2010
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 58th term, which began April 1, 2009, and ended March 31, 2010.

For the term under review, the global economy bottomed out as a result of economic measures taken by governments, and there are signs of full-scale economic recovery, marked by a pickup in capital investment mainly in emerging countries. In the field of electronics, which is the Hakuto Group's mainstay business, demand for new capital investment has finally begun to increase. Markets for such products as digital consumer products and parts for eco-friendly cars, backed by economic measures, have entered a phase of full recovery, and demand for some products has already exceeded supply capacity. In the Chemical Division, situations varied by market sector. Demand for products with natural, eco-friendly raw materials expanded in the cosmetics business, due primarily to growing environmental awareness.

The Hakuto Group posted consolidated net sales of ¥97,167 million (down 10.8% year on year) and operating income of ¥2,709 million (up 20.4% year on year).

Because of a significant decline in other expenses, including restructuring costs and loss on valuation of investment securities that were recorded in the preceding term, net income for the term amounted to ¥1,655 million.

As a term-end dividend, the Company has decided to pay its shareholders ¥15.00 per share (¥12.50 per share for the previous term-end). This, together with an interim dividend of ¥15.00 per share, will make an annual per-share dividend of ¥30.00 for the term (¥30.00 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 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 term under review, sales were brisk for semiconductor mask processing devices and coating equipment for media devices. Meanwhile, capital investment in solar cells, LEDs and power devices, which had initially been expected to increase, was suspended in the first half, leading to sluggish sales of such products. However, capital investment gradually increased in the second half, resulting in robust orders for the full term.

In the next term, we will engage in sales activities focusing on the field of compound semiconductors, where robust capital investment in solar cells, LEDs and power devices from the second half of the term under review is expected to move into the next term, and on the field of vacuum-related equipment, which is popular in the domain of analysis and R&D.

・Electronic Equipment Second Division

In the term under review, the business environment was severe in the first half for the business of devices related to printed circuit boards (PCBs), which are developed using our own brand. However, sales recovered in the second half, due to the impact of brisk sales of PCs and cellular phones.

In the next term, for devices related to PCBs we will focus on the markets related to PCs and cellular phones, where the brisk sales since the second half of the term under review will continue. Moreover, in the term under review we have newly developed devices related to electronic paper, which have been attracting attention in recent years, and we will strive to expand sales in this field.

・Electronic Device First Division

In the term under review, in the field of the communication infrastructure market, the mainstay business of the Division, the stagnant market caused by the economic recession in Japan and North America has led to a decline in investment by carriers and a resultant significant decrease in demand. As a result, sales of products for the market, including power line communication (PLC) and application specific standard product (ASSP), remained low. In the digital consumer electronics market, sales were brisk for application specific integrated circuit (ASIC) for LCD televisions and sensor devices for digital still cameras, as a result of government measures to stimulate the economy in each country and increased sales during the year-end sales season. In the in-vehicle products markets, tax cuts for eco-friendly cars impacted the market and sales of LCD controllers for emerging countries were also firm.

In the next term, relatively difficult situations are expected to continue in the communication infrastructure market. We expect that full-fledged recovery will start in the latter part of the second half of the next term. Meanwhile, a steady increase in sales is expected to continue from the second half of the term under review for semiconductors for imaging-related products, including in-vehicle products and multi-function printers, as well as digital consumer products such as PCs and flat-screen televisions.

・Electronic Device Second Division

Due to the impact of government measures to stimulate the economy in each country and of the year-end sales season, sales of products related to PCs and of digital consumer electronics bottomed out in the fourth quarter of the preceding term and turned favorable in the term under review. In particular, sales of products related to flat-screen televisions and digital cameras expanded. In the in-vehicle products market, tax cuts for eco-friendly cars led to a significant sales increase in the third quarter and thereafter, resulting in a favorable outcome.

In the next term, brisk sales are expected to continue for products related to PCs and cellular phones, digital consumer electronics and in-vehicle products. As each manufacturing company of such products forecasts increased sales compared to the term under review, a steady increase in sales is expected.

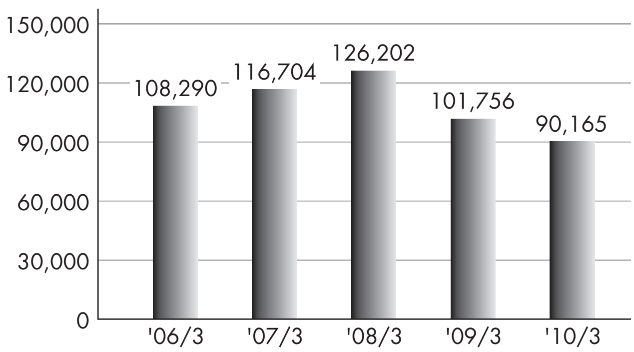
・Electronic Component Division

In the field of products related to PCs, the mainstay business of the Division, favorable business performance of our customers led to a rise in sales volume, contributing to increased sales. In addition, sales have been recovering in the field of semiconductors, medical equipment and industrial instruments. In the optical-related field, a significant decline in demand for optical transmission communication systems led to slow sales of optical components and optical modules, but sales of optical data links, which are employed in the high-speed railway in China, were steady for the full term.

In the next term, in addition to products related to PCs, the mainstay products of the Division, we will establish a business model for photovoltaic panels produced by Canadian Solar Inc., with which we entered into an agency agreement in the term under review. We plan to aggressively develop the business of solar cells for houses, and we have great expectations for their sales. In the optical-related field, although the severe business environment surrounding the communication infrastructure market will continue, we expect that the market will recover in the second half of the next term. In the high-speed railway market, joint efforts of the public and private sectors to obtain large-scale orders in each country are being promoted, and we expect the expansion of the market over the next several years. Furthermore, we will strive to expand businesses by engaging in new fields, including optical filters for 3D televisions, solar cells and optical sensing for medical applications.

The above-described activities of this business segment in the term under review resulted in ¥90,165 million in sales (a decrease of 11.4% year on year) and ¥2,167 million in operating income (an increase of 9.5% year on year).

Sales (millions of yen)



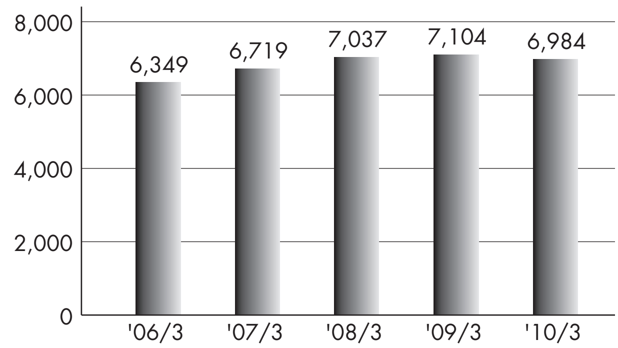
Chemicals

Although the markets were unfavorable as a whole, sales of fouling inhibitors for petroleum chemistry and cleaning work in petroleum processing dramatically increased, compensating for sluggish sales of paper and pulp and automobile-related products. In the cosmetics business, although sales remained low at the beginning of the term under review, they became robust in the second half, causing the full-term result to exceed the previous year. As a result, although sales fell below the preceding term, our profits exceeded the previous year through cost reductions.

We expect that the market environment will remain difficult in the next term. We forecast that petrochemicals, mainly for exports, will maintain brisk sales, while difficult situations are expected to continue with regard to petroleum refinery, paper and pulp, and automobile-related products. In the current term, in addition to a contract agreed with the General Electric Company last year, we will proactively introduce overseas technology, while focusing on expanding business with overseas customers, thereby increasing sales. In producing our own products, with the aim of further improving profitability, we are promoting our own manufacturing of materials that had formerly been purchased.

