



News Release (Summary, Translation only)

January 28, 2011

Company: Daiwa House Industry Co., Ltd.  
(Code number: 1925,  
First Section of the Tokyo Stock Exchange  
and the Osaka Securities Exchange)

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**Regarding the Discovery of Incorrect Accounting Procedures  
at a Subsidiary of Daiwa House Industry**

As a result of investigations by Daiwa House Industry Co., Ltd. (“the Company”) and its wholly-owned subsidiary Daiwa Lease Co., Ltd, (“Daiwa Lease”), it was recently discovered that the Auto & Leasing Division (“AL Division”) of Daiwa Lease had carried out incorrect accounting procedures for a period of over 11 years up to the end of September 2010, in that the Division did not appropriately transfer expenses involved in leasing operations during that period to “cost of sales.” The Company wishes to apologize most sincerely to its shareholders as well as to market investors in general and all other concerned parties for any trouble or inconvenience caused by this incorrect accounting practice.

Please note that no revision has been made to the Company’s forecasts of business performance on a consolidated basis for the term ending March 31, 2011. The monetary amounts involved in the above-described incorrect accounting procedures are insignificant in comparison with the figures posted by the Company for business performance in each of the fiscal years during which this accounting practice was conducted.

## **1. Overview of Incorrect Accounting Procedures**

It has been ascertained that inappropriate accounting procedures were followed with respect to expenses that constituted the costs associated with leasing operations handled by the AL Division of Daiwa Lease (including, but not limited to, automobile tax, tax on depreciable assets, automobile acquisition tax, automobile weight tax, automobile liability insurance premiums, vehicle registration expenses, voluntary insurance premiums, and movable insurance premiums), and that these expenses were presented on the company's balance sheet in the form of the outstanding balance of a non-existing prepaid expense account, under "Current Assets – Other."

It has been determined that this accounting procedure was carried out with the involvement of several members of the staff of Daiwa Lease's AL Division, including the head of the Division. However, no members of the board of directors of Daiwa Lease were involved, nor were any members of the board of directors or employees of the parent company Daiwa House Industry. It has thus been determined that the adoption of the incorrect accounting procedure was not the result of an organized policy at the corporate level. Moreover, the officers of the Daiwa House Group are not aware of any financial damage or loss caused to third parties as a result of this accounting procedure.

## **2. Monetary Amounts Involved in Incorrect Accounting Procedure**

It has been determined that the monetary impact of the incorrect accounting procedure on the consolidated business performance results of the Company for each of the business years involved was insubstantial. The aggregate amount of impact up to the end of September 2010 is calculated at ¥1,457 million yen.

**Amounts of impact on the consolidated business performance of Daiwa House Industry Co., Ltd. for the current term and the five immediately preceding business terms**

(Unit: million yen; figures less than ¥1 million are omitted)

		Figures publicly disclosed in consolidated statements of income (A)	Discrepancy (¥ amount) (B)	Discrepancy (%) (B)/(A)
Up to FYE Mar. 2005	Operating income	—	(92)	—
	Ordinary income	—	(92)	—
	Net income	—	(54)	—
FYE Mar. 2006	Operating income	80,072	(144)	(0.2%)
	Ordinary income	103,073	(144)	(0.1%)
	Net income	45,184	(85)	(0.2%)
FYE Mar. 2007	Operating income	85,678	(241)	(0.3%)
	Ordinary income	89,356	(241)	(0.3%)
	Net income	46,393	(143)	(0.3%)
FYE Mar. 2008	Operating income	89,120	(453)	(0.5%)
	Ordinary income	61,290	(453)	(0.7%)
	Net income	13,079	(270)	(2.1%)
FYE Mar. 2009	Operating income	73,580	(282)	(0.4%)
	Ordinary income	39,855	(282)	(0.7%)
	Net income	4,170	(168)	(4.0%)
FYE Mar. 2010	Operating income	62,714	(200)	(0.3%)
	Ordinary income	60,036	(200)	(0.3%)
	Net income	19,113	(119)	(0.6%)
2nd Quarter of FYE Mar. 2011	Operating income	46,826	(42)	(0.1%)
	Ordinary income	47,532	(42)	(0.1%)
	Net income	28,910	(25)	(0.1%)
Total	Operating income	—	(1,457)	—
	Ordinary income	—	(1,457)	—
	Net income	—	(867)	—

Notes: 1. Figures for operating income, ordinary income, and net income above are amounts shown in the consolidated financial statements. All figures have been publicly disclosed in such statements.

2. The corporate auditors of Daiwa Lease and Daiwa House Industry are currently verifying all the figures shown in the above table as part of the overall auditing process. Consequently, some revisions to these figures may take place at a later date.

**3. Adjustments to the Company's Consolidated Financial Statements**

In the consolidated financial statements of the Company for the third quarter of fiscal 2010 (the term ending March 31, 2011), the figure of 1,415 million yen aggregate amount understated up to the March 31, 2010 term-end is scheduled to be recognized as loss on prior periods adjustment of extraordinary loss. The 42 million yen loss for the first half period ended September 30, 2010 will be recognized as cost of sales in the current 3rd quarter, ended December 31, 2010.

**(Reference) Outline of Daiwa Lease Co., Ltd.**

- (1) Head Office: 2-1-36 Noninbashi, Chuo-ku, Osaka
- (2) Representative: Shunsaku Morita
- (3) Capital: ¥21,768 million
- (4) Number of employees: 2,073 (as of March 31, 2010)
- (5) Establishment: June 22, 1959
- (6) Main Business: Construction of temporary buildings, rental, management and operating of commercial facilities, leasing of machinery/equipment/vehicles
- (7) Shareholder Composition: Daiwa House Industry's share: 100%
- (8) Account Settlement Date: March 31
- (9) Relations with Daiwa House Industry
- Capital: As Daiwa House Industry holds 100% of all issued stock of Daiwa Lease, Daiwa Lease is a wholly owned consolidated subsidiary of the Company
  - Concurrent assignment of directors: None
  - Business: Construction orders for temporary buildings, leasing of automobiles, and rental of buildings owned by the Company
  - Related parties: As Daiwa House Industry holds 100% of all issued stock of Daiwa Lease, the two companies constitute related parties of each other.

(10) Business results and financial condition for the last three years\*

(Unit: million yen; figures less than ¥1 million are omitted)

	FYE Mar. 31, 2008	FYE Mar. 31, 2009	FYE Mar. 31, 2010
Net Sales	137,038	136,281	127,797
Operating income	7,430	6,412	7,627
Ordinary income	4,403	2,879	6,601
Net income	1,915	(1,350)	3,069
Total assets	268,738	306,700	307,007
Net assets	103,412	101,259	104,371

\* The discrepancy arising from the incorrect accounting procedure in question is not reflected in the above figures.

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**Disclaimer:**

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