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2007 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 55^{th} term, which began April 1, 2006 and ended March 31, 2007.

The Hakuto Group posted consolidated net sales of ¥123,442 million, which was almost in line with our projection, while ordinary income exceeded our projection with ¥5,333 million.

One of the features of operating results for the term was that businesses in our overseas subsidiaries were strong. They especially contributed significantly on the profit front and helped raise the overall profit in the Group. There was a case in which a customer shifted to production overseas and we dealt with the transferred business through our overseas office. Sales from such business were posted to respective overseas subsidiaries, but it was a great accomplishment that we as the Hakuto Group won the transferred business.

In addition, lines of business of some business segments have changed drastically and sales of high value-added products were boosted, leading to improved profitability. This was one of the factors behind the profit upturn.

As a result, the Group posted ¥5,333 million in ordinary income (up 19.9% year-on-year) and ¥3,054 million in current-term net income (up 17.4% year-on-year).

The Company has decided to pay its shareholders a term-end dividend of ¥17.50 per share (¥15 per share in the previous term-end). This, together with the interim dividend of ¥17.50 per share, will make an annual per-share dividend of ¥35 for the term (¥30 for the previous term).

In the years ahead, the Hakuto Group is committed to continue reforms to meet the expectations of our Shareholders, and we sincerely hope that all of you, our Shareholders, Employees and Friends, will continue to favor us with your understanding, support and encouragement.

Shigeo Takayama,
Director & Honorary Chairman

Hiroshi Asai,
President

The Year in Review

Electronics

· Electronic Equipment First Division

Results for the term underachieved the initial plan. This was mainly due to factors such as a delay in the delivery of large equipment for flat panel display (FPD) which had been scheduled for delivery by the end of the term, thereby causing a delay in recognition of sales. Also, in the semiconductor equipment field, sales of inspection systems were strong but we needed much more time than expected to launch the processing system and were therefore unable to fully enter the expected market. For the 56th term, we continue to expect large-scale orders for FPD equipment. In addition, we will strive to enhance sales of main items further in the semiconductor, nanotechnology and vacuum fields, and based on such facts as signs of recovery showed by the compound semiconductor equipment market, we will therefore aim to achieve net sales for the 56th term that exceed the results of the term under review.

· Electronic Equipment Second Division

This Division performs business activities with printed circuit board manufacturing equipment (of our own brand), that is its mainstay product. In the year under review, we were able to achieve increases both in sales and profits as we did in the preceding year, supported by a backlog of brisk orders from the previous term. The Division will be in a temporary lull in the 56th term due partly to excess capital expenditure. However, the Division plans to launch a newly developed product in the market and will strive to boost earnings mainly through package circuit boards, flexible circuit boards and circuit boards for cellular phones, etc., which are growing continuously.

· Electronic Device Division

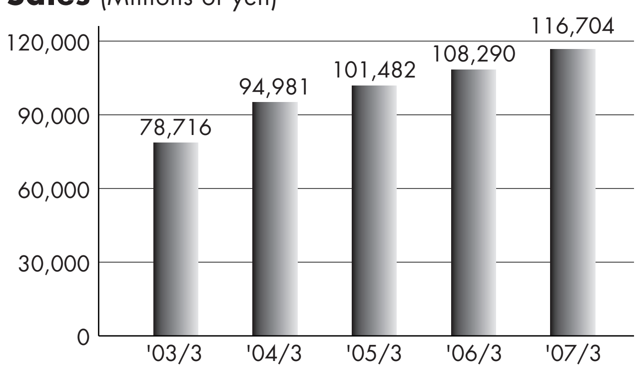
Consolidated results of this Division increased 7% year-on-year. In the first half of the year under review, sales of communications infrastructure related products, consumer products including digital consumer products, and products related to cellular phones were strong. In the second half, the Division faced an uphill battle because of a fall in product prices but was able to almost achieve the plan thanks to an increase in sales of in-vehicle products and expansion of personal computer peripherals. Non-consolidated sales increased 7.5% year-on-year and gross profit was boosted by 6% year-on-year. The Division will continue to develop products that conform to each market where it operates, and enhance relationships with customers, as well as provide support to overseas plants in collaboration with subsidiaries, in order to improve customer satisfaction.

· Electronic Components Division

Sales of connectors, heat sinks, etc. for PCs from Foxconn Technology Co., Ltd., which are the Division's mainstay products, to major PC makers remained strong as they did in the preceding term, increasing nearly 150% year-on-year. Electromagnetic interference shielding materials from Laird Technologies, Inc., which the Division newly started to deal in, were adopted in flat-screen televisions of leading electronic manufacturers and achieved sales of nearly ¥1,200 million. In addition, sales of existing products were favorable; in particular, optical components from Panasonic Electronic Devices Co., Ltd. were adopted to bullet trains, etc., and the Division maintained steady performance overall. In the 56th term, the Division will strive to stimulate needs for existing products further. At the same time, as brisk businesses are expected overseas, a consolidated strategy will be adopted in Japan and abroad to further enhance services for customers.

The above-described activities of the Electronics sector in the term under review resulted in ¥116,704 million in sales (an increase of 7.8% year-on-year) and ¥7,124 million in operating income (an increase of 20.5% year-on-year).

Sales (Millions of yen)

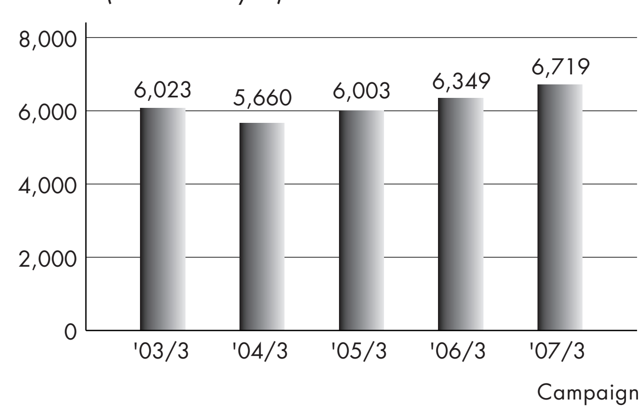


Chemicals

Oil prices remain as high as in the first half of the term under review and the market for paper industry faced severe conditions. In the meantime, petrochemical customers fared well due to a brisk demand in the market. Given such circumstances, the Division expanded sales of new products to petrochemical customers, expanded cosmetics business and cultivated new needs for paper-related products. As a result, sales for the term were in line with the initial plan, but profits fell below the plan due to an increase in materials prices. In the 56th term, the Division will develop business following a theme similar to that of the year under review, with plans to focus efforts on selling our own products to improve profitability. In the meantime, as overseas businesses of customers are becoming increasingly active, we are exploring the possibilities of business expansion mainly in China now and considering development of new markets.

The above activities of this business segment in the year under review resulted in ¥6,719 million in sales (an increase of 5.8% year-on-year) and ¥599 million in operating income (a decrease of 13.0% year-on-year).

