



**Daiwa House**®  
Group

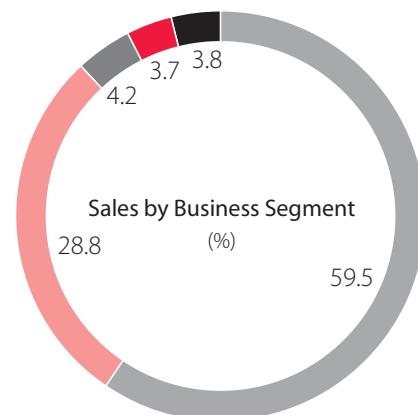


Bring on the Future



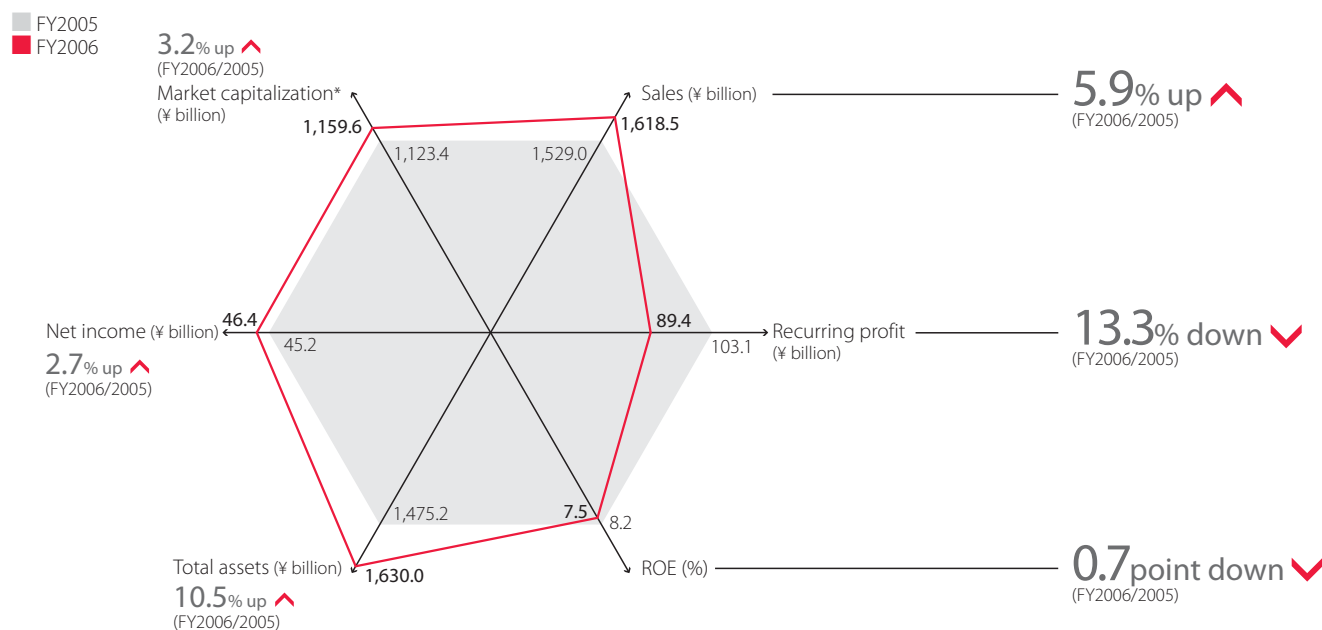
# At a Glance

Based on its five business segments — Residential Business, Commercial Construction Business, Resort Hotels and Sports Life Business, the Home Center Business, and Other Businesses — the Daiwa House Group launched its First Medium-Term Management Plan “Challenge 2005” in fiscal 2005. While strengthening our product development, marketing and service networks, as well as streamlining management, we will continue to take the steps necessary for us to achieve our targets of sales of ¥1,700 billion, recurring profit of ¥100 billion and return on equity of 9.0% on a consolidated basis by FY2007, the final fiscal year of the plan.



## Performance Indicators and Targets (Consolidated)

Results	FY2004	First Medium-Term Management Plan	
		FY2005	FY2006
Sales	¥1,365.9 billion	¥1,529.0 billion	<b>¥1,618.5 billion</b>
Recurring profit	¥74.2 billion	¥103.1 billion	<b>¥89.4 billion</b>
ROE	7.9%	8.2%	<b>7.5%</b>



\* Outstanding shares at term-end x share price



#### ■ Residential Business

Construction and lot-subdivision for sale of single-family houses, condominiums, rental housing, renovations, real estate agency and other business related to residences

#### ■ Commercial Construction Business

Commercial facilities, distribution-related facilities and other customized construction of office and industrial buildings

#### ■ Resort Hotels and Sports Life Business

Management of resort hotels, golf courses and sports clubs and others

#### ■ Home Center Business

Management of home centers

#### ■ Other Businesses

Manufacture and sale of housing construction materials, logistics and distribution, automobile leasing, business hotels and others

## “Challenge 2005”

### Targets FY2007



¥1,700 billion

¥100 billion

9.0%

#### Notes to financial data and graphs

Unless otherwise specified, annual figures in the graphs are for years ending March 31. Sales figures for each segment in this Annual Report include intersegment transactions. Sales percentages for each segment in this Annual Report refer only to sales to outside customers.

#### Forward-looking statements

This Annual Report contains future estimates, targets, plans and strategies by the Company and the Daiwa House Group. They are based on judgments made using information available at the time of writing. For various reasons, actual results may differ substantially from these estimates.

## Contents

2	Dear Stakeholders
4	Group Results Summary
6	Business Outline
8	Share Information
10	Group Business Structure
16	<b>Our Management</b>
20	Message from the CEO
26	Message from the COO
32	Message from the CFO
36	Corporate Governance
38	Internal Control
40	Compliance and Risk Management
42	Corporate Management
44	Board of Directors, Corporate Auditors, and Presidents of Principal Subsidiaries
52	<b>Our Business</b>
55	Residential Business
69	Commercial Construction Business
79	Resort Hotels and Sports Life Business
82	Home Center Business
84	Other Businesses
86	Research & Development
92	<b>Corporate Citizenship</b>
94	Environment
96	Clients
98	Partners
100	Shareholders
102	People
104	Community
108	<b>Financial Information</b>
110	Consolidated Seven-Year Summary
111	Management's Discussion and Analysis
120	Consolidated Financial Statements
126	Notes to Consolidated Financial Statements
142	Independent Auditors' Report
143	A Story of the Daiwa House Group
144	Group Network
151	Corporate Data







# Dear Stakeholders

## Building a Lasting Bond with All Stakeholders

Having marked its 50th anniversary in April 2005, the Daiwa House Group introduced a new Group management structure for the next 50 years, as a group that co-creates value for individuals, communities, and people's lifestyles under its new Group symbol, "Endless Heart." The reporting fiscal 2006, the year ended March 31, 2007, was the second year for "Challenge 2005," our inaugural First Three-Year Medium-Term Management Plan launched in fiscal 2005. It was an important period for our efforts to attain the targets set out in the three-year plan. In fiscal 2006, these efforts produced consolidated sales of ¥1,618.5 billion, for a 5.9% year-on-year increase. Consolidated recurring profit declined 13.3%, to ¥89.4 billion, attributable to a year-on-year fall in amortization of actuarial gain for employees' retirement benefits. Nevertheless, we achieved record consolidated net income of ¥46.4 billion (a 2.7% increase year on year). We were able to achieve these results only with the support of our shareholders, and we would like to take this opportunity to express our deep appreciation for this support. We have set annual dividends for fiscal 2006 at ¥20 per share.

To expand our Group businesses with vigor and sustain our growth in the future, in fiscal 2006 we carried out management integration with three listed companies — Daiwa Kosho Lease (renamed Daiwa Lease on April 1, 2007), Daiwa Rakuda Industry and Daiwa Logistics — through share exchange transactions. We also invested aggressively to lay the foundations for future growth, for example, by establishing Daiwa House Financial and Daiwa House Insurance. We made capital investments in ELIY Power and formed a business alliance with CYBERDYNE Inc., and in fiscal 2007 we made Eneserve into a consolidated subsidiary. We will make steady progress toward our goals of ¥1,700 billion in sales, ¥100 billion in recurring profit and 9% in ROE on a consolidated basis set out in our First Medium-Term Management Plan, "Challenge 2005."

On April 5, 2007 we opened a memorial museum dedicated to our late founder Nobuo Ishibashi. We are committed to expanding and achieving our dream of ¥10 trillion in sales on our 100th anniversary, with our founding spirit engraved in the hearts of all our directors and employees. Under the new Group management structure, the Daiwa House Group will continue its efforts to bolster the confidence and appreciation of society through sincere corporate activities, further develop its relationship with its customers, and build a lasting bond with all stakeholders.



Takeo Higuchi  
Chairman and CEO



# Group Results Summary

As of March 31, 2007

## Consolidated Financial Highlights

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

	Millions of yen			YoY increase (decrease)	Thousands of U.S. dollars
	2007	2006	2005	2007/2006	2007
Net sales	1,618,450	1,528,983	1,365,914	5.9%	13,715,678
Operating income	85,679	80,072	67,849	7.0%	726,093
Other income (expenses)	(9,230)	2,083	(4,741)	(543.1%)	(78,220)
Net income	46,394	45,184	40,262	2.7%	393,169
Per share of common stock (in yen and dollars)					
Basic net income	81.15	81.88	73.26	(0.9%)	0.69
Equity	1,122.88	1,053.37	959.08	6.6%	9.52
Cash dividends applicable to the year	20.00	20.00	17.00	—	0.17
Total assets	1,630,022	1,475,197	1,358,807	10.5%	13,813,746
Equity	661,145	576,534	524,110	14.7%	5,602,924
Dividend payout ratio (%)	24.6	24.4	23.2	0.2 point	
Return on equity (%)	7.5	8.2	7.9	(0.7 point)	
Return on assets (%)	3.0	3.2	3.3	(0.2 point)	
Equity ratio (%)	40.4	39.1	38.6	1.3 points	

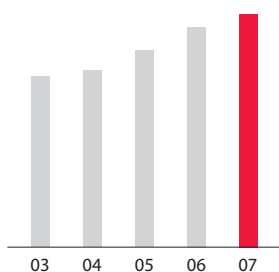
Notes: 1. The U.S. dollar amounts represent translations of Japanese yen for convenience only at the approximate exchange rate on March 31, 2007 of ¥118 = U.S.\$1.

2. Beginning with the fiscal year ended March 31, 2007, minority interests have been included in Equity.

### Net sales

¥1,618.5 billion

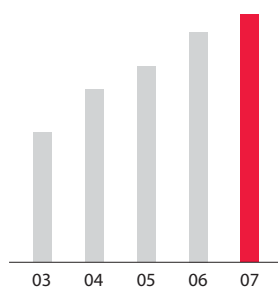
¥ billion 1,185 1,225 1,366 1,529 1,618



### Operating income

¥85.7 billion

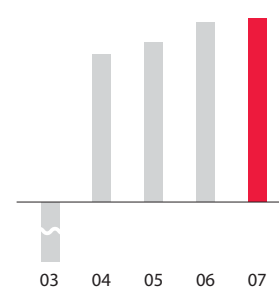
¥ billion 45 60 68 80 86



### Net income (loss)

¥46.4 billion

¥ billion -91 37 40 45 46





## Positive Factors in Fiscal 2006

### Entire society in Japan

- There was a moderate pickup in the economy, with nominal economic growth of 1.4%, thanks to an improved employment and personal income picture on the back of strong corporate earnings.
- New housing starts grew 2.9% year-on-year and owner-occupied housing showed some recovery, due to a bottoming out in land prices and expectations of higher interest rates.

### Daiwa House Group

- Sales in the Residential Business Segment increased 6.2%, and operating income 4.7%, due to strong demand for rental housing and condominiums.
- Operating income in the Commercial Construction Business increased 19.0%, contributing significantly to Group earnings, thanks to aggressive development of commercial facilities.

## Negative Factors in Fiscal 2006

### Entire society in Japan

- Private consumption expenditure was nearly flat year-on-year, edging up only 0.7%, as consumer sentiment has not brightened much despite economic recovery.
- Construction materials in the Japanese market were again affected by soaring prices, with crude oil reaching historical highs and demand for building materials increasing in China.

### Daiwa House Group

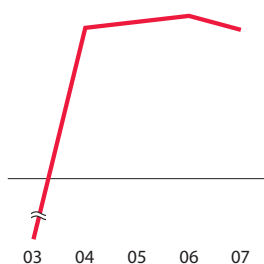
- Recurring profit declined 13.3% year-on-year. Amortization of actuarial gain for employees' retirement benefits amounted to ¥21.7 billion in the previous fiscal year due to a buoyant stock market, but this figure fell to ¥3.2 billion during the year under review.

- Sales and operating income and net income all grew for the fourth consecutive year, reaching **all-time highs**.
- As a result of making three Group companies into wholly-owned subsidiaries, equity increased and the equity ratio rose by 1.3 percentage point year-on-year to **40.4%**.
- Total assets increased by **¥154.8 billion**, due to acquisition of land and buildings for sale and real estate for business purposes.

### ROE (Return on equity)

**7.5%**

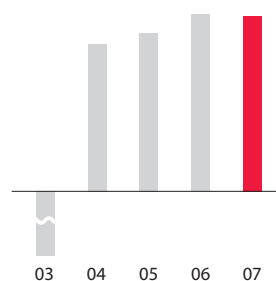
% -17.1 7.6 7.9 8.2 **7.5**



### Net income (loss) per share

**¥81.15**

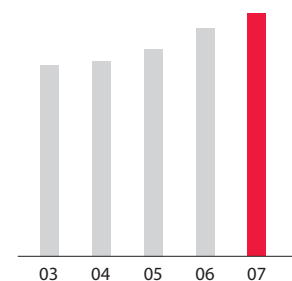
¥ -167.1 68.2 73.3 81.9 **81.2**



### Equity per share\*

**¥1,122.88**

¥ 884.6 902.3 959.1 1,053.4 **1,122.9**



\* See note 2 in the Consolidated Financial Highlights on p.4.

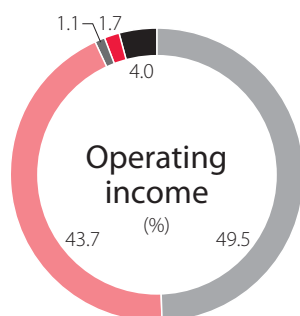
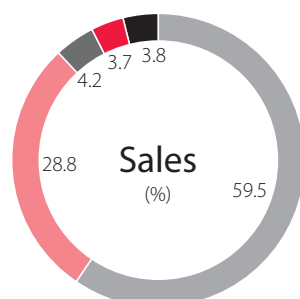


# Business Outline

As of March 31, 2007

## Sales and operating income by business segment

- Residential Business
- Commercial Construction Business
- Resort Hotels and Sports Life Business
- Home Center Business
- Other Businesses

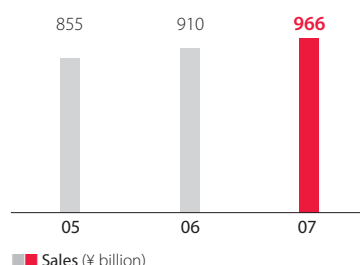


## Residential Business

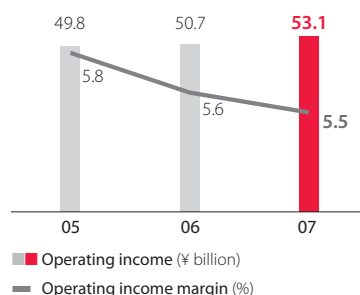


The Daiwa House Group continued to develop housing as its core business, a comprehensive range of enterprises related to residences, from construction and lot-subdivision for sale of single-family houses, condominiums, and rental housing, to renovations, real estate agency and property management operations. These businesses accounted for 59.5% of total sales on a consolidated basis for the period under review. Sales rose 6.2% from the previous fiscal year, to ¥965.9 billion. Operating income was ¥53.1 billion, a 4.7% increase. The ratio of operating income margin was 5.5%, a decrease of 0.1 percentage point.

### Sales



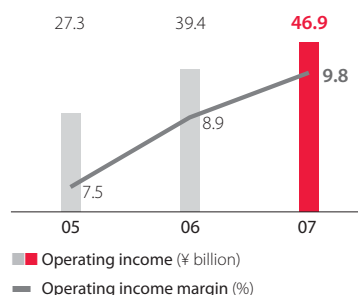
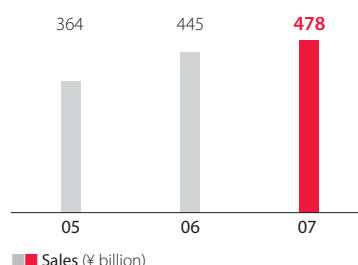
### Operating income/Operating income margin



## Commercial Construction Business



The Group's No. 2 leading business, Commercial Construction, is divided into two sub-divisions. One is the construction and management of commercial facilities such as retail outlets and shopping malls, and the other comprises the planning, design and construction of distribution, medical and nursing care and corporate facilities. Sales in this segment, which accounted for 28.8% of total sales, were ¥477.7 billion, up 7.3% from the previous fiscal year. Operating income jumped 19.0% to ¥46.9 billion. The ratio of operating income margin was 9.8%, an increase of 0.9 percentage point.

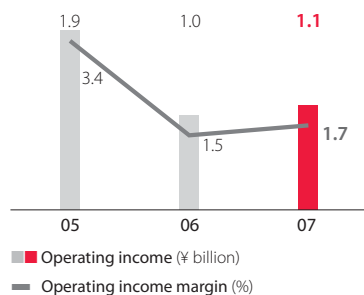
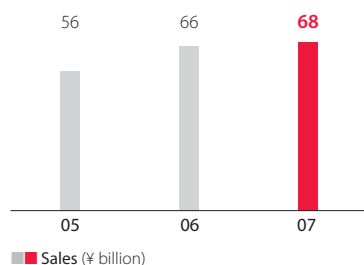




## Resort Hotels and Sports Life Business



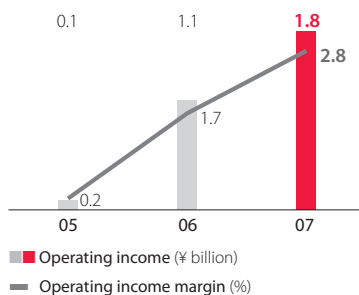
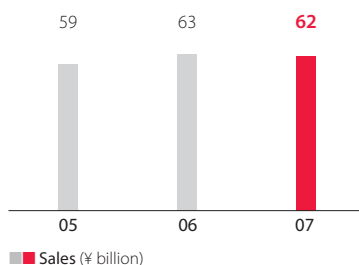
Through the operation of resort hotels, golf courses and sports facilities throughout Japan, we provide facilities for relaxation and the overall enjoyment of life. Sales in this segment, which accounted for 4.2% of Group sales, were ¥67.8 billion, up 1.9% from the previous fiscal year. Operating income was ¥1.1 billion, a 14.6% increase. The ratio of operating income margin was 1.7%, an increase of 0.2 percentage point.



## Home Center Business



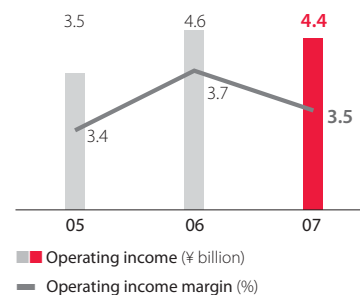
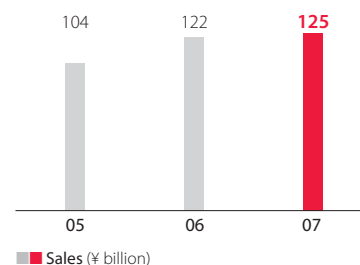
The Group operates home centers that carry an average of over 50,000 items. The centers are used by a wide spectrum of customers, from contractors and other professionals to general consumers. Sales in this segment, which accounted for 3.7% of Group sales, edged downward 1.6% to ¥62.2 billion. Operating income rose dramatically to ¥1.8 billion, an increase of 60.1%. The ratio of operating income margin was 2.8%, an increase of 1.1 percentage points.



## Other Businesses



Other businesses support people, communities and lifestyles through a wide range of activities in such fields as the manufacture and sale of housing construction materials, logistics and distribution, automobile leasing, business hotels, and others. These businesses accounted for 3.8% of total sales for the term. Sales in this segment were ¥124.6 billion, an increase of 2.2%. Operating income declined 4.1% to ¥4.4 billion. The ratio of operating income margin was 3.5%, a 0.2 percentage point decrease.





# Share Information

As of March 31, 2007

## Common stock

¥110,120 million  
(US\$933,220 thousand)

### Shares

Authorized	1,900,000,000
Issued	599,921,851
Number of shareholders	34,481

### Term-end

March 31 every year

### Ordinary general meeting of shareholders

Held in Osaka by the end of June, which is within 3 months from the day following the balance sheet date for each year

### Administrator of shareholders' register

The Chuo Mitsui Trust and Banking Company, Limited  
3-33-1 Shiba, Minato-ku, Tokyo

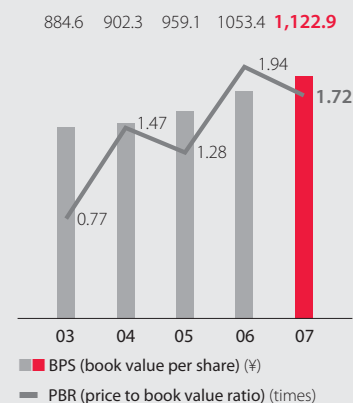
### Securities traded

Tokyo and Osaka stock exchanges

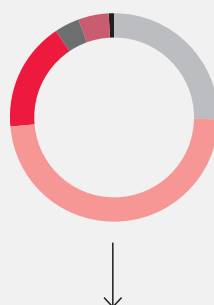
### Securities code

1925

### BPS and PBR



## Shareholdings by scale

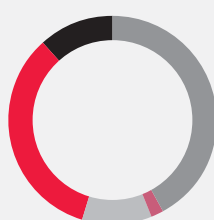


	Shares	%
10 million or more	152,565,807	25.43
1 million or more	290,624,526	48.44
100 thousand or more	100,225,298	16.71
10 thousand or more	23,419,415	3.90
1 thousand or more	28,818,736	4.80
Less than 1 thousand	4,268,069	0.71

### Principal shareholders

	Thousands of shares	Equity stake (%)	Change YoY (point)
The Master Trust Bank of Japan, Ltd. (trust account)	34,116	5.7	(0.2)
Japan Trustee Services Bank, Ltd. (trust account)	30,244	5.0	(4.0)
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	15,470	2.6	0.2
Nippon Life Insurance Company	14,512	2.4	0.1
Sumitomo Mitsui Banking Corporation	12,117	2.0	0.2
The Dai-ichi Mutual Life Insurance Company	11,501	1.9	(0.1)
Mizuho Corporate Bank, Ltd.	11,261	1.9	0.2
State Street Bank and Trust Company 505103	10,579	1.8	0.3
The Chuo Mitsui Trust and Banking Company, Limited	9,521	1.6	(0.1)
Meiji Yasuda Life Insurance Company	8,786	1.5	(0.0)

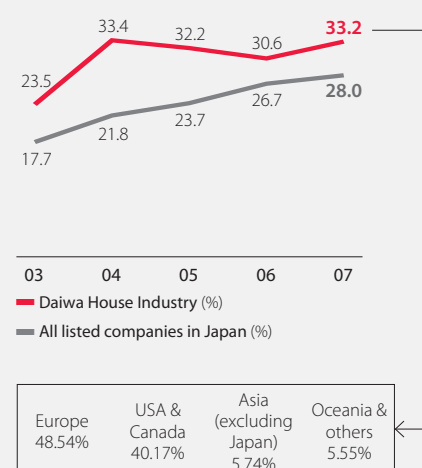
## Shareholdings by shareholders\*



Financial institutions	42.07%
Securities companies	1.87%
Other corporations	10.95%
Foreign investors	33.50%
Individuals and others	11.61%

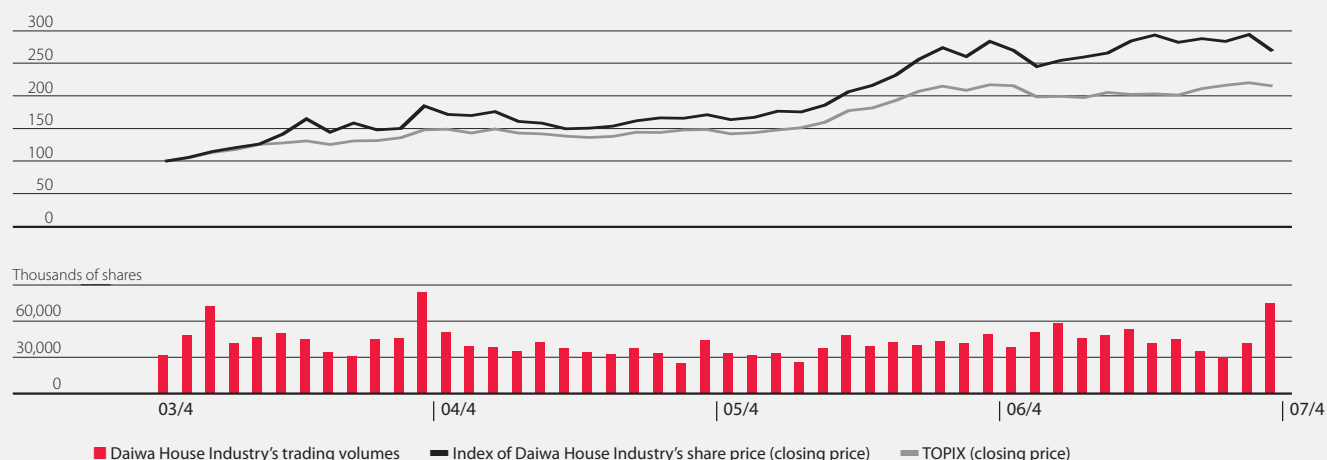
\* Numbers of shares excluded less than one unit are excluded.

## Foreign shareholdings





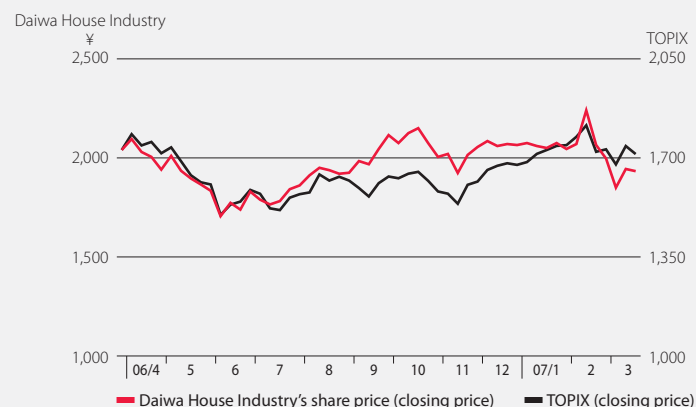
## Indices of Daiwa House Industry's share price and trading volumes on the Tokyo Stock Exchange (Base month: April 2003=100)



## Share prices and volumes

	2004	2005	2006	2007
Share price high (yen)	1,434	1,366	2,055	2,260
Share price low (yen)	670	1,060	1,141	1,601
Share price at year-end (yen)	1,328	1,232	2,040	1,933
Cumulative trading volume (thousands)	575,059	450,348	467,867	564,518

## Share price movements in fiscal 2006



In fiscal 2006, the year ended March 31, 2007, continuing corporate accounting scandals and other bad news undermined trust in Japan's securities markets, and the Nikkei Stock Average hit a six-month low on June 13. Daiwa House Industry's share price hit a low of ¥1,601 on June 9, 2006, but bounced back to a record high of ¥2,260 on February 26, 2007 before the global slide in share prices at the end of February dragged the stock down to the ¥1,800 level. At the end of the fiscal year it rebounded again and ended the term 5.2% down year-on-year at ¥1,933.



During the 50 years since its founding, the Daiwa House Group has built up a strong track record in business involving a wide range of fields and a large number of people. This track record is a major asset underpinning our management. Looking ahead, we intend to leverage synergies among our Group companies and divisions to further develop this strength and pave the way for further ambitious expansion.

**1,250 thousand units**<sup>\*1</sup>

Units completed by the Residential Business

\*1 Total of single-family houses, rental apartment buildings and condominiums built by the Daiwa House Group. Figures for condominiums refer to the total of subdivisions.

**1 million households**<sup>\*2</sup>

Number of households that have moved into our homes

\*2 Total of customers living in single-family houses, rental apartment buildings and condominiums built by the Daiwa House Group.

**30 thousand facilities**<sup>\*3</sup>

Number of structures completed by the Commercial Construction Business

\*3 Total of commercial facilities, medical and nursing care facilities, and distribution facilities completed by the Daiwa House Group.

**140 facilities**<sup>\*4</sup>

Number of facilities operated by the Daiwa House Group

\*4 Total of resort hotels, golf courses, city-type hotels, home centers and fitness clubs operated by the Daiwa House Group.

**4.3 million guests**

Annual total of guests at our resort hotels

As of March 31, 2007



**Daiwa House**®  
Group



# Group Business Structure

As of September 1, 2007

Group companies and equity stake held by the parent company.  
Figures in parentheses are equity stake held by the Group as a whole.

## Residential Business

Daiwa House Industry Co., Ltd.	Daiwa Lease Co., Ltd.	Daiwa Living Co., Ltd.	Daiwa Service Co., Ltd.
	100%	100%	50% (100%)
Nihon Jyutaku Ryutu Co., Ltd.	Daiwa House Kitanihon Co., Ltd.	Daiwa House Kanto Co., Ltd.	Daiwa House Hokushinetsu Co., Ltd.
100%	100%	100%	100%
Daiwa House Chubu Co., Ltd.	Daiwa House Kansai Co., Ltd.	Daiwa House Chushikoku Co., Ltd.	Daiwa House Kyushu Co., Ltd.
100%	100%	100%	100%
Daiwa House Renew Co., Ltd.	Daiwa Estate Co., Ltd.	Daiwa Monthly Co., Ltd.	Synchroller Co., Ltd.
100%	Daiwa Living Co., Ltd. 100%	100%	100%
Tianjin Jiuhe International Villa Co., Ltd.	Shanghai Happy House Decoration Co., Ltd.	Daiwa House (Suzhou) Real Estate Development Co., Ltd.	
90%	75% (96.1%)	100%	

## Commercial Construction Business

Daiwa House Industry Co., Ltd.	Daiwa Lease Co., Ltd.	Daiwa Information Service Co., Ltd.	Daiwa Royal Co., Ltd.
	100%	100%	100%
Higashi-Fuji Co., Ltd.	LOC Development Co., Ltd.		
75%	50%		

## Resort Hotels and Sports Life Business

Daiwa House Industry Co., Ltd.	Daiwa Resort Co., Ltd. (Daiwa Royal Hotels)	Daiwa Royal Golf Co., Ltd.	Nippon Athletic Service Co., Ltd. (Sports Club NAS)
	100%	100%	99.6%

## Home Center Business

Royal Home Center Co., Ltd.
100%

## Other Businesses

Daiwa House Industry Co., Ltd.	Daiwa Lease Co., Ltd.	Daiwa Rakuda Industry Co., Ltd.	Daiwa Logistics Co., Ltd.
	100%	100%	100%
Daiwa Service Co., Ltd.	Daiwa Royal Co., Ltd.	Daiwa Energy Co., Ltd.	Jukeikai Co., Ltd. (Neo Summit Yugawara)
50% (100%)	100%	100%	100%
Osaka Marubiru Co., Ltd.	Daiwa House REIT Management Co., Ltd.	Daiwa House Financial Co., Ltd.	Daiwa House Insurance Co., Ltd.
93.5%	100%	60%	100%
Shinwa Agency Co., Ltd.	Media Tech Inc.	Eneserve Corporation	DH (Dalian) Administrative Management Consulting Center Co., Ltd.
100%	100%	50.3%	100%



# Endless Heart Companies

As of September 1, 2007



**Daiwa House®**  
Daiwa House Group

Daiwa House Industry Co., Ltd.

Housing/Commercial facilities/  
Urban development, etc.



**Daiwa Lease®**  
Daiwa House Group

Daiwa Lease Co., Ltd.

Building & vehicle leasing/  
Land utilization



**Daiwa Rakuda®**  
Daiwa House Group

Daiwa Rakuda Industry Co., Ltd.

Housing equipment/  
Layout for offices and stores/Rental



**Daiwa Living®**  
Daiwa House Group

Daiwa Living Co., Ltd.

Management/  
Operation of rental housing



**Daiwa Service®**  
Daiwa House Group

Daiwa Service Co., Ltd.

Management of buildings &  
condominiums/Manpower dispatching/  
Moving services



**Daiwa Info.Service™**  
Daiwa House Group

Daiwa Information Service  
Co., Ltd.

Land utilization/Maintenance &  
operation of commercial facilities



**Daiwa Royal®**  
Daiwa House Group

Daiwa Royal Co., Ltd.

Rental of commercial facilities/  
Daiwa Roynet Hotels



**Daiwa Renew®**  
Daiwa House Group

Daiwa House Renew Co., Ltd.

Renovation work/  
Manpower dispatching



**Daiwa Energy®**  
Daiwa House Group

Daiwa Energy Co., Ltd.

ESCO business/  
Environmental equipment/  
Facility installation



**Daiwa Monthly™**  
Daiwa House Group

Daiwa Monthly Co., Ltd.

Real estate rental & management



**Daiwa REIT™**  
Daiwa House Group

Daiwa House REIT Management  
Co., Ltd.

Asset management



**Daiwa Insurance™**  
Daiwa House Group

Daiwa House Insurance Co., Ltd.

Non-life insurance agency





**Daiwa Logistics**™  
Daiwa House Group

Daiwa Logistics Co., Ltd.

Transportation/  
Warehouse & storage



**Nihon Jyutaku Ryutu**®  
Daiwa House Group

Nihon Jyutaku Ryutu Co., Ltd.

Real estate agency &  
property management services/  
Appraisals/Renovation work



**Daiwa Estate**®  
Daiwa House Group

Daiwa Estate Co., Ltd.

Real estate agency



**Daiwa House**™  
大和房屋集團

DH (Dalian) Administrative  
Management Consulting  
Center Co., Ltd.

Provision of outsourced  
administrative work

**ロイヤルホームセンター**



Royal Home Center Co., Ltd.

DIY/Gardening/Interior items

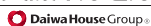
**ダイワロイヤルゴルフ**



Daiwa Royal Golf Co., Ltd.

Golf course operation

**大阪マルビル**



Osaka Marubiru Co., Ltd.

Management of hotels,  
rental premises & parking lot

**大和ハウスフィナンシャル**



Daiwa House Financial Co., Ltd.

Credit card business

**伸和エージェンシー**



Shinwa Agency Co., Ltd.

Advertising & travel agency

**eneServe**



Eneserve Corporation

Comprehensive energy services



**DAIWA ROYAL HOTELS**



Daiwa Resort Co., Ltd.

(Daiwa Royal Hotels)

Resort hotels

介護付有料老人ホーム



Jukeikai Co., Ltd.

(Neo Summit Yugawara)

Operator of homes for the aged

余暇の創造を提案します

**スポーツクラブNAS**

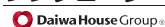


Nippon Athletic Service Co., Ltd.

(Sports Club NAS)

Fitness clubs

**シンクロラー**



Synchroller Co., Ltd.

Manufacture of housing parts & materials



**MEDIA TECH INC.**



Media Tech Inc.

Data systems/Data services

**東富士**



Higashi-Fuji Co., Ltd.

Real estate development/  
Sale of commercial real estate







Japan's birthrate in 2006

# 1.32

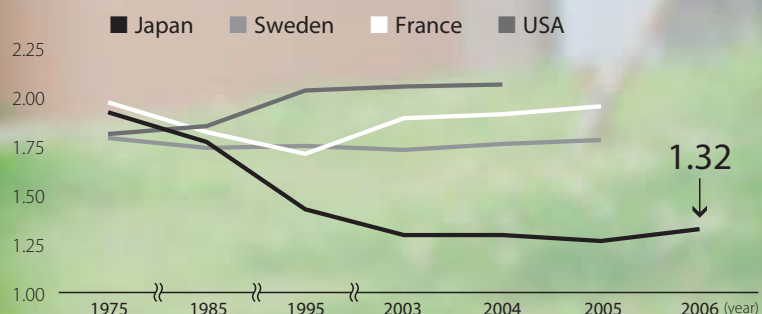
## Enduring dreams

Protecting our future through contributions to society and living environments



In Japan, the population is declining, and the average birthrate has fallen to 1.32. Despite this, children today are the same as ever: facing the future head-on and cherishing their dreams, they grow up big and strong. This child hopes to become a professional baseball player, while that one wants to run a cake shop. Even though the age composition of the population in Japan is changing, the purity of these dreams remains unchanged. The dream of the Daiwa House Group is to create a comfortable lifestyle for children and the adults who raise them, and to contribute to the communities in which they are raised. We are working to create a society and an environment that will continue protecting the future of coming generations: this is our heartfelt mission.

Birth rates in four industrialized nations

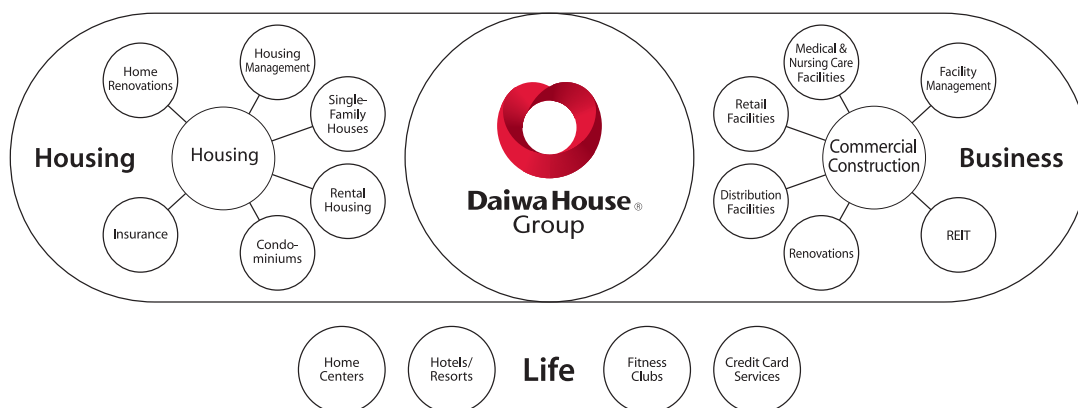




# Our Management

With its commitment to co-creating value for individuals, communities and people's lifestyles, the Daiwa House Group's activities span three domains: Housing (general homebuilding), Business (retail stores, distribution, medical/nursing care and other commercial facilities) and Life (wide-ranging support for daily lifestyles). By working with the customer to create new value, while developing a broad and rich array of businesses, we are helping to build the Japan of the future.

The Daiwa House Group —  
working to co-create value for individuals, communities and people's lifestyles





# Bring on the Future











**Daiwa House Industry Co., Ltd.**

**Takeo Higuchi** (middle)  
Chairman and CEO

**Kenji Murakami** (right)  
President and COO

**Tetsuji Ogawa** (left)  
Executive Vice President and CFO



## Message from the CEO



Takeo Higuchi



# Cultivating Japan's Future

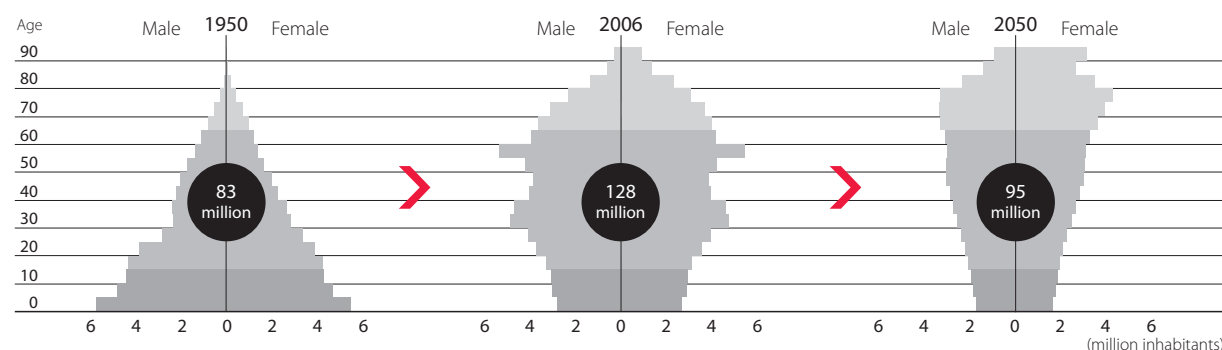
## A new society needs new values

The Daiwa House Group's symbol, the "Endless Heart," represents a big heart that embodies courage and passion and signifies a new future opening up for Japanese society. The "Endless Heart" also symbolizes the Daiwa House Group's spirit of value co-creation to realize our dreams of a prosperous tomorrow together with society, together with our customers, connecting our hearts and deepening our ties.

