2017

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 Hakuto's business performance for the 65th fiscal year, which began on April 1, 2016 and ended on March 31, 2017.

During the consolidated fiscal year under review, in the United States a sense of uncertainty persisted with regard to the new president's policy execution capabilities, but the economy itself was relatively stable and interest rates were raised. As a precursor to economic recovery, conditions in Europe continued to call for stabilization. Member nations of the European Union were affected by the U.K. decision on Brexit, and conditions of public safety worsened as militant groups mounted terrorist attacks. In Asia, prudent policy operations led to firm economic performance, although no remarkable improvements were evident in China.

In the Japanese economy, exchange rates against the U.S. dollar returned to essentially the same level as at the beginning of the fiscal year. However, the outlook remained unprecedentedly difficult to predict, due to strong concerns that the economy would be significantly affected by the new U.S. administration's economic policies.

In the electronics industry, a core business for the Hakuto Group, the earthquakes that struck Kumamoto Prefecture early in the year disrupted supply chains, causing serious delays in product shipments. Furthermore, the economic slowdown in China resulted in lower demand for electronic components for white goods and other housing-related products. However, demand remained firm for automotive equipment for the automobile industry from the start of 2017, and in the second half demand for tablet PCs and LCD TVs showed signs of recovery.

The operating environment for the industrial chemical-related field remained problematic, as growing environmental awareness caused the petroleum, paper and pulp industries to shrink and industry restructuring continued.

Operating in this environment, the Hakuto Group posted consolidated net sales of ¥127,599 million for the fiscal year under review, up 9.7% from the preceding fiscal year.

Affected by yen appreciation through the first half, profitability on foreign currency transactions was sluggish, prompting a 4.2% drop in consolidated gross profit, to ¥16,496 million, with consolidated selling, general and administrative expenses rising 0.8%, to ¥14,427 million. As a result, consolidated operating income declined 28.8%, to ¥2,069 million,, and net income attributable to owners of the parent decreased 6.5%, to ¥1,904 million.

The Hakuto Group considers boosting returns to shareholders to be one of its most important management policies. While keeping in mind the need to bolster internal reserves to strengthen the Group's financial condition and future business development, our basic policy is to post returns to shareholders in a way that reflects business performance.

Our approach is based on the maintenance of a stable dividend and targets a consolidated dividend payout ratio of 30% or higher. Comprehensive consideration is given to factors such as business performance during each fiscal year, the financial conditions and future business strategies. As for internal reserves, they are put to active use for investment in businesses with high growth potential or high profitability, to strengthen sales and technical capabilities, for capital investment and for research and development with the goal of future expansion of the Group's business.

To conduct its capital policy flexibly, the Company will acquire treasury stock in an appropriate manner, taking into account financial conditions and other factors.

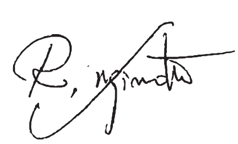
Keeping in mind the above policies and business performance during the fiscal year under review, the year-end dividend is scheduled to be ¥20 per share.

This amount, combined with an interim dividend of ¥20 per share paid in December 2016, brings the total dividend for the fiscal year to ¥40, for a consolidated payout ratio of 45.9%.

We look forward to your understanding of and support for the Hakuto Group, and we ask our shareholders to continue to watch our business operations from a long-term perspective.

At the Board meeting on April 24, 2017, acquisition of treasury stock was resolved in order to increase shareholder's returns and to improve the capital efficiency. Detail of the acquisition is as follows;

- Total shares to be acquired: 1.5 million shares (Limit)
- Total amount of the shares to be acquired: ¥1.5 billion (Limit)
- Period of acquisition: From May, 1, 2017 to December, 29, 2017
- Method of acquisition: Open market purchase using by trust scheme



Ryusaburo Sugimoto,
President

The Year in Review

Electronics

Electronic Devices Division

Overview of the Term under Review

- In-vehicle products were firm throughout the year. In particular, the rate of on-board installation of ICs increased.
- Products for industrial equipment (factory automation, robots) remained firm, as in the previous year.
- In Japan, products for PCs and smartphones remained sluggish.

Outlook for the Next Term (Ending March 31, 2018)

- We expect continued robust sales for in-vehicle and industrial equipment products.
- We believe sales of products for smartphones will remain problematic in both Japan and China.
- Restructuring is expected to continue among overseas IC manufacturers.

Electronic Components Division

Overview of the Term under Review

- In optical products, investment became more active in the Chinese communications market. Demand for components for non-communications uses rose slightly. Investment continued to slow.
- There was a sharp decline in demand for photovoltaic power products.
- The market for photovoltaic power products continued to shrink.
- We have been gradually launching the smart-house business.

Outlook for the Next Term (Ending March 31, 2018)

- In the communications business, we expect demand to increase as the data center market expands. We anticipate full-fledged investment in 5G networks, as this service is scheduled to commence in fiscal 2020.
- We expect the market for photovoltaic power products to remain sluggish.
  We will launch the smart-house business at an early stage.

Electronic and Electronic Equipment Division

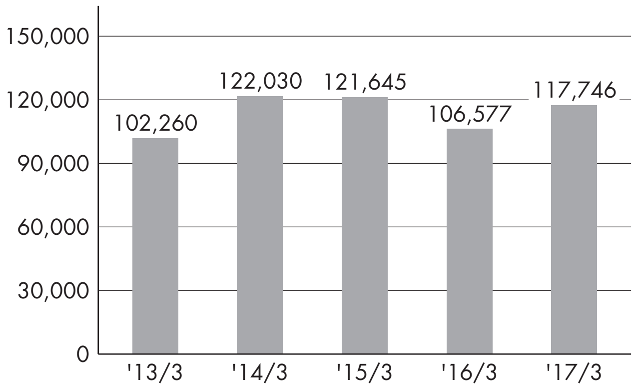
Overview of the Term under Review

- Sales of temperature evaluation testing equipment for memories and components for in-vehicle products remained favorable.
- Investments are being postponed due to an uncertain outlook for the next-generation smartphone market. Orders were lackluster for magnetic sensor production equipment, exposure devices and steppers.
- Although demand increased for accelerators for use in radiocarbon dating in China, competition also grew more stringent.

Outlook for the Next Term (Ending March 31, 2018)

- We expect a rise in demand for steppers for next-generation smartphones. In line with market trends, we anticipate greater investment in exposure devices.
- We expect a rise in demand for steppers for next-generation smartphones. In line with market trends, we anticipate greater investment in exposure devices.
- The market for vacuum pumps for analysis equipment is expected to remain favorable.
- We forecast higher demand for laser processing systems.

Sales
(millions of yen)



Chemicals

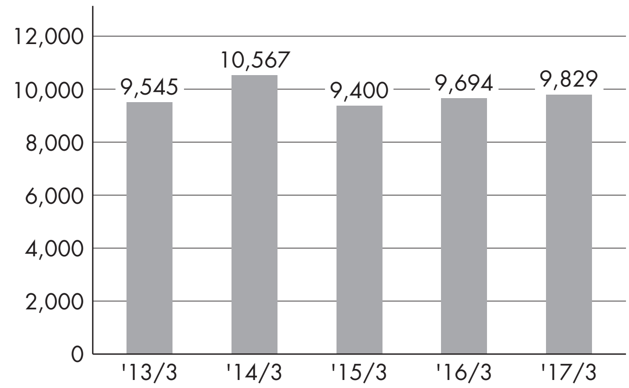
Overview of the Term under Review

- In the petroleum and petrochemical business, polymerization inhibitors, amines and FCC catalysts performed favorably.
- The paper and pulp business continued to perform poorly, and new customer acquisition was delayed.
- In cosmetics, Alcasealan sales were favorable. However, growth in sales of OEM products was sluggish, and expanding sales of our TAEKO brand is expected to take time.

Outlook for the Next Term (Ending March 31, 2018)

- In the petroleum and petrochemical fields, we believe polymerization inhibitors, amines and FCC catalysts will continue to perform favorably.
- In the paper and pulp sectors, we expect to acquire new customers for papermaking plant chemicals.
- In cosmetics, we expect sales of Alcasealan to remain favorable. We anticipate growth in demand for our TAEKO brand.

Sales
(millions of yen)



Others

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

Financial Review

Income Statement Items

As profitability on foreign currency transactions was unfavorable due to the impact of yen appreciation through the first half, consolidated gross profit was ¥16,496 million (down 4.2% year on year), consolidated selling, general and administrative expenses were ¥14,427 million (up 0.8%).As a result, consolidated operating income declined by 28.8% to ¥2,069 million, and net income attributable to owners of the parent was ¥1,904 million, down 6.5%.

Balance Sheet Items

Current assets at the end of the fiscal year under review rose by ¥426 million, up 0.7% from the previous fiscal year. This reflected an increase in merchandise and finished goods of ¥1,423 million and an expansion of ¥312 million in other current assets.

Fixed assets increased by ¥1,470 million, or 9.4%, compared to the end of the previous consolidated fiscal year, mainly because of a rise of ¥1,855 million in investment securities.

As a result of these factors, total assets amounted to ¥78,261 million as of March 31, 2017, up ¥1,896 million (2.5%) from a year earlier.

