



2nd Fiscal Midterm **BUSINESS REPORT**

April 1, 2004 ▶ September 30, 2004

Tamura Taiko Holdings, Inc.

Ticker Code: 6675

For Tomorrow's Blossom: The Management Strategies of Tamura-Taiko SAXA Group



Susumu Harashima
Representative Director
and Chairman

Masanori Yoshioka
Representative Director
and President

To Our Shareholders

We appreciate the continued support of our shareholders. On April 1, 2004, we adopted the brand name saxa, and Tamura-Taiko SAXA Group was born.

The Group's goal is to be an innovative company that can utilize its original technological and development capabilities to meet customers' expectations. We look forward to your continued assistance and support in the future.

● Expanding Business and Strengthening the Management Structure

Tamura-Taiko SAXA Group has implemented a variety of measures aimed at increasing competitive strength and profitability through management integration. Specific measures have included reorganization of Group Companies, promotion of production reforms, and concentration and relocation of Development and Sales Divisions. On October 1, we integrated the Group's two logistics companies, and we are currently promoting greater efficiency in distribution within the Group.

In the future, we will endeavor to expand business and strengthen the management structure, in order to further increase the effects of this integration.

■ Expanding Business

Network Solutions Business

While promoting the integration of models, we will expand our product lineup and lead the market by introducing a wide range of new products, including wireless systems, IP systems, and key telephone (business phone) systems with added service functions that offer greater value for customers.

Security Solutions Business

We will strengthen our product lineup in remote sensing systems, control systems, and security systems for private and corporate applications, in order to contribute to securing and maintaining safety and peace of mind at all levels of society. We will also work to further expand business related to various card systems, tag systems and other areas that anticipate the coming ubiquitous society.

New Business

We are actively investing in development in business that require new elemental technologies, such as key components and factory automation (FA), in order to create new core businesses.

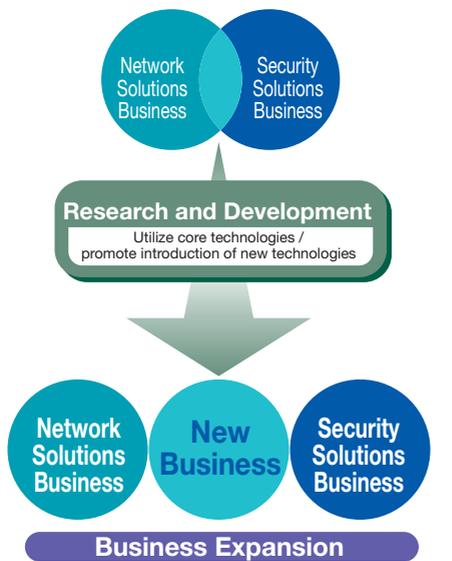
Research and Development

We will cultivate the core technologies that we have accumulated in business such as communications, security, and mechatronics, and actively implement new technologies, in order to strengthen our R&D activities and embody the results in existing and new business.

● Increasing Corporate Value

The management philosophy of Tamura-Taiko SAXA Group is to “Contribute to the development of a rich and active society by creating new value around a core of original technologies.” Based on the following five key policies, we will aim for a 10% Ratio of consolidated Ordinary Income to Net Sales, and push forward in concentrating the Group’s power and increasing corporate value.

1. Position the Network Solutions Business and the Security Solutions Business as core businesses, expand and develop businesses through integration, and create new core businesses.
2. Establish a “market creation style” product development system and expand business domains by fostering and utilizing core technologies, and by combining various technologies.
3. Reconstruct the Group-wide supply chain to strengthen the Group’s ability to respond to market demands with regard to quality, cost, and delivery schedules.
4. In addition to the effective use of tangible assets, promote management that emphasizes intangible assets such as technical, sales, and production capabilities, as well as brand value, and aim to maximize capital efficiency.
5. Improve upon internal audit systems, risk management, and compliance, including conformance with personal information protection laws, thereby strengthening corporate governance.



■ Strengthening the Management Structure

1. Optimizing Production Systems

In order to further strengthen the company’s ability to respond to market demands regarding quality, cost, and delivery schedules, we will increase production efficiency through production reforms, construct production systems in Japan and overseas that are ideally suited to the characteristics of the products being manufactured, and concentrate domestic production bases* (increase efficiency through integration of distributed or redundant production functions).

