

# Our Confidence in Growth

**Annual Report 2011**

Year Ended March 31, 2011



## Profile

# A global leader in solder resist

The green and white ink applied to the surfaces of printed wiring boards (PWBs) are in fact solder resist (known in the U.S. and elsewhere as solder mask), the mainstay product of the TAIYO HOLDINGS GROUP. Solder resist is an essential material in the production of PWBs used in electronics equipment, from mobile phones and PCs to digital appliances and automotive electronic devices.

TAIYO HOLDINGS is a specialty chemical manufacturer. We command a share of around 50% of the global market for solder resist.

Our business philosophy is to develop and supply products of the highest value based on superior technical expertise. We aim to enhance corporate value by creating superior value through manufacturing excellence.

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### Matters Regarding Forward-looking Statements

This annual report contains forward-looking statements regarding TAIYO HOLDINGS' current management plans, strategies and other matters. Readers are cautioned that these forward-looking statements hold inherent risks and uncertainties, and may differ materially from actual results or business performance.

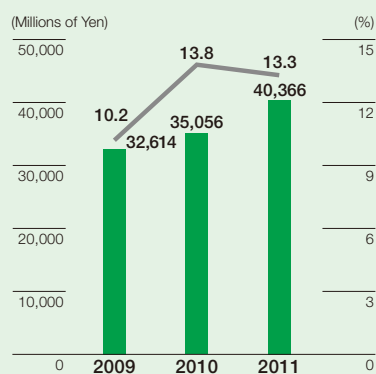
## Financial Highlights

TAIYO HOLDINGS CO., LTD. and Consolidated Subsidiaries  
March 31, 2011, 2010 and 2009

	Millions of Yen			Thousands of U.S. dollars*
	2011	2010	2009	2011
<b>For the year:</b>				
Net sales	¥ 40,366	¥ 35,056	¥ 32,614	\$486,337
Operating income	5,381	4,843	3,332	64,831
Operating income ratio (%)	13.3	13.8	10.2	
Net income	3,403	3,011	1,958	41,000
Net cash provided by operating activities	4,576	3,127	4,581	55,133
Net cash provided by investing activities	758	(70)	(1,470)	9,132
Net cash used in financing activities	(3,697)	(2,367)	(4,428)	(44,542)
Research and development expenses	996	1,016	979	12,000
Number of employees	840	807	793	
<b>At year-end:</b>				
Total assets	¥ 42,851	¥ 43,705	¥ 40,869	\$516,277
Return on equity (%)	9.9	8.7	5.4	
Equity ratio (%)	78.2	80.1	83.3	
Total equity	34,187	35,686	34,584	411,892
<b>Per share data (Yen and U.S. Dollars):</b>				
Net income	¥ 131.78	¥ 116.08	¥ 74.25	\$ 1.59
Cash dividends	115.00	90.00	90.00	1.39
Net assets	1,316.53	1,349.61	1,313.20	15.86

\* The U.S. dollar amounts stated above and elsewhere in this report have been translated from yen, for convenience only, at the rate of ¥83 = US\$1, which was the approximate rate on the Tokyo Foreign Exchange Market on March 31, 2011.

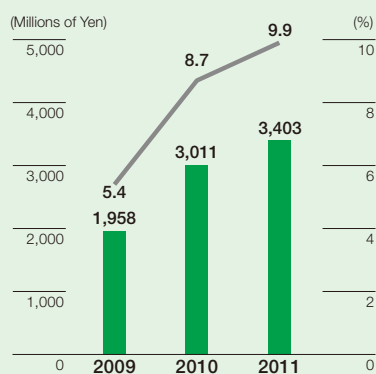
### Net Sales and Operating Income Ratio



(Years ended March 31)

■ Net sales (left scale)  
— Operating income ratio (right scale)

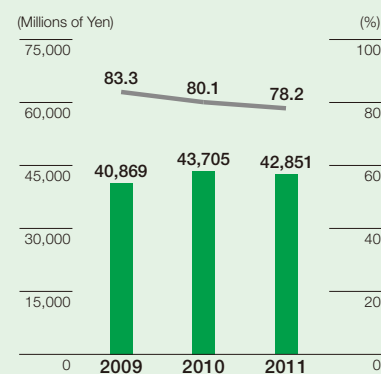
### Net Income and Return on Equity



(Years ended March 31)

■ Net income (left scale)  
— Return on equity (right scale)

### Total Assets and Equity Ratio



(Years ended March 31)

■ Total assets (left scale)  
— Equity ratio (right scale)

50

# Outstanding technology and creative flexibility have driven our growth.

40

30

20

10

0

Net Sales  
(Billions of Yen)

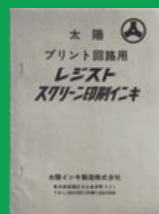
1960

1970

1980

**1953**

- Sep. TAIYO INK MFG. CO., LTD. established.

**1970**

- Aug. Commenced printed wiring board (PWB) marketing.

**1973**

- May. Developed and commenced marketing of epoxy resin, thermally curable single-component solder resist.

**1976**

- Radical change in business policy

**1982**

- Mar. Ranzan Plant (current Ranzan Facility) established.

**1984**

- Jun. Exhibited liquid developable solder resist at the JPCA Show.

**1988**

- Sep. Established TAIYO INK MFG. CO., (KOREA) LTD. (now TAIYO INK CO., (KOREA) LTD.) as a joint venture in the Republic of Korea.





## 1990

- Mar. Completed construction of Technology Development Center at the Ranzan Facility.
- Sep. Launched initial public offering on the over-the-counter market.
- Dec. Established marketing subsidiary TAIYO AMERICA, INC. in Nevada, USA.

## 1992

- Feb. Commenced research and development into plasma display panel materials.
- Mar. Transferred Head Office to newly constructed building in Nerima-ku, Tokyo.

## 1993

- Jan. Developed and commenced marketing of package board solder resist, especially BGA solder resist.
- Nov. Registered basic patent for alkaline developable solder resist in Japan.

## 1994

- Dec. Acquired ISO 9001 certification for Head Office and the Ranzan Facility.

## 1995

- Feb. Transformed USA marketing subsidiary TAIYO AMERICA, INC. into a manufacturing and marketing company, and commenced local production.

## 1996

- Sep. Established local production subsidiary TAIWAN TAIYO INK CO., LTD. in Taiwan.

## 1999

- Jan. Established marketing subsidiaries TAIYO INK INTERNATIONAL (SINGAPORE) PTE LTD. in Singapore and TAIYO INK INTERNATIONAL (HK) LIMITED in Hong Kong.

## 2000

- Jan. Acquired QS 9000 certification for Head Office and the Ranzan Facility. Acquired ISO 14001 certification for the Ranzan Facility.

## 2001

- Jan. Listed on the First Section of the Tokyo Stock Exchange.



- Apr. Opened the Ranzan-Kitayama Facility, the company's main domestic production base.



- Jul. Established technical support subsidiary TAIYO INK (THAILAND) CO., LTD. in Thailand.
- Dec. Established local production subsidiary TAIYO INK (SUZHOU) CO., LTD. in China.



## 2003

- Jan. Acquired ISO 14001 certification for Head Office and Ranzan-Kitayama Facility.
- Sep. TAIYO INK's fiftieth anniversary.

## 2005

- Expanded sales of plasma display panel materials.

## 2008

- Jun. Established a second local production subsidiary in China, TAIYO INK (ZHONGSHAN) CO., LTD.

Compound Annual Growth Rate

6.4%

1990

2000

2010

# Our vision is clear.

**Our sales and profits recovered substantially in year-on-year terms during the year ended March 2011. We plan to pursue sustainable growth in the year ending March 2012 as we move forward with our new medium-term business plan.**



## On my Appointment to the Top Job — Overcoming harsh operating conditions through “speed and communication”

I would like to thank everyone for all the support that I have received since succeeding my predecessor, Mr. Yuichi Kamayachi, as President and CEO on April 1, 2011.

My first few months have been marked by exceptionally challenging circumstances in the aftermath of the Great East Japan Earthquake in March. Nevertheless, I will do all I can to ensure the continued growth of the TAIYO HOLDINGS GROUP.

To summarize my career to date, I joined an audit firm in 1995 and later established my own accounting and consulting practices. I gained substantial experience in management consulting, particularly in the areas of corporate reconstruction, mergers and acquisitions, business administration and financial accounting.

I became involved with the TAIYO HOLDINGS GROUP from my time at the audit firm. I was appointed to the board of TAIYO INK MFG. (now TAIYO HOLDINGS) as an outside director in June 2008 and promoted to Executive Vice President in April 2010.

The operating environment surrounding the TAIYO HOLDINGS GROUP has changed at an astonishing pace in recent years. We are seeing a rapid growth in economic strength in China and other emerging economies. On the technical side, there is demand for products that deliver higher performance and greater resolution. Our challenge is to meet two increasingly

A handwritten signature in black ink that reads "Eiji Sato".

**Eiji Sato** President and CEO



## Long-term vision

A corporate Group that continues as a global leader in solder resist, while also sustaining Group growth based on the development of new business pillars

## Group Business Plan 2010 (from FY2010 to FY2012)

- Prompt management response to changing business conditions
- Forge long-term business strategy
- Focus on sectors with growth potential over the medium-to-long term horizon

divergent markets, namely for low-priced, mass-produced items, and for high-value-added products.

My formula for success under such conditions is “speed and communication.”

What I mean by this is that we must be faster than our rivals in developing products and responding to customer needs and demands. If we are to weather this harsh business climate, we must also excel at sharing information quickly within the Group about what our customers are demanding. I am confident that the qualities and strengths the TAIYO HOLDINGS GROUP possesses will allow us to achieve both of these goals.

At 42 years old, I may be relatively young for such a position, but I believe that my youth and experience provide an advantage. I ask for your continued support in helping the TAIYO HOLDINGS GROUP to prosper going forward.

## Results for Year Ended March 2011

— Sales set a new record in terms of sales volume and topped ¥40 billion, the highest figure since the year ended March 2008

In the electronic components industry where we are engaging in and developing the Group's business, the year ended March 2011 saw growth in the level of global demand for smartphones and tablet PCs. Furthermore, due to higher demand in the Chinese market and other factors, there was favorable growth throughout the year. All of these factors helped offset some signs of softer demand from the second half of the year onward in certain sectors such as PCs and flat-screen televisions.

We posted a record year in terms of our sales volume. Net sales rose 15.1% year on year to ¥40,366 million, exceeding our initial forecast. In the printed wiring board (PWB) materials sector, we expanded sales in every market, notably in the Chinese market, and generated solid growth in high-performance products. In flat panel display (FPD) materials, the high price of silver, a key raw material, pushed up sales prices for many products, which resulted in top-line revenue growth.

Operating income increased 11.1% year on year to ¥5,381 million, mainly due to the positive impact of higher sales volume. This occurred despite a number of negative factors, including yen appreciation, the impact of the Great East Japan Earthquake, and costs associated with the shift to a holding company structure on October 1, 2010, as well as higher fixed costs. Net income rose 13.0% to ¥3,403 million. Profits at all levels posted a significant recovery on a year-on-year basis.

The rolling power blackouts in the wake of the March 2011 disaster temporarily reduced the production capacity of our factories in Japan, but we have since restored normal operations. We do not anticipate any major impact on production going forward.

	(Millions of Yen)		
(Years ended March 31)	2009	2010	2011
Net sales	32,614	35,056	<b>40,366</b>
Operating income	3,332	4,843	<b>5,381</b>
Operating income ratio (%)	10.2	13.8	<b>13.3</b>
Net income	1,958	3,011	<b>3,403</b>



## Overview of Medium-term Business Plan

— We have clarified our vision and are working to accelerate growth through a range of important measures

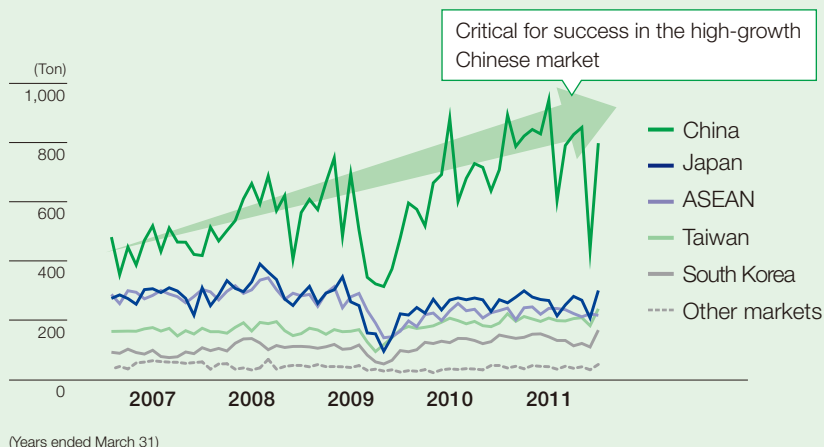
The operating conditions that the Group faces are in constant flux. We see four main trends: ongoing market expansion in China; more intense price competition; increasing separation between high-value-added and low-priced products; and the emergence of local manufacturers. In October 2010, we unveiled “Group Business Plan 2010” (GBP) as our medium-term business plan for the period from FY2010 to FY2012, responding to these evolving operating conditions. Under this new plan, we have stated our long-term vision of where we want the Group to be in FY2020. Our goal is to remain the global leader in solder resist (SR), while also seeking to sustain growth based on the development of new business pillars.

A key strategic aim in the realization of this vision is to raise our market share in China, which is by far the dominant market in terms of scale compared with Japan, Taiwan, Korea and other countries. In particular, we aim to increase our global market share in solder resist, our mainstay product, to at least 50% within the next few years. Achieving this goal requires that we develop a strategy for the low-priced product sector in

China, where competition becomes more intense every year. We aim to maintain the Group’s competitive edge in the Chinese market by developing low-priced products with a quality advantage in addition to our usual customer-focused approach, in which we seek to add value in specific ways. By setting up new production and sales bases closer to our customers, we are also working to respond to customer needs more promptly. In January 2011, we began operations along the southern coast of China at TAIYO INK TRADING (SHENZHEN) CO., LTD. We created the Office of China Strategy in April 2011. We are on track to begin operations at our second production company in China, TAIYO INK (ZHONGSHAN) CO., LTD., in October 2012. We are making steady progress toward our goal of raising our market share in China.

Alongside this, we are energetically pursuing a new product development strategy aimed at establishing the Group in new fields besides PWB and FPD materials and expanding into new business domains. We generated sales of about ¥2.0 billion from these new products in the year ended March 2011. We aim to double this figure to ¥4.0 billion in the year ending March 2013 by developing new products such as white SR, black SR and silver paste for touch-screen panels. The annual sales of white SR have exceeded ¥0.5 billion already. We plan to focus on

### Market Strategy for China



– Low-priced strategy:  
Develop and sell products offering quality advantage at low prices

– Reinforce sales and production setup:  
Establish new sales bases and production facilities



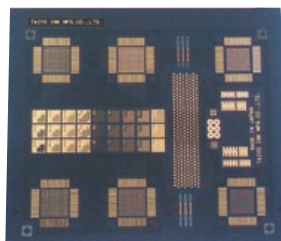
growing sales volume for these new products, while seeking to create new products by exploring niche markets, and to develop a wide-ranging product lineup based on market research and information gathered from our customers.

The Group is developing a strategy based on manufacturing and selling products locally. Under this approach, we are aiming not only to be more customer-responsive, but also to source a higher proportion of raw materials from local suppliers while producing more input materials internally.

Under our “Global Talent Management Strategy,” we are seeking to develop the personnel needed to manage and lead this new era of global competition and rapid change, specifically focusing on strong workforce communications and enhanced cross-cultural understanding of overseas subsidiaries. We are cultivating senior management candidates and training employees to acquire the skills and knowledge needed for global business, including communication abilities, people skills and in-depth analytical capabilities. We are also evaluating the skills of employees in overseas subsidiaries to determine where we as a company can maximize their value to the organization. We are building our HR development systems to foster the growth of those employees with potential.

