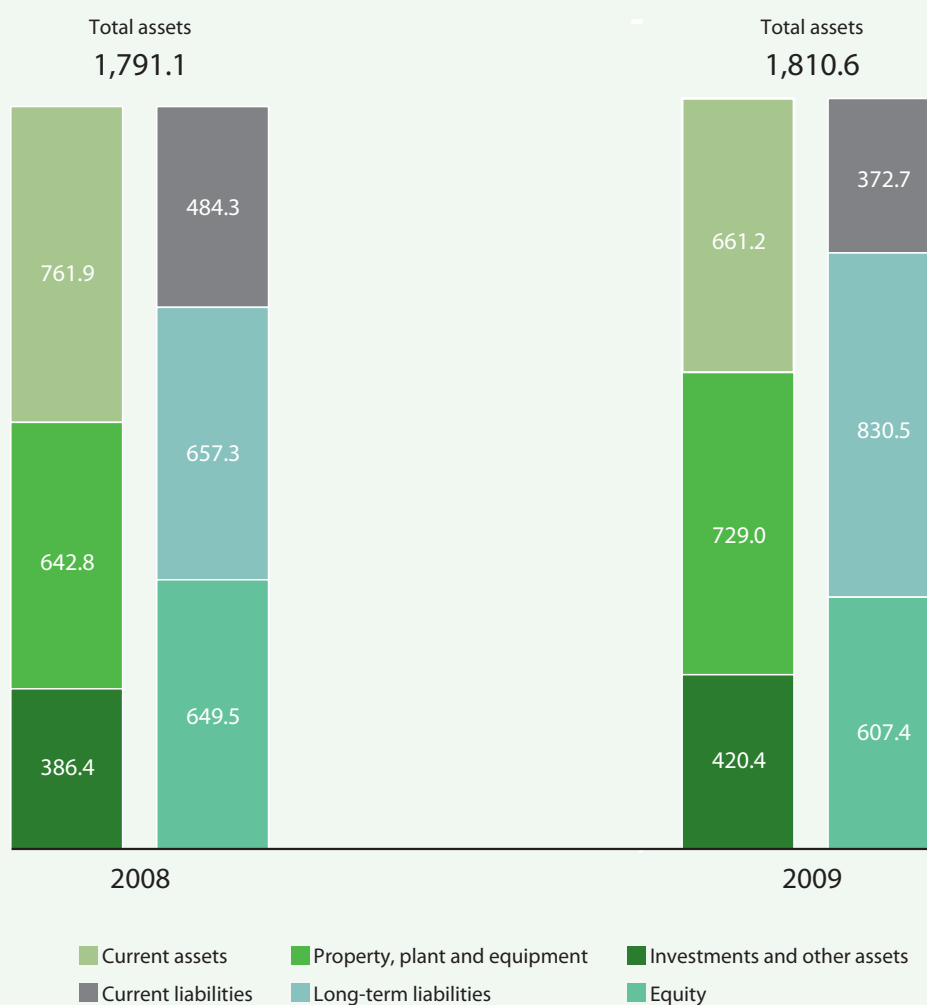


Financial Information

Summary of consolidated balance sheets
(¥ billion)



120	Consolidated Seven-Year Summary
121	Performance Indicators of Major Companies
122	Management's Discussion and Analysis (on a consolidated basis)
122	Fiscal 2008 Overview
122	Results of Operation
129	Financial Position and Cash Flows
132	Basic Policies regarding Profit Distribution
133	Management Policy and Outlook for Fiscal 2009
134	Business Risks
136	Consolidated Financial Statements
136	Consolidated Balance Sheets
138	Consolidated Statements of Income
139	Consolidated Statements of Changes in Equity
140	Consolidated Statements of Cash Flows
142	Notes to Consolidated Financial Statements
142	① Basis of presenting consolidated financial statements
142	② Summary of significant accounting policies
147	③ Marketable and investment securities
148	④ Inventories
148	⑤ Land revaluation
149	⑥ Long-lived assets
150	⑦ Short-term bank loans, commercial paper and long-term debt
150	⑧ Retirement and pension plans
151	⑨ Equity
152	⑩ Segment information
154	⑪ Other income (expenses): other — net
154	⑫ Loss on development businesses
154	⑬ Income taxes
155	⑭ Research and development costs
156	⑮ Leases
158	⑯ Derivatives
158	⑰ Contingencies
158	⑱ Subsequent event
159	Independent Auditors' Report

Consolidated Seven-Year Summary

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2003 to 2009

	Millions of Yen						
	2009	2008	2007	2006	2005	2004	2003
Net sales	¥1,690,956	¥1,709,254	¥1,618,450	¥1,528,983	¥1,365,914	¥1,224,648	¥1,184,544
Cost of sales	1,357,821	1,360,348	1,283,587	1,213,644	1,082,133	963,457	936,861
Selling, general and administrative expenses	259,555	259,785	249,184	235,267	215,932	201,530	202,411
Operating income	73,580	89,121	85,679	80,072	67,849	59,661	45,272
Operating income margin (%)	4.4	5.2	5.3	5.2	5.0	4.9	3.8
Income (loss) before income taxes and minority interests	13,721	24,862	76,449	82,155	63,108	67,897	(155,157)
Net income (loss)	4,170	13,080	46,394	45,184	40,262	37,257	(91,388)
Total assets	1,810,573	1,791,052	1,630,022	1,475,197	1,358,807	1,087,658	1,094,441
Equity*1	607,428	649,441	661,145	576,534	524,110	493,050	483,684
Property, plant and equipment, less accumulated depreciation	728,953	642,816	602,260	505,471	441,388	344,268	349,646
Capital investments	160,601	103,856	136,171	110,144	56,696	20,108	24,711
Depreciation	39,318	35,622	29,536	26,815	19,243	15,165	21,386
Net cash provided by (used in) operating activities	109,811	(15,738)	136,061	90,482	56,095	69,659	40,459
Net cash used in investing activities	(199,679)	(123,297)	(172,074)	(107,857)	(53,069)	(25,937)	(27,316)
Net cash provided by (used in) financing activities	96,503	135,797	14,318	(9,264)	5,889	(6,126)	(57,713)
Issued and outstanding (thousands)	579,171	579,256	587,158	546,916	546,223	546,426	546,816
Stock prices at the end of term (in yen)	792	987	1,933	2,040	1,232	1,328	683
Per share of common stock (in yen):							
Basic net income (loss)	7.20	22.46	81.15	81.88	73.26	68.16	(167.06)
Equity	1,047.50	1,092.04	1,122.88	1,053.37	959.08	902.32	884.55
Price earnings ratio (PER) (times)	110.01	43.94	23.82	24.91	16.82	19.48	—
Price to book value ratio (PBR) (times)	0.76	0.90	1.72	1.94	1.28	1.47	0.77
Return on equity (ROE) (%)	0.7	2.0	7.5	8.2	7.9	7.6	(17.1)
Equity to total assets (%)	33.5	35.3	40.4	39.1	38.6	45.3	44.2
Current ratio (%)	177.4	157.3	136.1	145.1	159.0	177.6	174.2
Fixed ratio (%)	189.2	158.5	145.8	148.3	142.4	119.0	129.5
Number of employees*2	23,985	23,421	22,240	21,016	19,770	17,814	18,454
Consolidated to non-consolidated net sales ratio (times)	1.47	1.48	1.37	1.34	1.25	1.13	1.14
Consolidated to non-consolidated net income ratio (times)	0.75	1.76	1.21	1.28	1.17	1.15	—

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

*2 Regular employees only.

Performance Indicators of Major Companies

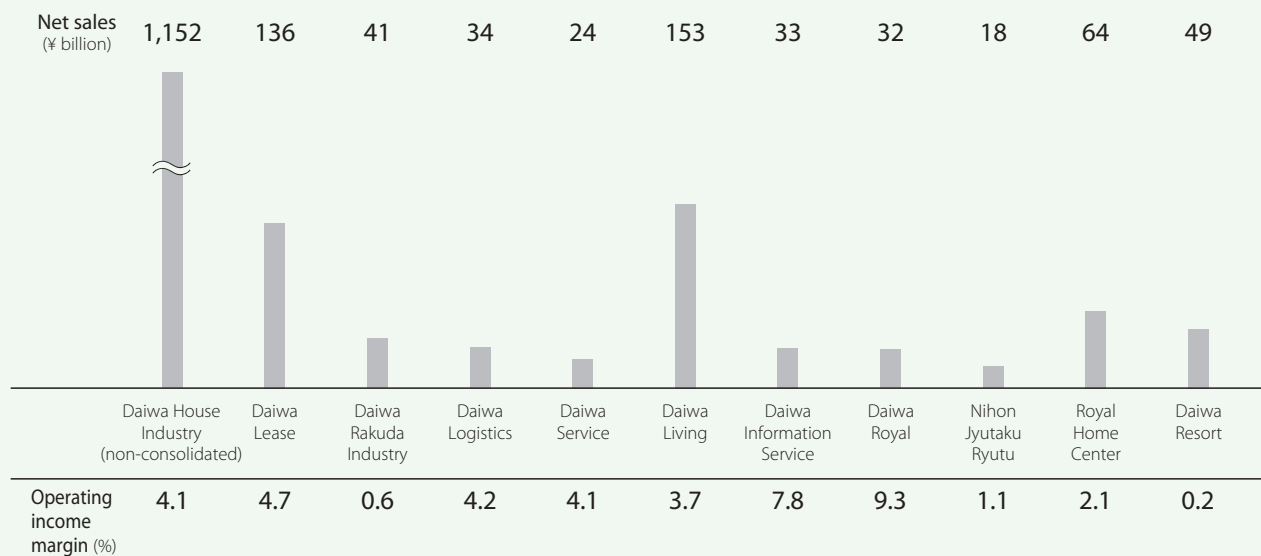
Financial Information
Consolidated Seven-Year
Summary
Performance Indicators of
Major Companies

(¥ million)

	Capital		Net sales	Operating income	Net income	Total assets	Equity	Interest-bearing debt
	Voting rights							
Daiwa Lease	21,768	08/03	137,038	7,431	1,915	268,739	103,413	4,500
	100%	09/03	136,282	6,413	(1,351)	306,701	101,260	37,109
Daiwa Rakuda Industry	450	08/03	43,068	325	29	38,941	24,093	—
	100%	09/03	41,477	233	88	35,957	20,253	—
Daiwa Logistics	3,764	08/03	34,919	1,549	859	25,008	15,273	3,680
	100%	09/03	33,814	1,418	722	26,483	15,670	5,307
Daiwa Service	130	08/03	24,902	947	382	10,484	5,127	—
	50% (100%)*	09/03	24,107	998	514	11,246	5,529	—
Daiwa Living	140	08/03	129,950	4,717	2,975	53,461	15,228	—
	100%	09/03	152,868	5,729	3,296	58,263	17,632	—
Daiwa Information Service	200	08/03	33,599	2,199	1,181	58,753	6,478	—
	100%	09/03	32,691	2,535	669	68,649	6,793	3,448
Daiwa Royal	500	08/03	36,323	3,333	1,955	60,818	6,824	1,400
	100%	09/03	32,316	3,020	1,931	70,097	8,168	6,787
Nihon Jyutaku Ryutu	730	08/03	17,658	602	243	10,525	3,391	—
	100%	09/03	18,319	205	9	14,614	3,327	3,909
Royal Home Center	100	08/03	62,623	1,864	910	44,956	33,796	2,500
	100%	09/03	63,505	1,341	429	45,208	33,953	3,517
Daiwa Resort	10,084	08/03	53,531	697	(1,654)	75,526	18,975	—
	100%	09/03	49,383	95	(5,052)	67,187	13,923	35

* The figure in parentheses is the equity stake held by the Group as a whole.

Sales and operating income margin of major Daiwa House Group companies in 2009



Management's Discussion and Analysis

(on a consolidated basis)

Year Ended March 31, 2009

Fiscal 2008 Overview

During the fiscal year ended March 31, 2009, the Japanese economy was impacted by a global economic downturn sparked by the financial crisis that originated in the United States. Corporate earnings deteriorated, and in particular, the latter half of the fiscal year was marked by sharp declines in production and cutbacks in capital investments. In addition, employment figures turned rapidly for the worse, and the general business situation became extremely severe. In the housing industry, too, the number of new housing starts remained at a low level, which meant that the business environment continued to be challenging, as potential customers were reluctant to commit themselves to buying a house due to uncertainty about the future, against the backdrop of the economic downturn as well as deteriorating employment and income conditions.

Amid this business environment, the Daiwa House Group took initiatives to improve the performance of each of its businesses under the main themes of improving profit structures and nurturing new future earnings drivers. This was in accordance with the basic strategies outlined in the Daiwa House Group Second Medium-Term Management Plan "Challenge 2010," which started from the fiscal year under review.

In the Daiwa House Group's Residential Business, we took further steps to expand the product lineup in our mainstay xevo series of single-family houses, and participated in the Ultra-Long-Term Housing Model Project organized by the Ministry of Land, Infrastructure, Transport, and Tourism to popularize and promote

ultra-long-term housing. This project was renamed the Pioneering Model Project for High-Quality, Long-Term Housing in fiscal 2009.

In addition, as part of our initiative to strengthen our real estate business, one of the basic policies of the medium-term management plan, we undertook measures to secure income sources by taking advantage of our comprehensive capabilities, including the development of high-rise rental housing, commercial facilities and logistics facilities, among others.

In the areas of corporate social responsibility and eco-friendliness, we undertook various social contribution initiatives in Japan and overseas, developed new products whose manufacture imposes a lower environmental burden, and involved ourselves in eco-friendly town planning projects.

