

Financial Statements

2004



TAYCA CORPORATION

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CONSOLIDATED FIVE-YEAR SUMMARY

TAYCA CORPORATION AND CONSOLIDATED SUBSIDIARIES

	Millions of yen				
	2004	2003	2002	2001	2000
Net sales.....	¥24,866	¥25,971	¥24,844	¥26,820	¥24,825
Income (loss) before income taxes.....	1,324	665	(918)	582	843
Net income (loss).....	854	498	(809)	543	803
Total assets.....	33,333	31,311	31,267	33,796	33,177
Shareholders' equity.....	19,639	17,805	17,215	18,466	18,182
Common stock.....	9,855	9,855	9,855	9,855	9,855
Per share of common stock (in yen):					
Net income (loss).....	¥ 16.31	¥ 9.69	¥(15.75)	¥ 10.57	¥ 15.63
Shareholders' equity.....	390.54	346.58	334.75	359.07	353.55

Notes: (1) Figures for 2000 – 2004 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, 2004 and 2003

TAYCA CORPORATION

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
Current assets:			
Cash and time deposits	¥ 2,672	¥ 2,787	\$ 25,300
Marketable securities	35	35	340
Trade notes and accounts receivable	7,276	7,971	68,887
Inventories (Note 4)	5,462	4,837	51,716
Other current assets	543	350	5,147
Allowance for doubtful accounts	(8)	(14)	(80)
Total current assets	<u>15,983</u>	<u>15,969</u>	<u>151,312</u>
Investments and other assets:			
Investment securities	5,687	3,406	53,845
Investments in unconsolidated affiliated companies (Note 6)	20	412	195
Other investments	856	1,586	8,112
Allowance for doubtful accounts	—	(21)	—
Intangible fixed assets	87	125	831
Total investments and other assets	<u>6,653</u>	<u>5,508</u>	<u>62,985</u>
Property, plant and equipment:			
Land	979	829	9,273
Buildings and structures	13,586	13,100	128,623
Machinery and equipment	33,492	32,853	317,069
Vehicles	149	162	1,419
Tools, furniture and fixtures	1,833	1,740	17,353
Construction in progress	421	84	3,989
Less, accumulated depreciation	(39,764)	(38,937)	(376,455)
Net property, plant and equipment	<u>10,697</u>	<u>9,833</u>	<u>101,273</u>
	<u>¥33,333</u>	<u>¥31,311</u>	<u>\$315,571</u>

See the accompanying Notes to Consolidated Financial Statements.

LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
Current liabilities:			
Bank loans	¥ 242	¥ 248	\$ 2,295
Current maturities of long-term debt (Note 5)	1,901	2,055	18,000
Trade notes and accounts payable	2,716	2,973	25,719
Accrued income taxes	446	265	4,226
Accrued expenses	48	50	462
Other current liabilities	2,565	2,333	24,285
Total current liabilities	<u>7,921</u>	<u>7,926</u>	<u>74,990</u>
Long-term liabilities:			
Long-term borrowings (Note 5)	3,819	4,158	36,160
Liabilities for severance indemnities	1,294	1,151	12,257
Allowance for directors' and statutory auditors' retirement	279	256	2,647
Deferred income taxes	333	—	3,158
Total long-term liabilities	<u>5,727</u>	<u>5,566</u>	<u>54,224</u>
Minority interests	44	12	425
Contingent liabilities (Note 6)			
Shareholders' equity:			
Common stock:			
Authorized — 150,000,000 shares			
Issued — 51,428,828 shares at March 31, 2004 and 2003	9,855	9,855	93,306
Capital surplus	6,767	6,767	64,067
Retained earnings	2,028	1,349	19,200
Unrealized gain (loss) on available-for-sale securities	1,393	(157)	13,188
Translation adjustments	(22)	—	(208)
Treasury stock	(382)	(10)	(3,622)
Total shareholders' equity	<u>19,639</u>	<u>17,805</u>	<u>185,931</u>
	<u>¥33,333</u>	<u>¥31,311</u>	<u>\$315,571</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS

