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Director

# **REPORT**

## **of the 95th Fiscal year**

(From April 1, 2010  
to March 31, 2011)

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## BUSINESS REPORT

From April 1, 2010  
to March 31, 2011

### 1. Business Overview of the Group

#### (1) Business Condition in the current fiscal year

##### i) Business Development and Results of the Group

During the fiscal year ended March 31, 2011, though developed-market economies have slowed down, steady growth in emerging countries such as China and India has led the global economy.

In the Japanese market, not only foreign demand, but also domestic demand had increased steadily due to the economic stimulus policies such as eco-car subsidy and eco-point subsidy in the first half of the year.

However, in the second half of the year, the termination of some parts of those economic stimulus policies has led to a slowdown in domestic demand and the strong yen has led to a decrease in exports making the Japanese market sluggish. Under these circumstances along with the Japan earthquake on March 11, 2011, which occurred near the northeast coast of Honshu, the Japanese market chaotic situation.

In our industry, though the demand from the auto industry has fallen due to the termination of eco-car subsidy in the second half of the year, the increase in investment demand from emerging markets has led to a steady market.

Our group promoted a three year-business plan commencing the fiscal year ended March 31, 2009 to stabilize ordinary income and to grow business.

As a result, consolidated sales increased to ¥242,767 million, an increase of 39.3% compared with the prior year. As for profitability, ordinary income increased to ¥2,202 million, an increase of 231.1% compared with the prior year. Net income increased to ¥1,411 million by 315.5% compared with the prior year, partially due to sales of some assets.

The consolidated sales by business segment were as follows:

##### **Steel:**

The steel segment mainly deals with special steel, hoops, nonferrous metal, high alloy, forgings and castings, electronic parts and other related products. Consolidated sales increased to ¥149,600 million, an increase of 38.6% compared with the prior year due to the strong auto industry, which is the major customer of our industry, and increase in steel prices due to increases in the cost of raw materials.

##### **Raw Materials:**

The raw materials segment mainly deals with iron scrap, ferroalloy, petroleum products, high-pressure gas, and other related products. Consolidated sales increased to ¥81,595 million, an increase of 59.9% compared with the prior year due to increasing import and export volume of raw materials, recovering demand, and improving the market conditions in iron scrap, nickel and other products.

##### **Machinery:**

The machinery segment mainly deals with industrial furnaces, cold-pressing and rolling machines, metal processing machinery, secondhand machinery and other related products. Consolidated sales decreased to ¥11,035 million, a decrease of 25.0% compared with the prior year due to reduced investments.

##### **Office Building Lease:**

The office building lease segment contains lease activity of "Daido Shinagawa Building." Consolidated sales decreased to ¥536 million, a decrease of 1.1% compared with the prior year.

(Translation)

### Consolidated sales by segment of the Group

Segment	The 94th fiscal year (April 2009-March 2010)		The 95th fiscal year (April 2010-March 2011)	
	Amount	Ratio	Amount	Ratio
	Millions of Yen	%	Millions of Yen	%
Steel	¥ 107,938	61.9	¥ 149,600	61.6
Raw Materials	51,020	29.2	81,595	33.6
Machinery	14,713	8.4	11,035	4.5
Office Building Lease	542	0.3	536	0.2
Total	¥ 174,214	100.0	¥ 242,767	100.0

#### ii) Situation of Financing

There are no significant matters to be reported.

#### iii) Situation of Capital Investment

There are no significant matters to be reported.

### (2) Problems to be Solved

Regarding future economic prospects, though the extent of the damage from Japan earthquake on March 11, 2011 and nuclear disaster is uncertain, it is expected that production of cars and electronic products will largely decrease due to a decreased supply of automobile parts and electronic parts.

Due to there being no plan for recovery, shrinking domestic demand, the strong yen, geopolitic risks of emerging countries such as the Middle East, and price increases in natural resources such as oil, the environment surrounding the Group is unpredictable.

Under these conditions, the Group is planning to establish more a “stable and profitable base,” in other words, a strong business base and improved business performance which will enable us to distribute constant dividends and generate stable ordinary income.

Specifically, we will make efforts to maintain and improve business performance by means of enhancement of risk control and compliance, development of operating efficiency, effective use of assets, active efforts for further cost control, and continuous promotion of our business plan, “Next One development”, which aims at exploring our new business. In the coming years, the Group will aggressively advance in emerging countries, such as India, by establishing new overseas bases and aims for a stable and improved profitable base by enhancing distribution channels, increasing business areas and overseas transactions and proposing a new idea as a trading company.

Additionally, the Group donated to the victims of Japan's earthquake on March 11, 2011.

We appreciate shareholders' continuing understanding and support.

### (3) Business Results and Assets

#### i) Business Results and Assets of the Group

Items	2007	2008	2009	2010
	(April 07- March 08)	(April 08- March 09)	(April 09- March 10)	(April 10- March 11)
Sales (¥ million)	¥ 329,909	¥ 269,622	¥ 174,214	¥ 242,767
Ordinary income (¥ million)	4,364	2,698	665	2,202
Net income (¥ million)	2,664	1,687	339	1,411
Net income per share (¥)	104.51	66.21	13.42	56.31
Total assets (¥ million)	111,749	75,592	78,593	92,026
Total equity (¥ million)	12,688	12,341	13,312	14,212

(Translation)

**ii) Business Results and Assets of the Company**

Items	92nd fiscal Year	93rd fiscal Year	94th fiscal Year	95th fiscal Year
	(April 07- March 08)	(April 08- March 09)	(April 09- March 10)	(April 10- March 11)
Sales (¥ million)	¥ 328,373	¥ 267,478	¥ 172,627	¥ 240,847
Ordinary income (¥ million)	4,340	2,575	522	2,052
Net income (¥ million)	2,655	1,615	261	1,372
Net income per share (¥)	104.15	63.36	10.34	54.77
Total assets (¥ million)	111,343	74,489	77,836	91,526
Total equity (¥ million)	12,493	12,066	12,919	13,936

**(4) Parent company and subsidiaries**

**i) Relation with the parent company**

The parent company of the Company is Daido Steel Co., Ltd., which owns 15,940 thousand shares of the Company (62.5% of total shares issued).

The Company sells products of the parent company to the market and sells materials and other related materials to the parent company.

Company's Name	Ownership	Principal Business
Daido Steel Co., Ltd.	62.5%	Production and sales of special steel

**ii) Relation with subsidiaries**

Company's Name	Ownership	Principal Business
Daido Kogyo (Thailand) Co., Ltd.	49.0%	Sales of special steel
Daido Europe GmbH.	100.0%	Sales of special steel
Hamano Co., Ltd.	100.0%	Sales of special steel
Daido Kogyo (Shenzhen) Co.	100.0%	Sales of special steel
Daido Kogyo India Private Ltd.	99.0%	Sales of special steel

Daido Kogyo (Shanghai) Co., Ltd. was excluded from subsidiaries during the fiscal year ended March 31, 2011 due to a decrease in the Company's voting rights as a result of an allocation of new shares to third parties.

Daido Kogyo India Private Ltd. was established as subsidiary during the fiscal year ended March 31, 2011.

**(5) Main Business**

As a trading arm of the Daido Group centering on Daido Steel Co., Ltd., the Group carries out purchases/sales and imports/exports of products for and from Daido Steel Co., Ltd. and its Group companies, as well as other products.

Segment	Main Products
Steel	Sales of steel (including special steel, stainless steel and hoops), nonferrous and new materials (including nonferrous metals, high alloy, titanium and rare metals), magnetic materials, powder, forgings and molded items (including castings and forgings) and electronic parts
Raw Materials	Sales of steelmaking materials (including scrap, ferroalloy and rare metals) and fuel and other material (including petroleum products, high pressure gas and other steelmaking materials)
Machinery	Sales of steelmaking machinery (including industrial furnaces and second processing machinery), rolling machinery, machine tools and secondhand machinery
Office Building Lease	Lease of office building

(Translation)

## (6) Significant Offices of the Group

### i) The Company

Headquarters: 1,1,1 Higashisakura, Higashi-ku, Nagoya  
Branches: Tokyo (Minato-ku, Tokyo), Nagoya (Higashi-ku, Nagoya)  
and Osaka (Chuo-ku, Osaka)  
Sales Offices: Hamamatsu (Hamamatsu, Shizuoka) and Fukuoka (Chuo-ku, Fukuoka)  
Overseas branches and others: Singapore, Seoul, Taipei, Hong Kong, Philippine and Vietnam

### ii) Subsidiaries

Daido Kogyo (Thailand) Co., Ltd. : Bangkok, Thailand  
Daido Europe GmbH. : Frankfurt, Germany  
Hamano Co., Ltd. : Minato-ku, Tokyo  
Daido Kogyo (Shenzhen) Co., Ltd. : Shenzhen, China  
Daido Kogyo India Private Ltd. : Gurgaon, Haryana, India

## (7) Employees

### i) Number of Employees of the Group

Number of Employees	Decrease compared with the Previous Year	Average Age	Average Years in Employment
Persons 348	Persons (8)	Years old 39.9	Years 13.8

### ii) Number of Employees of the Company

Number of Employees	Decrease compared with the Previous Year	Average Age	Average Years in Employment
Persons 330	Persons (5)	Years old 39.8	Years 13.6

## (8) Main Sources of Borrowing

Name of lender	Balance
	¥ million
Mizuho Corporate Bank, Ltd.	3,540
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	3,200

## (9) Policy on Decision of Dividends from Retained Earnings

We distribute dividends depending on business performance, considering future forecasts of business and further enforcement of financial strength.

