

MISAWA



Annual Report 2006
MISAWA HOMES HOLDINGS, INC.

Profile

The Misawa Homes Group strives to contribute to building an affluent society by supplying quality homes based on our motto: “lifelong commitment to customers through housing.” Our designs, technologies and consideration for the global environment that our homes demonstrate have earned us numerous awards, including the Good Design Award and the Grand Prize for Global Environment Award. In December 2004, we launched a business-restructuring plan that has improved our financial base by calling for complete withdrawal from unprofitable businesses and the reduction of interest-bearing debt. In 2006, we expect to emerge from this restructuring phase and forge ahead with concerted Group development.

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Cautionary Statement with Regard to Forward-Looking Statements

Certain of the statements made in this annual report are forward-looking statements, which involve certain risks and uncertainties that could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements, which are based on management's assumptions and beliefs in light of the information currently available. Misawa Homes undertakes no obligation to republish revised forward-looking statements to reflect events or circumstances after the date thereof or to reflect the occurrence of unanticipated events.

Financial Highlights

Misawa Homes Holdings, Inc. and Subsidiaries

Years ended March 31, 2006 and 2005	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006

For the Year:

Net Sales	¥ 384,645	¥ 390,044	\$ 3,724,411
Operating Income	18,077	18,908	153,888
Income (Loss) before Income Taxes and Minority Interests	124,250	(175,869)	1,057,716
Net Income	124,358	(203,332)	1,058,633

At Year-End:

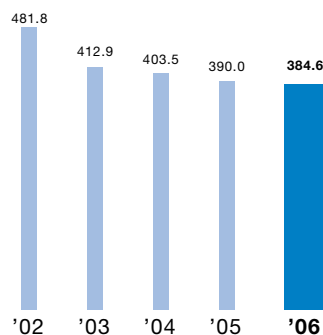
Total Assets	¥ 222,952	¥ 263,416	\$ 1,897,945
Total Shareholders' Equity	24,200	(162,420)	206,011

Per Share Amounts (yen):

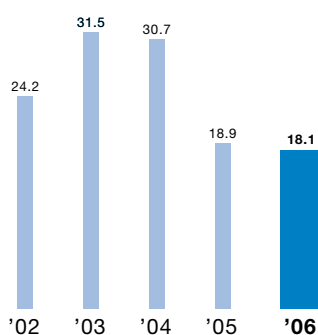
Net Income (Loss)	¥ 3,854.96	¥ (997.31)	\$ 32.82
Shareholders' Equity	(614.26)	(1,551.42)	(5.23)

Note: U.S. dollar amounts are translated from yen at the rate of ¥117.47 = U.S.\$1, the approximate rate of exchange on March 31, 2006.

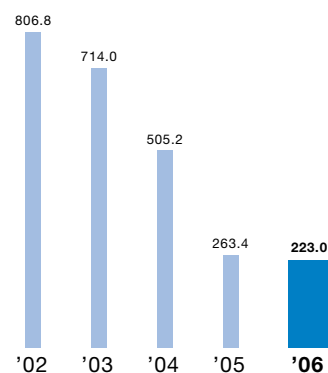
Net Sales
(Billions of yen)



Operating Income
(Billions of yen)



Total Assets
(Billions of yen)





To Our Shareholders

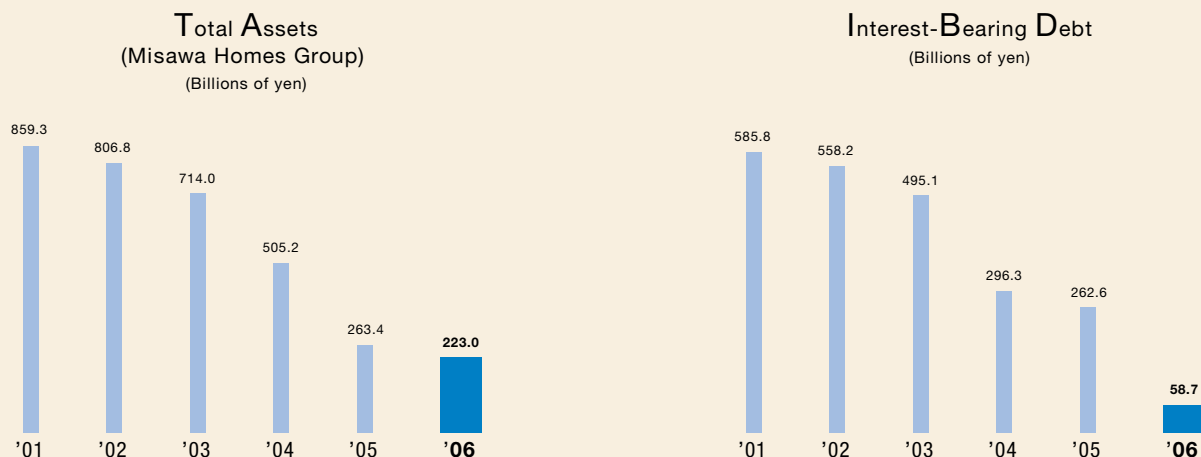
Overview of Recent Events

In December 2004, the Misawa Homes Group received approval from the Industrial Revitalization Corporation of Japan (IRCJ) for assistance of its business restructuring efforts. Since that time, we have withdrawn completely from non-core businesses, such as golf course operations, large-scale land development and financing. Based on our revitalization plan, which provides the framework for restructuring our core housing and renovation businesses, we have put forth every effort to ensure an early return to business vitality.

In the fiscal year ended March 31, 2006, we received support from financial institutions totaling ¥133.3 billion. We increased capital through a third-party allocation of new shares to Toyota Motor Corporation and two other companies, and sold approximately 5 million shares of treasury stock. As a result, as of September 2005 we had cleared away

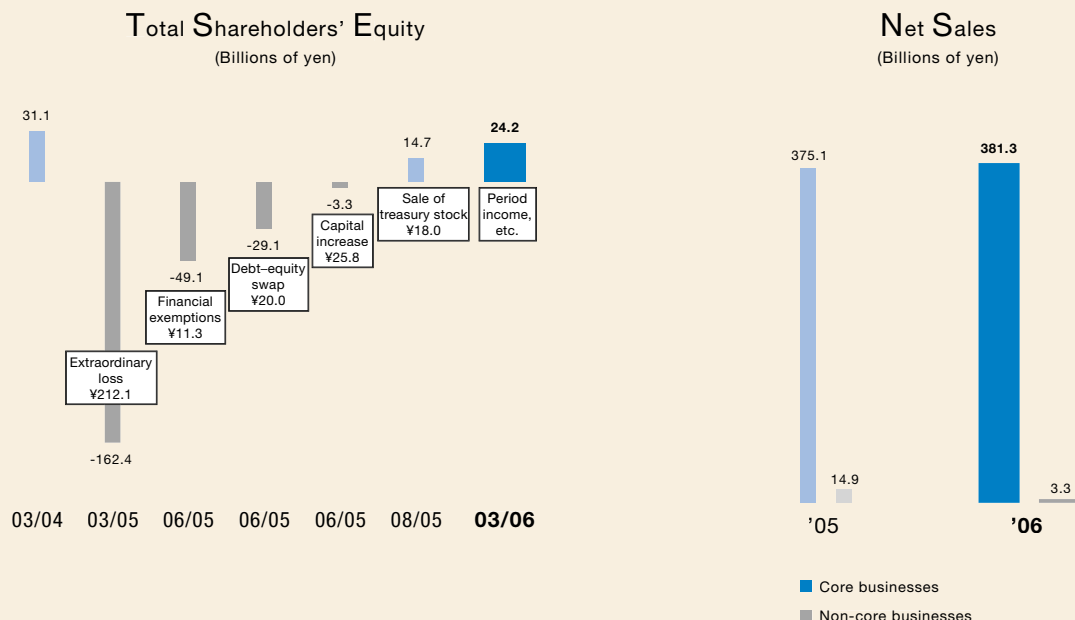


Kazuo Mizutani, President and CEO



our state of liabilities in excess of assets, and by March 31, 2006, excessive debt—which had been an ongoing management issue for many years—was down to ¥58.7 billion. By liquidating the assets of non-core businesses, we had also reduced total assets to ¥223.0 billion as of March 31, 2006.

During the fiscal year, net sales were ¥384.6 billion, down 1.4% from the preceding term. Net sales from core businesses, however, expanded ¥6.2 billion from the previous term, to ¥381.3 billion. Although the first half of the fiscal year ended March 31, 2006, proved to be a challenging period of overcoming concerns about our creditworthiness, our orders level has been on the road to recovery since the second half, and this situation is expected to continue well into the fiscal year ending March 31, 2007. Our substantially improved financial structure and business performance made it possible for us to obtain new financing in March 2006, which allowed us to completely clear away our outstanding debt to IRJC and lending entities and concluded our assistance from IRJC.



Outlook for the Future

Having completed our period of support from IRCJ, beginning in the upcoming fiscal year we will mount a reversal offensive. Over the past several years, failed diversification efforts created setbacks that have affected even our core housing business, as we were unable to invest aggressively in this area. In the future, we will fortify our sales infrastructure by increasing our number of model homes, expanding factory and technology visits and increasing our sales force. We will also focus customer attention on such appealing attributes of the Misawa Homes Group as our *kura* structures for abundant storage space and our 16 consecutive years as a Good Design Award recipient.

Currently, we are formulating a medium-term management plan, which we will disclose as soon as it is complete. As we move out of the restructuring phase and make our leap forward, we will concentrate the efforts of the entire Misawa Homes Group on providing excellent housing in the spirit of our Group motto: "lifelong commitment to customers through housing."

August 2006

Kazuo Mizutani

Kazuo Mizutani
President and CEO

Special Feature

Proven Reliability of the Misawa Way

Employing innovative technologies and new ideas, Misawa Homes creates homes that endure well into the next generation. Numerous awards over the years affirm this technical expertise and creativity.

Panels from our wooden panel adhesion construction system

Misawa Homes' Total Performance

MGEO Misawa Governance System for Earthquake Oscillation Control

Our wooden panel adhesion construction system bonds adjoining surfaces of intersecting panels using a powerful adhesive. Attesting to the strength of the resulting monocoque structure, all of our homes in the area withstood the Great Hanshin-Awaji Earthquake of 1995. To further enhance the already high earthquake resistance of our homes, the Misawa Governance System for Earthquake Oscillation Control (MGEO) can be added to reduce the maximum energy of an earthquake by half, minimizing interior damage and structural deterioration.

Introduced in December 2004, MGEO is now employed in more than 5,000 buildings.

MGEO

Misawa Governance system for Earthquake Oscillation control

Showa Base in Antarctica

Demonstrating the excellent performance of our wooden panel adhesion construction system is the fact that Misawa Homes has constructed many facilities using this system for Japan's Showa Base in Antarctica. These living spaces remain safe and comfortable despite the harsh climate, and are well insulated, airtight, wind-resistant and robust. Our contribution to Japan's Showa Base in Antarctica includes the construction of 34 such facilities, having floor space totaling approximately 5,000 square meters.

Structures at Japan's Showa Base in Antarctica built using our wooden panel adhesion construction system



Kura, for Abundant Storage Space

Realizing that home storage space tends to be at a premium, we have developed the *kura* ("storage space") concept of using the area between the first and second floors of a home. In addition to using living space effectively, this approach increases the soundproofing between the upper and lower levels. With 3.2-meter high ceilings, our *kura* homes also provide a sense of openness. *Kura* locations can be selected to match each homeowner's lifestyle, for example, by installing a first-floor *kura* that is accessible from the garden.