Sales (Millions of yen)



Others

The Group sold all of its shares of Human Resources International Co., Ltd., which was mainly engaged in temporary staff dispatch service business, during the term under review.

As a result, this segment posted ¥19 million in sales and ¥25 million in operating income.

Financial Review

Income Statement Items

In the year under review, consolidated net sales increased by ¥7,939 million (up 6.9% year-on-year) from the preceding term to ¥123,442 million. This increase was mainly attributable to factors such as strong sales of printed circuit board manufacturing equipment in the Electronics and Electronic Equipment Divisions and steady sales of graphic ICs for digital televisions, PLD (Programmable Logic Device) for cellular phone base stations, optical transmission components for metro networks, etc. in the Electronic Device Division. As a result, operating income increased 24.3% year-on-year to ¥5,193 million and ordinary income rose 19.9% year-on-year to ¥5,333 million.

For the year under review, while the Group recorded extraordinary losses including an additional ¥122 million allowance reserved against the loss on investment securities, income before income taxes increased 19.1% to ¥5,654 million and net income rose 17.4% year-on-year to ¥3,054 million as a result of recording gains on reversal of allowance for doubtful accounts of ¥440 million, etc.

Balance Sheet Items

Current assets at the end of the year under review increased by ¥8,724 million, up 16.2% from the previous year-end. This was mainly due to an increase of ¥7,221 million in accounts receivable-trade accompanying an increase in sales.

Fixed assets increased by ¥3,289 million, up 20.0% from the previous year-end mainly due to an increase of ¥2,487 million in investment securities.

As a result, total assets at the end of the year under review increased by ¥12,013 million (an increase of 17.1%) from the end of the previous year to ¥82,175 million.

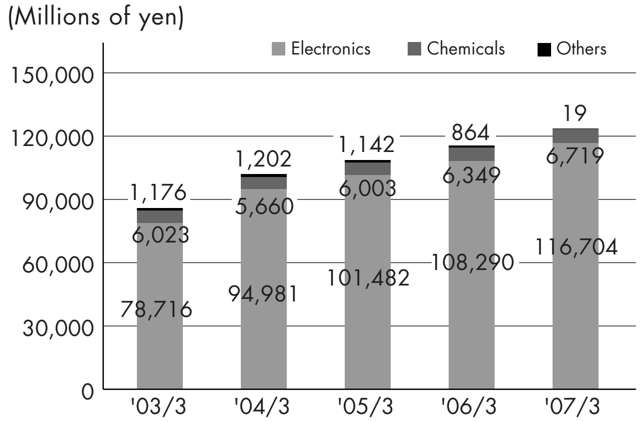
As for liabilities, current liabilities increased by ¥6,211 million (an increase of 22.5%) from the end of the previous year. This was primarily because short-term borrowing increased by ¥5,206 million backed by a rise in demand for working capital accompanying increased sales.

Non-current liabilities increased by ¥3,259 million (an increase of 102.4%) from the previous year-end mainly due to an increase of ¥1,948 million in long-term debt.

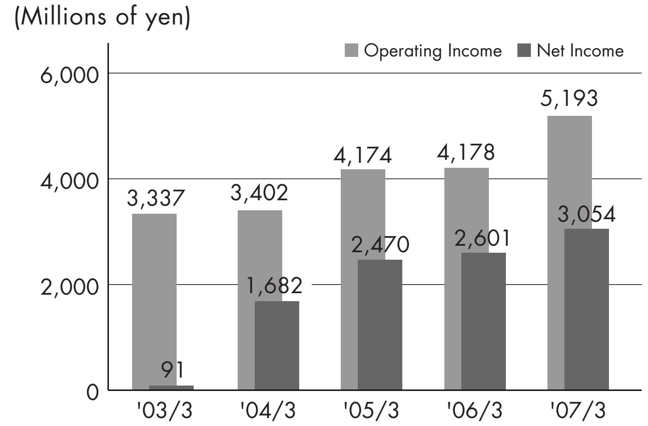
As a result, total liabilities at the end of the year under review increased by ¥9,471 million (an increase of 30.8%) from the end of the previous year to ¥40,270 million.

Net assets increased by ¥2,543 million (up 6.5%) in comparison with the previous year-end to ¥41,906 million. This increase was largely attributable to net income of ¥3,054 million and dividend payments of ¥715 million.

Sales by Product Category
(Millions of yen)



Operating Income and Net Income
(Millions of yen)



Cash Flows

Cash flow from operating activities:

While the Group recorded ¥5,654 million income before income taxes in the year under review, accounts receivable-trade increased by ¥6,626 million, inventories increased by ¥2,347 million and income taxes paid amounted to ¥1,913 million and other cash inflows and outflows arose from operating activities during the term. Overall, they amounted to a net cash outflow from operating activities of ¥4,405 million for the term. Incidentally, in the preceding term, cash flows from operating activities resulted in a net inflow of ¥1,516 million due to factors such as an increase in accounts receivable-trade and a decrease in inventories.

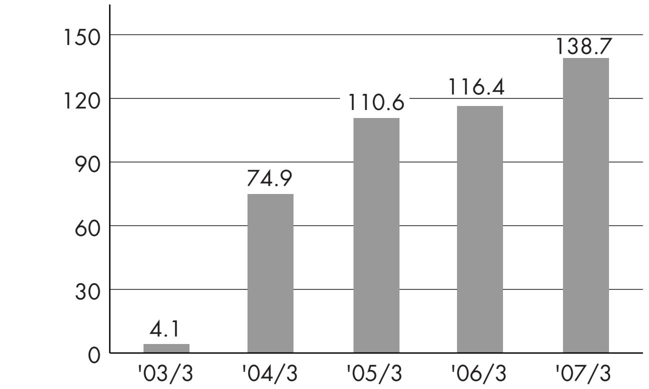
Cash flow from investing activities:

While the Group recorded cash inflow from investing activities including ¥300 million from collection of long-term loans receivable, cash outflows from investing activities in the year under review included ¥2,399 million paid to acquire investment securities, ¥462 million paid to acquire tangible fixed assets and ¥39 million paid to acquire intangible fixed assets. Overall, these cash flows from investing activities amounted to a cash outflow of ¥2,659 million. In the meantime, in the preceding term, cash flows from investing activities resulted in a net inflow of ¥31 million due to factors including an inflow of ¥732 million from sale of investment securities.

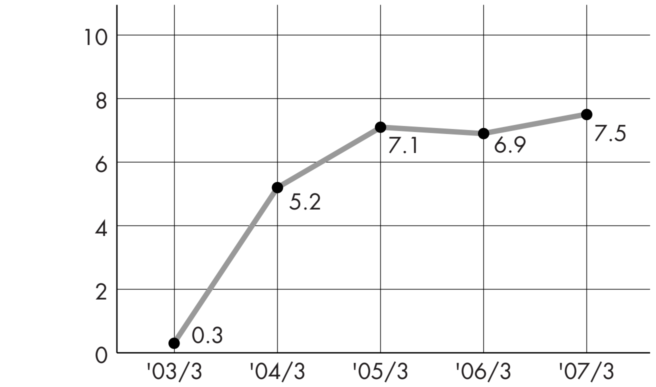
Cash flow from financing activities:

While there were cash outflows from financing activities including ¥32,609 million from repayment of short-term borrowings, ¥1,198 million from repayment of long-term debt and ¥715 million paid in dividends in the year under review, inflows from these financing activities included ¥37,894 million in short-term borrowing and ¥1,200 million in long-term debt. Overall, these cash flows from financing activities resulted in a net inflow of ¥4,529 million. Incidentally, in the preceding term, cash flows from financing activities resulted in an outflow of ¥1,550 million mainly due to ¥769 million paid in dividends, etc.

