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2004

Annual Report

Contents

Hakuto Co.,Ltd.

To Our Shareholders, Employees and Friends

We would like to express our heartfelt gratitude for your continued support, at this opportunity of reporting the performance results in the 52nd business period.

Although the outlook of economy was unclear in the beginning of this fiscal year due to the effects of the conflict in Iraq and other factors, later it picked up a general stable recovery mode supported by a global recovery of the economy, mainly in the U.S., and domestically, the improvement of corporate profitability owing to the production and export sales of digital home appliances and information equipment.

Under such management environment, the consolidated net sales amount of Hakuto Co., Ltd., including its group companies, recorded ¥101.843 billion (18.5% up from the previous fiscal year). Ordinary income was ¥3.321 billion (2.3% up from the previous fiscal year), showing only a slight improvement because of reinforcement costs in the marketing force, increased market development expenses in Asia and the cost increase related to the introduction of new information systems in order to enhance the consolidated management control; however, net income of the term soared significantly to ¥1.682 billion (1,740.7% up from the previous fiscal year) because the negative effect of the impairment losses on investment securities and the business restructuring costs of the subsidiaries in Europe and the U.S. reported in the previous period faded.

Cash dividends paid to the shareholders at the end of this fiscal year was determined at ¥20 per share, of which ¥10 is the ordinary dividend and ¥10 a special dividend commemorating the 50th anniversary of the Company's establishment, in order to express our gratitude to the continued support extended by our shareholders. The annual dividend will become ¥30 per share, including the interim dividend of ¥10 already paid.

At the Board of Directors Meeting held after the 52nd Ordinary General Meeting of Shareholders, the resolution was passed to appoint Mr. Hiroshi Asai as President and the former president, Mr. Toshiaki Hirai, as Counselor. Under the leadership of the new President and the renewed management members including new directors, the Company will strive for revitalization of corporate activity toward further expansion of the business.

Hakuto Co., Ltd. will endeavor to improve its business performance and increase the corporate value based on the reliability fostered during the past 50 years and to build up "New Hakuto" in the coming 50 years. Hakuto group as a whole would meet the expectations of its shareholders, hoping for their continued understanding and support.

Shigeo Takayama
Chairman

Hiroshi Asai
President

The Year in Review

Electronics

The Electronic and Electric Equipment Division is marketing the equipment to manufacture various electronic parts such as semiconductor manufacturing devices, semiconductor testing machines, flat screen display manufacturing equipment and PC board manufacturing equipment. Supported by the favorable sales of such consumer products as digital still camera, DVD and flat screen TV, the corporate investments on facilities and equipment to manufacture various electronic parts and displays was stable throughout the year. The production of mask manufacturing equipment for large displays, which was one of the specialties of the Company, was selling well since last year supported by the popularity of the liquid crystal TV and the plasma-display TV. The demand for the manufacturing facility of PC board, which was marketed under the Company's own brand, was very high not only in Japan but also in Asian countries, headed by Taiwan.

The Electronic Parts Division consists of Semiconductor Device Division and Electronic Components Division.

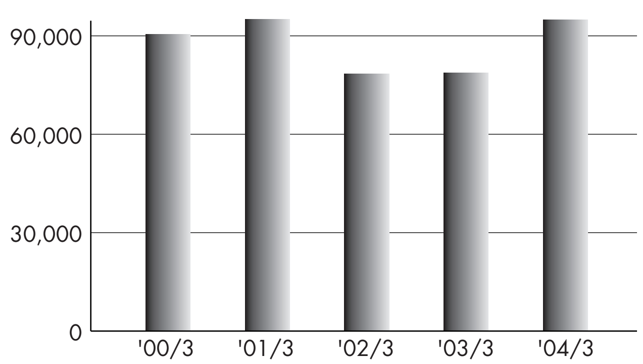
The products handled by the Semiconductor Device Division are mainly used for digital consumer products, cellular phones, computers and its peripheral devices and automotive related goods. The division merchandises wide range of diversified products such as processors, various sound and image processing ASSPIC, driver IC and optical transmission related devices. The division also focuses on developing new suppliers in order to supply the most advanced products to the customers.

The Electronic Components Division is endeavoring to expand domestic and overseas sales of products such as connectors, wire-harnesses and optical transmission parts to be used for laser and DMDW related products, and also increase the sales of transmission devices to be supplied to the broadcasting and data transmission multi-service market, which is a part of the so-called e-Japan concept promoted by the government.

Both of the Semiconductor Device Division and the Electronic Components Division are working in cooperation with the existing overseas offices (in Hong Kong, Singapore and Taiwan), which have been in operation for 20 to 30 years, and Shanghai, Beijing and Shenzhen offices, which were opened fairly recently, in order to cover the recent overseas production by their Japanese customers and to expand their business by means of conducting full cycle of business development, from finding the seeds to the harvesting, in the overseas countries in correspondence with the industry's borderless era.

The business performance was such that sales increased significantly for semiconductor devices such as cellular phone sound generator IC, IC for automobile, IC for DVD and IC for PC, and in the area of electronic and electric equipment, the sales of laser lithography device for display production was in good shape continuously from the previous fiscal year. As a result, this business sector posted a sales amount of ¥94.981 billion (20.7% up from the previous fiscal year).

Sales (Millions of yen)



Chemicals

In the chemicals business, the Company manufactures and distributes specialty chemicals mainly consisting of process additives, products additives and water-treatment chemicals for petro/petro-chemical industry, paper/pulp industry and automobile industry.

In the area of petro/petro-chemical industry, the Company's process additives mainly including corrosion inhibitors and antifoulants are contributing to raise the efficiency in various processes. Especially, the domestic and overseas sales of antifoulant for SM plant, "PC-600ND", are expected to increase more in future as the first overseas sale was successful.

