



TERAOKA SEISAKUSHO CO., LTD.

Annual Report 2007

Year ended March 31, 2007

A Characteristically Global Teraoka

Teraoka Seisakusho Co., Ltd. began its operations in 1921 and since that time has continued to grow to become one of Japan's leading developers of highly functional packing, electrical insulation, electronic equipment, other industrial and general home-use adhesive tapes.

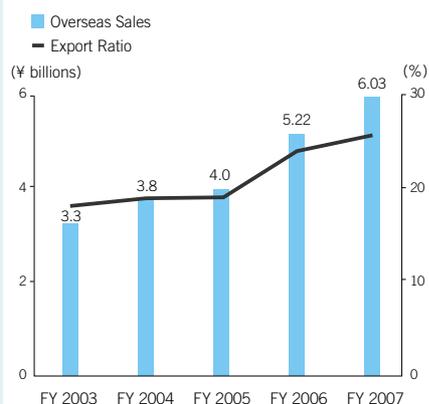
Steadily growing over the past 86 years, the Company and its growing group of consolidated subsidiaries have continued to strengthen its domestic production and sales markets, and in January 1995, took that expansion overseas, to Hong Kong and then to Shanghai in July 2004, where it established Teraoka Seisakusho (Shanghai) Co., Ltd. and subsequently Teraoka Seisakusho (Shenzhen) Co., Ltd., in November 2006, as fully owned subsidiaries of Teraoka Seisakusho (Hong Kong) Co., Ltd.

As its client network has become global, so has the Teraoka Group enjoyed steady growth in demand for its highly functional adhesive tapes for electrical insulation and electronic equipment, especially in Asia where growth of the digital industries has made home electronics such as cellular phones and flat screen televisions primary end uses for these technologically advanced tape products.

The Teraoka Group continues to grow its Hong Kong and Shanghai operations, while also expanding its sales networks in North America, Europe and Southeast Asia, building on its successes to create a vibrant and thriving corporate structure that is both global and sustainable in the rapidly evolving global marketplace of the 21st Century.



Changes in Overseas Sales



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CONSOLIDATED FINANCIAL HIGHLIGHTS

For the years ended March 31,

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Net Sales	¥23,536	¥21,829	\$199,376
Operating Income	1,424	1,399	12,063
Income before Income Taxes	2,004	1,452	16,973
Net Income	1,242	945	10,521
Total Assets	32,271	31,184	273,369
Net Assets	24,472	23,940	207,302

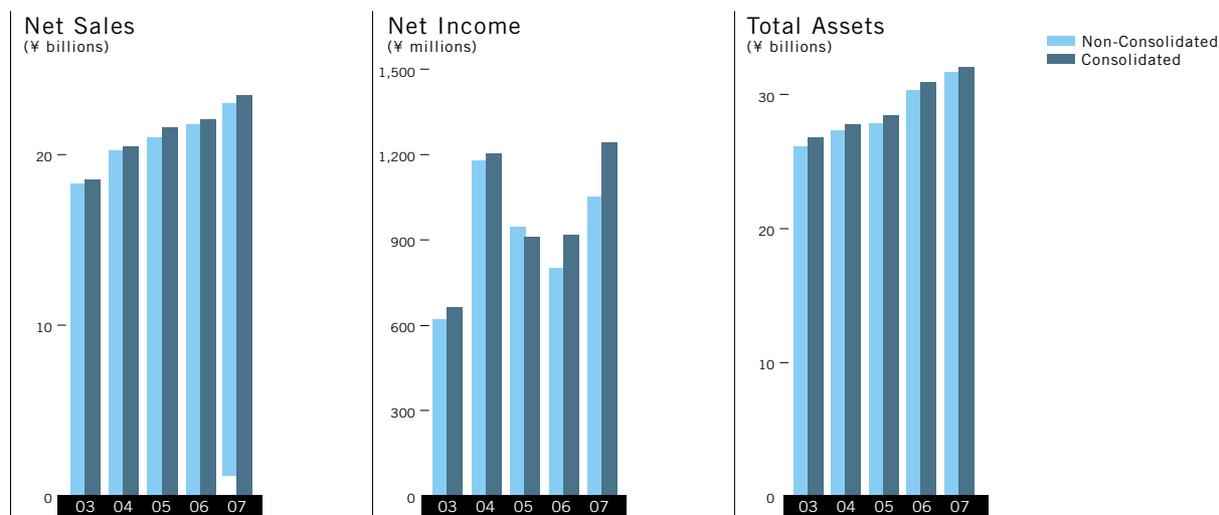
Ratio (%)

Operating Income to Net Sales	6.1	6.4
Equity Ratio	75.8	76.8
Return on Average Assets (ROA)	3.9	3.0
Return on Average Stockholders' Equity (ROE)	5.1	4.1

Per Share

	Yen	U.S. dollars
Net Income	¥62.12	¥45.62
Cash Dividends	14.00	14.00

The U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥118.05 = U.S.\$1, the rate prevailing on March 31, 2007.



