

June 7, 2013

Dear Shareholders,

**Hakuto Co., Ltd.**

1-13, Shinjuku 1-chome, Shinjuku-ku, Tokyo

**Notice of the 61st Annual General Meeting of Shareholders**

You are cordially invited to attend the 61st Annual General Meeting of Shareholders of Hakuto Co., Ltd. (the “Company”), which will be held as per the schedule below.

**If you are unable to attend the Meeting in person, please first review on pages 48 to 55 of the Reference Materials for the General Meeting of Shareholders presented hereinafter, and exercise your voting rights no later than 5:30 p.m. on Tuesday, June 25, 2013, using one of the methods outlined below.**

**[Exercising your voting rights by mail]**

Please indicate “for” or “against” for each agenda item shown on the enclosed Form for Exercising Voting Rights, apply the enclosed protective seal, and mail it in time for delivery by the deadline mentioned above.

**[Exercising your voting rights electronically (Internet voting etc.)]**

Use a personal computer, smartphone or cell phone to access the Voting Right Exercise Site: <http://www.evotage.jp/>. Enter the “Login ID” and “Temporary Password” noted on the enclosed Form for Exercising Voting Rights, follow the instructions on the screen and indicate “for” or “against” for each agenda item by the deadline mentioned above.

If you intend to exercise your voting rights via the Internet, etc. please refer to page 56 and 57 of the “Procedures for Exercising Voting Rights via the Internet, etc.”

Sincerely,

Ryusaburo Sugimoto  
President

**Details**

- 1. Date & Time:** Wednesday, June 26, 2013 at 10:00 a.m.
- 2. Venue:** Conference Room, 8th Floor, Head Office Building, 1-13, Shinjuku 1-chome, Shinjuku-ku, Tokyo

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1. If you are attending the Meeting in person, please bring the enclosed Form for Exercising Voting Rights and present it at the reception desk.
  2. Revisions to the Reference Materials for the General Meeting of Shareholders, Business Report, non-consolidated financial statements, and consolidated financial statements shall be posted on the Company’s website (<http://www.hakuto.co.jp>).

### **3. Meeting Agenda**

#### **(1) Items to be reported:**

1. Business Report and consolidated financial statements for the Company's 61st fiscal year (from April 1, 2012 to March 31, 2013), and the audit reports of consolidated financial statements by the Accounting Auditors (CPAs) and the Company's Audit & Supervisory Board
2. Non-consolidated financial statements for the Company's 61st fiscal year (from April 1, 2012 to March 31, 2013)

#### **(2) Items to be resolved:**

**Item 1:** Partial Amendments to the Articles of Incorporation

**Item 2:** Appointment of Ten (10) Directors

### **4. Matters concerning convocation**

- (1) In the event that no indication of "for" or "against" has been made, this shall be treated as the intent of approval.
- (2) If you exercise your voting rights both by mail and electronic means (Internet voting etc.), the electronic voting (Internet etc.) shall prevail regardless of the arrival date of the mailed vote.
- (3) In the case of multiple voting via the Internet, etc., the last voting shall prevail.
- (4) If split votes are cast, a written notice of the diverse exercise of voting rights and the reasons thereof must be provided by three (3) days in advance of the Annual General Meeting of Shareholders.

**Business Report**  
(From April 1, 2012 to March 31, 2013)

**1. Corporate Group's Business Environment**

**(1) Business conditions during the fiscal year under review**

**1) Business developments and results**

During the fiscal year ended March 31, 2013, the Japanese Economy was on a gradual recovery trend in the first half, backed by demands for reconstruction after the Great East Japan Earthquake and other factors. However, this stopped short of a full-scale recovery, since capital investment slowed down as corporate manufacturing declined resulting from the reoccurrence of European debt issues and the dull economic growth in emerging economies including China.

In the second half, the U.S. economy showed an upward tendency, and the worst of the European debt issues was thought to be behind. Various issues with economically adverse effects also showed a trend toward improvement, for example, the Japan-China relations that deteriorated due to the territorial dispute restored calm. In addition, as a bright prospect for exporting companies' business performance could be seen with the economic-stimulus packages of the new administration, coupled with yen depreciation on the back of monetary easing by the Bank of Japan, the expectation of a full-scale economic recovery has increased.

In the electronics industry, in which the Group operates its mainstay business, the information and communications field steadily grew centering on smart phones. The in-car products-related field and the photovoltaic power generation field also saw steady performance respectively with strong automobile sales, and with encouragement from the feed-in tariff scheme for renewable energy. Meanwhile, the business of digital home appliances including flat-panel TVs and the PC-related business facing the popularization of tablet PCs fell into a serious slump. In the chemicals industry, the domestic oil and paper manufacturing industries had difficult time due to surging raw materials prices caused by a sharp decline in yen, and a declining output due to the shrinking of the market.

Under such circumstances, the Group's sales performance decreased from a year earlier mainly in the semiconductor business, the Group's mainstay, while the industrial chemicals business increased year on year thanks to the expanded sales of new business. As a result, the consolidated net sales for the fiscal year under review amounted to ¥111,823 million, a 3.7% year-on-year decrease.

Regarding profit and loss, gross profit decreased 5.3% year on year to ¥17,115 million with lower sales. Selling, general, and administrative expenses increased 1.2% to ¥14,013 million, operating income decreased 26.5% to ¥3,101 million, and ordinary income decreased 17.9% to ¥3,435 million. Meanwhile, net income amounted to ¥2,005 million, a 10.6% year-on-year decrease, due in part to impairment loss recorded in relation to the decision to sell tangible assets of the consolidated subsidiary.

The following is a breakdown of business performance by segment for the fiscal year.

***Electronic Components Division***

In the electronic components segment, sales of in-vehicle components, solar panels and peripheral devices increased. Meanwhile, the recovery of demand for components related to optical communications was delayed. As for consumer-related components,

respective markets of PCs, TVs, and mobile phones were in slump, and domestic makers had tough time in the smart phone market. As a result, sales in the electronic components segment for the consolidated fiscal year under review decreased 5.2% year on year to ¥83,951 million, and segment income decreased 26.3% year on year to ¥1,707 million.

#### ***Electronic and Electric Equipment Division***

In the electronic and electric equipment segment, PCB (Printed Circuit Board) related equipment, the Group's mainstay, and cooling systems saw steady performance mainly in East Asia, and sales volume of Adixen vacuum equipment, which was launched in the previous fiscal year, increased, while capital investment of domestic manufacturers was suppressed. As a result, sales in this segment for the consolidated fiscal year under review decreased 7.0% year on year to ¥18,308 million, and segment income decreased 19.0% year on year to ¥1,055 million.

#### ***Industrial Chemicals Division***

In the industrial chemicals segment, despite a slump in the chemicals market, sales significantly increased helped by the expanded sales of products of BASF from which business was transferred to the Group. However, the ratio of relatively more profitable in-house products in sales declined, and selling, general, and administrative expenses increased. As a result, sales in this segment for the consolidated fiscal year under review increased 21.1% year on year to ¥9,545 million, while segment income decreased 40.5% year on year to ¥343 million.

#### ***Others Division***

This segment consists mainly of general operation and logistics management tasks of the Company on a consignment basis, as well as agency business for insurance companies. The Others Divisions reported sales of ¥696 million, a 0.8 % year-on-year increase, and segment income of ¥14 million, a 4.7 % year-on-year decrease for the consolidated fiscal year under review.

## Sales by segment

	FY 2011 (term ended March 2012)		FY 2012 (term ended March 2013)	
	Sales (¥ million)	Ratio to total (%)	Sales (¥ million)	Ratio to total (%)
Electronic Components	88,549	75.8	83,951	74.6
Electronic and Electric Equipment	19,691	16.9	18,308	16.3
Industrial Chemicals	7,883	6.7	9,545	8.5
Others	691	0.6	696	0.6
Sub-total	116,816	100.0	112,501	100.0
Internal Transaction	(668)	–	(678)	–
Total	116,147	100.0	111,823	100.0

Note: Figures are exclusive of consumption tax.

### ***Outlook of the Next Fiscal Year***

In the fiscal year ending March 2014, a full-scale recovery of domestic economy is expected on the ground of the governmental economic-stimulus packages and growth strategies.

The Group also has expectations toward introduction of equipment into public R&D organizations on the back of an increase in public investment, investment into high-speed data communications in the communications infrastructure market, a recovery of the consumer markets thanks to releases of next-generation smart phone models and replacement of PCs of which OS will reach the end of support period, as well as a continuing growth in solar-related and other energy solution business.

In consideration of such business conditions, the Company forecasts the consolidated net sales to increase 10.9% year on year to ¥124.0 billion, consolidated operating income to increase 12.9% to ¥3.5 billion, consolidated ordinary income to increase 4.8% to ¥3.6 billion, and consolidated net income to increase 24.7% to ¥2.5 billion for the fiscal year ending March 2014.

### **2) Investment in plant & equipment**

The total investment in plant and equipment for the consolidated fiscal year under review was ¥1,759 million.

### **3) Fund procurement**

There are no material facts to report.

### **4) Business segment transfers, absorption-type splits, and incorporation-type splits**

There are no items to report.

### **5) Business segments transferred from other companies**

There are no items to report.

**6) Succession to rights and responsibilities related to the businesses of other juridical persons through absorption-type mergers and splits**

There are no items to report.

**7) Acquisitions and disposals of shares, ownership interests, or share subscription rights, etc. in other companies**

The Company jointly established LUFs INC. with Alternergy Inc. on August 28, 2012. The Company has a 49% equity stake. Consequently, the company has become the Group's equity method affiliate.

**(2) Assets and net income for the last three years**

(¥ million)

	FY2009	FY2010	FY2011	FY2012 (reporting term)
Sales	97,167	110,909	116,147	111,823
Ordinary profit	2,482	4,022	4,186	3,435
Net income	1,654	2,200	2,243	2,005
EPS (yen)	74.88	99.94	102.64	91.74
Total assets	67,074	73,364	72,380	74,176
Net assets	38,378	40,210	41,260	43,553
BPS (yen)	1,730.67	1,829.59	1,880.69	1,992.53

Note: EPS (Earnings Per Share) is calculated based on the average number of outstanding shares during the fiscal year. BPS (Book Value Per Share) is calculated based on the number of shares outstanding as of the end of the fiscal year. The total number of outstanding shares excludes treasury shares.

**(3) Principal subsidiaries**

	Capital stock	Ratio of voting rights held by the Company (%)	Principal lines of business
Microtek Inc.	300 million yen	100	Import/export of electronic equipment and components
Hakuto Enterprises Ltd.	HK\$22,025 thd.	100	Import/export of electronic equipment and components, manufacturing and sales of electronic components
Hakuto Singapore Pte. Ltd.	S\$5,000 thd.	100	Import/export of electronic equipment and components
Hakuto Taiwan Ltd.	NT\$70,000 thd.	100	Import/export of electronic equipment and components
Hakuto Enterprises (Shanghai) Ltd.	US\$8,000 thd.	100	Import/export of electronic equipment and components

**(4) Issues facing the Company**

Backed by the recent correction of the strong yen, signs of recovery have been seen in the entire Japanese economy. In the electronics-related industry in which the Group operates its core business, however, management conditions are expected to remain unpredictable, amid globally fiercer competitions.

Even under such circumstances, the Group will address the below-stated issues, with the aim of strategically achieving business growth and an expansion of profits, and making 2013, the 60th anniversary of the Company's foundation, a year of further progress.

**1) Acquiring and expanding new businesses**

The Group will strive to further enhance the base of rapidly growing photovoltaic power generation-related business, as its new key business, by sequentially starting the electric power selling business using mega solar equipment at four places, which are scheduled to start operations during FY2013.

In order to acquire new businesses in growing markets, such as healthcare, the environment, communication infrastructures, in-car products, the Group will take on challenges in new business fields through investment in venture companies, business alliance, M&A, and other diverse means.

**2) Enhancing businesses in Asia**

The Group will reinforce the cooperation with Asian subsidiaries of which existence value has been increasing year by year through human exchange and information sharing, and develop business focusing on local characteristics. Thus, it will boost profitability of electronic components, expand sales of electronic and electric equipment, and push ahead with a full-scale deployment of the industrial chemicals business.

**3) Establishing the consolidated business management system**

Having introduced a new core system in May 2013, the Group plans to integrate systems beginning from domestic subsidiaries and also at overseas subsidiaries to promote the reinforcement of consolidated business management and more efficient operations through shared services.

