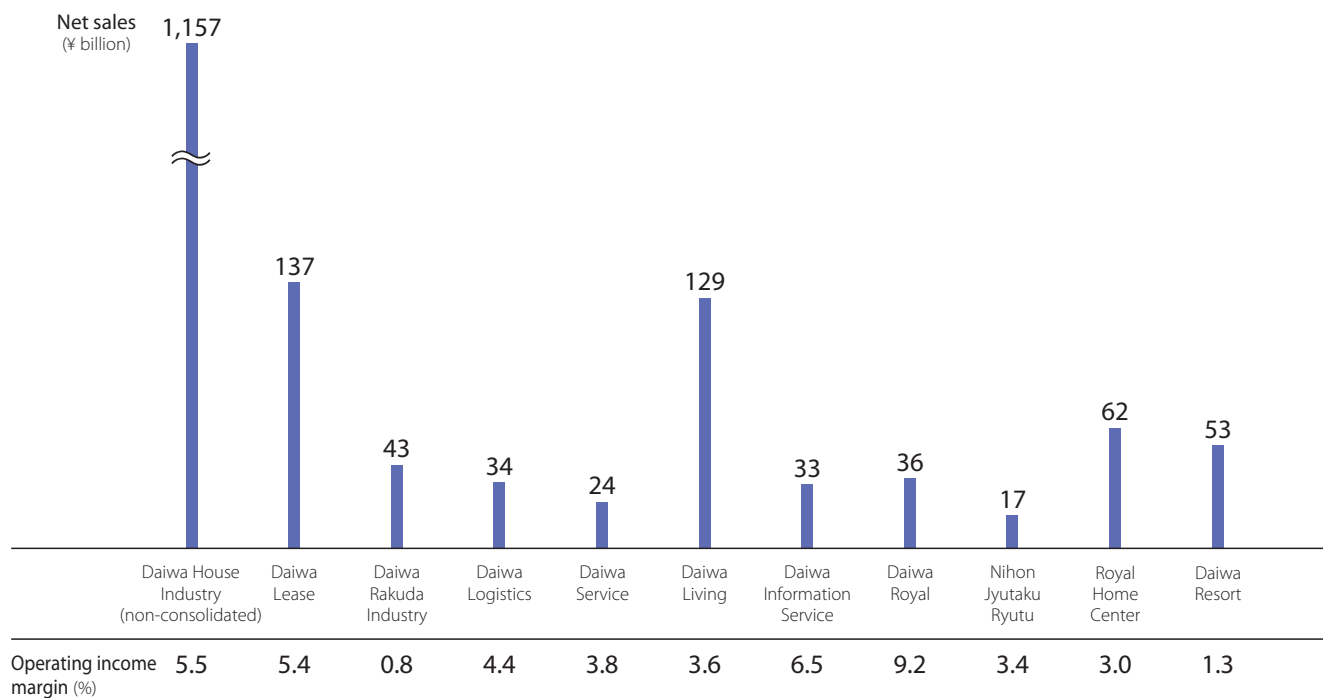


Financial Information

Sales of major Daiwa House Group companies



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Consolidated Seven-Year Summary

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2002 to 2008

	Millions of Yen						
	2008	2007	2006	2005	2004	2003	2002
Net sales	¥1,709,254	¥1,618,450	¥1,528,983	¥1,365,914	¥1,224,648	¥1,184,544	¥1,197,925
Cost of sales	1,360,348	1,283,587	1,213,644	1,082,133	963,457	936,861	945,474
Selling, general and administrative expenses	259,785	249,184	235,267	215,932	201,530	202,411	206,420
Operating income	89,121	85,679	80,072	67,849	59,661	45,272	46,031
Operating income margin	5.2	5.3	5.2	5.0	4.9	3.8	3.8
Income (loss) before income taxes and minority interests	24,862	76,449	82,155	63,108	67,897	(155,157)	9,538
Net income (loss)	13,080	46,394	45,184	40,262	37,257	(91,388)	5,217
Total assets	1,791,052	1,630,022	1,475,197	1,358,807	1,087,658	1,094,441	1,187,127
Equity*1	649,441	661,145	576,534	524,110	493,050	483,684	582,438
Property, plant and equipment, less accumulated depreciation	642,816	602,260	505,471	441,388	344,268	349,646	426,630
Capital investments	103,856	136,171	110,144	56,696	20,108	24,711	64,432
Depreciation	35,622	29,536	26,815	19,243	15,165	21,386	20,883
Net cash provided by operating activities (used in)	(15,738)	136,061	90,482	56,095	69,659	40,459	87,021
Net cash used in investing activities	(123,297)	(172,074)	(107,857)	(53,069)	(25,937)	(27,316)	(36,229)
Net cash provided by (used in) financing activities	135,797	14,318	(9,264)	5,889	(6,126)	(57,713)	(89,535)
Issued and outstanding (thousands)	579,256	587,158	546,916	546,223	546,426	546,816	546,054
Stock prices at the end of term (in yen)	987	1,933	2,040	1,232	1,328	683	815
Per share of common stock (in yen):							
Basic net income (loss)	22.46	81.15	81.88	73.26	68.16	(167.06)	9.55
Equity	1,092.04	1,122.88	1,053.37	959.08	902.32	884.55	1,066.63
Price earnings ratio (PER) (times)	43.94	23.82	24.91	16.82	19.48	—	85.31
Price to book value ratio (PBR) (times)	0.90	1.72	1.94	1.28	1.47	0.77	0.76
Return on equity (ROE) (%)	2.0	7.5	8.2	7.9	7.6	(17.1)	0.9
Equity to total assets (%)	35.3	40.4	39.1	38.6	45.3	44.2	49.1
Current ratio (%)	157.3	136.1	145.1	159.0	177.6	174.2	157.5
Fixed ratio (%)	158.5	145.8	148.3	142.4	119.0	129.5	110.6
Number of employees*2	23,421	22,240	21,016	19,770	17,814	18,454	18,457
Consolidated to non-consolidated net sales ratio (times)	1.48	1.37	1.34	1.25	1.13	1.14	1.11
Consolidated to non-consolidated net income ratio (times)	1.76	1.21	1.28	1.17	1.15	—	5.08

*1 Beginning with the fiscal year ended March 31, 2007 minority interests are included in equity.

*2 Regular employees only.

Management's Discussion and Analysis

(On a Consolidated Basis)

Year Ended March 31, 2008

Business Environment and Financial Strategy

During the term ended March 2008, the fiscal year 2007, the Japanese economy grew at a moderate pace thanks to favorable exports and increased capital investments. In the latter half of the term, however, corporate earnings began to slow down due to the impact of the instability on financial markets caused by the U.S. subprime loan crisis, as well as rising prices of raw materials.

In the construction industry, the enactment of the Revised Building Standards Law led to delays in receipt of new housing construction approvals, and as a result there was a sharp year-on-year decline in new housing construction starts and a decrease in the floorspace of general buildings on which construction was started during the term. The construction industry as a whole consequently posted a weak performance for the term.

The industry as a whole faced a difficult operating environment owing to a decline in home-buyer purchase motivation as a result of various factors. These included a steep rise in the prices of subdivision housing such as condominiums, a stagnant wage situation, and weakening expectations of higher interest rates for the time being.

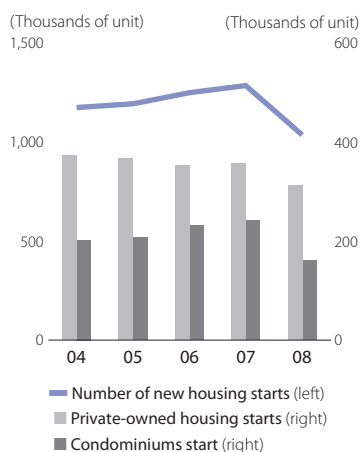
Amid this business environment, the Daiwa House Group engaged in large-scale housing subdivision projects, both for single-family houses and condominiums, as well as projects for the development of multi-purpose buildings comprising both housing and commercial facilities. In these ways, we actively pursued community development that meets the needs of each region and is in harmony with the natural environment.

We also strengthened our marketing system to cater to the individual needs of each region, and set up a system for providing carefully customized services. We also worked to improve collaboration within the Group, to facilitate the offering of an integrated service ranging from construction through maintenance and management to renovation. By these means, we aim to create lasting ties with our customers.

To build the foundations of future growth for the Group, we invested in a number of companies. Eneserve and Yuasa Logitec were transformed into consolidated subsidiaries, and we also acquired equity stakes in Odakyu Construction Co., Ltd., CYBERDYNE Inc., and ELIY Power Co., Ltd.

In addition to the above, because a company's enterprise value cannot be calculated solely through business performance figures, we have put high priority on the Group's social contributions and its activities to help preserve the environment. We aim to ensure that the Group makes a contribution to society through its use of proprietary technology and know-how in its business operations. We hold a constant dialogue with our stakeholders to seek their opinions on our business, and do our best to respond to their requests as part of our duties as a responsible corporate citizen. We also constantly work to ensure that the management and staff of the Group maintain high ethical standards and fully observe the principles of legal compliance. In these ways, we address the issue of corporate social responsibility (CSR).

New housing starts



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

	Plan	FY2005 (results)	Achievement ratio	FY2006 (results)	Achievement ratio	FY2007 (results)	Achievement ratio
Sales (¥ billion)	1,700.0	1,529.0	90	1,618.5	95	1,709.3	101
Ordinary income* (¥ billion)	100.0	103.1	103	89.4	89	61.3	61
ROE (%)	9.0	8.2	—	7.5	—	2.0	—

* Due to reclassification, ordinary income does not appear on the income statement.

The Daiwa House Group's First Medium-Term Management Plan "Challenge 2005," with the objective of growth and development through the promotion of group management, set minimum targets for the plan's final year, ended March 2008, of ¥1,700 billion in sales, ¥100 billion in ordinary income, and an ROE of 9.0%. For comparison, the actual figures for fiscal 2007 were sales of ¥1,709.3 billion (US\$17,093 million), ordinary income of ¥61.3 billion (US\$613 million), and ROE of 2.0%. The main reason for our failure to reach recurring profit and ROE targets was a loss on amortization of actuarial shortfall on employees' retirement benefits due to poor performance for pension assets amid a weak stock market, and a loss on development of business due to revised inventory valuation for long-term development projects, which are unlikely to become profitable for the foreseeable future. By booking these extraordinary losses to keep pace with a changing operating environment, we aim to shore up our financial position ahead of launch of the second medium-term management plan.

