ANNUAL REPORT 2005

For the year ended January 31,2005

Sekisui House,Ltd.

Our Corporate Profile

Sekisui House, Ltd. is Japan's leading home builder, with profitability and dividends that well exceed the average for the industry. Our base of business is the construction, sale, purchase and administration of residential properties; the design, execution, contracting and supervision of construction projects; real estate brokerage and landscaping. Since our establishment in 1960, we at Sekisui House have achieved steady growth, becoming an ever-increasingly active participant in the Japanese construction industry.

Contents

Financial Highlights

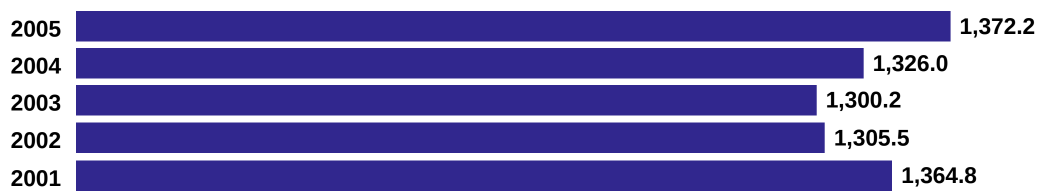
Sekisui House, Ltd. and Subsidiaries

	Millions of yen					Thousands of U.S. dollars
	2005	2004	2003	2002	2001	**2005**
For the year:						
Net sales	**¥ 1,372,244**	¥ 1,326,039	¥ 1,300,237	¥ 1,305,469	¥ 1,364,801	**$ 13,248,156**
Net income	**23,659**	37,762	34,547	(90,331)	25,167	**228,413**
At year ended						
Total assets	**1,140,231**	1,181,013	1,258,980	1,303,821	1,459,491	**11,008,216**
Shareholders' equity	**666,475**	667,964	645,702	626,463	741,216	**6,434,399**

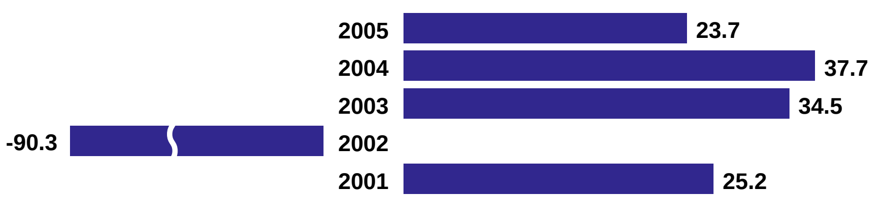
	Yen					U.S. dollars
	2005	2004	2003	2002	2001	**2005**
Per share:						
Net income	**¥ 33.80**	¥ 53.30	¥ 48.71	¥ (125.11)	¥ 35.03	**$ 0.33**
Cash dividends applicable to the year	**18.00**	18.00	18.00	18.00	20.00	**0.17**

Note: U.S. dollar amounts above and elsewhere in this report represent translations of Japanese yen, for convenience only, at the approximate exchange rate of ¥103.58 = U.S. $1, effective at January 31, 2005.

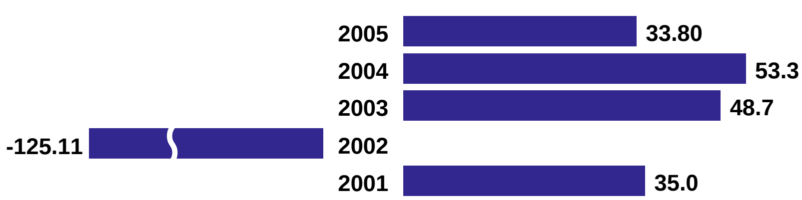
Net sales
Billions of yen



Net income
Billions of yen



Net income per share
Yen



A Message From The President

During Fiscal 2004, the Japanese economy was driven primarily by strong exports, recording an all-time high surplus in external payments. Domestic business conditions likewise fared reasonably well on the back of the pickup in capital expenditures in the export sector and aggressive investment in blue-chip properties in the Tokyo and other metropolitan areas as corporate earnings recovered. As the export environment weakened towards the fiscal second half, however, major indexes showed signs of a slowdown in economic growth, creating uncertainty over the future of the Japanese economy.

In the housing market, first time buyers continued to underpin brisk demand as land prices and interest rates remained low. New housing starts for calendar year 2004 grew 2.5% year-on-year, reaching 1,189 thousand units thanks primarily to a strong performance by small detached houses for sale. Demand from owner-occupiers stayed sluggish, owing to the absence of substantial improvement in rebuilding-led demand for secondary acquisitions.

Against this backdrop, we focused on selected priority issues, including the reinforcement of corporate staying power and marketing strength, the regrouping of our product line in response to market demand, the development of new products to buttress the Built-to-Order Housing Business, and the bolstering of our peripheral businesses.

As part of our continuing drive to provide housing that is both safe and secure, we adopted laminated glass as a standard fixture, in addition to, heat insulating qualities. Our engineering expertise and eco-friendly initiatives won a strong commendation from society in general with the Chairman's Award of the Fiscal 2004 Energy Conservation Grand Prize, sponsored by the Energy Conservation Center, Japan, for our *Energy-Saving*, *Disaster-Mitigating Housing*. We were also the first in the construction industry to be authorized by the Minister of the Environment to dispose of construction site waste across administrative boundaries.

In October 2004, we announced a medium-term management vision the *S-Project* as part of our efforts to develop into a strong corporate group capable of responding to the acute changes in the economic and business environments.

Through the *S-Project*, the Sekisui House Group aims to further expand our mainstay Built-to-Order Housing and Real Estate for Sales businesses, and to shift to a new stage in our growth by restructuring the Group to make our operations more resilient and efficient. As part of this initiative, we have decided to make the six Sekiwa Real Estate companies wholly owned subsidiaries and separate our remodeling business in February 2005. The former move is designed to maximize Group synergies, while permitting them the autonomy they require to take full advantage of their unique positions in the regional markets they serve. The corporate separation of the remodeling business, on the other hand, is aimed at greater efficiency in marketing the remodeling business, which differs in nature from the marketing of our core businesses, and at filling gaps in the existing portfolio of our remodeling branch.

We have taken several measures in our core Built-to-Order Housing Business that are designed to boost our marketing reach, including a revamped approach to consultative sales, and have made aggressive changes to our product mix. To sweep away the deep-rooted misunderstanding that all prefabricated houses are built to standard specifications, we started by focusing on removing the barriers among different product categories and increasing our design and component choices across the board. In April, we reorganized our mainstay *Centrage* series and debuted a line of steel-frame homes we call *Be Free*. In September, we reorganized the higher-end *Dyne* series to introduce our *Be Dyne's* range. These constitute our first steps in developing a basic assortment of products with a custom-built feeling - an extension of our flexible design concept - to respond to individual customer requirements.

November saw two new launches: the latest addition to the *Sha-Wood* wood-frame home line, *M'Gravis Villa* features a new structure, the *Super MJ System*, to achieve wide-open spaces that will satisfy the demands of a variety of customers, while *Urban Collection* is a three-story steel-frame home that will fit on the confined lots of urban areas.

For our March theme-product release, we debuted *Cuby Cuby*, a compact design-oriented home with the ultimate in functionality. In May we launched *Seikatsu wo Asobu Ie*, developed in collaboration with Actus Corporation, a leading interior shop in Japan. Both of these lines have been designed to cater to a broader range of customers.

In the rental property area, where competition is intensifying, we integrated and reorganized our two-story *Sha-Maison* rental housing line and re-launched it in August under a new label: *DIAS*. Projected to become one of the pillars of our rental housing business, *DIAS* uses standard materials and is capable of satisfying a variety of site restrictions and fulfilling the diverse needs of our tenants.

In our Real Estate for Sales Business, we have made an aggressive approach in the first-time buyer market, which is expanding as land prices decline. Our specific focus has been on sales of value-added, up-market condominiums with eco-friendly features and improved security for urban dwellers. We have continued to increase the turnover ratio in our real estate sales.

The Sekiwa Real Estate Group's lease property management business, which includes block leasing, has performed comparatively well, thanks in part to streamlined operations.

Over and above this, we have pushed to boost the popularity of Sekiwa Real Estate's brand in order to secure a stable, high occupancy rate, as part of our ongoing efforts to provide better solutions through the combined strength of the Group.

As part of our promotion of long-term CS (customer satisfaction) with the comfort of the residences we provide, we are putting a major effort into the peripheral businesses we operate that are involved in exterior and home remodeling. Our goal is to create an organization known for its comprehensive high-quality housing services.