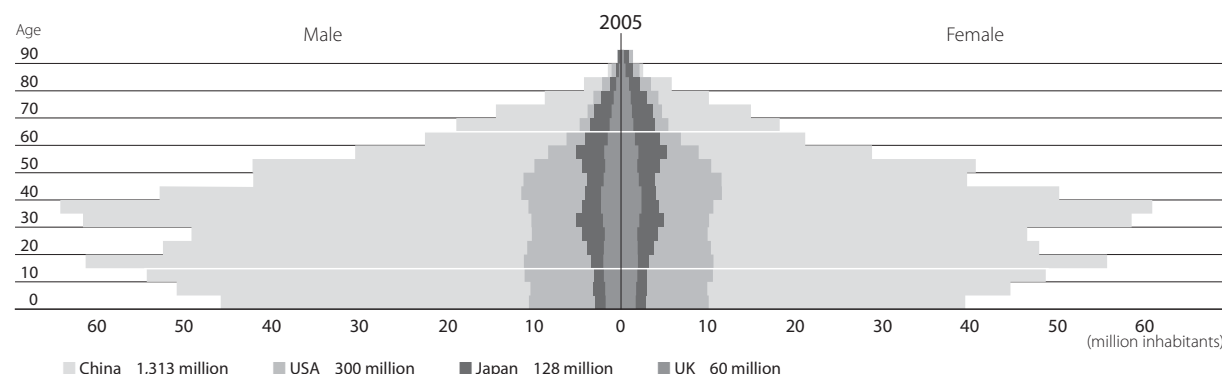
After achieving economic development to the point where it has long been one of the world's advanced industrialized nations, Japan is now a mature society. From 2005 the Japanese population began falling. According to an analysis by the OECD (Organisation for Economic Co-operation and Development), the decline in the working population – those aged between 15 and 64 – is occurring faster than in any other industrialized country. At the same time, in the face of economic globalization, the rise of the massive Chinese market, and worldwide environmental and energy problems, Japanese society is approaching a major turning point. We must now take another look at the value systems we have held up to the present and generate a new society with new values.

We at the Daiwa House Group, in the spirit of co-creating a brighter future, wish to take on the challenge of reforming old value systems and opening paths to create new values, thereby cultivating the future of Japanese society.

### Changes in Japan's population by age



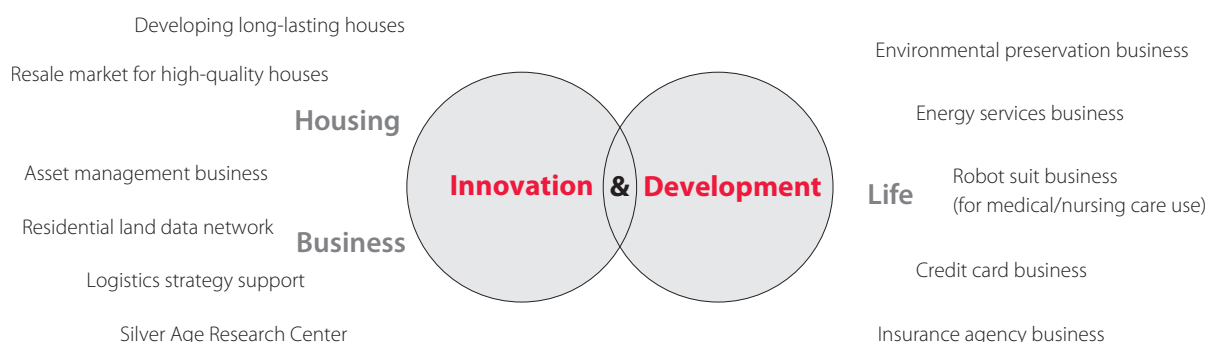
### World population by age





# Responding to Change with “Innovation” and “Development”

Since the time of our foundation, we have developed prefabricated housing based on the concept of the industrialization of construction. We have consistently added new value in the Japanese housing industry in a pioneering spirit. This concept of co-creating a brighter future, in our ties to society through the construction business and to people through lifestyle services, is the source of the Daiwa House Group’s strength as we consistently discern the changes of the times and continue to make reforms and pioneer advancements. The Daiwa House Group is committed to working to co-create value for individuals, communities and people’s lifestyles. To achieve this goal, we operate a diverse range of businesses across the three main domains: Housing, Business, and Life.



## Existing businesses: creating an even sounder business base through constant reform

Our mission in the Housing arena is to add new value to Japanese housing from a global perspective. The Basic Housing Act was enacted in 2006, a measure designed to shift the nation’s housing policy from quantity to quality. To create a good stock-oriented society, we aim to provide houses that can endure 100 years. For that purpose, we are developing a number of technologies and features, including vibration-damping, earthquake-absorbing and earthquake-resistant technologies, environmental load reduction, and harmony with the streetscape. It is said that the market value of typical Japanese wooden houses falls to almost zero 20 years after construction. To extend the life of a house, we need to develop a quality housing resale market.

Our reforms in the Business arena involve knowing the land, knowing the communities and knowing the people. This mission is possible because we are the Daiwa House Group. We support our clients’ business through quality asset management services for landowners based on the needs of local communities, and a nationwide land information network that has earned their trust. In addition, we are generating new value through our strong consulting capabilities in adding sophistication and specialization to businesses, by offering logistics solutions to support corporate logistics strategies, contemplating the lifestyles of the elderly at the Silver Age Research Center, and other means. In fiscal 2006 we united our Group strengths to develop projects for real estate investment trusts with the aim of generating new compound value.



## Generating new businesses that tap societal needs

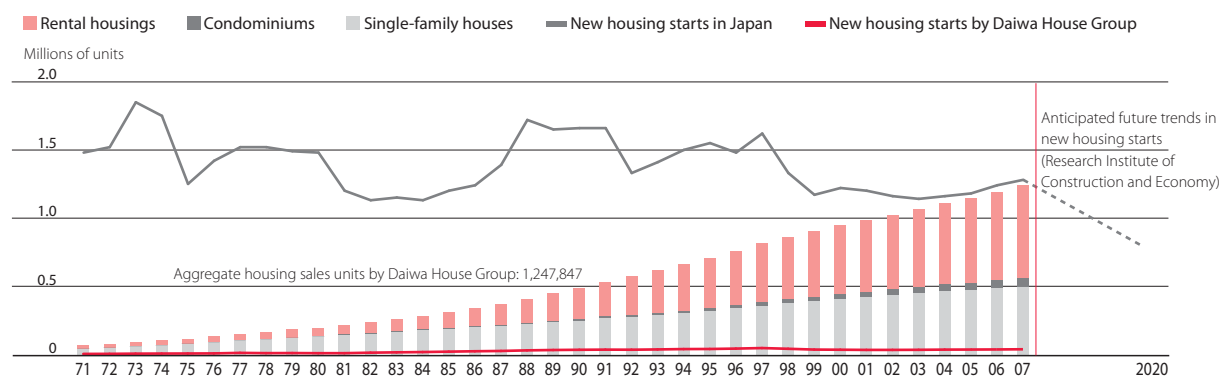
Our developments in major “Life” arena are not only important themes in our Group’s future growth strategy, but are highly significant as a means of opening the door to Japan’s future. Among these developments, Japan must take the lead in implementing measures to counter environmental issues, starting with the Kyoto Protocol. In fiscal 2006, we made additional investments in ELIY Power to develop the lithium ion battery business for houses and large facilities. In addition, Eneserve, which does business in the general energy service industry, including electric power facility management and retail sale of electric power, has newly joined the Group. First, we intend to solidify our foundation by supplying efficient energy to Group facilities, then broadly extend this business to Japanese society.

In addition, orienting ourselves to the inherent nature of an aging society, we have begun implementing new initiatives. Aiming to develop the robotic suit business, we signed an agreement for a business alliance with CYBERDYNE Inc. The robotic suit “HAL” can assist the elderly and physically disabled to lead independent lives at home and at medical and nursing care facilities. Commercializing HAL and popularizing its use will lead to new societal contributions.

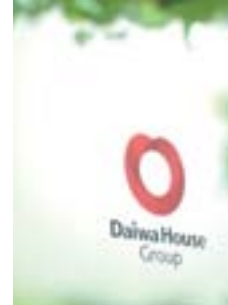
We have also established two companies to support our Group customers’ lifestyles, Daiwa House Financial, a credit card business, and Daiwa House Insurance, an insurance agency.

From here onward, we intend to actively develop our growth strategy in order to further solidify our Group management foundation, concentrating our efforts on recruiting human resources from a wide range of fields and furthering R&D collaboration with business communities, academia, governmental bodies, and medical universities and research institutes.

### Total housing starts and Daiwa House Group aggregate sales







## Main Improvements and Group Management Structure

	Up to FY2005	FY2006 and after
<b>Management</b>	<ul style="list-style-type: none"> <li>• Formulation of new management vision and new symbol named “Endless Heart”</li> <li>• Drafting of First Medium-Term Management Plan “Challenge 2005”</li> <li>• Drafting of environmental vision, “Environment Action Plan 2005”</li> <li>• Development of the Code of Ethics and Behavioral Guidelines of the Daiwa House Group</li> <li>• Abolishing of retirement benefits for directors</li> <li>• Introduction of a branch manager “volunteering” (in-house recruitment) system, a free agent (FA) system, and a workplace selection program</li> </ul>	<ul style="list-style-type: none"> <li>• Corporate ethics helpline set up in CSR Promotion Office</li> <li>• Basic policies announced on creation of internal control system</li> <li>• Internal Audit Office established</li> <li>• Executive officer system adopted to strengthen the supervisory function of the Company’s directors</li> <li>• New career path programs with a wider selection of specialist posts adopted</li> </ul>
<b>Operations</b>	<ul style="list-style-type: none"> <li>• Strengthening consulting functions in commercial construction; promotion of development of complex-type and large-scale commercial facilities; strengthening investment in real-estate development</li> <li>• Introduction of condominium asset valuation system, D’s Bridge</li> <li>• Meeting standards in the Revised Building Standards Law to prevent sick-building syndrome</li> <li>• Making Osaka Marubiru a consolidated subsidiary</li> <li>• Making Nippon Athletic Service a consolidated subsidiary</li> <li>• Launch of sales of “Wind-Blown Whale” 10kW wind power generation facilities</li> <li>• Partnership with Baoye Group Co., Ltd. for joint technical development of industrialized housing</li> </ul>	<ul style="list-style-type: none"> <li>• Daiwa House Industry enforced a management integration with Daiwa Kosho Lease (name changed to Daiwa Lease in April 2007), Daiwa Rakuda Industry, and Daiwa Logistics (The three companies have become fully integrated through share exchange transactions)</li> <li>• Achievement of zero-emissions at new-build housing sites</li> <li>• Construction commenced on condominium building in Dalian, China</li> <li>• Nine wind-powered electricity generators erected in Ehime Prefecture as part of the Company’s renewable energy utilization initiative</li> <li>• Development work commenced on the Fuji Gotemba Industrial Park in Shizuoka Prefecture, the Company’s first development of this kind</li> <li>• Resort hotel business spun off</li> <li>• Daiwa House Financial (a credit card company) established</li> <li>• Daiwa House Insurance (a non-life insurance agency) established</li> <li>• Capital participation made in ELIY Power (a lithium ion battery manufacturer)</li> <li>• Signed an agreement for a business alliance concluded with CYBERDYNE Inc. (robot suit business)</li> </ul>
<b>Financial position</b>	<ul style="list-style-type: none"> <li>• Plans for total investment of ¥150 billion mainly in real-estate development and M&amp;As over the three years from fiscal 2005</li> <li>• Emphasis on cash flow management</li> </ul>	<ul style="list-style-type: none"> <li>• Increases both in revenues and earnings for the forth consecutive year; posting of record sales, operating income, and net income on a consolidated basis</li> <li>• As a result of the change into wholly owned subsidiaries of the three listed companies mentioned above in the Operations section, the Company’s capital surplus increased ¥80.7 billion year-on-year, while the amounts posted under minority interests declined ¥72.5 billion</li> </ul>



# Together with Society, Onward into the Future

Future Japanese society must face many issues. Yet at the same time, our endeavors are providing clues to solutions to these societal issues. The late founder of the Daiwa House Group, Nobuo Ishibashi, pioneered industrial construction with the Pipe House, which he conceived after seeing the destruction ravaged on Japanese wooden houses by a typhoon. This kind of inspiration is our starting point, and the series of endeavors that followed are what make the Daiwa House Group the vibrant enterprise it is today. The spirit of challenge is intrinsic in the DNA of the Daiwa House Group, and is the source of our strength.

As Japanese society has come to a crossroads, now is the time to rebuild the dreams of individuals and take on the daunting challenge of making these dreams come true. This will create the momentum to shape the future to come. To continue our growth over the next 50 years, we will maintain and enhance more than before the cultivation of people through our businesses and the building of sincere relationships with all of our stakeholders, so that the Daiwa House Group's symbol, the "Endless Heart," may always shine brightly for us.

Fiscal 2007 represents an important juncture for the new challenges the Daiwa House Group undertook in 2005. We have already begun to take steps forward from this point, looking toward the new future on the horizon. Why not share with us your dreams for the future?

Takeo Higuchi  
*Chairman and CEO*





## Message from the COO



Kenji Murakami



# Realizing a Group that Co-Creates Value for Individuals, Communities and People's Lifestyles

## Developing a new multi-business enterprise through implementation of our First Medium-Term Management Plan, "Challenge 2005"

To realize the Daiwa House Group as a group that co-creates value for individuals, communities and people's lifestyles, we devised our three-year First Medium-Term Management Plan, "Challenge 2005," which began with our launch of a new Group management structure in fiscal 2005. Challenge 2005 specified three basic strategies: 1) Growth strategies that encompass comprehensive portfolio management, 2) Efficiency boosting strategies that correct redundancies and dispersion in procurement, production and distribution, and 3) Strategies for strengthening our management base by ensuring strategic functions and appropriate governance. In the reporting term, the second year of the plan, we had sales of ¥1,618.5 billion, recurring profit of ¥89.4 billion, and ROE of 7.5 percent.

In fiscal 2006, in pursuit of Group synergy we strengthened the management integration between three listed Group companies and Daiwa House Industry, and established Daiwa House Financial and Daiwa House Insurance. Additionally, active investment to strategically achieve growth was undertaken through capital participation in ELIY Power. We also signed an agreement for a business alliance with CYBERDYNE Inc.

We have set targets of ¥1,700 billion in sales, ¥100 billion in recurring profit, and ROE of 9% on a consolidated basis for fiscal 2007, the plan's final year. As signified by our management symbol, the "Endless Heart," the Group intends to achieve further lasting growth amid new market conditions, uniting our efforts to reach our growth targets.

### Performance Indicators and Targets

(Consolidated)

Results	FY2004	FY2005	FY2006	Target FY2007
Sales	¥1,365.9 billion	¥1,529.0 billion	¥1,618.5 billion	¥1,700 billion
Recurring profit	¥74.2 billion	¥103.1 billion	¥89.4 billion	¥100 billion
ROE	7.9%	8.2%	7.5%	9.0%

### First Medium-Term Management Plan "Challenge 2005"

	Growth strategies	Efficiency boosting strategies	Strategies for strengthening our management base
<b>Basic Strategies</b>	1. Comprehensive portfolio management 2. Strengthen group ties in business segments 3. Develop core technologies 4. Actively invest in future growth	5. Strengthen the procurement system 6. Review the production system 7. Rebuild the distribution system	8. Secure and train personnel 9. Strengthen planning functions of management and management systems
	Management Integration		
<b>Principal Measures Implemented</b>	Expanded real estate investments Reinforced real estate investment operations Daiwa House REIT Management established Daiwa Monthly established Daiwa House Financial established Investment in ELIY Power Signed an agreement for a business alliance with CYBERDYNE Inc. Investment in Eneserve	Expanded use of shared transportation system by Group companies Promoted effective utilization of idle production facilities by Group companies Promoted Group-wide cost management system (for housing) Created cash management system	Set up Internal Audit Office; increased staff engaged in auditing work Started project for the establishment of internal control system pursuant to J-SOX legislation Established Daiwa House Insurance Adopted of Group Management Regulations Conducted training course for Daiwa House's next-generation leaders

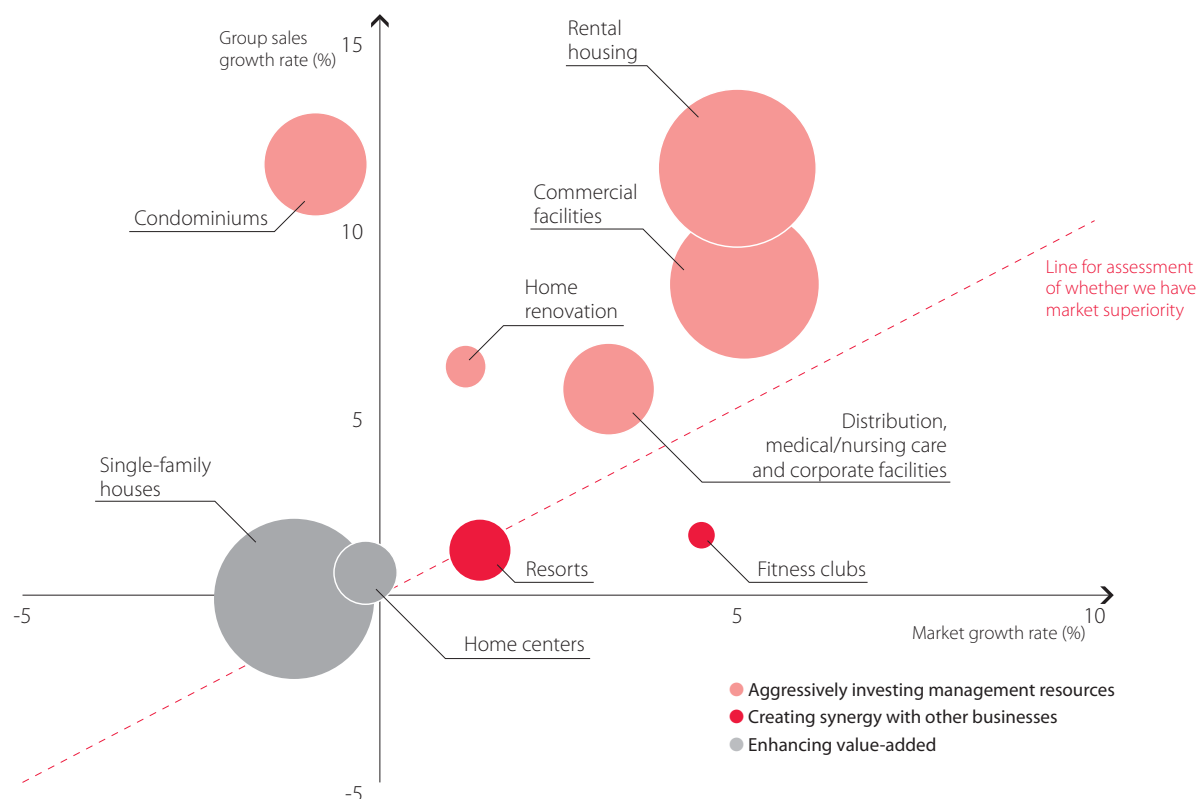


# A New Challenge for a “Group that Co-Creates Value”

## Individual portfolio management to develop respective business strengths

The Daiwa House Group develops its business operations with the Group-wide goal of co-creating value for individuals, communities and people’s lifestyles, including supporting housing by constructing single-family homes, condominiums and rental apartment buildings, supporting other companies by constructing commercial facilities and supporting lifestyles by managing resort hotels and other means. Our Group has two major advantages to achieve growth as a multi-business enterprise that co-creates value. The first advantage is that the Group as a whole can offer value to individual customers throughout their entire life through our wide range of businesses. This can create value from the customer’s perspective and is one of our sources of growth. The other advantage is that the variety of business ensures management stability. Since the risks that accompany market changes are diversified, we can continue to achieve steady growth without being impacted by business cycles. We will therefore promote comprehensive portfolio management, where we distribute management resources based on the marketability and strategy of each segment. Please take a look at the business portfolio chart below.

Daiwa House Group business portfolio (as of end of FY2006)







We are actively investing management resources in the construction of commercial, distribution, medical/nursing care and corporate facilities, rental housing, and condominiums, and the home renovation businesses, all of which are expected to see market growth. Based on our strengths in consulting capabilities and detailed real estate information, we are developing operational support and real estate development, including solutions proposals, for the commercial construction business.

Regarding operations of resort hotels and golf club facilities, we sold the trade rights of the resort hotel business to Daiwa Resort, which had previously engaged in these operations under an outsourcing arrangement. Additionally, we established Daiwa Royal Golf to engage in golf club operations. In this way, we have strengthened our business foundations in these fields. In our NAS sports club operations, we aim to achieve greater synergy by opening NAS facilities within buildings already constructed by the Daiwa House Group.

We are seeking increased profitability in the home center business in a severe mature market, by boosting the efficiency of operations and merchandising as well as meeting local needs and location conditions.

In our Group's core residential business, we have actively expanded sales by positioning our new brand **xevo** as our flagship single-family housing product. **xevo** enables lower lifecycle costs in post-construction maintenance and repairs as well as improved levels of energy savings and durability. We are adding five new major products to the **xevo** brand in fiscal 2007 (three steel-frame products, two wooden-structure products), aiming to further strengthen the brand and improve management efficiency.

We have begun operation of a new business in the credit card-based retail finance sector, newly establishing Daiwa House Financial with Credit Saison Co., Ltd., and offering the Daiwa Saison Card.

We are also active in overseas operations. During the term, we commenced construction of condominiums in Dalian — the first time for a Japanese company — and opened an overseas office in Hanoi.

#### Sales/sales growth rate/market growth rate by business segment

Segment	FY2006 Sales (¥ billion)	Group sales growth rate [FY2004-FY2006]	Market growth rate*1 [FY2004-FY2006]
Single-family houses	389.1	(0.1%)	(1.2%)
Condominiums	162.6	11.5%	(0.9%)
Rental housing	381.4	11.4%	5.0%
Home renovation	28.3	6.1%	1.2%
Commercial facilities	336.8	8.3%	5.1%
Distribution, medical/nursing care and corporate facilities	129.5	5.5%	3.2%
Resorts	57.2	1.2%	1.4%
Fitness club	10.6	1.6%	4.5%
Home centers	60.6	0.6%	(0.2%)
Others	62.3		
Total	1,618.5		



## Image of Daiwa House Group customer assets





## Helping People Grow, Building “Endless Heart” Dreams

Holding an ambitious dream and trying hard to achieve it is the starting point for the Group. I call on each of the 35,000 people working for our Group to find their individual dream. Dreams stimulate people to achieve growth. I believe that making individual dreams come true, together with friends and together with society, is the greatest possible experience in cultivating people. You cannot make a dream come true if you fear failure. Daiwa House Industry is enhancing programs and the working environment to support individual employees, through such initiatives as implementing the branch manager in-house recruitment system, commencing a specialized human resources development program, and further improving our in-house entrepreneur system and in-house recruiting system.

We must be a group that constantly receives the empathy of our stakeholders as well as their expectations. Representing Daiwa House Industry, I will exercise sound and transparent leadership, make compliance with corporate governance my responsibility, and bolster enterprise value through the concerted efforts of all executives and employees.

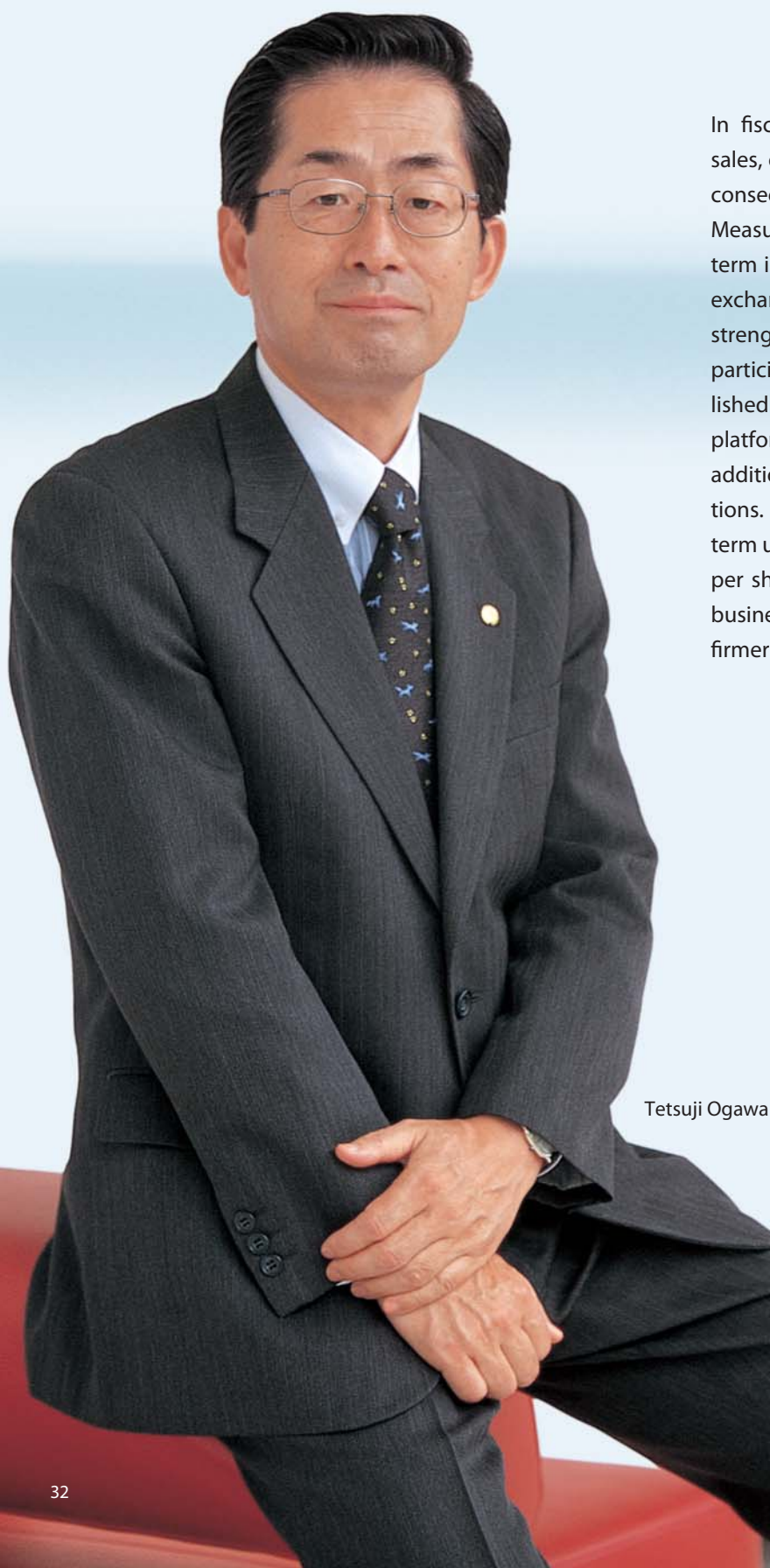
We at the Daiwa House Group will continue to walk hand-in-hand with our stakeholders and society, to cultivate people and pursue our “Endless Heart” dreams.

Kenji Murakami  
*President and COO*





## Message from the CFO



Tetsuji Ogawa

In fiscal 2006, the Daiwa House Group posted record sales, operating income and net income. It was the fourth consecutive year of growth at the top and bottom lines. Measures to expand our scope of business during the term included making management integration by share exchange transactions with three Group companies to strengthen our management structure, as well as capital participation in a company in a new sector. We also established a new company as a long-term measure to create platforms for growth. Return on equity fell 7.5%, reflecting addition to equity in line with the share exchange transactions. We approved a dividend of ¥20 per share for the term under review, and plan to increase the payout to ¥24 per share in fiscal 2007. We will continue to gear Group business strategy to achieving greater transparency and a firmer financial position.

### FY2005

Consolidated balance sheets	Millions of yen
Account title	
Current assets	620,019
Cash and cash equivalents	123,822
Property, plant and equipment	505,471
Investments and other assets	349,707
Current liabilities	427,369
Short-term bank loans	6,183
Current portion of long-term debt	2,928
Long-term liabilities	396,638
Long-term debt	13,528
Minority interests	74,656
Shareholders' equity	576,534
Common stock	110,120
Capital surplus	148,019
Retained earnings	355,495
Total assets	1,475,197



- Funding procurement for investment purposes and related cash flows
- Cash flow from return on investment
- > Linkages between financial statements

## FY2006 Financial Statements

Consolidated statements of cash flows		Millions of yen	
Account title		YoY Change	
1 Net cash provided by operating activities	136,061	45,579	
1 Net cash used in investing activities	(172,074)	(64,217)	
1 Net cash provided by financing activities	14,318	23,582	
Net decrease in cash and cash equivalents	(21,695)	4,942	
Cash and cash equivalents, beginning of year	123,822		
Cash and cash equivalents, end of year	102,127		

Consolidated statements of income		Millions of yen	
Account title		YoY Change	
Net sales	1,618,450	89,467	
Cost of sales	1,283,587	69,943	
Selling, general and administrative expenses	249,184	13,917	
Operating income	85,679	5,607	
Other expenses-net	(9,230)	(11,313)	
Income before income taxes and minority interests	76,449	(5,706)	
Income taxes	29,982	(3,663)	
Minority interests in net income of subsidiaries	(73)	3,253	
Net income	46,394	1,210	

Consolidated account of changes in equity		Millions of yen	
Account title		YoY Change	
Retained earnings, beginning of year	355,495		
Cash dividends	(10,868)		
Bonuses to directors and corporate auditors	(407)		
Net income	46,394		
Transfer due to sales of land	(2,798)		
Increase due to exclusion from equity method accounting of former associated companies	26		
Retained earnings, end of year	387,842		

### 1 A flexible approach to fund procurement

We diversified and rationalized fund procurement by taking out long-term loans with a view to gaining potential financial leverage, supplementing the net cash provided by operating activities.

### 2 Aggressive investment as a platform for growth

In addition to investing in real estate for business purposes (land and buildings), we targeted investment funds at energy businesses, which we expect to develop.

### 1 Expanding earnings by increasing returns on investment

The real estate market is showing signs of picking up again as land prices bottom out amid economic expansion. We plan to grow earnings by bringing our product planning and financial strengths to bear in this market.

### 2 Improving financial soundness through accumulated retained earnings and newly added capital surplus

Record high net income has expanded our retained earnings. Capital surplus has increased by 14.4% thanks to the capital surplus resulting from share exchange transactions, and the equity ratio has risen by over 1.3 percentage points year-on-year to 40.4%.

Consolidated balance sheets		Millions of yen	
Account title		YoY Change	
Current assets	666,334		
Cash and cash equivalents	102,127		
Property, plant and equipment	602,260		
Investments and other assets	361,428		
Current liabilities	489,588		
Short-term bank loans	6,933		
Current portion of long-term debt	1,070		
Long-term liabilities	479,289		
Long-term debt	50,570		
Equity	661,145		
Common stock	110,120		
Capital surplus	226,834		
Retained earnings	387,842		
Minority interests	1,837		
Total assets	1,630,022		



# Investing aggressively in platforms for growth and pursuing consistent growth in enterprise value

New housing starts in Japan in fiscal 2006 increased 2.9% year-on-year to 1.28 million units for a fourth consecutive year of growth. Housing starts in the condominium market reached their second-highest level since fiscal 1990, as inner-city condominium living comes back into fashion, while the market for owner-occupied homes and rental accommodation also had a good year. Against this background, Daiwa House Group employees from top management down rallied round the First Medium-Term Management Plan "Challenge 2005." During this second year of the plan, we launched and expanded sales of our new **xevo** home brand, which brings together all our strategic core technologies, and strengthened marketing of three-floor and medium-to-high-rise rental apartment buildings. In addition, we aggressively continued our development, begun in the first year of the plan, of large-scale commercial buildings and large high-performance distribution centers.

Turning to finance, to fund these policies, we took steps to realize aggressive investment in platforms for future growth. As part of a Group overhaul, in August 2006, we carried out management integration with three listed Group companies, Daiwa Lease, Daiwa Rakuda Industry and Daiwa Logistics through share exchange transactions. We aim to further improve profitability by speeding up decision-making at the Group management level and streamlining operations through measures such as upgrading supply chains.

We are also strengthening established businesses and developing new sectors where we can expect benefits of synergy. We are steadily building platforms for future growth, through business alliances with warehousing companies to streamline logistics operations, and with distribution companies acquisition of energy companies to help us streamline energy-related operations in our housing business, and establishment of credit card companies, with the possibility of entering the housing finance business, using M&A and operational tie-ups.

## The three newly-integrated companies: results for year ended March 31, 2007

(¥ million)

	Daiwa Lease	Daiwa Rakuda Industry	Daiwa Logistics
Net sales	131,082	41,896	34,396
Operating income	7,311	1,848	1,303
Net income	7,977	4,885	744

## Major M&A and alliance activities

Companies affected	Business description	Scheduled to take effect:	Daiwa House stake*
Nippon Athletic Service	Sports club management	April 2005	99.6%
The Sumitomo Warehouse Co., Ltd.	Logistics business	March 2006	5.2%
Higashi-Fuji	Real estate development/real estate sales (for commercial use)	December 2006	75.0%
ELIY Power	Development of lithium ion batteries	November 2006	23.8%
CYBERDYNE Inc.	Robotic suit business	February 2007	15.4%
Eneserve	General energy services	March 2007 May 2007	50.3%

\* As of September 1, 2007



In the real estate market, which is picking up dramatically, we are strengthening our business as a developer, investing funds in property development and rental facilities and moving beyond the simple construction of facilities, into the creation of REITs and fund origination. As a result, we have made a large number of acquisitions, which cannot be accommodated by our pre-scheduled capital expenditure budget of ¥150 billion over three years. We have invested over ¥130 billion in fiscal 2006 alone. To meet these financing needs, we took out long-term loans in addition to using retained earnings from cash flows provided by operating activities. With our deep knowledge of the real estate industry, we will build a value chain that spans both property development and REIT creation.

We intend to maintain an optimum balance between the need to make returns to our shareholders and the necessity of putting aside sufficient retained earnings to finance future business expansion and strengthen our financial position. To this end, we will maintain a basic policy of ensuring appropriate shareholder returns, with a commitment to flexibly paying a level of dividend payment commensurate with earnings. While expanding our corporate base by increasing our business locations, we plan to strengthen our competitiveness and earning power by aggressively investing retained earnings in R&D and new production facilities. We plan further capital expenditures of around ¥120 billion in fiscal 2007. We will closely monitor the profitability and synergies generated by individual projects, to ensure that capital investments ultimately increase enterprise value.

While maintaining a firm financial position going forward, we will go on growing, building a corporate operating base and structure that is proof against the vagaries of the business environment and economic trends, and continue to serve as a Group that co-creates value for individuals, communities and people's lifestyles. We will continue our commitment to stronger corporate governance within the Group, and to higher corporate value.

Tetsuji Ogawa

*Executive Vice President and CFO*

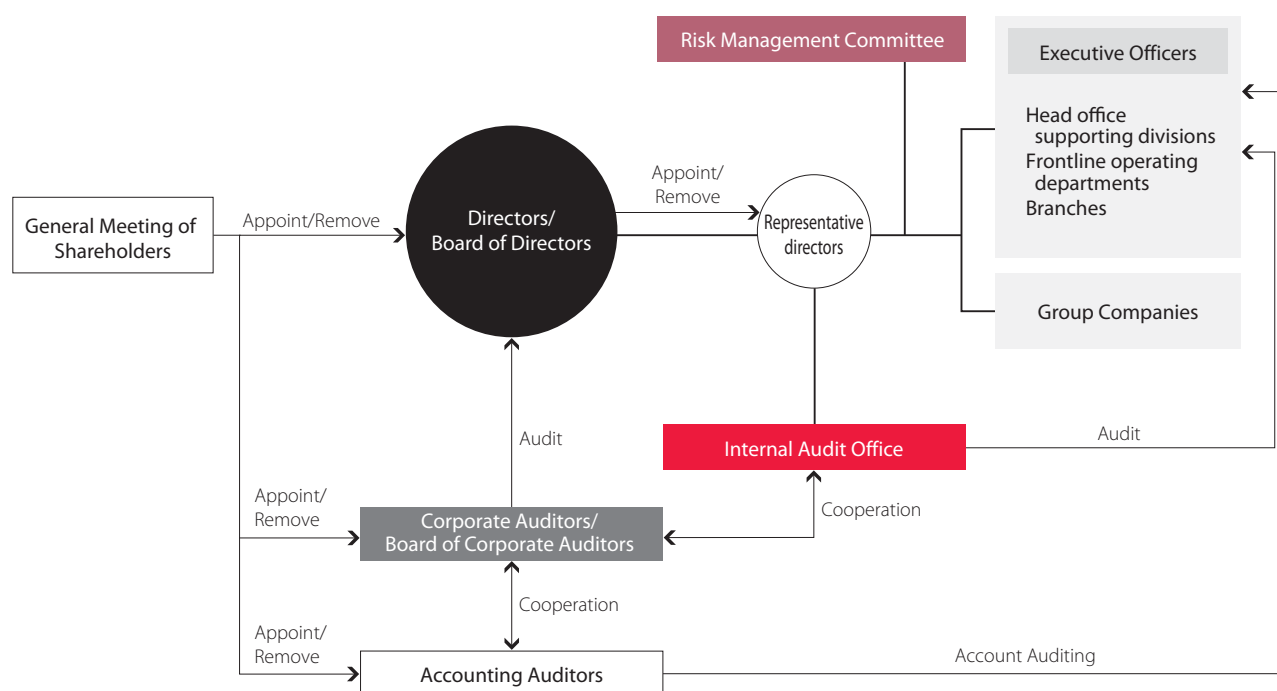




# Corporate Governance

The Daiwa House Group is in the process of establishing an internal control system that facilitates management characterized by speedy and appropriate decision-making, transparency, efficiency, and legal and regulatory compliance. This is part of the Group's overall initiative to strengthen its corporate governance.

## Corporate Governance System



## Basic Policies

The management of the Daiwa House Group put a high priority on corporate governance as a management issue that is vital to the Group's aims of effecting a continuous increase in its enterprise value and of maintaining the trust of its shareholders and other stakeholders. The Group's overriding objective is to establish a management system characterized by efficiency,

transparency, through swift and accurate decision-making and execution of decisions made, together with an effective system for overseeing the conduct of management. We are also working to realize a stronger corporate governance system in line with the document *Basic Policies with Regard to the Creation of an Internal Control System*, announced in May 2006.



## Board of Directors

As of the end of June 2007, the Board of Directors of Daiwa House Industry consisted of 18 directors. The Board makes decisions on matters mandated by law, as well as on matters of importance to the management of the Company, and also monitors the execution of business operations by the Company's executive officers. To clarify the management responsibilities of the directors, in June 2001 the term of office of directors was set at one year. In April 2007, the responsibilities, roles and specific duties of directors and executive officers were stipulated, and a new executive officer system was adopted to strengthen the supervisory functions of the directors. During fiscal 2006, the business term under review, the Board of Directors met 17 times.

## Board of Auditors

The Company employs the statutory auditor system. The Company's corporate auditors number six, of whom three are outside auditors (as of the end of June 2007). In accordance with the Company's auditing policy and the Company's system of dividing up responsibilities among the individual auditors, certain auditors attend meetings of the Board of Directors and other important management meetings as deemed necessary, certain auditors receive reports from the Board of Directors and other high-level management bodies, and certain auditors peruse documents relating to significant Board decisions. Additionally, the auditors investigate the administrative processes and properties and other assets under the management of the Company's head office divisions and other major branches and offices. They also receive business reports from the managements of the Company's subsidiaries as deemed necessary. Furthermore, the auditors check that the directors do not engage in any competitive work or possess conflicts of interest. They also audit the gratis provision of warrants and other rights to directors, request reports on the said matters from the directors, and investigate all details of the matter at hand when deemed necessary. There are no conflicts of interest between the Company and its outside auditors. During the term under review, the Board of Auditors met 16 times.

## Joint Management Council

The Joint Management Council, which meets once a month and comprises the Company's directors, executive officers, and auditors, receives reports on important management matters on which resolutions have been made by the Board of Directors. The council also takes action to implement the said resolutions, and subsequently monitors the implementation of the measures on the ground and their effectiveness.

## Internal Auditing

The Company has set up an Internal Audit Office, whose responsibility is to check whether or not the Company's administrative processes and systems are functioning correctly, and to propose remedial action where deemed necessary. The Office gives instructions to the audited divisions or departments for improvements on the basis of the audit results, and requests post-improvement status reports from the business units in question with the aim of ensuring that the entire auditing process is conducted correctly and produces the desired results.

