

A N N U A L

R E P O R T

Creating a Comfortable, Healthy Living Environment

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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

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

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?

Thanks 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?

To 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

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

We 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?

The 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?

The 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?

In 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?

As 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?

To 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.

As 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

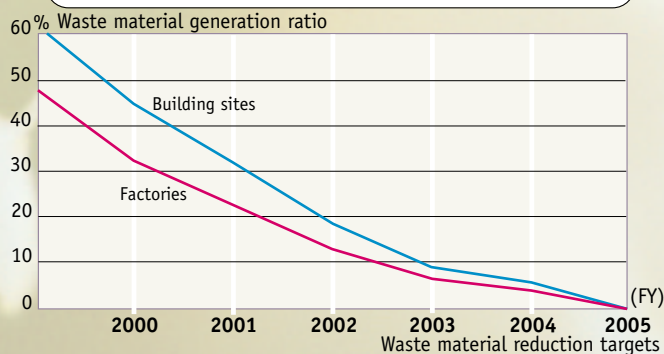
In line with its basic environmental policy, described above, Daiwa House Industry has drawn up a Voluntary Environment Action Plan, which sets out medium-to-long-term Company-wide targets for energy conservation, the reduction of waste emission levels, reduction in the use of harmful chemical substances, 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:

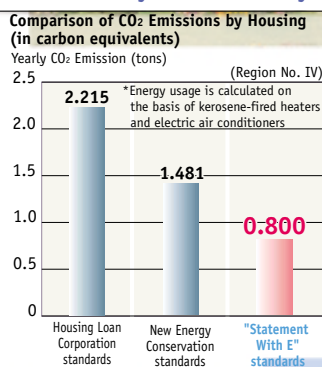
Reducing electric power loads

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 CO₂ 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

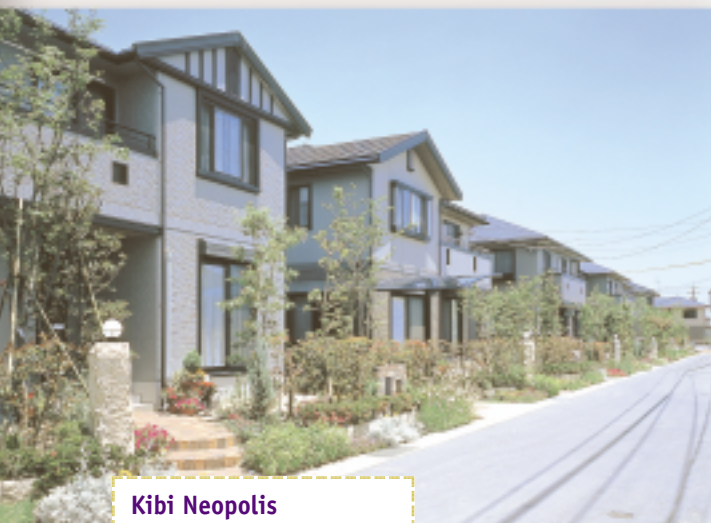
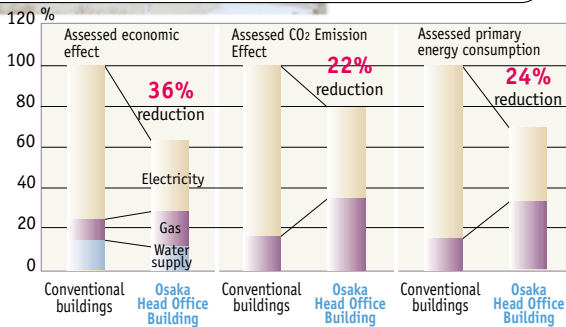
A new rental home that conforms to Next Generation Energy Conservation Standards, as houses are well insulated and thus save energy.



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.

RESIDENTIAL HOMES

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.



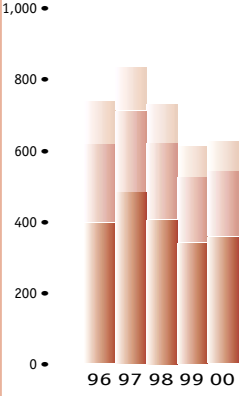
Séjour FG

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 70,000m² 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.



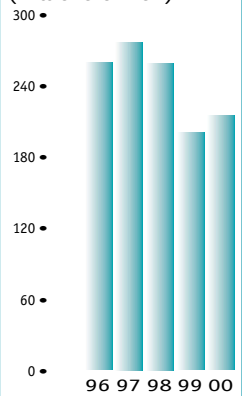
DAIWA ACE 68

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



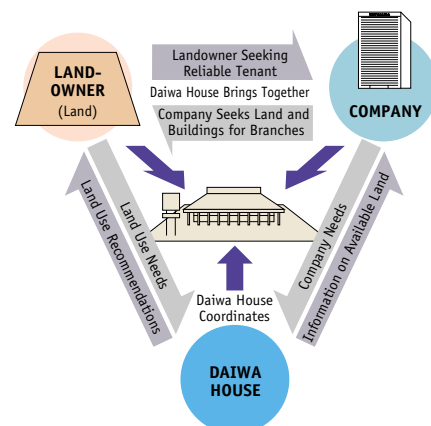
Sales of Commercial Buildings

(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.

