Hakuto

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

2005

Annual Report

Hakuto Co., Ltd.

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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 53rd business period.

The economic environment experienced a steady recovery in the first half of this fiscal year, owing to an improvement in profits and an increase in capital investment in the industry and the consequent slow-but-steady increase in consumer spending. However, the growth in exports, production and individual consumption slowed down in the second half of the fiscal year, due to inventory curtailment in the information-related industrial sector and occurrence of natural disasters. As a result, the overall economic recovery in this fiscal year remained relatively modest.

Under such circumstances, Hakuto Co., Ltd. and its group companies soundly implemented its basic strategies with the aim of achieving “New Hakuto Model”, the medium-term management plan.

As a result of these business activities, consolidated net sales reached ¥108.627 billion (6.7% up from the previous fiscal year). And, boosted by increased sales of highly profitable products and merchandise, in both the electronics business and the chemicals business, operating income and ordinary income soared to ¥4.174 billion (22.7% up from the previous fiscal year) and ¥4.186 billion (26.0% up from the previous fiscal year), respectively. Additionally in this fiscal year, gains on sale of investment securities of ¥813 million was counted as extraordinary profit, and impairment losses on investment securities of ¥352 million due to the impairment of the investment in securities and an additional allowance for doubtful accounts of ¥331 million, was counted as an extraordinary loss. As a result of the above, the net income for this term increased significantly to ¥2.47 billion (46.8% up from the previous fiscal year).

Since the business results have improved from the previous year, the cash dividends to be paid to the shareholders at the end of this fiscal year were set at ¥20 per share, adding ¥10 on top of the conventional ordinary dividend, in appreciation of the shareholders’ support. Consequently, the annual dividend for this fiscal year, including the interim dividend of ¥10 already paid, will be ¥30 per share.

The 54th business period marks the second year under “New Hakuto Model,” the medium-term management plan which started in April 2004. We all recognize that we have to produce real achievements in current fiscal year ending March 2006, in order to meet the plan’s target, set last year, to be “environment-friendly and to grow continuously as a highly profitable corporate group.”

We are committed to transforming Hakuto Co., Ltd. and its group companies into the group which has a strong financial position and keeps growing, by means of decisively promoting our basic strategies one by one, and we sincerely appreciate the continued understanding and support of our shareholders, employees and friends.

Shigeo Takayama,
Chairman

Hiroshi Asai,
President

The Year in Review

Electronics

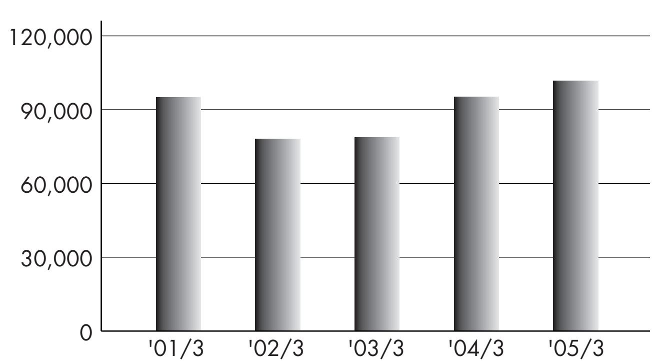
The business performance of the Electronic and Electric Equipment Division was in good shape all through the fiscal year, having been boosted by increased sales of evaluation systems used in the semi-conductor manufacturing process and various types of inspection systems, based on the digital home appliance boom and increased capital investment from manufacturers in the first half of the fiscal year. In the field of nanotechnology, the manufacturers are cautiously but surely proceeding with capital investment plans and other practical projects began to be implemented. This division also showed a steady performance in the sales of vacuum-related systems in the analysis-equipment market. This fiscal year, the division acquired a number of new important trade rights to expand the variety of products which are suitable for next-generation technologies. In addition, the demand for printed-circuit boards rapidly recovered, due to an increased demand for flat-panel displays. As a result, there was strong demand for Printed Circuit Board manufacturing equipment, and this division was successful in the Asian markets centering on Taiwan, and including China and Korea, to record higher-than-expected sales. The sales of state-of-the-art exposure systems for Package Circuit Board, to which the Company is most strongly concentrating its sales efforts on in the Printed Circuit Board market, also started to pick up.

The Electronic Device Division outperformed its initial targets, in both sales and income, supported by favorable market conditions in the first half of the fiscal year. In particular, the popularity of flat-screen TVs contributed to a significant increase in sales, since flat-screen TVs use multiple ICs in their panels and the driving systems. This division also attained good sales of sound-generator ICs for cellular phones, by providing a stable supply to major domestic and overseas users. Although sales in the second half of the fiscal year did not reach the expected levels, due to a significant fall in the unit price of products and a decrease in sales quantities because of a downward shift in the economic climate, the overall performance throughout the fiscal year ended up more or less the same as planned, since the better-than-expected performance in the first half of the year compensated for the stagnancy in the second half.

