

ANNUAL REPORT

1999

Sumitomo Realty & Development Co.,Ltd.



Five-Year Financial Summary

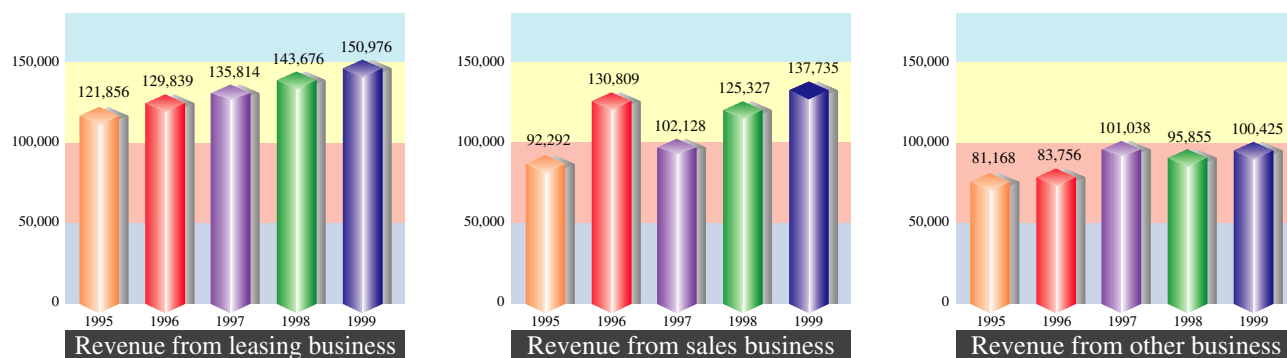
| | <i>Millions of yen</i> | | | | | <i>Thousands of U.S.dollars</i> |
|-------------------------------|------------------------|--------------|-------------|-------------|-------------|---------------------------------|
| | 1999 | 1998 | 1997 | 1996 | 1995 | 1999 |
| <i>Consolidated:</i> | | | | | | |
| Revenue from operations | ¥ 389,136 | ¥ 364,858 | ¥ 338,980 | ¥ 344,404 | ¥ 295,316 | \$ 3,228,005 |
| Revenue from leasing business | 150,976 | 143,676 | 135,814 | 129,839 | 121,856 | 1,252,393 |
| Revenue from sales business | 137,735 | 125,327 | 102,128 | 130,809 | 92,292 | 1,142,555 |
| Revenue from other business | 100,425 | 95,855 | 101,038 | 83,756 | 81,168 | 833,057 |
| Gross profit | 85,880 | 75,528 | 77,960 | 75,367 | 69,831 | 712,402 |
| Operating income | 56,516 | 45,412 | 44,143 | 51,322 | 45,789 | 468,818 |
| Net income (loss) | 10,983 | (66,048) | (1,745) | 1,707 | 537 | 91,107 |
| Total assets | 1,835,825 | 1,854,800 | 1,853,657 | 1,869,165 | 1,885,792 | 15,228,743 |
| Total shareholders' equity | 207,177 | 179,375 | 249,791 | 252,954 | 254,109 | 1,718,598 |
| <i>Yen</i> | | | | | | |
| <i>Per share:</i> | | | | | | |
| Net income (loss) | ¥ 27.00 | ¥ (162.36) | ¥ (4.29) | ¥ 4.20 | ¥ 1.32 | \$ 0.22 |
| Shareholders' equity | 509.28 | 440.93 | 614.03 | 621.81 | 624.64 | 4.22 |
| Dividend | 6.00 | 6.00 | 6.00 | 6.00 | 6.00 | 0.05 |

Nonconsolidated:

| | | | | | |
|--|--------------|-------|-------|-------|-------|
| Total office floor space (thousand m ²) | 1,807 | 1,731 | 1,680 | 1,678 | 1,610 |
| Number of condominiums sold (units) | 3,216 | 3,141 | 2,503 | 2,932 | 1,654 |

Note: The 1999 yen amounts have been translated into U.S. dollars, for convenience only, at the rate of ¥ 120.55 =U.S. \$1, the approximate exchange rate on March 31, 1999.

Millions of yen



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Message from the Chairman and the President

Sumitomo Realty & Development Co., Ltd., a core member of the Sumitomo Group, is one of Japan's premier real estate companies. The Company is well established as a comprehensive developer and supplier of high-quality office buildings and condominiums in urban areas.

Together with its 51 domestic and overseas subsidiaries and affiliates, the Company is also engaged in a broad array of businesses, including real estate brokerage, housing construction, home renovation and building management services. The Company will continue to create comfortable working and living environments that contribute to a higher quality of life.

The Year in Review

During the fiscal year ended March 31, 1999, the Japanese economy was temporarily pushed to the brink of recession. Asset deflation resulted from a series of fiscal reform measures dating back to 1997, and unprecedented concerns were placed on Japan's financial system owing to the continuing problem of non-performing loans at financial institutions. However, a strong fiscal and monetary stimulus package by the government and the Bank of Japan, which included a large-scale income tax reduction, an increase in public investment, a relaxation of the financing crunch, public funding (capital injections into financial institutions) and other measures to stabilize Japan's financial system, succeeded in mitigating such unfavorable trends. Today, the Japanese economy is close to bottoming out; indeed, it shows signs of improvement.

In the real estate industry, the decline in the National Land Agency's posted land prices reflected the recessionary economy. Housing starts declined steeply for two consecutive years. However, thanks to the effects of the fiscal and monetary stimulus package, there were clear improvements in the housing sector towards the end of 1998.

In the office leasing business, the vacancy rate increased slightly and market rents remained flat year on year. After these years of steady improvement, the mounting financial concerns from the end of 1997 forced a sudden downturn in market sentiment, which remained throughout the term. Nevertheless, market rents for kin-shin-dai (well located, recently completed and large floor plated) prime office buildings remained relatively high because of strong demand. The supply of new office buildings has been and will be short of demand. There are some surveys that state there will be a completion rush of office buildings in the Tokyo CBD around 2001 to 2002, which results in an

over-supply of office space. However, from our survey, we found that completions of several projects are expected to be carried over due to factors such as delays in adjustments of landlord interests and acquisition of development and building permits. Therefore, we expect that there is very little chance of over-supply in the near future.

During the fiscal year, revenue from office leasing business rose 5.0% to ¥151,889 million while operating profit advanced 18.1% to ¥43,712 million, with contributions from four newly completed office buildings, including the Chiyoda First Building, and the full impact of rent raises during the previous term.

In the real estate sales business, a difficult business climate continued until the autumn of 1998 due to the lack of consumer confidence from the instability of the financial system and accompanying unemployment. However, sales recovered rapidly in late 1998, thanks to the government's demand-boosting policies, such as the enhanced housing loan tax credit program, Housing Loan Corporation's mortgage rate cuts, and the consumers' fear of higher interest rates coming.

Amid such business conditions, the Company shifted employees to its marketing force, which contributed to a 9.7% increase in revenue from real estate sales business to ¥137,745 million. Operating profit stood at ¥6,544 million, a 9.8% decline from the previous year, mainly due to an increase in marketing expense.

The construction business — primarily the construction of detached houses and home remodeling services — faced a harsh business environment in which demand fell substantially. Even so, revenue from construction business expanded 7.3% to ¥66,624 million. This result was attributable to businesses such as:

- "American Comfort" — high-quality, affordable, and standardized houses, marketed through 25 branches nationwide
- "*Shinchiku Sokkurisan*" ("As Good As New") — full renovation package, offered at a fixed-price, with half the price and the construction period of reconstruction.

In addition, there was a steady increase in the number of detached houses completed by a subsidiary, Universal Home Inc., which franchises local home builders with standardized houses via a conventional construction method. Sumitomo Fudosan Home Co., Ltd., which contracts two-by-four custom houses, began to earn profits through its massive cost reductions.

