TERAOKA

Annual Report 2010

Year ended March 31, 2010

TERAOKA SEISAKUSHO CO., LTD.

PROFILE

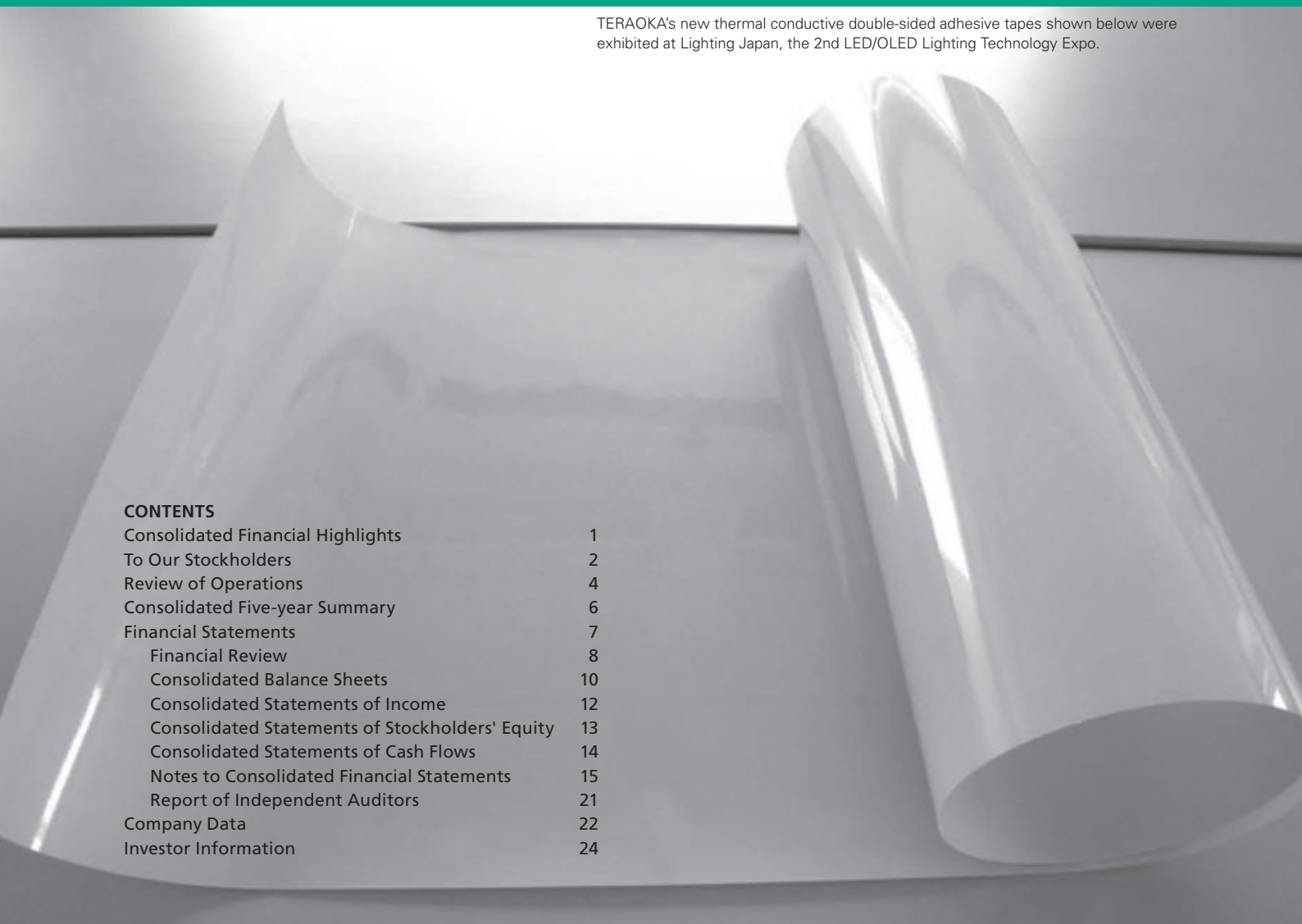
Since its establishment in 1921, Teraoka Seisakusho Co., Ltd. has developed into a leading manufacturer of highly functional packing, electrical insulation, electronic equipment, other industrial and general home-use adhesive tapes.

Along with the miniaturization and sophistication of cell phones and other electronic devices, the double-sided tapes used for attaching parts to the ever more limited space inside these devices is also constantly evolving. We continue to aggressively research and develop our tapes to improve adhesive strength, ultra-thinness, transparency or opaqueness, and the recyclability and environmental-friendliness to meet the changing demands of our clients.

One of our newest products is a thermal conductive double-sided tape which, when compared to conventional products, is both thinner and has excellent radiation properties making this tape perfect for use in TV's equipped with LED backlights, LED lighting and other next-generation devices.

Now and in the future, TERAOKA will continue to conduct research and development of new products and technologies to meet the rapidly changing needs of our customers.

TERAOKA's new thermal conductive double-sided adhesive tapes shown below were exhibited at Lighting Japan, the 2nd LED/OLED Lighting Technology Expo.



