NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared from the consolidated financial statements filed with the Prime Minister 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 yen 123 = US$1, the exchange rate prevailing on September 30, 2002. 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, 2001 and 2002 included the accounts of the Company, five domestic subsidiaries and twelve foreign subsidiaries in the United States of America, the European Community and People's Republic of China. The Company has adopted the equity method of accounting for its investment in five and four affiliates for the years ended September 30, 2001 and 2002, respectively. Investment in other subsidiary and affiliate is carried at cost due to its immateriality. All significant 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

In the prior years, current and non-current marketable securities were 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, and investment securities of consolidated subsidiaries were stated at cost or valued at the lower of cost or market determined by the specific identification method. Beginning from the year ended September 30, 2001, the Company adapted a new accounting standard for financial instruments under which marketable securities are valued by market price method based on the fair market price at the balance sheet date (unrealized gain or loss, net of applicable income taxes, included directly in stockholdersí equity) and non-marketable securities are stated at cost determined by the total average method.

(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 the lower of cost or market, with cost determined by the first-in and first-out method.

(e) Property, Plant and Equipment, and Depreciation

Property, plant and equipment are stated at cost. Significant renewals and additions are capitalized. 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 capitalized.

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) Retirement and Severance Benefits

Effective the year ended September 30, 2001, the company adopted a new accounting procedure standard for employees' retirement and severance benefits and accounted for the allowance for retirement and severance benefits based on the projected benefit obligations and plan asset at the balance sheet date. The transitional benefit obligation of yen 957 million (US$7,780 thousand) has been fully charged to income for the fiscal year ended September 30, 2001. Actuarial gain or loss is amortized by the straight-line method over 10 years from the following fiscal year.

The company provides the allowance for retirement benefit for directors and corporate auditors based on the internal corporate policy.

(h) Provision for Product Warranty

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

(i) Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the exchange rates in effect on the respective balance sheet dates or at the rate of each forward exchange contract.

Assets, liabilities, revenue and expense accounts of foreign consolidated subsidiaries are translated into yen amounts at the exchange rates in effect at the each balance sheet date. Prior to the year ended September 30, 2001, any resulting translation differences were stated as Adjustments arising from translation of accounts of foreign consolidated subsidiaries in the accompanying consolidated balance sheets. Due to a change in the regulations relating to the presentation of translation adjustments, such differences are included in Minority interests in consolidated subsidiaries and Adjustments arising from translation of accounts of foreign consolidated subsidiaries as a separate component of shareholdersí equity from the fiscal year ended September 30, 2001.

(j) Lease

Finance leases other than those that are deemed to transfer the ownership of the leased assets to the lessee are accounted for as operating leases.

(k) Hedging Account

The Companies have entered into foreign forward contracts in order to manage the exposures to risk arising from fluctuations in foreign currency exchange rates. Beginning from the fiscal year ended September 30, 2001, the company adapted a new accounting standard for financial instruments which requires that all derivative financial instruments be recognized as either assets or liabilities and measured at fair value with any changes in unrealized gain or loss recognized in income statements, except for those which meet the criteria for deferral hedge accounting under which unrealized loss or gain is deferred as an asset or liability until maturity of the hedged transactions.

(l) Income Taxes

Deferred income taxes are provided on the asset and liability method by which deferred tax assets and liabilities are recognized based on the temporary differences between the assets and liabilities for financial reporting and those for tax purpose, and are measured by applying currently enacted tax laws.

(m) Per share information

Net income per share is based on the weighted average number of shares outstanding during the respective years without adjusting retroactively for stock split. Diluted net income per shares assumes full conversion of outstanding convertible debentures at the beginning of the year or at the time of issuance with an applicable adjustment for related interest expense, net of tax. Cash dividends per share shown for each year in the consolidated statements of income represent dividends declared as applicable to the respective periods. On May 23, 2001 the Company split one shares into two shares to the shareholders of record at March 31, 2001 which resulted in an increase in shares outstanding by 33,347,650. Per share data was calculated based on the assumption that the stock split took place at the beginning of the fiscal year.

(n) Reclassifications

Due to its immateriality, dividends paid to minority interests in consolidation in cash flows from financing activities were reclassified and included in Other.

