

Financial Statements

2006



TAYCA CORPORATION

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CONSOLIDATED FIVE-YEAR SUMMARY

TAYCA CORPORATION AND CONSOLIDATED SUBSIDIARIES

	Millions of yen				
	2006	2005	2004	2003	2002
Net sales	¥27,610	¥26,067	¥24,866	¥25,971	¥24,844
Income (loss) before income taxes	1,628	1,209	1,324	665	(918)
Net income (loss)	961	732	854	498	(809)
Total assets.....	39,902	34,702	33,333	31,311	31,267
Shareholders' equity.....	22,949	20,149	19,639	17,805	17,215
Common stock	9,855	9,855	9,855	9,855	9,855
Per share of common stock (in yen):					
Net income (loss)	¥ 18.77	¥ 14.17	¥ 16.31	¥ 9.69	¥ (15.75)
Shareholders' equity.....	456.99	400.92	390.54	346.58	334.75

Notes: (1) Figures for 2002 – 2006 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, 2006 and 2005

TAYCA CORPORATION

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Current assets:			
Cash and cash equivalents	¥ 2,305	¥ 3,121	\$ 19,628
Time deposits	79	79	672
Marketable securities	2	35	25
Trade notes and accounts receivable	8,279	7,768	70,479
Inventories (Note 3)	5,834	5,244	49,664
Other current assets	541	450	4,606
Allowance for doubtful accounts	(9)	(9)	(82)
Total current assets	17,032	16,690	144,994
Property, plant and equipment:			
Land	1,291	876	10,997
Buildings and structures	14,161	14,022	120,556
Machinery and equipment	36,016	34,626	306,600
Vehicles	162	150	1,382
Tools, furniture and fixtures	2,146	2,025	18,273
Construction in progress	1,075	540	9,156
Less: accumulated depreciation	(41,881)	(40,772)	(356,531)
Net property, plant and equipment	12,972	11,469	110,434
Investments and other assets:			
Investment securities	9,021	5,613	76,802
Investments in unconsolidated affiliated companies (Note 5)	20	20	175
Other assets	814	846	6,933
Intangible fixed assets	40	61	345
Total investments and other assets	9,897	6,542	84,257
	¥39,902	¥34,702	\$339,686

See the accompanying Notes to Consolidated Financial Statements.

LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Current liabilities:			
Short-term borrowings (Note 4)	¥ 306	¥ 233	\$ 2,612
Current portion of long-term debt (Note 4)	2,015	1,921	17,153
Trade notes and accounts payable	3,772	3,413	32,111
Accrued income taxes	535	302	4,555
Accrued expenses	73	56	628
Other current liabilities	2,992	2,843	25,471
Total current liabilities	9,695	8,770	82,533
Long-term liabilities:			
Long-term debt (Note 4)	3,744	3,704	31,872
Deferred income taxes	1,498	303	12,760
Liabilities for severance indemnities	1,693	1,508	14,413
Allowance for directors' and statutory auditors' retirement	280	228	2,386
Total long-term liabilities	7,216	5,744	61,433
Minority interests	41	37	356
Contingent liabilities (Note 5)			
Shareholders' equity:			
Common stock:			
Authorized — 150,000,000 shares			
Issued — 51,428,828 shares in 2006 and 2005	9,855	9,855	83,901
Capital surplus	6,767	6,767	57,610
Retained earnings	3,179	2,488	27,064
Unrealized gain on available-for-sale securities	3,553	1,453	30,250
Foreign currency translation adjustments	(2)	(23)	(25)
Treasury stock, at cost:			
1,252,636 shares in 2006 and 1,222,046 shares in 2005	(403)	(392)	(3,438)
Total shareholders' equity	22,949	20,149	195,362
	¥39,902	¥34,702	\$339,686

CONSOLIDATED STATEMENTS OF INCOME

TAYCA CORPORATION AND CONSOLIDATED SUBSIDIARIES

For the Years Ended March 31, 2006 and 2005

TAYCA CORPORATION

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Net sales	¥27,610	¥26,067	\$235,043
Cost of sales	21,328	20,330	181,566
Gross profit	6,281	5,736	53,476
Selling, general and administrative expenses	4,513	4,373	38,426
Operating income	1,768	1,363	15,050
Other income (expenses):			
Interest and dividend income	82	74	700
Interest expenses	(123)	(113)	(1,055)
Other, net	(97)	(114)	(829)
Total other expenses	(139)	(153)	(1,183)
Income before income taxes and minority interests	1,628	1,209	13,866
Income taxes:			
Current	809	563	6,892
Deferred	(143)	(79)	(1,219)
Minority interests	0	(6)	8
Net income	¥ 961	¥ 732	\$ 8,185
		Yen	U.S. dollars (Note 1)
Net income per share	¥ 18.77	¥ 14.17	\$ 0.16