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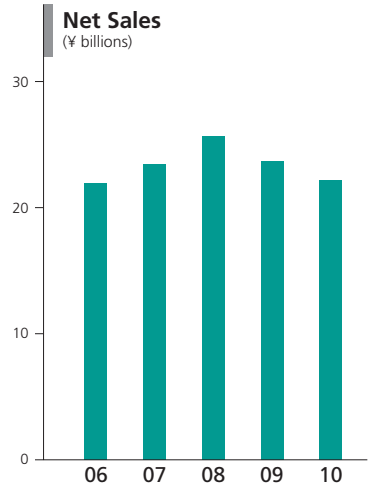
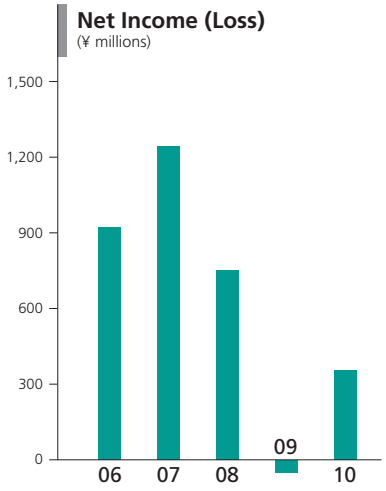
CONSOLIDATED FINANCIAL HIGHLIGHTS

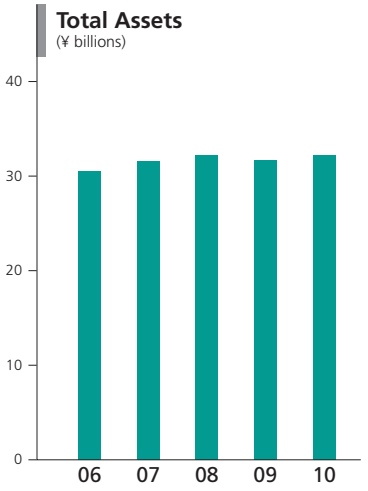
For the years ended March 31,

	Millions of yen		Thosands of U.S. dollars
	2010	2009	**2010**
Net Sales	**¥22,909**	¥23,833	**$246,224**
Operating Income	**522**	40	**5,608**
Income (Loss) before Income Taxes	**575**	(426)	**6,178**
Net Income (Loss)	**359**	(402)	**3,859**
Total Assets	**32,098**	31,849	**345,000**
Net Assets	**23,669**	23,416	**254,396**
Ratio (%)			
Operating Income to Net Sales	**2.3**	0.2	
Equity Ratio	**73.7**	73.5	
Return on Average Assets (ROA)	**1.1**	(1.2)	
Return on Average Stockholders' Equity (ROE)	**1.5**	(1.7)	
Per Share	Yen		U.S. dollars
Net Income (Loss)	**¥17.93**	¥(20.00)	**$0.19**
Cash Dividends	**7.00**	10.00	**0.08**

The U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥93.04 = U.S.$1, the rate prevailing on March 31, 2010.







TO OUR SHAREHOLDERS

Business Environment

We would like to announce that fiscal year 2010, the year ended March 31, 2010, marked TERAOKA's 100th business term. On behalf of all our employees I would like to sincerely thank you for all your support.

Japan faced a serious financial and economic recession this term. However, due to the government's economic stimulus measures and the economic upturn of developing countries, Japan showed signs of a slow but steady recovery starting around spring 2009. Exports and overall production increased, but the strong yen caused a downward trend in corporate profits, contributing to further deterioration of employment. For this and other reasons the visible recovery was subtle.

As for the Company's business environment, the electronics hardware industry in Asia and other overseas markets showed an upturn at an earlier stage than the domestic market. As a result, subsequent demand for our relevant tape products increased. However, freight, housing construction and company equipment spending decreased causing the packing adhesive tape industry to remain severe. Under these circumstances, the general cost of production decreased from the effect of price drops for raw materials. Despite more favorable raw material prices, overall profits still decreased due to slow sales and depreciation. To tackle the upcoming economic challenges, we closed our Ohmiya factory and Fukuoka sales office and took other measures to rationalize operations and lower operating costs at every level of our organization. We also made a concerted effort to increase productivity, promote overseas sales and expand our lineup of tape products for digital hardware and environmentally safe products.

Results for FY 2010

Consolidated net sales for this term were ¥22,909 million (US$246,224 thousand), a 3.9% decrease from the previous term. On the other hand, consolidated operating income totaled ¥522million (US$5,608 thousand), a substantial increase over the previous term. Consolidated income before income taxes for the term was ¥575 million (US$6,178 thousand). With a consolidated net income of ¥359 million (US$3,859 thousand), we declared a profit for this term. An interim dividend of ¥3.00 (US$0.03) and a term-end dividend of ¥4.00 (US$0.04) were paid to shareholders, totaling ¥7.00 (US$0.08) per share in dividend payouts for the period.

Future Focus

For the immediate future, even though some domestic industries are showing slight recovery, company equipment spending and the employment situation still remain severe. Currently there are no signs of a substantial upturn in consumer spending or corporate performance, and furthermore, the price of raw materials is expected to rise, leading to a forecast of continuing business stagnation.

Under these austere conditions, TERAOKA will continue to enhance product development and marketing strategies, staying one step ahead of the rapidly evolving market and environmentally safe product demand. Through even tighter management and more effective production systems we believe we will move the Company in the direction of profitability once again. Towards this goal, we have concentrated on the reduction of overhead costs and have done our best to be prepared for unexpected obstacles in order to further strengthen our corporate management and efficiency.

Through these and other efforts, we continue to heighten our corporate value, and during these endeavors we continue to ask for the support and patronage of our shareholders, clients and friends.

June 25, 2010

K. Teraoka

Keishiro Teraoka,
President

REVIEW OF OPERATIONS

TERAOKA is a technology-based enterprise with formidable research & development capabilities. As mentioned in our company creed, our top priorities are always our service, product quality, and price. In order to compete in a rapidly evolving global marketplace, technological innovation and value-added product content is what has allowed the Company to maintain a competitive lead in markets demanding highly advanced and environmentally safe tape products.

During the fiscal term in review, we continued to focus our efforts on developing increasingly specialized non-halogen tapes, ultra-thin heat-resistant double-sided tapes, as well as P-Cut tapes and other environmentally conscious products.

Research & development expenses for the term amounted to ¥1,020 million (US$10,963 thousand), accounting for 4.6% of total consolidated sales.

Consolidated net sales for the Company during FY 2010 amounted to ¥22,909 million (US$246,224 thousand). The performance of the individual product segments is detailed below.

Packing Tapes

Sales of packing adhesive tapes faced hard times due to the continued weakness in the housing and freight industries as well as price competition. As a result, consolidated sales for this product segment amounted to ¥4,589 million (US$49,323 thousand), a 13.7% decrease from the previous term. This division accounted for 20.0% of the total consolidated sales, a 2.3% decrease from the previous term.

