2007
Annual Report
To Our Shareholders, Employees, and Friends

We would like to take this opportunity to express our heartfelt gratitude for your continued support and encouragement. In the following, we present a report of our Company’s performance results in its 55th term, which began April 1, 2006 and ended March 31, 2007.

The Hakuto Group posted consolidated net sales of ¥123,442 million, which was almost in line with our projection, while ordinary income exceeded our projection with ¥5,333 million.

One of the features of operating results for the term was that businesses in our overseas subsidiaries were strong. They especially contributed significantly on the profit front and helped raise the overall profit in the Group. There was a case in which a customer shifted to production overseas and we dealt with the transferred business through our overseas office. Sales from such business were posted to respective overseas subsidiaries, but it was a great accomplishment that we as the Hakuto Group won the transferred business.

In addition, lines of business of some business segments have changed drastically and sales of high value-added products were boosted, leading to improved profitability. This was one of the factors behind the profit upturn.

As a result, the Group posted ¥5,333 million in ordinary income (up 19.9% year-on-year) and ¥3,054 million in current-term net income (up 17.4% year-on-year).

The Company has decided to pay its shareholders a term-end dividend of ¥17.50 per share (¥15 per share in the previous term-end). This, together with the interim dividend of ¥17.50 per share, will make an annual per-share dividend of ¥35 for the term (¥30 for the previous term).

In the years ahead, the Hakuto Group is committed to continue reforms 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,  
Director & Honorary Chairman

Hiroshi Asai,  
President

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The Year in Review

Electronics

- Electronic Equipment First Division
  Results for the term underachieved the initial plan. This was mainly due to factors such as a delay in the delivery of large equipment for flat panel display (FPD) and increased materials prices. In the 56th term, the Division will strive to achieve net sales for the 56th term that exceed the results of the term under review.

- Electronic Equipment Second Division
  This Division performs business activities with printed circuit board manufacturing equipment (of our own brand), that is its mainstay product. In the year under review, we were able to achieve increases both in sales and profits as we did in the preceding year, supported by a backlog of brisk orders from the previous term. The Division will be in a temporary lull in the 56th term due partly to excess capital expenditure. However, the Division plans to launch a newly developed product in the market and will strive to boost earnings mainly through package circuits and circuit boards for cellular phones, etc., which are growing continuously.

- Electronic Device Division
  Consolidated results of this Division increased 7% year-on-year. Non-consolidated sales increased 7.5% year-on-year and gross profit was boosted by 6% year-on-year. The Division will continue to develop products that conform to each market where it operates, and enhance relationships with customers, as well as provide support to overseas plants in collaboration with subsidiaries, in order to improve customer satisfaction.

- Electronic Components Division
  Sales of connectors, heat sinks, etc. for PCs from Foxconn Technology Co., Ltd., which are the Division’s mainstay products, to major PC makers remained strong as they did in the preceding term, increasing nearly 150% year-on-year. Electromagnetic interference shielding materials from Laird Technologies, Inc., which the Division newly started to deal in, were adopted in flat-screen televisions of leading electronic manufacturers and achieved sales of nearly ¥1,200 million. In addition, sales of existing products were favorable; in particular, optical components from Panasonic Electronic Devices Co., Ltd. were adopted to bullet trains, etc., and the Division maintained steady performance overall. In the 56th term, the Division will strive to stimulate needs for existing products further. At the same time, as brisk businesses are expected overseas, a consolidated strategy will be adopted in Japan and abroad to further enhance services for customers.

  The above activities of the Electronics sector in the term under review resulted in ¥116,704 million in sales (an increase of 7.8% year-on-year) and ¥7,124 million in operating income (an increase of 20.3% year-on-year).

Sales [ Millions of yen ]

Chemicals

Oil prices remain as high as in the first half of the term under review and the market for paper industry faced severe conditions. In the meantime, petrochemical customers fared well due to a brisk demand in the market. Given such circumstances, the Division expanded sales of new products to petrochemical customers, expanded cosmetics business and cultivated new needs for paper-related products. As a result, sales for the term were in line with the initial plan, but profits fell below the plan due to an increase in materials prices. In the 56th term, the Division will develop business following a theme similar to that of the year under review, with plans to focus efforts on selling our own products to improve profitability. In the meantime, as overseas businesses of customers are becoming increasingly active, we are exploring the possibilities of business expansion mainly in China now and considering development of new markets.

The above activities of this business segment in the year under review resulted in ¥6,719 million in sales (an increase of 5.8% year-on-year) and ¥599 million in operating income (a decrease of 13.0% year-on-year).

Sales [ Millions of yen ]

Others

The Group sold all of its shares of Human Resources International Co., Ltd., which was mainly engaged in temporary staff dispatch service business, during the term under review. As a result, this segment posted ¥19 million in sales and ¥25 million in operating income.
Financial Review

Income Statement Items

In the year under review, consolidated net sales increased by ¥7,939 million (up 6.9% year-on-year) from the preceding term to ¥123,442 million. This increase was mainly attributable to factors such as strong sales of printed circuit board manufacturing equipment in the Electronics and Electronic Equipment Divisions and steady sales of graphic ICs for digital televisions, PLD (Programmable Logic Device) for cellular phone base stations, optical transmission components for metro networks, etc. in the Electronic Device Division. As a result, operating income increased 24.3% year-on-year to ¥5,193 million and ordinary income rose 19.9% year-on-year to ¥5,333 million.

For the year under review, while the Group recorded extraordinary losses including an additional ¥122 million from the end of the previous year to ¥41,906 million. This increase was largely attributable to net income of ¥3,054 million and dividend payments of ¥715 million.

Current assets at the end of the year under review increased by ¥8,724 million, up 16.2% from the previous year-end. This was mainly due to an increase in accounts receivable-trade accompanying an increase in sales.

Fixed assets increased by ¥3,289 million, up 20.0% from the previous year-end mainly due to an increase of ¥2,487 million in investment securities.

As a result, total assets at the end of the year under review increased by ¥12,013 million (an increase of 17.1%) from the end of the previous year to ¥82,175 million.

As for liabilities, current liabilities increased by ¥6,211 million (an increase of 22.5%) from the end of the previous year. This was primarily because short-term borrowing increased by ¥5,206 million backed by a rise in demand for working capital accompanying increased sales.

Non-current liabilities increased by ¥1,259 million (an increase of 102.4%) from the previous year-end mainly due to an increase of ¥1,948 million in long-term debt.

