2001

Annual Report

Contents

To Our Shareholders, Employees, and Friends	1
The Year in Review	2
Financial Review	3
Consolidated Balance Sheets	5
Consolidated Statements of Income	7
Consolidated Statements of Shareholders' Equity	8
Consolidated Statements of Cash Flows	9
Notes to Consolidated Financial Statements	11
Report of Independent Certified Public Accountants	18

Hakuto Co., Ltd.

To Our Shareholders, Employees and Friends

The fiscal year in Japan saw an increase in capital investment throughout the industrial sector associated with IT (information technology), supported by a recovery in corporate earnings and an increase in production. But individual spending, due to the continuing difficulties in employment and income, showed little sign of recovery. Moreover, the economy changed from gradual recovery to a pause in the second half, since signs of capital investments slow-down started to show, as a result of the slowing U.S. economy and accompanying drop in exports. Overseas, where there was also a noticeable influence from the U.S. economy, there was growing concern with regard to the prospects for the future.

Given these circumstances, the Company endeavored to bolster its profitability and business base through the use of various measures. These included the development of state-of-the-art products such as optical products that support broadband, the concentration of resources in promising fields such as compound semiconductor devices and photomask-related laser drawing systems. Added to this was a thorough review of unprofitable businesses, along with the promotion of rationalization and improvement of management efficiency.

The consolidated sales amount for the period in review was ¥102.6 billion, a 4.4% increase from the preceding year's figure.

Domestic sales increased 1.2% from the previous term, recording ¥81.6 billion. Overseas sales went up 18.9% , for a total of ¥21.0 billion.

Operating income jumped 43.9% from the preceding year to ¥5.7 billion, while recurring income rocketed upward 43.0% to ¥5.5 billion. This is largely attributable to a program of efficiency enhancement in overall management, which has significantly improved our profitability.

Sales in the electronics business increased 5.0% to ¥95.1 billion.

In the chemical business, sales increased by a factor of 0.7%, coming in at ¥6.6 billion.

Sales in other businesses dropped 20.4% from the previous year to ¥0.97 billion.

Cashflow from operating activities recorded ¥2.6 billion in income, while cashflow from investment activities amounted to ¥0.22 billion in income. Thus, free cashflow was recorded at ¥2.8 billion.

The Company's objective is to ensure steady income through expanded commercial rights and the development of advanced products that fulfill customer needs, and by continuously promoting the concentration of resources in growing fields. Additionally, the Company is enhancing its business base and profitability via the reorganization of operations and review of unprofitable businesses. Further, we're promoting financial policies with emphasis on cashflow and cost of funds through such means as the liquidation of trade receivables and the issuance of commercial papers.

Shigeo Takayama
Chairman

Toshiaki Hirai
President

The Year in Review

Electronics

The electronics business saw increased production in IT-related equipment during the period in review, including cellular phones and satellite communications, mobile communications and optical communications network equipment. This was accompanied by increased demand as represented by compound semiconductor devices and high-definition printed-circuit boards used in the manufacture of such IT-related equipment.

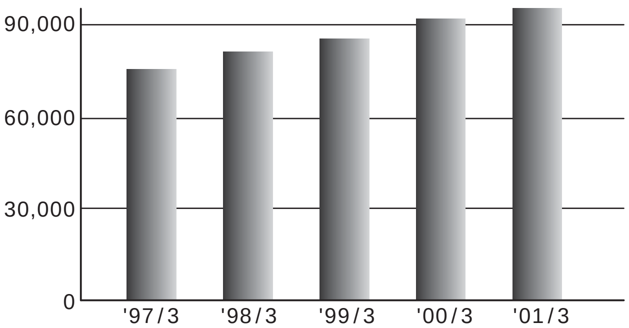
Turning to the electronic and electric equipment business, equipment for the manufacture of compound semiconductor devices and high-definition printed-circuit boards sold well. Moreover, there was steady growth in sales of photomask-related laser drawing systems, test evaluation systems and exposure systems for plasma displays.

Contrastingly, while sales of general-purpose memory, sound-source IC and communication IC grew significantly, the electronic components business was held in check as a result of the discontinuance of low-profit product distribution.

Accordingly, the consolidated sales amount was ¥95.1 billion, an increase of 5.0% over the preceding year's figure.

The electronics industry, a key source of corporate strength for the Group, has in recent years seen the emergence of many ventures with sophisticated new technologies. Accordingly, in October of 2000 we offered two million new shares for public investment, at a price of ¥2,844 per share. Of the funds raised through the IPO, we plan to invest approximately ¥3.6 billion during the next two years, such funds being targeted toward promising electronics ventures based on sophisticated new technologies. Our goal in this effort will be to create a highly stable income source for the Group in the coming era.

Sales (Millions of yen)



Chemicals

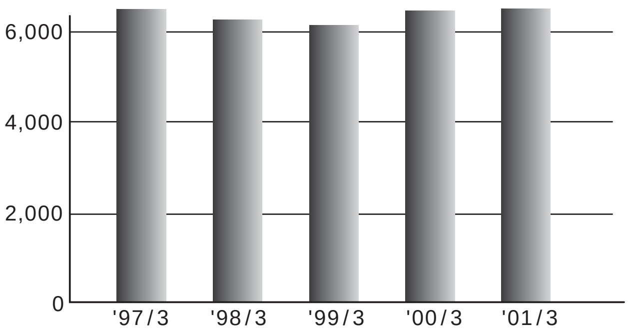
Hakuto's chemical business manufactures and distributes specialty chemicals such as process additives, products additives and water-treatment chemicals for industrial use. Fields of application include oil refineries, petrochemical plants, the steel industry, automobile industry, and facilities manufacturing paper and pulp.

Regarding the process-additives business, polymerization inhibitors in the petrochemical industry and microbiological agents in the paper and pulp industry have experience increased popularity.

In the product-additives business, the demand on Alkaran, with its high moisture-retention characteristic, grew as a cosmetic material. Alkaran is produced through the separation and refinement of unique polysaccharides produced by certain microorganisms.

The water-treatment chemicals business produces industrial chemicals for wastewater—which are formulated with consideration for environmental preservation—and water-treatment chemicals that are gentle to the environment. But due to a downward adjustment in production and accompanying decrease in production among domestic material manufacturers, owing to the sluggishness economy, it was inevitable that there would be a decrease in sales prices, as well as a drop in the number of products sold. As a result, sales increased 0.7% from last year, amounting to ¥6.6 billion.

Sales (Millions of yen)



Others

Human Resources International (HRI), one of our consolidated subsidiaries, is an agency specializing in temporary-employment and job-search services. While the company strove to develop business amid widespread concerns with regard to the high unemployment level, sales dropped 20.4% from the previous year to ¥0.97 billion.

Financial Review

Net Sales

Consolidated net sales amount during this fiscal year ended March 31, 2001 was ¥102.6 billion, which is an increase of 4.4% from the previous year. Sales of our electronics business increased 5.0% to ¥95.1 billion. Both Equipment Division and Component Division had solid performance. Sales of our chemical business increased 0.7%, to ¥6.6 billion, despite the fact that domestic chemical industries are still in a severe condition. Regarding our temporary-staffing business, operation's sales decreased 20.4%, to ¥0.97 billion in spite of our active campaigns under prolonged unemployment situation.

Net sales of Hakuto Co., Ltd. (the "Company") in the fiscal year ended March 31, 2001 decreased 3.0%, to ¥82.4 billion. Our electronics business marked a steady achievement during the first half of the fiscal year. However, the sales did not show much increase toward the end of the year due to the severe downturn in the semiconductor markets, which was caused by declining the economic condition in US.

In this fiscal year, Hakuto Europe GmbH practically started electronics business and took over the operation in Europe from the Company. In April 2000, IT-related business was transferred to the latest subsidiary, Hakuto Information Technology Co., Ltd., from the division formerly belonged to the Company. Consequently, the ratio of sales by the Company in the consolidated sales declined from 86.4% in the previous year to 80.2% during the fiscal year in review.

Sales Costs and Gross Profit

The sales-cost ratio was improved from 82.6% in the previous year to 81.0% in the fiscal year in review due to an increase in sales of high-margin products. As a result, the gross margin increased 14.1%, to ¥19.5 billion.