We consider the standard value of dividend payout ratio is 20 to 35%.

With regard to acquisitions and disposals of treasury stock, we determine the amount based on discussions regarding better capital policy for the Group's growth and development.

## (10) Other Significant Matters concerning Situation of the Group

There are no other significant matters concerning the situation of the Group.

## 2. Shares of the Company

- (1) Total Number of Shares Authorized 92,000,000 shares
- (2) Total Number of Shares Issued 24,981,548 shares  
(excluding 518,452 shares of treasury stock)
- (3) Number of Shareholders 208 shareholders

(Translation)

#### (4) Major Shareholders

Ten major shareholders are listed as follows.

Name of shareholder	Thousands of shares	Share ratio
Daido Steel Co., Ltd.	15,940	63.8%
Kowa Real Estate Co., Ltd.	4,905	19.6%
Group of Daido Kogyo employees' shareholders	757	3.0%
Riken Corporation	611	2.4%
Daido Life Service Co., Ltd.	285	1.1%
Daido Precision Industries Ltd.	153	0.6%
Mizuho Corporate Bank, Ltd.	150	0.6%
Nippon Steel & Sumikin Welding Co., Ltd.	142	0.5%
Fuji OOZX Inc.	120	0.4%
Misao Horie	68	0.2%

Share ratio is calculated excluding 518 thousand shares of treasury stock

#### (5) Other Significant Items on Shares

i) Acquisition of treasury stock	
Common stock	132,000 shares
Acquisition cost	¥ 67,452,000
ii) Acquisition of treasury stock from inheritors of shareholders	
Common stock	14,000 shares
Acquisition cost	¥ 7,154,000
iii) Acquisition of odd lot shares	
Common stock	300 shares
Acquisition cost	¥ 153,300
iv) Sales of treasury stock	
Common stock	18,000 shares
Acquisition cost	¥ 8,352,720

### 3. Share warrants

There were no share warrants in the current fiscal year.

(Translation)

#### 4. Directors and Corporate Auditors

##### (1) Name of Directors and Corporate Auditors

Name	Position and Charge		Representation of Other Company
Akitomo Imai	Representative director, President		
Satoru Yamamoto	Executive managing director	In charge of Administrative Control	
Noriyuki Yoshida	Executive managing director	In charge of Business Control	
Hiroshi Hanawa	Executive managing director	General manager of Steel Business Division, Manager of Tokyo and in charge of overseas branches	
Toshio Seike	Executive managing director	General manager of Raw Material Business Division	
Tetsho Narukawa	Director		Kowa Real Estate Co., Ltd., Representative director, President
Toshinaga Koizumi	Director		Riken Corporation, Representative director, Chairman
Kengo Fukaya	Director		Daido Steel Co., Ltd., Representative director, Vice president
Yasuo Takeuchi	Director	In charge of General Affairs Department, Personnel Department, Finance & Accounting Department, Legal & Credit Department and Information System Department	
Yutaka Kanie	Director	General manager of Machinery Business Division	
Koji Okimatsu	Director	General manager of Castings, Forgings & Related Products Business Division and Manager of Nagoya branch	
Satoru Nukina	Director	General manager of Corporate Control Division and Manager of Corporate Planning Department and Global Business Strategy.	
Yukio Usui	Director	Deputy general manager of Steel Business Division and Manager of Steel Department 3	
Hideo Morii	Director	General manager of Stainless & Tool Steel Business Division and Manager of Osaka branch	
Keizo Yamakawa	Standing corporate auditor		
Noritsugu Otsubo	Standing corporate auditor		
Michitaka Okabe	Corporate auditor		Daido Steel Co., Ltd., Executive managing director
Shinji Naruse	Corporate auditor		Daido Steel Co., Ltd. Business strategy manager of Special Steel Department

(Translation)

- Note 1: Among the Directors, Mr. Tetsuo Narukawa, Mr. Toshinaga Koizumi and Mr. Kengo Fukaya are the outside directors stipulated in Article 2-15 of the Companies Act.
- 2: Among the Corporate auditors, Mr. Michitaka Okabe and Mr. Shinhi Naruse are the outside corporate auditors stipulated in Article 2-16 of the Companies Act.

Directors and corporate auditors that retired in the current year are as follows.

Name	Position at retirement	Date of retirement	Charge at retirement and other
Mikio Nakura	Director	June 30,2010	
Hitoshi Horie	Corporate auditor	June 30,2010	

**(2) Remuneration to directors and corporate auditors**

Classification	Number of directors and corporate auditors subject to remuneration	Amount of remuneration
Directors (Including outside directors)	14 (2)	¥ 153 million (2)
Corporate auditors (Including outside corporate auditors)	2 (0)	36 million (0)
Total	16	¥ 189 million

- Note 1: Salary amounting to ¥86 million (including bonuses) was paid to the above directors as employees.
- 2: Cap amount of directors' remuneration, not more than ¥15 million per month, was determined at the general meeting of shareholders held on June 26, 1985.
- 3: Cap amount of corporate auditors' remuneration, not more than ¥3 million per month, was determined at the general meeting of shareholders held on June 28, 1982.
- 4: Remuneration includes bonus to be approved at the general meeting of shareholders on June 30, 2011 amounting to ¥24 million (¥23 million for directors and ¥1 million for corporate auditors).
- 5: Remuneration paid or determined to be paid in the current consolidated fiscal year also includes the following:
- Retirement payments amounted to ¥1 million for a director, based on a resolution of the general meeting of shareholders held on June 30, 2010.
  - Retirement payments amounted to ¥33 million for three directors and ¥10 million for two corporate auditors, based on a resolution of the general meeting of shareholders to be held on June 30, 2011.

(Translation)

**(3) Outside Directors and Corporate Auditors**

**i) Combination of Offices with Other Companies and Relation with the Other Companies**

Classification	Name	Name of company	Position	Relation
Outside director	Tetsuo Narukawa	Kowa Real Estate Co., Ltd.	Representative director, President	Lease of real estate
	Toshinaga Koizumi	Riken Corporation	Representative director, Chairman	Sales of steel and purchases of product
	Kengo Fukaya	Daido Steel Co., Ltd.	Representative director, Vice president	Sales of steel material and purchases of special steel product
Outside corporate auditor	Michitaka Okabe	Daido Steel Co., Ltd.	Executive managing director	Sales of steel material and purchases of special steel product
	Shinji Naruse	Daido Steel Co., Ltd.	Business strategy manager of Special Steel Department	Sales of steel material and purchases of special steel product

**ii) Combination of Offices with Other Companies' Outside Directors or Corporate Auditors**

Classification	Name	Name of company	Position	Relation
Outside director	Tetsuo Narukawa	Nihon Sekkei, Inc.	Part-time corporate auditor	No special relationship
	Toshinaga Koizumi	P.T.PAKARTI RIKEN INDONESIA	Part-time director	-
		SIAM RIKEN IND CO., LTD.	Part-time director	-
	Tadashi Shimao	-	-	-
Outside corporate auditor	Michitaka Okabe	Daido Electronics Co., Ltd.	Part-time director	Supplier
	Shinji Naruse	-	-	-

(Translation)

**iii) Main Activities in the Current Year**

**Attendance at board of directors**

Classification	Name	Main activities
Outside director	Tetsuo Narukawa	He attended the board of directors meeting held in the current year five out of five times since his assumption of office on June 30, 2010 and made necessary remarks on bills and discussions.
	Toshinaga Koizumi	He attended the board of directors meeting held in the current year four out of seven times, and made necessary remarks on bills and discussions.
	Kengo Fukaya	He attended the board of directors meeting held in the current year four out of five times since his assumption of office on June 30, 2010 and made necessary remarks on bills and discussions.
Outside corporate auditor	Michitaka Okabe	He attended the board of directors meeting held in the current year three out of five times since his assumption of office on June 30, 2010 and participated in discussions.
	Shinji Naruse	He attended the board of directors meeting held in the current year seven out of seven times, and participated in discussions.

