ANNUAL REPORT 2004

For the year ended January 31,2004

Sekisui House,Ltd.

Our Corporate Profile

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

Contents

Financial Highlights

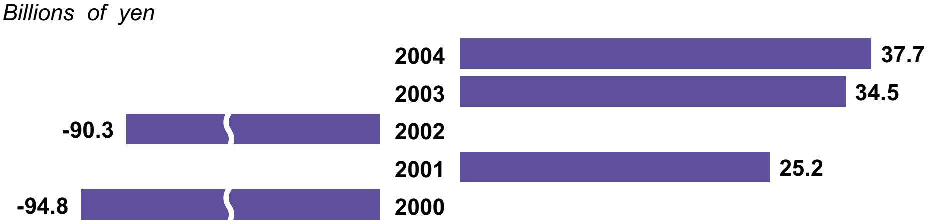
Sekisui House, Ltd. and Subsidiaries

	Millions of yen					Thousands of U.S. dollars
	2004	2003	2002	2001	2000	**2004**
For the year:						
Net sales	**¥ 1,326,039**	¥ 1,300,237	¥ 1,305,469	¥ 1,364,801	¥ 1,330,284	**$ 12,503,904**
Net income	**37,762**	34,547	(90,331)	25,167	(94,811)	**356,077**
At year ended						
Total assets	**1,181,013**	1,258,980	1,303,821	1,459,491	1,453,547	**11,136,379**
Shareholders' equity	**667,964**	645,702	626,463	741,216	723,860	**6,298,576**
	Yen					U.S. dollars
	2004	2003	2002	2001	2000	**2004**
Per share:						
Net income	**¥ 53.30**	¥ 48.71	¥ (125.11)	¥ 35.03	¥ (132.65)	**$ 0.50**
Cash dividends applicable to the year	**18.00**	18.00	18.00	20.00	18.00	**0.17**

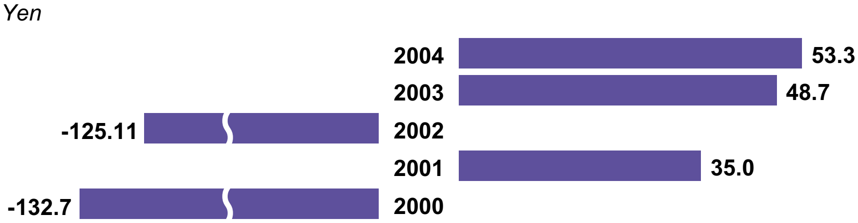
Note: U.S. dollar amounts above and elsewhere in this report represent translations of Japanese yen, for convenience only, at the approximate exchange rate of ¥106.05 = U.S. $1, effective at January 31, 2004.

Net sales
Billions of yen

Net income
Billions of yen



Net income per share
Yen



A Message From The President

During fiscal 2003 the Japanese economy reacted positively to a recovery in exports and personal consumption as well as improvement in corporate results. The Nikkei 225 stock index also regained the 10,000-point level reflecting improvement in some economic indicators. However, these were not enough to eliminate the underlying deflationary conditions, for example land prices, and economic recovery has not become firmly established.
New housing starts for calendar year 2003 exceeded those of the previous year for the first time in three years as uncertainty in regard to the extension of mortgage deductions as well as fears that interest rates may rise encouraged some last minute demand. However, while the owner-occupier market was supported to some extent by demand from first-time buyers, overall the market remained subdued as rebuilding etc. by existing owners was affected by concerns about employment and many other uncertainties. In the rental market demand in such as the Tokyo metoropolitan area showed further growth and this is expected to continue driven by the inflow of population. However, in provincial cities vacancies increased, rents declined and regional differences increased. On the other hand, built-for-sale homes market performed well supported by an increased demand of condominiums and of detached houses in major metropolitan areas.

In this environment we exerted all efforts to strengthen our sales efforts and provide customers with careful service and consultation in order to realize high customer satisfaction(CS). In our product strategy too, where we focused on medium to high end products, we greatly strengthened our design capabilities to respond to the needs of customers who are looking for homes with distinct individuality.
We also continued to reduce costs and strengthen our business base in all areas of the group in our pursuit of higher profits.
In addition, through our application for return of the proxy portion of our public pension fund and revision of the pension system, we acted to provide a cushion in respect of future increases in our obligations.

At our new *Heart-ful Living R&D Institute* we have developed specifications with pets '*DEAR ONE*' and for home theaters *'THEATER @ HOME'* and so greatly strengthened our lifestyle proposals. In addition, through proposals such as subdivision planning utilizing IT, high security homes and group homes focusing on homelines, we are pushing ahead to respond to the requirements of the times and expand our sales.
In December we introduced our earthquake-proofing home. This 'earthquake-proof' home supplements the safety features of existing earthquake-resistant homes with its ability to greatly reduce earthquake-induced oscillations.
Furthermore, in order to deepen promising customer understanding of our technological strengths, quality control and house building expertise, we have strengthened our sales and marketing activities through the use of our experiential exhibitions '*Nattoku Kobo Studio*' and '*Sumai no Yume Kojo*'.

In our detached house business we worked to raise product quality and act with full consideration for the environment. In August 2003 we led the industry as the airtight heat insulation of all our detached houses exceeded the highest government standards. Moreover, through our industry-leading interior air environment systems we focused on supplying the most appropriate, environmentally friendly housing.
Among the new products were two new types of steel-framed houses introduced in March 2003. '*Centrage Urbina*', which is based on a modern courtyard house theme, and '*Centrage älver*', a northern European style design on a close to nature theme.
In September, we introduced a roof tile type solar power system installed as standard on our Dyne concrete house '*Dyne's Value II*'. We also added '*M-Chantoa Value NEW*' featuring curved walls in a southern European style in our Sha-Wood line of wood framed houses in order to enhance the attractiveness of the line and increase the range of design choices. In the low-rise apartment market we introduced '*Dias Blanche-J*', a terrace house, '*Dias Palmo-S*' aimed at the city market and the three-story *'Bereo C3'*. In these ways we have made all efforts to broaden our product spread to raise asset value for our customers and respond to the varied requirements of the rental market.
We have also moved to respond to rising demand from the first-time buyer and rebuilding markets by a significant improvement in our designs for the mid-range market.

In our Real Estate Sales business we acquired prime residential land and aggressively promoted the sale of residences with land attached. We also created residential areas with individuality and high value added and as part of our efforts to raise the turnover ratio of our real estate for sale.
In our planning of land for sale in lots we are actively working to raise the attractions of our real estate under the themes of living in harmony with nature, from exteriors to all elements of the streets' appearance, and meeting rising concerns about crime through improved security and the use of IT.

In our Real Estate for Leasing business we strengthened our relationship with Sekiwa Real Estate Group that handle block leasing and strengthened our system of sales support to customers as we moved to raise group profits. We also started the *MAST Club* that rewards tenants with a point system through which we provide lifestyle-related services. Through this system we will increase the attractiveness of renting a *Sha maison* (our low rise apartment) unit as we seek to raise occupancy rates and strengthen our leasing brand.

As part of our promotion of customer service that provides customers with a secure and comfortable home we are actively promoting our ancillary businesses in home exteriors and remodeling as we strive to create an organization that can provide comprehensive and high quality residences.