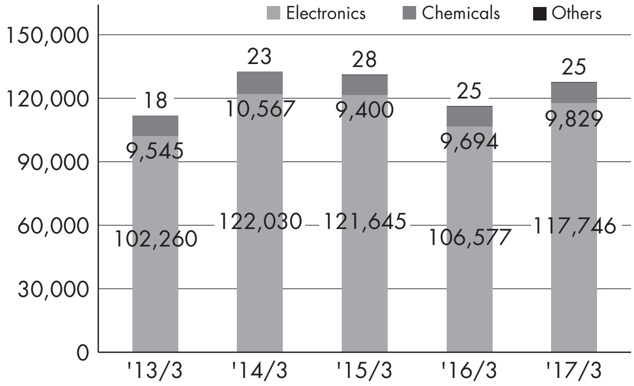
Current liabilities increased by ¥812 million (up 3.9%) from the end of the previous fiscal year, primarily due to a rise of ¥1,529 million in notes and accounts payable–trade.

Non-current liabilities declined by ¥890 million (down 19.4%) from the end of the previous fiscal year, largely because of a ¥1,094 million decrease in long-term debt.

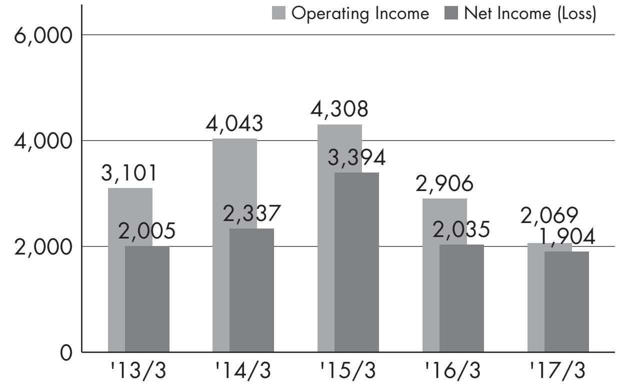
Based on the above, total liabilities at the end of the fiscal year under review decreased by ¥78 million (down 0.3%) from the previous fiscal year to ¥25,513 million.

Net assets increased by ¥1,973 million (or 3.9%) in comparison with the previous fiscal year to ¥52,748 million. This mainly reflected a ¥1,027 million increase in retained earnings and a rise of ¥793 million in valuation difference on available-for-sale securities.

Sales by Product Category
(millions of yen)



Operating Income and Net Income (Loss)
(millions of yen)



Cash Flows

During the fiscal year under review, net cash provided by operating activities amounted to ¥2,572 million, net cash used by investing activities was ¥1,209 million, and net cash used in financing activities totaled ¥1,947 million. Exchange rate fluctuations had the effect of increasing cash and cash equivalents by ¥40 million. As a result of these factors, cash and cash equivalents stood at ¥7,748 million as of March 31, 2017, down ¥618 million from March 31, 2016.

Cash flows from operating activities

Net cash provided by operating activities amounted to ¥2,572 million. Uses of cash included a ¥1,476 million increase in inventories and ¥886 million in income taxes paid, while principal sources of cash were ¥1,977 million in income before income taxes and a ¥1,199 million rise in trade notes and accounts payable. In the previous fiscal year, cash flows from operating activities resulted in a net inflow of ¥2,087 million due primarily to income before income taxes of ¥2,837 million.

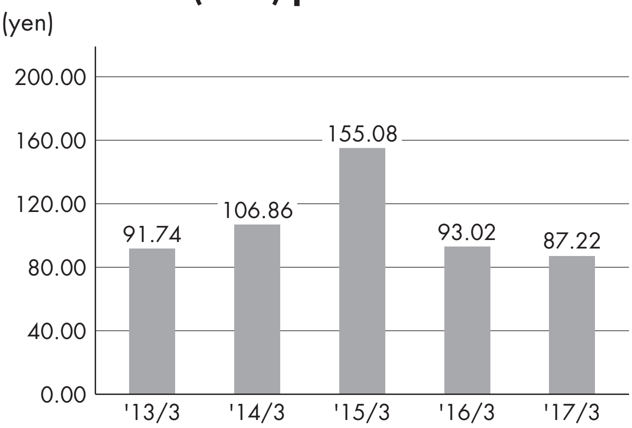
Cash flow from investing activities

Proceeds from sale of investment securities provided ¥21 million, while uses of cash included ¥372 million in payments for purchase of investment securities and ¥337 million for the purchase of investments in subsidiaries. As a result, net cash used in investing activities amounted to ¥1,209 million. In the previous fiscal year, net cash provided by investing activities was ¥45 million, due largely to ¥525 million in proceeds from the sale of investment securities.

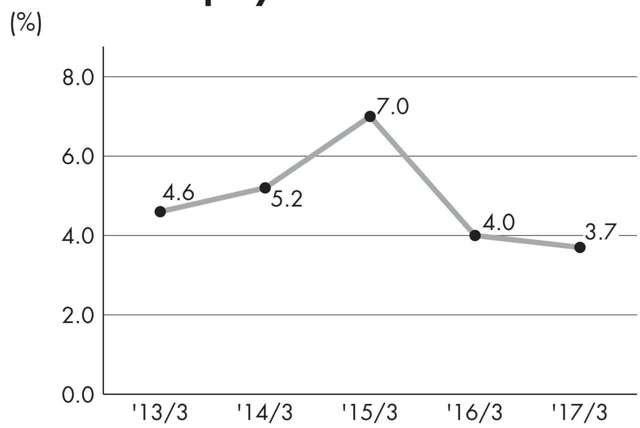
Cash flows from financing activities

Net cash used in financing activities totaled ¥1,947 million. Major sources of cash were net proceeds from short-term borrowings of ¥151 million and a net decrease in treasury stock of ¥68 million. Principal uses of cash included ¥1,251 million in repayments of long-term debt and ¥872 million in cash dividends paid. In the preceding fiscal year, net cash used in financing activities came to ¥5,469 million, due primarily to ¥2,141 million used to repay long-term borrowings.

Net Income (Loss) per Share



Return on Equity



Consolidated Balance Sheets

Hakuto Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2017 and 2016

Assets

Current Assets:	Millions of Yen 2017	Millions of Yen 2016	Thousands of U.S. Dollars (Note 1) 2017
Cash and time deposits (Notes 4 and 14)	¥ 7,748	¥ 8,366	$ 69,062
Receivables (Note 4):			
Notes and accounts receivable - trade	28,158	30,250	250,982
Electronically recorded monetary claims-operating	4,385	2,906	39,090
Due from unconsolidated subsidiaries and affiliated companies (Note 5)	140	394	1,249
Allowance for doubtful accounts	(11)	(36)	(102)
Inventories (Note 6)	17,823	16,399	158,863
Deferred tax assets (Note 12)	898	747	8,004
Prepaid expenses and other current assets	1,941	1,630	17,300
Total current assets	61,082	60,656	544,448
Property, Plant and Equipment:			
Land	3,080	3,080	27,455
Buildings and structures	5,498	5,369	49,008
Machinery and equipment	4,901	4,848	43,685
Other assets	3,988	3,902	35,545
Sub-total	17,467	17,199	155,693
Accumulated depreciation	(10,703)	(10,349)	(95,397)
Total property, plant and equipment	6,764	6,850	60,296
Investments and Other Non-current Assets:			
Investment securities (Notes 3, 4 and 5)	9,184	7,330	81,866
Net defined benefit asset (Note 8)	–	13	–
Deferred tax assets (Note 12)	52	30	464
Other non-current assets	1,179	1,487	10,504
Total investments and other non-current assets	10,415	8,860	92,834
Total Assets	¥ 78,261	¥ 76,366	$ 697,578

Liabilities and Net Assets

Current Liabilities:	Millions of Yen 2017	Millions of Yen 2016	Thousands of U.S. Dollars (Note 1) 2017
Short-term borrowings (Notes 4 and 7)	¥ 1,150	¥ 1,004	$ 10,247
Long-term debt due within one year (Notes 4 and 7)	1,094	1,297	9,749
Payables (Note 4):			
Notes and accounts payable - trade	15,681	13,563	139,773
Due to unconsolidated subsidiaries and affiliated companies (Note 5)	877	1,747	7,817
Income taxes payable (Note 12)	212	461	1,891
Allowance for employees' bonuses	831	928	7,410
Accrued expenses and other current liabilities	1,960	1,994	17,476
Total current liabilities	21,805	20,993	194,363
Non-current Liabilities:			
Long-term debt (Notes 4 and 7)	1,405	2,498	12,521
Net defined benefit liability (Notes 8)	318	372	2,834
Allowance for directors' and corporate auditors' severance and retirement benefits	10	22	86
Deferred tax liabilities (Note 12)	1,954	1,665	17,416
Other non-current liabilities	21	41	192
Total non-current liabilities	3,708	4,598	33,049
Net Assets			
Owners' Equity			
Common stock:			
Authorized - 54,000,000 shares			
Issued and outstanding - 24,137,213 shares	8,100	8,100	72,201
Capital surplus	7,289	7,289	64,973
Retained earnings	36,783	35,756	327,861
Treasury stock, at cost 2,279,151 shares in 2017 and 2,349,593 shares in 2016	(4,041)	(4,109)	(36,019)
Total owners' equity	52,172	47,036	429,016
Accumulated Other Comprehensive Income:			
Net unrealized holding gains (losses) on investment securities	4,203	3,410	37,466
Deferred gains (losses) on hedging derivatives	(3)	(29)	(23)
Foreign currency translation adjustments	824	832	7,347
Accumulated adjustments for retirement benefit	(407)	(474)	(3,639)
Total accumulated other comprehensive income	4,617	3,739	41,151
Total net assets	56,789	50,775	470,167
Total Liabilities and Net Assets	¥ 82,302	¥ 76,366	$ 697,578

See accompanying notes.