Net Income per Share
(yen)



Return on Equity
(%)



Consolidated Balance Sheets

Hakuto Co., Ltd.
As of March 31, 2007 and 2006

Assets

Current Assets:	Millions of Yen 2007	Millions of Yen 2006	Thousands of U.S. Dollars (Note 1) 2007
Cash and time deposits (Notes 7 (c) and 14 (a))	¥ 5,369	¥ 7,487	$ 45,481
Short-term investments (Notes 3 and 14 (a))	1	1	8
Receivables: (Note 4)			
Notes and accounts receivable - trade	40,960	33,739	346,972
Due from unconsolidated subsidiaries and affiliated companies	0	0	0
Allowance for doubtful accounts	(95)	(80)	(805)
Inventories (Note 6)	12,412	9,828	105,142
Deferred tax assets (Note 12)	993	784	8,412
Prepaid expenses and other current assets	2,811	1,968	23,812
Total current assets	62,451	53,727	529,022
Property, Plant and Equipment:			
Land and land improvements (Note 7 (c))	4,024	3,761	34,087
Buildings and structures (Note 7 (c))	5,407	4,921	45,803
Construction in progress	–	48	–
Other assets	6,850	4,742	58,026
	16,281	13,472	137,916
Accumulated depreciation	(8,899)	(6,779)	(75,383)
Total property, plant and equipment	7,382	6,693	62,533
Investments and Other Non-current Assets:			
Investment securities (Notes 3 and 4)	11,408	8,921	96,637
Allowance for loss on investment securities	(229)	(107)	(1,940)
Deferred tax assets (Note 12)	41	48	347
Other non-current assets	1,122	880	9,504
Total investments and other non-current assets	12,342	9,742	104,548
Total Assets	¥ 82,175	¥ 70,162	$ 696,103

See accompanying notes.

Liabilities and Net Assets

Current Liabilities:	Millions of Yen 2007	Millions of Yen 2006	Thousands of U.S. Dollars (Note 1) 2007
Short-term borrowings (Note 7 (a))	¥ 10,439	¥ 4,917	$ 88,429
Long-term debt due within one year (Note 7 (b))	564	1,480	4,778
Payables: (Note 4)			
Notes and accounts payable - trade	16,725	15,679	141,677
Due to unconsolidated subsidiaries and affiliated companies	1,270	1,731	10,758
Income taxes payable (Note 12)	1,149	1,002	9,733
Deferred tax liabilities (Note 12)	1	1	8
Allowance for employees' bonuses	1,037	958	8,785
Allowance for bonuses for directors and corporate auditors	51	–	432
Accrued expenses and other current liabilities	2,590	1,847	21,940
Total current liabilities	33,826	27,615	286,540
Long-term debt (Note 7 (b))	2,448	–	20,737
Allowance for employees' severance and retirement benefits (Note 8)	217	81	1,838
Allowance for directors' and corporate auditors' severance and retirement benefits	969	969	8,208
Deferred tax liabilities (Note 12)	2,565	2,057	21,728
Other non-current liabilities	244	77	2,067
Contingent liabilities (Note 10)			
Net assets (Note 9) **Owners' Equity**			
Common stock:			
Authorized - 54,000,000 shares			
Issued and outstanding - 24,137,213 shares	8,100	8,100	68,615
Capital surplus	7,514	7,524	63,651
Retained earnings	26,596	24,301	225,294
Treasury stock, at cost - 2,092,809 shares	(4,105)	(4,175)	(34,773)
Total owners' equity	38,105	35,750	322,787
Accumulated gains (losses) from valuation and translation adjustments			
Net unrealized holding gains on investment securities	3,402	3,408	28,818
Unrealized gains (losses) on hedging derivatives, net of taxes	84	–	712
Foreign currency translation adjustments	315	205	2,668
Total accumulated gains (losses) from valuation and translation adjustments	3,801	3,613	32,198
Total net assets	41,906	39,363	354,985
Total Liabilities and Net assets	¥ 82,175	¥ 70,162	$ 696,103

Consolidated Statements of Income

Hakuto Co., Ltd.
Years ended March 31, 2007, 2006 and 2005

	Millions of Yen 2007	Millions of Yen 2006	Millions of Yen 2005	Thousands of U.S. Dollars (Note 1) 2007
Net Sales (Notes 4 and 19)	¥123,442	¥115,503	¥108,627	$ 1,045,676
Cost of Sales (Notes 4 and 19)	103,274	97,265	91,120	874,833
Gross Profit	20,168	18,238	17,507	170,843
Selling, General and Administrative Expenses (Notes 11 and 19)	14,975	14,060	13,333	126,853
Operating Income	5,193	4,178	4,174	43,990
Other Income (Expenses):				
Interest and dividend income	138	98	63	1,169
Interest expenses	(150)	(91)	(70)	(1,271)
Equity in income of affiliated companies	85	102	66	720
Exchange gain (loss), net	(2)	117	(100)	(17)
Compensation for claims	(45)	(12)	–	(381)
Gains on sale of property, plant and equipment	1	20	16	8
Losses on sale of property, plant and equipment	(32)	(13)	(37)	(271)
Impairment losses on property, plant and equipment (Note 2 (g))	–	(28)	–	–
Gains on sale of investment securities (Note 3 (d))	2	515	813	17
Gain on sale of shares of subsidiaries	56	5	–	474
Impairment losses on investment securities	(1)	(33)	(352)	(8)
Allowance for loss on investment securities	(122)	(107)	(10)	(1,033)
Gains on termination of distributorship agreement	–	–	30	–
Foreign currency translation adjustments recognized as a gain (loss) due to liquidation of an overseas subsidiary	–	–	43	–
Allowance for doubtful accounts	440	–	(331)	3,727
Allowance for director's severance and retirement benefits	–	–	(123)	–
Impairment losses on inventories	–	(30)	–	–
Other - net	91	27	(2)	771
	461	570	6	3,905
Income before Income Taxes	5,654	4,748	4,180	47,895
Income Taxes Provision (Note 12)				
Current	2,063	1,880	1,800	17,476
Deferred	537	267	(90)	4,549
	2,600	2,147	1,710	22,025
Net Income	¥ 3,054	¥ 2,601	¥ 2,470	$ 25,870