An Evolving Operating Environment

Fiscal 2007, the year ended March 31, 2007, marked Teraoka's 97th business term. During this period, the Japanese economy continued to show signs of moderate recovery, owing largely to the gradual expansion of private sector capital investment and a steady improvement in employment conditions. These gains were made despite increases in interest rates and an upward spiraling of costs for crude oil and other raw materials.

Teraoka continued to operate in a business environment wrought with various negative factors, including an increase in the cost of natural rubber and petrochemical material. Despite these circumstances, demand for packing and curing tapes increased, owing to the growing strength of the physical distribution sector and a steady increase in construction projects. Sales of products incorporating LCDs, such as cellular phones and flat screen televisions, led the market expansion and contributed to increases in corporate sales during the fiscal term.

Teraoka continued to increase its investments in equipment in its domestic plants, and in Shenzhen, China, we established a new tape-cutting/treating plant in order to reinforce production capacity and expanding our sales network. During fiscal 2007 we were also actively involved in the development of environmentally friendly and highly functional products.

Financial Results for FY 2007

In fiscal 2007, consolidated net sales reached a record high of ¥23,536 million (US\$199,376 thousand), increasing 7.8% from the previous term. Consolidated operating income declined by 4.4%, year-on-year, to ¥1,424 million (US\$12,063 thousand). While consolidated income before income taxes increased by 3.6%, to ¥2,004 million (US\$16,973 thousand), consolidated net income increased by 31.4%, year-on-year, to ¥1,242 million (US\$10,521 thousand). This increase resulted from the sale of Teraoka's Ohmiya parking lot.

The dividend for the term under review was ¥14.00 (US\$0.12) per share, or ¥7.00 (US\$0.06) at term-end and ¥7.00 (US\$0.06) for the interim payout. This remained constant with the previous year's payout, and represented 26.2% of the payout ratio.

Consolidated cash and cash equivalents were reduced by ¥173 million (US\$1,465 thousand) from the previous term, to ¥4,831 million (US\$40,923 thousand). Cash earned through operating activities also declined, by 19.3% year-on-year, to ¥1,693 million (US\$14,342 thousand), owing mainly to net income of ¥1,242 million (US\$10,521 thousand), depreciation of ¥1,173 million (US\$9,936 thousand), a



decrease by ¥705 million (US\$5,972 thousand) in increased accounts receivable.

Cash allocated to investment activities decreased by 63.7% from the previous term to ¥1,560 million (US\$13,215 thousand), due to the sales of a parcel of the Group's land holdings during the term under review. Proceeds from the sale amounted to ¥495 million (US\$4,193 thousand). Equipment investment ¥732 million (US\$6,201 thousand) and payment of ¥398 million (US\$3,371 thousand) for purchases of investment in securities were appropriated.

Cash allocated to financial activities, which included dividend payments of ¥279 million (US\$2,363 thousand) and reduction in short-term debt by ¥30 million (US\$254 thousand), used and decreased to ¥311 million (US\$2,634 thousand).

Focusing on Growth Potential

Although the trend towards a long-term business expansion is expected to continue, backed by private sector capital investment and a steady increase in consumer spending. These factors continue to create a challenging business environment for companies in our industry.

Under these circumstances, Teraoka and its consolidated subsidiaries will continue to meet the rapidly evolving market demand for the highly functional and value-added products used in digital home electronics, a market that is expected to expand in the mid and long-term future. We will also build on original adhesive technology to enhance the quality and diversity of our product lines to meet the requirements of industries that are growing at unparalleled rates. To meet these goals, our management staff will continue to strengthen our sales activities and maximize corporate value.

In presenting this report, I would like to extend my sincere gratitude to our stockholders and customers for their continued support and patronage.

June 28, 2007

A handwritten signature in black ink that reads "K. Teraoka". The signature is fluid and cursive, with the first letter of "K" being particularly large and stylized.

Keishiro Teraoka
President

REVIEW OF OPERATIONS

The objectives of the Teraoka Group's research and development activities include development and quality improvement of new adhesive tape products with an increasing focus on environmental compatibility under our corporate motto of "Service to customers by offering good products quickly and at reasonable prices."

To develop highly functional and value-added products that meet market needs, the Group endeavored to engage in R&D activities by further reinforcing joint research with end users, as well as tie-ups with universities and research institutes.

