2009

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 57th term, which began April 1, 2008, and ended March 31, 2009.

For the term under review, the financial crisis triggered by the collapse of a major financial institution in the U.S.A. during the second half extended into the real economy and drove the global economy into a climate of worldwide recession. In the field of electronics which is the Hakuto Group's mainstay business, capital investment and demand for electronic components and parts dropped steeply and rapidly in automobile-related and many other markets, notwithstanding the relatively solid demand for some products for the communication infrastructure market.

Although sales for the Chemical Division varied by market sector, the impact of the economic recession was minimal overall. In addition, progress has been made in entering new markets, resulting, overall, in a solid business performance. The Hakuto Group posted consolidated net sales of ¥108,882 million (down 18.3% year-on-year) and operating income of ¥2,250 million (down 19.9% year-on-year).

Meanwhile, the Group has laid out a restructuring plan and has moved swiftly to implement the plan in response to the sharp deterioration in business conditions. As a result of recording restructuring costs of ¥712 million and loss on valuation of investment securities of ¥1,390 million as other expenses, we regret to report that net loss for the term was ¥542 million.

As a term-end dividend, the Company has decided to pay its shareholders ¥12.50 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 ¥30 for the term (¥35 for the previous term).

As an electronics and chemical conglomerate, the Hakuto Group will create added value and maximize its benefits by focusing on sales activities from a user-oriented perspective and strengthening the Group's coordination function in the electronics business. Furthermore, successfully winning over key clients in each target market will allow Hakuto to retain its position as the No. 1 sales agent for each trade right. In the field of chemicals, the Group will uncover new demand and provide new products that adapt to the needs of society, in view of the rising interest in environmental protection. We will also take action aiming to cultivate new markets and customers that are expected to bring synergy with the Group's electronics business.

We look forward to your understanding and support for the Hakuto Group and would like to ask our shareholders to continue watching our business operations from a long-term perspective.

Shigeo Takayama ,
Chairman

Ryusaburo Sugimoto ,
President

The Year in Review

Electronics

・Electronic Equipment First Division

In the worldwide economic slowdown during the term under review, business, particularly in the second half, was extremely severe. A major cause of the poor performance is the freeze in capital investment on the part of our major customers.

As for the next term, as signs of recovery in overseas markets appear to be centering on compound semiconductors, we plan to focus our efforts in this field. In addition, we plan to work on promoting wider sales of our products in newly developed markets in environmental protection and energy conservation. Specifically, these are crystal-type and thin-film solar cells, high-brightness LEDs, organic EL lighting, magnetic recording media, high-temperature, high-pressure resistant devices, high-frequency devices, high-speed optical communication devices, analytical instruments and physical and chemical instruments.

At the same time, we will strengthen coordination of action with overseas sales offices to develop products adapted to overseas markets and to further the globalization of maintenance services, in order to realize stable sales growth both in Japan and overseas.

・Electronic Equipment Second Division

Impacted by the global economic slump originating in the Lehman Brothers collapse, sales fell far short of initial targets, with a high frequency of shipment delays and cancellations of already received orders starting in November in the Division's mainstay business, namely, printed circuit board manufacturing devices and related equipment of our "Hakuto" brand.

Although we project severities from the first half of the next term, we will implement major cost-cutting measures and structural reform, and launch newly-developed products onto the market.

Along with the recovery of market conditions in Japan, China, Taiwan, Korea and ASEAN countries, we will strive to secure profits while offering a product line-up and technological services to satisfy our customers' requirements.

・Electronic Device First Division

Despite a slight slowdown during the second half, the Division continued to increase production of optical transmission devices for the North American market, due to the solid performance of the communication infrastructure market throughout the term under review.

As a result, sales were brisk for semiconductors and optical components for communication equipment. On the other hand, sales and orders for semiconductors and module components for cellular phones, digital consumer electronics and in-vehicle products markets fell rapidly with the abrupt production alignment that started in the fall of 2008. Although adjustments are expected to continue in these markets in the next term, we anticipate a certain degree of upturn from the second half onwards.

Under these circumstances, we expect sales of semiconductors and module components to perform solidly from April, partly due to brisk production by certain cellular phone manufacturers.

In addition, the Division is working hard to win orders in projects related to next-generation networks that have grown in vitality in the first half in certain sectors of the Japanese communication infrastructure market.

・Electronic Device Second Division

During the term under review, business was generally solid in the first half for cellular phones, digital consumer electronics and in-vehicle semiconductors. However, the overwhelming tide of global recession spurred by the sub prime mortgage crisis in the US impacted our business.

In particular, the steep decline in operation rate at our customers led to an unprecedented drop in sales for in-vehicle semiconductors. Similarly, the aggravating social situation hugely affected other product categories that account for a large part of our sales—cellular phones, digital consumer electronics and personal computers—resulting in the failure to reach sales targets by a wide margin.

In the next term, the newly developed system-on-chip (SoC) for flat TV sets has already been integrated into products by several major home appliance manufacturers and is expected to fill in for the decline in in-vehicle semiconductors and cellular phone businesses that are expected to struggle during the next term.

・**Electronic Component Division**

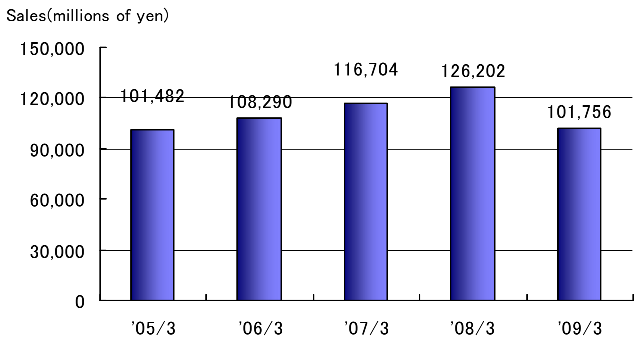
In the PC market during the term under review, sales moved generally as anticipated. With the debut of the $500 PC and the drop in production following the worldwide recession during the second half, however, business faced extreme adversities.

Additionally, electromagnetic interference shielding materials sold for use in plasma display panels (PDPs) have also failed to achieve the projected sales target, in the face of the double blow of the economic slump combined with market share competition between PDPs (plasma display panels) and LCDs (liquid crystal display panels).

On top of this, the market for the OEM server chassis manufacturing business cooled, resulting in shipments falling short of projections. For this reason, the Division unfortunately was not able to achieve its budget targets.

In the next term, we will devote our energy to the development of new fields such as products for solar power generation. In addition, the cultivation of the medical equipment and communication fields which has been our focal target during the term, will continue, with an eye to shifting to a more flexible and extendable sales structure even during recessionary times, through close coordination with overseas subsidiaries.

Hence, the above-described activities of this business segment in the term under review resulted in ¥101,756 million in sales (a decrease of 19.4% year-on-year) and ¥1,979 million in operating income (a decrease of 24.2% year-on-year).



Chemicals

As the market has cooled down rapidly since the end of 2008, drastic production cuts were implemented in various industries.