3. Inventories

Inventories at September 30, 2001 and 2002 were summarised as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars	
	2001	**2002**	2001	**2002**
Finished goods	¥ 3,646	**¥ 3,505**	$ 29,642	**$ 28,496**
Work in process	6,076	**6,180**	49,398	**50,244**
Raw materials and supplies	3,324	**3,355**	27,025	**27,276**
	¥ 13,046	**¥ 13,040**	$106,065	**$106,016**

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 at September 30, 2002 was 1.5%. Long-term debt at September 30, 2001 and 2002 was as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars	
	2001	**2002**	2001	**2002**
2.40% unsecured convertible debentures due in 2003	¥ 452	**¥ 415**	$ 3,675	**$ 3,374**
1.25% unsecured convertible debentures due in 2004	501	**346**	4,073	**2,813**
0.20% unsecured convertible debentures due in 2007	19,110	**19,110**	155,366	**155,366**
Loans principally from banks due serially through 2010	13,904	**12,889**	113,040	**104,788**
Less current portion	(1,072)	**(3,944)**	(8,715)	**(32,065)**
	¥ 32,895	**¥ 28,816**	$ 267,439	**$ 234,276**

At September 30, 2001 and 2002, property, plant and equipment which had a carrying amount of yen 9,293 million (US$75,553 thousand) and yen 8,177 million (US$66,480 thousand) were pledged as collateral for short-term bank loans and long-term debt, respectively.

5. Subsequent Events

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 is to be approved at a shareholders' meeting held within three months of the end of the fiscal year.

On December 20, 2002, 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, 2002:

	Millions of Japanese Yen	Thousands of U.S. Dollars
Cash dividends	¥ 338	$ 2,748
Bonuses to directors and corporate auditors	55	447
	¥ 393	$ 3,195

6. 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	
	2001	**2002**	2001	**2002**
Cost, depreciation and balance:				
Acquisition cost	¥ 325	**¥ 370**	$ 2,642	**$ 3,008**
Depreciation expenses	226	**283**	1,837	**2,301**
	¥ 99	**¥ 87**	$ 805	**$ 707**
Future minimum payments:				
Within one year	¥ 50	**¥ 45**	$ 407	**$ 366**
Over one year	49	**42**	398	**341**
	¥ 99	**¥ 87**	$ 805	**$ 707**

7. Investment Securities

Information regarding the marketable securities classified as other securities as of September 30, 2001 and 2002 was as follows.

	Millions ofJapanese Yen							
	2001				**2002**			
	Cost	Carrying amount	Unrealized gain	Unrealized loss	**Cost**	**Carrying amount**	**Unrealized gain**	**Unrealized loss**
Equity securities	¥ 1,616	¥ 1,575	¥ 10	¥ 51	**¥ 1,301**	**¥ 1,284**	**¥ 10**	**¥ 27**

	Thousands of U.S. Dollars							
	2001				**2002**			
	Cost	Carrying amount	Unrealized gain	Unrealized loss	**Cost**	**Carrying amount**	**Unrealized gain**	**Unrealized loss**
Equity securities	$13,138	$ 12,805	$ 81	$ 414	**$ 10,577**	**$ 10,439**	**$ 81**	**$ 219**

Proceeds from securities sold in the year ended September 30, 2001 were yen 60 million (US$488 thousand) with gross realized loss of yen 42 million (US$341thousand). No securities were sold in the year ended September 30, 2002.

Securities recorded at cost at September 30, 2001 and 2002 were as follows.

	Millions of Japanese Yen		Thousands of U.S. Dollars	
	2001	**2002**	2001	**2002**
Equity securities	¥ 822	**¥ 749**	$ 6,683	**$ 6,089**

8. Retirement and severance benefits

The Company and certain domestic subsidiaries have retirement and severance benefit plans for employees who are entitled to annuity and lump-sum payments, the amounts of which are determined based on basic rate of pay, length of service and other conditions. Certain of the overseas subsidiaries have their own retirement and severance benefit plans for covering substantially all employees who meet the eligiblity requirements. The Company has retirement benefit plan for directors and corporate auditors, the liability for which at September 30, 2001 and 2002 were yen 438 million (US$3,561 thousand) and yen 869 million (US$7,065 thousand), respectively.

The liability for employees' retirement and severance benefits at September 30, 2001 and 2002 consisted of the following:

	Millions of Japanese Yen		Thousands of U.S. Dollars	
	2001	**2002**	2001	**2002**
Projected benefit obligation	¥ (11,591)	**¥ (13,327)**	$(94,236)	**$(108,350)**
Fair value of plan assets	3,100	**3,527**	25,203	**28,675**
Unrecognized actuarial gain	326	**1,252**	2,651	**10,179**
	¥ (8,165)	**¥ (8,548)**	$(66,382)	**$ (69,496)**

The components of net periodic benefit cost for the year ended September 30, 2001 and 2002 were as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars	
	2001	**2002**	2001	**2002**
Service cost	¥ (664)	**¥ (702)**	$ (5,398)	**$ (5,707)**
Interest cost	(324)	**(343)**	(2,634)	**(2,789)**
Expected return on plan assets	29	**30**	236	**244**
Amortization of transitional benefit obligation	(957)	**(33)**	(7,781)	**(268)**
	¥ (1,916)	**¥ (1,048)**	$(15,577)	**$ (8,520)**