Consolidated Statements of Income

Hakuto Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2017, 2016 and 2015

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2017	2016	2015	2017
Net Sales (Notes 5 and 17)	¥127,599	¥116,296	¥131,073	$1,137,349
Cost of Sales (Note 5)	111,103	99,075	111,591	990,313
Gross Profit	16,496	17,221	19,482	147,036
Selling, General and Administrative Expenses (Notes 9 and 15)	14,427	14,315	15,174	128,590
Operating Income (Note 17)	2,069	2,906	4,308	18,446
Other Income (Expenses):				
Interest and dividend income	230	252	198	2,051
Interest expenses	(42)	(61)	(88)	(378)
Exchange gain (loss), net	(280)	(230)	77	(2,499)
Gains on sale of fixed asset	2	1	218	19
Gains on sale of investment securities	4	281	4	39
Loss on valuation of investment securities	–	(236)	–	–
Loss on valuation of shares of subsidiaries	–	(81)	–	–
Impairment losses (Note 10)	–	–	(50)	–
Gains on sale of shares of subsidiaries	–	–	240	–
Extraordinary dividend income (Note11)	–	–	107	–
Other - net	(6)	4	40	(58)
	(92)	(69)	746	(826)
Income before Income Taxes	1,977	2,837	5,054	17,620
Income Taxes Provision (Note 12):	73	802	1,660	652
Current	349	989	1,364	3,112
Deferred	(276)	(187)	296	(2,461)
Net Income	1,904	2,035	3,394	16,968
Non-controlling interests in net income	–	–	–	–
Net income attributable to owners of parent	¥ 1,904	¥ 2,035	¥ 3,394	$ 16,968

Amounts per Share (Note 2(o)):

	Yen			U.S. Dollars (Note 1)
Net Income	¥ 87.22	¥ 93.02	¥ 155.08	$ 0.78
Cash Dividends Applicable to the Year	40.00	40.00	40.00	0.36

See accompanying notes.

Consolidated Statements of Comprehensive Income

Hakuto Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2017, 2016 and 2015

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2017	2016	2015	2017
Net Income	¥ 1,904	¥ 2,035	¥ 3,394	$ 16,968
Other comprehensive income (losses) (Note 20)				
Net unrealized holding gains (losses) on investment securities	796	206	(75)	7,093
Unrealized gains on hedging derivatives	26	(22)	(71)	234
Foreign currency translation adjustments	(8)	(831)	1,356	(68)
Accumulated adjustments for retirement benefit	67	(239)	71	592
Share of other comprehensive income of associates accounted for using equity method	(3)	(2)	2	(26)
Total other comprehensive income	878	(888)	1,283	7,825
Comprehensive income	2,782	1,147	4,677	24,793
Comprehensive income attributable to				
Comprehensive income attributable to owners of the parent	2,782	1,147	4,677	24,793
Comprehensive income attributable to Non-controlling interests	–	–	–	–

Consolidated Statements of Changes in Net Assets

Hakuto Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2017, 2016 and 2015

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2017	2016	2015	2017
Common stock				
Balance, beginning of year	¥ 8,100	¥ 8,100	¥ 8,100	$ 72,201
Total changes of items during the period	–	–	–	–
Balance, end of year	8,100	8,100	8,100	72,201
Capital surplus				
Balance, beginning of year	7,289	7,289	7,289	64,973
Total changes of items during the period	–	–	–	–
Balance, end of year	7,289	7,289	7,289	64,973
Retained earnings				
Balance, beginning of year	35,756	34,715	31,777	318,710
Cumulative effects of changes in accounting policies	–	–	317	–
Restated balance	35,756	34,715	32,094	318,710
Dividends	(877)	(994)	(773)	(7,817)
Net income attributable to owners of parent	1,904	2,035	3,394	16,968
Total changes of items during the period	1,027	1,041	2,621	9,151
Balance, end of year	36,783	35,756	34,715	327,861
Treasury stock				
Balance, beginning of year	(4,109)	(3,932)	(3,982)	(36,632)
Disposal of treasury stock	68	47	50	616
Purchase of treasury stock	0	(224)	(0)	(2)
Total changes of items during the period	68	(177)	50	614
Balance, end of year	(4,041)	(4,109)	(3,932)	(36,019)
Total owners' equity				
Balance, beginning of year	47,036	46,172	43,184	419,252
Cumulative effects of changes in accounting policies	–	–	317	–
Restated balance	47,036	46,172	43,501	419,252
Dividends	(877)	(994)	(773)	(7,817)
Net income attributable to owners of parent	1,904	2,035	3,394	16,968
Disposal of treasury stock	68	47	50	616
Purchase of treasury stock	0	(224)	(0)	(2)
Total changes of items during the period	1,095	864	2,671	9,765
Balance, end of year	48,130	47,036	46,172	429,016
Net unrealized holding gains (losses) on investment securities				
Balance, beginning of year	3,410	3,207	3,280	30,398
Net changes of items other than owners' equity	793	203	(73)	7,068
Total changes of items during the period	793	203	(73)	7,068
Balance, end of year	4,203	3,410	3,207	37,466
Unrealized gains (losses) on hedging derivatives				
Balance, beginning of year	(29)	(7)	64	(257)
Net changes of items other than owners' equity	26	(22)	(71)	234
Total changes of items during the period	26	(22)	(71)	234
Balance, end of year	(3)	(29)	(7)	(23)
Foreign currency translation adjustment				
Balance, beginning of year	832	1,663	307	7,414
Net changes of items other than owners' equity	(8)	(831)	1,356	(68)
Total changes of items during the period	(8)	(831)	1,356	(68)
Balance, end of year	824	832	1,663	7,347
Accumulated adjustments for retirement benefit				
Balance, beginning of year	(474)	(236)	(307)	(4,231)
Net changes of items other than owners' equity	67	(238)	71	592
Total changes of items during the period	67	(238)	71	592
Balance, end of year	(407)	(474)	(236)	(3,639)
Net assets				
Balance, beginning of year	50,775	50,799	46,528	452,577
Cumulative effects of changes in accounting policies	–	–	317	–
Restated balance	50,775	50,799	46,845	452,577
Dividends	(877)	(994)	(773)	(7,817)
Net income attributable to owners of parent	1,904	2,035	3,394	16,968
Disposal of treasury stock	68	47	50	616
Purchase of treasury stock	0	(224)	(0)	(2)
Net changes of items other than owners' equity	878	(888)	1,283	7,825
Total changes of items during the period	1,973	(24)	3,954	17,590
Balance, end of year	¥ 52,748	¥ 50,775	¥ 50,799	$ 470,167

See accompanying notes.

Consolidated Statements of Cash Flows

Hakuto Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2017, 2016 and 2015

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2017	2016	2015	2017
Cash Flows from Operating Activities:				
Income before income taxes	¥ 1,977	¥ 2,837	¥ 5,054	$ 17,620
Adjustments to reconcile income before income taxes to net cash provided by (used in) operating activities:				
Depreciation and amortization	874	1,053	1,096	7,792
Impairment losses	–	–	50	–
Gains on sale of investment securities, net	(4)	(281)	(4)	(39)
Loss on valuation of investment securities	–	236	–	–
Loss on valuation of shares of subsidiaries	–	81	–	–
Gains on sale of shares of subsidiaries	–	–	(240)	–
Gains on sale and retirement of fixed asset	16	4	(208)	141
Change in receivables	1,092	(1,432)	2,887	9,735
Change in inventories	(1,476)	1,937	(1,522)	(13,159)
Change in payables	1,199	(950)	(1,425)	10,683
Income taxes paid, net	(838)	(1,091)	(1,775)	(7,472)
Other	(267)	(307)	383	(2,379)
Net cash provided by (used in) operating activities	2,572	2,087	4,296	22,922
Cash Flows from Investing Activities:				
Proceeds from sale of property, plant and equipment	5	1	315	43
Payments for purchase of property, plant and equipment	(277)	(201)	(473)	(2,466)
Proceeds from sale of marketable securities and investment securities	21	525	10	184
Payments for purchase of marketable securities and investment securities	(372)	(260)	(9)	(3,314)
Purchase of investments in subsidiaries	(337)	–	–	(3,003)
Payments of acquisition of business	(135)	–	–	(1,203)
Proceeds from sales of shares of subsidiaries with changing of scope of consolidation	–	–	171	–
Other	(115)	(20)	(389)	(1,021)
Net cash provided by (used in) investing activities	(1,210)	45	(375)	(10,780)
Cash Flows from Financing Activities:				
Change in short-term borrowings	151	(2,114)	(703)	1,348
Proceeds from long-term debt	–	–	700	–
Repayments of long-term debt	(1,251)	(2,141)	(2,876)	(11,148)
Net decrease in treasury stock	68	(162)	58	602
Cash dividends paid	(872)	(986)	(765)	(7,775)
Other	(43)	(66)	(73)	(385)
Net cash provided by (used in) financing activities	(1,947)	(5,469)	(3,659)	(17,358)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	40	(424)	731	354
Net Increase (Decrease) in Cash and Cash Equivalents	(545)	(3,761)	993	(4,862)
Cash and Cash Equivalents at Beginning of Year	8,366	12,127	11,134	74,574
Decrease in Cash and Cash Equivalents Resulting from Excluding Consolidation	(73)	–	–	(650)
Cash and Cash Equivalents at End of Year (Note 14)	¥ 7,748	¥ 8,366	¥12,127	$ 69,062

See accompanying notes.

