New Housing for a New Japan

Daiwa House® group

2003 Annual Report

DAIWA HOUSE INDUSTRY CO., LTD.

Contents

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.

Sales statements on a segmental basis :
Segment sales figures shown in this annual report are totals of sales to external customers and inter-segment sales and transfers. Segment sales ratios, however, are calculated solely on the basis of sales to external customers.


Building Your Dreams

In JAPAN

Introduction — economic and housing developments in Japan in fiscal 2002

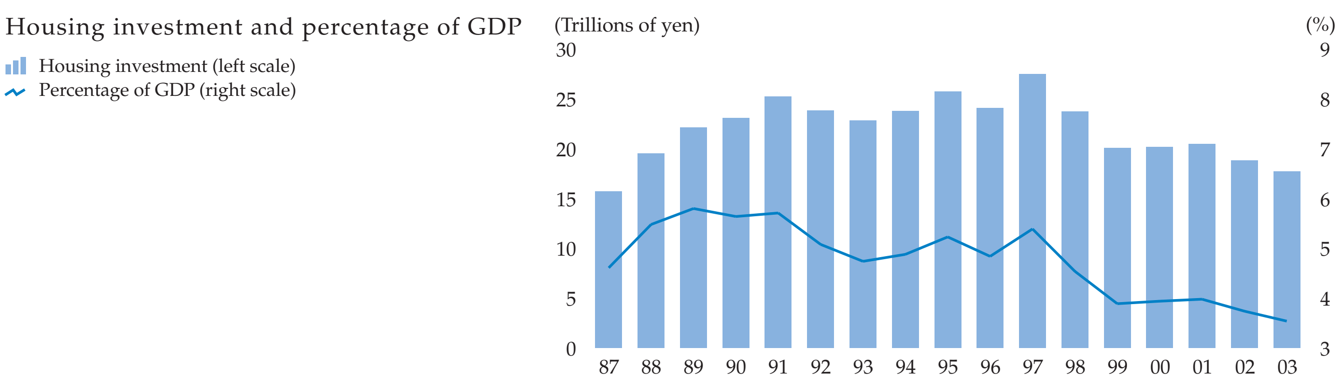
Japan's nominal GDP fell by 0.7% in fiscal 2002 for the second year-on-year decline in a row. The deflationary process continued to take its toll, with stock prices dropping to 20% of their peak level at the end of the 1980s bubble, and land prices slipping to 57% of their all-time high. Corporate bankruptcies during the term were the fourth-highest since World War II, while unemployment reached 5.4% in calendar 2002, the highest level since 1948, when compilation of statistics began.

Performances differed from one industry to another. Export-oriented sectors such as manufacturing, particularly the automotive industry, were supported by strong overseas demand. In contrast, industries with little or no export presence were severely affected by the economy's sluggishness. Among these was the construction industry, including housing, in which the Daiwa House group operates, where the market shrank yet again during the reporting period. Overall construction investment was down 7.1% from the previous term, while new housing construction starts stood at 1,145,553 units, the lowest level since fiscal 1983. Construction of owner-occupied housing posted a third consecutive year of decline (down 3.1% at 365,507 houses), and construction of condominiums — was previously held up the housing market as a whole — slumped 11.0% to 198,432. In contrast to this evident further decline in housing acquisition by individual consumers, construction of housing units for rent continues to grow — by 2.8% year-on-year to 454,505 in the term under review — against the backdrop of low interest rates, declining land prices, and a weak stock market.

The near-future outlook for our group's business environment is generally gloomy, but thanks to the improvements we have achieved over the past two years, we have good hopes of pursuing rewarding business operations even amid a stagnant economic situation. We now have the sort of efficient corporate structure in place that will allow us to make major strides in business performance once Japan's economy gets properly back on the road to recovery.

Please see our annual report for further details of performance in this and other operational segments.

Housing investment and percentage of GDP



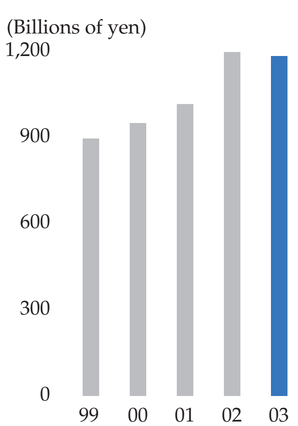
Consolidated financial highlights

Daiwa House Industry Co., Ltd. and Subsidiaries
Years ended March 31, 2003, 2002 and 2001

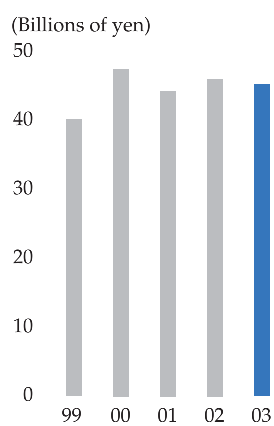
	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	2003
Net sales	¥1,184,544	¥1,197,925	¥1,016,237	$9,871,200
Operating income	45,272	46,031	44,290	377,267
Other income (expenses)	(200,429)	(36,493)	(31,494)	(1,670,242)
Net income (loss)	(91,388)	5,217	6,256	(761,567)
Per share of common stock (in yen and dollars):				
Basic net income (loss)	(167.06)	9.55	12.05	(1.39)
Shareholders' equity	884.55	1,066.63	1,182.01	7.37
Cash dividends applicable to the year	10	10	17	0.08
Total assets	1,094,441	1,187,127	1,066,457	9,120,342
Shareholders' equity	483,684	582,438	613,867	4,030,700
Return on equity (%)	(18.89)	0.85	1.02	
Equity ratio (%)	44.19	49.06	57.56	

Note: The U.S. dollar amounts represent translations of Japanese yen for convenience only at the approximate exchange rate on March 31, 2003 of ¥120 = U.S.$1.

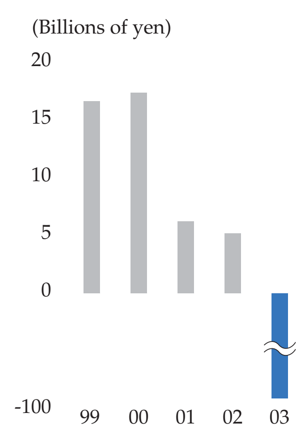
Net sales



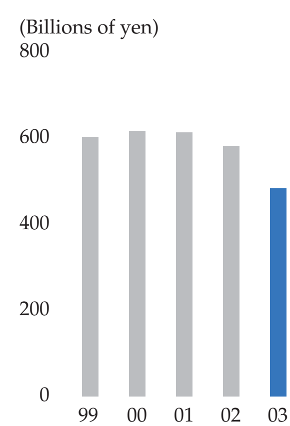
Operating income



Net income (loss)



Shareholders' equity



Group performance highlights (on a consolidated basis)

As of March 31, 2003

Cash flow from operating activities	Interest coverage ratio*	Equity ratio
40 billion yen or more	50.1	44.2%

* Cash flow from operating activities divided by interest payable

- About **¥90** billion in unrecognized retirement benefit obligations were amortized in lump-sum
- Extraordinary depreciation of land and other property was implemented in the amount of about **¥75** billion
- The equity ratio declined by only **4.9%** to 44.2%
- Net cash provided by marketing activities exceeded **¥40** billion in spite of more than ¥150 billion in losses before income taxes

Positive factors affecting fiscal 2002 performance

Overall housing industry

- The tax-exemption limit on gifts was raised to ¥35 million, and the maximum rate of inheritance tax was lowered.
- A new grading system for existing housing was inaugurated with the aim of promoting the sale of existing housing units

The Daiwa House group

- Reorganization of affiliates, including amalgamation and liquidation, was carried out to raise management efficiency and strengthen the group's financial and marketing base
- The ratio of debt (including bonds) to total assets on a consolidated basis declined to a mere 0.6% from 4.8% for the previous term

Negative factors affecting fiscal 2002 performance

Overall housing industry

- Official land prices fell for the 12th year in a row, and the year-on-year margin of decline widened
- New housing construction starts dropped below 1.15 million for the first time in 19 years

The Daiwa House group

- Profitability on sales of landholdings deteriorated still further as the gap between fair value prices and book values widened even more
- Sales of housing to first-time home buyers was favorable, in line with projections, but the ratio of rebuilding of existing houses declined owing to generally bearish attitude of home owners toward major investments

Investor information

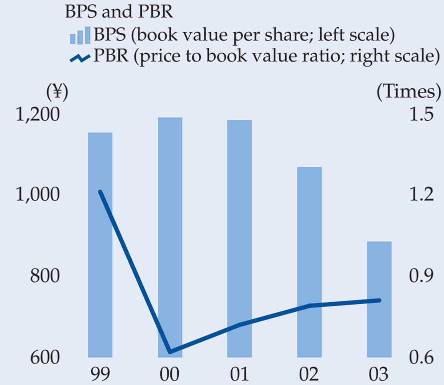
As of March 31, 2003

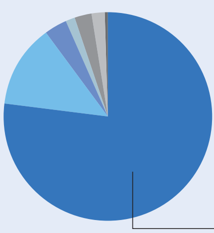
Common stock	¥110,120 million (US$917,667 thousand)

Shares

Authorized	1,900,000,000
Issued and outstanding	550,664,416
Number of shareholders	32,828

BPS and PBR

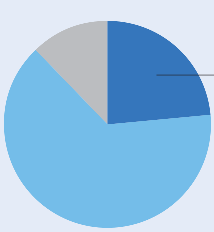




Ratio of shareholding by scale

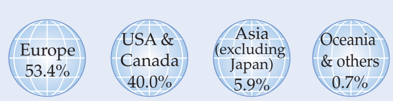
	(Thousands of shares)	(%)
1 million or more	423,974	76.99
100 thousand or more	70,946	12.88
10 thousand or more	19,383	3.52
5 thousand or more	7,919	1.44
2 thousand or more	14,590	2.65
1 thousand or more	11,226	2.04
Less than 1 thousand	2,622	0.48

Principal shareholders	(Thousands of shares)
Japan Trustee Services Bank, Limited (trust account)	26,070
The Master Trust Bank of Japan, Ltd. (trust account)	26,047
Sumitomo Mitsui Banking Corporation	23,532
UFJ Bank, Limited	23,032
Mizuho Corporate Bank, Ltd.	22,209
Nippon Life Insurance Company	15,839
The Chuo Mitsui Trust and Banking Company, Limited	15,817
The Dai-ichi Mutual Life Insurance Company	15,807
UFJ Trust Bank Limited (trust account A)	10,237
The Daiwa House Employee Shareholder's Association	9,849



Foreign shareholding ratio

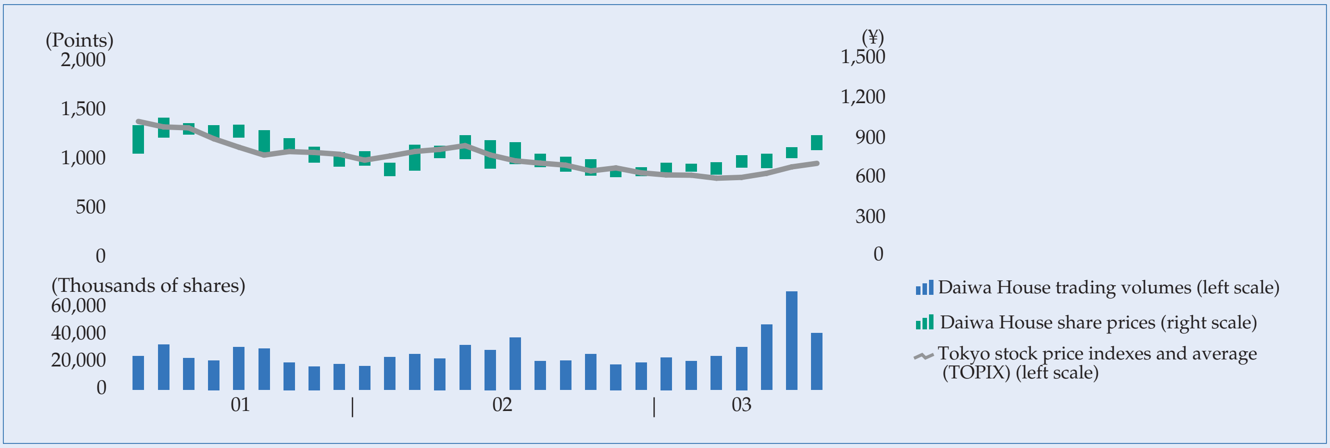
Overseas individuals and corporations	23.51%
Domestic corporations	64.28%
Domestic individuals and others	12.21%



Average for foreign shareholding ratio among all domestic listed companies : 17.7%

Source: National Conference of Stock Exchanges

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



Daiwa House Industry Co., Ltd.

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Contact

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Daiwa House Financial Affairs Department
Phone: +81-6-6342-1400 Fax: +81-6-6342-1419 e-mail: konno105@ms.po.daiwahouse.co.jp

Daiwa House Homepage

Daiwa House offers information on its latest corporate performance, annual report etc. on our homepage.
Japanese site: http://www.daiwahouse.co.jp
English site: http://www.daiwahouse.co.jp/tops/top0_english.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

Dear shareholders

Ready for growth

In spite of a continued difficult business environment as a result of the ongoing legacy of the bursting of Japan's economic bubble in the early 1990s, the Daiwa House group managed to secure sales and operating income levels not far removed from the initial targets. Sales came to ¥1,184,544 million (US$9,871.2 million) on a consolidated basis, up 3% over the initial target, and operating income came to ¥45,272 million (US$377.2 million), down 6.7% from the target.

The management of the Daiwa House group, however, gives priority to laying the foundations of future growth. We see it as particularly important to use this period of business recession to strengthen our financial position. In line with this, we are forced to report that net income fell short of the initial target as a result of the posting of one-off expenses including losses on the extraordinary amortization of property in the amount of ¥212,734 million, leading to a net loss for the term of ¥91,388 million. These one-off expenses break down into ¥90,400 million in expenses provisions for retirement benefits, ¥75,183 million in extraordinary depreciation on property such as hotels and golf courses, valuation losses of ¥22,900 million on real estate held for sale, with the aim of housing developments, ¥9,773 million in valuation loss on investment securities, ¥7,421 million in provisions for possible loan losses on large-scale development projects, and ¥2,145 million in losses stemming from the liquidation of subsidiaries.

During the term under review, we took various measures for future expansion. We carried out a reorganization of the parent company and the group with the goal of realizing higher efficiency in group management. At the parent company, with the primary goal of strengthening grass-roots marketing operations for the housing business, we introduced a new area-based management organization focused on the individual branches. Company-wide environmental preservation initiatives were pursued, thanks to which our 13 factories in Japan all reached the zero-emission target for specified pollutants. On the finance side, in a continuation from the previous term of our policy of reducing interest-bearing debt, we succeeded in repaying all remaining debts (amounting to ¥52,000 million) at the non-consolidated level, thus realizing our goal of a debt-free parent company. Against this background, we once again declared payment of an annual dividend of ¥10 per share for the reporting term.

With the starting line marked out by the management's definitive decision in the term under review, we have now embarked on a program of expansion of the group's operations via the pursuit of a number of group management themes, i.e., improved profitability, legal and ethical compliance, struggling for the leadership in our industry, and establishing a sound relationship with our stakeholders characterized by strong ties of trust. We hope that our shareholders will continue to show us the same level of support and encouragement.

Takeo Higuchi

Takeo Higuchi
President

In memory of our founder

Senior Advisor Nobuo Ishibashi, the founder of Daiwa House Industry, passed away on February 21, 2003 at the age of 81.
Mr. Ishibashi was born in 1921, the son of a forester in the village of Kawakami in Nara Prefecture. He set up the Company in 1955, and in addition to pioneering the use of steel pipes in place of wood for the structural framework of houses, he developed a prefabricated housing system with shorter completion times and an improved cost performance compared with existing systems. In this way, by helping to supply Japanese society with a sufficient supply of affordable housing, the Company played an important supporting role in Japan's achievement of high economic growth during the sixties and seventies.

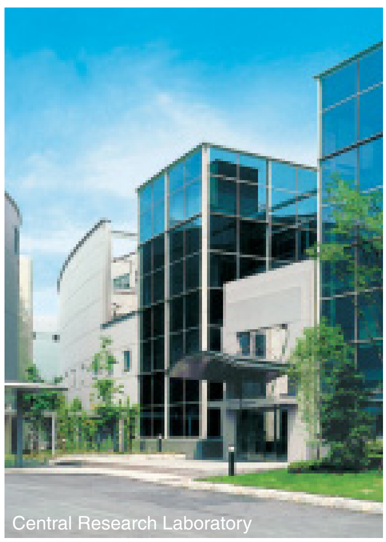
Mr. Ishibashi was also the pivotal figure in the expansion of the sphere of operations of our group — under the concept of the "industrialization of construction" — from specialization in residential construction to construction of commercial facilities and the operation of resort hotels and a chain of home centers, as well as other businesses on the periphery of the central housing business.

He was also instrumental in contributing to the development of the housing industry, helping to grow prefabricated housing into a major industry and serving successively as chairman of the Japan Prefabricated Construction Suppliers & Manufacturers Association and the Japan Federation of Housing Organizations. In his capacity as a representative director, Mr. Ishibashi remained the leader of our group right up to the end. Even on his sickbed, he expressed his fervent hope for the further development of the Japanese economy and the Company's business. He revealed his inextinguishable pioneer spirit by urging us to continue working for the further growth of our group.

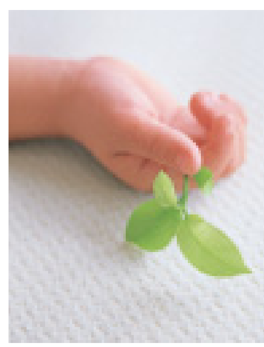
In recognition of his sterling work on behalf of the Japanese housing industry, Mr. Ishibashi was posthumously awarded the Second Grade of the Third Rank of Honor and the Grand Cordon of the Order of the Sacred Treasure on March 28, 2003.

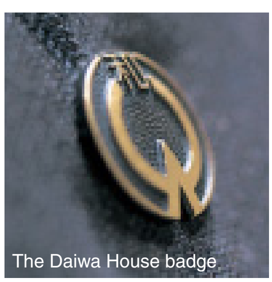
Never Stop Growing

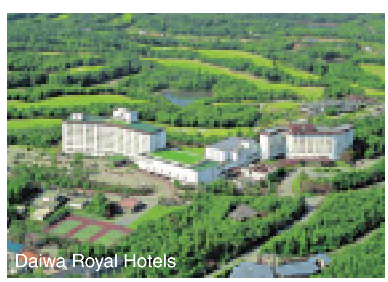

Neopolis


Central Research Laboratory


Midget house




The Daiwa House badge


Daiwa Royal Hotels

Confidently working to realize our future vision

The management of the Daiwa House group has worked boldly to create a strong financial base, thus enabling the group to play a major part in laying the foundations for the creation of a prosperous future for the Japanese housing industry.

