

Flash Report (Consolidated Basis)

Results for fiscal year ended October 31, 2007

Company name: OHARA INC.

Stock listing: Tokyo Stock Exchange (First section)

Code number: 5218

(URL: <http://www.ohara-inc.co.jp>)

Representative: Sumimasa Yutani, President - Representative Director

Planned date for ordinary general meeting of shareholders: January 28, 2008

Planned date for commencement of dividend payments: January 29, 2008

Planned date for submission of securities report: January 29, 2008

(Figures less than ¥1 million have been omitted.)

1. Performance

(1) Operating results

Years ended October 31

(Percentage figures denote the year-on-year increase or decrease.)

	Net sales		Operating income		Ordinary profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
2007	28,248	1.8	7,074	(6.3)	7,403	(5.3)
2006	27,761	12.3	7,552	32.6	7,821	40.8

	Net income		Net income per share	Net income per share after dilution	Return on equity	Ordinary profit-to-total assets ratio	Ordinary profit-to-net sales ratio
	Millions of yen	%	Yen	Yen	%	%	%
2007	4,790	(6.9)	188.19	---	11.5	13.2	25.0
2006	5,146	46.4	404.29	---	14.0	14.9	27.2

(Note): A 2-for-1 stock split was conducted on May 1, 2007.

(Reference): Equity in earnings of affiliates: Year ended October 31, 2007: ¥7 million

Year ended October 31, 2006: ¥7 million

(2) Financial position

At October 31

	Total assets		Net assets		Equity ratio	Net assets per share
	Millions of yen		Millions of yen		%	Yen
2007	56,323		44,192		77.7	1,718.90
2006	55,742		40,308		71.5	3,132.95

(Note): A 2-for-1 stock split was conducted on May 1, 2007.

(Reference): Shareholders' equity: Year ended October 31, 2007: ¥43,744 million

Year ended October 31, 2006: ¥39,867 million

(3) Cash flows

Years ended October 31

	Cash flows from operating activities		Cash flows from investing activities		Cash flows from financial activities		Cash and cash equivalent at end of term
	Millions of Yen		Millions of Yen		Millions of Yen		Millions of Yen
2007	4,834		(5,825)		(2,087)		9,160
2006	7,316		(3,594)		(3,760)		12,272

2. Dividends

(Base date)	Dividend per stock			Total dividends paid (Annual)	Payout ratio (Consolidated)	Dividend on equity ratio (Consolidated)
	End of H1	End of FY	Annual			
	Yen	Yen	Yen	Millions of Yen	%	%
Year ended Oct. 2006	---	40.00	40.00	508	9.9	1.4
Year ended Oct. 2007	---	25.00	25.00	636	13.3	1.5
Year ending Oct. 2008 (forecast)	---	25.00	25.00	---	13.5	---

(Note): A 2-for-1 stock split was conducted on May 1, 2007.

3. Forecast for fiscal year ending October 31, 2008

(Percentages indicate year-on-year changes)

	Net sales		Operating income		Ordinary profit		Net income		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Interim period	14,000	5.0	3,200	(3.5)	3,300	(12.5)	2,000	(13.9)	78.59
Full-year	29,600	4.8	7,200	1.8	7,400	(0.0)	4,700	(1.9)	184.63

4. Others

(1) Important changes of subsidiaries during the term

(change of specified subsidiaries that lead to a change in the scope of consolidation): No
(Note) For more details, please see Page 9, "Business Overview."

(2) Changes in accounting principles and procedures and the presentation method, etc. of consolidated financial statements (those which are included in changes in significant accounting policies in the preparation of the financial statements)

- 1) Changes associated with the revision of accounting principles, etc.: Yes
2) Change other than 1): No

(3) Number of shares issued (common stock)

1) Number of shares issued at the end of the term (including treasury stock) (shares)

Year ended October 31, 2007: 25,450,000 Year ended October 31, 2006: 12,725,000

2) Number of treasury stock at the end of the term (shares)

Year ended October 31, 2007: 1,423 Year ended October 31, 2006: 492

(Note 1) A 2-for-1 stock split was conducted on May 1, 2007.

