



Annual Report 2005

For the year ended March 31, 2005



DAIKEN CORPORATION

Company Profile

Founded in September 1945, Daiken Corporation celebrates its 60th anniversary in 2005. In Japan, the 60th birthday is known as the “kanreki” birthday, and for Daiken as well, this 60th anniversary is an opportunity for the company to become reborn anew, reforming its corporate activities and initiating new projects for the future.

Until recently, the core focus of Daiken business has been the development and provision of materials for residential housing and construction. Daiken has continued corporate activities that cover a broad and diverse range, including the manufacturing and sales of materials for residential housing and construction as well as materials for industrial use, activities that have led Daiken to grow into one of the world’s foremost comprehensive manufacturers of building materials.

As the company works to make a transition to industrialized products for residential housing materials, Daiken has been developing its business with the goal of improving the quality of residential housing. By continuously working with a focus on “housing quality” to develop the technologies and products demanded of each new era, Daiken’s efforts to make a transition to industrialized products for housing materials, and Daiken’s business development efforts that target improvements to housing quality, have resulted in the creation of many technologies and products that could be considered de facto standards in the Japanese housing industry.

Through its highly motivated research and development, Daiken is continuously working with the latest materials, concepts and technologies. With a core of technological and material-supply capabilities for building materials, the very basis for the housing field in which Daiken specializes, Daiken shall continue to provide its customers with new generations of technologies and products.



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Financial Highlights

Consolidated

DAIKEN Corporation and Consolidated Subsidiaries
Years ended March 31, 2005, 2004 and 2003

	<i>Millions of yen and thousands of U.S. dollars</i>			
	2005	2004	2003	2005
Net sales	¥ 178,848	¥ 185,563	¥ 187,152	\$ 1,666,493
Operating income	4,576	4,303	3,394	42,639
Net income	1,520	2,633	404	14,163
Shareholders' equity	39,553	40,334	36,145	368,552
Total assets	137,199	143,225	149,820	1,278,410

	<i>Yen and U.S. dollars</i>			
	2005	2004	2003	2005
Net income per share	¥ 11.62	¥ 20.12	¥ 3.09	\$ 0.11

Note: The translations into U.S. dollars are based on \$1=107.32, the approximate exchange rate at March 31, 2005

Note: Net income per share is computed based upon the weighted average number of share of common stock outstanding during each fiscal year

Non-Consolidated

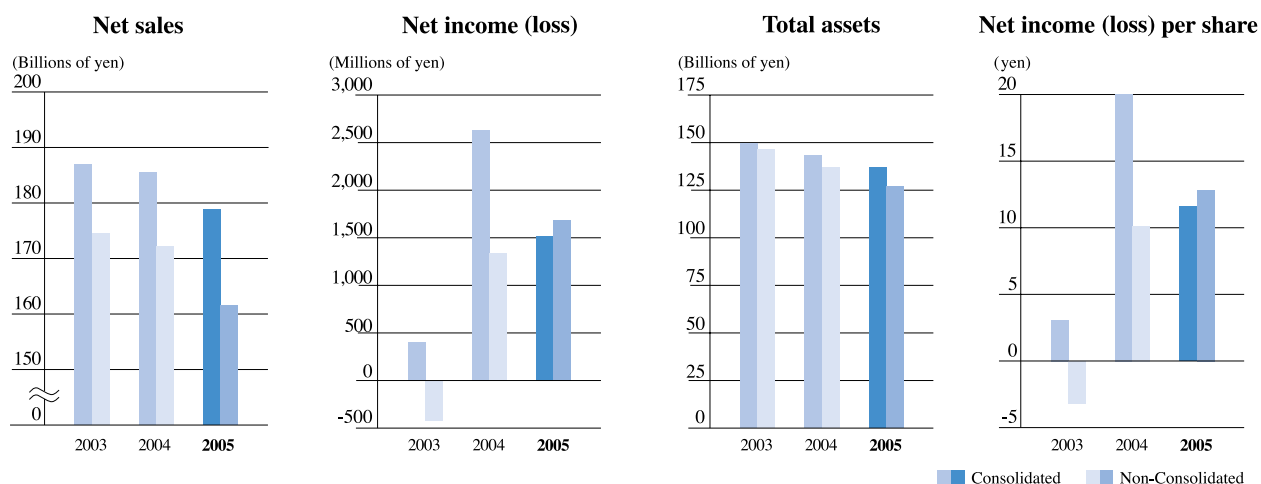
DAIKEN Corporation
Years ended March 31, 2005, 2004 and 2003

	<i>Millions of yen and thousands of U.S. dollars</i>			
	2005	2004	2003	2005
Net sales	¥ 161,866	¥ 172,432	¥ 174,654	\$ 1,508,256
Operating income	883	1,168	1,296	8,228
Net income (loss)	1,684	1,333	(428)	15,691
Shareholders' equity	49,313	49,279	46,291	459,495
Total assets	127,379	137,055	146,779	1,186,908

	<i>Yen and U.S. dollars</i>			
	2005	2004	2003	2005
Cash dividends per share	¥ 7.50	¥ 7.50	¥ 7.50	\$ 0.07
Net income (loss) per share	12.87	10.19	(3.28)	0.12

Note: The translations into U.S. dollars are based on \$1=107.32, the approximate exchange rate at March 31, 2005

Note: Net income(loss) per share is computed based upon the weighted average number of share of common stock outstanding during each fiscal year.