* We will continue to investigate specific methods of concentrating domestic production bases, based on a plan involving the concentration of bases in the Yonezawa Plant by the end of March 2005.

2. Ensuring appropriate staff structures

As part of efforts aimed at strengthening the management structure, we will promote further systemization and greater efficiency of operations. At the same time, we will implement manpower reorganizations and utilize various personnel systems to construct a Group personnel system comprised of 1,500 employees by the end of March 2007. (Currently about 1,900 employees)

3. Increasing Capital Efficiency

In order to prepare for investments in future business expansion and at the same time to strengthen the financial structure, we will review current assets and promote effective application and increased mobility of those assets. In the future, we will conduct comprehensive studies on the details of these activities, targeting all existing assets, including both the Headquarters (Meguro-ku, Tokyo), and the Nakanobu Office (Shinagawa-ku, Tokyo)

Verification tests begin on the first non-contact IC payment service for taxis in Japan

SAXA, Inc., in collaboration with Kanachu Hire K.K. and JCB Co., Ltd. began verification tests in November 2004 targeting payment services using non-contact IC¹ technologies.

The goal of these tests is to create a simple and convenient new payment system for taxis. This will be the first credit payment for taxis in Japan to use non-contact IC technologies. In these tests, “i-mode Fellica² [Mobile Wallet]” will be distributed to Kanachu Hire employees with JCB credit cards, to enable payments using the JCB payment service “QUICPay³.” Taxi fares can be paid quickly by simply holding the mobile phone up to an on-board terminal that is linked to the taxi meter. Fares are invoiced later via regular JCB card payments. SAXA, Inc. will provide the on-board payment terminals for the taxis, as well as the fare data processing systems installed at the Kanachu Hire Head Office and branch offices.

A variety of studies will be conducted based on questionnaire surveys of users and drivers, aiming for full-scale implementation of the system by the spring of 2005.

1. IC = Integrated Circuit
2. i-mode is a registered trademark of NTT DoCoMo, Inc.
Fellica is a registered trademark of Sony Corporation.
3. QUICPay [Quick & Useful IC Payment]: A new payment service developed by JCB Co., Ltd. and Aeon Credit Service Co., Ltd.
Enables speedy credit payment using a deferred payment system, without the need for prior charges.



On-board terminal (used by driver)



On-board terminal and Mobile Wallet

“CL500” Bluetooth Cordless Phone goes on sale

SAXA, Inc.’s newly developed “CL500,” the industry’s first Bluetooth⁴ cordless phone, went on sale from November 2004.

The CL500 is the industry’s first completely cordless business phone to feature a Class 1 type⁵ Bluetooth module as the wireless component. Bluetooth is a wireless system that uses frequencies in the 2.4 GHz range, and features “frequency hopping⁶,” which enables greater energy savings than wireless LANs, thus offering a maximum operating range of 100 meters. With the high-speed data communication capabilities that are characteristic of Bluetooth, response time is dramatically improved in comparison to conventional cordless phones (for example, the handset rings immediately after the call is received), and the audio quality is considerably clearer.

Among the main features and functions of the CL500 are multi-function keys on the main phone unit and the cordless handsets to ensure the same operability for both, and a Kanji-compatible display that ensures outstanding visibility and ease of operations for phonebook searches and various other menu operations.

4. Bluetooth: An interface developed by the standardization consortium “Bluetooth SIG” to achieve data exchanges among a wide range of devices, such as PCs, peripheral devices, household appliances, and mobile phones.
5. Bluetooth is divided into three classes according to communication output. Class 1 offers the highest expected transmission range, at about 100m.
6. Frequency hopping: A wireless communication technology designed to enable rapid changes in communication frequencies (“hopping”) over an extremely short period of time. Frequency hopping is highly resistant to electrical interference – for example, it will select other frequencies when a given frequency is affected by noise or is being used by another device – and is also highly effective in maintaining confidentiality in communications.



The CL500 phone, with a front view of the cordless headset.

Environmental Efforts

In April 2004, Tamura-Taiko SAXA Group made a new environmental declaration, stating that it would “promote business activities with consideration for the environment in all business fields, and would contribute to the development of a sustainable society that exists in harmony with nature,” and started its environmental protection activities. For further information on environmental policies, please refer to the Tamura Taiko Holdings homepage.