(Reference) Summary of non-consolidated basis

1. Performance

(1) Operating results

Years ended October 31

(Percentage figures denote the year-on-year increase or decrease.)

	Net sales		Operating income		Ordinary profit		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
2007	21,655	(0.3)	4,126	(1.8)	5,121	4.6	3,250	7.2
2006	21,723	14.8	4,204	46.4	4,894	53.1	3,032	40.9

	Net income per share	Net income per share after dilution
	Yen	Yen
2007	127.71	---
2006	238.30	---

(Note): A 2-for-1 stock split was conducted on May 1, 2007.

(2) Financial position

At October 31

	Total assets		Net assets		Equity ratio		Net assets per share	
	Millions of yen		Millions of yen		%		Yen	
2007	46,293		35,393		76.5		1,390.78	
2006	47,655		33,117		69.5		2,602.63	

(Note): A 2-for-1 stock split was conducted on May 1, 2007.

(Reference): Shareholders' equity: Year ended October 31, 2007: ¥35,393 million
Year ended October 31, 2006: ¥33,117 million

2. Forecast for fiscal year ending October 31, 2008

(Percentages indicate year-on-year changes)

	Net sales		Operating income		Ordinary profit		Net income		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Interim period	11,400	11.9	1,900	(5.5)	2,500	(10.0)	1,500	(12.7)	58.94
Full-year	24,200	11.8	4,500	9.0	5,200	1.5	3,100	(4.6)	121.81

(Reference): Retroactive adjustment of per-share figures in association with a stock split

We conducted a 2-for-1 stock split on May 1, 2007 for the shares held by the shareholders listed or recorded on the register of shareholders and the register of real shareholders as of April 30, 2007. As a consequence, the total number of shares issued changed from 12,725,000 shares before the stock split to 25,450,000 shares after the stock split. The following is per-share information for the previous fiscal year, assuming the stock split had been carried out at the beginning of the previous consolidated fiscal year (on November 1, 2005).

Net income per share: ¥202.15

Net assets per share: ¥1,566.48

* Explanation about proper use of business outlook and other special remarks

The above forecasts are prospects based on information currently available and contain many uncertainties. Hence, actual results may differ from the forecasts, depending on changes in business conditions among other factors.

1. Operating Results

(1) Analysis of operating results

1) Consolidated business results for the fiscal year under review

A review of the domestic and overseas economies in the fiscal year under review reveals continued moderate growth in the U.S. economy backed by firm personal spending and capital expenditures, despite an increasingly evident slowdown in housing investment attributable to the effect of the subprime loan problem. Economies in Europe were solid, aided by an expansion in domestic demand, although the growth of exports eased with the stronger euro. In Asia, China sustained its impressive rate of growth on the back of strong capital investment, and economies in other Asian countries were generally firm, thanks to solid increases in exports and firm personal spending as a result of the improved employment environment. The Japanese economy was strong overall as capital spending and exports remained robust, offsetting sluggish growth of personal spending.

In the optical equipment market, demand for single-lens reflex digital cameras and interchangeable lenses for digital cameras increased. The market for lenses for compact cameras also expanded favorably, reflecting demand stimulated by enhanced functions. Demand for optical glass for semiconductor exposure apparatuses also climbed. In the information and telecommunications equipment market, the rise in demand for hard disk drives was sustained as storage capacity continued to be upgraded and applications for digital consumer electronics expanded. Meanwhile, demand for special glass for exposure apparatuses for liquid crystal display manufacturing fell, as manufacturers had completed a round of capital spending.

The average exchange rates of the U.S. dollar and the euro against the yen were 118.76 yen and 159.50 yen, respectively, in the period under review, with the yen remaining approximately 1.9% and 10.8% weaker against these currencies in comparison with the previous fiscal year.

In this environment, the Group was committed to responding to climbing demand for optical glass products, including highly homogeneous glass materials for semiconductor exposure apparatuses and ball glass for digital cameras and for hard disk substrates. As a consequence, sales for the fiscal year under review stood at ¥28,248 million, an increase of 1.8% year on year.

