

# Financial Statements

## 2005



### TAYCA CORPORATION

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## CONSOLIDATED FIVE-YEAR SUMMARY

TAYCA CORPORATION AND CONSOLIDATED SUBSIDIARIES

	Millions of yen				
	2005	2004	2003	2002	2001
Net sales .....	<b>¥26,067</b>	¥24,866	¥25,971	¥24,844	¥26,820
Income (loss) before income taxes .....	<b>1,209</b>	1,324	665	(918)	582
Net income (loss) .....	<b>732</b>	854	498	(809)	543
Total assets.....	<b>34,702</b>	33,333	31,311	31,267	33,796
Shareholders' equity.....	<b>20,149</b>	19,639	17,805	17,215	18,466
Common stock .....	<b>9,855</b>	9,855	9,855	9,855	9,855
Per share of common stock (in yen):					
Net income (loss) .....	<b>¥ 14.17</b>	¥ 16.31	¥ 9.69	¥ (15.75)	¥ 10.57
Shareholders' equity.....	<b>400.92</b>	390.54	346.58	334.75	359.07

Notes: (1) Figures for 2001 – 2005 represent the fiscal year ended March 31, respectively.

(2) The computation of net income (loss) per share is based upon the weighted average number of shares outstanding during the period.

# CONSOLIDATED BALANCE SHEETS

TAYCA CORPORATION AND CONSOLIDATED SUBSIDIARIES

March 31, 2005 and 2004

## TAYCA CORPORATION

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
<b>Current assets:</b>			
Cash and cash equivalents .....	¥ 3,121	¥ 2,593	\$ 29,060
Time deposits .....	79	79	735
Marketable securities .....	35	35	334
Trade notes and accounts receivable .....	7,768	7,276	72,324
Inventories (Note 4) .....	5,244	5,462	48,822
Other current assets .....	450	543	4,196
Allowance for doubtful accounts .....	(9)	(8)	(88)
Total current assets .....	<b>16,690</b>	15,983	<b>155,386</b>
<b>Property, plant and equipment:</b>			
Land .....	876	979	8,164
Buildings and structures .....	14,022	13,586	130,548
Machinery and equipment .....	34,626	33,492	322,377
Vehicles .....	150	149	1,400
Tools, furniture and fixtures .....	2,025	1,833	18,855
Construction in progress .....	540	421	5,032
Less: accumulated depreciation .....	(40,772)	(39,764)	(379,592)
Net property, plant and equipment .....	<b>11,469</b>	10,697	<b>106,786</b>
<b>Investments and other assets:</b>			
Investment securities .....	5,613	5,687	52,260
Investments in unconsolidated affiliated companies (Note 6) .....	20	20	192
Other assets .....	846	856	7,881
Intangible fixed assets .....	61	87	572
Total investments and other assets .....	<b>6,542</b>	6,653	<b>60,907</b>
	<b>¥34,702</b>	¥33,333	<b>\$323,080</b>

See the accompanying Notes to Consolidated Financial Statements.

## LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
<b>Current liabilities:</b>			
Short-term borrowings (Note 5) .....	¥ 233	¥ 242	\$ 2,176
Current portion of long-term debt (Note 5) .....	1,921	1,901	17,887
Trade notes and accounts payable .....	3,413	2,716	31,775
Accrued income taxes .....	302	446	2,816
Accrued expenses .....	56	48	527
Other current liabilities .....	2,843	2,565	26,471
Total current liabilities .....	<u>8,770</u>	<u>7,921</u>	<u>81,654</u>
<b>Long-term liabilities:</b>			
Long-term debt (Note 5) .....	3,704	3,819	34,485
Deferred income taxes .....	303	333	2,827
Liabilities for severance indemnities .....	1,508	1,294	14,041
Allowance for directors' and statutory auditors' retirement .....	228	279	2,125
Total long-term liabilities .....	<u>5,744</u>	<u>5,727</u>	<u>53,480</u>
Minority interests .....	37	44	351
<b>Contingent liabilities</b> (Note 6)			
<b>Shareholders' equity:</b>			
Common stock:			
Authorized — 150,000,000 shares			
Issued — 51,428,828 shares in 2005 and 2004 .....	9,855	9,855	91,760
Capital surplus .....	6,767	6,767	63,005
Retained earnings .....	2,488	2,028	23,170
Unrealized gain on available-for-sale securities .....	1,453	1,393	13,529
Translation adjustments .....	(23)	(22)	(218)
Treasury stock, at cost:			
1,222,046 shares in 2005 and 1,191,632 shares in 2004 .....	(392)	(382)	(3,654)
Total shareholders' equity .....	<u>20,149</u>	<u>19,639</u>	<u>187,593</u>
	<u>¥34,702</u>	<u>¥33,333</u>	<u>\$323,080</u>