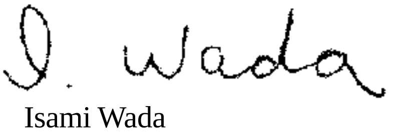
Result in Net sales reached ¥1,326,039 million ($12,503,904 thousand +2% Y/Y). By business segment, the Built-to-order housing managed to maintain its sales level and sales were ¥744,600 million ($7,021,216 thousand +0.5% Y/Y). In the Real estate for sale, a strong contribution from sales of detached houses and condominiums helped the segment to grow sales to ¥202,532 million ($1,909,779 thousand +6.5% Y/Y). While strong growth in business handled by Sekiwa Real Estate Group helped sales in the Real estate for leasing to grow to ¥250,633 million ($2,363,348 thousand +8.1% Y/Y). In the Other business, despite growth in the renovation business, weakness in the contract leasing business led to a decline in sales to ¥134,199 million ($1,265,431 thousand -5.9% Y/Y).
As a result of an improvement in profitability and our efforts to reduce costs operating income of 80,334 million ($757,511 thousand +10.4% Y/Y) and net income 37,762 million ($356,077 thousand +9.3% Y/Y) each showed improvement.

Amid a fluctuating economic environment we expect the outlook for housing investment to continue to be marked by an atmosphere of caution, and intense competition between companies is likely to spread.
On the other hand positive factors include an extension of mortgage deductions and an increasing desire among the younger generation to own their home. And our group intends to actively pursue its strategy based on the theme of "growth". In this respect our key challenge is to maximize growth in orders. To do this we must continuously introduce high quality products founded on strengthened sales capabilities, while also strengthening our Real Estate business by raising asset turnover and expanding housing sales.

Furthermore we will strive to enhance our business base through cost reductions and the efficient management of our assets. We will also seek to improve our business results by maximizing the mutual benefits of our close tie-ups with Sekiwa Real Estate Group and Sekiwa Constructions of our group companies.

We will also proactively address our ancillary businesses in home exteriors and remodeling and further sharpen the focus of the entire group on raising customer satisfaction. We also intend to firmly establish our corporate philosophy and management based on compliance.

Sekisui House has more than 40 years' history of growth and strong performance. In this era of technological progress, increasing environmental awareness, and persistent economic pressure we are working hard to create further value in Sekisui House. We look forward to your ongoing support.



Isami Wada
CEO / President

Sekisui House Topics

Environmental and Social Responsibility

In November 1999, Sekisui House, Ltd. announced an "Action Program for the Environment," which established an environmental philosophy and associated goals, and outlined its responsibilities both as the leading company in a housing industry of Japan and as a global citizen.

In the year to January 31, 2004, we deployed specific environmental conservation measures across the whole company based on this action program. The main measures are as follows:

Adopting next-generation energy saving specifications as standard

The consumption of energy by air conditioning accounts for the highest proportion (20%) of the CO_2 produced by a home. As a leading homebuilder, we believe that reducing this energy consumption is the most effective way to reduce CO_2 emissions consumed by a private sector, and so we are striving to improve home insulation. The insulation capabilities of contracts agreed since August are designed to exceed the highest energy savings requirements of the government's Next-Generation Heat Insulation Specification Energy Saving Standard, and we are the first company in the industry to apply this standard to all our detached houses. Under these insulation specifications, CO_2 consumption by the current average home can be reduced by 35%. We are also making every effort to improve insulation efficiency in our low-rise apartments and condominiums.

Adopting the industry's highest air quality levels as standard

We have long been involved in tackling the problem of sick building syndrome. In fiscal 2003, we were quick to respond to a tightening of regulations in the Building Standard Law relating to building materials. As a result of the revision that restricts the use of formaldehyde-emitting building materials, we apply the standard not only to interior finishing materials but also to materials used in garret beyond the range of the regulation. Sekisui House now apply the industry's highest air quality standards in all houses whose construction started on and after July 1 2003. Regarding ventilation systems that run 24 hours a day of which installation has been mandated, we have started to introduce advanced ventilation systems with higher energy efficiency.

Promoting sales of earthquake-proof homes

All our homes are constructed according to the highest levels of the government Housing Performance Indication System for earthquake resistance and durability, ensuring the safety and longevity of the building. We are also promoting the use of performance evaluation reports, which are based on this system, and some 86.8% of built-to-order homes were awarded these certificates in the second half of fiscal 2003, the highest in the industry. We place importance on extending the longevity of homes to reduce the environmental waste caused by the reconstruction of existing houses.

Moreover, in 2003 we advanced beyond the standard set by our earthquake-resistant homes by launching a new range of earthquake-proof homes that almost isolate homes from the oscillations produced by earthquakes. Following extensive research on earthquake-proof technology we constructed a real house that, in extensive tests, was found to reduce earthquake-induced building shaking by 90%. This confirmation of our technical success took place in spite of widespread assumptions in the industry that isolation technology, originally developed for multistory buildings, is not applicable for residential homes, and we expect it to greatly reduce the fear that many homeowners have of strong earthquakes.

We believe that in an earthquake-prone country such as Japan, we can benefit society by providing disaster-resistant homes that contribute significantly to improving residential infrastructure and reduce risks for our customers.

Resources recycling center opened for high quality recycling

The six factories where we make our building materials have high plant utilization rates, and in May 2002 we converted each of them to a zero-emission standard. Since then we have taken other steps towards our target of further increasing the quality of our recycling programs. As the first step we started operating a resource-recycling center at a plant in the Kanto Factory in 2003. Rather than simply handing all waste to recycling companies, we also utilize it in the construction processes at these sites. For example, we use the wood shavings produced by wood processing and waste resin to produce building materials under roofs for roof tiles.

Zero emission construction sites

From January 2004 we further expanded the scope of our environmental activities, taking steps towards our goal of achieving zero emission construction sites. At these sites no waste is buried or incinerated, and by modeling this operational process for each of the 14 areas in across Japan, we have calculated that we can reduce by two-thirds the emissions from each plant. In the future we intend to further develop our on-site waste material separation and recycling processes, and we have set a target of achieving zero emissions at all our construction sites by the end of fiscal 2005.

Promoting 'Bio Garden': combined flora and fauna approach

As part of our housing-related operations we are strengthening our exterior business. A feature of this is the promotion of our unique 'Bio Garden' project. The aim of this project is to improve the environment by creating multiple small-scale natural habitats of appropriate trees and other vegetation that will support small bird and animal ecosystems. Our combined flora and fauna approach is unique in Japan, and together with our customers we are implementing this project across the nation. We have increased construction of model gardens in our 'Sumai no Yume Kojo' and we are now applying the landscaping techniques we developed for detached houses to larger-scale housing development and apartments. We planted 600,000 trees during the year, 3.4% more than the previous year, for a CO_2 reduction effect of 3,500 tons.