The above-described activities of this segment in the term under review resulted in ¥6,984 million in sales (a decrease of 1.7% year on year) and ¥538 million in operating income (an increase of 134.6% year on year).

Sales (millions of yen)



Other

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 ¥629 million in sales (a decrease of 16.6% year on year) and ¥4 million in operating income (a decrease of 90.9% year on year).

Financial Review

Income Statement Items

In the term under review, consolidated net sales fell by ¥11,714 million (down 10.8% year on year) from the preceding term to ¥97,167 million.

In the field of the electronics and electrical equipment, sales were brisk for relatively small-sized devices, such as vacuum-related equipment. However, capital investment in large-sized devices, including PCB-related devices and FPD manufacturing devices, has yet to achieve a full recovery, and the business environment remained difficult. In the field of electronic components, sales were brisk for electronic-device products for almost all markets, including products related to personal computers, digital consumer electronics and in-vehicle products. In the field of electronic components, a significant decline in demand for optical transmission communication systems has led to slow sales of optical communication components, while sales of optical data links, which are employed in the high-speed railway in China, were steady for the full term.

As a result, operating income for the term under review was recorded at ¥2,709 million (up 20.4% year on year). Because of a significant decline in other expenses, including restructuring costs and loss on valuation of investment securities that were recorded in the preceding term, net income for the term amounted to ¥1,655 million.

Balance Sheet Items

Current assets at the end of the year under review declined by ¥117 million, down 0.2% from the previous term. This was due primarily to a decrease in prepaid expenses and other current assets of ¥1,800 million and a decrease in merchandise and finished goods ¥1,303 million, though notes and accounts receivable increased by ¥2,452 million.

Fixed assets at the end of the year under review increased by ¥149 million, up 1.2% from the previous term. This was due primarily to an increase of ¥769 million in investment securities.

Based on the above, total assets at the end of the year under review increased by ¥33 million (an increase of 0.0%) from the previous year to ¥67,075 million.

As for liabilities, current liabilities fell by ¥2,353 million (down 9.5%) from the end of the previous year. This was due primarily to short-term borrowings including long-term borrowings due with one year decreased by ¥3,346 million, though notes and accounts payable increased by ¥2,176 million.

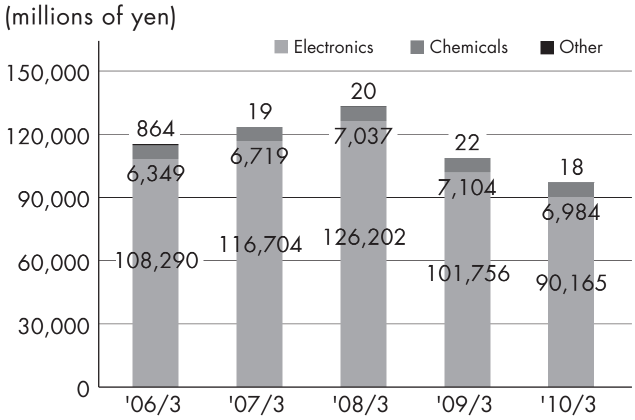
Non-current liabilities at the end of the year under review increased by ¥163 million, up 2.7% from the previous year. This is due chiefly to an increase in long-term borrowings of ¥438 million.

Based on the above, total liabilities at the end of the year under review decreased by ¥2,190 million (a decline of 7.1%) from the previous year to ¥28,696 million.

Net assets increased by ¥2,223 million (up 6.1%) in comparison with the previous year to ¥38,379 million. This increase was largely attributable to an increase in retained earnings of ¥1,047 million and net unrealized gains on investment securities of ¥929 million.

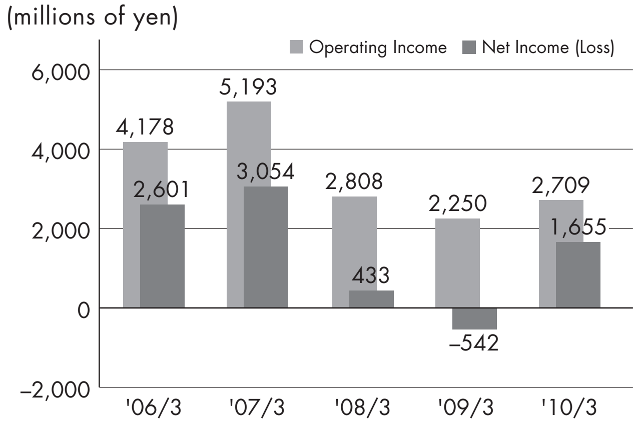
Sales by Product Category

(millions of yen)



Operating Income and Net Income (Loss)

(millions of yen)



Cash Flows

· **Cash flow from operating activities**

Despite an increase in receivables of ¥2,806 million and ¥221 million paid in interest expenses, income before income taxes amounting to ¥2,408 million, an increase in payables of ¥2,252 million and inventories decreased of ¥1,334 million, among others resulted in a net cash inflow from operating activities of ¥4,723 million. In the preceding term, loss on valuation of investment securities and a decline in receivables resulted in a cash inflow of ¥8,895 million.

· **Cash flow from investing activities**

While there were proceeds from withdrawal of time deposits worth ¥272 million, expenditures of ¥559 million for payments into time deposits resulted in a net outflow of ¥510 million in cash flow from investing activities.

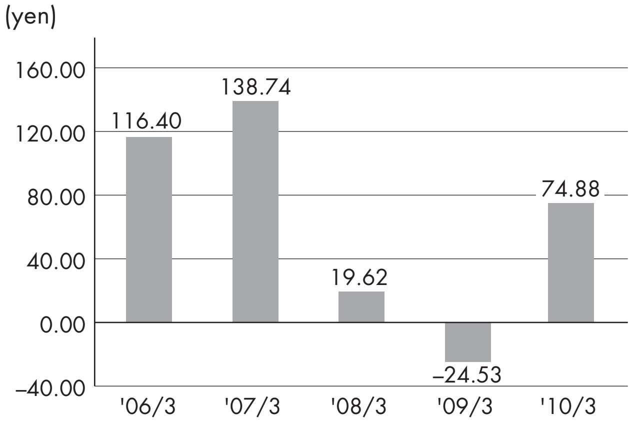
In the meantime, in the preceding term, cash flow from investing activities resulted in a net outflow of ¥113 million due to expenditures of ¥341 million from payments into time deposits.

· **Cash flow from financing activities**

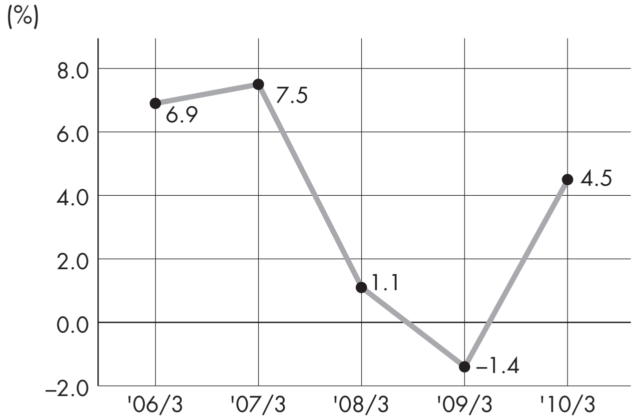
Although there was revenue of ¥37,313 million from short-term borrowings and ¥2,140 million from long-term debt, a decrease in short-term borrowings payable resulted in an outflow of ¥41,077 million and a net outflow of ¥3,997 million in cash flow from financing activities.