A Message to Our Shareholders



Representative Director, President, Chief Executive Officer, Hiroyuki Ibe

Business Development and Achievements

We are very pleased to make the following report to our shareholders and all interested parties on the consolidated business results for Daiken Corporation in fiscal 2005 (April 1, 2004 to March 31, 2005).

For the fiscal year in review, sales totaled ¥178,848 million (a year-over-year decrease of 3.6%), ordinary income was at ¥5,113 million (a year-over-year increase of 10.1%), and net income were ¥1,520 million (a year-over-year decrease of 42.3%).

Although a modest level of deflation continued in Japan through the year in review, there were signs of economic recovery. Daiken saw improvements in its corporate earnings, there was a favorable turn in the employment situation, and a recovery was seen in the level of individual consumption.

Conversely, business conditions also became increasingly severe as a result of rising costs, such as the steep increase in the cost of crude oil, and a steep increase in the cost of imported plywood that resulted from the implementation of environmental countermeasures. Business conditions for the period

allowed little room for optimism. Japan also experienced many natural disasters such as earthquakes and floods, bringing new emphasis to the need for disaster countermeasures.

Looking at transitions in the number of new residential housing construction projects initiated in fiscal 2005, there was growth in the areas of subdivided housing and rental housing, resulting in the total number of housing construction projects reaching 1,193,000, a year-over-year increase of 1.7% and the second year in a row that an increase has been seen. However, conditions were severe for the area of privately-owned houses, with market transitions occurring at a low level, in reaction to demands to purchase housing prior to decreases in tax cuts for residential housing acquisition, and the declining trend in this sector continuing unchecked.

As part of its efforts to strengthen its business structure, the Group recently exchanged its siding business with the insulation board business of Nichiha Corporation, and has expanded sales and increased its market share in the Company's strong area of insulation board business. To continue efforts begun in the previous year to strengthen its

business structure, the Group has also spun off its Inami and Nagoya plants into separate companies. In the product area, Dialite has fully become a market staple, and a great increase in sales was seen for the product as a load-bearing face material that provides both earthquake resistance and fire resistance. In the important business area of interior construction materials, the introduction of new flooring material coating technology has led to the marketing of the Neo-Tec Series and the expansion of medium- and high-quality product lineups. The Group has also made advancements in the fight against sick-house syndrome, and has begun marketing the new "Sararia" moisture-regulating material, which controls humidity within a room to a comfortable level and hinders the formation of condensation as well as the growth of mold and mildew.

Welcoming the 60th Anniversary of Daiken

In 2005, Daiken celebrates the 60th anniversary of its founding. For a business, 60 years is simply one waypoint on the long journey of its corporate history, but for a person, 60 years is an important step in life, and this birthday is known as the "kanreki" birthday in Japan. Therefore, at this important stage of transition and renewal, we feel it is vital for Daiken to carefully consider how it can reform its corporate activities and achieve new stages of development.

Until recently, the core focus of Daiken business has been the development and provision of materials for residential housing and construction. By working to make a transition to industrialized products for housing materials, Daiken promotes business development efforts that target improvements in housing quality. In other words, by continuously working to develop the products and technologies demanded by each new age, with a focus on "housing quality," Daiken has

created many de facto standards for the Japanese housing industry. Over the past 10 years, the industry as a whole has been entangled in surges of trials and tribulations, such as major upheavals in residential housing business, financing, and accounting. Through these adversities, Daiken has been working to strengthen its business structure by selecting and consolidating its business areas, and by aggressively pursuing various types of collaborations.

For its primary products and business areas, Daiken has been developing products that focus on environmental protection and health. Daiken's original Dailite products have been developed using previously untapped resources. Dailite has already achieved a solid position as a load-bearing face material that offers excellent earthquake resistance, and is expected to become a leading material for use in the construction of residential housing that is highly resistant to earthquakes. In the area of home health, Daiken's "Sararia" moisture-regulating material is receiving much attention as a new-generation product that creates a healthy air environment.

This year, with the 60th anniversary of the company, Daiken has also launched "Daiken Regensis," a new project for the future.

With the Goal of Becoming a High-profit Corporation, Daiken Initiates Medium-term Management Reforms

This year, Daiken initiated its medium-term management plan, which will be in effect for the next three years. Under this medium-term business plan, Daiken will strengthen its efforts related to basic materials, earthquake-resistance measures, and remodeling, with these efforts centered on technological capabilities and supply capabilities for the materials in which the

company specializes. In addition to creating new materials, primarily Dailite and wood fiberboards (insulation boards, MDF), as well as high-functionality products (interior building materials, fixtures, storage units, etc.) that take the lead in providing safety and comfort, Daiken is also working to expand its business in the remodeling field. Furthermore, earthquake-resistance measures for residential housing are becoming a matter of increasing importance and urgency. As such, through its efforts related to earthquake resistance, Daiken is working to create safe residential housing and to protect the environment.

Important Issues for Daiken

The outlook for the Japanese economy is growing increasingly brighter, and in turn, we are seeing some recovery in our business results and hints of some level of improvement in income and the employment environment. However, additional time may still be necessary in order to dispel the underlying trends of deflation. The number of new residential housing construction projects continues to be low, and we anticipate that price competition will become increasingly severe. Furthermore, we also anticipate that the effects of cost increases related to various types of supplies and raw materials will worsen due to the rapidly increasing costs of crude oil, plywood, etc.