Two-floor internal *kura*



ECO “Micro Climate Design”

Traditional Japanese houses are built to take advantage of their natural surroundings, to remain cool in summer even without an air conditioner and be warm in winter. Immersed in this traditional Japanese culture, Misawa Homes has added in its own expertise and techniques to create the all-new ECO “micro climate design” concept, integrating modern design and high-end technology with traditional elements. In January 2006, we launched Century VikiCourt, our first homes employing ECO “micro climate design.” We are advancing product development and sales promotion efforts

South–north winds flow through for breezy summer living



Good Design Award

Misawa Homes has remained one step ahead of the times by creating designs that people love and employing elements that are vital to ensuring that the asset values of the homes it builds are initially high and do not deteriorate over time. Japan Industrial Design Promotion Organization sponsors the Good Design Award, which is Japan’s only system for comprehensively evaluating and recommending designs. Covering all industrial products, these awards provide an overall evaluation that extends beyond design to include essentially all the elements of production, including function, quality,

Genius Kura no Aru Ie, our winner of the Good Design Award Grand Prix in 1996

around ECO “micro climate design,” which will remain a central theme throughout fiscal 2006. Through this type of design, we will promote the concept of an advanced eco-lifestyle that combines the traditional ability to live comfortably using the wind and the sun, absent of air conditioners, but also employs such technology as solar cell generation and energy storage, combined with high insulation levels for energy efficiency.

safety and after-sales service. Misawa Homes has been a Good Design Award recipient for 16 consecutive years, with awards for 31 products, 58 housing components and two facilities. Most conspicuous among these commendations was the Good Design Award Grand Prix—awarded to the most outstanding entry among all categories—which we won with *Genius Kura no Aru Ie* in 1996, in competition with such contenders as Mercedes-Benz. This was the first ever that the Good Design Award Grand Prix was awarded to a member of the housing industry.

Century VikiCourt



Deck built using M-Wood2, winner of the Good Design Award in 1999



Good Design & Technology

Century Housing System



In terms of structural durability, homes built by Misawa Homes have been accredited at the highest of the levels determined by the Center for Better Living, at CHS-60, indicating an expected life of between 50 and 100 years. Providing excellent physical and functional durability, if maintained appropriately these homes are designed to maintain high asset values and last 100 years.

Ecological Awards



In line with “HEARTH” —the environmental declaration of the Misawa Homes Group— we build homes that take the global environment into consideration. We have developed M-Wood, a wood-based material that reuses wood scraps, and a zero-energy home that requires no external energy supply. High evaluations of these developments earned us the 8th Grand Prize for the Global Environment Award, sponsored by the Fuji Sankei Group. Misawa Homes has also won a host of other awards related to the environment.



Customer Satisfaction



Misawa Homes leads the industry in the introduction of guarantee systems, providing a 20-year structural guarantee through our new home warranty system and a maintenance management warranty system that extends the guarantee period. In 1997, we were designated a “customer satisfaction company” by the Ministry of Economy, Trade and Industry, based on its evaluation of our support systems for regular service and emergency response in times of disaster.

G-Mark



The Good Design Award is Japan’s only system for comprehensively evaluating and recommending designs. Covering all industrial products, these awards provide an overall evaluation that extends beyond design to include essentially all the elements of production, including function, quality, safety and after-sales service. Since becoming the first in the industry to earn this award in 1990, Misawa Homes has been a Good Design Award recipient for 16 consecutive years.

Review of Operations

Housing Business



Marina East 21 Midorihama subdivision



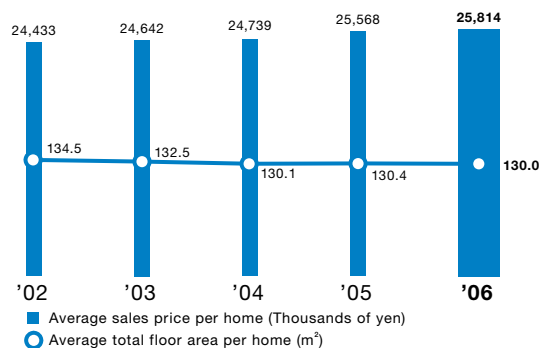
Business Profile

Failures in our business diversification efforts substantially weakened our financial structure, and concerns about the Company's creditworthiness have continued for the past several years. This situation notwithstanding, 16 consecutive years as the recipient of Good Design Awards, the development of our earthquake-resistant MGEO system and our successful receipt of repeat construction orders for Japan's Showa Base in Antarctica all attest to the high levels of design and technological expertise that we bring to the housing industry.

Sukiya living room

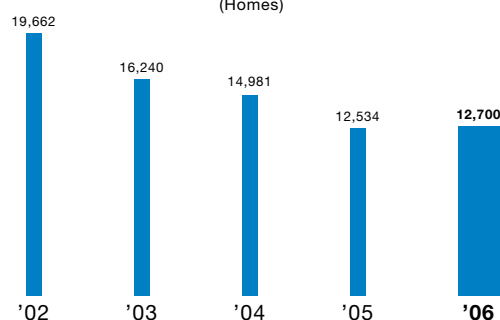
Home Construction Orders

New Order Volume



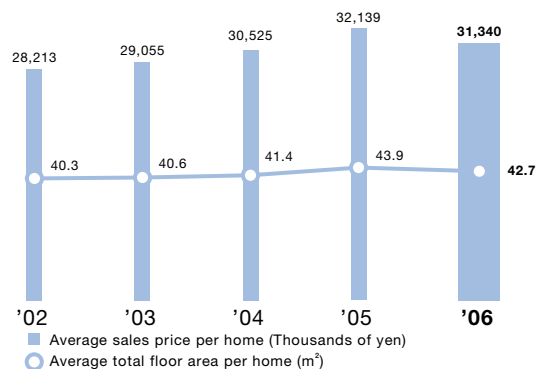
New Orders

(Homes)



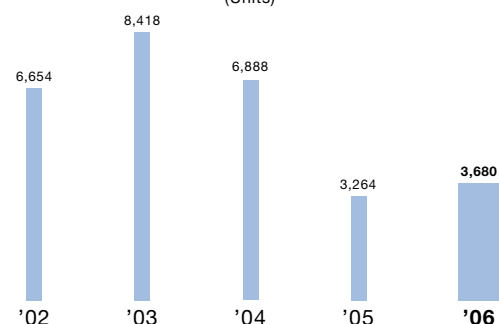
Apartment Construction Orders

New Order Volume



New Orders

(Units)



Operating Results

During the fiscal year ended March 31, 2006, we succeeded in efforts to overcome concerns about the Company's credit-worthiness, partly by recasting our image through extensive advertising campaigns featuring New York Yankees baseball player Hideki Matsui. Although the first half of the term was an uphill struggle, beginning in September 2005 we enjoyed seven consecutive months during which orders were higher than the same month one year earlier. As a result, home construction orders for the term were up 1.3% compared with the preceding term, at 12,700 homes, and apartment construction orders were 19.4% higher, at 3,680 units.

Urban three-story Hybrid Nozomi no ie



Belle Lead Formal apartment model

Future Targets and Strategies

We are in the process of adding new model homes in housing parks and rebuilding existing ones. By March 31, 2007, we plan to have a total of 263 model homes, up from 232 on March 31, 2006. To attract customers, we are also building large technology galleries in major metropolitan locations. In the lot-subdivision building business, we will promote the construction of residential communities that feature attractively coordinated home designs and landscapes to enhance values for homeowners. As apartment housing demand is expected to remain favorable, we are expanding our organizations and personnel that specialize in this area. We are also working to develop package lease and consigned management systems to expand our revenues from stock businesses.

A photograph of a modern interior space, likely a living room or dining area, featuring a white sofa, a round marble coffee table, and a dining table with chairs. The background shows a glass-enclosed kitchen area.

Renovation Business

Business Profile

The Misawa Homes Group has grown to become Japan's third-largest home renovator in terms of net sales, backed by some 500,000 existing homes that we have built and a more than 20 year track record of providing remodeling services for homes built by other companies. Based on the idea of periodically upgrading homes to match families' changing lifestyles, we have developed our own specialized renovation components. In 2001, some of these components won the Good Design Award, making us the first company in the renovation business to receive such an honor.

A refurbishment project under way

A photograph of a large, multi-story building with a green roof and white balconies, surrounded by trees and a paved area. The building is identified as the Motherth Minami Kashiwa nursing home.

Other Operations

Motherth Minami Kashiwa nursing home

Operating Results

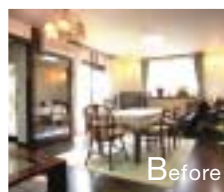
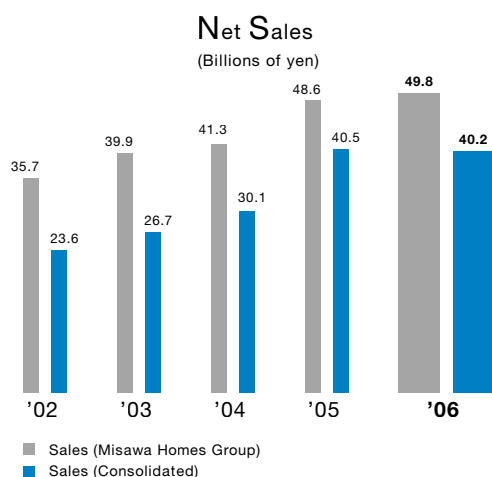
Hard pressed to increase our sales staff, during the fiscal year ended March 31, 2006, consolidated net sales from Misawa Homes' renovation business dipped 0.7%, to ¥40.2 billion. On a Groupwide basis, however, net sales from the renovation business expanded 2.4%, to ¥49.8 billion.

Future Targets and Strategies

A study by the Nomura Research Institute, Ltd., forecasts that the value of the home renovation market will grow to ¥8 trillion by

2010, with homes built during the housing construction boom of the 1990s flowing into the renovation market, helped by the national government's efforts to promote earthquake-resistant housing. Under these favorable conditions, we aim to increase the percentage of Misawa Homes structures that we renovate ourselves. Moving toward this goal, we will expand our sales force—focusing particularly on women—and in the second half of the fiscal year ending March 31, 2007, will begin selling a “renovation pack” of specialized components in anticipation of increased renovation needs. To meet general market demand for earthquake-resistant renovation, we will aggressively market our MGEO-R system for after-market installation on wooden homes.

Renovation Business



One of our multifunctional nursing home facilities

Taking early steps to meet the emerging needs of an aging society, the Misawa Homes Group began operating the Motherth Minami Kashiwa nursing home in 1993. Building on the expertise we have cultivated over 12 years in the senior-care business, we are building and managing a variety of nursing care centers for the elderly, including day-care centers and group homes. Recognizing its efforts in the senior-care business, Tokyo's Shinagawa Ward awarded the Misawa Homes Group a management consulting and facility operation contract to operate portions of a senior citizen complex in 2002. We are applying our understanding of the senior-

care business to our home construction business, as well. Taking into account the reality that many people require care as they age, we have begun designing homes so that they can be easily renovated in this manner.

In April 2006, Japan's nursing care insurance system was revised to establish “community-based services” that assist elderly people living alone and help them to stay in the neighborhoods to which they are accustomed. We expect to benefit from this trend through orders to construct the facilities that will provide community-based services.

Corporate Citizenship

Mission of the Misawa Homes Group

Misawa Homes Group strives to contribute to building an affluent society by supplying quality homes based on our motto: “lifelong commitment to customers through housing.”

Management Principles

1. We build safe, comfortable and environmentally friendly homes and communities.
2. We respect laws and regulations and operate with integrity and ethical regard.
3. We endeavor to carry out environmental preservation activities by focusing on the global environment.
4. By striving to raise corporate value and ensure stable, long-term growth, we foster a prosperous coexistence with stakeholders.
5. We provide a workplace that enables Group employees to develop mutual trust-based relationships, and work to help build and apply their capabilities to the fullest extent.
6. We perform appropriate financial reporting and information disclosure and undertake suitable risk management.