Consolidated net sales reached 1,372,244 million yen ($13,248,156 thousands +3.5%). Consolidated operating income came in at 76,639 million yen ($739,902 thousands -4.6%). The sluggish profit performance is attributable to a sudden spike in materials costs during the year under review, and the shortage of both manpower and materials when these were directed to restoration due to the damage from the year's repeated natural disasters, which hindered us from taking orders and proceeding with construction.

Consolidated net income stood at 23,659 million yen ($228,413 thousands -37.3%). The decline owes to the decision to accelerate the application of accounting for impairment of fixed assts in the amount of 59,470 million yen ($574,145 thousands) by the Fiscal 2004 year-end, and occurred despite extraordinary gains on the return of the employee pension fund in the amount of 41,901 million yen ($404,528 thousands), which was approved in September 2004.

Operating cash flow declined substantially year-on-year. Its factor that affected the showing was the aggressive acquisition of land for sale to strengthen the Real Estate for Sales Business.

Cash flow from investment activities declined significantly, due primarily to aggressive acquisition of blue-chip properties in the metropolitan areas.

Cash flow from financing activities increased year-on-year. 15.41 million shares were repurchased for a sum of 17,947 million yen ($173,267 thousands), but obligations to pay interest-bearing debt were smaller than in the previous year.

As a result, cash and cash equivalents at the end of the period decreased 42,563 million yen ($410,919 thousands) year-on-year. Nevertheless, the balance exceeds an ample 179,712 million yen ($1,735, 007 thousands).

On the understanding that the economy has stalled but the worst has passed, we intend to push aggressive marketing programs in order to achieve the growth strategy laid out in the medium-term management vision the *S-Project*.

Specifically, we plan to increase the number of sales people and help them sharpen their skills in order to boost sales of detached houses and *Sha-Maison* rental housing, our top priorities. We also intend to shift more resources to our peripheral businesses involved with exteriors.

The Real Estate for Sales Business appears poised to expand, and we will continue to promote Sekisui House's existing businesses, including detached houses and condominiums for sale. We will also place a renewed focus on sales of *MAST* brand small homes, which are available through the Sekiwa Real Estate Group.

We intend to introduce major cost reduction programs, including structural reforms, in response to the expected rise in materials costs, in order to improve profitability without sacrificing our competitive edge in the market.

Now that, we anticipate even closer ties with the Sekiwa Real Estate Group. They are wholly-owned subsidiaries of Sekisui House, our strategy will be to maximize synergies not only in the real estate for leasing business but in every aspect of our business, to yield better performance. We also intend to boost the earnings of our successor remodeling company by streamlining management and hiring more contract workers to trim operating costs.

As we mentioned earlier, we plan to raise our annual dividend payments by 2 yen, to 20 yen per share (interim dividend: 10 yen), for the year ending January 31, 2006.

I. Wada

Isami Wada
CEO / President

Sekisui House Topics

Environmental and Social Responsibility

In our "Action Program for the Environment," published in November 1999, Sekisui House, Ltd. set out the philosophy and goals for environmental conservation, defining our responsibilities both as the leading company in Japan's housing sector and as a global corporate citizen. Since then, the Company has striven to act proactively to harmonize our business undertakings with the environment.

In putting the Program into action, the Company has always appreciated the social nature of our business - housing being the link between people and town - rather than limiting ourselves to "environment" in the narrow sense.

Sekisui House took a step further in April 2005, announcing a new management guideline that gives equal attention to four driving forces, the economy, the environment, society (the triple bottom-line), and the company's unique concept of "A Home and its Inhabitants."

Below are the Company's key corporate social responsibility (CSR) activities for the year ended January 31, 2005 (fiscal 2004).

Energy-saving, disaster-mitigating housing

LCA (Life Cycle Assessment) studies of housing have led us to conclude that improvements in air-tightness and heat insulation performance are the most effective measures for reducing CO_2 emissions. Accordingly, in August 2003 we were the first company in our industry to introduce advanced energy-saving specifications as a standard feature of all our detached houses.

In fiscal 2004, we added another level to our housing's line-up of advanced features, creating *energy-saving, disaster-mitigating* housing. Seismic isolation and other disaster-mitigating technologies are in great demand in earthquake-prone Japan. The new homes are equipped with such eco-systems as a photovoltaic power generation system and storage batteries, to conserve energy during normal times and be self-sufficient in times of disaster. This is first general housing system to win the Chairman's Award of the Fiscal 2004 Energy Conservation Grand Prize.

We also became the first in the world to release a detached house equipped with household fuel cells, developed in collaboration with a partner gas company, demonstrating our continued commitment to new solutions in energy-saving/creation technology for residential housing.

Zero-emission construction sites

Having achieved "zero emissions" in May 2002 at all six of our factories in Japan, in January 2004 the Company started expanding the scope of these activities to our construction sites. These are now "emission-free," meaning that not a single piece of waste from our construction sites goes for landfill or incineration. We have successfully slashed waste emissions per house by one-third and are pushing this further, as well as sorting all waste by type for collection.

In acknowledgment of these innovative initiatives, in October the Minister of the Environment authorized us to dispose of construction site waste across administrative boundaries, yet another "industry first." This has made it possible for us to gather the waste from every construction site at the recycling centers of our six factories across the country, expediting the recycling of resources. We plan to achieve "zero emissions" at construction sites before the end of fiscal 2005.

Meanwhile, we ensure that the quality of our recycling is constantly improved. We not only outsource all the waste to recycling companies, but also utilize recycling technology in the production of in-house materials.

In fiscal 2001, the Company began using the wood flour and waste resin generated from the wood-processing process at the Kanto factory to produce base materials for roofs. To increase our own recycling ratio, we are pushing technological development and carefully identifying items that can be recycled into materials for in-house consumption.

The "Bio Garden" project

As part of our increasing focus on the exteriors business of our housing-related operations, we are promoting a "Bio Garden Five Trees" Project. The goal of this environmental project is to facilitate the regeneration of small-scale natural habitats of plants and trees suited to the vegetation and climate of Japan, and thus support wild bird and small animal ecosystems. We are inviting our customers across the country to join us in promoting this project, uniquely ours, that combines flora and fauna. We are in the process of creating more model gardens at our *Sumai no Yume Kojo* simulation facilities in our factories, so that we can apply the landscaping techniques we have developed for detached homes to large-scale housing developments and condominiums.

In fiscal 2004, we planted around 700,000 trees of specific types in the gardens of about 10,000 homes. This is an increase of 14% year-on-year, and provides a CO_2 reduction effect of approximately 4,200 tons.

Accelerated CSR Drive

During the fiscal year under review, we continued to strengthen our risk management in order to reduce all risks to the environment, and we provide our employees with thorough training to strengthen their awareness of compliance.

In October, we announced a new medium-term management vision, the *S-Project*, whose goal is to establish the Sekisui House Group as a CSR-oriented entity in the eyes of the public. Guided by the *S-Project*, we intend to fulfill our corporate responsibilities in concert with our commitment to improving the three inter-related aspects of CS (Customer Satisfaction), SS (Shareholder Satisfaction) and ES (Employee Satisfaction).

To make this happen, in February 2005 we reorganized our Compliance Committee into a CSR Committee. This new committee includes three outside members (a business management expert, a corporate officer, and a lawyer) to ensure transparent checks and balances. We also established a CSR Office dedicated exclusively to overseeing the promotion of CSR.

These and additional corporate-level CSR activities during fiscal year 2004 are described in greater detail in our *2004 Sustainability Report* (formerly, the *Environmental Report*).

