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2003

Annual Report

Contents

Hakuto Co., Ltd.

To Our Shareholders, Employees and Friends

In fiscal 2002, the Japanese economy remained sluggish overall. The weak economy is contributing to the mounting uncertainty over the direction of the world economy, with the exception of some parts of Asia, caused by a series of accounting scandals in the United States and declining stock prices worldwide in the wake of the Iraq war at the end of the fiscal year. Under these circumstances, corporate production and capital investment lost their momentum. Adding to the negativity were other negative factors, including bleak individual consumption due to the severe employment and income situation, growing worry about the overall financial system derived from bad-loan problems and prolonged deflation.

Against this backdrop, Hakuto Co., Ltd. focused on strengthening our business foundation and profitability and implemented a number of initiatives. These included: concentrating management resources on areas showing promise and markets showing growth, overhauling unprofitable businesses, reorganizing the management structure and sharing information in-house. In implementing these steps, the Company placed priority on a more stable earnings structure, restructuring and enhancing its domestic and overseas networks and transforming itself into a highly motivated company.

The results of our efforts are shown in the following consolidated and non-consolidated revenues and earnings reports.

The consolidated sales amount for the period in review was ¥85.9 billion, a 0.1% increase from the preceding year's figure.

Domestic sales decreased 10.3% from the previous term, recording ¥57.8 billion. Overseas sales went up 31.5%, for a total of ¥28.1 billion.

Operating income soared 324.6% year-on-year to ¥3.3 billion, while recurring income jumped 238.1% to ¥3.2 billion. The strong results were attributed to the absence of negative factors seen in the previous year, such as the loss from the sale of general-purpose memory products due to price discounting and the drop in gross profit ratio due to the increase in evaluation losses on inventories. Sweeping cost-cutting efforts also contributed to the increase in profits.

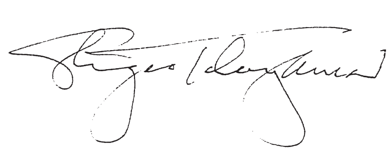
Despite these results, net income plummeted 84.7% to ¥0.1 billion, hurt by an extraordinary loss of ¥1.8 billion in impairment losses on investment securities amid a sharp drop in stock prices worldwide and ¥1.2 billion business restructuring costs of subsidiaries in the United States and Europe.

Sales in the electronics business increased 0.5% to ¥78.7 billion.

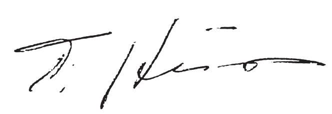
Sales in the chemical business decreased 3.9% to ¥6.0 billion.

Sales in other businesses increased 0.4% from the previous year to ¥1.2 billion.

Hakuto, which is to celebrate its 50th anniversary this year, will try hard to improve its earnings and strengthen its financial structure, aiming to become a corporation that can respond rapidly to changes in market trends by continuing reforms, while respecting the traditions of the company.



Shigeo Takayama
Chairman



Toshiaki Hirai
President

The Year in Review

Electronics

The electronics industry remained sluggish worldwide in the year ended March 31, 2003, due to the recessionary effects of the collapse of the IT bubble. The result was a substantial cut in capital expenditures, as in the previous year, particularly in Japan, the United States and Europe.

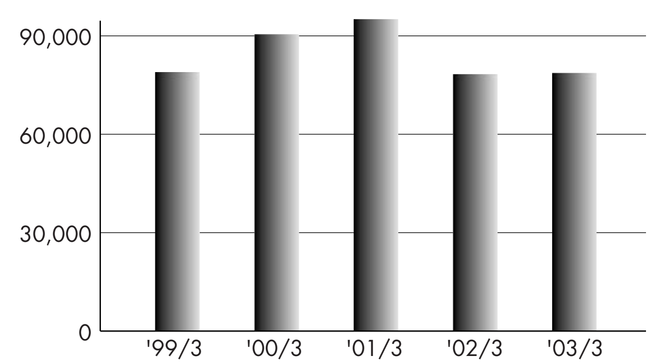
The Electronic and Electric Equipment Division, which sells large devices, such as manufacturing and testing machines for semiconductors, printed circuit boards and large displays, saw sales decline, mainly in the domestic market during the first half of the fiscal year. However, in the latter half, demand increased for consumer electronics, such as digital cameras and DVD videos, as well as mask manufacturing equipment for large displays and CPU packages for Intel Corp. As a result, the division managed to receive almost as many orders as in the preceding year.

The Electronics Parts Division handles with a broad range of components, mainly for advanced semiconductor products, mechanism elements such as connectors, and optical parts. Among others, sales of ICs that provide cell phone call melodies increased significantly in overseas markets, mainly South Korea and China. The division will expand its sales of products relating to digital home electronics, which enable wireless data transmission, wireless LAN-related goods and multi-service transmitters that can handle voice, data and images.

Hakuto will take measures to guarantee the steady supply of these products to customers, while offering services with high added value through our improved system of technical support. Our company also intends to prepare a comprehensive marketing strategy regarding Japan and Southeast Asia as a single market, centering on China, a country that is increasingly becoming important in the global economy.

Our company posted sales of ¥78.7 billion, an increase of 0.5% from the year before, inspite of the decline in sales volume and prices resulting from the plummeting IT market in the U.S. and the stagnant domestic economy.

Sales (Millions of yen)



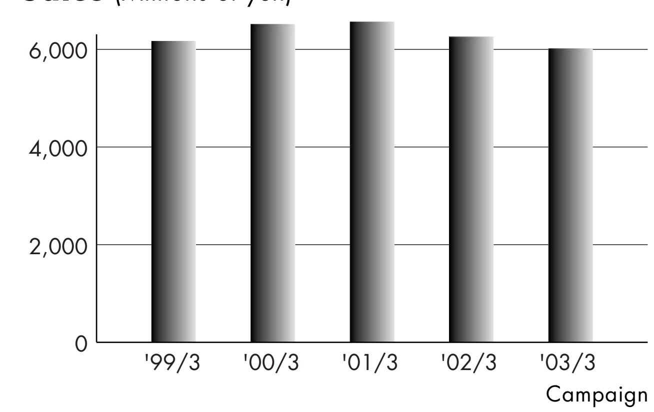
Chemicals

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.

Previously, only the Yokkaichi Factory had acquired ISO9002 certification for compliance with the quality management standard in the chemicals business. In fiscal 2002, in its bid to improve customer satisfaction, Hakuto obtained ISO9001 certification in all of its chemical operations at the headquarters, offices, laboratories and plants.

