

Message from the CFO



Our consolidated financial statements at a glance

- 1 Net sales increase mainly due to inclusion of Daiwa Kosho Lease in the scope of consolidation
- 2 Net income increase due to revenue increase and decline in SG&A ratio
- 3 Increase in cash and cash equivalents due to increases in operating and financing cash flows combined, more than offsetting an outflow from investing activities
- 4 Expansion of cash and cash equivalents due to increase in cash flows

Consolidated statements of Income		Millions of yen
Account title	2005	Yoy Change
1 Net sales	1,365,914	141,266
Operating income	67,849	8,188
Income before income taxes and minority interests	63,108	(4,789)
2 Net income	40,262	3,005

Consolidated statements of cash flows		Millions of yen
Account title	2005	Yoy Change
Income before income taxes	63,108	(4,789)
3 Net cash provided by operating activities	56,095	(13,564)
Net cash used in investing activities	(53,069)	(27,132)
Net cash provided by financing activities	5,889	12,015
4 Cash and cash equivalents, end of year	150,461	8,915

Consolidated balance sheets		Millions of yen
Account title	2005	Yoy Change
Cash and cash equivalents	150,461	8,915
Current assets	612,543	116,252
Net property, plant and equipment	441,388	97,120
Short-term bank loans	13,175	12,625
Current portion of long-term debt	1,368	1,317
Total current liabilities	385,256	105,803
Long-term debt	6,555	5,644
Total long-term liabilities	377,642	81,880
Minority interests	71,799	52,406
Retained earnings	325,893	12,678
Shareholders' equity	524,110	31,060
Total	1,358,807	271,149

I am pleased to report that, for the period under review, the Daiwa House Group registered its highest level of sales of the past decade. Net income for the term rose 8.1% year-on-year, to ¥40,262 million (US\$376 million) on a consolidated basis, while the return on equity reached 7.9%. The main factors behind these successes were increased sales by most companies in the Group and the inclusion of Daiwa Kosho Lease within the scope of consolidation, effective from the second half of the term, as a means of strengthening the integrated management of the Group as a whole. In view of our strong business performance, we decided to pay an annual dividend for the reporting period of ¥17 per share, an increase of ¥2 over the fiscal 2004 figure.

Because of the nature of the construction and real estate businesses in which the Group is mainly engaged, which are currently characterized by rising construction costs and a high dependence on bank loans, on the balance sheet of the Daiwa House Group borrowings are equivalent to 14.0% of cash and deposits. This, as well as our equity ratio (ratio of shareholders' equity as a percentage of total assets) of 38.6%, is well above the average for listed Japanese companies (ratio of borrowings to cash and deposits of 55.5%, equity ratio of 30.4% [figures as of end of March 2005]). Our debt/equity ratio (interest-bearing debt/shareholders' equity) stood at 4.0% including long-term debt, meaning that Daiwa House Group remains essentially debt-free. From now on, I will strengthen my efforts to realize a sounder financial position.

Thanks to our healthy financial position, in our current medium-term management plan we have allocated the

sum of ¥150 billion for investment in developing our real estate business, and for conducting M&As and making business alliances as appropriate, with the objective of achieving a fruitful synergy with our existing businesses.

Moreover, we are also actively investing in the development of core technologies, the strengthening of our system for the design and practical implementation of management strategies, and the raising of the Group's brand profile. In these ways, we are laying the groundwork for greater corporate dynamism in the future.

In the spirit represented by the Daiwa House Group's newly adopted symbol — the Endless Heart — I intend to devote my efforts to more fully integrating the management of the Group; to ensuring that the financial statements of Daiwa House Industry and its consolidated subsidiaries are as transparent as possible, and that they more accurately reflect the true financial position; and to designing and pushing through financial measures focused on the central role of cash flow. I pledge to work to improve the enterprise value of Daiwa House and the whole Group, and thus realize higher profit returns to their shareholders. Over the short term, I hope to achieve the sort of solid growth that will raise our return on equity to 9% or more by fiscal 2007.

Tetsuji Ogawa

Executive Vice President and CFO