Electrical Insulation and Electronic Equipment Tapes

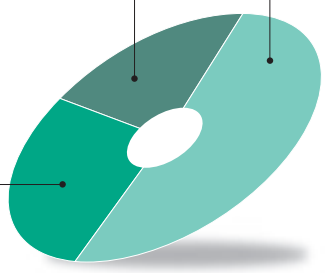
Sales of the Company's electrical insulation and electronic equipment tapes grew steadily from June due to the expanding international market for flat-screen TV's and other digital hardware. Sales of tapes for automotive parts increased as well. As a result, sales for this division recovered to levels comparable to before the financial crisis.

The consolidated net sales of electrical insulation and electronic equipment tapes amounted to ¥11,797 million (US$126,795 thousand), an increase of 3.0% over the previous term. This division accounted for 51.5% of total consolidated sales, 3.4% higher than the previous term.

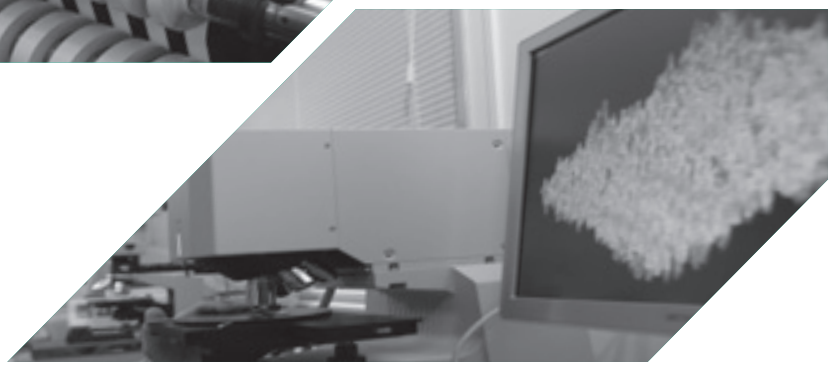
BREAKDOWN OF SALES BY CATEGORY

20.0% **Packing Tapes**
- Olive cloth tapes
- Kraft paper tapes
- Polypropylene cloth/film adhesive tapes

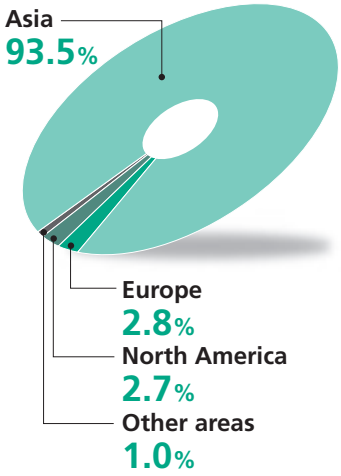
28.5% **Other Industrial Tapes**
- Double-sided adhesive tapes
- Corrosion-proof tapes
- Masking cloth tapes
- Surface protection tapes



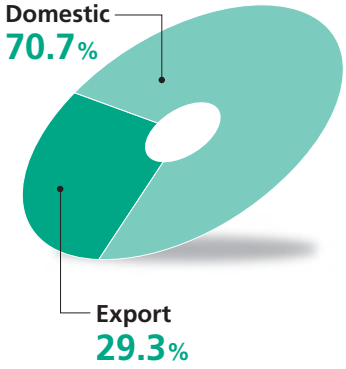
51.5% **Electrical Insulation and Electronic Equipment Tapes**
- Polyester cloth/film adhesive tapes
- Acetate cloth adhesive tapes
- Combination adhesive tapes
- Kapton film adhesive tapes
- Nomex adhesive tapes
- Glass cloth adhesive tapes
- EMI/RFI shielding tapes



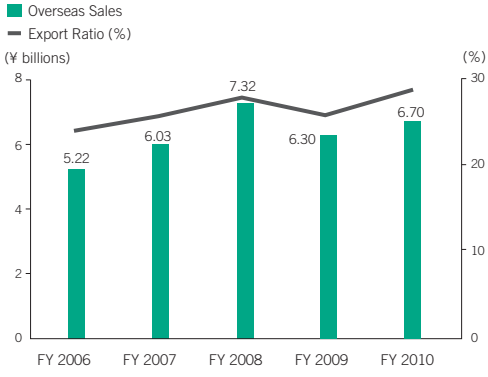
EXPORT MARKETS



EXPORT RATIO



CHANGES IN OVERSEAS SALES



Other Industrial Tapes

The housing and construction industries showed no signs of recovery, causing the sales of the Company's industrial tapes to remain stagnant. This was partially due to the reorganization of non-environmentally friendly and unprofitable products. Sales of polyethylene cloth tapes, however, enjoyed continued growth during the term.

As a result, the consolidated net sales of industrial tapes amounted to ¥6,522 million (US$70,099 thousand), a decrease of 7.6% over the previous term. This division accounted for 28.5% of total consolidated sales, 1.1% lower than the previous term.

Overseas Sales

During FY 2010, exports of electrical insulation and tape for electronic equipment increased 9.5%, reflecting the recovery of the Asian electronic device market. Even with a sales decrease of 12.1% in industrial tapes and 0.8% in packaging tapes, total overseas sales still amounted to ¥6,707 million (US$72,087 thousand), a 7.3% increase over the previous term. Overseas sales accounted for 29.3% of TERAOKA's total consolidated sales, an increase of 3.1% over the previous term.