**4) Strengthening risk management**

In preparation for larger-than-expected natural disasters, infectious diseases and other disasters, the Group will make efforts for strengthening risk management systems to minimize damages.

Also, in order to deal with various risks in terms of compliance amid diversification and globalization of business, the Group will strive to improve its legal systems, and increase employees' awareness of compliance through various kinds of compliance education, etc.

**(5) Main business lines** (as of March 31, 2013)

The Group is principally engaged in the sale, export and import of electronic components and electronic and electric equipment, and the manufacture and sale of industrial chemicals.

Main products in each segment are as follows.

Segment	Main products
Electronic Components	Semiconductor devices; connectors; optical components; photovoltaic panels
Electronic and Electric Equipment	Devices and equipment used in the manufacturing of semiconductors; equipment for PCBs; turbo-molecular pumps; refrigerator units for vacuum production equipment; electrostatic accelerators
Industrial Chemicals	Industrial chemicals used in the oil refining and petrochemical industries; chemicals for water treatment; chemicals for the paper & pulp industry; paint-resistant chemicals; base materials for cosmetics
Others	Outsourcing business

**(6) Principal offices and plants** (as of March 31, 2013)

**1) Principal offices and plants of the Company**

Name	Location
Head Office	Shinjuku-ku, Tokyo
Kansai Branch	Itami, Hyogo
Nagoya Branch	Nagoya, Aichi
Isehara Technical Center	Isehara, Kanagawa
Yokkaichi Factory	Yokkaichi, Mie
Yokkaichi Research Laboratory	Yokkaichi, Mie

**2) Offices of principal subsidiaries**

Name	Location
Microtek Inc.	Shinjuku-ku, Tokyo
Hakuto Enterprises Ltd.	Kowloon, Hong Kong
Hakuto Singapore Pte. Ltd.	Singapore
Hakuto Taiwan Ltd.	Taipei, Taiwan
Hakuto Enterprises (Shanghai) Ltd.	Shanghai, China

**(7) Employees (as of March 31, 2013)****1) Employees of the Group**

Business segment	Number of employees	Change from end of previous term
Electronic Components	690	(15)
Electronic and Electric Equipment	278	no change
Industrial Chemicals	200	7
Others	102	(6)
Common in the Group	164	2
Total	1,434	(12)

Notes:

1. The number of employees is the number of those who are employed by the Group.
2. Employees working for the “Common in the Group” are attached to back-office sections that cannot be classified into particular business segments.

**2) Employees of the Company**

Number of employees	Change from end of previous fiscal year	Average age	Average number of years of service
625	Increase by 6	41.0	13.4

Note: The above figures exclude 22 employees currently dispatched to subsidiaries.

**(8) Principal sources of borrowings (as of March 31, 2013)**

(¥ million)

Sources	Balance of borrowings
Sumitomo Mitsui Banking Corporation	2,606
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,091
Resona Bank, Limited	2,031
Mizuho Bank, Ltd.	1,075
Mitsubishi UFJ Trust and Banking Corp.	700

**(9) Other important matters concerning the Group**

There are no material facts to report.

## 2. Profile of the Company

### (1) Shares (as of March 31, 2013)

- 1) **Number of shares authorized for issuance:** 54,000,000 shares  
2) **Number of shares issued and outstanding:** 24,137,213 shares (no change from the previous fiscal year)

Of which treasury shares: 2,278,682 shares

- 3) **Number of shares per trading unit (tangen):** 100 shares  
4) **Number of shareholders:** 7,110 (decreased by 81 from the previous fiscal year)

### 5) Major shareholders (top ten):

Name of shareholder	Number of shares held (thousands shares)	Ownership (%)
Takayama International Education Foundation	4,226.2	19.33
Japan Trustee Services Bank, Ltd. (trust account)	1,447.9	6.62
Ichiro Takayama	1,058.9	4.84
Ken Takayama	1,058.9	4.84
Ryutaro Takayama	1,058.8	4.84
The Master Trust Bank of Japan, Ltd. (trust account)	1,050.0	4.80
Kuroda Electric Co., Ltd.	604.2	2.76
CBNY DFA INTL SMALL CAP VALUE PORTFOLIO	346.4	1.58
Hakuto Employee Stock Ownership Plan	319.2	1.46
Satori Electric Co., Ltd.	284.0	1.29

#### Notes:

1. Number of shares held is rounded down to the nearest 100 shares.
2. Ownership is calculated based on the number of shares issued and outstanding (21,858,531), which excludes treasury shares. Percentages have been rounded down to two decimal places.
3. Treasury shares are excluded from the list of major shareholders above.

### 6) Other important matters concerning shares

There are no material facts to report.

### (2) Share subscription rights

There are no items to report.

**(3) Corporate Officers****1) Directors and Audit & Supervisory Board Members (as of March 31, 2013)**

Name	Positions in the Company	Responsibility and status of material holding of concurrent positions
Ryusaburo Sugimoto	President (Representative Director)	
Yoshinae Takada	Director & Executive Vice President	Supervisor over Corporate Administration Div. and Corporate Management Div. and Division Manager of Corporate Management Div. and Manager of Corporate Planning Dept. and Financial & Accounting Dept. and in charge of Risk Management and Corporate Compliance
Noriaki Tomioka	Director & Senior Vice President	Division Manager of Electronic Equipment Div. and in charge of Overseas Business Div.
Hitoshi Takigami	Director & Vice President	Division Manager of Chemical Business Div.
Ryoji Abe	Director & Vice President	Division Manager of Semiconductor Devices 2nd Div. and Electronic Components Div.
Jun Takagi	Director & Vice President	Division Manager of Semiconductor Devices 1st Div.
Nobuhito Shintoku	Director & Vice President	Division Manager of Corporate Administration Div. and Manager of General Affairs Dept. and Chief of Isehara Technical Center and in charge of Branch Office (related to Administration), President of Hakuto A&L Co., Ltd.
Ichiro Takayama	Director & Vice President	
Katsuyoshi Iwashiro	External Director	
Chikao Fukuda	External Director	Attorney at law
Shinkichi Suzuki	Full-time Audit & Supervisory Board Member	
Tadao Kuwano	External Audit & Supervisory Board Member	Certified Public Accountant, Certified Tax Accountant and External Director for Okamura Corporation
Atsushi Inuzuka	External Audit & Supervisory Board Member	President, Mitsubishi UFJ Trust Hosyo Co., Ltd. and External Audit & Supervisory Board Member of Nippon Filcon Co., Ltd.

## Notes:

1. Among the Directors, Messrs. Katsuyoshi Iwashiro and Chikao Fukuda are External Directors.
2. Messrs. Tadao Kuwano and Atsushi Inuzuka are External Audit & Supervisory Board Members.
3. Messrs. Shinkichi Suzuki, Tadao Kuwano and Atsushi Inuzuka, who are all Audit & Supervisory Board Members, have extraordinary insight regarding financial and accounting matters, as described

below.

- The full-time Audit & Supervisory Board Member Mr. Shinkichi Suzuki has considerable insight with regard to general business management including financial and accounting matters, serving as an officer in charge of management for the Company and its subsidiary.
  - The Audit & Supervisory Board Member Mr. Tadao Kuwano holds licenses as both a certified public accountant and certified tax accountant.
  - The Audit & Supervisory Board Member Mr. Atsushi Inuzuka has considerable insight with regard to general business management including financial and accounting matters, with abundant experience and knowledge as a business manager and an External Audit & Supervisory Board Member
4. The Company appointed Director Mr. Chikao Fukuda and Messrs Tadao Kuwano and Atsushi Inuzuka, who are Audit & Supervisory Board Members, as Independent Officers as stipulated by Tokyo Stock Exchange, and filed the relevant notification with the TSE.
5. Commencing April 1, 2013, responsibilities of the Directors were changed as follows.

Name	Responsibility or primary occupation
Yoshinae Takada	Director & Executive Vice President, Supervisor over Corporate Administration Div. and Corporate Management Div. and Division Manager of Corporate Management Div. and Manager of Corporate Planning Dept. and in charge of Risk Management and Corporate Compliance
Nobuhito Shintoku	Director & Vice President, Division Manager of Corporate Administration Div. and Manager of General Affairs Dept. and Chief of Isehara Technical Center and Branch Manager of Kansai Branch and in charge of Branch Office (related to Administration)

**2) Directors and Audit & Supervisory Board Members retired during the fiscal year under review**

Name	Date of retirement	Reason	Position as of retirement and principal concurrent positions
Norimichi Hada	June 27, 2012	Term of office	Director and Senior Vice President, in charge of Overseas Business Div.
Kozo Uno	June 27, 2012	Term of office	External Director, Certified Public Accountant
Chikao Fukuda	June 27, 2012	Term of office	External Audit & Supervisory Board Member, Attorney at law

**3) Total compensation to Directors and Audit & Supervisory Board Members for the fiscal year under review**

Positions	Number of recipients	Amount of payment (millions of yen)
Directors (External Directors)	12 (3)	188 (12)
Audit & Supervisory Board Members (External Audit & Supervisory Board Members)	4 (3)	29 (10)
<b>Total</b>	<b>16</b>	<b>217</b>

Notes:

1. Payments to Directors do not include the employee salaries of persons simultaneously appointed as employee and director.
2. As of the end of the fiscal year ended March 31, 2013, the number of Directors is 10 (including two

External Directors) and the number of Audit & Supervisory Board Members is three (including two External Audit & Supervisory Board Members). Total compensation to Directors and Audit & Supervisory Board Members includes compensations to two Directors and one Audit & Supervisory Board Member who resigned at the expiration of their term of office at the end of the 60th Annual General Meeting of Shareholders held on June 27, 2012.

3. After resigning as Audit & Supervisory Board Member at the end of the 60th Annual General Meeting of Shareholders held on June 27, 2012, Mr. Chikao Fukuda assumed the office of Director. Therefore, the number of recipients and the amount of payment include him as Audit & Supervisory Board Member during his term of office of Audit & Supervisory Board Member, and as Director during his term of office of Director.
4. The upper limit on compensation for Directors was set at ¥450 million (not including employee salaries) in the 39th Annual General Meeting of Shareholders, held on June 27, 1991.
5. The upper limit on compensation for Audit & Supervisory Board Members was set at ¥60 million in the 40th Annual General Meeting of Shareholders, held on June 29, 1992.

#### **4) Matters regarding External Directors and External Audit & Supervisory Board Members**

- (A) Matters regarding principal concurrent positions (in positions with executive authority at other companies) and relationships between the Company and those other companies
  - Audit & Supervisory Board Member, Mr. Atsushi Inuzuka is President of Mitsubishi UFJ Trust Hosyo Co., Ltd. There are no special relationships between Mitsubishi UFJ Trust Hosyo Co., Ltd. and the Company.
- (B) Principal concurrent positions as other companies' External Directors or Audit & Supervisory Board Members etc. and relationships between the Company and those other companies
  - Audit & Supervisory Board Member, Mr. Tadao Kuwano is an External Director for Okamura Corporation. There are no special relationships between Okamura Corporation and the Company.
  - Audit & Supervisory Board Member, Mr. Atsushi Inuzuka is an External Audit & Supervisory Board Member of Nippon Filcon Co., Ltd. There are no special relationships between Nippon Filcon Co., Ltd. and the Company.

## (C) Main activities during the fiscal year under review

Position	Name	Main activities
Director	Katsuyoshi Iwashiro	Mr. Iwashiro attended all 12 Board of Directors meetings held during the fiscal year under review and provided advice and recommendations that supported reasonable and appropriate decision-making within the Board of Directors by, for example, expressing opinions based on his abundant experience and wide-ranging insight as a former manager of a financial institution.
Director	Chikao Fukuda	Mr. Fukuda attended all 12 Board of Directors meetings held during the fiscal year under review and provided advice and recommendations that supported transparent and lawful decision-making within the Board of Directors by, for example, expressing opinions based on his expert perspective as a lawyer.
Audit & Supervisory Board Member	Tadao Kuwano	Mr. Kuwano attended all 12 of the Board of Directors meetings held during the fiscal year under review and provided advice and recommendations that supported reasonable and appropriate decision-making within the Board of Directors by, for example, expressing opinions based on his expert perspective as a certified public accountant and certified tax accountant. Mr. Kuwano also attended all 11 of Audit & Supervisory Board meetings where his activities included participation in exchanges of opinions and discussions of audit results and important audit-related matters.
Audit & Supervisory Board Member	Atsushi Inuzuka	Mr. Inuzuka attended 9 of the 12 Board of Directors meetings held during the fiscal year under review and provided advice and recommendations that supported reasonable and appropriate decision-making within the Board of Directors by, for example, expressing opinions based on his abundant experience and deep insight about management as a business manager in the other industry. Mr. Inuzuka also attended 9 of the 11 Audit & Supervisory Board meetings where his activities included participation in exchanges of opinions and discussions of audit results and important audit-related matters.