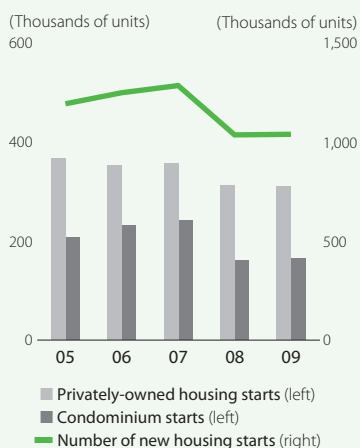
As can be seen from the above, the Daiwa House Group was involved in a variety of initiatives. In spite of these efforts, however, the rapid downturn in the domestic economy had a significant impact, leading to net sales of ¥1,691.0 billion (US\$17,255 million), a 1.1% year-on-year decrease, and operating income of ¥73.6 billion (US\$751 million), a 17.4% year-on-year decrease on a consolidated basis, which were extremely poor results.

Results of Operation

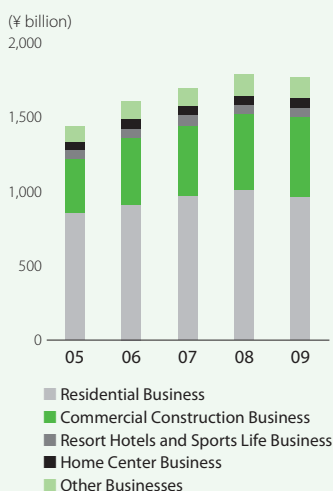
Sales

Sales for the fiscal year under review decreased ¥18.3 billion from the previous year, to ¥1,691.0 billion (US\$17,255 million), representing a

New housing starts



Sales



Note: Prior to consolidation adjustments

1.1% year-on-year decline. Looking at sales by segment (prior to consolidation adjustments), sales in the Residential Business fell by ¥45,339 million to ¥959.0 billion (US\$9,786 million), a 4.5% year-on-year decrease, while sales by the Commercial Construction Business increased by ¥32,407 million to ¥545.1 billion (US\$5,563 million), a 6.3% increase from the previous fiscal year. Sales by the Resort Hotels and Sports Life Business decreased by ¥3,595 million to ¥60.1 billion (US\$613 million), a year-on-year decline of 5.6%, while sales by the Home Center Business increased by ¥883 million to ¥63.5 billion (US\$648 million), a 1.4% increase on a year-on-year basis, and sales of Other Businesses rose by ¥631 million to ¥144.0 billion (US\$1,469 million), a year-on-year increase of 0.4%. These results show that the decrease in sales in the mainstay Residential Business was offset by the Commercial Construction Business and Other Businesses. Note, however, that sales by the Resort Hotels and Sports Life Business dropped sharply due to the negative effects of the economic downturn.

Cost of sales, and selling, general and administrative expenses

During the year under review, despite the increase in the cost of completed work, mainly due to soaring material prices, the cost of sales declined ¥2.5 billion from a year earlier, to ¥1,357.8 billion (US\$13,855 million), a 0.2% year-on-year decrease. Meanwhile, the ratio of cost of goods sold increased by 0.7 of a percentage point from 79.6% a year earlier, to 80.3%. As a result, gross profit declined ¥15.8 billion to ¥333.1 billion (US\$3,399 million), a 4.5% year-on-year decrease.

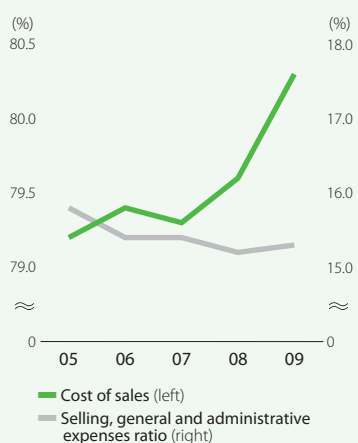
Selling, general, and administrative expenses decreased ¥230 million compared with the previous fiscal year, to ¥259.6 billion (US\$2,649 million), a year-on-year decline of 0.1%. This was because labor expenses, advertising/sales promotion expenses, and sales commissions decreased, despite the rise in retirement benefit expenses. Note, however, that the ratio of selling, general, and administrative expenses to sales rose 0.1 point from a year earlier, from 15.2% to 15.3%.

Formerly, inventory assets were stated at cost using the specific-identification method, but from the fiscal year under review we have adopted the Accounting Standard for Measurement of Inventories (Accounting Standards Board of Japan, Statement No. 9 issued on July 5, 2006). Although we have maintained the method for the measurement of inventories for the calculation of book value, we have written down balance sheet values of inventories in accordance with a decline in profitability. This move has reduced operating income, and income before income taxes and minority interests by ¥7,882 million.

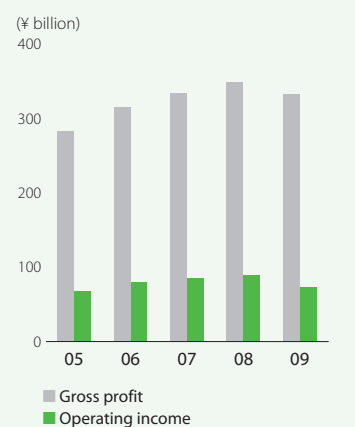
Operating income

Operating income for the fiscal year under review declined ¥15.5 billion to ¥73.6 billion (US\$751 million), a year-on-year decrease of 17.4%. The primary reason for the drop is the decline in sales, while the ratios of cost of sales and of selling, general, and administrative expenses to sales increased, among others. As a result, the operating income margin declined 0.8 of a percentage point year-on-year, from 5.2% to 4.4%.

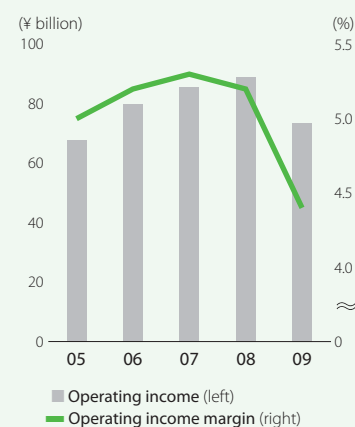
Cost of sales, and selling, general and administrative expenses ratios



Gross profit and operating income



Operating income and operating income margin



Business overview by segment

Residential Business

In the Residential Business, sales declined ¥45,339 million to ¥959.0 billion (US\$9,786 million), a year-on-year decrease of 4.5%, due to the negative effects of the sluggish domestic economy induced by the financial crisis and the weakened condominium market conditions. Operating income for this business fell by ¥25,205 million to ¥28,533 million (US\$291 million), a 46.9% decrease from a year earlier. The operating income margin dropped 2.4 percentage points from the previous fiscal year, falling from 5.4% to 3.0%.

Reflecting the adoption from the fiscal year under review of the Accounting Standard for Measurement of Inventories (Accounting Standards Board of Japan, Statement No. 9 issued on July 5, 2006), operating income is ¥7,587 million lower than its level had the former method been applied.

Single-Family House Division

In the mainstay Single-Family House Division, we launched a new model in our xevo series, the xevo C, in which the family themselves help with architectural design. We also began to market another new model, the xevo WW, a wooden-structure house that offers considerable freedom of design for customers who want to tailor the house's external appearance to their own tastes. Meanwhile, we targeted new customer demographics by expanding our lineup of home planning proposals by launching home plans that fit diverse customer lifestyles, including the "Happy Hug Model" for couples raising children, and the "Edible Garden" model, which features space for growing vegetables on balconies and the roof. We also have announced Ultra-Long-Term Housing models, which can serve as properties that will be lived in over several generations, and can be utilized as assets. We used our initiative regarding more durable house construction by building showhouses on the actual plot where the houses for sale are being built, as part of our

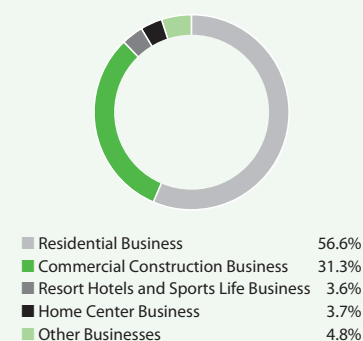
Sales by segment*1

	(¥ million)					
	2009	2008	2007	YoY increase (decrease)(%)		
				09/08	08/07	
Residential Business	959,026	1,004,365	965,898	(4.5)	4.0	
Commercial Construction Business	545,141	512,734	477,692	6.3	7.3	
Resort Hotels and Sports Life Business	60,107	63,702	67,762	(5.6)	(6.0)	
Home Center Business	63,506	62,623	62,241	1.4	0.6	
Other Businesses	143,978	143,347	124,647	0.4	15.0	
Eliminations/corporate	(80,802)	(77,517)	(79,790)	—	—	
Consolidated	1,690,956	1,709,254	1,618,450	(1.1)	5.6	

*1: Segment sales are shown prior to consolidation adjustments.

*2: Percentages refer to sales to outside customers.

Breakdown*2



Operating income (loss) by segment*3

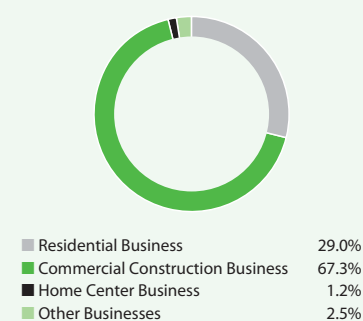
	(¥ million)					
	2009	2008	2007	YoY increase (decrease)(%)		
				09/08	08/07	
Residential Business	28,533	53,738	53,167	(46.9)	1.1	
Commercial Construction Business	66,182	50,508	46,933	31.0	7.6	
Resort Hotels and Sports Life Business	(1,116)	40	1,014	—	(96.0)	
Home Center Business	1,154	1,808	1,772	(36.2)	2.0	
Other Businesses	2,504	4,560	4,373	(45.1)	4.3	
Eliminations/corporate	(23,677)	(21,533)	(21,580)	—	—	
Consolidated	73,580	89,121	85,679	(17.4)	4.0	

*3: Segment operating income is shown prior to consolidation adjustments.

*4: Percentages refer to operating income including intercompany transactions.

*5: The graph shows the breakdown of each business segment as a percentage of the total amount of the four business segments excluding the operating losses (¥1.1 billion) posted by the Resort Hotels and Sports Life Business.

Breakdown*4, 5



nationwide sales campaign promoting these types of houses. Our proposals with respect to Ultra-Long-Term Housing were adopted by the Ministry of Land, Infrastructure, Transport and Tourism as a model entitled "2008 Ultra-Long-Term Housing Model Project (First in a Series)."

Nevertheless, the number of single-family houses sold, including houses built for sale, decreased by 440 units, to 10,315 units. Sales in this business segment decreased by ¥7.3 billion (or 2.4%) from a year earlier to ¥295.9 billion on a non-consolidated basis, excluding sales of land.

Condominium Division

In the Condominium Division, faced with an increasingly difficult market, we took steps to ensure post-sale safety and security for buyers, and promoted a framework enabling condominium buyers to maintain the asset value of their properties. We also designed and developed lot-subdivision projects incorporating extensive greenery to harmonize with their local environments.

The negative effects of the deteriorating market were significant, however. As a result, the number of condominiums sold decreased by 742 to 3,511 units. Sales in this business segment decreased by ¥33.7 billion from a year earlier, to ¥109.4 billion on a non-consolidated basis, excluding sales of land, for a year-on-year decrease of 23.5%.

Rental Housing Division

In the Rental Housing Division, the Group further strengthened its sales activities in city-center areas and expanded the marketing of

three-story rental housing in convenient locations. Meanwhile, we pursued large-scale developments in major cities. As a new product, we put on the market during the reporting term the Séjour Modern Court J two-story rental townhouse, which allows buyers to choose from a wide range of modern exterior designs.

As a result, the number of rental houses sold increased by 392 units to 29,413 units. Sales in this business segment increased by ¥1.4 billion from a year earlier, to ¥285.7 billion on a non-consolidated basis (a year-on-year increase of 0.5%).

Renovation Division

In the Home Renovation Division, we focused on services offering customers more attractive living environments by improving and strengthening our marketing system, and made renovation proposals to maintain/increase the value of customers' buildings.

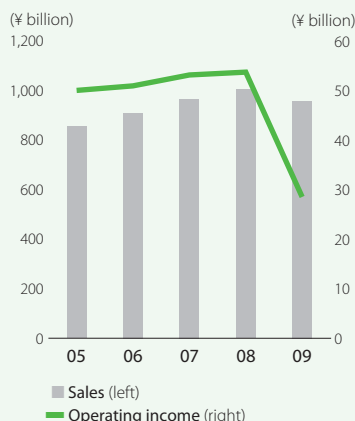
As a result, home renovation sales increased ¥1.4 billion from a year earlier, to ¥27.7 billion on a non-consolidated basis (a year-on-year increase of 5.3%).

Commercial Construction Business

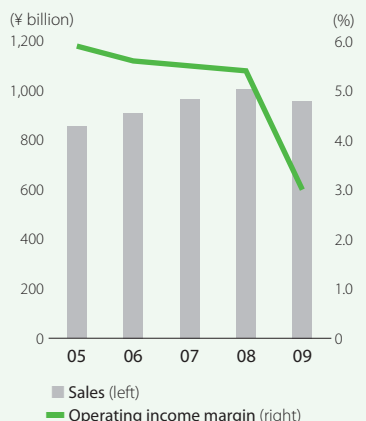
In the Commercial Construction Business, sales increased ¥32,407 million from the previous year, to ¥545.1 billion (US\$5,563 million) a year-on-year increase of 6.3%, largely due to favorable sales in the Distribution Facilities Division, and operating income rose ¥15,674 million, to ¥66,182 million (US\$675 million), a year-on-year increase of 31.0%. The operating income margin increased 2.2 percentage points from the previous fiscal year, rising from 9.9% to 12.1%.