CONSOLIDATED FIVE-YEAR SUMMARY

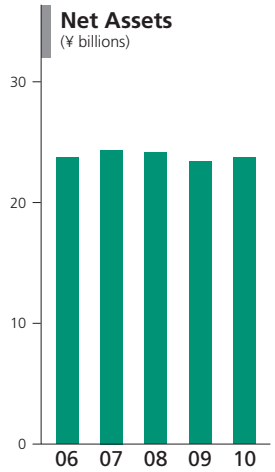
	Millions of yen					Thousands of U.S. dollars
Years ended March 31	2006	2007	2008	2009	**2010**	**2010**
Net Sales	¥21,829	¥23,536	¥25,945	¥23,833	**¥22,909**	**$246,224**
Operating Income	1,399	1,424	1,540	40	**522**	**5,608**
Income (Loss) before Income Taxes	1,452	2,004	1,155	(426)	**575**	**6,178**
Net Income (Loss)	945	1,242	758	(402)	**359**	**3,859**
Total Assets	31,184	32,271	32,696	31,849	**32,098**	**345,000**
Net Assets	23,940	24,472	24,343	23,416	**23,669**	**254,396**
Ratio (%)						
Operating Income to Net Sales	6.4	6.1	5.9	0.2	**2.3**	
Equity Ratio	76.8	75.8	74.5	73.5	**73.7**	
Return on Average Assets (ROA)	3	3.9	2.3	(1.2)	**1.1**	
Return on Average Stockholders' Equity (ROE)	4.1	5.1	3.1	(1.7)	**1.5**	
Per Share			Yen			U.S. dollars
Net Income (Loss)	¥45.62	¥62.12	¥37.93	¥(20.00)	**¥17.93**	**$0.19**
Cash Dividends	14.00	14.00	14.00	10.00	**7.00**	**0.08**

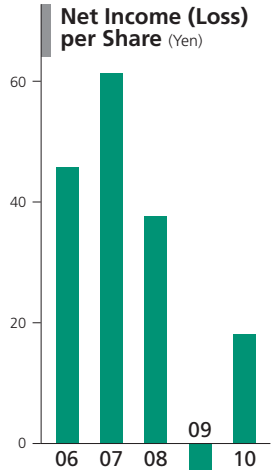
The U.S. dollars are translated at the rate of ¥93.04 per U.S.$1, prevailing on March 31, 2010.

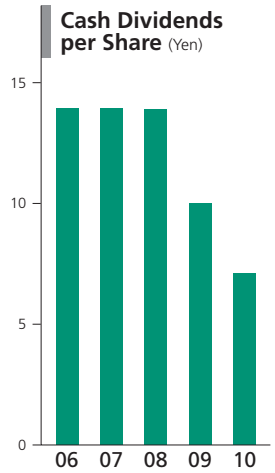
Financial Statements

Fiscal Year 2010

Year ended March 31, 2010







Business Performance

In TERAOKA's operating environment the packing and industrial tape markets stayed stagnant owing to the ongoing difficulties within the housing and freight industries and capital expenditures for equipment. Fortunately, the electronics hardware industry in Asia and other overseas markets recovered relatively quickly.

Despite our concerted efforts, consolidated net sales for the period in review were ¥22,909 million (US$246,224 thousand), a decrease of 3.9% over the previous term. Consolidated operating income, however, was ¥522 million (US$5,608 thousand), a significant increase from the previous term. Consolidated income before income taxes was ¥575 million (US$6,178 thousand), and consolidated net income was ¥359 million (US$3,859 thousand).

Segment Information

Sales for TERAOKA's Packing Tapes Division decreased by 13.7% compared with the previous term owing to a market contraction stemming from the continued stagnation of the housing and freight industries. Consolidated net sales for this segment were ¥4,589 million (US$49,323 thousand).

The Electrical Insulation and Electronic Equipment Tapes Division saw improvement in sales due to domestic and international market expansion in digital devices and automotive parts. Sales for this segment increased by 3.0% to ¥11,797 million (US$126,795 thousand).

In the Other Industrial Tapes Division, sales of P-Cut Tapes (polyethylene cloth tapes) continued to increase, but the downturn in home building and remodeling caused the overall sales of this segment to decrease. Sales for the term were ¥6,522 million (US$70,099 thousand), a decrease of 7.6% from the previous term.

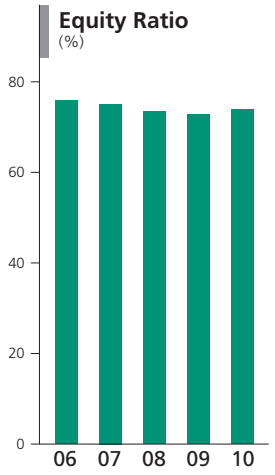
By region, domestic total sales amounted to ¥16,202 million (US$174,140 thousand), a decrease of 7.9% from the previous term. Total export sales were ¥6,707 million (US$72,087 thousand), an increase of 7.3% over the previous term.

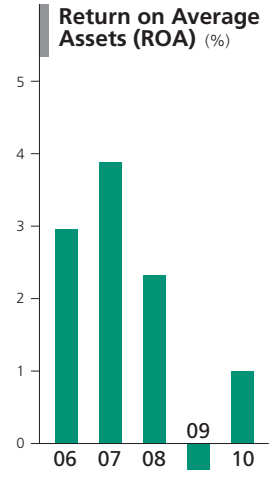
We export to global markets including Asian countries such as China and Singapore, North America, and Europe. However, our focus remains on the Asian markets which accounted for 93.5% of total exports, an increase of 1.1% compared to the previous term.

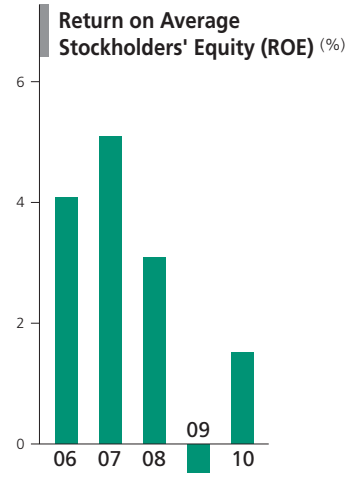
Financial Position

Total assets at the end of the fiscal term were ¥32,098 million (US$345,000 thousand), an increase of 0.8% or ¥249 million (US$2,676 thousand). The capital-to-asset ratio was 73.7%, up 0.2 points from the previous term.