So that the group can quickly respond to these types of major market transitions and demands, Daiken is continuing to increase its competitiveness in its primary business areas and to strengthen its business structure through such efforts as the expansion of its manufacturing activities in China and the expansion of its insulation board business, a business field in which the Group specializes.

In 2005, on the 60th anniversary of the founding of the company, Daiken is initiating various new

projects that will lead Daiken to become a highly profitable corporation.

Specifically, Daiken will focus on business areas related to health, the environment, earthquake resistance, and remodeling. Using the company's original basic material business areas (Dailite, insulation boards, MDF, etc.) as tools for forging ahead into new market areas, Daiken shall work to further strengthen its business and operations.

In February 2005, Daiken also purchased a Malaysian MDF manufacturing company Samling Fibre Board Sdn.Bhd. to serve as an overseas manufacturing base for the Group. Daiken shall work to expand its bases for providing environment-conscious materials and strengthen its basic materials business.

In the principle business areas of the company, such as interior doors and flooring materials, Daiken is working to strengthen its competitiveness and improve profit performance through measures that include the restructuring of its materials procurement methods.

We sincerely hope that we may count on the continued support and encouragement of our valued shareholders as we strive for even greater business achievements in the coming year.

June 2005



Representative Director, President,
Chief Executive Officer,
Hiroyuki Ibe

The background features a white line-art architectural drawing of a two-story house with a gabled roof, multiple windows, and a balcony. This drawing is overlaid on a grid of thin white lines. A thicker, light blue grid is also present, with some cells containing diagonal crosshairs. The text is centered over the house drawing.

**Housing and
Building Materials
Related Business**

Housing and Building
Materials Related Business

**Housing and Construction
Works Related Business**

**Housing and
Construction Works
Related Business**

Housing and Construction
Works Related Business

Housing and Building Materials Related Business

Sales for this business field totaled ¥151,950 million (a 3.3% year-over-year decrease), but operating income were up 6.7%, totaling ¥3,751 million.

In the housing industry, while there has been a low level of transition in the number of new housing construction projects, there has been increasingly severe sales competition, as well as an intensifying trend for customers to be more selective in choosing products, not only based on price and performance, but also from the perspectives of environmental considerations, health and safety. Health-related demands have also been increasing, including measures to combat “sick house syndrome,” which resulted in July 2004 revisions to the Building Standards Act, and compliance with the increasing number of regulations related to VOC. In response to these trends, the Group utilized the diverse range of material technologies in which the Group specializes –



“Dailite,” “Dai-Lotone,” and insulation boards – to develop and market “Sararia,” a moisture-regulating material that regulates the humidity of an interior environment to a comfortable and healthy level. By strengthening the functionality of its interior building materials, Daiken is working to further increase its market competitiveness.

Conversely, there is growing demand for the remodeling of existing housing, and with the numerous earthquakes occurring in Japan over the past year, there has been a particularly strong demand for earthquake-resistance reinforcement. In response to these needs, Daiken has utilized Dailite, a material that has long been popular as a load-bearing face material, primarily for use in new structures, as a basis for the development and marketing of “Wall General,” a product that makes it possible to increase the earthquake resistance of existing wooden housing structures. With the introduction of Wall General and projects such as the hosting of workshops on “earthquake-resistance remodeling,” Daiken has initiated efforts that focus on the earthquake-resistance remodeling market, a field with increasing needs.



In the area of residential housing materials, Daiken has installed new coating equipment, which has helped us develop the “Neo-Tec” series of products. Neo-Tec leads the industry in terms of providing a combination of appearance and functionality, and this series further increases Daiken’s competitiveness in the area of medium- and high-quality flooring materials. In the area of interior doors, one of Daiken’s primary product areas, the Company has developed a wide range of MS Series products with enhanced designs. By proposing coordinated products that meet a variety of lifestyle needs, Daiken is increasingly becoming the brand of choice by market users.

Daiken is also using production in Ningbo, China, to increase its capacity to supply solid wood products. Daiken has even developed a new application for its insulation boards, utilizing the material properties of the board to make the material available as “protective boards” for new market areas.

Through these types of new products, as well as through the development of products responding to market trends and characteristics, Daiken has been able to break ground with new clients and strengthen its sales capabilities.



Housing and Construction Works Related Business



Sales for this business field totaled ¥26,898 million (a 5.4% year-over-year decrease), with operating income up 5.0% at ¥825 million.

Despite declining prices for both residential and non-residential building construction works due to increasingly severe competition for market orders, Daiken has persevered in its pursuit of business activities that emphasize profit.



In the area of sales, Daiken collaborated with TOTO Ltd. and YKK AP Inc. in holding remodeling fairs at 11 venues throughout Japan in order to strengthen its tie-ups with remodeling centers.



TDY Alliance: From left to right: Mr. Kise, President of TOTO, Mr. Ibe, President of DAIKEN, and Mr. Yoshida, President of YKK AP



TDY Remodelling Style Fair

New Products

Neo-Tec Flooring Material

Neo-Tec is strong against dirt and scratches, and has a brilliant, clear mirror-like finish. Based on the most advanced flooring technologies, Neo-Tec achieves both beauty and strength. Waxing is never needed, making Neo-Tec extremely easy to take care of. The exceptionally smooth, clean feeling of a Neo-Tec floor is something your bare feet will be eager to experience.



