Hakuto

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2008 Annual Report

Hakuto Co.,Ltd.

Contents

To Our Shareholders, Employees and Friends

We would like to take this opportunity to express our heartfelt gratitude for your continued support and encouragement.

In the following, we present a report of our Company's performance results in its 56th term, which began April 1, 2007 and ended March 31, 2008.

The Hakuto Group posted consolidated net sales of ¥133,259 million (up 8.0% year-on-year), ordinary income of ¥2,233 million (down 58.1% year-on-year) and net income of ¥433 million (down 85.5% year-on-year).

The consolidated net sales for the term (¥133,259 million), albeit being slightly lower than our projection at the beginning of the term (¥138,000 million), achieved a growth of 8% on a year-on-year basis. In terms of profit, due to impairment loss on inventories resulting from an inadequate sales projection for the Electronic Equipment Divisions and a loss on foreign currency translation which is attributable to the sharp appreciation of the Japanese yen during the term, earnings were recorded as significantly lower than our projection.

In terms of our sales activities, we believe that achieving the sales goals is now on track, while in terms of profitability, the results of the year under review have left much to be desired, especially in the terms of management, having fallen short of the expectations of many of the stakeholders and above all, of our shareholders.

The Company has decided to pay its shareholders a term-end dividend of ¥17.50 per share (¥17.50 per share for the previous term-end). This, together with an interim dividend of ¥17.50 per share, will make an annual per-share dividend of ¥35 for the term (¥35 for the previous term).

Meanwhile, Mr. Ryusaburo Sugimoto assumed the office of Representative Director and President of the Company as of April 1, 2008. Under his new leadership, the Hakuto Group will strive to develop our business activities further based upon a renewed organizational platform. In the years ahead, the Hakuto Group is committed to continue reforms to meet the expectations of our shareholders, and we sincerely hope that all of you, our shareholders, employees and friends, will continue to favor us with your understanding, support and encouragement.

Shigeo Takayama,
Chairman

Ryusaburo Sugimoto,
President

The Year in Review

Electronics

· Electronics Equipment First Division

The results for the term underachieved the initial plan. This was mainly due to factors such as the stagnancy of the new product sales expansion, which was affected by the delay in new product development in silicon markets and capital investment. In addition, a delay in orders for the specialty purpose large equipment for flat panel displays (FPDs) also impacted the performance of the Division for the term under review. Furthermore, lump-sum appropriation of expensive long-term inventories was conducted during the term, which led to a significant correction of the Division's net sales projection.

On the other hand, the vacuum equipment, the processing system for the compound semiconductors, etc. which the Company has been dealing with for years have shown a steady growth in performance. For the next term, we will continue to make efforts to expand our sales of new products while cooperating with our domestic and overseas offices to market our products with proven track records more extensively and to reinforce our maintenance services, with the aim of achieving a steady growth in sales.

· Electronic Equipment Second Division

The Division performs business activities within Japan and overseas, with the printed circuit board manufacturing equipment of our "Hakuto" brand being its mainstay product. In the year under review, the Division's activity was forced to undergo some difficulty in a challenging environment where there was a general restraint in capital expenditures in the corporate sector as a reaction to the excessive investment executed up until the previous term, which led to the Division's failure to meet the earnings projection by a significant margin.

We expect that the Division will remain in a temporary lull in the next term, also, due partly to surging material costs and the uncertain prospect for a demand for circuit boards, in an environment where the corporate sector's willingness for capital investment is unlikely to pick up substantially. However, the Division plans to launch a series of newly developed products targeted for module circuit boards and multi-layer general circuit boards into the market during the next term. Along with the recovery of market conditions not only within Japan but in Taiwan, China, Korea and ASEAN countries, we will reinforce our offer of a product line-up to satisfy our customers' requirements and of a meticulous roll-out of technological services. In doing so, we strive to secure a certain level of profitability while achieving higher revenues and earnings than those recorded by the Division for the term under review.

· Electronic Device First Division

With the sales of the products related to the communications infrastructure remaining solid in the North American market both in first half and second half of the year, the production of optical transmission components has continued to expand, resulting in strong sales of semiconductors for the communications equipment markets and optical components. In addition, the semiconductors and module components related to cellular phones as well as media server-related products for individual SOHOs also have shown a solid performance, making a significant contribution to the Division's sales growth, in spite of a cut in the production of the large-scale project of ASIC for servers. For the next term, the communications device-related products are expected to sustain their favorable trend in the North American market. Furthermore, the submarine communication cables market has been increasingly more active, along with the sharp increase in data communications traffic in recent years. With the projected launch of a project to build the next-generation network in Japan, the Division's communications equipment-related products are expected to continue their solid performance both in Japan and overseas markets in the same way as they performed in the previous term. During the second half, the large-scale ASIC project for digital consumer electronics will also get started, which will be another factor contributing significantly to the Division's sales growth.

· Electronic Device Second Division

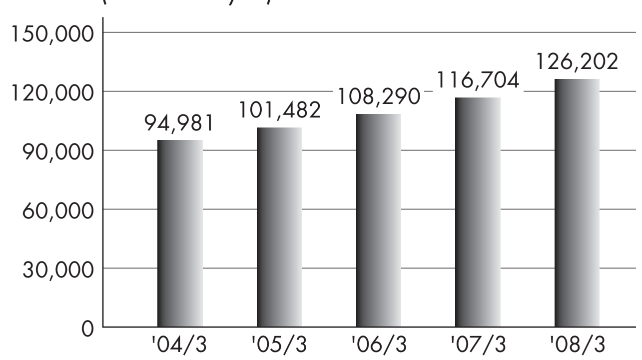
For the term under review, in-vehicle products showed a marked growth, and the products related to cellular phones also achieved a very solid performance in the domestic market while those targeted for overseas markets had a difficult time due to their product characteristics. In the digital consumer products field, because product life became relatively shorter due to technological innovations and because the projects outsourced overseas increased more than expected, domestic sales slightly underachieved against the management's projection. As for the next term, we expect the in-vehicle products to show continued growth, while a series of new products will be actively introduced into the digital consumer products and PC peripherals-related fields to increase the Division's sales. As for the businesses outsourced overseas, we expect them to grow not only in China but also in ASEAN countries in the years ahead; the tie-up with our overseas subsidiaries will be pursued further to sustain our borderless support activities.

· Electronic Component Division

PC-related products as well as electromagnetic interference shielding materials for sale to PDP, which constitute the Division's mainstay products, fared well for the term under review. The newly introduced chassis business, which has been one of the Division's focus areas for the past few years, showed a solid performance, although the actual growth turned out to be less than expected due to customers' model renewals. However, some newly introduced products for new applications (thermal module heat sinks, circuit boards, FPCs) which we tried to expand proactively into sales ended up with rather disappointing results, not having met the projected figures for the Division because of the supplier-side problems in product quality, delivery, etc. For the next term, we intend to start again with a sales and marketing drive for these new products, and cultivate our customers' needs more deeply so that our efforts lead to the further development of new products. Furthermore, we will maintain a strategy of integrating our domestic and international offices in such areas as new product development, with the tie-up with overseas subsidiaries being closely pursued in order to enhance customers' satisfaction.

The above described activities of the Electronics sector in the term under review resulted in ¥126,202 million in sales (an increase of 8.1% year-on-year) and ¥2,610 million in operating income (a decrease of 63.4% year-on-year).

Sales (millions of yen)

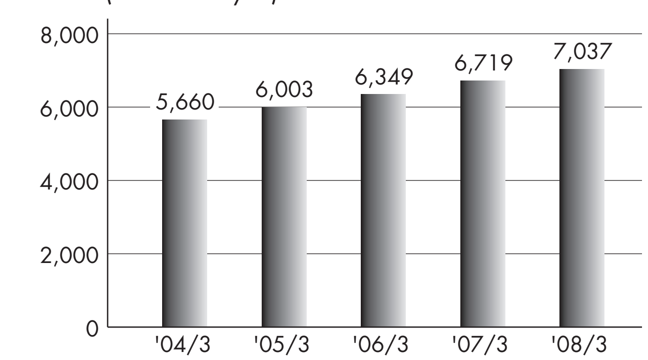


Chemicals

The Division's overall results for the term under review did not meet the projection, but its sales exceeded ¥6,000 million for the first time in eight terms and one of our subsidiaries in this field, Fuyo Chemical Industries, Co., Ltd., also achieved sales exceeding ¥1,000 million for the first time. The business environment surrounding this industry continued to be severe, as shown by the delay in the recovery of the market conditions for paper-related products, as well as our Company, during the term under review. Meanwhile, the pharmaceutical products for the petrochemical sector made a major contribution to the Division's sales. This business segment plans to expand its sales further for the next term by continuing to make intensive sales and marketing efforts for some particular items. The products introduced from overseas also began to make a gradual contribution to the Division's sales, and we expect the paper-related enzyme and biotechnological treatment chemical for automobiles, among others, to show further growth in the future. On the other hand, the ongoing price hike of raw materials resulting from surging oil prices will likely continue to affect the Division's profitability significantly for the next term. We will continue to consider an increase in our selling prices, and a shift into and adoption of a new combination of cheaper materials. Furthermore, the development of chemicals for the electronics field is making satisfactory progress, which will help set up a milestone for the Division's future activities.

The above described activities of this business segment in the term under review resulted in ¥7,037 million in sales (an increase of 4.7% year-on-year) and ¥165 million in operating income (a decrease of 72.5% year-on-year).

Sales (millions of yen)



Others

This segment is primarily engaged in the Company's overall operation and logistics management on commission and insurance agency business.

The above described activities of this business segment in the term under review resulted in ¥20 million in sales (an increase of 2.8% year-on-year) and ¥33 million in operating income (an increase of 29.8% year-on-year).

To date, the costs related to the administration department of the filing company have been accounted for as unclassifiable expense, but after having reviewed the relevance of such administration department's costs and those by business segments of the Company, we judged it to be more appropriate to charge such costs to each business segment, so that its P&L would be stated more accurately. For this reason, we shifted to such allocation method since the fiscal year under review.