**Attendance at board of corporate auditors**

Classification	Name	Main activities
Outside corporate auditor	Michitaka Okabe	He attended the board of corporate auditors meeting held in the current year three out of three times since his assumption of office on June 30, 2010 and made remarks and provided advice from an independent viewpoint from managing directors.
	Shinji Naruse	He attended the board of corporate auditors meeting held in the current year five out of five times, and made remarks and provided advice from an independent viewpoint from managing directors.

**(4) Agreement to Limit Liabilities**

The Company agreed to limit their liabilities with outside directors and outside corporate auditors stipulated in Article 423-1 of the Companies Act as described below.

**i) Agreement to Limit Liabilities of Outside Directors**

Outside directors shall shoulder the greater of ¥600 thousand or the total maximum liability stipulated in Article 425-1 of the Companies Act if they are in good faith and without gross negligence after conclusion of the agreement regarding liability of Article 423-1 of the Companies Act when they perform their business.

**ii) Agreement to Limit Liabilities of Outside Corporate Auditors**

Outside corporate auditors shall shoulder the greater of ¥500 thousand or the total maximum liability stipulated in Article 425-1 of the Companies Act if they are in good faith and without gross negligence after conclusion of the agreement regarding liability of Article 423-1 of the Companies Act when they perform their business.

**(5) Total Amount of Remuneration to Directors and Corporate Auditors Paid by the Parent Company or Subsidiaries in the Case that They Combine Offices with the Parent Company or Subsidiaries of the Parent Company**

	Number of persons	Remuneration and other	Remuneration from the parent company or subsidiaries of the parent company
Total amount of remuneration to outside directors and corporate auditors	3	-	¥ 64 million

(Translation)

## 5. Independent Auditor

### (1) Name of Independent Auditor

Deloitte Touche Tohmatsu LLC

### (2) Agreement to limit liability

There is no agreement to limit liability.

### (3) Fees to Independent Auditor for the Current Year

(i)	Amount of fees	¥	20	million
(ii)	Total amount of fees to be paid by the Company and its subsidiaries		20	million

Note 1: Under the audit contract with independent auditors, the Company did not separately determine audit fees for the audit pursuant to the Companies Act and the audit pursuant to the Japanese Financial Instruments and Exchange Act. Therefore, (i) represents total amount of audit fees for these audit engagements.

2: Daido Kogyo (Thailand) Co., Ltd. are not audited by the independent auditor which audits the Company, but is audited by other independent auditors.

### (4) Engagement other than Audit

The independent auditor engages in English translation of financial statements.

### (5) Policy of Determination of Dismissal or Non-recommission of Independent Auditor

If the Company considers it necessary, if the independent auditor acted against laws and regulations such as the Companies Act, the Certified Public Accountant Law and so on, or if the board of corporate auditors judged that the independent auditor acted against public order and morals, the board of corporate auditors shall discuss the dismissal or non-recommission of the independent auditor based on the facts. If the board of corporate auditors determines dismissal or non-recommission of the independent auditor is appropriate, the board of corporate auditors shall ask the board of directors to place "Dismissal of independent auditor" or "Non-recommission of independent auditor" on the agenda of the meeting of shareholders in accordance with regulation of the board of corporate auditors and the board of directors shall discuss it.

## **6. Company Structure and Policy**

### **Systems to Maintain Appropriateness of Operations**

Basic concept and maintenance of internal control system of the Company are as follows.

#### **a. System to Maintain Compliance of Directors' and Employees' Operations with Laws and Regulations and Articles of Incorporation**

- The Company develops rules for its compliance system, and identifies business norms including internal rules and corporate ethics to be followed based on “Compliance rules” and the “Compliance program” in order to make directors and employees act based on the “Compliance program.”
- In order to place strict controls of the above policy, the Company establishes a compliance committee, chairperson of which is a representative director, president. The committee establishes the basic policy concerning compliance, monitors whether it is being followed, deals with newly identified problems, and maintains daily activities such as education and instruction by the division in charge of compliance.
- The internal audit division works together with the division in charge of compliance and audits the activities of each division.

#### **b. Systems Concerning Preservation and Control of Directors' Business Operation Information**

- Information on directors' business performance is recorded by documentation or electromagnetic media, and administered and preserved based on “Documentation administration rules.” Directors and corporate auditors can access this information anytime. Information preserved is administered based on “Information administration rules.”

#### **c. Rules of Risk Management for Potential Losses and Other Systems**

- The Company establishes “Risk management rules” and systematically performs risk management. The Company appoints a director in charge of risk management and division in charge of risk management, analyzes and assesses risk, sets up guidelines, conducts training and prepares and distributes manuals.
- The director in charge of risk management reports matters concerning risk management on a regular basis at officers' meeting.
- The internal audit division works together with the division in charge of risk management and audits the daily risk management of each division.

#### **d. Systems to Maintain Efficient Operations of Directors**

- The Company holds monthly officers' meetings in addition to board of directors meetings. Each director shares information and issues, deals with prompt and accurate solutions of the issues based on the reports on the operations of each branch, and reports the results at the officers' meeting.
- The Company places strict control on each branch. At the same time, authorities relevant to sales activities are delegated to directors and branch managers in order to clarify authorities and responsibilities, and the Company establishes a system where directors and branch managers report the results of execution of responsibilities at the officers' meeting.

#### **e. Systems to Maintain Appropriate Operations in the Group which Consists of the Company, the Parent Company and Subsidiaries**

- The Company intends to maintain appropriate operations through audit and examination from an external perspective by part-time directors and part-time corporate auditors from the parent company, and accomplish compliance by the Company's “Compliance program” which is in conformity with the parent company's “Daido Steel Corporate Ethics Charter” and “Behavioral Norm of Daido Steel.”
- The Company implements focused controls by rating subsidiaries based on the Company's “Associated company administration rules” and maintains the appropriateness of subsidiaries' operations by monitoring their activities including dispatching directors and corporate auditors, reviewing reports of operations on a regular basis, and reviewing approval authorities concerning certain significant matters. Furthermore, the Company places strict controls on education and instruction to subsidiaries including overseas subsidiaries for compliance.

#### **f. Employees and the Employees' Independence from Directors in the Case that Corporate Auditors Request Employees who Assist in the performance of the Corporate Auditors' Job**

- In the case that corporate auditors request employees to assist in the performance of the corporate auditors' job, the Company selects assistants in principle from the internal audit division who have knowledge of

(Translation)

audit affairs, after discussion with corporate auditors.

- The Company cannot decide personnel transfer, personnel evaluation or disciplinary action of the assistants without approval of corporate auditors or the board of corporate auditors.

**g. Systems for Report to Corporate Auditors by Directors and Employees**

- Directors or employees report for operation at the board of directors, officers' meeting and business division meeting in which corporate auditors participate. In addition, all requests for managerial decisions shall be circulated to corporate auditors.
- Directors or employees codify reportable issues to corporate auditors or the board of corporate auditors, and reports on a case-by-case basis if relevant facts occur.

**h. Systems to Maintain Effective Audit by Corporate Auditors**

- The board of corporate auditors holds meetings with the representative director, president and audit firm on a regular basis.