The Electronic Components Division, which used to depend mainly on the sales of connectors for data processing equipment, such as mainframe computers and their peripheral equipment, expanded the application of its products to PCs and cellular phones, and further, to digital home appliances, in response to diversifying customer needs. In the fiscal year, the sales of connectors, the main product of the division, made by Foxconn Technology, co., Ltd. of Taiwan to major manufacturers continued to be robust. In addition, this division actively promoted the diversification of products for electromechanical components other than connectors, such as antistatic materials and heat sinks for plasma displays.

As a result, this business sector posted sales of ¥104.182 billion (6.8% up from the previous fiscal year) and an operating income of ¥6.03 billion (18.3% up from the previous fiscal year).

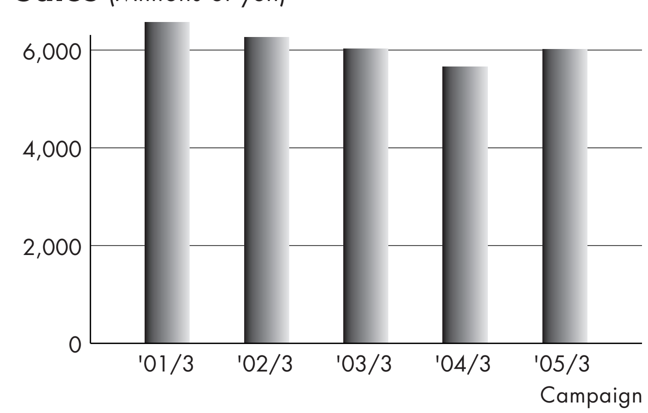
Sales (Millions of yen)



Chemicals

The chemicals business recorded good results in the petro/petro-chemical industry, paper/pulp industry and automobile industry, which are the major customer industries of the Chemical Division, due to an upturn in Asian economies, particularly China. However, the business climate for this division continued to be generally difficult, because of streamlining by customers and severe competition among the suppliers which did not lessen during the term, as well as an oil price hike and a feeling that there was a slowdown in the economy after this fiscal year's summer. Despite such unfavorable business conditions, this division strived to promote priority action items, such as entering the monomer market in the petro/petro-chemical field, increasing the market share of the felt conditioning agent "Presskeep" in the paper/pulp field, and increasing the market share of the spray booth treatment agent "Hakutron" in the automobile field. As a result, this business sector attained sales of ¥6.003 billion (6.1% up from the previous fiscal year) and an operating income of ¥522 million (23.4% up 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).

Business performance was not very good, since business had to be conducted under such unfavorable conditions as the difficulty of securing temporary staff and keen price competition, both caused by an increase in new participants to the business.

As a result, the sales attained by this business sector remained at ¥1.142 billion (5.0% down from the previous fiscal year) and the operating loss was ¥27 million.

Financial Review

Net Sales

As the sales of PCB-related photolithography machines, mainly in Asia, and various types of inspection systems for use in the semi-conductor manufacturing process in Japan, increased in the field of electronic and electric equipment, and the sales of digital home appliance-related products continued to remain high in the electronic parts sector, the consolidated net sales during this fiscal year reached ¥108.627 billion (6.7% up from the previous fiscal year).

Operating Income and Ordinary Income

As the sales in the field of electronic and electric equipment, mainly consisting of highly-profitable items, increased steadily in this fiscal year, and there was also a good performance in the business results of equity method affiliates, continuing on from the previous fiscal year, which resulted in an equity in gain of affiliated companies of ¥66 million, the oridinary income of this fiscal year stood at ¥4.186 billion, a 26.0% increase from the previous fiscal year.

Net Income

In this fiscal year, although there was an impairment losses on investment securities of ¥352 million, and an addition to the allowance for doubtful accounts that amounted to ¥331 million, at the same time there was gains on sale of investment securities of ¥813 million. As a result, the net income for this fiscal year increased by 46.8% from the previous fiscal year, to ¥2.47 billion.

Balance Sheet Items

Owing to an increase in sales in the second half of the fiscal year, the notes and accounts receivable-trade increased by ¥4.595 billion compared with the previous fiscal year. The investment securities decreased by ¥592 million in this fiscal year, as the result of an increase in appraisal gain of ¥241 million from the end of previous fiscal year, a sale of securities worth ¥578 million and an impairment loss of ¥352 million. The long-term allowance for doubtful accounts increased by ¥320 million from the end of previous fiscal year, for reasons such as an additional allowance reserved against the loan to the investees.

As the operating capital increased in the second half of this fiscal year, the short-term borrowings (excluding long-term debt due within a year) increased by ¥3.591 billion compared with the end of previous fiscal year. The total amount of repayments of long-term debt was ¥1.205 billion in this fiscal year, including long-term debt due within one year and are included in the short-term borrowings.

The shareholders' equity increased by ¥1.862 billion compared with the end of previous fiscal year. The main factor for this was the increase in retained earnings by ¥1.779 billion from the end of previous fiscal year.

Cash Flows

Cash flow from operating activities:

Income before income taxes and minority interests was ¥4.18 billion, an increase in trade receivables of ¥4.605 billion, an increase in inventories of ¥1.917 billion and a decrease of purchase liabilities of ¥923 million were counted, among others. As a result, the cash flow from operating activities decreased by ¥5.246 billion, in comparison with the previous fiscal year, and ended up as an outflow of ¥3.234 billion.