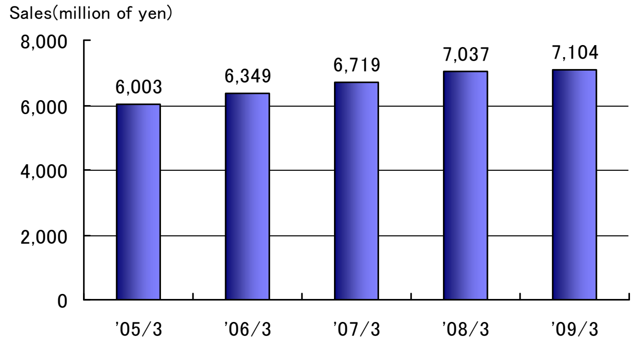
Among Hakuto's customers, plant operation rates since late November had been roughly 85% for petroleum and petrochemicals, approximately 60% for industries in general including automobiles and about 50% in paper manufacturing.

In the next term, some recovery in production is projected in April and thereafter. However, the operation rate for the entire year is projected at 85% of the 2007 level. On the other side, the markets for chemical products and solvents that are raw materials for Hakuto products have weakened likewise.

The decline in raw material prices and continuing efforts at our new cosmetics business and new products are expected to work positively and steadily produce results.

Additionally, we plan to commence sales of hydrogen peroxide decomposition catalyst and reverse osmosis membranes for electronics products and at the same time launch several newly developed items in the first and subsequent quarters of the next term.

The above-described activities of the sector in the term under review resulted in ¥7,104 million in sales (an increase of 1.0% year-on-year) and ¥229 million in operating income (an increase of 39.6% year-on-year).



Others

This segment is primarily engaged in consignment of the Company's overall operation and the logistics management and insurance agency businesses.

The above-described activities of this business segment in the term under review resulted in ¥754 million in sales (an increase of 27.8% year-on-year) and ¥42 million in operating income (an increase of 25.5% year-on-year).

Financial Review

Income Statement Items

In the year under review, consolidated net sales fell by ¥24,377 million (down 18.3% year-on-year) from the preceding term to ¥108,882 million.

Despite relatively solid sales in vacuum-related equipment in the field of the electronics and electrical equipment, the drop in large-scale business due to intensifying competition in the markets related to PCB and FPD manufacturing devices and freeze in capital investment with aggravating business conditions resulted in slow sales both in Japan and other markets.

In the field of electronic components, electronic device sales plummeted for virtually all products including cellular phones, digital consumer electronics and in-vehicle products. Electronic Component Division saw dramatic growth in sales of optical communication components, backed by the high level of spending in high-speed communication infrastructure products.

As a result, operating income for the year under review was recorded at ¥2,250 million (down 19.9% year-on-year). In addition, the Group has laid out a restructuring plan and has moved swiftly to implement the plan in response to the sharp decline in the current business environment.

As a result of recording restructuring costs of ¥712 million and loss on valuation of investment securities of ¥1,390 million as other expenses, we regret to report that net loss for the year under review was ¥542 million.

Balance Sheet Items

Current assets at the end of the year under review declined by ¥16,175 million, down 23.0% from the previous term. This is due primarily to the liquidation of receivables, with bills and accounts receivable falling by ¥16,519 million.

Fixed assets at the end of the year under review declined by ¥2,733 million, down 17.4% from the previous term. This is due primarily to sales and a decline of ¥2,078 million in market value of investment securities.

Based on the above, total assets at the end of the year under review decreased by ¥18,908 million (a decline of 22.0%) from the previous year to ¥67,042 million.

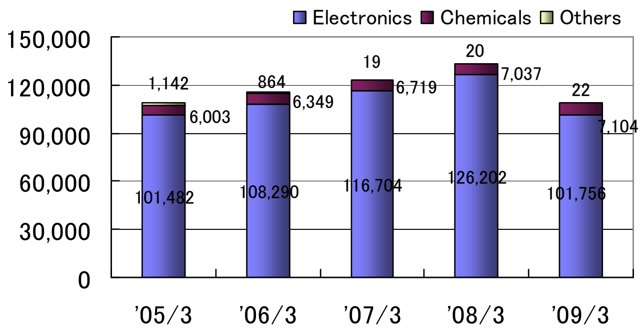
As for liabilities, current liabilities fell by ¥15,410 million (down by 38.4%) from the end of the previous year. This is due primarily to notes and accounts payable falling by ¥7,626 million.

Non-current liabilities at the end of the year under review declined by ¥543 million, down 8.1% from the previous year. This is due chiefly to a decline in deferred tax liabilities of ¥847 million.

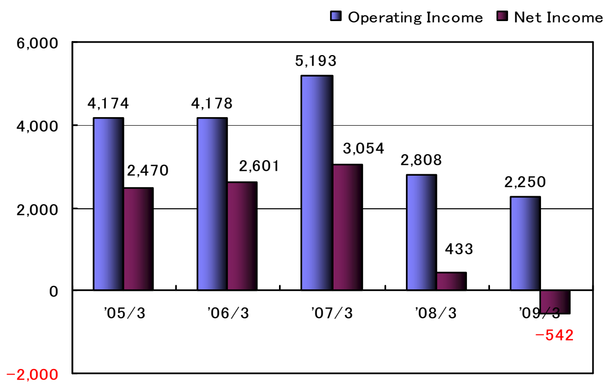
Based on the above, total liabilities at the end of the year under review decreased by ¥15,953 million (a decline of 34.1%) from the previous year to ¥30,886 million.

Net assets decreased by ¥2,955 million (down 7.6%) in comparison with the previous year to ¥36,156 million. This decrease was largely attributable to a decrease in foreign currency translation adjustments by ¥1,113 million and dividend payments of ¥773 million.

Sales by product Category(millions of yen)



Operating Income and Net Income(millions of yen)



Cash Flows

・Cash flow from operating activities

Despite a decline in payables of ¥6,815 million and income taxes paid of ¥2,582 million, accounts receivable (trade) decreased by ¥15,313 million, losses on valuation of investment securities amounted to ¥1,390 million and so on, resulting in a net cash inflow from operating activities of ¥8,895 million. In the preceding term, income before income taxes and a decline in accounts receivable (trade) resulted in a cash inflow of ¥4,932 million.

・Cash flow from investing activities

While there were proceeds from withdrawal of time deposits worth ¥552 million and from sales of property, plant and equipment worth ¥84 million, expenditures of ¥341 million for payments into time deposits resulted in a net outflow of ¥113 million in cash flow from investing activities.

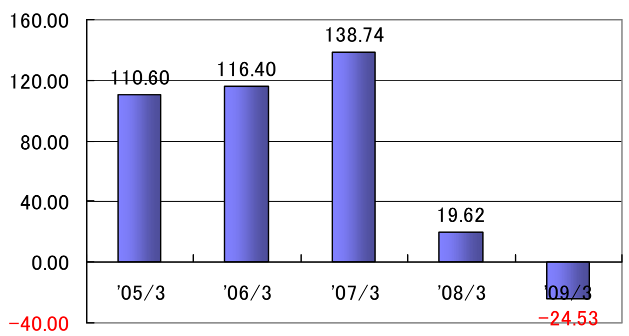
In the meantime, in the preceding term, cash flow from investing activities resulted in a net inflow of ¥369 million due to proceeds of ¥1,556 million from the sale of investment securities.

