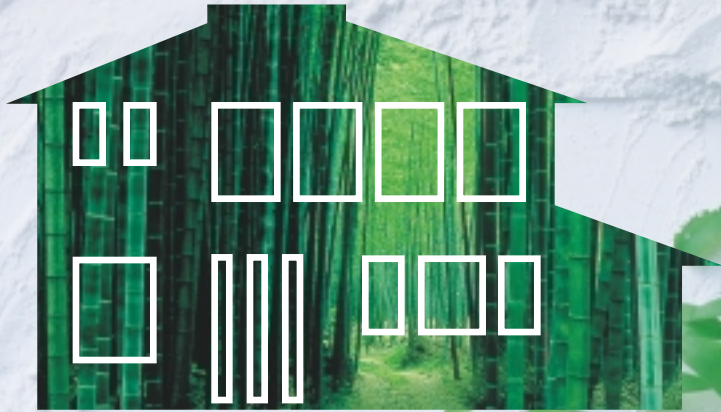


A N N U A L



R E P O R T



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YEAR ENDED MARCH 31, 1999



DAIWA HOUSE INDUSTRY CO., LTD.

COMPANY PROFILE

- The history of Daiwa House Industry Co., Ltd. is one of opening up uncharted territory. Since its establishment in 1955, Daiwa House has been a leader in the “industrialization” of construction in Japan, and has developed a constant stream of superior housing products that have revolutionized the housing industry in terms of quality, construction time, and value for money. We have also applied our unique industrialization technology to the construction of shops and office buildings, and have played a major role in the development of Japan’s housing and general construction industry.
- Moreover, responding to changes in lifestyles, we have been carrying out resort operations and opening home centers across the country. Thanks to this far-seeing business expansion policy, Daiwa House has been building up a strong, stable management base that has put it at the forefront of the industry.
- Today, Daiwa House is making full use of the extensive and integrated range of abilities it has perfected over its many years’ experience in the housing business. As a “comprehensive life-related company” that offers people a truly comfortable living environment, it is poised for still more dramatic growth in the 21st century.
- Daiwa House’s long-term bonds, which are subject to the strictest assessment of all corporate securities, have been rated AA by Japanese rating agencies, the highest rating within the Japanese housing industry. Our bonds were also awarded the industry’s highest rating by Moody’s as of September 30, 1998.

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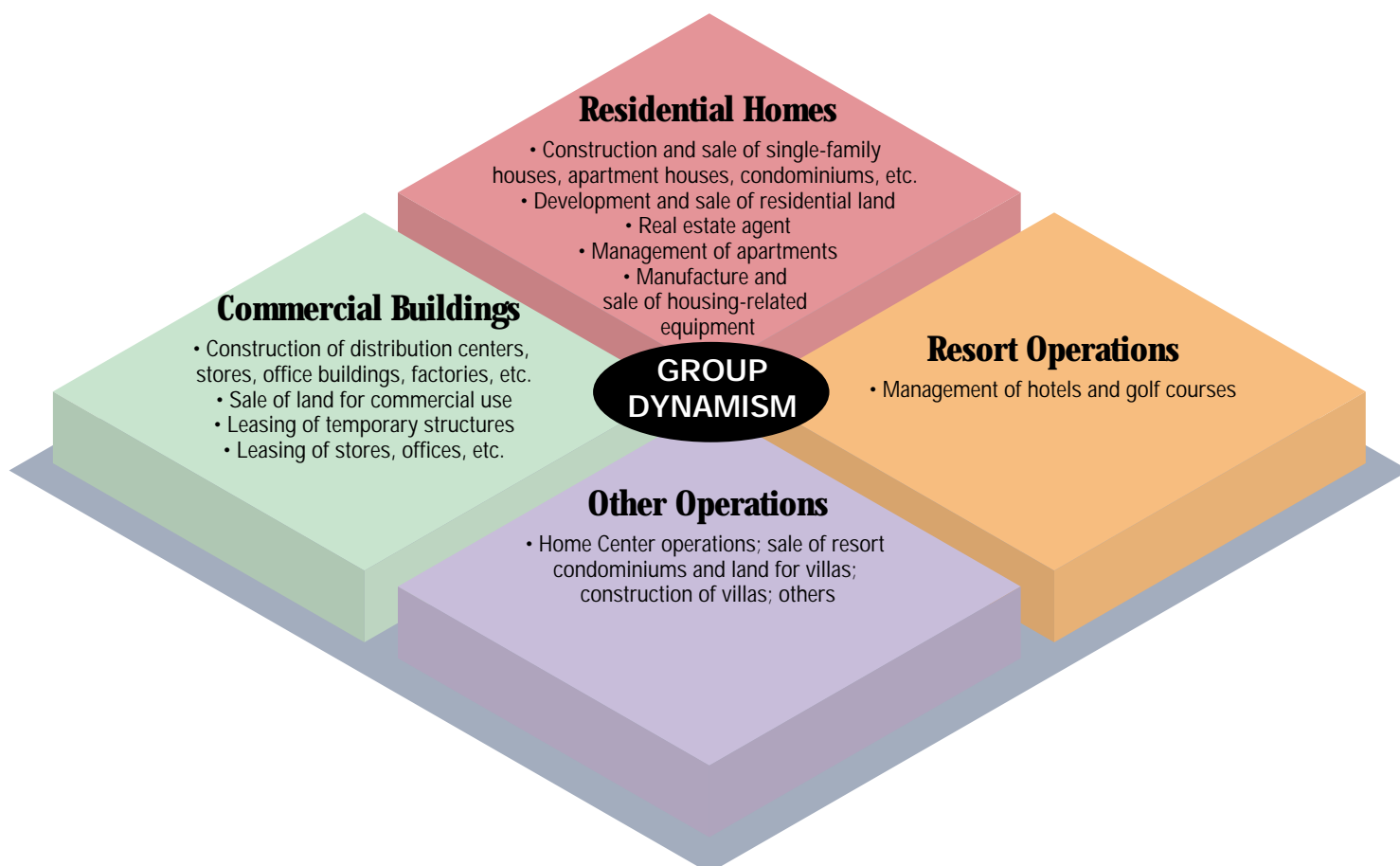
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FINANCIAL HIGHLIGHTS

CONSOLIDATED

Years ended March 31, 1999, 1998 and 1997	Millions of yen			Thousands of U.S. dollars
	1999	1998	1997	1999
Net sales	¥896,006	¥1,069,789	¥1,188,295	\$7,405,008
Net income	16,699	20,373	42,452	138,008
Per share of common stock (in yen and dollars):				
Net income	31.88	38.89	82.76	0.26
Diluted net income		37.91	79.89	
Cash dividends applicable to the year	17.00	17.00	17.00	0.14
Capital expenditures	47,545	28,700	34,133	392,934
Depreciation and amortization	18,453	18,710	19,961	152,504
Total assets	950,701	1,013,072	1,145,944	7,857,033
Shareholders' equity	603,060	595,429	584,157	4,983,967

Note: The U.S. dollar amounts represent translations of Japanese yen for convenience only at the approximate exchange rate on March 31, 1999 of ¥121 =U.S.\$1.



At a Cabinet meeting in January 1999, as part of its medium-to-long-term measures to revitalize the Japanese economy, the government adopted a “Strategic Plan for Doubling Living Space” aimed at improving the standard of living of the population. The target for housing construction starts in fiscal 2000 has been raised to 1,300,000 units, and the government has announced that housing will be assigned priority in the national budget over the next five years. In October 1998, the mortgage rate charged by Housing Loan Corporation reached a historical low of 2%, and since January 1999, home buyers taking out a mortgage have been eligible for tax relief. In this way, the authorities have positioned housing policies at the core of their overall economic stimulus measures. Daiwa House does not intend to let this golden opportunity slip from its grasp. We are not only exerting our full efforts to expand the volume of orders received, we are also strengthening our marketing power and product range, and have adopted a unique strategy with the aim of obtaining the No. 1 share in the housing market.

Achieving cost savings of over ¥30 billion thanks to rationalization measures

Q: The number of new housing starts in fiscal 1999 fell below the 1,200,000 mark for the first time in 15 years, to 1,170,000 units, leading to unfavorable accounts settlements for all the home builders. Could you first of all give us your evaluation of your business results in the term under review?

As the number of new housing starts in the previous term was 1,340,000 units, the fiscal 1999 figure represents a decline of approximately 13%. Even in the field of general construction, there was no recovery in demand, in spite of the increase in public works resulting from the government’s economic stimulus measures, owing to a sharp fall in private-sector capital investment. As a result, consolidated net sales fell 16.2% from the previous year, to ¥896,006 million (US\$7,405 million), income before income taxes declined 56.1% to ¥21,351 million (US\$176 million), and net income was down 18.0% to ¥16,699 million (US\$138 million).

These results are very regrettable, and we are making determined efforts to significantly improve the Company’s management efficiency and cost competitiveness. In particular, we have been quick to initiate streamlining measures, and we are confident that the cost reduction of over ¥30,000 million achieved during the term under review will contribute to strengthening the Company’s earnings from here onward.

Full-fledged entry into home renovation business via a product strategy that distinguishes Daiwa House from its competitors

Q: What measures have you adopted and implemented to deal with deteriorating market conditions?