Action Guidelines

1. To Our Customers

- We throw our hearts into developing and providing excellent products that feature outstanding designs and technologies, as well as quality services.
- We perform sales activities with candor and appropriateness.
- We provide information that is accurate and easy to understand, and hold ourselves fully accountable for its content.
- We maintain and continue to enhance our after-sales service systems, thereby providing a wide range of services in a prompt, attentive and diligent manner.

- We use our customers' private information appropriately and manage it strictly.

2. To Our Employees

- We respect the individual and support individual growth.
- We maintain a corporate culture that fosters ethical activities.
- We do not discriminate on the basis of such factors as nationality, race, gender or religion.
- We uphold a safe and healthy working environment, which we continually improve.
- We respect human rights, and use no forced labor or child labor in any form.
- We respect the significance of information and strive to maintain information security.

3. To Our Business Partners

- We select our business partners using fair standards and appropriate procedures.
- We maintain equal, contractually-based relationships with our business partners and transact business fairly and freely.
- We maintain relationships with business partners within reasonable social norms.

4. To Our Shareholders and Other Investors

- We strive to raise corporate value through stable, long-term growth.
- We disclose financial and other management information promptly and appropriately.

5. To Our Society and the Environment

- We strive to incorporate environmental preservation activities into our business activities.
- We operate in accordance with laws and social norms.
- We maintain sound relationships with government offices and administrative bodies.

- We do not succumb to inappropriate pressure from antisocial influences or organizations.
- We take into due consideration the safe functioning of global society and uphold amicable relations with local societies.
- We take active part in social contribution activities in all regions in which we operate.

Environmental Initiatives

In 1990, the Misawa Homes Group created its Environmental Declaration, which sets forth an environmental code of conduct. Since that time, we have earned ISO 14001 certification for environmental management, developed the industry's first zero-energy home and implemented a host of important Group initiatives themed on the environment. To further the environmental activities and activity guidelines that we have followed since 1998, in 2005 we established SUSTAINABLE 2010, an environmental activity plan to guide the Group from 2006 through 2010. This plan includes such consumer housing themes as reducing CO2 emissions by promoting home energy conservation, as well as the vital theme of reducing the environmental burden of the entire housing life cycle, extending from factory production, delivery and on-site construction to renovation, maintenance and eventual demolition.

Misawa Homes' efforts to protect the global environment are linked to its commitment to the security and safety of customers, employees, business partners, shareholders and other stakeholders. Marshalling our Group resources, we are pushing forward vigorously toward our objective of "creating homes and communities that feature an awareness for health and the environment by making effective use of natural energy and resources."

Corporate Governance and Compliance

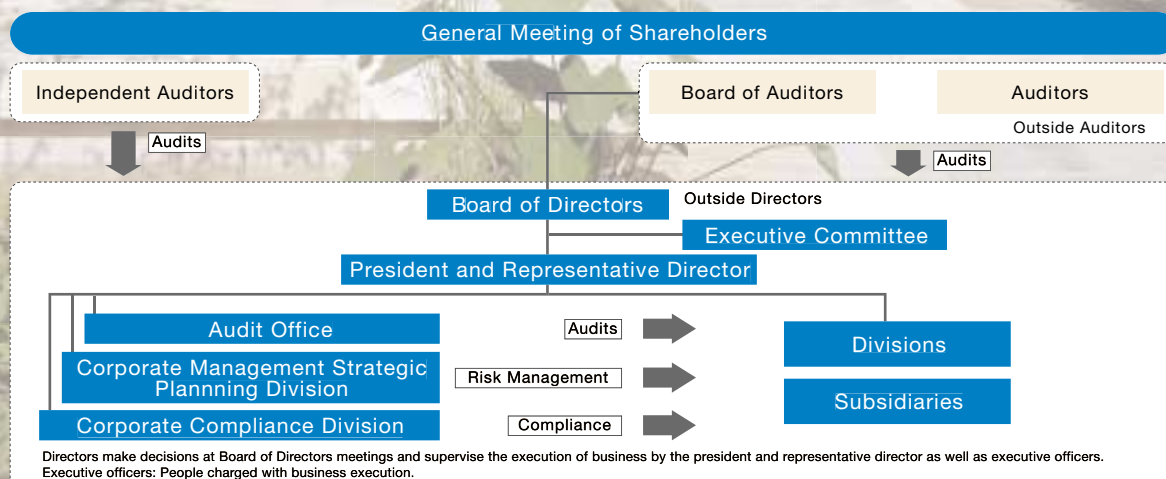
Corporate Governance

Our basic stance is that corporate governance is fundamental to ensuring benefits to shareholders, customers, employees and all others who have any sort of relationship with our business activities, which are based on our Group motto of “lifelong commitment to customers through housing.” Therefore, we position corporate governance as a vital management issue. We are working to ensure management transparency and trustworthiness, as well as promptness and decision-making appropriateness. Through such measures, we ultimately expect to maximize corporate value and increase profits.

Group Compliance Structure

Training and development programs help all employees to understand our Group compliance system and the importance we place on compliance. We have installed a Chief Compliance Officer, established a Group Compliance Committee to formulate highly effective measures, and established compliance subcommittees at each of our Group companies. Our Corporate Compliance Division takes overall charge of everyday compliance activities and maintains a compliance help line to contribute to the ongoing improvement of compliance Groupwide.

Corporate Governance System



Note: The above chart depicts a simplified version of the Company's corporate governance framework.

Financial Section

Consolidated Six-Year Summary

Misawa Homes Holdings, Inc., and Subsidiaries

For the years ended March 31	Millions of yen						Thousands of U.S. dollars
	2006	2005	2004	2003	2002	2001	2006
For the Year:							
Net Sales	¥ 384,645	¥ 390,044	¥ 403,495	¥ 412,889	¥ 481,839	¥ 529,052	\$ 3,274,411
Cost of Sales	287,218	289,597	289,077	288,551	351,014	381,244	2,445,035
Gross Profit	97,427	100,447	114,418	124,338	130,825	147,808	829,376
Selling, General and Administrative Expenses	79,350	81,539	83,730	92,840	106,656	119,509	675,488
Operating Income	18,077	18,908	30,688	31,498	24,169	28,299	153,888
Income (Loss) before Income Taxes and Minority Interests	124,250	(175,869)	(128,487)	6,826	(47,816)	7,985	1,057,716
Net Income	124,358	(203,332)	(128,767)	2,653	(18,661)	2,514	1,058,633
At Year-End:							
Total Assets	¥ 222,952	¥ 263,416	¥ 505,151	¥ 713,965	¥ 806,843	¥ 859,318	\$ 1,897,945
Total Shareholders' Equity	24,200	(162,420)	31,056	56,181	53,796	40,104	206,011
Per Share Amounts (yen):							
Net Income (Loss)	¥ 3,854.96	¥ (997.31)	¥ (693.16)	¥ 8.58	¥ (140.61)	¥ 19.40	\$ 32.82
Shareholders' Equity	(614.26)	(1,551.42)	(518.18)	113.90	111.09	309.52	(5.23)

Notes: (1) Figures for 2001, 2002 and 2003 show the consolidated financial statements of Misawa Homes Co., Ltd.

(2) Figures for 2004, 2005 and 2006 show the financial statements of Misawa Homes Holdings, Inc., which include the statements of Misawa Homes Co., Ltd.

Financial Review

Operating Performance

Business Environment

During the fiscal year ended March 31, 2006, the Japanese housing industry was firm in the rental housing and condominium sectors. Consequently, new housing construction starts were up 4.7% from the preceding term, to 1.24 million homes. Nonetheless, demand for owner-occupied homes—the Misawa Homes Group's core area of business—declined 4% year on year.

In this operating environment, the Group pursued research on system-built homes that take the global environment into consideration. We also mounted initiatives to extend our product quality and warranty systems.

Sales

During the year, net sales decreased 1.4%, to ¥384,645 million. Of this amount, sales from our core housing and renovation businesses expanded 1.6%, to ¥381,286 million. Owing to our withdrawal

from non-core businesses—including golf course operation, financing, large-scale land development, resorts and other businesses—these sales fell 77.5%, to ¥3,359 million. Gross profit declined 3.0%, to ¥97,427 million.

Operating Income

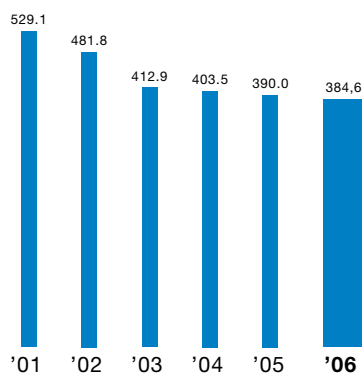
Selling, general and administrative expenses fell 2.7%, to ¥79,350 million, owing primarily to a gain from the liquidation of the employee pension fund and lower depreciation costs resulting from sales of fixed assets in non-core businesses, which dwarfed increased advertising and sales promotion costs.

Despite these factors, operating income during the term decreased 4.4%, to ¥18,077 million.

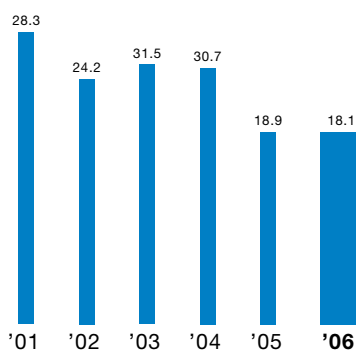
Income before Income Taxes and Minority Interest

During the year, income before income taxes and minority interest was ¥124,250 million, a ¥300,119 million improvement from the loss recorded in the preceding term. Although we posted a ¥1,679

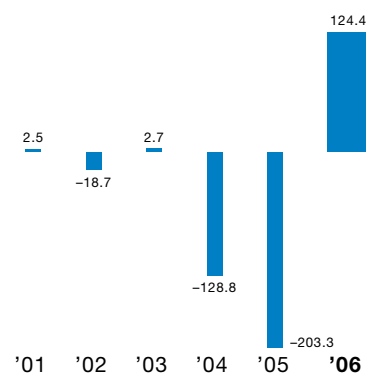
Net Sales
(Billions of yen)



Operating Income
(Billions of yen)



Net Income
(Billions of yen)



million impairment loss on fixed assets, this income category benefited from a ¥113,326 million gain from forgiveness of debt and the absence of several line items that reduced income in the preceding term: a ¥70,067 million loss on write-down on property, plant and equipment, a ¥35,027 million loss on transfer of accounts receivable and a ¥15,826 million write-off of goodwill.

Net Income

During the fiscal year ended March 31, 2006, income taxes declined ¥30,341. As a result, net income was ¥124,358 million, a ¥327,690 million improvement from the previous year's net loss.

Financial Position

As of March 31, 2006, total assets were ¥222,952 million, down ¥40,464 million from one year earlier. The main reason for this decline was the disposal of assets from non-core businesses and the drawdown of cash and deposits to pay off interest-bearing debt. As of March 31, 2006, interest-bearing debt

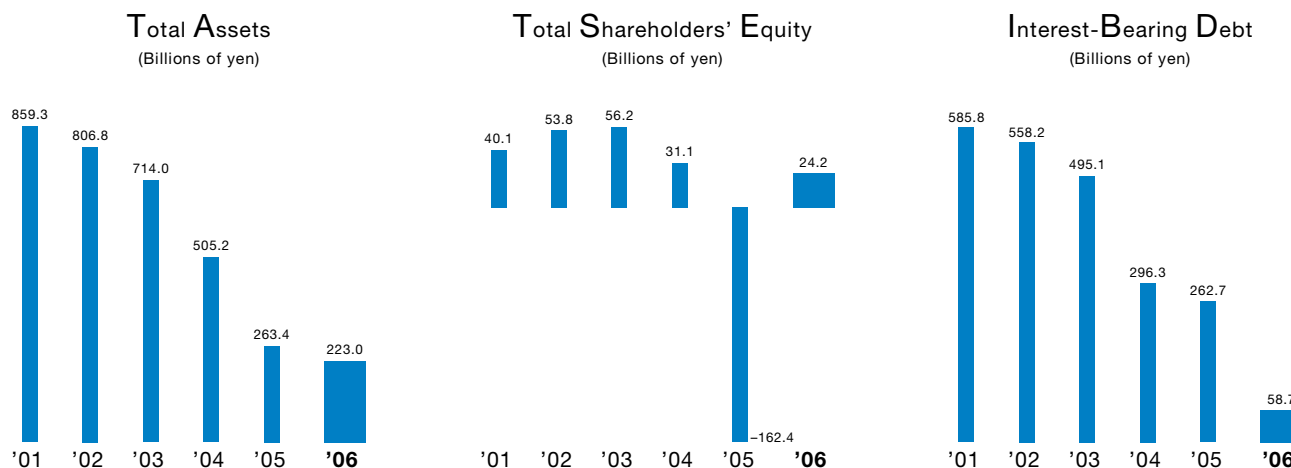
was ¥58,730 million, down ¥203,921 million from one year earlier.

