

A N N U A L

R E P O R T

*Creating a Comfortable, Healthy Living Environment*

2 0 0 0

YEAR ENDED MARCH 31, 2000

**DAIWA HOUSE INDUSTRY CO., LTD.**

# FINANCIAL HIGHLIGHTS

## CONSOLIDATED

Years ended March 31, 2000, 1999 and 1998	Millions of yen			Thousands of U.S. dollars
	2000	1999	1998	2000
Net sales .....	¥951,073	¥896,006	¥1,069,789	\$8,972,387
Net income.....	17,450	16,699	20,373	164,623
Per share of common stock (in yen and dollars):				
Net income.....	33.52	31.88	38.89	0.32
Diluted net income .....	33.50		37.91	0.32
Cash dividends applicable to the year.....	17.00	17.00	17.00	0.16
Purchases of property, plant and equipment.....	11,960	47,545	28,700	112,830
Depreciation and amortization .....	20,327	18,453	18,710	191,764
Total assets .....	981,893	950,701	1,013,072	9,263,142
Shareholders' equity .....	617,421	603,060	595,429	5,824,727

Note: The U.S. dollar amounts represent translations of Japanese yen for convenience only at the approximate exchange rate on March 31, 2000 of ¥106 =U.S.\$1.



## INTERVIEW WITH THE MANAGEMENT

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**Daiwa House is active across a wider field of operations than any of its competitors, encompassing housing, general construction, resort operations, and home centers. Making full use of its comprehensive capabilities, the Company boasts a superior competitiveness thanks to its speedy decision making and creativity, leaving other companies far behind.**

### Boosting Sales and Income through Effective Marketing and an Improved Product Lineup

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**Q:** Daiwa House registered a 6.1% increase in sales to ¥951,073 million (US\$8,972 million) on a consolidated basis in the term ended March 31, 2000, while operating income rose 18.1% to ¥47,497 million (US\$448 million) and net income was up 4.5% at ¥17,450 million (US\$165 million). How do you evaluate these figures?

**T**hanks to additional tax reductions on housing loans, among other factors, the number of new housing starts in the term increased to 1,220,000 from 1,170,000 in the previous term, but the absolute level remains low. General construction, too, failed to recover, largely because public works investment fell below the previous year's level. In view of these circumstances, we feel that we succeeded in keeping pace with demand and came reasonably close to our targets. The Company's income, however, was affected by the registration of a ¥12.6 billion appraisal loss on real estate. On the other hand, as we repaid all bank loans at the time of the interim accounts settlement, our financial position is extremely good.

**Q:** Could you describe the principal measures implemented during the term under review and their results?

**T**o cope with the rapidly changing environment and maintain the popularity of our product lineup, Daiwa House reinforced its regionally customized marketing structure. For example, in the Tokyo area, which up to now has been covered by one branch office, we established a second branch and divided up the marketing area between them to implement a differentiated marketing strategy. This proved very successful. We also expanded our product lineup to take advantage of changes in the market brought about by the increasing proportion of aged people in the population and the introduction of the fixed-period real estate leasing contract system. These new products incorporate proposals for new types of living environments, such as bungalows for elderly people, and houses for joint use either by two generations of the same family or by the owner and a tenant. This expansion of our product lineup has been made with the proliferating needs of customers in mind, as well as the unique features of different geographical regions. We are also putting great effort into the design of housing that takes account of the need to reduce the global environmental burden and contribute to the health of residents.

### Improving the Synergy among the Company's Divisions

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**Q:** What is your analysis of trends in the housing market? Please also describe your position and strategy in this market.

**W**e do not expect any rapid recovery in the housing market for the time being, but that does not mean we take a pessimistic view of future prospects. Prefabricated housing starts still account for a mere 15~16% of all housing starts in Japan, but taking into account the implementation of the Housing Quality Assurance Act from April 2000, the enforcement by the Housing Loan Corporation of stricter quality conditions for the application of the standard mortgage rate, and the need for housing companies to satisfy a growing range of customer requirements, there is no doubt that the market share of prefabricated housing will expand. This is because the employment of mass-production methods facilitates the supply of high-quality housing to the market. We believe that the ratio of prefabricated housing starts could reach 20~30% of total housing starts within the next 5~10 years.

Within the prefabricated housing industry, Daiwa House Industry's share now stands at approximately 15% in single-family houses and 26% in apartment buildings. We have developed a number of environment-friendly housing products in response to customers' rising environmental awareness — notably the "Kankyo Kobo" single-family house and the "Kankyo Shubo" apartment building. Simultaneously, we are working to raise our corporate brand image by reinforcing our reputation as a reliable company backed up by high-level technology. This includes such means as improving quality levels, implementing thorough after-sales service, and offering long-term guarantees based on the detailed accumulation of data. We are confident that these efforts will enable us to raise our market shares in both single-family houses and apartment buildings to the 20~30% level.

Moreover, the fields of interior renovation, extension and partial rebuilding of existing housing also promise to be profitable markets in the future. Daiwa House has already set up a specialist renovation division capable of catering to all conceivable customer needs. In this way, the Company has considerable potential for further growth even if the scale of the total new housing market remains unchanged.



Nobuo Ishibashi  
Senior Adviser



Takeshi Togo  
President

**Q: How is business progressing in Daiwa House's non-construction divisions, such as Resort Operations?**

**T**he key to the success of our Resort Operations is to raise earnings from our nationwide hotel and golf course chains. To this end, we need to carry out aggressive public relations campaigns targeted not only at existing members of our Daiwa Royal Hotels Club and golf clubs, but also at our home owners and corporate customers, particularly for corporate use of our hotel facilities for conventions and welfare purposes.

We are also bolstering the competitiveness of our home centers by specializing in the fields of home renovation and gardening. We intend to establish our corporate image among all our customers by implementing reinforced liaison between all our divisions and carrying out vigorous PR activities to raise our corporate profile as a "comprehensive life-enhancement company."

**Proposing Wide Range of New-Type Residences for the 21st Century**

**Q: The Housing Quality Assurance Act, which aims to protect the health of the public, was decided by the Cabinet in June 1999, and came into force in April 2000. The enforcement of this law entails the introduction of a 10-year housing guarantee system, as well as the mandatory indication of housing quality standards and features such as energy conservation. What effect do you anticipate this will have on your business?**

**T**he enforcement of this law is strengthening customers' insistence on long-term guarantees of housing quality, and this element is becoming an important factor in the choice of housing products. Naturally, Daiwa House Industry has already taken steps to ensure that all its products carry a 10-year guarantee, but to further ensure that buyers of our houses enjoy a comfortable home life, from this July we will be introducing a regular maintenance service governed by a

40-year or longer guarantee, called the "21st Century Support System." Daiwa House Industry is a technology-driven company that boasts a 40-year history as a pioneer in the industrialization of housing construction. Thanks to this, our mass-produced housing materials generally have a useful life of 40 years, and this is why we can confidently give a 40-year guarantee on our products.

Regarding the system of indication of housing quality standards and features, the introduction of materials performance standards is essential to the proper working of the Revised Building Standard Law, and will probably exacerbate competition in the field of performance. Regarding thermal insulation performance and energy-conservation performance, which are crucial to housing performance, during the term ended March 2000, we put on sale three new housing products — "Statement With E," "Statement With G," and "Statement With C" — all of which feature standard specifications that conform to the highest-quality "Next-Generation Energy Conservation Standards." Our other products also come with optional energy conservation features, allowing us to respond flexibly to a wide range of customer needs. In addition, to avoid the so-called "sick house syndrome," which arises from the use of volatile organic compounds (VOCs), we have adopted the industry's strictest health-related specifications for all our products. In this way, the Company has set high performance standards for its whole product range, and we are thus well-placed to face the intensified performance-related competition that will result from the introduction of the Housing Performance Indication System.

Apart from the indication categories stipulated under the new system, we are considering the voluntary indication of thermal insulation "Q Value" (thermal loss coefficient), hermetic performance value, and the concentration of formaldehyde in the air. This is all part of our commitment to providing a comprehensive service that can win the full confidence of customers.

We aim not only to improve the quality of our housing, but to communicate the significance of these improvements clearly to our customers, and thereby boost sales.

**Q:** In what ways are you tackling the need to provide new types of housing to meet the needs of the new century, particularly in the areas of the graying of society and environmental problems?

**I**n response to the graying of society, we are developing new housing products that incorporate the findings of our special research center on housing for the elderly, as well as our general know-how in the field of housing. Specifically, we recommend two-generation family houses for elderly people who are generally well enough to look after themselves, while for elderly people suffering from diminished awareness and in need of care, we offer “group homes.” These group homes are said to be effective in retarding the progress of diminished awareness, and in recognition of this, the Ministry of Health and Welfare widened its subsidy framework with the aim of increasing the number of such facilities from approximately 100 at the end of 1998 to 3,200 by the end of 2004. In addition, the Company, together with two of our group companies — Royal Home Center and Daiwa Kosho Lease Co., Ltd. — has formed a business tie-up with Nippon Care Supply Co., Ltd., Japan’s largest welfare equipment wholesaler and leasing company. From now on, we aim to engage in home renovation for senior citizens through the marketing assistance of Nippon Care Supply’s 1,200 authorized dealers and subcontractors.

As far as environmental issues are concerned, we already have many achievements to our credit. As a comprehensive environmentally friendly product, in April this year we launched the “Kankyo Kobo” model, which features a solar-powered photovoltaic electricity generation system, a special toilet system that uses processed and recycled flushing water or rainwater, and an organic garbage processor. On top of the environmental contribution of our individual products, we also take a variety of measures to reduce environmental harm, including the recycling of waste materials generated during the construction process. For further details, please see the section “Environmental Measures” on page 5~7.

## Strengthening Group Power and Improving Earnings Potential by Establishing a New Management Structure

**Q:** What is your forecast for the business performance of Daiwa House for fiscal 2000?

**A**s we said before, there is little likelihood of a rapid recovery in the housing market, and severe competition for market share is expected to continue. In these circumstances, the Company will focus its efforts on the marketing of products that are strongly distinguished from those of our rivals, notably the environmentally friendly “Kankyo Kobo” house model. At the same time, we will press ahead with the development of systems allowing us to produce a wide range of models in small lots so as to be able to meet the wide variety of customer preferences. We have divided Japan into 8 marketing areas, and will work as one to expand our share through even more vigorous marketing activities closely tailored to the needs of each area. We are currently applying ourselves to the creation

of a supply chain management system that allows us to swiftly and efficiently supply just the right product to each customer while also reducing construction time and cutting costs.