<http://www.tthd.com>



Promoting stronger compliance systems

Tamura-Taiko SAXA Group has already established a Compliance Committee, and makes every possible effort to ensure ethical behavior, fairness, and strict conformance with laws and regulations, by receiving advice whenever necessary from corporate lawyers in regard to issues related to laws and compliance. Now, the Group will make the following improvements aimed at further strengthening the compliance system

● Establishment of “Tamura-Taiko SAXA Group Charter of Corporate Behavior” and “Tamura-Taiko SAXA Group Code of Conduct”

Tamura-Taiko SAXA Group is well aware that fulfilling its Corporate Social Responsibilities as a corporate citizen in an information network society is tied into continued healthy growth and increased corporate value, and as such is essential to the recognition of the Group Companies as companies that are truly needed by society.

The Charter of Corporate Behavior and the Code of Conduct were established on November 1 to strengthen and promote compliance, to ensure strict conformance with laws, and to encourage behavior that is in keeping with corporate ethics, so that the Group can fulfill its corporate social responsibilities.

The Charter of Corporate Behavior indicates basic policies related to compliance based on the Group’s “Management Philosophy,” while the Code of Conduct defines standards of behavior that each employee must strive for on a daily basis, from the perspective of corporate ethics and conformance with the law, and based on the compliance policies laid out in the Charter of Corporate Behavior.

● Establishment of a Corporate Ethics Helpline

On November 1, the Group established contact points both inside the company (the Tamura Taiko Holdings Compliance Committee Secretariat) and outside (at a Law Office) to respond to employees' inquiries regarding compliance, as a means of strengthening the overall compliance system.

Financial Highlights

Overview of the 2nd fiscal midterm

Tamura-Taiko SAXA Group operates in two core business fields: the Network Solutions Business, which focuses mainly on key telephone system products, and the Security Solutions Business, which provides products related to security, cards, remote monitoring, and related applications. The Group has been working diligently to quickly achieve synergistic effects in sales and product development capabilities through management integration as well as increased efficiency in all other businesses, and to strengthen overall competitiveness and profitability.

As a result of these efforts, consolidated net sales for the current midterm were 32.996 billion yen.

In terms of income, consolidated ordinary income was 1.482 billion yen, partly due to temporary expenses incurred as a result of the Group's reorganization, but with the adjusted amount of and other corporate taxes, among other factors, consolidated midterm net income was 934 million yen.

Network Solutions Business

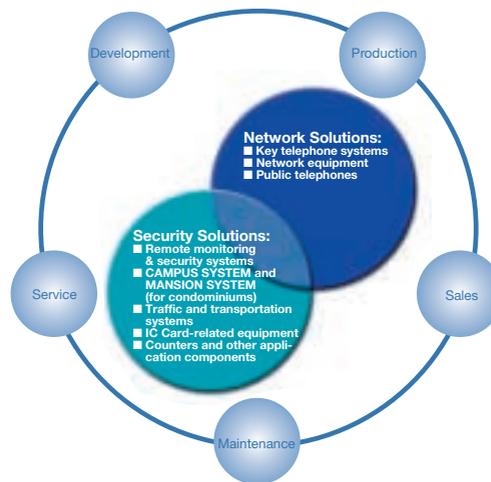
Net sales in this business totaled 17.378 billion yen. This figure was achieved because of a steady flow of incoming orders that resulted from the introduction of new products onto the market, including key telephone systems compatible with IP phone services, as well as the synergistic effects in sales brought about by management integration.

Security Solutions Business

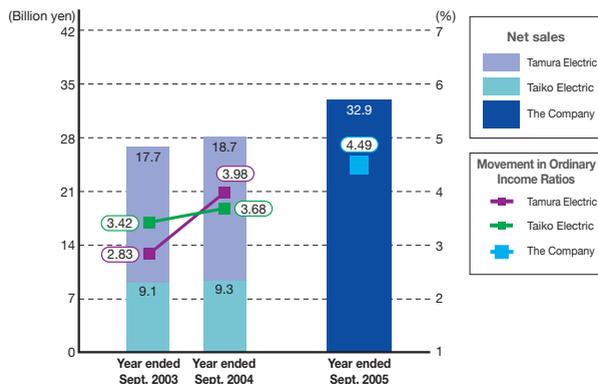
Net sales in this business totaled 15.617 billion yen. This resulted from efforts to secure orders by introducing new products including security devices and wireless remote monitoring systems, as well as steady incoming orders for IC card reader units targeting the leisure industry, along with other units and products.

