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2006 Annual Report

Hakuto Co., Ltd.

Contents

To Our Shareholders, Employees and Friends

We would like to take this opportunity to express our heartfelt gratitude for your continued support and encouragement, and in the following present a report of our Company's performance results in its 54th term, which began April 1, 2005 and ended March 31, 2006.

Corporate earnings improved and personal consumption increased in the year under review, and the economy generally followed a steady recovery path. The Group therefore implemented various measures under its new medium-term (three-year) business plan, with the aim of reconstructing itself after the "New Hakuto Model" which emphasizes "to be environment-friendly and to grow continuously as a highly profitable corporate group."

As a result, we posted ¥115,503 million in consolidated net sales for the term (up 6.3% year-on-year). As for the Group incomes for the term, we registered ¥4,178 million in operating income (up 0.1%), ¥4,447 million in ordinary income (up 6.2%) and ¥2,601 million in current-term net income (up 5.3%). This performance allowed the Group to attain growth in both sales and earnings this term.

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

In an age when group management is emphasized, we understand that the important task for management of businesses is to switch to a strong constitution that enables the group grows continuously. As part of our effort at tackling this task, we in December of last year established a 100% subsidiary in Seoul, Korea, through local incorporation, for the purpose of expanding business in Asia, while selling off the temporary staff dispatch service agency under our umbrella in May of this year in order to focus on the Group's core businesses. We are now determined to resolutely implement the other basic strategies one at a time, to make the changes necessary to enable us to continue growing as a Group.

Also, we would like to inform you that in the future, dividends from surplus are to be paid based on Board resolutions to that effect, now that the most recent Annual General Meeting of Shareholders has approved the agenda for amendment to the Articles of Incorporation.

In the years ahead, our Group is to continue to be committed as one to making efforts to improve corporate value to meet the expectations of our Shareholders, and we sincerely hope that all of you, our Shareholders, Employees and Friends, will continue to favor us with your understanding, support and encouragement.

Shigeo Takayama,
Chairman

Hiroshi Asai,
President

The Year in Review

Electronics

· Electronic Equipment First Division

Our Electronic Equipment First Division, which mainly handles products from overseas manufacturers, was unable to implement the initial plan for the term as its sale of state-of-the-art equipment was postponed. Its semiconductors and flat panel display sections have however received increasing numbers of inquiries about next-generation equipment because of the favorable trends of capital investment in Japan, Korea and Taiwan. The Division's future strategies by field are as follows. In the semiconductor field, mainly processing systems and inspection systems for 45 nm and 32 nm nodes are to be vigorously promoted by making the most of demonstration equipment. In the field of flat panel display, where demand for exposure systems and inspection systems from Korea and Taiwan can be expected to increase, sales activities are to be targeted at new LTPS and organic EL applications. In the nanotechnology field, which in this Division mainly concerns R&D applications and therefore unit sales of single item are not expected to grow, various proposals are to be promoted for applications in which number of items are combined.

· Electronic Equipment Second Division

This Division performs business activities with printed circuit board manufacturing equipment (of our own brand) that is its mainstay products. In the year under review, demand for printed circuit boards continued to be robust just like in the preceding year. Demand for circuit boards for cellular phones was high in China and Korea, while demand for circuit boards used in PCs and digital appliances, and package circuit boards, continued to expand mainly in Japan, China and Taiwan. This favorable market environment enabled the Division to sell a greater than expected amount of its mainstay printed circuit board manufacturing equipment during the term.

· Electronic Device Division

The markets related to this Division's business, i.e. those for cellular phones, digital consumer products, PC peripherals and infrastructure-related products, all were favorable in the fiscal year under review. In the cases of cellular phones and consumer products however, prices plummeted, so the year-on-year increase in units sold did not translate into an expansion in total sales. Also, the production of cellular phones for overseas users was curtailed remarkably, slightly affecting our sales of the existing products in this area, but the Division overcame these difficulties through the adoption of new products, achieving an overall increase in sales. Other contributions to the increase in Division sales were attributed to large contracts for digital televisions and others.

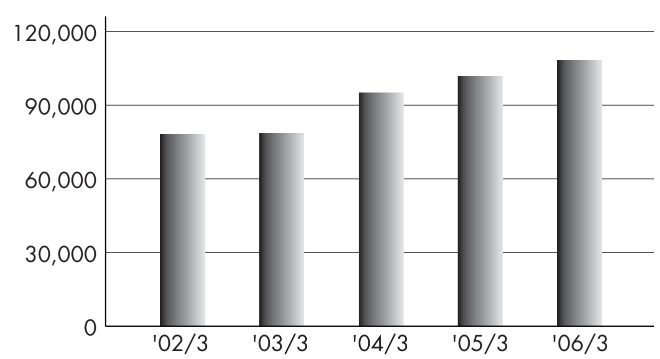
In addition, a number of products the Division has developed proved promising, having been adopted in DVD storage media and PC peripherals such as multi-function printers (MFPs), and infrastructure equipment.

· Electronic Components Division

Products for PCs from Foxconn Technology, Co., Ltd. which are the Division's mainstay products, grew to the extent that in the year under review they accounted for the top market share for connectors used by domestic leading electrical appliance makers. The Division also promoted products other than connectors, including antistatic materials and heat sinks for plasma displays, which derived from its efforts to meet market needs of digital home appliances, PCs, cellular phones and other devices. The Division's commission-based manufacturing business also produced excellent results this term. In this business, the Division receives requests from a large enterprise to produce server cases, has them manufactured at the affiliated overseas plants, and delivers the products to the location designated by the enterprise. Efforts to satisfy the total needs of customers in this way were therefore rewarded this term with ¥800 million in sales.

