

# ANNUAL REPORT 2005

Year ended March 31, 2005

# Profile

As a leading company in material handling systems and equipment, Daifuku Co., Ltd. has acquired a top share of the world market since its founding in 1937 in the automobile industry, semiconductor manufacturing equipment field, and logistics and warehousing field.

Daifuku broadly contributes to the development of industry around the world with its formidable know-how and comprehensive capabilities in a wide range of logistic systems, offering services from consulting and engineering to maintenance that fulfill diverse and sophisticated customer needs.

The fiscal year ended March 31, 2005, marked the first year of the Three-Year Business Plan, which will finish in the fiscal year ending March 31, 2007. With significant growth in earnings, Daifuku embarked on an excellent start in the fiscal year ended March 31, 2005, toward achieving the objectives of the plan. In the fiscal year ending March 31, 2006 and beyond, Daifuku will focus efforts on continually improving its earnings capabilities and financial standing while fulfilling the needs of customers around the world.

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### Cautionary Statement with Respect to Forward-Looking Statements

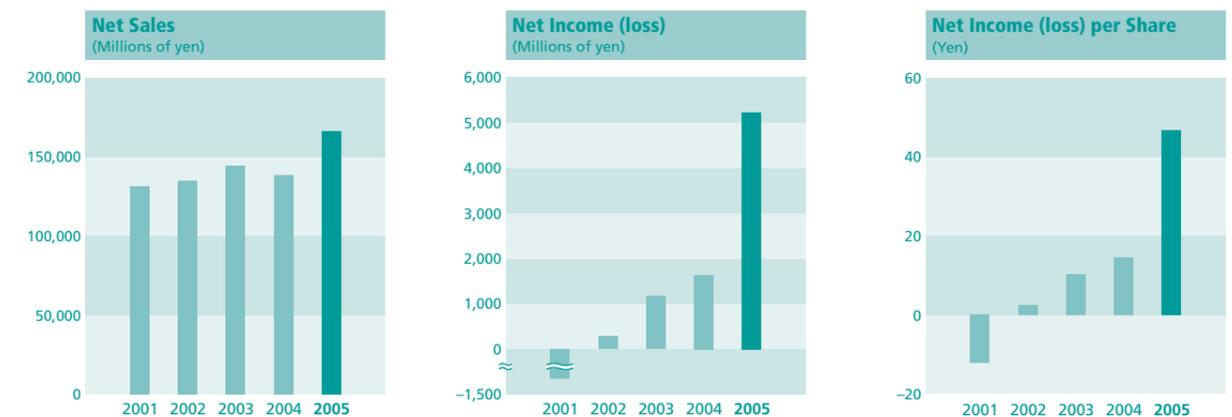
The strategies, beliefs and plans related to future business performance as described in this annual report are not facts of the past. They are business prospects based on the assumptions and beliefs of the management team judging from the most current information, and therefore these prospects are subject to potential risks and uncertainties. Due to various crucial factors, actual results may differ substantially from these forward-looking statements. These crucial factors that may adversely affect performance include 1) consumer trends and economic conditions in the Company's operating environment, 2) the effect of yen exchange rates on sales, assets and liabilities denominated in U.S. dollars and other currencies, and 3) the tightening of laws and regulations regarding safety and other matters that may lead to higher costs or sales restrictions. Moreover, there are other factors that may adversely affect the Company's performance.

# Financial Highlights

Daifuku Co., Ltd. and Consolidated Subsidiaries for the Years Ended March 31, 2005 and 2004

|   | 2005            | 2004     | 2005                      |
|---|-----------------|----------|---------------------------|
|   | Millions of yen |          | Thousands of U.S. dollars |
| <b>For the Year</b>                             |                 |          |                           |
| Orders received                                 | ¥178,019        | ¥135,027 | \$1,657,380               |
| Net sales                                       | 166,232         | 138,661  | 1,547,638                 |
| Operating income                                | 10,790          | 5,358    | 100,456                   |
| Net income                                      | 5,231           | 1,635    | 48,707                    |
| Net income per share (Yen and U.S. dollars)     | 46.07           | 14.50    | 0.43                      |
| Cash dividends per share (Yen and U.S. dollars) | 13.00           | 10.00    | 0.12                      |
| Capital investment                              | 3,671           | 1,374    | 34,177                    |
| R&D expenditures                                | 4,970           | 4,231    | 46,273                    |
| <b>At Year-End</b>                              |                 |          |                           |
| Total asstes                                    | ¥147,158        | ¥129,712 | \$1,370,058               |
| Working capital                                 | 42,575          | 40,440   | 396,380                   |
| Shareholders' equity                            | 53,337          | 49,082   | 496,570                   |
| No. of employees                                | 3,716           | 3,453    |                           |
| <b>Ratios</b>                                   |                 |          |                           |
| Operating income/sales                          | 6.5%            | 3.9%     |                           |
| Net income/sales                                | 3.1             | 1.2      |                           |
| Return on shareholders' equity (ROE)            | 10.2            | 3.3      |                           |
| Shareholders' equity/total assets               | 36.2            | 37.8     |                           |

Note: The U.S. dollar amounts in this report represent translations of Japanese yen for convenience only, at the rate of ¥107.41 = U.S.\$1.00 on the Tokyo Foreign Exchange Market on March 31, 2005.



# A Message from the President



## Performance: Higher Sales and Profits

During fiscal 2004, ended March 31, 2005, the Daifuku Group recorded strong growth in orders received, net sales, and profits on a consolidated basis. We achieved all of our numerical targets for the fiscal year under review, marking an excellent start in the first year of the Three-Year Business Plan. Daifuku recorded its highest levels of orders received and net sales since its establishment. Orders received advanced 31.8% to 178,019 million yen, while net sales climbed 19.9% to 166,232 million yen compared with the previous fiscal year. As our business divisions aggressively responded to increasingly sophisticated customer needs, the Japanese economy expanded with improved corporate earnings and growth in capital investment. In overseas markets, demand was steady in Asia and Europe, contributing to our strong performance.

Daifuku also recorded its highest level of operating income and net income for the past 10 years. Operating income increased 101.4% to 10,790 million yen due mainly to significantly improved profits in the logistics system business. Net income soared 220.1% to 5,231 million yen compared with the previous fiscal year.

While remaining committed to the distribution of stable dividends, Daifuku has changed its dividend policy to reflect performance in dividend payments. Given that net income per share increased significantly to 46.07 yen during fiscal 2004, Daifuku has decided to increase annual dividends to 13 yen per share, compared with 10 yen per share in the previous fiscal year.

