PHOENIX Electric Co.,Ltd.

May 13, 2005

# Consolidated Financial Results
## for the Year Ended March 2005

| | |
|---|---|
| Company name: | PHOENIX Electric Co., Ltd. |
| Stock code: | 6927 |
| Stock Exchange listing: | Tokyo Stock Exchange, Second Section<br>JASDAQ Securities Exchange |
| Head office address: | Hyogo Prefecture |
| URL: | http://www.phoenix-elec.co.jp |
| President: | Sadaichi Saito |
| Contact: | Youichi Kawasaka<br>Director, Manager, Administration Dept. |
| Telephone: | +81-792-64-5711 |
| Board meeting for approving: | May 13, 2005 |
| Accounting Principle: | Japanese GAAP |

### 1. Financial Results (April 1, 2004 - March 31, 2005)
### (1) Results of Operations

*(amounts rounded down to million yen)*

| | Net sales | | Operating income | | Recurring profit | |
|---|---|---|---|---|---|---|
| | million yen | YoY change (%) | million yen | YoY change (%) | million yen | YoY change (%) |
| Fiscal year ended Mar. 2005 | 11,051 | 68.2 | 2,610 | 142.2 | 2,538 | 158.6 |
| Fiscal year ended Mar. 2004 | 6,571 | 10.6 | 1,077 | 16.1 | 981 | 18.9 |

| | Net income | | Net income per share (basic) | Net income per share (diluted) |
|---|---|---|---|---|
| | million yen | YoY change (%) | yen | yen |
| Fiscal year ended Mar. 2005 | 1,520 | 143.6 | 65.82 | - |
| Fiscal year ended Mar. 2004 | 624 | 42.6 | 84.88 | - |

| | ROE | Recurring profit to total assets | Recurring profit to sales |
|---|---|---|---|
| | % | % | % |
| Fiscal year ended Mar. 2005 | 23.9 | 26.8 | 23.0 |
| Fiscal year ended Mar. 2004 | 15.0 | 15.9 | 14.9 |

Notes:

1. Equity in earnings of unconsolidated subsidiaries
   - Fiscal year ended March 2005: -
   - Fiscal year ended March 2004: -
2. Average number of shares outstanding
   - Fiscal year ended March 2005: 22,342,516 shares
   - Fiscal year ended March 2004: 7,100,087 shares
3. Changes in accounting principles applied: None
4. YoY change in the parentheses of net sales, operating income, recurring profit and net income represents relevant change in percentage compared to the same period of the previous fiscal year.
5. On November 19, 2004, the Company split its common stock three-for-one, for shareholders and beneficiary shareholders registered or recorded in the shareholders' register at the close of business on September 30, 2004. Net income per share is calculated based on the average number of shares outstanding during the year, retroactively adjusted for the stock split to the beginning of the year.

**(2) Financial Position**

| | Total assets | Shareholders' equity | Shareholders' equity ratio | Shareholders' equity per share |
|---|---|---|---|---|
| | million yen | million yen | % | yen |
| As of Mar. 31, 2005 | 12,151 | 8,293 | 68.3 | 361.25 |
| As of Mar. 31, 2004 | 6,791 | 4,428 | 65.2 | 620.51 |

Notes: Number of shares issued at end of fiscal year (Consolidated basis)
As of March 31, 2005: 22,806,900 shares
As of March 31, 2004: 7,102,300 shares

**(3) Cash Flows**

| | Net cash provide by (used in) | | | Cash and cash equivalents at end of year |
|---|---|---|---|---|
| | operating activities | investing activities | financing activities | |
| | million yen | million yen | million yen | million yen |
| Fiscal year ended Mar. 2005 | 1,030 | (2,936) | 2,231 | 2,288 |
| Fiscal year ended Mar. 2004 | 472 | (254) | 703 | 1,966 |

**(4) Scope of Consolidation and Application under the Equity Method**

Consolidated subsidiaries: 2
Unconsolidated subsidiaries under equity method application: None
Affiliates under equity method application: None

**(5) Changes in the Scope of Consolidation and Affiliates under the Equity Method**

Consolidated subsidiaries
Newly added: None
Excluded: None
Affiliates accounted for under the equity method
Newly added: None
Excluded: None

## 2. Forecast for the Fiscal Year Ending March 2006 (April 1, 2005 - March 31, 2006)

| | Net sales | Recurring profit | Net income |
|---|---|---|---|
| | million yen | million yen | million yen |
| Interim | 5,999 | 1,269 | 779 |
| Full year | 14,071 | 3,353 | 2,057 |

Reference: Estimated net income per share for the fiscal year ending March 2006: 90.23 yen

*Projections of operating results are based on information available to management at the time this report was prepared. As such, these projections entail risks and uncertainties. Readers should be aware that actual results and events may differ substantially from these projections. The above forecasts are based on assumptions and other relevant factors discussed in the section on Supplementary Information (Page 9).*

## 1. Corporate Group

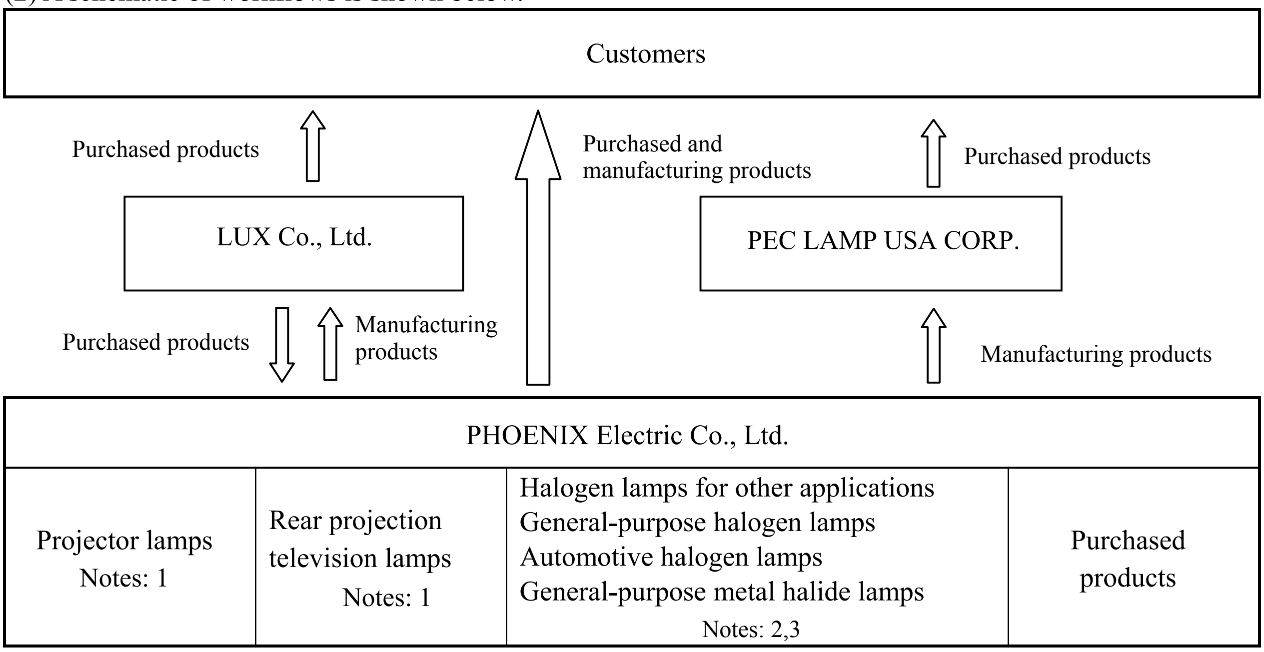
The PHOENIX Electric Group (the Group) is made up of PHOENIX Electric Co., Ltd., the parent company (the Company) and two subsidiaries. The Group is engaged primarily in the manufacture and sale of lamps for projectors and large-screen rear projection TVs, general halogen lamps, automotive halogen lamps and general metal halide lamps.

(1) Business activities of group companies are as follows.

| Company | Location | Major activities |
|---|---|---|
| PHOENIX Electric Co., Ltd. | Hyogo Prefecture | Manufacture and sale of lamps for projectors and large-screen rear projection TVs, general halogen lamps, automotive halogen lamps and general metal halide lamps |
| LUX Co., Ltd. | Hyogo Prefecture | Sale of illumination lamps and illumination products |
| PEC LAMP USA CORP. | U.S.A. | Sales of halogen lamps, metal halide lamps and other lamps |

Note: LUX Co., Ltd. and PEC LAMP USA CORP. are both wholly owned consolidated subsidiaries of the Company.

(2) A schematic of workflows is shown below.