Selling, General and Administrative Expenses

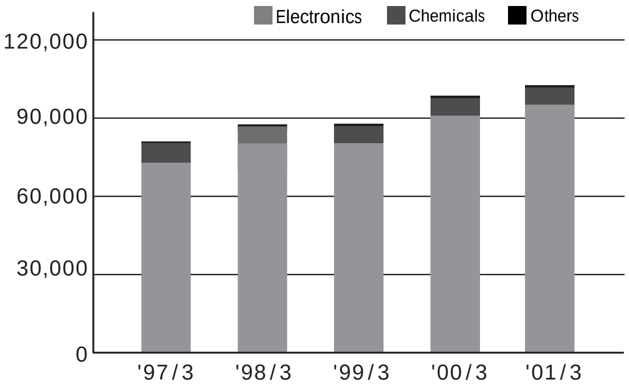
The amount of the expenses was ¥13.7 billion in this fiscal year while ¥13.1 billion in the previous year. The expense ratio, as measured against the sales was 13.4%, and it remained nearly unchanged.

Operating Income and Income Before Taxes

Operating income jumped 43.9%, to ¥5.7 billion. Further, the ratio of operating income against the sales increased from 4.1% in the previous year, to 5.6%. This is attributable to our continuous effort to hold the expense increase to 5.1% above that of the previous year, even though the gross margin increased 14.1%. However, net income before taxes declined 8.2%, to ¥5.6 billion.

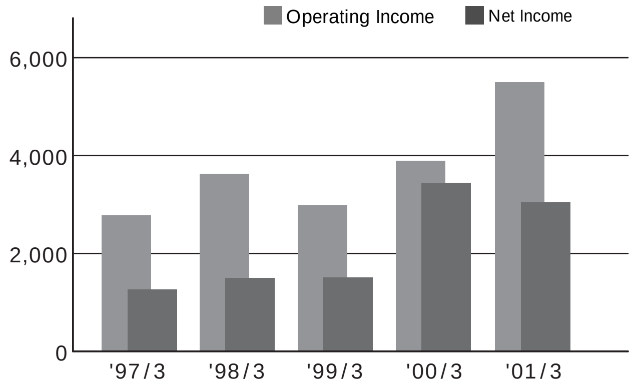
Sales by Product Category

(Millions of yen)



Operating Income and Net Income

(Millions of yen)



Net Income

Net income decreased 10.8%, to ¥3.0 billion, due to the fact that we had recorded vast extraordinary profits during the previous year. We added a ¥1.2 billion extraordinary profit from the sale of investment securities this year, meanwhile we recorded a ¥1.3 billion extraordinary loss from the impairment of investment securities. The net margin slightly dropped to 3.0%, from 3.5% in the previous year.

Balance Sheet Items

Cash and other current assets at the end of the term increased 5.3%, to ¥50.5 billion. Although the balance of trade receivable decreased by the promotion of the collection, the balance of inventories increased due to the addition of incomplete inspection of delivered goods. The Company's current ratio increased from 1.59 in 2000 to 1.99 during the term in review.

The total amount of interest-bearing liabilities at the end of the term decreased 27.4%, to ¥11.5 billion. The Group added ¥4.5 billion of unrealized gain on securities to its capital. As a result, the group's ratio of interest-bearing liabilities against its capital dropped significantly, from 57.2% in the previous year, to 30.6%.

Additionally, the shareholders' equity ratio against total assets increased from 42.1% to 50.7%. These improvements are attributable to the growing profitability of the Group and its business management, which focuses on cash flow.

Cash Flows

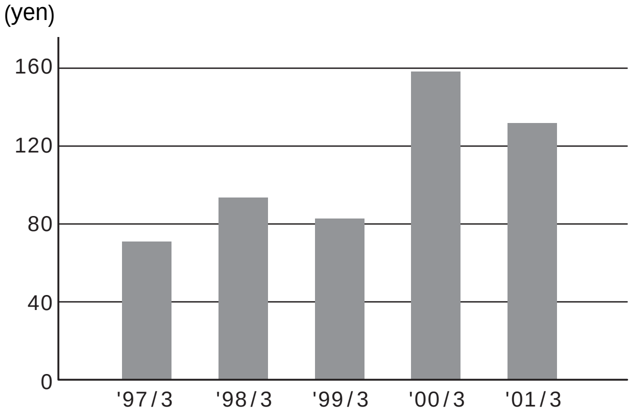
Net cash provided by operating activities was ¥2.6 billion. This improvement was primarily attributable to a decline in trade receivables.

Net cash provided by investing activities was ¥0.22 billion. Cash provided by the sale of investment securities amounted ¥1.9 billion, while the Group used ¥0.84 billion and ¥0.70 billion for the purchase of investment securities and capital expenditures respectively.

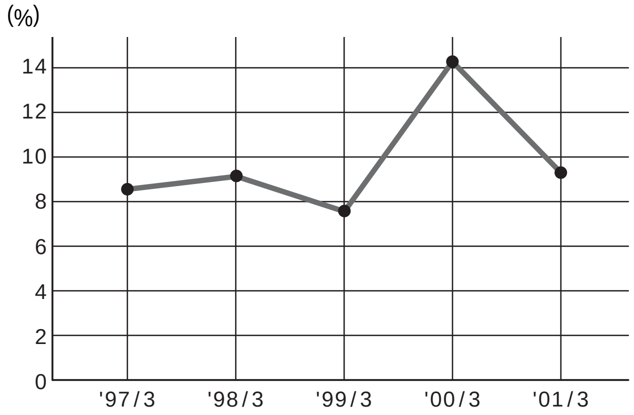
Net cash used in financing activities was ¥1.7 billion. Cash used for the settlement of bank borrowings was ¥4.0 billion on net basis and the acquisition of treasury stocks was ¥2.0 billion, while the Company implemented a ¥5.4 billion capital increase by public offering.

As a result, the balance of cash and cash equivalents at the end term increased 19.7%, to ¥7.7 billion.

Net Income per Share



Return on Equity



Consolidated Balance Sheets

Hakuto Co.,Ltd.
As of March 31, 2001 and 2000

Assets

Current Assets:	Millions of Yen 2001	Millions of Yen 2000	Thousands of U.S. Dollars (Note 1) 2001
Cash and time deposits (Note 12)	**¥7,624**	¥6,584	**$61,484**
Short-term investments (Note 3 and 12)	**502**	64	**4,048**
Receivables (Note 9 and 11)			
Notes and accounts receivable-trade	**28,589**	32,841	**230,557**
Due from unconsolidated subsidiaries and affiliated companies	**1**	210	**8**
Allowance for doubtful accounts	**(292)**	(248)	**(2,355)**
Inventories (Note 5)	**12,094**	6,945	**97,532**
Deferred tax assets (Note 10)	**564**	538	**4,548**
Prepaid expenses and other current assets (Note 4)	**1,457**	1,043	**11,750**
Total current assets	**50,539**	47,977	**407,572**
Property, Plant and Equipment (Note 6):			
Land and land improvements	**3,954**	4,028	**31,887**
Buildings and structures	**5,511**	5,338	**44,444**
Machinery and equipment	**4,775**	4,649	**38,508**
	14,240	14,015	**114,839**
Accumulated depreciation	**(6,018)**	(5,785)	**(48,532)**
	8,222	8,230	**66,307**
Other Non - Current Assets:			
Investment securities (Notes 3 and 4)	**14,069**	7,572	**113,460**
Deferred tax assets (Note 10)	**195**	298	**1,573**
Other assets	**1,254**	1,320	**10,112**
	15,518	9,190	**125,145**
	¥74,279	¥65,397	**$599,024**