Social and economic conditions are changing rapidly in Japan. The values that underpinned consumption patterns in the age of mass production and mass consumption are being transformed, with greater emphasis on quality of life rather than simply the acquisition of more and better material goods. Our business is the creation of homes and lifestyle services, which are truly the keystone of the quality of life being sought by the consumer. We must closely examine the values of today's society, and on this basis confidently draw up a clear vision of the living environment of the future. Our corporate mission, or role within society, will never change, no matter what future prospects we face.

We always try to put ourselves in the place of the customer. We will continue our sincere quest to help people realize their dreams and aspirations, and will further improve the quality of our products and services with the aims of contributing universally to the good of society and enhancing customer satisfaction. We aim to become the No. 1 comprehensive supplier of housing products and housing-related services to the Japanese market. With this goal in mind, we have formulated three key words to encapsulate the principles that should guide our group activities. They are: "trust," "challenge," and "creation." In keeping with the spirit behind these principles, we have set ourselves the twin challenges of achieving net sales on a consolidated basis of ¥1.5 trillion by fiscal 2005 and ¥2 trillion by fiscal 2010.

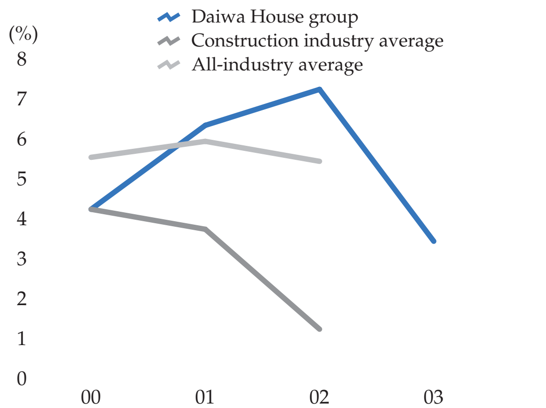
Trust

Fulfilling our corporate mission to forge stronger bonds of trust

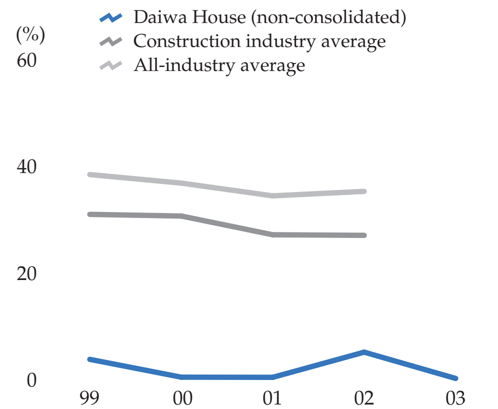
To play its proper role as a responsible corporate citizen in this newly unfolding age, the Daiwa House group takes its corporate mission very seriously. We believe that our mission is threefold: to earn the trust of the public through sincerity and truthfulness; to provide a long-term and reliable supply of products and services with high added value; and to secure the growth of our corporate group through close cooperation with our customers. By pursuing these goals, we are confident of achieving continued long-term growth.

To this end, we have openly declared our intention to pursue the strengthening of our financial position and the improvement of corporate transparency through improved management disclosure, with the goal of building stronger bonds of trust with our stakeholders. Thus, the repayment of interest-bearing debt and reduction of expenses, as well as the lump-sum amortization of liabilities on retirement benefits and elimination of unrealized losses during the term, were all means to strengthen our financial position. As a result, despite the repayment of interest-bearing debt and elimination of unrealized losses, we still managed to keep our equity ratio at the high level of 44.2%, and have built a firm management base from which we can face the future with confidence.

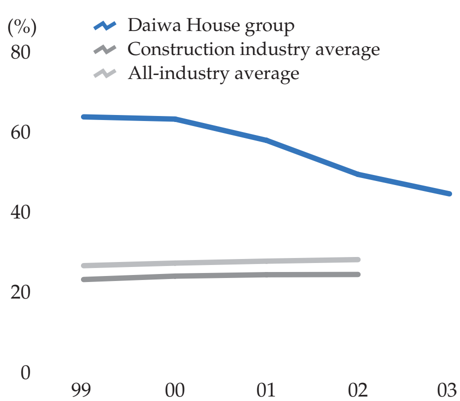
Ratio of cash flow from operating activities to net sales



Ratio of interest-bearing debt to total assets



Equity ratio



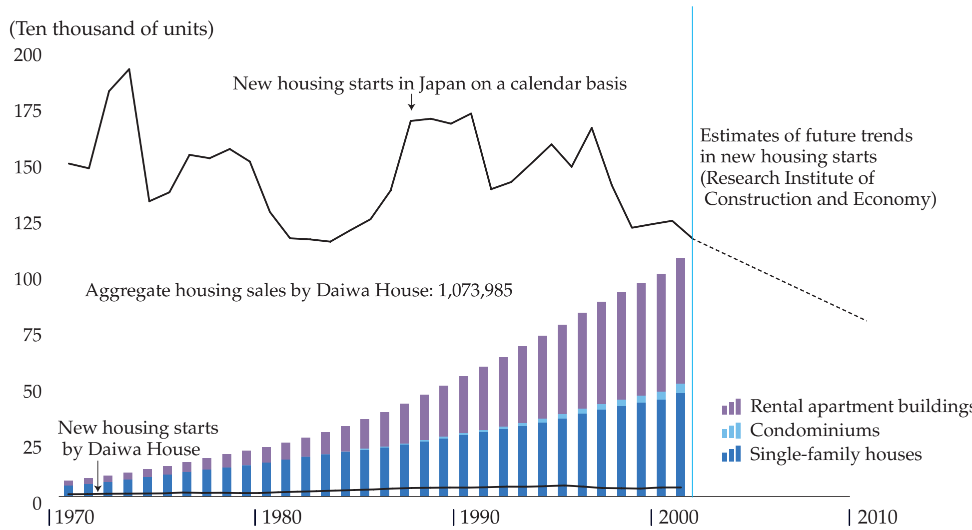
In addition to a strong financial position, we continue to place emphasis on cash flow and on realizing a constantly high shareholders' value through investment from the long-term perspective. To this end, amid the current continuing downward trend in land prices, we are making efforts to improve our turnover of land assets still further from the viewpoint both of lightening landholding risk and reducing inventories. Our policy is to maintain the annual inventory turnover rate for land for the construction of single-family houses to 2, and the rate for condominiums to 1. We are also registering valuation losses on land held for sale, which frees us to engage in more aggressive land selling operations.

Compared with the majority of companies in the construction industry, which is heavily dependent on bank loans, the Daiwa House group has succeeded in building a relatively strong financial base. With this as the cornerstone of our future growth strategy, we are working to improve our earning power and realize a stable level of corporate value on a long-term basis.

Challenge

Injecting new value into the housing industry

Net new housing starts in Japan : past & future



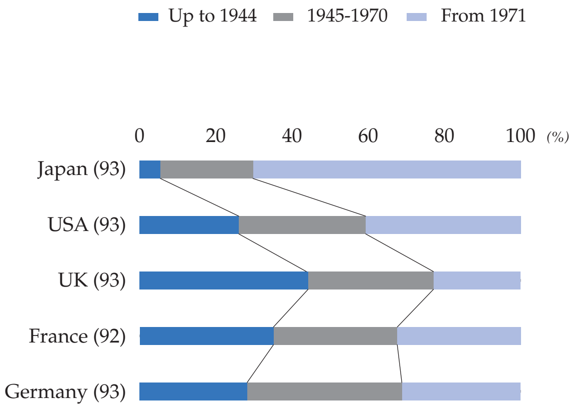
The Daiwa House group occupies a significant position within the Japanese housing industry, with a 3.6% share of the total market for new housing construction starts — the number two position in both single-family houses and apartment buildings. Each year, the group supplies approximately 40,000 housing units to the market, including single-family houses, rental apartments, and condominiums. Since the Company's establishment, it has built an aggregate of 1,070,000 housing units. Housing operations account for approximately 66.6% of the group's total net sales.

As is well-known, Japan now has enough houses and condominiums to meet demand. In comparison with other advanced industrialized countries, however, the situation is still unsatisfactory in terms of housing floorspace per person and the average useful life of single-family houses.

Looking at prospects for the near future, although the number of children as a percentage of the total population is decreasing, while the ratio of elderly people is rising, the children of the baby boomers are now starting to buy their own homes. There is thus an urgent need for home construction that precisely meets the requirements of both the new housing market and the demand for renovation and rebuilding of existing homes, and we are responding proactively to this situation.

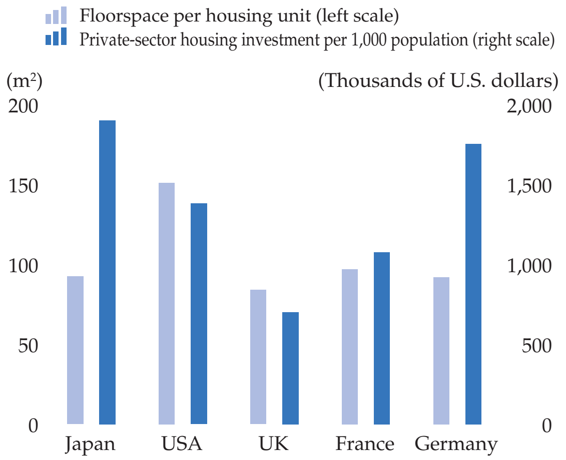
In response to demand for new housing, we are offering high-quality, long-lasting housing that can be passed on to the next generation, featuring the fruits of our proprietary technologies such as earthquake dampening systems and efficient insulation for outer walls. To further strengthen the Company's marketing system, which is designed to cater to the differing needs of local regions, we are planning to increase the number of offices from 86 at present to 100 by the end of fiscal 2005. In addition, we will make efforts to more effectively support the growth of our seven sales subsidiaries. With regard to the rental apartment business, where demand

Breakdown of existing housing by period of construction

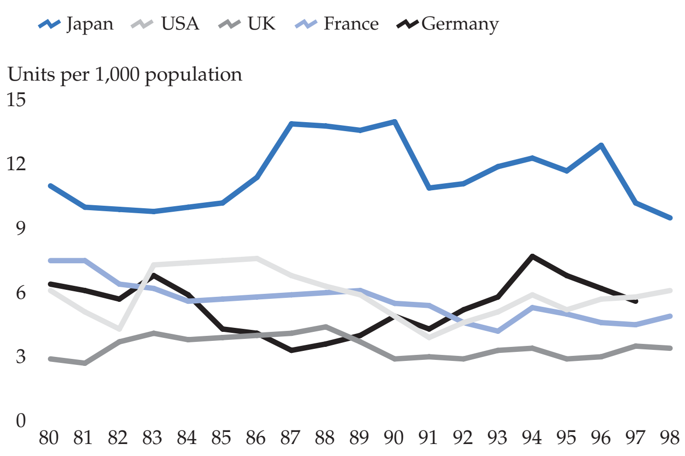


Figures in the parentheses show survey years

Average housing space and investment



Number of housing units constructed per 1,000 population



is on the rise, the Company is introducing new types of apartment building that offer even higher asset value to landowners. At the same time, we are collaborating with our affiliate Daiwaliving, which manages apartment buildings. We are aggressively marketing innovative land utilization plans for landowners under such systems as fixed-term land-lease contracts and land-lease contracts with building purchase riders, as these methods reduce investment risk. In these ways, we are broadening our field of business operation.

With respect to the stock of existing housing, we are in the process of setting up home renovation centers at all the Company's branches nationwide to tap the large potential market represented by the one million customers on our books, and thereby cultivate a fruitful new market. Over the long haul, we have good hopes of growing this business into a major earnings source.

In the field of commercial building construction, we are more actively marketing services focused on individually tailored customer solutions. In particular, our LOC (Land Owner Company) system, an asset management system that ties together the needs of landowners and companies wishing to open wholesale or retail outlets, has already proven its strong competitiveness with a track record to date of over 21,000 contracts. The system addresses equally the need by landowners for earnings from land assets and the need for profit expansion by retailing industry companies through the opening of new stores. Thanks to the high-level expertise of our staff and our extensive network of contacts, this service has gained an excellent reputation, and business is projected to continue improving for the foreseeable future.

Through the measures described above, the Daiwa House group is injecting new, added value into the Japanese housing industry and other related industrial sectors. Our short-term goals are to gain a 10% share of the new housing market and become the leading corporate group in the supply of comprehensive housing-related services.

Creation

Making new dreams come true

The most outstanding intangible quality of the Daiwa House group is its pioneering spirit. We were the pioneers in the introduction of prefabricated housing to the Japanese market, and since then we have constantly pursued new products and new ways of doing business, including marketing incorporating mortgage loans, resort hotels, and the home center business, among others. As our history clearly shows, while seeking innovation, we have always centered our business on housing and closely related operations, and we will never deviate from this policy in the slightest. This is because we recognize that the home is where the heart is — all dreams start here.

To help home buyers realize their dreams, we have positioned four focal themes for the 21st century: welfare, the environment, health, and telecommunications.

Regarding welfare, back in 1986 we foresaw today's rapidly aging society and opened a nursing care home for senior citizens, and in 1989 we set up the Silver Age Research Center for the investigation of issues related to housing and care for the elderly. Based on the center's findings, we have set up more than 700 nursing care facilities and *Day service* centers for the elderly. Nursing care facilities, including communal dwellings (protected accommodation), constitute a promising market in which we can effectively utilize the know-how possessed by the Center in both equipment and services, and good growth is expected in the future.

With regard to environmental concerns, we are cooperating closely with universities and companies in other industrial sectors to pursue research into electricity generation through renewable energy such as solar power and wind power, facilities for the disposal of industrial waste or the recycling of waste materials, and so on, with a view to turning them into commercially viable projects.

Health and telecommunications are the most important themes intertwined with lifestyles. The rapidly growing popularity of broadband Internet access means that the interconnection between housing and IT, particularly telecommunications, will become stronger than ever. Moreover, increasing demand is projected for at-home health monitoring and easy communication with hospitals or clinics, as well as the provision of medical care at home.

From here onward, home buyers will become increasingly demanding, and there will be a growing focus on quality and various value-added aspects. We must therefore respond by creating a stimulating and liberal working environment that facilitates the optimization of our employees' creativity. This will include a new pay and promotion system, which we are now designing. By these means, we will be able to pool the expertise and research of all our staff.

The intelligence and creativity of our group staff are a valuable intangible intellectual asset that does not appear in our balance sheet but which lies behind the group's brand image, technological capabilities, and superiority

in design. We will protect and foster this intangible asset with the same care that we devote to more conventional, tangible assets.

Setting new goals, dreaming new dreams. We are creating a new corporate culture focused on intelligence and creativity. Our corporate mission is to make our customers' dreams come true.

In the foregoing pages, I have described my vision of the Daiwa House group's future, and I hope you share my aspirations and enthusiasm. Now, in fiscal 2003, we once again take on new challenges on the road to carving out a bright future for Japan's housing industry.

We are now committed to making progress in our initiatives in the areas of corporate governance and risk management. We also plan to issue quarterly reports. Through these means, and by realizing an ever-growing corporate value, we are determined to properly fulfill our duties as a responsible corporate citizen to all our stakeholders. We look forward to your continued support, and hope that you will help us to make new dreams come true.

Takeo Higuchi
President

Main Improvements Effected in FY2001–2002

Traditional scale of corporate values →

	FY2001	FY2002
Management	•Directors' term of office cut from 2 years to 1 year •Middle management staff cut by 50% •Risk management bolstered	•Change from division-based to branch-based organization •Introduction of performance-linked pay system for branch managers •Reduced number of group companies for more customer-focused management •Introduction of points system into calculation for lump-sum payment at employees' retirement
Operations	•Aggregate housing sales pass one-million unit mark •First prefabricated house featuring earthquake-dampening system launched •Insulation method for outer walls adopted •Launch of wooden house series •ISO 14001 certification acquired by factories and purchasing divisions •Seven local sales companies established	•Marketing, design, product development functions reorganized on regional lines •Renovation & rebuilding services expanded •Voluntary Environmental Action Plan drawn up •All 13 factories reached zero-emission targets
Financial position	•Interest-bearing debt reduced by ¥80.1 billion •¥59.9 billion unrealized loss recorded on land revaluation •SG&A expenses reduced	•Changes in accounting policies for retirement benefits •Total elimination of unrealized loss on land •Debt-free management achieved on non-consolidated basis •Termination of agency service for state-run employee pension fund •Loss recognized on liquidation of affiliates •Extraordinary depreciation of property in the amount of about ¥75 billion etc.

→ The new Daiwa House group

Report by Executive Managing Director (financial affairs)

For the past three years I have been heading a drive to reform the financial structure of the Daiwa House group, principally through a focus on improving cash flows, with the ultimate goal of maximizing shareholder value. The Japanese economy has stagnated to the point where many companies exhibit chronic indebtedness, and the total interest-bearing debt burden of the private sector has been reduced by a mere 13% over the last six years. In this situation, it is all the more vital for us to strengthen our operating cash flow to build the sort of firm financial base that allows for further development of our group. Only by so doing can we achieve our top-priority goal of raising our earning power.

Over the last few years, we have pushed through a wide range of measures to realize improved financial health, including the recognition of more than ¥80 billion in extraordinary losses, mainly from the write-down of inventories and securities holdings, the revaluation of landholdings at fair market prices, the repayment of short- and long-term bank borrowings, and drastic cost-cutting. In the reporting period, we set further milestones on the road to financial health with two bold management decisions.

Firstly, in the face of the present severe business conditions against the backdrop of a decline in profitability on landholdings, we took vigorous steps to dispose of land and buildings held for sale, thanks to which we succeeded in achieving our target of debt-free management at the non-consolidated accounts level.

Secondly, we applied stricter standards to the valuation of real estate, equities, and accounts receivable. In doing this, we have completely eliminated a major negative factor that would have affected our business performance in the future. As a result, we posted ¥210 billion under extraordinary loss account including loss on retirement benefits. We carried out lump-sum amortization of unrecognized actuarial shortfall and changed other accounting policies on discount rates of plan assets.

The Japanese economy is likely to remain sluggish for the foreseeable future. However, we intend to put this difficult period to good use by harnessing the excellent management and staff morale that result from target achievement, and by leveraging our sound balance sheet — with its low risk of price fluctuation on assets — to expand our sphere of corporate activity with more sincerity and further enhance our business performance.