See the accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

TAYCA CORPORATION AND CONSOLIDATED SUBSIDIARIES

For the Years Ended March 31, 2006 and 2005

	Number of shares of common stock (Thousands)	Millions of yen					
		Common stock	Capital surplus	Retained earnings	Unrealized gain (loss) on available- for-sale securities	Foreign currency translation adjustments	Treasury stock at cost
Balance, March 31, 2004	51,428	¥9,855	¥6,767	¥2,028	¥1,393	¥(22)	¥(382)
Net income				732			
Cash dividends				(251)			
Bonuses to directors				(20)			
Unrealized gain on available-for-sale securities ...					60		
Foreign currency translation adjustments ...						(1)	
Increase in treasury stock							(9)
Balance, March 31, 2005	51,428	¥9,855	¥6,767	¥2,488	¥1,453	¥(23)	¥(392)
Net income				961			
Cash dividends				(251)			
Bonuses to directors				(19)			
Unrealized gain on available-for-sale securities ...					2,100		
Foreign currency translation adjustments ...						20	
Increase in treasury stock							(11)
Balance, March 31, 2006	51,428	¥9,855	¥6,767	¥3,179	¥3,553	¥ (2)	¥(403)
		Thousands of U.S. dollars (Note 1)					
Balance, March 31, 2005		\$83,901	\$57,610	\$21,186	\$12,371	\$(199)	\$(3,341)
Net income				8,185			
Cash dividends				(2,137)			
Bonuses to directors				(170)			
Unrealized gain on available-for-sale securities					17,879		
Foreign currency translation adjustments						174	
Increase in treasury stock							(97)
Balance, March 31, 2006		\$83,901	\$57,610	\$27,064	\$30,250	\$ (25)	\$(3,438)

See the accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

TAYCA CORPORATION AND CONSOLIDATED SUBSIDIARIES

For the Years Ended March 31, 2006 and 2005

TAYCA CORPORATION

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Operating activities:			
Adjustments to reconcile net income to net cash provided by operating activities:			
Income before income taxes	¥1,628	¥1,209	\$13,866
Depreciation and amortization	1,924	1,684	16,379
Loss on disposal of property, plant and equipment	111	110	952
Interest and dividend income	(82)	(74)	(700)
Interest expense	123	113	1,055
Gain on sale of investment securities	—	(191)	—
Changes in assets and liabilities:			
Increase in notes and accounts receivable, trade	(510)	(491)	(4,348)
(Increase) decrease in inventories	(590)	218	(5,022)
Increase in notes and accounts payable, trade	359	696	3,056
Other	(61)	673	(525)
Subtotal	2,903	3,948	24,713
Interest and dividend income, received	82	74	700
Interest expense, paid	(124)	(112)	(1,059)
Income taxes, paid	(577)	(750)	(4,912)
Net cash provided by operating activities	2,283	3,159	19,441
Investing activities:			
Payments for purchases of time deposits	—	(100)	—
Proceeds from maturities of time deposits	—	100	—
Payments for purchases of marketable securities	(24)	(24)	(212)
Proceeds from sale of marketable securities	34	24	297
Payments for acquisition of property, plant and equipment	(3,056)	(2,744)	(26,018)
Payments for purchases of investment securities	(14)	(30)	(120)
Proceeds from sale of investment securities	5	396	44
Other	(12)	110	(110)
Net cash used in investing activities	(3,068)	(2,266)	(26,119)
Financing activities:			
Net increase (decrease) in short-term borrowings	73	(8)	622
Proceeds from long-term debt	2,100	1,900	17,876
Repayment of long-term debt	(1,966)	(1,995)	(16,738)
Payments for purchases of treasury stock	(11)	(9)	(97)
Dividends paid	(250)	(250)	(2,130)
Net cash used in financing activities	(54)	(364)	(466)
Effect of exchange rate change on cash and cash equivalents	23	(0)	200
Net (decrease) increase in cash and cash equivalents	(815)	528	(6,943)
Cash and cash equivalents, beginning of year	3,121	2,593	26,572
Cash and cash equivalents at end of year	¥2,305	¥3,121	\$19,628

See the accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

TAYCA CORPORATION AND CONSOLIDATED SUBSIDIARIES

For the Years Ended March 31, 2006 and 2005

TAYCA CORPORATION

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of TAYCA CORPORATION (the "company") and its subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and principally operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥117.47 to \$1, the approximate rate of exchange at March 31, 2006. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. Summary of significant accounting policies

1) Principles of consolidation

The consolidated financial statements as of March 31, 2006 include the accounts of the Company and its 5 subsidiaries.

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.

2) Cash and cash equivalents

For the purposes of the consolidated statements of cash flows, cash and cash equivalents include cash-on-hand and in banks and other highly liquid investments with maturities of three months or less when purchased.

