New Century, New Vision

2001 ANNUAL REPORT

Daiwa House

DAIWA HOUSE INDUSTRY CO., LTD.

Contents

Financial Highlights

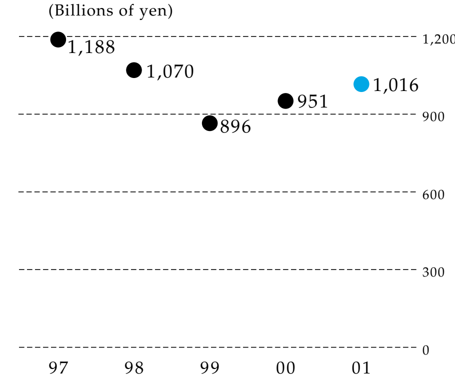
Daiwa House Industry Co., Ltd. and Subsidiaries

Consolidated

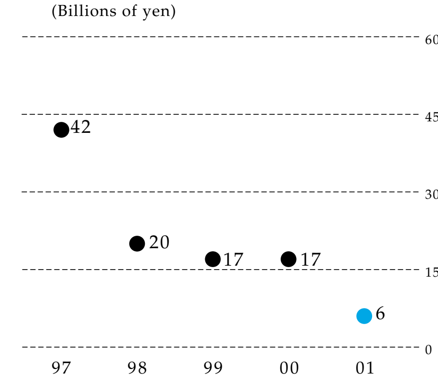
Years ended March 31, 2001, 2000 and 1999	Millions of yen 2001	2000	1999	Thousands of U.S. dollars 2001
Net sales	**¥1,016,237**	¥951,073	¥896,006	**$8,195,460**
Net income	**6,256**	17,450	16,699	**50,452**
Per share of common stock (in yen and dollars):				
Net income	**12.05**	33.52	31.88	**0.10**
Diluted net income		33.50		
Cash dividends applicable to the year	**17.00**	17.00	17.00	**0.14**
Purchases of property, plant and equipment	**19,235**	11,960	47,545	**155,121**
Depreciation and amortization	**20,044**	20,327	18,453	**161,645**
Total assets	**1,066,457**	981,893	950,701	**8,600,460**
Shareholders' equity	**613,867**	617,421	603,060	**4,950,540**

Note: The U.S. dollar amounts represent translations of Japanese yen for convenience only at the approximate exchange rate on March 31, 2001 of ¥124 =U.S.$1.

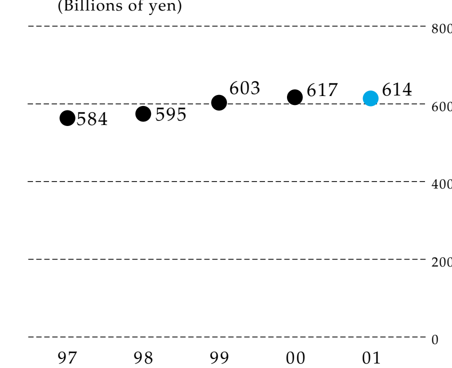
Net sales
(Billions of yen)



Net income
(Billions of yen)



Shareholders' equity
(Billions of yen)

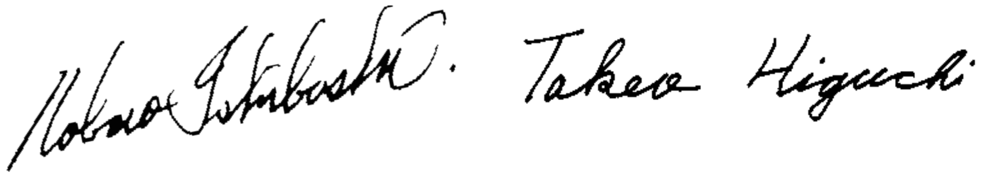


Forward-Looking Statements:
Statements contained in this report concerning plans, predictions, and strategies to improve future performance ("forward-looking statements") are based information currently available to the Company's management, and inevitably involve a certain element of risk and uncertainty.

To our shareholders

Nobuo Ishibashi
Senior Adviser

Takeo Higuchi
President



Ever since its establishment in 1955, Daiwa House Industry Co., Ltd. has adopted "the industrialization of construction" as its corporate mission. Prefabrication methods enable the speedier provision of high-quality housing, and by becoming the first company in Japan to enter this field, Daiwa House has played an invaluable role in the supply of housing. The Company has broadened its sphere of operations to include not only its core business of housing, but also the construction of commercial buildings such as retail outlets and offices, as well as other businesses such as our resort and home center operations. With 32 consolidated subsidiaries as of March 31, 2001, the Daiwa House Group has effectively realized its long-cherished dream of becoming a comprehensive housing enterprise.

In April 2001 we effected a merger with our equity-method affiliate, Daiwa Danchi Co., Ltd., which possesses strengths in both wooden houses and condominium buildings. This merger will facilitate the effective apportionment of management resources and the reinforcement of corporate governance. Moreover, by optimally leveraging the synergy that will result from this merger in the areas of marketing, product development, and service, we are confident of raising our position in the industry and our competitiveness still further, thereby meeting the expectations of our shareholders.

In the business term under review, ended March 31, 2001, net sales on a consolidated basis came to ¥1,016.2 billion (US$8,195 million), up 6.9% year-on-year, but net income declined 64.1% to ¥6,256 million (US$50 million), owing to an additional provision to the reserve for employees' prior service obligations resulting from a change in pension accounting standards.

The Daiwa House Group will continue to pursue its policies of living in harmony with the environment and responding promptly to the changing needs of the times.

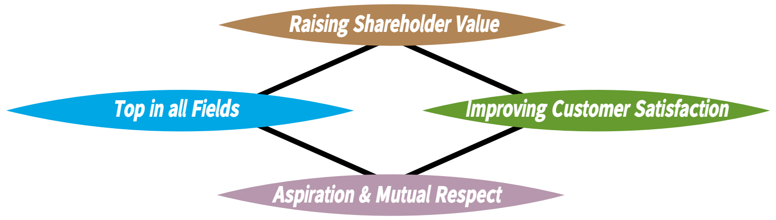
Message from the president

Speed & Truthfulness

I believe that the principal concepts that will dominate the business world in the 21st century are "speed" and "innovation." Based on this belief, I am placing top management priority on speed in all aspects of our business, including decision making, asset turnover, and construction time. At the same time, I am emphasizing the necessity for the truthful and transparent conduct of management, in which realistic goals are set and the utmost efforts are made to attain them. By shedding conventional ways of thought and basing managerial decisions on data fresh from the marketing front line, we aim to create a new-look Daiwa House management that can give precise, numerical replies to any question about business performance. To help thoroughly imbue our management style with an understanding of the overriding importance of speed and profitability, from fiscal 2001 we have reduced the term of office of directors from 2 years to one.

Moreover, with the start of the new century, Japanese industry is entering the full-scale age of consolidated accounting. In response, from April 2001, Daiwa House established a Consolidated Management Supervision Department, under the direct control of the Company's president, to strengthen the group's financial position and ensure strict risk management.

I have drawn up the four goals detailed below and am aiming to realize non-consolidated sales and operating income of ¥1,300 billion and ¥90 billion, and consolidated sales and operating income of ¥1,420 billion and ¥99 billion, respectively, in fiscal 2003.



Goal 1

Raising Shareholder Value

The first goal is to remold Daiwa House's corporate structure in a more profit-oriented direction, using the two principal tools of expansion of orders received and reduction of expenses. In short, we will set out clear, realizable numerical targets and achieve them without fail. Specifically, our short-term targets are as follows.

For the current term we are targeting ¥1,130 billion in net sales and ¥19 billion in net income on a non-consolidated basis, and a ratio of gross profit to net sales on a consolidated basis of 22.0%. For fiscal 2003, the net income target on a non-consolidated basis is ¥50 billion, and the target on a consolidated basis is ¥54.4 billion, with a per-share dividend of ¥20. By fiscal 2004, we intend to repay all interest-bearing debt, which has swollen to ¥134 billion as a result of the recent merger with Daiwa Danchi, and establish the Company's management on a debt-free basis.

The Company's overall goal for fiscal 2003 is to become the leading enterprise in every business field in which it is engaged. We aim to attain this goal by meeting the following sales targets (on a non-consolidated basis): Total Residential operations sales of ¥880 billion, broken down into ¥510 billion for single-family houses, ¥220 billion for low-rise apartment buildings, and ¥150 billion for condominium buildings; Commercial buildings operations sales of ¥300 billion; Resort operations sales of ¥63 billion; and Home center operations sales of ¥57 billion. I intend to exert my full efforts to maximize shareholder value by rapidly achieving improved business performance and higher share prices, and by pursuing profit-focused management.

Goal 2

Top in all Fields

The second goal is to be the leading company in each business field in which Daiwa House is engaged. In our mainstay sector of housing, new housing starts are expected to decline to around 800,000 within the next ten years. However, Daiwa House will do its utmost to obtain a 10% share of that market. Looking at the example of other industries, there is every reason to believe that Daiwa House has sufficient potential for expansion. To help attain our sales target of ¥1,300 billion per annum on a non-consolidated basis, we plan to expand our nationwide network of sales offices to 90 three years from now.

The expansion of orders received depends on three key factors – marketing capability, product development capability, and quality of service. Thanks to the merger with Daiwa Danchi, we now possess the largest sales force in the industry, and we plan to make full use of this in further strengthening our system of marketing closely tailored to the particular needs of each region. We moved our marketing headquarters to Tokyo last year to reinforce our marketing system in the Kanto region, Japan's largest housing market. In July this year, we set up 8 regional sales subsidiaries across the country to further bolster our marketing network. From here onward, to provide support to this expanded marketing system from the product supply side, we will be directing the main thrust of our efforts into speeding up the supply of products to the market by shortening construction times and raising the ratio of products prefabricated in our factories.

Turning to product development, the Company's strong point, we further refined our unique technological know-how to develop the first prefabricated house in Japan utilizing earthquake vibration-dampening technology. This new product, launched in April this year, has helped to raise our competitive superiority over our rivals still further.

In addition, we have ascertained that the house market is polarizing into two separate trends. First-time home buyers give preference to houses with superior cost-performance, while older home owners who wish to have their existing houses demolished and replaced show a preference for high-quality houses. We have therefore expanded our product lineup to meet these needs. We have also stationed specialist staff members in charge of house design at all our showrooms, thereby bolstering our ability to make design proposals to prospective customers.

Targeting
10% share
in new housing starts

Meanwhile, in the field of condominium buildings, which is the specialty of the former Daiwa Danchi Co., Ltd., now part of Daiwa House Industry, we are looking forward to enjoying the benefits of the merger at an early date. If the marketing know-how of Daiwa Danchi can be combined with Daiwa House's extensive data collection capability and financial resources, there is no reason why the Company could not double its sales of condominium buildings over the next 5 years.

We are also planning to increase the number of marketing offices and staff in non-housing operations such as commercial buildings and the home center business.

Goal 3

Improving Customer Satisfaction

Recognizing that improved customer satisfaction is the key to business success, we have positioned it as a top management priority. Through the pursuit of this policy, we aim to raise the proportion of new customers introduced to us by existing customers from the current 40% to 70%. As means of improving customer satisfaction, we have established a flexible and fast-acting after-sales service system, have set up 24-hour customer advice centers, and have started a house spot-check service that customers can utilize for up to 40 years after construction under the Company's unique long-term guarantee system, called the 21st Century Support System.

In addition to the superior abilities that Daiwa House possesses in marketing, product development, and construction technology, the Company is also making use of its high-quality services to secure a high success rate in competition for orders from small-scale builders in provincial regions of Japan.

We regard one-to-one communication with customers utilizing information technology as a crucial factor in achieving the desired level of customer satisfaction. In February of 2001, we set up a new home planning consultation page on our main website, and then in June of the same year we set up a separate, specialist website for buyers of our single-family houses. In these ways, we are catering to the wide variety of housing-related needs, including new-house buying, renovation, and complete demolition-and-rebuilding work.

In addition, we have been developing housing that incorporates information technology. This ground-breaking technology allows home owners to use their mobile phones as remote control devices for locking or unlocking the door, or for switching on/off or adjusting electric appliances when not at home.

Meanwhile, amid ever-growing concern over environmental issues, Daiwa House takes its responsibilities as a corporate citizen very seriously. We have drawn up a Voluntary Environment Action Plan, under which we have set environmental targets to be attained over a 5-year period starting from 2000. The specific targets set under the plan range over a wide field including reduction of greenhouse gas emissions and the promotion of energy conservation. In June this year we acquired ISO 14001 environmental management systems certification for all our factories, and we aim to reduce emissions of harmful substances to zero by fiscal 2005. Moreover, over the next 2-3 years, we plan to install in-house power generation facilities utilizing "clean energy" fuels at all our factories, hotels, and home centers. This will enable considerable cost savings.