Tetsuji Ogawa
Executive Managing Director (financial affairs)

Our consolidated financial statements at a glance

Consolidated balance sheets 2003

(Millions of yen)

Current assets:	
Inventories	¥ 267,199
Total current assets	468,296
Property, plant and equipment:	
Land	212,312
Buildings and structures	380,978
Accumulated depreciation	(259,286)
Machinery and equipment	51,264
Accumulated depreciation	(42,205)
Furniture and fixtures	36,695
Accumulated depreciation	(31,116)
Construction in progress	1,004
Net property, plant and equipment	349,646
Investments and other assets:	
Investment securities	25,988
Investments in and advances to associated companies	25,900
Total investments and other assets	276,499
Total	1,094,441
Current liabilities:	
Total current liabilities	268,811
Long-term liabilities:	
Liability for employees' retirement benefits	136,480
Total long-term liabilities	319,189
Minority interests	22,757
Shareholders' equity:	
Retained earnings	289,840
Total shareholders' equity	483,684
Total	¥1,094,441

Consolidated statements of operations 2003

(Millions of yen)

Net sales	¥1,184,544
Cost of sales	936,861
Gross profit	247,683
Selling, general and administrative expenses	202,411
Operating income	45,272
Other income (expenses):	
Write-down of marketable and investment securities	(9,773)
Write-down of inventories	(22,900)
Amortization of transitional obligation for employees' retirement benefits	(8,780)
Actuarial loss on retirement benefits	(49,888)
Actuarial loss due to a change of discount rate	(31,733)
Extraordinary depreciation for property, plant and equipment	(75,183)
Other – net	(318)
Other income (expenses) – net	(200,429)
Income (loss) before income taxes and minority interests	(155,157)
Net income (loss)	¥ (91,388)

Consolidated statements of cash flows 2003

(Millions of yen)

Operating activities:	
Income (loss) before income taxes and minority interests	¥(155,157)
Write-down of marketable and investment securities	9,773
Extraordinary depreciation for property, plant and equipment	75,183
Provision for employees' retirement benefits, net of payments	85,002
Decrease (increase) in inventories	32,872
Other – net	(7,214)
Net cash provided by operating activities	40,459
Net cash used in investing activities	(27,316)
Net cash used in financing activities	(57,713)
Cash and cash equivalents, end of year	¥ 103,950

Corporate management

As of June 27, 2003

Board of directors and corporate auditors

Takeo Higuchi*
President

Sadao Yoshii*
Executive Vice President

Tamio Ishibashi*
Executive Vice President

Mitsuo Funatsu*
Executive Vice President

Masanori Nishio
Executive Managing Director

Yuzo Kawahara
Managing Director

Kimitaka Komatsu
Managing Director

Naotake Ohno
Managing Director

*Representative 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.

Masayasu Enomoto
DAIWA INFORMATION SERVICES CO., LTD.

Tetsuji Ogawa
Executive Managing Director

Kenji Murakami
Executive Managing Director

Takuya Ishibashi
Executive Managing Director

Takashi Uzui
Managing Director

Takeshi Kajimoto
Managing Director

Hiroshi Azuma
Managing Director

Directors

Munemitsu Kimura

Tsuyoshi Natsume

Tadashi Murakaku

Shigeo Ohtsuka

Osami Nishikawa

Tatsushi Nishimura

Corporate Auditors (standing)

Kohei Nakabo

Hiromasa Kobayashi

Toshihiko Emi

Eiichi Takeda

Corporate Auditor

Hiromi Doi

Mikio Sasai
NIHON JYUTAKU RYUTU CO., LTD.

Isamu Shakudo
DAIWAROYAL CO., LTD.

Shigekazu Matsuo
LOC DEVELOPMENT CO., LTD.

Jun-aki Matsuoka
ROYAL HOME CENTER CO., LTD.

Keiichi Honda
DAIWARESORT CO., LTD.

Corporate Governance

Our stance on corporate governance

The management of Daiwa House positions corporate governance as an issue of the utmost importance. From the viewpoint of earning the confidence of all our stakeholders — notably our shareholders, customers, and employees — it is vital that we put in place a system ensuring swift and accurate decision-making so as to produce a management system characterized by a high degree of efficiency and transparency.

Measures to realize effective corporate governance

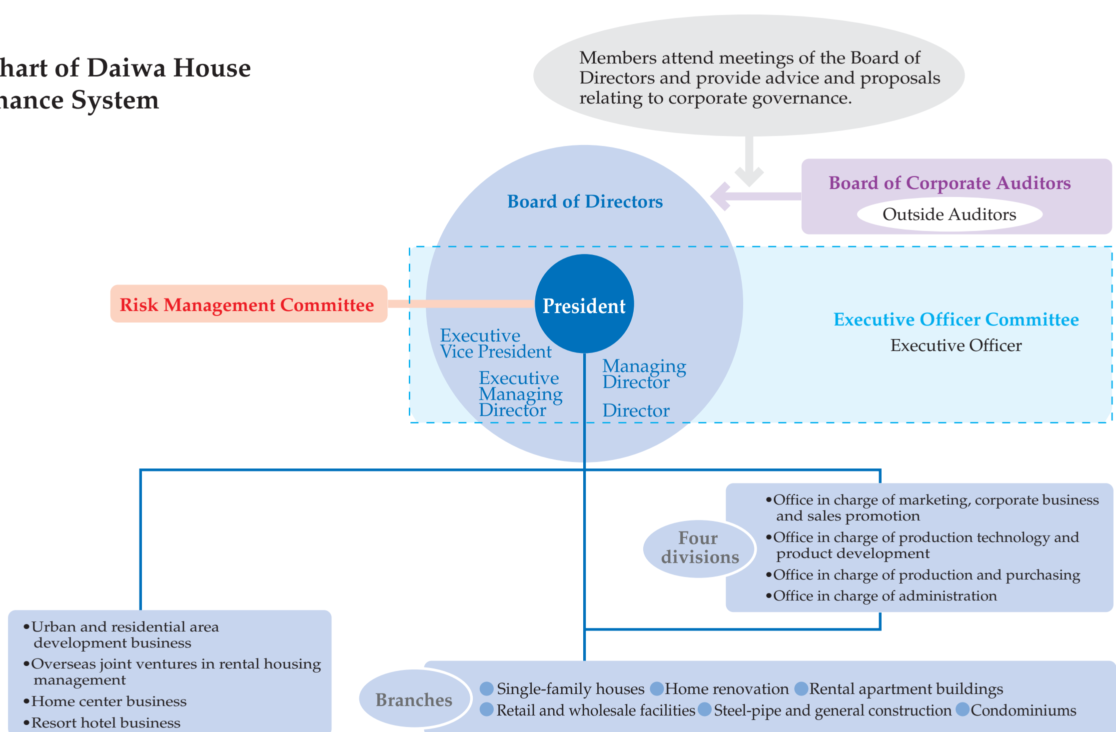
(1) In June 1999, the Company adopted an executive officer system as part of an overall program aimed at strengthening the whole corporation through increased management efficiency. This was followed in June 2002 by the shortening of the term of office of members of the Board of Directors to one year. These two measures both facilitate faster management decision-making and clarify individual responsibilities.

(2) To ensure transparent and fair conduct of management, with effect from June 2003 we have increased the number of outside auditors from 2 to 3, giving us a board of corporate auditors of 5 members in all. This measure both strengthens the management's auditing functions and facilitates the provision of objective advice to our top management.

(3) To secure greater public trust through enhanced transparency via the prompt and appropriate disclosure of management information, we will continue to reexamine and refine our disclosure methods.

(4) As an important part of our compliance efforts, we recognize it as our duty to take preemptive steps to minimize the risks inherent in our business operations, and in the event of the materialization of risks, to take prompt and effective remedial action. To facilitate these objectives, in April 2002 we set up the Risk Management Committee. By ensuring that all management and staff are thoroughly acquainted with the risks attendant on the Company's business operations and the means of avoiding and minimizing the said risks, we aim to ensure the smooth operation of our business as a prerequisite to the vigorous and financially sound development of our group.

Organizational Chart of Daiwa House Corporate Governance System

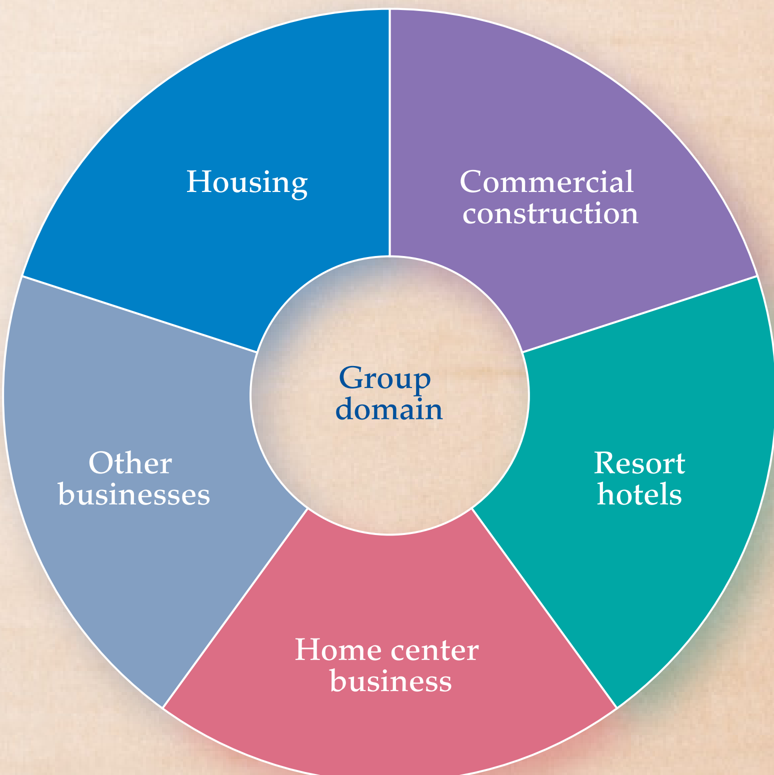


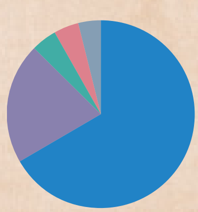
Our Business Domain

C o n t e n t s

Business outline

The Daiwa House group comprises 41 companies in Japan and overseas engaging in a comprehensive range of businesses relating to the living environment: from homes to lifestyles. Its business domain is divided into five segments, and the parent company accounts for 88.0% of total Group sales.





Sales by segment

- Housing 66.6%
- Commercial construction 20.8%
- Resort hotels 4.4%
- Home center business 4.3%
- Other businesses 3.9%

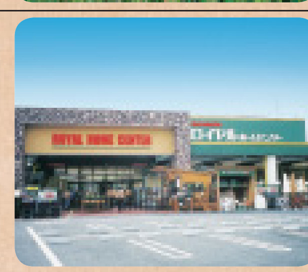
Business Overview

Housing

Commercial construction

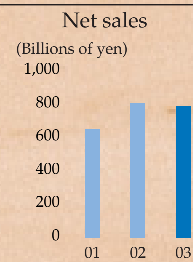
Resort hotels

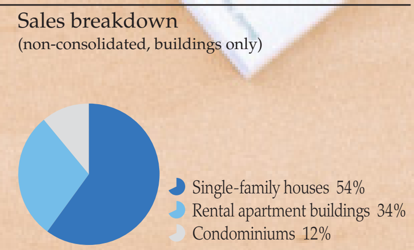
Home center business



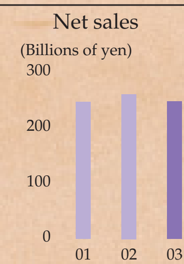
Other businesses

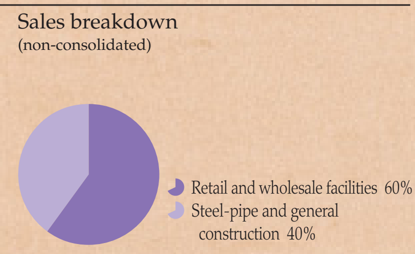
Housing operations constitute the Group's core business, accounting for 66.6% of sales. They encompass a wide array of businesses relating to the homes people live in, ranging from the contract construction of housing and the sale of houses and residential lots, to the building of apartments for rental use, the development and sale of condominiums and so on.



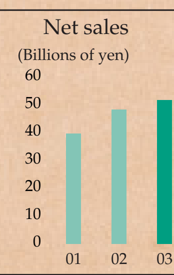


Commercial construction to meet business demand is another pillar of the Group's construction activities, contributing 20.8% of total sales. This segment is divided into two categories: the construction of commercial facilities located in suburban areas for retailers, and steel-pipe and general construction, principally office buildings, factories, and nursing and welfare facilities.

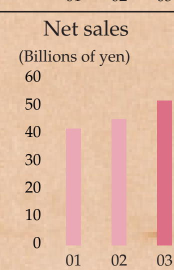




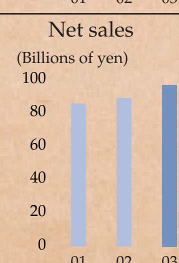
This segment involves the operation of 29 Daiwa Royal Hotels and 10 golf courses around Japan. It accounts for 4.4% of sales a consolidated basis, and within this total the ratio of sales generated by hotels and golf courses is 9:1. In the Japanese hotel industry, these hotels are classified as resort hotels.

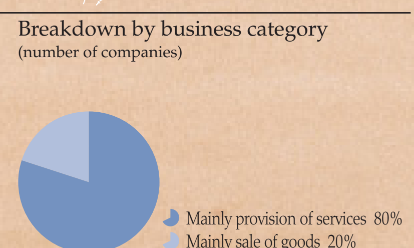


In this segment we operate 38 home centers nationwide. These offer an average of 50,000 items, primarily DIY products for interior and exterior use, and including outdoor and leisure goods and pet supplies. We also devote considerable effort to the field of renovation. On a consolidated basis, the segment accounts for 4.3% of sales.



These businesses are primarily the responsibility of Group subsidiaries and affiliates. There are 15 categories, ranging from corporate-oriented business such as the manufacture and sale of construction materials and goods distribution, to services for end-users, including removals and the operation of *Super sento* bathhouses. Together, these contribute 3.9% of sales.





Housing

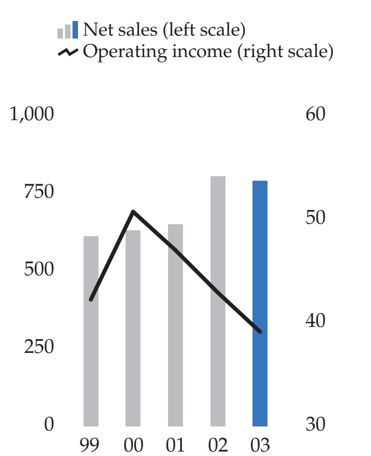
Aiming to win

the largest share of the newly built housing market

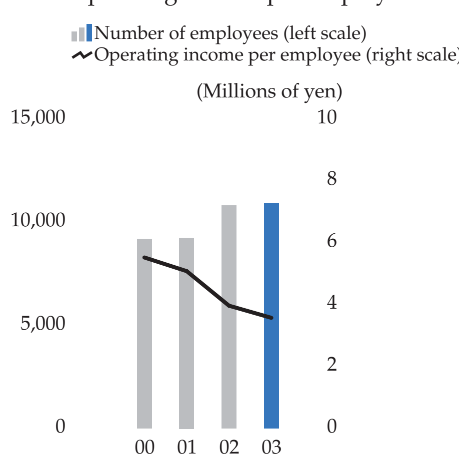
Maintained unit sales at over 40,000 units on a non-consolidated basis (up by 1.7% year-on-year)

Fiscal 2002 was another sluggish year for the housing market, demonstrated by the 2.4% year-on-year decline in overall housing starts. Notwithstanding this situation, in our non-consolidated housing operations we achieved a 1.7% rise in unit sales, topping 40,000 units for the second successive year and maintaining our No. 2 share in the market for newly constructed houses and apartment buildings. Nevertheless, factors such as falls in land prices and deflation had an adverse impact, causing net sales to slip by 1.7%, to ¥791,981 million and operating income to decline by 8.8%, to ¥39,135 million, both on a consolidated basis.

Net sales / Operating income
(Billions of yen)



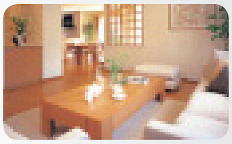
Number of employees /
Operating income per employee

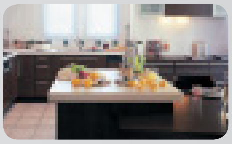


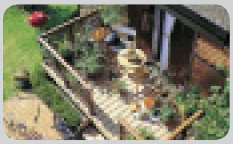
The field of single-family houses is a pivotal one for our group. Ever since our establishment we have pioneered prefabricated housing, constantly pursuing improvement of single-family houses in terms of both space and functionality. Unit sales fell by 5.9%, to 12,909 units by the parent company, generating sales revenue of ¥329.6 billion, down by 5.4%.

The market for newly built apartments in fiscal 2002 expanded by 2.8% from the previous year, but we outpaced that, boosting unit sales on a non-consolidated basis by 8.8% to 24,392 units, and posting sales revenues of ¥208.0 billion, up by 7.5%. We have built a cumulative total of more than 570,000 units.

In fiscal 2002, construction starts declined for the first time in four years. Sales fell 7.0% to 4,253 units on a consolidated basis and 11.4% to 3,669 units on a non-consolidated basis. We predict that changes in lifestyles and sizes of families, and greater diversity in the ways people work, will lead to the expansion of new segments of demand, and so we are taking steps to supply residences of a kind that go beyond the conventional standard.

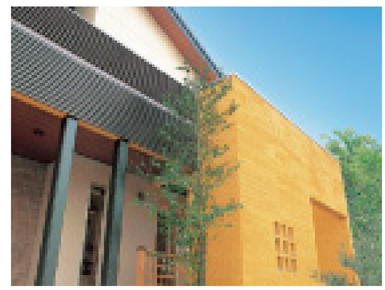


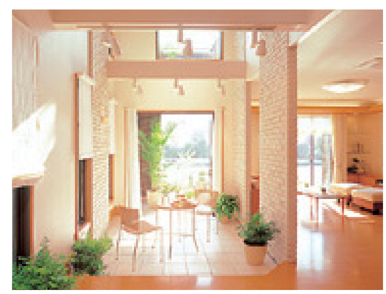




Housing

Single-family houses





Every year around half a million single-family houses are newly built in Japan, a large proportion being traditional wooden houses. Major wellsprings of our business strength are our 460,000 residences, similar in number to the annual number of nationwide starts, and the know-how in the preparation and development of residential sites we have accumulated from large-scale residential developments (new towns).

