Market Overview

During fiscal 2001, domestic new housing starts—the economic indicator with the greatest influence on the Sumitomo Forestry Group's earnings—declined 1.1% from the previous fiscal year to 1,213,000 units with wooden housing starts falling 3.0% to 548,000 units. New housing starts in the owner-occupied category, which is the target segment for the Sumitomo Forestry Group's core business of single-unit housing sales, dropped 8.0% to 437,000 units. Market conditions for the timber and building materials segment, in which housing demand has been contracting, showed signs of weakness.

Overall, the Japanese economy moved toward a self-sustaining recovery temporarily, mainly in the corporate sector with moderate expansion of private-sector capital investment and exports. However, concerns over the possibility of falling into another recession grew, mainly due to a lack of improvement in consumer spending and the downturn in the U.S. economy toward the end of the fiscal year following stagnation in IT-related industries, which had been engines for economic growth.

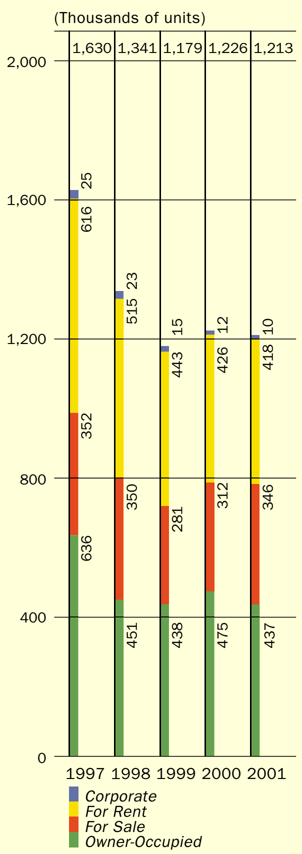
In the housing industry, first-time home buyers in their 30s were the driving force behind market growth due to such government policies as the continuation of low interest rates and a tax system that promotes home buying. However, there was no improvement in the reluctance of workers in their 40s and 50s to buy homes amid heightened concerns for future income and employment.

In fiscal 2002, we do not expect an easing of concerns about the future of the economy. As a result, we foresee further declines in housing and project a fall in new housing starts to 1,150,000 units and a drop in owner-occupied housing to 420,000 units.

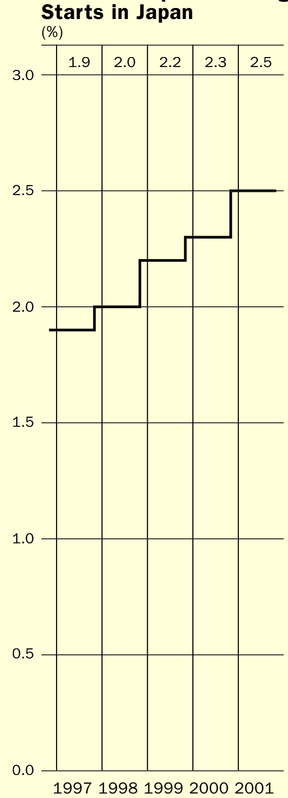
Scope of Consolidation

Sumitomo Forestry Co., Ltd. and its consolidated subsidiaries are primarily engaged in residential construction and related upstream and downstream businesses. During fiscal

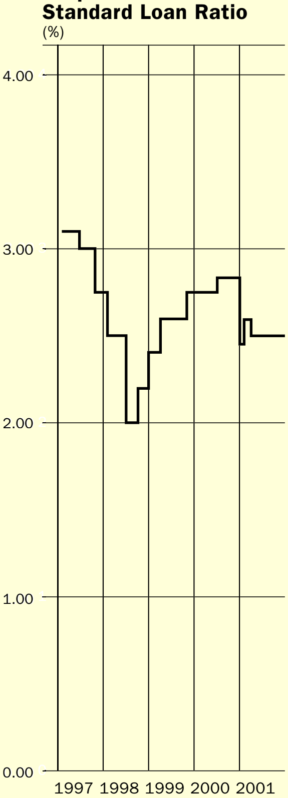
Number of New Housing Starts in Japan



Company's Share of Owner-Occupied Housing Starts in Japan



Housing Loan Corporation Standard Loan Ratio



2001, ended March 31, 2001, consolidated financial statements include the results of 51 consolidated subsidiaries, an increase of 1 company, and 2 companies accounted for by the equity method, a decrease of 1 company from the previous fiscal year.

Overview

Consolidated sales and other income declined 2.4% to ¥685.2 billion (US$5,526.3 million). Measures to raise efficiency and reduce costs supported sharp improvement in profitability, with net income advancing 22.5% to ¥6.9 billion (US$56.4 million). Management maintained cash dividends per share of ¥10.00 (US$0.08).

Return on assets (ROA) improved 0.3 percentage point to 1.9%, and return on equity (ROE) increased 0.7 percentage point to 4.7%.

The net sales, operating expenses and operating income of each segment and consolidated subsidiary have been affected by changes to the total computation method.

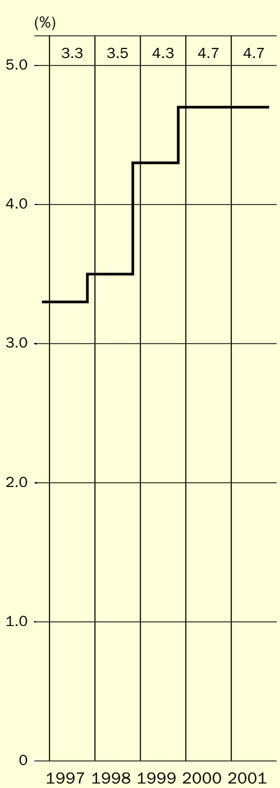
Sales and Other Income

Net sales and contract revenues were down 2.5% to ¥682.3 billion (US$5,503.0 million). By segment, sales and contract revenues in the timber and building materials segment dropped 16.5% to ¥267.9 billion (US$2,160.7 million), or 39.3% of total sales and contract revenues.

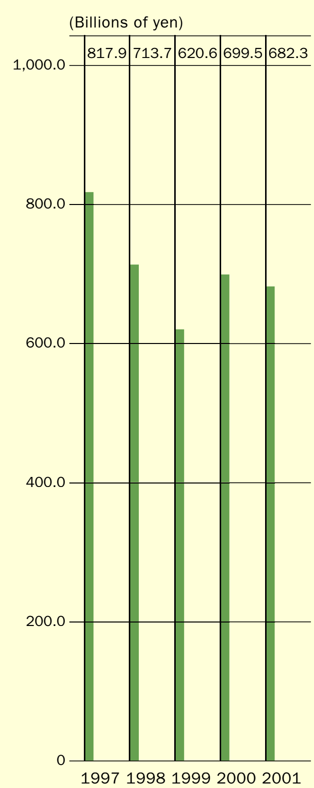
In the housing segment, sales and contract revenues increased 9.4% to ¥405.0 billion (US$3,266.2 million). Deliveries of custom-built, single-unit houses increased to 11,671 units with a total contract value of ¥334.0 billion (US$2,693.7 million). The contract balance of custom-built units at fiscal year-end stood at 9,585 units, or ¥273.4 billion (US$2,204.9 million). In addition, the Group delivered 39 units of ready-built houses, and 893 units of condominiums and apartments.

Sales in the other segment increased 8.1% to ¥9.4 billion (US$76.0 million).

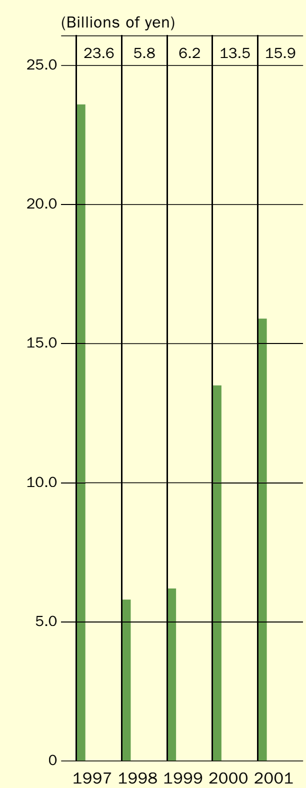
Unemployment Rate



Net Sales and Contract Revenues



Operating Profit



Net Income

The cost of sales and contracts completed declined 3.9% to ¥564.3 billion (US$4,550.8 million). The ratio of cost of sales and contracts completed to sales and contract revenues was 82.7%, compared with 84.0% in the previous fiscal year. Selling, general and administrative (SG&A) expenses increased 3.4% to ¥102.0 billion (US$823.1 million). The ratio of SG&A expenses to sales and contract revenues increased 0.9 percentage point to 15.0%.