## Achievements in Fiscal 2004

Daifuku will celebrate its 70th anniversary in May 2007, and launched the new Three-Year Business Plan in fiscal 2004 to commemorate this milestone. In light of our mission as a leading material handling company, the objectives of the plan are to contribute to the development of industry around the world and, in the process, achieve growth and increase corporate value for the Daifuku Group. This Three-Year Business Plan requires the commitment of management to achieve its targets, and therefore our basic policies are centered on the keywords “create” and “challenge.” The concept of “create” and “challenge” is to motivate each and every employee to proactively participate in new business development, and unify the entire company toward achieving management targets.

The Three-Year Business Plan positions the material handling systems and equipment business, as well as the electronics business, as core businesses, while promoting efforts to develop globally and create new businesses. In addition, management is faced with the crucial task of improving profitability to establish a robust financial foundation that is able to flexibly adapt to changes in the operating environment. Accordingly, Daifuku has set the plan's final-year fiscal 2006 targets to achieve an operating income margin of 7.0%, return on equity (ROE) of 10.0%, and a debt-equity ratio of 0.5%. Owing to the strong growth in profits in fiscal 2004, Daifuku achieved its ROE target ahead of schedule, but will continue efforts to improve ROE in the future.

In fiscal 2004, Daifuku shored up operations in each of its seven core businesses and enhanced companywide collaboration to align efforts along the objectives of the Three-Year Business Plan. In particular, Daifuku concentrated efforts on:

- 1) Expanding operations in the growth fields of information technology, supply chain management, and automobiles,
- 2) Upgrading the production structure of plants at home and abroad to realize an optimal global production system,
- 3) Building an integrated development, manufacturing and sales structure able to swiftly and precisely respond to customer needs,
- 4) Fostering a mindset that emphasizes the environment and safety in producing products and systems, and
- 5) Enhancing our employee promotion system to meet global standards while nurturing a corporate culture of freedom and vigor.

As a result of these efforts, Daifuku achieved the following results during the fiscal year ended March 31, 2005.

### 1. Growth in transport and storage systems (e-Factory Automation) for semiconductors and FPDs

Demand for digital consumer electronics and information communications equipment in the IT-related semiconductor and flat-panel display (FPD) fields contributed to Daifuku's strong performance during the fiscal year under review. Although some change is anticipated in market growth rates in these fields in the future, worldwide growth is expected to continue over the medium term with the shortening of the silicon cycle and crystal cycle.

Based on these expectations, Daifuku is concentrating management resources on cleanroom transport and storage systems for semiconductor and FPD fabs. In fiscal 2004, this strategy coincided with robust capital investment in the semiconductor and FPD industries, leading to significant growth in the transport and storage systems business. In the FPD field, which has entered a period of growth with digital TVs, our R&D efforts paid off with the development of an LCD glass single sheet air cushion transport conveyor for seventh-generation large glass substrates, further distinguishing our product lineup from the competition.

Semiconductor and FPD manufacturers are rapidly expanding their production capacity in Asia. As a part of its strategy to create an optimal global production system, Daifuku is constructing a new plant for semiconductor and LCD panel transport systems in South Korea, and expanding its plants in Japan and Taiwan.

### 2. Growth in deliveries of logistics systems in response to SCM needs

From manufacturing to distribution, supply chain management is proliferating as companies strive to be more sensitive to market trends. At the same time, logistics systems are becoming more advanced and efficient with the use of information technology. We believe these trends present opportunities for business expansion.

During the fiscal year under review, orders received and sales increased considerably for conveyor and storage systems and related equipment as a result of focusing on the distribution automation field, comprising sorters, picking systems, conveyors and automated warehouses, for the logistics industry. Daifuku enjoyed steady growth in large-scale distribution centers, such as one built for the Japan's Consumers' Co-operative, which boasts Japan's largest supply capacity, as well as large- and medium-scale automated warehouse systems for the wholesale, retail, transportation, warehousing, food, and beverage industries.

The key to differentiation in logistics systems is the development of superior software. In fiscal 2004, Daifuku established a sub-subsidiary Daifuku Alvec Software Co., Ltd. to keep up with the increasing complexity and advancements of software. The Daifuku Group believes that becoming a logistics system integrator that provides optimal logistics solutions will reinforce its comprehensive strengths, and aims to redouble efforts on the software front in the future.

### 3. Aggressively entering China's automobile industry

In the Automotive Factory Automation business, sales declined in North America due to weak performance at automobile manufacturers, which were adversely affected by higher crude oil prices. Nevertheless, orders received and sales increased overall in Japan, Asia, and Europe. In fiscal 2004, as a part of our strategy to expand the global business structure, we established a local subsidiary Daifuku Automation (Guangzhou) Co., Ltd. to handle sales, installation and after-sales services for conveyor systems for automobile production lines in China, where significant demand growth is expected. This move completed our six-base structure in the Automotive Factory Automation business in China. By 2007, Daifuku plans to expand to 10 bases as Japanese, U.S., and European automobile manufacturers step up efforts to enter China.

### 4. Reinforcement of Group capabilities with establishment of new companies

Under the Three-Year Business Plan, Daifuku aims to rearrange its roster of subsidiaries and affiliates to strengthen consolidated management of the Group in order to increase cost competitiveness while enhancing quality and the service structure to prosper in the global marketplace. Toward this objective, in fiscal 2004 Daifuku established the following companies in addition to Daifuku Alvec Software Co., Ltd. and other overseas companies mentioned previously.

We established Contec EMS Co., Ltd. as a subsidiary of Contec Co., Ltd. to consolidate electronics production functions within the Group. As a result, we aim to concentrate our knowledge of electronics and increase efficiency in the development and production of electronic devices used in our core businesses.

To pass on the technical skills and know-how of experienced veteran employees down to the next generation of younger employees, we established three subsidiaries comprising the marketing and engineering company Daifuku Business Create Co., Ltd., manufacturing company Daifuku Manufacturing Expert Co., Ltd., and the installation and services company Daifuku Field Engineer Co., Ltd.

## Basic Management Strategy for Fiscal 2005: Accelerate Globalization

In the fiscal year ending March 31, 2006, the operating environment is uncertain with concerns for higher crude oil and steel prices and a deceleration in the European and U.S. economies. With this outlook, Daifuku is positioning fiscal 2005 as a launching pad for carrying on the success of the fiscal year under review and achieving the second-year targets of the Three-Year Business Plan. Accordingly, we are making every effort to sustain growth in earnings and create a robust corporate structure. In fiscal 2005, to continue along the path of global business expansion, Daifuku aims to develop operations in growth markets, upgrade and raise efficiency in its international production structure, and improve the competitiveness of its products as a global industry leader with a stronger R&D structure.

### 1. Developing growth markets through global business expansion

Daifuku aims to raise the ratio of overseas sales from 38.6% in the fiscal year under review to 40% or higher. Accordingly, Daifuku has developed markets and expanded operations in mainly China, where economic growth is strong. Moreover, the Company plans to increase the pace of growth in overseas sales by developing markets in Russia, Brazil, and India.