“Jewellia” Neo-Tec WPC Flooring

“Sararia” Moisture-Regulating Building Material

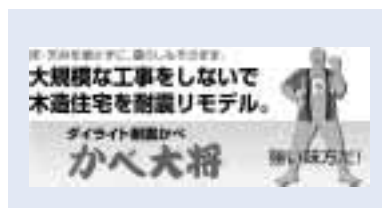
“Sararia” is a moisture-regulating building material that helps maintain the humidity level of a living environment at a healthy and comfortable level. Sararia suppresses condensation, which promotes the growth of mold and mildew, and suppresses the damp feeling that accompanies high levels of humidity. Sararia also offers advantages such as formalin-absorption, odor elimination and minus ion generation. Sararia fills your life with healthy, invigorating air.



Theme Character for Sararia Moisture-Regulating Building Material

“Kabe-Taisho” (Wall General) Dailite Earthquake-Resistant Wall Material

Daiken has developed this new wall material for use in constructing housing that provides strong earthquake resistance. Wall General makes it possible to easily add earthquake-resistance reinforcement to existing structures simply by replacing the interior walls—like when remodeling, the floors and ceilings can be left intact. Statistics indicate that



Dailite “Wall General” Earthquake-Resistant Wall Material

approximately 50% of the housing structures built in Japan prior to 1982 are not sufficiently earthquake resistant. We strongly recommend Wall General as a means of improving residential housing safety.

iNOMA

Based on an entirely new concept for storage and design, the “iNOMA” Series provides beautiful storage functionality that enhances the appearance of your living environment. The iNOMA Series has been developed with the goals of providing storage space within a living area, creating links between living areas, and allowing people to live as they



iNOMA Series “Hanging Storage”

like. These new lifestyle spaces are sure to mesmerize you with their appearance and functionality.

Financial Section

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Consolidated Balance Sheets

DAIKEN Corporation and Consolidated Subsidiaries
March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
ASSETS			
Current assets:			
Cash on hand and in banks	¥ 8,692	¥ 10,883	\$ 80,991
Notes and accounts receivable—trade	29,476	31,582	274,655
Marketable securities	—	100	—
Inventories	24,395	26,266	227,311
Accumulated construction cost in progress	3,523	3,328	32,827
Deferred tax assets	1,230	878	11,461
Deferred hedge loss	68	—	634
Other	5,167	4,369	48,146
Allowance for doubtful accounts	(196)	(129)	(1,826)
Total current assets	72,355	77,277	674,199
Fixed assets:			
Tangible fixed assets			
Buildings and structures	13,327	13,893	124,180
Machinery, equipment and vehicles	11,235	11,766	104,687
Land	14,345	15,599	133,666
Construction in progress	131	228	1,220
Other	809	1,583	7,538
Total tangible fixed assets	39,847	43,069	371,291
Intangible fixed assets			
Software	460	535	4,286
Consolidation adjustments	1,626	194	15,151
Other	151	154	1,407
Total intangible assets	2,237	883	20,844
Investments and other assets			
Investments in securities	12,131	13,783	113,036
Long-term loans	288	1,079	2,683
Pension cost paid	4,179	2,496	38,940
Deferred tax assets	3,430	1,748	31,960
Other	4,019	4,081	37,449
Allowance for doubtful accounts	(1,287)	(1,224)	(11,992)
Total investments and other assets	22,760	21,963	212,076
Total fixed assets	64,844	65,915	604,211
Deferred assets:			
Bond issue expenses	—	33	—
Total assets	¥ 137,199	¥ 143,225	\$ 1,278,410

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Notes and accounts payable — trade	¥ 23,674	¥ 29,386	\$ 220,593
Short-term loans	9,874	11,938	92,005
Current portion of long-term debt	5,180	6,238	48,267
Accounts payable — other	27,415	25,846	255,451
Income taxes payable	1,087	209	10,128
Consumption tax payable	503	462	4,687
Deferred tax liabilities	124	13	1,155
Accrued bonuses	2,135	1,857	19,894
Deferred hedge income	—	53	—
Other	4,026	3,212	37,514
Total current liabilities	74,018	79,214	689,694
Long-term liabilities:			
Corporate bonds	5,000	5,000	46,590
Long-term debt	10,575	11,595	98,537
Deferred tax liabilities	1,780	1,142	16,586
Reserve for employees' retirement benefits	3,451	3,643	32,156
Consolidation adjustments	124	127	1,155
Other	905	911	8,433
Total long-term liabilities	21,835	22,418	203,457
Total liabilities	95,853	101,632	893,151
Minority interests	1,793	1,259	16,707
Shareholders' equity:			
Common stock	13,150	13,150	122,531
Additional paid-in capital	11,851	11,851	110,427
Retained earnings	13,572	13,633	126,463
Unrealized gain on available-for-sale securities	1,474	2,134	13,734
Foreign currency translation adjustment	(474)	(417)	(4,417)
Treasury stock, at cost	(20)	(17)	(186)
Total shareholders' equity	39,553	40,334	368,552
Total liabilities, minority interests and shareholders' equity	¥ 137,199	¥ 143,225	\$ 1,278,410

Consolidated Statements of Income

DAIKEN Corporation and Consolidated Subsidiaries
Years ended March 31, 2005 and 2004