Consequently, operating profit advanced 18.1% to ¥15.9 billion (US$129.0 million), and the operating profit margin improved 0.4 percentage point to 2.3%. Operating profit (before deducting unallocable corporate expenses) fell 65.3% in the timber and building materials segment to ¥5.1 billion (US$41.3 million), soared 223.5% in the housing segment to ¥16.6 billion (US$134.1 million), and decreased 8.8% in the other segment to ¥519 million (US$4.1 million). The operating profit margin was 1.9% in the timber and building materials segment, 4.1% in the housing segment, and 5.5% in the other segment.

Interest expense declined 3.3% to ¥559 million (US$4.5 million), with interest and dividend income up 2.6% to ¥667 million (US$5.3 million). Other income grew 35.1% to ¥2.2 billion (US$17.9 million), with other expenses down 55.1% to ¥1.2 billion (US$9.9 million).

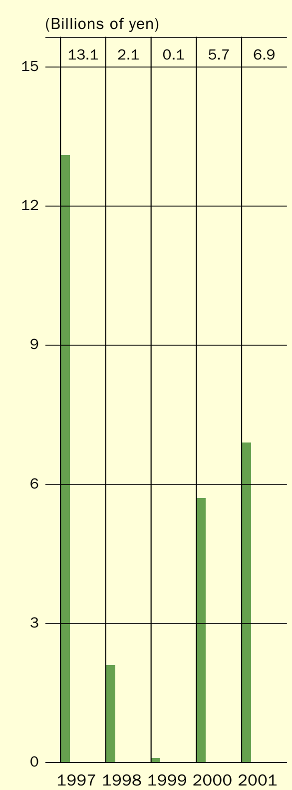
With special losses, net, of ¥4.2 billion (US$34.1 million), mostly comprising a gain on securities contributed to employee retirement benefit trust and a transaction difference of new accounting standard for retirement benefit, income before income taxes increased 6.4% to ¥12.6 billion (US$102.1 million).

Net income climbed 22.5% to ¥6.9 billion (US$56.4 million).

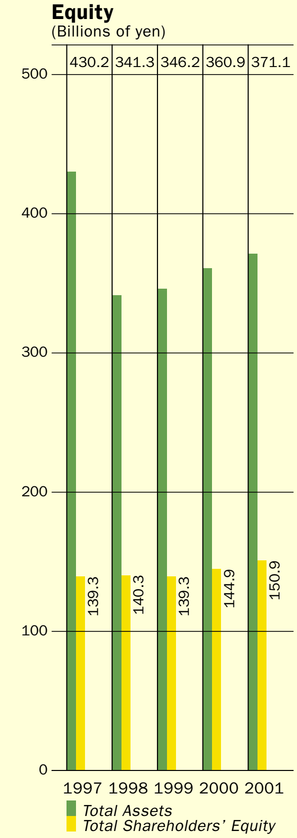
Cash Flows

Net cash provided by operating activities was ¥3.4 billion (US$27.9 million), compared with net cash used in operating activities of ¥3.2 billion in fiscal 2000. Depreciation and am-

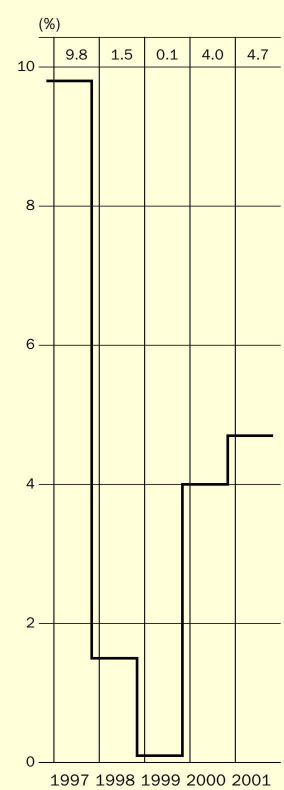
Net Income



Total Assets/ Total Shareholders' Equity



ROE



ortization decreased 4.3% to ¥4.5 billion (US$36.7 million).

Net cash used in investment activities fell ¥1.3 billion to ¥1.9 billion (US$15.8 million), reflecting the absence of payments for purchases of marketable securities in fiscal 2001.

Net cash used in financing activities increased ¥8.5 billion to ¥13.8 billion (US$111.8 million) as the Company continued to repay long-term and short-term debt.

In aggregate, cash and cash equivalents at the end of the year declined ¥12.4 billion to ¥47.4 billion (US$382.8 million).

Financial Position

Total current assets increased 2.7% to ¥258.5 billion (US$2,084.9 million), as a rise in notes and accounts, trade, and loans and other offset a decline in cash and cash equivalents. Inventories totaled ¥46.4 billion (US$374.8 million), largely unchanged from the previous fiscal year.

Total current liabilities increased ¥14.3 billion to ¥197.2 billion (US$1,590.4 million), mainly due to rises in the current portion of long-term debt and notes and accounts, trade.

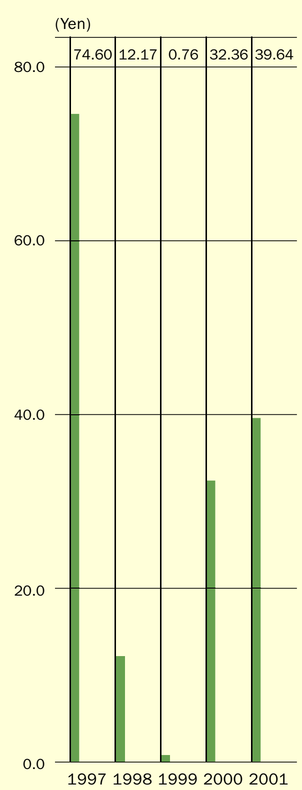
Net working capital declined ¥7.5 billion to ¥61.3 billion (US$494.5 million), with a current ratio of 131.1%.

Total investments and long-term receivables increased ¥4.5 billion to ¥39.1 billion (US$315.9 million), mainly due to an increase in investment securities. Property, plant and equipment, at cost less accumulated depreciation, edged up ¥0.4 billion to ¥57.5 billion (US$464.4 million). Total assets increased 2.8%, or ¥10.1 billion, to ¥371.1 billion (US$2,992.7 million).

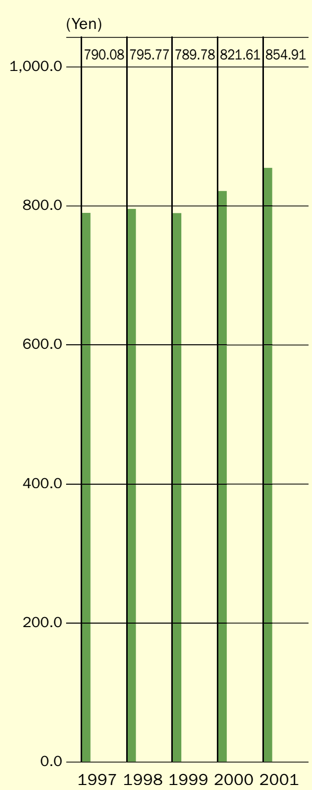
Interest-bearing debt (the sum of short-term debt, the current portion of long-term debt and long-term debt) declined ¥10.4 billion to ¥24.5 billion (US$197.7 million).

Total shareholders' equity increased ¥6.0 billion to ¥150.9 billion (US$1,217.5 million), and the equity ratio increased 0.6 percentage point to 40.7%.