Cash Flows

During the year, net cash provided by operating activities was ¥22,834 million, ¥6,451 million more than in the previous term, thanks to such factors as a decrease in interest expense.

Net cash provided by investing activities was ¥6,096 million, down ¥6,714 million from the previous year. Major changes included proceeds from sales of investment securities and shares in subsidiaries due to the change of consolidation scope.

Net cash used in financing activities was ¥45,306 million, up ¥29,243 million from one year earlier. This result was primarily because the cash required to fund the decrease in short-term borrowings exceeded proceeds from issuance of common stock and proceeds from sales of treasury stock.



Consolidated Balance Sheets

MISAWA HOMES HOLDINGS, INC. and Subsidiaries
March 31, 2005 and 2006

Assets	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Current assets:			
Cash and deposits (Note 17)	¥ 40,906	¥ 57,342	\$ 348,228
Notes and accounts receivable, trade	15,605	14,927	132,842
Inventories	63,098	68,516	537,144
Deferred income taxes (Note 15)	7,271	7,603	61,896
Other current assets	7,578	9,546	64,500
Allowance for doubtful accounts	(1,208)	(1,545)	(10,280)
Total current assets	133,250	156,389	1,134,330
Property, plant and equipment:			
Buildings and structures	29,017	32,820	247,020
Machinery and equipment	14,947	16,842	127,244
Land	25,011	32,654	212,915
Other	5,982	8,229	50,914
	74,957	90,545	638,093
Accumulated depreciation	(30,093)	(34,478)	(256,174)
	44,864	56,067	381,919
Intangible assets:			
Goodwill	320	349	2,723
Other	5,710	6,204	48,613
	6,030	6,553	51,336
Investments and other assets:			
Investment securities (Note 4)	5,705	6,461	48,562
Investments in affiliates	2,937	4,309	25,004
Deferred income taxes (Note 15)	22,656	23,293	192,864
Other assets	10,509	15,157	89,457
Allowance for doubtful accounts	(2,999)	(4,813)	(25,527)
	38,808	44,407	330,360
Total assets	¥222,952	¥263,416	\$1,897,945

The accompanying notes are an integral part of these financial statements.

Liabilities and Shareholders' Equity	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Current liabilities:			
Short-term bank loans (Note 7)	¥ 20,135	¥ 195,456	\$ 171,403
Current portion of long-term debt (Note 7)	12,775	36,823	108,753
Notes and accounts payable, trade	54,889	45,853	467,258
Accounts payable, other	8,254	21,426	70,267
Accrued bonuses	5,188	4,480	44,163
Allowance for claim expenses	2,273	2,005	19,350
Allowance for loss on repurchase of land	—	4,516	—
Advance received on uncompleted contracts	27,818	24,100	236,810
Deposits received (Note 8)	18,145	29,354	154,464
Other current liabilities	4,278	8,650	36,422
Total current liabilities	153,755	372,663	1,308,890
Long-term liabilities:			
Long-term debt (Note 7)	25,820	30,372	219,797
Accrued pension and severance costs (Note 9)	5,873	5,779	49,996
Allowance for liabilities on guaranty	1,391	3,835	11,838
Deferred income taxes (Note 15)	214	517	1,820
Deferred income taxes from land revaluation	2,021	2,773	17,201
Other long-term liabilities	6,795	7,201	57,852
Total long-term liabilities	42,114	50,477	358,504
Minority interest in subsidiaries	2,883	2,696	24,540
Shareholders' equity: (Note 10)			
Capital stock	23,413	45,249	199,311
	(Thousands of shares)		
	In 2006	In 2005	
Common stock—authorized	231,660	970,000	
—issued	38,739	258,259	
Preferred stock—authorized	48,340	230,000	
—issued	48,333	224,997	
Additional paid-in capital	67,689	568	576,221
Retained earnings (accumulated deficit)	(66,986)	(208,723)	(570,243)
Land revaluation difference	2,178	3,420	18,545
Net unrealized gains on other securities (Note 5)	2,009	1,827	17,106
Translation adjustments	89	77	759
Treasury stock	(4,192)	(4,838)	(35,688)
Total shareholders' equity	24,200	(162,420)	206,011
Commitments and contingent liabilities (Note 19)			
Total liabilities and shareholders' equity	¥222,952	¥ 263,416	\$1,897,945

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Income

MISAWA HOMES HOLDINGS, INC. and Subsidiaries
Years ended March 31, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Net sales	¥ 384,645	¥390,044	\$3,274,411
Cost of sales	287,218	289,597	2,445,035
Gross profit	97,427	100,447	829,376
Selling, general and administrative expenses: (Notes 16, 18)			
Salaries and wages	36,294	37,564	308,962
Advertising	12,168	11,432	103,585
Sales promotion	4,271	3,798	36,357
Addition to allowance for claim expenses	1,718	471	14,625
Accrued bonuses to employees	4,344	4,105	36,981
Depreciation expenses	3,184	3,726	27,101
Other selling expenses	3,543	5,450	30,161
Other general and administrative expenses	13,828	14,993	117,716
	79,350	81,539	675,488
Operating income	18,077	18,908	153,888
Non-operating income:			
Interest income	39	24	336
Income from commissions	356	618	3,027
Equity in earnings of affiliates	—	223	—
Other	1,763	1,554	15,010
	2,158	2,419	18,373
Non-operating expenses:			
Interest expenses	3,609	7,522	30,726
Equity in losses of affiliates	12	—	100
Other	1,854	2,294	15,786
	5,475	9,816	46,612
Ordinary income	14,760	11,511	125,649
Other gains ("TOKUBETSU RIEKI"):			
Gain from forgiveness of debt	113,326	—	964,725
Gain on sales of investment securities	968	7,107	8,238
Gain on sales of property, plant and equipment (Note 11)	284	14	2,419
Gain on account settlement for welfare pension fund	—	17,369	—
Other	968	299	8,240
	115,546	24,789	983,622
Other losses ("TOKUBETSU SONSHITSU"):			
Impairment loss on fixed assets (Note 6)	1,679	—	14,295
Addition to allowance for doubtful accounts	775	4,729	6,598
Addition to allowance for liabilities on guarantee	730	3,835	6,218
Loss on disposal of property, plant and equipment (Note 12)	630	8,989	5,359
Loss on write-down of inventories	647	40,415	5,504
Loss on sales of investment securities	191	5,052	1,625
Loss on write-down of property, plant and equipment (Note 13)	—	70,067	—
Loss on transfer of accounts receivable	—	35,027	—
Write-off of goodwill	—	15,826	—
Other	1,404	28,229	11,956
	6,056	212,169	51,555
Income (loss) before income taxes and minority interest	124,250	(175,869)	1,057,716
Income taxes:			
Current	446	651	3,797
Deferred	(760)	29,376	(6,468)
	(314)	30,027	(2,671)
Income (loss) before minority interest	124,564	(205,896)	1,060,387
Minority interest in subsidiaries	206	(2,564)	1,754
Net income (loss) (Note 15)	¥ 124,358	(¥203,332)	\$1,058,633
Per share:	Yen		U.S. dollars
Net income (loss) (Note 15)—Basic	¥3,854.96	(¥ 997.31)	\$ 32.82
—Diluted	¥2,155.27	—	\$ 18.35

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Shareholders' Equity

MISAWA HOMES HOLDINGS, INC. and Subsidiaries
Years ended March 31, 2005 and 2006

	Number of shares issued	Millions of yen								Total
		Capital stock	Additional paid-in capital	Retained earnings (accumulated deficit)	Land revaluation difference	Net unrealized gains on other securities	Translation adjustments	Treasury stock		
Balance at March 31, 2004	477,006,146	¥80,749	¥98,357	(¥151,375)	¥2,569	¥3,458	(¥2,308)	(¥ 394)	¥ 31,056	
Net loss	—	—	—	(203,332)	—	—	—	—	(203,332)	
Increase due to conversion of convertible bonds	6,250,000	500	500	—	—	—	—	—	1,000	
Gain on disposal of treasury stock	—	—	104	—	—	—	—	—	104	
Capital reduction	—	(36,000)	(98,393)	134,393	—	—	—	—	—	
Adjustment of retained earnings for elimination of consolidated subsidiary	—	—	—	12,141	—	—	—	—	12,141	
Increase due to exclusion of an affiliate accounted for by the equity method	—	—	—	443	—	—	—	—	443	
Bonuses to directors and statutory auditors	—	—	—	(46)	—	—	—	—	(46)	
Reversal of revaluation reserve for land	—	—	—	(790)	—	—	—	—	(790)	
Transfer from revaluation reserve for land	—	—	—	(125)	—	—	—	—	(125)	
Adjustment of retained earnings for newly consolidated subsidiaries	—	—	—	(32)	—	—	—	—	(32)	
Net unrealized gain on revaluation	—	—	—	—	851	—	—	—	851	
Net unrealized loss on other securities	—	—	—	—	—	(1,631)	—	—	(1,631)	
Translation adjustments	—	—	—	—	—	—	2,385	—	2,385	
Changes in treasury stock	—	—	—	—	—	—	—	(4,444)	(4,444)	
Balance at March 31, 2005	483,256,146	45,249	568	(208,723)	3,420	1,827	77	(4,838)	(162,420)	
Net income	—	—	—	124,358	—	—	—	—	124,358	
Allotment of common stock to a third party	12,913,000	12,913	12,913	—	—	—	—	—	25,826	
Issuance of preferred stock due to execution of debt-equity swap arrangement	3,333,333	10,000	10,000	—	—	—	—	—	20,000	
Gain on disposal and sale of treasury stock	—	—	16,150	—	—	—	—	—	16,150	
Capital reduction	(179,997,720)	(44,749)	44,181	568	—	—	—	—	—	
Reverse stock split	(232,433,232)	—	—	—	—	—	—	—	—	
Transfer of additional paid-in capital	—	—	(16,123)	16,123	—	—	—	—	—	
Reversal of revaluation reserve for land	—	—	—	469	—	—	—	—	469	
Adjustment of retained earnings for newly consolidated subsidiaries	—	—	—	239	—	—	—	—	239	
Transfer from revaluation reserve for land	—	—	—	(9)	—	—	—	—	(9)	
Decrease due to exclusion of an affiliate accounted for by the equity method	—	—	—	(11)	—	—	—	—	(11)	
Net unrealized loss on revaluation	—	—	—	—	(1,242)	—	—	—	(1,242)	
Net unrealized gain on other securities	—	—	—	—	—	182	—	—	182	
Translation adjustments	—	—	—	—	—	—	12	—	12	
Changes in treasury stock	—	—	—	—	—	—	—	646	646	
Balance at March 31, 2006	87,071,527	¥23,413	¥67,689	(¥ 66,986)	¥2,178	¥2,009	¥ 89	(¥4,192)	¥ 24,200	