Second Medium-Term Management Plan, "Challenge 2010"

	FY2007 (results)	FY2010 (plan)
Sales (¥ billion)	1,709.3	1,850.0
Operating income (¥ billion)	89.1	115.0
Operating income margin (%)	5.2	6.2
ROE (%)	2.0	9.0

Based on the results of the first medium-term management plan, we have drawn up our Second Medium-Term Management Plan "Challenge 2010," to run from April 2008 to March 2011.

This plan has been drawn up to deal with the more difficult operating environment in the Japanese construction market that we foresee in the near future. Under the plan, we intend to enhance enterprise value based on four basic policies; a) realizing further growth through closer collaboration within the Group, b) nurturing new future earnings drivers, c) conducting R&D into growing the renovation market and the nursing care business as well as into helping prevent global warming and d) reinforcing our business base.

To facilitate better collaboration within the Group, we have redesigned the basic strategic organizational unit. We expect this improved collaboration to lead to faster decision-making and the unification of our value chains into a single value chain, and expect it to enable the sharing of customer bases among different business segments and raise the Group's competitiveness.

Business aspects on which we are focusing include comprehensively expanding our activities in the real estate field, ranging from development, through holding for sale, to property management, as we will be able to leverage the Group's existing strengths in this field.

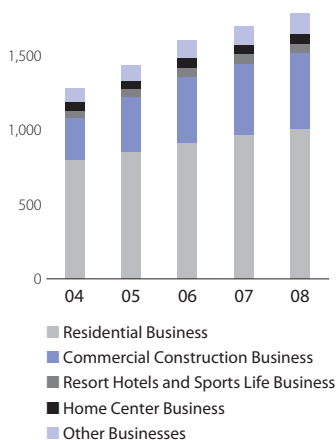
Regarding the nurturing of new future earnings drivers, we have been conducting an active investment strategy, including capital participation in ELIY Power Co., Ltd. for the development of energy-related businesses and a business tie-up with CYBERDYNE Inc. for the development of robotic suits.

We have also positioned contributions to the fight against global warming as one of our priority management themes, in line with our commitment to assisting in the creation of a sustainable society. To this end, we are working to reduce CO₂ emissions by all our business processes, and are developing products and services that exhibit a notable effect in helping reduce CO₂ levels.

Our numerical targets for fiscal 2010, the final year of our second medium-term management plan, are sales of ¥1.85 trillion, operating income of ¥115 billion, an operating income margin of 6.2%, and an ROE of 9.0%.

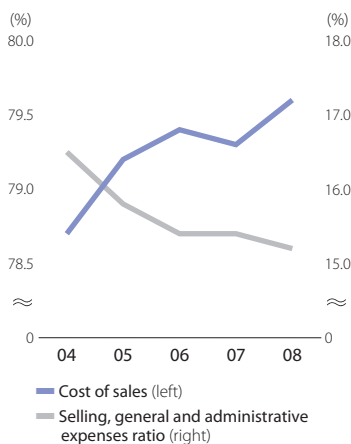
Sales

(¥ billion)
2,000



Note: Prior to consolidation adjustments

Cost of sales, selling, general and administrative expenses ratios



Results of Operation

Sales

Sales for fiscal 2007 rose ¥90.8 billion (5.6%) year on year, to ¥1,709.3 billion (US\$17,093 million), for the fifth consecutive record-high figure.

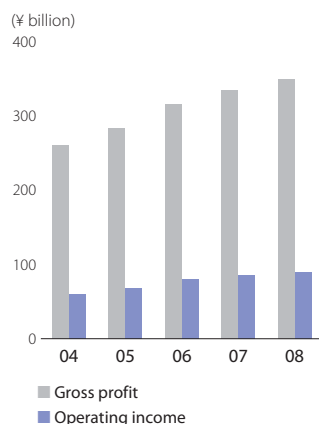
Sales by segment (prior to consolidation adjustments) came to ¥1,004.4 billion (US\$10,044 million; up 4.0% year on year) in the Residential Business, ¥512.7 billion (US\$5,127 million; up 7.3%) in the Commercial Construction Business, ¥63.7 billion (US\$637 million; down 6.0%) in the Resort Hotels and Sports Life Business, ¥62.6 billion (US\$626 million; up 0.6%) in the Home Center Business, and ¥143.3 billion (US\$1,433 million; up 15.0%) in Other Businesses. All segments posted sales increases except for the Resort Hotels and Sports Life Business, which was affected by the temporary closure of certain facilities due to the Noto Peninsula Earthquake (March 25, 2007).

Cost of sales, and Selling, general and administrative expenses

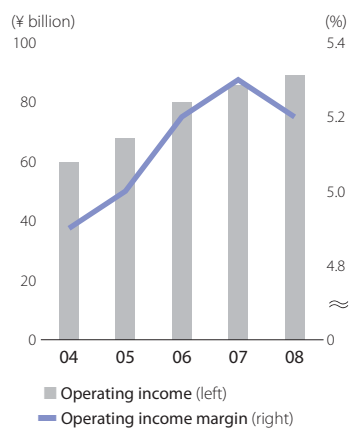
The cost of sales rose ¥76.8 billion over the previous year, to ¥1,360.3 billion (US\$13,603 million). This was largely the result of the historically high prices of crude oil, and the steep rise in the prices of raw materials, mainly due to a shortage of supply on the world market caused by rapidly increasing demand from the emerging economies. However, we managed to keep the margin of increase in our cost of sales to less than the margin of rise in materials prices, mainly through efficient and centralized purchasing.

Selling, general and administrative (SG&A) expenses increased by ¥10.6 billion over the previous year, to ¥259.8 billion (US\$2,598 million). We succeeded in reducing advertising expenses and sales promotion costs. As a result, the ratio of SG&A expenses to sales came to 15.2%, for a reduction of 0.2 percentage points from the previous year.

Gross profit and operating income



Operating income and operating income margin



Operating income

Operating income rose ¥3.4 billion, or 4.0%, over the previous term, to an all-time high of ¥89.1 billion (US\$891 million). The main factors in this result were the growth in sales and the decline in SG&A expenses. The operating income margin shrank by 0.1 points to 5.2%, due to a rise in the cost of sales.

In a segmental breakdown, all segments recorded increases in operating income except for the Resort Hotels and Sports Life Business.

Business overview by segment

Sales by segment

	(¥ million)					
	2006	2007	2008	YoY increase (decrease)(%)		
				07/06	08/07	
Residential Business	909,588	965,898	1,004,365	6.2	4.0	
Commercial Construction Business	445,251	477,692	512,734	7.3	7.3	
Resort Hotels and Sports Life Business	66,482	67,762	63,702	1.9	(6.0)	
Home Center Business	63,274	62,241	62,623	(1.6)	0.6	
Other Businesses	121,982	124,647	143,347	2.2	15.0	
Eliminations/corporate	(77,594)	(79,790)	(77,517)	—	—	
Consolidated	1,528,983	1,618,450	1,709,254	5.9	5.6	

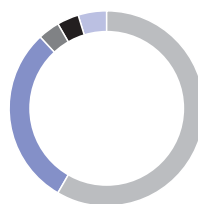
Note: Segment sales are shown prior to consolidation adjustments.

Operating income by segment

	(¥ million)					
	2006	2007	2008	YoY increase (decrease)(%)		
				07/06	08/07	
Residential Business	50,965	53,167	53,738	4.3	1.1	
Commercial Construction Business	39,517	46,933	50,508	18.8	7.6	
Resort Hotels and Sports Life Business	636	1,014	40	59.3	(96.0)	
Home Center Business	1,107	1,772	1,808	60.1	2.0	
Other Businesses	4,559	4,373	4,560	(4.1)	4.3	
Eliminations/corporate	(16,712)	(21,580)	(21,533)	—	—	
Consolidated	80,072	85,679	89,121	7.0	4.0	

Note: Segment operating income are shown prior to consolidation adjustments.

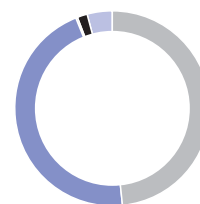
Sales breakdown by segment



Residential Business	58.6%
Commercial Construction Business	29.5%
Resort Hotels and Sports Life Business	3.7%
Home Center Business	3.5%
Other Businesses	4.7%

Note: Percentages refer to sales to outside customers.

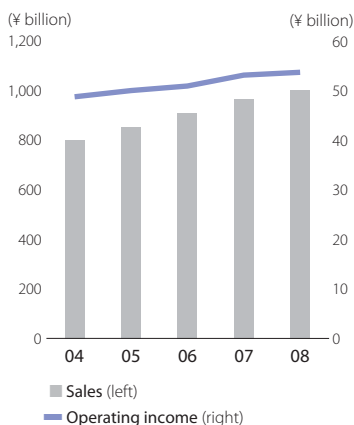
Operating income breakdown by segment



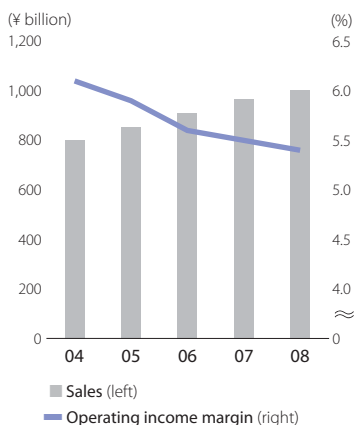
Residential Business	48.56%
Commercial Construction Business	45.65%
Resort Hotels and Sports Life Business	0.04%
Home Center Business	1.63%
Other Businesses	4.12%

Note: Percentages refer to operating income including intercompany transaction

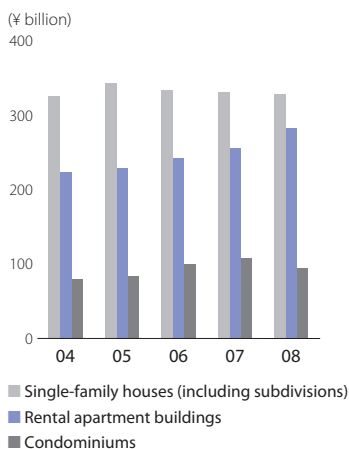
Residential Business: Sales and operating income



Residential Business: Sales and operating income margin



Residential Business: Divisional sales breakdown



Residential Business

In the Single-Family House Division, we unified our existing single-family house models into the single **xevo** brand, and launched five products on the market, the **xevo E**, **xevo V**, **xevo T**, **xevo WE**, and **xevo WV**. Unifying the brand has allowed us to achieve common parts procurement for all models and optimize construction costs. In parallel with enhanced management efficiency, we also aim to expand our product lineup, and are devising a raft of initiatives to increase the attractiveness of **xevo**-brand products. To reduce carbon dioxide emissions at the household level, we are fitting as standard to all our **xevo** models exterior thermal ventilation walls that conform to energy conservation standards higher than the next-generation standards generally accepted in Japan. In addition, we have developed our own energy use simulation software, called Eco Navigator, and our house models offer a number of cost-saving and eco-friendly optional features, such as solar power generation systems incorporated into house roofing materials, and high-efficiency water heaters. Our marketing staff explain these features to potential buyers in an easy-to-understand way. By these means, we are working to develop and popularize energy-saving residences with a small carbon footprint. Our efforts in this regard have been recognized by the Japanese authorities, and in fiscal 2007 Daiwa House Industry received an award from the Ministry of the Environment for its contributions to the fight against global warming. Sales on a non-consolidated basis (excluding sales of land) remained roughly flat at ¥329.6 billion, down 0.6% year on year.

