



# Annual Report 2006

For the year ended March 31, 2006



**DAIKEN CORPORATION**

# Company Profile

Founded in September 1945, Daiken Corporation celebrates its 60th anniversary in 2005. This 60th anniversary is an opportunity for the company to become reborn anew, reforming its corporate activities and initiating new projects for the future.

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.

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, 2006, 2005 and 2004

	<i>Millions of yen and thousands of U.S. dollars</i>			
	2006	2005	2004	2006
Net sales .....	¥ <b>166,273</b>	¥ 178,848	¥ 185,563	\$ <b>1,415,330</b>
Operating income .....	<b>4,394</b>	4,576	4,303	<b>37,402</b>
Net income .....	<b>2,386</b>	1,520	2,633	<b>20,310</b>
Shareholders' equity .....	<b>44,244</b>	39,553	40,334	<b>376,609</b>
Total assets .....	<b>140,197</b>	137,199	143,225	<b>1,193,369</b>

	<i>Yen and U.S. dollars</i>			
	2006	2005	2004	2006
Net income per share .....	¥ <b>18.24</b>	¥ 11.62	¥ 20.12	\$ <b>0.16</b>

Note: The translations into U.S. dollars are based on \$1=117.48, the approximate exchange rate at March 31, 2006

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

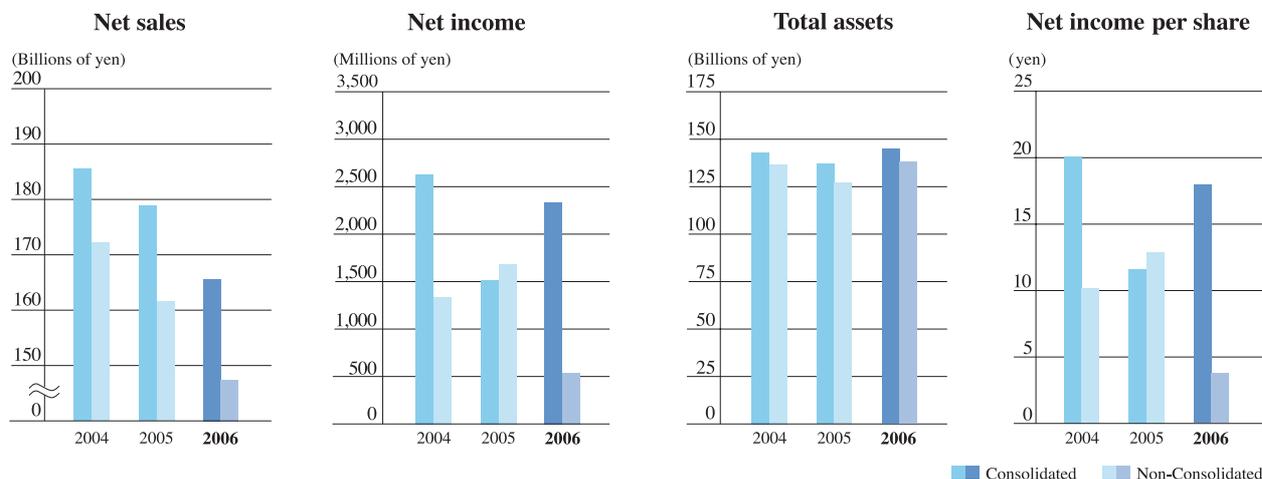
DAIKEN Corporation  
Years ended March 31, 2006, 2005 and 2004

	<i>Millions of yen and thousands of U.S. dollars</i>			
	2006	2005	2004	2006
Net sales .....	¥ <b>144,710</b>	¥ 161,866	¥ 172,432	\$ <b>1,231,784</b>
Operating income .....	<b>513</b>	883	1,168	<b>4,367</b>
Net income .....	<b>547</b>	1,684	1,333	<b>4,656</b>
Shareholders' equity .....	<b>51,857</b>	49,313	49,279	<b>441,411</b>
Total assets .....	<b>128,852</b>	127,379	137,055	<b>1,096,799</b>

	<i>Yen and U.S. dollars</i>			
	2006	2005	2004	2006
Cash dividends per share .....	¥ <b>7.50</b>	¥ 7.50	¥ 7.50	\$ <b>0.06</b>
Net income per share .....	<b>4.18</b>	12.87	10.19	<b>0.04</b>

Note: The translations into U.S. dollars are based on \$1=117.48, the approximate exchange rate at March 31, 2006

Note: Net income 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 Transitions and Results

We are both pleased and honored to be able to present to our shareholders and all related persons the Daiken Corporation consolidated business results for fiscal 2006 (April 1, 2005 to March 31, 2006).

For the corresponding term, our net sales totaled ¥166,273 million (93.0% compared with the previous year), ordinary income totaled ¥4,903 million (95.9% compared with the previous year), and net income totaled ¥2,386 million (157.0% compared with the previous year) (on a consolidated basis).