Notes to Consolidated Financial Statements

Hakuto Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2017, 2016 and 2015

1. Basis of presenting consolidated financial statements

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

The 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.

Financial statements are prepared by overseas subsidiaries in accordance with International Financial Reporting Standards.

The translations of the Japanese yen amount into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2017 which was ¥112.19 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 10 (13 in 2016 and 13 in 2015) significant subsidiaries ("the Group"). 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.

Among the consolidated subsidiaries, the account closing dates of Shunde Morning Sky Ltd., Hakuto Enterprise (Shanghai) Ltd., Hakuto Trading (Shenzhen) Ltd., are December 31. Shunde Morning Sky Ltd., Hakuto Enterprise (Shanghai) Ltd., and Hakuto Trading (Shenzhen) Ltd., whose closing dates are December 31, prepared provisional statements of account on March 31 in order to present consolidated financial statements in a fairly manner.

On January 29, 2017, Microtek Ltd., a consolidated subsidiary, was merged into the Company. As the impacts to the total assets, sales, consolidated net profit and retained earnings of Microtek Hongkong Ltd. and Microtek Shanghai Ltd were minimal, these 2 companies were excluded from the scope of consolidation.

(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.

(d) Securities - Securities are classified as (a) securities held for trading purposes ("trading securities"), (b) debt securities intended to be held to maturity ("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 ("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.

(e) Derivative transactions and hedge accounting

Hedge accounting:

1. 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 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, the interest rate swap is not recognized at fair value.

2. Hedging derivative financial instruments used by the Group and hedged items are as follows:
For the years ended March 31, 2017, 2016 and 2015

Hedging instruments	Hedged items
Forward foreign exchange contracts	Future transaction in foreign currency
Interest rate swap contracts	Floating rates on loans payable

3. 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 - At the Company and the domestic subsidiaries, depreciation is calculated using the straight-line method, and useful lives and residual values are based on the basis determined by the Corporation Tax Law. At the foreign subsidiaries, depreciation is calculated primarily using the straight-line method for buildings, and the declining-balance method for other tangible assets. Useful lives are determined by the years estimated individually.

(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.

(h) Impairment losses of fixed assets - A fixed assets (asset group) is 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) the fair value less costs or (ii) the smallest value.
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) Income taxes - The Group recognizes the tax effects of temporary differences between the financial statement basis and the tax basis of assets and liabilities.

(j) Allowance for doubtful accounts - Allowance for doubtful accounts of the Group is computed based on the past bad debt experience ratio for normal receivables, plus the estimated irrecoverable amount of doubtful receivables on an individual account basis.

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

(l) 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.
1. Period allocation methodology for the estimated retirement benefit amount
The retirement benefit obligation is calculated by allocating the estimated retirement benefit amount until the end of the current fiscal year on a straight-line basis.
2. Amortization of actuarial gains/losses
Actuarial gains/losses are amortized pro rata in the years followings the year in which the difference occurs by the straight-line method over the specified number of years (10 years) within the average remaining years of service of the employees.
3. Application of the simplified method for small businesses
For certain consolidated subsidiaries, a simplified method is applied for the calculation of retirement benefit obligations and retirement benefit expenses in which the necessary retirement benefit provisions for voluntary resignations at the end of the consolidated fiscal year are recorded as retirement benefit obligations.

(m) 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.

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

Foreign currency translation adjustments are recorded as a component of net assets.

(o) Amounts per share - The calculation of net income (loss) per share is based on the weighted average number of shares of common stock outstanding during the year. Diluted net income per share is calculated based on the weighted-average number of shares of common stock and contingent issuance of common stock from the bonds with warrants. For the years ended March 31, 2017, 2016 and 2015, diluted net income per share is not disclosed, since there is no residual stock. The Company's shares that remain in the ESOP trust accounts, which were recorded as treasury stock under shareholders' equity, were included in the treasury stock to be excluded from the scope of the average number of shares of common stock when calculating net income per share for the term.

The average number of shares of the excluded treasury stock was 95,903 for the current fiscal year when calculating net income per share for the term.

Cash dividends per share presented in the consolidated income statements 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 not exceeding three months at the time of purchase are cash and cash equivalents.

(q) Changing in accounting policy that is difficult to distinguish from changes in accounting estimate

(Change in depreciation method of property, plant and equipment)

The Company previously mainly used the declining-balance method for depreciation of property, plant and equipment (except for buildings (excluding leasehold improvements) and leased assets). Since the fiscal year ended March 31, 2017, depreciation method has been changed to the straight-line method.

The Company had examined the actual status of use of the property, plant and equipment triggered by a newly settled mid-term business plan and then concluded that the straight line method is more appropriate to present the economic features of those assets since the property, plant and equipment which mainly consist of the asset for solar power farms, are expected to be stably operated and contribute to the Company's profit for a long time.

As a result of this change, Gross Profit for the year increased by ¥104 million ($928 thousand) compared to the amounts based on the previous method, while Operating Income and Income before Income Taxes increased by ¥149 million ($1,328thousand).

(r) Changes in presentation

(Consolidated Balance sheet)

Electronically recorded monetary claims, which had been previously included in "Notes and accounts receivable - trade" under Current Assets, have been separately presented at March 31, 2017 due to the increased balance. In order to reflect such changes in presentation, the consolidated financial statements for the previous fiscal year have been reclassified.

As a result, ¥33,156 million recorded as "Notes and accounts receivable" under Current Assets at March 31, 2016 have been reclassified into ¥30,250 million as "Notes and accounts receivable - trade" and ¥2,906 million as "Electronically recorded monetary claims."

(s) Additional information

(i) Employee stock ownership plan (ESOP)

From the year ended March 31, 2014, the Company has begun the early application of the Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trust (PITF No.30, December 25, 2013).

1. Transaction summary

The Company has established a trust in which certain employee members of Hakuto Employee Shareholding Association ("Our Shareholding Association") who meet certain requirements are its beneficiaries. During a predetermined period for acquisition, said trust, or the ESOP Trust, will acquire the number of the Company's shares that Our Shareholding Association is expected to acquire for the five years. Afterward, the ESOP Trust sells off the Company's shares to Our Shareholding Association on a fixed day each month. The remaining funds will be distributed according to the contribution ratio of the employees as beneficiaries in the case when the ESOP Trust will enable employees to profit from a rise in stock prices. The Company will pay back the loan payable collectively to the bank based on its guarantee clause in the loan agreement with the bank in the case when a liability associated with the trust results from a loss caused by a drop-in stock prices.

2. The Company's own stock in the trust

The Company's own stock in the trust is recorded in treasury stock under net assets based on the book value in the trust (excluding ancillary expenses). The book value and the number of these treasury stock for the fiscal year ended March 31, 2016 and 2016 were ¥62 million ($558 thousand) and 64,100 shares, and ¥132 million and 134,800 shares, respectively.

3. Aggregate book value on loan under gross price method
The value was ¥115 million ($1,025 thousand) as of March 31, 2017.
The value was ¥161 million as of March 31, 2016.

(ii) Application guideline about the collection possibility of deferred tax assets
The company has applied application guideline (corporate accounting standard application guideline 26th March 28, 2016) about the collection possibility of deferred tax assets from our consolidated account year.

The Company and its domestic subsidiaries adopted "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016 (hereinafter, "Guidance No.26")) from the current fiscal year.

