8. Shareholders' equity

Japanese companies are subject to the Japanese Commercial Code (the "Code").

The Code requires that all shares of common stock are recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The Code allows Japanese companies to repurchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the shareholders meeting.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends. The amount of retained earnings available for dividends under the Code was ¥203,411 million ($1,901,037 thousand) as of March 31, 2005, based on the amount recorded in the parent company's general books of account.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

9. Segment information

Information about operations in different industry segments of the Group for the years ended March 31, 2005, 2004 and 2003 is as follows:

Sales and operating income (loss)

	Millions of yen						
	2005						
	Residential	Commercial	Resort	Home Center	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥850,586	¥355,017	¥55,749	¥57,919	¥ 46,643		¥1,365,914
Intersegment sales	3,989	8,813		1,245	57,486	¥(71,533)	
Total sales	854,575	363,830	55,749	59,164	104,129	(71,533)	1,365,914
Operating expenses	804,800	336,506	53,872	59,064	100,595	(56,772)	1,298,065
Operating income	¥ 49,775	¥ 27,324	¥ 1,877	¥ 100	¥ 3,534	¥(14,761)	¥ 67,849

	Millions of yen						
	2004						
	Residential	Commercial	Resort	Home Center	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥797,627	¥270,002	¥53,612	¥56,069	¥47,338		¥1,224,648
Intersegment sales	3,004	6,986		1,158	50,428	¥(61,576)	
Total sales	800,631	276,988	53,612	57,227	97,766	(61,576)	1,224,648
Operating expenses	752,365	256,319	53,531	57,088	94,943	(49,259)	1,164,987
Operating income	¥ 48,266	¥ 20,669	¥ 81	¥ 139	¥ 2,823	¥(12,317)	¥ 59,661

	Millions of yen						
	2003						
	Residential	Commercial	Resort	Home Center	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥789,325	¥245,999	¥51,903	¥51,219	¥46,098		¥1,184,544
Intersegment sales	2,656	2,015		940	51,019	¥(56,630)	
Total sales	791,981	248,014	51,903	52,159	97,117	(56,630)	1,184,544
Operating expenses	752,846	230,383	55,872	51,854	94,544	(46,227)	1,139,272
Operating income (loss)	¥ 39,135	¥ 17,631	¥ (3,969)	¥ 305	¥ 2,573	¥(10,403)	¥ 45,272

	Thousands of U.S. dollars						
	2005						
	Residential	Commercial	Resort	Home Center	Other	Eliminations/ Corporate	Consolidated
Sales to customers	$7,949,402	$3,317,916	$521,018	$541,299	$435,916		$12,765,551
Intersegment sales	37,280	82,365		11,636	537,252	$(668,533)	
Total sales	7,986,682	3,400,281	521,018	552,935	973,168	(668,533)	12,765,551
Operating expenses	7,521,495	3,144,917	503,476	552,000	940,140	(530,580)	12,131,448
Operating income	$ 465,187	$ 255,364	$ 17,542	$ 935	$ 33,028	$(137,953)	$ 634,103

Total assets, depreciation and capital investments

	Millions of yen						
	2005						
	Residential	Commercial	Resort	Home Center	Other	Eliminations/ Corporate	Consolidated
Total assets	¥468,068	¥393,990	¥101,327	¥40,655	¥116,954	¥237,813	¥1,358,807
Depreciation	4,486	4,623	1,869	705	5,875	1,685	19,243
Capital investments	7,700	31,909	851	725	15,842	(331)	56,696

	Millions of yen						
	2004						
	Residential	Commercial	Resort	Home Center	Other	Eliminations/ Corporate	Consolidated
Total assets	¥396,552	¥212,235	¥102,740	¥36,779	¥72,961	¥266,391	¥1,087,658
Depreciation	4,822	2,771	1,530	647	3,628	1,767	15,165
Capital investments	6,688	4,465	2,272	2,098	4,916	(331)	20,108

	Millions of yen						
	2003						
	Residential	Commercial	Resort	Home Center	Other	Eliminations/ Corporate	Consolidated
Total assets	¥394,119	¥211,168	¥98,803	¥35,196	¥78,976	¥276,179	¥1,094,441
Depreciation	5,288	2,604	6,334	592	4,774	1,794	21,386
Capital investments	6,984	8,114	2,164	2,317	3,778	1,354	24,711