It is becoming increasingly important to speedily pinpoint changes in the business environment and in market needs, and rapidly take the appropriate countermeasures. With the goal of bolstering our marketing capabilities, we launched a new business division system in April 1998, and in July 1998 we became the first major home builder to adopt an executive officer system. Specifically, we reduced the number of directors from 26 to 10. The new, smaller board of directors is able to make decisions much more swiftly.

The crucial element in product development is the extent to which we can satisfy our customers more fully than our competitors. For this reason, in fiscal 1999, Daiwa House became the first company in the industry to adopt “Healthy Housing Specifications,” in which the use of formaldehyde has been eliminated not only from finishing materials such as wall coverings, but also from backing materials for floors and walls, as the standard specifications for all housing products. This distinguished our products still more from those of our rivals.

Among the housing products to which these new health specifications have been applied are “Le Grand Socie,” launched in September 1998. This house model, which has proved very popular, comes in a wide variety of exterior designs, is priced in a



Takeshi Togo
*Representative Director &
President*

reasonable range, and can be adapted to the climatic conditions of different parts of Japan, thus meeting the most exacting customer requirements.

We also developed a “21st century-type” solar power housing product, the “Whole-Roof Solar Energy System”—the first in the industry to utilize amorphous materials, which are more environmentally friendly than conventional materials—and launched single-family houses featuring this system.

Home renovation service also begun at home centers

Q: Daiwa House’s strength is that, as well as its housing operations, it possesses additional earnings bases in its home centers and resort operations. How do you see the current trends and future prospects of these divisions?

Sales by other operations, notably home centers, increased 8.9% in fiscal 1999 over the previous year. In the home center business, which we started up in 1980, three new outlets were opened in fiscal 1999, bringing the total to 37 outlets at term-end. Moreover, to add an extra dimension to these operations, and in response to customer demands in the field of home renovation, we started a “Renovation Support System.” I believe that we can look forward to considerable future growth through cooperation between the Company’s residential home operations and its home centers. We aim to stress those features that distinguish our outlets from those of the competition, namely, our specialization in home renovation, do-it-yourself goods, gardening products and similar items.

Turning to the Company’s resort operations, the Kushimoto Royal Hotel, our 30th hotel, was opened in April 1998. With this, we have attained our projected target, and can look forward to maintaining or even increasing earnings from this source. At the same time, we aim to strengthen our marketing by emphasizing the special features of our membership-type resort hotels.

Fail-safe measures to solve the Y2K problem

Q: The Year 2000 (Y2K) Problem is an issue of worldwide concern. What progress are you making in your Y2K countermeasures, and what are your cost projections?

We began reconstructing our information systems in 1994, and we have been taking countermeasures against the Y2K problem in parallel with this. Work on our core system was completed in March 1999, and we plan to complete confirmation tests on all other in-house information systems and dispersed systems, including PCs, by September 1999. We are receiving progress reports on Y2K compliance work from our principal affiliated companies, and on the basis of the information we have received, we do not expect the occurrence of any problem sufficiently serious to disrupt business operations.

Because much of the cost of work to achieve Y2K compliance was contained in the budget for reconstructing our information systems, we are unable to accurately calculate costs attributable solely to Y2K compliance. We do not anticipate that Y2K-related expenditure will have a significant impact on our business operations or results. We will continue to conduct risk analysis, and to create a crisis management system capable of coping with any contingency.

Aiming at top market share by cementing good relationship with customers

Q: What are your forecasts for business results in the current term?

We expect the government's implementation of tax relief measures for home buyers taking out a mortgage to trigger an upsurge in demand. In fact, thanks to the lowering of Housing Loan Corporation's mortgage rate and the mortgage-linked tax relief, we have seen definite signs of a revival in demand since the start of this business term. We at Daiwa House see this as an ideal chance to expand our share of the market, and we are exhorting all our staff to conduct aggressive marketing. We project this term's net consolidated sales at ¥980,000 million (US\$8,099 million) and net income at ¥36,000 million (US\$298 million).

Q: There seems little cause for hope of a large increase in new housing starts over the medium-to-long term. In these circumstances, how do you intend to go about expanding sales and income?

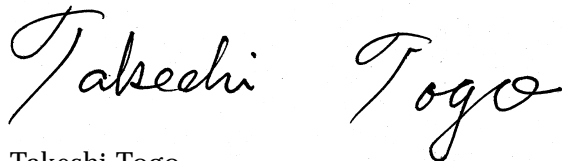
The decline in housing demand is not due solely to economic conditions, but is tied to the fact that the total number of dwellings in Japan already exceeds the number of families.

The only ray of light amid this overall slump in housing demand is the growth in demand for house expansion and renovation. We expect home owners from here on to constantly seek to increase the value of their real estate assets through extension and renovation. Although there will probably be sluggish growth in the number of first-time buyers, the development of the replacement market is likely to become our main business approach in the future.

Q: Could you tell us something about your marketing strategy regarding the replacement market, and your overall business strategy?

During the second half of the term under review, we split up our residential homes operations into three specialized divisions—general housing, subdivision housing, and housing renovation. With the goal of securing the top market share for each of these divisions, we will be strengthening our sales organization. I have ordered the Company's marketing staff to clarify the customer categories to be targeted by each of these new divisions, and to focus their sales efforts on these categories. For this purpose, we must reinforce our relationship with our customers by putting in place a thorough system of regular checks and long-term diagnosis. In my view, it is vitally important to create a lifelong relationship between Daiwa House and its customers in this manner.

Regarding our "Other Operations," too, our basic policy is to concentrate management resources on our areas of particular competence without allowing ourselves to be shackled by traditional values or concepts, and to capture new markets by the development of techniques and services that make Daiwa House stand out from the herd. The Company and its group intend to join forces and boldly confront the challenges posed by the current severe business environment and emerge a victor from the stiff competition.



Takeshi Togo
Representative Director & President



Osaka Head Office



Tokyo Office

New buildings completed in Osaka and Tokyo

Construction of the Company's new head office in Osaka (23 stories above ground and 3 basement floors) and an office building in Tokyo (23 stories above ground and 2 basement floors) was completed during the term under review. Moreover, focusing all the know-how it has accumulated over the years, the Company handled everything relating to these two buildings itself, from land development through design to execution. The buildings conform to the Company's key themes of environmental friendliness, energy conservation, health and safety, and high quality.

Paying particular attention to environmental friendliness, we fitted these buildings with co-generation systems, which re-use the heat produced in the initial combustion process, and with the "Ice Storage Air Conditioning System," which utilizes ice produced at night (using inexpensive off-peak electric power) to cool the buildings during the day. The buildings also feature an advanced recycling-type waste disposal system.

Three plants awarded ISO14001 certification

Daiwa House has adopted an environmentally oriented management policy under the theme of "aiming to be an even more fruitful 'comprehensive life-related enterprise' by pressing ahead with the 'industrialization' of construction while being in harmony with the environment." In line with this, the whole Company is working to achieve the goal of "zero emissions." Thanks to these efforts, during the term under review, our Mie, Sapporo, and Shikoku plants were awarded ISO14001 certification for environmental management.

All three plants have achieved major results in reducing the burden on the environment over a wide field of activities, including lowering electric power consumption so as both to save energy and cut CO₂ emissions, improving cleaning tank and waste disposal systems, reducing the volume of waste products, and doing away with wrappings for materials during transportation to building sites.



Mie Plant



Sapporo Plant



Shikoku Plant

Even more environmentally friendly "Whole-Roof Solar Energy System" launched

In August 1998, Daiwa House began selling single-family houses fitted with its "Whole-Roof Solar Energy System." This system is the first in the "industrialized" construction sector to use amorphous materials, which are less harmful to the environment than conventional crystal-type solar power generation systems.

Solar power generation systems using amorphous materials are more environmentally friendly than crystal-type systems because they have a shorter energy payback time (EPT) and the manufacturing process emits less CO₂. As Daiwa House's system is designed as an integral part of the roof, it harmonizes with the external appearance of the house. Moreover, because it requires no frame to fix it to the roof, nor any separate panels, unlike conventional systems, installation time is reduced, thereby cutting costs. For these reasons, it is a commercially very competitive product.

Daiwa House tackles the four main themes for 21st century living—environmentally friendly; safe & healthy; barrier-free; and energy-saving

Company-wide effort to confront environmental problems

In October 1997, Daiwa House established the Environmental Technology Division to promote environmental protection activities across the whole Company. We also set up the Environmental Promotion Committee to lead vigorous Company-wide environmental protection efforts. Six subcommittees were also established to specialize in the areas of energy consumption, waste products, environmental pollutants, lifestyle information, the workplace, and environmental assessment. These subcommittees draw up medium-to-long-term policies, in accordance with which each division drafts and implements an environmental action plan every year. The Environmental Promotion Committee checks the results of the whole Company's environmental activities and exerts its full efforts to ensure the achievement of the plans. For example, the Residential Homes Division is setting up a recycling system for waste products on building sites in an effort to reduce the volume of waste that needs to be disposed of, while at the same time they are introducing a system of recycling usable materials from houses that have been demolished.

Safety and health are the main themes

Daiwa House was the first company in the housing industry to formulate measures to deal with the problem of formaldehyde, a harmful organic compound. Our "Healthy Housing Specifications," which address this problem, are applied to all products, and are eloquent testimony to the emphasis placed on environmental and health issues in the housing that we offer. "Basia 21," the first house model built according to the "Healthy Housing Specifications," utilizes materials that give off very little formaldehyde. In addition, each room is fitted with a heat-exchanger fan that expels VOC (Volatile Organic Compounds) into the outside air without lowering the efficiency of heaters and air-conditioners. Furthermore, almost all internal fittings and fixtures, including "unit baths," combined wash-hand basins and cosmetic cabinets, kitchen counters, toilets, interior door handles, and colored flooring materials are all treated with antibacterial agents.