Targeting
70%
ratio
for customer referrals

Goal 4

Aspiration & Mutual Respect

Our policy is to ensure that Daiwa House is not only an organization dedicated to successfully competing in the markets, but is also the stage on which its employees can realize their aspirations.

The management of Daiwa House believes that, by applying the practical knowledge gained at various work sites, the Company's staff can overcome any difficulties. With this in mind, we ensure that all foremen, section leaders, branch managers and other employees placed in command over subordinates are fully aware of their responsibilities as individuals. They are required to show the essential qualities of leadership, including fairness and a realistic assessment of their own and their subordinates' capabilities, and the ability to fire their staff's imaginations with a concrete vision of the Company's future.

We encourage all our employees to frankly discuss their work with their colleagues and superiors, thereby creating a working environment that is both friendly and efficient. Daiwa House's traditional corporate spirit of tackling any challenge without fear of failure is now more essential than ever before. By creating a corporate environment in which our employees are happy to work, and which provides each of them with motivation and the opportunity to display their abilities to the maximum, Daiwa House is confident of emerging as one of the survivors from the current period of intense competition.

In conclusion, I would like to affirm that the Company is actively tackling the task of building a corporate structure that will receive high marks from our shareholders. We will keep shareholders and investors thoroughly informed of developments through all forms of conventional public relations media in addition to our websites and the holding of small meetings with analysts. In this way, we will maintain our policy of prompt disclosure of all important management information.

Board of directors

Nobuo Ishibashi*
Senior Adviser

Takeo Higuchi*
President

Sadao Yoshii*
Executive Vice President

Tamio Ishibashi*
Executive Vice President

Moritsugu Kawai*
Executive Vice President

Mitsuo Funatsu
Executive Managing Director

Kenji Murakami
Executive Managing Director

Takuya Ishibashi
Executive Managing Director

Kimitaka Komatsu
Managing Director

Hiroshi Azuma
Managing Director

Mutsuo Kajimoto
Managing Director

Jiro Torio
Managing Director

Takeshi Kajimoto
Managing Director

Tetsuji Ogawa
Managing Director

Yuzo Kawahara
Managing Director

*Representative Director

Directors Toru Nakanishi, Masanori Nishio, Munemitsu Kimura, Isao Kusunoki, Naotake Ohno, Tsuyoshi Natsume, Tadashi Murakaku, Isao Miyashita, Takashi Uzui, Shigeo Ohtsuka, Nobuyasu Ishibashi, Takeshi Togo

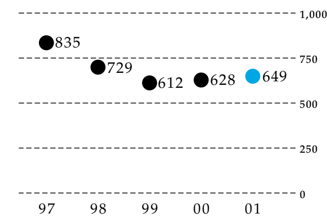
Corporate Auditors Kohei Nakabo, Hiromasa Kobayashi, Toshihiko Emi, Hidetoshi Kawaguchi

(As of June 28, 2001)

Overview of operations

□Share of sales

□Residential operations
(Billions of yen)



Residential operations

- Construction and sale of single-family houses, apartment houses, condominiums, etc.
- Development and sale of residential land
- Real estate agent
- Management of apartments
- Manufacture and sale of housing-related equipment

Residential operations 63.8%

Commercial buildings operations 24.3%

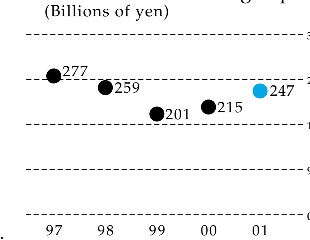
Resort operations 4.3%

Other operations 7.6%

Commercial buildings operations

- Construction of distribution centers, stores, office buildings, factories, etc.
- Sale of land for commercial use
- Leasing of temporary structures
- Leasing of stores, offices, etc.

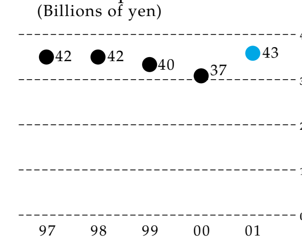
□Commercial buildings operations
(Billions of yen)



Resort operations

- Management of hotels and golf courses

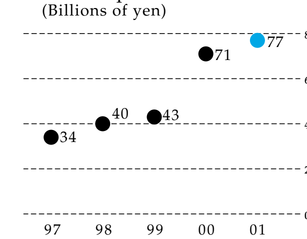
□Resort operations
(Billions of yen)



Other operations

- Home Center operations; sale of resort condominiums and land for villas; construction of villas; others

□Other operations
(Billions of yen)



Overview of operations

Residential operations

Business review

D001
High-quality 2-story house with tiled exterior walls, giving a feeling of solidity

Residential operations, which are the main strength of the Daiwa House Group, involve everything from the construction of single-family houses, rental apartment buildings and condominiums to the development of residential areas, and increasingly in recent years, reconstruction work. New products are being focused on, including ecological housing that employs solar energy, 3-story dwellings that make the most effective use of limited urban land, and housing that encourages residents to create roof-top gardens and plant other greenery. Other housing products on the market include those that are suited to both first-time buyers and to the demand for rebuilding. In a positive response to the Housing Quality Assurance Act, introduced on April 1, 2000, Daiwa House inaugurated its 21st Century Support System, and set up a toll-free telephone service to help customers on a 24-hour-a-day basis with the goal of becoming the industry leader in the field of quality assurance.

Tasks ahead

The merger with Daiwa Danchi Co., Ltd. brought approximately 5,300 new salesmen and saleswomen to Daiwa, making it the largest company in the industry. In addition to expanding its market shares in the housing industry, Daiwa House enhanced its post-construction customer care. In April 2001, the Company applied a system for monitoring rental apartment buildings for 40 years after construction, as well as a free asset management support services for owners of rental apartment buildings. Daiwa House aims to become a valuable lifelong partner for its customers, and every effort is being made to respond to customer needs in matters such as future housing renovation and rebuilding.

Through the merger, Daiwa House is enhancing its place in the market by using the expertise of Daiwa Danchi in condominium sales as well as its own strengths in making the best use of information and its strong financial position. The Company aims to increase its net sales to ¥200 billion by fiscal 2005 on a non-consolidated basis. This is approximately twice the total output of the two companies before the merger.

Group companies

The Daiwa House Group works together as a team to help clients buy, rent, build, and sell housing. DaiwaService Co., Ltd. has built an excellent reputation in the field of condominium management, and DaiwaLiving Co., Ltd. provides comprehensive support to clients managing small apartment buildings. In addition, the Group includes real estate intermediary companies that provide comprehensive backup services for people moving house, either to rental accommodation or to newly purchased housing.

We will also cooperate with the Daiwa General Research Institute Co., Ltd., which became an independent corporate body in April 2001, to develop proprietary technology for application to the construction of housing which uses information technology.

Sales of residential operations (Billions of yen)

	97	98	99	00	01
Single-family houses	483	406	340	358	361
Multi-family houses	229	215	186	186	176
Others	123	109	86	85	112
Total	835	729	612	628	649

Royal Court Toyonaka
An 11-story condominium building in Toyonaka, a bed town of Osaka (4 wings, 465 condominiums)

Séjour Willmore
A cost-effective 2-story steel-frame rental apartment house with a classy look

Overview of operations

Commercial buildings operations

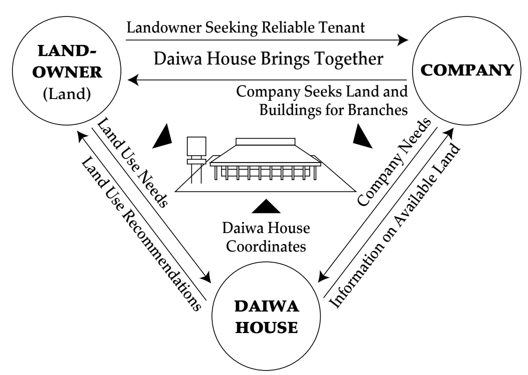
Business review

Across Tamasakai

A large-scale shopping mall of approximately 34,000 square meters in area, constructed to take advantage of the district's potential as major shopping center

The Daiwa House LOC System (Land Owner Company System) ties together the needs of land owners, who wish to make effective use of real estate, and companies that want to secure new bases for business operations. We have already constructed some 22,000 retail stores under this system. We have further enhances our strong points — the prompt delivery of low-cost, high quality products — and have been working on projects with large-scale retail complexes and popular chain stores like Uniqlo and McDonald's. We also leverage our extensive know-how and proprietary technology to offer a comprehensive service from planning to construction for office buildings, stores, factories, warehouses, and facilities for education and nursing care.

Daiwa House LOC System



Tasks ahead

Daiwa House's LOC System was the first business of its kind to be launched in Japan, and its proven achievements and recognized reliability promise strong growth. In the near future, to complement our existing operations in the field of large-scale retail outlets in suburban locations, which is becoming a mature market, we intend to bolster marketing efforts targeted at companies looking to make more effective use of their assets, such as idle land. We will also be focusing efforts on the expansion and renovation of existing buildings constructed under the LOC System.

We are also putting our energies into the construction of medical and care facilities for seniors, in view of the expected increased nationwide demand for these facilities with the introduction of the nursing care insurance system last year. With the expertise that it has built up thus far, the Company hopes to accept more orders in the near future for the construction of facilities like its group home for seniors with diminished awareness, Daiwa Calm 21, the design of which is based on research by the Daiwa House Silver Age Research Center as well as the appearance of new construction techniques.

In recent years, increasing attention is being given to HACCP (Hazard Analysis and Critical Control Point) certification for food processing facilities. Aiming to comply with this new system and to respond to the increasing severity of food safety standards, the Company has been improving its system for offering total support for everything from making inspections, drafting plans, and constructing factories, to acquiring HACCP certification. By these means, we are aiming at sales by the Commercial buildings operations of ¥300 billion in fiscal 2003.

Group companies

Daiwa Kosho Lease Co., Ltd. has developed a nationwide service for the leasing of products such as prefabricated buildings and automobiles. LOC Development Co., Ltd. has tied up with the major supermarket chain, Jusco Co., Ltd., and has been engaged in projects such as the development and operation of shopping centers in over 20 locations around Japan. Daiwa Information Service Co., Ltd. promotes the effective use of land, and DaiwaRoyal Co., Ltd. provides services under the name of Roynet Hotels, an example of the effective use of land. The Daiwa General Research Institute Co., Ltd. has also been assisting in this work by researching universal designs.

Shirasagi Care Center

Containing a clinic, this facility for the elderly in Tokyo's Adachi Ward offers a comprehensive care service.

HACCP-compliant food processing plant

This plant, for food for convenience stores, is designed to facilitate easy future expansion without halting operations.

Overview of operations

Resort operations

Tosa Royal Hotel

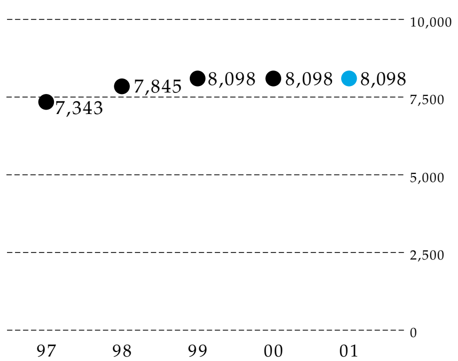
Featuring Japan's first open-air hot spring baths employing deep-sea water

Business review

Daiwa House, through its wholly-owned subsidiary, DaiwaResort Co., Ltd. aims to improve its services in operating and managing resort hotels in 30 locations all over Japan by actively promoting improvements and renovations of facilities for the safety and comfort of guests. The offer of reservations services over the Internet and intranets of customer companies as well as travel packages that include lodging fees and return airfare has contributed to a steady increase in guest room use. DaiwaResort has also made efforts to increase revenues from peripheral businesses by selling such unique products as deep sea mineral water.

Daiwa Royal Hotel number of guest rooms

(Rooms)



The Sky Observatory Dome at the Yatsugatake Royal Hotel

Tasks ahead

DaiwaResort has embarked on the plans to highlight the characteristics of the areas around each hotel, such as installing an observatory and Japan's first deep sea water public baths, in addition to offering day-trip plans that include both a dip in the hot springs and the cost of a sumptuous meal, thus increasing the attractiveness of the hotels to potential guests. The company plans to continue into the current term and beyond with its policy of actively promoting the introduction of "clean energy," which will also be effective in reducing electricity costs. To accomplish this, it will install power generation systems in its hotels that utilize energy sources that place less burden on the environment, such as wind power generation or cogeneration (the simultaneous generation of electric and thermal energy).