Total current assets at the term-end amounted to ¥17,508 million (US$188,172 thousand), an increase of 15.7% or ¥2,375 million (US$25,527 thousand) when compared with the previous term-end, owing in part to a ¥1,167 million (US$12,543 thousand) increase in notes and accounts receivable.







Total fixed assets decreased by 12.7%, or ¥2,126 million (US$22,850 thousand), to ¥14,591 million (US$156,825 thousand) during the term. This is due to the decrease in value of depreciable assets.

Total current liabilities increased by 3.9% or ¥227 million (US$2,440 thousand), amounting to ¥6,048 million (US$65,001 thousand) at term-end, owing to an increase in notes and accounts payable.

Total long-term liabilities decreased by 8.8% or ¥231 million (US$2,483 thousand) to ¥2,381 million (US$25,603 thousand), in part because long-term borrowings decreased by ¥500 million (US$5,374 thousand) during the term in review.

Total net assets at year-end amounted to ¥8,429 million (US$90,604 thousand), representing a year-on-year decrease of ¥4 million (US$43 thousand).

Cash Flows

Funds obtained through operating activities totaled ¥3,277 million (US$35,211 thousand), an increase of 69.7% or ¥1,346 million (US$14,467 thousand) from the previous term. This increase was due mainly to depreciation and amortization of ¥2,434 million (US$26,161 thousand).

Funds used for investment purposes amounted to ¥1,543 million (US$16,581 thousand), a decrease of 50.2% over the previous term. This decrease reflected the payments of ¥1,636 million (US$17,584 thousand) for purchase of property, plant and equipment during the term.

Funds used for finance activities amounted to ¥409 million (US$4,396 thousand) during the term under review. In the previous term, we obtained ¥1,208 million (US$12,984 thousand) through these activities, however, in this term we primarily paid dividends totaling ¥120 million (US$1,295 thousand) and raised long-term borrowings from banks by ¥125 million (US$1,344 thousand).

Through these activities, consolidated cash and cash equivalents at the end of the term in review amounted to ¥7,420 million (US$79,754 thousand), an increase of ¥1,292 million (US$13,887 thousand) when compared with the end of the previous consolidated accounting period.

Dividends

During each term, TERAOKA's basic policy is to continue a stable dividend payment to shareholders after careful consideration of its business results, including operating results for the period in review, its overall financial condition, cash flow, dividend propensity and future business forecasts, in order to maintain a stable financial base. Under this basic policy, we implemented an interim dividend of ¥3 (US$0.03) per share and a term-end dividend of ¥4 (US$0.04) per share, for an annual dividend of ¥7 (US$0.08) per share. As a result, the dividend payout ratio was 51.9%.

Teraoka Seisakusho Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED BALANCE SHEETS

March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
ASSETS			
Current Assets:			
Cash and time deposits	**¥ 7,420**	¥ 6,129	**$ 79,754**
Notes and accounts receivable:			
Trade	**6,447**	5,280	**69,288**
Less: Allowance for doubtful accounts (Note 2-g)	**(12)**	(11)	**(129)**
Inventories (Note 2-c)	**3,205**	3,191	**34,446**
Deferred income taxes (Note 2-f)	**275**	164	**2,959**
Other current assets	**173**	380	**1,854**
Total current assets	**17,508**	15,133	**188,172**
Property, Plant and Equipment (Note 2-d):			
Land	**3,861**	3,784	**41,500**
Buildings	**8,992**	7,392	**96,643**
Machinery and equipment	**24,130**	21,779	**259,356**
Construction in progress	**131**	4,117	**1,406**
	37,114	37,072	**398,905**
Less: Accumulated depreciation	**(24,951)**	(23,148)	**(268,171)**
Property,plant and eqipment,net	**12,163**	13,924	**130,734**
Intangible Assets	**124**	197	**1,341**
Investments and Other Assets:			
Investments in securities (Notes 2-b and 5)	**2,102**	1,900	**22,589**
Deferred income taxes (Note 2-f)	**37**	443	**398**
Other	**195**	283	**2,101**
Less: Allowance for doubtful accounts (Note 2-g)	**(31)**	(31)	**(335)**
Total investments and other assets	**2,303**	2,595	**24,753**
Total assets	**¥ 32,098**	¥ 31,849	**$ 345,000**

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

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Notes and accounts payable:			
Trade	**¥ 3,879**	¥ 3,306	**$ 41,692**
Short-term borrowings	**3**	36	**37**
Current portion of long-term borrowings	**500**	125	**5,374**
Accrued income taxes	**31**	—	**332**
Accrued expenses	**606**	374	**6,509**
Other current liabilities	**1,029**	1,980	**11,057**
Total current liabilities	**6,048**	5,821	**65,001**
Long-term Liabilities:			
Long-term borrowings	**1,875**	2,375	**20,153**
Retirement & severance benenfits (Note 2-h and 6)			
Employees	**323**	28	**3,476**
Deferred liabilities taxes (Note 2-f)	**18**	18	**198**
Negative Goodwill	**76**	102	**822**
Other	**89**	89	**954**
Total long-term liabilities	**2,381**	2,612	**25,603**
Total liabilities	**8,429**	8,433	**90,604**
NET ASSETS			
Stockholders' Equity:			
Common stock:			
Authorized: 80,000,000 shares Issued: 20,081,955 shares as of March 31, 2010 and 2009, respectively	**3,904**	3,904	**41,965**
Additional paid-in capital	**3,491**	3,491	**37,524**
Retained earnings	**16,269**	16,031	**174,861**
Less: Treasury stock, at cost	**(136)**	(1)	**(1,466)**
Total Stockholders' equity	**23,528**	23,425	**252,884**
Valuation and Translation Adjustments:			
Unrealized gains on securities (Notes 2-b and 5)	**284**	83	**3,052**
Foreign currency translation adjustments (Note 2-i)	**(143)**	(92)	**(1,540)**
Total valuation and translation adjustments	**141**	(9)	**1,512**
Total net assets	**23,669**	23,416	**254,396**
Total liabilities and net assets	**¥ 32,098**	¥ 31,849	**$ 345,000**