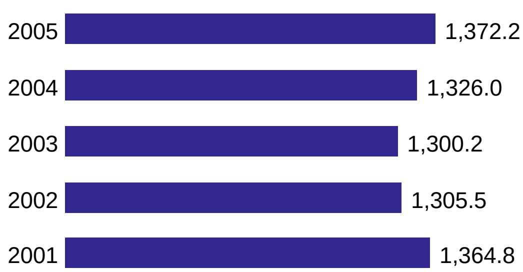
Management's Discussion and Analysis

Results of Operations

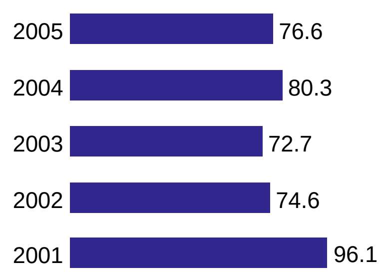
For the year ended January 31

	Millions of yen (percentage change)				
	2005	2004	2003	2002	2001
Net sales	**¥ 1,372,244 (3.5)**	1,326,039 (2.0)	1,300,237 (-0.4)	1,305,469 (-4.3)	1,364,801 (2.6)
Cost of sales	**¥ 1,098,520 (4.0)**	1,055,989 (1.9)	1,035,976 (0.1)	1,035,277 (-3.3)	1,071,009 (-0.1)
Operating income	**¥ 76,639 (-4.6)**	80,334 (10.4)	72,737 (-2.5)	74,625 (-22.3)	96,086 (26.2)
Net income	**¥ 23,659(-37.3)**	37,762 (9.3)	34,547	-90,331	25,167
	Yen (percentage change)				
Net income per share (Note 16)	**¥ 33.80 (-36.6)**	53.30 (9.4)	48.71 (-)	-125.11 (-)	35.03 (-)

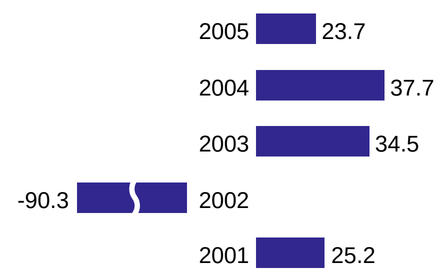
Net Sales
Billions of yen



Operating Income
Billions of yen



Net Income
Billions of yen

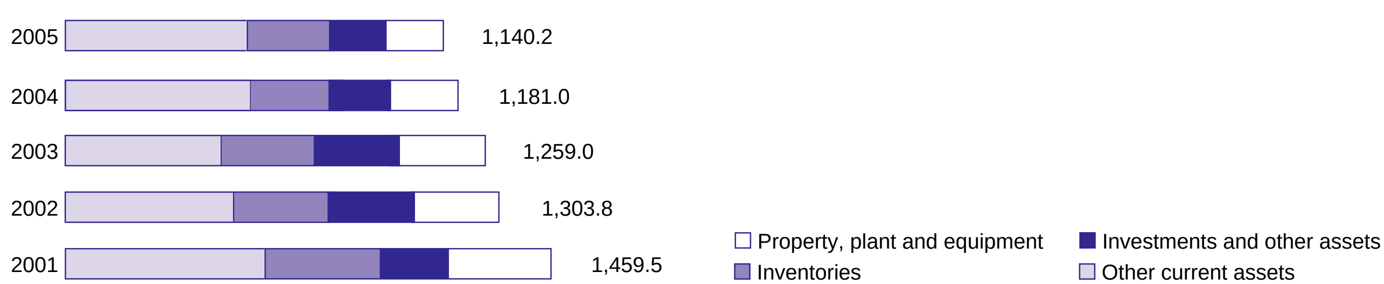


Financial Position

For the year ended January 31

	% of total assets				
	2005	2004	2003	2002	2001
Current assets	**64.4**	58.5	60.0	61.1	65.2
Inventories	**31.8**	24.4	23.3	22.1	24.1
Investments and other assets	**19.4**	19.6	19.7	19.9	13.9
Property, plant and equipment	**16.2**	21.9	20.3	19.0	20.9
Current liabilities	**31.1**	26.8	30.8	29.1	27.1
Long-term liabilities	**8.6**	14.8	16.4	22.3	20.9
Long-term debt	**0.8**	3.4	5.6	12.3	15.6
Total shareholders' equity	**58.5**	56.6	51.3	48.0	50.8

Total Assets
Billions of yen



*See notes to consolidated financial statements.

Five-year Summary

Sekisui House, Ltd. and Subsidiaries
For the Year ended January 31

	Millions of yen					Thousands of U.S. dollars
	2005	2004	2003	2002	2001	**2005**
Net sales	**¥ 1,372,244**	1,326,039	1,300,237	1,305,469	1,364,801	**$ 13,248,156**
Operating income	**¥ 76,639**	80,334	72,737	74,625	96,086	**$ 739,902**
Net income	**¥ 23,659**	37,762	34,547	- 90,331	25,167	**$ 228,413**
Total assets	**¥ 1,140,231**	1,181,013	1,258,980	1,303,821	1,459,491	**$ 11,008,216**
Shareholders' equity	**¥ 666,475**	667,964	645,702	626,463	741,216	**$ 6,434,399**

Segment information (Note 19):	Millions of yen				Thousands of U.S. dollars
	2005	2004	2003	2002	**2005**
Built-to-order housing	**¥ 709,832**	¥ 744,600	¥ 740,947	¥ 821,451	**$ 6,852,983**
Real estate for sale	**¥ 273,455**	¥ 202,532	¥ 190,096	¥ 185,273	**$ 2,640,037**
Real estate for leasing	**¥ 270,765**	¥ 250,633	¥ 231,877	¥ 172,459	**$ 2,614,066**
Other	**¥ 128,802**	¥ 134,199	¥ 142,671	¥ 132,432	**$ 1,243,503**

Amounts per share (Note 16):	Yen					U.S. dollars
	2005	2004	2003	2002	2001	**2005**
Net income per share	**¥ 33.80**	53.30	48.71	- 125.11	35.03	**$ 0.33**
Diluted	—	51.39	44.42	—	31.07	—
Net assets	**¥ 979.40**	959.96	911.01	883.16	1,027.71	**$ 9.46**
Dividends	**¥ 18.00**	18.00	18.00	18.00	20.00	**$ 0.17**

*See notes to consolidated financial statements.

Consolidated Balance Sheets

Sekisui House, Ltd. and Subsidiaries
January 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	**2005**
Assets			
Current assets:			
Cash and cash equivalents	**¥ 179,712**	¥ 222,275	**$ 1,735,007**
Short-term investments (Note 4)	**1,050**	2,428	**10,137**
Notes and accounts receivable:			
Affiliate	**124**	–	**1,197**
Trade	**82,571**	80,038	**797,171**
Other	**14,903**	14,472	**143,879**
Less allowance for doubtful accounts	**(1,636)**	(1,656)	**(15,794)**
	95,962	92,854	**926,453**
Inventories (Note 5 and 8)	**362,585**	288,432	**3,500,531**
Deferred income taxes (Note 9)	**85,052**	74,804	**821,124**
Other current assets	**10,089**	9,770	**97,403**
Total current assets	**734,450**	690,563	**7,090,655**
Property, plant and equipment:			
Land (Note 8)	**77,268**	124,555	**745,974**
Buildings and structures (Note 8)	**160,770**	200,470	**1,552,134**
Machinery and equipment	**81,692**	81,631	**788,685**
Construction in progress	**3,570**	1,099	**34,466**
	323,300	407,755	**3,121,259**
Less accumulated depreciation	**(139,079)**	(149,262)	**(1,342,721)**
Property, plant and equipment, net	**184,221**	258,493	**1,778,538**
Investments and other assets:			
Long-term loans receivable	**43,982**	46,804	**424,619**
Less allowance for doubtful accounts	**(1,427)**	(1,644)	**(13,777)**
	42,555	45,160	**410,842**
Investments in securities (Note 4)	**127,955**	112,613	**1,235,326**
Investments in affiliates (Note 6)	**896**	606	**8,650**
Deferred income taxes (Note 9)	**7,476**	26,604	**72,176**
Other assets	**42,678**	46,974	**412,029**
Total investments and other assets	**221,560**	231,957	**2,139,023**
	¥ 1,140,231	¥ 1,181,013	**$11,008,216**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	**2005**
Liabilities and shareholders' equity			
Current liabilities:			
Current portion of long-term debt (Note 7)	**¥ 30,000**	¥ 30,001	**$ 289,632**
Notes and accounts payable:			
Affiliate	**2,987**	–	**28,838**
Trade	**151,860**	145,704	**1,466,113**
Accrued income taxes (Note 9)	**19,485**	3,948	**188,115**
Advances received	**86,434**	75,038	**834,466**
Other current liabilities	**63,656**	62,070	**614,558**
Total current liabilities	**354,422**	316,761	**3,421,722**
Long-term debt, less current portion (Note 7)	**9,427**	39,675	**91,012**
Accrued retirement benefits for employees (Note 12)	**26,896**	72,056	**259,664**
Accrued retirement benefits for directors, corporate auditors and executive officers	**1,536**	1,586	**14,829**
Other liabilities (Note 8)	**60,033**	61,585	**579,581**
Total liabilities	**452,314**	491,663	**4,366,808**
Minority interests	**21,442**	21,386	**207,009**
Contingent liabilities (Note 13)			
Shareholders' equity (Note 10):			
Common stock:			
Authorized: 1,978,281,000 shares			
Issued: 2005 and 2004 - 709,385,078 shares	**186,554**	186,554	**1,801,062**
Capital surplus	**237,525**	237,523	**2,293,155**
Retained earnings (Note 20)	**259,773**	248,961	**2,507,946**
Net unrealized holding gain on securities	**13,169**	7,640	**127,138**
Translation adjustments	**(5)**	(98)	**(48)**
Less treasury stock, at cost	**(30,541)**	(12,616)	**(294,854)**
Total shareholders' equity	**666,475**	667,964	**6,434,399**
	¥ 1,140,231	¥ 1,181,013	**$11,008,216**

See notes to consolidated financial statements.