As a result, operating profit for the construction business amounted to ¥2,383 million (previous fiscal year ¥76 million loss), after five consecutive years of divisional deficits.

In the real estate brokerage business, operating conditions improved considerably in the second half of the term although the business climate was harsh in the first half. Enhanced marketing efforts such as the opening of eight brokerage offices (totaling 177) and diversification of real estate information media, especially the Internet, resulted in a considerable increase in brokerage contracts. Revenue from the brokerage business rose 1.7% to ¥27,967 million due to the decline in average price per property, and operating profit jumped 13.3% to ¥5,286 million.

During the term, the Company initiated a reduction of interest-bearing debt. The Company raised cash of almost ¥ 100 billion by securitizing of office buildings through private placement and sales of restitution claims for guarantee money deposited to master-lessors and receivables from H.L.C on houses sold. Moreover, in the first real estate joint investment fund backed by the company's office buildings, we sold all 1,302 units of "SURF Kudanshita Building" at ¥ 5 million per unit during April after having only begun sales at the end of March 1999.

The Company's consolidated revenue from operations increased 6.7% from the previous term to ¥ 389,136 million, and recurring profit leaped 324.3% to ¥ 21,689 million. The listing of Sumitomo Real Estate Sales Co., Ltd., on the Second Section of the Tokyo Stock Exchange resulted in a ¥ 2,563 million gain on sale of an affiliated company's stock in extraordinary income. The company posted disposition losses on marketable securities of ¥ 5,438 million in extraordinary loss. In total net income was ¥ 10,983 million, compared with a net loss of ¥ 66,048 million the previous fiscal year. The Company adopted tax-effect accounting for the term under review.

Business Prospects

The Company addressed itself to four major issues to overcome the current harsh business environment of the post-bubble economy and to strengthen the management capability:

- Recovery of profitability
- Development of idle land into working assets
- Reduction of non-performing loans at subsidiary
- Reduction of interest-bearing debt

While the interest rates remained at a record-low level, the Company focused on solving the first three issues, without increasing interest-bearing debt.

As a result,

- Our profitability improved considerably, as recurring profit exceeded ¥ 20,000 million for the first time in the last eight fiscal years. The recovery of profitability owed much to the growth of "*tochi-less businesses*" (business without land investment), such as construction, remodeling, brokerage and building management, which are mainly covered by our subsidiaries.
- The development of idle land has been almost fully undertaken. Since 1996, the construction of office buildings has been resumed, with five buildings already completed, five under construction and six planned to start construction by March 2000.
- In the previous fiscal year, the Company posted a substantial bad debt allowance at a subsidiary, Sumitomo Fudosan Finance Co., Ltd.

Having addressed three of our four priorities successfully, we are now focusing our efforts on the

fourth task - the reduction of interest-bearing debt - by further pursuing various asset financing methods.

Our aim is to increase earnings, while reducing interest-bearing debt, at the group level for further development.



A handwritten signature in cursive script that reads "S. Takagi".

Shinichiro Takagi, Chairman



A handwritten signature in cursive script that reads "J. Takashima".

Junji Takashima, President

Consolidated Balance Sheets

March 31, 1999 and 1998

| Assets | Millions of yen | | Thousands of U.S.dollars (Note 1) |
|---|-----------------|-------------|---|
| | 1999 | 1998 | 1999 |
| <i>Current assets:</i> | | | |
| Cash, mainly time and notice deposits | ¥ 79,428 | ¥ 74,143 | \$ 658,880 |
| Marketable securities (Notes 6 and 7) | 9,426 | 30,658 | 78,192 |
| Notes and accounts receivable-trade | 23,296 | 19,311 | 193,248 |
| Trade loans receivable | 363,933 | 358,138 | 3,018,938 |
| Allowance for doubtful accounts | (43,253) | (49,737) | (358,797) |
| Inventories (Note 4) | 206,714 | 257,676 | 1,714,757 |
| Deferred income taxes (Note 8) | 5,406 | - | 44,844 |
| Securities loaned (Note 6) | 19,674 | - | 163,202 |
| Other current assets | 36,069 | 41,886 | 299,204 |
| Total current assets | 700,693 | 732,075 | 5,812,468 |
| <i>Investments and advances:</i> | | | |
| Investments in and advances to unconsolidated subsidiaries and affiliated companies (Note 5) | 13,184 | 9,679 | 109,365 |
| Investments in securities and other (Note 6) | 108,787 | 112,906 | 902,422 |
| Allowance for doubtful accounts | (79,503) | (72,120) | (659,502) |
| Total investments and advances | 42,468 | 50,465 | 352,285 |
| <i>Property and equipment (Note 7):</i> | | | |
| Land | 512,418 | 485,864 | 4,250,668 |
| Buildings and structures | 313,598 | 330,719 | 2,601,394 |
| Machinery and equipment | 14,999 | 15,542 | 124,421 |
| Construction in progress | 33,173 | 37,051 | 275,180 |
| | 874,188 | 869,176 | 7,251,663 |
| Accumulated depreciation | (130,461) | (132,371) | (1,082,215) |
| Net property and equipment | 743,727 | 736,805 | 6,169,448 |
| <i>Other assets:</i> | | | |
| Guarantee and lease deposits paid to lessors | 243,763 | 240,300 | 2,022,091 |
| Leasehold rights and other intangible assets | 77,583 | 81,578 | 643,575 |
| Deferred income taxes (Note 8) | 15,374 | 4,566 | 127,532 |
| Miscellaneous | 3,538 | 4,164 | 29,349 |
| Foreign statements translation adjustments | 8,679 | 4,847 | 71,995 |
| Total other assets | 348,937 | 335,455 | 2,894,542 |
| | ¥ 1,835,825 | ¥ 1,854,800 | \$ 15,228,743 |

See accompanying notes.

Liabilities and Shareholders' Equity

| | <i>Millions of yen</i> | | <i>Thousands of U.S.dollars (Note 1)</i> |
|--|------------------------|-------------|--|
| | 1999 | 1998 | 1999 |
| <i>Current liabilities:</i> | | | |
| Short-term bank loans (Note 7) | ¥ 582,349 | ¥ 622,729 | \$ 4,830,767 |
| Long-term debt due within one year (Note 7) | 118,498 | 171,078 | 982,978 |
| Notes and accounts payable-trade | 33,940 | 25,849 | 281,543 |
| Accrued income taxes (Note 8) | 1,554 | 2,199 | 12,891 |
| Accrued bonuses | 2,169 | 2,293 | 17,993 |
| Deferred income taxes (Note 8) | 617 | - | 5,118 |
| Other current liabilities | 63,256 | 55,155 | 524,728 |
| Total current liabilities | 802,383 | 879,303 | 6,656,018 |
| Long-term debt due after one year (Note 7) | 692,028 | 665,675 | 5,740,589 |
| Guarantee and lease deposits received (Note 9) | 126,170 | 127,154 | 1,046,620 |
| Deferred income taxes (Note 8) | 53 | - | 439 |
| Employees' retirement benefits | 575 | 500 | 4,770 |
| Directors' and statutory auditors' retirement benefits | 199 | 195 | 1,651 |
| Other long-term liabilities | 0 | 5 | 0 |
| <i>Minority interests</i> | 7,240 | 2,593 | 60,058 |
| <i>Contingent liabilities</i> (Note 12) | | | |
| <i>Shareholder's equity</i> (Note 10): | | | |
| Common stock, par value ¥ 50 per share | | | |
| Authorized - 780,000 thousand shares | | | |
| Issued - 406,810 thousand shares | 86,773 | 86,773 | 719,809 |
| Additional paid-in capital | 96,822 | 96,822 | 803,169 |
| Retained earnings (deficit) | 23,584 | (4,218) | 195,637 |
| | 207,179 | 179,377 | 1,718,615 |
| Treasury stock, at cost | (2) | (2) | (17) |
| Total shareholders' equity | 207,177 | 179,375 | 1,718,598 |
| | ¥ 1,835,825 | ¥ 1,854,800 | \$ 15,228,743 |