See accompanying notes

Liabilities and Shareholders' Equity

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
Current Liabilities:	**2001**	2000	**2001**
Short-term borrowings (Note 6)	**¥1,565**	¥8,282	**$12,621**
Long-term debt due within one year (Note 6)	**3,388**	2,024	**27,323**
Payables:			
Notes and accounts payable-trade	**13,789**	13,881	**111,202**
Due to unconsolidated subsidiaries and affiliated companies	**710**	438	**5,726**
Income taxes payable (Note 10)	**1,575**	1,813	**12,702**
Deferred tax liabilities (Note 10)	**4**	1	**32**
Accrued bonuses	**784**	715	**6,323**
Accrued expenses and other current liabilities (Note 4)	**3,523**	3,028	**28,410**
Total current liabilities	**25,338**	30,182	**204,339**
Long-term debt (Note 6 and 11)	**6,572**	5,561	**53,000**
Employees' severance and retirement benefits (Note 2(j) and 7)	**342**	652	**2,758**
Directors' severance and retirement benefits (Note 2(k) and 7)	**959**	946	**7,734**
Deferred tax liabilities (Note 10)	**3,278**	544	**26,435**
Past service liabilities of the pension plan (Note 2 (l))	**-**	220	**-**
Other non-current liabilities	**45**	44	**363**
Minority interest	**64**	55	**516**
Contingent liabilities (Note 9)			
Shareholders' Equity (Note 8):			
Common stock, par value ¥50 per share:			
Authorized -54,000,000 shares			
Issued and outstanding -24,137,213 shares in 2001			
and 22,112,027 shares in 2000	**8,100**	5,401	**65,323**
Additional paid-in capital	**7,532**	4,810	**60,742**
Retained earnings (Note 14)	**19,806**	17,537	**159,726**
Net unrealized holding gains on investment securities	**4,465**	-	**36,008**
Foreign currency translation adjustments	**(172)**	(553)	**(1,388)**
	39,731	27,195	**320,411**
Treasury stock, at cost	**(2,050)**	(2)	**(16,532)**
Total shareholders' equity	**37,681**	27,193	**303,879**
	¥74,279	¥65,397	**$599,024**

Consolidated Statements of Income

Hakuto Co., Ltd.
Years ended March 31, 2001, 2000 and 1999

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2001	2000	1999	**2001**
Net Sales (Notes 4 and 15)	**¥ 102,622**	¥ 98,277	¥ 85,978	**$ 827,597**
Cost of Sales (Note 4)	**83,146**	81,215	70,440	**670,532**
Gross Profit	**19,476**	17,062	15,538	**157,065**
Selling, General and Administrative Expenses	**13,730**	13,068	12,556	**110,726**
Operating Income (Note 15)	**5,746**	3,994	2,982	**46,339**
Other Income (expenses):				
Interest and dividend income	**102**	88	85	**822**
Interest expenses	**(254)**	(246)	(321)	**(2,048)**
Equity in earnings (loss) of affiliated companies	**(79)**	(88)	93	**(637)**
Gains on sale of property, plant and equipment	**9**	-	135	**73**
Losses on sale of property, plant and equipment	**(43)**	(552)	-	**(347)**
Losses on devaluation of land and buildings	**(50)**	(1,174)	(58)	**(403)**
Gains on sale of investment securities	**1,219**	6,518	875	**9,831**
Loss on devaluation of investment securities	**(1,259)**	-	(310)	**(10,153)**
Loss from impairment of consolidation difference for an affilate	-	(259)	-	-
Net transition obligation	**265**	-	-	**2,137**
Directors' retirement benefits for past years	-	(924)	-	-
Past service cost of the pension plan	-	-	(442)	-
Special retirement benefits	-	(886)	-	-
Other - net	**(80)**	(400)	(21)	**(646)**
	(170)	2,077	36	**(1,371)**
Income before Income Taxes	**5,576**	6,071	3,018	**44,968**
Income Taxes Provision (Note 10):				
Current	**2,958**	2,723	1,882	**23,855**
Deferred	**(431)**	(65)	(376)	**(3,476)**
	2,527	2,658	1,506	**20,379**
Minority interest	**(9)**	(6)	-	**(73)**
Net Income	**¥ 3,040**	¥ 3,407	¥ 1,512	**$ 24,516**

Amounts per share:	Yen			U.S. Dollars (Note 1)
Net income	**¥ 131.80**	¥ 159.92	¥ 86.63	**$ 1.06**
Diluted net income	**131.79**	159.87	86.60	**1.06**
Cash dividends applicable to the year	**25.00**	30.00	20.00	**0.20**

See accompanying notes

Consolidated Statements of shareholders' Equity

Hakuto Co., Ltd.
Years ended March 31, 2001, 2000 and 1999

	Number of shares of common stock (thousands)	Millions of Yen					
		Common stock	Additional paid-in capital	Retained eamings	Net unrealized holding gains on securities	foreign currency translation adjustments	Treasury stock
Balance at March 31, 1998	17,327	¥ 2,932	¥ 2,288	¥ 13,338	¥ -	¥ 253	¥ (0)
Exercise of warrants	273	232	266	-	-	-	-
Cumulative effect of adopting deferred income tax accounting	-	-	-	71	-	-	-
Net income	-	-	-	1,512	-	-	-
Adjustments from translation of foreign currency financial statements	-	-	-	-	-	(360)	-
Treasury stock	-	-	-	-	-	-	(2)
Cash dividends paid (¥20.00 per share)	-	-	-	(365)	-	-	-
Bonuses to directors and corporate auditors	-	-	-	(20)	-	-	-
Bonuses to employees	-	-	-	(0)	-	-	-
Balance at March 31, 1999	17,600	3,164	2,554	14,536	-	(107)	(2)
Exercise of warrants	203	197	216	-	-	-	-
Issuance of common stock to public in Japan (Note 8)	1,500	2,040	2,040	-	-	-	-
Stock splits (Note 8)	2,809	-	-	-	-	-	-
Net income	-	-	-	3,407	-	-	-
Adjustments from translation of foreign currency financial statements	-	-	-	-	-	(446)	-
Treasury stock	-	-	-	-	-	-	0
Cash dividends paid (¥20.00 per share)	-	-	-	(386)	-	-	-
Bonuses to directors and corporate auditors	-	-	-	(20)	-	-	-
Bonuses to employees	-	-	-	(0)	-	-	-
Balance at March 31, 2000	22,112	5,401	4,810	17,537	-	(553)	(2)
Exercise of warrants	14	12	14	-	-	-	-
Issuance of common stock to public in Japan (Note 8)	2,000	2,668	2,668	-	-	-	-
Issuance of new shares due to the merger (Note 8)	1,397	2,491	40	-	-	-	-
Cancellation of the shares acquired by the merger (Note 8)	(1,386)	(2,472)	-	-	-	-	-
Decrease of retained earnings due to additions of consolidated subsidiaries	-	-	-	(20)	-	-	-
Net income	-	-	-	3,040	-	-	-
Adoption of new accounting standard for financial instruments (Note 2(d))	-	-	-	-	4,465	-	-
Adjustments from translation of foreign currency financial statements	-	-	-	-	-	381	-
Treasury stock	-	-	-	-	-	-	(2,048)
Cash dividends paid (¥30.00 per share)	-	-	-	(711)	-	-	-
Bonuses to directors and corporate auditors	-	-	-	(40)	-	-	-
Bonuses to employees	-	-	-	(0)	-	-	-
Balance at March 31, 2001	24,137	**¥ 8,100**	**¥ 7,532**	**¥ 19,806**	**¥ 4,465**	**¥ (172)**	**¥ (2,050)**

	Thousands of U.S Dollars (Note 1)					
	Common stock	Additional paid-in capital	Retained eamings	Net unrealized holding gains on securities	foreign currency translation adjustments	Treasury stock
Balance at March 31, 2000	$ 43,556	$ 38,790	$ 141,427	$ -	$ (4,460)	$ (15)
Exercise of warrants	97	113	-	-	-	-
Issuance of common stock to public in Japan (Note 8)	21,516	21,516	-	-	-	-
Issuance of new shares due to the merger (Note 8)	20,089	323	-	-	-	-
Elimination of the shares acquired by the merger (Note 8)	(19,935)	-	-	-	-	-
Decrease of retained earnings due to additions of consolidated subsidiaries	-	-	(161)	-	-	-
Net income	-	-	24,516	-	-	-
Adoption of new accounting standard for financial instruments (Note 2(d))	-	-	-	36,008	-	-
Adjustments from translation of foreign currency financial statements	-	-	-	-	3,072	-
Treasury stock	-	-	-	-	-	(16,517)
Cash dividends paid ($ 0.24 per share)	-	-	(5,734)	-	-	-
Bonuses to directors and corporate auditors	-	-	(322)	-	-	-
Bonuses to employees	-	-	(0)	-	-	-
Balance at March 31, 2001	**$ 65,323**	**$ 60,742**	**$ 159,726**	**$ 36,008**	**$ (1,388)**	**$(16,532)**