In the preceding term, cash flow from financing activities resulted in an outflow of ¥6,801 million as the balance between an inflow of ¥51,980 million from short-term borrowings, an outflow of ¥58,148 million for repayment of short-term borrowings, etc.

Net Income (Loss) per Share



Return on Equity



Consolidated Balance Sheets

Hakuto Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2010 and 2009

Assets

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2009	2010
Current Assets:			
Cash and time deposits (Notes 4, 8 and 15(a))	¥ 13,450	¥ 12,892	$ 144,561
Marketable securities (Notes 3, 4 and 15(a))	372	0	3,998
Receivables (Note 4):			
Notes and accounts receivable - trade	26,809	24,358	288,145
Due to unconsolidated subsidiaries and affiliated companies (Note 5)	1	0	11
Allowance for doubtful accounts	(143)	(101)	(1,537)
Inventories (Note 7)	10,792	12,095	115,993
Deferred tax assets (Note 13)	1,315	1,669	14,134
Prepaid expenses and other current assets (Note 15(a))	1,371	3,170	14,736
Total current assets	53,967	54,083	580,041
Property, Plant and Equipment:			
Land and land improvements	4,245	4,245	45,626
Buildings and structures	5,829	5,860	62,650
Construction in progress	–	3	–
Other assets	6,108	6,358	65,649
	16,182	16,466	173,925
Accumulated depreciation	(9,337)	(9,363)	(100,354)
Total property, plant and equipment (Note 8(c))	6,845	7,103	73,571
Investments and Other Non-current Assets:			
Investment securities (Notes 3, 4 and 5)	5,419	4,650	58,244
Allowance for loss on investment securities	–	(15)	–
Deferred tax assets (Note 13)	117	279	1,258
Other non-current assets	727	942	7,813
Total investments and other non-current assets	6,263	5,856	67,315
Total Assets	¥ 67,075	¥ 67,042	$ 720,927

See accompanying notes.

Liabilities and Net Assets

Current Liabilities:	Millions of Yen 2010	Millions of Yen 2009	Thousands of U.S. Dollars (Note 1) 2010
Short-term borrowings (Notes 4 and 8)	¥ 5,389	¥ 9,191	$ 57,921
Long-term debt due within one year (Notes 4 and 8)	1,891	1,630	20,325
Payables (Note 4):			
Notes and accounts payable - trade	11,942	10,177	128,354
Due to unconsolidated subsidiaries and affiliated companies (Note 5)	607	196	6,524
Income taxes payable (Note 13)	259	80	2,784
Deferred tax liabilities (Note 13)	–	1	–
Allowance for employees' bonuses	717	809	7,706
Accrued expenses and other current liabilities	1,599	2,674	17,186
Total current liabilities	22,404	24,758	240,800
Non-current Liabilities:			
Long-term debt (Notes 4 and 8)	4,131	3,902	44,400
Allowance for employees' severance and retirement benefits (Note 9)	289	419	3,106
Allowance for directors' and corporate auditors' severance and retirement benefits	902	1,003	9,695
Deferred tax liabilities (Note 13)	723	457	7,771
Other non-current liabilities	247	347	2,655
Total non-current liabilities	6,292	6,128	67,627
Contingent liabilities (Note 10)			
Net Assets:			
Owners' Equity			
Common stock:			
Authorized - 54,000,000 shares			
Issued and outstanding - 24,137,213 shares	8,100	8,100	87,059
Capital surplus	7,492	7,492	80,525
Retained earnings	25,956	24,909	278,977
Treasury stock, at cost - 2,042,522 shares	(4,006)	(4,006)	(43,057)
Total owners' equity	37,542	36,495	403,504
Accumulated Gains (Losses) from Valuation and Translation Adjustments			
Net unrealized holding gains on investment securities	1,660	732	17,842
Unrealized gains (losses) on hedging derivatives, net of taxes	(104)	(177)	(1,118)
Foreign currency translation adjustments	(860)	(960)	(9,243)
Total accumulated gains (losses) from valuation and translation adjustments	696	(405)	7,481
Minority interests	141	66	1,515
Total net assets	38,379	36,156	412,500
Total Liabilities and Net Assets	¥ 67,075	¥ 67,042	$ 720,927

Consolidated Statements of Operations

Hakuto Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2010, 2009 and 2008

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2010	2009	2008	2010
Net Sales (Notes 5 and 20)	¥ 97,167	¥108,882	¥133,259	$1,044,357
Cost of Sales (Notes 5 and 20)	81,545	90,952	114,168	876,451
Gross Profit	15,622	17,930	19,091	167,906
Selling, General and Administrative Expenses (Notes 11 and 20)	12,913	15,680	16,283	138,790
Operating Income	2,709	2,250	2,808	29,116
Other Income (Expenses):				
Interest and dividend income	204	276	296	2,193
Interest expenses	(209)	(270)	(328)	(2,246)
Exchange gain (loss), net	(316)	(262)	(626)	(3,396)
Gains on sale of investment securities (Note 3(d))	6	23	1,064	64
Loss on valuation of investment securities	(97)	(1,390)	(970)	(1,043)
Allowance for gain (loss) on investment securities	–	(10)	5	–
Impairment losses on property, plant and equipment (Note 12)	(53)	(407)	–	(570)
Restoration costs of land	–	(135)	–	–
Restructuring costs	–	(712)	–	–
Other - net	164	(16)	8	1,763
	(301)	(2,903)	(551)	(3,235)
Income (Loss) before Income Taxes	2,408	(653)	2,257	25,881
Income Taxes Provision (Note 13):				
Current	386	235	2,414	4,149
Deferred	292	(349)	(590)	3,138
	678	(114)	1,824	7,287
Minority interests in income	75	3	–	806
Net Income (Loss)	¥ 1,655	¥ (542)	¥ 433	$ 17,788

Amounts per share (Note 2(o)):	Yen			U.S. Dollars (Note 1)
Net Income (Loss)	¥ 74.88	¥ (24.53)	¥ 19.62	$ 0.80
Diluted Net Income	–	–	19.61	–
Cash Dividends Applicable to the Year	30.00	30.00	35.00	0.32

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Hakuto Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2010, 2009 and 2008