Notes: 1. Except for certain short-arc metal halide lamps for projectors, lamps manufactured by the Company are super-high-voltage mercury lamps.
2. Halogen lamp—Conventional incandescent light bulbs are filled with an inert gas such as nitrogen to reduce evaporation, or sublimation, of the tungsten filament. In halogen lamps, halogen is used instead of an inert gas, reducing lamp size to about 3% of a comparable incandescent light bulb. Other advantages are a longer life and the ability to generate light that is brighter and closer to the color of sunlight.
3. Metal halide lamp—A high-intensity discharge lamp that uses metal halide gases to produce greater brightness (lumens) per watt.

(a) LUX Co., Ltd. purchases halogen lamps and metal halide lamps from the Company for sale to external customers and purchases lamps manufactured by other companies for sale to its customers. The Company purchases lighting fixtures from LUX Co., Ltd. for sale to external customers as part of its lamp business.
(b) PEC LAMP USA CORP. purchases halogen lamps, general metal halide lamps and projector lamps from the Company for sale to external customers and purchases lamps manufactured by other companies for sale to its customers.

## 2. Management Policies

### 1. Fundamental Management Policies

**Corporate Vision**

The Company's philosophy is that "PHOENIX Electric optical-technology products are of high quality and meet a variety of demands."

The Company's vision is to be a research-driven organization capable of sustained growth, a company that regards manufacturing as a fine art and strives to be the first choice of customers by supplying original products that have outstanding performance and quality for the benefit of shareholders, employees, suppliers and society.

The reborn PHOENIX Electric wants to develop into a company where every employee is glad that he or she remained or decided to join.

**Management Policies**

1) Maintain a sound and flexible corporate structure
Build a powerful corporate infrastructure capable of sustaining growth while also having the flexibility required to quickly adapt to change.

2) Conduct management in an organized and open manner
PHOENIX is committed to contributing to society by ensuring a transparent, open corporate organization that is fair and equitable to all stakeholders, including shareholders, employees, suppliers and the society in which the Company operates.

3) Conduct streamlined, scientific operations
Based on the theme that "information is an asset for everyone to use, so everyone should use information to generate profits," the Company has adopted an ERP system and makes substantial investments in data warehouse software and other IT systems. The goal is to make the Company even stronger by conducting streamlined and scientific management practices aimed at reducing inventories, cutting costs, shortening lead times and achieving other improvements.

4) Deliver global-standard performance and quality
Aim to manufacture products that deliver performance and quality that rank among the best in the world for the purpose of increasing OEM sales to customers in the lamp industry, particularly overseas companies.

### 2. Medium- and Long-term Management Strategies

The core strategy is to upgrade the Company's core competences of developing and manufacturing specialty lamps for projectors as well as rear projection televisions and extending user support. The Company also places priority on taking advantage of its small scale to be of greater assistance to customers. The goal is to become number one in niche markets (lamps for projectors as well as rear projection televisions) where the Company can best leverage its unique competitive strengths. Accordingly, management will continue to concentrate resources in the projector lamp business.

The Company strives to achieve further refinements in its operations in the following respects:

- A unique strategy for competing successfully
- Consistent growth
- A solid base of operations
- A prominent industry stature
- A sophisticated management system
- Unique attributes that competitors cannot match
- Happy shareholders, suppliers and employees
- A solid number-one position among customers

The objective is to become a "true middle-market company."

**3 Fundamental Policy Regarding Distribution of Earnings**

The Company constantly views the return of earnings to shareholders as one of its highest priorities. The fundamental policy is to strengthen the financial position and operating base while returning earnings in a consistent manner over the long term. But the Company has now changed its policy regarding distribution of earnings to shareholders. From now on dividends will be linked to earnings.

Management plans to raise the annual dividend from 15 yen per share paid to shareholders in the previous fiscal year to 30 yen per share based on before the stock split, reflecting expected consolidated financial results. This translates into a dividend of 7.50 yen per share based on the number of shares outstanding after the stock split.

Retained earnings will be used from a long-term perspective to fund R&D programs and capital expenditures that can make the Company stronger and increase its value.

**4. Important Issues**

The PHOENIX Group, on the occasion of the 30th anniversary of its founding, launched a “tertiary medium-term management plan: Establishing THE PHOENIX WAY 2007” for three years from now. This plan defines strategic and management goals to restructure the corporate organization and to usher in a period of renewed growth.

The PHOENIX Group is confident that next year will be the first year of “Renewed Growth,” as we implement the strategies defined put down in the medium-term management plan. These measures include:

1) Increasing production capacity to meet rising lamp demand (from 130,000 lamps per month to 200,000 lamps per month)
2) Starting production at second factory and strengthening our production system
3) Enhancing price competitiveness by promoting an international division of labor
4) Development of unique lamps to meet customer demands for long lamp life and superior brightness
5) Development of new business lines, driven by new product and technology development
6) Enhancing awareness of CSR and environmental protection issues in all corporate activities

**5. Fundamental Philosophy and Actions Regarding Corporate Governance**

(1) Corporate Governance Philosophy

To sustain continuous growth, the Company believes that it must have a corporate governance system that places the interests of the shareholders above all else while also being able to meet the demands of all stakeholders (employees, customers, suppliers, etc.) with fairness. The Company thus places much importance on enhancing the soundness and efficiency of management and on facilitating rapid decision-making, as well as on maintaining high standards for transparency and compliance.

The 2002 revision of Japan’s Commercial Code newly allowed companies to adopt a committee system. The Company studied the adoption of this system, but decided not to shift to this system at this time because of problems related to the Company’s size. Furthermore, the Company believes that its corporate auditor system is functioning adequately and that, together with the internal auditing office and independent accountant, its “three-element auditing framework” is serving the Company well.

Another corporate governance option for the Company is the reduction in the number of directors and transfer of certain duties to a newly established team of executive officers “the executive officer system,” and the inclusion of one or more directors from outside the Company to upgrade the management supervisory function “the external director system.” The Company believes these systems should be considered as part of its corporate governance system, but has concluded that it is too soon to adopt these systems because of problems stemming from the Company’s small size. Furthermore, there is currently one external director, providing the Company with an adequate means of checking management.

The one outside director and two outside auditors hold 30,000 of the Company’s shares of each, also the other one outside auditor holds 3,000 of the Company’s shares.

(2) Corporate Governance Actions

The Company will continue to implement corporate governance as follows. At the same time, the Company will upgrade compliance activities to conduct a highly effective corporate governance program.

a. Important matters are first submitted to the Executive Committee (which includes corporate auditors), an advisory body to the president and representative director, so that the board of directors can reach decisions quickly, thus providing an organized and open management system.

b. To heighten its transparency, the Company has an extensive IR program that is overseen directly by senior management and is designed to disclose the proper information at the proper times.

c. All three corporate auditors are from outside the Company and, working with the other two components of the “three-element auditing framework,” provide an adequate auditing function. To further strengthen the auditing function, the Company is upgrading the role of the corporate auditors to more closely monitor the performance of the directors.

## 3. Results of Operations and Financial Position

### 1. Results of Operations

(1) Summary of FY3/05

In the current fiscal year under review, signs of an economic recovery started to emerge in Japan, as private sector capital investment rebounded, led by large firms, stock prices rose, and the principal economic indicators took a turn for the better. However, personal consumption failed to recover, due to a poor employment picture and sluggish incomes.

Despite uncertainties, including the war in Iraq, the global economy was favorable, driven by robust North American and Chinese economies. However, negative factors mounted from around the middle of the fiscal year, as rising oil prices cast a shadow on economies around the world.

In this environment, PHOENIX boosted unit sales of front projectors, our core product, as economically priced units won popularity. Moreover, sales of lamp for rear projection televisions rose significantly, led by the U.S. market, mainly due to replacement demand from existing CRT-based televisions.

Driven by the favorable demand, shipments of projector lamps, our mainstay product, rose to 920,000 lamps, a 97% increase compared to the previous fiscal year. In addition we also shipped 180,000 lamps for rear projection televisions, a market which we entered this year.

Regarding capital investment, plans called for increasing the output of lamps for projectors as well as rear projection televisions from 40,000 lamps per month at the beginning of the fiscal year to 200,000 per month. Production of these lamps had increased to 130,000 lamps per month by the end of the fiscal year. Furthermore, the lamp finishing process is being successfully transferred to our facilities in China.

Due to these factors, consolidated net sales increased 68.2% to 11,051,988 thousand yen, operating income increased 142.2% to 2,610,831 thousand yen and recurring profit increased 158.6% to 2,538,114 thousand yen. Moreover net income increased 143.6% to 1,520,502 thousand yen.

(2) Results by business segment

Based on the similarity of its products and how they are manufactured, the Company has decided that it operates in a single business segment, the lamp business. For this reason, results are presented here by product category in lieu of presenting business segment information.