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1. Any fractional amounts less than ¥1 million are disregarded.
  2. Percentages are presented with the second decimal place disregarded.
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(Translation)

**CONSOLIDATED BALANCE SHEET**

(As of March 31, 2011)

<b>Account</b>	<b>Amount</b>	<b>Account</b>	<b>Amount</b>
	<b>¥ million</b>		<b>¥ million</b>
<b>ASSETS</b>	<b>92,026</b>	<b>LIABILITIES</b>	<b>77,814</b>
[CURRENT ASSETS]	[82,224]	[CURRENT LIABILITIES]	[68,528]
Cash on hand and at banks	1,610	Notes and accounts payable - trade	43,976
Notes and accounts receivable - trade	63,309	Short-term loans payable	10,300
Merchandise	15,770	Short-term borrowing payable to an associated company	10,000
Advances paid	613	Current portion of long-term loans payable	1,480
Deferred tax assets	378	Income taxes payable	1,007
Consumption taxes refundable	390	Advances received	901
Other current assets	405	Accrued bonuses to employees	445
Allowance for doubtful accounts	(254)	Accrued bonuses to directors and corporate auditors	24
		Other current liabilities	393
[FIXED ASSETS]	[9,802]	[NON-CURRENT LIABILITIES]	[9,286]
[Tangible fixed assets]	[4,238]	Long-term loans payable	6,760
Buildings and structures	2,080	Deferred tax liabilities	555
Machinery and vehicles	89	Liability for retirement benefits for employees	998
Tools and fixtures	49	Liability for retirement benefits for directors and corporate auditors	91
Land	2,019	Other non-current liabilities	880
[ Intangible fixed assets]	[55]	<b>EQUITY</b>	<b>14,212</b>
[ Investments and others]	[5,508]	[SHAREHOLDERS' EQUITY]	[13,134]
Investment securities	4,104	Common stock	1,511
Other investments	1,471	Capital surplus	364
Allowance for doubtful accounts	(67)	Retained earnings	11,505
		Treasury stock	(247)
		[ACCUMULATED OTHER COMPREHENSIVE INCOME]	[928]
		Unrealized gains on available-for-sale securities	936
		Foreign currency translation adjustments	(8)
		[MINORITY INTERESTS]	[149]
<b>TOTAL ASSETS</b>	<b>92,026</b>	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>92,026</b>

(Translation)

**CONSOLIDATED STATEMENT OF INCOME**

(From April 1, 2010 to March 31, 2011)

Account	Amount	
	¥ million	¥ million
<b>NET SALES</b>		<b>242,767</b>
<b>COST OF SALES</b>		<b>233,404</b>
<b>GROSS PROFIT</b>		<b>9,362</b>
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b>		<b>7,114</b>
<b>OPERATING INCOME</b>		<b>2,248</b>
<b>NON-OPERATING INCOME</b>		<b>336</b>
Interest income	105	
Dividend income	95	
Foreign exchange gain	42	
Rental income on fixed assets	54	
Other non-operating income	39	
<b>NON-OPERATING EXPENSES</b>		<b>382</b>
Interest expense	329	
Loss on sales of accounts receivable	25	
Other non-operating expenses	27	
<b>ORDINARY INCOME</b>		<b>2,202</b>
<b>EXTRAORDINARY PROFIT</b>		<b>738</b>
Gain on sales of tangible fixed assets	723	
Gain on sales of investment securities	14	
<b>EXTRAORDINARY LOSS</b>		<b>436</b>
Loss on disposals of fixed assets	6	
Loss on sales of investment securities	0	
Loss on sales of golf club memberships	9	
Write-downs of investments in Affiliates	3	
Loss on changes in equity	43	
Retirement benefit costs for employees	371	
<b>INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS</b>		<b>2,503</b>
<b>CORPORATE, INHABITANTS AND ENTERPRISE TAXES</b>	1,108	
<b>INCOME TAXES - DEFERRED</b>	(44)	<b>1,063</b>
<b>NET INCOME BEFORE MINORITY INTERESTS</b>		<b>1,439</b>
<b>MINORITY INTERESTS IN NET INCOME</b>		<b>28</b>
<b>NET INCOME</b>		<b>1,411</b>

(Translation)

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

(From April 1, 2010 to March 31, 2011)

	SHAREHOLDERS' EQUITY				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
BALANCE, MARCH 31, 2010	¥ million 1,511	¥ million 363	¥ million 10,522	¥ million (181)	¥ million 12,216
Changes in the year					
Dividends from retained earnings			(225)		(225)
Net income			1,411		1,411
Change in scope of consolidation			(202)		(202)
Acquisitions of treasury stock				(74)	(74)
Disposals of treasury stock		0		8	9
Net change in items other than shareholders' equity in the year					-
Net change in the year	-	0	983	(66)	917
BALANCE, MARCH 31, 2011	1,511	364	11,505	(247)	13,134

	ACCUMULATED OTHER COMPREHENSIVE INCOME			MINORITY INTERESTS	TOTAL EQUITY
	Unrealized gain on available -for-sale securities	Foreign currency translation adjustments	Total		
BALANCE, MARCH 31, 2010	¥ million 1,001	¥ million (28)	¥ million 972	¥ million 123	¥ million 13,312
Changes in the year					
Dividends from retained earnings					(225)
Net income					1,411
Change in scope of consolidation					(202)
Acquisitions of treasury stock					(74)
Disposals of treasury stock					9
Net change in items other than shareholders' equity in the year	(64)	20	(44)	25	(18)
Net change in the year	(64)	20	(44)	25	899
BALANCE, MARCH 31, 2011	936	(8)	928	149	14,212

(Translation)

## **BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS**

### **1. Scope of consolidation**

Daido Kogyo Co., Ltd. (the “Company”) has a consolidated subsidiary, Daido Kogyo (Thailand) Co., Ltd., (together, “the Group”). Daido Kogyo (Shanghai) Co., Ltd. was excluded from the scope of consolidation for the fiscal year end March 31, 2011 due to a decrease in the Company’s voting rights as a result of an allocation of new shares to third parties. Also, Daido Kogyo (Shanghai) Co., Ltd. changed its corporate name to Daido Steel (Shanghai) Co., Ltd. The Company has four non-consolidated subsidiaries, Daido Europe GmbH, Hamano Co., Ltd. Daido Kogyo (Shenzhen) Co., Ltd. and Daido Kogyo India Private Ltd. The accounts of these subsidiaries are excluded from the scope of consolidation because their total assets, sales, net income/loss and retained earnings (amount commensurate with the Company’s equity ownership percentage) would not have a material effect on the consolidated financial statements.

### **2. Application of the equity method**

The Group does not apply the equity method to non-consolidated subsidiaries and associated companies. The above mentioned four non-consolidated subsidiaries and associated companies (Daido Steel (Shanghai) Co., Ltd. , Mochizuki Rasen Co., Ltd., Daido Steel (America) Inc., Yoshinaga Highmetal Co., Ltd., Daido Stainless Steel (Dalian) Co., Ltd. and Toyo Seiko (Thailand) Co., Ltd.) are not accounted for by the equity method since the application of the equity method to them would not have had a material effect on the consolidated net income/loss nor on the consolidated retained earnings (amount commensurate with the Company’s equity ownership percentage).

### **3. Fiscal year of consolidated subsidiaries**

Fiscal year end of consolidated subsidiaries is December 31. The consolidated financial statements include such subsidiaries’ annual financial statements for the year ended December 31, 2010. Material transactions occurring during the period from the subsidiaries’ fiscal year end to March 31, 2011 have been adjusted in the consolidated financial statements.

### **4. Significant accounting policies**

#### **(1) Basis and method of valuation for significant assets**

##### **i) Securities**

Available-for-sale securities:

Securities with market quotations:

Stated at fair value as of the fiscal year-end (all the unrealized gains and losses are directly recorded in the equity section and cost of sales of securities is determined by the moving-average method.)

Non-marketable securities:

Stated at cost determined by the moving-average method

##### **ii) Derivatives:**

Stated at fair value

##### **iii) Merchandises:**

Stated at cost, primarily determined by the annual-average method (balance sheet amount is measured at the lower of cost or net selling value)

(Accounting Change)

The Group changed the valuation basis and valuation method of merchandise from the annual average method (Balance sheet amount was measured at the lower of cost or net selling value), which was applied until last fiscal year, to the monthly average method (Balance sheet amount is measured at the lower of cost or net selling value) in this fiscal year.

The change was made so that the financial position

and operational results of the Group could be stated more appropriately by reflecting the changes in the market to the Balance sheet amount of merchandise and the amount of cost of sales under the circumstance where the mismatch between the selling prices which move closely to the market price and the cost of merchandise, which was caused by an increase in the stock of items whose price moves closely to the market price due to changes in the terms of some transactions, grew significant. The change was also made because new IT systems which allowed the company to apply the monthly average method became available from the beginning of this fiscal year.

The effect of this change was to increase merchandise by ¥116 million and operating profit, ordinary profit, and profit before income taxes also increased by the same amount compared with the previous method.

(2) Depreciation method of significant depreciable assets

Tangible assets (excluding leased assets):

Computed by the declining-balance method, however, buildings (excluding attached facilities) acquired on or after April 1, 1998 are depreciated by the straight-line method. The useful life of most buildings is from 15 to 50 years.

(3) Basis for setting up significant allowances

i) Allowance for doubtful accounts

In order to deal with the loss from doubtful accounts, an allowance for doubtful accounts is accrued using the historical rate of actual losses for normal receivables and the estimated unrecoverable amount for specific doubtful receivables after considering the recoverability of each account.

ii) Accrued bonuses to employees

To provide for the payment of bonuses to employees including the employees' portion of directors, accrued bonuses are provided for based upon an estimate of expected bonus payments at the consolidated fiscal year end.

iii) Accrued bonuses to directors and corporate auditors

To provide for the payment of bonuses to directors and corporate auditors, accrued bonuses are recorded based upon an estimate of expected bonus payments at the consolidated fiscal year end.

iv) Liability for retirement benefits for employees

Liability for retirement benefits for employees is provided for based on the projected benefit obligations and plan assets at the consolidated fiscal year end.