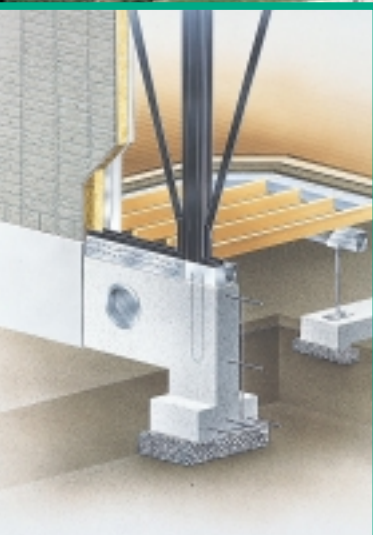
The careful attention we pay to safety is also one of the major distinguishing features of our housing products. Our "Triple United System" steel framework, in which three beams are joined together as one unit, is

Based on its concept of the "industrialization" of construction, Daiwa House has developed an extensive series of new technologies and construction methods, applied to the construction of both houses and office buildings, that lead to labor saving, energy conservation, and high product quality. As we move into the 21st century, the whole Company is directing its efforts toward environmental protection activities focused on those environmental problems that affect all mankind. Simultaneously, the Company's staff are aiming to achieve an overall technological revolution in pursuit of the functions that will be demanded of housing in the future—safety and health, barrier-free living space, and energy saving.

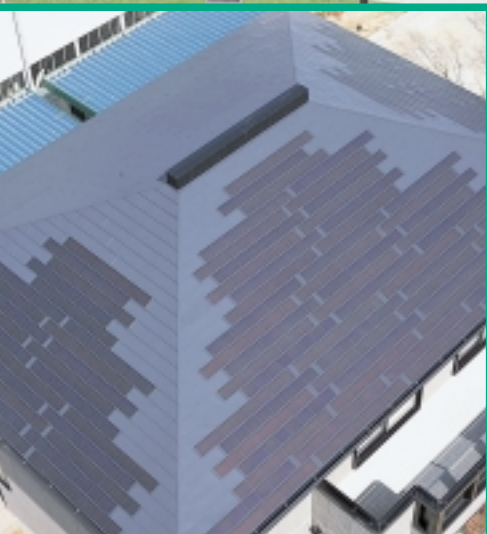


Our research into the needs of the aging society enables us to offer housing that takes into consideration the problems, such as moving in and out of bed, encountered by aged and disabled people as well as care workers.





In our unique Triple United System, the steel columns that form the core of a building's structural framework are joined to two load-resistant panels, one on each side, making an extremely strong single unit.



Our amorphous thin-film solar energy cells have a maximum power output of 4.75 kw, and can supply the full needs of the average family. On sunny days, when power output is high, surplus power can be sold to utility companies.

extremely strong and durable, and vividly demonstrated its ability to withstand earthquakes in the Great Hanshin Earthquake in January 1995.

Barrier-free housing helps elderly and disabled people

Thanks to our research into housing that meets the needs of a graying society, we are able to offer housing that takes into consideration the problems encountered by aged and disabled people, as well as care workers. These housing units feature wheelchair-accessible system kitchens, extra-large handles that make it easier for elderly people to open and close doors, "kick plates," which lessen the shock when a wheelchair bangs against a wall, and many other items of equipment. Moreover, these houses, whether 2-story or 3-story, are provided with a space measuring 3.3m² in which an elevator large enough for wheelchair access can be installed.

In October 1998, Daiwa House and a partner company jointly developed a system, dubbed "Senior Pose," which simulates the infirmities associated with old age. While assisting us in our development of housing for the elderly, this product is also being sold to care and welfare facilities for use in training and research, as well as to other housing makers and housing equipment manufacturers for use as a product development support tool.

Energy conservation

Daiwa House is promoting the reduction of energy consumption in its offices and factories, and on its building sites, and is also tackling the problems associated with energy saving in the home. Beginning with insulation measures that easily clear Housing Loan Corporation's insulation work standards, we offer a wide range of products that help to save energy, including solar power generation systems and equipment designed to use less water. In addition, we employ materials that are easily recyclable. Our "Whole-Roof Solar Energy System," which has been on sale since August 1998, attached to single-family houses, is the most representative example of our range of energy-saving products. This system, which is a unique type that comes already fixed to the steel roofing material, uses thin-film solar cells made from amorphous materials, which are environmentally friendly. The system can supply a household with all the electric power it needs.

In February 1999, Daiwa House began testing a pilot "all-electric house" in Niigata Prefecture. This new model of house utilizes surplus night-time electricity to supply hot water for central heating, and as a new approach to "ecological coexistence" in housing, is attracting considerable interest.

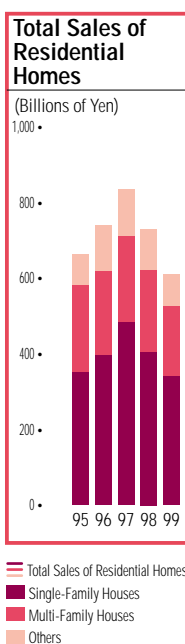
The prolonged recession created even more severe conditions for single-family homes and rental apartments than in the previous year. Under the Company's new business division system, we worked to boost sales by emphasizing our "Healthy Housing Specifications" as the aspect in which our products excel those of our competitors. Unfortunately, the sharp slump in demand led to a decline in sales of residential homes by 16.1% from the previous year, to ¥611,857 million (US\$5,057 million).

With a view to the expected needs of the 21st century, Daiwa House has devoted great efforts to the development of high-quality housing with long-term asset value, and has launched a large variety of products, principally housing, onto the market. In the field of 2-story homes, our pioneering Basia 21 exemplifies our focus on health, safety, energy saving, barrier-free design, and environmental protection. In addition, "Le Grand Socie," launched in response to buyers' need for a well-made house at a reasonable price, proved very popular. In view of the growth in sales of 3-story houses on inner-city sites, which are popular because of the high price of land in such districts, we marketed "New Yutorie 3," which is based on an existing popular design but offers new value-added features by taking into account the factors of health and environmental friendliness, among others. We responded to replacement demand in urban areas by launching "Le Grand Grandy 3," which offers superior basic functions and better value for money. By these means, we made vigorous efforts to expand sales.

In the field of apartment buildings, we have been developing new products in a bid to create a new target market for our products, while increasing the attractiveness to prospective owners of managing apartment buildings. These new products feature a variety of design specifications and services tailored to specific buyer categories. For example, we added "Séjour ME3," a 3-story apartment building to our product lineup. This model is designed to meet the needs of newlyweds, particularly stressing healthy living. In this way, we made efforts to expand sales by introducing new models, while simultaneously upgrading existing products.

Turning to the prospects for fiscal 2000, in view of the mortgage-linked tax relief measures included in the government's emergency economic stimulus package, which is expected to boost housing purchases, as well as the implementation of a system providing subsidies amounting to 30% of the construction cost of high-durability apartment buildings, Daiwa House is devoting its full efforts, on a company-wide scale, to the goal of obtaining the top share in the market, principally through the development and marketing of competitive new products.

Turning to overseas operations, in May 1998 we opened the Tianjin Jiuhu International Village in the major Chinese city of Tianjin. The International Village is targeted at the staff (and their families) of overseas companies, principally Japanese, which have established a presence in the area. Offering a high-class living environment, the village contains 10 resort villa-type buildings and 1 condominium building, complete with such attractions as heated swimming pools, gyms, restaurants and shops. The village has proved very popular.



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- 1 Séjour ME3 features a refined, modern exterior design that nevertheless gives a very cosy feeling.
- 2 Le Grand Socie is a reasonably priced 2-story house offered in a wide choice of designs.
- 3 Le Grand Grandy 3 offers a comfortable living environment with maximum use of natural light and ventilation.
- 4 With its loft space, New Yutorie 3 is a 3-story house for the price of a 2-story one.

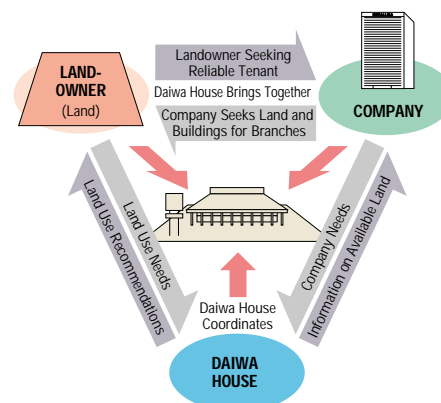
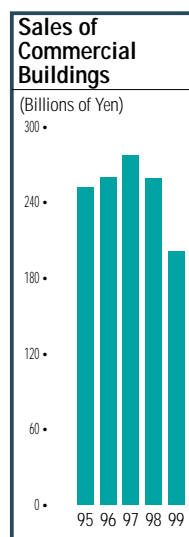
P private sector fixed capital investment dropped sharply during the term under review, due to depressed corporate business results. Owing to this, the market was sluggish for all categories of commercial buildings—retail outlets, office buildings, factories, warehouses and others. Sales in the term were down 22.3% to ¥201,414 million (US\$1,665 million). In response to this, we are attempting to raise the value added level of our products and concentrate our efforts on areas in which we have particular strength in a bid to reorganize our commercial buildings operations.