Cash flow from investing activities:

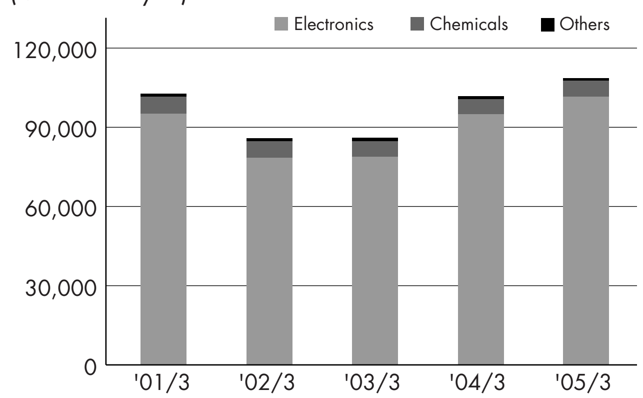
Although there were such outlays as the payment of ¥482 million for purchase of property and equipment and the payment of ¥349 million for purchase of intangible fixed assets, the proceed of ¥1.391 billion from sale of marketable securities and investment securities etc., covered this outflow. As a result, the cash flow from investing activities increased by ¥735 million, in comparison with the previous fiscal year, and resulted in an inflow of ¥619 million.

Cash flow from financing activities:

Although there were such outlays as the repayment of long-term debt of ¥1.205 billion and the repayment of short-term borrowings of ¥4.205 billion, the inflow from short-term borrowings of ¥7.776 billion, etc. covered this outflow. As a result, the cash flow from financing activities increased by ¥5.211 billion, in comparison with the previous fiscal year, and resulted in an inflow of ¥1.706 billion.

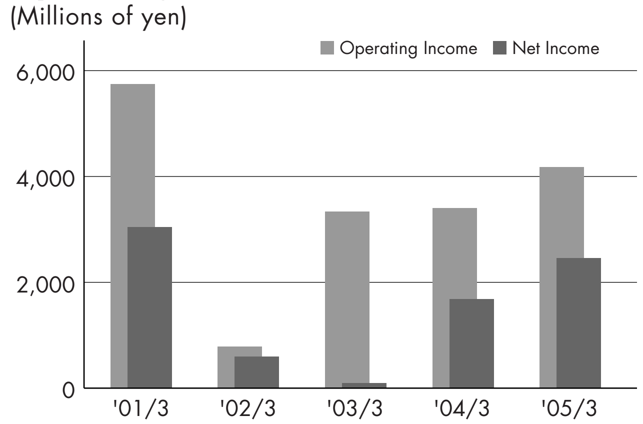
Sales by Product Category

(Millions of yen)



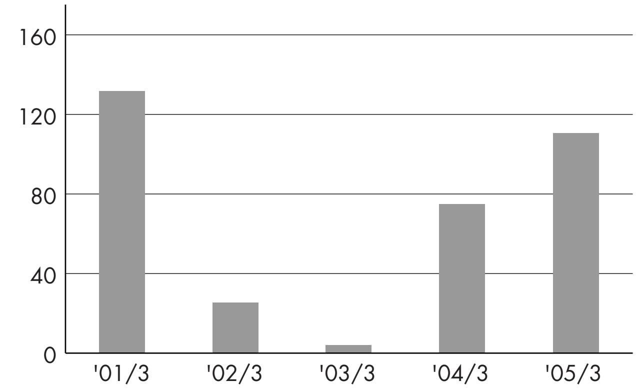
Operating Income and Net Income

(Millions of yen)



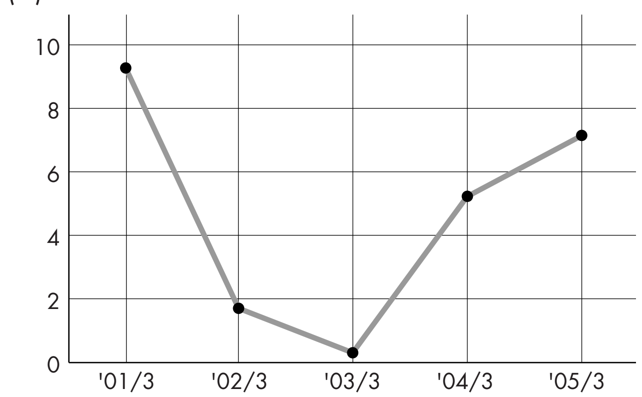
Net Income per Share

(yen)



Return on Equity

(%)