Residential Business

Sales and operating income

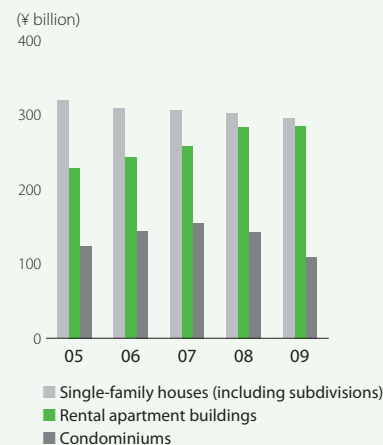


Sales and operating income margin



Divisional sales breakdown

(Daiwa House Industry, non-consolidated)



Commercial Facilities Division

In the Commercial Facilities Division, the Group made use of planning and proposal-driven sales centered on road-side shop developments, leveraging its abundant land-related data and store-opening support know-how for tenant businesses. We also focused on developing our large-scale commercial complexes. In particular, we opened iias Tsukuba (an Ibaraki Prefecture property with a total floor area of 125,000m²), iias Sapporo (a Hokkaido property with a total floor area of 59,000m²), and Foleo Otsu-Ichiryama (a Shiga Prefecture property with a total floor area of 65,000m²), for which we developed an operation/management and support system.

As a result, the tenant-occupied rented area increased 9.1% from a year earlier, to 3,595,000m², while the number of corporate tenants exceeded 5,700.

Distribution, Medical/Nursing Care and Corporate Facilities Division

In the Distribution, Medical/Nursing Care and Corporate Facilities Division, we undertook construction of large-scale logistics centers, production sites and foodstuff logistics facilities. We also developed solutions for distribution and real estate management, involving undertaking the entire process from design and construction to quality control management and maintenance tasks for the facilities of logistics companies. Major results in fiscal 2008 include contract work for the D Project Ibaraki Tsuchiura (an Ibaraki Prefecture facility with a total floor space of 18,000m²), the development of the D Project Urayasu D Wing (a Chiba Prefecture facility with a total floor space of 73,000m²) and the D Project Hachioji (a Tokyo

facility with a total floor space of 69,000m²). In the field of medical and nursing care facilities, we made proposals — mainly to health-care corporations — concerning housing for the elderly, such as private fee-charging housing-type homes and rental housing for the elderly. In the field of corporate facilities, we provided support for the development of sales hubs by constructing showrooms, offices and other structures for corporate customers operating nationwide.

Resort Hotels and Sports Life Business

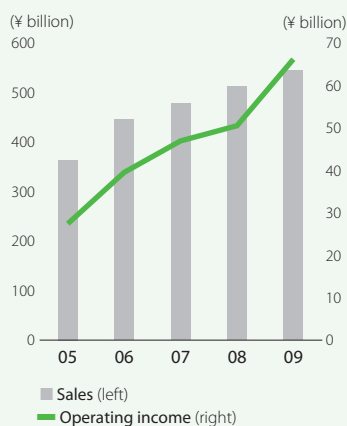
In the Resort Hotels and Sports Life Business, as a result of the significant negative impact of the plunge in the number of overseas travelers in the Resort Hotels Division owing to the appreciation of the yen, and increased expenses for opening new sports club facilities in the Sports Life Division, sales decreased by ¥3,595 million to ¥60.1 billion (US\$613 million), a year-on-year decline of 5.6%. An operating loss of ¥1,116 million (US\$11 million) was recorded, compared to operating income of ¥40 million for the previous fiscal year.

Resort Hotels Business

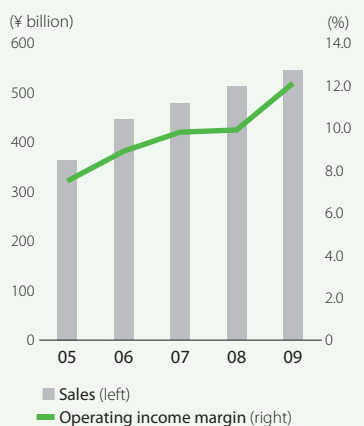
In the Resort Hotels Business, although some hotels were affected by the Iwate-Miyagi Nairiku Earthquake of June 2008, the Noto Royal Hotel, which suffered immense damage due to the impact of the Noto Peninsula Earthquake of March 2007, was reopened, and a large number of customers, mostly families, stayed there during the summer season. Due to the sudden economic downturn since the latter half of September, however, both individuals and

Commercial Construction Business

Sales and operating income

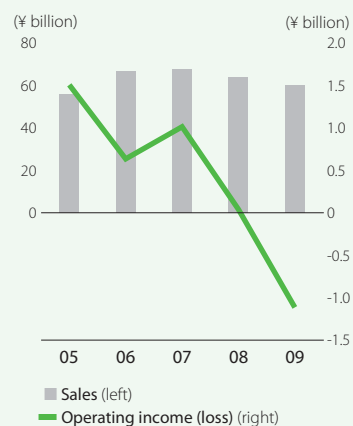


Sales and operating income margin



Resort Hotels and Sports Life Business

Sales and operating income (loss)



companies have been cutting back sharply on expenditures, and the number of customers has decreased in turn. Nevertheless, we did our best to encourage repeat stays at our hotels by putting a strong focus on safety, security, and hospitality so as to realize customer satisfaction.

As a result, the room occupancy rate in the first half of the fiscal year under review recovered to 53.7%, a 0.3 percentage point increase from the second half of the previous fiscal year, but decreased again to 46.9% in the second half. Although the number of customers who stayed at our resort hotels declined 5.2% from a year earlier to 2.94 million, the number of players who used our golf courses in the fiscal year increased.

Sports Facilities Operations

In Sports Facilities operations, we rebuilt an existing NAS branch and opened a number of new branches, including the NAS Niigata (Niigata Prefecture) and NAS Wellness & Spa Club Shibaura Island (Tokyo). As a result, there were 53 NAS branches at the end of the fiscal year under review. At the existing branches, we strived to attract more members by developing membership formats exploiting particular demand niches, as well as attracting customers to our special short-term courses for adults. As a result, membership grew 3.9% from a year earlier, to 96,687.

Home Center Business

In the Home Center Business, we refurbished a total of seven branches including the Royal Pro Ikawadani (Hyogo) and Royal

Home Center Kishiwada (Osaka) to revitalize business at our existing outlets. In February 2009, we opened Royal Kanamono Matsudo Minoridai (Chiba), a new type of a store, especially for products and hardware for builders.

As a result, there were 48 branches at the end of the fiscal year under review. The total shop floor area increased only 0.4% from a year earlier, to 234,000m², because we focused mainly on refurbishing existing branches during the fiscal year. On the other hand, the annual number of purchasing customers increased 3.8% year-on-year, to 24,666.

As a result, sales in this business segment increased by ¥883 million, to ¥63.5 billion (US\$648 million), a year-on-year increase of 1.4%, but the sharp rise in the price of crude oil and raw materials during the first half of the fiscal year under review caused operating income to drop by ¥654 million to ¥1,154 million (US\$12 million), for a 36.2% year-on-year decrease. Meanwhile, the operating income margin decreased 1.1 percentage points from a year earlier, dropping from 2.9% to 1.8%.

Other Businesses

In Other Businesses, sales increased by ¥631 million to ¥144.0 billion (US\$1,469 million), a 0.4% year-on-year increase. Operating income, however, declined by ¥2,056 million to ¥2,504 million (US\$26 million), a year-on-year decrease of 45.1%, due to the costs of opening city hotels and establishing new businesses. Operating income margin in this business segment dropped by 1.5 percentage points, from 3.2% in the previous fiscal year to 1.7%.

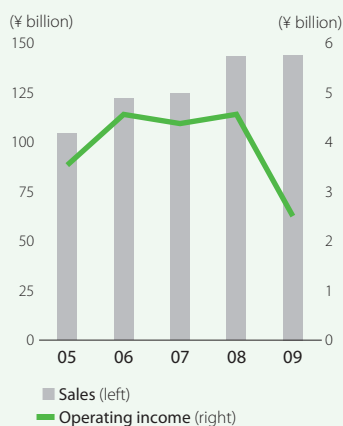
Home Center Business

Sales and operating income



Other Businesses

Sales and operating income



■ Housing Construction Material Manufacturing and Marketing Division

In the Housing Construction Material Manufacturing and Marketing Division, we enhanced the lineup of building materials and interior products offered to housing manufacturers and regional house builders. Specifically, we introduced the Shimaigokochi Storage Unit, a new idea for residents' convenience in the area of closets, and a "semi-fire resistant unit corridor" for three-story apartment buildings which offers fire resistance for up to 60 minutes. In addition, to increase home-buyers' lifestyle choices, we launched products and services such as novel types of lighting fittings and a new brand of order-made furniture called the Smart Furniture System to strengthen sales. We also launched a new plan that enables customers to lease high-quality furniture. In addition, we expanded our business in such planning/proposal-based areas as interior renovation of large-scale commercial facilities and hotels, renovation work on commercial exteriors, including signs, and made-to-order furniture.

■ Logistics Division

In the Logistics Division, we upgraded our logistics centers to expand our Asset-Type Third Party Logistics business. These were the Osaka Minato Logistics Center II (Osaka), opened in August 2008 to serve new customers, and the No. 3 Ota Logistics Center (Gunma) and No. 2 Chubu Logistics Center (Aichi), both of which were opened in September 2008 to serve existing customers. In addition, construction of the Machida Logistics Center (Tokyo, completed in May 2009), which will serve new customers, was

begun during the term under review. We also opened two satellite centers for the transportation of joint construction materials — one in Kanagawa and one in Toyama.

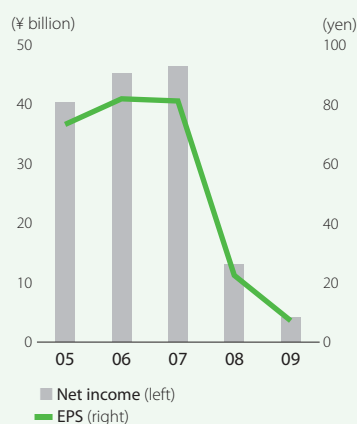
■ Business Hotels Division

In the Business Hotels Division, we opened four new hotels, including the Daiwa Roynet Hotel Nagoya-Ekimae (Aichi) and the Daiwa Roynet Hotel Shin-Yokohama (Kanagawa), and accordingly, total sales also increased. This brought the number of our Daiwa Roynet city hotels to 14 in total. Combined with the Osaka Daiichi Hotel (Osaka) and Royton Sapporo (Hokkaido), we now operate a total of 16 city hotels nationwide.

Other income and expenses

The Company posted net other expenses of ¥59,859 million (US\$611 million), an improvement of ¥4,400 million over the previous term. This is principally attributable to the non-repetition of the previous term's large losses on development projects. On the other hand, almost all other expense categories recorded a year-on-year increase. The Company applied impairment accounting to real estate assets, and recognized an impairment loss of ¥14,892 million (US\$152 million), a major increase over the previous term. In addition, there was a large increase in the amortization of actuarial loss for employees' retirement benefits attributable to the deterioration in the operating environment faced by the Company's pension fund. Interest payments increased in line with a rise in bank borrowings, and losses on the sale of assets (on a net account basis) also increased. The loss on valuation of investment securities

Net income and EPS



Inventories

	(¥ billion)		
	2009	2008	09/08
Construction projects in progress	57.4	72.6	(15.2)
Land for sale	237.6	308.0	(70.4)
Single-family houses	100.4	120.4	(20.0)
Condominiums	96.3	127.8	(31.5)
Buildings for sale	76.6	87.7	(11.1)
Single-family houses	15.0	16.4	(1.4)
Condominiums	57.0	66.8	(9.8)
Other	24.8	27.3	(2.5)
Total	396.4	495.6	(99.2)

decreased slightly from the previous term, but still amounted to more than ¥7,500 million. In addition, ¥2,015 million (US\$21 million) in expenses was posted, mainly for cleanup work following a heavy oil spillage accident at the closed Sapporo Plant.

Income before income taxes and minority interests

Income before income taxes and minority interests decreased by ¥11,141 million to ¥13.7 billion (US\$140 million), a year-on-year decrease of 44.8%. The primary factors in the decrease included the fall in operating income and the increase in expenses for the amortization of actuarial loss for employees' retirement benefits, and the loss on impairment of property, plant and equipment.

Net income

As a result of the above, net income for the fiscal year under review decreased by ¥8,910 million to ¥4.2 billion (US\$43 million), a year-on-year decrease of 68.1%, and net income to sales declined by 0.6 of a percentage point, from 0.8% in the previous fiscal year to 0.2%. In addition, earnings per share decreased by ¥15.26 from the previous fiscal year, to ¥7.20 (US\$0.07), down 67.9%.

Financial Position and Cash Flows

Assets

Total assets on a consolidated basis at the end of the fiscal year under review stood at ¥1,810.6 billion (US\$18,475 million), an

increase of ¥19,521 million from the end of the previous fiscal year (a year-on-year increase of 1.1%). This is mainly attributable to increases in property, plant and equipment, especially for acquisition of high-rise rental apartment buildings and commercial facilities, and investments in real estate development projects.

Current assets decreased by ¥100,689 million from a year earlier, to ¥661.2 billion (US\$6,747 million), a year-on-year decrease of 13.2%. This was primarily due to the sharp reduction in inventory assets, primarily land and buildings for sale for the purpose of selling single-family houses and condominiums. Non-current assets increased by ¥120,210 million to ¥1,149.4 billion (US\$11,728 million), a year-on-year increase of 11.7%. Of this, property, plant and equipment increased by ¥86,137 million to ¥729.0 billion (US\$7,438 million), a year-on-year increase of 13.4%, mainly due to the increase in buildings and structures upon the completion of Group-owned large-scale commercial facilities and condominiums for rent, in addition to the acquisition of land, mainly for the development of logistics facilities. Investments and other assets increased by ¥34,073 million to ¥420.4 billion (US\$4,290 million), a year-on-year increase of 8.9%. Although the Company posted a ¥7,534 million loss on valuation of investment securities in the fiscal year under review, investment securities rose slightly, mainly due to the increased acquisition of securities through mergers and acquisitions, as well as corporate alliances.

