



**Daiwa House**®  
Group

Heart goes on



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About this report.....Years shown in graphs are fiscal years ending March 31 unless otherwise indicated.

Forward-looking statements.....Statements contained in this report regarding the Company's plans, strategies, and expectations for future performance fall into the category of "forward-looking statements," which are based on information available to the Company's management at the time of writing. They are therefore subject to a number of uncertainties and unknowable factors, and actual results may thus differ substantially from those projected.

Sale statements on a segmental basis.....Segment sales figures shown in this annual report are totals of sales to external customers and inter-segment sales and transfers. Segment sales ratios, however, are calculated solely on the basis of sales to external customers.

About employee number.....As of March 31, 2006, Daiwa House Group employed nearly 35,000 staff (listed in this annual report), of whom 21,016 were regular employees. An average of 13,432 staff employed on annual contracts on a nonregular basis during the reporting term.

Together with Our Customers and Society





For the past fifty years  
the Daiwa House Group has worked  
closely together with its customers and society as a whole  
to create more enjoyable, more fulfilling living environments.  
Answering the needs of the times, we have designed  
living proposals in harmony with nature,  
and have constantly striven to offer  
products and services of true value to society.  
Over the next fifty years and beyond,  
the Daiwa House Group aims to further strengthen  
its bonds with all its stakeholders  
to achieve major strides in business growth  
and raise the Group's public profile.  
Our Group symbol – the Endless Heart –  
embodies the way we look at business, and at life.  
The Endless Heart is not just a corporate mark,  
it is a vivid visual representation of the determination  
that unites the roughly 35,000 staff  
of the Daiwa House Group.

anywhere











anytime





Daiwa House Group

三井住友

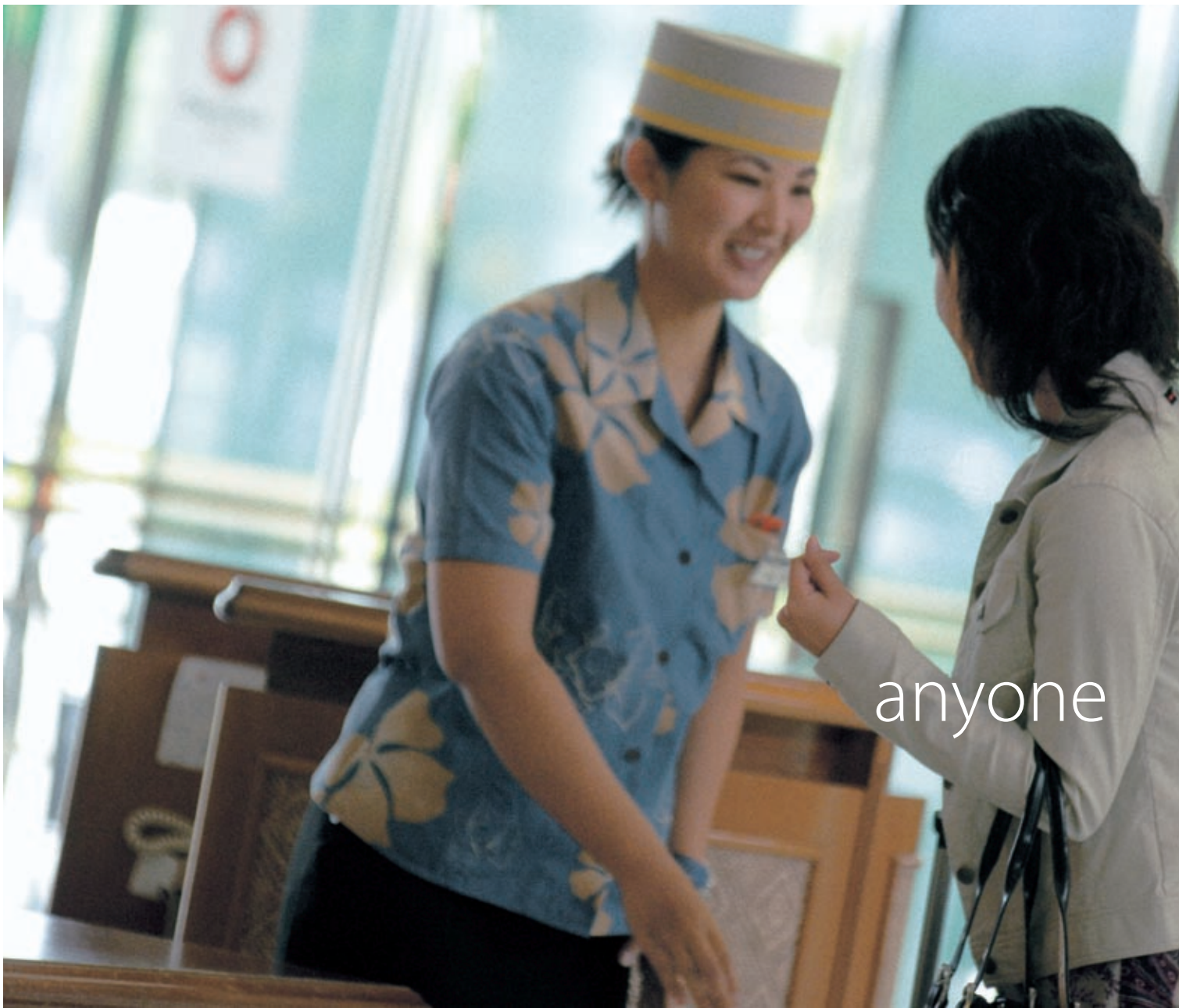
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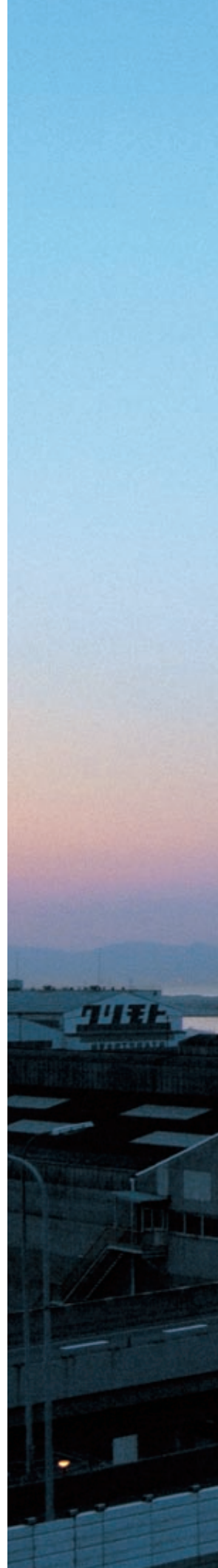
歩行者  
自転車

自転車歩行者通行可

CHUO-ODORI









Creating Together Supporting Each Other

# We Build Hearts







# Dear Stakeholders

## Building Everlasting Ties

Having marked the 50th anniversary in April 2005, the Daiwa House Group introduced a new Group management structure for the next 50 years as a group that co-creates value for individuals, communities, and peoples' lifestyles under its new Group symbol, "Endless Heart."

We are pleased to announce that the Group recorded increases in both sales and profit for the third consecutive term and its best performance ever. Consolidated sales were ¥1,528.9 billion, and net income was ¥45.1 billion. We would like to express our sincere gratitude to all shareholders for their continued support. We will be paying an annual dividend of ¥20 per share, including a commemorative dividend.

To expand its operations, Daiwa House Industry Co., Ltd. entered into a share exchange arrangements in fiscal 2006 with three listed Group companies: Daiwa Kosho Lease Co., Ltd., Daiwa Rakuda Industry Co., Ltd. and Daiwa Logistics Co., Ltd. (The three companies have become wholly-owned subsidiaries of Daiwa House Industry.) We also made Nippon Athletic Service Co., Ltd. a consolidated subsidiary. Through these measures, the Daiwa House Group its further bolstering Group management.

We will position this business year as the year in which we make a fresh start towards realizing the dream of Nobuo Ishibashi, the recently deceased founder of Daiwa House Industry, namely to create a Group with consolidated sales of ¥10 trillion in 2055, our 100th anniversary. We will move forward steadily to achieve the goals for fiscal 2007 (consolidated sales of ¥1,700 billion, recurring profit of ¥100 billion, and ROE of 9.0%) in our Medium-Term Management Plan "Challenge 2005."

Under the new Group management structure, the Daiwa House Group will continue its efforts to bolster the confidence and appreciation of society through sincere corporate activities, further develop its relationship with customers, and build a lasting bond with all stakeholders.



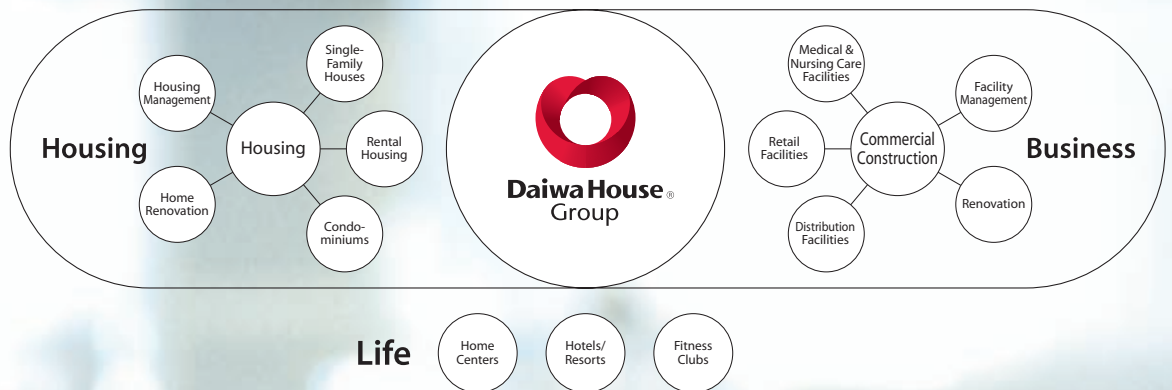
Takeo Higuchi  
Chairman and CEO

We are the



**Daiwa House**®  
Group

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



Co-creating value for individuals, communities and people's lifestyles, the Daiwa House Group has three main business domains: Housing, Business, and Life. The Endless Heart symbol is shared by our five main Endless Heart businesses: Housing, Commercial Construction, Resort Hotel and Sports Life, Home Centers, and Other Businesses.



**Daiwa House**®  
Daiwa House Group

Daiwa House Industry Co., Ltd.  
Housing, Rental apartment buildings,  
Condominiums  
Home renovations,  
Retail and wholesale facilities  
General construction, Resort hotels



**Daiwa Lease**™  
Daiwa House Group

Daiwa Kosho Lease Co., Ltd.  
Prefabricated construction,  
Sale of model houses  
Commercial construction,  
Housing, Car rental



**Daiwa Rakuda**™  
Daiwa House Group

Daiwa Rakuda Industry Co., Ltd.  
Interior & exterior, Space systems  
Lease & rental, Insurance



**Daiwa Logistics**™  
Daiwa House Group

Daiwa Logistics Co., Ltd.  
Housing logistics services  
Logistics service systems for store operators  
Real estate



**Daiwa Living**™  
Daiwa House Group

Daiwa Living Co., Ltd.  
Management/operation of rental housing  
Subcontractor for renovation work  
Sale of goods, and insurance agency



**Daiwa Service**™  
Daiwa House Group

Daiwa Service Co., Ltd.  
Packing/transport of goods to be moved  
Management/building and repair of  
buildings, condominiums, etc.  
Manpower dispatching



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

Daiwa Information Service Co., Ltd.  
Lease and rental of real estate  
Operation of shopping centers



**Nihon Jyutaku Ryutu**™  
Daiwa House Group

Nihon Jyutaku Ryutu Co., Ltd.  
Buying/selling, sales agency  
and acquisition of real estate  
Real estate leasing, management  
and agency service  
Design and construction work  
Sale of trust beneficiary rights



**Daiwa Royal**™  
Daiwa House Group

Daiwa Royal Co., Ltd.  
Planning and consulting related to  
use of real estate  
Real estate management  
and agency service  
Operation of business hotels

Endless Heart





**Daiwa Renew**™  
Daiwa House Group

Daiwa House Renew Co., Ltd.

Specified manpower  
dispatch business  
for home renovation

**スポーツクラブNAS**



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

Management and operation of sports clubs,  
tennis clubs, and sports schools

**ロイヤルホームセンター**



Royal Home Center Co., Ltd.

Selling of DIY equipment/household articles/  
interior/ pets/gardening goods, etc.



**Daiwa Energy**™  
Daiwa House Group

Daiwa Energy Co., Ltd.

ESCO business, Renovations,  
Environmental equipment business,  
Housing equipment business



**DAIWA ROYAL HOTELS**



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

Management and operation of hotel,  
Golf and other resort facilities

**大和ハウス・リート・マネジメント**



Daiwa House REIT Management Co., Ltd.

Asset management

**シンクロラー**



Synchroller Co., Ltd.

Manufacturing of housing components



**Daiwa Estate**™  
Daiwa House Group

Daiwa Estate Co., Ltd.

Real estate agency service



Jukeikai Co., Ltd.  
(Neo Summit Yugawara)

Operation of health-management facilities  
for the elderly

**伸和エージェンシー**



Shinwa Agency Co., Ltd.

Ad agency  
General travel agency  
Domestic tourism business



**Daiwa House**®  
大和房屋集團

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

Provision of outsourced  
administrative work  
Data input and software development

**大阪マルビル**



Osaka Marubiru Co., Ltd.

Operation of hotels, restaurants  
Lease and rental of real estate



**MEDIA TECH INC.**



Media Tech Inc.

Information processing services  
Online trading  
Network management contractor

Companies

# Group Results Summary

As of March 31, 2006

## Consolidated Financial Highlights

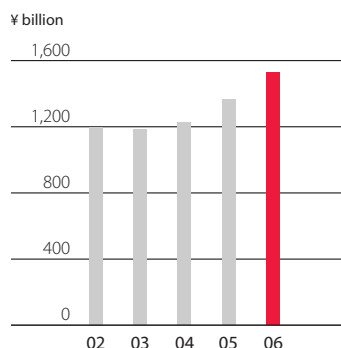
Daiwa House Industry Co., Ltd. and subsidiaries

Years ended March 31,	2006	Millions of yen		Thousands of U.S. dollars
		2005	2004	2006
Net sales	¥1,528,983	¥1,365,914	¥1,224,648	\$13,068,231
Operating income	80,072	67,849	59,661	684,376
Other income (expenses)	2,083	(4,741)	8,236	17,803
Net income	45,184	40,262	37,257	386,188
Per share of common stock (in yen and dollars)				
Basic net income	81.88	73.26	68.16	0.70
Shareholders' equity	1,053.37	959.08	902.32	9.00
Cash dividends applicable to the year	20.00	17.00	15.00	0.17
Total assets	1,475,197	1,358,807	1,087,658	12,608,521
Shareholders' equity	576,534	524,110	493,050	4,927,641
Return on equity (%)	8.21	7.92	7.63	
Return on asset (%)	3.19	3.29	3.41	
Equity ratio (%)	39.08	38.57	45.33	

Note: The U.S. dollar amounts represent translations of Japanese yen for convenience only at the approximate exchange rate on March 31, 2006 of ¥117 = U.S.\$1.

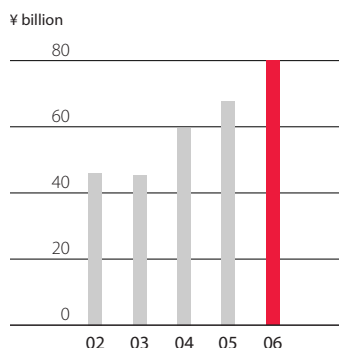
### Net Sales

¥1,528.9 billion



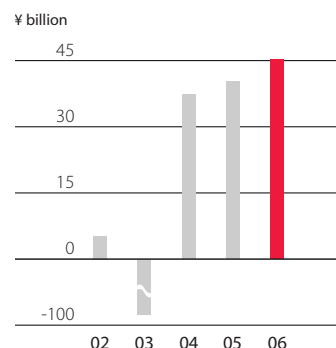
### Operating Income

¥80.0 billion



### Net Income

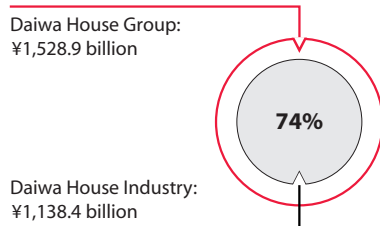
¥45.1 billion



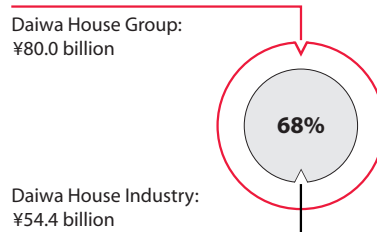
- The Group posted **record-high** sales and net income, and increased revenues and profit for the third consecutive term.
- Earnings per share came in at **¥81.88**, the highest level in 7 years, and we increased the dividend by ¥3 to **¥20**.
- Shareholders' equity jumped **10%** year-on-year on the leap in earnings, and the shareholders' equity ratio rose 0.5 percentage point to **39.1%**.
- Aggressive investments in land and buildings for sale, and business-use land pushed up total assets by **¥116.3 billion**.

## The Parent Company's Share of the Group Total

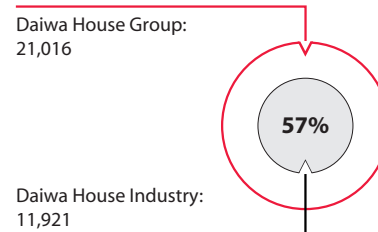
### Sales



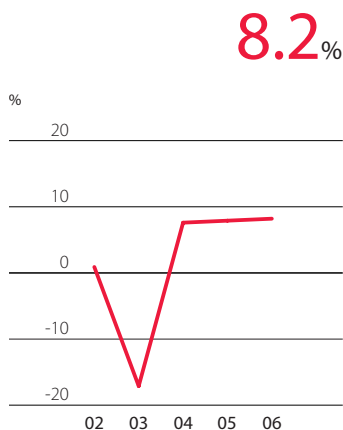
### Operating income



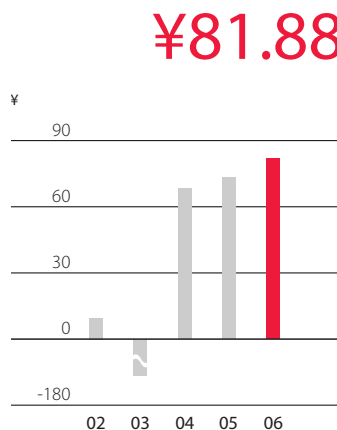
### Number of employees



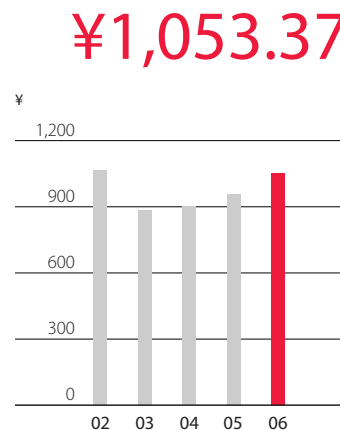
### ROE (Return on Equity)



### Net income per share



### Shareholders' equity per share

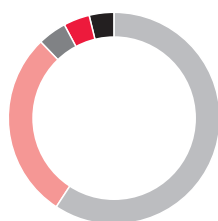


# Business Outline



## Residential

## Commercial Construction

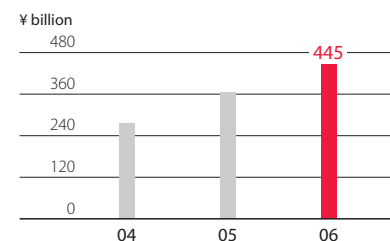
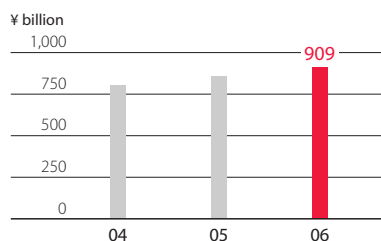


Residential	59.2%
Commercial Construction	28.6%
Resort Hotel and Sports Life Business	4.4%
Home Center Business	4.0%
Other Businesses	3.8%

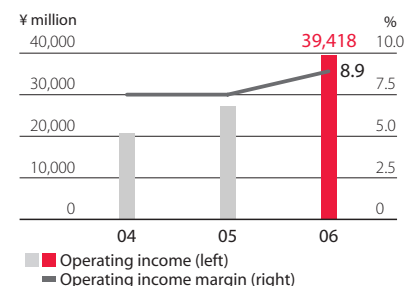
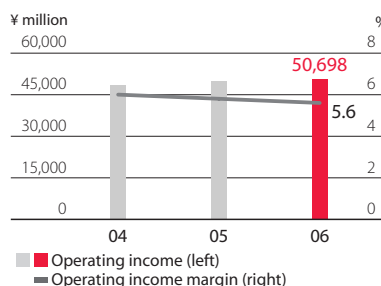
The housing business is the core business of Daiwa House Group, accounting for 59.2% of all sales. During the term, sales in this business rose 6.4% year-on-year to ¥909.5 billion, and operating income rose 1.9% to ¥50.6 billion. The operating income margin decreased 0.2 percentage point year-on-year to 5.6%.

Our second-largest business is commercial construction, accounting for 28.6% of total sales. During the term, sales rose 22.4% to ¥445.2 billion, operating income increased 44.3% to ¥39.4 billion, and the operating income margin increased 1.4 percentage point year-on-year to 8.9%.

### Sales



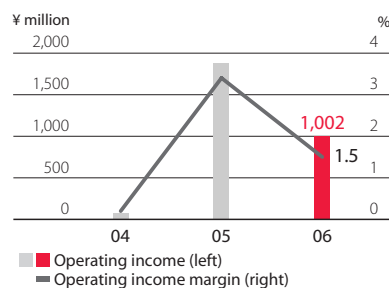
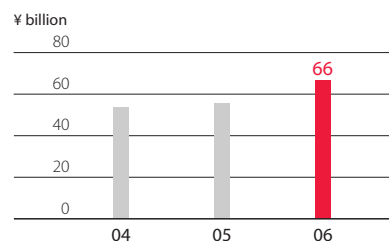
### Operating income/Operating income margin





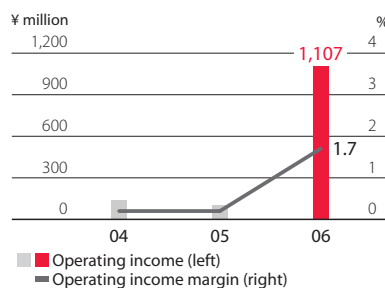
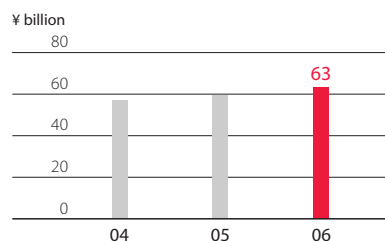
### Resort Hotel and Sports Life Business

This business accounts for 4.4% of total sales. Sales increased by 19.3% year-on-year to ¥66.4 billion during the term, reflecting the acquisition of Nippon Athletic Service Co., Ltd. as a consolidated subsidiary, but operating income fell 46.6% to ¥1.0 billion, and the operating income margin fell 1.9 percentage points to 1.5%.



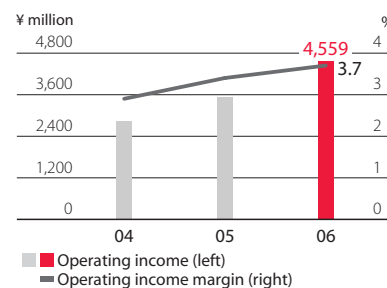
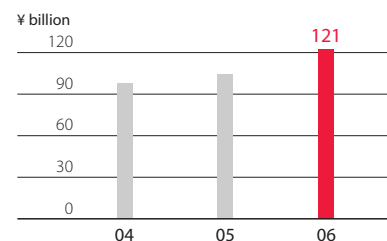
### Home Center Business

This business accounts for 4.0% of total sales. During the term, sales grew 6.9% year-on-year to ¥63.2 billion, and operating income rose approximately 10 times to ¥1.1 billion. The operating income margin rose 1.5 percentage point to 1.7%.



### Other Businesses

Other businesses account for 3.8% of total sales. Sales during the term rose 17.1% year-on-year to ¥121.9 billion. Operating income increased 29.0% to ¥4.5 billion, and the operating income margin rose 0.3 percentage point to 3.7%.



# Investor Information

As of March 31, 2006

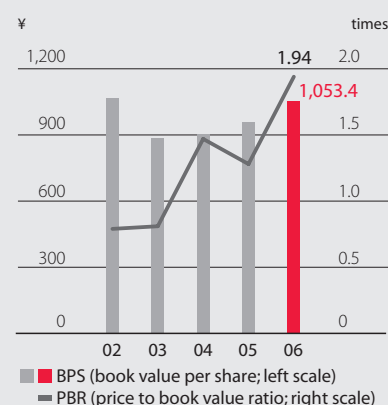
## Common Stock

¥110,120 million  
(US\$941,196 thousand)

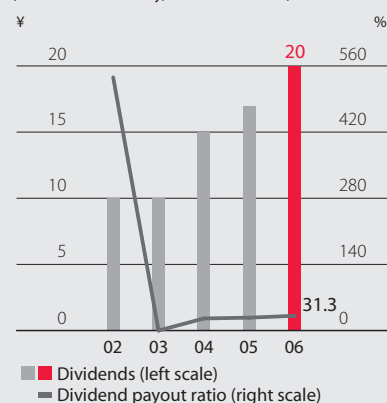
## Shares

Authorized 1,900,000,000  
Issued 550,664,416  
Number of shareholders 27,154

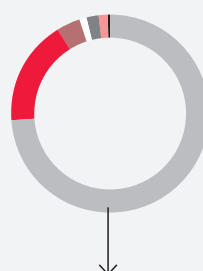
## BPS and PBR



## Dividends and dividend payout ratio (Daiwa House Industry, non-consolidated)



## Shareholdings by scale



	Shares	%
■ 1 million or more	407,044,845	73.92
■ 100 thousand or more	94,683,670	17.19
■ 10 thousand or more	21,163,700	3.85
□ 5 thousand or more	6,521,109	1.18
■ 2 thousand or more	10,939,025	1.98
■ 1 thousand or more	8,188,661	1.49
■ Less than 1 thousand	2,123,406	0.39

## Principal shareholders

	Thousands of shares	Equity stake (%)
Japan Trustee Services Bank, Limited (trust account)	49,758	9.0
The Master Trust Bank of Japan, Ltd. (trust account)	32,605	5.9
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	13,196	2.4
Nippon Life Insurance Company	12,503	2.3
The Dai-ichi Mutual Life Insurance Company	11,065	2.0
The Chase Manhattan Bank NA, London	10,420	1.9
Sumitomo Mitsui Banking Corporation	10,000	1.8
The Chuo Mitsui Trust and Banking Company, Limited	9,499	1.7
Mizuho Corporate Bank, Ltd.	9,209	1.7
The Daiwa House Employee Shareholders' Association	8,654	1.6

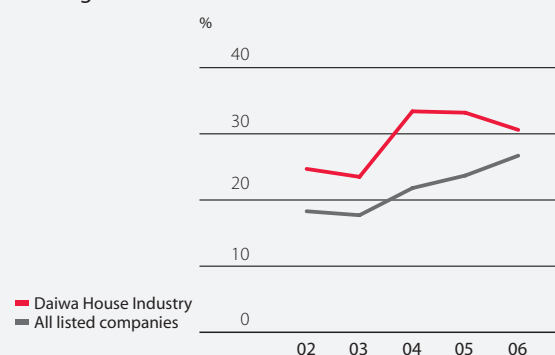
## Shareholdings by shareholders



■ Domestic corporations	59.58%
■ Overseas individuals and corporations	30.57%
■ Domestic individuals and others	9.85%

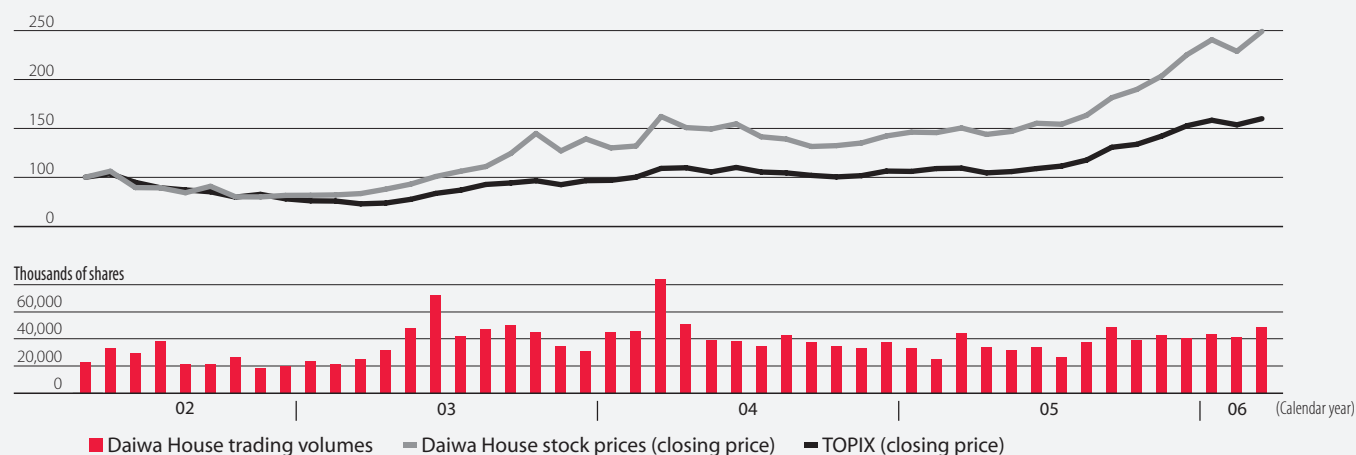
Europe	56.76%
USA & Canada	32.07%
Asia (excluding Japan)	7.80%
Oceania & others	3.37%

## Foreign shareholdings over time





Indices of Daiwa House's stock price and trading volumes on the Tokyo Stock Exchange (Base month: April 2002=100)



## Daiwa House Industry Co., Ltd.

### Head office

3-3-5 Umeda, Kita-ku, Osaka 530-8241

Phone: +81-6-6346-2111 Fax: +81-6-6342-1399

## Contact

### For more information, please contact us:

Daiwa House Industry Co., Ltd.

Finance Department

Phone: +81-6-6342-1400 Fax: +81-6-6342-1419

e-mail: [zaimu@daiwahouse.jp](mailto:zaimu@daiwahouse.jp)

## Daiwa House website

Daiwa House offers information on its latest corporate performance, annual report etc. on our website.

Daiwa House Group: <http://www.daiwahouse.com/English>

Daiwa House Industry: <http://www.daiwahouse.co.jp/English>

## Term-end

March 31 every year

## Ordinary general meeting of shareholders

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

## Administrator of shareholders' register

The Chuo Mitsui Trust and Banking Co., Ltd.

3-33-1 Shiba, Minato-ku, Tokyo

## Securities traded

Tokyo and Osaka stock exchanges

## Securities code

1925



# Vision

## Corporate Messages

24	Message from the CEO
30	Message from the COO
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35,000 Hearts

# — One Vision

The Daiwa House Group is made up of the aspirations of 35,000 employees.











Daiwa House Industry Co., Ltd.

Takeo Higuchi (middle)  
*Chairman and CEO*

Kenji Murakami (left)  
*President and COO*

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

## Message from the CEO



Takeo Higuchi

# Towards to a Brighter Tomorrow

In 2006, Japan reached a turning point, ahead of other countries.