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2010	2009	2008	2010
Common stock:				
Balance, beginning of year	¥ 8,100	¥ 8,100	¥ 8,100	$ 87,059
Total changes of items during the period	–	–	–	–
Balance, end of year	8,100	8,100	8,100	87,059
Capital surplus				
Balance, beginning of year	7,492	7,493	7,514	80,525
Disposal of treasury stock	(0)	(1)	(21)	(0)
Total changes of items during the period	(0)	(1)	(21)	(0)
Balance, end of year	7,492	7,492	7,493	80,525
Retained earnings				
Balance, beginning of year	24,909	26,257	26,596	267,724
Effect of changes in accounting policies applied to foreign subsidiaries	–	(33)	–	–
Dividends from surplus	(608)	(773)	(772)	(6,535)
Employee bonuses	–	–	(0)	–
Net Income (Loss)	1,655	(542)	433	17,788
Total changes of items during the period	1,047	(1,348)	(339)	11,253
Balance, end of year	25,956	24,909	26,257	278,977
Treasury stock				
Balance, beginning of year	(4,006)	(4,006)	(4,105)	(43,057)
Disposal of treasury stock	0	1	99	0
Purchase of treasury stock	(0)	(1)	–	(0)
Total changes of items during the period	(0)	0	99	(0)
Balance, end of year	(4,006)	(4,006)	(4,006)	(43,057)
Total owners' equity				
Balance, beginning of year	36,495	37,844	38,105	392,251
Effect of changes in accounting policies applied to foreign subsidiaries	–	(33)	–	–
Dividends from surplus	(608)	(773)	(772)	(6,535)
Employee bonuses	–	–	(0)	–
Net Income (Loss)	1,655	(542)	433	17,788
Disposal of treasury stock	0	0	78	0
Purchase of treasury stock	(0)	(1)	–	(0)
Total changes of items during the period	1,047	(1,349)	(261)	11,253
Balance, end of year	37,542	36,495	37,844	403,504
Net unrealized holding gains on investment securities				
Balance, beginning of year	732	1,314	3,402	7,868
Net changes of items other than owners' equity	928	(582)	(2,088)	9,974
Total changes of items during the period	928	(582)	(2,088)	9,974
Balance, end of year	1,660	732	1,314	17,842
Unrealized gains (losses) on hedging derivatives, net of taxes				
Balance, beginning of year	(177)	(200)	84	(1,903)
Net changes of items other than owners' equity	73	23	(284)	785
Total changes of items during the period	73	23	(284)	785
Balance, end of year	(104)	(177)	(200)	(1,118)
Foreign currency translation adjustment				
Balance, beginning of year	(960)	153	315	(10,318)
Net changes of items other than owners' equity	100	(1,113)	(162)	1,075
Total changes of items during the period	100	(1,113)	(162)	1,075
Balance, end of year	(860)	(960)	153	(9,243)
Minority interests				
Balance, beginning of year	66	–	–	709
Net changes of items other than owners' equity	75	66	–	806
Total changes of items during the period	75	66	–	806
Balance, end of year	141	66	–	1,515
Net assets				
Balance, beginning of year	36,156	39,111	41,906	388,607
Effect of changes in accounting policies applied to foreign subsidiaries	–	(33)	–	–
Dividends from surplus	(608)	(773)	(772)	(6,535)
Employee bonuses	–	–	(0)	–
Net Income (Loss)	1,655	(542)	433	17,788
Disposal of treasury stock	0	0	78	0
Purchase of treasury stock	(0)	(1)	–	(0)
Net changes of items other than owners' equity	1,176	(1,606)	(2,534)	12,640
Total changes of items during the period	2,223	(2,955)	(2,795)	23,893
Balance, end of year	38,379	36,156	39,111	412,500

See accompanying notes.

Consolidated Statements of Cash Flows

Hakuto Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2010, 2009 and 2008

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2010	2009	2008	2010
Cash Flows from Operating Activities:				
Income (Loss) before income taxes	¥ 2,408	¥ (653)	¥ 2,257	$ 25,881
Adjustments to reconcile income before income taxes to net cash provided by (used in) operating activities:				
Depreciation and amortization	559	806	753	6,008
Impairment losses on property, plant and equipment	53	407	–	570
Gains on sale of investment securities	(4)	(23)	(1,064)	(43)
Loss on valuation of investment securities	97	1,390	970	1,043
Allowance for loss on investment securities, net	(15)	(29)	(186)	(161)
Restructuring costs	–	712	–	–
Restoration costs of land	–	135	–	–
Change in receivables	(2,806)	15,313	2,900	(30,159)
Change in inventories	1,334	546	1,447	14,338
Change in payables	2,252	(6,815)	(599)	24,205
Interest and dividends received	202	268	294	2,171
Interest paid	(221)	(230)	(352)	(2,375)
Income taxes refund (paid)	875	(2,582)	(2,139)	9,405
Other	(11)	(350)	651	(118)
Net cash provided by (used in) operating activities	4,723	8,895	4,932	50,765
Cash Flows from Investing Activities:				
Proceeds from sale of property, plant and equipment	18	84	99	193
Payments for purchase of property, plant and equipment	(322)	(317)	(404)	(3,461)
Proceeds from sale of marketable securities and investment securities	7	25	1,556	75
Payments for purchase of marketable securities and investment securities	(21)	(128)	(571)	(226)
Net cash increase (decrease) due to acquisition of newly consolidated subsidiaries (Note 15(b))	–	–	(308)	–
Net cash decrease due to sale of shares of subsidiaries, resulting in deconsolidation (Note 15(c))	110	–	(69)	1,182
Proceeds from long-term loans receivable	–	5	16	–
Other	(302)	218	50	(3,246)
Net cash provided by (used in) investing activities	(510)	(113)	369	(5,483)
Cash Flows from Financing Activities:				
Change in short-term borrowings	(3,764)	(6,168)	3,632	(40,456)
Proceeds from long-term debt	2,140	1,980	1,150	23,001
Repayments of long-term debt	(1,246)	(1,060)	(2,682)	(13,392)
Payments for redemption of bonds	(404)	(606)	(753)	(4,342)
Cash dividends paid	(608)	(773)	(772)	(6,535)
Other	(115)	(174)	77	(1,236)
Net cash provided by (used in) financing activities	(3,997)	(6,801)	652	(42,960)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	54	(543)	10	580
Net Increase (Decrease) in Cash and Cash Equivalents	270	1,438	5,963	2,902
Cash and Cash Equivalents at Beginning of Year	12,388	10,950	4,987	133,147
Cash and Cash Equivalents at End of Year (Note 15(a))	¥ 12,658	¥ 12,388	¥ 10,950	$ 136,049

See accompanying notes.

Notes to Consolidated Financial Statements

Hakuto Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2010, 2009 and 2008

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 ("ASBJ") 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, 2010 which was ¥93.04 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 14 (15 in 2009 and 15 in 2008) 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.

Microtek Inc. 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. Hakuto Information Technology Co., Ltd., due to the sale of its shares in February 2010, 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" (ASBJ Statement No.9 issued on July 5, 2006). As a result of this change, operating income decreased by ¥14million, 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 values are stated at fair 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 value are stated at moving-average cost.

If the fair value of available-for-sale securities declines significantly, such securities are stated at fair value and the difference between fair value and the carrying amount is recognized as loss in the period of the decline. If the fair 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 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
Derivative transactions not designated in hedge accounting relationships:
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.

Hedge accounting:
I. Method of hedge accounting
i : Basic method
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.
ii : In cases that forward foreign exchange contracts are used as hedging instruments and meet certain hedging criteria
Forward foreign exchange contracts and hedged items are accounted for in the following manner:
: If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable, 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.
: If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable, 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.
: 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.
iii: In cases that interest rate swap contracts are used as hedging instruments 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. In this case, interest rate swap is not recognized at fair value.

II. Hedging derivative financial instruments used by the Group and hedged items 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

III. Evaluation of hedge effectiveness
The Group evaluates the hedging effectiveness of other derivative contracts by comparing the cumulative changes in cash flows or the changes in the fair value of hedged items with corresponding changes in the hedging instruments.
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, the Group is not required to evaluate the hedge effectiveness of interest rate swap contracts, because the contracts are used as hedging instruments and meet certain hedging criteria.

(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 leased assets whose ownership transfers to lessees as fixed assets owned by the Group. 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" (ASBJ Statement No.13, issued on June 17, 1993 (ASBJ First Sub-committee) and revised on March 30, 2007) and "Application Guidelines on Accounting Standards for Lease Transactions" (ASBJ 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 assets (asset group) are considered impaired if its recoverable amount is less than its carrying amount. The recoverable amounts of fixed assets are defined as the higher of (i) its fare value less costs or (ii) its value in smallest.

A fixed asset is evaluated for impairment based on the asset group of which it is a part. 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.

(Change in Accounting Policies)

From the consolidated fiscal year under review, the Company and certain consolidated subsidiaries adopted "Partial Amendments to Accounting Standard for Retirement Benefits (Part3)" (ASBJ Statement No.19, issued on July 31, 2008). The change had no impact on the consolidated financial statements for the year ended March 31, 2010.