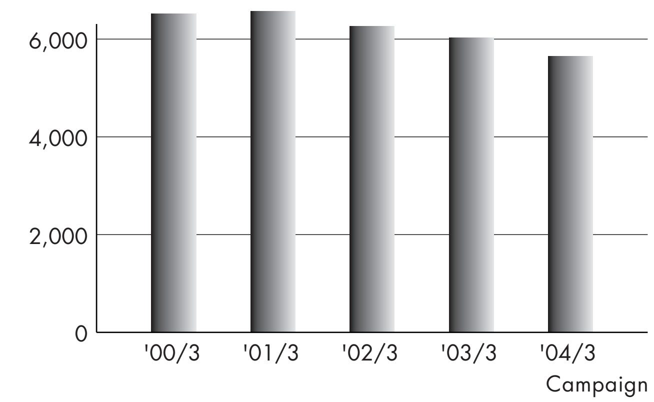
In the area of paper/pulp industry, the Company supplies various chemicals that contribute to the improvement of productivity and quality in paper manufacture. The development of relative products and improvement of application technology related to the well-reputed "Deposit Control Aids" are being conducted continuously in order to meet diversified needs of the customers.

In the area of automobile industry, the Company is actively promoting the sales of a new product: "Super Float." The marketing of a new abhesive agent is also being promoted actively, taking advantage of the increased use of water-based paint.

The biopolysaccharide "Alcasealan" has established a firm position as a cosmetics formula and its sales volume is increasing. Also, the future marketability of biopolysaccharide for industrial use "Alcaseagum" is promising as its unique characteristics are being recognized by the aggressive marketing activity.

As the domestic raw material producers' drastic reexamination of production procedure resulted in the reduction of sales amount and the intensified price competition due to the purchase by bidding resulted in the cut-down of sales price, this business posted the sales amount of ¥5.66 billion (6.0% down from the previous fiscal year).

Sales (Millions of yen)



Others

The other businesses covered by the Company group include temporary staff dispatch service business, employment placement business, education/training business, authorized personal test center (APTC) business, non-life insurance agent business, etc., conducted by a consolidated subsidiary, Human Resources International Co., Ltd. (HRI).

As the result of active sales activity in spite of the continuously declining employment environment, these businesses posted the sales amount of ¥1.202 billion (2.3% up from the previous fiscal year).

Financial Review

Net Sales

As the sales of semi-conductor devices mainly consisting of sound source IC for cellular phones increased significantly and the sales of large-size laser lithography devices for the production of display and cooling units to be used in the production line of liquid crystal and digital equipment in the field of electronic and electric equipment was also favorable, the consolidated net sales amount during this fiscal year reached ¥101.843 billion (18.5% up from the previous fiscal year).

Operating Income and Ordinary Income

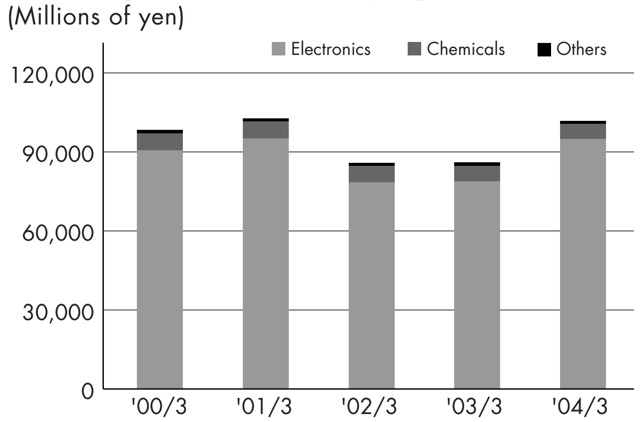
The gross profit increased steadily according to the increase of sales amount, but due to the increase of variable costs and activity expenses, and also due to such factors as the introduction cost of ERP and special expenses for 50th anniversary events, the operating income of this fiscal year resulted in ¥3.402 billion (1.9% increase from the previous fiscal year) and the ordinary income was ¥3.321 billion (2.3% up from the previous fiscal year).

Net Income

In this fiscal year, an extraordinary loss of ¥951 million was posted, including the impairment losses on property, plant and equipment of ¥253 million due to early adoption of accounting standard for impairment of fixed assets and the impairment losses on investment securities in an amount of ¥186 million, but the loss was partly offset by an extraordinary profit of ¥554 million, mainly consisting of the gains on sale of investment securities. As a result, the net income of this fiscal year increased by 1,740.7% from the previous fiscal year to ¥1.682 billion.

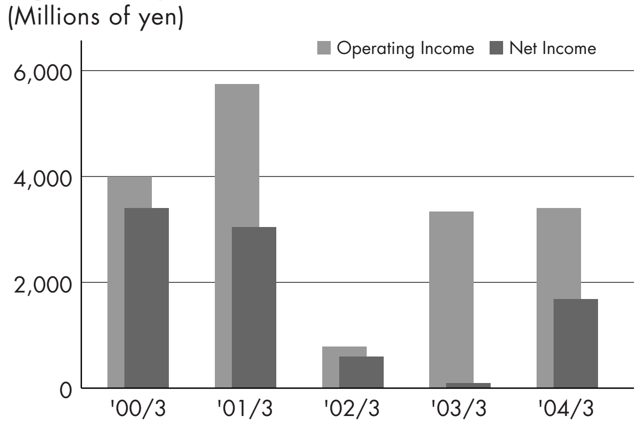
Sales by Product Category

(Millions of yen)



Operating Income and Net Income

(Millions of yen)



Balance Sheet Items

In proportion to the increase of sales amount, the notes and accounts receivable-trade increased by ¥2.245 billion compared with the previous fiscal year.

Other current assets increased by ¥1.51 billion, which mainly consists of the increase of the advance payment to the suppliers. Also, the investments and other assets increased by ¥2.098 billion, as the result of the increased appraisal gain and the corresponding decrease of the deferred tax assets.