The above-described business activities of the Electronics sector in the term resulted in ¥108,290 million in sales (increased 6.7% year-on-year) and ¥5,914 million in operating profit (a decrease of 1.9%).

Sales (Millions of yen)

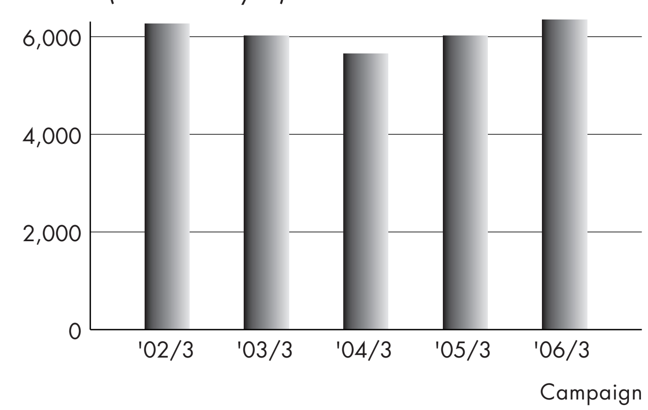


Chemicals

The Japanese economy generally showed recovery in the year under review. Since operating ratios remained high in the domestic oil and paper industries, which include major customers of the Chemicals segment, our shipments to them also expanded. Meanwhile, the segment suffered remarkable increases in materials prices due to high crude oil prices, and production costs can be expected to further rise in the future. While sales from the Chemicals segment for the term increased 5.8% from the previous term, gross profit leveled off compared to the preceding term. This fiscal year had new products added to its lineup, as the Company obtained the right to sell domestically FCC catalysts from Engelhard Corporation, a world's leading manufacture of petroleum refining catalysts.

The above activities of this business segment in the year under review resulted in ¥6,349 million in sales (up 5.8% year-on-year) and ¥689 million in operating income (up 32.0%).

Sales (Millions of yen)



Others

The other operations run by our Group include those managed by Human Resources International Co., Ltd. (HRI). This consolidated subsidiary of ours provides temporary staff dispatch service business, job employment placement business, education/training business, authorized personal test center (APTC) business, and non-life insurance agent business, etc.

As the domestic employment situation improved, competition for human resources became fierce and HRI found it difficult to secure enough personnel to meet customers' demand. Therefore, despite the reform of its profit structure through management system revision which was started from the beginning of this term, HRI continued this term to operate under a severe handicap.

As a result, this segment posted ¥864 million in sales (down 24.3% year-on-year) and recorded an operating loss of ¥45 million for the term under review.

Financial Review

Net Sales

In the year under review, as capital investment related to CPU packages expanded, sales of photolithography systems for manufacturing printed circuit boards were steady in the electronic/electric equipment field, while in the electronic components field, sales of programmable logic devices (PLDs) and parts for optical transmission devices grew, and sales of various connectors for PCs, microprocessors for both general-use and multi-function printers also were healthy. As a result, the Group posted ¥115,503 million in net consolidated sales for the year under review, up 6.3% year-on-year.

Operating Income and Ordinary Income

The year under review saw the prices per unit for electronic parts drop, and materials cost of production of industrial chemicals rise. Our operations however in both areas succeeded at smoothly expanding sales. The Group also recorded ¥102 million in returns on investments as the companies to which the equity method is applied continued to perform favorably. The Group posted ¥4,447 million in ordinary income for the year under review, increasing 6.2% year-on-year.

Net Income

For the year under review, while the Group recorded as extraordinary losses including additional ¥107 million allowance reserved against the loss on investment securities and ¥33 million impairment loss of investment securities, the Group recorded as an ordinary income of ¥515 million by selling investment securities. The total net income for the year under review was ¥2,601 million in current-term, rose 5.3% year-on-year.

Balance Sheet Items

As the Group's sales to other Asian countries and to leading domestic appliance makers expanded in the year under review, accounts receivable-trade as of the term end increased by ¥2,481 million from the end of the preceding term. Mainly this accounted for ¥2,524 million increase in current assets for the term. Also, investments and other assets as of the term end increased by ¥2,116 million mainly because in the year under review, ¥346 million worth of investment securities had been acquired and unrealized gain had increased by ¥2,174 million. As a result, total assets as of the term end had increased by ¥4,518 million from the end of the preceding term.

As sales were favorable this fiscal year, accounts payable-trade also increased, with the term-end figure increasing by ¥467 million from the end of the preceding term. ¥398 million of long-term borrowings including long-term debt due within one year, which is posted in short-term borrowings were repaid in the year under review. Also, deferred tax liabilities as of the term end increased by ¥1,142 million mainly as unrealized gain involved in investment securities expanded.

Shareholders' equity as of the term end was greater by ¥3,596 million than the amount at the end of the preceding term. Main reasons for this increase were a year-on-year ¥1,792 million increase in retained earnings and ¥1,289 million increase in net gains on valuation of other securities.

Cash Flows

Cash flow from operating activities:

As the Group recorded ¥4,748 million in income before income taxes for the year under review, its inventories decreased by ¥409 million, accounts receivable-trade increased by ¥1,907 million, income taxes paid amounted to ¥2,050 million and other cash inflows and outflows arose from operating activities during the term. Overall, they amounted to a net cash inflow from operating activities of ¥1,516 million for the term. Incidentally, in the preceding term, in which among other things accounts receivable-trade and inventories increased, cash flows from operating activities resulted in an outflow of ¥3,234 million.