**Q:** Could you tell us something about your plans for management reorganization and the strengthening of group management?

**T**o achieve a more effective management system, we introduced an executive officer system in June 1999, and in April of this year we instituted a major reform of the Company’s executive structure, including an increase in the number of directors. The purpose of these changes is to strengthen management from a group perspective, leading to higher productivity and lower costs at each group company. At the same time, we aim to utilize the synergistic effect of group operations to reinforce our evolution into a comprehensive life enhancement company with the goal of regaining the ¥1 trillion level in annual sales as soon as possible.

**Q:** In conclusion, please outline your long-term vision and your plans to enhance relations with your shareholders and investors.

**A**s the Japanese housing market is rapidly maturing, it is essential for us to be constantly aware of customer needs and to speedily produce new ideas and specific products to meet those needs. With this concept in mind, we commenced a new medium-to-long-term management plan from this term focused on strengthening our sales force, improving product appeal, and invigorating our technological development so as to enhance our lineup of high value-added, cost-competitive products. Daiwa House is committed to living up to the expectations of its shareholders and all investors by becoming the top company in the housing industry in terms of management strength and earnings. At the same time, we are determined to maintain a high level of management transparency through the full disclosure of corporate data.



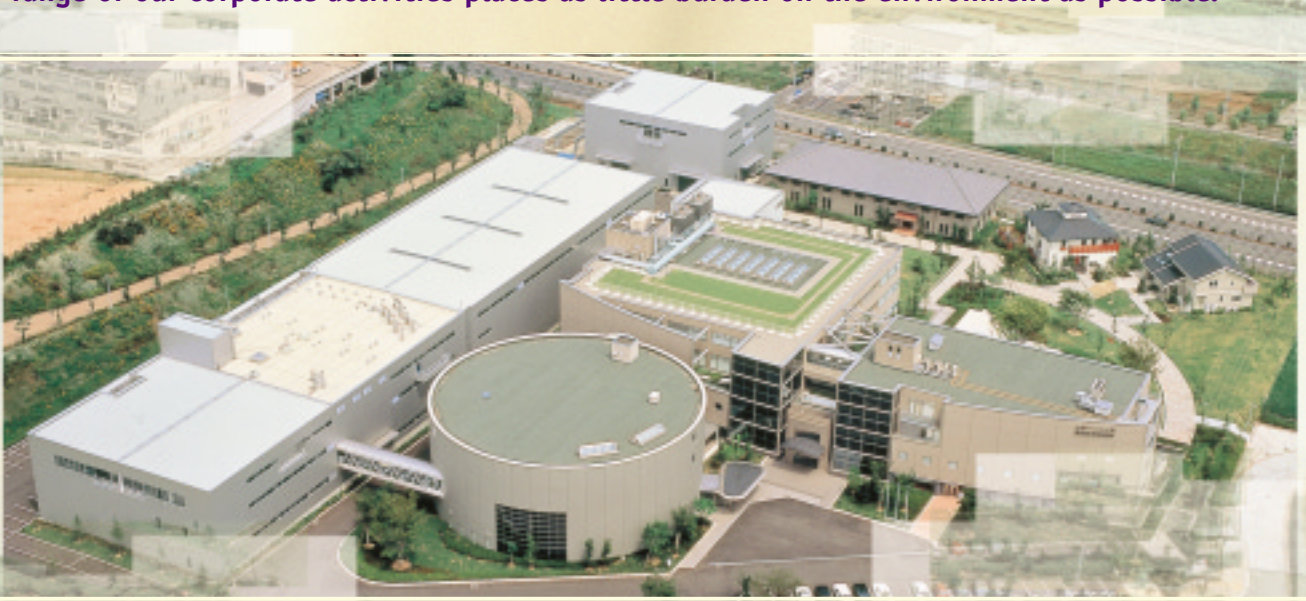
Nobuo Ishibashi  
Senior Adviser



Takeshi Togo  
President

# ENVIRONMENTAL MEASURES

At Daiwa House, the protection of the global environment is an important part of management policy, and apart from technological research and development targeted at finding solutions to pollution problems, we make thorough efforts to ensure that the whole range of our corporate activities places as little burden on the environment as possible.



## Daiwa House Industry's Basic Environmental Policy:

Daiwa House aims to become an even more successful and socially valuable "comprehensive life enhancement company" through the industrialization of house construction, while carrying out its corporate activities in harmony with the environment.

1. We pledge to carry out prior assessments of environmental impact at every stage of our corporate activities — including all building-related processes from marketing through design, procurement, distribution, production and erection, as well as in our resort hotel and home center businesses — and to implement continuous improvements so as to minimize the effects of our activities on the environment and prevent pollution.
2. We will assess the environmental impact of the construction of new housing and other construction products, their use, and eventual dismantling, right from the design stage, and will incorporate these findings into our designs to enable us to offer products that are more environment-friendly than conventional ones on the market.
3. To reduce the environmental impact of our business activities and products, we have drafted a Voluntary Environment Action Plan containing plans for improvement and improvement targets, and will implement improvements under the plan.

## Voluntary Environment Action Plan

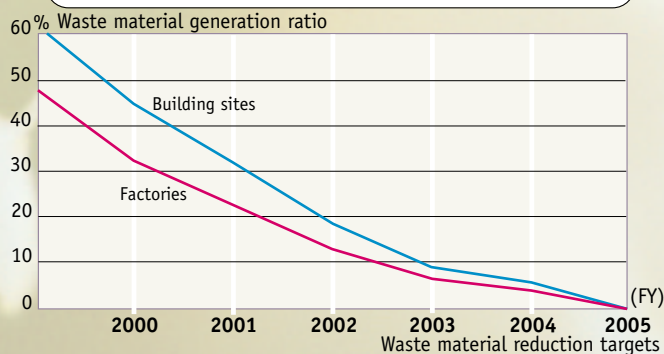
In line with its basic environmental policy, described above, Daiwa House Industry has drawn up a Voluntary Environment Action Plan, which sets out medium-to-long-term Company-wide targets for energy conservation, the reduction of waste emission levels, reduction in the use of harmful chemical substances, the conservation of water resources, and the prevention of air pollution within factories and offices. In addition, all the Company's business divisions, as well as the head office, have set their own targets in line with the Voluntary Environment Action Plan, and are making energetic efforts to achieve improvements.

## Environmental Activity Organization

A Company-Wide Environmental Activities Committee has been established to act as a deliberative organ on matters essential to the promotion of the environmental policy set out by the Company's

president, who is personally in charge of overall environmental activities. Six subcommittees have been established under the umbrella of the Company-wide Environmental Activities Committee to discuss technical questions and make proposals.

Daiwa House Industry's Waste Material Reduction Targets



## Environmental Impact Case Studies

### An outline of Daiwa House's environmental protection activities — from houses to buildings and hotel operations

#### Housing:

##### Preventing global warming through energy conservation

All ceilings, external walls, and floors in our housing products are designed for efficient thermal insulation. Moreover, doors and windows are constructed of materials that are good insulators, and thus the insulation efficiency of the house as a whole is high. This reduces energy consumption by heating and air-conditioning equipment, achieving energy conservation without detriment to comfort. These homes produce, directly or indirectly, only one-third the volume of carbon dioxide emissions stipulated by the Housing Loan Corporation's general energy conservation standards for housing.

##### Preventing global warming through creation of new energy sources

The burning of fossil fuels such as oil leads to the emission of carbon dioxide, a major cause of global warming, and the search for alternative sources of energy is thus a matter of some urgency. The use of clean, renewable energy sources such as solar power would reduce demand for gas or for electric power generated by conventional methods, effectively resulting in energy conservation. This process can be termed "energy creation," and Daiwa House has contributed to this by developing 4 photovoltaic power generation systems adaptable to various roofing materials and roof shapes.

##### Countermeasures against environmental pollutants

We have carefully examined all chemicals contained in construction materials to assess their impact on the human body and the environment in general, and are implementing countermeasures. A particularly urgent issue is the reduction or elimination of volatile organic compounds (VOCs) that can pollute the air inside homes. Daiwa House is taking measures to minimize the use of materials that contain harmful substances such as formaldehyde.

#### Office Buildings:

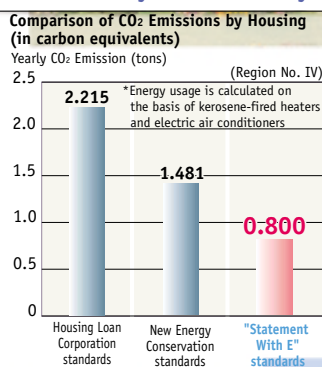
##### Reducing electric power loads

The Ice Thermal Storage Air-Conditioning System that Daiwa House has installed at its head office building in Osaka utilizes electricity at nighttime, when the power load is low, to produce ice, which is then used for air-conditioning during the day. This allows a reduction in power consumption during the daytime peak-demand period. The building is also fitted with a gas co-generation system consisting of an electricity generator powered by a gas turbine engine whose exhaust heat is used to power the air-conditioning and supply hot water. This system supplies 55% of the heat and 50% of the electric power that the building uses per annum.

#### Statement with E

Houses conform to higher standards of health, comfort, and energy efficiency.

#### Comparison of Yearly CO<sub>2</sub> Emissions by Housing



#### Kankyo Kobo

Houses are equipped with solar generation systems that supply electricity and hot water, as well as organic garbage processors and rainwater collection systems.

#### Séjour RG Kankyo Shubo

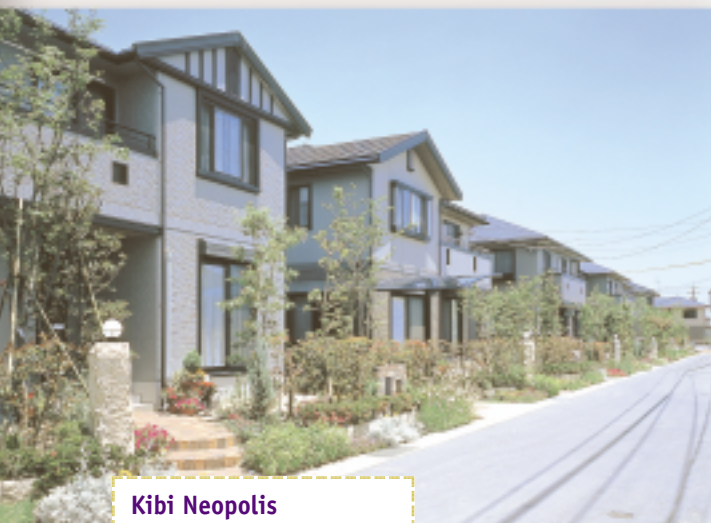
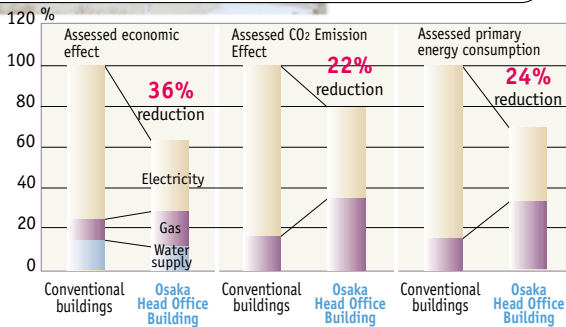
A new rental home that conforms to Next Generation Energy Conservation Standards, as houses are well insulated and thus save energy.



