2004 Report

**Building Your Dreams** 

# Daiwa House group

DAIWA HOUSE INDUSTRY CO., LTD.

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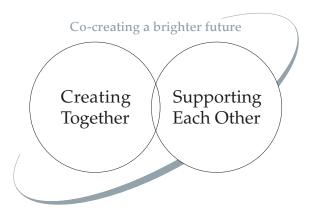
About this report ......Years shown in graphs are fiscal years ending March 31 unless otherwise indicated.

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

a segmental basis

Segment sales ratios, however, are calculated solely on the basis of sales to external customers.

# **Toward a brighter future**



In the fifty years since Daiwa House Industry Co., Ltd. was established in 1955, Japanese society has experienced remarkable change. The nation has experienced high economic growth, an economic bubble and a prolonged recession after that bubble burst. Daiwa House Industry has also expanded its operations substantially, from housing into commercial construction, resort hotels and home center businesses. It has grown to become a group of 43 companies in domestic and overseas markets and sales in excess of ¥1 trillion.

Over the last few years, we have been putting into place a new group management structure that enables the company to adapt to Japan's constantly changing social climate. Viewing this as an opportunity, we aim to win enduring customer loyalty for our brand and raise our profile among the general public. As we work to realize our ambitions for the future, we will retain the pioneer spirit we cultivated at our founding, and will uphold our commitment to co-creating a brighter future, constantly aware of the crucial social impact of our housing and construction operations. In this way, we will rise to meet the challenges facing Japanese society.

# In Japan

### Japanese Economy in Fiscal 2003

Economic growth abroad had positive implications for the Japanese economy, and corporate earnings recovered, especially in export-oriented manufacturers. The number of corporate bankruptcies and the unemployment rate fell year on year. While Japanese real GDP ultimately rose 3.2% from the previous term, achieving the highest rate of growth since fiscal 1996, and evidenced the recovery of the economy, housing and construction market have still kept shrinking.

Breakdown of real GDP in fiscal 2003



Private non-residential investment Private residential investment Public investment. etc.

#### **Construction and Housing Market in Japan**

After peaking at ¥84 trillion in fiscal 1992, the construction market in Japan fell consistently throughout fiscal 2003, dropping to ¥53,850 billion. As a percentage of GDP, construction investment also fell from a high of 20% to around 10%. In particular, government outlays on construction fell by a substantial margin of roughly 10% for the second consecutive year, significantly impacted by cutbacks in public works spending. In contrast, construction orders began showing signs of recovery, supported by rising capital spending, mainly in manufacturing.

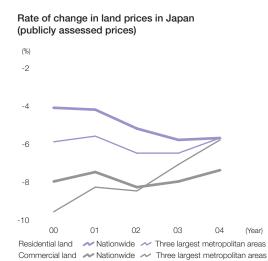
Private housing investment also continued to fall from its most recent peak of ¥28 trillion in fiscal 1996, reaching ¥17,880 billion during the term, or just two thirds of its peak level. New housing construction starts, which mainly consisted of private demand, did in fact reach 1,173,649 units. This represented a rise of 2.5% from the previous term — the first increase in four years — on the strength of positive factors such as the front-loading of housing demand before the revision of housing-related tax reduction, falling land prices and low interest rates. Still, the figure fell 30% short of the level in fiscal 1996, when the housing construction jumped ahead of the consumption tax hike. Market expansion remains difficult given the aging population, combined with a declining birthrate and a rise in the housing stock.

Although land prices in Japan fell for the thirteenth straight year, the rate of decline (in publicly assessed land prices) shrank 0.2 percentage point, as of January 2004 to 6.2% year-on-year. This was the first such improvement in six years, and primarily reflected signs of a bottoming-out in commercial districts in downtown Tokyo and residential areas in the 23-ward central part of Tokyo. The dichotomy between the three megalopolises and other parts of the country became more evident as residents returned to the center of Tokyo and other large cities, where redevelopment projects offered greater convenience and attracted an influx of investment capital.



#### Construction investment in Japan (unadjusted figures)

✓ Amount of construction investment and its share of GDP (right scale)



Private construction investment (left scale)

### **Dear Shareholders**

### **Continued Focus on Enterprise Value**

In fiscal 2002, the Daiwa House group recorded a net loss for the first time since it was established. This was a reflection of our strong determination to strengthen our financial position in preparation for significant growth in the future. In fiscal 2003, we began to translate this commitment into action.

During the term, consolidated sales reached a new record high of ¥1,224,648 million (US\$11,553 million), rising 3.4% over the previous term. Operating income amounted to ¥59,661 million (US\$563 million), up 31.8%, while net income was ¥37,257 million (US\$351 million), returning the group to the black. As chairman & CEO of the Daiwa House group, I would like to express my sincere gratitude to our shareholders for their continuing support.

With respect to our financial position, following a careful review of asset quality we posted a loss on valuation of real estate held for sale and an impairment loss on property, as one-time losses. We reduced the remaining balance of interest-bearing debt by ¥4,525 million, to ¥1,512 million on a consolidated basis, by the end of the term, moving closer to our goal of eliminating debt.

Given the results, we increased our annual dividend by ¥5 per share, to ¥15 for the term. We also reviewed the contents of our shareholder special benefit plan, which had been temporarily suspended, and resumed it. The Daiwa House group has successfully responded to the expectations of its shareholders, by growing at a clip that outpaces the Japanese economic recovery. As a consequence, our share price is twice as high as the level at the end of the previous term.

We will continue to strengthen our management structure in the following term. In my capacity as chairman and CEO, I will remain focused on increasing value for shareholders, in cooperation with Kenji Murakami, president and COO, and Tetsuji Ogawa, executive vice president and CFO. We will pursue consistent growth in enterprise value by focusing on improved profitability, maintaining a sincere approach to management and developing new technologies and businesses. Specifically, we plan to achieve consolidated sales of ¥1.5 trillion by fiscal 2005, reaching ¥2 trillion by fiscal 2010. We also intend to attain ROE of 15%, putting us on a par with the world's leading companies.

Takeo Higuchi

Takeo Higuchi Chairman and CEO

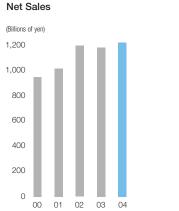


### **Consolidated Financial Highlights**

Daiwa House Industry Co., Ltd. and subsidiaries Years ended March 31, 2004, 2003 and 2002

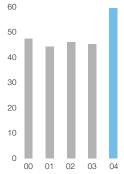
		Millions of yen		Thousands of U.S. dollars
	2004	2003	2002	2004
Net sales	¥1,224,648	¥1,184,544	¥1,197,925	\$11,553,283
Operating income	59,661	45,272	46,031	562,840
Other income (expenses)	8,236	(200,429)	(36,493)	77,698
Net income (loss)	37,257	(91,388)	5,217	351,481
Per share of common stock (in yen and dollars) Basic net income (loss)	68.16	(167.06)	9.55	0.64
Shareholders' equity	902.32	884.55	1,066.63	8.51
Cash dividends applicable to the year	15.00	10.00	10.00	0.14
otal assets	1,087,658	1,094,441	1,187,127	10,260,925
Shareholders' equity	493,050	483,684	582,438	4,651,415
Return on equity (%)	7.63	(17.14)	0.85	
Return on asset (%)	3.41	(8.01)	0.46	
Equity ratio (%)	45.33	44.19	49.06	

Note: The U.S. dollar amounts represent translations of Japanese yen for convenience only at the approximate exchange rate on March 31, 2004 of ¥106 = U.S.\$1.

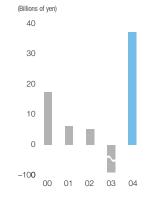


Operating income

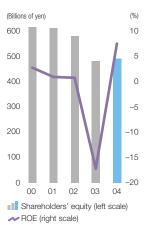
(Billions of yen)



Net income (loss)



Shareholders' equity/ROE



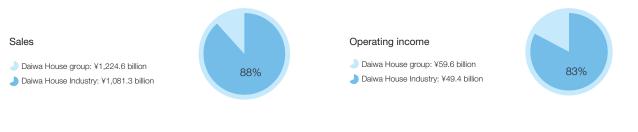
### **Group Results Summary**

As of March 31, 2004



Thanks to a sharp recovery in profits, the equity ratio rose 1.1 percentage points to 45.3%Approximately  $\frac{125}{25}$  billion lump-sum payment to Company's welfare pension fund Non-operating income increased due to  $\frac{19.5}{25}$  billion actuarial gain on retirement benefits Interest-bearing liabilities reduced by  $\frac{14.5}{25}$  billion to  $\frac{11.5}{25}$  billion at term-end

#### The parent company's share of the group total



#### Positive factors for fiscal 2003

#### Housing industry as a whole

Private-sector capital investment (in real terms) rose 12% year-on-year, topping the 10% growth mark for the first time in five years.

Current reduced tax amount on mortgage loans extended by one year.

#### Daiwa House group

The gross profit margin on land rose 6.6 percentage points. (Daiwa House non-consolidated figure)

The group's resort hotel business moved back into the black.

#### Negative factors for fiscal 2003

#### Housing industry as a whole

Although the margin of decline in the publicly assessed land price shrank, and a bottoming out of the downward trend was seen in certain quarters, the overall market situation remained weak.

The proportion of prefabricated housing as a percentage of total new housing construction starts declined for the fourth consecutive year, falling as far as 13.5%.

#### Daiwa House group

One-time expenses relating to the closure of home centers and other cost factors were recorded in the amount of ¥11.3 billion.

Sales of lot-subdivision single-family houses declined from the previous term, both in number of units and amount on a non-consolidated basis.

### **Investor Information**

As of March 31, 2004

Common stock	¥110,120 million (US\$1,038,86	58 thousand)
Shares	Authorized Issued and outstanding Number of shareholders	1,900,000,000 550,664,416 29,621

#### BPS and PBR

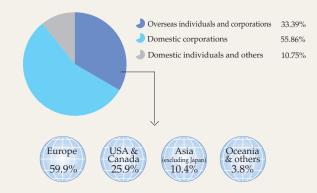


#### Shareholding by scale

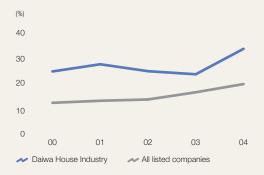
	C	(%)	
	1 million or more	407,404,226	73.98
V	l00 thousand or more	91,963,323	16.70
	→ 10 thousand or more	20,338,581	3.69
	left 5 thousand or more	6,761,431	1.23
	2 thousand or more	12,209,026	2.22
	↓ 1 thousand or more	9,557,335	1.74
	less than 1 thousand	2,430,494	0.44

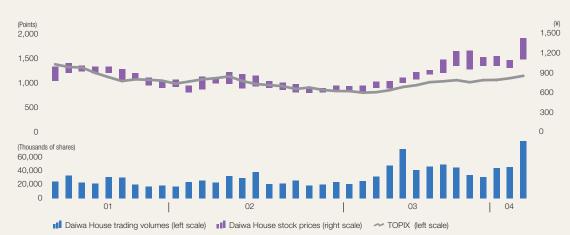
Principal shareholders	(Thousands of shares)
Japan Trustee Services Bank, Limited (trust account)	47,368
The Master Trust Bank of Japan, Ltd. (trust account)	34,430
The Chase Manhattan Bank NA, London	17,434
Nippon Life Insurance Company	12,839
The Dai-ichi Mutual Life Insurance Company	11,065
State Street Bank and Trust Company	10,471
UFJ Bank, Limited	10,032
Sumitomo Mitsui Banking Corporation	10,000
The Chuo Mitsui Trust and Banking Company, Limite	d 9,499
The Daiwa House Employee Shareholders' Associatio	n 9,336

#### Foreign shareholding ratio



#### Foreign shareholdings over time





#### Daiwa House's stock prices and trading volumes on the Tokyo Stock Exchange

Daiwa House Industry Co., Ltd.

Head office 3-3-5 Umeda, Kita-ku, Osaka 530-8241 Phone: +81-6-6346-2111 Fax: +81-6-6342-1399

#### Contact

Should you have any inquiries or need further information, please contact us at the numbers below: Daiwa House Financial Affairs Department Phone: +81-6-6342-1400 Fax: +81-6-6342-1419 e-mail: zaimubu@daiwahouse.jp

#### Daiwa House website

Daiwa House offers information on its latest corporate performance, annual report etc. on our website. Japanese site: http://www.daiwahouse.co.jp English site: http://www.daiwahouse.co.jp/English/index.html

#### Term-end

March 31 every year

#### Ordinary general meeting of shareholders

Held in Osaka at the end of June, which is within 3 months of the date of settlement of accounts for each year

#### Transfer agent

The Chuo Mitsui Trust and Banking Co., Ltd. 3-33-1 Shiba, Minato-ku, Tokyo

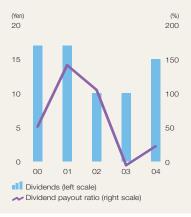
#### Securities traded

Osaka and Tokyo stock exchanges

#### Securities code

1925

#### Dividends and dividend payout ratio



#### Daiwa House Industry

Takeo Higuchi (middle) Chairman and CEO

Kenji Murakami (left) President and COO

Tetsuji Ogawa (right) Executive Vice President and CFO

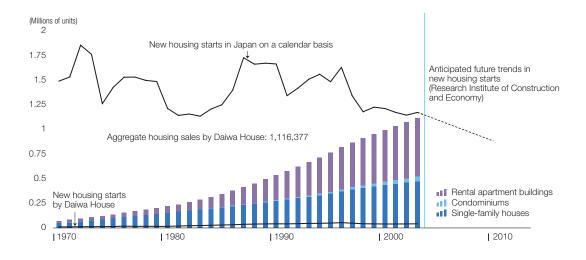
MSY.



### Message from the CEO



## **Toward a Brighter Future for Housing in Japan**



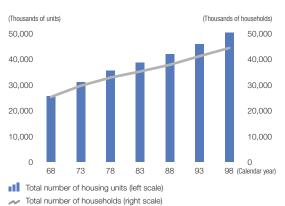
#### Total housing starts and Daiwa House aggregate sales

The mission of the Daiwa House group is to inspire new value in the housing industry in Japan. Our aim is to generate demand and explore a brighter future together with all of our stakeholders.

In step with socioeconomic change, housing needs in Japan have also experienced a number of phases during the 20th century, from a shortage of housing to a satisfaction of basic housing needs. We have now entered a period in which homeowners demand quality and affluence. During the period of high economic growth, the emphasis was on the value of goods, and the source of growth for the Daiwa House group was the market for new housing construction.

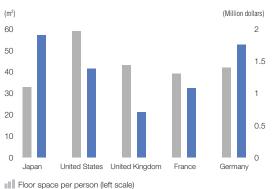
But in the more mature society that has emerged following the bursting of the economic bubble, the concept of housing is also changing dramatically, as the characteristics of the social environment shift from population growth to an aging population with a declining birthrate, and from lifelong employment to labor market liquidity.

As a pioneer, Daiwa House has continuously contributed to the development of prefabricated housing in the Japanese market, which first came into being in the immediate postwar period. Since then, we have constructed approximately 1.12 million housing units, and have grown into a major player in Japan's housing industry. I believe that the basis for future growth in our maturing society is to continue to provide long-lasting value for individual customers, by properly understanding their lifestyles. I want to paint a brighter future for housing as the first group of companies in Japan to build a bridge between "housing" and "lifestyles," by expanding our business portfolio into new lifestyle support businesses, from our traditional operations focused on new housing construction oriented operations. This is because I strongly believe that creating new value for living, and realizing that value in our group, will lead to a new era for the housing industry.



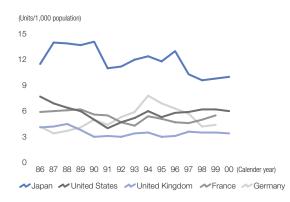
Housing in Japan and the number of households

Average housing space and investment



Private-sector housing investment per 1,000 population (1998) (right scale)

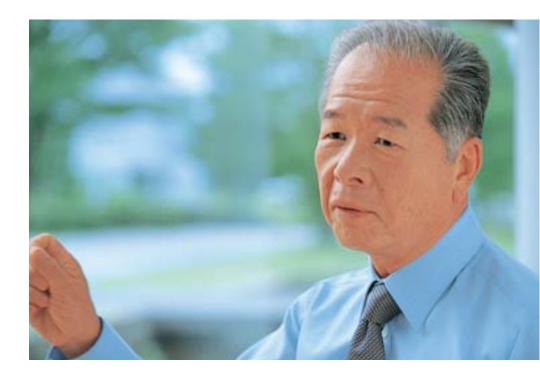
New housing starts per 1,000 population





For commercial structures, including retail and wholesale facilities, plants, and office buildings, we will provide value added to the businesses of customers in the private and public sectors alike, through our unique asset management consulting system and leading-edge construction technology, centering on a steel-pipe structure. We can offer advanced asset management services that help our corporate customers invigorate their businesses by effectively utilizing their idle real estate, supporting their office-opening strategies, and renovating their production and distribution facilities. Besides our leading construction technology, we can also call on our unique and unmatched consulting capability, in areas such as Hazard Analysis Critical Control Point (HACCP) for safety at food processing plants, and support for the opening of medical-care facilities.

In the housing stock market, we have approximately 3 million customers in about 1,120,000 households, combined with roughly 4 million hotel users per year. We will be proactive in offering services that improve quality of life for these customers. Home enlargement and renovation, the management of condominiums and the intermediary business are all promising areas with the potential to bolster asset value for our customers. We will also step up our focus on the home center and hotel businesses, as these can broaden and enrich lifestyles. In addition, we will ensure that our service businesses — which include leasing, renting, house-moving, insurance, travel agency, and temporary staffing — play a greater role in daily business and personal lives.



### **Integrating Group Businesses to Provide Comfortable Housing and Gracious Living**

The Japanese housing market is still marked by a significant gap between demand and supply. The housing stock of 50,250,000 units substantially exceeds the total number of households of 44,360,000. While new housing construction starts are relatively high at approximately 1,100 thousand units per year compared with the United States and Europe (1.7 times the figure in the United States per 1,000 population), the average size of a house is small, with space per person considerably smaller than in the United Kingdom, Germany, France and the United States. The changing nature of the Japanese family and its lifestyle has brought dramatic change to the housing market. For example, Japan is the most rapidly aging nation in the world, with elderly people now accounting for 19% of the total population, and the average household has shrunk to just 2.67 persons, half the pre-war level. I will endeavor to ensure that the Daiwa House group is able to provide new value to customers, by correctly identifying the needs in both the flow and stock housing markets.

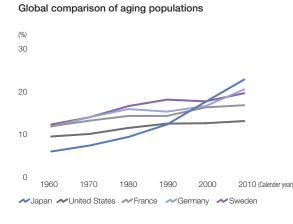
In new housing construction, consumers are not satisfied with the functions and performance of a house that has an effective life of just 25 to 30 years. We will therefore develop and build houses that have high asset value and that provide a home for many years. We will strive to increase our market share based on our outstanding technologies, which are geared for the future society and for the environment, while taking local characteristics into account. These technologies include a quake-dampening system — vital for earthquake-prone Japan — energy saving and crime-prevention functions, a universal design, and a skeleton-infill design.

# *FuKaKeTsu* – The Byword for Growth in New Markets

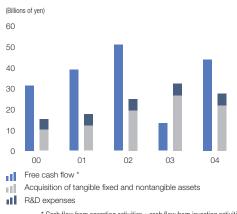
From the time of its founding, Daiwa House has consistently identified ways to achieve growth in every area of housing. Our sources of growth are an innovative spirit that generates ideas and a willingness to invest our resources in creating demand for these ideas. We believe that the key word for exploring new markets and achieving growth in the future Japanese market is *FuKaKeTsu* (meaning "essential").

The first syllable *Fu* stands for *Fukushi*, denoting medicine and welfare. We have an excellent track record in this area, having completed 970 healthcare projects, ranging from facilities for the elderly to cutting-edge multifunction nursing homes under the auspices of the Daiwa House Silver Age Research Center, which plays a leading role in the nursing and healthcare construction segment. We aim to dominate the medical care and welfare market on the strength of the advanced consulting capability we have developed in the construction and management of nursing and healthcare-related facilities.