	Thousands of U.S. dollars (Note 3)							
	Capital stock	Additional paid-in capital	Retained earnings (accumulated deficit)	Land revaluation difference	Net unrealized gains on other securities	Translation adjustments	Treasury stock	Total
Balance at March 31, 2005	\$385,199	\$ 4,834	(\$1,776,823)	\$29,117	\$15,555	\$655	(\$41,188)	(\$1,382,651)
Net income	—	—	1,058,633	—	—	—	—	1,058,633
Allotment of common stock to a third party	109,926	109,926	—	—	—	—	—	219,852
Issuance of preferred stock due to execution of debt-equity swap arrangement	85,128	85,128	—	—	—	—	—	170,256
Gain on disposal and sale of treasury stock	—	137,482	—	—	—	—	—	137,482
Capital reduction	(380,942)	376,108	4,834	—	—	—	—	—
Transfer of additional paid-in capital	—	(137,257)	137,257	—	—	—	—	—
Reversal of revaluation reserve for land	—	—	3,995	—	—	—	—	3,995
Adjustment of retained earnings for newly consolidated subsidiaries	—	—	2,032	—	—	—	—	2,032
Transfer from revaluation reserve for land	—	—	(74)	—	—	—	—	(74)
Decrease due to exclusion of an affiliate accounted for by the equity method	—	—	(97)	—	—	—	—	(97)
Net unrealized loss on revaluation	—	—	—	(10,572)	—	—	—	(10,572)
Net unrealized gain on other securities	—	—	—	—	1,551	—	—	1,551
Translation adjustments	—	—	—	—	—	104	—	104
Changes in treasury stock	—	—	—	—	—	—	5,500	5,500
Balance at March 31, 2006	\$199,311	\$576,221	(\$ 570,243)	\$18,545	\$17,106	\$759	(\$35,688)	\$ 206,011

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

MISAWA HOMES HOLDINGS, INC. and Subsidiaries

Years ended March 31, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Cash flows from operating activities:			
Income (loss) before income taxes and minority interest	¥124,250	(¥175,869)	\$1,057,717
Adjustments for:			
Depreciation and amortization	4,910	6,336	41,798
Amortization and write-off of goodwill	56	16,514	476
Decrease in allowance for doubtful accounts	(1,775)	(59,940)	(15,111)
Increase (decrease) in other allowances	1,041	(1,859)	8,862
Interest and dividend income	(185)	(91)	(1,572)
Interest expense	3,609	7,522	30,726
Equity in net losses of affiliates	12	2,178	100
Gain on sale of investment securities	(777)	(2,055)	(6,613)
Impairment loss on fixed assets	1,679	—	14,295
Loss on write-down of property, plant and equipment	—	70,067	—
Loss on sale of property, plant and equipment	345	8,975	2,940
Addition to allowance for doubtful accounts	—	4,799	—
Loss on transfer of accounts receivable	—	35,027	—
Gain from forgiveness of debt	(113,326)	—	(964,725)
(Increase) decrease in notes and accounts receivable, trade	(2,772)	4,874	(23,599)
Decrease in inventories	4,247	43,100	36,156
Increase (decrease) in notes and accounts payable, trade	9,598	(4,333)	81,705
Other	(4,745)	69,616	(40,393)
Subtotal	26,167	24,861	222,762
Interest and dividends received	171	338	1,454
Interest paid	(3,011)	(7,026)	(25,636)
Income taxes paid	(493)	(1,790)	(4,198)
Net cash provided by operating activities	22,834	16,383	194,382
Cash flows from investing activities:			
Decrease (increase) of time deposits with maturity over three months	464	(1,887)	3,949
Payments for purchases of property, plant equipment and intangible assets	(8,773)	(5,067)	(74,684)
Proceeds from sales of property, plant equipment and intangible assets	6,915	4,221	58,869
Payments for purchases of investment securities	(188)	(243)	(1,598)
Proceeds from sales of investment securities	2,900	11,617	24,686
Effect results from the change of consolidation scope	2,194	105	18,680
Other	2,584	4,064	21,996
Net cash provided by investing activities	6,096	12,810	51,898
Cash flows from financing activities:			
(Decrease) increase in short-term bank loans	(67,480)	2,687	(574,448)
Proceeds from long-term debt	36,845	23,211	313,655
Repayments of long-term debt	(44,614)	(45,577)	(379,791)
Proceeds from issuance of common stock	25,826	—	219,852
Proceeds from sales of treasury stock	17,643	104	150,190
Payments for purchase of treasury stock	(131)	(92)	(1,118)
Cash dividends paid to minority interest	(25)	(78)	(216)
Other	(13,370)	3,682	(113,816)
Net cash used in financing activities	(45,306)	(16,063)	(385,692)
Translation adjustments in cash and cash equivalents	6	25	49
Net (decrease) increase in cash and cash equivalents	(16,370)	13,155	(139,363)
Cash and cash equivalents at the beginning of the year	55,937	43,243	476,184
Increase (decrease) by change in the scope of consolidation	399	(461)	3,398
Cash and cash equivalents at the end of the year	¥ 39,966	¥ 55,937	\$ 340,219

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

1. Basis of presenting consolidated financial statements:

Misawa Homes Holdings, Inc. (the “Company”) and its subsidiaries in Japan maintain their records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, while its foreign subsidiaries maintain their records and prepare their financial statements in conformity with accounting principles generally accepted in their respective country of domicile.

The accompanying consolidated financial statements of the Company and its consolidated subsidiaries and affiliates (collectively “Misawa Homes”) are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

The accompanying consolidated financial statements incorporate certain reclassifications and rearrangements in order to present them in a form that is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information that is not required under generally accepted accounting principles in Japan, but which is provided herein as additional information. However, none of the reclassifications or rearrangements has a material effect on the financial statements.

2. Summary of significant accounting policies:

(1) Consolidation and investments in affiliates
The accompanying consolidated financial

statements include the accounts of the Company and those of its subsidiaries that are controlled by Misawa Homes. Under the effective control approach, all majority-owned companies are to be consolidated. Additionally, companies in which share ownership equals 50% or less may be required to be consolidated in cases where such companies are effectively controlled by other companies through the interests held by a party who has a close relationship with the parent in accordance with Japanese accounting standards. All significant inter-company transactions and accounts and unrealized inter-company profits are eliminated upon consolidation.

Investments in affiliates in which Misawa Homes has significant influence are accounted for using the equity method. Consolidated income includes Misawa Homes’ current equity in net income or loss of affiliates after elimination of unrealized inter-company profits.

The excess of the cost over the underlying net equity of investments in subsidiaries is recognized as a “goodwill” included in the intangible assets account and is amortized on a straight-line basis over a period of 20 years.

(2) Cash and cash equivalents

Cash and cash equivalents included in the consolidated financial statements are composed of cash on hand, bank deposits that may be withdrawn on demand and highly liquid investments purchased with initial maturities of three months or less and which present low risk of fluctuation in value.

(3) Financial instruments

Investments in debt and equity securities:

Investments in debt and equity securities are classified into three categories in accordance with accounting principles generally accepted in Japan:

1) trading securities, 2) held-to-maturity debt

securities, and 3) other securities. These categories are treated differently for purposes of measuring and accounting for changes in fair value.

Trading securities held for the purpose of generating profits from changes in market value are recognized at their fair value in the consolidated balance sheets. Unrealized gains and losses are included in current income. Held-to-maturity debt securities are expected to be held to maturity and are recognized at historical or amortized cost in the consolidated balance sheets. Other securities for which market quotations are available are recognized at fair value in the consolidated balance sheets. Unrealized gains and losses for these other securities are reported as a separate component of shareholders' equity, net of tax. Other securities for which market quotations are unavailable are stated at cost, primarily based on the moving average cost method. Other than temporary declines in the value of other securities are reflected in current income.

Derivative financial instruments:

Derivative instruments (i.e., forward exchange contracts, interest-rate options) are recognized as either assets or liabilities at their respective fair values at the date of contract, and gains and losses arising from changes in fair value are recognized in earnings in the corresponding fiscal period.

Allowance for doubtful accounts:

To provide for losses from bad debts, the allowance is provided according to the actual rate of non-recovery for ordinary claims and in view of the probability of recovery for specific doubtful receivables.

(4) Inventories

Finished goods, work in process and semi-finished goods are stated at cost, which is primarily determined using the weighted average cost method.

Real estate for sale and cost of uncompleted contracts are stated at cost, which is determined by the specific identification method.

(5) Property, plant and equipment

Property, plant and equipment, including significant renewals and improvements, are carried at cost less accumulated depreciation. Maintenance and repairs, including minor renewals and improvements, are charged to income as incurred. Depreciation of property, plant and equipment is mainly computed based on the declining-balance method over the period prescribed by the Japanese income tax laws.

(6) Intangible assets

Amortization of intangible assets is computed on the straight-line method over the period prescribed by the Japanese income tax laws.

(7) Impairment of fixed assets

On August 9, 2002, the Business Accounting Council of Japan issued new accounting standards entitled "Statement of Opinion on the Establishment of Accounting Standards for Impairment of Fixed Assets." Further, on October 31, 2003, the Accounting Standards Board of Japan issued Financial Accounting Standards Implementation Guidance No. 6—"Application Guidance on Accounting Standards for Impairment of Fixed Assets." These standards are effective from the fiscal years beginning April 1, 2005.

Misawa Homes adopted these standards in the fiscal year ended March 31, 2006. As a result, income before income taxes and minority interest decreased by ¥1,679 million (\$14,295 thousand) for the year ended March 31, 2006.

(8) Accrued bonuses

Accrued bonuses to employees are provided for the estimated amounts, which Misawa Homes is obligated to pay to employees after the fiscal year-end, based on services provided during the current period.

(9) Pension and severance costs

Accrued pension and severance costs are provided based on the estimated retirement benefit obligation and the pension assets. The figure is based on the amount of severance benefit obligations at the balance sheet date and the estimated amount of the pension fund. Transition amounts resulting from the initial adoption of the new accounting method for employees' retirement benefits are amortized over 15 years.

Unrecognized actuarial gains and losses are amortized starting from the beginning of the subsequent year on a straight-line basis over certain periods (mainly 10 years) within the average remaining service periods.

Prior service costs are amortized on a straight-line basis over certain periods (mainly 10 years) within the average remaining service periods.

(10) Allowance for liabilities on guaranty

Allowance for liabilities on guaranty is provided in an amount sufficient to cover probable losses on warranty or compensation agreements on hand when substantial losses in the future are anticipated and can be reasonably estimated.

(11) Allowance for claim expenses

Allowance for claim expenses is provided in amounts sufficient to cover possible claim expenses on completed contracts. It is provided based on the estimated amount of payments for future claims, which may be filed, on contracts completed during the year.

(12) Income taxes

The provision for income taxes is computed based on income before income taxes and minority interest 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 basis of assets and liabilities.

(13) Research and development costs

Research and development costs are expensed as incurred.

(14) Land revaluation

Land used for operations was revaluated by certain consolidated subsidiaries in accordance with the Land Revaluation Law in the years ended March 31, 2000 and 2002. The revaluation amount, net of related taxes, is shown as a separate component of stockholders' equity.

(15) Leases

Finance leases other than those that are deemed to transfer the ownership of the leased assets to the lessees are principally accounted for by the method that is applicable to ordinary operating leases.

(16) Net income per share

Net income per share is computed based on the weighted average number of shares of common stock outstanding during each fiscal period.

(17) Appropriations of retained earnings

Appropriations of retained earnings reflected in the accompanying consolidated financial statements have been recorded after approval by the shareholders as required under the Commercial Code of Japan.

(18) Reclassifications

Certain prior year amounts have been reclassified to conform to the presentations for the year ended March 31, 2006.