### Osaka Head Office Building

We have installed energy-efficient lighting, redesigned the configuration of light-switch circuits, and introduced sensor-controlled lighting to save electricity.

### Energy Conservation Effects



### Kibi Neopolis

Evergreen trees and seasonal flowers have been planted in parks and along streets near houses to allow residents to enjoy nature year-round.

### Waste recycling system

At the Company's head office, a system has been implemented to recover all waste for recycling as resources. All office desks are fitted with a "pocket" for waste paper to facilitate recycling. Other types of waste separated into categories and deposited at "recycling stations" located on each floor of the building. This system has been highly praised for its environmental contribution, and the head office received the Kinki Region's "New & Clean Office Environment Award."

### Housing Developments:

#### A completely barrier-free living environment

The Daiwa House Industry Group is engaged in the construction, in many locations throughout Japan, of environmentally friendly large-scale housing projects, such as the "Neopolis" suburban-type developments and the "Royal City Resort" housing developments, situated amidst wooded surroundings. Based on the principle of harmonizing with the natural environment, the preparation of the suburban-type development sites leaves the land in as natural a state as possible. During construction work, waste materials are re-used, and great effort is expended to ensure that the whole development is barrier-free. All this is part of the Group's commitment to creating natural and comfortable living environments.

#### Housing developments in harmony with nature

At the group's Eco Hills Kasugayama, in Joetsu City, Niigata Prefecture, the whole housing development is exclusively equipped with electric appliances, i.e., there are no gas appliances, and the hot water supply systems utilize surplus electric power generated at night. In addition, the Foundation for the Promotion of Energy Conservation in Housing, an organization affiliated with the Ministry of Construction, has awarded the "Daiwa House GE Type" house model a certification as an environmentally-friendly residence. We are also actively promoting the use of a low-noise garbage processing system in our new apartment buildings and single-family houses.

### Factories and Building Sites:

#### Promoting effective utilization of resources

Daiwa House is working to utilize resources as effectively as possible. This is being achieved via a three-pronged approach: (1) reducing the amount of waste materials generated at building sites, such as wrapping and packaging material, as well as scrap construction materials; (2) reusing materials that do not need reprocessing; and (3) using scrap construction materials to produce new materials. We aim to reduce waste at our plants as well as at construction sites to zero by the year 2005.

#### Reduction of pollutants

The Company is exerting considerable efforts to reduce the amounts of chemicals used in the production processes at its factories and the amounts of such chemicals emitted.

As in previous years, we endeavored to introduce a wide range of new housing products, both in single-family houses and apartments, in an effort to respond to the diverse needs of our customers and with special consideration for the structural changes occurring in society, such as the aging of the population. In these activities we take selective approaches that are best suited to each individual business region throughout Japan. As a result of our efforts, housing operations posted a 3.1% sales increase from the last year to ¥630,642 million (US\$5,949 million), with operating income of ¥50,299 million (US\$475 million), up 19.1% from the previous term.



#### Le Grand Ralché

Le Grand Ralché features a spacious living room on the 1st floor and a bathroom and toilet on the 2nd floor.

#### Bungalow-style OS type

Features barrier-free living-spaces and crime-prevention systems, and uses surplus nighttime electricity to supply hot water for central heating.



#### New Urban Rental and Living LR type

The LR type flexibly accommodates changes in family make-up.

Among single-family houses, we introduced new products with advanced specifications concerning next-generation energy conservation standards and housing-related health standards. With the serial introduction of our models Statement With E, Statement With G, and Statement With C we strengthened our lineup in the middle and top ranges of single-family houses.

Furthermore, in the proposal-based housing range, our model Le Grand Ralché caters to individualists' diverse requirements, while the bungalow-style OS type stands out for the particular attention given to its barrier-free concept and crime-prevention features, offering

maximum comfort to middle-aged couples. Households with children, on the other hand, will appreciate the independent living enabled by the two-generation model Ff type. These and other products augment our array of housing that proposes new ways of enjoying home ownership. As a distinctly unique new launch, we have started to offer rental housing annexed to an owner-occupied residence, labeled New Urban Rental and Living LR type. This concept is inspired by a legal bill passed this spring, which opens the way to fixed-period leasing contracts. The scheme has been well received due to its multiple merits from rental income subsidizing construction costs and



**Two-generation model Ff type**

Ff type features low sound transmission between sections of the house occupied by households of different generations.

**Séjour L3**

Séjour L3 conforms to rigorous health and environmental standards, as demonstrated by safeguards against volatile organic compounds.



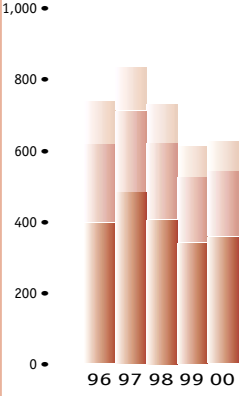
**Séjour FG**

Séjour FG is built with durable and pollution-resistant materials.



**Total Sales of Residential Homes**

(Billions of Yen)



■ Total Sales of Residential Homes  
 ■ Single-Family Houses  
 ■ Apartment Buildings  
 ■ Others

supplementing living expenses in the long term, as well as the easing effect on property and inheritance taxes.

Among new rental housing products, we initiated sales of a 2-story building, named Séjour FG, which is intended for families with young children, as well as the upscale 3-story Séjour L3, whose multicolored exterior designs appeal to a wide range of tenants. Thus, we have been working to widen our product lineup in response to the varied needs of our customers.

In the current term, we expect to see rising sales figures for our Séjour RG Kankyo Shubo, which represents the latest in environmentally sound housing construction at an affordable

price. The sales launch of this model is slated for April 2000. In this way, we have been able to satisfy our customers at a very high level by concentrating our energies on the development and marketing of new products featuring distinct merits compared with rival products. Moreover, to reinforce our condominium operations, we have more efficiently utilized our nationwide housing sales branch network to expand our condominium business beyond the main population centers to regional municipalities.

## COMMERCIAL BUILDINGS

Private-sector capital investments in the term under review remained depressed from the previous term, with commercial-use construction projects such as office buildings, plant, and warehousing facilities displaying few signs of an upturn. In this environment, we reinforced business development in retail merchandising outlets, and started to market products best suited for group homes with in-residence nursing care. As a result, sales posted a 6.8% increase from the previous term to ¥216,734 million (US\$2,045 million), but operating income slipped 10.3% on the year to ¥13,935 million (US\$131 million).

**Across Noshiro**

A locally-owned supermarket and home center are located on a 70,000m<sup>2</sup> plot of land.

**DAIWA CALM 21**

Air conditioners with humidifiers have been installed to protect the health of aged persons during dry winters.



In July 1999, we launched our 2-story office space DAIWA ACE 68. This product is a high-ceiling variation of the DAIWA ACE model, whose affordable price has made it a popular choice for low-ceiling offices and public welfare facilities. While DAIWA ACE 68 sports a higher ceiling, its fixed floor plan helps making it an appealing solution to the cost requirements of corporate customers.

Our DAIWA CALM 21 is a group home developed with the nursing care insurance system in mind, which became effective in April 2000, and is intended for senior occupants suffering from diminished awareness and thus requiring nursing care. Its structure duplicates

that of DAIWA ACE, which lowers construction costs. The concept takes into account that occupants and caretakers should be able to carry out housework smoothly, and provides safety in the home through health-related features and a comprehensive array of electric appliances including motor-driven support devices.

The business of providing outlets for retail merchants has been a cornerstone of our operations. The Company's Land Owner and Company System (LOC) matches land owners with business operators, and drafts proposals for commercial property development. Total support provided comprises the land survey, project concept, project planning, construction

**Across Tamasakai**

Tenants of Across Tamasakai include a well-stocked children's clothing store, which attracts a large number of customers from a wide area, and a locally-owned supermarket.



**Oak Town Nishiminato**

Oak Town Nishiminato includes a restaurant and amusement facility alongside a major road in an industrial area.



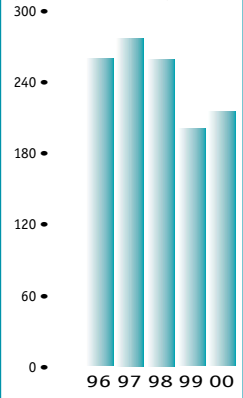
**DAIWA ACE 68**

DAIWA ACE 68 can accommodate up to 32 employees, and is offered in 46 plans and 68 types.



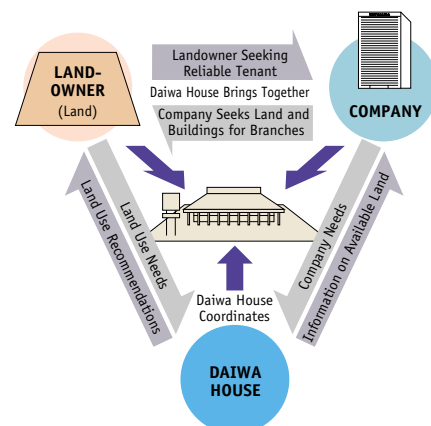
**Sales of Commercial Buildings**

(Billions of Yen)



plans and their execution, and project management and operation. In the term under review, openings of large-scale projects planned by the Company included Oak Town Nishiminato in Fukuoka Prefecture, a food court and amusement facility; Across Noshiro in Akita Prefecture, a comprehensive retail complex grouped around a supermarket with integrated DIY center; and Across Tamasakai in Tokyo, whose blueprint came in first in a contest for the best railway station shopping complex. In the retail outlet business, the Company's 20-year track record covers more than 20,000 projects, and comes with the top rank in project development for nationwide chain operators

with suburban and roadside outlets. We will continue to strengthen the Company's earnings power by further expanding the LOC system, which contains the entirety of market and business data from our nationwide network points.