Teraoka Seisakusho Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

For the years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Net Sales	**¥ 22,909**	¥ 23,833	**$ 246,224**
Cost of Sales	**17,156**	19,206	**184,394**
Gross profit	**5,753**	4,627	**61,830**
Selling, General and Administrative Expenses	**5,231**	4,587	**56,222**
Operating income	**522**	40	**5,608**
Other Income and Expenses:			
Interest and dividend income	**55**	79	**589**
Interest expenses	**(49)**	(19)	**(527)**
Loss on disposal of inventory asset	**—**	(15)	**—**
Loss on write-down of investment in securities	**—**	(503)	**—**
Gain on sales of investment securities	**14**	—	**154**
Loss on sales of investment securities	**(29)**	—	**(311)**
Loss on disposal of property, plant and equipment	**(22)**	(34)	**(234)**
Foreign exchange gains (losses), net	**(22)**	(68)	**(235)**
Other, net	**106**	94	**1,134**
	53	(466)	**570**
Income (Loss) before income taxes	**575**	(426)	**6,178**
Income taxes:			
Current	**58**	67	**625**
Deferred	**158**	(91)	**1,694**
	216	(24)	**2,319**
Net income (loss)	**¥ 359**	¥ (402)	**$ 3,859**

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, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Common Stock:			
Balance at beginning of year	**¥ 3,904**	¥ 3,904	**$ 41,965**
Issuance during the year	**—**	—	**—**
Balance at end of year	**3,904**	3,904	**41,965**
Additional Paid in Capital:			
Balance at beginning of year	**3,491**	3,491	**37,524**
Net sales treasury stock	**—**	—	**—**
Balance at end of year	**3,491**	3,491	**37,524**
Retained Earnings:			
Balance at beginning of year	**16,031**	16,732	**172,296**
Net income (loss)	**359**	(402)	**3,859**
Cash dividends paid	**(121)**	(281)	**(1,294)**
Disposal of treasury stock	**—**	(18)	**—**
Balance at end of year	**16,269**	16,031	**174,861**
Treasury Stock, at Cost:			
Balance at beginning of year	**(1)**	(98)	**(11)**
Purchase of treasury stock	**(135)**	—	**(1,455)**
Disposal of treasury stock	**—**	97	**—**
Balance at end of year	**¥ (136)**	¥ (1)	**$ (1,466)**
Unrealized Gains on Securities:			
Balance at beginning of year	**83**	395	**893**
Net change during the year	**201**	(312)	**2,159**
Balance at end of year	**284**	83	**3,052**
Foreign Currency Translation Adjustments:			
Balance at beginning of year	**(92)**	(81)	**(986)**
Net change during the year	**(51)**	(11)	**(554)**
Balance at end of year	**(143)**	(92)	**(1,540)**
	Yen		U.S. dollars
Per Share of Common Stock			
Net income (loss)	**¥17.93**	¥(20.00)	**$0.19**
Cash dividends paid	**7.00**	10.00	**0.08**

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

Teraoka Seisakusho Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Operating Activities:			
Net income (loss)	**¥ 359**	¥ (402)	**$ 3,859**
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**2,434**	1,464	**26,161**
Allowance for doubtful accounts	**2**	34	**21**
Provision for retirement benefits	**295**	2	**3,171**
Deffered income taxes	**157**	(91)	**1,687**
Loss on disposal of property,plant and equipment	**22**	30	**234**
Loss on sales of investment securities	**14**	—	**150**
Loss on write-down of investment in securities	**—**	500	**—**
Changes in assets and liabilities			
(Increase) decrease in notes and accounts receivable	**(1,186)**	2,103	**(12,747)**
(Increase) decrease in inventories	**(20)**	348	**(215)**
Increase (Decrease) in notes and accounts payable	**585**	(1,466)	**6,288**
Increase (Decrease) in accrued income taxes payable	**132**	(425)	**1,419**
Other, net	**483**	(166)	**5,193**
Total adjustment	**2,918**	2,333	**31,362**
Net cash provided by operating activities	**3,277**	1,931	**35,221**
Investing Activities:			
Payment for purchases of property, plant and equipment	**(1,636)**	(3,058)	**(17,584)**
Payment for purchases of intangible assets	**(28)**	(40)	**(301)**
Payment for purchases of investment in securities	**(3)**	(3)	**(32)**
Proceeds from sales of investment in securities	**124**	—	**1,333**
Other, net	**—**	3	**—**
Net cash used in investing activities	**(1,543)**	(3,098)	**(16,584)**
Financing Activities:			
Dividends paid	**(120)**	(281)	**(1,294)**
Increase (Decrease) in short-term borrowings	**(29)**	(1,010)	**(312)**
Increase (Decrease) in long-term borrowings	**(125)**	2,500	**(1,344)**
Other, net	**(135)**	(1)	**(1,446)**
Net cash used in financing activities	**(409)**	1,208	**(4,396)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**(31)**	(5)	**(333)**
Net Increase (Decrease) in Cash and Cash Equivalents	**1,294**	36	**13,908**
Cash and Cash Equivalents at Beginning of Year	**6,126**	6,039	**65,846**
Cash and Cash Equivalents of Newly Consolidated Subsidiaries	**—**	53	**—**
Cash and Cash Equivalents at End of Year	**¥ 7,420**	¥ 6,128	**$ 79,754**
Additional Cash Flow Information			
Interest paid	**49**	18	**527**
Income taxes paid	**¥ (74)**	¥ 492	**$ (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, 2010 and 2009

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 Financial Instruments 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 ¥93.04=U.S.$1, the prevailing exchange rate on March 31, 2010.