Because of the steady growth of the sales by the electronics related business, the purchase liabilities increased by ¥3.033 billion compared with the previous fiscal year. The short-term and long-term borrowings decreased by ¥2.845 billion due to the scheduled payout.

Total shareholders' equity increased by ¥2.497 billion mainly because of the increase of the net unrealized holding gains on investment securities in an amount of ¥1.685 billion, in comparison with the previous fiscal year.

Cash Flows

Cash flow from operating activities:

The increase of trade receivables in an amount of ¥2.579 billion was absorbed mainly by the income before income taxes and minority interest of ¥2.924 billion and the increase of ¥3.25 billion in notes and accounts payable. As the net result, the cash inflow from operating activities decreased by ¥7.637 billion, in comparison with the previous fiscal year, to ¥2.012 billion.

Cash flow from investing activities:

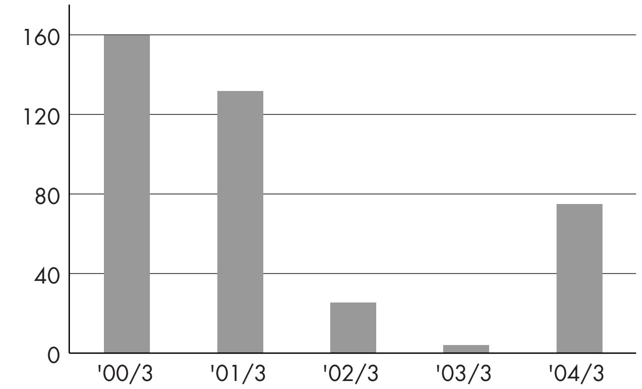
The cash inflows such as the gains on sale of investment securities in an amount of ¥958 million and the proceeds from sale of property and equipment in an amount of ¥125 million were offset mainly by the cash outflows such as the payment for purchase of marketable securities and investment securities in an amount of ¥429 million and the payment for purchase of property and equipment in an amount of ¥412 million. As the result, the net cash outflow from investment activities decreased by ¥893 million, in comparison with the previous fiscal year, to ¥116 million.

Cash flow from financing activities:

The cash flow from financing activities mainly consisted of the outflows by the payment for purchase of treasury stock in an amount of ¥213 million and by the repayment of long-term debt in an amount of ¥2.958 billion. As the result, the net cash outflow from financing activities decreased by ¥1.237 billion, in comparison with the previous fiscal year, to ¥3.505 billion.

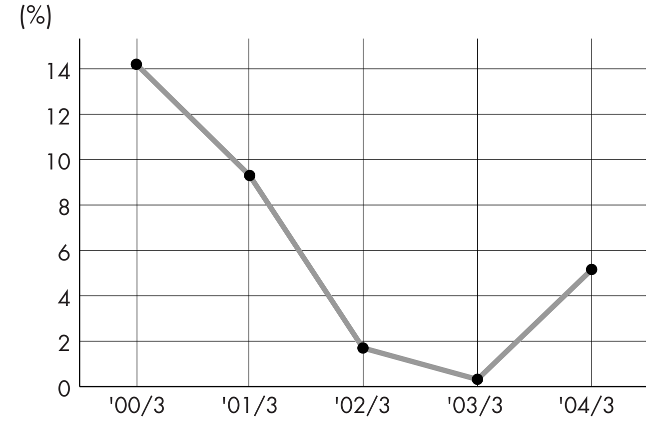
Net Income per Share

(yen)



Return on Equity

(%)



Consolidated Balance Sheets

Hakuto Co., Ltd.
As of March 31, 2004 and 2003

Assets

Current Assets:	Millions of Yen 2004	Millions of Yen 2003	Thousands of U.S. Dollars (Note 1) 2004
Cash and time deposits (Note 14)	¥ 8,225	¥ 9,980	$ 77,822
Short-term investments (Notes 3 and 14)	3	21	28
Receivables (Notes 10 and 13)			
Notes and accounts receivable-trade	26,664	24,421	252,285
Due from unconsolidated subsidiaries and affiliated companies	2	0	19
Allowance for doubtful accounts	(166)	(223)	(1,570)
Inventories (Note 6)	8,090	8,033	76,545
Income taxes receivable (Note 12)	–	147	–
Deferred tax assets (Note 12)	763	517	7,219
Prepaid expenses and other current assets (Note 4)	3,168	1,493	29,974
Total current assets	46,749	44,389	442,322
Property, Plant and Equipment :			
Land and land improvements	3,785	3,780	35,812
Buildings and structures	4,945	5,132	46,788
Machinery and equipment	4,746	4,984	44,905
	13,476	13,896	127,505
Accumulated depreciation	(6,587)	(6,443)	(62,324)
Total property, plant and equipment	6,889	7,453	65,181
Other Non-Current Assets :			
Investment securities (Notes 3 and 4)	7,443	4,761	70,423
Allowance for loss on investment securities	(200)	(190)	(1,892)
Deferred tax assets (Note 12)	284	1,070	2,687
Other assets	1,064	718	10,067
Total other non-current assets	8,591	6,359	81,285
	¥ 62,229	¥ 58,201	$ 588,788