In our commercial buildings operations, we do not simply undertake construction work, but also offer a unique, total-support system, named the Daiwa House LOC (Land-Owner-Company) System, which brings together landowners seeking the optimum utilization of their land and prospective tenants looking for new business locations. The Company offers the landowner a choice of plans featuring different funding schemes and building designs. For the prospective corporate tenant, we have a total consulting service encompassing market analysis, store-opening plans, and management strategies. Over 20,000 cases throughout Japan have been successfully handled by this system.

The Company has created a new business area for the LOC System by teaming up with major supermarket operator Jusco to establish a joint venture development company, LOC Kaihatsu Co., Ltd. Plans are under way for the construction of three shopping centers in fiscal 2000.

Taking into account the increased likelihood of securitization of commercial facilities, we plan to utilize the LOC System to conduct development that improves the value and safety of real estate as form of collateral backing securities.

In the field of general construction, we are reinforcing our marketing of products that are particularly competitive, such as tax-saving structures, construction systems employing H-section steel beams (which allow reductions in both costs and erection time), and exterior wall panels that combine the advantages of concrete and steel.





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- ◆ 1 The Uni-Qlo clothing warehouse, located alongside a heavily trafficked road
- ◆ 2 The Sports Plaza Ibaraki in Osaka Prefecture, an example of the effective utilization of urban land
- ◆ 3 Jagar Green in Osaka Prefecture, one of our multipurpose commercial facilities
- ◆ 4 The Rock Shopping Center Kamiita, Tokushima Prefecture, boasts an area of over 40,000m².

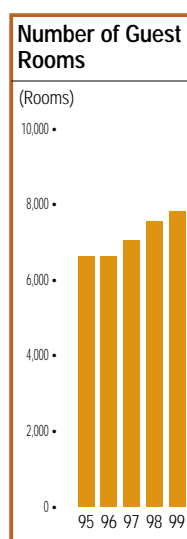
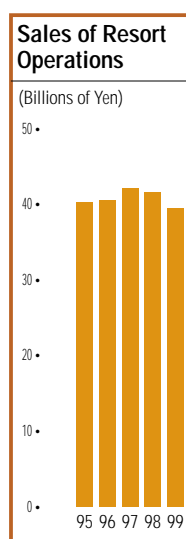
The Company's resort operations center on the "Daiwa Royal Hotels" chain of membership resort hotels, one of the largest in Japan. As of the end of the term, we operated 30 hotels and 4 golf courses across the country. Sales in the term were down 5.1% to ¥39,473 million (US\$326 million), owing to a decline in demand for corporate training programs and conventions.

Daiwa House's development of resort hotels is based on the concept of "putting people in touch with nature and culture," whereby we offer unique amenity spaces that make the most of the regional characteristics of each location. Daiwa House aims to raise the value-added level of this business by focusing on campaigns that advertise our resort hotels as ideal venues for the holding of international conventions, training courses, conferences, wedding ceremonies, parties, and so on, thanks to the beauty of their natural surroundings.

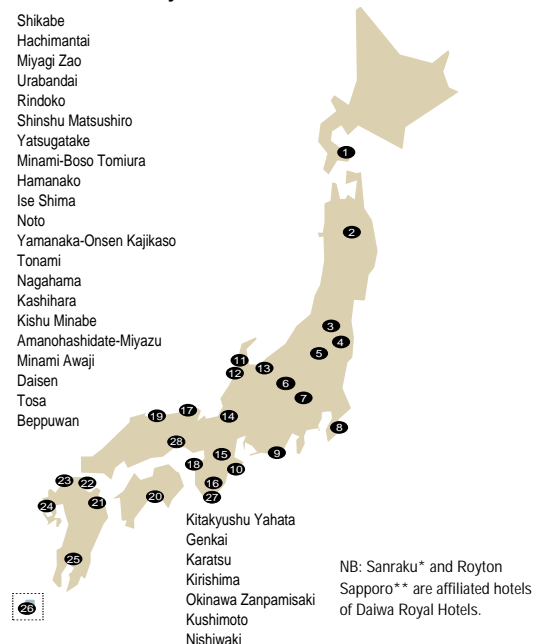
In April 1998 we opened our 30th hotel, the Kushimoto Royal Hotel, in Wakayama Prefecture. This was a milestone event in the history of our resort operations. From the standpoint of promoting company-wide environmental activities, our key policy is to build hotels that are not only comfortable for all our guests, but are also environmentally friendly. For example, with the interests of elderly and disabled guests in mind, we take great care to ensure that our hotels are barrier-free; we employ interior decoration materials that do not emit harmful substances; and we actively tackle the problems of waste disposal by separating waste into different categories to allow easy recycling or reuse.

At the same time as offering our guests, who come both from Japan and overseas, a true resort-style living environment, our hotels make a valuable contribution to the economies of their local regions, particularly by employing local staff.

Daiwa House's 30-hotel chain is not merely an important company asset, it is also one of our stable earnings sources. We will make the utmost efforts to increase our marketing activities in this field, emphasizing the uniqueness of our hotels, which are designed to meet diversifying leisure needs, so as to bolster the chain's customer drawing power.



Network of Daiwa Royal Hotels





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- 1 Tonami Royal Hotel, with an elegant, spacious entrance hall
- 2 Kushimoto Royal Hotel, with outdoor pool and bars
- 3 Yatsugatake Royal Hotel, a mountain resort hotel that offers spectacular views of the surrounding countryside

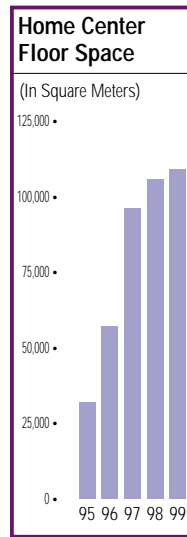
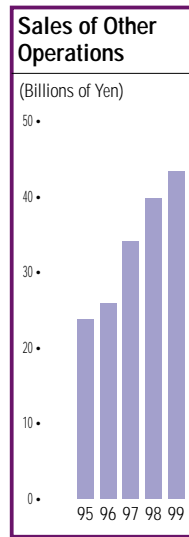
OTHER OPERATIONS

This segment covers the Company's home center operations, which registered steady growth in the term under review, and the development and subdivision of resort villas and condominiums. Total sales for this segment in fiscal 1999 rose 8.9% to ¥43,262 million (US\$357 million).

Right from the start, the Company's chain of "Royal Home Centers," which has now grown to 37 outlets (as of March 31, 1999), did not simply sell DIY goods, but also sponsored courses in home renovation and related subjects, which drew extensively on Daiwa House's construction and installation know-how. These efforts successfully distinguished our home centers from the competition, and have allowed us to build up a large regular customer base. To further solidify this area of the Company's strength, we began opening outlets specializing in DIY products and services in fiscal 1999.

During the term, we opened one store in Miyagi Prefecture and two in Osaka City. These outlets feature a new "construction service system" that provides support in the areas of installation, assembly, finishing, and so on

to customers who have purchased products for use in home renovation. We intend to steadily expand this service to existing outlets, in parallel with our policy of transforming these stores into specialist outlets for DIY goods, including gardening goods and interior decoration products. Through this unique policy, Daiwa House aims to demonstrate its superiority over its competitors even more clearly.



◆Royal Home Center Mozume in Kyoto Prefecture.



◆Royal Home Center Kawachinagano in Osaka Prefecture.



◆Royal Home Center Nishikanmuri in Osaka Prefecture.

CONTRIBUTING TO SOCIETY

Central Research Laboratory—a facility open to the local community

The Company's Central Research Laboratory is located in Kansai Science City amid lush green surroundings. The staff of the laboratory conduct research mainly on the theme of state-of-the-art home lifestyles, while at the same time maintaining an environment open to the public under the catchphrase "Two-Way Communication." To this end, conducted tours of the facility are offered, and symposia are held with the aim of encouraging active communication with users and members of the general public.

The Central Research Laboratory houses an Information Library containing a large amount of data on construction and homes; a Museum Floor where models of traditional houses from around the world, as well as modern "environmental-coexistence" houses, can be viewed; and a Concept Floor where visitors can view explanatory videos made at the laboratory. Thanks to these attractions, the laboratory welcomes a large number of visitors every day.

Life Research Center—a home-related think tank

The Life Research Center conducts a wide variety of surveys into matters relating to homes and lifestyles, and communicates the results of its research



The Information Library at Daiwa House Industry's Central Research Laboratory stores specialized books and videos on construction and homes



A laboratory introduction video is shown at the Community Hall at Daiwa House Industry's Central Research Laboratory.

As a corporate member of society, Daiwa House's objective is to make a valuable contribution to social goals on both the local and national levels. For this purpose, we are making constant efforts to play a valuable role in social life via scientific and cultural activities concerning the living environment for the next generation, by such means as holding seminars open to the general public, mainly at the Company's Central Research Laboratory and Life Research Center.



Daiwa House Industry's Central Research Laboratory consists of the Main Building, the Techno Laboratory and the Experimental House.