The ratio of gross profit to sales fell 1.0 percentage point year on year, to 42.7%, with improved production efficiency unable to offset falling unit selling prices of products and rising raw material costs, despite continued efforts to promote cost reduction activities. Operating income was ¥7,074 million (down 6.3%), reflecting rising research and development and selling, general and administrative expenses. Ordinary profit was ¥7,403 million (down 5.3%), attributable to a fall in foreign exchange gains, despite the improved balance of financial expenses. After extraordinary losses including a loss on the disposal of fixed assets were added, net income stood at ¥4,790 million (a fall of 6.9%).

Results by business segment are as follows:

(1) Optical products

Sales of optical pressings, the segment mainstays, amounted to ¥16,690 million (down slightly year on year), reflecting intensified sales competition in overseas markets, although demand for lens blanks for digital cameras rose. Sales of optical blocks reached ¥4,661 million (up 11.8%), thanks to growing demand for highly homogeneous glass materials for semiconductor exposure apparatuses.

(2) Information products

Sales of disk products were ¥4,018 million (up 12.2%), as these segment mainstays found new applications with digital consumer electronics, despite temporary inventory adjustments in the hard disk drive market.

Sales of special glass products were ¥2,877 million (down 13.2%) owing to slower demand for ultra low expansion glass-ceramics for liquid crystal exposure devices.

As a result, sales in the segment were ¥6,896 million (slight decrease), and operating income was ¥836 million (down 22.0%).

A breakdown of results by geographical segment:

(1) Japan

In the optical products operations, although demand for lens blanks rose with the higher production of digital cameras and single-lens reflex digital cameras, sales experienced sluggish growth because of intensified competition. Meanwhile, demand for highly homogeneous glass materials for semiconductor exposure apparatuses increased, as capital spending relating to semiconductors continued to grow. In the area of information products, demand for hard disk substrates continued to increase, driven by the expanded application of hard disk drives. Overall, sales fell to ¥15,676 million (declining 3.2% year on year), and operating income amounted to ¥4,232 million (down 1.9%) as raw material prices rose, despite cost cutting initiatives that sought to reduce supplies and repairs expenses.

(2) Asia

Sales were ¥8,967 million (up 1.8%), the result of solid demand for lens blanks for digital cameras and an increase in demand for ball lenses for compact digital cameras. Operating income was ¥1,673 million (down 37.0%), reflecting intensified sales competition with competitors.

(3) North America

While sales of glass materials for optical products saw sluggish growth, demand for special glass materials in the information products segment expanded. As a consequence, sales were ¥1,362 million (a rise of 9.1%), and operating income was ¥263 million (an increase of 23.9%).

(4) Europe

Sales in the optical products segment recovered, attributable to an increase in demand for highly homogeneous glass materials for steppers aided by higher capital spending in semiconductor-related areas. As a result, sales were ¥2,242 million (up 49.0%), and operating income reached ¥678 million (a rise of 47.1%), reflecting our focus on high-value added products.

Sales by geographical segment above are sales to external customers.

2) Outlook for the next fiscal year

The business environment is expected to remain in the balance in the next fiscal year, given concerns such as the potential impact of the turmoil in the international financial markets triggered by the subprime loan problem in the United States on the real economy, as well as rising resource prices including crude oil. Still, the economy is expected to remain firm for the foreseeable future in both Japan and overseas.

In the optical device and information and communications equipment sectors in which the Group operates, the competitive advantage of leading Japanese manufacturers is expected to continue, supported by strong capabilities in technological development. In the area of basic materials, however, Japanese manufacturers are expected to be forced to further reduce costs and improve quality in the face of intensifying competition with competitors in Asian countries including China and rising raw material and energy prices.

As a consequence, we expect consolidated sales for the next year to be ¥29,600 million (an increase of 4.8% year on year), operating income ¥7,200 million (up 1.8%), ordinary profit ¥7,400 million (slight decline), and net income ¥4,700 million (down 1.9%).

The Group assumes the exchange rate of the yen against the U.S. dollar to be 115 yen for the next fiscal year.

(2) Financial analysis

1) Analysis of financial position

Current assets at the end of the period under review were ¥26,806 million (down 4.3% from the end of the previous fiscal year). The principal factors were a fall of ¥833 million in cash on hand and in banks following the repayment of borrowings and the acquisition of tangible fixed assets, and a decline of ¥313 million in notes and accounts receivable—trade that had increased at the end of the previous fiscal year.

