TERAOKA

Annual Report 2008

Year ended March 31, 2008

TERAOKA SEISAKUSHO CO., LTD.

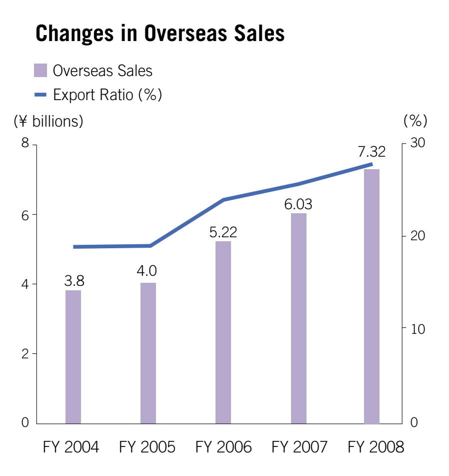
Established in 1921, Teraoka Seisakusho Co., Ltd. has evolved into a leading developer of highly functional packing, electrical insulation, electronic equipment, and other industrial and general home-use adhesive tapes.

During the term under review, the Teraoka Group continued to engage in the development of new adhesive tape products and in the qualitative improvement of other products. It also worked to strengthen its production and sales activities, and to develop environmentally safe manufacturing and supply protocols. TERAOKA remains dedicated to marketing highly functional value-added products that are meeting rapidly evolving manufacturing and consumer needs.

TERAOKA has successfully developed and brought to market super-thin 0.030 mm silicone rubber adhesive tapes with exceptional functional properties, workability, and dimensional stability. Silicone rubber is used in a wide range of applications that include cell phones, flat-screen televisions and automotive parts owing to its excellent heat and cold resistance, frictional, and cushioning properties.

Backed by original adhesive tape-processing technology, TERAOKA has succeeded in developing one-body products with adhesive agents for use in a wide range of downstream manufacturing processes and end products. This expertise has enabled the Company to create materials with widely varying properties that include harness, transparency and surface conditions, expanding the applications for these innovative products.

TERAOKA silicone rubber adhesive tapes



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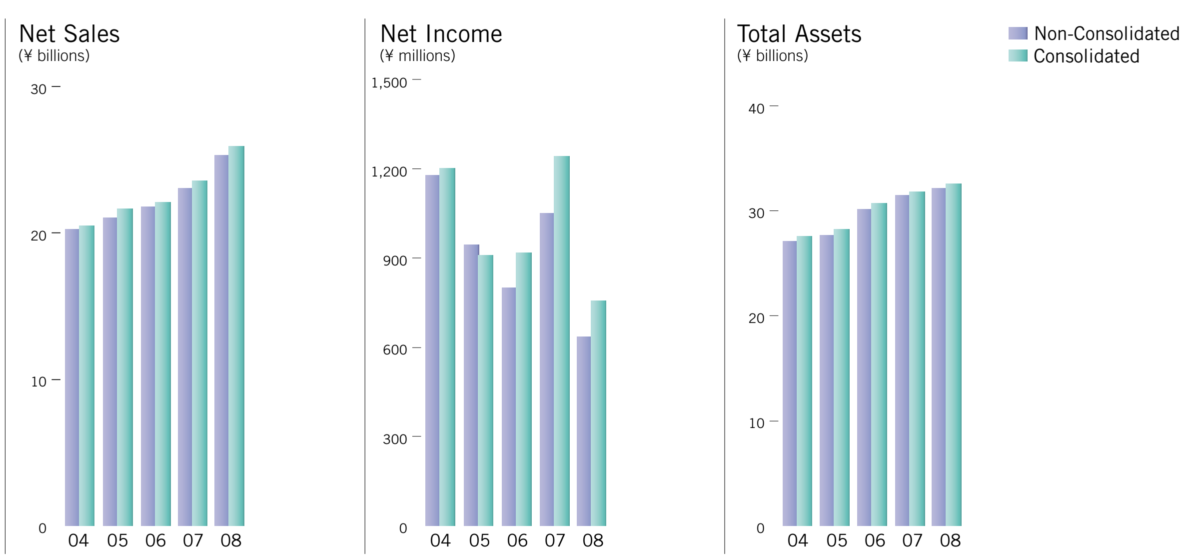
Teraoka Seisakusho Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED FINANCIAL HIGHLIGHTS

For the years ended March 31,

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Net Sales	**¥25,945**	¥23,536	**$258,932**
Operating Income	**1,540**	1,424	**15,369**
Income before Income Taxes	**1,155**	2,004	**11,527**
Net Income	**758**	1,242	**7,565**
Total Assets	**32,696**	32,271	**326,307**
Net Assets	**24,343**	24,472	**242,944**
Ratio (%)			
Operating Income to Net Sales	**5.9**	6.1	
Equity Ratio	**74.5**	75.8	
Return on Average Assets (ROA)	**2.3**	3.9	
Return on Average Stockholders' Equity (ROE)	**3.1**	5.1	
Per Share	Yen		U.S. dollars
Net Income	**¥37.93**	¥62.12	**$0.38**
Cash Dividends	**14.00**	14.00	**0.14**

The U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥100.20 = U.S.$1, the rate prevailing on March 31, 2008.