As a result, operating income of the Electronics Division and that of the Chemical Division have decreased by ¥2,324 million and ¥490 million, respectively, compared with the figures calculated on a pro forma basis under the former accounting standards.

Financial Review

Income Statement Items

In the year under review, consolidated net sales increased by ¥9,817 million (up 8.0% year-on-year) from the preceding term to ¥133,259 million.

In the electronics and electrical equipment field, sales of compound semiconductor equipment have made encouraging progress due to market expansion of the high-brightness LEDs, while for some products and component materials including steppers for FPDs amounting to ¥2,450 million, allowance for inventory not available for sales due to increase in cost of sales was provided, because the marketing from the next term onward of these products were judged difficult due to the change in prospective buyers' investment plans, etc. In the electronic components field, meanwhile, the optical transmission components for metro networks have shown a significant growth in sales, backed by a buoyant business trend in the North American communications market.

As a result, operating income of the term under review was recorded at ¥2,808 million (down 45.9% year-on-year) and ordinary income at ¥2,233 million (down 58.1% year-on-year). As for extraordinary income and losses, ¥970 million was recorded as loss on valuation of investment securities, which was offset by gains on sale of investment securities (¥1,064 million), etc., resulting in income before income taxes of ¥2,257 million (down 60.1% year-on-year) and net income for the term under review of ¥433 million (down 85.8% year-on-year) on a consolidated basis.

Balance Sheet Items

Current assets at the end of the year under review increased by ¥7,807 million, up 12.5% from the previous year-end. This was mainly due to an increase of ¥4,883 million in cash and time deposits accompanying a collection of notes and accounts receivable-trade.

Fixed assets decreased by ¥4,032 million, down 20.4% from the previous year-end mainly due to a decrease of ¥4,680 million in investment securities as a result of their sale and the decline in their market value.

As a result, total assets at the end of the year under review increased ¥3,775 million (an increase of 4.6%) from the previous year to ¥85,950 million.

As for liabilities, current liabilities increased by ¥6,342 million (an increase of 18.7%) from the end of the previous year. This was primarily because short-term borrowings increased by ¥5,756 million backed by a rise in demand for working capital.

Non-current liabilities increased by ¥228 million (an increase of 3.5%) from the previous year-end, mainly due to an increase of ¥613 million in corporate bonds.

As a result, total liabilities at the end of the year under review increased by ¥6,570 million (an increase of 16.3%) from the previous year to ¥46,839 million.

Net assets decreased by ¥2,795 million (down 6.7%) in comparison with the previous year-end to ¥39,111 million. This decrease was largely attributable to a decrease in other unrealized gains on available-for-sale securities by ¥2,088 million and dividend payments of ¥772 million.

Cash Flows

Cash flow from operating activities

While the Group recorded ¥2,257 million income before income taxes in the year under review, accounts receivable-trade decreased by ¥2,900 million, inventories decreased by ¥1,447 million and so on, all of which constituted the cash inflows. Meanwhile income tax paid amounted to ¥2,139 million and a decrease in payables of ¥599 million and so on constituted the cash outflows. Overall, they amounted to a net cash inflow from operating activities of ¥4,932 million for the term. Incidentally, in the preceding term, cash flows from operating activities resulted in a net outflow of ¥4,405 million due to factors such as an increase in the accounts receivable-trade and an increase in inventories.

Cash flow from investing activities

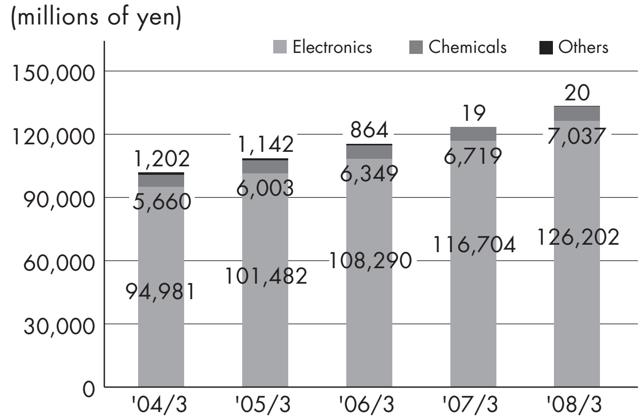
While the Group recorded cash outflows from investing activities including ¥571 million paid to acquire investment securities, ¥404 million paid to acquire tangible fixed assets, cash inflows from investing activities in the year under review included ¥1,556 million from sales of investment securities, etc. Overall, these cash flows from investing activities amounted to a cash inflow of ¥369 million. In the meantime, in the preceding term, cash flows from investing activities resulted in a net outflow of ¥2,659 million due to factors including an outflow of ¥2,399 million paid to acquire investment securities.

Cash flow from financing activities

While there were cash outflows from financing activities including ¥70,717 million due to repayment of short-term borrowings, ¥2,682 million due to repayment of long-term debts, ¥772 million paid in dividends and ¥753 million due to redemption of corporate bonds, inflows from financing activities included ¥74,349 million from short-term borrowings, ¥1,150 million from long-term borrowings and others. Overall, these cash flows from financing activities resulted in a net inflow of ¥652 million. Incidentally, in the preceding term, cash flows from financing activities resulted in an inflow of ¥4,529 million as the balance of an inflow of ¥37,894 million from short-term borrowings, an outflow of ¥32,609 million for repayment of short-term borrowings, etc.

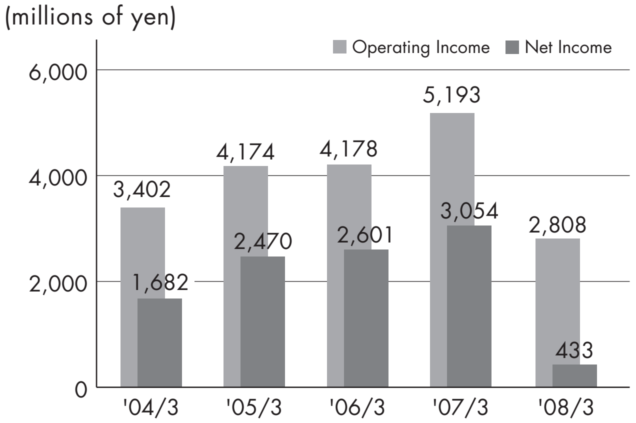
Sales by Product Category

(millions of yen)



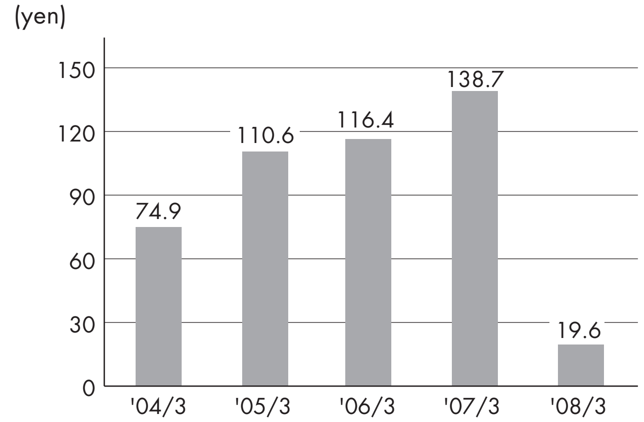
Operating Income and Net Income

(millions of yen)



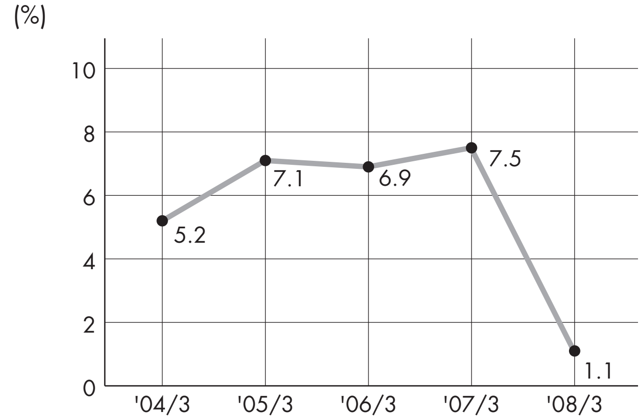
Net Income per Share

(yen)



Return on Equity

(%)



Consolidated Balance Sheets

Hakuto Co., Ltd.
As of March 31, 2008 and 2007

Assets

Current Assets:	Millions of Yen 2008	Millions of Yen 2007	Thousands of U.S. Dollars (Note 1) 2008
Cash and time deposits (Notes 7 (c) and 14 (a))	¥ 10,252	¥ 5,369	$ 102,326
Marketable securities (Notes 3 and 14 (a))	201	1	2,006
Receivables: (Note 4)			
Notes and accounts receivable - trade	40,877	40,960	407,995
Due from unconsolidated subsidiaries and affiliated companies	0	0	0
Allowance for doubtful accounts	(117)	(95)	(1,168)
Inventories (Note 6)	13,187	12,412	131,620
Deferred tax assets (Note 12)	2,028	993	20,242
Prepaid expenses and other current assets (Note 14 (a))	3,830	2,811	38,227
Total current assets	70,258	62,451	701,248
Property, Plant and Equipment:			
Land and land improvements (Note 7 (c))	4,399	4,024	43,907
Buildings and structures (Note 7 (c))	6,042	5,407	60,305
Construction in progress	2	–	20
Other assets	6,863	6,850	68,500
	17,306	16,281	172,732
Accumulated depreciation	(9,562)	(8,899)	(95,439)
Total property, plant and equipment	7,744	7,382	77,293
Investments and Other Non-current Assets:			
Investment securities (Notes 3 and 4)	6,728	11,408	67,152
Allowance for loss on investment securities	(44)	(229)	(439)
Deferred tax assets (Note 12)	59	41	589
Other non-current assets (Note 7 (c))	1,205	1,122	12,027
Total investments and other non-current assets	7,948	12,342	79,329
Total Assets	¥ 85,950	¥ 82,175	$ 857,870

See accompanying notes.