Other corporate social responsibility activities

In addition to the actions mentioned above, during the fiscal year under review, we thoroughly educated our employees in compliance regulations and human rights, and strengthened actions designed to reduce environmental risks. To ensure that waste consigned to third parties is handled properly, we produced and distributed easy-to-understand training tools about waste management. We implemented nationwide internal training programs on soil pollution during the year, and continued to develop a company structure that can advise customers and analyze the pollution risks involved in the purchasing of land, based on legal directives released in 2002 and contained in a manual that was distributed internally.

Details of these and all our other environmental activities during 2003 were announced in the Sekisui House ECO WORKS 2004 Environmental Report.

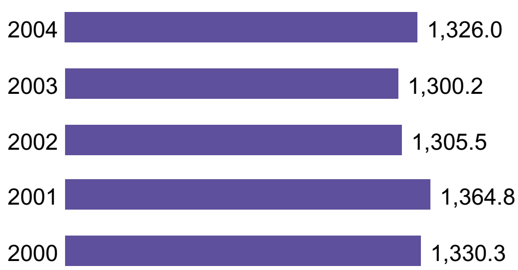
Management's Discussion and Analysis

Results of Operations

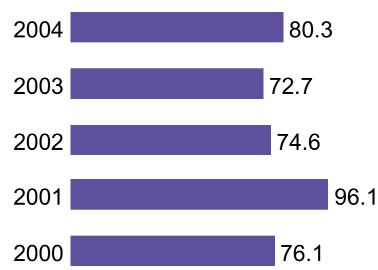
For the year ended January 31

	Millions of yen (percentage change)				
	2004	2003	2002	2001	2000
Net sales	**¥ 1,326,039 (2.0)**	1,300,237 (-0.4)	1,305,469 (-4.3)	1,364,801 (2.6)	1,330,284 (1.2)
Cost of sales	**¥ 1,055,989 (1.9)**	1,035,976 (0.1)	1,035,277 (-3.3)	1,071,009 (-0.1)	1,072,196 (0.1)
Operating income	**¥ 80,334 (10.4)**	72,737 (-2.5)	74,625 (-22.3)	96,086 (26.2)	76,138 (28.5)
Net income	**¥ 37,762 (9.3)**	34,547	-90,331	25,167	-94,811
	Yen (percentage change)				
Net income per share (Note 16)	**¥ 53.30 (9.4)**	48.71 (-)	-125.11 (-)	35.03 (-)	-132.65 (-)

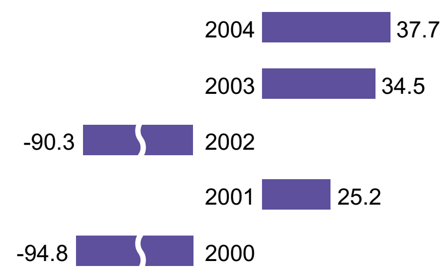
Net sales
Billions of yen



Operating Income
Billions of yen



Net Income
Billions of yen

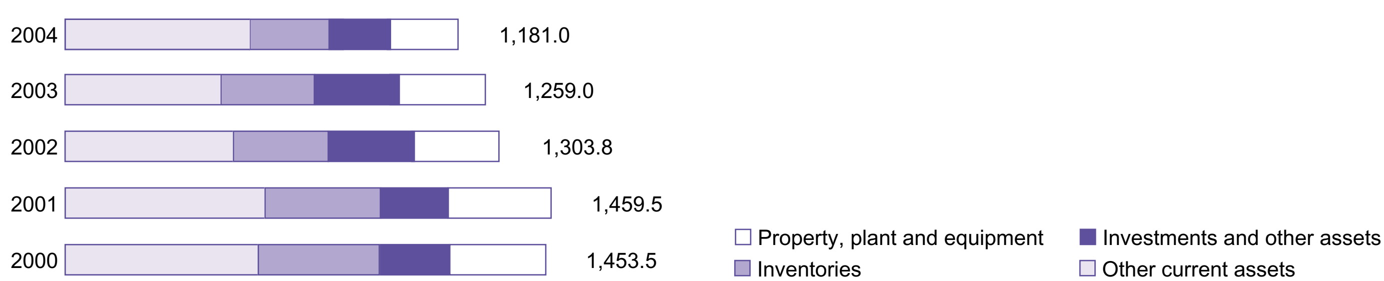


Financial Position

For the year ended January 31

	% of total assets				
	2004	2003	2002	2001	2000
Current assets	**58.5**	60.0	61.1	65.2	65.1
Inventories	**24.4**	23.3	22.1	24.1	25.2
Investments and other assets	**19.6**	19.7	19.9	13.9	14.4
Property, plant and equipment	**21.9**	20.3	19.0	20.9	20.5
Current liabilities	**26.8**	30.8	29.1	27.1	27.8
Short-term loans	**—**	—	—	—	2.6
Long-term liabilities	**14.8**	16.4	22.3	20.9	22.0
Long-term debt	**3.4**	5.6	12.3	15.6	19.2
Total shareholders' equity	**56.6**	51.3	48.0	50.8	49.8

Total Assets
Billions of yen



*See notes to consolidated financial statements.

Five-year Summary

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

	Millions of yen					Thousands of U.S. dollars
	2004	2003	2002	2001	2000	**2004**
Net sales	**¥ 1,326,039**	1,300,237	1,305,469	1,364,801	1,330,284	**$ 12,503,904**
Operating income	**¥ 80,334**	72,737	74,625	96,086	76,138	**$ 757,511**
Net income	**¥ 37,762**	34,547	- 90,331	25,167	- 94,811	**$ 356,077**
Total assets	**¥ 1,181,013**	1,258,980	1,303,821	1,459,491	1,453,547	**$ 11,136,379**
Shareholders' equity	**¥ 667,964**	645,702	626,463	741,216	723,860	**$ 6,298,576**

Segment information (Note 17):	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Built-to-order housing	**¥ 744,600**	¥ 740,947	¥ 821,451	**$ 7,021,216**
Real estate for sale	**¥ 202,532**	¥ 190,096	¥ 185,273	**$ 1,909,779**
Real estate for leasing	**¥ 250,633**	¥ 231,877	¥ 172,459	**$ 2,363,348**
Other	**¥ 134,199**	¥ 142,671	¥ 132,432	**$ 1,265,431**

Amounts per share (Note 16):	Yen					U.S. dollars
	2004	2003	2002	2001	2000	**2004**
Net income per share	**¥ 53.30**	48.71	- 125.11	35.03	- 132.65	**$ 0.50**
Diluted	**51.39**	44.42	—	31.07	—	**0.48**
Net assets	**¥ 959.96**	911.01	883.16	1,027.71	1,012.78	**$ 9.05**
Dividends	**¥ 18.00**	18.00	18.00	20.00	18.00	**$ 0.17**

*See notes to consolidated financial statements.