(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 are 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, 2010, diluted net income per share is not disclosed, since there is no residual stock with effect of dilution. 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 2010 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, 2010 and 2009 were as follows:

2010	Millions of Yen		
	Acquisition cost	Book value	Difference
Available-for-sale securities with book values (fair values) exceeding acquisition costs:			
Equity securities	¥ 1,542	¥ 4,263	¥ 2,721
Bonds	20	21	1
Others	10	13	3
Subtotal	1,572	4,297	2,725
Available-for-sale securities with book values (fair values) not exceeding acquisition costs:			
Equity securities	¥ 386	¥ 301	¥ (85)
Bonds	461	372	(89)
Subtotal	847	673	(174)
Total	2,419	4,970	2,551

2009	Millions of Yen		
	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	–
Subtotal	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

2010	Thousands of U.S. Dollars		
	Acquisition cost	Book value	Difference
Available-for-sale securities with book values (fair values) exceeding acquisition costs:			
Equity securities	$ 16,574	$ 45,819	$ 29,245
Bonds	215	225	11
Others	107	140	32
Subtotal	16,896	46,184	29,288
Available-for-sale securities with book values (fair values) not exceeding acquisition costs:			
Equity securities	$ 4,149	$ 3,235	$ (913)
Bonds	4,955	3,998	(957)
Subtotal	9,104	7,233	(1,870)
Total	26,000	53,418	27,418

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

	Millions of Yen
	2009
Available-for-sale securities:	
Unlisted foreign bonds	**¥ 393**
Unlisted equity securities	**44**
Money management funds	**0**

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

	Millions of Yen			
2009	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Available-for-sale securities:				
Corporate bonds	**¥ –**	**¥ 393**	**¥ –**	**¥ –**

(d) Total sales of available-for-sale securities sold for the years ended March 31, 2010, 2009 and 2008 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2010	2009	2008	2010
Available-for-sale securities:				
Total sales amount	**¥ 7**	**¥ 25**	**¥ 1,556**	**$ 75**
Gains	**6**	**23**	**1,064**	**64**
Losses	**2**	**–**	**–**	**21**

4. Financial instruments

1. Qualitative information on financial instruments

(i) Policy for using financial instruments

The Group raises operating funds particularly from bank loans for business of the sale of electronic components and equipment, and the production and sale of petrochemical products. Temporary surplus funds are turned over as safe and secure deposits or loans to our group companies. We use derivatives to reduce risks of fluctuations of interest-rate on borrowings and exchange-rate, and do not intend to conduct speculative transactions.

(ii) Details and risks of financial instrument used and systems for relevant risk management

Notes and accounts receivable, which are operating receivables, are exposed to consumer credit risk. The risk is controlled by operation department of Credit Administration Div, according to the Company's rules regarding the administration of credit and account receivables, etc. Investment securities are exposed to equity price risk as a result of market price fluctuations. The risks are controlled by the Financial and Accounting Dept. by checking market prices periodically and report them to the executive board. Payment due dates of most notes and accounts payable, which are operating debt, are within one year.

Some borrowings are exposed to the risk of interest-rate fluctuations, and we use interest-rate swaps as hedging instruments. As certain hedging criteria have been fulfilled, the valuation of hedge effectiveness is omitted. Derivative transactions include forward exchange contracts and option trade, and they are used to hedge exposure to the risk of exchange-rate fluctuations relating to accounts receivable and payable in foreign currency. Since the derivative transaction contracts of the Company and part of the consolidated subsidiaries are concluded with highly creditworthy banks inside Japan, the Company evaluates there is little risk of default by counterparties.

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

For further details of hedging instruments, hedged items, hedging policy, and the valuation method of hedge effectiveness, etc see "Derivative transactions and hedge accounting" in "Summary of significant accounting policies" described above.

(iii) Supplemental explanation on fair value of financial instruments

Financial instruments without market prices or prices based on market are stated at reasonably calculated value. Since such calculations consider various factors values may fluctuate under different conditions. In addition, concerning the contracted amounts of derivative transactions listed in "2. Fair values of financial instruments," the amounts themselves should not be considered indicative as an of the market risk related to the derivative transaction.

(iv) Concentration of credit risk

There is no specific concentration of credit risks at the end of consolidated fiscal year under review.

2. Fair values of financial instruments

Book values and fair values of the financial instruments on consolidates balance sheet as of March 31, 2010 were as follows.

Financial instruments which have difficulty recognizing fair value are not included in the following table.

2010	Millions of Yen		
	Book value	Fair value	Difference
(1) Cash and time deposits	¥ 13,450	¥ 13,450	¥ –
(2) Receivables	26,810	26,810	–
(3) Marketable securities	372	372	–
(4) Investment securities	4,598	4,598	–
Total assets	45,230	45,230	–
(5) Payables	12,549	12,549	–
(6) Short-term borrowings	5,389	5,389	–
(7) Corporate bonds (*1)	709	712	(3)
(8) Long-term borrowings (*1)	5,313	5,290	23
Total liabilities	23,960	23,940	20
Derivatives transactions (*2)	(133)	(133)	–

2010	Thousands of U.S. Dollars		
	Book value	Fair value	Difference
(1) Cash and time deposits	$ 144,561	$ 144,561	$ –
(2) Receivables	288,156	288,156	–
(3) Marketable securities	3,998	3,998	–
(4) Investment securities	49,419	49,419	–
Total assets	486,134	486,134	–
(5) Payables	134,878	134,878	–
(6) Short-term borrowings	57,921	57,921	–
(7) Corporate bonds (*1)	7,620	7,653	(33)
(8) Long-term borrowings (*1)	57,105	56,857	248
Total liabilities	257,524	257,309	215
Derivatives transactions (*2)	(1,429)	(1,429)	–

(*1) Corporate bonds and long-term borrowings included in current liabilities due date within one year are included.

(*2) The net receivables and payables arising from derivative transactions are presented at a net amount. Net liabilities are shown in parentheses.

(a) Calculation methods for fair value of financial instruments and matters related to securities

(1) Cash and time deposits, (2) Receivables

Since these are settled in a short term and their fair values are close to book values, they are stated at book value.

(3) Marketable securities, (4) Investment securities

Since marketable securities are settled in a short term and their fair values are close to book values, they are stated at book value. In terms of investment securities, the fair values of shares are based on market price and those of bonds are based on market price or price offered by correspondent financial institutes.

(5) Payables, (6) Short-term borrowings

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

(7) Corporate bonds, (8) Long-term borrowings

Fair values of corporate bond are based on current prices calculated by discounting total amount of principal and interest with an interest rate that takes into account a remaining term and credit risks of the bond. Fair value of long-term borrowings is based on current price calculated by discounting total amount of principal and interest with an interest rate assumed to be applied for new borrowings of same type.