As a result, total liabilities at the end of the year under review increased by ¥7,939 million (up 6.9% year-on-year) from the preceding term, cash flows from investing activities including ¥300 million from collection of long-term loans receivable, cash outflows from investing activities including ¥2,399 million paid to acquire intangible fixed assets and ¥39 million paid to acquire tangible fixed assets and ¥39 million paid to acquire investment securities, ¥462 million paid to acquire investment securities, ¥462 million paid to acquire intangible fixed assets and ¥39 million paid to acquire intangible fixed assets. Overall, they amounted to a net cash outflow from investing activities of ¥4,405 million for the term.

Incidentally, in the preceding term, cash flows from operating activities resulted in a net inflow of ¥1,516 million due to factors such as an increase in accounts receivable-trade and a decrease in inventories.

Cash flow from operating activities:

While the Group recorded ¥5,654 million income before income taxes in the year under review, accounts receivable-trade increased by ¥6,626 million, inventories increased by ¥2,347 million and income taxes paid amounted to ¥1,913 million and other cash inflows and outflows arose from operating activities during the term. Overall, they amounted to a net cash outflow from operating activities of ¥1,913 million due to factors such as an increase in accounts receivable-trade and a decrease in inventories.

Cash flow from investing activities:

While the Group recorded cash inflow from investing activities including ¥300 million from collection of long-term loans receivable, cash outflows from investing activities including ¥2,399 million paid to acquire intangible fixed assets and ¥39 million paid to acquire tangible fixed assets and ¥39 million paid to acquire investment securities, ¥462 million paid to acquire intangible fixed assets and ¥39 million paid to acquire intangible fixed assets. Overall, these cash flows from investing activities resulted in a cash outflow of ¥2,659 million. In the meantime, in the preceding term, cash flows from investing activities resulted in a net inflow of ¥1,516 million due to factors including an inflow of ¥732 million from sale of investment securities.

Cash flow from financing activities:

While there were cash outflows from financing activities including ¥32,609 million from repayment of short-term borrowings, ¥1,198 million from repayment of long-term debt and ¥715 million paid in dividends in the year under review, inflows from these financing activities included ¥7,894 million in short-term borrowing and ¥1,200 million in long-term debt. Overall, these cash flows from financing activities resulted in a net inflow of ¥4,529 million. Incidentally, in the preceding term, cash flows from financing activities resulted in an outflow of ¥1,550 million mainly due to ¥769 million paid in dividends, etc.

Sales by Product Category

(Millions of yen)

<table>
<thead>
<tr>
<th>Electronics</th>
<th>Chemicals</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,176</td>
<td>1,202</td>
<td>1,142</td>
</tr>
<tr>
<td>1,200</td>
<td>1,198</td>
<td>1,162</td>
</tr>
<tr>
<td>1,200</td>
<td>1,198</td>
<td>1,162</td>
</tr>
<tr>
<td>1,349</td>
<td>1,349</td>
<td>1,349</td>
</tr>
<tr>
<td>1,375</td>
<td>1,375</td>
<td>1,375</td>
</tr>
</tbody>
</table>

Operating Income and Net Income

(Millions of yen)

<table>
<thead>
<tr>
<th>Operating Income</th>
<th>Net Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>3,337</td>
<td>4,174</td>
</tr>
<tr>
<td>3,402</td>
<td>4,178</td>
</tr>
<tr>
<td>2,470</td>
<td>3,054</td>
</tr>
<tr>
<td>2,601</td>
<td>3,054</td>
</tr>
</tbody>
</table>

Net Income per Share

(yen)

<table>
<thead>
<tr>
<th>'03/3</th>
<th>'04/3</th>
<th>'05/3</th>
<th>'06/3</th>
<th>'07/3</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1</td>
<td>7.4</td>
<td>11.0</td>
<td>11.6</td>
<td>13.8</td>
</tr>
</tbody>
</table>

Return on Equity

(%)  

<table>
<thead>
<tr>
<th>'03/3</th>
<th>'04/3</th>
<th>'05/3</th>
<th>'06/3</th>
<th>'07/3</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.3</td>
<td>2.2</td>
<td>5.2</td>
<td>6.9</td>
<td>7.5</td>
</tr>
</tbody>
</table>
## Consolidated Balance Sheets

**Hakuto Co., Ltd.**

As of March 31, 2007 and 2006

### Assets

<table>
<thead>
<tr>
<th>Current Assets:</th>
<th>Millions of Yen</th>
<th>Thousands of U.S. Dollars (Note 1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and time deposits (Notes 7 (c) and 14 (a))</td>
<td>¥ 5,369</td>
<td>$ 45,481</td>
</tr>
<tr>
<td>Short-term investments (Notes 3 and 14 (a))</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>Receivables: (Note 4)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Notes and accounts receivable - trade</td>
<td>¥ 40,960</td>
<td>¥ 33,739</td>
</tr>
<tr>
<td>Due from unconsolidated subsidiaries and affiliated companies</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>(95)</td>
<td>(80)</td>
</tr>
<tr>
<td>Inventories (Note 6)</td>
<td>12,412</td>
<td>9,828</td>
</tr>
<tr>
<td>Deferred tax assets (Note 12)</td>
<td>993</td>
<td>784</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>2,811</td>
<td>1,968</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>¥ 62,451</td>
<td>¥ 53,727</td>
</tr>
</tbody>
</table>

| Property, Plant and Equipment: | | |
| Land and land improvements (Note 7 (c)) | ¥ 4,024 | ¥ 3,761 | 34,087 |
| Buildings and structures (Note 7 (c)) | ¥ 5,407 | ¥ 4,921 | 45,803 |
| Construction in progress | – | 48 | – |
| Other assets | ¥ 6,850 | ¥ 4,742 | 58,026 |
| Accumulated depreciation | (8,899) | (6,779) | (75,383) |
| **Total property, plant and equipment** | ¥ 7,382 | ¥ 6,693 | 62,533 |

| Investments and Other Non-current Assets: | | |
| Investment securities (Notes 3 and 4) | ¥ 11,408 | ¥ 9,421 | 96,617 |
| Allowance for loss on investment securities | (229) | (107) | (1,940) |
| Deferred tax assets (Note 12) | 41 | 48 | 347 |
| Other non-current assets | ¥ 1,122 | ¥ 880 | 9,504 |
| **Total investments and other non-current assets** | ¥ 12,342 | ¥ 9,742 | 104,546 |
| **Total Assets** | ¥ 82,175 | ¥ 70,162 | $ 696,103 |

See accompanying notes.