“Endless Heart,” the new symbol of the Daiwa House Group, represents the Group’s heart — a big heart filled with courage and passion that will open the way to a new future for Japanese society. “Endless Heart” denotes the mission of the Daiwa House Group, which is to achieve great dreams together with our customers, building emotional ties with them and strengthening bonds.

Since the founding of the Daiwa House Industry Co., Ltd., we have been adding new value to the Japanese housing industry as a pioneer and leader in the industry. We have built about 1.2 million houses and expanded into commercial construction, the resort hotel business, the home center business, and distribution, to become a multi-business synergy enterprise enriching people’s lifestyles.

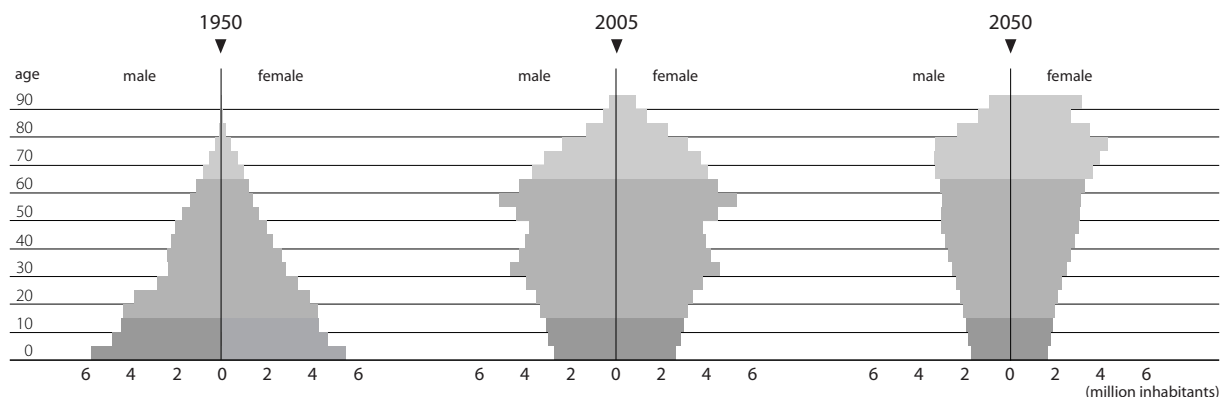
Japanese society has reached a crucial turning point: in 2005, the nation’s population declined for the first time since the present Ministry of Health, Labor and Welfare began collecting demographic statistics in 1899. The census has revealed that the ratio of elderly people at least 65 years old to the total population has reached 21.0%, the highest in the world. In contrast, the ratio of young people under 15 years old has fallen to 13.6%, the lowest.

The decrease in the birth rate and the acceleration in demographic aging mean that the environment surrounding us has changed dramatically. A new society is at hand, and it is not an extension of past societies. People’s values and their attitudes, from birth to old age, about what form a family should take, how they should work, and how they should live later in life are changing significantly.

To create a society in which everyone lives an emotionally rich life, pursuing their dreams, we seek to develop emotional ties with each customer, create new value together, and help them realize their dreams.

With the “Endless Heart,” our symbol, at the core of our management principles, we will endeavor to create more value through a concerted effort as a Group. In doing so, we hope to build a society in which everyone can live a fulfilled life.

Changes in Japan’s population by age



# Our Mission for a New Japanese Society

## Creating global value in Japanese housing industry

Since the time of our foundation, we have developed prefabricated housing based on its concept of the industrialization of construction. We have consistently added new value in the Japanese housing industry in a pioneering spirit. We cherish the concept of co-creating a brighter future as our invariable principle and as a driving force for building a new society. Consequently, we are tied to society through the construction business and with people living in society through lifestyle services.

As a group that co-creates value for individuals, communities, and people's lifestyles, we will respond seriously to the challenges that Japan is facing in the business domains of "housing," "business," and "life." In doing so, we will seek to co-create value with individual citizens for their entire lives and new social value to develop a prosperous Japanese society.

Our mission in the "housing" domain is to add new value to Japanese housing from a global perspective.

In terms of quantity, Japanese have enough houses. The ratio of housing stock to the total number of households is about 115%. But there are multifarious quality issues. Living areas are smaller than they are in the United States and Europe. The percentage of earthquake-resistant houses is only about 75%, a low percentage for an earthquake-prone country like Japan. The issues associated with the rapidly aging society need to be addressed as well.

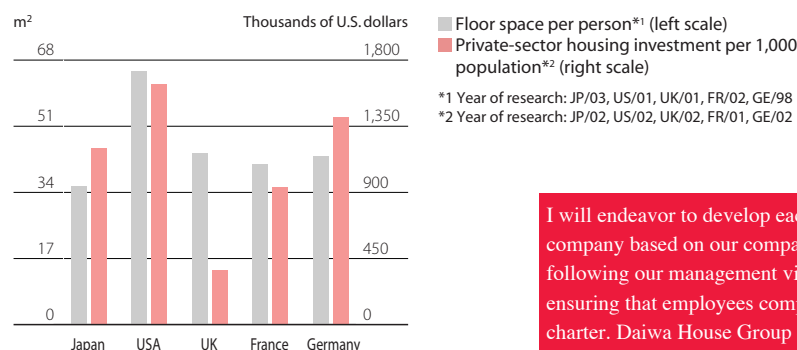
With new housing construction starts set to fall below one million units per year with the decline in population, we need to develop a strategy with insight into both flow and stock markets.

To create a good stock-oriented society, we aim to provide houses that can endure 100 years. For that purpose, we are developing a number of technologies and features, including vibration-damping and earthquake-absorbing and resistant technologies, environmental load reduction, and harmony with the streetscape. The market value of typical Japanese wooden houses falls to almost zero 20 years after construction.

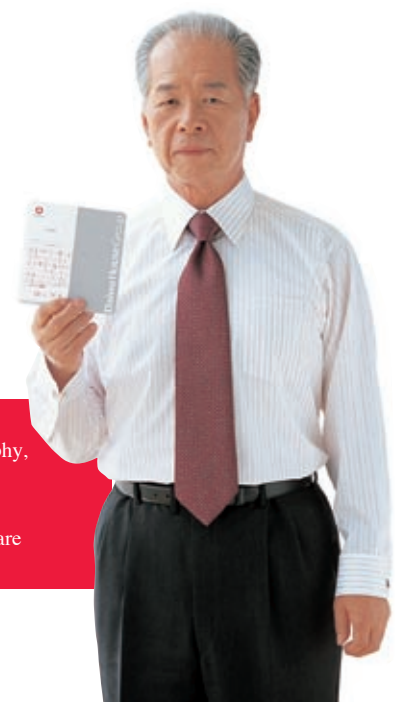
To extend the life of a house, we need to develop a quality resale housing market.

Reforming Japanese housing values through business is our mission as a housing industry pioneer.

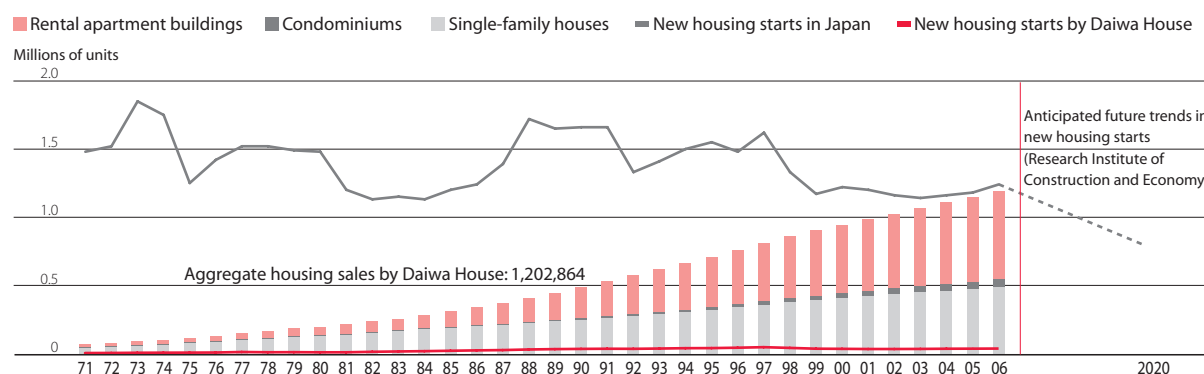
### Average housing space and investment



I will endeavor to develop each Group company based on our company philosophy, following our management vision, and ensuring that employees comply with the charter. Daiwa House Group companies are pledged to contribute to society.



## Total housing starts and Daiwa House aggregate sales



## Creating new value in “business” and “life”

Our mission in the domain of “business” is to co-create shining communities together with local society and residents.

In commercial construction, we support our clients’ business through quality asset management services for landowners based on the needs of local communities and a nationwide land information network that has earned their trust. We are also creating new value for communities through our sophisticated and specialized business and advanced consulting capabilities. Our abilities are demonstrated in our initiatives in Hazard Analysis Critical Control Point (HACCP) for safety at food processing, the provision of logistics solutions supporting corporate distribution strategies, and the study of the lifestyles of elderly people at the Silver Age Research Center.

The vitality of a community is generated when each person lives or works there with a shining heart and enthusiasm. We will create new and vital communities in cooperation with local societies, developing a prosperous Japanese society.

Our mission in the “life” domain is to build emotional ties with people, strengthening bonds, and allowing people to live a meaningful and emotionally rich life.

Through ties with their families, spouses, associates and friends, people find joy in living together, are satisfied in their daily lives, and live by their own values. We believe that a meaningful life will be developed among these ties and a heart-to-heart understanding among people.

Japanese society has become materially affluent with sufficient industrial products and social capital after years of economic growth. But having put priority on economic growth, Japanese may not have fully considered the purposes in life of individual citizens.

Having been considering housing and communities, and creating value in cooperation with society, we believe we can help people live a meaningful life through our operations in the “life” domain.

## Main Improvements and Group Management Structure

	Up to FY2004	FY2005 and after
<b>Management</b>	<ul style="list-style-type: none"> <li>• Introduction of in-house entrepreneur system</li> <li>• Creation of Customer Satisfaction Department</li> <li>• Strengthened efforts to promote CSR</li> <li>• Establishment of Quality Assurance Department</li> <li>• Development of the Company Code of Ethics and Group Behavioral Guidelines</li> </ul>	<ul style="list-style-type: none"> <li>• Formulation of new management vision and new symbol known as "Endless Heart"</li> <li>• Drafting of Medium-Term Management Plan "Challenge 2005"</li> <li>• Drafting of environmental vision, "Environment Action Plan 2005"</li> <li>• Abolishing of retirement benefits for directors</li> <li>• Setting up the CSR Office</li> <li>• Announcement of a basic policy related to the building of an internal control system</li> <li>• Reorganization of the Risk Management Committee to the Compliance and Risk Management Committee</li> <li>• Established the Internal Audit Office</li> <li>• Introduction of a branch manager "volunteering" (in-house recruitment) system, a free agent (FA) system, and a workplace selection program</li> </ul>
<b>Operations</b>	<ul style="list-style-type: none"> <li>• Strengthening consulting functions in commercial construction; promotion of development of complex-type and large-scale commercial facilities; strengthening investment in real-estate development</li> <li>• Introduction of customer asset value assessment system</li> <li>• Conversion of Daiwa Kosho Lease Co., Ltd. into a consolidated subsidiary</li> <li>• Making Osaka Marubiru Co., Ltd. a consolidated subsidiary</li> <li>• Meeting standards in the Revised Building Standard Law to prevent sick-building syndrome</li> </ul>	<ul style="list-style-type: none"> <li>• Daiwa House Industry entered into a business merger with Daiwa Kosho Lease Co., Ltd., Daiwa Rakuda Industry Co., Ltd., and Daiwa Logistics Co., Ltd. (The three companies have become wholly-owned subsidiaries through share exchange arrangements.)</li> <li>• Making Nippon Athletic Service Co., Ltd. a consolidated subsidiary</li> <li>• Launch of sales of "Wind-Blown Whale" 10kw wind power generation facilities</li> <li>• Establishment of an Urban Planning Institute, which supports the joint development and redevelopment of condominiums</li> <li>• Partnership with Baoye Group Co., Ltd. for joint technical development of industrialized housing</li> <li>• Achievement of zero-emissions at new-build housing sites</li> <li>• Establishment of Daiwa House REIT Management Co., Ltd.</li> </ul>
<b>Financial position</b>	<ul style="list-style-type: none"> <li>• Began to charge lump-sum amortizations of unrecognized actuarial gains and losses on retirement benefits when incurred</li> <li>• Return of substitution part of the employees' pension fund assets to the government</li> <li>• Posted an extraordinary loss of ¥212.7 billion in fiscal 2002, including depreciation on fixed assets of ¥75.2 billion and a loss on valuation of land for sale of ¥22.9 billion</li> </ul>	<ul style="list-style-type: none"> <li>• Increases both in sales and profit for the third consecutive year; posting of record consolidated sales, recurring income, and net income</li> <li>• Plans for total investment of ¥150 billion mainly in real-estate development and M&amp;A over the next three years</li> <li>• Emphasis on cash flow, aiming to reach an ROE of 9% in fiscal 2007</li> </ul>





## Together with Society — Shining “Endless Heart”

Thank you for reading our explanation about the Daiwa House Group’s dream. How do you feel about it?

As Japan enters a new era, it is the dreams and new values of individuals that will chart the course towards a brighter future. To continue to grow over the next 50 years, our Group will make a concerted effort to realize its concept of “Endless Heart,” a symbol for the Daiwa House Group, so that it continues to shine in society. To develop the “Endless Heart” as a socially recognized symbol, we really need human resources. We will therefore create a working environment and education and personnel systems that will enable each employee to maximize their imagination across the Group.

In our management system, we will actively disclose information, promote environmental and social contribution, enhance compliance, manage risks, and thereby continue and further strengthen our relationships with all stakeholders.

Our heartfelt hope is that the “Endless Heart” will exist in the hearts of our stakeholders and that you will build emotional ties with the Daiwa House Group, to paint a picture of a brighter future together for Japanese society.

Takeo Higuchi  
*Chairman and CEO*





## Message from the COO



Kenji Murakami

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

## We aim to grow our business through management integration

On this occasion of its 50th anniversary, the Daiwa House Group introduced a new Group management structure to become a group that co-creates value for individuals, communities, and people's lifestyles.

At the same time, we have developed our first three-year Medium-Term Management Plan, "Challenge 2005," which sets out numerical targets for fiscal 2007, the final year of the plan. These targets call for consolidated sales of ¥1,700 billion, recurring profit of ¥100 billion, and ROE of at least 9%. In fiscal 2005, the first year of the plan, consolidated sales were ¥1,528.9 billion, recurring profit was ¥103 billion, and ROE was 8.2%. All figures exceeded those set by the plan.

In fiscal 2006, the Daiwa House Industry enters into share exchange arrangements with three listed Group companies (Daiwa Kosho Lease Co., Ltd., Daiwa Rakuda Industry Co., Ltd., and Daiwa Logistics Co., Ltd.), which become wholly-owned subsidiaries. The management integration is designed primarily to ensure the effectiveness of the three basic strategies specified in the Medium-Term Management Plan; namely 1) a growth strategy that encompasses comprehensive portfolio management, 2) a strategy to bolster efficiency and correct redundancies and dispersion in procurement, production, and distribution, and 3) a strategy to strengthen the management base as a Group by ensuring strategic functions and appropriate governance. The purposes of management integration are to strengthen the core of Group management and to make a strategic move toward further growth strategies. We hope the Group will be united under the management symbol, "Endless Heart," and take full advantage of its scale and diversity so that it will be able to continue to grow in a new market environment for the next 50 years.

### Business Objective

	FY 2004 performance	FY 2005 performance	FY 2007 target
Consolidated sales	¥1,365.9 billion	¥1,528.9 billion	¥1,700 billion
Consolidated recurring profit	¥74.2 billion	¥103.0 billion	¥100 billion
ROE	7.9%	8.2%	9.0%

### Daiwa House Group Medium-Term Management Plan "Challenge 2005"



# Comprehensive portfolio management by segment, leveraging the advantages of a multi-business enterprise

The Daiwa House Group has a broad array of operations, including a business that supports housing by constructing single-family houses and condominiums, a business that supports the customer's business through construction of stores, medical and nursing care facilities, distribution facilities, and other facilities, and a business that supports lifestyles through resort hotels, fitness clubs, home centers, and other means.

The Group has two major advantages as a multi-business enterprise aiming to become a group that co-creates value for individuals, communities, and people's lifestyles. The first advantage is that the Group as a whole can support the lifestyles of each customer throughout their entire life through different types of businesses, and can create value from the customer's perspective. The second advantage is that the variety of businesses ensures management stability. Since the risks that have accompanied the changes in markets are diversified, we can continue to grow steadily without being impacted by business cycles.

To continue to grow as a multi-business enterprise, we have to increase our competitiveness in each business segment. We will therefore promote comprehensive portfolio management, where we distribute management resources based on the marketability and strategy of each segment. Please see the Group's business portfolio at the end of fiscal 2005 (table on page 33). In all segments except the fitness club segment, which was newly acquired, our sales growth rate exceeded the market growth rate.

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

Segment	FY2005 Sales (¥billion)	Group sales growth rate [FY2003-FY2005]	Market growth rate*1 [FY2003-FY2005]
Single-family houses	384.2	2.0%	-1.2%
Condominiums	151.0	9.5%	4.1%
Rental housing	342.9	9.7%	4.7%
Home renovation	27.3	8.2%	1.9%
Commercial facilities	314.2	11.8%	9.6%
Distribution, and medical and nursing care facilities	122.6	10.2%	5.9%
Resorts	56.1	2.3%	0.2%
Fitness club	10.4	(-0.3%)*2	3.0%
Home centers	61.9	2.4%	0.3%
Others	58.4		
Total	1,528.9		

\*1 Market growth rate calculated by Daiwa House Industry.

\*2 The Group sales growth rate of Nippon Athletic Service (NAS) is calculated based on the figure before the merger.

We will step up the investment of management resources in commercial facilities, distribution, and medical and nursing care facilities, rental housing, condominium, and home renovation segments, because we expect market growth in these areas. In the commercial facilities, distribution facilities, and rental housing segments, in particular, we are actively investing in real estate development projects, with an eye on the provision of property to the REIT market, where we plan to go public in 2008.

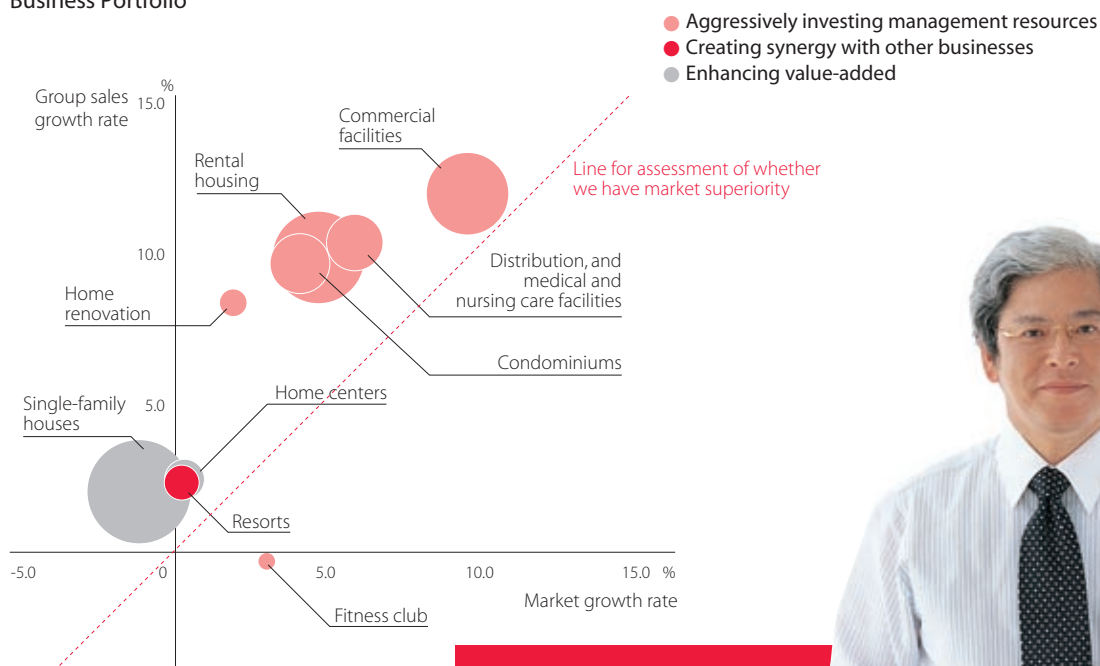
In the resort hotels segment, to raise usage rates on weekdays, we have launched a weekday resort membership system and will try to provide higher value added services such as weddings.

We have reformed the home center segment to keep it profitable as competition in the market intensifies. We will try to further improve profitability by meeting local needs and location conditions.

The biggest challenge for us is to make the single-family housing segment, our core business, return to growth. We cannot expect the market size to expand in the medium- to long-term because of the decrease in population caused by the declining birthrate. We do, however, believe that we can revitalize and expand the segment by creating new market value, partly because our market share is only 2.4% and there is sufficient room for expansion, and partly because demand for durable and high-quality single-family houses is expected to grow.

In the autumn of 2006, we will launch new products that will reduce both running costs, including heating and lighting costs that residents must bear, and maintenance costs for maintenance and repairs, changing the method of construction we have used for 25 years. Starting with these new products, we will consolidate our competitiveness in the single-family housing market and enhance our profitability.

### Business Portfolio

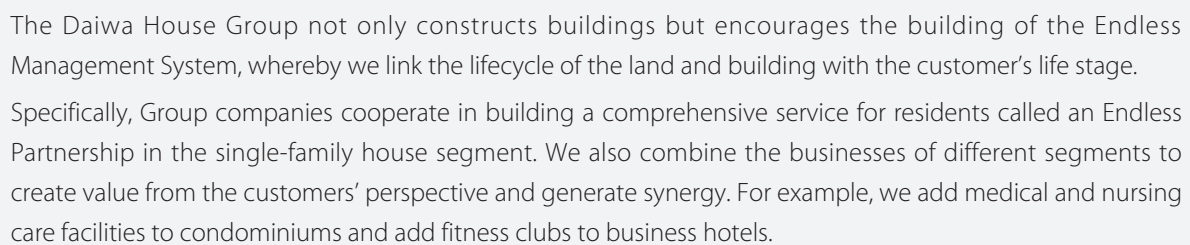


Note: The sales growth rate is a compound annual growth rate (CAGR) averaged between fiscal 2003 and 2005, with size of circles indicating scale of sales

Implementing the Medium-Term Management Plan "Challenge 2005"



## Endless Management System





# An Ambitious Dream to Create an “Endless Heart”

The Daiwa House Group’s greatest resources are its people.

I call on the 35,000 people working for the Group to have a dream, a dream that helps people to grow. I believe that having a dream and trying to achieve that dream provides the strongest possible motivation for working. You cannot make a dream come true if you fear failure. Holding an ambitious dream and trying hard to achieve it is the starting point for the Group.

We aim to develop executive candidates and a vibrant corporate culture, for example by introducing the branch manager in-house recruitment system. We have also commenced a human resources development program, the content of which includes financial affairs, strategy building, coaching, employee evaluation, and other elements, to foster next-generation leaders. We are also improving our in-house entrepreneur system and in-house recruiting system and strengthening systems to help all employees realize their dreams.

We must be a Group that constantly has the empathy and expectations of all stakeholders. I will therefore consider compliance with corporate governance as my responsibility, exercise sound and transparent leadership, and bolster corporate value through the concerted efforts of all executives and employees.

We will pursue our dream, as symbolized by the “Endless Heart” with our customers and society. The Daiwa House Group will continue to move hand-in-hand with its customers toward a brighter future.



Kenji Murakami  
*President and COO*



## Message from the CFO



In fiscal 2005, the Daiwa House Group posted record sales, recurring profit, and net income. Net income was ¥45.1 billion, up 12.2%, and ROE was 8.2%. The main reasons for the performance was that in general sales of Group companies were higher, and in particular, in the rental housing and condominium segments, the number of units sold increased. We will pay an annual dividend of ¥20 per share, which includes a 50th anniversary commemorative dividend.

Under the new Group symbol “Endless Heart” the Daiwa House Group will unite in strengthening its financial base through transparent management.

### FY2004

Consolidated balance sheets	Millions of yen
Account title	
Current assets	612,543
Cash and cash equivalents	150,461
Property, plant and equipment	441,388
Investments and other assets	304,876
Current liabilities	385,256
Short-term bank loans	13,175
Current portion of long-term debt	1,368
Long-term liabilities	377,642
Long-term debt	6,555
Minority interests	71,799
Shareholders' equity	524,110
Common stock	110,120
Capital surplus	147,759
Retained earnings	325,893
Total assets	1,358,807

Tetsuji Ogawa

## FY2005 Financial Statements

Consolidated statements of income		Millions of yen
Account title		Yoy Change
Net sales	1,528,983	163,069
Cost of sales	1,213,644	131,511
Selling, general and administrative expenses	235,267	19,335
Operating income	80,072	12,223
Other income(expenses)-net	2,083	6,824
Income before income taxes and minorities interests	82,155	19,047
Income taxes	33,645	13,288
Minority interests in net income of subsidiaries	(3,326)	(837)
Net income	45,184	4,922

Consolidated statements of cash flows		Millions of yen
Account title		Yoy Change
Net cash provided by operating activities	90,482	34,387
Net cash used in investing activities	(107,857)	(54,788)
Net cash used in financing activities	(9,264)	(15,153)
Net decrease in cash and cash equivalents	(26,639)	(35,554)
Cash and cash equivalents, beginning of year	150,461	
Cash and cash equivalents, end of year	123,822	

Consolidated account of retained earnings		Millions of yen
Account title		
Net income	45,184	
Cash dividends	(9,210)	
Bonuses to directors and corporate auditors	(226)	
Decrease due to exclusion from equity method accounting of former associated companies	(527)	
Transfer due to sales of land	(5,619)	
Net increase in retained earnings	29,602	
Retained earnings, beginning of year	325,893	
Retained earnings, end of year	355,495	

### 1 Sales and profit increased for the third consecutive term

As a result of aggressive business development, sales, recurring income, and net income hit record highs. Sales and profit rose for the third consecutive term.

### 2 Aggressive investment as a strategic move for the future

We aggressively invested in lands and buildings for sale, commercial land, and loanable assets based on the business portfolio. Total assets increased ¥116.3 billion.

### 3 Maintained a sound financial ground

We maintained a sound financial situation through efficient asset management. The equity ratio was 39.1%, up 0.5 percentage point year on year.

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

# Aiming to Further Enhance the Group's Value through Cash Flow Management

We can take the risks required for growth only when we have a sound financial foundation.

In fiscal 2005, under the Medium-Term Management Plan "Challenge 2005," the Daiwa House Group invested a total of around ¥100 billion in commercial facilities and other real-estate development business, to generate future cash flows, and in M&A and alliances, which will bring synergy to the existing operations.

Despite negative free cash flow for fiscal 2005 of ¥17.3 billion, our balance sheet shows that we are maintaining a sound financial position. The equity ratio was 39.1%. This was far above the average of the construction industry (25.8%) and that of the real-estate industry (28.1%), which are heavily dependent on loans.

The Bank of Japan lifted the zero-interest-rate policy after an interval of five years, and the Japanese economy is returning to normal. This is very good news for us. Now our real managerial capabilities are being called into question.

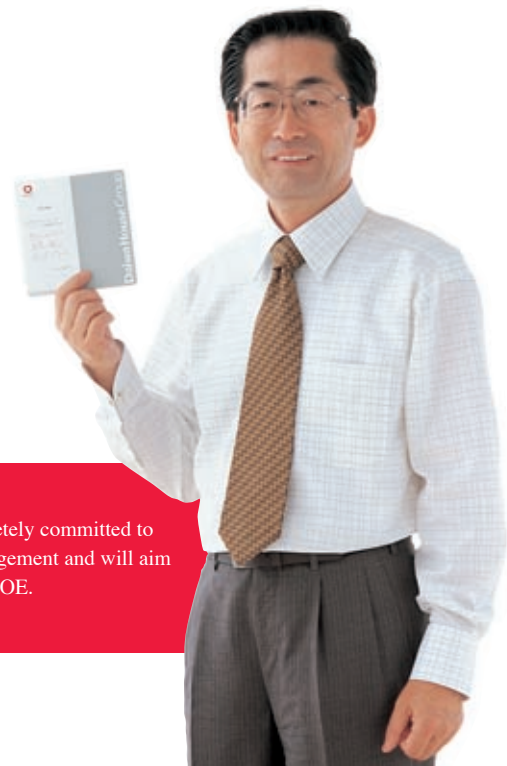
To improve cash flows provided by operating activities, it is important to develop competitive segments through comprehensive portfolio-based management and concerted efforts to promote a strategy to improve efficiency as a Group. The share exchange arrangements in August 2006 between Daiwa House Industry and three Group companies, Daiwa Kosho Lease, Daiwa Rakuda Industry, and Daiwa Logistics, turning them into wholly-owned subsidiaries of Daiwa House Industry, will ensure the effectiveness of an efficiency strategy for procurement, production, and distribution. I believe the merger will help improve cash flows provided by operating activities.

We are aggressively investing not only in tangible assets but also in intangible assets such as brands, technologies and design capabilities, which will help create corporate characters and become a source of value creation. We thus continue to build strength for the future.

Under the new "Endless Heart" brand, I will improve the Group's management structure and maintain sound financial conditions. At the same time, I will try to further improve our corporate value through comprehensive cash flow management, taking the effect of financial leverage into consideration.

Tetsuji Ogawa

*Executive Vice President and CFO*



I will be completely committed to cash flow management and will aim to reach a 9% ROE.







# Corporate Governance

The Daiwa House Group has been bolstering its corporate governance, establishing an internal control system that facilitates fast and appropriate decision-making, transparent and efficient management, and compliance.

## Fundamental policy for the improvement of corporate governance

The Daiwa House Group positions corporate governance as a critical managerial task. Our basic posture is to establish an efficient and transparent management structure by building a system whereby we can execute duties quickly based on

fast and appropriate decision-making and can monitor and supervise execution so that we can continue to increase our corporate value and boost the confidence of shareholders and other stakeholders.

## Major Initiatives to Improve Corporate Governance

Faster decision-making and clearer management responsibility	
June 1999	Introduction of an executive officer system
June 2001	The directors' term of office shortened from two years to one year
June 2004	Revision of the Articles of Incorporation to allow the acquisition of the Company's own shares solely by resolution of the Board of Directors
March 2006	Resolution at board meetings of the Company and three listed companies for a business merger
May 2006	Resolution at a board meeting that sets out a basic policy on the building of an internal control system
Improved disclosure and accountability	
June 2002	Online disclosure of invitations to shareholders' meetings (Japanese/English); online execution of voting rights
August 2003	First disclosure of quarterly business performance data
June 2005	Abolishment of the lump-sum system of directors' retirement benefits (transition to performance-based compensation)
Improvement in management transparency	
June 2003	One outside auditor added to the board of corporate auditors, making five members (three of whom are outside auditors)
June 2005	One corporate auditor added to the board of corporate auditors, making six members (three of whom are outside auditors)

## Establishment of Corporate Ethical Code and Conduct Guidelines

In April 2004, the Daiwa House Group laid down a Corporate Ethical Code clearly stating the principles of behavior that serve as a basis for realizing the Group's management philosophy and policies, and compiled supplementary Conduct Guidelines laying down the details of this code. To ensure maximum understanding of the issues, we distributed to all employees of the Group an educational manual containing the Corporate Ethical Code, Conduct Guidelines, 76 case studies, and a corporate ethics helpline for reporting of unethical behavior.