The company has started a variety of new projects, including one to sell bottled mineral water that has been extracted from the depths of the ocean. We expect that it will be able to sell 5 million bottles of this deep sea drinking water annually in the facilities associated with the Daiwa Royal Hotels chain and the Royal Home Center, and plans are to eventually sell it at a large-volume retail outlet. Besides this venture, we are also putting energy into the development and sale of unique food products, based on local specialties from the areas where Royal Hotels are located. Plans are to have stores sell as many as 300 varieties of these products by the end of the year. Daiwa House aims to bring its resort operations into the black within 3 years by increasing guest room occupancy and raising its revenues from sources besides lodging fees and the expansion of product sales.

Following its merger with Daiwa Danchi, Daiwa House now operates a total of 10 golf courses throughout Japan, including the 6 golf courses that were already being operated by the subsidiaries of the former Daiwa Danchi. Daiwa House also took over the operations of the suburban leisure facility Termas Plaza, which incorporates swimming pools and hot springs baths.

Termas Plaza

Suburban-type leisure facility with heated swimming pools open year around and hot springs baths that promote good health.

Cypre's Country Club

This beautiful golf course is located in a part of Nara Prefecture that is said to be the birthplace of the Japanese nation.

Overview of operations

Other operations

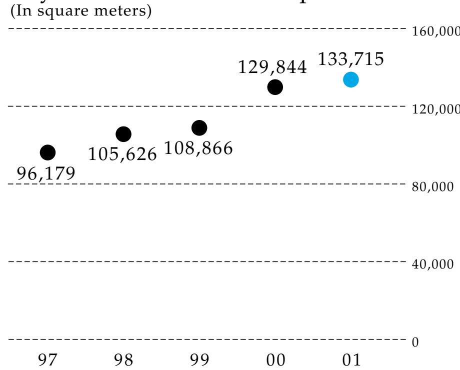
Royal Home Center Sagamihara-Hashimoto

Our 36th large-scale home center, with a product range focusing on DIY goods, interior goods, and gardening goods

Business review

Other operations center on home centers, which sell DIY goods and so on. In addition, this segment includes Daiwa Rakuda Industry Co., Ltd. which manufactures and sells construction materials, Daiwa Logistics Co., Ltd., a distributor of construction materials, and Shinwa Agency Co., Ltd., an advertising agency. Daiwa House has expanded its business into Internet sales and has opened 2 new home centers, giving it a total of 36 home centers located all over Japan. Among these, the Sagamihara-Hashimoto Home Center, which was opened in Kanagawa Prefecture in December last year (floor space area of approximately 7,700 m^2) is a large-scale home center complex which incorporates model home gardens of approximately 1,350 m^2. In establishing this home center, the Company made the best use of its expertise in the manufacture of housing by adopting the new concept of meeting all possible customer needs by providing staff who are trained to offer advice concerning home-related matters.

Royal Home Center floor space
(In square meters)



Tasks ahead

Home center operations are facing a period of intense competition. Daiwa House is developing a variety of measures to differentiate itself from others in the industry, including the expansion of services and products with its own brand name as well as the hosting of various events and activities based in local communities. A unique feature of Royal Home Centers, and one which attracts new customers, is the "workshops" where customers can enjoy engaging themselves in a variety of creative activities. The Company is making efforts to enhance its profitability through an active program of renovating unprofitable stores and improving product selection and display. As a key player in the housing manufacturing industry, with a broad network encompassing approximately 5,000 tie-up construction firms all over Japan, Daiwa House has plans to use its expertise to increase the numbers of orders received for building renovations, expand sales of related products, and attain net sales of ¥57 billion by fiscal 2003.

The Daiwa House Group also acquired Daiwa Technica Co., Ltd., which carries out the development, manufacture, and sale of bathroom fixtures like the "AQAPRO" brand for use in single-family houses, condominiums and apartments, and Jukeikai Co., Ltd., which cooperates with nearby hospitals in operating the "Neo Summit Yugawara" senior citizens' home, which is run on a fee basis and offers residents comfort and ease.

Model home garden, in Royal Home Center Sagamihara Hashimoto

incorporating geteway and front drive.

Distribution Center

This logistics base for the Northern Kanto region operations of Daiwa Logistics Co., Ltd. provides a comprehensive service.

Happy Life Camel Shop

This Daiwa Rakuda Industry Co., Ltd. outlet provides advice by qualified interior decorators, and also undertakes home renovation work.

Environmental measures

At Daiwa House, the protection of the environment is a matter of the greatest priority. Daiwa House aims to use its Voluntary Environment Action Plan to ensure that the whole range of its corporate activities places as little burden as possible on the environment.

Operations-related measures

Daiwa House will continue to conduct prior assessments of environmental impact at every stage of operations so as to both minimize the effects of its activities on the environment and prevent pollution.

In order to make effective use of resources and achieve zero emissions of harmful substances by fiscal 2005, the Company will cut back on and recycle the packing and other materials it utilizes at its factories and construction sites. The Company has addressed the suppression of environmental pollutants by reducing the quantities of chemical substances, such as lead compounds, toluene, and xylene, used at and emitted from its factories. It has also been proactive in its use of natural sources of energy, and it plans to increase, to 10 locations or more, the number of wind power generator systems (*1) operating in its hotels throughout Japan, eventually meeting approximately 30% of the energy consumption needs of these hotels with the use of natural energy resources.

Product-related measures

Daiwa House incorporates environmental considerations into its designs in order to reduce consumption of fossil fuels, make more use of the bounties of nature and thereby offer products that place less burden on the environment.

The Company is tackling the issues of preventing global warming and protecting the natural environment from every possible angle. More specifically, it has created well-insulated housing that decreases the levels of carbon dioxide emissions to one-third of the general energy conservation housing standards (*2). It has also set up cogeneration systems to provide electricity to condominiums (*3) and developed not only four types of solar energy generating systems but also a rainwater recycling system.

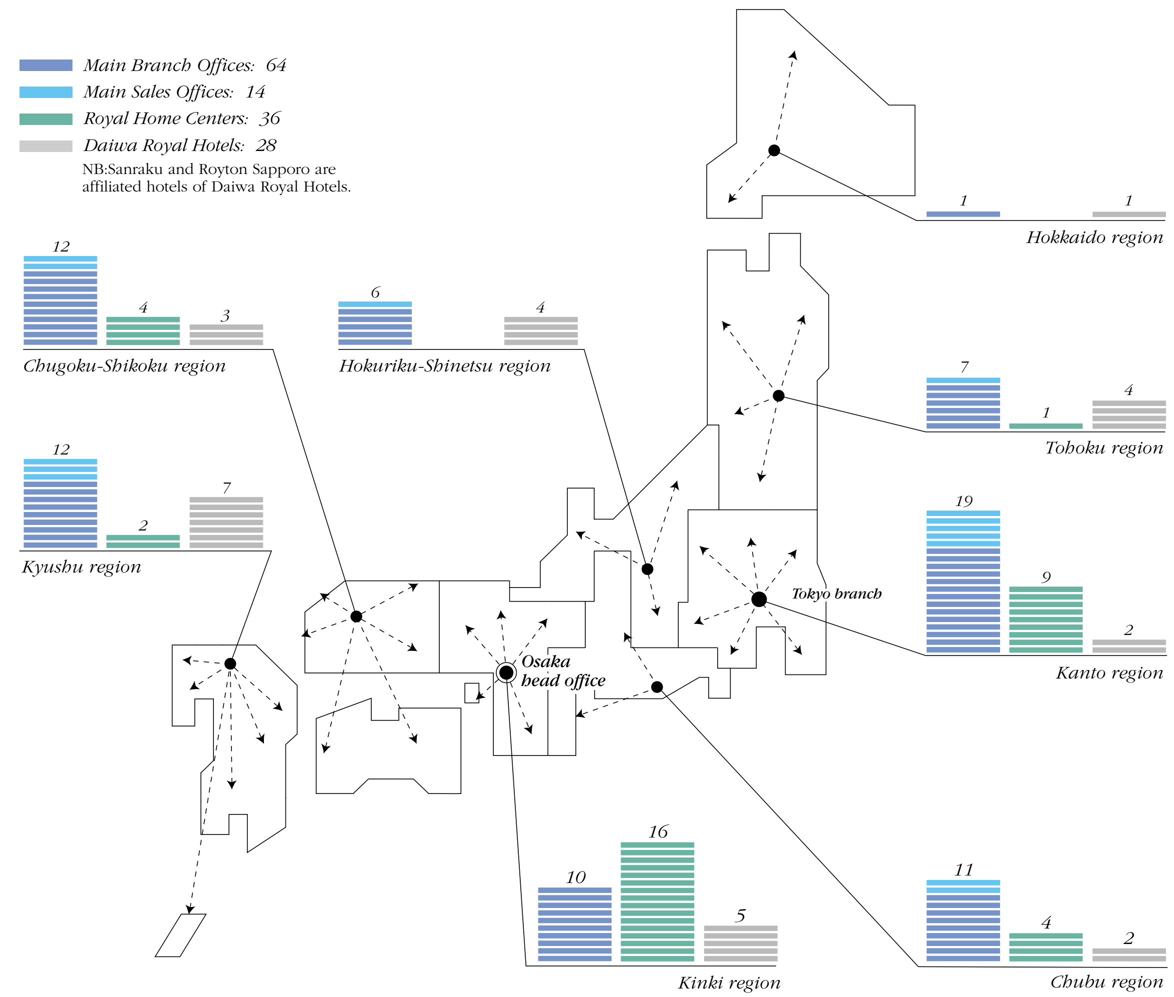
Further, in an effort to combat the issue of volatile organic compounds (VOC), said to be the cause of the "sick house syndrome," the Company has pledged to use construction materials that contain the smallest levels possible of formaldehyde and other substances harmful to human beings.

*1: A wind power system that generates up to 600kw of electricity is in operation at the Okinawa Zanpamisaki Royal Hotel (1 generator) and the Noto Royal Hotel (2 generators).
*2: General energy conservation standards for housing laid down by the Housing Loan Corporation
*3: Introduction of Japan's first system at the Royal Court Ohyachi Station in Sapporo City, Hokkaido

Okinawa Zanpamisaki Royal Hotel has cut its electricity bills by around 15% through the use of in-house wind-powered generation facilities.

The roof of the offices at the Company's Mie Plant is covered with 360 solar panels with 167W modules.

Domestic network



(As of April 1, 2001)

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Fax: (06) 6342-1591
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Tokyo 102-8112
Phone: (03) 5214-2115
Fax: (03) 5214-2129

Nagoya office
20-22, 1-chome, Aoi, Naka-ku, Nagoya 460-8491
Phone: (052) 933-2703
Fax: (052) 933-4484

Branch offices
Sapporo, Aomori, Iwate, Sendai, Akita, Yamagata, Fukushima, Ibaraki, Tsukuba, Utsunomiya, Gunma, Saitama, Kawagoe, Chiba, Funabashi, Kashiwa, Tama, Musashino, Yokohama, Kanagawa-Chuo, Atsugi, Nagano, Niigata, Toyama, Kanazawa, Fukui, Gifu, Shizuoka, Hamamatsu, Numazu, Nagoya, Okazaki, Aichi-Kita, Mie, Yokkaichi, Shiga, Kyoto, Sakai, Osaka-Chuo, Hokusetsu, Nara, Wakayama, Kobe, Hanshin, Himeji, San-in, Okayama, Kurashiki, Hiroshima, Fukuyama, Yamaguchi, Tokushima, Takamatsu, Ehime, Kochi, Fukuoka, Kitakyushu, Kurume, Saga, Nagasaki, Kumamoto, Oita, Miyazaki, Kagoshima and 116 other offices.