See accompanying notes

Consolidated Statements of Cash Flows

Hakuto Co., Ltd.
Years ended March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
Cash Flows from Operating Activities:	**2001**	2000	**2001**
Income before income tax	**¥ 5,576**	¥ 6,071	**$ 44,968**
Adjustments to reconcile income before income tax to net cash provided by (used in) operating activities:			
Depreciation and amortization	**690**	567	**5,565**
Severance and retirement benefits, net	**(519)**	761	**(4,185)**
Gains on sale of investment securities	**(1,219)**	(6,518)	**(9,831)**
Losses on sale of property and equipment	**34**	552	**274**
Losses on devaluation of land and buildings	**50**	1,174	**403**
Losses on devaluation of investment securities	**1,259**	-	**10,153**
Change in receivables	**4,709**	(7,829)	**37,976**
Change in inventories	**(4,973)**	(457)	**(40,105)**
Change in payables	**(78)**	(1,091)	**(629)**
Income tax paid	**(3,203)**	(2,029)	**(25,831)**
Other	**277**	1,285	**2,234**
Net cash provided by (used in) operating activities	**2,603**	(7,514)	**20,992**
Cash Flows from Investing Activities:			
Proceeds from sale of property and equipment	**88**	473	**710**
Payments for purchase of property and equipment	**(702)**	(524)	**(5,661)**
Proceeds from sale of marketable securities and investment securities	**1,949**	7,123	**15,718**
Payments for purchase of marketable securities and investment securities	**(841)**	(3,077)	**(6,782)**
Payments for purchase of subsidiary	-	(252)	-
Other	**(274)**	172	**(2,210)**
Net cash provided by investing activities	**220**	3,915	**1,775**
Cash Flows from Financing Activities:			
Change in short-term borrowings	**(6,783)**	(2,309)	**(54,702)**
Proceeds from long-term debt	**5,027**	2,407	**40,540**
Repayment of long-term debt	**(2,652)**	(2,373)	**(21,387)**
Issuance of common stock to public in Japan and exercise of warrants	**5,420**	4,439	**43,710**
Cash dividends paid	**(711)**	(387)	**(5,734)**
Payments for purchase of treasury stock	**(2,050)**	-	**(16,532)**
Other	**2**	5	**16**
Net cash used in (provided by) financing activities	**(1,747)**	1,782	**(14,089)**
Effect of Exchange Rate Changes on Cash and Cash Equivalent	**81**	(118)	**653**
Net Increase (Decrease) in Cash and Cash Equivalent	**1,157**	(1,935)	**9,331**
Increase in Cash and Cash Equivalent Due to Additions of Consolidated Subsidiaries	**69**	-	**557**
Increase in Cash and Cash Equivalent Due to Merger	**48**	-	**387**
Cash and Cash Equivalent at Beginning of Year	**6,471**	8,406	**52,185**
Cash and Cash Equivalent at End of Year	**¥ 7,745**	¥ 6,471	**$ 62,460**

See accompanying notes

Consolidated Statements of Cash Flows

Hakuto Co., Ltd.
Years ended March 31, 1999

	Millions of Yen
	1999
Cash Flows from Operating Activities:	
Net income	¥1,512
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	784
Deferred taxes	(376)
Equity in earnings (losses) of affiliated companies	(93)
Gains on sale of property and equipment	(135)
Losses on disposal and sale of property and equipment	85
Gains on sale of marketable securities and investment securities	(911)
Losses on devalualion of marketable securities and investment securities	313
Past service cost of the pension plan	442
Allowance for doubtful accounts, net	(87)
Severance and retirement benefits, net	(16)
Change in receivables	(1,448)
Change in inventories	1,024
Change in payables	1,700
Change in income taxes payable	1
Other	(181)
Net cash provided by operating activities	2,614
Cash Flows from Investing Activities:	
Proceeds from sale of property and equipment	511
Payments for purchase of properly and equipment	(701)
Proceeds from sale of marketable securitiesand and investment securities	9,784
Payments for purchase of marketable securities and investment securities	(8,030)
Other	(219)
Net cash provided by investing activities	1,345
Cash Flows from Financing Activities:	
Change in short-term borrowings	(1,910)
Proceeds from long-term debt	4,923
Repayment of long-term debt	(2,855)
Exercise of warrants	464
Cash dividends paid	(365)
Net cash provided by financing activities	257
Effect of Exchange Rate Changes on Cash	(75)
Net Increase in Cash	4,141
Cash and Cash equivalents at Begining of Year	4,265
Cash and Cash equivalents at End of Year	¥8,406

Notes to Consolidated Financial Statements

Hakuto Co., Ltd.
Years ended March 31, 2001, 2000 and 1999

1. Basis of presenting consolidated financial statements

Hakuto Co., Ltd. (the "Company") and its consolidated domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan ("Japanese GAAP"), which are different from the accounting and disclosure requirements of International Accounting Standards. The accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Company which were prepared in accordance with Japanese GAAP and were filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. The consolidated statements of cash flows for 1999 and shareholders' equity for 2001, 2000 and 1999 have been prepared for the purpose of inclusion in the accompanying consolidated financial statements, although such statements were not required for domestic purposes and were not filed with the regulatory authorities.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of reader, using the prevailing exchange rate at March 31, 2001, which was ¥124 to U.S.$1.00. 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 all its significant subsidiaries (together the "Companies"). All significant intercompany balances and transactions have been eliminated.

Effective from the year ended March 31, 2000, all companies are required to consolidate all significant investees which are controlled through substantial ownership of majority voting rights or existence of certain conditions. There was no effect of applying this rule to the Company's consolidated financial statements.

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

(b) Equity method - Investments in affiliated companies (all 20% to 50% owned and certain others 15% to 20% owned) are accounted for by the equity method in the year ended March 31, 2001 and 2000. Prior to April 1, 1999, only investments in companies of which the Company owns 20% to 50% of the voting rights and has the ability to significantly influence financial, operational or business policies were accounted for using the equity method. There was no effect of applying the new rule.

Previously, the excess of cost of investments in an affiliated company in the United States of America over the equity in the net assets at dates of acquisition was amortized over 20 years. However, considering the financial conditions and operating results of the affiliated company, the period of amortization was shortened to 5 years, from the year ended March 31, 2001.

(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 - Prior to April 1, 2000, marketable securities listed on stock exchanges were stated at the lower of market or cost determined primarily by the moving-average method. Other securities were stated at cost determined by the moving-average method.

Effective April 1, 2000, the Companies adopted the new Japanese accounting standard for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council on January 22, 1999).

Upon applying the new accounting standard, all companies are required to examine the intent of holding each security and classify those securities 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, and (d) for all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

The Companies had no trading securities or held-to-maturity debt securities. Equity securities issued by subsidiaries are consolidated and affiliated companies are accounted for using the equity method. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. 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.

The effect of the adoption of the new standard is mentioned in Notes 2(q).

(e) Derivative transaction and hedge accounting - The new accounting standard for financial instruments, effective from the year ended March 31, 2001, requires companies to state derivative financial instruments at fair value and to 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 Companies and items hedged are as follows:

Hedging instruments	Hedged items
Forward foreign exchange contracts	Foreign currency accounts receivable or payable and commitments

The Companies are 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.

The effect of the adoption of the new standard is mentioned in Notes 2(q).

(f) Property, plant, 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 April 1, 1998 are depreciated using the straight-line method. The effect of this change was immaterial.

The range of useful lives is from 10 to 50 years for buildings and from 2 to 15 years for machinery and equipment. Effective April 1, 1998, in accordance with revisions referred to above, the Company and its domestic subsidiaries shortened the estimated useful lives of buildings, excluding building fixtures. The effect of this change was immaterial.

(g) Accrued employees' bonuses - The Company accrued the estimated amounts of employees' bonus based on estimated amounts to be paid in the subsequent period. Prior to April 1, 1998, bonuses were previously accrued in accordance with the Japanese tax regulations. The effect of this change was immaterial.

(h) Income taxes - The Company provided income taxes at the amounts currently payable for the years ended March 31, 1998. Effective April 1, 1998, the Company and its domestic subsidiaries adopted the new accounting standard, which recognize tax effects of temporary differences between the financial statement basis and the tax basis of assets and liabilities.