Business Environment

Fiscal 2008, the year ended March 31, 2008, marked Teraoka's 98th business term. During this period, the Japanese economy showed signs of a modest recovery, backed by increases in investment in equipment and in exports. In the latter half of the term, however, optimism began to fade as worries grew surrounding the accelerating mortgage crisis in the U.S. housing market, spiking crude oil prices worldwide, the downturn in stock prices at home, and the yen's rise against the dollar. Although markets for our products continued to expand owing to the gradual recovery of upstream markets, the business environment for TERAOKA continued to be severe.

Under these circumstances, the Company focused on development of highly functional tapes, reinforcement of its manufacturing capacity, and improvement of its sales systems. These efforts resulted in an increase in sales volume for all product segments during the term; domestic and overseas sales of tapes for digital home electronics and LCDs continued to expand. Profits from both operating and ordinary income grew as a result of increased sales and more efficient management, which managed to balance the negative effects caused by repeated hikes in raw material prices, especially for petrochemical based materials and natural rubber.

Results for FY 2008

Against this backdrop, consolidated net sales for the term under review amounted to ¥25,945 million (US$258,932 thousand), increasing 10.2% from the previous term. Consolidated operating income reached ¥1,540 million (US$15,369 thousand), increasing year-on-year by 8.1%. Consolidated income before income taxes, however, decreased by 42.4% from the previous term and amounted to ¥1,155 million (US$11,527 thousand). Consolidated net income amounted to ¥758 million (US$7,565 thousand), a 39.0% decline from the previous term, owing to profits from the sale of land held by the Company recorded in the previous term, and to special losses from revaluation of securities recorded in the term under. Notwithstanding, both income and profit increased during the term under review, in real terms. The dividend for the term under review was ¥14.00 (US$0.14) per share, or ¥7.00 (US$0.07) for the interim payout and ¥7.00 (US$0.07) at term-end, representing a payout ratio of 44.1%.

Future Focus

The future of the Japanese economy reflects the uncertain conditions prevailing throughout the global economy. TERAOKA is taking steps to fortify its corporate structure to withstand the challenges that lie ahead. As the U.S. economy continues to show signs of a growing recession, the price of crude oil around the world continues to fluctuate, while other factors impact natively on markets the Company serves at home and abroad.

Under these circumstances, TERAOKA continues to make strenuous efforts to increase operational efficiency, expand production and sales, while intensely focusing on R&D activities that show great promise in bringing innovation and increasingly short response times to changes in industrial client specifications and consumer market trends.

During the fiscal period in review, TERAOKA began to integrate a new internal control system expected to strengthen confidence and enhance corporate value, while further increasing the Group's production and sales capabilities. In conjunction with other new initiatives currently being implemented throughout our organization, these chances are expected to maximize the Group's lead in technology development and market share for expanding lines of high-value-added tape and related products. We are confident these measures will further increase TERAOKA's profitability in an increasingly complex and challenging global business environment.

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

June 27, 2008

Keishiro Teraoka
President

REVIEW OF OPERATIONS

During the term in review TERAOKA continued to develop new products with an overarching goal of making them environmentally friendly and safe. Fully integrated with these efforts are production and recycling protocols that enhance societies efforts to conserve natural resources and protect the natural ecology. The development of a fully recyclable, double-faced tape is an important example of our commitment to environmental conservation; many home electronics and OA appliances are bonded and fixed utilizing double-faced tape. The new technology behind this product has made it possible to disassemble and recycle the tapes used for bonding components at the end of product life, decreasing waste the environmental load. Owing to efforts to closely align products with evolving market demand and increase sales at home and abroad, consolidated net sales for the term under review amounted to ¥25,945 million (US$258,932 thousand).

Results by Business Segment

Packing Tapes

Sales of cloth adhesive tapes increased during the fiscal term, thanks to growing demand spurred by economic recovery. Owing to the increase in costs for materials, however, profits remained modest; consolidated sales of packing tapes increased by 5.7%, to ¥5,213 million (US$52,026 thousand). This represented 20.1% of total consolidated sales and a decline of 0.8% from the previous term for this business segment.