In line with these measures, we have created a corporate ethical program for the whole Group. This program is designed to instill in all Group employees understanding of the Corporate Ethical Code and Conduct Guidelines, in line with the Plan, Do, Check, Action (PDCA) formula. It was improved after canvassing of employee opinions, and we believe it will further increase trust in the Daiwa House Group.

## Internal control system

Daiwa House Industry set up the Internal Auditing Office in April 2006 to check that internal operations are being performed appropriately and that internal systems are functioning as they should. In May we established the following eight basic policies as part of our internal control system: (1) ensuring that duties are performed in conformity with the law and our Articles of Incorporation; (2) appropriate storage and management of information relating to conduct of duties; (3) appropriate crisis management (minimizing losses); (4)

ensuring efficient conduct of duties; (5) ensuring appropriate conduct of operations in Group companies; (6) ensuring the independence of corporate auditors and their assistants from their directors; (7) due reporting by directors and employees to the corporate auditors, and (8) ensuring effective auditing.

The Company gives instructions for improvement if necessary based on the results of audits by the Internal Auditing Office. In this case, the results of improvements must be reported. The Company thus conducts appropriate and effective audits.

# Risk Management and Compliance

Improving compliance is also an important managerial task for the Daiwa House Group, given the close connections that the Group's business has with people's daily lives. Daiwa House Industry has reorganized the Risk Management Committee, which was set up in September 1999 to handle important complaints quickly and appropriately, develop recurrence prevention measures, and propose business improvements, into a Compliance and Risk Management Committee, based on a policy covering the building of an internal control system drawn up in May 2006.

The Compliance and Risk Management Committee meets once a month to discuss the building of a compliance system and a risk management system across the Group, the improvement of the storage and management of information, including the issue of personal information protection. These discussions follow the Code of Ethics of the Daiwa House Group and the Behavioral Guidelines, both of which were established in April 2004 as the Group's rules for ethics and conduct.

Our Group Members



**Daiwa House**  
Group



## Residential

General housing-related business, from construction of single-family houses, condominiums, and rental housing, to renovation and from real estate agency to management.

- Daiwa House Industry Co., Ltd.
- Daiwa House Kanto Co., Ltd.
- Daiwa House Kansai Co., Ltd.
- Nihon Jyutaku Ryutu Co., Ltd.
- Synchroller Co., Ltd.
- Beijin East Palace Apartment Co., Ltd.
- Daiwa Kosho Lease Co., Ltd.
- Daiwa House Hokushinetsu Co., Ltd.
- Daiwa House Chushikoku Co., Ltd.
- Daiwa Living Co., Ltd.
- Daiwa Estate Co., Ltd.
- Shanghai International Realty Co., Ltd.
- Daiwa House Kitanihon Co., Ltd.
- Daiwa House Chubu Co., Ltd.
- Daiwa House Kyushu Co., Ltd.
- Daiwa Service Co., Ltd.
- Daiwa House Renew Co., Ltd.

## Commercial Construction

Consists of commercial construction operations (suburban commercial facilities), and distribution and medical and nursing care facilities, which plans, builds and manages business and medical and care facilities.

- Daiwa House Industry Co., Ltd.
- Daiwa Kosho Lease Co., Ltd.
- Daiwa Information Service Co., Ltd.
- Daiwa Royal Co., Ltd.
- LOC Development Co., Ltd.

## Resort Hotel and Sports Life Business

Through operation of resort hotels, golf clubs, and sports facilities throughout Japan, this business provides spaces for relaxation.

- Daiwa House Industry Co., Ltd.
- Daiwa Resort Co., Ltd. (Daiwa Royal Hotels)
- Nippon Athletic Service Co., Ltd. (Sports Club NAS)

# Group Business Structure

As of June 30, 2006

## Home Center Business

Operates home centers that carry an average of over 50,000 items. The centers are used by a wide spectrum of customers, from consumers to businesses.

- Royal Home Center Co., Ltd.

## Other Businesses

Supports people, communities and lifestyles through various businesses: logistics, building and automobile leasing, business hotels, and construction materials manufacturing and sales.

- Daiwa House Industry Co., Ltd.
- Daiwa Service Co., Ltd.
- Daiwa Royal Co., Ltd.
- Daiwa House REIT Management Co., Ltd.
- Jukeikai Co., Ltd. (Neo Summit Yugawara)
- Daiwa Rakuda Industry Co., Ltd.
- Shinwa Agency Co., Ltd.
- Media Tech Inc.
- Daiwa Logistics Co., Ltd.
- Daiwa Kosho Lease Co., Ltd.
- Daiwa Energy Co., Ltd.
- Osaka Marubiru Co., Ltd.

# Corporate Management

As of June 29, 2006

## Board of Directors and Corporate Auditors

\*Representative Director



**Takeo Higuchi\***  
*Chairman and CEO*



**Kenji Murakami\***  
*President and COO*



**Tetsuji Ogawa\***  
*Executive Vice President and CFO*



**Tatsushi Nishimura**  
*Executive Managing Director*



**Takeshi Kajimoto**  
*Managing Director*



**Takashi Uzui**  
*Managing Director*



**Hiroshi Azuma**  
*Managing Director*

## Presidents of Principal Subsidiaries and Affiliates



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



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



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



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



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



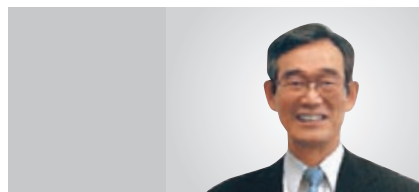
**Keiichi Otsuka**  
*Daiwa Resort Co., Ltd.  
(Daiwa Royal Hotels)*



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



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



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



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



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



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



**Mitsuo Funatsu\***  
Executive Vice President

**Tamio Ishibashi\***  
Executive Vice President;  
Concurrently President of Media Tech Inc.

**Naotake Ohno**  
Executive Managing Director

**Takuya Ishibashi**  
Executive Managing Director



**Shigeo Otsuka**  
Managing Director

**Eiichi Takeda**  
Managing Director

*Directors*  
**Seiki Nishi**  
**Chiyohiro Aoyagi**  
**Yoshiharu Noto**

**Takashi Hama**  
**Katsutomo Kawai**  
**Osao Fukushima**

*Corporate Auditors*  
*(standing)*  
**Toshihiko Emi**  
**Yoshikazu Tano**  
**Kiyoshi Arase**

*Corporate Auditors*  
**Hiromi Doi**  
**Kazuhiro Iida**  
**Kiichiro Iwasaki**



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

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

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

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



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

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

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

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

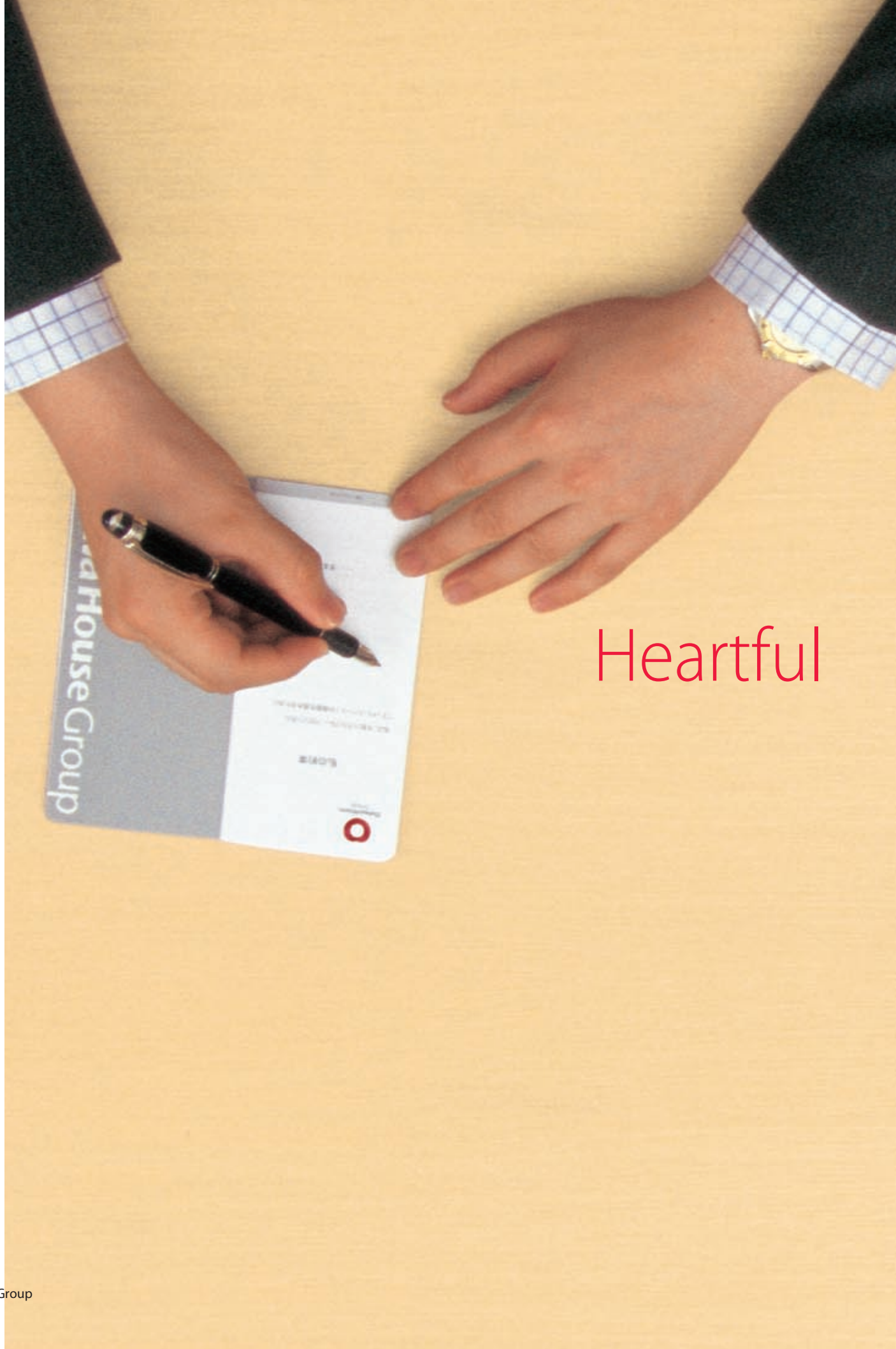


**Taisuke Ishibashi**  
Nippon Athletic Service Co., Ltd.  
(Sports Club NAS)

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

**Hiroyuki Nakamura**  
Synchroller Co., Ltd.

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



Heartful





# Future through Personal Pledges

We are determined to increase the value of our Endless Heart concept.

I incorporate customer preferences  
in my design proposals. I want  
to create spaces where customers  
can enjoy daily life.



Commercial Facility Manager



Interior Coordinator



Systems Engineer

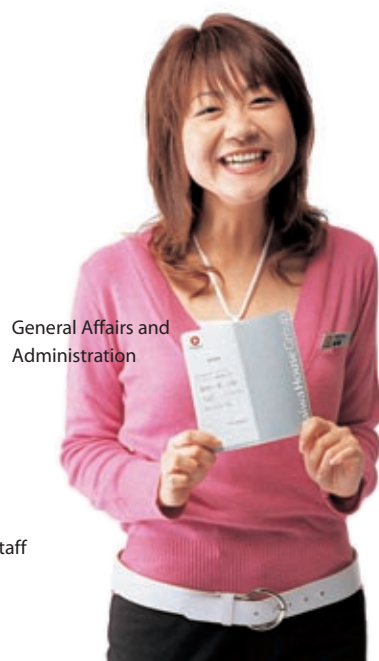
I work to expand our property  
management business. I promote  
construction of safe facilities  
that please our customers.



I am committed to producing  
valuable goods and services  
that please customers.



I promise to provide the impetus  
for change within the Group  
by encouraging everyone  
to relentlessly pursue innovation.



With a smile and a kind word  
for everyone, I make good relations  
my top priority.

My goal is to make  
new forms of energy  
available to everyone.



I get feedback from customers,  
to ensure they are satisfied  
with our Group's products and services.



Real Estate Agency Business



Housing Contact Center  
Supervisor



Personnel Affairs

It's simple. I am committed  
to punctuality.

I promote projects to ensure  
our workplace is welcoming  
to female employees, so that  
they'll want to join us  
and never leave.



I put my heart into  
fully satisfying customers,  
offering delicious food  
with a smile.

To ensure the success of our business  
in China, I work with our Chinese partners  
to create win-win relationships.

Vehicle Leasing Sales

Hotel Restaurant Chef

China Business

I undertake the sales activities desired by  
the Company and our customers alike,  
with honesty, enthusiasm, and integrity.

I am working to improve  
my esthetic sense,  
and incorporating it  
into my work.

I aim to develop products  
that will impress my customers.



Distribution Center Manager



Sales Promotion Planning  
and Production



Product  
Development

Safety is my top priority.  
Next, to provide the type of services  
that are welcomed by customers.



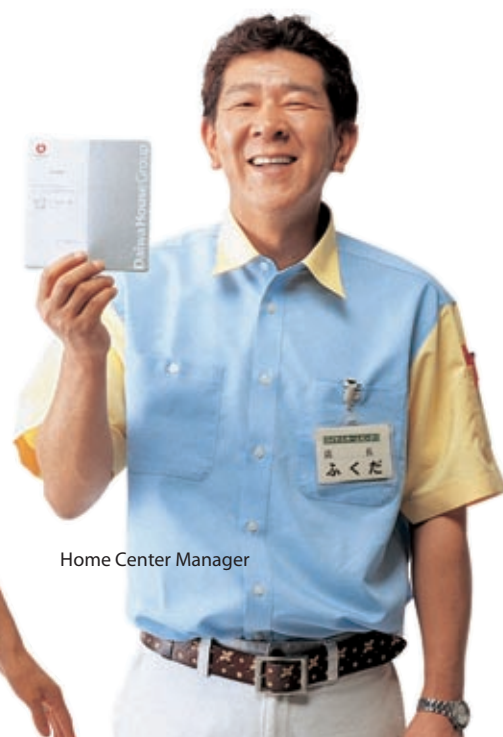
I promise to offer an attractive  
lineup of products and services.  
I want customers to always feel welcome  
in my store.



Designer of  
Rental Apartment Buildings



Aerobics Instructor



Home Center Manager

I put my heart into  
designing products  
that excite customers.

Let's exercise!  
Enhance your life and leisure time  
through sports. Join me, and I'll  
help bring happiness and health  
to your mind and body.



I enjoy serving customers,  
and work hard so that I may hear  
a kind word of thanks.



Condominium Call Center Operator

After-Sales Service



Hotel Restaurant Service



By serving customers with a smile,  
I hope to make them smile, too.

I serve customers attentively,  
with a smile.



Conscientiously preparing meals,  
I deliver food that is safe,  
made with reliable ingredients.

I do my best to provide  
quality care, to inspire confidence,  
and ensure customer satisfaction.

Hotel Restaurant Master Chef

Nursing Care Worker

Moving Service

I try to bring joy and excitement  
to the moving process.

I pledge ...

to raise the value of our  
Group symbol "Endless Heart."



# Commitment

Corporate Citizenship

60	Our Clients
62	Our People
64	Our Partners
66	Our Community
68	Our Environment
70	Our Quality

司にある大切な何か。  
は、新しいグループシンボル  
ART」に  
永遠の絆と  
連帯感を託しました。  
価値共創グループとして、  
こハートを提供してまいります。

35,000 Hearts

We Build Hearts



— Commitment to Society »





## 1 Our Clients

We promote customer satisfaction (CS) activities based on the dual philosophy of “putting the customer first” and “customer empathy.” Our aim is to continue to be a company that is loved and trusted by its customers. We therefore make every effort to put ourselves in our customers’ shoes, to reflect our customers’ viewpoints in every aspect of our business activities and to develop and provide high-added-value products and services.

- Creating a Customer Satisfaction Committee
- Establishing a support structure

## 2 Our People

We believe that human resources will form the basis for the future development and growth of the Daiwa House Group. That is why, in addition to developing a work environment conducive to the mental and physical well-being of all of our employees, we are also aiming to establish a personnel system that will enable career development based on employees’ aptitudes.

Elsewhere, we are taking steps to increase recruitment of female employees, promote more employees, to bolster core operational personnel, as well as encouraging elderly reemployment.

- Enhancing personnel systems
- Recruiting and promoting female employees
- Employment for disabled persons and human rights awareness activities
- Improving working environments

## 3 Our Partners

From cooperating companies and business partners to academic institutions, our partners are essential to help us achieve business growth across a wide range of housing, business and lifestyle related fields. We strive to develop, maintain and improve suitable relationships with all of our partners on a fair and equal basis at all times to ensure mutual harmony and benefit and enable us to provide high quality products and services.

- Developing mutually beneficial and harmonious relationships with partner companies
- Support for academic research
- Technical cooperation to help improve daily life
- Technical partnership with a Chinese company



## 4 Our Community

In view of the importance of coexisting with the environment and society, we organize a range of social contribution initiatives on a continual basis to contribute to the development of society as a whole and to help improve living environments in our role as a corporate citizen. In addition to making a contribution through our business activities, including efforts to provide safe and environmentally friendly products, we also undertake a range of other activities as a member of the local community, such as passing on traditional culture and providing educational support.

- Support for the development of future generations
- Stepping up volunteer activities
- Corporate philanthropy initiatives

## 5 Our Environment

We work towards the ideal of a society that coexists in harmony with nature and enables people to live pleasant, comfortable lives. With the aim of “creating a spiritually enriched society,” we have set out an environmental vision consisting of our environmental principles, priority themes and action guidelines and make every effort as work together as a Group to substantially reduce the environmental impact of our activities.

- Establishing an environmental management system
- Initiatives as part of our business activities
- Environmentally friendly product development

## 6 Our Quality

Based on the key concepts of Safety and Security, Speed & Stock (used properties), Welfare, the Environment, Health and Information Technology, we conduct a diverse range of lifestyle and architectural research in cooperation with other industries, governments or universities as well as users themselves. We intend to continue to create innovative technology, both tangible and intangible, to cater to the needs of future generations and society, always keeping in mind the balance between people and lifestyles and between urban development and nature.

- Full-scale testing of earthquake resistant and absorbing technology
- Promoting Friendly Design
- Research geared towards environmental measures





1

## Our Clients

Taking our customers' view point before proceeding with corporate activities

Approx. **320,000** (as of March 31, 2006)  
Total number of household that moved into our single-family housing

The Daiwa House Group's CS Philosophy is based on two concepts.

**Putting the  
customer first**

Based on our goal of being a company that is loved and trusted by its customers, the Daiwa House Group's corporate activities are designed to respond to our customers needs quickly and courteously and to provide products and services that offer good value from the customer's perspective.

**From "customer  
orientation"  
to "customer  
empathy"**

In addition to reflecting our customers' viewpoints in every aspect of our business activities, we go one step beyond "customer orientation," whereby activities are carried out with a focus on the customer, and model our actions on the principle of "customer empathy," whereby we view our own business through the eyes of our customers.



### Initiatives for improvement through enhanced customer satisfaction

Working on the basic philosophy of “putting the customer first,” the Daiwa House Group strives to improve the quality of its products and services to raise levels of customer satisfaction. In an effort to ensure that our customers’ viewpoints are reflected directly in our business activities, on April 1, 2004 we established a Customer Satisfaction Committee headed by the company president and run by the Customer Satisfaction Department. In addition to outlining business problem areas based on the opinions and requests of our customers, the Customer Satisfaction Department is pursuing various activities to develop methods of evaluating how successful improvements have been and also helps improve and support housing products.

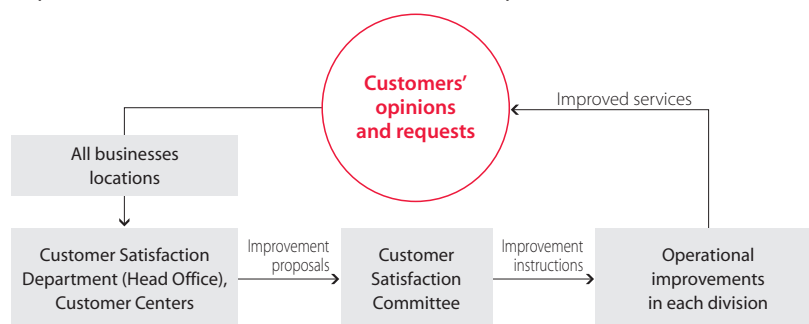
### Product support structure

Daiwa House Industry implements comprehensive quality control measures at every stage of the process, from design and development through to after-sales services, based primarily around the Quality Assurance Department, established in October 2004. As part of our efforts to improve our after-sales services, we operate a long-term guarantee system called the 21c Secure Support System that guarantees houses’ structural framework and water proofing for up to 40 years.

In November 2005, we established the Kanto Customer Center to handle all inquiries within the region regarding matters such as regular inspections and additional repair work organized by Customer Advice Centers at each of our branches. In addition to providing our customers with smooth, high quality services, this has enabled the integrated management of information and will be used to improve CS promotion activities in the future.



### Improvement activities based on customers’ viewpoints





# 2

## Our People

Human resources — the driving force behind every company

Approx. **35,000** (as of March 31, 2006)  
Total of Daiwa House Group employees

The basis for the continued development of the Daiwa House Group is human resources training.

The Daiwa House Group considers human resources training to be an important management task that is essential to the growth of the company. Based on the principles of freedom of choice and independence, we are therefore developing a personnel system that will enable individual employees to focus of their own career development. We make revisions to all of our personnel systems on a continual basis in an effort to develop working environments designed to encourage increased employment for women, handicapped persons and the elderly so as to reflect changing attitudes towards work.

### A motivation-driven personnel system

Having introduced a system whereby motivated employees can volunteer for the position of Branch Manager by way of a challenge, nine new Branch Managers were appointed in April 2006. In addition to this, as a result of the introduction of a Free Agent (FA) system in August 2005, 15 employees were transferred to their desired position as part of the annual round of transfers in spring 2006, and as part of the existing in-house recruitment system a further 21 are being transferred in fiscal 2005 to the posts or departments they prefer. Elsewhere, we continue to encourage independence for individual employees through initiatives such as educational programs, including our optional career development training schemes (open to all employees), and looking into the introduction of an in-house certification scheme and make every effort to implement various systems to improve motivation as we strive to ensure sound human resources training.

#### Progress report on optional career development training schemes (fiscal 2005)

Title	Duration	Attendance
Management Skills Training/Personnel Evaluation Course	12 sessions	627 people
Team Leader Training	26 sessions	1,327 people
Introductory On-the-Job Training (OJT)	9 sessions	419 people

### Creating opportunities for female employees to play leading roles

Daiwa House Industry actively recruits female employees. In fiscal 2005, 26% of our total workforce consisted of female employees, an increase of 4 percentage points from the 22% in fiscal 2004. To institutionalize efforts to create a workplace suitable for female employees, we set up a women's organization called the Wave Heart Project in November 2004 and are working towards the establishment of a new system.

Elsewhere, the company continues to actively appoint and promote female employees. The number of female chiefs has almost doubled from 67 as of April 1, 2005 (0.55% of all full time employees) to 129 as of April 1, 2006 (1.01%).

### Employment for handicapped persons and human rights awareness activities

The percentage of handicapped persons employed by Daiwa House Industry, as of June 1, 2006, was 1.88%, which was higher than the legally stipulated employment rate for the twelfth year in a row. We aim to provide disabled persons with a challenging, meaningful work environment and to foster understanding amongst able-bodied employees.

Daiwa House Industry continually organizes carefully-planned human rights awareness activities on a company-wide scale and beyond, extending to Group companies as well. Activities are all based on the fundamental policy of creating a corporate culture and workplaces built on respect for human rights.

### Enhancing working environments

Daiwa House Industry introduced a workplace selection program in fiscal 2005 and is striving to improve working environments through initiatives such as the adoption of a half-day paid leave transfer system and a paid leave reserve system. In terms of healthcare, in addition to providing optional health checks such as ultrasound or tumor marker examinations on top of regular health checks, we also provide a simple work-related stress assessment website and a mental health self-check service via the company intranet and run a 24 hour telephone advice line to address any worries concerning mental or physical health.





3

## Our Partners

Growing and developing together with our partner companies based on mutual harmony and benefit

Approx. **5,300** (as of March 31, 2006)  
Number of major cooperating companies

We at the Daiwa House Group strive to improve the services we provide to our customers based on a cooperative business framework that incorporates a wide range of organizations and academic institutions, including cooperating companies, technical partner companies and universities.



### Establishing relationships with partner companies based on mutual harmony and benefit

In accordance with our Group Behavioral Guidelines, the Daiwa House Group strives to build healthy relationships and work together with cooperating companies, and partner companies such as materials and housing equipment suppliers and to contribute to the mutual business development and growth of all parties. We also make every effort to mutually refine our technical capabilities through steps to minimize environmental impact and operational improvement initiatives to provide our customers with a higher standard of products and services.

We organize safety patrols, safety education, events to raise awareness such as the Safety Promotion Event and other safety promotion activities as part of our efforts to minimize occupational health and safety risks and to ensure the safety of all concerned parties in the workplace.



### Technical cooperation to help improve daily life

The Daiwa House Group promotes research and development of technology that is closely linked to daily life. Having declared ourselves a health conscious company, Daiwa House Industry announced the Intelligent Toilet (see photos at left, and center), a toilet with a home health check system jointly developed in conjunction with Toto Ltd., at the end of fiscal 2004 and started to standardize some of its housing products from fiscal 2005 onwards.

### Support for academic research

We are researching household applications for lithium batteries, which offer high power and large capacity, to even out electricity demand over the day by using lower-load night-time power. As part of this initiative, we are involved in a joint project with industry, government and academic organizations to encourage the use of lithium batteries and lower their cost: the project to develop Eliica, an electric car that will run on lithium batteries (see photo at right).

Elsewhere, we also promote donation-assisted research support and are providing support for initiatives such as the Gerontology Assisted Research Department, which was set up for a period of three years starting in April 2006 as part of the University of Tokyo Division of Project Coordination, and a course to deal with indoor air pollution and housing-related health disorders, caused by allergens and microorganisms, which was held in 2006 at Nara Medical University.



### Technical partnership with a Chinese company

In March 2006, Daiwa House Industry announced a partnership with Baoye Group Co. Ltd., a general building contractor and real estate developer in China. We are now working on the joint technical development of industrialized housing for construction and sale with an eye on the Chinese market, which is expected to grow in the future.



# 4

## Our Community

Contributing to society as a member of the local community

Approx. **11,000** (for FY2005)

Number of employees taking part in Company-planned Voluntary activities

The Daiwa Housing Group's policy of contributing to local communities is based on the principle of coexisting with the environment and society.

We organize a wide range of social contribution initiatives on a continual basis to contribute to the development of society as a whole and to help improve living environments in our role as a corporate citizen.

### Local educational support

We provide assistance for the Dreams Come True School — Academic project, which is run by the Osaka Chamber of Commerce and Industry and the non-profit organization Japan Association for Entrepreneurship Education (JAEE) as part of the Ministry of Economy, Trade and Industry's Regionally Independent and Private Sector-Initiated Career Education Project, by visiting junior high schools to give classes on houses of the future.

Nippon Athletic Service has made it compulsory from January 2005 onwards for all children enrolled on its swimming school courses to take clothed swimming lessons so that they can learn how to swim whilst fully clothed in the event of an accident by water. The company also organizes free courses for local elementary schools.

### Promoting employee volunteer activities

The Group organizes social contribution initiatives in close cooperation with their local communities. Such initiatives include local cleanup activities and support for local events and vary depending on the contents of each company's business activities. We also introduced a fund raising system (the "Heart" and "Endless" fund raising campaigns) aimed at individual employees via the company intranet in October 2005.

In an effort to promote active initiatives and employee participation in volunteer activities at all sites, Daiwa House Industry appointed Social Contribution Promotion Supervisors at each of its business premises around the country in April 2006. We have also launched D-Volunteer, a volunteer information system designed to promote activities on an individual level and to enable employees to exchange opinions and send, receive and search for information via the intranet.



### Expanding initiatives and opportunities to promote culture and the arts

In October 2005, Daiwa House Industry restored the electronic billboards on top of the Osaka Marubiru Tower, which are a symbol of Osaka but had been discontinued in 2003, as part of its acquisition of Osaka Marubiru as a subsidiary. As one aspect of our corporate philanthropy initiatives in support of culture and the arts, Daiwa House Chairman Takeo Higuchi was appointed Chairman of the Board of the Osaka Symphoniker Society, a support group working with the Osaka

Symphoniker orchestra, in April 2006. We provide comprehensive support for the running of the orchestra and are actively involved in related corporate philanthropy initiatives.

Elsewhere, we plan to set up a pavilion at Kidzania Tokyo, a work experience theme park for children that is scheduled to open in October 2006, to enable children to experience the job of coordinating interiors.





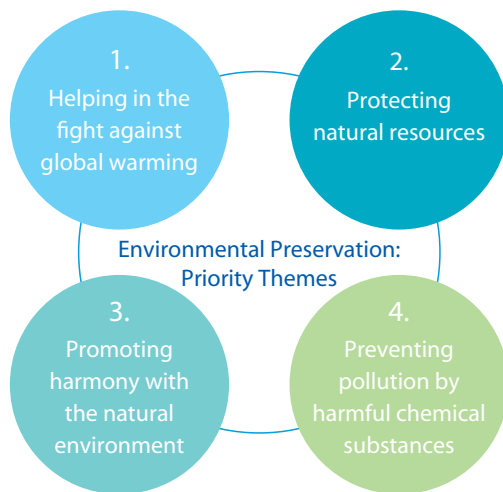
# 5

## Our Environment

Initiatives and a framework for coexistence with the environment

### Daiwa House Group Environmental Principles

As a Group that “co-creates value for people, communities and lifestyles,” we strive to maintain an empathetic and forward-thinking approach to the environment and, through the provision of more environmentally friendly products and services, to create a society that can coexist in harmony with the environment and provide a spiritually enriched lifestyle.



### Establishing an environmental management system

Daiwa House Industry has established an Environmental Preservation Committee headed by the director in charge of environmental issues to discuss and make decisions regarding the direction of our business activities.

The Daiwa House Group has obtained international standard ISO14001 certification at 13 plants and Production and Procurement Division of Daiwa House Industry, and at all Daiwa Kosho Lease Co. Ltd. business premises, as well as at the Mie Sales Office, Nara Sales Office, Environmental Management Office and Kansai Distribution Center belonging to Daiwa Logistics Co. Ltd.





## Initiatives as part of our business activities

### ■ Environmental risk reduction (Daiwa House Industry)

We monitor and manage environmental data, such as details of waste output from all business premises and plants, via the *ei-system*, our intranet-based environmental information system. In an effort to combat issues such as the illegal disposal of industrial waste, we regularly verify all processing flows and monitor and inspect waste disposal sites, as well as organizing internal inspection by head office organizations.

### ■ Environmental Load Reduction

With the Kyoto Protocol coming into effect, we are striving to cut CO<sub>2</sub> emissions through efforts such as reducing the amount of energy used by air conditioning and heating equipment at our business premises. Elsewhere, in addition to achieving zero emissions (100% recycling rate; Daiwa House Industry) at new-build housing projects, we also make every effort to use environmentally friendly materials.