## Notes:

1. Director, Mr. Chikao Fukuda attended all 12 Board of Directors meetings held during the fiscal year under review, including two meetings which he attended as an Audit & Supervisory Board Member before appointed as a Director at the 60th Annual General Meeting of Shareholders held on June 27, 2012.
2. Since Audit & Supervisory Board Member Mr. Atsushi Inuzuka was appointed at the 60th Annual General Meeting of Shareholders held on June 27, 2012, the numbers of Board of Directors meetings and Audit & Supervisory Board meetings held are inconsistent with the numbers for other Audit & Supervisory Board Members. After his taking office, 10 Board of Directors meetings and 9 Audit & Supervisory Board meetings were held.

(D) Overview of agreements limiting liability

The Company, based on the provisions of Article 427, Paragraph 1 of the Companies Act, has entered into agreements that limit the liability of each of the External Directors and External Audit & Supervisory Board Members in the manner provided in Article 423, Paragraph 1 of the Companies Act.

Based on these agreements, the liability of Mr. Katsuyoshi Iwashiro and Mr. Chikao Fukuda, who are both Directors, shall be limited to the higher of an amount of at least ¥3 million or an amount stipulated by laws and regulations, and the liability of Mr. Tadao Kuwano and Mr. Atsushi Inuzuka, who are both Audit & Supervisory Board Members, shall be limited to the higher of an amount of at least ¥2 million or an amount stipulated by laws and regulations.

**(4) Accounting Auditor**

1) **Name:** KPMG AZSA LLC

**2) Compensation**

	Amount of Payment
Compensation for work related to the fiscal year under review	¥50 million
Total monetary and other assets payable to the Accounting Auditor by the Company and its subsidiaries	¥56 million

Notes:

1. Among the Company's principal subsidiaries, Hakuto Enterprises Ltd., Hakuto Singapore Pte. Ltd. and Hakuto Taiwan Ltd. have all undergone statutory audits by accounting auditors other than the one retained by the Company.
2. The audit agreement between the Company and its Accounting Auditor does not distinguish compensation paid for audit work performed in conformity with the Companies Act and compensation paid for audit work performed in conformity with the Financial Instruments and Exchange Law, and it is effectively impossible to do so. Accordingly, the amount of compensation paid for audit work related to the fiscal year under review is reported as the total of these two amounts.

**3) Non-audit work**

The Company pays a fee to its Accounting Auditor for advisory duties regarding Internal controls to examine adoption of new core system and financial reporting, which are professional duties other than those stipulated in Article 2, Paragraph 1 of the Certified Public Accountants Law.

**4) Policy regarding decisions to dismiss or not reappoint an accounting auditor**

Should Audit & Supervisory Board resolve to dismiss an Accounting Auditor under the provisions of Article 340 of the Companies Act, or if the Company's audit work is obstructed by an event like a business cessation order issued to an Accounting Auditor by regulatory authorities, the Company, with the agreement of Audit & Supervisory Board or at the behest of Audit & Supervisory Board, shall submit to the General Meeting of Shareholders a resolution to either dismiss or not reappoint the Accounting Auditor.

**(5) Basic policy for construction of internal control systems**

The Company resolved, at the meeting of the Board of Directors, the basic policy to establish "Systems for ensuring that execution of duties by directors complies with laws

and regulations and the articles of incorporation, and other systems necessary to ensure the properness of operation of a company" (internal control system) provided for in Article 362, Paragraph 5 of the Companies Act and Article 100, Paragraph 1 and Paragraph 3 of the Enforcement Regulations of the Companies Act as follows:

**1) Systems for ensuring that actions taken by Directors and employees are in compliance with both the laws and regulations of Japan and the Company's Articles of Incorporation**

- (A) With the Hakuto Group Ethical Code and the Rules for Compliance serving as Hakuto's code of conduct, training and other measures targeting Directors and employees shall be regularly implemented to ensure that all company activities are in compliance with the laws and regulations of Japan and consistent with social mores.
- (B) A Director shall be appointed to bear managerial responsibility for compliance activities. Working under this Director, the General Affairs Dept., which shall bear operational responsibility for compliance activities, shall prepare compliance programs and build and maintain compliance systems. The Internal Control Office shall audit compliance system functions and effectiveness.
- (C) Based on the Rules for Ethics, the Compliance Committee shall be established and chaired by the President of the Company. This Committee shall discuss important compliance matters and report the results of these discussions to the Board of Directors.
- (D) A channel allowing employees to directly report to the Compliance Committee information on violations of laws and regulations or social mores shall be established and maintained.
- (E) No relationship whatsoever shall be had with anti-social factions and groups which may threaten the order or safety of the civil society, and the Company shall take a resolute stance systematically against any undue claims or sabotage attacks through close coordination with outside professionals such as the police and lawyers.

**2) Systems for preserving and managing information on Directors' performance of their duties**

- (A) Documents (including electromagnetic record) relating to Directors' performance of their duties shall be preserved and managed, together with related information, as required by the Rules for Document Management. This information shall be maintained in viewable condition for at least ten years, as necessary.
- (B) In accordance with the Information Security Policies, the Rules for Electronic Data Management and other rules for information security, protection, management and use of electronic information shall be improved and facilitated.

**3) Rules and other systems to manage the risk of loss**

- (A) A Director shall be appointed to be responsible for risk management. Working under this Director, the General Affairs Dept., which shall bear operation responsibility for risk management, shall construct a company-wide risk management system.
- (B) A director responsible for risk management decides departments in charge of each type of risk. Those departments carry out various measures to make risk management more effective, and continuously monitor status of risk management.
- (C) In preparation for the possibility of the realization of risks, the Rules for Crisis Management including emergency measures, measures for containing damage, recovery measures, and measures for preventing recurrences shall be formulated. When risks are realized, damage shall be minimized by responding swiftly and appropriately.

**4) Systems for ensuring Directors perform their duties effectively**

- (A) Efficient performance of duties by Directors shall be promoted by appropriately implementing management systems. These systems shall cover the formulation of management plans by the Board of Directors, the setting of performance objectives and budgets and the management of performance on a monthly and quarterly basis for each business segment by responsible Directors based on management plans, and the review of monthly and quarterly performance and the implementation of performance improvement measures by the Board of Directors and Board of Managing Directors.
- (B) The speed of decision-making shall be increased through measures like simplifying the decision-making process. The Board of Managing Directors shall make a decision on important matters in a council system to ensure decisions are made with heightened caution.
- (C) To ensure the efficient performance, and establish responsibility for, actions taken based on Board of Directors resolutions, responsible parties, their responsibilities and implementation details shall be determined based on the Rules for General Organization, the Rules for Segregation of Duties and the Rules for Administrative Authority.

**5) Systems for ensuring the propriety of business activities pursued by the Corporate Group consisting of the Company and its subsidiaries**

- (A) With the Hakuto Group Ethical Code serving as a code of conduct for group companies, Internal Control Systems for the Hakuto Group shall be constructed by having each individual group company adopt necessary rules based on the Hakuto Group Ethical Code.
- (B) The Directors responsible for compliance and risk management shall retain authority and responsibility for the construction of compliance and risk management systems at each subsidiary. The General Affairs Dept. shall promote and manage the construction of these systems throughout the Hakuto Group.
- (C) The Corporate Planning Department shall adopt the Rules for Managing Subsidiaries and implement management measures as dictated by conditions at subsidiaries.
- (D) Based on the Financial Instruments and Exchange Law, each Group company shall establish and implement necessary, appropriate internal controls over financial reporting in order to ensure the reliability of the financial reports of the Hakuto Group. In addition, the Internal Control Office shall periodically examine the effectiveness of the internal controls, report findings to the Board of Directors and provide advice on improvement and corrective measures as per need, as required by the Rules for Internal Control.

**6) Matters regarding employees whom Audit & Supervisory Board Members request to assist them in their duties, and matters regarding the independence of such employees from Directors**

The Rules concerning the employees appointed to support Audit & Supervisory Board Members in their duties shall be provided, and employees supporting Audit & Supervisory Board Members in their duties shall be appointed from among the Company's employees. The Audit & Supervisory Board's agreement shall be obtained regarding the transfers and performance evaluations of such employees. Employees assigned to assist Audit & Supervisory Board Members shall not simultaneously bear responsibility for the Company business activities and shall not follow directions issued by Directors.

**7) Systems allowing Directors and employees to report to Audit & Supervisory Board Members, and other systems concerning reporting to Audit & Supervisory Board Members**

Directors and employees shall immediately report to Audit & Supervisory Board events causing great damage to the Company, events that are likely to cause great damage to the Company should they happen, discoveries of illegal or improper activity, and other events specified as warranting a report to Audit & Supervisory Board. Audit & Supervisory Board Members may also seek reports from Directors and employees. Reports shall be submitted in formats determined in discussions by the Directors and Audit & Supervisory Board.

**8) Other systems for ensuring the efficient performance of audits by Audit & Supervisory Board Members**

Discussions shall be regularly held with the President to promote appropriate mutual understanding and the effective performance of audit work.

**(6) Policies regarding the distribution of retained earnings**

The Company has positioned the enhancement of shareholder returns as an important management policy and made it a fundamental policy to distribute shareholder returns based on considerations of the Company's performance and the need to build internal reserves to strengthen the Company's finances and prepare for future business expansion. Dividends shall be distributed with the basic intent of maintaining a stable payout and the goal of achieving a consolidated dividend payout ratio of at least 20%, after overall considerations of factors like each fiscal year's performance, financial conditions and future business strategies. Internal reserves shall be actively invested in business fields with high growth and profit potential, to strengthen sales and technical capabilities and invest in areas like capital facilities and R&D with the goal of expanding the Company's business in the future.

Regarding the year-end dividend payment for the fiscal year under review, we resolved to pay the dividend of ¥20 per share according to the above-mentioned policies at the Board of Directors meeting held on May 8, 2013. Added to the interim dividend of ¥15 per share paid in December 2012, the total amount of dividends paid for the fiscal year under review is ¥35 per share, and the consolidated payout ratio is 38.2%.

In order to flexibly carry out a capital policy, we will acquire common stocks for treasury shares in an appropriate manner, considering financial conditions and other factors.

**(7) Basic policies on company control**

The Company, in a Board of Directors meeting, has resolved the following concerning the basic policies regarding those who direct the determination of the company's financial and operational policies ("the basic policies"), which are stipulated in Article 118 of the Companies Act Enforcement Regulations.

**1) Content of the basic policies**

Under its management philosophy that Hakuto, through its sound business, is committed to contributing to the development of Japanese industries and global trading as well as the welfare and peace of human society, the Company, as an electronics trading company handling the most technologically advanced electronic and electric equipment and electronic components, and as a chemical manufacturer producing environmentally friendly industrial chemicals, has worked to stably provide products and services to meet the needs of the times and, as generating appropriate levels of profits, has practiced solid and stable management over the long term.

The Company is characterized by its status as an independent trading company with no

ties to a specific manufacturer, and the consequent independence of its management. This means that the Company, in its inventory procurement, is not limited to the offerings of specific manufacturers and can handle a wide variety of domestic and overseas products, and has allowed the Company to create a supply system perfectly suited to customers' diversifying needs and work with manufacturers to develop products that meet customer needs. As a trading company linking suppliers, who are manufacturers, and customers, our corporate culture of placing a high value on people-to-people connections has formed a tight network, binding suppliers with customers, and embodies mutual development and the creation of positive relationships since our foundation to present.

As a technical trading company and chemical manufacturer, personnel with expert knowledge in the fields of electronics and electricity, and chemistry, are indispensable for providing added value, improving customer satisfaction, and developing competitive products. Employees are necessarily the core of our management resources and the Company has consistently pursued management policies that spare no time or capital when it comes to securing outstanding personnel and providing ongoing training.

Tangible and intangible assets in the form of the Company's management philosophy, which is based on the high ambition of contributing to society, commercial rights based on sales agent agreements with suppliers, technology and know-how, and personnel who share a corporate culture and have deep knowledge of their work have increased the Company's corporate value, enhanced the soundness of its finances, and made it possible for the Company to forthrightly return profits to shareholders in forms such as dividends that have either been stable or risen on Company performance, and treasury share acquisitions.

