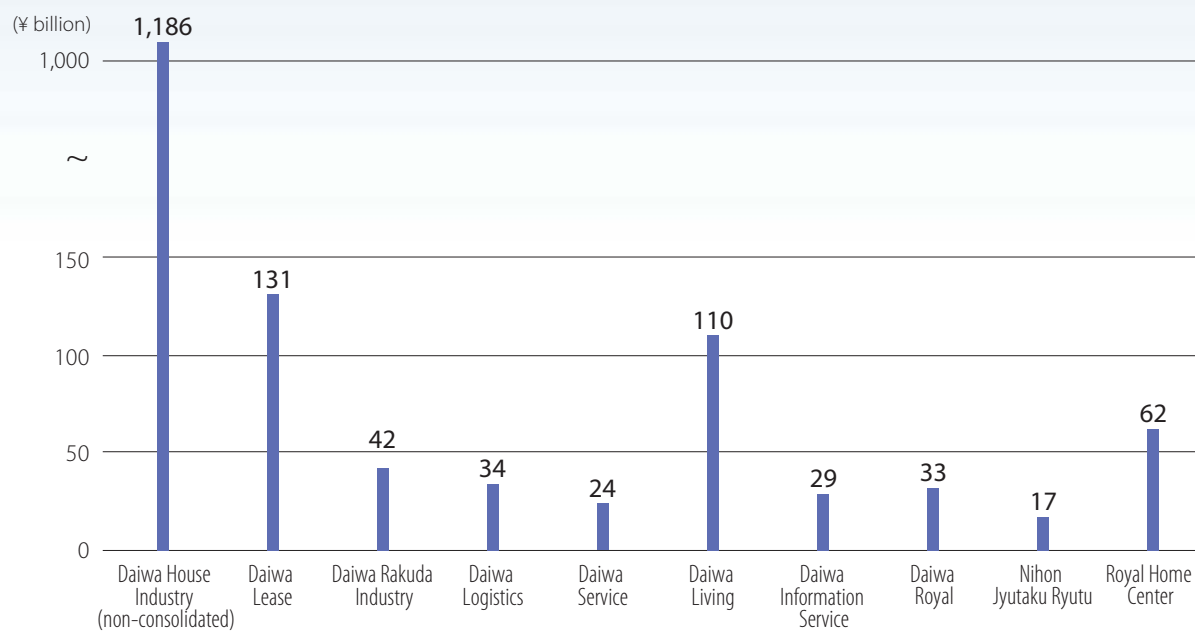


Financial Information



Sales of major Daiwa House Group companies



110	Consolidated Seven-Year Summary
111	Management's Discussion and Analysis (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
120	Consolidated Financial Statements
120	Consolidated Balance Sheets
122	Consolidated Statements of Income
123	Consolidated Statements of Changes in Equity
124	Consolidated Statements of Cash Flows
126	Notes to Consolidated Financial Statements
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
142	Independent Auditors' Report

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

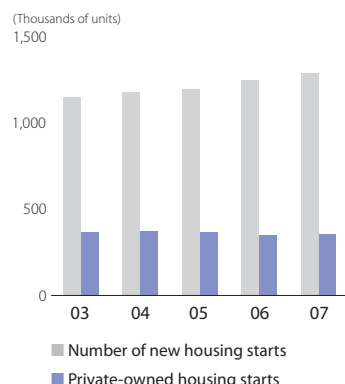
Notes: 1. Beginning with the fiscal year ended March 31, 2007, minority interests have been included in equity.
2. Excluding shares in treasury.

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



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.

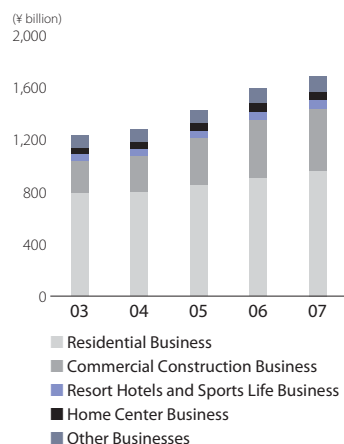
Numerical Targets and Achievements under First Medium-Term Management Plan, "Challenge 2005"

	(¥ billion)					
	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.

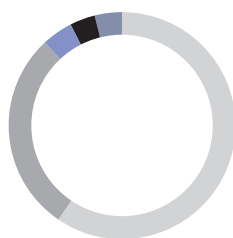
Results of Operation

Sales



Note: Prior to consolidation adjustments.