	Thousands of U.S. dollars						
	2005						
	Residential	Commercial	Resort	Home Center	Other	Eliminations/ Corporate	Consolidated
Total assets	$4,374,467	$3,682,150	$946,981	$379,953	$1,093,028	$2,222,552	$12,699,131
Depreciation	41,925	43,206	17,467	6,589	54,906	15,748	179,841
Capital investments	71,963	298,215	7,953	6,776	148,056	(3,094)	529,869

The effect of adoption of the new accounting standard for impairment of fixed assets described in Note 2-g was to decrease total assets of the "Commercial" segment as of March 31, 2004 by ¥181 million, compared with the year ended March 31, 2003.

The industry segments consisted of the following:

	Industry segment				
Components of net sales	Residential	Commercial	Resort	Home Center	Other
Construction	Construction of single/ multi-family houses and condominiums	Construction of commercial buildings			
Real estate	Sales of real estate for residential use	Sales and rental of real estate for commercial use			
	Real estate commissions				
	Rental of residential complexes				
Other	Care of condominiums	Care of commercial buildings	Operation of resort type hotels and golf courses	Operation of "do-it-yourself" hardware centers	Manufacture and sales of building materials
					Physical distribution
					Operation of city type hotels

Eliminations/Corporate include unallocated operating expenses, principally consisting of general corporate expenses incurred by the administration headquarters of the Company.

Corporate assets are principally cash and cash equivalents, marketable securities and investment securities.

10. Other income (expenses): Other — net

"Other income (expenses): Other — net" for the years ended March 31, 2005, 2004 and 2003 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Exchange gain (loss)	¥ 5	¥ (2)	¥ (7)	$ 47
Real estate acquisition tax and other taxes	(237)	(369)	(277)	(2,215)
Retirement benefits for directors	(175)	(214)	(120)	(1,636)
Gain on sales of marketable and investment securities	938	99	123	8,766
Impairment loss on property, plant and equipment	(1,204)	(370)		(11,252)
Allowance for doubtful accounts	(3)	(386)	(4,157)	(28)
Gain on exemption from pension obligation			8,575	
Equity in earnings of associated companies	1,611	2,384	278	15,056
Write-down of golf club membership	(121)	(62)	(147)	(1,131)
Gain (loss) on sales of membership		3	(79)	
Loss on liquidation of associated company			(2,145)	
Bad debt expenses for long-term loans			(4,082)	
Loss on closure of "do-it-yourself" hardware centers		(2,637)		
Loss on sublease agreements	(2,928)	(3,503)		(27,364)
Consulting, advertising and other expenses for corporate branding and identity	(1,676)			(15,664)
Other — net	3,019	1,592	1,720	28,215
Total	¥ (771)	¥(3,465)	¥ (318)	$ (7,206)

11. Income taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rates of approximately 40.6% for the year ended March 31, 2005, and 42.0% for the years ended March 31, 2004 and 2003, respectively.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2005 and 2004 are as follows::

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Current:			
Deferred tax assets:			
Write-down of land held for resale	¥ 10,961	¥ 12,162	$ 102,439
Accrued bonuses	6,254	5,669	58,449
Accrued enterprise tax	1,359	1,328	12,701
Other	12,484	3,393	116,673
Deferred tax asset	¥ 31,058	¥ 22,552	$ 290,262
Non-current:			
Deferred tax assets:			
Employees' retirement benefits	¥ 42,048	¥ 41,316	$ 392,972
Unrealized gains on sales of property, plant and equipment	8,743	6,781	81,711
Extraordinary depreciation for property, plant and equipment	26,756	28,808	250,056
Other	11,501	11,239	107,486
Less valuation allowance	(925)	(763)	(8,645)
Deferred tax assets	¥ 88,123	¥ 87,381	$ 823,580
Deferred tax liabilities:			
Retained earnings appropriated for tax allowable reserves	¥ (2,258)	¥ (2,004)	$ (21,103)
Net unrealized gain on available-for-sale securities	(10,391)	(8,730)	(97,112)
Other	(69)	(70)	(645)
Deferred tax liabilities	¥(12,718)	¥(10,804)	$(118,860)
Net deferred tax assets	¥ 75,405	¥ 76,577	$ 704,720