R&D expenditures for the term under review amounted to ¥919 million (US\$7,785 thousand) and accounted for 3.9% of total consolidated sales.

During the term, Teraoka succeeded in developing an innovative tape made of extremely thin (0.030 mm) silicone rubber with high heat resistance, easy operability, and high dimensional stability. It is expected to be applicable to a wide range of industrial fields.

Consolidated net sales for the term under review

amounted to ¥23,536 million (US\$199,376 thousand), as represented by the following categorized records.

Packing Tapes

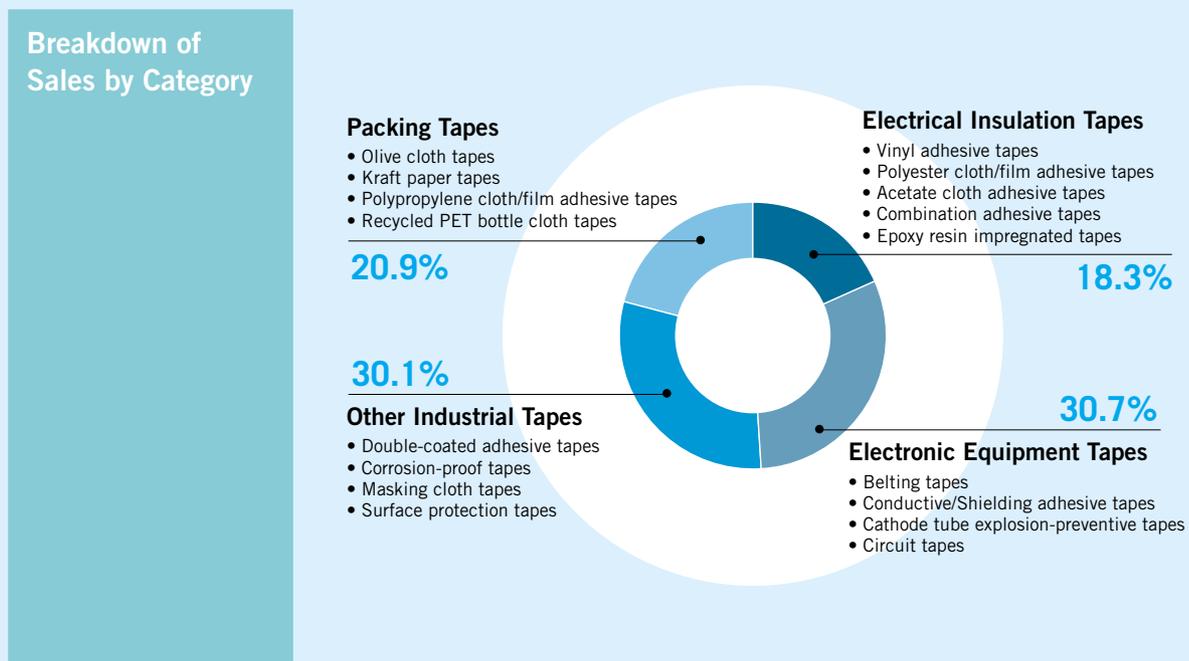
Sales of cloth adhesive tapes increased thanks to activated physical distribution and increased construction projects backed by business recovery trend. Sales for this category were expanded, also backed by increase in sales to direct marketing companies.

Consolidated sales of cloth adhesive tapes increased by 2.4%, to ¥4,930 million (US\$41,762 thousand). This total represented 20.9% of total consolidated sales and a decline of 1.2% from the previous term.

Electronic Equipment Tapes

Expanded sales of flat screen televisions, personal computers, game machines, cellular phones, and other digital devices both at home and abroad contributed to increases in sales of electronic adhesive tapes.

Consolidated net sales of Electronic Equipment Tapes in



the term under review were ¥7,228 million (US\$61,228 thousand), a 7.1% increase over the previous year's results. This total represented 30.7% of total consolidated sales and a year-on-year decline of 0.2%.

Electrical Insulation Tapes

Exports of Electrical Insulation Tapes remained favorable throughout the term under review, mainly to China and other Asian countries, recording an increase of 5.8%. Consolidated net sales of Electrical Insulation Tapes reached ¥4,295 million (US\$36,382 thousand) and this amount represented 18.3% of total consolidated sales, a decline of 0.3% from the previous year's result.