3. U.S. dollar amounts:

U.S. dollar amounts presented in the accompanying consolidated financial statements and in these notes are included solely for the convenience of readers and are not audited. These translations should not be construed as representations that the yen amounts actually represent, or have been or could be converted into U.S. dollars at that or any other rate. As the amounts shown in U.S. dollars are for convenience only, a rate of ¥117.47= U.S.\$1, the rate of exchange prevailing at March 31, 2006, has been used.

4. Investments in debt and equity securities:

Misawa Homes' management determined that all investments in debt and equity securities were either held-to-maturity debt securities or other securities.

Net unrealized gains, net of tax, on securities categorized as other securities of ¥1,827 million and ¥2,009 million (\$17,106 thousand) as at March 31, 2005 and 2006, respectively, were recorded as a component of shareholders' equity. A related deferred income tax liability thereon of ¥1,226 million and ¥1,412 million (\$12,018 thousand) was recorded against deferred income tax assets relating to other temporary differences as at March 31, 2005 and 2006, respectively.

The aggregate cost and market value (carrying value) of other securities with market values, which were included in investment securities at March 31, 2005 and 2006, were as follows:

	Millions of yen			
	Cost	Gross unrealized Gains	Losses	Market value (carrying value)
March 31, 2005				
Equity securities	¥2,671	¥3,172	(¥54)	¥5,789
Debt securities	519	0	(0)	519
Other	184	7	(17)	174
Total	¥3,374	¥3,179	(¥71)	¥6,482

	Millions of yen			
	Cost	Gross unrealized Gains	Losses	Market value (carrying value)
March 31, 2006				
Equity securities	¥1,730	¥3,482	(¥ 9)	¥5,203
Debt securities	125	—	(2)	123
Other	60	7	(0)	67
Total	¥1,915	¥3,489	(¥11)	¥5,393

March 31, 2006	Thousands of U.S. dollars (Note 3)			Market value (carrying value)
	Cost	Gross unrealized Gains	Losses	
Equity securities	\$14,731	\$29,641	(\$77)	\$44,295
Debt securities	1,063	—	(16)	1,047
Other	513	56	(4)	565
Total	\$16,307	\$29,697	(\$97)	\$45,907

As at March 31, 2005 and 2006, the carrying amount of unlisted equity securities, which were included in investment securities account, were ¥494 million and ¥436 million (\$3,715 thousand), respectively.

Proceeds from sales of available-for-sale securities for the years ended March 31, 2005 and

2006, were ¥8,323 million and ¥2,250 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥3,657 million and ¥32 million respectively, for the year ended March 31, 2005 and ¥924 million and ¥23 million respectively, for the year ended March 31, 2006.

The redemption schedule for securities with maturities classified as other securities as of March 31, 2005 and 2006, are as follows:

March 31, 2005	Millions of yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Government bonds	¥484	¥ —	¥25	¥—
Corporate bonds	—	—	40	—
Other debt securities	—	—	—	—
Others	—	50	—	—
Total	¥484	¥50	¥65	¥—

March 31, 2006	Millions of yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Government bonds	¥20	¥ 90	¥10	¥—
Corporate bonds	—	—	—	—
Other debt securities	—	—	—	—
Others	—	50	—	—
Total	¥20	¥140	¥10	¥—

March 31, 2006	Thousands of U.S. dollars (Note 3)			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Government bonds	\$170	\$ 766	\$85	\$—
Corporate bonds	—	—	—	—
Other debt securities	—	—	—	—
Others	—	426	—	—
Total	\$170	\$1,192	\$85	\$—

5. Derivative financial instruments:

Misawa Homes entered into foreign exchange contracts, interest-rate options (Cap) as at March 31, 2005. Derivative transactions entered into by Misawa Homes have been made in accordance with internal policies, which regulate the authorization of such transactions.

The contract amount and unrealized loss of interest-rate options (Cap) were ¥2,329 million and ¥14 million, respectively for the year ended March 31, 2005.

There was no balance of derivative transactions outstanding as at March 31, 2006.

6. Impairment loss on fixed assets:

The Company categorizes business assets by type of management accounting, and assets used for the purpose of leases and idle assets without a specific future use are categorized by individual property

type. For assets affected by a large decrease in fair market value or profitability due to decrease in sales or revision of future utilization plan during the current fiscal year, the book values are written down to the recoverable amount and such write downs are recorded as impairment loss of ¥1,679 million (\$14,295 thousand) of which buildings and structures for ¥292 million (\$2,488 thousand) including lease property of ¥183 million (\$1,557 thousand), machinery and equipment for ¥274 million (\$2,330 thousand) including lease property of ¥8 million (\$71 thousand), land for ¥1,042 million (\$8,874 thousand), and property, plant and equipment of other for ¥55 million (\$471 thousand) including lease property of ¥24 million (\$206 thousand), and other for ¥16 million (\$132 thousand) including lease property ¥5 million (\$46 thousand) in other expenses due to lack of recovery provability of market value or profitability in the near future. Recoverable amounts for relevant assets are net selling price for idle assets and value in use (calculated using a 7% discount rate) for business property.

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

Short-term bank loans at March 31, 2005 and 2006, comprise the following:

March 31	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Loans, principally from banks, with weighted-average interest rate of 2.0% at March 31, 2006	¥20,135	¥195,456	\$171,403

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

March 31	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Loans, principally from banks and insurance companies, due 2006 to 2013 with weighted-average interest rate of 1.9% at March 31, 2006	¥37,195	¥65,795	\$316,631
Unsecured 0.47% bonds, due 2006	200	200	1,703
Unsecured 0.38% bonds, due 2006	200	200	1,703
Unsecured 0.65% bonds, due 2007	500	500	4,256
Unsecured 1.345% bonds, due 2008	500	500	4,256
	38,595	67,195	328,549
Less—portion due within one year	(12,775)	(36,823)	(108,752)
	¥25,820	¥30,372	\$219,797

The aggregate annual maturities of long-term debt outstanding as at March 31, 2006 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars (Note 3)
2006	¥12,775	\$108,752
2007	13,016	110,807
2008	12,695	108,071
2009	28	235
2010	27	227
Thereafter	54	457
Total	¥38,595	\$328,549

Assets pledged as collateral for secured loans and debt at March 31, 2005 and 2006, were as follows:

March 31	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Pledged assets:			
Bank deposits	¥ —	¥ 143	\$ —
Inventories	6,933	13,275	59,016
Other current assets	6	346	51
Buildings and structures	1,407	9,062	11,980
Machinery and equipment	—	838	—
Land	6,233	27,755	53,057
Other intangible assets	—	153	—
Investment securities	394	6,902	3,357
Other assets	—	863	—
Total	¥14,973	¥59,337	\$127,461

March 31	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Secured loans and debt:			
Short-term bank loans	¥16,684	¥ 89,184	\$142,028
Long-term debt	720	16,266	6,128
Total	¥17,404	¥105,450	\$148,156

8. Deposits received:

Among deposits received, ¥22,070 million and ¥8,700 million (\$74,061 thousand) respectively at March 31, 2005 and 2006, were financing with transfers of contractual receivables.

9. Pension and severance costs:

The Company and its domestic consolidated subsidiaries have introduced the qualified pension plan and the lump-sum retirement plan. On December 21, 2004, the Company received approval for the dissolution of the welfare pension plan (Misawa Homes welfare pension plan) from the Minister of Health, Labor and Welfare and the welfare pension plan was dissolved at the same date.

The funded status of retirement benefit obligations at March 31, 2005 and 2006, were as follows:

March 31	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Projected benefit obligations	(¥22,445)	(¥22,852)	(\$191,070)
Plan assets at fair value	11,323	9,501	96,391
Unfunded status	(11,122)	(13,351)	(94,679)
Unrecognized items:			
Unrecognized net transition obligation	3,709	4,160	31,573
Actuarial losses	1,935	3,913	16,473
Prior service cost reduction due to plan amendment	(330)	(282)	(2,810)
Accrued pension and severance costs—net	(5,808)	(5,560)	(49,443)
Prepaid pension cost	65	219	553
Accrued pension and severance costs	(¥ 5,873)	(¥ 5,779)	(\$ 49,996)

The composition of net pension and severance costs for the years ended March 31, 2005 and 2006, were as follows:

Year ended March 31	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Service cost	¥1,927	¥ 4,007	\$16,402
Interest cost	339	1,311	2,890
Expected return on plan assets	(118)	(239)	(1,004)
Amortization and expenses:			
Prior service costs	(49)	(421)	(418)
Actuarial losses	572	1,599	4,869
Transition obligation	419	1,666	3,568
Transition from simplified method to principal method	—	228	—
Partial termination of qualified retirement annuity	(21)	100	(178)
The dissolution of the welfare pension plan	—	(17,369)	—
	¥3,069	(¥ 9,118)	\$26,129

The assumptions used for the actuarial computation of the retirement benefit obligations for the years ended March 31, 2005 and 2006, were as follows:

Year ended March 31	2006	2005
Discount rate	1.5%	1.5%
Long-term rate of return on plan assets	0.0–4.0	0.0–3.6

10. Shareholders' equity:

The Company issued the preferred stock as follows:

Class	Thousands of shares	Millions of yen	Date of issuance
A	58,333	35,000	August 1, 2004, transferred shares by Misawa Homes Co., Ltd. as establishment of the Company
B-1	41,666	25,000	February 25, 2005
B-2	41,666	25,000	February 25, 2005
B-3	41,666	25,000	February 25, 2005
B-4	41,666	25,000	February 25, 2005
C	3,333	20,000	June 10, 2005

As of June 1, 2005, the Company canceled the 58,333,000 (100%) Class A preferred shares, 41,666,000 (100%) of the first and second issuances of Class B preferred shares and 38,332,720 (92% of the 41,666,000 relevant shares) of the third issuance of Class B preferred shares, all without compensation.

The description of the preferred stock issued by the Company as of March 31, 2006 was as follows:

Classified stock	Class B-3	Class B-4	Class C
Number of outstanding shares	333 thousand shares	4,166 thousand shares	3,333 thousand shares
Distribution of profit	1YTibor + 2.375%	1YTibor + 2.375%	1YTibor + 1.500% No dividend to be distributed until March 2008
Upper limit	¥600	¥600	¥600
Participatory clause	Nonparticipating	Nonparticipating	Nonparticipating
Accumulative clause	Noncumulative	Noncumulative	Noncumulative
Interim dividend	Yes	Yes	Yes
Voluntary purchase/ cancellation	Cancelable at any time	Cancelable at any time	Cancelable at any time
Mandatory redemption (Call)	None	None	Applied (Always possible for 22 years after the issuance, with the issue price of ¥6,000 + preferred dividend per diem)
Claim of redemption (Put)	If unappropriated retained earnings for the year of the previous fiscal year exceed ¥20.0 billion in and after July 2008, the redemption may be requested within an upper limit of the amount that corresponds to 50% of such unappropriated retained earnings being deducted by the dividend paid for the year.	If unappropriated retained earnings for the year of the previous fiscal year exceed ¥20.0 billion in and after July 2008, the redemption may be requested within an upper limit of the amount that corresponds to 50% of such unappropriated retained earnings being deducted by the dividend paid for the year.	None