Consolidated Statements of Income

Sekisui House, Ltd. and Subsidiaries
Years ended January 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	**2005**
Net sales (Note 19)	**¥ 1,372,244**	¥ 1,326,039	**$13,248,156**
Cost of sales	**1,098,520**	1,055,989	**10,605,522**
Gross profit	**273,724**	270,050	**2,642,634**
Selling, general and administrative expenses	**197,085**	189,716	**1,902,732**
Operating income (Note 19)	**76,639**	80,334	**739,902**
Other income (expenses):			
Interest and dividend income	**2,765**	2,454	**26,694**
Interest expense	**(535)**	(1,648)	**(5,165)**
Loss on impairment of fixed assets (Note 18)	**(59,470)**	–	**(574,145)**
Gain on return of substitutional portion of Welfare Pension Fund Plans	**41,901**	–	**404,528**
Loss on revaluation of real estate held for sale (Note 17)	**(4,069)**	(2,989)	**(39,284)**
Loss on revaluation of securities	**(1,579)**	(14)	**(15,244)**
Other, net	**(3,447)**	(3,164)	**(33,279)**
Income before income taxes and minority interests	**52,205**	74,973	**504,007**
Income taxes (Note 9):			
Current	**22,347**	6,710	**215,746**
Deferred	**5,104**	28,121	**49,276**
	27,451	34,831	**265,022**
Income before minority interests	**24,754**	40,142	**238,985**
Minority interests in earnings of subsidiaries	**(1,095)**	(2,380)	**(10,572)**
Net income	**¥ 23,659**	¥ 37,762	**$ 228,413**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Sekisui House, Ltd. and Subsidiaries
Years ended January 31, 2005 and 2004

	Number of shares in issue	Millions of yen					
		Common stock	Capital surplus	Retained earnings	Net unrealized holding gain (loss) on securities	Translation adjustments	Treasury stock
Balance at January 31, 2003	**709,385,078**	**¥186,554**	**¥237,523**	**¥224,230**	**¥(1,869)**	**¥(206)**	**¥(530)**
Net income for the year	–	–	–	37,762	–	–	–
Cash dividends	–	–	–	(12,638)	–	–	–
Bonuses to directors and corporate auditors	–	–	–	(393)	–	–	–
Gain on sale of treasury stock	–	–	0	–	–	–	–
Net unrealized holding gain on securities	–	–	–	–	9,509	–	–
Translation adjustments	–	–	–	–	–	108	–
Increase in treasury stock	–	–	–	–	–	–	(12,086)
Balance at January 31, 2004	**709,385,078**	**¥186,554**	**¥237,523**	**¥248,961**	**¥7,640**	**¥(98)**	**¥(12,616)**
Net income for the year	–	–	–	23,659	–	–	–
Cash dividends	–	–	–	(12,428)	–	–	–
Bonuses to directors and corporate auditors	–	–	–	(419)	–	–	–
Gain on sale of treasury stock	–	–	2	–	–	–	–
Net unrealized holding gain on securities	–	–	–	–	5,529	–	–
Translation adjustments	–	–	–	–	–	93	–
Increase in treasury stock	–	–	–	–	–	–	(17,925)
Balance at January 31, 2005	**709,385,078**	**¥186,554**	**¥237,525**	**¥259,773**	**¥13,169**	**¥(5)**	**¥(30,541)**

	Thousands of U.S. dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings	Net unrealized holding gain on securities	Translation adjustments	Treasury stock
Balance at January 31, 2004	**$1,801,062**	**$2,293,136**	**$2,403,562**	**$ 73,759**	**$ (946)**	**$ (121,800)**
Net income for the year	–	–	228,413	–	–	–
Cash dividends	–	–	(119,984)	–	–	–
Bonuses to directors and corporate auditors	–	–	(4,045)	–	–	–
Gain on sale of treasury stock	–	19	–	–	–	–
Net unrealized holding gain on securities	–	–	–	53,379	–	–
Translation adjustments	–	–	–	–	898	–
Increase in treasury stock	–	–	–	–	–	(173,054)
Balance at January 31, 2005	**$1,801,062**	**$2,293,155**	**$2,507,946**	**$ 127,138**	**$ (48)**	**$(294,854)**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Sekisui House, Ltd. and Subsidiaries
Years ended January 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	**2005**
Cash flows from operating activities			
Income before income taxes and minority interests	**¥ 52,205**	¥ 74,973	**$ 504,007**
Adjustments for:			
Depreciation and amortization	**11,554**	11,299	**111,547**
Loss on impairment of fixed assets	**59,470**	–	**574,145**
Gain on return of substitutional portion of Welfare Pension Fund Plans	**(41,901)**	–	**(404,528)**
Provision for retirement benefits	**(3,259)**	(1,321)	**(31,463)**
Interest and dividend income	**(2,765)**	(2,454)	**(26,694)**
Interest expense	**535**	1,648	**5,165**
Loss on revaluation of real estate held for sale	**4,069**	2,989	**39,284**
Loss on revaluation of securities	**1,579**	14	**15,244**
(Increase) decrease in notes and accounts receivable	**(2,533)**	15,143	**(24,455)**
(Increase) decrease in inventories and advance payments	**(45,225)**	1,271	**(436,619)**
Increase (decrease) in notes and accounts payable	**11,794**	(7,261)	**113,864**
Increase (decrease) in advances received	**11,396**	(8,623)	**110,021**
Other	**(1,471)**	16,765	**(14,202)**
Subtotal	**55,448**	104,443	**535,316**
Interest and dividends received	**3,074**	3,276	**29,677**
Interest paid	**(719)**	(1,594)	**(6,942)**
Income taxes paid	**(6,810)**	(7,664)	**(65,746)**
Net cash provided by operating activities	**50,993**	98,461	**492,305**
Cash flows from investing activities			
Proceeds from sales of short-term investments	**1,930**	50,670	**18,633**
Purchases of short-term investments	**(235)**	(530)	**(2,269)**
Proceeds from sales of property, plant and equipment	**1,220**	238	**11,779**
Purchases of property, plant and equipment	**(35,108)**	(14,175)	**(338,946)**
Proceeds from sales of investments in securities	**10,221**	3,782	**98,677**
Purchases of investments in securities	**(12,268)**	(1,201)	**(118,440)**
Decrease in loans receivable	**2,828**	7,118	**27,303**
Proceeds from sales of insurance policy	**–**	10,000	**–**
Other	**(1,096)**	(4,181)	**(10,581)**
Net cash (used in) provided by investing activities	**(32,508)**	51,721	**(313,844)**
Cash flows from financing activities			
Repayment of long-term debt	**(30,249)**	(90,325)	**(292,035)**
Cash dividends paid	**(12,428)**	(12,638)	**(119,985)**
Increase in treasury stock	**(17,947)**	(12,103)	**(173,267)**
Other	**(517)**	(330)	**(4,991)**
Net cash used in financing activities	**(61,141)**	(115,396)	**(590,278)**
Effect of exchange rate changes on cash and cash equivalents	**93**	108	**898**
Net (decrease) increase in cash and cash equivalents	**(42,563)**	34,894	**(410,919)**
Cash and cash equivalents at beginning of the year	**222,275**	187,381	**2,145,926**
Cash and cash equivalents at end of the year	**179,712**	¥ 222,275	**$ 1,735,007**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Sekisui House, Ltd. and Subsidiaries
Notes to Consolidated Financial Statements
January 31, 2005 and 2004

1. Basis of Preparation

Sekisui House, Ltd. (the "Company") and its domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Commercial Code of Japan and the Securities and Exchange Law of Japan and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards. The Company's overseas subsidiary maintains its accounts and records in conformity with the accounting principles generally accepted and the practices prevailing in its country of domicile.

The accompanying consolidated financial statements have been prepared by the Company as required by the Securities and Exchange Law of Japan. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

The translation of Japanese yen amounts into U.S. dollars is included solely for the convenience of the reader and has been made at ¥103.58 = U.S.$1.00, the approximate rate of exchange in effect on January 31, 2005. This translation should not be construed as a representation that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollar amounts at the above or any other rate.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and all its subsidiaries (the "Group") based on the control or influence concept.