The chemicals business posted ¥6.0 billion in sales, down 3.9% from a year earlier. The poor result was attributed to a drop in sales volume and prices amid the intensifying restructuring activities of domestic materials manufacturers due to the continuing economic slump.

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.

Despite the further deterioration in the labor market, the subsidiary saw sales rise 0.4% year-on-year to ¥1.2 billion, thanks to its aggressive marketing activities.

Financial Review

Net Sales

Consolidated net sales amount during this fiscal year ended March 31, 2003 was ¥85.9 billion, which is an increase of 0.1% from the previous year. Sales of our electronics business increased 0.5% to ¥78.7 billion. Sales of our chemical business decreased 3.9%, to ¥6.0 billion. Regarding our temporary-staffing business, operation's sales increased 0.4%, to ¥1.2 billion.

Net sales of Hakuto Co., Ltd. (the "Company") in the fiscal year ended March 31, 2003 increased 2.4%, to ¥65.0 billion. The electronics-related business enjoyed strong sales of its semiconductor devices at the Taiwan unit and ICs that produce cell phone call melodies, while the sales of semiconductor manufacturing equipment remained sluggish. The chemicals-related business saw sales drop due to the declining utilization of production capacity by our customers.

Sales Costs and Gross Profit

The sales-cost ratio was improved from 83.5% last year to 82.2% in the fiscal year in review due to an increase in sales of high-margin products. As a result, the gross margin increased 8.1%, to ¥15.3 billion.

Selling, General and Administrative Expenses

The amount of the expenses was ¥12.0 billion in this fiscal year while ¥13.4 billion in the previous year. The expense ratio as measured against the sales decreased from 15.6% last year to 14.0% this year due to an increase in sales and a decrease in expenses.

Operating Income and Income Before Taxes

Consolidated operating income was ¥3.3 billion in fiscal 2002, up a substantial 324.5% from a year earlier. The strong result was attributed to the absence of special factors seen in the previous year including the loss from the sale of general-purpose memory products due to price cutting, and to the sweeping cost cutting efforts. Further, the ratio of operating income against the sales increased from 0.9% in the previous year, to 3.9%. Net income before taxes declined 90.6%, to ¥0.1 billion.

Net Income

Net income decreased 84.7%, to ¥0.1 billion. The poor result was attributed to the bookings of ¥1.8 billion in impairment losses on investment securities and ¥1.2 billion business restructuring costs of subsidiaries in the United States and Europe. The net margin dropped to 0.1%, from 0.7% in the previous year.

Balance Sheet Items

Current assets increased by ¥1.0 billion, with an increase in cash and deposits along with a decline in trade receivables and inventories, while fixed assets fell by ¥5.0 billion due to impairment losses on and decreases in unrealized profits on investment securities.

Current liabilities rose by ¥4.0 billion, with accounts payable rising in line with an increase in purchases, while non-current liabilities fell ¥4.7 billion, along with a drop in deferred tax liabilities following a decline in unrealized profits on investment securities. The Company's current ratio decreased from 2.37 in 2002 to 2.03 during the term in review.

Total shareholders' equity decreased ¥2.7 billion, because of a reduction in unrealized profits on investment securities and a purchase of treasury stocks. The shareholders' equity ratio against total assets decreased from 55.0% to 54.0%.

Cash Flows

Cash flow from operating activities

Trade receivables dropped ¥1.6 billion with the collection of major accounts receivables. Notes and accounts payable increased ¥5.1 billion while impairment losses on investment securities stood at ¥1.8 billion and business restructuring costs was ¥1.2 billion. As a result, cash flow provided by operating activities was ¥9.7 billion, despite a decline in net income.

Cash flow from investing activities

Cash flow used in investment activities was ¥1.0 billion, with ¥0.6 billion used to purchase of property and equipment and ¥0.6 billion for the purchase of marketable securities and investment securities.

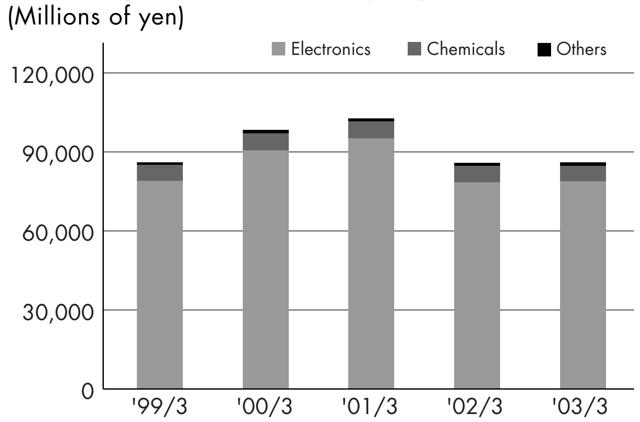
Cash flow from financing activities

Cash flow used in financing activities was ¥4.7 billion, mainly due to the use of ¥6.5 billion to repay short- and long-term debts and to redeem commercial paper.

With the above performance, our balance in cash and cash equivalents at the end of year totaled ¥9.9 billion, a year-on-year increase of ¥3.7 billion.

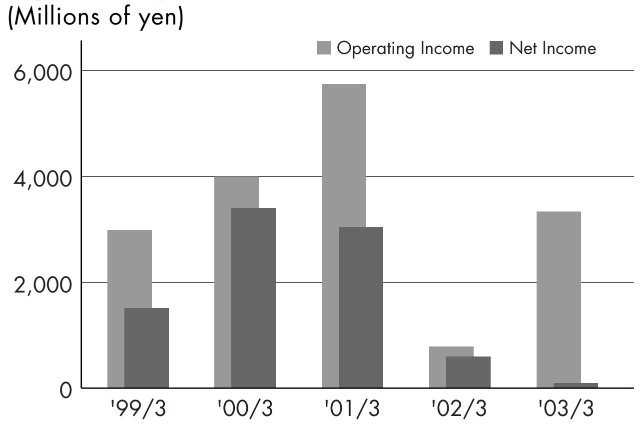
Sales by Product Category

(Millions of yen)