# RESORT OPERATIONS

The Company's leading position as Japan's largest resort hotel operator rests on the Daiwa Royal Hotels chain, with 30 high-quality hotels nationwide and 4 golf courses in operation. Despite extensive marketing efforts, however, performance for the term was marred by slack consumer spending, which cut revenues 6.9% to ¥37,308 million (US\$352 million), and with a resulting operating loss of ¥8,539 million (US\$81 million) betrayed our best intentions.

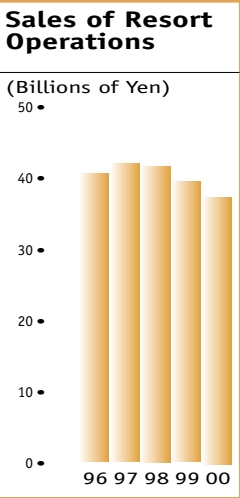
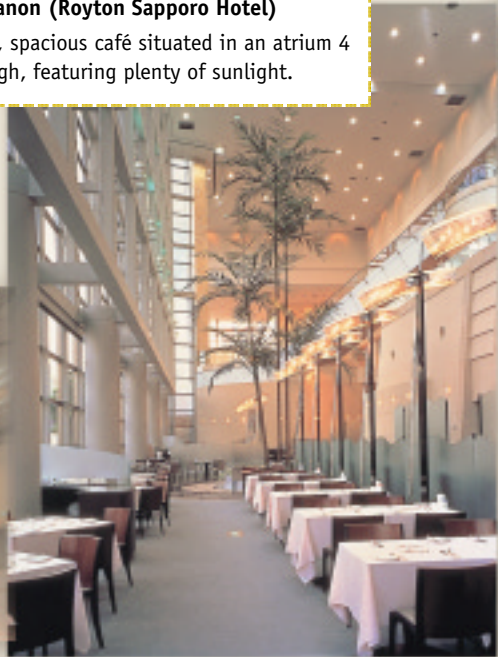


**Royton Sapporo**  
The Royton Sapporo Hotel offers comfortable accommodation, as well as facilities where guests may gather and socialize.

**Café Trianon (Royton Sapporo Hotel)**  
An open, spacious café situated in an atrium 4 floors high, featuring plenty of sunlight.



**Royton Hall (Royton Sapporo Hotel)**  
The largest convention hall in Sapporo, with a floorspace of 1,774m<sup>2</sup>, and ceiling height of 8m.



As a resort hotel, Daiwa Royal Hotels is grounded in the concept of “Harmony between people, nature, and culture,” with each hotel offering an individualized, comfortable environment highlighting the characteristic features of the specific location. In addition to service improvements introduced to all hotels, whose number reached 30 in the term, facility enhancements and renewals were carried out to achieve a yet closer match with user needs. Flagging consumer spending, however, led to difficult operating conditions.

Daiwa Resort, the group member company in charge of managing these facilities, promotes their use for conventions, and training courses as well as for wedding receptions, in addition to

recreational purposes by club members and visitors. Moreover, barrier-free spaces for the aged and disabled are being set up, accompanied by steps towards energy conservation and segregated refuse disposal as part of a group-wide endeavor.

As a measure to increase the number of hotel customers, and with the participation of all Daiwa House Group operations, preparations are currently under way to establish the “Gourmet Circle,” which targets 30,000 members per hotel and 1 million members nationwide. Beginning in April 2000, the scope of member privileges was widened and services further upgraded with a view to quickly restoring positive incomes from these valuable assets.

**Miyagi Zao Royal Hotel**

The Miyagi Zao Royal Hotel offers year-round enjoyment of nature.



**Lobby (Okinawa Zanpamisaki Royal Hotel)**

The hotel features a sunlit lobby with a high ceiling.



**Royal Hall (Miyagi Zao Royal Hotel)**

This banquet hall accommodates up to 800 people.

**Okinawa Zanpamisaki Royal Hotel**

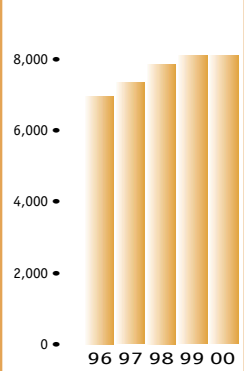
The Okinawa Zanpamisaki Royal Hotel is situated on a cape surrounded by clear blue sea. The hotel is 13 stories high and has 501 guest rooms.



Making the most of our very competitive position as a nationwide resort hotel operator, we will continue to work towards a stable earnings basis.

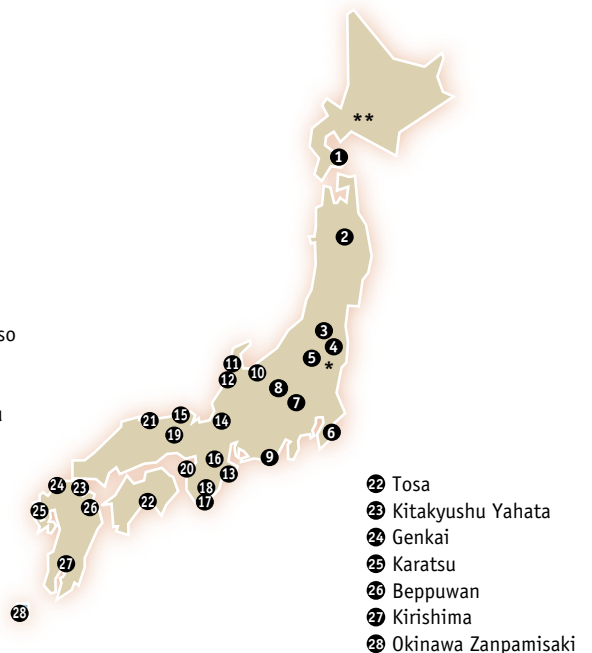
**Number of Guest Rooms**

(Rooms)  
10,000



**Network of Daiwa Royal Hotels**

- ① Shikabe
- ② Hachimantai
- ③ Miyagi Zao
- ④ Urabandai
- ⑤ Rindoko
- ⑥ Minami-Boso Tomiura
- ⑦ Yatsugatake
- ⑧ Shinshu Matsushiro
- ⑨ Hamanako
- ⑩ Tonami
- ⑪ Noto
- ⑫ Yamanaka-Onsen Kajikaso
- ⑬ Ise Shima
- ⑭ Nagahama
- ⑮ Amanohashidate-Miyazu
- ⑯ Kashihara
- ⑰ Kushimoto
- ⑱ Kishu Minabe
- ⑲ Nishiwaki
- ⑳ Minami Awaji
- ㉑ Daisen



NB: Sanraku\* and Royton Sapporo\*\* are affiliated hotels of Daiwa Royal Hotels.

OTHER OPERATIONS

Other operations, with Royal Home Center at their core, have been growing steadily year after year. In the term under review, Daiwa Rakuda Industry, Daiwa Logistics Co., Ltd., Shinwa Agency, as well as Daiwa Service — former equity-method affiliates — were included in consolidated accounts. However, although sales expanded strongly by 172.3% to ¥119,460 million (US\$1,127 million), operating profit was held back to ¥1,271 million (US\$12 million).



**Royal Home Center Oiso in Kanagawa Prefecture**

Gardening goods are displayed in the facility's model garden, covering an area of 800m<sup>2</sup>.

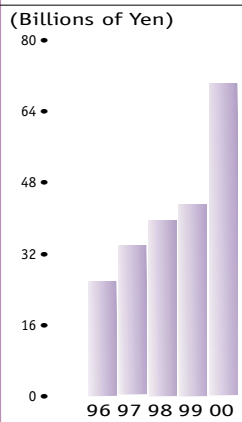
In the Home Center Division, we opened a new outlet in Oiso in the southern part of Kanagawa Prefecture, bringing the total number to 36 nationwide, and systematically refurbished existing facilities. The Royal Home Center Oiso, while ranking among the largest in floor space in Kanagawa Prefecture, features an

practical advice delivered by staff with extensive experience in the DIY field; through hands-on assistance; and as a construction subcontractor against a charge. In this way, we have been providing extensive support to our customers in all DIY and refurbishing matters.

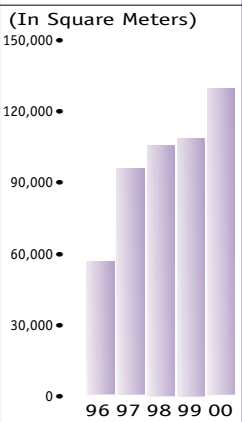
Last year marked the first-ever sales contraction in the home center industry, suggesting an impending sector shake-out. Daiwa House will fully utilize the know-how and the scale merits gained from being an integrated provider and creator of residential living space, and differentiate itself from competitors in its areas of excellence — refurbishment, housing interiors, and gardening. We expect to see operations leap forward as a result. Moreover, Royal Home Center soon expects to start up a leasing business for nursing care equipment in a tie-up with Nippon Care Supply, which will strengthen regional customer relationships through a wider range of goods and services.

overwhelming range of DIY, housing interior, and gardening items, and stands out as a large-scale, full-fledged home center with superior service offerings. Home center staff drawing on the accumulated know-how of Daiwa House Industry allow a three-way approach to competent assistance in creating superior residential environments — through

**Sales of Other Operations**



**Home Center Floor Space**



In contributing to the welfare of society, the involvement of Daiwa House goes beyond its endeavors to enhance people's lives by providing superior housing. The Company also disseminates a wealth of information while hosting symposiums and seminars, mainly through Daiwa House Industry's Central Research Laboratory and the Life Research Center. In this way, Daiwa House Group will persist in its conscientious efforts to create the residence of the future, for a life of comfort and culture in harmony with the environment.

### Keeping in Touch with the Region's Citizens: Daiwa House Industry's Central Research Laboratory

The Central Research Laboratory, which embodies the research and development efforts of Daiwa House Industry, seeks to be a research facility that is accessible to the citizens of its region by practicing two-way communication. The Laboratory offers a "Museum Floor," which displays the most recent research results, and an

exhibition space that uses scaled-down model houses for demonstrating comfortable home life at one with the environment. Other popular attractions include the "Technolab," which offers experimental scenery and the virtual experience of living in "experimental housing" prototypes. Additionally, symposiums open to the public are being held, in which leading researchers and technical experts

participate and discuss their work.

In the aftermath of the 1995 Hanshin-Awaji earthquake, Daiwa House Industry provided 15,000, or nearly one-third, of the approximately 50,000 temporary prefabricated dwellings made available. These housing units have since been shipped gratis by the Japanese authorities to a number of other countries to accommodate victims of natural disasters. Staff of Daiwa House Industry's Central Research Laboratory were dispatched to these recipient countries to provide technical advice and assist in assembling the units.

