

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared from the consolidated financial statements filed with the Minister of Finance as required by the Securities and Exchange Law of Japan in accordance with accounting principles generally accepted in Japan. Accordingly, the accompanying consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practice generally accepted in countries and jurisdictions other than Japan. Consolidated statements of shareholders' equity which is not currently required in Japan have been

added as additional information and certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is familiar to readers outside Japan. For convenience, the accompanying consolidated financial statements have been presented in U.S. dollars by arithmetically translating all Japanese yen amounts at $\text{¥}108 = \text{US\$}1$, the exchange rate prevailing on September 30, 2000. The translations should not be construed as a representation that Japanese yen have been, could have been, or could in the future be, converted into U.S. dollars at that or any other rate.

2. Summary of Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements as of and for the year ended September 30, 2000 include the accounts of the Company, four domestic subsidiaries and twelve foreign subsidiaries in the United States of America, the European Community and People's Republic of China, and those as of and for the year ended September 30, 1999 include the accounts of the Company, four domestic subsidiaries and eleven foreign subsidiaries which are all subsidiaries of the Company. The Company has adopted the equity method of accounting for its investment in three and six affiliates for the years ended September 30, 1999 and 2000, respectively. Investments in other affiliate is carried at cost due to its immateriality. Intercompany balances and transactions have been eliminated in consolidation.

(b) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, readily available deposits and highly liquid investments with insignificant risk of changes in value, which have original maturities of three months or less.

(c) Investment Securities

Current and non-current marketable securities are valued at the lower of cost or market by the total average cost method, and non-marketable securities are stated at cost determined by the total average method for the Company. Investment securities are stated at cost or valued at the lower of cost or market determined by the specific identification method for consolidated subsidiaries.

(d) Inventories

Finished goods, work in process and raw materials are stated at cost determined by the total average method, and supplies are stated at cost determined by the most recent purchase price method for the Company. Inventories of consolidated subsidiaries are principally stated at cost determined by the moving average method.

(e) Property, Plant and Equipment, and Depreciation

Property, plant and equipment are stated at cost. Significant renewals and additions are capitalised. Maintenance and repairs, including minor renewals and improvements, are charged to income as incurred. Interest expense relating to the construction of plant and equipment is not capitalised.

Depreciation of plant and equipment is determined by the declining-balance method over the estimated useful lives of the individual assets for the Company and its domestic subsidiaries. The straight-line method over the estimated useful lives of the individual assets is primarily applied to the plant and equipment of foreign subsidiaries.

(f) Research and Development

Research and development expenses are charged to income as incurred.

(g) Allowances for Severance Indemnities and Pension Plan

The company and certain domestic subsidiaries have unfunded lump-sum benefit and funded pension plans for employees. The allowance under these plans is provided for the amounts sufficient to cover the liability which would be required if all eligible employees voluntarily retired at the balance sheet date, less the portion covered by the outside funds. Certain of the overseas subsidiaries have employees' retirement and severance benefit plans covering substantially all employees who meet the eligibility requirements.

Change in accounting method

In the prior years, the allowances for severance indemnities of the Company and certain domestic subsidiaries were provided at 40% of the amount which would be required if all employees covered by the plan voluntarily terminated their employment as of the balance sheet date. Beginning from the year ended September 30, 2000, this amount was raised to 100% of the amount which would be required. The effect of this change in accounting method in the fiscal year ended September 30, 2000 was to decrease the operating income and the income before income taxes by $\text{¥}110$ million (US\$1,019 thousand) and $\text{¥}2,995$ million (US\$27,731 thousand), respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(h) Provision for Product Warranty

As warranty expenses for certain products sold by consolidated subsidiaries are subsequently realised, a provision for product warranty has been recorded in order to reflect the results of their operations more accurately.

(i) Foreign Currency Translation

Current monetary assets and liabilities denominated in foreign currencies are translated into yen at the exchange rates prevailing on the respective balance sheet dates or at the rate of each forward exchange contract. Long-term monetary assets and liabilities are translated at historical rates or at the rate of each forward exchange contract.

(j) Translation of Accounts of Foreign Consolidated Subsidiaries

Financial statement accounts denominated in foreign currencies are translated into yen amounts at the exchange rates in effect at the balance sheet dates. Any resulting translation differences are stated as Adjustments arising from translation of accounts of foreign consolidated subsidiaries in the accompanying consolidated financial statements.

