

March 13, 2019

Company: Daiwa House Industry Co., Ltd.
(Code number: 1925,
First Section of the Tokyo Stock Exchange)
Representative: Keiichi Yoshii, President and COO
Contact: Takahumi Nakao, Executive Officer and
General Manager, Corporate
Communications Department

**Notice Concerning Irregularities in the Accounts of
a Daiwa House Affiliate in the People's Republic of China**

A discrepancy was recently discovered between the balance of funds in a bank account held by Dalian Daiwa Zhongsheng Real Estate Co., Ltd. (representative: Yukikazu Kataoka; head office: Dalian, People's Republic of China), which is an affiliate of Daiwa House Industry Co., Ltd., and the amount recorded in the company's account ledgers. Upon further investigation, it was found that there was reason to suspect the commission of irregularities by two members of the company's board of directors and one staff member in charge of receipts and disbursements (three persons in total), all of whom had been assigned to Dalian Daiwa Zhongsheng Real Estate Co. by Dalian Zhongsheng Group Co., Ltd., a company with which Daiwa House Industry had concluded a joint venture.

Such an irregularity is an extremely regrettable occurrence at an affiliate of Daiwa House Industry, and we would like to offer our most sincere apologies to our customers, shareholders, and all other persons concerned for the serious inconvenience and anxiety that this has undoubtedly caused.

On March 12, 2019, our affiliate Dalian Daiwa Zhongsheng Real Estate Co., Ltd. contacted the local investigative authorities with the intention to launch criminal proceedings against the two directors and one employee suspected to have been involved in the irregularities, on the charge of misappropriation of funds entrusted to them.

1. Brief summary of irregularities

On March 12, 2019, a member of staff of the accounting department of Dalian Daiwa Zhongsheng Real Estate Co., Ltd. reported to the management of the company that a discrepancy had been found between the balance of funds in the company's bank account and the amount recorded in the

company's account ledgers. An in-house investigation was then launched, as a result of which it became clear that a portion of the company's funds had been drawn out and misappropriated. Upon further investigation, reasons were found to suspect the involvement of two of the company's directors and of one member of staff in charge of receipts and disbursements.

As of the present moment, the discrepancy between the bank account in question and the amount recorded in the company's account ledgers amounts to 1.415 billion yuan or approximately ¥23.4 billion (the rate of exchange with the Japanese currency as of March 12 was 1 yuan = ¥16.6).

2. Response by Daiwa House Industry

Subsequent to the discovery of the discrepancy, a joint investigation was commenced by Daiwa House Industry Co., Ltd. and Dalian Daiwa Zhongsheng Real Estate Co., Ltd. Additionally, on March 12, 2019, Dalian Daiwa Zhongsheng Real Estate Co., Ltd. contacted the investigative authorities of the People's Republic of China with the intention to launch criminal proceedings against the three persons suspected to have been involved in the irregularities, on the charge of misappropriation of funds entrusted to them.

Going forward, we intend to consult with our corporate lawyers regarding means by which we may resolve this issue, including a possible civil lawsuit. Moreover, both Daiwa House Industry Co., Ltd. and Dalian Daiwa Zhongsheng Real Estate Co., Ltd. will cooperate unreservedly with the investigatory authorities in an effort to fully clarify this matter.

3. Impact on the Consolidated Business Results of Daiwa House Industry

As Dalian Daiwa Zhongsheng Real Estate Co., Ltd. is an equity method affiliate of the Company, in the event that the above-described discrepancy in fact constitutes a misappropriation of corporate funds and that we are unable to recover the full amount, it is likely to be booked as an ordinary loss on equity of affiliates in the approximate amount of ¥11.7 billion.

Additionally, as the impact on the Company's consolidated business results is expected to depend on progress made in the bringing of criminal charges against the persons responsible, we intend to promptly announce amendments to our business result forecasts when the situation has been clarified sufficiently to make this possible.

4. Measures to Prevent a Recurrence

As Dalian Daiwa Zhongsheng Real Estate Co., Ltd. is an affiliate of Daiwa House Industry formed as a joint venture with Dalian Zhongsheng Group Co., Ltd., a company incorporated in the People's

Republic of China, for the execution of management operations at Dalian Daiwa Zhongsheng Real Estate Co., Ltd. we relied on employees dispatched to the affiliate by Dalian Zhongsheng Group Co., Ltd. At Daiwa House Industry, for our monitoring of the state of management at our affiliate, we relied on directors and other staff assigned from Daiwa House Industry, as well as on an accounting auditor.

However, it is surmised that our continued reliance on our joint-venture partner over many years in the execution of management operations at our joint venture affiliate has led to the occurrence of this incident, and we have therefore decided, as a matter of policy, to undertake a review of our system of internal control of affiliates.

At Daiwa House Industry, we take this matter very seriously, and in the near future will be implementing the measures detailed below to prevent a recurrence of such incidents.

(1) Establishment of an Independent Committee

In response to the incident in question, we plan to establish an independent (third-party) committee to both investigate this incident and clarify its full details, and to examine measures to prevent a recurrence. We intend to promptly disclose an outline of the committee as soon as a final decision has been made.

(2) Strengthening our Risk Management in Overseas Operations

In response to this recent occurrence of irregularities at one of our overseas equity method affiliates, we plan to take steps to reinforce our risk management throughout the Daiwa House Group, both within Japan and overseas.

At present, via our Risk Management Committee, we are taking steps to implement even more thorough crisis management and preventive measures, and to strengthen our risk management system at Group companies within Japan. For Group companies operating overseas, too, we plan to construct a system mandating the reporting, as appropriate, of matters relating to risk management to our Legal Department, which functions as our central risk management bureau, not only at normal times, but also in crisis situations.

5. Outline of Dalian Daiwa Zhongsheng Real Estate Co., Ltd.

Company name	Dalian Daiwa Zhongsheng Real Estate Co., Ltd.
Location	53-1 Xingwenyuan, Shahekou District, Dalian, Liaoning Province, PRC

Name and title of representative	Yukikazu Kataoka, Chairman (Senior Executive Officer, Daiwa House Industry Co., Ltd.)
Lines of Business	Development and sale of housing
Capital	3.3 billion yuan
Incorporated	July 12, 2005
Capital contribution ratio	Daiwa House Industry Co., Ltd. 83.65% Dalian Zhongsheng Group Co., Ltd. 16.35%
Net sales	180.01 million yuan (as of December 31, 2018)

End

Disclaimer:

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