

TERAOKA SEISAKUSHO CO., LTD

INTERIM REPORT

The six-month period ended September 30, 2011

Consolidated Balance Sheets

As of September 30, 2011 and March 31, 2011

	Millions of Yen <u>September 30</u>	Millions of Yen <u>March 31</u>	Thousands of US Dollars <u>September 30</u>
ASSETS			
Current Assets:			
Cash and time deposits	¥8,545	¥10,021	\$111,506
Notes and accounts receivable:			
Trade	5,417	5,888	70,695
Less: Allowance for doubtful accounts	(9)	(9)	(117)
Inventories	3,894	3,079	50,813
Deferred income taxes	298	298	3,886
Other current assets	303	294	3,960
Total current assets	<u>18,448</u>	<u>19,571</u>	<u>240,743</u>
Property, Plant and Equipment:			
Land	3,940	3,733	51,418
Buildings	8,510	8,502	111,047
Machinery and equipment	22,396	22,308	292,257
Construction in progress	792	211	10,342
	<u>35,638</u>	<u>34,754</u>	<u>465,064</u>
Less: Accumulated depreciation	<u>(24,945)</u>	<u>(24,268)</u>	<u>(325,531)</u>
Property, plant and equipment, net	<u>10,693</u>	<u>10,486</u>	<u>139,533</u>
Intangible Assets	61	76	799
Investments and Other Assets:			
Investments in securities	1,992	1,960	25,995
Deferred income taxes	15	53	193
Other	183	208	2,385
Less: Allowance for doubtful accounts	(3)	(24)	(35)
Total investments and other assets	<u>2,187</u>	<u>2,197</u>	<u>28,538</u>
Total assets	<u>¥31,389</u>	<u>¥32,330</u>	<u>\$409,613</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>September 30</u>	<u>March 31</u>	<u>September 30</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Notes and accounts payable:			
Trade	¥3,883	¥3,629	\$50,674
Short-term borrowings	3	3	39
Current portion of long-term borrowings	500	500	6,525
Accrued income taxes	30	357	389
Accrued expenses	518	532	6,757
Provision for loss on disaster	—	103	—
Other current liabilities	814	1,029	10,626
Total current liabilities	<u>5,748</u>	<u>6,153</u>	<u>75,010</u>
Long-term Liabilities:			
Long-term borrowings	1,125	1,375	14,681
Retirement and severance benefits:			
Employees	432	438	5,633
Deferred liabilities taxes	44	18	570
Asset retirement obligations	—	166	—
Negative Goodwill	38	51	499
Other	253	94	3,299
Total long-term liabilities	<u>1,892</u>	<u>2,142</u>	<u>24,682</u>
Total liabilities	<u>7,640</u>	<u>8,295</u>	<u>99,692</u>
NET ASSETS			
Stockholders' Equity:			
Common stock:			
Authorized: 80,000,000 shares			
Issued: 20,081,955 shares as of September 30, 2011 and 2010, respectively	3,904	3,904	50,951
Additional paid-in capital	3,491	3,491	45,560
Retained earnings	16,556	16,741	216,051
Less: Treasury stock, at cost	(137)	(137)	(1,782)
Total stockholders' equity	<u>23,815</u>	<u>23,999</u>	<u>310,780</u>
Accumulated Other Comprehensive Income :			
Unrealized gains on securities	319	252	4,171
Foreign currency translation adjustments	(385)	(217)	(5,030)
Total accumulated other comprehensive income	<u>(66)</u>	<u>35</u>	<u>(859)</u>
Total net assets	<u>23,749</u>	<u>24,035</u>	<u>309,921</u>
Total liabilities and net assets	<u>¥31,389</u>	<u>¥32,330</u>	<u>\$409,613</u>

Consolidated Statements of Income

For the six-month period ended September 30, 2011 and 2010

	Millions of Yen	Millions of Yen	Thousands of US Dollars
	2011	2010	2011
Net Sales	¥10,404	¥11,654	\$135,772
Cost of Sales	8,241	8,804	107,549
Gross profit	2,163	2,850	28,223
Selling, General and Administrative Expenses	2,041	2,393	26,631
Operating income	122	457	1,592
Other Income and Expenses:			
Interest and dividend income	35	28	451
Gain on allotment of shares	—	16	—
Gain on sales of investment securities	—	43	—
Interest expenses	(17)	(22)	(228)
Foreign exchange gains(losses), net	(69)	(61)	(900)
Loss on disposals of property, plant and equipment	—	(3)	—
Disaster loss	(70)	—	(908)
Loss on valuation of marketable securities	(100)	(87)	(1,311)
Business structure improvement expenses	—	(189)	—
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	(37)	—
Environmental expenses	—	(26)	—
Other, net	35	27	462
	(186)	(311)	(2,434)
Income (Loss) before income taxes	(64)	146	(842)
Income Taxes:			
Total income taxes	22	45	283
Net income (loss) before minority interests	(86)	101	(1,125)
Net income (loss)	(¥86)	¥101	(\$1,125)
Per Share of Common Stock:			
	Yen	Yen	US Dollars
Net income (loss)	(¥4.37)	¥5.14	(\$0.06)
Cash dividends paid	5.00	5.00	0.07

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

TERAOKA SEISAKUSHO CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the six-month period ended September 30, 2011 and 2010