In the Rental Housing Division, growth was seen in sales of medium-to-high-rise rental housing in the central areas of Japan's major cities. In suburban areas, we developed and sold rental housing tailored to the unique needs of each region. We also offered land owners support services that assured them of a long-term stable income.

As a result of the foregoing, the number of rental housing units sold rose 1.0% to 29,021. Sales were up 10.8% at ¥283.7 billion on a non-consolidated basis.

In the Condominium Division, during the term under review we took steps to grow our new PREMIST band of condominiums, whose development plans takes great care in the selection of location, project planning, and amenity creation.

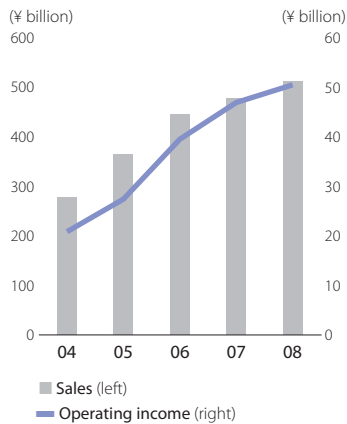
For the nation's major cities as well as leading regional cities, we proposed and constructed large-scale multi-purpose facilities containing commercial property together with hospitals/clinics and nursing care facilities. We also constructed environmentally friendly condominium buildings that incorporate central solar-powered systems for the supply of hot water to all residential units. These are just some of the ways in which we sought to leverage the Group's comprehensive capabilities in condominium marketing.

Unfortunately, the instability on the financial markets caused by the U.S. subprime mortgage loan crisis led to a shrinkage in the supply of credit to investors, and banks also tightened their loan purses. For these reasons, against the backdrop of rising land prices, the condominium market, which had been a seller's market, saw a downturn in demand. As a result, our sales of condominiums fell by 728 units to 4,253, and in value terms sales declined by 12.7% to ¥94.3 billion on a non-consolidated basis, excluding the sale of land.

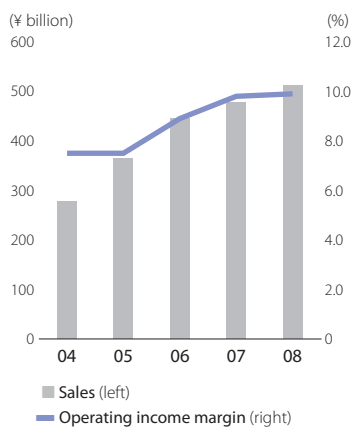
In the Renovation Division, we leverage our extensive experience as a house builder to make a wide variety of renovation proposals matching different family compositions and lifestyles. We also offered services to assist home owners in protecting and further enhancing the asset values of their houses with an eye to the future.

As a result of the above, sales of the Residential Business on a consolidated basis came to ¥1,004.4 billion (US\$10,044 million), up 4.0% year on year. Operating income edged up 1.1% to ¥53.7 billion (US\$537 million), but the operating income margin fell by 0.1 points to 5.4%.

Commercial Construction Business: Sales and operating income



Commercial Construction Business: Sales and operating income margin



Commercial Construction Business

In the Commercial Facilities Division, we leveraged the extensive fund of data about land that we have built up over many years of operation of our LOC System to provide support and consulting for companies wanting to open retail outlets in our facilities. We were particularly active in the development of roadside suburban outlets and large-scale shopping malls. During the reporting term, we took part as a subcontractor in major projects such as the LOC CITY Mito Minami and LOC CITY Moriya. As a result, the total floorspace of tenanted units rose by 11.1% over the previous year, to 3,349,000 square meters, and the number of tenants passed the 5,200-company mark.

In retail facility construction, we developed the new Restore & Rebuild System to facilitate the opening of new outlets. This system allows us to arrange for tenants to move to a new building, while the original building is relocated to be rented out to other tenants.

In the Distribution, Medical/Nursing Care and Corporate Facilities Division, we utilized our know-how in the construction of warehouses and large-scale logistics facilities, as well as in food hygiene management systems, to gain orders from companies in the foodstuffs sector for the construction of logistics centers. We also offer comprehensive solutions for distribution and real estate management, including drawing up funding plans for landowners, and capital investment plans and logistics systems design for logistics companies.

In the field of medical and nursing care facilities, we have been making proposals for private nursing homes and rental housing for elderly people, which constitute new models for housing for senior citizens, and which meet the needs of society amid the current rapid increase in the average age of the population.

In the field of Corporate Facilities, we also offer services that support companies in the expansion of their marketing networks, including the construction of showrooms and offices. Major achievements during the reporting term included the Fukuoka Logistics Center and the D-Project Kashiwa development project.

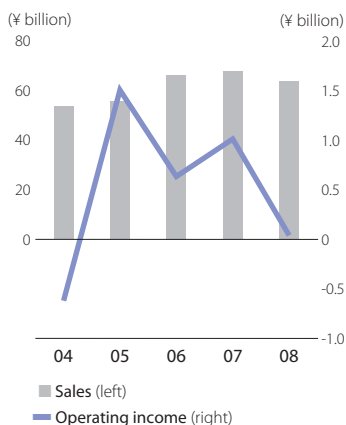
As a result of the above, sales in the Commercial Construction Work segment on a consolidated basis rose by 7.3% to ¥512.7 billion (US\$5,127 million), while operating income rose 7.6% to ¥50.5 billion (US\$505 million). The operating income margin was up 0.1 of a point, at 9.9%.

Resort Hotels and Sports Life Business

In the Resort Hotels Business, at the end of the previous business term Daiwa House Industry had transferred its resort hotels business to Daiwa Resort, a consolidated subsidiary, with the aim of achieving greater management efficiency. Daiwa Resort continued to maintain the high service quality for which the Daiwa House Group hotels are renowned, while at the same time taking active steps to cut costs. The company placed priority on strengthening security for guests, as well as further raising the standard of hospitality. Safety was made the focus of staff training programs, which at the same time sought to maintain the Daiwa House Industry reputation for excellent services to realize maximum customer satisfaction.

The guest room occupancy rate of our resort hotels posted a decline from the previous year, owing to the effects of the Noto Peninsula Earthquake in March 2007. In the second half of the

**Resort Hotels and Sports Life Business:
Sales and operating income**



term, the occupancy rate recovered, registering a level above that of the same period of the previous term. The number of hotel guests decreased by about 180,000 year on year, to 3.1 million, but the number of persons using our golf courses posted an increase.

In Sports Facilities operations, our subsidiary Nippon Athletic Service (NAS) reopened its NAS Kohoku facilities after renovation. In addition, the NAS Osaki facilities were opened alongside the Daiwa Roynet Hotel Tokyo-Osaki (operated by consolidated subsidiary Daiwa Royal). These initiatives are part of our pursuit of a comprehensive fitness club and leisure facilities business to complement the Group's main business lines.

As a result of the above, sales on a consolidated basis decreased by 6.0% to ¥63.7 billion (US\$637 million), but operating income plunged by 96.0% to ¥40 million (US\$0.4 million) as a result of the Noto Peninsula Earthquake and higher operating costs resulting from high oil prices.

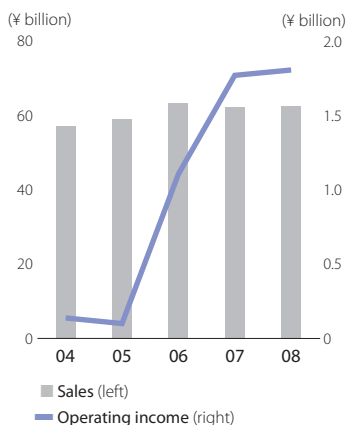
Home Center Business

The operating environment for the Home Center Business remained severe against the background of a maturing market, continuing homogeneity among retail outlets, and increasingly intense competition from other industries.

For these reasons, we renovated and expanded a number of our facilities to stimulate the business performance of existing home centers, and expanded our total scale by taking over the home center operations of Daiya Tsusho. In a joint venture with consolidated subsidiary Daiwa House Financial, the Company started up a point card program with additional credit card functions. This is aimed at creating synergy throughout the Group's operations.

As a result of the above, the number of home centers at the reporting term-end stood at 47, down from 42 at the end of the previous year, while the total floorspace of these stores was up 12.8% year on year, at 233,000 square meters. Sales on a consolidated basis edged up 0.6% to ¥62.6 billion (US\$626 million), while operating income was up 2.0% at ¥1.8 billion (US\$18 million) and the operating income margin rose 0.1 points to 2.9%.

**Home Center Business:
Sales and operating income**



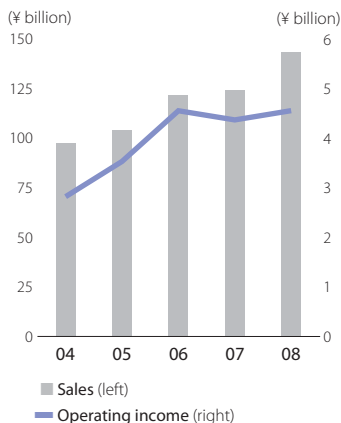
Other Businesses

In the Housing Construction Materials Manufacturing and Marketing Division, we took steps to expand sales to national and local home builders, including strengthening our sales of new brands of semi-customized furniture. We also opened a coordination shop for high-class furniture to expand our business scale in the home interiors field. We also invested in the marketing of sports equipment rental services for sporting events, and put in place a system enabling receipt of full-package orders for the planning, environment design, and interior management of large-scale multi-purpose commercial facilities.