Consolidated Statements of Operations

Years ended March 31, 1999, 1998 and 1997

| | <i>Millions of yen</i> | | | <i>Thousands of U.S.dollars (Note 1)</i> |
|---|------------------------|------------|-----------|--|
| | 1999 | 1998 | 1997 | 1999 |
| Revenue from operations | ¥ 389,136 | ¥ 364,858 | ¥ 338,980 | \$ 3,228,005 |
| <i>Costs and expenses:</i> | | | | |
| Cost of revenue from operations | 303,256 | 289,330 | 261,020 | 2,515,603 |
| Selling, general and administrative expenses (Note 3) | 29,364 | 30,116 | 33,817 | 243,584 |
| | 332,620 | 319,446 | 294,837 | 2,759,187 |
| Operating income | 56,516 | 45,412 | 44,143 | 468,818 |
| <i>Other income (expenses):</i> | | | | |
| Interest expense-net (Note 4) | (34,948) | (34,240) | (35,145) | (289,905) |
| Dividend income | 374 | 815 | 608 | 3,102 |
| Gain on sale of property and equipment | 270 | - | 14 | 2,240 |
| Loss on sale of marketable securities | (774) | - | - | (6,420) |
| Gain on sale of investments in subsidiary | 2,563 | - | - | 21,261 |
| Loss on sale of investments in securities | (3,358) | - | - | (27,856) |
| Write offs of bad debt | (53) | (4,987) | (673) | (440) |
| Loss on devaluation of marketable securities | (1,262) | (6,740) | (5,663) | (10,469) |
| Provision for allowance for doubtful accounts of a consolidated subsidiary | - | (62,499) | - | - |
| Foreign exchange gains | 256 | 126 | 117 | 2,124 |
| Other-net | (2,063) | (1,286) | (1,179) | (17,113) |
| | (38,995) | (108,811) | (41,921) | (323,476) |
| Income (loss) before income taxes (Note 3) | 17,521 | (63,399) | 2,222 | 145,342 |
| <i>Income taxes (Note 8):</i> | | | | |
| Current | 2,738 | 3,355 | 4,074 | 22,713 |
| Deferred | 3,800 | (706) | (107) | 31,522 |
| Net income (loss) | ¥ 10,983 | ¥ (66,048) | ¥ (1,745) | \$ 91,107 |

| | <i>Yen</i> | | | <i>U.S.dollars (Note 1)</i> |
|---|-------------|------------|----------|---------------------------------|
| | 1999 | 1998 | 1997 | 1999 |
| <i>Amounts per share of common stock:</i> | | | | |
| Net income (loss) | ¥ 27.00 | ¥ (162.36) | ¥ (4.29) | \$ 0.22 |
| Cash dividends applicable to the year | 6.00 | 6.00 | 6.00 | 0.05 |

See accompanying notes.

Consolidated Statements of Shareholders' Equity

Years ended March 31, 1999, 1998 and 1997

| | <i>Millions of yen</i> | | | <i>Thousands of U.S.dollars (Note 1)</i> |
|---|------------------------|-----------|----------|--|
| | 1999 | 1998 | 1997 | 1999 |
| <i>Common stock:</i> | | | | |
| Balance at beginning of the year | ¥ 86,773 | ¥ 86,773 | ¥ 86,773 | \$ 719,809 |
| Balance at end of the year | ¥ 86,773 | ¥ 86,773 | ¥ 86,773 | 719,809 |
| <i>Additional paid-in capital:</i> | | | | |
| Balance at beginning of the year | ¥ 96,822 | ¥ 96,822 | ¥ 96,822 | \$ 803,169 |
| Balance at end of the year | ¥ 96,822 | ¥ 96,822 | ¥ 96,822 | \$ 803,169 |
| <i>Retained earnings (deficit):</i> | | | | |
| Balance at beginning of the year | ¥ (4,218) | ¥ 66,198 | ¥ 69,364 | \$ (34,989) |
| Cumulative effect of adopting deferred tax accounting | 19,299 | - | - | 160,091 |
| Increase (decrease) due to change in consolidated subsidiaries | (37) | (1,261) | 355 | (307) |
| Increase (decrease) due to application of SFAS 115 to the consolidated subsidiaries in the U.S. | - | (664) | 664 | - |
| Net income (loss) | 10,983 | (66,048) | (1,745) | 91,107 |
| Cash dividends paid | (2,440) | (2,440) | (2,440) | (20,240) |
| Bonuses to directors | (3) | (3) | - | (25) |
| Balance at end of the year | ¥ 23,584 | ¥ (4,218) | ¥ 66,198 | \$ 195,637 |
| <i>Thousands</i> | | | | |
| | 1999 | 1998 | 1997 | |
| <i>Number of shares of common stock:</i> | | | | |
| Balance at beginning of the year | 406,810 | 406,810 | 406,810 | |
| Balance at end of the year | 406,810 | 406,810 | 406,810 | |

See accompanying notes.

Consolidated Statements of Cash Flows

Years ended March 31, 1999, 1998 and 1997

| | <i>Millions of yen</i> | | | <i>Thousands of U.S.dollars (Note 1)</i> |
|--|------------------------|-----------------|-----------------|--|
| | 1999 | 1998 | 1997 | 1999 |
| <i>Cash flows from operating activities:</i> | | | | |
| Net income (loss) | ¥ 10,983 | ¥ (66,048) | ¥ (1,745) | \$ 91,107 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | | |
| Depreciation and amortization | 10,340 | 13,615 | 14,093 | 85,774 |
| Provision for allowance for doubtful accounts-net | 2,606 | 66,995 | 7,570 | 21,618 |
| Deferred income taxes | 3,800 | (635) | (107) | 31,522 |
| Gain on sale of property and equipment | (270) | - | (14) | (2,239) |
| Other | 3,141 | 2,459 | 2,921 | 26,056 |
| Changes in assets and liabilities: | | | | |
| Decrease (increase) in notes and accounts receivable-trade | (4,255) | 2,408 | (902) | (35,297) |
| Decrease (increase) in trade loans receivable | (11,737) | 42,046 | 30,330 | (97,362) |
| Decrease (increase) in inventories | 33,372 | (24,759) | (25,143) | 276,831 |
| Decrease (increase) in prepaid expenses and other current assets | 1,200 | (35,369) | (14,945) | 9,954 |
| Increase (decrease) in notes and accounts payable- trade | 11,011 | 3,477 | (4,981) | 91,340 |
| Increase (decrease) in accrued income taxes and other current liabilities | 441 | 4,179 | (9,906) | 3,658 |
| Net cash provided by (used in) operating activities | <u>60,632</u> | <u>8,368</u> | <u>(2,829)</u> | <u>502,962</u> |
| <i>Cash flows from investing activities:</i> | | | | |
| Purchases of property and equipment | (41,275) | (31,349) | (25,794) | (342,389) |
| Proceeds from sale of property and equipment | 25,447 | 122 | 4,475 | 211,091 |
| Decrease in marketable securities | 2,662 | 11,407 | 7,252 | 22,082 |
| Decrease in investments and advances | 2,543 | 2,578 | 24,870 | 21,095 |
| Increase in guarantee and lease deposits paid to lessors | (3,449) | (13,160) | (1,149) | (28,611) |
| Decrease (increase) in leasehold rights and other intangible assets | 4,301 | (11,301) | (2,693) | 35,678 |
| Other | (2,191) | 7,497 | (8,922) | (18,175) |
| Net cash used in investing activities | <u>(11,962)</u> | <u>(34,206)</u> | <u>(1,961)</u> | <u>(99,229)</u> |
| <i>Cash flows from financing activities:</i> | | | | |
| Increase (decrease) in short-term bank loans | (32,490) | 28,624 | (70,237) | (269,515) |
| Proceeds from issuance of bonds and notes | 33,700 | 96,000 | 130,000 | 279,552 |
| Repayments of bonds and notes | (120,000) | (110,000) | (40,000) | (995,437) |
| Increase (decrease) in long-term debt | 60,142 | 45,336 | (16,063) | 498,897 |
| Increase (decrease) in guarantee and lease deposits received | (776) | 1,035 | (3,981) | (6,437) |
| Proceeds from issuance of common stock | 3,933 | - | - | 32,625 |
| Other | 14,546 | 450 | 320 | 120,664 |
| Cash dividends paid | (2,440) | (2,440) | (2,440) | (20,241) |
| Net cash provided by (used in) financing activities | <u>(43,385)</u> | <u>59,005</u> | <u>(2,401)</u> | <u>(359,892)</u> |
| Net increase (decrease) in cash | <u>5,285</u> | <u>33,167</u> | <u>(7,191)</u> | <u>43,841</u> |
| Cash at beginning of the year | <u>74,143</u> | <u>40,976</u> | <u>48,167</u> | <u>615,039</u> |
| Cash at end of the year | <u>¥ 79,428</u> | <u>¥ 74,143</u> | <u>¥ 40,976</u> | <u>\$ 658,880</u> |

