

Financial Statements

2008



TAYCA CORPORATION

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CONSOLIDATED FIVE-YEAR SUMMARY

TAYCA CORPORATION AND CONSOLIDATED SUBSIDIARIES

	Millions of yen				
	2008	2007	2006	2005	2004
Net sales	¥32,721	¥30,351	¥27,610	¥26,067	¥24,866
Income before income taxes	1,912	1,633	1,628	1,209	1,324
Net income	1,186	1,072	961	732	854
Total assets	39,664	41,457	39,902	34,702	33,333
Equity	22,770	23,310	22,949	20,149	19,639
Common stock	9,855	9,855	9,855	9,855	9,855
Per share of common stock (in yen):					
Net income	¥ 23.66	¥ 21.39	¥ 18.77	¥ 14.17	¥ 16.31
Equity	452.57	463.56	456.99	400.92	390.54

Notes: (1) Figures for 2004 – 2008 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, 2008 and 2007

TAYCA CORPORATION

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Current assets:			
Cash and cash equivalents.....	¥ 3,555	¥ 1,638	\$ 35,485
Time deposits.....	79	79	788
Marketable securities	26	15	260
Trade notes and accounts receivable.....	9,296	10,228	92,780
Inventories (Note 3).....	6,966	5,876	69,529
Other current assets	524	459	5,234
Total current assets	20,448	18,299	204,079
Property, plant and equipment:			
Land	1,346	1,322	13,441
Buildings and structures	15,479	15,375	154,481
Machinery and equipment	38,543	38,241	384,668
Vehicles.....	180	165	1,802
Tools, furniture and fixtures.....	2,433	2,395	24,287
Construction in progress.....	341	78	3,409
Less: accumulated depreciation.....	(45,017)	(43,397)	(449,280)
Net property, plant and equipment	13,307	14,181	132,811
Investments and other assets:			
Investment securities	5,074	8,123	50,644
Other assets.....	785	824	7,836
Allowance for doubtful accounts.....	(23)	—	(231)
Intangible fixed assets.....	71	29	710
Total investments and other assets.....	5,907	8,976	58,960
	¥39,664	¥41,457	\$395,851

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES AND EQUITY

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Current liabilities:			
Short-term borrowings (Note 4)	¥ 464	¥ 293	\$ 4,640
Current portion of long-term debt (Note 4)	2,011	2,236	20,069
Trade notes and accounts payable	4,717	4,669	47,080
Accrued income taxes	603	400	6,027
Accrued expenses	83	119	836
Other current liabilities	2,579	2,640	25,743
Total current liabilities	10,460	10,360	104,397
Long-term liabilities:			
Long-term debt (Note 4)	4,089	4,577	40,816
Deferred income taxes	15	1,115	153
Liabilities for severance indemnities	2,110	1,903	21,059
Allowance for directors' and statutory auditors' retirement benefits	217	189	2,170
Total long-term liabilities	6,432	7,786	64,198
Equity:			
Common stock:			
Authorized — 150,000,000 shares			
Issued — 51,428,828 shares in 2008 and 2007	9,855	9,855	98,362
Capital surplus	6,767	6,767	67,539
Retained earnings	4,920	3,985	49,108
Unrealized gain on available-for-sale securities	1,467	2,997	14,643
Foreign currency translation adjustments	96	55	959
Treasury stock, at cost:			
1,295,292 shares in 2008 and 1,274,093 shares in 2007	(418)	(411)	(4,177)
Total	22,688	23,249	226,435
Minority interests (Note 2-9)	82	61	819
Total equity	22,770	23,310	227,254
	¥39,664	¥41,457	\$395,851

CONSOLIDATED STATEMENTS OF INCOME

TAYCA CORPORATION AND CONSOLIDATED SUBSIDIARIES

For the Years Ended March 31, 2008 and 2007

TAYCA CORPORATION

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Net sales	¥32,721	¥30,351	\$326,565
Cost of sales	26,052	24,264	260,000
Gross profit	6,669	6,086	66,564
Selling, general and administrative expenses	4,667	4,508	46,580
Operating income	2,002	1,578	19,984
Other income (expenses):			
Interest and dividend income	130	107	1,299
Interest expenses	(167)	(144)	(1,667)
Other, net	(52)	91	(526)
Total other expenses	(89)	54	(893)
Income before income taxes and minority interests	1,912	1,633	19,090
Income taxes:			
Current	860	605	8,589
Deferred	(147)	(56)	(1,470)
Minority interests	13	11	131
Net income	¥ 1,186	¥ 1,072	\$11,839
	Yen		U.S. dollars (Note 1)
Net income per share	¥23.66	¥21.39	\$0.23