## Environmentally friendly product development

Daiwa House Industry has jointly developed an exceptionally safe small-sized wind power generator called “Wind-Blown Whale” in conjunction with Nikko Company (see photo above).

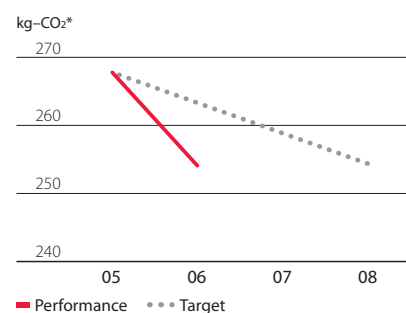
We have set out the following targets in relation to single-family housing products.

- All houses sold in fiscal 2007 to be next generation energy-saving standard houses so as to reduce energy consumption stemming from air conditioning and heating and to cut CO<sub>2</sub> emissions
- 50% of houses sold in fiscal 2007 to be environmentally friendly houses\*

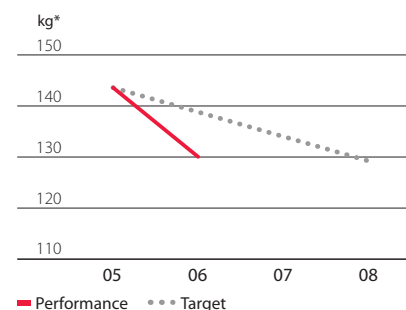
\* Environmentally friendly houses are those based on the three objectives of protecting the natural environment, blending in with the surrounding environment, and ensuring a healthy, comfortable living environment, and have been certified by the Institute for Building Environment and Energy Conservation. Daiwa House Industry achieved the best overall construction statistics as part of this scheme in fiscal 2005.



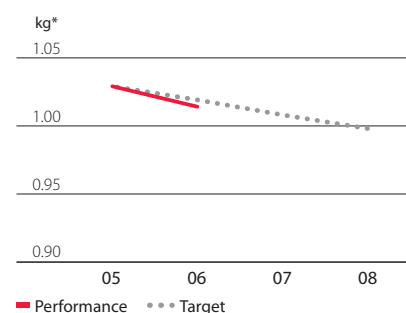
## CO<sub>2</sub> emissions



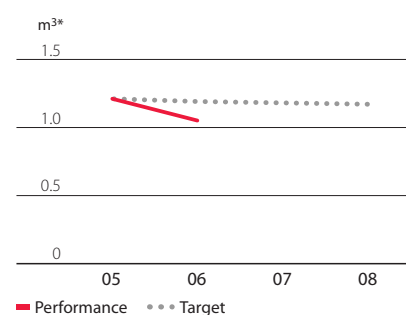
## Waste output



## Volume of PRTR harmful chemical substances used



## Water consumption



Note: The units marked with asterisks in the graphs above are equivalents per ¥1 million in sales by Daiwa House Industry on a non-consolidated basis.



6

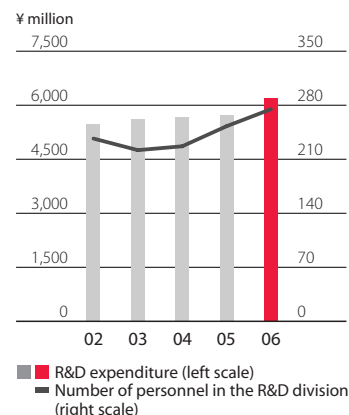
## Our Quality

Pride in quality resulting from continued research

Established in 1994 our Central Research Laboratory develops hardware for buildings as well as building products and technologies that offer high quality and outstanding cost performance. Its research focuses on more liveable homes based on the key concepts of Safety and Security, Speed & Stock (used properties), Welfare, the Environment, Health and Information Technology, as well as software and environmental awareness from the user viewpoint.

In conjunction with industry, government, academia and consumers, it carries out long-term research to create comfortable, safe lifestyles for our customers and to provide total solutions based around building technology.

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



### Developing new methods for constructing houses with industry-leading earthquake resistance and absorbing capabilities

Daiwa House Industry has developed a new method of constructing lightweight iron frame houses that offer both improved earthquake resistance and absorbing capabilities and greater freedom in terms of design. At the E-Defense\* 3-D full-scale earthquake testing facility (see photo), as a first private company, the largest such facility in the world, houses built using this new method have undergone tests of various aspects of their capabilities (response acceleration spectrum, seismic displacement, etc.). The results confirmed that this new method produces industry-leading standard results (Daiwa House Industry findings).



\* Part of the National Research Institute for Earth Science and Disaster Prevention's Hyogo Earthquake Engineering Research Center

### Using Friendly Design

Friendly Design is a unique user-friendly design concept that combines the basics of universal design, namely making buildings easy to use, easy to understand and safe, with the concept of beauty, in terms of harmony within living spaces. We actively incorporate Friendly Design in to all of our houses and buildings. We conduct a diverse range of ergonomic and other such tests with the aim of creating spaces that enable everyone to live comfortable, healthy lives.

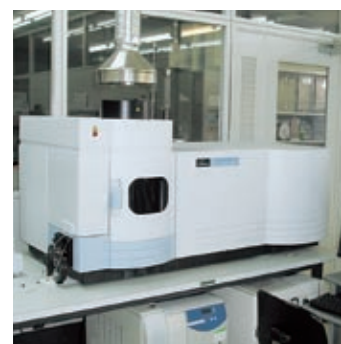


\* Slide-Out Shoe-Donning Bench (see photo)

We determined the ideal height for the taking off and putting on shoes after many studies into shoe-donning and -removal patterns among the young and elderly, by age, wearer height, gender, and shoe type.

### Establishing a framework for environmental analysis

We have established a new Environmental Analysis Office (see photo) as part of our Central Research Laboratory and equipped it with analytical equipment to enable the study of harmful substances released into the atmosphere, water or soil. We undertake research and improvement measures in areas such as soil pollution on land used by the Daiwa House Group, asbestos countermeasures during demolition and the control of harmful substances at our plants. In November 2005, we became the first housing manufacturer to be registered as a Concentration Measurement Certification Business.







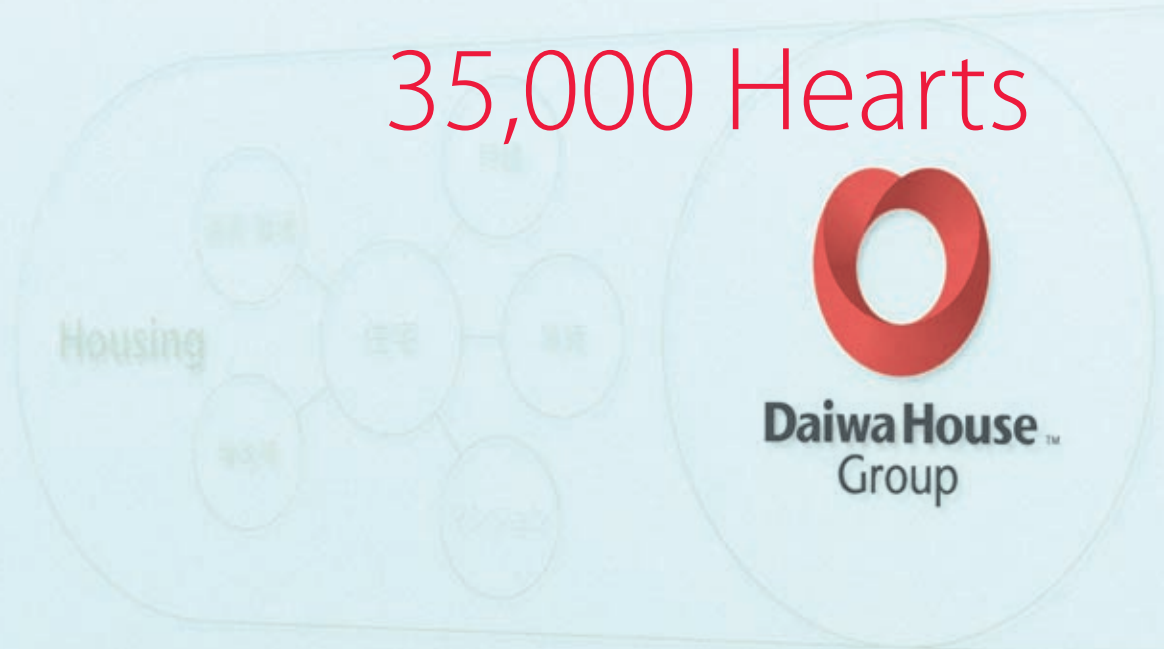
# Action

## Our Business Domains

75	Residential
	Single-Family Houses
	Condominiums
	Rental Housing
	Home Renovation
	Real Estate Agency Services
87	Commercial Construction
	Commercial Facilities
	Distribution and Medical and Nursing Care Facility Construction
95	Resort Hotels and Sports Life Business
98	Home Center Business
100	Other Businesses

人・街・暮らしの価値共創グループ

35,000 Hearts



Life

ホーム  
センター

ホテル・  
リゾート

フィットネス  
クラブ



# — Field of Action






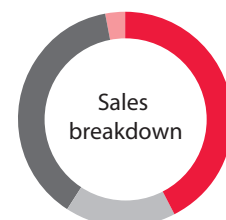
# Housing

# Residential

Employing the Group's collective strength to take the largest share

Sales   
**¥909.5 billion**  
 (year-on-year + 6.4%)

Operating income   
**¥50.6 billion**  
 (year-on-year + 1.9%)



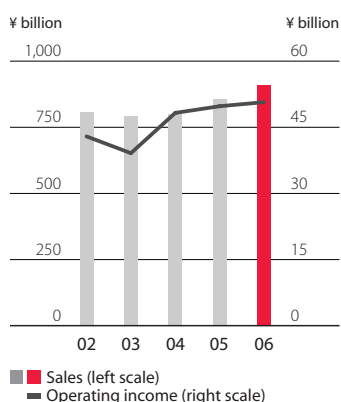
■ Single-family houses 42.4%  
 ■ Condominiums 16.7%  
 ■ Rental housing 37.9%  
 ■ Home renovation 3.0%

Housing is the Daiwa House Group's core business, accounting for 59.2% of total sales. Group companies cooperate with one another to cover a comprehensive array of businesses related to housing, from the construction of single-family houses, condominiums, and apartment houses, and home renovation, to real-estate brokerage and management, to proposals on the use of leasehold property.

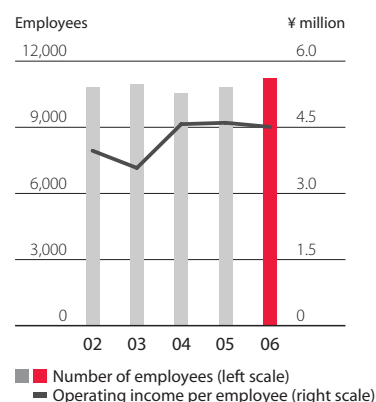
The business environment for the term was favorable. Housing demand grew as the fall in land prices in city centers came to an end and the terms of the low-interest policy and the mortgage tax break were extended. As a result, new housing starts increased for the third consecutive year, rising 4.7% year on year. Performance was especially good in the condominium and rental housing segments.

Since the number of housing units is expected to fall with the rapid aging of society, we will consider strategies to invigorate housing stock to take the largest share in the housing business by employing the Group's collective strength.

Sales and operating income



Number of employees and operating income per employee





## Single-Family Houses

Sales ¥384.2 billion <sup>\*1</sup>

20.0%

Sales growth rate<sup>\*2</sup>

<sup>\*1</sup> Sales to outside customers

<sup>\*2</sup> The sales growth rate is a compound annual growth rate (CAGR), with size of circles indicating scale of sales  
2005: FY2002 to FY2004      2006: FY2003 to FY2005

<sup>\*3</sup> The market growth rate is based on Daiwa House's own calculation.

15.0

10.0

5.0

2005

2006

5.0

10.0

15.0

20.0%

Market growth rate<sup>\*3</sup>



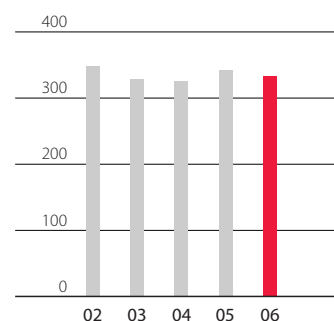
The single-family house segment sell custom-made and lot subdivision houses across the nation, employing its abundant experience as a pioneer in the business.

To retain our ties with customers, we are promoting a new housing strategy called the building of Endless Partnerships, to enable us to generate synergies in partnership with Daiwa House Group businesses. We will focus on supplying houses with high future value based on quality, reliable technologies, customer-first services, and high-value-added proposals. Using Customer Centers, which we began to set up across the nation in fiscal 2005 as bases, we aim to achieve real customer satisfaction and become the No. 1 company both in name and in fact, and a Company that is trusted and supported by customers.

### Sales

(Daiwa House Industry; non-consolidated; excluding sales of land)

¥ billion



### Providing houses with high future value

In quantitative terms, there are already enough houses in Japan. In June 2006 the long-awaited Housing Life Basic Law was established to ensure that people feel satisfied with the quality of housing.

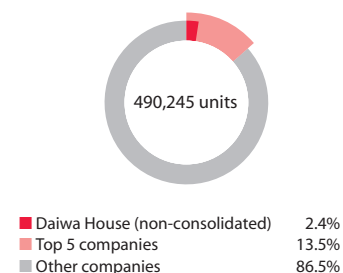
We welcome the enactment of this law that sets out a grand design for the future of Japanese houses and the living environment because we believe it will present us with a major opportunity to invigorate the housing industry. On the other hand, the industry will need to accept that it has a social responsibility related to the living environment. We must maintain the quality of houses and provide appropriate information.

Against this backdrop, we will focus on providing houses of high future value based on the building of what we call the Endless Partnerships. We will strengthen our core technologies and at the same time improve basic functions such as earthquake-resistant, burglary-prevention, barrier free and energy-saving functions, which we have been developing ahead of our competitors. We will also provide high value-added products and services.

In addition, we aim to enrich the community and provide ties among the people who live there by considering the environment and landscape preservation, improving welfare and cultural facilities, and enhancing convenience. We will also propose recommendations on the development of laws on housing acquisition support, among other areas, to create and develop a richer Japanese housing living environment, and to develop good housing stock as social assets.



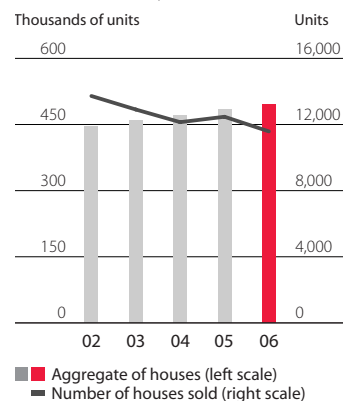
Share of single-family house market  
(FY2005)



Note: Total shares based on statistics by the Ministry of Land Infrastructure and Transport.  
The share for Daiwa House and top 5 companies based on our estimates.

### Aggregate of houses and number of houses sold

(Daiwa House Industry, non-consolidated)



I promise to come up  
with ideas and products from  
the consumer's perspective

Studying consumer lifestyles

## Contracting business

### xevo, “a house with ties”

xevo, launched in September 2006, was developed based on the concept of “a house with ties” to people, nature, and communities and to the next generation. The concept is that the house evolves with technologies. With the evolution of core technologies, there has been a dramatic improvement in basic housing functions such as durability, earthquake resistance, heat resistance, and energy conservation. We will provide comfortable houses in which people can live happily for many years, by proposing comfortable exterior appearance in harmony with the streetscape, and a variety of ideas in line with the concept of “house with ties.”

### Property value enhanced by new concepts and the development of technologies

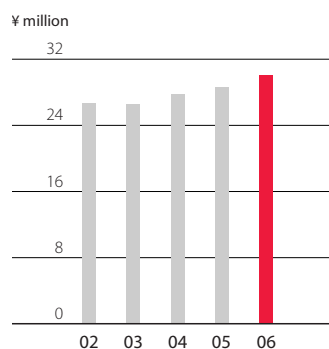
The new product was developed as a house with high future value, equipped with advanced core technologies. We use the external breathable insulated wall and thereby strengthened the waterproof property of the wall, leading to a dramatic improvement of durability. Heat insulation also reduces dew condensation inside walls and improves building durability. The photovoltaic power system reduces CO<sub>2</sub> emissions from inside the house as well as heat and light expenses. When we apply inorganic coating with improved weather resistance on the outside wall together with the system, the heat insulation effect is accelerated and heat efficiency improved. As a result, we can dramatically reduce heat and light expenses and maintenance costs.

To reduce the costs of the structural frame, we have developed a new construction method through which we have increased the strength of the bearing wall 30% (compared with our conventional products). This method has also allowed us to design floor-plans with more freedom and flexibility. We have been able to reduce the number of partitions and create an open-plan house.

We are advertising the product through the media and sales promotion activities nationwide. We will also improve training and education for salespeople by enhancing the quality of e-learning and textbooks and by introducing a certification system. Our salespeople are tested on their knowledge of this product, and only those who pass our exam may market it. Through these measures, we aim to become No. 1 in terms of housing supply rate.



Average sales per unit  
(Contracting business)



With heartfelt sincerity;  
daily efforts

Single-family house design





## Subdivisions

### Improving the living environment, with due consideration of streetscape development

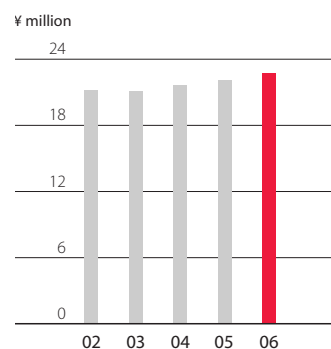
With the number of subdivision single-family housing starts declining 1.2% in fiscal 2005, we developed and sold properties that reflected our commitment to asset value. An example is the subdivision house “Floral Avenue,” for which we consider the comprehensive revitalization of urban communities or urban development. We stepped up housing supply in areas where demand for housing is large, employing the Group’s information about local land conditions. When we redeveloped the idle land of public offices, Group companies cooperated in operating complex projects. We promoted industrial activities and employment and created social welfare services and cultural and inter-community exchange. We developed customer-oriented CS activities in such a manner as to meet the housing needs of customers. We also sought to improve after-purchase servicing.



### Focusing on select areas to improve the efficiency of marketing and sales promotion

From now on, we will aim to properly grasp trends related to both customers and the marketplace through comprehensive research, and will select building lots that meet the needs of customers. We will also collect and use the information we obtain based on the results of our research. Moreover, we will plan and develop housing products for sale for particular areas or targets. For that purpose, we will develop strategies for particular areas in metropolitan areas. We will use the Group’s network to bolster our land development capabilities. We will select areas where we have set up subdivision offices, and concentrate marketing efforts there. We will also bolster sales promotion through the Internet while calling on temporary employees with connections in local communities. Through these actions we will seek to maintain and improve the value of houses and the surrounding communities and environment. Meanwhile, we will focus on training people with skills in life planning, funding, and tax practice, and on building a CS system.

Average sales per unit  
(Subdivisions)



## Condominiums

Sales ¥151.0 billion <sup>\*1</sup>



20.0%

Sales growth rate <sup>\*2</sup>

<sup>\*1</sup> Sales to outside customers

<sup>\*2</sup> The sales growth rate is a compound annual growth rate (CAGR), with size of circles indicating scale of sales  
2005: FY2002 to FY2004      2006: FY2003 to FY2005

<sup>\*3</sup> The market growth rate is based on Daiwa House's own calculation.

15.0

10.0

2006

2005

5.0

0

5.0

10.0

15.0

20.0%

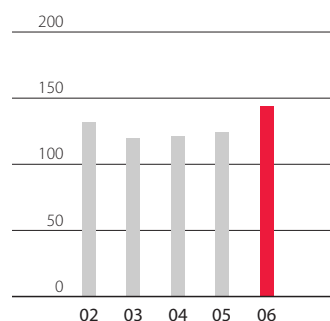
Market growth rate <sup>\*3</sup>

The D' Series of condominiums developed by our Condominium Division offers four different lines throughout Japan. These are designed to match the lifestyles of their owners, and include urban-style and high-rise condominiums. We pay attention to functionality and comfort, and pay close attention to ensuring the harmonization of city life and the natural environment. We have our own high standards with respect to safety, management and customer service. We have developed D's Bridge, a system that evaluates the asset value of condominiums objectively and over the long term, so that customers, with whom this has proven very popular, can feel secure in owning and enjoying their investment.

### Sales

(Daiwa House Industry, non-consolidated)

¥ billion



### Condominiums are growing in scale, while owners' needs are diversifying

Accompanying the successive waves of people relocating from the suburbs to the city center, particularly in the case of Tokyo, and demand created in connection with urban redevelopment projects, we are seeing more and more large-scale condominium developments, some with over 1,000 units. The Daiwa House Group is offering 11 large condominiums in parts of the country where the Group has particular strength. A division dedicated to a large-scale multiple use redevelopment, and incorporating our Urban Design Laboratory was established by us in October 2005, we will further expand our multiple-use condominium offerings by incorporating medical and commercial facilities while ensuring the harmonization of city life with the natural environment.

We have developed a reasonably-priced, enjoyable-to-live-in line, called "aie" (for Amenity of Intelligence and Elegance), targeting first-time buyers such as young families in their early thirties, an age bracket that constitutes a demographic spike in Japan.

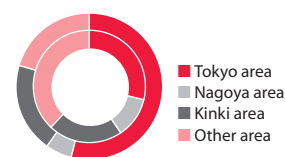
### Toward a more effective condominium business

In the condominium business, orders received increased 16.7% over the previous period. We were third in Japan in condominium units delivered in 2005 (Survey by Real Estate Economic Institute Co., Ltd.).

To further enhance profitability, we will make the business more effective by using online marketing, and by selective concentration of our sales offices. We will strengthen our promotion strategies by tailoring them to our target markets and our product concepts. We will also work to provide services and improve our selling power by exploiting the synergy created by collaboration among the Daiwa House Group companies. We intend to raise the proportion of online sales contracts from the current 16.8% to more than 30% in two years.

Since January 2002, all D' Series condominium units have been certified in terms of performance indicator evaluations under the Housing Quality Assurance Act. In particular, our minimum earthquake resistance grade is 2 (the second-best). While continuing to adhere to these high standards of basic functions and quality, we will work to improve our selling power by focusing on development and approaches that more precisely reflect our customers' needs, by utilizing our Condominium Friendship Clubs and our marketing research in the vicinities of proposed building sites.

### Area breakdown of condominium sales

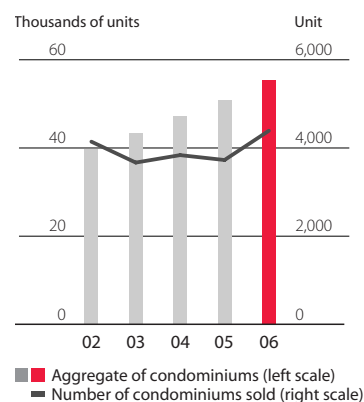


Inner circle: Daiwa House sales in FY2005 (non-consolidated)

Outer circle: Location of condominiums nationwide in FY2005

### Aggregate of condominiums and number of condominiums sold

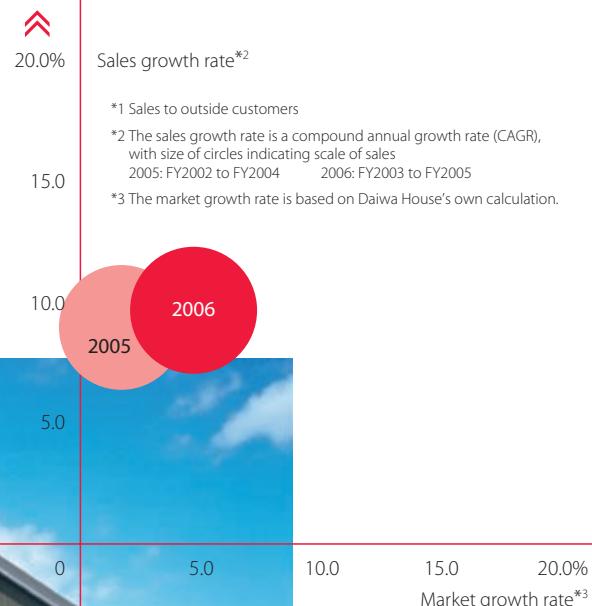
(Daiwa House Industry, non-consolidated)





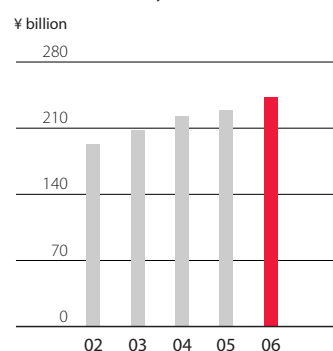
## Rental Housing

Sales ¥342.9 billion <sup>\*1</sup>



The Rental Housing Division offers business solutions, based on creation of high-asset-value rental housing products, to owners of land suitable for rental housing. After sale of the units, we offer many services to our land-owner customers to ensure consistently high occupancy rates and income. We develop properties to meet the diversifying needs of tenants arising from changing lifestyles. Thanks to their solid strictures, these properties protect tenants' lives and assets. Selection of equipment and drafting of specifications are based primarily on safety considerations. We also offer comprehensive support to owners, ranging from finding and introducing tenants to the building management, to maintenance to meet the owner's asset management needs.

**Sales**  
(Daiwa House Industry, non-consolidated)



### Strategic business that captures the needs of both owners and tenants

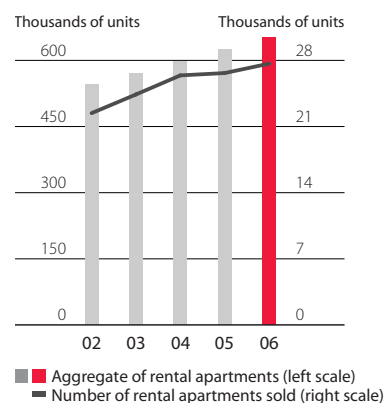
The number of new rental housing starts increased again in FY2005, and exceeded 500,000 for the first time in eight years. The Nagoya and Kinki areas stood out, with 21.1% and 21.8% growth, respectively. Given this backdrop, we have developed three business strategies: (1) aggressive growth in the three major metropolitan areas, (2) strengthening of business solutions for large-scale developments, (3) enhancing relationships with owners. With respect to (1), we have established mid- to high-rise property sales offices in Osaka and Nagoya in addition to Tokyo, and have begun to market mid- to high-rise properties suited to urban land use. With respect to (2), we have enhanced our capacity to offer viable proposals to owners of large sites, and also to create quality rental housing that reflects our assignment of high priority to the harmonization of city life with the natural environment. With respect to (3), we will continue to promote our DAPS, a system which supports owners in managing their rental housing through facility management support, operating support and asset management support. We have also developed a system (the PDB system) which meticulously analyzes the status of the assets and comprehensively helps with asset strategies.

### Enhancing the value of D-Room, the Daiwa House's rental housing line

We will continue to advance solutions in the form of quality rental housing, based on the needs of both owners and tenants. To support our owner clients, we are improving D-RoomChintai, our website attracting tenants for rental housing we have built, and enhancing recognition of the D-Room name. In addition to emphasizing development of large-scale properties, in urban areas, we are also developing more 3-story houses, which are more efficient in land use. In city-center areas, we are enhancing sales of mid- to high-rise properties and becoming more active in the use of real estate investment securitization schemes. In these ways, we are working to increase sales. We are also improving services by utilizing the synergy from the cooperation of the Daiwa House Group companies.



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



Providing services that  
reassure customers

Rental Housing Business

## Home Renovation

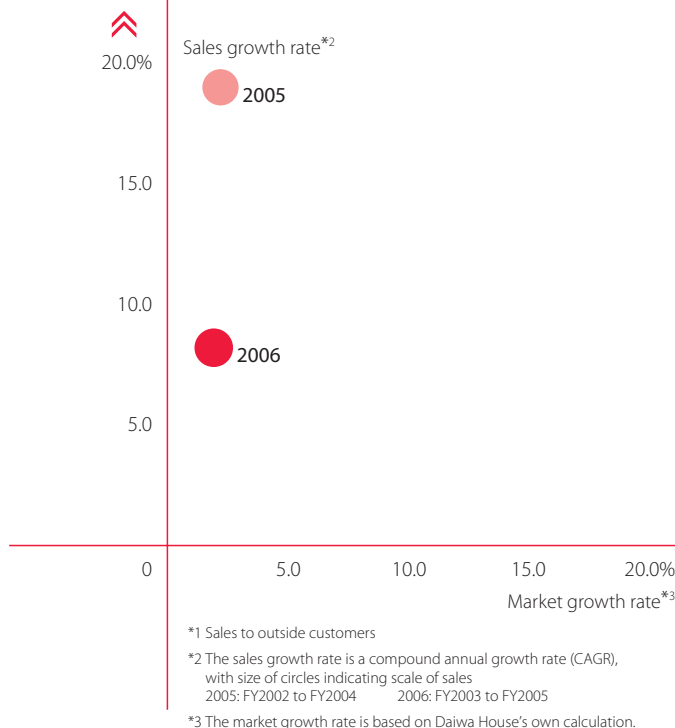
Sales ¥27.3 billion <sup>\*1</sup>

### Renew — passionate town house renovation

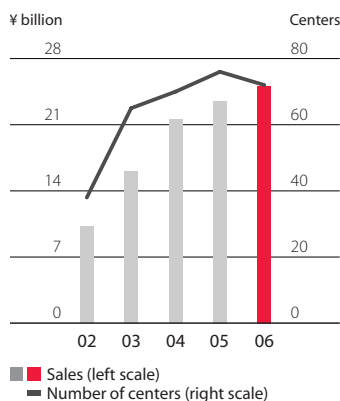
Due to factors such as an increase in housing stock, longer-lasting houses, improvements in anti-earthquake measures and crime prevention and an increasingly diverse range of lifestyles, there will be a growing need for home renovation. The home renovation market in Japan is therefore expected to increase in scale from ¥7 trillion in fiscal 2005 to over ¥8 trillion by 2010. In conjunction with Daiwa House Renew Co., Ltd., which was established in October 2004, as of August 2006, Daiwa House Industry's home renovation division operated primarily via 70 sales offices around the country. The division renovates more than 2,200 buildings each month on average. Operations are based on the concepts of "proposing comfortable lifestyles," "safe and secure living," "elderly resident-friendly housing" and "healthy living support housing."

### A CS-focused framework designed to instill confidence and provide peace of mind

By identifying latent needs based on studies of housing stock and by forming close relationships with potential customers, Daiwa House Industry's home renovation advice desks, located in 100 places in Japan, including in central areas and housing developments, continue to run initiatives such as organizing renovation-related events and providing information tailored to individual communities to gain customers' confidence and expand its business. As a high repeat rate has a major impact on business results, we also promote improvements to living spaces and environments based on factors such as the characteristics and climates of individual regions and changing generations and trends. Elsewhere, in addition to working on the development of the required training and sales structure and improving CS levels, we also focus on the continued recruitment of personnel with technical backgrounds and the establishment of a framework that will improve employees' skill levels and increase our retention rate.



### Renovation by Daiwa House Renovation Centers (Daiwa House Industry, non-consolidated)



Making our customers  
happy is my job.