Consolidated Balance Sheets

Sekisui House, Ltd. and Subsidiaries
January 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Assets			
Current assets:			
Cash and cash equivalents	**¥ 222,275**	¥ 187,381	**$ 2,095,945**
Short-term investments (Note 3)	**2,428**	50,680	**22,895**
Notes and accounts receivable:			
Trade	**80,038**	95,181	**754,719**
Other	**14,472**	21,004	**136,464**
Less allowance for doubtful accounts	**(1,656)**	(1,715)	**(15,615)**
	92,854	114,470	**875,568**
Inventories (Note 4)	**288,432**	293,609	**2,719,774**
Deferred income taxes (Note 8)	**74,804**	99,049	**705,365**
Other current assets	**9,770**	9,722	**92,127**
Total current assets	**690,563**	754,911	**6,511,674**
Property, plant and equipment:			
Land (Note 7)	**124,555**	122,256	**1,174,493**
Buildings and structures (Note 7)	**200,470**	193,174	**1,890,334**
Machinery and equipment	**81,631**	81,263	**769,741**
Construction in progress	**1,099**	1,673	**10,363**
	407,755	398,366	**3,844,931**
Less accumulated depreciation	**(149,262)**	(142,933)	**(1,407,468)**
Property, plant and equipment, net	**258,493**	255,433	**2,437,463**
Investments and other assets:			
Long-term loans receivable	**46,804**	54,385	**441,339**
Less allowance for doubtful accounts	**(1,644)**	(1,640)	**(15,502)**
	45,160	52,745	**425,837**
Investments in securities (Note 3)	**112,613**	100,849	**1,061,886**
Investments in affiliates (Note 5)	**606**	160	**5,714**
Deferred income taxes (Note 8)	**26,604**	37,057	**250,863**
Other assets	**46,974**	57,825	**442,942**
Total investments and other assets	**231,957**	248,636	**2,187,242**
	¥ 1,181,013	¥ 1,258,980	**$11,136,379**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Liabilities and shareholders' equity			
Current liabilities:			
Current portion of long-term debt (Note 6)	**¥ 30,001**	¥ 90,001	**$ 282,895**
Notes and accounts payable:			
Trade	**145,704**	152,180	**1,373,918**
Accrued income taxes (Note 8)	**3,948**	4,903	**37,227**
Advances received	**75,038**	83,660	**707,572**
Other current liabilities	**62,070**	56,393	**585,290**
Total current liabilities	**316,761**	387,137	**2,986,902**
Long-term debt, less current portion (Note 6)	**39,675**	69,999	**374,116**
Accrued retirement benefits for employees (Note 11)	**72,056**	73,377	**679,453**
Accrued retirement benefits for directors, corporate auditors and executive officers	**1,586**	1,465	**14,955**
Other liabilities (Note 7)	**61,585**	61,757	**580,717**
Total liabilities	**491,663**	593,735	**4,636,143**
Minority interests	**21,386**	19,543	**201,660**
Contingent liabilities (Note 12)			
Shareholders' equity (Note 9):			
Common stock:			
Authorized: 1,978,281,000 shares			
Issued: 2004 and 2003 - 709,385,078 shares	**186,554**	186,554	**1,759,114**
Capital surplus	**237,523**	237,523	**2,239,727**
Retained earnings (Note 18)	**248,961**	224,230	**2,347,581**
Net unrealized holding gain (loss) on securities	**7,640**	(1,869)	**72,041**
Translation adjustments	**(98)**	(206)	**(924)**
Less treasury stock, at cost	**(12,616)**	(530)	**(118,963)**
Total shareholders' equity	**667,964**	645,702	**6,298,576**
	¥ 1,181,013	¥ 1,258,980	**$11,136,379**

See notes to consolidated financial statements.

Consolidated Statements of Income

Sekisui House, Ltd. and Subsidiaries
Years ended January 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Net sales (Note 17)	**¥ 1,326,039**	¥ 1,300,237	**$12,503,904**
Cost of sales	**1,055,989**	1,035,976	**9,957,464**
Gross profit	**270,050**	264,261	**2,546,440**
Selling, general and administrative expenses	**189,716**	191,524	**1,788,929**
Operating income (Note 17)	**80,334**	72,737	**757,511**
Other income (expenses):			
Interest and dividend income	**2,454**	2,903	**23,140**
Interest expense	**(1,648)**	(2,431)	**(15,540)**
Loss on revaluation of real estate held for sale (Note 13)	**(2,989)**	(2,179)	**(28,185)**
Loss on revaluation of securities	**(14)**	(897)	**(132)**
Other, net	**(3,164)**	(4,868)	**(29,835)**
Income before income taxes and minority interests	**74,973**	65,265	**706,959**
Income taxes (Note 8):			
Current	**6,710**	6,855	**63,272**
Deferred	**28,121**	22,027	**265,167**
	34,831	28,882	**328,439**
Income before minority interests	**40,142**	36,383	**378,520**
Minority interests in earnings of subsidiaries	**(2,380)**	(1,836)	**(22,443)**
Net income	**¥ 37,762**	¥ 34,547	**$ 356,077**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Sekisui House, Ltd. and Subsidiaries
Years ended January 31, 2004 and 2003

	Number of shares in issue	Millions of yen					
		Common stock	Capital surplus	Retained earnings	Net unrealized holding gain (loss) on securities	Translation adjustments	Treasury stock
Balance at January 31, 2002	**709,385,078**	**¥186,554**	**¥237,523**	**¥202,616**	**¥83**	**¥(271)**	**¥(42)**
Increase in retained earnings resulting from exclusion of subsidiaries	—	—	—	10	—	—	—
Net income for the year	—	—	—	34,547	—	—	—
Cash dividends	—	—	—	(12,767)	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(176)	—	—	—
Net unrealized holding loss on securities	—	—	—	—	(1,952)	—	—
Translation adjustments	—	—	—	—	—	65	—
Increase in treasury stock	—	—	—	—	—	—	(488)
Balance at January 31, 2003	**709,385,078**	**¥186,554**	**¥237,523**	**¥224,230**	**¥(1,869)**	**¥(206)**	**¥(530)**
Net income for the year	—	—	—	37,762	—	—	—
Cash dividends	—	—	—	(12,638)	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(393)	—	—	—
Gain on sale of treasury stock	—	—	0	—	—	—	—
Net unrealized holding gain on securities	—	—	—	—	9,509	—	—
Translation adjustments	—	—	—	—	—	108	—
Increase in treasury stock	—	—	—	—	—	—	(12,086)
Balance at January 31, 2004	**709,385,078**	**¥186,554**	**¥237,523**	**¥248,961**	**¥7,640**	**¥(98)**	**¥(12,616)**