3. Inventories

Inventories at September 30, 1999 and 2000 are summarised as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars	
	1999	2000	1999	2000
Finished goods	¥ 2,467	¥ 2,707	\$ 22,842	\$ 25,065
Work in process	4,869	5,503	45,083	50,954
Raw materials and supplies	2,425	2,763	22,454	25,583
	¥ 9,761	¥ 10,973	\$ 90,379	\$ 101,602

4. Short-Term Bank Loans and Long-Term Debt

Short-term bank loans represent notes maturing generally within six months. The average annual interest rate applicable to the short-term bank loans for the year ended September 30, 2000 was 1.9%. Long-term debt at September 30, 1999 and 2000 was as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars	
	1999	2000	1999	2000
2.40% unsecured convertible debentures due in 2003	¥ 2,131	¥ 773	\$ 19,731	\$ 7,157
1.25% unsecured convertible debentures due in 2004	2,699	1,228	24,991	11,370
Loans principally from banks due serially through 2010	7,602	13,225	70,389	122,454
Less current portion	(671)	(494)	(6,213)	(4,574)
	¥ 11,761	¥ 14,732	\$ 108,898	\$ 136,407

At September 30, 1999 and 2000, property, plant and equipment which had a carrying amount of 8,587 million yen (US\$79,509 thousand) and 8,891 million yen (US\$82,324 thousand) were pledged as collateral for short-term bank loans and long-term debt, respectively.

(k) Income Taxes

Income taxes are provided based on taxable income stated in the tax returns for the year ended September 30, 1999. In accordance with revisions to regulation governing the presentation of consolidated financial statements in Japan, tax effect accounting is applied beginning from the fiscal year ended September 30, 2000.

(l) Net Income per Share

Net income per share is based on the weighted average number of shares outstanding during the respective years.

(m) Statement of Cash Flows

Beginning from the year ended September 30, 2000, the Company presents the consolidated statement of cash flows in conformity with the revision of the Japanese Securities and Exchange Law. The company has not retroactively restated the prior year s figures, therefore only this year s statement is presented so as not to mislead the readers.

5. Legal Reserve

The Commercial Code of Japan provides that an amount equivalent to at least 10% of cash dividends and bonuses paid to directors and corporate auditors be appropriated to the legal reserve until such reserve equals 25% of common stock. The legal reserve may be used to reduce a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the board of directors. It is not available for the payment of dividends.

6. Subsequent Events

(a) Appropriations of retained earnings

Under the Commercial Code of Japan, a plan for the appropriation of retained earnings (primarily for cash dividend payments) proposed by the board of directors must be approved at a shareholders meeting held within three months of the end of the fiscal year.

On December 22, 2000, the shareholders of the Company approved the plan for the appropriation of retained earnings, which resulted in the following deductions from retained earnings at September 30, 2000:

	Millions of Japanese Yen	Thousands of U.S. Dollars
Cash dividends	¥314	\$ 2,907
Bonuses to directors and corporate auditors	55	509
	<u>¥369</u>	<u>\$ 3,416</u>

(b) Issuance of convertible debentures

The Company issued unsecured convertible debentures on October 5, 2000 in the amount of ¥20 billion (US\$185 million) at an interest rate of 0.2% per annum with conversion price of ¥6,776 per share. The debenture will be redeemed by September 27, 2007.

7. Per share Information

Net income per share is based on the weighted average number of shares outstanding during the respective years. Cash dividends per share shown for each year in the consolidated statements of income represent dividends declared as applicable to the respective periods.

8. Leases

The Company and the consolidated subsidiaries lease certain machinery, equipments and other assets. The information of leased properties which do not transfer ownership to lessees was as follows. Assumed depreciation expenses are calculated by the straight-line method over the lease term assuming no residual value.

	Millions of Japanese Yen		Thousands of U.S. Dollars	
	1999	2000	1999	2000
Cost, depreciation and balance:				
Acquisition cost	¥461	¥464	\$ 4,269	\$ 4,296
Depreciation expenses	261	300	2,417	2,777
	<u>¥200</u>	<u>¥164</u>	<u>\$ 1,852</u>	<u>\$ 1,519</u>
Future minimum payments:				
Within one year	¥ 85	¥ 75	\$ 787	\$ 695
Over one year	115	89	1,065	824
	<u>¥200</u>	<u>¥164</u>	<u>\$ 1,852</u>	<u>\$ 1,519</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Segment Information

Business segment

Year ended September 30, 2000	Millions of Japanese Yen				
	Opto-electronic devices	Imaging and measurement instruments	Segment total	Elimination or corporate	Consolidated total
Net sales					
Outside customers	¥ 39,563	¥ 11,996	¥ 51,559	¥ —	¥ 51,559
Intersegment	706	70	776	(776)	0
	40,269	12,066	52,335	(776)	51,559
Operating expenses	28,815	10,481	39,296	6,321	45,617
Operating income	¥ 11,454	¥ 1,585	¥ 13,039	¥ (7,097)	¥ 5,942
Assets	¥ 51,742	¥ 16,361	¥ 68,103	¥ 21,416	¥ 89,519
Depreciation	¥ 2,356	¥ 481	¥ 2,837	¥ 1,158	¥ 3,995
Capital expenditures	¥ 7,040	¥ 1,440	¥ 8,480	¥ 1,518	¥ 9,998