Although the Japanese economy showed moderate signs of recovery overall, the business environment remains severe due to steep increases in the cost of crude oil and petrochemical products, as well as sharp increases in the cost of imported plywood resulting from efforts to protect south-sea timber resources.

The total number of new residential housing construction projects that got underway in fiscal 2006 was

1,249,000 (a year-to-year increase of 4.7%), the third year in a row that an increase was seen and the first time in five years that the number of new projects exceeded 1.2 million. However, many of these projects were apartments, and the number of single-dwelling housing projects, the type of project that correlates to our company's business results, actually decreased for the second year in a row. As such, our company must face increasingly strong price competition.

Based on our mid-term business plan initiated in fiscal 2005, the Daiken Group is working to further strengthen its business structure, focusing on a core of basic materials that incorporate original Daiken technologies. We are also putting considerable effort into cultivating new markets that do not rely solely on the commencement of new residential housing projects, and into the development of new environment-friendly products.

In the area of products, operations at Daiken Miri Sdn. Bhd. in Malaysia, which was purchased in February 2005 as an MDF production base, are now on track

and we are working to increase the level of supply from the company. We have also established "Eco-plywood" technology for producing plywood from tree plantation lumber rather than using south-sea timber, in preparation for anticipated future difficulties in procuring south-sea wood materials.

Daiken has also begun marketing a highly efficient floor heating system. This energy-saving product has been successfully developed using Dailite technologies and can greatly reduce energy costs. Also, in preparation for future increases in the demand for earthquake-resistant renovations, Daiken has begun an earthquake-resistant campaign based on our "Kabe-Taisho" Dailite earthquake-resistant wall material in an effort to make this material an established market product.

As part of its efforts to strengthen its corporate structure, Daiken has also been working in business exchange activities with Nichiha Corporation in the area of insulation boards. Sales of this material have greatly increased, with the tatami boards and curing boards, products for new applications. For Daiken's new, original "tatami-omote" straw matting, for which there is an ongoing, steady increase in demand, Daiken is augmenting its production lines to enhance its production system in preparation for increased sales of medium and high quality tatami-omote materials.

The Daiken Sales Division sponsored the DNA (Daiken New Amenity & Daiken New Action) Fair in commemoration of the 60th anniversary of the founding of the company in 2005. The goal of the fair was to further foster relationships with existing customers and to cultivate relationships with new customers, thereby expanding the sales routes for Daiken products.

## Business Operation That Emphasizes Environment Considerations and Regulation Compliance

The Daiken Group takes “Customer-centric business based on a harmonious balance of human-kind, living spaces and the environment” as its management concept. Based on this concept, we are working to create goods and products that give utmost priority to the environment. Insulation boards, which our company has been producing ever since it was first founded, Dailite, a unique new material developed by Daiken, and MDF products that effectively use wood materials, are all environment-friendly basic materials. By making wide application of these basic materials in building materials, home furnishings and equipment, and industrial applications, we aim to develop products that utilize the unique technologies and capabilities of our Group. Daiken’s work with these basic materials also involves efforts in recycling and the protection of global resources. With the depletion of south-sea timber resources, we are working to resolve upcoming issues by effectively utilizing plantation lumber.

As for residential living environments, we are emphasizing health, safety and comfort, developing interior building materials and home furnishings and equipment based on the concept of creating even greater living comfort. Placing particular emphasis on the environment, Daiken began issuing environmental reports in 2003, which provide information on the preceding year’s activities. These reports include information about environment-related activities and social activities, such as corporate concepts related to product quality in the Daiken Group, the status of recycling efforts, the status of global warming countermeasures, the status of sick house syndrome

countermeasures, and regulation compliance systems. The reports discuss the various activities of the Group, and future reports will place even greater emphasis on the social activities of the Group.

The Daiken Group also positions “compliance-centric operation” as one of its most important operational issues. Our company officers and all of our employees are expected to act in accordance with our “Daiken Performance Standards” that include regulations related to compliance, to observe laws and ordinance as well as to respect the spirit of the laws and ordinance, to conduct business activities with a social conscience and good sense, to work to maintain communication with our shareholders as well as with society in general, and to actively disclose business information. With a foundation of business operation that emphasizes compliance, the Daiken Group is working on the concepts of “the environment”, “safety and reliability” and “health and comfort” as it provides society with basic materials, products and services.

### Upcoming Issues

With economic recovery in Japan getting into full swing, we are anticipating increases in housing investments and remodeling in Japan as the baby boom generation approaches retirement. In the area of remodeling demand, Japan has adopted national policy to promote earthquake-resistant renovations and reconstruction for conversion to earthquake resistant structures, and it is anticipated that local municipalities will also be putting such efforts into full swing. However, there is also much concern about the increasing price of crude oil and the growing difficulty in procuring south-sea timber materials, and furthermore, we are anticipating growing

competition in the construction material industry that emphasizes environmental considerations.