*(thousands of yen)*

| Product category | Net sales | YoY change (%) | Composition (%) |
|---|---|---|---|
| Lamps for projector | 7,766,856 | 174.4 | 70.3 |
| Lamps for rear projection televisions | 1,042,326 | 3,552.4 | 9.4 |
| Other halogen lamps | 1,102,668 | 112.0 | 10.0 |
| Purchased products | 1,140,135 | 103.4 | 10.3 |
| Total | 11,051,988 | 168.2 | 100.0 |

Note:

1. Effective the current consolidated fiscal year, lamps for projectors as well as rear projection televisions, included in total lamp production in previous periods, have been reclassified and presented as a separate line item, due to their increasing share of lamps for rear projection televisions and the fact that we have repositioned these lamps as strategic products
2. The breakdown of “Other halogen lamps” is as follows:

*(thousands of yen)*

| Product category | Amounts | YoY change (%) |
|---|---|---|
| General halogen lamps | 648,373 | 110.0 |
| Automotive halogen lamps | 390,318 | 115.3 |
| General metal halide lamps | 63,976 | 112.2 |
| Total | 1,102,668 | 112.0 |

(3) Results by geographic segment

Results by geographic segment are not presented because Japan accounts for more than 90% of the total sales and assets of all geographic segments.

## 2. Financial Position

### Cash Flows

There was a net increase of 322,770 thousand yen in cash and cash equivalents compared with the past fiscal year. A summary of cash flows and major components follows.

Operating activities:

Net cash provided by operating activities was 1,030,082 thousand yen, an increase of 472,761 thousand yen in the previous fiscal year. The principal sources of cash flow from operating activities were 2,536,646 thousand yen (against 1,054,946 thousand yen in the previous fiscal year) in income before income taxes due to significantly higher sales of super high pressure mercury lamps for projectors as well as rear projection televisions, and 437,804 thousand yen (against 243,192 thousand yen in the previous fiscal year) in depreciation reflecting a surge in capital investment. The principal uses of cash in operating activities were a 915,024 thousand yen increase in notes and accounts receivable, and a 716,775 thousand yen increase in inventories, both due to rising sales, in addition to an increase in other account receivables, mainly uncollected consumption taxes.

Investing activities:

Net cash used in investing activities was 2,936,521 thousand yen, a decrease of 254,313 thousand yen in the previous fiscal year. Due to meet rising demand for super high pressure mercury lamps, reflecting aggressive capital investment that included construction of an administrative section, along with the expansion of our production factory, installation of manufacturing equipment to boost production capacity and the commencement of construction of a second factory.

Financing activities:

Net cash provided by financing activities totaled 2,231,816 thousand yen, an increase of 703,759 thousand yen in the previous fiscal year. The principal source of cash from financing activities was 2,511,500 thousand yen in proceeds from a capital increase through a public offering to raise funds for increasing production capacity for lamps for rear-projection televisions.

A five-year summary of cash flow-related indicators is as follows

| | FY2001 | FY2002 | FY2003 | FY2004 | FY2005 |
|---|---|---|---|---|---|
| Shareholders' equity ratio (%) | 54.2 | 62.7 | 69.9 | 65.2 | 68.3 |
| Shareholders' equity ratio at market cap (%) | - | - | 97.7 | 329.4 | 335.0 |
| Years of debt amortization (years) | 4.3 | 1.1 | 0.2 | 2.2 | 1.0 |
| Interest coverage ratio (times) | 6.9 | 45.8 | 50.8 | 148.6 | 64.1 |

Notes:
The shareholders' equity ratio is calculated by dividing equity by total assets.
The shareholders' equity ratio at market cap is calculated by dividing market capitalization by total assets.
The years of debt amortization is calculated by dividing interest-bearing debt by operating cash flows.
The interest coverage ratio is calculated by dividing operating cash flows by interest expenses.

* All of the above indicators are calculated using figures from the consolidated financial statements.
* Market capitalization is calculated by multiplying the share price at the end of the period by the number of shares outstanding (net of treasury stock) at the end of the period.
* Operating cash flows refers to net cash provided by operating activities as shown on the cash flows statements. Interest-bearing debt refers to the total of liabilities shown on the balance sheet on which interest is paid. Interest expenses refer to interest payments as shown in the cash flows statements.
* The shareholders' equity ratio on the market capital basis is not presented for the fiscal years ended March 31, 2001 and 2002, as the Company was not listed and stock price quotations are not available.

### 3. Outlook for FY3/06

We expect the global economy to experience steadfast expansion, led by a firm U.S. economy and a growing Chinese economy, despite uncertainties that include the impact of higher oil and raw materials prices, and exchange rate volatility caused by expanding dual deficits in the U.S.

We also expect projector industry and large-screen TV's market, our principal customer sector, to continue to show strong growth, despite the inevitability of minor fluctuations resulting from inventory adjustment and other factors.

In this environment, the PHOENIX Group is increasing capital spending to add production capacity and meet growing demand for our super high pressure mercury lamps, and to undertake for research and development that will enhance operating efficiency and improve the quality and performance of our products. These measures will enable us to flexibly and speedily respond to the needs of our customers, thus enhancing customer satisfaction and corporate value.

While the lingering effects of inventory adjustment at set manufacturers are expected to continue through the first half, the PHOENIX Group projects a recovery in the second half.
For the fiscal year ending in March 2006, the Company is forecasting a 27.3% increase in net sales to 14,071 million yen, a 32.1% increase in recurring profit to 3,353 million yen, and a 35.3% increase in net income to 2,057 million yen.

*(millions of yen)*

| | Net sales | Recurring profit | Net income |
|---|---|---|---|
| First quarter | 2,515 | 473 | 290 |
| Interim | 5,999 | 1,269 | 779 |
| Third quarter | 10,143 | 2,390 | 1,466 |
| Year-end | 14,071 | 3,353 | 2,057 |

## 4. Consolidated Financial Statements

### (1) Consolidated Balance Sheets

*(thousands of yen)*

| | Notes | FY3/04 As of March 31, 2004 | | FY3/05 As of March 31, 2005 | | Change |
|---|---|---|---|---|---|---|
| | | Amount | % | Amount | % | Amount |
| **ASSETS** | | | | | | |
| I Current assets | | | | | | |
| 1. Cash and deposits with banks | | 1,966,212 | | 2,288,982 | | 322,770 |
| 2. Notes and accounts receivable | | 1,937,948 | | 2,852,973 | | 915,024 |
| 3. Inventories | | 817,325 | | 1,534,100 | | 716,775 |
| 4. Deferred tax assets | | 73,265 | | 199,337 | | 126,071 |
| 5. Other current assets | | 101,544 | | 274,114 | | 172,569 |
| Allowance for doubtful accounts | | (10,597) | | (10,931) | | (334) |
| Total current assets | | 4,885,698 | 71.9 | 7,138,576 | 58.7 | 2,252,877 |
| II Fixed assets | | | | | | |
| 1. Property, plant, and equipment | | | | | | |
| (1) Buildings and structures | *1,3 | 217,654 | | 584,041 | | 366,387 |
| (2) Machinery and vehicles | *1,3 | 686,635 | | 1,749,641 | | 1,063,005 |
| (3) Land | *1,2 | 594,733 | | 1,026,502 | | 431,769 |
| (4) Construction in progress | | 193,405 | | 1,364,598 | | 1,171,192 |
| (5) Other property, plant, and equipment | *3 | 40,321 | | 114,343 | | 74,022 |
| Total property, plant, and equipment | | 1,732,750 | 25.5 | 4,839,128 | 39.8 | 3,106,377 |
| 2. Intangible assets | | 8,370 | 0.1 | 7,482 | 0.1 | (888) |
| 3. Investments and other assets | | | | | | |
| (1) Investment securities | | 92,015 | | 127,218 | | 35,202 |
| (2) Deferred tax assets | | 20,704 | | 12,638 | | (8,066) |
| (3) Other investments and assets | | 58,622 | | 29,319 | | (29,303) |
| Allowance for doubtful accounts | | (6,462) | | (3,108) | | 3,354 |
| Total investments and other assets | | 164,880 | 2.4 | 166,068 | 1.4 | 1,187 |
| Total fixed assets | | 1,906,002 | 28.1 | 5,012,679 | 41.3 | 3,106,677 |
| Total assets | | 6,791,701 | 100.0 | 12,151,255 | 100.0 | 5,359,554 |