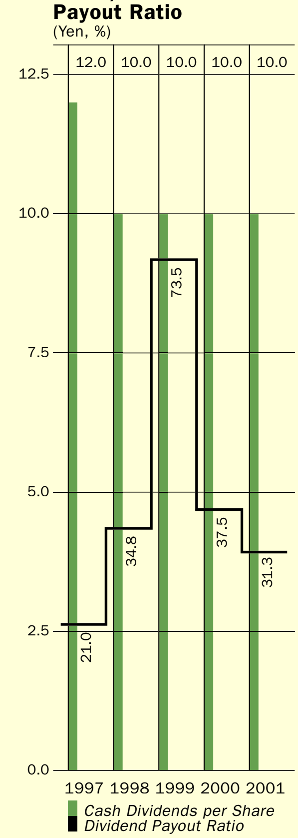
Net Income per Share



Shareholders' Equity per Share



Cash Dividends per Share/Dividend Payout Ratio



CONSOLIDATED BALANCE SHEETS

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 4)
ASSETS	**2001**	2000	**2001**
Current assets:			
Cash and cash equivalents—			
Cash and cash in bank	**¥ 42,024**	¥ 33,905	**$ 338,903**
Money market funds	**5,452**	8,214	**43,967**
Commercial paper	**—**	17,795	**—**
	47,476	59,916	**382,870**
Time deposits	**639**	554	**5,153**
Marketable securities (Note 5)	**1,219**	2,393	**9,830**
Receivables (Note 12)—			
Notes and accounts, trade	**102,373**	95,744	**825,588**
Loans and other	**52,308**	43,704	**421,838**
Allowance for doubtful accounts	**(368)**	(909)	**(2,967)**
	154,312	138,539	**1,244,451**
Inventories (Note 6)	**46,486**	46,136	**374,887**
Deferred income taxes (Note 10)	**3,745**	1,778	**30,201**
Other current assets (Note 12)	**4,652**	2,399	**37,516**
Total current assets	**258,532**	251,717	**2,084,935**
Investments and long-term receivables:			
Investment securities (Notes 5 and 12)	**24,098**	19,642	**194,338**
Long-term loans and receivables (Note 12)	**5,971**	6,231	**48,153**
Other investments (Note 10)	**9,802**	9,260	**79,048**
Allowance for doubtful accounts	**(690)**	(469)	**(5,564)**
Total investments and long-term receivables	**39,181**	34,664	**315,975**
Property, plant and equipment, at cost less accumulated depreciation (Notes 7 and 9)	**57,586**	57,112	**464,403**
Timberland (Notes 8 and 9)	**11,382**	10,796	**91,790**
Intangible assets, net of amortization	**4,419**	3,465	**35,637**
Foreign currency translation adjustments (Note 3 (2) (B))	**—**	3,178	**—**
	¥371,102	¥360,935	**$2,992,758**

See accompanying notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2001	Millions of yen 2000	Thousands of U.S. dollars (Note 4) 2001
Current liabilities:			
Payables (Note 12)—			
Notes and accounts, trade	**¥111,892**	¥ 99,838	**$ 902,354**
Other	**7,411**	4,665	**59,766**
	119,304	104,504	**962,129**
Advances received from customers	**39,616**	39,502	**319,483**
Short-term debt (Note 9)	**8,492**	14,580	**68,483**
Current portion of long-term debt (Note 9)	**10,365**	1,493	**83,588**
Accrued income taxes	**6,057**	2,842	**48,846**
Accrued employees' bonuses	**7,359**	6,970	**59,346**
Other current liabilities (Notes 3 (2) (E), 10 and 12)	**6,017**	12,930	**48,524**
Total current liabilities	**197,213**	182,825	**1,590,427**
Long-term liabilities:			
Long-term debt (Note 9)	**5,660**	18,943	**45,645**
Deferred income taxes (Note 10)	**2,839**	1,096	**22,895**
Accrued severance indemnities (Note 11)	**4,596**	3,022	**37,064**
Other	**9,648**	9,744	**77,806**
Total long-term liabilities	**22,744**	32,807	**183,419**
Minority interest in consolidated subsidiaries	**165**	387	**1,330**
Shareholders' equity (Note 14)**:**			
Common stock of ¥50 par value—			
Authorized: 400,000,000 shares			
Issued and outstanding: 176,603,881 shares	**27,672**	27,660	**223,161**
Capital surplus	**25,650**	25,490	**206,854**
Retained earnings	**96,861**	91,764	**781,137**
Treasury stock	**(0)**	(1)	**(0)**
Unrealized gain on available-for-sale securities	**4,083**	—	**32,927**
Foreign currency translation adjustments (Note 3 (2) (B))	**(3,287)**	—	**(26,508)**
Total shareholders' equity	**150,979**	144,914	**1,217,572**
Commitments and contingent liabilities (Note 17)			
	¥371,102	¥360,935	**$2,992,758**

CONSOLIDATED STATEMENTS OF INCOME

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2001	2000	**2001**
Sales and other income (Note 12)**:**			
Net sales	**¥303,777**	¥350,178	**$2,449,814**
Contract revenues	**378,598**	349,416	**3,053,209**
Interest and dividend income	**667**	650	**5,379**
Equity in earnings of affiliates	**—**	11	**—**
Other	**2,224**	1,646	**17,935**
Total	**685,267**	701,902	**5,526,346**
Costs and expenses (Notes 12 and 15)**:**			
Cost of sales	**279,416**	317,972	**2,253,354**
Cost of contracts completed	**284,894**	269,352	**2,297,532**
Selling, general and administrative expenses	**102,065**	98,720	**823,104**
Interest expense	**559**	578	**4,508**
Equity in losses of affiliates	**194**	—	**1,564**
Other	**1,228**	2,736	**9,903**
Total	**668,358**	689,360	**5,389,983**
Income before special gains (losses), net	**16,908**	12,541	**136,354**
Special gains (losses), net (Note 13)	**(4,237)**	(634)	**(34,169)**
Income before income taxes (Notes 3 (2) (D), (F) and 11)	**12,670**	11,906	**102,177**
Income taxes (Note 10)**:**			
Current	**9,472**	6,583	**76,387**
Deferred	**(3,774)**	(415)	**(30,435)**
	5,697	6,168	**45,943**
Minority interest in income of consolidated subsidiaries	**(21)**	30	**(169)**
Net income	**¥ 6,994**	¥ 5,708	**$ 56,403**

	Yen		U.S. dollars (Note 4)
Per share (Note 3 (2) (P))**:**			
Net income	**¥39.64**	¥32.36	**$0.31**
Cash dividends	**10.00**	10.00	**0.08**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2001 and 2000

	Number of shares of common stock	Millions of yen		
		Common stock	Capital surplus	Retained earnings
Balance as at March 31, 1999	176,381,182	¥27,660	¥25,490	¥86,150
Cumulative effect of change in accounting for income tax	—	—	—	1,180
Decrease due to change in consolidation of subsidiaries	—	—	—	(58)
Increase due to change in affiliates using the equity method	—	—	—	609
Net income	—	—	—	5,708
Cash dividends	—	—	—	(1,763)
Bonuses to directors	—	—	—	(62)
Balance as at March 31, 2000	176,381,182	27,660	25,490	91,764
Decrease due to change in consolidation of subsidiaries	**—**	**—**	**—**	**(73)**
Increase due to issuance of new shares	**222,699**	**11**	**159**	**—**
Net income	**—**	**—**	**—**	**6,994**
Cash dividends	**—**	**—**	**—**	**(1,763)**
Bonuses to directors	**—**	**—**	**—**	**(60)**
Balance as at March 31, 2001	**176,603,881**	**¥27,672**	**¥25,650**	**¥96,861**