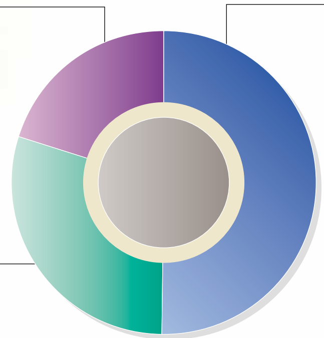
Electrical Insulation and Electronic Equipment Tapes

TERAOKA has focused its R&D efforts on improving non-halogen adhesive tapes owing to heightened

Breakdown of Sales by Category

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

20.1%



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

50.2%

Other Industrial Tapes
- Double-coated adhesive tapes
- Corrosion-proof tapes
- Masking cloth tapes
- Surface protection tapes

29.7%

awareness of their impact on the environment. In this category, electronic equipment tapes showed continued growth thanks to increases in demand from manufacturers of digital home electronic components for flat-screen TVs, cellular phones, and game equipment, as well as tapes used in the manufacture of automotive parts. As a result of the substantial increase in demand during the term for tapes in this category, consolidated net sales for this segment amounted to ¥13,025 million (US$129,990 thousand), a year-on-year increase of 13.0%. This represented 50.2% of total consolidated sales and an increase of 1.2% over the previous term.

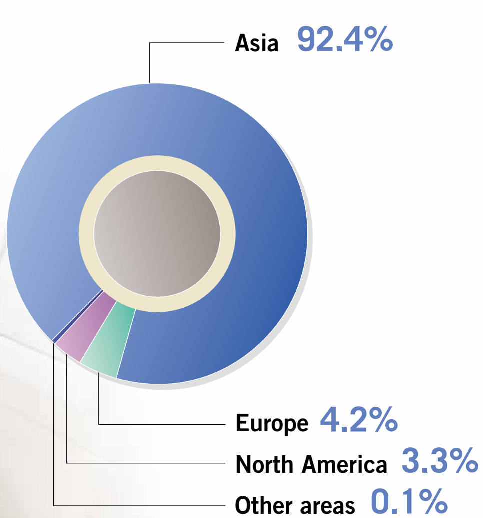
Other Industrial Tapes

Sales of TERAOKA's popular P-Cut high-quality, easy application polyethylene cloth adhesive tapes continued to increase during the term, as did sales of non-halogen, double-faced tapes, double-faced tapes for recycling components, and other environmentally friendly products. Owing to steady growth in the market for these products, consolidated net sales for this segment grew by 8.8% over the previous term to ¥7,707 million (US$76,916 thousand). This represented 29.7% of total consolidated sales and a decline of 0.4% from the previous term.

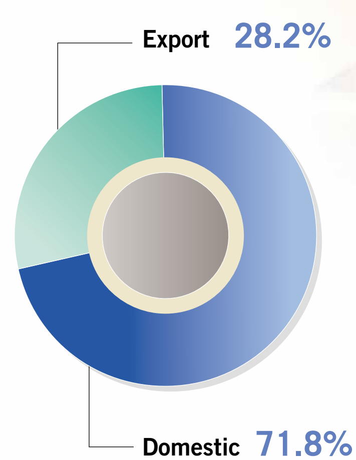
Overseas Sales

Group efforts to expand markets in Hong Kong, Shanghai and other locations during the term, resulted in an increase of 21.4% over the previous year, to ¥7,321 million (US$73,064 thousand) for this business area. This represented 28.2% of total consolidated sales and an increase of 2.6% from the previous term.

●Export Markets



●Export Ratio



CONSOLIDATED FIVE-YEAR SUMMARY

	Millions of yen					Thousands of U.S. dollars
Years ended March 31	2004	2005	2006	2007	**2008**	**2008**
Net Sales	¥20,408	¥21,063	¥21,829	¥23,536	**¥25,945**	**$258.932**
Operating Income	1,911	1,463	1,399	1,424	**1,540**	**15,369**
Income before Income Taxes	1,993	1,401	1,452	2,004	**1,155**	**11,527**
Net Income	1,214	931	945	1,242	**758**	**7,565**
Total Assets	28,421	28,791	31,184	32,271	**32,696**	**326,307**
Net Assets	21,859	22,576	23,940	24,472	**24,343**	**242,944**
Ratio (%)						
Operating Income to Net Sales	9.4	6.9	6.4	6.1	**5.9**	
Equity Ratio	76.9	78.4	76.8	75.8	**74.5**	
Return on Average Assets (ROA)	4.4	3.2	3	3.9	**2.3**	
Return on Average Stockholders' Equity (ROE)	5.7	4.2	4.1	5.1	**3.1**	
Per Share	Yen					Dollars
Net Income	¥58.75	¥44.65	¥45.62	¥62.12	**¥37.93**	**$0.38**
Cash Dividends	12.00	14.00	14.00	14.00	**14.00**	**0.14**

The U.S. dollars are translated at the rate of ¥100.20 per U.S.$1, prevailing on March 31, 2008.