The amount of deferred income taxes attributable to the net tax effects of the temporary differences at April 1, 1998 is reflected as an adjustment of ¥71 million to the retained earnings brought forward from the previous year. Prior years' financial statements have not been restated.

(i) Employees' severance and retirement benefits - The Company and some of its 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 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. Previously, they covered 80% of the amount which would be required if all eligible employees voluntarily retired at the balance sheet date.

Effective from the year ended March 31, 2000, the Company and its consolidated domestic subsidiaries changed accounting policy, and employees' retirement benefits were stated at 100% of the liability which would be required to be paid if all eligible employees voluntarily terminated their employment at the balance sheet date less the portion covered by the funded pension plan. Previously, it was 40% of the liability. The effect of this change was to increase operating income by ¥54 million and decrease income before income taxes by ¥378 million.

At March 31, 2000, the Companies accrued liabilities for lump-sum severance and retirement payments equal to 100% of the amount required had all eligible employees voluntarily terminated their employment at the balance sheet date. The Company and one of its subsidiaries recognized the past service cost of the pension plan on accrual basis.

Effective April 1, 2000, the Companies adopted the new accounting standard, "Opinion on Setting Accounting Standard for Employees' Severance and Pension Benefits", issued by the Business Accounting Deliberation Council on June 16, 1998 (the "New Accounting Standard").

Under the New Accounting Standard, 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 at March 31, 2001 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at that date.

The excess of the projected benefit obligation over the total of the fair value of pension assets as of April 1, 2000 and the liabilities for severance and retirement benefits and past service liabilities of the pension plan recorded as of April 1, 2000 (the "net transition obligation") amounted to ¥265 million ($2,137 thousand). All of this was recognized in expenses in the year ended March 31, 2001. 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.

As a result of the adoption of the New Accounting Standard, in the year ended March 31, 2001, severance and retirement benefit expenses increased by ¥28 million ($226 thousand), operating income decreased by ¥28 million ($226 thousand) and income before income taxes increased by ¥25 million ($202 thousand) compared with what would have been recorded under the previous accounting standard.

Also, due to the adoption of the New Accounting Standard, the past service liabilities of the pension plan at the beginning of the year ended March 31, 2001 (¥220 million), was included in the employees' severance and retirement benefits.

(j) Directors' severance and retirement benefits - Directors and corporate auditors of the Company are entitled to lump-sum payments at the time of severance or retirement, subject to the approval of the shareholders. The liabilities for such benefits are determined based on the Companies' internal rules.

Previously, such liabilities were included in retirement benefits in the balance sheets. Effective from the year ended March 31, 2001, the Companies report the directors' severance and retirement benefits separately from the employees' severance and retirement benefits. The prior year's amount, which was included in retirement benefits, has been reclassified to conform to the 2001 presentation.

(k) Past service cost of the pension plan - The Company and one of its domestic subsidiaries recognize the past service cost of the pension plan on an accrual basis from the year ended March 31, 1999.

Previously, it was recognized on a cash basis. The effect of this change was to increase operating income by ¥96 million and decrease income before income taxes by ¥346 million.

As explained in Note 2 (j), effective April 1, 2000, the Companies adopted the new accounting standard for employees' severance and retirement benefits.

(l) Translation of foreign currency items - Prior to April 1, 2000, foreign currency amounts were translated into Japanese yen at the rate of exchange in effect at the balance sheet date (hereafter, "current rate") for monetary current assets and current liabilities, and at historical rates for other assets and liabilities. Gains or losses resulting from translation of foreign currency transactions were credited or charged to income in the respective periods. When the fluctuation in foreign exchange rates was significant, the current rate was applied for translating non-current receivables and payables denominated in foreign currencies.

Effective April 1, 2000, the Company and its domestic subsidiaries adopted the revised accounting standard for foreign currency translation, "Opinion Concerning Revision of Accounting Standard for Foreign Currency Translation", issued by the Business Accounting Deliberation Council on October 22, 1999 (the "Revised Accounting Standard"). Under the Revised Accounting Standard, long-term receivables and payables denominated in foreign currencies are also translated into Japanese yen at the current rate.

The effect on the consolidated income statement of adopting the Revised Accounting Standard was immaterial.

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

(m) 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.

Due to the adoption of the Revised Accounting Standard, the Company reports foreign currency translation adjustments in the shareholders' equity. The prior years' amounts, which were included in assets, has been reclassified to conform to the 2001 presentation.

(n) 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. Stock splits made to shareholders of record as of May 20, 1999 and November 19, 1999 were regarded as made at the beginning of the year ended March 31, 2000 for the computation of net income per share.

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.

(o) 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.

The Company prepared the 2001 and 2000 consolidated statements of cash flows as required by and in accordance with the "Standards for Preparation of Consolidated Cash Flow Statements, etc." effective from the year ended March 31, 2000. The 1999 consolidated statement of cash flows, which was voluntarily prepared for the purpose of inclusion in the consolidated financial statements in a form familiar to readers outside Japan, has not been restated. Significant differences in the consolidated cash flow statements for 2000 and 1999 include the use of pretax income in 2000 instead of net income in 1999, additional disclosure in cash flows from operating activities in 2000 of interest expense, income taxes paid, interest and dividend income and interest and dividend received.

(p) Additional information - Effective April 1, 2000, the Companies adopted the new Japanese accounting standard for financial instruments, as explained in Note 2 (d) and (e).

As a result of adopting the new accounting standard for financial instruments, income before income taxes decreased by ¥7 million ($56 thousand). Also, based on the examination of the intent of holding each security upon application of the new accounting standard on April 1, 2000, available-for-sale securities maturing within one year from the balance sheet date are included in current assets, and other securities are included in other non-current assets. As a result, at April 1, 2000, short-term investments decreased ¥36 million ($290 thousand), and investment securities increased by the same amount compared with what would have been reported under the previous accounting policy.

(q) Reclassification - Certain prior year amounts have been reclassified to conform to 2001 presentation. These changes had no impact on previously reported results of operations.

3. Securities

(a) Summarized information of acquisition costs, book values and fair value of securities with available fair values at March 31, 2001 was as follows:

2001	Millions of Yen		
	Acquisition Cost	Fair Value	Difference
Available-for-sale securities with book values (fair values) exceeding acquisition costs:			
Equity securities	¥ 3,278	¥ 11,055	¥ 7,777
Available-for-sale securities with book values (fair values) not exceeding acquisition costs:			
Equity securities	¥ 1,319	¥ 1,251	¥ (68)
Others	20	15	(5)
Total	¥ 1,339	¥ 1,266	¥ (73)

2001	Thousands of U.S. dollars		
	Acquisition Cost	Fair Value	Difference
Available-for-sale securities with book values (fair values) exceeding acquisition costs:			
Equity securities	$ 26,435	$ 89,153	$ 62,718
Available-for-sale securities with book values (fair values) not exceeding acquisition costs:			
Equity securities	$ 10,637	$ 10,089	$ (548)
Others	161	121	(40)
Total	$ 10,798	$ 10,210	$ (588)

(b) Summarized information of book values of securities with no available fair values at March 31, 2001 was as follows:

2001	Millions of Yen	Thousands of U.S.Dollars
	2001	**2001**
Available-for-sale securities:		
Non-listed domestic bonds	**¥ 300**	**$ 2,419**
Non-listed equity securities	**689**	**5,556**
Money management funds	**502**	**4,048**

(c) Summarized information of maturities of securities with maturities at March 31, 2001 was as follows:

2001	Millions of Yen			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Available-for-sale securities				
Bonds:				
Corporate bonds	¥ -	¥ 300	¥ -	¥ -

2001	Thousands of U.S. dollars			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Available-for-sale securities				
Bonds:				
Corporate bonds	$ -	$ 2,419	$ -	$ -

(d) Total sales of available-for-sale securities sold for the year ended March 31, 2001 amounted to ¥1,949 million ($15,718 thousand), and the related gains and losses amounted to ¥1,221 million ($9,847 thousand) and ¥2 million ($16 thousand), respectively.

At March 31, 2000, the aggregate book value, market value and net unrealized gains of marketable securities and investments with quoted market prices were as follows:
(Prior to April 1, 2000, marketable securities listed on stock exchanges were stated at the lower of cost or market, determined primarily by the moving-average method. Other securities were stated at cost, determined by the moving average method.)