In response to these types of market changes, the Daiken Group is organizing teams of earthquake-proofing renovation specialist based on the earthquake-proofing renovation policies of municipalities throughout the country, with the goals of increasing demand and realizing greater business results. In regard to the development of environment-conscious products, Daiken is working to strengthen its stance in this area through product development and new application development that focus on Daiken original basic materials such as Dailite, insulation board, and MDF. As for the growing severity of procurement difficulties and price increases for south-sea timber, Daiken is working to expand the use of its “Eco-plywood”, which effectively utilizes plantation lumber from managed, replanted forests. In regard to overseas markets, Daiken is promoting all aspects of operation in these markets, from the development of products for local sales to the pioneering of new sales routes. Daiken is also working to efficiently utilize production bases in China, where demand is growing particularly strong.

We would like to thank all of our shareholders for taking time to look through this information, and hope that we can continue to enjoy your ongoing encouragement and support of our business activities.

June 2006



Hiroyuki Ibe  
Representative Director, President  
Chief Executive Officer



# Housing and Building Materials Related Business



# Housing and Construction Works Related Business



# Housing and Building Materials Related Business

Net sales for this segment during the period totaled ¥140,907 million (92.7% compared with the previous year). As a result of increased costs and lower selling prices, operating income totaled ¥3,630 million (96.8% compared with the previous year).

In the residential housing industry, marketing competition grew even more severe as a result of decreases in the number of new housing construction projects. Steep increases in the cost of raw materials and secondary materials have also forced price increases in the industry, creating a harsh market environment. For our Dailite load bearing face materials, increased costs have led us to revise our pricing, creating a greater gap between the cost of this material and softwood plywood. As a result, sales of this product have decreased, and for the first time, we saw a decline in sales compared with results for the previous year. However, our efforts to strengthen promotional and proposal activities targeting

building contractor's offices have helped us to establish new customers and increase our business performance. Likewise, our efforts to expand sales of insulation boards have led to increased market share as well. We have also seen an increase in orders for curing boards, a product designed for new applications that takes advantage of special material properties, and a stronger MDF manufacturing capacity at Daiken Miri Sdn. Bhd. has led to increased sales.

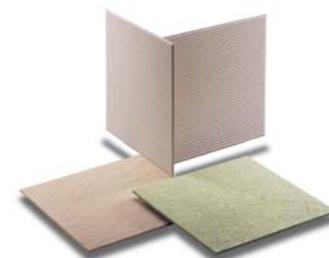
As for our humidity regulating building materials that work to maintain room humidity at a comfortable level, concerns related to sick house syndrome and health in general are increasing, and we are seeing a steady increase in the sales volume of these materials for use as interior building materials that contribute to a healthier living environment. These materials are also at the core of our expanded development of Dailite and insulation board materials.



Formaldehyde-absorbing Curing Boards



Sararia "Art Select T" Wall Material



Sararia "Art Select P" Wall Material



Earthquake Resistant Modifications Campaign



Exhibition of Kabe-Taisho, a winner in a competition sponsored by the Metropolis of Tokyo



Interior door, "Living Door RIII"

In the area of home furnishings and equipment, we are realizing a steady increase in the sales of interior doors, one of our primary products in this area, thanks to enhanced design variations. Also, as mentioned earlier, we have expanded our lineup of medium and high quality products for floor heating systems in order to increase the competitiveness of our Neo-tec series. Electric companies in Japan have been promoting the conversion of homes to all-electric operation, and we have been collaborating in these efforts to promote our floor heating systems. These efforts have resulted in increased sales of systems for use in newly constructed homes, and increased sales in the remodeling market.

In the remodeling market, we have been working in partnership with TOTO Ltd. and YKK AP Inc. to use showrooms to promote remodeling ideas. Through these partnerships,

Daiken has been able to establish new sales point routes for its building materials. Daiken also conducted a nationwide "Earthquake-Resistant Campaign" targeting building contractor's offices, designers, and local municipalities. This PR campaign promoted earthquake-resistant renovation ideas that utilize Kabe-Taisho earthquake-resistant material. This campaign resulted in Kabe-Taisho being selected as a "low cost, reliable earthquake-resistant renovation method" in a competition sponsored by the Metropolis of Tokyo. We anticipate seeing a greater increase in orders for Kabe-Taisho as a recommended product for earthquake-resistant renovation efforts that local municipalities will be promoting throughout Japan.



# Housing and Construction Works Related Business

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Net sales for this segment during the period totaled ¥25,366 million (94.3% compared with the previous year) and operating income totaled ¥592 million (71.8% compared with the previous year).

In the area of building construction, an increase in orders for apartment interior construction has resulted in increased sales. In the area of residential housing construction, however, a boom in apartment popularity has led to a decrease in the number of new single-dwelling housing construction projects, resulting in a decline in sales.



## The structure must be strong, the living environment pleasant and comfortable.

This is the concept behind Daiken's efforts to provide safe, reliable housing.