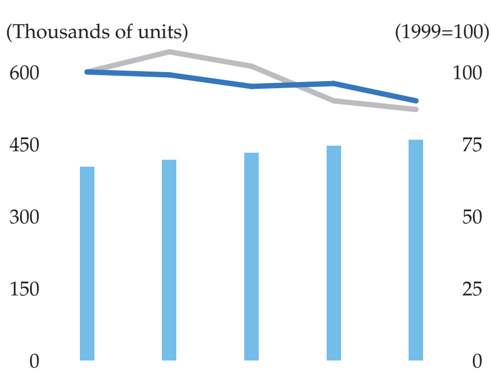
With respect to Japan, with its frequent earthquakes and high temperatures and humidity, earthquake resistance and durability are of particular importance. In the previous fiscal year Daiwa House launched the first prefabricated earthquake-proof house, and we intend to reduce its cost further and to ensure market diffusion. In addition, we launched a product using an exterior insulation method designed to enhance durability, and others limited to use in specific regions, taking local climatic conditions and lifestyles into consideration.

The sphere of health and safety is another key consideration. Since burglary is becoming a social problem, the need for crime-prevention measures for housing is increasing, so we have enhanced the defenses that dwellings have against crime, through the use of such materials as multilayer glass to prevent entry by burglars. Also, to make houses healthier places, we as a matter of policy do our best to exclude harmful substances from our building materials. Steps taken to achieve that include the introduction of a system of long-term 40-year* warranties, the conduct of regular inspections by our customer advice centers, and the making of suggestions for renovation by our designated centers for house enlargement and reconstruction. We will continue vigorously to foster good customer relations and to enhance the value of this business.

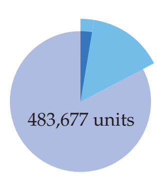
* As of May 2003, the warranties are applied to wooden structure houses built using traditional methods as well as to steel-frame houses.

Housing sales & construction starts

Aggregate housing sales by Daiwa House (left scale)
Annual housing sales by Daiwa House (right scale)
Annual housing starts (nationwide) (right scale)



Share of single-family house market (FY2001)



Daiwa House 2.7%
Top 5 companies 15.1%
Other companies 84.9%

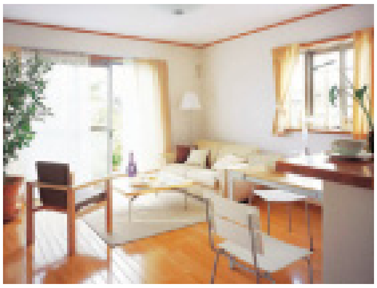
Notes: 1. The share of houses for Daiwa House and the top 5 companies were taken from the "White Paper on the Housing Industry," by the Yano Research Institute Ltd.
2. The total number was quoted from "Statistics on Building Construction Started," by the Ministry of Land, Infrastructure and Transport.

Orders & sales

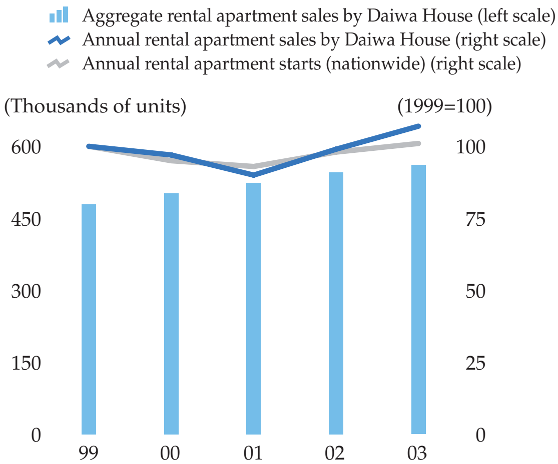
	2003	2002	2001	2000	1999
House orders received (Units)	12,895	13,332	12,577	14,345	14,213
Houses sold (Units)	12,909	13,725	13,705	14,234	14,362
Sales (Billions of yen)	¥329	¥348	¥343	¥350	¥330

Rental apartment buildings

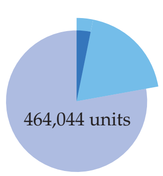
Backed by its solid base in the field of sales of rental apartment buildings, Daiwa House has continued to improve its performance in this segment. In the term under review it achieved an 8.8% year-on-year increase in unit sales, which rose to 24,392 units, and 7.5% growth in sales revenue, which reached ¥208.0 billion on a non-consolidated basis. With respect to products, we have catered to the increasingly diverse tastes of residents by launching new models designed with the distinctive characteristics of individual localities in mind. On the marketing side we not only ensure very close contacts with local communities, but also engage vigorously in proactive marketing of our apartment management service, which utilizes leasehold rights incorporating a special agreement for the transfer of buildings. The cumulative number of these properties has reached 1,100. Great importance is also attached to the sphere of after-sales service, such as the solicitation of tenants and management, maintenance, and repairs. In conjunction with our subsidiary Daiwaliving we provide long-term, comprehensive owner support covering up to a maximum of 40 years of long-term building diagnoses and guarantees, 24-hour tenant handling, and asset-management consulting. As a result, the number of buildings under its management rose by 16.8% during the term under review, to 66,934.



Rental apartment sales & construction starts



Share of rental apartment market (FY2001)



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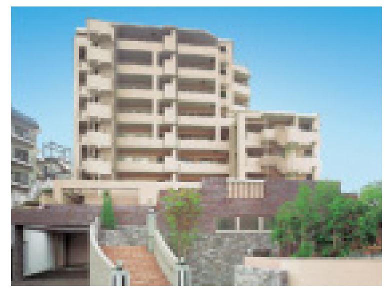
2. The total number was quoted from "Statistics on Building Construction Started,," by the Ministry of Land, Infrastructure and Transport.

Orders & sales

	2003	2002	2001	2000	1999
Apartment orders received (Units)	25,140	23,222	19,835	21,366	23,584
Apartments sold (Units)	24,392	22,416	20,490	22,031	22,754
Sales (Billions of yen)	¥208	¥193	¥176	¥186	¥186

Housing

Condominiums

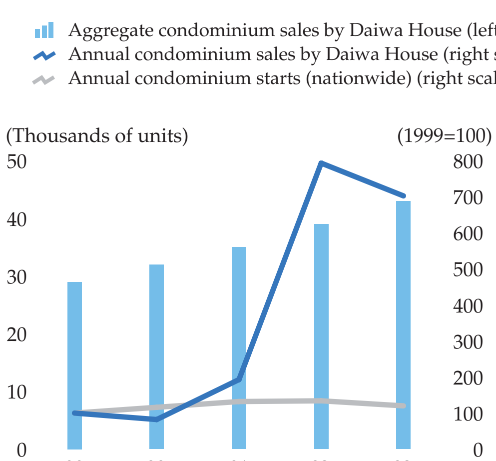


As urban land prices fall in Japan, the development and sale of new condominiums is being concentrated increasingly in the central parts of urban areas. The market for newly built condominiums declined for the first time in four years, as in spite of the greater popularity of large ultra-high-rise properties in urban areas, there was slack demand for condominiums in regional and suburban areas. Non-consolidated sales of condominiums fell by 11.4% to 3,669 units.

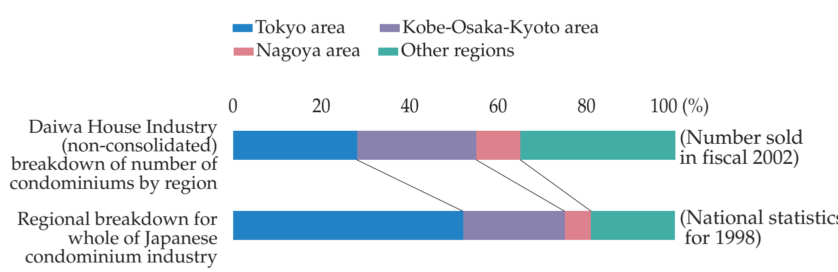
The majority of condominiums in Japan are concentrated on Tokyo and the surrounding area, whereas Daiwa House's condominium sales are nationwide. In the Tokyo area, during the term under review Daiwa House focused its efforts on urban-type compact condominiums with a floor space of 30–50 square meters, for which new demand is arising, particularly among people living alone, senior citizens, SOHO workers, and people wanting them for investment purposes. In regional cities we developed and sold high-quality condominiums designed to meet local requirements. With respect to products, we strengthened our uniform D' Series brand, and standardized and enhanced aspects such as performance criteria by classifying products in four groups according to location and size. Of particular note was our active nationwide adoption of the skeleton infill (SI) design, in which structure and interiors are designed separately.

Daiwa Service continued its steps to enhance its 24-hour unit-specific management system and its long-term 40-year repair plan. As a result, it increased the number of units under management by 6.0% to 36,207.

Condominium sales & construction starts



Features of Daiwa House's condominium business



Orders

	2003	2002	2001	2000	1999
Condominium orders received (Units)	3,333	3,864	1,409	620	560
Condominiums sold (Units)	3,669	4,143	1,009	429	522

Also moving into newly expanding growth fields

The market for newly built houses is maturing, while the closely allied renovation and intermediary service markets are expanding.

Renovation business

A 1.07 million-unit base for ongoing expansion

The renovation market totaled ¥7,368.4 billion in 2002, and is projected to expand to ¥8,080 billion by 2005 and to ¥9,350 billion by 2010. In Japan the stock of 50.25 million housing units exceeds the number of households, and the effective use of these has become increasingly important. We have sold more than one million housing units, which we classify as customer assets, and so in October 2000 we established an operating division dedicated to the renovation business. The number of bases and staff are being increased, and business is expanding. The number of personnel has been almost doubled since April 2001 and we have built a network of 69 bases, giving almost complete nationwide coverage, and positioning us to make the optimum proposals to each individual customer. Revenue of the division dedicated to the renovation business in the term under review on a non-consolidated basis grew 70% year-on-year, to ¥16.9 billion.

Real estate intermediary services

Taking advantage of the Group network

The nature of the market for used housing is becoming more diverse, as the lifespan of newly built houses lengthens, and a certification system for high-quality used condominiums has been established. Intermediary services constitute an attractive field for the Daiwa House group, which with its comprehensive range of housing and lifestyle businesses can take advantage of its sound reputation, the strength of our nationwide network, and its capacity to act quickly. In the term under review there was a reorganization of Group companies with the aim of enhancing operating efficiency and establishing a stronger base for the expansion of this business. It involved the integration of Daiwa Jutaku Ryutsu and Daiwa Nichiju Hanbai into a single subsidiary, Nihon Jyutaku Ryutsu.

Commercial construction

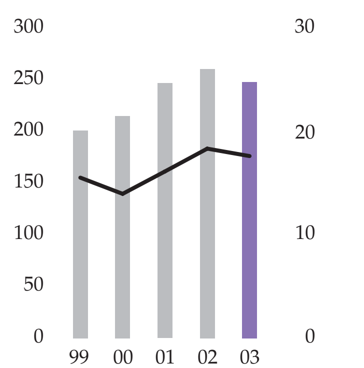
Landowner customers exceed 20,000

The number of buildings constructed under the LOC (Land Owner Company) system topped 21,000 and orders increased 4.5% to ¥225.0 billion, on a non-consolidated basis.

Construction investment in Japan fell below ¥60 trillion in fiscal 2002, to 67.3% of its peak level. However, in the term under review our orders grew by 4.5% on a non-consolidated basis, to ¥225.0 billion, and the number of buildings constructed under the LOC system topped 21,000, principally large-scale commercial facility complexes and retail outlets located in suburban areas, and commercial buildings in urban locations. Regrettably, on a consolidated basis our net sales fell by 4.9% to ¥248,014 million, and operating income was down by 3.9% at ¥17,631 million.

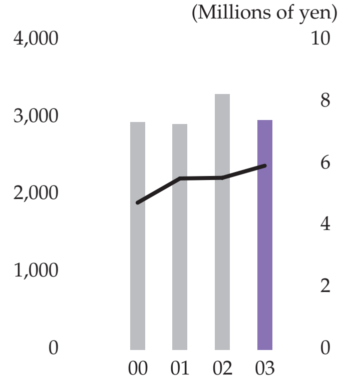
Net sales / Operating income
(Billions of yen)

Net sales (left scale)
Operating income (right scale)



Number of employees /
Operating income per employee

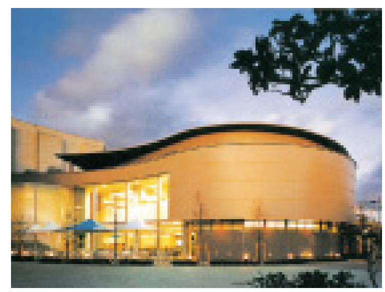
Number of employees (left scale)
Operating income per employee (right scale)
(Millions of yen)





Retail and wholesale facilities

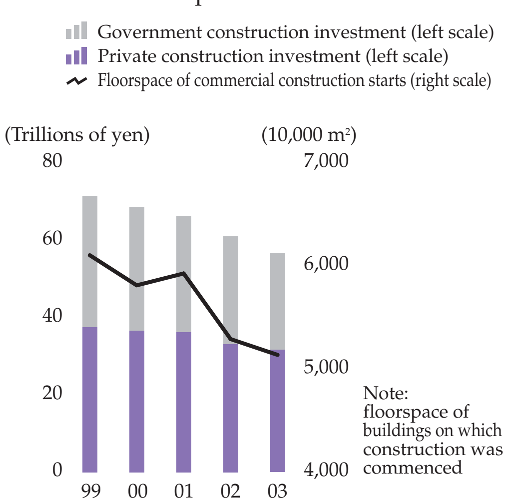
Based on the conditions for property location and our market research and analysis, we undertake the coordination for an extensive range of facilities, including large-scale commercial facilities, roadside stores, showrooms, and amusement facilities. The number of our landowner customers now exceeds 20,000 nationwide, and companies that have opened facilities under this scheme number 3,140. We have 4,300 members of our landowners club, and 36,000 companies are on our waiting list to open facilities. In the term under review, large-scale commercial facilities we developed include Shonan Mall Fill, close to Tokyo, and the Ashibinaa outlet mall in Okinawa.



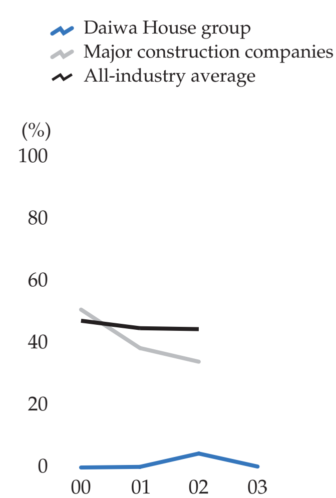
Steel-pipe and general construction

In the sphere of factories and office buildings, goods-distribution centers, and a wide range of other business facilities, we have achieved a strong track record in buildings that require special designs considerations, for example HACCP (Hazard Analysis and Critical Control Point)-certified food processing centers and hospitals and other medical-care facilities. In the field of nursing and health-care facilities, which are increasing sharply with the aging of society, we have become market leaders, having constructed more than 700 of these facilities under the auspices of the Daiwa House Silver Age Research Center.

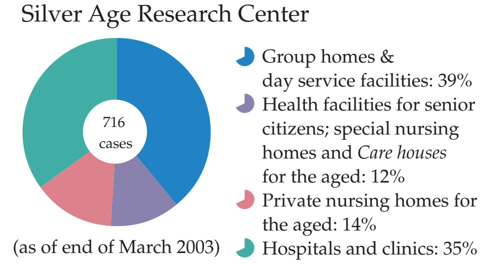
Value of private and public investment in construction, and floorspace of commercial premises



Ratio of interest-bearing debt to net sales



Facilities planned by Silver Age Research Center



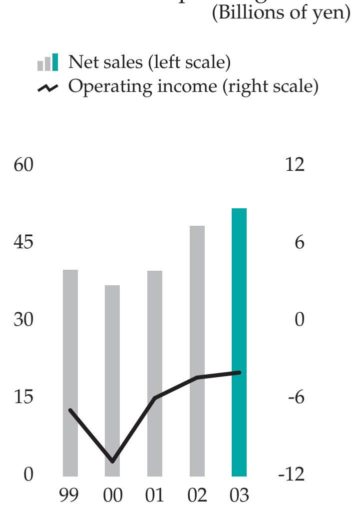
Resort hotels

Network of 29
Daiwa Royal Hotels Nationwide

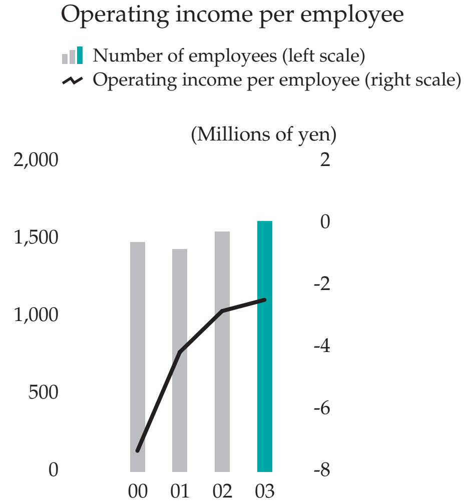
Guest numbers increased 13.9%, to 2.7 million, and revenue rose 7.0%, to ¥51,903 million.

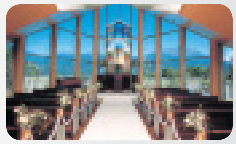
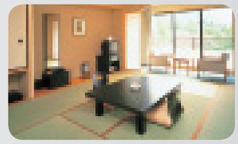
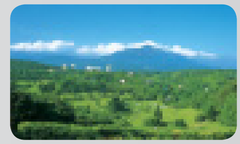
In the Japanese hotel industry we have continued to see the opening of new establishments, paralleled by the closure of traditional inns and old-established hotels. During the term under review, in our hotel operations the number of guests increased by 13.9% to 2.7 million, and the room occupancy rate rose by 5.5 percentage points, to 45.3%. These figures reflect an improvement in performance in the term, as was the case in the previous year. As a result, overall revenue rose by 7.0% to ¥51,903 million, and operating loss decreased 8.9% from the previous term to ¥3,969 million.