## Risk Management Committee

Chaired by the head of Management Administration, this committee consists of the heads of all other principal divisions at the Head Office, and meets once a month. Its purpose is to create, maintain, and manage all aspects of the Company's risk management system. The Risk Management Committee met 12 times during the reporting period.

## Compensation for Directors and Corporate Auditors, and Payments to the Accounting Auditors under the Corporation Law

### Compensation for Directors and Corporate Auditors

Compensation (including bonuses but excluding lump-sum retirement payments)

23 Directors: ¥840 million

7 Corporate Auditors: ¥145 million

#### Notes:

1. As of the end of the term under review, the Company employed 19 directors and six corporate auditors
2. Maximum compensation amounts (not including bonuses paid to directors and auditors, salaries paid to directors simultaneously serving as employee for their services as employees)  
Directors: Total annual amount = ¥840 million  
Corporate auditors: Total annual amount = ¥144 million

### Payments made to independent auditing company

Payments made by the Company and its consolidated subsidiaries to our accounting auditor, the auditing company Deloitte Touche Tohmatsu, for their services in auditing the financial statements of the Company and its consolidated subsidiaries, in accordance with Clause 1, Article 2 of the Certified Public Accountants Law, and with respect to their audit certification work for the fiscal 2006 business term, amounted to ¥193 million. Payments for other services amounted to ¥6 million.



# Internal Control

## Basic Policies and Developmental Status of Internal Control System

1

**System to ensure that the performance of their duties by the directors and employees of the Company conforms to laws and regulations as well as the Company's own Articles of Incorporation**

We have established the Code of Ethics of the Daiwa House Group as part of our resolve to ensure that all aspects of our corporate activities comply with laws and regulations. Representative directors convey this resolve to Daiwa House Group management and lead by example. The following system has been established.

- (1) From among the directors, one director is assigned responsibility for overall compliance (the Risk Management Committee Chairperson) to orchestrate the compliance system across the Daiwa House Group and identify problem areas.
- (2) One person from each division is assigned responsibility for the analysis of compliance and risk issues particular to that division. Specific response measures are devised, and the necessary compliance education and training related to enacted and revised laws and regulations is conducted.
- (3) In the event that directors, corporate auditors or those responsible for compliance discover compliance-related problems, the problems are immediately reported to the Risk Management Committee Chairperson.
- (4) In order to gather information related to compliance, a Corporate Ethics Hotline has been set up in the CSR Office. The CSR Office investigates the details of reports, and discusses and decides on recurrence prevention measures in conjunction with the respective division. If it is determined that a director or directors are intimately involved or if there is a serious violation of laws or regulations, the problem is reported to the Risk Management Committee, the Board of Directors or the Board of Auditors, depending on the situation.
- (5) The Internal Audit Office has been established to audit various process and work-related matters, identify as well as prevent misconduct, and improve work-related processes.
- (6) The Company's corporate auditors, CSR Office, Internal Audit Office, Consolidated Management Administration Department, and Legal Department routinely collaborate to identify any problems in the compliance system of the Daiwa House Group.
- (7) Disciplinary Guidelines are established to deal with conduct that violates laws and regulations or our Articles of Incorporation. These matters are handled fairly, based on the respective guidelines.

2

**System to store and manage information related to the performance of their duties by the directors of the Company**

From among its directors, one director is assigned responsibility for the storage and management of information related to the performance of their duties by directors and employees. The following system has been established.

- (1) Document Management Guidelines have been drawn up and published. Information that relates to director or employee performance of duties is appropriately recorded and stored in written documents or electronic media (hereafter "documents, etc.").

- (2) Directors and corporate auditors may view these documents, etc. at any time.
- (3) Management of information is handled in accordance with guidelines related to information security and the Company's basic policy on the protection of personal information.

3

**Crisis management system  
(for minimization of losses)**

From among the Daiwa House Group directors, one director is assigned responsibility for risk management (the Risk Management Committee Chairperson) to orchestrate the risk management organization across the Daiwa House Group, defined as follows, and to take preventive measures against the materialization of risks.

- (1) Risk management for the Daiwa House Group is systematically prescribed in the Risk Management Guidelines.
- (2) Based on the Risk Management Guidelines, the Risk Management Committee Chairperson promptly relays the appropriate information in the event of a contingency corresponding to an assumed risk and organizes the emergency setup. (This includes the establishment of an emergency task force in the event of a large-scale accident, natural disaster or scandal.)
- (3) In addition, the Risk Management Committee has been established: the committee regularly checks the status of system development in (2) as well as makes improvements to the overall system by investigating specific cases.
- (4) The Risk Management Committee Administration Office has been set up within the Legal Department as the administrative division of the Risk Management Committee.
- (5) One staff member responsible for risk management is designated in each division, with the responsibility for continuously monitoring risks in his or her division. In addition, serious scandals or accidents occurring within the Daiwa House Group or at other companies are quickly made public, and the necessary education and training conducted.
- (6) In conjunction with the corporate auditors, the Internal Audit Office routinely monitors the status of risk management in each division.
- (7) Items related to risk management in (3) and (6) are regularly reported to the Board of Directors and Board of Auditors.
- (8) The Risk Information Hotline has been set up to enable employees who discover risks or potential risks at the Company to directly contact the Risk Management Committee.

4

**System to ensure efficient performance of duties by directors**

Through implementation of the following management system, the Daiwa House Group ensures the efficient performance of their duties by the Company's directors.

- (1) Companywide objectives shared among directors and employees are set out and made well known, and a medium-term management plan is formulated based on these objectives.



- (2) To execute the medium-term management plan, the Board of Directors establishes performance objectives and budgets for each business division each term, based on the plan.

In principle, the respective priority levels of R&D, investment in facilities and new businesses are determined on the basis of the estimated degree of contribution to achieving the objectives of the medium-term management plan. At the same time, human resources are efficiently allocated to each business division.

- (3) Directors determine the organization to realize efficient performance of duties, including specific measures to be implemented by respective divisions and the division of authority.
- (4) Actively utilizing IT, performance is quickly turned into management accounting data on a monthly basis and reported to the respective director as well as the Board of Directors.
- (5) The Board of Directors assesses results on a monthly basis. The respective director analyzes the factors that resulted in objectives not being attained, and must report on improvement measures designed to reduce and/or eliminate these factors, revising the objectives as necessary.
- (6) On the basis of the results of the analysis carried out in (5), the director makes improvements to the system or procedures to facilitate the efficient performance of duties, including specific measures to be implemented by the respective division and the division of authority.

## 5 System to ensure fair business practices by the corporate group (Group companies)

From among the directors, one director is assigned responsibility for ensuring that the business practices of the Daiwa House Group are fair. The following system has been established:

- (1) In conjunction with Group companies, related divisions of the Company implement measures to enhance the effectiveness of internal controls at Group companies as well as give instructions and assistance to Group companies as necessary.
- (2) In conjunction with Group companies, related divisions of the Company ascertain the status of internal controls at Group companies and give instructions to make improvements as necessary.
- (3) The Internal Audit Office conducts internal audits of Group companies.
- (4) The staff member holding overall responsibility reports to the Board of Directors on the status of internal controls at the respective Group company on an as-needed basis.

## 6 System for the management of employees requested to assist the corporate auditors, and items related to the independence of the said employees from the Company's directors

The Company has established the following system for employees assigned to assist the corporate auditors, and employees in charge of internal audits.

- (1) The Auditors Office has been set up to serve as a department to assist the corporate auditors. Employees are exclusively assigned to it at the request of corporate auditors.

- (2) The Board of Auditors receives a report in advance from the director in charge of human resources regarding transfers of personnel to the Auditors Office. Accompanied by appropriate reasons, the Board of Auditors can also make requests to the director in charge of human resources for personnel changes on an as-needed basis.
- (3) In the case of disciplinary action against an employee or employees assigned to assist the auditors, the director in charge of human resources must obtain the approval of the Board of Auditors in advance.
- (4) Personnel transfers and disciplinary action with respect to employees in charge of internal audits are also subject to the stipulations in (2) and (3).

## 7 System for the Board of Directors and employees to report to the Board of Auditors and other related systems

1) The Board of Directors reports the following prescribed items to the Board of Auditors.

- (1) Items that may result in significant losses to the Company
- (2) Important items related to monthly management status
- (3) Important items related to status of internal audits and risk management
- (4) Serious violations of laws, regulations and the Articles of Incorporation
- (5) Status and details of Corporate Ethics Hotline and Risk Information Hotline reports
- (6) Other important items related to compliance

2) In the event that an employee discovers incidents related to the aforementioned (1) and (4), they may report directly to corporate auditors.

## 8 Additional system to ensure effective audits by corporate auditors

The Company has established the following system to ensure that the corporate auditors can conduct audits effectively.

- (1) In the case of a request for an interview by a corporate auditor, directors and employees must comply.
- (2) Corporate auditors receive reports on the status of implementation of internal audits, and may request additional audits, formulation of improvement measures or other matters as necessary.
- (3) Corporate auditors attend important meetings, including those of the Board of Directors, the Risk Management Committee and other management meetings, and may request explanations and the presentation of relevant materials as necessary.
- (4) The Board of Auditors and corporate auditors may exchange views with representative directors and auditing firms at any time.
- (5) The Board of Auditors may hire specialist lawyers and accountants as necessary to receive advice related to auditing duties.



# Compliance and Risk Management

The Daiwa House Group has assigned high priority to the management issues of compliance and risk management. We are currently working to construct a Groupwide system for ensuring legal and regulatory compliance, and a system to handle all conceivable categories of business risk across the whole Group.

## Code of Ethics of the Daiwa House Group



## Code of Ethics and Behavioral Guidelines of the Daiwa House Group

In April 2004 the Daiwa House Group released the Code of Ethics and the Behavioral Guidelines of the Daiwa House Group as groupwide regulations, and simultaneously set up an internal reporting system (hotline) regarding company ethics. As the scale of the Group grows, there is all the more need to ensure that all our employees are fully cognizant of the issues involved in and to train staff to yet higher levels of expertise in compliance and risk management.

## Risk Management Committee

In September 1999, we set up the Risk Management Committee, which was charged with the tasks of swiftly addressing complaints from customers, and also with drawing up plans to improve our business processes and prevent the recurrence of the problems. In April 2002 this committee released a set of Risk Management Regulations, in which the committee – chaired by the head of the Management Administration and consisting of the heads of all other divisions at our Head Office — was positioned as the central supervisory body for all risk management operations within the Group. The committee is charged with responsibility for compiling information on all past cases of materialization of risk, for pinpointing problem areas within the Group's operational processes, and for devising specific countermeasures for each category of risk.



## Operational Risks

### Risks involved in the construction of housing and other structures

■ The Daiwa House Group is involved in the business of constructing housing and other buildings, and these business operations are sensitive to the impact of changes in general economic conditions, as well as fluctuations in interest rates and taxation related to home acquisition. In certain circumstances, such changes could have an adverse effect on the business performance of the Group.

### Risks involved in the conduct of real estate business

■ The Daiwa House Group engages in the sale and lease of real estate properties. This business is subject to the impact of changes in land prices and fluctuations in the real estate rental market. In certain circumstances, such changes could have an adverse effect on the business performance of the Group.

### Risks associated with legal regulations

■ The business operations of the Daiwa House Group are subject to the constraints imposed by a wide range of legislation, including the Construction Industry Law, the Real Estate Transaction Law, the Building Standards Law, and the National Land Utilization Planning Law, as well as various legislative statutes concerned with ensuring certain housing quality standards, legislation relating to the disposal of waste material and post-construction clean-up operations, and legislation mandating the use of recycled or reprocessed materials in the construction of houses and other buildings. To ensure that the Group complies with these laws, we enforce strict legal compliance and conduct legal risk management among our executives and other employees. In the event that, in spite of our efforts, it is found that a regulation has not been followed, or in the event that our business situation is drastically changed by the abolition of a law or the enactment of new legislation, this could have an adverse effect on the business performance of the Group.

### Risks relating to guarantees of product quality with respect to housing

■ In the housing construction operations, the Daiwa House Group has adopted a long-term guarantee system called Security Support 21c, which is aimed at ensuring a higher degree of customer satisfaction. We are doing our utmost to ensure the very best product quality management at all times, but in the event of the occurrence of an unforeseeable defect within the period of the long-term guarantee, resulting in a significant quality problem, this could have an adverse effect on the business performance of the Group.

### Risks associated with the leakage of confidential personal information and other sensitive information

■ The Group is not only in possession of personal information relating to a large number of individuals who are our customers, it is also in possession of a large amount of confidential corporate information relating to the Group itself. Each member company in the Group has laid down its own policies and specific procedures for the management of such information, and the Group is constantly working to upgrade its information security level through training courses for executives and other employees, and by ensuring that all staff are fully aware of the importance of properly managing information. Despite these efforts, there is a possibility that important information may be leaked to persons outside the Group. In such an event, the Group would suffer damage to its reputation for trustworthiness among the general public, may suffer considerable financial losses in the form of the costs of remedial action, and may suffer damage to its business performance as a result of the tarnishing of its brand image.



# Corporate Management









# Board of Directors, Corporate Auditors, and Presidents of Principal Subsidiaries

As of August 1, 2007

## Daiwa House Industry Board of Directors

\*Representative Director



**Takeo Higuchi\***

*Chairman and CEO*

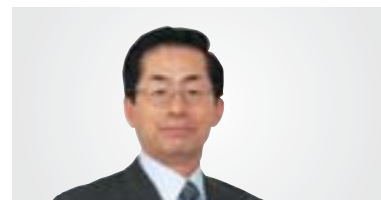
Born in 1938  
1963: Joins Daiwa House Industry  
1984: Director of Daiwa House Industry  
1993: Becomes President of Daiwa Danchi  
2001: President of Daiwa House Industry  
2004: Chairman and CEO



**Kenji Murakami\***

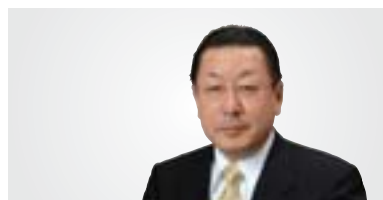
*President and COO*

Born in 1947  
1970: Joins Daiwa House Industry  
1997: Director  
2004: President and COO



**Tetsuji Ogawa\***

*Executive Vice President and CFO  
Head of Management Administration  
Concurrently President of Daiwa House Insurance Co., Ltd.*  
Born in 1941  
1964: Joins Daiwa House Industry  
2000: Managing Director  
2004: Executive Vice President and CFO



**Takuya Ishibashi**

*Director and Senior Managing Executive Officer  
Head of Osaka Honten Branch*

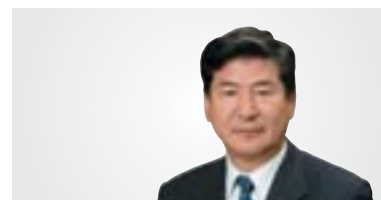
Born in 1953  
1988: Joins Daiwa Danchi  
2001: Managing Director of Daiwa House Industry  
2007: Director and Senior Managing Executive Officer



**Hiroshi Azuma**

*Director and Senior Managing Executive Officer  
Head of Production and Procurement  
Head of Overseas Business*

Born in 1946  
1969: Joins Daiwa House Industry  
1993: Director  
2007: Director and Senior Managing Executive Officer



**Takeshi Kajimoto**

*Director and Managing Executive Officer  
Deputy Head of Technology  
Head of Safety  
Head of Urban Development and  
Civil Engineering Business Division  
Head of Forest and Housing Division*

Born in 1944  
1963: Joins Daiwa House Industry  
1997: Director  
2007: Director and Managing Executive Officer



**Takashi Hama**

*Director and Managing Executive Officer  
Head of Central Research Laboratory, Technology  
Head of Product Development, Technology*

Born in 1954  
1976: Joins Daiwa House Industry  
2005: Director  
2007: Director and Managing Executive Officer



**Chiyohiro Aoyagi**

*Director and Senior Executive Officer  
Head of CS Division  
General Manager, CS Planning Department*

Born in 1950  
1969: Joins Daiwa House Industry  
2004: Director  
2007: Director and Senior Executive Officer



**Yoshiharu Noto**

*Director and Senior Executive Officer  
General Manager, General Affairs Department,  
Tokyo Branch  
Deputy Head of Safety*

Born in 1949  
1972: Joins Daiwa House Industry  
2005: Director  
2007: Director and Senior Executive Officer

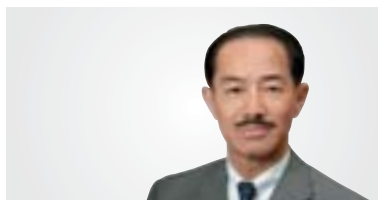




**Naotake Ohno\***

*Executive Vice President  
Head of Marketing Division*

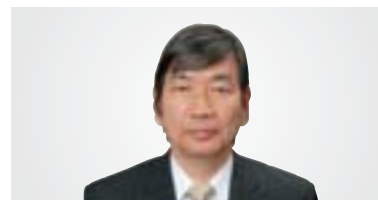
Born in 1948  
1971: Joins Daiwa House Industry  
2000: Director  
2007: Executive Vice President



**Tamio Ishibashi\***

*Executive Vice President  
Head of Information Systems  
Head of CSR Office  
Concurrently President of Media Tech Inc.*

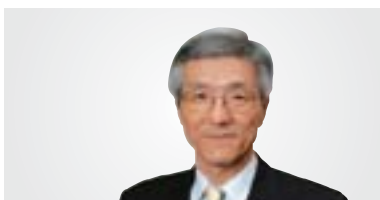
Born in 1956  
1979: Joins Daiwa House Industry  
1989: Director  
2000: Executive Managing Director  
2001: Executive Vice President



**Tatsushi Nishimura**

*Director and Senior Managing Executive Officer  
Head of Technology  
Deputy Head of Information Systems*

Born in 1949  
1972: Joins Daiwa House Industry  
2003: Director  
2007: Director and Senior Managing Executive Officer



**Takashi Uzui**

*Director and Managing Executive Officer  
Head of General Housing Operations*

Born in 1947  
1970: Joins Daiwa House Industry  
2001: Director  
2007: Director and Managing Executive Officer



**Shigeo Otsuka**

*Director and Managing Executive Officer  
Head of Tokyo Branch  
Head of Rental Apartment Building Operations*

Born in 1947  
1971: Joins Daiwa House Industry  
2001: Director  
2007: Director and Managing Executive Officer



**Eiichi Takeda**

*Director and Managing Executive Officer  
Head of Administration Division,  
Management Administration*

Born in 1947  
1970: Joins Daiwa House Industry  
2006: Managing Director  
2007: Director and Managing Executive Officer



**Katsutomo Kawai**

*Director and Senior Executive Officer  
General Manager, Personnel Department,  
Management Administration  
Head of Strategic Division, Management Administration  
Deputy Head of CSR Office*

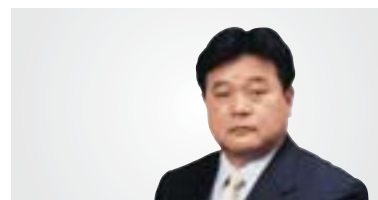
Born in 1948  
1972: Joins Daiwa House Industry  
2006: Director  
2007: Director and Senior Executive Officer



**Isamu Ogata**

*Director and Senior Executive Officer  
Head of Nagoya Branch  
Head of Retail and Wholesale Facilities Division*

Born in 1949  
1972: Joins Daiwa House Industry  
2007: Director and Senior Executive Officer



**Shigeru Numata**

*Director and Senior Executive Officer  
Sendai Branch Manager  
Head of Tohoku Region*

Born in 1950  
1974: Joins Daiwa House Industry  
2007: Director and Senior Executive Officer



## Daiwa House Industry Corporate Auditors



**Toshihiko Emi**  
*Corporate Auditor (standing)*



**Yoshikazu Tano**  
*Corporate Auditor (standing)*

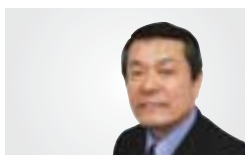


**Kiyoshi Arase**  
*Corporate Auditor (standing)*

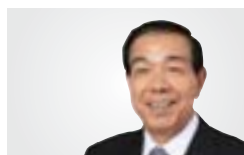
## Presidents of Principal Subsidiaries



**Mutsuo Kajimoto**  
*Daiwa Lease Co., Ltd.*



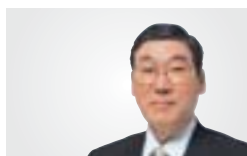
**Katsumi Masumura**  
*Daiwa Rakuda Industry Co., Ltd.*



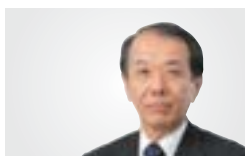
**Katsuyoshi Tateno**  
*Daiwa Logistics Co., Ltd.*



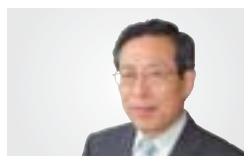
**Atsushi Kanakubo**  
*Daiwa Living Co., Ltd.  
Daiwa Estate Co., Ltd.*



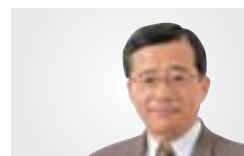
**Masanori Nishio**  
*Royal Home Center Co., Ltd.*



**Keiichi Otsuka**  
*Daiwa Resort Co., Ltd.  
(Daiwa Royal Hotels)*



**Seishu Umaoka**  
*Daiwa Royal Golf Co., Ltd.*



**Toshihiko Ikeda**  
*Daiwa House Kitanihon Co., Ltd.*



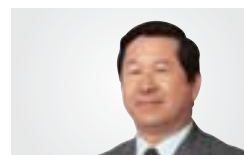
**Tsuyoshi Natsume**  
*Daiwa House Chushikoku Co., Ltd.*



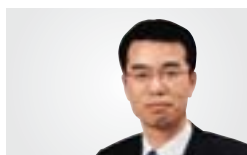
**Yasuhiko Tanaka**  
*Daiwa House Kyushu Co., Ltd.*



**Junichi Sugiura**  
*Daiwa House Renew Co., Ltd.*



**Hidekazu Matsushima**  
*Daiwa Energy Co., Ltd.*



**Takeshi Kousokabe**  
*Daiwa House REIT Management  
Co., Ltd.*



**Osami Nishikawa**  
*Daiwa House Financial Co., Ltd.*



**Masaru Izuoka**  
*Synchroller Co., Ltd.*



**Michio Aritomo**  
*Shinwa Energy Co., Ltd.*





**Hiromi Doi**  
*Corporate Auditor*



**Kazuhiro Iida**  
*Corporate Auditor*



**Kiichiro Iwasaki**  
*Corporate Auditor*



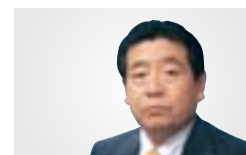
**Hiromi Yamane**  
*Daiwa Service Co., Ltd.*



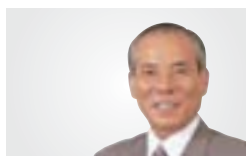
**Masahiro Sakakura**  
*Daiwa Information Service Co., Ltd.*



**Minoru Fujita**  
*Nihon Jyutaku Ryutu Co., Ltd.*



**Tsuyoshi Ochi**  
*Daiwa Royal Co., Ltd.*



**Katsuaki Handa**  
*Daiwa House Kanto Co., Ltd.*



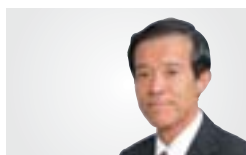
**Toshiyuki Endo**  
*Daiwa House Hokushinetsu Co., Ltd.*



**Osamu Takimoto**  
*Daiwa House Chubu Co., Ltd.*



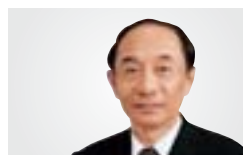
**Shozo Yusa**  
*Daiwa House Kansai Co., Ltd.*



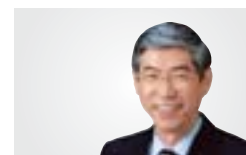
**Masaaki Tsuboshima**  
*Daiwa Monthly Co., Ltd.*



**Toshinori Inaguchi**  
*Jukeikai Co., Ltd.  
(Neo Summit Yugawara)*



**Haruyuki Yoshimoto**  
*Osaka Marubiru Co., Ltd.*



**Taisuke Ishibashi**  
*Nippon Athletic Service Co., Ltd.  
(Sports Club NAS)*



**Yoshio Kinoshita**  
*Eneserve Corporation*



**Masafumi Iwami**  
*Higashi-Fuji Co., Ltd.*

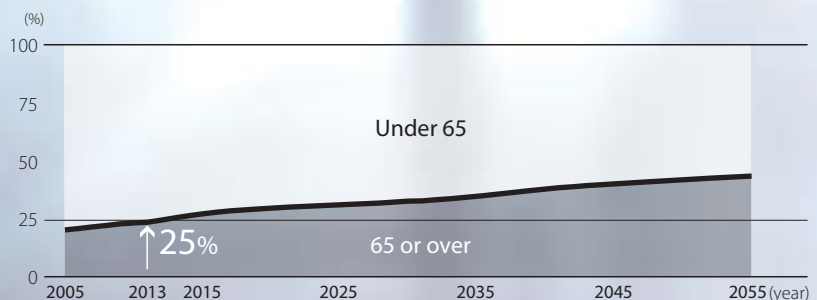


# A Lifetime of Experience

Someone who can show the way and lend support

By 2013, one-quarter of the Japanese population will be over the age of 65. The average lifespan in Japan is 82. Japan holds the worldwide record for longevity, and the country's senior citizens maintain a youthfulness and vibrancy. They draw on a wealth of wisdom and experience, which can be shared with the next generation. They are an irreplaceable source of guidance. The Daiwa House Group wants to learn from senior citizens, and to provide support to this segment. Our Silver Age Research Center researches themes relating to nursing care. Based on the center's findings, we commercialize the most promising ideas through our business operations. In 2013, one out of four people in Japan will be able to serve as advisors to the younger generation. They are invaluable human resources.

Proportion of population aged 65 or over







Percentage of senior  
citizens in Japan

25%



# A home built to last

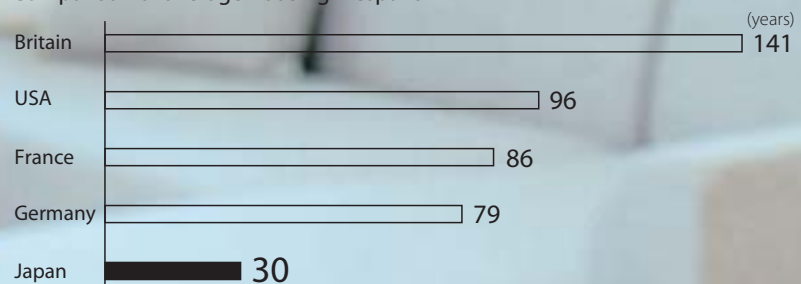
## Longevity for the nation's houses




Great Britain: 141 years. The United States: 96 years. Japan: 30 years.

During the period of high economic growth, when there was a housing shortage in Japan, the priority was on quantity over quality. This practice may, indeed, be left over from that period. But that was the past. It is time for Japan, as a nation known for its longevity, to discontinue this practice of building houses with short lifespans. The Daiwa House Group has succeeded in enhancing the durability of houses through the “industrialization of the construction” process. The extended lifespan of a house results in an increase in its property value, which means it can be passed on to one’s children, rented or sold. This is good news not only for the house’s current owners, but also for the next generation. The Group endeavors to increase the assets of society as a whole through its efforts to create better living environments.

Comparison of average housing lifespans





A man with dark hair, wearing a light blue button-down shirt over a white t-shirt, is looking directly at the camera. He is holding a book or folder under his left arm. In the background, there is a large window with a grid pattern, and a white bowl filled with red and yellow fruit sits on a surface to the right.

The average useful life  
of houses in Japan

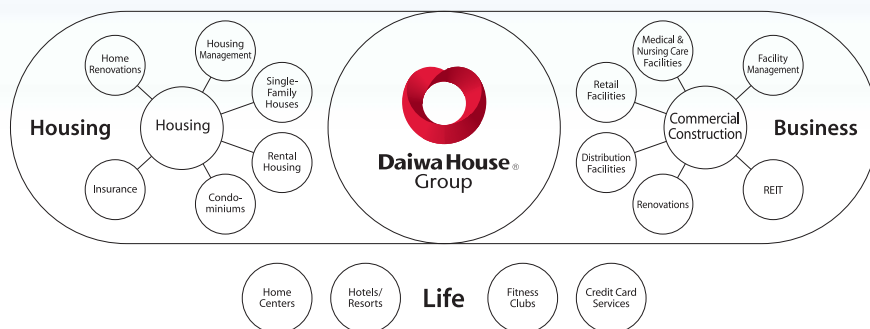
30<sub>years</sub>



# Our Business

Spanning the three domains of Housing, Business, and Life, the Daiwa House Group's business consists of five segments: Residential Business, Commercial Construction Business, Resort Hotels and Sports Life Business, Home Center Business, and Other Businesses. Below we detail measures taken and results achieved over the term in each segment, and look at the measures that will take the Daiwa House Group to the next stage.

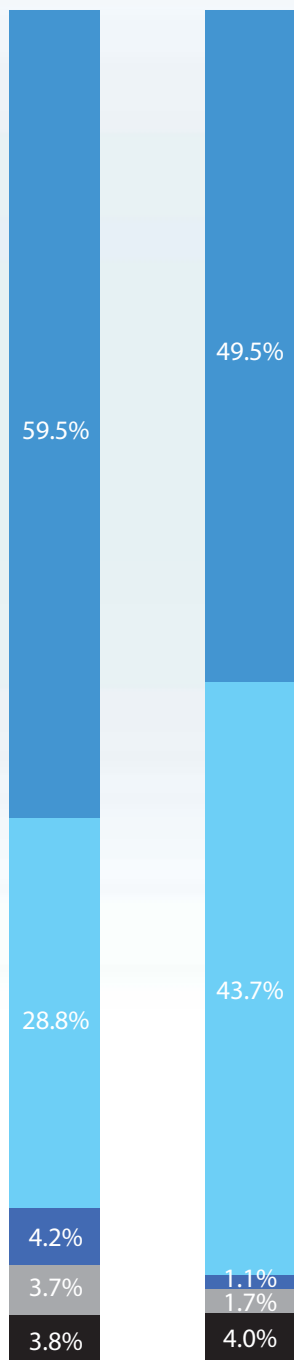
The Daiwa House Group —  
working to co-create value for individuals, communities and people's lifestyles





## Business segments

Sales      Operating income



### Housing

#### ■ 55 Residential Business

- 56 Single-Family Houses Division
- 60 Condominiums Division
- 62 Rental Housing Division
- 64 Home Renovation Division
- 65 Real Estate Agency Services

### Business

#### ■ 69 Commercial Construction Business

- 70 Commercial Facilities Division
- 73 Distribution, Medical/Nursing Care and Corporate Facilities Division

### Life

#### ■ 79 Resort Hotels and Sports Life Business

#### ■ 82 Home Center Business

#### ■ 84 Other Businesses

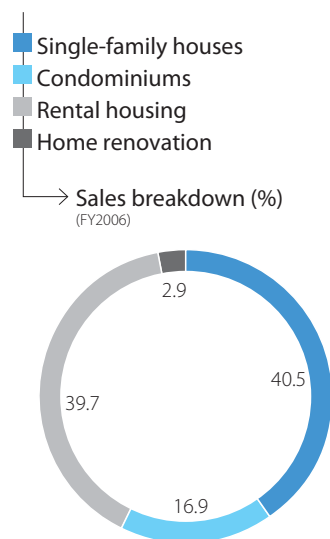




# Housing



# Residential Business



Durable homes for you,  
your children and your grandchildren  
— Leading the revolution in housing in Japan

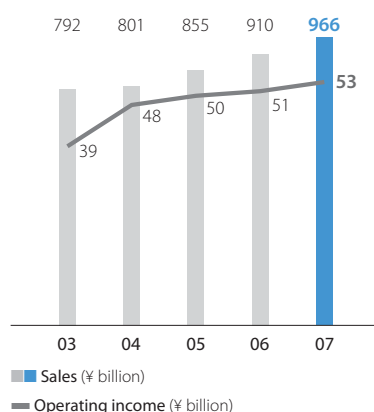
Sales   
**¥965.9** billion  
(year-on-year +6.2%)

Operating income   
**¥53.1** billion  
(year-on-year +4.7%)

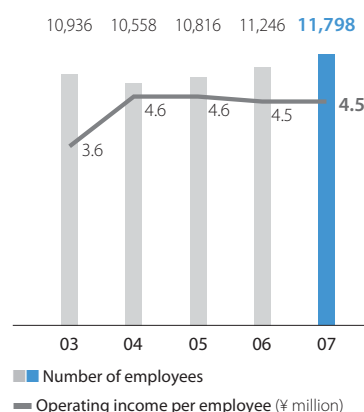
Residential Business is the core business of the Daiwa House Group, accounting for 59.5% of sales on a consolidated basis. It consists of various businesses: single-family houses, condominiums, rental housing, home renovation, real estate agency and others. In partnership with other Group companies, it engages comprehensively in the home-building business from start of construction through post-completion management and maintenance to later reuse, and also offers proposals to land owners for effective rental use.

In fiscal 2006, new housing starts in Japan posted a fourth consecutive year of growth due mainly to the prospect of higher interest rates. The condominium and rental housing businesses showed particularly strong growth. Growth in the market for single-family houses is flattening out overall, but based on clear signs of an official shift, under the Basic Housing Act toward a housing policy that puts emphasis on “quality” and the “stock” of established housing, we launched the **xevo** brand of high-quality, highly-durable and highly energy-efficient homes. **xevo** homes have proved a hit with customers and sold well.

Sales and operating income



Number of employees and  
operating income per employee





# Single-Family Houses Division



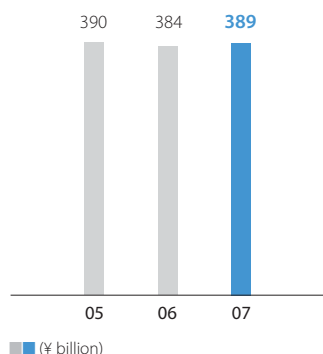
xevo E

**Sales**   
**¥389.1 billion\***  
 (year-on-year **+1.3%**)  
\* To outside customers

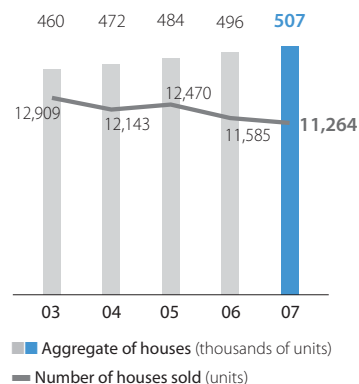
Daiwa House Industry was a pioneer of single-family houses, and has built up a strong track record in the Japanese homebuilding industry. This division markets single-family houses and lot-subdivision houses across Japan based on its capabilities in technology, in services that understand customer preference and in value-added solution proposal.

To consolidate ties with our customers and ensure that our homes can be passed onto their offspring, this division has formed partnerships with other Group companies under the “Endless Partnership” strategy of creating synergies.

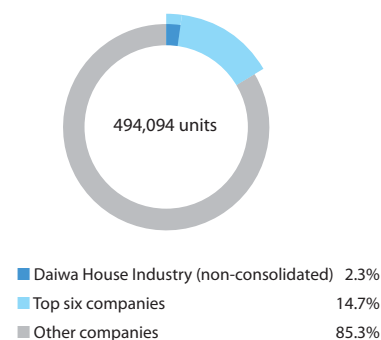
Sales



Aggregate of houses and number of houses sold  
(Daiwa House Industry, non-consolidated)

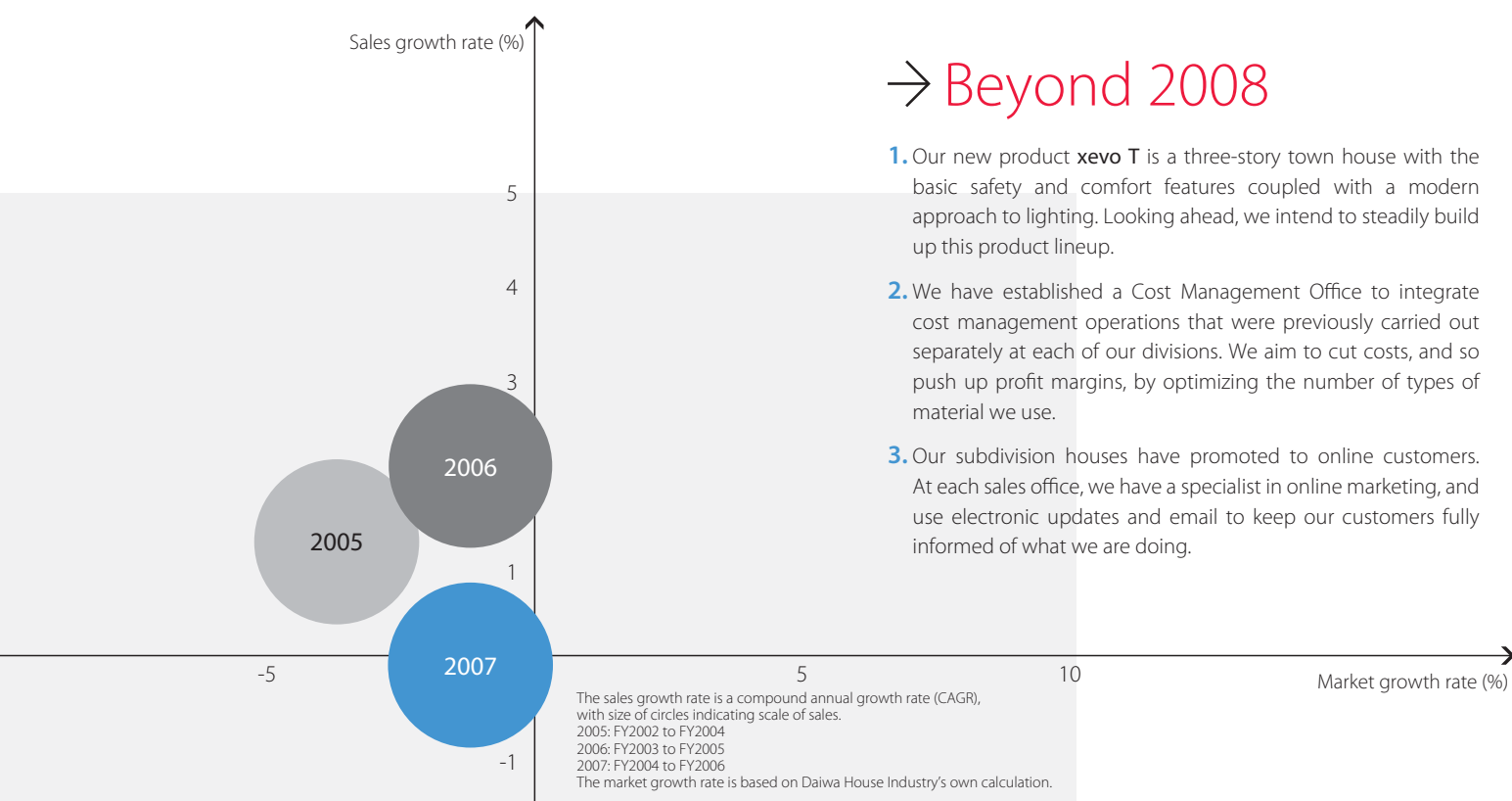


Share of single-family house market  
(FY2006)



Note: Total shares based on statistics by the Ministry of Land, Infrastructure and Transport. The share for Daiwa House Industry and top six companies based on our estimates.





## Year 2007

### Business integration and expansion under the **xevo** brand

In September 2006, we unveiled our first new brand in 25 years, **xevo**, featuring completely new construction methods. Since then, we have worked to integrate established product lineups under this brand. In April 2007 we launched three **xevo** products, and two more in August. In the new steel-framed house types **xevo E** and **xevo V**, our new construction method has increased wall strength by 30% compared with previous method, enabling freer design (larger spaces and doorways). We have made significant improvements in exteriors, such as standard installation of external breathable insulated walls with excellent energy performance and durability, XE Coat, and a highly energy-efficient photovoltaic power generation system\*. Interior design is enhanced in our **xevo WE** wooden house, a long-lasting structure in which we have created the true feel of wood, with standard installation of the D-COMS anti-earthquake framework featuring high-performance metal pillars and beams.

Our full-scale commitment to **xevo**, a high value-added product with low lifecycle costs, reflects the spirit of the Basic Housing Act, which urges a shift in focus from quantity to quality and from “flow” (new housing) to “stock” (established housing).

\* Photovoltaic power generation systems are standard installations in **xevo E** only.





## Contracting Business



xevo V



xevo WE

### An entirely new marketing strategy, based on LABO exhibition spaces

We have overhauled our marketing strategy for the **xevo** brand. Staff from head office tour sales offices all around Japan explaining the **xevo** concept in depth to sales staff in each locality. We are enhancing our creativity as an organization by introducing knowledge management: having marketing staff compile and share strategies, setting up an internal certification system for training sales staff, and exchanging information using our intranet.