### Liabilities and Net Assets

<table>
<thead>
<tr>
<th>Current Liabilities:</th>
<th>Millions of Yen</th>
<th>Thousands of U.S. Dollars (Note 1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term borrowings (Note 7 (a))</td>
<td>¥ 10,439</td>
<td>¥ 4,917</td>
</tr>
<tr>
<td>Long-term debt due within one year (Note 7 (b))</td>
<td>¥ 564</td>
<td>¥ 1,480</td>
</tr>
</tbody>
</table>

| Payables: (Note 4) | | |
| Notes and accounts payable - trade | ¥ 16,275 | ¥ 15,679 | 141,677 |
| Due to unconsolidated subsidiaries and affiliated companies | ¥ 1,270 | ¥ 1,731 | 10,758 |
| Income taxes payable (Note 12) | ¥ 1,149 | ¥ 1,002 | 9,733 |
| Deferred tax liabilities (Note 12) | 1 | 1 | 8 |
| Allowance for employees’ bonuses | ¥ 1,037 | ¥ 958 | 8,785 |
| Allowance for bonuses for directors and corporate auditors | 51 | – | 432 |
| Accrued expenses and other current liabilities | ¥ 2,590 | ¥ 1,847 | 21,940 |
| **Total current liabilities** | ¥ 33,826 | ¥ 27,615 | 286,540 |

| Long-term debt (Note 7 (b)) | ¥ 2,448 | – | 20,737 |
| Allowance for employees’ severance and retirement benefits (Note 8) | ¥ 217 | ¥ 81 | 1,838 |
| Allowance for directors’ and corporate auditors’ severance and retirement benefits | ¥ 969 | ¥ 969 | 8,208 |
| Deferred tax liabilities (Note 12) | ¥ 2,565 | ¥ 2,057 | 21,728 |
| Other non-current liabilities | ¥ 244 | ¥ 77 | 2,067 |
| **Contingent liabilities (Note 10)** | | |
| **Net assets (Note 9)** | | |
| **Owners’ Equity** | | |
| Common stock: | | |
| Authorized - 54,000,000 shares | | |
| Issued and outstanding - 24,301,213 shares | ¥ 8,100 | ¥ 8,100 | 88,615 |
| Capital surplus | ¥ 7,514 | ¥ 7,514 | 73,651 |
| Retained earnings | ¥ 26,596 | ¥ 24,301 | 225,294 |
| Treasury stock, at cost - 2,092,809 shares | (4,105) | (4,157) | (34,723) |
| **Total owners’ equity** | ¥ 38,105 | ¥ 35,750 | 322,787 |

| Accumulated gains (losses) from valuation and translation adjustments | | |
| Net unrealized holding gains on investment securities | ¥ 3,402 | ¥ 3,408 | 28,818 |
| Unrealized gains (losses) on hedging derivatives, net of taxes | 84 | – | 712 |
| Foreign currency translation adjustments | ¥ 315 | ¥ 205 | 2,668 |
| **Total accumulated gains (losses) from valuation and translation adjustments** | ¥ 3,817 | ¥ 3,613 | 32,198 |
| **Total net assets** | ¥ 41,906 | ¥ 39,363 | 354,985 |
| **Total Liabilities and Net assets** | ¥ 82,175 | ¥ 70,162 | $ 696,103 |
Consolidated Statements of Income

Hakuto Co., Ltd.
Years ended March 31, 2007, 2006 and 2005

<table>
<thead>
<tr>
<th>Income Statement</th>
<th>2007</th>
<th>2006</th>
<th>2005</th>
<th>U.S. Dollars (Note 1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Sales (Notes 4 and 19)</td>
<td>¥1,023,442</td>
<td>¥1,151,503</td>
<td>¥1,086,627</td>
<td>$1,045,676</td>
</tr>
<tr>
<td>Cost of Sales (Notes 4 and 19)</td>
<td>103,274</td>
<td>97,265</td>
<td>91,120</td>
<td>874,833</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>20,168</td>
<td>18,238</td>
<td>17,507</td>
<td>170,843</td>
</tr>
<tr>
<td>Selling, General and Administrative Expenses (Notes 11 and 19)</td>
<td>14,975</td>
<td>14,060</td>
<td>13,333</td>
<td>126,853</td>
</tr>
<tr>
<td>Operating Income</td>
<td>5,193</td>
<td>4,178</td>
<td>4,174</td>
<td>43,990</td>
</tr>
</tbody>
</table>

Other Income (Expenses):

- Interest and dividend income | 138 | 98 | 63 | 1,169 |
- Interest expenses | (150) | (91) | (70) | (1,271) |
- Equity in income of affiliated companies | 85 | 102 | 66 | 720 |
- Exchange gain (loss), net | (2) | 117 | (100) | (17) |
- Compensation for claims | (45) | (12) | – | (381) |
- Gains on sale of property, plant and equipment | 1 | 20 | 16 | 8 |
- Losses on sale of property, plant and equipment | (32) | (13) | (37) | (271) |
- Impairment losses on property, plant and equipment (Note 2 (g)) | – | (28) | – | – |
- Gains on sale of investment securities (Note 3 (d)) | 2 | 515 | 813 | 17 |
- Gain on sale of shares of subsidiaries | 56 | 5 | – | 474 |
- Impairment losses on investment securities (Note 2 (h)) | (1) | (33) | (352) | (8) |
- Allowance for loss on investment securities | (122) | (107) | (110) | (1,033) |
- Gains on termination of distributionship agreement | – | – | 30 | – |
- Foreign currency translation adjustment receivable as a gain less transfer to capital reserves attributable to noncontrolling interest | – | – | 43 | – |
- Allowance for doubtful accounts | – | – | (331) | 3,727 |
- Allowance for director’s severance and retirement benefits | – | – | (123) | – |
- Impairment losses on inventories | – | – | (30) | – |
- Other - net | 91 | 27 | (12) | 771 |

Income before Income Taxes | 6,564 | 4,748 | 4,180 | 47,895 |

Income Taxes Provision (Note 12)

- Current | 2,063 | 1,880 | 1,800 | 17,476 |
- Deferred | 537 | 267 | 903 | 4,549 |

Net Income | ¥ 3,054 | ¥ 2,601 | ¥ 2,470 | $25,870 |

Amounts per share (Note 2 (o)):

- Net income | ¥ 138.74 | ¥ 116.37 | ¥ 110.62 | $ 1.18 |
- Diluted net income | 138.58 | 116.07 | – | 1.17 |
- Cash dividends applicable to the year | 35.00 | 30.00 | 30.00 | 0.30 |