Judging from the Company's management to date and the conduct of companies that have won generally high praise from society, those who direct the determination of the Company's financial and operational policies must develop a full understanding of, and maintain based on that understanding, the trusting relationships with the various stakeholders supporting the Company, and secure, and maximize, the Company's corporate value and the common interests of the shareholders over the medium-to-long term. It follows, therefore, that those who inappropriately purchase large quantities of the Company's stock or engage in similar activity with a high likelihood of damaging the Company's corporate value and the common interests of shareholders would be inappropriate for directing the determination of Company's financial and operational policies.

## **2) Initiatives contributing to realization of the basic policies**

### **(A) Initiatives aimed at increasing corporate value and maximizing the common interests of shareholders**

We seek to enhance the collaboration between the Electronics Segment and the Chemical Segment to enjoy a synergy effect and also establish a solid management base focusing on the good balance of major Divisions.

Additionally, for further improving our corporate value, we plan to implement the following strategies in each segment:

#### **■ Electronics Segment**

We will thoroughly implement the user-oriented (customer viewpoint) sales and marketing activities and enhance the coordination function for the purpose of creating and maximizing the added value. We also intend to acquire and maintain the top position as a business agent in various commercial rights by completely acquiring important customers in the target market of each product.

■ Chemicals Segment

Backed by higher awareness of environment protection measures, we will exploit a new demand and provide new products that can meet the needs of the society. We will also develop markets and customers where we can expect the synergy effect with the Electronics Division.

(B) Initiatives for preventing parties who are inappropriate, in light of the basic policies, from directing the determination of the Company's financial and operational policies

The Company, in order to secure, and maximize, the Company's corporate value and the common interests of the shareholders, is currently discussing the positive and negative aspects of initiatives (measures defined in Article 118 Paragraph 3. b. of the Companies Act Enforcement Regulations and referred to below as "anti-takeover defenses") intended to prevent parties who are inappropriate, in light of the basic policies, from directing the determination of the Company's financial and operational policies, and has not yet resolved to implement any particular anti-takeover defenses.

Nevertheless, should the source of the Company's corporate value over the medium-to-long term come under threat by the acquisition of 20% or more of the Company's outstanding shares by a particular individual or group, or if increases in the Company's corporate value or maximization of common shareholder interests are otherwise threatened, the individual or group engaging in such a share acquisition shall be deemed inappropriate for directing the determination of the Company's financial and operation policies, and the Board of Directors, in pursuit of its fiduciary responsibility to make prudent management judgments, may take appropriate defensive measures, to the extent allowed by the laws and regulations of Japan and the Company's Articles of Incorporation, to increase the Company's corporate value and maximize the common shareholder interest.

Note: Effective from the fiscal year under review, the monetary amounts included in this Business Report are rounded down to the nearest unit. In order to make comparison easy, the amounts in the previous years, which were rounded to the nearest unit, are also presented in the amount rounded down to the nearest unit.

## Consolidated Balance Sheet

As of March 31, 2013

(Unit: Million yen)

<b>Assets</b>	
<b>Current assets</b>	<b>59,686</b>
Cash and deposits	11,364
Notes and accounts receivable - trade	29,613
Marketable securities	0
Merchandise and finished goods	15,779
Work in progress	90
Raw materials and supplies	394
Deferred tax assets	714
Other current assets	1,862
Less: Allowance for doubtful accounts	(134)
<b>Noncurrent assets</b>	<b>14,489</b>
<b>Tangible fixed assets:</b>	<b>6,545</b>
Buildings and structures	1,594
Land	3,493
Other tangible fixed assets	1,457
<b>Intangible assets:</b>	<b>1,509</b>
<b>Investments and other assets:</b>	<b>6,435</b>
Investment securities	5,869
Deferred tax assets	39
Other investments	645
Less: Allowance for loss on investment securities	(80)
Less: Allowance for doubtful accounts	(38)
<b>Total assets</b>	<b>74,176</b>

## Consolidated Balance Sheet

As of March 31, 2013

(Unit: Million yen)

<b>Liabilities</b>	
<b>Current liabilities</b>	<b>24,644</b>
Notes and accounts payable - trade	11,619
Electronically recorded obligations - operating	2,198
Short-term borrowings	5,921
Accrued income taxes	610
Allowance for bonuses to employees	772
Allowance for product warranty	22
Other current liabilities	3,498
<b>Long-term liabilities</b>	<b>5,978</b>
Long-term borrowings	4,003
Deferred tax liabilities	1,377
Allowance for employees' severance and retirement benefits	346
Allowance for directors' severance and retirement benefits	36
Other long-term liabilities	214
<b>Total liabilities</b>	<b>30,622</b>
<b>Net Assets</b>	
<b>Shareholders' Equity</b>	<b>41,612</b>
Capital stock	8,100
Capital surplus	7,491
Retained earnings	30,205
Less: Treasury shares	(4,184)
<b>Accumulated other comprehensive income</b>	<b>1,940</b>
Other unrealized gains on available-for-sale securities	2,166
Gains or losses on deferred hedge	77
Less: Foreign currency transaction adjustment	(303)
<b>Total net assets</b>	<b>43,553</b>
<b>Total liabilities and net assets</b>	<b>74,176</b>

## Consolidated Statement of Income

April 1, 2012 to March 31, 2013

(Unit: Million yen)

<b>Sales</b>		<b>111,823</b>
<b>Cost of sales</b>		<b>94,707</b>
<b>Gross profit</b>		<b>17,115</b>
<b>Selling, general and administrative expenses</b>		<b>14,013</b>
<b>Operating income</b>		<b>3,101</b>
<b>Non-operating revenue</b>		
Interest and dividend income	179	
Investment profit on equity method	74	
Foreign exchange gains	138	
Other miscellaneous revenues	97	488
<b>Non-operating expenses</b>		
Interest expense	108	
Claim management expenses	10	
Other miscellaneous expenses	35	155
<b>Ordinary profit</b>		<b>3,435</b>
<b>Extraordinary income</b>		
Gain on sale of tangible fixed assets	86	
Gain on sale of investment securities	17	
Compensation income	140	
Other miscellaneous income	5	250
<b>Extraordinary losses</b>		
Loss on sales and disposal of tangible fixed assets	37	
Asset impairment loss	435	
Loss on sale of investment securities	0	
Supplemental cost for withdrawal from employees' pension fund	56	
Provision for allowance for loss on investment securities	80	
Other miscellaneous losses	0	611
<b>Income before income taxes and minority interest</b>		<b>3,073</b>
Income taxes - current	1,165	
Income taxes - deferred	(96)	1,068
Income before minority interests		2,005
<b>Net income</b>		<b>2,005</b>

## Consolidated Statement of Changes in Net Assets

April 1, 2012 to March 31, 2013

(Unit: Million yen)

<b>Shareholders' Equity</b>	
<b>Capital stock</b>	
Balance at beginning of the term	8,100
Changes during the term	
Total changes during the term	-
Balance at end of the term	8,100
<b>Capital surplus</b>	
Balance at beginning of the term	7,491
Changes during the term	
Total changes during the term	-
Balance at end of the term	7,491
<b>Retained earnings</b>	
Balance at beginning of the term	28,965
Changes during the term	
Cash dividends	(765)
Net income	2,005
Total changes during the term	1,240
Balance at end of the term	30,205
<b>Treasury shares</b>	
Balance at beginning of the term	(4,184)
Changes during the term	
Acquisition of treasury shares	(0)
Total changes during the term	(0)
Balance at end of the term	(4,184)
<b>Total shareholders' equity</b>	
Balance at beginning of the term	40,372
Changes during the term	
Cash dividends	(765)
Net income	2,005
Acquisition of treasury shares	(0)
Total changes during the term	1,240
Balance at end of the term	41,612

(Unit: Million yen)

<b>Accumulated other comprehensive income</b>	
<b>Other unrealized gains on available-for-sale securities</b>	
Balance at beginning of the term	1,894
Changes during the term	
Net changes in items other than shareholders' equity during the term	271
Total changes during the term	271
Balance at end of the term	2,166
<b>Gains or losses on deferred hedge</b>	
Balance at beginning of the term	19
Changes during the term	
Net changes in items other than shareholders' equity during the term	58
Total changes during the term	58
Balance at end of the term	77
<b>Foreign currency transaction adjustment</b>	
Balance at beginning of the term	(1,177)
Changes during the term	
Net changes of items other than shareholders' equity during the term	874
Total changes during the term	874
Balance at end of the term	(303)
<b>Total accumulated other comprehensive income</b>	
Balance at beginning of the term	736
Changes during the term	
Net changes in items other than shareholders' equity during the term	1,204
Total changes during the term	1,204
Balance at end of the term	1,940
<b>Minority interests</b>	
Balance at beginning of the term	150
Changes during the term	
Net changes in items other than shareholders' equity during the term	(150)
Total changes during the term	(150)
Balance at end of the term	-
<b>Total net assets</b>	
Balance at beginning of the term	41,260
Changes during the term	
Cash dividends	(765)
Net income	2,005
Acquisition of treasury shares	(0)
Net changes in items other than shareholders' equity during the term	1,053
Total changes during the term	2,293
Balance at end of the term	43,553

## Notes to Consolidated Financial Statements

### Basis of Presentation of Consolidated Financial Statements

#### 1. Matters relating to the scope of consolidation

##### (1) Number and name of consolidated subsidiaries

Number of consolidated subsidiaries: 14

Name of consolidated subsidiaries:

Hakuto A&L Co., Ltd., Fuyo Chemical Industries Co., Ltd., Hakuto Enterprises Ltd., Hakuto Singapore Pte. Ltd., Hakuto Taiwan Ltd., Hakuto (Thailand) Ltd., Hakuto Engineering (Thailand) Ltd., Shunde Morning Sky Electrical Co., Ltd., Hakuto Enterprises (Shanghai) Ltd., Hakuto Trading (Shenzhen) Ltd., MOLDEC CO., LTD., Microtek Inc., Microtek Hongkong Ltd., and Microtek Shanghai Ltd.

##### (2) Name etc. of non-consolidated subsidiaries:

Hakuto California, Inc.

The non-consolidated subsidiary Hakuto California, Inc. is excluded from the scope of consolidation as its impact on total assets, sales, consolidated profits and losses and retained earnings on the Company is largely immaterial.

#### 2. Matters relating to the application of equity method

##### (1) Number and name of affiliates to which the equity method is applied

Number of equity method affiliates: 3

Name of equity method affiliates:

San ei giken Inc., ASA Systems Inc., LUFS INC.

Among the companies shown above, LUFS INC., which was newly established in the fiscal year under review, is included in the scope of application of the equity method.

##### (2) Non-consolidated subsidiaries to which the equity method is not applied

Name of non-consolidated subsidiary:

Hakuto California, Inc.

Reasons for not applying the equity method to Hakuto California, Inc.

Hakuto California, Inc. is excluded from the scope of application of the equity method as its impact on consolidated profits and losses and retained earnings is immaterial.

#### 3. Matters relating to the fiscal year of consolidated subsidiaries

Account settlement dates of Shunde Morning Sky Electrical Co., Ltd., Hakuto Enterprises (Shanghai) Ltd., and Hakuto Trading (Shenzhen) Ltd. are the end of December. The consolidated financial statements were prepared on the basis of their financial statements in which accounts were tentatively closed as of the consolidated account settlement date.

Account settlement dates of Microtek Hongkong Ltd. and Microtek Shanghai Ltd. are the end of December. The consolidated financial statements were prepared by using their financial statements as of the end of December. In relation to important transactions made between their account settlement date and the consolidated closing date, they make adjustments as necessary on a consolidated basis.

The ending days of the fiscal year of other consolidated subsidiaries are consistent with the consolidated account settlement date.