Assumptions used in calculation for the year ended September 30, 2001 and 2002 were as follows:

	2001	**2002**
Discount rate	3.0%	**2.5%**
Expected rate of return on plan assets	1.0%	**1.0%**
Allocation method of projected benefit to service periods	Straight-line	**Straight-line**
Amortization period of unrecognized actuarial differences	10years	**10years**

9. Segment Information

Business segment

	Millions of Japanese Yen					
Year ended September 30, 2002	**Opto-electronic devices**	**Imaging and measurement instruments**	**Other**	**Segment total**	**Elimination or corporate**	**Consolidated total**
Net sales						
Outside customers	**¥ 48,170**	**¥ 11,764**	**¥ 723**	**¥ 60,657**	**¥ -**	**¥ 60,657**
Intersegment	**614**	**39**	**-**	**653**	**(653)**	**-**
	48,784	**11,803**	**723**	**61,310**	**(653)**	**60,657**
Operating expenses	**35,338**	**10,937**	**901**	**47,176**	**7,605**	**54,781**
Operating income	**¥ 13,446**	**¥ 866**	**¥ (178)**	**¥ 14,134**	**¥ (8,258)**	**¥ 5,876**
Assets	**¥ 65,828**	**¥ 16,744**	**¥ 2,442**	**¥ 85,014**	**¥ 29,905**	**¥ 114,919**
Depreciation	**¥ 4,319**	**¥ 939**	**¥ 95**	**¥ 5,353**	**¥ 1,146**	**¥ 6,499**
Capital expenditures	**¥ 6,819**	**¥ 1,498**	**¥ 10**	**¥ 8,327**	**¥ 325**	**¥ 8,652**

Year ended September 30, 2001						
Net sales						
Outside customers	¥ 48,853	¥ 12,766	¥ 1,000	¥ 62,619	¥ -	¥ 62,619
Intersegment	752	38	-	790	(790)	-
	49,605	12,804	1,000	63,409	(790)	62,619
Operating expenses	34,219	11,527	937	46,683	7,214	53,897
Operating income	¥ 15,386	¥ 1,277	¥ 63	¥ 16,726	¥ (8,004)	¥ 8,722
Assets	¥ 65,200	¥ 20,731	¥ 2,872	¥ 88,803	¥ 25,328	¥ 114,131
Depreciation	¥ 3,268	¥ 691	¥ 102	¥ 4,061	¥ 1,094	¥ 5,155
Capital expenditures	¥ 9,259	¥ 1,323	¥ 16	¥ 10,598	¥ 3,296	¥ 13,894

Year ended September 30, 2002	Opto-electronic devices	Imaging and measurement instruments	Other	Segment total	Elimination or corporate	Consolidated total
	Thousands of US Dollars					
Net sales						
Outside customers	**$ 391,626**	**$ 95,642**	**$ 5,878**	**$ 493,146**	**$ -**	**$ 493,146**
Intersegment	**4,992**	**317**	**-**	**5,309**	**(5,309)**	**-**
	396,618	**95,959**	**5,878**	**498,455**	**(5,309)**	**493,146**
Operating expenses	**287,301**	**88,919**	**7,325**	**383,545**	**61,829**	**445,374**
Operating income	**$ 109,317**	**$ 7,040**	**$ (1,447)**	**$ 114,910**	**$ (67,138)**	**$ 47,772**
Assets	**$ 535,187**	**$ 136,130**	**$ 19,853**	**$ 691,170**	**$ 243,130**	**$ 934,300**
Depreciation	**$ 35,114**	**$ 7,634**	**$ 772**	**$ 43,520**	**$ 9,317**	**$ 52,837**
Capital expenditures	**$ 55,439**	**$ 12,179**	**$ 81**	**$ 67,699**	**$ 2,642**	**$ 70,341**

Year ended September 30, 2001						
Net sales						
Outside customers	$ 397,179	$ 103,789	$ 8,130	$ 509,098	$ -	$ 509,098
Intersegment	6,114	309	-	6,423	(6,423)	-
	403,293	104,098	8,130	515,521	(6,423)	509,098
Operating expenses	278,203	93,716	7,618	379,537	58,650	438,187
Operating income	$ 125,090	$ 10,382	$ 512	$ 135,984	$ (65,073)	$ 70,911
Assets	$ 530,081	$ 168,545	$ 23,350	$ 721,976	$ 205,918	$ 927,894
Depreciation	$ 26,569	$ 5,618	$ 829	$ 33,016	$ 8,895	$ 41,911
Capital expenditures	$ 75,276	$ 10,756	$ 130	$ 86,162	$ 26,797	$ 112,959