The second syllable *Ka* is for *Kankyo*, the environment, a field where great technological development is expected. We will seek to find and take advantage of opportunities for new environmental businesses by promoting technological research in cooperation with other industries, governments or universities. This research will focus on reducing the burden on the environment with longer building life, developing wind and solar-generated electricity, recycling waste building materials, and offering rooftop gardening.







\* Cash flow from operating activities + cash flow from investing activities



The third syllable *Ke* stands for *Kenko*, healthcare. We will bolster our competitive edge through research into nextgeneration facilities enable people to manage their health in the home. Our products will also incorporate developments related to the housing environment, such as air ventilation, air quality, natural lighting and illumination.

The last syllable *Tsu* represents *Tsuushin*, namely information and communication technology (ICT) and telecommunications. With more than 30% of Japanese households now enjoying broadband access, we are experimenting with practical applications of ICT in the home by incorporating an internal network into a model house.

We will strengthen the function of our Central Research Laboratory and vigorously invest in intellectual property. We plan to bolster research and development expenses 12% from the previous term, to ¥6.3 billion in fiscal 2004, and we will expand this budget to ¥20 billion in the future, to ensure that sales of the Daiwa House group reach ¥10 trillion.

	Ma	in Improvements Made in FY2001–2003	New Group Management Structure	
		FY2001-2002	FY2003	
	Management	<ul> <li>Directors' term of office cut from 2 years to 1 year</li> <li>Middle management workforce reduced by 50%</li> <li>Risk management bolstered</li> <li>Change from division-based to branch-based organization</li> <li>Introduction of performance-linked pay system for branch managers</li> <li>Reduced number of companies for more customer-focused management</li> <li>Introduction of points system to calculation for lump-sum payment at employees' retirement</li> <li>Establishment of risk management committee</li> <li>Online disclosure of invitations to shareholders' meetings (Japanese/English); online execution of voting rights (Japanese only)</li> </ul>	<ul> <li>Introduction of in-house entrepreneur system</li> <li>1 corporate auditor (outside) added, making 5 corporate auditors</li> <li>Pressing ahead with reinforced initiatives in the field of CSR</li> <li>Support for purchase of low-emission vehicles by employees (cars owned by staff who visit clients and used both for work and private use)</li> </ul>	
tradi- value lards	Operations	<ul> <li>Aggregate housing sales pass 1-million unit mark</li> <li>First prefabricated house featuring earthquake-dampening system launched</li> <li>Insulation method for outer walls adopted</li> <li>Launch of wooden house series</li> <li>ISO14001 certification acquired by factories and purchasing divisions</li> <li>Seven local sales companies established</li> <li>Marketing, design, product development functions reorganized along regional lines</li> <li>Renovation &amp; rebuilding services expanded</li> <li>Voluntary Environmental Action Plan drawn up</li> <li>All 13 factories reach zero-emission targets</li> </ul>	<ul> <li>Earthquake-dampening system improved and costs reduced</li> <li>Crime-prevention specifications installed as standard equipment</li> <li>Meeting standards stipulated in the revised Building Standard Law to prevent the sick house phenomenon</li> <li>New construction method for wooden houses developed</li> <li>Companies specializing in housing loans and renovation established</li> <li>Resort hotel business returns to profitability</li> </ul>	To a bi fi
	Financial position	<ul> <li>Interest-bearing debt reduced by ¥80.1 billion</li> <li>An unrealized loss of ¥59.9 billion recorded on land revaluation</li> <li>SG&amp;A expenses reduced</li> <li>Changes in accounting policies for retirement benefits</li> <li>Total elimination of unrealized loss on land</li> <li>Debt-free management achieved on a non-consolidated basis</li> <li>Termination of agency service for government-run employee pension fund</li> <li>Loss recognized on liquidation of affiliates</li> <li>Extraordinary depreciation of property exceeding about ¥75 billion</li> </ul>	<ul> <li>Early application of impairment loss evaluation for fixed assets</li> <li>Recommencement of shareholder special benefit plan</li> <li>Contribution of about ¥25 billion to the welfare pension fund</li> <li>Disclosure of quarterly results begin</li> </ul>	

From t tional stand

### **Creating an Exciting Future Together**

What do you think of our plans and our vision of the future?

After a long slump, Japan has begun to look for a new way to move ahead. I am convinced that one powerful means of opening up new opportunities for Japan is to encourage a sense of values in which the dreams and the life of each individual are cherished. My aspiration is to make the Daiwa House group into the first choice of ordinary citizens, because it provides them with a truly high quality product and a valuable service and combines our dreams with theirs. I want to contribute to Japanese society by proposing new value for the housing industry, based on a pioneering spirit and an ambition of "co-creating a brighter future." This proposal would reflect both contemporary and future Japan, recognizing that society is constantly evolving.

We will continue to promote disclosure and will remain dedicated to our environmental and social contribution activities. We will also stay committed to building a sincere relationship with all of our stakeholders. Our aim is to be a leading company in Japan with a strong group brand that has the ongoing trust and support of society.

We hope that we can count on your continued support as we strive to create an exciting future.

Takeo Higuchi Chairman and CEO



### **Never Stop Growing**

In January 2004, a statue in memory of Daiwa House founder Nobuo Ishibashi was dedicated and unveiled on the grounds of the Noto Royal Hotel. Mr. Ishibashi was the pioneer in the development of the Japanese prefabricated housing industry in the years immediately following the end of WWII. By opening up a whole new era of growth in the housing industry, Mr. Ishibashi made a significant contribution to Japan's socioeconomic development, and it is our firm resolve to carry on in the same pioneering spirit.



Statue of Nobuo Ishibashi, the founder of Daiwa House (Noto Royal Hotel, Ishikawa)

### Message from the COO



# **Inspiring Dreams, and Becoming No.1 in Housing Business**



Daiwa House Industry is a leading housing manufacturer in Japan, constructing over 40,000 housing units, including rental apartment buildings and condominiums every year and holding a cumulative total of approximately 1,120,000 housing units of our customers. Our housing business accounts for 65.1% of our total sales on a consolidated basis. However, our share of the market for annual new housing construction starts is now only 3.6%, dropping us to second place from our previous position as leader of the prefabrication housing industry. After focusing on a wide range of lifestyle and commercial businesses under a strategy of diversification, it is time for us to concentrate on regaining our leadership position in the housing industry, especially now that we have our new group management structure in place.

One of the key requirements for achieving this goal is to expand our market share in the Kanto region. Of particular importance is Tokyo, the largest market in Japan and home to a large number of high-income individuals. Single-family house construction starts in Tokyo account for 9.1%<sup>\*1</sup> of the nation's total, and the rate of growth is high, at 10.6%<sup>\*2</sup>. As a company that operates nationwide, Tokyo for us is an area where we can expand our market share. To do that, we will boost both quality and quantity in both our products and organization. On the product side, we will increase sales by introducing new offerings, including three-story houses that respond to urban land and construction realities. We will also set up a housing exhibition space for mid-to-high-end products that make a greater contribution to profits. With respect to single-family houses for sale, we will develop and provide competitive products from single-family housing for smaller city center development sites to housing for larger, suburban sites, taking advantage of our outstanding technology in developing housing sites to respond to an anticipated return to city centers and strong demand from the younger cohorts of the baby boomer generation. In organizational aspects, we will expand our service capability based on a community-oriented organizational structure. For example, we will open new offices and promote the training of personnel, strategic personnel transfers and faster decision-making.

Another important issue is the improvement of after-sales service. We will redouble our focus on maintaining and improving customer satisfaction and asset value, for example by providing a system of long-term 40-year warranties\*<sup>3</sup>, having our customer advice centers conduct regular inspections and visits, and making routine calls on users, particularly those living in large-scale residential estates (new towns) developed by our home enlargement and reconstruction centers. We will improve our services in every phase of the relationship with our customers, from the first meeting through to contract and delivery. Our aim is to become No.1 in Japan in the housing business — our core field of operations — by offering products and services with stronger appeal than those of our competitors.

\*2: Average for custom-made and lot-subdivision houses for sale

<sup>\*1:</sup> Total for custom-made and lot-subdivision houses for sale

<sup>\*3:</sup> Applied to housing and rental apartment buildings (depending on method of construction)

### **Targeting the Commercial Construction Business** with Outstanding Consulting Capabilities

Commercial construction is our second-largest business (accounting for 22.0% of overall sales) behind housing. While construction investment in Japan has fallen to two thirds of the peak level recorded in fiscal 1992, creating a difficult environment in which approximately 1% of industry players fail each year, our commercial construction business is widely respected for its state-of-the-art technology and for its consulting capabilities. This enabled us to post an 11.7% increase in sales on a consolidated basis in fiscal 2003, making a significant contribution of profits.

In the retail and wholesale facilities business, we have 22,000 constructed facilities, 3,160 companies opening outlets and approximately 5,000 land-owning members, based on our asset consulting services, which provide a link between land owners and companies seeking to open outlets. We are vigorously encouraging corporations to use their idle land and we are promoting the construction of large-scale commercial facilities, employing comprehensive support that starts with land inspection, and moves on through a business plan and the introduction of tenants, to the construction and management of facilities. We are also focusing on using the stock to generate new businesses, such as the renovation and reconstruction of retail outlets.

In the steel-pipe and general construction business, we have a strong track record in diverse buildings, including plants, retail outlets, office buildings, warehouses, schools and hospitals. As market needs have recently tended to focus more on areas requiring specialist expertise and technology, such as the consolidation of distribution facilities and the expansion of their functions, the renewal of office buildings, health and safety at food plants and the new opening of clinics, the number of business areas in which we excel has been rising. In addition, as nursing care and welfare related demand increases and diversifies in response to demographic change in Japan, our Silver Age Research Center finds increasing ways to taking advantage of its own specialty. We will enhance our competitiveness in this area even further, by improving our consulting capability, a strength that we have developed over many years.



The most valuable assets that we have are our employees. We will break down artificial boundaries set by age, sex and physical ability, and improve education and training. We will actively promote capable people to supervisory positions to develop a strong, highly regarded team of professionals. My aim is for our customers to feel attached to Daiwa House Industry, the core company of the group, and for our employees to be proud of working with us.

> Kenji Murakami President and COO





The financial reforms that we instituted in fiscal 2002 enabled us to record a strong operating performance in fiscal 2003. The rates of growth we achieve in both sales and profit outpaced the average for listed companies<sup>\*1</sup> and we raised ROE to more than 7% for the first time in seven years. These achievements came despite the fact that the construction and real estate industry continued to suffer from a high reliance on debt, as construction costs rose, although the Japanese economy entered its third recovery since the bursting of the economic bubble. The price of shares in our parent company was double the level recorded at the end of the previous term, and we increased our annual dividend by ¥5 to ¥15, giving us a payout ratio of 25.6%. As the CFO of the Daiwa House group, I would like to express my sincere gratitude for the consistent support our shareholders have shown us.

In fiscal 2003, we further strengthened our balance sheet and posted a one-time loss of ¥11,327 million, mainly reflecting a reexamination of real estate held for sale, the early application of impairment loss evaluation on fixed assets, the disposal of certain home centers and the reduction of deferred tax assets related to the revaluation of lands. As a result, shareholders' equity ratio rose 1.1 percentage points from the previous term, to 45.3%, well above the 30.2% average for fiscal 2003 for Japanese companies closing their books between January and March.

<sup>\*1: 1,382</sup> Japanese companies listed on the Tokyo Stock Exchange, consolidated basis: Sales +1.8%, Operating income +14.5%

<sup>\*2:</sup> Resolution at the general meeting of shareholders on the settlement of accounts for fiscal 2003.

Our consolidated financial state	ments a	t a glance			Consolidated balance sheets		Millions of ye	
					Account title	2004	Yoy Change	
Consolidated statement of operations		Millions of yen			Current assets	496,291	27,99	
Account title	2004	Yoy Change			Property, plant and equipment	344,268	(5,378	
Net sales	1,224,648	40,104			Investments and other assets	247,099	(29,400	
Operating income	59,661	14,389			Investment securities	45,801	19,81	
Other income	8,236	208,665			Investments in and advances to associated companies*	46,921	21,02	
Amortization of actuarial gain (loss) for employees' retirement benefits	15,460	20,385	•	3	Total	1,087,658	(6,783	
Income before income taxes	67,897	223,054			Current liabilities	279,453	10,64	
Net income	37,257	128,645			Long-term liabilities	295,762	(23,42)	
ivermeone	57,257	120,045	╵└	≯	Liability for employees' retirement benefits	103,237	(33,24	
9			4		Shareholders' equity	493,050	9,36	
				-	Retained earnings	313,215	23,37	
					Net unrealized gain on available-for-sale securities	12,958	12,18	
Consolidated statement of cash flows		Millions of yen			Total	1,087,658	(6,78	
Account title	2004	Yoy Change						
			-		<ul> <li>Increase in operating income with a reduction of depreciat expenses</li> </ul>			
Income before income taxes	67 <i>,</i> 897	223,054		(		duction of c	lepreciatio	
Income before income taxes     Depreciation	67,897 15,165	223,054 (6,221)			expenses 2 Increase in net cash provided by opera			
	,	,			expenses	iting activiti	es throug	
<ul> <li>Depreciation</li> <li>Provision for employees' retirement</li> </ul>	15,165	(6,221)	•		<ul> <li>expenses</li> <li>Increase in net cash provided by operative increase in profit</li> <li>Decrease in liability for employees' refation good performance on pension investive payment of contribution to welfare performance on pension investive payment of contribution to welfare penders.</li> </ul>	iting activiti irement ber ment and a nsion fund	es through efits with lump-sum	
<ul> <li>Depreciation</li> <li>Provision for employees' retirement benefits, net of payments</li> </ul>	15,165 (30,067)	(6,221) (115,069)			<ul> <li>expenses</li> <li>2 Increase in net cash provided by operative increase in profit</li> <li>3 Decrease in liability for employees' refation a good performance on pension investion</li> </ul>	iting activiti irement ber ment and a nsion fund naped recov	es through nefits with lump-sum ery of pro	

\* Investments in associated companies amount to ¥30,289 million.

We also made a lump-sum contribution of approximately ¥25 billion to our welfare pension fund, the public portion of which we returned to the government, to compensate for the shortfall in the reserve. We plan to make an additional contribution in September 2004 to ensure that our pension financing is sound.

With respect to capital strategy, we revised the Articles of Incorporation<sup>\*</sup><sup>2</sup> to make decisions on the purchase of our own shares subject only to resolutions of the Board of Directors. This will enable us to make decisions more flexibly, especially in the context of mergers and acquisitions, from a group management perspective.

The Daiwa House group will work towards its aim of a bright future based on the group management structure. I will promote financial strategies that emphasize cash flow based on a sound debt-free balance sheet and will strive to increase value for shareholders over the long term, using as an indicator profitability that is on a par with that of the world's leading companies, notably an ROE of about 15%.

**Tetsuji Ogawa** *Executive Vice President and CFO*  6

### **Corporate Management**

As of June 29, 2004

#### Board of directors and corporate auditors



Takeo Higuchi\* Chairman and CEO



Kenji Murakami\* President and COO



Mitsuo Funatsu<sup>\*</sup> Executive Vice President



Tamio Ishibashi\* Executive Vice President



Kimitaka Komatsu Managing Director





Takashi Uzui Managing Director



Hiroshi Azuma Managing Director



Osami Nishikawa Managing Director

#### Presidents of principal subsidiaries and affiliates



Mutsuo Kajimoto DAIWA KOSHO LEASE CO., LTD.



Kenji Ito daiwa rakuda industry co., ltd.



Katsuyoshi Tateno DAIWA LOGISTICS CO., LTD.



Isao Kusunoki DAIWALIVING CO., LTD.



Norihisa Oda DAIWA SERVICE CO., LTD.



Minoru Fujita *Nihon jyutaku Ryutu co., ltd*.



Tetsuji Ogawa\* Executive Vice President and CFO



Takuya Ishibashi Executive Managing Director



Naotake Ohno Executive Managing Director



Takeshi Kajimoto Managing Director



Shigeo Otsuka Managing Director



Tatsushi Nishimura Managing Director



Yoshiaki Takamura Managing Director



Munemitsu Kimura Tsuyoshi Natsume Tadashi Murakaku Seiki Nishi Tsugio Hamada Chiyohiro Aoyagi

#### Corporate Auditors (standing)

Kohei Nakabo Hiromasa Kobayashi Toshihiko Emi Eiichi Takeda

Corporate auditor Hiromi Doi



Masanori Nishio ROYAL HOME CENTER CO., LTD.



Tsuyoshi Ochi *daiwaroyal co., ltd*.



Masayasu Enomoto DAIWA INFORMATION SERVICES CO., LTD.

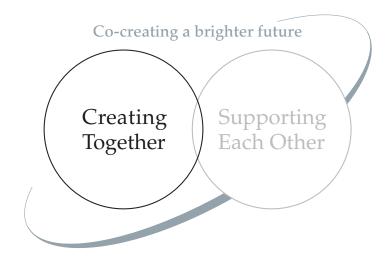


Toshihiro Yokota LOC DEVELOPMENT CO., LTD.



Keiichi Honda DAIWARESORT CO., LTD.





The companies of the Daiwa House group operate in a broad range of businesses extending outward from our core field of homebuilding and office construction to encompass a wide swathe of lifestylerelated customer needs. We will continue building up Japan's social capital in our core business fields while providing various lifestyle support and enhancement services. Going forward, we will provide a solid business infrastructure, which is said to be essential to the future prosperity of Japanese society. By raising the quality level of our products and services to provide value-added lifestyle-related assets that meet with full customer satisfaction, we will continue to forge ahead on our path toward a brighter future for all.

#### **Business Outline 30**

- Housing 32
- Commercial Construction 38
  - Resort Hotels 42
  - Home Center Business 44
    - Other Businesses 46

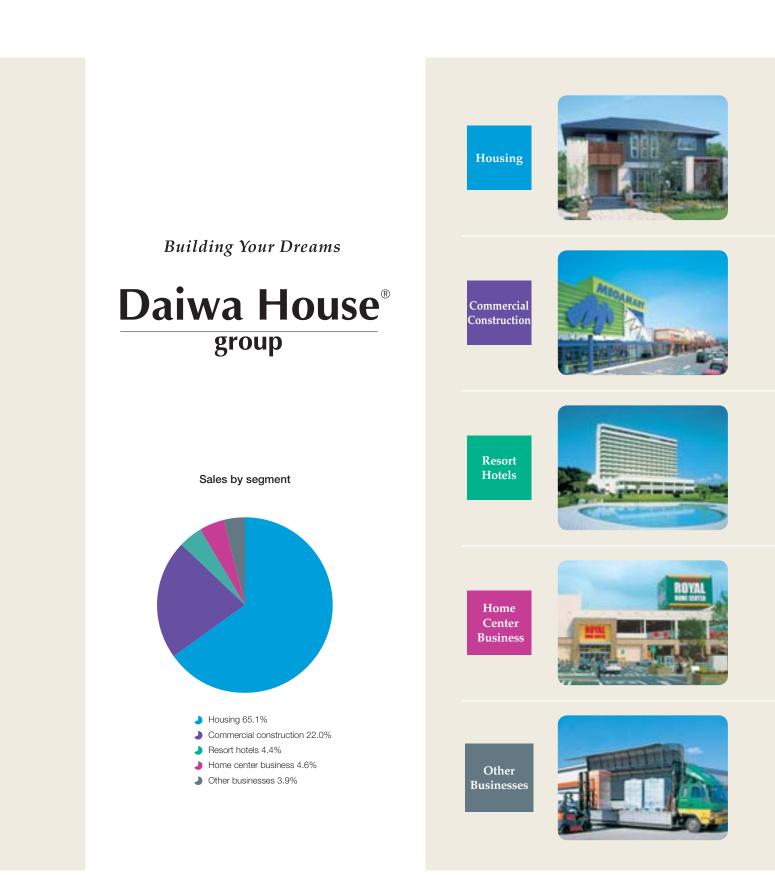


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### **Business Outline**



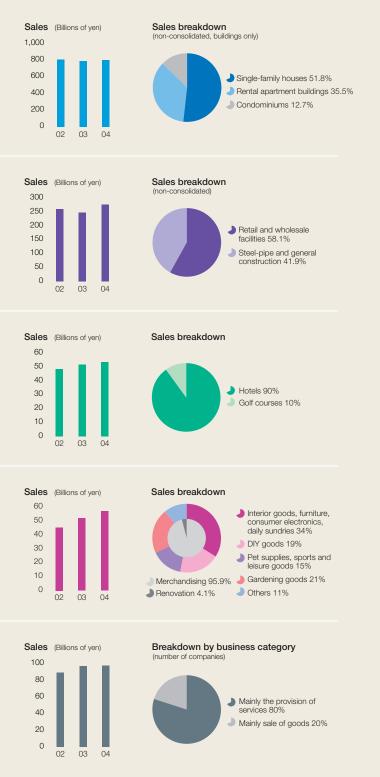
Housing operations constitute the group's core business field, accounting for 65.1% of sales. These core businesses encompass a broad array of operations that relate to the home, and range from the construction of houses under contract and the sale of houses, and condominiums and residential lots, to the building of apartments for rental use, renovations, a real estate agent service, and housing management. This segment has a cumulative total of more than 1,100,000 customer housing units.