(Additional Information)

The Group changed the calculation basis of estimating the obligation for employees' post-retirement benefits from an exceptional basis to an actuarial one.

The change was made in order to enhance the accuracy in the estimation of the obligation for employees' post-retirement benefits and to make periodic accounting of profit and loss relating to it more appropriately, reflecting the increase in materiality of the amount of the obligation for employees' retirement benefits due to the increase in the number of employees.

As a result of this change, the difference between the amount under the exceptional basis and that under the actuarial basis amounted to ¥371 million for the fiscal year end March 31, 2011 which was presented in extraordinary loss as "Retirement benefit costs for employees".

v) Liability for retirement benefits for directors and corporate auditors

To provide for the payment of rewards to the directors and corporate auditors at their retirement, the Company records the amount payable as at the year-end date in accordance with the Company's Internal Regulation.

(Translation)

(4) Translation of foreign currency transactions

All monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rate at the balance sheet date. The resulting foreign exchange gains and losses from translation are recognized in profit or loss.

The balance sheet accounts of the consolidated foreign subsidiaries are translated into yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical rate. Differences arising from such translation are recorded as foreign currency translation adjustments and minority interests in the equity section. Income and expense accounts of the consolidated foreign subsidiaries are translated into yen at the average rate for the year.

(5) Hedge accounting

i) Method of hedge accounting

The interest rate swaps that meet the specific criteria of hedge accounting are not remeasured at fair value but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

ii) Hedging instruments and hedged items

Hedging instruments and hedged items to which hedge accounting is applied for the current fiscal year are as follows:

Hedging instruments – Interest rate swaps

Hedged items – Interest expense of loans payable

iii) Hedging policies

The Group enters into interest rate swap agreements to manage interest rate exposures of loans payable.

iv) Effectiveness of hedging

The Group does not evaluate effectiveness of hedging for the interest rate swaps that meet the specific criteria of hedge accounting.

(6) Amortization of goodwill

Goodwill arising from the acquisition of consolidated subsidiaries is amortized by the straight-line method over five years.

(7) Other significant matters for presenting consolidated financial statements

Accounting method of consumption taxes:

The tax-exclusion computation has been applied.

### **CHANGES IN SIGNIFICANT ACCOUNTING POLICIES**

In March 2008, the ASBJ published the accounting standard for asset retirement obligations, ASBJ Statement No.18, "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations". The Group applied this accounting standard effective April 1, 2010. The effect of this change was nil on income for the current fiscal year.

### **CHANGES IN PRESENTATION**

The Group has prepared consolidated financial statements based on the Ordinance for Enforcement of the Companies Act of Japan revised on March 31, 2011.

(Translation)

**NOTES TO CONSOLIDATED BALANCE SHEET**

1. Accumulated depreciation on tangible fixed assets	¥	2,027 million
2. Assets pledged as collateral and collateralized liabilities		
Assets pledged as collateral		
Buildings and structures	¥	1,891 million
Land		49 million
Investment securities		28 million
<u>Total</u>	¥	<u>1,968 million</u>
Liabilities corresponding to above collateral		
Notes and accounts payable - trade	¥	20 million
Current portion of long-term loans payable		280 million
<u>Long-term loans payable</u>		<u>260 million</u>
<u>Total</u>	¥	<u>560 million</u>
3. Export trade notes sold with recourse	¥	973 million
4. Contingent liabilities		
Guarantee for employees' borrowings	¥	0 million
Guarantee for vendor's lease contracts	¥	4 million
Guarantee for affiliated company's transactions	¥	20 million

(Translation)

**NOTES TO CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

1. Total number of shares issued Common stock 24,981,548 shares  
(excluding 518,452 shares of treasury stock)

2. Dividends

(1) Paid amount of dividends

Dividends declared at the board of directors meeting on May 28, 2010

Total amount of dividends	¥ 100	million
Dividends per share	4	yen
Record date	March 31, 2010	
Effective date	June 30, 2010	

Dividends declared at the board of directors meeting on November 25, 2010

Total amount of dividends	¥ 125	million
Dividends per share	5	yen
Record date	September 30, 2010	
Effective date	December 9, 2010	

(2) Dividends whose record date belongs to current fiscal year but effective date is next fiscal year

The following dividends are planned to be approved at the board of directors meeting on May 27, 2011.

Total amount of dividends	¥ 349	million
Dividends per share	14	yen
Record date	March 31, 2011	
Effective date	June 30, 2011	

We will distribute dividends from retained earnings.

## **NOTES TO FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES**

### 1. Nature and extent of risks arising from financial instruments

#### (1) Policy for financial instruments

The Group uses financial instruments, mainly bank loans. Cash surpluses, if any, are deposited in banks. Derivatives are used, not for speculative purposes, but to manage exposures to financial risks.

#### (2) Nature and extent of risks arising from financial instruments

Receivables such as trade notes and trade accounts are exposed to customer credit risk. Receivables denominated in foreign currencies are exposed to currency risk.

Payment terms of almost all of payables, such as trade notes and trade accounts, are less than one year. Payables denominated in foreign currencies are exposed to currency risk.

Marketable and investment securities, mainly equity instruments of customers and suppliers of the Company, are exposed to the risk of market price fluctuations.

Short-term bank loans are used to finance operations and almost all long-term bank loans are also used to finance operations with variable interest rates, while a part of them are also used for facilities investment with fixed interest rate. Loans with variable interest rates are exposed to the risk of changes in interest rates.

Derivatives include forward foreign currency contracts and interest-rate swaps, which are exposed to market risks from changes in foreign currency exchange rates and from changes in interest rates.

#### (3) Risk management of financial instruments

##### i) Credit Risk Management

The Group manages trade receivables and payables by each customer and supplier complying with internal guidance, which requires monitoring of credit risk of each customer to identify and reduce default risk.

##### ii) Market Risk Management ( foreign exchange risk and interest rate risk )

The Group hedges currency risk mainly by using forward foreign currency contracts.

The Group reviews the portfolio of investment securities, on a continuous basis, by reviewing market prices and financial positions of issuers (customers or suppliers) as well as considering the Group's relationship with them.

Although bank loans are exposed to market risks from changes in variable interest rates, those risks are mitigated by matching collection terms of receivables with payment terms of bank loans.

The internal rules for derivative transactions require that the Finance & Accounting Department should obtain approval from the appropriate person.

##### iii) Liquidity Risk Management

The Group manages liquidity risk by using a cash management schedule prepared by the Finance & Accounting Department, based on the reports from the other departments.

(Translation)

## 2. Fair value of financial instruments

Carrying amounts, fair value and unrealized losses of financial instruments as of March 31, 2011 are as follows. In addition, financial instruments whose fair value cannot be reliably determined are not included in the table below. Please see Note 2 for information on those instruments.

	Millions of Yen		
	Carrying amount	Fair value	Unrealized losses
(1) Cash on hand and at banks	¥ 1,610	¥ 1,610	-
(2) Notes and accounts receivable - trade	63,309	63,309	-
(3) Consumption taxes refundable	390	390	-
(4) Investment securities	3,360	3,360	-
Total	¥ 68,671	¥ 68,671	-
(1) Notes and accounts payable – trade	43,976	43,976	-
(2) Short-term loans payable	10,300	10,300	-
(3) Short-term borrowing payable to an associated company	10,000	10,000	-
(4) Income taxes payable	1,007	1,007	-
(5) Long-term loans payable	8,240	8,243	¥ 3
Total	¥ 73,524	¥ 73,528	¥ 3
Derivatives (*)	¥ (14)	¥ (14)	-

(\*) Assets and liabilities arising from derivative transactions are disclosed as a net amount.

### Note 1

#### Assets

(1) Cash and cash equivalents, Notes and account receivable – trade and Consumption taxes refundable

The carrying amounts of these accounts approximate fair value because of their short maturities.

(4) Investment securities

The fair values of investment securities are measured at quoted market prices from applicable stock exchanges.

#### Liabilities

(1) Notes and account payable – trade, Short-term loans payable, Short-term borrowing payable to an associated company and Income taxes payable

The carrying amounts of these accounts approximate fair values because of their short maturities.

(5) Long-term loans payable

The fair values of long-term loans payable are determined by discounting the total amount of principal and interest related to the debt at the risk-free rate plus a credit spread.