Through our LABO exhibitions within actual residential areas, we enable our customers to experience a typical **xevo** house tailored to their community and the advances it embodies. We are reducing the number of unprofitable exhibition spaces and cutting costs through a strategy of buying the plots, building the model houses on them, and then selling them off.

### Lifestyle proposals in collaboration with experts

In our project, we have combined our expertise in home-building with the relaxing approach of renowned interior-design adviser Noriko Kondo. As part of this initiative, we have set up model houses in three locations around Japan to give people a feel of cosy, comfortable living. We are now realizing the concept of efficient use of space and better freedom of movement within the home, enabling a room arrangement that encourages communication.

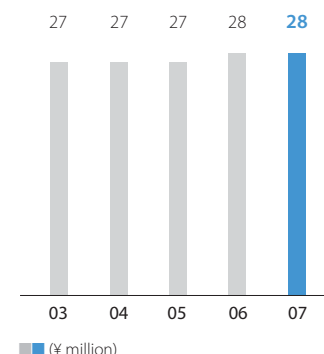
In another project undertaken in cooperation with lighting designer Chiaki Murazumi, lighting is the means by which we suggest ways of enriching the living environment. Through such collaboration with design opinion leaders, we are responding to the most sophisticated needs of our customers.

In the seven months since the launch of the brand, we have received orders for more than 1,700 **xevo** units. In the three months since April, when our brands were integrated, contracts for some 700 units a month have been concluded.



### Average sales per unit

(Contracting business, Daiwa House Industry, non-consolidated)





## Subdivisions



Miraidaira-Yokodai



Herbal Garden Maebashi

### A wealth of experience in creating residential areas in harmony with nature

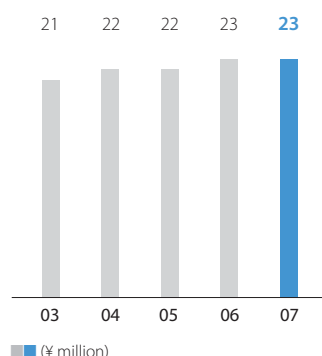
Our subdivision housing business began with the development of the large Neopolis housing complex in 1962. In the nearly 50 years that have passed since then, we have built up a wealth of all-round expertise from land preparation to lifestyle infrastructure, housing, and landscaping around buildings. Now we are developing our original “Floral Avenue” and other subdivision properties in all regions of Japan. In every case, whatever the development, the focus is on achieving fusion with natural surroundings and creating a living environment that is rich in greenery. Our goal is not only the convenience, safety and comfort of residents but also creating local communities by fostering human relationships and creating forums for exchange. We are building communities by supporting events, clubs and other social networking tools.

### New type of subdivision houses developed throughout Japan

At Koshigaya Lake Town, a pioneering experimental project scheduled to open in the spring of 2008 that aims to harmonize homebuilding with the natural environment, we are developing subdivision houses and condominiums in an integrated way. In the site, we have installed a large reservoir for storm-water management and aim to develop a new type of waterside lifestyle. Koshigaya Lake Town obtained official recognition from the Ministry of the Environment under its project for a reduction of 20% in CO<sub>2</sub> emissions for the entire town.

In June 2007, we launched sales of the “Live & Lease” next generation holiday homes for baby boomers and their offspring, in Nara. These are not homes for sale with land lots, but a new experiment in which **xevo** brand homes are built on land with fixed-term leasehold rights. Looking ahead, we will further develop and plan subdivision products for specific regions and age groups.

Average sales per unit  
(Subdivisions, Daiwa House Industry, non-consolidated)



Okayama Neopolis



# Condominiums Division



Sales 

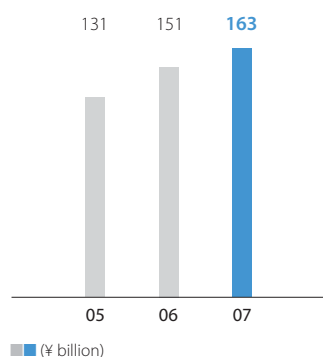
¥162.6 billion\*

(year-on-year +7.7%)

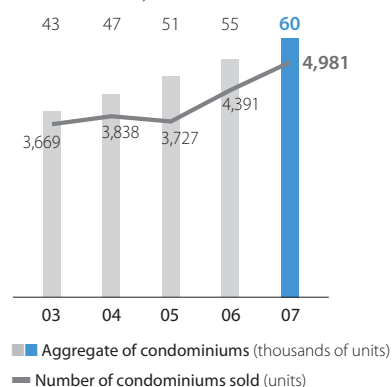
\* To outside customers

In this division, we are marketing our “D’ Series” of condominiums coming in four types to cater to differing lifestyle profiles all around Japan. Based on our highly rigorous quality standards, we supply superior condominiums that offer excellence in all areas from functionality and comfort to management and after-sales service. With public interest in asset values rising, we have developed the D’s Bridge condominium asset valuation system — a first in Japan — enabling us to provide information packs on the properties with objective research and inspections for an accurate valuation in preparation for a future sale of a “D’ Series” condominium.

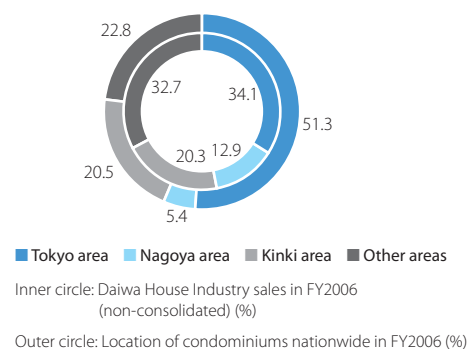
Sales



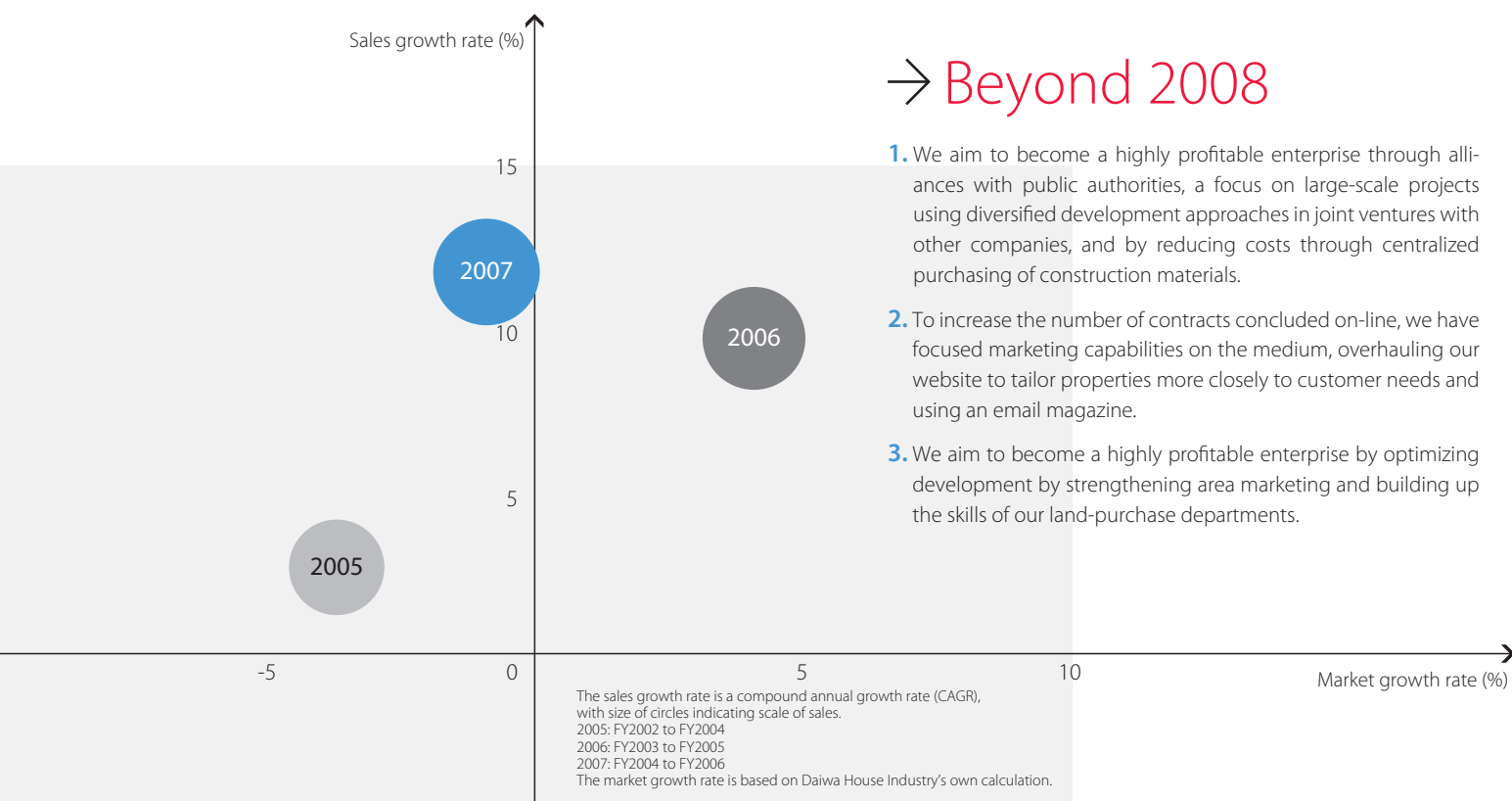
Aggregate of condominiums and number of condominiums sold  
(Daiwa House Industry, non-consolidated)



Area breakdown of condominium sales  
(FY2006)







## Year 2007

### A focus on large properties in large urban centers

The trend towards large, high-rise developments is spreading out from metropolitan areas to regional city centers. We meet condominium demand all over Japan, mainly through supplying large condominium buildings in the centers of large cities. By drawing on the Daiwa House Group's all-round ability to propose comprehensive solutions including commercial and medical/nursing care facilities, we aim to improve our record in large development projects, in partnership with government organizations when advantageous, as a strategic priority.

We also participate in large-scale joint ventures with other companies. We will step up our involvement in joint ventures, as they enable greater efficiency in land purchases and personnel deployment. We have also carried out a questionnaire survey on all residents, who are eligible for the D's Bridge condominium asset valuation system over five years. As a result we were able to increase the number of D's Bridge contracts signed, supported by rising interest in real estate asset values.



### Organizational reform to position us for earnings growth


In the Tokyo and Osaka areas, where demand is concentrated, we have aimed to streamline and speed up our purchases of premium sites. We have doubled the number of staff responsible for land buying and created a standalone land-purchase department. To ensure that developments and proposals are more closely in line with our customers' needs, we have strengthened our area marketing by carrying out research through our Condominium Friendship Clubs (for owners and potential buyers) and deploying two marketing specialists at each sales office. When the time is right, we shall continue to overhaul our organizational structure, to position us for earnings growth.



# Rental Housing Division



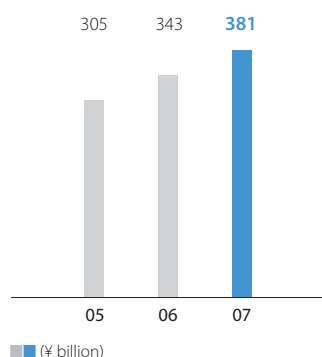
Séjour OTT's

**Sales**   
**¥381.4 billion\***  
 (year-on-year **+11.2%**)

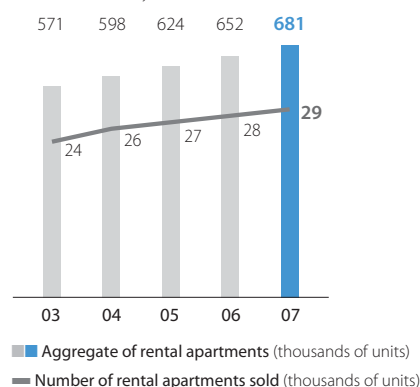
\* To outside customers

In our Rental Housing Division, we are promoting the Daiwa House “D-Room” brand nationwide. Our high-quality rental housing proposals are tailored to ensure the best use of landowners’ sites. At the same time, we have helped make life more worry-free and comfortable for tenants by developing a broad array of products that meet their diversifying lifestyle needs with superior basic functionality. We have also established the Daiwa House Apartment house Partnership System (DAPS), to offer landowners continuous support in the management of rental housing.

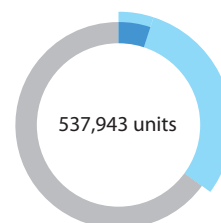
Sales



Aggregate of rental apartments and number of rental apartments sold  
 (Daiwa House Industry, non-consolidated)



Share of rental housing market  
 (FY2006)



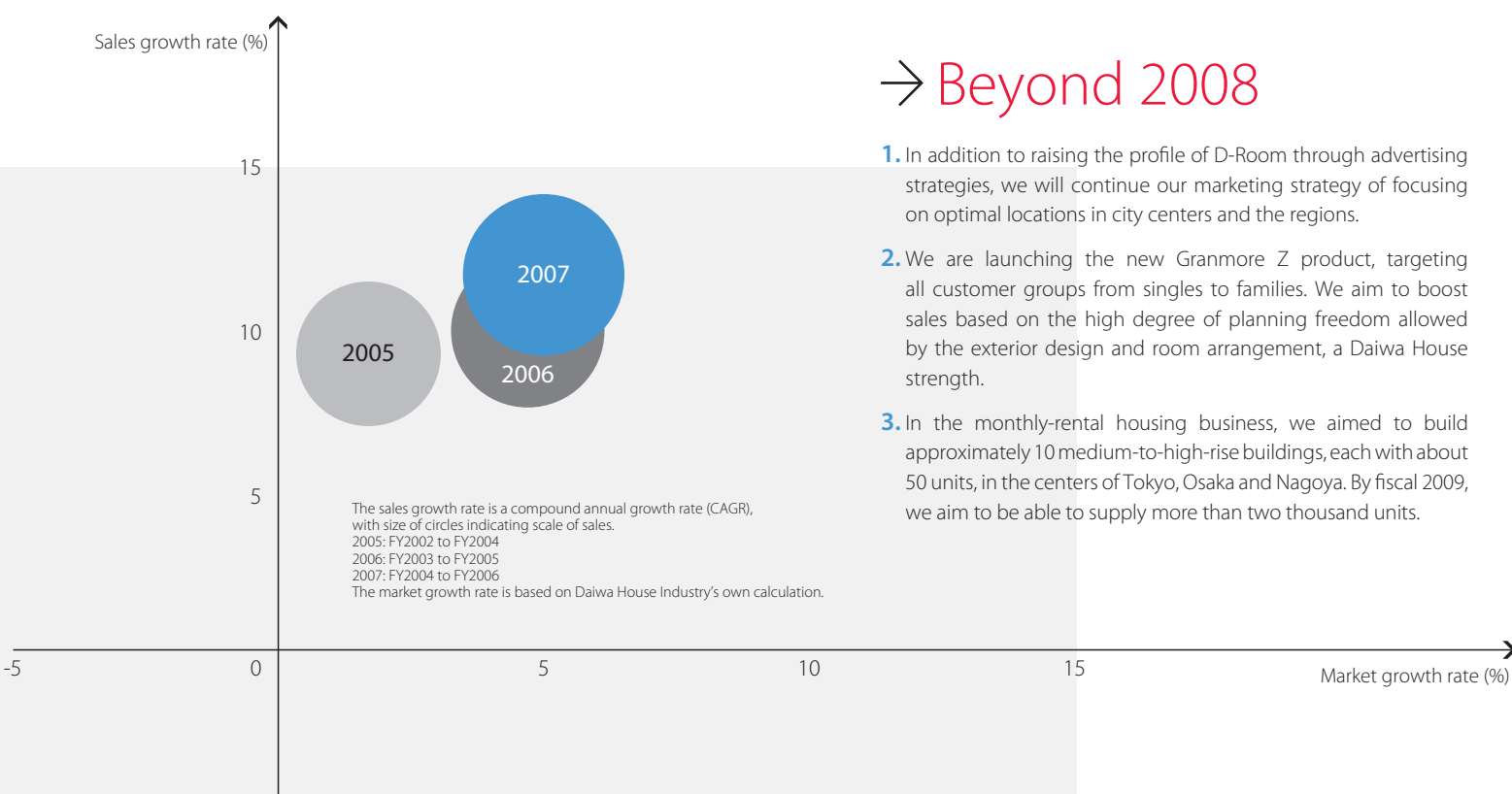
Daiwa House Industry (non-consolidated)	5.3%
Top four companies	31.8%
Other companies	68.2%

Note: Total shares based on statistics by the Ministry of Land, Infrastructure and Transport. The share for Daiwa House Industry and top four companies based on our estimates.



## → Beyond 2008

1. In addition to raising the profile of D-Room through advertising strategies, we will continue our marketing strategy of focusing on optimal locations in city centers and the regions.
2. We are launching the new Granmore Z product, targeting all customer groups from singles to families. We aim to boost sales based on the high degree of planning freedom allowed by the exterior design and room arrangement, a Daiwa House strength.
3. In the monthly-rental housing business, we aimed to build approximately 10 medium-to-high-rise buildings, each with about 50 units, in the centers of Tokyo, Osaka and Nagoya. By fiscal 2009, we aim to be able to supply more than two thousand units.



## Year 2007

### Strategy for optimized site management tailored to urban and suburban areas

With a return to city center living clearly underway in Japan, the Daiwa House Group has developed separate strategies for management of optimized sites in central urban and suburban areas. We have deployed specialist teams in Nagoya as well as Tokyo and Osaka where inner city areas are booming, and have expanded marketing of rental units in popular high-rise and medium high-rise apartment blocks. In regional cities, we have made steady progress in neighborhood development by providing rental housing at large sites. In brand strategy, we have seen steady sales growth for our popular three-story Séjour OTT's launched in December 2006, as this housing model is easily adaptable to a wide range of sites.

We have developed the Daiwa House Owners' Club network across the whole country, to help owners get together and to facilitate the exchange of property management information. By offering training sessions and consultations given by experts in the field, we provide strong support for the operation of the Owners' Club. Apart from the Owners Club, we are working to acquire more members of the Ladies Club and the Junior Club\*, for the wives and children of land owners, to support the owners' families in the stable management of rental properties.



Royal Garden CASA HARA

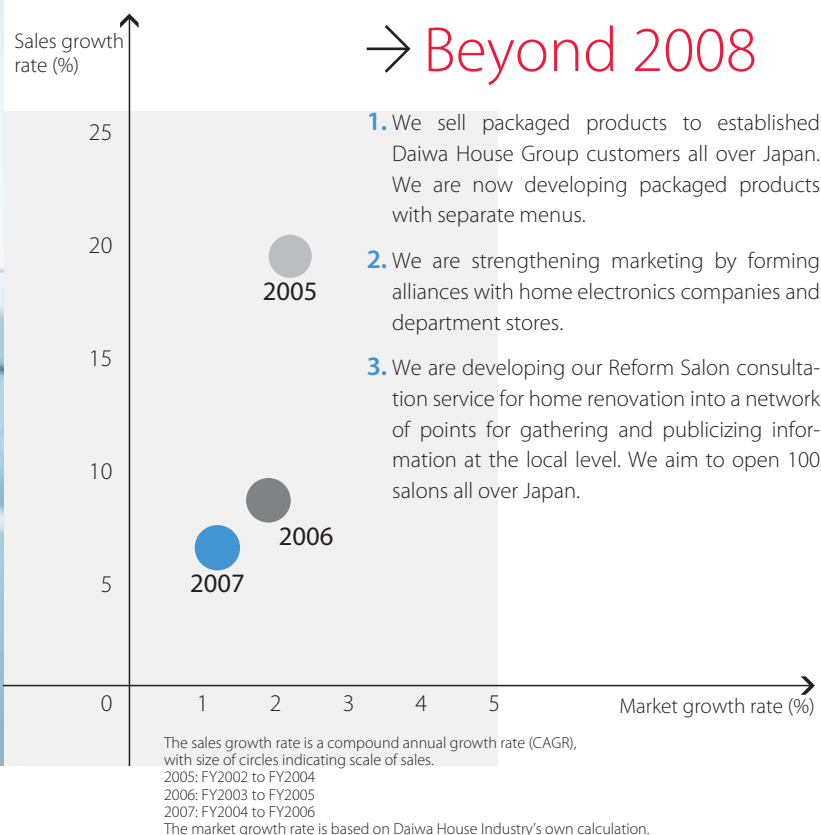
\* The Ladies and Junior clubs — for the wives and children of land owners — offer forums for the exchange of views, and also impart extensive knowledge useful for the effective utilization of real estate properties.

### Entering the monthly-rental housing business, with strong locations and a reputation for luxury housing

In April 2007, the Daiwa House Group entered the "monthly mansion" sector (renting condominiums on a monthly basis), a new area of the rental business. This will enable us to expand land-use projects in central urban areas and respond more accurately to diversifying residential needs. To differentiate ourselves from the companies that have already entered this business, we have adopted a strategy of building in prime locations favored by business-oriented hotels, and ensuring that room design is spacious with a feeling of luxury. Our new Group company Daiwa Monthly is responsible for tenant recruitment and management, and building maintenance.



# Home Renovation Division



Sales

¥28.3 billion\*

(year-on-year +3.7%)

\* To outside customers

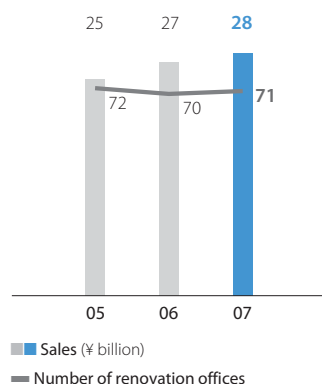
## Year 2007

### Structural improvements to streamline order processing

The home renovation market in Japan will be worth more than ¥7 trillion in 2010. It is expected to exceed ¥9 trillion in 2020. The home renovation division of Daiwa House Industry is developing its "Aichaku Renovation" business for proud owners of long-held properties jointly with a Group company, Daiwa House Renew based on our "house health checkups."

In the past, we assigned one employee to handle each transaction from marketing and estimates to project management and conclusion. In the future, we will separate the marketing and technical functions, and streamline order processing by consolidating and expanding our sales force while ensuring individual sales staff are specialized. In a business where trust and freedom from worry are the most important considerations, we aim to expand sales from established Daiwa House Group customers to general customers, drawing on the strength of the Daiwa House Group brand.

Sales and number of renovation offices







## Real Estate Agency Services

### Good information contacts and strong networks

Nihon Jyutaku Ryutu, one of the Group's main companies in the Real Estate Agency Services business, helps customers mainly in the Kinki and Kanto areas who are moving home. It draws on its strength in information-gathering and its marketing network to help with buying and selling and renting new and used property. In addition to valuation, it offers a full range of support services from financial backing (property purchase guarantees at a certain price, and partnership loans for buyers and sellers) to renovation support.

With a sustained focus on expanding marketing networks and fostering human resources, this business grew its earnings in the Kinki and Kanto areas in fiscal 2006, under the impetus of rising urban land prices. In the Kinki area, it posted solid growth in the value-added business of purchasing and renovating old property for resale. Another success has been the pioneering D's Bridge condominium asset valuation system, developed in partnership with the Daiwa House Group. Customers have shown increasing interest in and demand for this service.

### Building up marketing capabilities, and strengthening links with the Group

With a goal of operating a total of 50 agencies (offices) by 2010, Nihon Jyutaku Ryutu is opening outlets at a rate of two or three a year in the Kinki area and expanding openings in the Kanto area, while strengthening human resources training and marketing capabilities. It has a sales target of ¥2.3 billion in fiscal 2007, and ¥5 billion in fiscal 2010, in the business of renovating and reselling old properties. As with D's Bridge for condominiums, we are now firming our links with the Daiwa House Group, for example by developing ways of maintaining asset values in single-family houses.

### Improvements desired in housing resale system (multiple-choice questionnaire)

Structural guarantee & after-sales service	44.4%
Full data on repairs/renovation work	36.1%
Better system of tax exemptions, rebates etc.	34.0%
Easier access to public credit	18.1%
Expanded credit for home renovation	17.4%



Percentage of people who say their  
standard of living has declined

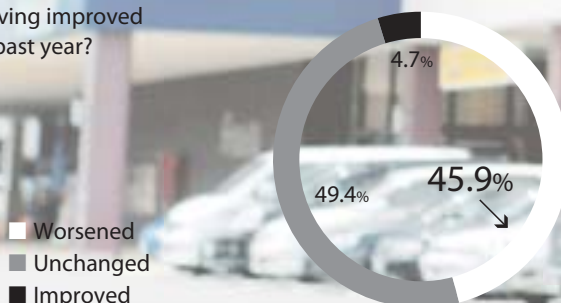
# 45.9%

## A Smart Shopper

Whether shopping or just window-shopping, enjoy your trip

➤ Many people say they have difficulty making ends meet. The consumer spending has remained flat. Is it the case that people are reluctant to spend money? No, it isn't. Although sales have declined at department stores and chain stores, medium-sized and large-scale shopping centers have shown signs of recovery. At large-scale shopping centers featuring specialty stores, people with little time tend to do their shopping all at once, and finish quickly, while others who prefer not to spend money might stay there the whole day. The trend is toward a diversification in the uses of time and money, with people finding ways to lightheartedly enjoy both shopping and window shopping. We intend to be a company that can effectively respond to the needs of the mature consumers of Japan. The Daiwa House Group is always seeking out feedback from individuals and society.

Has your standard of living improved  
or worsened over the past year?  
(March 2007)







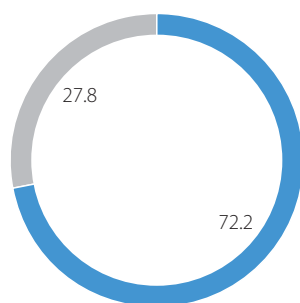
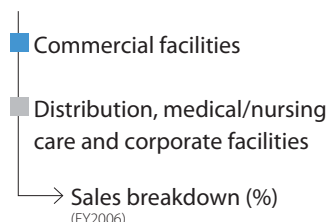




# Business



# Commercial Construction Business



A focus on founding and fostering communities by leveraging our comprehensive expertise in land use

Sales   
**¥477.7** billion  
(year-on-year +7.3%)

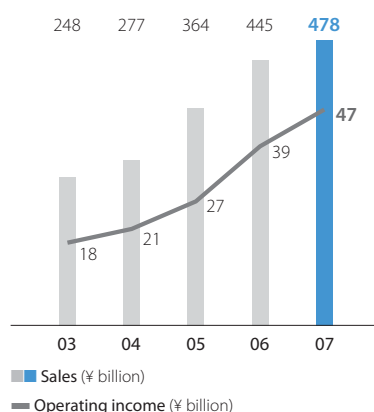
Operating Income   
**¥46.9** billion  
(year-on-year +19.0%)

Commercial Construction Business, our second leading business segment, accounted for 28.8% of Group sales in fiscal 2006. This business is broadly sub-divided into a commercial facilities division, and a distribution, medical/nursing care and corporate facilities division.

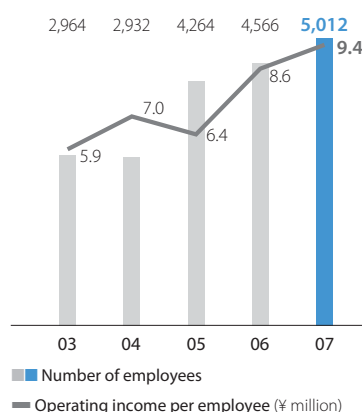
Utilizing ample land information and accumulated consulting expertise, the commercial facilities division contributes to the invigoration of regional communities by building numerous categories of commercial facilities in cities and suburbs, from roadside suburban outlets to large-scale shopping malls. In our distribution, medical/nursing care and corporate facilities division, we study social trends to match business objectives to land characteristics on the basis of our rich experience and track record in a wide range of land utilization projects.

In addition to effective planning and the use of advanced architectural system technology for effective asset management, the Group is able to meet diverse needs for optimal property asset utilization by developing proposals in such areas as land and other property succession and conversions for business improvement.

Sales and operating income



Number of employees and operating income per employee





# Commercial Facilities Division

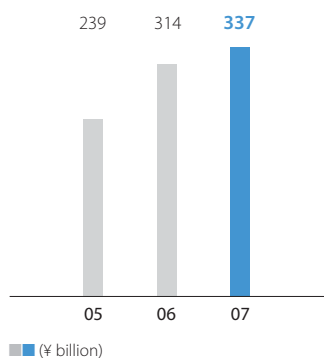


FOLEO Hirakata

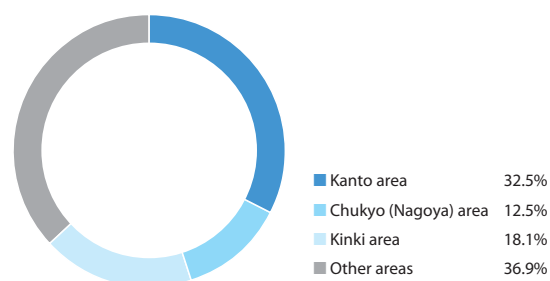
Sales   
**¥336.8 billion\***  
 (year-on-year **+7.2%**)  
\* To outside customers

The business of the Commercial Facilities Division centers on our Land Owner Company (LOC) System that facilitates effective land utilization by linking landowners to tenant companies. Under this system, the Daiwa House Group serves as a comprehensive producer, proposing highly profitable land-utilization plans for landowners. At the same time, we provide tenant companies with proposals for optimal sites that fit their business plans. In this way, we are engaging in facilities planning, development, construction and operations. We are making significant social contributions by fully utilizing our capabilities to formulate and implement plans for new community development and regional revitalization.

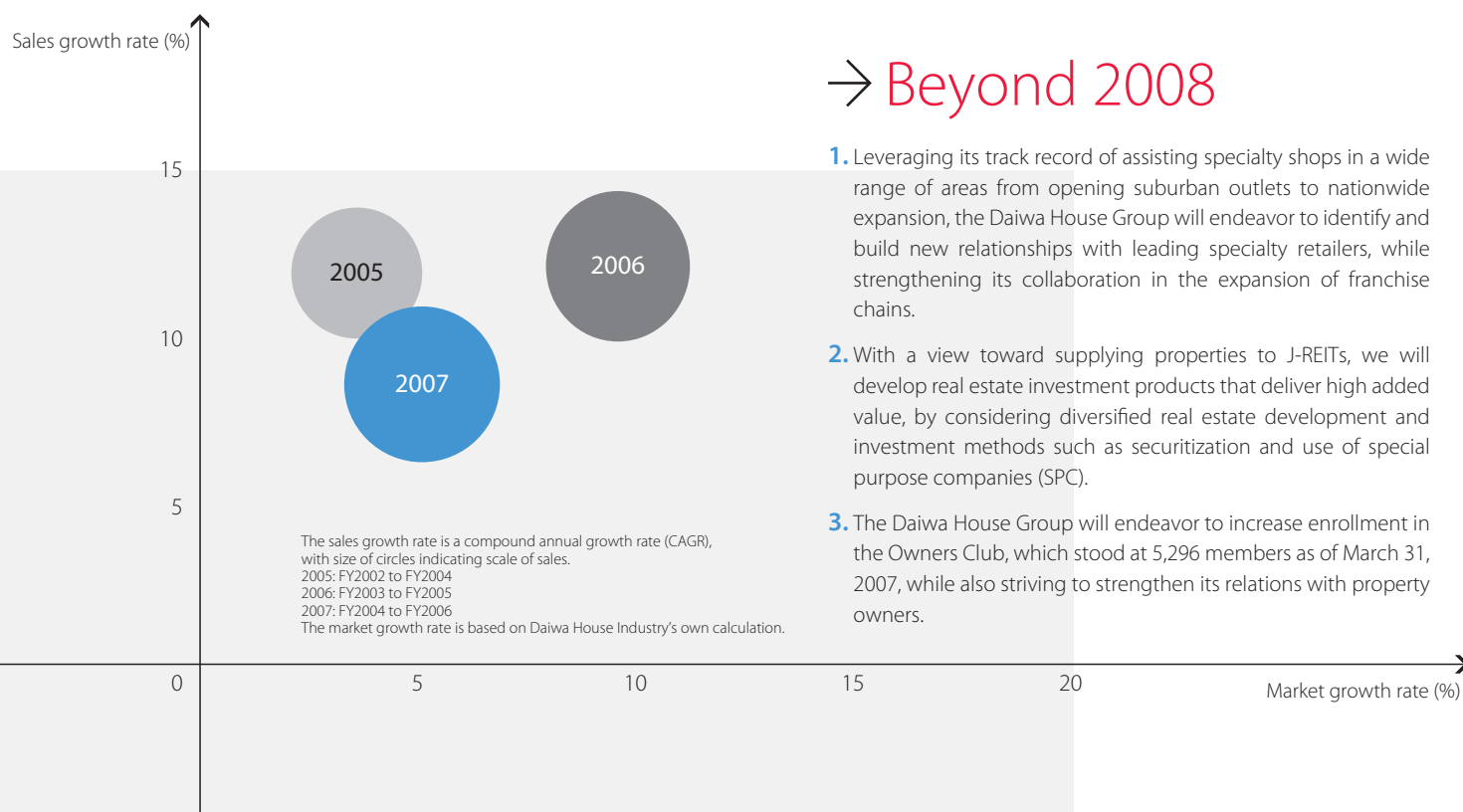
Sales



Area breakdown of commercial facilities sales  
(Daiwa House Industry, non-consolidated, FY2006)







## Year 2007

### Leading the way in large-scale suburban retail development

With suburban outlets as the starting point, the Commercial Facilities Division has applied the know-how it has accumulated to expand into large shopping center projects. Against the background of a moderate recovery of the Japanese economy, in fiscal 2006, the division handled many suburban outlet projects, leveraging its wealth of land data and expertise in assisting tenants with retail openings.

In the fall of 2007, Japan will put into effect revisions to its three urban development laws<sup>\*1</sup>, which the Group views as offering potential business opportunities due to its expertise in areas, such as provision of support services for small- and medium-sized shopping centers that reflect local needs, and opening of specialty shops in suburban areas. Moving forward, the Group will conduct extensive marketing to engage in the construction and operation of appealing facilities that offer superior convenience to match the needs of local consumers, while drawing competitive tenant companies to make facilities even more attractive.

<sup>\*1</sup> Japan's three urban development laws are the City Planning Law, Central Urban Area Revitalization Law and Large-Scale Retail Stores Location Law. The forthcoming revisions include new regulations on opening commercial facilities 10,000 m<sup>2</sup> or greater in scale in suburban areas.

### Strengthening ties with business partners

Daiwa House Industry has entered into a business partnership with Uniqlo Co., Ltd., a leading retailer of casual wear, as part of an overall effort to strengthen ties with business partners. The Uniqlo chain plans to open 140 new shops across Japan by 2010, expanding at a rate of 30 large suburban shops (1,600m<sup>2</sup> sales floor area) and 20 standard-sized shops (800m<sup>2</sup>) each year. Daiwa House Industry will provide the highest level of cooperation to help Uniqlo achieve these plans, by engaging in joint research including analysis of store formats. The Group is also collaborating with a wide range of other business partners to develop vibrant commercial facilities.



UNIQLO





ACROSSMALL Moriya



Building on 30 years of successful use of the LOC System, we will expand land utilization possibilities.

## Undertaking development of commercial complexes and projects that give us wide recognition

In response to the diversification of complex-type commercial facilities, the Daiwa House Group engaged in facilities construction, promoting operation and management and support systems adapted from open-mall commercial facilities to in-mall commercial facilities with shops lining pedestrian walkways within buildings, as well as power-center commercial facilities where tenants are arranged around a shared parking area in the middle of the site.

The Group is also moving ahead with the development of numerous giant projects such as a broad-based shopping center in the Kansai Airport Rinku area, which is being built adjacent to a children's amusement park. Others include a broad-based shopping mall in Tsukuba, Ibaraki Prefecture and a lifestyle center\*<sup>2</sup> in Hakata, Kyushu. We are also engaged in these projects in such large cities as Sapporo, Hamamatsu, Kanazawa, and Okinawa, and various prefectural capitals.

\*<sup>2</sup> Lifestyle center: An outdoor shopping mall of specialty stores. It is located in urban or outlying areas and lacks core tenants such as large department stores.

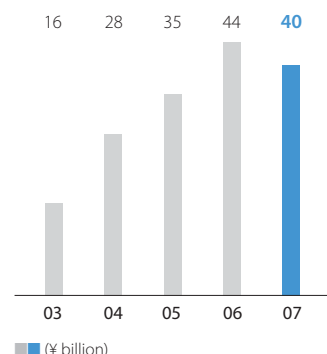
## Strengthening the conversions business, with a focus on the market for stocks of commercial facilities

Trends in the commercial facilities market have become increasingly pronounced. This includes the changes in the utilization of stocks of facilities due to reuse of existing shops or renovation. Suburban and urban shops in particular have started to consolidate and shrink in number, in anticipation of the execution of the revised three urban development laws set for the fall of 2007.

The Daiwa House Group is promoting conversions adapted to market conditions and location, while strengthening its property management capabilities. Dedicated conversion staff use our New Value Creation (NVC) System\*<sup>4</sup> to propose solutions that leverage the Group's extensive experience in market analysis and asset valuation.

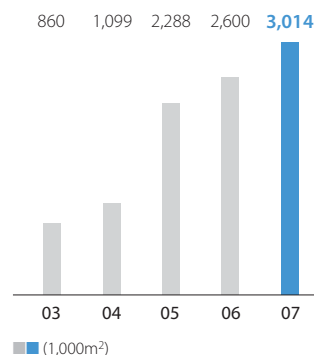
\*<sup>4</sup> New Value Creation (NVC): A system used by Daiwa House Industry to propose new solutions for creating value through the use of existing buildings. These solutions are adapted to modern needs and changes in conditions.

### Orders for large commercial facilities\*<sup>3</sup>



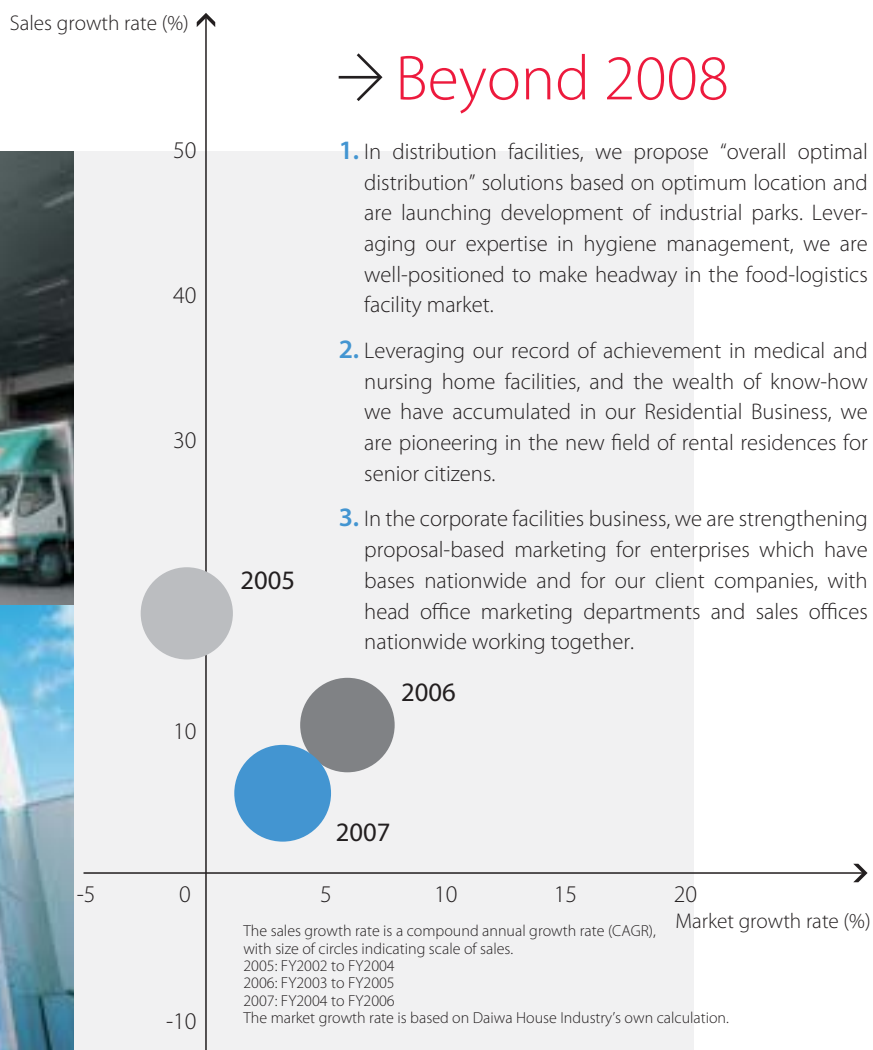
\*<sup>3</sup>: Large commercial facilities: Refers to single-tenant commercial buildings with a construction amount of ¥500 million or more and multi-tenant commercial facilities with a construction amount of ¥300 million or more.