Commercial construction is another pillar of the group's construction activities, accounting for 22.0% of total sales. In this segment, we identify demand for business facilities using our impressive store of land information and our construction consulting capabilities. The division is divided into two categories: the construction of commercial facilities located in suburban areas for retailers and wholesalers, and steel-pipe and general construction that includes the planning, construction and management of office buildings, distribution facilities, and medical and nursing-care facilities.

Our resort hotels segment involves the operation of 29 Daiwa Royal Hotels and 10 golf courses throughout Japan, from Hokkaido to Okinawa. This segment accounts for 4.4% of sales on a consolidated basis. In the Japanese hotel industry, these hotels are classified as resort hotels, as we operate both hotels and golf courses in harmony with their natural environment. Within the segment, the ratio of sales generated by hotels to sales from our golf courses is approximately 9:1.

Our home center segment operates 35 home centers nationwide. These centers stock an average of 50,000 items each, primarily do-it-yourself products, and including interior and exterior, outdoor and leisure goods and pet supplies. We also have a considerable focus on renovations, calling on our background as a housing manufacturer. On a consolidated basis, the segment accounts for 4.6% of sales.

Our other businesses primarily include the lifestyle-related services which group subsidiaries and affiliates provide, and contribute 3.9% of consolidated sales. There are mainly 15 categories related to business and lifestyles, ranging from corporate-oriented business such as the manufacture and sale of construction materials, goods distribution, the lease of buildings and automobiles and Energy Service Companies (ESCO) operations, to services for end-users, including removals and the operation of business hotels, insurance services and a travel agency.





# Aiming to be the leader in the housing industry in Japan

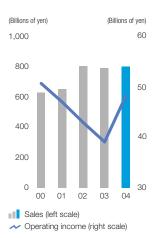
Unit sales came to more over 42,000 units on a non-consolidated basis, rising 3.5% from the previous year

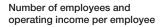


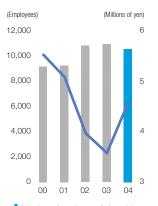
In fiscal 2003, new housing construction starts rose 2.5% over the previous term, the first upturn in four years. In our housing business, while sales reached ¥800,631 million on a consolidated basis, rising 1.1%, operating income jumped 23.3% to ¥48,266 million. Although unit sales\* also rose 3.6%, this was mainly because of the increase in rental apartment buildings and condominiums, which suggested that the key task for achieving future growth will be to expand our market share in sales of single-family houses in the Tokyo region. We aim to be the leader in the Japanese housing industry in terms of both quantity and quality, by bolstering our performance in the new housing construction market and improving our services.

\*On a non-consolidated basis

#### Sales and operating income







Number of employees (left scale)
 Operating income per employee (right scale)

# Housing

#### **Single-Family Houses**



Two-story houses\* Three-story houses\* One-story houses\* Wooden houses Region-specific products Built-to-order houses

\*Steel frame construction

#### Rental Apartment Buildings



Central staircase type Side corridor type Duplex type Stack-on type\*

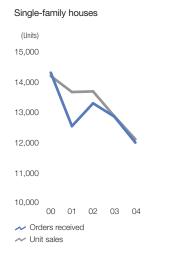
\*Self contained apartments with private access from the ground floor

#### Condominiums



Luxury condominiums Urban-type buildings Multi-building type Highrise buildings Suburban type

#### Orders and sales (non-consolidated)



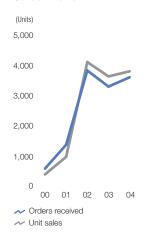
# (Units) 30,000 25,000 20,000

Rental apartment buildings

15,000

10,000 00 01 02 03 04 Corders received Unit sales

#### Condominiums







### **Single-Family Houses**

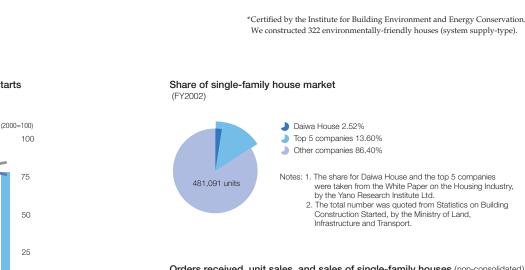
#### Our 470,000 residences constitute the wellspring of our business strength

Since its establishment, the Daiwa House group has been a pioneer and a leader in the Japanese housing industry. Single-family houses are our core business. Every year we build more than 10,000 houses, employing a broad lineup that ranges from prefabricated to traditional wooden houses, and construction that employs the two-by-four method. We are also able to call on advanced planning capabilities and sophisticated technologies, as well as a strong track record in preparing and developing residential sites.

In fiscal 2003, the market for newly constructed single-family houses improved, after a few years of decline. Construction of owneroccupied houses increased 2.1% to 373,015 units, while houses built for sale were up 11.9% to 129,327 units. We not only continued to improve the basic performance of our houses, especially responding to demands for better protection against natural disasters, and a variety of climatic conditions. We also answered social needs for functions to protect against the increasing incidence of housebreaking and for more environmentally-friendly designs. The quake-dampening system that we pioneered three years ago was improved, and is now available as an option in all of our two-story prefabricated houses at a reasonable cost.

Daiwa House Industry became the first manufacturer in the industry to build all single-family houses to tough crime-prevention standards, equipping them with double-glazing windows on the first floor, a video door phone and windows with double locks to achieve a higher security level. In addition, as a response to the so-called "sick house" phenomenon, we introduced new in-house standards in the summer of 2003. These standards are stricter than the revised Building Standard Law and will improve the air environment, which has been adversely impacted by high insulation. Daiwa House Industry was ranked number one in constructing environmentallyfriendly housing\* in fiscal 2003.

However, revenue from the construction of owner-occupied houses fell slightly (0.7%) from the previous term, to 10,378 units on a nonconsolidated basis. Lot-subdivision house sales declined 28.1%, to 1,765 units.



Orders received, unit sales, and sales of single-family houses (non-consolidated)

	2004	2003	2002	2001	2000
Orders received	12,033	12,859	13,332	12,577	14,345
Unit sales	12,143	12,909	13,725	13,705	14,234
Sales (Billions of yen)	¥326	¥329	¥348	¥343	¥350

#### Housing sales and construction starts

(Thousands of units)

600

450

75

Annual housing starts index: nationwide (owner-occupied + lot-subdivision) (right scale)

# **Rental Apartment Buildings**



# Unit sales rose a healthy 8.3% to 26,411 units, while the number of buildings under management jumped 27.0% to 90,263 units\*

The market for newly constructed apartment buildings remained brisk, thanks to lower interest rates and the upcoming removal of the liquid deposit guarantee. New construction starts rose 0.9% from the previous term, to 458,708 units, the third consecutive year-on-year increase. The trend from ownership to utilization also became more evident: the percentage of survey respondents who believe that ownership is not necessary reached a record high (11.8%), while those who think that real estate is a more advantageous asset than deposits and stock fell to the lowest-ever level (33.2%). In cooperation with our subsidiary Daiwaliving, we have catered to the increasingly diverse lifestyles of residents by providing apartment buildings with a high asset value, which would be the first choice of tenants, while offering comprehensive owner support in every stage from business plan through construction, rental management and the solicitation of tenants.

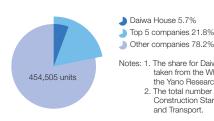
In fiscal 2003, we launched a popular series of new maisonette-style products, which offer the feel of a single-family house. We also vigorously improved our consulting capability in the market for large-scale residential developments offering a pleasant living environment with multiple apartment buildings. The number of such developments showed a substantial rise of 62% from the previous term, to 932 units, as we used fixed-term land leasehold method to reduce the burden on the land owner and sought to deliver high levels of satisfaction to residents. As a part of our unique asset consulting service, we organized a landowners club nationwide, and number of members exceeded 12,000 in fiscal 2003. We advertised rental apartment buildings constructed by the Company on our web site, to attract tenants and thus to enhance our support to landowners. Consequently, sales rose 7.6%, to ¥223,800 million on a non-consolidated basis, and sales of Daiwaliving also demonstrated a significant increase of 22.8% to ¥58,022 million.

\*Total number of units under management by Daiwaliving



#### Rental apartment sales and construction starts

Share of rental apartment market (FY2002)



- Other companies 78.2%
  Notes: 1. The share for Daiwa House and the top 5 companies were taken from the White Paper on the Housing Industry, by
  - the Yano Research Institute Ltd.
     The total number was quoted from Statistics on Building Construction Started, by the Ministry of Land, Infrastructure and Transport.

#### Orders received, unit sales, and sales of rental apartments (non-consolidated)

	2004	2003	2002	2001	2000
Orders received		25,140	23,222	19,835	21,366
Unit sales	26,411	24,392	22,416	20,490	22,031
Sales (Billions of yen)	¥223	¥208	¥193	¥176	¥186



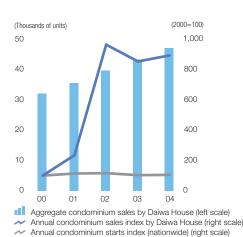
# Condominiums

# Unit sales on a non-consolidated basis rose 4.6%, to 3,838 units, while the number of buildings under management was up 6.9%, at 38,694 units

After declining for the last two years, the condominium market in fiscal 2003 staged a slight rebound, expanding 2.0% to 202,376 units, aided by the housing loan tax reduction and the growth in demand in Tokyo spurred by declining land prices. With the return to city centers becoming increasing evident, we focused on supplying urban-type condominiums and condominiums in high-rise buildings, in addition to products geared to their location and the characteristics peculiar to cities. We also introduced functions and equipment such as crime prevention and broadband facilities, to raise the added value of our products.

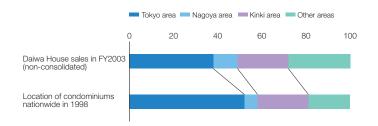
Other new systems such as a biometrics (fingerprint) key, a remote control system using a mobile phone to confirm doors and windows are locked, and a kerosene cogeneration system (a first for Japan) were also introduced in a condominium in Sapporo. In Kobe, which in 1995 was devastated by the Great Hanshin Earthquake, we are constructing the tallest condominium building in Japan employing a quake-dampening structure.

With an increasing number of condominium residents (roughly half) now viewing their condominium as a permanent residence, it is becoming more important to provide daily living support and proper maintenance and management of the condominium as an asset. Our subsidiary, Daiwa Service, which provides a comprehensive management service, continued to take steps to bolster management operations with such measures as a 24-hour unit-specific management system (introduced at about 30,000 units) and the acquisition of ISO9001. We hope to revitalize the market for resale condominiums in Japan in cooperation with our subsidiary Nihon Jyutaku Ryutu, while building an inspection history file for self-developed condominiums to maintain their asset values, as well as a free-of-charge inspection service at the time of sale, and a quality assurance system based on the inspections.



#### Condominium sales and construction starts

#### Area breakdown of condominium sales



#### Orders received, unit sales, and sales of condominiums (non-consolidated)

	2004	2003	2002	2001	2000
Orders received	3,640	3,333	3,864	1,409	620
Unit sales	3,838	3,669	4,143	1,009	429
Sales (Billions of yen)	¥121	¥120	¥132	¥27	

## Creating a dependable business model connecting the new housing construction and renovation & resale house markets

### **Renovation Business**

Our main response to the dramatic changes in the Japanese housing market will be to focus on the growing demand for home renovation, making use of our strengths, which include our long relationships with our customers, a long-term 40-year warranty\*, comprehensive after-sales service, and expertise in a wide variety of construction methods.

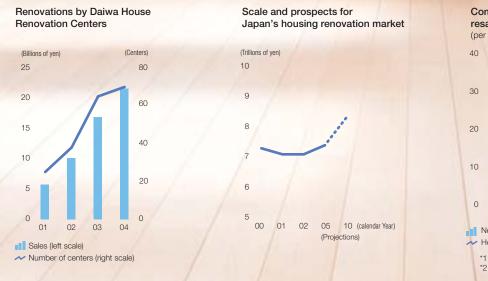
Daiwa House Industry operates home renovation centers through a nationwide network of 70 branches. Both the size of the operation and its results have improved: the number of employees increased 32.2% from the previous term, to 386, and sales were up 27.9%, at ¥21,585 million. We are concentrating on visits to users living in large-scale housing developments built by us, as roughly 50% of residents prefer consulting on maintenance issues with the company that built their home. We have also received a number of orders from general customers (whose houses were constructed by other companies). These customers currently account for about 30% of total sales in this business, and we will be seeking to raise this figure.

\*Applied to housing and rental apartment buildings (depending on method of construction)

### **Real Estate Agency Services**

New housing construction starts<sup>\*1</sup> in Japan are about twice the level in the United States, while circulation of resale houses<sup>\*2</sup> is approximately one-fifth. In the United States, a resident changes houses seven times in a lifetime, and the appraisal value of the house does not fall substantially, even after many years of use. In contrast, the purchase of a house is close to once in a lifetime in Japan, and the appraisal value<sup>\*3</sup> falls to nearly zero over 20 years. Daiwa House has begun to develop approaches that will increase the asset value of our customers' houses and enable appropriate appraisal of the condominiums that we sell. These measures include proper maintenance and management, including after-sales services. Our subsidiary Nihon Jyutaku Ryutu operates a unique system that provides renovation and intermediary services as a set. This approach has proven popular with vendors and purchasers alike, and user numbers are rising.

> \*1 Per thousand households (as of 1997) \*2 Per thousand households (Japan, 1994; USA, 1996) \*3 Appraised values can vary, depending on the property.







**Commercial Construction** 

# Technology and consulting capability lead business construction in Japan

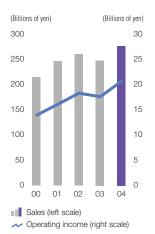
Sales in this segment increased 11.7% (to \$277.0 billion), while operating income climbed 17.2% (to \$20.7 billion)

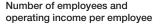


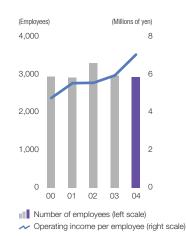
In fiscal 2003, construction investment in Japan declined for the seventh consecutive year. While government outlays on construction fell by about 10% and orders received by the 50 major construction companies rose only 0.2% on average, orders logged by the Daiwa House group increased 6.3%\*. These results were led by the construction of major commercial complexes in suburban areas as well as other facilities requiring special know-how and technology, such as group homes and day service centers — areas in which demand is growing rapidly — as well as distribution facilities and sophisticate warehouses. As a consequence of this performance, we also posted a substantial rise in profits.

\*Excluding intra-group sales

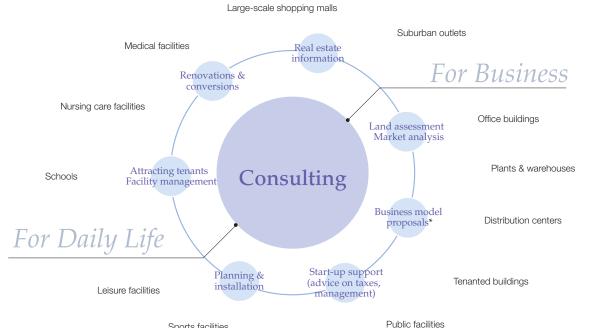
#### Sales and operating income







38



Sports facilities

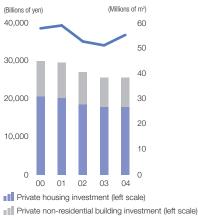
\*Utilizing new methods including fixed-term tenancy, specialpurpose company schemes, and private finance initiatives





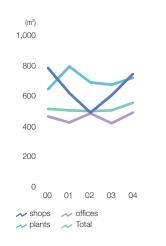


#### Private construction investment and floorspace of commercial structures

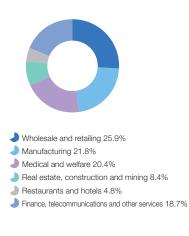


Commercial bldg. floorspace (right scale)

Scale trends of non-residential buildings (floorspace per unit)



Large-scale buildings in Japan (breakdown by use; FY2003)



**Commercial Construction** 

### **Retail and Wholesale Facilities**



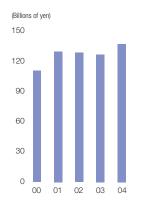
The number of buildings constructed under the LOC system reached 22,000, while our Landowners Club now has 4,600 members

Our retail and wholesale facilities segment operates an asset management business for private and corporate customers and businesses that promote the revitalization of towns. Sales in this segment increased 8.2%, to ¥136,900 million, on a non-consolidated basis.

The chances of a full recovery in consumer spending have increased, given the domestic economic recovery. This in turn has encouraged rising construction of retail outlets in suburban areas, notably in the restaurant and distribution industries. In addition, new demand has been generated in the area of support for store openings in better locations with lower costs. This demand has come from retailers, such as the growing number of home centers and pharmacies, as well as apparel and food supermarkets, which are taking demand from department stores and specialty stores. With our unique Land Owner Company (LOC) system, we provide a link between landowners and companies seeking to open outlets. This system supplies a comprehensive consulting service, which ranges from market research, planning and support for approval and license, to design, construction, and management and administration of facilities. The number of buildings constructed under the LOC system has reached 22,000, and we now have more than 21,000 landowner customers.

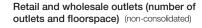
The number of visitors to the Ashibinaa, Okinawa's first outlet mall which opened in fiscal 2002, reached 1,750,000 in its first year, substantially exceeding our projections. The mall contains a large number of outlets for foreign brands making their debut in Japan, and has proved very popular with local residents and tourists.

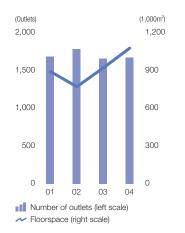
We will seek to promote new businesses by constructing an innovative model that uses existing retail outlets. We will also improve our consulting capabilities, to increase profitability for landowners and develop expertise in special techniques, such as the securitization of land.



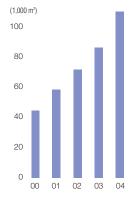
Sales of retail and wholesale facilities

segment (non-consolidated)





Sublease areas of commercial construction



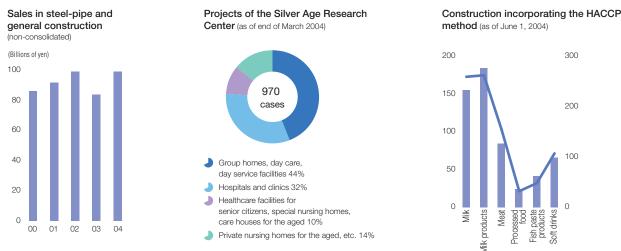
## **Steel-Pipe and General Construction**



#### We erect a wide range of buildings, from distribution facilities to medical & nursing care facilities

An upturn in capital investment, combined with the consolidation and increasing complexity of distribution facilities, plus the growing trend toward the introduction of Hazard Analysis and Critical Control Point (HACCP) protocols to food plants to enhance health and safety, have generated new demand for the construction of business facilities. In response to the growing need for improved efficiency in goods distribution, Daiwa House put efforts into marketing proposals for distribution center expansion projects and new facility construction as part of the reorganization of distribution networks, and sales increased by the substantial margin of 18.4% (to ¥98,800 million) from the previous term. In particular, we focused on building warehouses in the apparel industry, which demands strict temperature and quality control, and large-scale distribution centers for the foodstuffs wholesaling sector.