★ Because Tamura-Taiko SAXA Group was established in February 2004 with the integration of Tamura Electric Works, Ltd. and Taiko Electric Works, Ltd., there is no comparison with the midterm of the previous year.

Our Business Fields

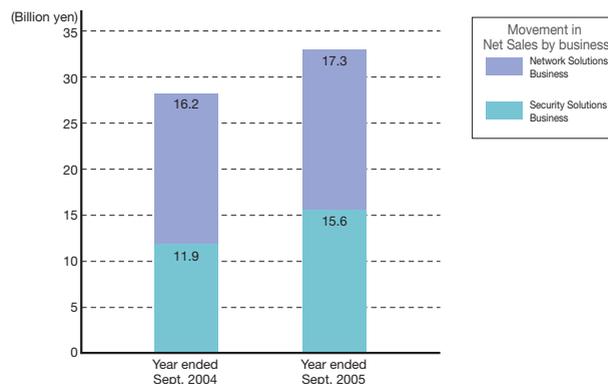


Movement in Sales and Ordinary Income Ratios



1. Rounded down to the nearest 100 million yen.
2. Ordinary Income Ratio has been rounded to the nearest 3rd decimal place.

Movement in Net Sales by business



1. Figures for the previous interim period are simply the sum of figures for Tamura Electric Works, Ltd. and Taiko Electric Works, Ltd.
2. Rounded down to the nearest 100 million yen.

Condensed Financial Statements

● Consolidated Balance Sheet

(Millions of yen)

Account item	2nd Fiscal midterm (As of September 30, 2004)
Assets	
Current assets	32,424
Cash and bank deposits	6,663
Notes and accounts receivable	12,926
Inventories	10,313
Other current assets	2,521
Fixed assets	29,906
Property, plant and equipment	18,108
Intangible fixed assets	4,891
Investments and others	6,906
Total Assets	62,330
Liabilities	
Current liabilities	21,584
Notes and accounts payable	8,388
Short-term borrowings	8,313
Other current liabilities	4,882
Long-term liabilities	18,648
Long-term loans payable	6,561
Reserve for retirement benefits	5,139
Other long-term liabilities	6,947
Total liabilities	40,232
Minority Interests	
Minority Interests	—
Shareholders' Equity	
Common stock	10,836
Capital surplus	6,331
Retained earnings	4,671
Stock revaluation difference	283
Foreign currency translation adjustments	5
Treasury stock	△29
Total Shareholders' Equity	22,098
Total Liabilities, Minority Interests and Shareholders' Equity	62,330

● Consolidated Statement of Income

(Millions of yen)

Account item	2nd Fiscal midterm (From April 1, 2004, to September 30, 2004)
Net sales	32,996
Cost of goods sold	25,550
Selling, general and administrative expenses	5,888
Operating income	1,557
Nonoperating income	389
Nonoperating expenses	463
Ordinary income	1,482
Special gains	6
Special losses	106
Income before income taxes and minority interests	1,382
Income taxes-current	358
Income taxes-deferred	89
Minority interests in earnings of consolidated subsidiaries	—
Net income	934

● Statement of Retained Earnings

(Millions of yen)

Account item	2nd Fiscal midterm (From April 1, 2004, to September 30, 2004)
Capital surplus	
Balance of capital surplus at beginning of year	6,303
Increase in capital surplus	27
Gain from disposition of treasury stock	27
Balance of capital surplus at end of year	6,331
Retained earnings	
Balance of retained earnings at beginning of year	325
Increase in retained earnings	4,359
Net income	934
Increase due to a reversal of land revaluation difference	3,424
Decrease in retained earnings	13
Directors' and auditors' bonuses	13
Balance of retained earnings at end of year	4,671

● Consolidated Statement of Cash Flows

(Millions of yen)

Account item	2nd Fiscal midterm (From April 1, 2004, to September 30, 2004)
Cash flows from operating activities	3,505
Cash flows from investing activities	△1,842
Cash flows from financing activities	△307
Effect of exchange rate changes on cash and cash equivalents	0
Net increase in cash and cash equivalents	1,354
Cash and cash equivalents at beginning of the term	5,235
Cash and cash equivalents at end of the term	6,590