2. Summary of Significant Accounting Policies

a. Consolidation

The accompanying consolidated financial statements include the accounts of the Company and four subsidiaries, TERAOKA SEISAKUSHO (Hong Kong) CO., LTD., TERAOKA SEISAKUSHO (Shanghai) CO., LTD., TERAOKA SEISAKUSHO (Shenzhen) CO., LTD. and SHIN-EI SHOJI CO., LTD.

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 overseas subsidiaries end December 31. Overseas subsidiaries' financial statements are based on temporary settlement dates of March 31, 2010 and 2009 and are used for the consolidation of the Company.

b. 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

The Company mainly applies the cost method based on the periodic average method which determines the amount of the inventories shown on the balance sheet by writing them down based on the decrease in their profitability.

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	4~8 years

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

e. Leased assets

Under accounting standards generally accepted in Japan, leased assets related to finance leases that do not transfer ownership of the leased property to the lessee are depreciation on a straight-line basis, with lease period used as their useful lives and no residual value. The accounting treatment for finance leases that do not transfer ownership of the leased property to the lessee which took place before March 31, 2009 continues to be in accordance with the method used for operating lease transaction.

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.

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

(Changes in accounting policies)

Effective the year ended March 31, 2010 the Company and its domestic consolidated subsidiaries have adopted "Revision (No. 3) of Accounting Standards for Accrued Retirement Benefits" (Accounting Standards Board of Japan (ASBJ) Statement No. 19 issued on July 31, 2008).

There is no impact on profit and loss as a result of the adoption of this accounting standard.

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. Derivatives and hedge accounting

Derivative financial instruments are stated at fair value unless they are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company and its consolidated subsidiaries defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

However, in cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts and hedged items are accounted for in the following manner:

If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized.

k. 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. 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 ¥43 million (US$462 thousand) and ¥12 million at March 31, 2010 and 2009.

4. Financial Instruments

Overview

(1) Policy for financial instruments

The Companies raise the funds by bank borrowings. The Companies manage funds only through short-term time deposit and others. The Companies use derivatives for the purposes of managing foreign currency exchange risk related to trading receivables and payables. The Companies do not enter into derivatives for speculative or trading purposes.

(2) Types of financial instruments and related risk

Trade receivables – notes receivable and accounts receivable – are exposed to credit risk in relation to customers. In addition, the Companies are exposed to foreign currency exchange risk arising from receivables denominated in foreign currencies resulting from trade with overseas customers.

Equity securities – the Companies hold equity securities, which are mainly issued by companies who have business relationships with the Companies, and these securities are exposed to the risk of fluctuation in market prices. Trade payables – notes payable and accounts payable – mostly have payment due dates within one year. A portion of trade payables, which is denominated in foreign currencies, is exposed to foreign currency exchange risk. Long-term debt is taken out principally for the purpose of capital expenditure. Long-term debt with interest rate fluctuation risks is carried out on fixed rate loans. Debt is exposed to liquidity risk relating to the funding as described below.

(3) Risk management for financial instruments

(a) Monitoring of credit risk (the risk that customers may default)

In accordance with the internal policies for managing credit risk of the Companies, the Companies monitor credit worthiness of their main customers periodically, and monitors due dates and outstanding balances by customer.

To minimize the credit risk when entering into derivative transactions, counterparties are limited to financial institutions with high ratings.

(b) Monitoring of market risks (the risks arising from fluctuations in foreign exchange rates, interest rates and others)

For equity securities included in investments in securities, the fair values of these securities are periodically reviewed and reported to the Board of Directors.

In conducting and managing derivative transactions, the accounting department confirm the effectiveness of hedging and obtain approval from the responsible person, depending on the notional contract value, based on the internal policies and formal regulations on market risk for financial instruments.

(c) Monitoring of liquidity risk for financing (the risk that the Companies may not be able to meet its obligations on the scheduled due dates)

The Companies manage the liquidity risk mainly through the monthly cash-flow plans, which are prepared by each company.

(4) Supplementary explanation of the estimated fair value of financial instruments

The notional amounts of derivatives listed below are not necessarily indicative of the actual market risk involved in derivative transactions.

Estimated Fair Value of Financial Instruments

The carrying value of the financial instruments on the consolidated balance sheet as of March 31, 2010 and unrealized gain (loss) are shown in the following table. The table does not include financial instruments for which it is extremely difficult to determine the fair value. (Please refer to (2) below).

	Millions of yen		
	Carrying value	Estimate fair value	Difference
(1) Cash and deposits	¥ 7,420	¥ 7,420	¥—
(2) Notes and accounts receivable	6,446	6,442	(4)
(3) Marketable securities and investments in securities	2,082	2,082	—
(4) Notes and accounts payable	(3,879)	(3,879)	—
(5) Short-term debt	(3)	(3)	—
(6) Long-term debt	(2,375)	(2,400)	(25)
(7) Derivative transactions	—	—	—

(1) Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

Cash and deposits and notes and accounts receivable
Since these items are settled in a short period, their carrying value approximates fair value.

Investment in securities
The fair value of equity securities is based on quoted market prices.

Notes and accounts payable and short-term debt
Since these items are settled in a short period of time, their carrying value approximates fair value.

Long-term debt
The fair value of long-term debt is based on the present value of the total amount including principal and interest, discounted by the expected interest rate to be applied if similar new loans with a similar remaining period were entered into.

Derivatives transactions
Please refer to Note 2-j. Derivatives of the notes the consolidated financial statements.

(2) Financial instruments for which it is extremely difficult to determine the fair value were as follows:

As of March 31, 2010	Millions of yen
Unlisted equity securities	¥18

Because no quoted market prices are available and it is extremely difficult to determine the fair value, the above financial instruments are not included in the preceding table.