	Thousands of U.S. dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings	Net unrealized holding gain (loss) on securities	Translation adjustments	Treasury stock
Balance at January 31, 2003	**$1,759,114**	**$2,239,727**	**$2,114,380**	**$ (17,624)**	**$ (1,942)**	**$ (4,998)**
Net income for the year	—	—	356,077	—	—	—
Cash dividends	—	—	(119,170)	—	—	—
Bonuses to directors and corporate auditors	—	—	(3,706)	—	—	—
Gain on sale of treasury stock	—	0	—	—	—	—
Net unrealized holding gain on securities	—	—	—	89,665	—	—
Translation adjustments	—	—	—	—	1,018	—
Increase in treasury stock	—	—	—	—	—	(113,965)
Balance at January 31, 2004	**$1,759,114**	**$2,239,727**	**$2,347,581**	**$ 72,041**	**$ (924)**	**$(118,963)**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Sekisui House, Ltd. and Subsidiaries
Years ended January 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Cash flows from operating activities			
Income before income taxes and minority interests	**¥ 74,973**	¥ 65,265	**$ 706,959**
Adjustments for:			
Depreciation and amortization	**11,299**	11,883	**106,544**
Provision for retirement benefits	**(1,321)**	(7,136)	**(12,456)**
Interest and dividend income	**(2,454)**	(2,903)	**(23,140)**
Interest expense	**1,648**	2,431	**15,540**
Loss on revaluation of real estate held for sale	**2,989**	2,179	**28,185**
Loss on revaluation of securities	**14**	897	**132**
Decrease in notes and accounts receivable	**15,143**	22,975	**142,791**
Decrease (increase) in inventories and advance payments	**1,271**	(12,717)	**11,985**
Decrease in notes and accounts payable	**(7,261)**	(34,012)	**(68,468)**
(Decrease) increase in advances received	**(8,623)**	601	**(81,311)**
Other	**16,765**	6,054	**158,086**
Subtotal	**104,443**	55,517	**984,847**
Interest and dividends received	**3,276**	3,131	**30,891**
Interest paid	**(1,594)**	(2,560)	**(15,031)**
Income taxes paid	**(7,664)**	(4,813)	**(72,268)**
Net cash provided by operating activities	**98,461**	51,275	**928,439**
Cash flows from investing activities			
Proceeds from sales of short-term investments	**50,670**	13,264	**477,794**
Purchases of short-term investments	**(530)**	(62,155)	**(4,998)**
Proceeds from sales of property, plant and equipment	**238**	1,666	**2,244**
Purchases of property, plant and equipment	**(14,175)**	(7,973)	**(133,663)**
Proceeds from sales of investments in securities	**3,782**	12,296	**35,662**
Purchases of investments in securities	**(1,201)**	(9,080)	**(11,325)**
Decrease in loans receivable	**7,118**	11,963	**67,119**
Proceeds from sales of insurance policy	**10,000**	—	**94,295**
Other	**(4,181)**	10,989	**(39,424)**
Net cash provided by (used in) investing activities	**51,721**	(29,030)	**487,704**
Cash flows from financing activities			
Repayment of long-term debt	**(90,325)**	(62,977)	**(851,721)**
Cash dividends paid	**(12,638)**	(12,767)	**(119,170)**
Increase in treasury stock	**(12,103)**	(487)	**(114,125)**
Other	**(330)**	(482)	**(3,112)**
Net cash used in financing activities	**(115,396)**	(76,713)	**(1,088,128)**
Effect of exchange rate changes on cash and cash equivalents	**108**	65	**1,018**
Net increase (decrease) in cash and cash equivalents	**34,894**	(54,403)	**329,033**
Cash and cash equivalents at beginning of the year	**187,381**	229,139	**1,766,912**
Increase in cash and cash equivalents resulting from initial consolidation of subsidiaries	**—**	12,645	**—**
Cash and cash equivalents at end of the year	**¥ 222,275**	¥ 187,381	**$ 2,095,945**

Notes to Consolidated Financial Statements

Sekisui House, Ltd. and Subsidiaries
January 31, 2004 and 2003

1. Basis of Preparation

Sekisui House, Ltd. (the "Company") and its domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Commercial Code of Japan and the Securities and Exchange Law of Japan and in conformity with accounting principles and practices generally accepted and applied in Japan, which may differ in certain material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan. The Company's overseas subsidiary maintains its accounts and records in conformity with the accounting principles generally accepted and the practices prevailing in its country of domicile.
The accompanying consolidated financial statements have been prepared by the Company as required by the Securities and Exchange Law of Japan. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.
Certain reclassifications of previously reported amounts have been made to the financial statements for the year ended January 31, 2003 to conform these to the 2004 presentation. These reclassifications had no effect on consolidated net income or shareholders' equity.
The translation of Japanese yen amounts into U.S. dollars is included solely for the convenience of the reader and has been made at ¥106.05= U.S.$1.00, the approximate rate of exchange in effect on January 31, 2004. This translation should not be construed as a representation that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollar amounts at the above or any other rate.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation
The accompanying consolidated financial statements include the accounts of the Company and all its subsidiaries (the "Group") based on the control or influence concept.
All significant intercompany transactions and accounts have been eliminated in consolidation.
Investments in affiliates (companies over which the Company has the ability to exercise significant influence) are accounted for by the equity method.
The difference between the cost of investments in subsidiaries and affiliates and the Company's equity in their net assets at their respective dates of acquisition is being amortized over a period of five years.

(b) Foreign currency translation
All monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date, except that receivables and payables hedged by qualified forward foreign exchange contracts are translated at the corresponding forward exchange contract rates. Gain or loss on each translation is credited or charged to income.
The financial statements of the foreign subsidiary are translated into yen at the rate of exchange in effect at the balance sheet date except that the components of shareholders' equity are translated at their historical exchange rates. Differences resulting from translating the financial statements of the foreign subsidiary have not been included in the determination of net income, but are presented as translation adjustments in the consolidated balance sheets.

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

(d) Short-term investments and investments in securities
Securities other than those of affiliates are classified into three categories: trading securities, held-to-maturity debt securities and other securities.
Trading securities, consisting of debt and marketable equity securities, are stated at fair value. Gain and loss, both realized and unrealized, are charged to income. Held-to-maturity debt securities are stated at their amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of shareholders' equity. Non-marketable securities classified as other securities are carried at cost determined by the moving average method.
Under the Commercial Code of Japan, unrealized holding gain on other securities, net of the related taxes is not available for distribution as dividends or as bonuses to directors and corporate auditors.

(e) Inventories
The individual cost method is applied to land held for sale, construction for sale and contracts in process.
Other inventories are stated at cost determined by the moving average method.

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

(g) Leases
Finance leases other than those that are deemed to transfer ownership of the leased assets to the lessee are accounted for by a method similar to that applicable to ordinary operating leases.

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

(i) Income taxes

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

(j) Accrued retirement benefits

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

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

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

Prior service cost is amortized by the straight-line method over 5 years, which is within the estimated average remaining years of service of the eligible employees. For the year ended January 31, 2003, prior service cost was incurred since the pension plan of the Company and certain subsidiaries was amended in accordance with an amendment to the Employees' Pension Insurance Law.

See Note 11 for the method of accounting for the separation of the substitutional portion of the benefit obligation from the corporate portion of the benefit obligation under the Welfare Pension Fund Plan.

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

(k) Research and development expenditures and computer software

Research and development expenditures are charged to income as incurred.