In order to realize both structural strength that is resistant to disasters, and, an interior living environment that is pleasant and comfortable, Daiken offers a rich variety of living environment ideas based on the company's extensive experience in this field and on the utilization of basic materials created using original Daiken technologies.

For example, one of our business themes at Daiken is to "Build strong, reliable housing that is not fazed by disasters." With Dailite, a load bearing face material that we are promoting for use with the load bearing face material construction method, the surface of the material absorbs and disperses horizontal force, providing excellent strength with respect to shaking from earthquakes, etc. Dailite is also finished with an inorganic material that is flame resistant and well-suited for fire prevention and fire-resistant applications, creating an even safer and more reliable structure.

As such, Dailite provide strong protection against both earthquakes and fires — it can be used in load bearing face material construction that is resistant to eave deformation even in the event of an earthquake, and, it is a basic material ideally suited for structures that are highly resistant to disasters.

Another theme at Daiken is to "Make the living spaces at the foundation of daily life more pleasant and more comfortable." In addition to our interior building materials and home furnishings and equipment that help promote fresh, healthy air in the living environment, Daiken also offers products designed for outstanding reliability in the event of earthquakes and secondary disasters, and interior materials that create living environments pleasing to all five of the senses.

Daiken shall continue to make full use of these materials and products to provide living environment and construction ideas that are rich in variety.

### Daiken Structural Reinforcing Materials:

- Load Bearing Face Materials: Dailite MS, Dailite MK
- Earthquake-Resistant Renovation Materials: Kabe-Taisho, etc.



Dailite MS Load Bearing Face Materials



Kabe-Taisho Material for Earthquake Resistant Modifications

### Daiken Materials Designed for Living Environment Comfort:

- Living Room Doors: R III Series
- Floor Heating Systems: Atataka, Harubiyori
- Acoustic Products: Oto-kabe, Oto-yuka, Living Room Theaters
- Humidity Regulating Building Materials: Art Select, etc.
- Storage Units: Cloak Storage Units, iNOMA
- Flooring Material: Neo-Tec Flooring
- Tatami Materials: Tatami Boad, Tatami Mat Surface



Atataka Floor Heating System

## Financial Section

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# Consolidated Balance Sheets

DAIKEN Corporation and Consolidated Subsidiaries  
March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash on hand and in banks .....	¥ 14,870	¥ 8,692	\$ 126,575
Notes and accounts receivable—trade .....	26,176	29,476	222,812
Inventories .....	24,744	24,395	210,623
Accumulated construction cost in progress .....	3,120	3,523	26,558
Deferred tax assets .....	967	1,230	8,231
Deferred hedge loss .....	—	68	—
Other .....	2,006	5,167	17,075
Allowance for doubtful accounts .....	(175)	(196)	(1,490)
Total current assets .....	71,708	72,355	610,385
<b>Fixed assets:</b>			
Tangible fixed assets			
Buildings and structures .....	12,964	13,327	110,351
Machinery, equipment and vehicles .....	11,639	11,235	99,072
Land .....	13,996	14,345	119,135
Construction in progress .....	681	131	5,797
Other .....	973	809	8,282
Total tangible fixed assets .....	40,253	39,847	342,637
Intangible fixed assets			
Software .....	416	460	3,541
Consolidation adjustments .....	1,538	1,626	13,092
Other .....	161	151	1,370
Total intangible assets .....	2,115	2,237	18,003
Investments and other assets			
Investments in securities .....	16,887	12,131	143,744
Long-term loans .....	288	288	2,451
Pension cost paid .....	4,329	4,179	36,849
Deferred tax assets .....	1,949	3,430	16,590
Other .....	3,915	4,019	33,325
Allowance for doubtful accounts .....	(1,247)	(1,287)	(10,615)
Total investments and other assets .....	26,121	22,760	222,344
Total fixed assets .....	68,489	64,844	582,984
Total assets .....	¥ 140,197	¥ 137,199	\$ 1,193,369

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
<b>LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities:</b>			
Notes and accounts payable — trade .....	¥ 21,427	¥ 23,674	\$ 182,388
Short-term borrowings .....	10,045	9,874	85,504
Current portion of long-term debt .....	5,277	5,180	44,918
Accounts payable — other .....	29,502	27,415	251,124
Income taxes payable .....	1,973	1,087	16,794
Consumption tax payable .....	262	503	2,230
Deferred tax liabilities .....	—	124	—
Accrued bonuses .....	1,756	2,135	14,947
Allowance for restructuring costs and losses .....	200	—	1,702
Deferred hedge income .....	29	—	247
Other .....	3,485	4,026	29,665
Total current liabilities .....	73,956	74,018	629,520
<b>Long-term liabilities:</b>			
Corporate bonds .....	5,000	5,000	42,560
Long-term debt .....	8,030	10,575	68,352
Deferred tax liabilities .....	1,330	1,780	11,321
Allowance for product warranty .....	228	—	1,941
Reserve for employees' retirement benefits .....	3,579	3,451	30,465
Allowance for retirement benefits for directors and statutory auditors ..	668	—	5,686
Consolidation adjustments .....	116	124	987
Other .....	902	905	7,678
Total long-term liabilities .....	19,853	21,835	168,990
Total liabilities .....	93,809	95,853	798,510
Minority interests .....	2,144	1,793	18,250
<b>Shareholders' equity:</b>			
Common stock .....	13,150	13,150	111,934
Additional paid-in capital .....	11,851	11,851	100,877
Retained earnings .....	14,977	13,572	127,486
Unrealized gain on available-for-sale securities .....	4,459	1,474	37,955
Foreign currency translation adjustment .....	(169)	(474)	(1,439)
Treasury stock, at cost .....	(24)	(20)	(204)
Total shareholders' equity .....	44,244	39,553	376,609
Total liabilities, minority interests and shareholders' equity .....	¥ 140,197	¥ 137,199	\$ 1,193,369