3. Securities

(a) Summarized information of acquisition costs, book values and fair values of securities with available fair values as of March 31, 2017 and 2016 was as follows:

2017	Millions of Yen		
	Acquisition cost	Book value	Difference
Available-for-sale securities with book values (fair values) exceeding acquisition costs:			
Equity securities	¥ 1,680	¥ 7,614	¥ 5,934
Subtotal	¥ 1,680	¥ 7,614	¥ 5,934
Available-for-sale securities with book values (fair values) not exceeding acquisition costs:			
Equity securities	¥ 202	¥ 181	¥ (21)
Subtotal	202	181	(21)
Total	¥ 1,882	¥ 7,795	¥ 5,913

2016	Millions of Yen		
	Acquisition cost	Book value	Difference
Available-for-sale securities with book values (fair values) exceeding acquisition costs:			
Equity securities	¥ 1,368	¥ 6,144	¥ 4,776
Subtotal	¥ 1,368	¥ 6,144	¥ 4,776
Available-for-sale securities with book values (fair values) not exceeding acquisition costs:			
Equity securities	¥ 146	¥ 132	¥ (14)
Subtotal	146	132	(14)
Total	¥ 1,514	¥ 6,276	¥ 4,762

2017	Thousands of U.S. Dollars		
	Acquisition cost	Book value	Difference
Available-for-sale securities with book values (fair values) exceeding acquisition costs:			
Equity securities	$ 14,974	$ 67,865	$ 52,891
Subtotal	$ 14,974	$ 67,865	$ 52,891
Available-for-sale securities with book values (fair values) not exceeding acquisition costs:			
Equity securities	$ 1,803	$ 1,616	$ (187)
Subtotal	1,803	1,616	(187)
Total	$ 16,777	$ 69,481	$ 52,704

(b) Total sales of available-for-sale securities sold for the years ended March 31, 2017, 2016 and 2015 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2017	2016	2015	2017
Available-for-sale securities:				
Total sales amount	¥ 16	¥ 525	¥ 10	$ 144
Gains	4	281	4	39
Losses	–	–	–	–

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 the operation department of the Credit Administration Division, according to the Company's rules regarding the administration of credit and account receivables, etc. Investment securities are exposed to equity price risk because of market price fluctuations. The risks are controlled by the Financial and Accounting Department, by checking market prices periodically and reporting 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 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, the Company evaluates there is little risk of default by counterparties.

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 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 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 the consolidated balance sheet as of March 31, 2017 and 2016 were as follows.

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

2017	Millions of Yen		
	Book value	Fair value	Difference
(1) Cash and time deposits	¥ 7,748	¥ 7,748	¥ –
(2) Receivables	28,147	28,147	–
(3) Electronically recorded monetary claims-operating	4,385	4,385	–
(4) Investment securities	7,795	7,795	–
Total assets	48,075	48,075	–
(5) Short-term borrowings	1,150	1,150	–
(6) Long-term borrowings (*1)	2,498	2,519	21
(7) Payables	16,558	16,558	–
Total liabilities	20,206	20,227	21
Derivatives transactions (*2)	124	124	–

2016	Millions of Yen		
	Book value	Fair value	Difference
(1) Cash and time deposits	¥ 8,366	¥ 8,366	¥ –
(2) Receivables	30,644	30,644	–
(3) Electronically recorded monetary claims-operating	2,906	2,906	–
(4) Investment securities	6,276	6,276	–
Total assets	48,192	48,192	–
(5) Short-term borrowings	1,004	1,004	–
(6) Long-term borrowings (*1)	3,795	3,843	48
(7) Payables	15,310	15,310	–
Total liabilities	20,109	20,157	48
Derivatives transactions (*2)	65	65	–

2017	Thousands of U.S. Dollars		
	Book value	Fair value	Difference
(1) Cash and time deposits	$ 69,062	$ 69,062	$ –
(2) Receivables	250,886	250,886	–
(3) Electronically recorded monetary claims-operating	39,090	39,090	–
(4) Investment securities	69,481	69,481	–
Total assets	428,519	428,519	–
(5) Short-term borrowings	10,247	10,247	–
(6) Long-term borrowings (*1)	22,270	22,452	182
(7) Payables	147,590	147,590	–
Total liabilities	180,106	180,289	183
Derivatives transactions (*2)	1,102	1,102	–

(*1) 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, (3) Electronically recorded monetary claims-operating credit

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

(4) Investment securities

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 institutions.

(5) Short-term borrowings, (7) Payables

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

(6) Long-term borrowings

Fair value of long-term borrowings is based on current price calculated by discounting the total amount of principal and interest with an interest rate assumed to be applied for new borrowings of the same type.

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

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Classification	Book Value		Book Value
Shares of subsidiaries,affiliated companies and investments in capital of subsidiaries and affiliates	¥ 1,388	¥ 1,040	$ 12,368
Unlisted shares	2	14	16

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 (3) Investment securities.

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

	Millions of Yen			
2017	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash and time deposits	¥ 7,748	¥ –	¥ –	¥ –
Receivables	28,298	–	–	–
Electronically recorded monetary claims-operating	4,385	–	–	–
Total	¥ 40,431	¥ –	¥ –	¥ –

	Millions of Yen			
2016	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash and time deposits	¥ 8,366	¥ –	¥ –	¥ –
Receivables	30,644	–	–	–
Electronically recorded monetary claims-operating	2,906	–	–	–
Total	¥ 41,916	¥ –	¥ –	¥ –

	Thousands of U.S. Dollars			
2017	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash and time deposits	$ 69,062	$ –	$ –	$ –
Receivables	252,232	–	–	–
Electronically recorded monetary claims-operating	39,090	–	–	–
Total	$ 360,384	$ –	$ –	$ –

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

	Millions of Yen					
2017	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years
Long-term borrowings	¥ 1,094	¥ 789	¥ 476	¥ 140	¥ –	¥ –

	Millions of Yen					
2016	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years
Long-term borrowings	¥ 1,297	¥ 1,093	¥ 789	¥ 476	¥ 140	¥ –

	Thousands of U.S. Dollars					
2017	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years
Long-term borrowings	$ 9,749	$ 7,030	$ 4,244	$ 1,247	$ –	$ –

(e) The impairment losses on equity securities

The impairment losses on equity securities for the fiscal years ended March 31, 2016 were ¥318 million ($2,818 thousand) (equity of Investment securities ¥236 million ($2,099 thousand), Shares of subsidiaries ¥81 million ($720 thousand)).

5. Non-consolidated subsidiaries and affiliated companies

Summarized information on balances with affiliated companies as of the years ended March 31, 2017 and 2016 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Receivables	¥ 140	¥ 394	$ 1,249
Investment securities	1,388	1,039	12,368
Payables and other current liabilities	877	1,747	7,821

Summarized information on transactions with affiliated companies as of the years ended March 31, 2017, 2016 and 2015 was as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2017	2016	2015	2017
Sales to	¥ 607	¥ 1,052	¥ 1,719	$ 5,414
Purchases from	1,894	2,662	2,320	16,880

6. Inventories

Inventories as of March 31, 2017 and 2016 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Merchandise and Finished goods	¥ 17,264	¥ 15,841	$153,880
Raw materials	475	495	4,234
Work in process	63	50	565
Supplies	21	13	184
Total	¥ 17,823	¥ 16,399	$158,863

7. Short-term borrowings and long-term debt

(a) Short-term borrowings consisted principally of loans from banks. The average interest rates on short-term borrowings as of March 31, 2017 was 0.9% and as of March 31, 2016 was 1.2%

(b) Long-term debt as of March 31, 2017 and 2016 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
0.68% to 0.75% loans from Japanese insurance companies, due in 2016 to 2020	¥ 241	¥ 324	$ 2,147
0.43% to 1.15% loans from Japanese banks, due in 2016 to 2020	2,258	3,471	20,122
Total	¥ 2,498	¥ 3,795	$ 22,269
Less amount due within 1 year	1,094	1,297	9,748
Long-term debt	1,405	2,498	12,521

8. Employees' severance and retirement benefits

1. Defined benefit plans for the year ended March 31, 2017 and 2016.

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
(1) Movement in retirement benefit obligations (expect plan applied sinmplified method):			
Balance at the beginning of the year	¥ 3,031	¥ 2,561	$ 27,020
Service cost	228	199	2,036
Interest cost	2	27	19
Actuarial loss (gain)	27	357	244
Benefits paid	(126)	(101)	(1,122)
Other	70	(12)	627
Balance at the end of the year	¥ 3,232	¥ 3,031	$ 28,806

	Millions of Yen 2017	Millions of Yen 2016	Thousands of U.S. Dollars 2017
(2) Movements in plan assets (expect plan applied sinmplified method)			
Balance at the beginning of the year	¥ 2,923	¥ 2,814	$ 26,050
Expected return on plan assets	38	36	338
Actuarial loss (gain)	5	(35)	43
Contributions paid by the employer	216	207	1,928
Benefits paid	(123)	(99)	(1,094)
Other	1	(0)	6
Balance at the end of the year	¥ 3,060	¥ 2,923	$ 27,271

	Millions of Yen 2017	Millions of Yen 2016	Thousands of U.S. Dollars 2017
(3) Movement in liability for retirement benefits on plan applying the simplified method:			
Balance at the beginning of the year	¥ 250	¥ 235	$ 2,230
Service cost	45	46	401
Benefits paid	(43)	(6)	(381)
Contributions paid by the employer	(22)	(23)	(200)
Decrease due to change in the scope of consolidation	(84)	–	(752)
Other	0	(1)	1
Balance at the end of the year	¥ 146	¥ 251	$ 1,299

	Millions of Yen 2017	Millions of Yen 2016	Thousands of U.S. Dollars 2017
(4) Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits			
Funded retirement benefit obligations	¥ 3,232	¥ 3,031	$ 28,806
Plan assets	(3,060)	(2,923)	(27,271)
	172	108	1,535
Unfunded retirement benefit obligations	146	251	1,299
Total Net liability (asset) for retirement benefits	318	359	2,834
Asset for retirement benefits	–	(13)	–
Liability for retirement benefits	318	372	2,834
Total Net liability (asset) for retirement benefits	¥ 318	¥ 359	$ 2,834