Liabilities

Total liabilities as of the end of the fiscal year under review increased by ¥61,534 million from the end of the previous fiscal

Property, plant and equipment	(¥ billion)		
	2009	2008	09/08
Buildings and structures	315.7	237.4	78.3
Land	356.0	341.4	14.6
Other	57.3	64.0	(6.7)
Total	729.0	642.8	86.2

year, to ¥1,203.1 billion (US\$12,277 million), a year-on-year increase of 5.4%. The primary reasons for this included fund procurement through long-term bank loans to assure sufficient funds amid a deteriorating market environment, as well as a sharp increase in long-term liabilities on the back of the rise in provisions for employees' retirement benefits.

Current liabilities at the end of the fiscal year under review decreased by ¥111,687 million from the end of the previous fiscal year, to ¥372.6 billion (US\$3,802 million), a year-on-year decline of 23.1%. Trade notes and accounts payable decreased sharply due to the rapid deterioration of the real estate market. In addition, while the entire amount of commercial paper was redeemed, short-term bank loans increased.

Long-term liabilities at the end of the fiscal year under review increased by ¥173,221 million from the end of the previous fiscal year (a year-on-year increase of 26.4%) to ¥830.5 billion (US\$8,475 million). With the increased number of investment projects in the background, long-term debt increased by ¥126,580 million to ¥320.0 billion (US\$3,265 million), a year-on-year increase of 65.5%.

As a result, total interest-bearing debt increased by ¥116,145 million to ¥344.5 billion (US\$3,516 million), a year-on-year increase of 50.9%, while the D/E ratio increased by 0.21 of a percentage point, from 0.36 for the previous fiscal year to 0.57.

Equity

Equity at the end of the fiscal year under review decreased by ¥42,013 million from a year earlier, to ¥607.4 billion (US\$6,198

million), a year-on-year decline of 6.5%. This was mainly attributable to the decrease in retained earnings caused by the prior-year dividend payments, in addition to the ¥11,397 million decrease in net unrealized gain on securities available for sale in the fiscal year, to ¥2,035 million (US\$21 million), a year-on-year decrease of 84.9%, and the deterioration in the foreign currency translation adjustment account to a negative amount of ¥5,106 million (US\$52 million) due to the strong yen. Meanwhile, minority interests decreased by ¥16,125 million from the end of the previous term, to ¥745 million (US\$8 million), a year-on-year decrease of 95.6%, due to the conversion of Eneserve Corporation into a wholly owned subsidiary.

As a result, the equity ratio at the end of the fiscal year under review declined by 1.8 percentage points, from 35.3% at the end of the previous fiscal year to 33.5%. In addition, the return on equity (ROE) declined by 1.3 points, from 2.0% in the previous fiscal year to 0.7%, in line with the decrease in net income.

Working capital

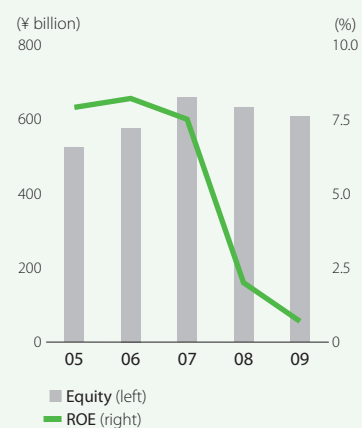
Working capital (current assets minus current liabilities) in the fiscal year under review increased by ¥10,998 million to ¥288,552 million (US\$2,944 million), a year-on-year rise of 4.0%, due to a reduction in accounts payable. The ratio of current assets to current liabilities rose from 157.3% in the previous fiscal year to 177.4%, securing sufficient financial liquidity.

Funding plan

At the beginning of fiscal 2009 we reviewed our investment plan in the Daiwa House Group Second Medium-Term Management

Interest-bearing debt	(¥ billion)		
	2009	2008	09/08
Short-term bank loans	16.4	11.9	4.5
Current portion of long-term debt	5.6	1.6	4.0
Commercial paper	—	20.0	(20.0)
Current portion of long-term lease obligations	0.5	—	0.5
Long-term debt	319.9	193.4	126.5
Long-term lease obligations	2.1	—	2.1
Other	—	1.5	(1.5)
Total	344.5	228.4	116.1

Equity and ROE



Plan. Although in the initial plan we had intended to invest a total of ¥580 billion during the three-year-period of the plan (¥460 billion in property development, ¥90 billion in capital investment, and ¥30 billion in mergers and acquisitions as well as corporate alliances), considering the recent deterioration of real estate prices, we have reduced the amount of planned property development by ¥120 billion to ¥340 billion. In addition, we have kept the capital investment amount unchanged at ¥90 billion, while increasing the amount for M&A and corporate alliances by ¥10 billion to ¥40 billion. As a result, the cumulative investment for the three-year period was revised to ¥470 billion, a decrease of ¥110 billion.

The major source of funding for this investment plan is cash flow from operating activities and recovery of property investments to minimize any increase in interest-bearing liabilities.

Although we aimed to keep the D/E ratio at 0.5 or lower in the Daiwa House Group Second Medium-Term Management Plan, it increased to 0.57 at the end of fiscal 2008 due to the increase in long-term debt. In the near future, we plan to tighten our investment standards for property development, and with a policy of limiting the increase on interest-bearing debt, we plan to implement measures for lowering the D/E ratio to 0.5 as soon as possible.

Capital investment

Capital investment in the fiscal year under review increased by ¥56,745 million from a year earlier, to ¥160.6 billion (US\$1,639 million), a year-on-year rise of 54.6%.

By business segment, capital investment in the Residential Business increased by ¥39,629 million to ¥50.1 billion (US\$511 million), a year-on-year increase of 378%; capital spending in the Commercial Construction Business increased by ¥18,198 million to ¥89.3 billion (US\$911 million), a year-on-year increase of 25.6%; capital outlay in the Resort Hotels and Sports Life Business decreased by ¥416 million to ¥2.4 billion (US\$24 million), a year-on-year decrease of 14.9%; capital investment in the Home Center Business increased by ¥340 million to ¥1.1 billion (US\$11 million), a year-on-year increase of 46.4%, and capital spending in Other Businesses increased by ¥706 million to ¥19.4 billion (US\$198 million), a year-on-year increase of 3.8%.

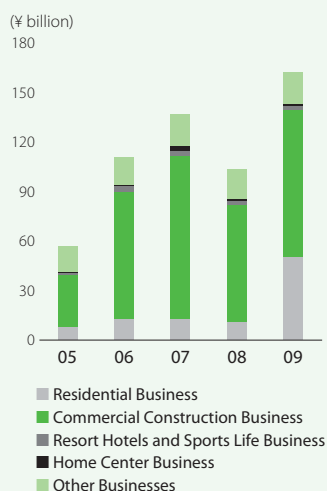
In fiscal 2009, we plan to spend a total of ¥121.0 billion on capital investments, predominantly in the area of the Commercial Construction Business.

Cash flows

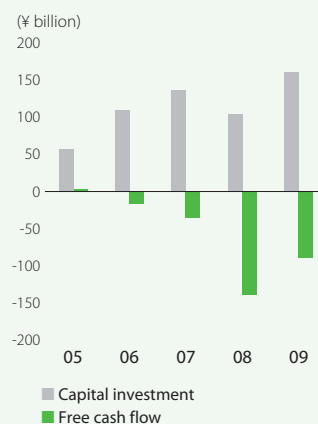
Cash and cash equivalents at the end of the fiscal year under review increased by ¥6,492 million from a year earlier, to ¥105.4 billion (US\$1,075 million), a year-on-year increase of 6.6%, reflecting cash inflows from operating and financing activities that exceeded a significant outflow from investing activities.

Net cash provided by operating activities improved by ¥125,549 million, from ¥15,738 million net cash used for the previous fiscal year to a net inflow of ¥109.8 billion (US\$1,121 million). This is attributable primarily to the decline in inventories, mostly due to disposal of real estate for sale, the increase in depreciation resulting

Capital investment by segment



Capital investment and free cash flow



from the expansion of capital investments, and the decrease in receivables and increase in deposits received from customers, which more than offset the increase in expenditures due to the decrease in trade payables.

During the fiscal year under review, net cash used in investing activities increased by ¥76,382 million to ¥199.7 billion (US\$2,038 million), a year-on-year increase of 62.0%. This came as a result of purchases of property, plant and equipment, including real estate for large-scale commercial facilities and rental housing and commercial facilities, in addition to increased investments in real estate development. Other factors contributing to the increase in expenditures included the stock acquisition involving the conversion of Eneserve Corporation into a wholly owned subsidiary, the stock acquisition of Morimoto Asset Management Co., Ltd. (whose corporate name was changed on February 1, 2009 to Daiwa House Morimoto Asset Management Co., Ltd.), and the stock acquisition of CYBERDYNE Inc., one of our corporate allies.

Net cash provided by financing activities decreased by ¥39,294 million to ¥96.5 billion (US\$985 million), a year-on-year decrease of 28.9%. This was primarily due to the redemption of commercial paper at maturity, and the decrease in cash inflow from long-term debt.

As a result, free cash flow, which is the sum of cash flows from operating and investment activities, improved by ¥49,167 million, from a net outflow ¥139,035 million in the previous fiscal year to net cash used of ¥89,868 million in the fiscal year under review.

Basic Policies Regarding Profit Distribution

In determining its dividend payments, the Daiwa House Group takes into account the need to maintain a good balance between the appropriation of profits to shareholders on the one hand, and the necessity of securing sufficient retained earnings for future business expansion and the reinforcement of the business base on the other. With the goal of strengthening our fundamentals with a view to broadening our basis of operations by investing in research and development and production facilities and expanding our business premises to raise our competitiveness and improve profitability, we will continue endeavoring to strengthen our financial soundness. Taking into account these factors, we have set a dividend payout ratio of at least 30%.

Simultaneously, by pursuing acquisition of own shares for inclusion in treasury stock as necessary, we will make efforts to optimize total shareholder returns. In appropriating profits for the fiscal year ended March 31, 2009, we plan to offer an annual dividend of ¥24.00 per share, which is the same as the annual dividend paid for the previous fiscal year. For the fiscal year ending March 31, 2010, owing to the expected continuation of difficult operating conditions, we plan to offer an annual dividend of ¥17.00 per share.

Second Medium-Term Management Plan "Challenge 2010"

	FY2008 (plan) (announced in May 2008)	FY2008 (results)	Achievement ratio (%)	FY2009 (plan)	FY2010 (target) (announced in May 2008)
Sales (¥ billion)	1,750.0	1,691.0	96.6	1,565.0	1,850.0
Operating income (¥ billion)	95.0	73.6	77.5	45.0	115.0
Operating income margin (%)	5.4	4.4	—	2.9	6.2
ROE (%)	—	0.7	—	—	9.0

Management Policy and Outlook for Fiscal 2009

Management policy for fiscal 2009

For fiscal 2009, which is the second year of the Daiwa House Group Second Medium-Term Management Plan "Challenge 2010," we decided on a plan with conservative sales and operating income targets, given that our most urgent task is to upgrade our profitability by further streamlining management, in light of the greater-than-expected deterioration of the business environment.

With regard to our management policy for fiscal 2009, we plan to implement the following three actions as a matter of priority:

In the mainstay Single-Family Housing and Condominium businesses, we plan to accelerate cost structure reform and implement a large-scale shift in our management resources, including staff, to the growing markets of the Renovation and Environmental Energy businesses. In the real estate development business, in which we had initially planned to invest a total of ¥460 billion over the three-year period of the second medium-term management plan, sluggishness in real estate prices is expected to continue in the near future. For this reason, we have slashed the amount of investment in this area by around ¥120 billion, while tightening investment standards. In addition, with respect to cost-cutting, we aim to save ¥20 billion over the one-year period by focusing on integrating functions across all areas, while cutting directors' bonuses to zero and reducing directors' compensation.

With the management policy outlined above established for fiscal 2009, the Daiwa House Group aims to take steps along a new path for growth by implementing these measures promptly and thoroughly.

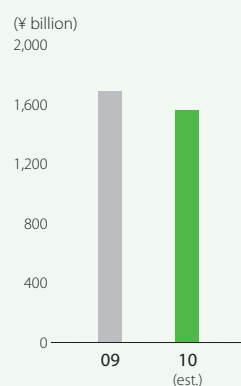
Outlook for fiscal 2009

With respect to the outlook for fiscal 2009, we expect the difficult conditions for the Japanese economy to continue for the foreseeable future. In our industry as well, despite the expectations of positive effects from the expanded mortgage loan tax cuts, no immediate improvement in unemployment and income conditions is likely. For these reasons, the severe business environment is expected to persist.

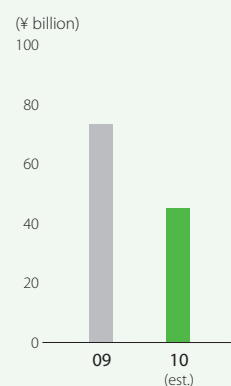
Amidst this environment, we expect a decrease in sales and income in the mainstay Residential and Commercial Construction businesses. Meanwhile, based on its management policy for fiscal 2009, the Daiwa House Group will implement Company-wide cost cuts and cash-flow-focused management to strengthen corporate profitability and enhance financial strength.