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of operations for the years ended March 31, 2005, 2004 and 2003 is as follows:

	2005	2004	2003
Normal effective statutory tax rates	40.6%	42.0%	42.0%
Increase (decrease) in tax rates due to:			
Permanently non-deductible expenses	1.7	1.3	(0.6)
Non-taxable dividend income	(0.1)	(0.0)	0.0
Equity in earnings of associated companies	(1.0)	(0.9)	0.1
Write-down of investments in and advances to associated companies		(0.1)	0.4
Per capita levy	1.0	0.8	(0.3)
Increase (decrease) in valuation allowance for deferred tax assets	0.3	0.1	1.2
Reversal of land revaluation difference	(10.8)		
Decrease in deferred tax assets due to change of tax rate			(2.0)
Other — net	0.6	0.4	0.2
Actual effective tax rates	32.3%	43.6%	41.0%

On March 31, 2003, Cabinet Order No. 9 entitled "Reform of a Portion of Local Tax Law" was issued and this reform will apply to fiscal years beginning after April 1, 2004. As a result of this reform, the statutory income tax rate to be used for the calculation of deferred income taxes concerning temporary differences which are expected to be realized or settled after April 1, 2004 will be changed from 42.0% to 40.6%.

The effect of this change was to decrease deferred tax assets and deferred tax assets on land revaluation by ¥3,145 million and ¥1,417 million, respectively, and to increase income taxes-deferred, net unrealized gain on available-for-sale securities and land revaluation difference by ¥3,170 million, ¥18 million and ¥1,417 million, respectively, as of March 31, 2003 and for the year ended March 31, 2003.

12. Research and development costs

Research and development costs charged to income were ¥5,713 million ($53,393 thousand), ¥5,667 million and ¥5,609 million for the years ended March 31, 2005, 2004 and 2003, respectively.

13. Leases

Finance leases:

(Lessee)

Total rental expenses including lease payments under finance leases that are not deemed to transfer ownership of the leased property to the lessee were ¥4,647 million ($43,430 thousand), ¥5,514 million, and ¥4,815 million for the years ended March 31, 2005, 2004 and 2003, respectively.

Pro forma information of leased property under finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2005 and 2004 were as follows:

	Millions of yen			
	2005			
	Buildings and structures	Machinery and equipment	Furniture and fixtures	Total
Acquisition cost	¥7,620	¥1,093	¥10,037	¥18,750
Accumulated depreciation	5,051	278	4,833	10,162
Accumulated impairment loss		2		2
Net leased property	¥2,569	¥ 813	¥ 5,204	¥ 8,586

	Thousands of U.S. dollars			
	2005			
	Buildings and structures	Machinery and equipment	Furniture and fixtures	Total
Acquisition cost	$71,215	$10,215	$93,804	$175,234
Accumulated depreciation	47,206	2,598	45,168	94,972
Accumulated impairment loss		19		19
Net leased property	$24,009	$ 7,598	$48,636	$ 80,243

	Millions of yen			
	2004			
	Buildings and structures	Machinery and equipment	Furniture and fixtures	Total
Acquisition cost	¥10,055	¥1,768	¥10,289	¥22,112
Accumulated depreciation	5,647	526	5,440	11,613
Accumulated impairment loss		184		184
Net leased property	¥ 4,408	¥1,058	¥ 4,849	¥10,315

Obligations under such finance leases as of March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Due within one year	¥3,514	¥ 4,607	$32,841
Due after one year	5,072	5,708	47,402
Total	¥8,586	¥10,315	$80,243
Impairment of leased property	¥ 2	¥ 184	$ 19

The amount of acquisition cost and obligations under finance leases includes the imputed interest expense portion.

Depreciation expenses, which are not reflected in the accompanying statements of operations, computed by the straight-line method, respectively.