FINANCIAL STATEMENTS

Fiscal Year 2008

Year ended March 31, 2008

FINANCIAL REVIEW

Business Performance

The business environment surrounding the Teraoka Group's operations continued to be severe during the term in review, as a result of slowing investment in new housing, more stringent revisions to the Building Standards Act, and the sharp rise in costs for materials. Against this backdrop, TERAOKA focused on enhancement the value-added content of its expanding line of highly functional tapes, while increasing production capacity and strengthening its international sales network. As a result of these concerted efforts, overseas sales for the term increased. Rising costs for petrochemical materials and natural rubber, primary components for the Group's products, continued to drive operating and ordinary income up during the term in review.

Consolidated sales reached a record high for the Group, amounting to ¥25,945 million (US$258,932 thousand), a year-on-year increase of 10.2%. Consolidated operating income amounted to ¥1,540 million (US$15,369 thousand), or 8.1% higher when compared with the previous term. Consolidated income before tax however, decreased by 42.4% to ¥1,155 million (US$11,527 thousand). As a result, consolidated net income for the term under review amounted to ¥758 million (US$7,565 thousand), or substantial reduction of 39.0%, when compared with the previous term. This was due to the reporting of profits from the sale of land held by TERAOKA during the previous fiscal period, and to revaluation of securities as a special loss for the term in review. In real terms, income and profit both increased during the term in review.

Segment Information

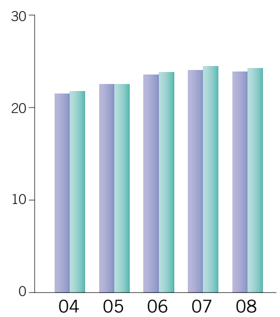
Sales increased for all product categories during the fiscal period. Sales of packing tapes and cloth adhesive tapes rose in response to expanded demand brought on by the gradual upturn in business activities. Correspondingly, production costs increased owing to escalating material costs, resulting in only marginal profits for the term. Consolidated sales of this segment amounted to ¥5,213 million (US$52,026 thousand), increasing by 5.7% year-on-year.

In the electronic equipment and electrical insulation tapes segment, demand for non-halogen insulation tapes grew in response for more environmentally friendly alternatives for manufacturers utilizing electrical insulation tapes. Sales of electronic equipment tapes for use in flat-screen TVs, cellular phones, games equipment, and automotive parts also increased. These trends resulted in this segment achieving the highest growth in sales during the term. Consolidated net sales of electrical insulation and electronic equipment tapes amounted to ¥13,025 million (US$129,990 thousand), increasing 13.0% year-on-year.

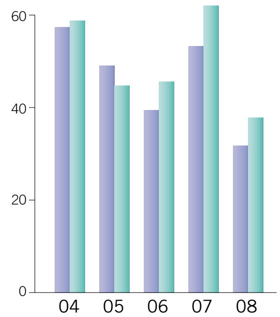
Sales of TERAOKA's popular P-Cut high-quality, easy application polyethylene cloth adhesive tapes continued to increase during the term, as did sales of non-halogen, double-faced tapes, double-faced tapes for recycling components, and other environmentally friendly products. Owing to steady growth in the market for these products, consolidated net sales for this segment grew by 8.8% over the previous term to ¥7,707 million (US$76,916 thousand).

Domestic sales amounted to ¥18,624 million (US$185,868 thousand), while exports amounted to ¥7,321 million (US$73,064 thousand), representing an increase of 21.4% from the previous term. Although exports increased in all of the Group's primary product segments, sales of industrial tape increased the most, by 31.5% over the previous term. The packing tape segment also recorded high growth; a 29.4% increase when compared with the previous term. Export markets in Asia, North America, and Europe also continued to expand. The Asian market plays a leading role, occupying a 92.4% share, which equals to an increase by 0.3 points from the previous term.

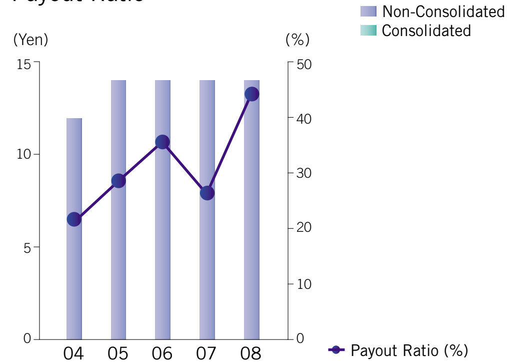
Net Assets
(¥ billions)



Net Income per Share
(Yen)



Cash Dividends per Share and Payout Ratio



Financial Position

Total assets at the end of the consolidated fiscal term amounted to ¥32,696 million (US$326,307 thousand), an increase of 1.3%, ¥425 million (US$4,242 thousand). The term-end capital-to-asset ratio was 74.5%, declining 1.3 points from the previous term.

