

Correction

*The underlined parts are correction.

Page 2, Financial Highlights

(Present)

Years ended March 31, 2006 and 2005	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
For the Year:			
Net Sales	¥ <u>384,645</u>	¥ 390,044	\$ <u>3,724,411</u>
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.

(Correct)

Years ended March 31, 2006 and 2005	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
For the Year:			
Net Sales	¥ <u>383,941</u>	¥ <u>389,595</u>	\$ <u>3,268,420</u>
Operating Income	17,882	18,861	152,227
Income (Loss) before Income Taxes and Minority Interests	123,827	(175,916)	1,054,119
Net Income	124,024	(203,252)	1,055,796

At Year-End:

Total Assets	¥ <u>224,469</u>	¥ <u>264,382</u>	\$ <u>1,910,864</u>
Total Shareholders' Equity	22,442	(163,844)	191,049

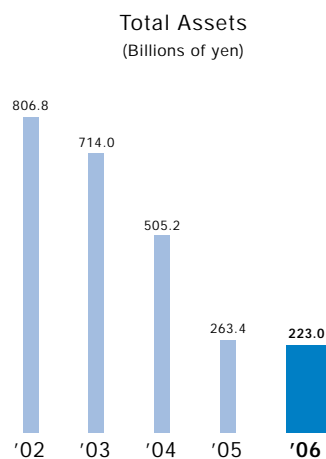
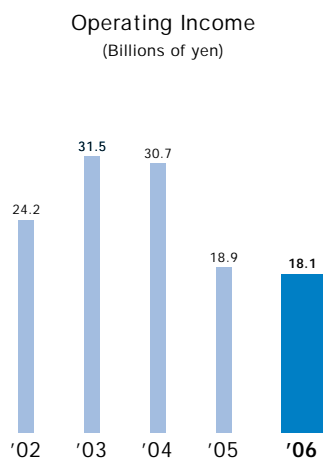
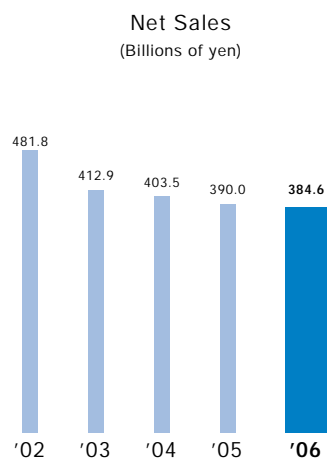
Per Share Amounts (yen):

Net Income (Loss)	¥ <u>3,844.63</u>	¥ <u>(996.92)</u>	\$ <u>32.73</u>
Shareholders' Equity	(661.61)	(1,558.80)	(5.63)

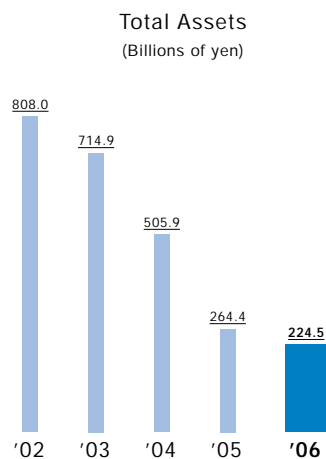
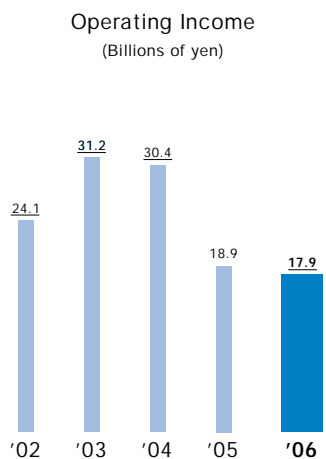
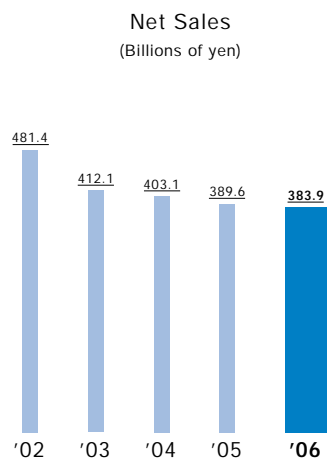
Note: U.S. dollar amounts are translated from yen at the rate of ¥117.47 = U.S.\$1, the approximate rate of exchange on March 31, 2006.

