

TERAOKA SEISAKUSHO CO., LTD.

INTERIM REPORT

The six-month period ended September 30, 2008

Consolidated Balance Sheets

As of September 30, 2008 and 2007

	Millions of Yen <u>2008</u>	Millions of Yen <u>2007</u>	Thousands of US Dollars <u>2008</u>
ASSETS			
Current Assets:			
Cash and time deposits	¥5,810	¥4,568	\$56,065
Notes and accounts receivable:			
Trade	7,573	7,328	73,077
Less: Allowance for doubtful accounts	(5)	(3)	(48)
Marketable securities	—	2,498	—
Inventories	3,382	3,268	32,635
Deferred income taxes	244	249	2,355
Other current assets	248	219	2,393
Total current assets	<u>17,252</u>	<u>18,127</u>	<u>166,477</u>
Property, Plant and Equipment:			
Land	3,784	3,724	36,514
Buildings	7,314	7,321	70,578
Machinery and equipment	20,396	20,164	196,816
Construction in progress	4,275	1,011	41,252
	<u>35,769</u>	<u>32,220</u>	<u>345,160</u>
Less: Accumulated depreciation	(22,496)	(21,648)	(217,079)
Property, plant and equipment, net	<u>13,273</u>	<u>10,572</u>	<u>128,081</u>
Intangible Assets	261	397	2,518
Investments and Other Assets:			
Investments in securities	2,509	3,694	24,211
Investments in affiliate	—	105	—
Deferred income taxes	192	—	1,853
Other	265	243	2,557
Total investments and other assets	<u>2,966</u>	<u>4,042</u>	<u>28,621</u>
Total assets	<u>¥33,752</u>	<u>¥33,138</u>	<u>\$325,697</u>

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

	Millions of Yen <u>2008</u>	Millions of Yen <u>2007</u>	Thousands of US Dollars <u>2008</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Notes and accounts payable:			
Trade	¥4,290	¥4,312	\$41,397
Short-term borrowings	1,019	1,065	9,833
Accrued income taxes	205	372	1,978
Accrued expenses	631	609	6,089
Other current liabilities	2,912	1,734	28,100
Total current liabilities	9,057	8,092	87,397
Long-term Liabilities:			
Retirement and severance benefits:			
Employees	27	—	260
Deferred liabilities taxes	18	263	174
Negative Goodwill	118	8	1,139
Other	88	117	849
Total long-term liabilities	251	388	2,422
Total liabilities	9,308	8,480	89,819
NET ASSETS			
Stockholders' Equity:			
Common stock:			
Authorized: 80,000,000 shares			
Issued: 20,081,955 shares as of September 30, 2008 and 2007, respectively	3,904	3,904	37,672
Additional paid-in capital	3,491	3,491	33,687
Retained earnings	16,893	16,612	163,013
Less: Treasury stock, at cost	(0)	(77)	(0)
Total stockholders' equity	24,288	23,930	234,372
Valuation and translation adjustments:			
Unrealized gains on securities	199	694	1,921
Foreign currency translation adjustments	(43)	34	(415)
Total valuation and translation adjustments	156	728	1,506
Total net assets	24,444	24,658	235,878
Total liabilities and net assets	¥33,752	¥33,138	\$325,697

Consolidated Statements of Income

For the six-month period ended September 30, 2008 and 2007

	Millions of Yen <u>2008</u>	Millions of Yen <u>2007</u>	Thousands of US Dollars <u>2008</u>
Net Sales	¥13,395	¥12,504	\$129,257
Cost of Sales	10,482	9,436	101,148
Gross profit	2,913	3,068	28,109
Selling, General and Administrative Expenses	2,454	2,237	23,680
Operating income	459	831	4,429
Other Income and Expenses:			
Interest and dividend income	49	46	473
Interest expenses	(3)	(2)	(29)
Foreign exchange gains(losses), net	8	(10)	77
Equity in earnings(losses) of affiliated company	—	6	—
Loss on disposals of property, plant and equipment	(8)	(4)	(77)
Loss on disposals of inventories	(12)	(4)	(116)
Subsidiary establishment expense	—	(11)	—
Loss on write-down of marketable securities	(85)	(98)	(820)
Other, net	42	30	405
	(9)	(47)	(87)
Income Taxes	130	286	1,254
Net income	¥320	¥498	\$3,088
Per Share of Common Stock:			
	Yen	Yen	US Dollars
Net income	¥15.96	¥24.90	\$0.15
Cash dividends paid	7.00	7.00	0.07