Condensed Financial Statements

● Non-consolidated Balance Sheet (Millions of yen)

Account item	2nd Fiscal midterm (As of September 30, 2004)
Assets	
Current assets	316
Cash and bank deposits	269
Deferred tax assets	15
Other current assets	32
Fixed assets	20,403
Intangible fixed assets	11
Trademark rights	11
Investments and others	20,391
Investment in stock subsidiaries	20,383
Deferred tax assets	8
Total Assets	20,720
Liabilities	
Current liabilities	226
Short-term borrowings	100
Accounts payable-other	3
Accrued expenses	19
Accrued income taxes	89
Consumption taxes	8
Other current liabilities	4
Long-term liabilities	20
Reverse for retirement benefits	3
Reserve for directors' and auditors' retirement allowance	16
Total liabilities	246
Shareholders' Equity	
Common stock	10,836
Capital surplus	9,562
Additional paid-in capital	3,000
Other capital surplus	6,562
Retained earnings	104
Unappropriated retained earnings	104
Treasury stock	△29
Total Shareholders' Equity	20,474
Total Liabilities and Shareholders' Equity	20,720

● Non-consolidated Statement of Income (Millions of yen)

Account item	2nd Fiscal midterm (From April 1, 2004, to September 30, 2004)
Ordinary Profit-and-Loss section	
Operating revenue	
Management charges of affiliated companies	249
Permission charges for using trademark	164
Total Operating revenue	414
Operating expenses	
General and administrative expenses	244
Operating income	169
Nonoperating income	2
Other nonoperating income	2
Nonoperating expenses	0
Other nonoperating expense	0
Ordinary income	171
Special Profit-and-Loss section	
Special gains	1
Gain on sales of investments securities in affiliated companies	1
Special losses	4
Loss on liquidation of subsidiaries	4
Income before income taxes and minority interests	167
Income taxes-current	87
Income taxes-deferred	△19
Net income	98
Profit brought forward	5
Unappropriated retained earnings	104

Company Profile

Company Name	Tamura Taiko Holdings, Inc. (Tokyo Stock Exchange Ticker Code:6675)
Established	February 2, 2004
Capital Stock	¥10,836,678,400
Number of Employees	19 (Non-consolidated) 1,889 (Consolidated)
Head Office	2-2-3, Shimomeguro, Meguro-ku, Tokyo
Outline of Operations	Management of subsidiaries undertaking mainly development, manufacturing, and sales of telecommunication network equipment and systems.

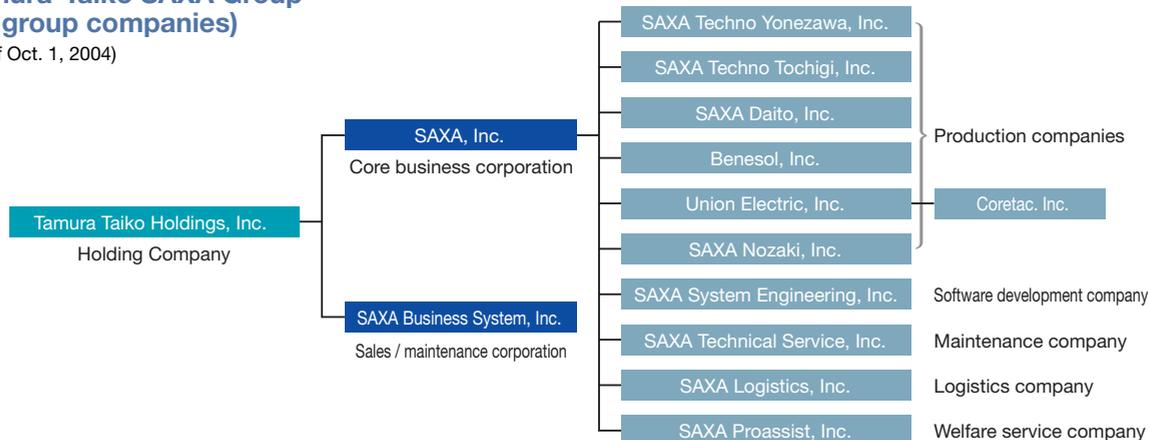
● Directors and Auditors

Representative Director and Chairman	Susumu Harashima
Representative Director and President	Masanori Yoshioka
Managing Director	Shin Murakami
Managing Director	Shuji Matsuyama
Managing Director	Norio Motosugi
Managing Director	Masayuki Fukushima
Managing Director	Masao Koshikawa
Director	Kenji Wada
Director	Hiroaki Tomoda
Standing Auditor	Osamu Mizorogi
Auditor	Masao Fujimaki
Auditor	Takashi Kouno
Auditor	Isamu Fudeya