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

(l) Accounting for warranty expenses

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

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

3. Short -Term Investments and Investments in Securities

Held-to-maturity debt securities and other securities at January 31, 2004 and 2003 were as follows:

	Millions of yen							
	Held-to-maturity debt securities							
	2004				2003			
	Book value	Gross unrealized gain	Gross unrealized loss	Estimated fair value	Book value	Gross unrealized gain	Gross unrealized loss	Estimated fair value
Market value determinable:								
Bonds	**¥ 2,985**	**¥ 4**	**¥ (0)**	**¥ 2,989**	¥52,046	¥10	¥(10)	¥52,046
	¥ 2,985	**¥ 4**	**¥ (0)**	**¥ 2,989**	¥52,046	¥10	¥(10)	¥52,046
Market value not determinable:								
Bonds	**¥ 2,000**	–	–	–	¥ 2,500	–	–	–
	¥ 2,000	–	–	–	¥ 2,500	–	–	–
Total	**¥ 4,985**	–	–	–	¥54,546	–	–	–

	Thousands of U.S. dollars			
	Held-to-maturity debt securities			
	2004			
	Book value	Gross unrealized gain	Gross unrealized loss	Estimated fair value
Market value determinable:				
Bonds	**$ 28,147**	**$38**	**$ (0)**	**$ 28,185**
	$ 28,147	**$38**	**$ (0)**	**$ 28,185**
Market value not determinable:				
Bonds	**$ 18,859**	–	–	–
	$ 18,859	–	–	–
Total	**$ 47,006**	–	–	–

	Millions of yen							
	Other securities							
	2004				2003			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Book value [estimated fair value]	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Book value [estimated fair value]
Market value determinable:								
Equity securities	**¥27,361**	**¥12,277**	**¥(579)**	**¥39,059**	¥30,609	¥1,124	¥(6,877)	¥24,856
Bonds	**52,246**	**1,209**	–	**53,455**	52,596	2,485	(0)	55,081
Other	**19**	**1**	**(0)**	**20**	–	–	–	–
	¥79,626	**¥13,487**	**¥(579)**	**¥92,534**	¥83,205	¥3,609	¥(6,877)	¥79,937
Market value not determinable:								
Equity securities	**¥11,522**	–	–	–	¥11,025	–	–	–
Other	**6,000**	–	–	–	6,000	–	–	–
	¥17,522	–	–	–	¥17,025	–	–	–
Total	**¥97,148**	–	–	–	¥100,230	–	–	–

	Thousands of U.S. dollars			
	Other securities			
	2004			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Book value (estimated fair value)
Market value determinable:				
Equity securities	**$258,001**	**$115,766**	**$(5,460)**	**$368,307**
Bonds	**492,655**	**11,400**	–	**504,055**
Other	**179**	**10**	**(0)**	**189**
	$750,835	**$127,176**	**$(5,460)**	**$872,551**
Market value not determinable:				
Equity securities	**$108,647**	–	–	–
Other	**56,577**	–	–	–
	$165,224	–	–	–
Total	**$916,059**	–	–	–

4. Inventories

Inventories at January 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Land held for sale, including land held for development	**¥197,538**	¥198,066	**$1,862,688**
Construction for sale, including projects under construction	**38,955**	32,685	**367,327**
Contracts in process	**47,897**	58,757	**451,645**
Other	**4,042**	4,101	**38,114**
	¥288,432	¥293,609	**$2,719,774**

5. Investments in Affiliates

Investments in affiliates at January 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Investments in capital stock, at cost	**¥ 619**	¥ 119	**$ 5,837**
Equity in undistributed (loss) earnings since acquisition, net	**(13)**	41	**(123)**
	¥ 606	¥ 160	**$ 5,714**

6. Long-Term Debt

Long-term debt less the current portion at January 31, 2004 and 2003 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Manufacturing industries, insurance companies and others	**¥ 9,675**	¥ 29,999	**$ 91,231**
Notes	**30,000**	40,000	**282,885**
	¥ 39,675	¥ 69,999	**$ 374,116**

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

(1) Loans from manufacturing industries, insurance companies and others at January 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
2.18% to 2.19% unsecured loans from insurance companies, due 2004	**¥ 20,000**	¥ 20,000	**$ 188,591**
0% to 6.0% unsecured loans from manufacturing industries and others, due 2004 - 2007	**9,676**	10,001	**91,240**
	29,676	30,001	**279,831**
Less current portion	**(20,001)**	(2)	**(188,600)**
	¥ 9,675	¥ 29,999	**$ 91,231**

(2) Notes

Notes outstanding at January 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
2.4% yen unsecured notes, due 2005	**¥ 10,000**	¥ 10,000	**$ 94,295**
1.92% yen unsecured notes, due 2005	**10,000**	10,000	**94,295**
1.76% yen unsecured notes, due 2004	**10,000**	10,000	**94,295**
1.79% yen unsecured notes, due 2005	**10,000**	10,000	**94,295**
	40,000	40,000	**377,180**
Less current portion	**(10,000)**	–	**(94,295)**
	¥ 30,000	¥ 40,000	**$ 282,885**

(3) Convertible bonds

Convertible bonds outstanding at January 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
0.9% unsecured bonds of ¥50,000,000,000, due 2003	**¥ –**	**¥ 39,999**	**$ –**
0.3% unsecured bonds of ¥50,000,000,000, due 2003	–	**50,000**	–
	–	**89,999**	–
Less current portion	–	**(89,999)**	–
	¥ –	**¥ –**	**$ –**

The aggregate annual maturities of long-term debt subsequent to January 31, 2004 are summarized as follows:

Year ending January 31,	Millions of yen	Thousands of U.S. dollars
2005	¥ 30,001	$ 282,895
2006	30,001	282,895
2007	9,674	91,221
2008 and thereafter	0	0
	¥ 69,676	$ 657,011

7. Mortgaged and Pledged Assets

The following assets, shown at net book value at January 31, 2004 and 2003, were either mortgaged or pledged for guarantees of bank loans of third parties and long-term deposits received and other, and totaled ¥5,346 million ($50,410 thousand) and ¥5,663 million, respectively.

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Land	**¥ 27,468**	¥ 27,468	**$ 259,010**
Buildings	**580**	768	**5,469**
	¥ 28,048	¥ 28,236	**$ 264,479**

8. Income Taxes

The Company and its domestic subsidiaries are subject to several taxes based on income which, in the aggregate, resulted in a statutory tax rate of approximately 41.7% for the years ended January 31, 2004 and 2003. The foreign subsidiary is subject to the income taxes of the country in which it operates.

The effective tax rates reflected in the consolidated statements of income for the years ended January 31, 2004 and 2003 differ from the above statutory tax rate for the following reasons:

	2004	2003
Statutory tax rate	**41.7%**	41.7%
Entertainment expenses not deductible	**1.8**	2.0
Dividend income not taxable	**(0.8)**	(0.7)
Inhabitants' per capita taxes	**0.7**	0.8
Change in deferred tax assets and liabilities arising from change in tax rate	**2.5**	–
Other	**0.6**	0.5
Effective tax rates	**46.5%**	44.3%

The significant components of the Group's deferred tax assets at January 31, 2004 and 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Loss on revaluation of real estate held for sale	**¥ 52,323**	¥ 78,708	**$ 493,380**
Tax loss carryforwards	**13,258**	12,538	**125,017**
Accrued enterprise tax	**291**	377	**2,744**
Retirement benefits	**27,224**	27,049	**256,709**
Allowance for doubtful accounts	**936**	874	**8,826**
Accrued bonuses	**6,494**	5,550	**61,235**
Other	**882**	11,010	**8,317**
	¥ 101,408	¥ 136,106	**$ 956,228**

On March 31, 2003, Cabinet Order No. 9 entitled "Reform of a Portion of Local Tax Law" was issued and this reform will apply to fiscal years beginning after April 1, 2004. As a result, the statutory tax rate to be used for the calculation of deferred income taxes concerning temporary differences which are expected to be realized or settled after February 1, 2005 will be changed. The effect of this change in rate was to decrease deferred tax assets (net of deferred tax liabilities) by ¥1,691 million ($15,945 thousand) at January 31, 2004 and to increase income taxes-deferred by ¥1,859 million ($17,529 thousand) for the year ended January 31, 2004.