See accompanying notes.

Notes to Consolidated Financial Statements

Years ended March 31, 1999, 1998 and 1997

1. Basis of financial statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan, which are different from the accounting and disclosure requirements of International Accounting Standards. The accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Company which were prepared in accordance with accounting principles and practices generally accepted in Japan from the accounts and records maintained by the Company and its consolidated subsidiaries and were filed with the Minister of Finance ("MOF") as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. The consolidated statements of shareholders' equity and cash flows have been prepared for the purpose of inclusion in the consolidated financial statements, although such statements are not customarily prepared in Japan and are not required to be filed with MOF.

The financial statements are stated in Japanese yen. The translations of the Japanese yen amounts into U.S.

dollars are included solely for the convenience of readers, using the prevailing exchange rate at March 31, 1999, which was ¥ 120.55 to U.S.\$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Accounting policies

(1) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries.

All significant intercompany transactions and accounts have been eliminated.

(2) Foreign currency translation

Foreign currency transactions:

Current assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rate prevailing at the balance sheet date (current rate) and non-current assets and liabilities denominated in foreign currencies are translated at the historical exchange rates.

Resulting exchange gains or losses are included in net income.

Foreign currency liabilities hedged by forward exchange contracts are translated at the contracted forward rates.

Foreign currency financial statements:

Foreign currency financial statements are translated at the current rate, except for common stock,

additional paid-in capital and beginning retained earnings, which are translated at the historical rates. Translation difference is reflected on the balance sheet.

(3) Recognition of revenue

Revenues from sales of land and residential houses are recognized when units are delivered and accepted by the customers. Revenues from leasing of office space, shops and apartments are recognized as rent accrues over the life of the lease.

(4) Inventories

Inventories are stated at cost which is determined by the specific identification cost method.

Some consolidated subsidiaries maintain a policy of capitalizing interest costs on certain types of development projects in progress.

(5) Marketable securities and investments in securities

Securities quoted on stock exchanges are primarily stated at the lower of moving average cost or market value. Non-quoted securities, including investments in unconsolidated subsidiaries and affiliated companies, are stated at moving average cost or less, reflecting write-downs based on management's opinion of impairment of the underlying value. Securities of certain consolidated subsidiaries are stated at moving average cost.

Commencing with the year ended March 31, 1999, the Company records recoveries of write-downs of securities in accordance with a revision in the Japanese tax law. There was no effect on net income resulting from adopting this accounting policy.

(6) Property and equipment

Property and equipment are stated at cost. Depreciation

of buildings is provided on the straight-line method, and depreciation of other equipment is determined primarily by the declining-balance method based on the estimated useful lives of the assets.

Depreciation of buildings was provided by the declining-balance method based on the estimated useful lives before April 1, 1998, when the Company and two consolidated subsidiaries changed the accounting policy as explained in Note 3.

Also effective April 1, 1998, in accordance with a revision in the Japanese tax law, the Company and consolidated subsidiaries shortened the estimated useful lives of buildings, excluding building fixtures. The effect of this change was to decrease operating income and income before income taxes by ¥465 million (\$3,857thousand).

Estimated useful lives used in the computation of depreciation are generally as follows:

Buildings and structures 7 to 50 years
Machinery and equipment 3 to 15 years

(7) Finance Leases

Finance leases except those leases for which the ownership of the leased assets is considered to be transferred to the lessee, are accounted for in the same manner as operating leases.

(8) Income taxes

The Company provided income taxes at the amounts currently payable for the years ended March 31, 1998 and 1997, and deferred tax accounting was applied only to the income taxes paid on intercompany profit eliminated on consolidation. Effective April 1, 1998, the Company adopted the new accounting standard, which recognizes tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting. Under the new accounting standard, the provision for income taxes is

computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The amount of deferred income taxes attributable to the net tax effects of the temporary differences at April 1, 1998 is reflected as an adjustment of ¥ 19,299 million (\$160,091 thousand) to the retained earnings brought forward from the previous year. Prior years' financial statements have not been restated.

The effect for the year ended March 31, 1999 was to decrease net income by ¥ 4,607 million (\$ 38,216 thousand).

(9) Employees' retirement benefits

Upon retirement or termination of employment for reasons other than dismissal for cause, employees of the Company and its consolidated subsidiaries are entitled to lump-sum and/or pension payments based on their current rate of pay and length of service.

The Company has a noncontributory funded pension plan, which provides for a lump-sum or ten-year period of pension payments, at the election of the employee, to an employee, whose age is 45 or more with 20 years or more of employment. Lump-sum payments are made to the other employees. The provision is determined actuarially and funded currently through an outside trustee. Prior service costs of the plan are being funded over a period of 15 years.

Annual contributions, which consist of normal costs and amortization of prior service costs, are charged to income when paid.

Most of the Company's domestic consolidated subsidiaries have unfunded plans. Provisions are made in the accompanying consolidated financial statements for approximately 40% of the estimated liability for the retirement allowance on a voluntary retirement basis.

(10) Amounts per share of common stock

The computation of net income per share is based on the weighted-average number of shares of common stock outstanding during each year.

Diluted net income per share is not presented, since the Company has never issued any securities with dilutive effect, such as bonds with warrants and convertible bonds.

Cash dividends per share represent actual amounts applicable to the respective year.

(11) Reclassifications

Certain prior year amounts have been reclassified to conform to 1999 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

3. Change in accounting policy

Effective April 1, 1998, the Company and two consolidated subsidiaries changed the method of depreciating buildings from the declining-balance method to the straight-line method to match revenue and the related expenses more appropriately.

The effect of this change was to increase income before income taxes by ¥ 2,344 million (\$19,444 thousand).

The effect on segment information is explained in Note 14.