# CONSOLIDATED STATEMENTS OF INCOME

TAYCA CORPORATION AND CONSOLIDATED SUBSIDIARIES

For the Years Ended March 31, 2005 and 2004

## TAYCA CORPORATION

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
<b>Net sales</b> .....	<b>¥26,067</b>	¥24,866	<b>\$242,689</b>
<b>Cost of sales</b> .....	<b>20,330</b>	18,811	<b>189,278</b>
Gross profit .....	<b>5,736</b>	6,054	<b>53,410</b>
<b>Selling, general and administrative expenses</b> .....	<b>4,373</b>	4,368	<b>40,721</b>
Operating income .....	<b>1,363</b>	1,686	<b>12,689</b>
<b>Other income (expenses):</b>			
Interest and dividend income .....	<b>74</b>	53	<b>689</b>
Interest expenses .....	<b>(113)</b>	(126)	<b>(1,054)</b>
Other, net .....	<b>(114)</b>	(288)	<b>(1,066)</b>
Total other expenses .....	<b>(153)</b>	(361)	<b>(1,432)</b>
Income before income taxes and minority interests .....	<b>1,209</b>	1,324	<b>11,257</b>
<b>Income taxes:</b>			
Current .....	<b>563</b>	639	<b>5,244</b>
Deferred .....	<b>(79)</b>	(157)	<b>(741)</b>
<b>Minority interests</b> .....	<b>(6)</b>	(11)	<b>(62)</b>
Net income .....	<b>¥ 732</b>	¥ 854	<b>\$ 6,817</b>
		Yen	U.S. dollars (Note 3)
<b>Net income per share</b> .....	<b>¥ 14.17</b>	¥ 16.31	<b>\$ 0.13</b>

See the accompanying Notes to Consolidated Financial Statements.

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

TAYCA CORPORATION AND CONSOLIDATED SUBSIDIARIES

For the Years Ended March 31, 2005 and 2004

	Number of shares of common stock (Thousands)	Millions of yen					
		Common stock	Capital surplus	Retained earnings	Unrealized gain (loss) on available- for-sale securities	Translation adjustments	Treasury stock at cost
<b>Balance, March 31, 2003</b> .....	51,428	¥9,855	¥6,767	¥1,349	¥ (157)	¥ —	¥ (10)
Net income .....				854			
Cash dividends .....				(163)			
Bonuses to directors .....				(3)			
Increase resulting from wider scope of consolidation ...				(9)			
Unrealized gain on available-for-sale securities ...					1,550		
Translation adjustments .....						(22)	
Increase in treasury stock .....							(372)
<b>Balance, March 31, 2004</b> .....	51,428	¥9,855	¥6,767	¥2,028	¥1,393	¥(22)	¥(382)
Net income .....				<b>732</b>			
Cash dividends .....				<b>(251)</b>			
Bonuses to directors .....				<b>(20)</b>			
Unrealized gain on available-for-sale securities ...					60		
Translation adjustments .....						(1)	
Increase in treasury stock .....							(9)
<b>Balance, March 31, 2005</b> .....	<b>51,428</b>	<b>¥9,855</b>	<b>¥6,767</b>	<b>¥2,488</b>	<b>¥1,453</b>	<b>¥(23)</b>	<b>¥(392)</b>
		Thousands of U.S. dollars (Note 3)					
<b>Balance, March 31, 2004</b> .....		\$91,760	\$63,005	\$18,882	\$12,970	\$(205)	\$(3,562)
Net income .....				<b>6,817</b>			
Cash dividends .....				<b>(2,338)</b>			
Bonuses to directors .....				<b>(190)</b>			
Unrealized gain on available-for-sale securities .....					559		
Translation adjustments .....						(13)	
Increase in treasury stock .....							(92)
<b>Balance, March 31, 2005</b> .....		<b>\$91,760</b>	<b>\$63,005</b>	<b>\$23,170</b>	<b>\$13,529</b>	<b>\$(218)</b>	<b>\$(3,654)</b>

See the accompanying Notes to Consolidated Financial Statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