(b) Financial instruments of which fair values cannot be easily known

	Millions of Yen	Thousands of U.S. Dollars
	2010	2010
Classification	Book Value	Book Value
Shares of subsidiaries and affiliated companies	¥ 800	$ 8,599
Unlisted shares	21	226

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

(c) Amounts of receivables and securities with maturity, that will be redeemed after the consolidated balance sheet date

2010	Millions of Yen Within 1 year	Over 1 year but within 5 years	Over 5 year but within 10 years	Over 10 years
Cash and time deposits	¥ 13,450	¥ –	¥ –	¥ –
Receivables	26,810	–	–	–
Marketable securities	372	–	–	–
Investment securities	–	–	20	–
Total	40,632	–	20	–

2010	Thousands of U.S. Dollars Within 1 year	Over 1 year but within 5 years	Over 5 year but within 10 years	Over 10 years
Cash and time deposits	$ 144,561	$ –	$ –	$ –
Receivables	288,156	–	–	–
Marketable securities	3,998	–	–	–
Investment securities	–	–	215	–
Total	436,715	–	215	–

(d) Amounts of corporate bonds and long-term borrowings, that will be repaid after the consolidated balance sheet date

2010	Millions of Yen Within 1 year	Over 1 year but within 2 years	Over 2 year but within 3 years	Over 3 year but within 4 years	Over 4 year but within 5 years	Over 5 years
Corporate bonds	¥ 209	¥ 500	¥ –	¥ –	¥ –	¥ –
Long-term borrowings	1,682	1,563	1,373	493	144	58

2010	Thousands of U.S. Dollars Within 1 year	Over 1 year but within 2 years	Over 2 year but within 3 years	Over 3 year but within 4 years	Over 4 year but within 5 years	Over 5 years
Corporate bonds	$ 2,246	$ 5,374	$ –	$ –	$ –	$ –
Long-term borrowings	18,079	16,799	14,757	5,299	1,548	623

(Additional Information)

From the consolidated fiscal year under review, the Company and certain consolidated subsidiaries adopted the "Accounting Standard for Financial Instruments" (ASBJ Statement No.10, issued on March 10, 2008), and the "Guidance on Disclosure of Fair Value of Financial Instruments, etc"(ASBJ Guidance No.19, March 10, 2008)

5. Non-consolidated subsidiaries and affiliated companies

Summarized information of balances and transactions with affiliated companies as of the years ended March 31, 2010, 2009 and 2008 were as follows:

	Millions of Yen 2010	2009	Thousands of U.S. Dollars 2010
Receivables	¥ 1	¥ 0	$ 11
Investment securities	800	797	8,599
Payables	607	196	6,524

	Millions of Yen 2010	2009	2008	Thousands of U.S. Dollars 2010
Sales to	¥ 2	¥ 3	¥ 3	$ 21
Purchases from	1,718	2,438	3,294	18,465

6. 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, 2010 and 2009. Related party transactions for 2010 and 2009 were as the follows:

	Millions of Yen 2010	2009	Thousands of U.S. Dollars 2010
Takayama International Education Foundation (of which Shigeo Takayama is president):			
Payment of interest on bonds	¥ 10	¥ 10	$ 107
Advance costs	9	9	97

(Additional information)

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

7. Inventories

Inventories as of March 31, 2010 and 2009 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Merchandise	¥ 10,041	¥ 11,307	$ 107,921
Finished goods	382	375	4,106
Raw materials	241	319	2,590
Work in process	114	73	1,225
Supplies	14	21	151
Total	10,792	12,095	115,993

8. 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, 2010 and 2009 ranged from 0.73% to 4.86% and 0.96% to 6.03% per annum, respectively.

(b) Long-term debt as of March 31, 2010 and 2009 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
1.65% to 1.96% loans from Japanese insurance companies, due in 2010 to 2014	¥ 1,345	¥ 1,668	$ 14,456
1.46% to 3.75% loans from Japanese banks, due in 2010 to 2022	3,968	2,751	42,649
2.05% Japanese yen bonds due in 2012	500	500	5,374
0.55% to 1.61% Japanese yen Privately-subscribed bonds due in 2010	209	613	2,246
Total	6,022	5,532	64,725
Less amount due within one year	1,891	1,630	20,325
Long-term debt	4,131	3,902	44,400

(c) Assets pledged as collateral for ¥68 million ($731 thousand) of short-term borrowings and ¥47 million ($505 thousand) of long-term debt as of March 31, 2010 (¥68 million of short-term borrowings and ¥69 million of long-term debt as of March 31, 2009) were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Cash and time deposits	¥ 46	¥ 197	$ 494
Land and land improvements	244	549	2,623
Buildings and structures	126	276	1,354
Total	416	1,022	4,471

9. 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, 2010 and 2009 consist of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Funded status:			
Projected benefit obligation	¥ (2,371)	¥ (3,116)	$ (25,484)
Pension assets	1,737	2,048	18,669
Unfunded projected benefit obligation	(634)	(1,068)	(6,815)
Unrecognized actuarial differences	351	649	3,773
Net projected benefit obligation recognized	(283)	(419)	(3,042)
Prepaid pension expense	6	–	64
Employees' severance and retirement benefits	¥ (289)	¥ (419)	$ (3,106)

Included in the consolidated statements of operations for the years ended March 31, 2010, 2009 and 2008 are severance and retirement benefit expenses comprised of the following:

	Millions of Yen			Thousands of U.S. Dollars
	2010	2009	2008	2010
Severance and retirement benefit expenses:				
Service costs-benefits earned during the year	¥435	¥502	¥468	$ 4,675
Interest cost on projected benefit obligation	51	54	53	548
Expected return on plan assets	(18)	(48)	(54)	(193)
Amortization of actuarial differences	95	52	17	1,021
Extra severance and retirement benefits	31	30	49	333
Severance and retirement benefit expenses	¥594	¥590	¥533	$ 6,384

	2010	2009
Discount rate	**2.0%**	2.0%
Rate of expected return on plan assets	**1.0%**	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 statements of operations using the straight-line method over 10 years commencing with the following period.

10. Contingent liabilities

Contingent liabilities of the Group as of March 31, 2010 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Notes endorsed	**¥ 9**	**$ 97**
Guarantees for indebtedness of employees	**2**	**21**

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, 2010, 2009 and 2008 were ¥126 million ($1,354 thousand), ¥139 million and ¥210 million respectively.

12. Impairment losses

The Group recognized impairment losses for groups of assets in the years ended March 31, 2010 and 2009 as follows:

2010		
Location	Use	Type of assets
Isehara City, Kanagawa Prefecture	Unused assets	Buildings and structure
Miyako City, Iwate Prefecture	Unused assets	Other assets

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 subsidiaries, and unused assets by individual asset. For unused assets such as buildings and structures, production facilities, which had not been used for business without a concrete utilization plan, their book values were impaired to recoverable amounts. 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 fair value had declined significantly were reduced to their recoverable amounts. The amount of impairment losses for the year ended March 31, 2010 amounted to ¥53 million ($570 thousand).

The amount of impairment losses for the year ended March 31, 2009 amounted to ¥407 million, which comprised ¥56 million for unused land, ¥92 million for land for business, ¥128 million for buildings and structures and ¥131 million for other assets.

In the year ended March 31, 2010, the recoverable amounts of buildings and structures, as for the other assets were estimated at zero since the estimates of future cash flows as value in use were not expected.

In the year ended March 31, 2009, 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, 2010 and 2008. 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, 2010 and 2008, while the difference is not disclosed for the year ended March 31, 2009, due to the loss position.