9. Shareholders' Equity

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

The Company's legal reserve included in retained earnings at January 31, 2004 and 2003 amounted to ¥23,129 million ($218,095 thousand) and ¥23,129 million, respectively.

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

Interim cash dividends may be declared and paid subject to a resolution of the Board of Directors. The Commercial Code imposes a limit on the amount which may be paid as interim dividends. An interim dividend of ¥9.0 ($0.08) per share totaling ¥6,259 million ($59,019 thousand) was paid on September 30, 2003.

In accordance with a Cabinet Order entitled "Revision of a Portion of the Regulations Concerning the Terminology, Forms and Methods of Preparation of the Consolidated Financial statements," additional paid-in capital reported in shareholders' equity at January 31, 2003 has been presented as capital surplus in the consolidated balance sheets.

10. Research and Development Costs

Research and development costs charged to income amounted to ¥5,259 million ($49,590 thousand) and ¥5,523 million for the years ended January 31, 2004 and 2003, respectively.

11. Accrued Retirement Benefits

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets at January 31, 2004 and 2003 for the Group's defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Retirement benefit obligation at end of year	**¥(234,013)**	¥(249,090)	**$(2,206,629)**
Fair value of plan assets at end of year	**170,485**	148,148	**1,607,591**
Unfunded retirement benefit obligation	**(63,528)**	(100,942)	**(599,038)**
Unrecognized actuarial loss	**32,217**	34,058	**303,791**
Unrecognized past service cost	**(40,745)**	(6,487)	**(384,206)**
Net retirement benefit obligation	**(72,056)**	(73,371)	**(679,453)**
Prepaid pension cost	**0**	6	**0**
Accrued retirement benefits	**¥ (72,056)**	¥ (73,377)	**$ (679,453)**

On April 28, 2003, the Company and certain subsidiaries obtained approval from the Minister of Health, Labor and Welfare with respect to its application for an exemption from the obligation for benefits related to future employee services under the substitutional portion of the Welfare Pension Fund Plan ("WPFP").

However, the Company decided not to apply the transitional provision stipulated in "Practical Guidelines for Accounting Retirement Benefits," which allows a company to account for the separation of the substitutional portion of the benefit obligation from the corporate portion of the benefit obligation under its WPFP as of the date of approval of exemption, assuming that the transfer to the Japanese government of the substitutional portion of the benefit obligation and related pension plan assets had been completed as of that date.

Accordingly, the Company expects to account for the return of the substitutional portion of WPFP as of the date of the actual transfer to the Japanese government of the substitutional portion of the benefit obligation and the related pension plan assets.

If the Company had applied the transitional provision stipulated in "Practical Guidelines for Accounting for Retirement Benefits," gain on return of the substitutional portion of the WPFP would have been approximately ¥39,809 million($375,380 thousand).

The components of net retirement benefit expenses for the years ended January 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Service cost	**¥ 10,883**	¥ 11,527	**$ 102,621**
Interest cost	**5,858**	6,490	**55,238**
Expected return on plan assets	**(4,312)**	(5,641)	**(40,660)**
Amortization:			
Actuarial loss	**7,581**	3,849	**71,485**
Past service cost	**(8,785)**	(1,622)	**(82,838)**
Retirement benefit expenses	**¥ 11,225**	¥ 14,603	**$ 105,846**

The assumptions used in accounting for the defined benefit plans for the years ended January 31, 2004 and 2003 were as follows:

	2004	2003
Discount rates	**2.5%**	2.8%
Expected rates of return on plan assets	**3.0%**	4.0%

12. Contingent Liabilities

The Group had the following contingent liabilities at January 31, 2004:

	Millions of yen	Thousands of U.S. dollars
Guarantees of housing loans to customers	**¥57,445**	**$541,678**
Guarantees of bank loans of third parties and other	**2,130**	**20,085**
	¥59,575	**$561,763**

13. Loss on Revaluation of Real Estate Held for Sale

Real estate held for sale at January 31, 2004 and 2003, the market value of which has declined significantly from its carrying value, has been written down to its fair market value.

14. Leases

The following pro forma amounts present the acquisition costs and accumulated depreciation of property leased to the Group at January 31, 2004 and 2003, which would have been reflected in the consolidated balance sheets if finance leases other than those which transfer the ownership of the leased property (currently accounted for as operating leases) were capitalized.

	Millions of yen					
	2004			2003		
	Acquisition costs	Accumulated depreciation	Net leased property	Acquisition costs	Accumulated depreciation	Net leased property
Buildings and structures	**¥ 35,332**	**¥ 20,861**	**¥ 14,471**	¥ 36,681	¥ 19,422	¥ 17,259
Machinery and equipment	**8,129**	**6,026**	**2,103**	8,646	6,080	2,566
Other	**3,190**	**2,300**	**890**	3,422	2,075	1,347
	¥ 46,651	**¥ 29,187**	**¥ 17,464**	¥ 48,749	¥ 27,577	¥ 21,172

	Thousands of U.S. dollars		
	2004		
	Acquisition costs	Accumulated depreciation	Net leased property
Buildings and structures	**$333,164**	**$196,709**	**$136,455**
Machinery and equipment	**76,652**	**56,822**	**19,830**
Other	**30,080**	**21,688**	**8,392**
	$439,896	**$275,219**	**$164,677**

Lease payments relating to finance leases other than those which transfer the ownership of the leased property amounted to ¥8,375 million ($78,972 thousand) and ¥9,561 million for the years ended January 31, 2004 and 2003, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to January 31, 2004 for finance leases other than those which transfer the ownership of the leased property were as follows:

Year ending January 31,	Millions of yen	Thousands of U.S. dollars
2005	¥ 6,783	$ 63,960
2006 and thereafter	11,592	109,307
	¥ 18,375	$ 173,267

15. Derivatives and Hedging Activities

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

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

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

At January 31, 2004 and 2003, the outstanding interest-rate swap positions were as follows:

	Millions of yen			
	2004		2003	
	Notional amount	Unrealized gain	Notional amount	Unrealized gain(loss)
Interest-rate swap agreements:				
Fixed-rate into variable-rate obligations	**¥ 15,000**	**¥ 160**	¥ 15,000	¥ 383
Variable-rate into fixed-rate obligations	**¥ 15,000**	**¥ 70**	¥ 15,000	¥ (5)

	Thousands of U.S. dollars	
	2004	
	Notional amount	Unrealized gain
Interest-rate swap agreements:		
Fixed-rate into variable-rate obligations	**$141,443**	**$1,509**
Variable-rate into fixed-rate obligations	**$141,443**	**$ 660**

16. Amounts per Share

	Yen		U.S. dollars
	2004	2003	**2004**
Net income:			
Basic	**¥ 53.30**	¥ 48.71	**$ 0.50**
Diluted	**51.39**	44.42	**0.48**
Net assets	**959.96**	911.01	**9.05**
Cash dividends	**18.00**	18.00	**0.17**

Until the year ended January 31, 2003, basic net income per share was computed based on the net income reported in the consolidated statements of income and the weighted average number of shares of common stock outstanding during each year, and diluted net income per share was computed based on the net income reported and the weighted average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the conversion of convertible bonds. Amounts per share of net assets were computed based on the net assets reported in the consolidated balance sheets and the number of shares of common stock outstanding at each balance sheet date.