Based on continued progress with these various initiatives, we have established consolidated performance targets for the year ending March 2013 of ¥48.0 billion in net sales and ¥7.7 billion in operating income.

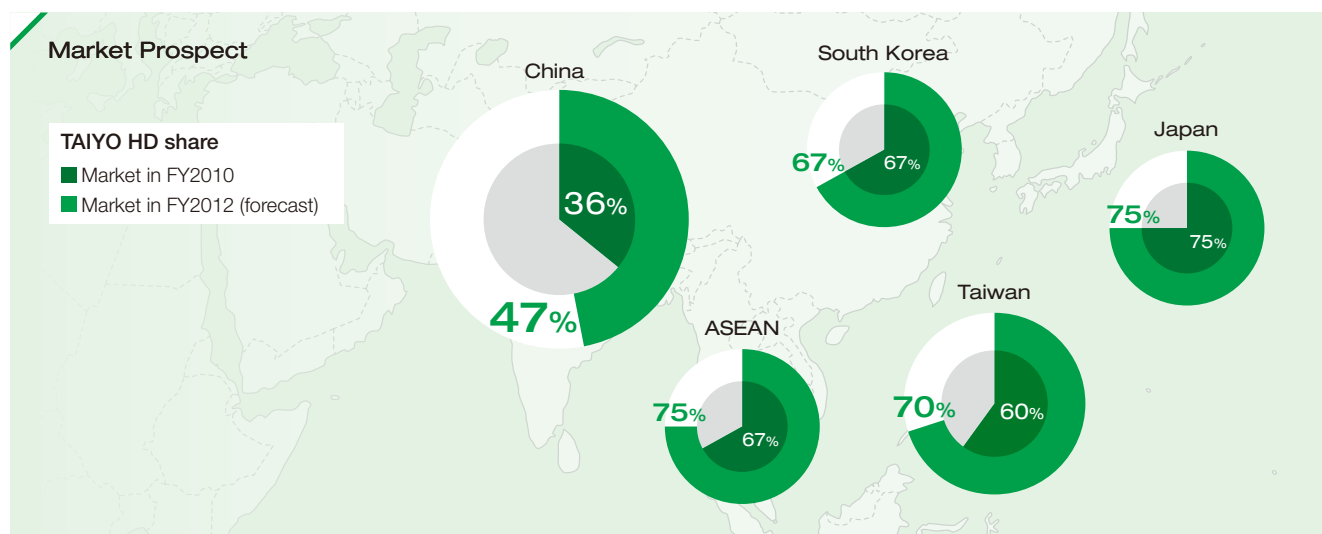
### New Products



Black SR



Inkjet marking





## TAIYO HOLDINGS GROUP's Strengths

### — The Group characteristics that support our growth

Our Management Philosophy is based on our technological capabilities. We will develop and provide products with maximum value, generate income and increase our corporate value, thereby contributing to the well-being and prosperity of our customers, local communities, shareholders and employees.

The TAIYO HOLDINGS GROUP is a technology-driven group, and we seek to increase our share of the global market by creating competitive products based on our technical expertise. We believe our technical strengths will remain a source of competitive advantage, just as they have been in the past. Our skills relate more to the development of technical solutions to solve specific customer needs than to creating entirely new products. Expansion in China, which is a critical part of our medium-term business plan, is about adding value to products by creating customer-tailored solutions, and then selling these products to build a competitive position. Establishing new production and sales bases to help us identify the needs of local customers is part of that equation, but the Group has grown historically by making a variety of products based on the precise requirements of our customers. The on-site technical service that we can provide is another of the

Group's real strengths, and will continue to be an important element as we grow in the future.

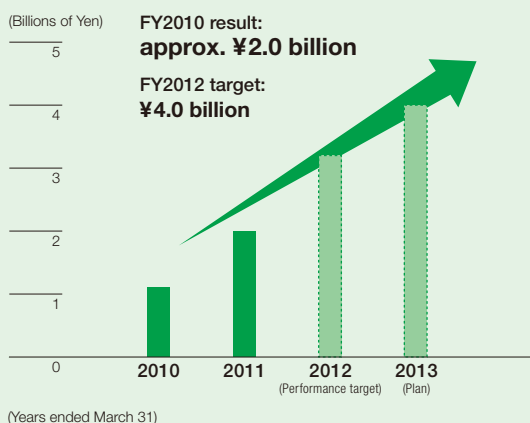
In October 2010, we made the transition to a holding company structure to help us become more adaptable in today's increasingly rapid business cycle. The new structure involves greater delegation of management authority and will help promote faster operational decision-making and business execution. For instance, across all of our Group subsidiaries we are seeing costs increase due to the need for multi-functional product development so that the subsidiaries themselves can conclude their business activities. They regard these costs as comprising up-front investments to ensure that we have the capacity to meet orders for increased product volume and to maintain and / or increase our market share. The holding company structure will become another strength for the Group, supporting our future growth strategy.

## Outlook for Year Ending March 2012

### — Targeting continued growth in sales and profits to achieve plan goals

We forecast further growth of the electronics market, led by China and other developing countries. We expect the competition from

### Sales from New Products



### Targets for Net Sales and Operating Income



low-priced products to intensify within the Chinese market. In addition, the first half of the year could be affected by post-disaster factors such as power restrictions in Japan.

There are also concerns that the disaster will cause customers to step up efforts to diversify supply chains. Since we command a share of over 70% in the markets where we operate (other than in China), such moves could serve to erode the Group's overall market share. Our local production and sales strategy in the medium-term business plan aims to address this issue. By taking advantage of our production capabilities in Japan, Korea, Taiwan and China, we aim to provide customers with the security of multiple procurement sources for the Group's products. In this way, we will preserve our market share while also generating new opportunities to serve the business needs of our customers.

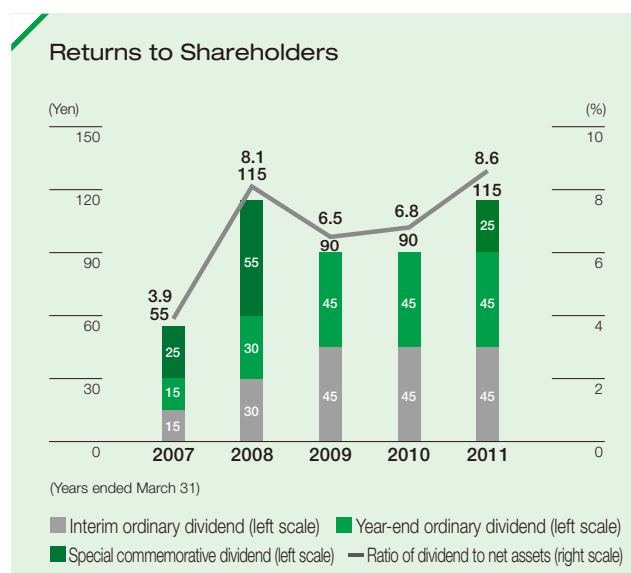
Under such operating conditions, and taking into account the anticipated growth in sales volume and movements in foreign exchange rates, we forecast consolidated net sales of ¥44,500 million for the year ending March 2012, up 10.2% in year-on-year terms. We expect operating income to increase 4.1% to ¥5,600 million, along with 11.7% growth in net income to ¥3,800 million. We aim to make further steady progress toward achieving the medium-term business plan targets.

## Shareholder Returns Policy

### —Stable and consistently high returns to shareholders

We believe it is important to return profits to shareholders in the form of cash dividends. Our policy is to make stable and consistently high shareholder returns over time. We have set a medium-term target of delivering cash dividends equivalent to at least 5% of net assets. For the year ended March 2011, we paid an annual dividend of ¥115 per share, consisting of an ordinary dividend of ¥90 plus a special ¥25 dividend to commemorate the tenth anniversary of listing on the First Section of the Tokyo Stock Exchange. In line with our policy on shareholder returns, we plan to pay a dividend of ¥90 per share for the year ending March 2012.

We hope that our shareholders and investors will continue to provide the TAIYO HOLDINGS GROUP with their support and understanding.



# Sound management structures to promote realization of our business vision

## Construction of Sound Management Structures

We moved to a holding company structure on October 1, 2010. Having group management and strategic functions, the holding company aims to develop and improve our strategies while optimizing the allocation of resources. The operating subsidiaries under the holding company can act promptly and autonomously. This system enables us to respond better to customers across various markets while also speeding up decision-making and boosting operational efficiency. Its aim is to increase profits and help us build corporate value.

## Basic Thinking on Corporate Governance

In line with our Management Philosophy and Basic Management Policy, we aim to prosper together with our customers, shareholders, business partners and other stakeholders. We also believe it is necessary for us to embrace social responsibilities as well as seeking to generate profits. To this end, we seek to promote management transparency and to fulfill our disclosure obligations to support the Company's continued prosperity.

## Corporate Governance Structures

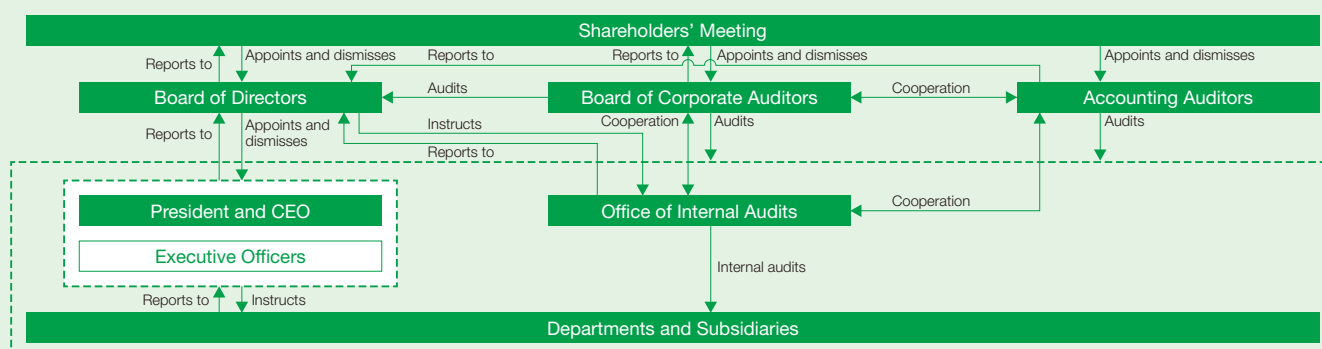
Our corporate governance system is centered on the Board of Directors and the Board of Corporate Auditors, whose members are both approved by resolutions at the Shareholders' Meeting. We have also adopted a system of Executive Officers to separate management oversight from operational execution. The Executive Officers appointed to serve on the Executive Committee are General Managers of divisions of TAIYO HOLDINGS and representatives of overseas subsidiaries. This set-up aims to promote faster operational execution as well as right strategic decision-making.

The Board of Directors is composed of six Directors and four Corporate Auditors. Meetings of the Board of Directors are held regularly each month, but the Board can also hold extraordinary meetings if necessary. The Board discusses and resolves important matters, and also oversees the execution of duties by the Representative Director. Corporate Auditors, including outside Auditors, attend most meetings of the Board and Executive Committee, which convene on a number of occasions each year, to engage in discussions and to monitor proceedings in detail. Two of the Corporate Auditors are full-time auditors with the power to submit questions to the Group employees. The system enables the Corporate Auditors to conduct adequate monitoring of the execution of duties by Directors. Furthermore, under the current system, although we do not appoint outside directors, we arrange that all four of our Corporate Auditors are outside Auditors in order to ensure that we have in place an independent and impartial auditing function.

The Internal Audit Dept., which has a staff of three employees, is fully independent of other Group operations. It undertakes an audit of all departments of the holding company and operating subsidiaries based on the annual audit plan approved by the Board of Directors. Results of these audits are reported to the Board of Directors and Board of Corporate Auditors for related discussions. The Internal Audit Dept. also holds regular meetings with the accounting auditors to exchange information.

## Internal Controls

We regard the construction of a system of internal controls as a critical part of corporate governance. These controls include the five components described below.



- (1) The Ethical and Legal Compliance System, based on our CSR (Corporate Social Responsibility) Philosophy and the Code of Conduct.
- (2) The appointment of one Director as Chief Compliance Officer to chair the Ethics Committee and lead a team promoting internal business ethics.
- (3) An internal hotline to enable employees to report compliance violations or any related concerns to an external lawyer.
- (4) Regular reports by the Chief Compliance Officer to the Board of Directors concerning the ethics and compliance framework status.
- (5) Establishment of an independent Internal Audit Dept. that reports audit findings to the Board of Directors and the Board of Corporate Auditors, and where necessary to the accounting auditors as well.

To maintain the reliability of our financial reporting, we have also developed a system of internal controls to ensure that effective and appropriate internal control reports are produced, based on the provisions of the Financial Instruments and Exchange Law.

## Risk Management

The Group has studied and instituted ways of mitigating, or of taking appropriate steps in response to, a variety of risks associated with business activities.

We formulated and put in place a business continuity plan (BCP) during the year ended March 2009 with the aim of fulfilling our obligations as a supplier in the event of an emergency. The plan features a three-step process to transfer production to alternative facilities offshore if our production sites in Japan are affected by a disaster. In the year ended March 2011, we completed the second step of the BCP process by putting in place a system to supplement production if necessary. We did not need to implement the BCP after the Great East Japan Earthquake struck because none of the Group's employees or factories were damaged. However, the advanced contingency planning did enable us to respond rapidly to assist customers by continuing to organize prompt shipments of products.

We have also created manuals of response measures during and after natural disasters and other emergencies. We regularly conduct emergency safety training drills and test the operation of

### Three-step production continuity system

<b>Step 1</b>	Products that can be made using existing raw materials and facilities at alternative sites	✓ Done
<b>Step 2</b>	Products requiring the supply of some raw materials to alternative sites (as part of overseas development)	✓ Done
<b>Step 3</b>	Products requiring the supply of some raw materials to alternative sites (domestic)	

systems designed to confirm the safety and location of employees or gather data on the status of Group facilities.

In other initiatives, we have studied and put in place information security management measures through the regular activities of the Information Security Committee. We conduct internal training programs to raise employee awareness of information security issues.

A Director with specific responsibility for risk management oversees the Group's risk management program.

## Executive Compensation

The Group policy on executive compensation is to set in an objective and transparent way executive compensation levels that provide incentives to executives to increase corporate value and shareholder value, while also being properly justifiable. Executive compensation is deliberated by the Compensation Committee, a body composed of an outside Auditor and three independent experts. The Directors' compensation is decided by the Board of Directors and the corporate auditors' compensation is decided by the Board of Corporate Auditors, after the aforementioned deliberation by the Compensation Committee.

Directors' compensation is made up of a base salary plus performance-based components linked to the Group earnings and the share price. The Corporate Auditors only receive a base salary.

Executive compensation for the year ended March 2011 is shown below.