TAYCA CORPORATION AND CONSOLIDATED SUBSIDIARIES

For the Years Ended March 31, 2004 and 2003

TAYCA CORPORATION

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
Operating activities:			
Adjustments to reconcile net income to net cash provided by operating activities:			
Income before income taxes	¥1,324	¥ 665	\$12,540
Depreciation and amortization	1,645	1,708	15,580
Loss on disposal of property, plant and equipment	196	128	1,860
Increase in reserve for retirement benefits, net	165	78	1,571
Interest and dividend income	(53)	(64)	(504)
Interest expense	126	123	1,196
Loss on sale of investment securities	4	8	41
Loss on valuation of marketable securities and investments	0	726	7
Changes in assets and liabilities:			
Decrease in notes and accounts receivable, trade	696	820	6,593
Decrease (increase) in inventories	(602)	429	(5,703)
Decrease in notes and accounts payable, trade	(355)	(335)	(3,362)
Other	(256)	156	(2,424)
Subtotal	2,893	4,445	27,395
Interest and dividend income, received	39	64	370
Interest expense, paid	(106)	(124)	(1,006)
Income taxes, paid	(425)	(73)	(4,029)
Net cash provided by operating activities	<u>2,400</u>	<u>4,312</u>	<u>22,729</u>
Investing activities:			
Payments for purchases of marketable securities	(24)	(25)	(236)
Proceeds from sale of marketable securities	24	25	236
Payments for acquisition of property, plant and equipment	(1,490)	(1,765)	(14,114)
Payments for purchases of investment securities	(111)	(531)	(1,058)
Proceeds from sale of investment securities	425	15	4,026
Other	(34)	19	(328)
Net cash used in investing activities	<u>(1,212)</u>	<u>(2,262)</u>	<u>(11,475)</u>
Financing activities:			
Net decrease in short-term borrowings	(352)	(116)	(3,341)
Proceeds from long-term borrowings	1,694	1,900	16,044
Repayment of long-term debt	(2,186)	(2,308)	(20,703)
Payments for purchases of treasury stock	(372)	(8)	(3,525)
Dividends paid	(153)	(0)	(1,450)
Net cash used in financing activities	<u>(1,370)</u>	<u>(534)</u>	<u>(12,977)</u>
Effect of exchange rate change on cash and cash equivalents	0	0	1
Net increase (decrease) in cash and cash equivalents	(182)	1,514	(1,723)
Cash and cash equivalents, beginning of year	2,708	1,111	25,640
Increase resulting from wider scope of consolidation	67	82	634
Cash and cash equivalents at end of year	<u>¥2,593</u>	<u>¥2,708</u>	<u>\$24,552</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2004 and 2003 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, 2004

**Not consolidated for the year ended March 31, 2003.

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 translation

Short-term receivables in foreign currencies are translated into Japanese yen at the current exchange rates as of the balance sheet dates.

Long-term assets and liabilities are translated at the rates on the dates they are acquired or incurred. Gains or losses resulting from exchange adjustments 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 ¥105.63=\$1, the approximate rate of March 31, 2004 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
	2004	2003	2004
Finished goods and merchandise	¥3,395	¥2,994	\$32,143
Raw materials and supplies.....	1,830	1,567	17,328
Work in process	237	274	2,244
	<u>¥5,462</u>	<u>¥4,837</u>	<u>\$51,716</u>

5. Short-term borrowings and Long-term debt

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Short-term borrowings.....	¥ 242	¥ 248	\$ 2,295
Current portion of long-term debt ...	1,901	2,055	18,000
Long-term debt.....	3,819	4,158	36,160
	<u>¥5,963</u>	<u>¥6,461</u>	<u>\$56,457</u>

Loans from banks due through 2036, interest 1.0% to 4.9%.