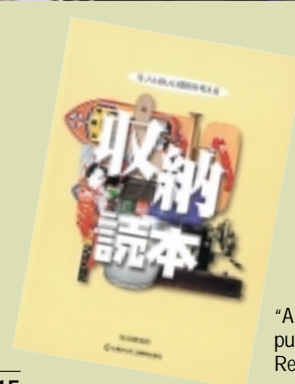
to the public via PR releases and over the Internet. One of the center's publications, a booklet entitled "A Storage Handbook," contains a wealth of advice on how to store and put away household possessions—always a problem in cramped Japanese living quarters—thereby improving the quality of one's living space.

In fiscal 1999, Life Research Center announced the results of two major surveys: "A Survey on the Relationship Between Home and Nature," which was aimed at discovering the ideal relationship between man and nature; and "A Survey on Household Waste," which attempted to ascertain the current status of garbage-related problems and find solutions to them.

Once every two months, the Life Research Center holds a seminar open to the general public called "Life, Living, and the Home." This seminar, which takes up problems related to daily life, a subject of immediate interest to everyone, is extremely popular. In the summer of 1998, subjects covered included: ways to prevent exposure to ultra-violet rays; how to make nutritional meals that help reduce stress; the psychological benefits of using aromatic herbs in the home; creating one's own picture postcards; how to wrap presents attractively; enjoying afternoon tea, and many others. The seminars were very well attended and led to lively discussions.



Many people attended an open seminar on picture postcards.



"A Storage Handbook" published by the Life Research Center



Takeshi Togo
Representative Director & President



Katsumi Morimoto
Representative Director & Executive Vice President



Takao Tsuda
Representative Director & Executive Managing Director



Katsuhiko Ohgita
Executive Managing Director



Sadao Yoshii
Managing Director



Kazuharu Kimoto
Managing Director



Tamio Ishibashi
Managing Director



Yoshikazu Tano
Director



Hiromitsu Yamada
Director



Nobuyasu Ishibashi
Director

President

Takeshi Togo*

Executive Vice President

Katsumi Morimoto*

Executive Managing Directors

Takao Tsuda*
Katsuhiko Ohgita

Managing Directors

Sadao Yoshii
Kazuharu Kimoto
Tamio Ishibashi

Directors

Yoshikazu Tano
Hiromitsu Yamada
Nobuyasu Ishibashi

Managing Executive Officers

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Mitsuo Funatsu
Moritsugu Kawai
Kentaro Yoshida

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Yuzo Kawahara
Hiroshi Azuma
Minoru Fujita
Mutsuo Kajimoto
Takeshi Kajimoto
Kenji Murakami
Takeshi Ito

Corporate Auditors

Hiromasa Kobayashi
Toshihiko Emi
Tetsuji Ogawa
Kohei Nakabo

*Representative Director

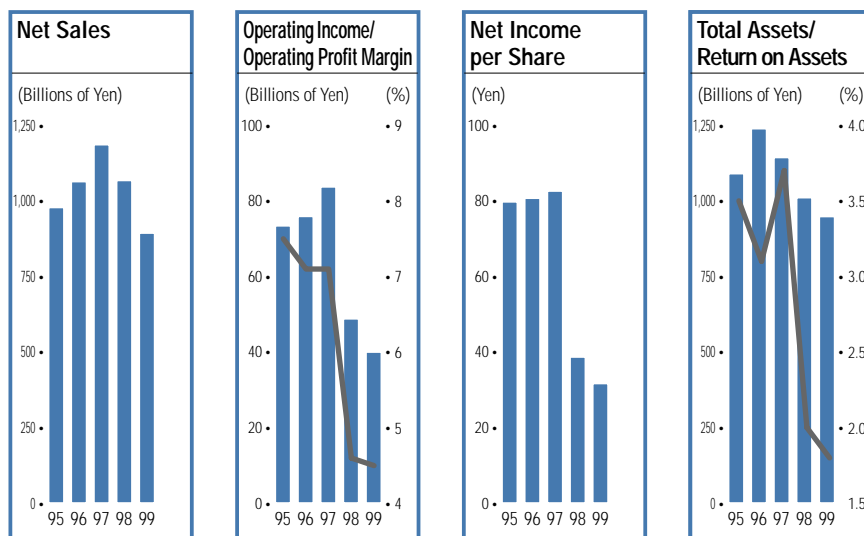
(As of June 29, 1999)

Daiwa House Industry Co., Ltd. and Subsidiaries

FIVE-YEAR SUMMARY

CONSOLIDATED

Years ended March 31	Millions of yen				
	1999	1998	1997	1996	1995
Net sales	¥896,006	¥1,069,789	¥1,188,295	¥1,066,218	¥ 980,620
Income before income taxes	21,351	48,643	84,557	76,948	77,125
Net income	16,699	20,373	42,452	38,992	38,257
Per share of common stock (in yen):					
Net income	31.88	38.89	82.76	80.91	79.94
Diluted net income		37.91	79.89	77.66	76.95
Shareholders' equity	1,151.12	1,136.55	1,115.04	1,032.96	952.68
Capital expenditures	47,545	28,700	34,133	20,640	46,213
Property, plant and equipment, less accumulated depreciation	365,502	346,543	338,166	322,436	312,896
Total assets	950,701	1,013,072	1,145,944	1,241,217	1,092,496
Shareholders' equity	603,060	595,429	584,157	515,745	455,958



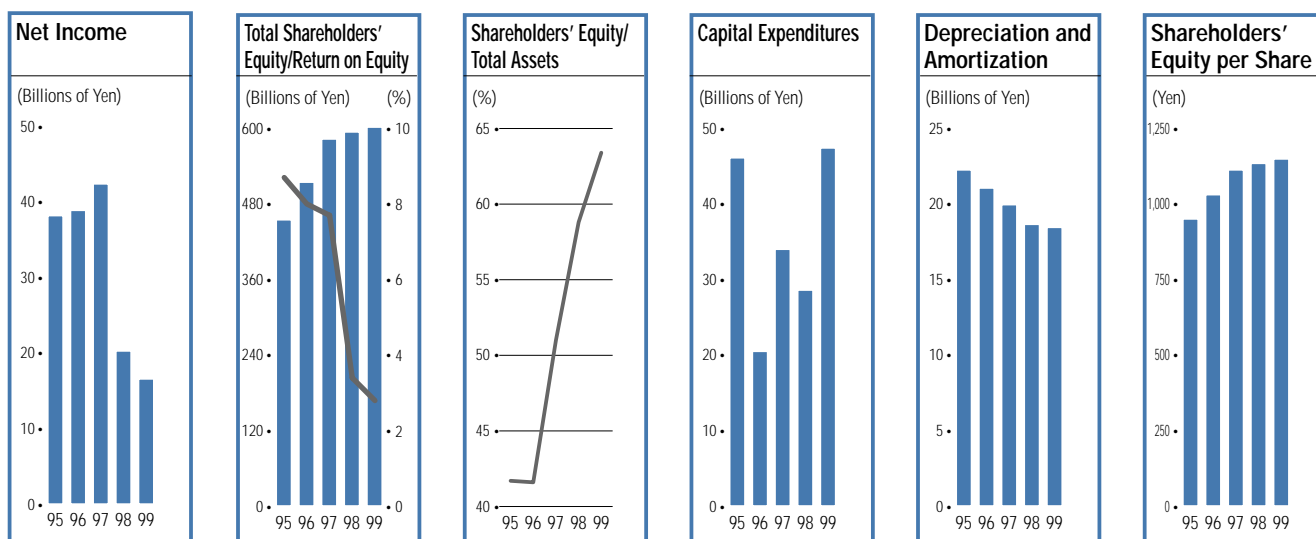
Operating Results

Net sales for the fiscal year ended March 31, 1999, came to ¥896.0 billion (US\$7,405 million), a fall of 16.2% from the previous year. The ratio of cost of sales to net sales decreased 0.8 of a percentage point to 77.2%. Selling, general and administrative expenses decreased ¥22,459 million, or 12.0%, to ¥164.5 billion (US\$1,359 million). This represented 18.4% of net sales, up 0.9 percentage points from the previous year.

As a result, operating income fell 17.0% to ¥40.2 billion (US\$332 million). The operating profit margin remained the same as the previous year, at 4.5%. Income before income taxes and translation adjustment declined 56.1% to ¥21.4 billion (US\$176 million). Net income for the year dropped 18.0% to ¥16.7 billion (US\$138 million), with net income per share at ¥31.88 (US\$0.26).

In a breakdown of sales by segment, residential housing fell

16.1%, commercial buildings fell 22.3%, resort operations fell 5.1%, and sales in other operations rose 8.9%. Turning to operating income (loss), residential housing saw income fall 4.8% to ¥42.2 billion (US\$349 million), due to sluggish housing investment. Income from commercial buildings fell 11.9% to ¥15.5 billion (US\$128 million), owing to stagnation in capital investment by the private sector. Resort operations saw a loss of ¥6.7 billion (US\$55 million), exceeding the previous year's loss by 13.0%, due to an increase in depreciation expenses caused by shortening the useful lives in line with the Japanese Corporate Tax Law amendment. Other operations saw a loss of ¥2.0 billion (US\$17 million), exceeding the previous year's loss by 25.8%, against the background of a shrinking profit margin caused by intensified competition in the Home Center business sector.



Financial Position

As of March 31, 1999, total assets were ¥950.7 billion (US\$7,857 million), down 6.2% from the previous year-end. Current assets were ¥423.6 billion (US\$3,501 million), down 11.8%. Property, plant and equipment rose 5.5% to ¥365.5 billion (US\$3,021 million).