	Millions of Yen <u>2011</u>	Millions of Yen <u>2010</u>	Thousands of US Dollars <u>2011</u>
Net income (loss) before minority interests	(¥86)	¥101	(\$1,125)
Other Comprehensive Income			
Unrealized gains on securities	67	(40)	882
Foreign currency translation adjustments	(168)	(92)	(2,199)
Total other comprehensive income	(101)	(132)	(1,317)
Comprehensive Income	(¥187)	(¥31)	(\$2,442)
Total comprehensive income attributable to:			
Owners of the parent	(¥187)	(¥31)	(\$2,442)
Minority interests	—	—	—

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Consolidated Statements of Stockholders' Equity

As of September 30, 2011 and March 31, 2011

	Millions of Yen <u>September 30</u>	Millions of Yen <u>March 31</u>	Thousands of US Dollars <u>September 30</u>
Common Stock:			
Balance at beginning of period	¥3,904	¥3,904	\$50,951
Issuance during the period	—	—	—
Balance at end of period	<u>3,904</u>	<u>3,904</u>	<u>50,951</u>
Additional Paid in Capital:			
Balance at beginning of period	3,491	3,491	45,560
Net change during the period	—	—	—
Balance at end of period	<u>3,491</u>	<u>3,491</u>	<u>45,560</u>
Retained Earnings:			
Balance at beginning of period	16,741	16,269	218,463
Cash dividends paid	(99)	(177)	(1,287)
Net Income	(86)	649	(1,125)
Balance at end of period	<u>¥16,556</u>	<u>¥16,741</u>	<u>\$216,051</u>
Treasury Stock, at cost:			
Balance at beginning of period	(137)	(136)	(1,782)
Purchase of treasury stock	0	(1)	0
Balance at end of period	<u>(137)</u>	<u>(137)</u>	<u>(1,782)</u>
Accumulated Other Comprehensive Income (Loss) :			
Unrealized Gains on Securities:			
Balance at beginning of period	252	284	3,289
Net change during the period	67	(32)	882
Balance at end of period	<u>319</u>	<u>252</u>	<u>4,171</u>
Foreign Currency Translation Adjustments:			
Balance at beginning of period	(217)	(143)	(2,831)
Net change during the period	(168)	(74)	(2,199)
Balance at end of period	<u>(¥385)</u>	<u>(¥217)</u>	<u>(\$5,030)</u>

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

Consolidated Statements of Cash Flows

For the six-month period ended September 30, 2011 and 2010

	Millions of Yen <u>2011</u>	Millions of Yen <u>2010</u>	Thousands of US Dollars <u>2011</u>
Operating Activities:			
Net Income	(¥86)	¥101	(\$1,125)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	715	933	9,329
Allowance for doubtful accounts	(21)	(3)	(280)
Provision for retirement benefits	(6)	55	(83)
Loss on disposal of property, plant and equipment	3	—	39
Gain on sales of investment securities	—	(43)	—
Loss on valuation of marketable securities	100	87	1,311
Business structure improvement expenses	—	189	—
Changes in assets and liabilities:			
(Increase) decrease in notes and accounts receivable	442	480	5,764
(Increase) decrease in inventories	(823)	(329)	(10,737)
Increase (decrease) in notes and accounts payable	287	(79)	3,750
Increase (decrease) in accrued income taxes	(355)	12	(4,632)
Other, net	(205)	26	(2,675)
Total adjustment	<u>137</u>	<u>1,328</u>	<u>1,786</u>
Net cash provided by operating activities	<u>51</u>	<u>1,429</u>	<u>661</u>
Investing Activities:			
Payment for purchases of property, plant and equipment	(1,077)	(356)	(14,058)
Payment for purchases of intangible assets	—	(3)	—
Payment for purchases of investment in securities	(2)	(2)	(25)
Proceeds from sales of investment in securities	—	140	—
Net cash used in investing activities	<u>(1,079)</u>	<u>(221)</u>	<u>(14,083)</u>
Financing Activities:			
Increase(decrease) in short-term borrowings	1	3	13
Increase(decrease) in long-term borrowings	(250)	(250)	(3,263)
Dividends paid	(99)	(79)	(1,287)
Other, net	(0)	—	(4)
Net cash used in financing activities	<u>(348)</u>	<u>(326)</u>	<u>(4,541)</u>
Effect of Exchange Rate Changes on Cash and Cash Equivalen	<u>(100)</u>	<u>(58)</u>	<u>(1,304)</u>
Net Increase (Decrease) in Cash and Cash Equivalent	<u>(1,476)</u>	<u>824</u>	<u>(19,267)</u>
Cash and Cash Equivalent	<u>10,021</u>	<u>7,420</u>	<u>130,773</u>
Cash and Cash Equivalent	<u>¥8,545</u>	<u>¥8,244</u>	<u>\$111,506</u>

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, 2011, which was ¥76.63 to U.S. \$ 1.
2. Consolidated subsidiaries
 - Shin-ei Shoji Co., Ltd
 - Teraoka Seisakusho (Hong Kong) Co., Ltd.
 - Teraoka Seisakusho (Shanghai) Co., Ltd.
 - Teraoka Seisakusho (Shenzhen) Co., Ltd.
 - PT. Teraoka Seisakusho Indonesia
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, 2011 and 2010, amounted to ¥2million (US\$ 29 thousand) and ¥23 million respectively.

Corporate Information

(as of September 30, 2011)

Head Office	4-22, Hiramachi 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	2,633
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	549 (Consolidated:595)
Branch Offices	Tokyo, Osaka, Nagoya, Ohmiya, Sendai
R&D Center	Tokyo
Factories	Ibaraki, Sano, Kannami
Website	http://www.teraokatape.co.jp