Liabilities and Net Assets

Current Liabilities:	Millions of Yen 2008	Millions of Yen 2007	Thousands of U.S. Dollars (Note 1) 2008
Short-term borrowings (Note 7 (a))	¥ 15,700	¥ 10,439	$ 156,702
Long-term debt due within one year (Note 7 (b))	1,665	564	16,618
Payables: (Note 4)			
Notes and accounts payable - trade	17,168	16,725	171,355
Due to unconsolidated subsidiaries and affiliated companies	831	1,270	8,294
Income taxes payable (Note 12)	1,413	1,149	14,103
Deferred tax liabilities (Note 12)	1	1	10
Allowance for employees' bonuses	1,123	1,037	11,209
Allowance for bonuses for directors and corporate auditors	–	51	–
Accrued expenses and other current liabilities	2,267	2,590	22,627
Total current liabilities	40,168	33,826	400,918
Non-current Liabilities:			
Long-term debt (Note 7 (b))	3,554	2,448	35,473
Allowance for employees' severance and retirement benefits (Note 8)	345	217	3,443
Allowance for directors' and corporate auditors' severance and retirement benefits	1,026	969	10,241
Deferred tax liabilities (Note 12)	1,304	2,565	13,015
Other non-current liabilities	442	244	4,412
Total non-current liabilities	6,671	6,443	66,584
Contingent liabilities (Note 10)			
Net Assets (Note 9):			
Owners' Equity			
Common stock:			
Authorized - 54,000,000 shares			
Issued and outstanding - 24,137,213 shares	8,100	8,100	80,846
Capital surplus	7,493	7,514	74,788
Retained earnings	26,257	26,596	262,072
Treasury stock, at cost - 2,042,338 shares	(4,006)	(4,105)	(39,984)
Total owner's equity	37,844	38,105	377,722
Accumulated Gains (Losses) from Valuation and Translation adjustments			
Net unrealized holding gains on investment securities	1,314	3,402	13,115
Unrealized gains (losses) on hedging derivatives, net of taxes	(200)	84	(1,996)
Foreign currency translation adjustments	153	315	1,527
Total accumulated gains (losses) from valuation and translation adjustments	1,267	3,801	12,646
Total net assets	39,111	41,906	390,368
Total Liabilities and Net assets	¥ 85,950	¥ 82,175	$ 857,870

Consolidated Statements of Income

Hakuto Co., Ltd.
Years ended March 31, 2008, 2007 and 2006

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2008	2007	2006	2008
Net Sales (Notes 4 and 19)	¥133,259	¥123,442	¥115,503	$1,330,063
Cost of Sales (Notes 4 and 19)	114,168	103,274	97,265	1,139,515
Gross Profit	19,091	20,168	18,238	190,548
Selling, General and Administrative Expenses (Notes 11 and 19)	16,283	14,975	14,060	162,521
Operating Income	2,808	5,193	4,178	28,027
Other Income (Expenses):				
Interest and dividend income	296	138	98	2,954
Interest expenses	(328)	(150)	(91)	(3,274)
Equity in income of affiliated companies	22	85	102	220
Exchange gain (loss), net	(626)	(2)	117	(6,248)
Gains on sale of property, plant and equipment	14	1	20	140
Losses on sale of property, plant and equipment	(2)	(32)	(13)	(20)
Gains on sale of investment securities (Note 3 (d))	1,064	2	515	10,620
Gains (Losses) on sale of shares of subsidiaries	(67)	56	5	(669)
Impairment losses on investment securities	(970)	(1)	(33)	(9,682)
Allowance for loss on investment securities	5	(122)	(107)	50
Impairment losses on property, plant and equipment (Note 2 (g))	–	–	(28)	–
Allowance for doubtful accounts	–	440	–	–
Compensation for claims	(2)	(45)	(12)	(20)
Impairment losses on inventories	–	–	(30)	–
Other - net	43	91	27	429
	(551)	461	570	(5,500)
Income before Income Taxes	2,257	5,654	4,748	22,527
Income Taxes Provision (Note 12)				
Current	2,414	2,063	1,880	24,094
Deferred	(590)	537	267	(5,889)
	1,824	2,600	2,147	18,205
Net Income	¥ 433	¥ 3,054	¥ 2,601	$ 4,322

Amounts per Share (Note 2 (o)):	Yen			U.S. Dollars (Note 1)
Net Income	¥ 19.62	¥ 138.74	¥ 116.37	$ 0.20
Diluted Net Income	19.61	138.58	116.07	0.20
Cash Dividends Applicable to the Year	35.00	35.00	30.00	0.35

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Hakuto Co., Ltd.
Years ended March 31, 2008, 2007 and 2006

	Number of shares of common stock (thousands)	Millions of Yen						
		Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains on securities	Unrealized gains (losses) on hedging derivatives, net of taxes	Foreign currency translation adjustments
Balance at March 31, 2005	24,137	¥ 8,100	¥ 7,532	¥ 22,509	¥ (4,260)	¥ 2,119	¥ –	¥ (233)
Net income	–	–	–	2,601	–	–	–	–
Cash dividends paid (¥35.00 per share)	–	–	–	(769)	–	–	–	–
Bonuses to directors and corporate auditors	–	–	–	(40)	–	–	–	–
Bonuses to employees	–	–	–	(0)	–	–	–	–
Treasury stock	–	–	(8)	–	85	–	–	–
Net unrealized holding gains on securities	–	–	–	–	–	1,289	–	–
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	–	438
Balance at March 31, 2006	24,137	¥ 8,100	¥ 7,524	¥ 24,301	¥ (4,175)	¥ 3,408	¥ –	¥ 205
Net income	–	–	–	3,054	–	–	–	–
Cash dividends paid (¥32.50 per share)	–	–	–	(715)	–	–	–	–
Bonuses to directors and corporate auditors	–	–	–	(43)	–	–	–	–
Bonuses to employees	–	–	–	(1)	–	–	–	–
Treasury stock	–	–	(10)	–	70	–	–	–
Net unrealized holding gains on securities	–	–	–	–	–	(6)	–	–
Net changes	–	–	–	–	–	–	84	–
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	–	110
Balance at March 31, 2007	24,137	¥ 8,100	¥ 7,514	¥ 26,596	¥ (4,105)	¥ 3,402	¥ 84	¥ 315
Net income	–	–	–	433	–	–	–	–
Cash dividends paid (¥35.00 per share)	–	–	–	(772)	–	–	–	–
Bonuses to employees	–	–	–	(0)	–	–	–	–
Treasury stock	–	–	(21)	–	99	–	–	–
Net unrealized holding gains on securities	–	–	–	–	–	(2,088)	–	–
Net changes	–	–	–	–	–	–	(284)	–
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	–	(162)
Balance at March 31, 2008	24,137	¥ 8,100	¥ 7,493	¥ 26,257	¥ (4,006)	¥ 1,314	¥ (200)	¥ 153

	Thousands of U.S. Dollars (Note 1)						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains on securities	Unrealized gains (losses) on hedging derivatives, net of taxes	foreign currency translation adjustments
Balance at March 31, 2007	$ 80,846	$ 74,998	$265,455	$(40,972)	$ 33,955	$ 839	$ 3,144
Net income	–	–	4,322	–	–	–	–
Cash dividends paid ($0.35 per share)	–	–	(7,705)	–	–	–	–
Bonuses to employees	–	–	(0)	–	–	–	–
Treasury stock	–	(210)	–	988	–	–	–
Net unrealized holding gains on securities	–	–	–	–	(20,840)	–	–
Net changes	–	–	–	–	–	(2,835)	–
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	(1,617)
Balance at March 31, 2008	$ 80,846	$ 74,788	$262,072	$(39,984)	$ 13,115	$ (1,996)	$ 1,527

See accompanying notes.

Consolidated Statements of Cash Flows

Hakuto Co., Ltd.
Years ended March 31, 2008, 2007 and 2006

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
Cash Flows from Operating Activities:	2008	2007	2006	2008
Income before income taxes	¥ 2,257	¥ 5,654	¥ 4,748	$ 22,527
Adjustments to reconcile income before income taxes to net cash provided by (used in) operating activities:				
Depreciation and amortization	753	618	593	7,516
Impairment losses on property, plant and equipment	–	–	28	–
Amortization of goodwill	63	34	–	629
Allowance for employees' severance and retirement benefits, net	3	83	12	30
Allowance for directors' and corporate auditors' severance and retirement benefits, net	(19)	2	1	(190)
Equity in gain of affiliated companies	(22)	(85)	(102)	(220)
Gains on sale of investment securities	(1,064)	(2)	(515)	(10,620)
Losses (gains) on sale of property and equipment	(12)	31	(7)	(120)
Losses on disposal of plant and equipment	19	24	14	190
Impairment losses on investment securities	970	1	33	9,682
Reversal of allowance for doubtful accounts	–	(440)	–	–
Allowance for loss on investment securities, net	(186)	122	(103)	(1,856)
Change in receivables	2,900	(6,626)	(1,907)	28,945
Change in inventories	1,447	(2,347)	409	14,442
Change in payables	(599)	160	20	(5,979)
Interests and dividends received	294	146	96	2,934
Interests paid	(352)	(152)	(91)	(3,513)
Income taxes paid	(2,139)	(1,913)	(2,050)	(21,349)
Other	619	285	337	6,178
Net cash provided by (used in) operating activities	4,932	(4,405)	1,516	49,226
Cash Flows from Investing Activities:				
Proceeds from sale of property, plant and equipment	99	16	43	988
Payments for purchase of property, plant and equipment	(404)	(462)	(356)	(4,032)
Payments for purchase of intangible fixed assets	(9)	(39)	(67)	(90)
Proceeds from sale of marketable securities and investment securities	1,556	16	732	15,530
Payments for purchase of marketable securities and investment securities	(571)	(2,399)	(346)	(5,699)
Net cash increased (decreased) due to acquisition of newly consolidated subsidiaries (Note 14 (b))	(308)	32	–	(3,074)
Net cash decreased due to sale of shares of subsidiaries, resulting in deconsolidation (Note 14 (c))	(69)	(1)	–	(689)
Proceeds from long-term loans receivable	16	300	–	160
Other	59	(122)	25	589
Net cash provided by (used in) investing activities	369	(2,659)	31	3,683
Cash Flows from Financing Activities:				
Change in short-term borrowings	3,632	5,285	(440)	36,251
Proceeds from long-term debt	1,150	1,200	–	11,478
Repayments of long-term debt	(2,682)	(1,198)	(398)	(26,769)
Proceeds from issuance of bonds	–	500	–	–
Payments for redemption of bonds	(753)	(600)	–	(7,516)
Cash dividends paid	(772)	(715)	(769)	(7,705)
Payments for purchase of treasury stock	(1)	(1)	(2)	(10)
Other	78	58	59	778
Net cash provided by (used in) financing activities	652	4,529	(1,550)	6,507
Effect of Exchange Rate Changes on Cash and Cash Equivalents	10	64	287	101
Net Increase (Decrease) in Cash and Cash Equivalents	5,963	(2,471)	284	59,517
Cash and Cash Equivalents at Beginning of Year	4,987	7,458	7,174	49,775
Cash and Cash Equivalents at End of Year (Note 14 (a))	¥ 10,950	¥ 4,987	¥ 7,458	$ 109,292

See accompanying notes.