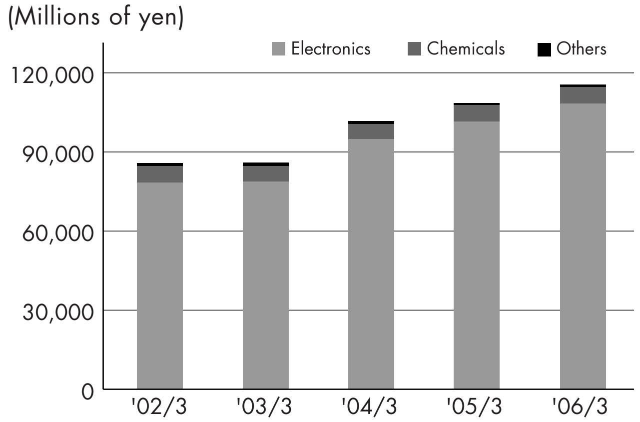
Cash flow from investing activities:

Cash outflows from investing activities in the year under review included ¥356 million paid to acquire property and equipment, ¥67 million spent for intangible fixed assets and ¥346 million spent on marketable securities and investment securities. Cash inflows from investments included ¥732 million realized from the sale of marketable securities and investment securities. Overall, these cash flows from investment activities amounted to a cash inflow of ¥31 million, down ¥588 million year-on-year.

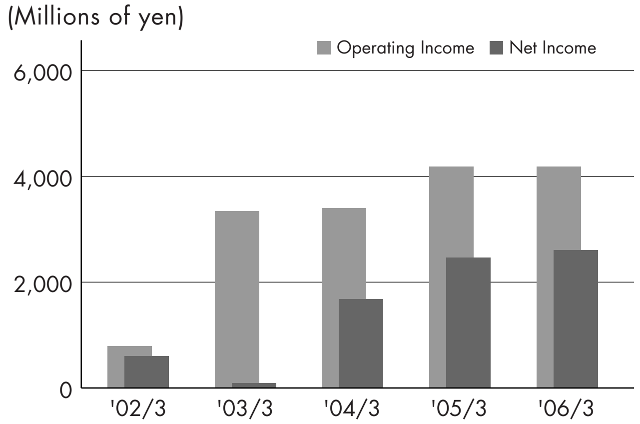
Cash flow from financing activities:

While there were cash outflows from financing activities including ¥398 million from repayment of long-term debt, ¥19,582 million from repayment of short-term borrowing and ¥769 million in dividends paid in the term under review, inflows from these financing activities included ¥19,142 million in short-term borrowing. Overall, cash flows from financing activities in the term amounted to an outflow of ¥1,550 million. Incidentally, in the preceding term, which saw ¥7,776 million in cash inflows as the Group made short-term borrowing, the balance of cash flows from financing activities was positive ¥1,706 million.

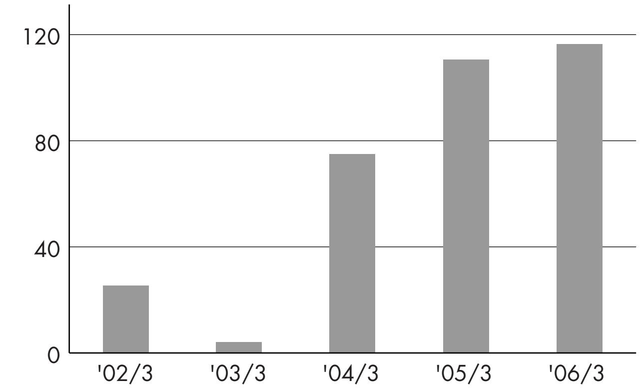
Sales by Product Category
(Millions of yen)



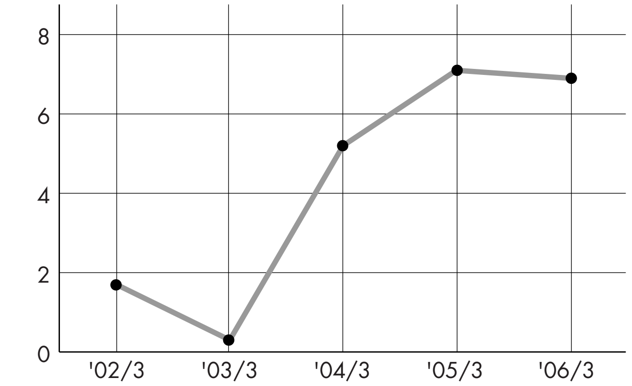
Operating Income and Net Income
(Millions of yen)



Net Income per Share
(yen)



Return on Equity
(%)



Consolidated Balance Sheets

Hakuto Co., Ltd.
As of March 31, 2006 and 2005

Assets

Current Assets:	Millions of Yen 2006	Millions of Yen 2005	Thousands of U.S. Dollars (Note 1) 2006
Cash and time deposits (Note 14)	¥ 7,487	¥ 7,212	$ 63,735
Short-term investments (Notes 3 and 14)	1	30	9
Receivables: (Note 4)			
Notes and accounts receivable - trade	33,739	31,259	287,214
Due from unconsolidated subsidiaries and affiliated companies	0	1	0
Allowance for doubtful accounts	(80)	(82)	(681)
Inventories (Note 6)	9,828	9,995	83,664
Deferred tax assets (Note 12)	784	765	6,674
Prepaid expenses and other current assets	1,968	2,023	16,753
Total current assets	53,727	51,203	457,368
Property, Plant and Equipment:			
Land and land improvements	3,761	3,763	32,017
Buildings and structures	4,921	4,924	41,891
Construction in progress	48	–	408
Other assets	4,742	4,886	40,368
	13,472	13,573	114,684
Accumulated depreciation	(6,779)	(6,758)	(57,708)
Total property, plant and equipment	6,693	6,815	56,976
Investments and Other Non-current Assets:			
Investment securities (Notes 3 and 4)	8,921	6,851	75,943
Allowance for loss on investment securities	(107)	(210)	(911)
Deferred tax assets (Note 12)	48	35	409
Other non-current assets	880	950	7,491
Total investments and other non-current assets	9,742	7,626	82,932
Total Assets	¥ 70,162	¥ 65,644	$ 597,276

See accompanying notes.