Consolidated Balance Sheets

Hakuto Co., Ltd.
As of March 31, 2005 and 2004

Assets

Current Assets:	Millions of Yen 2005	Millions of Yen 2004	Thousands of U.S. Dollars (Note 1) 2005
Cash and time deposits (Note 14)	¥ 7,212	¥ 8,225	$ 67,157
Short-term investments (Notes 3 and 14)	30	3	279
Receivables: (Notes 4 and 10)			
Notes and accounts receivable - trade	31,259	26,664	291,079
Due from unconsolidated subsidiaries and affiliated companies	1	2	9
Allowance for doubtful accounts	(82)	(166)	(764)
Inventories (Note 6)	9,995	8,090	93,072
Deferred tax assets (Note 12)	765	763	7,124
Prepaid expenses and other current assets	2,023	3,168	18,838
Total current assets	51,203	46,749	476,794
Property, Plant and Equipment :			
Land and land improvements	3,763	3,785	35,041
Buildings and structures	4,924	4,945	45,852
Machinery and equipment	4,886	4,746	45,498
	13,573	13,476	126,391
Accumulated depreciation	(6,758)	(6,587)	(62,930)
Total property, plant and equipment	6,815	6,889	63,461
Other Non-Current Assets :			
Investment securities (Notes 3 and 4)	6,851	7,443	63,796
Allowance for loss on investment securities	(210)	(200)	(1,955)
Deferred tax assets (Note 12)	35	284	326
Other assets	950	1,064	8,845
Total other non-current assets	7,626	8,591	71,012
Total Assets	¥ 65,644	¥ 62,229	$ 611,267

See accompanying notes

Liabilities and Shareholders' Equity

Current Liabilities:	Millions of Yen 2005	Millions of Yen 2004	Thousands of U.S. Dollars (Note 1) 2005
Short-term borrowings (Note 7)	¥ 5,186	¥ 1,595	$ 48,291
Long-term debt due within one year (Note 7)	398	1,205	3,706
Payables: (Note 4)			
Notes and accounts payable - trade	15,491	17,391	144,250
Due to unconsolidated subsidiaries and affiliated companies	1,452	521	13,521
Income taxes payable (Note 12)	1,156	1,144	10,764
Deferred tax liabilities (Note 12)	1	0	9
Accrued bonuses	898	610	8,362
Accrued expenses and other current liabilities	1,820	1,717	16,948
Total current liabilities	26,402	24,183	245,851
Long-term debt (Note 7)	1,480	1,878	13,782
Employees' severance and retirement benefits (Note 8)	65	67	605
Directors' severance and retirement benefits	968	980	9,014
Deferred tax liabilities (Note 12)	915	1,169	8,520
Other non-current liabilities	47	47	438
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	75,426
Capital surplus	7,532	7,532	70,137
Retained earnings	22,509	20,730	209,600
Net unrealized holding gains on investment securities	2,119	1,970	19,731
Foreign currency translation adjustments	(233)	(168)	(2,169)
	40,027	38,164	372,725
Treasury stock, at cost	(4,260)	(4,259)	(39,668)
Total shareholders' equity	35,767	33,905	333,057
Total Liabilities and Shareholders' equity	¥ 65,644	¥ 62,229	$ 611,267

Consolidated Statements of Income

Hakuto Co., Ltd.
Years ended March 31, 2005, 2004 and 2003

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2005	2004	2003	2005
Net Sales (Notes 4 and 17)	¥108,627	¥101,843	¥ 85,915	$ 1,011,519
Cost of Sales (Notes 4 and 17)	91,120	86,040	70,586	848,496
Gross Profit	17,507	15,803	15,329	163,023
Selling, General and Administrative Expenses (Notes 11 and 17)	13,333	12,401	11,992	124,155
Operating Income	4,174	3,402	3,337	38,868
Other Income (Expenses):				
Interest and dividend income	63	56	56	587
Interest expenses	(70)	(103)	(156)	(652)
Equity in gain(loss) of affiliated companies	66	66	(25)	615
Exchange loss	(100)	(110)	(107)	(931)
Gains on sale of property, plant and equipment	16	28	–	149
Losses on sale of property, plant and equipment	(37)	–	(17)	(345)
Gains on sale of investment securities (Note 3)	813	512	3	7,571
Gains on termination of distributorship agreement	30	–	–	279
Allowance for directors' severance and retirement benefits	(123)	–	–	(1,145)
Impairment losses on investment securities	(352)	(186)	(1,763)	(3,278)
Allowance for loss on investment securities	(10)	(10)	(80)	(93)
Business restructuring costs (Note 2(n))	–	–	(1,194)	–
Impairment losses on property, plant and equipment (Note 2(o))	–	(253)	–	–
Foreign currency translation adjustments recognized as a gain (loss) due to liquidation of an overseas subsidiary	43	(107)	–	400
Allowance for doubtful accounts	(331)	(142)	–	(3,082)
Compensation for damages	–	(90)	–	–
Other - net	(2)	(139)	82	(20)
	6	(478)	(3,201)	55
Income before Income Taxes and Minority Interest	4,180	2,924	136	38,923
Income Taxes Provision (Note 12)				
Current	1,800	1,461	648	16,761
Deferred	(90)	(219)	(603)	(838)
	1,710	1,242	45	15,923
Net Income	¥ 2,470	¥ 1,682	¥ 91	$ 23,000

Amounts per share(Note 2(m)):	Yen			U.S. Dollars (Note 1)
Net income	¥ 110.62	¥ 74.93	¥ 4.11	$ 1.03
Diluted net income	–	–	–	–
Cash dividends applicable to the year	30.00	30.00	20.00	0.28