The total of current liabilities and long-term liabilities stood at ¥347.4 billion (US\$2,871 million), down 16.8%. Current liabilities fell 26.5% to ¥205.4 billion (US\$1,698 million) due to a decrease in commercial paper.

Shareholders' equity stood at ¥603.1 billion (US\$4,984 million), up 1.3% from the previous year-end, and the shareholders' equity ratio rose from 58.8% to 63.4%. Return on assets for the year was 1.8%, compared with 2.0% for the previous year. Return on equity was 2.8%, compared with 3.4% for the previous year.

Cash Flows

Net cash provided by operating activities for the year came to ¥67.6 billion (US\$558 million), up from ¥24.8 billion in the previous year. This was mainly due to a decrease in payables-trade.

Net cash used in investing activities was ¥32.2 billion (US\$266 million), up from the previous year's ¥24.8 billion. This was primarily due to an increase in capital expenditures.

Net cash used in financing activities came to ¥43.3 billion (US\$358 million), down from ¥75.1 billion in the previous year. This was mostly due to a reduction in commercial paper.

Capital Expenditures

Looking at capital investment during the year, due to the construction of office buildings in Osaka and Tokyo, capital expenditure was up 65.7% from the previous year at ¥47,545 million (US\$393 million).

CONSOLIDATED BALANCE SHEETS

March 31, 1999 and 1998

ASSETS	Millions of yen		Thousands of
	1999	1998	U.S. dollars (Note 1)
			1999
Current assets:			
Cash and cash equivalents (Notes 2-b and 5):			
Cash.....	¥ 27,613	¥ 46,137	\$ 228,207
Time deposits.....	105,059	94,535	868,256
Marketable securities (Note 3).....	3,331	5,464	27,529
Receivables:			
Trade notes.....	8,566	5,908	70,793
Trade accounts.....	39,501	47,312	326,455
Allowance for doubtful receivables.....	(2,125)	(2,050)	(17,562)
Inventories (Note 4).....	231,343	273,104	1,911,926
Prepaid expenses and other current assets.....	10,290	9,852	85,041
Total current assets.....	<u>423,578</u>	<u>480,262</u>	<u>3,500,645</u>
Property, plant and equipment:			
Land.....	176,074	156,989	1,455,157
Buildings and structures (Note 2-e).....	283,732	255,477	2,344,893
Machinery and equipment.....	45,716	45,787	377,818
Furniture and fixtures.....	28,601	28,533	236,372
Construction in progress.....	2,799	16,886	23,132
Total.....	<u>536,922</u>	<u>503,672</u>	<u>4,437,372</u>
Accumulated depreciation.....	(171,420)	(157,129)	(1,416,694)
Net property, plant and equipment.....	<u>365,502</u>	<u>346,543</u>	<u>3,020,678</u>
Investments and other assets:			
Investment securities (Note 3).....	52,381	62,359	432,901
Investments in and advances to associated companies (Note 3).....	51,612	52,205	426,545
Long-term loans.....	5,740	23,671	47,438
Lease deposits and other assets.....	55,142	48,331	455,719
Allowance for doubtful accounts.....	(4,390)	(1,095)	(36,281)
Total investments and other assets.....	<u>160,485</u>	<u>185,471</u>	<u>1,326,322</u>
Translation adjustments.....	1,136	796	9,388
Total.....	<u>¥950,701</u>	<u>¥1,013,072</u>	<u>\$7,857,033</u>

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	1999	1998	1999
Current liabilities:			
Short-term bank loans (Note 5)	¥ 30,000	¥ 38,315	\$ 247,934
Commercial paper (Note 5)		30,000	
Current portion of long-term debt (Note 5)		448	
Payables:			
Trade notes	46,722	60,809	386,132
Trade accounts	42,430	52,003	350,661
Construction	5,853	7,839	48,372
Deposits received (Note 6)	45,277	50,949	374,190
Income taxes payable	3,847	11,062	31,794
Accrued expenses and other current liabilities (Note 5)	31,306	28,025	258,727
Total current liabilities	205,435	279,450	1,697,810
Long-term liabilities:			
Long-term debt (Note 5)	2,841	2,843	23,479
Employees' retirement benefits (Note 7)	16,757	17,130	138,487
Long-term deposits received (Note 6)	122,341	118,016	1,011,083
Other long-term liabilities	22	3	182
Total long-term liabilities	141,961	137,992	1,173,231
Minority Interests	245	201	2,025
Commitments and contingencies (Notes 12, 13 and 14)			
Shareholders' equity (Notes 5, 8 and 15):			
Common stock, ¥50 par value — authorized, 1,900,000,000 shares; issued and outstanding, 523,893,045 shares in both 1999 and 1998	108,781	108,781	899,017
Additional paid-in capital	122,041	122,041	1,008,603
Retained earnings	372,240	364,609	3,076,364
Total	603,062	595,431	4,983,984
Treasury stock — at cost	(2)	(2)	(17)
Total shareholders' equity	603,060	595,429	4,983,967
Total	¥950,701	¥1,013,072	\$7,857,033

CONSOLIDATED STATEMENTS OF INCOME

Years ended March 31, 1999, 1998 and 1997

	Millions of yen			Thousands of U.S. dollars (Note 1)
	1999	1998	1997	1999
Net sales:				
Construction	¥697,049	¥ 850,265	¥ 960,226	\$5,760,736
Real estate	127,286	142,432	155,828	1,051,950
Other	71,671	77,092	72,241	592,322
Total net sales	896,006	1,069,789	1,188,295	7,405,008
Cost of sales:				
Construction.....	527,383	651,346	736,300	4,358,537
Real estate	109,021	129,747	138,098	901,000
Other	54,914	53,314	47,989	453,835
Total cost of sales	691,318	834,407	922,387	5,713,372
Gross profit	204,688	235,382	265,908	1,691,636
Selling, general and administrative expenses	164,473	186,932	182,019	1,359,281
Operating income	40,215	48,450	83,889	332,355
Other income (expenses):				
Interest and dividends.....	2,002	2,513	2,509	16,545
Interest expense (Note 5)	(976)	(1,160)	(1,621)	(8,066)
Gain (loss) on sales of marketable and investment securities.....	(13,546)	114	(431)	(111,950)
Write-down of marketable and investment securities...	(3,349)	(555)	(268)	(27,678)
Allowance for doubtful accounts.....	(2,397)	(236)	(242)	(19,810)
Other — net (Notes 5 and 10)	(598)	(483)	721	(4,942)
Other income — net.....	(18,864)	193	668	(155,901)
Income before income taxes	21,351	48,643	84,557	176,454
Income taxes (Note 11)	4,652	28,270	42,105	38,446
Net income	¥ 16,699	¥ 20,373	¥ 42,452	\$ 138,008
		Yen		U.S. dollars
Per share of common stock (Note 2-n):				
Net income.....	¥31.88	¥38.89	¥82.76	\$0.26
Diluted net income		37.91	79.89	
Cash dividends applicable to the year	17.00	17.00	17.00	0.14

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended March 31, 1999, 1998 and 1997

	Thousands	Millions of yen		
	Outstanding number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings
Balance, April 1, 1996	499,290	¥ 91,460	¥104,722	¥319,563
Net income				42,452
Cash dividends, ¥17.0 per share.....				(8,487)
Bonuses to directors and corporate auditors				(190)
Shares issued on conversion of convertible bonds.....	9	7	7	
Shares issued on exercise of warrants.....	24,592	17,313	17,311	
Balance, March 31, 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

	Thousands of U.S. dollars (Note 1)		
	Common stock	Additional paid-in capital	Retained earnings
Balance, March 31, 1998	\$899,017	\$1,008,603	\$3,013,298
Net income			138,008
Cash dividends, \$0.14 per share			(73,603)
Bonuses to directors and corporate auditors			(1,339)
Balance, March 31, 1999	\$899,017	\$1,008,603	\$3,076,364