### 2. Increasing production efficiency globally

Our domestic factories not only fulfill domestic demand, but also play an increasingly important role as core factories in the Daifuku Group's global business development that aims to realize an optimal global production structure. Our overseas plants are advantageous in the context of cost competitiveness for their close proximity to local markets and lower material and personnel expenses. Daifuku is developing operations while taking a balanced approach to optimizing its local and global business structures. Daifuku established the D-MAND (Daifuku Manufacturing And Design System) promotion center for the purpose of personnel training and support in manufacturing field at

home and abroad, and thoroughly instill its D-MAND core production system on a global basis. In August 2005, Daifuku will establish a production subsidiary in Taiwan for the e-Factory Automation business. In fiscal 2005, we are accelerating the formation of an optimal global supply structure, while also gradually increasing local procurement overseas in response to rising prices for crude oil and steel materials.

### 3. Reinforcing the R&D structure

Daifuku is reinforcing its R&D structure to create products and systems in tune with global market needs while emphasizing environmental conservation and safety.

In fiscal 2005, Daifuku plans to launch measures to switch to materials and production methods for its logistics equipment that help preserve the environment. Daifuku has developed remote monitoring systems, and is further advancing the development of preventative measures for the risk management of facilities to be delivered to customers.



## Eyeing Further Development

In line with its basic management philosophy and as a leading company in the material handling industry, Daifuku aims to fulfill its role in the sustainable development of society by contributing to the development of the manufacturing industry while pursuing earnings growth.

As a corporate responsibility to society, we are making concerted efforts to improve corporate governance by enhancing compliance and fulfilling our duty of accountability. In addition to switching to a new performance-linked dividend payment policy, Daifuku has created an organization dedicated to investor relations, and is stepping up its investor relations activities at home and abroad as a part of new management measures that emphasize shareholders. Moreover, on August 1, 2005, Daifuku will change its standard share unit from 1,000 to 500 shares for the convenience of individual investors and to enhance share liquidity.

We are in position to continue growing as a company that fulfills the expectations and trust of all our stakeholders, including shareholders and investors. We ask for your support in these endeavors.

July 2005

A handwritten signature in black ink, reading "K. Takeuchi". The signature is fluid and cursive, with a long horizontal stroke at the end.

Katsumi Takeuchi  
President and CEO

# Corporate Governance



**Masaki Hojo**

Senior Managing Director  
COO of Business Management  
Operations and Overseas  
Management Operations

Amid significant changes to its operating environment, Daifuku is committed to implementing a variety of initiatives to ensure comprehensive corporate governance and strict compliance with all regulatory, in-house, and social requirements. To this end, the Company is guided by a fundamental policy and objective to maintain and enhance ethical, fair, and transparent management.

## Governance Structure

Daifuku is striving to revitalize management and is taking steps to reinforce the identity of its Board of Directors with the aim of accelerating management decision-making. In addition,

the Company has established the Management Advisory Committee, comprised of Daifuku's senior executives, namely those of managing director status and above, and external specialists. The committee meets as necessary to discuss key matters relevant to the management of the Company. Furthermore, Daifuku has implemented a structure of supervisory meetings, specific to business operations, manufacturing, administration, and overseas subsidiaries. The objective of this structure is to ensure greater flexibility in the execution of the Company's activities.

Daifuku currently maintains 18 directors. In 2001, the Company shortened the term of each director to one year with the aim of further clarifying each director's responsibility. In this manner, Daifuku has established a structure that entails confirmation of each director's mandate by its shareholders on a fiscal year basis.

Daifuku is a company with a corporate auditor system as defined by the Commercial Code of Japan. The Company is enhancing the effectiveness of monitoring over the management activities of directors and others through the intensification of the current structure of five-member corporate auditors, of which three members are appointed from outside the Company. Guided by the annual audit plan, which is formulated at the beginning of each fiscal year, corporate auditors attend key meetings, including meetings of the Board of Directors; receive reports from directors, employees, external accounting auditors and internal audit entities; conduct inspections and audits of manufacturing, operating, and business bases; and implement audits for the Company's subsidiaries in Japan and abroad.

## Compliance and the Internal Control Structure

Chaired by the President, Daifuku established the Compliance Committee in 2003 to ensure that the Company's activities strictly comply with regulatory, fair and ethical requirements. To complement this initiative, Daifuku also formulated its Code of Conduct ("Code") in 2004. In this context, the Company is consistently working to ensure strict adherence to the Code. As a leading company in its industry, all directors and employees are endeavoring to contribute to the broader community based on a clearly defined mission and role.

Daifuku's President assumes ultimate responsibility in the context of the Company's risk management structure. In addition, the Company has incorporated various risk hedge initiatives in its management plan and conducts periodic reviews with the aim of minimizing risk. To supplement its risk management structure, the Company has further established Risk Management Centers, headed by the relevant directors at principal offices in Japan and abroad. Conscious of the existence of unforeseen risks, incidents, and accidents, Daifuku's risk management structure is geared toward employing preventative measures, taking prompt and accurate action in response to risk, minimizing damage, and raising awareness of risk management and compliance across the Company, thereby developing a healthy and robust management.

In 2004, Daifuku established the Information Security Committee with the responsibility of formulating an information security policy and standards for information asset and security management. This policy and its standards have been applied to the Company's activities commencing in April 2005.

In conjunction with the aforementioned, in order to ensure the effectiveness of the internal control structure and the reliability of financial reporting based thereon, the Company's Business Audit Office, which serves as its central internal auditing body, assesses the Company in its execution of business activities in the context of its business plans, related regulatory requirements, and in-house rules. The Business Audit Office strives to improve management soundness and efficiency, and protect the Company's assets.

## Information Disclosure System

Daifuku is committed to increasing transparency in management and its accountability. In addition to reinforcing the Company's IR activities, Daifuku also established the Disclosure Committee in April 2005. The role of the Disclosure Committee is to evaluate reports concerning important decisions and occurrences initiated by departments, offices, and subsidiaries, and to submit reports to the Board of Directors for any required actions. The role of the Disclosure Committee is to ensure timely disclosure to the public in coordination with relevant head office departments.

# Corporate Social Responsibility (CSR)

In recent years, corporate social responsibility has extended beyond the economic perspective to include issues relating to the environment and social contribution. In this context, Daifuku has stepped up efforts to pursue sustainable development alongside society with the aim of further engendering confidence in society and all stakeholders. In particular, "contributing to sustainable development in concert with humankind, society, and the economy," plays a central role in the Company's new Three-Year Business Plan: "Create & Challenge for the 70th Anniversary." Guided by the plan, the Daifuku Group is united in pursuing three underlying principles, namely: (1) to contribute to the development of the industry as the world's leading material handling manufacturer; (2) to strictly observe laws, ordinances, and social norms in Japan and overseas and at the same time strengthen compliance and risk management; and (3) to supply products and systems while building a production structure that emphasizes safety and environment conservation.