Current assets amounted to ¥17,460 million (US$174,251 thousand), increasing by ¥302 million (US$3,014 thousand) from the previous term end, owing to an increase in inventory assets of ¥756 million (US$7,545 thousand). Fixed assets at the end of the consolidated fiscal term under review increased by 0.8%, or ¥122 million (US$1,218 thousand) to ¥15,236 million (US$152,056 thousand), due primarily to an increase of ¥1,909 million (US$19,052 thousand) in the construction in process account and a decrease of ¥1,099 million (US$10,968 thousand) in securities investment.

Current liabilities increased by 13.2%, or ¥957 million (US$9,551 thousand), to ¥8,230 million (US$82,136 thousand) with notes and accounts payable increasing by ¥858 million (US$8,563 thousand). Long-term liabilities decreased by 76.8%, or ¥404 million (US$4,032 thousand), to ¥123 million (US$1,228 thousand), resulting from reductions in accrued retirement benefits for employees and debt for deferred tax of ¥41 million (US$399 thousand) and ¥375 million (US$3,733 thousand), respectively.

Total net assets at the end of the period were reduced by 0.5%, or by ¥129 million (US$1,287 thousand) from the previous term, to ¥24,343 million (US$242,944 thousand), owing to a reduction in unrealized gains on securities of ¥460 million (US$4,591 thousand). Retained earnings increased by ¥478 million (US$4,770 thousand).

Cash Flows

Cash earned through operating activities increased by 35.9% over the previous term to ¥2,300 million (US$22,955 thousand), owing mainly to net income before tax and other adjustments amounting to ¥1,155 million (US$11,527 thousand), depreciation of ¥1,372 million (US$13,693 thousand), an increase in inventory assets of ¥766 million (US$7,645 thousand), and a corporate tax payment of ¥486 million (US$4,850 thousand).

Cash allocated to investment activities decreased substantially, by 52.1% from the previous term to ¥748 million (US$7,465 thousand),owing to a decline in securities held and payments of ¥2,645 million (US$26,397 thousand) for active equipment investment.

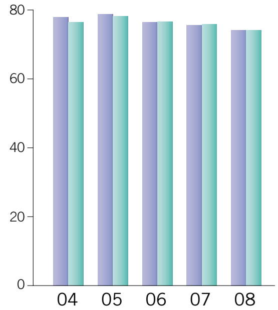
Cash allocated to financial activities amounted to ¥263 million (US$2,625 thousand), declined year-on-year by 15.8% and included an increase of short-term borrowings of ¥39 million (US$389 thousand), dividend payments totaling ¥280 million (US$2,794 thousand), and a payment of ¥22 million (US$220 thousand) for reimbursement of the Group's own stock.

As a result, consolidated cash and cash equivalents at the end of the term under review increased by ¥1,208 million (US$12,056 thousand) from the previous term to ¥6,039 million (US$60,269 thousand).

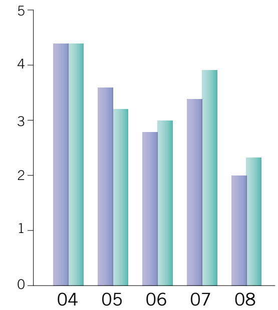
Dividends

The Group's basic policy is to distribute profits while thoroughly considering current business results, previous dividend payout ratios, and business forecasts for our business sector. TERAOKA regards profit sharing as one of its primary responsibilities, while also retaining earnings necessary to maintain a solid financial base. Funding for R&D and investment in equipment are also two very important areas of investment. The dividend for the term under review was set at ¥14.00 (US$0.14) per share, or ¥7.00 (US$0.07) for the interim payout and ¥7.00 (US$0.07) at term-end. This distribution represented a payout ratio of 44.1%.

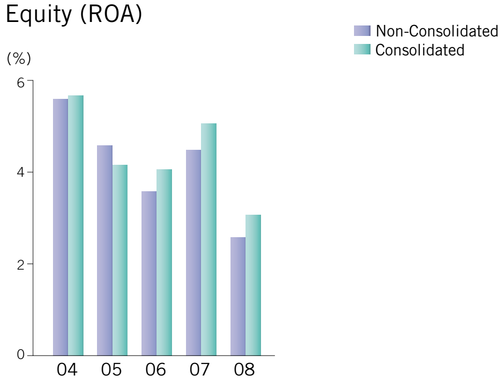
Equity Ratio
(¥ billions)



Return on Average Assets (ROA)
(%)



Return on Average Stockholders' Equity (ROA)
(%)