Fixed assets were ¥29,516 million (up 6.4%). The main increases were ¥764 million in buildings and structures, ¥1,860 million in machinery and vehicles, and ¥494 million in tools, furniture and fixtures under tangible fixed assets. These figures reflect the construction of the head office building and investment in upgrading production facilities in the Company and overseas subsidiaries in response to expanding demand for products. In investments and other assets, long-term deposits declined ¥700 million, and investment securities fell ¥781 million, reflecting a valuation loss based on the market value at the end of the period.

Current liabilities were ¥7,936 million (down 19.6%), principally because of a fall of ¥567 million in short-term borrowings and corporate bonds with a maturity of less than one year in association with the reduction in borrowings, and a decline of ¥1,122 million in notes and accounts payable—trade that had increased at the end of the previous fiscal year.

Net assets became ¥44,192 million (up 9.6%). The main factor was a rise of ¥4,221 million in retained earnings as a result of the posting of net income of ¥4,790 million and an increase of ¥120 million in foreign exchange adjustments as a result of the weaker yen, despite a decline of ¥463 million in investment securities caused by a valuation loss based on the market value at the end of the period.

2) Analysis of cash flows

Cash and cash equivalents (hereinafter “cash”) at the end of the period stood at ¥9,160 million (falling 25.4% year on year). Income before income taxes of ¥7,367 million (down 5.0%) and the decrease in notes and accounts receivable—trade were offset by a decrease in notes and accounts payable—trade, income taxes paid, repayments of short-term borrowings and long-term debt and other factors. Consequently, cash fell ¥3,111 million from the end of the previous fiscal year.

The following is a description of each category of cash flows and their factors:

Cash flows from operating activities

Net cash provided by operating activities was ¥4,834 million (down 33.9%).

The main factors include income before income taxes of ¥7,367 million (down 5.0%), a decrease in notes and accounts payable—trade of ¥1,020 million (an increase of ¥1,296 million in the previous year), and ¥3,308 million in income taxes paid (¥1,298 in the previous year), despite an increase in depreciation.

Cash flows from investing activities

Net cash used in investing activities was ¥5,825 million (an increase of 62.0%).

The main factors were a decrease in time deposits of ¥1,460 million and payments for the acquisition of tangible fixed assets of ¥4,417 million (up 18.2%).

Cash flows from financial activities

Net cash used in financial activities was ¥2,087 million (a fall of 44.5%).

The main factors were repayments of long-term debt of ¥1,302 million and corporate bonds of ¥225 million, and dividends paid of ¥508 million.

Changes in cash flow-related indicators of the Group are as follows.

	FY 2004	FY 2005	FY 2006	FY 2007
Equity ratio (%)	42.4	68.8	71.5	77.7
Market value-based equity ratio (%)	---	125.9	134.7	93.3
Ratio of interest-bearing debt to cash flow	292.6	142.7	54.7	51.1
Interest coverage ratio	18.4	21.5	76.5	93.2

(Notes) Equity ratio: Shareholders' equity / Total assets x 100
 Market value-based equity ratio: Aggregate market value of stocks / Gross assets
 Ratio of interest-bearing debt to cash flow: Interest-bearing debt / Cash flow by sales activities
 Interest coverage ratio: Cash flow by sales activities / Interest payments

- * Each indicator is calculated based on consolidated financial data.
- * The total market value of shares is calculated by multiplying the closing stock price at the end of the period by the number of shares issued (excluding treasury stocks) at the end of the period.
- * For operating cash flows, cash flows from operating activities in the consolidated cash flow statement are used. All borrowings involving the payment of interest and stated in the consolidated balance sheets are included in interest-bearing borrowings.
- * For the calculation of interest payments, interest payments recorded in the consolidated statements of cash flows are used.

(3) Principle policy on the distribution of profits and dividends in fiscal 2007 and fiscal 2008

Our basic policy is to distribute consistent and stable profits to shareholders while securing sufficient retained earnings to strengthen the management base and expanding operations. Under this policy, we seek to pay dividends in accordance with business performance, taking dividend on equity ratio (DOE) and dividend payout ratio on a consolidated basis into consideration, although we had traditionally aimed at a payout ratio of 20% on a non-consolidated basis.