	Millions of Yen	Thousands of U.S.Dollars
	2000	2000
Book value included in:		
Marketable securities	¥ 36	$ 340
Investments	6,116	57,698
Total book value	6,152	58,038
Market value	19,679	186,651
Net unrealized gains	¥ 13,527	$ 127,613

4. Unconsolidated subsidiaries and affiliated companies

Summarized information of balances and transactions with affiliated companies at March 31, 2001 and 2000, and for the years ended March 31, 2001, 2000 and 1999 was as follows:

	Millions of Yen		Thousands of U.S.Dollars
	2001	2000	**2001**
Advance payments and other current assets	**¥ 1**	¥ 16	**$ 8**
Investment securities	**758**	900	**6,113**
Advance received and other current liabilities	**710**	8	**5,726**

	Millions of Yen			Thousands of U.S.Dollars
	2001	2000	1999	**2001**
Sales to	**¥ 7**	¥ 222	¥ 4,720	**$ 56**
Purchases from	**5,567**	4,023	4,650	**44,895**

5. Inventories

Inventories of the Companies at March 31, 2001 and 2000 consisted of the following:

	Millions of Yen		Thousands of U.S.Dollars
	2001	2000	**2001**
Merchandise	**¥ 11,278**	¥ 5,999	**$ 90,952**
Finished goods	**334**	484	**2,693**
Raw materials	**369**	334	**2,976**
Work in process	**91**	101	**734**
Supplies	**22**	27	**177**
	¥ 12,094	¥ 6,945	**$ 97,532**

6. Short-term borrowings and long-term debt

Short-term borrowings consisted principally of loans from banks. The interest rates on short-term borrowings at March 31, 2001 and 2000 ranged from 0.93% to 7.35% and 0.65% to 6.75%, respectively.

Long-term debt at March 31, 2001 and 2000 consisted of the following:

	Millions of Yen		Thousands of U.S.Dollars
	2001	2000	**2001**
1.45% to 2.29% loans from Japanese banks, due 2004	**¥ 7,824**	¥ 5,284	**$ 63,097**
1.5% to 2.3% loans from Japanese insurance company, due 2004	**1,735**	1,516	**13,992**
No interest-bearing loans from Japanese government agencies	**302**	290	**2,436**
0.5% Japanese bonds with detachable warrants, due 2001	**-**	392	**-**
0.1% Japanese bonds with detachable warrants, due 2001	**99**	99	**798**
Other loans	**-**	4	**-**
	9,960	7,585	**80,323**
Less amount due within one year	**3,388**	2,024	**27,323**
	¥ 6,572	¥ 5,561	**$ 53,000**

The indenture covering the 0.1% Japanese bonds with detachable warrants, due 2001, provides, among other things, for (1) the exercise of warrants at the current exercise price of ¥2,895.6 (subject to change in circumstances), (2) exercisable period from November 1, 1999 to September 12, 2001 and (3) limitations on the payment of cash dividends which relate to earnings of the Company.
At the current exercise price, 23,000 shares of common stock were issuable on full exercise of the outstanding warrants at March 31, 2001.

At March 31, 2001, the following assets were pledged as collateral for long-term secured debt :

	Millions of Yen	Thousands of U.S.Dollars
Land	¥ 319	$ 2,572
Buildings and structures	570	4,597

Annual maturities of long-term debt at March 31, 2001 were as follows:

Year ending March 31	Millions of Yen	Thousands of U.S.Dollars
2002	¥ 3,388	$ 27,323
2003	2,002	16,145
2004	2,745	22,137
2005	1,003	8,089
2006	520	4,194
Thereafter	302	2,435

7. Retirement benefits

As explained in Note 2. Significant Accounting Policies, effective April 1, 2000, the Companies adopted the new accounting standard for employees' severance and retirement benefits, under which the liabilities and expenses for severance and retirement benefits are determined based on the amounts obtained by actuarial calculations.

The liabilities for employees' severance and retirement benefits included in the liability section of the consolidated balance sheet at March 31, 2001 consists of the following:

2001	Millions of Yen **2001**	Thousands of U.S.Dollars **2001**
Projected benefits obligation:		
Projected benefit obligation	**¥ (2,363)**	**$ (19,056)**
Pension assets	**1,816**	**14,645**
Unfunded projected benefit obligation	**(547)**	**(4,411)**
Unrecognized net transition obligation	-	-
Unrecognized actuarial differences	**205**	**1,653**
Employees' severance and retirement benefits	**¥ (342)**	**$ (2,758)**

Included in the consolidated statements of income for the year ended March 31, 2001 are severance and retirement benefit expenses comprised of the following:

2001	Millions of Yen **2001**	Thousands of U.S.Dollars **2001**
Severance and retirement benefit expenses:		
Service costs - benefits earned during the year	**¥ 296**	**$ 2,387**
Interest cost on projected benefit obligation	**65**	**524**
Expected return on plan assets	**(65)**	**(524)**
Amortization of entire net transition obligation	**(265)**	**(2,137)**
Amortization of actual differences	-	-
Extra severance and retirement benefits	**145**	**1,008**
Severance and retirement benefit expenses	**¥ 156**	**$ 1,258**

The discount rate and the rate of expected return on plan assets used by the Companies are 3.0% and 4.0%, 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.

8. Shareholders' equity

Under the Commercial Code of Japan (the "Code"), at least 50% of the issue price of new shares, with a minimum of the par value thereof, is required to be designated as stated capital. The portion which is to be designated as stated capital is determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as stated capital are credited to additional paid-in capital.

Under the Code, certain amounts of retained earnings equal to at least 10% of cash dividends and bonuses to directors and corporate auditors must be set aside as a legal reserve until the reserve equals to 25% of common stock. The reserve is not available for dividends but may be used to reduce a deficit by resolution of the stockholders or may be capitalized by resolution of the Board of Directors. The legal reserve is included in the retained earnings.

Year-end dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividend is applicable (See Note 14). The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Code. In addition, semi-annual interim dividend may be paid upon resolution of the Board of Directors, subject to limitations imposed by the Code.

On September 14, 1999, the Company issued 1,500 thousand new shares to the public in Japan. Of total proceeds from the issuance of new shares amounting to ¥4,080 million, ¥2,040 million was credited to common stock and the remaining ¥2,040 million was credited to additional paid-in capital.

Also, on October 11, 2000, the Company issued 2,000 thousand new shares to the public in Japan. Of total proceeds from the issuance of new shares amounting to ¥5,336 million, ¥2,668 million was credited to common stock and the remaining ¥2,668 million was credited to additional paid-in capital.

On September 1, 2000, due to the merger with the ST General Limited, the Company issued 1,397 thousand new shares to the shareholders of the ST General Limited at the rate of 0.49 share of the Company for one unit of equity capital of ST General Limited, and at the same time, the Company cancelled 1,386 thousand shares of the Company which had been owned by ST General Limited and acquired by the Company by the merger. The share issuance and the share cancellation resulted in an increase in common stock by ¥2,491 million ($20,089 thousand) and a decrease by ¥2,472 million ($19,935 thousand), respectively. The excess of the net assets acquired from ST General Limited amounting to ¥2,531 million ($20,411 thousand) over ¥2,491 million ($20,089 thousand), which is the amount credited to common stock for the new shares issued to the shareholders of ST General Limited, was credited to additional paid-in capital.

Stock splits are allowed under the Code. Generally, such stock splits, including those that have been made by the Company, do not purport to be distributions of earnings and, in Japan, are not taxable to shareholders.

The Company has a stock option plan for directors and certain employees of the Company. Under the plan, directors and certain employees are given rights to purchase shares of the Company's common stock which had been purchased by the Company, up to the maximum 601,000 shares of the common stock and not exceeding ¥3,000 million until next annual general meeting, and the options will be exercisable during the period from July 1, 2002 to June 30, 2006.

Treasury stock deducted from the shareholders' equity included shares acquired for the Company's stock option plan amounting to ¥2,050 million ($16,532 thousand) at March 31, 2001. Under the Code, the amount is not available for dividends.