#### Derivatives

Information on the fair value of derivatives is included in “NOTES TO DERIVATIVES”.

(Translation)

Note 2

Financial instruments whose fair value cannot be reliably determined

	<u>Millions of yen</u>
	<u>Carrying amount</u>
Unlisted equity securities	¥ 724
Unlisted bonds	20

The above are excluded from “Investment securities” because the fair values cannot be reliably determined.

**NOTES TO INVESTMENT PROPERTY**

The Group holds some rental properties such as office buildings and land in Tokyo and other areas. Net of rental income and operating expenses for those rental properties was ¥ 400 million and gain on sales of investment properties was ¥ 723 million for the fiscal year ended March 31, 2011.

The carrying amounts, changes in such balances and market prices of such properties are as follows:

<u>Millions of Yen</u>			
	<u>Carrying amount</u>		<u>Fair value</u>
<u>April 1, 2010</u>	<u>Increase/ Decrease</u>	<u>March 31, 2011</u>	<u>March 31, 2011</u>
¥ 3,634	¥(318)	¥3,316	¥5,976

Notes:

- 1) Carrying amount recognized in balance sheet is net of accumulated depreciation.
- 2) Decrease during the fiscal year ended March 31, 2011 primarily represents the proceeds from properties of ¥ 244 million.
- 3) Fair value of properties as of March 31, 2011 is measured based on appraisal reports (including the reconciliation using the index, etc) issued by external real estate appraisers.

**NOTES TO PER SHARE INFORMATION**

1. Net assets per share	¥ 562.93
2. Net income per share	¥ 56.31

(Translation)

**Transcript of Independent Auditors' Report concerning Consolidated Financial Statements**

**INDEPENDENT AUDITORS' REPORT**

May 17, 2011

To the Board of Directors of Daido Kogyo Co., Ltd.

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,  
Engagement Partner,  
Certified Public Accountant:

NATSUKI MATSUI

Designated Unlimited Liability Partner,  
Engagement Partner,  
Certified Public Accountant:

KATSUHIKO KATO

Pursuant to the fourth paragraph of Article 444 of the Companies Act, we have audited the consolidated financial statements, namely, the consolidated balance sheet as of March 31, 2011 of Daido Kogyo Co., Ltd. (the "Company") and consolidated subsidiaries, and the related statements of income and changes in equity for the fiscal year from April 1, 2010 to March 31, 2011. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and consolidated subsidiaries as of March 31, 2011, and the results of their operations for the year then ended in conformity with accounting principles generally accepted in Japan.

Our firm and the engagement partners do not have any financial interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Law.

The above represents a translation, for convenience only, of the original report issued in the Japanese language.

**Transcript of Board of Corporate Auditors' Report**

**BOARD OF CORPORATE AUDITORS' REPORT**

May 27, 2011

The Board of Corporate Auditors,  
Daido Kogyo Co., Ltd.

Standing Corporate Auditor:  
KEIZO YAMAKAWA

Standing Corporate Auditor:  
NORITSUGU OTSUBO

Outside Corporate Auditor:  
MICHITAKA OKABE

Outside Corporate Auditor:  
SHINJI NARUSE

We report, as follows, based on the corporate auditors' report prepared by each corporate auditor concerning the directors in carrying out their duties for the 95<sup>th</sup> fiscal year ended March 31, 2011.

1. Method and description of audits of corporate auditors and the board of directors

In accordance with audit policy, significant audit points, and audit planning specified by the board of corporate auditors, each corporate auditor conducted audits by investigating to the extent considered necessary, and reporting and discussing the results of the audits at the board of corporate auditors.

We conducted our audit in cooperation with the internal audit office of the Company.

Specifically, we attended the meetings of the board of directors, officers' meetings and other important meetings, read documents concerning matters such as important decisions, received the report and explanations concerning business performance from directors and the independent auditors on a regular basis, and investigated significant assets.

We received the report from the independent auditors that they established items stated in Article 131 of the Regulations of Corporate Accounting in order to carry out pertinent performance of the independent auditor.

2. Result of audit

- (1) Audit result of the business report, etc.
  - i) The Business report and the accompanying supplemental schedules fairly present the condition of the Company.
  - ii) There were no serious occurrences of fraud or violations of any laws and regulations or the Company's Articles of Incorporation by any of the directors in carrying out the duties and responsibilities of their offices.
  - iii) The design and implementation of the Company's system to carry out appropriate business performance were reasonable.
- (2) Audit result of the non-consolidated financial statements and the accompanying supplemental schedules  
In our opinion, the audit procedures and audit results reported from the independent auditors, Deloitte Touche Tohmatsu, are appropriate.
- (3) Audit result of the consolidated financial statements  
In our opinion, the audit procedures and audit results reported from the independent auditors, Deloitte Touche Tohmatsu, are appropriate.

(Translation)

**NON-CONSOLIDATED BALANCE SHEET**

(As of March 31, 2011)

<b>Account</b>	<b>Amount</b>	<b>Account</b>	<b>Amount</b>
	<b>¥ million</b>		<b>¥ million</b>
<b>ASSETS</b>	<b>91,526</b>	<b>LIABILITIES</b>	<b>77,589</b>
[CURRENT ASSETS]	[81,718]	[CURRENT LIABILITIES]	[68,305]
Cash on hand and at banks	1,532	Notes payable - trade	2,707
Notes receivable - trade	12,248	Accounts payable - trade	41,074
Accounts receivable - trade	50,846	Short-term loans payable	10,300
Merchandise	15,572	Short-term borrowing payable to an associated company	10,000
Advances paid	613	Current portion of long-term loans payable	1,480
Prepaid expenses	20	Accounts payable - other	180
Deferred tax assets	372	Accrued expenses	110
Consumption taxes refundable	390	Income taxes payable	998
Deposits paid	298	Advances received	901
Other current assets	78	Deposits payable	20
Allowance for doubtful accounts	(254)	Deferred income	47
[FIXED ASSETS]	[9,807]	Accrued bonuses to employees	445
[Tangible fixed assets]	[4,236]	Accrued bonuses to directors and corporate auditors	24
Buildings	2,035	Other current liabilities	14
Structures	44	[NON-CURRENT LIABILITIES]	[9,283]
Machinery and equipment	86	Long-term loans payable	6,760
Vehicles	2	Deferred tax liabilities	553
Tools and fixtures	48	Liability for retirement benefits for employees	998
Land	2,019	Liability for retirement benefits for directors and corporate auditors	91
[Intangible fixed assets]	[55]	Deposits received	880
Software	43		
Telephone subscription rights	11	<b>EQUITY</b>	<b>13,936</b>
Rights of facilities use	0	[SHAREHOLDERS' EQUITY]	[13,000]
[Investments and others]	[5,515]	[Common stock]	[1,511]
Investment securities	4,022	[Capital surplus]	[364]
Securities of a subsidiary and associated companies	91	Additional paid-in capital	363
Investments in equity	1	Other capital surplus	1
Investments in equity of subsidiaries and an associated company	345	[Retained earnings]	[11,371]
Long-term loans receivable from employees	38	Legal reserve	339
Claims in bankruptcy	35	Other retained earnings	11,032
Long-term prepaid expenses	19	Reserve for deferred gainson land	509
Other investments	1,027	General reserve	4,910
Allowance for doubtful accounts	(67)	Retained earnings brought forward	5,612
		[Treasury stock]	(247)
		[VALUATION AND TRANSLATION ADJUSTMENTS]	[936]
		Unrealized gains on available-for-sale securities	936
<b>TOTAL ASSETS</b>	<b>91,526</b>	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>91,526</b>

(Translation)

**NON-CONSOLIDATED STATEMENT OF INCOME**

( From April 1, 2010 to March 31, 2011 )

Account	Amount	
	¥million	¥million
<b>NET SALES</b>		<b>240,847</b>
<b>COST OF SALES</b>		<b>231,710</b>
<b>GROSS PROFIT</b>		<b>9,136</b>
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b>		<b>7,024</b>
<b>OPERATING INCOME</b>		<b>2,112</b>
<b>NON-OPERATING INCOME</b>		<b>322</b>
Interest income	100	
Dividend income	95	
Foreign exchange gain	35	
Rental income on fixed assets	54	
Other non-operating income	36	
<b>NON-OPERATING EXPENSES</b>		<b>382</b>
Interest expense	329	
Loss on sales of accounts receivable	25	
Other non-operating expenses	27	
<b>ORDINARY INCOME</b>		<b>2,052</b>
<b>EXTRAORDINARY PROFIT</b>		<b>738</b>
Gain on sales of tangible fixed assets	723	
Gain on sales of investment securities	14	
<b>EXTRAORDINARY LOSS</b>		<b>393</b>
Loss on disposals of fixed assets	6	
Loss on sales of investment securities	0	
Loss on sales of golf club memberships	9	
Write-downs of investments in Affiliates	3	
Retirement benefit costs for employees	371	
<b>INCOME BEFORE TAXES</b>		<b>2,397</b>
<b>CORPORATE, INHABITANTS AND ENTERPRISE TAXES</b>	1,073	
<b>INCOME TAXES - DEFERRED</b>	(48)	<b>1,024</b>
<b>NET INCOME</b>		<b>1,372</b>