Page 2, Financial Highlights

(Present)



(Correct)



(Present)

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 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.

(Correct)

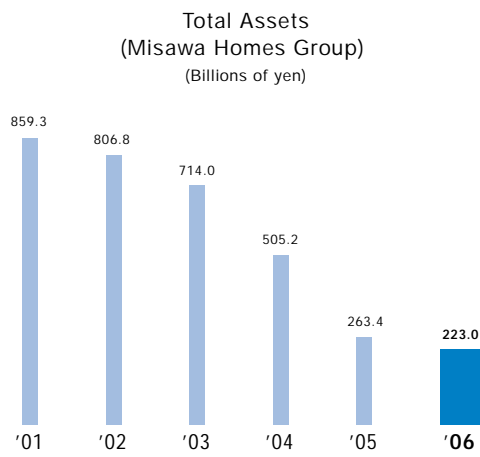
Overview of Recent Events

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.

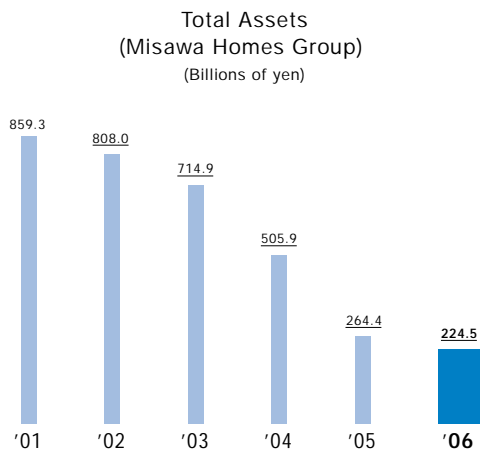
In the fiscal year ended March 31, 2006, we received support from financial institutions totaling ¥133.3 billion. We increased capital through a third-party allocation of new shares to Toyota Motor Corporation and two other companies, and sold approximately 5 million shares of treasury stock. As a result, as of September 2005 we had cleared away 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 ¥224.5 billion as of March 31, 2006.

During the fiscal year, net sales were ¥383.9 billion, down 1.5% from the preceding term. Net sales from core businesses, however, expanded ¥5.9 billion from the previous term, to ¥380.6 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.

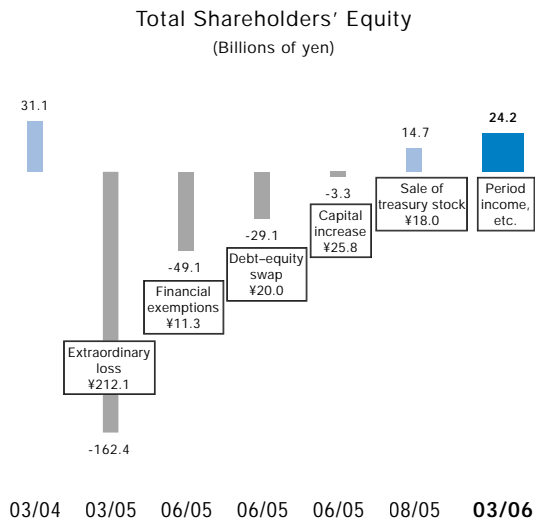
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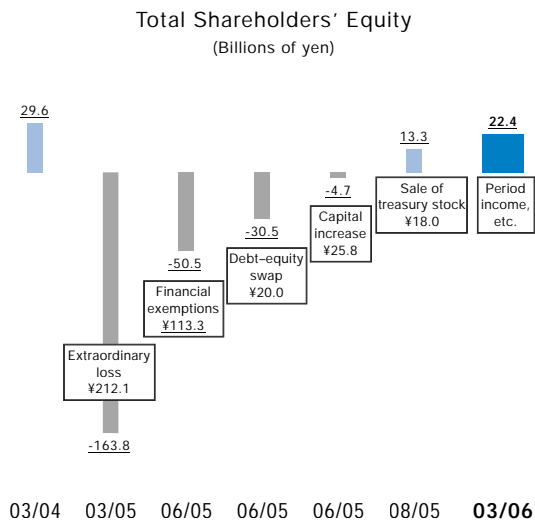