In the Logistics Division's development of value-added logistics services centered on the maintenance of retail outlet fixtures and fittings, Yuasa Logitec, a consolidated subsidiary that engages in the recycling of storage batteries, expanded its business scale by providing maintenance services and power source installation work for communications facilities.

In addition, as part of the government-led program to spread the use of environmentally sound logistics services, we constructed a dedicated center in Kanagawa Prefecture for the joint procurement and transportation of construction materials used by Group companies. In this way, we achieved greater efficiency in delivering materials to building sites, which helps reduce the environmental load of such construction activities.

**Other Businesses:
Sales and operating income**



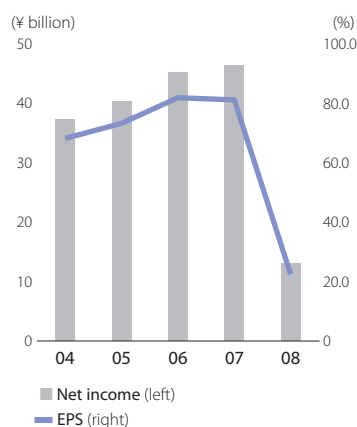
Our Business Hotels Division started up new hotels in Tokyo and Okayama, bringing the total business hotel network to 12.

As a result of the above, total revenues of the Other Businesses segment, on a consolidated basis, came to ¥143.3 billion (US\$1,433 million), for a year-on-year increase of 15.0%. Operating income rose 4.3% to ¥4.6 billion (US\$46 million).

Other income and expenses

In the other income and expenses account, the net loss expanded to ¥64.3 billion (US\$643 million) from the ¥9.2 billion net loss recorded for the previous year. Interest and dividends received posted an increase over the previous year, but the financial balance (interest and dividends receivable minus interest payable) performed a turnaround into the red ink as a result of higher payments caused by an increase in borrowings. At the same time, other expenses rose significantly. This was mainly attributable to a slump in stock prices, due to which the previous year's gain on reversal of actuarial gain on employees' retirement benefits turned around to a loss on amortization of actuarial difference in the amount of ¥26.4 billion (US\$264 million).

Net income and EPS



Net income

As a result of the foregoing, net income for the reporting term registered a decrease of ¥33.3 billion, to ¥13.1 billion (US\$131 million). The ratio of net income to sales was 0.8%, down by 2.1 percentage points from the previous term. Earnings per share were down by ¥58.69 from the previous term, at ¥22.46 (US\$0.22), while the annual dividend increased by ¥4 to ¥24 (US\$0.24) per share.

Financial Position and Cash Flows

Financial position

Current assets and liabilities

Total assets on a consolidated basis at the end of March 2008 stood at ¥1,791.1 billion (US\$17,911 million), an increase of ¥161.0 billion, or 9.9%, over the previous year. This increase is mainly attributable to an increase in land and buildings for sale.

Current assets increased by 14.3% to ¥761.9 billion (US\$7,619 million). The majority of this increase is accounted for by land and buildings held under the accounting title of inventory assets. These land holdings included land purchased in Suzhou, China as part of the Group's policy of entering overseas land markets. Total inventory assets amounted to ¥495.6 billion.

Current liabilities declined by 1.1% from the previous year, to ¥484.3 billion (US\$4,843 million). This was mostly due to a major decrease in trade payables. Term-end factors included the fact that the settlement of certain trade payables was not possible at the balance-sheet date for the previous term, owing to the fact that the balance-sheet date fell on a business holiday: these payables were thus carried over to the reporting period. Issuances of commercial paper and short-term bank loans increased.

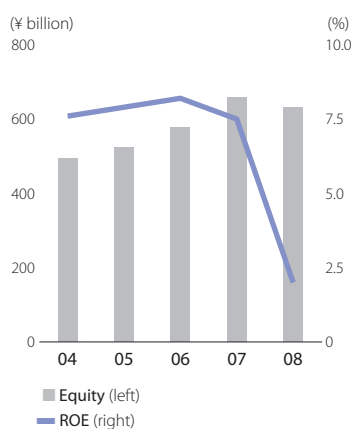
Non-current assets and long-term liabilities

Property, plant and equipment posted an increase of 6.7% to ¥642.8 billion (US\$6,428 million). One component element that showed a particularly sharp increase was buildings and structures. In the field of Commercial Construction, which posted growth paralleling the sharp increase in capital investment, we completed a number of large-scale projects including LOC CITY Moriya. While the value of land declined from the previous year, this was due to a land reappraisal in line with market trends in large-scale housing development projects, and in housing development projects in wooded areas. We reappraised land assets that are thought unlikely to produce earnings in the near future, and wrote down their book values.

Investments and other assets registered a year-on-year increase of 6.9% to ¥386.4 billion (US\$3,864 million). Of this, the value of investment securities declined, due to a price slide on the stock market, leading to an increase in losses on valuation of investment securities. Other assets increased due to inclusion of bid guarantee money for real estate developments in China.

Long-term liabilities posted a major increase of 37.1%, to ¥657.3 billion (US\$6,573 million). This is mainly attributable to an increase in long-term bank loans. Until a few years ago, the Daiwa House Group followed a "no borrowings" management policy, but owing to the rapid increase in the Group's need for investment funds, during the reporting term we increased long-term loans by ¥142.8 billion to an outstanding balance of ¥193.4 billion (US\$1,934 million). As a result, total interest-bearing debt amounted to ¥228.4 billion, compared with ¥58.5 billion at the previous term end. The ratio of interest-bearing debt to total assets increased to 12.8%. The D/E ratio, however, stayed at 0.36.

Equity and ROE



Equity

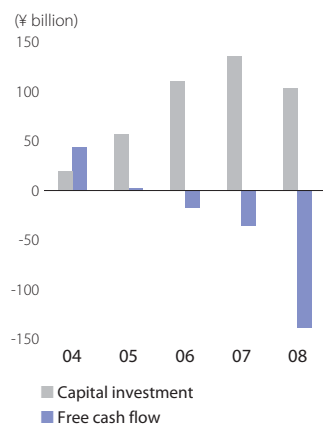
Equity (common stock + capital surplus + retained earnings – treasury stock + net unrealized gain on available-for-sale securities + land revaluation difference + foreign currency translation adjustments) decreased by 4.1% year on year, to ¥632.6 billion (US\$6,326 million). This was attributable to a decline in unrealized gains on available-for-sale securities as a result of the stock market's weakness, and an increase in shares in treasury. The value of treasury shares as of the previous term-end had been ¥7.7 billion, but the Company nonetheless purchased 7,801,000 shares at a cost of ¥1,498 to firm up its capital base and enable an effective response to changes in the business environment. As a result, treasury shares at the reporting term-end stood at ¥19.5 billion (US\$195 million).

As a result of the foregoing, the Company's equity ratio (owners' equity as a percentage of total assets) declined by 5.1 points to 35.3%. ROE (Return on Equity: the ratio of net income to equity) is shown using the following formula: $(\text{net income}/\text{sales}) \times (\text{sales}/\text{total assets}) \times (\text{total assets}/\text{owners' equity})$. It fell to 2.0% owing to the sharp plunge in the ratio of net income to sales. Because the financial leverage (total assets/owners' equity) rose over the previous year's level, the total asset turnover also posted a year-on-year decline. From here onward, how to ensure the most efficient utilization of the swollen assets will be an urgent management task.

Minority interests

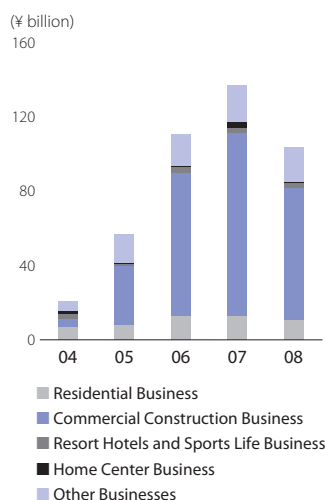
Minority interests increased by more than nine-fold over the previous year, to ¥16.9 billion (US\$169 million). This comes from the inclusion of Eneserve and Yuasa Logitec in the scope of consolidation. This sort of improvement in intra-Group collaboration is aimed at improving our ability to offer a fully integrated service and at strengthening our customer relationships.

Capital investment* and free cash flow



* Prior to consolidation adjustment.

Capital investment by segment*



* Amounts are shown prior to consolidation adjustments.

Cash flows

The balance of cash and cash equivalents at the end of the period under review stood at ¥98.9 billion (US\$989 million), for a decrease of ¥3.2 billion from the previous year-end. This was due to a major net outflow of cash used in investing activities, as well as a net outflow of cash used in operating activities.

Net cash used in operating activities came to ¥15.7 billion (US\$157 million), compared with net cash provided in the amount of ¥136.1 billion for the previous term. This turnaround was mainly due to increases in inventory assets, principally land and buildings for sale, as well as the fact that the balance-sheet date for the previous term fell on a holiday (causing certain trade payables to be carried over to the next term).

Net cash used in investing activities came to ¥123.4 billion (US\$1,234 million), a decrease of ¥48.8 billion from the previous term. This cash outflow consisted mainly of expenditure for the acquisition of assets in the category of property, plant and equipment, i.e. land and buildings. Investments in a special-purpose company engaged in real estate development also increased. On the other hand, as the cash and deposits held by newly consolidated subsidiaries surpassed the amount invested in them, the net amount was registered in the Company's accounts as income from the acquisition of new companies.

Net cash provided by financing activities stood at ¥135.8 billion (US\$1,358 million), for a major increase over the previous year. The principal causative factor was the procurement of long-term debt borrowings to finance investing activities. Conversely, the acquisition of own shares and the payment of dividends were negative factors.

Free cash flow (total net cash outflow from operating and investing activities) registered a net cash outflow of ¥139.0 billion (US\$1,390 million), compared with a net cash inflow of ¥36.0 billion for the previous term.

Capital investment

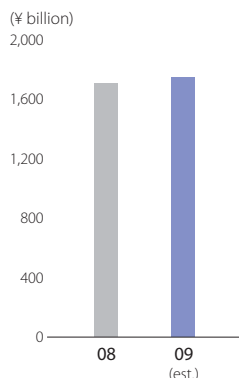
The Group made capital investments in the amount of ¥103.9 billion (US\$1,039 million) for the reporting term, down 23.7% from the previous term. The investment funds were raised from net cash provided by operating activities, supplemented by long-term bank borrowings.