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2005	2004	2005
Net sales	¥ 178,848	¥ 185,563	\$ 1,666,493
Cost of sales	136,914	143,755	1,275,755
Gross profit	41,934	41,808	390,738
Selling, general and administrative expenses	37,358	37,505	348,099
Operating income	4,576	4,303	42,639
Other income:			
Interest and dividend income	285	325	2,656
Other	1,163	1,390	10,837
Other expenses:			
Interest expenses	308	515	2,870
Other	603	861	5,619
Ordinary income	5,113	4,642	47,643
Special gains	2,825	419	26,323
Special losses	5,915	945	55,116
Income before income taxes and minority interests	2,023	4,116	18,850
Income taxes:			
Current	1,098	262	10,231
Deferred	(763)	1,252	(7,110)
Minority interests in subsidiaries	168	(31)	1,566
Net income	¥ 1,520	¥ 2,633	\$ 14,163

Consolidated Statements of Retained Earnings

DAIKEN Corporation and Consolidated Subsidiaries
Years ended March 31, 2005 and 2004

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2005	2004	2005
Capital surplus at beginning of term	¥ 11,851	¥ 11,851	\$ 110,427
Increase:	-	-	-
Decrease:	-	-	-
Capital surplus at end of term	11,851	11,851	110,427
Retained earnings at beginning of term	13,633	11,883	127,031
Increase:			
Net income	1,520	2,633	14,163
Due to increase of consolidated subsidiaries	27	-	252
Due to increase of affiliated companies under equity method	-	407	-
Decrease:			
Dividends	981	981	9,141
Bonuses to directors and auditors	1	1	9
Due to increase of consolidated subsidiaries	619	308	5,768
Due to decrease of consolidated subsidiaries	4	-	37
Due to increase of affiliated companies under equity method	3	-	28
Retained earnings at end of term	¥ 13,572	¥ 13,633	\$ 126,463

Consolidated Statements of Cash Flows

DAIKEN Corporation and Consolidated Subsidiaries
Years ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Cash flows from operating activities:			
Net income before income taxes and minority interests	¥ 2,023	¥ 4,116	\$ 18,850
Depreciation and amortization	3,439	3,869	32,045
Impairment loss	1,491	—	13,893
Amortization of bond issue expenses	33	33	307
Amortization of consolidation adjustments	(8)	5	(75)
Equity in gain of affiliated companies	(82)	(45)	(764)
Increase (decrease) in accrued severance indemnities	(1,899)	157	(17,695)
Increase (decrease) in accrued employees' bonuses	246	343	2,292
Increase (decrease) in allowance for doubtful accounts	127	69	1,183
Interest and dividend income	(285)	(324)	(2,656)
Interest expenses	308	515	2,870
Loss on foreign currency transaction	5	282	47
Loss on devaluation of investments in securities	37	4	345
Gain on sales of investments in securities	(1,762)	(376)	(16,418)
Loss on disposal of property, plant and equipment	316	218	2,944
Loss on sales of property, plant and equipment	332	—	3,094
Gain on sales of property, plant and equipment	(608)	—	(5,665)
Decrease (increase) in notes and accounts receivable	3,621	4,216	33,740
Decrease (increase) in inventories	2,903	1,457	27,050
Increase (decrease) in notes and accounts payable	(6,085)	(635)	(56,699)
Increase (decrease) in accrued consumption taxes	40	199	373
Bonuses to directors	(1)	(1)	(9)
Other	(1,244)	590	(11,591)
Sub total	2,947	14,692	27,461
Interest and dividend income received	285	324	2,656
Interest expenses paid	(308)	(515)	(2,870)
Income taxes paid	(225)	(189)	(2,097)
Net cash provided by (used in) operating activities	2,699	14,312	25,150
Cash flows from investing activities			
Payments for deposit of time deposits	—	(17)	—
Proceeds from refund of time deposits	22	—	205
Payments for purchase of short-term investments	—	(100)	—
Proceeds from sales of short-term investments	100	250	932
Payments for purchase of investments in securities	(3,646)	(2,710)	(33,973)
Proceeds from sales of investments in securities	4,257	3,507	39,666
Payments for purchase of property, plant and equipment	(2,751)	(3,779)	(25,634)
Proceeds from sales of property, plant and equipment	5,376	89	50,093
Other	(10)	529	(93)
Net cash provided by (used in) investing activities	3,348	(2,231)	31,196
Cash flows from financing activities			
Increase (decrease) in short-term bank loans	(2,916)	667	(27,171)
Borrowing of long-term loans	791	6,000	7,370
Repayment of long-term loans	(5,285)	(17,177)	(49,245)
Decrease (increase) of treasury stock	(3)	(13)	(28)
Cash dividends paid	(981)	(981)	(9,141)
Cash dividends paid to minority	(20)	(4)	(186)
Other	—	(58)	—
Net cash provided by (used in) financing activities	(8,414)	(11,566)	(78,401)
Effect of exchange rate changes on cash and cash equivalents	(12)	(60)	(112)
Net increase (decrease) in cash and cash equivalents	(2,379)	455	(22,167)
Cash and cash equivalents at beginning of year	10,802	10,303	100,652
Increase in cash and cash equivalents resulting from new inclusion of subsidiaries in consolidation	298	44	2,777
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	(72)	—	(671)
Cash and cash equivalents at end of year	¥ 8,649	¥ 10,802	\$ 80,591

Notes to Consolidated Financial Statements

DAIKEN Corporation and Consolidated Subsidiaries
March 31, 2005

Summary of significant accounting policies

1. Inventories

Inventories of the Company and its consolidated subsidiaries as stated principally at cost determined by the moving average method. For the accumulated construction cost in progress, the cost basis is adopted by the separate method.