Plants
Sapporo, Tohoku, Ryugasaki, Tochigi-Ninomiya, Niigata, Chubu, Mie, Sakai, Nara, Okayama, Shikoku, Kyushu, Kyushu No.2

Financial section

Daiwa House Industry Co., Ltd. & Subsidiaries

Five-year summary

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

Consolidated

	Millions of yen				
Years ended March 31	**2001**	2000	1999	1998	1997
Net sales	**¥1,016,237**	¥ 951,073	¥ 896,006	¥1,069,789	¥1,188,295
Income before income taxes and minority interests	**12,796**	32,123	21,414	48,685	75,601
Net income	**6,256**	17,450	16,699	20,373	42,452
Per share of common stock (in yen):					
Net income	**12.05**	33.52	31.88	38.89	82.76
Diluted net income		33.50		37.91	79.89
Shareholders' equity	**1,182.01**	1,188.63	1,151.12	1,136.55	1,115.04
Purchases of property, plant and equipment	**19,235**	11,960	47,545	28,700	34,133
Property, plant and equipment, less accumulated depreciation	**383,853**	376,489	365,502	346,543	338,166
Total assets	**1,066,457**	981,893	950,701	1,013,072	1,145,944
Shareholders' equity	**613,867**	617,421	603,060	595,429	584,157

Financial review

Operating environment and financial strategy

During the term under review, Japan's economy began to show signs of recovery in terms of private capital investment and consumption of durables, but due to worsening employment conditions, consumer spending has yet to be rescued from its recent slump, and conditions remain severe. Amid these circumstances, the housing industry saw some favorable conditions, with low market interest rates and extended preferential housing tax treatment, but affected by an increasingly cloudy economic outlook, the number of new housing starts fell below the figure for the previous year.

The Company aims to strengthen its financial structure in order to cope with such business conditions. Specifically, we established a consolidated management administration division in April 2001 to devise various measures to strengthen the Company's financial structure. Pressing matters for investigation include optimizing asset management within the Daiwa Housing Group, integrating accounting systems, including those for affiliated companies, and setting up an electronic transaction system among affiliated companies.

The Company is also promoting measures such as examining the effectiveness of investing while following policies designed to firm assets, reducing investments that have little practical effect, and shortening the period for recovering trade notes and accounts receivable.

Results of operations

Net sales

Consolidated net sales for the term to March 31, 2001 increased 6.9% over the previous year to ¥1,016.2 billion (US$8,195.5 million). In a segmental breakdown of comparisons with the previous year, housing industry sales rose 3.3% to ¥651.7 billion, commercial construction sales rose 14.4% to ¥247.8 billion, tourist industry sales rose 16.6% to ¥43.5 billion, and other industry sales rose 1.3% to ¥121.0 billion. Although the number of new housing starts fell below the previous year's figure, sales in the housing sector, which focused on lot subdivisions, grew more than the previous year. The commercial building sector was the main underpinning of the sector's growth.

The sales cost ratio rose 0.7 of a percentage point over the previous year to 78.1%, due to a change in the segment structure of net sales.

Selling, general and administrative expenses rose 6.3%, or ¥10.5 billion, to ¥177.8 billion (US$1,433.7 million), but efforts to curtail expenses brought about positive results, and the ratio to net sales fell 0.1 of a percentage point to 17.5%.

Earnings

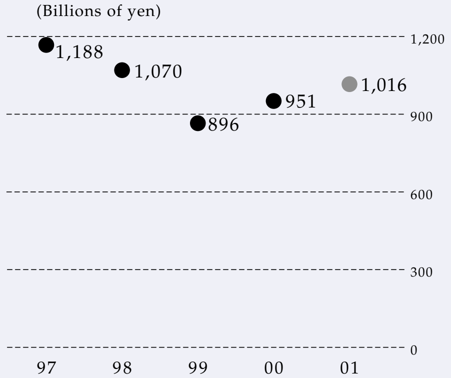
Operating income fell 6.8% from the previous fiscal year to ¥44.3 billion (US$357.2 million), bringing the ratio of operating income to net sales down 0.6 of a percentage point to 4.4%.

In a breakdown of the ratio by major business segments, housing sector sales fell 0.8 of a percentage point from the previous year to 7.2%, whereas commercial building sector sales rose 0.2 of a percentage point to 6.6%, showing that the commercial construction sector made a valuable contribution from the aspect of the operating income ratio as well.

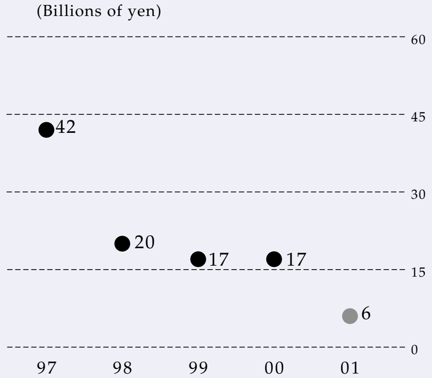
Under other income, appraisal loss on land and buildings for sale amounted to ¥5.3 billion.

Net income for the term under review decreased 64.1% from the previous term to ¥6.3 billion (US$50.5 million). This decline was attributable to one-off expenses for provision to the reserve for employees' retirement benefits resulting from the change in accounting standards: earnings per share stood at ¥12.05 (US$0.10).

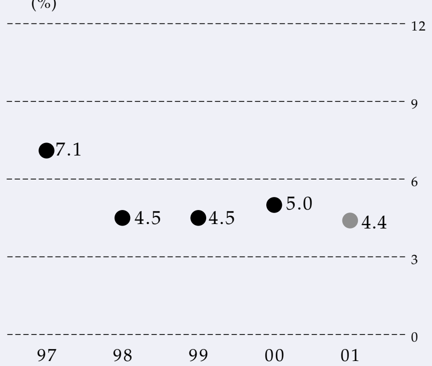
■Net sales
(Billions of yen)



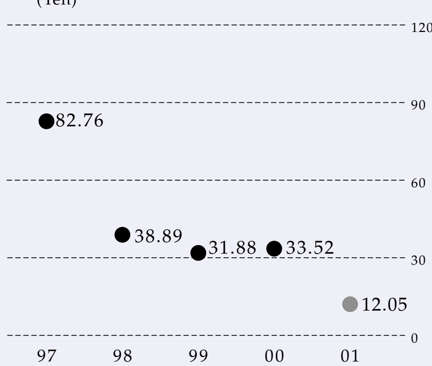
■Net income
(Billions of yen)



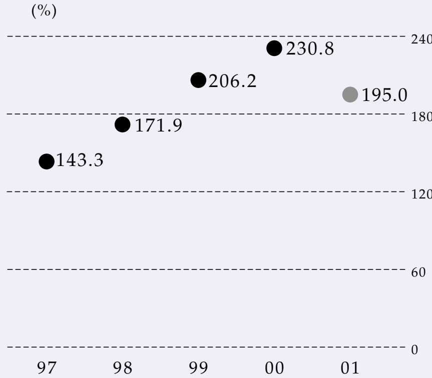
■Operating profit margin
(%)



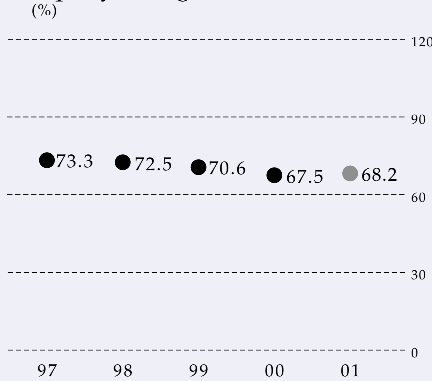
■Net income per share
(Yen)



■Current ratio
(%)



■Fixed assets/shareholders' equity+long-term liabilities
(%)



Liquidity and capital resources

Financial position

Consolidated total assets at the end of fiscal 2000 rose ¥84.6 billion over the previous year, to ¥1,066.5 billion (US$8,600.5 million). Looked at from the asset side, the primary cause of this increase lies in increases in cash and cash equivalents and land and buildings for sale. On the liabilities side, on the other hand, there were large-scale increases in trade notes receivable, construction fees receivable, and trade accounts receivable. This increase was registered because the last day of the fiscal year fell on a holiday. The current ratio fell from 230.8% for the previous fiscal year to 195.0% in fiscal 2000. However, cash and cash equivalents increased ¥32.6 billion to ¥173.2 billion (US$1,396.8 million). Thus, the soundness of the Company's liquidity has been preserved.

On the other hand, property, plant and equipment rose ¥7.4 billion over the previous year, to ¥383.9 billion (US$3,095.6 million). Investments and other assets also increased ¥6.3 billion. However, the ratio of fixed assets to long-term capital was maintained at 70.3%, roughly the same as the 69.6% level of the previous year.

Current liabilities increased ¥72.6 billion from the previous year, to ¥267.3 billion (US$2,155.5 million). The primary cause was a ¥58.6 billion increase in trade notes payable, construction fees payable, and trade accounts payable.

Shareholders' equity decreased ¥3.6 billion from the previous year to ¥613.9 billion (US$4,950.5 million), in line with a decrease in net income. As a result, the shareholders' equity ratio fell 5.3 percentage points to 57.6%. In addition, the return on total assets employed (ROA) fell 1.2 percentage points from the previous year, to 0.6%, and the return on shareholders' equity (ROE) fell 1.9 percentage points to 1.0% in fiscal 2000.

Cash flows

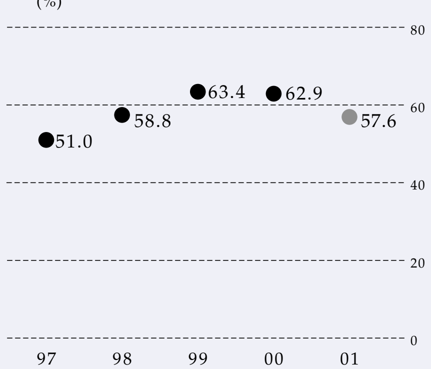
Net cash provided by operating activities rose from ¥40.6 billion in fiscal 1999 to ¥64.1 billion (US$516.7 million) in fiscal 2000. This was due mainly to increases in both procurement liabilities and provision to reserve for retirement benefit obligations, calculated by applying the new accounting standards set for retirement benefits, as well as to expenses for setting up a retirement benefit trust.

Net cash used in investing activities increased to ¥25.3 billion (US$203.8 million), from ¥9.3 billion in the previous year, mostly due to the acquisition of additional property, plant and equipment. The value of the property, plant, and equipment on the balance sheets rose ¥7.4 billion to ¥383.9 billion. Sales of securities were not conducted during the term under review.

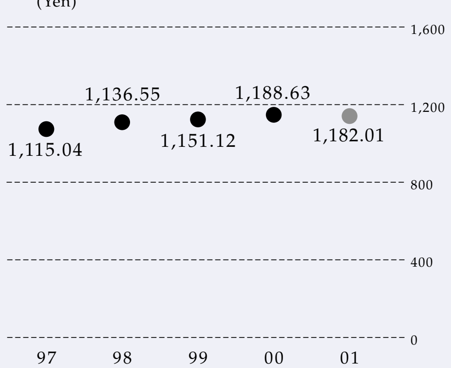
Net cash used in financing activities showed a large-scale decline from ¥41.4 billion in the previous term to ¥6.2 billion (US$50.1 million). This decline was due mainly to the non-repetition of repayment of short-term loans amounting to ¥30.0 billion in the previous term and to the fact that a ¥3.0 billion loan was made in the term under review. The Daiwa House Industry Co., Ltd. paid ¥9.1 billion in dividends during fiscal 2000.

The term-end balance of cash and cash equivalents rose ¥32.6 billion to ¥173.2 billion (US$1,396.8 million).

