

TERAOKA SEISAKUSHO CO., LTD.

INTERIM REPORT

The six-month period ended September 30, 2007

Consolidated Balance Sheets

As of September 30, 2007 and 2006

	Millions of Yen <u>2007</u>	Millions of Yen <u>2006</u>	Thousands of US Dollars <u>2007</u>
ASSETS			
Current Assets:			
Cash and time deposits	¥4,568	¥4,130	\$39,573
Notes and accounts receivable:			
Trade	7,328	6,957	63,481
Less: Allowance for doubtful accounts	(3)	(3)	(26)
Marketable securities	2,498	2,100	21,641
Inventories	3,268	2,739	28,312
Deferred tax assets	249	256	2,160
Other current assets	219	118	1,896
Total current assets	<u>18,127</u>	<u>16,296</u>	<u>157,037</u>
Property, Plant and Equipment:			
Land	3,724	3,724	32,264
Buildings	7,321	7,295	63,425
Machinery and equipment	20,164	19,256	174,684
Construction in progress	1,011	180	8,757
	<u>32,220</u>	<u>30,456</u>	<u>279,130</u>
Less: Accumulated depreciation	(21,648)	(20,752)	(187,539)
Property, plant and equipment, net	<u>10,572</u>	<u>9,703</u>	<u>91,591</u>
Intangible Assets	397	497	3,441
Investments and Other Assets:			
Investments in securities	3,694	4,092	32,004
Investments in affiliate	105	94	914
Other	243	443	2,099
Total investments and other assets	<u>4,042</u>	<u>4,630</u>	<u>35,017</u>
Total assets	<u>¥33,138</u>	<u>¥31,126</u>	<u>\$287,086</u>

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

	Millions of Yen	Millions of Yen	Thousands of US Dollars
	<u>2007</u>	<u>2006</u>	<u>2007</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Notes and accounts payable:			
Trade	¥4,312	¥3,763	\$37,356
Short-term borrowings	1,065	1,015	9,229
Accrued income taxes	372	560	3,219
Accrued expenses	609	600	5,275
Other current liabilities	1,734	606	15,020
Total current liabilities	<u>8,092</u>	<u>6,543</u>	<u>70,099</u>
Long-term Liabilities:			
Retirement and severance benefits:			
Employees	-	139	-
Directors and corporate auditors	-	91	-
Deferred tax liabilities	263	150	2,275
Consolidated adjustment account	8	14	73
Other long-term liabilities	117	-	1,014
Total long-term liabilities	<u>388</u>	<u>394</u>	<u>3,362</u>
Total liabilities	<u>8,480</u>	<u>6,937</u>	<u>73,461</u>
NET ASSETS			
Stockholders' Equity:			
Common stock:			
Authorized: 80,000,000 shares			
Issued: 20,081,955 shares as of September 30, 2007 and 2006, respectively	3,904	3,904	33,825
Additional paid-in capital	3,491	3,491	30,246
Retained earnings	16,612	15,938	143,911
Less: Treasury stock, at cost	(77)	(76)	(665)
Total stockholders' equity	<u>23,930</u>	<u>23,258</u>	<u>207,317</u>
Valuation and translation adjustments:			
Unrealized gains on securities	694	892	6,016
Foreign currency translation adjustments	34	40	292
Total valuation and translation adjustments	<u>728</u>	<u>932</u>	<u>6,308</u>
Total net assets	<u>24,658</u>	<u>24,190</u>	<u>213,625</u>
Total liabilities and net assets	<u>¥33,138</u>	<u>¥31,126</u>	<u>\$287,086</u>

Consolidated Statements of Income

For the six-month period ended September 30, 2007 and 2006

	Millions of Yen <u>2007</u>	Millions of Yen <u>2006</u>	Thousands of US Dollars <u>2007</u>
Net Sales	¥12,504	¥11,493	\$108,328
Cost of Sales	9,436	8,589	81,743
Gross profit	3,068	2,904	26,585
Selling, General and Administrative Expenses	2,237	2,125	19,382
Operating income	831	779	7,203
Other Income and Expenses:			
Interest and dividend income	46	37	401
Interest expenses	(2)	(2)	(18)
Foreign exchange gains(losses), net	(10)	4	(86)
Equity in earnings(losses) of affiliated company	6	5	56
Loss on disposals of property, plant and equipment	(4)	(6)	(34)
Loss on disposals of inventories	(4)	(11)	(36)
Subsidiary establishment expense	(11)	-	(98)
Loss on write-down of marketable securities	(98)	-	(845)
Gain(loss) on sales of land	-	482	-
Other, net	30	25	247
	(47)	532	(413)
Income Taxes	286	525	2,476
Net income	¥498	¥786	\$4,314
Per Share of Common Stock:			
	Yen	Yen	US Dollars
Net income	¥24.90	¥39.32	\$0.22
Cash dividends paid	7.00	7.00	0.06