Our Silver Age Research Center provides a set of business consulting services, from surveys of medicine, nursing and healthcare for elderly people to the design, planning, construction and management planning of facilities. The Center has been involved in the establishment of 970 hospitals, clinics and healthcare facilities for the elderly, the number rising 35.5% from the previous year, and recorded sales of about ¥35 billion. The number of people aged 65 or higher is expected to account for 22% of the total Japanese population by 2010, while the number of elderly persons suffering from senile dementia will be 1.45 times the figure in 2000. This will translate into greater demand for high quality nursing care services and facilities, especially as the size of the average family unit contracts. In particular, new kinds of nursing care facilities will continue to emerge, such as small, highly functional facilities providing a day service or temporary stays for 24 hours as defined by Ministry of Health, Labor and Welfare policies last year. With our outstanding consultation capabilities and construction technology, we will continue to provide diverse, comfortable facilities for the elderly that will blend with their surrounding environment. These facilities will include our renowned assisted-living private nursing homes for the aged, group homes, day service centers, and new multifunctional homes.





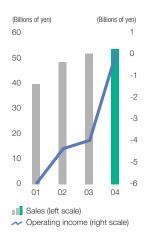
# A network of 29 resort hotels and 10 golf courses nationwide

Annual guest numbers topped 4 million, and revenue rose 3.3%, to ¥53,612 million

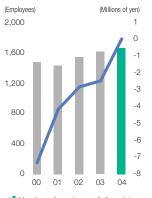


In fiscal 2003, the Japanese hotel industry was once again marked by the opening of new establishments by foreignaffiliated and business hotel chains, paralleled by the closure of traditional inns and old-established hotels in local regions. The number of domestic sightseeing tours and their average length continued to fall, a reflection of continued declines in disposable income. Despite these circumstances, guest numbers were up 5.4% (at 2,847,510) in our hotel operations, while we enjoyed a 2.1 percentagepoint rise in room occupancy. Although both the number of guests and the amount of spending per guest decreased in our golf course business, overall operating income in the resort hotels operations rose to ¥81 million.

#### Sales and operating income



Number of employees and operating income per employee

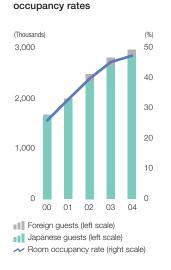


Number of employees (left scale)Operating income per employee (right scale)

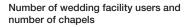


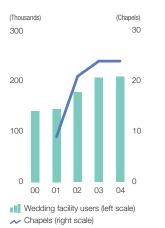
In our hotel business, we placed emphasis on individuality, devising plans unique to each hotel to cover accommodation, meals, banquets and other functions in response to the increasing number of guests from overseas and the change to resort lifestyles. With the aim of adding new value, we provided services such as the New Western-Style Banquet, which is a new style of feast with improved presentation, service and food, as well as dishes using local ingredients, an open-air café and a chapel in the woods. Looking at the sale of goods, home deliveries of traditional Japanese *Osechi ryori* New Year dishes, which feature generous proportions of local delicacies, were brisk, reaching about 21,300 sets (up 22% from the previous term), among the highest in this market. Although the domestic wedding market continued to contract as the number of Japanese of marriageable age declined further, the number of wedding guests at our hotels increased 1.1%, to 209,420, thanks to the popularity of our chapel wedding service. Some 4 million guests used our hotels in the reporting term, making our commitment to Corporate Social Responsibility (CSR) especially important in this business. As part of this commitment, we improved our risk management capability, preparing for the unexpected crises such as Severe Acute Respiratory Syndrome (SARS), which had a significant impact at the beginning of the term. We also provided support (accommodation) for sporting events for mentally disabled athletes, with the aim of creating a barrier-free society.

In our golf course business, we sought to respond to the increasingly diverse needs of our guests. For example, we improved our shop operation, especially with respect to products for senior players, based on a concept of making golf more accessible to women and seniors. We also hosted the Naraken Open (Cyprés Country Club) and the Kyushu Open (Saga Royal Golf Club) golf tournaments, inviting professional players.



Number of guests and room









Home Center Business

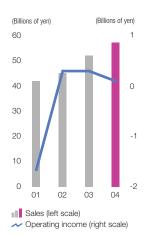
# 35 Royal Home Centers operating with a community orientation

Number of store visits up 12.8% at 23,060 thousand with sales rising 9.7% to ¥57,227 million

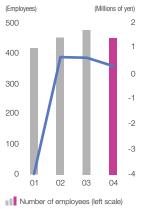


In the 2003 calendar year, the home center market expanded to a new record scale of ¥3.5 trillion, and the number of home centers increased 2.5% from the previous year, to more than 3,600. The market was, however, experiencing a period of change, with a number of mergers, acquisitions and capital alliances. We opened two large new stores and closed five existing stores that were not sufficiently profitable. The number of store visits during the term grew 12.8%, topping 23 million, while sales increased 9.7%, substantially outpacing the industry growth of 2.9%, to ¥57,227 million. However, operating income decreased 54.4%, to ¥139 million, as unit prices declined in the face of deflation.

#### Sales and operating income



Number of employees and operating income per employee



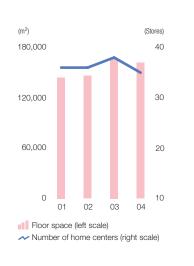
Operating income per employee (right scale)

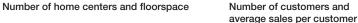


The home center industry has traditionally been characterized by the regional dominance of key players. Recently, however, the industry has been impacted by the emergence of new trends. One example is the declines in goods and distribution costs caused by deflation and the diversification of consumer needs. Another is the expansion of store sizes, in response to the entry of large foreign-affiliated retailers. And yet another is the clutch of reorganization and alliances that have taken place. In a market in which it is vital to differentiate oneself from other home centers, Royal Home Centers stock an average of 50,000 products per center, including do-it-yourself products, gardening goods, consumer electronics, interior goods, pet supplies, daily commodities as well as construction materials and tools for professionals. That figure is well above the industry average in Japan of approximately 32,000 items. We also focused on bolstering our services in the renovation business, aiming at a sales ratio of 10% by strengthening our advisory service, which is provided by experts such as first-class architects in areas including home additions and improvements.

As with our *Engeikan* specialized gardening section at our Narashino Home Center and the *Pet Kan* at our Oyama Home Center which caters to all the needs of pet owners, we set up or expanded sales floors for special items that are likely to enjoy growing demand. We also stepped up product development and expanded our lineup (to include pharmaceuticals and rice, for example), taking advantage of nationwide economies of scale.

We will concentrate the opening of new home centers with a floor space of more than 8,250 m<sup>2</sup> in the Tokyo and Kobe-Osaka-Kyoto areas to improve distribution efficiency and expand sales in these areas, where consumption is greatest. By fiscal 2005, we expect to have expanded this business into a 50-store network.







#### **Distribution of Royal Home Centers**

Network of 35 home centers in Japan



# Extending into personal lifestyles with 15 business categories

# Operating income rose 9.7% to ¥2,823 million, on sales of ¥97,766 million, up 0.7%

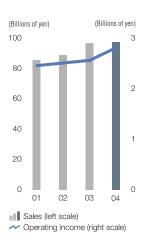


The other businesses segment operates in mainly 15 categories, ranging from the production and distribution of materials and equipment that support the group's core business to lifestyle-related services such as home-removals, insurance, travel agency and business hotels. These categories have the potential for new growth as the business environment and lifestyles change.

In our subsidiary Daiwa Rakuda Industry, sales increased 0.6% from the previous term, to ¥38,470 million, although operating income was down 19% at ¥713 million. The company introduced new original curtain products and strengthened its contract interior design service for model condominiums. It also reorganized its production system and streamlined its operations.

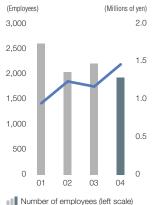
At Daiwa Logistics, which boasts particular strength in the distribution of housing materials and equipment, both sales and profits were higher, notwithstanding the declining volume of freight being handled by the transportation industry. Daiwa Logistics registered sales of ¥25,650 million, rising 11.1% from the previous term, while operating income reached ¥1,156 million, a 6.2% increase. These results were primarily attributable to its advisory activities — part of a comprehensive distribution system that also encompasses a proprietary joint transportation system and procurement of physical distribution — as well as to a new turnkey service that the company introduced on a commission basis to cover all processes involving fixtures and furniture, from their delivery to retail outlets to installment and maintenance.

Meanwhile, room occupancy rates at city-type hotels (Roynet Hotels, Royton Sapporo) rose 4.1 percentage points from the previous term. Costs were reduced to improve operational efficiency. During the term, we also established The Mortgage Corporation of Japan as a joint venture to take advantage of the expanding housing loan market ahead of the anticipated abolishment of the Government Housing Loan Corporation in the future.



#### Sales and operating income

Number of employees and operating income per employee



Operating income per employee (right scale)









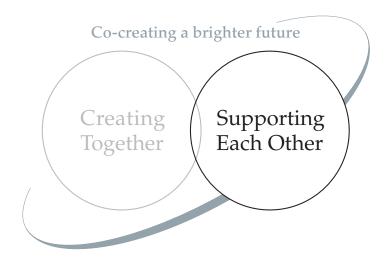












Ever since the establishment of Daiwa House, we have striven to interact with society as a whole in a spirit of sincerity expressed through all our business activities. Our corporate philosophy remains unchanged – to work for the good of society through our construction activities, and to help create a better life for our customers through the comprehensive range of services we offer. This is what we call "co-creating a brighter future." We believe that the realization of a higher quality of life is what is most needed in today's society. Treasuring the relationships of trust we have built up with our customers and other stakeholders, we will work to realize mutual prosperity and a brighter future for all.

#### Corporate Social Responsibility 50

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- Environmental Measures 51
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  - Corporate Governance 53
- Research and Development 54

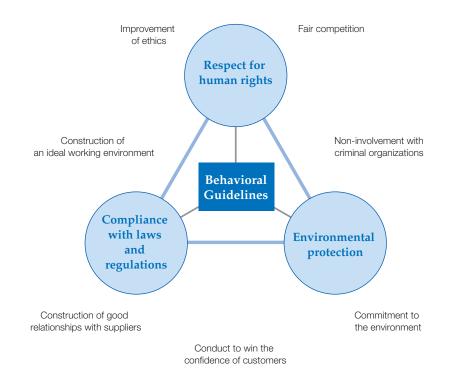
# **Corporate Social Responsibility**

### Compliance

Improving compliance is the most important managerial task for anybody whose business is closely connected with daily life. In April 2004, we prepared the Corporate Ethics Guidelines of the Daiwa House group and the Behavioral Guidelines\*, which will serve as our rules for ethics and the conduct of the group. We also developed an internal reporting system, including a help line, for corporate ethics. We are united in reconfirming our commitment to compliance with all laws and regulations and the practice of fair and sincere conduct that meets social standards as our group develops and grows.

With respect to risk management, an issue of increasing importance, we established the Risk Management Committee at Daiwa House Industry in April 2002. We have also taken preemptive steps to avoid the risks inherent in the operations of the group, and to enable a prompt and proper response to any risks that arise. In addition, we have drafted internal rules to protect personal information, and we will begin using this rule when the Law Concerning the Protection of Personal Information Registered in the Government Computer System comes into effect in 2005.

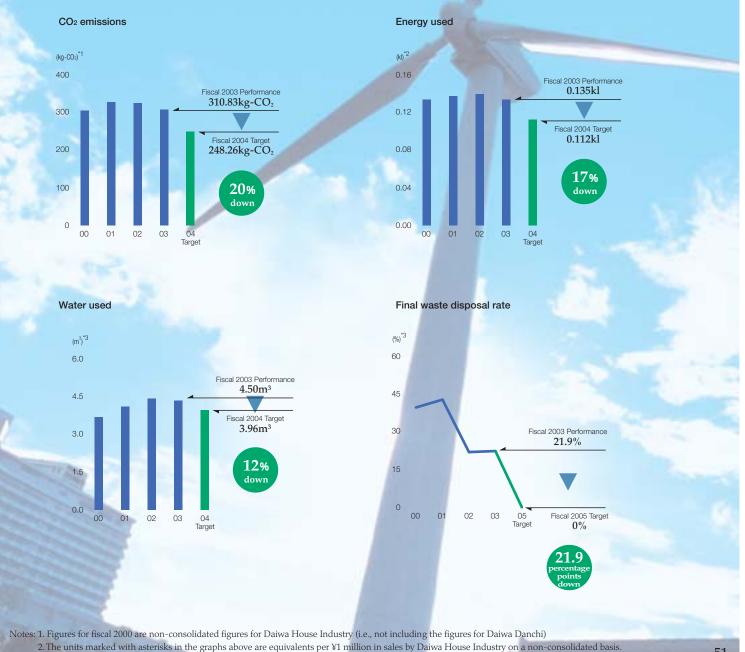
\* Available on Daiwa House's web site



#### Corporate Ethics Guidelines of the Daiwa House group

### **Environmental Measures**

Daiwa House Industry has been pursuing targets that will reduce the burden on the environment imposed by its corporate activities, based on a plan that covers the five-year period from fiscal 2000 to fiscal 2004 (fiscal 2005 for the final waste materials disposal target). We are committed to achieving our targets by closely monitoring our progress.



### **Recruitment and Education**

Human resources are the key to growth for the Daiwa House group. We aim to place the right people in the right jobs to take best advantage of the abilities of our 18,000 group employees. To achieve this aim, each group company conducts seminars for each level and each job. We will provide management level employees with training to increase their awareness of the need to create a better working environment that respects the rights, health and safety of our employees, and that also provides them with greater motivation. We are also creating a system for general employees, which will enable them to develop their capabilities and talent on their own by selecting career paths and jobs themselves.

In recruitment, we are actively recruiting new graduates and mid-career workers based on a policy of respecting personal qualities regardless of age, sex and physical ability. Indeed, Daiwa House Industry has achieved a higher rate of employment (1.92%) of disabled people than both the legal employment rate of 1.8% and the average among private companies of 1.48%. We will also promote the rehiring of retired employees with special skills within the group, and employ them to hand down and share technology and know-how, to provide better customer service.

### Social Contribution Activities

The Daiwa House group contributes to society in a number of ways, for example by providing reconstruction assistance after earthquake disasters as well as humanitarian and safety aid, and providing educational support. These contributions complement our business operations, which enhance the nation's housing infrastructure, improve construction technology and promote regional development through resort construction.

In recent years, as an educational support program for Japan's future leaders, we have actively hosted children's tours of the Central Research Laboratory and D-TEC Plaza\*. We also offer housing environment study themes on our website and provide study materials to elementary, junior-high and high schools. During fiscal 2003, the number of participants in these tours of the facilities came to 10,488 individuals in 1,362 groups, with school officials accounting for one-fifth of all participants. The information on our website was used in classes at 536 schools nationwide, and study materials are provided to diverse institutions, including schools, education committees and NPOs.

On the operation side, we have continued to improve the safety and comfort of the environments we create, for instance, by designing barrier-free spaces. As a result, our hotels are used for meetings of groups of persons with impaired eyesight and as accommodation for competitors in sports events for the mentally handicapped.

\* A facility for experiencing advanced home technologies



### **Corporate Governance**

Daiwa House Industry has been improving corporate governance, adopting a basic policy of establishing a transparent and efficient management system that facilitates fast and accurate decision-making. We will enhance our decision-making and internal controlling systems to set a basic direction for corporate management as the core company of the group.

#### Major initiatives to improve corporate governance

#### Faster decision making and clearer management responsibility

- June 1999 Introduction of an executive officer system
- June 2001 Directors' term of office shortened from 2 years to 1 year

June 2004 Revision of the Articles of Incorporation to allow the acquisition of Company's own shares solely by resolution of the Board of Directors

#### Improved disclosure and accountability

June 2002 Online disclosure of invitations to shareholders' meetings (Japanese/English) ; online execution of voting rights (Japanese only)

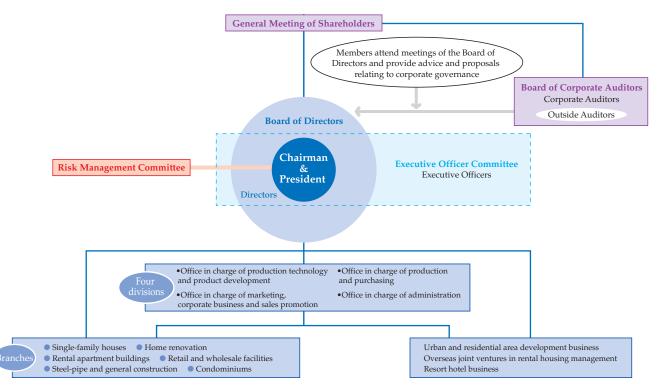
First quarter of fiscal 2003 Disclosure of business performance data

#### Improvement in management transparency

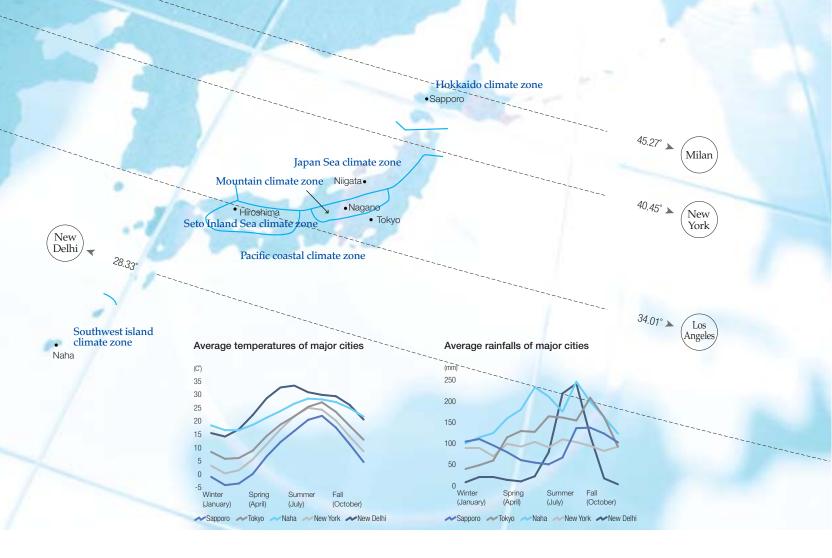
June 2003 One outside auditor added to the board of corporate auditors, making five members (three of whom are outside auditors)

#### Organizational chart of Daiwa House corporate governance system

As of June 30, 2004



# **Research and Development**



### Living in Land of Climate Disparity and Frequent Earthquakes

Japan is an archipelago with an arc-like shape and a landmass of approximately 380,000 km<sup>2</sup>. Its islands extend off the eastern coast of the Eurasian continent. With 4 main islands and about 7,000 small islands, Japan runs for about 3,000 km north to south. It has a mild oceanic climate and clearly demarcated seasons, with a comparatively heavy rainfall. Climate in Japan does, however, vary significantly, between north and south and between inland and coastal regions. Unlike most other countries, Japan features three climate zones cool, warm and subtropical within its territory, and has areas subject to heavy rain and areas that receive heavy snow. East Asia is frequently subject to typhoons, an average of 27 per year, 40% of which approach Japan. From time to time, these typhoons cause enormous damage. Located at the meeting place of four plates, Japan is also one of the most earthquake-prone countries in the world, with a highly active crust under its surrounding oceans and many active faults lying beneath its own surface.