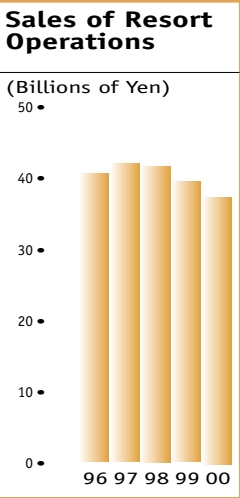
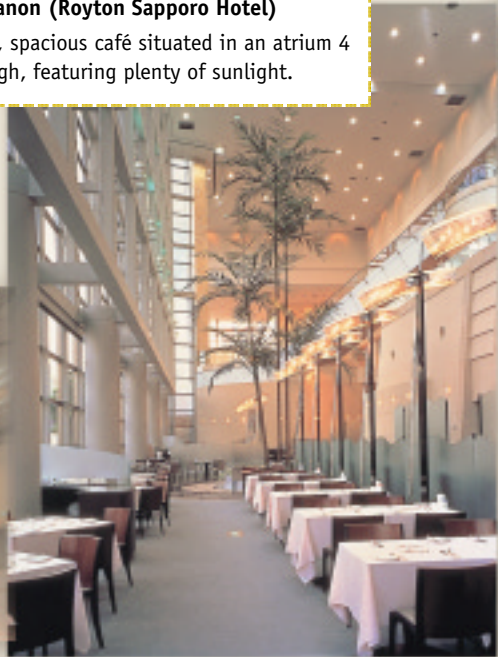


Royton Sapporo
The Royton Sapporo Hotel offers comfortable accommodation, as well as facilities where guests may gather and socialize.

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 1,774m², 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

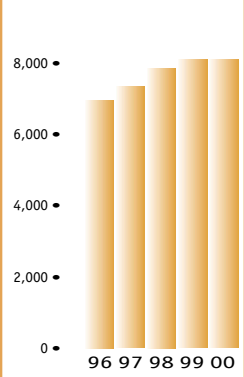
The Okinawa Zanpamisaki Royal Hotel is situated on a cape surrounded by clear blue sea. The hotel is 13 stories high and has 501 guest rooms.



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

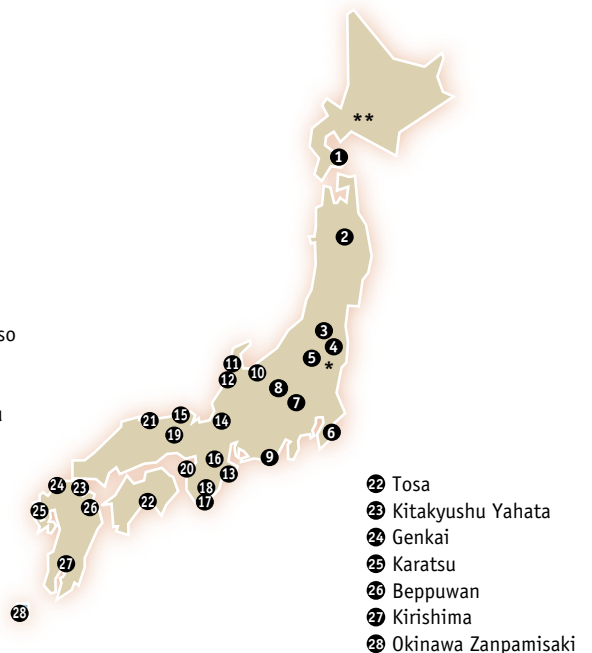
Number of Guest Rooms

(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 800m².

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

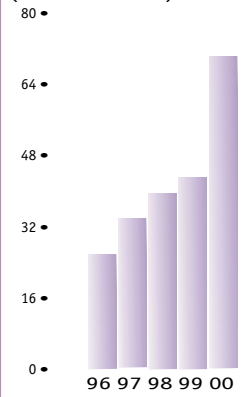
practical advice delivered by staff with extensive experience in the DIY field; through hands-on assistance; and as a construction subcontractor against a charge. In this way, we have been providing extensive support to our customers in all DIY and refurbishing matters.

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

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.

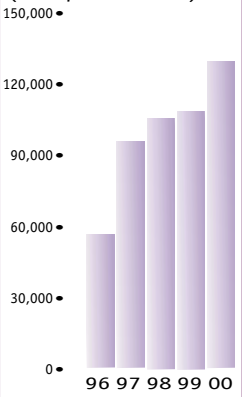
Sales of Other Operations

(Billions of Yen)



Home Center Floor Space

(In Square Meters)



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

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Executive Managing Directors

Tamio Ishibashi*

Katsuhiko Ohgita

Moritsugu Kawai

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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)

<p>■ Established April 5, 1955</p> <p>■ Common Stock ¥108,781 million (US\$1,026,236 thousand)</p> <p>■ Authorized Shares 1,900,000,000 shares</p> <p>■ Principal Shareholders</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>■ Issued and Outstanding Shares 523,893,045 shares</p> <p>■ Shareholders 32,172</p> <p>■ Employees (Consolidated) 16,245</p> <p>(thousands of shares)</p>
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(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
Phone: (06) 6342-1402
Fax: (06) 6342-1591
<http://www.daiwahouse.co.jp/>

Tokyo Office
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