### Executive compensation

Executive category	Aggregate remuneration (Millions of yen)	Aggregate remuneration by component (Millions of yen)			Total number of executives
		Base salary	Earnings-based performance	Retirement benefits	
Directors	205	140	46	17	9
Corporate Auditor	18	18	–	0	1
Outside Corporate Auditors	14	14	–	0	3

## Board of Directors

(As of July 1, 2011)

### President and CEO

Eiji Sato

### Chairman

Yuichi Kamayachi

### Directors

Morio Suzuki  
Masuhiro Omori  
Si Bum Yoo  
Takato Kawahara

### Corporate Auditors

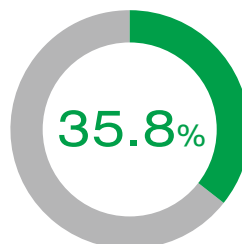
Toshio Nemoto  
Akihito Sakai  
Masayuki Hizume  
Toshiaki Taue

## Geographical Segment Review

Breakdown of Net Sales

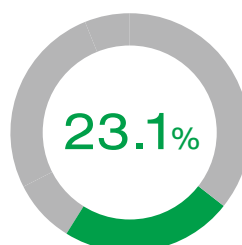
Net Sales (Millions of yen)

### Japan



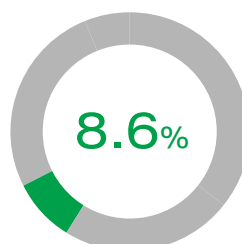
(Years ended March 31)

### China (including Hong Kong)



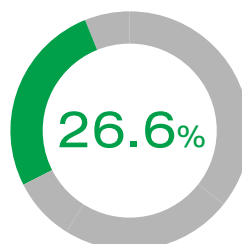
(Years ended March 31)

### Taiwan



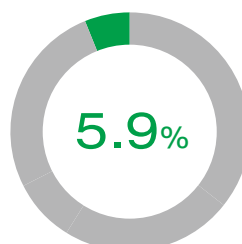
(Years ended March 31)

### South Korea



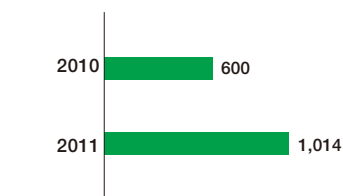
(Years ended March 31)

### Other Regions



(Years ended March 31)

## Operating Income (Millions of yen)



(Years ended March 31)

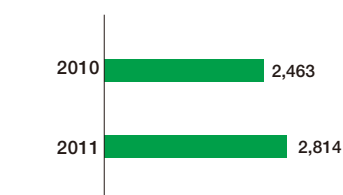
## Business Overview

Sales volume recovered across all printed wiring board (PWB) materials. Reflecting firm demand from both domestic and export sources, sales totaled ¥22,993 million for rigid board materials and ¥1,259 million for build-up board materials.

Overall, net sales in Japan declined 9.3% compared with the previous year to ¥18,491 million. Operating income increased 68.8% to ¥1,014 million.

## Consolidated Group Subsidiaries

TAIYO INK MFG. CO., LTD.

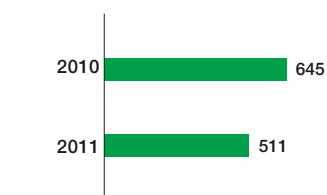


(Years ended March 31)

A correction in production output for PCs and flat-screen televisions began to affect the business during the second half, but full-year results were supported by strong demand in the Chinese market. Sales volume increased to a new record high.

Overall, regional net sales increased 15.0% in year-on-year terms to ¥11,916 million. Operating income rose 14.2% to ¥2,814 million.

TAIYO INK (SUZHOU) CO., LTD.  
TAIYO INK INTERNATIONAL (HK) LIMITED  
TAIYO INK TRADING (SHENZHEN) CO., LTD

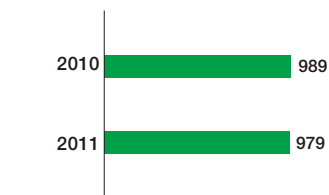


(Years ended March 31)

Although demand for high-performance rigid board materials was firm, the impact of yen appreciation against the U.S. dollar squeezed operating margins.

Overall, net sales in Taiwan increased 8.1% in year-on-year terms to ¥4,414 million, but operating income fell 20.8% to ¥511 million.

TAIWAN TAIYO INK CO., LTD.

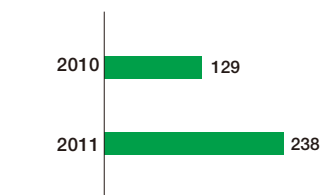


(Years ended March 31)

Sales volume for rigid board materials and materials used in semiconductor package and flexible substrates rose to a new record high, boosted by the emergence of South Korean electronics manufacturers. Sales amounts also posted a new record supported by strong sales of flat-panel display materials from the start of the fiscal year and higher unit prices for products due to sharp rises in the price of silver, a key raw material.

Overall, net sales in Korea grew 34.2% in year-on-year terms to ¥13,743 million, but operating income fell 1.0% to ¥979 million.

TAIYO INK CO., (KOREA) LTD.



(Years ended March 31)

Sales volume in the ASEAN region posted a record high, reflecting a strong performance in the first half of the year. Sales of build-up board materials and other products increased solidly in the European and U.S. markets.

Overall, net sales in other regions amounted to ¥3,061 million, an increase of 3.0% in year-on-year terms. Operating income rose 84.9% to ¥238 million.

TAIYO AMERICA, INC.  
TAIYO INK INTERNATIONAL (SINGAPORE) PTE LTD

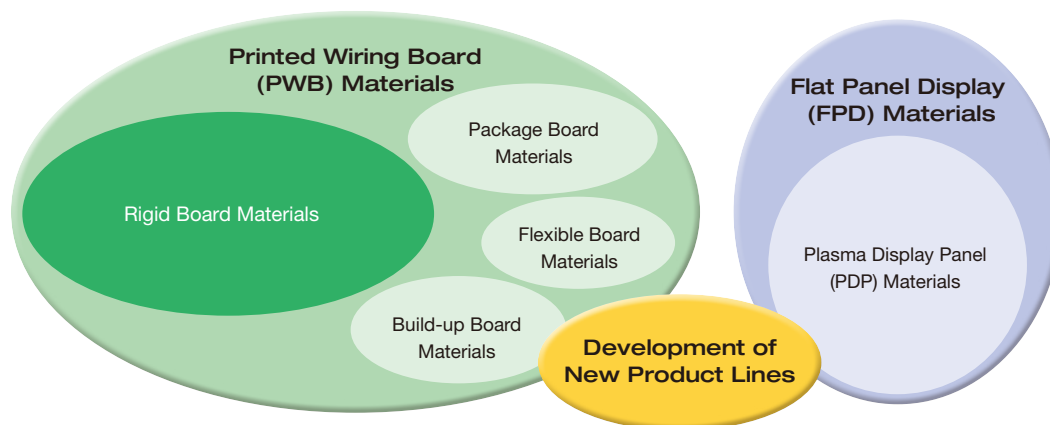


## Product Description and Performance Overview

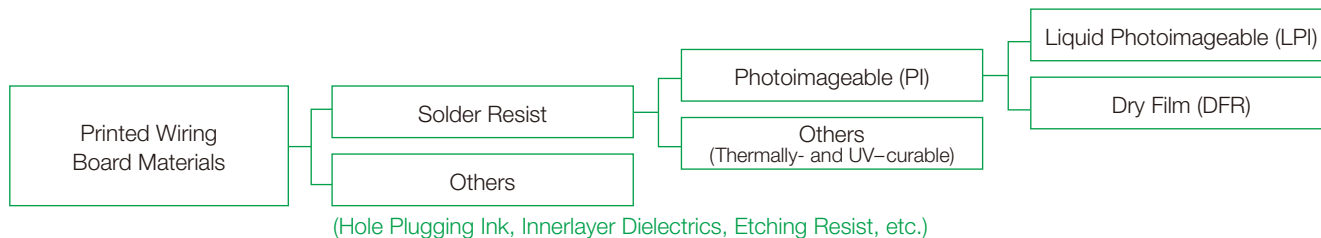
The Group's products are divided into the two categories of printed wiring board (PWB) materials and flat panel display (FPD) materials. The Group is also utilizing the technologies cultivated in these existing segments to develop new fields and products targeting the electronic components industry.

PWB materials are grouped into the three categories of (1) rigid board materials, (2) package and flexible board materials, and (3) build-up board materials. The key contributor is solder resist (SR), the Group's mainstay product (see chart below).

### TAIYO HOLDINGS GROUP Product Segments



### PWB Materials



PWB materials are chemicals used in PWB manufacturing processes. They have been the traditional mainstay of the Group's business. PWB materials are further classified into SR and non-SR products.

SR is masking ink applied over the surface of a PWB. It forms an insulating layer to protect the underlying board circuit pattern. SR can be divided into "photoimageable" and other types. Other important SR categories are LPI (liquid photoimageable) and DFR (dry film).

Non-SR products include (1) hole plugging ink, used to provide an insulating in-fill for the through holes that connect electronic circuits in various PWB layers, (2) legend (or marking) ink, which is used on PWB surfaces to indicate names, numbers, positions or other information that relate to mounted electronic components, and (3) interlayer insulation materials, which are used in build-up substrates to separate the various layers of mounted components.

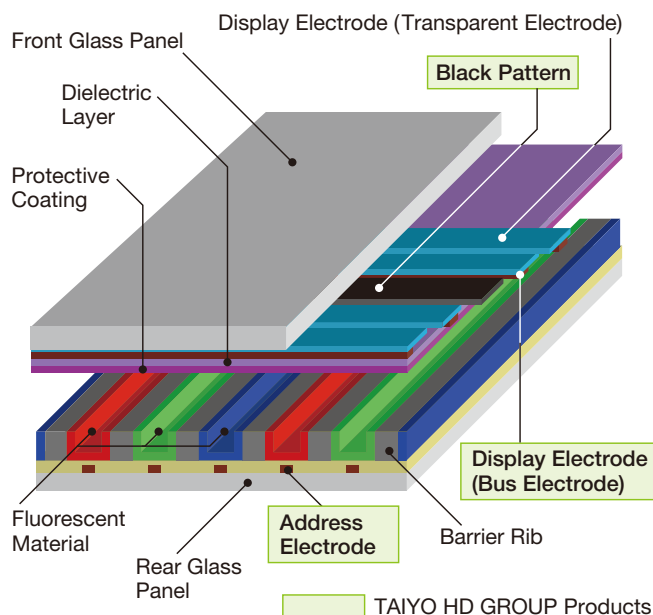
Solder resist generates a large proportion of Group sales. The Group was the pioneering inventor of alkaline developable SR, a major variant of photoimageable SR (the current mainstream type), and commands the leading share of the global SR market.

Supported by higher demand in China, sales volume of rigid board materials increased significantly in the year ended March 2011 despite an overall slowdown in the second half of the year. Sales volume growth in the Chinese market was 18% year on year. Total sales of PWB materials rose 7.1% compared with the previous year to ¥29,938 million.

For more detailed information about solder resist, please refer to our web site.

<http://www.taiyoink.co.jp/english/Profile/soldarregist01.html>

## FPD Materials



Within FPD materials, plasma display panel (PDP) materials for use in flat-screen TV panels account for the majority of sales. The Group manufactures and sells conductive pastes, which function as the electrodes in plasma TV sets, and black pattern pastes to create the black patterns for generating image contrast. FPD materials now constitute the Group's second-largest product segment behind PWB materials. The sector is expanding rapidly due to the growth of the plasma TV market.

Segment performance advanced significantly in the year ended March 2011 due to greater sales volume and higher unit prices linked to sharp rises in the price of silver, a key raw material. Another key factor was substantial sales growth in China, which had not made a major contribution to segment sales or profits previously. Total sales of FPD materials grew 55.0% year on year to ¥9,455 million.

## New Fields and Products

The Group is actively engaged in developing and investigating new market opportunities.

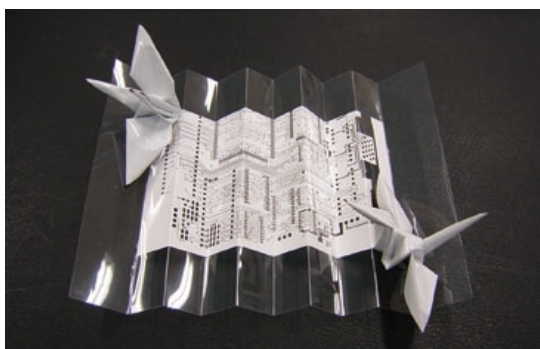
Sales from new fields and products totaled approximately ¥2.0 billion in the year ended March 2011. The Group aims to double sales from this segment by March 2013.

The following section outlines some of these new products that the Group has developed.

The first is white solder resist. Demand for such an SR variant has grown in recent years due to the emergence of light-emitting diode (LED) lights and LED-backlit LCD TV sets, which have energy-saving and eco-friendly features. White solder resist helps boost the luminance of LEDs or LED backlighting due to

high light reflectance. The Group gained a related patent in 2009. Product sales topped ¥0.5 billion in the year ended March 2011, and are forecast to grow further in the future.

The second is black solder resist, which offers another alternative to the standard green or blue SR colors. In recent years, more products have started to feature black PWBs that use a black solder resist. The Group has applied its expertise in photolithography to develop this new product range. The higher component density and increased circuit resolution in the chips fitted to smartphones and other mobile devices have made conventional photo-irradiation methods obsolete due to the need for more resolution. New SR variants are required for novel direct etching methods that do not utilize a negative film. We have developed black SR that copes with the contradictory requirements of being sufficiently light absorbent but also allowing enough light to penetrate to enable hardening of the high-resolution circuit patterns. This product is suitable for laser direct imaging and can also be used within a developable photo-paste that contains high concentrations of light-blocking silver particles, which are applied using photolithographic printing techniques. The resulting product combines a deep black hue with the required sensitivity and precision for high-resolution etching.



White SR

## Research and Development

We are engaged in continual R&D activities to develop new products for new markets.

In the field of PWB materials, our R&D is mainly focused on adhesives, heat dissipation, eco-regulatory compliance and electrical conductors. We are also actively applying the experience and technical expertise that we have built up over many years to materials besides solder resist.

In interlayer insulation materials, we are focusing our R&D efforts toward pattern etching process technology which can be used in combination with new interlayer insulation materials to facilitate higher resolution patterns and better reliability. We are also developing adhesives for use with metallic substrates that can offer superior heat-dissipation characteristics and materials with pre-embedded components.

Inkjet marking requires a production process capable of applying ink-based patterns to specified parts of substrates while using minimal amounts of ink. This requires low-viscosity ink that dries instantly. Conventional ink can suffer from poor adhesion characteristics. We have developed ink that delivers superior adhesion by adding a thermosetting ingredient. The product is now in commercial development following patent acquisition.

Conductive materials for PWB applications fall into the two varieties of carbon paste and silver paste for through holes. Carbon paste has garnered attention in recent years as an alternative to metal electroplating because it helps reduce costs compared with using high-priced precious metals. We have created a material with good printing characteristics and low resistance variability that leaves less phenol-formaldehyde residue, an issue with conventional products. We are developing a

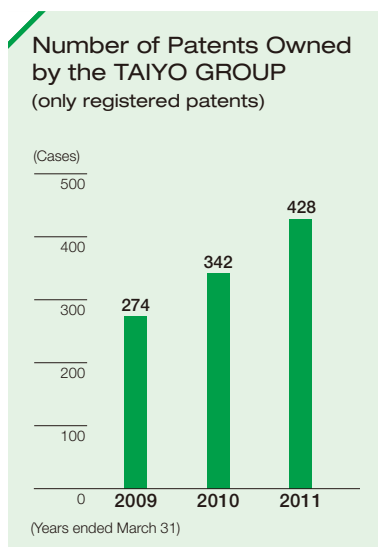
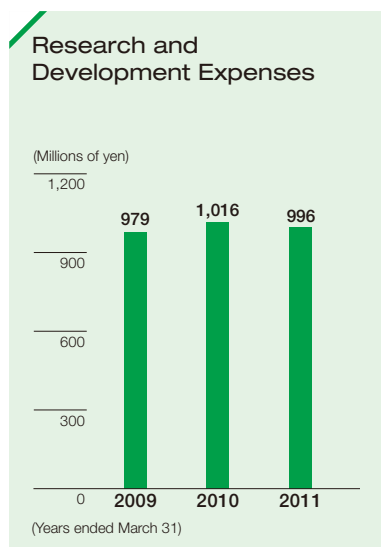
silver paste for use in through holes that has lower silver content (making it cheaper), but offers equivalent conductivity.