Amounts per share (Note 2 (o)):	Yen 2007	Yen 2006	Yen 2005	U.S. Dollars (Note 1)
Net income	¥ 138.74	¥ 116.37	¥ 110.62	$ 1.18
Diluted net income	138.58	116.07	–	1.17
Cash dividends applicable to the year	35.00	30.00	30.00	0.30

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Hakuto Co., Ltd.
Years ended March 31, 2007, 2006 and 2005

	Number of shares of common stock (thousands)	Millions of Yen: Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains on securities	Unrealized gains (losses) on hedging derivatives, net of taxes	Foreign currency translation adjustments
Balance at March 31, 2004	24,137	¥ 8,100	¥ 7,532	¥ 20,730	¥ (4,259)	¥ 1,970	¥ –	¥ (168)
Net income	–	–	–	2,470	–	–	–	–
Cash dividends paid (¥30.00 per share)	–	–	–	(659)	–	–	–	–
Bonuses to directors and corporate auditors	–	–	–	(32)	–	–	–	–
Bonuses to employees	–	–	–	(0)	–	–	–	–
Treasury stock	–	–	0	–	(1)	–	–	–
Net unrealized holding gains on securities	–	–	–	–	–	149	–	–
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	–	(65)
Balance at March 31, 2005	24,137	¥ 8,100	¥ 7,532	¥ 22,509	¥ (4,260)	¥ 2,119	¥ –	¥ (233)
Net income	–	–	–	2,601	–	–	–	–
Cash dividends paid (¥35.00 per share)	–	–	–	(769)	–	–	–	–
Bonuses to directors and corporate auditors	–	–	–	(40)	–	–	–	–
Bonuses to employees	–	–	–	(0)	–	–	–	–
Treasury stock	–	–	(8)	–	85	–	–	–
Net unrealized holding losses on securities	–	–	–	–	–	1,289	–	–
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	–	438
Balance at March 31, 2006	24,137	¥ 8,100	¥ 7,524	¥ 24,301	¥ (4,175)	¥ 3,408	¥ –	¥ 205
Net income	–	–	–	3,054	–	–	–	–
Cash dividends paid (¥32.50 per share)	–	–	–	(715)	–	–	–	–
Bonuses to directors and corporate auditors	–	–	–	(43)	–	–	–	–
Bonuses to employees	–	–	–	(1)	–	–	–	–
Treasury stock	–	–	(10)	–	70	–	–	–
Net unrealized holding gains on securities	–	–	–	–	–	(6)	–	–
Net changes of items		–	–	–	–	–	84	–
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	–	110
Balance at March 31, 2007	24,137	¥ 8,100	¥ 7,514	¥ 26,596	¥ (4,105)	¥ 3,402	¥ 84	¥ 315

	Thousands of U.S. Dollars (Note 1): Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains on securities	Deferred gains or loses on hedges	foreign currency translation adjustments
Balance at March 31, 2006	$ 68,615	$ 63,736	$205,853	$(35,366)	$ 28,869	$ –	$ 1,737
Net income	–	–	25,870	–	–	–	–
Cash dividends paid ($0.28 per share)	–	–	(6,057)	–	–	–	–
Bonuses to directors and corporate auditors	–	–	(364)	–	–	–	–
Bonuses to employees	–	–	(8)	–	–	–	–
Treasury stock	–	(85)	–	593	–	–	–
Net unrealized holding losses on securities	–	–	–	–	(51)	–	–
Net changes of items	–	–	–	–	–	712	–
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	931
Balance at March 31, 2007	$ 68,615	$ 63,651	$225,294	$ (34,773)	$ 28,818	$ 712	$ 2,668

See accompanying notes.

Consolidated Statements of Cash Flows

Hakuto Co., Ltd.
Years ended March 31, 2007, 2006 and 2005

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2007	2006	2005	2007
Cash Flows from Operating Activities:				
Income before income taxes	¥ 5,654	¥ 4,748	¥ 4,180	$ 47,895
Adjustments to reconcile income before income taxes to net cash provided by (used in) operating activities:				
Depreciation and amortization	618	593	561	5,235
Impairment losses on property, plant and equipment	–	28	–	–
Amortization of goodwill	34	–	–	288
Allowance for employees' severance and retirement benefits, net	83	12	(4)	703
Allowance for directors' and corporate auditors' severance and retirement benefits, net	2	1	(12)	17
Equity in gain of affiliated companies	(85)	(102)	(66)	(720)
Gains on sale of investment securities	(2)	(515)	(813)	(17)
Losses (gains) on sale of property and equipment	31	(7)	21	263
Losses on disposal of plant and equipment	24	14	18	203
Impairment losses on investment securities	1	33	352	8
Reversal of allowance for doubtful accounts	(440)	–	–	(3,727)
Foreign currency translation adjustments recognized as a gain due to liquidation of an overseas subsidiary	–	–	(43)	–
Allowance for loss on investment securities, net	122	(103)	10	1,033
Change in receivables	(6,626)	(1,907)	(4,605)	(56,129)
Change in inventories	(2,347)	409	(1,917)	(19,881)
Change in payables	160	20	(923)	1,355
Interests and dividends received	146	96	63	1,237
Interests paid	(152)	(91)	(67)	(1,288)
Income taxes refunded	–	–	12	–
Income taxes paid	(1,913)	(2,050)	(1,835)	(16,205)
Other	285	337	1,834	2,415
Net cash provided by (used in) operating activities	(4,405)	1,516	(3,234)	(37,315)
Cash Flows from Investing Activities:				
Proceeds from sale of property and equipment	16	43	98	136
Payments for purchase of property and equipment	(462)	(356)	(482)	(3,914)
Payments for purchase of intangible fixed assets	(39)	(67)	(349)	(330)
Proceeds from sale of marketable securities and investment securities	16	732	1,391	136
Payments for purchase of marketable securities and investment securities	(2,399)	(346)	(24)	(20,322)
Net cash increased due to acquisition of a newly consolidated subsidiary (Note 14 (b))	32	–	–	271
Net cash decreased due to sale of shares of a subsidiary, resulting in deconsolidation (Note 14 (c))	(1)	–	–	(8)
Proceeds from long-term loans receivable	300	–	–	2,541
Other	(122)	25	(15)	(1,034)
Net cash provided by (used in) investing activities	(2,659)	31	619	(22,524)
Cash Flows from Financing Activities:				
Change in short-term borrowings	5,285	(440)	3,571	44,769
Proceeds from lomg-term debt	1,200	–	–	10,165
Repayment of long-term debt	(1,198)	(398)	(1,205)	(10,148)
Proceeds from issuance of bonds	500	–	–	4,236
Payment for redemption of bonds	(600)	–	–	(5,083)
Cash dividends paid	(715)	(769)	(659)	(6,057)
Payments for purchase of treasury stock	(1)	(2)	(1)	(8)
Other	58	59	0	491
Net cash provided by (used in) financing activities	4,529	(1,550)	1,706	38,365
Effect of Exchange Rate Changes on Cash and Cash Equivalents	64	287	(78)	542
Net Increase (Decrease) in Cash and Cash Equivalents	(2,471)	284	(987)	(20,932)
Cash and Cash Equivalents at Beginning of Year	7,458	7,174	8,161	63,177
Cash and Cash Equivalents at End of Year (Note 14 (a))	¥ 4,987	¥ 7,458	¥ 7,174	$ 42,245

See accompanying notes.