### Rental floor space of commercial buildings





## Distribution, Medical/Nursing Care and Corporate Facilities Division

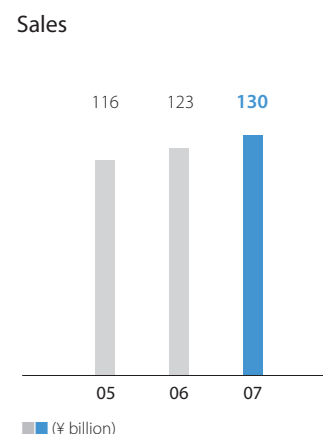


Sales ▲

¥129.5 billion\* (year-on-year +5.6%)

\*To outside customers

The division consists of three businesses. In distribution facilities business, we provide total optimized logistics solutions, not just construction services. In medical and nursing care facilities business, we provide comprehensive management support, based on our Silver Age Research Center (founded in 1989), from facility planning and development to operation, taking account of the preferences of senior citizens, their care-givers and service providers. Our corporate facilities business helps businesses develop new office buildings and other operational bases.





## Distribution Facilities

### Year 2007

#### Comprehensive proposals for large-scale, highly functional distribution centers

With the rapid adoption by major companies of non-asset third-party logistics (3PL: comprehensive outsourcing service for logistics), we are creating large-scale, highly functional distribution centers for not only storage and transportation but also distribution and processing.

While prioritizing firmly localized marketing and area research to tailor site location and land use to customer needs, based on our Partner Coordination System combining logistics providers and shippers, the Group builds a range of facilities from warehouses to distribution centers. Under our proprietary system for planning overall solutions for distribution and real estate management, we provide a full range of services covering fund procurement for land owners, capital investment for logistics companies and logistics system design for manufacturers.

The Daiwa House Group also builds food-logistics facilities, drawing on its long track record in construction of food-production facilities and its expertise in food-hygiene management.



A distribution facility

#### A new industrial park developer

In fiscal 2006, Daiwa House Industry launched its first industrial park project at the Fuji Gotemba Industrial Park in Gotemba in Shizuoka Prefecture.

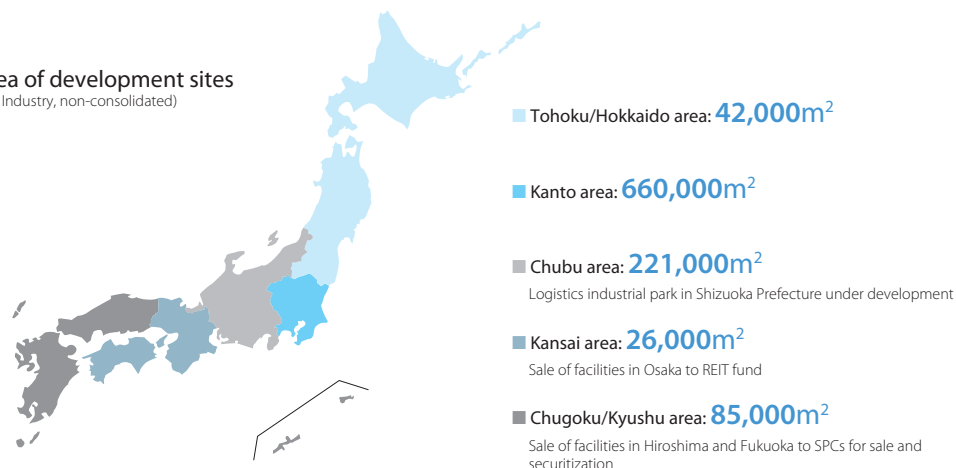
In this project, in cooperation with Group company Higashi-Fuji, we plan a comprehensive development drawing on our long experience in construction methods built up in residential zone development and construction of logistics facilities. In addition to aggressively attracting companies to the park in partnership with local government, we plan to incorporate a real estate investment trust in the project at a later date.

Looking ahead, we will continue to leverage our expertise to create solutions for customer companies in various sectors that optimize their assets without compromising business efficiency. By helping businesses deal with change in their operating environment, we will contribute to the revitalization of local economies.

#### Major logistics projects: Total area of development sites

(includes projects at planning stage; Daiwa House Industry, non-consolidated)

(As of July 31, 2007)





## Medical and Nursing Care Facilities

## Corporate Facilities



A showroom

## Year 2007

### Developing new medical and nursing care facilities for an aging society

In the business of medical and nursing facilities, we offer full-spectrum support from selection of site and basic planning through to construction, based on our pioneering Silver Age Research Center. The Company has developed, and earmarked as a basis for solution proposal, a model plan for small-scale multi-functional facilities offering high-quality care and superior food service and living environments, based on the April 2006 Amendment to the Nursing Care Insurance Act. Our rental housing for the aged falls into two categories: facilities with care provision and home support, and those without these services. For fee-based homes for the aged, we have developed detailed plans tailored to regional and facility operator needs, in light of changes in government policy on the maximum permissible number of facilities.

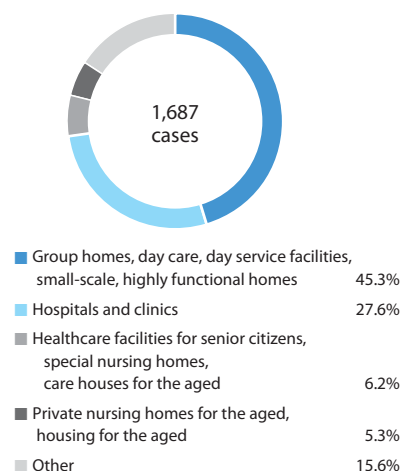
### Supporting companies building new showrooms and offices

In the corporate facilities business, which was spun off as a standalone business in 2006, we support customers' business expansion throughout Japan by building showrooms and offices/plant, with attached warehousing if needed. This division's services range from customer-tailored site proposal and drafting and negotiation of rental contracts to facility design and construction. Its business includes: new outlets after consolidation due to merger or acquisition, expansion of service and marketing areas, changes of premises due to obsolescence, need for somewhere bigger and lease expiry, and moves to out-of-town locations where car parks can be built. The business is also strengthening measures to win orders from Group partner businesses and increase joint exploitation of business opportunities.



A private nursing home for the aged


### Projects of the Silver Age Research Center (FY2006)



Our strength is our success in building 1,687 projects around Japan and the store of expertise and know-how that has given us.







The number of babies born  
between 1947 and 1949

**6.7** million



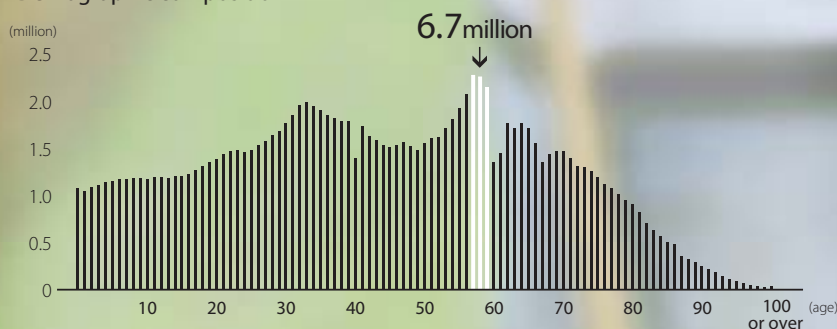
# Baby boomers, as dynamic as ever

## They know how to enjoy life



The first wave of baby boomers reached the retirement age of 60 in 2007, and over 6.7 million people will be turning 60 over the next few years. This generation of individuals, who helped shape society under the period of high economic growth, will once again be pioneering a new way of living. They have amassed a collection of material possessions, and they will spend their free time as they like, with the things they like. Baby boomers have a keen interest in learning, and are serious about their pastimes. They are taking up those pursuits that were unavailable to them in their youth. More than a retirement, 2007 marks a “restarting” of their lives for these individuals. Through its products and businesses, the Daiwa House Group provides support for baby boomers’ shopping and recreational activities, as well as their living environments.

### Demographic composition



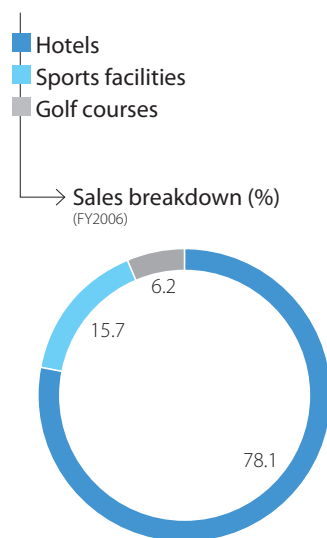




# Life



# Resort Hotels and Sports Life Business



Improving management efficiency  
to further raise the quality of service

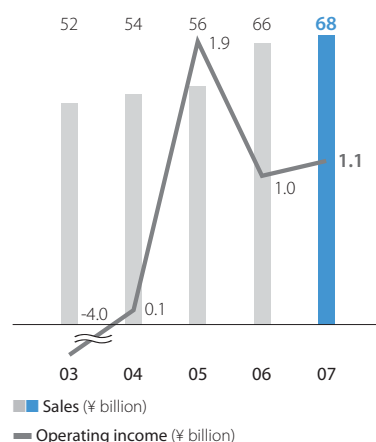
Sales   
**¥67.8** billion  
(year-on-year +1.9%)

Operating income   
**¥1.1** billion  
(year-on-year +14.6%)

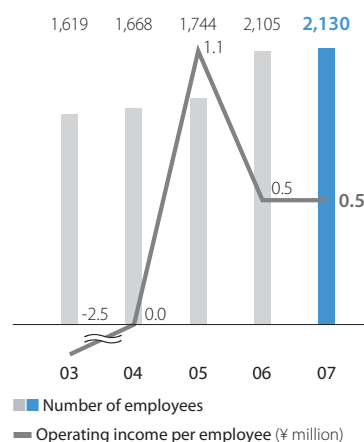
This business accounted for 4.2% of overall sales. As of March 31, 2007, it is conducted through 29 resort hotels nationwide operating under the Daiwa Royal Hotels chain, in addition to 10 golf courses operating under Daiwa Royal Golf name and 49 sports clubs operating under Sports Club NAS name. In these facilities, we endeavor to provide spaces for enrichment of life.

Operational management of resort hotels and golf courses was previously contracted by Daiwa House Industry to Daiwa Resort. As part of a move to clarify business responsibilities and reorganize the system of management for improved speed and efficiency, the resort hotel business was transferred to Daiwa Resort in March 2007, while operational management of all golf courses was contracted to Daiwa Royal Golf in April 2007.

Sales and operating income



Number of employees and  
operating income per employee





**10** golf courses

(As of March 31, 2007)

**29** hotels



Genkai Royal Hotel



Comwood Golf Club

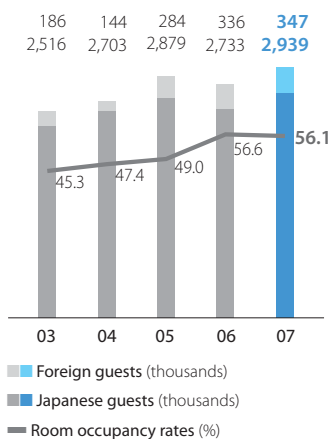


Minamiawaji Royal Hotel

At 29 hotels nationwide from Hokkaido to Okinawa, 3.9 million visitors annually enjoy our hospitality



**Daiwa Royal Hotels: Number of guests and room occupancy rates**



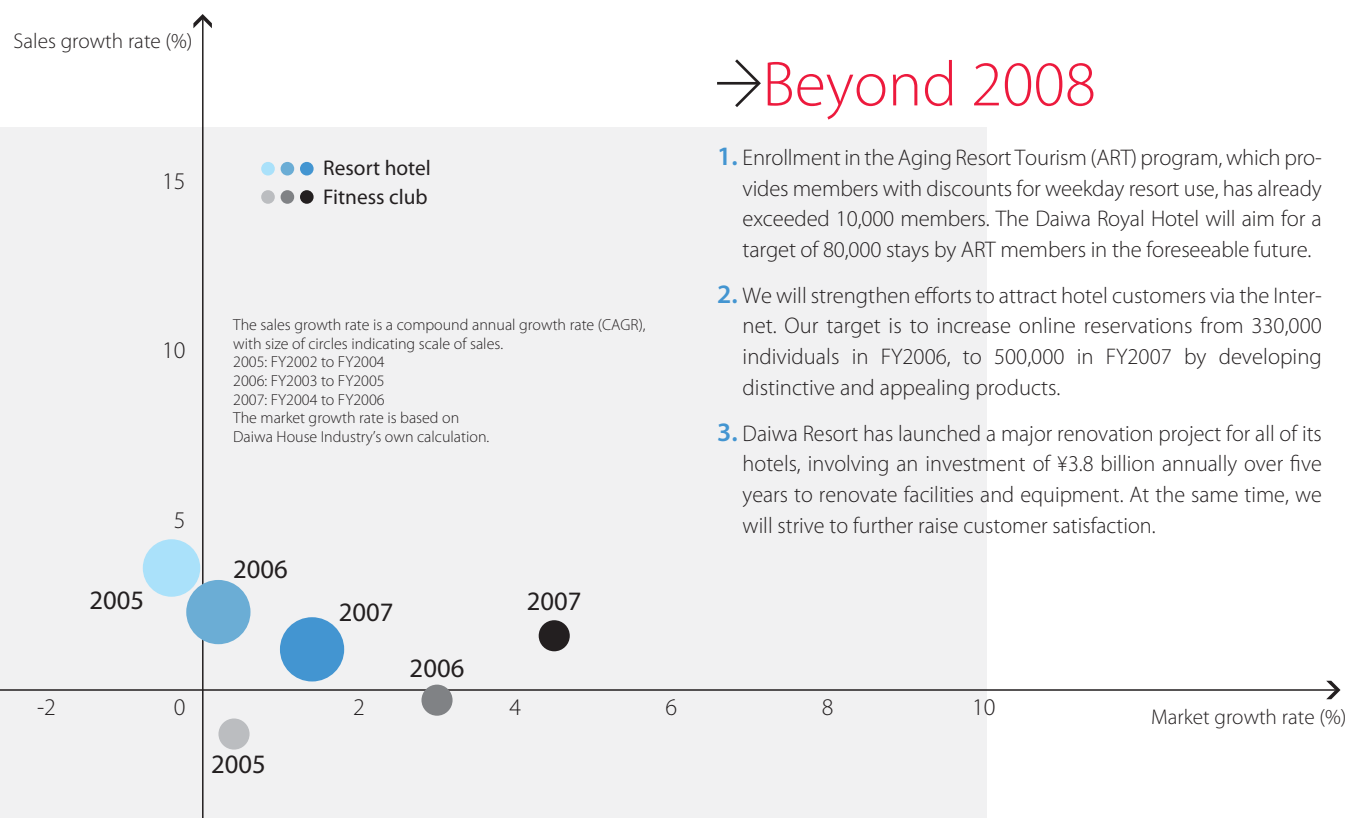
## Year 2007

### Developing products based on regionally distinct foods and culture

In FY2006, to boost our ability to attract customers, we developed services that accommodate individual needs. This included introducing a macrobiotic menu featuring natural foods at Daiwa Royal Hotels nationwide, and a pre-ordering system that enables wedding guests to register menu choices according to individual preference. As a result of these initiatives, the room occupancy ratio was almost unchanged from the previous fiscal year, while the number of guests rose 5.7% to 3.28 million.

In FY2007 we launched an accommodation package including health-oriented dining menus and exercise features. These products have been developed in anticipation of new rules that will require health insurance providers to implement health guidance to metabolic syndrome patients in the 40-and-above age bracket, which will take effect starting in FY2008. In addition, individual hotels are being given greater independence as part of an effort to develop products with a local emphasis, by identifying regionally distinct foods as well as culture, history and arts.





### Emphasizing celebratory functions and memorial services to create repeat business

Within 18 months of the launch (in October 2005) of the Aging Resort Tourism (ART) program, which targets seniors for discounts for weekday resort use, a total of 64,019 individuals had stayed at hotels through the program in FY2006.

In the bridal segment, Daiwa Royal Hotel provided greater menu choices and expanded the range of optional unannounced wedding reception proceedings. These initiatives were undertaken amid intensifying competition generated by declining birthrates and the popularity of wedding receptions at facilities such as a Western mansion. The hotel also endeavored to promote other celebratory functions such as traditional 60th birthday celebrations.

### Increasing Group synergy by opening new Sports Club NAS branches

Sports Club NAS is a nationwide fitness club chain operated by subsidiary Nippon Athletic Service. The chain is engaged in efforts to expand its member base by offering a wider selection of fitness programs and events. It is also increasing synergy within the Daiwa House Group by opening branches within Group facilities such as Royton Sapporo Hotel and Across Mall Shin-Kamagaya shopping mall.



Sports Club NAS

### 49 sports clubs





# Home Center Business



Royal Home Center (Kyoto Yoko-Oji)

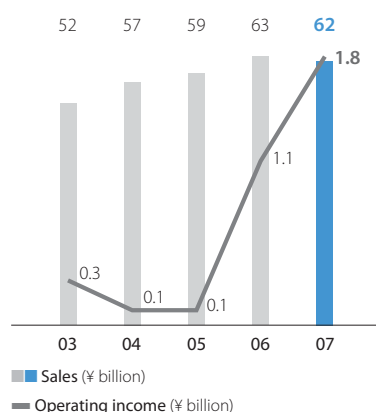
Operating stores meeting local needs, and strengthening our range of products for professionals

Sales ▼  
**¥62.2** billion  
 (year-on-year -1.6%)

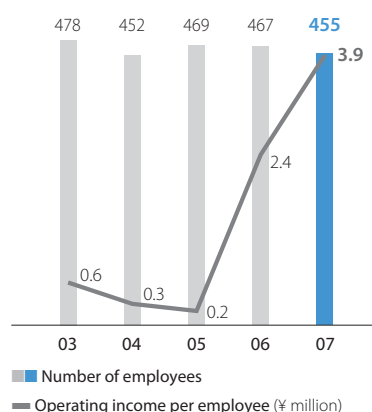
Operating income ▲  
**¥1.8** billion  
 (year-on-year +60.1%)

Royal Home Center is a nationwide chain of stores that accounted for 3.7% of overall sales. As of March 31, 2006, the Group operated 42 stores covering a total floor area of 207,476m<sup>2</sup>, with each store offering anywhere from 50,000 to 100,000 product items. In addition to reducing costs through initiatives such as lowering purchasing costs, we are endeavoring to move beyond the low-pricing competition in the industry by shifting to a product selection strategy that emphasizes products for builders and other professionals.

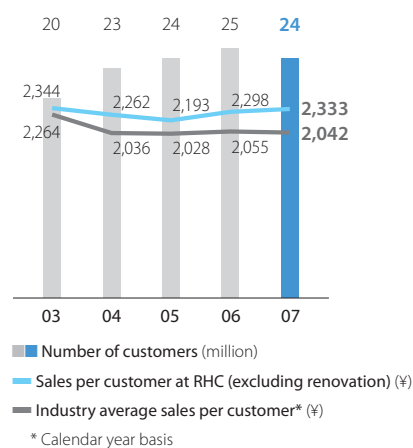
Sales and operating income



Number of employees and operating income per employee



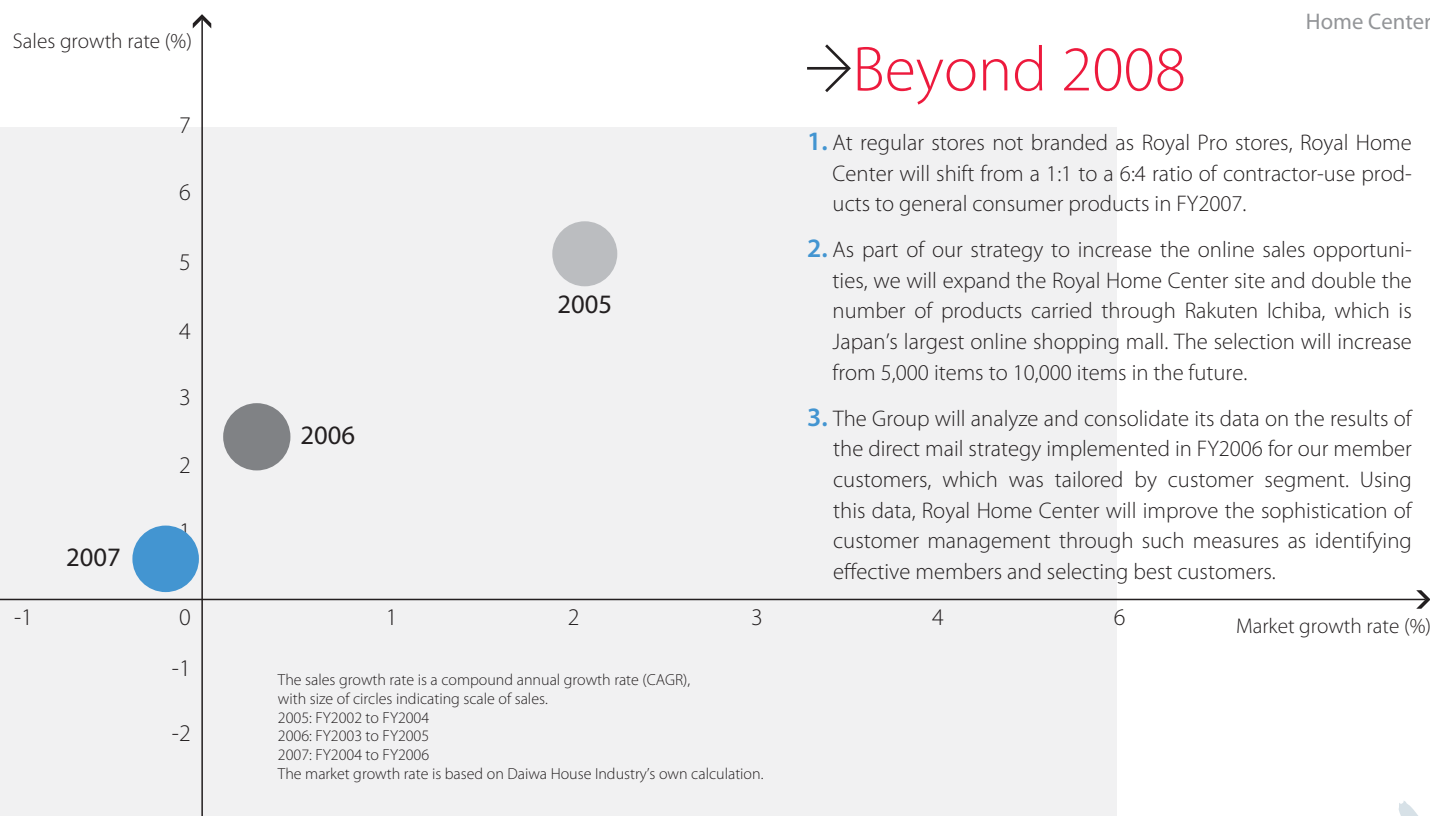
Royal Home Centers: Number of customers and average sales per customer





## → Beyond 2008

1. At regular stores not branded as Royal Pro stores, Royal Home Center will shift from a 1:1 to a 6:4 ratio of contractor-use products to general consumer products in FY2007.
2. As part of our strategy to increase the online sales opportunities, we will expand the Royal Home Center site and double the number of products carried through Rakuten Ichiba, which is Japan's largest online shopping mall. The selection will increase from 5,000 items to 10,000 items in the future.
3. The Group will analyze and consolidate its data on the results of the direct mail strategy implemented in FY2006 for our member customers, which was tailored by customer segment. Using this data, Royal Home Center will improve the sophistication of customer management through such measures as identifying effective members and selecting best customers.



## Year 2007

### Raising operational efficiency

Targeting the market for builders and other professional contractors, which is estimated at ¥40 trillion, Royal Home Center is expanding its range of products in such categories as hand and power tools as well as materials and hardware. We currently operate two Royal Pro specialty stores, and have set up separate buildings or sales areas for materials in large stores.

In moving to adopt an Everyday Same Low Price (ESLP) strategy for consumables, which is designed to increase the number of repeat customers, the Group has sought to increase the number of ESLP products to further penetrate the market. The number of ESLP products will increase to 5,000 items by the end of September 2007, up from 3,600 items as of March 31, 2006.

Individual stores are also being given greater discretionary powers to focus on operations that reflect local needs, while videoconferencing systems are being adopted to encourage information sharing within the chain. Royal Home Center is also taking steps to ensure that headquarters policies and strategies are swiftly and uniformly implemented, and is engaging in initiatives to improve the management capabilities of store managers and sales floor personnel.

## 42 home centers

(As of March 31, 2007)



### Making strides in reducing costs and improving service

In product selection, Royal Home Center is taking steps to expand product applications and functions in order to accommodate diverse customer needs, while seeking to lower purchasing costs.

At stores in Hyogo Prefecture, store layouts have been changed to bring back offices onto sales floors. While also improving service by accommodating customers more quickly, stores have lowered operating costs by integrating office functions into cash registers and service counter areas.




# Other Businesses



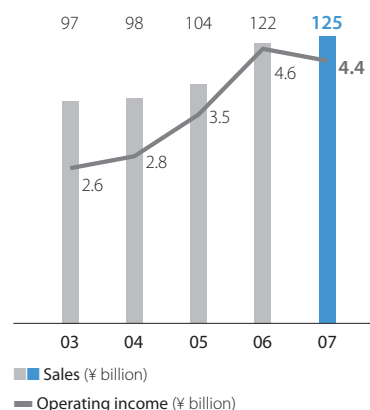
Diversifying services as a Group that co-creates value for people, communities and people's lifestyles

Sales   
**¥124.6** billion  
 (year-on-year +2.2%)

Operating income   
**¥4.4** billion  
 (year-on-year -4.1%)

The Daiwa House Group engages in a wide range of other businesses centering on the businesses of Group companies. This segment accounted for 3.8% of overall sales. In addition to growth businesses such as the manufacture and sale of housing construction materials, business hotels, and logistics operations, the Group commenced credit card services. In this way, the Group is enhancing its comprehensive strengths through diverse services that support individuals, communities and people's lifestyles, focusing on lifestyle services for consumers as well as enterprises.

Sales and operating income





## 10 business and city hotels

(As of March 31, 2007)



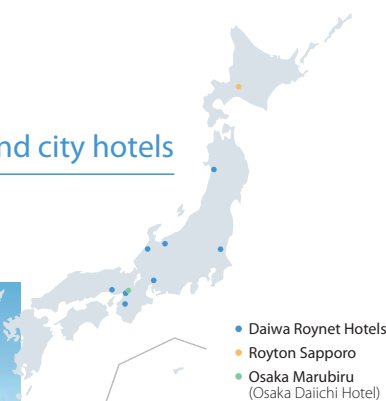
Daiwa Saison Card  
"Heart One"



Daiwa Rakuda Industry's Infill business



Daiwa Roynet Hotel Kanazawa



## Year 2007

### Expanding the infill business and logistics services

Daiwa Rakuda Industry, which engages in manufacturing and sale of housing construction materials, has taken steps to increase the volume of the exterior and interior-related orders it receives, while striving to expand the Infill business of providing comprehensive interior solutions for condominiums. It has also focused its energies on leasing furnishings and equipment for events and government customers.

Daiwa Logistics which operates 14 logistics centers nationwide, has expanded its services for general companies. This was achieved by providing procurement and recycling logistics for a variety of sectors, based on expertise it has acquired in the transportation of housing and building materials.

### Launch of credit card business

Daiwa House Financial was established in November 2006 as Japan's first credit card company owned by a housing industry. The company went into full operation with the issuance of the Daiwa Saison Card "Heart One" in June 2007. Daiwa House Financial will endeavor to increase its cardholder base and volume of transactions by encouraging credit card settlement in the Group's business segments, which include housing-related consumption, leisure and operation of commercial facilities. It will also promote a strategy to share customers within the Daiwa House Group by tying together the multi-faceted businesses of the Group.

Moving forward, Daiwa House Financial will endeavor to offer a wider range of credit card features and services, while engaging in such initiatives as the development of loan products for home renovation. It will set a target of increasing the cardholder base to 500,000 individuals by 2011.

### Brisk expansion of Daiwa Roynet Hotels

In the business hotel operations, the Group opened five new Daiwa Roynet Hotels, expanding the network to eight hotels nationwide. We have emphasized the provision of higher-quality, more comfortable guest rooms, as well as superior service, and this has been well-received. Daiwa Roynet Hotel Kanazawa was the recipient of a coveted Rakuten Travel Award 2006 from Rakuten Travel, the nation's largest hotel booking site, winning first prize in the customer survey category for city/business hotels in the Chubu region. The Group will build 10 new Daiwa Roynet Hotels by March 2009, setting its sights on eventually operating a nationwide network of 30 to 50 hotels.

In FY2006 our subsidiary Osaka Marubiru began refurbishing all rooms and lobbies at its hotel as part of a three-year renovation plan designed to raise the tone of the whole establishment. Room rates have already been increased for some renovated rooms. The hotel achieved a 93.4% occupancy rate in FY2006.

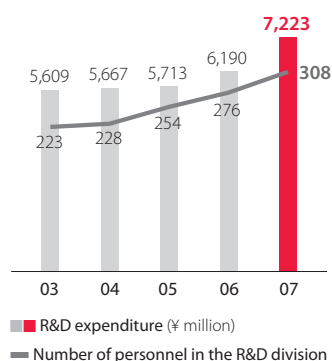


# Research & Development

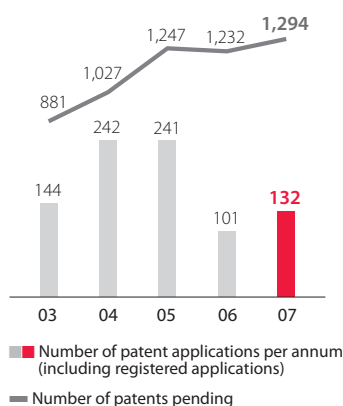


As a Group that co-creates value for individuals, communities and people's lifestyles, we are conducting research and development in conjunction with business communities, academia, government bodies, and medical universities and research institutes, and pioneering advancements in new technological fields.

R&D expenditure, and number of personnel in the R&D division



Patents applied for and pending (including registered applications)



Top companies in Patent Strategy Index (by industry), comprehensive rankings for non-manufacturing sector







### Research and Development Themes

Safety & Comfort

Speed / Stock

Welfare

Environment

Health

Information-Communication Technology

### Developing new technologies to meet the needs of the next generation

The Daiwa House Group is advancing research and development in a wide range of fields, through close collaboration among the Central Research Laboratory, the product development and design divisions, the Silver Age Research Center, and the Group's various business divisions, aiming to develop valuable technologies for our customers and society.

To meet the next generation of needs of customers and society, as the Technology Division it conducts analyses based on objective data of the external environment (macro movements, markets, technologies, competition) to determine our technological directions in the medium-to-long term.

Going forward, we will further intensify collaborations with business communities, academia, government bodies, and medical universities and research institutes, as well as form partnerships with companies in other industries to develop technologies in new fields that can form the core of new businesses. Furthermore, in order to define the directions of research and development, we have reorganized our organizational structure in fiscal 2006.

### Diverse research & development themes

At the Central Research Laboratory, diverse R&D activities are undertaken with the themes of "Safety & Comfort," "Speed / Stock," "Welfare," "Environment," "Health," and "Information-Communication Technology," the last of which forms the base of support for the others. As the R&D organization of the entire Daiwa House Group, it contributes to Group company business development and provides our customers and society with useful technologies.

Our research and development is predicated on the acquisition of patent rights. In the list of leading companies in the Patent Strategy Index published by the Patent Office in April 2007, Daiwa House Industry came 7th in the comprehensive rankings\* for the non-manufacturing sector.

\* The comprehensive rankings are calculated with a weighting of 70% for patent approval and 30% for patent applications overseas. (The average approval rate for the Daiwa House Group in 2005-2007 was 66.7%; the proportion of patent applications by the Daiwa House Group in 2006 also applied for overseas was 3.2%.)



## Safety & Comfort based on comprehensive testing

Daiwa House Industry has developed new methods to improve earthquake resistance and absorbing capabilities. We were the first private company to conduct actual-scale earthquake testing on housing, at the largest 3-D full-scale testing facility in the world (E-Defense)\*1. Testing confirmed that this technology was effective in resisting and absorbing the effects of a large-scale earthquake. The earthquake resistance and absorption technology has been incorporated into our new housing product **xevo**. In addition, "D-Tec Pile," a steel pipe pile system used to reinforce the ground under a house, has been improved and has received Eco Mark certification\*2.

\*1 At the Hyogo Earthquake Engineering Research Center, National Research Institute for Earth Science and Disaster Prevention

\*2 Certified by Japan Environment Association



## The Speed of industrial technology and Stock of asset value



**xevo** has incorporated an exterior wall surface with both insulating and ventilating properties to enhance the house's value as an asset. In conjunction with the Chiba Institute of Technology and University of Tsukuba, we are developing a robot to conduct inspections under houses that reduces the number of necessary regular inspections when a structure is used long-term. In the commercial facilities field, we are striving to reuse resource stocks through our "Restore & Rebuild System," which uses construction materials from demolished commercial sites in rebuilding.

## Environmental preservation through effective use of resources

Daiwa House Industry has capitalized the ELIYY Power, a venture capital firm established with Keio University, to conduct research on housing employing large-scale lithium ion batteries and electric power storage systems for buildings.

The Company has achieved zero emissions (100% recycling rate) at new-build housing sites. In addition, wood waste is used in "wood powder recycled balcony material," a residential housing component, and waste plastic is reused in Daiwa Lease's folded-plate roof green trays.

## History of Daiwa House Group Technology

1950	1960	1970	1980
<p><b>1955</b> Daiwa House Industry Founded "Pipe House," the first house model launched</p> <p><b>1957</b> Tamon Shuzo (sake brewery) warehouse and factory constructed in Nishinomiya, pioneering steel pipe structured construction in Japan</p> <p><b>1959</b> Beginning of prefabricated housing with launch of "Midget House"</p>	<p><b>1962</b> "Type A House," a panel-type prefabricated house launched</p>	<p><b>1973</b> Nara Central Testing Facility established (Forerunner of present-day Central Research Laboratory)</p> <p><b>1974</b> "Daiwa House C Series" received industrial housing performance certification from the Ministry of Construction</p>	<p><b>1981</b> Development of Daiwa House G Series, and launch of forerunner of our plan proposal housing, the "Chimney House"</p> <p><b>1989</b> Silver Age Research Center established A method (DNS) that does not use welding in steel-reinforced construction developed</p>
	 <p>Type A House</p>	 <p>"Chimney House"</p>	



### Welfare that takes into consideration all users

After signing an agreement for a business partnership with CYBERDYNE Inc., Daiwa House Industry is aiming to mass produce the robotic suit "HAL," which assists in body movement, to be used in the medical, welfare, and nursing care fields as well as the construction field. Based on findings from ergonomic experiments, we are actively incorporating "Friendly Design" into housing and buildings. This concept combines the element of beauty with the basics of universal design, namely making buildings easy to use, easy to understand and safe.



### Fusing housing and information-communication technology

Daiwa House Industry and NTT Communications Corporation are leading the industry with the joint development of home servers compatible with a variety of network environments and accompanying lifestyle services. Bringing together the respective proprietary technologies and know-how of both companies, we intend to develop home servers to manage IT devices and services as well as Internet infrastructure (common platforms) to provide these services safely and simply. This will enable home residents to enjoy a range of low-cost lifestyle services in one stop.

### Housing that maintains and improves health

In conjunction with Osaka City University's Graduate School of Human Life Science, we have conducted joint research on housing for the elderly from October 2005. As part of this collaboration, a contest was held in 2007 to collect ideas from not only experts in the field, but also the users themselves, on ways to improve housing for the elderly. Since April 2006, Nara Medical University has offered a course in housing-related medicine through a donation from Daiwa House Industry, with research results utilized to develop healthy housing technologies.

#### 1990

- 1994** Central Research Laboratory established
- 1998** "Healthy housing specifications" to counter formaldehyde incorporated in all housing products

#### 2000

- 2000** "DSQ Frame System" received Outstanding Performance Award in the Construction Engineering Development Awards for a construction method that does not use welding
- 2001** "Earthquake-absorbing" housing product, a first in the prefabricated housing industry developed
- 2003** Crime prevention specifications adopted for all housing products, an industry first

- 2005** Joint development of the "Intelligence Toilet," which incorporates health-check functions  
10 kW wind power generator "Wind-Blown Whale" launched
- 2006** **xevo** house launched, representing the first new construction method in 25 years



xevo E



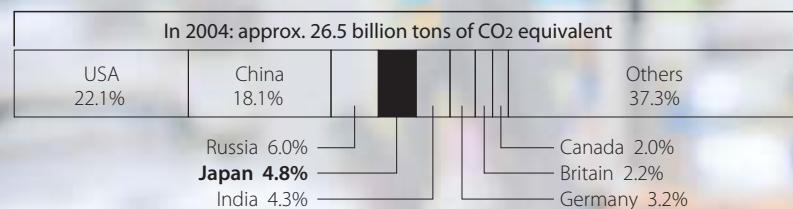
# A commitment to the Earth

## One small contribution, for a cooler world

 In 1997, Japan promised to achieve a 6% reduction in greenhouse gas emissions by 2012. The reality, though, is that there has been a steady upward trend in the volume of greenhouse gas emissions for which reductions were pledged under the Kyoto Protocol. Signs of climatic change are already being seen, with melting of Antarctic ice causing small islands to vanish as sea levels rise. Japan must take action on behalf of the global environment, and the Daiwa House Group is implementing measures to fulfill its social responsibilities as a corporate citizen. Measures include efforts to encourage widespread use of wind power and solar power generation, and the recycling of building materials. In the summer now, we show our support for the government's "Cool Biz" campaign\* by removing our neckties and wearing light clothing. We hope that the Daiwa House Group's vision and actions will help Japan to meet its commitment to the Earth.

\* The Japanese Ministry of the Environment's "Cool Biz" campaign, started in 2005, encourages office workers to take off jackets and neckties to cut down on air-conditioning.

### Global CO<sub>2</sub> emissions



### Japan's greenhouse gas emissions







-6%

Japan's CO<sub>2</sub> emissions  
reduction target

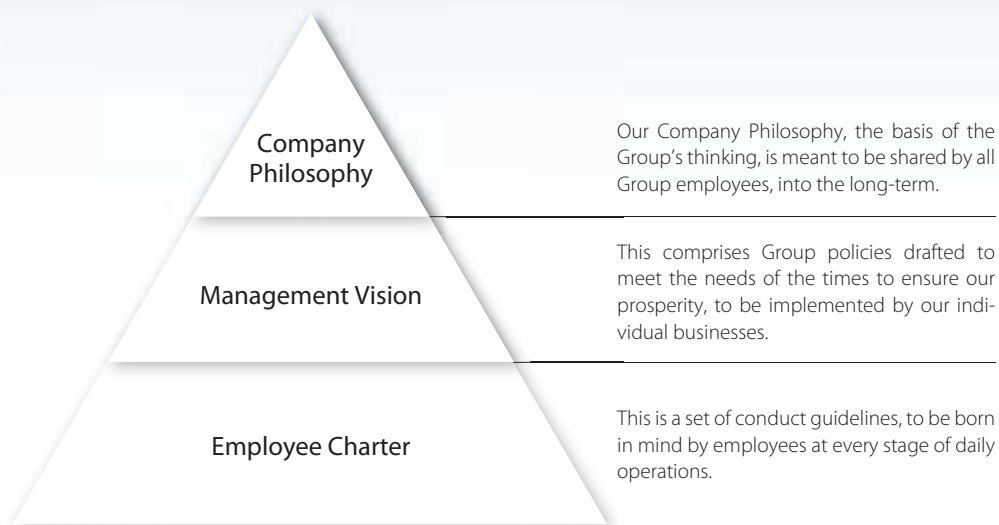


# Corporate Citizenship

Determined to fulfill its role and responsibilities as a corporate citizen, and driven by the corporate vision of co-creating a brighter future, the Daiwa House Group is building firm relations of trust with customers and other stakeholders in the pursuit of sustainable growth for all. A report on various measures we have taken in our partnerships with stakeholders, and future plans follows.