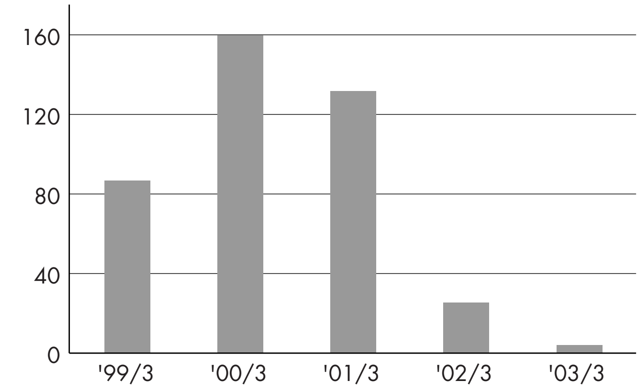
Operating Income and Net Income

(Millions of yen)



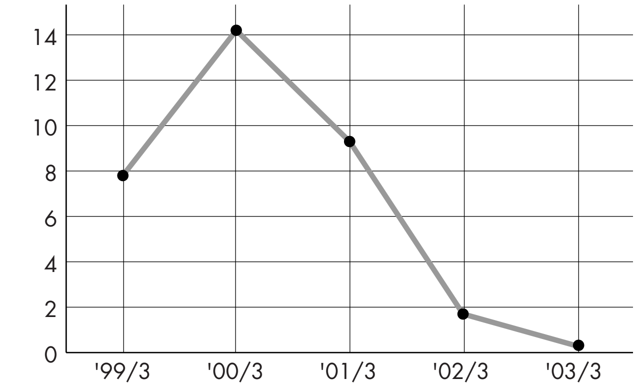
Net Income per Share

(yen)



Return on Equity

(%)



Consolidated Balance Sheets

Hakuto Co., Ltd.
As of March 31, 2003 and 2002

Assets

Current Assets:	Millions of Yen 2003	Millions of Yen 2002	Thousands of U.S. Dollars (Note 1) 2003
Cash and time deposits (Note 14)	¥ 9,980	¥ 6,280	$ 83,028
Short-term investments (Notes 3 and 14)	21	1	175
Receivables (Notes 10 and 13)			
Notes and accounts receivable-trade	24,421	26,166	203,170
Due from unconsolidated subsidiaries and affiliated companies	0	1	0
Allowance for doubtful accounts	(223)	(268)	(1,855)
Inventories (Note 6)	8,033	8,379	66,830
Income taxes receivable (Note 12)	147	955	1,223
Deferred tax assets (Note 12)	517	698	4,301
Prepaid expenses and other current assets (Note 4)	1,493	1,140	12,421
Total current assets	44,389	43,352	369,293
Property, Plant and Equipment:			
Land and land improvements	3,780	3,957	31,448
Buildings and structures	5,132	5,759	42,695
Machinery and equipment	4,984	5,003	41,464
	13,896	14,719	115,607
Accumulated depreciation	(6,443)	(6,396)	(53,602)
	7,453	8,323	62,005
Other Non - Current Assets:			
Investment securities (Notes 3 and 4)	4,761	9,513	39,609
Allowance for loss on investment securities	(190)	(110)	(1,581)
Deferred tax assets (Note 12)	1,070	13	8,902
Other assets	718	965	5,973
	¥ 58,201	¥ 62,056	$ 484,201

See accompanying notes

Liabilities and Shareholders' Equity

Current Liabilities:	Millions of Yen 2003	Millions of Yen 2002	Thousands of U.S. Dollars (Note 1) 2003
Short-term borrowings (Note 7)	¥ 1,482	¥ 1,805	$ 12,329
Long-term debt due within one year (Note 7)	2,958	2,269	24,609
Commercial paper (Note 7)	–	1,000	–
Payables:			
Notes and accounts payable-trade	14,745	9,764	122,671
Due to unconsolidated subsidiaries and affiliated companies	135	153	1,122
Income taxes payable (Note 12)	365	102	3,037
Deferred tax liabilities (Note 12)	2	2	17
Accrued bonuses	525	689	4,368
Accrued expenses and other current liabilities (Note 4)	1,699	2,515	14,135
Total current liabilities	21,911	18,299	182,288
Long-term debt (Notes 7 and 13)	3,083	6,601	25,649
Employees' severance and retirement benefits (Notes 2(i) and 8)	89	228	740
Directors' severance and retirement benefits (Note 2(j))	938	951	7,804
Deferred tax liabilities (Note 12)	722	1,799	6,007
Other non-current liabilities	50	51	416
Minority interest	–	–	–
Contingent liabilities (Note 10)			
Shareholders' Equity (Note 9):			
Common stock:			
Authorized -54,000,000 shares			
Issued and outstanding -24,137,213 shares	8,100	8,100	67,388
Capital surplus (Note 16)	7,532	7,532	62,662
Retained earnings (Note 16)	19,491	19,832	162,155
Net unrealized holding gains on investment securities	284	2,261	2,362
Foreign currency translation adjustments	47	315	391
	35,454	38,040	294,958
Treasury stock, at cost	(4,046)	(3,913)	(33,661)
Total shareholders' equity	31,408	34,127	261,297
	¥ 58,201	¥ 62,056	$ 484,201

Consolidated Statements of Income

Hakuto Co., Ltd.
Years ended March 31, 2003, 2002 and 2001

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2003	2002	2001	2003
Net Sales (Notes 4 and 17)	¥85,915	¥85,790	¥102,622	$ 714,767
Cost of Sales (Note 4)	70,586	71,605	83,146	587,238
Gross Profit	15,329	14,185	19,476	127,529
Selling, General and Administrative Expenses	11,992	13,400	13,730	99,767
Operating Income (Note 17)	3,337	785	5,746	27,762
Other Income (Expenses):				
Interest and dividend income	56	89	102	465
Interest expenses	(156)	(208)	(254)	(1,298)
Equity in loss of affiliated companies	(25)	(26)	(79)	(208)
Gains on sale of property, plant and equipment	–	0	9	–
Losses on sale of property, plant and equipment	(17)	–	(43)	(141)
Losses on devaluation of land and buildings	–	–	(50)	–
Gains on sale of investment securities	3	928	1,219	25
Impairment losses on investment securities	(1,763)	(615)	(1,259)	(14,667)
Allowance for loss on investment securities	(80)	(110)	–	(666)
Amortization of excess of cost over net assets of an acquired company	–	56	–	–
Gains from forgiveness of development cost	–	280	–	–
Compensation for expropriation	–	190	–	–
Loss from damage from typhoon	–	(181)	–	–
Net transition obligation	–	–	265	–
Business restructuring costs (Note 2(r))	(1,194)	–	–	(9,933)
Other – net	(25)	259	(80)	(208)
	(3,201)	662	(170)	(26,631)
Income before Income Taxes and Minority Interest	136	1,447	5,576	1,131
Income Taxes Provision (Note 12):				
Current	648	654	2,958	5,391
Deferred	(603)	186	(431)	(5,017)
	45	840	2,527	374
Minority interest	–	(11)	(9)	–
Net Income	¥ 91	¥ 596	¥ 3,040	$ 757