2. Securities

Marketable securities classified as other securities are carried at fair value, based on market prices on the settlement date of consolidated account, with any changes in unrealized holding gain or loss directly charged to shareholders' equity. Cost of securities sold is calculated principally by the moving average method.

Non-marketable securities classified as other securities are carried at cost determined principally by the moving average method.

3. Method of depreciation of important assets to be amortized

1) Tangible fixed assets

Depreciation is primarily computed on the declining-balance method, except for buildings (excluding attached fittings and structures) acquired on or after April 1, 1998, depreciation of which is computed on the straight-line method.

2) Intangible fixed assets

At DAIKEN Corporation and its domestic consolidated subsidiaries, goodwill is amortized in full upon its acquisition, and the depreciation of other intangible fixed assets is computed on the straight-line method. Expenditures relating to computer software for internal use are amortized by the straight-line method over their estimated useful life in the company, a 5-year period. Its foreign consolidated subsidiaries adopt the method of depreciation on the straight-line method in conformity with accounting principles generally accepted in the countries of their domiciles.

4. Deferred assets

In accordance with the Commercial Code of Japan, the bond issuance cost will be amortized in even amount over three years.

5. Reserves and allowances

1) Allowance for doubtful accounts

In order to prepare irrecoverable accounts such as accounts and loans receivable, provisions for doubtful accounts are generally made on the basis of historical default rates. Claims whose possibility of collection is deemed doubtful are provided for in the expected uncollectible amounts, giving due consideration to the specific circumstances.

2) Accrued bonuses

In order to prepare primarily for payment of bonuses to employees, provisions are based on the expected amounts of payment.

3) Reserve for employees' retirement benefits

Provisions for employees' retirement benefits are made in the amount deemed necessary at the term-end based on estimated retirement obligations and plan assets.

6. Leases

Finance leases, other than those which are deemed to transfer the ownership of the leased asset to the lessee, are accounted for by a method similar to that applicable to ordinary operating leases.

7. Consumption tax

Consumption taxes and local consumption taxes withheld and/or paid are not included in the accompanying statements of operations.

Notes to Consolidated Balance Sheet

1. Accumulated depreciation of tangible fixed assets

¥ 45,893 million

2. Lease assets

In addition to the tangible fixed assets calculated on the balance sheets, some significant assets are being used on lease, including a portion of the plywood and siding manufacturing facilities, automobiles for business use, computers and their peripherals.

3. Assets pledged as collateral

Buildings and structures	¥ 2,178 million
Land	¥ 448 million
Other current assets	¥ 944 million
Other fixed assets	¥ 2,792 million
Total	¥ 6,362 million

4. Guarantee obligations

For purchasers of houses from our consolidated subsidiaries
(Bridge loans for housing loans) ¥ 109 million

For purchasers of Land from the Company	¥ 13 million
Total	¥ 122 million

5. Contingent liabilities

Amount of discounts on bills	¥ 38 million
Liability for redemption following liquidation of credit	¥ 2,860 million

Notes to Consolidated Statements of Income

1. Net income per share

¥ 11.62

2. Research and development costs

Research and development costs included in cost of general and administrative expenses, and cost of production for the year ended March 31, 2005 totaled ¥1,630 million.

3. Impairment loss

Our Group made a judgment on impairment losses by grouping business assets, primarily for each plant, on the basis of managerial accounting classification, and by grouping nonperforming assets individually. As a result, due to the significant decrease in the market value of forest in the following assets group, the book value was decreased to the collectible limit, and the decreased amount, ¥1,491 million, was reckoned up as impairment loss on fixed assets, i.e. an extraordinary loss in the Statements of Income.

The breakdown is as follows:

Structures	¥ 13 million
Land	¥ 963 million
Forest and plantation	¥ 515 million

Location	Category	Sort
Naruto Forest (Naruto City, Tokushima Pref.)	Forest	Structures, land, forest and plantation

The abovementioned collectible limit amount was measured by the net sold amount, and the net sold amount was calculated on the basis of estimation by a third party.

Non-Consolidated Balance Sheets

DAIKEN Corporation
March 31, 2005 and 2004

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2005	2004	2005
ASSETS			
Current assets:			
Cash on hand and in banks	¥ 7,106	¥ 9,169	\$ 66,213
Notes receivable	5,416	6,639	50,466
Accounts receivable—trade	24,231	24,120	225,783
Marketable securities	—	100	—
Finished products and merchandise	17,696	20,689	164,890
Forest	26	26	242
Work in process	—	604	—
Accumulated construction cost in progress	43	116	401
Raw materials and supplies	—	568	—
Advance payments	162	352	1,509
Deposit	5	20	47
Prepaid expenses	75	90	699
Deferred tax assets	637	669	5,935
Short-term loans	5,532	4,920	51,547
Other	3,621	2,363	33,740
Allowance for doubtful accounts	(188)	(132)	(1,752)
Total current assets	64,362	70,313	599,720
Fixed assets:			
Tangible fixed assets			
Building and structures	5,924	7,440	55,199
Machinery and equipment	3,973	7,260	37,020
Vehicles	11	15	103
Tool, furniture and fixtures	446	788	4,156
Land	10,878	12,805	101,360
Forest and afforestation	110	625	1,025
Construction in progress	119	68	1,109
Total tangible fixed assets	21,461	29,001	199,972
Intangible fixed assets			
Software and other	533	608	4,967
Total intangible assets	533	608	4,967
Investments and other assets			
Investments in securities	11,552	13,110	107,641
Investments in subsidiaries	6,636	4,283	61,834
Capital contributions to subsidiaries	812	812	7,566
Long-term loans	13,851	16,281	129,063
Long-term guarantee deposits	1,612	1,642	15,020
Claims in assessment and collection for bankruptcy	310	353	2,889
Pension cost paid	4,118	2,477	38,371
Deferred tax assets	2,922	2,825	27,227
Other	1,433	1,499	13,352
Allowance for doubtful accounts	(2,223)	(6,182)	(20,714)
Total investments and other assets	41,023	37,100	382,249
Total fixed assets	63,017	66,709	587,188
Deferred assets:			
Bond issue expenses	—	33	—
Total assets	¥ 127,379	¥ 137,055	\$ 1,186,908