Sales breakdown by segment



■ Residential Business 59.5%
 ■ Commercial Construction Business 28.8%
 ■ Resort Hotels and Sports Life Business 4.2%
 ■ Home Center Business 3.7%
 ■ Other Businesses 3.8%

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

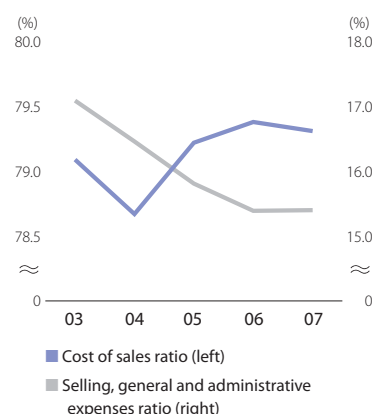
	Sales by Segment (¥ million)		
	2006	2007	YoY increase (decrease)
Residential Business	¥ 909,588	¥ 965,898	6.2%
Commercial Construction Business	445,251	477,692	7.3%
Resort Hotels and Sports Life Business	66,482	67,762	1.9%
Home Center Business	63,274	62,241	(1.6%)
Other Businesses	121,982	124,647	2.2%
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.

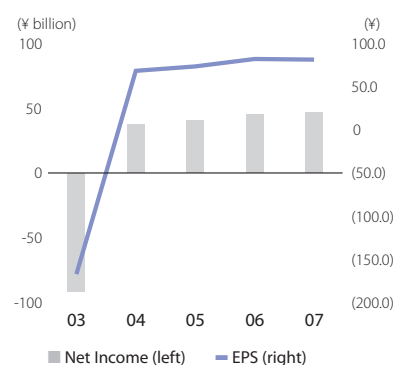
These moves resulted in sales in this business rising 2.2% year-on-year, to ¥124.6 billion (US\$1,056 million), and operating income declining 4.1% to ¥4.4 billion (US\$37 million).

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

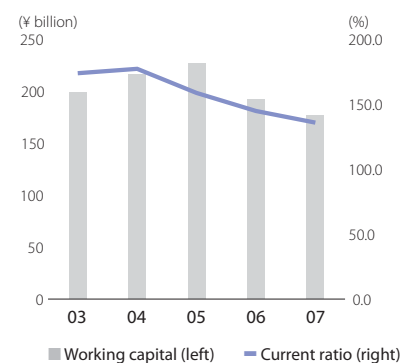
As noted, despite an increase in operating income, a change to net losses in other income caused a 6.9% year-on-year decline in income before income tax and minority interests to ¥76.4 billion (US\$648 million). That said, if we exclude the amortization of actuarial gain for employee's retirement benefits,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

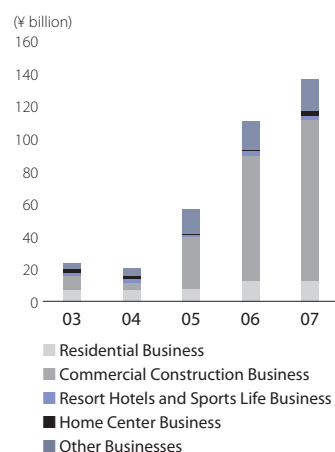
Financial position

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.

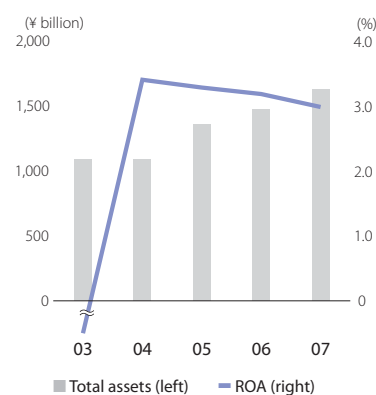
Current assets increased by 7.5% year-on-year, to ¥666.3 billion (US\$5,647 million), which is mainly attributable to the acquisition of land and buildings for sale. Moreover, despite an increase in sales, trade receivables declined year-on-year. To raise the efficiency of fund utilization, we attempted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

Capital investment by segment*

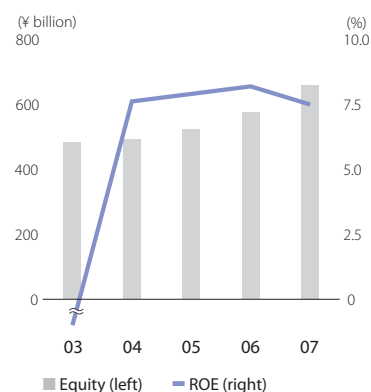


* Amounts are shown prior to consolidation adjustments.