CONSOLIDATED BALANCE SHEETS

March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
ASSETS			
Current Assets:			
Cash and time deposits	**¥ 6,339**	¥ 4,331	**$ 63,263**
Notes and accounts receivable:			
Trade	**6,918**	6,907	**69,041**
Affiliate	**195**	240	**1,946**
Less: Allowance for doubtful accounts (Note 2-g)	**(2)**	(3)	**(20)**
Marketable securities (Notes 2-b and 5)	**—**	2,496	**—**
Inventories (Note 2-c)	**3,529**	2,773	**35,220**
Deferred income taxes (Note 2-f)	**239**	251	**2,385**
Other current assets	**242**	163	**2,415**
Total current assets	**17,460**	17,158	**174,251**
Property, Plant and Equipment (Note 2-d):			
Land	**3,724**	3,724	**37,166**
Buildings	**7,328**	7,289	**73,134**
Machinery and equipment	**20,410**	19,901	**203,693**
Construction in progress	**2,154**	245	**21,497**
	33,616	31,159	**335,489**
Less: Accumulated depreciation	**(22,120)**	(21,156)	**(220,758)**
Property, plant and equipment, net	**11,496**	10,003	**114,731**
Intangible Assets	**333**	433	**3,323**
Investments and Other Assets:			
Investments in securities (Notes 2-b and 5)	**2,922**	4,033	**29,163**
Investments in affiliates	**113**	100	**1,128**
Deferred income taxes (Note 2-f)	**50**	—	**499**
Other	**322**	544	**3,214**
Total investments and other assets	**3,407**	4,677	**34,002**
Total assets	**¥32,696**	¥32,271	**$326,307**

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

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Notes and accounts payable:			
Trade	**¥ 4,751**	¥ 3,894	**$ 47,415**
Short-term borrowings	**1,046**	1,008	**10,439**
Accrued income taxes	**323**	335	**3,224**
Accrued expenses	**578**	605	**5,768**
Other current liabilities	**1,532**	1,431	**15,289**
Total current liabilities	**8,230**	7,273	**82,136**
Long-Term Liabilities:			
Retirement and severance benefits (Notes 2-h and 6):			
Employees	**—**	41	**—**
Directors and corporate auditors	**—**	99	**—**
Deferred liabilities taxes (Note 2-f)	**—**	375	**—**
Negative Goodwill	**6**	11	**60**
Other	**117**	0	**1,168**
Total long-term liabilities	**123**	526	**1,228**
Total liabilities	**8,353**	7,799	**83,363**
NET ASSETS			
Stockholders' Equity:			
Common stock:			
Authorized: 80,000,000 shares			
Issued: 20,081,955 shares as of March 31, 2008 and 2007, respectively	**3,904**	3,904	**38,962**
Additional paid-in capital	**3,491**	3,491	**34,840**
Retained earnings	**16,732**	16,254	**166,987**
Less: Treasury stock, at cost	**(98)**	(76)	**(978)**
Total stockholders' equity	**24,029**	23,573	**239,810**
VALUATION AND TRANSLATION ADJUSTMENTS:			
Unrealized gains on securities (Notes 2-b and 5)	**395**	855	**3,941**
Foreign currency translation adjustments (Note 2-i)	**(81)**	44	**(808)**
Total valuation and translation adjustments	**314**	899	**3,134**
Total net assets	**24,343**	24,472	**242,944**
Total liabilities and net assets	**¥32,696**	¥32,271	**$326,307**

CONSOLIDATED STATEMENTS OF INCOME

For the years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Net Sales	**¥25,945**	¥23,536	**$258,932**
Cost of Sales	**19,896**	17,830	**198,563**
Gross profit	**6,049**	5,706	**60,369**
Selling, General and Administrative Expenses	**4,509**	4,282	**44,999**
Operating income	**1,540**	1,424	**15,369**
Other Incom and Expenses:			
Interest and dividend income	**93**	75	**928**
Interest expenses	**(6)**	(4)	**(60)**
Loss on disposal of inventory asset	**(6)**	(27)	**(60)**
Loss on write.down of investment in securities	**(373)**	—	**(3,723)**
Gain on sales of land	**—**	482	**—**
Loss on disposal of property, plant and equipment	**(11)**	(16)	**(110)**
Foreign exchange gains (losses), net	**(143)**	4	**(1,427)**
Equity in earnings (losses) of affliated company	**14**	11	**140**
Other, net	**47**	55	**470**
	(385)	580	**(3,842)**
Income before income taxes	**1,155**	2,004	**11,527**
Income Taxes:			
Current	**496**	506	**4,950**
Deferred	**(99)**	255	**(988)**
	397	762	**3,962**
Net income	**¥ 758**	¥ 1,242	**$ 7,565**