All significant intercompany transactions and accounts have been eliminated in consolidation.

Investments in affiliates (companies over which the Company has the ability to exercise significant influence) are accounted for by the equity method.

The difference between the cost of investments in subsidiaries and affiliates and the Company's equity in their net assets at their respective dates of acquisition is being amortized over a period of five years.

(b) Foreign currency translation

All monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date, except that receivables and payables hedged by qualified forward foreign exchange contracts are translated at the corresponding forward exchange contract rates. Gain or loss on each translation is credited or charged to income.

The financial statements of the foreign subsidiary are translated into yen at the rate of exchange in effect at the balance sheet date except that the components of shareholders' equity are translated at their historical exchange rates. Differences resulting from translating the financial statements of the foreign subsidiary have not been included in the determination of net income, but are presented as translation adjustments in the consolidated balance sheets.

(c) Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, deposits held at call with banks, net of overdrafts, and all highly liquid investments with maturities of three months or less.

(d) Short-term investments and investments in securities

Securities other than those of affiliates are classified into three categories: trading securities, held-to-maturity debt securities and other securities.

Trading securities, consisting of debt and marketable equity securities, are stated at fair value. Gain and loss, both realized and unrealized, are charged to income. Held-to-maturity debt securities are stated at their amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of shareholders' equity. Non-marketable securities classified as other securities are carried at cost determined by the moving average method.

Under the Commercial Code of Japan, unrealized holding gain on other securities, net of the related taxes, is not available for distribution as dividends or as bonuses to directors and corporate auditors.

(e) Inventories

The individual cost method is applied to land held for sale, construction for sale and contracts in process.

Other inventories are stated at cost determined by the moving average method.

(f) Property, plant and equipment

Property, plant and equipment is stated on the basis of cost. Depreciation is computed principally by the declining-balance method at rates based on the estimated useful lives of the respective assets. The straight-line method is applied to buildings (except for structures attached to the buildings).

(g) Leases

Noncancelable lease transactions are accounted for as operating leases (whether such leases are classified as operating or finance leases) except that lease agreements which stipulate the transfer of ownership of the leased property to the lessee are accounted for as financial leases.

(h) Allowance for doubtful accounts

The allowance for doubtful accounts has been provided based on the Company's and the subsidiaries' historical experience with respect to write-offs and on an estimate of the amount of specific uncollectible accounts.

(i) Income taxes

Income taxes are calculated based on taxable income and are determined in accordance with the applicable tax laws and charged to income on an accrual basis. The Group recognizes the tax effect of the temporary differences between assets and liabilities for financial reporting purposes and for income tax purposes.

(j) Accrued retirement benefits

Employees of the Company and its domestic subsidiaries are covered by an employees' retirement allowances plan and an employees' pension plan. The employees' retirement allowances plan provides for a lump-sum payment determined by reference to the rate of pay, length of service and conditions under which the termination occurs. The employees' pension plan, which is a funded defined pension plan, covers approximately 75% of the benefits under the retirement allowances plan for employees retiring after twenty or more years of service.

Accrued retirement benefits are provided based on the amount of the projected benefit obligation reduced by the pension plan assets at fair value at the end of the year.

Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized principally by the straight-line method over 5 years, which is within the estimated average remaining years of service of the eligible employees.

Prior service cost is amortized by the straight-line method over 5 years, which is within the estimated average remaining years of service of the eligible employees.

See Note 12 for the method of accounting for the separation of the substitutional portion of the benefit obligation from the corporate portion of the benefit obligation under the Welfare Pension Fund Plan.

Directors, corporate auditors and executive officers are customarily entitled to lump-sum payments under an unfunded retirement allowances plan. The provision for retirement allowances for these officers has been made at an estimated amount based on the Company's internal regulations.

(k) Research and development expenditures and computer software

Research and development expenditures are charged to income as incurred. Expenditures relating to computer software developed for internal use are charged to income when incurred, except if it has been determined that the software will contribute to the future generation of income or cost savings. Such expenditures are capitalized as assets and amortized by the straight-line method over 5 years.

(l) Accounting for warranty expenses

The Company provides after-sales service for twenty years against structural defects on detached houses and low-rise apartment buildings as well as a ten-year warranty under the "Housing Quality Assurance Act," except for buildings other than houses.

Expenses in connection with repair services or warranties are charged to manufacturing overhead as incurred and have no material effect on net income.

3. Change in Method of Accounting

Effective February 1, 2004, the Company and its domestic subsidiaries opted for early adoption of a new accounting standard for the impairment of fixed assets which requires that tangible and intangible fixed assets be carried at cost less depreciation and be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company would be required to recognize an impairment loss in the statement of income if certain indicators of asset impairment exist and if the book value of an asset exceeds the undiscounted sum of its future cash flows. The standard states that impairment losses should be measured as the excess of the book value over the higher of (1) the fair market value of the asset, net of its disposition cost, and (2) the present value of future cash flows arising from the ongoing utilization of the asset and from its disposition, if applicable. The standard covers land, factories, buildings and other items of property, plant and equipment as well as intangible assets.

As a result of the adoption of this new accounting standard, a loss on impairment of fixed assets in the amount of ¥59,470 million ($574,145 thousand) was recognized in the consolidated statement of income for the year ended January 31, 2005.

The impairment loss on fixed assets has been deducted directly from the carrying amounts of the respective assets in the consolidated balance sheet at January 31, 2005.

4. Short-Term Investments and Investments in Securities

Held-to-maturity debt securities and other securities at January 31, 2005 and 2004 were as follows:

	Millions of yen							
	Held-to-maturity debt securities							
	2005				2004			
	Book value	Gross unrealized gain	Gross unrealized loss	Estimated fair value	Book value	Gross unrealized gain	Gross unrealized loss	Estimated fair value
Market value determinable:								
Bonds	**¥ 1,948**	**¥ 2**	–	**¥ 1,950**	¥ 2,985	¥ 4	¥ (0)	¥ 2,989
	¥ 1,948	**¥ 2**	–	**¥ 1,950**	¥ 2,985	¥ 4	¥ (0)	¥ 2,989
Market value not determinable:								
Bonds	**¥ 2,000**	–	–	–	¥ 2,000	–	–	–
Other	**800**	–	–	–	–	–	–	–
	¥ 2,800	–	–	–	¥ 2,000	–	–	–
Total	**¥ 4,748**	–	–	–	¥ 4,985	–	–	–

	Thousands of U.S. dollars			
	Held-to-maturity debt securities			
	2005			
	Book value	Gross unrealized gain	Gross unrealized loss	Estimated fair value
Market value determinable:				
Bonds	**$ 18,807**	**$19**	–	**$ 18,826**
	$ 18,807	**$19**	–	**$ 18,826**
Market value not determinable:				
Bonds	**$ 19,309**	–	–	–
Other	**7,723**	–	–	–
	$ 27,032	–	–	–
Total	**$ 45,839**	–	–	–

	Millions of yen							
	Other securities							
	2005				2004			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Book value [estimated fair value]	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Book value [estimated fair value]
Market value determinable:								
Equity securities	**¥32,962**	**¥21,180**	**¥(965)**	**¥53,177**	¥27,361	¥12,277	¥(579)	¥39,059
Bonds	**51,921**	**1,649**	–	**53,570**	52,246	1,209	–	53,455
Other	–	–	–	–	19	1	(0)	20
	¥84,883	**¥22,829**	**¥(965)**	**¥106,747**	¥79,626	¥13,487	¥(579)	¥92,534
Market value not determinable:								
Equity securities	**¥11,510**	–	–	–	¥11,522	–	–	–
Other	**6,000**	–	–	–	6,000	–	–	–
	¥17,510	–	–	–	¥17,522	–	–	–
Total	**¥102,393**	–	–	–	¥97,148	–	–	–

	Thousands of U.S. dollars			
	Other securities			
	2005			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Book value (estimated fair value)
Market value determinable:				
Equity securities	**$318,227**	**$204,480**	**$(9,316)**	**$513,391**
Bonds	**501,265**	**15,920**	–	**517,185**
	$819,492	**$220,400**	**$(9,316)**	**$1,030,576**
Market value not determinable:				
Equity securities	**$111,122**	–	–	–
Other	**57,926**	–	–	–
	$169,048	–	–	–
Total	**$988,540**	–	–	–