Notes to Consolidated Financial Statements

Hakuto Co., Ltd.
Years ended March 31, 2007, 2006 and 2005

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 Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of changes in net assets for 2006 and 2005) 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 Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation 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, 2007 which was ¥118.05 to U.S. $1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of significant accounting policies

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

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

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

Hakuto Korea Co., Ltd., a wholly owned subsidiary of the Company, was established in December 2005 and its accounts have been included in consolidation since 2006.

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

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

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

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

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

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

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

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

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

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

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

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

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

Hedging instruments	Hedged items
Forward foreign exchange contracts and other	Foreign currency accounts receivable or payable and forecasted transactions

The Company is not required to evaluate hedge effectiveness, 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.

(f) Property, plant and equipment, and depreciation - Property, plant and equipment are carried at cost. Depreciation is computed 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.

(g) Impairment losses of fixed assets - New Japanese accounting standards for impairment of fixed assets were adopted early for the year ended March 31, 2004. A fixed asset (asset group) is considered impaired if its recoverable amount is less than its carrying amount, where the recoverable amount is defined as the greater of (i) net realizable value or (ii) the present value of expected cash flows from on-going utilization and subsequent disposition of the asset (asset group). A fixed asset is evaluated for impairment based on the asset group of which it is a part, where the asset group is the lowest level at which identifiable cash flows from fixed assets of the group are largely independent of other assets and liabilities. A group may consist of a single asset or several assets that are managed jointly. Losses on impairment are recognized when the estimated undiscounted cash flows to be generated by a group of fixed assets are less than the carrying amount of the assets in the group, in which case, the impaired assets are written down to their recoverable amounts. The Company and subsidiaries analyze their assets for possible impairment at least annually and more frequently if conditions indicate that an asset might be impaired.

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

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

The Company and its subsidiaries grouped their fixed assets into the electronic and electric equipment business, the electronics parts business, the chemical business, the staffing service business and the outsourcing service business based on the business segment, the nature of merchandise and service, and the similarity of the market.
In the years ended March 31, 2006, although there were no indications of impairment on each business, the market values of certain unused land showed substantial decline and were not judged to recover, the Company reduced their book values to the recoverable amounts.
The amount of impairment losses for the year ended March 31, 2006 amounted to ¥28 million, which comprised ¥2 million for land, ¥17 million for buildings and structures, and ¥9 million for other assets.
The recoverable amounts of the fixed assets of the unused land and equipments are their net realizable values based on amounts determined by valuations made in accordance with real estate appraisal standards for building and land.

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

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

(Adoption of new accounting standard for directors' bonus)
Effective from the year ended March 31, 2007, the Company and consolidated domestic subsidiaries adopted the new accounting standard "Accounting Standard for Directors' Bonus" (Statement No. 4 issued by the Accounting Standards Board of Japan on November 29, 2005) and recognized bonuses to directors and corporate auditors in the fiscal year to which such bonuses are attributable. The effect of the adoption of this new accounting standard on operating income, income before income taxes and net income was a decrease of ¥51 million ($432 thousand).

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

(k) Employees' severance and retirement benefits - The Companies provide post-employment benefit plans substantially by funded contributory pension plans and funded non-contributory pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors. Also, extra severance and retirement benefits would be paid, in case of earlier voluntary retirement etc.
The pension plans cover 100% of total severance and retirement benefits of the Company's employees from the year ended March 31, 2001.

The liabilities and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions. The Companies provided allowance for employees' severance and retirement benefits as of March 31, 2006 and 2005 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at those dates.
Actuarial gains and losses are recognized in expenses using the straight-line method over the average of the estimated remaining service lives (10 years) commencing with the following period.

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

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

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

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

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

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

Cash dividends per share presented in the consolidated statements of income represent the cash dividends declared applicable to each year. Diluted net income per share is not disclosed at March 31, 2005 because potentially dilutive securities are not issued.

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

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

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

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

The consolidated balance sheet as of March 31, 2006 has been reclassified to conform to the 2007 presentation. If the New Accounting Standards had not been adopted and the previous presentation method for the shareholders' equity had been applied, the shareholders' equity at March 31, 2007 which comprised common stock, capital surplus, retained earnings, net unrealized holding gains on investment securities, foreign currency translation adjustments and treasury stock, would have been ¥41,822 million ($354,274 million).

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

Accordingly, the Company prepared the statements of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards. Also, the Company voluntarily prepared the consolidated statements of changes in net assets for the years ended March 31, 2006 and 2005 in accordance with the Additional New Accounting Standards. Previously, consolidated statements of shareholders' equity were prepared for the purpose of inclusion in the consolidated financial statements although such statements were not required under Japanese GAAP.

(s) Reclassification - Certain prior year amounts have been reclassified to conform to 2007 presentation. Also, as described in Notes 2 (q) and 2 (r), the consolidated balance sheet for 2006 has been adapted to conform to new presentation rules of 2007. Also, in lieu of the consolidated statements of shareholders' equity for the years ended March 31, 2006 and 2005, which had been prepared on a voluntary basis for inclusion in the 2006 and 2005 consolidated financial statements, the Company prepared the consolidated statements of changes in net assets for 2006 and 2005 as well as for 2007.

These reclassifications had no impacts on previously reported results of operations or retained earnings.

3. Securities

(a) Summarized information of acquisition costs, book values and fair value of securities with available fair values as of March 31, 2007 and 2006 were as follows:

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

	Millions of Yen		
2006	Acquisition cost	Book value	Difference
Available-for-sale securities with book values (fair values) exceeding acquisition costs:			
Equity securities	¥ 1,939	¥ 7,637	¥ 5,698
Others	10	23	13
	1,949	7,660	5,711
Available-for-sale securities with book values (fair values) not exceeding acquisition costs:			
Equity securities	–	–	–
Total	¥ 1,949	¥ 7,660	¥ 5,711

	Thousands of U.S. dollars		
2007	Acquisition cost	Book value	Difference
Available-for-sale securities with book values (fair values) exceeding acquisition costs:			
Equity securities	$ 22,575	$ 71,868	$ 49,293
Others	85	203	118
	22,660	72,071	49,411
Available-for-sale securities with book values (fair values) not exceeding acquisition costs:			
Equity securities	11,139	10,131	(1,008)
Total	$ 33,799	$ 82,202	$ 48,403

(b) Summarized information of book values of securities with no available fair values as of March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Available-for-sale securities:			
Non-listed foreign bonds	¥ 472	¥ 235	$ 3,998
Non-listed equity securities	436	304	3,694
Money management funds	1	1	8

(c) Summarized information of maturities of securities with maturities as of March 31, 2007 and 2006 were as follows:

	Millions of Yen			
2007	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Available-for-sale securities:				
Government bonds and municipal bonds	¥ –	¥ –	¥ 0	¥ –
Corporate bonds	–	472	–	–

	Millions of Yen			
2006	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Available-for-sale securities:				
Government bonds and municipal bonds	¥ –	¥ –	¥ 0	¥ –
Corporate bonds	–	235	–	–

2007	Thousands of U.S. dollars Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Available-for-sale securities:				
Government bonds and municipal bonds	$ –	$ –	$ 0	$ –
Corporate bonds	–	3,998	–	–

(d) Total sales of available-for-sale securities sold for the years ended March 31, 2007, 2006 and 2005 were as follows:

	Millions of Yen 2007	2006	2005	Thousands of U.S. Dollars 2007
Available-for-sale securities:				
Total sales amount	¥ 16	¥ 727	¥ 1,391	$ 136
Gains	2	515	813	17
Losses	–	–	–	–

4. Non-consolidated subsidiaries and affiliated companies

Summarized information of balances and transactions with affiliated companies as of March 31, 2007 and 2006, and for the years ended March 31, 2007, 2006 and 2005 were as follows:

	Millions of Yen 2007	2006	Thousands of U.S. Dollars 2007
Receivables	¥ 0	¥ 0	$ 0
Investment securities	796	722	6,743
Payables	1,270	1,731	10,758

	Millions of Yen 2007	2006	2005	Thousands of U.S. dollars 2007
Sales to	¥ 6	¥ 7	¥ 4	$ 51
Purchases from	4,997	4,638	4,322	42,330

5. Related party transactions

The Company's bonds issued in the year ended March 31, 2002 and subscribed by Shigeo Takayama, a director and the chairman of the Company, and Takayama International Education Foundation, of which Shigeo Takayama is president, matured in the year ended March 31, 2007. Takayama International Education Foundation subscribed for all of the Company's new bonds issued in the year ended March 31, 2007. Related party transactions for 2007 and 2006 are following:

	Millions of Yen 2007	2006	Thousands of U.S. Dollars 2007
Shigeo Takayama (a director and the chairman of the Company):			
Payment of interest on bonds	¥ 1	¥ 2	$ 8
Redemption of bonds	100	–	847
Takayama International Education Foundation (of which Shigeo Takayama is president) :			
Payment of interest on bonds	8	8	68
Redemption of bonds	500	–	4,236
Subscription for the bonds issued on 2007	500	–	4,236

6. Inventories

Inventories as of March 31, 2007 and 2006 consisted of the following:

	Millions of Yen 2007	2006	Thousands of U.S. Dollars 2007
Merchandise	¥ 11,577	¥ 9,197	$ 98,070
Finished goods	383	278	3,244
Raw materials	344	286	2,914
Work in process	90	48	762
Supplies	18	19	152
Total	¥ 12,412	¥ 9,828	$ 105,142

7. Short-term borrowings and long-term debt

(a) Short-term borrowings consisted principally of loans from banks. The interest rates on short-term borrowings as of March 31, 2007 and 2006 ranged from 0.72% to 4.91% and 0.56% to 4.91% per annum, respectively.

(b) Long-term debt as of March 31, 2007 and 2006 consisted of the following:

	Millions of Yen 2007	2006	Thousands of U.S. Dollars 2007
1.14% to 1.80% loans from Japanese banks, due in 2007	¥ –	¥ 720	$ –
1.10% to 1.20% loans from Japanese insurance companies, due in 2007	–	160	–
1.93% to 1.96% loans from Japanese insurance companies, due in 2008 to 2013	928	–	7,861
1.48% to3.63% loans from Japanese banks, due in 2008 to 2022	1,584	–	13,418
1.50% Japanese yen bonds with detachable warrants, due in 2007	–	600	–
2.05% Japanese yen bonds due in 2012	500	–	4,236
	3,012	1,480	25,515
Less amount due within one year	564	1,480	4,778
	¥ 2,448	¥ –	$ 20,737

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

(c) Assets pledged as collateral for ¥246 million ($2,084 thousand) of short-term borrowings and ¥453 million ($3,837 thousand) of long-term debt as of March 31, 2007 were as follows:

	Millions of Yen 2007	Thousands of U.S. Dollars 2007
Cash and time deposits	¥ 215	$ 1,821
Land and land improvements	251	2,126
Buildings and structures	150	1,271
Total	¥ 616	$ 5,218

8. Employees' severance and retirement benefits

The liabilities for employees' severance and retirement benefits included in the liability section of the consolidated balance sheets at March 31, 2007 and 2006 consist of the following:

	Millions of Yen 2007	2006	U.S. Dollars 2007
Funded status:			
Projected benefit obligation	¥ (2,896)	¥ (2,721)	$ (24,532)
Pension assets	2,799	2,642	23,710
Unfunded projected benefit obligation	(97)	(79)	(822)
Unrecognized actuarial differences	(120)	(2)	(1,016)
Net projected benefits obligation recognized	(217)	(81)	(1,838)
Prepaid pension expense	–	–	–
Employees' severance and retirement benefits	¥ (217)	¥ (81)	$ (1,838)

Included in the consolidated statements of income for the years ended March 31, 2007, 2006 and 2005 are severance and retirement benefit expenses comprised of the following:

	Millions of Yen 2007	2006	2005	Thousands of U.S. Dollars 2007
Severance and retirement benefit expenses:				
Service costs – benefits earned during the year	¥442	¥396	¥312	$ 3,744
Interest cost on projected benefit obligation	51	48	48	432
Expected return on plan assets	(26)	(20)	(19)	(220)
Amortization of actual differences	26	60	64	220
Extra severance and retirement benefits	24	15	40	203
Severance and retirement benefit expenses	¥517	¥499	¥445	$ 4,379

The discount rate and the rate of expected return on plan assets used by the Companies are 2.0% and 1.0%, respectively. The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Actuarial gains and losses are recognized in income statement using the straight-line method over 10 years commencing with the following period.

9. Net assets

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

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

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

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

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

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

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

Payments of dividends are accounted for as appropriation of retained earnings or other capital surplus, as applicable, in the period when approved at the shareholders' meeting or at the Board of Directors or as of the date when dividends are determined to take effect by the shareholders or the Board of Directors. Bonuses to directors were also recognized as appropriations of retained earnings when approved by the shareholders prior to 2007, in which new accounting standards were adopted as discussed in Note 2 (i).

10. Contingent liabilities

Contingent liabilities of the Companies as of March 31, 2007 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Notes endorsed	¥ 23	$ 195
Guarantees for indebtedness of employees	7	59

11. Research and development expenses

Research and development expenses for the development of new products or improvement of existing products are charged to income as incurred. Such amounts charged to income for the years ended March 31, 2007, 2006 and 2005 were ¥256 million ($2,167 thousand), ¥243 million and ¥197 million respectively.

12. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax, inhabitants' taxes and enterprise tax, which in the aggregate resulted in normal statutory rates of approximately 40.7% for the years ended March 31, 2007, 2006 and 2005. 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, 2007 and 2006. The difference between the statutory tax rate and effective tax rate is not disclosed for the year ended March 31, 2005 because the difference was less than 5% of the statutory tax rate.