Interest-bearing debt came to ¥228.3 billion, but the D/E ratio stayed at 0.36. Capital investments of ¥140 billion are planned for fiscal 2008, centered on the Commercial Construction Business.

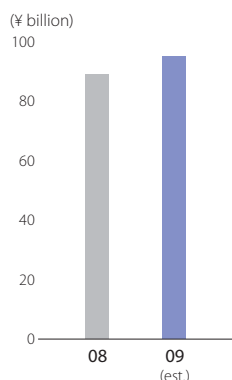
Fund procurement

Previously, we followed a policy of reducing the Group's interest-bearing debt, and we relied principally on cash in hand to finance business operations. Under the Group's first medium-term management plan, which started in fiscal 2005, we have begun to change our policies for the procurement of working capital, and this will be continued under the current second medium-term management plan. In particular, under the second medium-term plan, we are placing special priority on a wide spectrum of real-estate-related services ranging from development through maintenance and management. We have therefore drawn up a set of policy rules to strengthen our developments in this field. Over the next three years, the Group will invest ¥460 billion in real estate development projects, and will make ¥90 billion worth of capital investment plus ¥30 billion worth of investments in M&A and alliances. These investments will be funded from operating cash flow in the amount of ¥230 billion, long-term deposited and guarantee money of ¥70 billion and return on investments of ¥150 billion, supplemented by an increase in outside borrowings of ¥130 billion. Taking financial leverage considerations into account, we will set a ceiling on borrowings so as to keep the D/E ratio at around 0.5.

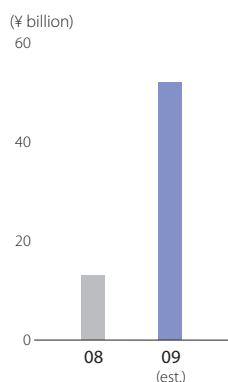
Sales



Operating income



Net income



Outlook for the Current Fiscal Year, Ending March 2009

The Japanese economy's prospects are likely to remain uncertain for some time, against the background of a decelerating U.S. economy and rising prices of raw materials. In the Company's core business sector of home construction, the temporarily disruptive effects of the Revised Building Standards Law are gradually disappearing. However, the housing investment trend was weak even before the revision, and in view of the sluggishness of consumer spending and the possibility of still further rises in materials prices, we expect business conditions in the industry to remain severe for some time to come.

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 to help realize more comfortable living environments for the public. In response, we will work to create a stock of higher-quality housing and provide environment-friendly housing.

In particular, we have strengthened our ability meet demand for home rebuilding through the launch of our **xevo** brand of houses. We will work to raise our brand power and management efficiency in the housing field, while continuing to pursue real estate development projects in the fields of commercial facilities and logistics facilities.

New business directions include the robotic suit business (power-assisted suits to help elderly people regain a degree of self-sufficiency) and energy-related projects aimed at helping retard global warming. Through these ventures, the Group intends to establish itself as an indispensable player by accurately catering to market needs.

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. In so doing, we will create a new business structure that will enable us to meet the requirements of our wide spectrum of stakeholders and thereby strengthen our bonds with them.

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.

In conclusion, we forecast business performance for the current term, ending March 2009, on a consolidated basis, as follows: sales of ¥1,750 billion, operating income of ¥95 billion, ordinary income of ¥93.5 billion, and net income of ¥52 billion. We plan an annual dividend of ¥24.

Business Risks

Regarding risks to which the business operations of the Daiwa House Group are subject, we list below the principal categories of risk whose materialization is thought likely to exert a significant determining effect on the decisions of investors. Readers are advised that the following section contains forward-looking statements, which are based on information available to the management of the Group as of March 31, 2008.

Risk of changes in the business environment

In addition to changes in trends in the markets in which the Group engages in business, the Group's business performance and financial position may also be adversely impacted by changes in other external factors such as (but not limited to) the prices of raw materials and finished products bought-in, land prices, and interest rates.

Risk of declines in the value of real estate holdings and other fixed assets

The Daiwa House Group engages in business operations in the real estate field throughout Japan, including the purchase, development, and sale of real estate. In the event of a marked decrease in real estate prices, the business performance and financial position of the Group could be adversely affected.

Moreover, in the event of a decline in land prices and a consequent decline in rent levels, the Group may be forced to implement impairment accounting on the appraisal value of its real estate holdings.

In addition to real estate holdings, the Group may suffer impairment losses on other noncurrent assets, and this could have an adverse impact on the Group's business performance and financial position.

Risks related to retirement benefits

In the event that equity prices on the Japanese stock markets were to suffer a long-term decline, this would cause a decline in the value of the pension assets that the Group has put in place to finance its payment of retirement benefits to employees. This would lead to an increase in pension-related costs, and/or would require the Group to commit additional assets as funding sources for retirement benefits. Such developments would be likely to adversely impact the business performance and financial position of the Group.

Overseas operational risk

The Daiwa House Group engages in business operations outside Japan, principally in China. Consequently, its business operations carry the risk of delays in the implementation of business projects or in the collection of accounts receivable as a result of factors arising from the political and business situations in the various countries or economies in which it operates.

Risks relating to guarantees of product quality with respect to housing

In its housing-related business operations, to raise customer satisfaction levels the Group offers its customers a long-term guarantee system. At the same time, the Group also works to ensure the highest level of product quality at all times. In view of the lengths of time involved in these guarantees, there is the risk that unforeseeable circumstances could give rise to major product quality problems, in which event the business performance and financial position of the Group could be adversely affected.

Risks associated with legal regulations

Within Japan, the Daiwa House Group engages in business operations not only in the fields of construction and real estate, but in numerous other business fields as well. The Group is also active overseas. Because of this situation, the number of legal statutes governing the Group's spheres of business is extremely large, and includes the Japanese Corporation Law, the Financial Instruments and Exchange Law, laws relating to the environment, specific laws on the construction and real estate industries, various laws relating to commerce, and many other laws and ancillary regulations.

In addition, as the Group operates overseas, its operations there are subject to the laws and regulations of the countries in which it operates. The Daiwa House Group has put in place a system to ensure rigorous legal compliance on the part of the directors of the Group, but in the event that the Group fails to properly abide by a certain law or laws, or in the event that the Group becomes in violation of the law as a result of the rescinding or amendment of laws or regulations, this could have an adverse impact on the Group's business performance and financial position.

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

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

Consolidated Financial Statements

Consolidated Balance Sheets

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries
March 31, 2008 and 2007

Assets

	Millions of Yen		Thousands of U.S. Dollars ¹
	2008	2007	2008
Current assets:			
⁷ Cash and cash equivalents	¥ 98,889	¥ 102,127	\$ 988,890
^{2 c} ³ Marketable securities	20		200
^{2 d} Short-term investments	1,466	243	14,660
⁷ Receivables:			
Trade notes	10,834	10,226	108,340
Trade accounts	52,503	50,012	525,030
Allowance for doubtful receivables	(898)	(1,275)	(8,980)
⁴ Inventories	495,613	432,328	4,956,130
¹³ Deferred tax assets	40,769	27,685	407,690
⁷ Prepaid expenses and other current assets	62,681	44,988	626,810
Total current assets	761,877	666,334	7,618,770
Property, plant and equipment:			
⁵ ⁶ ⁷ Land	341,408	344,107	3,414,080
⁶ ⁷ Buildings and structures	460,762	439,090	4,607,620
Accumulated depreciation	(223,306)	(234,729)	(2,233,060)
⁶ ⁷ Machinery and equipment	92,877	86,031	928,770
Accumulated depreciation	(56,756)	(54,104)	(567,560)
⁶ ⁷ Furniture and fixtures	33,760	31,986	337,600
Accumulated depreciation	(23,601)	(22,912)	(236,010)
Construction in progress	17,672	12,791	176,720
Net property, plant and equipment	642,816	602,260	6,428,160
Investments and other assets:			
^{2 c} ³ Investment securities	90,622	110,175	906,220
^{2 c} Investments in and advances to unconsolidated subsidiaries and associated companies	10,472	11,590	104,720
^{2 c} Long-term loans receivable	8,478	6,287	84,780
⁷ Lease deposits	164,957	155,099	1,649,570
¹³ Deferred tax assets	77,159	53,357	771,590
⁶ Other assets	43,453	32,935	434,530
Allowance for doubtful accounts	(8,782)	(8,015)	(87,820)
Total investments and other assets	386,359	361,428	3,863,590
Total	¥1,791,052	¥1,630,022	\$17,910,520

See notes to consolidated financial statements.

Liabilities and equity

	Millions of Yen		Thousands of U.S. Dollars ¹
	2008	2007	2008
Current liabilities:			
7 Short-term bank loans	¥ 11,918	¥ 6,933	\$ 119,180
7 Commercial paper	20,000		200,000
7 Current portion of long-term debt	1,595	1,070	15,950
Payables:			
Trade notes	28,781	24,975	287,810
Trade accounts	161,079	228,280	1,610,790
Other accounts	92,430	71,220	924,300
Deposits received from customers	58,628	62,870	586,280
Income taxes payable	23,163	15,833	231,630
Accrued bonuses	21,168	20,485	211,680
Provision for product warranties	6,573	6,319	65,730
Accrued expenses and other current liabilities	58,988	51,603	589,880
Total current liabilities	484,323	489,588	4,843,230
Long-term liabilities:			
7 Long-term debt	193,377	50,570	1,933,770
8 Liability for employees' retirement benefits	124,170	94,293	1,241,700
5 Deferred tax liabilities on land revaluation	27,902	27,458	279,020
Long-term deposits received from the Company's club members	45,793	48,818	457,930
Lease deposits received	204,288	188,944	2,042,880
Other long-term liabilities	61,758	69,206	617,580
Total long-term liabilities	657,288	479,289	6,572,880
Equity:			
Common stock, authorized, 1,900,000,000 shares; issued, 599,921,851 shares in both 2008 and 2007	110,120	110,120	1,101,200
Capital surplus	226,825	226,834	2,268,250
18 Retained earnings	381,480	387,842	3,814,800
2 c Net unrealized gain on available-for-sale securities	13,432	29,874	134,320
5 Land revaluation difference	(79,195)	(86,847)	(791,950)
2 o Foreign currency translation adjustments	(557)	(822)	(5,570)
Treasury stock — at cost, 20,665,458 shares in 2008 and 12,763,619 shares in 2007	(19,534)	(7,693)	(195,340)
Total	632,571	659,308	6,325,710
Minority interests	16,870	1,837	168,700
Total equity	649,441	661,145	6,494,410
Total	¥1,791,052	¥1,630,022	\$17,910,520