(Translation)

**NON-CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

(From April 1, 2010 to March 31, 2011)

	SHAREHOLDERS' EQUITY				
	Common stock	Capital surplus		Retained earnings	
		Additional paid-in capital	Other capital surplus	Legal reserve	Other retained earnings
	¥ million	¥ million	¥ million	¥ million	¥ million
BALANCE, MARCH 31, 2010	1,511	363	0	339	9,884
Changes in the year					
Dividends from retained earnings					(225)
Net income					1,372
Acquisitions of treasury stock					
Disposals of treasury stock			0		
Net change in items other than shareholders' equity in the year					
Net change in the year	-	-	0	-	1,147
BALANCE, MARCH 31, 2011	1,511	363	1	339	11,032

	SHAREHOLDERS' EQUITY		VALUATION AND TRANSLATION ADJUSTMENTS	TOTAL EQUITY
	Treasury stock	Total shareholders' equity	Unrealized gains on available-for-sale securities	
	¥ million	¥ million	¥ million	¥ million
BALANCE, MARCH 31, 2010	(181)	11,918	1,001	12,919
Changes in the year				
Dividends from retained earnings		(225)		(225)
Net income		1,372		1,372
Acquisitions of treasury stock	(74)	(74)		(74)
Disposals of treasury stock	8	9		9
Net change in items other than shareholders' equity in the year			(64)	(64)
Net change in the year	(66)	1,081	(64)	1,016
BALANCE, MARCH 31, 2011	(247)	13,000	936	13,936

Break down list of other retained earnings

	Reserve for deferred gains on land	Special reserve for deferred gains on fixed assets	General reserve	Retained earnings brought forward	Total
	¥ million	¥ million	¥ million	¥ million	¥ million
BALANCE, MARCH 31, 2010	154	14	4,910	4,806	9,884
Changes in the year					
Dividends from retained earnings				(225)	(225)
Net income				1,372	1,372
Provision of reserve for deferred gains on land	355	(14)		(341)	-
Net change in the year	355	(14)	-	805	1,147
BALANCE, MARCH 31, 2011	509	-	4,910	5,612	11,032

(Translation)

## **SIGNIFICANT ACCOUNTING POLICIES**

1. Basis and method of valuation for securities  
Investments in subsidiaries and associated companies Stated at cost determined by the moving-average method  
Available-for-sale securities  
Securities with market quotations Stated at the fair value as of the fiscal year-end (all the unrealized gains and losses are directly recorded in the equity section and cost of sales of securities is determined by the moving-average method.)  
Securities without market quotations Stated at cost determined by the moving-average method
2. Basis and method of valuation for derivatives Stated at fair value
3. Basis and method of valuation for merchandises Stated at cost determined by the annual-average method (balance sheet amount is measured at the lower of cost or net selling value)  
(Accounting Change)  
The Company changed the valuation basis and valuation method of merchandise from the annual average method (Balance sheet amount was measured at the lower of cost or net selling value), which was applied until last fiscal year, to the monthly average method (Balance sheet amount is measured at the lower of cost or net selling value) in this fiscal year.  
The change was made so that the financial position and performance of the Company could be stated more appropriately by reflecting the changes in the market to the Balance sheet amount of merchandise and the amount of cost of sales under the circumstance where the mismatch between the selling prices which move closely to the market price and the cost of merchandise, which was caused by an increase in the stock of items whose price move closely to the market price due to changes in the terms of some transactions, grew significant. The change was also made because the IT systems which allowed the Company to apply the monthly average method became available from the beginning of this fiscal year.  
The effect of this change was to increase merchandise by ¥116 million and operating profit, ordinary profit, and profit before income taxes also increased by the same amount compared with the previous method
4. Depreciation method of fixed assets  
(1) Tangible assets (excluding leased assets)  
Computed by the declining-balance method, however, buildings (excluding attached facilities) acquired on or after April 1, 1998 are depreciated by the straight-line method. The useful life of most buildings is from 15 to 50 years.  
(2) Intangible assets  
Computed by the straight-line method.

(Translation)

5. Basis for setting up significant allowances

(1) Allowance for doubtful accounts

In order to deal with the loss from doubtful accounts, an allowance for doubtful accounts is accrued using the historical rate of actual losses for normal receivables and the estimated unrecoverable amount for specific doubtful receivables after considering the recoverability of each account.

(2) Accrued bonuses to employees

To provide for the payment of bonuses to employees including the employees' portion of directors, accrued bonuses are provided for based upon an estimate of expected bonus payments at the fiscal year end.

(3) Accrued bonuses to directors and corporate auditors

To provide for the payment of bonuses to directors and corporate auditors, accrued bonuses are provided for based upon an estimate of expected bonus payments at the fiscal year end.

(4) Liability for retirement benefits for employees

Liability for retirement benefits for employees is made based on the projected benefit obligations and plan assets at the fiscal year end.

(Additional Information)

The Company changed the calculation basis of estimating the obligation for employees' post-retirements benefit from an exceptional basis to an actuarial one.

The change was made in order to enhance the accuracy in the estimation of the obligation for employees' post-retirement benefits and to make periodic accounting of profit and loss relating to it more appropriately, reflecting the increase in materiality of the amount of the obligation for employees' retirement benefits due to the increase in the number of the employees.

As a result of this change, the difference between the amount under the exceptional basis and that under the actuarial basis amounted to ¥371 million for the fiscal year end March 31, 2011 which was presented in extraordinary loss as "Retirement benefit costs for employees".

(5) Liability for retirement benefits for directors and corporate auditors

In order to pay rewards to the directors and corporate auditors at their retirement, the Company provides for the amount payable as at the year-end date in accordance with the Company's Internal Regulation.

6. Translation of foreign currency transactions

All monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The resulting foreign exchange gains and losses from translation are recognized in profit or loss.

(Translation)

7. Hedge accounting

(1) Method of accounting

The interest rate swaps that meet the specific criteria of hedge accounting are not remeasured at market value but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

(2) Hedging instruments and hedged items

Hedging instruments and hedged items to which hedge accounting is applied for the current fiscal year are as follows:

Hedging instruments – Interest rate swaps

Hedged items – Interest expense of loans payable

(3) Hedging policies

The Company enters into interest rate swap agreements to manage interest rate exposures of loans payable.

(4) Effectiveness of hedging

The Company does not evaluate effectiveness of hedging for the interest rate swaps that meet the specific criteria of hedge accounting.

8. Accounting method of consumption taxes

The tax-exclusion computation has been applied.

**CHANGES IN SIGNIFICANT ACCOUNTING POLICIES**

In March 2008, the ASBJ published the accounting standard for asset retirement obligations, ASBJ Statement No. 18, “Accounting Standard for Asset Retirement Obligations”, and ASBJ Guidance No. 21, “Guidance on Accounting Standard for Asset Retirement Obligations”. The Company applied this accounting standard effective April 1, 2010.

The effect of this change was nil on income for the current fiscal year.

(Translation)

**NOTES TO NON-CONSOLIDATED BALANCE SHEET**

1.	Short-term receivables from subsidiaries and associated companies	¥	20,211	million
	Short-term payables to subsidiaries and associated companies	¥	30,215	million
	Long-term receivables from subsidiaries and associated companies	¥	52	million
	Long-term payables to subsidiaries and associated companies	¥	640	million
2.	Accumulated depreciation on tangible fixed assets	¥	2,018	million
3.	Assets pledged as collateral and collateralized liabilities			
	Assets pledged as collateral			
	Buildings	¥	1,883	million
	Structures		7	million
	Land		49	million
	Investment Securities		28	million
	Total	¥	1,968	million
	Liabilities corresponding to above collateral			
	Accounts payable - trade	¥	20	million
	Current portion of long-term loans payable		280	million
	Long-term loans payable		260	million
	Total	¥	560	million
4.	Export trade notes sold with recourse	¥	973	million
5.	Contingent liabilities			
	Guarantee for employees' borrowings	¥	0	million
	Guarantee for vendor's lease contracts	¥	4	million
	Guarantee for affiliated company's transactions	¥	20	million

**NOTES TO NON-CONSOLIDATED STATEMENT OF INCOME**

6.	Transactions with subsidiaries and associated companies			
	Net sales	¥	71,090	million
	Purchase	¥	91,954	million
	Selling, general and administrative expenses	¥	369	million
	Non-operating transactions	¥	79	million

**NOTES TO NON-CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

Number of treasury stock at year end

Common stock 518,452 shares

Major change in treasury stock resulted from acquisitions of treasury stock ( 146 thousand shares ) based on the approval at the shareholders meeting and allocation of treasury stock ( 18 thousand shares ) to third parties.