5. Inventories

Inventories at January 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Land held for sale, including land held for development	**¥256,189**	¥197,538	**$2,473,345**
Construction for sale, including projects under construction	**55,423**	38,955	**535,074**
Contracts in process	**46,098**	47,897	**445,047**
Other	**4,875**	4,042	**47,065**
	¥362,585	¥288,432	**$3,500,531**

6. Investments in Affiliates

Investments in affiliates at January 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Investments in capital stock, at cost	**¥ 1,019**	¥ 619	**$ 9,838**
Equity in undistributed loss since acquisition, net	**(123)**	(13)	**(1,188)**
	¥ 896	¥ 606	**$ 8,650**

7. Long-Term Debt

Long-term debt less the current portion at January 31, 2005 and 2004 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Manufacturing industries and others	**¥ 9,427**	¥ 9,675	**$ 91,012**
Notes	–	30,000	–
	¥ 9,427	¥ 39,675	**$ 91,012**

A breakdown of selected items from the above table of long-term debt is as follows:

(a) Loans from manufacturing industries, insurance companies and others at January 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
2.18% to 2.19% unsecured loans from insurance companies, due 2004	**¥ –**	¥ 20,000	**$ –**
0% unsecured loans from manufacturing industries and others, due 2007	**9,427**	9,676	**91,012**
	9,427	29,676	**91,012**
Less current portion	–	(20,001)	–
	¥ 9,427	¥ 9,675	**$ 91,012**

(b) Notes

Notes outstanding at January 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
2.4% yen unsecured notes, due 2005	**¥ 10,000**	¥ 10,000	**$ 96,544**
1.92% yen unsecured notes, due 2005	**10,000**	10,000	**96,544**
1.76% yen unsecured notes, due 2004	–	10,000	–
1.79% yen unsecured notes, due 2005	**10,000**	10,000	**96,544**
	30,000	40,000	**289,632**
Less current portion	**(30,000)**	(10,000)	**(289,632)**
	¥ –	¥ 30,000	**$ –**

The aggregate annual maturities of long-term debt subsequent to January 31, 2005 are summarized as follows:

Year ending January 31,	Millions of yen	Thousands of U.S. dollars
2006	¥ 30,000	$ 289,632
2007	–	–
2008	9,427	91,012
	¥ 39,427	$ 380,644

8. Mortgaged and Pledged Assets

The following assets, shown at net book value at January 31, 2005 and 2004, were either mortgaged or pledged for guarantees of bank loans of third parties and long-term deposits received and other, and totaled ¥ 4,313 million ($41,639 thousand) and ¥5,346 million, respectively.

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Inventories	**¥ 6,450**	–	**$ 62,270**
Land	**192**	¥ 27,468	**1,854**
Buildings	–	580	
	¥ 6,642	¥ 28,048	**$ 64,124**

9. Income Taxes

The Company and its domestic subsidiaries are subject to several taxes based on income which, in the aggregate, resulted in a statutory tax rate of approximately 41.7% for the years ended January 31, 2005 and 2004. The foreign subsidiary is subject to the income taxes of the country in which it operates.

The effective tax rates reflected in the consolidated statements of income for the years ended January 31, 2005 and 2004 differ from the above statutory tax rate for the following reasons:

	2005	2004
Statutory tax rate	**41.7%**	41.7%
Entertainment expenses not deductible	**2.9**	1.8
Dividend income not taxable	**(1.3)**	(0.8)
Inhabitants' per capita taxes	**1.0**	0.7
Change in deferred tax assets and liabilities arising from change in tax rate	–	2.5
Valuation allowance	**6.7**	–
Other	**1.6**	0.6
Effective tax rates	**52.6%**	46.5%

The significant components of the Group's deferred tax assets at January 31, 2005 and 2004 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Loss on revaluation of real estate held for sale	**¥ 73,649**	¥ 52,323	**$ 711,035**
Impairment loss on fixed assets	**7,685**	–	**74,194**
Tax loss carryforwards	**3**	13,258	**29**
Accrued enterprise tax	**1,741**	291	**16,808**
Retirement benefits	**9,502**	27,224	**91,736**
Allowance for doubtful accounts	**866**	936	**8,361**
Accrued bonuses	**7,041**	6,494	**67,976**
Other	**(4,449)**	882	**(42,952)**
	96,038	101,408	**927,187**
Valuation allowance	**(3,510)**	–	**(33,887)**
	¥ 92,528	¥ 101,408	**$ 893,300**

On March 31, 2003, Cabinet Order No. 9 entitled "Reform of a Portion of Local Tax Law" was issued and this reform applies to fiscal years beginning after April 1, 2004. As a result, the statutory tax rate to be used for the calculation of deferred income taxes concerning temporary differences which are expected to be realized or settled after February 1, 2005 will be changed. The effect of this change in rate was to decrease deferred tax assets (net of deferred tax liabilities) by ¥1,691 million at January 31, 2004 and to increase income taxes - deferred by ¥1,859 million for the year ended January 31, 2004.

10. Shareholders' Equity

The Commercial Code of Japan (the "Code") provides that an amount equivalent to at least 10% of all cash appropriations of retained earnings be appropriated to the legal reserve until the sum of the legal reserve and additional paid-in capital equals 25% of common stock. The legal reserve is not available for dividends but may be used to eliminate or reduce a deficit by approval of the shareholders or may be transferred to common stock by resolution of the Board of Directors. The Code also stipulates that, to the extent that the sum of the additional paid-in capital and the legal reserve exceeds 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the shareholders. Retained earnings include the legal reserve provided in accordance with the provisions of the Code.

The Company's legal reserve included in retained earnings at January 31, 2005 and 2004 amounted to ¥23,129 million ($223,296 thousand) and ¥23,129 million, respectively.

Under the Code, upon the issuance and sale of new shares of common stock, the entire amount of the issue price is required to be accounted for as common stock, although a company may, by resolution of the Board of Directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital.

Interim cash dividends may be declared and paid subject to a resolution of the Board of Directors. The Commercial Code imposes a limit on the amount which may be paid as interim dividends. An interim dividend of ¥9.0 ($0.08) per share totaling ¥6,169 million ($59,558 thousand) was paid on September 30, 2004.

11. Research and Development Costs

Research and development costs charged to income amounted to ¥5,793 million ($55,928 thousand) and ¥5,259 million for the years ended January 31, 2005 and 2004, respectively.

12. Accrued Retirement Benefits

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets at January 31, 2005 and 2004 for the Group's defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Retirement benefit obligation at end of year	**¥(181,761)**	¥(234,013)	**$(1,754,789)**
Fair value of plan assets at end of year	**141,625**	170,485	**1,367,301**
Unfunded retirement benefit obligation	**(40,136)**	(63,528)	**(387,488)**
Unrecognized actuarial loss	**22,771**	32,217	**219,840**
Unrecognized past service cost	**(9,529)**	(40,745)	**(91,997)**
Net retirement benefit obligation	**(26,894)**	(72,056)	**(259,645)**
Prepaid pension cost	**2**	—	**19**
Accrued retirement benefits	**¥ (26,896)**	¥ (72,056)	**$ (259,664)**

On April 28, 2003, the Company and certain subsidiaries obtained approval from the Minister of Health, Labor and Welfare with respect to its application for an exemption from the obligation for benefits related to future employee services under the substitutional portion of the Welfare Pension Fund Plan ("WPFP"). However, for the year ended January 31, 2004, the Company and certain subsidiaries decided not to apply the transitional provision stipulated in "Practical Guidelines for Accounting Retirement Benefits," which allows a company to account for the separation of the substitutional portion of the benefit obligation from the corporate portion of the benefit obligation under its WPFP as of the date of approval of exemption, assuming that the transfer to the Japanese government of the substitutional portion of the benefit obligation and related pension plan assets had been completed as of that date.

On September 1, 2004, the Company and certain subsidiaries obtained approval from the Minister of Health, Labor and Welfare with respect to application of the transfer to the Japanese government of the substitutional portion of benefit obligation for employee services provided in prior years and related pension plan assets. The transfer of the substitutional portion to the Japanese government completed for the year ended January 31, 2005. On December 1, 2004, other certain subsidiaries obtained approval from the Minister of Health, Labor and Welfare for a transfer to Japanese government of the substitutional portion of the benefit obligation for employee services provided in prior year and related pension plan assets.

As a result, the Company and its domestic subsidiaries recognized a gain of ¥41,901 million ($404,528 thousand) for the year ended January 31, 2005.