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, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Common Stock:			
Balance at beginning of year	**¥ 3,904**	¥ 3,904	**$ 38,962**
Issuance during the year	**—**	—	**—**
Balance at end of year	**3,904**	3,904	**38,962**
Additional Paid-in Capital:			
Balance at beginning of year	**3,491**	3,491	**34,840**
Net sales of treasury stock	**—**	—	**—**
Balance at end of year	**3,491**	3,491	**34,840**
Retained Earnings:			
Balance at beginning of year	**16,254**	15,325	**162,216**
Net Income	**758**	1,242	**7,565**
Cash dividends paid	**(280)**	(279)	**(2,794)**
Bonuses to directors and corporate auditors	**—**	(34)	**—**
Balance at end of year	**16,732**	16,254	**166,986**
Treasury Stock, at cost:			
Balance at beginning of year	**(76)**	(75)	**(759)**
Net change during the year	**(22)**	(1)	**(220)**
Balance at end of year	**¥ (98)**	¥ (76)	**$ (979)**
Unrealized Gains on Securities:			
Balance at beginning of year	**855**	1,258	**8,533**
Net change during the year	**(460)**	(403)	**(4,591)**
Balance at end of year	**395**	855	**3,942**
Foreign Currency Translation Adjustments:			
Balance at beginning of year	**44**	37	**439**
Net change during the year	**(125)**	7	**(1,248)**
Balance at end of year	**(81)**	44	**(809)**
	Yen		U.S. dollars
Per Share of Common Stock			
Net income	**¥37.93**	¥62.12	**$0.38**
Cash dividends paid	**14.00**	14.00	**0.14**

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, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Operating Activities:			
Net Income	**¥ 758**	¥ 1,242	**$ 7,565**
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**1,372**	1,173	**13,693**
Allowance for doubtful accounts	**(1)**	(1)	**(10)**
Provision for retirement benefits	**(139)**	(248)	**(1,387)**
Deffered income taxes	**(99)**	255	**(988)**
Equity in earning (losses) of afficiated company	**(14)**	(11)	**(139)**
Valuation loss of foreign facilities	**—**	—	**—**
Gain on dissolution of foreign facilities	**—**	—	**—**
Minority interest in net income	**—**	—	**—**
Bonuses to directors and corporate auditors	**0**	(34)	**0**
Loss (Gain) on sale of land	**0**	(482)	**0**
Loss on disposal of property,plant and equipment	**11**	16	**110**
Loss (Gain) on sales of investment securities	**—**	—	**—**
Loss on write-down of investment in securities	**373**	—	**3,722**
Changes in assets and liabilities			
(Increase) decrease in notes and accounts receivable	**(19)**	(705)	**(190)**
(Increase) decrease in inventories	**(766)**	71	**(7,645)**
Increase (decrease) in notes and accounts payable	**908**	88	**9,062**
Increase (decrease) in accrued income taxes payable	**9**	58	**90**
Other,net	**(93)**	271	**(928)**
Total adjustment	**1,542**	451	**15,390**
Net cash provided by operating activities	**2,300**	1,693	**22,955**
Investing Activities:			
Payment for purchases of property, plant and equipment	**(2,645)**	(732)	**(26,397)**
Payment for purchases of intangible assets	**(65)**	(31)	**(649)**
Proceeds from sale of land	**—**	495	**—**
Payment for purchases of marketable securities	**(1,395)**	(4,593)	**(13,922)**
Payment for purchases of investment in securities	**(35)**	(398)	**(349)**
Proceeds from sales of marketable securities	**3,392**	3,699	**33,852**
Net cash used in investing activities	**(748)**	(1,560)	**(7,465)**
Financing Activities:			
Dividends paid	**(280)**	(279)	**(2,794)**
Increases in short-term borrowings	**39**	(30)	**389**
Other, net	**(22)**	(2)	**(220)**
Net cash used in financing activities	**(263)**	(311)	**(2,625)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**(81)**	5	**(808)**
Net Increase (Decrease) in Cash and Cash Equivalents	**1,208**	(173)	**12,056**
Cash and Cash Equivalents at beginning of year	**4,831**	5,004	**48,213**
Cash and Cash Equivalents at End of the Year	**¥ 6,039**	¥ 4,831	**$ 60,269**
Additional cash flow info			
Interest paid	**6**	4	**60**
Income taxes paid	**¥ 486**	¥ 448	**$ 4,850**

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, 2008 and 2007

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 ¥100.20=U.S.$1, the prevailing exchange rate on March 31, 2008.

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, 2008 and 2007 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

Effective in the fiscal year ended March 31, 2008, in accordance with the revised Japanese Corporation Tax Law, the Company changed the depreciation method of tangible fixed assets acquired on or after April 1, 2007.

As a result, the depreciation expenses for the fiscal year ended March 31, 2008 increased by ¥21 million (US$210 thousand) and Operating income, Ordinary income and Income before income taxes each decreased by ¥18 million (US$178 thousand) compared with the amount under the formerly applied method.