4. Inventories

Inventories at March 31, 1999 and 1998, were as follows:

| | <i>Millions of yen</i> | | <i>Thousands of U.S.dollars</i> |
|---------------------------------------|------------------------|------------------|---------------------------------|
| | 1999 | 1998 | 1999 |
| Land and housing for sale | ¥ 86,124 | ¥ 84,429 | \$ 714,426 |
| Land and housing projects in progress | 57,283 | 83,367 | 475,180 |
| Land held for development | 61,083 | 89,641 | 506,703 |
| Other | 2,224 | 239 | 18,448 |
| | <u>¥ 206,714</u> | <u>¥ 257,676</u> | <u>\$ 1,714,757</u> |

Interest capitalized as part of the cost of land and housing projects in progress and land held for development for the years ended March 31, 1999, 1998 and 1997 were summarized as follows:

| | <i>Millions of yen</i> | <i>Thousands of U.S.dollars</i> |
|-------------|------------------------|---------------------------------|
| 1999 | ¥ - | \$ - |
| 1998 | - | - |
| 1997 | 126 | - |

5. Investments in and advances to unconsolidated subsidiaries and affiliated companies

Investments in and advances to unconsolidated subsidiaries and affiliated companies at March 31, 1999 and 1998, consisted of the following:

| | <i>Millions of yen</i> | | <i>Thousands of U.S.dollars</i> |
|--------------------------------------|------------------------|----------------|---------------------------------|
| | 1999 | 1998 | 1999 |
| Investments in common stock, at cost | ¥ 11,572 | ¥ 7,241 | \$ 95,993 |
| Advances | 1,612 | 2,438 | 13,372 |
| | <u>¥ 13,184</u> | <u>¥ 9,679</u> | <u>\$ 109,365</u> |

6. Market value information for securities of the Company

At March 31, 1999 and 1998, book value, market value and net unrealized gain of marketable securities and investments in securities were as follows:

| | <i>Millions of yen</i> | | | | | | <i>Thousands of U.S.dollars</i> | | |
|--------------|------------------------|---------------------|------------------------|-------------------|---------------------|------------------------|---------------------------------|---------------------|------------------------|
| | 1999 | | | 1998 | | | 1999 | | |
| | <i>Book value</i> | <i>Market value</i> | <i>Unrealized gain</i> | <i>Book value</i> | <i>Market value</i> | <i>Unrealized gain</i> | <i>Book value</i> | <i>Market value</i> | <i>Unrealized gain</i> |
| Current | ¥ 22,460 | ¥ 24,598 | ¥ 2,138 | ¥ 23,670 | ¥ 23,795 | ¥ 125 | \$ 186,313 | \$ 204,048 | \$ 17,735 |
| Non-current | 1,889 | 39,969 | 38,080 | 106 | 110 | 4 | 15,670 | 331,555 | 315,885 |
| Total | ¥ 24,349 | ¥ 64,567 | ¥ 40,218 | ¥ 23,776 | ¥ 23,905 | ¥ 129 | \$ 201,983 | \$ 535,603 | \$ 333,620 |

7. Short-term bank loans and long-term debt

Short-term bank loans are represented by notes maturing generally in three months. The annual interest rates on short-term bank loans outstanding at March 31, 1999 and 1998, were principally ranging from 0.69% to

7.31% and 0.71% to 8.59%, respectively.

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

| | <i>Millions of yen</i> | | <i>Thousands of U.S.dollars</i> |
|--|------------------------|-------------|---------------------------------|
| | 1999 | 1998 | 1999 |
| 6.2% Euroyen notes, due 2000 | ¥ 20,000 | ¥ 20,000 | \$ 165,906 |
| 6.15% Euroyen notes, due 1999 | 30,000 | 30,000 | 248,860 |
| 6.1% Euroyen notes, due 1998 | - | 20,000 | - |
| 4.5% Euroyen notes, due 1998 | - | 20,000 | - |
| 4.8% Euroyen notes, due 2000 | 20,000 | 20,000 | 165,906 |
| 4.95% Euroyen notes, due 1998 | - | 20,000 | - |
| 3.7% Euroyen notes, due 1998 | - | 30,000 | - |
| 3.9% Euroyen notes, due 2000 | 20,000 | 20,000 | 165,906 |
| 3.55% Euroyen notes, due 1999 | 30,000 | 30,000 | 248,860 |
| 3.8% Euroyen notes, due 2000 | 30,000 | 30,000 | 248,860 |
| 3.85% Euroyen notes, due 1998 | - | 30,000 | - |
| 3.0% Euroyen notes, due 2000 | 30,000 | 30,000 | 248,860 |
| 2.6% Euroyen notes, due 1999 | 10,000 | 10,000 | 82,953 |
| 2.55% Euroyen notes, due 2000 | 10,000 | 10,000 | 82,953 |
| 2.9% Euroyen notes, due 2001 | 20,000 | 20,000 | 165,906 |
| 3.15% Euroyen notes, due 2002 | 10,000 | 10,000 | 82,953 |
| 2.95% Euroyen notes, due 2001 | 10,000 | 10,000 | 82,953 |
| 3.0% Euroyen notes, due 2001 | 20,000 | 20,000 | 165,906 |
| 2.5% Euroyen notes, due 2001 | 20,000 | 20,000 | 165,906 |
| 2.1% Euroyen notes, due 2001 | 10,000 | 10,000 | 82,953 |
| 2.35% Euroyen notes, due 2002 | 10,000 | 10,000 | 82,953 |
| 2.65% Euroyen notes, due 2004 | 10,000 | 10,000 | 82,953 |
| 2.4% Euroyen notes, due 2003 | 10,000 | 10,000 | 82,953 |
| 2.575% Euroyen notes, due 2004 | 10,000 | 10,000 | 82,953 |
| 1.9% domestic straight bonds, due 2001 | 15,000 | 15,000 | 124,430 |

| | | | |
|--|-----------|-----------|--------------|
| 2.5% domestic straight bonds, due 2003 | ¥ 20,000 | ¥ 20,000 | \$ 165,906 |
| 2.025% domestic straight bonds, due 2002 | 20,000 | 20,000 | 165,906 |
| 2.025% domestic straight bonds, due 2001 | 7,000 | 7,000 | 58,067 |
| 2.5% domestic straight bonds, due 2001 | 7,000 | 7,000 | 58,067 |
| 2.6% domestic straight bonds, due 2002 | 7,000 | 7,000 | 58,067 |
| 2.5% domestic straight bonds, due 2002 | 8,000 | 8,000 | 66,363 |
| Floating rate Euroyen notes, due 2002 | 1,000 | 1,000 | 8,295 |
| 2.6% Euroyen notes, due 2003 | 1,000 | 1,000 | 8,295 |
| 2.75% domestic straight bonds, due 2003 | 7,000 | - | 58,067 |
| 3.0% domestic straight bonds, due 2004 | 5,000 | - | 41,477 |
| 2.6% domestic straight bonds, due 2003 | 10,000 | - | 82,953 |
| 2.6% Euroyen notes, due 2001 | 1,000 | - | 8,295 |
| 3.1% Euroyen notes, due 2005 | 700 | - | 5,807 |
| 2.7% domestic straight bonds, due 2001 | 5,000 | - | 41,477 |
| 2.97% Euroyen notes, due 2002 | 5,000 | - | 41,477 |
| Loans, principally from banks and insurance companies, interest principally at rates of 0.96% to 7.66% in 1999 and 0.75% to 7.66% in 1998: | | | |
| Secured | 2,286 | 2,413 | 18,963 |
| Unsecured | 358,540 | 298,340 | 2,974,202 |
| | 810,526 | 836,753 | 6,723,567 |
| Amount due within one year | (118,498) | (171,078) | (982,978) |
| | ¥ 692,028 | ¥ 665,675 | \$ 5,740,589 |

The aggregate annual maturities of long-term debt at March 31, 1999, were as follows:

| <i>Years ending March 31</i> | <i>Millions of yen</i> | <i>Thousands of U.S.dollars</i> |
|------------------------------|------------------------|---------------------------------|
| 2000 | ¥ 118,498 | \$ 982,978 |
| 2001 | 197,955 | 1,642,099 |
| 2002 | 198,487 | 1,646,512 |
| 2003 | 158,937 | 1,318,432 |
| 2004 | 96,067 | 796,906 |
| 2005 and thereafter | 40,582 | 336,640 |

The following assets were pledged as security for short-term bank loans and long-term debt at March 31, 1999.

| | <i>Millions of yen</i> | <i>Thousands of U.S.dollars</i> |
|--|------------------------|---------------------------------|
| Net book value of property and equipment (mainly land and buildings) | ¥ 1,665 | \$ 13,812 |
| Marketable securities | 34 | 282 |
| | 1,699 | 14,094 |

As is customary in Japan, security must be given if requested by a lending bank and such bank has the right to offset cash deposited with it against any debt or obligation that becomes due and, in the case of default

or certain other specified events, against all debt payable to the bank. The Company has never received any such request nor does it expect that any such request will be made.