Classified stock	Class B-3	Class B-4	Class C
Conversion right to be requested by shareholders	Conversion to common stock	Conversion to common stock	Conversion to common stock
Conversion claimable period	16 years after the issuance or later: for 15 years (from July 2020 to June 2035)	19 years after the issuance or later: for 15 years (from July 2023 to June 2038)	22 years after the issuance or later: for 15 years (from July 2027 to June 2042)
Initial conversion price	¥1,300.40	¥1,300.40	To be determined based on the Company's stock price in the 22nd year after the issuance (the stock price at the time point when the claim for conversion started)
Revision to the conversion price	In and after July 2021, upward/downward revisions possible annually based on the stock price	In and after July 2024, upward/downward revisions possible annually based on the stock price	Upward/downward revisions possible annually based on the stock price
Lower limit of the conversion price	50% of the initial conversion price	50% of the initial conversion price	50% of the initial conversion price
Upper limit of the conversion price	200% of the initial conversion price	200% of the initial conversion price	None
Mandatory conversion right	Conversion to common stock	Conversion to common stock	Conversion to common stock
Date of conversion	A date to be determined by a Board of Directors meeting on and after the last day of the conversion claimable period (June 2035)	A date to be determined by a Board of Directors meeting on and after the last day of the conversion claimable period (June 2038)	A date to be determined by a Board of Directors meeting in the 37th year after the issuance or later
Conversion price	The average for 30 transaction days reckoning from the 45th transaction day prior to the date of conversion (provided lower limit to be ¥500)	The average for 30 transaction days reckoning from the 45th transaction day prior to the date of conversion (provided lower limit to be ¥500)	The average for 30 transaction days reckoning from the 45th transaction day prior to the date of conversion (provided lower limit to be ¥500)
Distribution of residual property	Nonparticipating with the issue value as the upper limit	Nonparticipating with the issue value as the upper limit	Nonparticipating with the issue value as the upper limit
Voting rights	None (Provided, however, that they would be automatically granted if unappropriated retained earnings for the year exceed ¥20.0 billion for the fiscal year ending March 2007 or later, plus when the distribution of the preferred dividend is ascertained to be impossible)	None (Provided, however, that they would be automatically granted if unappropriated retained earnings for the year exceed ¥20.0 billion for the fiscal year ending March 2007 or later, plus when the distribution of the preferred dividend is ascertained to be impossible)	None (Except for the cases provided for by laws)

Note: The description of Class B-3 and B-4 presupposed that the reverse split come into effect.

The Company's retained earnings consist of unappropriated retained earnings and legal reserves required by the Commercial Code of Japan. The retained earnings accumulated by the Company are initially recorded as unappropriated retained earnings and later transferred to legal reserve upon approval at the shareholders' meeting.

Under the Commercial Code of Japan, the Company is permitted to use additional paid-in capital and legal reserve to eliminate or reduce a deficit upon approval at the shareholders' meeting.

Under the Commercial Code of Japan, the appropriation of retained earnings for a fiscal year is made by resolution of shareholders at a general meeting to be held within three months after the balance sheet date, and accordingly such appropriations are recorded at the time of resolution. The Company may pay interim dividends by resolution of the board of directors once during each fiscal year in accordance with the Commercial Code of Japan and the Company's Articles of Incorporation.

There were 65,149,000 shares and 1,622,000 shares of treasury stock as at March 31, 2005 and 2006, respectively.

11. Details of gains on sales of property, plant and equipment:

The following are the elements of "Gains on sales of property, plant and equipment" for the years ended March 31, 2005 and 2006:

Year ended March 31	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Buildings	¥ 27	¥ 0	\$ 226
Other property and equipment	1	3	12
Land	256	4	2,178
Other fixed assets	0	7	3
Total	¥284	¥14	\$2,419

12. Details of losses on disposal of property, plant and equipment:

The following are the elements of "Losses on disposal of property, plant and equipment" for the years ended March 31, 2005 and 2006:

Year ended March 31	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Buildings	¥450	¥1,105	\$3,828
Other property and equipment	38	395	320
Land	14	7,029	122
Other fixed assets	128	460	1,089
Total	¥630	¥8,989	\$5,359

13. Details of losses on write-down of property, plant and equipment:

The following are the elements of “Losses on write-down of property, plant and equipment” for the years ended March 31, 2005 and 2006:

Year ended March 31	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Buildings	¥—	¥ 7,713	\$—
Other property and equipment	—	9	—
Land	—	61,270	—
Other fixed assets	—	1,075	—
Total	¥—	¥70,067	\$—

14. Net income per share:

Calculation of net income per share for the years ended March 31, 2005 and 2006, were as follows:

Year ended March 31	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Net income (loss) attributable to common shares	¥124,358	(¥204,422)	\$1,058,633
Less: Bonuses to directors and statutory auditors	(—)	(—)	(—)
	¥124,358	(¥204,422)	\$1,058,633
Weighted average number of common shares outstanding:			
—Basic	32,259,097	204,973,939	
—Diluted	57,699,202		
Net income (loss) per share:			
—Basic	¥3,854.96	(¥997.31)	\$32.82
—Diluted	¥2,155.27	—	\$18.35

Information regarding net loss per dilutive potential share is omitted in consolidated financial reports for the year ended March 31, 2005.

The company effected 1-for-10 reverse stock split of its shares of common stock. If the stock split had gone into effect at the beginning of the year ended March 31, 2006, net loss per share would have been ¥9,973.08 (\$84.90). Information regarding net loss per dilutive potential share is omitted in consolidated financial reports for the year ended March 31, 2006.

15. Income taxes:

Misawa Homes is subject to a number of different income taxes, which, in the aggregate, resulted in a statutory income tax rate in Japan of approximately 40.7% for the year ended March 31, 2005 and 2006.

The significant components of deferred tax assets and liabilities at March 31, 2005 and 2006, were as follows:

March 31	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Deferred tax assets:			
Property, plant and equipment and intangible assets	¥ —	¥ 6,730	\$ —
Devaluation of inventories	3,630	23,980	30,900
Devaluation of property, plant and equipment	—	40,754	—
Net operating tax loss carry-forwards	122,846	70,517	1,045,761
Allowance for doubtful accounts	—	14,459	—
Others	11,559	13,210	98,407
Gross deferred tax assets	138,035	169,650	1,175,068
Less: valuation allowance	(106,840)	(138,021)	(909,512)
Total deferred tax assets	31,195	31,629	265,556
Deferred tax liabilities:			
Net unrealized gains on other securities	(1,412)	(1,226)	(12,018)
Others	(70)	(24)	(598)
Gross deferred tax liabilities	(1,482)	(1,250)	(12,616)
Net deferred tax assets	¥ 29,713	¥ 30,379	\$ 252,940

The valuation allowance was established mainly against deferred tax assets on future tax-deductible temporary differences and operating tax loss carry-forwards of certain subsidiaries as it is more likely than not that these deferred tax assets will not be realized within the foreseeable future. The net change in the total valuation allowance for the year ended March 31, 2006 was a decrease of ¥31,181 million (\$265,434 thousand).

The differences between Misawa Homes' statutory income tax rate and the income tax rate reflected in the consolidated statements of income were reconciled as follows:

March 31	2006
Statutory income tax rate	40.7%
Reconciliation:	
Changes in valuation allowance	(44.4)
Entertainment expenses, etc. permanently non-tax deductible	0.2
Per capital inhabitant tax	0.2
Consolidation adjustment	2.9
Others	0.1
Income tax rate per statements of income	(0.3)%

The reconciliation between the effective tax rate and the statutory tax rate has been omitted for the year ended March 31, 2005 because of net loss before income taxes and minority interest.

16. Research and development costs:

Research and development costs, which are included in selling, general and administrative expenses, were ¥2,118 million and ¥2,276 million (\$19,372 thousand) for the years ended March 31, 2005 and 2006, respectively.

17. Cash flow information:

Cash and cash equivalents at March 31, 2005 and 2006, were composed of the following:

March 31	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Cash and deposits	¥40,906	¥57,342	\$348,228
Less:			
Time deposits due over three months	(940)	(1,405)	(8,009)
Cash and cash equivalents	¥39,966	¥55,937	\$340,219

18. Leases:

As described in Note 2 (15) Misawa Homes, as a lessee, charges periodic capital lease payments to expense when paid. Such payments for the years ended March 31, 2005 and 2006, amounted to ¥2,609 million and ¥1,992 million (\$16,958 thousand), respectively.

If capital leases that do not transfer the ownership of the assets to the lessee at the end of the lease term were capitalized, the capital lease assets at March 31, 2005 and 2006, would have been as follows:

March 31	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Acquisition cost:			
Buildings and structures	¥4,699	¥5,612	\$40,002
Machinery and equipment	320	760	2,722
Other property, plant and equipment	2,896	3,180	24,653
Other intangible assets	435	784	3,703
	8,350	10,336	71,080
Less:			
Accumulated depreciation	(3,889)	(6,933)	(33,103)
	(3,889)	(6,933)	(33,103)
Net book value	¥4,461	¥3,403	\$37,977

Depreciation expenses for these leased assets for the years ended March 31, 2005 and 2006, would have been ¥2,471 million and ¥1,878 million (\$15,983 thousand), respectively, if they were computed in accordance with the straight-line method over the periods of these capital leases, assuming no residual value.

Interest expense for these capital leases for the years ended March 31, 2005 and 2006, would have been ¥116 million and ¥116 million (\$986 thousand), respectively.

Impairment loss for these capital leases was ¥221 million (\$1,880 thousand) for the year ended March 31, 2006.

Future lease payments for capital leases at March 31, 2005 and 2006, were as follows:

March 31	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Future lease payments			
Due within one year	¥1,689	¥1,650	\$14,376
Due after one year	2,761	1,826	23,507
Total	¥4,450	¥3,476	\$37,883

Future lease payments for non-cancelable operating leases as a lessee at March 31, 2005 and 2006, were as follows:

March 31	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Future lease payments			
Due within one year	¥ 585	¥ 630	\$ 4,978
Due after one year	4,111	2,910	34,997
Total	¥4,696	¥3,540	\$39,975

19. Commitments and contingent liabilities:

Contingent liabilities for guarantees of bank loans of a third party at March 31, 2005 and 2006, were ¥29,448 million and ¥46,296 million (\$394,107 thousand), and guarantees of bank loans to non-consolidated parties at March 31, 2005 and 2006, were ¥1,380 million and nothing, respectively. Furthermore, the amount of discounted notes at March 31, 2005 and 2006, were ¥1,465 million and nothing, and the amount of trade notes endorsed at March 31, 2005 and 2006, were nothing and ¥50 million (\$424 thousand), respectively.

20. Related party transactions:

There were no material related party transactions for the years ended March 31, 2005 and 2006.

21. Segment information:

(1) Business segments

Information regarding business segments is omitted in consolidated financial reports for the years ended March 31, 2005 and 2006, because sales, operating income and total assets in the residential segment are more than 90% in all business segments.

(2) Geographical segments

Information regarding geographical areas is omitted for the years ended March 31, 2005 and 2006, because sales and total assets in the Japan area are more than 90% in all geographical areas.

(3) Overseas sales

Information regarding overseas sales is omitted for the years ended March 31, 2005 and 2006, because overseas sales represents less than 10% of total sales.

22. Subsequent event:

At the Board of Directors meeting held on May 12, 2006, a resolution was approved to accept allocation of new stock to a third party and purchase the stock of Tohoku Misawa Homes Co., Ltd., which is a company subject to the equity method, with the aim of strengthening consolidated management.

With these acquisitions, Tohoku Misawa Homes Co., Ltd., will become a consolidated subsidiary of the Company.

Name of company whose shares are to be acquired:	Tohoku Misawa Homes Co., Ltd.
Main lines of business:	Construction and sale of prefabricated homes
Capital:	¥3,761 million (\$32,022 thousand)
Consolidates sales:	¥26,770 million (period ending March 2006)
Number of shares to be acquired:	2,079,000
Acquisition price:	¥999 million (\$8,513 thousand)
Percentage of voting shares after acquisition:	52.3%
Stock payment date/proposed purchase date:	May 29, 2006

23. Appropriation of retained earnings:

The following appropriations of retained earnings, which have not been reflected in the accompanying financial statements for the year ended March 31, 2006, were approved at a shareholders' meeting held on June 29, 2006:

	Millions of yen	Thousands of U.S. dollars (Note 3)
Loss for the year	¥54,143	\$460,910
Amount of loss:		
Reversal of other capital reserves	44,776	381,167
Reversal of capital reserve	9,367	79,743
Total appropriations	54,143	460,910
Loss brought forward to the next year	¥ —	\$ —

Report of Independent Auditors

ChuoAoyama PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS 

Kasumigaseki Bldg. 32nd Floor
3-2-5, Kasumigaseki, Chiyoda-ku,
Tokyo 100-6088, Japan

Report of Independent Auditors

To the Board of Directors and Shareholders of Misawa Homes Holdings, Inc.