(Present)



■ Core businesses
■ Non-core businesses

(Correct)



■ Core businesses
■ Non-core businesses

Financial Section

Page 21, Consolidated Six-Year Summary

(Present)

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.

(Correct)

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	¥ 383,941	¥ 389,595	¥ 403,127	¥ 412,121	¥ 481,419	¥ 529,052	\$ 3,268,420
Cost of Sales	286,703	289,192	289,030	288,087	350,684	381,244	2,440,646
Gross Profit	97,238	100,403	114,097	124,034	130,735	147,808	827,774
Selling, General and Administrative Expenses	79,356	81,542	83,733	92,841	106,665	119,509	675,547
Operating Income	17,882	18,861	30,364	31,193	24,070	28,299	152,227
Income (Loss) before Income Taxes and Minority Interests	123,827	(175,916)	(128,810)	6,517	(48,446)	7,985	1,054,119
Net Income	124,024	(203,252)	(129,134)	2,020	(19,166)	2,514	1,055,796

At Year-End:

Total Assets	¥ 224,469	¥ 264,382	¥ 505,906	¥ 714,915	¥ 808,042	¥ 859,318	\$ 1,910,864
Total Shareholders' Equity	22,442	(163,844)	29,555	55,041	53,282	40,104	191,049

Per Share Amounts (yen):

Net Income (Loss)	¥ 3,844.63	¥ (996.92)	¥ (695.12)	¥ 5.00	¥ (144.42)	¥ 19.40	\$ 32.73
Shareholders' Equity	(661.61)	(1,558.80)	(525.59)	(107.43)	108.05	309.52	(5.63)

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

Page 22, Sales

(Present)

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.

(Correct)

Sales

During the year, net sales decreased 1.5%, to ¥383,941 million. Of this amount, sales from our core housing and renovation businesses expanded 1.6%, to ¥380,582 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 3.2%, to ¥97,238 million.

Operating Income

Page 22, Operating Income

(Present)

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.

(Correct)

Operating Income

Selling, general and administrative expenses fell 2.7%, to ¥79,356 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 5.2%, to ¥17,882 million.

Page 22, Income before Income Taxes and Minority Interest

(Present)

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 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.

(Correct)

Income before Income Taxes and Minority Interest

During the year, income before income taxes and minority interest was ¥123,827 million, a ¥299,743 million improvement from the loss recorded in the preceding term. Although we posted a ¥1,907 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.

Page 23, Net Income

(Present)

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.

(Correct)

Net Income

During the fiscal year ended March 31, 2006, income taxes declined ¥29,998. As a result, net income was ¥124,024 million, a ¥327,276 million improvement from the previous year's net loss.

Page 23, Financial Position

(Present)

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.

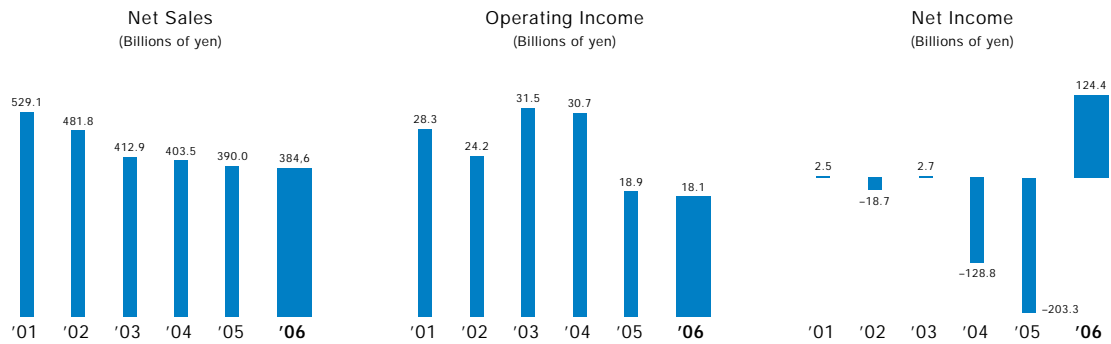
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Financial Position