Renovation







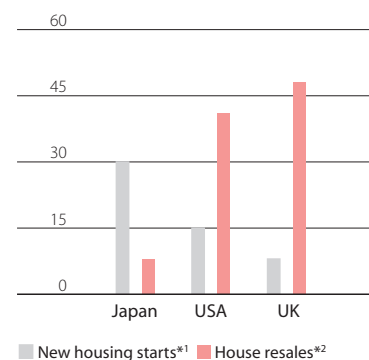
## Real Estate Agency Services

### More efficient business through “endless management” system

In addition to operations catering to our customers’ house-moving needs due to changing living environments and lifestyles, including the sale and purchase of housing and management schemes for short-term rental housing, the Daiwa House Group’s real estate agency operations also cover a comprehensive range of services such as management and maintenance. The Group’s real estate agency service company Nihon Jyutaku Ryutu Co., Ltd. works on ways to increase the asset value of condominiums, such as the D’s Bridge scheme, and also provides real estate securitization services for rental properties. As a result of our efforts to promote cooperation and collaboration between Group companies, we have increased the number of single-family houses, condominiums and other properties that we handle. In addition to expanding our network of sales offices, which are currently concentrated in the Kansai and Kanto areas, on a national scale, we also intend to develop a framework that will enable even greater synergy between business operations undertaken by individual Group companies.

### Comparison of circulation of resale houses

Per 1,000 households



\*1: as of 1997

\*2: Japan, 1994; USA & UK, 1996

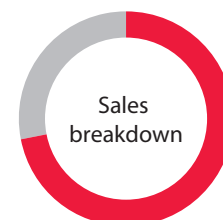





# Business

# Commercial Construction

Aiming to be the leader with our superior technical expertise and market database



Sales   
**¥445.2 billion**  
 (year-on-year + 22.4%)

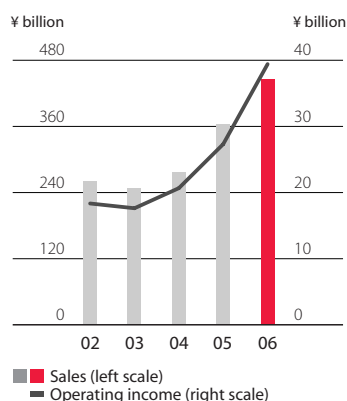
Operating income   
**¥39.4 billion**  
 (year-on-year + 44.3%)

The commercial construction business is the second pillar of the Daiwa House Group, accounting for 28.6% of total sales. This business consists of two divisions: the commercial facilities division, and the distribution and medical and nursing care facilities division.

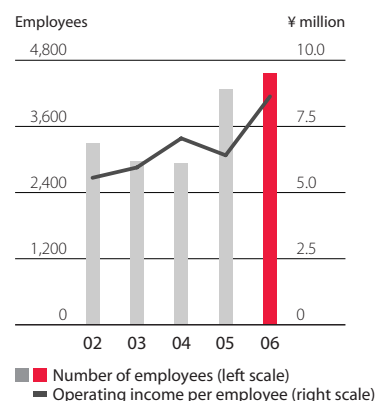
Based on nationwide land information, the commercial construction business promotes the application of land to the construction of commercial facilities best suited given the characteristics of the land. These commercial facilities include road-side shops and shopping centers, factories and distribution centers, and food manufacturing facilities and medical/care-related facilities, all with land development needs tailored to business purpose and land characteristics.

This segment is expanding its operations, not only into system construction, which manages the overall process of construction from production to completion in an integrated manner, but also operational management, conversion, and business consulting for efficient asset management.

Sales and operating income



Number of employees and operating income per employee





## Commercial Facilities Division

Sales      ¥314.2 billion <sup>\*1</sup>

20.0%

Sales growth rate <sup>\*2</sup>

<sup>\*1</sup> Sales to outside customers

<sup>\*2</sup> The sales growth rate is a compound annual growth rate (CAGR), with size of circles indicating scale of sales  
2005: FY2002 to FY2004      2006: FY2003 to FY2005

<sup>\*3</sup> The market growth rate is based on Daiwa House's own calculation.

15.0  
10.0  
5.0



0      5.0      10.0      15.0      20.0%  
Market growth rate <sup>\*3</sup>

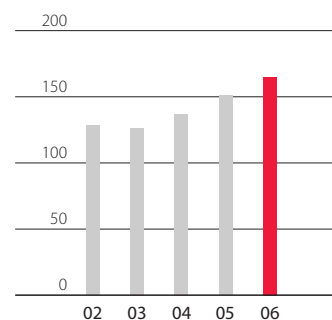


The commercial facilities division operates its business mainly based on the LOC System, an effective land utilization system that links land owners with tenant companies. Leveraging the information on land and store openings collected from the nationwide network, we bring an effective commercial shop business to reality for both land owners and tenant companies by proposing plans that effectively use the attributes of each site.

### Sales

(Daiwa House Industry, non-consolidated)

¥ billion

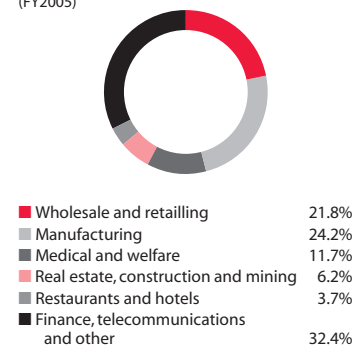


### Enhanced system responding to various store-opening patterns

In the market for the commercial facility construction, our mainstay business, some changes are noticeable: a decline in idle land with favorable conditions, renovations and reuse of existing buildings, and the emergence of larger-scale shops and complex commercial facilities. During the term we focused on strengthening development of multiplex commercial facilities and of systems to drive the reuse of existing shops and the replacement of tenants. Also, to respond to trends toward more diversified and complex commercial facilities, we reorganized the types of commercial facilities into certain patterns, such as the power-center type in which tenants are arranged around a shared parking area in the middle of the site, the open-mall type in which attached tenant shops with a unified exterior surround the parking space, and the in-mall type in which shops are constructed along a path inside the building. Consequently, we developed operational management and support systems better suited to the facilities of each type.



Large private-sector non-residential buildings in Japan  
(FY2005)



### Aggressive operations in the renovation market

With respect to road-side shops along the main road in suburban residential areas, market demand for alternative applications focuses not only on the effective use or reconstruction of idle land and little-used land but also the reuse or renovations of existing shops. The Daiwa House Group proposes the creation of new value through renovations, additions, reconstruction, and the sale of existing buildings based on the solutions presented by our New Value Creation (NVC) System. In the fiscal year under review, we set up specialized teams of conversion in three areas, namely Tokyo, Osaka, and Nagoya. These teams have outstanding expertise in real estate and legal matters as well as a strong leasing capability for the recruitment of new tenants to deal with problems confronting land and building owners and tenant companies. In this way, we are addressing issues facing land and building owners and tenant companies — dealing with tenant exits, changes in surround neighborhoods, and the need to raise profitability.

**I am always customer oriented.  
I am constantly committed to  
improving quality.**

Commercial Construction Work



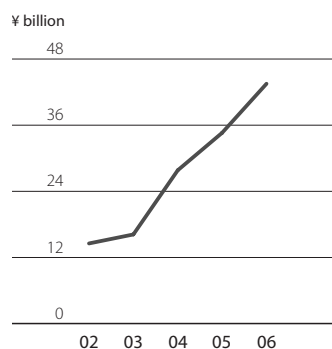
### Enhanced services to land owners

The number of members in the Owners Club, which was established to promote friendship and interaction among the land owners in the LOC System and improve their knowledge about asset utilization, reached 5,121 at the end of fiscal 2005. In the year under review, we strengthened the operational management proposal system by Group companies to respond to more diversified building maintenance needs. We also endeavored to maintain and increase royalties from landowners by bolstering our real estate business support services for land owners through proposals to trade land and buildings. We took steps to expand business opportunities as observed in the increase and progress in continuous orders and orders through introduction. We will continue to grow the size of the Owners Club by promoting activities to bolster relations among members and encouraging those who have not yet joined the Club to participate.

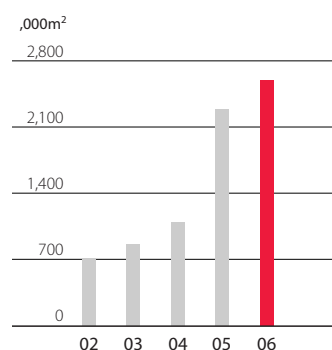
### Strengthened integrated power for asset utilization

To use land and buildings efficiently as business assets, we need to further improve the power to make propositions for the maintenance, management and operation of buildings going forward. In this respect, we not only effectively use the call center established in February 2006, but also accumulate know-how by setting up a team specializing in property management. At the same time, we are strengthening our ability to develop new store openings and power to make propositions for the effective move-in and replacement of tenants and the efficient and profitable use of land and buildings. Bearing in mind the supply of properties to J-REIT, we are also making an aggressive effort to develop and resell high value-added property investment products, while examining the use of diverse property development and investment methods, including securitization and the use of special purpose companies (SPCs).

### Orders for large commercial facilities



### Areas subleased in commercial buildings



**I will undertake sales activities to inspire our customers, making full use of the Group's business resources!**

Sales, Commercial Facilities





## Distribution and Medical and Nursing Care Facilities Division

Sales ¥122.6 billion \*1

2005

15.0

10.0

5.0

0

2006

\*1 Sales to outside customers

\*2 The sales growth rate is a compound annual growth rate (CAGR), with size of circles indicating scale of sales  
2005: FY2002 to FY2004 2006: FY2003 to FY2005

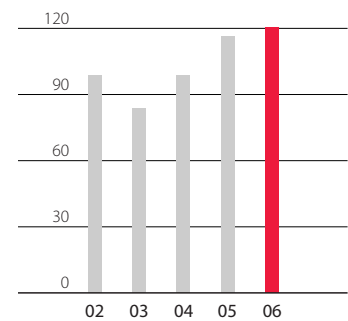
\*3 The market growth rate is based on Daiwa House's own calculation.

5.0 10.0 15.0 20.0%  
Market growth rate\*3

### Sales

(Daiwa House Industry, non-consolidated)

¥ billion



The distribution and medical and nursing care facilities division consists of two sub-divisions: distribution facilities and medical and nursing care facilities.

In distribution facilities, encompassing factories and food-related facilities, we propose not only the use of idle or little-used land as asset solutions, but also store opening plans, construction plans, and facilities management, leveraging our nationwide information network of the most appropriate locations.

In medical and nursing care facilities, we make comprehensive propositions ranging from facility construction plans to operational support from diverse perspectives, encompassing revisions to the law and social changes and the views of the elderly, caretakers and facilities operators, mainly based on our research and analyses at the Silver Age Research Center, established in 1989.



## Distribution Facilities

### Providing integrated solutions to distribution facilities

In the efficiency of distribution systems and the trend toward outsourcing, particularly in retailing and distribution industries, demand is rising for integrated high value-added multifunctional and fragmented distribution services, including distribution processing functions. With distribution facilities becoming larger and multifunctional, we promote the Partner Coordination System (PCS), which links distributors with cargo owner companies, and apply our nationwide information network making use of the Group's strengths in our distribution proposals. We also focus on the construction and commercialization of distribution facilities using idle land of corporate customers.

### Proposal of ideal solutions for detailed user needs

Based on active information exchange and collaboration with potential corporate customers, by narrowing down target companies and through PCS, the Daiwa House Group proposes not only the construction of distribution facilities, but also effective, efficient and comprehensive distribution solutions designed to optimize the business overall.

To acquire and effectively use land with conditions that meet the needs of users, we are bolstering area research and community-oriented sales activities. On that basis, we endeavor to expand our market share by proposing solutions for the construction and leasing of food facilities matching HACCP\*<sup>1</sup>, based on our own scheme called "food factory lease," which makes use of our business consulting capability for HACCP and sophistication approvals in cooperation with the Food Hygiene Technology Advisory Group, and also leverages our broad network and information capability. In addition to solution proposals, we also promote real estate liquidation businesses such as D Project\*<sup>2</sup>.

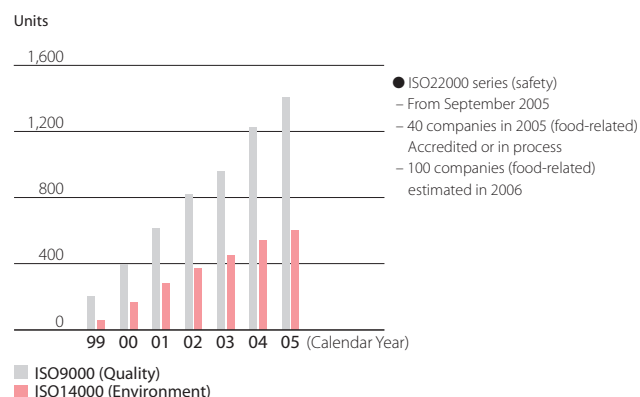
\*1 HACCP (Hazard Analysis and Critical Control Point): The international standard for food sanitary management.

\*2 D Project: Daiwa House Industry purchases commercial land and makes a contract for the construction of a building with a leasing company after renting the land out to the leasing company. The leasing company as building owner enters into a contract with tenant companies. Bearing in mind the sale (exit strategy) of the property to domestic and foreign funds and REITs, etc. in the future, Daiwa House Industry will purchase the building from the leasing company to own both the land and the building, so as to construct a business able to respond to the securitization of real estate and simultaneously secure construction profit, leasing profit and sales profit.



### Number of organizations in Japan accredited for conformity with international standards regarding product quality and environmental management systems (food, beverages and cigarettes)

(as of January 10, 2006)



I fill both of the hands of our customers with satisfaction: the success of business on the one hand and the satisfaction of working with Daiwa House on the other.

### Construction of Distribution Facilities



## Medical and Nursing Care Facilities

### From large care facilities to small multifunctional homes

The medical and nursing care facilities business offers comprehensive business consulting services covering every aspect from research and study in areas related to medical, nursing care, and welfare for the elderly to concepts, design, construction, and operational plans, mainly provided by the Silver Age Research Center. In Japan, the percentage of the population consisting of older people aged 65 and over is expected to reach 25% in 2015, so demand for medical and nursing care facilities is certainly rising.

The performance of Reanju and Reanju Sopra, products for private nursing homes in commemoration of the 50th anniversary of foundation, has remained brisk. We are also pushing ahead with the development of small multifunctional homes, demand for which is expected to grow further, employing and standardizing the Reanju system.

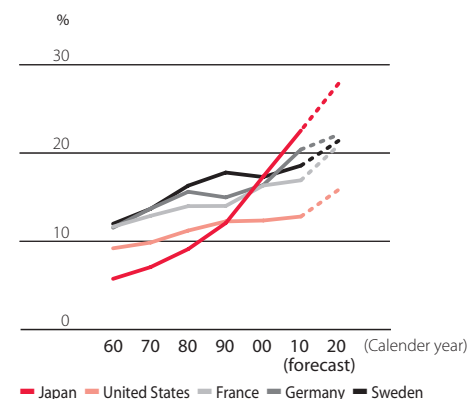
### For the coming era of an aging population

The Silver Age Research Center aggressively promotes research and study in cooperation with other companies and based on academia-industrial alliances, as observed in the collaboration with Nichii Gakkan Company and a joint research project with Osaka City University. We are aggressively applying the results of the research to business, the formation of plans for houses designed for elderly residents and small multifunctional homes, and land utilization proposals, which we have cultivated through the activities of the Group. Particularly in small multifunctional homes, demand for new construction and large renovations is expected to rise, since the Ministry of Health, Labor and Welfare has recognized small multifunctional home caring services as a style that should serve as a model for caring for the elderly in Japan, and has included this item in the amendment to the Nursing Care Insurance Law in fiscal 2006.

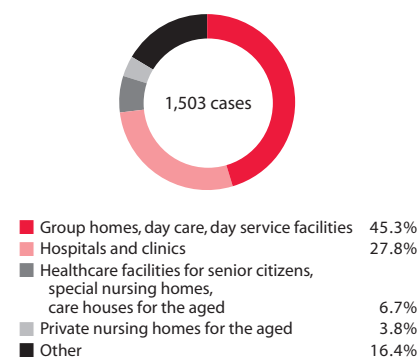
We are seizing business opportunities by making use of the land information of the Group and our strong track record in conversion. We are also involved in a market analysis for the development of business for healthy elderly persons and social welfare for the non-elderly segments of the population.



Global comparison of aging populations



Projects of the Silver Age Research Center





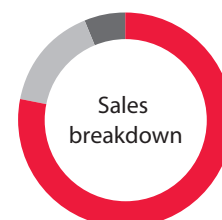



Life




# Resort Hotels and Sports Life Business

Adding new sports facilities and supporting an enriched way of life



Sales   
**¥66.4 billion**  
 (year-on-year + 19.3%)

Operating income   
**¥1.0 billion**  
 (year-on-year – 46.6%)

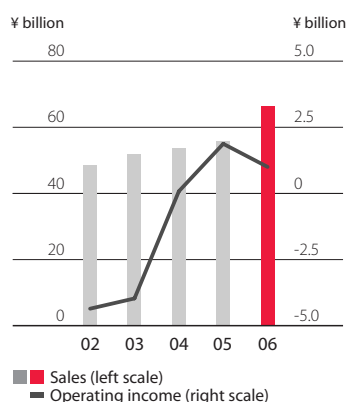
■ Hotels 78.1%  
 ■ Sports facilities 15.7%  
 ■ Golf courses 6.2%

The business segment, up to fiscal 2004 centered on resort hotels, absorbed Nippon Athletic Service Co., Ltd. as a new Group member in fiscal 2005 and was relaunched as the Resort Hotels and Sports Life Business.

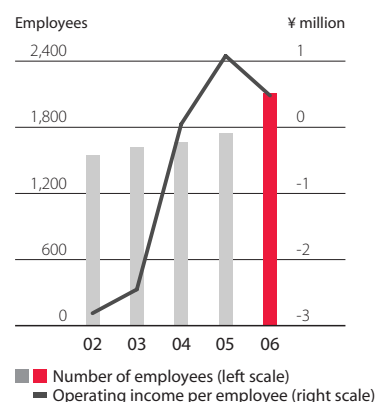
The segment now operates 29 resort hotels, 10 golf courses and 46 sports-related facilities around Japan. It is committed to providing relaxing spaces at a time of rising health consciousness and concern regarding use of leisure time.

In addition to providing accommodation services in resort areas of great natural beauty and offering access to rich local cuisines, the business also runs sports clubs (golf, tennis, fitness, swimming, and other sports). The business accounts for 4.4% of total sales.

Sales and operating income



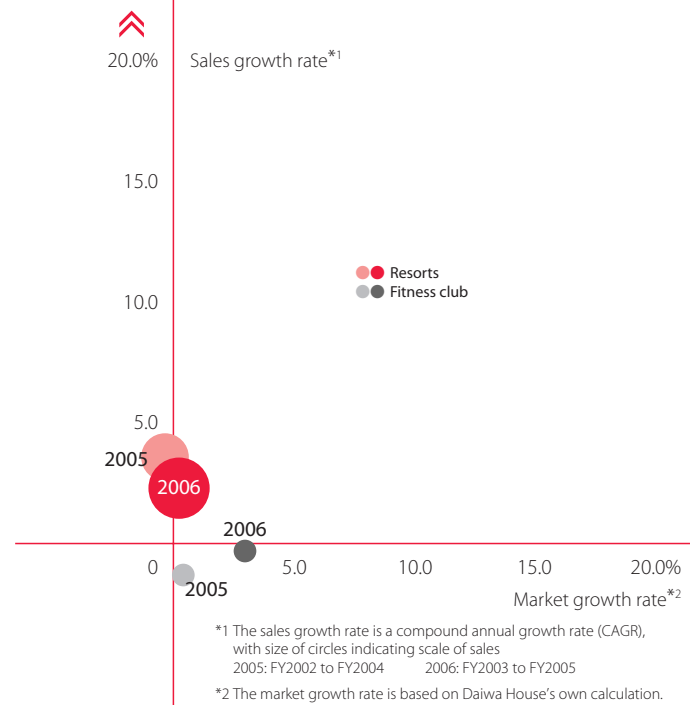
Number of employees and operating income per employee



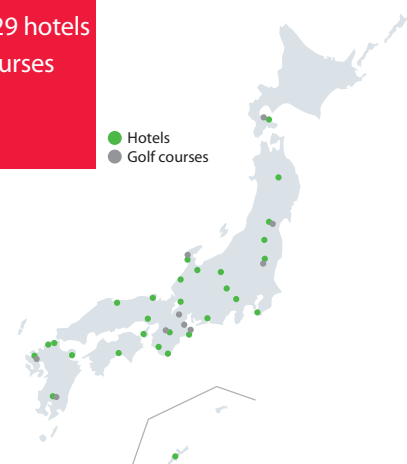
## Focus on overseas visitors and older, still active customers

Reflecting positive trends in the Japanese economy, the domestic tourism industry saw an increase in the number of domestic overnight trips from 1.71 per person the previous fiscal year to 1.82 in fiscal 2005, with a similar increase in the number of nights spent in hotel accommodation from 2.78 to 2.94. The number of overseas visitors coming to Japan reached a record high 6.73 million, due in part to the government's Visit Japan campaign.

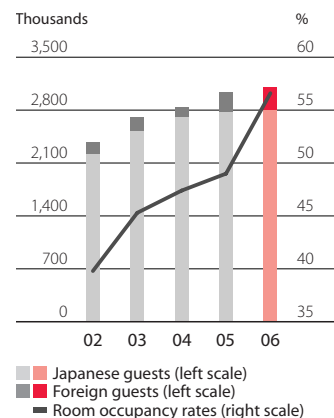
Efforts to boost the pulling power of Daiwa Royal Hotels in the eyes of overseas visitors attracted approximately 320,000 overseas guests over the course of fiscal 2005 (up 16.0% year-on-year). In an effort to increase weekday occupancy rates, we also launched a weekday resort hotel membership campaign called Aging Resort Tourism aimed at retired members of the baby boom generation and active seniors. Elsewhere, we launched a new service called Comfort Club, which organizes golf, hiking, fishing, photography and other interest-oriented activities, for customers belonging to the Daiwa Royal Hotel Members Club to encourage existing members of get more use out of our hotels.



## Network 29 hotels 10 golf courses in Japan



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





### Offering services carefully tailored to meet specific resort hotel needs

Efforts to boost the pulling power of Daiwa Royal Hotels are proceeding according to plan, with hotels attracting approximately 3.11 million overnight users in fiscal 2005 (up 2.3% year-on-year) and an increase in occupancy rates of 7.5 percentage points from the previous fiscal year. However, investing in human resources to provide new services, increasing costs due to rising energy bills as a result of high oil prices and improvements in profitability are becoming serious issues.

In addition to efforts to offer our customers a wider choice of food, by introducing macrobiotic (designed to boost longevity through natural ingredients), oriental-western fusion or multi-dish menus for example, to increase customer numbers and the amount spent per customer, we also intend to focus on enhancing hotel facilities with the aim of developing overnight resort hotels in the future. In terms of wedding services, we are making every effort to provide services carefully tailored to meet a wide range of needs through initiatives such as the introduction of an advance ordering system to enable us to provide wedding reception guests with menus that suit their individual tastes and improving our overnight wedding and evening wedding services.

### Striving to achieve synergy with NAS sports facilities

We are striving to increase attendance rates at the ten golf courses that we manage around the county through initiatives such as competition and course design schemes for active members and the introduction of a sub-membership system for Friendship Clubs. In the future, we plan to develop overnight packages in conjunction with our resort hotels and establish a joint membership system incorporating NAS sports clubs run by Nippon Athletic Service in an effort to provide access to more convenient, easy to use sports facilities. In addition to capitalizing on the synergy effect resulting from the similarities between customers using NAS clubs, resort hotels and golf courses and working to increase fitness club membership numbers, we are also making every effort to improve our results by expanding NAS clubs into shopping malls and hotel complexes run by the Daiwa House Group to achieve a synergy effect across the entire Group.



### Network 46 Sports clubs in Japan




**I offer the best possible services  
to make our customers happy.**


Bridal Coordinator

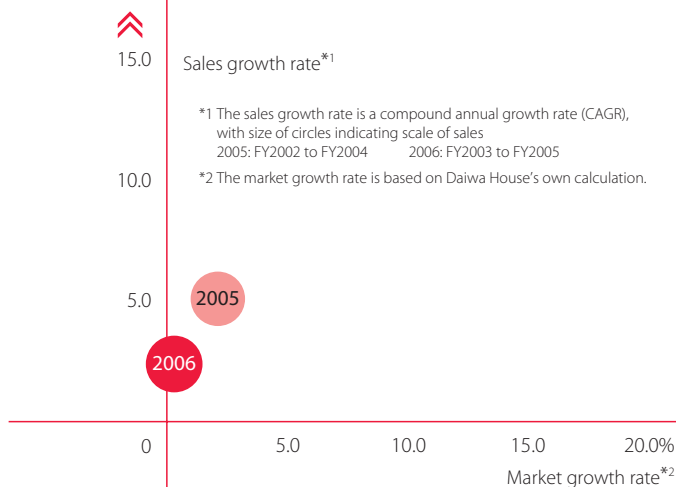


# Home Center Business

Identifying customers' precise needs and developing shops

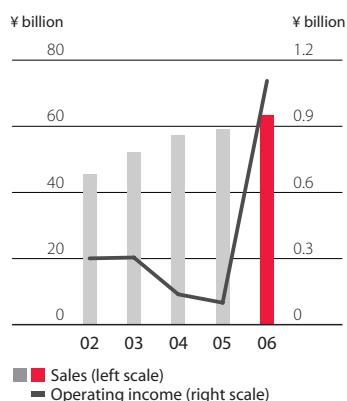
Sales   
**¥63.2 billion**  
 (year-on-year + 6.9%)

Operating income   
**¥1.1 billion**  
 (year-on-year + 1,004.4%)

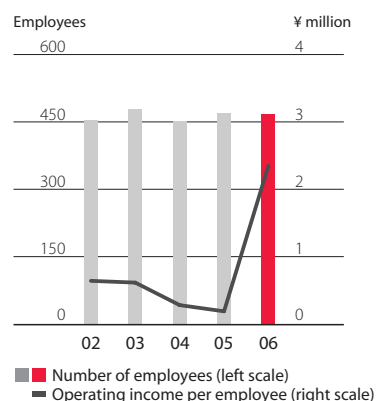


Our home center business accounts for 4.0% of our overall business activities. We operate Royal Home Centers, which stock over 50,000 items on average and have a wide range of users from members of the general public to specialist companies, throughout the country. In fiscal 2005, we opened the Yokohama Shiki No Mori Royal Home Center in Kanagawa Prefecture, taking the total number of shops to 40 nationwide. In an effort to break away from intensifying cut-price competition within the industry, we have also implemented product and price reviews and sales area reforms.

Sales and operating income



Number of employees and operating income per employee



Network 40 home centers in Japan



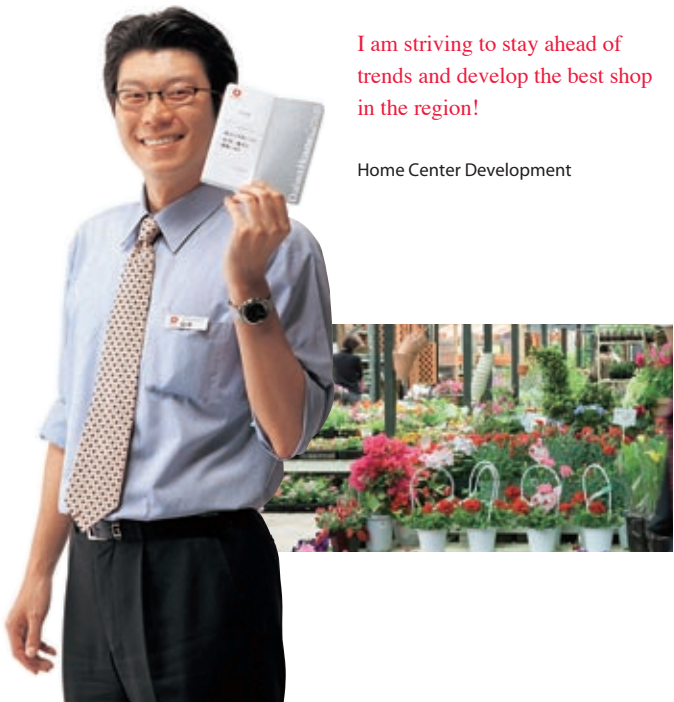
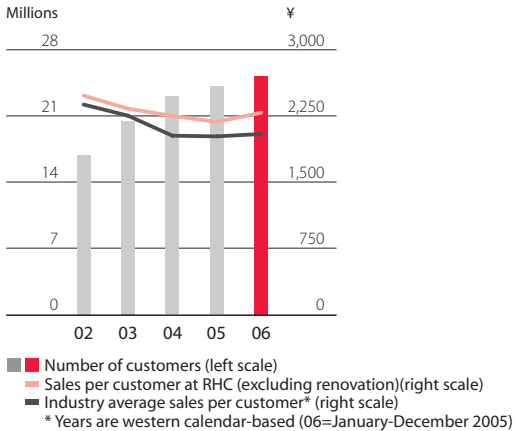
Shop development geared towards breaking away from price competition

In the face of intensifying price competition from rival companies in the home center industry and companies from other industries on the back of the current modest economic recovery, we have been actively implementing strategies designed to expand our customer base and attract repeat customers. We have moved away from our previous marketing strategy, which relied on sales of special-offer and low price products, in favor of a new strategy based on ranges of made-to-order high-added-value “home solution” products and improvements in development of sales spaces. This has enabled us to cut operating costs. We have also developed a sales area system that gives more power to individual shops to enable the development shops that reflect local needs and their respective locations and have started to expand or scale down opening hours (early morning opening) and departments at individual shops as necessary. As a result of these efforts, the total number of customers purchasing products in fiscal 2005 increased to 25.2 million, up 4.5% year-on-year, with the amount spent by each customer rising to ¥2,301, a year-on-year increase of 4.9%.

Making full use of existing facilities and developing shops in line with local needs

To make individual shops more competitive, we intend to establish a system to encourage the development of sales areas that closely reflect the local region and surrounding area in the future. In addition to giving significantly more power to individual shops and sharing and reviewing information on sales area design (including shopping flow) and product composition between shops, we are also promoting initiatives such as enhanced training schemes to improve CS levels and a standardized feedback system in response to customer inquiries. In terms of measures to increase the number of returning customers, we plan to introduce ESLP (Everyday Same Low Price) household items and made-to-order high-added-value products and to improve information provision and services. In addition to increasing overall customer numbers and the amount spent per customer, initiatives such as these will help reduce operating costs and increase our profit margins.

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



I am striving to stay ahead of trends and develop the best shop in the region!

Home Center Development






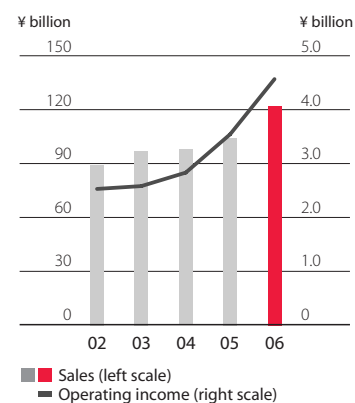
## Other Businesses

Providing multifaceted support for all areas of business as a Group

Sales   
**¥121.9 billion**  
 (year-on-year + 17.1%)

Operating income   
**¥4.5 billion**  
 (year-on-year + 29.0%)

Sales and operating income



### Commencing infill business

Daiwa Rakuda Industry Co., Ltd., which handles the manufacture and sale of household equipment and furniture and insurance agency services, has expanded its building materials manufacturing and sales division to include sales of interior fittings such as curtains and lighting. It has also launched an infill business offering comprehensive layout and interior options for condominiums. In addition to accepting more orders for shop-related interior fitting work and health and welfare facilities, the company's space system division has also established a system designed to accept showroom refurbishment orders from the likes of pre-fabricated housing suppliers and local construction firms. The lease division has stepped up the lease and sales of furniture and fixtures for various events and government and public institutions and has set up a new delivery center in Kanagawa Prefecture to increase leasing business in the Kanto area, with the framework in place for a full-scale launch in May 2006.