*(thousands of yen)*

| | Notes | FY3/04 As of March 31, 2004 | | FY3/05 As of March 31, 2005 | | Change |
|---|---|---|---|---|---|---|
| | | Amount | % | Amount | % | Amount |
| **LIABILITIES** | | | | | | |
| I Current liabilities | | | | | | |
| 1. Notes and accounts payable | | 595,598 | | 618,069 | | 22,470 |
| 2. Current portion of long-term borrowings | *1 | 41,685 | | 249,040 | | 207,355 |
| 3. Accrued income taxes | | 118,804 | | 997,991 | | 879,187 |
| 4. Accrued bonuses | | 123,568 | | 222,191 | | 98,623 |
| 5. Other current liabilities | *1 | 376,912 | | 933,296 | | 556,383 |
| Total current liabilities | | 1,256,568 | 18.5 | 3,020,588 | 24.9 | 1,764,019 |
| II Long-term liabilities | | | | | | |
| 1. Long-term borrowings | | 1,000,000 | | 748,920 | | (251,080) |
| 2. Deferred tax liabilities | | 1,889 | | 2,638 | | 749 |
| 3. Accrued officers' severance benefits | | 64,805 | | 82,889 | | 18,084 |
| 4. Other long-term liabilities | | 39,896 | | 2,894 | | (37,002) |
| Total long-term liabilities | | 1,106,591 | 16.3 | 837,342 | 6.9 | (269,248) |
| Total liabilities | | 2,363,159 | 34.8 | 3,857,930 | 31.7 | 1,494,771 |
| **SHAREHOLDERS' EQUITY** | | | | | | |
| I Common stock | | 877,177 | 12.9 | 2,133,177 | 17.6 | 1,256,000 |
| II Capital surplus | | 1,308,367 | 19.3 | 2,563,867 | 21.1 | 1,255,500 |
| III Retained earnings | | 2,219,516 | 32.7 | 3,554,967 | 29.3 | 1,335,450 |
| IV Unrealized holding gain on other securities | | 28,939 | 0.4 | 49,454 | 0.4 | 20,514 |
| V Foreign currency translation adjustments | | (5,459) | (0.1) | (8,141) | (0.1) | (2,681) |
| Total shareholders' equity | | 4,428,541 | 65.2 | 8,293,324 | 68.3 | 3,864,783 |
| Total liability and shareholders' equity | | 6,791,701 | 100.0 | 12,151,255 | 100.0 | 5,359,554 |

## (2) Consolidated Statements of Income

*(thousands of yen)*

| | Notes | FY3/04 Apr. 1, 2003 - Mar. 31, 2004 | | | FY3/05 Apr. 1, 2004 - Mar. 31, 2005 | | | Change | |
|---|---|---|---|---|---|---|---|---|---|
| | | Amount | | % | Amount | | % | Amount | |
| I Net sales | | | 6,571,405 | 100.0 | | 11,051,988 | 100.0 | | 4,480,582 |
| II Cost of goods sold | | | 4,296,446 | 65.4 | | 6,933,217 | 62.7 | | 2,636,771 |
| Gross profit | | | 2,274,959 | 34.6 | | 4,118,770 | 37.3 | | 1,843,811 |
| III Selling, general, and administrative expenses | *1,2 | | 1,196,999 | 18.2 | | 1,507,939 | 13.6 | | 310,939 |
| **OPERATING INCOME** | | | 1,077,960 | 16.4 | | 2,610,831 | 23.6 | | 1,532,870 |
| IV Non-operating income | | | | | | | | | |
| 1. Interest income | | 1,333 | | | 1,435 | | | 102 | |
| 2. Dividend income | | 12 | | | 262 | | | 249 | |
| 3. Gain on reversal of valuation loss on investment securities | | 969 | | | - | | | (969) | |
| 4. Miscellaneous revenue | | 10,252 | 12,568 | 0.2 | 8,446 | 10,143 | 0.1 | (1,806) | (2,424) |
| V Non-operating expenses | | | | | | | | | |
| 1. Interest expense | | 3,172 | | | 12,876 | | | 9,704 | |
| 2. Foreign exchange losses | | 89,390 | | | 33,071 | | | (56,319) | |
| 3. New stock issue expense | | 175 | | | 20,505 | | | 20,330 | |
| 4. Commitment line fees | | 12,052 | | | 6,500 | | | (5,552) | |
| 5. Listing expenses | | - | | | 7,834 | | | 7,834 | |
| 6. Miscellaneous loss | | 4,186 | 108,977 | 1.7 | 2,073 | 82,860 | 0.7 | (2,112) | (26,116) |
| **RECURRING PROFIT** | | | 981,551 | 14.9 | | 2,538,114 | 23.0 | | 1,556,563 |
| VI Extraordinary income | | | | | | | | | |
| 1. Gain on sales of fixed assets | *3 | 2,633 | | | - | | | (2,633) | |
| 2. Reversal of allowance for doubtful accounts | | 398 | | | - | | | (398) | |
| 3. Gain on transfer between retirement benefit plans | | 70,608 | 73,640 | 1.1 | - | - | - | (70,608) | (73,640) |
| VII Extraordinary loss | | | | | | | | | |
| 1. Loss on disposal of fixed assets | *4 | 245 | 245 | 0.0 | 1,467 | 1,467 | 0.0 | 1,222 | 1,222 |
| Net income before income taxes | | | 1,054,946 | 16.1 | | 2,536,646 | 23.0 | | 1,481,700 |
| Income taxes- current | | 342,402 | | | 1,147,660 | | | 805,258 | |
| Income taxes- deferred | | 88,400 | 430,802 | 6.6 | (131,516) | 1,016,144 | 9.2 | (219,916) | 585,341 |
| **NET INCOME** | | | 624,143 | 9.5 | | 1,520,502 | 13.8 | | 896,358 |

## (3) Consolidated Statements of Retained Earnings

*(thousands of yen)*

| | FY3/04 Apr. 1, 2003 - Mar. 31, 2004 | | FY3/05 Apr. 1, 2004 -Mar. 31, 2005 | | Change | |
|---|---|---|---|---|---|---|
| | Amount | | Amount | | Amount | |
| **CAPITAL SURPLUS** | | | | | | |
| I Capital surplus at beginning of year | | 1,307,917 | | 1,308,367 | | 450 |
| II Increase in capital surplus | | | | | | |
| 1. Capital increase through new stock issue | - | | 1,255,500 | | 1,255,500 | |
| 2. Exercise of stock acquisition rights | 450 | 450 | - | 1,255,500 | (450) | 1,255,050 |
| III Capital surplus at end of year | | 1,308,367 | | 2,563,867 | | 1,255,500 |
| **RETAINED EARNINGS** | | | | | | |
| I Retained earnings at beginning of year | | 1,720,672 | | 2,219,516 | | 498,844 |
| II Increase in retained earnings | | | | | | |
| 1. Net income | 624,143 | 624,143 | 1,520,502 | 1,520,502 | 896,358 | 896,358 |
| III Decrease in retained earnings | | | | | | |
| 1. Cash dividend paid | 106,399 | | 163,551 | | 57,152 | |
| 2. Bonuses for officers | 18,900 | 125,299 | 21,500 | 185,051 | 2,600 | 59,752 |
| [of which bonuses for auditors] | [1,800] | | [2,040] | | [240] | |
| IV Retained earnings at end of year | | 2,219,516 | | 3,554,967 | | 1,335,450 |

### (4) Consolidated Statements of Cash Flows

*(thousands of yen)*

| | FY3/04<br>Apr. 1, 2003 -<br>Mar. 31, 2004 | FY3/05<br>Apr. 1, 2004 -<br>Mar. 31, 2005 | Change |
|---|---|---|---|
| | Amount | Amount | Amount |
| **I CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| 1. Net income before income taxes | 1,054,946 | 2,536,646 | 1,481,700 |
| 2. Depreciation and amortization | 243,192 | 437,804 | 194,612 |
| 3. Increase (decrease) in accrued employees' retirement benefits | (196,798) | - | 196,798 |
| 4. Increase in accrued officers' severance benefits | 11,933 | 18,084 | 6,150 |
| 5. Increase (decrease) in accrued bonuses | 6,383 | 98,623 | 92,239 |
| 6. Increase (decrease) in allowance for doubtful accounts | 1,103 | (3,019) | (4,123) |
| 7. Interest and dividend income | (1,345) | (1,697) | (351) |
| 8. Interest expense | 3,172 | 12,876 | 9,704 |
| 9. Gain (loss) on revaluation of investment securities | (969) | - | 969 |
| 10. Loss (gain) on sales of fixed assets | (2,633) | - | 2,633 |
| 11. Loss on disposal of fixed assets | 245 | 1,467 | 1,222 |
| 12. Decrease (increase) in notes and accounts receivable | (357,256) | (915,024) | (557,768) |
| 13. Decrease (increase) in inventories | 149,037 | (716,775) | (865,812) |
| 14. Decrease (increase) in other account receivables | 4,506 | (216,552) | (221,059) |
| 15. Increase (decrease) in notes and accounts payable | 193,404 | 22,470 | (170,934) |
| 16. Increase (decrease) in other account payables | 18,210 | 56,305 | 38,095 |
| 17. Bonuses for officers | (18,900) | (21,500) | (2,600) |
| 18. Others | 16,269 | 32,262 | 15,992 |
| Subtotal | 1,124,503 | 1,341,970 | 217,467 |
| 19. Interests and dividends received | 1,345 | 1,697 | 351 |
| 20. Interests paid | (3,182) | (16,070) | (12,887) |
| 21. Income taxes paid | (649,904) | (297,514) | 352,389 |
| **Net cash provided by operating activities** | 472,761 | 1,030,082 | 557,320 |
| **II CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| 1. Payment for purchases of property, plant, and equipment | (221,700) | (3,015,539) | (2,793,839) |
| 2. Proceeds from sales of property, plant, and equipment | - | 20,244 | 20,244 |
| 3. Payments for loans receivable | (60,000) | - | 60,000 |
| 4. Proceeds from collection of loans receivable | 22,500 | 37,500 | 15,000 |
| 5. Others | 4,886 | 21,274 | 16,387 |
| **Net cash used in investing activities** | (254,313) | (2,936,521) | (2,682,208) |
| **III CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| 1. Proceeds from long-term debt | 1,000,000 | - | (1,000,000) |
| 2. Repayment of long-term borrowings | (99,996) | (43,725) | 56,271 |
| 3. Payment for purchases by installment | (90,744) | (72,407) | 18,337 |
| 4. Cash dividend paid | (106,399) | (163,551) | (57,152) |
| 5. Proceeds from new stock issuance | 900 | 2,511,500 | 2,510,600 |
| **Net cash provided by financing activities** | 703,759 | 2,231,816 | 1,528,056 |
| IV Effect of exchange rate changes on cash and cash equivalents | (6,849) | (2,606) | 4,242 |
| V Increase in cash and cash equivalents | 915,359 | 322,770 | (592,588) |
| VI Cash and cash equivalents at beginning of year | 1,050,853 | 1,966,212 | 915,359 |
| VII **Cash and cash equivalents at end of year** | 1,966,212 | 2,288,982 | 322,770 |