Consolidated Statements of Changes in Net Assets

Hakuto Co., Ltd.
Years ended March 31, 2007, 2006 and 2005

<table>
<thead>
<tr>
<th>Year-End Balance Sheet</th>
<th>2007</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at March 31, 2007</td>
<td>¥ 63,651</td>
<td>¥ 63,651</td>
<td>¥ 225,294</td>
</tr>
<tr>
<td>Balance at March 31, 2006</td>
<td>¥ 63,651</td>
<td>¥ 63,473</td>
<td>¥ 288,818</td>
</tr>
</tbody>
</table>

Years ended March 31, 2007, 2006 and 2005

<table>
<thead>
<tr>
<th>Common stock</th>
<th>Capital stock</th>
<th>Retained earnings</th>
<th>Treasury stock</th>
<th>Unrealized holding gains (losses) on hedges</th>
<th>Impairment losses on investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at March 31, 2006</td>
<td>$63,615</td>
<td>$63,736</td>
<td>$20,730</td>
<td>$16,289</td>
<td>$1,970</td>
</tr>
<tr>
<td>Balance at March 31, 2005</td>
<td>$63,615</td>
<td>$63,736</td>
<td>$20,730</td>
<td>$16,289</td>
<td>$1,970</td>
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</table>

See accompanying notes.
### Cash Flows from Operating Activities:

<table>
<thead>
<tr>
<th>Description</th>
<th>2007</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income before income taxes</td>
<td>¥ 5,654</td>
<td>¥ 4,740</td>
<td>¥ 4,180</td>
</tr>
<tr>
<td>Adjustments to reconcile income before income taxes to net cash provided by (used in) operating activities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>¥ 618</td>
<td>¥ 593</td>
<td>¥ 561</td>
</tr>
<tr>
<td>Impairment losses on property, plant and equipment</td>
<td>¥ 14</td>
<td>¥ 26</td>
<td>¥ 28</td>
</tr>
<tr>
<td>Allocations of goodwill</td>
<td>¥ 5</td>
<td>¥ 1</td>
<td>¥ 6</td>
</tr>
<tr>
<td>Allowance for employees' severance and retirement benefits, net</td>
<td>¥ 83</td>
<td>¥ 12</td>
<td>¥ 107</td>
</tr>
<tr>
<td>Change in payables</td>
<td>¥ (2)</td>
<td>¥ (1)</td>
<td>¥ (14)</td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>¥ (865)</td>
<td>¥ (102)</td>
<td>¥ (666)</td>
</tr>
<tr>
<td>Gain on sale of investment securities</td>
<td>¥ (2)</td>
<td>¥ (15)</td>
<td>¥ (13)</td>
</tr>
<tr>
<td>Losses (gains) on sale of property and equipment</td>
<td>¥ 31</td>
<td>¥ (7)</td>
<td>¥ 21</td>
</tr>
<tr>
<td>Losses on disposal of plant and equipment</td>
<td>¥ 14</td>
<td>¥ 18</td>
<td>¥ 20</td>
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<tr>
<td>Impairment losses on investment securities</td>
<td>¥ 3</td>
<td>¥ 152</td>
<td>¥ 8</td>
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<tr>
<td>Reversal of allowance for doubtful accounts</td>
<td>¥ (440)</td>
<td>–</td>
<td>¥ (143)</td>
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<tr>
<td>Proceeds received from disposal of property and equipment</td>
<td>¥ 122</td>
<td>¥ (103)</td>
<td>¥ 70</td>
</tr>
<tr>
<td>Allowance for losses on investment securities, net</td>
<td>(¥ 12)</td>
<td>(¥ 1)</td>
<td>(¥ 5)</td>
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<tr>
<td>Change in receivables</td>
<td>(¥ 5,026)</td>
<td>(¥ 1,707)</td>
<td>(¥ 4,095)</td>
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<tr>
<td>Change in inventories</td>
<td>(¥ 2,447)</td>
<td>(¥ 609)</td>
<td>(¥ 1,017)</td>
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<tr>
<td>Change in payables</td>
<td>¥ 160</td>
<td>¥ 20</td>
<td>¥ 923</td>
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<tr>
<td>Change in receivables</td>
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<td>¥ 16</td>
<td>¥ 149</td>
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<tr>
<td>Allowance for income from foreign currency</td>
<td>¥ 152</td>
<td>¥ (91)</td>
<td>¥ (97)</td>
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<tr>
<td>Income taxes refunded</td>
<td>¥ 12</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>(¥ 1,913)</td>
<td>(¥ 2,050)</td>
<td>(¥ 1,635)</td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>¥ 285</td>
<td>¥ 337</td>
<td>¥ 1,834</td>
</tr>
<tr>
<td>Other</td>
<td>(¥ 4,405)</td>
<td>¥ 1,516</td>
<td>(¥ 3,234)</td>
</tr>
</tbody>
</table>

Net cash provided by (used in) operating activities: (¥ 4,405) ¥ 1,516 (¥ 3,234) (¥ 16,205) 2,415

### Cash Flows from Investing Activities:

<table>
<thead>
<tr>
<th>Description</th>
<th>2007</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from sale of property and equipment</td>
<td>¥ 16</td>
<td>¥ 43</td>
<td>¥ 98</td>
</tr>
<tr>
<td>Payments for purchase of property and equipment</td>
<td>(¥ 462)</td>
<td>(¥ 135)</td>
<td>(¥ 482)</td>
</tr>
<tr>
<td>Proceeds from sale of merchandise and material assets</td>
<td>¥ 109</td>
<td>¥ 16</td>
<td>¥ 149</td>
</tr>
<tr>
<td>Proceeds from sale of marketable securities and investment securities</td>
<td>¥ 16</td>
<td>¥ 72</td>
<td>¥ 129</td>
</tr>
<tr>
<td>Payments for purchase of marketable securities and investment securities</td>
<td>(¥ 2,399)</td>
<td>(¥ 146)</td>
<td>(¥ 124)</td>
</tr>
<tr>
<td>Net cash increase due to acquisition of a newly consolidated subsidiary</td>
<td>¥ 32</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Less cash decrease in equity in a newly consolidated subsidiary</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Less cash decrease in equity in a newly consolidated subsidiary</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Proceeds from long-term loans receivable</td>
<td>¥ 300</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Other</td>
<td>(¥ 122)</td>
<td>¥ 25</td>
<td>¥ 155</td>
</tr>
</tbody>
</table>