For the fiscal term under review, we will propose a common dividend of ¥25 (an increase of 25% in comparison with

the previous fiscal term) at the 99th ordinary general meeting of shareholders to be held on January 28, 2008. For the next fiscal year, the Company plans to pay a common dividend of ¥25.

The Company will use retained earnings to bolster its financial position and develop new operations to respond to changes in the business environment expected to occur in the future.

(4) Business risks

The following are the main business risks that could have impact on the operating results and financial conditions of the Group.

The future risks described herein are based on our judgment as of the end of the fiscal year under review.

1) Dependence on a certain business

The Group is heavily dependent on the optical products business, which accounts for approximately 76% of net sales. In the optical products segment, despite the continued expansion of replacement demand associated with upgraded functions of digital cameras and the expected growth of the global market, sales and profit margins could decline in the short term, reflecting intensifying competition with competitors in Japan and overseas. Although we will continue to strive to expand our business by strengthening optical products operations by focusing on business innovation with an emphasis on customer satisfaction in quality, price and delivery time and by bolstering the product lineup in the information products business, operating results and financial conditions of the Group could be affected, subject to the success of these endeavors.

2) Dependence on certain customers

In the information products operations, although the Group provides the information and communications market with highly specialized glass products, dependence on certain customers is high because of the high degree of expertise and specialties of these products. Although we remain committed to attracting new customers and continuing research and development in new areas, the business results and financial conditions of the Group could be affected if orders from the certain customers decline substantially.

3) Changes in foreign exchange rates

The Group's production and sales activities are global, centering on Asian countries, and these activities involve foreign currency transactions. As a consequence, changes in foreign exchange rates could have an impact on results. Although we hedge these risks using forward exchange contracts and other instruments, it is not possible to eliminate all risks. A sharp appreciation in the yen could have an impact on the business results and financial conditions of the Group as it would lower the price competitiveness of its products.

4) Changes in interest rates

The balance of interest-bearing debt of the Group at the end of the period under review was ¥2,471 million. Although the Group has been reducing interest-bearing debt and will continue to do so to improve its financial strength, rapid changes in the interest rate environment and the financial market could have an adverse effect on the business results and financial conditions.

5) Risks relating to overseas business operations

The Group operates businesses in overseas markets, mostly in Asia, and overseas sales account for approximately 49% of consolidated sales. Operations in overseas markets involve various risks including unexpected changes in laws and regulations, the imposition of taxes due to revisions to the tax law and transfer price taxation, unfavorable

political and economic developments, difficulty in hiring and securing personnel, the impact of changes in foreign exchange rates on results, and social disturbances due to terrorism, wars and other factors. The occurrence of any of these risks could have an impact on the business results and financial conditions of the Group.

6) Risks relating to litigation

The Group could become a subject of a lawsuit, dispute or any other legal proceeding in its business operations in Japan and overseas. Although the Group was not party to any lawsuit with the potential to have a material impact on its business during the period under review, litigation in the future could have an adverse effect on the results and financial conditions of the Group.

7) Risks relating to major shareholding companies

(Seiko Holdings Corporation)

Seiko Holdings Corporation is the largest shareholder of the Company (with a shareholding of 32.4% as of the end of October 2007), and the Company is an equity-method affiliate of Seiko Holdings Corporation. Seiko Holdings Corporation is also one of the "Other related companies" of the Company.

Although the Company currently has two part-time directors and one part-time corporate auditor from the Seiko Holdings Group, it did not have any business transactions with Seiko Holdings Corporation in the fiscal year ended October 31, 2006 and the fiscal year ended October 31, 2007.

Meanwhile, the Company held 256,307 shares in Seiko Holdings Corporation as of the end of October 2007 (a shareholding of 0.2%) for the purpose of strengthening its ties with the Seiko Holdings Group in the future.

Although the Company expects Seiko Holdings Corporation to continue to play a role as a stable shareholder and strengthen its relationship, the results and financial conditions of the Company could be affected if it is unable to maintain a favorable relationship.