With the above measures, in terms of the performance outlook for fiscal 2009, we are aiming for sales of ¥1,565 billion, operating income of ¥45 billion, a ratio of operating income to sales of 2.9%, and net income of ¥21 billion on a consolidated basis.

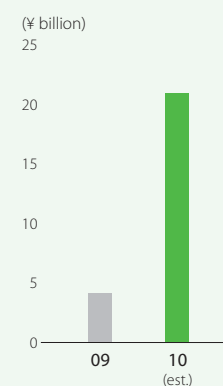
Sales



Operating income



Net income



Business Risks

There are risks associated with the businesses of the Daiwa House Group that may possibly have a material impact on the decisions of investors as indicated below. The future risks described herein have been identified as of March 31, 2009.

1) Risks associated with changes in the business environment

Businesses operated by the Daiwa House Group are exposed to a possible impact from the uncertain nature of external factors such as the prices of raw and construction materials and the volatility of land prices and interest rates, which could result in an adverse effect on business performance and financial conditions.

2) Risks associated with declined values of real estate and fixed assets

The Daiwa House Group is engaged in acquisition, development and sales of real estate in all parts of the country. Deterioration in the real estate market may have an adverse effect on the Group's business performance and financial conditions.

In case there is a drop in land and rental prices, the Group may be required to apply impairment accounting for the losses on revaluation of real estate owned by the Group.

In addition to real estate, fixed assets owned by the Group are also exposed to the risk of impairment loss, which could have an adverse effect on Group's business performance and financial conditions.

3) Risks concerning retirement allowance expenses

In the event the stock market makes a turn for the worse in the future, the value of the Group's pension plan assets may decline. As a result, possible rise in costs related to pensions or additional accumulation of pension assets may have an adverse effect on the Group's business performance and financial conditions.

4) Risks associated with foreign businesses

The Daiwa House Group is engaged in foreign businesses primarily in China and is exposed to the risk of a delay or suspension in the execution of business or the collection of proceeds due to political and economic situation in each country or region.

5) Risks associated with guarantees for product quality

In its residential businesses, the Daiwa House Group has committed to offering a long-term guarantee system to ensure a higher level of customer satisfaction and maintaining effective quality management. During a long period of support, however, an unpredictable major issue on quality may arise and adversely impact the business performance of the Group.

6) Risks associated with legal regulations

The Daiwa House Group is engaged not only in construction and real estate-related businesses in the country, but is also aggressively pursuing a wide range of businesses including foreign businesses.

Hence, these businesses are subject to a number of applicable laws and regulations. Specifically in Japan, we are subject to the Corporate Law, the Financial Instruments and Exchange Law, environment-related laws, construction and real estate-related laws and various other laws and regulations. In addition, our businesses are subject to applicable laws and regulations of each country or region in which we operate. To ensure that the Group complies with these laws and regulations, we enforce strict legal compliance and conduct legal risk management among our executives and other employees. In the event that, in spite of our efforts, it is found that a regulation has not been followed, or in the event that our business situation is drastically changed by the abolition of a law or the enactment of new legislation, this could have an adverse effect on the business performance of the Group.

7) 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.

8) Risks associated with workplace safety and environmental protection

The Group places a high priority on both safety and consideration for the natural environment in the course of conduct of business operations in its manufacturing plants, as well as at construction sites, and therefore takes appropriate measures to realize workplace safety and environmental protection. In spite of these measures, however, there is a possibility that accidents at construction sites and/or incidents of pollution may occur. Such accidents or incidents could have an adverse effect on the business performance of the Group, as a result of harm to personnel and/or material damage, such as in the form of pollution of the environment.

Consolidated Financial Statements

Consolidated Balance Sheets

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries
March 31, 2009 and 2008

Assets	Millions of Yen		Thousands of U.S. Dollars ¹
	2009	2008	2009
Current assets:			
⁷ Cash and cash equivalents	¥ 105,381	¥ 98,889	\$ 1,075,316
³ Marketable securities		20	
¹⁵ Investments in lease	5,627		57,418
^{2e} Short-term investments	459	1,466	4,684
⁷ Receivables:			
Trade notes	6,166	10,834	62,918
Trade accounts	45,279	52,503	462,031
Allowance for doubtful receivables	(1,342)	(898)	(13,694)
^{2f} ⁴ Inventories	396,444	495,613	4,045,347
¹³ Deferred tax assets	35,718	40,769	364,469
⁷ Prepaid expenses and other current assets	67,456	62,681	688,327
Total current assets	661,188	761,877	6,746,816
Property, plant and equipment:			
⁵ ⁶ ⁷ Land	356,002	341,408	3,632,673
⁶ ⁷ Buildings and structures	553,390	460,762	5,646,837
Accumulated depreciation	(237,716)	(223,306)	(2,425,673)
⁶ ⁷ Machinery and equipment	93,672	92,877	955,837
Accumulated depreciation	(57,911)	(56,756)	(590,929)
⁶ ⁷ Furniture and fixtures	35,341	33,760	360,622
Accumulated depreciation	(24,637)	(23,601)	(251,398)
⁶ Lease assets	1,645		16,786
Accumulated depreciation	(185)		(1,888)
Construction in progress	9,352	17,672	95,429
Net property, plant and equipment	728,953	642,816	7,438,296
Investments and other assets:			
^{2d} ³ Investment securities	84,996	90,622	867,306
^{2d} Investments in and advances to unconsolidated subsidiaries and associated companies	33,894	10,472	345,857
^{2d} Long-term loans receivable	6,810	8,478	69,490
⁷ Lease deposits	170,682	164,957	1,741,653
¹³ Deferred tax assets	104,947	77,159	1,070,888
⁶ Other assets	27,828	43,453	283,959
Allowance for doubtful accounts	(8,725)	(8,782)	(89,030)
Total investments and other assets	420,432	386,359	4,290,123
Total	¥1,810,573	¥1,791,052	\$18,475,235

See notes to consolidated financial statements.

Liabilities and equity

	Millions of Yen		Thousands of U.S. Dollars ¹
	2009	2008	2009
Current liabilities:			
⁷ Short-term bank loans	¥ 16,408	¥ 11,918	\$ 167,429
⁷ Commercial paper		20,000	
⁷ Current portion of long-term debt	5,610	1,595	57,245
Payables:			
Trade notes	29,915	28,781	305,255
Trade accounts	99,929	161,079	1,019,684
Other accounts	70,174	92,430	716,061
¹⁵ Current portion of long-term lease obligations	432		4,408
Deposits received from customers	61,054	58,628	623,000
Income taxes payable	6,962	23,163	71,041
Accrued bonuses	17,856	21,168	182,204
Provision for product warranties	6,895	6,573	70,357
Accrued expenses and other current liabilities	57,401	58,988	585,724
Total current liabilities	372,636	484,323	3,802,408
Long-term liabilities:			
⁷ Long-term debt	319,957	193,377	3,264,867
¹⁵ Long-term lease obligations	2,128		21,714
⁸ Liability for employees' retirement benefits	160,203	124,170	1,634,725
⁵ Deferred tax liabilities on land revaluation	28,433	27,902	290,133
Long-term deposits received from the Company's club members	43,094	45,793	439,735
Lease deposits received	217,860	204,288	2,223,061
Other long-term liabilities	58,834	61,758	600,347
Total long-term liabilities	830,509	657,288	8,474,582
Equity:			
Common stock, authorized, 1,900,000,000 shares; issued, 599,921,851 shares in both 2009 and 2008	110,120	110,120	1,123,674
Capital surplus	226,825	226,825	2,314,541
¹⁸ Retained earnings	370,241	381,480	3,777,969
^{2d} Net unrealized gain on available-for-sale securities	2,035	13,432	20,765
⁵ Land revaluation difference	(77,878)	(79,195)	(794,673)
^{2p} Foreign currency translation adjustments	(5,106)	(557)	(52,102)
Treasury stock — at cost, 20,750,714 shares in 2009 and 20,665,458 shares in 2008	(19,554)	(19,534)	(199,531)
Total	606,683	632,571	6,190,643
Minority interests	745	16,870	7,602
Total equity	607,428	649,441	6,198,245
Total	¥1,810,573	¥1,791,052	\$18,475,235

Consolidated Statements of Income

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2009, 2008 and 2007

	Millions of Yen			Thousands of U.S. Dollars ^①
	2009	2008	2007	2009
Net sales	¥1,690,956	¥1,709,254	¥1,618,450	\$17,254,653
Cost of sales	1,357,821	1,360,348	1,283,587	13,855,316
Gross profit	333,135	348,906	334,863	3,399,337
⑭ Selling, general and administrative expenses	259,555	259,785	249,184	2,648,521
Operating income	73,580	89,121	85,679	750,816
Other income (expenses):				
Interest income and dividends	2,841	2,602	2,143	28,990
Interest expense	(5,161)	(3,371)	(1,750)	(52,663)
Write-down of investment securities	(7,534)	(7,859)	(1,808)	(76,878)
Write-down of inventories		(1,632)	(222)	
Loss on sales and disposal of property, plant and equipment	(1,493)	(1,273)	(2,231)	(15,235)
Gain on valuation of derivatives	2,143	1,146		21,867
⑧ Gain on amortization of prior service cost		500	324	
⑧ Amortization of actuarial gain (loss) for employees' retirement benefits	(31,495)	(26,411)	3,164	(321,377)
Loss on valuation of derivatives	(2,794)	(1,540)		(28,510)
⑥ Impairment loss on property, plant and equipment	(14,892)	(1,655)	(5,042)	(151,959)
Loss on disaster	(2,015)			(20,561)
Loss on sublease agreements		(210)		
Loss on business restructuring			(4,527)	
⑫ Loss on development businesses		(24,537)		
⑪ Other — net	541	(19)	719	5,520
Other expenses — net	(59,859)	(64,259)	(9,230)	(610,806)
Income before income taxes and minority interests	13,721	24,862	76,449	140,010
⑬ Income taxes:				
Current	24,892	37,190	24,369	254,000
Deferred	(14,862)	(25,122)	5,613	(151,653)
Total	10,030	12,068	29,982	102,347
Minority interests in net (income) loss of subsidiaries	479	286	(73)	4,888
Net income	¥ 4,170	¥ 13,080	¥ 46,394	\$ 42,551

	Yen			U.S. Dollars
	2009	2008	2007	2009
②r Per share of common stock:				
Basic net income	¥ 7.20	¥22.46	¥81.15	\$0.07
Cash dividends applicable to the year	24.00	24.00	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, 2009, 2008 and 2007

	Thousands				Millions of Yen						
	Number of Shares of Common Stock Outstanding	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, 2006	546,916	¥110,120	¥148,019	¥355,495	¥30,746	¥(63,392)	¥ (883)	¥ (3,571)	¥576,534		¥576,534
2 k Reclassified balance as of March 31, 2006										¥74,656	74,656
Net income				46,394					46,394		46,394
Net increase (decrease) in relation to share exchange	40,522		80,707					(3,558)	77,149	(72,471)	4,678
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)
Change in scope of consolidation				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)
Purchase of treasury stock	(303)							(607)	(607)		(607)
Disposal of treasury stock	23		3					43	46		46
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)
Purchase of treasury stock	(7,939)							(11,909)	(11,909)		(11,909)
Disposal of treasury stock	37		(9)	(6)				68	53		53
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
2 b Adjustment of retained earnings due to an adoption of PITF No. 18				42					42		42
Net income				4,170					4,170		4,170
Cash dividends, ¥24.0 per share				(13,902)					(13,902)		(13,902)
Change in scope of consolidation				(142)					(142)		(142)
Transfer due to sales and impairment of land				(1,346)		1,346					
Net increase in land revaluation difference						(29)			(29)		(29)
Purchase of treasury stock	(152)							(139)	(139)		(139)
Disposal of treasury stock	67			(61)				119	58		58
Net change in the year					(11,397)		(4,549)		(15,946)	(16,125)	(32,071)
Balance, March 31, 2009	579,171	¥110,120	¥226,825	¥370,241	¥ 2,035	¥(77,878)	¥(5,106)	¥(19,534)	¥606,683	¥ 745	¥607,428

	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, 2008	\$1,123,674	\$2,314,541	\$3,892,653	\$137,061	\$(808,112)	\$(5,684)	\$(199,327)	\$6,454,806	\$172,143	\$6,626,949	
2 b Adjustment of retained earnings due to an adoption of PITF No. 18			428					428		428	
Net income			42,551					42,551		42,551	
Cash dividends, \$0.24 per share			(141,857)					(141,857)		(141,857)	
Change in scope of consolidation			(1,449)					(1,449)		(1,449)	
Transfer due to sales and impairment of land			(13,735)		13,735						
Net increase in land revaluation difference					(296)			(296)		(296)	
Purchase of treasury stock							(1,418)	(1,418)		(1,418)	
Disposal of treasury stock			(622)				1,214	592		592	
Net change in the year				(116,296)		(46,418)		(162,714)	(164,541)	(327,255)	
Balance, March 31, 2009	\$1,123,674	\$2,314,541	\$3,777,969	\$ 20,765	\$(794,673)	\$(52,102)	\$(199,531)	\$6,190,643	\$ 7,602	\$6,198,245	

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Daiwa House Industry Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2009, 2008 and 2007