Year ended September 30, 1999	Opto-electronic devices	Imaging and measurement instruments	Segment total	Elimination or corporate	Consolidated total
	Net sales				
Outside customers	¥ 31,451	¥ 9,322	¥ 40,773	¥ —	¥ 40,773
Intersegment	791	43	834	(834)	0
	32,242	9,365	41,607	(834)	40,773
Operating expenses	23,867	8,536	32,403	5,827	38,230
Operating income	¥ 8,375	¥ 829	¥ 9,204	¥ (6,661)	¥ 2,543
Assets	¥ 37,179	¥ 13,619	¥ 50,798	¥ 21,155	¥ 71,953
Depreciation	¥ 2,295	¥ 393	¥ 2,688	¥ 1,022	¥ 3,710
Capital expenditures	¥ 2,657	¥ 914	¥ 3,571	¥ 1,307	¥ 4,878

Year ended September 30, 2000	Thousands of US Dollars				
	Opto-electronic devices	Imaging and measurement instruments	Segment total	Elimination or corporate	Consolidated total
Net sales					
Outside customers	\$ 366,324	\$ 111,074	\$ 477,398	\$ —	\$ 477,398
Intersegment	6,537	648	7,185	(7,185)	0
	372,861	111,722	484,583	(7,185)	477,398
Operating expenses	266,806	97,046	363,852	58,527	422,379
Operating income	\$ 106,055	\$ 14,676	\$ 120,731	\$ (65,712)	\$ 55,019
Assets	\$ 479,092	\$ 151,491	\$ 630,583	\$ 198,296	\$ 828,879
Depreciation	\$ 21,815	\$ 4,454	\$ 26,269	\$ 10,722	\$ 36,991
Capital expenditures	\$ 65,185	\$ 13,333	\$ 78,518	\$ 14,056	\$ 92,574

Geographic areas

Millions of Japanese Yen

Year ended September 30, 2000	Domestic	North America	Europe	Other	Segment total	Elimination or corporate	Consolidated total
Net sales							
Outside customers	¥ 32,470	¥ 12,517	¥ 6,503	¥ 69	¥ 51,559	¥ —	¥ 51,559
Intersegment	12,724	614	81	103	13,522	(13,522)	0
	45,194	13,131	6,584	172	65,081	(13,522)	51,559
Operating expenses	33,273	12,847	6,010	140	52,270	(6,653)	45,617
Operating income	¥ 11,921	¥ 284	¥ 574	¥ 32	¥ 12,811	¥ (6,869)	¥ 5,942
Assets	¥ 62,393	¥ 7,337	¥ 3,737	¥ 191	¥ 73,658	¥ 15,861	¥ 89,519

Year ended September 30, 1999	Domestic	North America	Europe	Other	Segment total	Elimination or corporate	Consolidated total
Net sales							
Outside customers	¥ 26,337	¥ 8,476	¥ 5,919	¥ 41	¥ 40,773	¥ —	¥ 40,773
Intersegment	10,610	689	98	103	11,500	(11,500)	0
	36,947	9,165	6,017	144	52,273	(11,500)	40,773
Operating expenses	28,771	9,177	5,413	122	43,483	(5,253)	38,230
Operating income	¥ 8,176	¥ (12)	¥ 604	¥ 22	¥ 8,790	¥ (6,247)	¥ 2,543
Assets	¥ 45,083	¥ 5,702	¥ 3,534	¥ 218	¥ 54,537	¥ 17,416	¥ 71,953

Thousands of US Dollars

Year ended September 30, 2000	Domestic	North America	Europe	Other	Segment total	Elimination or corporate	Consolidated total
Net sales							
Outside customers	\$ 300,648	\$ 115,898	\$ 60,213	\$ 639	\$ 477,398	\$ —	\$ 477,398
Intersegment	117,815	5,685	750	954	125,204	(125,204)	0
	418,463	121,583	60,963	1,593	602,602	(125,204)	477,398
Operating expenses	308,083	118,954	55,648	1,296	483,981	(61,602)	422,379
Operating income	\$ 110,380	\$ 2,629	\$ 5,315	\$ 297	\$ 118,621	\$ (63,602)	\$ 55,019
Assets	\$ 577,713	\$ 67,935	\$ 34,602	\$ 1,768	\$ 682,018	\$ 146,861	\$ 828,879

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Overseas sales

Year ended September 30, 2000	Millions of Japanese Yen			
	North America	Europe	Other	Consolidated total
Overseas sales	¥11,047	¥6,680	¥5,618	¥23,345
Consolidated net sales				¥51,559
Ratio of overseas sales to consolidated net sales	21.43%	12.96%	10.89%	45.28%

Year ended September 30, 1999	Millions of Japanese Yen			
	North America	Europe	Other	Consolidated total
Overseas sales	¥8,573	¥6,132	¥2,345	¥17,050
Consolidated net sales				¥40,773
Ratio of overseas sales to consolidated net sales	21.03%	15.04%	5.75%	41.82%

Year ended September 30, 2000	Thousands of US Dollars			
	North America	Europe	Other	Consolidated total
Overseas sales	\$102,287	\$61,852	\$52,018	\$216,157
Consolidated net sales				\$477,398
Ratio of overseas sales to consolidated net sales	21.43%	12.96%	10.89%	45.28%