### Improving Housing, Improving Our Lives — The Living Behavior Research Institute

The Living Behavior Research Institute, whose activities revolve around the topics of housing and living, researches future trends in our ways of life and disseminates its findings in and outside the Company. Outside the Company, the Living Behavior Research Institute selects subjects of particular interest to the general public, and holds regular seminars under the title "Life, Living, and the Home" with active participation from the public. The Living Behavior Research Institute also issues its own periodical, named "Takeoff," which features useful information surrounding topics of daily life. Furthermore, the Company publishes an in-house monthly, "Current," and distributes it to its offices nationwide with the aim of supporting daily operations by presenting useful information from within and outside the Company. Additionally, the "Kitchen Handbook," the "Pet Handbook," and the "Eco Life Handbook" — among yet other publications — present advice and information on cooking and nutrition, pets in the home, and living with the environment, respectively, as a service to the Company's existing and prospective customers.

#### Wine seminar

Ms. Naoko Kaneko, the youngest woman to pass the sommelier examination, was invited to a wine seminar held by the Company.



#### Kitchen handbook

This publication proposes ways to manage the kitchen effectively.

# BOARD OF DIRECTORS AND CORPORATE AUDITORS



Nobuo Ishibashi



Takeshi Togo



Sadao Yoshii



Tamio Ishibashi



Katsuhiko Ohgita



Moritsugu Kawai



Kimitaka Komatsu



Mitsuo Funatsu



Hiroshi Azuma



Katsuyoshi Tateno



Kenji Murakami



Mutsuo Kajimoto



Jiro Torio



Takeshi Kajimoto



Tetsuji Ogawa



Yoshikazu Tano

## Senior Adviser

Nobuo Ishibashi\*

## President

Takeshi Togo\*

## Executive Vice President

Sadao Yoshii\*

## Executive Managing Directors

Tamio Ishibashi\*

Katsuhiko Ohgita

Moritsugu Kawai

## Managing Directors

Kimitaka Komatsu

Mitsuo Funatsu

Hiroshi Azuma

Katsuyoshi Tateno

Kenji Murakami

Mutsuo Kajimoto

Jiro Torio

Takeshi Kajimoto

Tetsuji Ogawa

Yoshikazu Tano

## Directors

Minoru Fujita

Yuzo Kawahara

Toru Nakanishi

Masanori Nishio

Munemitsu Kimura

Isao Kusunoki

Naotake Ohno

Nobuyasu Ishibashi

Takeo Higuchi

## Corporate Auditors

Hiromasa Kobayashi

Toshihiko Emi

Hidetoshi Kawaguchi

Kohei Nakabo

\*Representative Director

(As of June 29, 2000)

# FINANCIAL SECTION

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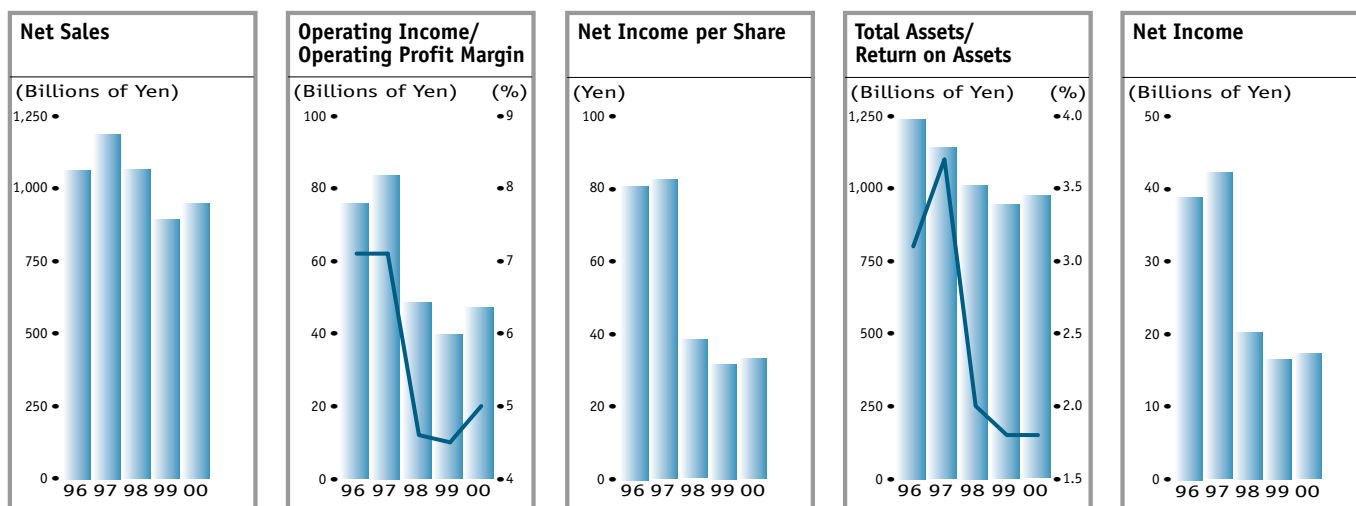
Daiwa House Industry Co., Ltd. and Subsidiaries

## FIVE-YEAR SUMMARY

### CONSOLIDATED

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Years ended March 31	Millions of yen				
	2000	1999	1998	1997	1996
Net sales .....	¥ 951,073	¥896,006	¥1,069,789	¥1,188,295	¥1,066,218
Income before income taxes and minority interests.....	32,123	21,414	48,685	75,601	69,022
Net income .....	17,450	16,699	20,373	42,452	38,992
Per share of common stock (in yen):					
Net income .....	33.52	31.88	38.89	82.76	80.91
Diluted net income .....	33.50		37.91	79.89	77.66
Shareholders' equity .....	1,188.63	1,151.12	1,136.55	1,115.04	1,032.96
Purchases of property, plant and equipment.....	11,960	47,545	28,700	34,133	20,640
Property, plant and equipment, less accumulated depreciation.....	376,489	365,502	346,543	338,166	322,436
Total assets .....	981,893	950,701	1,013,072	1,145,944	1,241,217
Shareholders' equity .....	617,421	603,060	595,429	584,157	515,745



## Operating Results

In the term to March 31, 2000, consolidated net sales increased 6.1% from the previous year to ¥951.1 billion (US\$8,972 million).

The cost of sales ratio edged up 0.2 percentage point to 77.4%.

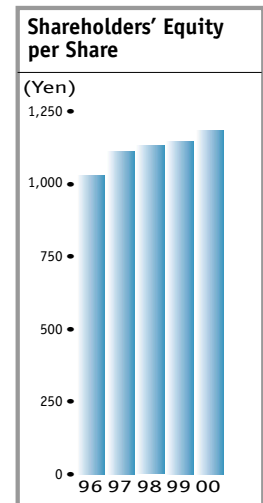
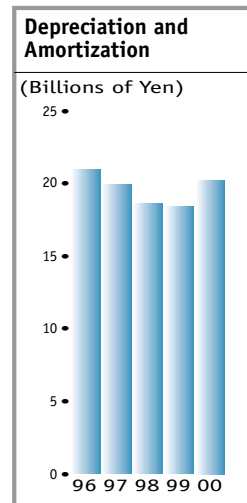
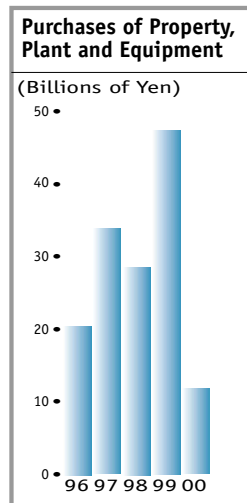
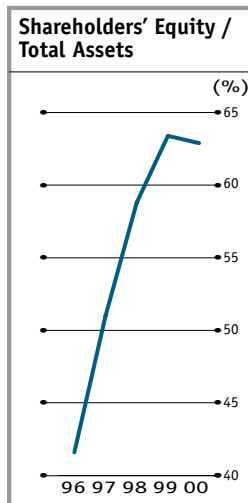
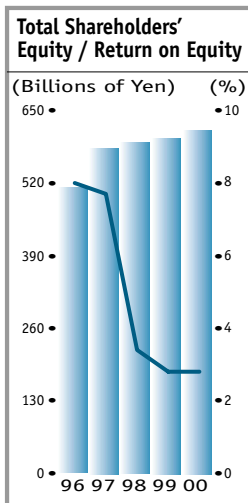
Selling, general, and administrative expenses rose ¥2.8 billion, up 1.7%, to ¥167.3 billion (US\$1,578 million). This figure is equivalent to 17.6% of sales, an improvement of 0.8 percentage point compared with the previous term.

As a result, operating income rose 18.1% to ¥47.5 billion (US\$448 million). The operating income ratio improved 0.5 percentage point from a year ago to 5.0%.

Net income for the period increased 4.5% to ¥17.5 billion (US\$165 million), with earnings per share of ¥33.52 (US\$0.32).

Sales by segment posted a 3.1% increase in residential housing operations, a 6.8% expansion in commercial building operations, and a 6.9% drop in revenues from resort operations. Other operations recorded 172.3% sales growth.

Operating income in the residential housing segment benefited from efforts to trim operating expenses, rising 19.1% to ¥50.3 billion (US\$475 million). In commercial building operations, intense competition in the industry connected to a higher cost of sales ratio, with a 10.3% decline in operating income to ¥13.9 billion (US\$131 million). Resort operations suffered a further deepened operating loss, which worsened 28.3% to ¥8.5 billion (US\$81 million) due to depressed consumer spending. Operating income from other operations reached ¥1.3 billion (US\$12 million) due to the widened scope of consolidated accounts.



### Financial Position

Total assets at term-end were 3.3% higher than a year earlier at ¥981.9 billion (US\$9,263 million), with a 6.1% increase in current assets to ¥449.3 billion (US\$4,238 million), and a 3.0% rise in property, plant, and equipment to ¥376.5 billion (US\$3,552 million).

The aggregate of current liabilities and long-term liabilities declined 1.9% from the previous year to ¥341.0 billion (US\$3,217 million), with a 5.2% drop in current liabilities to ¥194.7 billion (US\$1,837 million).

Shareholders' equity increased 2.4% to ¥617.4 billion (US\$5,825 million), with a 0.5 percentage point drop in the equity ratio to 62.9%. Return on total assets employed (ROA) and return on shareholders' equity (ROE) remained unchanged from the previous year at 1.8% and 2.8%, respectively.

### Cash Flows

Net cash provided by operating activities fell to ¥40.6 billion (US\$383 million) from ¥67.6 billion a year ago, due mainly to an increase in inventories.