	Millions of Yen			Thousands of U.S. Dollars ^①
	2009	2008	2007	2009
Operating activities:				
Income before income taxes and minority interests	¥ 13,721	¥ 24,862	¥ 76,449	\$ 140,010
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Income taxes — paid	(41,799)	(30,294)	(26,759)	(426,521)
Depreciation	39,318	35,622	29,536	401,204
Write-down of investment securities	7,534	7,859	1,808	76,878
Write-down of golf club membership	97	53	75	990
Loss on sales and disposal of property, plant and equipment	1,493	1,273	2,231	15,235
Impairment loss on property, plant and equipment	14,892	1,655	5,042	151,959
Equity in earnings of associated companies	(542)	(316)	(289)	(5,531)
Provision for employees' retirement benefits, net of payments	36,033	30,108	4,059	367,684
Loss on development businesses		24,537		
Loss on sublease agreements		210		
Changes in certain assets and liabilities, net of consolidation:				
Decrease (increase) in receivables	11,579	(2,151)	289	118,153
Decrease (increase) in inventories	71,622	(87,402)	(63,528)	730,837
Increase (decrease) in payables — trade	(65,520)	(48,548)	69,767	(668,572)
Increase (decrease) in deposits received from customers	2,410	(4,242)	(2,553)	24,592
Other — net	18,973	31,036	39,934	193,602
Total adjustments	96,090	(40,600)	59,612	980,510
Net cash provided by (used in) operating activities	109,811	(15,738)	136,061	1,120,520
Investing activities:				
Purchases of property, plant and equipment	(153,737)	(93,038)	(150,653)	(1,568,745)
Purchases of marketable and investment securities	(20,271)	(14,618)	(12,722)	(206,847)
Increase in investments in and advances to unconsolidated subsidiaries and associated companies	(10,654)	(3,600)	(7,780)	(108,714)
Proceeds from sales and redemption of investment securities	377	2,895	4,162	3,847
Proceeds from sales of property, plant and equipment	2,488	1,522	1,478	25,388
Purchases of investments in subsidiaries	(12,443)	(389)	(330)	(126,970)
Net increase from sales of shares of the former consolidated subsidiaries			157	
Payments for purchases of shares of the newly consolidated subsidiaries	(158)	(1,760)	(16)	(1,612)
Proceeds from purchases of shares of the newly consolidated subsidiaries	596	11,818		6,082
Increase in lease deposits	(5,882)	(8,231)	(3,760)	(60,021)
Net decrease (increase) in other assets	5	(17,896)	(2,610)	51
Net cash used in investing activities	(199,679)	(123,297)	(172,074)	(2,037,541)

(Continued)

	Millions of Yen			Thousands of U.S. Dollars ¹
	2009	2008	2007	2009
Financing activities:				
Net increase in short-term bank loans	¥ 3,740	¥ 985	¥ 495	\$ 38,163
Proceeds from long-term debt	132,850	153,691	34,015	1,355,612
Repayments of long-term debt	(2,255)	(13,119)	(6,928)	(23,010)
Net increase (decrease) in commercial paper	(20,000)	20,000		(204,082)
Repayments of finance lease obligations	(208)			(2,122)
Proceeds from issue of new stock to minority shareholders			1,200	
Repayments of purchase of treasury stock	(139)	(11,909)	(607)	(1,418)
Proceeds from disposal of treasury stock	58	53	46	592
Dividends paid to shareholders	(13,902)	(11,743)	(10,868)	(141,857)
Dividends paid to minority shareholders of subsidiaries			(740)	
Proceeds from receivables sold to trust	3,004	5,001	5,010	30,653
Remittance to trust of receivables collected	(6,645)	(7,162)	(7,305)	(67,806)
Net cash provided by financing activities	96,503	135,797	14,318	984,725
Foreign currency translation adjustments on cash and cash equivalents	(143)			(1,459)
Net increase (decrease) in cash and cash equivalents	6,492	(3,238)	(21,695)	66,245
Cash and cash equivalents, beginning of year	98,889	102,127	123,822	1,009,071
Cash and cash equivalents, end of year	¥105,381	¥ 98,889	¥102,127	\$1,075,316
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 Act. 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 Companies Act of Japan (the "Companies Act") 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 ¥98 to \$1, the approximate rate of exchange at March 31, 2009. 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, 2009 include the accounts of the Company and its 59 significant (55 in 2008, 50 in 2007) 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 (13 in 2008, 12 in 2007) 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 sheet 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, 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 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.

During the year ended March 31, 2009, DAIWA HOUSE MORIMOTO ASSET MANAGEMENT Co., Ltd. and eight subsidiaries, have been included in the consolidation as a result of new formation or acquisition and five subsidiaries have been excluded from the consolidation as a result of merger.

In March 2007, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Implementation Guidance No. 15, "Implementation Guidance on Disclosures about Certain Special Purpose Entities." 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. Unification of accounting policies applied to foreign subsidiaries for the consolidated financial statements

In May 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." PITF No. 18 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 of America 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) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting; 5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated; and 6) exclusion of minority interests from net income, if contained. PITF No. 18 was effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

The Group applied this accounting standard effective April 1, 2008. The impact to the consolidated statement of income for the year ended March 31, 2009 from the adoption was not material. In addition, the Group adjusted the beginning balance of retained earnings at April 1, 2008 as if this accounting standard had been retrospectively applied.

c. Cash and cash equivalents

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

d. Marketable and investment securities

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

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 (\$51 thousand), ¥28 million (\$286 thousand) and ¥19 million (\$194 thousand) as of March 31, 2009.

e. 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 ¥49 million (\$500 thousand) as of March 31, 2009.

f. Inventories

Prior to April 1, 2008, inventories were 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 was determined by the average method. However, appropriate write-downs were recorded for inventories with values considered to have been permanently or substantially impaired.

In July 2006, the ASBJ issued ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories." 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. The standard was effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

The Group applied this new accounting standard for measurement of inventories effective April 1, 2008. The effect of this change was to decrease operating income and income before income taxes and minority interests by ¥7,882 million (\$80,429 thousand).

g. Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation is computed substantially by the declining-balance method while the straight-line method is applied to buildings acquired after April 1, 1998. Lease assets are depreciated by the straight-line method over the respective lease periods. 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, from 5 to 15 years for furniture and fixtures and from 3 to 20 years for lease assets.

h. 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.

i. Leases

In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions issued in June 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.

ASBJ Guidance No. 16, "Guidance on Accounting Standard for Lease Transactions," clarifies the accounting treatment for lease transactions involving real estate. The Company adopted the guidance on April 1, 2008, and therefore, lease transactions commencing on or after April 1, 2008 are accounted for in accordance with ASBJ Guidance No. 16. In preparing the note to the financial statements as of March 31, 2009, the Company applied ASBJ Guidance No. 16 to leases involving real estate which commenced before April 1, 2008 to determine whether they are considered finance lease transactions or operating lease transactions. Regarding a lease of real estate in which both land and buildings are leased together, the Company reconsidered the portion attributable to the land and the portion attributable to the buildings in accordance with ASBJ Guidance No. 16, and as a result, certain lease transactions involving real estate which had been accounted for and disclosed as operating lease transactions are disclosed as finance lease transactions as of March 31, 2009.

Lessee

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions should be capitalized to recognize lease assets and lease obligations in the balance sheet. In addition, the revised accounting standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to be accounted for as operating lease transactions.

The Group applied the revised accounting standard effective April 1, 2008. In addition, the Group accounted for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions.

Lessor

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were treated as sales. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if sold" information was disclosed in the note to the lessor's financial statements. The revised accounting standard requires that all finance leases that are deemed to transfer ownership of the leased property to the lessee should be recognized as lease receivables, and all finance leases that are not deemed to transfer ownership of the leased property to the lessee should be recognized as investments in lease.

The Group applied the revised accounting standard effective April 1, 2008. The effect of this change was not material.

j. Retirement and pension plans

The Company and its certain subsidiaries have unfunded retirement benefit plans and non-contributory funded pension plans.

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

k. Presentation of equity

On December 9, 2005, the ASBJ published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of equity. Such items include stock acquisition rights, minority interests, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard was 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.

l. Revenue and profit recognition

Sales and related profits are generally recorded when sales contracts are completed and customers have satisfied the down payment and other requirements stipulated by the contracts. Land and land development costs are allocated to units sold based upon relative area. The Group recognizes revenues and cost of sales from finance lease transactions at the time of receiving lease payments.

m. 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.

n. 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.

o. Foreign currency transactions

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

p. 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 the historical exchange rate. 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 in the consolidated balance sheet.

q. 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.

r. 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, 2009, 2008 and 2007 were 579,216 thousand, 582,292 thousand and 571,724 thousand, respectively.

Diluted net income per share of common stock for the years ended March 31, 2009, 2008 and 2007 are not disclosed due to the absence of dilutive securities.

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.

s. New accounting pronouncements

Business combinations

On December 26, 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations." Major accounting changes under the revised accounting standard are as follows;

- (1) The current accounting standard for business combinations allows companies to apply the pooling of interests method of accounting when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. The revised standard requires to account for such business combination by the purchase method and the pooling of interests method of accounting is no longer allowed.
- (2) The current accounting standard accounts for the research and development costs to be charged to income as incurred. Under the revised standard, an in-process research and development (IPR&D) acquired by the business combination is capitalized as an intangible asset.
- (3) The current accounting standard accounts for a bargain purchase gain (negative goodwill) to be systematically amortized within 20 years. Under the revised standard, the acquirer recognizes a bargain purchase gain in profit or loss on the acquisition date after reassessing whether it has correctly identified all of the assets acquired and all of the liabilities assumed with a review of such procedures used.

This standard is applicable to business combinations undertaken on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or after April 1, 2009.

Unification of accounting policies applied to foreign associated companies for the equity method

The current accounting standard requires unification of accounting policies within the consolidation group. However, the current guidance allows application of the equity method for the financial statements of its foreign associated company which have been prepared in accordance with generally accepted accounting principles in their respective jurisdictions without unification of accounting policies.

On December 26, 2008, the ASBJ issued ASBJ Statement No. 16 (Revised 2008), "Revised Accounting Standard for Equity Method of Accounting for Investments." The new standard requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method unless it is impracticable to determine adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting; 5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to the financial statements have been incorporated; and 6) exclusion of minority interests from net income, if contained.

This standard is applicable to equity method of accounting for investments effective on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or after April 1, 2009.

Asset retirement obligations

On March 31, 2008, the ASBJ published a new accounting standard for asset retirement obligations, ASBJ Statement No. 18 "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21 "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard is effective for fiscal years beginning on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or before March 31, 2010.

Construction contracts

Under the current Japanese GAAP, either the completed-contract method or the percentage-of-completion method is permitted to account for construction contracts. In December 2007, the ASBJ issued a new accounting standard for construction contracts. Under this new accounting standard, the 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.

t. Reclassifications

Certain reclassifications have been made in the 2008 and 2007 financial statements to conform to the classifications used in 2009.

3 Marketable and investment securities

Marketable and investment securities as of March 31, 2009 and 2008 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Current:			
Government and corporate bonds		¥ 20	
Non-current:			
Equity securities	¥49,898	¥72,082	\$509,163
Government and corporate bonds	751	700	7,663
Investments in limited liability partnership	7,718	3,115	78,755
Preferred fund certificates	26,502	14,533	270,429
Other	127	192	1,296
Total	¥84,996	¥90,622	\$867,306

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2009 and 2008 were as follows:

	Millions of Yen			
	2009			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥37,267	¥9,061	¥3,319	¥43,009
Debt securities	500		24	476
Other	119	8		127
Held-to-maturity	5			5

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
Thousands of U.S. Dollars				
2009				
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	\$380,275	\$92,460	\$33,868	\$438,867
Debt securities	5,102		245	4,857
Other	1,214	82		1,296
Held-to-maturity	51			51

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2009 and 2008 were as follows:

Carrying Amount			
	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Available-for-sale:			
Equity securities	¥ 6,889	¥ 4,288	\$ 70,296
Preferred fund certificates	26,502	14,533	270,429
Investments in limited liability partnership	7,718	3,115	78,755
Debt securities	270		2,755
Total	¥41,379	¥21,936	\$422,235

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2009 are as follows:

Held to Maturity		
	Millions of Yen	Thousands of U.S. Dollars
Due in one to five years	¥245	\$2,500
Due in five to ten years	25	255
Due after ten years	481	4,908
Total	¥751	\$7,663

4 Inventories

Inventories at March 31, 2009 and 2008 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Finished residential homes and condominiums	¥ 41,645	¥ 38,320	\$ 424,949
Construction projects in progress	57,445	72,602	586,174
Residential homes and condominiums in process	43,660	59,864	445,510
Land held:			
For resale	221,800	287,572	2,263,265
Under development	12,032	16,643	122,776
Undeveloped	3,789	3,842	38,663
Merchandise, construction materials and others	16,073	16,770	164,010
Total	¥396,444	¥495,613	\$4,045,347

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 at March 31, 2009, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥22,715 million (\$231,786 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, 2009, 2008 and 2007, respectively.