Conductive pastes are materials that are used in plasma display panel (PDP) electrodes and flat-panel displays such as touch screens. We are developing conductive pastes for use in new applications such as connections to solar cells or electromagnetic shielding. We are also researching the use of metals other than silver or nano-metals in such materials.

In terms of technical trends, growing demand to conserve resources and energy is focusing attention on printed (printable) electronics as the pattern-etching solution of choice. Our in-house R&D programs are focused on the production of next-generation lighting or flexible electrodes based on inkjet printing or gravure offset printing (which is excellent for high resolution and mass throughput). We are also participating in research collaborations with other firms and academic institutions to develop technologies for the next generation of printed electronics, and looking to develop technologies for flexible device applications.

In terms of our approach to R&D, we try to make the most efficient use of our resources by entering technical research partnerships and participating in joint development with universities and public research institutions. Internally, we focus our R&D on a limited number of projects and use joint development projects between the Group companies. This approach helps us to develop innovative technologies promptly to enable rapid commercialization of superior products.

In intellectual property, we are seeking to boost efficiency by emphasizing the quality of patent submissions rather than the number of applications filed.



\* The above number indicates the number of patents registered by the TAIYO GROUP for each fiscal year, for which the patent rights continue to be valid as of the fiscal year under review.

The Group has prospered by earning the trust of shareholders, customers, business partners and other stakeholders. To remain worthy of such trust and support the Group's continued development, we have formulated our CSR Philosophy and a Code of Conduct based on our Management Philosophy and Basic Management Policy to guide all of our business activities. In conducting business, we are committed to fulfilling our corporate social responsibilities as an enterprise.

In addition, various management structures and committees provide the infrastructure needed to support appropriate promotion of the CSR-related activities that we undertake.

## CSR Philosophy

We will promote our corporate social responsibility, including complying with the law, protecting the environment, ensuring thorough quality management, and contributing to society.

## Code of Conduct

We will observe the following code to put the Group's CSR Philosophy into practice.

### 1. Ethical and Legal Compliance

We will observe laws and other social norms, and understanding the spirit thereof, will act openly and fairly.

### 2. Workplace Environment

We will respect employees' human rights, and create a workplace that is fair and free of discrimination.

### 3. Fair Business Dealings

We will deal with all our business partners in an honest manner and conduct business with them based on impartial and fair business conditions.

### 4. Respect for Stakeholders

We will always conduct business activities with respect for the viewpoints of all our stakeholders, and disclose information in a timely and appropriate manner.

### 5. Ensuring Confidentiality

We will work to ensure the protection of confidential information related to our business partners, the company itself, and any individual.

### 6. Ensuring Quality (Quality Policy)

We will ensure that we always provide safe, quality products that satisfy our customers.

### 7. Protecting the Environment (Basic Environmental Philosophy)

We will endeavor to protect the environment as part of the performance of our social responsibility, and will engage in business activities that are in harmony with the environment.

### 8. Social Contribution

As members of society, we will engage in activities that contribute to society.

### 9. Respect for Intellectual Property

We will take appropriate precautions to protect our intellectual property rights, and those of third parties.

### 10. Exclusion of Anti-social Forces

We will take a resolute stance towards anti-social forces and will not respond in any way to illegal or improper demands.

## Relationship with Shareholders

### Performing IR Activities

TAIYO HOLDINGS maintains a basic policy of ensuring accuracy, fairness, and promptness in the performance of IR activities. On the basis of this policy, we deliver to shareholders and investors information effective for making investment decisions.

In terms of specific IR activities, we offer IR information on our website, hold financial results briefings for analysts and institutional investors, and meet with institutional investors, among other activities. We are also proactive in providing information to overseas institutional investors. In the year under review, for example, we held IR meetings in Hong Kong.

### Shareholders' Meeting

At our General Meeting of Shareholders, we deliver our annual business report using narrated videos on large-screen displays to facilitate a better understanding of our management strategy and operations. On-demand video of the meeting is made available to provide wide access to the proceedings, including to shareholders who could not attend as well as to the media. Following the meeting, we hold a reception for shareholders at which we introduce printed wiring boards and various electronics that use our products. The reception also allows investors to speak directly to our executives and product developers, which enhances communication between our company and shareholders.



Executives greet shareholders at the reception after the General Meeting of Shareholders.

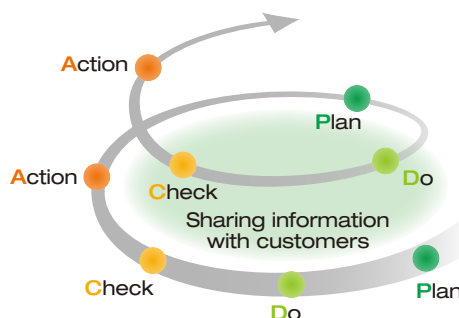
## Relationship with Customers

### Maintaining Quality Management and Utilizing Complaints

The TAIYO HOLDINGS GROUP carries out initiatives to ensure high levels of quality and safety which satisfy our customers. In the year under review, we focused on ensuring that our quality management system was compatible with our new organizational structure. Specifically, we mapped out our outsourcing processes and clarified for each process the roles and responsibilities of the companies and organizational bodies involved. In addition, TAIYO INK instituted reforms to maintain its quality management system under its new organizational structure, and the reforms were certified as compatible with ISO 9001:2008 after a review by the registration body. Going forward, we will strive to raise the effectiveness of our quality management system even as we streamline the system for efficiency.

We consider customer complaints as opportunities to improve quality. After receiving a complaint, we identify the roots of the problem and take effective response measures that will lead to the manufacturing and provision of products with more stable quality.

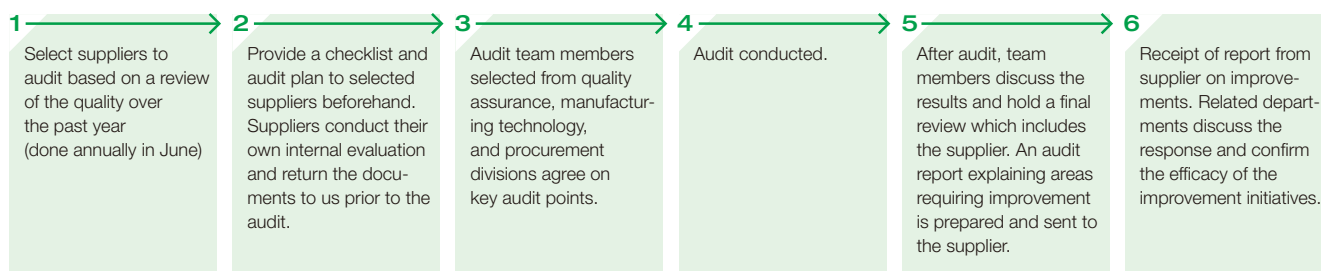
### Quality improvement based on customer complaints



## Relationship with Suppliers

### Carrying Out On-site Audits

The TAIYO HOLDINGS GROUP carries out on-site audits of its suppliers of raw materials and products, with the understanding and approval of its suppliers, as a way to maintain and improve the quality and delivery of procured goods.



## Relationship with Local Communities and Society

### Social Contribution

As part of its social contribution activities, the TAIYO HOLDINGS GROUP makes monetary donations to support relief efforts in the event of major disasters causing significant damage. In the case of the Great East Japan Earthquake, we quickly responded with financial support to the Japanese Red Cross Society.

Company	Disaster
TAIYO HOLDINGS CO., LTD. and TAIYO INK MFG. CO., LTD.	Typhoon No. 9 in Okayama and Hyogo prefectures (2009) Sumatra Earthquake (2009) Samoa Earthquake (2009) Haiti Earthquake (2010) Chile Earthquake (2010) Great East Japan Earthquake (2011)
TAIWAN TAIYO INK CO., LTD.	Taiwan Floods (2009)
TAIYO INK (SUZHOU) CO., LTD.	Sichuan Province Earthquake (2008) Great East Japan Earthquake (2011)

### Community Contribution Activities

The TAIYO HOLDINGS GROUP carries out community vitalization initiatives as part of its local community contribution activities. In the year under review, we took part in the annual Ranzan Festival held in Ranzan Town, Saitama Prefecture. We set up a booth at the festival to sell toys and games to children and provide PR space for the company. The festival afforded an opportunity for our employees to enhance communication with members of the local community, improve citizens' understanding of our company, and support the vitalization of the town. All proceeds from our booth were donated to a local social welfare organization to support their community programs.



TAIYO employees making a variety of characters out of balloons

### Environmental Protection Activities

The TAIYO HOLDINGS GROUP conducts various community beautification programs as part of its environmental protection activities. At our Ranzan Facility, about 10 management-level employees are split into two teams which take turns picking up garbage from roads around the site on a monthly basis. In addition, TAIYO INK is registered with a road beautification program in Saitama Prefecture, and employees contribute their time once a month to clean up the roads, focusing on national road No. 254.

We also participate in programs to protect the Great purple emperor, designated as Japan's national butterfly.

## Relationships with Employees

### Global Human Resource Development

Recognizing the cultural diversity among employees at sites outside Japan, the TAIYO HOLDINGS GROUP is striving to maintain strong communication with all employees and foster global human resources which can smoothly perform work duties. We evaluate employees at Group companies outside Japan to confirm if they have the right skills and communication abilities to perform global business, strong interpersonal skills, and the ability to think through issues. The evaluations also give us an opportunity to determine how we can better support the growth of our overseas employees.

### Support Systems for Employees with Families

In Japan, the shortage of daycare centers for young children has become a serious social problem. We are supporting our employees with family responsibilities through various support programs, including child-rearing and family nursing support systems.



## TAIYO HOLDINGS CO., LTD.

### Head Office

2-7-1 Hazawa, Nerima-ku, Tokyo 176-8508, Japan  
PHONE: 81-3-5999-1511 FAX: 81-3-5999-1501

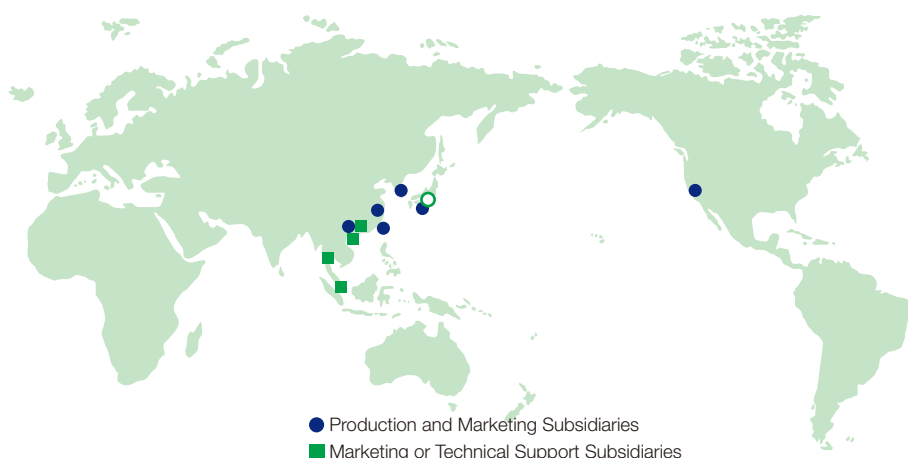
## TAIYO HOLDINGS CO., LTD.

### Ranzan Facility

388 Ohkura, Ranzan-machi, Hiki-gun,  
Saitama 355-0222, Japan  
PHONE: 81-493-62-7777 FAX: 81-493-62-2330

## TAIYO INK MFG. CO., LTD.

900 Hirasawa, Ranzan-machi,  
Hiki-gun, Saitama 355-0215, Japan  
PHONE: 81-493-61-2711 FAX: 81-493-61-2701



● Production and Marketing Subsidiaries  
■ Marketing or Technical Support Subsidiaries

Company	Voting Shares Held	Business Description
TAIWAN TAIYO INK CO., LTD.	96.8%	Manufacture and marketing of PWB materials
TAIYO INK CO., (KOREA) LTD.	86.1%	Manufacture and marketing of PWB and FPD materials
TAIYO INK (SUZHOU) CO., LTD.	100.0%	Manufacture and marketing of PWB materials
TAIYO INK (ZHONGSHAN) CO., LTD.	100.0%	Manufacture and marketing of PWB materials (Under construction)
TAIYO AMERICA, INC.	100.0%	Manufacture and marketing of PWB materials
TAIYO INK INTERNATIONAL (SINGAPORE) PTE LTD	100.0%	Marketing of PWB materials
TAIYO INK (THAILAND) CO., LTD.	49.0%	Technical support for PWB materials
TAIYO INK INTERNATIONAL (HK) LIMITED	100.0%	Marketing of PWB materials
TAIYO INK TRADING (SHENZHEN) CO., LTD	100.0%	Marketing of PWB materials

## Production and Marketing Subsidiaries

### TAIWAN

#### TAIWAN TAIYO INK CO., LTD.

No.7 Ta Tung 2nd Road. Kuan-Yin Industry Park,  
Taoyuan, Taiwan, R.O.C.  
PHONE: 886-3-483-3230 FAX: 886-3-483-3240  
<http://www.taiyoink.com.tw>

### KOREA

#### TAIYO INK CO., (KOREA) LTD.

1058-8, Singil-dong, Danwon-gu, Ansan City,  
Gyeonggi-do, Korea  
PHONE: 82-31-491-9250 FAX: 82-31-491-7671  
<http://www.taiyoink.co.kr>

### CHINA - SUZHOU

#### TAIYO INK (SUZHOU) CO., LTD.

No. 26 Taishan Road, Suzhou New District,  
Suzhou City, Jiangsu, P.R. China  
PHONE: 86-512-6665-5550  
FAX: 86-512-6665-5011  
<http://www.taiyoink.com.cn>

### CHINA - ZHONGSHAN

#### TAIYO INK (ZHONGSHAN) CO., LTD.

National Torch High-tech Industrial Development  
Zone, Zhongshan City,  
Guangdong, P.R. China.

### USA - NEVADA

#### TAIYO AMERICA, INC.

2675 Antler Drive, Carson City, NV 89701, U.S.A.  
PHONE: 1-775-885-9959 FAX: 1-775-885-9972  
<http://www.taiyo-america.com>

## Marketing or Technical Support Subsidiaries

### SINGAPORE

#### TAIYO INK INTERNATIONAL (SINGAPORE) PTE LTD

171 Chin Swee Road #11-07/08 San Centre  
Singapore 169877  
PHONE: 65-6372-1141 FAX: 65-6372-1151

### THAILAND

#### TAIYO INK (THAILAND) CO., LTD.

408/122 Phaholyothin Place, 28/F Phaholyothin  
Road, Samsen-Nai, Phayathai, Bangkok 10400,  
Thailand  
PHONE: 66-2-619-0506 FAX: 66-2-619-0799

### HONG KONG

#### TAIYO INK INTERNATIONAL (HK) LIMITED

Room 703, 7/F, Silvercord, Tower 2, 30 Canton  
Road, Tsim Sha Tsui, Kowloon, Hong Kong  
PHONE: 852-2735-0636 FAX: 852-2375-7332

### CHINA - SHENZHEN

#### TAIYO INK TRADING (SHENZHEN) CO., LTD

Rm 1506, Office Tower, Shun Hing Square Di Wang  
Comm. Centre, 5002 Shun Nan Dong Road,  
Shenzhen City, Guangdong, PRC  
PHONE: 755-2583-4787 FAX: 755-8207-0989



Head Office



TAIWAN TAIYO INK CO., LTD.