Net cash used in investing activities posted ¥9.3 billion (US\$88 million), compared with ¥29.3 billion in the previous term. This change was mostly due to reduced capital expenditures. Purchase of property, plant and equipment fell 74.8% from the previous term to ¥12.0 billion (US\$113 million). The decline reflects the absence of large-scale items in fiscal 1999, such as the cost of head office building construction included in the previous term's capital expenditures.

Net cash used in financing activities came to ¥41.4 billion (US\$391 million), compared with ¥47.7 billion a year earlier.

**CONSOLIDATED BALANCE SHEETS**

March 31, 2000 and 1999

<b>ASSETS</b>	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	1999	2000
<b>Current assets:</b>			
Cash and cash equivalents.....	¥140,617	¥130,489	\$1,326,575
Marketable securities (Note 3) .....		3,331	
Short-term investments (Note 2-d).....	2,173	2,183	20,500
Receivables:			
Trade notes.....	6,052	8,566	57,094
Trade accounts.....	50,196	39,501	473,547
Allowance for doubtful receivables .....	(2,150)	(2,125)	(20,283)
Inventories (Note 4).....	229,793	231,343	2,167,858
Deferred tax assets (Note 11) .....	9,311		87,840
Prepaid expenses and other current assets .....	13,274	10,290	125,226
Total current assets .....	<u>449,266</u>	<u>423,578</u>	<u>4,238,358</u>
 <b>Property, plant and equipment:</b>			
Land .....	187,058	176,074	1,764,698
Buildings and structures .....	300,667	283,732	2,836,481
Machinery and equipment .....	49,215	45,716	464,292
Furniture and fixtures .....	34,266	28,601	323,264
Construction in progress .....	2,697	2,799	25,443
Total.....	573,903	536,922	5,414,179
Accumulated depreciation .....	(197,414)	(171,420)	(1,862,396)
Net property, plant and equipment .....	<u>376,489</u>	<u>365,502</u>	<u>3,551,783</u>
 <b>Investments and other assets:</b>			
Investment securities (Note 3) .....	54,590	52,381	515,000
Investments in and advances to associated companies (Note 3).....	34,700	51,612	327,358
Long-term loans .....	5,798	5,740	54,698
Deferred tax assets (Note 11) .....	3,953		37,292
Lease deposits and other assets .....	57,360	55,142	541,132
Allowance for doubtful accounts .....	(1,238)	(4,390)	(11,679)
Total investments and other assets .....	155,163	160,485	1,463,802
<b>Translation adjustments</b> .....	975	1,136	9,198
<b>Total</b> .....	<u>¥981,893</u>	<u>¥950,701</u>	<u>\$9,263,142</u>

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	1999	2000
<b>Current liabilities:</b>			
Short-term bank loans (Note 5).....		¥ 30,000	
Payables:			
Trade notes .....	¥ 31,434	46,722	\$ 296,547
Trade accounts .....	59,724	42,430	563,434
Construction.....	1,755	5,853	16,557
Deposits received (Note 6).....	41,487	45,277	391,387
Income taxes payable .....	13,351	3,847	125,953
Accrued expenses and other current liabilities .....	46,922	31,306	442,660
Total current liabilities .....	<u>194,673</u>	<u>205,435</u>	<u>1,836,538</u>
<b>Long-term liabilities:</b>			
Long-term debt (Note 5) .....	2,090	2,841	19,717
Employees' retirement benefits (Note 7) .....	19,257	16,757	181,670
Long-term deposits received (Note 6) .....	124,386	122,341	1,173,453
Other long-term liabilities .....	555	22	5,236
Total long-term liabilities .....	<u>146,288</u>	<u>141,961</u>	<u>1,380,075</u>
<b>Minority Interests</b> .....	<u>23,511</u>	<u>245</u>	<u>221,802</u>
<b>Commitments and contingencies</b> (Notes 13, 14 and 15)			
<b>Shareholders' equity</b> (Notes 5, 8 and 16):			
Common stock, ¥50 par value — authorized, 1,900,000,000 shares; issued and outstanding, 523,893,045 shares in both 2000 and 1999 .....	108,781	108,781	1,026,236
Additional paid-in capital .....	122,041	122,041	1,151,330
Retained earnings .....	390,206	372,240	3,681,189
Total .....	621,028	603,062	5,858,755
Treasury stock — at cost .....	(3,607)	(2)	(34,028)
Total shareholders' equity .....	<u>617,421</u>	<u>603,060</u>	<u>5,824,727</u>
<b>Total</b> .....	<u>¥981,893</u>	<u>¥950,701</u>	<u>\$9,263,142</u>

**CONSOLIDATED STATEMENTS OF INCOME**

Years ended March 31, 2000, 1999 and 1998

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2000	1999	1998	2000
<b>Net sales:</b>				
Construction .....	¥714,083	¥697,049	¥ 850,265	\$6,736,632
Real estate .....	122,504	127,286	142,432	1,155,698
Other .....	114,486	71,671	77,092	1,080,057
Total net sales .....	951,073	896,006	1,069,789	8,972,387
<b>Cost of sales:</b>				
Construction .....	543,821	527,383	651,346	5,130,387
Real estate .....	108,200	109,021	129,747	1,020,755
Other .....	84,289	54,914	53,314	795,179
Total cost of sales .....	736,310	691,318	834,407	6,946,321
<b>Gross profit</b> .....	214,763	204,688	235,382	2,026,066
<b>Selling, general and administrative expenses</b> .....	167,266	164,473	186,932	1,577,981
<b>Operating income</b> .....	47,497	40,215	48,450	448,085
<b>Other income (expenses):</b>				
Interest and dividends .....	911	2,002	2,513	8,594
Interest expense (Note 5) .....	(434)	(976)	(1,160)	(4,094)
Gain (loss) on sales of marketable and investment securities .....	296	(13,546)	114	2,792
Write-down of marketable and investment securities .....	(44)	(3,349)	(555)	(415)
Write-down of land held for resale .....	(12,567)			(118,557)
Allowance for doubtful accounts .....	550	(2,397)	(236)	5,189
Other — net (Note 10) .....	(4,086)	(535)	(441)	(38,547)
Other income (expenses) — net .....	(15,374)	(18,801)	235	(145,038)
<b>Income before income taxes and minority interests</b> .....	32,123	21,414	48,685	303,047
<b>Income taxes (Note 11):</b>				
Current .....	18,440	4,652	28,270	173,962
Deferred .....	(4,426)			(41,755)
Total .....	14,014	4,652	28,270	132,208
<b>Minority interests in net income of subsidiaries</b> .....	(659)	(63)	(42)	(6,217)
<b>Net income</b> .....	¥ 17,450	¥ 16,699	¥ 20,373	\$ 164,623
		Yen		U.S. dollars
<b>Per share of common stock (Note 2-p):</b>				
Net income .....	¥33.52	¥31.88	¥38.89	\$0.32
Diluted net income .....	33.50		37.91	0.32
Cash dividends applicable to the year .....	17.00	17.00	17.00	0.16

See notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended March 31, 2000, 1999 and 1998

	Thousands	Millions of yen		
	Outstanding number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings
<b>Balance, April 1, 1997</b> .....	523,891	¥108,780	¥122,040	¥353,338
Net income .....				20,373
Cash dividends, ¥17.0 per share .....				(8,906)
Bonuses to directors and corporate auditors .....				(196)
Shares issued on conversion of convertible bonds .....	<u>2</u>	<u>1</u>	<u>1</u>	
<b>Balance, March 31, 1998</b> .....	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)
<b>Balance, March 31, 1999</b> .....	523,893	108,781	122,041	372,240
Adjustment of retained earnings for the adoption of deferred tax accounting method (Note 2-k).....				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)
<b>Balance, March 31, 2000</b> .....	<u>523,893</u>	<u>¥108,781</u>	<u>¥122,041</u>	<u>¥390,206</u>

	Thousands of U.S. dollars (Note 1)		
	Common stock	Additional paid-in capital	Retained earnings
<b>Balance, March 31, 1999</b> .....	\$1,026,236	\$1,151,330	\$3,511,698
Adjustment of retained earnings for the adoption of deferred tax accounting method (Note 2-k).....			87,292
Net income .....			164,623
Adjustment of retained earnings for removal of associated companies which were accounted for by the equity method.....			1,746
Cash dividends, \$0.16 per share.....			(83,651)
Bonuses to directors and corporate auditors .....			(519)
<b>Balance, March 31, 2000</b> .....	<u>\$1,026,236</u>	<u>\$1,151,330</u>	<u>\$3,681,189</u>

See notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31, 2000, 1999 and 1998

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2000	1999	1998	2000
<b>Operating activities:</b>				
Income before income taxes and minority interests .....	¥ 32,123	¥ 21,414	¥ 48,685	\$ 303,047
Adjustments to reconcile net income before income taxes and minority interests to net cash provided by operating activities:				
Income taxes — paid .....	(9,933)	(11,867)	(37,250)	(93,708)
Depreciation and amortization .....	20,327	18,453	18,710	191,764
Loss (gain) on sales of marketable and investment securities .....	(280)	13,546	(114)	(2,642)
Write-down of marketable and investment securities ....		3,349	555	
Write-down of land held for resale .....	12,567			118,557
Loss on liquidation of associated companies .....	1,126			10,623
Loss on sales and disposal of property, plant and equipment .....	1,220	728	2,055	11,509
Equity in earnings of associated companies .....	(752)	(530)	(448)	(7,094)
Provision for employees' retirement benefits, net of payments .....	994	(373)	1,054	9,377
Changes in certain assets and liabilities, net of effects from newly consolidated subsidiaries:				
Decrease in receivables .....	1,219	8,523	18,538	11,500
Decrease (increase) in inventories .....	(10,052)	40,770	44,756	(94,830)
Decrease in payables — trade .....	(7,081)	(23,660)	(43,577)	(66,802)
Decrease in current deposits received .....	(4,344)	(5,672)	(24,242)	(40,981)
Other — net .....	3,440	2,893	(3,917)	32,453
Total adjustments .....	8,451	46,160	(23,880)	79,726
Net cash provided by operating activities .....	40,574	67,574	24,805	382,774
<b>Investing activities:</b>				
Purchases of property, plant and equipment .....	(11,960)	(47,545)	(28,700)	(112,830)
Purchases of marketable and investment securities .....	(514)	(18,604)	(25,724)	(4,849)
Increase in investments in and advances to associated companies .....	(626)	(1,650)	(2,497)	(5,906)
Proceeds from sales of marketable and investment securities .....	4,385	13,792	30,279	41,368
Proceeds from sales of property, plant and equipment ....	120	9,200	6,546	1,132
Decrease in investments in and advances to associated companies .....		800	46	
Decrease in long-term loans .....		17,931	2	
Net decrease (increase) in and other assets .....	(745)	(3,245)	7,901	(7,028)
Net cash used in investing activities .....	(9,340)	(29,321)	(12,147)	(88,113)
<b>Financing activities:</b>				
Net increase (decrease) in commercial paper .....		(30,000)	30,000	
Net increase (decrease) in short-term bank loans .....	(30,000)	(8,315)	628	(283,019)
Proceeds from long-term debt .....			13	
Repayments of long-term debt .....	(360)	(450)	(109,571)	(3,396)
Purchases of treasury stock .....	(1,914)			(18,057)
Dividends paid .....	(9,169)	(8,906)	(8,906)	(86,500)
Net cash used in financing activities .....	(41,443)	(47,671)	(87,836)	(390,972)
<b>Effect of exchange rate changes on cash and cash equivalents .....</b>				
	(56)			(528)
Net decrease in cash and cash equivalents .....	(10,265)	(9,418)	(75,178)	(96,840)
Cash and cash equivalents, beginning of year .....	130,489	139,907	215,085	1,231,028
Cash and cash equivalents of newly consolidated subsidiaries, beginning of year .....	20,393			192,387
Cash and cash equivalents, end of year .....	¥140,617	¥130,489	¥139,907	\$1,326,575
<b>Noncash financing activities:</b>				
Convertible bonds converted into common stock .....			¥ 2	