	Millions of Yen 2017	Millions of Yen 2016	Thousands of U.S. Dollars 2017
(5) Retirement benefit costs			
Service cost	¥ 228	¥ 200	$ 2,036
Interest cost	2	27	19
Expected return on plan assets	(38)	(36)	(338)
Net actuarial loss amortization	120	56	1,066
Retirement benefit costs based on the simplified method	44	46	392
Other	–	15	–
Total retirement benefit costs	¥ 356	¥ 308	$ 3,175

	Millions of Yen 2017	Millions of Yen 2016	Thousands of U.S. Dollars 2017
(6) Adjustments for retirement benefit			
Actuarial gains and losses	99	(335)	882
Total balance at the end of the year	¥ 99	¥ (335)	$ 882

	Millions of Yen 2017	Millions of Yen 2016	Thousands of U.S. Dollars 2017
(7) Accumulated adjustments for retirement benefit			
Actuarial gains and losses that are yet to be recognized	(579)	(677)	(5,161)
Total balance at the end of the year	¥ (579)	¥ (677)	$ (5,161)

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
(8) Plan assets			
1. Plan assets comprise:			
General account	¥ 2,700	¥ 2,587	$ 24,064
Bonds	273	262	2,433
Equity securities	49	49	441
Other	38	25	334
Total	¥ 3,060	¥ 2,923	$ 27,272

2. Long-term expected rate of return

Current and target asset allocations, historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

(9) Actuarial assumptions

The principal actuarial assumptions were as follows:

	2017	2016
Discount rate	0.0%	0.0%
Long-term expected rate of return	1.3%	1.3%

2. Defined contribution plan

The contribution number of certain subsidiaries for the years ended March 31, 2017 and 2016 were ¥110 million ($979 thousand) and ¥56 million.

3. Certain consolidated subsidiaries have adopted a simplified method for the retirement benefits calculation.

Under this simplified method, liability for retirement benefits is stated at the amount which would be required to be paid if all eligible employees voluntarily terminated their employment at the balance sheet date.

9. 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, 2017, 2016 and 2015 were ¥171 million ($1,525 thousand), ¥152 million and ¥136 million respectively.

10. Impairment losses

The Group recognized impairment losses for groups of assets in the years ended March 31, 2017, 2016 and 2015 as follows:

2017		
Location	Use	Type of assets
–	–	–

2016		
Location	Use	Type of assets
–	–	–

2015		
Location	Use	Type of assets
Shinjuku-ku, Tokyo	Unused assets	Software
Isehara-shi, Kanagawa	Unused assets	equipment

The Group classifies its fixed assets into each business segment and each consolidated subsidiary, and assets unused or to be sold by individual asset. The book values of the unused land whose fair value had declined significantly were reduced to their recoverable amounts. For unused assets such as buildings and structures, production facilities, software, which had not been used for business without a concrete utilization plan, their book value were impaired to recoverable amounts.

The impairment losses for the year ended March 31, 2015amounted to ¥50 million.

In the year ended March 31, 2015, the recoverable amounts of the software and equipment were estimated at zero.

The recoverable amounts of the machinery and equipment of a subsidiary were estimated at zero.

11. Extraordinary dividend income

The receipt of the dividend is from the organizational restructuring of the investment in the year ended March 31, 2015.

12. Income taxes

(a) 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 30.9% for the year ended March 31, 2017, and 33.1% for the year ended March 31, 2016, and 35.6% for the year ended March 31, 2015.

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 years ended March 31, 2017, 2016 and 2015.

	2017	2016	2015
Statutory tax rate:	30.9%	33.1%	35.6%
Valuation allowance	1.6	4.0	(1.7)
Non-deductible expenses	1.2	0.9	0.5
Withholding tax of overseas consolidated subsidiaries dividends	0.2	1.9	0.9
Non-deductable withholding tax of overseas	0.6	0.4	0.2
Per capita inhabitant tax	2.1	1.3	0.7
Lower tax rates of overseas consolidated subsidiaries	(6.5)	(6.0)	(5.9)
Retained earnings of foreign subsidiaries	2.1	(8.8)	2.7
Effect of reduction of income tax rates on deferred tax assets	0.0	1.0	0.9
Special credit of corporation tax	(0.8)	(1.0)	(0.5)
Effect of merger of a consolidated subsidiary	(28.4)	–	–
Others	0.7	1.5	(0.6)
Effective tax rate	3.7%	28.3%	32.8%

(b) Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2017 and 2016 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Deferred tax assets:			
Directors' and corporate auditors' retirement benefits	¥ 3	¥ 7	$ 23
Accrued employees' bonuses	220	258	1,961
Net defined benefit liability	79	89	701
Allowance for doubtful accounts	33	29	291
Devaluation of inventories	239	380	2,126
Devaluation of investment securities	287	294	2,558
Difference between fair value and book value of assets of consolidated subsidiaries at the acquisition date	61	284	543
Impairment loss on property, plant and equipment	419	224	3,737
Net loss carryforwards	334	378	2,980
Others	242	285	2,154
Less-Valuation allowance	(689)	(1,277)	(6,142)
Total deferred tax assets	¥ 1,226	¥ 951	$ 10,932
Deferred tax liabilities:			
Net unrealized holding gains on investment securities	¥(1,708)	¥(1,353)	$ (15,228)
Retained earnings of subsidiaries	(488)	(446)	(4,347)
Net defined benefit asset	0	(4)	0
Others	(34)	(36)	(303)
Total deferred tax liabilities	(2,230)	(1,839)	(19,878)
Net deferred tax assets (liabilities)	¥(1,004)	¥ (888)	$ (8,946)

13. Derivative financial instruments

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

The following tables summarize fair value information as of March 31, 2017 and 2016 of derivative transactions for which hedge accounting has been adopted.

(a) Derivative transactions for which hedge accounting has not been adopted
Currency-related transactions

2017 Classification	Type of transaction	Millions of Yen Contracted amount	Over 1 year	Fair value	Valuation gains and losses
Trading outside marketplace transaction	Future exchange contract				
	Sell				
	U.S. dollars	¥ 8,067	¥ –	¥ 50	¥ 50
	Buy				
	U.S. dollars,	4,173	–	(38)	(38)
	Euro,	357	–	(2)	(2)
	New Taiwan dollars,	825	–	109	109
	Yen	183	–	(1)	(1)
Total		¥ 13,605	¥ –	¥ 119	¥ 119

2016 Classification	Type of transaction	Millions of Yen Contracted amount	Over 1 year	Fair value	Valuation gains and losses
Trading outside marketplace transaction	Future exchange contract				
	Sell				
	U.S. dollars	¥ 6,176	¥ –	¥ 127	¥ 127
	Buy				
	U.S. dollars,	3,277	–	(24)	(24)
	Euro,	307	–	3	3
	New Taiwan dollars,	–	–	–	–
	Yen	180	–	1	1
Total		¥ 9,940	¥ –	¥ 107	¥ 106

2017 Classification	Type of transaction	Thousands of U.S. Dollars Contracted amount	Over 1 year	Fair value	Valuation gains and losses
Trading outside marketplace transaction	Future exchange contract				
	Sell				
	U.S. dollars	$ 71,903	$ –	$ 449	$ 449
	Buy				
	U.S. dollars,	37,199	–	(336)	(336)
	Euro,	3,184	–	(21)	(21)
	New Taiwan dollars,	7,354	–	974	974
	Yen	1,631	–	(9)	(9)
Total		$ 121,271	$ –	$ 1,057	$ 1,057

Interest-related transactions
Not applicable.

(b) Derivative transactions for which hedge accounting has been adopted
Currency-related transactions

2017 Hedge accounting methods	Type of transaction	Main hedged items	Millions of Yen Contracted amount	Over 1 year	Fair value
Basic method	Future exchange contract	Forecasted transaction in foreign currency			
	Sell				
	U.S. dollars,		¥ 1,096	¥ –	¥ 7
	Buy	Forecasted transaction in foreign currency			
	U.S. dollars,		912	–	(8)
	Euro,		134	–	(3)
	Canadian dollars		–	–	–
Total			¥ 2,143	¥ –	¥ (4)

2016 Hedge accounting methods	Type of transaction	Main hedged items	Millions of Yen Contracted amount	Over 1 year	Fair value
Basic method	Future exchange contract	Forecasted transaction in foreign currency			
	Sell				
	U.S. dollars,		¥ 579	¥ 160	¥ 30
	Buy	Forecasted transaction in foreign currency			
	U.S. dollars,		811	92	(37)
	Euro,		231	–	(2)
	Canadian dollars		318	–	(33)
Total			¥ 1,938	¥ 253	¥ (42)

2017			Thousands of U.S. Dollars		
Hedge accounting methods	Type of transaction	Main hedged items	Contracted amount	Over 1 year	Fair value
Basic method	Future exchange contract Sell U.S. dollars,	Forecasted transaction in foreign currency	$ 9,773	$ –	$ 67
	Buy U.S. dollars,	Forecasted transaction in foreign currency	8,129	–	(75)
	Euro,		1,199	–	(25)
	Canadian dollars		–	–	–
	Total		$19,101	$ –	$ (33)