Notes to Consolidated Financial Statements

Hakuto Co., Ltd.
Years ended March 31, 2008, 2007 and 2006

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of changes in net assets for 2006) from the consolidated financial statements of Hakuto Co., Ltd. ("the Company") prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2008 which was 100.19 JPY to 1 USD. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of significant accounting policies

(a) Principles of consolidation - The consolidated financial statements include the accounts of the Company and its 15 (13 in 2007 and 12 in 2006) significant subsidiaries. All significant intercompany balances and transactions have been eliminated.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries are recorded based on the fair value at the time the Company acquired control of the respective subsidiaries.

The excess of cost of investments in subsidiaries and affiliated companies over the equity in the net assets at dates of acquisition is recorded as goodwill in the consolidated balance sheet and amortized using the straight-line method over 5 years.

Hakuto Trading (Shenzhen) Ltd., a wholly owned subsidiary of Hakuto Enterprises Ltd., was established in January 2006 and its accounts have been included in the 2007 consolidation. Moldec Co., Ltd., due to additional acquisition, became a consolidated subsidiary in September 2006 and its accounts have been included in the 2007 consolidation. Human Resourses International Co., Ltd., due to sale of shares in May 2006, was excluded from the consolidation scope.

Microtek Co., Ltd., and its 2 subsidiaries (including 1 established in November 2007), due to new acquisition, became consolidated subsidiaries in October 2007 and those accounts have been included in the 2008 consolidation. Hakuto Korea Co., Ltd., due to sale of shares in March 2008, was excluded from the consolidation scope.

(b) Equity method - Investments in significant affiliated companies (20% to 50% owned) are accounted for by the equity method.

(c) Inventories - Inventories are stated at cost, determined primarily by the moving-average cost method for merchandise, finished goods, raw material and work in process and by the first-in, first-out cost method for supplies.

(d) Securities - Securities are classified as (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, or (d) for all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

The Company and its subsidiaries have no trading securities or held-to-maturity debt securities. Equity securities issued by significant subsidiaries are consolidated and significant affiliated companies are accounted for using the equity method. Investments in such companies not consolidated or accounted for by the equity method are carried at cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a component of net assets. Realized gains and losses on sale of such securities are computed using moving-average cost.

Available-for-sale securities with no available fair market value are stated at moving-average cost, or at amortized cost net of the amount considered not collectible.

If the market value of available-for-sale securities, declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair market value of equity securities is not readily available, such securities should be written down to net asset value with a corresponding charge in the income statement in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

Allowance for loss on investment securities is provided for probable losses on certain equity securities with no available fair value based on the evaluation of their financial conditions.

(e) Derivative transaction and hedge accounting - The Company and certain consolidated subsidiaries (the "Companies") state derivative financial instruments at fair value and recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

However, in cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts and hedged items are accounted for in the following manner:

1. If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable,
(a) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the income statement in the period which includes the inception date, and
(b) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.
2. If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized.

Hedging derivative financial instruments used by the Company and items hedged are as follows:

Hedging instruments	Hedged items
Forward foreign exchange contracts, currency option trading and currency swap contracts	Foreign currency accounts receivable or payable and forecasted transactions
Interest rate swap contracts	Interests on loans receivable and loans payable

The Companies are not required to evaluate hedge effectiveness of the forward foreign exchange contracts, because the significant terms of foreign currency transactions of hedging instruments and those of hedged items are the same, and the risk of foreign exchange rate changes would be entirely eliminated.

Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

The Companies evaluate the hedging effectiveness of other derivative contracts by comparing the cumulative changes in cash flows from or the changes in fair value of hedged items with corresponding changes in the hedging instruments.

(f) Property, plant and equipment, and depreciation - Property, plant and equipment are carried at cost. Depreciation is calculated primarily using the declining-balance method. In accordance with revisions of the Corporation Tax Law, buildings acquired by the Company and its domestic subsidiaries after March 31, 1998 are depreciated using the straight-line method.

The range of useful lives is from 10 to 50 years for buildings and from 2 to 15 years for machinery and equipment, which is included in other assets.

(Change in Accounting Policies)
The Company and its domestic subsidiaries have changed the depreciation method following the revised corporation tax law from this consolidated accounting period regarding property, plant and equipment acquired after April 1, 2007. The effect on net income of the adoption of the new accounting standard was not material.

(Additional information)
The Company and its domestic subsidiaries have recorded assets acquired before March 31, 2007 based on the previous depreciation method. Following the revised corporation tax law, when the assets are depreciated to the residual value, which is 5% of the acquisition cost under the tax law, the residual value is equally depreciated over five years of period.

As a result, operating income and income before income taxes have decreased by ¥39 million ($389 thousand), respectively.

(g) Impairment losses of fixed assets - A fixed asset (asset group) is considered impaired if its recoverable amount is less than its carrying amount, where the recoverable amount is defined as the greater of (i) net realizable value or (ii) the present value of expected cash flows from on-going utilization and subsequent disposition of the asset (asset group). A fixed asset is evaluated for impairment based on the asset group of which it is a part, where the asset group is the lowest level at which identifiable cash flows from fixed assets of the group are largely independent of other assets and liabilities. A group may consist of a single asset or several assets that are managed jointly. Losses on impairment are recognized when the estimated undiscounted cash flows to be generated by a group of fixed assets are less than the carrying amount of the assets in the group, in which case, the impaired assets are written down to their recoverable amounts. The Company and subsidiaries analyze their assets for possible impairment at least annually and more frequently if conditions indicate that an asset might be impaired.

The Company recognized impairment losses for groups of assets in the years ended March 31, 2006 as follows:

For the years ended March 31, 2006		
Location	Type of assets	Use
Tsu City, Mie Prefecture	Land	Unused land
Yokkaichi City, Mie Prefecture	Buildings and structures, Other assets	Unused equipments

The Company and its subsidiaries grouped their fixed assets into the electronic and electric equipment business, the electronics parts business, the chemical business, the staffing service business and the outsourcing service business based on the business segment, the nature of merchandise and service, and the similarity of the market.

In the years ended March 31, 2006, although there were no indications of impairment on each business, the market values of certain unused land showed substantial decline and were not judged to recover, the Company reduced their book values to the recoverable amounts.

The amount of impairment losses for the year ended March 31, 2006 amounted to ¥28 million, which comprised ¥2 million for land, ¥17 million for buildings and structures, and ¥9 million for other assets.

The recoverable amounts of the fixed assets of the unused land and equipments are their net realizable values based on amounts determined by valuations made in accordance with real estate appraisal standards for building and land.

(h) Allowance for employees' bonuses - The Companies provide allowance for employees' bonus based on estimated amounts to be paid in the subsequent period.

(i) Allowance for bonuses for directors and corporate auditors - The Company provides allowance for bonuses for directors and corporate auditors based on estimated amounts to be paid in the subsequent period. Prior to the year ended March 31, 2007, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings.

Effective from the year ended March 31, 2007, the Company and consolidated domestic subsidiaries adopted the new accounting standard "Accounting Standard for Directors' Bonus" (Statement No.4 issued by the Accounting Standards Board of Japan on November 29, 2005) and recognized bonuses to directors and corporate auditors in the fiscal year to which such bonuses are attributable. The effect of the adoption of this new accounting standard on operating income, income before income taxes and net income was a decrease of ¥51 million.

(j) Income taxes - The Companies recognize tax effects of temporary differences between the financial statement basis and the tax basis of assets and liabilities.

(k) Employees' severance and retirement benefits - The Companies provide post-employment benefit plans substantially by funded contributory pension plans and funded non-contributory pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors. Also, extra severance and retirement benefits would be paid, in case of earlier voluntary retirement etc.

The pension plans cover 100% of total severance and retirement benefits of the Company's employees from the year ended March 31, 2001.

The liabilities and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions. The Companies provided allowance for employees' severance and retirement benefits as of March 31, 2007 and 2006 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at those dates.

Actuarial gains and losses are recognized in expenses using the straight-line method over the average of the estimated remaining service lives (10 years) commencing with the following period.

(l) Directors' and corporate auditors' severance and retirement benefits - Directors and corporate auditors of the Companies are entitled to lump-sum payments at the time of severance or retirement, subject to the approval of the shareholders. Liabilities for directors' and corporate auditors' severance and retirement benefits have been provided at an amount required in accordance with the Companies' internal rules had all directors and corporate auditors retired as of the balance sheet date. The Company abolished the directors' and corporate auditors' retirement benefits plan in June 2004, and directors' and corporate auditors' retirement benefits have not been accrued for services provided since then.

(m) Translation of foreign currency items - Receivables and payables denominated in foreign currencies are translated into Japanese yen at the current rate.

Foreign currency items covered by forward exchange contracts are translated at the contracted rates.

(n) Translation of foreign currency financial statements - Financial statements of consolidated overseas subsidiaries are translated into Japanese yen at the current rate, except that shareholders' equity accounts are translated at historical rates and income statement items resulting from transactions with the Company at the rates used by the Company. Foreign currency translation adjustments are recorded as a component of net assets.

(o) Amounts per share - The calcuation of net income per share is based on the weighted average number of shares of common stock outstanding during the year.