8. Income taxes

The Company is subject to a number of income taxes, which, in the aggregate, indicate a statutory rate in Japan of approximately 47.68% for the year ended March 31, 1999 and approximately 51% for the years ended March 31, 1998 and 1997, respectively.

The following table summarizes the significant differences between the statutory tax rate and the Company's effective tax rate for financial statement purposes for the year ended March 31, 1999:

| | |
|--|---------------|
| Statutory tax rate | 47.68% |
| Effect of operating loss carryforwards of subsidiaries | (9.69) |
| Decrease in tax rate | (3.54) |
| Other | 0.28 |
| | <hr/> |
| Effective tax rate | <u>34.73%</u> |

Significant components of the Company's deferred tax assets and liabilities as of March 31, 1999, are as follows:

| | <i>Millions of yen</i> |
|---------------------------------------|------------------------|
| Deferred tax assets: | |
| Net operating loss carryforwards | ¥ 27,038 |
| Unrealized intercompany profits | 3,914 |
| Other | 7,587 |
| | <hr/> |
| Total deferred tax assets | 38,539 |
| Valuation allowance | (15,800) |
| | <hr/> |
| Net deferred tax assets | <u>22,739</u> |
| Deferred tax liabilities: | |
| Deferred gain on sale of fixed assets | (1,959) |
| Other | (670) |
| | <hr/> |
| Total deferred tax liabilities | (2,629) |
| | <hr/> |
| Net deferred tax assets | <u>¥ 20,110</u> |

9. Guarantee and lease deposits received

Guarantee and lease deposits received at March 31, 1999 and 1998, were summarized as follows:

| | <i>Millions of yen</i> | | <i>Thousands of U.S.dollars</i> |
|---|------------------------|-----------|---------------------------------|
| | 1999 | 1998 | 1999 |
| Guarantee and lease deposits from tenants | ¥ 125,101 | ¥ 125,783 | \$ 1,037,752 |
| Lease deposits from others | 1,069 | 1,371 | 8,868 |
| | ¥ 126,170 | ¥ 127,154 | \$ 1,046,620 |

10. Shareholders' equity

In accordance with the new disclosure requirements effective from the year ended March 31, 1999, legal reserve is included in retained earnings for 1999. Previously it was presented as a separate component of the shareholders' equity. The accompanying consolidated financial statements for the years ended

March 31, 1997 and 1998 have been reclassified to conform to the 1999 presentation.

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Japanese Commercial Code.

11. Information for certain lease transactions

Finance leases which do not transfer ownership to lessees are not capitalized and accounted for in the same

manner as operating leases. Certain information for such non-capitalized finance leases were as follows.

As lessee

A summary of assumed amounts (inclusive of interest) of acquisition cost, accumulated depreciation and net book value at March 31, 1999 was as follows:

| | <i>Millions of yen</i> | <i>Thousands of U.S.dollars</i> |
|--------------------------|------------------------|---------------------------------|
| Acquisition cost: | | |
| Buildings and structures | ¥ 1,320 | \$ 10,950 |
| Other | 1,139 | 9,448 |
| Accumulated depreciation | (1,409) | (11,688) |
| Net book value | <u>¥ 1,050</u> | <u>\$ 8,710</u> |

As lessor

A summary of stated amounts of acquisition cost, accumulated depreciation and net book value at March 31, 1999 was as follows:

| | <i>Millions of yen</i> | <i>Thousands of U.S.dollars</i> |
|--------------------------|------------------------|---------------------------------|
| Acquisition cost: | | |
| Other | ¥ 1,010 | \$ 8,378 |
| Accumulated depreciation | (960) | (7,963) |
| Net book value | <u>¥ 50</u> | <u>\$ 415</u> |

Lease expenses and lease income under finance leases, inclusive of interest, for the year ended March 31, 1999, amounted to ¥ 524 million (\$4,347 thousand) and ¥ 93 million (\$771 thousand), respectively.

Future lease payments and receipts under such finance leases and non-cancelable operating leases at March 31, 1999 were as follows:

| | <i>Millions of yen</i> | <i>Thousands of U.S.dollars</i> |
|-------------------------------|------------------------|---------------------------------|
| Finance leases | | |
| <i>Future lease payments:</i> | | |
| Due within one year | ¥ 478 | \$ 3,965 |
| Due after one year | 572 | 4,745 |
| Total | <u>¥ 1,050</u> | <u>\$ 8,710</u> |
| <i>Future lease receipts:</i> | | |
| Due within one year | ¥ 94 | \$ 780 |
| Due after one year | 78 | 647 |
| Total | <u>¥ 172</u> | <u>\$ 1,427</u> |
| Operating leases | | |
| <i>Future lease payments:</i> | | |
| Due within one year | ¥ 30 | \$ 249 |
| Due after one year | 319 | 2,646 |
| Total | <u>¥ 349</u> | <u>\$ 2,895</u> |
| <i>Future lease receipts:</i> | | |
| Due within one year | ¥ 6,401 | \$ 53,098 |
| Due after one year | 50,112 | 415,695 |
| Total | <u>¥ 56,513</u> | <u>\$ 468,793</u> |

12. Contingent liabilities

(Contingent liabilities for guarantee of loans)

As of March 31, 1999, the Company is a guarantor of loans of other companies amounting to ¥8,590 million, including ¥3,355 million of loans of affiliated companies. Also as of that date, the Company has outstanding commitments to guarantee loans of certain affiliated companies and an unrelated company, amounting in the aggregate to ¥218,665 million.

(Lawsuits)

The Company is defendant in the following lawsuits related to the rental payments with respect to certain properties leased by the Company.

In May 1993, a lawsuit was brought in the Tokyo District Court against the Company by the lessor owning the three office buildings claiming to recover the amount of the difference between the rental payments based on the lease agreements and the amounts the Company paid taking a position under the Leased Land and House Lease Law, which granted lessees certain reduction in rent payments under certain

circumstances.

A lawsuit was brought in the Tokyo District Court against the Company in 1994 and another one in 1995, relating to the claims to recover the difference between the rental payments based on the lease agreements and the amounts the Company paid taking a position under the Leased Land and House Lease Law. While the District Court issued judgements against the Company in August and October of 1998, the Company appealed to the Tokyo Higher Court in September and November of 1998 as the Company believed that the judgements were contradictory to the previous legal interpretations.

With respect to two other lawsuits brought against the Company and a lawsuit against other company related to similar claims involving a reduction in rent under a sublease contract, the Tokyo Higher Court issued judgements in December 1998 and February 1999 that granted rent reductions.

The Tokyo Higher Court has issued similar judgements and such judgements have been finally determined.

13. Subsequent events

(Issuance of bonds)

The company issued the 3.0% ¥ 15,000 million domestic straight bonds due 2003 on May 20, 1999, the 3.0% ¥ 35,000 million domestic straight bonds due 2003 on May 20, 1999, the 2.35% ¥ 30,000 million

domestic straight bonds due 2002 on June 28, 1999, the 2.65% ¥ 10,000 million domestic straight bonds due 2003 on June 28, 1999 and the 2.95% ¥ 40,000 million domestic straight bonds due 2004 on June 28, 1999.

(Transfer of properties)

On June 1, 1999, the Company sold the first beneficiary right of five office buildings, which the Company had owned and transferred to a trust for ¥ 24,500 million. The purchaser of the beneficiary right is SumQuest K.K.,

an unrelated special purpose entity established for the purpose of owning the beneficiary right and issuing asset-backed securities. The Company retained the second beneficiary right of the properties, and master-leased the said properties, which in turn are subleased to tenants.