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

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2007 and 2006 were as follows:

	Millions of Yen 2007	Millions of Yen 2006	Thousands of U.S. Dollars 2007
Deferred tax assets:			
Directors' and corporate auditors' retirement benefits	¥ 394	¥ 394	$ 3,338
Employees' retirement benefits	76	22	644
Devaluation of inventories	500	261	4,235
Accrued enterprise taxes	71	74	601
Accrued employees' bonus	390	362	3,304
Devaluation of investment securities	49	259	415
Allowance for doubtful account	30	193	254
Allowance for loss on investment securities	93	44	788
Net loss carryforwards	161	22	1,364
Impairment loss on property, plant and equipment	86	49	729
Loss on write-down of property, plant and equipment	141	144	1,194
Difference between market value and cost of assets of consolidated subsidiaries	101	–	856
Others	256	275	2,169
Less-Valuation allowance	(470)	(99)	(3,981)
Total deferred tax assets	1,878	2,000	15,910
Deferred tax liabilities:			
Net unrealized holding gains on investment securities	(2,336)	(2,334)	(19,788)
Retained earnings of subsidiaries	(57)	(680)	(483)
Gain on land valuation	(796)	(203)	(6,743)
Others	(221)	(9)	(1,873)
Total deferred tax liabilities	(3,410)	(3,226)	(28,887)
Net deferred tax liabilities	¥(1,532)	¥ (1,226)	$ (12,977)

13. Derivative financial instruments

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

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

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

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

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

The derivative financial instruments are executed with creditworthy Japanese banks, and the Company's management believes there is little risk of default by counterparties.

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

The following tables summarize fair value information as of March 31, 2007 and 2006 of derivative transactions for which hedge accounting has not been applied:

(a) Currency-related transactions

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

(b) Interest-related transactions

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

(a) Currency-related transactions

2006		Millions of Yen			
Classification	Type of transaction	Contracted amount	Over one year	Fair value	Gains (Losses)
	Currency option trading				
Non-market transactions	Put	¥ 12	¥ 3	¥ 11	¥ (1)
	Call	12	3	12	0
	Total	¥ 24	¥ 6	¥ 23	¥ (1)

(a) Currency-related transactions

2007		Thousands of U.S. Dollars			
Classification	Type of transaction	Contracted amount	Over one year	Fair value	Gains (Losses)
	Currency option trading				
Non-market transactions	Put	$ 25	$ –	$ 17	$ (8)
	Call	25	–	25	0
	Total	$ 50	$ –	$ 42	$ (8)

(b) Interest-related transactions

2007		Millions of Yen			
Classification	Type of transaction	Contracted amount	Over one year	Fair value	Gains (Losses)
	Interest rate swap				
Non-market transactions	Receive floating, pay fixed	$ 7,158	$ 6,141	$ (68)	$ (68)
	Total	$ 7,158	$ 6,141	$ (68)	$ (68)

14. Cash and cash equivalents

(a) The reconciliation between cash and time deposits on the consolidated balance sheets and cash and cash equivalents on the consolidated statements of cash flows as of March 31, 2007, 2006 and 2005 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2007	2006	2005	2007
Cash and time deposits	¥ 5,369	¥ 7,487	¥ 7,212	$ 45,481
Add: Short-term investments	1	1	30	8
Total	5,370	7,488	7,242	45,489
Less: Time deposits with maturities exceeding three months	(383)	(30)	(68)	(3,244)
Cash and cash equivalents	¥ 4,987	¥ 7,458	¥ 7,174	$ 42,245

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

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 1,349	$ 11,427
Non current assets	927	7,853
Consolidation goodwill	461	3,905
Current liabilities	(1,231)	(10,428)
Non current liabilities	(1,416)	(11,995)
Acquisition cost of Moldec Co., Ltd.	90	762
Cash and cash equivalents of Moldec Co., Ltd.	(122)	(1,033)
Net cash used for acquisition of Moldec Co., Ltd.	32	271

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

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 209	$ 1,770
Non current assets	23	195
Current liabilities	(183)	(1,550)
Non current liabilities	(5)	(42)
Carrying amount of shares sold	44	373
Gain on sale shares	56	474
Sale price of shares for the year	100	847
Cash and cash equivalents of the company excluded from the consolidation scope	(101)	(855)
Payment for sale of shares of subsidiaries excluded from the consolidation scope	(1)	(8)

15. Stock option plans

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

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

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

Not-exercisable stock options:

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

Exercisable stock options:

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

16. Business combinations

(Change in accounting standard for business combinations, etc)
Effective from the year ended March 31, 2007, the Company applied “Accounting Standard for Business Combinations” issued by the Business Accounting Council on October 31, 2003, “Accounting Standard for Business Divestitures” (Statement No. 7 issued by the Accounting Standard Board of Japan on December 27, 2005) and “Guidance for Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (Guidance No. 10 revised by the Accounting Standard Board of Japan on December 22, 2006).

(a) Overview of the business combination

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

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

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

From September 1, 2006 to February 28, 2007

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

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

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

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

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

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

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

17. Information for certain lease transactions

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

(a) A summary of assumed amounts (inclusive of interest) of acquisition cost, accumulated depreciation and net book value as of March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Purchase price equivalent:			
Machinery and equipment	¥ 361	¥ 361	$ 3,058
Intangible assets	75	89	635
Accumulated depreciation equivalent	285	242	2,414
Book value equivalent	¥ 151	¥ 208	$ 1,279

(b) Future minimum lease payments, inclusive of interest, as of March 31, 2007 and 2006 were ¥151 million ($1,279 thousand) and ¥208 million, including ¥86 million ($729 thousand) and ¥97 million, respectively due within one year.

(c) Lease payments for the years ended March 31, 2007 and 2006 were ¥103 million ($873 thousand) and ¥111 million, respectively. Assumed depreciation charges for the years ended March 31, 2007 and 2006 were ¥103 million ($873 thousand) and ¥111 million, respectively.

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

Future lease payments under operating leases as of March 31, 2007 were ¥286 million ($2,423 thousand), including ¥173 million ($1,465 thousand) due within one year.

18. Subsequent events

On May 15, 2007, the Board of Directors approved i) payment of year-end cash dividends to the shareholders of record as of March 31, 2007 of ¥17.5 ($0.15) per share or a total of ¥386 million ($3,270 thousand).