See accompanying notes

Liabilities and Shareholders' Equity

Current Liabilities:	Millions of Yen 2004	Millions of Yen 2003	Thousands of U.S. Dollars (Note 1) 2004
Short-term borrowings (Note 7)	¥ 1,595	¥ 1,482	$ 15,091
Long-term debt due within one year (Note 7)	1,205	2,958	11,401
Payables:			
Notes and accounts payable-trade	17,391	14,745	164,547
Due to unconsolidated subsidiaries and affiliated companies	521	135	4,930
Income taxes payable (Note 12)	1,144	365	10,824
Deferred tax liabilities (Note 12)	0	2	0
Accrued bonuses	610	525	5,772
Accrued expenses and other current liabilities (Note 4)	1,717	1,699	16,246
Total current liabilities	24,183	21,911	228,811
Long-term debt (Notes 7 and 13)	1,878	3,083	17,769
Employees' severance and retirement benefits (Notes 2(i) and 8)	67	89	634
Directors' severance and retirement benefits (Note 2(j))	980	938	9,272
Deferred tax liabilities (Note 12)	1,169	722	11,061
Other non-current liabilities	47	50	445
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	76,639
Capital surplus (Note 16)	7,532	7,532	71,265
Retained earnings (Note 16)	20,730	19,491	196,140
Net unrealized holding gains on investment securities	1,970	284	18,639
Foreign currency translation adjustments	(168)	47	(1,590)
	38,164	35,454	361,093
Treasury stock, at cost	(4,259)	(4,046)	(40,297)
Total shareholders' equity	33,905	31,408	320,796
	¥ 62,229	¥ 58,201	$ 588,788

Consolidated Statements of Income

Hakuto Co., Ltd.
Years ended March 31, 2004, 2003 and 2002

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2004	2003	2002	2004
Net Sales (Notes 4 and 17)	¥101,843	¥85,915	¥ 85,790	$ 963,601
Cost of Sales (Note 4)	86,040	71,586	71,605	814,079
Gross Profit	15,803	15,329	14,185	149,522
Selling, General and Administrative Expenses	12,401	11,992	13,400	117,334
Operating Income (Note 17)	3,402	3,337	785	32,188
Other Income (Expenses):				
Interest and dividend income	56	56	89	530
Interest expenses	(103)	(156)	(208)	(975)
Equity in gain(loss) of affiliated companies	66	(25)	(26)	624
Exchange gain(loss)	(110)	(107)	84	(1,040)
Gains on sale of property, plant and equipment	28	–	0	265
Losses on sale of property, plant and equipment	–	(17)	–	–
Gains on sale of investment securities	512	3	928	4,844
Impairment losses on investment securities	(186)	(1,763)	(615)	(1,760)
Allowance for loss on investment securities	(10)	(80)	(110)	(95)
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)	–
Business restructuring costs (Note 2(r))	–	(1,194)	–	–
Impairment losses on property, plant and equipment (Note 2(s))	(253)	–	–	(2,394)
Foreign currency translation adjustments recognized as a loss due to liquidation of an overseas subsidiary	(107)	–	–	(1,012)
Allowance for doubtful accounts	(142)	–	–	(1,343)
Compensation for damages	(90)	–	–	(851)
Other - net	(139)	82	175	(1,315)
	(478)	(3,201)	662	(4,522)
Income before Income Taxes and Minority Interest	2,924	136	1,447	27,666
Income Taxes Provision (Note 12)				
Current	1,461	648	654	13,823
Deferred	(219)	(603)	186	(2,072)
	1,242	45	840	11,751
Minority Interest	–	–	(11)	–
Net Income	¥ 1,682	¥ 91	¥ 596	$ 15,915

Amounts per share (Note 2(n)):

	Yen			U.S. Dollars (Note 1)
Net income	¥ 74.93	¥ 4.11	¥ 25.37	$ 0.71
Diluted net income	–	–	25.37	–
Cash dividends applicable to the year	30.00	20.00	20.00	0.28

See accompanying notes

Consolidated Statements of Shareholders' Equity

Hakuto Co., Ltd.
Years ended March 31, 2004, 2003 and 2002

	Number of shares of common stock (thousands)	Millions of Yen					
		Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2001	¥ 24,137	¥ 8,100	¥ 7,532	¥ 19,806	¥ 4,465	¥ (172)	¥ (2,050)
Net income	–	–	–	596	–	–	–
Net unrealized holding gains on securities	–	–	–	–	(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)
Net income	–	–	–	1,682	–	–	–
Net unrealized holding gains on securities	–	–	–	–	1,686	–	–
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	(215)	–
Treasury stock	–	–	0	–	–	–	(213)
Cash dividends paid (¥20.00 per share)	–	–	–	(441)	–	–	–
Bonuses to directors and corporate auditors	–	–	–	(2)	–	–	–
Bonuses to employees	–	–	–	(0)	–	–	–
Balance at March 31, 2004	¥ 24,137	¥ 8,100	¥ 7,532	¥ 20,730	¥ 1,970	¥ (168)	¥ (4,259)

	Thousands of U.S. Dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Retained earnings
Balance at March 31, 2003	$ 76,639	$ 71,265	$184,417	$ 2,687	$ 444	$(38,282)
Net income	–	–	15,915	–	–	–
Net unrealized holding gains on securities	–	–	–	15,952	–	–
Adjustments from translation of foreign currency financial statements	–	–	–	–	(2,034)	–
Treasury stock	–	0	–	–	–	(2,015)
Cash dividends paid ($0.19 per share)	–	–	(4,173)	–	–	–
Bonuses to directors and corporate auditors	–	–	(19)	–	–	–
Bonuses to employees	–	–	(0)	–	–	–
Balance at March 31, 2004	$ 76,639	$ 71,265	$196,140	$ 18,639	$ (1,590)	$(40,297)