## Significant Accounting Policies in the Preparation of Consolidated Financial Statements

| | FY3/04<br>April 1, 2003 - March 31, 2004 | FY3/05<br>April 1, 2004 - March 31, 2005 |
|---|---|---|
| 1. Scope of consolidation | The accompanying financial statements include the accounts of the Company and its Company's two consolidated subsidiaries:<br>Subsidiary name:<br>LUX Co., Ltd.<br>PEC LAMP USA CORP. | Same as on the left. |
| 2. Application of equity method | The Company has no affiliates accounted for by the equity method. | Same as on the left. |
| 3. Fiscal year end of consolidated subsidiaries | At the two consolidated subsidiaries, the accounting year ends on December 31.<br>The financial statements of the relevant consolidated subsidiaries as of their closing date are incorporated therein after necessary adjustments applied for consolidation purposes regarding the material transactions that have occurred between their closing date of December 31 and the consolidated balance sheets date, March 31. | Same as on the left. |
| 4. Significant accounting standards<br>(1) Valuation criteria and methods for significant assets | a. Valuation criteria and methods for securities<br>Other securities<br>Securities with market quotations<br>Other securities that have market value are carried at fair value on the balance sheet date. (Unrealized holding gain or loss is included in the shareholders' equity. The cost of securities sold is determined by the moving-average method.)<br>Securities without market quotations<br>Securities without market quotations are stated at cost, cost being determined by the moving-average method.<br>b. Assets and liabilities deriving from derivatives<br>Carried at fair value on the balance sheet date.<br>c. Inventories<br>The Company and its overseas consolidated subsidiaries carry inventories at cost, cost being determined by the weighted average method.<br>Domestic consolidated subsidiaries carry inventories at cost, cost being determined by the first-in-first-out method. | a. Valuation criteria and methods for securities<br>Other securities<br>Securities with market quotations<br>Same as on the left.<br>Securities without market quotations<br>Same as on the left.<br>b. Assets and liabilities deriving from derivatives<br>Same as on the left.<br>c. Inventories<br>Same as on the left. |
| (2) Depreciation of property, plant, and equipment and amortization of intangible assets | a. Depreciation of property, plant, and equipment<br>Depreciation of property, plant, and equipment at the Company and its domestic consolidated subsidiaries is computed by the declining-balance method. The useful and residual value are based on a method similar to that provided in the Corporation Tax Law. | a. Depreciation of property, plant and equipment<br>Same as on the left. |

| | FY3/04<br>April 1, 2003 - March 31, 2004 | FY3/05<br>April 1, 2004 - March 31, 2005 |
|---|---|---|
| | Depreciation of property, plant and equipment at overseas consolidated subsidiaries is computed by the straight-line method. The useful life and residual value are based on accounting standards applied in the countries of their domicile.<br>However, depreciation of buildings (excluding equipment and fixtures) acquired on or after April 1, 1998, at the Company and its domestic consolidated subsidiaries is calculated using the straight-line method in accordance with the provisions of the Corporation Tax Law.<br>Useful lives of principal assets are as follows:<br>Buildings and structures: 8-38 years<br>Machinery and vehicles: 2-12 years | |
| | b. Intangible assets<br>The development costs of software intended for internal use are amortized over an expected useful life of 5 years by the straight-line method. | b. Intangible assets<br>Same as on the left. |
| (3) Significant allowances | a. Allowance for doubtful accounts<br>To prepare for credit losses on accounts receivable.<br>(a) Allowances equal to the estimated amount of uncollectible receivables are provided for general receivables based on the historical write-off ratio.<br>(b) Bad receivables and claim in bankruptcy based on case-by-case determination of collectibility. | a. Allowance for doubtful accounts<br>Same as on the left.<br>(a) Same as on the left.<br>(b) Same as on the left. |
| | b. Accrued bonuses<br>To prepare for payment of bonuses to employees, an allowance is provided for an estimated accrued amount for the current fiscal year. | b. Accrued bonuses<br>Same as on the left. |
| | c. Accrued employees’ retirement benefits<br>[Supplementary information]<br>The Company and certain of its domestic consolidated subsidiaries on March 1, 2004 switched entirely from a tax-qualified retirement benefit plan to a defined-contribution retirement benefit plan following the promulgation of the Defined-contribution Enterprise Pension Law. Simultaneously, the Company adopted a new accounting standard (ASBJ, Financial Accounting Standard Implementation Guidance No. 1), Accounting for Transfers Between Retirement Benefit Plans.”<br>As a result of this change, net income before income taxes increased by 70,608 thousand yen compared to the amount that would have been reported if the previous accounting method had been applied consistently. | c. Accrued employees’ retirement benefits<br>- |

| | FY3/04<br>April 1, 2003 - March 31, 2004 | FY3/05<br>April 1, 2004 - March 31, 2005 |
|---|---|---|
| | d. Accrued officers' severance benefits<br>To provide for accrued officers' severance benefits, the Company provides an allowance for the aggregate amount payable at the end of the current consolidated fiscal year pursuant to the Company's rules on officers' retirement benefits. | d. Accrued officers' severance benefits<br>Same as on the left. |
| (4) Significant lease transactions | Finance leases other than those, which are deemed to transfer the ownership of the leased assets to the lessees, are accounted for by the method similar to that applicable to ordinary operating leases. | Same as on the left. |
| (5) Accounting for hedges | 1) Accounting for hedges<br>Deferred hedge accounting is applied to interest rate swap transactions that qualify for extraordinary treatment.<br><br>2) Hedging instruments and risks hedged<br>Hedging instrument: Interest rate swaps<br>Risk hedged: Interest on borrowings<br><br>3) Hedging method<br>The Company uses cash flow hedges comprising interest rate swaps to reduce its exposure to fluctuations in interest rates on its borrowings.<br><br>4) Evaluation of the effectiveness of a hedge<br>The Company enters into interest rate swap transactions that meet the following conditions:<br>(a) The principal of the interest rate swap transaction matches the principal of long-term borrowings.<br>(b) The contract periods of the interest rate swap transaction match the repayment period of long-term borrowings.<br>(c) The index of the long-term borrowings and the floating interest rate index of the interest rate swap transaction match at TIBOR + 0.43%.<br>(d) The conditions for the revision of the interest rate on the long-term borrowings match that of the interest rate swap transaction.<br>(e) The payment term for the interest rate swap transaction is fixed through the swap period. The effectiveness of the hedge on the balance sheet date is not evaluated since the interest rate swap transaction qualifies for extraordinary treatment. | 1) Accounting for hedges<br>Same as on the left.<br><br>2) Hedging instruments and risks hedged<br>Same as on the left.<br><br>3) Hedging method<br>Same as on the left.<br><br>4) Evaluation of the effectiveness of a hedge<br>Same as on the left. |
| (6) Other significant accounting policies in presentation of financial statements | a. Accounting for consumption taxes<br>All amounts stated are exclusive of consumption taxes. | a. Accounting for consumption taxes<br>Same as on the left. |
| 5. Evaluation of assets and liabilities of consolidated subsidiaries | Assets and liabilities of the consolidated subsidiaries are fully evaluated by the fair market value method. | Same as on the left. |

| | FY3/04<br>April 1, 2003 - March 31, 2004 | FY3/05<br>April 1, 2004 - March 31, 2005 |
|---|---|---|
| 6. Appropriation of earnings | (1) Appropriation of retained earnings or disposition of loss<br>Appropriation of retained earnings or disposition of accumulated loss is based on appropriations/dispositions approved and applicable to the current consolidated fiscal year.<br>(2) Notes required under the regulations of statement of consolidated retained earnings:<br>Regarding retained earnings of consolidated subsidiaries, only the equity in retained earnings corresponding to the equity stake after the acquisition of capital interest is included in retained earnings. | (1) Appropriation of retained earnings or disposition of loss<br>Same as on the left.<br>(2) Notes required under the regulations of statement of consolidated retained earnings:<br>Same as on the left. |
| 7. Scope of cash and cash equivalents on consolidated statements of cash flows | For the purpose of consolidated statements of cash flows, cash and cash equivalents consists of vault cash, deposits that can be withdrawn on demand, and short-term investments, with original maturities of three months or less, that are readily convertible to known amounts of cash and present insignificant risk of change in value. | Same as on the left. |