Diluted net income per share is calculated based on the weighted-average number of shares of common stock and contingent issuance of common stock from the bonds with warrants.

Cash dividends per share presented in the consolidated statements of income represent the cash dividends declared applicable to each year.

(p) Cash flow statement - In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities of not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

(q) Accounting Standard for presentation of Net Assets in the Balance Sheet - Effective from the year ended March 31, 2007, the Company and its consolidated domestic subsidiaries adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No.5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No.8 issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, the "New Accounting Standards").

Under the New Accounting Standards, the balance sheet comprises the assets, liabilities and net assets sections. Previously, the balance sheet comprised the assets, liabilities, minority interests, as applicable, and the shareholders' equity sections.

Under the New Accounting Standards, the following items are presented differently compared to the previous presentation. The net assets section includes unrealized gains (losses) on hedging derivatives, net of taxes. Under the previous presentation rules, companies were required to present unrealized gains (losses) on hedging derivatives in the assets or liabilities section without considering the related income tax effects.

If the New Accounting Standards had not been adopted and the previous presentation method for the shareholders' equity had been applied, the shareholders' equity at March 31, 2007 , which comprised common stock, capital surplus, retained earnings, net unrealized holding gains on investment securities, foreign currency translation adjustments and treasury stock, would have been ¥41,822 million.

(r) Accounting Standard for Statement of Changes in Net Assets - Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No.6 issued by the Accounting Standards Board of Japan on December 27, 2005), and the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No.9 issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, the "Additional New Accounting Standards").

Accordingly, the Company prepared the statements of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards. Also, the Company voluntarily prepared the consolidated statements of changes in net assets for the years ended March 31, 2006 in accordance with the Additional New Accounting Standards. Previously, consolidated statements of shareholders' equity were prepared for the purpose of inclusion in the consolidated financial statements although such statements were not required under Japanese GAAP.

3. Securities

(a) Summarized information of acquisition costs, book values and fair value of securities with available fair values as of March 31, 2008 and 2007 were as follows:

	Millions of Yen		
2008	Acquisition cost	Book value	Difference
Available-for-sale securities with book values (fair values) exceeding acquisition costs:			
Equity securities	¥ 806	¥ 3,607	¥ 2,801
Others	10	16	6
	816	3,623	2,807
Available-for-sale securities with book values (fair values) not exceeding acquisition costs:			
Equity securities	¥ 2,385	¥ 1,958	¥ (427)
Total	¥ 3,201	¥ 5,581	¥ 2,380

	Millions of Yen		
2007	Acquisition cost	Book value	Difference
Available-for-sale securities with book values (fair values) exceeding acquisition costs:			
Equity securities	¥ 2,665	¥ 8,484	¥ 5,819
Others	10	24	14
	2,675	8,508	5,833
Available-for-sale securities with book values (fair values) not exceeding acquisition costs:			
Equity securities	¥ 1,315	¥ 1,196	¥ (119)
Total	¥ 3,990	¥ 9,704	¥ 5,714

	Thousands of U.S. Dollars		
2008	Acquisition cost	Book value	Difference
Available-for-sale securities with book values (fair values) exceeding acquisition costs:			
Equity securities	$ 8,045	$ 36,001	$ 27,956
Others	100	160	60
	8,145	36,161	28,016
Available-for-sale securities with book values (fair values) not exceeding acquisition costs:			
Equity securities	$ 23,805	$ 19,543	$ (4,262)
Total	31,950	55,704	23,754

(b) Summarized information of book values of securities with no available fair values as of March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Available-for-sale securities:			
Non-listed foreign bonds	¥ 401	¥ 472	$ 4,002
Non-listed equity securities	157	436	1,567
Money management funds	1	1	10

(c) Summarized information of maturities of securities with maturities as of March 31, 2008 and 2007 were as follows:

	Millions of Yen			
2008	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Available-for-sale securities:				
Government bonds and municipal bonds	¥ –	¥ –	¥ –	¥ –
Corporate bonds	200	201	–	–

	Millions of Yen			
2007	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Available-for-sale securities:				
Government bonds and municipal bonds	¥ –	¥ –	¥ –	¥ –
Corporate bonds	–	472	–	–

	Thousands of U.S. Dollars			
2008	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Available-for-sale securities:				
Government bonds and municipal bonds	$ –	$ –	$ –	$ –
Corporate bonds	1,996	2,006	–	–

(d) Total sales of available-for-sale securities sold for the years ended March 31, 2008, 2007 and 2006 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2008	2007	2006	2008
Available-for-sale securities:				
Total sales amount	¥ 1,556	¥ 16	¥ 727	$ 15,530
Gains	1,064	2	515	10,620
Losses	–	–	–	–

4. Non-consolidated subsidiaries and affiliated companies

Summarized information of balances and transactions with affiliated companies as of March 31, 2008 and 2007, and for the years ended March 31, 2008, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Receivables	¥ 0	¥ 0	$ 0
Investment securities	789	796	7,875
Payables	831	1,270	8,294

	Millions of Yen			Thousands of U.S. Dollars
	2008	2007	2006	2008
Sales to	¥ 3	¥ 6	¥ 7	$ 30
Purchases from	3,294	4,997	4,638	32,878

5. Related party transactions

The Company's bonds issued in the year ended March 31, 2002 and subscribed by Shigeo Takayama, a director and the chairman of the Company, and Takayama International Education Foundation, of which Shigeo Takayama is president, matured in the year ended March 31, 2007. Takayama International Education Foundation subscribed for all of the Company's new bonds issued in the year ended March 31, 2007. Related party transactions for 2008 and 2007 are following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Shigeo Takayama (a director and the chairman of the Company):			
Payment of interest on bonds	¥ –	¥ 1	$ –
Redemption of bonds	–	100	–
Advance of a cost	2	1	20
Takayama International Education Foundation (of which Shigeo Takayama is president):			
Payment of interest on bonds	10	8	100
Redemption of bonds	–	500	–
Subscription for the bonds issued on 2007	–	500	–
Advance of a cost	5	2	50

6. Inventories

Inventories as of March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Merchandise	¥ 12,312	¥ 11,577	$ 122,886
Finished goods	420	383	4,192
Raw materials	382	344	3,813
Work in process	60	90	599
Supplies	13	18	130
Total	¥ 13,187	¥ 12,412	$ 131,620

7. Short-term borrowings and long-term debt

(a) Short-term borrowings consisted principally of loans from banks. The interest rates on short-term borrowings as of March 31, 2008 and 2007 ranged from 1.28% to 5.86% and 0.72% to 4.91% per annum, respectively.

(b) Long-term debt as of March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
1.93% to 1.96% loans from Japanese insurance companies, due in 2008 to 2013	¥ 1,751	¥ 928	$ 17,477
1.48% to 3.63% loans from Japanese banks, due in 2008 to 2022	1,749	1,584	17,457
2.05% Japanese yen bonds due in 2012	500	500	4,990
0.55% to 1.61% Japanese yen privately subscribed bonds due in 2008 to 2010	1,219	–	12,167
	5,219	3,012	52,091
Less amount due within one year	1,665	564	16,618
Long-term debt	¥ 3,554	¥ 2,448	$ 35,473

The indenture covering the 1.5% Japanese yen bonds with detachable warrants, due in 2007, provided, among other things, for (1) the exercise of warrants at the current exercise price of ¥1,666 (subject to change in circumstances) and (2) exercisable period from September 1, 2001 to March 22, 2007.

(c) Assets pledged as collateral for ¥230 million ($2,296 thousand) of short-term borrowings and ¥279 million ($2,785 thousand) of long-term debt as of March 31, 2008 (¥246 million of short-term borrowings and ¥453 million of long-term debt as of March 31, 2007) were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Cash and time deposits	¥ 176	¥ 215	$ 1,757
Land and land improvements	419	251	4,182
Buildings and structures	646	150	6,448
Others	4	–	40
Total	1,245	616	12,427

8. Employees' severance and retirement benefits

The liabilities for employees' severance and retirement benefits included in the liability section of the consolidated balance sheets at March 31, 2008 and 2007 consist of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Funded status:			
Projected benefit obligation	¥ (3,052)	¥ (2,896)	$ (30,462)
Pension assets	2,500	2,799	24,953
Unfunded projected benefit obligation	(552)	(97)	(5,509)
Unrecognized actuarial differences	207	(120)	2,066
Net projected benefits obligation recognized	(345)	(217)	(3,443)
Prepaid pension expense	–	–	–
Employees' severance and retirement benefits	¥ (345)	¥ (217)	$ (3,443)

Included in the consolidated statements of income for the years ended March 31, 2008, 2007 and 2006 are severance and retirement benefit expenses comprised of the following:

	Millions of Yen			Thousands of U.S. Dollars
	2008	2007	2006	2008
Severance and retirement benefit expenses:				
Service costs – benefits earned during the year	¥468	¥442	¥396	$ 4,671
Interest cost on projected benefit obligation	53	51	48	529
Expected return on plan assets	(54)	(26)	(20)	(539)
Amortization of actual differences	17	26	60	170
Extra severance and retirement benefits	49	24	15	489
Severance and retirement benefit expenses	¥533	¥517	¥499	$ 5,320

	2008	2007
Discount rate	2.0%	2.0%
Rate of expected return on plan assets	2.0%	1.0%

The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Actuarial gains and losses are recognized in income statement using the straight-line method over 10 years commencing with the following period.

9. Net assets

As described in Note2 (q), net assets comprises four subsections, which are owners' equity, accumulated gains (losses) from valuation and translation adjustments, share subscription rights and minority interests. The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in-capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, all additional paid-in-capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

Payments of dividends are accounted for as appropriation of retained earnings or other capital surplus, as applicable, in the period when approved at the shareholders' meeting or at the Board of Directors or as of the date when dividends are determined to take effect by the shareholders or the Board of Directors.

Bonuses to directors were also recognized as appropriations of retained earnings when approved by the shareholders prior to 2007, in which new accounting standards were adopted as discussed in Note 2 (i).