See accompanying notes

Consolidated Statements of Cash Flows

Hakuto Co., Ltd.
Years ended March 31, 2004, 2003 and 2002

Cash Flows from Operating Activities:	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2004	2003	2002	2004
Income before income taxes and minority interest	¥ 2,924	¥ 136	¥ 1,447	¥ 27,666
Adjustments to reconcile income before income taxes and minority interest to net cash provided by (used in) operating activities:				
Depreciation and amortization	625	672	632	5,914
Impairment losses on property, plant and equipment	253	–	–	2,394
Severance and retirement benefits, net	23	(148)	(124)	218
Gains on sale of investment securities	(512)	(3)	(928)	(4,844)
Gains (losses) on sale of property and equipment	(28)	17	–	(265)
Losses on disposal of plant and equipment	70	28	14	662
Impairment losses on investment securities	186	1,763	615	1,760
Amortization of excess of cost over net assets of an acquired company	–	–	(56)	–
Gains from forgiveness of development cost	–	–	(280)	–
Compensation for expropriation	–	–	(190)	–
Foreign currency translation adjustments recognized as a loss due to liquidation of an overseas subsidiary	107	–	–	1,012
Loss from damage from typhoon	–	–	181	–
Allowance for loss on investment securities	10	80	110	95
Business restructuring costs	–	1,194	–	–
Change in receivables	(2,579)	1,550	3,018	(24,402)
Change in inventories	(166)	297	3,812	(1,571)
Change in payables	3,250	5,062	(4,956)	30,750
Interests and dividends received	55	56	89	520
Interests paid	(98)	(162)	(203)	(927)
Income taxes refunded	135	980	–	1,277
Income taxes paid	(637)	(388)	(3,117)	(6,027)
Other	(1,606)	(1,485)	(871)	(15,195)
Net cash provided by (used in) operating activities	2,012	9,649	(807)	19,037
Cash Flows from Investing Activities:				
Proceeds from sale of property and equipment	125	154	31	1,183
Payments for purchase of property and equipment	(412)	(610)	(865)	(3,898)
Proceeds from sale of marketable securities and investment securities	958	70	2,002	9,064
Payments for purchase of marketable securities and investment securities	(429)	(586)	(875)	(4,059)
Payments for purchase of subsidiary	–	–	(18)	–
Increase in long-term loans receivable	(400)	–	–	(3,785)
Collection on loans	–	–	264	–
Other	42	(37)	641	397
Net cash provided by (used in) investing activities	(116)	(1,009)	1,180	(1,098)
Cash Flows from Financing Activities:				
Change in short-term borrowings	235	(354)	121	2,223
Issuance of commercial paper	–	–	8,100	–
Redemption of commercial paper	–	(1,000)	(7,100)	–
Proceeds from long-term debt	–	–	2,591	–
Repayment of long-term debt	(2,958)	(2,829)	(3,353)	(27,987)
Issuance of common stock to public in Japan and exercise of warrants	–	–	–	–
Cash dividends paid	(441)	(445)	(524)	(4,173)
Payments for purchase of treasury stock	(213)	(132)	(1,864)	(2,015)
Other	(128)	18	0	(1,211)
Net cash used in financing activities	(3,505)	(4,742)	(2,029)	(33,163)
Effect of Exchange Rate Changes on Cash and Cash Equivalent	(164)	(166)	113	(1,551)
Net (Decrease) Increase in Cash and Cash Equivalent	(1,773)	3,732	(1,543)	(16,775)
Increase in Cash and Cash Equivalent due to Exclusions of Consolidated Subsidiaries	–	(0)	–	–
Cash and Cash Equivalent at Beginning of Year	9,934	6,202	7,745	93,991
Cash and Cash Equivalent at End of Year (Note 14)	¥ 8,161	¥ 9,934	¥ 6,202	¥ 77,216

See accompanying notes

Notes to Consolidated Financial Statements

Hakuto Co., Ltd.
Years ended March 31, 2004, 2003 and 2002

1. Basis of presenting consolidated financial statements

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

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) from the consolidated financial statements of Hakuto Co., Ltd. ("the Company") prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2004, which was ¥105.69 to U.S. $1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of significant accounting policies

(a) Principles of consolidation - The consolidated financial statements include the accounts of the Company and 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.

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

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

The Companies had no trading securities or held-to-maturity debt securities. Equity securities issued by subsidiaries are consolidated and affiliated companies except for insignificant companies 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.

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 Companies state derivative financial instruments at fair value and recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

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

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

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

Hedging derivative financial instruments used by the 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.

(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.

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, 2004 and 2003 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at those dates.

Actuarial gains and losses are recognized in expenses using the straight-line method over the average of the estimated remaining service lives (10 years) commencing with the following period.

(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.

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

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

(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. Foreign currency translation adjustments are recorded as a separate component of shareholders' equity.

(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, 2004 and 2003 because potentially dilutive securities are not issued.

(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) Change in accounting policies - 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.

In the year ended March 31, 2004, the Company adopted the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). The new accounting standard is required to be adopted in periods beginning on or after April 1, 2005, but the standard does not prohibit earlier adoption, and the Company has elected to adopt it early. As a result, income before income taxes for the year ended March 31, 2004 decreased by ¥253 million ($2,394 thousand) compared with what would have been reported if the new accounting standard had not been adopted. Recognition of impairment losses reduce the carrying amount of the impaired assets.

(q) Reclassification - Certain prior year amounts have been reclassified to conform to 2004 presentation. These changes had no impact on previously reported results of operations.

(r) Business restructuring costs - Business restructuring costs were incurred in connection with 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 For the year ended March 31, 2003
Devaluation loss of fixed assets	¥ 541
Devaluation loss of investment securities	129
Other	524
Total	¥ 1,194

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

The Companies recognized impairment losses for groups of assets in the year ended March 31, 2004 as follows:

Location	Type of assets	Use
Tsu City, Mie Prefecture	Land	Unused land
Inagi County, Ibaraki Prefecture	Land, building and equipment	Unused land and equipment

The Companies grouped their fixed assets into the electronic and electric equipment business, the electronics parts business, the chemical business, the staffing service business and the outsourcing service business based on the business segment, the nature of merchandise and service, and the similarity of the market.

While there were no indications of impairment losses for each business, the market values of some unused land and equipments were less than their book values. Therefore, their book values were reduced to the recoverable amounts and the reduced values were recognized as impairment losses totaling ¥253 million ($2,394 thousand), which consists of ¥108 million ($1,022 thousand) for land and ¥145 million ($1,372 thousand) for buildings and equipments.