・Cash flow from financing activities

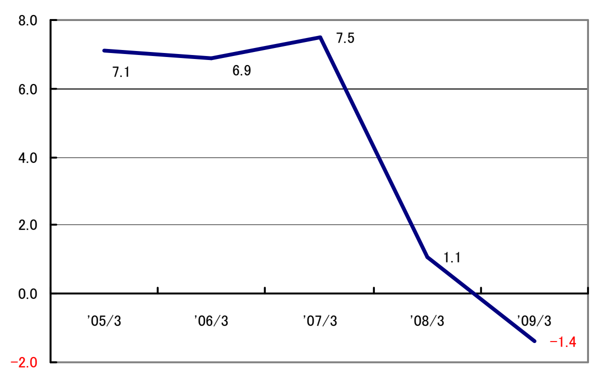
Although there were revenue of ¥51,980 million from short-term borrowings and ¥1,980 million from long-term debt, a decrease in short-term borrowings payable resulted in an outflow of ¥58,148 million and a net outflow of ¥6,801 million in cash flow from financing activities.

In the preceding term, cash flow from financing activities resulted in an inflow of ¥652 million as the balance between an inflow of ¥74,349 million from short-term borrowings, an outflow of ¥70,717 million for repayment of short-term borrowings, etc.

Net Income per Share (yen)



Return on Equity(%)



Consolidated Balance Sheets

Hakuto Co., Ltd.

As of March 31, 2009 and 2008

Assets

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
Current Assets:	2009	2008	2009
Cash and time deposits (Notes 7(c) and 15(a))	¥ 12,892	¥ 10,252	$ 131,243
Marketable securities (Notes 3 and 15(a))	0	201	0
Receivables: (Note 4)			
Notes and accounts receivable - trade	24,358	40,877	247,969
Allowance for doubtful accounts	(101)	(117)	(1,028)
Inventories (Note 6)	12,095	13,187	123,129
Deferred tax assets (Note 13)	1,669	2,028	16,991
Prepaid expenses and other current assets (Note 15(a))	3,170	3,830	32,271
Total current assets	54,083	70,258	550,575
Property, Plant and Equipment :			
Land and land improvements	4,245	4,399	43,215
Buildings and structures	5,860	6,042	59,656
Construction in progress	3	2	30
Other assets	6,358	6,863	64,726
	16,466	17,306	167,627
Accumulated depreciation	(9,363)	(9,562)	(95,317)
Total property, plant and equipment(Note 7(c))	7,103	7,744	72,310
Investments and Other Non-current Assets :			
Investment securities (Notes 3 and 4)	4,650	6,728	47,338
Allowance for loss on investment securities	(15)	(44)	(153)
Deferred tax assets (Note 13)	279	59	2,840
Other non-current assets(Note 7(c))	942	1,205	9,590
Total investments and other non-current assets	5,856	7,948	59,615
Total Assets	¥ 67,042	¥ 85,950	$ 682,500

See accompanying notes.

Liabilities and Net Assets

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
Current Liabilities:	2009	2008	2009
Short-term borrowings (Note 7)	¥ 9,191	¥ 15,700	$ 93,566
Long-term debt due within one year (Note 7)	1,630	1,665	16,594
Payables:			
Notes and accounts payable - trade	10,177	17,168	103,604
Due to unconsolidated subsidiaries and affiliated companies(Note 4)	196	831	1,995
Income taxes payable (Note 13)	80	1,413	814
Deferred tax liabilities (Note 13)	1	1	10
Allowance for employees' bonuses	809	1,123	8,236
Accrued expenses and other current liabilities	2,674	2,267	27,222
Total current liabilities	24,758	40,168	252,041
Non-current Liabilities:			
Long-term debt (Note 7)	3,902	3,554	39,723
Allowance for employees' severance and retirement benefits (Note 8)	419	345	4,265
Allowance for directors' and corporate auditors' severance and retirement benefits	1,003	1,026	10,211
Deferred tax liabilities (Note 13)	457	1,304	4,652
Other non-current liabilities	347	442	3,533
Total non-current liabilities	6,128	6,671	62,384
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	82,460
Capital surplus	7,492	7,493	76,270
Retained earnings	24,909	26,257	253,578
Treasury stock, at cost - 2,042,522 shares	(4,006)	(4,006)	(40,782)
Total owner's equity	36,495	37,844	371,526
Accumulated Gains (Losses) from Valuation and Translation adjustments			
Net unrealized holding gains on investment securities	732	1,314	7,452
Unrealized gains (losses) on hedging derivatives, net of taxes	(177)	(200)	(1,802)
Foreign currency translation adjustments	(960)	153	(9,773)
Total accumulated gains (losses) from valuation and translation adjustments	(405)	1,267	(4,123)
Minority interests	66	-	672
Total net assets	36,156	39,111	368,075
Total Liabilities and Net assets	¥ 67,042	¥ 85,950	$ 682,500

Consolidated Statements of Operations

Hakuto Co., Ltd.

Years ended March 31, 2009, 2008 and 2007

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2009	2008	2007	2009
Net Sales (Notes 4 and 20)	¥ 108,882	¥ 133,259	¥ 123,442	$ 1,108,439
Cost of Sales (Notes 4 and 20)	90,952	114,168	103,274	925,908
Gross Profit	17,930	19,091	20,168	182,531
Selling, General and Administrative Expenses (Notes 11 and 20)	15,680	16,283	14,975	159,626
Operating Income	2,250	2,808	5,193	22,905
Other Income (Expenses):				
Interest and dividend income	276	296	138	2,810
Interest expenses	(270)	(328)	(150)	(2,749)
Exchange gain (loss), net	(262)	(626)	(2)	(2,667)
Gains on sale of investment securities (Note 3(d))	23	1,064	2	234
Loss on valuation of investment securities	(1,390)	(970)	(1)	(14,150)
Allowance for gain (loss) on investment securities	(10)	5	(122)	(102)
Impairment losses on property, plant and equipment(Note 12)	(407)	-	-	(4,143)
Restoration costs of land	(135)	-	-	(1,374)
Restructuring costs	(712)	-	-	(7,248)
Allowance for doubtful accounts	-	-	440	-
Other - net	(16)	8	156	(164)
	(2,903)	(551)	461	(29,553)
Income (Loss) before Income Taxes	(653)	2,257	5,654	(6,648)
Income Taxes Provision (Note 13)				
Current	235	2,414	2,063	2,392
Deferred	(349)	(590)	537	(3,553)
	(114)	1,824	2,600	(1,161)
Minority interests in income	3	-	-	31
Net Income (Loss)	¥ (542)	¥ 433	¥ 3,054	$ (5,518)
	Yen			U.S.Dollars (Note 1)
Amounts per share(Note 2(o)):				
Net Income (Loss)	¥ (24.53)	¥ 19.62	¥ 138.74	$ (0.25)
Diluted Net Income	-	19.61	138.58	-
Cash Dividends Applicable to the Year	30.00	35.00	35.00	0.31

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Hakuto Co., Ltd.