#### 4. Accounting policies

##### (1) Valuation standards and methods for material assets

- 1) Securities
    - Other securities
    - Available-for-sale securities
      - Securities for which market quotations are available:
        - Stated at fair market value based on the market prices on the balance sheet date. (Net unrealized gains/losses are directly charged to shareholders' equity and the cost of sales is computed using the moving average method).
      - Securities for which market quotations are unavailable:
        - Valued at cost using the moving average method.
  - 2) Derivatives
    - Stated at fair market value.
  - 3) Inventories
    - Merchandise, finished products, raw materials and work in progress: Stated at cost using the moving average method (the value stated in the balance sheet is calculated based on the method of reducing the book value in accordance with the decline in profitability).
    - Supplies: Stated at cost using the first-in, first-out method (the value stated in the balance sheet is calculated based on the method of reducing the book value based in accordance with the decline in profitability).
- (2) Depreciation methods for important depreciable assets
- 1) Tangible fixed assets (except for lease assets)
    - The declining-balance method is used for tangible fixed assets of the Company and its domestic consolidated subsidiaries. However, the straight-line method is used for buildings (excluding connected fixed installations) acquired on or after April 1, 1998. The standards stipulated in the Corporate Tax Law are used with respect to useful life and residual value. Regarding overseas consolidated subsidiaries, the useful life is determined by individual estimation, and the straight-line method is used for buildings, while the declining-balance method is used for other tangible fixed assets.
  - 2) Intangible assets (except for lease assets)
    - a) Software for in-house use
      - Software for in-house use is amortized by using the straight-line method over the estimated useful life of five (5) years.
    - b) Other intangible assets
      - Other intangible assets are amortized by using the straight-line method over the useful lives stipulated in the Corporate Tax Law.
  - 3) Lease assets
    - (a) Lease assets pertaining to finance lease transactions involving the transfer of ownership
      - Lease assets pertaining to finance lease transactions involving the transfer of ownership are calculated by the same depreciation method as applied to the Company's noncurrent assets.
    - (b) Lease assets pertaining to finance lease transactions not involving the transfer of ownership
      - Lease assets pertaining to finance lease transactions not involving the transfer of ownership are calculated by the straight-line method treating the lease period as the useful life and the residual value as zero.
- (3) Allowances and provisions
- 1) Allowance for doubtful accounts
    - Allowance for doubtful accounts for non-specific purposes is stated at the amounts based on the historical loss rates, while allowances for specific claims, including

Loans to Borrowers with High Possibility of Business Failure, are made at the amounts deemed necessary based on individual assessment on collectability of claims.

2) Allowance for loss on investment securities

Allowance for possible loss on investments in securities of certain companies for specific projects is stated at the amount deemed necessary, taking into account the financial position of these companies.

3) Allowance for bonuses to employees

Allowance for bonuses to employees of the Company and some of its subsidiaries is recognized on an accrual basis in the reporting period.

4) Allowance for product warranty

Allowance for expenses required for free-of-charge repairs and changes of products for predetermined periods is provided in the amount deemed necessary in accordance with internal regulations based on the historical data.

5) Allowance for employees' severance and retirement benefits

Allowance for severance and retirement benefits to employees of the Company and some of its subsidiaries is recognized based on the estimated balance of retirement benefit obligations and pension assets as of the end of the term. Actuarial differences will be amortized over the period of ten (10) years, which is within the averaged remaining service period of the employees, using the straight-line method, from the following term when the actuarial difference is recognized.

6) Allowance for directors' severance and retirement benefits

Allowance for severance and retirement benefits to directors of the Company and some of its consolidated subsidiaries is set at the estimated amounts required at the end of the term in accordance with internal regulations. As the retirement benefit system was changed in June 2004, no allowance has been made in and after July of that year.

(4) Significant hedge accounting method

1) Hedge accounting method

The deferred hedge accounting is applied. A specific treatment is used for interest rate swaps that satisfy requirements for the specific treatment of interest rate swaps in hedge accounting. The Company applies designations to forward exchange contracts that fulfill the requirements for the designation method.

- 2) Hedge instruments and hedge items
  - a. Hedge instruments: Forward exchange contracts  
Hedge items: Anticipated transactions in foreign currencies
  - b. Hedge instruments: Interest rate swaps  
Hedge items: Bank loans (floating interest rate)
- 3) Hedge policy  
In accordance with the Regulations on Market Risk Management and the Foreign Exchange Contract Conclusion Manual of the Company, currency movement risks are hedged for forward exchange contracts, etc. The purpose of interest rate swaps is to reduce the possibility of losses on borrowings as a result of interest rate fluctuations.
- 4) Valuation method for effectiveness of hedging activities  
With respect to forward exchange contracts, important terms for foreign currency transactions in hedge instruments and hedge items can be regarded as the same. Since this can be assumed to establish a complete offset of currency movements at the time of commencement of hedging activities and thereafter continuously, the valuation of effectiveness is omitted.  
Further, because a special treatment is effectuated to satisfy the requirements for special treatments of interest rate swaps, the effectiveness evaluation is omitted.
- (5) Other basis of presentation of consolidated financial statements  
Accounting for consumption taxes  
The tax-exclusion method is used for consumption taxes and local consumption taxes.
5. Method and period of amortization of goodwill  
Goodwill is amortized by using the straight line method over a period of five years.
6. Changes in accounting policies  
(Changes in significant hedge accounting method)  
Previously, as for forward exchange contracts related to monetary claims and liabilities in foreign currency, the Company used designation method. However, in order to quickly recognize impacts from fluctuation in exchange, and appropriately reflect conditions of monetary claims and liabilities in foreign currency and derivatives transaction in the consolidated financial statements even for the period with volatile exchange rates, forward exchange contracts as hedging instruments are stated at fair value from the fiscal year under review onward.  
As this change does not have material impacts on the past period, the above method was not retroactively applied.  
This change does not have significant impacts on profit and loss, either.
7. Changes in accounting policies which are difficult to distinguish from change in accounting estimate  
(Change in depreciation method)  
In accordance with the revised Corporate Tax Law, from the fiscal year under review, the Company and its domestic consolidated subsidiaries changed the depreciation method for tangible fixed assets acquired on and after April 1, 2012.  
This change does not have significant impacts on profit and loss.
8. Changes in presentation method  
(Consolidated statement of income)  
"Insurance return" in "Extraordinary income", which was independently presented in the previous fiscal year, is included in "Other miscellaneous income" in "Extraordinary income" due to a decrease in amount and significance in the fiscal year under review.

"Loss on sale of membership" in "Extraordinary losses", which was independently presented in the previous fiscal year, is included in "Other miscellaneous losses" in "Extraordinary losses" due to a decrease in amount and significance in the fiscal year under review.

## Notes to Consolidated Balance Sheet

1. Accumulated amounts of depreciation for tangible fixed assets: ¥9,511 million
2. Government grants on acquisition of tangible fixed assets eligible for reduction from acquisition costs:  
Buildings ¥6 million

## Notes to Consolidated Statement of Income

1. Compensation income  
For the fiscal year under review, compensation income was recorded from Tokyo Electric Power Company, Incorporated for lost profit of consolidated subsidiary MOLDEC CO., LTD.
2. Asset impairment loss  
For the fiscal year under review, the Group recorded the asset impairment loss on the following assets:

Place	Use	Type
Funabashi-shi, Chiba	Plant	Land, etc.

The Group grouped assets by division and consolidated subsidiary, and dormant assets by individual asset.

In the fiscal year under review, manufacturing functions of Funabashi Plant owned by Fuyo Chemical Industries Co., Ltd., the Company's consolidated subsidiary, were transferred to the Company's Yokkaichi Factory, as a production streamlining policy in the Industrial Chemicals business. As it was decided to sell noncurrent assets of Funabashi Plant, book values of relevant land, etc. were decreased to recoverable values. Therefore, the decrease of ¥435 million was stated as asset impairment loss in extraordinary losses.

The recoverable value is estimated on the basis of net sales value, and net value available for sale is assessed based on appraisal value.

3. Supplemental cost for withdrawal from employees' pension fund  
In the fiscal year under review, supplemental cost was recorded accompanying the withdrawal from an employees' pension fund by consolidated subsidiary Fuyo Chemical Industries Co., Ltd.

## Notes to Consolidated Statement of Changes in Net Assets

### 1. Class and number of outstanding shares and treasury shares

	Number of shares at beginning of the previous term (shares)	Increase during the term (shares)	Decrease during the term (shares)	Number of shares as of end of the term (shares)
Outstanding shares				
Common shares	24,137,213	–	–	24,137,213
Total	24,137,213	–	–	24,137,213
Treasury shares				
Common shares (Note)	2,278,594	130	–	2,278,724
Total	2,278,594	130	–	2,278,724

Note: The number of treasury shares in common shares increased by 130 shares with acquisition of 130 fractional shares.

### 2. Dividends

#### (1) Dividend payment

Resolution	Class of share	Total dividends paid (million yen)	Per share dividends (yen)	Record date	Effective date
Board of directors Meeting held on May 11, 2012	Common shares	437	20.00	March 31, 2012	June 11, 2012
Board of directors Meeting held on October 31, 2012	Common shares	327	15.00	September 30, 2012	December 10, 2012

#### (2) Dividend payment whose record date is during this fiscal year but whose effective date is during the following fiscal year

Resolution	Class of share	Total dividends paid (million yen)	Source of dividend payment	Per share dividends (yen)	Record date	Effective date
Board of directors Meeting held on May 8, 2013	Common shares	437	Retained earnings	20.00	March 31, 2013	June 10, 2013

## Notes to Financial Instruments

### 1. Matters concerning the state of financial instruments

#### (1) Policy to handle financial instruments

The Group procures operating funds particularly for sale of electronic components and equipment, and production and sale of petrochemical products with bank loans. Temporary surplus funds are managed as safe and secure deposits or loans to our group companies. We use derivatives to hedge risks of interest-rate and exchange-rate fluctuations of borrowings, and do not intend to conduct risky transactions.

#### (2) Contents and risks of financial instruments, and relevant risk management systems

Notes and accounts receivable - trade, which are operating receivables, are exposed to consumer credit risk. The said risk is controlled by the Sales Administration Department of the division responsible for credit administration according to the Company's rule regarding the administration of credit and the Company's rule regarding account receivables, etc.

Investment securities are exposed to risk of market price fluctuations. To deal with this risk, the Financial and Accounting Department checks market prices on a regular basis and report them to the Board of Managing Directors. Payment due dates of most notes and accounts payable - trade, which are operating debt and electronically recorded obligations - operating, are within one year.

While some borrowings are exposed to the risk of interest-rate fluctuations, we use interest-rate swaps as a hedging instrument. As requirements for special accounting treatment of interest-rate swaps are fulfilled, the valuation method of hedge effectiveness is omitted based on these grounds.

Derivative transaction include forward exchange contracts for the purpose of hedging exposure to the risk of exchange-rate fluctuations relating to operating accounts receivable and payable in foreign currency. Because each one of the derivative transaction contracts of the Company and part of the consolidated subsidiaries are concluded with highly trustworthy banks inside Japan, the Company judges there is barely any credit risk related to the non-performance of contract by the other parties.

The risk management system for forward exchange contracts is managed by the Manager of Financial and Accounting Department in accordance with the Regulations on Market Risk Management and the Foreign Exchange Contract Conclusion Manual of the Company, and the balance of the forward exchange contracts is reported at the regular monthly meeting of the Board of Directors as a monthly statement of accounts.

For further details of hedging instruments, hedged items, hedging policy and the valuation method of hedge effectiveness, etc. pertaining to hedge accounting, see "Significant hedge accounting method" in "Accounting policies" shown above.

#### (3) Supplemental explanation on matters concerning market value of financial instruments, etc.

Fair values of financial instruments include the values based on market prices, and the values deemed as market prices obtained by the reasonable estimate when the financial instruments do not have market prices. Such a value is calculated in consideration of variation factors. Therefore, the value may be changed depending on prerequisites to be adopted. Also, concerning the contracted amounts etc. related to derivative transaction in "2. Matters concerning market value of financial instruments, etc." the amounts themselves should not be considered indicative of the market risk associated with the derivative transaction.

#### (4) Concentration of credit risks

There is no special case of concentration of credit risks as of the end of fiscal year under review.

## 2. Matters concerning market value of financial instruments, etc.

Amounts recorded in the consolidated balance sheet, market value, and differences between them as of March 31, 2013 are as stated below. Financial instruments of which market value cannot be easily known are not included in the following table. (See Note 2.)

	Amount recorded in consolidated balance sheet (million yen)	Market value (million yen)	Difference (million yen)
(1) Cash and deposits	11,364	11,364	–
(2) Notes and accounts receivable-trade	29,613	29,613	–
(3) Marketable securities	0	0	–
(4) Investment securities	4,826	4,826	–
Total assets	45,803	45,803	–
(5) Notes and accounts payable-trade	11,619	11,619	–
(6) Electronically recorded obligations-operating	2,198	2,198	–
(7) Short-term borrowings	3,707	3,707	–
(8) Long-term borrowings (*1)	6,217	6,203	(14)
Total liabilities	23,741	23,727	(14)
Derivatives transaction (*2)	(82)	(82)	–

(\*1) Long-term borrowings included in current liabilities with due date within one year is included.

(\*2) The net claims or liabilities arising from derivative transaction are presented by a net amount and items which become net debt in total are expressed in parentheses.