10. Contingent liabilities

Contingent liabilities of the Companies as of March 31, 2008 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Notes endorsed	¥ 14	$ 140
Guarantees for indebtedness of employees	7	70

11. Research and development expenses

Research and development expenses for the development of new products or improvement of existing products are charged to income as incurred. Such amounts charged to income for the years ended March 31, 2008, 2007 and 2006 were ¥210 million ($2,096 thousand), ¥256 million and ¥243 million, respectively.

12. Income taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax, inhabitants' taxes and enterprise tax, which in the aggregate resulted in normal statutory rates of approximately 40.7% for the years ended March 31, 2008, 2007 and 2006. Income taxes of overseas consolidated subsidiaries are based generally on tax rates applicable in their countries of incorporation.

The following table summarizes the significant difference between the statutory tax rate and effective tax rate for consolidated financial statement purposes for the year ended March 31, 2008, 2007 and 2006.

	2008	2007	2006
Statutory tax rate	40.7%	40.7%	40.7%
Tax effects not recognized for loss carry forwards of consolidated subsidiaries	–	(0.8)	1.2
Non-taxable dividend income	(1.6)	(0.6)	–
Non-deductible expenses	3.3	1.8	1.7
Valuation allowance	41.2	4.4	–
Per capita inhabitant tax	1.9	0.6	–
Dividend income from overseas consolidated subsidiaries eliminated in consolidation	–	–	2.8
Effects of increases in retained earnings of overseas consolidates subsidiaries	–	–	3.3
Prior year tax amount	–	–	1.7
Lower tax rates of overseas consolidated subsidiaries	–	–	(3.9)
Foreign tax credit	–	–	(3.4)
Consolidated adjustment for loss on sale of shares of subsidiaries	(3.4)	–	–
Others	(1.3)	(0.1)	1.1
Effective tax rate	80.8%	46.0%	45.2%

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
Deferred tax assets:	2008	2007	2008
Directors' and corporate auditors' retirement benefits	¥ 418	¥ 394	$ 4,172
Employees' retirement benefits	127	76	1,267
Devaluation of inventories	1,353	500	13,504
Accrued enterprise taxes	104	71	1,038
Accrued employees' bonus	420	390	4,192
Devaluation of investment securities	540	49	5,390
Allowance for doubtful account	19	30	190
Allowance for loss on investment securities	18	93	180
Net loss carry forwards	432	161	4,312
Impairment loss on property, plant and equipment	69	86	689
Loss on write-down of property, plant and equipment	139	141	1,387
Difference between market value and cost of assets of consolidated subsidiaries	433	101	4,322
Others	324	256	3,234
Less-Valuation allowance	(1,675)	(470)	(16,718)
Total deferred tax assets	2,721	1,878	27,159
Deferred tax liabilities:			
Net unrealized holding gains on investment securities	(943)	(2,336)	(9,412)
Retained earnings of subsidiaries	(782)	(796)	(7,805)
Gain on land valuation	(203)	(203)	(2,026)
Others	(11)	(75)	(110)
Total deferred tax liabilities	(1,939)	(3,410)	(19,353)
Net deferred tax assets (liabilities)	¥ 782	¥(1,532)	$ 7,806

13. Derivative financial instruments

The Companies use forward foreign currency contracts, currency option trading and currency swap contracts as derivative financial instruments only for the purpose of mitigating future risks of fluctuation of foreign currency exchange rates with respect to foreign currency accounts receivable or payable and commitments.

The Companies also use interest rate cap contracts and interest rate swap contracts as derivative financial instruments only for the purpose of mitigating future risks of interest rate increases with respect to long-term debt.

Forward foreign currency contracts, currency option trading, currency swap contracts, interest rate cap contracts and interest rate swap contracts are subject to risks of foreign exchange rate changes and interest rate changes, respectively.

The forward foreign currency contracts, currency option trading and currency swap contracts are executed and managed by the Company's Financial Accounting Department in accordance with the established policies. The Manager of the Financial Accounting Department reports information on the aggregate contract amount to the Board of Directors on a monthly basis.

The interest rate cap contracts and interest rate swap contracts are executed by the Company's Financial Accounting Department based on a resolution of the senior executives' meeting. The Manager of the Financial Accounting Department reports information on the aggregate contract amount to the Board of Directors on a monthly basis.

The Derivative contracts utilized by the Companies are exposed to the fluctuation risks of market interest rates, and foreign currency exchange rates. However, the derivative financial instruments are executed with creditworthy Japanese banks, and the Company's management believes there is little risk of default by counterparties.

The size of the amount of the derivative contracts does not necessarily indicate the significance of the risk.

The following tables summarize fair value information as of March 31, 2008 and 2007 of derivative transactions for which hedge accounting has not been applied:

(a) Currency-related transactions

2008		Millions of Yen			
Classification	Type of transaction	Contracted amount	Over one year	Fair value	Gains (Losses)
Non-market transactions	Currency option trading				
	Put	¥ 2,178	¥ 2,178	¥ (225)	¥ (225)
	Call	1,223	1,223	60	60
	Currency swap trading Receive U.S. dollars, pay Japanese yen	¥ 320	¥ 320	¥ (39)	¥ (39)
	Total	¥ 3,721	¥ 3,721	¥ (204)	¥ (204)

(b) Interest-related transactions

2008		Millions of Yen			
Classification	Type of transaction	Contracted amount	Over one year	Fair value	Gains (Losses)
Non-market transactions	Interest rate swap				
	Receive floating, pay fixed	¥ 725	¥ 605	¥ (7)	¥ (7)
	Total	¥ 725	¥ 605	¥ (7)	¥ (7)

(a) Currency-related transactions

2007		Millions of Yen			
Classification	Type of transaction	Contracted amount	Over one year	Fair value	Gains (Losses)
Non-market transactions	Currency option trading				
	Put	¥ 3	¥ –	¥ 2	¥ (1)
	Call	3	–	3	0
	Total	¥ 6	¥ –	¥ 5	¥ (1)

(b) Interest-related transactions

2007		Millions of Yen			
Classification	Type of transaction	Contracted amount	Over one year	Fair value	Gains (Losses)
Non-market transactions	Interest rate swap				
	Receive floating, pay fixed	¥ 845	¥ 725	¥ (8)	¥ (8)
	Total	¥ 845	¥ 725	¥ (8)	¥ (8)

(a) Currency-related transactions

2008		Thousands of U.S. Dollars			
Classification	Type of transaction	Contracted amount	Over one year	Fair value	Gains (Losses)
Non-market transactions	Currency option trading				
	Put	$21,738	$21,738	$ (2,246)	$ (2,246)
	Call	12,207	12,207	599	599
	Currency swap trading Receive U.S. dollar, pay Japanese yen	$ 3,194	$ 3,194	$ (389)	$ (389)
	Total	$37,139	$37,139	$ (2,036)	$ (2,036)

(b) Interest-related transactions

2008		Millions of Yen			
Classification	Type of transaction	Contracted amount	Over one year	Fair value	Gains (Losses)
Non-market transactions	Interest rate swap				
	Receive floating, pay fixed	$ 7,236	$ 6,039	$ (70)	$ (70)
	Total	$ 7,236	$ 6,039	$ (70)	$ (70)

14. Cash and cash equivalents

(a) The reconciliation between cash and time deposits on the consolidated balance sheets and cash and cash equivalents on the consolidated statements of cash flows as of March 31, 2008, 2007 and 2006 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2008	2007	2006	2008
Cash and time deposits	¥ 10,252	¥ 5,369	¥ 7,487	$ 102,326
Add: Marketable securities	201	1	1	2,006
Add: deposits paid	1,452			14,492
Total	11,905	5,370	7,488	118,824
Less: Time deposits with maturities exceeding three months	(755)	(383)	(30)	(7,536)
Less: Corporate bonds within 1 year	(200)	–	–	(1,996)
Cash and cash equivalents	¥ 10,950	¥ 4,987	¥ 7,458	$ 109,292

(b) Assets and liabilities of newly consolidated subsidiaries through acquisition of shares:
Assets and liabilities of Microtek Co., Ltd., a newly consolidated subsidiary in 2008, and Moldec Co., Ltd, a newly consolidated subsidiary in 2007 the related acquisition cost and net cash flows from the acquisition are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Current assets	¥ 7,475	¥ 1,349	$ 74,608
Non current assets	1,196	927	11,937
Consolidation goodwill	48	461	479
Current liabilities	(5,239)	(1,231)	(52,290)
Non current liabilities	(2,329)	(1,416)	(23,246)
Acquisition cost of shares	1,151	90	11,488
Cash and cash equivalents of the acquired companies	(843)	(122)	(8,414)
Net cash used for acquisition of shares of newly consolidated subsidiaries	(308)	32	(3,074)

(c) Assets and liabilities of the subsidiaries excluded from the consolidation scope:
Shares of Hakuto Korea Co., Ltd. and Human Resources International Co., Ltd. were sold in 2008 and 2007, resulting in deconsolidation. The assets and liabilities of the companies at deconsolidation, the sale price of the shares and net cash flows from the sale are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Current assets	¥ 117	¥ 209	$ 1,168
Non current assets	38	23	379
Current liabilities	(48)	(183)	(479)
Non current liabilities	(7)	(5)	(70)
Translation adjustments	(8)	–	(80)
Carrying amount of shares sold	92	44	918
Gain (loss) on sale shares	(67)	56	(669)
Sale price of shares for the year	25	100	249
Cash and cash equivalents of the companies excluded from the consolidation scope	(94)	(101)	(938)
Payment for sale of shares of subsidiaries excluded from the consolidation scope	(69)	(1)	(689)

15. Stock option plans

The following table summarizes contents of stock options as of March 31, 2008 and 2007.

	Stock options issued in 2000	Stock options issued in 2004
Position and number of grantee	Directors of the Company: 13 Employees of the Companies: 173	Directors and Employees of the Companies: 60
Class and number of shares	Common Stock 601,000	Common Stock 342,500
Date granted	June 29, 2000	June 28, 2004
Vesting requirements	No provisions	No provisions
Service-period requirement for vesting	No provisions	No provisions
Exercise period	From July 1, 2002 to June 30, 2006	From July 1, 2006 to June 30, 2010

The following tables summarize scale and movement of stock options in the year ended March 31, 2008.