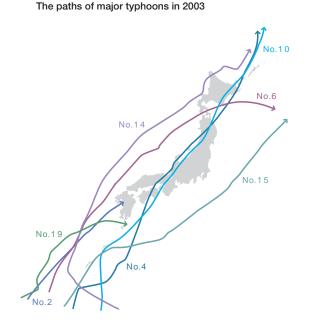
Japan is richly blessed with the beautiful natural environment provided by its four seasons and a diversity of landscapes. But it can also be subject to the harsher side of nature. Indeed, nature expresses itself in many different ways in Japan.



Major typhoons between 2001 and 2003

Year	Typhoon Top wind number Month speed (mph)		Regions affected				
2003 14 S		Sept.	165	Miyakojima Island (Okinawa)	Torrential rain, Storm-force winds		
	10	Aug.	154	Whole country	Torrential rain, Storm-force winds		
2002	21	Oct.	118	Tokyo area, Northern Japan	Storm-force winds		
	6*	July	103	Boso peninsula	Torrential rain, Storm-force winds		
2001	16	Sept.	113	Okinawa	Torrential rain		
	15	Sept.	95	Tokyo area	Torrential rain		
	11	Aug.	85	Kii Peninsula	Torrential rain		

\*Together with seasonal rain front



### The Birth of Prefabricated Housing Able to Withstand Typhoons

Japanese people have been living in close harmony with nature since early times. We harvest the bounties of nature, often without stopping to think of the relationship that people have with the natural environment. Because of its geographical and climatic conditions, Japan is prone to natural disasters. Typhoons bringing with them heavy wind and rain hit Japan three times a year on average, and preparedness in this regard has been the most importance issue in Japanese housing.

Half a century ago, in a search for superior wind resistance, the founder of Daiwa House Industry was inspired by the hollow structure of plant stems. This marked the birth of the prefabricated housing industry and the first steps of our Company in the prefabricated industry. In the fifty years since then, we have been consistently focused on developing new technologies to protect human life from natural threats. That focus has translated into a broad array of excellent construction methods, from prefabricated housing to the traditional wooden frame house and the two-by-four method. Our R&D initiatives still adhere to the original thinking left to us by our founder: recognize and respect the potential of nature and protect the lives of people by developing new technologies that enable strong structure and outstanding performance.



### Functions and Technology to Support a Better Lifestyle

#### Essential to the Land of Earthquakes

Earthquake-Resistance We have developed a system in which lateral force exerted by a quake is dissipated throughout the entire house, and a unique quake-absorbing feature. In the Great Hanshin

Earthquake of 1995, which had a magnitude of 7.3, this would have reduced the shaking to one-eighth or one-eleventh of the level experienced by residents at the time\*. This would not only alleviate the shock of an earthquake itself, but also reduce risk of secondary accidents caused by toppling furniture or damage to the house. As an additional benefit, we have reduced the cost of our quake-absorbing construction system by approximately 30%.

\* Value based on quake simulation tests by Daiwa House Industry

#### Becoming Increasingly Important

Crime Prevention

The number of home break-ins in Japan has increased by a factor of 1.5 over the past five years. With the aim of making our houses more difficult targets, we have now developed our

own unique crime-prevention specification by adopting double-glazing (24 times as strong as single-pane windows) for all windows on the first floor, along with a door featuring a pick-resistant lock. We have also combined a sensor light and a video door phone. This equipment comes as standard in our single-family house products.

### Energy Conservatior

#### Considering Environment in Our Daily Lives

As environmental protection has been gathering attention, we must consider the environment in our daily lives. Daiwa House has introduced a number of initiatives designed to

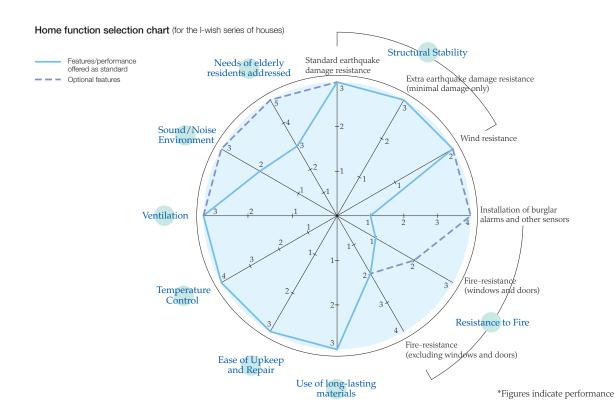
save energy and conserve resources. For example, we have ensured that our products meet next-generation energy conservation standards. This means that our products can cut heating and air-conditioning costs by half, compared with houses that meet the existing energy saving standard. Also, we are facilitating the use of wind- and solar-power generation systems in our products.

# 'Sick House" Realizing a Healthy and Safe Environment

Phenomenon At Daiwa House, we were adopting interior materials that meet the RAL standard\* of Germany, the world's highest standard, for our products even before the law to prevent

the "sick house" phenomenon was introduced. In the summer of 2003, we took this commitment a step further and set in-house standards that are tougher than those established under the revised Building Standard Law. We select only the highest-grade building materials with extremely low toxic emissions for all of our interior materials including base sheets, which are not regulated in the Law.

\* RAL: The German Institute for Product Quality Labeling





### R&D for the Future of Home Building in Japan

#### Living in an Aging Society

Japanese society is now aging extremely quickly, indeed at the fastest pace in the world. The number of people aged 65 or higher accounts for one-fifth of the total population. The population of centenarians has doubled over the past five years. As we age, our senses and physical capabilities decline, leading to a greater risk of accidents in the home.

The Daiwa House group has long anticipated the problems of today's aging society. We not only established the Silver Age Research Center in 1989 but we have also been investigating universal designs for both products and services in our Central Research Laboratory. For example, we are researching a safe circulation line for housework, user-friendly equipment, a full-flat floor for wheelchairs, and space planning designed to facilitate nursing care. Our research uses our experimental house for the elderly and our "Senior Pose"\*.

\*An aging simulation system

#### City Living

Japan is increasingly witnessing a return to city center living. This has created demand for single-family houses in urban areas. These houses must feature structure and performance that can overcome restrictions peculiar to cities, such as limited land, difficult natural lighting, noise, and vibration.

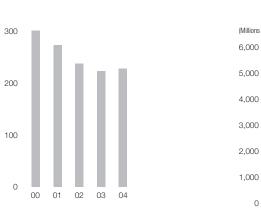
We have developed a shake-control technology that reduces vibration caused by traffic, as well as a load-bearing wall boasting high earthquake resistance that enables small land lots to be effectively utilized. In cooperation with universities, we are also studying natural lighting that employs a top-light.

The effective use of old office buildings is another important issue. Daiwa House is looking at converting these buildings from commercial to residential use, and for this purpose is engaged in extensive research with the aim of developing refurbishment and renovation technologies that meet the required standards.

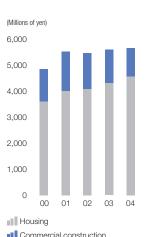
#### **Exploring the Future**

We will continue to create better products and services and work towards a brighter future for housing in Japan. In cooperation with other industries, the government and universities, we are developing exciting technologies in a number of fields that will enable us to realize our dream of exploring the future. These include environmentally friendly house construction methods that conserve natural resources, and in which waste materials are recycled as far as possible; next-generation housing equipment that employs information and communications technology (ICT); and the application of fuel cells to home use.

**R&D** expenditure

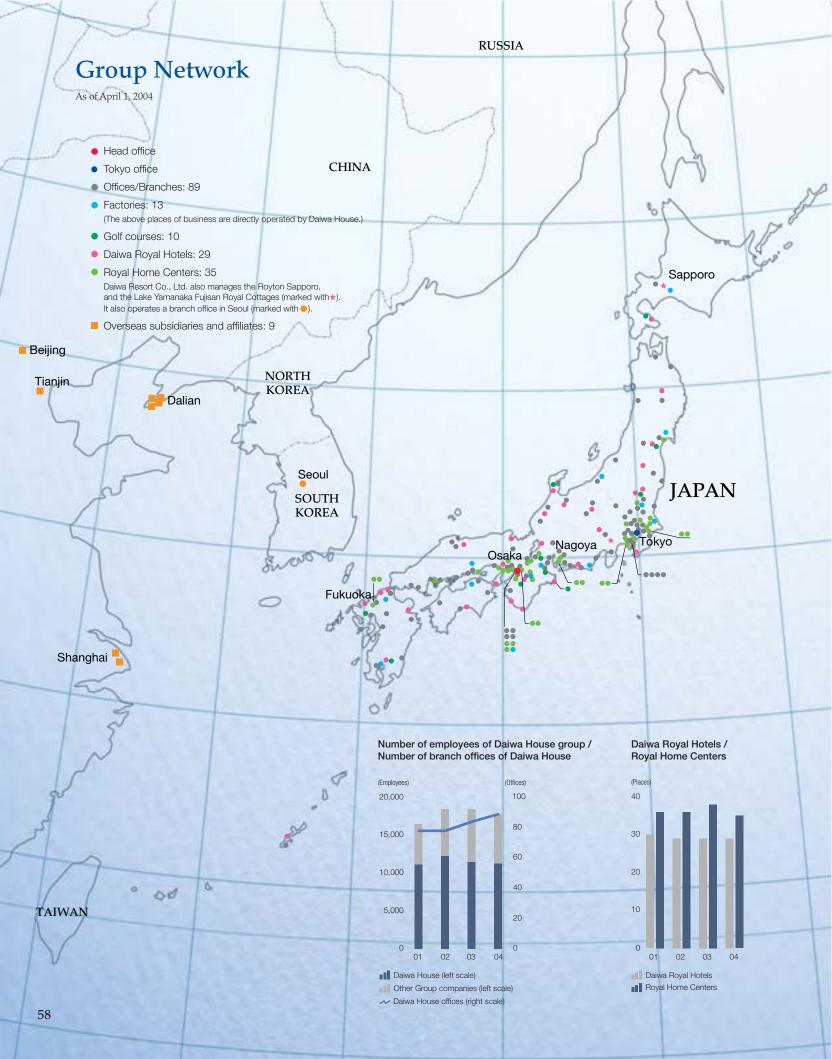


Number of personnel in the R&D division



Number of patent applications by Daiwa House (publicly announced, non-consolidated basis)





**Building Your Dreams** 

# Daiwa House group

#### Principal group companies

#### DAIWA HOUSE INDUSTRY CO., LTD.

3-3-5 Umeda, Kita-ku, Osaka 530-8241 Phone: +81-6-6346-2111 URL: www.daiwahouse.co.jp

#### DAIWA LOGISTICS CO., LTD.

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

#### NIHON JYUTAKU RYUTU CO., LTD.

Real estate agency (including property management, asset appraisal, housing renovation, etc.)

1-1-3-800 Umeda, Kita-ku, Osaka 530-0001 Phone: +81-6-6344-6356 URL: www.jyutaku.co.jp

# DAIWA INFORMATION SERVICES CO., LTD.

Land development; management of commercial facilities

7-14-4 Ueno, Taito-ku, Tokyo 110-0005 Phone: +81-3-5828-8891 URL: www.dis-net.jp

#### DAIWA KOSHO LEASE CO., LTD.

Leasing of buildings and vehicles; business leasing 5-20 Honmachibashi, Chuo-ku, Osaka 540-0029 Phone: +81-6-6942-8011 URL: www.daiwakosho.co.jp

#### DAIWALIVING CO., LTD.

Management of rental housing

3-13-1 Iidabashi, Chiyoda-ku, Tokyo 102-0072 Phone: +81-3-5214-2330 URL: www.daiwaliving.co.jp

#### ROYAL HOME CENTER CO., LTD.

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

#### LOC DEVELOPMENT CO., LTD.

Development and management of shopping centers 67 Kanda-Sakumagashi, Chiyoda-ku, Tokyo 101-0026 Phone: +81-3-3864-0609 URL: www.loc-kaihatsu.co.jp

#### DAIWA RAKUDA INDUSTRY CO., LTD.

Sale of household equipment and furniture; insurance agency

1-5-16 Awaza, Nishi-ku, Osaka 550-0011 Phone: +81-6-6536-6111 URL: www.daiwarakuda.co.jp

#### DAIWA SERVICE CO., LTD.

Management of office & condominium buildings; staff dispatch; house-moving service

1-5-16 Awaza, Nishi-ku, Osaka 550-0011 Phone: +81-6-6536-6270 URL: www.daiwaservice.co.jp

#### DAIWAROYAL CO., LTD.

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

#### DAIWARESORT CO., LTD.

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

#### Housing sales companies

DAIWAHOUSE KANSAI CORPORATION 6 other companies

#### Others

GREENFARM KAIHATSU CO., LTD. (Sale of tomatoes)DAIW.JUKEIKAI CO., LTD. (Operation of homes for the aged)TECHSYNCHROLLER CO., LTD. (Manufacture of housing materials)NARASHINWA AGENCY CO., LTD. (Advertising and travel agency)NIC CDAIWA ESTATE CO., LTD. (Real estate agents)THE MDAIWA ENERGY CO., LTD. (Energy conservation support)MEDLDAIWA TECHNICA CO., LTD. (Manufacture and sale of household equipment)

DAIWA HOUSE RENEW CO., LTD. (House renovation) TECH• R&DS CO., LTD. (Market research) NARA ACE CO., LTD. (Management of golf courses) NIC CO., LTD. (Manufacture of interior doors) THE MORTGAGE CORPORATION OF JAPAN, LTD. (Finance of housing loan) MEDIA • TECH CO., LTD. (Information systems)

#### Overseas affiliated companies

SHANGHAI HAPPY HOUSE DECORATION CO., LTD. (Design and installation of housing interiors) DH (DALIAN) ADMINISTRATIVE MANAGEMENT CONSULTING CENTER CO., LTD. (Clerical work outsourcing provider) SHANGHAI INTERNATIONAL REALTY CO., LTD. (Management of rental housing) DALIAN FUJIAZHUANG INTERNATIONAL VILLA CO., LTD. (Management of rental housing) DALIAN ACACIA TOWN VILLA CO., LTD. (Management of rental housing) DALIAN CIVIL AVIATION HOTEL CO., LTD. (Management of Royal Hotel at Dalian) TIANJIN JIUHE INTERNATIONAL VILLA CO., LTD. (Management of rental housing) BEIJING EAST PALACE APARTMENT CO., LTD. (Management of rental housing) BENCHMARK-TECH CORPORATION (Management of conference center)

# The History of Daiwa House Group

#### 1955

Daiwa House Industry Co., Ltd. established; first house model, the "Pipe House," launched on market

#### 1957

Steel pipe structure used for warehouse at sake brewery receives certification from Japan Lightweight Iron Construction Association as first such structure in Japan

#### 1959

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

#### 1961

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

#### 1965

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

#### 1971

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

#### 1978

Resort hotels business started with opening of Noto Royal Hotel

#### 1979

Tentakubin (current Daiwa Service Co., Ltd.) established

1980

First Royal Home Center opened in Nara City

#### 1983

Full-scale start of construction business in China at Shanghai, Dalian, and elsewhere

#### 1986

Daiwa Information Services Co., Ltd. established

1989

Daiwaliving Co., Ltd. established

#### 1994

Daiwa House Central Research Laboratory opened in Kansai Science City

#### 2001

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

#### 2004

Home center business spun-off





#### Corporate Data As of April 1, 2004

1 ,	
Founding:	April 5, 1955 (Established: March 4, 1947)
Paid-in capital:	¥110,120,483,981
Employees:	11,698
Head office:	3-3-5 Umeda, Kita-ku, Osaka 530-8241
	Phone: +81-6-6346-2111
Tokyo office:	3-13-1 Iidabashi, Chiyoda-ku,
	Tokyo 102-8112
	Phone: +81-3-5214-2111
Offices/branches:	89
Factories:	13
Research center:	Central Research Laboratory (Nara city)
Training centers:	Osaka, Tokyo and Nara



2004

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# Consolidated Seven-year Summary

Daiwa House Industry Co., Ltd. and Subsidiaries Years ended March 31, 1998 to 2004

	Millions of yen						
	2004	2003	2002	2001	2000	1999	1998
Net sales	¥1,224,648	¥1,184,544	¥1,197,925	¥1,016,237	¥ 951,073	¥ 896,006	¥1,069,789
Cost of sales	963,457	936,861	945,474	794,170	736,310	691,318	834,407
Selling, general and							
administrative expenses	201,530	202,411	206,420	177,777	167,266	164,473	186,932
Operating income	59,661	45,272	46,031	44,290	47,497	40,215	48,450
Income (loss) before income taxes							
and minority interests	67,897	(155,157)	9,538	12,796	32,123	21,414	48,685
Net income (loss)	37,257	(91,388)	5,217	6,256	17,450	16,699	20,373
Per share of common stock (in yen):							
Basic net income (loss)	68.16	(167.06)	9.55	12.05	33.52	31.88	38.89
Diluted net income					33.50		37.91
Shareholders' equity	902.32	884.55	1,066.63	1,182.01	1,188.63	1,151.12	1,136.55
Property, plant and equipment,							
less accumulated depreciation	344,268	349,646	426,630	383,853	376,489	365,502	346,543
Total assets	1,087,658	1,094,441	1,187,127	1,066,457	981,893	950,701	1,013,072
Shareholders' equity	493,050	483,684	582,438	613,867	617,421	603,060	595,429
Return on equity (%)	7.63	(17.14)	0.85	1.02	2.86	2.79	3.42

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

Year Ended March 31, 2004

#### **Operating Environment and Financial Strategy**

In the fiscal year ended March 31, 2004, the Japanese economy began showing some positive signs such as a recovery in private capital investment, rising exports and higher stock prices. Despite this, consumer spending remained relatively weak, primarily because of a difficult employment and income situation, although even here a slight improvement was registered.

In the housing industry, new housing starts improved from the previous year for the first time in four years, supported by temporary growth in demand based on bright signs in the economy and the anticipation of higher interest rates. In general construction, demand remained a stop-start affair, failing to stage a full recovery because of the prolonged weakness in public investment, which offset a recovery in private capital spending.

In response to this operating environment, the Daiwa House group endeavored to strengthen its financial position. In the previous period, we took steps to bolster financial health, for example through the accelerated depreciation of property, plant and equipment, and the lump-sum amortization of transition obligations on retirement benefits. Thanks to a stronger financial foundation, we realized a V-shaped recovery in our earnings during the period. It will, however, still be necessary to increase our focus on improving operational efficiency, taking into consideration the balance between capital investment to strengthen our foundations and develop future businesses on the one hand, and profit distribution to shareholders to promote long-term development and ongoing growth on the other. We therefore adopted a basic policy of raising return on equity (ROE) as a criterion to judge the progress in asset efficiency.

To achieve higher ROE, it is necessary to boost each of its basic components, namely, the ratio of net income to sales, total asset turnover and financial leverage. ROE, at 7.6%, reached its highest level for the past five years, because of improvements in both the ratio of net income to sales and total asset turnover. The ratio of net income to sales was 3.0% for the period, compared to the ratio of net loss to sales of 7.7% for the previous year. On the operating income level, the ratio was 4.9% for this fiscal year, against 3.8% in the previous year. Total capital turnover also improved, from 1.12 for the period compared to 1.04 for the previous year. However, financial leverage, another component of ROE, came to 2.2 times as we adopted a policy of reducing interest-bearing debt. Although it will be necessary to raise the financial leverage to enable a higher ROE, debt capital such as borrowings and corporate bonds could negatively impact asset health, as they impose an interest burden as a fixed cost. Our cash flows are sufficient to provide the investment capital we need internally. We therefore believe that we will be able to achieve future development without having to rely on external sources of capital.

#### **Results of Operations**

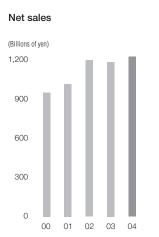
#### Net Sales

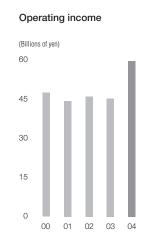
Net sales for the fiscal year ended March 31, 2004 increased 3.4% from the previous year, to ¥1,224.6 billion (US\$11,553.2 million). The major supporting factor was new housing starts, which rose on a year-onyear basis for the first time in four years, mainly thanks to the signs of recovery in the Japanese economy and the front-loading of housing demand before the revision of the housing investment tax reduction.