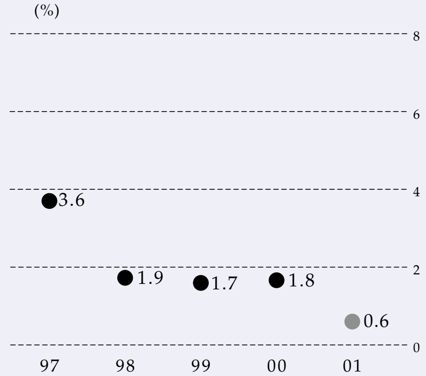
■Shareholders' equity/total assets
(%)



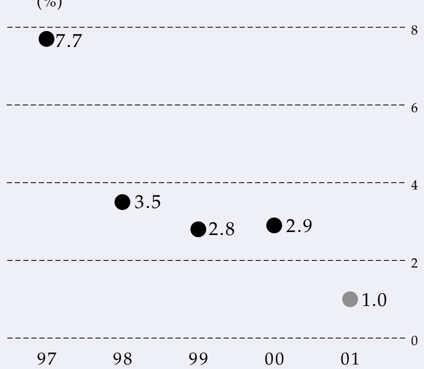
■Shareholders' equity per share
(Yen)



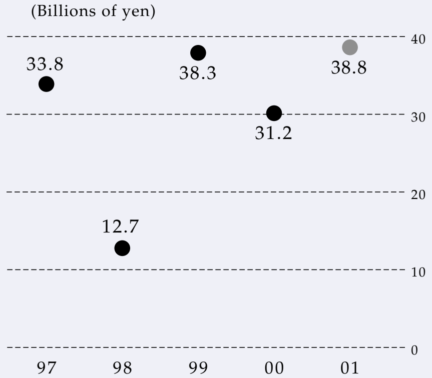
■Return on assets
(%)



■Return on equity
(%)

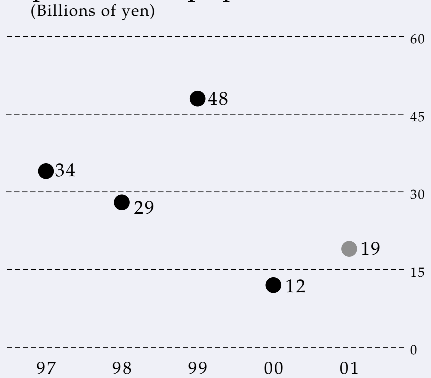


■Free cash flow*
(Billions of yen)



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

■Purchases of property, plant and equipment
(Billions of yen)



Consolidated balance sheets

Daiwa House Industry Co., Ltd. and Subsidiaries March 31, 2001 and 2000

ASSETS	Millions of yen 2001	Millions of yen 2000	Thousands of U.S. dollars (Note 1) 2001
Current assets:			
Cash and cash equivalents	¥ 173,201	¥140,617	$1,396,782
Marketable securities (Note 3)	38		306
Short-term investments (Note 2-d)	3,294	2,173	26,565
Receivables:			
Trade notes	10,042	6,052	80,984
Trade accounts	52,832	50,196	426,056
Allowance for doubtful receivables	(1,758)	(2,150)	(14,177)
Inventories (Note 4)	258,002	229,793	2,080,661
Deferred tax assets (Note 11)	11,907	9,311	96,024
Prepaid expenses and other current assets	13,605	13,274	109,726
Total current assets	521,163	449,266	4,202,927
Property, plant and equipment:			
Land	201,885	187,058	1,628,105
Buildings and structures	305,708	300,667	2,465,389
Machinery and equipment	50,788	49,215	409,581
Furniture and fixtures	34,682	34,266	279,694
Construction in progress	1,310	2,697	10,564
Total	594,373	573,903	4,793,333
Accumulated depreciation	(210,520)	(197,414)	(1,697,744)
Net property, plant and equipment	383,853	376,489	3,095,589
Investments and other assets:			
Investment securities (Note 3)	38,620	54,590	311,452
Investments in and advances to associated companies	36,284	34,700	292,613
Long-term loans	5,824	5,798	46,968
Deferred tax assets (Note 11)	17,894	3,953	144,306
Lease deposits and other assets	64,718	57,360	521,919
Allowance for doubtful accounts	(1,899)	(1,238)	(15,314)
Total investments and other assets	161,441	155,163	1,301,944
Translation adjustments (Note 2-n)		975	
Total	¥1,066,457	¥981,893	$8,600,460

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2001	Millions of yen 2000	Thousands of U.S. dollars (Note 1) 2001
Current liabilities:			
Short-term bank loans (Note 5)	¥ 2,000		$ 16,129
Current portion of long-term debt (Note 5)	2,005		16,169
Payables:			
Trade notes	23,848	¥ 31,434	192,323
Trade accounts	125,955	59,724	1,015,766
Construction	518	1,755	4,177
Deposits received (Note 6)	45,740	41,487	368,871
Income taxes payable	13,201	13,351	106,460
Accrued expenses and other current liabilities	54,013	46,922	435,589
Total current liabilities	267,280	194,673	2,155,484
Long-term liabilities:			
Long-term debt (Note 5)	1,000	2,090	8,065
Liability for employees' retirement benefits (Note 7)	33,575	19,257	270,766
Long-term deposits received (Note 6)	125,494	124,386	1,012,048
Other long-term liabilities	1,786	555	14,403
Total long-term liabilities	161,855	146,288	1,305,282
Minority interests	23,455	23,511	189,154
Commitments and contingent liabilities (Notes 13, 14 and 15)			
Shareholders' equity (Notes 2-n, 5, 8 and 16):			
Common stock, ¥50 par value — authorized, 1,900,000,000 shares; issued and outstanding, 523,893,045 shares in both 2001 and 2000	108,781	108,781	877,266
Additional paid-in capital	122,041	122,041	984,202
Retained earnings	387,594	390,206	3,125,758
Translation adjustments	(927)		(7,476)
Total	617,489	621,028	4,979,750
Treasury stock — at cost	(3,622)	(3,607)	(29,210)
Total shareholders' equity	613,867	617,421	4,950,540
Total	¥1,066,457	¥981,893	$8,600,460

Consolidated statements of income

Daiwa House Industry Co., Ltd. and Subsidiaries   Years ended March 31, 2001, 2000 and 1999

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2001	2000	1999	**2001**
Net sales:				
Construction	**¥ 706,233**	¥714,083	¥697,049	**$5,695,427**
Real estate	**181,845**	122,504	127,286	**1,466,493**
Other	**128,159**	114,486	71,671	**1,033,540**
Total net sales	**1,016,237**	951,073	896,006	**8,195,460**
Cost of sales:				
Construction	**547,757**	543,821	527,383	**4,417,396**
Real estate	**154,361**	108,200	109,021	**1,244,847**
Other	**92,052**	84,289	54,914	**742,354**
Total cost of sales	**794,170**	736,310	691,318	**6,404,597**
Gross profit	**222,067**	214,763	204,688	**1,790,863**
Selling, general and administrative expenses (Note 12)	**177,777**	167,266	164,473	**1,433,686**
Operating income	**44,290**	47,497	40,215	**357,177**
Other income (expenses):				
Interest and dividends	**796**	911	2,002	**6,419**
Interest expense (Note 5)	**(299)**	(434)	(976)	**(2,411)**
Gain (loss) on sales of marketable and investment securities	**(120)**	296	(13,546)	**(968)**
Write-down of marketable and investment securities	**(1,385)**	(44)	(3,349)	**(11,169)**
Write-down of inventories	**(5,291)**	(12,567)		**(42,669)**
Allowance for doubtful accounts	**(342)**	550	(2,397)	**(2,758)**
Amortization of transitional obligation for employees' retirement benefits (Notes 2-h and 7)	**(9,198)**			**(74,177)**
Contribution to employees' retirement benefit trust (Notes 2-h and 7)	**(14,732)**			**(118,806)**
Loss on securities contributed to employees' retirement benefit trust (Note 2-h)	**(266)**			**(2,145)**
Other — net (Note 10)	**(657)**	(4,086)	(535)	**(5,299)**
Other income (expenses) — net	**(31,494)**	(15,374)	(18,801)	**(253,983)**
Income before income taxes and minority interests	**12,796**	32,123	21,414	**103,194**
Income taxes (Note 11):				
Current	**22,268**	18,440	4,652	**179,581**
Deferred	**(16,537)**	(4,426)		**(133,363)**
Total	**5,731**	14,014	4,652	**46,218**
Minority interests in net income of subsidiaries	**(809)**	(659)	(63)	**(6,524)**
Net income	**¥ 6,256**	¥ 17,450	¥ 16,699	**$ 50,452**

	Yen			U.S. dollars
Per share of common stock (Note 2-p):				
Net income	**¥12.05**	¥33.52	¥31.88	**$0.10**
Diluted net income		33.50		
Cash dividends applicable to the year	**17.00**	17.00	17.00	**0.14**

See notes to consolidated financial statements.

Consolidated statements of shareholders' equity

Daiwa House Industry Co., Ltd. and Subsidiaries   Years ended March 31, 2001, 2000 and 1999

	Thousands	Millions of yen			
	Outstanding number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Translation adjustments
Balance, April 1, 1998	523,893	¥108,781	¥122,041	¥364,609	
Net income				16,699	
Cash dividends, ¥17.0 per share				(8,906)	
Bonuses to directors and corporate auditors				(162)	
Balance, March 31, 1999	523,893	108,781	122,041	372,240	
Adjustment of retained earnings for the adoption of deferred tax accounting method				9,253	
Net income				17,450	
Adjustment of retained earnings for removal of associated companies which were accounted for by the equity method				185	
Cash dividends, ¥17.0 per share				(8,867)	
Bonuses to directors and corporate auditors				(55)	
Balance, March 31, 2000	523,893	108,781	122,041	390,206	
Net income				**6,256**	
Cash dividends, ¥17.0 per share				**(8,831)**	
Bonuses to directors and corporate auditors				**(37)**	
Translation adjustments (Note 2-n)					**¥(927)**
Balance, March 31, 2001	**523,893**	**¥108,781**	**¥122,041**	**¥387,594**	**¥(927)**

	Thousands of U.S. dollars (Note 1)			
	Common stock	Additional paid-in capital	Retained earnings	Translation adjustments
Balance, March 31, 2000	$877,266	$984,202	$3,146,823	
Net income			**50,452**	
Cash dividends, $0.14 per share			**(71,218)**	
Bonuses to directors and corporate auditors			**(299)**	
Translation adjustments (Note 2-n)				**$(7,476)**
Balance, March 31, 2001	**$877,266**	**$984,202**	**$3,125,758**	**$(7,476)**

See notes to consolidated financial statements.

Consolidated statements of cash flows

Daiwa House Industry Co., Ltd. and Subsidiaries Years ended March 31, 2001, 2000 and 1999

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2001	2000	1999	2001
Operating activities:				
Income before income taxes and minority interests	¥ 12,796	¥ 32,123	¥ 21,414	$ 103,194
Adjustments to reconcile net income before income taxes and minority interests to net cash provided by operating activities:				
Income taxes — paid	(22,418)	(9,933)	(11,867)	(180,790)
Depreciation and amortization	20,044	20,724	18,453	161,645
Loss (gain) on sales of marketable and investment securities	120	(296)	13,546	968
Write-down of memberships	820			6,613
Write-down of marketable and investment securities	1,385	44	3,349	11,169
Loss on liquidation of associated companies		1,126		
Loss on sales and disposal of property, plant and equipment	543	1,199	728	4,379
Equity in earnings of associated companies	(933)	(752)	(530)	(7,525)
Contribution to employees' retirement benefit trust	14,732			118,806
Provision for employees' retirement benefits, net of payments	14,319	994	(373)	115,476
Changes in certain assets and liabilities:				
Decrease (increase) in receivables	(6,626)	1,219	8,523	(53,435)
Decrease (increase) in inventories	(39,652)	2,515	40,770	(319,774)
Increase (decrease) in payables — trade	63,256	(7,081)	(23,660)	510,129
Increase (decrease) in current deposits received	4,253	(4,344)	(5,672)	34,298
Other — net	1,435	3,036	2,893	11,573
Total adjustments	51,278	8,451	46,160	413,532
Net cash provided by operating activities	64,074	40,574	67,574	516,726
Investing activities:				
Purchases of property, plant and equipment	(19,235)	(11,960)	(47,545)	(155,121)
Purchases of marketable and investment securities	(502)	(514)	(18,604)	(4,048)
Increase in investments in and advances to associated companies	(1,247)	(626)	(1,650)	(10,056)
Proceeds from sales of marketable and investment securities	110	4,385	13,792	887
Proceeds from sales of property, plant and equipment	138	120	9,200	1,113
Decrease in investments in and advances to associated companies			800	
Decrease in long-term loans			17,931	
Increase in lease deposits	(3,342)	(807)	(1,911)	(26,952)
Net decrease (increase) in other assets	(1,195)	62	(1,334)	(9,638)
Net cash used in investing activities	(25,273)	(9,340)	(29,321)	(203,815)
Financing activities:				
Net decrease in commercial paper			(30,000)	
Net increase (decrease) in short-term bank loans	2,000	(30,000)	(8,315)	16,129
Increase in long-term debt	1,000			8,065
Repayments of long-term debt	(85)	(360)	(450)	(685)
Purchases of treasury stock	(15)	(1,914)		(121)
Dividends paid	(9,117)	(9,169)	(8,906)	(73,525)
Net cash used in financing activities	(6,217)	(41,443)	(47,671)	(50,137)
Effect of exchange rate changes on cash and cash equivalents		(56)		
Net increase (decrease) in cash and cash equivalents	32,584	(10,265)	(9,418)	262,774
Cash and cash equivalents, beginning of year	140,617	130,489	139,907	1,134,008
Cash and cash equivalents of newly consolidated subsidiaries, beginning of year		20,393		
Cash and cash equivalents, end of year	¥173,201	¥140,617	¥130,489	$1,396,782

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 Accounting Standards, and its foreign subsidiary in conformity with those of each country of their 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. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

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 ¥124 to $1, the approximate rate of exchange at March 31, 2001. 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").