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%.

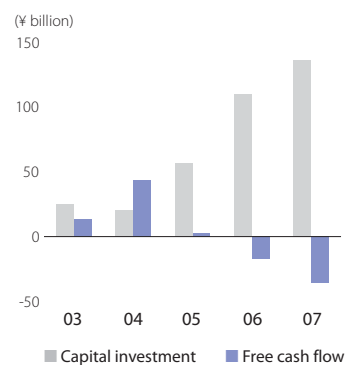
Equity

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 outflow 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 ¹
	2007	2006	2007
Current assets:			
⁸ Cash and cash equivalents	¥ 102,127	¥ 123,822	\$ 865,483
^{2e} Short-term investments	243	199	2,059
⁸ 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)
⁵ Inventories	432,328	368,334	3,663,797
¹³ Deferred tax assets	27,685	26,920	234,619
Prepaid expenses and other current assets	44,988	42,273	381,254
Total current assets	666,334	620,019	5,646,899
^{6 7 8} Property, plant and equipment:			
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
Net property, plant and equipment	602,260	505,471	5,103,898
Investments and other assets:			
^{2 d 4} Investment securities	110,175	103,236	933,686
^{2 d} Investments in and advances to associated companies	11,590	3,797	98,220
^{2 d} Long-term loans receivable	6,287	14,738	53,280
⁸ Lease deposits	155,099	147,366	1,314,398
¹³ Deferred tax assets	53,357	59,113	452,178
⁷ Other assets	32,935	29,988	279,111
Allowance for doubtful accounts	(8,015)	(8,531)	(67,924)
Total investments and other assets	361,428	349,707	3,062,949
Total	¥1,630,022	¥1,475,197	\$13,813,746

See notes to consolidated financial statements.

Liabilities and equity

	Millions of Yen		Thousands of U.S. Dollars ¹
	2007	2006	2007
Current liabilities:			
⁸ Short-term bank loans	¥ 6,933	¥ 6,183	\$ 58,754
⁸ 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
Long-term liabilities:			
⁸ Long-term debt	50,570	13,528	428,559
⁹ Liability for employees' retirement benefits	94,293	90,235	799,093
⁶ 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
^{2 k} Minority interests		74,656	
^{2 d,k,q,t} ^{6 10 18} Equity:			
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 ¹
	2007	2006	2005	2007
Net sales	¥1,618,450	¥1,528,983	¥1,365,914	\$13,715,678
Cost of sales	1,283,587	1,213,644	1,082,133	10,877,856
Gross profit	334,863	315,339	283,781	2,837,822
14 Selling, general and administrative expenses	249,184	235,267	215,932	2,111,729
Operating income	85,679	80,072	67,849	726,093
Other income (expenses):				
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)
9 Prior service benefit (cost)	324	1,000	(2,282)	2,746
9 Amortization of actuarial gain for employees' retirement benefits	3,164	21,730	2,214	26,814
7 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)
12 Other — net	719	(792)	3,361	6,093
Other income (expenses) — net	(9,230)	2,083	(4,741)	(78,220)
Income before income taxes and minority interests	76,449	82,155	63,108	647,873
13 Income taxes:				
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
Minority interests in net income of subsidiaries	(73)	(3,326)	(2,489)	(619)
Net income	¥ 46,394	¥ 45,184	¥ 40,262	\$ 393,169

	Yen			U.S. Dollars
	2007	2006	2005	2007
2^s Per share of common stock:				
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
Net increase in unrealized gain on available-for-sale securities					1,705				1,705		1,705
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
Net increase in unrealized gain on available-for-sale securities					16,083				16,083		16,083
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
Reclassified balance as of March 31, 2006										¥74,656	74,656
Net income				46,394					46,394		46,394
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	
Reclassified balance as of March 31, 2006									\$632,678	632,678	
Net income			393,169					393,169		393,169	
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 ¹
	2007	2006	2005	2007
Operating activities:				
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
Investing activities:				
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 ¹
	2007	2006	2005	2007
Financing activities:				
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
Net increase (decrease) in cash and cash equivalents	(21,695)	(26,639)	8,915	(183,856)
Cash and cash equivalents, beginning of year	123,822	150,461	141,546	1,049,339
Cash and cash equivalents, end of year	¥102,127	¥123,822	¥150,461	\$ 865,483
Non-cash investing and financing activities:				
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:

Components of Net Sales	Industry Segment				
	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)	
9 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
CURRENT:			
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
NON-CURRENT:			
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