Sales by segment (including inter-segment transactions) were as follows: ¥800.6 billion (US\$7,553.1 million, up 1.1% from the previous year) in Housing, ¥276.9 billion (US\$2,613.0 million, up 11.7%) in Commercial construction, ¥53.6 billion (US\$505.7 million, up 3.3%) in Resort hotels, ¥57.2 billion (US\$539.8 million, up 9.7%) in Home centers, and ¥97.7 billion (US\$922.3 million, up 0.7%) in Other businesses. While all segments achieved year-on-year sales growth, the mainstay housing and commercial construction businesses in particular remained firm, which contributed to the overall improvement in sales.

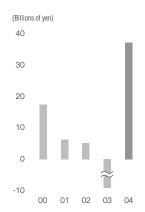
# Cost of Sales, and Selling, General and Administrative Expenses

While the cost of sales increased ¥26.5 billion from the previous year, to ¥963.4 billion (US\$9,089.2 million), the sales cost ratio was lowered 0.4 percentage points to 78.7%, primarily because of the decrease in cost of sales in the real estate business.





#### Net income (loss)



Selling, general and administrative expenses (SG&A) decreased ¥0.8 billion from the previous year, to ¥201.5 billion (US\$1,901.2 million). While personnel and advertisement expenses increased, depreciation and retirement benefit expenses fell because of the accelerated depreciation of property, plant and equipment in the previous year. As a result, the ratio of SG&A to sales declined 0.7 percentage point from the previous year, to 16.4%.

#### Operating Income

Operating income increased 31.8% from the previous year, to ¥59.6 billion (US\$562.8 million), chiefly because of the sales increase and the reduction in expenses. Operating income in the home center business posted a year-on-year decline, but the unprofitable resort hotel business returned to the black. The ratio of operating income to sales was 4.9%, up 1.1 percentage point from the previous year.

#### **Business Overview by Segment**

The analysis of sales by segment below incorporates inter-segment transactions.

#### Housing Business

The single-family house division bases its operations on the construction concept of providing "security, safety and confidence" to our customers. We provided new products that responded to the needs of our customers for improved home security. For example, we preinstalled security double glass in all windows on the first floor of all single-family houses and offered a quake-absorbing system as an option on all two-story steel frame houses. We also provided new products tailored to each generation of customers. These efforts were materialized in our new products, such as a lifestyle home based on the concept of a "slow life," a two-story house for the children of the baby boomers, and an urban-type three-story house. As a result, sales (non-consolidated basis) of single-family houses increased 3.7% from the previous year, to \$288.2 billion (US\$2,719.1 million), while unit sales were down 0.7%, to 10,378 units.

In the rental apartment buildings division, unit sales increased 8.3% from

the previous year, to 26,411 units, and sales revenue (non-consolidated basis) was also higher, rising 7.6% to ¥223.8 billion (US\$2,111.3 million). This growth came in response to the rising demand of landowners for efficient use of their assets, as financial assets remained relatively unattractive. Meanwhile, we launched products to respond to the shift in demand to a maisonette-type of rental housing.

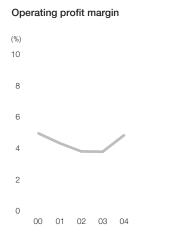
In the condominium division, unit sales grew 4.6% from the previous year, to 3,838 units, and sales revenue (non-consolidated basis) also increased 4.7%, to ¥80.1 billion (US\$755.8 million). We promoted sales of urban-type compact condominiums to meet the needs of the new market created by the repopulation of city centers. We also marketed the "D series" of condominiums, which come in four types to cater to differing needs depending on specific location as well as region. We also proposed lifestyle and product planning to our customers and improved our quality control system to maintain building asset values.

In addition, we established Daiwa House Renew Co., Ltd. in October 2003 to prepare for expansion into the renovation market, which is expected to grow even as the market for new residential housing contracts.

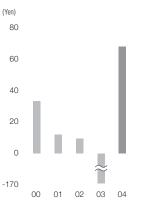
As a result, sales in the housing business reached ¥800.6 billion (US\$7,553.1 million), and operating income increased 23.3% from the previous year to ¥48.2 billion (US\$455.3 million). The ratio of operating income to sales rose 1.1 percentage point to 6.0%.

#### **Commercial Construction Business**

The subleased area of commercial construction increased 27.8% from the previous year, to 1,099,274 square meters. The number of tenants topped 1,800, reflecting a slight improvement in corporate spending, even as the recovery in consumer spending remains stalled. We also endeavored to expand the construction of medical and nursing care facilities, such as group homes (cohabitation caring facilities for patients suffering from senile dementia) and pay nursery homes, taking advantage of our expertise in this area, which we have developed over many years. In addition, we promoted the construction of corporate logistics facilities geared to meeting distribution strategies and large-scale commercial complexes designed to create trading spheres. All of these



#### Basic net income (loss) per share



efforts contributed to an increasing number of tenants and higher occupancy rates.

As a result, sales in the commercial construction business increased 11.7% from the previous year, to ¥276.9 billion (US\$2,613.0 million), and operating income grew 17.2% to ¥20.6 billion (US\$194.9 million). The ratio of operating income to sales was 7.5%, up 0.4 percentage point from the previous year.

#### **Resort Hotel Business**

In the resort hotel business, we developed new services, such as a new Western-style banquet, a totally fresh style of banquet focusing on higher levels of presentation, service and food. We also endeavored to improve the ability to draw more customers in hotels around the country by providing customer-oriented services based on local specialties, resulting in an increased number of guests and a higher occupancy rate.

As a result, sales in this segment amounted to ¥53.6 billion (US\$505.7 million), and operating income came to ¥81 million (US\$0.7 million).

#### Home Center Business

In this segment, unit sales price continued to decline, reflecting the weakness of consumer spending which offsets a rise in customer numbers. We therefore implemented a store scrap-and-build program, with five stores closed and two new stores opened. We also endeavored to better respond to demand for residential renovation, taking advantage of our know-how as a homebuilder.

As a result, sales increased 9.7% from the previous year to ¥57.2 billion (US\$539.8 million), while operating income decreased 54.5%, to ¥0.1 billion (US\$1.3 million). The operating income ratio was 0.2%, down 0.4 percentage point from the previous year.

#### Other Businesses

In the construction materials manufacturing and selling business, we made efforts to reduce costs, mainly transportation expenses, by reorganizing and streamlining the production system.

In the distribution business, we made proposals for the improvement

of distribution efficiency, focusing on the distribution of raw materials and parts for production, for example through joint distribution and materials procurement. We also provided a total service for fixtures, furniture, and equipment, from delivery, setup and installation to collection, maintenance, storage and re-shipment. In addition, improved operational efficiency by increasing the occupancy rate in Roynet Hotels and cutting costs in other businesses subdivisions.

As a result, sales in other businesses increased 0.7% from the previous year, to ¥97.7 billion (US\$922.3 million), and operating income rose 9.7% to ¥2.8 billion (US\$26.6 million).

#### Other Income and Expenses

Other income increased ¥2.2 billion from the previous year, to ¥23.5 billion, while other expenses decreased ¥206.3 to ¥15.2 billion.

The increase in other income was the outcome of the fundamental reform of the retirement benefit scheme, which we resolutely carried out over the previous year. As part of this reform, we lowered the expected rate of return from 3.5% to virtually zero, but achieved 7% as a result. We therefore recorded a ¥9.4 billion gain on the amortization of actuarial gains or losses for employees' retirement benefits. We also established an employee pension trust under which our assets were placed directly with a trustee for use as retirement benefits, and we realized an investment return on this account. As a result, we recorded a ¥5.9 billion gain in the amortization of actuarial gains or losses on the employee pension trust during the period, which was a major contribution to the rise in the amortization of actuarial gains or losses on employees' retirement benefits.

Other expenses, meanwhile, declined sharply as the lump-sum amortization of transition obligations on retirement benefits - which are akin to a hidden loss - ended the previous year, and the depreciation of fixed assets and the evaluation losses of lands and buildings for sale and investment securities decreased significantly.

As a result, the net balance moved significantly upward, to income of ¥8.2 billion (US\$77.6 million) for the reporting fiscal year, from a ¥200.4 billion loss in the previous year.





#### Net Income

Net income reached ¥37.2 billion (US\$351.4 million), and the ratio of net income to sales became 3.0%, mainly because other income and expenses moved into the black and operating income increased more than 30% from the previous year. Earnings per share also climbed, to ¥68.16 (US\$0.64), the highest level of the last five years.

#### Liquidity and Capital Resources

#### **Financial Position**

Total assets as of the end of March 2004 decreased ¥6.7 billion (0.6%) from the year-ago level, to ¥1,087.6 billion (US\$10,260.9 million). While current assets increased ¥27.9 billion, investments and other assets declined by a substantial ¥29.4 billion. The change in property, plant and equipment remained within the scope of changes caused by depreciation.

Among current assets, the significant increase in cash and cash equivalents was particularly noteworthy. The major factor in this rise was the large expansion in income. In contrast, trade receivables were lower, despite the increase in sales, primarily because of the shorter collection period.

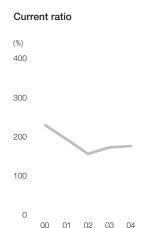
The main reason for the large decline in investments and other assets was the reversal of deferred tax assets, which was mainly attributable to a decline in the balance of "liability for employees' retirement benefits" resulting from an extraordinary payment for and a gain on operation of the pension fund. In addition, deferred tax assets corresponding to the valuation loss recognized in the previous year were not recognized for the reporting fiscal year following a change to a more conservative accounting policy. Similarly, the reversal of deferred tax assets related to the land revaluation was derived from the judgment that the sale of land in the future could not be scheduled.

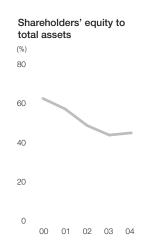
Meanwhile, investment securities increased, mainly because of the gain on valuations that resulted from the recovery of the stock market. The decrease in liabilities and assets was primarily a reflection of the decline in long-term liabilities after the reversal of the provision for employees' retirement benefits. Within current liabilities, a ¥5.5 billion increase in trade payables from the previous year stood out, and primarily resulted from the increase in sales. The balance of short-term bank loans was ¥0.5 billion, as a result of reducing interest-bearing debt to improve financial health. As a consequence, total debt, including the current portion of long-term debt, was only ¥1.5 billion. This in turn meant that the ratio of interest-bearing debt to total assets was only 0.1%. In total, as the current liabilities increased ¥10.6 billion from the previous year, to ¥279.4 billion (US\$2,636.3 million), the current ratio climbed from 174.2%, to 177.6%, which indicates that financial liquidity remains solid.

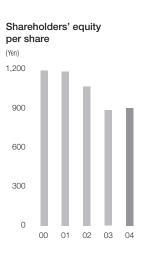
Among noncurrent liabilities, the provision for employees' retirement benefits declined significantly. Because of the lump-sum payment of a special premium, the funding shortfall in pension assets corresponding to or retirement benefit obligations declined. As a result, the financial situation of retirement benefits improved. In addition, the balance of corporate bonds as long-term debt became zero. As a result, noncurrent liabilities declined ¥23.4 billion from the previous year, to ¥295.7 billion (US\$2,790.2 million).

In shareholders' equity, retained earnings expanded because of the significant increase in income and the net unrealized gain on securities available for sale, following the rebound in the stock market. Consequently, total shareholders' equity increased ¥9.3 billion from the previous year to ¥493.0 billion (US\$4,651.4 million), despite a decline in unrealized gains on land evaluation resulting from changes in accounting standards.

The shareholders' equity ratio rose 1.1 percentage point from the previous year, to 45.3%, while ROE came to 7.6% and ROA to 3.4%.







#### Cash Flows

The balance of cash and cash equivalents increased ¥37.5 billion from the end of the previous year, to ¥141.5 billion (US\$1,335.3 million). This is chiefly because of the increase in net cash provided by operating activities, itself attributable to the significant increase in income.

The main factor for the increase in net cash provided by operating activities was the significant year-on-year increase in income before income taxes of ¥223.0 billion, which rose to ¥67.8 billion (US\$640.5 million) on the strength of income growth. This offsets the decline in the provision for employees' retirement benefits because of the lump-sum payment of a special premium. Other factors were the decrease in trade receivables and the increase in trade payables. As a result, net cash provided by operating activities increased ¥29.1 billion (72.2%) from the previous year, to ¥69.6 billion (US\$657.1 million).

Net cash used in investing activities decreased ¥1.3 billion from the previous year, to ¥25.9 billion (US\$244.6 million). This mainly reflected a decrease in negative cash flows for the purchase of property, plant and equipment.

Although the net cash used in financing activities declined by a substantial ¥51.5 billion from the previous year, to ¥6.1 billion (US\$57.7 million), this was mainly attributable to the termination of repayment of debt in and before the previous year.

As a result, free cash flows combining the cash flows from operating activities and investing activities increased ¥30.5 billion from the previous year, to ¥43.7 billion (US\$412.4 million).

### Outlook for the Current Fiscal Year, Ending March 2005

Over the current fiscal year, the Japanese economy should continue to stage a slow recovery, driven by an ongoing improvement in exports and corporate earnings. A strong recovery in private capital spending remains unlikely, however, and the employment and income environment remain uncertain. In the housing industry, the operating environment is expected to remain unchanged, as stalled consumer spending will be countered by the extension of housing-related tax reductions.

In this environment, all divisions of our company will be united in developing products that deliver high levels of customer satisfaction, to meet needs by strengthening the community-oriented business structure based on the branch system. In addition, to further enhance customer satisfaction (CS), we will initiate CS committees at head office and at each branch office, to better respond to the diverse needs of our customers by using a superior understanding of customer preferences and needs to improve our operations. We will also continue our commitment to expanding and strengthening our business, especially in our core single-family housing division, in a way that promotes the development of operating bases and personnel in the Tokyo metropolitan area. We will develop and bolster our home center business, which we spun off as a separate company in April 2004 to clarify the structure of responsibility and develop a more prompt and efficient operating bases.

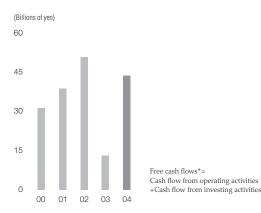
We recognize that fulfilling corporate social responsibility (CSR) is an important management issue, and will improve our staff's quality in such areas as corporate ethics, compliance and human rights to establish a management structure that responds to requests from different stakeholders.

In terms of products and services, we will strengthen our commitment to the environment, a focus of ours for many years, and provide products that ensure "security, safety and confidence." We will also enhance our contribution to society, taking advantage of our unique technologies in such areas as we believe these activities will lead to the enhancement of our enterprise value.

With these initiatives, we expect net sales to reach \$1,275 billion in the current fiscal year. We also anticipate operating income of \$62.5 billion and net income \$36.0 billion.



#### Free cash flows'



## **Consolidated Balance Sheets**

Daiwa House Industry Co., Ltd. and Subsidiaries March 31, 2004 and 2003

Assets	Million	Millions of yen		
	2004	2003	2004	
Current assets:				
Cash and cash equivalents	¥ 141,546	¥ 103,950	\$ 1,335,340	
Marketable securities (Note 3)	65	202	613	
Short-term investments (Note 2-d)	59	133	557	
Receivables:				
Trade notes	5,431	7,238	51,236	
Trade accounts	47,299	55,685	446,217	
Allowance for doubtful receivables	(1,772)	(1,972)	(16,717)	
Inventories (Note 4)	267,920	267,199	2,527,547	
Deferred tax assets (Note 11)	22,552	22,106	212,755	
Prepaid expenses and other current assets	13,191	13,755	124,443	
Total current assets	496,291	468,296	4,681,991	
Property, plant and equipment:				
Land (Notes 5 and 6)	210,677	212,312	1,987,519	
Buildings and structures (Note 6)	378,761	380,978	3,573,217	
Accumulated depreciation	(260,849)	(259,286)	(2,460,840)	
Machinery and equipment	50,536	51,264	476,755	
Accumulated depreciation	(41,690)	(42,205)	(393,302)	
Furniture and fixtures	34,527	36,695	325,726	
Accumulated depreciation	(28,738)	(31,116)	(271,113)	
Construction in progress	1,044	1,004	9,849	
Net property, plant and equipment	344,268	349,646	3,247,811	
Investments and other assets:				
Investment securities (Note 3)	45,801	25,988	432,085	
Investments in and advances to associated companies	46,921	25,900	442,651	
Long-term loans	5,466	5,024	51,566	
Deferred tax assets (Note 11)	76,577	100,123	722,425	
Deferred tax assets on land revaluation (Note 5)		41,211		
Lease deposits and other assets	81,342	87,589	767,377	
Allowance for doubtful accounts	(9,008)	(9,336)	(84,981)	
Total investments and other assets	247,099	276,499	2,331,123	
Total	¥1,087,658	¥1,094,441	\$10,260,925	

Liabilities and shareholders' equity	Millions of yen		Thousands of U.S. dollars (Note	
	2004	2003	2004	
Current liabilities:				
Short-term bank loans (Note 6)	¥ 550	¥ 2,800	\$ 5,189	
Current portion of long-term debt (Note 6)	51		481	
Payables:				
Trade notes	20,020	26,012	188,868	
Trade accounts	102,421	90,890	966,235	
Other accounts	55,400	58,639	522,641	
Deposits received from customers	39,719	38,444	374,708	
Income taxes payable	14,218	8,419	134,132	
Accrued bonuses	12,837	9,769	121,104	
Provision for product warranties	4,864	4,181	45,887	
Accrued expenses and other current liabilities	29,373	29,657	277,104	
Total current liabilities	279,453	268,811	2,636,349	
long-term liabilities:				
Long-term debt (Note 6)	911	3,237	8,594	
Liability for employees' retirement benefits (Note 7)	103,237	136,480	973,934	
Long-term deposits received from the Company's club members	60,854	64,243	574,095	
Lease deposits and other long-term liabilities	130,760	115,229	1,233,585	
Total long-term liabilities	295,762	319,189	2,790,208	
Minority interests	19,393	22,757	182,953	
Shareholders' equity (Notes 2-c, 2-n, 5, 8 and 17): Common stock, authorized, 1,900,000,000 shares; issued,				
550,664,416 shares in both 2004 and 2003	110,120	110,120	1,038,868	
Capital surplus	147,757	147,755	1,393,934	
Retained earnings	313,215	289,840	2,954,858	
Land revaluation difference	(86,200)	(60,409)	(813,207)	
Net unrealized gain on available-for-sale securities	12,958	777	122,245	
Foreign currency translation adjustments	(917)	(881)	(8,651)	
Treasury stock — at cost, 4,238,236 shares in 2004 and				
3,848,065 shares in 2003	(3,883)	(3,518)	(36,632)	
Total shareholders' equity	493,050	483,684	4,651,415	
Total	¥1,087,658	¥1,094,441	\$10,260,925	