	Thousands of U.S. dollars (Note 4)		
	Common stock	Capital surplus	Retained earnings
Balance as at March 31, 2000	$223,064	$205,564	$740,032
Decrease due to change in consolidation of subsidiaries	**—**	**—**	**(588)**
Increase due to issuance of new shares	**88**	**1,282**	**—**
Net income	**—**	**—**	**56,403**
Cash dividends	**—**	**—**	**(14,217)**
Bonuses to directors	**—**	**—**	**(483)**
Balance as at March 31, 2001	**$223,161**	**$206,854**	**$781,137**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2001	2000	**2001**
Cash flows from operating activities:			
Income before income taxes	**¥ 12,670**	¥ 11,906	**$ 102,177**
Adjustments—			
Depreciation and amortization	**4,551**	4,756	**36,701**
(Reversal of) Provision for doubtful accounts	**(319)**	(788)	**(2,572)**
Provision for severance indemnities, less payments	**1,574**	472	**12,693**
Interest and dividend income	**(667)**	(650)	**(5,379)**
Interest expense	**559**	578	**4,508**
Equity in (earnings) losses of affiliates	**194**	(11)	**1,564**
Devaluation of marketable securities and investment securities	**470**	613	**3,790**
Losses (Gains) on sales of marketable securities and investment securities, net	**0**	2	**0**
Losses on disposal of fixed assets, net	**15**	162	**120**
Changes in assets and liabilities:			
Notes and accounts receivable, trade	**(8,472)**	(21,025)	**(68,322)**
Inventories	**447**	(3,910)	**3,604**
Other current assets	**(10,682)**	(823)	**(86,145)**
Notes and accounts payable, trade	**14,293**	3,827	**115,266**
Advances received from customers	**(695)**	7,599	**(5,604)**
Other current liabilities	**(5,347)**	1,930	**(43,120)**
Other	**1,025**	214	**8,266**
	9,618	4,855	**77,564**
Interest and dividend income received	**718**	651	**5,790**
Interest paid	**(561)**	(530)	**(4,524)**
Income taxes (paid) refunded, net	**(6,305)**	(8,258)	**(50,846)**
Net cash (used in) provided by operating activities	**3,468**	(3,281)	**27,967**
Cash flows from investment activities:			
Payments for purchases of marketable securities	**—**	(1,254)	**—**
Proceeds from sales of marketable securities	**2,393**	1,030	**19,298**
Payments for purchases of fixed assets	**(8,970)**	(9,014)	**(72,338)**
Proceeds from sales of fixed assets	**5,208**	5,251	**42,000**
Payments for purchases of investment securities	**(862)**	(683)	**(6,951)**
Proceeds from sales of investment securities	**58**	99	**467**
Payments for long-term loans receivable	**(279)**	(460)	**(2,250)**
Repayments of long-term loans receivable	**1,313**	523	**10,588**
Decrease (Increase) in short-term loans receivable	**1,704**	966	**13,741**
Decrease (Increase) in time deposits	**(85)**	2,272	**(685)**
Other	**(2,440)**	(2,061)	**(19,677)**
Net cash used in investment activities	**(1,960)**	(3,330)	**(15,806)**
Cash flows from financing activities:			
Proceeds from long-term debt	**195**	600	**1,572**
Repayments of long-term debt	**(4,376)**	(2,897)	**(35,290)**
Decrease in short-term borrowings	**(7,916)**	(1,278)	**(63,838)**
Dividends paid	**(1,763)**	(1,763)	**(14,217)**
Other	**(11)**	(11)	**(88)**
Net cash used in financing activities	**(13,873)**	(5,351)	**(111,879)**
Effect of exchange rate changes on cash and cash equivalents	**8**	(99)	**64**
Net (decrease) increase in cash and cash equivalents	**(12,356)**	(12,063)	**(99,645)**
Cash and cash equivalents at the beginning of the year	**59,916**	71,971	**483,193**
Increase (Decrease) in cash and cash equivalents due to change in consolidation of subsidiaries	**(82)**	8	**(661)**
Cash and cash equivalents at the end of the year	**¥ 47,476**	¥ 59,916	**$ 382,870**

See accompanying notes to consolidated financial statements.

1. NATURE OF OPERATIONS

Sumitomo Forestry Co., Ltd. (the Company) and its Group companies are involved in various business activities related to wood and houses, with timberland operations serving as the foundation of its business. Specifically, the Company's operations encompass forest management as well as timber and building materials related operations, including the procurement, manufacture and sale of timber and building materials; housing-related operations that include the construction, sale, after-sales maintenance and landscaping of custom-built and other homes; and other lifestyle-related businesses, including the sale and brokerage of real estate, leasing and golf course management.

2. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of the Company and its consolidated subsidiaries (together, the "Companies") are English versions of those which have been prepared in accordance with accounting principles and practices generally accepted in Japan, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan and filed with the Ministry of Finance. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The accompanying consolidated financial statements incorporate certain reclassifications and rearrangements in order to present these statements in a form which is more familiar to the readers of these statements outside Japan. In addition, the notes to consolidated financial statements include information which is not required under generally accepted accounting principles and practices in Japan but is presented herein as additional information.

Following the financial statement preparation procedures prescribed by "The Regulation Pertaining to the Balance Sheets, Profit and Loss Statements, Business Reports and Supplementary Schedules of Joint Stock Corporations" of the Ministry of Justice, the last six digits of yen amounts have been omitted in the presentation of the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Companies have adopted new accounting standards for consolidation and tax-effect accounting in the preparation of the consolidated financial statements for the year ended March 31, 2000.

(1) Accounting Changes

(A) LABOR COSTS FOR CONSTRUCTION

In the prior periods, labor costs incurred in relation to ordered construction were recognized as selling, general and administrative expenses. The Company has changed the cost allocation method to charge 70% of these costs to cost of construction from the current year. This change was made to use more precise cost management in the analysis of business content. Of the work performed by production managers, approximately 70% is related to expenses for construction projects of homes. As a result, the change was made for more appropriate calculations of completed construction costs and income and expenses during the fiscal year. As a result of this change, cost of completed construction increased by ¥2,548 million (US$20,548 thousand) and selling, general and administrative expenses decreased by ¥2,929 million (US$23,620 thousand).

(B) SALES OF THE CONSTRUCTION MATERIALS

In the past, the Company accounted for materials such as precut timber and residential equipment (built-in kitchens, etc.), which were clear to have been used for the Company's ordered construction, as material costs under "yusho-shikyu" (materials supplied to subcontractor at cost for processing and subsequently repurchased at cost plus upon completion) and rest materials were recognized as sales to building firms. From the current year, the Company has changed the policy to recognize "yusho-shikyu" as long as these materials are controllable by the respective construction sites in the Company's computer information system. This change was made to enable individual management of production efforts for other material transactions through the Company's computer information system and to more closely reflect actual management of completed construction costs. As a result of this change, sales, cost of sales and cost of completed construction were decreased by ¥60,586 million (US$488,596 thousand), ¥53,416 million (US$430,774 thousand) and ¥6,759 million (US$54,508 thousand), respectively. Furthermore, operating profit, ordinary profit and hence profit before taxes were decreased by ¥410 million (US$3,306 thousand).

(2) Significant Accounting Policies

(A) BASIS OF CONSOLIDATION AND INVESTMENTS IN AFFILIATES

The consolidated financial statements include the accounts of the Company and, with exceptions which are not material, those of its subsidiaries. All significant intercompany transactions and accounts and unrealized intercompany profits are eliminated on consolidation.

The difference between the cost and underlying net equity of investments in consolidated subsidiaries is deferred and amortized over a five-year period.

Investments in affiliates (15 to 50 percent-owned companies except subsidiaries) in which the ability to exercise significant influence exists are stated at cost plus equity in undistributed earnings (losses). Net consolidated income includes the Company's share of the current net earnings (losses) of such companies, after elimination of unrealized intercompany profits.

(B) TRANSLATION OF FOREIGN CURRENCY TRANSACTIONS AND ACCOUNTS

Prior to April 1, 2000, current receivables and payables in foreign currencies are revalued at year-end using current exchange rates, whereas long-term receivables and payables in foreign currencies are not revalued.

Effective April 1, 2000, the Companies adopted a revised accounting standard for foreign currency transactions. In accordance with the revised standard, current and long-term receivables and payables are translated into Japanese yen at the exchange rates at the balance sheet date. The adoption of revised accounting standards for foreign currency transactions did not have a material effect on the accompanying consolidated financial statements.