Effective April 1, 1999, the Group changed its consolidation scope of subsidiaries and associated companies from the application of the ownership concept to the control or influence concept in accordance with the new accounting standard for consolidation. 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 consolidated financial statements for the year ended March 31, 1999 are not retroactively adjusted.

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

Prior to April 1, 2000, marketable and investment securities listed on stock exchanges were stated at cost, determined by the moving-average method. Effective April 1, 2000, the Group adopted a new accounting standard for financial instruments. Under this standard, all of the Group's securities are classified as follows: i) held-to-maturity debt securities, which management has the positive intent and ability to hold to maturity, are reported at amortized cost, and ii) available-for-sale securities, which are those securities not classified as held-to-maturity, are stated at cost, with disclosure in the notes to the financial statements of the fair value and net unrealized gains and losses, net of applicable taxes. Effective April 1, 2001, available-for-sale securities will be reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. The cost of securities sold is determined based on the moving-average method. Details of the fair value of available-for-sale securities, as of March 31, 2001 were as follows:

	Millions of yen	Thousands of U.S. dollars
Carrying amount on available-for-sale securities	¥35,482	$286,145
Fair value on available-for-sale securities	36,228	292,161
	746	6,016
Applicable income taxes	314	2,532
Minority interests	(73)	(589)
Net unrealized gain–net of tax	¥ 505	$ 4,073

The adoption of the new accounting standard had no material effect on the consolidated statements of income. Marketable securities classified as current assets increased by ¥38 million ($306 thousand) and investment securities decreased by the same amount as of April 1, 2000.

Non-marketable available-for-sale securities are stated at cost, determined by the moving-average method. For other than temporary declines in fair value, non-marketable available-for-sale 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 deposits, all of which mature or become due over three months of the date of acquisition. Time deposits pledged as collateral as substitutes of deposits for certain construction and advertisement contracts were ¥299 million ($2,411 thousand) and ¥101 million as of March 31, 2001 and 2000.

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 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.

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 unfounded retirement benefit plans and prior to April 1, 2000, recorded a liability at 40% of the amount which would be required if all employees voluntarily terminated their employment at the balance sheet date.

In addition, the Company and certain subsidiaries have a contributory funded pension plan. Prior to April 1, 2000, amounts contributed to the plan were charged to income when paid.

Effective April 1, 2000, the Company and its domestic consolidated subsidiaries adopted a new accounting standard for employees' retirement benefits and accounted 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 ($118,806 thousand) to the employee retirement benefit trust for the parent company's non-contributory pension plans, and recognized a non-cash loss of ¥266 million ($2,145 thousand).

The transitional obligation of ¥42,325 million ($341,331 thousand) is determined as of the beginning of the year. The new accounting standard requires that the transitional obligation be reduced by an immediate charge to income in the amount of the fair value of the above contribution. The remaining transitional obligation of ¥27,593 million ($222,524 thousand) is being amortized over three years. As a result, net periodic benefit costs, as compared with the prior method, increased by ¥28,676 million ($231,258 thousand) and income before income taxes and minority interest decreased by ¥28,379 million ($228,863 thousand).

i. Research and development costs

Effective April 1, 1999, research and development costs are charged to income as incurred in accordance with the new accounting standard for research and development costs. The adoption of the new standard had no material impact on the financial statements.

j. Revenue and profit recognition

Sales and related profits are generally recorded when sales contracts are closed 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. Payments received from customers prior to the recording of a sale are accounted for as current deposits received (see Note 6).

k. Income taxes

Effective April 1, 1999, the Group adopted the new accounting standard for interperiod allocation of income taxes based on the asset and liability method. The cumulative effect of the application of interperiod tax allocation in prior years in the amount of ¥9,253 million is included as an adjustment to retained earnings as of April 1, 1999. Such cumulative effect is calculated by applying the income tax rate stipulated by enacted tax laws to temporary differences as of April 1, 1999.

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

l. Appropriations of retained earnings

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

m. Foreign currency transactions

Prior to April 1, 2000, short-term receivables and payables denominated in foreign currencies were translated into Japanese yen at the current exchange rates at each balance sheet date, while long-term receivables and payables denominated in foreign currencies were translated at historical rates.

Effective April 1, 2000, the Group adopted a revised accounting standard for foreign currency transactions. In accordance with the revised standard, 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 income statement to the extent that they are not hedged by forward exchange contracts.

The adoption of the revised standard had no material impact on the consolidated financial statements.

n. Foreign currency financial statements

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

Prior to April 1, 2000, differences arising from such translation were shown as "Translation adjustments" as either an asset or liability in the balance sheet. Effective April 1, 2000, such differences are shown as "Translation adjustments" in a separate component of shareholders' equity in accordance with the revised accounting standard for foreign currency transactions. Revenue and expense accounts of the consolidated foreign subsidiary and associated companies are translated into yen at the current exchange rate.

o. Reclassifications

Certain reclassifications have been made to the 2000 and 1999 financial statements to conform to the classifications used in 2001.

p. Per share information

The computation of net income per share is based on the weighted average number of shares of common stock outstanding during each year. The average number of common shares used in the computation was 519,391 thousand, 520,525 thousand and 523,893 thousand shares for 2001, 2000 and 1999, considering the average number of the treasury stocks.

Diluted net income per share of common stock assumes full conversion of the outstanding convertible bonds at the beginning of the year (or at the date of issuance if later) with an applicable adjustment for related interest expense, net of tax.

Diluted net income per share of common stock for the years ended March 31, 2001 and 1999 is not disclosed because it is anti-dilutive.

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

3. Marketable and Investment Securities

Marketable and investment securities as of March 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Current:			
Government and corporate bonds	**¥ 38**		**$ 306**
Non-current:			
Equity securities	**36,419**	¥52,387	**293,702**
Government and corporate bonds	**2,201**	2,203	**17,750**
Total	**¥38,620**	¥54,590	**$311,452**

The carrying amount and aggregate fair values of marketable and investment securities at March 31, 2001 were as follows:

	Millions of yen			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Held-to-maturity	¥239	¥5		¥244

	Thousands of U.S. Dollars			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Held-to-maturity	$1,927	$40		$1,967

Available-for-sale securities whose fair values are not readily determinable as of March 31, 2001 were as follows:

	Carrying Amount	
	Millions of yen	Thousands of U.S. dollars
Available-for-sale:		
Equity securities	¥ 937	$ 7,557
Debt securities	2,000	16,129
Total	¥2,937	$23,686

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2001 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		¥ 38		$ 306
Due after one year through five years		201		1,621
Due after five years through ten years	¥2,000		$16,129	
Total	¥2,000	¥239	$16,129	$1,927

Carrying amounts and aggregate market values of non-current marketable securities at March 31, 2000 were as follows:

	Millions of yen		
	Carrying amount	Aggregate market value	Unrealized gain (loss)
Non-current:			
Investment securities	¥51,197	¥63,263	¥12,066
Investment in associated companies	31,059	16,918	(14,141)
Government and corporate bonds	203	207	4
Total	¥82,459	¥80,388	¥(2,071)

The difference between the above carrying amounts and the amounts shown in the accompanying balance sheet with respect to investment securities and investments in associated companies consisted of unlisted securities, for which market value amounts are not readily available.

4. Inventories

Inventories at March 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Finished residential homes and condominiums	**¥ 20,488**	¥ 11,274	**$ 165,226**
Construction projects in progress	**22,397**	21,813	**180,621**
Residential homes and condominiums in process	**18,888**	11,296	**152,323**
Land held:			
For resale	**151,517**	139,592	**1,221,911**
Under development	**25,697**	24,660	**207,234**
Undeveloped	**7,242**	8,372	**58,403**
Construction materials and supplies	**11,773**	12,786	**94,943**
Total	**¥258,002**	¥229,793	**$2,080,661**

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

5. Short-term Bank Loans and Long-term Debt

Short-term bank loans at March 31, 2001 consisted of bank loans. The annual interest rates for the short-term bank loans ranged from 0.6% to 1.5% at March 31, 2001.

Long-term debt at March 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Convertible bonds:			
2.0% convertible bonds due 2002	**¥2,005**	¥2,090	**$16,169**
Unsecured bank loans, 1.18%, due serially to 2003	**1,000**		**8,065**
Total	**3,005**	2,090	**24,234**
Less current portion	**2,005**		**16,169**
Long-term debt, net of current portion	**¥1,000**	¥2,090	**$ 8,065**

Annual maturities of long-term debt at March 31, 2001, were as follows:

Year Ending March 31:	Millions of Yen	Thousands of U.S. Dollars
2002	¥2,005	$16,169
2003	1,000	8,065
Total	¥3,005	$24,234

All outstanding convertible bonds of the Company at March 31, 2001 were convertible into 1,235 thousand shares of the Company's common stock at the conversion price of ¥1,623.4 per share, subject to antidilution provisions. The convertible bonds may be redeemed prior to maturity in whole or in part at prices ranging from 101% to 100% of the principal amounts.

The agreements for the convertible bonds contain restrictions with respect to the payment of cash dividends and other matters. The amount of retained earnings free from such restrictions was ¥386,423 million ($3,116,315 thousand) at March 31, 2001 (see Note 8).

6. Current and Long-term Deposits Received

Current deposits received at March 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Advances from customers on signed or future sales contracts	**¥33,041**	¥28,676	**$266,460**
Deposits from customers, primarily for incidental costs such as registration fees, etc.	**10,134**	10,259	**81,726**
Other	**2,565**	2,552	**20,685**
Total	**¥45,740**	¥41,487	**$368,871**

Long-term deposits received at March 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Deposits from the Company's club members	**¥ 72,266**	¥ 76,353	**$ 582,791**
Deposits from members of golf courses	**5,765**	6,812	**46,492**
Deposits from sales agents and subcontractors	**8,717**	9,119	**70,298**
Deposits from lessee	**38,725**	31,782	**312,298**
Other	**21**	320	**169**
Total	**¥125,494**	¥124,386	**$1,012,048**

The Group operates resort complexes that include hotels with adjacent golf courses, vacation homes and other resort facilities. Members of the "Daiwa Royal Members Club" pay non-interest bearing refundable deposits to the Company and in return have certain rights in relation to the use of all the Company's resort hotels.

7. Retirement and Pension Plans

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

Total charges to expense for the retirement and pension plans were ¥6,964 million and ¥8,777 million for the years ended March 31, 2000 and 1999, respectively.

Effective April 1, 2000, the Company and domestic consolidated subsidiaries adopted a new accounting standard for employees' retirement benefits.

The liability for employees' retirement benefits at March 31, 2001 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Projected benefit obligation	¥210,384	$1,696,645
Fair value of plan assets	(125,684)	(1,013,580)
Unrecognized actuarial loss	(32,783)	(264,379)
Unrecognized transitional obligation	(18,395)	(148,347)
Net liability	33,522	270,339
Prepaid benefit costs	53	427
Liability for employees' retirement benefits	¥ 33,575	$ 270,766

The components of net periodic benefit costs are as follows:

	Millions of yen	Thousands of U.S. dollars
Service cost	¥11,012	$ 88,807
Interest cost	6,736	54,323
Expected return on plan assets	(4,686)	(37,790)
Amortization of transitional obligation	23,930	192,983
Net periodic benefit costs	¥36,992	$298,323

Assumptions used for the year ended March 31, 2001 are set forth as follows:

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

8. Shareholders' Equity

The Code requires at least 50% of the issue price of new shares, with a minimum of the par value thereof, to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital are credited to additional paid-in capital.

The Code also requires companies to appropriate from retained earnings to a legal reserve an amount equal to at least 10% of all cash payments which are made as an appropriation of retained earnings until such reserve equals 25% of the stated capital. This reserve amount of the Company, which is included in retained earnings, totals ¥15,410 million ($124,274 thousand) and ¥14,510 million as of March 31, 2001 and 2000, respectively, and is not available for dividends but may be used to reduce a deficit by resolution of the shareholders.

The Company may transfer portions of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The Company may also transfer portions of unappropriated retained earnings, available for dividends, to stated capital by resolution of the shareholders.

Under the Code, the Company may issue new common shares to existing shareholders without consideration as a stock split pursuant to resolution of the Board of Directors. The Company may make such a stock split to the extent the aggregate par value of the shares outstanding after the stock split does not exceed the stated capital. However, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the stock split shall not be less than ¥50.