Liabilities and Shareholders' Equity

Current Liabilities:	Millions of Yen 2006	Millions of Yen 2005	Thousands of U.S. Dollars (Note 1) 2006
Short-term borrowings (Note 7)	¥ 4,917	¥ 5,186	$ 41,857
Long-term debt due within one year (Note 7)	1,480	398	12,599
Payables: (Note 4)			
Notes and accounts payable - trade	15,679	15,491	133,472
Due to unconsolidated subsidiaries and affiliated companies	1,731	1,452	14,736
Income taxes payable (Note 12)	1,002	1,156	8,530
Deferred tax liabilities (Note 12)	1	1	9
Accrued bonuses	958	898	8,155
Accrued expenses and other current liabilities	1,847	1,820	15,723
Total current liabilities	27,615	26,402	235,081
Long-term debt (Note 7)	–	1,480	–
Employees' severance and retirement benefits (Note 8)	81	65	690
Directors' and corporate auditors' severance and retirement benefits	969	968	8,249
Deferred tax liabilities (Note 12)	2,057	915	17,511
Other non-current liabilities	77	47	655
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	68,954
Capital surplus	7,524	7,532	64,050
Retained earnings	24,301	22,509	206,870
Net unrealized holding gains on investment securities	3,408	2,119	29,012
Foreign currency translation adjustments	205	(233)	1,745
	43,538	40,027	370,631
Treasury stock, at cost	(4,175)	(4,260)	(35,541)
Total shareholders' equity	39,363	35,767	335,090
Total Liabilities and Shareholders' equity	¥ 70,162	¥ 65,644	$ 597,276

Consolidated Statements of Income

Hakuto Co., Ltd.
Years ended March 31, 2006, 2005 and 2004

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2006	2005	2004	2006
Net Sales (Notes 4 and 17)	¥115,503	¥108,627	¥101,843	$ 983,255
Cost of Sales (Notes 4 and 17)	97,265	91,120	86,040	827,998
Gross Profit	18,238	17,507	15,803	155,257
Selling, General and Administrative Expenses (Notes 11 and 17)	14,060	13,333	12,401	119,690
Operating Income	4,178	4,174	3,402	35,567
Other Income (Expenses):				
Interest and dividend income	98	63	56	834
Interest expenses	(91)	(70)	(103)	(775)
Equity in income of affiliated companies	102	66	66	868
Exchange gain (loss), net	117	(100)	(110)	996
Gains on sale of property, plant and equipment	20	16	28	170
Losses on sale of property, plant and equipment	(13)	(37)	–	(111)
Gains on sale of investment securities (Note 3)	515	813	512	4,384
Gains on termination of distributorship agreement	–	30	–	–
Allowance for directors' and corporate auditors' severance and retirement benefits	–	(123)	–	–
Impairment losses on investment securities	(33)	(352)	(186)	(281)
Allowance for loss on investment securities	(107)	(10)	(10)	(911)
Impairment losses on property, plant and equipment (Note 2(n))	(28)	–	(253)	(238)
Foreign currency translation adjustments recognized as a gain (loss) due to liquidation of an overseas subsidiary	–	43	(107)	–
Allowance for doubtful accounts	–	(331)	(142)	–
Compensation for damages	(12)	–	(90)	(102)
Impairment losses on inventories	(30)	–	–	(255)
Other - net	32	(2)	(139)	273
	570	6	(478)	4,852
Income before Income Taxes	4,748	4,180	2,924	40,419
Income Taxes Provision (Note 12)				
Current	1,880	1,800	1,461	16,004
Deferred	267	(90)	(219)	2,273
	2,147	1,710	1,242	18,277
Net Income	¥ 2,601	¥ 2,470	¥ 1,682	$ 22,142

Amounts per share (Note 2(m)):	Yen			U.S. Dollars (Note 1)
Net income	¥ 116.37	¥ 110.62	¥ 74.93	$ 0.99
Diluted net income	116.07	–	–	0.99
Cash dividends applicable to the year	30.00	30.00	30.00	0.26

See accompanying notes.

Consolidated Statements of Shareholders' Equity

Hakuto Co., Ltd.
Years ended March 31, 2006, 2005 and 2004

	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, 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)
Net income	–	–	–	2,601	–	–	–
Net unrealized holding gains on securities	–	–	–	–	1,289	–	–
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	438	–
Treasury stock	–	–	(8)	–	–	–	85
Cash dividends paid (¥30.00 per share)	–	–	–	(769)	–	–	–
Bonuses to directors and corporate auditors	–	–	–	(40)	–	–	–
Bonuses to employees	–	–	–	(0)	–	–	–
Balance at March 31, 2006	24,137	¥ 8,100	¥ 7,524	¥ 24,301	¥ 3,408	¥ 205	¥ (4,175)

	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, 2005	$ 68,954	$ 64,118	$191,615	$ 18,039	$(1,984)	$(36,265)
Net income	–	–	22,142	–	–	–
Net unrealized holding gains on securities	–	–	–	10,973	–	–
Adjustments from translation of foreign currency financial statements	–	–	–	–	3,729	–
Treasury stock	–	(68)	–	–	–	724
Cash dividends paid ($0.26 per share)	–	–	(6,546)	–	–	–
Bonuses to directors and corporate auditors	–	–	(341)	–	–	–
Bonuses to employees	–	–	0	–	–	–
Balance at March 31, 2006	$ 68,954	$ 64,050	$206,870	$ 29,012	$ 1,745	$(35,541)

See accompanying notes.