## Pursuing Open and Fair Business Activities

In the context of strict compliance with laws and ordinances as well as with social norms (refer to page 6, "Corporate Governance") that constitute the fundamentals of CSR, Daifuku established the Compliance Committee in 2003. The role of the Compliance Committee is to oversee compliance across each of the Company's businesses and subsidiaries. At the same time, Daifuku formulated its Code of Conduct to ensure that all employees behave at all times in a manner acceptable to the general community. This Code of Conduct has been published as a small booklet and is carried at all times by each and every employee.

In support of the Compliance Committee, Daifuku established the Information Security Committee and began to monitor and educate employees in matters relating to the handling and protection of information assets.

## Environmental Activities

In 1999, the Company's Komaki Works and Shiga Works acquired ISO 14001 certification, the international standard for environmental management systems. In early 2004, Daifuku acquired ISO 14001 certification at its Headquarters, Tokyo Headquarters, and Chubu Tokai Branch Office. The Company also established the Daifuku Environmental Management System to expand its environmental protection system throughout the entire organization. Buoyed by its success and efforts in Japan, Daifuku will endeavor to acquire ISO 14001 certification at all of its overseas offices.

Securing healthy and robust business development in concert with efforts to protect the environment and fulfill its corporate social responsibility is the basis of the Company's environmental activities. In this context, Daifuku has formulated its fundamental environmental policy and objectives, which include the development and manufacture of environmentally conscious products, comprehensive environmental disclosure and communication, energy and resource conservation, reduction of waste materials, reduction of pollutants and emissions, and green procurement.



Daifuku's Environmental Report is available in English.

## Major CSR Activities

### — Product Safety

In fiscal 2003, Daifuku launched the Product Safety Task Force. This task force is responsible for guaranteeing product safety with the aim of ensuring continuous development and improvement. In specific terms, the task force formulates and promotes standards relating to product risk assessment in line with ISO guidelines and standards set by Japan's Health, Labour and Welfare Ministry. These standards are applied principally to the Company's engineering and design departments.

### — Individual Rights, Employment and Work Safety

Daifuku respects the individual rights of each employee and stakeholder. The Company is active in efforts to create a bright, comfortable, and pleasant work environment. In 2004, Daifuku established the Personnel Counselling Office, which provides employees with an avenue to discuss a broad spectrum of matters including compensation, evaluation, workplace environment, health, and safety. In addition, the Company accomplished the opening of communication channels with directors to enable bilateral feedback between management and the Company's employees. Furthermore, Daifuku established the Occupational Health and Safety Committee to promote workplace safety as a key priority. The focus of the committee is to ensure a safe and hygienic work environment and to secure an accident-free workplace.

### — Activities in the Local Community and Internships

Daifuku remains conscious of its impact on local communities and strives for mutual well-being and development. At the end of 2001, the Company commenced a clean-up and beautification campaign in the areas surrounding its Shiga Works. This campaign was extended to the areas surrounding the Company's Komaki Works in autumn 2003. Through these and other efforts, Daifuku is continuously endeavoring to contribute to society and the local communities in which it operates.

As a part of its efforts to develop global human resources, Daifuku has offered internship training since 1992, inviting university students majoring in engineering from the United States to participate every year. We have had 17 students participate as interns in the development of CAD analysis and other tools.

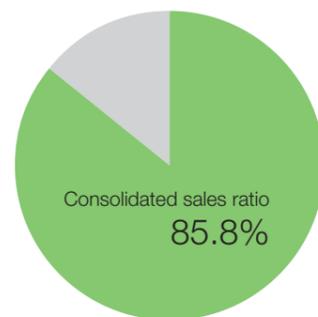
(For further information in connection with Daifuku's environmental activities, please refer to the Company's Web site: <http://www.daifuku.co.jp/english/company/profile/ecology.html>)

# Performance by Business Segment

(Millions of yen)

|                         |                                   | Logistics system business | Electronics business | Other businesses |
|-------------------------|-----------------------------------|---------------------------|----------------------|------------------|
| Orders received         |                                   | 155,143                   | 12,653               | 10,222           |
| Net sales               | Sales to external customers       | 142,622                   | 13,647               | 9,963            |
| Operating income (loss) | Before eliminations and corporate | 14,374                    | 1,296                | (52)             |
| Capital expenditures    | Before eliminations and corporate | 3,140                     | 219                  | 60               |

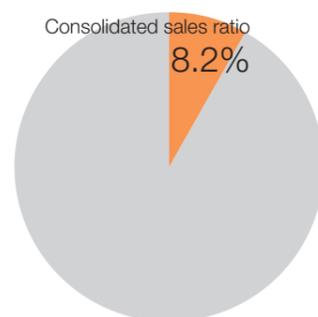
## Logistics System Business



During the fiscal year under review, the logistics system business received record-high orders of 155,143 million yen, an increase of 38.2% from the previous fiscal year. Sales rose 23.6% to 142,622 million yen, and operating income (before eliminations and corporate, same hereinafter) totaled 14,374 million yen, growing a significant 125.1% compared with the previous fiscal year. This growth was attributable to several factors. First, demand remained steady in the Automotive Factory Automation business for conveyor systems for automobile production lines in Japan, China, and other Asian countries. Moreover, in the e-Factory Automation business, performance was favorable in cleanroom transport and storage systems for the electronics industry in Japan and Asia. In addition, there was growth in the Factory Automation & Distribution Automation business for large- and medium-scale automated warehouse systems for the wholesale, food, beverage, transportation, and warehousing industries, owing to construction demand for logistics and distribution centers.

In the logistics system business, capital expenditures (before eliminations and corporate) expanded to 3,140 million yen, mainly for production facilities, including 740 million yen for expanding cleanrooms at Shiga Works and 1,020 million yen for moving and upgrading a plant at Clean Factomation, Inc. in South Korea.

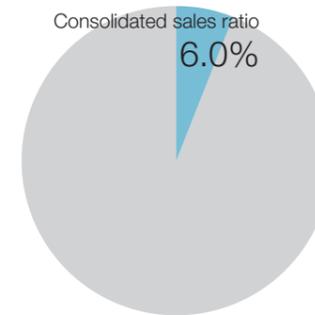
## Electronics Business



In the electronics business, sales were strong for CPU boards, production management systems and production line control systems, despite weak sales of computers and boards embedded in various terminal equipment due to a deceleration in the PC market and related capital investment. Amid the proliferation of wireless LANs, Daifuku developed and initiated sales of specialized LAN equipment that ensures a high level of security. As a result, orders received edged down 1.3% year on year to 12,653 million yen, while sales grew 1.0% to 13,647 million yen. Operating income fell 36.5% to 1,296 million yen.