Other Industrial Tapes

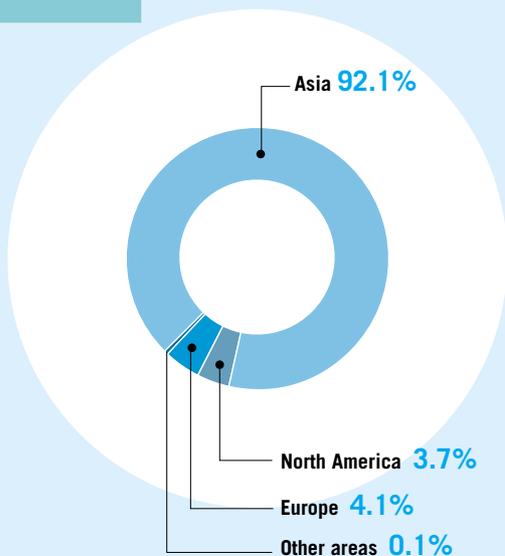
Sales of Teraoka's polyethylene cloth tape for industrial-use P-cut Tape increased, owing to its high quality and usability. Sales of other industrial tapes, including curing tapes, were on a par with results in the previous term. As a result, Consolidated net sales in this category

increased by 14.1% over the previous year, to ¥7,083 million (US\$60,000 thousand). This total represented 30.1% of total consolidated sales and an increase of 1.7%.

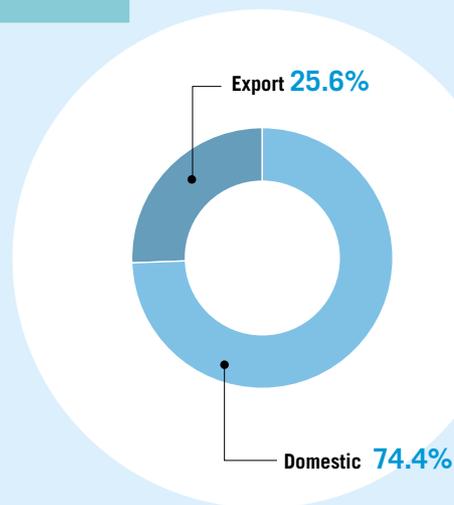
Overseas Sales

During the term, our marketing systems in overseas subsidiaries in Hong Kong, Shanghai, and other locations were upgraded to enhance customer service and encourage market development. These efforts together with concerted efforts to expand sales registered favorable results. Overseas sales for the term under review amounted to ¥6,031 million (US\$51,088 thousand), a year-on-year increase of 15.6%. This total represented 25.6% of total consolidated sales and an increase of 1.7% over the previous year's results.

Export Markets



Export Ratio



CONSOLIDATED BALANCE SHEETS

March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
ASSETS			
Current Assets:			
Cash and time deposits	¥ 4,331	¥ 4,505	\$ 36,690
Notes and accounts receivable:			
Trade	6,907	6,229	58,509
Affiliate	240	205	2,032
Less: Allowance for doubtful accounts (Note 2-g)	(3)	(5)	(25)
Marketable securities (Notes 2-b and 5)	2,496	1,201	21,143
Inventories (Note 2-c)	2,773	2,843	23,490
Deferred income taxes (Note 2-f)	251	256	2,129
Other current assets	163	100	1,377
Total current assets	<u>17,158</u>	<u>15,335</u>	<u>145,345</u>
Property, Plant and Equipment (Note 2-d):			
Land	3,724	3,729	31,548
Buildings	7,289	7,319	61,748
Machinery and equipment	19,901	19,153	168,584
Construction in progress	245	148	2,073
	<u>31,159</u>	<u>30,349</u>	<u>263,953</u>
Less: Accumulated depreciation	(21,156)	(20,366)	(179,211)
Property, plant and equipment, net	<u>10,003</u>	<u>9,983</u>	<u>84,742</u>
Intangible Assets	433	556	3,666
Investments and Other Assets:			
Investments in securities (Notes 2-b and 5)	4,033	4,711	34,164
Investments in affiliate	100	90	847
Other	544	509	4,605
Total investments and other assets	<u>4,677</u>	<u>5,310</u>	<u>39,616</u>
Total assets	<u>¥32,271</u>	<u>¥31,184</u>	<u>\$273,369</u>