See accompanying notes

Consolidated Statements of Shareholders' Equity

Hakuto Co., Ltd.
Years ended March 31, 2005, 2004 and 2003

	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, 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)
Net income	–	–	–	2,470	–	–	–
Net unrealized holding gains on securities	–	–	–	–	149	–	–
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	(65)	–
Treasury stock	–	–	0	–	–	–	(1)
Cash dividends paid (¥30.00 per share)	–	–	–	(659)	–	–	–
Bonuses to directors and corporate auditors	–	–	–	(32)	–	–	–
Bonuses to employees	–	–	–	(0)	–	–	–
Balance at March 31, 2005	¥ 24,137	¥ 8,100	¥ 7,532	¥ 22,509	¥ 2,119	¥ (233)	¥ (4,260)

	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, 2004	$ 75,426	$ 70,137	$193,034	$ 18,344	$(1,564)	$(39,659)
Net income	–	–	23,001	–	–	–
Net unrealized holding gains on securities	–	–	–	1,387	–	–
Adjustments from translation of foreign currency financial statements	–	–	–	–	(605)	–
Treasury stock	–	0	–	–	–	(9)
Cash dividends paid ($0.28 per share)	–	–	(6,137)	–	–	–
Bonuses to directors and corporate auditors	–	–	(298)	–	–	–
Bonuses to employees	–	–	(0)	–	–	–
Balance at March 31, 2005	$ 75,426	$ 70,137	$209,600	$ 19,731	$ (2,169)	$(39,668)

See accompanying notes

Consolidated Statements of Cash Flows

Hakuto Co., Ltd.
Years ended March 31, 2005, 2004 and 2003

Cash Flows from Operating Activities:	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2005	2004	2003	2005
Income before income taxes and minority interest	¥ 4,180	¥ 2,924	¥ 136	$ 38,923
Adjustments to reconcile income before income taxes and minority interest to net cash provided by (used in) operating activities:				
Depreciation and amortization	561	625	672	5,224
Impairment losses on property, plant and equipment	–	253	–	–
Employees' severance and retirement benefits, net	(4)	(19)	(136)	(37)
Directors' severance and retirement benefits, net	(12)	42	(12)	(112)
Equity in gain (loss) of affiliated companies	(66)	(66)	25	(615)
Gains on sale of investment securities	(813)	(512)	(3)	(7,571)
(Gains) losses on sale of property and equipment	21	(28)	17	196
Losses on disposal of plant and equipment	18	70	28	168
Impairment losses on investment securities	352	186	1,763	3,278
Foreign currency translation adjustments recognized as a (gain) loss due to liquidation of an overseas subsidiary	(43)	107	–	(401)
Allowance for loss on investment securities	10	10	80	93
Business restructuring costs	–	–	1,194	–
Change in receivables	(4,605)	(2,579)	1,550	(42,881)
Change in inventories	(1,917)	(166)	297	(17,851)
Change in payables	(923)	3,250	5,062	(8,595)
Interests and dividends received	63	55	56	587
Interests paid	(67)	(98)	(162)	(624)
Income taxes refunded	12	135	980	112
Income taxes paid	(1,835)	(637)	(388)	(17,087)
Other	1,834	(1,540)	(1,510)	17,078
Net cash provided by (used in) operating activities	(3,234)	2,012	9,649	(30,115)
Cash Flows from Investing Activities:				
Proceeds from sale of property and equipment	98	125	154	912
Payments for purchase of property and equipment	(482)	(412)	(610)	(4,488)
Payments for purchase of intangible fixed assets	(349)	(14)	(47)	(3,250)
Proceeds from sale of marketable securities and investment securities	1,391	958	70	12,953
Payments for purchase of marketable securities and investment securities	(24)	(429)	(586)	(223)
Increase in long-term loans receivable	–	(400)	–	–
Other	(15)	56	10	(140)
Net cash provided by (used in) investing activities	619	(116)	(1,009)	5,764
Cash Flows from Financing Activities:				
Change in short-term borrowings	3,571	235	(354)	33,253
Redemption of commercial paper	–	–	(1,000)	–
Repayment of long-term debt	(1,205)	(2,958)	(2,829)	(11,221)
Cash dividends paid	(659)	(441)	(445)	(6,137)
Payments for purchase of treasury stock	(1)	(213)	(132)	(9)
Other	0	(128)	18	–
Net cash provided by (used in) financing activities	1,706	(3,505)	(4,742)	15,886
Effect of Exchange Rate Changes on Cash and Cash Equivalent	(78)	(164)	(166)	(726)
Net (Decrease) Increase in Cash and Cash Equivalent	(987)	(1,773)	3,732	(9,191)
Increase in Cash and Cash Equivalent due to Exclusions of Consolidated Subsidiaries	–	–	(0)	–
Cash and Cash Equivalent at Beginning of Year	8,161	9,934	6,202	75,994
Cash and Cash Equivalent at End of Year (Note 14)	¥ 7,174	¥ 8,161	¥ 9,934	$ 66,803

See accompanying notes

Notes to Consolidated Financial Statements

Hakuto Co., Ltd.
Years ended March 31, 2005, 2004 and 2003

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, 2005, which was ¥107.39 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.

Hakuto Europe GmbH, which had been consolidated subsidiary, was dissolved in the year ended March 31, 2005.