Interest-related transactions

2017			Millions of Yen		
Hedge accounting methods	Type of transaction	Main hedged items	Contracted amount	Over 1 year	Fair value
Special method for interest swap	Interest rate swap Pay fixed Receive floating	Long-term borrowings	¥ 494	¥ 166	¥ –
	Total		¥ 494	¥ 166	¥ –

2016			Millions of Yen		
Hedge accounting methods	Type of transaction	Main hedged items	Contracted amount	Over 1 year	Fair value
Special method for interest swap	Interest rate swap Pay fixed Receive floating	Long-term borrowings	¥ 962	¥ 494	¥ –
	Total		¥ 962	¥ 494	¥ –

2017			Thousands of U.S. Dollars		
Hedge accounting methods	Type of transaction	Main hedged items	Contracted amount	Over 1 year	Fair value
Special method for interest swap	Interest rate swap Pay fixed Receive floating	Long-term borrowings	$ 4,401	$ 1,480	$ –
	Total		$ 4,403	$ 1,480	$ –

14. Cash and cash equivalents

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, 2017, 2016 and 2015 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2017	2016	2015	2017
Cash and time deposits	¥ 7,748	¥ 8,366	¥ 12,438	$ 69,062
Total	7,748	8,366	12,438	69,062
Less:time deposits with maturities exceeding three months	–	–	(311)	–
Cash and cash equivalents	¥ 7,748	¥ 8,366	¥ 12,127	$ 69,062

15. Information for certain lease transactions

Future lease payments under operating leases as of March 31, 2017 and 2016 were ¥517 million ($4,608 thousand) and ¥353 million, including ¥264 million ($2,353 thousand) and ¥219 million due within one year.

16. Subsequent events

On May 15, 2017, the Board of Directors approved payment of year-end cash dividends to the shareholders of record as of March 31, 2017 of ¥20.0 ($0.18) per share or a total of ¥438 million ($3,908 thousand).

On May 15, 2016, the Board of Directors approved payment of year-end cash dividends to the shareholders of record as of March 31, 2016 of ¥20.0 per share or a total of ¥438 million.

17. Segment information

1. General information about reportable segments

The reportable segments of the Group are the components of the Company, for which discrete financial information is available and whose operating results are regularly reviewed by the Company's Board of Directors to make decisions about allocations of management resources.

The Group aligns in-house companies, which were newly organized in fiscal year ended March 31, 2017, and divisions according to its goods and products. Each in-house company and division sets out a business strategy and promotes business globally. The Company consists of the segments related to the Company's goods and products based on the in-house company system and divisions, and since consolidated subsidiaries , also deal with the same goods and products as the Company, the Group sets four reportable segments of the Electronic Components segment, Electronic and Electric Equipment segment, Industrial Chemicals segment and Others, in order to enable the Company's Board of Directors to make decisions about allocations of management resources and evaluate performance.

Main products and services belonging to each segment

Segment	Main products and services
Electronic Components	Semiconductor devices, connectors, optical components
Electronic and Electric Equipment	Devices and equipment used in the manufacturing of semiconductors, equipment for PCBs, turbo-molecular pumps, refrigerator units for vacuum production equipment, electrostatic accelerators
Industrial Chemicals	Industrial chemicals used in the oil refining and petrochemical industries, chemicals for water treatment, chemicals for the paper & pulp industry, paint-resistant chemicals, base materials for cosmetics
Others	Consignment of the Company's overall operation and logistics management, insurance agency businesses

2. Basis of measurement about reported segment profit or loss, segment assets, segment liabilities and other material items

The basis of measurement about reported segment profit or loss, segment assets, segment liabilities and other material items is generally the same as described in "Note 2 Summary of significant accounting policies."

Each segment income is the amount based on operating income.

3. Information about reported segment sales and profit or loss

2017	Millions of Yen				
	Electronics Components	Electronic and Electric Equipment	Industrial Chemicals	Others	Total
Net sales					
To external customers	¥ 98,554	¥ 19,191	¥ 9,829	¥ 658	¥ 128,232
To other segments	–	–	–	19	19
Total	¥ 98,554	¥ 19,191	¥ 9,829	¥ 677	¥ 128,251
Segment income	447	805	867	19	2,138
Other					
Depreciation and amortization	757	88	30	–	874

2016	Millions of Yen				
	Electronics Components	Electronic and Electric Equipment	Industrial Chemicals	Others	Total
Net sales					
To external customers	¥ 88,099	¥ 18,478	¥ 9,694	¥ 25	¥ 116,296
To other segments	–	–	–	682	682
Total	¥ 88,099	¥ 18,478	¥ 9,694	¥ 707	¥ 116,978
Segment income	1,152	1,018	588	25	2,785
Other					
Depreciation and amortization	900	107	46	–	1,053

2015	Millions of Yen				
	Electronics Components	Electronic and Electric Equipment	Industrial Chemicals	Others	Total
Net sales					
To external customers	¥ 99,302	¥ 22,343	¥ 9,400	¥ 28	¥ 131,073
To other segments	–	–	–	682	682
Total	¥ 99,302	¥ 22,343	¥ 9,400	¥ 710	¥ 131,755
Segment income	2,940	889	443	21	4,294
Other					
Depreciation and amortization	926	118	52	–	1,096

2017	Thousands of U.S. Dollars				
	Electronics Components	Electronic and Electric Equipment	Industrial Chemicals	Others	Total
Net sales					
To external customers	$ 878,457	$ 171,062	$ 87,610	$ 5,864	$ 1,142,993
To other segments	–	–	–	170	170
Total	$ 878,457	$ 171,062	$ 87,610	$ 6,034	$ 1,143,163
Segment income	3,988	7,173	7,732	170	19,063
Other					
Depreciation and amortization	6,746	781	268	–	7,796

Reportable segment assets and liabilities have not been shown, as they are not used as the basis for deciding the allocation of management resource or evaluating operating performance.

Segment income is adjusted to reflect operating income as reported in the consolidated statement of income.

4. Difference between the total of segments and consolidated statements of income.

(a) Net sales

	Millions of Yen			Thousands of U.S. Dollars
	2017	2016	2015	2017
Segment total	¥ 128,251	¥ 116,978	¥ 131,755	$ 1,143,163
Eliminations	(652)	(682)	(682)	(5,814)
Net sales shown in the consolidated statements of income	¥ 127,599	¥ 116,296	¥ 131,073	$ 1,137,349

(b) Income

	Millions of Yen			Thousands of U.S. Dollars
	2017	2016	2015	2017
Segment total	¥ 2,138	¥ 2,785	¥ 4,294	$ 19,063
Amortization of goodwill	(15)	(5)	(5)	(134)
Other adjustment	(54)	126	19	(479)
Operating income shown in the consolidated statements of income	¥ 2,069	¥ 2,906	¥ 4,308	$ 18,450

5. Changes of the reporting segment

Regarding to the Change in depreciation method of property, plant and equipment, the Company previously adopted declining-balance method for depreciation of property, plant and equipment (except for buildings (excluding additional facilities) and leased assets). Effective from this consolidated fiscal year ended March 31, 2017, the straight-line method is applied for depreciation.

The Company reviewed the use of the property, plant and equipment during new mid-term management plan. As the contribution by the main asset - solar power farm is expected to be stable and operates in long term, therefore the Company believes straight line method is more appropriate to reflect the economic features of the assets.

As a result of this change, in comparison with the former method, segment income for the consolidated fiscal year ended March 31, 2017 increased by ¥104 million (Electric Components), ¥14 million (Electronic and Electric Equipment) and ¥31 million (Industrial Chemicals) respectively.

(Related information)

For the years ended March 31, 2017, 2016 and 2015

1. Information about products and services

Information about products and services is omitted, since similar information is disclosed in segment information.

2. Information about geographic areas

(a) Sales

Millions of Yen 2017			
Japan	Asia	Others	Total
¥ 71,427	¥ 54,396	¥ 1,776	¥ 127,599

Millions of Yen 2016			
Japan	Asia	Others	Total
¥ 68,624	¥ 45,676	¥ 1,996	¥ 116,296

Millions of Yen 2015			
Japan	Asia	Others	Total
¥ 75,287	¥ 54,817	¥ 969	¥ 131,073

Thousands of U.S. Dollars 2017			
Japan	Asia	Others	Total
$ 636,660	$ 484,860	$ 15,829	$1,137,349

Net sales are classified into country or region, based on customers' location.

Breakdown of regions belong to each section is as follows:

Asia: China, Taiwan, Singapore, Thailand, etc.

Others: United States, Europe, etc.

(b) Tangible fixed assets

Information about tangible fixed assets is omitted, since the amount of tangible fixed assets located in Japan exceeds 90% of that of tangible fixed assets in the consolidated balance sheets.

3. Information about major customers

Information about major customers is omitted, since there is no major customer that makes up more than 10% of consolidated net sales.