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

TAYCA CORPORATION AND CONSOLIDATED SUBSIDIARIES

For the Years Ended March 31, 2008 and 2007

	Millions of yen									
	Number of shares of common stock (Thousands)	Common stock	Capital surplus	Retained earnings	Unrealized gain (loss) on available-for-sale securities	Foreign currency translation adjustments	Treasury stock	Total	Minority interests	Total equity
Balance, March 31, 2006	51,428	¥9,855	¥6,767	¥3,179	¥3,553	¥ (2)	¥(403)	¥22,949		¥22,949
Reclassified balance as of March 31, 2006									¥41	41
Net income				1,072				1,072		1,072
Cash dividends				(250)				(250)		(250)
Bonuses to directors				(16)				(16)		(16)
Purchase of treasury stock							(7)	(7)		(7)
Disposal of treasury stock			(0)				0	0		0
Net change in the term					(556)	58		(498)	19	(478)
Balance, March 31, 2007	51,428	¥9,855	¥6,767	¥3,985	¥2,997	¥55	¥(411)	¥23,249	¥61	¥23,310
Net income				1,186				1,186		1,186
Cash dividends				(250)				(250)		(250)
Purchase of treasury stock							(7)	(7)		(7)
Disposal of treasury stock			(0)				0	0		0
Net change in the term					(1,530)	41		(1,489)	20	(1,468)
Balance, March 31, 2008	51,428	¥9,855	¥6,767	¥4,920	¥1,467	¥96	¥(418)	¥22,688	¥82	¥22,770
	Thousands of U.S. dollars (Note 1)									
Balance, March 31, 2007		\$98,362	\$67,539	\$39,771	\$29,914	\$549	\$(4,104)	\$232,033	\$611	\$232,644
Net income				11,839				11,839		11,839
Cash dividends				(2,502)				(2,502)		(2,502)
Purchase of treasury stock							(76)	(76)		(76)
Disposal of treasury stock			(0)				3	3		3
Net change in the term					(15,271)	410		(14,861)	207	(14,653)
Balance, March 31, 2008		\$98,362	\$67,539	\$49,108	\$14,643	\$959	\$(4,177)	\$226,435	\$819	\$227,254

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

TAYCA CORPORATION AND CONSOLIDATED SUBSIDIARIES

For the Years Ended March 31, 2008 and 2007

TAYCA CORPORATION

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Operating activities:			
Adjustments to reconcile net income to net cash provided by operating activities:			
Income before income taxes.....	¥1,912	¥1,633	\$19,090
Depreciation and amortization.....	2,620	2,238	26,155
Loss on disposal of property, plant and equipment.....	140	140	1,402
Interest and dividend income.....	(130)	(107)	(1,299)
Interest expense.....	167	144	1,667
Changes in assets and liabilities:			
Decrease (Increase) in notes and accounts receivable, trade	932	(1,949)	9,304
Increase in inventories	(1,089)	(42)	(10,877)
Increase in notes and accounts payable, trade.....	48	897	479
Other	266	210	2,663
Subtotal	4,868	3,164	48,586
Interest and dividend income, received.....	130	107	1,299
Interest expense, paid	(183)	(127)	(1,828)
Income taxes, paid.....	(657)	(739)	(6,561)
Net cash provided by operating activities.....	4,157	2,404	41,496
Investing activities:			
Payments for acquisition of property, plant and equipment.....	(1,906)	(3,896)	(19,024)
Payments for purchases of investment securities	(14)	(15)	(148)
Proceeds from sales of investment securities.....	550	58	5,492
Other	(118)	(67)	(1,179)
Net cash used in investing activities	(1,488)	(3,922)	(14,859)
Financing activities:			
Net increase (decrease) in short-term borrowings.....	171	(13)	1,708
Proceeds from long-term debt.....	1,580	3,000	15,768
Repayment of long-term debt.....	(2,293)	(1,944)	(22,890)
Payments for purchases of treasury stock	(7)	(7)	(76)
Proceeds from sales of treasury stock.....	0	0	3
Dividends paid	(250)	(250)	(2,502)
Net cash provided by (used in) financing activities	(800)	783	(7,989)
Effect of exchange rate change on cash and cash equivalents.....	48	66	486
Net increase (decrease) in cash and cash equivalents	1,917	(667)	19,133
Cash and cash equivalents, beginning of year.....	1,638	2,305	16,351
Cash and cash equivalents at end of year	¥3,555	¥1,638	\$35,485

See the accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

TAYCA CORPORATION AND CONSOLIDATED SUBSIDIARIES

For the Years Ended March 31, 2008 and 2007

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 ¥100.20 to \$1, the approximate rate of exchange at March 31, 2008. 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, 2008 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 the lower of cost or net selling value, cost being determined by the moving-average method.