Years ended March 31, 2009, 2008 and 2007

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2009	2008	2007	2009
Common stock:	¥	¥	¥	$
Balance,beginning of year	8,100	8,100	8,100	82,460
Total changes of items during the period	-	-	-	-
Balance, end of year	8,100	8,100	8,100	82,460
Capital surplus				
Balance,beginning of year	7,493	7,514	7,524	76,280
Disposal of treasury stock	(1)	(21)	(10)	(10)
Total changes of items during the period	(1)	(21)	(10)	(10)
Balance, end of year	7,492	7,493	7,514	76,270
Retained earnings				
Balance,beginning of year	26,257	26,596	24,301	267,301
Effect of changes in accounting policies applied to foreign subsidiaries	(33)	-	-	(336)
Dividends from surplus	(773)	(772)	(715)	(7,869)
Bonuses to directors and corporate auditors	-	-	(43)	
Employee bonuses	-	(0)	(1)	-
Net Income (Loss)	(542)	433	3,054	(5,518)
Total changes of items during the period	(1,348)	(339)	2,295	(13,723)
Balance, end of year	24,909	26,257	26,596	253,578
Treasury stock				
Balance,beginning of year	(4,006)	(4,105)	(4,175)	(40,782)
Disposal of treasury stock	1	99	70	10
Purchase of treasury stock	(1)	-	-	(10)
Total changes of items during the period	0	99	70	0
Balance, end of year	(4,006)	(4,006)	(4,105)	(40,782)
Total shareholder's equity				
Balance,beginning of year	37,844	38,105	35,750	385,259
Effect of changes in accounting policies applied to foreign subsidiaries	(33)	-	-	(336)
Dividends from surplus	(773)	(772)	(715)	(7,869)
Bonuses to directors and corporate auditors	-	-	(43)	-
Employee bonuses	-	(0)	(1)	-
Net Income (Loss)	(542)	433	3,054	(5,518)
Disposal of treasury stock	0	78	60	0
Purchase of treasury stock	(1)	-	-	(10)
Total changes of items during the period	(1,349)	(261)	2,355	(13,733)
Balance, end of year	36,495	37,844	38,105	371,526
Valuation and translation adjustments				
Balance,beginning of year	1,314	3,402	3,408	13,377
Net changes of items other than shareholders' equity	(582)	(2,088)	(6)	(5,925)
Total changes of items during the period	(582)	(2,088)	(6)	(5,925)
Balance, end of year	732	1,314	3,402	7,452
Defered gains or losses on hedges				
Balance,beginning of year	(200)	84	-	(2,036)
Net changes of items other than shareholders' equity	23	(284)	84	234
Total changes of items during the period	23	(284)	84	234
Balance, end of year	(177)	(200)	84	(1,802)
Foreign currency translation adjustment				
Balance,beginning of year	153	315	205	1,558
Net changes of items other than shareholders' equity	(1,113)	(162)	110	(11,331)
Total changes of items during the period	(1,113)	(162)	110	(11,331)
Balance, end of year	(960)	153	315	(9,773)
Minority interests				
Balance,beginning of year	-	-	-	-
Net changes of items other than shareholders' equity	66	-	-	672
Total changes of items during the period	66	-	-	672
Balance, end of year	66	-	-	672
Net assets				
Balance,beginning of year	39,111	41,906	39,363	398,157
Effect of changes in accounting policies applied to foreign subsidiaries	(33)	-	-	(336)
Dividends from surplus	(773)	(772)	(715)	(7,869)
Bonuses to directors and corporate auditors	-	-	(43)	-
Employee bonuses	-	(0)	(1)	-
Net Income (Loss)	(542)	433	3,054	(5,518)
Disposal of treasury stock	0	78	60	0
Purchase of treasury stock	(1)	-	-	(10)
Net changes of items other than shareholders' equity	(1,606)	(2,534)	188	(16,349)
Total changes of items during the period	(2,955)	(2,795)	2,543	(30,082)
Balance, end of year	36,156	39,111	41,906	368,075

Consolidated Statements of Cash Flows

Hakuto Co., Ltd.

Years ended March 31, 2009, 2008 and 2007

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
Cash Flows from Operating Activities:	2009	2008	2007	2,009
Income (Loss) before income taxes	¥ (653)	¥ 2,257	¥ 5,654	$ (6,648)
Adjustments to reconcile income before income taxes to net cash provided by (used in) operating activities:				
Depreciation and amortization	806	753	618	8,205
Impairment losses on property, plant and equipment	407	-	-	4,143
Gains on sale of investment securities	(23)	(1,064)	(2)	(234)
Loss on valuation of investment securities	1,390	970	1	14,150
Reversal of allowance for doubtful accounts	-	-	(440)	-
Allowance for loss on investment securities, net	(29)	(186)	122	(295)
Restructuring costs	712	-	-	7,248
Restoration costs of land	135	-	-	1,374
Change in receivables	15,313	2,900	(6,626)	155,889
Change in inventories	546	1,447	(2,347)	5,558
Change in payables	(6,815)	(599)	160	(69,377)
Interests and dividends received	268	294	146	2,728
Interests paid	(230)	(352)	(152)	(2,341)
Income taxes paid	(2,582)	(2,139)	(1,913)	(26,285)
Other	(350)	651	374	(3,562)
Net cash provided by (used in) operating activities	8,895	4,932	(4,405)	90,553
Cash Flows from Investing Activities:				
Proceeds from sale of property, plant and equipment	84	99	16	855
Payments for purchase of property, plant and equipment	(317)	(404)	(462)	(3,227)
Proceeds from sale of marketable securities and investment securities	25	1,556	16	254
Payments for purchase of marketable securities and investment securities	(128)	(571)	(2,399)	(1,303)
Net cash increase (decrease) due to acquisition of newly consolidated subsidiaries (Note15(b))	-	(308)	32	-
Net cash decrease due to sale of shares of subsidiaries, resulting in deconsolidation (Note 15(c))	-	(69)	(1)	-
Proceeds from long-term loans receivable	5	16	300	51
Other	218	50	(161)	2,219
Net cash provided by (used in) investing activities	(113)	369	(2,659)	(1,151)
Cash Flows from Financing Activities:				
Change in short-term borrowings	(6,168)	3,632	5,285	(62,792)
Proceeds from long-term debt	1,980	1,150	1,200	20,157
Repayments of long-term debt	(1,060)	(2,682)	(1,198)	(10,791)
Proceeds from issuance of bonds	-	-	500	-
Payments for redemption of bonds	(606)	(753)	(600)	(6,169)
Cash dividends paid	(773)	(772)	(715)	(7,869)
Other	(174)	77	57	(1,771)
Net cash provided by (used in) financing activities	(6,801)	652	4,529	(69,235)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(543)	10	64	(5,528)
Net Increase (Decrease) in Cash and Cash Equivalents	1,438	5,963	(2,471)	14,639
Cash and Cash Equivalents at Beginning of Year	10,950	4,987	7,458	111,473
Cash and Cash Equivalents at End of Year (Note 15(a))	¥ 12,388	¥ 10,950	¥ 4,987	$ 126,112

See accompanying notes.