## Daiwa House Group Principles







# Creating Together   Supporting Each Other

**94**   Environment

**96**   Clients

**98**   Partners

**100**   Shareholders

**102**   People

**104**   Community

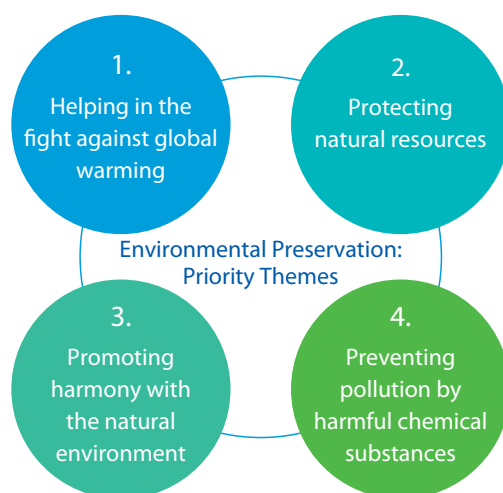




# Environment

## Daiwa House Group Environmental Principles

As a Group that co-creates value for individuals, communities and people's lifestyles, we aim, through our environment-friendly products and services, to foster environmental awareness with a focus on the future, and contribute to the creation of a society in which people lead fulfilling lives in harmony with the environment.



## Plan A Cleaner Environment through our Environmental Management System

Based on its environmental management system, Daiwa House Industry works for a cleaner environment in every aspect of its business activities, to meet the goals of its Environmental Vision and Environmental Action Plan 2005. Performance statistics under these initiatives are managed through the "ei-system," our intranet-based environment information system, which is continuously upgraded.

## → Target 2008

The Daiwa House Group is expanding the scope of its environmental management system to cover major Group companies with a environmental footprint. It is stepping up environmental activities in terms of both business process and product.





Wind-powered electricity generation facilities at Sadamisaki, a promontory at the westernmost end of Shikoku

### Combating global warming

The Daiwa House Group is proactively committed to the use of natural energy, and develops and encourages the spread of other environment-friendly technologies (i.e. energy-saving products). In in-house initiatives, we had set up wind- and solar-power generation systems at 15 of our business bases by March 2007. We have also set up photovoltaic power generation systems in approximately 7% of the single-family houses we sold during fiscal 2006. Approximately 97% of our single-family houses follow next-generation energy-saving standards.

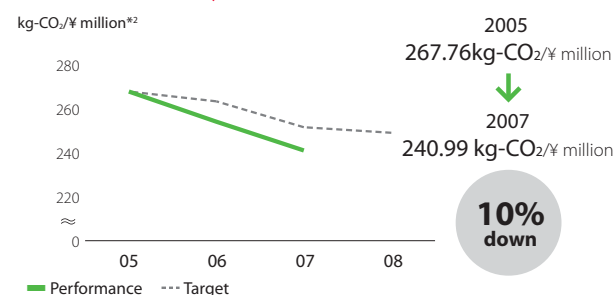
### Initiatives for environment management and quality assurance

Daiwa House Industry remains committed to 100% (zero emission) recycling at building sites for new houses. The number of "zero emission" homes completed in fiscal 2006 rose approximately 80% year-on-year. Within the Group, we are creating 100% resource-recycling systems, converting waste wood and plastic into usable products.

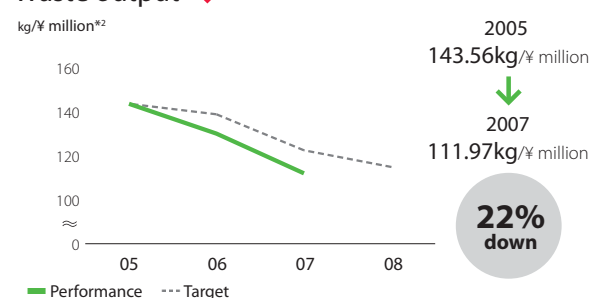
As part of efforts to reduce the number of hazardous chemical substances we use, in May 2006 we completely stopped using dichloromethane, a substance listed in the Pollutant Release and Transfer Register (PRTR)\*1.

\*1 PRTR: Emissions of chemical substances are reported annually by business operators, and national statistics are published based on these data.

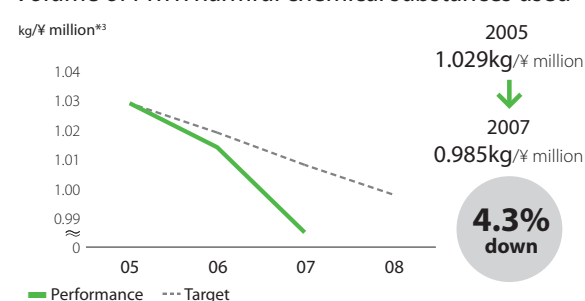
### CO<sub>2</sub> emissions ▼



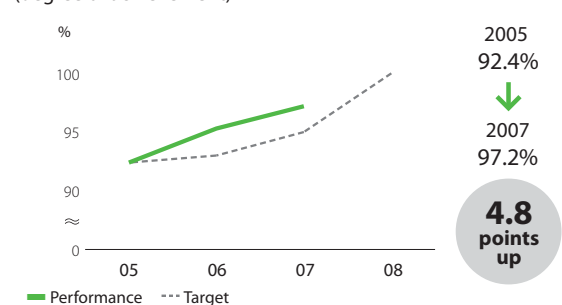
### Waste output ▼



### Volume of PRTR harmful chemical substances used ▼



### Next-generation energy-saving standards ▲ (degree of achievement)



\*2 Figures represent emissions per ¥1 million in sales value at Daiwa House Industry, Royal Home Center, and Daiwa Resort.

\*3 Figures represent emissions per ¥1 million in sales value at Daiwa House Industry's factories.





# Clients

Year-on-year growth rate  
of number of contracted customers\*



\* Year-on-year comparison of number of Daiwa House Industry houses in which construction has begun

## Plan Daiwa House Group CS Philosophy Responding to Customers

### Putting the Customer First

The Daiwa House Group aims to be a company that is held in special esteem and trusted by customers as it conducts its business. To this end, we respond to customer needs quickly and courteously while offering products and services of good value from the customer perspective.

### From "Customer Orientation" to "Individual Orientation"

We go one step beyond "customer orientation," whereby customer satisfaction is often understood from the perspective of enterprise value, to "individual orientation," whereby our actions are modeled on the viewpoint of each individual customer. Based on these actions, we will reflect customer viewpoints in every aspect of business activities.



### A new approach to customer satisfaction

To increase customer satisfaction, the Daiwa House Group believes it necessary for customers' opinions to directly guide its businesses. We have established a new central coordinating office for improving CS Division (comprising CS Planning Department, CS Promotion Department, and Quality Assurance Department), and are taking various measures to ensure that business and product issues and quality improvement are addressed based on customers' views and wishes.

We have also opened a single central Customer Center, replacing regional Customer Advice Centers, to field queries regarding housing inspection and repair work now handled by individual branches.

The Customer Center manages progress in inspection and repair processes from initial query to works completion. It also helps the Daiwa House Group meet the wishes of customers at different stages of their lives.

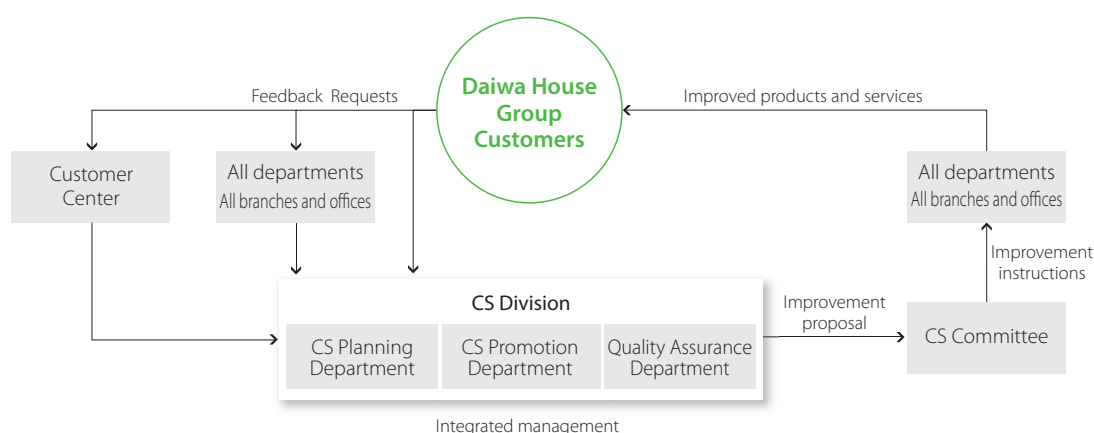
### Product support

In order to further realize quality control measures, from April 2007 Daiwa House Industry has documented construction quality using photographs by implementing an "Independent Verification Photography System for Construction." In addition, to improve after-sales services, we operate a long-term guarantee system called the 21c Secure Support System that guarantees houses' structural framework and water proofing for up to 40 years. Our new product **xevo**, launched in September 2006, includes a guarantee system that expands the scope of the initial guarantee. We have also increased the ratio of full-time regular employees engaged in after-sales services to 80% and are working to improve their skills with a company examination scheme.



Daiwa House Customer Center

### Improvement activities based on customer viewpoints



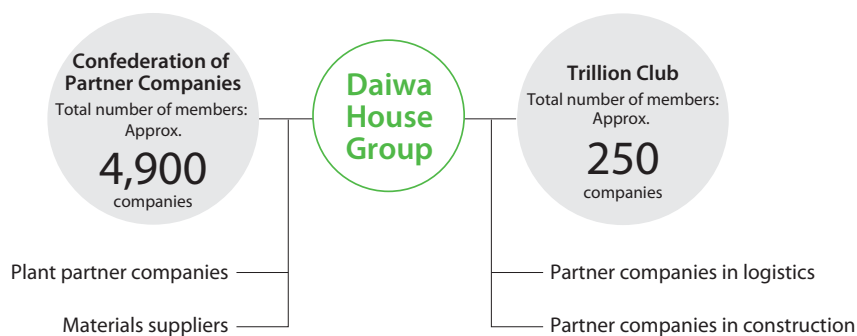
→ Target 2008

The Daiwa House Group values feedback from customers. Through the Customer Center, we are enhancing our organization to quickly respond to customer requests. We are also improving product quality and conducting follow-up activities to ensure that customers can live in security long into the future.





# Partners

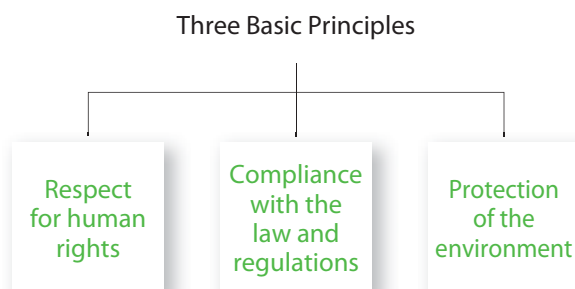


## Plan Realize our Vision of Co-creating a Bright Future, by Maintaining and Strengthening Good Relationships with our Business Partners

The Daiwa House Group pursues its vision of co-creating a brighter future by maintaining and strengthening relationships with business partners and by continuing to create high-quality products and services. As a part of this endeavor, we have created networks to support our supply chains. Construction companies with which we partner have been grouped into the Confederation of Partner Companies while materials suppliers form the membership of the Trillion Club. These groups undertake a range of activities.



## Conduct Guidelines for Partner Companies



The Daiwa House Group is committed to building transparent and proper relationships, on an equal and fair footing, as a major partner of companies it does business with, based on the Code of Ethics and Behavioral Guidelines of the Daiwa House Group, the Group's blueprint for generating trust in society at large. The Group has also compiled a set of the Conduct Guidelines for Partner Companies, based on the three basic principles of respect for human rights, compliance with the law and regulations and protection of the environment. It is also taking measures to win support for this from the Confederation of Partner Companies and the Trillion Club, which group major business partners, and to improve morale and instill corporate social responsibility at partner companies too.

### Activities of major business and collaboration companies

The Confederation of Partner Companies has 84 branches and eight offices around Japan. Activities in fiscal 2006 were based on the four themes of safety, quality, improvement and marketing promotion. The Daiwa House Group is building relationships in such a way as to ensure access to new skills and effective building techniques developed on an ongoing basis by the companies with which it collaborates.

To ensure the workplace safety of employees from partner companies, we plan to introduce a system of safety checks for outside workers during fiscal 2007, to minimize disaster impact.

The Trillion Club is committed to reduction of environmental footprint and to environmental awareness-raising at each member company. During fiscal 2006, it continued initiatives of the previous fiscal year such as the eco-driving training to improve awareness of the need to reduce carbon dioxide emissions. The Daiwa House Group evaluates suppliers based on strict selection standards for partner companies, to ensure proper business relationships.

### Enhancing morale and promoting corporate social responsibility

Daiwa House Industry has introduced safety patrols and safety training at construction sites to foster a safety-first culture and minimize workplace accidents, in line with its commitment to respect for human rights in its Conduct Guidelines for partner companies. In line with safety and hygiene action program based on the annual safety and hygiene basic plan, we are committed to preventing accidents at the work site and ensuring maximal hygiene management, as well as an appropriate level of on-site discipline.

Based on the basic contract for subcontracting, which is covered by the Construction Industry Law, and Subcontractor Law, we are fulfilling our legal obligations by using more transparent payment terms and formats in dealings with partner companies.

Environmental protection measures taken with our partner companies include reduction of environmental footprint through standardized green purchasing and eco-driving initiatives.

## → Target 2008

The Daiwa House Group attaches the highest priority to good relations with business partners, and is determined to work with them for social progress. We are developing a proprietary supply chain management system to position us to deliver high-quality products to the customer.



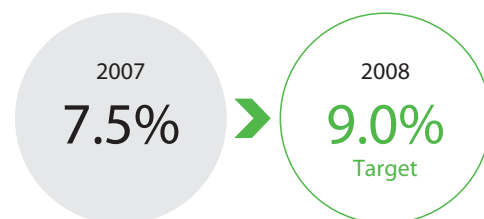
Safety patrol





# Shareholders

ROE (Return on equity)



## Plan Increase Enterprise Value by Increasing Management Transparency

Our basic policy on total shareholder return is to continue offering appropriate dividends while considering the amount of retained earnings required for enhancement of our management foundation as well as future business development.

In addition, we intend to flexibly raise shareholder returns, depending on our earnings situation, while enhancing our financial position in order to expand our business foundation, including expanding the number of sales bases, investing in production facilities, and conducting R&D to increase our competitiveness and revenue.

Rating Information  
(As of July 31, 2007)

### Long-term credit ratings

**AA-**

Rating and Investment Information (R&I)

**AAp**

Japan Credit Rating Agency (JCR)

**A2**

Moody's Japan

### Short-term rating

**a-1+**

Rating and Investment Information (R&I)



### Disclosure of timely IR information

Led by the Finance Department, we are developing IR activities with the aim of shaping a fair stock price and increasing our enterprise value. Meetings with analysts are held twice a year at the time results of Company's performance are announced. In addition, IR tools, such as financial fact books and annual reports are uploaded on the company website in order to convey our management vision and details of business performance quickly and fairly, to not only institutional investors but also individual investors.

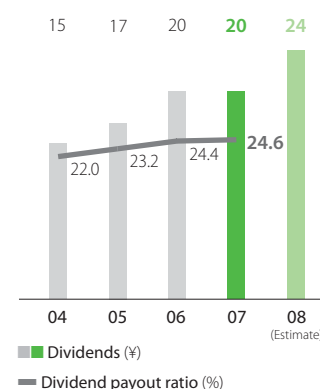
Furthermore, as over 30% of our shares are foreign-owned (33.2% as of March 31, 2007), we are also increasing efforts to expand IR activities for shareholders and investors abroad. In fiscal 2006 we visited a total of 70 companies seven times in Europe, the United States, Asia and Australia. Continuing in fiscal 2007 as well, top executives will visit companies to help deepen their understanding of our business.

In the future as well, we will disclose information in a timely and appropriate manner in cooperation with related divisions, further enhance our range of IR tools, and actively seek to participate in conferences geared toward institutional investors in Japan.

In addition, by accurately assessing and responding to the needs of shareholders and investors through the feedback received in meetings and telephone and Internet inquiries, we will develop increasingly effective IR activities. Opinions received from our stakeholders are carefully considered and reported to the Group's top management, and constitute a valuable form of feedback that we utilize to improve our business operations.

Currently, preparations are underway to distribute IR information through an e-mail service for shareholders to enable more prompt IR activities.

### Dividends and dividend payout ratio



### The Group's Investor Relations Calendar

Events	2007												2008				
	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May			
Announcement of FY2006 accounts settlement		>															
Notice of convocation of Annual General Meeting of Shareholders			>														
Annual General Meeting of Shareholders			>														
Full-term Business Report and special gifts delivered to shareholders			>														
Announcement of accounts settlement for FY2007 Q1					>												
Publication of Annual Report						>											
Announcement of accounts settlement for FY2007 first half								>									
Distribution of business report for FY2007 first half									>								
Announcement of accounts settlement for FY2007 Q3												>					
Announcement of FY2007 accounts settlement																>	

\* The schedule is subject to change without notice.

## → Target 2008

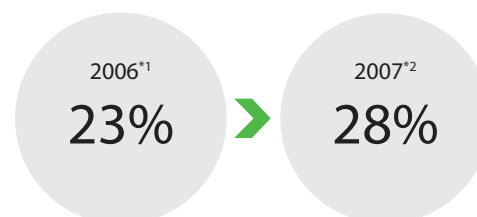
Going forward, we will implement disclosure more actively. We will begin an e-mail service to distribute IR information to our shareholders. We remain committed to IR activities at the management level for our investors in Japan and abroad.





# People

Percentage of women among the new hirings



\*1 From April 1, 2005 to March 1, 2006

\*2 From April 1, 2006 to March 1, 2007  
(Daiwa House Industry, non-consolidated)

## Plan Develop Company Culture to Increase the Motivation and Abilities of Human Resources

Motivated employees and increased capabilities are significant drivers of company growth. Based on the principles of freedom of choice and independence, the Daiwa House Group is developing personnel systems that enable individual employees to focus on their own career development. Within these systems, we are encouraging the employment and promotion of women to reflect women's increasing societal advancement. We are also focusing efforts on creation of working environments, human resources training and employment of the elderly and physically disabled to foster a company culture in which everyone may participate.



### Human resources training based on freedom of choice and independence

A program in which motivated employees nominate themselves for the position of branch manager has been further developed to include a training program. From April 2007, nine branch managers have been appointed in this system. In fiscal 2006, 19 employees signed up for the Free Agent (FA) system in which they can select their desired position, while 30 people transferred to their desired position or department as part of an in-house recruitment system.

Moreover, the "Di-Q Examination" was introduced on a trial basis in July 2006. The in-house certification scheme, which certifies and enhances the practical competencies of new and young employees, was fully introduced in July 2007. A number of other training programs, including an optional career development training scheme open to all employees, are being continuously enhanced to respond to employees' spirit of challenge and perseverance.

### Employment and promotion of women

To institutionalize efforts to create suitable workplaces for female employees, Daiwa House Industry set up a women's organization called the Wave Heart Project in November 2004, which became the Wave Heart Promotion Office in May 2007. We launched the Work-Life Balance Support System in April 2007 to conduct activities with the goal of creating a company culture male and female employees can thrive in.

Daiwa House Industry is annually increasing the percentage of women employed. In fiscal 2006 women accounted for 28% of the total number of employees, a five-point increase from fiscal 2005. In addition, there were eight women in management positions as of April 2006 and 13 as of April 2007, indicating the increasing appointment and promotion of women. Going forward, we will continue to actively train employees at the level of chief as candidates for future middle management positions.

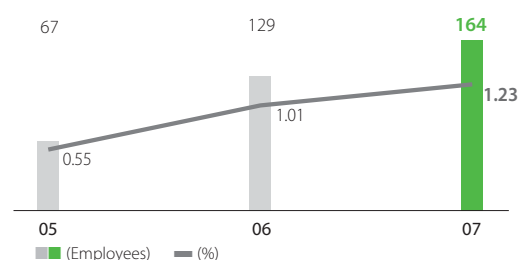
### Development of workplace environments enabling everyone to participate

Daiwa House Industry aims to improve workplace environments, taking into consideration the health of employees along with enhanced support for family life. In addition to initiatives such as the workplace selection program, a half-day paid leave transfer system and a paid leave reserve system, in April 2007 we introduced a Work-Life Balance Support System, which encourages men to participate in childrearing and to take paid leave, in continued efforts to create an environment in which everyone can work and take leave.

### Re-employment of the elderly and employment of the physically disabled

Daiwa House Industry revised the post-retirement re-employment system expanding the system from the management class to general employees as well in April 2006. The uniform compensation system was also modified to a scheme based on individual performance. In addition, the percentage of employees with disabilities was 1.9% as of April 1, 2007, which is higher than the legally stipulated rate of 1.8% for the thirteenth year in a row. We strive to realize rewarding employment and compensation policy for the able-bodied and the disabled, regardless of age.

### Number and percentage of female chiefs and assistant managers\*



\* Figures as of April of each year. Percentages in proportion to the total number of full-time regular employees.

## → Target 2008

We aim to recruit and professionally develop human resources to build the Daiwa House Group's future and shoulder the company's social responsibility. Without commitment, we cannot expect that the Daiwa House Group and its employees will grow together, or lay the groundwork to win the trust of society for the whole Group and its employees. We will create workplaces where each of our employees can allow their abilities to flower.

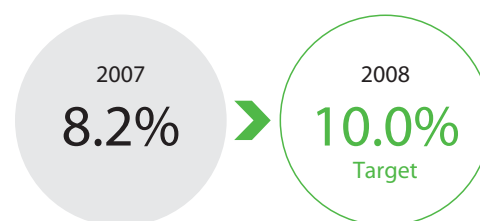




Kidzania Tokyo

# Community

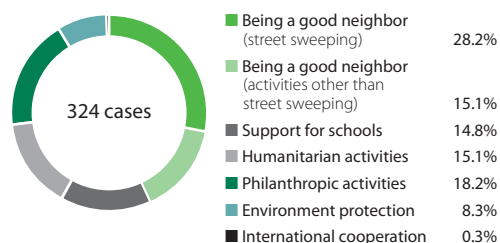
Percentage of paid holidays given over to voluntary activities by each employee over the year  
(Daiwa House Industry, non-consolidated)



## Plan Harmony with the Environment and Society through Community Support Activities

As a corporate citizen operating in harmony with the environment and local communities, the Daiwa House Group is involved in a range of community support activities on an ongoing basis. Through these activities, we contribute to the development of all of society and to a better living environment.

Community support activities in fiscal 2006  
(Daiwa House Industry, non-consolidated)





## Support for local schools

At the local school level, the Daiwa House Group's aim is to get children to start thinking about housing and employment issues. The number of schools we work with has increased from seven in fiscal 2005 to 13 in fiscal 2006. In November 2006, Daiwa House Industry sent guest teachers to an open class under the 43rd Committee on Elementary School Home Economics Education Research. Work experience programs are operated by Daiwa Royal Hotels on an ongoing basis.

Many children have also visited our pavilion at the workplace experience culture lessons at the Kidzania Tokyo since it opened in October 2006.



Kids Eco Workshop

## Cooperation with NPOs and NGOs

The Daiwa House Group works in partnership with many NPOs and NGOs as well as local communities. In fiscal 2006, we were cooperatively involved in the "Dreams Come True School" educational project organized by the Osaka Chamber of Commerce and Industry and the NPO Japan Association for Educational Innovation (JAE), and in graffiti removal activities organized by Yokohama City and the NPO "I Love Tsuzuki."

## Funds and charitable activities

In October 2005, Daiwa House Industry launched a charity fund for employee donations. In fiscal 2006, we raised ¥9,736,878 for disaster relief, and ¥6,828,187 for welfare, environment and education purposes. In fiscal 2006, Daiwa House Industry supported 324 educational support and volunteer activities and other projects.

### Fiscal 2006 Our major community support initiatives

#### Daiwa Resort

**234 cases**

Ran workplace experience and internship programs and participated in regional events (hotels all over Japan)

#### Nippon Athletic Service (NAS)

**78 cases**

Ran workplace experience programs and helped stage events designed to promote sports and health at the regional level (sporting facilities all over Japan)

#### Daiwa Lease

**76 cases**

Took part in street-cleaning activities in areas around branches and offices all over Japan, with individual employees participating in local volunteer activities

#### Royal Home Center

**48 cases**

Ran workplace experience programs for middle-school students (outlets all over Japan)

#### Daiwa Rakuda Industry

**18 cases**

Organized street-cleaning activities around offices and factories, and ran blood-donation points

#### Daiwa Royal Golf

**10 cases**

Sponsored local festivals, making available car-parking facilities, and ran a workplace experience program for middle-school students

## → Target 2008

By drawing on its experience and expertise as a corporate player, the Daiwa House Group aims to expand its community support activities in three domains: environment, welfare and education. While participating in community activities that meet local and societal aspirations, we aim to help our employees develop individually at the same time.







Percentage of Japanese companies with high priority on CSR

75%

## Taking responsibility for the future

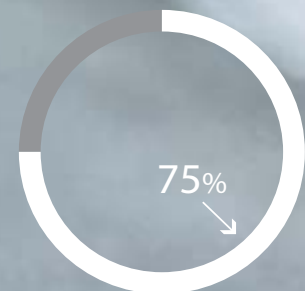
Our choices today determine their lives tomorrow



Promises that are made must be kept, there should be no lying, and one should always work hard. Adults were supposedly taught these things, and yet some disregard these rules. How can they face children and hold up their heads as working members of society? We hear reports of corporate misconduct on a daily basis. Companies must acknowledge their social responsibilities, must exercise appropriate discretion and do what needs to be done, and must shun illegal or unethical behavior. Among the member companies of the Nippon Keidanren (Japan Business Federation), 75.2% indicated that they are making CSR considerations a priority in the conduct of their corporate activities. The Daiwa House Group promises to conduct its business activities with integrity, so as to maintain the respect of both children and adults alike.

Corporate priority on CSR

■ High priority  
■ Others

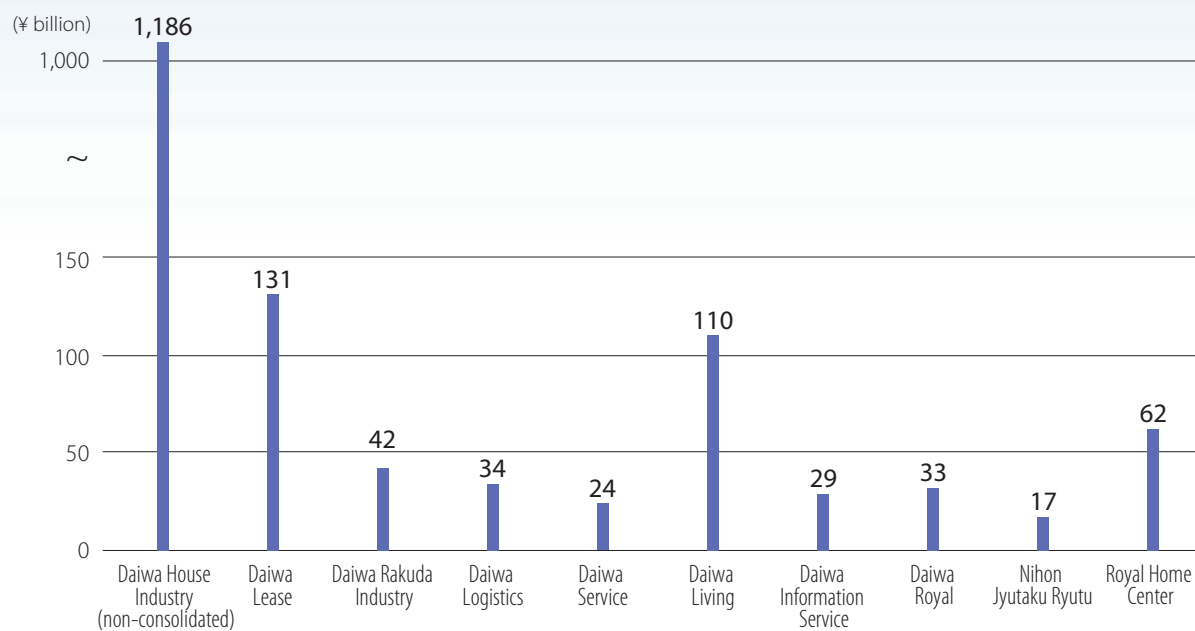




# Financial Information



Sales of major Daiwa House Group companies





<b>110</b>	<b>Consolidated Seven-Year Summary</b>
<b>111</b>	<b>Management's Discussion and Analysis</b> (On a Consolidated Basis)
111	Business Environment and Financial Strategy
112	Results of Operation
116	Liquidity and Capital Resources
119	Outlook for the Current Fiscal Year, Ending March 2008
<b>120</b>	<b>Consolidated Financial Statements</b>
120	Consolidated Balance Sheets
122	Consolidated Statements of Income
123	Consolidated Statements of Changes in Equity
124	Consolidated Statements of Cash Flows
<b>126</b>	<b>Notes to Consolidated Financial Statements</b>
126	① Basis of Presenting Consolidated Financial Statements
126	② Summary of Significant Accounting Policies
130	③ Acquisition of Minority Interests
130	④ Marketable and Investment Securities
131	⑤ Inventories
131	⑥ Land Revaluation
132	⑦ Long-Lived Assets
133	⑧ Short-Term Bank Loans and Long-Term Debt
133	⑨ Retirement and Pension Plans
134	⑩ Equity
136	⑪ Segment Information
138	⑫ Other Income (Expenses): Other — Net
138	⑬ Income Taxes
139	⑭ Research and Development Costs
139	⑮ Leases
140	⑯ Derivatives
141	⑰ Contingencies
141	⑱ Subsequent Event
<b>142</b>	<b>Independent Auditors' Report</b>



# Consolidated Seven-Year Summary

Daiwa House Industry Co., Ltd. and Subsidiaries  
Years Ended March 31, 2001 to 2007

	Millions of yen						
	2007	2006	2005	2004	2003	2002	2001
Net sales	¥1,618,450	¥1,528,983	¥1,365,914	¥1,224,648	¥1,184,544	¥1,197,925	¥1,016,237
Cost of sales	1,283,587	1,213,644	1,082,133	963,457	936,861	945,474	794,170
Selling, general and administrative expenses	249,184	235,267	215,932	201,530	202,411	206,420	177,777
Operating income	85,679	80,072	67,849	59,661	45,272	46,031	44,290
Income (loss) before income taxes and minority interests	76,449	82,155	63,108	67,897	(155,157)	9,538	12,796
Net income (loss)	46,394	45,184	40,262	37,257	(91,388)	5,217	6,256
Total assets	1,630,022	1,475,197	1,358,807	1,087,658	1,094,441	1,187,127	1,066,457
Equity	661,145	576,534	524,110	493,050	483,684	582,438	613,867
Property, plant and equipment, less accumulated depreciation	602,260	505,471	441,388	344,268	349,646	426,630	383,853
Capital investments	136,171	110,144	56,696	20,108	24,711	64,432	30,559
Depreciation	29,536	26,815	19,243	15,165	21,386	20,883	19,731
Net cash provided by operating activities	136,061	90,482	56,095	69,659	40,459	87,021	64,074
Net cash used in investing activities	(172,074)	(107,857)	(53,069)	(25,937)	(27,316)	(36,229)	(25,273)
Net cash provided by (used in) financing activities	14,318	(9,264)	5,889	(6,126)	(57,713)	(89,535)	(6,217)
Issued and outstanding (thousands)	587,158	546,916	546,223	546,426	546,816	546,054	519,340
Stock prices at the end of term (in yen)	1,933	2,040	1,232	1,328	683	815	811
Per share of common stock (in yen):							
Basic net income (loss)	81.15	81.88	73.26	68.16	(167.06)	9.55	12.05
Equity	1,122.88	1,053.37	959.08	902.32	884.55	1,066.63	1,182.01
Price earnings ratio (PER) (times)	23.82	24.91	16.82	19.48	—	85.31	67.30
Price to book value ratio (PBR) (times)	1.72	1.94	1.28	1.47	0.77	0.76	0.69
Return on equity (ROE) (%)	7.5	8.2	7.9	7.6	(17.1)	0.9	1.0
Equity to total assets (%)	40.4	39.1	38.6	45.3	44.2	49.1	57.6
Current ratio (%)	136.1	145.1	159.0	177.6	174.2	157.5	195.0
Fixed ratio (%)	145.8	148.3	142.4	119.0	129.5	110.6	88.8

Notes: 1. Beginning with the fiscal year ended March 31, 2007, minority interests have been included in equity.

2. Excluding shares in treasury.



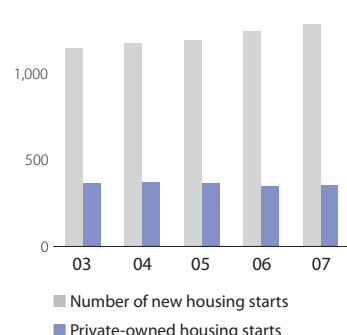
# Management's Discussion and Analysis (On a Consolidated Basis)

Year Ended March 31, 2007

## Business Environment and Financial Strategy

### New housing starts and private-owned housing starts

(Thousands of units)  
1,500



During the term under review, the fiscal year 2006, ended March 31, 2007, the Japanese economy traced a moderate recovery path against the backdrop of firm corporate earnings. Although consumer spending showed signs of weakness, capital investment and production were robust.

In the housing industry, signs of a recovery in starts for private-owned housing emerged, due to a tailing off of the decline in land prices and concerns over higher interest rates in the relatively near future. The number of new housing starts overall, including an increase in houses for rent, has been recovering. In the general construction sector, a continued downward trend in public investment prevented a full-fledged recovery, despite an increase in private capital investment.

In this business environment, the Group worked at building a structure that looks after our ties with clients by strengthening intra-group cooperation and offering an integrated service from construction through to management and maintenance. Our First Medium-Term Management Plan "Challenge 2005" has as its objective the establishment of a corporate Group that co-creates value for individuals, communities and people's lifestyles. During fiscal 2006, which coincides with the second year of the plan, management set out its future direction, with strengthening Group ties in business segments, and active investment in future growth. Our moves to develop core technologies resulted in the launch of **xevo**, a two-storey single-family house utilizing our first new construction method for 25 years. We also made efforts to anchor our marketing mechanisms more firmly in their local areas and offer more finely tailored services. In addition, we took a measure to reinforce our Group management structure. This was achieved by management integration of our three subsidiaries listed on the TSE, Daiwa Kosho Lease (name changed to Daiwa Lease from April 1, 2007), Daiwa Rakuda Industry and Daiwa Logistics, by means of share exchange transactions.

As a part of our active investment in future growth, we focused on the purchase and development of real estate in preparation for establishing our own real estate investment trust (REIT). We also utilized M&A and alliances in the non-construction sectors, such as the establishment of Daiwa House Financial (the credit card business through joint capital investment with Credit Saison Co, Ltd.) and Daiwa House Insurance (non-life insurance agency services). In other measures, we entered a capital participation in ELIY Power (lithium battery business) and an operational tie-up agreement with CYBERDYNE Inc. (a robot suit business).

We are focusing on CSR activities as a priority management issue based on three policies: contributing to society through the development of in-house technologies and know-how; making genuine efforts to understand and respond to demands on the Group for closer involvement and communication with stakeholders (interested parties) as a responsible corporate citizen; and working to establish Corporate Ethics and Compliance Guidelines. We believe these CSR activities are prerequisites for raising our enterprise value.

### Numerical Targets and Achievements under First Medium-Term Management Plan, "Challenge 2005"

	FY2005 (achieved)	YoY increase	FY2006 (achieved)	YoY increase (decrease)	FY2007 (targeted)	Expected growth rate
Sales	¥1,529.0	11.9%	¥1,618.5	5.9%	¥1,700.0	5.0%
Recurring profit*	103.1	38.9%	89.4	(13.3%)	100.0	11.9%
ROE	8.2%	—	7.5%	—	9.0%	—

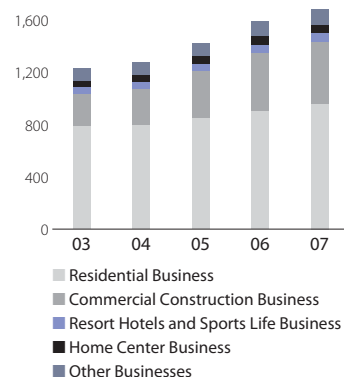
\* Due to reclassification, recurring profit does not appear on the income statement.



## Results of Operation

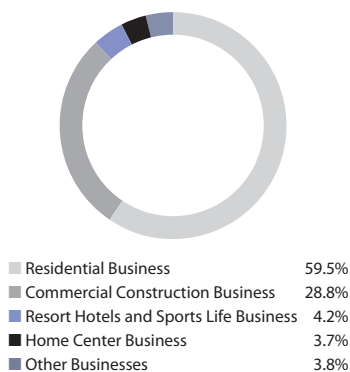
### Sales

(¥ billion)  
2,000



Note: Prior to consolidation adjustments.

### Sales breakdown by segment



Note: Percentages refer to sales to outside customers.

The Medium-Term Management Plan "Challenge 2005," with the objective of growth and development through the promotion of group management, sets minimum targets for the plan's final year ending March 2008 of ¥1,700 billion in sales, recurring profit\* of ¥100 billion and ROE of 9.0%.

In fiscal 2006, the second year of the current plan, the Group reported sales of ¥1,618.5 billion (US\$13,716 million), up 5.9% year-on-year, recurring profit of ¥89.4 billion (US\$757 million), down 13.3%, and ROE of 7.5%. The decline in recurring profit and ROE from the previous fiscal year is mainly attributable to one-time factors. In the previous fiscal year, we booked a substantial actuarial gain due to changes in pension assumptions, which pushed up net income. The decline in ROE was partly due to an increase in equity from share issues related to the conversion of three companies into wholly-owned subsidiaries. Excluding these non-recurring factors, recurring profit would have risen 5.9%, in line with business plan targets.

\* Due to reclassification, recurring profit does not appear on the income statement.

### Sales

Sales for fiscal 2006, rose 5.9% to ¥1,618.5 billion (US\$13,716 million), setting a record high for the fourth year in a row. The Commercial Construction Business was the driver of sales as in the previous fiscal year, but there were signs of a bottoming-out in our mainstream Residential Business against a background of recovering economic trends and some concerns over interest rate rises. The effect of new products in the single-family housing market was particularly noticeable, with orders received recording firm increases on a non-consolidated basis in both unit numbers and value, up 3.0% and 4.7% respectively.

Sales by segment (prior to consolidation adjustments) were ¥965.9 billion (US\$8,186 million; up 6.2% year-on-year) in the Residential Business, ¥477.7 billion (US\$4,048 million; up 7.3%) in the Commercial Construction Business, ¥67.8 billion (US\$574 million; up 1.9%) in the Resort Hotels and Sports Life Business, ¥62.2 billion (US\$527 million; down 1.6%) in the Home Center Business and ¥124.6 billion (US\$1,056 million; up 2.2%) in Other Businesses. Sales increased in every business segment except the Home Center business, which booked a decline.

### Sales by Segment

	(¥ million)		
	2006	2007	YoY increase (decrease)
Residential Business	¥ 909,588	¥ 965,898	6.2%
Commercial Construction Business	445,251	477,692	7.3%
Resort Hotels and Sports Life Business	66,482	67,762	1.9%
Home Center Business	63,274	62,241	(1.6%)
Other Businesses	121,982	124,647	2.2%
Total	1,606,577	1,698,240	5.7%
Eliminations/corporate	(77,594)	(79,790)	—
Consolidated	1,528,983	1,618,450	5.9%

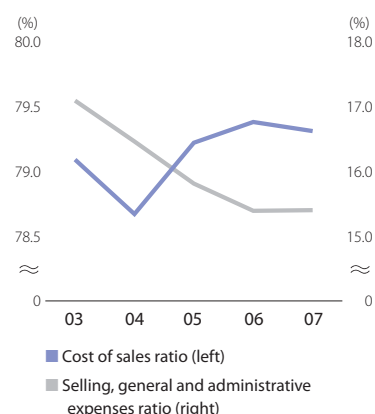
Note: Segment sales are shown prior to consolidation adjustments.

### Cost of sales, and selling, general and administrative expenses

The cost of sales increased ¥69.9 billion from the previous fiscal year to ¥1,283.6 billion (US\$10,878 million). Despite crude oil surging to historical highs and raw material price hikes caused by tight supply, primarily attributable to expansion of construction demand in China, the rise in the cost of sales was limited. As a result, the cost-of-sales ratio improved to 79.3%, 0.1 percentage point better than the previous fiscal year. We believe that this was due in part to the effects of the strengthening of our procurement system, stipulated in the Basic Strategies in our First Medium-Term Management Plan for the promotion of bulk purchasing within the Group.



Cost of sales and selling, general and administrative expenses ratios



Selling, general and administrative expenses rose ¥13.9 billion from the previous fiscal year to reach ¥249.2 billion (US\$2,112 million). There were increases in advertising expenses related to the launch of new products, personnel expenses and expenses under pension accounting, but continued efforts to reduce expenses, starting with sales promotional costs, bore fruit. The ratio of selling, general and administrative expenses to sales was kept at 15.4%, the same level as the previous fiscal year.