The components of net retirement benefit expenses for the years ended January 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Service cost	**¥ 10,056**	¥ 10,883	**$ 97,084**
Interest cost	**5,512**	5,858	**53,215**
Expected return on plan assets	**(6,645)**	(4,312)	**(64,153)**
Amortization:			
Actuarial loss	**7,397**	7,581	**71,413**
Past service cost	**(7,222)**	(8,785)	**(69,724)**
Retirement benefit expenses	**¥ 9,098**	¥ 11,225	**$ 87,835**
Gain on restitution of substitutional portion of welfare pension fund plan	**(41,901)**	—	**(404,528)**
	¥ (32,803)	¥ 11,225	**$ (316,693)**

The assumptions used in accounting for the defined benefit plans for the years ended January 31, 2005 and 2004 were as follows:

	2005	2004
Discount rate	**2.5%**	2.5%
Expected rates of return on plan assets	**4.0%**	3.0%

13. Contingent Liabilities

The Group had the following contingent liabilities at January 31, 2005:

	Millions of yen	Thousands of U.S. dollars
Guarantees of housing loans to customers	**¥66,943**	**$646,293**
Guarantees of bank loans of third parties and other	**1,384**	**13,361**
	¥68,327	**$659,654**

14. Leases

The following *pro forma* amounts present the acquisition costs and accumulated depreciation of property leased to the Group at January 31, 2005 and 2004, which would have been reflected in the consolidated balance sheets if finance leases other than those which transfer the ownership of the leased property (currently accounted for as operating leases) were capitalized.

	Millions of yen					
	2005			2004		
	Acquisition costs	Accumulated depreciation	Net leased property	Acquisition costs	Accumulated depreciation	Net leased property
Buildings and structures	**¥ 35,668**	**¥ 21,946**	**¥ 13,722**	¥ 35,332	¥ 20,861	¥ 14,471
Machinery and equipment	**6,940**	**4,953**	**1,987**	8,129	6,026	2,103
Other	**1,809**	**1,223**	**586**	3,190	2,300	890
	¥ 44,417	**¥ 28,122**	**¥ 16,295**	¥ 46,651	¥ 29,187	¥ 17,464

	Thousands of U.S. dollars		
	2005		
	Acquisition costs	Accumulated depreciation	Net leased property
Buildings and structures	**$344,352**	**$211,875**	**$132,477**
Machinery and equipment	**67,001**	**47,818**	**19,183**
Other	**17,465**	**11,807**	**5,658**
	$428,818	**$271,500**	**$157,318**

Lease payments relating to finance leases other than those which transfer the ownership of the leased property amounted to ¥7,347 million ($70,931 thousand) and ¥8,375 million for the years ended January 31, 2005 and 2004, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to January 31, 2005 for finance leases other than those which transfer the ownership of the leased property were as follows:

Year ending January 31,	Millions of yen	Thousands of U.S. dollars
2006	¥ 6,345	$ 61,257
2007 and thereafter	10,751	103,794
	¥ 17,096	$ 165,051

15. Derivatives and Hedging Activities

Derivative financial instruments are utilized by the Company to reduce the risk of interest rate and foreign exchange rate fluctuation. The Company has established a control environment which includes policies and procedures for risk assessment and for the approval, reporting and monitoring of transactions involving derivative financial instruments. The Company does not enter into derivatives transactions for speculative trading purposes.

The Company is exposed to certain market risks arising from its forward foreign exchange contracts and swap agreements. The Company is also exposed to the risk of credit loss in the event of non-performance by the counterparties to currency-related and interest-related derivatives transactions; however, the Company does not anticipate non-performance by any of these counterparties all of whom are financial institutions with high credit ratings.

Derivatives positions are carried at fair value with any changes in unrealized gain or loss charged or credited to operations, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as an asset or a liability.

At January 31, 2005 and 2004, the outstanding interest-rate swap positions were as follows:

	Millions of yen			
	2005		2004	
	Notional amount	Unrealized gain	Notional amount	Unrealized gain(loss)
Interest-rate swap agreements:				
Fixed-rate into variable-rate obligations	**¥ 7,500**	**¥ 28**	¥ 15,000	¥ 160
Variable-rate into fixed-rate obligations	**¥ 7,500**	**¥ 23**	¥ 15,000	¥ 70

	Thousands of U.S. dollars	
	2005	
	Notional amount	Unrealized gain
Interest-rate swap agreements:		
Fixed-rate into variable-rate obligations	**$ 72,408**	**$ 270**
Variable-rate into fixed-rate obligations	**$ 72,408**	**$ 222**

16. Amounts per Share

	Yen		U.S. dollars
	2005	2004	**2005**
Net income:			
Basic	**¥ 33.80**	¥ 53.30	**$ 0.33**
Diluted	—	51.39	—
Net assets	**979.40**	959.96	**9.46**
Cash dividends	**18.00**	18.00	**0.17**

Basic net income per share has been computed based on the net income available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during the year, and diluted net income per share has been computed based on the net income available for distribution to the shareholders and the weighted average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the conversion of convertible bonds.

No diluted net income per share for the year ended January 31, 2005 has been presented because no potentially dilutive securities have been issued.

Amounts per share of net assets have been computed based on net assets available for distribution to the shareholders and the number of shares of common stock outstanding at the year end.

Cash dividends per share of the Company represent the cash dividends declared as applicable to the respective years together with the interim cash dividends paid.

17. Loss on Revaluation of Real Estate Held for Sale

Real estate held for sale at January 31, 2005 and 2004, the market value of which has declined significantly from its carrying value, has been written down to its fair market value.

18. Loss on Impairment of Fixed Assets

For the year ended January 31, 2005, the Company and its domestic subsidiaries completed a review of their assets to identify those whose carrying amounts are not recoverable and recognized losses on the impairment of buildings, land and other assets for leasing, which are grouped individually.

As a result of a recent decline in land prices and a sluggish rental market, the carrying value of the above assets has been reduced to their recoverable amounts. Accordingly, an impairment loss of ¥59,470 million ($574,145 thousand) was recognized which consisted of ¥18,661 million ($180,160 thousand) on buildings, ¥39,772 million ($383,974 thousand) on land, ¥1,037 million ($10,011 thousand) on other assets.

The recoverable amount utilized in the calculation was the higher of the net selling price or value in use. The net selling price is the appraised value less the costs of disposal; whereas value in use is the sum of the net projected future cash flows discounted at a rate from 3% to 6%.

19. Segment Information

The Group companies are primarily engaged in the construction, purchase, administration and sales of residential properties; the design, contracting, execution, and supervision of construction projects; real estate brokerage, and landscaping.

In the built-to-order housing segment, the Company prefabricates, builds to order and sells steel frame, wood frame, and concrete houses and low-rise apartment buildings on land owned by the customers. The real estate for sale segment include sales of land, built-for-sale houses, and also the portion of built-to-order sales where Sekisui House also sold the land, and sales of condominiums. In the real estate for leasing segment, the Company leases, subleases and manages detached houses, low-rise apartment buildings, condominiums, commercial buildings, shops, and so forth. Other business is involved in contracts for the design of condominiums and commercial buildings, the construction and remodeling of houses, and landscape and garden design and construction.

The business segment information of the Group companies for the years ended January 31, 2005 and 2004 is outlined as follows:

	Millions of yen						
	2005						
	Built-to-order housing	Real estate for sale	Real estate for leasing	Other	Total	Eliminations and other	Consolidated
Sales to third parties	¥ 708,539	¥ 273,455	¥ 269,326	¥ 120,924	¥1,372,244	¥ —	¥1,372,244
Inter-group sales and transfers	1,293	—	1,439	7,878	10,610	(10,610)	—
Total sales	709,832	273,455	270,765	128,802	1,382,854	(10,610)	1,372,244
Operating expenses	627,692	261,176	262,642	125,030	1,276,540	19,065	1,295,605
Operating income	¥ 82,140	¥ 12,279	¥ 8,123	¥ 3,772	¥ 106,314	¥ (29,675)	¥ 76,639
Assets	¥ 200,220	¥ 405,162	¥ 199,022	¥ 22,923	¥ 827,327	¥ 312,904	¥1,140,231
Depreciation and amortization	¥ 4,875	¥ 636	¥ 3,863	¥ 345	¥ 9,719	¥ 1,835	¥ 11,554
Loss on impairment of fixed assets	—	—	¥ 59,470	—	¥ 59,470	—	¥ 59,470
Capital expenditures	¥ 8,818	¥ 126	¥ 25,573	¥ 217	¥ 34,734	¥ 1,492	¥ 36,226