9. Contingent liabilities

Contingent liabilities of the Companies at March 31, 2001 were as follows:

	Millions of Yen	Thousands of U.S.Dollars
Notes endorsed	¥ 1,099	$ 8,863
Guarantees for indebtedness	36	290

10. Research and development expense

Research and development expenses for the development of new products or improvement of existing products is charged to income as incurred. Such amounts charged to income for the years ended March 31, 2001 and 2000 on a consolidated basis were ¥265 million ($2,137 thousand) and ¥333 million, respectively.

11. 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 42% for the year ended March 31, 2001 and 2000, and 48% for the year ended March 31, 1999. Income taxes of foreign consolidated subsidiaries are based generally on tax rates applicable in their countries of incorporation.

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2001 and 2000 are as follows:

Deferred tax assets:	Millions of Yen 2001	2000	Thousands of U.S.Dollars 2001
Directors' retirement benefits	**¥ 398**	¥ 398	**$ 3,210**
Employees' retirement benefits	**77**	204	**621**
Devaluation of inventories	**131**	175	**1,056**
Accrued enterprise taxes	**127**	159	**1,024**
Accrued employees' bonus	**181**	108	**1,460**
Past service liabilities of the pension plan	-	94	-
Devaluation of investment securities	**158**	-	**1,274**
Amortization of the excess of cost of investments over fair value of net assets	**176**	-	**1,419**
Net operating loss carryforwards	**117**	-	**944**
Others	**228**	187	**1,839**
Less-Valuation allowance	**(88)**	-	**(710)**
Total deferred tax assets	**¥ 1,505**	¥ 1,325	**$ 12,137**
Deferred tax liabilities:			
Net unrealized holding gains on investment securities	**(3,240)**	-	**(26,139)**
Retained earnings of subsidiaries	**(536)**	(422)	**(4,323)**
Stock exchange premium	-	(335)	-
Gain on land valuation	**(203)**	(198)	**(1,637)**
Others	**(49)**	(79)	**(395)**
Total deferred tax liabilities	**(4,028)**	(1,034)	**(32,484)**
Net deferred tax liabilities (assets)	**¥ (2,523)**	¥ 291	**$ (20,347)**

12. Derivative financial instruments

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

The Companies also use interest rate cap contracts 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 and interest rate cap contracts are subject to risks of foreign exchange rate changes and interest rate changes, respectively.

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

The interest rate cap contracts are executed by the Company's Finance Department based on a resolution of the senior executives' meeting. The Manager of the Finance 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.

Summarized information of the aggregate contract amount, market value and realized gains or losses of derivative transactions for which hedge accounting has not been applied at March 31, 2001 was as follows:

Currency related: 2001	Millions of Yen Contracted amount	Over one year	Market value	Recognized gains(losses)
Forward foreign exchange contracts				
Sell: U.S. dollars	¥ 682	¥ -	¥ 749	¥ (67)

Currency related: 2001	Thousands of U.S. dollars Contracted amount	Over one year	Market value	Recognized gains(losses)
Forward foreign exchange contracts				
Sell: U.S. dollars	$ 5,500	$ -	$ 6,040	$ (540)

Interest related: 2001	Millions of Yen			
	Contracted amount	Over one year	Market value	Recognized gains(losses)
Interest rate cap contracts				
Buy:	¥ 4,500	¥ 4,500	¥ 0	¥ (27)

Interest related: 2001	Thousands of U.S. dollars			
	Contracted amount	Over one year	Market value	Recognized gains(losses)
Interest rate cap contracts				
Buy:	$ 36,290	$ 36,290	$ 0	$ (218)

At March 31, 2000, the Company had foreign exchange forward contracts as a hedge to foreign currency exposure against foreign currency accounts receivable or payable and commitments. The aggregate contract amount and net unrealized losses were ¥1,754 million ($16,538 thousand) and ¥34 million ($321 thousand) respectively as at the same date.

The Company also had interest rate cap contracts as a means of managing its interest rate exposures related to the floating rate notes payable. The aggregate contract amount and net unrealized losses were ¥4,500 million ($42,453 thousand) and ¥24 million ($226 thousand) respectively as at the same date.

(Prior to April 1, 2000, derivative financial instruments were not stated at fair value, and the changes in fair value were not recognized as gains or losses.)

13. Cash and cash equivalents

The reconciliation between cash and time deposit on the balance sheets and cash and cash equivalents on the statements of cash flows at March 31, 2001 and 2000 was as follows:

	Millions of Yen		Thousands of U.S.Dollars
	2001	2000	**2001**
Cash and time deposits	**¥ 7,624**	¥ 6,584	**$ 61,484**
Add: Short-term investments	**502**	64	**4,048**
Total	**8,126**	6,648	**65,532**
Less: Time deposits with maturities exceeding three months	**(381)**	(141)	**(3,072)**
Less: Equity and mutual fund	-	(36)	-
Cash and cash equivalents	**¥ 7,745**	¥ 6,471	**$ 62,460**

14. Information for certain lease transactions

Finance leases which do not transfer ownership to leasees 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 at March 31, 2001 and 2000 was as follows:

	Millions of Yen		Thousands of U.S.Dollars
	2001	2000	**2001**
Purchase price equivalent:			
Machinery and equipment	**¥ 819**	¥ 1,031	**$ 6,605**
Other assets	**113**	79	**911**
Accumulated depreciation	**414**	533	**3,339**
Book value equivalent	**¥ 518**	¥ 577	**$ 4,177**

(b) Future minimum lease payments, inclusive of interest, at March 31, 2001 and 2000 were ¥518 million ($4,177 thousand) and ¥577 million ($4,653 thousand), including ¥200 million ($1,613 thousand) and ¥205 million ($1,653 thousand) due within one year.

(c) Lease payments for the year ended March 31, 2001 and 2000 were ¥243 million ($1,960 thousand) and ¥191 million ($1,540 thousand). Assumed depreciation charges for the year ended March 31, 2001 and 2000 were ¥243 million ($1,960 thousand) and ¥191 million ($1,540 thousand).

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

15. Subsequent events

On June 27, 2001, the shareholders approved (1) payment of a year-end cash dividend to shareholders of record as of March 31, 2001 of ¥12.5 ($0.10) per share or a total of ¥294 million ($2,371 thousand) and (2) bonuses to directors and corporate auditors of ¥40 million ($322 thousand).

16. Segment information

The Company's primary business activities include (1) electronic 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, 2001, 2000 and 1999 is as follows:

(a) Information by business segment

	Millions of Yen					
2001	Electronics division	Chemical division	Other	Total	Elimination and/or Corporate	Consolidated
Net sales:						
Outside customers	¥ 95,085	¥ 6,568	¥ 969	¥102,622	¥ -	¥102,622
Within consolidated group	2	-	143	145	(145)	-
Total	95,087	6,568	1,112	102,767	(145)	102,622
Costs and expenses	87,382	5,909	1,086	94,377	2,499	96,876
Operating income	¥ 7,705	¥ 659	¥ 26	¥ 8,390	¥ (2,644)	¥ 5,746
Identifiable assets	¥ 58,497	¥ 5,233	¥ 469	¥ 64,199	¥ 10,080	¥ 74,279
Depreciation and amortization	336	232	1	569	121	690
Capital expenditures	385	172	3	560	231	791

	Millions of Yen					
2000	Electronics division	Chemical division	Other	Total	Elimination and/or Corporate	Consolidated
Net sales:						
Outside customers	¥ 90,537	¥ 6,522	¥ 1,217	¥ 98,277	¥ -	¥ 98,277
Within consolidated group	-	-	54	54	(54)	-
Total	90,537	6,522	1,271	98,331	(54)	98,277
Costs and expenses	84,436	6,154	1,235	91,825	2,458	94,283
Operating income	¥ 6,101	¥ 368	¥ 36	¥ 6,506	¥ (2,512)	¥ 3,994
Identifiable assets	¥ 49,301	¥ 5,114	¥ 424	¥ 54,839	¥ 11,111	¥ 65,950
Depreciation and amortization	253	201	2	456	111	567
Capital expenditures	414	95	0	509	150	659