Net cash provided by (used in) investing activities: (¥ 122) ¥ 25 (¥ 155) (¥ 2,241) 2,415

### Cash Flows from Financing Activities:

<table>
<thead>
<tr>
<th>Description</th>
<th>2007</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in short-term borrowings</td>
<td>¥ 5,285</td>
<td>¥ (440)</td>
<td>¥ 3,571</td>
</tr>
<tr>
<td>Proceeds from long-term debt</td>
<td>¥ 1,200</td>
<td>–</td>
<td>¥ 10,165</td>
</tr>
<tr>
<td>Refinancing of long-term debt</td>
<td>¥ (1,248)</td>
<td>(¥ 898)</td>
<td>(¥ 12,205)</td>
</tr>
<tr>
<td>Proceeds from issuance of bonds</td>
<td>¥ 560</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Payment for redemption of bonds</td>
<td>¥ (860)</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Change in non-current debt</td>
<td>(¥ 111)</td>
<td>(¥ 160)</td>
<td>(¥ 666)</td>
</tr>
<tr>
<td>Payments for purchase of treasury stock</td>
<td>¥ (1)</td>
<td>¥ (2)</td>
<td>¥ 11</td>
</tr>
<tr>
<td>Other</td>
<td>¥ 8</td>
<td>¥ 59</td>
<td>¥ 241</td>
</tr>
</tbody>
</table>

Net cash provided by (used in) financing activities: ¥ 5,229 (¥ 1,510) 1,226 38,165

### Effect of Exchange Rate Changes on Cash and Cash Equivalents

<table>
<thead>
<tr>
<th>Description</th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effect of Exchange Rate Changes on Cash and Cash Equivalents</td>
<td>¥ 64</td>
<td>¥ 287</td>
</tr>
<tr>
<td>Net Increase (Decrease) in Cash and Cash Equivalents</td>
<td>¥ (2,411)</td>
<td>¥ (284)</td>
</tr>
</tbody>
</table>

### Cash and Cash Equivalents at End of Year (Note 14 (a))

<table>
<thead>
<tr>
<th>Description</th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and Cash Equivalents at End of Year (Note 14 (a))</td>
<td>¥ 4,987</td>
<td>¥ 7,458</td>
</tr>
</tbody>
</table>

### Notes to Consolidated Financial Statements

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 from 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 changes in net assets for 2006 and 2005) 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, 2007 which was ¥118.05 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 13 (12 in 2006) 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 recorded as goodwill in the consolidated balance sheet and amortized using the straight-line method over 5 years.

Hakuto Korea Co., Ltd., a wholly owned subsidiary of the Company, was established in December 2005 and its accounts have been included in consolidation since 2006.

Hakuto Trading (Shenzhen) Ltd., a wholly owned subsidiary of Hakuto Enterprises Ltd., was established in January 2006 and its accounts have been included in the 2007 consolidation. Moldec Co., Ltd., due to additional acquisition, became a consolidated subsidiary in September 2006 and its accounts have been included in the 2007 consolidation. Human Resourses International Co., Ltd., due to sale of share in May 2006, was excluded from the consolidation scope.

(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, "hold-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, and (d) for all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

The Company and its subsidiaries have no trading securities or hold-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 those securities are reported, net of applicable income taxes, as a component of net assets. 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 fair market value, or at amortized cost net of the amount considered not collectible.

See accompanying notes.
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 change 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 and certain consolidated subsidiaries (the "Companies") use 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) 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:

<table>
<thead>
<tr>
<th>Hedging instruments</th>
<th>Hedged items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forward foreign exchange contracts</td>
<td>Foreign currency accounts</td>
</tr>
<tr>
<td>and other</td>
<td>receivable or payable and</td>
</tr>
<tr>
<td></td>
<td>forecasted transactions</td>
</tr>
</tbody>
</table>

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) Impairment losses of fixed assets - 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:

- net realizable value or
- 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 amount. 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 as follows:

<table>
<thead>
<tr>
<th>Type of assets</th>
<th>For the year ended March 31, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unused land</td>
<td>¥28 million ($242 thousand)</td>
</tr>
<tr>
<td>Unused land</td>
<td>¥3 million ($28 thousand)</td>
</tr>
<tr>
<td>Other assets</td>
<td>¥2 million ($172 thousand)</td>
</tr>
</tbody>
</table>

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, 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 ¥12 million, which comprised ¥2 million for land, ¥77 million for buildings and structures, and ¥9 million for other assets.

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

(h) Allowance for employees’ bonuses - The Companies provide allowance for employees’ bonus based on estimated amounts to be paid in the subsequent period.

(i) Allowance for bonuses for directors and corporate auditors - The Company provides allowance for bonuses for directors and corporate auditors based on estimated amounts to be paid in the subsequent period. Prior to the year ended March 31, 2007, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings.

(Adoption of new accounting standard for directors’ bonus) Effective from the year ended March 31, 2007, the Company and consolidated domestic subsidiaries adopted the new accounting standard “Accounting Standard for Directors’ Bonus” (Statement No. 4 issued by the Accounting Standards Board of Japan on November 29, 2005) and recognized bonuses to directors and corporate auditors in the fiscal year in which such bonuses are attributable. The effect of the adoption of this new accounting standard on operating income, income before income taxes and net income was a decrease of ¥51 million ($432 thousand).

(j) Income taxes - The Companies recognize tax effects of temporary differences between the financial statement basis and the tax basis of assets and liabilities.

(k) 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.

(l) 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 service 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.
and 2005 consolidated financial statements, the Company prepared the consolidated statements of changes in shareholders' equity were prepared for the purpose of inclusion in the consolidated financial statements in accordance with the Additional New Accounting Standards. Previously, consolidated statements of shareholders' equity sections.

(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) Accounting Standard for presentation of Net Assets in the Balance Sheet - Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No.5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No.9 issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, the "New Accounting Standards").

Under the New Accounting Standards, the balance sheet comprises the assets, liabilities and net assets sections. Previously, the balance sheet comprised the assets, liabilities, minority interests, as applicable, and the shareholders’ equity sections.

Under the New Accounting Standards, the following items are presented differently compared to the previous presentation. The net assets section includes unrealized gains (losses) on hedging derivatives, net of taxes. Under the previous presentation rules, companies were required to present unrealized gains (losses) on hedging derivatives in the assets or liabilities section without considering the related income tax effects. The consolidated balance sheet as of March 31, 2006 has been reclassified to conform to the 2007 presentation. If the New Accounting Standards had not been adopted and the previous presentation method for the shareholders’ equity had been applied, the shareholders’ equity at March 31, 2007 which comprised common stock, capital surplus, retained earnings, net unrealized holding gains on investment securities, foreign currency translation adjustments and treasury stock, would have been ¥41,822 million ($354,274 million).