## Consolidated Statements of Income

DAIKEN Corporation and Consolidated Subsidiaries  
Years ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Net sales .....	¥ 166,273	¥ 178,848	\$ 1,415,330
Cost of sales .....	125,805	136,914	1,070,863
Gross profit .....	40,468	41,934	344,467
Selling, general and administrative expenses .....	36,074	37,358	307,065
Operating income .....	4,394	4,576	37,402
Other income:			
Interest and dividend income .....	221	285	1,881
Other .....	1,174	1,163	9,993
Other expenses:			
Interest expenses .....	466	308	3,967
Other .....	420	603	3,575
Ordinary income .....	4,903	5,113	41,735
Special gains .....	1,398	2,825	11,900
Special losses .....	2,028	5,915	17,263
Income before income taxes and minority interests .....	4,273	2,023	36,372
Income taxes .....	1,671	335	14,224
Minority interests in subsidiaries .....	216	168	1,839
Net income .....	¥ 2,386	¥ 1,520	\$ 20,310

## Consolidated Statements of Retained Earnings

DAIKEN Corporation and Consolidated Subsidiaries  
Years ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Capital surplus at beginning of term .....	¥ 11,851	¥ 11,851	\$ 100,877
Increase: .....	-	-	-
Decrease: .....	-	-	-
Capital surplus at end of term .....	11,851	11,851	100,877
Retained earnings at beginning of term .....	13,572	13,633	115,526
Increase:			
Net income .....	2,386	1,520	20,310
Due to increase of consolidated subsidiaries .....	-	27	-
Decrease:			
Dividends .....	981	981	8,350
Bonuses to directors and auditors .....	-	1	-
Due to increase of consolidated subsidiaries .....	-	619	-
Due to decrease of consolidated subsidiaries .....	-	4	-
Due to increase of affiliated companies under equity method .....	-	3	-
Retained earnings at end of term .....	¥ 14,977	¥ 13,572	\$ 127,486

# Consolidated Statements of Cash Flows

DAIKEN Corporation and Consolidated Subsidiaries  
Years ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Cash flows from operating activities			
Net income before income taxes and minority interests .....	¥ 4,273	¥ 2,023	\$ 36,372
Depreciation and amortization .....	3,100	3,439	26,387
Impairment loss .....	–	1,491	–
Loss on disposal of fixed assets .....	179	648	1,524
Gain on sales of fixed assets .....	(33)	(608)	(281)
Loss on devaluation of investments in securities .....	–	37	–
Gain on sales of investments in securities .....	(1,262)	(1,762)	(10,742)
Amortization of consolidation adjustments .....	77	(8)	655
Increase (decrease) in allowance for doubtful accounts .....	(43)	127	(366)
Increase (decrease) in accrued employees' bonuses .....	(374)	246	(3,184)
Increase (decrease) in allowance for restructuring costs and losses .....	200	–	1,702
Increase (decrease) in allowance for product warranty .....	228	–	1,941
Increase (decrease) in reserve for employees' retirement benefits .....	(16)	(1,899)	(136)
Increase (decrease) in allowance for retirement benefits for directors and statutory auditors .....	668	–	5,686
Interest and dividend income .....	(221)	(285)	(1,881)
Interest expenses .....	466	308	3,967
(Gain) loss on foreign currency transaction .....	(80)	5	(681)
Equity in gain of affiliated companies .....	(59)	(82)	(502)
(Increase) decrease in notes and accounts receivable .....	3,017	3,621	25,681
(Increase) decrease in inventories .....	216	2,903	1,839
(Increase) decrease in consumption tax refunds receivable .....	(179)	–	(1,524)
Increase (decrease) in notes and accounts payable .....	782	(6,085)	6,656
Increase (decrease) in consumption tax payable .....	(247)	40	(2,102)
Bonuses to directors .....	–	(1)	–
Other .....	1,657	(1,211)	14,105
Sub total .....	12,349	2,947	105,116
Interest and dividend income received .....	221	285	1,881
Interest expenses paid .....	(469)	(308)	(3,992)
Income taxes paid .....	(1,614)	(225)	(13,739)
Net cash provided by (used in) operating activities .....	10,487	2,699	89,266
Cash flows from investing activities			
Proceeds from refund of time deposits .....	3	22	26
Proceeds from sales of short-term investments .....	–	100	–
Payments for purchase of investments in securities .....	(1,044)	(3,646)	(8,887)
Proceeds from sales of investments in securities .....	2,721	4,257	23,161
Payments for purchase of property, plant and equipment .....	(2,120)	(2,751)	(18,046)
Proceeds from sales of property, plant and equipment .....	75	5,376	638
Other .....	177	(10)	1,507
Net cash provided by (used in) investing activities .....	(188)	3,348	(1,600)
Cash flows from financing activities			
Increase (decrease) in short-term borrowings .....	(79)	(2,916)	(672)
Borrowing of long-term debt .....	5,082	791	43,258
Repayment of long-term debt .....	(8,100)	(5,285)	(68,948)
Decrease (increase) of treasury stock .....	(4)	(3)	(34)
Cash dividends paid .....	(981)	(981)	(8,350)
Cash dividends paid to minority shareholders .....	(44)	(20)	(375)
Net cash provided by (used in) financing activities .....	(4,126)	(8,414)	(35,121)
Effect of exchange rate changes on cash and cash equivalents .....	55	(12)	468
Net increase (decrease) in cash and cash equivalents .....	6,228	(2,379)	53,013
Cash and cash equivalents at beginning of the fiscal year .....	8,649	10,802	73,621
Increase in cash and cash equivalents resulting from new inclusion of subsidiaries in consolidation .....	–	298	–
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation .....	(47)	(72)	(400)
Cash and cash equivalents at end of the fiscal year .....	¥ 14,830	¥ 8,649	\$ 126,234

