CONSOLIDATED BALANCE SHEETS

March 31, 2000 and 1999

ASSETS	Millions of yen 2000	Millions of yen 1999	Thousands of U.S. dollars (Note 1) 2000
Current assets:			
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	**449,266**	423,578	**4,238,358**
Property, plant and equipment:			
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	**376,489**	365,502	**3,551,783**
Investments and other assets:			
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**
Translation adjustments	**975**	1,136	**9,198**
Total	**¥981,893**	¥950,701	**$9,263,142**

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	1999	**2000**
Current liabilities:			
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	**194,673**	205,435	**1,836,538**
Long-term liabilities:			
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	**146,288**	141,961	**1,380,075**
Minority Interests	**23,511**	245	**221,802**
Commitments and contingencies (Notes 13, 14 and 15)			
Shareholders' equity (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	**617,421**	603,060	**5,824,727**
Total	**¥981,893**	¥950,701	**$9,263,142**

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

	Yen			U.S. dollars
Per share of common stock (Note 2-p):				
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
Balance, April 1, 1997	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	2	1	1	
Balance, March 31, 1998	523,893	108,781	122,041	364,609
Net income				16,699
Cash dividends, ¥17.0 per share				(8,906)
Bonuses to directors and corporate auditors				(162)
Balance, March 31, 1999	523,893	108,781	122,041	372,240
Adjustment of retained earnings for the adoption of deferred tax accounting method (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)**
Balance, March 31, 2000	**523,893**	**¥108,781**	**¥122,041**	**¥390,206**

	Thousands of U.S. dollars (Note 1)		
	Common stock	Additional paid-in capital	Retained earnings
Balance, March 31, 1999	$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)**
Balance, March 31, 2000	**$1,026,236**	**$1,151,330**	**$3,681,189**

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**
Operating activities:				
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**
Investing activities:				
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)**
Financing activities:				
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)**
Effect of exchange rate changes on cash and cash equivalents	**(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**
Noncash financing activities:				
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.

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 impared.

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 trusteed 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	**¥82,459**	**¥80,388**	¥96,503	¥91,592	**$777,915**	**$758,377**

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	**$ 106,358**
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	**¥229,793**	¥231,343	**$2,167,858**

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	**¥2,090**	¥2,841	**$19,717**

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	**¥41,487**	¥45,277	**$391,387**

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	**¥124,386**	¥122,341	**$1,173,453**

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.

7. Retirement and Pension Plans

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

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	**¥(4,086)**	¥(535)	¥ (441)	**$(38,547)**

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
Current:		
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	**¥ 9,311**	**$ 87,840**
Non-current:		
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	**5,445**	**51,368**
Deferred tax liabilities:		
Retained earnings appropriated for tax allowable reserves	**(1,441)**	**(13,594)**
Other	**(51)**	**(481)**
Deferred tax assets	**(1,492)**	**(14,075)**
Net deferred tax assets	**¥ 3,953**	**$ 37,292**

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	**43.6%**

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	**¥1,717**	**¥272**	**¥ 5,307**	**¥ 7,296**

	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	**$16,198**	**$2,566**	**$ 50,066**	**$ 68,830**

	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	¥ 6,248	¥196	¥ 4,978	¥11,422

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	**$31,660**
Due after one year	**3,940**	5,939	**37,170**
Total	**¥7,296**	¥11,422	**$68,830**

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:

(Lessee)	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	**¥179,256**	¥172,235	**$1,691,094**

(Lessor)	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	**¥122,546**	¥98,768	**$1,156,094**

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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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