(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 and equipment, and depreciation - Property, plant and equipment are carried at cost. Depreciation is computed primarily using the declining-balance method. In accordance with revisions of the Corporation Tax Law, buildings acquired by the Company and its domestic subsidiaries after March 31, 1998 are depreciated using the straight-line method.

The range of useful lives is from 10 to 50 years for buildings and from 2 to 15 years for machinery and equipment.

(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, 2005 and 2004 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.

The Company abolished the directors' retirement benefits plan on June 2004, and incremental directors' retirement benefits have been accrued since then, but the balance of the directors' retirement benefits at the time would be remained until their retirement as liabilities for them.

(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.

Diluted net income per share is not disclosed at March 31, 2005 and 2004 because potentially dilutive securities are not issued.

(n) 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

(o) 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, which consists of ¥108 million for land and ¥145 million 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.

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

(q) 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 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.

(r) Reclassification - Certain prior year amounts have been reclassified to conform to 2005 presentation. These changes had no impact on previously reported results of operations.

3. Securities

(a) Summarized information of acquisition costs, book values and fair value of securities with available fair values at March 31, 2005 and 2004 were as follows:

2005	Millions of Yen		
	Acquisition Cost	Book Value	Difference
Available-for-sale securities with book values (fair values) exceeding acquisition costs:			
Equity securities	¥ 2,131	¥ 5,725	¥ 3,594
Others	10	16	6
	¥ 2,141	¥ 5,741	¥ 3,600
Available-for-sale securities with book values (fair values) not exceeding acquisition costs:			
Equity securities	¥ 2	¥ 1	¥ (1)
Total	¥ 2,143	¥ 5,742	¥ 3,599

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

2005	Thousands of U.S. Dollars		
	Acquisition Cost	Book Value	Difference
Available-for-sale securities with book values (fair values) exceeding acquisition costs:			
Equity securities	$ 19,844	$ 53,311	$ 33,467
Others	93	149	56
	$ 19,937	$ 53,460	$ 33,523
Available-for-sale securities with book values (fair values) not exceeding acquisition costs:			
Equity securities	$ 18	$ 9	$ (9)
Total	$ 19,955	$ 53,469	$ 33,514

(b) Summarized information of book values of securities with no available fair values at March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Available-for-sale securities:			
Unlisted domestic bonds	¥ 0	¥ 350	$ 0
Unlisted equity securities	392	415	3,650
Money management funds	30	3	279

(c) Summarized information of maturities of securities with maturities at March 31, 2005 and 2004 were as follows:

2005	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	¥ –	¥ –	¥ 0	¥ –

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	¥ –

2005	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	$ –	$ –	$ 0	$ –

(d) Total sales of available-for-sale securities sold for the years ended March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Available-for-sale securities:			
Total sales account	¥ 1,391	¥ 958	$ 12,953
Gains	813	512	7,571
Losses	–	–	–

4. Unconsolidated subsidiaries and affiliated companies

Summarized information of balances and transactions with affiliated companies at March 31, 2005 and 2004, and for the years ended March 31, 2005, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Receivables	¥ 1	¥ 2	$ 9
Investment securities	717	649	6,677
Payables	1,452	521	13,521

	Millions of yen			Thousands of U.S. Dollars
	2005	2004	2003	2005
Sales to	¥ 4	¥ 5	¥ 18	$ 37
Purchases from	4,322	3,291	2,107	40,246

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, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Shigeo Takayama	¥ 100	¥ 100	$ 931
Takayama International Education Foundation	500	500	4,656

6. Inventories

Inventories of the Companies at March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Merchandise	¥ 9,396	¥ 7,309	$ 87,494
Finished goods	264	255	2,458
Raw materials	266	445	2,477
Work in process	48	63	447
Supplies	21	18	196
	¥ 9,995	¥ 8,090	$ 93,072

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, 2005 and 2004 ranged from 0.6% to 3.15% and 0.58% to 3.35%, respectively.

Long-term debt at March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
1.14% to 1.80% loans from Japanese banks, due in 2007	¥ 958	¥ 2,003	$ 8,921
1.10% to 1.20% loans from Japanese insurance company, due in 2007	320	480	2,980
1.50% Japanese yen bonds with detachable warrants, due in 2007	600	600	5,587
	1,878	3,083	17,488
Less amount due within one year	398	1,205	3,706
	¥ 1,480	¥ 1,878	$ 13,782

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, 308,764 shares of common stock were issuable on full exercise of the outstanding warrants at March 31, 2005.

Annual maturities of long-term debt at March 31, 2005 were as follows:

Year ending March 31	Millions of Yen	Thousands of U.S. Dollars
2006	¥ 398	$ 3,706
2007	1,480	13,782

8. Employees' severance and retirement benefits

The liabilities for employees' severance and retirement benefits included in the liability section of the consolidated balance sheets at March 31, 2005 and 2004 consist of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Funded status:			
Projected benefit obligation	¥(2,544)	¥ (2,461)	$ (23,690)
Pension assets	2,090	1,907	19,462
Unfunded projected benefit obligation	(454)	(554)	(4,228)
Unrecognized actuarial differences	394	493	3,669
Net projected benefits obligation recognized	(60)	(61)	(559)
Prepaid pension expense	(5)	(6)	(46)
Employees' severance and retirement benefits	¥ (65)	¥ (67)	$ (605)

As the pension assets of the Company are in excess of its projected benefit obligation at March 31, 2005, the Company recognized prepaid pension expense amounting to ¥5 million ($46 thousand) in the asset section of the consolidated balance sheet at March 31, 2005.