Consolidated Statements of Income

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2008, 2007 and 2006

	Millions of Yen			Thousands of U.S. Dollars ¹
	2008	2007	2006	2008
Net sales	¥1,709,254	¥1,618,450	¥1,528,983	\$17,092,540
Cost of sales	1,360,348	1,283,587	1,213,644	13,603,480
Gross profit	348,906	334,863	315,339	3,489,060
14 Selling, general and administrative expenses	259,785	249,184	235,267	2,597,850
Operating income	89,121	85,679	80,072	891,210
Other income (expenses):				
Interest income and dividends	2,602	2,143	1,590	26,020
Interest expense	(3,371)	(1,750)	(1,321)	(33,710)
Write-down of marketable and investment securities	(7,859)	(1,808)		(78,590)
Write-down of inventories	(1,632)	(222)	(6,055)	(16,320)
Loss on sales and disposal of property, plant and equipment	(1,273)	(2,231)	(2,999)	(12,730)
8 Gain on amortization of prior service cost	500	324	1,000	5,000
8 Amortization of actuarial gain (loss) for employees' retirement benefits	(26,411)	3,164	21,730	(264,110)
6 Impairment loss on property, plant and equipment	(1,655)	(5,042)	(5,500)	(16,550)
Loss on sublease agreements	(210)		(1,247)	(2,100)
Expenses in relation to the fiftieth anniversary			(4,323)	
Loss on business restructuring		(4,527)		
12 Loss on development businesses	(24,537)			(245,370)
11 Other — net	(413)	719	(792)	(4,130)
Other income (expenses) — net	(64,259)	(9,230)	2,083	(642,590)
Income before income taxes and minority interests	24,862	76,449	82,155	248,620
13 Income taxes:				
Current	37,190	24,369	23,814	371,900
Deferred	(25,122)	5,613	9,831	(251,220)
Total	12,068	29,982	33,645	120,680
Minority interests in net (income) loss of subsidiaries	286	(73)	(3,326)	2,860
Net income	¥ 13,080	¥ 46,394	¥ 45,184	\$ 130,800

	Yen			U.S. Dollars
	2008	2007	2006	2008
2 a Per share of common stock:				
Basic net income	¥22.46	¥81.15	¥81.88	\$0.22
Cash dividends applicable to the year	24.00	20.00	20.00	0.24

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2008, 2007 and 2006

	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, 2005	546,223	¥110,120	¥147,759	¥325,893	¥14,663	¥(69,230)	¥(927)	¥ (4,168)	¥524,110		¥524,110
Net income				45,184					45,184		45,184
Cash dividends, ¥17.0 per share				(9,210)					(9,210)		(9,210)
Bonuses to directors and corporate auditors				(226)					(226)		(226)
Decrease due to exclusion from equity method accounting of former associated companies				(527)					(527)		(527)
Transfer due to sales of land				(5,619)		5,619					
Net decrease in land revaluation difference						219			219		219
2 c Net increase in unrealized gain on available-for-sale securities					16,083				16,083		16,083
2 o Foreign currency translation adjustments							44		44		44
Net decrease in treasury stock	693		260					597	857		857
Balance, March 31, 2006	546,916	110,120	148,019	355,495	30,746	(63,392)	(883)	(3,571)	576,534		576,534
2 j 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
Net income				13,080					13,080		13,080
Cash dividends, ¥20.0 per share				(11,743)					(11,743)		(11,743)
Transfer due to sales of land				(7,693)		7,693					
Net increase in land revaluation difference						(41)			(41)		(41)
Net increase in treasury stock	(7,902)		(9)	(6)				(11,841)	(11,856)		(11,856)
Net change in the year					(16,442)		265		(16,177)	15,033	(1,144)
Balance, March 31, 2008	579,256	¥110,120	¥226,825	¥381,480	¥13,432	¥(79,195)	¥(557)	¥(19,534)	¥632,571	¥16,870	¥649,441

	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, 2007	\$1,101,200	\$2,268,340	\$3,878,420	\$298,740	\$(868,470)	\$(8,220)	\$(76,930)	\$6,593,080	\$ 18,370	\$6,611,450	
Net income			130,800					130,800		130,800	
Cash dividends, \$0.20 per share			(117,430)					(117,430)		(117,430)	
Transfer due to sales of land			(76,930)		76,930						
Net increase in land revaluation difference					(410)			(410)		(410)	
Net increase in treasury stock		(90)	(60)				(118,410)	(118,560)		(118,560)	
Net change in the year				(164,420)		2,650		(161,770)	150,330	(11,440)	
Balance, March 31, 2008	\$1,101,200	\$2,268,250	\$3,814,800	\$134,320	\$(791,950)	\$(5,570)	\$(195,340)	\$6,325,710	\$168,700	\$6,494,410	

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2008, 2007 and 2006

	Millions of Yen			Thousands of U.S. Dollars ¹
	2008	2007	2006	2008
Operating activities:				
Income before income taxes and minority interests	¥ 24,862	¥ 76,449	¥ 82,155	\$ 248,620
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Income taxes — paid	(30,294)	(26,759)	(22,986)	(302,940)
Depreciation	35,622	29,536	26,815	356,220
Write-down of marketable and investment securities	7,859	1,808		78,590
Write-down of golf club membership	53	75	264	530
Loss on sales and disposal of property, plant and equipment	1,273	2,231	2,999	12,730
Impairment loss on property, plant and equipment	1,655	5,042	5,500	16,550
Equity in earnings of associated companies	(316)	(289)	(350)	(3,160)
Provision for (reversal of) employees' retirement benefits, net of payments	30,108	4,059	(29,084)	301,080
Loss on development businesses	24,537			245,370
Loss on sublease agreements	210		1,247	2,100
Changes in certain assets and liabilities, net of consolidation:				
Decrease (increase) in receivables	(2,151)	289	9,795	(21,510)
Increase in inventories	(87,402)	(63,528)	(41,598)	(874,020)
Increase (decrease) in payables — trade	(48,548)	69,767	17,384	(485,480)
Increase (decrease) in deposits received from customers	(4,242)	(2,553)	17,418	(42,420)
Other — net	31,036	39,934	20,923	310,360
Total adjustments	(40,600)	59,612	8,327	(406,000)
Net cash provided by (used in) operating activities	(15,738)	136,061	90,482	(157,380)
Investing activities:				
Purchases of property, plant and equipment	(93,038)	(150,653)	(90,850)	(930,380)
Purchases of marketable and investment securities	(12,877)	(12,722)	(17,018)	(128,770)
Increase in investments in and advances to unconsolidated subsidiaries and associated companies	(5,341)	(7,780)	(704)	(53,410)
Proceeds from sales of marketable and investment securities	2,895	4,162	2,777	28,950
Proceeds from sales of property, plant and equipment	1,522	1,478	5,258	15,220
Purchases of investments in subsidiaries	(389)	(330)	(129)	(3,890)
Net increase from sales of shares of the former consolidated subsidiaries		157		
Payments for purchases of shares of the newly consolidated subsidiaries	(1,760)	(16)	(1,898)	(17,600)
Proceeds from purchases of shares of the newly consolidated subsidiaries	11,818			118,180
Increase in lease deposits	(8,231)	(3,760)	(1,875)	(82,310)
Net increase in other assets	(17,896)	(2,610)	(3,418)	(178,960)
Net cash used in investing activities	¥(123,297)	¥(172,074)	¥(107,857)	\$(1,232,970)

(Continued)

	Millions of Yen			Thousands of U.S. Dollars ¹
	2008	2007	2006	2008
Financing activities:				
Net increase (decrease) in short-term bank loans	¥ 985	¥ 495	¥ (6,992)	\$ 9,850
Proceeds from long-term debt	153,691	34,015	10,600	1,536,910
Repayments of long-term debt	(13,119)	(6,928)	(8,697)	(131,190)
Net increase in commercial paper	20,000			200,000
Proceeds from issue of new stock to minority shareholders		1,200		
Net of purchases and proceeds from sales of treasury stock	(11,856)	(561)	1,017	(118,560)
Dividends paid to shareholders	(11,743)	(10,868)	(9,210)	(117,430)
Dividends paid to minority shareholders of subsidiaries		(740)	(1,354)	
Proceeds from receivables sold to trust	5,001	5,010	10,045	50,010
Remittance to trust of receivables collected	(7,162)	(7,305)	(4,673)	(71,620)
Net cash provided by (used in) financing activities	135,797	14,318	(9,264)	1,357,970
Net decrease in cash and cash equivalents	(3,238)	(21,695)	(26,639)	(32,380)
Cash and cash equivalents, beginning of year	102,127	123,822	150,461	1,021,270
Cash and cash equivalents, end of year	¥ 98,889	¥102,127	¥123,822	\$ 988,890
Non-cash investing and financing activities:				
Increase in capital surplus of share exchange		¥ 80,707		

See notes to consolidated financial statements.

(Concluded)

Notes to Consolidated Financial Statements

Daiwa House Industry Co., Ltd. and Consolidated 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 Financial Instruments and Exchange Law (formerly, the Japanese Securities and Exchange Law). Daiwa House Industry Co., Ltd. (the "Company") and its domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the 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.

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 ¥100 to \$1, the approximate rate of exchange at March 31, 2008. 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 as of March 31, 2008 include the accounts of the Company and its 55 significant (50 in 2007, 41 in 2006) subsidiaries (together, the "Group").

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in 13 (12 in 2007, 10 in 2006) associated companies are accounted for by the equity method.

Investments in the remaining unconsolidated subsidiaries are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

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

Goodwill is reported in the consolidated balance sheets as other long-term liabilities and is amortized using the straight-line method principally over 20 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, 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.

During the year ended March 31, 2008, Eneserve Corporation, which was an associated company at March 31, 2007, and another six subsidiaries have been included in the consolidation as a result of new formation or acquisition and two subsidiaries have been excluded from the consolidation as a result of the sale of their shares or liquidation.

On March 29, 2007, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Implementation Guidance No. 15, "Implementation Guidance on Disclosures about Certain Special Purpose Entities," which was effective for fiscal years beginning on or after April 1, 2007 with early adoption permitted. This standard permits companies to avoid consolidation of certain special purpose entities which were established and are being operated for the purpose of securitization of receivables. The accounts between the Company and the special purpose entities are insignificant and not disclosed.

b. Cash and cash equivalents

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

c. Marketable and investment securities

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

Marketable available-for-sale securities are stated at fair value estimated by using the average market prices during last month of the fiscal year, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. The costs of their sales are determined by the moving average method.