The financial statement of overseas subsidiaries and affiliates, except for paid-in capital and retained earnings at the beginning of the period, are translated at current exchange rates at the respective balance sheet dates.

Foreign currency translation adjustments are recorded as a component of shareholders' equity from the fiscal year ended March 31, 2001, in accordance with revisions to the accounting standard for foreign currency transactions. In prior years, foreign currency translation adjustments were recorded on the balance sheet as a component of assets or liabilities.

(C) STATEMENTS OF CASH FLOWS

The statements of cash flows, cash and cash equivalents include all highly liquid investments, generally with original maturities of three months or less, that are readily convertible to known amounts of cash and are so near maturity that they present only an insignificant risk of changes in value.

(D) ALLOWANCE FOR DOUBTFUL ACCOUNTS

Prior to April 1, 2000, the allowance for doubtful accounts represents the maximum amount permitted for tax purpose and an additional allowance based on an evaluation of the collectibility of individual receivables.

Effective April 1, 2000, the Company and domestic consolidated subsidiaries adopted a new accounting standard for financial instruments, including allowance for doubtful accounts. The allowance for doubtful accounts is stated based on the default ratio sustained over a specific period in the past and the estimated uncollectible amount based on the analysis of certain individual accounts, including probable bad debts and claims in bankruptcy.

This amount is considered sufficient to cover possible losses on collection.

Adoption of the new accounting standard for financial instruments relating to the allowance for doubtful accounts increased income before income taxes by ¥241 million (US$1,943 thousand) for the year ended March 31, 2001.

(E) WARRANTY RESERVE FOR COMPLETED CONSTRUCTION
A warranty reserve has been provided for repair costs which may be required for completed construction. The reserve is estimated based on past experience and future estimates.

The warranty reserve for completed constructions is included in other current liabilities.

(F) MARKETABLE SECURITIES AND INVESTMENTS
Prior to April 1, 2000, marketable securities in both current and long-term investments, except for equity investments in unconsolidated subsidiaries and affiliates, are stated at the lower of moving average cost or market value. Other securities are stated at moving average cost.

Effective April 1, 2000, the Company and domestic consolidated subsidiaries adopted a new accounting standard for financial instruments, including securities in both current and long-term investments.

The standard requires all applicable securities to be classified and accounted for, depending on management's intent, as follows: i) trading securities, which are held for the purpose of earning capital gains in the short term, are reported at fair value, and the related unrealized gains and losses are included in earnings; ii) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost; and iii) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity.

Adoption of the new accounting standard for financial instruments relating to securities increased income before income taxes by ¥576 million (US$4,645 thousand) for the year ended March 31, 2001.

(G) INVENTORIES
Inventories other than finished goods are stated at cost, which is determined by the specific identification method. Finished goods are stated at moving average cost.

(H) PROPERTY, PLANT AND EQUIPMENT
Property, plant and equipment, including significant renewals and additions, are capitalized at cost. Maintenance and repairs and minor renewals and improvements are charged to income. Depreciation is computed, with minor exceptions, by the declining balance method at rates based on the estimated useful lives of the assets according to general class, type of construction and use. In the case of retirement or disposal, the difference between the net book value and salvage or sales proceeds is charged or credited to income.

Japanese tax regulations allow a company to defer capital gains on the sale of real estate if the company intends to offset such gains against the cost of newly acquired fixed assets. When such accounting is followed, the cost of the new fixed assets is reduced to the extent of the deferred capital gains, thereby affecting related depreciation charges and accumulated depreciation (see Note 7).

Under accounting principles generally accepted in Japan, the amount to be deferred is accounted for as a special loss or as an appropriation of retained earnings to special reserves, depending on the circumstances.

(I) TIMBERLAND
Timberland consists of standing timber and related land. Standing timber, consisting of timber stock in natural forests, purchased forests and planted forests, is classified either as mature timber or growing timber. Mature timber represents costs related to trees that are 21 or more years old, of which costs have been transferred from growing timber. Growing timber represents costs of trees less than 21 years old (see Note 8).

The timber stock from both natural forests and purchased forests is carried at the specific acquisition cost. The timber stock from planted forests is stated at cost, which consists of sowing, seeding and planting.

Intensive forest management generally practiced in Japan results in high yields of quality logs. Such management, implemented by the Company, includes the following procedures:

Age in years	Procedures
0	Sowing, seeding at nursery
1	Planting after land preparation
1–6	Weeding
8	Vine cutting
10–14	Salvage cutting
14	Pruning
16–25	Thinning and debranching
Over 50	Final cutting

The charges for weeding, vine cutting, salvage cutting, pruning and thinning and debranching are charged to selling, general and administrative expenses as incurred.

When finally harvested from timberland for sale, the harvested timber has its cost calculated based on the proportion of metric volume of the timber harvested to that of the particular area, applied to the book value of the area. The calculated cost is the cost of sales.

(J) INTEREST CAPITALIZATION
The Companies do not capitalize interest costs related to assets that are constructed or otherwise produced for their own use, that are intended for sale or lease or that are constructed or otherwise produced as discrete projects. Such interest is charged to current income as incurred.

(K) SEVERANCE INDEMNITY BENEFITS AND PENSION PLANS
Severance indemnity regulations of the Company and domestic consolidated subsidiaries, which cover substantially all employees, provide for benefit payments determined by reference to the employee's current basic rate of pay, length of service, position in the respective companies and termination circumstances. The regulations provide for additional benefits upon retirement at the age limit, death or for certain defined reasons.

Voluntary severance results in a reduction of benefits according to a vesting schedule based on the number of years of service, with full vesting after 20 years of service. Benefits become fully vested in the case of involuntary termination.

The Company and certain consolidated subsidiaries have adopted non-contributory funded pension plans to provide for the benefit payments established under the Companies' regulations for their employees estimated to continue to work until the retirement age limit. Under the pension plans, the terminating employee may elect either a lump-sum payment or annuity payments.

Directors are not covered by the regulations. Benefits paid to them are charged to income upon approval by the shareholders.

Effective April 1, 2000, The company and domestic consolidated subsidiaries adopted a new accounting standard for severance indemnity benefits and pension plans, which requires the Company and domestic consolidated subsidiaries to accrue employee' severance indemnity benefits and pension plans at an amount calculated based on the retirement benefits obligation and the fair value of the plan assets as adjusted for the unrecognized net retirement benefit obligation at transition, unrecognized actual gain or loss and unrecognized prior service cost.

(L) REVENUE RECOGNITION
Sales are generally recognized at the time the goods are delivered to the customers.

Sales of precut timber, building materials and certain housing equipment, such as system kitchens, system furniture, bathtubs, sinks and other, which are purchased by the Company and sold to building contractors for use in house building projects specifically subcontracted from the Company, are recognized upon completion and acceptance of the completed houses by the customers, with the related cost being included in cost of contracts completed.

Contract revenues, representing revenues from custom-built houses, are recorded when the completed houses are accepted by customers.

(M) FINANCE LEASES
Finance leases of the Companies, other than those where ownership of the lease assets is transferred to the lessee, are accounted for as operating leases.

(N) INCOME TAXES AND RETAINED EARNINGS APPROPRIATED FOR SPECIAL RESERVES
The Companies accrue income taxes based on taxable income. The Companies include many items for financial reporting purposes which, in the case of expenses, are not currently deductible and, in the case of income, are not currently taxable.

The Companies are permitted to deduct for tax purposes certain special reserves if they are recorded in their books as appropriations of retained earnings or as charges to income. The special reserves, when reversed to unappropriated retained earnings or returned to income, become taxable. The effect of the reserves is a deferral of income taxes (see Note 14).

(O) APPROPRIATIONS OF RETAINED EARNINGS
Appropriations of retained earnings reflected in the accompanying consolidated financial statements have been recorded upon approval by the shareholders as required under Japanese law.

(P) FREE SHARE DISTRIBUTIONS AND EARNINGS PER SHARE
In accordance with the Japanese Commercial Code, a free share distribution may be made upon approval of the Board of Directors by transferring the par value of the related shares from capital surplus to the common stock account. In Japan, a free share distribution is clearly distinguished from a stock dividend.