Capital expenditures in the electronics business amounted to 219 million yen, and centered on streamlining and upgrading of production facilities.

## Other Businesses



In other businesses, although domestic demand remained weak, Daifuku aimed to expand sales of mainstay car-washing machines by strengthening the services of its marketing companies and launching Twinfect, a new drive-through type car washer. As a result, orders received increased 2.4% to 10,222 million yen and sales rose 2.5% to 9,963 million yen. However, this segment had an operating loss of 52 million yen, compared with operating income of 370 million yen in the previous fiscal year.

Capital expenditures were 60 million yen, primarily for streamlining and upgrading production facilities.

## Business Results by Region

In Japan, sales expanded 22.6% to 141,478 million yen and operating income advanced 69.5% to 13,916 million yen on account of firm corporate capital investment and an increase in IT-related demand.

In North America, sales decreased 13.4% to 12,190 million yen but operating income totaled 139 million yen, rebounding from an operating loss of 196 million yen in the previous fiscal year. These results

reflected inflationary concerns from rising crude oil prices and the impact of sluggishness in the automobile industry.

In other regions, including Asian countries other than Japan, performance improved considerably on the back of demand growth in mainly China. Accordingly, sales increased 36.3% to 12,564 million yen and operating income grew 99.6% to 1,563 million yen.

(Millions of yen)

|                  |                                   | Japan   | Overseas        |                 |
|------------------|-----------------------------------|---------|-----------------|-----------------|
|                  |                                   |         | North America*1 | Other regions*2 |
| Net sales        | Sales to external customers       | 141,478 | 12,190          | 12,564          |
| Operating income | Before eliminations and corporate | 13,916  | 139             | 1,563           |

\*1: North America comprises the United States and Canada.

\*2: Other regions comprise the United Kingdom, the Netherlands, Singapore, Malaysia, Thailand, Taiwan, South Korea, and China.



● Daifuku Europe Ltd.  
(Langley, U.K.)



● Daifuku (Shanghai) Ltd.  
(Shanghai, China)



● Daifuku Co., Ltd.,  
Shiga Works  
(Shiga, Japan)



● Daifuku (Thailand) Ltd.,  
Chonburi Plant  
(Chonburi, Thailand)



● Daifuku America  
Corporation, Main Office  
(Ohio, U.S.A.)



● Clean Factomation, Inc.  
(Asan, South Korea)

# Core Businesses

## Logistics System Business

### Automotive Factory Automation

The Automotive Factory Automation business promotes the development, production and sale of factory automation systems for automobile production lines in all corners of the world. Daifuku boasts a leading share of the world market for conveyor systems for automobile plants, as many automobile manufacturers in Japan and countries overseas use its factory automation systems.

### Factory Automation & Distribution Automation

The Factory Automation & Distribution Automation business develops, manufactures and sells storage systems, high-speed sorting and picking systems, automated guided vehicles, conveyors, and other logistics systems. Our systems are used in all types of industry at home and abroad, including the food, pharmaceutical, distribution and retail, and public sector businesses.

### Daifuku Technology Services

Daifuku Technology Services provide installation and maintenance services for logistics systems and related equipment delivered to customers, after-sales services such as parts supply, and renewal projects. We aim to increase customer satisfaction through tight collaboration between service offices and customer service centers.

### e-Factory Automation

The e-Factory Automation business is centered on the development, production and sale of cleanroom transport and storage systems, which are essential for the production of semiconductors, LCDs and other electronic components. Our industry-leading, innovative concepts and cutting-edge technologies are highly regarded at home and abroad.

## Other Businesses

### Car-washing Machines

A main pillar of Daifuku's Other business is the development, production and sale of car-washing machines for service stations in Japan and other parts of Asia. Our sales subsidiary Daifuku Unix Corporation has a business structure integrating operations from development to after-sales services in this product area.

### Special Equipment

Daifuku also develops, manufactures and sells products based on welfare and environmental concepts. We provide products that leverage our expertise in material handling equipment, such as the Renace series of home under-floor storage units for condominiums and multilevel bicycle parking systems.

## Electronics Business

### Electronics

The Electronic business centers on Group company Contec Co., Ltd. This business focuses on the development, production and sale of factory automation PCs, boards, LAN-related products, material handling control equipment, and remote monitoring and control systems.

### Main Products



- RAMRUN®, electrified monorail systems
- Flexible Drive System, chainless conveyor systems
- Chain conveyor systems
- Engine testing systems

### Main Products



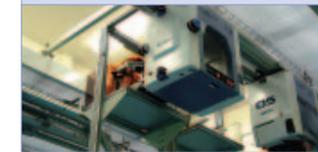
- Conveyor systems and automated guided vehicles
- Storage systems
- Sorting and picking systems
- Material Handling equipment
- Software

### Main Products



- Maintenance services
- Renewal projects
- Transportation and delivery of logistics equipment

### Main Products



- Transport and storage systems for semiconductor production
- Transport and storage systems for LCD production
- Transport and storage systems for other electronic components production

### Main Products



- Car-washing machines
- Peripheral products for car-washing machines

### Main Products



- Transport and storage systems for medical equipment
- Machines for bowling alleys
- Multilevel bicycle parking systems
- Welfare rear-mounted lifts (for wheelchair on vehicles)

### Main Products



- Distributed monitoring and control systems
- Industrial computers and board computers
- Built-to-order PCs for industrial applications
- LAN-related equipment

## Automotive Factory Automation



**Haruyoshi Amakusa**  
Senior Managing Director

Daifuku's automobile production line systems are used by many of the major automobile manufacturers worldwide. Backed by our highly acclaimed, advanced technologies, we have acquired the number one position with more than 20% share of the world market for providing conveyor systems to automobile plants.

In recent years, the needs of automobile manufacturers for conveyor systems have changed significantly, shifting from the mass production of a few car models to the mixed production of multiple car models. Moreover, while dealing with environmental issues, automobile manufacturers must pursue global development, including the construction of new car production facilities in flourishing growth markets. Developing products and systems one step ahead of these changes, Daifuku is precisely responding to customer needs for globalization by building a production, procurement and marketing network in optimal locations around the world.

### Business Overview

During the fiscal year under review, the first year of the Three-Year Business Plan, Daifuku concentrated its efforts on three main points from a medium-term perspective of the automobile industry. The first point was responding to and staying ahead of customer needs with our Front-Loading Measures. The second aim was to establish an overwhelming presence in fast-growing China. The third area was expanding sales volume through product data management, which aims to increase productivity from engineering to manufacturing. As a result, the Automotive Factory Automation business performed on par with the previous fiscal year, as growth in China, Japan, and other Asian countries offset the adverse effects of higher crude oil prices in the North American market.