At the general shareholders' meeting held on June 26, 1998, the Company's shareholders approved the purchase of treasury stock for retirement and related reduction of retained earnings. The Company is authorized to repurchase, at management's discretion, up to 50 million shares of the Company's stock for the purpose of canceling the shares by charging costs of repurchase to retained earnings. Any such amounts charged to retained earnings would not be available for future distribution to shareholders.

At March 31, 2001, retained earnings recorded on the books included ¥339,963 million ($2,741,637 thousand) designated as general reserves but available for future dividends and bonuses to directors and corporate auditors subject to approval by the shareholders and legal reserve requirements (see Note 5 with respect to restrictions under convertible debt agreements).

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

9. Segment Information

Information about operations in different industry segments of the Group for the years ended March 31, 2001, 2000 and 1999 is as follows:

Sales and operating income

	Millions of yen					
	2001					
	Residential	Commercial	Resort	Other	Corporate	Consolidated
Sales to customers	**¥648,804**	**¥247,153**	**¥43,485**	**¥ 76,795**		**¥1,016,237**
Intersegment sales	**2,882**	**685**		**44,160**	**¥(47,727)**	
Total sales	**651,686**	**247,838**	**43,485**	**120,955**	**(47,727)**	**1,016,237**
Operating expenses	**604,660**	**231,538**	**50,711**	**119,028**	**(33,990)**	**971,947**
Operating income (loss)	**¥ 47,026**	**¥ 16,300**	**¥(7,226)**	**¥ 1,927**	**¥(13,737)**	**¥ 44,290**

	Thousands of U.S. dollars					
	2001					
	Residential	Commercial	Resort	Other	Corporate	Consolidated
Sales to customers	**$5,232,290**	**$1,993,170**	**$350,685**	**$619,315**		**$8,195,460**
Intersegment sales	**23,242**	**5,524**		**356,129**	**$(384,895)**	
Total sales	**5,255,532**	**1,998,694**	**350,685**	**975,444**	**(384,895)**	**8,195,460**
Operating expenses	**4,876,290**	**1,867,243**	**408,959**	**959,904**	**(274,113)**	**7,838,283**
Operating income (loss)	**$ 379,242**	**$ 131,451**	**$ (58,274)**	**$ 15,540**	**$(110,782)**	**$ 357,177**

	Millions of yen					
	2000					
	Residential	Commercial	Resort	Other	Corporate	Consolidated
Sales to customers	¥627,925	¥215,229	¥37,308	¥ 70,611		¥951,073
Intersegment sales	2,717	1,505		48,849	¥(53,071)	
Total sales	630,642	216,734	37,308	119,460	(53,071)	951,073
Operating expenses	580,343	202,799	45,847	118,189	(43,602)	903,576
Operating income (loss)	¥ 50,299	¥ 13,935	¥(8,539)	¥ 1,271	¥ (9,469)	¥ 47,497

	Millions of yen					
	1999					
	Residential	Commercial	Resort	Other	Corporate	Consolidated
Sales to customers	¥611,857	¥201,414	¥39,473	¥43,262		¥896,006
Intersegment sales		1,459	587	606	¥(2,652)	
Total sales	611,857	202,873	40,060	43,868	(2,652)	896,006
Operating expenses	569,609	187,330	46,717	45,879	6,256	855,791
Operating income (loss)	¥ 42,248	¥ 15,543	¥(6,657)	¥(2,011)	¥(8,908)	¥ 40,215

Assets, depreciation and capital investments

	Millions of yen					
	2001					
	Residential	Commercial	Resort	Other	Corporate	Consolidated
Assets	**¥357,052**	**¥156,937**	**¥161,950**	**¥86,241**	**¥304,277**	**¥1,066,457**
Depreciation	**4,527**	**2,131**	**7,332**	**4,097**	**1,644**	**19,731**
Capital investments	**16,706**	**3,328**	**2,223**	**6,605**	**1,697**	**30,559**

	Thousands of U.S. dollars					
	2001					
	Residential	Commercial	Resort	Other	Corporate	Consolidated
Assets	**$2,879,452**	**$1,265,621**	**$1,306,048**	**$695,492**	**$2,453,847**	**$8,600,460**
Depreciation	**36,508**	**17,185**	**59,129**	**33,041**	**13,258**	**159,121**
Capital investments	**134,726**	**26,839**	**17,927**	**53,266**	**13,686**	**246,444**

	Millions of yen					
	2000					
	Residential	Commercial	Resort	Other	Corporate	Consolidated
Assets	¥327,182	¥132,795	¥169,030	¥91,278	¥261,608	¥981,893
Depreciation	4,588	2,104	8,176	3,518	1,941	20,327
Capital investments	4,603	2,664	3,636	4,704	1,316	16,923

	Millions of yen					
	1999					
	Residential	Commercial	Resort	Other	Corporate	Consolidated
Assets	¥303,060	¥102,892	¥177,952	¥72,945	¥293,852	¥950,701
Depreciation	4,855	1,684	9,754	1,157	96	17,546
Capital investments	2,629	9,051	548	373	35,104	47,705

The industry segments consisted of the following:

Components of net sales in the consolidated statements of income	Industry segment			
	Residential	Commercial	Resort	Other
Construction	Construction of single/multi-family houses and condominiums	Construction of commercial buildings		Construction of resort villas
Real estate	Sales of real estate for residential use	Sales and rental of real estate for commercial use		Sales of land lots for resort villas
	Real estate commissions			
	Rental of residential complexes			
Other			Operation of hotels and golf courses	Operation of "do-it-yourself" hardware centers

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

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

10. Other Income (Expenses): Other — Net

"Other income (expenses): Other — net" for the years ended March 31, 2001, 2000 and 1999 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2001	2000	1999	**2001**
Equity in earnings of associated companies	**¥ 933**	¥ 752	¥ 530	**$ 7,525**
Exchange gains (losses)	**92**	(292)	(91)	**742**
Loss on sales and disposal of property, plant and equipment	**(543)**	(1,199)	(728)	**(4,379)**
Real estate acquisition tax and other taxes	**(420)**	(1,206)	(381)	**(3,387)**
Retirement benefits for directors	**(566)**	(2,298)		**(4,565)**
Loss on liquidation of associated companies		(1,126)		
Expenses for large-scale repairs to property, plant and equipment	**(1,062)**			**(8,565)**
Write-down of memberships	**(820)**			**(6,613)**
Other — net	**1,729**	1,283	135	**13,943**
Total	**¥ (657)**	¥(4,086)	¥(535)	**$(5,299)**

11. Income Taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rates of approximately 42.0%, 42.0% and 47.5% for the years ended March 31, 2001, 2000 and 1999, respectively.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2001 and 2000 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Current:			
Deferred tax assets:			
Write-down of land held for resale	**¥ 6,756**	¥5,278	**$54,484**
Accrued bonuses	**2,296**	1,273	**18,516**
Accrued business tax	**1,135**	1,155	**9,153**
Other	**1,720**	1,605	**13,871**
Deferred tax assets	**¥11,907**	¥9,311	**$96,024**
Non-current:			
Deferred tax assets:			
Employees' retirement benefits	**¥13,752**	¥ 1,523	**$110,903**
Unrealized gains on sales of property, plant and equipment	**3,382**	2,481	**27,274**
Other	**2,608**	1,441	**21,032**
Deferred tax assets	**19,742**	5,445	**159,209**
Deferred tax liabilities:			
Retained earnings appropriated for tax allowable reserves	**¥(1,761)**	¥(1,441)	**$ (14,202)**
Other	**(87)**	(51)	**(701)**
Deferred tax liabilities	**(1,848)**	(1,492)	**(14,903)**
Net deferred tax assets	**¥17,894**	¥ 3,953	**$144,306**

A reconciliation between the normal effective statutory tax rates for the years ended March 31, 2001 and 2000 and the actual effective tax rates reflected in the accompanying consolidated statements of income is as follows:

	2001	2000
Normal effective statutory tax rates	**42.0%**	42.0%
Increase (decrease) in tax rates due to:		
Permanently non-deductible expenses	**6.5**	1.9
Non-taxable dividend income	**(0.7)**	(0.5)
Equity in earnings of associated companies	**(3.0)**	(1.0)
Write-down of investments in subsidiaries	**(1.2)**	
Per capita levy	**4.2**	1.6
Other — net	**(3.0)**	(0.4)
Actual effective tax rates	**44.8%**	43.6%

The actual effective statutory tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 1999 differ from the normal effective tax rates, primarily due to the effect of permanently non- deductible expenses and temporary differences in the recognition of asset and liability items for tax and financial reporting purposes.

12. Research and Development Costs

Research and development costs charged to income were ¥5,535 million ($44,637 thousand), ¥4,863 million and ¥3,882 million for the years ended March 31, 2001, 2000 and 1999, respectively.

13. Leases

Total lease payments under finance leases that are not deemed to transfer ownership of the leased property to the lessee were ¥3,949 million ($31,847 thousand), ¥4,337 million, and ¥6,122 million for the years ended March 31, 2001, 2000 and 1999, 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, 2001 and 2000 were as follows:

	Millions of yen			
	2001			
	Buildings and structures	Machinery and equipment	Furniture and fixtures	Total
Acquisition cost	**¥5,474**	**¥568**	**¥11,637**	**¥17,679**
Accumulated depreciation	**1,982**	**271**	**6,309**	**8,562**
Net leased property	**¥3,492**	**¥297**	**¥ 5,328**	**¥ 9,117**

	Millions of yen			
	2000			
	Buildings and structures	Machinery and equipment	Furniture and fixtures	Total
Acquisition cost	¥5,199	¥596	¥13,023	¥18,818
Accumulated depreciation	3,482	324	7,716	11,522
Net leased property	¥1,717	¥272	¥ 5,307	¥ 7,296

	Thousands of U.S. dollars			
	2001			
	Buildings and structures	Machinery and equipment	Furniture and fixtures	Total
Acquisition cost	**$44,145**	**$4,581**	**$93,847**	**$142,573**
Accumulated depreciation	**15,984**	**2,186**	**50,879**	**69,049**
Net leased property	**$28,161**	**$2,395**	**$42,968**	**$ 73,524**

Obligations under such finance leases as of March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Due within one year	**¥3,538**	¥3,356	**$28,532**
Due after one year	**5,579**	3,940	**44,992**
Total	**¥9,117**	¥7,296	**$73,524**

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 were ¥3,949 million ($31,847 thousand), ¥4,337 million and ¥6,122 million for the years ended March 31, 2001, 2000 and 1999, respectively.

Obligations and future rental income under non-cancellable operating leases as of March 31, 2001 and 2000 were as follows:

(Lessee)	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Due within one year	**¥ 17,266**	¥ 14,742	**$ 139,242**
Due after one year	**197,552**	164,514	**1,593,161**
Total	**¥214,818**	¥179,256	**$1,732,403**

(Lessor)	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Due within one year	**¥ 11,296**	¥ 8,533	**$ 91,097**
Due after one year	**155,851**	114,013	**1,256,863**
Total	**¥167,147**	¥122,546	**$1,347,960**

14. Derivatives

The Company has entered into foreign exchange forward contracts to hedge the risk from changes in foreign exchange rates associated with liabilities denominated in foreign currencies.

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

The execution and control of derivatives are controlled by the Finance Department. Each derivative transaction is reported to management and the Accounting Department monthly.

As of March 31, 2001, the Company did not have any forward exchange contracts outstanding.

15. Commitments and Contingencies

Capital expenditure commitments — Commitments for capital expenditures outstanding at March 31, 2001 aggregated approximately ¥572 million ($4,613 thousand).

Contingencies — At March 31, 2001, contingent liabilities for notes endorsed with recourse and loans guaranteed in the ordinary course of business amounted to ¥1,551 million ($12,508 thousand) and ¥108,647 million ($876,185 thousand), respectively. Included in loans guaranteed were customers' housing loans from banks in the amount of ¥106,539 million ($859,185 thousand).

16. Subsequent Event

a. Appropriations of Retained Earnings

The following appropriations of retained earnings at March 31, 2001 were approved at the Company's shareholders' meeting held on June 28, 2001:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥17.0 ($0.14) per share	¥8,906	$71,823

b. Merger with Daiwa Danchi Co., Ltd. ("Daiwa Danchi")

The Company merged with Daiwa Danchi on April 1, 2001, in accordance with a merger agreement approved at the extraordinary general meeting of shareholders of Daiwa Danchi, which is an associated company, held on December 14, 2000 and the extraordinary general meeting of shareholders of the Company held on December 15, 2000.