The computation of net income and cash dividends per share is based on the average number of shares outstanding during each period.

(Q) RECLASSIFICATIONS
Certain accounts in the consolidated financial statements for the years ended March 31, 2000 have been reclassified to conform to presentation in 2001.

4. U.S. DOLLAR AMOUNTS
The U.S. dollar amounts are included solely for convenience and have been translated, as a matter of arithmetical computation only, at the rate of ¥124=US$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at March 31, 2001. This translation should not be construed as a representation that the yen amounts actually represent, or have been or could be converted into, U.S. dollars.

5. MARKETABLE SECURITIES AND INVESTMENT SECURITIES
The carrying amount and aggregate fair value of the securities classified as available-for-sale and held-to-maturity at March 31, 2001 were as follows;

	Millions of yen			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	**¥15,486**	**¥7,855**	**¥(814)**	**¥22,527**
Debt securities	**—**	**—**	**—**	**—**
Held-to-maturity:				
Debt securities	**1,271**	**4**	**—**	**1,275**

	Thousands of U.S. dollars			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	**$124,887**	**$63,346**	**$(6,564)**	**$181,669**
Debt securities	**—**	**—**	**—**	**—**
Held-to-maturity:				
Debt securities	**10,250**	**32**	**—**	**10,282**

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2001		**2001**	
	Available-for-sale	Held-to-maturity	Available-for-sale	Held-to-maturity
Due within one year	**¥—**	**¥1,219**	**$—**	**$ 9,830**
Due after one year through five years	**—**	**51**	**—**	**411**
	¥—	**¥1,271**	**$—**	**$10,250**

The difference between the above carrying value and the amounts shown in the accompanying consolidated balance sheets principally consisted of non-marketable securities and equity securities of unconsolidated subsidiaries and affiliates.

6. INVENTORIES
Inventories at March 31, 2001 and 2000 included:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Finished goods, logs and lumber	**¥16,708**	¥13,833	**$134,741**
Developed land and housing for sale	**5,892**	7,805	**47,516**
Land and housing projects in progress	**23,885**	24,497	**192,620**
	¥46,486	¥46,136	**$374,887**

7. PROPERTY, PLANT AND EQUIPMENT
The investment in property, plant and equipment at March 31, 2001 and 2000 comprised:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Land	**¥ 25,254**	¥ 25,377	**$ 203,661**
Buildings and structures	**31,356**	30,490	**252,870**
Machinery and equipment	**31,114**	29,424	**250,919**
Construction in progress	**2,968**	2,266	**23,935**
Accumulated depreciation	**(33,107)**	(30,446)	**(266,991)**
	¥ 57,586	¥ 57,112	**$ 464,403**

The property, plant and equipment accounts at March 31, 2001 and 2000 were reduced by the following amounts in aggregate, representing the accumulated deferred gains from disposals of property, plant and equipment:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
	¥522	¥522	**$4,209**

8. TIMBERLAND

The investment in timberland at March 31, 2001 and 2000 comprised:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Standing timber:			
Mature timber	**¥ 9,904**	¥ 9,213	**$79,870**
Growing timber	**1,001**	1,105	**8,072**
	10,905	10,318	**87,943**
Land	**477**	477	**3,846**
	¥11,382	¥10,796	**$91,790**

The timberland accounts at March 31, 2001 and 2000 were reduced by the following amounts in aggregate, representing the accumulated deferred gains from disposals of timberland:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
	¥268	¥263	**$2,161**

9. SHORT-TERM AND LONG-TERM DEBT

Short-term debt at March 31, 2001 generally represented short-term borrowings which bore interest of 1.55% per annum. Long-term debt at March 31, 2001, is summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Loans, principally from banks and insurance companies, due 2001 to 2038 with interest of 3.20%:		
Secured	**¥ 2,195**	**$ 17,701**
Unsecured	**5,829**	**47,008**
Unsecured fixed rate Euro-yen bonds:		
1.50% due 2001	**3,000**	**24,193**
1.30% due 2001	**1,000**	**8,064**
Unsecured floating rate Euro-yen bonds:		
LIBOR plus 0.65 basis points, due 2001	**2,000**	**16,129**
LIBOR plus 0.68 basis points, due 2003	**1,200**	**9,677**
LIBOR plus 0.92 basis points, due 2003	**500**	**4,032**
LIBOR plus 0.70 basis points, due 2001	**300**	**2,419**
	16,025	**129,233**
Portion due within one year	**10,365**	**83,588**
	¥ 5,660	**$ 45,645**

The following assets were pledged to secure bank loans and long-term debt at March 31, 2001:

	Millions of yen	Thousands of U.S. dollars
Land	**¥ 50**	**$ 403**
Buildings and structures	**1,365**	**11,008**
Machinery and equipment	**4,308**	**34,741**
Timberland	**1,757**	**14,169**
	¥7,481	**$60,330**

The aggregate annual maturities of long-term debt at March 31, 2001 were as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2002	¥10,365	$ 83,588
2003	2,743	22,120
2004	2,114	17,048
2005	662	5,338
2006	139	1,120
Thereafter	—	—
	¥16,025	$129,233

As is customary in Japan, bank loans are made under general agreements which provide that security and guarantees for present and future indebtedness will be given upon request of the bank. Any collateral furnished pursuant to such agreements or otherwise will be applicable to all indebtedness to the bank and the bank shall have the right to offset cash deposits against obligations that have become due or, in the event of default, against all obligations owed to the bank.

It is a customary practice in Japan for a company to have a substantial amount of time deposits with various banks in connection with its overall banking relations. However, the Companies have no formal compensating balance arrangements with any lending bank.

10. INCOME TAXES

Income taxes in Japan applicable to the Companies generally comprise Corporation Tax, Enterprise Tax and Prefectural and Municipal Inhabitants Taxes. The effective statutory rates are approximately 42.0% for both 2001 and 2000.

Reconciliation of the differences between the statutory tax rate and the effective income tax rate at March 31, 2001 is as follows:

Statutory tax rate	**42.0%**
Non-deductible expense for tax purposes	**1.6**
Per capita portion of Inhabitant Tax	**1.6**
Valuation allowance	**1.5**
Other	**(1.8)**
Effective income tax rate	**45.0%**

The significant components of deferred tax assets and liabilities at March 31, 2001 are as follows:

	Millions of yen	Thousands of U.S. dollars
Deferred tax assets:		
Accrued employees' bonuses	**¥ 1,510**	**$ 12,177**
Provision for guarantee for after-cost of construction	**196**	**1,580**
Advances received	**622**	**5,016**
Enterprise taxes	**543**	**4,379**
Devaluation of real estate for sale and other assets	**1,163**	**9,379**
Pension and severance costs	**4,923**	**39,701**
Unrealized intercompany profit	**271**	**2,185**
Tax loss carryforwards	**3,175**	**25,604**
Other	**948**	**7,645**
Gross deferred tax assets	**13,355**	**107,701**
Valuation allowance	**(3,118)**	**(25,145)**
Total deferred tax assets	**10,236**	**82,548**
Deferred tax liabilities:		
Deferred gains on sales of property	**(1,145)**	**(9,233)**
Unrealized gain on available-for-sale securities	**(2,957)**	**(23,846)**
Gain on securities contributed to employee retirement benefit trust	**(3,284)**	**(26,483)**
Other	**(886)**	**(7,145)**
Gross deferred tax liabilities	**(8,274)**	**(66,725)**
Net deferred tax assets	**¥ 1,962**	**$ 15,822**

Net deferred tax assets are included in the consolidated balance sheets at March 31, 2001 as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets—Deferred income taxes	**¥ 3,745**	**$ 30,201**
Investments and long-term receivables—Other investments	**1,057**	**8,524**
Current liabilities—Other	**(2)**	**(16)**
Long-term liabilities—Deferred income taxes	**(2,839)**	**(22,895)**
Net deferred tax assets	**¥ 1,962**	**$ 15,822**

11. SEVERANCE INDEMNITY BENEFITS AND PENSION PLANS

The Company and domestic consolidated subsidiaries have a defined benefit pension plan covering substantially all of their employees.