(3) Redemption schedule for receivables and marketable securities with maturities at March 31, 2010

	Millions of yen
	Due in One Year or Less
Cash and deposits	¥ 7,420
Notes and accounts receivable	6,446
Marketable securities and investments in securities	—
Total	¥13,866

(4) The redemption schedule for short-term debt and long-term debt at March 31, 2010 and 2009 was as follows:

	Millions of yen		Average interest rates (%)
	2010	2009	**2010**
Short-term debt	**¥ 3**	¥ 35	4.3
Long-term debt	**1,875**	2,375	1.9
Current portion of long-term debt	**500**	125	1.9
Total	**¥2,378**	¥2,535	

The annual maturities of long-term debt for 5 years subsequent to March 31, 2010 are summarized below:

Year ending March 31,	Millions of yen
2011	¥500
2012	500
2013	500
2014	500
2015	375

(Additional information)
The "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, issued on March 10, 2008) and the "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, issued on March 10, 2008) are applied effective the year ended March 31, 2010.

5. Securities

Historical costs, fair value and gross unrealized gains and losses for marketable securities as of March 31, 2010 and 2009 are as follows.

	Millions of yen				
	2010				
	Historical costs	Fair value	Net differences	Gross gains	Gross losses
Other securities:					
Equity securities	**¥1,605**	**¥2,082**	**¥477**	**¥518**	**¥(41)**
Corporate bonds			**0**	**0**	**0**
Other			**—**	**—**	**—**
Total	**¥1,605**	**¥2,082**	**¥477**	**¥518**	**¥(41)**

	Millions of yen				
	2009				
	Historical costs	Fair value	Net differences	Gross gains	Gross losses
Other securities:					
Equity securities	¥1,740	¥1,880	¥139	¥229	¥(89)
Corporate bonds			0	0	0
Other			—	—	—
Total	¥1,740	¥1,880	¥139	¥229	¥(89)

	Thousands of U.S. dollars				
	2010				
	Historical costs	Fair value	Net differences	Gross gains	Gross losses
Other securities:					
Equity securities	**$17,251**	**$22,377**	**$5,126**	**$5,567**	**$(441)**
Corporate bonds	**0**	**0**	**0**	**0**	**0**
Other	**0**	**0**			
Total	**$17,251**	**$22,377**	**$5,126**	**$5,567**	**$(441)**

Securities that do not have fair values are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Equity securities	**¥18**	¥18	**$193**
Others	**—**	—	**—**
Total	**¥18**	¥18	**$193**

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, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Benefit obligations	**¥(3,839)**	¥(3,771)	**$(41,262)**
Pension assets	**3,199**	2,854	**34,383**
Unrecognized actuarial differences	**317**	941	**3,403**
Prepaid retirement benefits cost in consolidated balance sheets	**—**	52	**—**
Provisions for retirement benefits	**323**	(28)	**3,476**

Employees' retirement benefit expenses for the years ended March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Service costs	**¥213**	¥209	**$2,289**
Interest costs	**75**	76	**806**
Expected return on pension assets	**(57)**	(72)	**(613)**
Amortization of unrecognized actuarial difference	**347**	115	**3,730**
Benefits expenses total	**¥578**	¥328	**$6,212**

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

	2010	2009
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, 2010, the Company's Board of Directors, with the approval of stockholders on June 25, 2010 declared a cash dividend of ¥78 million (US$848 thousand) equal to ¥4.00 (US$0.04) per share, applicable to earnings of the year ended March 31, 2010 and payable to stockholders on the stockholders' register on March 31, 2010.

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, 2009 and 2010, 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, 2009 and 2010, 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, 2010 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 25, 2010

Inoue Auditing Co., Inc.

COMPANY DATA

Company Outline

(as of March 31, 2010)

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
Incorporated	May 5, 1943
Paid-in Capital	¥3,904 million
Employees	559 (600 consolidated)

Board of Directors and Auditors

(as of June 25, 2010)

President	Keishiro Teraoka
Managing Directors	Kiyohiro Takagi Takeo Kawaguchi
Directors	Jun Watanabe Yutaka Nomiyama Nobuo Ito Hiroyoshi Ohbori
Standing Corporate Auditor	Motoaki Hattori
Corporate Auditors	Hirokazu Nakamura Kazunori Shimamoto Kohji Dohmoto
Operating Officers	Minoru Tanaka Tadashi Shirota Masao Mochizuki Taiji Namekawa

Consolidated Subsidiaries

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

R&D Center, Factories and Offices

R&D Center	Shinagawa-ku, Tokyo
Factories	
Ibaraki Factory	Kitaibaraki, Ibaraki Prefecture
Sano Factory	Sano, Tochigi Prefecture
Ohmiya Factory	Ohmiya, Saitama Prefecture
Kannami Factory	Kannami-cho, Shizuoka Prefecture(
Branch Offices	Tokyo, Osaka and Nagoya
Sales Offices	Sendai and Ohmiya

INVESTOR INFORMATION

Investor Information

(as of March 31, 2010)

Head Office	Teraoka Seisakusho Co., Ltd. 4-22, Hiromachi 1-chome,Shinagawa-ku, Tokyo 140-8711, Japan Telephone: 81-3-3491-1141 Facsimile: 81-3-3491-5316
Financial Year	April 1 to March 31
Common Stocks	Authorized Shares 80,000,000 Issued Shares 20,081,955
Stockholders	2,597
Stock Listing	Tokyo Stock Exchange, Second Section (Code: 4987)
Transfer Agency	Mitsubishi UFJ Trust and Banking Corporation 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan

Major Stockholders

Stockholders	Number of shares (thousand shares)	Voting right ratio (%)
Customers' Stockholding Group	1,865	9.45
Keishiro Teraoka	882	4.47
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	854	4.33
Japan Trustee Services Bank, Ltd. (Trust Account)	774	3.92
The Nomura Trust and Banking Co., Ltd. (Trust Account)	747	3.78
Resona Bank, Ltd.	678	3.44
Kuniko Teraoka	526	2.66
Employees' Stockholding Group	467	2.37
The Bank of New York Non-Treaty JASDEC Account	292	1.48
The Master Trust Bank of Japan, Ltd. (Trust Account)	285	1.44

TERAOKA

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