Notes to Consolidated Financial Statements

Hakuto Co., Ltd.

Years ended March 31, 2009, 2008 and 2007

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.

Until March 31, 2008, the accounts of overseas subsidiaries were 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 reclassified and translated into English 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.

Effective from the year ended March 31, 2009, the Company and its consolidated subsidiaries (“the Group”) adopted the “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements” (Accounting Standards Board of Japan Practical Issues Task Force No. 18, issued on May 17, 2006). The adoption had no significant impact on its consolidated financial statements.

Under the new accounting standards, financial statements are prepared by overseas subsidiaries in accordance with International Financial Reporting Standards. The impact of this change on profit is immaterial.

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, 2009 which was ¥98.23 to U.S. $1. these 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 (15 in 2008 and 13 in 2007) significant subsidiaries. All significant inter-company 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 over the equity in the net assets at dates of acquisition is recorded as goodwill in the consolidated balance sheets 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 an 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 the sale of its 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 a new acquisition, became consolidated subsidiaries in October 2007 and those accounts have been included in the 2008 consolidation. Hakuto Korea Co., Ltd., due to the sale of its 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 (write-down amount of book value as a result of declines in profitability), determined primarily by the moving-average cost method for merchandise, finished goods, raw material and work in process and done by the first-in, first-out cost method for supplies.

(Change in Accounting Policies)

Effective from the year ended March 31, 2009, the Group adopted “Accounting Standards for Measurement of Inventories” (Accounting Standards Board of Japan Statement No. 9 issued on July 5, 2006). As a result of this change, operating income decreased by ¥14million ($143 thousand), and loss before income taxes increased by the same amount.

(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 Group has 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. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and 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.

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 change in the income statement in the event net asset value declines significantly. In these cases, this 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 transactions and hedge accounting - The Group states derivative financial instruments at fair value and recognizes 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 Group defers recognition of gains or losses resulting from changes in the 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 Group 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	Floating rates on loans payable

The Group is not required to evaluate the hedge effectiveness of 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 Group evaluates the hedging effectiveness of other derivative contracts by comparing the cumulative changes in cash flows from or the changes in the 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.

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 assets acquired before March 31, 2007 are 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 a five year period.

(Additional information)

Following the revisions to the Corporation Tax Law in fiscal 2009, the Company and its domestic subsidiaries have changed the useful life mainly of machinery and equipment, which is included in other assets by the revised Corporation Tax Law from this consolidated accounting period. The effect of this change on net loss was not material.

(g) Leased assets - The Group applies the same depreciation methods to fixed assets owned by the Group as it does to leased assets of which ownership transfers to lessees. Leased assets of which ownership does not transfer to lessees are depreciated over the term of the lease contracts based on the straight-line method.

(Change in Accounting Policies)

Effective from the year ended March 31, 2009, the Group adopted the "Accounting Standards for Lease Transactions" (Accounting Standards Board of Japan Statement No.13, issued on June 17, 1993 (Accounting Standards Board of Japan First Sub-committee) and revised on March 30, 2007) and "Application Guidelines on Accounting Standards for Lease Transactions" (Accounting Standards Board of Japan Guidelines No. 16, issued on January 18, 1994 (the Japanese Institute of Certified Public Accountants Accounting System Committee) and revised on March 30, 2007).

Finance leases of which ownership does not transfer to lessees were not capitalized and accounted for in the same manner as operating leases under the former accounting standards. They have changed to be capitalized, recognizing lease assets and lease obligations in the balance sheet under the revised accounting standards. The adoption of these new accounting standards had no significant impact on its consolidated financial statements.

(h) 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 ongoing 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 Group analyzes its assets for possible impairment at least annually and more frequently if conditions indicate that an asset might be impaired.

(i) Allowance for employees' bonuses - The Group provides allowance for employees' bonuses based on estimated amounts to be paid in the subsequent period.

(j) Income taxes - The Group recognizes the 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 Company and certain consolidated subsidiaries 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 will be paid, in the case of earlier voluntary retirement, etc.

The pension plans cover 100% of the 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 Company and certain consolidated subsidiaries provided allowance for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligations 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 Company and certain consolidated subsidiaries 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 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 calculation of net income (loss) 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. For the year ended March 31, 2009, diluted net loss per share is not disclosed due to the loss position.

Cash dividends per share presented in the consolidated statements of operations 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) Reclassification – Certain prior year amounts have been reclassified to conform to the 2009 presentation. These changes had no impact on previously reported results of operations.

3. Securities

(a) Summarized information of acquisition costs, book values and fair values of securities with available fair values as of March 31, 2009 and 2008 were as follows:

	Millions of Yen		
2009	Acquisition cost	Book value	Difference
Available-for-sale securities with book values (fair values) exceeding acquisition costs:			
Equity securities	¥ 545	¥ 2,129	¥ 1,584
Others	10	10	0
	555	2,139	1,584
Available-for-sale securities with book values (fair values) not exceeding acquisition costs:			
Equity securities	¥ 1,478	¥ 1,277	¥ (201)
Total	¥ 2,033	¥ 3,416	¥ 1,383

	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

	Thousands of U.S. Dollars		
2009	Acquisition cost	Book value	Difference
Available-for-sale securities with book values (fair values) exceeding acquisition costs:			
Equity securities	$ 5,548	$ 21,673	$ 16,125
Others	102	102	0
	5,650	21,775	16,125
Available-for-sale securities with book values (fair values) not exceeding acquisition costs:			
Equity securities	$ 15,046	$ 13,000	$ (2,046)
Total	$ 20,696	$ 34,775	$ 14,079

(b) Summarized information of book values of securities with no available fair values as of March 31, 2009 and 2008 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Available-for-sale securities:			
Non-listed foreign bonds	¥ 393	¥ 401	$ 4,001
Non-listed equity securities	44	157	448
Money management funds	0	1	0

(c) Summarized information of maturities of securities with maturities as of March 31, 2009 and 2008 were as follows:

2009	Millions of Yen			
	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	-	393	-	-

2008	Millions of Yen			
	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	-	-

2009	Thousands of U.S. Dollars			
	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	-	4,001	-	-

(d) Total sales of available-for-sale securities sold for the years ended March 31, 2009, 2008 and 2007 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2009	2008	2007	2009
Available-for-sale securities:				
Total sales amount	¥ 25	¥ 1,556	¥ 16	$ 255
Gains	23	1,064	2	234
Losses	-	-	-	-