2009				
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, land and lease assets	Fukuoka Prefecture and others	¥ 4,880	\$ 49,796
Golf course	Buildings and structures, machinery and equipment, furniture and fixtures, and land	Miyagi Prefecture and others	3,497	35,684
Assets used under sublease agreements	Buildings and structures, furniture and fixtures, land, lease assets and other assets	Chiba Prefecture and others	5,391	55,010
Idle assets	Land	Niigata Prefecture and others	48	490
Home center	Buildings and structures, furniture and fixtures, and lease assets	Chiba Prefecture and others	83	847
Fitness clubs	Buildings and structures, furniture and fixtures, lease assets and other assets	Tokyo Prefecture and others	609	6,214
Offices, factories and others	Buildings and structures, machinery and equipment, furniture and fixtures, land and lease assets	Ishikawa Prefecture and others	384	3,918
Total			¥14,892	\$151,959

2008			
Classification of Group	Type of Assets	Location	Millions of Yen
Hotel	Buildings and structures, machinery and equipment, furniture and fixtures, and land	Tochigi Prefecture and others	¥ 744
Golf course	Buildings and structures, machinery and equipment, furniture and fixtures, and land	Hokkaido Prefecture	115
Assets used under sublease agreements	Buildings and structures, and land	Wakayama Prefecture and others	220
Idle assets	Buildings and structures, and land	Shizuoka Prefecture and others	254
Home center	Buildings and structures, furniture and fixtures, and leased property under finance leases	Osaka Prefecture and others	133
Other	Buildings and structures, machinery and equipment, furniture and fixtures, and leased property under finance leases	Chiba Prefecture and others	189
Total			¥1,655

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

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 was 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 0.76% to 1.50% and ranged from 0.98% to 1.60% at March 31, 2009 and 2008, 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, 2009 and 2008 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Loans from banks, 0.77% to 3.08% (0.77% to 3.08% in 2008), due on various dates through 2042:			
Collateralized	¥ 47,304	¥ 25,273	\$ 482,694
Unsecured	278,263	169,699	2,839,418
Total	325,567	194,972	3,322,112
Less current portion	5,610	1,595	57,245
Long-term debt, net of current portion	¥319,957	¥193,377	\$3,264,867

Annual maturities of long-term debt at March 31, 2009, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2010	¥ 5,610	\$ 57,245
2011	2,920	29,796
2012	27,930	285,000
2013	148,940	1,519,796
2014	127,292	1,298,898
2015 and thereafter	12,875	131,377
Total	¥325,567	\$3,322,112

At March 31, 2009, assets pledged as collateral for secured long-term debt were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Cash and cash equivalents	¥ 524	\$ 5,347
Receivables	5,450	55,612
Buildings and structures	21,736	221,796
Machinery and equipment	486	4,959
Furniture and fixtures	177	1,806
Land	7,494	76,469
Lease deposits	1,281	13,072
Accrued income (Other current assets)	56	572
Total	¥37,204	\$379,633

As is customary in Japan, a company maintains substantial deposit balances with banks with which it has borrowings. 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 non-contributory funded defined benefit pension plans covering most of their employees. The liability for employees' retirement benefits at March 31, 2009 and 2008 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Projected benefit obligation	¥315,784	¥291,038	\$3,222,286
Fair value of plan assets	(155,581)	(166,868)	(1,587,561)
Net liability	160,203	124,170	1,634,725
Liability for employees' retirement benefits	¥160,203	¥124,170	\$1,634,725

The components of net periodic benefit costs are as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2009	2008	2007	2009
Service cost	¥17,167	¥15,762	¥14,573	\$175,174
Interest cost	7,262	6,765	6,375	74,102
Expected return on plan assets	(4,120)	(4,350)		(42,041)
Gain on amortization of prior service cost		(500)	(324)	
Recognized actuarial loss (gain)	31,495	26,411	(3,164)	321,377
Net periodic benefit costs	¥51,804	¥44,088	¥17,460	\$528,612

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

Assumptions used for the years ended March 31, 2009 and 2008 are set forth as follows:

	2009	2008
Discount rate	Principally 2.5%	Principally 2.5%
Expected rate of return on plan assets	Principally 2.5%	Principally 2.5%
Recognition period of actuarial gain/loss	1 year	1 year

9 Equity

Since May 1, 2006, Japanese companies have been subject to the Companies Act. The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, 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 Companies Act 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 Companies Act 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 Companies Act 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 Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act 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 Companies Act 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 Companies Act, stock acquisition rights are presented as a separate component of equity.

The Companies Act 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, 2009, 2008 and 2007 is as follows:

Sales and operating income

Millions of Yen							
2009							
	Residential	Commercial	Resort and Sports	Home Center	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥957,188	¥530,108	¥60,078	¥61,745	¥ 81,837		¥1,690,956
Intersegment sales	1,838	15,033	29	1,761	62,141	¥(80,802)	
Total sales	959,026	545,141	60,107	63,506	143,978	(80,802)	1,690,956
Operating expenses	930,493	478,959	61,223	62,352	141,474	(57,125)	1,617,376
Operating income (loss)	¥ 28,533	¥ 66,182	¥ (1,116)	¥ 1,154	¥ 2,504	¥(23,677)	¥ 73,580

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

Thousands of U.S. Dollars							
2009							
	Residential	Commercial	Resort and Sports	Home Center	Other	Eliminations/ Corporate	Consolidated
Sales to customers	\$9,767,225	\$5,409,265	\$613,041	\$630,051	\$ 835,071		\$17,254,653
Intersegment sales	18,755	153,398	296	17,969	634,092	\$(824,510)	
Total sales	9,785,980	5,562,663	613,337	648,020	1,469,163	(824,510)	17,254,653
Operating expenses	9,494,827	4,887,336	624,725	636,245	1,443,612	(582,908)	16,503,837
Operating income (loss)	\$ 291,153	\$ 675,327	\$(11,388)	\$ 11,775	\$ 25,551	\$(241,602)	\$ 750,816

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

Total assets, depreciation, impairment loss and capital investments

Millions of Yen							
2009							
	Residential	Commercial	Resort and Sports	Home Center	Other	Eliminations/ Corporate	Consolidated
Total assets	¥607,233	¥705,606	¥91,825	¥44,896	¥201,082	¥159,931	¥1,810,573
Depreciation	7,249	13,980	2,859	981	13,190	1,059	39,318
Impairment loss	199	5,507	8,986	83	10	107	14,892
Capital investments	50,113	89,259	2,379	1,074	19,425	(1,649)	160,601

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

Thousands of U.S. Dollars							
2009							
	Residential	Commercial	Resort and Sports	Home Center	Other	Eliminations/ Corporate	Consolidated
Total assets	\$6,196,255	\$7,200,061	\$936,990	\$458,123	\$2,051,857	\$1,631,949	\$18,475,235
Depreciation	73,969	142,653	29,174	10,010	134,592	10,806	401,204
Impairment loss	2,030	56,194	91,694	847	102	1,092	151,959
Capital investments	511,357	910,806	24,276	10,959	198,214	(16,826)	1,638,786

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

As discussed in Note 2-f, effective April 1, 2008, the Group applied ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories." The effect of this change was to decrease operating income of Industry Residential by ¥7,587 million (\$77,418 thousand), operating income of Industry Commercial by ¥107 million (\$1,092 thousand), operating income of Industry Home Center by ¥179 million (\$1,827 thousand) and operating income of Industry Other by ¥9 million (\$92 thousand) for the year ended March 31, 2009.

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, 2009, 2008 and 2007 consisted of the following:

	Millions of Yen			Thousands of U.S. Dollars
	2009	2008	2007	2009
Real estate acquisition tax and other taxes	¥(1,161)	¥(1,197)	¥ (506)	\$(11,847)
Provision for retirement benefits for directors of subsidiaries		(379)	(61)	
Reversal of accounts payable for retirement benefits for directors of subsidiaries	473			4,827
Gain on sales of investment securities	4	899	1,352	41
Allowance for doubtful accounts	(414)	(239)		(4,225)
Equity in earnings of associated companies	542	316	289	5,531
Write-down of golf club membership	(97)	(53)	(75)	(990)
Loss on sales of golf club membership		(3)		
Expenses in relation to earthquake			(617)	
Interest on commercial paper	(662)	(704)		(6,755)
Salaries and allowance for prior periods	(248)	(226)		(2,531)
Gain on settlement of derivatives	856	722		8,735
Loss on settlement of derivatives	(355)	(222)		(3,622)
Loss on liquidation of subsidiaries and affiliates	(22)			(225)
Bad debt expenses	(312)			(3,184)
Other — net	1,937	1,067	337	19,765
Total	¥ 541	¥ (19)	¥ 719	\$ 5,520

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, 2009, 2008 and 2007.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2009 and 2008 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Current:			
Deferred tax assets:			
Write-down of land held for resale	¥ 20,749	¥ 21,956	\$ 211,724
Accrued bonuses	7,250	8,033	73,980
Accrued enterprise tax	771	1,967	7,867
Other	7,006	8,813	71,490
Less valuation allowance	(58)		(592)
Deferred tax assets	¥ 35,718	¥ 40,769	\$ 364,469
Deferred tax liabilities:			
Other		¥ (49)	
Net deferred tax assets	¥ 35,718	¥ 40,720	\$ 364,469
Non-current:			
Deferred tax assets:			
Employees' retirement benefits	¥ 64,982	¥ 50,569	\$ 663,082
Unrealized gains on sales of property, plant and equipment	8,937	8,162	91,194
Extraordinary depreciation for property, plant and equipment	6,708	7,622	68,449
Loss carryforwards	7,698	5,754	78,551
Other	32,613	25,215	332,786
Less valuation allowance	(11,719)	(8,483)	(119,582)
Deferred tax assets	¥109,219	¥ 88,839	\$1,114,480
Deferred tax liabilities:			
Retained earnings appropriated for tax allowable reserves	¥ (1,988)	¥ (1,997)	\$ (20,286)
Net unrealized gain on available-for-sale securities	(2,319)	(9,919)	(23,664)
Other	(192)	(250)	(1,959)
Deferred tax liabilities	¥ (4,499)	¥(12,166)	\$ (45,909)
Net deferred tax assets	¥104,720	¥ 76,673	\$1,068,571

Deferred tax assets for the year ended March 31, 2008 was corrected on the basis of the report reissued domestically on December 19, 2008.

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 years ended March 31, 2009 and 2008 is as follows:

	2009	2008
Normal effective statutory tax rates	40.6%	40.6%
Increase (decrease) in tax rates due to:		
Permanently non-deductible expenses	9.3	4.7
Non-taxable dividend income	(0.3)	(1.0)
Per capita levy	7.4	3.7
Equity in earnings of associated companies	(1.6)	(0.5)
Unrealized gain on inventories		(4.3)
Increase in valuation allowance	23.1	7.9
Tax credit for corporate tax	(1.5)	(1.1)
Reversal of land revaluation difference	(3.8)	(0.4)
Other — net	(0.1)	(1.1)
Actual effective tax rates	73.1%	48.5%

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

At March 31, 2009, certain subsidiaries have tax loss carryforwards aggregating approximately ¥20,210 million (\$206,224 thousand) which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2011	¥ 65	\$ 663
2012	108	1,102
2013	239	2,439
2014	722	7,367
2015 and thereafter	19,076	194,653
Total	¥20,210	\$206,224

14 Research and development costs

Research and development costs charged to income were ¥7,753 million (\$79,112 thousand), ¥7,870 million and ¥7,223 million for the years ended March 31, 2009, 2008 and 2007, respectively.

15 Leases

As discussed in Note 2-i, the Group accounts for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transaction. For real estate lease transaction, the information for the year ended March 31, 2009 were prepared based on the revised accounting standard.

Finance leases:

(Lessee)

Total lease payments under finance leases that are not deemed to transfer ownership of the leased property to the lessee were ¥29,330 million (\$299,286 thousand), ¥2,947 million, and ¥3,829 million for the years ended March 31, 2009, 2008 and 2007, respectively.

The amount of the imputed interest expense portion included in the above lease payments, which is computed using the interest method, was ¥12,438 million (\$126,918 thousand) for the year ended March 31, 2009.

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, 2009 and 2008 were as follows:

Millions of Yen				
2009				
	Buildings and Structures	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	¥341,233	¥3,238	¥4,741	¥349,212
Accumulated depreciation	108,311	1,035	2,845	112,191
Accumulated impairment loss	2,840		23	2,863
Net leased property	¥230,082	¥2,203	¥1,873	¥234,158

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

Thousands of U.S. Dollars

2009				
	Buildings and Structures	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	\$3,481,969	\$33,041	\$48,378	\$3,563,388
Accumulated depreciation	1,105,214	10,561	29,031	1,144,806
Accumulated impairment loss	28,980		235	29,215
Net leased property	\$2,347,775	\$22,480	\$19,112	\$2,389,367

Obligations under finance leases as of March 31, 2009 and 2008 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Due within one year	¥ 18,275	¥2,251	\$ 186,480
Due after one year	240,921	5,027	2,458,377
Total	¥259,196	¥7,278	\$2,644,857

Allowance for impairment loss on leased property of ¥2,860 million (\$29,184 thousand) and ¥6 million as of March 31, 2009 and 2008, respectively, is not included in obligation under finance leases.

Reversals of allowance for impairment loss on leased properties were ¥4 million (\$41 thousand) and ¥2 million for the years ended March 31, 2009 and 2008, respectively.

Depreciation expenses relating to the leased assets under finance lease arrangements mentioned above were ¥18,787 million (\$191,704 thousand), ¥2,945 million and ¥3,829 million for the years ended March 31, 2009, 2008 and 2007, respectively.

The Group recorded an impairment loss of ¥430 million (\$4,388 thousand) and ¥3 million on certain leased property held under finance leases for the years ended March 31, 2009 and 2008, respectively.

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)

The net investment in lease is summarized as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2009	2009
Gross lease receivables	¥6,449	\$65,806
Unguaranteed residual values	266	2,714
Unearned interest income	(1,088)	(11,102)
Investments in lease, current	¥5,627	\$57,418

Maturities of investment in lease for finance leases that deem not to transfer ownership of the leased property to the lessee are as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2010	¥1,096	\$11,184
2011	1,079	11,010
2012	1,048	10,694
2013	995	10,153
2014	600	6,122
2015 and thereafter	1,631	16,643
Total	¥6,449	\$65,806

Total rental income under finance leases that are not deemed to transfer ownership of the leased property to the lessee were ¥3,950 million (\$40,306 thousand), ¥9,782 million and ¥9,155 million for the years ended March 31, 2009, 2008 and 2007, respectively.

The amount of the imputed interest income portion included in the above rental income, which is computed using the interest method, was ¥585 million (\$5,969 thousand), ¥753 million and ¥765 million for the years ended March 31, 2009, 2008 and 2007, respectively.