1. Kenji Wada and Hiroaki Tomoda are Outside Directors, as stipulated in Article 188, Paragraph 2, No. 7(2) of the Commercial Law.
2. Takashi Kouno and Isamu Fudeya are Outside Auditors, as stipulated in Article 18, Paragraph 11, of the Law regarding Special Cases in the Commercial Law related to Auditors, etc., in Joint-stock Corporations.

Tamura-Taiko SAXA Group (14 group companies)

(as of Oct. 1, 2004)



* On October 1, 2004, SAXA Logistics Tochigi, Inc. merged with SAXA Logistics, Inc.; the name of the newly formed company remained as SAXA Logistics, Inc.

■ SAXA, Inc.

Established	April 1, 2004
Capital Stock	¥107 billion
Number of Employees	695
Business	Development, manufacture and sales of information and telecommunications network components, equipment and systems, as well as the supply services of incidental to these activities.

● Directors and Auditors

Representative Director and President	Masanori Yshioka
Director	Norio Motosugi
Director	Shin Murakami
Director	Shuji Matsuyama
Director	Masayuki Fukushima
Director	Kazunori Hata
Director	Masao Koshikawa
Standing Auditor	Masao Fujimaki
Auditor	Osamu Mizoroki
Auditor	Takashi Kouno

● Major Offices and Plants

Head Office	Meguro-ku, Tokyo
Nakanobe Plant	Shinagawa-ku, Tokyo
Sagamihara Plant	Sagamihara, Kanagawa
Tochigi Plant	Nishi-nasuno-cho, Nasu-gun, Tochigi
Yonezawa Plant	Yonezawa, Yamagata
Kansai Regional Office	Kita-ku, Osaka
Chubu Regional Office	Higashi-ku, Nagoya, Aichi
Kyushu Regional Office	Hakata-ku, Fukuoka
Hokkaido Branch	Sapporo, Hokkaido
Tohoku Branch	Miyagino-ku, Sendai, Miyagi
Chuogoku Branch	Naka-ku, Hiroshima
Hokuriku Sales Office	Kanazawa, Ishikawa

■ SAXA Business System, Inc.

Established	October 1, 1982
Capital Stock	¥170 million
Number of Employees	206
Business	Sales, installation, maintenance and repair of information and telecommunications network components, equipment and system, as well as all operations incidental to these activities.

● Directors and Auditors

Representative Director and President	Toshio Yamada
Managing Director	Shuji Mogami
Director	Mitsuyoshi Takamura
Director	Masanori Nakajima
Director	Shigeru Hama
Director	Masayuki Fukushima
Auditor	Yuzuru Suzuki

● Major Offices and Service Offices

Head Office and Tokyo Regional Office	Shinagawa-ku, Tokyo
Kita-kanto Regional Office	Kita-ku, Saitama
Chubu Regional Office	Nakamura-ku, Nagoya, Aichi
Kansai Regional Office	Kita-ku, Osaka
Kyushu Regional Office	Chuo-ku, Fukuoka
Sapporo Sales Office	Chuo-ku, Sapporo, Hokkaido
Sendai Sales Office	Miyagino-ku, Sendai, Miyagi
Shizuoka Sales Office	Shizuoka, Shizuoka
Hiroshima Sales Office	Naka-ku, Hiroshima
Takamatsu Sales Office	Takamatsu, Kagawa
Other service offices nationwide	17

Shares

- Total number of shares authorized to be issued ---200,000,000
- Total number of shares issued and outstanding -----62,449,621
- Number of shareholders8,747