Included in the consolidated statements of income for the years ended March 31, 2005, 2004 and 2003 are severance and retirement benefit expenses comprised of the following:

	Millions of Yen			Thousands of U.S. Dollars
	2005	2004	2003	2005
Severance and retirement benefit expenses:				
Service costs – benefits earned during the year	¥312	¥314	¥308	$ 2,905
Interest cost on projected benefit obligation	48	49	72	447
Expected return on plan assets	(19)	(16)	(28)	(177)
Amortization of actual differences	64	88	47	597
Extra severance and retirement benefits	40	101	50	372
Severance and retirement benefit expenses	¥445	¥536	¥449	$ 4,144

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, 2005 include amounts representing the year-end cash dividends and bonuses to directors, which were approved at the shareholders' meeting held on June 28, 2005 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.

Treasury stock amounting to ¥4,260 million ($39,668 thousand) deducted from the shareholders' equity as of March 31, 2005, is not available for dividends under the Code.

10. Contingent liabilities

Contingent liabilities of the Companies at March 31, 2005 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Notes endorsed	¥ 19	$ 177
Guarantees for indebtedness of employees	8	74

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, 2005 and 2004 were ¥197 million ($1,834 thousand) and ¥201 million, respectively.

12. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax, inhabitants' taxes and enterprise tax, which in the aggregate resulted in normal statutory rates of approximately 40.7% and 42.1% for the years ended March 31, 2005 and 2004, respectively. Income taxes of foreign consolidated subsidiaries are based generally on tax rates applicable in their countries of incorporation.

The difference between the statutory tax rate and effective tax rate is not disclosed for the year ended March 31, 2005 and 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, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
Deferred tax assets:	2005	2004	2005
Directors' retirement benefits	¥ 394	¥ 399	$ 3,669
Employees' retirement benefits	19	27	177
Devaluation of inventories	250	272	2,328
Accrued enterprise taxes	93	95	866
Accrued employees' bonuses	331	238	3,082
Devaluation of investment securities	290	147	2,700
Allowance for doubtful account	196	61	1,825
Allowance for loss on investment securities	85	81	792
Net operating loss carryforwards	36	17	335
Investments in consolidated subsidiaries to be liquidated	–	91	–
Impairment loss on property, plant and equipment	38	103	354
Loss on write-down of property, plant and equipment	149	210	1,387
Others	287	255	2,673
Less-Valuation allowance	(94)	(68)	(875)
Total deferred tax assets	2,074	1,928	19,313
Deferred tax liabilities:			
Net unrealized holding gains on investment securities	(1,451)	(1,351)	(13,511)
Retained earnings of subsidiaries	(522)	(478)	(4,861)
Gain on land valuation	(203)	(203)	(1,890)
Others	(14)	(18)	(130)
Total deferred tax liabilities	(2,190)	(2,050)	(20,392)
Net deferred tax liabilities	¥ (116)	¥ (122)	$ (1,079)

13. Derivative financial instruments

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

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

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

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

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

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

At March 31, 2004, there were no outstanding currency related derivatives for which hedge accounting was not applied.

The following table summarize fair value information as of March 31, 2005 of derivative transactions for which hedge accounting has not been applied:

	Millions of Yen			
2005	Contracted amount	Over one year	Fair value	Gains (Losses)
Currency option trading				
Put	¥ 23	¥ 13	¥ 22	¥ (1)
Call	23	13	24	1
Total	¥ 46	¥ 26	¥ 46	¥ 0

	Thousands of U.S. Dollars			
2005	Contracted amount	Over one year	Fair value	Gains (Losses)
Currency option trading				
Put	$ 214	$ 121	$ 205	$ (9)
Call	214	121	223	9
Total	$ 428	$ 242	$ 428	$ 0

The Company does not collect option fees because it engages only in zero-cost option transactions.

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, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Cash and time deposits	¥ 7,212	¥ 8,225	$ 67,157
Add: Short-term investments	30	3	279
Total	7,242	8,228	67,436
Less: Time deposits with maturities exceeding three months	(68)	(67)	(633)
Cash and cash equivalents	¥ 7,174	¥ 8,161	$ 66,803

15. Information for certain lease transactions

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

(a) A summary of assumed amounts (inclusive of interest) of acquisition cost, accumulated depreciation and net book value at March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Purchase price equivalent:			
Machinery and equipment	¥ 441	¥ 468	$ 4,107
Other assets	100	105	931
Accumulated depreciation equivalent	274	287	2,552
Book value equivalent	¥ 267	¥ 286	$ 2,486

(b) Future minimum lease payments, inclusive of interest, at March 31, 2005 and 2004 were ¥267 million ($2,486 thousand) and ¥286 million, including ¥101 million ($940 thousand) and ¥117 million, respectively due within one year.