### Operating a comprehensive distribution service business

Daiwa Logistics Co., Ltd., provides logistics services covering any industry and field based on distribution expertise built up through the transportation of housing and building materials. It has changed its three-block sales structure to a seven-zone structure to increase operating profits and create a sales system in closer contact with its customers and is working to speed up the decision making process at all of its premises in an effort to improve customer service. After starting construction two years ago, all eight distribution centers around the country have now been completed, enabling the full-scale launch of our Asset 3PL service, whereby we will handle all distribution operations for client companies. As part of this service, Daiwa Logistics provides not only its distribution network and distribution system but also the necessary distribution centers (hardware) that companies require. It is designed to resolve issues facing companies looking to review their logistics operations whilst also taking care of all of their distribution operations. We intend to focus on this service to turn it into a key source of profit in the future.

### Business hotels designed to secure repeat customers

Over the course of fiscal 2005, the business hotel industry has seen a general reduction in prices across the board, the expansion of customer and repeat customer bases and the increasing use of IT in rooms. In addition to focusing on online reservations and the provision of internet connections in all rooms as part of our hotel businesses, we have also been working on improving services for female guests, couples and families with children, resulting in an occupancy rate of 77.3% (up 8.2 percentage points year-on-year). After opening a new Daiwa Roynet Hotel in Wakayama in fiscal 2005, we now operate a total of five such hotels, along with our existing Roynet Hotels, the Royton Sapporo and the Osaka Marubiru (Osaka Dai-ichi Hotel). We plan to open a further five new hotels in fiscal 2006 and intend to continue to open a number of new hotels every year in the future as we actively develop this line of business.



For me, it's the smile  
that does it.  
I always welcome guests  
with a smile.

Hotel Receptionist





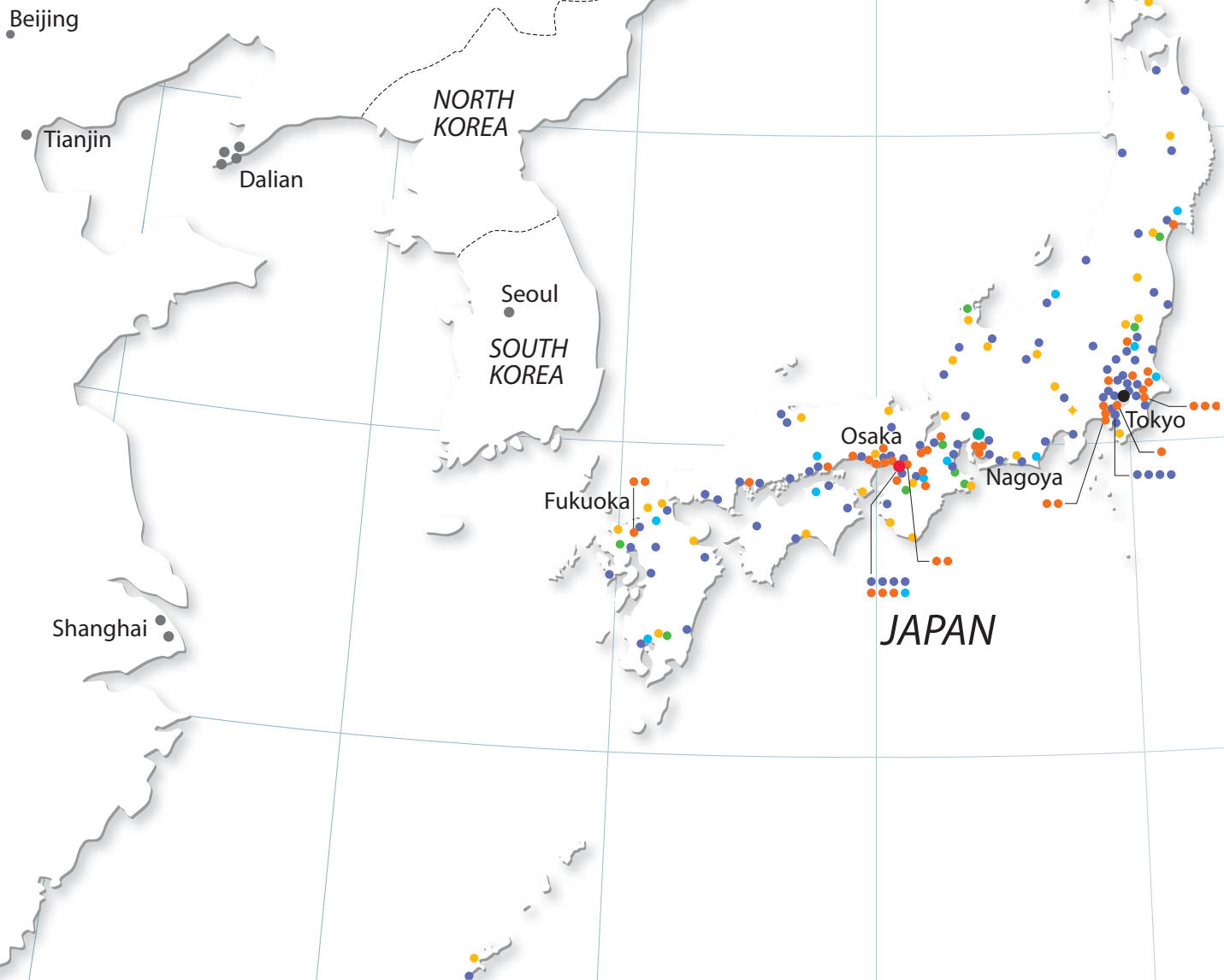




# Group Network

- Head office
- Tokyo office
- Nagoya office
- Branches: 91 (including Head Branch)
- Factories: 13  
(The above places of business are directly operated by Daiwa House.)
- Golf courses: 10
- Daiwa Royal Hotels: 29
- Royal Home Centers: 40  
Daiwa Resort Co., Ltd. also manages the Royton Sapporo, and the Lake Yamanaka Fujisan Royal Cottages (marked with ♦).
- It also operates a branch office in Seoul (marked with ●).
- Overseas subsidiaries and affiliates: 9

As of July 1, 2006



## Principal Group Companies

### Daiwa House Industry Co., Ltd.

3-3-5 Umeda, Kita-ku, Osaka 530-8241  
Phone: +81-6-6346-2111  
URL: [www.daiwahouse.co.jp](http://www.daiwahouse.co.jp)

### Daiwa Logistics Co., Ltd.

Transportation of goods; warehousing; logistics services  
1-5-16 Awaza, Nishi-ku, Osaka 550-0011  
Phone: +81-6-4968-6355  
URL: [www.daiwabutsuryu.co.jp](http://www.daiwabutsuryu.co.jp)

### Daiwa Information Service Co., Ltd.

Land development; management of commercial facilities  
7-14-4 Ueno, Taito-ku, Tokyo 110-0005  
Phone: +81-3-5828-8891  
URL: [www.dis-net.jp](http://www.dis-net.jp)

### Royal Home Center Co., Ltd.

Sale of do-it-yourself, gardening, and interior goods  
3-3-5 Umeda, Kita-ku, Osaka 530-0001  
Phone: +81-6-6342-1676  
URL: [www.royal-hc.co.jp](http://www.royal-hc.co.jp)

### Daiwa Kosho Lease Co., Ltd.

Leasing of buildings and vehicles; business leasing  
2-1-36 Noninbashi, Chuo-ku, Osaka 540-0011  
Phone: +81-6-6942-8011  
URL: [www.daiwakosho.co.jp](http://www.daiwakosho.co.jp)

### Daiwa Living Co., Ltd.

Management of rental housing  
3-13-1 Iidabashi, Chiyoda-ku, Tokyo 102-0072  
Phone: +81-3-5214-2330  
URL: [www.daiwaliving.co.jp](http://www.daiwaliving.co.jp)

### Nihon Jyutaku Ryutu Co., Ltd.

Real estate agency (including property management, asset appraisal, housing renovation, etc.)  
1-1-3-800 Umeda, Kita-ku, Osaka 530-0001  
Phone: +81-6-6344-6356  
URL: [www.jyutaku.co.jp](http://www.jyutaku.co.jp)

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

Management of hotels and golf courses  
3-3-5 Umeda, Kita-ku, Osaka 530-0001  
Phone: +81-6-6342-1731  
URL: [www.daiwaresort.co.jp](http://www.daiwaresort.co.jp)

### Daiwa Rakuda Industry Co., Ltd.

Sale of household equipment and furniture; insurance agency  
1-5-16 Awaza, Nishi-ku, Osaka 550-0011  
Phone: +81-6-6536-6111  
URL: [www.daiwarakuda.co.jp](http://www.daiwarakuda.co.jp)

### Daiwa Service Co., Ltd.

Management of office & condominium buildings; staff dispatch; house-moving service  
1-5-16 Awaza, Nishi-ku, Osaka 550-0011  
Phone: +81-6-6536-6270  
URL: [www.daiwaservice.co.jp](http://www.daiwaservice.co.jp)

### Daiwa Royal Co., Ltd.

Rental of commercial facilities; hotel operations  
7-14-4 Ueno, Taito-ku, Tokyo 110-0005  
Phone: +81-3-3844-8357  
URL: [www.daiwaroyal.com](http://www.daiwaroyal.com)

## Housing Sales Companies

Daiwa House Kansai Corporation 6 other companies

## Others

### Daiwa House Renew Co., Ltd.

Specified manpower dispatch business for home renovation

### Jukeikai Co., Ltd.

(Neo Summit Yugawara)

Operation of health-management facilities for the elderly

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

Asset management

### Media Tech Inc.

Information processing services

### Daiwa Energy Co., Ltd.

Energy conservation support

### Osaka Marubiru Co., Ltd.

Management of hotels and restaurants

### Synchroller Co., Ltd.

Manufacture of housing components

### LOC Development Co., Ltd.

Development and management of shopping centers

### Daiwa Estate Co., Ltd.

Real estate agency services

### Nippon Athletic Service Co., Ltd.

Management of Sports Club NAS

### Shinwa Agency Co., Ltd.

Advertising and travel agency

### The Mortgage Corporation of Japan, Ltd.

Finance of housing loan

## Overseas Affiliated Companies

DH (Dalian) Administrative Management Consulting Center Co., Ltd.  
Clerical work outsourcing provider

Dalian Fujiashuang International Villa Co., Ltd.  
Management of rental housing

Dalian Dahezhongsheng Estate Co., Ltd.  
Development and marketing of condominiums

Tianjin Jiuhé International Villa Co., Ltd.  
Management of rental housing

Shanghai International Realty 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

Beijing East Palace Apartment Co., Ltd.  
Management of rental housing

Shanghai Happy House Decoration Co., Ltd.  
Design and installation of housing interiors



# A Story of Daiwa House Group



**1955** Daiwa House Industry Co., Ltd. established  
First house model, the "Pipe House," launched on market



**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 Kosho Lease Co., Ltd.) and Daiwa Konpo (current Daiwa Logistics Co., Ltd.) established  
"Midget House" pilot prefabricated house model launched on market



**1961** Daiwa Danchi established (merged with Daiwa House in April 2001)  
Stock listed on Osaka, Tokyo and Nagoya stock exchanges

**1965** Nara Factory constructed, Japan's first specialist plant for production of prefabricated houses

**1968** Network of housing showrooms set up across Japan

**1969** Fullscale start of new town development business (Midorigaoka Neopolis)

**1971** Daiwa Jutakukiki (current Daiwa Rakuda Industry Co., Ltd.) established

**1974** Seven of the Company's plants — the Nara, Mie, Ryugasaki, Sapporo, Shikoku, Fukuoka and Kagoshima plants — receive product quality management awards from MITI



**1977** Condominium Business starts

**1978** Resort hotels business started with opening of Noto Royal Hotel, the first Daiwa Royal Hotel

**1979** Real Estate Information centers set up within each of the Company's offices as first step in developing the used housing market  
Tentakubin (current Daiwa Service Co., Ltd.) established



**1980** First Royal Home Center opened in Nara City

**1983** Exports and construction of high-end prefabricated houses to China (a first for Japan)

**1986** Daiwa Information Service Co., Ltd. established

**1989** Daiwa Living Co., Ltd. established  
Silver Age Research Center established



**1994** Daiwa House Central Research Laboratory opened in Kansai Science City

**1995** The Daiwa House Group provided disaster relief to areas hit by the Great Hanshin Earthquake, constructing temporary housing in January

**2001** Daiwa House Industry Co., Ltd. merged with Daiwa Danchi Co., Ltd.

**2003** All 13 of the Company's plants reach "zero emission" targets

**2004** Home center business spun-off  
The Daiwa House Group draws up its Corporate Ethics Guidelines and Behavioral Guidelines



**2005** **50th anniversary**  
Sales of "Intelligence Toilet" commenced  
Daiwa House Group draws up a new management vision and an Employee Charter to mark 50th anniversary  
New Group symbol — the "Endless Heart" — introduced



**2006** Group management unified through share exchange arrangements between Daiwa House Industry and its subsidiaries Daiwa Kosho Lease, Daiwa Rakuda Industry, and Daiwa Logistics, by which the subsidiaries became wholly owned subsidiaries of Daiwa House Industry



We will fulfil the mission of continuous growth entrusted to us  
by our founder Nobuo Ishibashi.

# Never Stop Growing

## Toward Our 100th Anniversary

The Daiwa House Group developed  
prefabricated housing in Japan after the Second World War.  
Founder Nobuo Ishibashi pushed out the boundaries  
of the housing market in Japan and made important contributions  
to the development of Japan's society and economy.  
We consider ourselves heirs to this pioneer spirit,  
and will continue to realize his enduring legacy in the future.









# Financial

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<b>126</b>	Notes to Consolidated Financial Statements
<b>148</b>	Independent Auditors' Report

# Consolidated Seven-year Summary

Daiwa House Industry Co., Ltd. and Subsidiaries  
Years ended March 31, 2000 to 2006

	Millions of yen						
	2006	2005	2004	2003	2002	2001	2000
Net sales	¥1,528,983	¥1,365,914	¥1,224,648	¥1,184,544	¥1,197,925	¥1,016,237	¥ 951,073
Cost of sales	1,213,644	1,082,133	963,457	936,861	945,474	794,170	736,310
Selling, general and administrative expenses	235,267	215,932	201,530	202,411	206,420	177,777	167,266
Operating income	80,072	67,849	59,661	45,272	46,031	44,290	47,497
Income (loss) before income taxes and minority interests	82,155	63,108	67,897	(155,157)	9,538	12,796	32,123
Net income (loss)	45,184	40,262	37,257	(91,388)	5,217	6,256	17,450
Total assets	1,475,197	1,358,807	1,087,658	1,094,441	1,187,127	1,066,457	981,893
Shareholders' equity	576,534	524,110	493,050	483,684	582,438	613,867	617,421
Property, plant and equipment, less accumulated depreciation	505,471	441,388	344,268	349,646	426,630	383,853	376,489
Capital investments	110,144	56,696	20,108	24,711	64,432	30,559	16,923
Depreciation	26,815	19,243	15,165	21,386	20,883	19,731	20,327
Net cash provided by operating activities	90,482	56,095	69,659	40,459	87,021	64,074	40,574
Net cash used in investing activities	(107,857)	(53,069)	(25,937)	(27,316)	(36,229)	(25,273)	(9,340)
Net cash provided by (used in) financing activities	(9,264)	5,889	(6,126)	(57,713)	(89,535)	(6,217)	(41,443)
Issued and outstanding* (thousands)	546,915	546,222	546,426	546,816	546,054	519,340	523,893
Stock prices at the end of term (in yen)	2,040	1,232	1,328	683	815	811	703
Per share of common stock (in yen):							
Basic net income (loss)	81.88	73.26	68.16	(167.06)	9.55	12.05	33.52
Diluted net income							33.50
Shareholders' equity	1,053.37	959.08	902.32	884.55	1,066.63	1,182.01	1,188.63
Price earnings ratio (PER)	24.91	16.82	19.48	—	85.31	67.30	20.97
Price to book value ratio (PBR)	1.94	1.28	1.47	0.77	0.76	0.69	0.59
Return on equity (ROE) (%)	8.2	7.9	7.6	(17.1)	0.9	1.0	2.9
Shareholder's equity to total assets (%)	39.1	38.6	45.3	44.2	49.1	57.6	62.9
Current ratio (%)	145.1	159.0	177.6	174.2	157.5	195.0	230.8
Fixed ratio (%)	148.3	142.4	119.0	129.5	110.6	88.8	86.1

\* Excluding shares in treasury



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

Year Ended March 31, 2006

## Business Environment and Financial Strategy

During the term under review, the year ended March 31, 2006, the Japanese economy sustained its ongoing recovery, with an increase in capital investment on the back of improved corporate earnings, as well as robust personal consumption.

Conditions were favorable overall in the housing and construction industry, too, with the number of new housing starts increasing for the third year in a row. Condominiums and rental housing made a strong showing, feeding off the boom in inner-city apartments and the burgeoning construction of rental apartments for real-estate investment. This comes in spite of the second consecutive fall in the construction of single-family houses following on from the previous term. Meanwhile, general construction also appears to be making a moderate recovery, despite sluggish public sector investment overall due to strong private-sector capital investment.

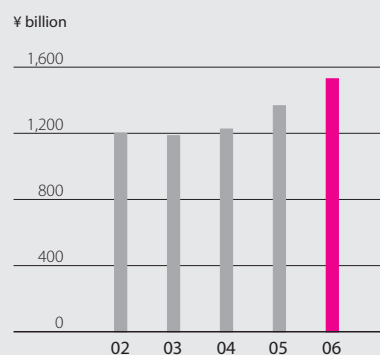
In this business environment, the Daiwa House Group has been working to bolster its sales network, by emphasizing close ties with the local community, creating a service network that will allow the Group to meet the specific needs of individual customers, and develop ever more attractive new products. The term under review marks the first year of our Medium-Term Management Plan "Challenge 2005." By strengthening cooperation among group companies, we have been able to offer a full line-up of services, ranging from building construction and maintenance, to facility management and renovation. We have worked hard to maintain ties with our valued customers, specifically by creating a system that supports our relations with them.

In addition to pursuing synergies within the Group, we made the Nippon Athletic Service Co., Ltd., which manages the NAS chain of sports clubs, into a consolidated subsidiary, to substantially increase revenues. Besides this, with the approval of the Boards of Directors of companies involved, the Group's publicly listed consolidated subsidiaries Daiwa Kosho Lease Co., Ltd., Daiwa Rakuda Industry Co., Ltd., and Daiwa Logistics Co., Ltd. are to be turned into wholly owned subsidiaries through exchange of shares.

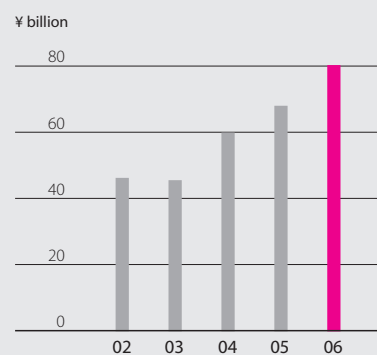
In the Medium-Term Management Plan "Challenge 2005," sales, recurring profit\*, and the return on equity (ROE) are presented as management indexes to be used to gauge the growth and development achieved through the promotion of group management as outlined above. The targets for each of these indexes that are to be achieved by the final year of the program, the year ending March 2008, are as follows: sales of ¥1,700 billion, recurring profit of ¥100 billion, and an ROE of 9.0%. However, with these figures coming in at ¥1,528.9 billion (US\$13,068 million), ¥103.0 billion (US\$881 million), and 8.2%, respectively, in the first year of the program, the Group is evidently well on track to achieving these targets.

Of these targets, sales and recurring profit have surged 11.9% and 38.9% (up 9.6% excluding the impact of amortization of actuarial losses on the retirement benefits) respectively year-on-year, and if this trend is maintained, the Group can be expected to achieve the targets it has set. In addition to this, ROE, which provides the benchmark for measuring progress made in improving management efficiency, a core issue in group management, has also seen a 0.3 percentage point

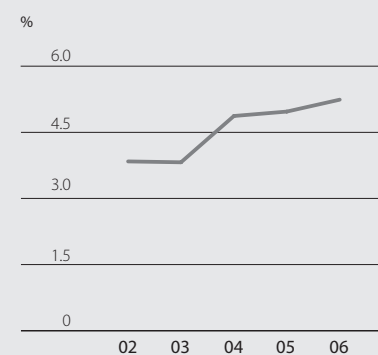
Net sales



Operating income



Operating profit margin



year-on-year improvement thanks to a stronger financial leverage and better profit margin. The Group plans to leverage this position, and plans to spend some ¥150 billion over the three years up to FY2007 on investments geared towards further business growth, and to continue to push forward with further efficiency improvements.

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

## Results of Operations

### Sales

Consolidated sales for the year ended March 2006 hit an all-time high of ¥1,528.9 billion (US\$13,068 million), up 11.9% over the previous period. This increased revenue is due in part to the fact that full-year sales of Daiwa Kosho Lease Co., Ltd. (which had become a consolidated subsidiary in the previous period) were counted this time around, whereas results for six months only had been counted for the previous term. Another contributing factor to the reporting term's higher sales turnover was the conversion of Nippon Athletic Service Co., Ltd. into a consolidated subsidiary.

Overall, the recovery in economic conditions saw the number of new housing starts top the previous fiscal year's figures for the third consecutive time at 1.249 million, thanks to strong growth in both rental housing and condominiums.

A look at sales by segment (including inter-segment transactions) shows housing sales of ¥909.5 billion (US\$7,774 million) (up 6.4% year-on-year), commercial construction sales of ¥445.2 billion (US\$3,806 million) (up 22.4%), resort hotel and sports

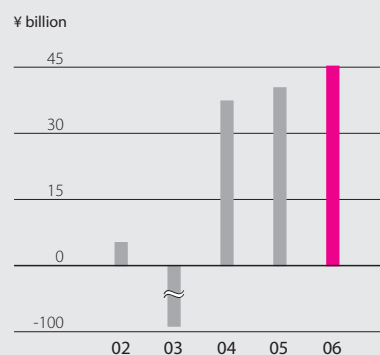
life business\* sales of ¥66.4 billion (US\$568 million) (up 19.3%), home center business sales of ¥63.2 billion (US\$541 million) (up 6.9%), and sales in other businesses of ¥121.9 billion (US\$1,043 million) (up 17.1%). However, while sales were up across the board in all segments, the percentage increase in revenue was the greatest in the commercial construction business. In light of the contribution made to sales by the inclusion of full-year sales by Daiwa Kosho Lease, this segment has proven itself to be the major driving force behind the higher sales turnover figure this fiscal year. As a result of this, the housing business' share of overall business came in under 60% at 59.2% (based on this segment's ratio of external sales). In addition, the conversion of Nippon Athletic Service Co., Ltd. into a consolidated subsidiary also translated into increased growth in resort hotel and sports life business sales this period as well.

\* Note that this segment — renamed this period after Nippon Athletic Service Co., Ltd., which manages a chain of sports clubs — came under the formerly named resort hotel business.

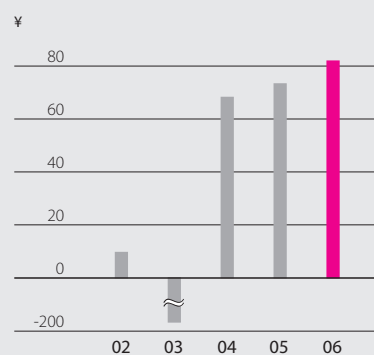
### Cost of Sales, and Selling, General and Administrative Expenses

The cost of sales this period increased ¥131.5 billion compared to the previous period to ¥1,213.6 billion (US\$10,373 million). This in turn led to a 0.2-percentage-point deterioration in the ratio of costs to sales from last period to 79.4%. This deterioration is the result of the fall in sales prices spurred on by intensified competition in the single-family house market and the increase in raw material costs that has flowed on from the persistently high crude oil prices, even though the Group has worked on keeping costs down by pushing ahead with efforts to cut procurement costs through centralized buying,

Net income (loss)



Basic net income (loss) per share



and with improvements to the production system through the promotion of shared group production facilities.

Selling, general and administrative expenses increased ¥19.3 billion compared to the previous period to stand at ¥235.2 billion (US\$2,011 million). While labor costs did increase through the Group's active investment in human resources, the Group continued to work on curbing administrative expenses, which brought the ratio of SG&A expenses to sales down 0.4 percentage points from the previous fiscal year's figure to 15.4%.

### Operating Income

The Group posted an operating income for the fiscal year ended March 2006 of ¥80.0 billion (US\$684 million), up ¥12.2 billion (18.0%) on the previous fiscal year. Whilst the increased sales and lower administrative expenses succeeded in driving up operating income, Daiwa Kosho Lease's contribution was also substantial, thanks to its healthy operating income margin of 6.6%. Moreover, despite the fall in profits in the resort hotel and sports life business segment, the increased earnings across the board in all other segments left operating income higher overall. As a result of the above, the Group's operating income margin stood at 5.2%, up 0.2 percentage points from the previous period.

### Business Overview by Segment

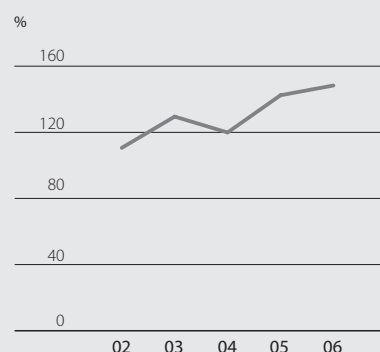
The business overview by segment below also takes trade between business segments into account.

### Housing Business

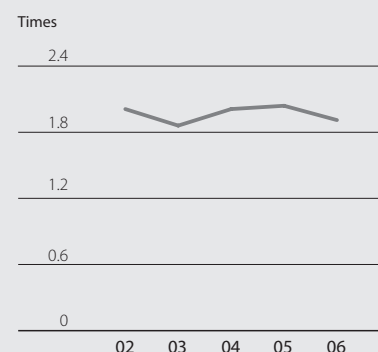
Having established the three requirements of 1) providing objective information and taking responsibility by supplying adequate explanations; 2) ensuring freedom of choice by offering a wide selection; and 3) improving our product standards relating to environmental preservation and enhancing the natural beauty of neighborhoods, as well as minimization of damage caused by earthquakes and other natural disasters, the Group has worked on furthering efforts in these areas. Based on these policies, we have released a number of new products, including a two-story house incorporating "50 proposals and 100 items" centered on the four themes of health, safety, comfort, and economy, as well as suitably priced family homes designed to suit junior baby boomers raising children. We have also released a wooden two-story housing product that offers superior cost performance, as well as another wooden two-story product designed to meet the anticipated rise in demand for renovation in major metropolitan areas. As a result of the above, housing business segment unit sales including both single-family houses and single-family subdivisions (nonconsolidated basis, excluding land) were 7.1% down on the previous period at 11,585 houses, while sales turnover fell by 2.7% to ¥334.1 billion (nonconsolidated basis, excluding land). Despite this, however, the sales price per house was 4.8% up over the previous term, with high-value-added products accounting for a larger proportion of total sales.

In the rental apartments buildings division, the launch of a two-story rental unit offering various superior features and targeting the new singles segment generated a 3.7% increase

Fixed ratio



Fixed asset turnover





in the number of units sold to 27,656, with the sales price also increasing 6.2% to ¥243.1 billion (nonconsolidated basis). The condominium division develops and markets condominiums tailored to the requirements of the city-center market and high-rise condominiums fitted with earthquake-absorbing technology. In addition to our existing D'series, we have developed the *aie* (amenity of intelligence and elegance) line, and we have worked to bolster the brand's strength. These efforts have resulted in the number of units sold surging 17.8% from the previous period to 4,391, accompanied by a sharp 19.8% rise in the revenue from sales, too, to ¥100 billion (nonconsolidated basis, excluding land). In this regard, condominiums are increasingly becoming a main source of earnings.

In the home renovation division, we are making full use of our extensive know-how — the sort that only an experienced house-builder could possess — to offer a wide range of house renovation and/or extension plans that take into account a wide variety of needs arising from changes in family structure, lifestyles, the environment, the aging of the population, and Japan's transformation into a truly information-based society.

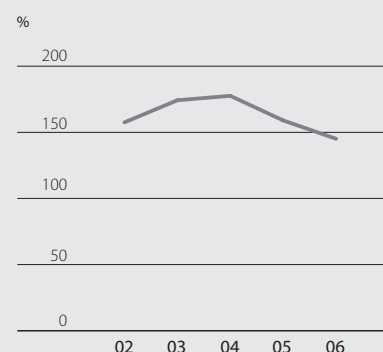
As a result, the housing business segment's sales increased by 6.4% this fiscal year to ¥909.5 billion (US\$7,774 million), with operating income also putting on 1.9% to finish on ¥50.6 billion (US\$433 million). This segment's operating income margin, however, shed 0.2 percentage points during the reporting term to finish on 5.6%.

### Commercial Construction Business

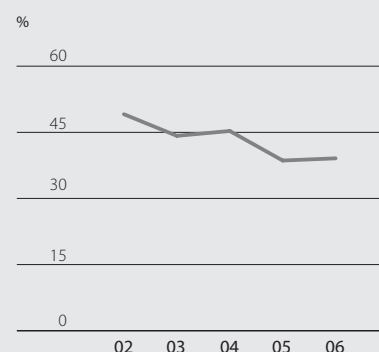
In the commercial facilities division, the upturn in business sentiment in the distribution and service divisions prompted by the gradual economic recovery in Japan has started to inspire people's willingness to invest. In light of these business conditions, we have leveraged our wealth of property information and consulting capabilities, especially in the area of providing assistance to tenant companies moving into commercial facilities, in undertaking the construction of these facilities, primarily on sites situated on main roads in suburban residential areas. We have also developed multiplex/large-scale commercial facilities comprising numerous specialty shops and restaurants on broad tracts of land. As a result of this, our building floor space for lease this period increased 13.6% on last fiscal year, expanding to 2,599,000 m<sup>2</sup>. As of the end of the reporting period, we had 4,007 tenants in this division.

Moreover, in the distribution and medical and nursing care facilities division, we are broadening the scope of our business through the construction of facilities incorporating logistics solutions that make use of our network of specialist providers to accompany increases in the efficiency of distribution and food-related facilities and the enhancement of services. Looking ahead to the progressively aging demographics of Japan in the future, we are also expanding our business through the construction of private nursing homes for the aged, which represent a culmination of the knowledge and expertise in medical and nursing care that our Silver Age Research Center has accumulated over many years.

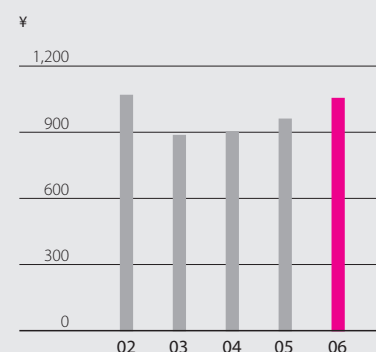
Current ratio



Shareholders' equity to total assets



Shareholders' equity per share



As a result of these initiatives, sales in the commercial construction segment saw a 22.4% increase over last fiscal year to finish on ¥445.2 billion (US\$3,806 million), with operating income also jumping 44.3% to ¥39.4 billion (US\$337 million). The operating income margin for this segment also improved 1.4 percentage points this period, reaching 8.9%.