# Notes Related to Consolidated Financial Statements

DAIKEN Corporation and Consolidated Subsidiaries  
March 31, 2006

## 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 calculating the depreciation of important assets to be amortized

#### 1) Tangible fixed assets

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

#### 2) Intangible fixed assets

At Daiken Corporation and its domestic consolidated subsidiaries, the depreciation of intangible fixed assets is computed by the straight-line method. The foreign consolidated subsidiaries use the straight-line method to calculate depreciation in conformity with the accounting principles generally accepted in their corresponding countries. Expenditures related 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.

### 4. 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 the payment of bonuses to employees, provisions are based on the expected amounts of payment.

#### 3) Allowance for restructuring costs and losses

In order to prepare for losses on business restructuring, provisions are made based on the estimated costs and losses at the term end.

#### 4) Allowance for product warranty

In order to prepare primarily for the payment of expenses expected to occur after the delivery of products, provisions for estimated repairing costs during the term of warranty are made.

#### 5) 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) Allowance for retirement benefits for directors and statutory auditors

In order to prepare for payment of retirement benefits for directors and statutory auditors, Daiken and a portion of its domestic consolidated subsidiaries provide a reserve of the amount deemed necessary at the term end, based on the Company's internal regulations.

### 5. Leases

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

### 6. Consumption tax

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

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## Notes Related to Consolidated Balance Sheet

### 1. Accumulated depreciation of tangible fixed assets

¥ 48,858 million

### 2. Assets pledged as collateral

Buildings and structures	¥ 2,039 million
Land	¥ 126 million
Other current assets	¥ 684 million
Other fixed assets	¥ 3,103 million
Total	¥ 5,952 million

Loans corresponding to the above	
Short-term borrowings	¥ 500 million
Long-term loans to be repaid within one year	¥ 170 million
Long-term loans	¥ 386 million

### 3. Guarantee obligations

For purchasers of houses from our consolidated subsidiaries (Bridge loans for housing loans)	¥ 63 million
For purchasers of land from the Company	¥ 12 million
Total	¥ 75 million

### 4. Contingent liabilities

Liability for redemption following liquidation of credit	¥ 3,176 million
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### 5. Overdraft contracts and loan commitment contracts

In order to efficiently raise working capital, the Company concluded overdraft contracts and loan commitment contracts with four of our financial institutions.

The unexecuted loan balances related to such overdraft contracts and loan commitment contracts at the term end are as follows:

Maximum overdraft amount and the total amount of loan commitment	¥ 13,200 million
Executed loan amounts	—
Total	¥ 13,200 million

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## Notes Related to Consolidated Statements of Income

### 1. Primary selling expenses, and general and administrative expenses

Transportation and storage expenses	¥ 10,795 million
Transfer to allowance for doubtful accounts	¥ 53 million
Salaries and allowances	¥ 7,627 million
Transfer to accrued bonuses	¥ 1,099 million
Expenses for retirement benefits	¥ 970 million
Transfer to allowance for retirement benefits for directors and statutory auditors	¥ 112 million

### 2. Research and development costs

Research and development costs are included in the cost of general and administrative expenses and the cost of production for the year ended March 31, 2006, totaled ¥1,712 million.