Under the terms and conditions 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 ($10,798 thousand), additional paid-in capital of ¥25,714 million ($207,371 thousand), retained earnings of ¥20,138 million ($162,403 thousand), net of ¥7,476 million ($60,290 thousand) of elimination of common share holding the Company and unrealized loss on available-for-sale securities of ¥1,859 million ($14,992 thousand) of the Company.

The Company acquired all assets and assumed all liabilities of Daiwa Danchi as summarized below:

ASSETS	Millions of yen	Thousands of U.S. dollars
Current Assets:		
Cash and cash equivalents	¥ 12,983	$ 104,701
Short-term investments	15	122
Receivables:		
Trade notes	1,405	11,331
Trade accounts	5,246	42,306
Allowance for doubtful receivables	(71)	(573)
Inventories:		
Finished residential homes and condominiums	10,122	81,629
Residential homes and condominiums in process	9,869	79,589
Land held:		
For sale	34,750	280,242
Under development	28,194	227,371
Undeveloped	36,096	291,097
Supplies	188	1,516
Prepaid expenses and other current assets	4,197	33,847
Total current assets	142,994	1,153,178
Property and Equipment—Net		
Land	48,167	388,444
Buildings and structures	27,393	220,911
Machinery and equipment	1,220	9,839
Furniture and fixtures	1,743	14,056
Construction in progress	41	331
Total	78,564	633,581
Accumulated depreciation	(8,894)	(71,726)
Net property and equipment	69,670	561,855
Investments and Other Assets:		
Investment securities	6,056	48,839
Investments in and advances to subsidiaries and associated companies	13,630	109,919
Lease deposits and other assets	14,848	119,742
Allowance for doubtful accounts	(6,117)	(49,331)
Total investments and other assets	28,417	229,169
TOTAL	¥241,081	$1,944,202

LIABILITIES	Millions of yen	Thousands of U.S. dollars
Current Liabilities:		
Short-term bank loans	¥132,000	$1,064,516
Payables:		
Trade notes	2,939	23,701
Trade accounts	27,574	222,371
Deposits received	8,167	65,863
Income taxes payable	29	234
Other current liabilities	4,707	37,960
Total current liabilities	175,416	1,414,645
Long-Term Liabilities:		
Employees' retirement benefits	360	2,903
Long-term deposits received	11,978	96,597
Other long-term liabilities	519	4,186
Total long-term liabilities	12,857	103,686
TOTAL	¥188,273	$1,518,331
NET ASSETS	¥ 52,808	$ 425,871

Independent Auditors' Report

Daiwa House Industry Co., Ltd. and Subsidiaries

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Deloitte
Touche
Tohmatsu

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

We have examined the consolidated balance sheets of Daiwa House Industry Co., Ltd. and subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2001, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Daiwa House Industry Co., Ltd. and subsidiaries as of March 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2001, in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

As discussed in Note 2, effective April 1, 1999, the consolidated financial statements have been prepared in accordance with new accounting standards for consolidation, research and development costs and interperiod allocation of income taxes based on the asset and liability method and effective April 1, 2000, the consolidated financial statements have been prepared in accordance with new accounting standards for employees' retirement benefits and financial instruments.

Our examinations 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 28, 2001

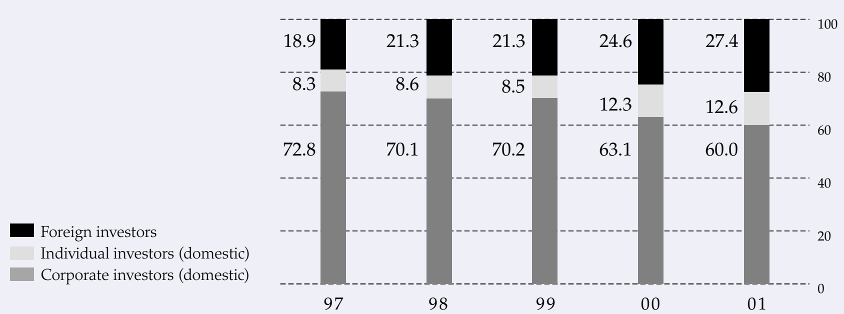
Corporate data

As of March 31, 2001

Established	April 5, 1955	
Common stock	¥108,781 million (US$877,266 thousand)	
Employees (consolidated)	16,494	
Securities traded	Tokyo, Osaka, Nagoya, Sapporo, and Fukuoka Stock Exchanges	
Auditors	Deloitte Touche Tohmatsu	
Subsidiaries and affiliates	32 consolidated subsidiaries, 11 affiliates under the equity method	
Shares	Authorized	1,900,000,000 shares
	Issued and outstanding	523,893,045 shares
	Shareholders	31,694

Principal shareholders		(thousands of shares)
	The Sumitomo Bank, Limited	23,930
	The Tokai Bank, Limited	23,930
	The Fuji Bank, Limited	23,930
	EUROCLEAR BANK S.A./N.V.	17,477
	The Dai-ichi Mutual Life Insurance Company	15,546
	The Chase Manhattan Bank, N.A., London	15,380
	The Chuo Mitsui Trust and Banking Company, Limited	15,153
	Nippon Life Insurance Company	14,500
	The Mitsubishi Trust and Banking Corporation (Trust Account)	12,152
	Sumitomo Life Insurance Company	10,500

Foreign shareholding ratio (%)



Information on the Daiwa House group companies

As of March 31, 2001

Consolidate subsidiaries and affiliated companies

Company name	Capital (¥ million)	Area of operations	Types of business
(Consolidated subsidiaries)			
DAIWA RAKUDA INDUSTRY CO., LTD.	4,345	Other operations	Purchase of construction materials, etc.; Lease of showrooms and company-owned buildings
DAIWA LOGISTICS CO., LTD.	3,764	Other operations	Transportation of company products; Lease of company-owned buildings
DAIWA SERVICE CO., LTD.	50	Residential and other operations	Cleaning and security services for company offices and construction sites; Lease of company-owned buildings
DAIWA SYSTEM CO., LTD.	634	Residential, commercial buildings, and other operations	Lease of company-owned buildings
SHINWA AGENCY CO., LTD.	60	Other operations	Management and creative for company ads; Lease of company-owned buildings
DAIWARESORT CO., LTD.	84	Resort operations	Subcontracted management of company-owned golf courses and hotels; Lease of company-owned buildings
ROYAL HOME CENTER CO., LTD.	100	Other operations	Management and operation of company-owned home centers; Lease of company-owned buildings
DAIWALIVING CO., LTD.	140	Residential operations	Lease of company-owned buildings
DAIWA INFORMATION SERVICES CO., LTD.	200	Commercial buildings operations	Lease of company-owned buildings
DAIWAROYAL CO., LTD. [*1]	125	Commercial buildings operations	Lease of company-owned buildings
22 Other companies			
(Equity method affiliates)			
DAIWA DANCHI CO., LTD. [*2]	14,947	Residential, commercial buildings, resort, and other operations	Lease of company-owned buildings
DAIWA KOSHO LEASE CO., LTD.	21,768	Commercial buildings operations	Orders for constructing prefabricated buildings, car leases, etc.; Lease of company-owned buildings
NIHON JYUTAKU RYUTU CO., LTD.	729	Residential operations	Lease of company-owned buildings
8 Other companies			

*1. The company name changed in January 2001 from R&D Planning Co., Ltd. to DaiwaRoyal Co., Ltd.
*2. Daiwa Danchi Co., Ltd. merged with the parent company Daiwa House Industry Co., Ltd. on April 1, 2001.

Overseas affiliates

Beijing East Palace Apartment Co., Ltd.
25, Zaoying lu, Chaoyang District, Beijing, China
Phone: (10) 6467-8811
Fax: (10) 6467-8006

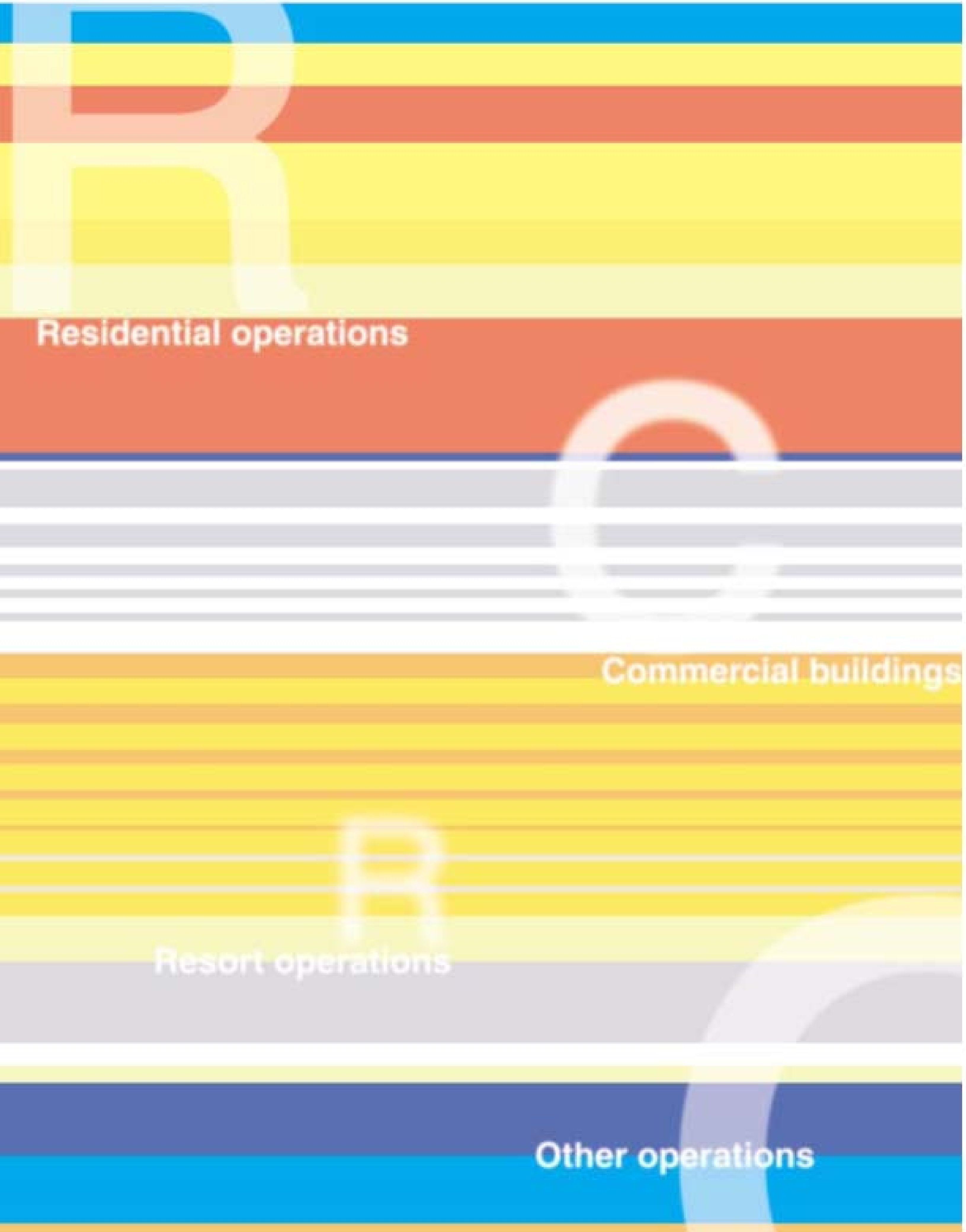
Shanghai International Realty Co., Ltd.
Room 1506, Shanghai International Trade Centre 2200, Yanan xi lu, Shanghai, China
Phone: (21) 6275-9646
Fax: (21) 6275-0031

Tianjin Jiuhe International Villa Co., Ltd.
140, Weiguo Road, Hedong District, Tianjin, China
Phone: (22) 2451-4888
Fax: (22) 2455-7980

Dalian Civil Aviation Hotel Co., Ltd.
143, Zhongshan lu, Dalian, China
Phone: (411) 363-3111
Fax: (411) 363-8211

Dalian Acacia Town Villa Co., Ltd.
Longjiang lu, Economic & Technical Development Zone, Dalian, China
Phone: (411) 764-1171
Fax: (411) 764-0594

Dalian Fujiazhuang International Villa Co., Ltd.
61, Binhai xi lu, Dalian, China
Phone: (411) 240-1411
Fax: (411) 240-0979



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