

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

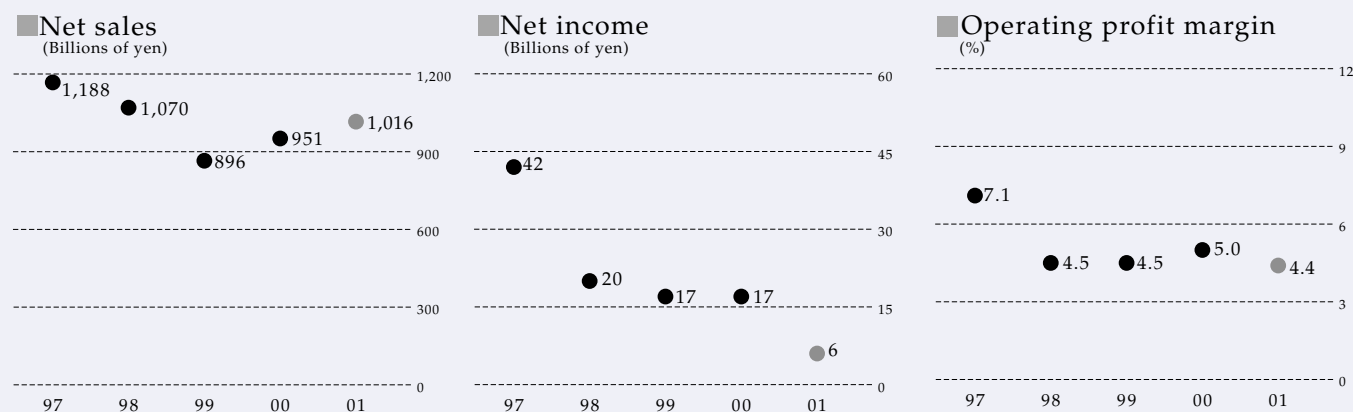
Group, integrating accounting systems, including those for affiliated companies, and setting up an electronic transaction system among affiliated companies.

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%.

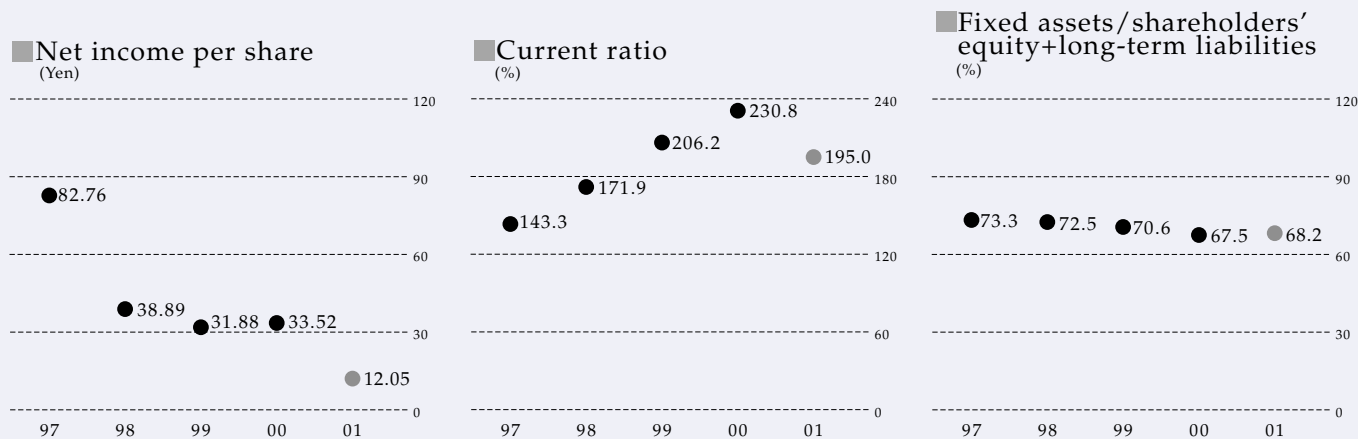
Earnings

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).



Liquidity and capital resources

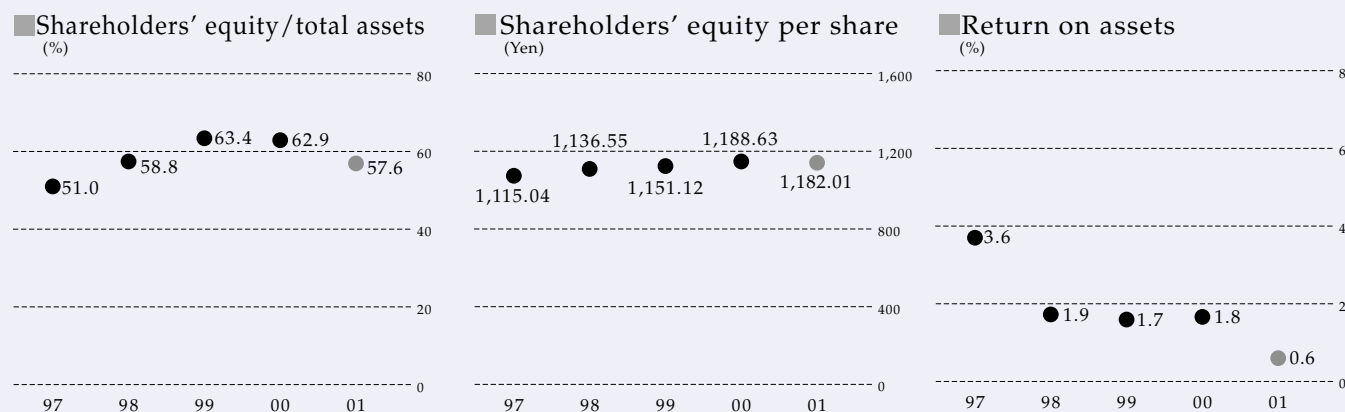
Financial position

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).