#### Resort Hotel and Sports Life Business

The resort hotel division has strengthened its customer appeal by introducing a macrobiotic menu (a diet for prolonging life through eating natural foods) and by introducing new services such as a system for ordering in advance throughout our hotels nationwide. As a result of these efforts, the total number of guests staying in our hotels jumped by some 70,000 from the previous period to more than 3.1 million, with occupancy rates over the fiscal year also exceeding 55%.

In our sports facility operations, we are working to raise club membership numbers, and to improve business performance, we have also implemented various initiatives such as new sports clubs for children to cultivate their intellectual and moral qualities. Meanwhile, although golf club membership is gradually falling, both the number of users and golf course sales remain steady.

As a result of the above, sales in the resort hotel and sports life business this period increased 19.3% with the inclusion of Nippon Athletic Service Co., Ltd. sales as well, to ¥66.4 billion (US\$568 million), although operating income was down 46.6%

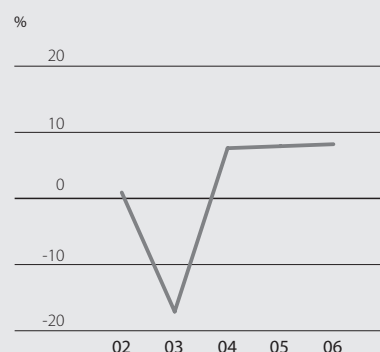
year-on-year at ¥1.0 billion (US\$9 million). This segment thus posted an operating income margin of 1.5%.

#### Home Center Business

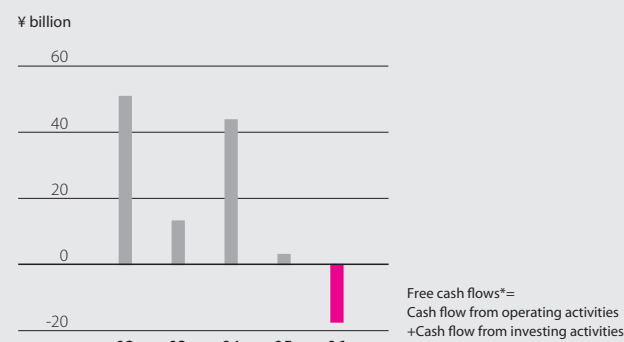
In the home center business segment during the period under review, the ever-intensifying competition in this sector led us to focus our efforts on making changes and efficiency improvements by reviewing our prices. This is taking place as we move towards discontinuing our strategy of competing on a price basis and reassessing our practice of using standardized salesroom facilities. We also endeavored to improve the efficiency with which we allocate management resources, only opening one new store and merging and integrating one of our consolidated subsidiaries. Although these activities resulted only in a minor increase in total shop floor space of some 3% by the end of the period, our facilities attracted 4.5% more customers, while the average purchase amount per customer rose sharply by 7.7% in the second half of the fiscal year, in line with the strong recovery in personal consumption in the wider economy.

As a result of the above, sales in the home center business segment this period were up 6.9% over the previous period at ¥63.2 billion (US\$541 million), with operating income increasing 10-fold over the same period to ¥1.1 billion (US\$9 million). The home center business segment thus posted an operating income margin of 1.7%.

Return on equity



Free cash flows\*



### **Other Businesses**

In the construction materials manufacturing and sales business unit, we strengthened our sales set-up for prefab manufacturers and building contractors, as well as our efforts to acquire new orders for medical and nursing care facilities. Besides this, we also launched a new infill business that centers on offering solutions for the renovation or interior fit-out of condominiums.

In the logistics business unit, we completed the construction of eight logistics centers around Japan, turning the bulk logistics consignment business that operates out of these facilities into a new source of revenue for the Group.

In the city hotel business unit, we worked on improving management efficiency by seeking to boost occupancy rates and cut administrative costs.

As a result of the above, our other businesses for the reporting period saw a 17.1% jump in sales to ¥121.9 billion (US\$1,043 million), as well as a 29.0% jump in operating income to ¥4.5 billion (US\$39 million).

### **Other Income and Expenses**

Our other expenses increased ¥10.7 billion during the period under review to ¥29.4 billion (US\$251 million), but given that our other income also saw a ¥17.5 billion increase over the same period to ¥31.5 billion (US\$269 million), overall, the net amount left after other expenses are deducted from other income took us from a ¥4.7 billion loss in the previous period to a ¥2.0 billion (US\$17 million) gain this time around.

The improvement in earnings relating to retirement benefits

was the main driver behind the increase in other income. A substantial figure of ¥21.7 billion (US\$185 million) was posted for gains on changes in actuarial assumptions in retirement benefits, thanks to the increased returns on plan assets reflecting the recovery of the stock market. We also posted costs of ¥1.0 billion (US\$9 million) in amortization of prior service obligations in line with changes in the retirement benefit systems at some consolidated subsidiaries.

The increase in other expenses, on the other hand, was largely fueled by an increase in fixed-asset-related losses and the posting of expenses associated with our 50th anniversary celebrations. We posted losses on the sale, impairment, and revaluation of fixed assets, including real-estate for sale, of ¥14.7 billion (US\$126 million) with a view to shoring up the soundness of our asset base. We also posted ¥4.3 billion (US\$37 million) of expenses related to events associated with the 50th anniversary of our establishment in 1955.

### **Net Income**

Thanks to the results described above, we posted the highest net income in seven years, at ¥45.1 billion (US\$386 million), which represents a 12.2% increase over the previous period. This also generated a 0.1 percentage-point improvement in the ratio of net income to sales, bringing it to 3.0%. Net income per share also reached the highest level in seven years, at ¥81.88 per share (US\$0.70). In light of these results, we have decided to offer an annual dividend for the term of ¥20 per share (US\$0.17), or ¥3 higher than last fiscal year.



## Liquidity and Capital Resources

### Financial Position

#### Assets

Total assets on a consolidated basis as of the end of March 2006 were 8.6% up over previous term-end, at ¥1,475.1 billion (US\$12,609 million). This increase stemmed from our acquisition of land for investment and our posting of gains on the reappraisal of investment securities.

Although there has only been a 1.2% year-on-year increase in current assets, the composition of that asset base has changed substantially. Most noticeably, over the reporting period, there was a big increase in land and buildings for sale, including condominiums, while conversely there was a contraction in cash and cash equivalents — the very capital used to acquire such — leaving current assets only marginally up on the previous term's figure at ¥620.0 billion (US\$5,299 million).

Property, plant and equipment increased 14.5% over the previous term-end to reach ¥505.4 billion (US\$4,320 million). The biggest increases in this sector were in land, buildings and other structures. While this is reflective of the rapid surge in capital investment during the reporting period, the commercial construction segment of our business accounts for nearly 70% of capital investment. These increases also incorporate provisions made for the real-estate investment trust due to be publicly listed in 2008.

Investments and other assets (including intangible assets) were up 14.7% year-on-year to ¥349.7 billion (US\$2,989 million), with a substantial increase in investment securities. In line with

the recovery in the stock market, where the TOPIX saw a gain of more than 50%, the book value of investment securities dramatically increased. In addition, the purchase of investment securities also contributed to the increase.

#### Liabilities

Total liabilities as of the end March 2006 rose 8.0% from the previous term-end to ¥824.0 billion (US\$7,043 million).

Current liabilities saw a 10.9% year-on-year increase to ¥427.3 billion (US\$3,653 million), with the bulk of this increase in accounts payable for capital investments and deposits received from customers. Additionally, our consolidated subsidiaries have brought about a decrease in interest-bearing liabilities, which include the current portion of long-term loans due to be repaid within one year, while the parent company continues to hold no interest-bearing liabilities, long-term or otherwise.

As a result of the above, net working capital (current assets less current liabilities) was down 15.2% from the previous term-end, at ¥192.6 billion (US\$1,646 million), with the ratio of current assets to current liabilities also falling from 159.0% to 145.1%. Despite this, however, we are still in a sufficiently liquid asset position.

Long-term liabilities increased 5.0% over the previous term, to ¥396.6 billion (US\$3,390 million). Included in this increase were rises in long-term deposits and guarantee monies, but the primary contributing factor was the inclusion following on from last period of Daiwa Kosho Lease's and other entities' construction funds receivable and long-term deposits. There was also

an increase seen in long-term loans payable by consolidated subsidiaries, but this also included the refinancing of short-term loans in anticipation of higher interest rates in the near future. Thus, while total interest-bearing liabilities rose from ¥21.0 billion in the previous fiscal year to ¥22.6 billion (US\$193 million) for the reporting term, our debt ratio (interest-bearing liabilities/total assets) has remained at 1.5% over both periods.

#### **Minority Interests**

Minority interests as of the end of March 2006 stood at ¥74.6 billion (US\$638 million), up ¥2.8 billion from ¥71.8 billion at the end of the previous accounting period on a consolidated basis.

#### **Shareholders' Equity**

With the substantial increase in earnings this period, shareholders' equity increased by 10.0% compared to the previous period to ¥576.5 billion (US\$4,928 million). With this increase in profits, retained earnings increased, with a significant rise in unrealized gains on available-for-sale securities in line with the massive increase in gains made through the revaluation of investment securities. Thanks to these changes, the shareholders' equity ratio rose 0.5 percentage points to 39.1%. ROE (Return on equity: the ratio of net income to equity) was also up 0.3 percentage points over last fiscal year to 8.2%, while ROA (Return on assets: the ratio of net income to total assets) dipped slightly to finish on 3.2%. This is indicative of further improvements in asset management efficiency.

#### **Cash Flows**

The balance of cash and cash equivalents at the end of the period under review stood at ¥123.8 billion (US\$1,058 million), ¥26.6 billion down on the end of the previous period. This was the result of large outflows in net cash used for investing activities, despite an increase in the net cash provided by operating activities thanks to the increased income before income taxes and a decline in trade receivables.

Net cash provided by operating activities rose ¥34.4 billion from the previous fiscal year to ¥90.4 billion (US\$773 million). This resulted from the increase in income before income taxes, higher depreciation after greater capital investment, and a fall in trade receivables.

Net cash used in investing activities came to ¥107.8 billion (US\$922 million), substantially up by ¥54.8 billion year-on-year. The major expenditure here was on the ongoing acquisition of property, plant and equipment. Capital investment was almost double that of the previous term, amounting to over ¥100 billion.

Net cash used in financing activities amounted to ¥9.2 billion (US\$79 million), compared with ¥5.9 billion net cash provided for the previous term. Whilst dividend payments increased with the higher dividends paid, cash expenditures are mainly attributable to expenditures on the repayment of short-term loans and the redemption securities under a loan securitization scheme.

As a result of the above, free cash flow, the total cash flow netted by operating activities and investing activities, amounted to minus ¥17.4 billion (US\$149 million).

### Outlook for the Current Fiscal Year, Ending March 2007

In the current fiscal year, private-sector demand in Japan is predicted to continue along an expansionary track, in spite of instability in the materials sector associated with heightened crude oil prices. Within our industry, we are starting to see signs of a more widespread recovery, and the number of new housing starts looks likely to be strong, with higher interest rates anticipated to come.

Amid this economic climate, the Daiwa House Group will continue working to strengthen its regional sales network, create products that respond to customer needs, and undertake development of new services. In particular, in pushing ahead with "Challenge 2005," which was launched in the FY2005, we intend to further promote group management and work on strengthening and making more efficient the joint management base and business cooperation established across the Group.

Moreover, with enhancing customer satisfaction being one of our priorities, in order to respond to customer needs in an integrated manner, we are planning to open several Customer Centers, the aim of which is to find out directly from customers exactly what sort of products and services they would like. Meanwhile, we will look for ways to improve operational systems. Such initiatives will enable us to more closely meet specific customer needs. In addition to this, we will bolster our service structure while keeping a close eye on the renovation market, with the aim of expanding and strengthening operations.

Corporate social responsibility (CSR) is another priority issue. We are improving our in-house training program to raise awareness of the importance of corporate ethics, compliance with laws and regulations, and respect for individual rights. We will continue working to build a management structure that can respond to the requests of our various stakeholders.

With regard to products and services, we will expand our environmental protection activities, and use our proprietary technologies to build products — including medical and nursing care facilities — that meet our strict criteria for "safety, reliability, trust," thereby contributing to society while simultaneously raising our enterprise value.

As a result of these initiatives, in our business performance on a consolidated basis for the coming fiscal year ending March 2007, we envisage sales of ¥1,600 billion, operating income of ¥85 billion, recurring profit of ¥85 billion, and a net income of ¥46 billion.

Please note that gains on changes in actuarial assumptions on retirement benefits have not been factored into forecasts for the fiscal year ending March 2007, as this will be dependent on changes in plan asset management conditions and other factors in the current fiscal year. (For the reporting term, other income of ¥21.7 billion (US\$185 million) was posted.)



# Consolidated Balance Sheets

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

## Assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
<b>Current assets:</b>			
Cash and cash equivalents	¥ 123,822	¥ 150,461	\$ 1,058,308
Marketable securities (Note 3)		25	
Short-term investments (Note 2-d)	199	279	1,701
Receivables (Note 7):			
Trade notes	9,278	8,010	79,299
Trade accounts	51,354	62,294	438,923
Allowance for doubtful receivables	(2,161)	(1,861)	(18,470)
Inventories (Note 4)	368,334	324,239	3,148,154
Deferred tax assets (Note 12)	26,920	31,058	230,085
Prepaid expenses and other current assets	42,273	38,038	361,307
Total current assets	620,019	612,543	5,299,307
<b>Property, plant and equipment</b> (Notes 5, 6 and 7):			
Land	286,700	243,699	2,450,427
Buildings and structures	494,944	466,359	4,230,291
Accumulated depreciation	(314,394)	(311,645)	(2,687,128)
Machinery and equipment	80,636	78,000	689,197
Accumulated depreciation	(54,917)	(55,076)	(469,376)
Furniture and fixtures	37,038	35,446	316,564
Accumulated depreciation	(28,734)	(29,075)	(245,590)
Construction in progress	4,198	13,680	35,880
Net property, plant and equipment	505,471	441,388	4,320,265
<b>Investments and other assets:</b>			
Investment securities (Note 3)	103,236	57,688	882,359
Investments in and advances to associated companies (Note 2-c)	4,039	4,095	34,521
Long-term loans (Note 2-c)	14,496	10,482	123,898
Deferred tax assets (Note 10)	59,113	75,405	505,239
Lease deposits (Note 7)	147,366	140,057	1,259,538
Other assets (Note 6)	29,988	25,445	256,308
Allowance for doubtful accounts	(8,531)	(8,296)	(72,914)
Total investments and other assets	349,707	304,876	2,988,949
Total	¥1,475,197	¥1,358,807	\$12,608,521

See notes to consolidated financial statements.

## Liabilities and shareholders' equity

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
<b>Current liabilities:</b>			
Short-term bank loans (Note 7)	¥ 6,183	¥ 13,175	\$ 52,846
Current portion of long-term debt (Note 7)	2,928	1,368	25,026
Payables:			
Trade notes	32,975	29,062	281,838
Trade accounts	136,879	127,911	1,169,906
Other accounts	93,023	81,227	795,068
Deposits received from customers	65,423	48,005	559,171
Income taxes payable	16,212	15,699	138,564
Accrued bonuses	17,950	15,242	153,419
Provision for product warranties	5,740	4,874	49,060
Accrued expenses and other current liabilities	50,056	48,693	427,829
Total current liabilities	427,369	385,256	3,652,727
<b>Long-term liabilities:</b>			
Long-term debt (Note 7)	13,528	6,555	115,624
Liability for employees' retirement benefits (Note 8)	90,235	99,871	771,239
Long-term deposits received from the Company's club members	54,431	57,023	465,222
Lease deposits received	168,568	148,831	1,440,752
Other long-term liabilities	69,876	65,362	597,231
Total long-term liabilities	396,638	377,642	3,390,068
<b>Minority interests</b>	74,656	71,799	638,085
<b>Shareholders' equity</b> (Notes 2-c, 2-n, 5, 9 and 17):			
Common stock, authorized, 1,900,000,000 shares; issued, 550,664,416 shares in both 2006 and 2005	110,120	110,120	941,196
Capital surplus	148,019	147,759	1,265,120
Retained earnings	355,495	325,893	3,038,419
Land revaluation difference	(63,392)	(69,230)	(541,812)
Net unrealized gain on available-for-sale securities	30,746	14,663	262,786
Foreign currency translation adjustments	(883)	(927)	(7,547)
Treasury stock — at cost, 3,748,885 shares in 2006 and 4,441,777 shares in 2005	(3,571)	(4,168)	(30,521)
Total shareholders' equity	576,534	524,110	4,927,641
Total	¥1,475,197	¥1,358,807	\$12,608,521

# Consolidated Statements of Income

Daiwa House Industry Co., Ltd. and Subsidiaries  
Years Ended March 31, 2006, 2005 and 2004

		Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2004	2006
<b>Net sales</b>	¥1,528,983	¥1,365,914	¥1,224,648	\$13,068,231
<b>Cost of sales</b>	1,213,644	1,082,133	963,457	10,373,026
<b>Gross profit</b>	315,339	283,781	261,191	2,695,205
<b>Selling, general and administrative expenses</b> (Note 13)	235,267	215,932	201,530	2,010,829
<b>Operating income</b>	80,072	67,849	59,661	684,376
<b>Other income (expenses):</b>				
Interest income and dividends	1,590	1,067	651	13,590
Interest expense	(1,321)	(736)	(423)	(11,291)
Write-down of inventories	(6,055)	(2,252)	(3,285)	(51,752)
Loss on sales and disposal of property, plant and equipment	(2,999)	(1,978)	(641)	(25,632)
Prior service benefit (cost) (Note 8)	1,000	(2,282)		8,547
Amortization of actuarial gain for employees' retirement benefits (Note 8)	21,730	2,214	15,460	185,726
Impairment loss on property, plant and equipment (Note 6)	(5,500)	(1,204)	(370)	(47,009)
Loss on sublease agreements	(1,247)	(2,928)	(3,503)	(10,658)
Expenses in relation to the fiftieth anniversary	(4,323)			(36,949)
Other — net (Note 11)	(792)	3,358	347	(6,769)
Other income (expenses) — net	2,083	(4,741)	8,236	17,803
<b>Income before income taxes and minority interests</b>	82,155	63,108	67,897	702,179
<b>Income taxes</b> (Note 12):				
Current	23,814	21,825	10,409	203,538
Deferred	9,831	(1,468)	19,199	84,026
Total	33,645	20,357	29,608	287,564
<b>Minority interests in net income of subsidiaries</b>	(3,326)	(2,489)	(1,032)	(28,427)
<b>Net income</b>	¥ 45,184	¥ 40,262	¥ 37,257	\$ 386,188
		<b>Yen</b>		<b>U.S. dollars</b>
<b>Per share of common stock</b> (Note 2-o):				
Basic net income	¥81.88	¥73.26	¥68.16	\$0.70
Cash dividends applicable to the year	20.00	17.00	15.00	0.17

See notes to consolidated financial statements.



# Consolidated Statements of Shareholders' Equity

Daiwa House Industry Co., Ltd. and Subsidiaries  
Years Ended March 31, 2006, 2005 and 2004

	Thousands	Millions of yen						
	Issued number of shares of common stock	Common stock	Capital surplus	Retained earnings	Land revaluation difference	Net unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Treasury stock
Balance, April 1, 2003	550,664	¥110,120	¥147,755	¥289,840	¥(60,409)	¥ 777	¥(881)	¥(3,518)
Net income				37,257				
Cash dividends, ¥10.0 per share				(5,457)				
Transfer due to sales of land				(8,425)	8,425			
Devaluation of deferred tax assets on land revaluation and other					(34,216)			
Net increase in unrealized gain on available-for-sale securities (Note 2-c)						12,181		
Foreign currency translation adjustments (Note 2-n)							(36)	
Net increase in treasury stock			2					(365)
Balance, March 31, 2004	550,664	110,120	147,757	313,215	(86,200)	12,958	(917)	(3,883)
Net income				40,262				
Cash dividends, ¥15.0 per share				(8,185)				
Decrease due to newly consolidation of subsidiaries				(1,953)				
Decrease due to exclusion from consolidation of former subsidiaries				(517)				
Decrease due to exclusion from equity method accounting of former associated companies				(125)				
Transfer due to sales of land				(16,804)	16,804			
Net decrease in land revaluation difference					166			
Net increase in unrealized gain on available-for-sale securities (Note 2-c)						1,705		
Foreign currency translation adjustments (Note 2-n)							(10)	
Net increase in treasury stock			2					(285)
Balance, March 31, 2005	550,664	110,120	147,759	325,893	(69,230)	14,663	(927)	(4,168)
Net income				45,184				
Cash dividends, ¥17.0 per share				(9,210)				
Bonuses to directors and corporate auditors				(226)				
Decrease due to exclusion from equity method accounting of former associated companies				(527)				
Transfer due to sales of land				(5,619)	5,619			
Net decrease in land revaluation difference					219			
Net increase in unrealized gain on available-for-sale securities (Note 2-c)						16,083		
Foreign currency translation adjustments (Note 2-n)							44	
Net decrease in treasury stock			260					597
Balance, March 31, 2006	550,664	¥110,120	¥148,019	¥355,495	¥(63,392)	¥30,746	¥(883)	¥(3,571)
Thousands of U.S. dollars (Note 1)								
		Common stock	Capital surplus	Retained earnings	Land revaluation difference	Net unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Treasury stock
Balance, March 31, 2005		\$941,196	\$1,262,897	\$2,785,410	\$(591,709)	\$125,325	\$(7,923)	\$(35,624)
Net income				386,188				
Cash dividends, \$0.15 per share				(78,718)				
Bonuses to directors and corporate auditors				(1,932)				
Decrease due to exclusion from equity method accounting of former associated companies				(4,504)				
Transfer due to sales of land				(48,025)	48,025			
Net decrease in land revaluation difference					1,872			
Net increase in unrealized gain on available-for-sale securities (Note 2-c)						137,461		
Foreign currency translation adjustments (Note 2-n)							376	
Net decrease in treasury stock			2,223					5,103
Balance, March 31, 2006		\$941,196	\$1,265,120	\$3,038,419	\$(541,812)	\$262,786	\$(7,547)	\$(30,521)

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

Daiwa House Industry Co., Ltd. and Subsidiaries  
Years Ended March 31, 2006, 2005 and 2004

		Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2004	2006
<b>Operating activities:</b>				
Income before income taxes and minority interests	¥ 82,155	¥ 63,108	¥ 67,897	\$ 702,179
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Income taxes — paid	(22,986)	(22,809)	(4,671)	(196,462)
Depreciation	26,815	19,243	15,165	229,188
Write-down of golf club membership	264	121	62	2,256
Loss on sales and disposal of property, plant and equipment	2,999	1,978	641	25,632
Impairment loss on property, plant and equipment	5,500	1,204	370	47,009
Equity in earnings of associated companies	(350)	(1,611)	(2,384)	(2,991)
Provision for (reversal of) employees' retirement benefits, net of payments	(29,084)	6,350	(30,067)	(248,581)
Loss on sublease agreements	1,247	2,928	3,503	10,658
Changes in certain assets and liabilities, net of consolidation:				
Decrease (increase) in receivables	9,795	(3,090)	9,568	83,718
Increase in inventories	(41,598)	(48,814)	(13,447)	(355,538)
Increase in payables — trade	17,384	25,733	9,618	148,581
Increase in deposits received from customers	17,418	8,353	3,639	148,872
Other — net	20,923	3,401	9,765	178,830
Total adjustments	8,327	(7,013)	1,762	71,172
Net cash provided by operating activities	90,482	56,095	69,659	773,351
<b>Investing activities:</b>				
Purchases of property, plant and equipment	(90,850)	(56,331)	(21,647)	(776,496)
Purchases of marketable and investment securities	(17,018)	(7,876)	(514)	(145,453)
Increase in investments in and advances to associated companies	(704)	(85)	(2,549)	(6,017)
Proceeds from sales of marketable and investment securities	2,777	1,570	220	23,735
Proceeds from sales of property, plant and equipment	5,258	4,905	2,207	44,940
Purchases of investments in subsidiaries	(129)	(1,257)	(559)	(1,103)
Proceeds from sales of shares of subsidiaries		655		
Net increase (decrease) from sales of shares of the former consolidated subsidiaries		639	(640)	
Net proceeds from purchases of shares of the newly consolidated subsidiaries		9,164		
Payments for purchases of shares of the newly consolidated subsidiaries	(1,898)			(16,222)
Increase in lease deposits	(1,875)	(2,383)	(4,028)	(16,026)
Net decrease (increase) in other assets	(3,418)	(2,070)	1,573	(29,213)
Net cash used in investing activities	(107,857)	(53,069)	(25,937)	(921,855)
<b>Financing activities:</b>				
Net increase (decrease) in short-term bank loans	(6,992)	750	(250)	(59,761)
Proceeds from long-term debt	10,600	7,039		90,598
Repayments of long-term debt	(8,697)	(78)	(38)	(74,333)
Net of purchases and proceeds from sales of treasury stock	1,017	(132)	(109)	8,692
Dividends paid to shareholders	(9,210)	(8,185)	(5,457)	(78,718)
Dividends paid to minority shareholders of subsidiaries	(1,354)	(773)	(272)	(11,572)
Proceeds from receivables sold to trust	10,045	8,446		85,855
Remittance to trust of receivables collected	(4,673)	(1,178)		(39,940)
Net cash provided by (used in) financing activities	(9,264)	5,889	(6,126)	(79,179)
<b>Net increase (decrease) in cash and cash equivalents</b>	(26,639)	8,915	37,596	(227,683)
<b>Cash and cash equivalents, beginning of year</b>	150,461	141,546	103,950	1,285,991
<b>Cash and cash equivalents, end of year</b>	¥123,822	¥150,461	¥141,546	\$1,058,308

(Continued)

		Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2004	2006
<b>Non-cash investing and financing activities:</b>				
Net proceeds from purchases of shares of the newly consolidated subsidiaries for the year ended March 31, 2005 resulted principally from purchases of shares of Daiwa Kosho Lease Co., Ltd., former the associated companies including its subsidiaries. Assets and liabilities increased by purchases of shares of Daiwa Kosho Lease Co., Ltd. and associated proceeds consisted of the followings:				
Current assets		¥ 65,096		
Long-term assets		140,084		
Current liabilities		(43,093)		
Long-term liabilities		(69,313)		
Consolidation differences		(1,701)		
Minority interests		(55,403)		
Company's interest prior to acquisition		(32,551)		
Acquisition cost		(3,119)		
Cash and cash equivalents of the consolidated subsidiaries		11,729		
Net proceeds from purchases of shares of the newly consolidated subsidiaries		<u>¥ 8,610</u>		
Assets and liabilities decreased by sales of shares of the former consolidated subsidiaries and associated proceeds and gain for the year ended March 31, 2004 consisted of the followings:				
Current assets			¥19,139	
Long-term assets			6,598	
Current liabilities			(13,000)	
Long-term liabilities			(6,851)	
Minority interests			(3,337)	
Company's interest prior to acquisition			(1,252)	
Gain on sales of securities			77	
Proceeds from sales of securities			1,374	
Cash and cash equivalents of the subsidiaries			(2,014)	
Net decrease in cash from sales of shares of the former consolidated subsidiaries			<u>¥ (640)</u>	
See notes to consolidated financial statements.				(Concluded)



# Notes to Consolidated Financial Statements

Daiwa House Industry Co., Ltd. and Subsidiaries

## 1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements have been prepared from the consolidated financial statements issued for domestic reporting purposes in accordance with the provisions set forth in the Japanese Securities and Exchange Law. Daiwa House Industry Co., Ltd. (the "Company") and its domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code (the "Code") and in conformity with accounting principles generally accepted in Japan, 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 ¥117 to \$1, the approximate rate of exchange at March 31, 2006. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

## 2. Summary of significant accounting policies

### a. Consolidation

The consolidated financial statements include the accounts of the Company and all subsidiaries (together the "Group") based on the control or influence concept. Under the control or influence concept, those companies over whose operations the Parent, directly or indirectly, is able to exercise control are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

The differences between the cost and underlying net equity of investments in subsidiaries and associated companies at acquisition, are amortized over five 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, 2004, Daiwa System Co., Ltd. and three subsidiaries, have been excluded from consolidation as a result of sales of their shares.

During the year ended March 31, 2005, Daiwa Kosho Lease Co., Ltd. and its four subsidiaries and one other subsidiary which were formerly associated companies, have been included in the consolidation as a result of the additional acquisition of their shares.

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

### b. Cash and cash equivalents

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

### c. Marketable and investment securities

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

Non-marketable available-for-sale securities are stated at cost, determined by the moving-average method. For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

Investment securities, investment in an associated company and long-term loans pledged as collateral for an associated company and other was ¥44 million (\$376 thousand) and ¥20 million as of March 31, 2006 and 2005.

#### **d. Short-term investments**

Short-term investments are time deposits and certificates of deposit, all of which mature or become due later than three months after the date of acquisition. Time deposits pledged as collateral as substitutes of deposits for certain construction and advertisement contracts were ¥29 million (\$248 thousand) as of March 31, 2006 and 2005, respectively.

#### **e. Inventories**

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

#### **f. Property, plant and equipment**

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

#### **g. Long-lived assets**

In August 2002, the Business Accounting Council (BAC) issued a Statement of Opinion, *Accounting for Impairment of Fixed Assets*, and in October 2003 the Accounting Standards Board of Japan (ASBJ) issued ASBJ Guidance No. 6, *Guidance for Accounting Standard for Impairment of Fixed Assets*. These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The Group adopted the new accounting standard for impairment of fixed assets from the year ended March 31, 2004. The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which

the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

#### **h. Leases**

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

#### **i. Retirement and pension plans**

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

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

#### **j. 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.

#### **k. 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.

#### **l. 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.

#### **m. Foreign currency transactions**

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

#### **n. 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 shareholders' equity, which is translated at historical exchange rates. Revenue and expense accounts of the consolidated foreign subsidiaries and associated companies are translated into yen at the current exchange rate.

Differences arising from such translation are shown as "Foreign currency translation adjustments" as a separate component of shareholders' equity.

#### **o. 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, 2006, 2005 and 2004 were 546,567 thousand, 546,329 thousand and 546,625 thousand, respectively.

Diluted net income per share of common stock for the years ended March 31, 2006, 2005 and 2004 are not disclosed because the Company does not issue warrants with dilutive effects.

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

#### **p. Treasury stock**

The stock of the Company, which is held by its subsidiaries and associated companies, is stated as treasury stock according to the percentage of ownership.

#### **q. New accounting pronouncements**

##### ***Business combination and business separation***

In October 2003, the BAC issued a Statement of Opinion, *Accounting for Business Combinations*, and on December 27, 2005 the ASBJ issued *Accounting Standard for Business Separations* and ASBJ Guidance No. 10, *Guidance for Accounting Standard for Business Combinations and Business Separations*. These new accounting pronouncements are effective for fiscal years beginning on or after April 1, 2006.

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

- (a) the consideration for the business combination consists solely of common shares with voting rights,
- (b) the ratio of voting rights of each predecessor shareholder group after the business combination is nearly equal, and
- (c) there are no other factors that would indicate any control exerted by any shareholder group other than voting rights.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures. Goodwill, including negative goodwill, is to be systematically amortized over 20 years or less, but is also subject to an impairment test.