4. Non-consolidated subsidiaries and affiliated companies

Summarized information of balances and transactions with affiliated companies as of the years ended March 31, 2009, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Receivables	¥ 0	¥ 0	$ 0
Investment securities	797	789	8,114
Payables	196	831	1,995

	Millions of Yen			Thousands of U.S. Dollars
	2009	2008	2007	2009
Sales to	¥ 3	¥ 3	¥ 6	$ 31
Purchases from	2,438	3,294	4,997	24,819

5. Related party transactions

Takayama International Education Foundation, of which Shigeo Takayama is president, subscribed for all of the Company's bonds issued in the year ended March 31, 2007. The balance is ¥500 million in the years ended March 31, 2009 and 2008. Related party transactions for 2009 and 2008 are the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Takayama International Education Foundation (of which Shigeo Takayama is president):			
Payment of interest on bonds	10	10	102
Advance costs	9	5	92

(Additional information)

Effective from the year ended March 31, 2009, the Company and its consolidated subsidiaries adopted the "Accounting Standards for Related Party Disclosures" (Accounting Standards Board of Japan Statement No. 11, issued on October 17, 2006) and "Guidance on Accounting Standards for Related Party Disclosures" (Accounting Standards Board of Japan Guidance No. 13, issued on October 17, 2006). The adoption of this new accounting standard had no significant impact on the consolidated financial statements.

6. Inventories

Inventories as of March 31, 2009 and 2008 consisted of the following:

	Millions of Yen				Thousands of U.S. Dollars	
	2009		2008		2009	
Merchandise	¥	11,307	¥	12,312	$	115,107
Finished goods		375		420		3,818
Raw materials		319		382		3,247
Work in process		73		60		743
Supplies		21		13		214
Total		12,095		13,187		123,129

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, 2009 and 2008 ranged from 0.96% to 6.03% and 1.28% to 5.86% per annum, respectively.

(b) Long–term debt as of March 31, 2009 and 2008 consisted of the following:

	Millions of Yen				Thousands of U.S. Dollars	
	2009		2008		2009	
1.65% to 1.96% loans from Japanese insurance companies, due in 2009 to 2014	¥	1,668	¥	1,751	$	16,981
1.48% to 3.75% loans from Japanese banks, due in 2009 to 2022		2,751		1,749		28,006
2.05% Japanese yen bonds due in 2012		500		500		5,090
0.55% to 1.61% Japanese yen Privately-subscribed bonds due in 2009 to 2010		613		1,219		6,240
		5,532		5,219		56,317
Less amount due within one year		1,630		1,665		16,594
Long-term debt		3,902		3,554		39,723

(c) Assets pledged as collateral for ¥68 million ($692 thousand) of short-term borrowings and ¥69 million ($702 thousand) of long-term debt as of March 31, 2009 (¥230 million of short-term borrowings and ¥279 million of long-term debt as of March 31, 2008) were as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	2009		2008		2009	
Cash and time deposits	¥	197	¥	176	$	2,005
Land and land improvements		549		646		5,589
Buildings and structures		276		419		2,810
Others		-		4		-
Total		1,022		1,245		10,404

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, 2009 and 2008 consist of the following:

	Millions of Yen				Thousands of U.S. Dollars	
	2009		2008		2009	
Funded status:						
Projected benefit obligation	¥	(3,116)	¥	(3,052)	$	(31,721)
Pension assets		2,048		2,500		20,849
Unfunded projected benefit obligation		(1,068)		(552)		(10,872)
Unrecognized actuarial differences		649		207		6,607
Net projected benefit obligation recognized		(419)		(345)		(4,265)
Prepaid pension expense		-		-		-
Employees' severance and retirement benefits	¥	(419)	¥	(345)	$	(4,265)

Included in the consolidated statements of income for the years ended March 31, 2009, 2008 and 2007 are severance and retirement benefit expenses comprised of the following:

	Millions of Yen						Thousands of U.S. Dollars	
	2009		2008		2007		2009	
Severance and retirement benefit expenses:								
Service costs-benefits earned during the year	¥	502	¥	468	¥	442	$	5,110
Interest cost on projected benefit obligation		54		53		51		550
Expected return on plan assets		(48)		(54)		(26)		(489)
Amortization of actuarial differences		52		17		26		529
Extra severance and retirement benefits		30		49		24		306
Severance and retirement benefit expenses	¥	590	¥	533	¥	517	$	6,006

	2009	2008
Discount rate	2.0%	2.0%
Rate of expected return on plan assets	2.0%	2.0%

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

Net assets comprise 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 prices 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 a 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 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.

10. Contingent liabilities

Contingent liabilities of the Group as of March 31, 2009 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Notes endorsed	¥ 16	$ 163
Guarantees for indebtedness of employees	5	51

11. Research and development expenses

Research and development expenses for the development of new products or the improvement of existing products are charged to income as incurred. Such amounts charged to income for the years ended March 31, 2009, 2008 and 2007 were ¥139 million ($1,415 thousand), ¥210 million and ¥256 million respectively.

12. Impairment losses

The Company recognized impairment losses for groups of assets in the years ended March 31, 2009 as follows:

For the years ended March 31 2009		
Location	Use	Type of assets
Tsu City, Mie Prefecture	Unused assets	Land
Suginami Word, Tokyo Prefecture and Isehara City, Kanagawa prefecture	Business assets	Land, buildings and structures, other assets

The Group classifies its fixed assets into each business segment and each consolidated subsidiary. The book values of the fixed assets of a consolidated subsidiary which recorded operating losses for the last two years and the unused land whose market value has declined significantly were reduced to their recoverable amounts.

The amount of impairment losses for the year ended March 31, 2009 amounted to ¥407 million ($4,143 thousand), which comprised ¥56 million ($570 thousand) for unused land, ¥92 million ($936 thousand) for land for business, ¥128 million ($1,303 thousand) for buildings and structures and ¥131 million ($1,334 thousand) for other assets.

The recoverable amounts of the land, buildings and structures were their net realizable values based on amounts determined by valuations made in accordance with real estate appraisal standards for buildings and land. The recoverable amounts of the other assets were estimated at zero since the estimates of future cash flows as value in use were not expected.

13. 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 and 2007. 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 and 2007, while the difference is not disclosed for the year ended March 31, 2009, due to the loss position.