	2010	2008
Statutory tax rate:	40.7%	40.7%
Non-taxable dividend income	**–**	(1.6)
Non-deductible expenses	**1.6**	3.3
Valuation allowance	**(17.0)**	41.2
Per capita inhabitant tax	**1.7**	1.9
Consolidated adjustment for loss on sale of shares of subsidiaries	**2.5**	(3.4)
Others	**(1.3)**	(1.3)
Effective tax rate	**28.2%**	80.8%

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2010 and 2009 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
Deferred tax assets:	2010	2009	2010
Directors' and corporate auditors' retirement benefits	¥ 365	¥ 407	$ 3,923
Employees' retirement benefits	98	154	1,053
Devaluation of inventories	952	1,076	10,232
Accrued employees' bonuses	263	303	2,827
Devaluation of investment securities	451	649	4,847
Allowance for doubtful accounts	69	101	742
Net loss carryforwards	705	1,087	7,577
Impairment loss on property, plant and equipment	187	214	2,010
Loss on write-down of property, plant and equipment	167	136	1,795
Differences between fair value and cost of assets of consolidated subsidiaries	421	425	4,525
Others	297	299	3,193
Less-Valuation allowance	(1,862)	(2,306)	(20,013)
Total deferred tax assets	2,113	2,545	22,711
Deferred tax liabilities:			
Net unrealized holding gains on investment securities	(928)	(537)	(9,974)
Retained earnings of subsidiaries	(245)	(232)	(2,633)
Gain on land valuation	(203)	(202)	(2,182)
Others	(28)	(84)	(301)
Total deferred tax liabilities	(1,404)	(1,055)	(15,090)
Net deferred tax assets (liabilities)	¥ 709	¥ 1,490	$ 7,621

14. Derivative financial instruments

Please refer to Note 2. (e) Derivative transactions and hedge accounting and Note 4. Financial Instruments about accounting policy.

The following tables summarize fair value information as of March 31, 2010 of derivative transactions for which hedge accounting has not been adopted:

(a) Currency-related transactions

2010		Millions of Yen			
Classification	Type of transaction	Contracted amount	Over one year	Fair value	Gains (Losses)
Non-market transactions	Currency option trading				
	Put	¥ 781	¥ 781	¥ (109)	¥ (109)
	Call	439	439	14	14
	Total	¥ 1,220	¥ 1,220	¥ (95)	¥ (95)

(b) Interest-related transactions

2010		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	¥ 85	¥ 10	¥ (1)	¥ (1)
	Total	¥ 85	¥ 10	¥ (1)	¥ (1)

(a) Currency-related transactions

2010		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	$ 8,394	$ 8,394	$ (1,172)	$ (1,172)
	Call	4,718	4,718	150	150
	Total	$13,112	$13,112	$ (1,022)	$ (1,022)

(b) Interest-related transactions

2010		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	$ 914	$ 107	$ (11)	$ (11)
	Total	$ 914	$ 107	$ (11)	$ (11)

The following tables summarize fair value information as of March 31, 2010 of derivative transactions for which hedge accounting has been adopted:

(a) Currency-related transactions

2010 Hedge accounting methods	Type of transaction	Main hedged items	Millions of Yen Contracted amount	Over 1 year	Fair value
Basic method	Future exchange contract				
	short/long commitment	Account Receivable	¥ 339	¥ –	¥ 348
	U.S. dollars,	Account Payable	2,144	–	2,203
the recognition of gains and	Future exchange contract				
losses on foreign currency rights	short/long commitment	Account Receivable	681	–	699
or obligations at a preset price	U.S. dollars,	Account Payable	314	–	326
Basic method	Currency option trading	Foreign Currency			
	Put	Receivable and Payable, and future	648	–	(56)
	Call	transaction in foreign currency	353	–	2
Basic method	Currency swap trading	Foreign Currency			
	pay Japanese yen	Receivable and Payable, and future	388	–	(20)
	receive U.S. dollars,	transaction in foreign currency			
	Total		4,867	–	3,502

2010 Hedge accounting methods	Type of transaction	Main hedged items	Thousands of U.S. Dollars Contracted amount	Over 1 year	Fair value
Basic method	Future exchange contract				
	short/long commitment	Account Receivable	$ 3,644	$ –	$ 3,740
	U.S. dollars,	Account Payable	23,044	–	23,678
the recognition of gains and	Future exchange contract				
losses on foreign currency rights	short/long commitment	Account Receivable	7,319	–	7,513
or obligations at a preset price	U.S. dollars,	Account Payable	3,375	–	3,504
Basic method	Currency option trading	Foreign Currency			
	Put	Receivable and Payable, and future	6,965	–	(602)
	Call	transaction in foreign currency	3,794	–	22
Basic method	Currency swap trading	Foreign Currency			
	pay Japanese yen	Receivable and Payable, and future	4,170	–	(215)
	receive U.S. dollars,	transaction in foreign currency			
	Total		52,311	–	37,640

(b) Interest-related transactions

2010 Hedge accounting methods	Type of transaction	Main hedged items	Millions of Yen Contracted amount	Over 1 year	Fair value
	Interest rate swap				
Special method for interest swap	pay fixed	Long-term borrowings	¥ 3,143	¥ 2,097	¥ –
	Receive floating				
	Total		3,143	2,097	–

2010 Hedge accounting methods	Type of transaction	Main hedged items	Thousands of U.S. Dollars Contracted amount	Over 1 year	Fair value
	Interest rate swap				
Special method for interest swap	pay fixed	Long-term borrowings	$33,781	$22,539	$ –
	Receive floating				
	Total		33,781	22,539	–

The following tables summarize fair value information as of March 31, 2009 of derivative transactions for which hedge accounting has not been adopted:

(a) Currency-related transactions

2009 Classification	Type of transaction	Millions of Yen Contracted amount	Over one year	Fair value	Gains (Losses)
	Currency option trading				
	Put	¥ 1,614	¥ 1,614	¥ (150)	¥ (150)
Non-market	Call	895	895	41	41
transactions	Currency swap trading - receive U.S. dollars, pay Japanese 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)
	Interest rate swap				
Non-market	Receive floating, pay fixed	¥ 605	¥ 85	¥ (2)	¥ (2)
transactions	Total	¥ 605	¥ 85	¥ (2)	¥ (2)

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, 2010, 2009 and 2008 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2010	2009	2008	2010
Cash and time deposits	¥ 13,450	¥ 12,892	¥ 10,252	$144,561
Add: marketable securities	372	–	201	3,998
Add: deposits paid	–	–	1,452	–
Total	13,822	12,892	11,905	148,559
Less: time deposits with maturities exceeding three months	(792)	(504)	(755)	(8,512)
Less: corporate bonds within 1 year	(372)	–	(200)	(3,998)
Cash and cash equivalents	¥ 12,658	¥ 12,388	¥ 10,950	$136,049

(b) Assets and liabilities of newly consolidated subsidiaries through acquisition of shares:

Assets and liabilities of Microtek Inc. a newly consolidated subsidiary in 2008, and the related acquisition cost and net cash flows from the acquisition were as follows:

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

(c) Assets and liabilities of the subsidiaries excluded from the consolidation scope:

Shares of Hakuto Information Technology Co., Ltd. and Hakuto Korea Co., Ltd. were sold in 2010 and 2008, 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	
	2010	2008
Current assets	¥ 1,181	¥ 117
Non current assets	33	38
Current liabilities	(947)	(48)
Non current liabilities	(20)	(7)
Translation adjustments	–	(8)
Carrying amount of shares sold	247	92
Gain (loss) on share sales	(47)	(67)
Sale price of shares for the year	200	25
Cash and cash equivalents of the companies excluded from the consolidation scope	(90)	(94)
Proceeds (Payment) for sale of shares of subsidiaries excluded from the consolidation scope	110	(69)

16. Stock option plans

The following table summarizes contents of stock options as of March 31, 2010 and 2009.

	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, 2010.

Not-exercisable stock options:	Stock options issued in 2004
Not-exercisable stock options outstanding at April 1, 2009	–
Stock options granted	–
Forfeitures	–
Conversion to exercisable stock options	–
Not-exercisable stock options outstanding at March 31, 2010	–
Exercisable stock options:	Stock options issued in 2004
Exercisable stock options outstanding at April 1, 2009	**274,400**
Conversion from not-exercisable stock options	–
Options exercised	–
Forfeitures	–
Exercisable stock options outstanding at March 31, 2010	**274,400**

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**

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 ASBJ on December 27, 2005) and “Guidance for Accounting Standards for Business Combinations and Accounting Standards for Business Divestitures” (Guidance No.10 revised by the ASBJ 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 Inc.
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 Inc. 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.