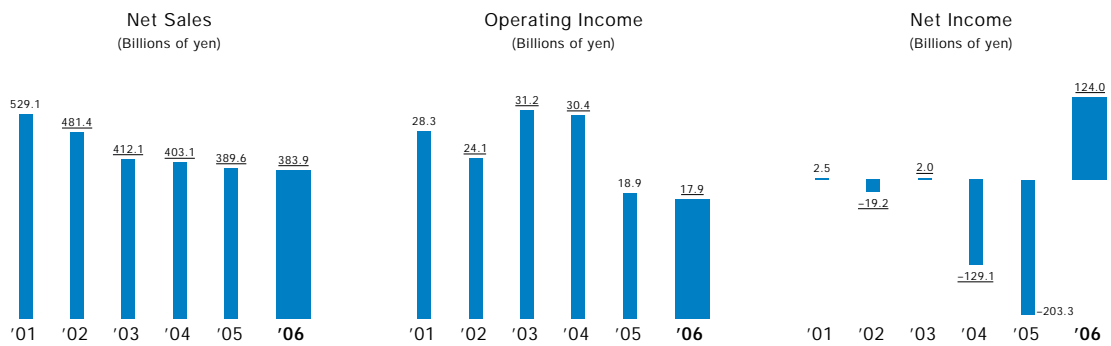
As of March 31, 2006, total assets were ¥224,469 million, down ¥39,913 million from one year earlier. The main reason for this decline was the disposal of assets from non-core businesses and the drawdown of cash and deposits to pay off interest-bearing debt. As of March 31, 2006, interest-bearing debt was ¥58,730 million, down ¥203,921 million from one year earlier.

Page 22, Financial Review

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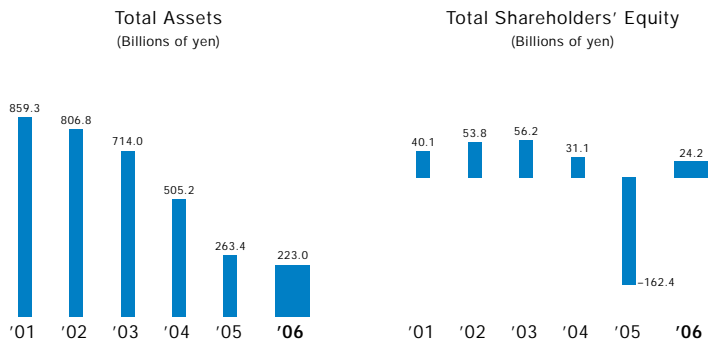


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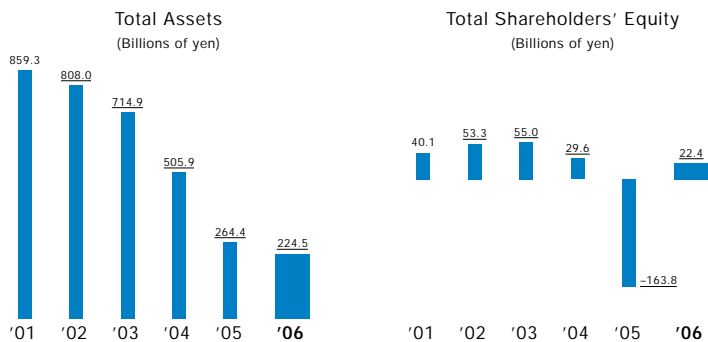


Page 23, Financial Review

(Present)



(Correct)



(Present)

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.