In product development, we responded to needs for higher quality, lower costs, and environmental protection by developing new products including E-DIP, a new automobile paint system that increases our competitive advantage in the market; E-Assy, a new assembly line system; and NewPRB, a skid conveyor system. Overseas, we completed construction and began operations at the second plant of our South Korean subsidiary ATS Co., Ltd., which is enjoying steady earnings growth. In China, Daifuku established a local company in Guangzhou, southern China to engage in marketing and construction services. This completes our six-base structure, with two local companies, including the existing one in Tianjin, northern China.

### Business Strategy

Despite mature automobile production in the markets of advanced countries, business opportunities are expected to expand worldwide, on account of growth in Brazil, Russia, India, and China (BRICs). Daifuku aims to secure a 25% share of the global market for automobile production line systems by 2010. Toward achieving this goal, we are pushing forward with the following measures from the current fiscal year.

1. We aim to stably expand sales and earnings through our value chain of efficiently integrated core factories in Japan and marketing and production bases around the world.
2. We aim for the next stage of growth by entering BRICs markets, which are expected to grow, by automobile companies' entry, by gathering information ahead of other companies and focusing on early market development to solidify our lead.
3. We aim to enlarge our market share through system development focused on providing customers with safe, high-quality products that are environmentally friendly, as well as through cost reductions and smooth product launches.
4. We aim to expand earnings on a global basis in the Automotive Factory Automation services business by strengthening our technological service capabilities at overseas bases.



E-DIP development



Establishment of Daifuku Automation (Guangzhou) Co., Ltd.



Group training of Chinese staff

## Factory Automation & Distribution Automation



**Fumio Kobayashi**  
Senior Managing Director

Daifuku's Factory Automation & Distribution Automation business helps companies around the world realize higher efficiency and speed in their production, distribution, and service operations. Our distribution systems are composed of many kinds of material handling equipment, ranging from storage systems that include Automated Storage/Retrieval Systems (AS/RS), and transporting systems such as conveyors and automated guided vehicles, to sorting and picking systems and other material handling equipment, which are all controlled by computer systems. Our distribution systems are used in all types of industries worldwide, such as the food, pharmaceutical, distribution and retail, services, and leisure-related fields, as well as for public and educational institutions.

In addition to lowering distribution costs and conserving labor, companies need our highly functional logistics systems in order to build global supply chain management (SCM) systems to realize efficient production and sales activities that respond quickly to changes in market demand.

### Business Overview

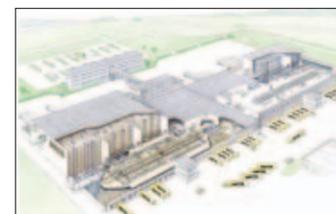
In the fiscal year under review, performance in this business segment was steady for mainly large- and medium-scale automated warehouse systems, buoyed by firm construction demand for logistics and distribution centers in the wholesale, retail, transportation and warehousing industries, as well as the food and beverage industries. By geographic region, Daifuku saw robust growth in its product deliveries in Japan, and a gradual increase in overseas markets such as Europe and Asia. In Europe in particular, Daifuku delivered a large-scale distribution center to Netto A/S, a major retailing group in Denmark, through a partnership with Consafe Logistics AB of Sweden in the previous fiscal year. At the start of the current fiscal year, we also received an order for a large-scale logistics center from ICA Sverige AB, a major supermarket chain in Sweden.

Daifuku continued efforts in research and development to solidify its position as a leading global company in material handling systems. As a result, in the fiscal year under review, we developed the mini load AS/RS HF Series, the world's fastest mini load automated warehouse, and the Dual Sorting Transfer Vehicle (STV) System, providing equivalent performance of four to five normal STV systems, as an addition to the loop-type, high-function STV series. These R&D efforts result in differentiating our products from our competitors.

### Business Strategy

Viewing the expansion and sophistication of the distribution automation market as a medium- and long-term business opportunity, Daifuku is strengthening its core competence in the distribution automation business. As a systems integrator that provides optimal SCM solutions, we aim to further expand our share of this market. Specifically, we are engaged in the following primary measures.

1. We aim to expand our presence in the factory automation field while further strengthening our prowess in consulting-based marketing for the large-scale systems market.
2. We are promoting engineering-based sales of integrated production and sales systems for the small- and medium-size systems market.
3. In overseas operations, we aim to bolster business in China and leverage our strengths as a total integrator through collaboration between local subsidiaries and domestic systems marketing divisions. In addition, we aim to improve cost competitiveness by expanding local procurement and fine-tuning our optimal global production structure.
4. In technological development, we aim to develop logistics center management systems that are optimized for SCM by fusing together information technology and material handling systems.



Netto A/S's new distribution center



Mini load AS/RS HF Series



Our display at the ProMat 2005 exhibition in the U.S.

## Daifuku Technology Services



**Takahiro Taniguchi**  
Director

Daifuku Technology Services operations started in July 2003 with the merger of Daifuku Technology Service Corporation into Daifuku. The business provides installation and maintenance services for automated warehouses and facilities related to Factory Automation & Distribution Automation (FA&DA) systems and material handling equipment, as well as a full range of after-sales services from system support to parts supply, promotion of facility renewals, and logistics service business development. We have 60 bases in the form of service offices, logistics centers, and sub-parts centers across Japan that form a structure for servicing customers within one hour from each base. At the end of 2003, we opened a Customer Service Center (CSC) that answers telephone inquiries 24 hours a day, 365 days a year.

Through collaboration with the FA&DA business, we have established an integrated structure ranging from the engineering and production of logistics systems to their installation and maintenance. We aim to improve customer satisfaction and expand our base of loyal customers.

### Business Overview

In the fiscal year under review, backed by a favorable upturn in the logistics system market, Daifuku Technology Services showed steady growth in performance as a result of efforts to propose preventative maintenance systems and recommend medium-term maintenance plans to customers. In line with initial targets, sales have steadily increased in the renewal and logistics service businesses in addition to growth in revenues from maintenance service operations.

In the first year of the Three-Year Business Plan, we began to enhance the functions of our service offices and embarked on marketing tailored to specific regions in the fiscal year under review. As a part of these efforts, we opened two new service offices in addition to moving, repairing, and expanding some existing offices. At the CSC, we started to offer helpful services for customers, including preventative maintenance, and the industry's first all-day, all-year remote monitoring of computers and facilities for logistics systems such as automated warehouses delivered to our customers. The monitoring equipment supports the stable operations of customers' systems by predicting equipment malfunction or quickly detecting any trouble, allowing Daifuku to offer unparalleled services to its customers.

In addition to upgrading our infrastructure, we are advancing our partnership with Daifuku Logistic Technology Co., Ltd. to develop synergies in the fields of refrigerated and frozen storage warehouses, as well as hazardous materials and explosion proof warehouses.