(r) Accounting Standard for Statement of Changes in Net Assets - Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No.6 issued by the Accounting Standards Board of Japan on December 27, 2005), and the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No.9 issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, the "Additional New Accounting Standards").

Accordingly, the Company prepared the statements of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards. Also, the Company voluntarily prepared the consolidated statements of changes in net assets for the years ended March 31, 2006 and 2005 in accordance with the Additional New Accounting Standards. Previously, consolidated statements of shareholders’ equity were prepared for the purpose of inclusion in the consolidated financial statements although such statements were not required under Japanese GAAP.

(s) Reclassification - Certain prior year amounts have been reclassified to conform to 2007 presentation. Also, as described in Notes 2 (q) and 2 (r), the consolidated balance sheet for 2006 has been adopted to conform to new presentation rules of 2007. Also, in lieu of the consolidated statements of shareholders’ equity for the years ended March 31, 2006 and 2005, which had been prepared on a voluntary basis for inclusion in the 2006 and 2005 consolidated financial statements, the Company prepared the consolidated statements of changes in net assets for 2006 and 2005 as well as for 2007.

These reclassifications had no impacts on previously reported results of operations or retained earnings.

(a) Summarized information of acquisition costs, book values and fair value of securities with available fair values as of March 31, 2007 and 2006 were as follows:

<table>
<thead>
<tr>
<th>2007</th>
<th>Millions of Yen</th>
<th>Book value</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Available-for-sale securities with book values (fair values) exceeding acquisition costs:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity securities</td>
<td>$2,665</td>
<td>$8,484</td>
<td>$5,819</td>
</tr>
<tr>
<td>Others</td>
<td>14</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>2,679</td>
<td>$8,509</td>
<td>$5,833</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2006</th>
<th>Millions of Yen</th>
<th>Book value</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Available-for-sale securities with book values (fair values) exceeding acquisition costs:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity securities</td>
<td>$1,599</td>
<td>$7,660</td>
<td>$5,711</td>
</tr>
<tr>
<td>Others</td>
<td>13</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1,612</td>
<td>$7,660</td>
<td>$5,711</td>
</tr>
</tbody>
</table>

(b) Summarized information of book values of securities with no available fair values as of March 31, 2007 and 2006 were as follows:

<table>
<thead>
<tr>
<th>2007</th>
<th>Millions of Yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Available-for-sale securities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-listed foreign bonds</td>
<td>$402</td>
<td>$225</td>
</tr>
<tr>
<td>Non-listed equity securities</td>
<td>436</td>
<td>267</td>
</tr>
<tr>
<td>Money management funds</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>859</td>
<td>492</td>
</tr>
</tbody>
</table>

(c) Summarized information of maturities of securities with maturities as of March 31, 2007 and 2006 were as follows:

<table>
<thead>
<tr>
<th>2007</th>
<th>Millions of Yen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within 1 year</td>
<td>Over 1 year but within 5 years</td>
</tr>
<tr>
<td>Available-for-sale securities:</td>
<td></td>
</tr>
<tr>
<td>Government bonds and municipal bonds</td>
<td>Y</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>42</td>
</tr>
<tr>
<td>Total</td>
<td>42</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2006</th>
<th>Millions of Yen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within 1 year</td>
<td>Over 1 year but within 5 years</td>
</tr>
<tr>
<td>Available-for-sale securities:</td>
<td></td>
</tr>
<tr>
<td>Government bonds and municipal bonds</td>
<td>Y</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>235</td>
</tr>
</tbody>
</table>
1. Short-term borrowings and long-term debt

(a) Short-term borrowings consisted principally of loans from banks. The interest rates on short-term borrowings as of March 31, 2007 and 2006 ranged from 0.72% to 4.91% and 0.56% to 4.91% per annum, respectively.

(b) Long-term debt as of March 31, 2007 and 2006 consisted of the following:

<table>
<thead>
<tr>
<th>Years ended March 31</th>
<th>Millions of Yen</th>
<th>Thousands of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>2006</td>
<td>2007</td>
</tr>
<tr>
<td>1.14% to 1.80% loans from Japanese banks, due in 2007</td>
<td>¥ –</td>
<td>$ –</td>
</tr>
<tr>
<td>1.15% to 1.22% loans from Japanese insurance companies, due in 2007</td>
<td>¥ –</td>
<td>$ –</td>
</tr>
<tr>
<td>1.14% to 1.22% loans from Japanese insurance companies, due in 2007 to 2009</td>
<td>¥926</td>
<td>$7,061</td>
</tr>
<tr>
<td>1.65% to 1.85% loans from Japanese banks, due in 2008 to 2012</td>
<td>¥2,642</td>
<td>$21,342</td>
</tr>
<tr>
<td>1.50% Japanese yen bonds with detachable warrants, due in 2007</td>
<td>–</td>
<td>$0</td>
</tr>
<tr>
<td>1.25% Japanese yen bonds due in 2012</td>
<td>¥500</td>
<td>$4,126</td>
</tr>
</tbody>
</table>

The indenter covering the 1.5% Japanese yen bonds with detachable warrants, due in 2007, provided, among other things, for (1) the exercise of warrants at the current exercise price of ¥1,466 (subject to change in circumstances) and (2) exercisable period from September 1, 2001 to March 22, 2007.