Amounts per share (Note 2(n)):	Yen			U.S. Dollars (Note 1)
Net income	¥ 4.11	¥ 25.37	¥ 131.80	$ 0.03
Diluted net income	–	25.37	131.79	–
Cash dividends applicable to the year	20.00	20.00	25.00	0.17

See accompanying notes

Consolidated Statements of shareholders' Equity

Hakuto Co., Ltd.
Years ended March 31, 2003, 2002 and 2001

	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, 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 9)	2,000	2,668	2,668	–	–	–	–
Issuance of new shares due to the merger (Note 9)	1,397	2,491	40	–	–	–	–
Cancellation of the shares acquired by the merger (Note 9)	(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)
Net income	–	–	–	596	–	–	–
Adoption of new accounting standard for financial instruments (Note 2(d))	–	–	–	–	(2,204)	–	–
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	487	–
Treasury stock	–	–	–	–	–	–	(1,863)
Cash dividends paid (¥25.00 per share)	–	–	–	(530)	–	–	–
Bonuses to directors and corporate auditors	–	–	–	(40)	–	–	–
Bonuses to employees	–	–	–	(0)	–	–	–
Balance at March 31, 2002	¥ 24,137	¥ 8,100	¥ 7,532	¥ 19,832	¥ 2,261	¥ 315	¥ (3,913)
Net income	–	–	–	91	–	–	–
Increase of retained earnings due to exclusions of consolidated subsidiaries	–	–	–	13	–	–	–
Net unrealized holding gains on securities	–	–	–	–	(1,977)	–	–
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	(268)	–
Treasury stock	–	–	–	–	–	–	(133)
Cash dividends paid (¥20.00 per share)	–	–	–	(445)	–	–	–
Bonuses to directors and corporate auditors	–	–	–	(0)	–	–	–
Bonuses to employees	–	–	–	(0)	–	–	–
Balance at March 31, 2003	¥ 24,137	¥ 8,100	¥ 7,532	¥ 19,491	¥ 284	¥ 47	¥ (4,046)

	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, 2002	$ 67,388	$ 62,662	$164,991	$ 18,810	$ 2,621	$(32,554)
Net income	–	–	757	–	–	–
Increase of retained earnings due to exclusions of consolidated subsidiaries	–	–	108			
Net unrealized holding gains on securities	–	–	–	(16,448)	–	–
Adjustments from translation of foreign currency financial statements	–	–	–	–	(2,230)	–
Treasury stock	–	–	–	–	–	(1,107)
Cash dividends paid ($0.17 per share)	–	–	(3,701)	–	–	–
Bonuses to directors and corporate auditors	–	–	(0)	–	–	–
Bonuses to employees	–	–	(0)	–	–	–
Balance at March 31, 2003	$ 67,388	$ 62,662	$162,155	$ 2,362	$ 391	$(33,661)

See accompanying notes

Consolidated Statements of Cash Flows

Hakuto Co., Ltd.
Years ended March 31, 2003, 2002 and 2001

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
Cash Flows from Operating Activities:	2003	2002	2001	2003
Income before income taxes and minority interest	¥ 136	¥ 1,447	¥ 5,576	¥ 1,131
Adjustments to reconcile income before income taxes and minority interest to net cash provided by (used in) operating activities:				
Depreciation and amortization	672	632	690	5,591
Severance and retirement benefits, net	(148)	(124)	(519)	(1,231)
Gains on sale of investment securities	(3)	(928)	(1,219)	(25)
Losses on sale of property and equipment	17	–	34	141
Losses on devaluation of land and buildings	28	14	50	233
Impairment losses on investment securities	1,763	615	1,259	14,667
Amortization of excess of cost over net assets of an acquired company	–	(56)	–	–
Gains from forgiveness of development cost	–	(280)	–	–
Compensation for expropriation	–	(190)	–	–
Loss from damage from typhoon	–	181	–	–
Allowance for loss on investment securities	80	110	–	666
Business restructuring costs	1,194	–	–	9,933
Change in receivables	1,550	3,018	4,709	12,895
Change in inventories	297	3,812	(4,973)	2,471
Change in payables	5,062	(4,956)	(78)	42,113
Interests and dividends received	56	89	88	466
Interests paid	(162)	(203)	(284)	(1,348)
Income taxes refunded	980	–	–	(3,228)
Income taxes paid	(388)	(3,117)	(3,203)	8,153
Other	(1,485)	(871)	473	(12,354)
Net cash provided by (used in) provided by operating activities	9,649	(807)	2,603	80,274
Cash Flows from Investing Activities:				
Proceeds from sale of property and equipment	154	31	88	1,281
Payments for purchase of property and equipment	(610)	(865)	(702)	(5,075)
Proceeds from sale of marketable securities and investment securities	70	2,002	1,949	582
Payments for purchase of marketable securities and investment securities	(586)	(875)	(841)	(4,875)
Payments for purchase of subsidiary	–	(18)	–	–
Collection on loans	–	264	–	–
Other	(37)	641	(274)	(307)
Net cash provided by investing activities	(1,009)	1,180	220	(8,394)
Cash Flows from Financing Activities:				
Change in short-term borrowings	(354)	121	(6,783)	(2,945)
Issuance of commercial paper	–	8,100	–	–
Redemption of commercial paper	(1,000)	(7,100)	–	(8,319)
Proceeds from long-term debt	–	2,591	5,027	–
Repayment of long-term debt	(2,829)	(3,353)	(2,652)	(23,536)
Issuance of common stock to public in Japan and exercise of warrants	–	–	5,420	–
Cash dividends paid	(445)	(524)	(711)	(3,702)
Payments for purchase of treasury stock	(132)	(1,864)	(2,050)	(1,098)
Other	18	0	2	149
Net cash (used in) provided by financing activities	(4,742)	(2,029)	(1,747)	(39,451)
Effect of Exchange Rate Changes on Cash and Cash Equivalent	(166)	113	81	(1,381)
Net (Decrease) Increase in Cash and Cash Equivalent	3,732	(1,543)	1,157	31,048
Increase in Cash and Cash Equivalent				
Due to Exclusions of Consolidated Subsidiaries	(0)	–	69	(0)
Increase in Cash and Cash Equivalent Due to Merger	–	–	48	–
Cash and Cash Equivalent at Beginning of Year	6,202	7,745	6,471	51,597
Cash and Cash Equivalent at End of Year (Note 14)	¥ 9,934	¥ 6,202	¥ 7,745	¥ 82,645

See accompanying notes

Notes to Consolidated Financial Statements

Hakuto Co., Ltd.
Years ended March 31, 2003, 2002 and 2001

1. Basis of presenting consolidated financial statements

Hakuto Co., Ltd. (the “Company”) and its consolidated domestic subsidiaries maintain their official accounting records in Japanese yen, and in accordance with the provisions set forth in the Japanese Commercial Code and accounting principles and practices generally accepted in Japan ("Japanese GAAP"). The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile. Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying consolidated financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) from the consolidated financial statements of 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, 2003, which was ¥120.20 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.