TAIYO INK (SUZHOU) CO., LTD.



## Financial Section

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<b>28</b>	Consolidated Statements of Income
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<b>30</b>	Consolidated Statements of Changes in Equity
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## Overview of the Consolidated Results

During the fiscal year ended March 31, 2011, the recovery in the global economy slowed slightly in the second half of the year due to factors such as the reemergence of fiscal problems in developed countries and growing political instability in the Middle East. However, over the full year, the global economy was strong on the whole, driven by macroeconomic factors such as continued high growth rates in China and other emerging countries. However, the Great East Japan Earthquake that occurred on March 11, 2011 and its aftermath resulted in a stagnation in production due to the constraints of obtaining supplies such as needed products, parts and materials, and this in turn significantly affected the Japanese economy and other economies in the world. Going forward, the overall result is that the economic outlook remains uncertain.

In the electronics components industry, signs of a lull in demand for PCs, flat-screen TVs and other applications emerged from the second half of the year, but the industry was strong over the full fiscal year on growing shipments worldwide of products such as smartphones and tablet PCs, and firm demand in the Chinese market.

Operating under these conditions, the Group's sales on a volume basis reached a record high, and sales and profits both sharply exceeded the levels in the previous fiscal year.

### Net sales

Sales of PWB (printed wiring board) materials were ¥29,938 million (up 7.1% year on year). By product group, sales of "rigid board materials" increased significantly due to a strong rise in demand in the Chinese market.

Sales of FPD materials, which are comprised mainly of PDP materials, advanced significantly in the year ended March 2011 due to greater sales volume and higher unit prices linked to sharp rises in the price of silver, a key raw material. Total sales of FPD materials grew 55.0% year on year to ¥9,455 million.

As a result, net sales for the current fiscal year amounted to ¥40,366 million (up 15.1% year on year).

### Gross profit and operating income

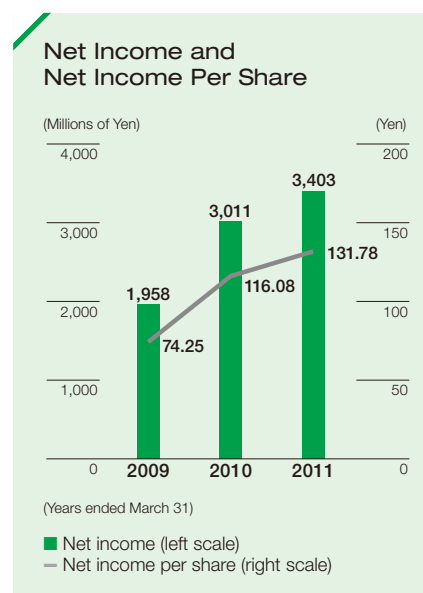
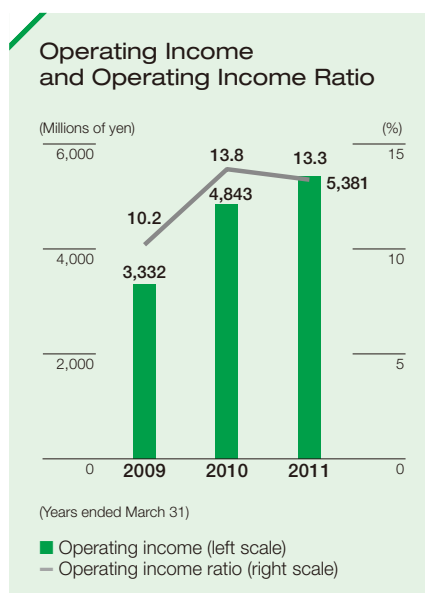
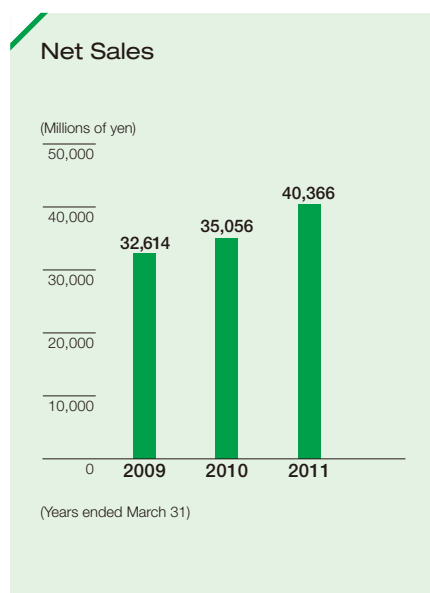
Gross profit rose 9.2% year on year to ¥11,938 million despite the fact that cost of sales increased 17.8% to ¥28,428 million. Selling, general and administrative expenses were ¥6,557 million (up 7.7% year on year) due mainly to increases in distribution expenses, sales commission and experiment and research expenses. As a result, the operating income increased by 11.1% year on year to ¥5,381 million.

The operating income ratio was decreased by 0.5 of a percentage point, from 13.8% in the previous fiscal year to 13.3%.

### Net income

Income before income taxes and minority interests and net income both increased year on year to ¥5,209 million (up 8.3%) and ¥3,403 million (up 13.0%), respectively. These increases were mainly due to a decrease in foreign exchange loss and an increase in gain on sales of noncurrent assets, despite decreases in interest and dividend income and an increase in loss on sales and retirement of noncurrent assets.

Net income per share increased by 13.5% year on year from ¥116.08 to ¥131.78.



## Results by Segments

### Japan

In the Japan market, the sales volume of all the of product items of PWB materials recovered. In particular, sales of “rigid board materials” and “build-up board materials” were strong both in Japan and overseas.

Nevertheless, net sales in Japan declined 9.3% compared with the previous year to ¥18,491 million. Operating income increased 68.8% to ¥1,014 million.

### China (including Hong Kong)

A correction in production output for PCs and flat-screen televisions began to negatively impact on the business during the second half of the fiscal year, but full-year results were supported by strong demand in the Chinese market. As a result, sales volume increased to a new record high.

Consequently, net sales in the China market increased 15.0% in year-on-year terms to ¥11,916 million. Operating income rose 14.2% to ¥2,814 million.

### Taiwan

Although demand for high-performance “rigid board materials” in the Taiwan market was firm, the impact of yen appreciation against the U.S. dollar adversely squeezed operating margins.

As a result, net sales in Taiwan increased 8.1% in year-on-year terms to ¥4,414 million, but operating income fell 20.8% to ¥511 million.

### South Korea

In the South Korea market, the sales volume for “rigid board materials” and “package board and flexible board materials” reached a record high, supported by continued strong performances at emerging South Korean electronics manufacturers. Moreover, sales of FPD materials remained firm from the start of the fiscal year, with higher average sales unit prices due to a sharp increase in the price of silver, which is a key raw material, leading to record high sales on a monetary basis.

As a result, net sales in South Korea grew 34.2% in year-on-year terms to ¥13,743 million, but operating income fell 1.0% to ¥979 million.

### Other markets

As regards to other markets, in the ASEAN region, although there were signs of a slowdown in the second half of the fiscal year, a strong performance in the first half resulted in a record sales volume over the full year. In the European and American markets, sales were strong, particularly for “build-up board materials.”

As a result, net sales in other markets amounted to ¥3,061 million, an increase of 3.0% in year-on-year terms. Operating income soared 84.9% to ¥238 million.

## Analysis of Financial Position

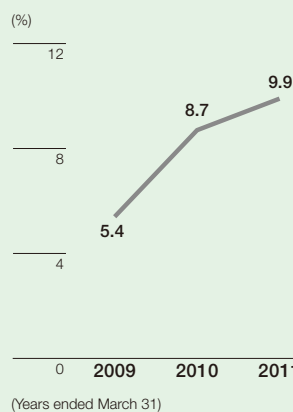
### Assets

Current assets increased by 0.6% to ¥27,675 million. This increase was mainly attributable to increases in inventories of ¥275 million (up 7.2% year on year) and in deferred tax assets of ¥180 million (up 174.8% year on year).

Total property, plant and equipment decreased 6.5% to ¥13,050 million. This decrease was mainly due to a decrease of ¥591 million (down 7.6% year on year) in buildings and structures, net, and of ¥197 million (down 12.7% year on year) in machinery, equipment and vehicles, net. On the other hand, investments and other assets decreased by 4.8% to ¥2,126 million. This came despite a ¥50 million (up 128.2% year on year) increase in deferred tax assets, and a ¥188 million (down 109.0% year on year) decrease in allowance for doubtful accounts.

As a result, total assets stood at ¥42,851 million at March 31, 2011, 2.0% lower than the previous fiscal year end.

### Return on Equity



## Liabilities

Current liabilities increased by 7.1% to ¥7,681 million. This increase was mainly due to a ¥447 million (up 85.0%) increase in accounts payable-other and a ¥209 million (up 52.3%) increase in income taxes payable.

Long-term liabilities increased by 16.2% year on year to ¥983 million. This was mainly due to an increase in deferred tax liabilities of ¥51 million (up 9.3%) and in asset retirement obligations of ¥52 million.

## Total equity

Total equity, after adding minority interests, was ¥34,187 million as of March 31, 2011, a 4.2% decrease from the previous fiscal year-end. This was mainly due to an increase in foreign currency translation adjustments of ¥1,239 million.

As a result, the equity ratio was decreased by 1.9 percentage points from the previous fiscal year-end, from 80.1% to 78.2%, and ROE was 9.9%.

## Analysis of Cash Flows

### Cash flows from operating activities

Net cash provided by operating activities increased by 46.3% year on year to ¥4,576 million. The main cash inflows were income before income taxes and minority interests of ¥5,209 million and depreciation and amortization of ¥1,128 million. The main cash outflows were increases in accounts receivable-trade and inventories of ¥901 million, an increase in accounts payable-trade and other current liabilities of ¥743 million, and income taxes-paid amounting to ¥1,678 million.

### Cash flows from investing activities

Net cash provided by investing activities amounted to ¥758 million, an improvement from net cash of ¥70 million used in investing activities in the previous year. This was mainly due to ¥1,297 million in proceeds from the net of withdrawal from and payment into time deposits, and a decrease to ¥488 million for the purchase of property, plant and equipment.

### Cash flows from financing activities

Net cash used in financing activities decreased by 56.2% to ¥3,697 million. The main usage of cash was in dividends paid of ¥2,335 million and in the purchase of treasury stock of ¥1,312 million.

As a result, cash and cash equivalents as of March 31, 2011 stood at ¥13,153 million, ¥1,239 million higher than the previous fiscal year-end.

## Research and Development Expenses

The TAIYO HOLDINGS GROUP conducts research and development activities centered on the fields of insulation materials, conductive materials and adhesive materials for the electronics industry which is responding to the needs of our sophisticated information-based society.

Research and development expenses for the year ended March 31, 2011 totaled ¥996 million, ¥20 million lower than the previous fiscal year.

## Risk Factors

The following are the main risks that may influence the business development of the Company.

### (1) Technological innovation risks

#### 1. Risks related to PWBs

Our Group is reliant on the manufacturing and selling of PWB materials, and SR in particular, as a major source of our income. If radical technological developments, such as electronic parts that do not use PWBs or PWBs that do not use SR, were to be widely adopted, this would result in a significant decrease in demand for our products.

From the viewpoint of product characteristics, operability, and economic viability, there is little possibility that such technological innovations will be widely adopted in the near future. However, the Company considers it to be an important issue in the field of research and development to investigate possible new manufacturing methods in relation to PWBs.

#### 2. Risks related to PDP materials

Our PDP materials customers are restricted to a few panel manufacturers. As we rely heavily on certain customers, the performance of these customers could significantly impact our own sales.

As PDPs compete with LCDs and other technologies in the FPD market, the future demand for PDPs necessarily involves uncertainty.

### (2) Risks associated with patents

In order for our Group to maintain a superior competitive position, efforts are being made to protect the products and technology we develop through patents and intellectual property. However, in the event a patent application, etc., does not result in the granting of rights, or a third party successfully requests an invalidation, insufficient protection of our rights as a Group may result. Moreover, infringing on the intellectual property rights owned by a third party could impact the performance of our Group as a result of the subsequent payment of royalties or large amounts of damages.

**(3) Risk of major production facilities being affected by a disaster**

Our Group has manufacturing bases in Japan, Taiwan, South Korea, China and the United States. In the event that any of our manufacturing bases are damaged by a natural disaster and their manufacturing functions are obstructed, manufacturing and supply functions would then be switched to another manufacturing base as an emergency measure. However, this would require some preparation and adjustment and our business would be negatively affected in the interim.

**(4) Risk related to procurement of raw materials**

The Group procures many of its raw materials from external raw material manufacturers. The occurrence of problems at these raw material manufacturers or a lack of supplies that hinders the Group's production activities may negatively affect the business performance of the Group.

**(5) Risk related to higher prices of raw materials**

The occurrence of rises in the prices of some of the raw materials that the Group procures due to the impact of conditions in the petroleum market, or suchlike, may negatively affect the business performance of the Group. In the case of PDP materials in particular, fluctuations in the price of silver, one of the key raw materials, may negatively impact on the earnings of the Group.

**(6) Country-specific risks related to business deployment overseas**

Our Group conducts manufacturing activities in Japan, Taiwan, South Korea, China, and the United States. Sales of our Group's products particularly in China, Taiwan, South Korea, ASEAN countries, and other Asian markets are expanding. Accordingly, terrorist activities, destabilization of the political situation, economic fluctuations, the outbreak of earthquakes and contagion, unforeseen changes to legal, regulatory or tax systems, labor-related industrial disputes and other country-specific risks could impact on the business strategies and performance of our Group.

**(7) Risk of exchange rate fluctuations**

Our ratio of overseas sales to net sales is approximately 80%, and in the majority of cases we calculate our overseas net sales figures in foreign currencies. Accordingly, our business performance is affected by fluctuations in exchange rates, with a highly appreciated yen normally leading to reduced income and profits.

**(8) Risk of price fluctuations in key products**

PWB manufacturing is shifting to other Asian countries, especially China, and we are engaged in continuing price wars over SR with local companies as well as other Japanese firms. There is also pressure to lower SR prices which has resulted from price competition in the PWB market. Because of this, there is a possibility that the price of our main product, SR, may drop, thus affecting the performance of our Group.

**(9) Risks related to fluctuations in product demand**

Demand for our Group's main products is influenced by electronic components market trends, which may affect the performance of our Group.

**(10) Credit risks related to receivables**

The Group has many customers and, although we do not concentrate an excessive amount of receivables on specific customers, the deterioration of the financial position of customers and the resulting bad debt may affect the performance of our Group.

**(11) Risk of recoverability of deferred tax assets**

With respect to deductible temporary differences and tax-loss carryforward, the Group determines recoverability after reasonably estimating future taxable income when recording deferred tax assets. However, in the event that deferred tax assets are deemed unrecoverable in whole or in part as actual taxable income may differ from estimates due to changes in the business environment and other factors, or should changes in tax rates or revisions in tax systems occur in various countries, a recalculation of deferred tax assets would become necessary. If, as a result of the above, a reversal of deferred tax assets is necessary, it could impact on our operating results and financial position.