(c) Assets pledged as collateral for ¥246 million ($2,084 thousand) of short-term borrowings and ¥453 million ($3,837 thousand) of long-term debt as of March 31, 2007 were as follows:

<table>
<thead>
<tr>
<th>Years ended March 31</th>
<th>Millions of Yen</th>
<th>Thousands of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>2006</td>
<td>2007</td>
</tr>
<tr>
<td>Cash and time deposits</td>
<td>¥215</td>
<td>$1,821</td>
</tr>
<tr>
<td>Land and land improvements</td>
<td>¥251</td>
<td>$2,126</td>
</tr>
<tr>
<td>Buildings and structures</td>
<td>¥150</td>
<td>$1,216</td>
</tr>
<tr>
<td>Total</td>
<td>¥616</td>
<td>$5,218</td>
</tr>
</tbody>
</table>

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, 2007 and 2006 consist of the following:

<table>
<thead>
<tr>
<th>Years ended March 31</th>
<th>Millions of Yen</th>
<th>U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>2006</td>
<td>2007</td>
</tr>
<tr>
<td>Funded status:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Projected benefit obligation</td>
<td>¥2,409</td>
<td>$24,321</td>
</tr>
<tr>
<td>Pension assets</td>
<td>¥2,799</td>
<td>$23,710</td>
</tr>
<tr>
<td>Unbanded projected benefit obligation</td>
<td>¥97</td>
<td>$(822)</td>
</tr>
<tr>
<td>Unrecognized actuarial differences</td>
<td>$(120)</td>
<td>$(1,016)</td>
</tr>
<tr>
<td>Net projected benefits obligation recognized</td>
<td>$(217)</td>
<td>$(1,838)</td>
</tr>
<tr>
<td>Prepaid pension expense</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Employees’ severance and retirement benefits</td>
<td>¥217</td>
<td>$1,838</td>
</tr>
</tbody>
</table>

Included in the consolidated statements of income for the years ended March 31, 2007, 2006 and 2005 are severance and retirement benefit expenses comprised of the following:

<table>
<thead>
<tr>
<th>Years ended March 31</th>
<th>Millions of Yen</th>
<th>U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>2006</td>
<td>2007</td>
</tr>
<tr>
<td>Severance and retirement benefit expenses:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service costs—benefits earned during the year</td>
<td>¥442</td>
<td>$3,744</td>
</tr>
<tr>
<td>Interest cost on projected benefit obligation</td>
<td>¥31</td>
<td>$264</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>¥1,518</td>
<td>$12,315</td>
</tr>
<tr>
<td>Amortization of actual differences</td>
<td>¥25</td>
<td>$203</td>
</tr>
<tr>
<td>Extra severance and retirement benefits</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Severance and retirement benefit expenses</td>
<td>¥477</td>
<td>$3,759</td>
</tr>
</tbody>
</table>

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 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. Net assets

As described in Note 2 (g), net assets comprises four subsections, which are owners' equity, accumulated gains (losses) from valuation and translation adjustments, share subscription rights and minority interests. The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japan Commercial Code ("the Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 20% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in-capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock. Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, a condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, were available for distribution by resolution of the shareholders' meeting. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

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 Japanese laws and regulations.

Payments of dividends are accounted for as appropriation of retained earnings or other capital surplus, as applicable, in the period when approved at the shareholders' meeting or at the Board of Directors or as of the date when dividends are determined to take effect by the shareholders or the Board of Directors. Bonuses to directors were also recognized as appropriations of retained earnings when approved by the shareholders prior to 2007, in which new accounting standards were adopted as discussed in Note 2 (f).

10. Contingent liabilities

Contingent liabilities of the Companies as of March 31, 2007 were as follows:

<table>
<thead>
<tr>
<th>Classification</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>¥1,872,000</td>
<td>15,910</td>
</tr>
</tbody>
</table>

11. Research and development expenses

Research and development expenses for the development of new products or improvement of existing products were ¥256 million (¥2,167 thousand), ¥243 million and ¥197 million respectively.

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax, inhabitants' tax and enterprise tax, which in the aggregate resulted in normal statutory rates of approximately 42.7% for the years ended March 31, 2007, 2006 and 2005. In management believes there is little risk of default by comparison to long-term debt.

The following table summarizes the significant difference between the statutory tax rate and effective tax rate for consolidated financial statement purposes for the years ended March 31, 2007 and 2006. 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.

<table>
<thead>
<tr>
<th>Classification</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax effect not recognized for loss carryforwards of consolidated subsidiaries</td>
<td>¥8</td>
<td>1.2</td>
</tr>
<tr>
<td>Non-taxable dividend income</td>
<td>¥6</td>
<td>–</td>
</tr>
<tr>
<td>Non-deductible expenses</td>
<td>¥1.7</td>
<td>1.8</td>
</tr>
<tr>
<td>Gain on real estate</td>
<td>¥1.8</td>
<td>1.9</td>
</tr>
<tr>
<td>Per capita inhabitant tax</td>
<td>¥0.6</td>
<td>–</td>
</tr>
<tr>
<td>Dividend income from overseas consolidated subsidiaries</td>
<td>–</td>
<td>2.8</td>
</tr>
<tr>
<td>Effective tax rate</td>
<td>40.0%</td>
<td>41.2%</td>
</tr>
</tbody>
</table>

13. Derivative financial instruments

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

The 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 and interest rate swap 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 Financial Accounting Department is responsible for any potential risk of default by comparison to long-term debt.

The size of the amount of the derivative contracts does not necessarily indicate the significance of the risk.

The following tables summarize fair value information as of March 31, 2007 and 2006 of derivative transactions for which hedge accounting has not been applied:

(a) Currency-related transactions

<table>
<thead>
<tr>
<th>Classification</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>¥1,872,000</td>
<td>15,910</td>
</tr>
</tbody>
</table>

(b) Interest-related transactions

<table>
<thead>
<tr>
<th>Classification</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>¥1,872,000</td>
<td>15,910</td>
</tr>
</tbody>
</table>

Significant components of the Companies’ deferred tax assets and liabilities as of March 31, 2007 and 2006 were as follows:

<table>
<thead>
<tr>
<th>Classification</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>¥11,532</td>
<td>(12,977)</td>
</tr>
</tbody>
</table>
14. Cash and cash equivalents

(a) 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, 2007, 2006 and 2005 were as follows:

(b) Interest-related transactions

2007

Classification | Type of transaction | Contracted amount | Over one year | Fair value | Gains (Losses)
---|---|---|---|---|---
Non-market transactions | Currency option trading | $ 7,158 | $ 6,141 | $ 68 | $ 68
Interest rate swap: Receive floating, pay fixed | Total | $ 7,158 | $ 6,141 | $ 68 | $ 68

15. Stock option plans

The following table summarizes contents of stock options as of March 31, 2007.