**Supplementary Information**

| FY3/04<br>April 1, 2003 - March 31, 2004 | FY3/05<br>April 1, 2004 - March 31, 2005 |
|---|---|
| | Enterprise taxes subject to the external standard taxation stated on the income statement: "Act for Amending Local Taxation" (Act No. 9 in 2003) was declared on March 31, 2003, and the external standard taxation was introduced in a fiscal year started April 1, 2004 or later. In accordance with "Practical Procedures to State Enterprise Taxes subject to the External Standard Taxation on the Income Statement" (Practical Procedure Report No. 12 issued by the Corporate Accounting Principle Council on February 13, 2004), the Company posts the value-added based and capital based enterprise taxes under selling, general and administrative expenses, effective for the fiscal year under review.<br>The effect of this change was to increase selling, general and administrative expenses by 29,041 thousand yen and decrease operating income, recurring profit and net income before income taxes by 29,041 thousand yen each. |

## Notes to Consolidated Financial Statements
## Notes to consolidated balance sheets

*(thousands of yen)*

| FY3/04<br>As of March 31, 2004 | FY3/05<br>As of March 31, 2005 |
|---|---|
| *1 Assets pledged as collateral and corresponding liabilities at March 31, 2004 consisted of the following: | *1 Assets pledged as collateral and corresponding liabilities at March 31, 2005 consisted of the following: |

FY3/04 (As of March 31, 2004):

| Assets pledged | | Corresponding liabilities | |
|---|---|---|---|
| Assets | Amount | Liabilities | Amount |
| Machinery and vehicles | 132,836 | Other current liabilities (Installment payments) | 72,407 |
| | | Other long-term liabilities (Long-term installment payments) | 39,896 |
| Buildings and structures | 133,676 | Current portion of long-term borrowings | 41,685 |
| Land | 548,248 | | |
| Total | 814,760 | Total | 153,988 |

FY3/05 (As of March 31, 2005):

| Assets pledged | | Corresponding liabilities | |
|---|---|---|---|
| Assets | Amount | Liabilities | Amount |
| Machinery and vehicles | 67,374 | Other current liabilities (Installment payments) | 38,202 |
| | | Other long-term liabilities (Long-term installment payments) | 1,694 |
| Total | 67,374 | Total | 39,896 |

| FY3/04 | | FY3/05 | |
|---|---|---|---|
| *2 Property, plant, and equipment includes the following idle assets | | *2 Property, plant, and equipment includes the following idle assets | |
| Land | 89,253 | Land | 46,484 |
| *3 Accumulated depreciation on property, plant, and equipment | 1,348,447 | *3 Accumulated depreciation on property, plant, and equipment | 1,764,037 |

## Notes to consolidated statements of income

*(thousands of yen)*

| FY3/04<br>April 1, 2003 - March 31, 2004 | | FY3/05<br>April 1, 2004 - March 31, 2005 | |
|---|---|---|---|
| *1 Significant components of selling, general and administrative expenses | | *1 Significant components of selling, general and administrative expenses | |
| Packing and transportation | 59,461 | Packing and transportation | 101,984 |
| Officers' bonuses | 79,676 | Officers' bonuses | 87,429 |
| Employees' wages | 358,497 | Employee' wages | 369,794 |
| Provision of accrued bonuses | 64,250 | Provision of accrued bonuses | 98,976 |
| Retirement benefit expenses | 7,376 | Retirement benefit expenses | 11,964 |
| Other personnel expenses | 84,962 | Other personnel expenses | 116,808 |
| Commissions paid | 79,617 | Commissions paid | 93,691 |
| Depreciation and amortization | 11,602 | Depreciation and amortization | 25,221 |
| R&D expenses | 183,335 | R&D expenses | 217,136 |
| Others | 268,217 | Others | 384,931 |
| Total | 1,196,999 | Total | 1,507,939 |
| *2 Aggregate R&D expenses of 183,335 thousand yen are presented as a component of SG&A expenses. | | *2 Aggregate R&D expenses of 217,136 thousand yen are presented as a component of SG&A expenses. | |
| *3 Significant components of gain on sale of fixed assets are as follows: | | - | |
| Machinery and vehicles | 2,633 | | |
| *4 Significant components of loss on disposal of fixed assets are as follows: | | *4 Significant components of loss on disposal of fixed assets are as follows: | |
| Disposal of machinery and vehicles | 245 | Disposal of machinery and vehicles | 1,440 |
| | | Disposal of tools, furniture, and fixtures | 27 |

## Notes to statements of cash flows

*(thousands of yen)*

| FY3/04<br>April 1, 2003 - March 31, 2004 | | FY3/05<br>April 1, 2004 - March 31, 2005 | |
|---|---|---|---|
| *1 Reconciliation of consolidated balance sheet items to cash and cash equivalents in consolidated statements of cash follows:<br>As of March 31, 2004 | | *1 Reconciliation of consolidated balance sheet items to cash and cash equivalents in consolidated statements of cash follows:<br>As of March 31, 2005 | |
| Cash and deposits | 1,966,212 | Cash and deposits | 2,288,982 |
| Cash and cash equivalents | 1,966,212 | Cash and cash equivalents | 2,288,982 |

## 5. Segment Information

### Operating segment information

FY3/04 (April 1, 2003 - March 31, 2004)

Given the similarities in the type of products, manufacturing methods and markets, the Group can be considered to operate in a single industry categorized as lamps. Accordingly, no operational segment information is presented.

FY3/05 (April 1, 2004 - March 31, 2005)

Given the similarities in the type of products, manufacturing methods and markets, the Group can be considered to operate in a single industry categorized as lamps. Accordingly, no operational segment information is presented.

### Geographical segment information

FY3/04 (April 1, 2003 - March 31, 2004)

The Group operates mainly in Japan and has no significant overseas operations. The geographic segment information is not presented since the combined segment sales and assets in Japan represented more than 90% of total consolidated sales and assets.

FY3/05 (April 1, 2004 - March 31, 2005)

The Group operates mainly in Japan and has no significant overseas operations. The geographic segment information is not presented since the combined segment sales and assets in Japan represented more than 90% of total consolidated sales and assets.

### Overseas sales

FY3/04 (April 1, 2003 - March 31, 2004)

*(thousands of yen)*

| | | N. America | Asia | Other | Total |
|---|---|---|---|---|---|
| I. | Overseas sales | 1,235,411 | 2,278,869 | 105,043 | 3,619,323 |
| II. | Consolidated sales | - | - | - | 6,571,405 |
| III. | Overseas sales as a percentage of consolidated sales (%) | 18.8 | 34.7 | 1.6 | 55.1 |

Notes:

1: The geographic segmentation is decided primarily by geographic proximity.

2: Major countries and regions, excluding Japan, included in geographic segmentation:

North America: the United States, Canada, and Mexico

Asia: China, Taiwan, Hong Kong, Malaysia, Singapore, India, and Saudi Arabia

Other Regions: Europe, Oceania, South America, and Africa

3: Overseas sales represent sales of the Company and its consolidated subsidiaries, excluding sales in Japan.

FY3/05 (April 1, 2004 - March 31, 2005)

*(thousands of yen)*

| | | N. America | Asia | Other | Total |
|---|---|---|---|---|---|
| I. | Overseas sales | 1,223,725 | 5,401,808 | 156,556 | 6,782,089 |
| II. | Consolidated sales | - | - | - | 11,051,988 |
| III. | Overseas sales as a percentage of consolidated sales (%) | 11.1 | 48.9 | 1.4 | 61.4 |

Notes:

1: The geographic segmentation is decided primarily by geographic proximity.