Certain foreign consolidated subsidiaries have local pension plans covering their employees.

Employees who retire from the Company and its certain consolidated subsidiaries are, under most circumstances, entitled to retirement and pension benefits determined by reference to basic rates of pay at the time of termination, length of service and conditions under which the termination occurs. If the termination is involuntary, caused by retirement at the mandatory retirement age or caused by death, the employee is entitled to greater payment than in the case of voluntary termination.

Effective April 1, 2000, the Company and domestic consolidated subsidiaries adopted the new accounting standard for employees' retirement benefits. The Company recorded a gain on establishment of retirement benefit trust and a write off of unrealized transitional obligation during the fiscal year under review. The adoption of the new accounting standards for retirement benefits decreased income before income taxes by ¥2,824 million (US$22,774 thousand) for the year ended March 31, 2001.

The liability for employees' retirement benefits at March 31, 2001 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Projected benefit obligation	**¥(37,308)**	**$(300,870)**
Fair value of plan assets	**26,159**	**210,959**
Unrecognized transitional obligation	**—**	**—**
Unrecognized actuarial loss	**6,551**	**52,830**
Unrecognized prior service cost	**—**	**—**
Prepaid pension cost	**—**	**—**
Net liability for retirement benefits	**¥ (4,596)**	**$ (37,064)**

The components of net periodic benefit costs for the year ended March 31, 2001 were as follows:

	Millions of yen	Thousands of U.S. dollars
Service cost	**¥ 3,267**	**$ 26,346**
Interest cost	**1,340**	**10,806**
Expected return on plan assets	**(915)**	**(7,379)**
Amortization of transitional obligation	**9,997**	**80,620**
Recognized actuarial loss	**—**	**—**
Amortization of prior service cost	**—**	**—**
Net periodic benefit costs	**¥13,689**	**$110,395**

Certain consolidated subsidiaries have adopted the conventional method in calculating their projected benefit obligation.

Assumptions used for the year ended March 31, 2001 are set forth as follows:

Discount rate	**3.5%**
Expected rate of return on plan assets	**3.5%**
Recognition period of actuarial gain/loss	**5 years**

12. ACCOUNT BALANCES AND TRANSACTIONS WITH UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES

Account balances and transactions with unconsolidated subsidiaries and affiliates for the years ended March 31, 2001 and 2000 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Assets:			
Notes and accounts receivable, trade	**¥1,830**	¥1,694	**$14,758**
Loans and other receivable	**60**	113	**483**
Other current assets	**11**	173	**88**
Investment securities	**694**	903	**5,596**
Long-term loans and receivables	**292**	220	**2,354**
Liabilities:			
Notes and accounts payable, trade	**598**	911	**4,822**
Other current liabilities	**702**	703	**5,661**

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Sales	**¥5,661**	¥5,806	**$45,653**
Purchases	**4,224**	8,273	**34,064**

13. SPECIAL GAINS (LOSSES), NET

Special gains (losses), net, for the years ended March 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Special gains on:			
Disposal of property, plant and equipment	**¥ 367**	¥ 69	**$ 2,959**
Sales of investment securities	**6**	—	**48**
Gain on securities contributed to employee retirement benefit trust	**7,820**	—	**63,064**
Liquidation of a subsidiary	**—**	17	**—**
Other	**689**	—	**5,556**
Total of special gains	**8,884**	86	**71,645**
Special losses on:			
Disposal of property, plant and equipment	**(41)**	(95)	**(330)**
Devaluation of investment securities	**(470)**	(613)	**(3,790)**
Sales of investment securities	**(6)**	(11)	**(48)**
Transaction difference of new accounting standard for retirement benefit	**(9,997)**	—	**(80,620)**
Devaluation of real estate for sale and other assets	**(2,605)**	—	**(21,008)**
Total of special losses	**(13,121)**	(721)	**(105,814)**
Special gains (losses), net	**¥ (4,237)**	¥(634)	**$ (34,169)**

14. SHAREHOLDERS' EQUITY

Appropriations of retained earnings are recorded in the accounts only after shareholders' approval has been obtained. The following appropriations of retained earnings of the Company for the year ended March 31, 2001 were approved at the ordinary general meeting of shareholders held on June 28, 2001:

	Millions of yen	Thousands of U.S. dollars
Cash dividends at ¥5.00 (US$0.04) per share	**¥ 883**	**$ 7,120**
Bonuses to directors	**45**	**362**
Retained earnings to be carried forward	**95,933**	**773,653**
	¥96,861	**$781,137**

Based on a resolution at the Board of Directors' meeting, interim cash dividends of ¥881 million (¥5.00 per share) were paid in December 2000.

The Japanese Commercial Code provides that an amount equivalent to a minimum of 10% of cash dividends and other distributions from retained earnings paid by the parent company and its Japanese subsidiaries be appropriated as a legal reserve until such reserve equals 25% of the capital stock account. The balance of the reserve may be used to reduce a deficit and/or may be transferred to the capital stock account.

The balances of the legal reserve of the Company at March 31, 2001 and 2000, which are included in retained earnings in the accompanying consolidated balance sheets, are ¥2,764 million (US$22,290 thousand) and ¥2,561 million, respectively.

Details of special reserves at March 31, 2001 and 2000, which were included in retained earnings of shareholders' equity in the accompanying consolidated balance sheets, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Reserve for:			
Planned reforestation	**¥ 27**	¥ 32	**$ 217**
Deferred capital gain on sale of real estate (see Note 3 (H) and (N))	**1,583**	1,576	**12,766**
	¥1,610	¥1,609	**$12,983**

15. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses charged to selling, general and administrative expenses for the year ended March 31, 2001 were ¥1,144 million (US$9,225 thousand).

16. FINANCE LEASES

(Lessee)

Finance leased charges to the Companies for the years ended March 31, 2001 and 2000 were ¥5,178 million (US$41,758 thousand) and ¥4,803 million, respectively.

The leased assets and related expenses of the Companies' finance leases, other than those where the ownership of the lease assets is transferred to the lessee, are being accounted for as operating leases. If capitalized, the following amounts would be recorded in the financial statements (in equivalent amounts):

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Buildings and structures	**¥ 13,357**	¥11,310	**$107,717**
Machinery and equipment	**8,642**	8,031	**69,693**
Other	**236**	289	**1,903**
Accumulated depreciation	**(10,844)**	(9,513)	**(87,451)**
	¥ 11,391	¥10,118	**$ 91,862**

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Depreciation	**¥4,914**	¥4,535	**$39,629**
Interest expenses	**215**	166	**1,733**

Depreciation costs are calculated based on the straight-line method over the lease periods of the leased assets, with no residual value of the assets at the end of the lease periods.

Interest expenses are calculated by subtracting the amount equivalent to the acquisition cost from the total lease fee. The resulting differences, which are of an amount equivalent to the total interest payments over the lease periods, are allocated to each period by the interest method. The present values of future lease payments of the Companies as at March 31, 2001 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Current obligation	**¥ 4,557**	¥ 4,068	**$36,750**
Long-term obligation	**7,040**	6,227	**56,774**
Present value of lease payments	**¥11,597**	¥10,296	**$93,524**

(Lessor)

Finance lease fee income of the Companies credited to income for the years ended March 31, 2001 and 2000 are ¥557 million (US$4,491 thousand) and ¥603 million, respectively. The leased assets and related expenses of the Companies' finance leases other than those where the ownership of the leased assets is transferred to the lessee and are being accounted for as operating leases at March 31, 2001, comprise the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Buildings and structures	**¥ 5**	¥ 5	**$ 40**
Machinery and equipment	**1,927**	2,081	**15,540**
Other	**24**	20	**193**
Accumulated depreciation	**(1,208)**	(1,304)	**(9,741)**
	¥ 748	¥ 802	**$ 6,032**

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Depreciation	**¥363**	¥393	**$2,927**
Interest income	**87**	144	**701**

Interest income is calculated by subtracting the amount equivalent to the acquisition cost from the total lease fee. The resulting differences, which are of an amount equivalent to the total interest receipts over the lease periods, are allocated to each period by the interest method. The present values of future lease receipts for the Companies at March 31, 2001 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Current obligation	**¥ 303**	¥ 322	**$2,443**
Long-term obligation	**822**	780	**6,629**
Present value of lease receipts	**¥1,126**	¥1,103	**$9,080**

17. COMMITMENTS AND CONTINGENT LIABILITIES

Contingent liabilities as at March 31, 2001 for loans guaranteed amounted to ¥4,863 million (US$39,217 thousand), including ¥2,164 million (US$17,451 thousand) for unconsolidated subsidiaries and affiliates.