Consolidated Statements of Cash Flows

Hakuto Co., Ltd.
Years ended March 31, 2006, 2005 and 2004

Cash Flows from Operating Activities:	Millions of Yen 2006	2005	2004	Thousands of U.S. Dollars (Note 1) 2006
Income before income taxes	¥ 4,748	¥ 4,180	¥ 2,924	$ 40,419
Adjustments to reconcile income before income taxes to net cash provided by (used in) operating activities:				
Depreciation and amortization	593	561	625	5,048
Impairment losses on property, plant and equipment	28	–	253	238
Employees' severance and retirement benefits, net	12	(4)	(19)	102
Directors' and corporate auditors' severance and retirement benefits, net	1	(12)	42	9
Equity in (gain) loss of affiliated companies	(102)	(66)	(66)	(868)
Gains on sale of investment securities	(515)	(813)	(512)	(4,384)
(Gains) losses on sale of property and equipment	(7)	21	(28)	(60)
Losses on disposal of plant and equipment	14	18	70	119
Impairment losses on investment securities	33	352	186	281
Foreign currency translation adjustments recognized as a (gain) loss due to liquidation of an overseas subsidiary	–	(43)	107	–
Allowance for loss on investment securities, net	(103)	10	10	(877)
Change in receivables	(1,907)	(4,605)	(2,579)	(16,234)
Change in inventories	409	(1,917)	(166)	3,482
Change in payables	20	(923)	3,250	170
Interests and dividends received	96	63	55	817
Interests paid	(91)	(67)	(98)	(775)
Income taxes refunded	–	12	135	–
Income taxes paid	(2,050)	(1,835)	(637)	(17,451)
Other	337	1,834	(1,540)	2,869
Net cash provided by (used in) operating activities	1,516	(3,234)	2,012	12,905
Cash Flows from Investing Activities:				
Proceeds from sale of property and equipment	43	98	125	366
Payments for purchase of property and equipment	(356)	(482)	(412)	(3,031)
Payments for purchase of intangible fixed assets	(67)	(349)	(14)	(570)
Proceeds from sale of marketable securities and investment securities	732	1,391	958	6,231
Payments for purchase of marketable securities and investment securities	(346)	(24)	(429)	(2,945)
Increase in long-term loans receivable	–	–	(400)	–
Other	25	(15)	56	213
Net cash provided by (used in) investing activities	31	619	(116)	264
Cash Flows from Financing Activities:				
Change in short-term borrowings	(440)	3,571	235	(3,746)
Repayment of long-term debt	(398)	(1,205)	(2,958)	(3,388)
Cash dividends paid	(769)	(659)	(441)	(6,546)
Payments for purchase of treasury stock	(2)	(1)	(213)	(17)
Other	59	0	(128)	502
Net cash provided by (used in) financing activities	(1,550)	1,706	(3,505)	(13,195)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	287	(78)	(164)	2,444
Net Increase (Decrease) in Cash and Cash Equivalents	284	(987)	(1,773)	2,418
Cash and Cash Equivalents at Beginning of Year	7,174	8,161	9,934	61,071
Cash and Cash Equivalents at End of Year (Note 14)	¥ 7,458	¥ 7,174	¥ 8,161	$ 63,489

See accompanying notes.

Notes to Consolidated Financial Statements

Hakuto Co., Ltd.
Years ended March 31, 2006, 2005 and 2004

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements 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, 2006, which was ¥117.47 to U.S. $1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of significant accounting policies

(a) Principles of consolidation - The consolidated financial statements include the accounts of the Company and its 12 (11 in 2005) significant subsidiaries. All significant intercompany balances and transactions have been eliminated.

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

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

Hakuto Europe GmbH, which had been a consolidated subsidiary, was dissolved in the year ended March 31, 2005. Hakuto Korea Co., Ltd., a wholly owned subsidiary of the Company, was established in December 2005 and its accounts have been included in the 2006 consolidation.

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

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

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

The Company and its subsidiaries have no trading securities or held-to-maturity debt securities. Equity securities issued by significant subsidiaries are consolidated and significant affiliated companies are accounted for using the equity method. Investments in such companies not consolidated or accounted for by the equity method are carried at cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a 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 Company states 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 Company defers recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

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

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

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

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

The Company is not required to evaluate hedge effectiveness, because the significant terms of foreign currency transactions of hedging instruments and those of hedged items are the same, and the risk of foreign exchange rate changes would be entirely eliminated.

(f) Property, plant and equipment, and depreciation - Property, plant and equipment are carried at cost. Depreciation is computed primarily using the declining-balance method. In accordance with revisions of the Corporation Tax Law, buildings acquired by the Company and its domestic subsidiaries after March 31, 1998 are depreciated using the straight-line method.
The range of useful lives is from 10 to 50 years for buildings and from 2 to 15 years for machinery and equipment, which is included in Other assets.

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

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

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

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

(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) Impairment losses of fixed assets - As described in Note 2 (p), new Japanese accounting standards for impairment of fixed assets were adopted early for the year ended March 31, 2004. A fixed asset (asset group) is considered impaired if its recoverable amount is less than its carrying amount, where the recoverable amount is defined as the greater of (i) net realizable value or (ii) the present value of expected cash flows from on-going utilization and subsequent disposition of the asset (asset group). A fixed asset is evaluated for impairment based on the asset group of which it is a part, where the asset group is the lowest level at which identifiable cash flows from fixed assets of the group are largely independent of other assets and liabilities. A group may consist of a single asset or several assets that are managed jointly. Losses on impairment are recognized when the estimated undiscounted cash flows to be generated by a group of fixed assets are less than the carrying amount of the assets in the group, in which case, the impaired assets are written down to their recoverable amounts. The Company and subsidiaries analyze their assets for possible impairment at least annually and more frequently if conditions indicate that an asset might be impaired.