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 and advances to unconsolidated subsidiaries and associated companies and long-term loans receivable pledged as collateral for an associated company and other were ¥5 million (\$50 thousand), ¥27 million (\$270 thousand) and ¥19 million (\$190 thousand) as of March 31, 2008.

d. Short-term investments

Short-term investments are time deposits, 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 (\$430 thousand) as of March 31, 2008.

e. Inventories

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

f. Property, plant and equipment

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

g. Long-lived assets

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.

h. Leases

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

i. Retirement and pension plans

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

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

j. 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 balances of such items as of March 31, 2006 were reclassified as separate components of equity as of April 1, 2006 in the consolidated statement of changes in equity.

k. 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.

l. 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.

m. 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.

n. 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.

o. 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.

p. Derivatives and hedging activities

The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange interest rates and commodity prices. Interest rate swaps are utilized by the Group to reduce interest rate risk. Commodity swaps are utilized by the certain subsidiaries to reduce fuel price risk. 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.

q. 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, 2008, 2007 and 2006 were 582,292 thousand, 571,724 thousand and 546,567 thousand, respectively.

Diluted net income per share of common stock for the years ended March 31, 2008, 2007 and 2006 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.

r. 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. 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.

Lessee

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 shall be capitalized recognizing lease assets and lease obligations in the balance sheet.

Lessor

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 lessor's financial statements. The revised accounting standard requires that all finance leases that deem to transfer ownership of the leased property to the lessee shall be recognized as lease receivables, and all finance leases that deem not to transfer ownership of the leased property to the lessee shall be recognized as investments in lease.

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 its foreign subsidiaries which have been 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 Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." The PITF 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 PITF is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

Construction contracts

Under current Japanese GAAP, either the completed-contract method or the percentage-of-completion method is permitted to account for construction contracts. On December 27, 2007, the ASBJ published a new accounting standard for construction contracts. Under this accounting standard, construction revenue and construction costs should be recognized by the percentage-of-completion method, if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs and the stage of completion of the contract at the balance sheet date can be reliably measured, the outcome of a construction contract can be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method shall be applied. When it is probable that total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for loss on construction contracts. This standard is applicable to construction contracts and software development contracts and effective for fiscal years beginning on or after April 1, 2009 with early adoption permitted for fiscal years beginning on or before March 31, 2009 but after December 27, 2007.

3 Marketable and investment securities

Marketable and investment securities as of March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Current:			
Government and corporate bonds	¥ 20		\$ 200
Non-current:			
Equity securities	¥72,082	¥107,498	\$720,820
Government and corporate bonds	700	485	7,000
Investments in limited liability partnership	3,115	2,192	31,150
Preferred fund certificates	14,533		145,330
Other	192		1,920
Total	¥90,622	¥110,175	\$906,220

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2008 and 2007 were as follows:

	Millions of Yen			
	2008			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥43,312	¥26,286	¥1,804	¥67,794
Debt securities	720		32	688
Other	136	62	6	192
Held-to-maturity	32	1	1	32

	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

Thousands of U.S. Dollars				
2008				
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	\$433,120	\$262,860	\$18,040	\$677,940
Debt securities	7,200		320	6,880
Other	1,360	620	60	1,920
Held-to-maturity	320	10	10	320

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2008 and 2007 were as follows:

Carrying Amount			
	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Available-for-sale:			
Equity securities	¥ 4,288	¥5,412	\$ 42,880
Preferred fund certificates	14,533		145,330
Investments in limited liability partnership	3,115	2,192	31,150
Total	¥21,936	¥7,604	\$219,360

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2008 are as follows:

Held to Maturity		
	Millions of Yen	Thousands of U.S. Dollars
Due in one year or less	¥ 20	\$ 200
Due in one to five years	200	2,000
Due in five to ten years	27	270
Due after ten years	473	4,730
Total	¥720	\$7,200

4 Inventories

Inventories at March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Finished residential homes and condominiums	¥ 38,320	¥ 30,671	\$ 383,200
Construction projects in progress	72,602	59,259	726,020
Residential homes and condominiums in process	59,864	42,120	598,640
Land held:			
For resale	287,572	240,587	2,875,720
Under development	16,643	32,366	166,430
Undeveloped	3,842	11,658	38,420
Merchandise, construction materials and others	16,770	15,667	167,700
Total	¥495,613	¥432,328	\$4,956,130

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 the business, the Group purchases land for development and resale.

5 Land revaluation

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

The resulting land revaluation difference represents unrealized depreciation of land and is stated, net of income taxes, as a component of 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, 2008, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥1,821 million (\$18,210 thousand).

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

6 Long-lived assets

The Group recognized an impairment loss on property, plant and equipment for the following group of assets in the years ended March 31, 2008, 2007 and 2006, respectively.

2008				
Classification of Group	Type of Assets	Location	Millions of Yen	Thousands of U.S. Dollars
Hotel	Buildings and structures, machinery and equipment, furniture and fixtures, and land	Tochigi Prefecture and others	¥ 744	\$ 7,440
Golf course	Buildings and structures, machinery and equipment, furniture and fixtures, and land	Hokkaido Prefecture	115	1,150
Assets used under sublease agreements	Buildings and structures, and land	Wakayama Prefecture and others	220	2,200
Idle assets	Buildings and structures, and land	Shizuoka Prefecture and others	254	2,540
Home center	Buildings and structures, furniture and fixtures, and leased property under finance leases	Osaka Prefecture and others	133	1,330
Other	Buildings and structures, machinery and equipment, furniture and fixtures, and leased property under finance leases	Chiba Prefecture and others	189	1,890
Total			¥1,655	\$16,550

2007			
Classification of Group	Type of Assets	Location	Millions of Yen
Assets used under sublease agreements	Buildings and structures and furniture and fixtures	Fukuoka Prefecture and others	¥5,001
Fitness clubs	Buildings and structures, furniture and fixtures and leased property under finance leases	Kyoto Prefecture and others	41
Total			¥5,042

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 decreases in the land prices and significant declines 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 approximately 2.5%.

7 Short-term bank loans, commercial paper and long-term debt

The annual interest rates for the short-term bank loans ranged from 0.98% to 1.60% and ranged from 1.03% to 1.24% at March 31, 2008 and 2007, respectively.

The annual interest rates for the commercial paper ranged from 0.68% to 0.69% at March 31, 2008.

Long-term debt at March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Loans from banks, 0.77% to 3.08% (0.77% to 3.0% in 2007), due on various dates through 2042:			
Collateralized	¥ 25,273	¥18,665	\$ 252,730
Unsecured	169,699	32,975	1,696,990
Total	194,972	51,640	1,949,720
Less current portion	1,595	1,070	15,950
Long-term debt, net of current portion	¥193,377	¥50,570	\$1,933,770

Annual maturities of long-term debt at March 31, 2008, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
	Yen	Dollars
2009	¥ 1,595	\$ 15,950
2010	4,341	43,410
2011	1,550	15,500
2012	7,260	72,600
2013	145,670	1,456,700
2014 and thereafter	34,556	345,560
Total	¥194,972	\$1,949,720

At March 31, 2008, assets pledged as collateral for secured long-term debt were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	Yen	Dollars
Cash and cash equivalents	¥ 420	\$ 4,200
Receivables	5,716	57,160
Buildings and structures	20,000	200,000
Machinery and equipment	519	5,190
Furniture and fixtures	189	1,890
Land	6,929	69,290
Lease deposits	1,281	12,810
Accrued income (Other current assets)	47	470
Total	¥35,101	\$351,010

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.

8 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, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Projected benefit obligation	¥291,038	¥270,563	\$2,910,380
Fair value of plan assets	(166,868)	(176,270)	(1,668,680)
Net liability	124,170	94,293	1,241,700
Liability for employees' retirement benefits	¥124,170	¥ 94,293	\$1,241,700

The components of net periodic benefit costs are as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2008	2007	2006	2008
Service cost	¥15,762	¥14,574	¥13,939	\$157,620
Interest cost	6,765	6,375	6,013	67,650
Expected return on plan assets	(4,350)		(2)	(43,500)
Gain on amortization of prior service cost	(500)	(324)	(1,000)	(5,000)
Recognized actuarial loss (gain)	26,411	(3,165)	(21,730)	264,110
Net periodic benefit costs (benefit)	¥44,088	¥17,460	¥ (2,780)	\$440,880

Gain on amortization of prior service cost for the years ended March 31, 2008, 2007 and 2006 represents a decrease in the benefit obligation of ¥500 million (\$5,000 thousand), ¥1,000 million and ¥324 million from the adoption of the revised benefit plan concerning the lump-sum severance payments of certain subsidiaries.

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.

Assumptions used for the years ended March 31, 2008 and 2007 are set forth as follows:

	2008	2007
Discount rate	Principally 2.5%	2.5%
Expected rate of return on plan assets	Principally 2.5%	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.

9 Equity

Since May 1, 2006, Japanese companies have been subject to the Corporate Law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan. The significant provisions 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.

10 Segment information

Information about operations in different industry segments of the Group for the years ended March 31, 2008, 2007 and 2006 is as follows:

Sales and operating income

Millions of Yen							
2008							
	Residential	Commercial	Resort and Sports	Home Center	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥1,001,156	¥503,718	¥63,676	¥60,878	¥ 79,826		¥1,709,254
Intersegment sales	3,209	9,016	26	1,745	63,521	¥(77,517)	
Total sales	1,004,365	512,734	63,702	62,623	143,347	(77,517)	1,709,254
Operating expenses	950,627	462,226	63,662	60,815	138,787	(55,984)	1,620,133
Operating income	¥ 53,738	¥ 50,508	¥ 40	¥ 1,808	¥ 4,560	¥(21,533)	¥ 89,121

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	912,731	430,759	66,748	60,469	120,274	(58,210)	1,532,771
Operating income	¥ 53,167	¥ 46,933	¥ 1,014	¥ 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	858,623	405,734	65,846	62,167	117,423	(60,882)	1,448,911
Operating income	¥ 50,965	¥ 39,517	¥ 636	¥ 1,107	¥ 4,559	¥(16,712)	¥ 80,072

Thousands of U.S. Dollars							
2008							
	Residential	Commercial	Resort and Sports	Home Center	Other	Eliminations/ Corporate	Consolidated
Sales to customers	\$10,011,560	\$5,037,180	\$636,760	\$608,780	\$ 798,260		\$17,092,540
Intersegment sales	32,090	90,160	260	17,450	635,210	\$(775,170)	
Total sales	10,043,650	5,127,340	637,020	626,230	1,433,470	(775,170)	17,092,540
Operating expenses	9,506,270	4,622,260	636,620	608,150	1,387,870	(559,840)	16,201,330
Operating income	\$ 537,380	\$ 505,080	\$ 400	\$ 18,080	\$ 45,600	\$(215,330)	\$ 891,210

Segment information for the years ended March 31, 2007 and 2006 was corrected on the basis of the report reissued domestically on January 22, 2008.