Effective in the fiscal year ended March 31, 2008, in accordance with the revised Japanese Corporation Tax Law, the Company depreciates the residual value of tangible fixed assets acquired on or before March 31, 2007, which was depreciated in accordance with former Japanese Corporation Tax Law, to memorandum value in five years using straight-line method.

As a result, the depreciation expenses for the fiscal year ended March 31, 2008 increased by ¥137 million (US$1,367 thousand). Operating income, Ordinary income and Income before income taxes each decreased by ¥124 million (US$1,238 thousand) compared with the amount under the formerly applied method.

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 ¥72 million (US$719 thousand) and ¥39 million at March 31, 2008 and 2007.

5. Securities

Historical costs, fair value and gross unrealized gains and losses for marketable securities as of March 31, 2008 and 2007 are as follows.

	Millions of yen				
	2008				
	Historical costs	Fair value	Net differences	Gross gains	Gross losses
Other securities:					
Equity securities	**¥2,238**	**¥2,902**	**¥664**	**¥769**	**¥(105)**
Corporate bonds			**0**	**0**	**0**
Other			**—**	**—**	**—**
Total	**¥2,238**	**¥2,902**	**¥664**	**¥769**	**¥(105)**

	Millions of yen				
	2007				
	Historical costs	Fair value	Net differences	Gross gains	Gross losses
Other securities:					
Equity securities	¥2,576	¥4,014	¥1,437	¥1,555	¥(117)
Corporate bonds	1,496	1,496	0	0	(0)
Other	1,000	1,000	—	—	—
Total	¥5,072	¥6,510	¥1,437	¥1,555	¥(118)

	Thousands of U.S. dollars				
	2008				
	Historical costs	Fair value	Net differences	Gross gains	Gross losses
Other securities:					
Equity securities	**$22,335**	**$28,962**	**$6,627**	**$7,675**	**$(1,048)**
Corporate bonds	**—**	**—**	**—**	**—**	**—**
Other	**—**	**—**	**—**	**—**	**—**
Total	**$22,335**	**$28,962**	**$6,627**	**$7,675**	**$(1,048)**

Securities that do not have fair values are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Equity securities	**¥18**	¥18	**$180**
Others	**—**	—	**—**
Total	**¥18**	¥18	**$180**

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, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Benefit obligations	**¥(3,804)**	**¥(3,836)**	**$(37,964)**
Pension assets	**3,642**	**4,253**	**36,347**
Unrecognized actuarial differences	**313**	**(457)**	**3,124**
Provisions for retirement benefits	**151**	**(40)**	**1,507**

Employees' retirement benefit expenses for the years ended March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Service costs	**¥205**	**¥208**	**$2,046**
Interest costs	**76**	**77**	**758**
Expected return on pension assets	**(85)**	**(82)**	**(848)**
Amortization of unrecognized actuarial difference	**(168)**	**(177)**	**(1,677)**
Benefits expenses total	**¥ 28**	**¥26**	**$279**

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

	2008	2007
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, 2008, the Company's Board of Directors, with the approval of stockholders on June 27, 2008 declared a cash dividend of ¥139 million (US$1,387 thousand) equal to ¥14.00 (US$0.14) per share, applicable to earnings of the year ended March 31, 2008 and payable to stockholders on the stockholders' register on March 31, 2008.

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, 2007 and 2008, 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, 2007 and 2008, 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, 2008 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 27, 2008

Inoue Auditing Co., Inc.

Inoue Auditing Co., Inc.

COMPANY DATA

Company Outline

(as of March 31, 2008)

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	532

Board of Directors and Auditors

(as of June 27, 2008)

President	Keishiro Teraoka
Managing Director	Toshinobu Nishimura
Directors	Kuniyuki Takei Takeo Kawaguchi Kiyohiro Takagi Jun Watanabe Yutaka Nomiyama
Standing Corporate Auditor	Motoaki Hattori
Corporate Auditors	Kohji Dohmoto Jun-ichi Ichikawa Toshiyuki Nishimura
Operating Officers	Kazuhito Chiba Minoru Tanaka Hiroyoshi Ohbori Nobuo Ito Tadashi Shirota 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 and Fukuoka

Investor Information

(as of March 31, 2008)

Financial Year	April 1 to March 31
Common Stocks	Authorized Shares 80,000,000
	Issued Shares 20,081,955
Stockholders	2,211
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	1,682	8.38
Japan Trustee Services Bank, Ltd.	1,120	5.57
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	976	4.86
Keishiro Teraoka	879	4.37
The Master Trust Bank of Japan, Ltd.	791	3.94
Resona Bank, Ltd.	678	3.38
Kuniko Teraoka	526	2.61
RBC Dexia Investor Services Trust, London Cliant Account	470	2.34
Employees' Stockholding Group	380	1.89
SGSS / SGBT LUX	275	1.37

TERAOKA

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