TAYCA CORPORATION AND CONSOLIDATED SUBSIDIARIES

For the Years Ended March 31, 2005 and 2004

## TAYCA CORPORATION

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
<b>Operating activities:</b>			
Adjustments to reconcile net income to net cash provided by operating activities:			
Income before income taxes .....	¥1,209	¥1,324	\$11,257
Depreciation and amortization .....	1,684	1,645	15,678
Loss on disposal of property, plant and equipment .....	110	196	1,031
Interest and dividend income .....	(74)	(53)	(689)
Interest expense .....	113	126	1,054
Loss on sale of investment securities .....	—	4	—
Gain on sale of investment securities .....	(191)	—	(1,781)
<b>Changes in assets and liabilities:</b>			
(Increase) decrease in notes and accounts receivable, trade .....	(491)	696	(4,578)
Decrease (increase) in inventories .....	218	(602)	2,036
Increase (decrease) in notes and accounts payable, trade .....	696	(355)	6,481
Other .....	673	(91)	6,266
Subtotal .....	3,948	2,893	36,758
Interest and dividend income, received .....	74	39	689
Interest expense, paid .....	(112)	(106)	(1,045)
Income taxes, paid .....	(750)	(425)	(6,987)
Net cash provided by operating activities .....	3,159	2,400	29,415
<b>Investing activities:</b>			
Payments for purchases of time deposits .....	(100)	—	(931)
Proceeds from maturities of time deposits .....	100	—	931
Payments for purchases of marketable securities .....	(24)	(24)	(232)
Proceeds from sale of marketable securities .....	24	24	232
Payments for acquisition of property, plant and equipment .....	(2,744)	(1,490)	(25,548)
Payments for purchases of investment securities .....	(30)	(111)	(279)
Proceeds from sale of investment securities .....	396	425	3,692
Other .....	110	(34)	1,032
Net cash used in investing activities .....	(2,266)	(1,212)	(21,103)
<b>Financing activities:</b>			
Net decrease in short-term borrowings .....	(8)	(352)	(81)
Proceeds from long-term debt .....	1,900	1,694	17,689
Repayment of long-term debt .....	(1,995)	(2,186)	(18,579)
Payments for purchases of treasury stock .....	(9)	(372)	(92)
Dividends paid .....	(250)	(153)	(2,330)
Net cash used in financing activities .....	(364)	(1,370)	(3,394)
<b>Effect of exchange rate change on cash and cash equivalents .....</b>	<b>(0)</b>	<b>0</b>	<b>(2)</b>
<b>Net increase (decrease) in cash and cash equivalents .....</b>	<b>528</b>	<b>(182)</b>	<b>4,917</b>
<b>Cash and cash equivalents, beginning of year .....</b>	<b>2,593</b>	<b>2,708</b>	<b>24,146</b>
<b>Increase resulting from wider scope of consolidation .....</b>	<b>—</b>	<b>67</b>	<b>—</b>
<b>Cash and cash equivalents at end of year .....</b>	<b>¥3,121</b>	<b>¥2,593</b>	<b>\$29,060</b>

See the accompanying Notes to Consolidated Financial Statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

TAYCA CORPORATION AND CONSOLIDATED SUBSIDIARIES

For the Years Ended March 31, 2005 and 2004

## TAYCA CORPORATION

### 1. Basis of presenting consolidated financial statements

TAYCA CORPORATION (the "Company") and its subsidiaries maintain their accounts in conformity with the financial accounting standards of Japan.

The accompanying consolidated financial statements have been prepared in accordance with accounting principles and practices generally accepted in Japan and compiled from the consolidated financial statements filed with the Minister of Finance as required by the Securities and Exchange Law of Japan and include certain additional financial information for the convenience of readers outside these consolidated financial statements, although such statements are not required in Japan.

### 2. Summary of significant accounting policies

#### 1) Consolidated subsidiary accounts

The accompanying consolidated financial statements for the years ended March 31, 2005 and 2004 include the accounts for the Company and the 5 subsidiaries listed below:

Name of consolidated subsidiaries	Equity ownership percentage*
Tayca Ware housing Co., Ltd. ....	100
Tayca Syoji Co., Ltd. ....	100
TFT Co., Ltd. ....	100
Asahi shōun Co., Ltd. ....	100
TAYCA (Thailand) Co., Ltd. ....	86

\*Represents ownership at March 31, 2005

#### 2) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. All subsidiaries are consolidated on the basis of their results for fiscal years ended December 31.

#### 3) Foreign currency transaction

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rates at the balance sheet date.

Revenue and expense items denominated in foreign currencies are translated using the rate on the date of the transaction. Related exchange gains or losses are credited or charged to income as incurred.