(Information about impairment losses fixed assets by reportable segments)
For the years ended March 31, 2017, 2016 and 2015

	Millions of Yen 2017				
	Electronic Components	Electronic and Electric Equipment	Industrial Chemicals	Others	Total
Impairment loss	¥ –	¥ –	¥ –	¥ –	¥ –

	Millions of Yen 2016				
	Electronic Components	Electronic and Electric Equipment	Industrial Chemicals	Others	Total
Impairment loss	¥ –	¥ –	¥ –	¥ –	¥ –

	Millions of Yen 2015				
	Electronic Components	Electronic and Electric Equipment	Industrial Chemicals	Others	Total
Impairment loss	¥ –	¥ 23	¥ 27	¥ –	¥ 50

	Thousands of U.S. Dollars 2017				
	Electronic Components	Electronic and Electric Equipment	Industrial Chemicals	Others	Total
Impairment loss	$ –	$ –	$ –	$ –	$ –

(Information about goodwill in reportable segments)
For the years ended March 31, 2017, 2016 and 2015

	Millions of Yen 2017				
	Electronic Components	Electronic and Electric Equipment	Industrial Chemicals	Others	Total
Amortized amount	¥ 0	¥ 15	¥ –	¥ –	¥ 15
Unamortized balance	¥ 0	¥ 44	¥ –	¥ –	¥ 44

	Millions of Yen 2016				
	Electronic Components	Electronic and Electric Equipment	Industrial Chemicals	Others	Total
Amortized amount	¥ 0	¥ 5	¥ –	¥ –	¥ 5
Unamortized balance	¥ 0	¥ 4	¥ –	¥ –	¥ 4

	Millions of Yen 2015				
	Electronic Components	Electronic and Electric Equipment	Industrial Chemicals	Others	Total
Amortized amount	¥ 0	¥ 5	¥ –	¥ –	¥ 5
Unamortized balance	¥ 1	¥ 9	¥ –	¥ –	¥ 10

	Thousands of U.S. Dollars 2017				
	Electronic Components	Electronic and Electric Equipment	Industrial Chemicals	Others	Total
Amortized amount	$ 4	$ 134	$ –	$ –	$ 138
Unamortized balance	$ –	$ 397	$ –	$ –	$ 397

(Information about negative goodwill)
For the years ended March 31, 2017, 2016 and 2015
Not applicable.

18. Business Combinations and Other Matters

Transactions under Common Control
A consolidated subsidiary, Microtek co., Ltd. was merged into the Company on January 1, 2017 pursuant to a merger agreement concluded on September 30, 2016.
1. Outline of the business combinations
(1) Company name and business
a. Merging company
Name: Hakuto co., Ltd
Business: Electronic Components, Electronic and Electric Equipment and Industrial Chemicals
b. Extinct company
Name: Microtek co., Ltd.
Business: Electronic Components
(2) Date of the business combination
January 1, 2017

(3) Form of the business combination
Absorption merger with Hakuto co., Ltd. as the merging company
(4) The purpose of Business Combinations
For the purpose of efficiency and reinforcement of the Company's electronic device business.

2. Accounting treatment
The Company is accounting for the business combination as a transaction under common control in accordance with "Accounting Standard for Business Combinations and Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures.

19. Net assets

Net assets comprise four subsections, which are owners' equity, accumulated other comprehensive income (losses) from valuation and translation adjustments, share subscription rights and non-controlling interests.

Under Japanese corporate law ("the Law") 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 Law, both elimination and capitalization related to legal earnings reserve and additional paid-in capital generally require a resolution of the shareholders' meeting. Additional paid-in capital and legal earnings reserve may not be distributed as dividends. 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.

20. Comprehensive income

Amounts reclassified to net income (loss) in the current period that were recognized in other comprehensive income in the current or previous periods and tax effects for each component of other comprehensive income are as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2017	2016	2015	2017
Net unrealized holding gains (losses) on investment securities				
Increase(decrease) during the year	¥ 1,153	¥ 259	¥ (323)	$ 10,279
Reclassification adjustments	(2)	(50)	(5)	(22)
Sub-total, before tax	1,151	209	(328)	10,257
Tax (expense) or benefit	(355)	(3)	253	(3,164)
Sub-total, net of tax	¥ 796	¥ 206	¥ (75)	$ 7,093
Unrealized gains (losses) on hedging derivatives				
Increase(decrease) during the year	¥ (4)	¥ (42)	¥ (10)	$ (33)
Reclassification adjustments	42	11	(99)	372
Sub-total, before tax	38	(31)	(109)	339
Tax (expense) or benefit	(12)	9	38	(105)
Sub-total, net of tax	¥ 26	¥ (22)	¥ (71)	$ 234
Foreign currency translation adjustments				
Increase(decrease) during the year	¥ (8)	¥ (831)	¥ 1,356	$ (68)
Reclassification adjustments	–	–	–	–
Sub-total, before tax	(8)	(831)	1,356	(68)
Tax (expense) or benefit	–	–	–	–
Sub-total, net of tax	¥ (8)	¥ (831)	¥ 1,356	$ (68)
Accumulated adjustments for retirement benefit				
Increase(decrease) during the year	¥ (20)	¥ (392)	¥ 75	$ (181)
Reclassification adjustments	120	56	55	1,066
Sub-total, before tax	99	(335)	130	885
Tax (expense) or benefit	(33)	95	(59)	(293)
Sub-total, net of tax	¥ 66	¥ (239)	¥ 71	$ 591
Share of other comprehensive income of associates accounted for using equity method				
Increase (decrease) during the year	¥ 0	¥ (2)	¥ 3	$ (1)
Reclassification adjustments	(3)	0	(1)	(24)
Sub-total	¥ (3)	¥ (2)	¥ 2	$ (26)
Total other comprehensive income	¥ 878	¥ (888)	¥ 1,283	$ 7,825

Report of Independent Certified Public Accountants

On the Consolidated Financial Statements

Independent Auditor's Report

To the Board of Directors of
Hakuto Co., Ltd.:

To the Board of Directors of Hakuto Co., Ltd.:

We have audited the accompanying consolidated financial statements of Hakuto Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2017 and 2016, and the consolidated statesments of income, the consolidated statements of comprehensive income, the consolidated statements of changes in net assets and the consolidated statements of cash flows for the three years in the period ended March 31, 2017, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to 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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Hakuto Co., Ltd. and its consolidated subsidiaries as at March 31, 2017 and 2016, and their financial performance and cash flows for the three years in the period ended March 31, 2017 in accordance with accounting principles generally accepted in Japan.

Convenience Translation
The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2017 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 LLC

June 28, 2017
Tokyo, Japan

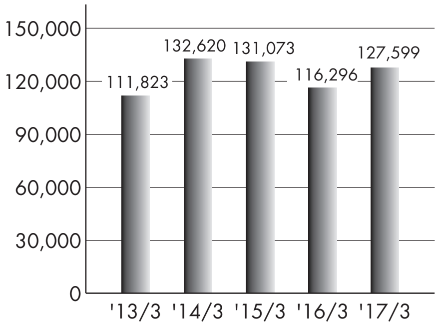
Consolidated Financial Highlights

Hakuto Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2017, 2016 and 2015

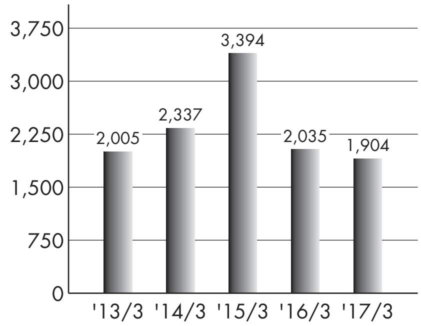
OPERATING DATA	Millions of Yen			Thousands of U.S. Dollars	Percent Change between
	2017	2016	2015	2017	2017 and 2016
NET SALES	¥127,599	¥116,296	¥131,073	$1,137,349	9.7%
INCOME BEFORE INCOME TAXES	1,977	2,837	5,054	17,620	(30.3%)
NET INCOME	1,904	2,035	3,394	16,968	(6.4%)
FINANCIAL DATA					
TOTAL ASSETS	¥ 78,261	¥ 76,366	¥ 82,786	$ 697,579	2.5%
NET ASSETS	52,748	50,775	50,799	470,167	3.9%
PER SHARE DATA	Yen			U.S. Dollars	
NET INCOME PER SHARE	¥ 87.22	¥ 93.02	¥ 155.08	$ 0.78	(6.2%)
CASH DIVIDENDS PER SHARE	40.00	40.00	40.00	0.36	0.0%

The U.S. dollar amounts represent translations of Japanese yen amounts at the rate of ¥112.19 to U.S. $1.
See Note 1 to the consolidated financial statements.

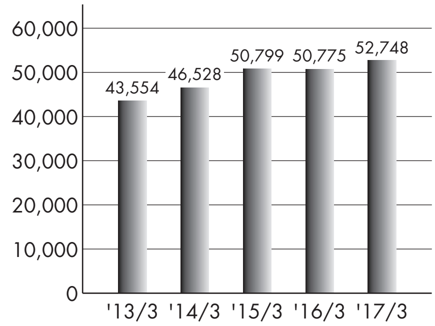
Net Sales
(millions of yen)



Net Income
(millions of yen)



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



Hakuto

1-13, Shinjuku 1-chome, Shinjuku-ku,
Tokyo 160-8910, Japan
Telephone: +81-3-3225-8910
Facsimile: +81-3-3225-9001
Internet: http://www.hakuto.co.jp