Note 1: Calculation methods for market value of financial instruments and matters concerning securities

(1) Cash and deposits (2) Notes and accounts receivable-trade

Since these are settled in short term, their market values are close to book values. Accordingly, they are stated at book value.

(3) Marketable securities (4) Investment securities

Since marketable securities are settled in short term, their market values are close to book values. Accordingly, they are stated at book value. With respect to market value of investment securities, shares are stated at price on securities market, and bonds are stated at price on bond market or price offered by correspondent financial institutes.

(5) Notes and accounts payable-trade (6) Electronically recorded obligations-operating (7) Short-term borrowings

Since these are settled in short term, their market values are close to book values. Accordingly, they are stated at book value.

(8) Long-term borrowings

Market value of long-term borrowings is stated at current price calculated by discounting total amount of principal and interest at an interest rate expected in case of new similar borrowings.

Note 2: Financial instruments of which market value cannot be easily known

Classification	Amount recorded in consolidated balance sheet (million yen)
Shares of subsidiaries and affiliated companies	933
Unlisted shares	108

As for financial instruments shown above, there is no market value and future cash flow is not contracted. Accordingly, since it is very difficult to calculate their market values, they are not included in (4) Investment securities.

Note 3: Amounts to be redeemed with respect to monetary claims and securities with maturity date after the consolidated settlement date

	Within one year (million yen)	Over one year up to five years (million yen)	Over five years up to ten years (million yen)	Over ten years (million yen)
Cash and deposits	11,364	–	–	–
Notes and accounts receivable-trade	29,613	–	–	–
Marketable securities	0	–	–	–
Total	40,977	–	–	–

Note 4: Amounts to be repaid with respect to long-term borrowings after the consolidated settlement date

	Within one year (million yen)	Over one year up to two years (million yen)	Over two years up to three years (million yen)	Over three years up to four years (million yen)	Over four years up to five years (million yen)	Over five years (million yen)
Long-term borrowings	2,213	1,760	1,266	482	327	166

**Per share information**

Net assets per share: ¥1,992.53

Net income per share: ¥91.74

**Other notes**

All figures are rounded down to the nearest million in the Consolidated Balance Sheet, the Consolidated Statement of Income, the Consolidated Statement of Changes in Net Assets and the Notes to Consolidated Financial Statements.

## Non-Consolidated Balance Sheet

As of March 31, 2013

(Unit: Million yen)

<b>Assets</b>	
<b>Current assets</b>	<b>44,296</b>
Cash and deposits	6,694
Notes receivable - trade	2,435
Accounts receivable - trade	21,533
Marketable securities	0
Merchandise and finished goods	11,246
Work in progress	62
Raw materials and supplies	343
Advance payment	784
Prepaid expenses	133
Deferred tax assets	568
Accounts receivable-other	375
Other current assets	173
Less: Allowance for doubtful accounts	(55)
<b>Noncurrent assets</b>	<b>16,743</b>
<b>Tangible fixed assets:</b>	<b>5,006</b>
Buildings	1,176
Structures	45
Machinery and production equipment	26
Vehicles	3
Tools, furniture and fixtures	289
Land	2,821
Lease assets	176
Construction in progress	466
<b>Intangible assets:</b>	<b>1,488</b>
Goodwill	18
Leasehold rights	20
Software	73
Software in progress	1,355
Other intangible assets	20
<b>Investments and other assets:</b>	<b>10,249</b>
Investment securities	4,872
Investment securities in affiliates	3,051
Long-term loans to affiliates	2,600
Claims on obligors under rehabilitation procedure	7
Prepaid pension cost	267
Other investments	221
Less: Allowance for loss on investment securities	(80)
Less: Allowance for doubtful accounts	(688)
<b>Total assets</b>	<b>61,040</b>

## Non-Consolidated Balance Sheet

As of March 31, 2013

(Unit: Million yen)

<b>Liabilities</b>	
<b>Current liabilities</b>	<b>19,391</b>
Electronically recorded obligations - operating	2,213
Accounts payable - trade	8,789
Short-term borrowings	2,300
Long-term borrowings due within one year	2,036
Lease obligations	53
Accounts payable - other	360
Accrued expenses	775
Accrued income taxes	398
Advances received	1,568
Deposits received	276
Allowance for bonuses to employees	556
Allowance for product warranty	22
Other current liabilities	40
<b>Long-term liabilities</b>	<b>4,872</b>
Long-term borrowings	3,837
Lease obligations	120
Deferred tax assets	883
Allowance for Directors' severance and retirement benefits	2
Long-term guarantee deposited	28
<b>Total liabilities</b>	<b>24,264</b>
<b>Net Assets</b>	
<b>Shareholders' Equity</b>	<b>34,538</b>
<b>Capital stock</b>	<b>8,100</b>
<b>Capital surplus</b>	<b>7,491</b>
Appropriation for statutory reserve	2,532
Other capital surplus	4,959
<b>Retained earnings</b>	<b>23,131</b>
Other retained earnings	23,131
Reserve for reduction entry of tangible fixed assets	0
General reserve	16,000
Balance to be carried forward	7,131
<b>Less: Treasury shares</b>	<b>(4,184)</b>
<b>Valuation and exchange differences</b>	<b>2,238</b>
Other unrealized gains on available-for-sale securities	2,160
Gains or losses on deferred hedge	77
<b>Total net assets</b>	<b>36,776</b>
<b>Total liabilities and net assets</b>	<b>61,040</b>

## Non-Consolidated Statement of Income

April 1, 2012 to March 31, 2013

(Unit: Million yen)

<b>Sales</b>		<b>80,713</b>
<b>Cost of sales</b>		<b>69,154</b>
<b>Gross profit</b>		<b>11,558</b>
<b>Selling, general and administrative expenses</b>		<b>9,766</b>
<b>Operating income</b>		<b>1,791</b>
<b>Non-operating revenue</b>		
Interest and dividend income	626	
Foreign exchange gains	26	
Other miscellaneous revenues	70	723
<b>Non-operating expenses</b>		
Interest expense	82	
Claim management expenses	9	
Other miscellaneous expenses	34	126
<b>Ordinary profit</b>		<b>2,388</b>
<b>Extraordinary income</b>		
Gain on sales of tangible fixed assets	3	
Gain on sales of investment securities	2	
Reversal of allowance for doubtful accounts for subsidiaries and affiliates	76	
Other miscellaneous income	0	83
<b>Extraordinary losses</b>		
Loss on sales and disposal of tangible fixed assets	9	
Loss on sales of investment securities	0	
Provision for allowance for loss on investment securities	80	90
<b>Income before income taxes</b>		<b>2,380</b>
Income taxes - current	866	
Less: Income taxes - deferred	(15)	850
<b>Net income</b>		<b>1,530</b>

## Non-Consolidated Statement of Changes in Net Assets

April 1, 2012 to March 31, 2013

(Unit: Million yen)

<b>Shareholders' Equity</b>	
<b>Capital stock</b>	
Balance at beginning of the term	8,100
Changes during the term	
Total changes during the term	-
Balance at end of the term	8,100
<b>Capital surplus</b>	
<b>Appropriation for statutory reserve</b>	
Balance at beginning of the term	2,532
Changes during the term	
Total changes during the term	-
Balance at end of the term	2,532
<b>Other capital surplus</b>	
Balance at beginning of the term	4,959
Changes during the term	
Total changes during the term	-
Balance at end of the term	4,959
<b>Total capital surplus</b>	
Balance at beginning of the term	7,491
Changes during the term	
Total changes during the term	-
Balance at end of the term	7,491
<b>Retained earnings</b>	
<b>Other retained earnings</b>	
<b>Reserve for reduction entry of tangible fixed assets</b>	
Balance at beginning of the term	0
Changes during the term	
Reversal of reserve for reduction entry of tangible fixed assets	(0)
Total changes during the term	(0)
Balance at end of the term	0
<b>General reserve</b>	
Balance at beginning of the term	16,000
Changes during the term	
Total changes during the term	-
Balance at end of the term	16,000
<b>Balance to be carried forward</b>	
Balance at beginning of the term	6,366
Changes during the term	
Reversal of reserve for reduction entry of tangible fixed assets	0

(Unit: Million yen)

Cash dividends	(765)
Net income	1,530
Total changes during the term	765
Balance at end of the term	7,131
<b>Total retained earnings</b>	
Balance at beginning of the term	22,366
Changes during the term	
Cash dividends	(765)
Net income	1,530
Total changes during the term	765
Balance at end of the term	23,131
<b>Treasury shares</b>	
Balance at beginning of the term	(4,184)
Changes during the term	
Acquisition of treasury shares	(0)
Total changes during the term	(0)
Balance at end of the term	(4,184)
<b>Total shareholders' equity</b>	
Balance at beginning of the term	33,773
Changes during the term	
Cash dividends	(765)
Net income	1,530
Acquisition of treasury shares	(0)
Total changes during the term	764
Balance at end of the term	34,538
<b>Valuation and exchange differences</b>	
<b>Other unrealized gains on available-for-sale securities</b>	
Balance at beginning of the term	1,902
Changes during the term	
Net changes in items other than shareholders' equity during the term	257
Total changes during the term	257
Balance at end of the term	2,160
<b>Gains or losses on deferred hedge</b>	
Balance at beginning of the term	19
Changes during the term	
Net changes in items other than shareholders' equity during the term	58
Total changes during the term	58
Balance at end of the term	77
<b>Total valuation and exchange differences</b>	
Balance at beginning of the term	1,921
Changes during the term	
Net changes in items other than shareholders' equity during the term	316

(Unit: Million yen)

Total changes during the term	316
Balance at end of the term	2,238
<b>Total net assets</b>	
Balance at beginning of the term	35,695
Changes during the term	
Cash dividends	(765)
Net income	1,530
Acquisition of treasury shares	(0)
Net changes in items other than shareholders' equity during the term	316
Total changes during the term	1,081
Balance at end of the term	36,776

## Notes to Non-Consolidated Financial Statements

### Significant Accounting Policies

#### 1. Valuation standards and methods of assets

##### (1) Valuation standards and methods of securities

###### 1) Stocks of subsidiaries and affiliates

The cost method using the moving average method is used.

###### 2) Other securities

###### Available-for-sale securities

Securities for which market quotations are available:

Stated at fair market value based on the market prices on the balance sheet date. (Net unrealized gains/losses are directly charged to shareholders' equity and the cost of sales is computed using the moving average method.)

Securities for which market quotations are unavailable:

Valued at cost using the moving average method.

##### (2) Valuation standards and methods of derivatives, etc.

Derivatives: Stated at fair market value.

##### (3) Valuation standards and methods of inventories

Merchandise, finished products, raw materials and work in progress:

Stated at cost using the moving average method (the value stated in the balance sheet is calculated based on the method of reducing the book value in accordance with the decline in profitability).

Supplies: Stated at cost using the first-in, first-out method (the value stated in the balance sheet is calculated based on the method of reducing the book value in accordance with the decline in profitability).

#### 2. Depreciation and amortization for noncurrent assets

##### (1) Tangible fixed assets (except for lease assets)

Tangible fixed assets are depreciated by using the declining balance method. However, buildings (excluding connected fixed installations) acquired on or after April 1, 1998, are depreciated by using the straight-line method. The standards stipulated in the Corporate Tax Law are used with respect to useful life and residual value.

##### (2) Intangible assets (except for lease assets)

###### 1) Software for in-house use

Software for in-house use is amortized by using the straight-line method over the estimated useful life of five (5) years.

###### 2) Goodwill

Goodwill is amortized by using the straight-line method over five (5) years.

##### (3) Lease assets

Lease assets pertaining to finance lease transactions not involving the transfer of ownership

Lease assets pertaining to finance lease transactions not involving the

transfer of ownership are calculated by the straight-line method treating the lease period as the useful life and the residual value as zero.

### 3. Allowances and provisions

#### (1) Allowance for doubtful accounts

In order to provide for losses due to unrecoverable claims such as accounts receivable-trade, allowance for doubtful accounts for non-specific purposes is stated at amounts based on the historical loss rates, while allowances for specific claims, including Loans to Borrowers with High Possibility of Business Failure, are made at the amounts deemed necessary based on individual assessment on collectability of claims.

#### (2) Allowance for loss on investment securities

Allowance for loss on investment to shares of a company, etc. for specific projects was recognized at the amounts deemed necessary based on relevant company's financial position and other factors.

#### (3) Allowance for bonuses to employees

Allowance for bonus to employees of the Company is recognized on an accrual basis in the reporting period.