The accompanying notes to consolidated financial statements are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Notes and accounts payable:			
Trade	¥ 3,894	¥ 3,792	\$ 32,985
Short-term borrowings	1,008	1,037	8,536
Accrued income taxes	335	257	2,836
Accrued expenses	605	578	5,129
Other current liabilities	1,431	774	12,124
Total current liabilities	<u>7,273</u>	<u>6,438</u>	<u>61,610</u>
Long-Term Liabilities:			
Retirement and severance benefits (Notes 2-h and 6):			
Employees	41	236	347
Directors and corporate auditors	99	153	838
Deferred liabilities taxes (Note 2-f)	375	400	3,177
Consolidated adjustment account	11	17	95
Total long-term liabilities	<u>526</u>	<u>806</u>	<u>4,457</u>
Total liabilities	<u>7,799</u>	<u>7,244</u>	<u>66,067</u>
Contingent Liabilities (Note 4):			
NET ASSETS			
Stockholders' Equity:			
Common stock:			
Authorized: 80,000,000 shares			
Issued: 20,081,955 shares as of March 31, 2007			
and 2006, respectively	3,904	3,904	33,074
Additional paid-in capital	3,491	3,491	29,574
Retained earnings	16,254	15,325	137,684
Less: Treasury stock, at cost	(76)	(75)	(646)
Total stockholders' equity	<u>23,573</u>	<u>22,646</u>	<u>199,686</u>
VALUATION AND TRANSLATION ADJUSTMENTS:			
Unrealized gains on securities (Notes 2-b and 5)	855	1,258	7,245
Foreign currency translation adjustments (Note 2-i)	44	37	371
Total valuation and translation adjustments	<u>899</u>	<u>1,295</u>	<u>7,616</u>
Total net assets	<u>24,472</u>	<u>23,940</u>	<u>207,302</u>
Total liabilities and net assets	<u>¥32,271</u>	<u>¥31,184</u>	<u>\$273,369</u>

CONSOLIDATED STATEMENTS OF INCOME

For the years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Net Sales	¥23,536	¥21,829	\$199,376
Cost of Sales	17,830	16,232	151,042
Gross profit	5,706	5,597	48,334
Selling, General and Administrative Expenses	4,282	4,199	36,271
Operating income	1,424	1,399	12,063
Other Income and Expenses:			
Interest and dividend income	75	41	637
Interest expenses	(4)	(3)	(32)
Loss on disposal of inventory asset	(27)	(43)	(232)
Gain on sales of investment securities	—	54	—
Gain on sales of land	482	—	4,079
Loss on disposal of property, plant and equipment	(16)	(10)	(133)
Gain on dissolution of foreign facilities	—	15	—
Foreign exchange gains (losses), net	4	(46)	33
Equity in earnings (losses) of affiliated company	11	10	91
Other, net	55	35	467
	580	53	4,910
Income before income taxes	2,004	1,452	16,973
Income Taxes:			
Current	506	438	4,289
Deferred	255	68	2,163
	762	507	6,452
Net income	¥ 1,242	¥ 945	\$ 10,521

The accompanying notes to consolidated financial statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Common Stock:			
Balance at beginning of year	¥ 3,904	¥ 3,904	\$ 33,074
Issuance during the year	—	—	—
Balance at end of year	<u>3,904</u>	<u>3,904</u>	<u>33,074</u>
Additional Paid-in Capital:			
Balance at beginning of year	3,491	3,494	29,574
Net sales of treasury stock	—	(3)	—
Balance at end of year	<u>3,491</u>	<u>3,491</u>	<u>29,574</u>
Retained Earnings:			
Balance at beginning of year	15,325	14,718	129,822
Net Income	1,242	945	10,521
Cash dividends paid	(279)	(300)	(2,371)
Bonuses to directors and corporate auditors	(34)	(39)	(288)
Balance at end of year	<u>16,254</u>	<u>15,325</u>	<u>137,684</u>
Treasury Stock, at cost:			
Balance at beginning of year	(75)	(74)	(639)
Net change during the year	(1)	(1)	(7)
Balance at end of year	<u>¥ (76)</u>	<u>¥ (75)</u>	<u>\$ (646)</u>
Unrealized Gains on Securities:			
Balance at beginning of year	1,258	554	10,653
Net change during the year	(403)	704	(3,408)
Balance at end of year	<u>855</u>	<u>1,258</u>	<u>7,245</u>
Foreign Currency Translation Adjustments:			
Balance at beginning of year	37	(20)	313
Net change during the year	7	56	58
Balance at end of year	<u>44</u>	<u>37</u>	<u>371</u>
		Yen	U.S. dollars
Per Share of Common Stock			
Net income	¥62.12	¥45.62	\$0.53
Cash dividends paid	<u>14.00</u>	<u>14.00</u>	<u>0.12</u>