The company has adopted "Accounting Standard for Measurement of Inventories" (Accounting Standards Board of Japan Statement No.9, July 5, 2006) from the consolidated fiscal year beginning April 1, 2007.

The effect of this change was to decrease operating income by ¥121 million (\$1,212 thousand) and income before income taxes and minority interests by ¥90 million (\$900 thousand).

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 consolidated 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.

In fiscal 2008, in accordance with the Japanese Corporate Tax Law (the "Tax Law") revised in 2007, the Company and its domestic consolidated subsidiaries have adopted the new method of depreciation based on the revised Tax Law for the tangible fixed assets acquired on or after April 1,

2007. The effect of this change was to decrease operating income and income before income taxes and minority interests by ¥51 million (\$511 thousand).

In fiscal 2008, in accordance with the revised Tax Law, for the tangible fixed assets acquired on or before March 31, 2007, the Company has started to depreciate the remaining balance of the assets over a five year period using straight-line method from the following fiscal year after the book value of the assets decreases to 5% of the acquisition costs under the method of depreciation based on the Tax Law before revision. The effect of this change was to decrease operating income and income before income taxes and minority interests by ¥223 million (\$2,229 thousand).

6) Liabilities for severance indemnities

The Company and its domestic consolidated subsidiaries (excluding one subsidiary) 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 and its domestic consolidated subsidiaries have 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 and its domestic consolidated subsidiaries have adopted the new accounting standard for bonuses to directors and corporate auditors from the year ended March 31, 2007.

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
	2008	2007	2008
Finished goods and merchandise...	¥4,701	¥3,736	\$46,921
Raw materials and supplies.....	1,800	1,787	17,967
Work in process.....	464	353	4,640
	¥6,966	¥5,876	\$69,529

4. Short-term borrowings and long-term debt

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Short-term borrowings.....	¥ 464	¥ 293	\$ 4,640
Current portion of long-term debt...	2,011	2,236	20,069
Long-term debt.....	4,089	4,577	40,816
	¥6,565	¥7,108	\$65,526

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

5. 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

	Millions of yen				
	Titanium dioxide and its derivatives	Other chemicals	Others	Elimination of inter-segment items	Consolidated total
For the year ended March 31, 2008					
Sales:					
Sales to outside customers	¥19,161	¥11,722	¥1,838	¥ —	¥32,721
Inter-segment sales and transfers.....	967	3,633	1,998	(6,599)	—
Total.....	20,128	15,355	3,836	(6,599)	32,721
Operating expenses	19,088	14,575	3,681	(6,626)	30,719
Operating income	¥ 1,039	¥ 780	¥ 155	¥ 27	¥ 2,002
Identifiable assets at March 31, 2008.....	¥20,927	¥ 8,885	¥2,593	¥7,258	¥39,664
Depreciation	¥ 1,777	¥ 646	¥ 167	¥ 28	¥ 2,620
Capital expenditures	¥ 1,035	¥ 449	¥ 216	¥ 49	¥ 1,750

	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

	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, 2008					
Sales:					
Sales to outside customers	\$191,230	\$116,989	\$18,345	\$ —	\$326,565
Inter-segment sales and transfers.....	9,651	36,261	19,947	(65,861)	—
Total.....	200,882	153,251	38,293	(65,861)	326,565
Operating expenses	190,504	145,464	36,744	(66,132)	306,581
Operating income	\$ 10,378	\$ 7,787	\$ 1,548	\$ 270	\$ 19,984
Identifiable assets at March 31, 2008.....	\$208,858	\$ 88,677	\$25,880	\$72,435	\$395,851
Depreciation	\$ 17,741	\$ 6,456	\$ 1,671	\$ 286	\$ 26,155
Capital expenditures	\$ 10,339	\$ 4,482	\$ 2,160	\$ 491	\$ 17,473

6. 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 27, 2008.

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends paid	¥250	\$2,501

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 consolidated subsidiaries at March 31, 2008 and 2007, and the related consolidated statements of income, changes in equity and cash flows for the years ended March 31, 2008 and 2007, 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 consolidated subsidiaries as of March 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years ended March 31, 2008 and 2007, in conformity with accounting principles generally accepted in Japan.

Supplemental information

As described in Note 2, effective the year ended March 31, 2008, the Company has adopted a new accounting standard for the measurement of inventories.

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
Certified Public Accountant



Wataru Iwata
Certified Public Accountant

Osaka, Japan
June 28, 2008