# Consolidated Statements of Operations Daiwa House Industry Co., Ltd. and Subsidiaries

Years ended March 31, 2004, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1	
	2004	2003	2002	2004
Net sales	¥1,224,648	¥1,184,544	¥1,197,925	\$11,553,283
Cost of sales	963,457	936,861	945,474	9,089,217
Gross profit	261,191	247,683	252,451	2,464,066
Selling, general and administrative expenses (Note 12)	201,530	202,411	206,420	1,901,226
Operating income	59,661	45,272	46,031	562,840
Other income (expenses):			<u> </u>	<u>,</u>
Interest income and dividends	651	546	569	6,142
Interest expense	(423)	(723)	(1,348)	(3,991)
Write-down of marketable and investment securities	(61)	(9,773)	(16,956)	(575)
Write-down of inventories	(3,285)	(22,900)	(5,994)	(30,991)
Loss on sales and disposal of property, plant and equipment		(3,488)	(1,594)	(6,047)
Prior service benefit from changes to	(0)	(0) - 0 0)	(_/_ / _ /	(0)0 )
employees' retirement benefit plan (Note 7)		6,736	1,583	
Amortization of transitional obligation for				
employees' retirement benefits (Notes 2-i and 7)		(8,780)	(9,473)	
Amortization of actuarial gain (loss) for employees'				
retirement benefits (Note 7)	15,460	(4,925)	(3,361)	145,849
Actuarial loss on retirement benefits (Notes 2-i and 7)		(49,888)		
Actuarial loss due to a change of				
discount rate (Notes 2-i and 7)		(31,733)		
Extraordinary depreciation for property,				
plant and equipment (Note 2-f)		(75,183)		
Other — net (Note 10)	(3,465)	(318)	81	(32,689)
Other income (expenses) — net	8,236	(200,429)	(36,493)	77,698
Income (loss) before income taxes and minority interests	67,897	(155,157)	9 <i>,</i> 538	640,538
Income taxes (Note 11):				
Current	10,409	17,792	8,633	98,198
Deferred	19,199	(81,370)	(4,913)	181,123
Total	29,608	(63,578)	3,720	279,321
Minority interests in net (income) loss of subsidiaries	(1,032)	191	(601)	(9,736)
Net income (loss)	¥ 37,257	¥ (91,388)	¥ 5,217	\$ 351,481
		Yen		U.S. dollars
Per share of common stock (Note 2-0):				
Basic net income (loss)	¥ 68.16	¥ (167.06)	¥ 9.55	\$ 0.64
Cash dividends applicable to the year	15.00	10.00	10.00	0.14

# Consolidated Statements of Shareholders' Equity

Daiwa House Industry Co., Ltd. and Subsidiaries Years ended March 31, 2004, 2003 and 2002

	Thousand	5		Ν	Millions of y	en		
c	Issued number of shares of ommon sto	Common	Capital surplus	Retained earnings	Land revaluation difference	Net unrealized gain on available-for-sale securities	Foreign currency translation adjustments	
Balance, April 1, 2001	523,893	¥108,781	¥122,041	¥387,594			¥(927)	¥(3,622)
Issuance for merger with								
Daiwa Danchi Co., Ltd. (Note 16)	26,771	1,339	25,714					
Retained earnings of								
Daiwa Danchi Co., Ltd. at April 1, 2001				3,663				
Net income				5,217				
Cash dividends, ¥17.0 per share				(8,829)				
Bonuses to directors and corporate auditors Land revaluation difference				(54)	) ¥(59,910)			
Net increase in unrealized gain on					+(39,910)			
available-for-sale securities (Note 2-c)						¥ 1,358		
Foreign currency translation adjustments (Note 2-n)	)					1 1,000	118	
Net increase in treasury stock	/							(45)
Balance, March 31, 2002	550,664	110,120	147,755	387,591	(59,910)	1,358	(809)	(3,667)
Net loss				(91,388)	)			
Cash dividends, ¥10.0 per share				(5,461)	)			
Bonuses to directors and corporate auditors				(19)				
Effect of change in statutory tax rate and other					(1,382)	)		
Transfer due to sales of land				(883)	) 883			
Net decrease in unrealized gain on						(= 0.1)		
available-for-sale securities (Note 2-c)						(581)	(72)	
Foreign currency translation adjustments (Note 2-n)							(72)	140
Net decrease in treasury stock Balance, March 31, 2003	550,664	110,120	147,755	289,840	(60,409)	777	(881)	(3,518)
Net income	550,004	110,120	147,755	37,257	(00,407)	, , , , , , , , , , , , , , , , , , , ,	(001)	(0,010)
Cash dividends, ¥10.0 per share				(5,457)	)			
Transfer due to sales of land				(8,425)				
Devaluation of deferred tax assets on					, , , , , , , , , , , , , , , , , , ,			
land revaluation and other					(34,216)	)		
Net increase in unrealized gain on								
available-for-sale securities (Note 2-c)						12,181		
Foreign currency translation adjustments (Note 2-n)							(36)	
Net increase in treasury stock			2					(365)
Balance, March 31, 2004	550,664	¥110,120	¥147,757	¥313,215	¥(86,200)	¥12,958	¥(917)	¥(3,883)
			T	nousands of	U.S. dollars	s (Note 1)		
						Net unrealized	Foreign	
		C	Control	Deteined	Land	gain on	currency	Τ
		Common stock	Capital surplus	earnings	difference	available-for-sale securities	adjustments	
Balance, March 31, 2003	C.	51,038,868	\$1,393,915	\$2,734,340	) \$(569,89	6) \$ 7,330	\$(8,311)	\$(33,189)
Net income				351,482	1			
Cash dividends, \$0.09 per share				(51,48)	1)			
Transfer due to sales of land				(79,482	2) 79,48	2		
Devaluation of deferred tax assets on					/ <b></b>			
land revaluation and other					(322,79	3)		
Net increase in unrealized gain on						114,915		
available-for-sale securities (Note 2-c) Foreign currency translation adjustments (N	ote $2_n$					114,713	(340)	
Net increase in treasury stock	oic ∠-11)		19				(040)	(3,443)
Balance, March 31, 2004	ġ	51,038,868	\$1,393,934	\$2,954,858	8 \$(813,20	7) \$122,245	\$(8,651)	
See notes to consolidated financial statements		. , -			=			

## **Consolidated Statements of Cash Flows**

Daiwa House Industry Co., Ltd. and Subsidiaries Years ended March 31, 2004, 2003 and 2002

		Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2002	2004
Operating activities:				
Income (loss) before income taxes and minority interests	¥ 67,897	¥(155,157)	¥ 9,538	\$ 640,538
Adjustments to reconcile income (loss) before income taxes and				
minority interests to net cash provided by operating activities:				
Income taxes — paid	(4,671)	(6,230)	(24,236)	(44,066)
Depreciation	15,165	21,386	20,883	143,066
Write-down of golf club membership	62	147	411	585
Write-down of marketable and investment securities	61	9,773	16,956	575
Loss on sales and disposal of property, plant and equipment	641	3,488	1,594	6,047
Extraordinary depreciation for property, plant and equipment		75,183		
Impairment loss on property, plant and equipment	370			3,491
Equity in earnings of associated companies	(2,384)	(278)	(1,052)	(22,491)
Provision for (reversal of) employees' retirement benefits,				
net of payments	(30,067)	85,002	17,053	(283,651)
Changes in certain assets and liabilities, net of consolidation:		,	,	
Decrease in receivables	9,568	3,571	3,942	90,264
Decrease (increase) in inventories	(13,447)	32,872	48,909	(126,858)
Increase (decrease) in payables — trade	9,618	(31,453)	(3,797)	90,736
Increase (decrease) in deposits received from customers	3,639	4,260	(508)	34,330
Other — net	13,207	(2,105)	(2,672)	124,595
Total adjustments	1,762	195,616	77,483	16,623
Net cash provided by operating activities	69,659	40,459	87,021	657,161
Investing activities:				
Purchases of property, plant and equipment	(21,647)	(26,464)	(30,405)	(204,217)
Purchases of marketable and investment securities	(514)	(4,269)	(3,873)	(4,849)
Increase in investments in and advances to associated companies	(2,549)	(1,275)	(1,881)	(24,047)
Proceeds from sales of marketable and investment securities	220	2,814	422	2,075
Proceeds from sales of property, plant and equipment	2,207	1,244	379	20,821
Purchase of investments in subsidiaries	(559)	1,211	017	(5,274)
Net decrease from sales of shares	(557)			(3,274)
of the former consolidated subsidiaries	(640)			(6,038)
Net proceeds from purchases of shares of the newly	(040)			(0,030)
consolidated subsidiary		1,489		
	(1 028)		(2,769)	(28,000)
Increase in lease deposits Net decrease in other assets	(4,028)	(5,415)	(2,768)	(38,000)
	<u>1,573</u> (25,937)	4,560	1,897 (36,229)	14,840
Net cash used in investing activities	(25,937)	(27,316)	(36,229)	(244,689)
Financing activities:	(250)	(F2 00F)	(00,000)	(2,250)
Net decrease in short-term bank loans	(250)	(52,005)	(80,060)	(2,359)
Proceeds from long-term debt	(20)	1,237		(250)
Repayments of long-term debt	(38)	(1,000)	(58)	(358)
Proceeds from issuance of bonds			2,000	
Repayments of convertible bonds	(1.00)	(200)	(2,005)	(1.000)
Net of purchases and proceeds from sales of treasury stock	(109)	(200)	(43)	(1,028)
Dividends paid	(5,729)	(5,745)	(9,101)	(54,047)
Cash paid related to merger with Daiwa Danchi Co., Ltd.			(268)	
Net cash used in financing activities	(6,126)	(57,713)	(89,535)	(57,792)
Cash and cash equivalents increased by merger			14,062	
Net increase (decrease) in cash and cash equivalents	37,596	(44,570)	(24,681)	354,680
Cash and cash equivalents, beginning of year	103,950	148,520	173,201	980,660
Cash and cash equivalents, end of year	¥141,546	¥ 103,950	¥148,520	\$1,335,340
1			,	

	Millions of yen	Thousands of U.S. dollars
Non-cash investing and financing activities:	2004	2004
Assets and liabilities decreased by sales of shares of the former consolidated subsidiaries and associated proceeds and gain:		
Current assets	¥19,139	\$180,557
Long-term assets	6,598	62,245
Current liabilities	(13,000)	(122,642)
Long-term liabilities	(6,851)	(64,632)
Minority interests	(3,337)	(31,481)
Company's interest prior to acquisition	(1,252)	(11,811)
Gain on sales of securities	77	726
Proceeds from sales of securities	1,374	12,962
Cash and cash equivalents of the subsidiaries	(2,014)	(19,000)
Net decrease in cash from sales of shares of the former consolidated subsidiaries	¥ (640)	\$ (6,038)
		Millions of yen
		2003
Assets and liabilities increased by purchases of shares of the associated company and		
associated proceeds: Current assets		¥3,621
Long-term assets		₹3,621 5,642
Consolidation difference		98
Current liabilities		(2,418)
Long-term liabilities		(4,844)
Minority interests		(973)
Company's interest prior to acquisition		(1,094)
Acquisition cost		32
Cash and cash equivalents of the consolidated subsidiary		(1,521)
Net proceeds from purchases of shares of the newly consolidated subsidiary		¥1,489
The proceeds non-purchases of shares of the newly consolidated substalary		
		Millions of yen
		2002
Assets acquired and liabilities assumed in merger (Note 16):		
Current assets		¥143,756
Long-term assets		132,201
Total		¥275,957
Current liabilities		¥176,694
Long-term liabilities		54,595
Total		¥231,289

### Notes to Consolidated Financial Statements

Daiwa House Industry Co., Ltd. and Subsidiaries

# 1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements have been prepared from the consolidated financial statements issued for domestic reporting purposes in accordance with the provisions set forth in the Japanese Securities and Exchange Law. Daiwa House Industry Co., Ltd. (the "Company") and its domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code (the "Code") and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and its foreign subsidiaries in conformity with those of their countries of domicile.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of \$106 to \$1, the approximate rate of exchange at March 31, 2004. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

### 2. Summary of significant accounting policies

#### a. Consolidation

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

The differences between the cost and underlying net equity of investments in subsidiaries and associated companies at acquisition, are amortized over five years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated. During the year ended March 31, 2003 Nihon Jyutaku Ryutu Co., Ltd., formerly an associated company, has been included in consolidation as a result of the additional acquisition of its shares.

During year ended March 31, 2004 Daiwa System Co., Ltd. and three subsidiaries, have been excluded from consolidation as a result of sales of its shares.

#### b. Cash and cash equivalents

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

#### c. Marketable and investment securities

Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: i) held-tomaturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost and ii) available-for-sale securities, which are not classified as held-to-maturity. Effective April 1, 2001, in accordance with the new accounting standard for financial instruments, availablefor-sale securities were reported at fair value, with unrealized gains and losses, net of applicable taxes, reported as a separate component of shareholders' equity, which were reported at cost, prior to April 1, 2001.

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

#### d. Short-term investments

Short-term investments are time deposits and certificates of deposit, all of which mature or become due later than three months after the date of acquisition. Time deposits pledged as collateral as substitutes of deposits for certain construction and advertisement contracts were both ¥29 million (\$274 thousand) as of March 31, 2004 and 2003.

#### e. Inventories

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

#### f. Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation is computed substantially by the declining-balance method while the straight-line method is applied to buildings acquired after April 1, 1998. The range of useful lives is principally from 15 to 39 years for buildings and structures, from 10 to 13 years for machinery and equipment and from 5 to 15 years for furniture and fixtures.

Extraordinary depreciation for property, plant and equipment is charged to income for the year ended March 31, 2003, for depreciable assets in which utilization declined significantly, these assets consist of resort hotels, club-houses on golf courses and commercial buildings for rent. The extraordinary depreciation recorded was ¥73,369 million, ¥856 million, and ¥958 million, for buildings and structures, machinery and equipment, and furniture and fixtures, respectively.

#### g. Long-lived assets

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

The Group adopted the new accounting standard for impairment of fixed assets from the year ended March 31, 2004. The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition. The effect of adoption of the new accounting standard for impairment of fixed assets was to decrease income before income taxes and minority interests for the year ended March 31, 2004 by ¥370 million (\$3,491 thousand).

#### h. Leases

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

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

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

Effective April 1, 2000, the Company and its domestic consolidated subsidiaries adopted a new accounting standard for employees' retirement benefits and account for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

The transitional obligation of ¥43,221 million, determined as of April 1, 2000, was reduced by an immediate charge to income in the amount of the fair value of the contribution of available-for-sale securities in August 2000. The remaining transitional obligation of ¥28,489 million (including ¥896 million assumed in a merger with Daiwa Danchi Co., Ltd.) is principally being amortized over three years.

Due to the deterioration of the stock market and the revision of the discount rate from 3.5% to 2.5%, the amount of unrecognized actuarial losses accumulated to 40% of the projected benefit obligation during 2003. With the government's approval of the Group's application for the exemption from future obligations related to the substitutional portion of the pension program (Note 7), the revision of the retirement benefit plans, and the reexamination of investment policy, the actuarial loss, which was amortized evenly over principally 10 years under the Group's previous method, was changed to be recognized when incurred in order to disclose information about retirement and pension plans more timely. As a result, the loss before income taxes and minority interests for the year ended March 31, 2003 increased by ¥81,621 million, compared with what would have been recorded under the previous method.

#### j. Revenue and profit recognition

Sales and related profits are generally recorded when sales contracts are completed and customers have satisfied the down payment and other requirements stipulated by the contracts. Land and land development costs are allocated to units sold based upon relative area.

#### k. Income taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

#### 1. Appropriations of retained earnings

Appropriations of retained earnings at each year end are reflected in the financial statements of the following year after shareholders' approval has been obtained.

#### m. Foreign currency transactions

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

#### n. Foreign currency financial statements

The balance sheet accounts of the consolidated foreign subsidiary and associated companies are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at historical exchange rates. Revenue and expense accounts of the consolidated foreign subsidiaries and associated companies are translated into yen at the current exchange rate.

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

#### o. Per share information

Basic net income per share is computed by dividing net income available to common shareholders, by the weighted-average number of common shares outstanding for the year.

The weighted-average number of common shares outstanding for the years ended March 31, 2004, 2003 and 2002 were 546,625 thousand, 547,045 thousand and 546,079 thousand, respectively.

Diluted net income per share of common stock for the years ended March 31, 2004 and 2002 are not disclosed because it is anti-dilutive. Diluted net income per share of common stock for the year ended March 31, 2003 is not disclosed because the Company incurred a net loss.

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

#### p. Treasury stock

Effective April 1, 2002, the Company adopted a new accounting standard for treasury stock issued by the Accounting Standards Board of Japan. Under the new standard, the stock of the Company, which is held by its subsidiaries and associated companies, is stated as treasury stock according to the percentage of ownership.

#### 3. Marketable and investment securities

Marketable and investment securities as of March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Current:			
Government and corporate bonds	¥ 65	¥ 202	\$ 613
Non-current:			
Marketable equity securities	45,767	25,926	431,764
Government and corporate bonds	34	62	321
Total	¥45,801	¥25,988	\$432,085

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2004 and 2003 were as follows:

		Million	s of yen				
	2004						
	Cost	Unrealized gains	Unrealized losses	Fair value			
Securities classified as:							
Available-for-sale:							
Equity securities	¥18,523	¥21,610	¥100	¥40,033			
Held-to-maturity	99			99			
	Millions of yen						
		20	03				
	Cost	Unrealized gains	Unrealized losses	Fair value			
Securities classified as:							
Available-for-sale:							
Equity securities	¥18,096	¥2,895	¥1,119	¥19,872			
Held-to-maturity	264	1		265			
		Thousands o	f U.S. dollars				
		20	04				
	Cost	Unrealized gains	Unrealized losses	Fair value			
Securities classified as:							
Available-for-sale:							
Equity securities	\$174,745	\$203,868	\$943	\$377,670			
Held-to-maturity	934			934			

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2004 and 2003 were as follows:

		Carrying amount			
	Millions	Millions of yen			
	2004	2003	2004		
Available-for-sale:					
Equity securities	¥5,734	¥5,854	\$54,094		
Debt securities		200			
Total	¥5,734	¥6,054	\$54,094		

The carrying values of debt securities by contractual maturities for securities classified as held-to-maturity at March 31, 2004 are as follows:

	Held to matur	Held to maturity		
	Millions of yen	Thousands of U.S. dollars		
Due in one year or less	¥65	\$613		
Due in one to five years	25	236		
Due in five to ten years	9	85		
Total	¥99	\$934		

#### 4. Inventories

Inventories at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Finished residential homes and condominiums	¥ 29,378	¥ 27,771	\$ 277,151
Construction projects in progress	31,593	28,745	298,047
Residential homes and condominiums in process	26,496	20,383	249,962
Land held:			
For resale	123,863	134,130	1,168,519
Under development	34,291	33,110	323,500
Undeveloped	11,687	11,687	110,255
Construction materials and supplies	10,612	11,373	100,113
Total	¥267,920	¥267,199	\$2,527,547

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

#### 5. Land revaluation

Under the "Law of Land Revaluation," the Company and certain subsidiaries elected a one-time revaluation of their own-use land to a value based on real estate appraisal information as of March 31, 2002.

The resulting land revaluation difference represents unrealized depreciation of land and is stated, net of income taxes, as a component of shareholders' equity. There was no effect on the statement of operations. Continuous readjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the land revaluation difference account and related deferred tax liabilities. The details of the one-time revaluation as of March 31, 2002 were as follows:

	Millions of ven
Land before revaluation	¥311,703
Land after revaluation	208,811
Land revaluation difference	102,892
Deferred tax assets on land revaluation	43,135
Minority interests, net	(153)
Net land revaluation difference	¥ 59,910

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

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

Short-term bank loans at March 31, 2004 and 2003 consisted of bank loans. The annual interest rates for the short-term bank loans were 1.4% and ranged from 0.6% to 1.4% at March 31, 2004 and 2003, respectively.