(c) Lease payments for the years ended March 31, 2005 and 2004 were ¥127 million ($1,183 thousand) and ¥145 million, respectively. Assumed depreciation charges for the years ended March 31, 2005 and 2004 were ¥127 million ($1,183 thousand) and ¥145 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, 2005 were ¥207 million ($1,928 thousand), including ¥155 million ($1,443 thousand) due within one year.

16. Subsequent events

At the general shareholders' meeting held on June 28, 2005, the shareholders approved i) payment of year-end cash dividends to shareholders of record as of March 31, 2005 of ¥20 ($0.19) per share or a total of ¥439 million ($4,088 thousand), ii) payment of bonuses to directors and corporate auditors of ¥38 million ($354 thousand).

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, 2005, 2004 and 2003 were as follows:

(a) Information by business segment

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

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

2005	Thousands of U.S. Dollars					
	Electronics division	Chemical division	Other	Total	Elimination and/or Corporate	Consolidated
Net sales:						
Outside customers	$ 944,985	$ 55,899	$ 10,635	$1,011,519	$ –	$1,011,519
Within consolidated group	65	–	6,314	6,379	(6,379)	–
Total	945,050	55,899	16,949	1,017,898	(6,379)	1,011,519
Costs and expenses	888,900	51,038	17,200	957,138	15,513	972,651
Operating income	$ 56,150	$ 4,861	$ (251)	$ 60,760	$(21,892)	$ 38,868
Identifiable assets	$ 479,486	$ 48,636	$ 3,436	$ 531,558	$ 79,709	$ 611,267
Depreciation and amortization	2,049	1,536	9	3,594	1,630	5,224
Impairment losses	–	–	–	–	–	–
Capital expenditures	3,417	801	65	4,283	1,937	6,220

(b) Information by geographic location

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

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

2005	Thousands of U.S. Dollars					
	Japan	Asia	Other area	Total	Elimination and/or corporate	Consolidated
Net sales:						
Outside customers	$800,428	$211,091	$ –	$1,011,519	$ –	$1,011,519
Within consolidated group	36,391	3,259	–	39,650	(39,650)	–
Total	836,819	214,350	–	1,051,169	(39,650)	1,011,519
Costs and expenses	784,431	205,866	–	990,297	(17,646)	972,651
Operating income	$ 52,388	$ 8,484	$ –	$ 60,872	$(22,004)	$ 38,868
Identifiable assets	$455,853	$ 83,825	$ –	$ 539,678	$ 71,589	$ 611,267

(c) Overseas sales information

	Millions of Yen			Thousands of U.S. Dollars
	2005	2004	2003	2005
Export sales:				
Asia	¥ 37,614	¥ 34,334	¥ 26,646	$ 350,256
Other area	435	465	1,500	4,051
Total(A)	38,049	34,799	28,146	354,307
Net sales(B)	108,627	101,843	85,915	1,011,519
A/B	35.0%	34.2%	32.8%	35.0%

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, 2005 and 2004, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2005, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hakuto Co., Ltd. and subsidiaries as of March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2005, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 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.

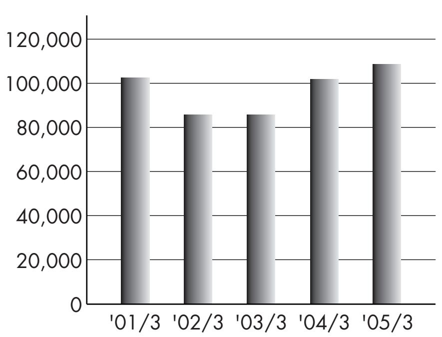
Tokyo, Japan
June 28, 2005

Financial Highlights

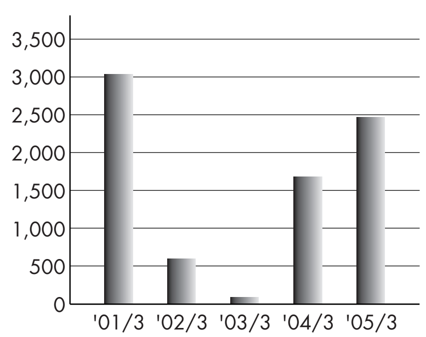
Operating Data:	Millions of Yen 2005/3	2004/3	2003/3	Thousands of U.S. Dollars 2005/3	Percent change between 2004/3 and 2005/3
Net Sales	¥108,627	¥101,843	¥ 85,915	$1,011,519	6.7%
Income before Income Taxes	4,180	2,924	136	38,923	43.0%
Net Income	2,470	1,682	91	23,000	46.8%
Financial Data:					
Total Assets	¥ 65,644	¥ 62,229	¥ 58,201	$611,267	5.5%
Shareholders' Equity	35,767	33,905	31,408	333,057	5.5%
Per Share Data:	Yen			U.S. Dollars	
Net Income per Share	¥ 110.62	¥ 74.93	¥ 4.11	$ 1.03	47.6%
Cash Dividends per Share	30.00	30.00	20.00	0.28	–

The United States dollar amounts represent translations of Japanese yen amounts at the rate of ¥107.39=$1.
See Note 1 to consolidated financial statements.

Net Sales
(Millions of yen)



Net Income
(Millions of yen)



Shareholders' Equity
(Millions of yen)