Property and equipment leased to customers under finance lease arrangements mentioned above consisted of the following at March 31, 2009 and 2008.

	Millions of Yen				Thousands of U.S. Dollars
	2009	2008		2009	
	Machinery and Equipment	Buildings and Structures	Machinery and Equipment	Total	Machinery and Equipment
Acquisition cost	¥14,511	¥11,552	¥29,851	¥41,403	\$148,072
Accumulated depreciation	7,565	6,929	14,543	21,472	77,194
Net leased property	¥ 6,946	¥ 4,623	¥15,308	¥19,931	\$ 70,878

Future rental income under finance leases at March 31, 2009 and 2008 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Due within one year	¥2,664	¥ 8,514	\$27,184
Due after one year	4,716	15,847	48,122
Total	¥7,380	¥24,361	\$75,306

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 ¥2,626 million (\$26,796 thousand), ¥6,919 million and ¥6,261 million for the years ended March 31, 2009, 2008 and 2007, respectively.

Operating leases:

Obligations and future rental income under non-cancellable operating leases as of March 31, 2009 and 2008 were as follows:

(Lessee)

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Due within one year	¥ 38,934	¥ 52,383	\$ 397,286
Due after one year	473,066	585,183	4,827,204
Total	¥512,000	¥637,566	\$5,224,490

(Lessor)

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Due within one year	¥ 2,051	¥ 49,649	\$ 20,928
Due after one year	161,115	603,197	1,644,031
Total	¥163,166	¥652,846	\$1,664,959

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 Group does not anticipate any losses arising from credit risk.

The Group implemented a risk control system for derivatives primarily to control the purpose, limitation and selection of 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 Group.

The outstanding balance of derivatives contracts at March 31, 2009 and 2008 were as follows:

Classification	Type of Transaction	Thousands of Barrel				Millions of Yen				Thousands of U.S. Dollars	
		2009		2008		2009		2008		2009	
		Contract Amount	Due over One Year	Contract Amount	Due over One Year	Fair Value	Unrealized Gain (Loss)	Fair Value	Unrealized Gain (Loss)	Fair Value	Unrealized Gain (Loss)
Non-market transactions	Commodity swap:										
	Receive floating pay fixed	600	480	720	600	¥1,999	¥1,999	¥4,793	¥1,146	\$20,398	\$20,398
	Receive fixed pay floating	600	480	720	600	433	433	(1,710)	(1,540)	4,418	4,418
	Total	1,200	960	1,440	1,200	¥2,432	¥2,432	¥3,083	¥ (394)	\$24,816	\$24,816

17 Contingencies

At March 31, 2009, contingent liabilities for notes endorsed with recourse and loans guaranteed in the ordinary course of business amounted to ¥1,385 million (\$14,133 thousand) and ¥48,282 million (\$492,673 thousand), respectively. Included in loans guaranteed were customers' housing loans from banks in the amount of ¥23,719 million (\$242,031 thousand).

18 Subsequent event

Appropriation of retained earnings

The following appropriation of retained earnings at March 31, 2009 was approved at the Company's shareholders' meeting held on June 26, 2009:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥24.0 (\$0.24) per share	¥13,900	\$141,837

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, 2009 and 2008, 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, 2009, 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, 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2009, 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 26, 2009

Principal Subsidiaries and Affiliates

As of July 1, 2009

Japan

Daiwa House Industry Co., Ltd.

Housing/Commercial facilities/
Urban development, etc.
www.daiwahouse.co.jp

Daiwa Lease Co., Ltd.

Building & vehicle leasing/Land utilization
www.daiwalease.co.jp

Daiwa Rakuda Industry Co., Ltd.

Housing equipment/
Layout for offices and stores/Leasing
www.daiwarakuda.co.jp

Daiwa Logistics Co., Ltd.

Transportation/Warehouse & storage
www.daiwabutsuryu.co.jp

Daiwa Living Co., Ltd.

Management/Operation of rental housing
www.daiwaliving.co.jp

Daiwa Service Co., Ltd.

Management of buildings & condominiums/
Manpower dispatching/Moving services
www.daiwaservice.co.jp

Daiwa Information Service Co., Ltd.

Land utilization/Maintenance & operation of
commercial facilities
www.dis-net.jp

Nihon Jyutaku Ryutu Co., Ltd.

Real estate agency & property management services/
Appraisals/Renovation work
www.jyutaku.co.jp

Daiwa Royal Co., Ltd.

Rental of commercial facilities/
Daiwa Roynet Hotels
www.daiwaroyal.com

Royal Home Center Co., Ltd.

DIY/Gardening/Interior items
www.royal-hc.co.jp

Daiwa Resort Co., Ltd. (Daiwa Royal Hotels)

Resort hotels
www.daiwaresort.co.jp

Daiwa Royal Golf Co., Ltd.

Golf course operation
www.daiwaroyalgolf.jp

Daiwa House Renew Co., Ltd.

Renovation work
www.daiwahouse-renew.co.jp

Daiwa Energy Co., Ltd.

ESCO business/Environmental equipment/
Facility installation
www.daiwa-energy.com

Daiwa Estate Co., Ltd.

Real estate agency
www.daiwaestate.jp

Daiwa Monthly Co., Ltd.

Real estate rental & management
www.daiwamonthly.co.jp

Daiwa Lantec Higashinohon Co., Ltd.

Foundation assessment & reinforcement
www.daiwalantec-east.jp

Daiwa Lantec Nishinohon Co., Ltd.

Foundation assessment & reinforcement
www.daiwalantec-west.jp

Jukeikai Co., Ltd. (Neo Summit Yugawara)

Operator of homes for the aged
www.neo-summit.com

Osaka Marubiru Co., Ltd.

Management of hotels/
Rental of commercial facilities
www.marubiru.com

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

Fitness clubs
www.nas-club.co.jp

Daiwa House REIT Management Co., Ltd.

Asset management

Daiwa House Morimoto Asset Management Co., Ltd.

Asset management
www.dh-am.com

Daiwa House Financial Co., Ltd.

Credit card operations
www.daiwasaisoncard.com

Daiwa House Insurance Co., Ltd.

Non-life insurance agency
www.daiwahouse-ins.jp

Synchroller Co., Ltd.

Manufacture of housing parts & materials

Shinwa Agency Co., Ltd.

Advertising & travel agency
www.go-to-s.com

Media Tech Inc.

Data systems/Data services
www.mediatech.jp

Eneserve Corporation

Comprehensive energy services
www.eneserve.co.jp

Higashi-Fuji Co., Ltd.

Real estate development,
sale of commercial real estate

Daiwa Odakyu Construction Co., Ltd.

General construction/Real estate
www.daiwaodakyu.co.jp

LOC Development Co., Ltd.

Development and management of
shopping centers
www.loc-kaihatsu.co.jp

Overseas

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

Provision of outsourced administrative work

Dalian Fujiazhuang International Villa Co., Ltd.

Management of rental housing

Dalian Acacia Town Villa Co., Ltd.

Management of rental housing

Dalian Civil Aviation Hotel Co., Ltd.

Management of Royal Hotel at Dalian

Dalian Dahezongsheng Estate Co., Ltd.

Development and marketing of condominiums

Dalian Yihe Property Management Co., Ltd.

Management of condominiums

Beijing East Palace Apartment Co., Ltd.

Management of rental housing

Tianjin Jiuhe International Villa Co., Ltd.

Management of rental housing

Shanghai International Realty Co., Ltd.

Management of rental housing

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

Development and marketing of condominiums

Tewoo Daiwa House (Tianjin) Real Estate Development Co., Ltd.

Real estate consulting

Corporate Data

As of April 1, 2009

Principal Subsidiaries and Affiliates
Corporate Data

Corporate name: Daiwa House Industry Co., Ltd.

Founding: April 5, 1955 (Established: March 4, 1947)

Paid-in capital: ¥110,120,483,981

Employees: 14,127

Head office: 3-3-5 Umeda, Kita-ku, Osaka 530-8241, Japan
Phone: +81-6-6346-2111

Tokyo office: 3-13-1 Iidabashi, Chiyoda-ku, Tokyo 102-8112, Japan
Phone: +81-3-5214-2111

Nagoya office: 1-20-22 Aoi, Naka-ku, Nagoya 460-8491, Japan
Phone: +81-52-933-2703

Branches: 82

Factories: 11

Research center: Central Research Laboratory (Nara)

Training centers: Osaka, Tokyo and Nara

Overseas offices: Shanghai, Hanoi

Contact: Daiwa House Industry Co., Ltd.
IR Department, Management
Administration Headquarters
Phone: +81-6-6342-1400
Fax: +81-6-6342-1419
e-mail: dh.ir.communications
@daiwahouse.jp

Daiwa House website:
Daiwa House Group:
<http://www.daiwahouse.com/English>
Daiwa House Industry Co., Ltd.:
<http://www.daiwahouse.co.jp/English>

Securities traded: Tokyo and Osaka stock exchanges

Securities code: 1925

+

*Overall responsibility • Tetsuji Ogawa/Daiwa House Producer & creative director • Keisuke Izumoto/Daiwa House
Art director • Hiroaki Kitagawa/Nippon Arts Inc. Designer • Mayumi Makino/D & Join Inc. Operator • Kohji Abe/D & Join Inc.
Photographer • Kazumasa Kondo Assistant photographer • Ken Furusyo/Daiwa House
Japanese writers • Kazutaka Morimoto/Daiwa House; Yumi Minobe, Junko Takabe
Editors • Kazutaka Morimoto/Daiwa House; Kenji Murai • Noriko Suzuki/D & Join Inc.
English translators & editors • Stephen Lloyd • Laura Rauchwarg/D & Join Inc. Director & coordinator • Katsuya Iwado /D & Join Inc.
Assistant directors • Atsumi Kimura • Nao Kishigami • Tetsuo Kubo • Yusuke Fukuda/Daiwa House*



One +

“Think far ahead.”

—Nobuo Ishibashi, founder of Daiwa House

The Daiwa House Group’s dedication to pioneering the future can be traced back to these famous words of our founder. We must ask what is needed by people, by society, in this current age, as well as what will be required in the years to come. We must think of how we can help to improve people’s lives. In the spirit of these words, we remain committed to identifying the latent needs of the coming age, and will continue cultivating new business fields.



The late Nobuo Ishibashi,
founder of Daiwa House Industry

The Story of the Daiwa House Group

50's

1955

Founding of Daiwa House Industry and launch of our first product, the Pipe House

1957

Steel pipe structure used for warehouse at sake brewery receives certification from Japan Lightweight Iron Construction Association as first such full-fledged structure in Japan

1959

Daiwa Kosho (current Daiwa Lease) and Daiwa Konpo (current Daiwa Logistics) established

Midget House pilot prefabricated house model launched on market

70's

1971

Daiwa Jutakukiki (current Daiwa Rakuda Industry) established

1975

Opening of the Daiwa House Group's first golf course at the Shikabe Country Club

1976

Full-scale start of retail and wholesale facilities business

1977

Condominium Business started

1978

Resort hotels business started with opening of Noto Royal Hotel, the first Daiwa Royal Hotel

1979

Real Estate Information centers set up within each of the Company's offices as first step in developing the used housing market



60's

1961

Daiwa Danchi established (merged with Daiwa House Industry in April 2001)

Stock listed on Osaka, Tokyo and Nagoya stock exchanges

1962

Daiwa Danchi developed, Habikino Neopolis our first housing complex

1965

Nara Factory constructed, Japan's first specialist plant for production of prefabricated houses

80's

1980

First Royal Home Center opened in Nara City

1982

Full-scale start of rental housing business

1983

Manufacture of high-end prefabricated houses for export to China (a first for Japan)

Tentakubin (current Daiwa Service) established

1986

Daiwa Information Service established

1989

Daiwa Living established

Silver Age Research Center established

World Events

1956

Japanese government announced it is "no longer the postwar era" (nation returns to normal economic activities)

1964

Tokyo Olympic Games

1971

End of Breton Woods system caused the U.S. dollar to collapse

1978

Second oil crisis

1989

Berlin Wall collapsed
Tiananmen Square incident

90's

1994

Daiwa House Central Research Laboratory opened in Kansai Science City

00's

2000

Full-scale start of renovation business

2001

Daiwa House Industry merged with Daiwa Danchi

2004

Home center business split off from Daiwa House Industry

The Daiwa House Group draws up its Corporate Ethics Guidelines and Behavioral Guidelines

Osaka Marubiru became consolidated subsidiary



**Daiwa House®
Group**

2005

The Daiwa House Group drew up new management vision and Employee Charter to mark 50th anniversary
New Group symbol — the “Endless Heart” — introduced
NAS (Nippon Athletic Service) became consolidated subsidiary



2006

Group management integration through share exchange transactions between Daiwa House Industry and Daiwa Kosho Lease (current Daiwa Lease), Daiwa Rakuda Industry, and Daiwa Logistics, by which the subsidiaries became wholly owned subsidiaries of Daiwa House Industry

Daiwa House Financial, Daiwa House Insurance, and Daiwa House REIT Management founded

2007

Daiwa Royal Golf founded

The resort hotel business is split off from Daiwa House Industry

Nobuo Ishibashi Memorial Museum opened

Eneserve became consolidated subsidiary

2008

Daiwa House Industry formed capital alliance with Odakyu Construction Co., Ltd. (current Daiwa Odakyu Construction)

Eneserve became wholly owned subsidiary

Morimoto Asset Management Co., Ltd. became consolidated subsidiary in December, and changed corporate name to Daiwa House Morimoto Asset Management in February, 2009

1991

Soviet Union collapsed

1999

Single European currency, the euro born

2001

9/11 terrorist attacks

2008

Lehman Brothers collapsed, triggering worldwide financial crisis

2009

Barack Obama becomes President of the United States