### Business Strategy

We expect continued growth in Daifuku Technology Services against a backdrop of expansion in the distribution automation market. Our ability to continue providing high-quality services in this business forms a support base for growth in orders received in the FA&DA business. We estimate performance to steadily increase in line with our Three-Year Business Plan. In the current fiscal year ending March 31, 2006, Daifuku is implementing the following measures in accordance with its basic policy of pursuing marketing tailored to each region and enhancing the functions of the CSC in the services business.

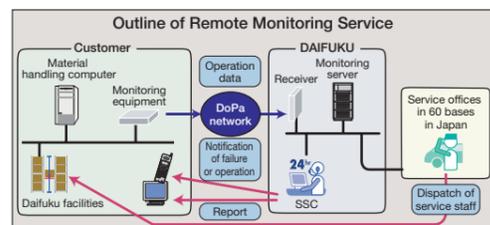
1. We aim to improve service office functions by moving and expanding some offices, improving employee skills, and operating our main offices on a 24-hour basis.
2. We aim to eliminate potential malfunctions by periodically visiting customers and inspecting equipment, as well as improve the quality of field services by speeding up our response to malfunctions.
3. We aim for sustained growth in the renewal and logistics service businesses, and to develop new service businesses such as IT-based services and strengthen overseas service functions.
4. We aim to further enhance the functions of the CSC, by increasing the features of our customer information management system, upgrading the function of the parts center and training personnel.



On-the-job training at the CSC



On-call support at the system support center in the CSC



Automated warehouse remote monitoring system with cellular phones

## e-Factory Automation



**Yutaka Hirai**  
Senior Managing Director

The e-Factory Automation business centers on cleanroom transport and storage systems that are essential to the production of electronic components such as semiconductors and LCD panels. Daifuku supplies these systems to leading electronic components companies in Japan, the U.S., Europe, South Korea, and Taiwan. Our global market share is approximately 40% for transport and storage systems in the semiconductor and flat-panel display (FPD) fields.

The semiconductor and FPD industries are subject to dramatic change with the rapid pace of technological innovation. We are keeping pace with advancements in the global market by expanding our technological services, responding to replacement demand and developing future markets, spurred on by the trust our customers have placed in the performance and quality of our systems.

### Business Overview

In the first half of the fiscal year under review, both the silicon cycle and crystal cycle took a turn upward, driven by demand for semiconductor and LCD panels. Accordingly, performance in the e-Factory Automation business improved considerably. Under these circumstances, Daifuku is concentrating its efforts on improving quality and performance and holding down costs through further technological innovations in response to intensifying competition due to lower product prices at its customers. At the same time, we aimed to bolster the technological capabilities of our overseas factories to strengthen our global competitiveness. As an example of our successful technological innovation, we released the xMCS after developing a material control system (MCS) for controlling cleanroom transport systems. We have already received orders and delivered the xMCS from several semiconductor and LCD panel manufacturers, owing to the new product's rich functionality, large-scale transport capacity and cost performance.

In addition to sharply increasing demand for LCD panels, the size of glass substrates is become larger for FPD TVs. In response, Daifuku expanded the area of its cleanroom assembly space by 40% for glass substrate transport systems at its Shiga Works during the fiscal year under review. The Company also upgraded its production capacity and structure to accommodate larger glass substrates with the completion of a new factory at subsidiary Clean Factomation, Inc. in South Korea.

### Business Strategy

In the current fiscal year, the operating environment is expected to become more challenging due to slowing growth in semiconductor demand and tougher price competition in digital consumer electronics including FPDs. Amid these trends, Daifuku aims to further enhance its competitive position in the industry by integrating the management of production and sales for semiconductors and LCDs. The Company is currently advancing the following measures on a global basis.

1. We aim to respond more quickly and more precisely to customer needs through the integrated management of production and sales in semiconductor transport systems. Centering on total solutions combining production information systems, we aim to draw in our loyal customers for 200mm systems and acquire more customers for 300mm systems.
2. In FPD operations, we aim to adapt to next-generation products such as 7.5-generation and eighth-generation LCD panels as well as organic electroluminescent displays while entering peripheral systems markets. In manufacturing, we plan to strengthen our global sales and production structure through the establishment of a subsidiary in Taiwan and production bases in China.
3. In semiconductors and FPDs, we aim to differentiate ourselves from the competition as a total solutions supplier of cleanroom factory automation systems. We are concentrating on the development of next-generation control systems based on the xMCS.



J Building, expansion of cleanroom facilities at Shiga Works



Development of "Cleanway" using the new xMCS control system



Construction finished on the new plant for Clean Factomation, Inc. in South Korea

## Car-washing Machines



**Seiki Kakinuma**  
Managing Director

Daifuku has manufactured car-washing machines for a quarter of a century. Our car-washing machines are installed mainly at gasoline stations, which number approximately 50,000 across Japan, in addition to being used in coin-operated car washes and automobile maintenance centers. Backed by its technological capabilities accumulated in material handling systems and its customer-oriented development structure, Daifuku has developed a variety of car-washing machines that have fundamentally changed the industry. We were early to adopt and commercialize microcomputer controls during the era of relay control boards, spurring a revolutionary change in the car-washing machine industry. Daifuku has held on to its leadership position in the industry through the commercialization of products such as a continuous car-washing machine, which is able to wash a large volume of vehicles by using a low-floor roller conveyor to move cars from the washing to the drying stages, as well as the High & Wide car-washing machine with larger dimensions to handle large-size cars such as SUVs.

### Business Overview

The service station industry, the main market for car-washing machines, has endured intense competition since the petroleum industry was deregulated in 1996. There were approximately 50,000 gasoline stations in 2004, which have dwindled in number from a peak of 60,000 stations. The number of full-service gas stations is expected to continue on a gradual decline. The number of self-service gas stations, however, has increased steadily since the liberalization of regulations in 1998 to more than 4,000 stations as of March 31, 2005. The number of self-service gas stations is expected to increase at a pace of 500 stations per year over the medium term.

In fiscal 2004, Daifuku concentrated on the development of self-service car-washing machines in tandem with market trends. Since drive-through car-washing machines are the mainstream type in the self-service gas station industry, Daifuku developed and released on the market an epoch-making, next-generation, drive-through, car-washing machine that features independently controlled brushes and separate car washing and drying sections. As product that accompanies car-washing machines, we also commercialized arched, hand-wash support equipment that reduces labor time and lightens the workload for hand-washing cars, addressing the needs of full-service gas stations to improve profitability.

In overseas markets, Daifuku Carwash-Machine Korea Inc. expanded its sales and service network in its second year since its establishment, which had the positive effect of increasing sales volume significantly. We expect to continue expanding our share of the car-washing machine market.