# Consolidated Balance Sheets

TAIYO HOLDINGS CO., LTD. and Consolidated Subsidiaries  
March 31, 2011 and 2010

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2011	2010	2011
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents (Note 11)	¥13,153	¥11,914	\$158,470
Time deposits (Note 11)	820	2,261	9,879
Notes and accounts receivable—trade (Note 11)	8,793	9,174	105,940
Inventories (Note 4)	4,121	3,846	49,651
Consumption taxes receivable	322	233	3,880
Deferred tax assets (Note 9)	283	103	3,410
Other current assets	300	307	3,614
Allowance for doubtful accounts (Note 11)	(117)	(321)	(1,410)
Total current assets	27,675	27,517	333,434
<b>PROPERTY, PLANT AND EQUIPMENT (Note 5):</b>			
Land	4,097	4,135	49,361
Buildings and structures—net	7,164	7,755	86,313
Machinery, equipment and vehicles—net	1,352	1,549	16,289
Tools, furniture and fixtures—net	406	515	4,892
Construction in progress	31		374
Net property, plant and equipment	13,050	13,954	157,229
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment securities (Notes 3 and 11)	530	572	6,386
Investments in unconsolidated subsidiaries (Note 11)	980	990	11,807
Goodwill	21	47	253
Software (Note 6)	178	227	2,145
Deferred tax assets (Note 9)	89	39	1,072
Other assets	687	530	8,276
Allowance for doubtful accounts	(359)	(171)	(4,325)
Total investments and other assets	2,126	2,234	25,614
<b>TOTAL</b>	<b>¥42,851</b>	<b>¥43,705</b>	<b>\$516,277</b>

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
LIABILITIES AND EQUITY	2011	2010	2011
<b>CURRENT LIABILITIES:</b>			
Notes and accounts payable—trade (Note 11)	¥ 5,326	¥ 5,483	\$ 64,169
Accounts payable—other (Note 11)	973	526	11,723
Income taxes payable (Note 11)	609	400	7,337
Accrued expenses	483	491	5,819
Deferred tax liabilities (Note 9)	190	222	2,289
Other current liabilities	100	51	1,205
Total current liabilities	7,681	7,173	92,542
<b>LONG-TERM LIABILITIES:</b>			
Deferred tax liabilities (Note 9)	598	547	7,205
Liability for retirement benefits (Note 7)	318	288	3,831
Asset retirement obligations	52		627
Other long-term liabilities	15	11	180
Total long-term liabilities	983	846	11,843
<b>COMMITMENTS AND CONTINGENT LIABILITIES</b> (Note 12)			
<b>EQUITY</b> (Notes 8 and 15):			
Shareholders' equity:			
Common stock—authorized, 50,000,000 shares; issued, 27,464,000 shares in 2011 and 2010	6,135	6,135	73,916
Capital surplus	7,102	7,102	85,566
Retained earnings	29,724	28,662	358,120
Treasury stock—at cost, 2,025,546 shares in 2011 and 1,525,526 shares in 2010	(5,372)	(4,060)	(64,722)
Total shareholders' equity	37,589	37,839	452,880
Accumulated other comprehensive income (loss):			
Valuation difference on available-for-sale securities	90	117	1,084
Foreign currency translation adjustments	(4,188)	(2,949)	(50,458)
Total accumulated other comprehensive loss	(4,098)	(2,832)	(49,374)
Minority interests	696	679	8,386
Total equity	34,187	35,686	411,892
<b>TOTAL</b>	<b>¥42,851</b>	<b>¥43,705</b>	<b>\$516,277</b>



# Consolidated Statements of Income

TAIYO HOLDINGS CO., LTD. and Consolidated Subsidiaries  
Years Ended March 31, 2011 and 2010

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	2011
<b>NET SALES</b>	<b>¥40,366</b>	<b>¥35,056</b>	<b>\$486,337</b>
<b>COST OF SALES</b>	<b>28,428</b>	<b>24,123</b>	<b>342,506</b>
Gross profit	<b>11,938</b>	10,933	<b>143,831</b>
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b> (Note 10)	<b>6,557</b>	6,090	<b>79,000</b>
Operating income	<b>5,381</b>	4,843	<b>64,831</b>
<b>OTHER INCOME (EXPENSES):</b>			
Interest and dividend income	<b>72</b>	179	<b>867</b>
Interest expense	<b>(3)</b>	(1)	<b>(36)</b>
Foreign exchange loss—net	<b>(177)</b>	(277)	<b>(2,132)</b>
Other—net	<b>(64)</b>	67	<b>(771)</b>
Other expenses—net	<b>(172)</b>	(32)	<b>(2,072)</b>
<b>INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS</b>	<b>5,209</b>	4,811	<b>62,759</b>
<b>INCOME TAXES</b> (Note 9):			
Current	<b>1,898</b>	1,257	<b>22,868</b>
Deferred	<b>(203)</b>	438	<b>(2,446)</b>
Total income taxes	<b>1,695</b>	1,695	<b>20,422</b>
<b>NET INCOME BEFORE MINORITY INTERESTS</b>	<b>3,514</b>	3,116	<b>42,337</b>
<b>MINORITY INTERESTS IN NET INCOME</b>	<b>111</b>	105	<b>1,337</b>
<b>NET INCOME</b>	<b>¥ 3,403</b>	<b>¥ 3,011</b>	<b>\$ 41,000</b>
	Yen		U.S. Dollars
<b>PER SHARE OF COMMON STOCK</b> (Notes 2.s and 14):			
Basic net income	<b>¥131.78</b>	¥116.08	<b>\$1.59</b>
Cash dividends applicable to the year	<b>115.00</b>	90.00	<b>1.39</b>

See notes to consolidated financial statements.

# Consolidated Statement of Comprehensive Income

TAIYO HOLDINGS CO., LTD. and Consolidated Subsidiaries  
Year Ended March 31, 2011

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2011	2011
<b>NET INCOME BEFORE MINORITY INTERESTS</b>	<b>¥ 3,514</b>	<b>\$ 42,337</b>
<b>OTHER COMPREHENSIVE LOSS</b> (Note 13):		
Valuation difference on available-for-sale securities	(26)	(313)
Foreign currency translation adjustments	(1,284)	(15,470)
Total other comprehensive loss	(1,310)	(15,783)
<b>COMPREHENSIVE INCOME</b> (Note 13)	<b>¥ 2,204</b>	<b>\$ 26,554</b>
<b>COMPREHENSIVE INCOME ATTRIBUTABLE TO</b> (Note 13):		
Owners of the parent	¥ 2,136	\$ 25,735
Minority interests	68	819

See notes to consolidated financial statements.

# Consolidated Statements of Changes in Equity

TAIYO HOLDINGS CO., LTD. and Consolidated Subsidiaries  
Years Ended March 31, 2011 and 2010

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	2011
<b>SHAREHOLDERS' EQUITY:</b>			
<b>Common stock:</b>			
Balance at the end of previous year—shares issued, 2011—27,464,000 shares, 2010—27,464,000 shares	¥ 6,135	¥ 6,135	\$ 73,916
Balance at the end of current year—shares issued, 2011—27,464,000 shares, 2010—27,464,000 shares	¥ 6,135	¥ 6,135	\$ 73,916
<b>Capital surplus:</b>			
Balance at the end of previous year	¥ 7,102	¥ 7,102	\$ 85,566
Disposal of treasury stock			
Balance at the end of current year	¥ 7,102	¥ 7,102	\$ 85,566
<b>Retained earnings:</b>			
Balance at the end of previous year	¥28,662	¥27,985	\$345,325
Net income	3,403	3,011	41,000
Dividends from surplus	(2,334)	(2,334)	(28,120)
Decrease by newly consolidated subsidiaries	(7)		(85)
Balance at the end of current year	¥29,724	¥28,662	\$358,120
<b>Treasury stock—at cost:</b>			
Balance at the end of previous year 2011—1,525,526 shares, 2010—1,525,382 shares	¥ (4,060)	¥ (4,059)	\$ (48,915)
Purchase of treasury stock 2011—500,080 shares, 2010—144 shares	(1,312)	(1)	(15,807)
Disposal of treasury stock 2011—60 shares, 2010—0 shares			
Balance at the end of current year 2011—2,025,546 shares, 2010—1,525,526 shares	¥ (5,372)	¥ (4,060)	\$ (64,722)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>¥37,589</b>	<b>¥37,839</b>	<b>\$452,880</b>
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):</b>			
<b>Valuation difference on available-for-sale securities:</b>			
Balance at the end of previous year	¥ 117	¥ 55	\$ 1,410
Change of items during the year	(27)	62	(326)
Balance at the end of current year	¥ 90	¥ 117	\$ 1,084
<b>Foreign currency translation adjustments:</b>			
Balance at the end of previous year	¥ (2,949)	¥ (3,155)	\$ (35,531)
Change of items during the year	(1,239)	206	(14,927)
Balance at the end of current year	¥ (4,188)	¥ (2,949)	\$ (50,458)
<b>TOTAL ACCUMULATED OTHER COMPREHENSIVE LOSS</b>	<b>¥ (4,098)</b>	<b>¥ (2,832)</b>	<b>\$ (49,374)</b>
<b>MINORITY INTERESTS:</b>			
Balance at the end of previous year	¥ 679	¥ 522	\$ 8,181
Change of items during the year	17	157	205
Balance at the end of current year	¥ 696	¥ 679	\$ 8,386
<b>TOTAL EQUITY:</b>			
Balance at the end of previous year	¥35,686	¥34,585	\$429,952
Net income	3,403	3,011	41,000
Dividends from surplus	(2,334)	(2,334)	(28,120)
Purchase of treasury stock	(1,312)	(1)	(15,807)
Disposal of treasury stock			
Decrease by newly consolidated subsidiaries	(7)		(85)
Net changes of items other than shareholders' equity	(1,249)	425	(15,048)
Balance at the end of current year	¥34,187	¥35,686	\$411,892

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

TAIYO HOLDINGS CO., LTD. and Consolidated Subsidiaries  
Years Ended March 31, 2011 and 2010

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	2011
<b>OPERATING ACTIVITIES:</b>			
Income before income taxes and minority interests	¥ 5,209	¥ 4,811	\$ 62,759
Adjustments for:			
Income taxes—paid	(1,678)	(1,075)	(20,217)
Depreciation and amortization	1,128	1,262	13,590
Changes in assets and liabilities, net of effects:			
Increase in notes and accounts receivable—trade	(421)	(2,644)	(5,072)
Increase in inventories	(480)	(754)	(5,783)
Increase in notes and accounts payable—trade	146	2,614	1,759
Increase (decrease) in other current liabilities	597	(983)	7,193
Decrease in accrued expenses	(118)	(114)	(1,422)
Other—net	193	10	2,326
Total adjustments	(633)	(1,684)	(7,626)
Net cash provided by operating activities	4,576	3,127	55,133
<b>INVESTING ACTIVITIES:</b>			
Payments into time deposits	(3,842)	(2,395)	(46,289)
Proceeds from withdrawal of time deposits	5,139	2,671	61,916
Purchase of short-term investment securities	(256)		(3,084)
Proceeds from sales of short-term investment securities	257		3,096
Purchases of property, plant and equipment	(488)	(513)	(5,880)
Proceeds from sales of investment securities		222	
Other—net	(52)	(55)	(627)
Net cash provided by (used in) investing activities	758	(70)	9,132
<b>FINANCING ACTIVITIES:</b>			
Increase in short-term loans payable	1,200		14,458
Decrease in short-term bank loans payable	(1,200)		(14,458)
Purchase of treasury stock	(1,312)		(15,807)
Cash dividends paid	(2,335)	(2,335)	(28,133)
Cash dividends paid to minority shareholders	(50)	(32)	(602)
Net cash used in financing activities	(3,697)	(2,367)	(44,542)
<b>FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS</b>	(402)	(68)	(4,843)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	¥ 1,235	¥ 622	\$ 14,880
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	11,914	11,292	143,542
<b>INCREASE IN CASH AND CASH EQUIVALENTS FROM NEWLY CONSOLIDATED SUBSIDIARY</b>	4		48
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	¥13,153	¥11,914	\$158,470

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

TAIYO HOLDINGS CO., LTD. and Consolidated Subsidiaries  
Years Ended March 31, 2011 and 2010

## 1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

Under Japanese GAAP, a consolidated statement of comprehensive income is required from the fiscal year ended March 31, 2011 and has been presented herein. Accordingly, accumulated other comprehensive income is presented in the consolidated balance sheet and the consolidated statement of changes in equity. Information with respect to other comprehensive income for the year ended March 31, 2010 is disclosed in Note 13. In addition, "net income before minority interests" is disclosed in the consolidated statement of income from the year ended March 31, 2011.

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. In addition, certain reclassifications have been made in the 2010 financial statements to conform to the classifications used in 2011.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which TAIYO HOLDINGS CO., LTD. (the "Company") is incorporated and operates. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥83 to \$1, the approximate rate of exchange at March 31, 2011. Such translation 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

### a. Consolidation—

The consolidated financial statements as of March 31, 2011 include the accounts of the Company and its eight significant (six as of March 31, 2010) subsidiaries (together, the "Group").

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

(Names of consolidated subsidiaries)

TAIYO INK MFG. CO., LTD.  
TAIWAN TAIYO INK CO., LTD.  
TAIYO INK CO., (KOREA) LTD.  
TAIYO INK (SUZHOU) CO., LTD.  
TAIYO AMERICA, INC.  
TAIYO INK INTERNATIONAL (SINGAPORE) PTE LTD  
TAIYO INK INTERNATIONAL (HK) LIMITED  
TAIYO INK TRADING (SHENZHEN) CO., LTD

Investments in the remaining three (four as of March 31, 2010) unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

Two subsidiaries, TAIYO INK MFG. CO., LTD. and TAIYO INK TRADING (SHENZHEN) CO., LTD, were not consolidated in 2010 because the former was immaterial to the consolidated financial statements and the latter was only established in this financial year.

The excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition is being amortized on a straight-line basis over a period of five years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

The fiscal years of two (one as of March 31, 2010) consolidated subsidiaries ended on December 31. In preparing the consolidated financial statements, the Company used the financial statements of these subsidiaries, which were prepared additionally at March 31 closing to correspond to the Group's reporting period for consolidation purpose.

**b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements—**

In May 2006, the Accounting Standards Board of Japan (the “ASBJ”) issued ASBJ Practical Issues Task Force (“PITF”) No. 18, “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements.” PITF No. 18 prescribes (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model accounting for property, plant and equipment and investment properties and incorporation of the cost model accounting; (e) recording the prior years’ effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated; and (f) exclusion of minority interests from net income, if included.

**c. Business Combination—**

In October 2003, the Business Accounting Council issued a Statement of Opinion, “Accounting for Business Combinations,” and in December 2005, the ASBJ issued ASBJ Statement No. 7, “Accounting Standard for Business Divestitures” and ASBJ Guidance No. 10, “Guidance for Accounting Standard for Business Combinations and Business Divestitures.” The accounting standard for business combinations allowed companies to apply the pooling of interests method of accounting only when certain specific criteria were met such that the business combination was essentially regarded as a uniting-of-interests. For business combinations that did not meet the uniting-of-interests criteria, the business combination was considered to be an acquisition and the purchase method of accounting was required. This standard also prescribed the accounting for combinations of entities under common control and for joint ventures.

In December 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, “Accounting Standard for Business Combinations.” Major accounting changes under the revised accounting standard are as follows: (1) The revised standard requires accounting for business combinations only by the purchase method. As a result, the pooling of interests method of accounting is no longer allowed. (2) The current accounting standard accounts for research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development (IPR&D) acquired in a business combination is capitalized as an intangible asset. (3) The previous accounting standard provided for a bargain purchase gain (negative goodwill) to be systematically amortized over a period not exceeding 20 years. Under the revised standard, the acquirer recognizes the bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase allocation. This standard was applicable to business combinations undertaken on or after April 1, 2010. The Company adopted this standard on April 1, 2010.

**d. Cash Equivalents—**

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificate of deposits, commercial paper and bond funds, all of which mature or become due within three months of the date of acquisition.

**e. Inventories—**

Inventories are principally stated at the lower of cost, determined by the moving-average method, or net selling value.

**f. Marketable and Investment Securities—**

The Company classified all marketable and investment securities as available-for-sale securities, which are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

**g. Allowance for Doubtful Accounts—**

The allowance for doubtful accounts is provided for at the aggregate amounts of estimated credit losses based on the individual financial review of doubtful or troubled accounts and a general reserve for other accounts based on the company’s historical credit loss experience of a certain past period.