## Operating income

Thanks to contributions from increased sales and a decline in the cost of sales, operating income rose 7.0% from the previous fiscal year to reach a historically high level of ¥85.7 billion (US\$726 million), outperforming the previous fiscal year by ¥5.6 billion. Although operating income in Other Businesses declined, higher operating income in all remaining businesses meant that the operating income margin improved by 0.1 percentage point to 5.3%.

### Operating Income by Segment

	2006	2007	YoY increase (decrease)	Operating income margin
Residential Business	¥50,698	¥53,070	4.7%	5.5%
Commercial Construction Business	39,418	46,896	19.0%	9.8%
Resort Hotels and Sports Life Business	1,002	1,148	14.6%	1.7%
Home Center Business	1,107	1,772	60.1%	2.8%
Other Businesses	4,559	4,373	(4.1%)	3.5%
Total	96,784	107,258	10.8%	6.3%
Eliminations/corporate	(16,712)	(21,580)	—	—
Consolidated	80,072	85,679	7.0%	5.3%

## Business overview by segment

### Residential Business

In the Single-Family House Division, **xevo**, a two-storey single-family house product launched in September 2006 and featuring our first overhaul in building methods in 25 years, lowered post-construction "lifecycle costs" through the use of external walls with air filtration and heat insulation, renowned for their insulation and durability, the "XE-coat" external surfacing, capable of maintaining its beautiful finish for a long period, and a solar power generation system, a highly effective means of reducing energy costs. By the end of fiscal 2006, orders received had surpassed 1,700 units on a non-consolidated basis. The Group undertook an aggressive marketing promotion with the launch of JIZAI, a wooden two-story family home with free design, joining **xevo** as core products in the Single-Family Houses Division. These factors resulted in unit sales of single-family houses, including single-family subdivisions, falling 2.8% year-on-year to 11,264 units, with sales falling 0.7% to ¥331.6 billion (non-consolidated basis, excluding land sales). In this division, sales to outside customers increased 1.3% to ¥389.1 billion.

In the Rental Housing Division, the Group further reinforced its marketing activities in city areas by providing a broad range of support for property owners and expanded its customer base. It was able to give owners a greater sense of security, which is indispensable for engaging in long-term property management. Unit sales rose 3.9% year-on-year, to 28,738 units, while sales rose 5.3% to ¥256.1 billion (non-consolidated basis). In this division, sales to outside customers increased 11.2% to ¥381.4 billion.

In the Condominium Division, in addition to reinforcing business development in the large urban centers, the Group actively engaged in the development of large-scale projects and complex-type projects in areas other than the nation's three megalopolises. As a result of these efforts, unit sales rose 13.4% year-on-year, to 4,981 units and sales rose 8.0% to ¥108.0 billion



(non-consolidated basis, excluding land sales). In this division, sales to outside customers increased 7.7% to ¥162.6 billion.

In the Renovations Division, the Group prepared proposals maximizing its accumulated know-how as a housing manufacturer and provided services matching the characteristics and lifestyle of each customer. As a result, sales to outside customers increased ¥28.3 billion, a year-on-year increase of 3.7%.

These factors contributed to a 6.2% year-on-year rise in sales to ¥965.9 billion (US\$8,186 million) and a 4.7% rise in operating income to ¥53.1 billion (US\$450 million). The operating income margin dropped 0.1 percentage point to 5.5%.

### **Commercial Construction Business**

Boosted by this operating environment, our Commercial Facilities Division in fiscal 2006 built many shopping facilities along main arterial roads in suburban residential areas, leveraging its consultancy capabilities grounded in its expertise in land-use data and in supporting store-openings by tenants built up through its LOC system. In addition, it built up the scope of retail operations through moves such as an alliance with Uniqlo Co., Ltd., a clothing company under First Retailing Co., Ltd. At the same time, the division is also developing large-scale commercial complexes with multiple specialist stores and restaurants and bars on very large sites, such as the Foleo Hirakata and Foleo Town Tsutsui complexes. As a result, sales to outside customers increased 7.2% to ¥336.8 billion, and the rented floor space rose 15.9% to 3,014,000 square meters, with more than 4,700 corporate tenants.

The Distribution, Medical/Nursing Care and Corporate Facilities Division proposes logistics real estate solutions based on more efficient operation of logistics and food-related facilities and superior services, and also supports construction and operation of medical and nursing care facilities to meet the needs of a graying society, as well as buildings showrooms, offices and offices with warehousing. Achievements this fiscal year were the construction of Clinic Building in Nagoya and establishment of the "D Project Urayasu" distribution facility. As a result, sales in this division to outside customers increased 5.6% to ¥129.5 billion.

These factors resulted in sales rising 7.3% year-on-year, to ¥477.7 billion (US\$4,048 million), operating income rising 19.0% to ¥46.9 billion (US\$397 million), and the operating income margin reaching 9.8%, 0.9 percentage point higher than the previous fiscal year.

### **Resort Hotels and Sports Life Business**

In a move to strengthen the operating base of the Resort Hotels Business, Daiwa House Industry transferred its resort hotel business to Daiwa Resort, a consolidated subsidiary, and signed a trustee contract with the newly-established Daiwa Royal Golf to manage golf courses. The Daiwa Resort attempted to offer better-quality services through more efficient management and more comprehensive staff education in order to increase customer satisfaction. As a result, the number of overnight guest stays rose 5.7% year-on-year, to reach 3.28 million and wedding service customers rose 7.1% to 195,000, even though the capacity utilization ratios of the resort hotels were almost unchanged. Both the number of customers using the golf courses and sales at the golf courses were higher than in the previous fiscal year. In this division, sales to outside customers increased 2.0% to ¥57.2 billion.

In Sports Facilities operations, the NAS opened a new store called NAS Shinkamagaya in Chiba Prefecture, and re-opened three stores after refurbishment. In addition, it established Royton Club as a new outlet in Royton Sapporo, managed by a subsidiary, in an attempt both to develop a broader customer base and diversify its operations. In this division, sales to outside customers increased 1.9% to ¥10.6 billion.



These moves resulted in operating income rising 14.6% to ¥1.1 billion (US\$10 million) and the operating income margin reaching 1.7%, although sales rose only 1.9% year-on-year, to ¥67.8 billion (US\$574 million).

### Home Center Business

The operating environment for the Home Center Business remained harsh, with maturing markets, continuing homogeneity among shops, and increasingly intense competition from other industries. In this environment, the Royal Home Center took measures to distinguish its shops from those of competitors by developing a range of designs that meet customers' needs and regional characteristics, as well as to improve its cost structure. It also opened two new shops and refurbished six shops, with the result that total shop floor space increased by 5.8%. Per-customer spend was higher than the previous fiscal year, despite a decline in customer numbers.

These moves resulted in operating income rising steeply by 60.1% year-on-year, to ¥1.8 billion (US\$15 million), despite a 1.6% fall in sales to ¥62.2 billion (US\$527 million). Thanks to this, the operating income margin improved 1.1 percentage points from the previous fiscal year, to reach 2.8%.

### Other Businesses

In Other Businesses, our Housing Construction Material Manufacturing and Marketing Division made efforts to expand sales of exterior products to house makers, to boost orders received for interior goods, and to broaden the scope of the Infill business, in which we make proposals for layout changes of households in condominiums, and for interior finishing. The business also focused on renting furniture and fixtures for various events and to government agencies.

In the Logistics Division, efforts focused on more efficient use of the Group's business and management resources through the start of a document storage service for branches and offices within the Group companies, done in conjunction with its business alliance partner Sumitomo Warehouse Co., Ltd. We also worked on expanding logistics operations to companies outside the Group through the promotion of integrated storage and transport contracts in the Group's distribution centers.

In our Business Hotels Division, we added five new hotels nationwide, most notably the Daiwa Roynet Hotel Kanazawa.

In other operations, the Group was active in the environmental product field, based on its environmental policy. The small wind-generated power generator "Wind-Blown Whale," a joint development with Nikko Company, received the Good Design Award 2006 for the product design division.

We hope to develop a retail finance business utilizing the Daiwa Saison Card credit card and establish Daiwa House Financial jointly with Credit Saison Co., Ltd. in an attempt to create new profit opportunities and to strengthen ties within each business segment in the Group.

These moves resulted in sales in this business rising 2.2% year-on-year, to ¥124.6 billion (US\$1,056 million), and operating income declining 4.1% to ¥4.4 billion (US\$37 million).

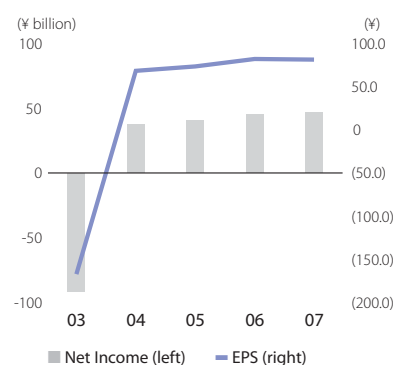
### Other income and expenses

In the other income and expenses account, a ¥2.1 billion net gain in the previous fiscal year turned into a ¥9.2 billion (US\$78 million) net loss for fiscal 2006. The main factor behind this was the fact that the amortization of actuarial gain on employees' retirement benefits fell from ¥21.7 billion in the previous fiscal year to ¥3.2 billion in fiscal 2006.



If we exclude these actuarial gains, there would have been no significant changes in other income. Regardless of an increase in interest payments due to an increase in borrowings, financial income (interest and dividends receivable minus interest payable) remained in the black. Other expenses rose marginally, with real estate valuation losses being constricted by a halt in the decline of land prices. However, the trend toward a healthier asset base continued, and the Group continued to book impairment losses on property, plant and equipment in fiscal 2006.

Net income (loss) and EPS (net loss per share)



## Income before income tax and minority interests

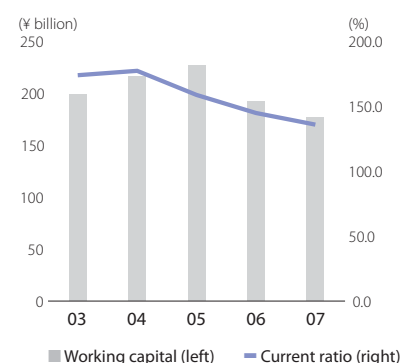
As noted, despite an increase in operating income, a change to net losses in other income caused a 6.9% year-on-year decline in income before income tax and minority interests to ¥76.4 billion (US\$648 million). That said, if we exclude the amortization of actuarial gain for employee's retirement benefits, income before income tax and minority interests would have risen 21.3% year-on-year, from ¥60.4 billion last year to ¥73.3 billion for fiscal 2006.

## Net income

Net income rose ¥1.2 billion (up 2.7% year-on-year) to ¥46.4 billion (US\$393 million), a historical high. The ratio of net income to sales, however, was 2.9%, 0.1 percentage point lower than the previous fiscal year. Earnings per share fell ¥0.73 to ¥81.15 (US\$0.69). This was due to an increase in outstanding shares (by approximately 49 million shares) related to share exchange transactions. The annual dividend was unchanged at ¥20 (US\$0.17) per share.

## Liquidity and Capital Resources

Working capital and current ratio



## Capital resources

For fiscal 2006, the Group obtained its working capital and the funding for its capital investments from the following sources.

## Working Capital

Because we have been reducing cash on hand to increase the efficiency of funds operations, working capital (current assets less current liabilities) for fiscal 2006 decreased by 8.3% year-on-year, to ¥176.7 billion (US\$1,498 million). Meanwhile, the current ratio (ratio of current assets to current liabilities) declined from 145.1% for the previous fiscal year to 136.1%, but as it is still well above 100%, the Group has sufficient asset liquidity.

## Capital Investment

The Group's capital investment in fiscal 2006 increased by 23.6% over the previous fiscal year, to ¥136.2 billion (US\$1,154 million). This investment was funded principally from cash flows provided by operating activities, and long-term loans.

During fiscal 2007, the year ending March 31, 2008, the Group plans capital investment totaling ¥120 billion, principally in the Commercial Construction Business.

## Financial position

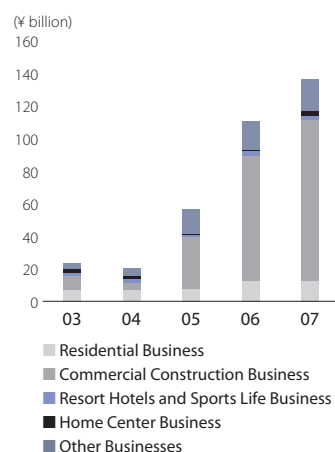
### Current Assets and Liabilities

Total assets on a consolidated basis as of the end of March 2007 stood at ¥1,630.0 billion (US\$13,814 million), up ¥154.8 billion, or 10.5%, over the previous fiscal year-end. This increase is accounted for mainly by the acquisition of real estate for marketing and business use.

Current assets increased by 7.5% year-on-year, to ¥666.3 billion (US\$5,647 million), which is mainly attributable to the acquisition of land and buildings for sale. Moreover, despite an increase in sales, trade receivables declined year-on-year. To raise the efficiency of fund utilization, we attempted to reduce the amount of cash on hand, but a significant decrease

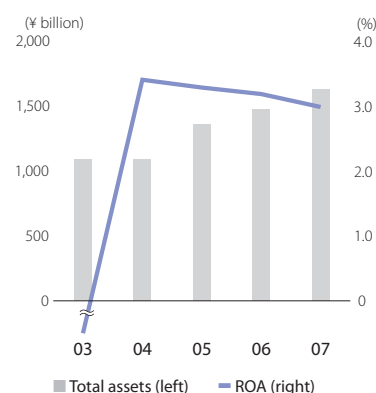


### Capital investment by segment\*

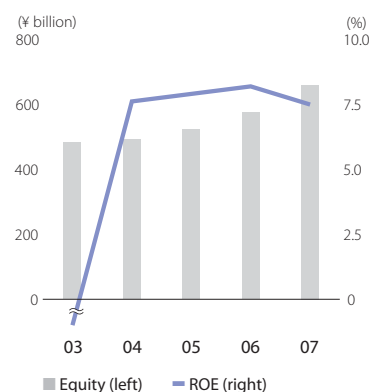


\* Amounts are shown prior to consolidation adjustments.

### Total assets and ROA



### Equity and ROE



in deposits and cash on hand was avoided because the balance-sheet date fell on a Saturday and trade accounts payables with maturities falling on the balance-sheet date were settled on the following business day.

Current liabilities, meanwhile, posted a year-on-year increase of 14.6% to ¥489.6 billion (US\$4,149 million). As explained above, this is principally attributable to an increase in trade accounts payables. In addition, both short-term loans and the current portion of long-term loans (to be repaid within one year) remained at the same level as in the previous fiscal year.

### Noncurrent Assets and Long-Term Liabilities

Property, plant and equipment increased 19.1% over the previous fiscal year-end to reach ¥602.3 billion (US\$5,104 million). The biggest increases in this sector were in land, buildings and structures. Amid expectations of a bottoming-out in land prices, the Group adopted an aggressive stance on the acquisition of land for the construction of rental apartment buildings and large-scale commercial facilities. Purchases were made in preparation for the Group's planned startup of a J-REIT enterprise and are likely to continue increasing in fiscal 2008 and after.

Investments and other assets edged up by 3.4% year-on-year, to ¥361.4 billion (US\$3,062.9 million). Of this, one of the major components was the purchase (through private placement) of an equity stake in Eneserve, with a view to giving Daiwa House Group a foothold in the energy sector.

Long-term liabilities increased 20.8% over the previous fiscal year-end, to ¥479.3 billion (US\$4,062 million), of which the principal component was an increase in long-term loans in view of the likelihood of higher interest rates ahead and the need to secure funding for a sharp increase in investment. As a result, the balance of long-term liabilities rose by ¥37.0 billion to ¥50.6 billion (US\$429 million). As a result of this, the total of the interest-bearing debt rose from ¥22.6 billion at the previous fiscal year-end to ¥58.6 billion at the end of fiscal 2006, bringing the debt/equity ratio (interest-bearing debt/equity) to 8.9%.

### Equity

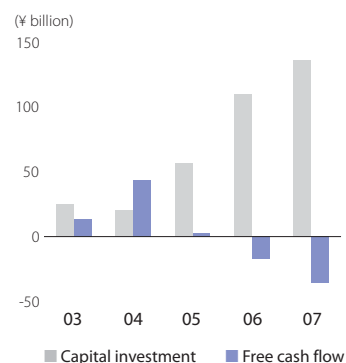
On December 27, 2005, the Accounting Standards Board of Japan (ASBJ) published a new accounting standard for the statement of changes in equity, which is effective for fiscal years ending on or after May 1, 2006. The consolidated statement of shareholders' equity, which was previously voluntarily prepared in line with international accounting practices, is now required under Japanese GAAP and has been renamed "the consolidated statement of changes in equity" in the current fiscal year.

Equity (common stock + capital surplus + retained earnings – treasury stock + net unrealized gain on available-for-sale securities + land revaluation difference + foreign currency translation adjustment) on a consolidated basis increased 14.4% year-on-year, to ¥659.3 billion (US\$5,587 million), due to the posting of net income and an increase in capital surplus resulting from share exchange transactions.

As a result of the foregoing, the Group's equity ratio (equity as a percentage of total assets) rose by 1.3 percentage points over the previous fiscal year-end, to 40.4%. ROE (Return on equity: the ratio of net income to equity) declined by 0.7 of a percentage point from the previous fiscal year, to 7.5%, largely as a result of the growth of equity, while ROA (Return on assets: the ratio of net income to total assets), fell below the previous fiscal year's level by 0.2 of a percentage point, to 3.0%. The main task in this field now facing the Group's management is to raise the return on invested assets (ROIA), responding to this increase in asset value.



### Capital investment\* and free cash flow



\* Prior to consolidation adjustments.

### Minority Interests

To create valuable synergies with the rest of the Group and optimize the allocation of management resources while improving management efficiency, Daiwa House Industry has integrated the managements of its three listed companies – Daiwa Lease, Daiwa Rakuda Industry, and Daiwa Logistics (all listed on the TSE) – through share exchange transactions. The value of the Company's total minority interests has declined sharply by 97.5% from the previous fiscal year-end, to ¥1.8 billion, in line with the full consolidation through share exchange of its three listed companies, to create synergies with the Group, optimize allocation of management resources and improve efficiency.

### Cash Flows

The balance of cash and cash equivalents at the end of the period under review stood at ¥102.1 billion (US\$865 million), ¥21.7 billion down on the end of the previous fiscal year. This is due to the fact that, although there was an increase in trade accounts payables resulting from the balance sheet date falling on a Saturday, aforementioned, this was more than offset by a substantial cash outflow from investing activities.

Net cash provided by operating activities rose ¥45.6 billion to ¥136.1 billion (US\$1,153.1 million). Excluding the one-time factor of an increase in trade accounts payables, however, net cash inflows were virtually unchanged from the previous fiscal year.

Net cash used in investing activities came to ¥172.1 billion (US\$1,458 million), down by ¥64.2 billion year-on-year. The major expenditure here was on the ongoing acquisition of property, plant and equipment. In addition, the value of investment securities acquired also rose over the previous fiscal year.

Net cash provided by financing activities came to ¥14.3 billion (US\$121 million), representing a turnaround to the plus column from the cash outflows seen up to fiscal 2005. The principal factor was the increase in long-term debt. Acting in the opposite direction was dividend payments and net remittance to trust of receivables collected.

In conclusion, free cash flow (net cash inflow from operating activities minus net cash out flow from investing activities) resulted in a net outflow of ¥36.0 billion (US\$305 million).



## Outlook for the Current Fiscal Year, Ending March 2008

Despite some causes for anxiety, such as the fairly fragile state of consumer spending, the Japanese economy is expected to maintain its present recovery trend, driven by continued favorable corporate earnings. For the principal business sector in which the Group is engaged, the number of new housing construction starts is projected to remain firm over the near term in consideration of the expected increase in interest rates.

Amid this business environment, the Daiwa House Group – working to co-create value for individuals, communities and people's lifestyles – intends to create products that will add new value to customers' lives. Our goal is to leverage our experience and expertise to help bring about a society in which more people can live truly fulfilling lives. In June 2006, the Diet passed the Basic Act for Housing, promoting more comfortable living environments for the public. In response, we will create a stock of higher-quality housing and provide environment-friendly housing. The Group aims to simultaneously raise its brand profile and improve its management efficiency, particularly through the marketing of the main products in Daiwa House's **xevo** (pronounced "zeevoh") brand of single-family houses, which bring together the best features of the Group's existing lineup of single-family houses (the five products consist of three steel-frame models and two wooden structure models). At the same time, the Group is also investing considerable management resources in its operations in the field of real estate development, focusing on commercial (retail) facilities and distribution centers.

New upcoming business initiatives include the Group's first entry into the credit card business, and the strengthening of our "Endless Partnership" with our stakeholders through the implementation of various measures under our First Medium-Term Management Plan, "Challenge 2005."

Corporate social responsibility (CSR) is another priority issue. We are improving our in-house training program to raise awareness of the importance of corporate ethics, compliance with laws and regulations, and respect for individual rights. We will continue working to build a management structure that can respond to the requests of our various stakeholders. With regard to products and services, we will expand our environmental protection activities, and use our proprietary technologies to build products – including medical and nursing care facilities – that meet our strict criteria for safety, security and reliability, thereby contributing to society while simultaneously raising our enterprise value.

As a result of these initiatives, in our business performance on a consolidated basis for the coming fiscal year ending March 2008, we envisage sales of ¥1,700 billion, operating income of ¥100 billion, recurring profit of ¥100 billion, and a net income of ¥58 billion. We plan an annual dividend of ¥24.



# Consolidated Financial Statements

## Consolidated Balance Sheets

Daiwa House Industry Co., Ltd. and Subsidiaries  
March 31, 2007 and 2006

### Assets

		Millions of Yen		Thousands of U.S. Dollars <sup>1</sup>
		2007	2006	2007
<b>Current assets:</b>				
<sup>8</sup>	Cash and cash equivalents	¥ 102,127	¥ 123,822	\$ 865,483
<sup>2 e</sup>	Short-term investments	243	199	2,059
<sup>8</sup>	Receivables:			
	Trade notes	10,226	9,278	86,661
	Trade accounts	50,012	51,354	423,831
	Allowance for doubtful receivables	(1,275)	(2,161)	(10,805)
<sup>5</sup>	Inventories	432,328	368,334	3,663,797
<sup>13</sup>	Deferred tax assets	27,685	26,920	234,619
	Prepaid expenses and other current assets	44,988	42,273	381,254
	<b>Total current assets</b>	<b>666,334</b>	<b>620,019</b>	<b>5,646,899</b>
<sup>6 7 8</sup>	<b>Property, plant and equipment:</b>			
	Land	344,107	286,700	2,916,161
	Buildings and structures	439,090	494,944	3,721,102
	Accumulated depreciation	(234,729)	(314,394)	(1,989,229)
	Machinery and equipment	86,031	80,636	729,076
	Accumulated depreciation	(54,104)	(54,917)	(458,508)
	Furniture and fixtures	31,986	37,038	271,068
	Accumulated depreciation	(22,912)	(28,734)	(194,170)
	Construction in progress	12,791	4,198	108,398
	<b>Net property, plant and equipment</b>	<b>602,260</b>	<b>505,471</b>	<b>5,103,898</b>
<b>Investments and other assets:</b>				
<sup>2 d 4</sup>	Investment securities	110,175	103,236	933,686
<sup>2 d</sup>	Investments in and advances to associated companies	11,590	3,797	98,220
<sup>2 d</sup>	Long-term loans receivable	6,287	14,738	53,280
<sup>8</sup>	Lease deposits	155,099	147,366	1,314,398
<sup>13</sup>	Deferred tax assets	53,357	59,113	452,178
<sup>7</sup>	Other assets	32,935	29,988	279,111
	Allowance for doubtful accounts	(8,015)	(8,531)	(67,924)
	<b>Total investments and other assets</b>	<b>361,428</b>	<b>349,707</b>	<b>3,062,949</b>
	<b>Total</b>	<b>¥1,630,022</b>	<b>¥1,475,197</b>	<b>\$13,813,746</b>

See notes to consolidated financial statements.



## Liabilities and equity

		Millions of Yen		Thousands of U.S. Dollars <sup>1</sup>
		2007	2006	2007
<b>Current liabilities:</b>				
<sup>8</sup> Short-term bank loans	¥	6,933	¥ 6,183	\$ 58,754
<sup>8</sup> Current portion of long-term debt		1,070	2,928	9,068
Payables:				
Trade notes		24,975	32,975	211,652
Trade accounts		228,280	136,879	1,934,576
Other accounts		71,220	93,023	603,559
Deposits received from customers		62,870	65,423	532,797
Income taxes payable		15,833	16,212	134,178
Accrued bonuses		20,485	17,950	173,602
Provision for product warranties		6,319	5,740	53,551
Accrued expenses and other current liabilities		51,603	50,056	437,314
Total current liabilities		489,588	427,369	4,149,051
<b>Long-term liabilities:</b>				
<sup>8</sup> Long-term debt		50,570	13,528	428,559
<sup>9</sup> Liability for employees' retirement benefits		94,293	90,235	799,093
<sup>6</sup> Deferred tax liabilities on land revaluation		27,458		232,695
Long-term deposits received from the Company's club members		48,818	54,431	413,712
Lease deposits received		188,944	168,568	1,601,220
Other long-term liabilities		69,206	69,876	586,492
Total long-term liabilities		479,289	396,638	4,061,771
<sup>2 k</sup> Minority interests			74,656	
<b>Equity:</b>				
Common stock, authorized, 1,900,000,000 shares; issued, 599,921,851 shares in 2007 and 550,664,416 shares in 2006		110,120	110,120	933,220
Capital surplus		226,834	148,019	1,922,322
Retained earnings		387,842	355,495	3,286,797
Net unrealized gain on available-for-sale securities		29,874	30,746	253,170
Land revaluation difference		(86,847)	(63,392)	(735,992)
Foreign currency translation adjustments		(822)	(883)	(6,966)
Treasury stock — at cost, 12,763,619 shares in 2007 and 3,748,885 shares in 2006		(7,693)	(3,571)	(65,195)
Total		659,308		5,587,356
Minority interests		1,837		15,568
Total equity		661,145	576,534	5,602,924
Total		¥1,630,022	¥1,475,197	\$13,813,746



## Consolidated Statements of Income

Daiwa House Industry Co., Ltd. and Subsidiaries  
Years Ended March 31, 2007, 2006 and 2005

	Millions of Yen			Thousands of U.S. Dollars <sup>1</sup>
	2007	2006	2005	2007
<b>Net sales</b>	¥1,618,450	¥1,528,983	¥1,365,914	\$13,715,678
<b>Cost of sales</b>	1,283,587	1,213,644	1,082,133	10,877,856
Gross profit	334,863	315,339	283,781	2,837,822
<b>14 Selling, general and administrative expenses</b>	249,184	235,267	215,932	2,111,729
Operating income	85,679	80,072	67,849	726,093
<b>Other income (expenses):</b>				
Interest income and dividends	2,143	1,590	1,067	18,161
Interest expense	(1,750)	(1,321)	(736)	(14,831)
Write-down of marketable and investment securities	(1,808)		(3)	(15,322)
Write-down of inventories	(222)	(6,055)	(2,252)	(1,881)
Loss on sales and disposal of property, plant and equipment	(2,231)	(2,999)	(1,978)	(18,907)
<b>9</b> Prior service benefit (cost)	324	1,000	(2,282)	2,746
<b>9</b> Amortization of actuarial gain for employees' retirement benefits	3,164	21,730	2,214	26,814
<b>7</b> Impairment loss on property, plant and equipment	(5,042)	(5,500)	(1,204)	(42,729)
Loss on sublease agreements		(1,247)	(2,928)	
Expenses in relation to the fiftieth anniversary		(4,323)		
Loss on business restructuring	(4,527)			(38,364)
<b>12</b> Other — net	719	(792)	3,361	6,093
Other income (expenses) — net	(9,230)	2,083	(4,741)	(78,220)
<b>Income before income taxes and minority interests</b>	76,449	82,155	63,108	647,873
<b>13 Income taxes:</b>				
Current	24,369	23,814	21,825	206,517
Deferred	5,613	9,831	(1,468)	47,568
Total	29,982	33,645	20,357	254,085
<b>Minority interests in net income of subsidiaries</b>	(73)	(3,326)	(2,489)	(619)
<b>Net income</b>	¥ 46,394	¥ 45,184	¥ 40,262	\$ 393,169

	Yen			U.S. Dollars
	2007	2006	2005	2007
<b>2 s Per share of common stock:</b>				
Basic net income	¥81.15	¥81.88	¥73.26	\$0.69
Cash dividends applicable to the year	20.00	20.00	17.00	0.17

See notes to consolidated financial statements.



## Consolidated Statements of Changes in Equity

Daiwa House Industry Co., Ltd. and Subsidiaries  
Years Ended March 31, 2007, 2006 and 2005

		Thousands				Millions of Yen						
		Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Net Unrealized Gain on Available-for- Sale Securities	Land Revaluation Difference	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
Balance, April 1, 2004		546,426	¥110,120	¥147,757	¥313,215	¥12,958	¥(86,200)	¥(917)	¥(3,883)	¥493,050		¥493,050
Net income					40,262					40,262		40,262
Cash dividends, ¥15.0 per share					(8,185)					(8,185)		(8,185)
Decrease due to newly consolidation of subsidiaries					(1,953)					(1,953)		(1,953)
Decrease due to exclusion from consolidation of former subsidiaries					(517)					(517)		(517)
Decrease due to exclusion from equity method accounting of former associated companies					(125)					(125)		(125)
Transfer due to sales of land					(16,804)		16,804					
Net decrease in land revaluation difference							166			166		166
2 d	Net increase in unrealized gain on available-for-sale securities					1,705				1,705		1,705
2 q	Foreign currency translation adjustments							(10)		(10)		(10)
Net increase in treasury stock		(203)		2					(285)	(283)		(283)
Balance, March 31, 2005		546,223	110,120	147,759	325,893	14,663	(69,230)	(927)	(4,168)	524,110		524,110
Net income					45,184					45,184		45,184
Cash dividends, ¥17.0 per share					(9,210)					(9,210)		(9,210)
Bonuses to directors and corporate auditors					(226)					(226)		(226)
Decrease due to exclusion from equity method accounting of former associated companies					(527)					(527)		(527)
Transfer due to sales of land					(5,619)		5,619					
Net decrease in land revaluation difference							219			219		219
2 d	Net increase in unrealized gain on available-for-sale securities					16,083				16,083		16,083
2 q	Foreign currency translation adjustments							44		44		44
Net decrease in treasury stock		693		260					597	857		857
Balance, March 31, 2006		546,916	110,120	148,019	355,495	30,746	(63,392)	(883)	(3,571)	576,534		576,534
2 k	Reclassified balance as of March 31, 2006										¥74,656	74,656
Net income					46,394					46,394		46,394
3	Net increase (decrease) in relation to share exchange	40,522		80,707					(3,557)	77,150	(72,471)	4,679
Net decrease in relation to intercompany transaction of treasury stock				(1,895)						(1,895)		(1,895)
Cash dividends, ¥20.0 per share					(10,868)					(10,868)		(10,868)
Bonuses to directors and corporate auditors					(407)					(407)		(407)
Increase due to exclusion from equity method accounting of former associated companies					26					26		26
Transfer due to sales of land					(2,798)		2,798					
Net increase in land revaluation difference							(26,253)			(26,253)		(26,253)
Net increase in treasury stock		(280)		3					(565)	(562)		(562)
Net change in the year						(872)		61		(811)	(348)	(1,159)
Balance, March 31, 2007		587,158	¥110,120	¥226,834	¥387,842	¥29,874	¥(86,847)	¥(822)	¥(7,693)	¥659,308	¥ 1,837	¥661,145

		Thousands of U.S. Dollars ①										
		Common Stock	Capital Surplus	Retained Earnings	Net Unrealized Gain on Available-for- Sale Securities	Land Revaluation Difference	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity	
Balance, March 31, 2006		\$933,220	\$1,254,398	\$3,012,669	\$260,559	\$(537,220)	\$(7,483)	\$(30,263)	\$4,885,880		\$4,885,880	
2 k	Reclassified balance as of March 31, 2006									\$632,678	632,678	
Net income				393,169					393,169		393,169	
3	Net increase (decrease) in relation to share exchange		683,958					(30,144)	653,814	(614,161)	39,653	
Net decrease in relation to intercompany transaction of treasury stock			(16,059)						(16,059)		(16,059)	
Cash dividends, \$0.17 per share				(92,101)					(92,101)		(92,101)	
Bonuses to directors and corporate auditors				(3,449)					(3,449)		(3,449)	
Increase due to exclusion from equity method accounting of former associated companies				220					220		220	
Transfer due to sales of land				(23,711)		23,711						
Net increase in land revaluation difference						(222,483)			(222,483)		(222,483)	
Net increase in treasury stock			25					(4,788)	(4,763)		(4,763)	
Net change in the year					(7,389)		517		(6,872)	(2,949)	(9,821)	
Balance, March 31, 2007		\$933,220	\$1,922,322	\$3,286,797	\$253,170	\$(735,992)	\$(6,966)	\$(65,195)	\$5,587,356	\$ 15,568	\$5,602,924	

See notes to consolidated financial statements.



## Consolidated Statements of Cash Flows

Daiwa House Industry Co., Ltd. and Subsidiaries  
Years Ended March 31, 2007, 2006 and 2005

		Millions of Yen		Thousands of U.S. Dollars <sup>1</sup>
	2007	2006	2005	2007
<b>Operating activities:</b>				
Income before income taxes and minority interests	¥ 76,449	¥ 82,155	¥ 63,108	\$ 647,873
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Income taxes — paid	(26,759)	(22,986)	(22,809)	(226,771)
Depreciation	29,536	26,815	19,243	250,305
Write-down of marketable and investment securities	1,808		3	15,322
Write-down of golf club membership	75	264	121	636
Loss on sales and disposal of property, plant and equipment	2,231	2,999	1,978	18,907
Impairment loss on property, plant and equipment	5,042	5,500	1,204	42,729
Equity in earnings of associated companies	(289)	(350)	(1,611)	(2,449)
Provision for (reversal of) employees' retirement benefits, net of payments	4,059	(29,084)	6,350	34,398
Loss on sublease agreements		1,247	2,928	
Changes in certain assets and liabilities, net of consolidation:				
Decrease (increase) in receivables	289	9,795	(3,090)	2,449
Increase in inventories	(63,528)	(41,598)	(48,814)	(538,373)
Increase in payables — trade	69,767	17,384	25,733	591,246
Increase (decrease) in deposits received from customers	(2,553)	17,418	8,353	(21,636)
Other — net	39,934	20,923	3,398	338,423
Total adjustments	59,612	8,327	(7,013)	505,186
Net cash provided by operating activities	136,061	90,482	56,095	1,153,059
<b>Investing activities:</b>				
Purchases of property, plant and equipment	(150,653)	(90,850)	(56,331)	(1,276,720)
Purchases of marketable and investment securities	(12,722)	(17,018)	(7,876)	(107,813)
Increase in investments in and advances to associated companies	(7,780)	(704)	(85)	(65,932)
Proceeds from sales of marketable and investment securities	4,162	2,777	1,570	35,271
Proceeds from sales of property, plant and equipment	1,478	5,258	4,905	12,525
Purchases of investments in subsidiaries	(330)	(129)	(1,257)	(2,797)
Proceeds from sales of shares of subsidiaries			655	
Net increase from sales of shares of the former consolidated subsidiaries	157		639	1,331
Net proceeds from purchases of shares of the newly consolidated subsidiaries			9,164	
Payments for purchases of shares of the newly consolidated subsidiaries	(16)	(1,898)		(136)
Increase in lease deposits	(3,760)	(1,875)	(2,383)	(31,864)
Net increase in other assets	(2,610)	(3,418)	(2,070)	(22,119)
Net cash used in investing activities	¥(172,074)	¥(107,857)	¥(53,069)	\$ (1,458,254)

(Continued)



	Millions of Yen			Thousands of U.S. Dollars <sup>1</sup>
	2007	2006	2005	2007
<b>Financing activities:</b>				
Net increase (decrease) in short-term bank loans	¥ 495	¥ (6,992)	¥ 750	\$ 4,195
Proceeds from long-term debt	34,015	10,600	7,039	288,263
Repayments of long-term debt	(6,928)	(8,697)	(78)	(58,712)
Proceeds from issue of new stock to minority shareholders	1,200			10,169
Net of purchases and proceeds from sales of treasury stock	(561)	1,017	(132)	(4,754)
Dividends paid to shareholders	(10,868)	(9,210)	(8,185)	(92,101)
Dividends paid to minority shareholders of subsidiaries	(740)	(1,354)	(773)	(6,272)
Proceeds from receivables sold to trust	5,010	10,045	8,446	42,458
Remittance to trust of receivables collected	(7,305)	(4,673)	(1,178)	(61,907)
Net cash provided by (used in) financing activities	14,318	(9,264)	5,889	121,339
<b>Net increase (decrease) in cash and cash equivalents</b>	(21,695)	(26,639)	8,915	(183,856)
<b>Cash and cash equivalents, beginning of year</b>	123,822	150,461	141,546	1,049,339
<b>Cash and cash equivalents, end of year</b>	¥102,127	¥123,822	¥150,461	\$ 865,483
<b>Non-cash investing and financing activities:</b>				
Increase in capital surplus of share exchange	¥ 80,707			\$ 683,958
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 Lease Co., Ltd. (formerly Daiwa Kosho Lease Corporation), former the associated companies including its subsidiaries. Assets and liabilities increased by purchases of shares of Daiwa Lease Co., Ltd. (formerly Daiwa Kosho Lease Corporation) and associated proceeds consisted of the followings:				
Current assets			¥ 65,096	
Long-term assets			140,084	
Current liabilities			(43,093)	
Long-term liabilities			(69,313)	
Goodwill			(1,701)	
Minority interests			(55,403)	
Company's interest prior to acquisition			(32,551)	
Acquisition cost			(3,119)	
Cash and cash equivalents of the consolidated subsidiaries			11,729	
Net proceeds from purchases of shares of the newly consolidated subsidiaries			¥ 8,610	

See notes to consolidated financial statements.

(Concluded)



# Notes to Consolidated Financial Statements

Daiwa House Industry Co., Ltd. and Subsidiaries

## 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 a new corporate law of Japan (the "Corporate Law") and in conformity with generally accepted accounting principles in Japan ("Japanese GAAP"), 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.

On December 27, 2005, the Accounting Standards Board of Japan (the "ASBJ") published a new accounting standard for the statement of changes in equity, which is effective for fiscal years ending on or after May 1, 2006. The consolidated statement of shareholders' equity, which was previously voluntarily prepared in line with the international accounting practices, is now required under Japanese GAAP and has been renamed "the consolidated statement of changes in equity" in the current fiscal year.

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 ¥118 to \$1, the approximate rate of exchange at March 31, 2007. 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.

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary and associated company at the date of acquisition.

Goodwill is reported in the consolidated balance sheets as other assets and is amortized using the straight-line method principally over twenty 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, 2005, Daiwa Lease Co., Ltd. (formerly Daiwa Kosho Lease Corporation) 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.

During the year ended March 31, 2006, Nippon Athletic Service Co., Ltd. and two subsidiaries, have been included in the consolidation as a result of acquisition or new formation and two subsidiaries have been excluded from the consolidation as a result of the sale of their shares or liquidation.

During the year ended March 31, 2007, Daiwa House Financial Co., Ltd. and eleven subsidiaries, have been included in the consolidation as a result of new formation or acquisition and three subsidiaries have been excluded from the consolidation as a result of the sale of their shares or liquidation.

### b. Business Combination

In October 2003, the Business Accounting Council (the "BAC") issued a Statement of Opinion, "Accounting for Business Combinations," and on December 27, 2005, the ASBJ issued ASBJ Statement No. 7, "Accounting Standard for Business Separations"



and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Separations." These new accounting pronouncements are effective for fiscal years beginning on or after April 1, 2006.

The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures.

#### **c. 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.

#### **d. 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 securities, investment in an associated company and long-term loans receivable pledged as collateral for an associated company and other were ¥5 million (\$42 thousand), ¥26 million (\$220 thousand) and ¥19 million (\$161 thousand) as of March 31, 2007.

#### **e. 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 ¥43 million (\$364 thousand) as of March 31, 2007.

#### **f. 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.

#### **g. 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.

#### **h. Long-lived Assets**

In August 2002, the BAC issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the ASBJ issued ASBJ 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.



#### **i. 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.

#### **j. Retirement and Pension Plans**

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

Liability for employees’ retirement benefits are provided based on the projected benefit obligations and plan assets at the balance sheet date.

#### **k. Presentation of Equity**

On December 9, 2005, the ASBJ published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of equity. Such items include stock acquisition rights, minority interests, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006. The consolidated balance sheet as of March 31, 2007 is presented in line with this new accounting standard.

#### **l. 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.

#### **m. Bonuses to Directors and Corporate Auditors**

The ASBJ issued a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be charged to income and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

The Group adopted the new accounting standard for bonuses to directors and corporate auditors from the year ended March 31, 2007. The effect of adoption of this accounting standard was not material.