Total assets, depreciation and capital investments

Millions of Yen							
2008							
	Residential	Commercial	Resort and Sports	Home Center	Other	Eliminations/ Corporate	Consolidated
Total assets	¥656,479	¥616,757	¥101,561	¥45,319	¥192,465	¥178,471	¥1,791,052
Depreciation	6,956	10,924	2,580	876	13,086	1,200	35,622
Capital investments	10,484	71,061	2,795	734	18,719	63	103,856

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

Thousands of U.S. Dollars							
2008							
	Residential	Commercial	Resort and Sports	Home Center	Other	Eliminations/ Corporate	Consolidated
Total assets	\$6,564,790	\$6,167,570	\$1,015,610	\$453,190	\$1,924,650	\$1,784,710	\$17,910,520
Depreciation	69,560	109,240	25,800	8,760	130,860	12,000	356,220
Capital investments	104,840	710,610	27,950	7,340	187,190	630	1,038,560

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.

11 Other income (expenses): other — net

“Other income (expenses): Other — net” for the years ended March 31, 2008, 2007 and 2006 consisted of the following:

	Millions of Yen			Thousands of U.S. Dollars
	2008	2007	2006	2008
Real estate acquisition tax and other taxes	¥(1,197)	¥ (506)	¥ (205)	\$(11,970)
Retirement benefits for directors of subsidiaries	(379)	(61)	(1,266)	(3,790)
Gain on sales of marketable and investment securities	899	1,352	1,021	8,990
Allowance for doubtful accounts	(239)		(351)	(2,390)
Equity in earnings of associated companies	316	289	350	3,160
Write-down of golf club membership	(53)	(75)	(264)	(530)
Loss on sales of golf club membership	(3)		(71)	(30)
Loss on secession of subsidiaries' pension fund			(1,414)	
Expenses in relation to earthquake		(617)		
Interest on commercial paper	(704)			(7,040)
Salaries and allowance for prior periods	(226)			(2,260)
Other — net	1,173	337	1,408	11,730
Total	¥ (413)	¥ 719	¥ (792)	\$ (4,130)

12 Loss on development businesses

Loss on development businesses is write-down of certain land inventories due to suspension of long-term developments of large-scale residential areas and forest residential areas, which the Company does not expect to be realized promptly as a result of reassessing the profitability, speed and efficiency of the business plan.

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 years ended March 31, 2008, 2007 and 2006.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2008 and 2007 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Current:			
Deferred tax assets:			
Write-down of land held for resale	¥ 21,956	¥ 11,145	\$ 219,560
Accrued bonuses	8,033	8,098	80,330
Accrued enterprise tax	1,968	1,391	19,680
Other	8,812	7,051	88,120
Deferred tax assets	¥ 40,769	¥ 27,685	\$ 407,690
Deferred tax liabilities:			
Other	¥ (49)		\$ (490)
Deferred tax liabilities	¥ (49)		\$ (490)
Net deferred tax assets	¥ 40,720	¥ 27,685	\$ 407,200
Non-current:			
Deferred tax assets:			
Employees' retirement benefits	¥ 50,569	¥ 39,635	\$ 505,690
Unrealized gains on sales of property, plant and equipment	8,162	7,827	81,620
Extraordinary depreciation for property, plant and equipment	7,622	11,380	76,220
Other	26,276	18,859	262,760
Less valuation allowance	(3,790)	(1,110)	(37,900)
Deferred tax assets	¥ 88,839	¥ 76,591	\$ 888,390
Deferred tax liabilities:			
Retained earnings appropriated for tax allowable reserves	¥ (1,997)	¥ (2,073)	\$ (19,970)
Net unrealized gain on available-for-sale securities	(9,919)	(21,129)	(99,190)
Other	(250)	(32)	(2,500)
Deferred tax liabilities	¥(12,166)	¥(23,234)	\$(121,660)
Net deferred tax assets	¥ 76,673	¥ 53,357	\$ 766,730

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, 2008 is as follows:

Normal effective statutory tax rates	40.6%
Increase (decrease) in tax rates due to:	
Permanently non-deductible expenses	4.7
Non-taxable dividend income	(1.0)
Per capita levy	3.7
Equity in earnings of associated companies	(0.5)
Unrealized gain on inventories	(4.3)
Increase in valuation allowance	8.0
Tax credit for corporate tax	(1.1)
Reversal of land revaluation difference	(0.4)
Other — net	(1.2)
Actual effective tax rate	48.5%

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

14 Research and development costs

Research and development costs charged to income were ¥7,870 million (\$78,700 thousand), ¥7,223 million and ¥6,190 million for the years ended March 31, 2008, 2007 and 2006, 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 ¥2,947 million (\$29,470 thousand), ¥3,829 million, and ¥4,154 million for the years ended March 31, 2008, 2007 and 2006, 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, 2008 and 2007 were as follows:

Millions of Yen				
2008				
	Buildings and Structures	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	¥2,269	¥3,779	¥7,607	¥13,655
Accumulated depreciation	977	959	4,441	6,377
Accumulated impairment loss			6	6
Net leased property	¥1,292	¥2,820	¥3,160	¥ 7,272

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

Thousands of U.S. Dollars				
2008				
	Buildings and Structures	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	\$22,690	\$37,790	\$76,070	\$136,550
Accumulated depreciation	9,770	9,590	44,410	63,770
Accumulated impairment loss			60	60
Net leased property	\$12,920	\$28,200	\$31,600	\$ 72,720

Obligations under finance leases as of March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Due within one year	¥2,251	¥2,984	\$22,510
Due after one year	5,027	4,169	50,270
Total	¥7,278	¥7,153	\$72,780

Allowance for impairment loss on leased property of ¥6 million (\$60 thousand), and ¥5 million as of March 31, 2008 and 2007, respectively, is not included in obligation under finance leases.

Reversal of allowance for impairment loss on leased property was ¥2 million (\$20 thousand) for the year ended March 31, 2008.

Depreciation expense relating to the leased assets under finance lease arrangements mentioned above was ¥2,945 million (\$29,450 thousand), ¥3,829 million and ¥4,154 million for the years ended March 31, 2008, 2007 and 2006, respectively.

For the year ended March 31, 2008, the Companies recorded an impairment loss of ¥3 million (\$30 thousand) on certain leased property held 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 ¥9,782 million (\$97,820 thousand), ¥9,155 million and ¥8,051 million for the years ended March 31, 2008, 2007 and 2006, respectively.

The amount of the imputed interest income portion included in the above rental income, which is computed using the interest method, was ¥753 million (\$7,530 thousand), ¥765 million and ¥737 million for the years ended March 31, 2008, 2007 and 2006, respectively.

Property and equipment leased to customers under finance lease arrangements mentioned above consisted of the following at March 31, 2008 and 2007.

	Millions of Yen		
	2008		
	Buildings and Structures	Machinery and Equipment	Total
Acquisition cost	¥11,552	¥29,851	¥41,403
Accumulated depreciation	6,929	14,543	21,472
Net leased property	¥ 4,623	¥15,308	¥19,931

	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

	Thousands of U.S. Dollars		
	2008		
	Buildings and Structures	Machinery and Equipment	Total
Acquisition cost	\$115,520	\$298,510	\$414,030
Accumulated depreciation	69,290	145,430	214,720
Net leased property	\$ 46,230	\$153,080	\$199,310

Future rental income under finance leases at March 31, 2008 and 2007 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Due within one year	¥ 8,514	¥ 7,805	\$ 85,140
Due after one year	15,847	15,593	158,470
Total	¥24,361	¥23,398	\$243,610

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

Depreciation expense relating to the leased assets under finance lease arrangements mentioned above was ¥6,919 million (\$69,190 thousand), ¥6,261 million and ¥5,361 million for the years ended March 31, 2008, 2007 and 2006, respectively.

Operating leases:

Obligations and future rental income under non-cancellable operating leases as of March 31, 2008 and 2007 were as follows:

(Lessee)

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Due within one year	¥ 52,383	¥ 46,882	\$ 523,830
Due after one year	585,183	556,133	5,851,830
Total	¥637,566	¥603,015	\$6,375,660

(Lessor)

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Due within one year	¥ 49,649	¥ 44,376	\$ 496,490
Due after one year	603,197	552,583	6,031,970
Total	¥652,846	¥596,959	\$6,528,460

16 Derivatives

The Group enters into interest rate and commodity swaps to hedge fluctuation risks of foreign exchange or interest rate or fuel price.

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

The outstanding balance of derivatives contracts at March 31, 2008 is as follows:

Classification	Type of Transaction	Thousands of Barrel		Millions of Yen		Thousands of U.S. Dollars	
		Contract Amount	Due over One Year	Fair Value	Unrealized Gain (Loss)	Fair Value	Unrealized Gain (Loss)
Non-market transactions	Commodity swap:						
	Receive floating pay fixed	720	600	¥4,793	¥1,146	\$47,930	\$11,460
	Receive fixed pay floating	720	600	(1,710)	(1,540)	(17,100)	(15,400)
	Total	1,440	1,200	¥3,083	¥ (394)	\$30,830	\$ (3,940)

17 Contingencies

At March 31, 2008, contingent liabilities for notes endorsed with recourse and loans guaranteed in the ordinary course of business amounted to ¥1,324 million (\$13,240 thousand) and ¥35,896 million (\$358,960 thousand), respectively. Included in loans guaranteed were customers' housing loans from banks in the amount of ¥26,815 million (\$268,150 thousand).

18 Subsequent event

Appropriations of retained earnings

The following appropriations of retained earnings at March 31, 2008 were approved at the Company's shareholders' meeting held on June 27, 2008:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥24.0 (\$0.24) per share	¥13,902	\$139,020

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 consolidated subsidiaries as of March 31, 2008 and 2007, 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, 2008, 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 consolidated subsidiaries as of March 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2008, 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 27, 2008