# Non-Consolidated Balance Sheets

DAIKEN Corporation  
March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash on hand and in banks .....	¥ 14,373	¥ 7,106	\$ 122,344
Notes receivable .....	4,155	5,416	35,368
Accounts receivable—trade .....	22,472	24,231	191,284
Finished products and merchandise .....	17,718	17,722	150,817
Accumulated construction cost in progress .....	49	43	417
Advance payments .....	146	162	1,243
Prepaid expenses .....	95	75	809
Deferred tax assets .....	607	637	5,167
Short-term loans .....	4,257	5,532	36,236
Consumption tax refunds receivable .....	230	—	1,958
Deferred hedge loss .....	—	68	—
Other .....	334	3,558	2,843
Allowance for doubtful accounts .....	(199)	(188)	(1,694)
Total current assets .....	64,237	64,362	546,791
<b>Fixed assets:</b>			
Tangible fixed assets			
Buildings .....	5,135	5,341	43,710
Structures .....	582	583	4,954
Machinery and equipment .....	4,142	3,973	35,257
Vehicles .....	16	11	136
Tool, furniture and fixtures .....	502	446	4,273
Land .....	10,953	10,878	93,233
Forest and afforestation .....	110	110	936
Construction in progress .....	590	119	5,022
Total tangible fixed assets .....	22,030	21,461	187,521
Intangible fixed assets			
Software .....	409	454	3,481
Other .....	77	79	655
Total intangible fixed assets .....	486	533	4,137
Investments and other assets			
Investments in securities .....	22,319	18,188	189,981
Capital contributions .....	831	820	7,074
Long-term loans .....	11,957	13,851	101,779
Claims in assessment and collection for bankruptcy .....	307	310	2,613
Long-term prepaid expenses .....	14	15	119
Deferred tax assets .....	1,886	2,922	16,054
Long-term guarantee deposits .....	1,580	1,612	13,449
Pension cost paid .....	4,218	4,118	35,904
Other .....	1,347	1,410	11,466
Allowance for doubtful accounts .....	(2,360)	(2,223)	(20,089)
Total investments and other assets .....	42,099	41,023	358,350
Total fixed assets .....	64,615	63,017	550,009
Total assets .....	¥ 128,852	¥ 127,379	\$ 1,096,799

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities:</b>			
Note payable .....	¥ 2,950	¥ 4,404	\$ 25,111
Accounts payable—trade .....	22,554	24,055	191,982
Short-term borrowings .....	11,432	12,065	97,310
Accounts payable—other .....	19,282	17,568	164,130
Income taxes payable .....	1,593	805	13,560
Consumption tax payable .....	—	246	—
Advance received .....	20	77	170
Deposits received .....	2,460	1,545	20,940
Accrued bonuses .....	972	1,205	8,274
Deferred hedge income .....	29	—	247
Other .....	231	327	1,966
Total current liabilities .....	61,523	62,297	523,689
<b>Long-term liabilities:</b>			
Corporate bonds .....	5,000	5,000	42,560
Long-term debt .....	6,172	7,444	52,537
Allowance for product warranty .....	228	—	1,941
Reserve for employees' retirement benefits .....	2,862	2,711	24,362
Allowance for retirement benefits for directors and statutory auditors .....	603	—	5,133
Other .....	607	614	5,167
Total long-term liabilities .....	15,472	15,769	131,699
Total liabilities .....	76,995	78,066	655,388
<b>Shareholders' equity:</b>			
Common stock .....	13,150	13,150	111,934
Capital reserve .....	11,851	11,851	100,877
Retained earnings .....	22,422	22,862	190,858
Unrealized gain on available-for-sale securities .....	4,458	1,470	37,947
Treasury stock, at cost .....	(24)	(20)	(204)
Total shareholders' equity .....	51,857	49,313	441,411
Total liabilities and shareholders' equity .....	¥ 128,852	¥ 127,379	\$ 1,096,799

## Non-Consolidated Statements of Income

DAIKEN Corporation  
Years ended March 31, 2006 and 2005

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2006	2005	2006
Net sales .....	¥ 144,710	¥ 161,866	\$ 1,231,784
Cost of sales .....	111,958	127,279	952,996
Gross profit .....	32,752	34,587	278,788
Selling, general and administrative expenses .....	32,239	33,704	274,421
Operating income .....	513	883	4,367
Other income:			
Interest and dividend income .....	888	857	7,559
Other .....	2,602	2,520	22,148
Other expenses:			
Interest expenses .....	236	306	2,009
Other .....	1,295	1,555	11,023
Ordinary income .....	2,472	2,399	21,042
Special gains .....	1,685	7,211	14,343
Special losses .....	2,587	6,857	22,021
Income before income taxes .....	1,570	2,753	13,364
Income taxes .....	1,023	1,069	8,708
Net income .....	547	1,684	4,656
Unappropriated retained earnings brought forward .....	2,968	2,208	25,264
Interim cash dividends .....	491	491	4,179
Loss at incorporated company due to merger .....	6	–	51
Unappropriated retained earnings at end of term .....	¥ 3,018	¥ 3,401	\$ 25,689