In accordance with a new standard for earnings per share which became effective February 1, 2003, basic net income per share for the year ended January 31, 2004 has been computed based on the net income available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during the year, and diluted net income per share for the year ended January 31, 2004 has been computed based on the net income available for distribution to the shareholders and the weighted average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the conversion of convertible bonds. Amounts per share of net assets at January 31, 2004 have been computed based on net assets available for distribution to the shareholders and the number of shares of common stock outstanding at the year end. If the new method of computation had been followed for the year ended January 31, 2003, basic net income per share, dilutive net income per share and amounts per share of net assets would have been ¥48.16 ($0.45), ¥43.92 ($0.41) and ¥910.46 ($8.59), respectively. Cash dividends per share of the Company represent the cash dividends declared as applicable to the respective years together with the interim cash dividends paid.

17. Segment Information

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

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

The business segment information of the Group companies for the years ended January 31, 2004 and 2003 is outlined as follows:

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

	Millions of yen						
	2003						
	Built-to-order housing	Real estate for sale	Real estate for leasing	Other	Total	Eliminations and other	Consolidated
Sales to third parties	¥ 739,685	¥ 189,800	¥ 230,456	¥ 140,296	¥1,300,237	—	¥1,300,237
Inter-group sales and transfers	1,262	296	1,421	2,375	5,354	¥ (5,354)	—
Total sales	740,947	190,096	231,877	142,671	1,305,591	(5,354)	1,300,237
Operating expenses	655,926	184,830	222,109	140,975	1,203,840	23,660	1,227,500
Operating income	¥ 85,021	¥ 5,266	¥ 9,768	¥ 1,696	¥ 101,751	¥ (29,014)	¥ 72,737
Assets	¥ 228,590	¥ 328,482	¥ 267,758	¥ 31,083	¥ 855,913	¥ 403,067	¥1,258,980
Depreciation and amortization	¥ 5,456	¥ 455	¥ 3,611	¥ 381	¥ 9,903	¥ 1,980	¥ 11,883
Capital expenditures	¥ 5,114	¥ 54	¥ 13,279	¥ 193	¥ 18,640	¥ 662	¥ 19,302

	Thousands of U.S. dollars						
	2004						
	Built-to-order housing	Real estate for sale	Real estate for leasing	Other	Total	Eliminations and other	Consolidated
Sales to third parties	$ 7,008,194	$ 1,909,779	$ 2,347,619	$ 1,238,312	$12,503,904	—	$12,503,904
Inter-group sales and transfers	13,022	—	15,729	27,119	55,870	$ (55,870)	—
Total sales	7,021,216	1,909,779	2,363,348	1,265,431	12,559,774	(55,870)	12,503,904
Operating expenses	6,157,416	1,851,005	2,279,679	1,240,453	11,528,553	217,840	11,746,393
Operating income	$ 863,800	$ 58,774	$ 83,669	$ 24,978	$ 1,031,221	$ (273,710)	$ 757,511
Assets	$ 1,881,782	$ 2,884,300	$ 2,656,775	$ 201,499	$ 7,624,356	$ 3,512,023	$11,136,379
Depreciation and amortization	$ 47,864	$ 4,734	$ 33,135	$ 3,385	$ 89,118	$ 17,426	$ 106,544
Capital expenditures	$ 59,302	$ 632	$ 86,441	$ 1,018	$ 147,393	$ 10,033	$ 157,426

As more than 90% of the consolidated net sales for the years ended January 31, 2004 and 2003 were made in Japan, the disclosure of geographical segment information and overseas sales information has been omitted.

18. Subsequent Event

The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended January 31, 2004, were approved at a shareholders' meeting held on April 27, 2004:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends of ¥9.0 ($0.08) per share	¥6,259	$59,019
Bonuses to directors and corporate auditors	156	1,471

Report of Independent Auditors

The Board of Directors
Sekisui House, Ltd.

We have audited the accompanying consolidated balance sheets of Sekisui House, Ltd. and subsidiaries as of January 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion independently on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sekisui House, Ltd. and subsidiaries at January 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended January 31, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1.

April 27, 2004

Shin Nihon & Co.

Shin Nihon & Co.
Auditors

See Note 1 which explains the basis of preparation of the consolidated financial statements of Sekisui House, Ltd. under Japanese accounting principles and practices.

Corporate Data (As of January 31, 2004)

Corporate Officers

Chairman & Representative Director
Isao Okui

President & Representative Director
Isami Wada

Executive Vice President & Director
Hideyuki Tonomura

Directors
Shichiro Iwane
Hiroshi Itawaki
Akira Morimoto
Tadashi Iwasaki
Chojiro Yamamoto
Yasuaki Yamamoto
Sumio Wada
Saburo Matsuyoshi

Standing Corporate Auditors
Mikio Yamada
Kenji Kondo

Corporate Auditors
Takaharu Dohi
Yoshiharu Takahashi

Executive Vice President & Officer
Hideyuki Tonomura

Senior Managing Executive Officers
Shichiro Iwane
Hiroshi Itawaki

Managing Executive Officers
Akira Morimoto
Tadashi Iwasaki
Chojiro Yamamoto
Sumio Wada
Yoshiro Kubota
Tetsuhiro Kamae
Kunitada Suzuki
Masanori Noritomi
Yuzo Matsumoto
Kenichi Moriuchi

Executive Officers
Kazuo Yoshimitsu
Kazuhisa Ami
Junichi Terada
Fumiaki Hirabayashi
Yoshimasa Konishi
Toshiharu Arakawa
Shiro Inagaki

Outline of the Company

Established
August 1, 1960

Capital Stock Issued
¥186,554,196,729

Employees
15,145

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

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

Laboratory
Kyoto

Overseas Subsidiaries
SEKISUI DEUTSCHLAND BAU GmbH

Domestic Subsidiaries and Affiliates
Sekiwa Real Estate Tohhoku, Ltd.
Sekiwa Real Estate, Ltd.
Sekiwa Real Estate, Chubu, Ltd.
Sekiwa Real Estate, Kansai, Ltd.
Sekiwa Real Estate, Chugoku, Ltd.
Sekiwa Real Estate, Kyushu, Ltd.
Kobe Rokko Island Co., Ltd.
Nishinomiya Marina City Development Co., Ltd.
Sekisui House Umeda Operation Co., Ltd.
SGM Operation Co., Ltd and 89 other subsidiaries.

Stock Listing
Tokyo Stock Exchange
Osaka Securities Exchange
Nagoya Stock Exchange
Frankfurt Stock Exchange
(Global Bearer Certificate)
Euronext Amsterdam

American Depositary Receipts
Depositary:
The Bank of New York

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