Under the accounting standard for business separations, in a business separation where the interests of the investor no longer continue and the investment is settled, the difference between the fair value of the consideration received for the transferred business and the book value of net assets transferred to the separated business is recognized as a gain or loss on business separation in the statement of income. In a business separation where the interests of the investor continue and the investment is not settled, no such gain or loss on business separation is recognized.

However, the above mentioned pronouncement does not apply to the share exchange agreements between the Company and three subsidiaries (see Note 17) according to the maintenance law of the Code, because its agreement date is prior to May 1, 2006.

#### **Stock options**

On December 27, 2005, the ASBJ issued *Accounting Standard for Stock Options and related guidance*. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006.

This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of shareholders' equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

#### **Bonuses to directors and corporate auditors**

Prior to the fiscal year ended March 31, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders meeting. The ASBJ issued ASBJ Practical Issues Task Force (PITF) No. 13, *Accounting treatment for bonuses to directors and corporate auditors*, which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard

is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

#### **r. Reclassifications**

Certain reclassifications have been made in the 2005 and 2004 financial statements to conform to the classifications used in 2006.



### 3. Marketable and investment securities

Marketable and investment securities as of March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Current:			
Government and corporate bonds		¥ 25	
Non-current:			
Equity securities	¥101,435	¥56,644	\$866,966
Government and corporate bonds	456	9	3,897
Investments in limited liability partnership	1,345	1,035	11,496
Total	<u>¥103,236</u>	<u>¥57,688</u>	<u>\$882,359</u>

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2006 and 2005 were as follows:

Millions of yen				
2006				
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥41,346	¥54,151	¥435	¥95,062
Debt securities	520		73	447
Held-to-maturity	9			9
Millions of yen				
2005				
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥25,280	¥25,954	¥352	¥50,882
Held-to-maturity	34			34
Thousands of U.S. dollars				
2006				
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	\$353,385	\$462,829	\$3,718	\$812,496
Debt securities	4,444		623	3,821
Held-to-maturity	77			77

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2006 and 2005 were as follows:

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Available-for-sale:			
Equity securities	¥6,373	¥5,762	\$54,470
Investments in limited liability partnership	1,345	1,035	11,496
Total	<u>¥7,718</u>	<u>¥6,797</u>	<u>\$65,966</u>

The carrying values of debt securities by contractual maturities for securities classified as held-to-maturity at March 31, 2006 are as follows:

	Held to maturity	
	Millions of yen	Thousands of U.S. dollars
Due in one to five years	¥ 20	\$ 171
Due in five to ten years	9	77
Due after ten years	427	3,649
Total	<u>¥456</u>	<u>\$3,897</u>

#### 4. Inventories

Inventories at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Finished residential homes and condominiums	¥ 27,373	¥ 27,521	\$ 233,957
Construction projects in progress	49,561	35,248	423,598
Residential homes and condominiums in process	30,044	27,426	256,786
Land held:			
For resale	204,194	174,177	1,745,248
Under development	31,708	34,099	271,009
Undeveloped	11,667	11,669	99,718
Merchandise, construction materials and others	13,787	14,099	117,838
Total	<u>¥368,334</u>	<u>¥324,239</u>	<u>\$3,148,154</u>

The Group engages in two principal business activities. They manufacture and construct prefabricated houses and structures and also engage in various contracted construction projects, primarily for the construction of large-scale commercial and residential buildings. To further such business, the Group purchases land for development and resale.

#### 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 shareholders' equity. There was no effect on the statement of income. Continuous readjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the land revaluation difference account and related deferred tax liabilities.

As of March 31, 2006, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥4,860 million (\$41,538 thousand).

As to significant change in the land revaluation difference, see the statements of shareholders' equity.

## 6. Long-lived assets

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

Classification of group	Type of assets	Location	Impairment loss on property, plant and equipment	
			Millions of yen	Thousands of U.S. dollars
Resort hotel	Buildings and structures, machinery and equipment, and furniture and fixtures	Ishikawa Prefecture and others	¥1,422	\$12,154
Golf course	Land, buildings and structures, machinery and equipment and furniture and fixtures	Nara Prefecture and others	2,167	18,521
Assets used under sublease agreements	Buildings and structures, machinery and equipment, furniture and fixtures, and other assets	Okinawa Prefecture and others	1,283	10,966
Other	Land, buildings and structures, machinery and equipment and furniture and fixtures	Osaka Prefecture and others	628	5,368
Total			<u>¥5,500</u>	<u>\$47,009</u>

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

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

The recoverable amount of assets is mainly measured by its net selling price based on real estate appraisal standards.

## 7. Short-term bank loans and long-term debt

Short-term bank loans at March 31, 2006 and 2005 consisted of bank loans. The annual interest rates for the short-term bank loans ranged from 0.4% to 0.9% and ranged from 0.4% to 1.9% at March 31, 2006 and 2005, respectively.

Long-term debt at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Loans from banks, 0.5% to 3.0% (0.5% to 3.0% in 2005), due on various dates through 2025:			
Collateralized	¥11,346	¥2,423	\$ 96,975
Unsecured	5,110	5,500	43,675
Total	<u>16,456</u>	<u>7,923</u>	<u>140,650</u>
Less current portion	<u>2,928</u>	<u>1,368</u>	<u>25,026</u>
Long-term debt, net of current portion	<u>¥13,528</u>	<u>¥6,555</u>	<u>\$115,624</u>



Annual maturities of long-term debt at March 31, 2006, were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥ 2,928	\$ 25,026
2008	860	7,350
2009	8,663	74,043
2010	2,885	24,658
2011	88	752
2012 and thereafter	1,032	8,821
Total	<u>¥16,456</u>	<u>\$140,650</u>

At March 31, 2006, assets pledged as collateral for secured long-term debt were as follows:

	Millions of yen	Thousands of U.S. dollars
Receivables	¥ 1,840	\$ 15,727
Buildings and structures	4,354	37,214
Land	6,929	59,222
Lease deposits	450	3,846
Total	<u>¥13,573</u>	<u>\$116,009</u>

As is customary in Japan, a company maintains deposit balances with banks with which it has bank loans. Such deposit balances are not legally or contractually restricted as to withdrawal. In addition, collateral must be provided if requested by the lending banks and certain banks have the right to offset cash deposited with them against any bank loan or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the bank concerned. The Group has never received any such request.

## 8. Retirement and pension plans

Under the unfunded employees' retirement benefit plan, employees of the Company and certain subsidiaries terminating their employment are entitled, in most circumstances, to lump-sum severance payments determined by reference to wage rates at the time of termination and years of service. In addition, the Company, together with certain subsidiaries and associated companies, has adopted a contributory funded defined benefit pension plan covering most of their employees.

The liability for employees' retirement benefits at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Projected benefit obligation	¥255,716	¥241,123	\$2,185,607
Fair value of plan assets	(165,481)	(141,342)	(1,414,368)
Net liability	90,235	99,781	771,239
Prepaid benefit costs		90	
Liability for employees' retirement benefits	<u>¥ 90,235</u>	<u>¥ 99,871</u>	<u>\$ 771,239</u>

The components of net periodic benefit costs are as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Service cost	¥13,939	¥12,578	¥11,647	\$119,136
Interest cost	6,013	5,395	4,856	51,393
Expected return on plan assets	(2)	(5)	(4)	(17)
Prior service cost (benefit)	(1,000)	2,282		(8,547)
Recognized actuarial gain	(21,730)	(2,214)	(15,460)	(185,726)
Net periodic benefit costs	<u>¥ (2,780)</u>	<u>¥18,036</u>	<u>¥ 1,039</u>	<u>\$ (23,761)</u>

Prior service cost for the year ended March 31, 2005 represents the net effect of (1) an increase in the benefit obligation of ¥2,732 million from the adoption of the revised contributory funded defined benefit pension plan and (2) a decrease in the benefit obligation of ¥450 million from the adoption of the revised benefit plan concerning the lump-sum severance payments of a subsidiary.

Prior service cost for the year ended March 31, 2006 represents a decrease in the benefit obligation of ¥1,000 million (\$8,547 thousand) from the adoption of the revised benefit plan concerning the lump-sum severance payments of a subsidiary.

For the year ended March 31, 2006, in addition to the net periodic costs, the Company and certain subsidiaries recognized a gain in amount of ¥200 million (\$1,709 thousand) in accordance with the actual transfer of the pension obligations and related assets to the government. Certain subsidiaries recognized a loss in amount of ¥1,414 million (\$12,085 thousand) in accordance with the secession from the funded employees' retirement benefit plan.

Assumptions used for the years ended March 31, 2006 and 2005 are set forth as follows:

	2006	2005
Discount rate	2.5%	2.5%
Expected rate of return on plan assets	Principally 0%	Principally 0%
Recognition period of actuarial gain/loss	1 year	1 year

The contributory funded defined benefit pension plan, which is established under the Japanese Welfare Pension Insurance Law, covers a substitutional portion of the governmental pension program managed by the company on behalf of the government and a corporate portion established at the discretion of the company. According to the enactment of the Defined Benefit Pension Plan Law in April 2002, the Company applied for an exemption from obligation to pay benefits for employee services related to the substitutional portion which would result in the transfer of the pension obligations and related assets to the government by another subsequent application. The Company obtained an approval of exemption from future obligation by the Ministry of Health, Labour and Welfare on October 28, 2002. The Company applied for transfer of the substitutional portion of past pension obligations to the government and obtained approval by the Ministry of Health, Labour and Welfare on June 1, 2004. The actual transfer of the pension obligations and related assets to the government took place in the year ended March 31, 2006.

## 9. Shareholders' equity

Through May 1, 2006, Japanese companies are subject to the Code.

The Code requires that all shares of common stock be issued with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds are required to be presented as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration by way of a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Code also provides that an amount of 10% or more of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period (such as bonuses to directors) shall be appropriated as a legal reserve (a component of retained earnings) until the total of such reserve and additional paid-in capital equals 25% of common stock. The amount of total legal reserve and additional paid-in capital that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders after transferring such excess in accordance with the Code. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The Code allows Japanese companies to purchase treasury stock and dispose of such treasury stock upon resolution of the Board of Directors. The aggregate purchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the annual general meeting of shareholders.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash outlays, the Code also imposes certain limitations on the amount of capital surplus and retained earnings available for dividends. The amount of capital surplus and retained earnings available for dividends under the Code was ¥229,119 million (\$1,958,282 thousand) as of March 31, 2006, based on the amount recorded in the parent company's general books of account.

Dividends are approved by the shareholders at a meeting held subsequent to the end of the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

On May 1, 2006, a new corporate law (the "Corporate Law") became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below;

### (a) Dividends

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

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

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

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

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

(c) Treasury stock and treasury stock acquisition rights

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

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

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

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



## 10. Segment information

Information about operations in different industry segments of the Group for the years ended March 31, 2006, 2005 and 2004 is as follows:

### Sales and operating income

Millions of yen							
2006							
	Residential	Commercial	Resort and Sports	Home Center	Other	Eliminations/Corporate	Consolidated
Sales to customers	¥905,385	¥436,822	¥66,482	¥61,899	¥ 58,395		¥1,528,983
Intersegment sales	4,203	8,429		1,375	63,587	¥(77,594)	
Total sales	909,588	445,251	66,482	63,274	121,982	(77,594)	1,528,983
Operating expenses	858,890	405,833	65,480	62,167	117,423	(60,882)	1,448,911
Operating income	¥ 50,698	¥ 39,418	¥ 1,002	¥ 1,107	¥ 4,559	¥(16,712)	¥ 80,072
Millions of yen							
2005							
	Residential	Commercial	Resort	Home Center	Other	Eliminations/Corporate	Consolidated
Sales to customers	¥850,586	¥355,017	¥55,749	¥57,919	¥ 46,643		¥1,365,914
Intersegment sales	3,989	8,813		1,245	57,486	¥(71,533)	
Total sales	854,575	363,830	55,749	59,164	104,129	(71,533)	1,365,914
Operating expenses	804,800	336,506	53,872	59,064	100,595	(56,772)	1,298,065
Operating income	¥ 49,775	¥ 27,324	¥ 1,877	¥ 100	¥ 3,534	¥(14,761)	¥ 67,849
Millions of yen							
2004							
	Residential	Commercial	Resort	Home Center	Other	Eliminations/Corporate	Consolidated
Sales to customers	¥797,627	¥270,002	¥53,612	¥56,069	¥47,338		¥1,224,648
Intersegment sales	3,004	6,986		1,158	50,428	¥(61,576)	
Total sales	800,631	276,988	53,612	57,227	97,766	(61,576)	1,224,648
Operating expenses	752,365	256,319	53,531	57,088	94,943	(49,259)	1,164,987
Operating income	¥ 48,266	¥ 20,669	¥ 81	¥ 139	¥ 2,823	¥(12,317)	¥ 59,661
Thousands of U.S. dollars							
2006							
	Residential	Commercial	Resort and Sports	Home Center	Other	Eliminations/Corporate	Consolidated
Sales to customers	\$7,738,333	\$3,733,521	\$568,222	\$529,051	\$ 499,104		\$13,068,231
Intersegment sales	35,923	72,043		11,752	543,477	\$(663,195)	
Total sales	7,774,256	3,805,564	568,222	540,803	1,042,581	(663,195)	13,068,231
Operating expenses	7,340,940	3,468,658	559,658	531,341	1,003,615	(520,357)	12,383,855
Operating income	\$ 433,316	\$ 336,906	\$ 8,564	\$ 9,462	\$ 38,966	\$(142,838)	\$ 684,376

**Total assets, depreciation and capital investments**

	Millions of yen						
	2006						
	Residential	Commercial	Resort and Sports	Home Center	Other	Eliminations/Corporate	Consolidated
Total assets	¥498,910	¥464,318	¥108,856	¥40,183	¥123,911	¥239,019	¥1,475,197
Depreciation	5,228	7,897	1,918	665	9,636	1,471	26,815
Capital investments	12,643	77,100	3,072	612	17,411	(694)	110,144
	Millions of yen						
	2005						
	Residential	Commercial	Resort	Home Center	Other	Eliminations/Corporate	Consolidated
Total assets	¥468,068	¥393,990	¥101,327	¥40,655	¥116,954	¥237,813	¥1,358,807
Depreciation	4,486	4,623	1,869	705	5,875	1,685	19,243
Capital investments	7,700	31,909	851	725	15,842	(331)	56,696
	Millions of yen						
	2004						
	Residential	Commercial	Resort	Home Center	Other	Eliminations/Corporate	Consolidated
Total assets	¥396,552	¥212,235	¥102,740	¥36,779	¥72,961	¥266,391	¥1,087,658
Depreciation	4,822	2,771	1,530	647	3,628	1,767	15,165
Capital investments	6,688	4,465	2,272	2,098	4,916	(331)	20,108
	Thousands of U.S. dollars						
	2006						
	Residential	Commercial	Resort and Sports	Home Center	Other	Eliminations/Corporate	Consolidated
Total assets	\$4,264,188	\$3,968,530	\$930,393	\$343,444	\$1,059,068	\$2,042,898	\$12,608,521
Depreciation	44,684	67,496	16,393	5,684	82,359	12,572	229,188
Capital investments	108,060	658,974	26,256	5,231	148,812	(5,931)	941,402

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

The industry segments consisted of the following:

Components of net sales	Industry segment				
	Residential	Commercial	Resort and Sports	Home Center	Other
Construction	Construction of single/ multi-family houses and condominiums	Construction of commercial buildings			
Real estate	Sales of real estate for residential use  Real estate commissions  Rental of residential complexes	Sales and rental of real estate for commercial use			
Other	Care of condominiums	Care of commercial buildings	Operation of resort type hotels, golf courses and fitness clubs	Operation of "do-it-yourself" hardware centers	Manufacture and sales of building materials  Physical distribution  Operation of city type hotels

Eliminations/Corporate include unallocated operating expenses, principally consisting of general corporate expenses incurred by the administration headquarters of the Company.

Corporate assets are principally cash and cash equivalents, marketable securities and investment securities.

#### 11. Other income (expenses): Other — net

"Other income (expenses): Other — net" for the years ended March 31, 2006, 2005 and 2004 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Exchange gain (loss)	¥ (2)	¥ 5	¥ (2)	\$ (17)
Real estate acquisition tax and other taxes	(205)	(237)	(369)	(1,752)
Retirement benefits for directors	(1,266)	(175)	(214)	(10,821)
Gain on sales of marketable and investment securities	1,021	938	99	8,727
Allowance for doubtful accounts	(351)	(3)	(386)	(3,000)
Equity in earnings of associated companies	350	1,611	2,384	2,991
Write-down of golf club membership	(264)	(121)	(62)	(2,256)
Gain (loss) on sales of membership	(71)		3	(607)
Loss on closure of "do-it-yourself" hardware centers			(2,637)	
Consulting, advertising and other expenses for corporate branding and identity		(1,676)		
Loss on secession of subsidiaries' pension fund (Note 8)	(1,414)			(12,085)
Other — net	1,410	3,016	1,531	12,051
Total	<u>¥ (792)</u>	<u>¥3,358</u>	<u>¥ 347</u>	<u>\$ (6,769)</u>

## 12. Income taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rates of approximately 40.6% for the year ended March 31, 2006 and 2005 and 42.0% for the year ended March 31, 2004.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Current:			
Deferred tax assets:			
Write-down of land held for resale	¥ 12,356	¥ 10,961	\$ 105,606
Accrued bonuses	7,303	6,254	62,419
Accrued enterprise tax	1,314	1,359	11,231
Other	5,947	12,484	50,829
Deferred tax assets	<u>¥ 26,920</u>	<u>¥ 31,058</u>	<u>\$ 230,085</u>
Non-current:			
Deferred tax assets:			
Employees' retirement benefits	¥ 38,364	¥ 42,048	\$ 327,897
Unrealized gains on sales of property, plant and equipment	7,484	8,743	63,966
Extraordinary depreciation for property, plant and equipment	24,715	26,756	211,239
Other	13,109	11,501	112,043
Less valuation allowance	(499)	(925)	(4,265)
Deferred tax assets	<u>¥ 83,173</u>	<u>¥ 88,123</u>	<u>\$ 710,880</u>
Deferred tax liabilities:			
Retained earnings appropriated for tax allowable reserves	¥ (2,221)	¥ (2,258)	\$ (18,983)
Net unrealized gain on available-for-sale securities	(21,788)	(10,391)	(186,222)
Other	(51)	(69)	(436)
Deferred tax liabilities	<u>¥(24,060)</u>	<u>¥(12,718)</u>	<u>\$(205,641)</u>
Net deferred tax assets	<u>¥ 59,113</u>	<u>¥ 75,405</u>	<u>\$ 505,239</u>



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, 2005 and 2004 is as follows:

	2005	2004
Normal effective statutory tax rates	40.6%	42.0%
Increase (decrease) in tax rates due to:		
Permanently non-deductible expenses	1.7	1.3
Non-taxable dividend income	(0.1)	(0.0)
Equity in earnings of associated companies	(1.0)	(0.9)
Write-down of investments in and advances to associated companies		(0.1)
Per capita levy	1.0	0.8
Increase in valuation allowance for deferred tax assets	0.3	0.1
Reversal of land revaluation difference	(10.8)	
Other — net	0.6	0.4
Actual effective tax rates	<u>32.3%</u>	<u>43.6%</u>

On March 31, 2003, Cabinet Order No. 9 entitled “Reform of a Portion of Local Tax Law” was issued and this reform will apply to fiscal years beginning after April 1, 2004. As a result of this reform, the statutory income tax rate to be used for the calculation of deferred income taxes concerning temporary differences which are expected to be realized or settled after April 1, 2004 was changed from 42.0% to 40.6%.

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

### 13. Research and development costs

Research and development costs charged to income were ¥6,190 million (\$52,906 thousand), ¥5,713 million and ¥5,667 million for the years ended March 31, 2006, 2005 and 2004, respectively.

### 14. Leases

#### Finance leases:

##### (Lessee)

Total rental expenses including lease payments under finance leases that are not deemed to transfer ownership of the leased property to the lessee were ¥4,154 million (\$35,504 thousand), ¥4,647 million, and ¥5,514 million for the years ended March 31, 2006, 2005 and 2004, respectively.

Pro forma information of leased property under finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2006 and 2005 were as follows:

	Millions of yen			
	2006			
	Buildings and structures	Machinery and equipment	Furniture and fixtures	Total
Acquisition cost	¥4,181	¥1,435	¥10,053	¥15,669
Accumulated depreciation	2,392	468	5,221	8,081
Net leased property	<u>¥1,789</u>	<u>¥ 967</u>	<u>¥ 4,832</u>	<u>¥ 7,588</u>

	Millions of yen			
	2005			
	Buildings and structures	Machinery and equipment	Furniture and fixtures	Total
Acquisition cost	¥7,620	¥1,093	¥10,037	¥18,750
Accumulated depreciation	5,051	278	4,833	10,162
Accumulated impairment loss		2		2
Net leased property	<u>¥2,569</u>	<u>¥ 813</u>	<u>¥ 5,204</u>	<u>¥ 8,586</u>

	Thousands of U.S. dollars			
	2006			
	Buildings and structures	Machinery and equipment	Furniture and fixtures	Total
Acquisition cost	\$35,735	\$12,265	\$85,923	\$133,923
Accumulated depreciation	20,444	4,000	44,624	69,068
Net leased property	<u>\$15,291</u>	<u>\$ 8,265</u>	<u>\$41,299</u>	<u>\$ 64,855</u>

Obligations under such finance leases as of March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Due within one year	¥3,040	¥3,514	\$25,983
Due after one year	4,548	5,072	38,872
Total	<u>¥7,588</u>	<u>¥8,586</u>	<u>\$64,855</u>

Impairment of leased property ¥ 2

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, computed by the straight-line method, respectively.

**(Lessor)**

Total rental income under finance leases that are not deemed to transfer ownership of the leased property to the lessee was ¥8,051 million (\$68,812 thousand) and ¥3,936 million for the years ended March 31, 2006 and 2005, respectively.

The amount of the imputed interest income portion included in the above rental income, which is computed using the interest method, was ¥737 million (\$6,299 thousand) and ¥377 million for the years ended March 31, 2006 and 2005, respectively.

Property and equipment leased to customers under finance lease arrangements mentioned above consisted of the following at March 31, 2006 and 2005.

	Millions of yen		
	2006		
	Buildings and structures	Machinery and equipment	Total
Acquisition cost	¥10,900	¥22,067	¥32,967
Accumulated depreciation	6,280	10,075	16,355
Net leased property	<u>¥ 4,620</u>	<u>¥11,992</u>	<u>¥16,612</u>

	Millions of yen		
	2005		
	Buildings and structures	Machinery and equipment	Total
Acquisition cost	¥10,918	¥18,868	¥29,786
Accumulated depreciation	6,130	9,309	15,439
Net leased property	<u>¥ 4,788</u>	<u>¥ 9,559</u>	<u>¥14,347</u>

	Thousands of U.S. dollars		
	2006		
	Buildings and structures	Machinery and equipment	Total
Acquisition cost	\$93,162	\$188,607	\$281,769
Accumulated depreciation	53,675	86,111	139,786
Net leased property	<u>\$39,487</u>	<u>\$102,496</u>	<u>\$141,983</u>

Future rental income under finance leases at March 31, 2006 and 2005 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Due within one year	¥ 7,034	¥ 6,133	\$ 60,120
Due after one year	14,409	12,799	123,154
Total	<u>¥21,443</u>	<u>¥18,932</u>	<u>\$183,274</u>

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

Depreciation expensed relating to the leased assets under finance lease arrangements mentioned above was ¥5,361 million (\$45,821 thousand) and ¥2,561 million for the years ended March 31, 2006 and 2005, respectively.

**Operating leases:**

Obligations and future rental income under non-cancellable operating leases as of March 31, 2006 and 2005 were as follows:

(Lessee)	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Due within one year	¥ 41,385	¥ 36,765	\$ 353,718
Due after one year	492,640	446,447	4,210,598
Total	<u>¥534,025</u>	<u>¥483,212</u>	<u>\$4,564,316</u>
<b>(Lessor)</b>			
	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Due within one year	¥ 39,321	¥ 33,949	\$ 336,077
Due after one year	507,789	442,407	4,340,077
Total	<u>¥547,110</u>	<u>¥476,356</u>	<u>\$4,676,154</u>

**15. Derivatives**

The Group enters into foreign exchange forward contracts and interest rate swaps to hedge foreign exchange or interest rate risks.

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

Derivatives are subject to market risk and credit risk. Because the counterparties to those derivatives are limited to major international financial institutions, the Company does not anticipate any losses arising from such credit risk.

The Company implemented a risk control system for derivatives primarily to control the purpose, limitation and selection of the counterparties. The system's primary function is to avoid excess risks associated with derivatives. Each derivative transaction, which is based on these internal policies, is reported to the Director of the Financing Department, and the execution and control of derivatives are managed by the Finance Section of the Company.

As of March 31, 2006 and 2005, the Group did not have any derivative contracts outstanding.

**16. Contingencies**

At March 31, 2006, contingent liabilities for notes endorsed with recourse and loans guaranteed in the ordinary course of business amounted to ¥949 million (\$8,111 thousand) and ¥42,438 million (\$362,718 thousand), respectively. Included in loans guaranteed were customers' housing loans from banks in the amount of ¥38,222 million (\$326,684 thousand).



## 17. Subsequent events

### a. Share exchange agreements

The Company entered into share exchange agreements with Daiwa Kosho Lease Co., Ltd., Daiwa Rakuda Industry Co., Ltd. and Daiwa Logistics Co., Ltd. (the "Three subsidiaries of the Group") on March 13, 2006, to make the three subsidiaries wholly owned subsidiaries of the Company. The agreements were approved at the Company's general shareholders meeting held on June 29, 2006.

(1) Details of the share exchange agreements are as follows:

① Purpose of the share exchange

The purpose is to remove excess overlap of business and competition within the Group and to improve speed and efficiency of management from the point of view of the most suitable distribution of management resources and the efficiency of the management group as the whole.

② Date of share exchange

August 1, 2006

③ The method and outline of the share exchange

The Company will allocate 49,257,435 newly issued shares of common stock to shareholders of the three subsidiaries of the Group, excluding the Company, recorded on the list of shareholders of the three subsidiaries of the Group, at the end of the day before the date of share exchange, at a ratio of the following share in the Company to 1 share in the three subsidiaries of the Group.

Company name	Share exchange ratio
Daiwa Kosho Lease Co., Ltd.	0.421
Daiwa Rakuda Industry Co., Ltd.	0.455
Daiwa Logistics Co., Ltd.	0.620

(2) Outline of Daiwa Kosho Lease Co., Ltd. is follows:

Representative: Mutsuo Kajimoto

Capital: ¥21,768 million (\$186,051 thousand)

Head office: Osaka-shi, Osaka

① Business: Leasing of temporary buildings

Trading of real estate

Leasing and trading of machines, tools and vehicles

② Sales and net income for the year ended March 31, 2006

Sales: ¥121,283 million (\$1,036,607 thousand)

Net income: ¥4,336 million (\$37,060 thousand)

③ Assets, liabilities and shareholders' equity as of March 31, 2006

Total assets: ¥245,410 million (\$2,097,521 thousand)

Total liabilities: ¥146,495 million (\$1,252,094 thousand)

Shareholders' equity: ¥98,915 million (\$845,427 thousand)

(3) Daiwa Rakuda Industry Co., Ltd. is follows:

Representative: Katsumi Masumura  
 Capital: ¥4,346 million (\$37,145 thousand)  
 Head office: Osaka-shi, Osaka

- ① Business: Manufacture and sales of housing equipment, components and office furniture  
 Lease of office supplies  
 Life and non-life insurance agency

② Sales and net income for the year ended March 31, 2006

Sales: ¥41,483 million (\$354,556 thousand)  
 Net income: ¥892 million (\$7,624 thousand)

③ Assets, liabilities and shareholders' equity as of March 31, 2006

Total assets: ¥38,973 million (\$333,103 thousand)  
 Total liabilities: ¥15,284 million (\$130,633 thousand)  
 Shareholders' equity: ¥23,689 million (\$202,470 thousand)

(4) Outline of Daiwa Logistics Co., Ltd. is follows:

Representative: Katsuyoshi Tateno  
 Capital: ¥3,764 million (\$32,171 thousand)  
 Head office: Osaka-shi, Osaka

- ① Business: Trucking of cargos and storage, and packing of cargos  
 Selling and brokerage of real estate

② Sales and net income for the year ended March 31, 2006

Sales: ¥32,228 million (\$275,453 thousand)  
 Net income: ¥628 million (\$5,368 thousand)

③ Assets, liabilities and shareholders' equity as of March 31, 2006

Total assets: ¥22,694 million (\$193,966 thousand)  
 Total liabilities: ¥8,488 million (\$72,547 thousand)  
 Shareholders' equity: ¥14,206 million (\$121,419 thousand)

***b. Appropriations of retained earnings***

The following appropriations of retained earnings at March 31, 2006 were approved at the Company's shareholders' meeting held on June 29, 2006:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥20.0 (\$0.17) per share	¥11,000	\$94,017
Bonuses to directors and corporate auditors	197	1,684

## Independent auditors' report

To the Board of Directors of Daiwa House Industry Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Daiwa House Industry Co., Ltd. and subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2006, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Daiwa House Industry Co., Ltd. and subsidiaries as of March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2006, in conformity with accounting principles generally accepted in Japan.

As discussed in Note 17, the Company entered into the share exchange agreements with Daiwa Kosho Lease Co., Ltd., Daiwa Rakuda Industry Co., Ltd. and Daiwa Logistics Co., Ltd. on March 13, 2006, and the agreements were approved at the Company's general shareholders meeting held on June 29, 2006.

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.



June 29, 2006

## Sources

- P18 Securities Markets in Japan/Survey on Distribution of shares
- P25 Statistics Bureau, Ministry of Internal Affairs and Communications/Population Census of Japan  
Statistics Bureau, Ministry of Internal Affairs and Communications/Population Census of Japan 2005; quick estimation  
National Institute of Population and Social Security Research/Population Projections for Japan: 2001-2050
- P26 Jutaku Sangyo Shimbun-sya/Housing Industry Data; FY2005 Yearbook
- P27 Ministry of Land, Infrastructure and Transport/Statistics on Building Construction Started
- P81 Ministry of Land, Infrastructure and Transport/Statistics on Building Construction Started
- P85 The Housing Loan Promotion Association/Current Data on Overseas Housing
- P89 Ministry of Land, Infrastructure and Transport/Statistics on Building Construction Started
- P92 The Japan Accreditation Board for Conformity Assessment
- P93 Statistics Bureau, Ministry of Internal Affairs and Communications/Population Census of Japan  
National Institute of Population and Social Security Research/Population Projections for Japan: 2001-2050  
UN, World Population Prospects: The 2004 Revision



# Corporate Data

As of April 1, 2006

<b>Founding:</b>	April 5, 1955 (Established: March 4, 1947)
<b>Paid-in capital:</b>	¥110,120,483,981
<b>Employees:</b>	12,725
<b>Head Office:</b>	3-3-5 Umeda, Kita-ku, Osaka 530-8241, Japan Phone: +81-6-6346-2111
<b>Tokyo Office:</b>	3-13-1 Iidabashi, Chiyoda-ku, Tokyo 102-8112, Japan Phone: +81-3-5214-2111
<b>Nagoya Office:</b>	1-20-22 Aoi, Naka-ku, Nagoya 460-8491, Japan Phone: +81-52-933-2703
<b>Branches:</b>	91 (including Head Branch)
<b>Factories:</b>	13
<b>Research center:</b>	Central Research Laboratory (Nara city)
<b>Training centers:</b>	Nara, Tokyo and Osaka

<http://www.daiwahouse.com/English>



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