Net sales / Operating income
(Billions of yen)



Number of employees /
Operating income per employee

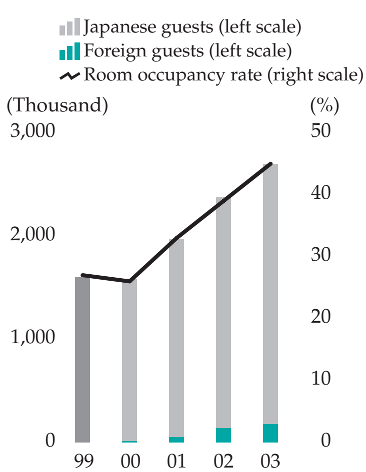


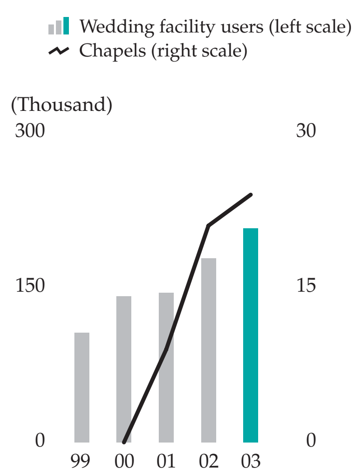


In our hotel operations we placed emphasis on individuality, devising plans unique to each hotel to cover accommodations, meals, and banquets and other functions. With respect to accommodations we refined our Internet reservation system and took active steps to attract more guests from overseas, with the result that the number of foreign guests rose to around 180,000, accounting for 6.5% of the total. Meanwhile the resort wedding business was buoyant, and we continued with the building of wedding chapels to cater to this market. The number of users of our wedding services rose by a substantial 16.1%, to 207,222. In regard to sales of goods, deliveries of traditional Japanese *Osechi ryori* New Year dishes to people's homes were brisk, our hotels selling an aggregate number of about 18,000 meals containing large proportions of local delicacies, up by 40% from the previous year. In the golf course business, customized planning for each course was enhanced, including by improving the Internet reservation system and introducing a new system of green fees that vary according to the day of the week and time of day. In consequence, the number of course users increased by 2.9% to 367,237, though as the average fee per user was lowered by 8.4% to ¥12,387, total revenue from this business fell by 5.4% to ¥4,727 million.

Number of guests and room occupancy rates



Number of wedding facility users and number of chapels



Home center business

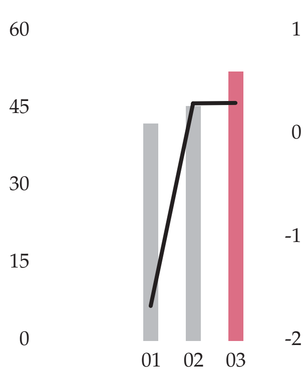
38 *Royal Home Centers throughout Japan*

Number of store visits up 21.1% at 20,430 thousand and sales up 14.7% at ¥52,159 million.

The home center business is a growth field within the retailing sector in Japan. During the term we opened four new stores and closed two existing ones that were insufficiently profitable, in order to enhance the efficiency of store operations. Aggregate floor space was expanded by 13.7% to 166,239 square meters, and the number of store visits during the term grew by 21.1%, topping 20 million for the first time. As a result, annual sales rose by a substantial 14.7% year-on-year, to ¥52,159 million, and operating income grew by 1.4% to ¥305 million.

Net sales / Operating income
(Billions of yen)

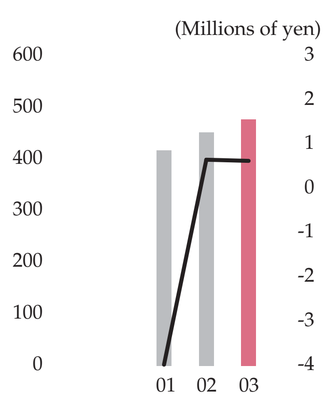
Net sales (left scale)
Operating income (right scale)

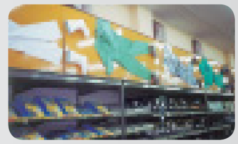
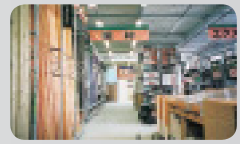
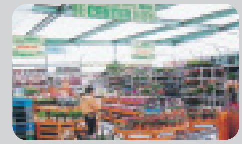


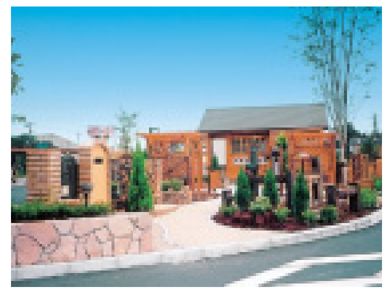
Note:
As a result of a reorganization of business segments in the previous term, figures for the Home center business, which had been included in "Other businesses" up to fiscal 2000, are shown separately from fiscal 2002.

Number of employees /
Operating income per employee

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

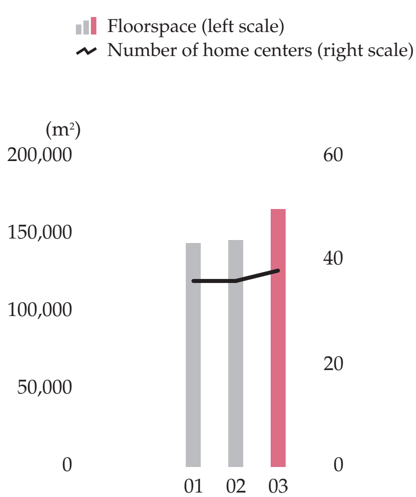


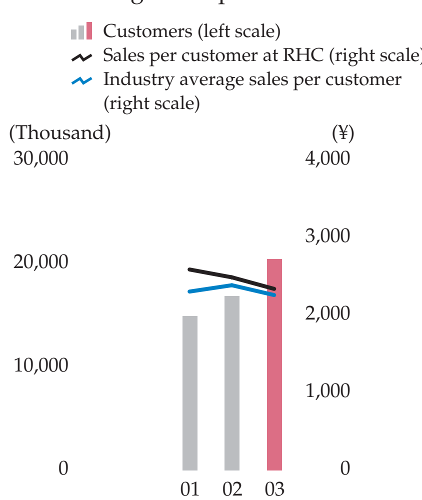


Our home centers stock an average of 50,000 products, well above the industry average in Japan of approximately 31,000 items. These range from interior and exterior goods to gardening and outdoor products, pet supplies, leisure goods, and daily necessities, and include many environmentally friendly items with Ecomark certification and private-brand products. DIY is given strong emphasis, with an extensive range of items both for the general user as well as materials and tools for professionals. A characteristic of our stores is the large number of carpenters and other building professionals who use them. We also took steps to cater to the burgeoning renovation market. We stepped up the display and sale of household fixtures and fittings, and advisory services in which customers receive advice from experts in fields such as building, interiors, and garden design. We intend to continue to expand this business into a 50-store network by fiscal 2005. This will be distinguished from rival stores by offering a product range that takes advantage of the economies of scale of a nationwide chain, but at the same time being managed in a way that ensures that each center is attuned to the needs of the locality it serves.

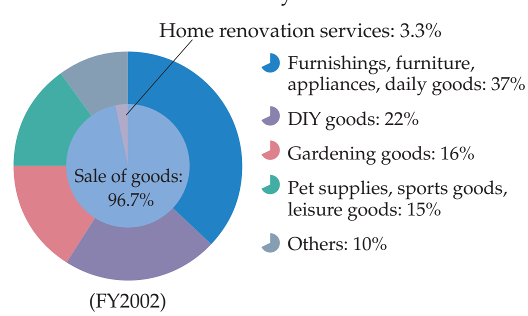
Number of
home centers and floorspace



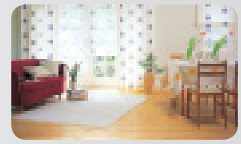
Number of customers and
average sales per customer



Breakdown of sales at Royal Home Centers



Other businesses



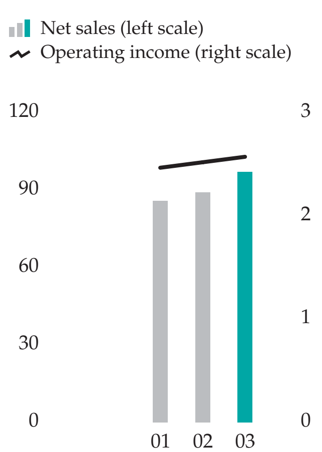
15 *business categories*

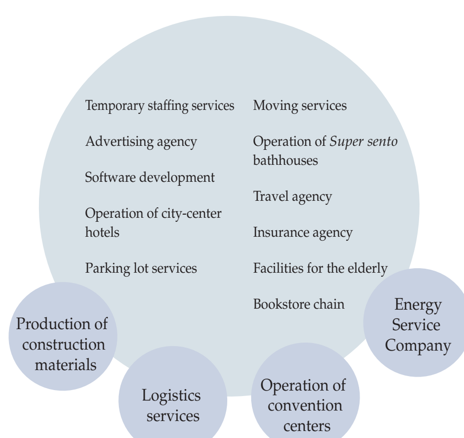
Operating income rose 2.1% to ¥2,573 million, on sales of ¥97,117 million, up 8.8%.

In 2002, among household finances the rate of increase in spending on services reached 5.3 times the level of spending on goods, and a large proportion of spending on goods was in the spheres of education, entertainment, and communications, to individualize and enhance lifestyles. This had a strong bearing on this business segment.

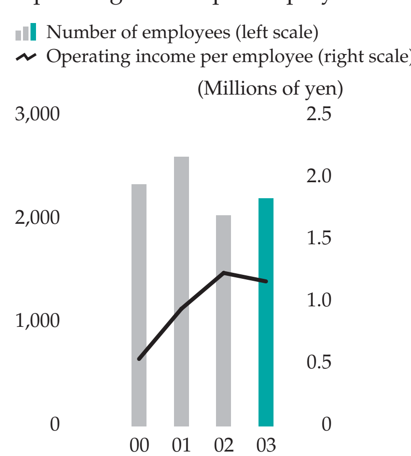
Among these totals, Daiwa Rakuda Industry, which engages in the manufacture of construction materials and sale of furniture, devoted particular efforts to sales of interior goods such as original curtains and folding room dividers, and exterior goods such as balconies. This resulted in 3.9% growth in net sales, to ¥38,232 million, and a 1.6% increase in operating income, which reached ¥880 million. Meanwhile Daiwa Logistics, which engages in goods distribution, implemented measures such as the amalgamation or closure of temporary warehouses and the relocation of distribution centers. As a result, it was able to improve its performance in contrast to the general sluggishness in the transportation industry, posting net sales of ¥23,078 million, up by 6.7% year-on-year, and operating income of ¥1,089 million, up by 2.6%. In addition Yamatonoyu, which operates *Super sento* bathhouses, opened four new outlets during the term, bringing its network to a total of 13 directly-managed outlets, the largest in its industry. The average number of visitors to each of these complexes reached some 37,000 per month, marking another year of consistent growth since the company's establishment.

Net sales / Operating income
(Billions of yen)





Number of employees /
Operating income per employee



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 KOSHO LEASE CO., LTD.
Leasing of buildings and vehicles
5-20 Honmachibashi, Chuo-ku,
Osaka 540-0029
Phone: +81-6-6942-8011
URL: www.daiwakosho.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 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

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

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

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

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

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

LOC DEVELOPMENT CO., LTD.
Development and management of shopping centers
7-14-4 Ueno, Taito-ku, Tokyo 110-0005
Phone: +81-3-5828-5501
URL: www.loc-kaihatsu.co.jp

ROYAL HOME CENTER CO., LTD.
Sale of DIY, gardening, and interior goods
3-3-5 Umeda, Kita-ku, Osaka 530-0001
Phone: +81-6-6342-1676
URL: www.royal-hc.co.jp

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

SHINWA AGENCY CO., LTD. (Advertising and travel agency), DAIWA TECHNICA CO., LTD. (Manufacture and sale of household equipment), NIC CO., LTD. (Manufacture of interior doors), DAIWA ENERGY CO., LTD. (Energy conservation support), MEDIA TECH INC. (Information systems), JUKEIKAI Co., Ltd. (Operation of homes for the aged), NARA ACE CO., LTD. (Management of golf courses), TECH･R&DS CO., LTD. (Market research), SYNCHROLLER CO., LTD. (Manufacture of housing materials), DAIWA ESTATE CO., LTD. (Real estate agents), GREENFARM KAIHATSU CO., LTD. (Sale of tomatoes)

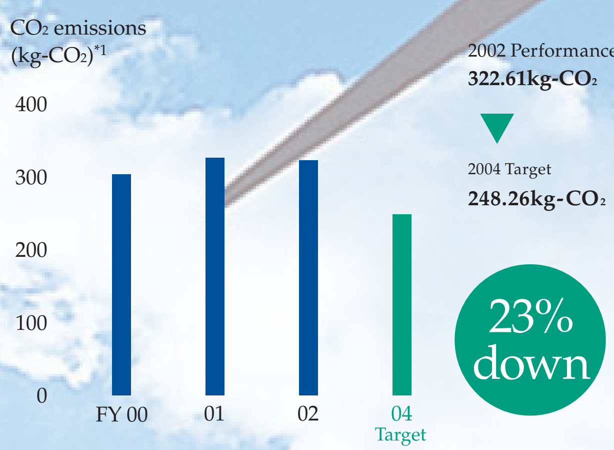
Overseas affiliated companies

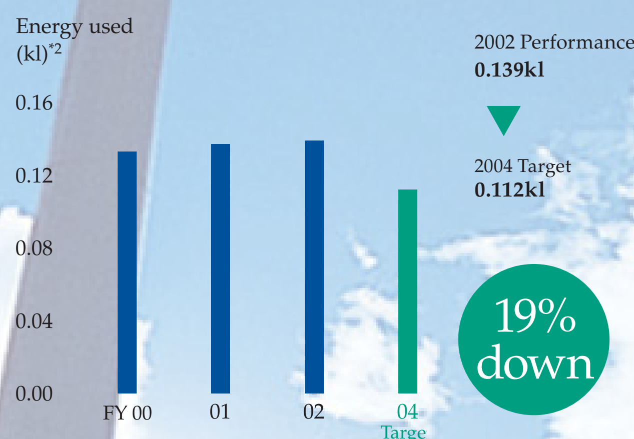
SHANGHAI HAPPY HOUSE DECORATION CO., LTD. (Design and installation of housing interiors), DH (DALIAN) ADMINISTRATIVE MANAGEMENT CONSULTING CENTER CO., LTD. (Clerical work outsourcing provider), SHANGHAI INTERNATIONAL REALTY CO., LTD. (Management of rental housing), BEIJING EAST PALACE APARTMENT CO.,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

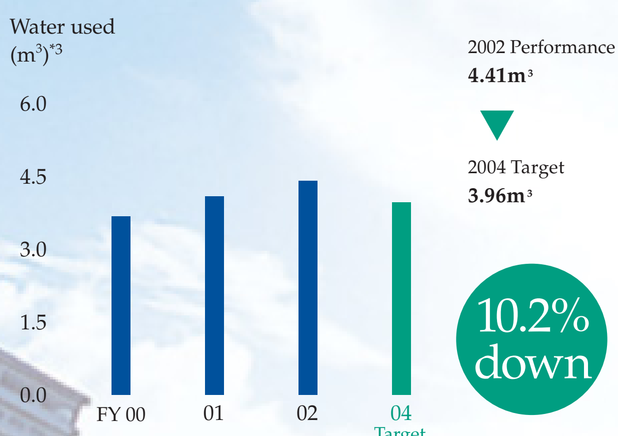
Environmental measures

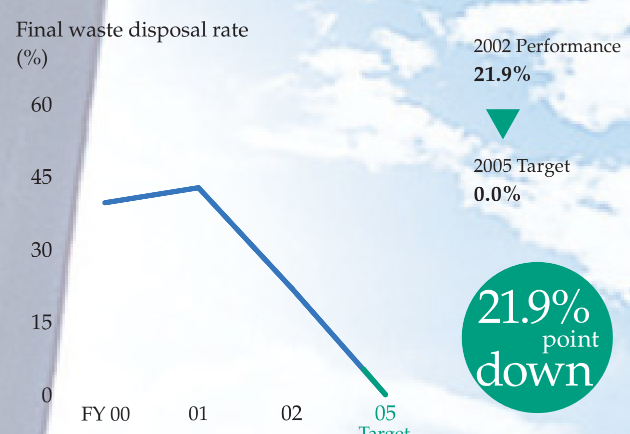
New targets drafted for stricter environmental management

Daiwa House Industry had previously been pursuing targets for the reduction of the environmental burden of its corporate activities under a plan covering the 5-year period from the term ended March 31, 2001 to the term ending March 31, 2005 (term ending March 31, 2006 for the final waste materials disposal target only). As a result of the merger with Daiwa Danchi Co., Ltd. in April 2001, we have drawn up a new, three-year plan with targets based on the fiscal 2001 figures as the new benchmarks, to further strengthen our environmental burden reduction initiatives.









Notes: 1. Figures for FY 2000 are for Daiwa House alone, prior to the merger with Daiwa Danchi.
2. The quantities in the graphs marked *1, *2 and *3 are numerical values per non-consolidated sales of ¥1 million.

Research and development

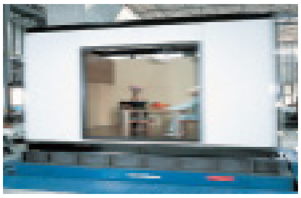
Focusing on housing in Japan today and tomorrow

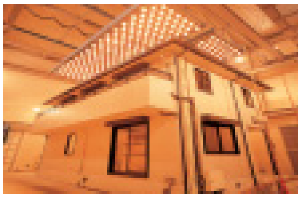
Surrounded by four tectonic plates, the Japanese archipelago is an earthquake-prone zone crisscrossed by as many as 2,000 active faults in an area of only 377,800 square kilometers. In recent years it has experienced serious earthquakes of magnitude 7 or above. Earthquake resistance and earthquake proofing in homes and other buildings are thus vital objects of research for the purpose of saving lives and preventing property damage.

Japan also lies in the path of heavy rain and high winds caused by typhoons. In consequence, another important focus is that of giving buildings resistance to wind, and making them airtight and watertight.

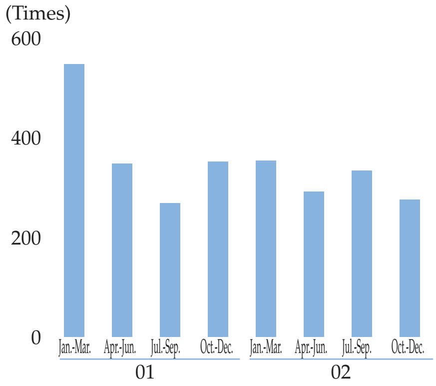
Primarily through our Central Research Laboratory, we are working to enhance the structures and capabilities of housing so that it can resist direct assaults by the forces of nature. Our focus is that of improving products and technologies by means of experiments to confirm the performance of our products with the use of facilities such as full-size experimentation chambers able to reproduce a variety of climatic conditions; equipment for testing environmental factors such as the ground, the strength of materials, light, heat, and sound; and trial structures for which actual dwellings are used.

Research is also conducted into the space within dwellings, and into next-generation housing adapted for compatibility with the immediate environment, and incorporating energy conservation and information technology features. In ways such as these we undertake comprehensive research into the house and home as it is today and it will become tomorrow.