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, 2010 and 2009 were ¥317 million ($3,407 thousand) and ¥507 million, including ¥218 million ($2,343 thousand) and ¥297 million due within one year.

19. Subsequent events

On May 14, 2010, the Board of Directors approved i) payment of year-end cash dividends to the shareholders of record as of March 31, 2010 of ¥15.0 ($0.16) per share or a total of ¥331 million ($3,558 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, 2010, 2009 and 2008 is as follows:

(a) Information by business segment

2010	Millions of Yen					
	Electronics division	Chemical division	Other	Total	Elimination and/or Corporate	Consolidated
Net sales						
Outside customers	¥ 90,165	¥ 6,984	¥ 18	¥ 97,167	¥ –	¥ 97,167
Within consolidated group	–	–	611	611	(611)	–
Total	90,165	6,984	629	97,778	(611)	97,167
Costs and expenses	87,998	6,446	625	95,069	(611)	94,458
Operating income	¥ 2,167	¥ 538	¥ 4	¥ 2,709	¥ –	¥ 2,709
Identifiable assets	¥ 60,973	¥ 6,040	¥ 140	¥ 67,153	¥ (78)	¥ 67,075
Depreciation and amortization	374	185	–	559	–	559
Impairment losses of fixed assets	53	–	–	53	–	53
Capital expenditures	264	73	–	337	–	337

2009	Millions of Yen					
	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

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

2010	Thousands of U.S. Dollars					
	Electronics division	Chemical division	Other	Total	Elimination and/or Corporate	Consolidated
Net sales						
Outside customers	$ 969,099	$ 75,064	$ 194	$1,044,357	$ –	$1,044,357
Within consolidated group	–	–	6,567	6,567	(6,567)	–
Total	969,099	75,064	6,761	1,050,924	(6,567)	1,044,357
Costs and expenses	945,808	69,282	6,718	1,021,808	(6,567)	1,015,241
Operating income	$ 23,291	$ 5,782	$ 43	$ 29,116	$ –	$ 29,116
Identifiable assets	$ 655,342	$ 64,918	$ 1,505	$ 721,765	$ (838)	$ 720,927
Depreciation and amortization	4,020	1,988	–	6,008	–	6,008
Impairment losses of fixed assets	570	–	–	570	–	570
Capital expenditures	2,837	785	–	3,622	–	3,622

(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.

(b) Information by geographic location

2010	Millions of Yen				
	Japan	Asia	Total	Elimination and/or Corporate	Consolidated
Net sales					
Outside customers	¥ 76,536	¥ 20,631	¥ 97,167	¥ –	¥ 97,167
Within consolidated group	5,854	100	5,954	(5,954)	–
Total	82,390	20,731	103,121	(5,954)	97,167
Costs and expenses	80,180	20,232	100,412	(5,954)	94,458
Operating income	¥ 2,210	¥ 499	¥ 2,709	¥ –	¥ 2,709
Identifiable assets	¥ 58,965	¥ 9,606	¥ 68,571	¥ (1,496)	¥ 67,075

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

2010	Thousands of U.S. Dollars				
	Japan	Asia	Total	Elimination and/or Corporate	Consolidated
Net sales					
Outside customers	$ 822,614	$ 221,743	$ 1,044,357	$ –	$ 1,044,357
Within consolidated group	62,919	1,075	63,994	(63,994)	–
Total	885,533	222,818	1,108,351	(63,994)	1,044,357
Costs and expenses	861,780	217,455	1,079,235	(63,994)	1,015,241
Operating income	$ 23,753	$ 5,363	$ 29,116	$ –	$ 29,116
Identifiable assets	$ 633,760	$ 103,246	$ 737,006	$ (16,079)	$ 720,927

(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.

(c) Overseas sales information

	Millions of Yen			Thousands of U.S. Dollars
	2010	2009	2008	2010
Export sales:				
Asia	¥ 24,374	¥ 28,351	¥ 39,389	$ 261,973
Other areas	228	1,146	1,160	2,451
Total (A)	24,602	29,497	40,549	264,424
Net sales (B)	97,167	108,882	133,259	1,044,357
(A)/(B)	25.3%	27.1%	30.4%	25.3%

21. 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.

22. Investment and rental property

(Additional Information)

Companies are required to apply the "Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" ASBJ Statement No.20 issued on November 28, 2008) and the "Guidance on Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" (ASBJ Guidance No.23 issued on November 28, 2008) for the years ending on or after March 31, 2010.

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, 2010 and 2009, 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, 2010, 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, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2010, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following:
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, 2010 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, 2010

Financial Highlights

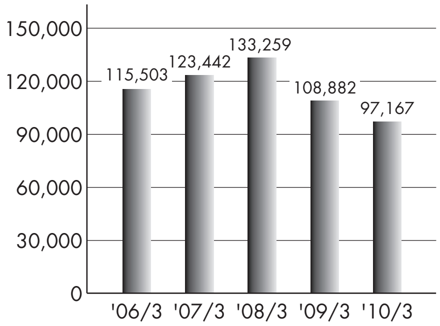
Hakuto Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2010, 2009 and 2008

OPERATING DATA	Millions of yen 2010	2009	2008	Thousands of U.S. Dollars 2010	Percent change between 2010 and 2009
NET SALES	¥ 97,167	¥108,882	¥133,259	$1,044,357	-10.8%
INCOME (LOSS) BEFORE INCOME TAXES	2,408	(653)	2,257	25,881	–%
NET INCOME (LOSS)	1,655	(542)	433	17,788	–%
FINANCIAL DATA					
TOTAL ASSETS	¥ 67,075	¥ 67,042	¥ 85,950	$ 720,927	0.0%
NET ASSETS	38,379	36,156	39,111	412,500	6.1%
PER SHARE DATA	Yen			U.S. Dollars	
NET INCOME (LOSS) PER SHARE	¥ 74.88	¥ (24.53)	¥ 19.62	$ 0.80	–%
CASH DIVIDENDS PER SHARE	30.00	30.00	35.00	0.32	0.0%

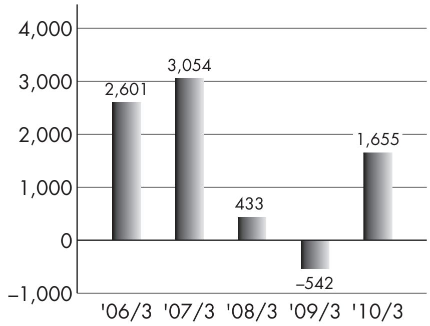
The U.S. dollar amounts represent translations of Japanese yen amounts at the rate of ¥93.04 to U.S. $1.
See Note 1 to the consolidated financial statements.

Financial Highlights Chart

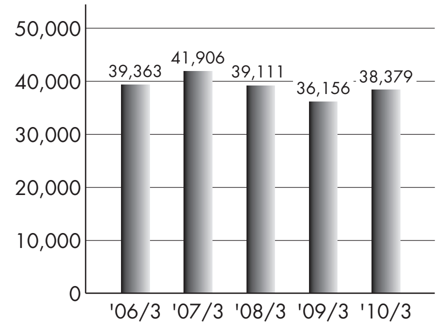
Net Sales
(millions of yen)



Net Income (Loss)
(millions of yen)



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



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