### Business Strategy

As the only company in the car-washing machine industry to have acquired ISO 9001 and ISO 14001 certifications, Daifuku makes concerted efforts to help preserve the environment. All of our liquid solutions, including shampoos, waxes, and water-repellent coatings, are gentle on people and the environment and do not contain environmental hormones or phosphorous-regulated substances. In addition, we commercialized a recycling system that reuses car wash water through a combination of an aggregation precipitation treatment and ultrafilter membranes. The environmental aspects of our recycling system were recognized with the reception of the 2004 Technological Achievement Award from the Society of Chemical Engineers, Japan. In the future, Daifuku aims to continue developing products that help reduce environmental load.

In the service station industry, we are stepping up efforts in the car wash business to expand our market share. To achieve this objective, Daifuku is combining forces with sales subsidiary Daifuku Unix Corporation, which has about 40 sales and service bases in Japan, to accelerate the creation of an integrated structure from development to after-sales services. We are focusing all of our efforts on accelerating new product development, a pressing issue amid an increasingly faster pace of change in the marketplace and more sophisticated customer demands. To further integrate equipment, we are using common assembly components, aiming to drastically reduce costs through global procurement, and working to further stabilize quality.



Release of the Twinfect car-washing machine, our most advanced one-way drive-through model



Shower Spinner, a hand-washing machine



Fresh Member, our wastewater recycling system

## Special Equipment

**Seiki Kakinuma**  
Managing Director

(Also in charge of car-washing machines business)

In the Special Equipment business, based on our accumulated technologies and know-how in the logistics system and equipment business, we develop products that contribute to the medical and welfare fields as well as the preservation of the environment.

Our primary special equipment lineups are broadly divided into Medical Automation & Office Automation (hospital and office materials transport and storage systems), bowling systems, welfare rear-mounted lifts (for wheelchairs on vehicles), bicycle parking systems (multilevel bicycle parking systems), and Renace Series—Condominium-related equipment (under-floor storage units). We also provide containers for discarded electronic appliances and compost recycling plants, for which demand remains steady.

### Business Overview

#### Medical Automation & Office Automation Business

In the Medical Automation field, Daifuku has been offering automated transport systems for medical records and x-ray films for 30 years. Our automated guided vehicles and compact automated storage and perpendicular rotating racks (VCR: Vertical Carrousel) are essential components of our automated transport systems for surgical equipment and materials as well as for pharmaceutical storage systems, which have been installed at many national hospitals and university-affiliated hospitals in Japan. Daifuku has a high share of the market for medical VCRs.

#### Bowling Systems

In 2000, Daifuku entered into a partnership for Auto Scorer systems used in bowling alleys with Qubica Corporation in Italy, the world's largest bowling equipment company. Daifuku develops and sells the Bowler Entertainment System (BES), which features Daifuku's front-end systems through this partnership.

#### Welfare Rear-Mounted Lifts

Daifuku has commercialized a rear-mounted wheelchair lift for vehicles, and supplies the lift to automobile manufacturers. With a 70% share of the market in Japan, Daifuku has an overwhelming lead in this field over the competition.

#### Bicycle Parking Systems

Daifuku's Cycle House 21 is a perpendicular rotating parking system. It features simple operation using cards, and is

wide enough to accommodate mini cycles and bicycles with infant seats. This system helps alleviate the crowding of bicycles parked near train stations.

#### Renace Series, Condominium-related equipment

Renace provides an under-floor storage system that effectively uses space under the floorboards of condominiums. Using an innovative construction method, spaces are created under floorboards for storage. Well regarded, the storage system has been sold to approximately 10,000 households over the last 10 years.

### Business Strategy

In the mainstay market for the Medical Automation & Office Automation business, hospitals are expected to expand in scale through mergers and integration, providing a tailwind for the Medical Automation business. We will steadily respond to needs for remodeling or installing new transport systems while striving to develop the next promising business to rival that of transport systems for surgical equipment and materials.

Due to expanding market scale from the aging society in Japan, demand for welfare vehicles is expected to grow at a constant 5% annually. Accordingly, Daifuku is responding to the needs of automobile manufacturers with higher quality and lower cost wheelchair lifts.

In other operations, we are making every effort to expand niche businesses by anticipating social needs.



VCR, rack storing surgical equipment and materials



Multilevel bicycle parking system



Highway 66 mini bowling system

## Electronics



**Eijirou Urushizaki**  
Director

The first role of the Electronics business is the development, production and sale of electronic equipment through subsidiary Contec Co., Ltd. The main products of the electronics business comprise interface boards, industrial-strength PCs, networking equipment such as wireless LANs, and solutions based on these products. The Contec Group sells these electronic products and solutions to a broad range of customers at home and abroad, and also provides related services.

The other role of this business, through the Contec Group, is the development and production of electronic equipment that is embedded into the products and systems made within the core operations of the Daifuku Group. These products include control systems for material handling, power supply equipment, and linear motors.

Aiming to expand the business, we are working to unify the Group's production functions for electronic equipment to bolster the competitiveness of our cost, quality, and service structure in the global marketplace.

### Business Overview

In fiscal 2004, demand was favorable for general-purpose electronic equipment sold by Contec against a backdrop of strong exports and expanding capital investment by Japanese corporations spurred on by a recovery in corporate earnings in the first half of the fiscal year. In the second half of the fiscal year, however, demand stagnated due to a deceleration in the digital electronics industry. Amid these conditions, Daifuku strengthened its product lineup through the development of new products including highly secure wireless LAN equipment in an aim to stimulate sales.

On the other hand, production value for electronic equipment embedded in core business products increased on the back of strength in the e-Factory Automation business throughout the fiscal year under review.

In accordance with our Three-Year Business Plan, we transferred all production of electronics from Daifuku and Contec Co., Ltd. to indirectly held subsidiary Contec EMS Co., Ltd. on October 1, 2004, realizing integrated manufacturing for electronic equipment throughout the Group. Contec EMS Co., Ltd. aims to strengthen cost competitiveness and improve product quality and services through its global production structure by leveraging production bases in China and Taiwan with factories in Komaki, Osaka, and Shiga, Japan, and the Komaki Factory acting as a core factory.

### Business Strategy

Electronics is playing an increasingly important role in all of our operations. We are working on the following initiatives in the electronics business under an integrated development, production, sales, and administration structure.

1. We aim to create a robust and self-sustainable global sales, development, production, and service structure for the electronics business.
2. We aim to lower costs significantly by accelerating local procurement and optimal global production structure.
3. We plan to make further improvements in quality and delivery times.
4. We are responding to environmental concerns through means such as the use of lead-free production facilities.



*Contec's first private show*



*Inauguration ceremony for Contec EMS Co., Ltd.*



*Products made by Contec*