	2009	2008	2007
Statutory tax rate:	-	40.7%	40.7%
Tax effects not recognized for loss carryforwords of consolidated subsidiaries	-	-	(0.8)
Non-taxable dividend income	-	(1.6)	(0.6)
Non-deductible expenses	-	3.3	1.8
Valuation allowance	-	41.2	4.4
Per capita inhabitant tax	-	1.9	0.6
Consolidated adjustment for loss on sale of shares of subsidiaries	-	(3.4)	-
Others	-	(1.3)	(0.1)
Effective tax rate	-	80.8%	46.0%

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2009 and 2008 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
Deferred tax assets:	2009	2008	2009
Directors' and corporate auditors' retirement benefits	¥ 407	¥ 418	$ 4,143
Employees' retirement benefits	154	127	1,568
Devaluation of inventories	1,076	1,353	10,954
Accrued enterprise taxes	-	104	-
Accrued employees' bonuses	303	420	3,085
Devaluation of investment securities	649	540	6,607
Allowance for doubtful accounts	101	19	1,028
Allowance for losses on investment securities	-	18	-
Net loss carryforwards	1,087	432	11,066
Impairment loss on property, plant and equipment	214	69	2,179
Loss on write-down of property, plant and equipment	136	139	1,385
Defferences between market value and cost of assets of consolidated subsidiaries	425	433	4,327
Others	299	324	3,043
Less-Valuation allowance	(2,306)	(1,675)	(23,476)
Total deffered tax assets	2,545	2,721	25,909
Deferred tax liabilities:			
Net unrealized holding gains on investment securities	(537)	(943)	(5,467)
Retained earnings of subsidiaries	(232)	(782)	(2,362)
Gain on land valuation	(202)	(203)	(2,056)
Others	(84)	(11)	(855)
Total deferred tax liabilities	(1,055)	(1,939)	(10,740)
Net deferred tax assets (liabilities)	¥ 1,490	¥ 782	$ 15,169

14. Derivative financial instruments

The Group uses 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 Group also uses 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 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 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 Group 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, 2009 and 2008 of derivative transactions for which hedge accounting has not been applied:

(a) Currency-related transactions

2009		Millions of Yen			
Classification	Type of transaction	Contracted amount	Over one year	Fair value	Gains (Losses)
Non-market transactions	Currency option trading				
	Put	¥ 1,614	¥ 1,614	¥ (150)	¥ (150)
	Call	895	895	41	41
	Currency swap trading - receive U.S. dollars, payJapanese yen	¥ 388	¥ 388	¥ (12)	¥ (12)
	Total	¥ 2,897	¥ 2,897	¥ (121)	¥ (121)

(b) Interest-related transactions

2009		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	¥ 605	¥ 85	¥ (2)	¥ (2)
	Total	¥ 605	¥ 85	¥ (2)	¥ (2)

(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, payJapanese 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

2009		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	$ 16,431	$ 16,431	$ (1,527)	$ (1,527)
	Call	9,111	9,111	417	417
	Currency swap trading - receive U.S. dollars, payJapanese yen	$ 3,950	$ 3,950	$ (122)	$ (122)
	Total	$ 29,492	$ 29,492	$ (1232)	$ (1232)

(b) Interest-related transactions

2009		Thousands of U.S. Dollars			
Classification	Type of transaction	Contracted amount	Over one year	Fair value	Gains (Losses)
Non-market transactions	Interest rate swap				
	Receive floating, pay fixed	$ 6,159	$ 865	$ (20)	$ (20)
	Total	$ 6,159	$ 865	$ (20)	$ (20)

15. 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, 2009, 2008 and 2007 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2009	2008	2007	2009
Cash and time deposits	¥ 12,892	¥ 10,252	¥ 5,369	$ 131,243
Add:marketable securities	0	201	1	0
Add:deposits paid	-	1,452	-	-
Total	12,892	11,905	5,370	131,243
Less:time deposits with maturities exceeding three months	(504)	(755)	(383)	(5,131)
Less:corporate bonds within 1 year	-	(200)	-	-
Cash and cash equivalents	¥ 12,388	¥ 10,950	¥ 4,987	$ 126,112

(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 and the related acquisition cost and net cash flows from the acquisition were as follows:

	Millions of Yen	
	2008	2007
Current assets	¥ 7,475	¥ 1,349
Non current assets	1,196	927
Consolidation goodwill	48	461
Current liabilities	(5,239)	(1,231)
Non current liabilities	(2,329)	(1,416)
Acquisition cost of shares	1,151	90
Cash and cash equivalents of the acquired companies	(843)	(122)
Net cash used for acquisition of shares of newly consolidated subsidiaries	(308)	32

(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 were as follows:

	Millions of Yen	
	2008	2007
Current assets	¥ 117	¥ 209
Non current assets	38	23
Current liabilities	(48)	(183)
Non current liabilities	(7)	(5)
Translation adjustments	(8)	-
Carrying amount of shares sold	92	44
Gain (loss) on share sales	(67)	56
Sale price of shares for the year	25	100
Cash and cash equivalents of the companies excluded from the consolidation scope	(94)	(101)
Payment for sale of shares of subsidiaries excluded from the consolidation scope	(69)	(1)

16. Stock option plans

The following table summarizes contents of stock options as of March 31, 2009 and 2008.

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

The following tables summarize scale and movement of stock options in the year ended March 31, 2009

Not-exercisable stock options:	**Stock options issued in 2004**
Not-exercisable stock options outstanding at April 1,2008	-
Stock options granted	-
Forfeitures	-
Conversion to exercisable stock options	-
Not-exercisable stock options outstanding at March 31,2009	-
Exercisable stock options:	**Stock options issued in 2004**
Exercisable stock options outstanding at April 1,2008	274,400
Conversion from not-exercisable stock options	-
Options exercised	-
Forfeitures	-
Exercisable stock options outstanding at March 31,2009	274,400

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	325,000
Conversion from not-exercisable stock options	-
Options exercised	50,600
Forfeitures	-
Exercisable stock options outstanding at March 31,2008	274,400

17. Business combinations

Effective from the year ended March 31, 2007, the Company applied “Accounting Standards for Business Combinations” issued by the Business Accounting Council on October 31, 2003, “Accounting Standards for Business Divestitures” (Statement No. 7 issued by the Accounting Standards Board of Japan on December 27, 2005) and “Guidance for Accounting Standards for Business Combinations and Accounting Standards for Business Divestitures” (Guidance No. 10 revised by the Accounting Standards 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 semiconductors and electronic machines
Principal reason for the business combination	Expansion of sales and technical reinforcement for the 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

(d) Amount of goodwill, reason that the goodwill arose, and method and period of amortization
(1) Amount of goodwill ¥48 million
(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
Non current assets	¥1,196 million
Sub-total	¥8,671 million
Current liabilities	¥5,239 million
Non current liabilities	¥2,329 million
Sub-total	¥7,568 million

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

Sales	¥141,231 million
Operating income	¥2,782 million
Ordinary income	¥2,244 million
Net income	¥398 million

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 the 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

(d) Amount of goodwill, reason that the goodwill arose, and method and period of amortization

(1) Amount of goodwill ¥461 million

(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
Non current assets	¥927 million
Sub-total	¥2,266 million
Current liabilities	¥1,124 million
Non current liabilities	¥1,416 million
Sub-total	¥2,540 million

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

Sales	¥124,241 million
Operating income	¥5,459 million
Ordinary income	¥5,579 million
Net income	¥3,214 million

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 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.

18. Information for certain lease transactions

Certain information for non-capitalized finance leases was 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 were as follows

	Millions of Yen
	2008
Purchase price equivalent:	
Machinery and equipment	¥ 508
Intangible assets	63
Accumulated depreciation equivalent	355
Book value equivalent	¥ 216

(b) Future minimum lease payments, inclusive of interest, as of March 31, 2008 were ¥216 million, including ¥102 million due within one year.