#### 4) Inventories

Inventories are stated at cost, substantially determined by the moving-average method.

#### 5) Marketable and investment securities

Available-for-sale securities

**With market quotations:** stated at fair market value based on market prices at the account settlement date (Unrealized losses are directly charged to shareholders' equity and cost of sale is calculated using the moving-average method.)

**Without market quotations:** stated at cost using the moving-average method

The accounting standard for available-for-sale securities with market quotations was changed in accordance with the new accounting standard for financial instruments ("Recommendations on Establishment of Accounting Standard for Financial Instruments"). Effective the term under review, securities in question were stated at fair market value based on market prices at the account settlement date. (Unrealized loss is directly charged to shareholders' equity and cost of sale is calculated using the moving-average method. These securities had previously been stated at moving-average cost.)

#### 6) Property, plant and equipment and depreciation

Property, plant and equipment are carried at cost less accumulated depreciation. Depreciation is computed with the declining-balance method or straight-line method, at rates based on the estimated useful lives of the assets.

#### 7) Liabilities for severance indemnities

The Company made provisions for liabilities for severance indemnities in an amount deemed necessary at the term-end, based on the estimated amounts of projected benefit obligations and the fair value of the plan assets. Transitional obligations in the amount of ¥1,222 million are charged to expenses using the straight-line method over 10 years.

Actuarial gains/losses are recognized in income/expenses using the straight-line method over 10 years, which is shorter than the average of the estimated remaining service lives commencing with the following period. Overseas subsidiaries are outside the scope of application.

#### 8) Income taxes

Current income taxes are provided for based on amounts currently payable for each year. Deferred income arising from temporary differences in the recognition of assets and liabilities for tax and financial reporting purposes are reflected in the consolidated financial statements.

#### 9) Appropriation of retained earnings

Under the Commercial Code of Japan, proposals by the Board of Directors for the appropriation of retained earnings (principally the payment of annual cash dividends) should be approved by a shareholders' meeting which must be held within three months of the end of each financial year.

The appropriation of retained earnings reflected in the accompanying consolidated financial statements for each financial year represents the appropriation which was approved by the shareholders' meeting or by the Board of Directors and disposed of during that year.

The payment of bonuses to directors and corporate auditors is made out of retained earnings instead of being charged to income for the year and constitutes a part of the appropriations referred to above.

#### 10) Research and development costs

Research and development costs are charged to income as incurred.

#### 11) Net income and dividend per share

Net income and dividend per share amounts are based upon the weighted average number of shares of common stock outstanding during each year.

#### 12) Cash equivalents

All deposits at banks with an original maturity date of three months or less including time deposits are considered to be cash equivalents in the accompanying statements of cash flows.

#### 13) Consumption tax

Consumption tax is imposed at the flat rate of 5 percent on all domestic consumption of goods and services with certain exceptions. The consumption tax withheld upon sales and consumption tax paid by the Companies on the purchases of goods and services is not included in the amounts of respective revenues or costs and expenses in the accompanying consolidated statements of income, but is recorded as an asset or a liability, as the case may be, and the net balance is included in other current liabilities.

### 3. U.S. dollar amounts

Amounts in U.S. dollars are included solely for the convenience of the reader. The rate of ¥107.41=\$1, the approximate rate of March 31, 2005 has been used. The inclusion of such amounts is not intended to imply that yen amounts have been or could be readily converted, realized or settled in U.S. dollars at that or any other rate.

### 4. Inventories

At the end of each fiscal year, inventories consisted of the following:

	Millions of yen	Thousands of U.S. dollars	
	2005	2004	2005
Finished goods and merchandise ....	¥2,885	¥3,395	\$26,860
Raw materials and supplies.....	2,045	1,830	19,041
Work in process .....	313	237	2,921
	¥5,244	¥5,462	\$48,822

## 5. Short-term borrowings and long-term debt

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Short-term borrowings.....	¥ 233	¥ 242	\$ 2,176
Current portion of long-term debt ...	1,921	1,901	17,887
Long-term debt.....	3,704	3,819	34,485
	<b>¥5,859</b>	<b>¥5,963</b>	<b>\$54,549</b>

Loans from banks due through 2036, interest 0.8% to 4.9%.

## 7. Segment information

### Industry segment information

The Companies operate principally in three industrial segments. (This segmentation was adopted from the reporting term. The figures shown below for the term ended March 2004 have been restated in line with the new classification.)