14. Segment information

The Company and its consolidated subsidiaries mainly operate their business in six segments: leasing of buildings and shopping centers, etc.; sale of detached houses; construction of housing and buildings; brokerage business; loans providing housing loans; and

other business.

Information by industry segments for the years ended March 31, 1999, 1998 and 1997 is summarized as follows:

| For 1999 | Millions of yen | | | | | | | Total | Elimination and/or corporate | Consolidated |
|--------------------|------------------|----------------|-----------------------|--------------------|----------------|----------------|-----------|-----------|------------------------------|--------------|
| | Leasing business | Sales business | Construction business | Brokerage business | Loans business | Other business | | | | |
| Net sales | | | | | | | | | | |
| Customers | ¥ 150,976 | ¥ 137,735 | ¥ 61,191 | ¥ 27,829 | ¥ 7,947 | ¥ 3,458 | ¥ 389,136 | ¥ - | ¥ 389,136 | |
| Intersegment | 913 | 10 | 5,433 | 138 | 3 | 7 | 6,504 | (6,504) | - | |
| Total | 151,889 | 137,745 | 66,624 | 27,967 | 7,950 | 3,465 | 395,640 | (6,504) | 389,136 | |
| Costs and expenses | 108,177 | 131,201 | 64,241 | 22,681 | 5,300 | 3,221 | 334,821 | (2,201) | 332,620 | |
| Operating income | ¥ 43,712 | ¥ 6,544 | ¥ 2,383 | ¥ 5,286 | ¥ 2,650 | ¥ 244 | ¥ 60,819 | ¥ (4,303) | ¥ 56,516 | |

| | | | | | | | | | |
|-------------------------------|-------------|-----------|----------|----------|-----------|----------|-------------|-----------|-------------|
| Identifiable assets | ¥ 1,066,259 | ¥ 219,772 | ¥ 16,892 | ¥ 22,967 | ¥ 353,441 | ¥ 24,787 | ¥ 1,704,118 | ¥ 131,707 | ¥ 1,835,825 |
| Depreciation and amortization | 9,702 | 22 | 201 | 150 | 4 | 132 | 10,211 | 129 | 10,340 |
| Capital expenditures | 30,905 | 30 | 436 | 48 | 3 | 58 | 31,480 | 170 | 31,650 |

| For 1998 | Millions of yen | | | | | | | Total | Elimination and/or corporate | Consolidated |
|--------------------|------------------|----------------|-----------------------|--------------------|----------------|----------------|-------------|-----------|------------------------------|--------------|
| | Leasing business | Sales business | Construction business | Brokerage business | Loans business | Other business | | | | |
| Net sales | | | | | | | | | | |
| Customers | ¥ 143,676 | ¥ 125,327 | ¥ 56,339 | ¥ 27,421 | ¥ 8,367 | ¥ 3,728 | ¥ 1,364,858 | ¥ - | ¥ 364,858 | |
| Intersegment | 1,025 | 281 | 5,780 | 76 | - | 11 | 7,173 | (7,173) | - | |
| Total | 144,701 | 125,608 | 62,119 | 27,497 | 8,367 | 3,739 | 372,031 | (7,173) | 364,858 | |
| Costs and expenses | 107,691 | 118,349 | 62,195 | 22,833 | 7,634 | 3,477 | 322,179 | (2,733) | 319,446 | |
| Operating income | ¥ 37,010 | ¥ 287,259 | ¥ (76) | ¥ 4,664 | ¥ 733 | ¥ 262 | ¥ 49,852 | ¥ (4,440) | ¥ 45,412 | |

| | | | | | | | | | |
|-------------------------------|-------------|-----------|----------|----------|-----------|---------|-------------|----------|-------------|
| Identifiable assets | ¥ 1,064,475 | ¥ 285,256 | ¥ 15,770 | ¥ 26,998 | ¥ 360,870 | ¥ 5,631 | ¥ 1,759,000 | ¥ 95,800 | ¥ 1,854,800 |
| Depreciation and amortization | 13,058 | 42 | 172 | 140 | 4 | 20 | 13,436 | 179 | 13,615 |
| Capital expenditures | 52,495 | 309 | 1,232 | 178 | 10 | 3 | 54,227 | 165 | 54,392 |

| For 1997 | Millions of yen | | | | | | | | |
|-------------------------------|------------------|----------------|-----------------------|--------------------|----------------|----------------|-------------|------------------------------|--------------|
| | Leasing business | Sales business | Construction business | Brokerage business | Loans business | Other business | Total | Elimination and/or corporate | Consolidated |
| Net sales | | | | | | | | | |
| Customers | ¥ 135,814 | ¥ 102,128 | ¥ 55,104 | ¥ 31,741 | ¥ 8,952 | ¥ 5,241 | ¥ 338,980 | ¥ - | ¥ 338,980 |
| Intersegment | 1,078 | 44 | 4,163 | 320 | - | 378 | 5,983 | (5,983) | - |
| Total | 136,892 | 102,172 | 59,267 | 32,061 | 8,952 | 5,619 | 344,963 | (5,983) | 338,980 |
| Costs and expenses | 103,910 | 92,944 | 60,008 | 23,822 | 10,359 | 4,569 | 295,612 | (775) | 294,837 |
| Operating income | ¥ 32,982 | ¥ 9,228 | ¥ (741) | ¥ 8,239 | ¥ (1,407) | ¥ 1,050 | ¥ 49,351 | ¥ (5,208) | ¥ 44,143 |
| Identifiable assets | ¥ 952,177 | ¥ 324,560 | ¥ 18,360 | ¥ 22,424 | ¥ 441,836 | ¥ 5,258 | ¥ 1,764,615 | ¥ 89,042 | ¥ 1,853,657 |
| Depreciation and amortization | 13,462 | 26 | 222 | 151 | 4 | 24 | 13,889 | 204 | 14,093 |
| Capital expenditures | 28,185 | 67 | 270 | 181 | 6 | 3 | 28,712 | 44 | 28,756 |

| For 1999 | Thousands of U.S.dollars | | | | | | | | |
|-------------------------------|--------------------------|----------------|-----------------------|--------------------|----------------|----------------|--------------|------------------------------|---------------|
| | Leasing business | Sales business | Construction business | Brokerage business | Loans business | Other business | Total | Elimination and/or corporate | Consolidated |
| Net sales | | | | | | | | | |
| Customers | \$ 1,252,393 | \$ 1,142,555 | \$ 507,599 | \$ 230,850 | \$ 65,923 | \$ 28,685 | \$ 3,228,005 | \$ - | \$ 3,228,005 |
| Intersegment | 7,574 | 83 | 45,068 | 1,145 | 25 | 58 | 53,953 | (53,953) | - |
| Total | 1,259,967 | 1,142,638 | 552,667 | 231,995 | 65,948 | 28,743 | 3,281,958 | (53,953) | 3,228,005 |
| Costs and expenses | 897,362 | 1,088,354 | 532,899 | 188,146 | 43,965 | 26,719 | 2,777,445 | (18,258) | 2,759,187 |
| Operating income | \$ 362,605 | \$ 54,284 | \$ 19,768 | \$ 43,849 | \$ 21,983 | \$ 2,024 | \$ 504,513 | \$ (35,695) | \$ 468,818 |
| Identifiable assets | \$ 8,844,952 | \$ 1,823,078 | \$ 140,124 | \$ 190,518 | \$ 2,931,904 | \$ 205,616 | \$ 4,136,192 | \$ 1,092,551 | \$ 15,228,743 |
| Depreciation and amortization | 80,481 | 183 | 1,668 | 1,244 | 33 | 1,095 | 84,704 | 1,070 | 85,774 |
| Capital expenditures | 256,367 | 249 | 3,617 | 398 | 25 | 481 | 261,137 | 1,410 | 262,547 |

As described in Notes 2(6) and 3 to the Consolidated Financial Statements, effective April 1, 1998, depreciation of buildings, excluding building fixtures, is provided on the straight-line method, and the Company and its consolidated subsidiaries shortened the estimated useful lives of buildings, excluding building fixtures. As a result of the changes, operating income and identifiable assets of Leasing business, Sales business and Brokerage business segment for the year ended

March 31, 1999 were increased by ¥ 1,830 million (\$15,180 thousand), ¥ 13 million (\$108 thousand) and ¥ 5 million (\$41 thousand), respectively, as compared with the previous method. Depreciation expense of Leasing business, Sales business and Brokerage business segment were also decreased by ¥ 1,830 million (\$15,180 thousand), ¥ 13 million (\$108 thousand) and ¥ 5 million (\$41 thousand), respectively, as compared with the previous method.