Exercisable stock options

<table>
<thead>
<tr>
<th>Stock options issued in 2000</th>
<th>Stock options issued in 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common Stock 601,000</td>
<td>Common Stock 342,500</td>
</tr>
<tr>
<td>Date granted</td>
<td>2000</td>
</tr>
<tr>
<td>Service-period requirement for vesting</td>
<td>No provisions</td>
</tr>
<tr>
<td>Exercise period</td>
<td>From July 1, 2003 to June 30, 2006</td>
</tr>
</tbody>
</table>

Not-exercisable options

<table>
<thead>
<tr>
<th>Stock options issued in 2000</th>
<th>Stock options issued in 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common Stock 342,500</td>
<td>Common Stock 342,500</td>
</tr>
<tr>
<td>Date granted</td>
<td>2004</td>
</tr>
<tr>
<td>Service-period requirement for vesting</td>
<td>No provisions</td>
</tr>
<tr>
<td>Exercise period</td>
<td>From July 1, 2003 to June 30, 2006</td>
</tr>
</tbody>
</table>

16. Business combinations

(Change in accounting standard for business combinations, etc)

Effective from the year ended March 31, 2007, the Company applied “Accounting Standard for Business Combinations” issued by the Business Accounting Council on October 31, 2003, “Accounting Standard for Business Divestitures” (Statement No. 7 issued by the Accounting Standard Board of Japan on December 27, 2005) and “Guidance for Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (Guidance No. 10 revised by the Accounting Standard Board of Japan on December 22, 2006).

(a) Overview of the business combination
(b) The Company’s consolidated Statement of Income for 2007 includes the operations of the combined entity for the following period:

From September 1, 2006 to February 28, 2007

(c) Acquisition cost and its consideration:
Cash ¥100 million ($762 thousand)

(d) Amount of goodwill, reason that the goodwill arose, and method and period of amortization:
(1) Amount of goodwill ¥461 million ($3,905 thousand)
(2) Reason that the goodwill arose – The goodwill arose from the excess earning power of the combined entity.
(3) Method and period of amortization – Straight-line method over 5 years

(e) Assets obtained and liabilities assumed at the date of the business combination:
Current assets ¥1,139 million ($11,134 thousand)
Sub-total ¥1,281 million ($12,816 thousand)

(f) If the business combination had been accomplished at April 1, 2006, the Company’s operating results for 2007 would have been as follows:

Sub-total ¥1,424 million ($15,244 thousand)
Operating income ¥2,457 million ($21,516 thousand)
Ordinary income ¥1,146 million ($9,787 thousand)

The above amounts are calculated on the assumption that the Company had held 55.1 percent of the voting ownership interest of the entity since April 1, 2006, and all significant inter-company transactions and account balances have been eliminated. The above information has not been audited and should not be construed as actual operating results of the Company.

17. 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, 2007 and 2006 were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th>Thousands of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2007</td>
<td>2006</td>
</tr>
<tr>
<td>Purchase price equivalent</td>
<td>¥151</td>
<td>¥120</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>¥101</td>
<td>¥80</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>¥25</td>
<td>¥20</td>
</tr>
<tr>
<td>Accumulated depreciation equivalent</td>
<td>¥218</td>
<td>¥176</td>
</tr>
<tr>
<td>Book value equivalent</td>
<td>¥181</td>
<td>¥150</td>
</tr>
</tbody>
</table>

(b) Future minimum lease payments, inclusive of interest, as of March 31, 2007 and 2006 were ¥111 million ($908 thousand) and ¥101 million, including ¥86 million ($729 thousand) and ¥79 million, respectively due within one year.

(c) Lease payments for the years ended March 31, 2007 and 2006 were ¥103 million ($871 thousand) and ¥111 million, respectively. Assumed depreciation charges for the years ended March 31, 2007 and 2006 were ¥103 million ($873 thousand) and ¥111 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, 2007 were ¥286 million ($2,425 thousand), including ¥173 million ($1,465 thousand) due within one year.

On May 15, 2007, the Board of Directors approved 1) payment of year-end cash dividends to the shareholders of record as of March 31, 2007 of ¥17.5 ($0.15) per share or a total of ¥86 million ($3,250 thousand).

18. Subsequent events

On May 15, 2007, the Board of Directors approved 1) payment of year-end cash dividends to the shareholders of record as of March 31, 2007 of ¥17.5 ($0.15) per share or a total of ¥86 million ($3,250 thousand).

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, 2007, 2006 and 2005 were as follows:

(Adoption of new accounting standard for directors’ bonus)

As discussed in Note 2 (1), effective from the year ended March 31, 2007, the Company and consolidated domestic subsidiaries adopted “Accounting Standard for Directors’ Bonus” and recognized bonuses to directors and corporate auditors in the fiscal year to which such bonuses are attributable. The effect of the adoption of this new accounting standard on operating income was a decrease of ¥51 million ($412 thousand) in Elimination and/or Corporate.

(Adoption of new accounting standard for directors’ bonus)
On the Consolidated Financial Statements

Independent Auditors' Report

We have audited the accompanying consolidated balance sheets of Hakuto Co., Ltd. and consolidated subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of income, changes in net assets and cash flows for each of the three years in the period ended March 31, 2007, 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, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2007, 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, 2007 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, 2007
## Financial Highlights

### Operating Data:

<table>
<thead>
<tr>
<th></th>
<th>2007/3</th>
<th>2006/3</th>
<th>2005/3</th>
<th>2004/3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Sales</td>
<td>¥123,442</td>
<td>¥115,503</td>
<td>¥108,627</td>
<td>¥104,567</td>
</tr>
<tr>
<td>Income before Income Taxes</td>
<td>5,654</td>
<td>4,748</td>
<td>4,180</td>
<td>47,895</td>
</tr>
<tr>
<td>Net Income</td>
<td>3,054</td>
<td>2,601</td>
<td>2,470</td>
<td>25,870</td>
</tr>
</tbody>
</table>

### Financial Data:

<table>
<thead>
<tr>
<th></th>
<th>2007/3</th>
<th>2006/3</th>
<th>2005/3</th>
<th>2004/3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets</td>
<td>¥ 82,175</td>
<td>¥ 70,162</td>
<td>¥ 65,644</td>
<td>$696,103</td>
</tr>
<tr>
<td>Net Assets</td>
<td>41,906</td>
<td>39,363</td>
<td>35,767</td>
<td>389,985</td>
</tr>
</tbody>
</table>

### Per Share Data:

<table>
<thead>
<tr>
<th></th>
<th>2007/3</th>
<th>2006/3</th>
<th>2005/3</th>
<th>2004/3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Income per Share</td>
<td>¥ 138.74</td>
<td>¥ 116.37</td>
<td>¥ 110.62</td>
<td>$1.18</td>
</tr>
<tr>
<td>Cash Dividends per Share</td>
<td>35.00</td>
<td>30.00</td>
<td>30.00</td>
<td>0.30</td>
</tr>
</tbody>
</table>

The United States dollar amounts represent translations of Japanese yen amounts at the rate of ¥118.05=$1. See Note 1 to consolidated financial statement.