2: Major countries and regions, excluding Japan, included in geographic segmentation:

North America: the United States, Canada, and Mexico

Asia: China, Taiwan, Hong Kong, Malaysia, Singapore, India, and Saudi Arabia

Other Regions: Europe, Oceania, South America, and Africa

3: Overseas sales represent sales of the Company and its consolidated subsidiaries, excluding sales in Japan.

## 6. Leases

*(thousands of yen)*

| FY3/04<br>April 1, 2003 - March 31, 2004 | FY3/05<br>April 1, 2004 - March 31, 2005 |
|---|---|
| Finance lease transactions not involving the transfer of title to lessee: | Finance lease transactions not involving the transfer of title to lessee: |
| 1. Acquisition cost, accumulated depreciation and year-end balance equivalents of the leased property. | 1. Acquisition cost, accumulated depreciation and year-end balance equivalents of the leased property. |
| Others (furniture and fixtures) | Others (furniture and fixtures) |
| Acquisition cost equivalents 53,078 | Acquisition cost equivalents 53,078 |
| Accumulated depreciation equivalents 45,116 | Accumulated depreciation equivalents 53,078 |
| Year-end balance equivalents 7,961 | Year-end balance equivalents - |
| 2. Future minimum lease payments | 2. Future minimum lease payments |
| Due within one year 8,631 | Due within one year - |
| Due over one year - | Due over one year - |
| Total 8,631 | Total - |
| 3. Minimum lease payments, depreciation, and interest equivalents | 3. Minimum lease payments, depreciation, and interest equivalents |
| Minimum lease payments 11,508 | Minimum lease payments 8,631 |
| Depreciation Equivalents 10,615 | Depreciation Equivalents 7,961 |
| Interest equivalents 439 | Interest equivalents 90 |
| 4. Accounting method of depreciation, interest equivalents | 4. Accounting method of depreciation, interest equivalents |
| Accounting method for depreciation equivalents:<br>Depreciation is calculated by the straight-line method, assuming the lease period to be the useful life and no residual value. | Accounting method for depreciation equivalents:<br>Same as on the left. |
| Accounting method for interest equivalents:<br>Interest is defined as the difference between the total lease charges and acquisition cost equivalents and is allocated for each period using the simple-interest method. | Accounting method for interest equivalents:<br>Same as on the left. |

## 7. Securities

FY3/04 (April 1, 2003 - March 31, 2004)

1. Securities with market quotations classified as “Other securities”

*(thousands of yen)*

| Security | Acquisition cost | Carrying value | Unrealized gain |
|---|---|---|---|
| Securities whose acquisition cost exceeds their carrying value<br>(1) Equity securities | 23,344 | 71,900 | 48,556 |

2. Securities without market quotations
Securities classified as “Other securities”

*(thousands of yen)*

| Security | Carrying value |
|---|---|
| Unlisted foreign stock | 20,115 |

FY3/05 (April 1, 2004 - March 31, 2005)

1. Securities with market quotations classified as “Other securities”

*(thousands of yen)*

| Security | Acquisition cost | Carrying value | Unrealized gain |
|---|---|---|---|
| Securities whose acquisition cost exceeds their carrying value<br>(1) Equity securities | 23,344 | 106,600 | 83,256 |

2. Securities without market quotations
Securities classified as “Other securities”

*(thousands of yen)*

| Security | Carrying value |
|---|---|
| Unlisted foreign stock | 20,618 |

## 8. Derivatives

1. Transaction details

| FY3/04<br>April 1, 2003 - March 31, 2004 | FY3/05<br>April 1, 2004 - March 31, 2005 |
|---|---|
| 1. Derivative transactions<br>The Company uses interest rate swaps for converting the floating interest rate on certain borrowings from financial institutions into a fixed interest rate. | 1. Derivative transactions<br>Same as on the left. |
| 2. Purpose and policy<br>The Company uses derivative transactions only to reduce its exposure to market risk from fluctuations in interest rates and does not hold or issue highly leveraged derivative instruments. The Company also does not hold or issues financial derivative instruments for trading purposes.<br><br>1) Hedging instruments and risks hedged<br>Hedging instrument: Interest rate swaps<br>Risk hedged: Interest on borrowings<br><br>2) Hedging method<br>The Company uses cash flow hedges comprising interest rate swaps to reduce its exposure to fluctuations in interest rates on its borrowings.<br><br>3) Evaluation of the effectiveness of a hedge<br>The Company enters into interest rate swap transactions that meet the following conditions:<br>(a) The principal of the interest rate swap transaction matches the principal of long-term borrowings.<br>(b) The contract periods of the interest rate swap transaction match the repayment period of long-term borrowings.<br>(c) The index of the long-term borrowings and the floating interest rate index of the interest rate swap transaction match at TIBOR + 0.43%.<br>(d) The conditions for the revision of the interest rate on the long-term borrowings match that of the interest rate swap transaction.<br>(e) The payment term for the interest rate swap transaction is fixed through the swap period.<br><br>The effectiveness of the hedge on the balance sheet date is not evaluated since the interest rate swap transaction qualifies for extraordinary treatment. | 2. Purpose and policy<br>Same as on the left. |

| FY3/04<br>April 1, 2003 - March 31, 2004 | FY3/05<br>April 1, 2004 - March 31, 2005 |
|---|---|
| 3. Transaction risks<br>Interest rate swap transaction contains some risks on market rate fluctuation.<br>The Company makes derivative transaction with domestic banks with high credit rating, thus the Company is of the opinion that the default risk is nominal. | 3. Transaction risks<br>Same as on the left. |
| 4. Risk management<br>The Board of Directors approves all derivative transactions the company enters into. The Board of Directors approves interest rate swap transactions along with the approval of borrowings from financial institutions. | 4. Risk management<br>Same as on the left. |

## 2. Details of market value in transaction

FY3/04 (April 1, 2003 - March 31, 2004)

No reportable information.

FY3/05 (April 1, 2004 - March 31, 2005)

No reportable information.

The Company uses interest rate swap transactions but no information is presented since these transactions are accounted for by the hedge method.

## 9. Retirement Benefits

*(thousands of yen)*

| FY3/04<br>April 1, 2003 - March 31, 2004 | FY3/05<br>April 1, 2004 - March 31, 2005 |
|---|---|
| 1. Retirement benefit plans<br>The Company and its certain domestic consolidated subsidiaries on March 1, 2004 switched entirely from a tax-qualified retirement benefit plan they had adopted in April 1988 to a defined-contribution retirement benefit plan.<br>As a result of this change, the Company booked 70,608 thousand yen in extraordinary gain on transfers between retirement benefit plans. | 1. Retirement benefit plans<br>The Company and its certain domestic consolidated subsidiaries on March 1, 2004 switched to a defined-contribution retirement benefit plan. |
| 2. Retirement benefit obligation<br>Retirement benefit obligation -<br>Pension assets at fair value -<br>Accrued employees' retirement benefits -<br>Note: As noted in Section 1, the Company switched from a tax-qualified retirement benefit plan to a defined-contribution retirement benefit plan on March 1, 2004.<br>As a result, the Company is now exempted from obligations for the payment of benefits.<br>The effects of the change from the tax-qualified retirement benefit plan to a defined-contribution retirement benefit plan are as follows:<br>Decline in retirement benefit obligation 352,936<br>Transfer of tax-qualified retirement benefit plan assets (274,555)<br>Amortization of actuarial differences (7,772)<br>Reversal from accrued employees' retirement benefits 70,608 | 2. Retirement benefit expenses<br>Contribution for defined-contribution retirement benefit 36,699 |
| 3. Retirement benefit expenses<br>Service cost 28,824<br>Interest cost 9,120<br>Expected return on plan assets (4,326)<br>Amortization of actuarial differences 7,772 | |
| 4. Assumptions used in accounting for the above plans<br>Discount rate 3.0%<br>Expected rate of return on assets 3.5%<br>Method of allocation of estimated retirement benefit obligations: Residual employment period<br>Amortization of actuarial differences: Expenses as incurred | |

