

Financial Statements

2007



TAYCA CORPORATION

Nittochi Yodoyabashi Bldg., 6-13, Kitahama 3-chome, Chuo-ku, Osaka, Japan Phone: (06) 6208-6400 Fax: (06) 6208-6422

CONSOLIDATED FIVE-YEAR SUMMARY

TAYCA CORPORATION AND CONSOLIDATED SUBSIDIARIES

	Millions of yen				
	2007	2006	2005	2004	2003
Net sales	¥30,351	¥27,610	¥26,067	¥24,866	¥25,971
Income before income taxes	1,633	1,628	1,209	1,324	665
Net income	1,072	961	732	854	498
Total assets	41,457	39,902	34,702	33,333	31,311
Equity	23,310	22,949	20,149	19,639	17,805
Common stock	9,855	9,855	9,855	9,855	9,855
Per share of common stock (in yen):					
Net income	¥ 21.39	¥ 18.77	¥ 14.17	¥ 16.31	¥ 9.69
Equity	463.56	456.99	400.92	390.54	346.58

Notes: (1) Figures for 2003 – 2007 represent the results of fiscal year ended March 31, respectively.

(2) The computation of net income 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, 2007 and 2006

TAYCA CORPORATION

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Current assets:			
Cash and cash equivalents.....	¥ 1,638	¥ 2,305	\$ 13,874
Time deposits.....	79	79	668
Marketable securities.....	15	2	134
Trade notes and accounts receivable.....	10,228	8,279	86,619
Inventories (Note 3).....	5,876	5,834	49,766
Other current assets.....	459	541	3,893
Allowance for doubtful accounts.....	—	(9)	—
Total current assets.....	18,299	17,032	154,958
Property, plant and equipment:			
Land.....	1,322	1,291	11,200
Buildings and structures.....	15,375	14,161	130,199
Machinery and equipment.....	38,241	36,016	323,831
Vehicles.....	165	162	1,401
Tools, furniture and fixtures.....	2,395	2,146	20,285
Construction in progress.....	78	1,075	666
Less: accumulated depreciation.....	(43,397)	(41,881)	(367,496)
Net property, plant and equipment.....	14,181	12,972	120,088
Investments and other assets:			
Investment securities.....	8,123	9,021	68,792
Investments in unconsolidated affiliated companies.....	—	20	—
Other assets.....	824	814	6,979
Intangible fixed assets.....	29	40	246
Total investments and other assets.....	8,976	9,897	76,018
	¥41,457	¥39,902	\$351,065

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES, MINORITY INTERESTS AND EQUITY

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Current liabilities:			
Short-term borrowings (Note 4)	¥ 293	¥ 306	\$ 2,487
Current portion of long-term debt (Note 4)	2,236	2,015	18,941
Trade notes and accounts payable	4,669	3,772	39,541
Accrued income taxes	400	535	3,393
Accrued expenses	119	73	1,009
Other current liabilities	2,640	2,992	22,356
Total current liabilities	10,360	9,695	87,729
Long-term liabilities:			
Long-term debt (Note 4)	4,577	3,744	38,764
Deferred income taxes	1,115	1,498	9,449
Liabilities for severance indemnities	1,903	1,693	16,118
Allowance for directors' and statutory auditors' retirement benefits	189	280	1,602
Total long-term liabilities	7,786	7,216	65,935
Minority interests	—	41	—
Contingent liabilities (Note 5)			
Equity:			
Common stock:			
Authorized — 150,000,000 shares			
Issued — 51,428,828 shares in 2007 and 2006	9,855	9,855	83,461
Capital surplus	6,767	6,767	57,307
Retained earnings	3,985	3,179	33,746
Unrealized gain on available-for-sale securities	2,997	3,553	25,382
Foreign currency translation adjustments	55	(2)	466
Treasury stock, at cost:			
1,274,093 shares in 2007 and 1,252,636 shares in 2006	(411)	(403)	(3,482)
Total	23,249	22,949	196,881
Minority interests (Note 2-9)	61	—	518
Total equity	23,310	22,949	197,400
	¥41,457	¥39,902	\$351,065