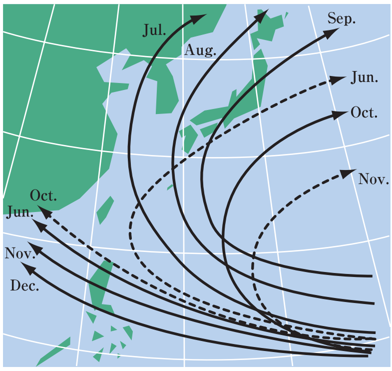


Number of perceptible earthquakes



Paths of typhoons

(Solid lines—most common; dotted lines—less common)



Group network

Group network

As of June 1, 2003

- **Head office**
- **Tokyo office**
- **Branches: 84**
- **Factories: 13**

* The above places of business are directly operated by Daiwa House.

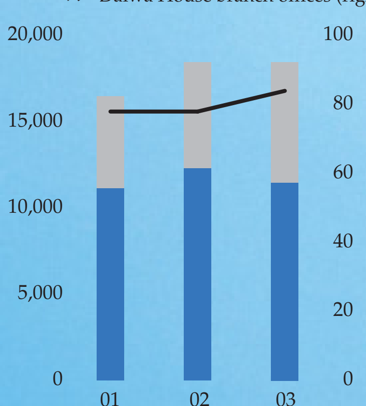
- **Daiwa Royal Hotels: 29**

* Daiwa Resort Co., Ltd. also manages the Royton Sapporo, and the Lake Yamanaka Fujisan Royal Cottages. It also operates a branch office in Seoul (marked with ●).

- **Royal Home Centers: 39**
- **Overseas affiliates: 9**

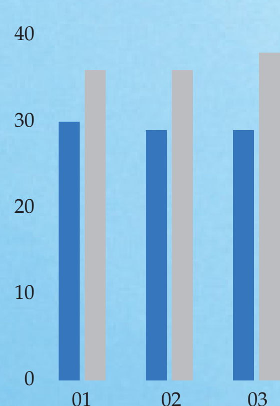
Number of employees of Daiwa House group / Number of branch offices of Daiwa House

Daiwa House (left scale)
Daiwa House group (left scale)
Daiwa House branch offices (right scale)



Daiwa Royal Hotels / Royal Home Centers

Hotels
Home centers




MANCHURIA
Qiqihar
Nenjiang
Amur
Belogorsk
Tygda
Khabarovsk
Harbin
Jilin
Changchun
Fushun
Vladivostok
L. Khanka
SIKHOTE-ALIN
Sovetskaya Gavan
NORTH KOREA
Pyongyang
Seoul
SOUTH KOREA
Sapporo
HOKKAIDO
Iturup
Terpeniya Bay
KYUSHU
Kyoto
Osaka
Nagoya
Tokyo
Sendai
JAPAN
Tori
Sofu Gan
Bonin Is.
Nishino

The history of the 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.

Daiwa House corporate data

Founding:	April 5, 1955 (Establishment: March 4, 1947)
Paid-in capital:	¥110,120,483,981
Employees:	11,750
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
Branches:	84
Factories:	13
Research center:	Central Research Laboratory (Nara city)
Training centers:	Osaka, Tokyo and Nara

(As of April 1, 2003)

2003 Financial information

C o n t e n t s

Note: In the financial statements, the names given to our business segments are abbreviated as follows:
Housing: Residential Commercial construction: Commercial Resort hotels: Resort Home center business: Home Center Other businesses: Other

Consolidated seven-year summary

Daiwa House Industry Co., Ltd. and Subsidiaries
Years ended March 31, 1997 to 2003

	Millions of yen						
	2003	2002	2001	2000	1999	1998	1997
Net sales	¥1,184,544	¥1,197,925	¥1,016,237	¥ 951,073	¥ 896,006	¥1,069,789	¥1,188,295
Cost of sales	936,861	945,474	794,170	736,310	691,318	834,407	922,387
Selling, general and administrative expenses	202,411	206,420	177,777	167,266	164,473	186,932	182,019
Operating income	45,272	46,031	44,290	47,497	40,215	48,450	83,889
Income (loss) before income taxes and minority interests	(155,157)	9,538	12,796	32,123	21,414	48,685	75,601
Net income (loss)	(91,388)	5,217	6,256	17,450	16,699	20,373	42,452
Per share of common stock (in yen):							
Basic net income (loss)	(167.06)	9.55	12.05	33.52	31.88	38.89	82.76
Diluted net income				33.50		37.91	79.89
Shareholders' equity	884.55	1,066.63	1,182.01	1,188.63	1,151.12	1,136.55	1,115.04
Property, plant and equipment, less accumulated depreciation	349,646	426,630	383,853	376,489	365,502	346,543	338,166
Total assets	1,094,441	1,187,127	1,066,457	981,893	950,701	1,013,072	1,145,944
Shareholders' equity	483,684	582,438	613,867	617,421	603,060	595,429	584,157
Return on equity (%)	(18.89)	0.85	1.02	2.86	2.79	3.42	7.27

Management's discussion and analysis (on a consolidated basis)

Operating environment and financial strategy

The business environment remained difficult in Japan in the term under review. The economy became increasingly in the grip of deflation, with no sign of any improvement in the employment situation and both consumer spending and corporate capital investment remaining sluggish.

In the housing industry, the number of new construction starts remained below the 1.2 million level for the second straight year, and, more crucially, hit a 19-year low. In addition, owner-occupied housing starts fell particularly steeply, by 3.1% year-on-year to below the 370,000 mark. General construction, too, was generally weak against the backdrop of stagnant private-sector capital investment and continued curtailment of public works spending.

In the face of this business environment, the Daiwa House group has put priority on further strengthening its financial position. Particular emphasis was put on ensuring a return to financial health in the term under review, to which end we implemented an extraordinary depreciation of tangible assets as well as the lump-sum amortization of the transitional obligations and actuarial losses on retirement benefits. A major reduction was also effected in the interest-bearing liability burden, with Daiwa House Industry paying off all interest-bearing debt on a non-consolidated basis.

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Results of operations

Net sales

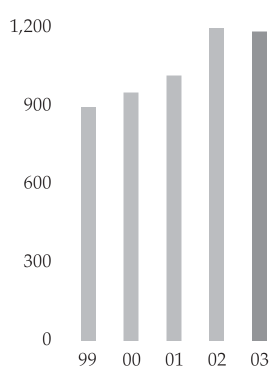
Net sales for the term ended March 31, 2003 decreased 1.1% from the previous term to ¥1,184.5 billion (US$9,871.2 million); this was mainly attributable to a decline in new housing starts of 1,146 thousand, the lowest for 19 years, against the backdrop of prolonged stagnation in Japan. By segment, Housing operations (including inter-segment transactions), declined 1.7% to ¥791.9 billion (US$6,599.8 million), and Commercial construction operations declined 4.9% to ¥248.0 billion (US$2,066.7 million). While Resort hotels operations rose 7.0% to ¥51.9 billion (US$432.5 million), Home center operations rose 14.7% to ¥52.1 billion (US$434.6 million), and Other businesses rose 8.8% to ¥97.1 billion (US$809.3 million). Declines in our mainstay businesses, Housing and Commercial construction operations, had a significant effect on the total sales.

Cost of sales, and selling, general and administrative expenses

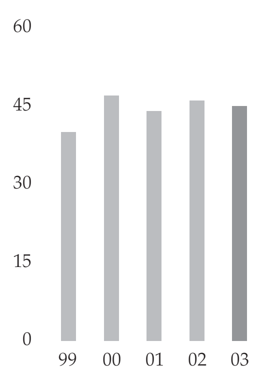
Cost of sales decreased ¥8.6 billion (US$71.7 million) from the previous term to ¥936.8 billion (US$7,807.1 million), while its ratio to sales rose 0.2 percentage points to 79.1% due to an increase in direct expenses.

Selling, general and administrative expenses decreased ¥4.0 billion from the previous term to ¥202.4 billion (US$1,686.7 million), and their ratio to sales fell 0.2 percentage points to 17.1%, thanks to a reduction in expenses for advertising and sales commissions, despite a slight increase in personnel expenses.

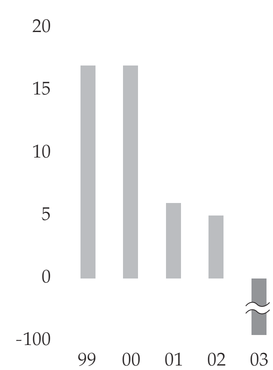
Net sales
(Billions of yen)



Operating income
(Billions of yen)



Net income (loss)
(Billions of yen)



Operating income

Although operating income declined 1.7% from the previous term to ¥45.2 billion (US$377.2 million) in line with a decline in sales, its ratio to sales came to 3.8%, virtually the same as the previous term.

Analysis of operations by segment is as follows.

(Segment sales amounts prior to elimination of inter-segment transactions were used in the following analysis.)

Sales of Housing operations fell ¥14.0 billion, or 1.7%, from the previous term. However, we were rather satisfied with the results, taking into account the decline in new housing starts nationwide by 2.3% from 1,173 thousand for the previous term to 1,146 thousand. We attributed this relatively favorable result to organizational reform including an expansion in the number of sales offices and of the marketing system to meet local needs more precisely, as well as a change in product strategy to more accurately meet customer needs. Under this, for example, we offered solar power systems and high-insulation houses for residents in districts with particularly cold winters. Regarding condominiums, we focused on small condominiums in urban districts to take advantage of the trend in which the central areas of the nation's metropolises are once again becoming popular places to live.

The number of rental apartment units sold by us increased 8.8% on a non-consolidated basis over the previous term, against the backdrop of a rising need by landowners to more effectively use their landholdings. This trend results from the lack of favorable investment targets for financial assets due to the continued low level of interest rates and the termination of unlimited government guarantees on time deposits.

As a result, sales of Housing operations amounted to ¥791.9 billion. Operating income decreased ¥3.7 billion to ¥39.1 billion, and its ratio to sales fell 0.4 percentage points to 4.9%.

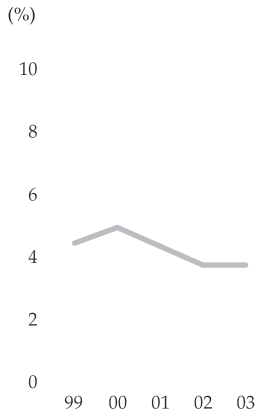
Sales of Commercial construction operations fell ¥12.7 billion, or 4.9%, from the previous term. During the term, we focused on communal dwellings for senior citizens incorporating our extensive know-how in medical and care facilities, as well as large-scale logistics facilities and shopping malls utilizing a nation-wide network of landowners and tenants. Floor space for rental use and the number of tenants were beginning to decline amidst weak consumer spending and sluggish capital investment. As a result, sales of Commercial construction operations came to ¥248.0 billion and operating income declined ¥0.7 billion to ¥17.6 billion. The ratio of operating income to sales, however, improved 0.1 percentage points over the previous term to 7.1%, the highest figure among the segments.

Resort hotels operations sales rose ¥3.4 billion, or 7.0%, over the previous term. The increase was mainly attributable to rises both in the number of guests and in room occupancy rates thanks to an improvement in Internet reservation systems for resort hotels and enhancement of marketing channels, which resulted in a rise in the number of foreign guests. We attracted more customers for our wedding facilities compared with the previous term thanks to an increase in the number of chapels within the resort hotels.

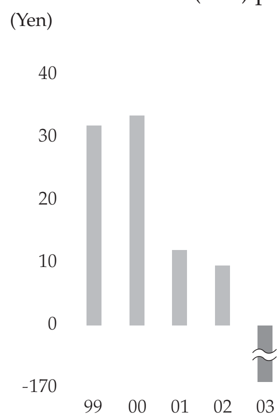
Revenues from golf club operations fell from the previous term, due to a decline in revenue per customer reflecting a general price decline.

As a result, Resort hotels operations sales came to ¥51.9 billion. We posted an operating loss of ¥3.9 billion, lower than the previous term.

Operating profit margin



Basic net income (loss) per share



Home center operations sales far exceeded the previous term's result by ¥6.6 billion, up 14.7%, thanks mainly to an increase in the number of outlets by two. It is undeniable that an increase in revenue for this business segment depends largely on the opening of new outlets. However, we expect to differentiate ourselves from our competitors by taking advantage of our expertise in housing construction. The Home center operations, therefore, is useful for achieving synergy with the Housing operations. As a result, the Home center operations sales amounted to ¥52.1 billion and operating income to ¥0.3 billion, almost same as the previous term. Its ratio to sales fell 0.1 percentage points to 0.6%.

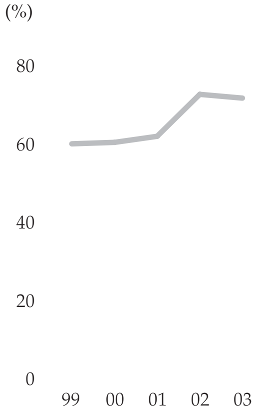
The Other businesses segment consists of a wide variety of businesses including construction materials manufacturing, logistics, hotel operations in urban areas. Sales for the segment rose ¥7.8 billion, or 8.8%, over the previous term. We are making efforts to improve the management efficiency of our logistics operations through transfer, merger and consolidation of branches. The number of urban-type hotels came to eight as of the term end, and is expected to increase still further. We are focusing on the development of price-competitive, value-added construction material products. As a result of the above, sales of the segment came to ¥97.1 billion and its ratio of operating income to sales fell 0.2 percentage points to 2.6%.

Other income and expenses

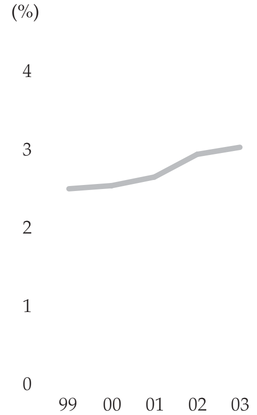
Due to our bold management decisions to implement a large-scale lump-sum amortization of liabilities on retirement benefits and total elimination of unrealized losses on land and securities holdings, we posted net other expenses of ¥200.4 billion. Other income came to ¥21.2 billion, up ¥12.5 billion, and other expenses to ¥221.6 billion, up ¥176.4 billion. The increase in other income was mainly attributable to gains on amortization of prior service obligations resulting from revisions on regulations for retirement benefits, and the termination of agency service for the state-run employee pension fund. These measures were taken in line with fundamental reform of our retirement benefit system, and were necessary for improving our financial position regarding pensions.

On the other hand, the increase in other expenses was attributable to lump-sum amortization of retirement benefit obligations and total elimination of unrealized loss on land for resale and other property, and securities. We chose lump-sum amortization and total elimination as we judged that they were crucial for rebuilding a sound financial position preparatory to future expansion. Alongside pension obligations, unrealized losses were recognized on 1) real estate for operations and real estate for sale, and 2) securities and investments in affiliated companies. Regarding retirement benefits, we amortized in lump-sum ¥90.3 billion, consisting of unrecognized actuarial loss of ¥49.8 billion, actuarial loss resulting from changes in discount rates used for calculation of present value of pension assets of ¥31.7 billion and transitional obligations of ¥8.7 billion. For real estate for operations and real estate for sale, we carried out extraordinary depreciation of ¥75.1 billion on real estate for hotel, golf-club and rental use with large reduction in asset value, and posted valuation losses of ¥22.9 billion on land and buildings. We also posted losses of ¥9.8 billion on sale and valuation on securities and of ¥2.9 billion on liquidation of subsidiaries and affiliates.

Fixed ratio



Fixed asset turnover ratio



Net income

As mentioned previous sections, we posted ¥200.4 billion under net other expenses for the term. As a result, we registered a loss before income taxes of ¥155.1 billion and net loss of ¥91.3 billion under tax effect accounting.

Liquidity and Capital Resources

Financial position

Total assets decreased ¥92.6 billion, or 7.8%, during the term to stand at ¥1,094.4 billion (US$9,120.3 million) at the term end. Current assets and property, plant and equipment decreased ¥74.5 billion and ¥76.9 billion from the previous term end, respectively. Among current assets, a significant decline was seen in cash and cash equivalents, and in land held for resale under inventories. Reduced amounts in cash and cash equivalents were used for repayment interest-bearing liabilities to secure a sound financial position. The decline in land held for resale was largely attributable to the posting of valuation losses. Inventories, which consisted of construction projects in progress, land and buildings held for resale, and other inventories, declined ¥31.2 billion to ¥267.1 billion.

Among property, plant and equipment, the decline in buildings and structures was notable, due to extraordinary depreciation on properties with significant decline in asset values belonging to hotels and golf clubs, and other properties. As a result, buildings and structures declined ¥76.5 billion to ¥121.6 billion. Regarding land for business use, we carried out a one-time revaluation of own-use land in accordance with the revisions to the "Law on Land Revaluation," in the previous term. While investment securities declined due to the posting of valuation losses, investments and other securities as a whole increased, mainly due to an increase in deferred tax assets.

With regard to liabilities and shareholders' equity, current assets decreased ¥75.9 billion as a result of the repayment of short-term bank loans to secure a sound financial position. Interest-bearing liabilities (including bonds and long-term loans posted under long-term liabilities) stood at only ¥6.0 billion at the term end, which was equivalent to 0.6% of total assets. On a non-consolidated basis, the Company held no interest-bearing liabilities. Trade notes and accounts payable increased due to the balance sheet date falling on a bank holiday. The current ratio rose to 174.2% from 157.5% at the previous term end, which, in our opinion, represented a sufficient level of liquidity.

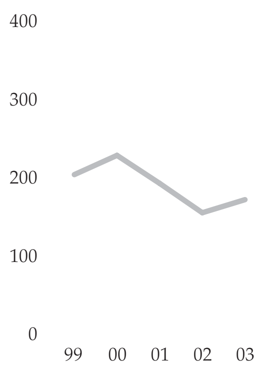
Long-term liabilities increased ¥83.1 billion, which was attributable to provisions for employees' retirement benefits in line with a thorough reform of the retirement benefits system at the parent company in accordance with introduction of a new pension accounting system.

Shareholders' equity decreased ¥98.7 billion to ¥483.6 billion (US$4,030.7 million) due to a deduction in retained earnings resulting from the posting of a huge net loss. The equity ratio, however, declined 4.9 percentage points to 44.2%, which, in our opinion, was sufficient for a sound financial position.