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Note payable	¥ 4,404	¥ 10,266	\$ 41,036
Accounts payable—trade	24,055	17,357	224,143
Short-term loans	12,065	15,321	112,421
Accounts payable—other	17,568	21,616	163,697
Income taxes payable	805	76	7,501
Advance received	77	10	718
Deposits received	1,545	1,741	14,396
Accrued bonuses	1,205	1,247	11,228
Other	573	646	5,339
Total current liabilities	62,297	68,280	580,479
Long-term liabilities:			
Corporate bonds	5,000	5,000	46,589
Long-term debt	7,444	11,049	69,363
Reserve for employees' retirement benefits	2,711	2,832	25,261
Other	614	615	5,721
Total long-term liabilities	15,769	19,496	146,934
Total liabilities	78,066	87,776	727,413
Shareholders' equity:			
Common stock	13,150	13,150	122,531
Capital reserve	11,851	11,851	110,427
Retained earnings	22,862	22,160	213,026
Unrealized gain on available-for-sale securities	1,470	2,135	13,697
Treasury stock, at cost	(20)	(17)	(186)
Total shareholders' equity	49,313	49,279	459,495
Total liabilities and shareholders' equity	¥ 127,379	¥ 137,055	\$ 1,186,908

Non-Consolidated Statements of Income

DAIKEN Corporation
Years ended March 31, 2005 and 2004

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2005	2004	2005
Net sales	¥ 161,866	¥ 172,432	\$ 1,508,256
Cost of sales	127,279	136,863	1,185,977
Gross profit	34,587	35,569	322,279
Selling, general and administrative expenses	33,704	34,401	314,051
Operating income	883	1,168	8,228
Other income:			
Interest and dividend income	857	989	7,985
Other	2,520	1,952	23,481
Other expenses:			
Interest expenses	306	437	2,851
Other	1,555	1,321	14,489
Ordinary income	2,399	2,351	22,354
Special gains	7,211	1,332	67,191
Special losses	6,857	1,084	63,893
Income before income taxes	2,753	2,599	25,652
Income taxes:			
Current	679	75	6,327
Deferred	390	1,191	3,634
Net income	1,684	1,333	15,691
Unappropriated retained earnings brought forward	2,208	1,799	20,574
Interim cash dividends	491	491	4,575
Unappropriated retained earnings at end of year	¥ 3,401	¥ 2,641	\$ 31,690

Non-Consolidated Appropriation of Retained Earnings

DAIKEN Corporation

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2005	2004	2005
Unappropriated retained earnings at end of term	¥ 3,401	¥ 2,641	\$ 31,690
Deposition of special depreciation reserve	2	5	19
Deposition of reserve for losses from foreign investments	55	53	512
Total	3,458	2,699	32,221
Cash dividends (¥3.75 per share)	490	491	4,565
Unappropriated retained earnings carried forward	¥ 2,968	¥ 2,208	\$ 27,656

Board of Directors

As of June 29, 2005

Director, Chairman of the Board:

Joji Muguruma

*Representative Director, President,
Chief Executive Officer:*

Hiroyuki Ibe

*Representative Senior Executive
Managing Directors,
Deputy Chief Executive Officers:*

Satoshi Yoshimi

Katsumi Fujii

Ryoji Sawaki

Director, Deputy Chief Executive Officer:

Masaki Shinotsuka

Directors, Senior Executive Officers:

Yutaka Nishibayashi

Yoshiji Takekura

Atsushi Uratsuka

Directors, Deputy Senior Executive Officers:

Masahiro Okuno

Toshio Hayashi

Standing Statutory Auditors:

Shigeru Noguchi

Masanobu Suzuka

Outside Auditors:

Junichi Taniyama

Shuichi Morozumi

Deputy Senior Executive Officers:

Mitsuoki Nakashima

Naohiko Misaka

Takeo Kato

Shiro Ota

Executive Officers:

Yasuhiro Matsue

Teruhisa Morishita

Toshinobu Yamamoto

Yukio Namikawa

Toshihiko Kimura

Kazumasa Kanesaka

Akinori Ito

Kenji Yamanaka

Corporate Data

As of March 31, 2005

Established:

September 26, 1945

Principal Business Activities:

- **Housing and Construction Building Materials:**
Manufacture and sale of fiberboard (wood, mineral); VSF (Dailite); MDF (Medium Density Fiberboard); special plywood; inorganic board; housing equipment and facilities; other construction materials
- **Industrial Materials:**
Manufacture, purchase, and sale of special industrial-use fiberboards and plywood
- **Engineering:**
Manufacture, sale and installations of materials for apartment buildings, multistory buildings, and educational facilities; designing and consultation services; engineering guidance
- **Lumber and Wood Products:**
Supply and sale of pulpwood, logs, and sawn lumber