The accompanying notes to consolidated financial statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Operating Activities:			
Net Income	¥ 1,242	¥ 945	\$ 10,521
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,173	1,142	9,936
Allowance for doubtful accounts	(1)	(4)	(8)
Provision for retirement benefits	(248)	(198)	(2,101)
Deferred income taxes	255	68	2,160
Equity in earnings (losses) of affiliated company	(11)	(10)	(93)
Gain on dissolution of foreign facilities	—	(15)	—
Minority interest in net income	—	0	—
Bonuses to directors and corporate auditors	(34)	(38)	(288)
Loss (Gain) on sales of land	(482)	10	(4,083)
Loss on disposal of property, plant and equipment	16	10	136
Loss (Gain) on sales of investment securities	—	(54)	—
Changes in assets and liabilities			
(Increase) decrease in notes and accounts receivable	(705)	(291)	(5,972)
(Increase) decrease in inventories	71	69	601
Increase (decrease) in notes and accounts payable	88	144	745
Increase (decrease) in accrued income taxes payable	58	256	491
Other, net	271	64	2,297
Total adjustment	451	1,153	3,821
Net cash provided by operating activities	1,693	2,098	14,342
Investing Activities:			
Payment for purchases of property, plant and equipment	(732)	(2,421)	(6,201)
Payment for purchases of intangible assets	(31)	(129)	(263)
Proceeds from sales of property, plant and equipment	—	2	—
Proceeds from sales of land	495	—	4,193
Payment for purchases of marketable securities	(4,593)	(700)	(38,907)
Payment for purchases of investment in securities	(398)	(1,474)	(3,371)
Proceeds from sales of marketable securities	3,699	393	31,334
Payment for purchases of minority interest in consolidated subsidiaries	—	0	—
Receipt from dissolution of foreign facilities	—	26	—
Net cash used in investing activities	(1,560)	(4,303)	(13,215)
Financing Activities:			
Dividends paid	(279)	(299)	(2,363)
Increases in short-term borrowings	(30)	978	(254)
Other, net	(2)	(2)	(17)
Net cash used in financing activities	(311)	677	(2,634)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	5	50	42
Net Increase (Decrease) in Cash and Cash Equivalents	(173)	(1,476)	(1,465)
Cash and Cash Equivalents at beginning of year	5,004	6,481	42,388
Cash and Cash Equivalents at End of the Year	¥4,831	¥5,004	\$ 40,923
Additional cash flow info			
Interest paid	4	2	34
Income taxes paid	¥ 448	¥ 137	\$ 3,795

The accompanying notes to consolidated financial statements are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended March 31, 2007 and 2006

1. Basis of Presenting Financial Statements

The accompanying consolidated financial statements of TERAOKA SEISAKUSHO CO., LTD. (the "Company") and its subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company, as required by the Securities and Exchange Law of Japan. However, certain account balances, as disclosed in the basic consolidated financial statements in Japan, have been reclassified to the extent

deemed necessary to enable presentation in a form which is more familiar to readers outside Japan.

The accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile.

For the convenience of readers, the accompanying consolidated financial statements are presented in U.S. dollars by translating yen amounts at the rate of ¥118.05=U.S.\$1, the prevailing exchange rate on March 31, 2007.

2. Summary of Significant Accounting Policies

a. Consolidation

The accompanying consolidated financial statements include the accounts of the Company and three subsidiaries, TERAOKA SEISAKUSHO (Hong Kong) CO., LTD., TERAOKA SEISAKUSHO (Shanghai) CO., LTD. and TERAOKA SEISAKUSHO (Shenzhen) CO., LTD. and an affiliate, SHIN-EI SHOJI CO., LTD. Investment in the affiliated company is accounted for by the equity method.

Significant inter-company balances, unrealized inter-company profits and losses among the companies are entirely eliminated. The assets and liabilities of the consolidated subsidiaries are incorporated into the financial statements at fair value and the difference between net assets at fair value and investment amounts are amortized by the straight-line method over a period of five years.

The fiscal years of all subsidiaries end December 31. All subsidiaries' financial statements are based on temporary settlement dates of March 31, 2007 and 2006 and are used for the consolidation of the Company.

b. Marketable securities and investments in securities

Debt securities that are intended to be held to maturity ("held-to maturity debt securities") are measured at amortized cost in the balance sheet. Securities other than held-to maturity debt

securities ("other securities") are measured at fair value.

Other Securities that have fair values are stated at fair value, with unrealized gains and losses included in the net assets, net of applicable income taxes. Realized gains and losses on sales of securities are based on the moving average cost of the securities. Other securities that do not have fair values are stated at cost determined by the moving average method.

c. Inventories

Inventories are stated principally at lower of cost, which is determined by the periodic average method or fair value.

d. Property, plant and equipment and depreciation

Property, plant and equipment are carried at cost. Depreciation is computed principally by the declining balance method at a rate based on their estimated useful lives, which range as follow:

Buildings	3~50 years
Machinery and equipment	4~10 years

Depreciation of buildings, machinery and equipment of overseas subsidiaries and buildings acquired by the Company and its affiliated company on or after April 1, 1998 is computed by the straight-line method due to changes in Japanese income tax regulations.

e. Leases

Finance leases, except for those that transfer ownership of the leased asset to the lessee, are accounted for in the same manner as operating leases.

f. Income taxes

Income taxes are provided based on amounts required by the tax return for the period.