## Non-Consolidated Appropriation of Retained Earnings

DAIKEN Corporation

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2006	2005	2006
Unappropriated retained earnings at end of term .....	¥ 3,018	¥ 3,401	\$ 25,689
Deposition of retirement reserve .....	410	–	3,490
Deposition of special depreciation reserve .....	–	2	–
Deposition of reserve for losses from foreign investments .....	–	55	–
Total .....	3,428	3,458	29,179
Cash dividends (¥3.75 per share) .....	490	490	4,171
Unappropriated retained earnings carried forward .....	¥ 2,938	¥ 2,968	\$ 25,009

# Board of Directors

As of June 29, 2006

*Representative Director, President,  
Chief Executive Officer:*

**Hiroyuki Ibe**

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

**Satoshi Yoshimi**

**Katsumi Fujii**

**Ryoji Sawaki**

*Directors, Senior Executive Officers:*

**Yutaka Nishibayashi**

**Yoshiji Takekura**

**Atsushi Uratsuka**

*Directors, Deputy Senior Executive Officers:*

**Masahiro Okuno**

**Toshio Hayashi**

**Takeo Katoh**

**Kazumasa Kanetsuka**

*Standing Statutory Auditors:*

**Masanobu Suzuka**

**Naohiko Misaka**

*Outside Auditors:*

**Shuichi Morozumi**

**Toshiaki Shibata**

*Deputy Senior Executive Officers:*

**Mitsuoki Nakashima**

**Shiro Ota**

*Executive Officers:*

**Teruhisa Morishita**

**Yukio Namikawa**

**Toshihiko Kimura**

**Akinori Ito**

**Kenji Yamanaka**

**Hiroyuki Hasegawa**

**Shinichi Iwamoto**

**Kouji Tsuda**

# Corporate Data

As of March 31, 2006

## Established:

September 26, 1945

## Principal Business Activities:

### Housing and Building Materials Related Business:

- Housing and Building Materials:  
Manufacture, purchase, and sale of fiberboard (wood, mineral); VSF (Dailite); MDF (Medium Density Fiberboard); special plywood; inorganic board; housing equipment and facilities; other building materials
- Industrial Materials:  
Manufacture, purchase, and sale of special industrial-use plywood and fiberboards
- Lumber and Wood Products:  
Purchase, and sale of logs and sawn lumber

### Housing and Construction Works Related Business:

- Engineering:  
Interior finishing for apartment housings, multi story buildings, and educational facilities  
Manufacture, purchase, and sale of construction materials  
Consultation services for designing and construction works  
Engineering guidance
- Housing Business:  
Sale of ready-built houses using Daiken products

## 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, Morioka, Sendai, Utsunomiya, Niigata, Nagano, Tokyo, Tama, Saitama, Chiba, Yokohama, Nagoya, Kanazawa, Kyoto, Osaka, Hyogo, Okayama, Hiroshima, Takamatsu, Fukuoka, and 35 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  
Daifit Co., Ltd.  
Dai-tac 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.  
Toyama Juki Co., Ltd.  
Daiken Miri 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 6,978, increase of 298 from the previous term-end.

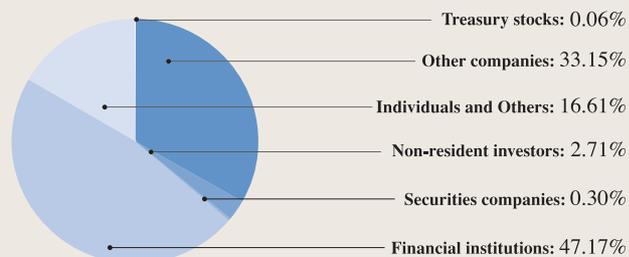
Authorized shares for issuance:	398,218,000 shares
Shares issued and outstanding:	130,875,219 shares
Paid-in capital:	¥13,150,039,080

The top and bottom prices on Tokyo Stock Exchange during the term under review were ¥507 (April) and ¥414 (October), respectively.

## Major Shareholders (top 10)

Itochu Corp.	20,696,000 shares
The Master Trust Bank of Japan, Ltd.	6,179,000 shares
Itochu Kenzai Corp.	5,480,000 shares
Sumitomo Mitsui Banking Corp.	4,934,000 shares
Mitsui Marine & Fire Insurance Co., Ltd.	4,880,000 shares
Sumitomo Life Insurance Co.	4,657,000 shares
Japan Trustee Services Bank, Ltd.	4,578,000 shares
The Sumitomo Trust & Banking Co., Ltd.	4,440,000 shares
Mizuho Corporate Bank, Ltd.	3,500,000 shares
Nippon Life Insurance Co.	3,409,000 shares

## Stock Distribution (as of March 31, 2006)



## 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)

## Method of Notification:

Information will be posted on the Daiken  
website.  
<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