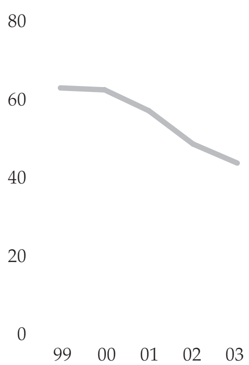
Cash flows

Cash and cash equivalents decreased ¥44.5 billion, or 30.0%, during the term, and stood at ¥103.9 billion (US$866.2 million) at the term end. Net cash provided by operating activities amounted to ¥40.4 billion (US$337,1 million, down ¥46.5 billion, or 53.5%, from the previous term. Net cash used in investing activities came to ¥27.3 billion (US$227.6 million), down ¥8.9 billion, or 24.6%. Net cash used in financing activities amounted to ¥57.7 billion (US$480.9 million), a decrease of ¥31.8 billion, or 35.5%, from the previous term.

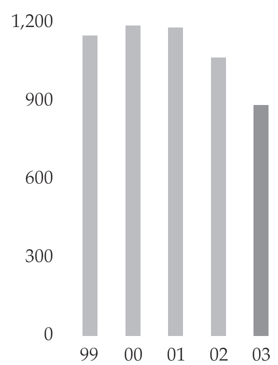
Current ratio
(%)



Shareholders' equity / total assets
(%)



Shareholders' equity per share
(Yen)



The decline in net cash inflows from operating activities was mainly attributable to the posting of a large loss before income taxes. Losses on retirement benefits and extraordinary amortization expenses, however, did not contribute to the decline, as these items had no effect on cash flows. Another contributing factor in the decrease in the cash inflow was the large decline in trade notes and accounts payable. This, however, was attributable to the balance sheet date falling on a bank holiday. The de facto decline, therefore, was much smaller. The decline in cash outflows from investing activities was attributable to a decline in the acquisition of property and equipment for new facilities. The net cash outflow from financing activities declined despite a reduction in interest-bearing liabilities as part of an ongoing program to improve the Group's financial soundness (the parent company itself has already achieved zero interest-bearing liabilities).

As a result, free cash flow (combined cash flows of operating and investing activities) amounted to ¥13.1 billion, down ¥37.6 billion from the previous term.

Outlook

For the current business term, the fiscal year ending March 31, 2004, although some bright economic indicators have been seen, unemployment is expected to remain high and pay levels are likely to weaken. The overall outlook for the Japanese economy is thus projected to remain gloomy, taking into account the various unstable factors in the world economy.

For the current term, the construction industry will enjoy the plus factor of an expansion in the framework for application of tax-exempt status for donations of property. However, taking into account the disposable income situation, which reflects the lack of any improvement in employment conditions, housing investment is likely to remain weak, leading to even fiercer competition among construction companies.

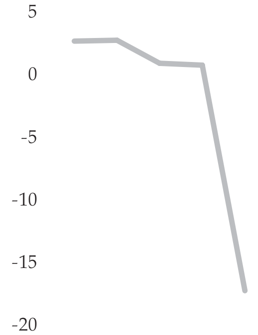
To cope with this difficult business environment, the management of Daiwa House will continue to pursue the Company's basic "customer first" policy by working to produce a stronger, leaner company through steps to cut expenses while improving our marketing, service provision and product development capabilities-centered on a branch-based marketing system tailored to the requirements of each individual region.

In our Housing operations, we plan to launch new single-family house models on the market offering stronger anti-burglary features. We will also step up our activities in the home renovation market. In Commercial construction operations, we will focus on medical and nursing care facilities to meet the needs of the aging population. In our Resort hotels operations, we will put even further efforts into providing unique services that take full advantage of the particular features of each locality. Finally, in our Home center operations, we plan to continue opening new stores while expanding our lineup of product and services in line with our aim of becoming a comprehensive life-style enterprise.

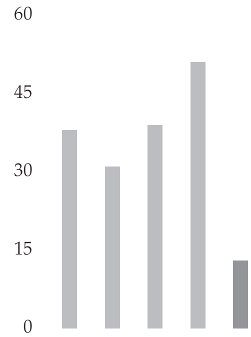
As a result of the steps toward a return to financial health taken in the reporting period, including an extraordinary depreciation of tangible assets as well as the lump-sum amortization of the transitional obligations and actuarial loss on retirement benefits, we expect to see a decline in depreciation expenses and in costs related to retirement benefits in the current term, putting us well on the way to realizing our goal of a tough and resilient financial position.

As a result of the foregoing, we anticipate net sales on a consolidated basis for fiscal 2003 of ¥1,220.0 billion, operating income of ¥56.0 billion, and net income of ¥30.0 billion.

Return on equity
(%)



Free cash flows*
(Billions of yen)



Free cash flows*=
Cash flow from operating activities
+Cash flow from investing activities

Consolidated balance sheets

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

Assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Current assets:			
Cash and cash equivalents	¥ 103,950	¥ 148,520	$ 866,250
Marketable securities (Note 4)	202	180	1,683
Short-term investments (Note 2-d)	133	1,599	1,108
Receivables:			
Trade notes	7,238	9,071	60,317
Trade accounts	55,685	56,804	464,042
Allowance for doubtful receivables	(1,972)	(1,766)	(16,433)
Inventories (Note 5)	267,199	298,424	2,226,658
Deferred tax assets (Note 12)	22,106	10,884	184,217
Prepaid expenses and other current assets	13,755	19,099	114,625
Total current assets	468,296	542,815	3,902,467
Property, plant and equipment:			
Land (Notes 6 and 7)	212,312	208,811	1,769,267
Buildings and structures (Note 7)	380,978	371,018	3,174,817
Accumulated depreciation	(259,286)	(172,816)	(2,160,717)
Machinery and equipment	51,264	52,531	427,200
Accumulated depreciation	(42,205)	(41,363)	(351,708)
Furniture and fixtures	36,695	37,041	305,792
Accumulated depreciation	(31,116)	(29,875)	(259,300)
Construction in progress	1,004	1,283	8,366
Net property, plant and equipment	349,646	426,630	2,913,717
Investments and other assets:			
Investment securities (Note 4)	25,988	35,402	216,567
Investments in and advances to associated companies	25,900	28,817	215,833
Long-term loans	5,024	9,445	41,867
Deferred tax assets (Note 12)	100,123	28,444	834,358
Deferred tax assets on land revaluation (Note 6)	41,211	43,135	343,425
Lease deposits and other assets	87,589	77,422	729,908
Allowance for doubtful accounts	(9,336)	(4,983)	(77,800)
Total investments and other assets	276,499	217,682	2,304,158
Total	¥1,094,441	¥1,187,127	$9,120,342

See notes to consolidated financial statements.

Liabilities and shareholders' equity

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Current liabilities:			
Short-term bank loans (Note 7)	¥ 2,800	¥ 54,000	$ 23,333
Current portion of long-term debt (Note 7)		1,000	
Payables:			
Trade notes	26,012	27,927	216,767
Trade accounts	90,890	146,846	757,417
Other accounts	58,639	35,482	488,658
Deposits received from customers	38,444	33,906	320,367
Income taxes payable	8,419	2,379	70,158
Accrued bonuses	9,769	10,099	81,408
Provision for product warranties	4,181	3,465	34,842
Accrued expenses and other current liabilities	29,657	29,622	247,142
Total current liabilities	268,811	344,726	2,240,092
Long-term liabilities:			
Long-term debt (Note 7)	3,237	2,000	26,975
Liability for employees' retirement benefits (Note 3 and 8)	136,480	51,224	1,137,333
Long-term deposits received from the Company's club members	64,243	67,721	535,358
Lease deposits and other long-term liabilities	115,229	115,103	960,242
Total long-term liabilities	319,189	236,048	2,659,908
Minority interests	22,757	23,915	189,642
Commitments and contingent liabilities (Notes 14, 15 and 16)			
Shareholders' equity (Notes 2-c, 2-m, 2-p, 6, 9 and 18):			
Common stock, authorized, 1,900,000,000 shares; issued, 550,664,416 shares in both 2003 and 2002	110,120	110,120	917,667
Capital surplus	147,755	147,755	1,231,292
Retained earnings	289,840	387,591	2,415,333
Land revaluation difference	(60,409)	(59,910)	(503,408)
Net unrealized gain on available-for-sale securities	777	1,358	6,475
Foreign currency translation adjustments	(881)	(809)	(7,342)
Treasury stock — at cost, 3,848,065 shares in 2003 and 4,610,098 shares in 2002	(3,518)	(3,667)	(29,317)
Total shareholders' equity	483,684	582,438	4,030,700
Total	¥1,094,441	¥1,187,127	$9,120,342

Consolidated statements of operations

Daiwa House Industry Co., Ltd. and Subsidiaries
Years ended March 31, 2003, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2003	2002	2001	2003
Net sales	¥1,184,544	¥1,197,925	¥1,016,237	$9,871,200
Cost of sales	936,861	945,474	794,170	7,807,175
Gross profit	247,683	252,451	222,067	2,064,025
Selling, general and administrative expenses (Note 13)	202,411	206,420	177,777	1,686,758
Operating income	45,272	46,031	44,290	377,267
Other income (expenses):				
Interest income and dividends	546	569	796	4,550
Interest expense	(723)	(1,348)	(299)	(6,025)
Write-down of marketable and investment securities	(9,773)	(16,956)	(1,385)	(81,442)
Write-down of inventories	(22,900)	(5,994)	(5,291)	(190,833)
Loss on sales and disposal of property, plant and equipment	(3,488)	(1,594)	(543)	(29,067)
Prior service benefit from changes to employees' retirement benefit plan (Note 8)	6,736	1,583		56,133
Amortization of transitional obligation for employees' retirement benefits (Notes 2-h and 8)	(8,780)	(9,473)	(9,198)	(73,167)
Contribution to employees' retirement benefit trust (Notes 2-h and 8)			(14,732)	
Amortization of actuarial loss for employees' retirement benefits (Note 8)	(4,925)	(3,361)		(41,042)
Actuarial loss on retirement benefits (Notes 3 and 8)	(49,888)			(415,733)
Actuarial loss due to a change of discount rate (Notes 3 and 8)	(31,733)			(264,441)
Extraordinary depreciation for property, plant and equipment (Note 2-f)	(75,183)			(626,525)
Other — net (Note 11)	(318)	81	(842)	(2,650)
Other income (expenses) — net	(200,429)	(36,493)	(31,494)	(1,670,242)
Income (loss) before income taxes and minority interests	(155,157)	9,538	12,796	(1,292,975)
Income taxes (Note 12):				
Current	17,792	8,633	22,268	148,267
Deferred	(81,370)	(4,913)	(16,537)	(678,083)
Total	(63,578)	3,720	5,731	(529,816)
Minority interests in net (income) loss of subsidiaries	191	(601)	(809)	1,592
Net income (loss)	¥ (91,388)	¥ 5,217	¥ 6,256	$ (761,567)

	Yen			U.S. dollars
Per share of common stock (Note 2-o):				
Basic net income (loss)	¥ (167.06)	¥ 9.55	¥ 12.05	$(1.39)
Cash dividends applicable to the year	10.00	10.00	17.00	0.08

See notes to consolidated financial statements.

Consolidated statements of shareholders' equity

Daiwa House Industry Co., Ltd. and Subsidiaries
Years ended March 31, 2003, 2002 and 2001

	Thousands	Millions of yen						
	Issued number of shares of common stock	Common stock	Capital surplus	Retained earnings	Land revaluation difference	Net unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Treasury stock
Balance, April 1, 2000	523,893	¥108,781	¥122,041	¥390,206				¥(3,607)
Net income				6,256				
Cash dividends, ¥17.0 per share				(8,831)				
Bonuses to directors and corporate auditors				(37)				
Foreign currency translation adjustments (Note 2-m)							¥(927)	
Net increase in treasury stock								(15)
Balance, March 31, 2001	523,893	108,781	122,041	387,594			(927)	(3,622)
Issuance for merger with Daiwa Danchi Co., Ltd. (Note 17)	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				(54)				
Land revaluation difference					¥(59,910)			
Net increase in unrealized gain on available-for-sale securities (Note 2-c)						¥1,358		
Foreign currency translation adjustments (Note 2-m)							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 available-for-sale securities (Note 2-c)						(581)		
Foreign currency translation adjustments (Note 2-m)							(72)	
Net decrease in treasury stock								149
Balance, March 31, 2003	550,664	¥110,120	¥147,755	¥289,840	¥(60,409)	¥ 777	¥(881)	¥(3,518)

	Thousands of U.S. dollars (Note 1)						
	Common stock	Capital surplus	Retained earnings	Land revaluation difference	Net unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Treasury stock
Balance, March 31, 2002	$917,667	$1,231,292	$3,229,925	$(499,250)	$11,317	$(6,742)	$(30,558)
Net loss			(761,567)				
Cash dividends, $0.08 per share			(45,508)				
Bonuses to directors and corporate auditors			(159)				
Effect of change in statutory tax rate and other				(11,516)			
Transfer due to sales of land			(7,358)	7,358			
Net decrease in unrealized gain on available-for-sale securities (Note 2-c)					(4,842)		
Foreign currency translation adjustments (Note 2-m)						(600)	
Net decrease in treasury stock							1,241
Balance, March 31, 2003	$917,667	$1,231,292	$2,415,333	$(503,408)	$ 6,475	$(7,342)	$(29,317)

See notes to consolidated financial statements.

Consolidated statements of cash flows

Daiwa House Industry Co., Ltd. and Subsidiaries
Years ended March 31, 2003, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2003	2002	2001	2003
Operating activities:				
Income (loss) before income taxes and minority interests	¥(155,157)	¥ 9,538	¥ 12,796	$(1,292,975)
Adjustments to reconcile income (loss) before income taxes and minority interests to net cash provided by operating activities:				
Income taxes — paid	(6,230)	(24,236)	(22,418)	(51,917)
Depreciation	21,386	20,883	19,731	178,217
Write-down of golf club membership	147	411	820	1,225
Write-down of marketable and investment securities	9,773	16,956	1,385	81,442
Loss on sales and disposal of property, plant and equipment	3,488	1,594	543	29,067
Extraordinary depreciation for property, plant and equipment	75,183			626,525
Equity in earnings of associated companies	(278)	(1,052)	(933)	(2,317)
Contribution to employees' retirement benefit trust			14,732	
Provision for employees' retirement benefits, net of payments	85,002	17,053	14,319	708,350
Changes in certain assets and liabilities, net of consolidation:				
Decrease (increase) in receivables	3,571	3,942	(6,626)	29,758
Decrease (increase) in inventories	32,872	48,909	(39,652)	273,933
Increase (decrease) in payables — trade	(31,453)	(3,797)	63,256	(262,108)
Increase (decrease) in deposits received from customers	4,260	(508)	3,630	35,500
Other — net	(2,105)	(2,672)	2,491	(17,542)
Total adjustments	195,616	77,483	51,278	1,630,133
Net cash provided by operating activities	40,459	87,021	64,074	337,158
Investing activities:				
Purchases of property, plant and equipment	(26,464)	(30,405)	(19,235)	(220,533)
Purchases of marketable and investment securities	(4,269)	(3,873)	(502)	(35,575)
Increase in investments in and advances to associated companies	(1,275)	(1,881)	(1,247)	(10,625)
Proceeds from sales of marketable and investment securities	2,814	422	110	23,450
Proceeds from sales of property, plant and equipment	1,244	379	138	10,367
Net proceeds from purchases of shares of the newly consolidated subsidiary	1,489			12,408
Increase in lease deposits	(5,415)	(2,768)	(3,342)	(45,125)
Net decrease (increase) in other assets	4,560	1,897	(1,195)	38,000
Net cash used in investing activities	(27,316)	(36,229)	(25,273)	(227,633)
Financing activities:				
Net increase (decrease) in short-term bank loans	(52,005)	(80,060)	2,000	(433,375)
Proceeds from long-term debt	1,237		1,000	10,308
Repayments of long-term debt	(1,000)	(58)	(85)	(8,333)
Proceeds from issurance of bonds		2,000		
Repayments of convertible bonds		(2,005)		
Net of purchases and proceeds from sales of treasury stock	(200)	(43)	(15)	(1,667)
Dividends paid	(5,745)	(9,101)	(9,117)	(47,875)
Cash paid related to merger with Daiwa Danchi Co., Ltd.		(268)		
Net cash used in financing activities	(57,713)	(89,535)	(6,217)	(480,942)
Cash and cash equivalents increased by merger		14,062		
Net increase (decrease) in cash and cash equivalents	(44,570)	(24,681)	32,584	(371,417)
Cash and cash equivalents, beginning of year	148,520	173,201	140,617	1,237,667
Cash and cash equivalents, end of year	¥ 103,950	¥148,520	¥173,201	$ 866,250

See notes to consolidated financial statements.

Nihon Jyutaku Ryutu Co., Ltd., formerly an associated company, has been included in consolidation in the fiscal year of 2003 as a result of the additional acquisition of its shares.

The assets and liabilities upon acquisition and the net proceeds from purchases of shares consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥3,621	$30,175
Long-term assets	5,642	47,017
Consolidation difference	98	817
Current liabilities	(2,418)	(20,150)
Long-term liabilities	(4,844)	(40,367)
Minority interests	(973)	(8,108)
Company's interest prior to acquisition	(1,094)	(9,117)
Acquisition cost	32	267
Cash and cash equivalents of the consolidated subsidiary	(1,521)	(12,675)
Net proceeds from purchases of shares	¥1,489	$12,408

	Millions of Yen	
	2002	2001
Non-cash investing and financing activities:		
Fair value of securities contributed to employees' retirement benefit trust (Note 2-h)		¥14,732
Assets acquired and liabilities assumed in merger (Note 18):		
Current assets	¥143,756	
Long-term assets	132,201	
Total	¥275,957	
Current liabilities	¥176,694	
Long-term liabilities	54,595	
Total	¥231,289	

See notes to consolidated financial statements.

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 and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and its foreign subsidiary in conformity with those of its country of domicile. The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

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 ¥120 to $1, the approximate rate of exchange at March 31, 2003. 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 Companies is eliminated.

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-to-maturity 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. In accordance with the new accounting standard for financial instruments, available-for-sale securities were reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity, effective April 1, 2001, and 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 ¥29 million ($242 thousand) and ¥677 million as of March 31, 2003 and 2002.

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 ($611,409 thousand), ¥856 million ($7,133 thousand), and ¥958 million ($7,983 thousand), for buildings and structures, machinery and equipment, and furniture and fixtures, respectively.

g. Leases

All leases are accounted for as operating leases. Under Japanese accounting standards 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.

h. Retirement and pension plans

The Company and its domestic subsidiaries have unfunded retirement benefit plans and a contributory funded pension plan. The Company and its domestic consolidated subsidiaries account for the liability for employees’ retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

In August 2000, the Company contributed certain available-for-sale securities with a fair value of ¥14,732 million to the employees’ retirement benefit trust for the parent company’s non-contributory pension plans, and recognized a non-cash loss of ¥266 million.

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 above contribution. 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.

i. 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.

j. 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.

k. 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.

l. 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.

m. 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 subsidiary and associated companies are translated into yen at the current exchange rate.