18. DERIVATIVES AND HEDGING ACTIVITIES

The Companies use derivative financial instruments to manage their exposure to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts, foreign currency swaps, and interest rate swaps are utilized by the Companies to reduce foreign currency exchange and interest rate risks. The Companies do not enter into derivatives for trading or speculative purposes.

Effective April 1, 2000, the Companies adopted a new accounting standard for financial instruments and a revised accounting standard for foreign currency transactions. These standards require that: a) all derivatives be recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of income and b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until the maturity of the hedged transactions.

The adoption of the new accounting standards for financial instruments did not have a material effect on the accompanying consolidated financial statements.

19. SEGMENT INFORMATION

a) Industry segment information—

The Companies' business is classified into the following three segments based on the similarities of the types and nature of business:
Timber and building materials: Manufacturing or purchasing and sale of timber and building materials
Housing: Construction of houses, buildings and their exteriors, gardening, planting and sale of interiors
Other: Brokerage of real estate, golf course management, finance, Leasing and other

The tables below present sales, operating expenses and operating profit information by segment.

	Millions of yen					
Year ended March 31, 2001	Timber and building materials	Housing	Other	Total	Elimination and/or corporate	Consolidated
Sales and contract revenues:						
Unaffiliated customers	**¥267,937**	**¥405,012**	**¥ 9,425**	**¥682,375**	**¥ —**	**¥682,375**
Intersegment transfers	**11,873**	**137**	**7,553**	**19,565**	**(19,565)**	**—**
Total	**279,811**	**405,150**	**16,978**	**701,940**	**(19,565)**	**682,375**
Operating expenses	**274,682**	**388,519**	**16,459**	**679,661**	**(13,285)**	**666,376**
Operating profit	**¥ 5,128**	**¥ 16,631**	**¥ 519**	**¥ 22,278**	**¥ (6,279)**	**¥ 15,999**
Identifiable assets, depreciation and capital investment:						
Identifiable assets	**¥149,010**	**¥136,979**	**¥56,811**	**¥342,801**	**¥ 28,301**	**¥371,102**
Depreciation and amortization	**1,828**	**1,715**	**1,026**	**4,570**	**(19)**	**4,551**
Capital investment	**2,499**	**3,145**	**1,040**	**6,685**	**(95)**	**6,590**

Year ended March 31, 2000	Millions of yen Timber and building materials	Housing	Other	Total	Elimination and/or corporate	Consolidated
Sales and contract revenues:						
Unaffiliated customers	¥320,708	¥370,166	¥ 8,719	¥699,594	¥ —	¥699,594
Intersegment transfers	20,280	525	6,762	27,568	(27,568)	—
Total	340,988	370,692	15,481	727,163	(27,568)	699,594
Operating expenses	326,218	365,550	14,912	706,681	(20,635)	686,045
Operating profit	¥ 14,770	¥ 5,141	¥ 569	¥ 20,482	¥ (6,933)	¥ 13,549
Identifiable assets, depreciation and capital investment:						
Identifiable assets	¥146,601	¥122,860	¥54,337	¥323,798	¥ 37,136	¥360,935
Depreciation and amortization	1,987	1,703	1,066	4,757	(0)	4,756
Capital investment	2,079	2,669	1,199	5,947	(6)	5,941

Year ended March 31, 2001	Thousands of U.S. dollars Timber and building materials	Housing	Other	Total	Elimination and/or corporate	Consolidated
Sales and contract revenues:						
Unaffiliated customers	**$2,160,782**	**$3,266,225**	**$ 76,008**	**$5,503,024**	**$ —**	**$5,503,024**
Intersegment transfers	**95,750**	**1,104**	**60,911**	**157,782**	**(157,782)**	**—**
Total	**2,256,540**	**3,267,338**	**136,919**	**5,660,806**	**(157,782)**	**5,503,024**
Operating expenses	**2,215,177**	**3,133,217**	**132,733**	**5,481,137**	**(107,137)**	**5,374,000**
Operating profit	**$ 41,354**	**$ 134,120**	**$ 4,185**	**$ 179,661**	**$ (50,637)**	**$ 129,024**
Identifiable assets, depreciation and capital investment:						
Identifiable assets	**$1,201,693**	**$1,104,669**	**$458,153**	**$2,764,524**	**$ 228,233**	**$2,992,758**
Depreciation and amortization	**14,741**	**13,830**	**8,274**	**36,854**	**(153)**	**36,701**
Capital investment	**20,153**	**25,362**	**8,387**	**53,911**	**(766)**	**53,145**

Notes 1. Operating expenses in the housing segment were decreased by ¥381 million (US$3,072 thousand) due to a change in accounting method for labor costs for construction in the term under review as stated in Note 3 (1) (A).
2. Sales and contract revenue in the timber and building materials segment were decreased by ¥70,231 million (US$566,379 thousand) due to a change in accounting method for sales of the construction materials in the term under review as stated in Note 3 (1) (B). Operating expenses in the timber and building materials segment and housing segment were decreased by ¥63,061 million (US$508,556 thousand) and ¥6,759 million (US$54,508 thousand), respectively. Elimination and/or corporate for intersegment transfers were ¥9,645 million (US$77,782 thousand) for both sales and contract revenues and operating expenses.
3. As stated in Note 11, the Company adopted new accounting standards for retirement benefits from the term under review. As a result, operating expenses in the timber and building materials segment and the housing segment increased ¥70 million (US$564 thousand) and ¥566 million (US$4,564 thousand), respectively, while operating expenses in the other segment decreased ¥3 million (US$24 thousand).
4. As stated in Note 3 (2) (D) (F), the Company adopted new accounting standards for financial instruments from the term under review. As a result, operating expenses in the timber and building materials segment, housing segment and others segment were decreased by ¥231 million (US$1,862 thousand), ¥0 million (US$0 thousand) and ¥2 million (US$16 thousand), respectively.

b) Geographic area information and export sales information—

As the total sales by consolidated subsidiaries outside Japan and the total export sales overseas are less than 10% of consolidated net sales, information relating to geographic area information and export sales information has been omitted.

20. RELATED PARTY TRANSACTIONS

Kazuo Kai is a director of the Company.

Transaction with him ended March 31, 2001 and 2000 were as follows;

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Sales	**¥23**	¥—	**$185**
Accounts receivable	**15**	—	**120**

Akio Matsushita is a statutory auditor of the Company.

Transaction with him ended March 31, 2001 and 2000 were as follows;

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Sales	**¥—**	¥28	**$—**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Sumitomo Forestry Co., Ltd.

We have audited the consolidated balance sheets of Sumitomo Forestry Co., Ltd. and consolidated subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. Our audits 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 accompanying consolidated financial statements, expressed in yen, present fairly the consolidated financial position of Sumitomo Forestry Co., Ltd. and consolidated subsidiaries at March 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan consistently applied during the period, except for the change, with which we concur, in the labor cost for construction and sales of the construction materials as discussed Note 3.(1).

As described in Notes 3, 11 and 18 to the consolidated financial statements, Sumitomo Forestry Co., Ltd. and consolidated subsidiaries have adopted new accounting standards for employees' retirement benefits and financial instruments and the revised accounting standard for foreign currency transactions in the preparation of their consolidated financial statements for the year ended March 31, 2001.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2001 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 4 to the consolidated financial statements.

Century Ota Showa & Co.

Tokyo, Japan
June 28,2001

See Note 2 to the consolidated financial statements which explains the basis of preparing the consolidated financial statements of Sumitomo Forestry Co., Ltd. under Japanese accounting principles and practices.