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, 2008 and 2007

	Millions of Yen <u>2008</u>	Millions of Yen <u>2007</u>	Thousands of US Dollars <u>2008</u>
Common Stock:			
Balance at beginning of period	¥3,904	¥3,904	\$37,672
Issuance during the period	-	-	-
Balance at end of period	<u>3,904</u>	<u>3,904</u>	<u>37,672</u>
Additional Paid in Capital:			
Balance at beginning of period	3,491	3,491	33,687
Net change during the period	-	-	-
Balance at end of period	<u>3,491</u>	<u>3,491</u>	<u>33,687</u>
Retained Earnings:			
Balance at beginning of period	16,732	16,254	161,459
Sales of treasury stock	(19)	-	(183)
Cash dividends paid	(140)	(140)	(1,351)
Net Income	320	498	3,088
Balance at end of period	<u>¥16,893</u>	<u>¥16,612</u>	<u>\$163,013</u>
Treasury Stock, at cost:			
Balance at beginning of period	(98)	(76)	(946)
Net change during the period	98	(1)	946
Balance at end of period	<u>(0)</u>	<u>(77)</u>	<u>(0)</u>
Unrealized Gains on Securities:			
Balance at beginning of period	395	855	3,811
Net change during the period	(196)	(161)	(1,891)
Balance at end of period	<u>199</u>	<u>694</u>	<u>1,920</u>
Foreign Currency Translation Adjustments:			
Balance at beginning of period	(81)	44	(782)
Net change during the period	38	(10)	367
Balance at end of period	<u>(43)</u>	<u>34</u>	<u>(415)</u>

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Consolidated Statements of Cash Flow

For the six-month period ended September 30, 2008 and 2007

	Millions of Yen	Millions of Yen	Thousands of US Dollars
	2008	2007	2008
Operating Activities:			
Net Income	¥320	¥498	\$3,088
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	649	659	6,263
Allowance for doubtful accounts	(1)	-	(10)
Provision for retirement benefits	1	(140)	10
Equity in earnings (losses) of affiliated company	-	(6)	-
Loss on write-down of marketable securities	85	98	820
Changes in assets and liabilities:			
(Increase) decrease in notes and accounts receivable	(153)	(184)	(1,476)
(Increase) decrease in inventories	162	(496)	1,563
Increase (decrease) in notes and accounts payable	(519)	421	(5,008)
Increase (decrease) in accrued income taxes	(136)	50	(1,312)
Other, net	352	71	3,396
Total adjustment	440	473	4,246
Net cash provided by operating activities	760	971	7,334
Investing Activities:			
Payment for purchases of property, plant and equipment	(881)	(870)	(8,502)
Payment for purchases of intangible assets	(14)	(44)	(135)
Payment for purchases of investment in securities	(2)	(33)	(19)
Payment for purchases of marketable securities	-	(1,396)	-
Proceeds from sales of marketable securities	-	1,398	-
Net cash used in investing activities	(897)	(945)	(8,656)
Financing Activities:			
Increase(decrease) in short-term borrowings	(30)	58	(290)
Dividends paid	(140)	(140)	(1,351)
Other, net	(2)	(1)	(19)
Net cash used in financing activities	(172)	(83)	(1,660)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	27	(6)	261
Net Increase (Decrease) in Cash and Cash Equivalents	(282)	(63)	(2,721)
Cash and Cash Equivalents at Beginning of Period	6,039	4,831	58,275
Cash and Cash Equivalents Increased Due			
to Consolidation of Subsidiaries	53	-	511
Cash and Cash Equivalents at End of Period	¥5,810	¥4,768	\$56,065

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, 2008, which was ¥103.63 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.
 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, 2008 and 2007, amounted to ¥69 million (US\$ 665 thousand) and ¥80 million respectively.

Corporate Information

(as of September 30, 2008)

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	2,294
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	560
Branch Offices	Tokyo, Osaka, Nagoya, Ohmiya, Sendai, Fukuoka
R&D Center	Tokyo
Factories	Ibaraki, Sano, Ohmiya, Kannami
Website	http://www.teraokatape.co.jp