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.

The excess of cost of investments in subsidiaries and affiliated companies over the equity in the net assets at dates of acquisition is amortized at one time.

(b) Equity method - Investments in affiliated companies (all 20% to 50% owned and certain others 15% to 20% owned) except for an insignificant company are accounted for by the equity method.

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, or (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 except for an insignificant company are accounted for using the equity method. Investments in affiliate companies not accounted for by the equity method is 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 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(p).

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 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(p).

(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 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.

(g) Accrued employees' bonuses - The Company accrued the estimated amounts of employees' bonus based on estimated amounts to be paid in the subsequent period.

(h) Income taxes - The Company and its domestic subsidiaries recognize tax effects of temporary differences between the financial statement basis and the tax basis of assets and liabilities.

(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 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, 2003 and 2002 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at those dates.

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. 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 ($211 thousand), operating income decreased by ¥28 million and income before income taxes increased by ¥25 million compared with what would have been recorded under the previous accounting standard.

(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.

(k) 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 for the year ended March 31, 2001 of adopting the Revised Accounting Standard was immaterial.
Foreign currency items covered by forward exchange contracts are translated at the contracted rates.

(l) 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.

(m) 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.

(n) Earnings per share - Effective April 1, 2002, the Company adopted the new accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No. 2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No. 4, "Implementation Guidance for Accounting Standard for Earnings Per Share", issued by the Accounting Standards Board of Japan on September 25, 2002).
Earnings per share for the year ended March 31, 2002 would have been reported as follows, if this new accounting standard were applied retroactively.

	Yen For the year ended March 31, 2002
Net income per share	
- Basic	25.35
- Diluted	25.34

Diluted net income per share is not disclosed at March 31, 2003 because there are no dilutive warrants.

(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.

(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 and minority interest for the year ended March 31, 2001 decreased by ¥7 million. 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, and investment securities increased by the same amount compared with what would have been reported under the previous accounting policy.
Effective April 1, 2002, the Company adopted the new accounting standard for treasury stock and reversal of statutory reserves (Accounting Standards Board Statement No. 1, "Accounting Standard for Treasury Stock and Reversal of Statutory Reserves", issued by the Accounting Standards Board of Japan on February 21, 2002). The effect on net income of the adoption of the new accounting standard was not material.

(q) Reclassification - Certain prior year amounts have been reclassified to conform to 2002 presentation. These changes had no impact on previously reported results of operations.

(r) Business restructuring costs - Business restructuring costs are caused by the restructuring of the electronics business in the USA operated by Hakuto America, Inc., the electronics business in Europe operated by Hakuto Europe GmbH, and the domestic electronics business operated by Hakutronics Co., Ltd.
Business restructuring costs consist of the following:

	Millions of Yen		Thousands of U.S. Dollars	
Devaluation loss of fixed assets	¥	541	$	4,501
Devaluation loss of investment securities		129		1,073
Other		524		4,359
Total	¥	1,194	$	9,933

3. Securities

(a) Summarized information of acquisition costs, book values and fair value of securities with available fair values at March 31, 2003 and 2002 were as follows:

2003	Millions of Yen Acquisition Cost	Book Value	Difference
Available-for-sale securities with book values (fair values) exceeding acquisition costs:			
Equity securities	¥ 614	¥ 1,159	¥ 545
Available-for-sale securities with book values (fair values) not exceeding acquisition costs:			
Equity securities	¥ 1,238	¥ 1,177	¥ (61)
Others	10	10	0
Total	¥ 1,248	¥ 1,187	¥ (61)

2002	Millions of Yen Acquisition Cost	Book Value	Difference
Available-for-sale securities with book values (fair values) exceeding acquisition costs:			
Equity securities	¥ 2,920	¥ 6,798	¥ 3,878
Available-for-sale securities with book values (fair values) not exceeding acquisition costs:			
Equity securities	¥ 679	¥ 654	¥ (25)
Others	20	13	(7)
Total	¥ 699	¥ 667	¥ (32)

2003	Thousands of U.S. Dollars Acquisition Cost	Book Value	Difference
Available-for-sale securities with book values (fair values) exceeding acquisition costs:			
Equity securities	$ 5,108	$ 9,642	$ 4,534
Available-for-sale securities with book values (fair values) not exceeding acquisition costs:			
Equity securities	$10,299	$ 9,792	(507)
Others	83	83	–
Total	$10,382	$ 9,875	(507)

(b) Summarized information of book values of securities with no available fair values at March 31, 2003 and 2002 was as follows:

	Millions of Yen 2003	2002	Thousands of U.S. Dollars 2003
Available-for-sale securities:			
Unlisted domestic bonds	¥ 350	¥ 60	¥ 2,912
Unlisted equity securities	1,131	1,157	9,409
Money management funds	21	1	175

(c) Summarized information of maturities of securities with maturities at March 31, 2003 and 2002 were as follows:

2003	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	¥ –	¥ –	¥ 350	¥ –

2002	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	¥ –	¥ 60	¥ –	¥ –

2003	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	$ –	$ –	$ 2,912	$ –

(d) Total sales of available-for-sale securities sold for the years ended March 31, 2003 and 2002 were as follows:

	Millions of Yen 2003	2002	Thousands of U.S. Dollars 2003
Available-for-sale securities:			
Sold	¥ 70	¥ 2,002	$ 582
Gains	3	1,200	25
Losses	–	273	–

4. Unconsolidated subsidiaries and affiliated companies

Summarized information of balances and transactions with affiliated companies at March 31, 2003 and 2002, and for the years ended March 31, 2003, 2002 and 2001 was as follows:

	Millions of Yen 2003	2002	Thousands of U.S. Dollars 2003
Advance payments and other current assets	¥ 0	¥ 391	$ 0
Investment securities	933	891	7,761
Advance received and other current liabilities	136	154	1,131

	Millions of Yen 2003	2002	2001	Thousands of U.S. Dollars 2003
Sales to	¥ 18	¥ 6	¥ 7	$ 150
Purchases from	2,107	3,355	5,567	17,529

5. Related party transactions

Shigeo Takayama, a director and the chairman of the Company, and Takayama International Education Foundation, of which Shigeo Takayama is president, subscribed for all of the Company's bond issued in the year ended March 31, 2002. The Company's bonds owned by related party at March 31, 2003 and 2002 were as follows:

	Millions of Yen 2003	2002	Thousands of U.S. Dollars 2003
Shigeo Takayama	¥ 100	¥ 100	$ 832
Takayama International Education Foundation	500	500	4,160

6. Inventories

Inventories of the Companies at March 31, 2003 and 2002 consisted of the following:

	Millions of Yen 2003	2002	Thousands of U.S. Dollars 2003
Merchandise	¥ 7,409	¥ 7,567	$ 61,639
Finished goods	278	379	2,313
Raw materials	290	336	2,413
Work in process	34	76	282
Supplies	22	21	183
	¥ 8,033	¥ 8,379	$ 66,830

7. Short-term borrowings and long-term debt

Short-term borrowings consisted principally of loans from banks and commercial paper. The interest rates on short-term borrowings at March 31, 2003 and 2002 ranged from 0.60% to 6.00% and 0.93% to 7.35%, respectively.

Long-term debt at March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
1.14% to 2.29% loans from Japanese banks, due in 2007	¥ 3,886	¥ 6,295	$ 32,329
1.1% to 1.8% loans from Japanese insurance company, due in 2007	1,555	1,975	12,937
1.5% Japanese yen bonds with detachable warrants, due in 2007	600	600	4,992
Other loans	–	–	–
	6,041	8,870	50,258
Less amount due within one year	2,958	2,269	24,609
	¥ 3,083	¥ 6,601	$ 25,649

The indenture covering the 1.5% Japanese yen bonds with detachable warrants, due in 2007, provides, 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.

At the current exercise price, 338,655 shares of common stock were issuable on full exercise of the outstanding warrants at March 31, 2003.

Annual maturities of long-term debt at March 31, 2003 were as follows:

Year ending March 31	Millions of Yen	Thousands of U.S. Dollars
2004	¥ 2,958	$ 24,609
2005	1,205	10,025
2006	398	3,311
2007	1,480	12,313
Thereafter	–	–

8. 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, 2003 and 2002 consists of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Funded status:			
Projected benefit obligation	¥(2,580)	¥ (2,508)	$ (21,464)
Pension assets	1,668	1,920	13,877
Unfunded projected benefit obligation	(912)	(588)	(7,587)
Unrecognized net transition obligation	–	–	–
Unrecognized actuarial differences	823	363	6,847
Net projected benefits obligation recognized	(89)	(225)	(740)
Prepaid pension expense	–	(3)	–
Employees' severance and retirement benefits	¥ (89)	¥ (228)	$ (740)

Included in the consolidated statements of income for the years ended March 31, 2003 and 2002 are severance and retirement benefit expenses comprised of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Severance and retirement benefit expenses:			
Service costs - benefits earned during the year	¥ 308	¥ 292	$ 2,562
Interest cost on projected benefit obligation	72	68	599
Expected return on plan assets	(28)	(72)	(233)
Amortization of actual differences	47	21	391
Extra severance and retirement benefits	50	45	416
Severance and retirement benefit expenses	¥ 449	¥ 354	$ 3,735

The discount rate and the rate of expected return on plan assets used by the Companies are 2.0% and 1.5%, 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. Shareholders' equity

Under the Commercial Code of Japan (the "Code"), the entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by resolution of its Board of Directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital, which is included in capital surplus.

Effective October 1, 2001, the Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. The total amount of legal earnings reserve and additional paid-in capital of the Company has been reached to 25% of common stock, and therefore the Company is not required to provide legal earnings reserve any more. The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal earnings reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for distribution by the resolution of shareholders' meeting.

Based on the resolution of the shareholder's meeting held on June 26, 2002, on June 26, 2002, the Company reversed ¥5,000 million of additional paid-in capital and the entire balance of legal earnings reserve amounting to ¥501 million, which was included in retained earnings, and classified them as other capital surplus within the capital surplus category and unappropriated retained earnings within the retained earnings category, respectively.

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 the Code.

On October 11, 2000, the Company issued 2,000 thousand new shares to the public in Japan. Of total proceeds from the issuance of the 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 and a decrease by ¥2,472 million respectively. The excess of the net assets acquired from ST General Limited amounting to ¥2,531 million over ¥2,491 million, 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 as of September 1, 2000.

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 the next annual general meeting, and the options will be exercisable during the period from July 1, 2002 to June 30, 2006.

The Company purchased 1,300,000 outstanding shares of its common stock in the open market on March 25, 2002.

Treasury stock amounting to ¥4,046 million ($33,661 thousand) deducted from the shareholders' equity as of March 31, 2003, is not available for dividends under the Code.

10. Contingent liabilities

Contingent liabilities of the Companies at March 31, 2003 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Notes endorsed	¥ 423	$ 3,519
Guarantees for indebtedness	18	150

11. Research and development expense

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, 2003 and 2002 were ¥245 million ($2,038 thousand) and ¥220 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 42.1% for the years ended March 31, 2003, 2002 and 2001. Income taxes of foreign consolidated subsidiaries are based generally on tax rates applicable in their countries of incorporation.

The following table summarizes the significant differences between the statutory tax rate and effective tax rates for consolidated financial statement purposes for the years ended March 31, 2003 and 2002.