The Company recognized impairment losses for groups of assets in the years ended March 31, 2006 and 2004 as follows:

For the years ended March 31					
2006			2004		
Location	Type of assets	Use	Location	Type of assets	Use
Tsu City, Mie Prefecture	Land	Unused land	Tsu City, Mie Prefecture	Land	Unused land
Yokkaichi City, Mie Prefecture	Buildings and structures, Other assets	Unused equipments	Inagi County, Ibaraki Prefecture	Land, Buildings and structures	Unused land and equipments

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

In the years ended March 31, 2006 and 2004, although there were no indications of impairment on each business, the market values of certain unused land showed substantial decline and were not judged to recover, the Company reduced their book values to the recoverable amounts.

The amount of impairment losses for the year ended March 31, 2006 amounted to ¥28 million ($238 thousand), which comprised ¥2 million ($17 thousand) for land, ¥17 million ($145 thousand) for buildings and structures, and ¥9 million ($76 thousand) for other assets.

The amount of impairment losses for the year ended March 31, 2004 amounted to ¥253 million, which comprised ¥108 million for land and ¥145 million for buildings and structures.

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.

(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 - 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.

(q) Reclassification - Certain prior year amounts have been reclassified to conform to 2006 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 as of March 31, 2006 and 2005 were as follows:

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

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

2006	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
Available-for-sale securities with book values (fair values) exceeding acquisition costs:			
Equity securities	$ 16,506	$ 65,012	$ 48,506
Others	85	196	111
	$ 16,591	$ 65,208	$ 48,617
Available-for-sale securities with book values (fair values) not exceeding acquisition costs:			
Equity securities	$ –	$ –	$ –
Total	$ 16,591	$ 65,208	$ 48,617

(b) Summarized information of book values of securities with no available fair values as of March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Available-for-sale securities:			
Non-listed domestic bonds	¥ –	¥ 0	$ –
Non-listed foreign bonds	235	–	2,001
Non-listed equity securities	304	392	2,588
Money management funds	1	30	9

(c) Summarized information of maturities of securities with maturities as of March 31, 2006 and 2005 were as follows:

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

2005	Millions of Yen			
	Within 1 year	Over one year but within 5 years	Over five years but within 10 years	Over 10 years
Available-for-sale securities:				
Government bonds and municipal bonds	¥ –	¥ –	¥ –	¥ –
Corporate bonds	–	–	0	–

2006	Thousands of U.S. dollars Within 1 year	Over one year but within 5 years	Over five years but within 10 years	Over 10 years
Available-for-sale securities:				
Government bonds and municipal bonds	$ –	$ –	$ 0	$ –
Corporate bonds	–	2,001	–	–

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

	Millions of Yen 2006	Millions of Yen 2005	Thousands of U.S. Dollars 2006
Available-for-sale securities:			
Total sales amount	¥ 727	¥ 1,391	$ 6,189
Gains	515	813	4,384
Losses	–	–	–

4. Unconsolidated subsidiaries and affiliated companies

Summarized information of balances and transactions with affiliated companies as of March 31, 2006 and 2005, and for the years ended March 31, 2006, 2005 and 2004 were as follows:

	Millions of Yen 2006	Millions of Yen 2005	Thousands of U.S. Dollars 2006
Receivables	¥ 0	¥ 1	$ 0
Investment securities	722	717	6,146
Payables	1,731	1,452	14,736

	Millions of yen 2006	Millions of yen 2005	Millions of yen 2004	Thousands of U.S. dollars 2006
Sales to	¥ 7	¥ 4	¥ 5	$ 60
Purchases from	4,638	4,322	3,291	39,491

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 as of March 31, 2006 and 2005 were as follows:

	Millions of Yen 2006	Millions of Yen 2005	Thousands of U.S. Dollars 2006
Shigeo Takayama	¥ 100	¥ 100	$ 851
Takayama International Education Foundation	500	500	4,256

6. Inventories

Inventories as of March 31, 2006 and 2005 consisted of the following:

	Millions of Yen 2006	Millions of Yen 2005	Thousands of U.S. Dollars 2006
Merchandise	¥ 9,197	¥ 9,396	$ 78,292
Finished goods	278	264	2,366
Raw materials	286	266	2,435
Work in process	48	48	409
Supplies	19	21	162
	¥ 9,828	¥ 9,995	$ 83,664

7. Short-term borrowings and long-term debt

Short-term borrowings consisted principally of loans from banks. The interest rates on short-term borrowings as of March 31, 2006 and 2005 ranged from 0.56% to 4.91% and 0.6% to 3.15% per annum, respectively.

Long-term debt as of March 31, 2006 and 2005 consisted of the following:

	Millions of Yen 2006	Millions of Yen 2005	Thousands of U.S. Dollars 2006
1.14% to 1.80% loans from Japanese banks, due in 2007	¥ 720	¥ 958	$ 6,129
1.10% to 1.20% loans from Japanese insurance companies, due in 2007	160	320	1,362
1.50% Japanese yen bonds with detachable warrants, due in 2007	600	600	5,108
	1,480	1,878	12,599
Less amount due within one year	1,480	398	12,599
	¥ –	¥ 1,480	$ –

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, 256,182 shares of common stock were issuable on full exercise of the outstanding warrants as of March 31, 2006.