#### **n. Income Taxes**

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. 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.

#### **o. 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.

#### **p. 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 income.

#### **q. 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 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 equity.

#### **r. Derivatives and Hedging Activities**

The Group uses derivative financial instruments to manage its exposures to fluctuations in interest rates. Interest rate swaps are utilized by the Group to reduce interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market



value but the differential paid or received under the swap agreements are recognized and included in interest expenses or income.

#### **s. 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, 2007, 2006 and 2005 were 571,724 thousand, 546,567 thousand and 546,329 thousand, respectively.

Diluted net income per share of common stock for the years ended March 31, 2007, 2006 and 2005 are not disclosed because the Company does not issue warrants with dilutive effects.

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

#### **t. Treasury Stock**

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.

#### **u. New Accounting Pronouncements**

##### ***Measurement of Inventories***

Under Japanese GAAP, inventories are currently measured either by the cost method, or at the lower of cost or market. On July 5, 2006, the ASBJ issued ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories," which is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard also requires that inventories held for trading purposes be measured at the market price.

##### ***Lease Accounting***

On March 30, 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the existing accounting standard for lease transactions issued on June 17, 1993.

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

The revised accounting standard requires that all finance lease transactions should be capitalized. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

##### ***Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements***

Under Japanese GAAP, a company currently can use the financial statements of foreign subsidiaries which are prepared in accordance with generally accepted accounting principles in their respective jurisdictions for its consolidation process unless they are clearly unreasonable. On May 17, 2006, the ASBJ issued ASBJ PITF No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." The new task force prescribes: 1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, 2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used for the consolidation process, 3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material;

- (1) Amortization of goodwill
- (2) Actuarial gains and losses of defined benefit plans recognized outside profit or loss
- (3) Capitalization of intangible assets arising from development phases
- (4) Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and intangible assets



(5) Retrospective application when accounting policies are changed

(6) Accounting for net income attributable to a minority interest

The new task force is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

## v. Reclassifications

Certain reclassifications have been made in the 2006 and 2005 financial statements to conform to the classifications used in 2007.

## ③ Acquisition of minority interests

On August 1, 2006 the Company acquired the minority interests in its three subsidiaries, Daiwa Lease Co., Ltd. (formerly Daiwa Kosho Lease Corporation) (DKL), Daiwa Rakuda Industry Co., Ltd. (DRI) and Daiwa Logistics Co., Ltd. (DL) and transformed them into wholly owned subsidiaries through share exchange transactions. As a result of these transactions, the Company expects to generate synergy, optimize management resources and streamline operations on a group-wide basis by reducing excess business overlap and internal competition and enhancing management speed and efficiency.

The share exchange ratios were one share of DKL, DRI and DL for 0.421, 0.455 and 0.620 shares of the Company, respectively. The Company provided 49,257 thousand shares of newly issued common stock to their minority shareholders and the Company's subsidiaries.

The acquisition costs are equal to the fair value of the exchanged shares of the Company, which was determined based on the average quoted market price of ¥1,792 (\$15.19) per share for the five days before the share exchange contracts were announced plus the direct costs of acquisition. The cost of each acquisition was as follows:

	Millions of Yen	Thousands of U.S. Dollars
DKL	¥64,950	\$550,424
DRI	9,379	79,483
DL	6,471	54,839
Total	¥80,800	\$684,746

Effects of the transactions to the consolidated balance sheet at August 1, 2006 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Acquisition costs:		
Fair value of shares provided to minority interests	¥80,707	\$683,958
Direct costs	93	788
Total acquisition costs	80,800	684,746
Book value of acquired minority interests	72,471	614,161
Book value of acquired minority interests in treasury stock owned by the Company's subsidiaries	3,557	30,144
Excess of costs - goodwill	¥ 4,772	\$ 40,441

The goodwill is amortized over 20 years by the straight-line method.

As a result of these transactions the number of outstanding stock increased as follows:

	Thousands of Shares
Newly issuance	49,257
Elimination of intercompany transactions	(4,220)
Acquisition of minority interests in treasury stock owned by the Company's subsidiaries	(4,515)
Net increase	40,522

## ④ Marketable and investment securities

Marketable and investment securities as of March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Non-current:			
Equity securities	¥107,498	¥101,435	\$911,000
Government and corporate bonds	485	456	4,110
Investments in limited liability partnership	2,192	1,345	18,576
Total	¥110,175	¥103,236	\$933,686

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2007 and 2006 were as follows:



Millions of Yen				
2007				
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥50,029	¥52,722	¥665	¥102,086
Debt securities	520		66	454
Held-to-maturity	31			31

Millions of Yen				
2006				
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥41,346	¥54,151	¥435	¥95,062
Debt securities	520		73	447
Held-to-maturity	9			9

Thousands of U.S. Dollars				
2007				
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	\$423,975	\$446,797	\$5,636	\$865,136
Debt securities	4,407		560	3,847
Held-to-maturity	263			263

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2007 and 2006 were as follows:

Carrying Amount			
	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Available-for-sale:			
Equity securities	¥5,412	¥6,373	\$45,864
Investments in limited liability partnership	2,192	1,345	18,576
Total	¥7,604	¥7,718	\$64,440

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2007 are as follows:

Held to Maturity		
	Millions of Yen	Thousands of U.S. Dollars
Due in one to five years	¥ 20	\$ 170
Due in five to ten years	26	220
Due after ten years	439	3,720
Total	¥485	\$4,110

## 5 Inventories

Inventories at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Finished residential homes and condominiums	¥ 30,671	¥ 27,373	\$ 259,924
Construction projects in progress	59,259	49,561	502,195
Residential homes and condominiums in process	42,120	30,044	356,949
Land held:			
For resale	240,587	204,194	2,038,873
Under development	32,366	31,708	274,288
Undeveloped	11,658	11,667	98,797
Merchandise, construction materials and others	15,667	13,787	132,771
Total	¥432,328	¥368,334	\$3,663,797

The Group engages in two principal business activities. The Group companies manufacture and construct prefabricated 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.

## 6 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 equity. There was no effect on the consolidated statement of income. 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, 2007, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥7,989 million (\$67,703 thousand).

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



## 7 Long-lived assets

The Group recognized impairment loss on property, plant and equipment for the following group of assets in the fiscal years ended March 31, 2007 and 2006, respectively.

2007				
Classification of Group	Type of Assets	Location	Millions of Yen	Thousands of U.S. Dollars
Assets used under sublease agreements	Buildings and structures and furniture and fixtures	Fukuoka Prefecture and others	¥5,001	\$42,381
Fitness clubs	Buildings and structures, furniture and fixtures and leased property under finance leases	Kyoto Prefecture and others	41	348
Total			¥5,042	\$42,729

2006				
Classification of Group	Type of Assets	Location	Millions of Yen	
Resort hotel	Buildings and structures, machinery and equipment, and furniture and fixtures	Ishikawa Prefecture and others	¥1,422	
Golf course	Land, buildings and structures, machinery and equipment and furniture and fixtures	Nara Prefecture and others	2,167	
Assets used under sublease agreements	Buildings and structures, machinery and equipment, furniture and fixtures, and other assets	Okinawa Prefecture and others	1,283	
Other	Land, buildings and structures, machinery and equipment and furniture and fixtures	Osaka Prefecture and others	628	
Total			¥5,500	

The Group classified the fixed assets by business control unit such as branch office, plant, and each property leased, which controls its revenue and expenditure continuously.

Book values of the above assets were written down to the recoverable amounts due to decrease in the land prices and significant decline in profitability caused by severe competition.

The recoverable amount of assets is mainly measured by its discounted cash flow in use and its net selling price based on real estate appraisal standards. The discount rate that is used in 2007 is mainly 2.5%.



## 8 Short-term bank loans and long-term debt

The annual interest rates for the short-term bank loans ranged from 1.03% to 1.24% and ranged from 0.4% to 0.9% at March 31, 2007 and 2006, respectively.

Long-term debt at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Loans from banks, 0.77% to 3.0% (0.5% to 3.0% in 2006), due on various dates through 2041:			
Collateralized	¥18,665	¥11,346	\$158,178
Unsecured	32,975	5,110	279,449
Total	51,640	16,456	437,627
Less current portion	1,070	2,928	9,068
Long-term debt, net of current portion	¥50,570	¥13,528	\$428,559

Annual maturities of long-term debt at March 31, 2007, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2008	¥ 1,070	\$ 9,068
2009	1,074	9,102
2010	3,797	32,178
2011	1,001	8,483
2012	6,705	56,821
2013 and thereafter	37,993	321,975
Total	¥51,640	\$437,627

At March 31, 2007, assets pledged as collateral for secured long-term debt were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Cash and cash equivalents	¥ 139	\$ 1,178
Receivables	1,758	14,898
Buildings and structures	14,863	125,958
Machinery and equipment	310	2,627
Land	6,929	58,720
Lease deposits	1,310	11,102
Total	¥25,309	\$214,483

As is customary in Japan, a company maintains deposit balances with banks from which it receives 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.

## 9 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, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Projected benefit obligation	¥270,563	¥255,716	\$2,292,907
Fair value of plan assets	(176,270)	(165,481)	(1,493,814)
Net liability	94,293	90,235	799,093
Liability for employees' retirement benefits	¥ 94,293	¥ 90,235	\$ 799,093

The components of net periodic benefit costs are as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2007	2006	2005	2007
Service cost	¥14,574	¥13,939	¥12,578	\$123,509
Interest cost	6,375	6,013	5,395	54,025
Expected return on plan assets		(2)	(5)	
Prior service cost (benefit)	(324)	(1,000)	2,282	(2,746)
Recognized actuarial gain	(3,165)	(21,730)	(2,214)	(26,822)
Net periodic benefit costs (benefit)	¥17,460	¥ (2,780)	¥18,036	\$147,966



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 from the adoption of the revised contributory funded defined benefit pension plan and (2) a decrease in the benefit obligation of ¥450 million from the adoption of the revised benefit plan concerning the lump-sum severance payments of a subsidiary.

Prior service cost for the year ended March 31, 2006 represents a decrease in the benefit obligation of ¥1,000 million from the adoption of the revised benefit plan concerning the lump-sum severance payments of a subsidiary.

For the year ended March 31, 2006, in addition to the net periodic costs, the Company and certain subsidiaries recognized a gain in amount of ¥200 million in accordance with the actual transfer of the pension obligations and related assets to the government. Certain subsidiaries recognized a loss in amount of ¥1,414 million in accordance with the secession from the funded employees' retirement benefit plan.

Prior service cost for the year ended March 31, 2007 represents a decrease in the benefit obligation of ¥324 million (\$2,746 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, 2007 and 2006 are set forth as follows:

	2007	2006
Discount rate	2.5%	2.5%
Expected rate of return on plan assets	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. 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 took place in the year ended March 31, 2006.

## 10 Equity

On and after May 1, 2006, Japanese companies are subject to the Corporate Law, which reformed and replaced the Commercial Code of Japan (the "Code") with various revisions that are, for the most part, applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below;

### (a) Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.



The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Corporate Law provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

**(b) Increases/decreases and transfer of common stock, reserve and surplus**

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

**(c) Treasury stock and treasury stock acquisition rights**

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.



## 11 Segment information

Information about operations in different industry segments of the Group for the years ended March 31, 2007, 2006 and 2005 is as follows:

### Sales and Operating Income

Millions of Yen							
2007							
	Residential	Commercial	Resort and Sports	Home Center	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥961,490	¥466,267	¥67,762	¥60,636	¥ 62,295		¥1,618,450
Intersegment sales	4,408	11,425		1,605	62,352	¥(79,790)	
Total sales	965,898	477,692	67,762	62,241	124,647	(79,790)	1,618,450
Operating expenses	912,828	430,796	66,614	60,469	120,274	(58,210)	1,532,771
Operating income	¥ 53,070	¥ 46,896	¥ 1,148	¥ 1,772	¥ 4,373	¥(21,580)	¥ 85,679

Millions of Yen							
2006							
	Residential	Commercial	Resort and Sports	Home Center	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥905,385	¥436,822	¥66,482	¥61,899	¥ 58,395		¥1,528,983
Intersegment sales	4,203	8,429		1,375	63,587	¥(77,594)	
Total sales	909,588	445,251	66,482	63,274	121,982	(77,594)	1,528,983
Operating expenses	858,890	405,833	65,480	62,167	117,423	(60,882)	1,448,911
Operating income	¥ 50,698	¥ 39,418	¥ 1,002	¥ 1,107	¥ 4,559	¥(16,712)	¥ 80,072

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

Thousands of U.S. Dollars							
2007							
	Residential	Commercial	Resort and Sports	Home Center	Other	Eliminations/ Corporate	Consolidated
Sales to customers	\$8,148,220	\$3,951,415	\$574,254	\$513,865	\$ 527,924		\$13,715,678
Intersegment sales	37,356	96,822		13,601	528,407	\$(676,186)	
Total sales	8,185,576	4,048,237	574,254	527,466	1,056,331	(676,186)	13,715,678
Operating expenses	7,735,831	3,650,814	564,525	512,449	1,019,271	(493,305)	12,989,585
Operating income	\$ 449,745	\$ 397,423	\$ 9,729	\$ 15,017	\$ 37,060	\$(182,881)	\$ 726,093



### Total Assets, Depreciation and Capital Investments

Millions of Yen							
2007							
	Residential	Commercial	Resort and Sports	Home Center	Other	Eliminations/ Corporate	Consolidated
Total assets	¥567,650	¥545,408	¥104,161	¥44,828	¥163,097	¥204,878	¥1,630,022
Depreciation	5,516	8,971	1,916	736	11,097	1,300	29,536
Capital investments	12,600	98,813	2,677	3,120	19,907	(946)	136,171

Millions of Yen							
2006							
	Residential	Commercial	Resort and Sports	Home Center	Other	Eliminations/ Corporate	Consolidated
Total assets	¥498,910	¥464,318	¥108,856	¥40,183	¥123,911	¥239,019	¥1,475,197
Depreciation	5,228	7,897	1,918	665	9,636	1,471	26,815
Capital investments	12,643	77,100	3,072	612	17,411	(694)	110,144

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

Thousands of U.S. Dollars							
2007							
	Residential	Commercial	Resort and Sports	Home Center	Other	Eliminations/ Corporate	Consolidated
Total assets	\$4,810,593	\$4,622,102	\$882,721	\$379,898	\$1,382,178	\$1,736,254	\$13,813,746
Depreciation	46,746	76,026	16,237	6,237	94,042	11,017	250,305
Capital investments	106,780	837,398	22,687	26,441	168,703	(8,017)	1,153,992

Due to the acquisition of Nippon Athletic Service Co., Ltd., the Group changed the name of the "Resort" segment to "Resort and Sports" starting in the year ended March 31, 2006.

The industry segments consisted of the following:

		Industry Segment			
Components of Net Sales	Residential	Commercial	Resort and Sports	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 Real estate commissions Rental of residential complexes	Sales and rental of real estate for commercial use			
Other	Care of condominiums	Care of commercial buildings	Operation of resort type hotels, golf courses and fitness clubs	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.



## 12 Other income (expenses): other — net

"Other income (expenses): Other — net" for the years ended March 31, 2007, 2006 and 2005 consisted of the following:

	Millions of Yen			Thousands of U.S. Dollars
	2007	2006	2005	2007
Real estate acquisition tax and other taxes	¥ (506)	¥ (205)	¥ (237)	\$ (4,288)
Retirement benefits for directors	(61)	(1,266)	(175)	(517)
Gain on sales of marketable and investment securities	1,352	1,021	938	11,458
Allowance for doubtful accounts		(351)	(3)	
Equity in earnings of associated companies	289	350	1,611	2,449
Write-down of golf club membership	(75)	(264)	(121)	(636)
Loss on sales of membership		(71)		
Consulting, advertising and other expenses for corporate branding and identity			(1,676)	
Loss on secession of subsidiaries' pension fund		(1,414)		
Expenses in relation to earthquake	(617)			(5,229)
Other — net	337	1,408	3,021	2,856
Total	¥ 719	¥ (792)	¥3,358	\$ 6,093

## 13 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, 2007, 2006 and 2005.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2007 and 2006 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
<b>CURRENT:</b>			
Deferred tax assets:			
Write-down of land held for resale	¥ 11,145	¥ 12,356	\$ 94,449
Accrued bonuses	8,098	7,303	68,627
Accrued enterprise tax	1,391	1,314	11,788
Other	7,051	5,947	59,755
Deferred tax assets	¥ 27,685	¥ 26,920	\$ 234,619
<b>NON-CURRENT:</b>			
Deferred tax assets:			
Employees' retirement benefits	¥ 39,635	¥ 38,364	\$ 335,890
Unrealized gains on sales of property, plant and equipment	7,827	7,484	66,330
Extraordinary depreciation for property, plant and equipment	11,380	24,715	96,441
Other	18,859	13,109	159,822
Less valuation allowance	(1,110)	(499)	(9,407)
Deferred tax assets	¥ 76,591	¥ 83,173	\$ 649,076
Deferred tax liabilities:			
Retained earnings appropriated for tax allowable reserves	¥ (2,073)	¥ (2,221)	\$ (17,568)
Net unrealized gain on available-for-sale securities	(21,129)	(21,788)	(179,059)
Other	(32)	(51)	(271)
Deferred tax liabilities	¥(23,234)	¥(24,060)	\$ (196,898)
Net deferred tax assets	¥ 53,357	¥ 59,113	\$ 452,178

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

Normal effective statutory tax rates	40.6%
Increase (decrease) in tax rates due to:	
Permanently non-deductible expenses	1.7
Non-taxable dividend income	(0.1)
Equity in earnings of associated companies	(1.0)
Per capita levy	1.0
Increase in valuation allowance for deferred tax assets	0.3
Reversal of land revaluation difference	(10.8)
Other — net	0.6
Actual effective tax rates	32.3%

A reconciliation between the normal effective statutory tax rate and the actual effective tax rates for the years ended March 31, 2007 and 2006 is insignificant and not disclosed.



#### 14 Research and development costs

Research and development costs charged to income were ¥7,223 million (\$61,212 thousand), ¥6,190 million and ¥5,713 million for the years ended March 31, 2007, 2006 and 2005, respectively.

#### 15 Leases

##### Finance Leases:

###### (Lessee)

Total lease payments under finance leases that are not deemed to transfer ownership of the leased property to the lessee were ¥3,829 million (\$32,449 thousand), ¥4,154 million, and ¥4,647 million for the years ended March 31, 2007, 2006 and 2005, 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, 2007 and 2006 were as follows:

Millions of Yen				
2007				
	Buildings and Structures	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	¥2,424	¥2,003	¥10,426	¥14,853
Accumulated depreciation	1,233	696	5,771	7,700
Accumulated impairment loss			5	5
Net leased property	¥1,191	¥1,307	¥ 4,650	¥ 7,148

Millions of Yen				
2006				
	Buildings and Structures	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	¥4,181	¥1,435	¥10,053	¥15,669
Accumulated depreciation	2,392	468	5,221	8,081
Net leased property	¥1,789	¥ 967	¥ 4,832	¥ 7,588

Thousands of U.S. Dollars				
2007				
	Buildings and Structures	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	\$20,542	\$16,974	\$88,356	\$125,872
Accumulated depreciation	10,449	5,898	48,907	65,254
Accumulated impairment loss			42	42
Net leased property	\$10,093	\$11,076	\$39,407	\$ 60,576

Obligations under such finance leases as of March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Due within one year	¥2,984	¥3,040	\$25,287
Due after one year	4,169	4,548	35,331
Total	¥7,153	¥7,588	\$60,618

Allowance for impairment loss on leased property of ¥5 million (\$42 thousand) as of March 31, 2007 is not included in obligation under finance leases.

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 income, are computed by the straight-line method.

###### (Lessor)

Total rental income under finance leases that are not deemed to transfer ownership of the leased property to the lessee was ¥9,155 million (\$77,585 thousand), ¥8,051 million and ¥3,936 million for the years ended March 31, 2007, 2006 and 2005, respectively.

The amount of the imputed interest income portion included in the above rental income, which is computed using the interest method, was ¥765 million (\$6,483 thousand), ¥737 million and ¥377 million for the years ended March 31, 2007, 2006 and 2005, respectively.

Property and equipment leased to customers under finance lease arrangements mentioned above consisted of the following at March 31, 2007 and 2006.



Millions of Yen			
2007			
	Buildings and Structures	Machinery and Equipment	Total
Acquisition cost	¥11,188	¥25,979	¥37,167
Accumulated depreciation	6,295	11,983	18,278
Net leased property	¥ 4,893	¥13,996	¥18,889

Millions of Yen			
2006			
	Buildings and Structures	Machinery and Equipment	Total
Acquisition cost	¥10,900	¥22,067	¥32,967
Accumulated depreciation	6,280	10,075	16,355
Net leased property	¥ 4,620	¥11,992	¥16,612

Thousands of U.S. Dollars			
2007			
	Buildings and Structures	Machinery and Equipment	Total
Acquisition cost	\$94,814	\$220,161	\$314,975
Accumulated depreciation	53,348	101,551	154,899
Net leased property	\$41,466	\$118,610	\$160,076

Future rental income under finance leases at March 31, 2007 and 2006 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Due within one year	¥ 7,805	¥ 7,034	\$ 66,144
Due after one year	15,593	14,409	132,144
Total	¥23,398	¥21,443	\$198,288

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 ¥6,261 million (\$53,059 thousand), ¥5,361 million and ¥2,561 million for the years ended March 31, 2007, 2006 and 2005, respectively.

## Operating Leases:

Obligations and future rental income under non-cancellable operating leases as of March 31, 2007 and 2006 were as follows:

### (Lessee)

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Due within one year	¥ 46,882	¥ 41,385	\$ 397,305
Due after one year	556,133	492,640	4,712,992
Total	¥603,015	¥534,025	\$5,110,297

### (Lessor)

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Due within one year	¥ 44,376	¥ 39,321	\$ 376,068
Due after one year	552,583	507,789	4,682,907
Total	¥596,959	¥547,110	\$5,058,975

## 16 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, 2007 and 2006, the Group did not have any derivative contracts outstanding.



## 17 Contingencies

At March 31, 2007, contingent liabilities for notes endorsed with recourse and loans guaranteed in the ordinary course of business amounted to ¥1,114 million (\$9,441 thousand) and ¥38,203 million (\$323,754 thousand), respectively. Included in loans guaranteed were customers' housing loans from banks in the amount of ¥28,808 million (\$244,136 thousand).

## 18 Subsequent event

### *Appropriations of Retained Earnings*

The following appropriations of retained earnings at March 31, 2007 were approved at the Company's shareholders' meeting held on June 28, 2007:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥20.0 (\$0.17) per share	¥11,743	\$99,517



## 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, 2007 and 2006, and the related consolidated statements of income, changes in equity, and cash flows for each of the three years in the period ended March 31, 2007, 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, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2007, in conformity with accounting principles generally accepted in Japan.

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 28, 2007



# A Story of the Daiwa House Group

- 1955** Founding of Daiwa House Industry and launch of our first product, the "Pipe House."
- 1957** Steel pipe structure used for warehouse at sake brewery receives certification from Japan Lightweight Iron Construction Association as first such full-fledged structure in Japan
- 1959** Daiwa Kosho (current Daiwa Lease) and Daiwa Konpo (current Daiwa Logistics) established  
"Midget House" pilot prefabricated house model launched on market
- 1961** Daiwa Danchi established (merged with Daiwa House in April 2001)  
Stock listed on Osaka, Tokyo and Nagoya stock exchanges
- 1965** Nara Factory constructed, Japan's first specialist plant for production of prefabricated houses
- 1968** Network of housing showrooms set up across Japan
- 1969** Fullscale start of new town development business (Midorigaoka Neopolis)
- 1971** Daiwa Jutakukiki (current Daiwa Rakuda Industry) established
- 1975** Opening of the Daiwa House Group's first golf course at the Shikabe Country Club
- 1977** Condominium Business starts
- 1978** Resort hotels business started with opening of Noto Royal Hotel, the first Daiwa Royal Hotel
- 1979** Real Estate Information centers set up within each of the Company's offices as first step in developing the used housing market  
Tentakubin (current Daiwa Service) established
- 1980** First Royal Home Center opened in Nara City
- 1983** Exports and construction of high-end prefabricated houses to China (a first for Japan)
- 1986** Daiwa Information Service established
- 1989** Daiwa Living established  
Silver Age Research Center established
- 1994** Daiwa House Central Research Laboratory opened in Kansai Science City
- 2001** Daiwa House Industry merged with Daiwa Danchi
- 2004** Home center business split off from Daiwa House Industry  
The Daiwa House Group draws up its Corporate Ethics Guidelines and Behavioral Guidelines
- 2005** **50th anniversary**  
The Daiwa House Group draws up a new management vision and an Employee Charter to mark 50th anniversary  
New Group symbol — the "Endless Heart" — introduced
- 2006** Group management integration through share exchange transactions between Daiwa House Industry and Daiwa Kosho Lease, Daiwa Rakuda Industry, and Daiwa Logistics, by which the subsidiaries became wholly owned subsidiaries of Daiwa House Industry  
Daiwa House Financial and Daiwa House Insurance are founded
- 2007** Daiwa Royal Golf is founded  
The resort hotel business is split off from Daiwa House Industry  
Nobuo Ishibashi Memorial Museum opens  
Eneserve becomes a consolidated subsidiary





# Group Network









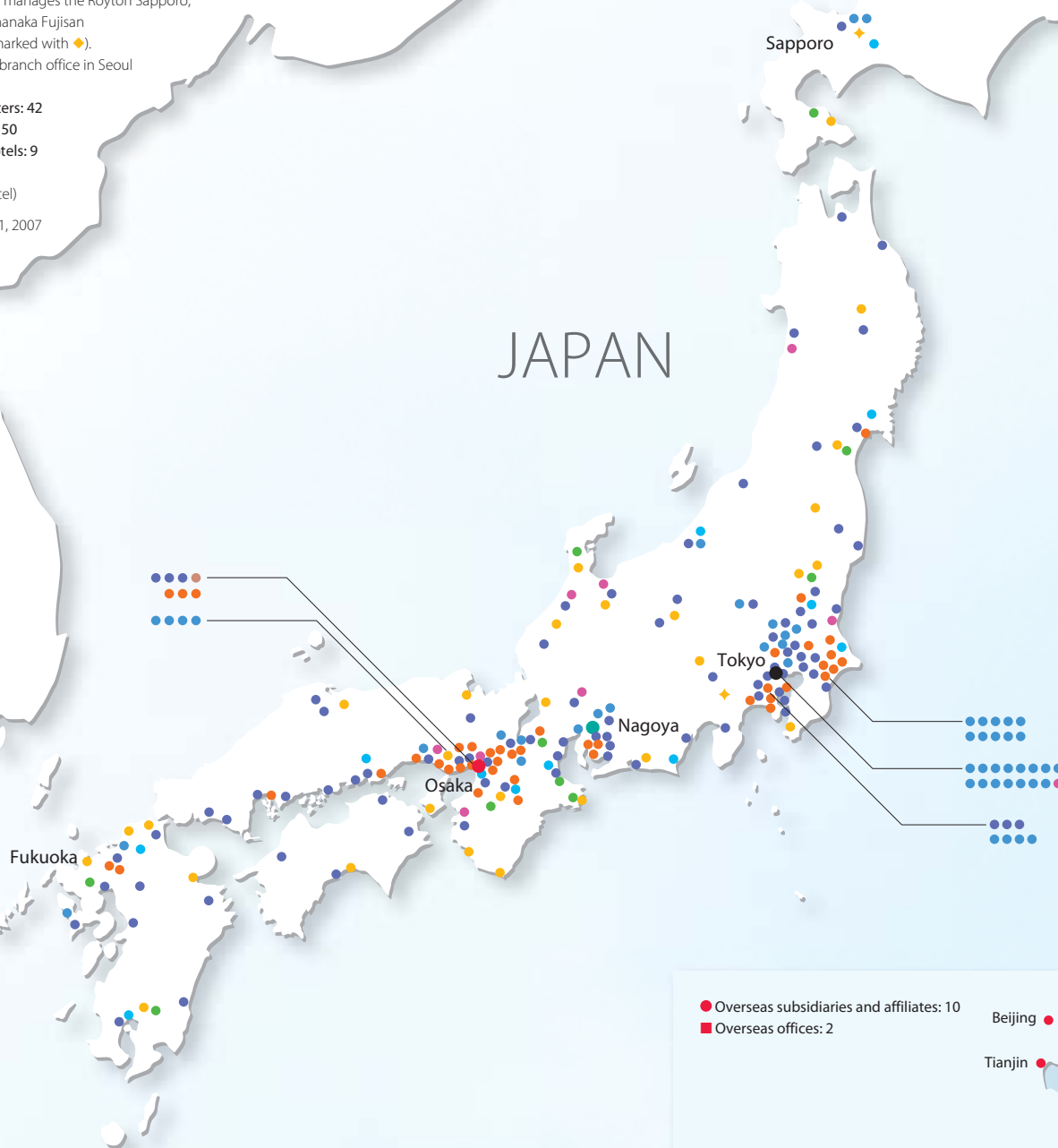
- Head office
  - Tokyo office
  - Nagoya office
  - Branches: 91 (including Osaka Honten Branch)
  - Factories: 12
- (The above places of business are directly operated by Daiwa House.)

- Golf courses: 10
- Daiwa Royal Hotels: 29
  - Daiwa Resort also manages the Royton Sapporo, and the Lake Yamanaka Fujisan Royal Cottages (marked with ◆).
  - It also operates a branch office in Seoul (marked with ◆).

- Royal Home Centers: 42
- Sports Club NAS: 50
- Daiwa Roynet Hotels: 9
- Osaka Marubiru (Osaka Daiichi Hotel)

As of September 1, 2007

# JAPAN



- Overseas subsidiaries and affiliates: 10
- Overseas offices: 2



## Principal Group Companies

**Daiwa House Industry Co., Ltd.**

Housing/Commercial facilities/  
Urban development, etc.  
[www.daiwahouse.co.jp](http://www.daiwahouse.co.jp)

**Daiwa Logistics Co., Ltd.**

Transportation/Warehouse & storage  
[www.daiwabutsuryu.co.jp](http://www.daiwabutsuryu.co.jp)

**Daiwa Information Service Co., Ltd.**

Land utilization/Maintenance &  
operation of commercial facilities  
[www.dis-net.jp](http://www.dis-net.jp)

**Royal Home Center Co., Ltd.**

DIY/Gardening/Interior items  
[www.royal-hc.co.jp](http://www.royal-hc.co.jp)

**Daiwa House Kitanihon Co., Ltd.**

Wooden houses  
[www.daiwahousekitanihon.co.jp](http://www.daiwahousekitanihon.co.jp)

**Daiwa House Chubu Co., Ltd.**

Wooden houses  
[www.daiwahousechubu.co.jp](http://www.daiwahousechubu.co.jp)

**Daiwa House Kyushu Co., Ltd.**

Wooden houses  
[www.daiwahousekyusyu.co.jp](http://www.daiwahousekyusyu.co.jp)

**Daiwa Estate Co., Ltd.**

Real estate agency  
[www.daiwaestate.jp](http://www.daiwaestate.jp)

**Osaka Marubiru Co., Ltd.**

Management of hotels,  
rental premises & parking lot  
[www.marubiru.com](http://www.marubiru.com)

**Daiwa House Financial Co., Ltd.**

Credit card operations  
[www.daiwahousefinancial.co.jp](http://www.daiwahousefinancial.co.jp)

**Shinwa Agency Co., Ltd.**

Advertising & travel agency  
[www.go-to-s.com](http://www.go-to-s.com)

**Higashi-Fuji Co., Ltd.**

Real estate development,  
sale of commercial real estate

**Daiwa Lease Co., Ltd.**

Building & vehicle leasing/Land utilization  
[www.daiwalease.co.jp](http://www.daiwalease.co.jp)

**Daiwa Living Co., Ltd.**

Management/Operation of rental housing  
[www.daiwaliving.co.jp](http://www.daiwaliving.co.jp)

**Nihon Jyutaku Ryutu Co., Ltd.**

Real estate agency & property management  
services/Appraisals/Renovation work  
[www.jyutaku.co.jp](http://www.jyutaku.co.jp)

**Daiwa Resort Co., Ltd.**

(Daiwa Royal Hotels)  
Resort hotels  
[www.daiware resort.co.jp](http://www.daiware resort.co.jp)

**Daiwa House Kanto Co., Ltd.**

Wooden houses  
[www.dhkanto.co.jp](http://www.dhkanto.co.jp)

**Daiwa House Kansai Co., Ltd.**

Wooden houses  
[www.daiwahousekansai.co.jp](http://www.daiwahousekansai.co.jp)

**Daiwa House Renew Co., Ltd.**

Renovation work/Manpower dispatching  
[www.daiwahouse-renew.co.jp](http://www.daiwahouse-renew.co.jp)

**Daiwa Monthly Co., Ltd.**

Real estate rental & management  
[www.daiwamonthly.co.jp](http://www.daiwamonthly.co.jp)

**Nippon Athletic Service Co., Ltd.**

(Sports Club NAS)  
Fitness clubs  
[www.nas-club.co.jp](http://www.nas-club.co.jp)

**Daiwa House Insurance Co., Ltd.**

Non-life insurance agency

**Media Tech Inc.**

Data systems/Data services  
[www.mediatech.jp](http://www.mediatech.jp)

**LOC Development Co., Ltd.**

Development and management of  
shopping centers  
[www.loc-kaihatsu.co.jp](http://www.loc-kaihatsu.co.jp)

**Daiwa Rakuda Industry Co., Ltd.**

Housing equipment/  
Layout for offices and stores/Rental  
[www.daiwarakuda.co.jp](http://www.daiwarakuda.co.jp)

**Daiwa Service Co., Ltd.**

Management of buildings & condominiums/  
Manpower dispatching/Moving services  
[www.daiwaservice.co.jp](http://www.daiwaservice.co.jp)

**Daiwa Royal Co., Ltd.**

Rental of commercial facilities/  
Daiwa Roynet Hotels  
[www.daiwaroyal.com](http://www.daiwaroyal.com)

**Daiwa Royal Golf Co., Ltd.**

Golf course operation  
[www.daiwaroyalgolf.jp](http://www.daiwaroyalgolf.jp)

**Daiwa House Hokushinetsu Co., Ltd.**

Wooden houses  
[www.daiwahousehokushinetsu.co.jp](http://www.daiwahousehokushinetsu.co.jp)

**Daiwa House Chushikoku Co., Ltd.**

Wooden houses  
[www.daiwahousechushikoku.co.jp](http://www.daiwahousechushikoku.co.jp)

**Daiwa Energy Co., Ltd.**

ESCO business/Environmental equipment/  
Facility installation  
[www.daiwa-energy.com](http://www.daiwa-energy.com)

**Jukeikai Co., Ltd.**

(Neo Summit Yugawara)  
Operator of homes for the aged  
[www.neo-summit.com](http://www.neo-summit.com)

**Daiwa House REIT Management Co., Ltd.**

Asset management

**Synchroller Co., Ltd.**

Manufacture of housing parts & materials

**Eneserve Corporation**

Comprehensive energy services  
[www.eneserve.co.jp](http://www.eneserve.co.jp)

**The Mortgage Corporation of Japan, Ltd.**

Finance of housing loan  
[www.mc-j.co.jp](http://www.mc-j.co.jp)

## Overseas Affiliated Companies

**DH (Dalian) Administrative Management Consulting Center Co., Ltd.**

Provision of outsourced administrative work

**Dalian Civil Aviation Hotel Co., Ltd.**

Management of Royal Hotel at Dalian

**Tianjin Jiuhe International Villa Co., Ltd.**

Management of rental housing

**Daiwa House (Suzhou) Real Estate Development Co., Ltd.**

Development and marketing of condominiums

**Dalian Fujiashuang International Villa Co., Ltd.**

Management of rental housing

**Dalian Dahezongsheng Estate Co., Ltd.**

Development and marketing of  
condominiums

**Shanghai Happy House Decoration Co., Ltd.**

Design and installation of housing interiors

**Dalian Acacia Town Villa Co., Ltd.**

Management of rental housing

**Beijing East Palace Apartment Co., Ltd.**

Management of rental housing

**Shanghai International Realty Co., Ltd.**

Management of rental housing











#### In the Nobuo Ishibashi Memorial Museum

The *kanji* character shown above means “dream,” and is pronounced “*yume*” in Japanese. The enlarged photo on the wall inside the Nobuo Ishibashi Memorial Museum shows Daiwa House Industry founder Nobuo Ishibashi. Pictured in the foreground are Chairman and CEO Takeo Higuchi (left), President and COO Kenji Murakami (middle), and Executive Vice President and CFO Tetsuji Ogawa (right).



In creating prefabricated housing, we pioneered  
a new field for the housing industry,  
furthering economic and social development  
in Japan's post-war period.

The late Nobuo Ishibashi,  
founder of Daiwa House Industry, said,  
"Companies grow by harnessing dreams.  
To live is to dream, and you must never give up  
on your pursuit of your dream."

In this spirit, we aim to achieve great dreams,  
and will keep working to realize  
our vision for the future.

## 石橋信夫記念館

NOBUO ISHIBASHI MEMORIAL MUSEUM



# Corporate Data

As of April 1, 2007

<b>Corporate name:</b>	Daiwa House Industry Co., Ltd.	<b>Contact:</b>	Daiwa House Industry Co., Ltd.
<b>Founding:</b>	April 5, 1955 (Established: March 4, 1947)		Finance Department
<b>Paid-in capital:</b>	¥110,120,483,981		Phone: +81-6-6342-1400
<b>Employees:</b>	13,288		Fax: +81-6-6342-1419
<b>Head Office:</b>	3-3-5 Umeda, Kita-ku, Osaka 530-8241, Japan		e-mail: zaimu@daiwahouse.jp
	Phone: +81-6-6346-2111	<b>Daiwa House website:</b>	
<b>Tokyo Office:</b>	3-13-1 Iidabashi, Chiyoda-ku, Tokyo 102-8112, Japan		Daiwa House Group: <a href="http://www.daiwahouse.com/English">http://www.daiwahouse.com/English</a>
	Phone: +81-3-5214-2111		Daiwa House Industry Co., Ltd.: <a href="http://www.daiwahouse.co.jp/English">http://www.daiwahouse.co.jp/English</a>
<b>Nagoya Office:</b>	1-20-22 Aoi, Naka-ku, Nagoya 460-8491, Japan	<b>Securities traded:</b>	Tokyo and Osaka stock exchanges
	Phone: +81-52-933-2703	<b>Securities Code:</b>	1925
<b>Branches:</b>	91 (including Osaka Honten Branch)		
<b>Factories:</b>	12 (As of July 1, 2007)		
<b>Research center:</b>	Central Research Laboratory (Nara)		
<b>Training centers:</b>	Osaka, Nara and Tokyo		
<b>Overseas offices:</b>	Shanghai, Hanoi		

## Sources

P 8	Securities Market in Japan / Survey on Distribution of shares	P 50	Ministry of Internal Affairs and Communications / Statistics on housing 1993
P15	National Institute of Population and Social Security Research / Population Statistics of Japan 2007		UN / Annual Bulletin of Housing and Building Statistics for Europe UK (1991), USA (1991), France (1990), Germany (1987), Japan (1993)
P21	Statistics Bureau, Ministry of Internal Affairs and Communications / Population Census of Japan (2005) and Population Estimate (10/2006)	P 65	Association of Real Estate Agents of Japan / Survey on consumer behavior in real estate transaction (FY2006)
	National Institute of Population and Social Security Research / Population Projections for Japan (12/2006)	P 66	Bank of Japan / Opinion Survey on the General Public's Views and Behavior (3/2007)
	UN, Statistics Division	P 77	Statistics Bureau, Ministry of Internal Affairs and Communications / Population Estimates, Annual Report 2006
P23, 60, 62, 111	Ministry of Land, Infrastructure and Transport / Statistics on Building Construction Started 2006	P 90	Ministry of the Environment / White Paper, Annual Report on the Environment
P48	National Institute of Population and Social Security Research / Population Projections for Japan (10/2006)	P107	Japan Business Federation (Nippon Keidanren) / Survey on Corporate Social Responsibility (10/2005)

Overall responsibility • Tetsuji Ogawa/Daiwa House   Producer & creative director • Keisuke Izumoto/Daiwa House  
 Art director • Hiroaki Kitagawa/Nippon Arts Inc.   Designer • Mayumi Makino/D & Join Inc.   Photographer • Kazumasa Kondo  
 Japanese writer • Masaki Kobayashi/Daiwa House; Yumi Minobe, Junko Takabe, Miki Tsuchida   Editor • Kazuko Nagai/Daiwa House  
 English translator & editor • Stephen Lloyd/D & Join Inc.   Director & coordinator • Katsuya Iwado/D & Join Inc.  
 Assistant director • Nao Kishigami/Daiwa House



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