	2003	2002
Statutory tax rate	% 42.1	% 42.1
Not recognize tax effect loss carryforwards of consolidated subsidiaries	3.9	5.1
Non-deductible expenses	43.2	4.1
Non-taxable dividend income	(13.8)	(1.3)
Dividend income from overseas consolidated subsidiaries	–	8.5
Inhabitants' per capita taxes	26.3	2.5
Utilization of tax loss carryforwards	(7.1)	(2.3)
Effect of change in tax rate	20.9	–
Recognize tax benefit on the accumulated deficit of a consolidated subsidiary	(11.2)	–
Investments in consolidated subsidiaries to be liquidated	(65.7)	–
Others	(5.8)	(0.6)
Effective tax rates	% 32.8	% 58.1

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
Deferred tax assets:	2003	2002	2003
Directors' retirement benefits	¥ 382	¥ 400	$ 3,178
Employees' retirement benefits	10	47	84
Devaluation of inventories	241	370	2,005
Accrued enterprise taxes	26	5	216
Accrued employees' bonus	186	189	1,547
Devaluation of investment securities	136	124	1,132
Allowance for loss on investment securities	76	46	632
Net operating loss carryforwards	23	103	191
Investments in consolidated subsidiaries to be liquidated	342	–	2,845
Loss on write-down of property, plant and equipment	219	–	1,822
Others	178	288	1,481
Less-Valuation allowance	(23)	(58)	(191)
Total deferred tax assets	1,796	¥ 1,514	14,942
Deferred tax liabilities:			
Net unrealized holding gains on investment securities	(196)	(1,640)	(1,630)
Retained earnings of subsidiaries	(510)	(640)	(4,243)
Gain on land valuation	(203)	(203)	(1,689)
Others	(24)	(121)	(200)
Total deferred tax liabilities	(933)	(2,604)	(7,762)
Net deferred tax (liabilities)	¥ 863	¥ (1,090)	$ 7,180

The aggregate statutory income tax rate will be reduced for the years commencing on April 1, 2004 or later due to the revised local tax law. At March 31, 2003, the Company and consolidated domestic subsidiaries applied the reduced aggregate statutory income tax rate of 40.7% for calculating deferred tax assets and liabilities that are expected to be recovered or settled in the years commencing on April 1, 2004 or later. As a result, deferred taxes assets decreased by ¥ 22 million ($ 182 thousand) and provision for deferred income taxes, net unrealized holding gains on investment securities increased by ¥ 28 million ($ 237 thousand) and ¥ 7 million ($ 55 thousand) respectively compared with what would be reported using the currently applicable tax rate of 42.1 %.

13. 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.

At March 31, 2003 and 2002, there were no outstanding currency related derivatives for which hedge accounting was not applied.

Interest related: 2003	Millions of Yen			
	Contracted amount	Over one year	Market value	Recognized gains (losses)
Interest rate cap contracts Buy:	¥ –	¥ –	¥ –	¥ –

Interest related: 2002	Millions of Yen			
	Contracted amount	Over one year	Market value	Recognized gains (losses)
Interest rate cap contracts Buy:	¥ 4,500	¥ –	¥ 0	¥ 0

Interest related: 2003	Thousands of U.S. Dollars			
	Contracted amount	Over one year	Market value	Recognized gains (losses)
Interest rate cap contracts Buy:	$ –	$ –	$ –	$ –

14. Cash and cash equivalents

The reconciliation between cash and time deposits on the consolidated balance sheets and cash and cash equivalents on the consolidated statements of cash flows at March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Cash and time deposits	¥ 9,980	¥ 6,280	$ 83,028
Add: Short-term investments	21	1	175
Total	10,001	6,281	83,203
Less: Time deposits with maturities exceeding three months	(67)	(79)	(558)
Cash and cash equivalents	¥ 9,934	¥ 6,202	$ 82,645

15. 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, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Purchase price equivalent:			
Machinery and equipment	¥ 627	¥ 782	$ 5,216
Other assets	102	106	848
Accumulated depreciation equivalent	427	526	3,552
Book value equivalent	¥ 302	¥ 362	$ 2,512

(b) Future minimum lease payments, inclusive of interest, at March 31, 2003 and 2002 were ¥302 million ($2,512 thousand) and ¥362 million, including ¥139 million ($1,156 thousand) and ¥181 million, respectively due within one year.

(c) Lease payments for the years ended March 31, 2003 and 2002 were ¥195 million ($1,622 thousand) and ¥196 million, respectively. Assumed depreciation charges for the years ended March 31, 2003 and 2002 were ¥195 million ($1,622 thousand) and ¥196 million, respectively.

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

16. Subsequent events

On June 26, 2003, the shareholders approved (1) payment of year-end cash dividends to shareholders of record as of March 31, 2003 of ¥10 ($0.08) per share or a total of ¥221 million ($1,839 thousand), (2) purchase of treasury stock within the limits of 1,590,000 shares, ¥3,200 million ($26,622 thousand).

By special resolution at the 51th general shareholders' meeting held on June 26, 2003, the Company introduced a stock option plan in accordance with Article 280-21 of the Commercial Code in Japan, and granted stock purchase rights at advantageous terms to directors, auditors and employee of the Company and its consolidated subsidiaries. It is up to the maximum 1,000,000 shares of the common stock.

17. 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, 2003, 2002 and 2001 were as follows:

(a) Information by business segment

2003	Millions of Yen					
	Electronics division	Chemical division	Other	Total	Elimination and/or Corporate	Consolidated
Net sales:						
Outside customers	¥ 78,716	¥ 6,024	¥ 1,175	¥ 85,915	¥ –	¥ 85,915
Within consolidated group	–	–	72	72	(72)	–
Total	78,716	6,024	1,247	85,987	(72)	85,915
Costs and expenses	74,016	5,369	1,226	80,611	1,967	82,578
Operating income	¥ 4,700	¥ 655	¥ 21	¥ 5,376	¥ (2,039)	¥ 3,337
Identifiable assets	¥ 40,837	¥ 5,082	¥ 441	¥ 46,360	¥ 11,841	¥ 58,201
Depreciation and amortization	323	218	1	542	130	672
Capital expenditures	446	82	1	529	79	608

2002	Millions of Yen					
	Electronics division	Chemical division	Other	Total	Elimination and/or Corporate	Consolidated
Net sales:						
Outside customers	¥ 78,354	¥ 6,266	¥ 1,170	¥ 85,790	¥ –	¥ 85,790
Within consolidated group	3	9	148	160	(160)	–
Total	78,357	6,275	1,318	85,950	(160)	85,790
Costs and expenses	75,934	5,677	1,290	82,901	2,104	85,005
Operating income	¥ 2,423	¥ 598	¥ 28	¥ 3,049	¥ (2,264)	¥ 785
Identifiable assets	¥ 49,530	¥ 5,282	¥ 534	¥ 55,346	¥ 6,710	¥ 62,056
Depreciation and amortization	354	188	2	544	88	632
Capital expenditures	455	266	3	724	151	875