	Millions of Yen					
1999	Electronics division	Chemical division	Other	Total	Elimination and/or Corporate	Consolidated
Net sales:						
Outside customers	¥ 78,953	¥ 6,173	¥ 852	¥ 85,978	¥ -	¥ 85,978
Within consolidated group	-	-	116	116	(116)	-
Total	78,953	6,173	968	86,094	(116)	85,978
Costs and expenses	74,005	5,814	914	80,733	2,263	82,996
Operating income	¥ 4,948	¥ 359	¥ 54	¥ 5,361	¥ (2,379)	¥ 2,982

	Thousands of U.S.Dollars					
2001	Electronics division	Chemical division	Other	Total	Elimination and/or Corporate	Consolidated
Net sales:						
Outside customers	$766,815	$52,968	$7,814	$827,597	$ -	$827,597
Within consolidated group	16	-	1,153	1,169	(1,169)	-
Total	766,831	52,968	8,967	828,766	(1,169)	827,597
Costs and expenses	704,694	47,653	8,758	761,105	20,153	781,258
Operating income	$ 62,137	$ 5,315	$ 209	$ 67,661	$(21,322)	$ 46,339
Identifiable assets	$471,750	$42,202	$3,782	$517,734	$ 81,290	$599,024
Depreciation and amortization	2,710	1,871	8	4,589	976	5,565
Capital expenditures	3,105	1,387	24	4,516	1,863	6,379

(b) Information by geographic location

2001	Millions of Yen					
	Japan	Asia	Other area	Total	Elimination and/or Corporate	Consolidated
Net sales:						
Outside customers	¥85,864	¥14,792	¥1,966	¥102,622	¥ -	¥102,622
Within consolidated group	2,323	355	42	2,720	(2,720)	-
Total	88,187	15,147	2,008	105,342	(2,720)	102,622
Costs and expenses	80,250	14,333	2,290	96,873	3	96,876
Operating income	¥ 7,937	¥ 814	¥ (282)	¥ 8,469	¥(2,723)	¥ 5,746
Identifiable assets	¥58,239	¥ 6,537	¥3,371	¥68,147	¥ 6,132	¥74,279

2000	Millions of Yen					
	Japan	Asia	Other area	Total	Elimination and/or Corporate	Consolidated
Net sales:						
Outside customers	¥86,489	¥10,201	¥1,587	¥98,277	¥ -	¥98,277
Within consolidated group	848	284	99	1,231	(1,231)	-
Total	87,337	10,485	1,686	99,508	(1,231)	98,277
Costs and expenses	81,324	10,051	1,656	93,031	1,252	94,283
Operating income	¥ 6,013	¥ 434	¥ 30	¥ 6,477	¥(2,483)	¥ 3,994
Identifiable assets	¥50,251	¥ 4,575	¥2,524	¥57,350	¥ 8,602	¥65,952

1999	Millions of Yen					
	Japan	Asia	Other area	Total	Elimination and/or Corporate	Consolidated
Net sales:						
Outside customers	¥73,627	¥10,256	¥2,095	¥85,978	¥ -	¥85,978
Within consolidated group	874	422	88	1,384	(1,384)	-
Total	74,501	10,678	2,183	87,362	(1,384)	85,978
Costs and expenses	69,706	10,356	1,971	82,033	963	82,996
Operating income	¥ 4,795	¥ 322	¥ 212	¥ 5,329	¥(2,347)	¥ 2,982
Identifiable assets	¥40,226	¥ 4,978	¥2,495	¥47,699	¥ 10,439	¥58,138

2001	Thousands of U.S. Dollars					
	Japan	Asia	Other area	Total	Elimination and/or Corporate	Consolidated
Net sales:						
Outside customers	$692,452	$119,290	$15,855	$827,597	$ -	$827,597
Within consolidated group	18,733	2,863	339	21,935	(21,935)	-
Total	711,185	122,153	16,194	849,532	(21,935)	827,597
Costs and expenses	647,177	115,589	18,468	781,234	24	781,258
Operating income	$ 64,008	$ 6,564	$(2,274)	$ 68,298	$(21,959)	$ 46,339
Identifiable assets	$469,669	$ 52,718	$27,185	$549,572	$ 49,452	$599,024

(c) Overseas sales information

	Millions of Yen			Thousands of U.S.Dollars
	2001	2000	**1999**	**2001**
Export sales:				
Asia	**¥ 18,517**	¥ 14,292	¥ 16,078	**$ 149,330**
Other area	**2,507**	3,389	3,376	**20,218**
Total(A)	**21,024**	17,681	19,454	**169,548**
Net sales(B)	**102,622**	98,277	85,978	**827,597**
A/B	**20.5%**	18.0%	22.6%	**20.5%**

Report of Independent Certified Public Accountants

On the Consolidated Financial Statements

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

We have audited the accompanying consolidated balance sheets of Hakuto Co., Ltd. (a Japanese corporation) and subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2001, expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards in Japan and, accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Hakuto Co., Ltd. and subsidiaries as of March 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2001 in conformity with accounting principles generally accepted in Japan applied on a consistent basis during the periods, except as noted in the following paragraph.

As explained in Notes 2(d), 2(e), 2(i), 2(k), 2(l), 2(m) and 2(p), in the year ended March 31, 2001, Hakuto Co., Ltd. and subsidiaries prospectively adopted new Japanese accounting standards for financial instruments, employees' severance and retirement benefits and foreign currency translation. Also, as explained in Notes 2(a) and 2(b) in the year ended March 31, 2000, Hakuto Co., Ltd. and subsidiaries prospectively adopted new Japanese accounting standards for consolidation and equity method accounting. Also, Hakuto Co., Ltd. and subsidiaries made changes, with which we concur, in the methods of accounting for past service cost of the pension plan, effective April 1, 1998, as referred to in Note 2(k) and retirement benefits, effective April 1, 1999, as referred to in Note 2(i).

Also, in our opinion, the U.S. dollar amounts in the accompanying consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 1.

Asahi & Co.
(Member Firm of Andersen Worldwide SC)

Tokyo, Japan
June 27, 2001

Statement on Accounting Principles and Auditing Standards

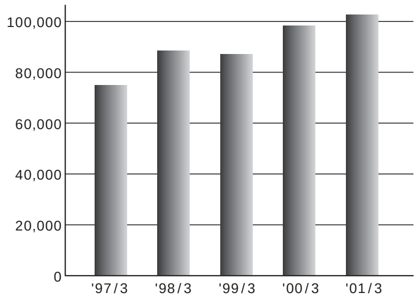
This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying financial statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan. Accordingly, the accompanying financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.

Financial Highlights

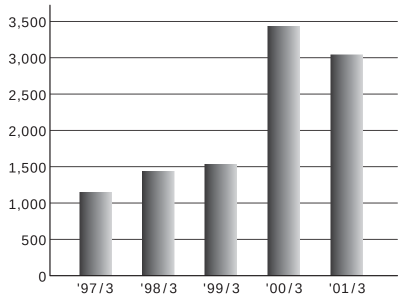
Operations Data:	Million of Yen 2001/3	2000/3	1999/3	Thousands of U.S.Dollars 2001/3	Percent change between 2000/3 and 2001/3
Net Sales	¥102,622	¥98,277	¥85,978	$827,597	+ **4.4%**
Income before Income Taxes	5,576	6,071	3,018	44,968	- **8.2%**
Net Income	3,040	3,407	1,512	24,516	- **10.8%**
Financial Data:					
Total Assets	74,279	65,950	58,138	599,024	+ **12.6%**
Shareholders' Equity	37,681	27,746	20,252	303,879	+ **35.8%**
Per Share Data:	Yen			U.S Dollars	
Net Income per Share	¥131.80	¥159.92	¥86.63	$1.06	- **17.6%**
Cash Dividends per Share	25.00	30.00	20.00	0.20	- **16.7%**

The United States dollar amounts represent translations of Japanese yen amounts at the rate of ¥ 124=$1.
See Note 1 to consolidated financial statements.

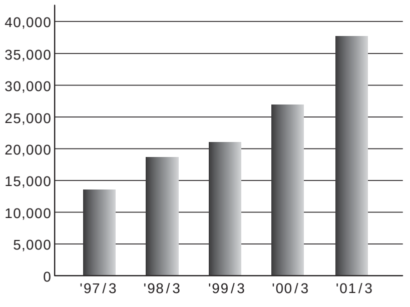
Net Sales
(Millions of yen)



Net Income
(Millions of yen)



Shareholders' Equity
(Millions of yen)



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