## 10. Deferred Income Taxes

*(thousands of yen)*

| FY3/04<br>April 1, 2003 - March 31, 2004 | | FY3/05<br>April 1, 2004 - March 31, 2005 | |
|---|---|---|---|
| 1. Significant components of deferred tax assets and liabilities | | 1. Significant components of deferred tax assets and liabilities | |
| Deferred tax assets: | | Deferred tax assets: | |
| Provision of accrued bonuses in excess of maximum permitted under corporate tax laws | 49,921 | Provision of accrued bonuses in excess of maximum permitted under corporate tax laws | 90,209 |
| Provision of accrued officers' severance benefits in excess of maximum permitted under corporate tax laws | 26,181 | Provision of accrued officers' severance benefits in excess of maximum permitted under corporate tax laws | 33,653 |
| Unadmitted accrued office taxes | 11,432 | Unadmitted accrued office taxes | 77,311 |
| Unadmitted accrued enterprise taxes | 4,764 | Unadmitted accrued enterprise taxes | 5,507 |
| Others | 26,123 | Others | 39,843 |
| Less deferred tax liabilities | (24,453) | Less deferred tax liabilities | (34,550) |
| Total deferred tax assets | 93,969 | Total deferred tax assets | 211,975 |
| Deferred tax liabilities: | | Deferred tax liabilities: | |
| Net unrealized difference on investment securities | (19,616) | Net unrealized difference on investment securities | (33,802) |
| Others | (6,725) | Others | (3,386) |
| Less deferred tax assets | 24,453 | Less deferred tax assets | 34,550 |
| Total deferred tax liabilities | (1,889) | Total deferred tax liabilities | (2,638) |
| Net deferred tax assets | 92,080 | Net deferred tax assets | 209,336 |
| Reconciliation of deferred tax assets as of March 31, 2004 with consolidated balance sheet accounts: | | Reconciliation of deferred tax assets as of March 31, 2005 with consolidated balance sheet accounts: | |
| Current assets: Deferred tax assets | 73,265 | Current assets: Deferred tax assets | 199,337 |
| Fixed assets: Deferred tax assets | 20,704 | Fixed assets: Deferred tax assets | 12,638 |
| Long-term liabilities: Deferred tax liabilities | (1,889) | Long-term liabilities: Deferred tax liabilities | (2,638) |
| 2. Significant sources of difference between the statutory and effective tax rates: | | 2. Significant sources of difference between the statutory and effective tax rates: | |
| (Adjustment) | | (Adjustment) | |
| Statutory tax rate | 41.1% | Statutory tax rate | 40.6% |
| Entertainment expenses not allowed to be included in expenses | 0.5% | Entertainment expenses not allowed to be included in expenses | 0.2% |
| Differences in corporation tax rates | 0.5% | Differences in corporation tax rates | 0.2% |
| Enterprise and residential taxes | 0.7% | R&D tax credit | (0.9%) |
| R&D tax credit | (1.9%) | Effective tax rate | 40.1% |
| Effective tax rate | 40.9% | | |

## 11. Related Party Transactions

FY3/04 (April 1, 2003 - March 31, 2004)

(1) Officers and individual shareholders
No reportable information.

(2) Parent company and major corporate shareholders

*(thousands of yen)*

| Related party type | Name | Address | Paid-in capital or investment in capital | Business or occupation | Direct equity ownership | Relationship | | Description of transaction | Transaction amount | Account | Account balance |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Personnel | Business | | | | |
| Major shareholder | INFOCUS CORPORATION | Oregon, USA | $165,063 thousand | Projector mfg. and sales | Direct (10.4%) | - | Customer | Supply of projector lamps | 455 | Accounts receivable | 31 |

Notes: Although the Company is a major shareholder of the related party, all transactions are carried out on the arms-length basis. Terms and conditions of transactions are similar those offered to third-party foreign clients.

FY3/05 (April 1, 2004 - March 31, 2005)

(1) Officers and individual shareholders
No reportable information.

(2) Parent company and major corporate shareholders
Effective the current consolidated fiscal year, INFOCUS CORPORATION, a major corporate shareholder in previous periods, is not a major corporate shareholder, having sold a part of its capital stake in the company.

## 12. Subsequent Event

FY3/04 (April 1, 2003 - March 31, 2004)
The Company issued new stock through a gratis stock split, pursuant to the Board of Directors resolution to that effect on May 28, 2004. Details are as follows:

1. A three-for-one split of shares held by shareholders and beneficial shareholders on record on September 30, 2004.
2. Increase in the number of common shares due to the stock split:
   Common shares: 14,204,600 shares
3. Base date for reckoning dividends: October 1, 2004

Per share data for the current and the previous consolidated fiscal years, retroactively adjusted for the stock split to the beginning of the respective fiscal years, is as follows:

*(yen)*

| | FY3/03 | FY3/04 |
|---|---|---|
| Shareholders' equity per share | 182.71 | 206.84 |
| Net income per share (basic) | 22.53 | 28.29 |
| Net income per share (diluted) | 22.51 | - |

## 13. Per Share Data

| Item | FY3/04 | FY3/05 |
|---|---|---|
| Shareholders' equity per share<br>Net income per share (basic) | 620.51 yen<br>84.88 yen<br><br>Diluted net income per share is not presented since the Company has no outstanding dilutive securities. | 361.25 yen<br>65.62 yen<br><br>Same as on the left. |

Note: The basis of calculation of the basic net income and the diluted net income per share for the year is as follows.

*(thousands of yen)*

| | FY3/04 | FY3/05 |
|---|---|---|
| Net income per share | | |
| Net income | 624,143 | 1,520,502 |
| Amount not attributable to common shares | 21,500 | 54,300 |
| [of which bonuses for officers] | [21,500] | [54,300] |
| Net income available to common shareholders | 602,643 | 1,466,202 |
| Average number of shares outstanding (shares) | 7,100,087 | 22,342,516 |
| Number of incremental common shares assumed to have been issued in calculation of diluted net income per share (shares) | - | - |
| [of which increasing number by exercise of new share subscription right] | [-] | [-] |

The Board of Directors on May 28, 2004 approved a three-for-one stock split which was implemented on November 19, 2004 to shareholders and beneficial shareholders of record on September 30, 2004. Net income per share for the current consolidated fiscal year is calculated based on the average number of shares outstanding during the period, retroactively adjusted to the beginning of the fiscal year.

## 14. Production, Orders and Sales

(1) Production

*(thousands of yen)*

| Product category | FY3/04<br>April 1, 2003 - March 31, 2004 | FY3/05<br>April 1, 2004 - March 31, 2005 |
|---|---|---|
| Lamps for projector | 4,338,121 | 7,706,505 |
| Lamps for rear projection televisions | 36,444 | 1,155,278 |
| Other halogen lamps | 862,576 | 1,099,555 |
| Total | 5,237,142 | 9,961,339 |

Notes:
1. Amounts are exclusive of consumption taxes.
2. Amounts are calculated based on sales prices.
3. Lamps for projector as well as large rear projection televisions (lamp for rear projection televisions) in prior years are reclassified and presented as a separate line item given their increased materiality of impact on sales and in consideration of their repositioning as a strategic product.
4. Breakdown of sales in the "Other Halogen Lamps" segment

*(thousands of yen)*

| Product category | FY3/04<br>April 1, 2003 - March 31, 2004 | FY3/05<br>April 1, 2004 - March 31, 2005 |
|---|---|---|
| General halogen lamps | 479,792 | 650,853 |
| Automotive halogen lamps | 336,225 | 393,736 |
| General metal halide lamps | 46,558 | 54,966 |
| Total | 862,576 | 1,099,555 |

(2) Purchases

*(thousands of yen)*

| Product | FY3/04<br>April 1, 2003 - March 31, 2004 | FY3/05<br>April 1, 2004 - March 31, 2005 |
|---|---|---|
| Purchased products | 810,135 | 805,450 |
| Total | 810,135 | 805,450 |

Notes:
1. Amounts are exclusive of consumption taxes.
2. Amounts are calculated based on sales prices.
3. An amount is shown for purchased products, given the fact that purchased products include numerous product categories.

(3) Orders

No reportable information since the lead-time for delivery is very short.

## (4) Sales

*(thousands of yen)*

| Product category | FY3/04<br>April 1, 2003 - March 31, 2004 | FY3/05<br>April 1, 2004 - March 31, 2005 |
|---|---|---|
| Lamps for projector | 4,454,275 | 7,766,856 |
| Lamps for rear projection televisions | 29,341 | 1,042,326 |
| Other halogen lamps | 984,678 | 1,102,668 |
| Purchased products | 1,103,110 | 1,140,135 |
| Total | 6,571,405 | 11,051,988 |

Notes:

1. Amounts are exclusive of consumption taxes.
2. Lamps for projector as well as large rear projection televisions (lamp for rear projection televisions) in prior years are reclassified and presented as a separate line item given their increased materiality of impact on sales and in consideration of their repositioning as a strategic product.

3. Breakdown of sales in the "Other Halogen Lamps" segment

*(thousands of yen)*

| Product category | FY3/04<br>April 1, 2003 - March 31, 2004 | FY3/05<br>April 1, 2004 - March 31, 2005 |
|---|---|---|
| General halogen lamps | 589,223 | 648,373 |
| Automotive halogen lamps | 338,417 | 390,318 |
| General metal halide lamps | 57,038 | 63,976 |
| Total | 984,678 | 1,102,668 |

*Note: This is a translation of Japanese kessan Tanshin (including attachments), a summary of financial statements prepared in accordance with accounting principles generally accepted in Japan. This translation is prepared and provided for the purpose of the reader's convenience. All readers are recommended to refer to the original version in Japanese of the report for complete information.*