See notes to consolidated financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 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 subsidiaries 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.

Effective April 1, 1999, consolidated statements of cash flows are required to be prepared under Japanese accounting standards, and those for the years ended March 31, 2000, 1999 and 1998 are presented herein.

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 ¥106 to \$1, the approximate rate of exchange at March 31, 2000. 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") except for a subsidiary which, if consolidated, would not have a material effect on the accompanying consolidated financial statements.

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 in which the Parent, directly or indirectly, is able to exercise control over operations 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 years ended March 31, 1999 and 1998 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. The scope of cash equivalents in 1999 and 1998 was changed from investments that mature within one year to those that mature within three months, to conform with the presentation in 2000.

### c. Marketable and investment securities

Marketable and investment securities are stated at cost determined by the average method. However, appropriate write-downs are recorded for securities with values considered to have been permanently or substantially impaired.

### 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 ¥101 million (\$953 thousand) and ¥20 million as of March 31, 2000 and 1999.

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**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 annual provisions for employees' retirement benefits are calculated to state the liability at 40% of the amounts which would have been required if all employees voluntarily terminated at each balance sheet date. Retirement benefits to directors and corporate auditors are subject to the approval of the shareholders and are charged to expense when paid.

In addition, the Company and certain subsidiaries have a trustee pension plan for which the policy is to fund and charge to expense, normal costs as accrued on the basis of an accepted actuarial method.

**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.

Deferred income taxes are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These 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**

Short-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rates at each balance sheet date. Long-term receivables and payables denominated in foreign currencies are translated into Japanese yen at historical exchange rates except for short- and long-term receivables and payables which are translated using the exchange rates set forth in the applicable forward exchange contracts.

In the case where there is significant fluctuation of currencies with possible exchange losses, long-term receivables or payables denominated in foreign currencies are translated at the current exchange rates in effect at the balance sheet date.

**n. Foreign currency financial statements**

The balance sheet accounts of the overseas subsidiaries and associated companies are translated into Japanese yen at current exchange rates as of the balance sheet date except for shareholders' equity, which is translated at historical exchange rates. Differences arising from such translation are shown as "Translation adjustments" in the accompanying consolidated balance sheets. Revenue and expense accounts of the overseas subsidiaries and associated companies are translated into Japanese yen at the current exchange rates.

**o. Reclassifications**

Certain reclassifications have been made to the 1999 and 1998 financial statements to conform to the classifications used in 2000.

**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 520,525 thousand, 523,893 thousand and 523,893 thousand shares for 2000, 1999 and 1998, 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) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

Diluted net income per share of common stock for the year ended March 31, 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**

Carrying amounts and aggregate market values of current and non-current marketable securities at March 31, 2000 and 1999 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2000		1999		2000	
	Carrying amount	Aggregate market value	Carrying amount	Aggregate market value	Carrying amount	Aggregate market value
Current — marketable securities....			¥ 3,331	¥ 5,570		
Non-current:						
Investment securities .....	¥51,197	¥63,263	49,281	57,760	\$482,991	\$596,821
Investments in associated companies.....	31,059	16,918	43,891	28,262	293,009	159,604
Government and corporate bonds.....	203	207			1,915	1,953
Total .....	<u>¥82,459</u>	<u>¥80,388</u>	<u>¥96,503</u>	<u>¥91,592</u>	<u>\$777,915</u>	<u>\$758,377</u>

The difference between the above carrying amounts and the amounts shown in the accompanying balance sheets 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, 2000 and 1999 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
	Finished residential homes and condominiums .....	¥ 11,274	¥ 15,303
Construction projects in progress .....	21,813	28,593	205,783
Residential homes and condominiums in process .....	11,296	7,234	106,566
Land held:			
For resale .....	139,592	137,931	1,316,905
Under development.....	24,660	23,316	232,642
Undeveloped.....	8,372	8,881	78,981
Construction materials and supplies .....	12,786	10,086	120,623
Total .....	<u>¥229,793</u>	<u>¥231,343</u>	<u>\$2,167,858</u>

The Companies engage 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 Companies purchase land for development and resale.

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

Short-term bank loans at March 31, 1999 consisted principally of bank overdrafts. The annual interest rates for the short-term bank loans ranged from 0.7% to 1.2% at March 31, 2000 and from 0.6% to 1.5% at March 31, 1999.

Long-term debt at March 31, 2000 and 1999 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Convertible bonds:			
2.0% convertible bonds due 2002.....	¥2,090	¥2,450	\$19,717
Unsecured loans from banks.....		391	
Total.....	<u>¥2,090</u>	<u>¥2,841</u>	<u>\$19,717</u>

All outstanding convertible bonds of the Company at March 31, 2000 were convertible into 1,287 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 102% 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 ¥372,860 million (\$3,517,547 thousand) at March 31, 2000 (see Note 8).

## 6. Current and Long-term Deposits Received

Current deposits received at March 31, 2000 and 1999 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Advances from customers on signed or future sales contracts.....	¥28,676	¥31,648	\$270,528
Deposits from customers, primarily for incidental costs such as registration fees, etc. ....	10,259	11,027	96,783
Other .....	2,552	2,602	24,075
Total .....	<u>¥41,487</u>	<u>¥45,277</u>	<u>\$391,387</u>

Long-term deposits received at March 31, 2000 and 1999 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Deposits from the Company's club members .....	¥ 76,353	¥ 79,849	\$ 720,311
Deposits from members of golf courses .....	6,812	7,838	64,264
Deposits from sales agents and subcontractors .....	9,119	8,879	86,028
Deposits from lessee .....	31,782	25,726	299,830
Other .....	320	49	3,019
Total .....	<u>¥124,386</u>	<u>¥122,341</u>	<u>\$1,173,453</u>

The Companies operate 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.

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## 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 trustee pension plan covering most employees of the Company and aforementioned companies. At March 31, 1999 and 1998 (the most recent available valuation dates), the assets of the plan amounted to ¥108,333 million (\$1,022,009 thousand) and ¥96,161 million, and the proportion of the plan assets based on the number of employees of the Company and the subsidiaries was 90.3% (ten subsidiaries) and 82.7% (four subsidiaries), respectively. Prior service cost is being amortized over 20 years.

Total charges to expense for the retirement and pension plans were ¥6,964 million (\$65,698 thousand), ¥8,777 million and ¥5,487 million for the years ended March 31, 2000, 1999 and 1998, respectively.

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## 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 ¥14,510 million (\$136,887 thousand) and ¥13,610 million as of March 31, 2000 and 1999, 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, 2000, retained earnings recorded on the books included ¥328,455 million (\$3,098,632 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 Companies for the years ended March 31, 2000, 1999 and 1998 is as follows:

### Sales and operating income

	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

	Thousands of U.S. dollars					
	2000					
	Residential	Commercial	Resort	Other	Corporate	Consolidated
Sales to customers .....	\$5,923,821	\$2,030,462	\$351,962	\$ 666,142		\$8,972,387
Intersegment sales.....	25,632	14,198		460,840	\$(500,670)	
Total sales .....	5,949,453	2,044,660	351,962	1,126,981	(500,670)	8,972,387
Operating expenses.....	5,474,934	1,913,198	432,519	1,114,991	(411,340)	8,524,302
Operating income (loss) .....	\$ 474,519	\$ 131,462	\$(80,557)	\$ 11,990	\$ (89,330)	\$ 448,085

	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

	Millions of yen					
	1998					
	Residential	Commercial	Resort	Other	Corporate	Consolidated
Sales to customers .....	¥729,305	¥259,161	¥41,593	¥39,730		¥1,069,789
Intersegment sales .....		1,361	705	768	¥ (2,834)	
Total sales .....	729,305	260,522	42,298	40,498	(2,834)	1,069,789
Operating expenses.....	684,906	242,875	48,191	42,097	9,414	1,027,483
Operating income (loss) before adjustment of enterprise tax.....	¥ 44,399	¥ 17,647	¥(5,893)	¥(1,599)	¥(12,248)	42,306
Enterprise tax (income tax) included in operating expenses .....						(6,144)
Operating income .....						¥ 48,450

## Assets, depreciation and capital investments

	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

	Thousands of U.S. dollars					
	2000					
	Residential	Commercial	Resort	Other	Corporate	Consolidated
Assets .....	\$3,086,623	\$1,252,783	\$1,594,623	\$861,113	\$2,468,000	\$9,263,142
Depreciation .....	43,283	19,849	77,132	33,189	18,311	191,764
Capital investments .....	43,425	25,132	34,302	44,377	12,415	159,651

	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

	Millions of yen					
	1998					
	Residential	Commercial	Resort	Other	Corporate	Consolidated
Assets .....	¥363,580	¥105,191	¥186,569	¥70,088	¥287,644	¥1,013,072
Depreciation .....	5,628	1,907	9,029	1,191	101	17,856
Capital investments .....	6,746	6,761	12,226	958	7,371	34,062

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			Operations of hotels and golf courses	Operations 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, 2000, 1999 and 1998 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2000	1999	1998	2000
Equity in earnings of associated companies .....	¥ 752	¥ 530	¥ 449	\$ 7,094
Exchange gains and losses .....	(292)	(91)	1,047	(2,755)
Loss on sales and disposal of property, plant and equipment .....	(1,199)	(728)	(2,055)	(11,311)
Real estate acquisition tax and other taxes .....	(1,206)	(381)	(414)	(11,377)
Retirement benefits for directors .....	(2,298)			(21,679)
Loss on liquidation of associated companies .....	(1,126)			(10,623)
Other — net .....	1,283	135	532	12,104
Total .....	<u>¥(4,086)</u>	<u>¥(535)</u>	<u>¥ (441)</u>	<u>\$ (38,547)</u>

**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%, 47.5% and 51.2% for the years ended March 31, 2000, 1999 and 1998, respectively.