Not-exercisable stock options:

	Stock options issued in 2004
Not-exercisable stock options outstanding at April 1, 2007	–
Stock options granted	–
Forfeitures	–
Conversion to exercisable stock options	–
Not-exercisable stock options outstanding at March 31, 2008	–

Exercisable stock options:

	Stock options issued in 2004
Exercisable stock options outstanding at April 1, 2007	–
Conversion from not-exercisable stock options	325,000
Options exercised	50,600
Forfeitures	–
Exercisable stock options outstanding at March 31, 2008	274,400

The following tables summarize scale and movement of stock options in the year ended March 31, 2007.

Not-exercisable stock options:

	Stock options issued in 2000	Stock options issued in 2004
Not-exercisable stock options outstanding at April 1, 2006	–	342,500
Stock options granted	–	–
Forfeitures	–	–
Conversion to exercisable stock options	–	342,500
Not–exercisable stock options outstanding at March 31, 2007	–	–

Exercisable stock options:

	Stock options issued in 2000	Stock options issued in 2004
Exercisable stock options outstanding at April 1, 2006	601,000	–
Conversion from not-exercisable stock options	–	342,500
Options exercised	–	17,500
Forfeitures	601,000	–
Exercisable stock options outstanding at March 31, 2007	–	325,000

16. Business combinations

Effective from the year ended March 31, 2007, the Company applied "Accounting Standard for Business Combinations" issued by the Business Accounting Council on October 31, 2003, "Accounting Standard for Business Divestitures" (Statement No.7 issued by the Accounting Standard Board of Japan on December 27, 2005) and "Guidance for Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (Guidance No.10 revised by the Accounting Standard Board of Japan on December 22, 2006).
Acquisition of shares by the Company during the year ended March 31, 2008 was as follows:

(a) Overview of the business combination

Corporate name of the entity combined	Microtek Co., Ltd.
Business of the entity combined	Sales of parts for semiconductor and electronic machine
Principal reason for the business combination	Expansion of sales and technical reinforcement for semiconductor business
Date of the business combination	October 1, 2007
Legal form of the business combination	Acquisition of shares by the Company
Corporate name after the business combination	Microtek Co., Ltd. And its subsidiary
Voting ownership interest acquired	100%

(b) The Company's consolidated Statement of Income for 2008 includes the operations of the combined entity for the following period

From October 1, 2007 to March 31, 2008

(c) Acquisition cost and its consideration
Cash ¥1,151 million ($11,488 thousand)

(d) Amount of goodwill, reason that the goodwill arose, and method and period of amortization
(1) Amount of goodwill ¥48 million ($479 thousand)
(2) Reason that the goodwill arose – The goodwill arose from the excess earning power of the combined entity.
(3) Method and period of amortization – Straight-line method over 5 years

(e) Assets obtained and liabilities assumed at the date of the business combination

Current assets	¥7,475 million ($74,608 thousand)
Non current assets	¥1,196 million ($11,937 thousand)
Sub-total	¥8,671 million ($86,545 thousand)
Current liabilities	¥5,239 million ($52,290 thousand)
Non current liabilities	¥2,329 million ($23,246 thousand)
Sub-total	¥7,568 million ($75,536 thousand)

(f) If the business combination had been accomplished at April 1, 2007, the Company's operating results for 2008 would have been as follows.

Sales	¥141,231 million ($1,409,632 thousand)
Operating income	¥ 2,782 million ($ 27,767 thousand)
Ordinary income	¥ 2,244 million ($ 22,397 thousand)
Net income	¥ 398 million ($ 3,972 thousand)

All significant inter-company transactions and account balances have been eliminated from the above amounts. The above information has not been audited and should not be construed as actual operating results of the Company.

Acquisition of shares by the Company during the year ended March 31, 2007 was as follows:

(a) Overview of the business combination

Corporate name of the entity combined	Moldec Co., Ltd.
Business of the entity combined	Manufacture and sales of high precision plastics
Principal reason for the business combination	Strengthening of manufacturing function
Date of the business combination	September 29, 2006
Legal form of the business combination	Acquisition of shares by the Company
Corporate name after the business combination	Moldec Co., Ltd.
Voting ownership interest acquired	25.4%

As a result of the acquisition of shares, the Company held 40.1% of the voting ownership interest of Moldec Co., Ltd. (hereinafter referred to as "the combined entity"). At the same time, the Company elected all directors of the combined entity. Therefore, the Company included the combined entity in the consolidated financial statements. Furthermore, the Company acquired additional shares in November 2006. As a result of this acquisition, the Company holds 55.1% of the voting ownership interest of the combined entity.

(b) The Company's consolidated Statement of Income for 2007 includes the operations of the combined entity for the following period

From September 1, 2006 to February 28, 2007

(c) Acquisition cost and its consideration
Cash ¥90 million ($762 thousand)

(d) Amount of goodwill, reason that the goodwill arose, and method and period of amortization
(1) Amount of goodwill ¥461 million ($3,905 thousand)
(2) Reason that the goodwill arose – The goodwill arose from the excess earning power of the combined entity.
(3) Method and period of amortization – Straight-line method over 5 years

(e) Assets obtained and liabilities assumed at the date of the business combination

Current assets	¥1,339 million ($11,343 thousand)
Non current assets	¥ 927 million ($ 7,853 thousand)
Sub-total	¥2,266 million ($19,196 thousand)
Current liabilities	¥1,124 million ($ 9,521 thousand)
Non current liabilities	¥1,416 million ($11,995 thousand)
Sub-total	¥2,540 million ($21,516 thousand)

(f) If the business combination had been accomplished at April 1, 2006, the Company's operating results for 2007 would have been as follows.

Sales	¥124,241 million ($1,052,444 thousand)
Operating income	¥ 5,459 million ($ 46,243 thousand)
Ordinary income	¥ 5,579 million ($ 47,260 thousand)
Net income	¥ 3,214 million ($ 27,226 thousand)

The above amounts are calculated on the assumption that the Company had held 55.1% of the voting ownership interest of the entity since April 1, 2006, and a significant inter-company transactions and account balances have been eliminated. The above information has not been audited and should not be construed as actual operating results of the Company.

17. Information for certain lease transactions

Finance leases which do not transfer ownership to lessees are not capitalized and accounted for in the same manner as operating leases. Certain information for such non-capitalized finance leases were as follows.

(a) A summary of assumed amounts (inclusive of interest) of acquisition cost, accumulated depreciation and net book value as of March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Purchase price equivalent:			
Machinery and equipment	¥ 508	¥ 361	$ 5,070
Intangible assets	63	75	629
Accumulated depreciation equivalent	355	285	3,543
Book value equivalent	¥ 216	¥ 151	$ 2,156

(b) Future minimum lease payments, inclusive of interest, as of March 31, 2008 and 2007 were ¥216 million ($2,156 thousand) and ¥151 million, including ¥102 million ($1,018 thousand) and ¥86 million, respectively due within one year.

(c) Lease payments for the years ended March 31, 2008 and 2007 were ¥126 million ($1,258 thousand) and ¥103 million, respectively. Assumed depreciation charges for the years ended March 31, 2008 and 2007 were ¥126 million ($1,258 thousand) and ¥103 million, respectively.

(d) Depreciation charges are computed using the straight-line method over lease terms assuming no residual value.

Future lease payments under operating leases as of March 31, 2008 were ¥173 million ($1,727 thousand), including ¥141 million ($1,407 thousand) due within one year.

18. Subsequent events

On May 15, 2008, the Board of Directors approved payment of year-end cash dividends to the shareholders of record as of March 31, 2008 of ¥17.5 ($0.17) per share or a total of ¥387 million ($3,863 thousand).

19. Segment information

The Company's primary business activities include (1) electronics division (2) chemical division and (3) other. A summary of net sales, costs and expenses, operating income, identifiable assets, depreciation and amortization, and capital expenditures by segment of business activities for the years ended March 31, 2008, 2007 and 2006 were as follows:

(a) Information by business segment

2008	Millions of Yen					
	Electronics division	Chemical division	Other	Total	Elimination and/or Corporate	Consolidated
Net sales:						
Outside customers	¥ 126,202	¥ 7,037	¥ 20	¥ 133,259	¥ –	¥ 133,259
Within consolidated group	0	–	570	570	(570)	–
Total	126,202	7,037	590	133,829	(570)	133,259
Costs and expenses	123,592	6,872	557	131,021	(570)	130,451
Operating income	¥ 2,610	¥ 165	¥ 33	¥ 2,808	¥ –	¥ 2,808
Identifiable assets	¥ 78,747	¥ 7,114	¥ 151	¥ 86,012	¥ (62)	¥ 85,950
Depreciation and amortization	548	205	–	753	–	753
Capital expenditures	330	83	–	413	–	413

2007	Millions of Yen					
	Electronics division	Chemical division	Other	Total	Elimination and/or Corporate	Consolidated
Net sales:						
Outside customers	¥ 116,704	¥ 6,719	¥ 19	¥ 123,442	¥ –	¥ 123,442
Within consolidated group	0	–	574	574	(574)	–
Total	116,704	6,719	593	124,016	(574)	123,442
Costs and expenses	109,580	6,120	568	116,268	1,981	118,249
Operating income	¥ 7,124	¥ 599	¥ 25	¥ 7,748	¥ (2,555)	¥ 5,193
Identifiable assets	¥ 71,276	¥ 5,446	¥ 85	¥ 76,807	¥ 5,368	¥ 82,175
Depreciation and amortization	306	162	–	468	150	618
Capital expenditures	290	165	–	455	46	501

2006	Millions of Yen					
	Electronics division	Chemical division	Other	Total	Elimination and/or Corporate	Consolidated
Net sales:						
Outside customers	¥ 108,290	¥ 6,349	¥ 864	¥ 115,503	¥ –	¥ 115,503
Within consolidated group	0	–	628	628	(628)	–
Total	108,290	6,349	1,492	116,131	(628)	115,503
Costs and expenses	102,376	5,660	1,537	109,573	1,752	111,325
Operating income (loss)	¥ 5,914	¥ 689	¥ (45)	¥ 6,558	¥ (2,380)	¥ 4,178
Identifiable assets	¥ 56,996	¥ 5,235	¥ 184	¥ 62,415	¥ 7,747	¥ 70,162
Depreciation and amortization	282	151	2	435	158	593
Impairment losses	–	–	–	–	28	28
Capital expenditures	268	125	7	400	17	417