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

n. Reclassifications

Certain reclassifications and rearrangements have been made in the 2002 and 2001 financial statements to conform to the classifications used in 2003.

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, 2003, 2002 and 2001 were 547,045 thousand, 546,079 thousand and 519,391 thousand, respectively.

Diluted net income per share of common stock for the years ended March 31, 2002 and 2001 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. Accounting change

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 8), the revision of the retirement benefit plan, and the reexamination of investment policy, the actuarial loss, which would be 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 increased by ¥81,621 million ($680,175 thousand), compared with what would have been recorded under the previously method.

4. Marketable and investment securities

Marketable and investment securities as of March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Current:			
Government and corporate bonds	¥ 202	¥ 180	$ 1,683
Non-current:			
Marketable equity securities	25,926	35,318	216,050
Government and corporate bonds	62	84	517
Total	¥25,988	¥35,402	$216,567

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2003 and 2002 were as follows:

	Millions of yen			
	2003			
	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

	Millions of yen			
	2002			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥26,268	¥5,250	¥2,656	¥28,862
Held-to-maturity	264	1		265

	Thousands of U.S. dollars			
	2003			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	$150,800	$24,125	$9,325	$165,600
Held-to-maturity	2,200	8		2,208

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2003 and 2002 were as follows:

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Available-for-sale:			
Equity securities	¥5,854	¥4,456	$48,783
Debt securities	200	2,000	1,667
Total	¥6,054	¥6,456	$50,450

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	Available for sale	Held to maturity	Available for sale	Held to maturity
Due in one year or less		¥202		$1,683
Due after one year through five years		62		517
Due after five years through ten years	¥200		$1,667	
Total	¥200	¥264	$1,667	$2,200

5. Inventories

Inventories at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Finished residential homes and condominiums	¥ 27,771	¥ 34,176	$ 231,425
Construction projects in progress	28,745	21,428	239,542
Residential homes and condominiums in process	20,383	18,159	169,858
Land held:			
For resale	134,130	163,573	1,117,750
Under development	33,110	36,921	275,917
Undeveloped	11,687	12,561	97,391
Construction materials and supplies	11,373	11,606	94,775
Total	¥267,199	¥298,424	$2,226,658

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.

6. 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 income. 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 yen
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

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

Short-term bank loans at March 31, 2003 and 2002 consisted of bank loans. The annual interest rates for the short-term bank loans ranged from 0.6% to 1.4% and from 0.5% to 1.4% at March 31, 2003 and 2002, respectively.

Long-term debt at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Unsecured bank loans, 1.18%, due serially to 2002 September		¥1,000	
Unsecured bank loans, 1.50%, due serially to 2005 July	¥ 237		$ 1,975
Unsecured 0.5% bonds due 2004 December	2,000	2,000	16,667
Loans from bank, 1.26%, due serially to 2007 March; Collateralized	1,000		8,333
Total	3,237	3,000	26,975
Less current portion		1,000	
Long-term debt, net of current portion	¥3,237	¥2,000	$26,975

Annual maturities of long-term debt at March 31, 2003, were as follows:

Year ending March 31:	Millions of yen	Thousands of U.S. dollars
2005	¥2,047	$17,058
2006	321	2,675
2007	869	7,242
Total	¥3,237	$26,975

At March 31, 2003, assets pledged as collateral for secured long-term debt of ¥1,000 million ($8,333 thousand) were as follows:

	Millions of yen	Thousands of U.S. dollars
Land	¥ 502	$ 4,183
Buildings and structures	1,470	12,250
Total	¥1,972	$16,433

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.

8. 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, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Projected benefit obligation	¥199,597	¥228,306	$1,663,308
Fair value of plan assets	(63,185)	(115,811)	(526,542)
Unrecognized actuarial loss		(51,864)	
Unrecognized transitional obligation		(9,474)	
Net liability	136,412	51,157	1,136,766
Prepaid benefit costs	68	67	567
Liability for employees' retirement benefits	¥136,480	¥ 51,224	$1,137,333

The components of net periodic benefit costs are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Service cost	¥ 10,845	¥11,967	$ 90,375
Interest cost	7,182	7,535	59,850
Expected return on plan assets	(3,181)	(4,219)	(26,508)
Prior service benefit	(6,736)	(1,583)	(56,133)
Recognized actuarial loss	86,546	3,361	721,216
Amortization of transitional obligation	8,780	9,473	73,167
Net periodic benefit costs	¥103,436	¥26,534	$861,967

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.

Assumptions used for the years ended March 31, 2003 and 2002 are set forth as follows:

	2003	2002
Discount rate	2.5%	3.5%
Expected rate of return on plan assets	3.5%	3.5%
Recognition period of actuarial gain (loss)	1 year	Principally 10 years
Amortization period of transitional obligation	Principally 3 years (completed)	Principally 3 years

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 governmental program in the amount of ¥8,575 million ($71,458 thousand) in accordance with a transitional measurement 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 ($317,000 thousand) as of March 31, 2003.

9. Shareholders' equity

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which certain amendments became effective from 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 ¥188,031 million ($1,566,925 thousand) as of March 31, 2003, 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.

10. Segment information

Information about operations in different industry segments of the Group for the years ended March 31, 2003, 2002 and 2001 is as follows:

Sales and operating income (loss)

	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

	Thousands of U.S. dollars						
	2003						
	Residential	Commercial	Resort	Distribution "Home Center"	Other	Eliminations/ Corporate	Consolidated
Sales to customers	$6,577,708	$2,049,992	$432,525	$426,825	$384,150		$9,871,200
Intersegment sales	22,134	16,791		7,833	425,158	$(471,916)	
Total sales	6,599,842	2,066,783	432,525	434,658	809,308	(471,916)	9,871,200
Operating expenses	6,273,717	1,919,858	465,600	432,116	787,866	(385,224)	9,493,933
Operating income (loss)	$ 326,125	$ 146,925	$ (33,075)	$ 2,542	$ 21,442	$ (86,692)	$ 377,267

	Millions of yen						
	2002						
	Residential	Commercial	Resort	Distribution "Home Center"	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥805,022	¥257,733	¥48,499	¥44,349	¥42,322		¥1,197,925
Intersegment sales	981	3,052		1,114	46,906	¥(52,053)	
Total sales	806,003	260,785	48,499	45,463	89,228	(52,053)	1,197,925
Operating expenses	763,070	242,434	52,854	45,162	86,708	(38,334)	1,151,894
Operating income (loss)	¥ 42,933	¥ 18,351	¥ (4,355)	¥ 301	¥ 2,520	¥(13,719)	¥ 46,031

	Millions of yen						
	2001						
	Residential	Commercial	Resort	Distribution "Home Center"	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥648,804	¥246,113	¥39,823	¥40,777	¥40,720		¥1,016,237
Intersegment sales	2,882	685		1,266	45,114	¥(49,947)	
Total sales	651,686	246,798	39,823	42,043	85,834	(49,947)	1,016,237
Operating expenses	604,660	230,655	45,772	43,703	83,367	(36,210)	971,947
Operating income (loss)	¥ 47,026	¥ 16,143	¥ (5,949)	¥ (1,660)	¥ 2,467	¥(13,737)	¥ 44,290

Total assets, depreciation and capital investments

	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

	Thousands of U.S. dollars						
	2003						
	Residential	Commercial	Resort	Distribution "Home Center"	Other	Eliminations/ Corporate	Consolidated
Total assets	$3,284,325	$1,759,733	$823,358	$293,300	$658,133	$2,301,493	$9,120,342
Depreciation	44,067	21,700	52,783	4,933	39,783	14,951	178,217
Capital investments	58,200	67,617	18,033	19,308	31,483	11,284	205,925

	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

	Millions of yen						
	2001						
	Residential	Commercial	Resort	Distribution "Home Center"	Other	Eliminations/ Corporate	Consolidated
Assets	¥357,052	¥156,911	¥123,792	¥32,167	¥92,258	¥304,277	¥1,066,457
Depreciation	4,527	2,124	6,128	568	4,740	1,644	19,731
Capital investments	16,706	3,315	2,215	1,495	5,131	1,697	30,559

The industry segments consisted of the following:

	Industry segment				
Components of net sales in the consolidated statements of operations	Residential	Commercial	Resort	Distribution "Home Center"	Other
Construction	Construction of single/ multi-family houses and condominiums	Construction of commercial buildings			
Real estate	Sales of real estate for residential use	Sales and rental of real estate for commercial use			
	Real estate commissions				
	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	Manufacture and sales of building materials Physical distribution Operation of city type hotels

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.

11. Other income (expenses): Other — net

"Other income (expenses): Other — net" for the years ended March 31, 2003, 2002 and 2001 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	2003
Exchange gains (losses)	¥ (7)	¥ (2)	¥ 92	$ (58)
Real estate acquisition tax and other taxes	(277)	(257)	(420)	(2,308)
Retirement benefits for directors	(120)	(643)	(566)	(1,000)
Expenses for large-scale repairs to property, plant and equipment			(1,062)	
Gain (loss) on sales of marketable and investment securities	123	(544)	(120)	1,025
Allowance for doubtful accounts	(4,157)	(873)	(342)	(34,642)
Gain on exemption from future pension obligation	8,575			71,458
Loss on securities contributed to employees' retirement benefit trust			(266)	
Equity in earnings of associated companies	278	1,052	933	2,317
Write-down of golf club membership	(147)	(411)	(820)	(1,225)
Loss on sales of membership	(79)	(170)		(658)
Loss on liquidation of associated company	(2,145)			(17,875)
Bad debt expenses for long-term loans	(4,082)			(34,017)
Other — net	1,720	1,929	1,729	14,333
Total	¥ (318)	¥ 81	¥ (842)	$ (2,650)

12. 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, 2003, 2002 and 2001.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Current:			
Deferred tax assets:			
Write-down of land held for resale	¥ 15,257	¥ 6,472	$127,142
Accrued bonuses	3,404	2,642	28,367
Accrued enterprise tax	769	240	6,408
Other	2,676	1,530	22,300
Deferred tax assets	¥ 22,106	¥10,884	$184,217
Non-current:			
Deferred tax assets:			
Employees' retirement benefits	¥ 55,498	¥20,878	$462,483
Unrealized gains on sales of property, plant and equipment	7,503	7,225	62,525
Extraordinary depreciation for property, plant and equipment	30,299		252,492
Other	9,703	3,605	80,858
Deferred tax assets	103,003	31,708	858,358
Deferred tax liabilities:			
Retained earnings appropriated for tax allowable reserves	¥ (2,038)	¥ (2,059)	$ (16,983)
Net unrealized gain on available-for-sale securities	(723)	(1,118)	(6,025)
Other	(119)	(87)	(992)
Deferred tax liabilities	(2,880)	(3,264)	(24,000)
Net deferred tax assets	¥100,123	¥28,444	$834,358

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2003, 2002 and 2001 is as follows:

	2003	2002	2001
Normal effective statutory tax rates	42.0%	42.0%	42.0%
Increase (decrease) in tax rates due to:			
Permanently non-deductible expenses	(0.6)	9.2	6.5
Non-taxable dividend income	0.0	(0.2)	(0.7)
Equity in earnings of associated companies	0.1	(4.6)	(3.0)
Write-down of investments in and advances to associated companies	0.4	(0.7)	(1.2)
Per capita levy	(0.3)	5.4	4.2
Decrease in valuation allowance for deferred tax assets	1.2	(11.8)	
Decrease in deferred tax assets by change of tax rate	(2.0)		
Other — net	0.2	(0.3)	(3.0)
Actual effective tax rates	41.0%	39.0%	44.8%

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 ($26,208 thousand) and ¥1,417 million ($11,808 thousand), respectively, and to increase income taxes-deferred, net unrealized gain on available-for-sale securities and land revaluation difference by ¥3,170 million ($26,417 thousand), ¥18 million ($150 thousand) and ¥1,417 million ($11,808 thousand), respectively, for the year ended March 31, 2003.

13. Research and development costs

Research and development costs charged to income were ¥5,609 million ($46,742 thousand), ¥5,474 million and ¥5,535 million for the years ended March 31, 2003, 2002 and 2001, respectively.

14. Leases

Total lease payments under finance leases that are not deemed to transfer ownership of the leased property to the lessee were ¥4,815 million ($40,125 thousand), ¥4,510 million, and ¥3,949 million for the years ended March 31, 2003, 2002 and 2001, 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, 2003 and 2002 were as follows:

(Lessee)

	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

	Millions of yen			
	2002			
	Buildings and structures	Machinery and equipment	Furniture and fixtures	Total
Acquisition cost	¥8,740	¥896	¥10,110	¥19,746
Accumulated depreciation	2,395	445	5,639	8,479
Net leased property	¥6,345	¥451	¥ 4,471	¥11,267

	Thousands of U.S. dollars			
	2003			
	Buildings and structures	Machinery and equipment	Furniture and fixtures	Total
Acquisition cost	$83,383	$10,892	$77,592	$171,867
Accumulated depreciation	34,941	4,000	40,617	79,558
Net leased property	$48,442	$ 6,892	$36,975	$ 92,309

Obligations under such finance leases as of March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Due within one year	¥ 4,561	¥ 4,255	$38,009
Due after one year	6,516	7,012	54,300
Total	¥11,077	¥11,267	$92,309

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 income, computed by the straight-line method, respectively.
Obligations and future rental income under non-cancellable operating leases as of March 31, 2003 and 2002 were as follows:

(Lessee)

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Due within one year	¥ 25,456	¥ 21,835	$ 212,133
Due after one year	313,820	252,757	2,615,167
Total	¥339,276	¥274,592	$2,827,300

(Lessor)

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Due within one year	¥ 19,290	¥ 15,099	$ 160,750
Due after one year	269,724	204,420	2,247,700
Total	¥289,014	¥219,519	$2,408,450

15. 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, 2003, the Group did not have any derivative contracts outstanding.

16. Contingencies

At March 31, 2003, contingent liabilities for notes endorsed with recourse and loans guaranteed in the ordinary course of business amounted to ¥1,483 million ($12,358 thousand) and ¥80,033 million ($666,942 thousand), respectively. Included in loans guaranteed were customers' housing loans from banks in the amount of ¥77,870 million ($648,917 thousand).

17. 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.

18. Subsequent event

The following appropriations of retained earnings at March 31, 2003 were approved at the Company's shareholders' meeting held on June 27, 2003:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥10.0 ($0.08) per share	¥5,503	$45,858

Independent auditors' report

Daiwa House Industry Co., Ltd. and Subsidiaries

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Deloitte Touche Tohmatsu

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, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2003, 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, procedures and practices generally accepted and applied 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, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2003, in conformity with accounting principles and practices generally accepted in Japan.

As discussed in Note 2, 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 3, the Company and certain subsidiaries changed its method of accounting for liability for employees' retirement benefits as of March 31, 2003, and the actuarial loss, which previously would be 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.

Deloitte Touche Tohmatsu

June 27, 2003

Source and photo caption

Source

P1	Economic and Social Research Institute, Cabinet Office, Government of Japan/Annual Report of National Accounts
P13	Ministry of Finance/Annual report on corporate statistics Development Bank of Japan/Handbook of Industrial Financial Data 2002
P14	Ministry of Land, Infrastructure and Transport/Statistics on Building Construction Started
P15	Housing Policy Division, Housing Bureau, Ministry of Land, Infrastructure and Transport/Housing Industry Data; FY2002 Yearbook Notes: 1. Floor space per housing unit (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)
P28-30	Ministry of Land, Infrastructure and Transport/Statistics on Building Construction Started
P30	Statistics Bureau, Ministry of Public Management, Home Affairs, Posts and Telecommunications/Statistics on Housing and Land
P33	Ministry of Land, Infrastructure and Transport/Statistics on Building Construction Started; Construction Investment Forecast Ministry of Finance/Annual report on corporate statistics
P37	Home Center Institute/Home Center Directory
P41	Japan Meteorological Agency/Annual report by Japan Meteorological Agency

Explanations of photographs (in cases of multiple number of photos on one page, explanations apply from the left or the top)

P24	I-wish Treview '03/LOC shopping town Kamiita/Minamiawaji Royal Hotel/Royal Home Center Suita/Truck loading at DAIWA LOGISTICS CO., LTD.
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P36	Royal Home Center Chibakita
P37	Royal Home Center Chibakita (left and 2nd from left)/Royal Home Center Tsukaguchi/Royal Home Center Fujisawa/Exterior display space and Home renovation advice corner/Royal Home Center Chibakita
P38	The Okayama Distribution Center (DAIWA LOGISTICS CO., LTD.)/Original curtains (DAIWA RAKUDA INDUSTRY CO., LTD.)/Yamatonoyu Warabi-ten (YAMATONOYU CO., LTD.)
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P41	Central Research Laboratory/Earthquake test table/Environmental simulation lab./Structural testing lab.
P44	D001/The Okayama Neopolis

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

Daiwa House®
group

Printed in Japan

Daiwa House® group

Please give us your views on the English-language version of the 2003 annual report for the Daiwa House group by answering the questions below.

The Daiwa House group publishes an English-language version of its annual report each year for the convenience of overseas investors. The 2002 edition (for the fiscal 2001 business term) placed 12th in the rankings of the Hong Kong magazine CFO Asia in the category of "Best Asian Annual Report," while the Belgian company Enterprise.com ranked it 25 out of 50 in its interim list of annual reports.

We would be grateful if you could give us your views, below, on various aspects of our 2003 Annual Report. The information will be used, in the strictest confidence, to help us produce even better investor information in the future.

1. What was your overall impression of the Daiwa House group 2003 Annual Report?

☐ very good ☐ good ☐ average ☐ poor

2. Please rate the individual sections of the report by ticking one of each set of three boxes.

	Comprehensibility			Investor usefulness		
	Very clear	Average	Unclear	Very useful	Average	Not very useful
Consolidated financial highlights	☐	☐	☐	☐	☐	☐
Group performance highlights	☐	☐	☐	☐	☐	☐
Investor information	☐	☐	☐	☐	☐	☐
Dear shareholders	☐	☐	☐	☐	☐	☐
Message from the president	☐	☐	☐	☐	☐	☐
Report by Executive Managing Director (financial affairs)	☐	☐	☐	☐	☐	☐
Corporate governance	☐	☐	☐	☐	☐	☐
Our business domain	☐	☐	☐	☐	☐	☐
Environmental measures	☐	☐	☐	☐	☐	☐
Research and Development	☐	☐	☐	☐	☐	☐
Group network	☐	☐	☐	☐	☐	☐

3. Please indicate here any particular requests you may have regarding future annual reports.

4. Please indicate your nationality.

Nationality:

Thank you for your cooperation.
We would appreciate it if you would send us your completed form
to the fax number shown below.

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