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, 2006 and 2005 consist of the following:

	Millions of Yen 2006	Millions of Yen 2005	Thousands of U.S. Dollars 2006
Funded status:			
Projected benefit obligation	¥(2,721)	¥ (2,544)	$ (23,164)
Pension assets	2,642	2,090	22,491
Unfunded projected benefit obligation	(79)	(454)	(673)
Unrecognized actuarial differences	(2)	394	(17)
Net projected benefits obligation recognized	(81)	(60)	(690)
Prepaid pension expense	–	(5)	–
Employees' severance and retirement benefits	¥ (81)	¥ (65)	$ (690)

As the pension assets of the Companies are in excess of its projected benefit obligation at March 31, 2005, the Companies recognized prepaid pension expense amounting to ¥5 million 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, 2006, 2005 and 2004 are severance and retirement benefit expenses comprised of the following:

	Millions of Yen 2006	Millions of Yen 2005	Millions of Yen 2004	Thousands of U.S. Dollars 2006
Severance and retirement benefit expenses:				
Service costs – benefits earned during the year	¥396	¥312	¥314	$ 3,371
Interest cost on projected benefit obligation	48	48	49	408
Expected return on plan assets	(20)	(19)	(16)	(170)
Amortization of actual differences	60	64	88	511
Extra severance and retirement benefits	15	40	101	128
Severance and retirement benefit expenses	¥499	¥445	¥536	$ 4,248

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.

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.

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, 2006 include amounts representing the year-end cash dividends and bonuses to directors and corporate auditors, which were approved at the shareholders' meeting held on June 27, 2006 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 two types of stock option plans for directors and certain employees of the Company.

Under the plan approved at the general shareholders' meeting held on June 29, 2000, directors and certain employees were given rights to purchase shares of the Company's common stock up to the maximum 601,000 shares of the common stock and not exceeding ¥3,000 million. The options are exercisable during the period from July 1, 2002, to June 30, 2006. Treasury stock of the Company are used for the plan.

Under the plan approved at the general shareholders' meeting held on June 28, 2004, directors and certain employees were given rights to purchase maximum 342,500 shares of the Company's common stock which will be issued upon the exercise of the stock option. All options are exercisable at an exercise price of ¥1,540 from July 1, 2006 through June 30, 2010. The terms of options are subject to adjustment if there are stock splits, consolidation of shares, additional shares issued, or retirement of treasury shares at a price less than the market price per share.

10. Contingent liabilities

Contingent liabilities of the Companies as of March 31, 2006 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Notes endorsed	¥ 20	$ 170
Guarantees for indebtedness of employees	8	68

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, 2006 and 2005 were ¥243 million ($2,069 thousand) and ¥197 million, respectively.

12. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax, inhabitants' taxes and enterprise tax, which in the aggregate resulted in normal statutory rates of approximately 40.7% for the years ended March 31, 2006 and 2005, and 42.1% for the year ended March 31, 2004. Income taxes of overseas consolidated subsidiaries are based generally on tax rates applicable in their countries of incorporation.

The following table summarizes the significant difference between the statutory tax rate and effective tax rate for consolidated financial statement purposes for the year ended March 31, 2006.

	2006
Statutory tax rate	% 40.7
Tax effects not recognized for loss carryforwards of consolidated subsidiaries	1.2
Dividend income from overseas consolidated subsidiaries eliminated in consolidation	2.8
Effects of increases in retained earnings of overseas consolidated subsidiaries	3.3
Non-deductible expenses	1.7
Prior year tax amount	1.7
Lower tax rates of overseas consolidated subsidiaries	(3.9)
Foreign tax credit	(3.4)
Others	1.1
Effective tax rate	% 45.2

The difference between the statutory tax rate and effective tax rate is not disclosed for the year ended March 31, 2005 because the difference was less than 5% of the statutory tax rate.

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Deferred tax assets:			
Directors' and corporate auditors' retirement benefits	¥ 394	¥ 394	$ 3,354
Employees' retirement benefits	22	19	187
Devaluation of inventories	261	250	2,222
Accrued enterprise taxes	74	93	630
Accrued employees' bonus	362	331	3,082
Devaluation of investment securities	259	290	2,205
Allowance for doubtful account	193	196	1,643
Allowance for loss on investment securities	44	85	375
Net loss carryforwards	22	36	187
Impairment loss on property, plant and equipment	49	38	417
Loss on write-down of property, plant and equipment	144	149	1,226
Others	275	287	2,341
Less-Valuation allowance	(99)	(94)	(843)
Total deferred tax assets	2,000	2,074	17,026
Deferred tax liabilities:			
Net unrealized holding gains on investment securities	(2,334)	(1,451)	(19,869)
Retained earnings of subsidiaries	(680)	(522)	(5,789)
Gain on land valuation	(203)	(203)	(1,728)
Others	(9)	(14)	(77)
Total deferred tax liabilities	(3,226)	(2,190)	(27,463)
Net deferred tax liabilities	¥(1,226)	¥ (116)	$ (10,437)

13. Derivative financial instruments

The Company uses 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 Company also uses 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.

The following table summarize fair value information as of March 31, 2006 and 2005 of derivative transactions for which hedge accounting has not been applied:

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

2005	Millions of Yen			
	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

2006	Thousands of U.S. Dollars Contracted amount	Over one year	Fair value	Gains (Losses)
Currency option trading				
Put	$ 102	$ 26	$ 93	$ (9)
Call	102	26	102	0
Total	$ 204	$ 52	$ 195	$ (9)

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 as of March 31, 2006 and 2005 were as follows:

	Millions of Yen 2006	2005	Thousands of U.S. Dollars 2006
Cash and time deposits	¥ 7,487	¥ 7,212	$ 63,735
Add: Short-term investments	1	30	9
Total	7,488	7,242	63,744
Less: Time deposits with maturities exceeding three months	(30)	(68)	(255)
Cash and cash equivalents	¥ 7,458	¥ 7,174	$ 63,489

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 as of March 31, 2006 and 2005 were as follows:

	Millions of Yen 2006	2005	Thousands of U.S. Dollars 2006
Purchase price equivalent:			
Machinery and equipment	¥ 361	¥ 441	$ 3,073
Intangible assets	89	100	758
Accumulated depreciation equivalent	242	274	2,060
Book value equivalent	¥ 208	¥ 267	$ 1,771

(b) Future minimum lease payments, inclusive of interest, as of March 31, 2006 and 2005 were ¥208 million ($1,771 thousand) and ¥267 million, including ¥97 million ($826 thousand) and ¥101 million, respectively due within one year.