Report of Independent Public Accountants

To the Shareholders and the Board of Directors of
Sumitomo Realty & Development Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Sumitomo Realty & Development Co., Ltd. (a Japanese corporation) and subsidiaries as of March 31, 1999 and 1998, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 31, 1999, expressed in Japanese yen.

Our audits were made in accordance with generally accepted auditing standards 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 consolidated financial position of Sumitomo Realty & Development Co., Ltd. and subsidiaries as of March 31, 1999 and 1998, and the consolidated 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 generally accepted in Japan consistently applied during the periods, except for the change made in 1999, with which we concur, in the method of depreciation referred to Note 3.

Also, in our opinion, the U.S. dollar amounts in the accompanying consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 1.



Tokyo, Japan

June 29, 1999

Statement on Accounting Principles and Auditing Standards

This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying financial statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan. Accordingly, the accompanying financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.

Main Subsidiaries and Affiliates

| <i>Name</i> | <i>Year of Incorporation or Acquisition</i> | <i>Business</i> |
|---|---|--|
| Subsidiaries | | |
| Sumitomo Real Estate Sales Co., Ltd. | 1975 | <i>Sale and brokerage of real estate</i> |
| Sumitomo Fudosan Home Co., Ltd. | 1982 | <i>Construction and sale of detached houses</i> |
| Sumitomo Fudosan Syscon Co., Ltd. | 1980 | <i>Home remodeling services</i> |
| Sumitomo Fudosan Finance Co., Ltd. | 1984 | <i>Provision of housing loans</i> |
| Sumitomo Fudosan Tatemono Service Co., Ltd. | 1973 | <i>Real estate management</i> |
| Izumi Restaurant Co., Ltd. | 1955 | <i>Restaurant management</i> |
| Shinjuku Sumitomo Building Management Co., Ltd. | 1973 | <i>Leasing and administration of real estate</i> |
| Sumitomo Fudosan Ryokka Co., Ltd. | 1982 | <i>Gardening</i> |
| Izumi Insurance Service Co., Ltd. | 1985 | <i>Insurance agency</i> |
| Izumi Development Co., Ltd. | 1960 | <i>Hotel management</i> |
| Biwako Resort Club Co., Ltd. | 1978 | <i>Management of membership resort club</i> |
| Sumitomo Realty & Development CA., Inc. | 1972 | <i>Development and sale of real estate</i> |
| Sumitomo Realty & Development (N.Y.), Inc. | 1987 | <i>Real estate management</i> |
| Sumitomo Investment Co., (H.K.) Ltd. | 1963 | <i>Real estate management</i> |
| Sumitomo Thaniya Real Estate Co., (Thailand) Ltd. | 1969 | <i>Real estate management</i> |
| Ekahanui, Inc. | 1972 | <i>Golf course management</i> |
| Sumitomo Realty & Development (Australia) Pty. Ltd. | 1988 | <i>Hotel management</i> |
| Universal Home Inc. | 1995 | <i>Franchiser for home-builders traditional construction</i> |
| Sumitomo Fudosan Fitness Co., Ltd. | 1986 | <i>Management of fitness clubs</i> |
| Affiliates | | |
| Izumi Kaihatsu Sangyo Co., Ltd. | 1977 | <i>Golf course management</i> |

Corporate Data

Board of Directors and Auditors

Chairman of the Board
Shinichiro Takagi

President
Junji Takashima

Director and Advisor
Taro Ando

Senior Managing Directors
Hirohisa Ichikawa
Yoichi Nakamura
Etsuzo Yurimoto

Managing Directors
Tetsuro Tsuruta
Hisao Matsui
Masayoshi Ohashi
Sadao Ushimaru
Mitsuru Mori
Hiroshi Tuji

Directors
Koichi Eguchi
Shigeto Iwai
Arata Miyazawa
Kenichiro Sugimoto
Akira Kanda
Kazuo Masuoka
kanichi Onodera
Haruo Hukumuro
Kenichi Kameyama
Yozo Akiyama

Statutory Auditors
Yoshihiro Tokushige
Hisayoshi Horikiri
Takato Aramaki
Akira Sato
Toshihiko Horiuchi

Standing Statutory Auditors

Outline of the Company

Establishment
December 1, 1949

Main Activities

Sale of housing and residential land
Building leasing

Number of Employees
788

Total Shares Issued and Outstanding
406,810,631

Number of Shareholders
34,258
(March 31, 1999)

Office

Head Office

Shinjuku NS Building
4-1, Nishi-Shinjuku 2-chome
Shinjuku-ku, Tokyo 163-0820, Japan
Tel: (03) 3346-2342
Telex: 2324677 SUMIFUJ
Cable: REALTYSUMI TOKYO
Fax: (03) 3322-6732

Osaka Head Office

2-18, Nakanoshima 3-chome
kita-ku, Osaka 530-0005, Japan
Tel: (06) 6448-1931
Fax: (06) 6444-1644

Hokkaido Branch Office

6-8, Odori-Nishi 4-chome
Chuo-ku, Sapporo 060-0042, Japan
Tel: (011) 281-3941
Fax: (011) 221-2744

Kyushu Branch Office

2-5, hakata-Ekimae 1-chome
Hakata-ku, Fukuoka 812-0011,
Japan
Tel: (092) 413-6511
Fax: (092) 413-6533

Tohoku Branch Office

2-6, Chuo 2-chome
Aoba-ku, Sendai 980-0021, Japan
Tel: (022) 262-4261
Fax: (022) 262-7192

Tokai Branch Office

6-26, Nishiki 1-chome
Naka-ku, Nagoya 460-0003, Japan
Tel: (052) 219-1100
Fax: (052) 219-1210

Overseas Subsidiaries

*Sumitomo Realty &
Development CA., Inc.*
15707 Rockfield Blvd, Irvine,
CA 92718, U.S.A.
Tel: (949) 586-1011
Fax: (949) 581-4551

*Sumitomo Realty &
Development (N.Y.), Inc.*
666 Fifth Avenue
New York, NY 10103, U.S.A.
Tel: (212) 582-8020
Fax: (212) 582-8749

Ekahanui, Inc.
94-1211 Kunia Road
Wahiawa, HI 96786, U.S.A.
Tel: (808) 622-1744
Fax: (808) 622-2168

*Sumitomo Thaniya Real
Estate Co., (Thailand) Ltd.*
6th Floor, Thaniya Building
No.62 Silom Road
Bangkok, Thailand
Tel: 236 0137
Fax: 236 0123

*Sumitomo Investment Co., (H.K.)
Ltd.*
Unit 413, 4/F, Lippo Sun Plaza,
28 Canton Road, Tsimshatsui,
Kowloon, Hong kong
Tel: (2368) 7758
Fax: (2724) 3739

*Sumitomo Realty &
Development (Australia) Pty. Ltd.*
Level 2, Dundee Arms
171 Sussex Street, Sydney
N.S.W. 2000, Australia
Tel: (2) 290-2357
Fax: (2) 290-2519

 **Sumitomo Realty & Development Co.,Ltd.**