(Correct)

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	<u>15,328</u>	<u>14,221</u>	<u>130,480</u>
Inventories	<u>65,330</u>	<u>70,435</u>	<u>556,144</u>
Deferred income taxes (Note 15)	<u>7,066</u>	<u>7,352</u>	<u>60,150</u>
Other current assets	<u>7,570</u>	<u>9,543</u>	<u>64,442</u>
Allowance for doubtful accounts	(1,208)	(1,538)	(10,280)
Total current assets	<u>134,992</u>	<u>157,355</u>	<u>1,149,164</u>
Property, plant and equipment:			
Buildings and structures	<u>28,883</u>	32,820	<u>245,881</u>
Machinery and equipment	14,947	16,842	127,244
Land	<u>24,917</u>	32,654	<u>212,117</u>
Other	5,982	8,229	50,914
	<u>74,729</u>	90,545	<u>636,156</u>
Accumulated depreciation	(30,090)	(34,478)	(256,152)
	<u>44,639</u>	56,067	<u>380,004</u>
Intangible assets:			
Goodwill	320	349	2,723
Other	5,710	6,204	48,613
	6,030	6,553	51,336
Investments and other assets:			
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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	<u>¥224,469</u>	<u>¥264,382</u>	<u>\$1,910,864</u>

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

(Present)

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.

(Correct)

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	54,258	45,442	461,884
Accounts payable, other	8,256	21,432	70,284
Accrued bonuses	5,188	4,480	44,163
Allowance for claim expenses	2,272	2,005	19,349
Allowance for loss on repurchase of land	—	4,516	—
Advance received on uncompleted contracts	31,507	26,781	268,210
Deposits received (Note 8)	18,156	29,361	154,559
Other current liabilities	4,664	8,895	39,702
Total current liabilities	157,211	375,191	1,338,307
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)	215	517	1,834
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	42,115	50,477	358,518
Minority interest in subsidiaries	2,701	2,558	22,990
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)	(68,744)	(210,147)	(585,205)
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	22,442	(163,844)	191,049
Commitments and contingent liabilities (Note 19)			
Total liabilities and shareholders' equity	¥224,469	¥264,382	\$1,910,864

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

(Present)

	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
		Yen	U.S. dollars
Per share:			
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.

(Correct)

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Net sales	¥ 383,941	¥ 389,595	\$3,268,420
Cost of sales	286,703	289,192	2,440,646
Gross profit	97,238	100,403	827,774
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	1,717	471	14,624
Accrued bonuses to employees	4,344	4,105	36,981
Depreciation expenses	3,181	3,726	27,080
Other selling expenses	5,261	5,921	44,786
Other general and administrative expenses	12,120	14,525	103,172
	79,356	81,542	675,547
Operating income	17,882	18,861	152,227
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	14,565	11,464	123,988
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)	1,907	—	16,231
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
	6,284	212,169	53,491
Income (loss) before income taxes and minority interest	123,827	(175,916)	1,054,119
Income taxes:			
Current	446	651	3,797
Deferred	(805)	28,988	(6,853)
	(359)	29,639	(3,056)
Income (loss) before minority interest	124,186	(205,555)	1,057,175
Minority interest in subsidiaries	162	(2,303)	1,379
Net income (loss) (Note 15)	¥ 124,024	(¥203,252)	\$1,055,796
		Yen	U.S. dollars
Per share:			
Net income (loss) (Note 15)—Basic	¥3,844.63	(¥ 996.92)	\$ 32.73
—Diluted	¥2,149.50	—	\$ 18.30

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

Page 27, Consolidated Statements of Shareholders' Equity

(Present)

	Millions of yen									
	Number of shares issued	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, 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	—	—	—	—	—	(1,634)	—	—	—	(1,634)
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.