(c) Lease payments for the years ended March 31, 2006 and 2005 were ¥111 million ($945 thousand) and ¥127 million, respectively. Assumed depreciation charges for the years ended March 31, 2006 and 2005 were ¥111 million ($945 thousand) and ¥127 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, 2006 were ¥263 million ($2,239 thousand), including ¥137 million ($1,166 thousand) due within one year.

16. Subsequent events

At the general shareholders' meeting held on June 27, 2006, the shareholders approved i) payment of year-end cash dividends to shareholders of record as of March 31, 2006 of ¥15 ($0.13) per share or a total of ¥330 million ($2,809 thousand), ii) payment of bonuses to directors and corporate auditors of ¥40 million ($341 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, 2006, 2005 and 2004 were as follows:

(a) Information by business segment

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

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

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

2006	Thousands of U.S. Dollars Electronics division	Chemical division	Other	Total	Elimination and/or Corporate	Consolidated
Net sales:						
Outside customers	$ 921,852	$ 54,048	$ 7,355	$ 983,255	$ –	$ 983,255
Within consolidated group	–	–	5,346	5,346	(5,346)	–
Total	921,852	54,048	12,701	988,601	(5,346)	983,255
Costs and expenses	871,507	48,183	13,084	932,774	14,914	947,688
Operating income (loss)	$ 50,345	$ 5,865	$ (383)	$ 55,827	$(20,260)	$ 35,567
Identifiable assets	$ 485,196	$ 44,565	$ 1,566	$ 531,327	$ 65,949	$ 597,276
Depreciation and amortization	2,401	1,285	17	3,703	1,345	5,048
Impairment losses	–	–	–	–	238	238
Capital expenditures	2,281	1,064	60	3,405	145	3,550

(b) Information by geographic location

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

2005	Millions of Yen					
	Japan	Asia	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

2006	Thousands of U.S. Dollars					
	Japan	Asia	Other area	Total	Elimination and/or Corporate	Consolidated
Net sales:						
Outside customers	$757,044	$226,211	$ –	$ 983,255	$ –	$ 983,255
Within consolidated group	50,830	3,388	–	54,218	(54,218)	–
Total	807,874	229,599	–	1,037,473	(54,218)	983,255
Costs and expenses	759,700	222,108	–	981,808	(34,120)	947,688
Operating income	$ 48,174	$ 7,491	$ –	$ 55,665	$(20,098)	$ 35,567
Identifiable assets	$461,948	$ 84,285	$ –	$ 546,233	$ 51,043	$ 597,276

(c) Overseas sales information

	Millions of Yen			Thousands of U.S. Dollars
	2006	2005	2004	2006
Export sales:				
Asia	¥ 37,731	¥ 37,614	¥ 34,334	$ 321,197
Other area	1,784	435	465	15,187
Total(A)	39,515	38,049	34,799	336,384
Net sales(B)	115,503	108,627	101,843	983,255
A/B	34.2%	35.0%	34.2%	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, 2006 and 2005, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2006, 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, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2006, 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, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

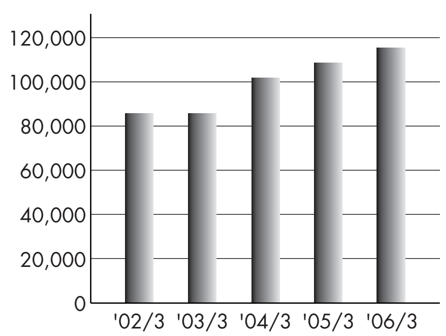
Tokyo, Japan
June 27, 2006

Financial Highlights

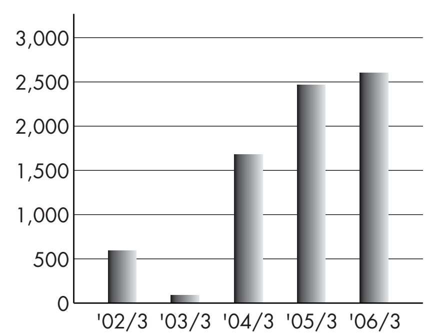
Operating Data:	Millions of Yen 2006/3	2005/3	2004/3	Thousands of U.S. Dollars 2006/3	Percent change between 2005/3 and 2006/3
Net Sales	¥115,503	¥108,627	¥101,843	$983,255	6.3%
Income before Income Taxes	4,748	4,180	2,924	40,419	13.6%
Net Income	2,601	2,470	1,682	22,142	5.3%
Financial Data:					
Total Assets	¥ 70,162	¥ 65,644	¥ 62,229	$597,276	6.9%
Shareholders' Equity	39,363	35,767	33,905	335,090	10.1%
Per Share Data:		Yen		U.S. Dollars	
Net Income per Share	¥ 116.37	¥ 110.62	¥ 74.93	$ 0.99	5.2%
Cash Dividends per Share	30.00	30.00	30.00	0.26	–

The United States dollar amounts represent translations of Japanese yen amounts at the rate of ¥117.47=$1.
See Note 1 to consolidated financial statements.

Net Sales
(Millions of yen)



Net Income
(Millions of yen)



Shareholders' Equity
(Millions of yen)