The Company has adopted the asset-liability method of tax effect accounting to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purpose, and the amounts used for income tax purposes.

g. Allowance for doubtful accounts

Allowance for doubtful accounts provides for possible losses on the uncollectability of receivables at the amount of estimated uncollectability, based on past experience of doubtful receivables and individual evaluation of collectability of the receivables.

h. Retirement and severance benefits

Employees who terminate their services with the Company are generally entitled to lump-sum severance payments based on their current basic rates of pay and length of service. In addition, the Company maintains tax-qualified pension plans with insurance companies and trust banks. The plans entitle employees with more than 10 years of services, upon retirement, to receive either lump-sum payments or annuity payments over 10 years.

The provision for employees' retirement benefits recorded in the balance sheets, less the pension plan assets, was sufficient to satisfy the projected benefit obligation for employees' services up to the balance sheet dates.

With respect to directors and corporate auditors, a provision is made for lump-sum severance benefits based on internal regulations.

The Company's overseas subsidiaries do not have such retirement benefit plan.

i. Foreign currency translation

All receivables and payables denominated in foreign currencies at the balance sheet date are translated into yen at current exchange rates. The resulting exchange gains or losses are charged to income.

Balance sheets of consolidated overseas subsidiaries are translated into yen at the year-end rates except for stockholders' equity accounts, which are translated at the historical rates. Income statements of consolidated overseas subsidiaries are translated at average rates. Translation differences are presented as "foreign currency translation adjustments" in the accompanying consolidated financial statements.

j. Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of cash flows include all highly liquid investments, generally with original maturities of three months or less, that are readily convertible to known amounts of cash and are so near maturity that they present insignificant risk of changes in value.

3. Change in Accounting Policies

Accounting standard for presentation of net assets in the balance sheets:

Effective from the current fiscal year ended March 31, 2007, the Company adopted the new "Accounting standard for presentation of net assets in the balance sheet" (Accounting Standards Board of Japan Statement No. 5 issued on December 9, 2005 by the

Accounting Standards Board of Japan) as well as "Implementation guidance for accounting standards for presentation of net assets in the balance sheet" (Accounting Standards of Japan Guidance No.8 issued on December 9, 2005 by the Accounting Standards Board of Japan).

4. Contingent Liabilities

Contingent liabilities in respect of trade notes and export bills discounted with banks with recourse in the

ordinary course of business, amounted to ¥39 million (US\$334 thousand) and ¥31 million at March 31, 2007 and 2006.

5. Securities

Historical costs, fair value and gross unrealized gains and losses for marketable securities as of March 31, 2007 and 2006 are as follows.

	Millions of yen				
	2007				
	Historical costs	Fair value	Net differences	Gross gains	Gross losses
Other securities:					
Equity securities	¥2,576	¥4,014	¥1,437	¥1,437	¥0
Corporate bonds	1,496	1,496	0	0	0
Other	1,000	1,000	—	—	—
Total	¥5,072	¥6,510	¥1,437	¥1,437	¥0

	Millions of yen				
	2006				
	Historical costs	Fair value	Net differences	Gross gains	Gross losses
Other securities:					
Equity securities	¥2,177	¥4,290	¥2,113	¥2,113	¥0
Corporate bonds	1,100	1,100	0	0	0
Other	500	500	—	—	—
Total	¥3,778	¥5,891	¥2,113	¥2,113	¥0

	Thousands of U.S. dollars				
	2007				
	Historical costs	Fair value	Net differences	Gross gains	Gross losses
Other securities:					
Equity securities	\$21,821	\$34,003	\$12,173	\$12,173	\$0
Corporate bonds	12,673	12,673	0	0	0
Other	8,471	8,471	—	—	—
Total	\$42,965	\$55,146	\$12,173	\$12,173	\$0

Securities that do not have fair values are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
	Equity securities	¥18	¥18
Others	—	—	—
Total	¥18	¥18	\$152

6. Retirement and Severance Benefits

Employees who terminate their services with the Company are generally entitled to lump-sum severance payments based on their current basic rates of

pay and length of service. In addition, the Company maintains tax-qualified pension plans for employees with more than 10 years of services.