Long-term debt at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	
Unsecured bank loans, 1.50%, due serially to July 2005		¥ 237		
Unsecured 0.5% bonds due December 2004		2,000		
Collateralized loans from bank, 1.26%, due serially to March 2007	¥962	1,000	\$9,075	
Total	962	3,237	9,075	
Less current portion	51		481	
Long-term debt, net of current portion	¥911	¥3,237	\$8,594	

Annual maturities of long-term debt at March 31, 2004, were as follows:

Year ending March 31:	Millions of yen	Thousands of U.S. dollars
2005	¥ 51	\$ 481
2006	52	490
2007	859	8,104
Total	¥962	\$9,075

At March 31, 2004, assets pledged as collateral for secured long-term debt were as follows:

	Millions of yen	Thousands of U.S. dollars
Land	¥ 502	\$ 4,736
Buildings and structures	1,379	13,009
Total	¥1,881	\$17,745

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

#### 7. Retirement and pension plans

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

The liability for employees' retirement benefits at March 31, 2004 and 2003 consisted of the following:

	Million	Millions of yen	
	2004	2003	2004
Projected benefit obligation	¥207,238	¥199,597	\$1,955,076
Fair value of plan assets	(104,078)	(63,185)	(981,868)
Net liability	103,160	136,412	973,208
Prepaid benefit costs	77	68	726
Liability for employees' retirement benefits	¥103,237	¥136,480	\$ 973,934

The components of net periodic benefit costs are as follows:

	Millions of yen			U.S. dollars
	2004	2003	2002	2004
Service cost	¥11,647	¥ 10,845	¥11,967	\$109,877
Interest cost	4,856	7,182	7,535	45,811
Expected return on plan assets	(4)	(3,181)	(4,219)	(37)
Prior service benefit		(6,736)	(1,583)	
Recognized actuarial loss (gain)	(15,460)	86,546	3,361	(145,849)
Amortization of transitional obligation		8,780	9,473	
Net periodic benefit costs	¥ 1,039	¥103,436	¥26,534	\$ (9,802)

Prior service benefit for the year ended March 31, 2002 represents the net effect of (1) a decrease in the benefit obligation of ¥5,964 million from raising the eligibility age for payments regarding the basic part of the welfare pension plan for employees of the Company and certain subsidiaries, which is similar to the national pension plan, in accordance with a revision in the Welfare Pension Insurance Law in March, 2000 and (2) an increase in the benefit obligation of ¥4,381 million from changing the Daiwa Danchi pension plan from a qualified pension plan to a welfare pension plan and unfunded retirement benefit plan. These changes were effective March 2002 and November 2001, respectively, and the full effect on the benefit obligation as of those dates was charged to income in the year ended March 31, 2002.

Prior service benefit for the year ended March 31, 2003 represents the effect of a decrease in the benefit obligation from the adoption of the revised retirement benefit plan concerning the lump-sum severance payments.

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Assumptions used for the years ended March 31, 2004 and 2003 are set forth as follows:

	2004	2003
Discount rate	2.5%	2.5%
Expected rate of return on plan assets	Principally 0%	3.5%
Recognition period of actuarial gain / loss	1 year	1 year
Amortization period of transitional obligation		Principally 3 years
		(completed)

The contributory funded defined benefit pension plan, which is established under the Japanese Welfare Pension Insurance Law, covers a substitutional portion of the governmental pension program managed by the Company on behalf of the government and a corporate portion established at the discretion of the company. According to the enactment of the Defined Benefit Pension Plan Law in April 2002, the Company applied for an exemption from obligation to pay benefits for future employee services related to the substitutional portion which would result in the transfer of the pension obligations and related assets to the government by another subsequent application. The Company obtained an approval of exemption from future obligation by the Ministry of Health, Labor and Welfare on October 28, 2002. As a result of this exemption, the Company and certain subsidiaries recognized a gain on exemption from future pension obligation of the government of the accounting standard for employees' retirement benefits for the year ended March 31, 2003.

The substitutional portion of the plan assets which will be transferred to the government in the subsequent year is measured to be approximately ¥38,040 million as of March 31, 2003.

#### 8. Shareholders' equity

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which various amendments have became effective since October 1, 2001.

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

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

The revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders meeting and dispose of such treasury stock by resolution of the Board of Directors beginning April 1, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

The amount of retained earnings available for dividends under the Code was ¥177,359 million (\$1,693,196 thousand) as of March 31, 2004, based on the amount recorded in the parent company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

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

### 9. Segment information

Information about operations in different industry segments of the Group for the years ended March 31, 2004, 2003 and 2002 is as follows:

### Sales and operating income (loss)

1 8				Millions of yen			
				2004			
	Residential	Commercial	Resort	Distribution "Home Center"	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥797,627	¥270,002	¥53,612	¥56,069	¥47,338		¥1,224,648
Intersegment sales	3,004	6,986		1,158	50,428	¥(61,576)	
Total sales	800,631	276,988	53,612	57,227	97,766	(61,576)	1,224,648
Operating expenses	752,365	256,319	53,531	57,088	94,943	(49,259)	1,164,987
Operating income	¥ 48,266	¥ 20,669	¥ 81	¥ 139	¥ 2,823	¥(12,317)	¥ 59,661
			Tho	usands of U.S. dolla	ars		
				2004			
	Residential	Commercial	Resort	Distribution "Home Center"	Other	Eliminations/ Corporate	Consolidated
Sales to customers	\$7,524,783	\$2,547,188	\$505,774	\$528,953	\$446,585	corporate	\$11,553,283
Intersegment sales	28,340	65,906	4000)	10,924	475,736	\$(580,906)	+/
Total sales	7,553,123	2,613,094	505,774	539,877	922,321	(580,906)	11,553,283
Operating expenses	7,097,783	2,418,103	505,010	538,566	895,689	(464,708)	10,990,443
Operating income	\$ 455,340	\$ 194,991	\$ 764	\$ 1,311	\$ 26,632	\$(116,198)	\$ 562,840
				Millions of yen			
				2003			
	Residential	Commercial	Resort	Distribution "Home Center"	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥789,325	¥245,999	¥51,903	¥51,219	¥46,098		¥1,184,544
Intersegment sales	2,656	2,015		940	51,019	¥(56,630)	
Total sales	791,981	248,014	51,903	52,159	97,117	(56,630)	1,184,544
Operating expenses	752,846	230,383	55,872	51,854	94,544	(46,227)	1,139,272
Operating income (loss)	¥ 39,135	¥ 17,631	¥ (3,969)	¥ 305	¥ 2,573	¥(10,403)	¥ 45,272
				Millions of yen			
				2002			
	Desidentia	Comment 1	Decent	Distribution	Out	Eliminations/	Concellider 1
Sales to customers	Residential	Commercial ¥257,733	Resort	"Home Center"	Other	Corporate	Consolidated ¥1,197,925
	¥805,022 981	¥257,733 3,052	¥48,499	¥44,349	¥42,322	V(52 ()52)	±1,177,923
Intersegment sales Total sales	806,003	260,785	48,499	1,114 45,463	46,906	$\frac{1}{(52,053)}$	1,197,925
	806,003 763,070	260,785 242,434	48,499 52,854	45,463 45,162	89,228 86 708		
Operating expenses Operating income (loss)	¥ 42,933	¥ 18,351	$\frac{52,854}{4,355}$	$\frac{43,162}{43,101}$	86,708 ¥ 2,520	$\frac{(38,334)}{¥(13,719)}$	$\frac{1,151,894}{46,031}$
Operating income (ioss)	Ŧ 42,933	± 10,001	<u>= (4,333)</u>	Ŧ 301	Ŧ 2,320	±(13,719)	£ 40,031

#### Total assets, depreciation and capital investments

	e enp								
				Millions of yen					
				2004					
	Residential	Commercial	Resort	Distribution "Home Center"	Other	Eliminations/ Corporate	Consolidated		
Total assets	¥396,552	¥212,235	¥102,740	¥36,779	¥72,961	¥266,391	¥1,087,658		
Depreciation	4,822	2,771	1,530	647	3,628	1,767	15,165		
Capital investments	6,688	4,465	2,272	2,098	4,916	(331)	20,108		
		Thousands of U.S. dollars							
				2004					
	Residential	Commercial	Resort	Distribution "Home Center"	Other	Eliminations/ Corporate	Consolidated		
Total assets	\$3,741,057	\$2,002,217	\$969,245	\$346,972	\$688,311	\$2,513,123	\$10,260,925		
Depreciation	45,491	26,141	14,434	6,104	34,226	16,670	143,066		
Capital investments	63,094	42,123	21,434	19,793	46,377	(3,123)	189,698		
	Millions of yen								
				2003					
	Residential	Commercial	Resort	Distribution "Home Center"	Other	Eliminations/ Corporate	Consolidated		
Total assets	¥394,119	¥211,168	¥98,803	¥35,196	¥78,976	¥276,179	¥1,094,441		
Depreciation	5,288	2,604	6,334	592	4,774	1,794	21,386		
Capital investments	6,984	8,114	2,164	2,317	3,778	1,354	24,711		
				Millions of yen					
				2002					
	Residential	Commercial	Resort	Distribution "Home Center"	Other	Eliminations/ Corporate	Consolidated		
Total assets	¥436,521	¥192,101	¥152,280	¥30,728	¥85,251	¥290,246	¥1,187,127		
Depreciation	5,378	2,122	6,610	538	4,444	1,791	20,883		
Capital investments	20,753	11,935	2,514	1,841	3,996	23,393	64,432		

The effect of adoption of the new accounting standard for impairment of fixed assets described in Note 2-g was to decrease total assets of the Commercial segment as of March 31, 2004, by ¥181 million (\$1,708 thousand), compared with the prior year.

The industry segments consisted of the following:

	Industry segment					
Components of net sales in the consolidated statements of operations		Commercial	Resort	Distribution "Home Center"	Other	
Construction	Construction of single/ multi-family houses c and condominiums	Construction of ommercial building				
Real estate	Sales of real estate for residential use Real estate commissions	Sales and rental or real estate for commercial use				
	Rental of residential complexes					
Other	Care of condominiums	Care of commercial buildings	Operation of resort type hotels and golf courses	Operation of "do-it-yourself" hardware centers	building materials	

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

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

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

"Other income (expenses): Other — net" for the years ended March 31, 2004, 2003 and 2002 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
-	2004	2003	2002	2004
Exchange loss	¥ (2)	¥ (7)	¥ (2)	\$ (19)
Real estate acquisition tax and other taxes	(369)	(277)	(257)	(3,481)
Retirement benefits for directors	(214)	(120)	(643)	(2,019)
Gain (loss) on sales of marketable and investment securities	99	123	(544)	934
Impairment loss on property, plant and equipment	370			3,491
Allowance for doubtful accounts	(386)	(4,157)	(873)	(3,642)
Gain on exemption from future pension obligation		8,575		
Equity in earnings of associated companies	2,384	278	1,052	22,491
Write-down of golf club membership	(62)	(147)	(411)	(585)
Loss on sales of membership	3	(79)	(170)	28
Gain (loss) on liquidation of associated company		(2,145)		
Bad debt expenses for long-term loans		(4,082)		
Loss on closure of "do-it-yourself" hardware centers	(2,637)			(24,877)
Loss on sublease agreements	(3,503)			(33,047)
Other — net	852	1,720	1,929	8,037
Total	¥ (3,465)	¥ (318)	¥ 81	\$ (32,689)

#### 11. Income taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 42.0% for the years ended March 31, 2004, 2003 and 2002.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2004 and 2003 are as follows:

and 2003 are as follows:			
	Millions of yen		Thousands of U.S. dollars
—	2004	2003	2004
Current:			
Deferred tax assets:			
Write-down of land held for resale	¥ 12,162	¥ 15,257	\$114,736
Accrued bonuses	5,669	3,404	53,481
Accrued enterprise tax	1,328	769	12,528
Other	3,393	2,676	32,010
Deferred tax assets	¥ 22,552	¥ 22,106	\$ 212,755
Non-current:			
Deferred tax assets:			
Employees' retirement benefits	¥ 41,316	¥ 55,498	\$ 389,774
Unrealized gains on sales of property, plant and equipment	6,781	7,503	63,972
Extraordinary depreciation for property, plant and equipment	28,808	30,299	271,773
Other	11,239	9,703	106,028
Less valuation allowance	(763)		(7,198)
Deferred tax assets	¥ 87,381	¥103,003	\$ 824,349
Deferred tax liabilities:			
Retained earnings appropriated for tax allowable reserves	¥ (2,004)	¥ (2,038)	\$ (18,906)
Net unrealized gain on available-for-sale securities	(8,730)	(723)	(82,358)
Other	(70)	(119)	(660)
Deferred tax liabilities	¥(10,804)	¥ (2,880)	\$(101,924)
Net deferred tax assets	¥ 76,577	¥100,123	\$ 722,425

A reconciliation between the normal effective statutory tax rate and the actual effective tax rates reflected in the accompanying consolidated statements of operations for the years ended March 31, 2004, 2003 and 2002 is as follows:

	2004	2003	2002
Normal effective statutory tax rate	42.0%	42.0%	42.0%
Increase (decrease) in tax rates due to:			
Permanently non-deductible expenses	1.3	(0.6)	9.2
Non-taxable dividend income	(0.0)	0.0	(0.2)
Equity in earnings of associated companies	(0.9)	0.1	(4.6)
Write-down of investments in and advances to associated companies Per capita levy	(0.1) 0.8	0.4 (0.3)	(0.7) 5.4
Increase (decrease) in valuation allowance for deferred tax assets	0.1	1.2	(11.8)
Decrease in deferred tax assets by change of tax rate		(2.0)	
Other — net	0.4	0.2	(0.3)
Actual effective tax rates	43.6%	41.0%	39.0%

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

The effect of this change was to decrease deferred tax assets and deferred tax assets on land revaluation by ¥3,145 million and ¥1,417 million, respectively, and to increase income taxes — deferred, net unrealized gain on available-for-sale securities and land revaluation difference by ¥3,170 million, ¥18 million and ¥1,417 million, respectively, as of March 31, 2003 and for the year ended March 31, 2003.

#### 12. Research and development costs

Research and development costs charged to income were ¥5,667 million (\$53,462 thousand), ¥5,609 million and ¥5,474 million for the years ended March 31, 2004, 2003 and 2002, respectively.

#### 13. Leases

Total lease payments under finance leases that are not deemed to transfer ownership of the leased property to the lessee were ¥5,331 million (\$50,292 thousand), ¥4,815 million, and ¥4,510 million for the years ended March 31, 2004, 2003 and 2002, respectively. Pro forma information of leased property under finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2004 and 2003 were as follows:

#### (Lessee)

	Millions of yen				
		2004			
	Buildings and structures	Machinery and equipment	Furniture and fixtures	Total	
Acquisition cost	¥10,055	¥1,768	¥10,289	¥22,112	
Accumulated depreciation	5,647	526	5,440	11,613	
Accumulated impairment loss		184		184	
Net leased property	¥ 4,408	¥1,058	¥ 4,849	¥10,315	
		Thousands of U.S. dollars			
		2004			
	Buildings and structures	Machinery and equipment	Furniture and fixtures	Total	
Acquisition cost	\$94,859	\$16,679	\$97,066	\$208,604	
Accumulated depreciation	53,274	4,962	51,321	109,557	
Accumulated impairment loss		1,736		1,736	
Net leased property	\$41,585	\$ 9,981	\$45,745	\$ 97,311	
	Millions of yen				
	2003				
	Buildings and structures	Machinery and equipment	Furniture and fixtures	Total	
Acquisition cost	¥10,006	¥1,307	¥9,311	¥20,624	
Accumulated depreciation	4,193	480	4,874	9,547	
Net leased property	¥ 5,813	¥ 827	¥4,437	¥11,077	

Obligations under such finance leases as of March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	
Due within one year	¥ 4,607	¥ 4,561	\$43,462	
Due after one year	5,708	6,516	53,849	
Total	¥10,315	¥11,077	\$97,311	
Impairment of leased property	¥ 184		\$ 1,736	

The amount of acquisition cost and obligations under finance leases includes the imputed interest expense portion. Depreciation expenses, which are not reflected in the accompanying statements of operations, computed by the straight-line method, respectively.

Obligations and future rental income under non-cancellable operating leases as of March 31, 2004 and 2003 were as follows:

(Lessee)	Million	s of yen	Thousands of U.S. dollars
	2004	2003	2004
Due within one year	¥ 29,142	¥ 25,456	\$ 274,924
Due after one year	355,726	313,820	3,355,906
Total	¥384,868	¥339,276	\$3,630,830
(Lessor)	Million	Millions of yen	
	2004	2003	2004
Due within one year	¥ 24,009	¥ 19,290	\$ 226,500
Due after one year	334,616	269,724	3,156,755
Total	¥358,625	¥289,014	\$3,383,255

#### 14. Derivatives

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

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

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

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

As of March 31, 2004 and 2003, the Group did not have any derivative contracts outstanding.

#### 15. Contingencies

At March 31, 2004, contingent liabilities for notes endorsed with recourse and loans guaranteed in the ordinary course of business amounted to ¥1,057 million (\$9,972 thousand) and ¥70,785 million (\$667,783 thousand), respectively. Included in loans guaranteed were customers' housing loans from banks in the amount of ¥68,729 million (\$648,387 thousand).

#### 16. Merger with Daiwa Danchi Co., Ltd.

Effective April 1, 2001, the Company merged with Daiwa Danchi, which was an associated company. Under the terms of the merger, the Company issued 0.3 shares of its common stock for each Daiwa Danchi common share, which resulted in the issuance of 26,771,371 shares and increases in common stock of ¥1,339 million and capital surplus of ¥25,714 million.

#### 17. Subsequent event

The following appropriations of retained earnings at March 31, 2004 were approved at the Company's shareholders' meeting held on June 29, 2004:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥15.0 (\$0.14) per share	¥8,253	\$77,858

# Deloitte.

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### Independent Auditors' Report

Daiwa House Industry Co., Ltd. and Subsidiaries

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

We have audited the accompanying consolidated balance sheets of Daiwa House Industry Co., Ltd. and subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2004, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Daiwa House Industry Co., Ltd. and subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2004, in conformity with accounting principles generally accepted in Japan.

As discussed in Note 2-c, effective April 1, 2001, in accordance with the new accounting standard for financial instruments, available-for-sale securities are reported at fair value. As discussed in Note 2-i, the Company and certain subsidiaries changed its method of accounting for its liability for employees' retirement benefits as of March 31, 2003, and the actuarial loss, which previously was amortized evenly over principally 10 years, was changed to be amortized when incurred.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Delaitte Tauche Takmaten

June 29, 2004

### Source

P2	Economic and Social Research Institute, Cabinet Office, Government of Japan/Annual Report of National Accounts
P3	Economic and Social Research Institute, Cabinet Office, Government of Japan/Annual Report of National Accounts
	Ministry of Land, Infrastructure and Transport/Construction Investment Forecast; Land Price Publication 2004
P8	Securities Markets in Japan/Survey on Distribution of Shares
P13	Ministry of Land, Infrastructure and Transport/Statistics on Building Construction Started
P15	Jutaku Sangyo Shimbun-sya/Housing Industry Data; FY2003 Yearbook
	Notes: 1. Floor space per person (owner-occupied and rental housing) is uniformly calculated based on the inside measurement of each room plus half the thickness of each wall.
	2. Japan (1998 figures); U.S.A. (1999 figures); Great Britain (1996 figures); France (1996 figures); Germany (1998 figures)
P16	Statistics Bureau, Ministry of Public Management, Home Affairs, Posts and Telecommunications/Population Census of Japan
	National Institute of Population and Social Security Research/Population Projections for Japan: 2001-2050
	United Nations/World Population Prospects: The 1996 Revision
P34, 35, 36	Ministry of Land, Infrastructure and Transport/Statistics on Building Construction Started
P36	Statistics Bureau, Ministry of Public Management, Home Affairs, Posts and Telecommunications/Statistics on Housing and Land
P37	Yano Research Institute Ltd./Trends in housing improvement market scale
	The Housing Loan Promotion Association/Current Data on Overseas Housing
P39	Ministry of Land, Infrastructure and Transport/Estimate of Construction Investment
	Japan Federation of Construction Contractors/Kensetsu-gyo handbook 2004
	Ministry of Land, Infrastructure and Transport/Statistics on Building Construction Started
P41	Ministry of Agriculture, Forestry and Fisheries/Progress Report on Measures under Law Relating to Emergency Measures to
	Improve Controls on food Processing (Law on Support for HACCP Method Utilization)
P54	Japan Meteorological Agency/Nihon Kikohyo
	Statistics Bureau, Ministry of Public Management, Home Affairs, Posts and Telecommunications/Global Weather Statistics (International Statistical Compendium)
P55	Japan Meteorological Agency website: Data on Weather-Caused Disasters

### http://www.daiwahouse.co.jp/English/annual/index.html



Overall responsibility • Tetsuji Ogawa/Daiwa House Producer & creative director • Keisuke Izumoto/Daiwa House Art director • Hiroaki Kitagawa/Nippon Arts Inc. Designer • Mayumi Makino/D & Join Inc. Photographer • Kazumasa Kondo Japanese writer • Miwako Hori/Daiwa House English translator & editor • Stephen Lloyd/D & Join Inc. Assistant director • Masami Naoi/Daiwa House **Building Your Dreams** 