(Correct)

	Millions of yen								
	Number of shares issued	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, 2004	477,006,146	¥80,749	¥98,357	(¥152,879)	¥2,569	¥3,461	(¥2,308)	(¥ 394)	¥ 29,555
Net loss	—	—	—	(203,252)	—	—	—	—	(203,252)
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	(210,147)	3,420	1,827	77	(4,838)	(163,844)
Net income	—	—	—	124,024	—	—	—	—	124,024
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	(¥ 68,744)	¥2,178	¥2,009	¥ 89	(¥4,192)	¥ 22,442

	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	(\$1,788,948)	\$29,117	\$15,555	\$655	(\$41,188)	(\$1,394,776)	
Net income	—	—	1,055,796	—	—	—	—	1,055,796	
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	(\$ 585,205)	\$18,545	\$17,106	\$759	(\$35,688)	\$ 191,049	

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

(Present)

	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.

(Correct)

	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	¥ 123,827	(¥175,916)	\$1,054,119
Adjustments for:			
Depreciation and amortization	4,907	6,336	41,776
Amortization and write-off of goodwill	56	16,514	476
Decrease in allowance for doubtful accounts	(1,769)	(59,940)	(15,056)
Increase (decrease) in other allowances	1,041	(1,859)	8,862
Interest and dividend income	(185)	(91)	(1,572)
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Gain on sale of investment securities	(777)	(2,055)	(6,613)
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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	—	4,794	—
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	(3,201)	5,395	(27,248)
Decrease in inventories	3,935	42,759	33,496
Increase (decrease) in notes and accounts payable, trade	9,378	(4,337)	79,834
Other	(3,592)	69,492	(30,584)
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

Page 30, (7) Impairment of fixed assets

(Present)

(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.

(Correct)

(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 ¥1,907 million (\$16,231 thousand) for the year ended March 31, 2006.

Page 34, 6. Impairment loss on fixed assets:

(Present)

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.

(Correct)

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 ¥1,907 million (\$16,231 thousand) of which buildings and structures for ¥426 million (\$3,626 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 ¥1,136 million (\$9,672 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.

Page 35-36, 7. Short-term bank loans and long-term debt:

(Present)

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

(Correct)

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	<u>7,002</u>	13,275	<u>59,603</u>
Other current assets	6	346	51
Buildings and structures	<u>1,276</u>	9,062	<u>10,864</u>
Machinery and equipment	—	838	—
Land	<u>6,139</u>	27,755	<u>52,258</u>
Other intangible assets	—	153	—
Investment securities	394	6,902	3,357
Other assets	—	863	—
Total	¥14,817	¥59,337	\$126,133

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

Page 41, 14. Net income per share:

(Present)

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.

(Correct)

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	¥ 124,024	(¥204,342)	\$1,055,796
Less: Bonuses to directors and statutory auditors	(—)	(—)	(—)
	¥ 124,024	(¥204,342)	\$1,055,796
Weighted average number of common shares outstanding:			
—Basic	32,259,097	204,973,939	
—Diluted	57,699,202	—	
Net income (loss) per share:			
—Basic	¥3,844.63	(¥ 996.92)	\$ 32.73
—Diluted	¥2,149.50	—	\$ 18.30

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 ¥9,969.16 (\$84.87). Information regarding net loss per dilutive potential share is omitted in consolidated financial reports for the year ended March 31, 2006.

Page 42, 15. Income taxes:

(Present)

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)%

(Correct)

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	<u>11,648</u>	<u>13,192</u>	<u>99,152</u>
Gross deferred tax assets	<u>138,124</u>	<u>169,632</u>	<u>1,175,813</u>
Less: valuation allowance	<u>(107,135)</u>	<u>(138,254)</u>	<u>(912,017)</u>
Total deferred tax assets	<u>30,989</u>	<u>31,378</u>	<u>263,796</u>
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	¥ <u>29,507</u>	¥ <u>30,128</u>	\$ <u>251,180</u>

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 ¥31,119 million (\$264,915 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	<u>(44.6)</u>
Entertainment expenses, etc. permanently non-tax deductible	0.2
Per capital inhabitant tax	0.2
Consolidation adjustment	2.9
Others	<u>0.3</u>
Income tax rate per statements of income	<u>(0.3)%</u>