19. Segment information

The Company's primary business activities include (1) electronics division (2) chemical division and (3) other. A summary of net sales, costs and expenses, operating income, identifiable assets, depreciation and amortization, and capital expenditures by segment of business activities for the years ended March 31, 2007, 2006 and 2005 were as follows:

(a) Information by business segment

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

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

2005	Millions of Yen					
	Electronics division	Chemical division	Other	Total	Elimination and/or Corporate	Consolidated
Net sales:						
Outside customers	¥ 101,482	¥ 6,003	¥ 1,142	¥ 108,627	¥ –	¥ 108,627
Within consolidated group	7	–	678	685	(685)	–
Total	101,489	6,003	1,820	109,312	(685)	108,627
Costs and expenses	95,459	5,481	1,847	102,787	1,666	104,453
Operating income (loss)	¥ 6,030	¥ 522	¥ (27)	¥ 6,525	¥ (2,351)	¥ 4,174
Identifiable assets	¥ 51,492	¥ 5,223	¥ 369	¥ 57,084	¥ 8,560	¥ 65,644
Depreciation and amortization	220	165	1	386	175	561
Impairment losses	–	–	–	–	–	–
Capital expenditures	367	86	7	460	208	668

2007	Thousands of U.S. Dollars					
	Electronics division	Chemical division	Other	Total	Elimination and/or Corporate	Consolidated
Net sales:						
Outside customers	$ 988,598	$ 56,917	$ 161	$1,045,676	$ –	$1,045,676
Within consolidated group	0	–	4,862	4,862	(4,862)	–
Total	988,598	56,917	5,023	1,050,538	(4,862)	1,045,676
Costs and expenses	928,251	51,842	4,812	984,905	16,781	1,001,686
Operating income (loss)	$ 60,347	$ 5,075	$ 211	$ 65,633	$(21,643)	$ 43,990
Identifiable assets	$ 603,778	$ 46,133	$ 720	$ 650,631	$ 45,472	$ 696,103
Depreciation and amortization	2,592	1,372	–	3,964	1,271	5,235
Impairment losses	–	–	–	–	–	–
Capital expenditures	2,457	1,397	–	3,854	390	4,244

(Adoption of new accounting standard for directors' bonus)

As discussed in Note 2 (i), effective from the year ended March 31, 2007, the Company and consolidated domestic subsidiaries adopted "Accounting Standard for Directors' Bonus" and recognized bonuses to directors and corporate auditors in the fiscal year to which such bonuses are attributable. The effect of the adoption of this new accounting standard on operating income was a decrease of ¥51 million ($432 thousand) in Elimination and/or Corporate.

(b) Information by geographic location

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

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

2005	Millions of Yen				
	Japan	Asia	Total	Elimination and/or Corporate	Consolidated
Net sales:					
Outside customers	¥ 85,958	¥ 22,669	¥ 108,627	¥ –	¥ 108,627
Within consolidated group	3,908	350	4,258	(4,258)	–
Total	89,866	23,019	112,885	(4,258)	108,627
Costs and expenses	84,240	22,108	106,348	(1,895)	104,453
Operating income	¥ 5,626	¥ 911	¥ 6,537	¥ (2,363)	¥ 4,174
Identifiable assets	¥ 48,954	¥ 9,002	¥ 57,956	¥ 7,688	¥ 65,644

2007	Thousands of U.S. Dollars				
	Japan	Asia	Total	Elimination and/or corporate	Consolidated
Net sales:					
Outside customers	$794,062	$251,614	$1,045,676	$ –	$1,045,676
Within consolidated group	65,802	2,685	68,487	(68,487)	–
Total	859,864	254,299	1,114,163	(68,487)	1,045,676
Costs and expenses	805,718	242,778	1,048,496	(46,810)	1,001,686
Operating income	$ 54,146	$ 11,521	$ 65,667	$(21,677)	$ 43,990
Identifiable assets	$567,641	$ 98,153	$ 665,794	$ 30,309	$ 696,103

(Adoption of new accounting standard for directors' bonus)

As discussed in Note 2 (i), effective from the year ended March 31, 2007, the Company and consolidated domestic subsidiaries adopted "Accounting Standard for Directors' Bonus" and recognized bonuses to directors and corporate auditors in the fiscal year to which such bonuses are attributable. The effect of the adoption of this new accounting standard on operating income was a decrease of ¥51 million ($432 thousand) in Elimination and/or Corporate.

(c) Overseas sales information

	Millions of Yen			Thousands of U.S. Dollars
	2007	2006	2005	2007
Export sales:				
Asia	¥ 38,902	¥ 37,731	¥ 37,614	$ 329,538
Other area	1,754	1,784	435	14,858
Total(A)	40,656	39,515	38,049	344,396
Net sales(B)	123,442	115,503	108,627	1,045,676
A/B	32.9%	34.2%	35.0%	32.9%

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, 2007 and 2006, and the related consolidated statements of income, changes in net assets and cash flows for each of the three years in the period ended March 31, 2007, 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, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2007, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 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

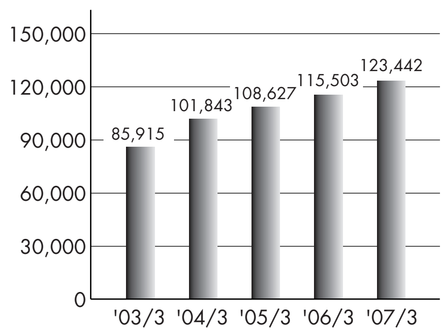
June 27, 2007

Financial Highlights

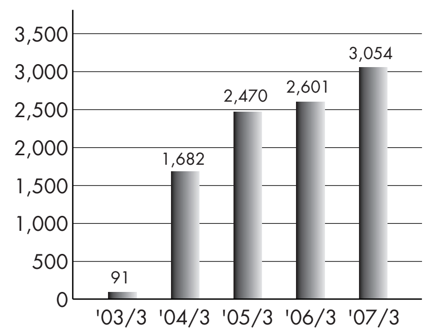
Operating Data:	Millions of Yen 2007/3	2006/3	2005/3	Thousands of U.S. Dollars 2007/3	Percent change between 2006/3 and 2007/3
Net Sales	¥123,442	¥115,503	¥108,627	$1,045,676	6.9%
Income before Income Taxes	5,654	4,748	4,180	47,895	19.1%
Net Income	3,054	2,601	2,470	25,870	17.4%
Financial Data:					
Total Assets	¥ 82,175	¥ 70,162	¥ 65,644	$ 696,103	17.1%
Net Assets	41,906	39,363	35,767	354,985	6.5%
Per Share Data:	Yen			U.S. Dollars	
Net Income per Share	¥ 138.74	¥ 116.37	¥ 110.62	$ 1.18	19.2%
Cash Dividends per Share	35.00	30.00	30.00	0.30	16.7%

The United States dollar amounts represent translations of Japanese yen amounts at the rate of ¥118.05=$1.
See Note 1 to consolidated financial statement.

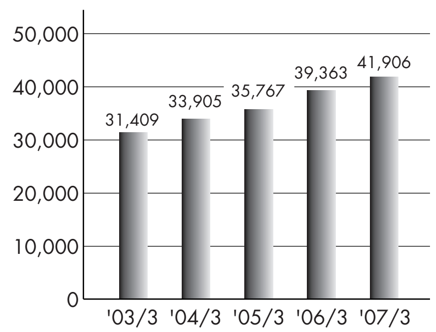
Financial Highlights Chart
Net sales
(Millions of yen)



Net Income
(Millions of yen)



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



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