Registered Head Office:

1-1, Inami, Nanto City, Toyama 932-0298

Operational Headquarters:

6-20, Dojima 1-chome, Kita-ku, Osaka 530-8210

Tokyo Office:

7-1, Nihonbashi Honcho 2-chome, Chuo-ku, Tokyo 103-0023

Regional Sales Offices:

Sapporo, Sendai, Utsunomiya, Nagano, Tokyo, Yokohama, Nagoya, Kanazawa, Osaka, Hiroshima, Takamatsu, Fukuoka, and 43 other locations

Daiken Group

Consolidated Subsidiaries

Daiken Homes Corporation
Inami Daiken Products Corporation
Chubu Daiken Products Corporation
Daiken Engineering Corporation
Umeda Kenzai Corporation
Toyama Daiken Corporation
West Japan Daiken Products Corporation
Daiken Logistics Corporation
Dai-wood Corporation
Mie Daiken Corporation
Tokai Daiken Corporation
Daifit Co., Ltd.
Dai-tac Corporation
Akita Daiken Corporation
Dai-lumber Co., Ltd.
Koukou Sangyo Corporation
Hokuriku Daiken Corporation
Daiken Industries (Ningbo) Corporation (China)
East Japan Daiken Products Corporation
Sanki. Co
Tonami Processing Co., Ltd.
Sanin Daiken Corporation
Toyama Juki Co., Ltd.
Samling Fibre Board Sdn. Bhd. (Malaysia)
Daiken Sarawak Sdn. Bhd. (Malaysia)
Setouchi Kakoh Co., Ltd.

Affiliates Accounted for by the Equity Method

Ecotechno Co., Ltd.
Okayama Rinkoh Co., Ltd.

Shareholders Information

The number of shareholders at the end of the term under review is 6,680, a decrease of 897 from the previous term-end.

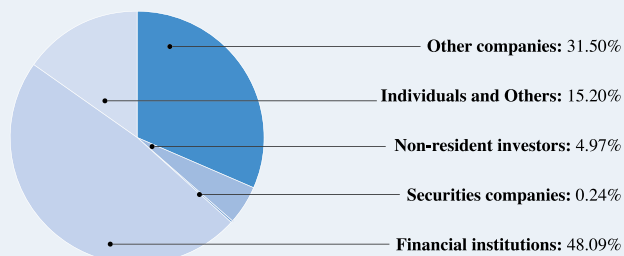
Authorized shares for issuance:	398,218,000 shares
Shares issued and outstanding:	130,875,219 shares
Paid-in capital:	¥13,150,039,080

The top and bottom prices on Tokyo Stock Exchange during the term under review were ¥545 (June) and ¥396 (November), respectively.

Major Shareholders (top 10)

Itochu Corp.	20,696,000 shares
The Master Trust Bank of Japan, Ltd.	6,620,000 shares
Itochu Kenzai Corp.	5,480,000 shares
Japan Trustee Services Bank, Ltd.	5,006,000 shares
Sumitomo Mitsui Banking Corp.	4,934,903 shares
Mitsui Marine & Fire Insurance Co., Ltd.	4,880,863 shares
Sumitomo Life Insurance Co.	4,657,000 shares
The Sumitomo Trust & Banking Co., Ltd.	4,440,000 shares
Nippon Life Insurance Co.	3,835,000 shares
Mizuho Corporate Bank, Ltd.	3,500,000 shares

Stock Distribution (as of March 31, 2005)



Account settlement date:

March 31

Register closing date for dividend payments:

Term-end dividend March 31
Interim dividend September 30

Ordinary General Meeting of Shareholders:

June

Record Date:

March 31, or by advance notice, whenever necessary

Transfer agent:

The Sumitomo Trust & Banking Co., Ltd.
5-33, Kitahama 4-chome, Chuo-ku, Osaka

Transfer handling office:

The Sumitomo Trust & Banking Co., Ltd
5-33, Kitahama 4-chome, Chuo-ku, Osaka
Security Agency Division

Mailing address:

The Sumitomo Trust & Banking Co., Ltd.
1-10, Nikko-cho, Fuchu, Tokyo 183-8701
Security Agency Division

Toll-free call:

0120-175-417 (for address change
application forms)
0120-176-417 (for other inquiries)

URL:

[http://www.sumitomotrust.co.jp/STA/
retail/service/daiko/index.html](http://www.sumitomotrust.co.jp/STA/retail/service/daiko/index.html)

Agency offices:

The Sumitomo Trust & Banking Co., Ltd.
(All domestic branches)

Newspaper for public notices:

The Nihon Keizai Shimbun
(Balance sheets and statements of income
under Article 16, Item 3 of Law for
Exception to the Commercial Code are
disclosed through the Internet at [http://
www.daiken.jp/](http://www.daiken.jp/))

Stock exchange listings:

1st section of Osaka Securities Exchange
1st section of Tokyo Stock Exchange

Also visit us at:

<http://www.daiken.jp/>



DAIKEN CORPORATION

Registered Head Office:

1-1, Inami, Nanto City, Toyama 932-0298, Japan
Phone: +81-763-82-5850

Operational Headquarter:

22F, Dojima Avanza
6-20, Dojima 1-chome Kita-ku, Osaka 530-8210, Japan
Phone: +81-6-6452-6321