The recoverable amounts of the fixed assets of the unused land and equipments are their net realizable values based on amounts determined by valuations made in accordance with real estate appraisal standards for building and land.

3. Securities

(a) Summarized information of acquisition costs, book values and fair value of securities with available fair values at March 31, 2004 and 2003 were as follows:

2004	Millions of Yen		
	Acquisition Cost	Book Value	Difference
Available-for-sale securities with book values (fair values) exceeding acquisition costs:			
Equity securities	¥ 2,651	¥ 6,005	¥ 3,354
Others	10	15	5
	¥ 2,661	¥ 6,020	¥ 3,359
Available-for-sale securities with book values (fair values) not exceeding acquisition costs:			
Equity securities	¥ 10	¥ 9	¥ (1)
Total	¥ 2,671	¥ 6,029	¥ 3,358

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
	¥ 1,248	¥ 1,187	¥ (61)
Total	¥ 1,862	¥ 2,346	¥ 484

2004	Thousands of U.S. Dollars		
	Acquisition Cost	Book Value	Difference
Available-for-sale securities with book values (fair values) exceeding acquisition costs:			
Equity securities	$ 25,082	$ 56,816	$ 31,734
Others	95	142	47
	$ 25,177	$ 56,958	$ 31,781
Available-for-sale securities with book values (fair values) not exceeding acquisition costs:			
Equity securities	$ 95	$ 86	$ (9)
Total	$ 25,272	$ 57,044	$ 31,772

(b) Summarized information of book values of securities with no available fair values at March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Available-for-sale securities:			
Unlisted domestic bonds	¥ 350	¥ 350	¥ 3,312
Unlisted equity securities	415	1,131	3,927
Money management funds	3	21	28

(c) Summarized information of maturities of securities with maturities at March 31, 2004 and 2003 were as follows:

2004	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				
Corporate bonds	¥ –	¥ –	¥ 350	¥ –

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				
Corporate bonds	¥ –	¥ –	¥ 350	¥ –

2004	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				
Corporate bonds	$ –	$ –	$ 3,312	$ –

(d) Total sales of available-for-sale securities sold for the years ended March 31, 2004 and 2003 were as follows:

	Millions of Yen 2004	2003	Thousands of U.S. Dollars 2004
Available-for-sale securities:			
Total sales account	¥ 958	¥ 70	$ 9,064
Gains	512	3	4,844
Losses	–	–	–

4. Unconsolidated subsidiaries and affiliated companies

Summarized information of balances and transactions with affiliated companies at March 31, 2004 and 2003, and for the years ended March 31, 2004, 2003 and 2002 were as follows:

	Millions of Yen 2004	2003	Thousands of U.S. Dollars 2004
Advance payments and other current assets	¥ 2	¥ 0	$ 19
Investment securities	649	933	6,141
Advance received and other current liabilities	522	136	4,939

	Millions of yen 2004	2003	2002	Thousands of U.S. Dollars 2004
Sales to	¥ 5	¥ 18	¥ 6	$ 47
Purchases from	3,291	2,107	3,355	31,138

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, 2004 and 2003 were as follows:

	Millions of Yen 2004	2003	Thousands of U.S. Dollars 2004
Shigeo Takayama	¥ 100	¥ 100	$ 946
Takayama International Education Foundation	500	500	4,731

6. Inventories

Inventories of the Companies at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen 2004	2003	Thousands of U.S. Dollars 2004
Merchandise	¥ 7,309	¥ 7,409	$ 69,155
Finished goods	255	278	2,413
Raw materials	445	290	4,211
Work in process	63	34	596
Supplies	18	22	170
	¥ 8,090	¥ 8,033	$ 76,545

7. 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, 2004 and 2003 ranged from 0.58% to 3.35% and 0.60% to 6.00% , respectively.

Long–term debt at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen 2004	2003	Thousands of U.S. Dollars 2004
1.14% to 1.80% loans from Japanese banks, due in 2007	¥ 2,163	¥ 3,886	$ 20,466
1.10% to 1.20% loans from Japanese insurance company, due in 2007	320	1,555	3,028
1.50% Japanese yen bonds with detachable warrants, due in 2007	600	600	5,676
	3,083	6,041	29,170
Less amount due within one year	1,205	2,958	11,401
	¥ 1,878	¥ 3,083	$ 17,769

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, 321,609 shares of common stock were issuable on full exercise of the outstanding warrants at March 31, 2004.

Annual maturities of long-term debt at March 31, 2004 were as follows:

Year ending March 31	Millions of Yen	Thousands of U.S. Dollars
2005	¥ 1,205	$ 11,401
2006	398	3,766
2007	1,480	14,003

8. Retirement benefits

The liabilities for employees' severance and retirement benefits included in the liability section of the consolidated balance sheets at March 31, 2004 and 2003 consist of the following:

	Millions of Yen 2004	2003	Thousands of U.S. Dollars 2004
Funded status:			
Projected benefit obligation	¥(2,461)	¥ (2,580)	$ (23,285)
Pension assets	1,907	1,668	18,043
Unfunded projected benefit obligation	(554)	(912)	(5,242)
Unrecognized actuarial differences	493	823	4,665
Net projected benefits obligation recognized	(61)	(89)	(577)
Prepaid pension expense	(6)	–	(57)
Employees' severance and retirement benefits	¥ (67)	¥ (89)	$ (634)

As the pension assets of the Company are in excess of its projected benefit obligation at March 31, 2004, the Company recognized prepaid pension expense amounting to ¥6 million ($57 thousand) in the asset section of the consolidated balance sheet at March 31, 2004.