(c) Lease payments for the year ended March 31, 2008 were ¥126 million. Assumed depreciation charges for the year ended March 31, 2008 were ¥126 million.

(d) Depreciation charges were computed using the straight-line method over lease terms assuming no residual value until March 31, 2008.

Future lease payments under operating leases as of March 31, 2009 were ¥507 million ($5,161 thousand), including ¥297 million ($3,024 thousand) due within one year.

19. Subsequent events

On May 15, 2009, the Board of Directors approved i) payment of year-end cash dividends to the shareholders of record as of March 31, 2009 of ¥12.5 ($0.13) per share or a total of ¥276 million ($2,810 thousand).

20. 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, 2009, 2008 and 2007 is as follows:

(a) Information by business segment

	Millions of Yen					
2009	Electronics division	Chemical division	Other	Total	Elimination and/or Corporate	Consolidated
Net sales						
Outside customers	¥ 101,756	¥ 7,104	¥ 22	¥ 108,882	¥ -	¥ 108,882
Within consolidated group	0	-	732	732	(732)	-
Total	101,756	7,104	754	109,614	(732)	108,882
Costs and expenses	99,777	6,875	712	107,364	(732)	106,632
Operating income	¥ 1,979	¥ 229	¥ 42	¥ 2,250	¥ -	¥ 2,250
Identifiable assets	¥ 60,719	¥ 6,210	¥ 158	¥ 67,087	¥ (45)	¥ 67,042
Depreciation and amortization	567	239	-	806	-	806
Impairment losses of fixed assets	397	10	-	407	-	407
Capital expenditures	228	89	-	317	-	317

	Millions of Yen					
2008	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

	Millions of Yen					
2007	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

	Thousands of U.S. Dollars					
2009	Electronics division	Chemical division	Other	Total	Elimination and/or Corporate	Consolidated
Net sales						
Outside customers	$ 1,035,895	$ 72,320	$ 224	$ 1,108,439	$ -	$ 1,108,439
Within consolidated group	0	-	7,452	7,452	(7,452)	-
Total	1,035,895	72,320	7,676	1,115,891	(7,452)	1,108,439
Costs and expenses	1,015,749	69,989	7,248	1,092,986	(7,452)	1,085,534
Operating income	$ 20,146	$ 2,331	$ 428	$ 22,905	$ -	$ 22,905
Identifiable assets	$ 618,131	$ 63,219	$ 1,608	$ 682,958	$ (458)	$ 682,500
Depreciation and amortization	5,772	2,433	-	8,205	-	8,205
Impairment losses of fixed assets	4,041	102	-	4,143	-	4,143
Capital expenditures	2,321	906	-	3,227	-	3,227

(Change in the allocation of operating expenses and assets unable to be allocated 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 Company. As a result, the method of the allocation was partly changed to the way in which the Company allocates the operating expenses from the fiscal year ended March 31, 2008.

With this change, the parts 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 and operating income of chemical division decrease by ¥490 million and about assets of electronics division increase by ¥9,594 million and chemical division increase by ¥1,329 million about depreciations of electronics division increase by ¥152 million and chemical division increase by ¥26 million, about capital expenditures of electronics division increase by ¥45 million and chemical division increase by ¥9 million.

Operating expenses at fiscal year ended March 31, 2007, 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 at fiscal year ended March 31, 2007, 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

2009	Millions of Yen Japan	Asia	Total	Elimination and/or Corporate	Consolidated
Net sales					
Outside customers	¥ 85,799	¥ 23,083	¥ 108,882	¥ -	¥ 108,882
Within consolidated group	4,448	148	4,596	(4,596)	-
Total	90,247	23,231	113,478	(4,596)	108,882
Costs and expenses	88,688	22,540	111,228	(4,596)	106,632
Operating income	¥ 1,559	¥ 691	¥ 2,250	¥ -	¥ 2,250
Identifiable assets	¥ 58,866	¥ 8,968	¥ 67,834	¥ (792)	¥ 67,042

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

2009	Thousands of U.S. Dollars Japan	Asia	Total	Elimination and/or Corporate	Consolidated
Net sales					
Outside customers	$ 873,450	$ 234,989	$ 1,108,439	$ -	$ 1,108,439
Within consolidated group	45,281	1,507	46,788	(46,788)	-
Total	918,731	236,496	1,155,227	(46,788)	1,108,439
Costs and expenses	902,861	229,461	1,132,322	(46,788)	1,085,534
Operating income	$ 15,870	$ 7,035	$ 22,905	$ -	$ 22,905
Identifiable assets	$ 599,267	$ 91,296	$ 690,563	$ (8,063)	$ 682,500

(Change in the allocation of operating expenses and assets unable to be allocated 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 Company. As a result, the method of the allocation was partly changed to the way in which the Company allocates the operating expenses from the fiscal year ended March 31, 2008.

With this change, the parts 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 and about assets in Japan increase by ¥10,923 million.

Operating expenses at fiscal year ended March 31, 2007, 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 at fiscal year ended March 31, 2007, 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 2009	2008	2007	Thousands of U.S. Dollars 2009
Export sales:				
Asia	¥ 28,351	¥ 39,389	¥ 38,902	$ 288,619
Other areas	1,146	1,160	1,754	11,666
Total（A）	29,497	40,549	40,656	300,285
Net sales（B）	108,882	133,259	123,442	1,108,439
（A)/(B)	27.1%	30.4%	32.9%	27.1%

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, 2009 and 2008, and the related consolidated statements of operations, changes in net assets and cash flows for each of the three years in the period ended March 31, 2009, 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, 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2009, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following:
(1) As discussed in Note 20 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, 2009 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 25, 2009

Financial Highlights

OPERATING DATA	Millions of yen			Thousands of U.S. Dollars	Percent change between
	2009/03	2008/03	2007/03	2009/03	2009/03and2008/03
NET SALES	¥ 108,882	¥ 133,259	¥ 123,442	$ 1,108,439	-18.3%
INCOME (LOSS) BEFORE INCOME TAXES	(653)	2,257	5,654	(6,648)	-128.9%
NET INCOME (LOSS)	(542)	433	3,054	(5,518)	-225.2%
FINANCIAL DATA					
TOTAL ASSETS	¥ 67,042	¥ 85,950	¥ 82,175	$ 682,500	-22.0%
NET ASSETS	36,156	39,111	41,906	368,075	-7.6%
PER SHARE DATA	Yen			U.S. Dollars	
NET INCOME (LOSS) PER SHARE	¥ (24.53)	¥ 19.62	¥ 138.74	$ (0.25)	-225.0%
CASH DIVIDENDS PER SHARE	30.00	35.00	35.00	0.31	-14.3%

The United States dollar amounts represent translations of Japanese yen amounts at the rate of ¥98.23 to U.S. $1.

See Note 1 to the consolidated financial statement.

Financial Highlights Chart