2001	Millions of Yen					
	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

2003	Thousands of U.S. Dollars					
	Electronics division	Chemical division	Other	Total	Elimination and/or Corporate	Consolidated
Net sales:						
Outside customers	$654,875	$ 50,117	$ 9,775	$714,767	$ –	$714,767
Within consolidated group	–	–	599	599	(599)	–
Total	654,875	50,117	10,374	715,366	(599)	714,767
Costs and expenses	615,774	44,668	10,199	670,641	16,364	687,005
Operating income	$ 39,101	$ 5,449	$ 175	$ 44,725	$(16,963)	$ 27,762
Identifiable assets	$339,742	$ 42,279	$ 3,669	$385,690	$ 98,511	$484,201
Depreciation and amortization	2,687	1,814	8	4,509	1,082	5,591
Capital expenditures	3,711	682	8	4,401	657	5,058

(b) Information by geographic location

2003	Millions of Yen					
	Japan	Asia	Other area	Total	Elimination and/or Corporate	Consolidated
Net sales:						
Outside customers	¥ 68,185	¥ 16,566	¥ 1,164	¥ 85,915	¥ –	¥ 85,915
Within consolidated group	2,582	235	188	3,005	(3,005)	–
Total	70,767	16,801	1,352	88,920	(3,005)	85,915
Costs and expenses	66,280	15,978	1,439	83,697	(1,119)	82,578
Operating income	¥ 4,487	¥ 823	¥ (87)	¥ 5,223	¥ (1,886)	¥ 3,337
Identifiable assets	¥ 39,849	¥ 7,139	¥ 441	¥ 47,429	¥ 10,772	¥ 58,201

2002	Millions of Yen					
	Japan	Asia	Other area	Total	Elimination and/or Corporate	Consolidated
Net sales:						
Outside customers	¥ 67,795	¥ 15,894	¥ 2,101	¥ 85,790	¥ –	¥ 85,790
Within consolidated group	1,316	363	132	1,811	(1,811)	–
Total	69,111	16,257	2,233	87,601	(1,811)	85,790
Costs and expenses	66,113	15,810	2,565	84,488	517	85,005
Operating income	¥ 2,998	¥ 447	¥ (332)	¥ 3,113	¥ (2,328)	¥ 785
Identifiable assets	¥ 49,942	¥ 6,763	¥ 2,408	¥ 59,113	¥ 2,943	¥ 62,056

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

2003	Thousands of U.S. Dollars					
	Japan	Asia	Other area	Total	Elimination and/or Corporate	Consolidated
Net sales:						
Outside customers	$567,263	$137,820	$ 9,684	$714,767	$ –	$714,767
Within consolidated group	21,481	1,955	1,564	25,000	(25,000)	–
Total	588,744	139,775	11,248	739,767	(25,000)	714,767
Costs and expenses	551,414	132,929	11,972	696,315	(9,310)	687,005
Operating income	$ 37,330	$ 6,846	$ (724)	$ 43,452	$(15,690)	$ 27,762
Identifiable assets	$331,522	$ 59,393	$ 3,669	$394,584	$ 89,617	$484,201

(c) Overseas sales information

	Millions of Yen			Thousands of U.S. Dollars
	2003	2002	2001	2003
Export sales:				
Asia	¥ 26,646	¥ 19,049	¥ 18,517	$ 221,681
Other area	1,500	2,352	2,507	12,479
Total(A)	28,146	21,401	21,024	234,160
Net sales(B)	85,915	85,790	102,622	714,767
A/B	32.8%	24.9%	20.5%	32.8%

Report of Independent Certified Public Accountants

On the Consolidated Financial Statements

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Hakuto Co., Ltd. and subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2003, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we 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, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2003, in conformity with accounting principles generally accepted in Japan as described in Note 1 to the consolidated financial statements.

Without qualifying our opinion, we draw attention to Note 2(d), 2(e), 2(i), 2(k), 2(l) and 2(p) to the consolidated financial statements.
As explained in Notes 2(d), 2(e), 2(i), 2(k), 2(l) and 2(p), in the year ended March 31, 2001, Hakuto Co., Ltd. and domestic subsidiaries prospectively adopted the new Japanese accounting standards for financial instruments, employees' severance and retirement benefits and foreign currency translation.

The consolidated financial statements as of and for the year ended March 31, 2003 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis set forth in Note 1 to the consolidated financial statements.

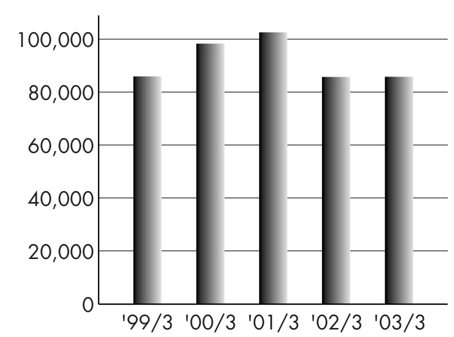
Asahi & Co.
Tokyo, Japan
June 26, 2003

Financial Highlights

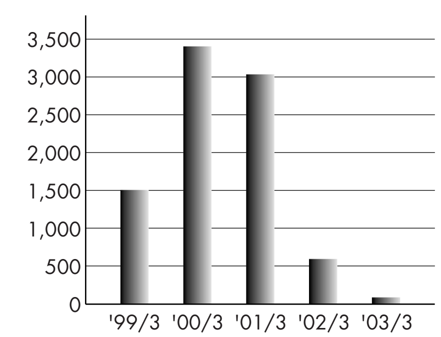
	Millions of Yen 2003/3	Millions of Yen 2002/3	Millions of Yen 2001/3	Thousands of U.S. Dollars 2003/3	Percent change between 2002/3 and 2003/3
Operations Data:					
Net Sales	¥ 85,915	¥ 85,790	¥102,622	$714,767	0.1%
Income before Income Taxes	136	1,447	5,576	1,131	- 90.6%
Net Income	91	596	3,040	757	- 84.7%
Financial Data:					
Total Assets	¥ 58,201	¥ 62,056	¥ 74,279	$484,201	- 6.2%
Shareholders' Equity	31,408	34,126	37,681	261,297	- 8.0%
Per Share Data:	Yen			U.S. Dollars	
Net Income per Share	¥ 4.11	¥ 25.37	¥ 131.80	$ 0.03	- 83.8%
Cash Dividends per Share	20.00	20.00	25.00	0.17	–

The United States dollar amounts represent translations of Japanese yen amounts at the rate of ¥120.2=$1.
See Note 1 to consolidated financial statements.

Net Sales
(Millions of yen)



Net Income
(Millions of yen)



Shareholders' Equity
(Millions of yen)