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31, 1999, 1998 and 1997

	Millions of yen			Thousands of U.S. dollars (Note 1)
	1999	1998	1997	1999
Operating activities:				
Net income	¥ 16,699	¥ 20,373	¥ 42,452	\$ 138,008
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	18,453	18,710	19,961	152,504
Loss (gain) on sales of marketable and investment securities	13,546	(114)	431	111,950
Write-down of marketable and investment securities ...	3,349	555	268	27,678
Allowance for doubtful receivables and accounts	3,487	998	670	28,818
Loss on sales and disposal of property, plant and equipment	728	2,055	1,664	6,016
Equity in earnings of associated companies, less dividends	274	306	(849)	2,265
Provision for employees' retirement benefits, net of payments	(373)	1,054	1,216	(3,083)
Amortization of deferred exchange gains			(2,455)	
Changes in certain assets and liabilities:				
Decrease in receivables.....	5,036	17,540	50,651	41,620
Decrease (increase) in inventories	40,770	44,756	(6,235)	336,942
Decrease (increase) in prepaid expenses and other current assets	(438)	1,396	2,319	(3,620)
Decrease in payables — trade.....	(23,660)	(43,577)	(35,660)	(195,537)
Increase (decrease) in current deposits received ...	(5,672)	(24,242)	6,662	(46,876)
Decrease in income taxes payable.....	(7,215)	(8,980)	(8,847)	(59,628)
Increase (decrease) in accrued expenses and other current liabilities	3,318	(5,516)	(196)	27,422
Other — net	(728)	(509)	638	(6,016)
Total adjustments	50,875	4,432	30,238	420,455
Net cash provided by operating activities	67,574	24,805	72,690	558,463
Investing activities:				
Capital expenditures	(47,545)	(28,700)	(34,133)	(392,934)
Purchases of marketable and investment securities	(18,604)	(25,724)	(43,761)	(153,752)
Net increase in lease deposits and other assets	(6,152)	(4,785)	(9,023)	(50,843)
Increase in investments in and advances to associated companies	(1,650)	(2,497)	(2,494)	(13,636)
Proceeds from sales of marketable and investment securities	13,792	30,279	48,591	113,983
Proceeds from sales of property, plant and equipment ...	9,200	6,546	1,757	76,033
Decrease in investments in and advances to associated companies	800	46	92	6,612
Decrease in long-term loans	17,931	2	59	148,190
Net cash used in investing activities	(32,228)	(24,833)	(38,912)	(266,347)
Financing activities:				
Net increase (decrease) in commercial paper	(30,000)	30,000		(247,934)
Net increase in long-term deposits received	4,325	12,690	9,521	35,743
Net increase (decrease) in short-term bank loans.....	(8,315)	628	(13)	(68,719)
Proceeds from long-term debt		13		
Shares issued on exercise of warrants			34,624	
Repayments of long-term debt	(450)	(109,571)	(130,730)	(3,719)
Dividends paid	(8,906)	(8,906)	(8,487)	(73,603)
Net cash used in financing activities.....	(43,346)	(75,146)	(95,085)	(358,232)
Net decrease in cash and cash equivalents	(8,000)	(75,174)	(61,307)	(66,116)
Cash and cash equivalents, beginning of year	140,672	215,846	277,153	1,162,579
Cash and cash equivalents, end of year	¥132,672	¥140,672	¥215,846	\$1,096,463
Additional cash flow information:				
Interest paid	¥ 1,022	¥ 1,934	¥ 6,592	\$ 8,446
Income taxes paid	11,867	37,250	50,952	98,074
Noncash financing activities:				
Convertible bonds converted into common stock		2	14	

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 generally accepted in countries and jurisdictions other than Japan.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥121 to \$1, the approximate rate of exchange at March 31, 1999. 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 "Companies"). 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.

Investments in significant associated companies (20% - 50% ownership) are accounted for by the equity method.

The differences between the cost and underlying net equity of investments in subsidiaries and associated companies at acquisition are amortized over five years.

b. Cash and cash equivalents

For purposes of the statements of cash flows, the Companies consider all time deposits to be cash equivalents. Time deposits have original maturities of one year or less and are withdrawable on demand with no diminution of principal.

Time deposits pledged as collateral as substitutes of deposits for certain construction contracts were ¥20 million (\$165 thousand) at both March 31, 1999 and 1998.

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. 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.

e. 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 (15 to 47 years for the year ended March 31, 1998) for buildings and structures, from 10 to 13 years for machinery and equipment and from 5 to 15 years for furniture and fixtures. The effect of the change as of April 1, 1998 in useful lives of buildings was to increase depreciation expense and to decrease income before taxes by ¥1,004 million (\$8,298 thousand) for the year ended March 31, 1999.

f. 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. The disclosure requirements of these standards are being applied on a step-by-step basis beginning with full implementation required for fiscal years starting on or after April 1, 1998.

g. Retirement and pension plans

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

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

h. 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).

i. Income taxes

Income taxes are provided for amounts currently payable for each year. The tax effect of temporary differences between tax and financial reporting purposes is not recorded.

j. 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.

k. 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.

The exchange gains arising from forward exchange contracts are deferred and recognized as income ratably over the term of the contract period. Other exchange gains and losses are recognized in the fiscal periods in which they occur.

l. 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.

m. Reclassifications

Certain reclassifications have been made to the 1998 and 1997 financial statements to conform to the classifications used in 1999.

n. 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 523,893 thousand shares for 1999, 523,891 thousand shares for 1998 and 512,975 thousand shares for 1997.

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, 1999 and 1998 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	1999		1998		1999	
	Carrying amount	Aggregate market value	Carrying amount	Aggregate market value	Carrying amount	Aggregate market value
Current:						
Marketable securities.....	¥ 3,331	¥ 5,570	¥ 5,464	¥ 4,997	\$ 27,529	\$ 46,033
Treasury stock	2	3	2	2	17	25
Non-current:						
Investment securities.....	49,281	57,760	61,264	53,058	407,281	477,355
Investments in associated companies.....	43,891	28,262	41,861	34,711	362,735	233,570
Total	¥96,505	¥91,595	¥108,591	¥92,768	\$797,562	\$756,983

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, 1999 and 1998 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Finished residential homes and condominiums	¥ 15,303	¥ 30,560	\$ 126,471
Construction projects in progress	28,593	29,176	236,306
Residential homes and condominiums in process	7,234	9,228	59,785
Land held:			
For resale.....	115,367	154,057	953,446
Under development.....	40,731	20,445	336,620
Undeveloped.....	14,029	20,742	115,942
Construction materials and supplies	10,086	8,896	83,356
Total	¥231,343	¥273,104	\$1,911,926

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, Commercial Paper and Long-term Debt

Short-term bank loans at March 31, 1999 and 1998 consisted principally of bank overdrafts. The annual interest rates for the short-term bank loans ranged from 0.6% to 1.5% at March 31, 1999 and from 0.9% to 1.6% at March 31, 1998. The annual interest rates for commercial paper ranged from 0.8% to 0.9% at March 31, 1999 and 1998. Long-term debt at March 31, 1999 and 1998 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Convertible bonds:			
2.0% convertible bonds due 1999.....		¥ 448	
2.0% convertible bonds due 2002.....	¥2,450	2,450	\$20,248
Unsecured loans from banks	391	393	3,231
Total	2,841	3,291	23,479
Less current portion.....		448	
Long-term debt, net of current portion	¥2,841	¥2,843	\$23,479

Annual maturities of long-term debt at March 31, 1999 were as follows:

Year ending March 31:	Millions of yen	Thousands of U.S. dollars
2001	¥ 391	\$ 3,231
2002	2,450	20,248
Total	¥2,841	\$23,479

As is customary in Japan, the Companies maintain deposit balances with banks with which they have borrowings. Such deposit balances are not legally or contractually restricted as to withdrawal.

General agreements with the respective banks provide, as is customary in Japan, that collateral must be provided under certain circumstances if requested by such banks and that certain banks have the right to offset cash deposited with them against any short-term or long-term debt or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the banks. The Companies have never been requested to provide any additional collateral.

All outstanding 1.0% U.S. dollar bonds with warrants due in 1998 were redeemed during the fiscal year ended March 31, 1998. As the Company had purchased forward exchange contracts for these bonds with warrants at the time of issuance, the remaining unamortized portions of the related exchange gains which were recorded as "Accrued expenses and other current liabilities" have been fully recognized in the consolidated statement of income for the year ended March 31, 1998. The amortization of deferred exchange gains was credited to interest expense related to these bonds and remaining portions were recorded as exchange gains or offset with exchange losses in "Other income (expenses): Other — net" in the consolidated statements of income for the years ended March 31, 1998 and 1997 (see Note 10).

All outstanding convertible bonds of the Company at March 31, 1999 were convertible into 1,509 thousand shares of the Company's common stock. The convertible bonds may be redeemed prior to maturity in whole or in part at prices ranging from 103% to 100% of the principal amounts. The conversion prices of the convertible bonds at March 31, 1999 were as follows, subject to anti-dilutive provisions:

	Conversion price
2.0% convertible bonds due 2002.....	¥1,623.4

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 ¥354,275 million (\$2,927,893 thousand) at March 31, 1999 (see Note 8).

6. Current and Long-term Deposits Received

Current deposits received at March 31, 1999 and 1998 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Advances from customers on signed or future sales contracts	¥31,648	¥37,522	\$261,554
Deposits from customers, primarily for incidental costs such as registration fees, etc.	11,027	12,015	91,132
Other	2,602	1,412	21,504
Total	¥45,277	¥50,949	\$374,190

Long-term deposits received at March 31, 1999 and 1998 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Deposits from the Company's club members	¥ 79,849	¥ 80,158	\$ 659,909
Deposits from members of golf courses	7,838	8,810	64,777
Deposits from sales agents and subcontractors	8,879	8,626	73,380
Deposits from lessee	25,726	20,360	212,612
Other	49	62	405
Total	¥122,341	¥118,016	\$1,011,083

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 trustee pension plan covering most employees of the Company and aforementioned companies. At March 31, 1998 and 1997 (the most recent available valuation dates), the assets of the plan amounted to ¥96,161 million (\$794,719 thousand) and ¥87,936 million, and the proportion of the plan assets based on the number of employees of the Company and the subsidiaries was 82.7% (four subsidiaries) and 68.2% (three subsidiaries), respectively. Prior service cost is being amortized over 20 years.