(Translation)

## **NOTES TO TAX EFFECT ACCOUNTING**

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2011 are as follows.

### (1) Current deferred tax assets or liabilities

Deferred tax assets		
Accrued bonuses	¥	182 million
Accrued social security expenses		24
Allowance for doubtful accounts		89
Enterprise taxes payable		72
Other		4
Current deferred tax assets - net	¥	<u>372</u>

### (2) Non-current deferred tax assets or liabilities

Deferred tax assets		
Liability for retirement benefits for employees	¥	409 million
Liability for retirement benefits for directors and corporate auditors		37
Allowance for doubtful accounts		23
Accumulated impairment losses		15
Write-downs of golf memberships		40
Write-downs of investment securities		41
Write-downs of investments in capital of a subsidiary		26
Other		0
Subtotal	¥	593
Less valuation allowance		(143)
Total	¥	<u>450</u>
Deferred tax liabilities		
Reserve for deferred gains on land		353
Unrealized gains on available-for-sale securities		650
Total	¥	<u>1,004</u>
Non-current deferred tax liabilities – net	¥	<u>553</u>

## **NOTES TO FIXED ASSETS USED BY LEASE**

The Company accounted for leases which existed at March 31, 2008 and do not transfer ownership of the leased assets to the lessee as operating lease transactions.

### 1. Pro forma information of leased assets such as acquisition cost, accumulated depreciation and net leased assets

	Acquisition cost	Accumulated depreciation	Net leased assets
Vehicles	¥ 23 million	¥ 20 million	¥ 3 million
Tools and fixtures	14	9	4
Total	¥ 38	¥ 30	¥ 7

The amount of acquisition cost under finance leases includes the imputed interest expense portion.

### 2. Obligations under finance leases as of March 31, 2011

Due within one year	¥	5 million
Due after one year		2
Total	¥	<u>7</u>

The amount of obligations under financial leases includes the imputed interest expense portion.

### 3. Interest expense and depreciation expense

Interest expense	¥	8 million
Depreciation expense	¥	8 million

(Translation)

4. Computing method of depreciation expense

Depreciation expense was computed by the straight-line method over the lease period with no residual value.

**TRANSACTIONS WITH RELATED PARTIES**

1. The parent company and corporate shareholders (limited to entities)

Attribution	Name	Address	Capital (¥ million)	Business	Voting rights (owned)  (%)	Relation	Details of transactions	Amount of transactions (¥ million)	Account	Balance at year end (¥ million)
Parent Company	Daido Steel Co., Ltd.	Higashi -ku, Nagoya	37,172	Manufact ure and sales of special steel	(owned) Direct 63.8 Indirect 3.0	Sales of raw materials and purchases of special steel and directors' concurrent	Sales of raw materials	¥ 66,009	Accounts receivable	¥ 17,882
							Purchases of products	89,874	Accounts payable - trade	20,156
									Advances paid	340
							Interest income due to alteration of contract terms	78		
							Borrowing	6,000	Short -term borrowing payable to an associated company	10,000
Interest expenses paid	1	Accrued expenses	0							

The amounts of transactions do not include consumption taxes, whereas balances at year end include consumption taxes.

Conditions of transactions and policies

1. Sales prices of raw materials to Daido Steel Co., Ltd. are made reflecting current market prices and purchase prices of products are made considering market prices in an arm's-length transaction.
2. Interest rate changes due to alteration of payment periods are made monthly based on the short-term prime rate.
3. Interest rate of borrowing was determined by agreement based on the market interest rate.

(Translation)

## 2.Fellow subsidiaries and others

Attribution	Name	Address	Capital (¥ million)	Business	Voting right (Own) (Owned) (%)	Relation	Details of transactions	Amount of transactions (¥ million)	Account	Balance at year end (¥ million)
Subsidiary of the parent company	Fuji Oozx Inc.	Kikugawa , Shizuoka	¥ 3,018	Manufact ure and sales of motor bulbs	(Own) Direct 5.3 (Owned) Direct 0.5	Sales of special steel	Sales of special steel	¥ 2,645	Accounts receivable -trade	¥ 1,153
Subsidiary of the parent company	Nippon Seisen Co., Ltd.	Chuo-ku, Osaka	5,000	Manufact ure and sales of stainless wire rods	(Own) Direct 0.2 (Owned) Direct 0.2	Sales of special steel	Sales of special steel	9,095	Accounts receivable -trade	1,881
Subsidiary of the parent company	Shimomura Tokushu Seiko Co., Ltd.	Ichikawa, Chiba	298	Manufact ure and sales of special precise rods	(Own) Direct 3.9	Sales of special steel	Sales of special steel	6,910	Accounts receivable -trade	2,102
Subsidiary of the parent company	Daido Castings Co., Ltd.	Minato -ku, Nagoya	2,215	Manufact ure and sales of casting such as special steel and nickel alloy	-	Purchase of casting such as special steel and nickel alloy	Purchases of casting such as special steel and nickel alloy	7,263	Accounts payable -trade	2,100
Subsidiary of the parent company	Daido-Spec ial Metals Co., Ltd.	Minato -ku, Tokyo	400	Manufact ure and sales of nickel products and nickel alloy	-	Purchase of nickel alloy	Purchases of nickel alloy	2,586	Accounts payable -trade	1,009
Subsidiary of the parent company	Daido Electronics Co., Ltd.	Nakatsuga wa, Gifu	1,490	Sales of rare earth bond magnet and applied products	-	Purchase of magnets	Purchases of magnets	3,099	Accounts payable -trade	1,208

The amounts of transactions do not include consumption taxes, whereas balances at year end include consumption taxes.

### Conditions of transactions and policies

1. Sales prices are annually decided by negotiation in arm's-length transactions by presenting our offer considering the market price and total cost.
2. Purchase prices are annually decided through negotiation based on offer prices from Nippon Seisen Co., Ltd., Daido Castings Co., Ltd., Daido-Special Metals Ltd. , and Daido Electronics Co., Ltd.

(Translation)

3. Non-consolidated subsidiaries and associated companies of the Company

Attribution	Name	Address	Capital (million US\$)	Business	Voting right (Own) (Owned) (%)	Relation	Details of transactions	Amount of transactions (¥ million)	Account	Balance at year end (¥ million)
Associated company	Daido Steel (America) Inc.	Illinois USA	US\$ 9	Inport and export of special steel and raw material	(owned) Direct 22.2	Sales of raw materials and purchases of special steel Directors' concurrent	Sales of special steel	¥ 1,919	Accounts receivable -trade	¥ 920

The amounts of transactions do not include consumption taxes, whereas balances at year end include consumption taxes.

Conditions of transactions and policies

Sales prices are annually decided by negotiation in arm's-length transactions by presenting our offer considering the market price and total cost.

**NOTES TO PER SHARE INFORMATION**

1. Net assets per share	¥ 557.89
2. Net income per share	¥ 54.77

(Translation)

**Transcript of Independent Auditors' Report**

**INDEPENDENT AUDITORS' REPORT**

May 17, 2011

To the Board of Directors of Daido Kogyo Co., Ltd.

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,  
Engagement Partner,  
Certified Public Accountant:

NATSUKI MATSUI

Designated Unlimited Liability Partner,  
Engagement Partner,  
Certified Public Accountant:

KATSUHIKO KATO

Pursuant to the first item, second paragraph of Article 436 of the Companies Act, we have audited the financial statements, namely, the balance sheet as of March 31, 2011 of Daido Kogyo Co., Ltd. (the "Company"), and the related statements of income and changes in equity for the 95<sup>th</sup> fiscal year from April 1, 2010 to March 31, 2011, and the accompanying supplemental schedules. These financial statements and the accompanying supplemental schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the accompanying supplemental schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the accompanying supplemental schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and the accompanying supplemental schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement and the accompanying supplemental schedules presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements and the accompanying supplemental schedules referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2011, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in Japan.

Our firm and the engagement partners do not have any financial interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Law.

The above represents a translation, for convenience only, of the original report issued in the Japanese language and "the accompanying supplemental schedules" referred to in this report are not included in the attached financial documents.