Geographic areas

Year ended September 30, 2002	Domestic	North America	Europe	Other	Segment total	Elimination or corporate	Consolidated total
	Millions of Japanese Yen						
Net sales							
Outside customers	**¥ 35,113**	**¥ 15,360**	**¥10,032**	**¥ 152**	**¥ 60,657**	**¥ -**	**¥ 60,657**
Intersegment	**16,221**	**1,016**	**53**	**375**	**17,665**	**(17,665)**	**-**
	51,334	**16,376**	**10,085**	**527**	**78,322**	**(17,665)**	**60,657**
Operating expenses	**39,369**	**15,947**	**8,923**	**467**	**64,706**	**(9,925)**	**54,781**
Operating income	**¥ 11,965**	**¥ 429**	**¥ 1,162**	**¥ 60**	**¥ 13,616**	**¥ (7,740)**	**¥ 5,876**
Assets	**¥ 75,140**	**¥ 9,884**	**¥ 5,830**	**¥ 804**	**¥ 91,658**	**¥ 23,261**	**¥ 114,919**

Year ended September 30, 2001							
Net sales							
Outside customers	¥ 37,643	¥ 15,207	¥ 9,648	¥ 121	¥ 62,619	¥ -	¥ 62,619
Intersegment	16,164	1,135	83	151	17,533	(17,533)	-
	53,807	16,342	9,731	272	80,152	(17,533)	62,619
Operating expenses	39,351	15,432	8,465	246	63,494	(9,597)	53,897
Operating income	¥ 14,456	¥ 910	¥ 1,266	¥ 26	¥ 16,658	¥ (7,936)	¥ 8,722
Assets	¥ 80,200	¥ 8,454	¥ 5,178	¥ 345	¥ 94,177	¥ 19,954	¥ 114,131

Geographic areas (continued)

Year ended September 30, 2002	Domestic	North America	Europe	Other	Segment total	Elimination or corporate	Consolidated total
	Thousands of US Dollars						
Net sales							
Outside customers	**$ 285,471**	**$ 124,878**	**$ 81,561**	**$ 1,236**	**$ 493,146**	**$ -**	**$ 493,146**
Intersegment	**131,878**	**8,260**	**431**	**3,049**	**143,618**	**(143,618)**	**-**
	417,349	**133,138**	**81,992**	**4,285**	**636,764**	**(143,618)**	**493,146**
Operating expenses	**320,073**	**129,650**	**72,545**	**3,797**	**526,065**	**(80,691)**	**445,374**
Operating income	**$ 97,276**	**$ 3,488**	**$ 9,447**	**$ 488**	**$ 110,699**	**$ (62,927)**	**$ 47,772**
Assets	**$ 610,894**	**$ 80,358**	**$ 47,398**	**$ 6,537**	**$ 745,187**	**$ 189,114**	**$ 934,301**

Year ended September 30, 2001							
Net sales							
Outside customers	$ 306,041	$ 123,634	$ 78,439	$ 984	$ 509,098	$ -	$ 509,098
Intersegment	131,414	9,228	675	1,227	142,544	(142,544)	-
	437,455	132,862	79,114	2,211	651,642	(142,544)	509,098
Operating expenses	319,927	125,463	68,821	2,000	516,211	(78,024)	438,187
Operating income	$ 117,528	$ 7,399	$ 10,293	$ 211	$ 135,431	$ (64,520)	$ 70,911
Assets	$ 652,032	$ 68,732	$ 42,098	$ 2,805	$ 765,667	$ 162,227	$ 927,894

Overseas sales

Year ended September 30, 2002	North America	Europe	Other	Consolidated total
	Millions of Japanese Yen			
Overseas sales	**¥ 16,025**	**¥ 9,908**	**¥ 6,063**	**¥ 31,996**
Consolidated net sales				**¥ 60,657**
Ratio of oversers sales to consolidated net sales	**26.42%**	**16.33%**	**10.00%**	**52.75%**
Year ended September 30, 2001				
Overseas sales	¥ 15,950	¥ 9,580	¥ 5,089	¥ 30,619
Consolidated net sales				¥ 62,619
Ratio of oversers sales to consolidated net sales	25.47%	15.30%	8.13%	48.90%

Year ended September 30, 2002	North America	Europe	Other	Consolidated total
	Thousand of US Dollars			
Overseas sales	**$ 130,284**	**$ 80,553**	**$ 49,293**	**$ 260,130**
Consolidated net sales				**$ 493,146**
Ratio of oversers sales to consolidated net sales	**26.42%**	**16.33%**	**10.00%**	**52.75%**
Year ended September 30, 2001				
Overseas sales	$ 129,675	$ 77,886	$ 41,374	$ 248,935
Consolidated net sales				$ 509,098
Ratio of oversers sales to consolidated net sales	25.47%	15.30%	8.13%	48.90%