6. Contingent liabilities

Contingent liabilities at March 31, 2004 were as follows:

	Millions of yen	Thousands of U.S. dollars
Guaranty for bank loan	¥61	\$580

7. Segment information

Industry segment information

The Companies operate principally in three industrial segments.

Each segment has the following main products:

<i>Commodity chemicals:</i>	Titanium dioxide, Surfactants, Sulfuric acid
<i>Specialty chemicals:</i>	Micro titanium dioxide, Surface treatment business Aluminum triphosphate
<i>Business warehouse, others:</i>	Business warehouse, Electro-ceramics products

For the year ended March 31, 2004	Millions of yen				
	Commodity chemicals	Specialty chemicals	Business warehouse others	Elimination of inter-segment items	Consolidated total
Sales:					
Sales to outside customers	¥17,560	¥5,998	¥1,306	¥ —	¥24,866
Inter-segment sales and transfers.....	3,000	181	1,444	(4,626)	—
Total.....	20,560	6,180	2,751	(4,626)	24,866
Operating expenses	20,642	4,550	2,628	(4,640)	23,180
Operating income (loss).....	¥ (81)	¥1,630	¥ 123	¥ 14	¥ 1,686
Identifiable assets at March 31, 2004.....	¥18,228	¥4,393	¥1,825	¥8,885	¥33,333
Depreciation	¥ 942	¥ 374	¥ 58	¥ 270	¥ 1,645
Capital expenditures	¥ 1,102	¥ 684	¥ 47	¥ 16	¥ 1,851

For the year ended March 31, 2003	Millions of yen				
	Commodity chemicals	Specialty chemicals	Business warehouse others	Elimination of inter-segment items	Consolidated total
Sales:					
Sales to outside customers	¥ 19,146	¥ 5,473	¥ 1,351	¥ —	¥ 25,971
Inter-segment sales and transfers.....	3,446	138	1,089	(4,673)	—
Total.....	22,592	5,611	2,440	(4,673)	25,971
Operating expenses	22,568	4,165	2,361	(4,729)	24,365
Operating income	¥ 24	¥ 1,446	¥ 79	¥ 55	¥ 1,606
Identifiable assets at March 31, 2003.....	¥ 18,015	¥ 3,889	¥ 1,448	¥ 7,958	¥ 31,311
Depreciation	¥ 1,078	¥ 293	¥ 60	¥ 276	¥ 1,708
Capital expenditures	¥ 870	¥ 252	¥ 288	¥ 31	¥ 1,443

For the year ended March 31, 2004	Thousands of U.S. dollars				
	Commodity chemicals	Specialty chemicals	Business warehouse others	Elimination of inter-segment items	Consolidated total
Sales:					
Sales to outside customers	\$166,246	\$56,791	\$12,370	\$ —	\$235,408
Inter-segment sales and transfers.....	28,401	1,719	13,675	(43,796)	—
Total.....	194,648	58,510	26,046	(43,796)	235,408
Operating expenses	195,423	43,074	24,879	(43,932)	219,445
Operating income (loss).....	\$ (774)	\$15,435	\$ 1,166	\$ 135	\$ 15,963
Identifiable assets at March 31, 2004.....	\$172,568	\$41,593	\$17,286	\$84,122	\$315,571
Depreciation	\$ 8,924	\$ 3,541	\$ 557	\$ 2,557	\$ 15,580
Capital expenditures	\$ 10,434	\$ 6,483	\$ 447	\$ 158	\$ 17,524

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, 2004.

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends paid	¥251	\$2,377
Bonus to directors and corporate auditors.....	¥ 16	\$ 158
Transfer of general reserve	¥600	\$5,680

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, 2004 and 2003, and the related consolidated statements of income, shareholders' equity and cash flows for the years ended March 31, 2004 and 2003, 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, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years ended March 31, 2004 and 2003, 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, 2004