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

	Year Ended March 31, 2000	
	Millions of yen	Thousands of U.S. dollars
<b>Current:</b>		
Deferred tax assets:		
Write-down of land held for resale .....	¥ 5,278	\$ 49,792
Accrued bonus .....	1,273	12,009
Accrued business tax .....	1,155	10,896
Other .....	1,605	15,142
Deferred tax assets .....	<u>¥ 9,311</u>	<u>\$ 87,840</u>
<b>Non-current:</b>		
Deferred tax assets:		
Employees' retirement benefits .....	¥ 1,523	\$ 14,368
Unrealized gains on sales of property .....	2,481	23,406
Other .....	1,441	13,594
Deferred tax assets .....	<u>5,445</u>	<u>51,368</u>
Deferred tax liabilities:		
Retained earnings appropriated for tax allowable reserves .....	(1,441)	(13,594)
Other .....	(51)	(481)
Deferred tax assets .....	<u>(1,492)</u>	<u>(14,075)</u>
Net deferred tax assets .....	<u>¥ 3,953</u>	<u>\$ 37,292</u>

A reconciliation between the normal effective statutory tax rate for the year ended March 31, 2000 and the actual effective tax rate reflected in the accompanying consolidated statement of income is as follows:

	Year Ended March 31, 2000
Normal effective statutory tax rate .....	42.0%
Increase (decrease) in tax rates due to:	
Permanently non-deductible expenses .....	3.0
Equity in earnings of associated companies .....	(1.0)
Other — net .....	(0.4)
Actual effective tax rate .....	<u>43.6%</u>

The normal effective statutory tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 1999 and 1998 differ from the actual 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 ¥4,863 million (\$45,877 thousand), ¥3,882 million and ¥4,386 million for the years ended March 31, 2000, 1999, and 1998, respectively.

## 13. Leases

Total lease payments under finance leases that are not deemed to transfer ownership of the leased property to the lessee were ¥4,337 million (\$40,915 thousand), ¥6,122 million, and ¥5,713 million for the years ended March 31, 2000, 1999 and 1998, 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, 2000 and 1999 were as follows:

	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 .....	<u>¥1,717</u>	<u>¥272</u>	<u>¥ 5,307</u>	<u>¥ 7,296</u>
	Thousands of U.S. dollars			
	2000			
	Buildings and Structures	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost .....	\$49,047	\$5,623	\$122,858	\$177,528
Accumulated depreciation .....	32,849	3,057	72,792	108,698
Net leased property .....	<u>\$16,198</u>	<u>\$2,566</u>	<u>\$ 50,066</u>	<u>\$ 68,830</u>
	Millions of yen			
	1999			
	Buildings and Structures	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost .....	¥14,318	¥548	¥11,654	¥26,520
Accumulated depreciation .....	8,070	352	6,676	15,098
Net leased property .....	<u>¥ 6,248</u>	<u>¥196</u>	<u>¥ 4,978</u>	<u>¥11,422</u>

Obligations under such finance leases as of March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
	Due within one year .....	¥3,356	¥ 5,483
Due after one year .....	3,940	5,939	37,170
Total .....	<u>¥7,296</u>	<u>¥11,422</u>	<u>\$68,830</u>

The amount of acquisition cost and obligations under finance leases includes the imputed interest expense portion.

Depreciation expense, which are not reflected in the accompanying statements of income, computed by the straight-line method were ¥4,337 million (\$40,915 thousand) and ¥6,122 million for the years ended March 31, 2000 and 1999, respectively.

Obligations and future rental income under non-cancellable operating leases as of March 31, 2000 and 1999 were as follows:

<i>(Lessee)</i>	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Due within one year .....	¥ 14,742	¥ 13,973	\$ 139,075
Due after one year .....	164,514	158,262	1,552,019
Total .....	<u>¥179,256</u>	<u>¥172,235</u>	<u>\$1,691,094</u>
 <i>(Lessor)</i>	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Due within one year .....	¥ 8,533	¥ 6,945	\$ 80,500
Due after one year .....	114,013	91,823	1,075,594
Total .....	<u>¥122,546</u>	<u>¥98,768</u>	<u>\$1,156,094</u>

#### 14. Derivatives

The Company has entered into foreign exchange forward contracts to hedge market risk from the 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, 2000, 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, 2000 aggregated approximately ¥1,733 million (\$16,349 thousand).

**Contingencies** — At March 31, 2000, contingent liabilities for notes endorsed with recourse and loans guaranteed in the ordinary course of business amounted to ¥2,798 million (\$26,396 thousand) and ¥116,990 million (\$1,103,679 thousand), respectively. Included in loans guaranteed were customers' housing loans from banks in the amount of ¥114,742 million (\$1,082,472 thousand).

#### 16. Subsequent Event

The following appropriations of retained earnings at March 31, 2000 were approved at the Company's shareholders' meeting held on June 29, 2000:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥17.0 (\$0.16) per share.....	¥8,867	\$83,651

## INDEPENDENT AUDITORS' REPORT

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Tohmatsu & Co.  
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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, 2000 and 1999, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2000, 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, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2000, in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

As described 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.

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 29, 2000

<p>■ <b>Established</b> April 5, 1955</p> <p>■ <b>Common Stock</b> ¥108,781 million (US\$1,026,236 thousand)</p> <p>■ <b>Authorized Shares</b> 1,900,000,000 shares</p> <p>■ <b>Principal Shareholders</b></p> <table border="0"> <tr> <td>The Sumitomo Bank, Limited .....</td> <td>23,930</td> </tr> <tr> <td>The Tokai Bank, Limited .....</td> <td>23,930</td> </tr> <tr> <td>The Fuji Bank, Limited .....</td> <td>23,930</td> </tr> <tr> <td>The European Bank for Reconstruction and Development.....</td> <td>21,353</td> </tr> <tr> <td>The Dai-ichi Mutual Life Insurance Company.....</td> <td>15,547</td> </tr> <tr> <td>Nippon Life Insurance Company.....</td> <td>14,501</td> </tr> <tr> <td>The Mitsui Trust and Banking Company, Limited .....</td> <td>13,453</td> </tr> <tr> <td>The Chase Manhattan Bank, N.A., London .....</td> <td>12,644</td> </tr> <tr> <td>The Mitsubishi Trust and Banking Corporation (Trust Account).....</td> <td>12,298</td> </tr> <tr> <td>Sumitomo Life Insurance Company .....</td> <td>10,999</td> </tr> </table>	The Sumitomo Bank, Limited .....	23,930	The Tokai Bank, Limited .....	23,930	The Fuji Bank, Limited .....	23,930	The European Bank for Reconstruction and Development.....	21,353	The Dai-ichi Mutual Life Insurance Company.....	15,547	Nippon Life Insurance Company.....	14,501	The Mitsui Trust and Banking Company, Limited .....	13,453	The Chase Manhattan Bank, N.A., London .....	12,644	The Mitsubishi Trust and Banking Corporation (Trust Account).....	12,298	Sumitomo Life Insurance Company .....	10,999	<p>■ <b>Issued and Outstanding Shares</b> 523,893,045 shares</p> <p>■ <b>Shareholders</b> 32,172</p> <p>■ <b>Employees (Consolidated)</b> 16,245</p> <p>(thousands of shares)</p>
The Sumitomo Bank, Limited .....	23,930																				
The Tokai Bank, Limited .....	23,930																				
The Fuji Bank, Limited .....	23,930																				
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Sumitomo Life Insurance Company .....	10,999																				

(As of March 31, 2000)

- **Securities Traded**  
Tokyo, Osaka, Nagoya, Sapporo, Kyoto, and Fukuoka Stock Exchanges
- **Auditors**  
Deloitte Touche Tohmatsu
- **Subsidiaries and Affiliates**  
29 consolidated subsidiaries, 1 non-consolidated subsidiary, 11 affiliates under the equity method and 1 affiliate under the non-equity method.

■ **Domestic Offices**

**Head Office**  
3-5, 3-chome, Umeda, Kita-ku, Osaka 530-8241  
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13-1, 3-chome, Iidabashi, Chiyoda-ku,  
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

**Central Research Laboratory**  
6-2, 6-chome, Sakyo, Nara 631-0801  
Phone: (0742) 70-2110

**Branch Offices**  
Sapporo, Aomori, Iwate, Sendai, Akita, Yamagata, Fukushima, Ibaraki, Utsunomiya, Gunma, Tama, Saitama, Kawagoe, Chiba, Funabashi, Matsudo, Yokohama, Atsugi, Niigata, Nagano, Gifu, Shizuoka, Hamamatsu, Numazu, Mie, Yokkaichi, Okazaki, Aichi-Kita, Toyama, Kanazawa, Fukui, Shiga, Kyoto, Sakai, Yao, Hokusetsu, Nara, Wakayama, Kobe, 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

■ **Overseas Affiliates**

**Beijing East Palace Apartment Co., Ltd.**  
25, Zaoying lu, Chaoyang District, Beijing, China  
Phone: (10) 467-8811  
Fax: (10) 467-8006

**Shanghai International Realty Co., Ltd.**  
Room 1507, Shanghai International Trade Centre 2200, Yanan xi lu, Shanghai, China  
Phone: (21) 275-9646  
Fax: (21) 275-0031

**Tianjin Jiuhé International Villa Co., Ltd.**  
140, Weiguo Road, Hedong District, Tianjin, China  
Phone: (22) 434-7645  
Fax: (22) 434-7647

**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) 761-7584  
Fax: (411) 761-7594

**Dalian Fuji Zhuang International Villa Co., Ltd.**  
63, Binhai xi lu, Dalian, China  
Phone: (411) 238-1156  
Fax: (411) 267-1154

**DAIWA HOUSE INDUSTRY CO., LTD.**

3-5, 3-chome, Umeda, Kita-ku, Osaka 530-8241

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