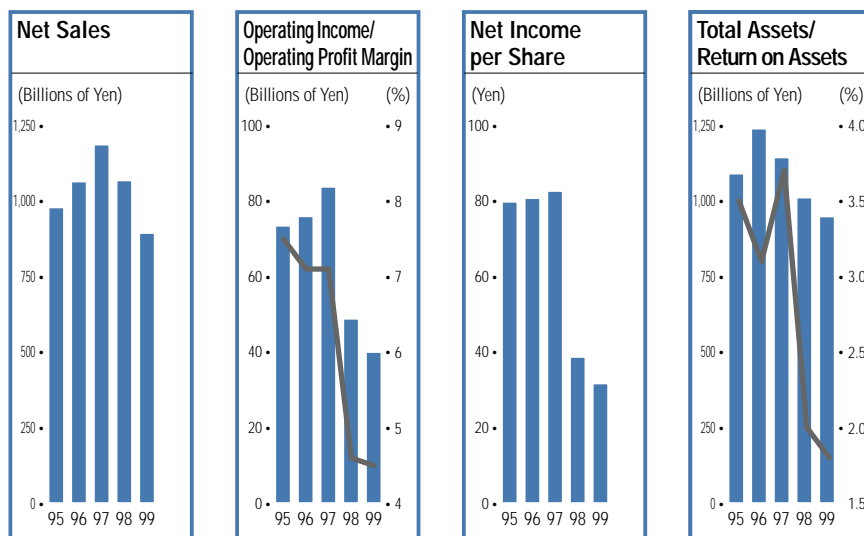


Daiwa House Industry Co., Ltd. and Subsidiaries

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



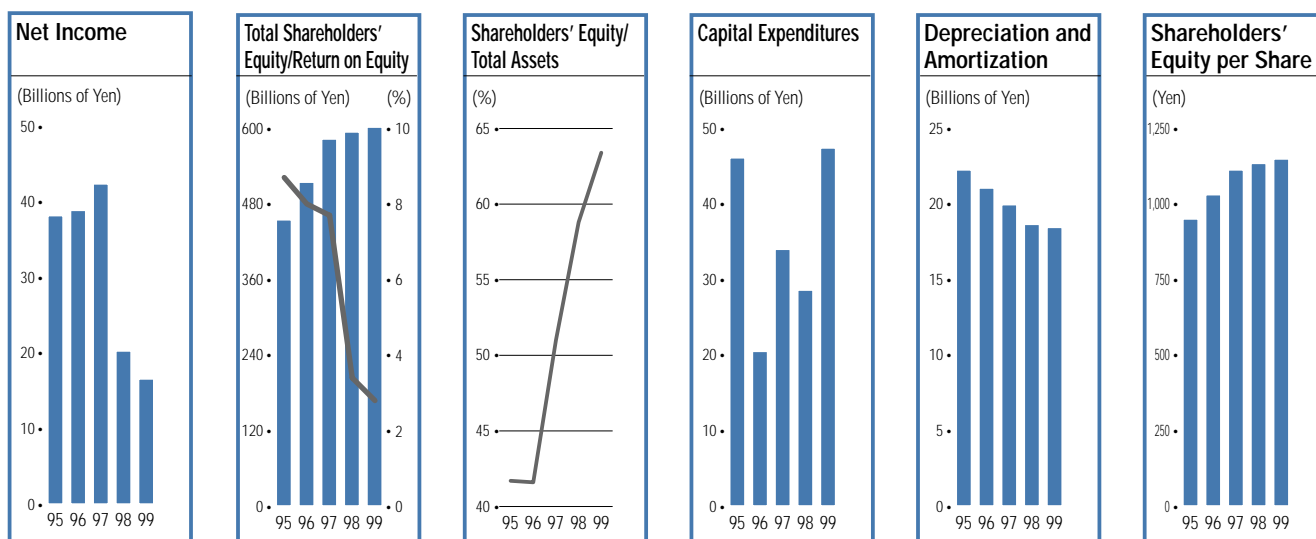
Operating Results

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 trusteed pension plan for which the policy is to fund and charge to expense, normal costs as accrued on the basis of an accepted actuarial method.

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
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)

	Millions of yen		Thousand of U.S. dollars
	1999	1998	1999
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