Each segment has the following main products:

*Titanium dioxide and its derivatives:* Titanium dioxide, Micro titanium dioxide, Surface treatment business

*Other chemicals:* Surfactants, Sulfuric acid, Aluminum triphosphate

*Others:* Business warehouses, Electro-ceramics products

	Millions of yen				Consolidated total
	Titanium dioxide and its derivatives	Other chemicals	Others	Elimination of inter-segment items	
<b>For the year ended March 31, 2005</b>					
Sales:					
Sales to outside customers .....	¥15,994	¥ 8,632	¥1,439	¥ —	¥26,067
Inter-segment sales and transfers.....	609	3,044	1,550	(5,204)	—
Total.....	16,604	11,677	2,990	(5,204)	26,067
Operating expenses .....	15,744	11,379	2,779	(5,199)	24,704
Operating income .....	¥ 860	¥ 297	¥ 211	¥ (5)	¥ 1,363
Identifiable assets at March 31, 2005.....	¥16,738	¥ 7,848	¥2,061	¥8,053	¥34,702
Depreciation .....	¥ 1,017	¥ 510	¥ 120	¥ 36	¥ 1,684
Capital expenditures .....	¥ 1,409	¥ 1,113	¥ 79	¥ 92	¥ 2,695

	Millions of yen				Consolidated total
	Titanium dioxide and its derivatives	Other chemicals	Others	Elimination of inter-segment items	
<b>For the year ended March 31, 2004</b>					
Sales:					
Sales to outside customers .....	¥15,424	¥ 8,135	¥1,306	¥ —	¥24,866
Inter-segment sales and transfers.....	285	2,896	1,444	(4,626)	—
Total.....	15,709	11,031	2,751	(4,626)	24,866
Operating expenses .....	14,421	10,771	2,628	(4,640)	23,180
Operating income .....	¥ 1,288	¥ 260	¥ 123	¥ 14	¥ 1,686
Identifiable assets at March 31, 2004.....	¥16,298	¥ 6,323	¥1,825	¥8,885	¥33,333
Depreciation .....	¥ 969	¥ 347	¥ 58	¥ 270	¥ 1,645
Capital expenditures .....	¥ 1,107	¥ 679	¥ 47	¥ 16	¥ 1,851

	Thousands of U.S. dollars				Consolidated total
	Titanium dioxide and its derivatives	Other chemicals	Others	Elimination of inter-segment items	
<b>For the year ended March 31, 2005</b>					
Sales:					
Sales to outside customers .....	\$148,910	\$ 80,373	\$13,405	\$ —	\$242,689
Inter-segment sales and transfers.....	5,678	28,341	14,438	(48,457)	—
Total.....	154,589	108,714	27,843	(48,457)	242,689
Operating expenses .....	146,581	105,949	25,875	(48,406)	229,999
Operating income .....	\$ 8,007	\$ 2,765	\$ 1,968	\$ (51)	\$ 12,689
Identifiable assets at March 31, 2005.....	\$155,841	\$ 73,068	\$19,195	\$74,975	\$323,080
Depreciation .....	\$ 9,469	\$ 4,751	\$ 1,119	\$ 338	\$ 15,678
Capital expenditures .....	\$ 13,124	\$ 10,368	\$ 736	\$ 865	\$ 25,094

## 8. Subsequent event

Undisposed deficits at the end of the term under review were disposed through reversal of general reserve, as approved by the General Meeting of Shareholders held on June 29, 2005.

## 6. Contingent liabilities

Contingent liabilities at March 31, 2005 were as follows:

	Millions of yen	Thousands of U.S. dollars
Guaranty for bank loan .....	¥63	\$590

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends paid .....	¥251	\$2,337
Bonus to directors and corporate auditors...	15	148
Transfer of general reserve .....	400	3,724

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of  
TAYCA CORPORATION

We have examined the consolidated balance sheets of TAYCA CORPORATION and its subsidiaries at March 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity and cash flows for the years ended March 31, 2005 and 2004, all expressed in Japanese yen. The consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express our opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of TAYCA CORPORATION and its subsidiaries at March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years ended March 31, 2005 and 2004, in conformity with generally accepted accounting principles in Japan applied on a consistent basis.

Note: Effective with the term under review, consolidated financial statements were prepared in accordance with the new accounting standard for available-for-sale securities, which were stated at fair market value at the account settlement date. See additional information.

*Yukihiro Ikehata Masao Oishi*

Yukihiro Ikehata  
Certified Public Accountant

Masao Oishi  
Certified Public Accountant

Osaka, Japan  
June 29, 2005