2008	Thousands of U.S. Dollars					
	Electronics division	Chemical division	Other	Total	Elimination and/or Corporate	Consolidated
Net sales:						
Outside customers	$1,259,627	$ 70,236	$ 200	$1,330,063	$ –	$1,330,063
Within consolidated group	–	–	5,689	5,689	(5,689)	–
Total	1,259,627	70,236	5,889	1,335,752	(5,689)	1,330,063
Costs and expenses	1,233,576	68,590	5,559	1,307,725	(5,689)	1,302,036
Operating income	$ 26,051	$ 1,646	$ 330	$ 28,027	$ –	$ 28,027
Identifiable assets	$ 785,977	$ 71,005	$ 1,507	$ 858,489	$ (619)	$ 857,870
Depreciation and amortization	5,470	2,046	–	7,516	–	7,516
Capital expenditures	3,294	828	–	4,122	–	4,122

(Change in the allocation of operating expenses and assets unable to allocate to segments)

Most of the operating expenses of the general control division in the head office were included in "Elimination and/or Corporate", the method of the allocation of operating expenses was reconsidered by the Companies. As a result, the method of the allocation was partly changed to the way by which the Companies allocate the operating expenses from the current fiscal year.

With this change, part of assets which were included in "Elimination and/or Corporate" are included in each segment.

By this change, the operating income of electronics division decrease by ¥2,324 million ($23,196 thousand) and operating income of chemical division decrease by ¥490 million ($4,891 thousand) and about assets of electronics division increase by ¥9,594 million ($95,758 thousand) and chemical division increase by ¥1,329 million ($13,265 thousand) about depreciations of electronics division increase by ¥152 million ($1,517 thousand) and chemical division increase by ¥26 million ($260 thousand), about capital expenditures of electronics division increase by ¥45 million ($449 thousand) and chemical division increase by ¥9 million ($90 thousand).

Operating expenses in last fiscal year ended, unable to allocation of operating expenses amounts which included in "Elimination and/or Corporate" is ¥2,555 million. It's the cost of general control division.

Assets amounts in last fiscal year ended, unable to allocation of assets amounts which included in

"Elimination and/or corporate" is ¥5,369 million. Main of them is cash and cash equivalents, investment securities and assets of general control division.

(b) Information by geographic location

2008	Millions of Yen				
	Japan	Asia	Total	Elimination and/or Corporate	Consolidated
Net sales:					
Outside customers	¥ 102,187	¥ 31,072	¥ 133,259	¥ –	¥ 133,259
Within consolidated group	6,184	216	6,400	(6,400)	–
Total	108,371	31,288	139,659	(6,400)	133,259
Costs and expenses	106,934	29,917	136,851	(6,400)	130,451
Operating income	¥ 1,437	¥ 1,371	¥ 2,808	¥ –	¥ 2,808
Identifiable assets	¥ 75,503	¥ 11,444	¥ 86,947	¥ (997)	¥ 85,950

2007	Millions of Yen				
	Japan	Asia	Total	Elimination and/or Corporate	Consolidated
Net sales:					
Outside customers	¥ 93,739	¥ 29,703	¥ 123,442	¥ –	¥ 123,442
Within consolidated group	7,768	317	8,085	(8,085)	–
Total	101,507	30,020	131,527	(8,085)	123,442
Costs and expenses	95,115	28,660	123,775	(5,526)	118,249
Operating income	¥ 6,392	¥ 1,360	¥ 7,752	¥ (2,559)	¥ 5,193
Identifiable assets	¥ 67,010	¥ 11,587	¥ 78,597	¥ 3,578	¥ 82,175

2006	Millions of Yen				
	Japan	Asia	Total	Elimination and/or Corporate	Consolidated
Net sales:					
Outside customers	¥ 88,930	¥ 26,573	¥ 115,503	¥ –	¥ 115,503
Within consolidated group	5,971	398	6,369	(6,369)	–
Total	94,901	26,971	121,872	(6,369)	115,503
Costs and expenses	89,242	26,091	115,333	(4,008)	111,325
Operating income	¥ 5,659	¥ 880	¥ 6,539	¥ (2,361)	¥ 4,178
Identifiable assets	¥ 54,265	¥ 9,901	¥ 64,166	¥ 5,996	¥ 70,162

2008	Thousands of U.S. Dollars				
	Japan	Asia	Total	Elimination and/or Corporate	Consolidated
Net sales:					
Outside customers	$1,019,932	$ 310,131	$1,330,063	$ –	$1,330,063
Within consolidated group	61,723	2,156	63,879	(63,879)	–
Total	1,081,655	312,287	1,393,942	(63,879)	1,330,063
Costs and expenses	1,067,312	298,603	1,365,915	(63,879)	1,302,036
Operating income	$ 14,343	$ 13,684	$ 28,027	$ –	$ 28,027
Identifiable assets	$ 753,598	$ 114,223	$ 867,821	$ (9,951)	$ 857,870

(Change in the allocation of operating expenses and assets unable to allocate to segments)

Most of the operating expenses of the general control division in the head office were included in "Elimination and/or Corporate", the method of the allocation of operating expenses was reconsidered by the Companies. As a result, the method of the allocation was partly changed to the way by which the Companies allocate the operating expenses from the current fiscal year.

With this change, part of assets which were included in "Elimination and/or Corporate" are included in each segment.

By this change, the operating income in Japan decrease by ¥2,814 million ($28,087 thousand) and about assets in Japan increase by ¥10,923million ($109,023thousand).

Operating expenses in last fiscal year ended, unable to allocation of operating expenses amounts which included in "Elimination and/or Corporate" is ¥2,555 million. It's the cost of general control division.

Assets amounts in last fiscal year ended, unable to allocation of assets amounts which included in "Elimination and/or Corporate" is ¥5,369 million. Main of them is cash and cash equivalents, investment securities and assets of general control division.

(c) Overseas sales information

	Millions of Yen			Thousands of U.S. Dollars
	2008	2007	2006	2008
Export sales:				
Asia	¥ 39,389	¥ 38,902	¥ 37,731	$ 393,143
Other area	1,160	1,754	1,784	11,578
Total (A)	40,549	40,656	39,515	404,721
Net sales (B)	133,259	123,442	115,503	1,330,063
A/B	30.4%	32.9%	34.2%	30.4%

Report of Independent Certified Public Accountants

On the Consolidated Financial Statements

Independent Auditors' Report

To the Board of Directors of

Hakuto Co., Ltd.

We have audited the accompanying consolidated balance sheets of Hakuto Co., Ltd. and consolidated subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income, changes in net assets and cash flows for each of the three years in the period ended March 31, 2008, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hakuto Co., Ltd. and subsidiaries as of March 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2008, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following:
(1) As discussed in Note 19 to the consolidated financial statements, effective April 1, 2007, Hakuto Co., Ltd. changed the allocations of operating expenses and identifiable assets of segment information.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

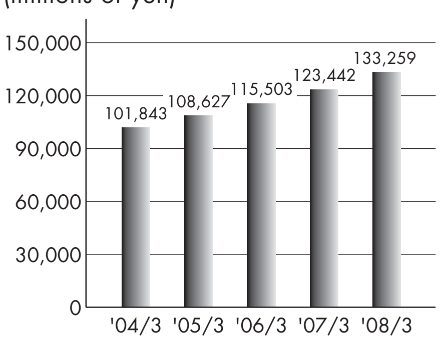
Tokyo, Japan
June 26, 2008

Financial Highlights

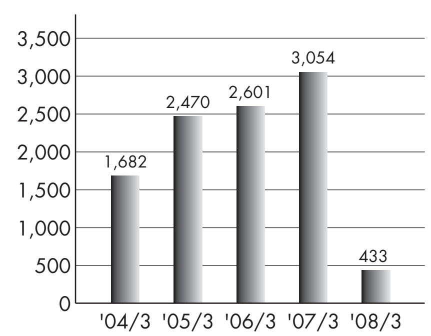
OPERATING DATA	Millions of Yen 2008/3	Millions of Yen 2007/3	Millions of Yen 2006/3	Thousands of U.S. Dollars 2008/3	Percent change between 2007/3 and 2008/3
NET SALES	¥133,259	¥123,442	¥115,503	$1,330,063	8.0%
INCOME BEFORE INCOME TAXES	2,257	5,654	4,748	22,527	-60.1%
NET INCOME	433	3,054	2,601	4,322	-85.8%
FINANCIAL DATA					
TOTAL ASSETS	¥ 85,950	¥ 82,175	¥ 70,162	$ 857,870	5.0%
NET ASSETS	39,111	41,906	39,363	390,368	-6.7%
PER SHARE DATA		Yen		U.S. Dollars	
NET INCOME PER SHARE	¥ 19.62	¥ 138.74	¥ 116.37	$ 0.20	-85.9%
CASH DIVIDENDS PER SHARE	35.00	35.00	30.00	0.35	–

The United States dollar amounts represent translations of Japanese yen amounts at the rate of 100.19 JPY to 1 USD.
See Note 1 to consolidated financial statement.

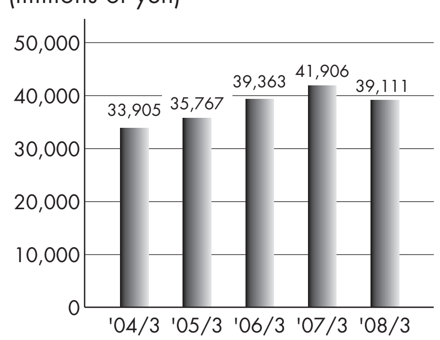
Financial Highlights Chart (Net Sales)
(millions of yen)



Net Income
(millions of yen)



Shareholders' Equity (Net Assets)
(millions of yen)



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