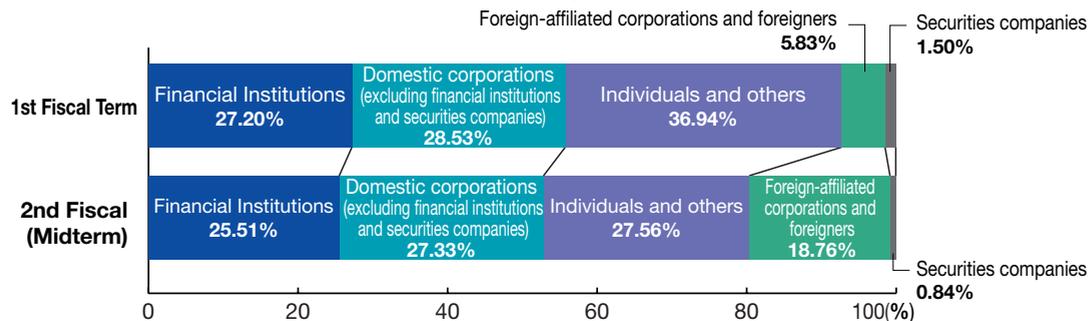
Major Shareholders

Number	Name	Investment by shareholders	
		Number of shares (thousand)	Shareholding ratio (%)
1	Oki Electric Industry Co., Ltd.	8,447	13.53
2	NEC Corporation	6,060	9.70
3	Mizuho Bank, Ltd.	2,339	3.75
4	The Master Trust & Bank of Japan, Ltd. (trust account)	2,124	3.40
5	Sumitomo Mitsui Banking Corporation	1,767	2.83
6	BBH for Fidelity Japan Small Company Fund	1,567	2.51
7	Mizuho Trust & Banking Co., Ltd.	1,545	2.47
8	The Bank of New York Jasdic Treaty Account	1,129	1.81
9	The Bank of New York GCM Client Accounts E ISM	1,109	1.78
10	UBS AG London Asia Equities	789	1.26

- Shares owned by Mizuho Bank, Ltd. include 1,778,000 Tamura Taiko Holdings shares (2.85% of stock holdings) contributed by Mizuho Bank, Ltd. as trust assets for a Retirement Benefit Trust. (The name shown in the Shareholders' Register is "Trust & Custody Services Bank, Ltd as trustee for Mizuho Bank, Ltd., Retirement Benefit Trust Account (Mizuho Bank account) re-trusted by Mizuho Trust and Banking Co., Ltd.)
- "Number of shares" has been rounded down to the nearest 1,000.
- Copies of change reports (Large-volume holdings reports) dated October 15, 2004, and submitted by companies of the J.P. Morgan Group, were sent to Tamura Taiko Holdings from those companies. As of September 30, 2004, it was reported (as shown below) that these companies jointly held 4,588,000 Tamura Taiko Holdings shares (7.35% of owned shares). The status of this major shareholder has not been included, however, because Tamura Taiko Holdings was unable to confirm the number of owned shares at the time of the interim period in question.

Name	Number of Shares (thousand)	Shareholding ratio (%)
J.P. Morgan Fleming Asset Management (Japan) Limited.	4,443	7.11
J.P. Morgan Fleming Asset Management (UK) Limited.	145	0.23

Distribution of Shareholders by Category



Shareholder Information

Closing of Accounts	March 31 of every year
Payment of Dividends	To be distributed to shareholders determined as of the balance sheet date.
Ordinary General Shareholders' Meeting	June
Record Date for the above Meeting	March 31
Transfer Agent	Mizuho Trust & Banking Co., Ltd. 2-1, Yaesu 1-chome, Chuo-ku, Tokyo
Transfer Agent Office	Stock Transfer Agency Department, Head Office Mizuho Trust & Banking Co., Ltd. 2-1, Yaesu 1-chome, Chuo-ku, Tokyo
Mailing Address	17-7, Saga 1-chome, Koto-ku, Tokyo 135-8722
Telephone Contact	+81-3-5213-5213 (switchboard)
Dedicated Web Site	http://www.mizuho-tb.co.jp/daikou/
Agencies	Mizuho Trust & Banking Co., Ltd.: All branches nationwide Mizuho Investors Securities Co., Ltd.: Head office and all branches nationwide
Newspaper for Public Announcement	Nihon Keizai Shimbun (daily newspaper)

● Web Site Information ●

The Company's non-consolidated balance sheet and statement of income are disclosed at the Company's Web site, instead of the previous public announcement of financial statements in a newspaper as set forth in the Articles of Incorporation.

<http://www.tthd.com>

At the above Web site, you can view various other information in addition to the Company's financial statements.

Tamura Taiko Holdings, Inc.