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

Consolidated Statements of Stockholders' Equity

For the six-month period ended September 30, 2007 and 2006

	Millions of Yen <u>2007</u>	Millions of Yen <u>2006</u>	Thousands of US Dollars <u>2007</u>
Common Stock:			
Balance at beginning of period	¥3,904	¥3,904	\$33,825
Issuance during the period	-	-	-
Balance at end of period	<u>3,904</u>	<u>3,904</u>	<u>33,825</u>
Additional Paid in Capital:			
Balance at beginning of period	3,491	3,491	30,246
Net change during the period	-	-	-
Balance at end of period	<u>3,491</u>	<u>3,491</u>	<u>30,246</u>
Retained Earnings:			
Balance at beginning of period	16,254	15,325	140,809
Net Income	498	786	4,314
Cash dividends paid	(140)	(140)	(1,212)
Bonuses to directors and corporate auditors	-	(34)	-
Balance at end of period	<u>¥16,612</u>	<u>¥15,938</u>	<u>\$143,911</u>
Treasury Stock, at cost:			
Balance at beginning of period	(76)	(75)	(661)
Net change during the period	(1)	(0)	(4)
Balance at end of period	<u>(77)</u>	<u>(76)</u>	<u>(665)</u>
Unrealized Gains on Securities:			
Balance at beginning of period	855	1,258	7,409
Net change during the period	(161)	(366)	(1,393)
Balance at end of period	<u>694</u>	<u>892</u>	<u>6,016</u>
Foreign Currency Translation Adjustments:			
Balance at beginning of period	44	37	379
Net change during the period	(10)	3	(87)
Balance at end of period	<u>34</u>	<u>40</u>	<u>292</u>

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

Consolidated Statements of Cash Flow

For the six-month period ended September 30, 2007 and 2006

	Millions of Yen	Millions of Yen	Thousands of US Dollars
	2007	2006	2007
Operating Activities:			
Net Income	¥498	¥786	\$4,314
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	659	565	5,707
Allowance for doubtful accounts	-	(2)	-
Provision for retirement benefits	(140)	(159)	(1,212)
Equity in earnings (losses) of affiliated company	(6)	(5)	(56)
Bonuses to directors and corporate auditors	-	(34)	-
Gain on sales of land	-	(482)	-
Loss on write-down of marketable securities	98	-	845
Changes in assets and liabilities:			
(Increase) decrease in notes and accounts receivable	(184)	(519)	(1,598)
(Increase) decrease in inventories	(496)	105	(4,293)
Increase (decrease) in notes and accounts payable	421	(35)	3,646
Increase (decrease) in accrued income taxes	50	304	433
Other, net	71	88	623
Total adjustment	473	(172)	4,095
Net cash provided by operating activities	971	614	8,409
Investing Activities:			
Payment for purchases of property, plant and equipment	(870)	(412)	(7,538)
Proceeds from sales of land	-	496	-
Payment for purchases of intangible assets	(44)	(17)	(382)
Payment for purchases of investment in securities	(33)	(397)	(291)
Payment for purchases of marketable securities	(1,396)	(1,998)	(12,092)
Proceeds from sales of marketable securities	1,398	1,500	12,115
Net cash used in investing activities	(945)	(829)	(8,188)
Financing Activities:			
Increase(decrease) in short-term borrowings	58	(22)	499
Dividends paid	(140)	(140)	(1,212)
Other, net	(1)	(0)	(4)
Net cash used in financing activities	(83)	(163)	(717)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(6)	2	(52)
Net Increase (Decrease) in Cash and Cash Equivalents	(63)	(375)	(549)
Cash and Cash Equivalents at Beginning of Period	4,831	5,005	41,854
Cash and Cash Equivalents at End of Period	¥4,768	¥4,630	\$41,305

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

Notes to Consolidated Financial Statements

1. The translation of Yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at September 30, 2007, which was ¥115.43 to U.S.\$1.
2. Consolidated subsidiaries and affiliate are as follows.
 - * Consolidated subsidiaries
 - Teraoka Seisakusho (Shanghai) Co., Ltd.
 - Teraoka Seisakusho (Hong Kong) Co., Ltd.
 - Teraoka Seisakusho (Shenzhen) Co., Ltd.
 - * Affiliate accounted for by the equity method
 - Shin-ei Shoji Co., Ltd.
3. Contingent liabilities in respect of trade notes and export bills discounted with banks with recourse in the ordinary course of business at September 30, 2007 and 2006, amounted to ¥80 million (US\$ 695 thousand) and ¥61 million respectively.

Corporate Information

(as of September 30, 2007)

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
Shareholders	2,128
Stock Listing	Tokyo Stock Exchange, 2 nd Section
Transfer Agent	Mitsubishi UFJ Trust and Banking Corporation 4-5, Marunouchi 1-chome Chiyoda-ku, Tokyo 100-8212, Japan
Employees	533
Branch Offices	Tokyo, Osaka, Nagoya, Ohmiya, Sendai, Fukuoka
R&D Center	Tokyo
Factories	Ibaraki, Sano, Ohmiya, Kannami
Website	http://www.teraokatape.co.jp