#### (4) Allowance for product warranty

Allowance for expenses required for free-of-charge repairs and changes of products for predetermined periods is provided in the amount deemed necessary in accordance with internal regulations based on the historical data.

#### (5) Allowance for employees' severance and retirement benefits

Allowance for employees' severance and retirement benefits is recognized based on the estimated balance of retirement benefit obligations and pension assets as of the end of the term. Actuarial differences will be amortized over the period of ten (10) years, which is within the averaged remaining service period of the employees, using the straight-line method, from the following fiscal year when the actuarial difference is recognized.

#### (6) Allowance for directors' severance and retirement benefits

Allowance for directors' severance and retirement benefits is recorded at the amount deemed necessary at the end of the term in accordance with internal regulations. As the retirement benefit system was changed in June 2004, no allowance has been made in and after July of that year.

### 4. Hedge Accounting Method

#### (1) Hedge accounting method

The deferred hedge accounting is applied. A specific treatment is used for interest rate swaps that satisfy requirements for the specific treatment of interest rate swaps in hedge accounting.

(2) Hedge instruments and hedge items

1) Hedge instruments: Forward exchange contracts, etc.

Hedge items: Anticipated transactions in foreign currencies

2) Hedge instruments: Interest swaps

Hedge items: Bank loans (rate floating interest)

(3) Hedge policy

In accordance with the Regulations on Market Risk Management and the Foreign Exchange Contract Conclusion Manual of the Company, currency fluctuations risks are hedged for forward exchange contracts, etc. We execute interest rate swaps transactions for the purpose of reducing potential losses on debts due to interest rate fluctuations.

(4) Valuation method for effectiveness of hedging activities

Important terms for foreign currency transactions in hedge instruments and hedge items can be regarded as the same. Since this can be assumed to establish a complete offset of currency fluctuations at the time of commencement of hedging activities and thereafter continuously, the valuation of effectiveness is omitted. Further, because a special treatment is effectuated to satisfy the requirements for special treatments of interest rate swaps, the effectiveness evaluation is omitted.

5. Other basis of presentation of non-consolidated financial statements

Accounting for consumption taxes

The tax-exclusion method is used for consumption taxes and local consumption taxes.

6. Changes in accounting policies

(Changes in significant hedge accounting method)

Previously, as for forward exchange contracts related to monetary claims and liabilities in foreign currency, the Company used designation method. However, in order to quickly recognize impacts from fluctuation in exchange, and appropriately reflect conditions of monetary claims and liabilities in foreign currency and derivatives transaction in the non-consolidated financial statements even for the period with volatile exchange rates, forward exchange contracts as hedging instruments are stated at fair value from the fiscal year under review onward.

As this change does not have material impacts on the past period, the above method was not retroactively applied.

This change does not have significant impacts on profit and loss, either.

7. Changes in accounting policies which are difficult to distinguish from change in accounting estimate

(Change in depreciation method)

In accordance with the revised Corporate Tax Law, from the fiscal year under review, the Company changed the depreciation method for tangible fixed assets acquired on and after April 1, 2012.

This change does not have significant impacts on profit and loss.

**Notes to Non-Consolidated Balance Sheet**

1. Accumulated amounts of depreciation for tangible fixed assets:	¥6,789	million
2. Government grants on acquisition of tangible fixed assets eligible for reduction from acquisition costs:		
Buildings	¥6	million
3. Guarantee obligations:		
Guarantee for obligations to suppliers in relation to affiliated companies	¥26	million
4. Monetary claims on and obligations to affiliates		
Short-term monetary claims:	¥3,917	million
Long-term monetary claims:	¥2,600	million
Short-term monetary obligations:	¥1,601	million

**Notes to Non-Consolidated Statement of Income**

Transactions with affiliates		
Sales to affiliates:	¥13,484	million
Purchases from affiliates:	¥4,524	million
Other operating transactions:	¥890	million
Non-operating transactions:	¥482	million

## Notes to Non-Consolidated Statement of Changes in Net Assets

Class and number of treasury shares as of the fiscal year-end

Common shares: 2,278,682 shares

### Tax effect accounting

#### 1. Major items for deferred tax assets

	(Unit: Million yen)
Allowance for bonuses to employees	211
Allowance for doubtful accounts	245
Loss on valuation of inventories	314
Loss on valuation of affiliate shares	646
Loss on valuation of investment securities	325
Depreciation	129
Gain on valuation of merger assets	43
Asset impairment loss	124
Others	297
Subtotal deferred tax assets	<u>2,334</u>
Valuation allowance	<u>(1,409)</u>
Total deferred tax assets	930

#### 2. Major items for deferred tax liabilities

	(Unit: Million yen)
Loss on valuation of investment securities	(1,102)
Gains or losses on deferred hedge	(47)
Prepaid pension cost	(95)
Others	(0)
Total deferred tax liabilities	<u>(1,244)</u>
Net deferred tax liabilities	<u>(314)</u>

## Notes to Transactions with related parties

### Subsidiaries and affiliates

(Unit: Million yen)

Position	Name	Address	Capital or investments	Business or position	Voting right ownership	Relationship with related parties	Transaction	Amount traded	Item	Balance at end of term
Subsidiary	Microtek Inc.	Shinjuku-ku, Tokyo	300	Sale of electronic components	Direct 100% holding	Purchase and sale of electronic components Concurrent officers	Loan collection (Note 1)	200	Long-term loans to affiliates (Note 3)	2,600
							Interests receipt (Note 2)	27	Current assets, etc.	0
Subsidiary	Hakuto Enterprises (Shanghai) Ltd.	Shanghai, China	728	Sale of electronic equipment and components	Direct 100% holding	Purchase and sale of electronic equipment and components Concurrent officers	Sale of electronic equipment and components (Note 4)	5,011	Account receivable - trade	1,823
Subsidiary	Hakuto Enterprises Ltd.	Tsimshatsui, Kowloon, Hong Kong	433	Sale of electronic equipment and components	Direct 100% holding	Purchase and sale of electronic components Concurrent officers	Dividend received (Note 5)	266	-	-
							Sale of electronic equipment and components (Note 4)	5,365	Account receivable - trade	1,128
Subsidiary	Hakuto Singapore Pte. Ltd.	Singapore	350	Sale of electronic equipment and components	Direct 100% holding	Purchase and sale of electronic equipment and components	Sale of electronic equipment and components (Note 4)	2,002	Account receivable - trade	622
Subsidiary	Hakuto Taiwan Ltd.	Taipei Taiwan	247	Sale of electronic equipment and components	Direct 100% holding	Purchase and sale of electronic equipment and components	Dividend received (Note 5)	141	-	-

(Terms and conditions of transactions and their decision policies, etc.)

Notes:

1. The Company and some subsidiaries introduced the Cash Management System, and the transaction value is aggregated on the net value basis.
2. Interest rates, etc. were traded under the same terms as general transactions.
3. We recorded an allowance for doubtful accounts of ¥671 million for long-term loans to affiliates for Microtek Inc. We also recorded a gain on reversal of allowance for doubtful accounts of ¥76 million for the fiscal year under review.
4. Terms and conditions for purchase and sale of goods are decided in common with those of the general transactions.
5. Dividends received are reasonably determined in accordance with a specific standard based on the distributable amount of surplus.

#### Per share information

Net assets per share: ¥1,682.49  
Net income per share: ¥70.00

#### Other notes

All figures are rounded down to the nearest million in Non-Consolidated Balance Sheet, the Non-Consolidated Statement of Income, the Non-Consolidated Statement of Changes in Net Assets and the Notes to Non-Consolidated Financial Statements.

## Reference Materials for the General Meeting of Shareholders

### Agenda items and reference materials

#### Item 1: Partial Amendments to the Articles of Incorporation

##### 1. Reasons for proposal

The Company proposes to make an addition to the business purposes provided for in the existing Article 2 of the Articles of Incorporation, in preparation for entering into the business of selling used devices including semiconductor manufacturing equipment in the Company's Electronic and Electric Equipment segment.

##### 2. Details of amendments

The amendments to the Articles of Incorporation are as follows:

(Underlining denotes change)

Current Articles	Proposed Amendments
(Purpose)	(Purpose)
Article 2. The purpose of the Company shall be to engage in the following business:	Article 2. The purpose of the Company shall be to engage in the following business:
(1) to (13)	(1) to (13)
(Omitted)	(Same as the current article)
(New)	<u>(14) Secondhand articles dealer under the Secondhand Articles Dealer Act</u>
<u>(14)</u> All businesses incidental and related to each of the above-mentioned items	<u>(15)</u> All businesses incidental and related to each of the above-mentioned items

**Item 2: Appointment of Ten (10) Directors**

The term of office of all ten (10) Directors will expire at the conclusion of this General Meeting of Shareholders. Approval of the appointment of ten (10) Directors is, therefore, requested.

Career histories of the candidates for Directors are as follows:

Candidate Number	Name (Date of Birth)	Brief History, Position, Responsibility, and Status of material holding of concurrent positions	Number of Shares of the Company Owned by the Candidate
1	Ryusaburo Sugimoto (Jun. 3, 1954)	Apr. 1978    Joined the Company Jun. 2004    Director & Vice President, Division Manager of Semiconductor Devices Div. Aug. 2006    Director & Senior Vice President, Division Manager of Semiconductor Devices 1st Div. and in charge of Semiconductor Devices 2nd Div. Jun. 2007    Director & Executive Vice President, in charge of Electronics Business and Semiconductor Devices Div. Apr. 2008    President (Representative Director) (present)	22,140

Candidate Number	Name (Date of Birth)	Brief History, Position, Responsibility, and Status of material holding of concurrent positions	Number of Shares of the Company Owned by the Candidate
2	Yoshinae Takada (May 27, 1957)	<p>Apr. 1983    Joined the Company</p> <p>Jun. 2004    Director &amp; Vice President, Manager of Corporate Planning Dept. and Financial &amp; Accounting Dept., and in charge of E.D.P. Dept.</p> <p>Jul. 2006    Director &amp; Vice President, Manager of Corporate Planning Dept. and Financial &amp; Accounting Dept. and in charge of E.D.P. Dept. and Overseas Subsidiaries Management Div.</p> <p>Apr. 2007    Director &amp; Vice President, Manager of Corporate Planning Dept. and Financial &amp; Accounting Dept. and in charge of E.D.P. Dept. and J-SOX Project Team Leader</p> <p>Jun. 2007    Director &amp; Vice President, Manager of Financial &amp; Accounting Dept. and in charge of E.D.P. Dept. and J-SOX Project Team Leader</p> <p>Apr. 2008    Director &amp; Vice President, Division Manager of Corporate Management Div. and Manager of Corporate Planning Dept. and Financial &amp; Accounting Dept.</p> <p>Jun. 2008    Director &amp; Senior Vice President, Division Manager of Corporate Management Div. and Manager of Corporate Planning Dept. and Financial &amp; Accounting Dept.</p> <p>Apr. 2009    Director &amp; Senior Vice President, Division Manager of Corporate Management Div. and Manager of Financial &amp; Accounting Dept.</p> <p>Apr. 2010    Director &amp; Senior Vice President, Division Manager of Corporate Management Div.</p> <p>Apr. 2011    Director &amp; Senior Vice President, in charge of Corporate Management Div.</p> <p>Jun. 2011    Director &amp; Executive Vice President, Supervisor over Corporate Administration Div. and Corporate Management Div. and in charge of Risk Management and Corporate Compliance</p>	5,700

Candidate Number	Name (Date of Birth)	Brief History, Position, Responsibility, and Status of material holding of concurrent positions	Number of Shares of the Company Owned by the Candidate
		<p>Nov. 2012 Director &amp; Executive Vice President, Supervisor over Corporate Administration Div. and Corporate Management Div. and Division Manager of Corporate Management Div. and Manager of Corporate Planning Dept. and Financial &amp; Accounting Dept. and in charge of Risk Management and Corporate Compliance</p> <p>Apr. 2013 Director &amp; Executive Vice President, Supervisor over Corporate Administration Div. and Corporate Management Div. and Division Manager of Corporate Management Div. and Manager of Corporate Planning Dept. and in charge of Risk Management and Corporate Compliance (present)</p>	
3	Noriaki Tomioka (Apr. 18, 1949)	<p>Mar. 1973 Joined the Company</p> <p>Jun. 2007 Director &amp; Vice President, in charge of Overseas Business</p> <p>Apr. 2008 Director &amp; Vice President, in charge of Electronic Equipment Business and Division Manager of Electronic Equipment 1st &amp; 2nd Div.</p> <p>Jun. 2008 Director &amp; Senior Vice President, in charge of Electronic Equipment Business and Division Manager of Electronic Equipment 1st &amp; 2nd Div.</p> <p>Apr. 2010 Director &amp; Senior Vice President, Division Manager of Electronic Equipment Div.</p> <p>Jun. 2012 Director &amp; Senior Vice President, Division Manager of Electronic Equipment Div. and in charge of Overseas Business Div. (present)</p>	3,100