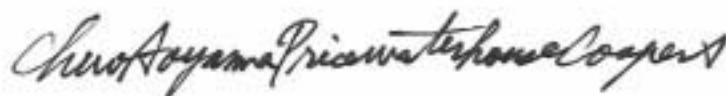
We have audited the accompanying consolidated balance sheets of Misawa Homes Holdings, Inc. and its subsidiaries as of March 31, 2005 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 Misawa Homes Holdings Incorporated and its subsidiaries as of March 31, 2005 and 2006, 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.

As described in Note 22, the Company acquired shares of Tohoku Misawa Homes Co., Ltd.

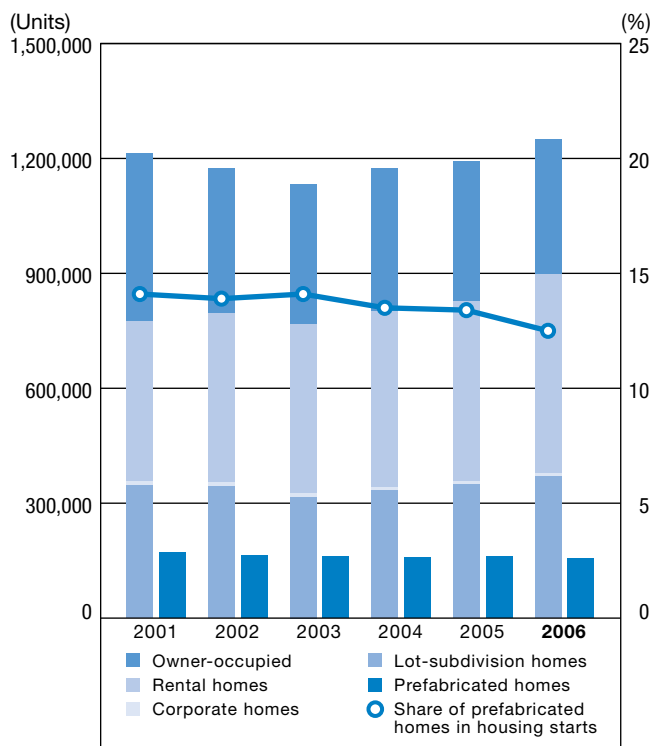
The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the accompanying consolidated financial statements.



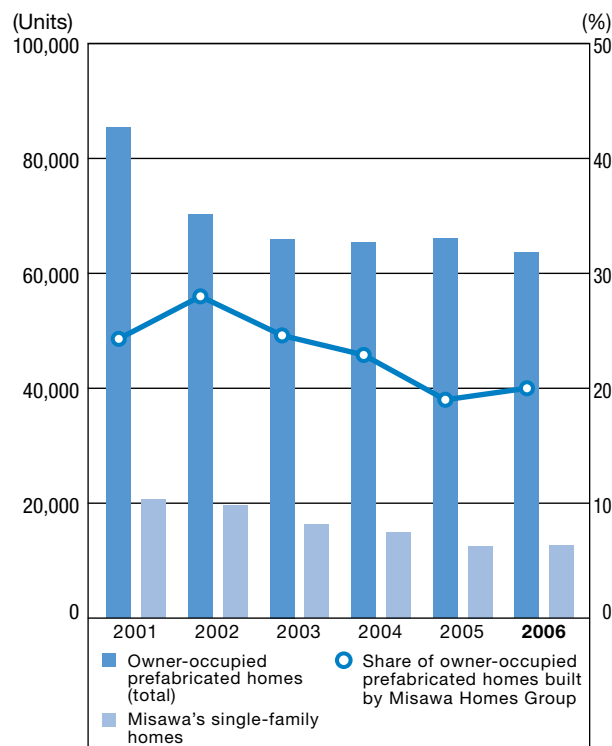
ChuoAoyama PricewaterhouseCoopers
Tokyo, Japan
June 29, 2006

Trends in the Housing Market

New Housing Starts by Usage



Owner-Occupied Prefabricated Home Construction



New Housing Starts by Usage

Years ended March 31	2001		2002		2003		2004		2005		(Units, %) 2006	
Owner-occupied homes	437,789	36.1	377,066	32.1	365,507	31.9	373,015	31.8	367,233	30.8	352,470	28.2
Rental homes	418,200	34.5	442,250	37.7	454,505	39.7	458,708	39.1	467,348	39.2	517,667	41.5
Corporate homes	10,846	0.9	9,936	0.8	9,539	0.8	8,101	0.7	9,413	0.8	8,515	0.7
Lot-subdivision homes	346,322	28.5	343,918	29.3	316,002	27.6	333,825	28.4	349,044	29.3	370,155	29.6
Total	1,213,157	100.0	1,173,170	100.0	1,145,553	100.0	1,173,649	100.0	1,193,038	100.0	1,248,807	100.0

Prefabricated Home Construction

Years ended March 31	2001		2002		2003		2004		2005		(Units, %) 2006	
Prefabricated homes	171,310	14.1	162,560	13.9	161,728	14.1	158,929	13.5	159,945	13.4	156,581	12.5
Housing starts (total)	1,213,157	100.0	1,173,170	100.0	1,145,553	100.0	1,173,649	100.0	1,193,038	100.0	1,248,807	100.0

Owner-Occupied Prefabricated Home Construction

Years ended March 31	2001		2002		2003		2004		2005		(Units, %) 2006	
Misawa's single-family homes*	20,710	24.3	19,662	28.0	16,240	24.6	14,981	22.9	12,534	19.0	12,700	20.0
Owner-occupied prefabricated homes (total)	85,378	100.0	70,192	100.0	65,974	100.0	65,353	100.0	66,129	100.0	63,565	100.0

*Home orders at the dealer stage

Source: Dwelling Construction Statistics, Ministry of Land, Infrastructure and Transport

Subsidiaries and Affiliated Company (As of March 31, 2006)

Company	Address	Capitalization (Millions of yen)	Percentage of Voting Rights Owned by Misawa Homes Holdings (%)	Primary Business
Consolidated subsidiaries:				
Misawa Homes Co., Ltd.	Suginami-ku, Tokyo	24,000	100.0	Development of manufactured homes, provision of materials for manufactured homes
Misawa Homes Hokkaido Co., Ltd.	Sapporo, Hokkaido Prefecture	988	75.3 (13.2)	Construction and sales of manufactured homes
Misawa Homes Kitanihon Co., Ltd.	Akita, Akita Prefecture	430	78.4 (2.8)	Construction and sales of manufactured homes
Misawa Homes Nishikanto Co., Ltd.	Saitama, Saitama Prefecture	450	100.0	Construction and sales of manufactured homes
Misawa Homes Higashikanto Co., Ltd.	Chiba, Chiba Prefecture	475	100.0	Construction and sales of manufactured homes
Misawa Homes Tokyo Co., Ltd.	Suginami-ku, Tokyo	2,234	100.0	Construction and sales of manufactured homes
Misawa Homes Shin-etsu Co., Ltd.	Niigata, Niigata Prefecture	537	99.9	Construction and sales of manufactured homes
Misawa Homes Tokai Co., Ltd.	Nagoya, Aichi Prefecture	450	100.0	Construction and sales of manufactured homes
Misawa Homes Kinki Co., Ltd.	Osaka, Osaka Prefecture	490	100.0	Construction and sales of manufactured homes
Misawa Homes San-in Co., Ltd.	Tottori, Tottori Prefecture	444	52.6 (12.8)	Construction and sales of manufactured homes
Misawa Homes Chugoku Co., Ltd.	Hiroshima, Hiroshima Prefecture	1,369	78.4 (1.8)	Construction and sales of manufactured homes
Misawa Homes Kyushu Co., Ltd.	Fukuoka, Fukuoka Prefecture	662	71.5 (11.6)	Construction and sales of manufactured homes
Misawa Techno Co., Ltd.	Matsumoto, Nagano Prefecture	50	100.0 (100.0)	Manufacture of home materials
37 others				

Affiliated company accounted for under the equity method:

Tohoku Misawa Homes Co., Ltd.	Sendai, Miyagi Prefecture	3,761	46.1 (18.8)	Construction and sales of manufactured homes
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Other affiliated company:

Nomura Holdings, Inc.	Chuo-ku, Tokyo	182,800	[15.5] [(15.4)]	Securities operations
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Notes: (1) Voting rights figures in parentheses, (), indicate indirect holdings.

(2) Square brackets, [], indicate holdings in Misawa Homes.

Corporate Data (As of March 31, 2006)

Corporate Name: Misawa Homes Holdings, Inc.

Headquarters: 2-4-1 Nishi-Shinjuku, Shinjuku-ku, Tokyo 163-0850, Japan

Established: August 1, 2003

Paid-in Capital: ¥23,413 million

Directors, Executive Officers and Corporate Auditors (As of June 29, 2006)

Directors

Kazuo Mizutani*¹
Masahiro Nakagami*¹
Haruo Sato
Hitoshi Nishihira
Michimasa Taga
Hiroomi Tanaka
Teiji Tachibana
Yasuo Miyawaki

Corporate Auditors

Masakazu Miyamori*²
Takayuki Kodama*²
Shuntaro Moritani
Tsukasa Yorifuji

Executive Officers

Kazuo Mizutani*³
Masahiro Nakagami*⁴
Haruo Sato*⁴
Takeo Tokai*⁵
Hitoshi Nishihira*⁵
Tetsuo Akamatsu
Michimasa Taga
Nobuo Takenaka
Hiromi Usui
Hiroomi Tanaka
Hideki Shimomura
Hiroshi Sakaguchi
Tetsuya Sakuo
Youichiro Dohkan

*1. Representative Director
*2. Standing Corporate Auditor
*3. Chief Executive Officer
*4. Senior Executive Officer
*5. Managing Executive Officer

Share Information

	Shares
Total number of shares authorized	280,000,000
Common stock	231,660,000
Class B preferred stock	45,000,000
Class C preferred stock	3,340,000
Total number of shares issued	87,071,527
Common stock	38,738,914
Third issue of Class B preferred stock	3,333,280
Fourth issue of Class B preferred stock	41,666,000
First issue of Class C preferred stock	3,333,333
Number of shareholders	
Common stock	17,132
Class B preferred stock	1
Class C preferred stock	1

Note: At the ordinary general meeting of shareholders on June 29, 2006, it was resolved to declare a 1:10 reverse split on Class B preferred stock, effective July 18, 2006.

Principal Shareholders	Number of shares held (Thousands)	Equity position (%)
NPF-MG Investment Limited Partnership	5,593	14.4
Toyota Motor Corporation	5,191	13.4
Aioi Insurance Co., Ltd.	2,458	6.3
Morgan Stanley & Co. Inc.	2,238	5.7
The Master Trust Bank of Japan, Ltd. (Trust A/C)	1,959	5.0
Japan Trustee Services Bank, Ltd. (Trust A/C)	1,527	3.9
JP Morgan Chase Bank	909	2.3
State Street Bank and Trust Company	907	2.3
I.L.S. Co., Ltd.	826	2.1
Misawa Capital Co., Ltd.	734	1.8

Custodian of shareholders' register: Mitsubishi UFJ Trust and Banking Corporation
4-5 Marunouchi 1-chome, Chiyoda-ku, Tokyo

