

Financial Review

Analyses of the Financial Position and Operating Results

1. Financial Position

(Current Assets)

Current assets as of the end of this consolidated fiscal year totaled ¥40,341 million, decreasing ¥6,464 million from a year earlier. This is principally attributable to decreases of ¥2,164 million in cash and time deposits, ¥2,675 million in trade notes and accounts receivable, and ¥1,308 million in inventories.

(Noncurrent Assets)

Noncurrent assets as of the end of this consolidated fiscal year stood at ¥28,848 million, a decrease of ¥1,164 million compared to the previous fiscal year-end. This is mainly due to a decrease of ¥494 million in property, plant and equipment caused by differences between capital expenditure and depreciation, and a decrease of ¥948 million in investment securities as a result of mark-to-market revaluation of the stocks held.

(Current Liabilities)

Current liabilities as of the end of this consolidated fiscal year were ¥23,308 million, a decrease of ¥1,777 million compared to the previous fiscal year-end. This is largely due to a decrease of ¥2,487 million in notes and accounts payable, a decrease of ¥512 million in accrued employees' bonuses, a decrease of ¥2,214 million in the current portion of long-term bank loans, and an increase of ¥3,900 million in the current portion of bonds through transfer from long-term liabilities.

(Long-Term Liabilities)

Long-term liabilities as of the end of this consolidated fiscal year were ¥18,936 million, a decrease of ¥1,331 million compared to the previous fiscal year-end. This is mainly attributable to an increase of ¥2,372 million in long-term bank loans and a transfer of ¥3,900 million from long-term liabilities to the current portion of bonds under current liabilities. In fiscal 2007, ¥2,300 million was transferred from long-term liabilities to the current portion of long-term bank loans under current liabilities.

(Net Assets)

Net assets as of the end of this consolidated fiscal year totaled ¥26,946 million, a decrease of ¥4,523 million compared to the previous fiscal year-end. Major reasons for the decrease are a decrease of ¥2,778 million in retained earnings due to a net loss of ¥2,397 million and the payment of dividends of ¥372 million, and a decrease of ¥1,179 million in the foreign exchange adjustment account.

With respect to a patent litigation with U.S. Philips Corporation, the Company is considering borrowings from financial institutions and the sale of some assets to fund the possible expenditure in case of an adverse ruling or a settlement.

2. Analysis of Operating Results

(Gross Profit)

Gross profit for this consolidated fiscal year decreased by ¥3,497 million from the previous term, to ¥15,689 million. In the Lighting Sector, there was a general decrease in public work-related orders following the recovery in fiscal 2007. The drop in the demand for HID products for tunnels was particularly significant. As to the private sector demand, orders for HID products for factory use were strong in the first half of the fiscal year, but demand slumped from the third quarter onwards. Deepening recession in the real estate and construction markets also suppressed demand, and the sector saw decreased sales and operating income. As to the Applied Optics Sector, the Group has concentrated its management resources on the sector as a growth area, but the results for the sector reflected decreased sales and operating income. In addition to continued sluggishness in demand since the end of the previous fiscal year, a sharp drop in sales affected the

performance during the year. The drop was due to a decrease in and rescheduling of orders reflecting postponement and cancellation of capital expenditure projects amid sharply deteriorating corporate earnings since last autumn, and, particularly, inventory adjustment of image projector light source products.

(Operating Income)

This consolidated fiscal year resulted in an operating loss of ¥215 million, a decrease of ¥2,904 million compared to an operating income of ¥2,688 million for the previous term. The main contributors to this significant decrease are the same as the factors explained in “Gross Profit” above, offsetting a year-on-year decrease of ¥593 million in selling, general and administrative expenses through our streamlining efforts.

(Income before Income Taxes and Minority Interests)

This consolidated fiscal year resulted in a loss before income taxes and minority interests of ¥1,920 million, a decrease of ¥3,288 million from an income of ¥1,368 million for the previous term. This decrease was mainly attributable to, besides the factors described under “Gross Profit” and “Operating Income,” a net increase of ¥390 million in extraordinary loss, including litigation expenses of 452 million and payment of damages of ¥292 million.

(Net Income)

This consolidated fiscal year resulted in a net loss of ¥2,397 million, a decrease of ¥3,432 million from a net income of ¥1,035 million for the previous term. Major reasons for the decrease are, in addition to those described under the preceding paragraphs, a decrease of ¥417 million in income tax expense and an increase of ¥604 million in income taxes-deferred due to a decrease in deferred tax assets.

(Income before Income Taxes)

Income before income taxes for this consolidated fiscal year was ¥1,368 million, a decrease of ¥150 million from the previous term. This decrease was mainly attributable to the factors described under “Gross Profit” and “Operating Income,” in addition to ¥291 million in foreign exchange loss and ¥199 million in loss on disposal of inventories in non-operating expenses incurred despite an increase of ¥110 million in amortization of negative goodwill in non-operating income. Moreover, lower extraordinary losses compared to the previous consolidated fiscal year was another factor for the decrease (¥440 million in provisions for director retirements and severance benefits and ¥200 million in a penalty for breach of contract were recorded as extraordinary losses in the previous consolidated fiscal year).

(Net Income)

Net income for this consolidated fiscal year stood at ¥1,035 million, an increase of ¥560 million from the previous consolidated fiscal year. The main reason for the increase was as described in “Income before Income Taxes” above, in addition to the decrease in income tax-deferred due to a rise in deferred tax assets.