Candidate Number	Name (Date of Birth)	Brief History, Position, Responsibility, and Status of material holding of concurrent positions	Number of Shares of the Company Owned by the Candidate
4	Hitoshi Takigami (Oct. 27, 1956)	<p>Apr. 1985    Joined the Company</p> <p>Apr. 2003    General Manager of Sales Dept., Chemical Business Div.</p> <p>Dec. 2003    Deputy Division Manager of Chemical Business Div.</p> <p>Apr. 2006    Division Manager of Chemical Business Div.</p> <p>Jun. 2007    Director &amp; Vice President, Division Manager of Chemical Business Div. (present)</p>	3,400
5	Ryoji Abe (Nov. 9, 1957)	<p>Mar. 1983    Joined the Company</p> <p>Aug. 2002    Manager of AP Sales Promotion Dept., Electronic Devices 1st Div.</p> <p>Feb. 2006    Manager of AP Sales Dept., Semiconductor Devices Div.</p> <p>Apr. 2006    Manager of 1st Sales Dept., Semiconductor Devices 2nd Div.</p> <p>Apr. 2007    Deputy Division Manager of Semiconductor Devices 2nd Div.</p> <p>Oct. 2007    Division Manager of Semiconductor Devices 2nd Div.</p> <p>Apr. 2008    Division Manager of Semiconductor Devices 2nd Div. and Electronic Components Div.</p> <p>Jun. 2008    Director &amp; Vice President, Division Manager of Semiconductor Devices 2nd Div. and Electronic Components Div.</p> <p>Apr. 2010    Director &amp; Vice President, in charge of Semiconductor Devices 2nd Div. and Division Manager of Electronic Components Div.</p> <p>Mar. 2011    Director &amp; Vice President, Division Manager of Semiconductor Devices 2nd Div. and Electronic Components Div. (present)</p>	3,100

Candidate Number	Name (Date of Birth)	Brief History, Position, Responsibility, and Status of material holding of concurrent positions	Number of Shares of the Company Owned by the Candidate
6	Jun Takagi (Jul. 8, 1959)	<p>Apr. 1984    Joined the Company</p> <p>Apr. 2003    Manager of 2nd Devices Sales Dept., Electronic Components 1st Div.</p> <p>Jun. 2004    Deputy Division Manager of Semiconductor Devices Div.</p> <p>Apr. 2006    Deputy Division Manager of Semiconductor Devices 1st Div.</p> <p>Apr. 2007    Division Manager of Semiconductor Devices 1st Div.</p> <p>Jun. 2008    Director &amp; Vice President, Division Manager of Semiconductor Devices 1st Div. (present)</p>	3,700
7	Nobuhito Shintoku (Dec. 6, 1960)	<p>Apr. 1985    Joined the Company</p> <p>May 2005    Manager of Human Resources Dept., Corporate Administration Div.</p> <p>Apr. 2008    Manager of General Affairs Dept., Corporate Administration Div. and Chief of Isehara Technical Center</p> <p>Apr. 2009    Deputy Division Manager of Corporate Administration Div. and Manager of General Affairs Dept. and Chief of Isehara Technical Center</p> <p>Apr. 2010    Division Manager of Corporate Administration Div. and Manager of General Affairs Dept. and Chief of Isehara Technical Center</p> <p>Jun. 2011    Director &amp; Vice President, Division Manager of Corporate Administration Div. and Manager of General Affairs Dept. and Chief of Isehara Technical Center and in charge of Branch Office (related to Administration)</p> <p>Jun. 2011    President of Hakuto A&amp;L Co., Ltd. (present)</p> <p>Apr. 2013    Director &amp; Vice President, Division Manager of Corporate Administration Div. and Manager of General Affairs Dept. and Chief of Isehara Technical Center and Branch Manager of Kansai Branch and in charge of Branch Office (related to Administration) (present)</p>	4,000

Candidate Number	Name (Date of Birth)	Brief History, Position, Responsibility, and Status of material holding of concurrent positions	Number of Shares of the Company Owned by the Candidate
8	Ichiro Takayama (Jan. 3, 1958)	Jun. 1986 Qualified Medical Doctor (US) May 1990 Qualified Medical Doctor (Japan) Jun. 1990 Director of the Company Jun. 1996 Retired from Director Jun. 2000 Director of the Company (present)	1,058,923
9	Katsuyoshi Iwashiro (Mar. 20, 1945)	Oct. 2001 Deputy President of The Asahi Bank, Ltd. (currently Resona Bank, Limited.) Jun. 2002 President of Shoei Insurance Service Co., Ltd. Jun. 2003 External Audit & Supervisory Board Member of Kobayashi Yoko Co., Ltd. Jun. 2005 External Director of the Company (present)	6,900
10	Chikao Fukuda (Jan. 8, 1942)	Sep. 1968 Passed the Bar Examination Mar. 1971 Graduated from Legal Training and Research Institute of the Supreme Court Apr. 1971 Registered as an attorney at law (Daini Tokyo Bar Association) (present) Apr. 1997 Established Fukuda and Kondo Law Firm (present) Jun. 2001 External Audit & Supervisory Board Member of the Company Jun. 2012 Retired from External Audit & Supervisory Board Member Jun. 2012 External Director of the Company (present) < Significant concurrent positions outside the Company > Joint representation, Fukuda and Kondo Law Firm	-

Notes:

1. There are no special interests between the Company and the candidates for Directors above.
2. Mr. Katsuyoshi Iwashiro and Mr. Chikao Fukuda are both candidates for appointment to the position of External Director.
3. The Company appointed Mr. Chikao Fukuda, a candidate of Director, as Independent Officer as stipulated by provisions of Tokyo Stock Exchange, and filed the relevant notification with the TSE. If appointed as originally proposed, the Company will continue to appoint him as an Independent Officer.
4. Information relating in particular to the candidates for appointment as External Directors is provided below.
  - (1) Reasons for appointing External Directors
    - 1) Mr. Katsuyoshi Iwashiro has served as the Deputy President of The Asahi Bank, Ltd. (currently Resona Bank, Limited.) and in other capacities that have allowed him to accumulate rich experience in company management. It is judged, therefore,

that seeking his opinions and advice on critical management issues would help promote proper decision making, and his appointment as an External Director is requested.

- 2) Although Mr. Chikao Fukuda has not been directly engaged in company management, he is familiar with corporate law in his capacity as an attorney and has extraordinary insight to govern corporate management, and has sufficiently performed duties of External Audit & Supervisory Board Member of the Company for 11 years from an objective and even-handed standpoint. Therefore, his appointment as an External Director is requested.
- (2) Years served as External Director since appointment
- 1) Mr. Katsuyoshi Iwashiro will have served as an External Director for eight years as of the end of this General Meeting of Shareholders.
  - 2) Mr. Chikao Fukuda will have served as an External Director for one year as of the end of this General Meeting of Shareholders.
- (3) Independence of External Director candidates
- 1) Neither Mr. Katsuyoshi Iwashiro nor Mr. Chikao Fukuda has served in any managerial capacity (as defined in Article 2, Paragraph 3, Item 6, of the Companies Act Enforcement Regulations, same applies below) at either the Company or any of its designated related companies (as defined in Article 2, Paragraph 3, Item 19 of the Companies Act Enforcement Regulations, same applies below) over the past five years.
  - 2) Neither Mr. Katsuyoshi Iwashiro nor Mr. Chikao Fukuda has received significant sums of money or other assets from either the Company or any of its designated related companies over the past two years and no such receipts are scheduled.
  - 3) Neither Mr. Katsuyoshi Iwashiro nor Mr. Chikao Fukuda has any family relationships of the third degree or closer to any person working in a managerial capacity at either the Company or any of its designated related companies.
- (4) Agreements limiting the liability of External Directors
- To facilitate the recruitment of outstanding people suited to serve as External Directors and make it possible for these people to fulfill the roles expected of them, the Company has included in the current Articles of Incorporation provisions allowing it to enter into agreements limiting the liability of External Directors for payment of damages to the Company.
- Mr. Katsuyoshi Iwashiro and Mr. Chikao Fukuda are both presently serving as External Directors and the Company has entered into agreements with Mr. Katsuyoshi Iwashiro and Mr. Chikao Fukuda limiting their liability for damages to the higher of an amount of ¥3 million or the smallest amount specified under Article 425, Paragraph 1 of the Companies Act. Should the reappointment of Mr. Katsuyoshi Iwashiro and Mr. Chikao Fukuda be approved, the Company will extend the above agreement with them.

## **Procedures for Exercising Voting Rights via the Internet, etc.**

Shareholders are requested to read the following items before exercising voting rights via the Internet, etc. If you plan to attend the General Meeting of Shareholders in person, it is not necessary to either mail your voting form or to exercise your voting rights via the Internet, etc.

### **1. Voting Rights Exercise Site**

- (1) Exercise of voting rights is possible only by using a personal computer, smartphone or cell phone (i-mode, EZweb, Yahoo! *Keitai*)\* to access the site below, which is specified by the Company. Site access, however, shall not be possible between the hours of 2:00 a.m. and 5:00 a.m.

<Voting Rights Exercise Site URL> <http://www.evotep.jp/>

\* “i-mode,” “EZweb,” and “Yahoo!” are the respective trademarks or registered trademarks of NTT Docomo, Inc., KDDI Corporation, and Yahoo! Inc. of the U.S.

- (2) Firewalls, anti-virus software, proxy servers, or other aspects of the shareholder’s Internet usage environment may prevent the use of a personal computer or smartphone to exercise of voting rights.
- (3) Please use the i-mode, EZweb, or Yahoo! *Keitai* services when using a cell phone to exercise voting rights. For security-related reasons, cell phones that cannot send encrypted data (SSL transmissions) and cell phone information cannot be used to exercise voting rights.



\* It is also possible to access voting rights exercise site by using a cell phone that can read barcodes to read the QR Code to the right. Please refer to your cell phone owner’s manual for detailed instructions on how to read barcodes.

- (4) Voting rights may be exercised until 5:30 p.m. on June 25, 2013 (Tuesday), but shareholders are requested to do so as early as possible. A help desk has been established to answer questions and help shareholders exercise their voting rights.

### **2. Exercising voting rights via the Internet**

- (1) Enter your “Login ID” and “Temporary Password,” both of which are noted on the voting form, in the appropriate spaces on the Voting Right Exercise Site (<http://www.evotep.jp/>). Follow the instructions on your computer screen and indicate whether you are for or against each item.
- (2) To prevent unauthorized access by parties other than shareholders and the alteration of shareholder votes, shareholders voting via the Internet will be asked to change their “Temporary Password” on the Voting Rights Exercise Site.

### **3. Cost for accessing the Voting Rights Exercise Site**

Costs (dial-up connection fees, telephone charges, etc.) for accessing the Voting Rights Exercise Site shall be borne by the shareholder. For shareholders using cell phones, packet transmission fees and other cell phone usage fees will be incurred, and these, too, shall be borne by the shareholder.

#### **4. Treatment of voting rights exercised multiple times**

- (1) If you exercise your voting rights both by mail and via the Internet, etc., the voting via the Internet, etc. shall prevail regardless of the arrival date of the mailed vote.
- (2) In the case of multiple voting via the Internet, etc., the last voting shall prevail.

#### **5. For More Information**

Questions regarding the system for voting via the Internet

Mitsubishi UFJ Trust and Banking Corporation, Corporate Agency  
Department (Helpdesk)

Tel: 0120-173-027 (only in Japan, toll free)

Hours: 9:00–21: 00

Other questions

Mitsubishi UFJ Trust and Banking Corporation, Corporate Agency  
Department

Tel: 0120-232-711 (only in Japan, toll free)

Hours: 9:00–21: 00 (excluding weekends and national holidays)

#### **6. Voting platform for institutional investors**

Institutional investors who have applied in advance to use the e-Voting Platform for institutional investors (also referred to as the “TSE Platform”) run by ICJ, Inc. can cast their votes via this system instead of the Company’s system for voting via the Internet, which is described above.

**The English translation is an abridged version of the original invitation notice in Japanese. In the event of discrepancy, the Japanese version shall prevail.**