3) Inventories

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

4) Securities

Securities other than those of unconsolidated subsidiaries and affiliates are classified into three categories: trading securities, held-to-maturity debt securities or other securities. Trading securities are carried at fair value. Gain or loss, both realized and unrealized is credited or charged to income. Held-to-maturity debt securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in shareholders' equity. Cost of securities sold is determined by the moving average method. Non-marketable securities classified as other securities are carried at cost.

5) Property, plant, equipment

Property, plant, equipment are stated at cost. Depreciation of property, plant, equipment and its domestic subsidiaries is computed substantially by the declining-balance method, while the straight-line method is applied to buildings acquired by the domestic companies after April 1, 1998, and is principally applied to the property, plant and equipment of foreign subsidiaries.

6) 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.

7) Income taxes

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

8) Appropriations of retained earnings

Appropriations of retained earnings are reflected in the financial statements for the following year upon Board of Directors' or shareholders' approval.

9) Research and development costs

Research and development costs are charged to income as incurred.

10) 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.

11) Foreign currency financial statements

The balance sheet accounts of the foreign subsidiaries are translated into Japanese yen at the current exchange rates as of the balance sheet date except for shareholders' equity, which is translated at the historical rate. Revenue and expense accounts of the foreign subsidiaries are translated into Japanese yen at the current exchange rates.

Differences arising from such translation are shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity.

3. Inventories

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

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Finished goods and merchandise	¥3,631	¥2,885	\$30,910
Raw materials and supplies.....	1,837	2,045	15,639
Work in process	365	313	3,115
	¥5,834	¥5,244	\$49,664

4. Short-term borrowings and long-term debt

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Short-term borrowings.....	¥ 306	¥ 233	\$ 2,612
Current portion of long-term debt ...	2,015	1,921	17,153
Long-term debt	3,744	3,704	31,872
	¥6,066	¥5,859	\$51,639

Loans from banks due through 2036, interest 1.5% to 4.9%.

5. Contingent liabilities

Contingent liabilities at March 31, 2006 were as follows:

	Millions of yen	Thousands of U.S. dollars
Guaranty for bank loan	¥69	\$590

6. Segment information

Industry segment information

The Companies operate principally in three industrial segments.

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

For the year ended March 31, 2006	Millions of yen				
	Titanium dioxide and its derivatives	Other chemicals	Others	Elimination of inter-segment items	Consolidated total
Sales:					
Sales to outside customers	¥16,832	¥ 9,251	¥1,526	¥ —	¥27,610
Inter-segment sales and transfers	752	3,322	1,837	(5,912)	—
Total	17,585	12,574	3,363	(5,912)	27,610
Operating expenses	16,223	12,403	3,098	(5,883)	25,842
Operating income	¥ 1,361	¥ 170	¥ 264	¥ (29)	¥ 1,768
Identifiable assets at March 31, 2006	¥18,238	¥ 7,895	¥2,466	¥11,302	¥39,902
Depreciation	¥ 1,151	¥ 611	¥ 126	¥ 35	¥ 1,924
Capital expenditures	¥ 2,849	¥ 454	¥ 172	¥ 18	¥ 3,495

For the year ended March 31, 2005	Millions of yen				
	Titanium dioxide and its derivatives	Other chemicals	Others	Elimination of inter-segment items	Consolidated total
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

For the year ended March 31, 2006	Thousands of U.S. dollars				
	Titanium dioxide and its derivatives	Other chemicals	Others	Elimination of inter-segment items	Consolidated total
Sales:					
Sales to outside customers	\$143,291	\$ 78,756	\$12,995	\$ —	\$235,043
Inter-segment sales and transfers	6,408	28,286	15,639	(50,334)	—
Total	149,699	107,043	28,635	(50,334)	235,043
Operating expenses	138,108	105,587	26,379	(50,083)	219,992
Operating income	\$ 11,590	\$ 1,455	\$ 2,255	\$ (251)	\$ 15,050
Identifiable assets at March 31, 2006	\$155,262	\$ 67,214	\$20,994	\$96,214	\$339,686
Depreciation	\$ 9,800	\$ 5,205	\$ 1,075	\$ 297	\$ 16,379
Capital expenditures	\$ 24,255	\$ 3,869	\$ 1,470	\$ 161	\$ 29,756

7. 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, 2006.

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends paid	¥250	\$2,135
Bonus to directors and corporate auditors	15	129

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of
TAYCA CORPORATION

We have audited the accompanying consolidated balance sheets of TAYCA CORPORATION and subsidiaries at March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity and cash flows for the years ended March 31, 2006 and 2005, all expressed in Japanese yen. These 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. Those 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 subsidiaries at March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years ended March 31, 2006 and 2005, in conformity with accounting principles generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Masao Oishi

Masao Oishi
Certified Public Accountant

Wataru Iwata

Wataru Iwata
Certified Public Accountant

Osaka, Japan
June 29, 2006