Included in the consolidated statements of income for the years ended March 31, 2004, 2003 and 2002 are severance and retirement benefit expenses comprised of the following:

	Millions of Yen 2004	2003	2002	Thousands of U.S. Dollars 2004
Severance and retirement benefit expenses:				
Service costs – benefits earned during the year	¥314	¥ 308	¥ 292	$ 2,971
Interest cost on projected benefit obligation	49	72	68	463
Expected return on plan assets	(16)	(28)	(72)	(151)
Amortization of actual differences	88	47	21	832
Extra severance and retirement benefits	101	50	45	956
Severance and retirement benefit expenses	¥536	¥449	¥354	$ 5,071

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

9. 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 exceeds 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 shareholders' 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.

Appropriations are not accrued in the financial statements for the period to which they relate, but are recorded in the subsequent accounting period when the shareholders' approval has been obtained. Retained earnings at March 31, 2004 include amounts representing the year-end cash dividends and bonuses to directors, which were approved at the shareholders' meeting held on June 28, 2004 as described in Note 16.

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 ¥4,259 million ($40,297 thousand) deducted from the shareholders' equity as of March 31, 2004, is not available for dividends under the Code.

10. Contingent liabilities

Contingent liabilities of the Companies at March 31, 2004 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Notes endorsed	¥ 92	$ 870
Guarantees for indebtedness of employees	14	132

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, 2004 and 2003 were ¥201 million ($1,902 thousand) and ¥245 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, 2004, 2003 and 2002. Income taxes of foreign consolidated subsidiaries are based generally on tax rates applicable in their countries of incorporation.

The following table summarizes the significant difference between the statutory tax rate and effective tax rate for consolidated financial statement purposes for the year ended March 31, 2003.

	2003
Statutory tax rate	% 42.1
Not recognize tax effect loss carryforwards of consolidated subsidiaries	3.9
Non-deductible expenses	43.2
Non-taxable dividend income	(13.8)
Dividend income from overseas consolidated subsidiaries	–
Inhabitants' per capita taxes	26.3
Utilization of tax loss carryforwards	(7.1)
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)
Effective tax rates	% 32.8

The difference between the statutory tax rate and effective tax rate is not disclosed for the year ended March 31, 2004 because the difference was less than 5% of the statutory tax rate.

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
Deferred tax assets:	2004	2003	2004
Directors' retirement benefits	¥ 399	¥ 382	$ 3,775
Employees' retirement benefits	27	10	256
Devaluation of inventories	272	241	2,574
Accrued enterprise taxes	95	26	899
Accrued employees' bonuses	238	186	2,252
Devaluation of investment securities	147	136	1,391
Allowance for doubtful account	61	–	577
Allowance for loss on investment securities	81	76	766
Net operating loss carryforwards	17	23	161
Investments in consolidated subsidiaries to be liquidated	91	342	861
Impairment loss on property, plant and equipment	103	–	975
Loss on write-down of property, plant and equipment	210	219	1,987
Others	255	178	2,413
Less-Valuation allowance	(68)	(23)	(643)
Total deferred tax assets	1,928	¥ 1,796	18,244
Deferred tax liabilities:			
Net unrealized holding gains on investment securities	(1,351)	(196)	(12,783)
Retained earnings of subsidiaries	(478)	(510)	(4,523)
Gain on land valuation	(203)	(203)	(1,921)
Others	(18)	(24)	(180)
Total deferred tax liabilities	(2,050)	(933)	(19,407)
Net deferred tax assets (liabilities)	¥ (122)	¥ 863	$ (1,163)

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 and provision for deferred income taxes, net unrealized holding gains on investment securities increased by ¥ 28 million and ¥ 7 million 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, 2004 and 2003, there were no outstanding currency related derivatives for which hedge accounting was not applied.

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, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Cash and time deposits	¥ 8,225	¥ 9,980	$ 77,822
Add: Short-term investments	3	21	28
Total	8,228	10,001	77,850
Less: Time deposits with maturities exceeding three months	(67)	(67)	(634)
Cash and cash equivalents	¥ 8,161	¥ 9,934	$ 77,216

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, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Purchase price equivalent:			
Machinery and equipment	¥ 468	¥ 627	$ 4,428
Other assets	105	102	993
Accumulated depreciation equivalent	287	427	2,715
Book value equivalent	¥ 286	¥ 302	$ 2,706

(b) Future minimum lease payments, inclusive of interest, at March 31, 2004 and 2003 were ¥286 million ($2,706 thousand) and ¥302 million, including ¥117 million ($1,107 thousand) and ¥139 million, respectively due within one year.

(c) Lease payments for the years ended March 31, 2004 and 2003 were ¥145 million ($1,372 thousand) and ¥195 million, respectively. Assumed depreciation charges for the years ended March 31, 2004 and 2003 were ¥145 million ($1,372 thousand) and ¥195 million, respectively.

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

Future lease payments under operating leases as of March 31, 2004 were ¥325 million ($3,075 thousand), including ¥218 million ($2,063 thousand) due after one year.

16. Subsequent events

At the general shareholders' meeting held on June 28, 2004, the shareholders approved i) payment of year-end cash dividends to shareholders of record as of March 31, 2004 of ¥20 ($0.19) per share or a total of ¥439 million ($4,154 thousand) ii) payment of bonuses to directors and corporate auditors of ¥30 million ($284 thousand).
By special resolution the Company introduced a stock option plan in accordance with Article 280-21 of the Commercial Code of Japan, and granted stock purchase rights at advantageous terms to directors, corporate auditors and employees of the Company and its consolidated subsidiaries. The maximum number of shares that may be purchased under the stock option plan is 500,000 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, 2004, 2003 and 2002 were as follows:

(a) Information by business segment

2004	Millions of Yen					
	Electronics division	Chemical division	Other	Total	Elimination and/or Corporate	Consolidated
Net sales:						
Outside customers	¥ 94,982	¥ 5,659	¥ 1,202	¥101,843	¥ –	¥101,843
Within consolidated group	7	–	630	637	(637)	–
Total	94,989	5,659	1,832	102,480	(637)	101,843
Costs and expenses	89,892	5,236	1,804	96,932	1,509	98,441
Operating income	¥ 5,097	¥ 423	¥ 28	¥ 5,548	¥ (2,146)	¥ 3,402
Identifiable assets	¥ 48,236	¥ 4,756	¥ 470	¥ 53,462	¥ 8,767	¥ 62,229
Depreciation and amortization	276	187	1	464	161	625
Impairment losses	–	–	–	–	253	253
Capital expenditures	166	173	2	341	235	576