#### **h. Property, Plant and Equipment—**

Property, plant and equipment are stated at cost.

Buildings are depreciated principally using the straight-line method, and property, plant and equipment other than buildings are depreciated principally using the declining-balance method over the estimated useful lives of the assets.

The ranges of useful lives for major categories are as follows:

Buildings and structures:	From 7 to 60 years
Machinery, equipment and vehicles:	From 5 to 10 years
Tools, furniture and fixtures:	From 3 to 8 years

#### **i. Long-Lived Assets—**

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

#### **j. Software—**

Software for internal use is amortized by the straight-line method over the estimated useful life of mainly five years.

#### **k. Research and Development Costs—**

Research and development costs are charged to income as incurred.

#### **l. Accrued Bonuses—**

The Company and certain consolidated subsidiaries provide accrued bonuses for employees, directors and corporate auditors based on future projections for the current fiscal year.

#### **m. Retirement and Pension Plans—**

Liabilities for retirement benefits are recorded for employees' pension and severance payments based on the projected benefit obligations and fair value of plan assets at the balance sheet date.

Prior service costs are amortized on the straight-line method over five years.

Actuarial gains (losses) are amortized on the straight-line method over five years from the following year after incurrence.

Liability for directors and corporate auditors are recorded to state for the payments of their retirement benefits based on the internal rules.

The Company, at the meeting of the Board of Directors held on April 22, 2010, resolved to abolish the directors' retirement benefits system and the agenda item regarding lump-sum payments resulting from said abolishment was approved at the 64th General Meeting of Shareholders held on June 29, 2010. These payments will be effected as retirement benefits paid at the time of retirement according to the period of service up to the abolishment of the system.

#### **n. Asset Retirement Obligations—**

In March 2008, the ASBJ published the accounting standard for asset retirement obligations, ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its



present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard was effective for fiscal years beginning on or after April 1, 2010.

The Company applied this accounting standard effective April 1, 2010. The effect of this change was to decrease operating income by ¥2 million (\$24 thousand) and income before income taxes and minority interests by ¥33 million (\$398 thousand).

**o. Income Taxes—**

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

**p. Foreign Currency Transactions—**

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income.

**q. Foreign Currency Financial Statements—**

The balance sheet accounts of the consolidated 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 exchange rates. Differences arising from such translation were shown as “Foreign currency translation adjustments” under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rates.

**r. Derivative Financial Instruments—**

The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange. Foreign exchange forward contracts are utilized by the Group to reduce foreign currency exchange risks.

The Group does not enter into derivatives for trading or speculative purposes.

All derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of income.

**s. Per Share Information—**

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share is not disclosed because it is anti-dilutive.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

**t. New Accounting Pronouncements**

***Accounting Changes and Error Corrections—***

In December 2009, the ASBJ issued ASBJ Statement No. 24, “Accounting Standard for Accounting Changes and Error Corrections” and ASBJ Guidance No. 24, “Guidance on Accounting Standard for Accounting Changes and Error Corrections.” Accounting treatments under this standard and guidance are as follows: (1) Changes in Accounting Policies—When a new accounting policy is applied with revision of accounting standards, the new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions. (2) Changes in Presentations—When the presentation of financial statements is changed, prior period financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates—A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior Period Errors—When an error in prior period financial statements is discovered, those statements are restated. This accounting standard and the guidance are applicable to accounting changes and corrections of prior period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

### 3. Marketable and Investment Securities

Marketable and investment securities as of March 31, 2011 and 2010 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Non-current:			
Marketable equity securities	¥509	¥552	\$6,133
Government and corporate bonds	2	1	24
Total	¥511	¥553	\$6,157

The costs and aggregate fair values of marketable and investment securities at March 31, 2011 and 2010 were as follows:

March 31, 2011	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥358	¥157	¥6	¥509
Debt securities	2			2
Total	¥360	¥157	¥6	¥511

March 31, 2010

Securities classified as available-for-sale:				
Equity securities	¥356	¥200	¥4	¥552
Debt securities	1			1
Total	¥357	¥200	¥4	¥553

March 31, 2011	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	\$4,313	\$1,892	\$72	\$6,133
Debt securities	24			24
Total	\$4,337	\$1,892	\$72	\$6,157

Available-for-sale securities whose fair values are not readily determined at March 31, 2011 and 2010 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Available-for-sale—Equity securities	¥19	¥19	\$229

The information for available-for-sale securities which were sold during the year ended March 31, 2010 was as follows:

March 31, 2010	Millions of Yen		
	Proceeds	Gains on Sales	Losses on Sales
Securities classified as available-for-sale:			
Equity securities	¥178	¥30	¥2
Others	44	3	
Total	¥222	¥33	¥2

The Group had not sold available-for-sale securities during the year ended March 31, 2011.

## 4. Inventories

Inventories at March 31, 2011 and 2010 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Merchandise and finished products	¥1,860	¥1,945	\$22,410
Work in process	185	255	2,229
Raw materials and supplies	2,076	1,646	25,012
Total	¥4,121	¥3,846	\$49,651

## 5. Property, Plant and Equipment

Accumulated depreciation at March 31, 2011 and 2010 were ¥16,767 million (\$202,012 thousand) and ¥16,163 million, respectively.

## 6. Long-Lived Assets

In the fiscal year ended March 31, 2011, the Group recognized an impairment loss with regard to the following assets group:

Use	Location	Category	Millions of Yen	Thousands of U.S. Dollars
			2011	2011
Idle assets	Nerima Ward, Tokyo	Software	¥24	\$289

These idle assets were written down to their recoverable amounts because there was no prospect of use in the future.

No impairment loss was recognized in 2010.

## 7. Retirement and Pension Plans

The Company has non-contributory funded defined benefit plans based on the point system and defined contribution plans which were established at October 1, 2009. Certain overseas consolidated subsidiaries have defined contribution plans and other besides defined benefit plans.

The liability for retirement benefits at March 31, 2011 and 2010 for directors and corporate auditors is ¥112 million (\$1,349 thousand) and ¥105 million, respectively. The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

The liability for retirement benefits for employees at March 31, 2011 and 2010 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Projected benefit obligations	¥(2,178)	¥(2,074)	\$(26,241)
Fair value of plan assets	2,004	1,887	24,145
Unfunded retirement benefit obligations	(174)	(187)	(2,096)
Unrecognized actuarial gains	(63)	(36)	(759)
Unrecognized prior service costs	31	40	373
Liability for retirement benefits	¥ (206)	¥ (183)	\$ (2,482)

The components of net periodic benefit costs for the years ended March 31, 2011 and 2010 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Service cost	¥145	¥141	\$1,747
Interest cost	50	45	602
Expected return on plan assets	(26)	(23)	(313)
Amortization of actuarial gains	(26)	(26)	(313)
Amortization of prior service costs	10	10	120
Net periodic benefit costs	¥153	¥147	\$1,843

In addition to the costs shown in the preceding table, other expenses for the defined contribution plans of the Company and certain overseas consolidated subsidiaries amounted to ¥26 million (\$313 thousand) and ¥18 million for the years ended March 31, 2011 and 2010, respectively.

Assumptions used for the years ended March 31, 2011 and 2010 are as follows:

	2011	2010
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	1.0%	1.0%
Amortization period of actuarial (gains) losses	Mainly 5 years	Mainly 5 years
Amortization period of prior service costs	Mainly 5 years	Mainly 5 years

## 8. Equity

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

### (a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation.

The Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

### (b) Increases / Decreases and Transfer of Common Stock, Reserve and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account that was charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock.

Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation.

The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

### (c) Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Companies Act, stock acquisition rights are presented as a separate component of equity.

The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

## 9. Income Taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 41% for the years ended March 31, 2011 and 2010.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2011 and 2010 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
<b>Deferred tax assets:</b>			
Retirement benefits	¥ 135	¥ 137	\$ 1,627
Unrealized profit	101	54	1,217
Deduction of foreign corporation tax carried forward	1,283	1,297	15,458
Allowance for doubtful accounts	97	108	1,169
Accrued expenses	194	98	2,337
Other	173	110	2,084
Total deferred tax assets	1,983	1,804	23,892
Less valuation allowance	(1,349)	(1,220)	(16,253)
Total deferred tax assets, net of valuation allowance	634	584	7,639
<b>Deferred tax liabilities:</b>			
Undistributed earnings of associated companies	(821)	(1,017)	(9,892)
Reserve for technique and development	(85)	(66)	(1,024)
Unrealized gains on available-for-sale securities	(61)	(79)	(735)
Other	(83)	(49)	(1,000)
Total deferred tax liabilities	(1,050)	(1,211)	(12,651)
Net deferred tax assets	¥ (416)	¥ (627)	\$ (5,012)

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2011 and 2010 is as follows:

	2011	2010
Normal effective statutory tax rate	40.54%	40.44%
Tax rates difference relating to overseas subsidiaries	(15.76)	(14.25)
Elimination of dividends income	1.64	9.21
Deduction of foreign corporation tax carried forward	(1.25)	
Undistributed earnings of associated companies	(2.96)	2.71
Non-deductible withholding income tax of dividends	7.30	
Indirect foreign tax credit		(7.45)
Valuation allowance	3.10	5.46
Other	(0.08)	(0.88)
Actual effective tax rate	32.53%	35.24%

## 10. Research and Development Costs

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Research and development costs charged to income for the years ended March 31, 2011 and 2010 were ¥996 million (\$12,000 thousand) and ¥1,016 million, respectively.

## 11. Financial Instruments and Related Disclosures

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In March 2008, the ASBJ revised ASBJ Statement No. 10, "Accounting Standard for Financial Instruments" and issued ASBJ Guidance No. 19, "Guidance on Accounting Standard for Financial Instruments and Related Disclosures." This accounting standard and the guidance were applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010. The Group applied the revised accounting standard and the guidance effective March 31, 2010.

### **(1) Summary of Financial Instruments Status**

#### ***a. Group policy for financial instruments***

The Group's policy is to fund operations internally wherever possible. With large-scale capital projects, the Group borrows funds from banks or arranges other types of funding, depending on market conditions.

Short-term surplus funds are managed conservatively using only financial instruments that provide high security.

The Group employs derivatives to mitigate known future risks, but does not use such instruments for speculative purposes as a matter of policy.

#### ***b. Nature and extent of risks arising from financial instruments***

Operating receivables such as trade notes and trade accounts are exposed to credit risks relating to the Group's customers. Operating receivables denominated in foreign currencies that arise in the course of conducting overseas business are exposed additionally to exchange rate fluctuation risk.

Marketable and investment securities mainly comprise bonds and investments in the shares of affiliated business partners. These investments are exposed to the risk of fluctuations in market prices.

Operating liabilities such as notes and accounts payable—trade typically have payment due dates within four months. The Group also has some foreign currency-denominated liabilities of this kind that are exposed to exchange rate fluctuation risk.

Foreign exchange forward contracts are used to hedge the exchange rate fluctuation risk associated with foreign currency-denominated operating assets.

#### ***c. Risk management system for risks associated with financial instruments***

##### **Management of Credit Risk (Relating to Contractual Defaults by Business Partners)**

The Company monitors the status of business partners with respect to operating assets regularly, in line with internal regulations governing the management of credit limits and trade receivables. Besides managing due dates and outstanding balances by counterparty, the Company also aims to identify as early as possible and alleviate any concerns about non-payment caused by deterioration in financial condition or other factors.

Consolidated Group subsidiaries also follow the Company's policy on credit risk management.

Bond investments are limited to high-rated bonds. The associated credit risk is judged to be minimal.

The Group only enters into derivative contracts with highly rated financial institutions as counterparties. The associated credit risk is regarded as negligible.

##### **Management of Market Risk (Relating to Fluctuations in Exchange Rates, Interest Rates, Etc.)**

To manage the currency fluctuation risk associated with foreign currency-denominated operating assets and liabilities, the Company and certain consolidated Group subsidiaries assess related exposures for each currency on a monthly basis.

The market values and financial condition of issuers (most of which are the Group's business partners) are assessed regularly for all marketable and investment securities. The ownership of any shares is reviewed on an ongoing basis, depending on market conditions and the relationships with relevant business partners.

With respect to the management of derivatives, the internal party responsible for the transaction must gain the approval of the authorized settlement managers to exercise any derivatives contract, in line with internal management regulations specifying the transactional authority and related limits for contractual exposures. The results of derivatives transactions are reported to the Board of Directors periodically.

**Management of Liquidity Risks Associated with Fund Procurement (Relating to Risk of Non-payment by Due Date)**

Appropriate operational funding plans are created and approved for all Group firms. The Group manages any related liquidity risks and ensures that cash-on-hand is maintained at adequate levels.

***d. Fair value of financial instruments and related matters***

Fair value of financial instruments is based on market prices where available and rational estimates in the case of unquoted instruments. Estimated values can vary depending on the assumptions employed for the various factor variables used in such calculations.

**(2) Fair Value of Financial Instruments**

The carrying amount, fair value and unrealized gain (loss) at March 31, 2011 and 2010 were as follows:

Financial instruments whose fair values are difficult to measure are excluded from the table below.

	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain (Loss)
<b>March 31, 2011</b>			
(1) Cash and cash equivalents	¥13,153	¥13,153	
(2) Time deposits	820	820	
(3) Notes and accounts receivable—trade	8,793		
Less: allowance for doubtful receivables	(117)		
	8,676	8,676	
(4) Investment securities	511	511	
(5) Notes and accounts payable—trade	5,326	5,326	
(6) Accounts payable—other	973	973	
(7) Income taxes payable	609	609	
(8) Derivatives—net	22	22	
<b>March 31, 2010</b>			
(1) Cash and cash equivalents	¥11,914	¥11,914	
(2) Time deposits	2,261	2,261	
(3) Notes and accounts receivable—trade	9,174		
Less: allowance for doubtful receivables	(321)		
	8,853	8,853	
(4) Investment securities	553	553	
(5) Notes and accounts payable—trade	5,483	5,483	
(6) Accounts payable—other	526	526	
(7) Income taxes payable	400	400	
(8) Derivatives—net	25	25	
	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain (Loss)
<b>March 31, 2011</b>			
(1) Cash and cash equivalents	\$158,470	\$158,470	
(2) Time deposits	9,879	9,879	
(3) Notes and accounts receivable—trade	105,940		
Less: allowance for doubtful receivables	(1,410)		
	104,530	104,530	
(4) Investment securities	6,157	6,157	
(5) Notes and accounts payable—trade	64,169	64,169	
(6) Accounts payable—other	11,723	11,723	
(7) Income taxes payable	7,337	7,337	
(8) Derivatives—net	265	265	

The amount of allowance for doubtful receivables is deducted from receivables.



Notes: 1. Measurement of fair value of financial instruments

(1) Cash and cash equivalents, (2) Time deposits and (3) Notes and accounts receivable—trade

The fair values of the above approximate carrying values due to the short maturity of these instruments.

(4) Investment securities

The fair values of investment securities are measured at the quoted market price of the stock exchange for the equity instruments, and at the quoted price obtained from the financial institution for certain debt instruments. The information of the fair value for the investment securities by classification is included in Note 3.

(5) Notes and accounts payable—trade, (6) Accounts payable—other and (7) Income taxes payable

The fair values of the above approximate carrying values due to the short maturity of these instruments.

(8) Derivatives

Please see Note 12.