	Millions of yen						
	2004						
	Built-to-order housing	Real estate for sale	Real estate for leasing	Other	Total	Eliminations and other	Consolidated
Sales to third parties	¥ 743,219	¥ 202,532	¥ 248,965	¥ 131,323	¥1,326,039	¥ —	¥1,326,039
Inter-group sales and transfers	1,381	—	1,668	2,876	5,925	(5,925)	—
Total sales	744,600	202,532	250,633	134,199	1,331,964	(5,925)	1,326,039
Operating expenses	652,994	196,299	241,760	131,550	1,222,603	23,102	1,245,705
Operating income	¥ 91,606	¥ 6,233	¥ 8,873	¥ 2,649	¥ 109,361	¥ (29,027)	¥ 80,334
Assets	¥ 199,563	¥ 305,880	¥ 281,751	¥ 21,369	¥ 808,563	¥ 372,450	¥1,181,013
Depreciation and amortization	¥ 5,076	¥ 502	¥ 3,514	¥ 359	¥ 9,451	¥ 1,848	¥ 11,299
Capital expenditures	¥ 6,289	¥ 67	¥ 9,167	¥ 108	¥ 15,631	¥ 1,064	¥ 16,695

	Thousands of U.S. dollars						
	2005						
	Built-to-order housing	Real estate for sale	Real estate for leasing	Other	Total	Eliminations and other	Consolidated
Sales to third parties	$ 6,840,500	$ 2,640,037	$ 2,600,174	$ 1,167,445	$13,248,156	$ —	$13,248,156
Inter-group sales and transfers	12,483	—	13,892	76,058	102,433	(102,433)	—
Total sales	6,852,983	2,640,037	2,614,066	1,243,503	13,350,589	(102,433)	13,248,156
Operating expenses	6,059,973	2,521,491	2,535,644	1,207,086	12,324,194	184,060	12,508,254
Operating income	$ 793,010	$ 118,546	$ 78,422	$ 36,417	$ 1,026,395	$ (286,493)	$ 739,902
Assets	$ 1,932,999	$ 3,911,585	$ 1,921,433	$ 221,307	$ 7,987,324	$ 3,020,892	$11,008,216
Depreciation and amortization	$ 47,065	$ 6,140	$ 37,295	$ 3,331	$ 93,831	$ 17,716	$ 111,547
Loss on impairment of fixed assets	—	—	$ 574,145	—	$ 574,145	—	$ 574,145
Capital expenditures	$ 85,132	$ 1,216	$ 246,892	$ 2,095	$ 335,335	$ 14,404	$ 349,739

As more than 90% of the consolidated net sales for the years ended January 31, 2005 and 2004 were made in Japan, the disclosure of geographical segment information and overseas sales information has been omitted.

20. Subsequent Events

(a) The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended January 31, 2005, were approved at a shareholders' meeting held on April 27, 2005:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends of ¥9.00 ($0.08) per share	¥6,120	$59,085
Bonuses to directors and corporate auditors	154	1,487

(b) Share Exchange

On February 1, 2005, the Company exchanged 29,284 thousand shares of its own common stock in treasury for all outstanding shares of common stock of Sekiwa Real Estate, Ltd., Sekiwa Real Estate Kansai, Ltd., Sekiwa Real Estate Chubu, Ltd., Sekiwa Real Estate Chugoku, Ltd., Sekiwa Real Estate Kyusyu, Ltd. and Sekiwa Real Estate Tohhoku, Ltd. ("Sekiwa Group"). As a result, the Sekiwa Group Companies became wholly owned subsidiaries of the Company.

(1) Purpose of the exchange of shares

The purpose of this exchange of shares is to increase the corporate value of the Group and to maximize its synergies.

(2) Method and outline of the share exchange

① Share exchange ratio

	Sekisui House	Sekiwa Real Estate	Sekiwa Real Estate Kansai	Sekiwa Real Estate Chubu	Sekiwa Real Estate Chugoku	Sekiwa Real Estate Kyushu	Sekiwa Real Estate Tohhoku
Share exchange ratio	1.00	1.26	0.47	0.63	0.69	0.61	620

② Allotment of shares

For each share of each subsidiary, except for the shares which the Company already possesses, the share exchange formula shown above shall be applied in the allotment of shares.

③ Share exchange grant

The Company will not pay any share exchange grant to Sekiwa Group's shareholders.

(c) Acquisition of Treasury Stock

On April 15, 2005, the Company acquired 40 million shares of treasury stock at an aggregate cost of ¥44,680 million ($431,357 thousand) based on a resolution of the Board of Directors at a meeting held on April 14, 2005.

Report of Independent Auditors

The Board of Directors
Sekisui House, Ltd.

We have audited the accompanying consolidated balance sheets of Sekisui House, Ltd. and subsidiaries as of January 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sekisui House, Ltd. and subsidiaries at January 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Supplemental Information

1. As described in Note 3, effective the year ended January 31, 2005, Sekisui House, Ltd. and its domestic subsidiaries adopted a new accounting standard for the impairment of fixed assets as early adoption of the standards was permitted from the fiscal year ended January 31, 2005.

2. As described in Note 20 , on February 1, 2005, Sekisui House, Ltd. exchanged shares of its own common stock in treasury for all outstanding shares of Sekiwa Real Estate, Ltd., Sekiwa Real Estate Kansai, Ltd., Sekiwa Real Estate Chubu, Ltd., Sekiwa Real Estate Chugoku, Ltd., Sekiwa Real Estate Kyusyu, Ltd. and Sekiwa Real Estate Tohhoku, Ltd., held by other shareholders. The Company also acquired treasury stock based on a resolution of the Board of Directors at a meeting held on April 14, 2005.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended January 31, 2005 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1.

April 27, 2005

Ernst & Young Shin Nihon

Ernst & Young Shin Nihon & Co.
Auditors

Corporate Data (As of January 31, 2005)

Corporate Officers

President & Representative Director
Isami Wada

Executive Vice President & Director
Hideyuki Tonomura
Shichiro Iwane

Directors
Hiroshi Itawaki
Akira Morimoto
Tadashi Iwasaki
Sumio Wada
Yasuaki Yamamoto
Saburo Matsuyoshi
Kunitada Suzuki
Yuzo Matsumoto
Kazuo Yoshimitsu
Shiro Inagaki

Standing Corporate Auditors
Mikio Yamada
Kenji Kondo
Kenichi Kawauchi

Corporate Auditors
Takaharu Dohi
Yoshiharu Takahashi

Executive Vice President & Officer
Hideyuki Tonomura
Shichiro Iwane

Senior Managing Executive Officers
Hiroshi Itawaki
Akira Morimoto
Tadashi Iwasaki

Managing Executive Officers
Sumio Wada
Kunitada Suzuki
Yuzo Matsumoto
Kazuo Yoshimitsu
Shiro Inagaki
Yoshiro Kubota
Tetsuhiro Kamae
Masanori Noritomi
Kenichi Moriuchi
Junichi Terada
Fumiaki Hirabayashi
Yoshimasa Konishi
Toshiharu Arakawa

Executive Officer
Kazuhisa Ami
Kiyohide Hirabayashi
Satoru Shima
Mikio Ishikawa
Takeo Terashima
Hisashi Murao
Tetsuo Iku
Daiji Kuroki
Takashi Uchida
Toshinori Abe

Outline of the Company

Established
August 1, 1960

Capital Stock Issued
¥186,554,196,729

Employees
15,646 (As of April 30, 2005)

Head Office
Tower East Umeda Sky Building
1-88 Oyodonaka 1-chome Kita-ku Osaka
531-0076 Japan
Phone: 81-6-6440-3111
Facsimile: 81-6-6440-3331

Factories
Shiga, Ibaraki, Shizuoka, Yamaguchi, Miyagi and Hyogo

Laboratory
Kyoto

Overseas Subsidiaries
SEKISUI DEUTSCHLAND BAU GmbH

Domestic Subsidiaries and Affiliates
Sekiwa Real Estate Tohhoku, Ltd.
Sekiwa Real Estate, Ltd.
Sekiwa Real Estate, Chubu, Ltd.
Sekiwa Real Estate, Kansai, Ltd.
Sekiwa Real Estate, Chugoku, Ltd.
Sekiwa Real Estate, Kyushu, Ltd.
Kobe Rokko Island Co., Ltd.
Nishinomiya Marina City Development Co., Ltd.
Sekisui House Umeda Operation Co., Ltd.
SGM Operation Co., Ltd and 82 other subsidiaries and 4 affiliates.

Stock Listing
Tokyo Stock Exchange
Osaka Securities Exchange
Nogoya Stock Exchange

American Depositary Receipts
Depositary:
The Bank of New York

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