(Lessor)

Total rental income under finance leases that are not deemed to transfer ownership of the leased property to the lessee was ¥3,936 million ($36,785 thousand) for the year ended March 31, 2005.

The amount of the imputed interest income portion included in the above rental income, which is computed using the interest method, was ¥377 million ($3,523 thousand) for the year ended March 31, 2005.

Property and equipment leased to customers under finance lease arrangements mentioned above consisted of the following at March 31, 2005.

	Millions of yen		
	Buildings and structures	Machinery and equipment	Total
Acquisition cost	¥10,918	¥18,868	¥29,786
Accumulated depreciation	6,130	9,309	15,439
Net leased property	¥ 4,788	¥ 9,559	¥14,347

	Thousands of U.S. dollars		
	Buildings and structures	Machinery and equipment	Total
Acquisition cost	$102,038	$176,336	$278,374
Accumulated depreciation	57,290	87,000	144,290
Net leased property	$ 44,748	$ 89,336	$134,084

Future rental income under finance leases at March 31, 2005 was as follows:

	Millions of yen	Thousands of U.S. dollars
Due within one year	¥ 6,133	$ 57,318
Due after one year	12,799	119,617
Total	¥18,932	$176,935

The imputed interest income portion is excluded from the amount of rental income under finance leases.

Depreciation expensed relating to the leased assets under finance lease arrangements mentioned above was ¥2,561 ($23,935 thousand) for the year ended March 31, 2005.

Operating leases:

Obligations and future rental income under non-cancellable operating leases as of March 31, 2005 and 2004 were as follows:

(Lessee)

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Due within one year	¥ 36,765	¥ 29,142	$ 343,598
Due after one year	446,447	355,726	4,172,402
Total	¥483,212	¥384,868	$4,516,000

(Lessor)

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Due within one year	¥ 33,949	¥ 24,009	$ 317,280
Due after one year	442,407	334,616	4,134,645
Total	¥476,356	¥358,625	$4,451,925

14. Derivatives

The Group enters into foreign exchange forward contracts and interest rate swaps to hedge foreign exchange or interest rate risks.

It is the Group's policy to use derivatives only for the purpose of reducing market risks associated with liabilities.

Derivatives are subject to market risk and credit risk. Because the counterparties to those derivatives are limited to major international financial institutions, the Company does not anticipate any losses arising from such credit risk.

The Company implemented a risk control system for derivatives primarily to control the purpose, limitation and selection of the counterparties. The system's primary function is to avoid excess risks associated with derivatives. Each derivative transaction, which is based on these internal policies, is reported to the Director of the Financing Department, and the execution and control of derivatives are managed by the Finance Section of the Company.

As of March 31, 2005 and 2004, the Group did not have any derivative contracts outstanding.

15. Contingencies

At March 31, 2005, contingent liabilities for notes endorsed with recourse and loans guaranteed in the ordinary course of business amounted to ¥921 million ($8,607 thousand) and ¥53,695 million ($501,822 thousand), respectively. Included in loans guaranteed were customers' housing loans from banks in the amount of ¥53,297 million ($498,103 thousand).

16. Subsequent event

The following appropriations of retained earnings at March 31, 2005 were approved at the Company's shareholders' meeting held on June 29, 2005:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥17.0 ($0.16) per share	¥9,352	$87,402
Bonuses to directors and corporate auditors	131	1,224

Deloitte.

Deloitte Touche Tohmatsu
Osaka Kokusai Building
2-3-13, Azuchi-machi
Chuo-ku, Osaka 541-0052
Japan

Tel: +81 (6) 6261 1381
Fax: +81 (6) 6261 1238
www.deloitte.com/jp

Independent auditors' report

To the Board of Directors of Daiwa House Industry Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Daiwa House Industry Co., Ltd. and subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2005, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Daiwa House Industry Co., Ltd. and subsidiaries as of March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2005, in conformity with accounting principles generally accepted in Japan.

As discussed in Note 2-i, the Company and certain subsidiaries changed its method of accounting for its liability for employees' retirement benefits as of March 31, 2003, and the actuarial loss, which previously was amortized evenly over principally 10 years, was changed to be amortized when incurred.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 29, 2005

Member of
Deloitte Touche Tohmatsu