Consolidated balance sheets

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

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	**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		Thousands of U.S. dollars (Note 1)
	2001	2000	**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**

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
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