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

2004	Thousands of U.S. Dollars					
	Electronics division	Chemical division	Other	Total	Elimination and/or Corporate	Consolidated
Net sales:						
Outside customers	$898,685	$ 53,543	$ 11,373	$963,901	$ –	$963,601
Within consolidated group	66	–	5,961	6,027	(6,027)	–
Total	898,751	53,543	17,334	969,628	(6,027)	963,601
Costs and expenses	850,525	49,541	17,069	917,135	14,278	931,413
Operating income	$ 48,226	$ 4,002	$ 265	$ 52,493	$(20,305)	$ 32,188
Identifiable assets	$456,391	$ 45,000	$ 4,447	$505,838	$ 82,950	$588,788
Depreciation and amortization	2,612	1,769	9	4,390	1,523	5,913
Impairment losses	–	–	–	–	2,394	2,394
Capital expenditures	1,571	1,637	19	3,227	2,223	5,450

(b) Information by geographic location

2004	Millions of Yen					
	Japan	Asia	Other area	Total	Elimination and/or Corporate	Consolidated
Net sales:						
Outside customers	¥ 82,295	¥ 19,548	¥ –	¥101,843	¥ –	¥101,843
Within consolidated group	3,599	279	–	3,878	(3,878)	–
Total	85,894	19,827	–	105,721	(3,878)	101,843
Costs and expenses	81,077	19,104	–	100,181	(1,740)	98,441
Operating income	¥ 4,817	¥ 723	¥ –	¥ 5,540	¥ (2,138)	¥ 3,402
Identifiable assets	¥ 46,041	¥ 8,052	¥ 114	¥ 54,207	¥ 8,022	¥ 62,229

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

2004	Thousands of U.S. Dollars					
	Japan	Asia	Other area	Total	Elimination and/or corporate	Consolidated
Net sales:						
Outside customers	$778,645	$184,956	$ –	$963,601	$ –	$963,601
Within consolidated group	34,052	2,640	–	36,692	(36,692)	–
Total	812,697	187,596	–	1,000,293	(36,692)	963,601
Costs and expenses	767,120	180,756	–	947,876	(16,463)	931,413
Operating income	$ 45,577	$ 6,840	$ –	$ 52,417	$(20,229)	$ 32,188
Identifiable assets	$435,623	$ 76,185	$ 1,079	$512,887	$ 75,901	$588,788

(c) Overseas sales information

	Millions of Yen			Thousands of U.S. Dollars
	2004	2003	2002	2004
Export sales:				
Asia	¥ 34,334	¥ 26,646	¥ 19,049	$ 324,855
Other area	465	1,500	2,352	4,400
Total(A)	34,799	28,146	21,401	329,255
Net sales(B)	101,843	85,915	85,790	963,601
A/B	34.2%	32.8%	24.9%	34.2%

Report of Independent Certified Public Accountants

On the Consolidated Financial Statements

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Hakuto Co., Ltd. and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2004, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hakuto Co., Ltd. and consolidated subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2004, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.
As discussed in Note 2(s) to the consolidated financial statements, in the year ended March 31, 2004, Hakuto Co., Ltd. and subsidiaries prospectively adopted the new Japanese accounting standard for impairment of fixed assets.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

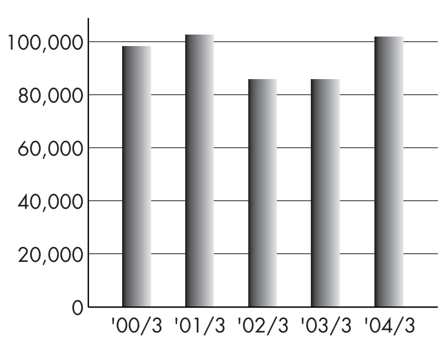
Tokyo, Japan
June 28, 2004

Financial Highlights

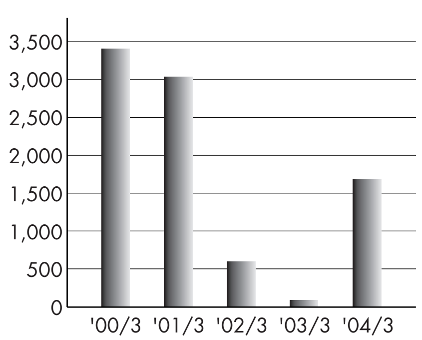
	Millions of Yen 2004/3	2003/3	2002/3	Thousands of U.S. Dollars 2004/3	Percent change between 2003/3 and 2004/3
Operations Data:					
Net Sales	¥101,843	¥ 85,915	¥ 85,790	$963,601	18.5%
Income before Income Taxes	2,924	136	1,447	27,666	2,051.2%
Net Income	1,682	91	596	15,915	1,740.7%
Financial Data:					
Total Assets	¥ 62,229	¥ 58,201	¥ 62,056	$588,788	6.9%
Shareholders' Equity	33,905	31,408	34,126	320,796	8.0%
Per Share Data:	Yen			U.S. Dollars	
Net Income per Share	¥ 74.93	¥ 4.11	¥ 25.37	$ 0.71	1,723.1%
Cash Dividends per Share	30.00	20.00	20.00	0.28	50.0%

The United States dollar amounts represent translations of Japanese yen amounts at the rate of ¥105.69=$1.
See Note 1 to consolidated financial statements.

Net Sales
(Millions of yen)



Net Income
(Millions of yen)



Shareholders' Equity
(Millions of yen)