Total charges to expense for the retirement and pension plans were ¥8,777 million (\$72,537 thousand), ¥5,487 million and ¥5,843 million for the years ended March 31, 1999, 1998 and 1997, 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 stated capital. This reserve amount of the Company, which is included in retained earnings, totals ¥13,610 million (\$112,479 thousand) and ¥12,700 million as of March 31, 1999 and 1998, 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, 1999, retained earnings recorded on the books included ¥336,247 million (\$2,778,901 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, 1999, 1998 and 1997 is as follows:

Sales and operating income

	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
	Thousands of U.S. dollars					
	1999					
	Residential	Commercial	Resort	Other	Corporate	Consolidated
Sales to customers	\$5,056,670	\$1,664,578	\$326,223	\$357,537		\$7,405,008
Intersegment sales		12,058	4,851	5,008	\$(21,917)	
Total sales	5,056,670	1,676,636	331,074	362,545	(21,917)	7,405,008
Operating expenses	4,707,513	1,548,182	386,091	379,165	51,702	7,072,653
Operating income (loss)	\$ 349,157	\$ 128,454	\$(55,017)	\$(16,620)	\$(73,619)	\$ 332,355
	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	<u>¥ 44,399</u>	<u>¥ 17,647</u>	<u>¥ (5,893)</u>	<u>¥ (1,599)</u>	<u>¥(12,248)</u>	42,306
Enterprise tax (income tax) included in operating expenses.....						(6,144)
Operating income						<u>¥ 48,450</u>
	Millions of yen					
	1997					
	Residential	Commercial	Resort	Other	Corporate	Consolidated
Sales to customers	¥835,112	¥276,990	¥42,072	¥34,121		¥1,188,295
Intersegment sales		864	563	681	¥ (2,108)	
Total sales	835,112	277,854	42,635	34,802	(2,108)	1,188,295
Operating expenses	754,939	261,278	49,146	37,016	11,012	1,113,391
Operating income (loss) before adjustment of enterprise tax	<u>¥ 80,173</u>	<u>¥ 16,576</u>	<u>¥ (6,511)</u>	<u>¥ (2,214)</u>	<u>¥(13,120)</u>	74,904
Enterprise tax (income tax) included in operating expenses						(8,985)
Operating income.....						<u>¥ 83,889</u>

Assets, depreciation and capital investments

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

Thousands of U.S. dollars						
1999						
	Residential	Commercial	Resort	Other	Corporate	Consolidated
Assets.....	\$2,504,628	\$850,347	\$1,470,678	\$602,851	\$2,428,529	\$7,857,033
Depreciation.....	40,124	13,917	80,612	9,562	793	145,008
Capital investments.....	21,727	74,802	4,529	3,082	290,116	394,256

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

Millions of yen						
1997						
	Residential	Commercial	Resort	Other	Corporate	Consolidated
Assets.....	¥422,653	¥129,466	¥182,646	¥69,918	¥341,262	¥1,145,945
Depreciation.....	6,278	2,125	9,587	806	120	18,916
Capital investments.....	9,366	10,455	10,085	2,633	8,497	41,036

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, 1999, 1998 and 1997 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	1999	1998	1997	1999
Equity in earnings of associated companies	¥ 530	¥ 449	¥1,516	\$ 4,380
Exchange gains (losses) (see Note 5)	(91)	1,047	466	(752)
Loss on sales and disposal of property, plant and equipment.....	(728)	(2,055)	(1,664)	(6,016)
Real estate acquisition tax and other taxes.....	(381)	(414)	(718)	(3,149)
Other — net	72	490	1,121	595
Total	¥(598)	¥ (483)	¥ 721	\$ (4,942)

11. Income Taxes

The Companies are subject to a number of taxes based on income. The effective income tax rates of the Companies for the years ended March 31, 1999, 1998 and 1997 differ from the normal statutory rates for the following reasons:

	1999	1998	1997
Normal statutory income tax rates	47.5%	51.2%	51.2%
Increase (decrease) in tax rates due to:			
Permanently non-deductible expenses	3.1	2.4	1.4
Temporary differences	0.8	1.8	(0.3)
Equity in earnings of associated companies, less dividends	0.6	0.3	(0.5)
Write-down, for income tax purposes, of investments in an associated company...	(28.6)		
Other — net	(1.6)	2.4	(2.0)
Effective income tax rates	21.8%	58.1%	49.8%

12. Leases

Total lease payments under finance leases that are not deemed to transfer ownership of the leased property to the lessee were ¥6,122 million (\$50,595 thousand) and ¥5,713 million for the years ended March 31, 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 year ended March 31, 1999 was as follows:

	Millions of yen			
	Buildings and Structures	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	¥14,318	¥548	¥11,654	¥26,520
Accumulated depreciation.....	8,070	352	6,676	15,098
Net leased property	<u>¥ 6,248</u>	<u>¥196</u>	<u>¥ 4,978</u>	<u>¥11,422</u>

	Thousands of U.S. dollars			
	Buildings and Structures	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	\$118,330	\$4,529	\$96,314	\$219,173
Accumulated depreciation.....	66,694	2,909	55,174	124,777
Net leased property	<u>\$ 51,636</u>	<u>\$1,620</u>	<u>\$41,140</u>	<u>\$ 94,396</u>

Obligations under such finance leases as of March 31, 1999 and 1998 were as follows:

	Millions of yen		Thousand of U.S. dollars
	1999	1998	1999
Due within one year	¥ 5,483	¥ 5,854	\$45,314
Due after one year	5,939	9,666	49,083
Total	<u>¥11,422</u>	<u>¥15,520</u>	<u>\$94,397</u>

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

Depreciation expense, which is not reflected in the accompanying statements of income, computed by the straight-line method was ¥6,122 million (\$50,595 thousand) for the year ended March 31, 1999.

Obligations and future rental income under non-cancellable operating leases as of March 31, 1999 and 1998 were as follows:

	Millions of yen		Thousand of U.S. dollars
	1999	1998	1999
(Lessee)			
Due within one year	¥ 13,973	¥ 11,980	\$ 115,479
Due after one year	158,262	130,558	1,307,951
Total	<u>¥172,235</u>	<u>¥142,538</u>	<u>\$1,423,430</u>
(Lessor)			
Due within one year	¥ 6,945	¥ 5,436	\$ 57,396
Due after one year	91,823	69,562	758,868
Total	<u>¥98,768</u>	<u>¥74,998</u>	<u>\$816,264</u>

13. 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, 1999, the Company did not have any forward exchange contract outstanding.

14. Commitments and Contingencies

Capital expenditure commitments — Commitments for capital expenditures outstanding at March 31, 1999 aggregated approximately ¥227 million (\$1,876 thousand).

Contingencies — At March 31, 1999, contingent liabilities for notes endorsed with recourse and loans guaranteed in the ordinary course of business amounted to ¥2,708 million (\$22,380 thousand) and ¥120,479 million (\$995,694 thousand), respectively. Included in loans guaranteed were customers' housing loans from banks in the amount of ¥116,181 million (\$960,174 thousand).

15. Subsequent Event

The following appropriations of retained earnings at March 31, 1999 were approved at the Company's shareholders' meeting held on June 29, 1999:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥17.00 (\$0.14) per share.....	¥8,906	\$73,603

INDEPENDENT AUDITORS' REPORT

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, 1999 and 1998, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 1999, 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, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 1999, in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

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, 1999

■ Established

April 5, 1955

■ Common Stock

¥108,781 million (US\$899,017 thousand)

■ Authorized Shares

1,900,000,000 shares

■ Principal Shareholders

	(thousands of shares)
The Sumitomo Bank, Limited	23,930
The Tokai Bank, Limited	23,930
The Fuji Bank, Limited	23,930
The Mitsubishi Trust and Banking Corporation (Trust Banking Account)	18,785
The Mitsui Trust and Banking Company, Limited	16,024
The Dai-ichi Mutual Life Insurance Company	15,736
Nippon Life Insurance Company	14,501
Morgan Stanley Japan Limited	10,925
Sumitomo Life Insurance Company	10,500
The Chase Manhattan Bank, N.A., London	9,341

(As of March 31, 1999)

■ Securities Traded

Tokyo, Osaka, Nagoya, Sapporo, Niigata, Kyoto, Hiroshima, and Fukuoka Stock Exchanges

■ Auditors

Deloitte Touche Tohmatsu

■ Subsidiaries and Affiliates

24 consolidated subsidiaries, 18 affiliates under the equity method and 1 affiliates under the non-equity method.

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Branch Offices

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■ Plants

Sapporo, Tohoku, Niigata, Tochiginomiya, Ryugasaki, Chubu, Mie, Nara, Sakai, Okayama, Shikoku, Kyushu, Kyushu No.2

■ Overseas Subsidiaries and Affiliates

Daiwa House (Australia) Pty. Ltd.

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Surfers Paradise, QLD 4217, Australia

Phone: (075) 92-3544

Fax: (075) 92-0039

Beijing East Palace Apartment Co., Ltd.

25, Zaoying lu, Chaoyang District, Beijing, China

Phone: (10) 467-8811

Fax: (10) 467-8006

Shanghai International Realty Co., Ltd.

Room 1507, Shanghai International Trade Centre

2200, Yanan xi lu, Shanghai, China

Phone: (21) 275-9646

Fax: (21) 275-0031

Tianjin Jiuhue International Villa Co., Ltd.

140, Weiguo Road, Hedong District, Tianjin,

China

Phone: (22) 434-7645

Fax: (22) 434-7647

Dalian Civil Aviation Hotel Co., Ltd.

143, Zhongshan lu, Dalian, China

Phone: (411) 363-3111

Fax: (411) 363-8211

Dalian Acacia Town Villa Co., Ltd.

Longjiang lu, Economic & Technical Development Zone,

Dalian, China

Phone: (411) 761-7584

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