Provision for employees' retirement benefit obligations as of March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Benefit obligations	¥(3,836)	¥(3,870)	\$(32,495)
Pension assets	4,253	4,115	36,027
Unrecognized actuarial differences	(457)	(480)	(3,871)
Provisions for retirement benefits	(40)	(235)	(339)

Employees' retirement benefit expenses for the years ended March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Service costs	¥ 208	¥183	\$ 1,762
Interest costs	77	86	652
Expected return on pension assets	(82)	(80)	(695)
Amortization of unrecognized actuarial difference	(177)	(15)	(1,499)
Benefits expenses total	¥ 26	¥174	\$ 220

Significant assumptions of pension plans used to determine these amounts are as follows:

	2007	2006
Discount rate	2.0 %	2.0 %
Expected rate of return on pension assets	2.0 %	2.0 %
Years over which the actuarial differences obligations are allocated	5 years	5 years

7. Subsequent Event

Appropriation of retained earnings:
Subsequent to March 31, 2007, the Company's Board of Directors, with the approval of stockholders on June 28, 2007 declared a cash dividend of ¥139 million

(US\$1,185 thousand) equal to ¥7.00 (US\$0.06) per share, applicable to earnings of the year ended March 31, 2007 and payable to stockholders on the stockholders' register on March 31, 2007.

REPORT OF INDEPENDENT AUDITORS

INOUE AUDITING CO., INC.

Shuhan Kaikan Bldg.
3-37, Kanda-sakuma-cho
Chiyoda-ku, Tokyo, Japan

To the Board of Directors of Teraoka Seisakusho Co., Ltd.

We have audited the accompanying consolidated balance sheets of Teraoka Seisakusho Co., Ltd. and consolidated subsidiaries as of March 31, 2006 and 2007, and the related consolidated statements of income, stockholders' 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 that 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 financial position of Teraoka Seisakusho Co., Ltd. and consolidated subsidiaries as of March 31, 2006 and 2007, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan, consistently applied during the period.

The accompanying consolidated financial statements as of and for the year ended March 31, 2007 have been translated into U.S. dollars solely for the convenience of the readers. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in yen have been translated into U.S. dollars on the basis set forth in Note 1 of the Notes to Consolidated Financial Statements.

Tokyo, Japan
June 28, 2007



Inoue Auditing Co., Inc.

COMPANY DATA

Company Outline

(as of March 31, 2007)

Company Name	TERAOKA SEISAKUSHO CO., LTD.
Head Office	4-22, Hiromachi 1-chome, Shinagawa-ku, Tokyo 140-8711, Japan Tel: 81-3-3491-1141 Fax: 81-3-3491-5316
Founded	February 11, 1921
Paid-in Capital	¥3,904 million
Employees	515

Board of Directors and Auditors

(as of June 28, 2007)

President	Keishiro Teraoka
Senior Managing Director	Motoaki Hattori
Managing Director	Toshinobu Nishimura
Directors	Kuniyuki Takei Takeo Kawaguchi Kiyohiro Takagi
Standing Corporate Auditor	Ikuo Ohkawa
Corporate Auditors	Kohji Dohmoto Jun-ichi Ichikawa Toshiyuki Nishimura
Operating Officers	Kazuhito Chiba Minoru Tanaka Jun Watanabe Nobuo Ito Yutaka Nomiyama Masao Mochizuki

Consolidated Subsidiaries and Affiliate

Teraoka Seisakusho (Hong Kong) Co., Ltd.
Teraoka Seisakusho (Shanghai) Co., Ltd.
Teraoka Seisakusho (Shenzhen) Co., Ltd.
Shin-ei Shoji Co., Ltd.

R&D Center, Factories and Branch Office

R&D Center	Shinagawa-ku, Tokyo
Ibaraki Factory	Kitaibaraki, Ibaraki Prefecture
Sano Factory	Sano, Tochigi Prefecture
Ohmiya Factory	Saitama, Saitama Prefecture
Kannami Factory	Tagata-gun, Shizuoka Prefecture
Branch Offices	Tokyo, Osaka, Nagoya, Sendai, Ohmiya, Fukuoka, Hong Kong, Shanghai and Shenzhen

Investor Information

(as of March 31, 2007)

Financial Year	April 1 to March 31
Common Stocks	Authorized Shares 80,000,000 Issued Shares 20,081,955
Stockholders	2,098
Stock Listing	Tokyo Stock Exchange, Second Section
Transfer Agency	Mitsubishi UFJ Trust and Banking Corporation 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan

Major Stockholders	Number of shares (thousand shares)	Voting right ratio (%)
Customers' Stockholding Group	1,577	7.85
Japan Trustee Services Bank, Ltd.	1,221	6.08
The Master Trust Bank of Japan, Ltd.	1,097	5.47
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	976	4.86
Keishiro Teraoka	878	4.37
Resona Bank, Ltd.	678	3.38
Kuniko Teraoka	526	2.62
RBC Dexia Investor Services Trust, London Client Account	421	2.10
JPMorgan Chase Bank 385067	349	1.74
Employees' Stockholding Group	344	1.72

TERAOKA

<http://www.teraokatape.co.jp>