CONSOLIDATED STATEMENTS OF CASH FLOWS

TAYCA CORPORATION AND CONSOLIDATED SUBSIDIARIES

For the Years Ended March 31, 2007 and 2006

TAYCA CORPORATION

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Operating activities:			
Adjustments to reconcile net income to net cash provided by operating activities:			
Income before income taxes.....	¥1,633	¥1,628	\$13,831
Depreciation and amortization.....	2,238	1,924	18,956
Loss on disposal of property, plant and equipment.....	140	111	1,193
Interest and dividend income.....	(107)	(82)	(913)
Interest expense.....	144	123	1,224
Changes in assets and liabilities:			
Increase in notes and accounts receivable, trade.....	(1,949)	(510)	(16,510)
Increase in inventories.....	(42)	(590)	(362)
Increase in notes and accounts payable, trade.....	897	359	7,598
Other.....	210	(61)	1,780
Subtotal.....	3,164	2,903	26,797
Interest and dividend income, received.....	107	82	913
Interest expense, paid.....	(127)	(124)	(1,082)
Income taxes, paid.....	(739)	(577)	(6,263)
Net cash provided by operating activities.....	2,404	2,283	20,365
Investing activities:			
Payments for acquisition of property, plant and equipment.....	(3,896)	(3,056)	(32,998)
Payments for purchases of investment securities.....	(15)	(14)	(134)
Proceeds from sales of investment securities.....	58	5	491
Other.....	(67)	(12)	(572)
Net cash used in investing activities.....	(3,922)	(3,068)	(33,213)
Financing activities:			
Net (decrease) increase in short-term borrowings.....	(13)	73	(111)
Proceeds from long-term debt.....	3,000	2,100	25,404
Repayment of long-term debt.....	(1,944)	(1,966)	(16,467)
Payments for purchases of treasury stock.....	(7)	(11)	(63)
Proceeds from sales of treasury stock.....	0	—	1
Dividends paid.....	(250)	(250)	(2,125)
Net cash provided by (used in) financing activities.....	783	(54)	6,638
Effect of exchange rate change on cash and cash equivalents.....	66	23	559
Net decrease in cash and cash equivalents.....	(667)	(815)	(5,650)
Cash and cash equivalents, beginning of year.....	2,305	3,121	19,525
Cash and cash equivalents at end of year.....	¥1,638	¥2,305	\$13,874

See the accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

TAYCA CORPORATION AND CONSOLIDATED SUBSIDIARIES

For the Years Ended March 31, 2007 and 2006

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 ¥118.09 to \$1, the approximate rate of exchange at March 31, 2007. 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, 2007 include the accounts of the Company and its 5 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 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, and equipment

Property, plant, and equipment are stated at cost. Depreciation of property, plant, and equipment of the Company 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) Presentation of equity

The Company has adopted the new accounting standard for presentation of equity in the year ended March 31, 2007. Under this accounting standard, minority interests are presented as components of equity.

10) Research and development costs

Research and development costs are charged to income as incurred.

11) Bonuses to directors

The Company has adopted the new accounting standard for bonuses to directors and corporate auditors from the year ended March 31, 2007. The effect of adoption of this accounting standard was to decrease income before income taxes and minority interests for the year ended March 31, 2007 by ¥12 million (\$105 thousand.)

12) 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.

13) 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 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 equity.

3. Inventories

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

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Finished goods and merchandise...	¥3,736	¥3,631	\$31,642
Raw materials and supplies.....	1,787	1,837	15,133
Work in process.....	353	365	2,990
	¥5,876	¥5,834	\$49,766

4. Short-term borrowings and long-term debt

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Short-term borrowings.....	¥ 293	¥ 306	\$ 2,487
Current portion of long-term debt...	2,236	2,015	18,941
Long-term debt.....	4,577	3,744	38,764
	¥7,108	¥6,066	\$60,193

Loans from banks due through 2036, with interest rates at 1.2% to 4.9%.

5. Contingent liabilities

Contingent liabilities at March 31, 2007 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:

<i>Titanium dioxide and its derivatives:</i>	Titanium dioxide, Micro titanium dioxide, Surface treatment business
<i>Other chemicals:</i>	Surfactants, Sulfuric acid, Aluminum triphosphate
<i>Others:</i>	Business warehouses, Electro-ceramics products

	Millions of yen				
	Titanium dioxide and its derivatives	Other chemicals	Others	Elimination of inter-segment items	Consolidated total
For the year ended March 31, 2007					
Sales:					
Sales to outside customers	¥18,310	¥10,219	¥1,821	¥ —	¥30,351
Inter-segment sales and transfers	947	3,545	2,129	(6,621)	—
Total	19,258	13,764	3,950	(6,621)	30,351
Operating expenses	18,336	13,428	3,600	(6,593)	28,772
Operating income	¥ 921	¥ 335	¥ 349	¥ (28)	¥ 1,578
Identifiable assets at March 31, 2007	¥21,625	¥ 8,941	¥2,667	¥8,222	¥41,457
Depreciation	¥ 1,455	¥ 602	¥ 149	¥ 30	¥ 2,238
Capital expenditures	¥ 2,725	¥ 508	¥ 237	¥ 10	¥ 3,481

	Millions of yen				
	Titanium dioxide and its derivatives	Other chemicals	Others	Elimination of inter-segment items	Consolidated total
For the year ended March 31, 2006					
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

	Thousands of U.S. dollars				
	Titanium dioxide and its derivatives	Other chemicals	Others	Elimination of inter-segment items	Consolidated total
For the year ended March 31, 2007					
Sales:					
Sales to outside customers	\$155,057	\$ 86,538	\$15,422	\$ —	\$257,018
Inter-segment sales and transfers	8,022	30,022	18,029	(56,073)	—
Total	163,080	116,560	33,451	(56,073)	257,018
Operating expenses	155,273	113,715	30,493	(55,834)	243,647
Operating income	\$ 7,807	\$ 2,844	\$ 2,958	\$ (239)	\$ 13,370
Identifiable assets at March 31, 2007	\$183,131	\$ 75,716	\$22,587	\$69,630	\$351,065
Depreciation	\$ 12,328	\$ 5,100	\$ 1,267	\$ 259	\$ 18,956
Capital expenditures	\$ 23,080	\$ 4,309	\$ 2,007	\$ 86	\$ 29,484

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 28, 2007.

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends paid	¥250	\$2,123

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, 2007 and 2006, and the related consolidated statements of income, changes in equity and cash flows for the years ended March 31, 2007 and 2006, 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 as of March 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years ended March 31, 2007 and 2006, 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 28, 2007