2. Carrying amounts of financial instruments whose fair values cannot be reliably determined

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Investment securities—Unlisted securities	¥ 19	¥ 19	\$ 229
Investments in unconsolidated subsidiaries:			
Unlisted securities	115	125	1,385
Investments in partnership	865	865	10,422

3. Maturity analysis for financial assets and securities with contractual maturities

	Millions of Yen			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
<b>March 31, 2011</b>				
Cash and cash equivalents	¥13,973			
Notes and accounts receivable—trade	8,793			

	Thousands of U.S. Dollars			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
<b>March 31, 2011</b>				
Cash and cash equivalents	\$168,349			
Notes and accounts receivable—trade	105,940			

## 12. Derivative Financial Instruments

Derivative transactions to which hedge accounting is not applied at March 31, 2011 and 2010 were as follows:

	Millions of Yen			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
<b>March 31, 2011</b>				
Foreign exchange forward contracts—selling U.S.\$	¥1,936		¥(22)	¥(22)
<b>March 31, 2010</b>				
Foreign exchange forward contracts—selling U.S.\$	¥849		¥(25)	¥(25)

	Thousands of U.S. Dollars			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
<b>March 31, 2011</b>				
Foreign exchange forward contracts—selling U.S.\$	\$23,313		\$(265)	\$(265)

The fair value of derivative transactions is measured at the quoted price obtained from the financial institution.

## 13. Comprehensive Income

### **For the year ended March 31, 2010**

Comprehensive income for the year ended March 31, 2010 consisted of the following:

March 31, 2010	Millions of Yen
Comprehensive income attributable to:	
Owners of the parent	¥3,279
Minority interests	189
Total comprehensive income	¥3,468

Other comprehensive income for the year ended March 31, 2010 consisted of the following:

March 31, 2010	Millions of Yen
Other comprehensive income:	
Valuation difference on available-for-sale securities	¥ 62
Foreign currency translation adjustments	290
Total other comprehensive income	¥352

## 14. Net Income Per Share

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2011 and 2010 is as follows:

	Millions of Yen	Shares	Yen	U.S. Dollars
	Net Income	Weighted-Average Shares	EPS	
<b>Year Ended March 31, 2011</b>				
Basic EPS—Net income available to common shareholders	¥3,403	25,821,866	¥131.78	\$1.59
<b>Year Ended March 31, 2010</b>				
Basic EPS—Net income available to common shareholders	¥3,011	25,938,543	¥116.08	

Diluted net income per share is not disclosed because there are no dilutive securities.

## 15. Subsequent Events

The following appropriation of retained earnings at March 31, 2011 was approved at the Company's shareholders meeting held on June 28, 2011:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥70 (\$0.84) per share	¥1,781	\$21,458

## 16. Segment Information

### **For the Year Ended March 31, 2011 and 2010**

In March 2008, the ASBJ revised ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures" and issued ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures."

Under the standard and guidance, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. This accounting standard and the guidance are applicable to segment information disclosures for the fiscal year beginning on or after April 1, 2010.

The segment information for the year ended March 31, 2010 under the revised accounting standard is also disclosed hereunder as required.

**(1) Description of reportable segments**

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group.

The Group made the transition to the holding company system on October 1, 2010. The business of the Group consists mainly of one activity, the manufacture and distribution of solder resist for PWBs, among others. Each Group company formulates comprehensive strategies and deploys business activities, operating under a holding company system whereby the Company is the holding company.

The Group is composed of four reportable segments divided by geographic area, namely "Japan," "China," "Taiwan," and "Korea," based on our manufacturing and marketing system.

**(2) Method of measurement for information for the amounts of sales, profit (loss), assets, liabilities and other items by reportable segments**

The accounting policies of each reportable segment are consistent with those disclosures in Note 2, "Summary of Significant Accounting Policies."

**(3) Information about sales, profit (loss), assets, liabilities and other items by reportable segments**

Year Ended March 31, 2011	Millions of Yen								
	Reportable Segments					Other	Total	Reconciliations	Consolidated
	Japan	China	Taiwan	Korea	Total				
Sales:									
Sales to external customers	¥ 9,418	¥11,912	¥3,219	¥12,785	¥37,334	¥3,032	¥40,366		¥40,366
Intersegment sales or transfers	9,073	4	1,195	958	11,230	29	11,259	¥(11,259)	
Total sales	¥18,491	¥11,916	¥4,414	¥13,743	¥48,564	¥3,061	¥51,625	¥(11,259)	¥40,366
Segment profit	¥ 1,014	¥ 2,814	¥ 511	¥ 979	¥ 5,318	¥ 238	¥ 5,556	¥ (175)	¥ 5,381
Segment assets	9,303	8,789	4,418	5,816	28,326	1,837	30,163	12,688	42,851
Other items:									
Depreciation	525	168	128	90	911	17	928	200	1,128
Increase in property, plant and equipment and intangible assets	152	108	128	61	449	16	465	62	527

Year Ended March 31, 2010	Millions of Yen								
	Reportable Segments					Other	Total	Reconciliations	Consolidated
	Japan	China	Taiwan	Korea	Total				
Sales:									
Sales to external customers	¥ 9,031	¥10,349	¥3,007	¥ 9,710	¥32,097	¥2,959	¥35,056		¥35,056
Intersegment sales or transfers	11,348	13	1,076	531	12,968	13	12,981	¥(12,981)	
Total sales	¥20,379	¥10,362	¥4,083	¥10,241	¥45,065	¥2,972	¥48,037	¥(12,981)	¥35,056
Segment profit	¥ 600	¥ 2,463	¥ 645	¥ 989	¥ 4,697	¥ 129	¥ 4,826	¥ 17	¥ 4,843
Segment assets	31,931	9,202	5,214	5,133	51,480	2,793	54,273	(10,568)	43,705
Other items:									
Depreciation	848	181	122	87	1,238	24	1,262		1,262
Increase in property, plant and equipment and intangible assets	170	16	67	189	442	4	446		446

Year Ended March 31, 2011	Thousands of U.S. Dollars								
	Reportable Segments					Other	Total	Reconciliations	Consolidated
	Japan	China	Taiwan	Korea	Total				
Sales:									
Sales to external customers	\$113,470	\$143,518	\$38,783	\$154,036	\$449,807	\$36,530	\$486,337		\$486,337
Intersegment sales or transfers	109,313	48	14,398	11,542	135,301	350	135,651	\$(135,651)	
Total sales	\$222,783	\$143,566	\$53,181	\$165,578	\$585,108	\$36,880	\$621,988	\$(135,651)	\$486,337
Segment profit	\$ 12,217	\$ 33,903	\$ 6,157	\$ 11,795	\$ 64,072	\$ 2,868	\$ 66,940	\$ (2,109)	\$ 64,831
Segment assets	112,084	105,892	53,229	70,072	341,277	22,133	363,410	152,867	516,277
Other items:									
Depreciation	6,325	2,024	1,542	1,085	10,976	205	11,181	2,409	13,590
Increase in property, plant and equipment and intangible assets	1,831	1,301	1,542	735	5,409	193	5,602	747	6,349

Notes:

- (a) The "China" segment covers local subsidiaries in China and Hong Kong.
- (b) The "Other" segment is not included in reportable segments and covers the business activities of local subsidiaries in the United States of America and other Asian countries.
- (c) Depreciation does not include goodwill amortization.
- (d) Segment profit of "Reconciliations" includes unallocated segment loss of ¥151 million (\$1,819 thousand), which is mainly composed of the loss concerning the holding company in 2011.
- (e) Segment assets of "Reconciliations" include unallocated segment assets of ¥14,806 million (\$178,386 thousand), which are mainly composed of the assets concerning the holding company in 2011.

### For the year ended March 31, 2010

Information about industry segments, geographical segments and sales to foreign customers of the Group for the year ended March 31, 2010 is as follows:

#### (1) Industry segments

The Group is primarily engaged in manufacture and distribution of solder resist for PWBs, among others. Accordingly, information by business segment is not disclosed because the Group has one business segment.

#### (2) Geographical segments

The geographical segments of the Group for the year ended March 31, 2010 are summarized as follows:

2010	Millions of Yen					Consolidated
	Japan	Asia	North America	Total	Eliminations/ Corporate	
Sales:						
Sales to customers	¥ 9,031	¥24,977	¥1,048	¥35,056		¥35,056
Inter-area transfer	11,348	15	46	11,409	¥(11,409)	
Total sales	20,379	24,992	1,094	46,465	(11,409)	35,056
Operating expenses	19,779	20,948	947	41,674	(11,461)	30,213
Operating income	¥ 600	¥ 4,044	¥ 147	¥ 4,791	¥ 52	¥ 4,843
Segment assets	¥31,931	¥20,196	¥1,327	¥53,454	¥ (9,749)	¥43,705

Notes:

- (a) Countries and territories are classified based on geographical proximity.
- (b) Major countries or areas other than Japan are as follows:
  - Asia: Korea, Taiwan, China, Hong Kong, Singapore
  - North America: the United States of America

#### (3) Sales to foreign customers

2010	Millions of Yen			
	North America	Asia	Europe and Other	Total
Sales to foreign customers	¥936	¥27,527	¥132	¥28,595

Notes:

- (a) Countries and territories are classified based on geographical proximity.
- (b) Major countries or areas are as follows:
  - North America: the United States of America
  - Asia: Korea, Taiwan, China, Hong Kong, Thailand
  - Europe and other: Germany
- (c) Sales to foreign customers represent sales of the Group to countries and regions outside of Japan.



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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
TAIYO HOLDINGS Co., Ltd.:

We have audited the accompanying consolidated balance sheets of TAIYO HOLDINGS Co., Ltd. (the "Company") and consolidated subsidiaries (together, the "Group") as of March 31, 2011 and 2010, and the related consolidated statements of income for the years then ended, the consolidated statement of comprehensive income for the year ended March 31, 2011, and the related consolidated statements of changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with 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 our 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 TAIYO HOLDINGS Co., Ltd. and consolidated subsidiaries as of March 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for the years then ended 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.

*Deloitte Touche Tohmatsu LLC*

June 28, 2011

Member of  
Deloitte Touche Tohmatsu Limited

# Corporate Information

(As of March 31, 2011)

## Company Overview

**Name:** TAIYO HOLDINGS CO., LTD.

**Head office:** 2-7-1 Hazawa, Nerima-ku, Tokyo 176-8508, Japan

**Phone:** 81-3-5999-1511

**Established:** September 29, 1953

**Capital:** ¥6,134 million

**Shares authorized:** 50,000,000

**Total number of issued shares:** 27,464,000

**Stock listings:** Tokyo

**Number of shareholders:** 7,671

**Major shareholders:**

Name	Shares (thousands)	Shareholdings as a percentage of total shares issued (%)
Kowa Co., Ltd.	5,247	19.10
Japan Trustee Services Bank, Ltd.	3,424	12.46
Company's Treasury Stock	2,025	7.37
Mitsuo Kawahara	1,306	4.75
State Street Bank and Trust Company 505223 (Standing proxy: Mizuho Corporate Bank, Ltd.)	945	3.44
The Master Trust Bank of Japan, Ltd.	870	3.16
SHIKOKU CHEMICALS CORPORATION	631	2.29
Toshin Yushi Co., Ltd.	538	1.96
Takato Kawahara	486	1.77
NORTHERN TRUST COMPANY (AVFC) SUB A/C AMERICAN CLIENTS (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited Tokyo Branch)	451	1.64
Total	15,928	57.99

(Notes)

- The number of shares indicated as held by Japan Trustee Services Bank, Ltd. includes 3,412 thousand shares held as part of trust banking services. This includes 1,116 thousand shares entrusted to the Sumitomo Mitsui Banking Corporation Retirement Benefit Trust Account.
- The number of shares indicated as held by The Master Trust Bank of Japan, Ltd. includes 674 thousand shares held as part of trust banking services.
- We received a change report for the large shareholding report submitted by Harris Associates L.P. dated November 30, 2010 (date of the change: November 24, 2010) in which said company claims a shareholding of 1,780 thousand shares of TAIYO stock as of the date of submission. As the Company was unable to verify the effective shareholdings listed in this change report regarding its shares as of the end of the fiscal year, Harris Associates L.P. has not been included in the above list of major shareholders. The change report for the large shareholding report submitted by Harris Associates L.P. contained the following information:  
Shareholder: Harris Associates L.P.  
Address: Two North LaSalle Street, Suite 500, Chicago, IL 60602, USA  
Shares: 1,780,700  
Shareholdings as a percentage of total shares issued: 6.48

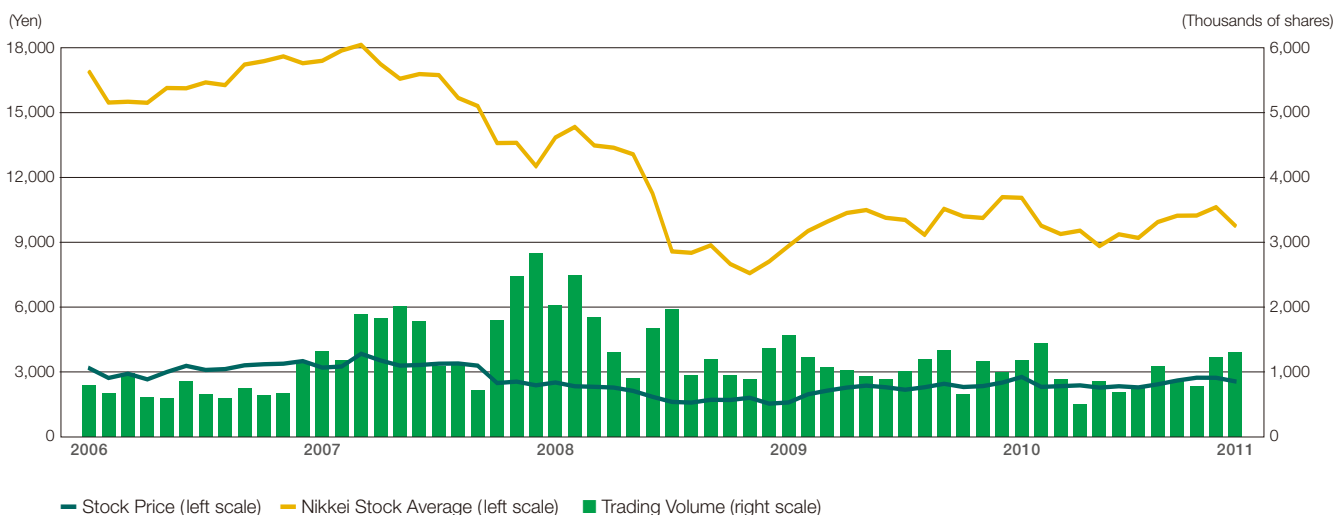
## Accessing Our Investor Information Online

The TAIYO GROUP is committed to providing our shareholders and investors with up-to-date information on a regular basis. To this end, we have devoted a section of our corporate website (see link below) to a wide range of information aimed at investors and other stakeholders such as messages from the President, financial data, as well as an overview of management strategy and policies.

<http://www.taiyo-hd.co.jp/English/Ir/index/>



## Stock Price and Trading Volume



## TAIYO HOLDINGS CO., LTD.

2-7-1 Hazawa, Nerima-ku, Tokyo 176-8508, Japan

Phone: 81-3-5999-1511

<http://www.taiyo-hd.co.jp/English>

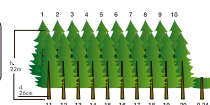
Printed in Japan



Reusing aluminum plates during the printing of this publication reduced waste and contributed to the deduction of CO<sub>2</sub> emissions by **282.08kg**.

Japan Smart Energy Co., Ltd. examined this numerical value and confirmed it.

TAIYO HOLDINGS CO., LTD. participates in an Indonesian reforestation project with print by MCP.



282.08kg of CO<sub>2</sub> is the amount that 20.24 fifty-year-old cedar trees would absorb in one year.

(Source: Ministry of Agriculture, Forestry and Fisheries Agency of Japan)