(Canon Inc.)

Canon Inc. is the second largest shareholder of the Company (a shareholding of 18.4% as of the end of October 2007), and the Company is an equity-method affiliate of Canon Inc., while Canon Inc. is one of the "Other related companies" of the Company.

The Company currently has one part-time director and one part-time corporate auditor from Canon Inc. Transactions with Canon Inc. in the fiscal year ended October 31, 2006 and the fiscal year ended October 31, 2007 are as described in "Transactions with related parties." Terms and conditions of the transactions are the same as those for general transactions, and no conflict of interest or other issue has arisen.

Meanwhile, the Company held 729,658 shares in Canon Inc. as of the end of October 2007 (a shareholding of 0.05%) for the purpose of maintaining and strengthening the relationship with the Canon Group in the future.

Although the Company expects Canon Inc. to continue to play a role as a stable shareholder and strengthen the relationship, the results and financial conditions of the Company could be affected if it is unable to maintain a favorable relationship.

8) Risks relating to raw materials

As raw materials used by the Group include those that can be obtained from a limited number of manufacturers or production areas, production of the Group could be interrupted if it has difficulty in obtaining the materials it needs. Prices of raw materials could also rise, subject to factors such as the production status, foreign exchange rates and market conditions, which could influence the business results and financial conditions of the Group.

2. Business Overview

The Company and its related companies consist of the Company, nine subsidiaries, one affiliate, and other related companies—Seiko Holdings Corporation and Canon Inc.

The Group (the Company, consolidated subsidiaries and an equity method affiliate; hereinafter the same applies) consists of nine consolidated subsidiaries and one equity method affiliate. Its main business is the manufacture and sale of glass materials for optical and information devices. The Company engages mainly in the production and sale of materials and the sale of products. The subsidiaries and affiliate process and sell the products.

The following is a description of the Group's businesses by segment:

(1) Optical products

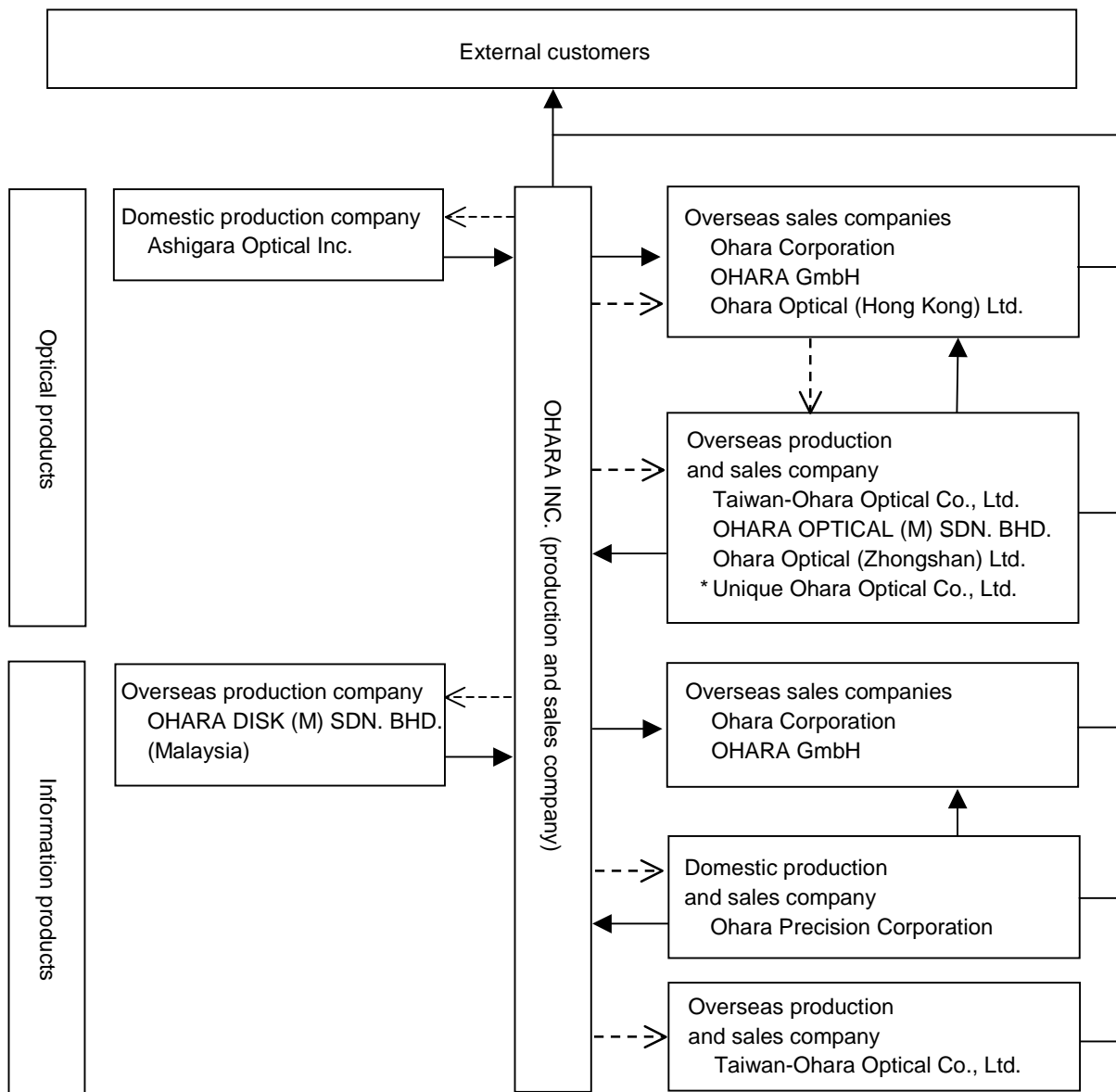
In its optical products segment, the Group possesses a stable mass production system based on optical glass production technologies. This is an integrated production system involving domestic and overseas production subsidiaries system, which the Group has been building since its foundation, and handles all processes from the melting of raw materials to molding for different purposes. We produce and sell digital devices including digital cameras and LCD projectors, optical lens blanks used in semiconductor manufacturing equipment and other devices, as well as lens preforms for the mold press. Sales subsidiaries Ohara Corporation, OHARA GmbH, and OHARA OPTICAL (Hong Kong) Ltd. sell these products in North America, Europe, and Asia, respectively.

(2) Information products

In this segment, the Group produces and sells glass-ceramics, including glass disks for hard disk devices installed mainly in mobile equipment, low expansion glass-ceramics used for semiconductor manufacturing equipment and liquid crystal exposure devices, and glass-ceramics for substrates for dense wave division multiplexing (DWDM) thin-film filters, and specialty glass. We supply materials for glass disks for hard disk devices to OHARA DISK(M)SDN.BHD., a production subsidiary in Malaysia, which processes the materials, and purchases the processed products.

Segment	Company name
Optical products	OHARA INC. Taiwan-Ohara Optical Co., Ltd. (ROC) OHARA OPTICAL (M) SDN. BHD. (Malaysia) Ohara Optical (Zhongshan) Ltd. (PRC) Ohara Corporation (USA) OHARA GmbH (Germany) Ohara Optical (Hong Kong) Ltd. Ashigara Optical Inc. Unique Ohara Optical Co., Ltd. (PRC)
Information products	OHARA INC. Taiwan-Ohara Optical Co., Ltd. (ROC) Ohara Corporation (USA) OHARA GmbH (Germany) Ohara Precision Corporation OHARA DISK (M) SDN. BHD. (Malaysia)

The chart below shows a business system diagram of the Group.



(Note) *: Affiliates accounted for by the equity method

---> Supplying of materials
 —> Supplying of products and half-finished products

(Note) There are no business transactions with Seiko Holdings Corporation. Canon Inc. is a customer of the Company. Business terms including prices for Canon Inc. are the same as those for other customers with which the Company does not have special relationships.

3. Management Policy

(1) Principle management policy

The Group has developed a management policy of constantly creating new, distinct value, developing powerful companies, and contributing to the happiness of all employees and the prosperity of society. It shares this policy among all employees, making it a code of conduct. To embody this policy, the Group has adopted a basic management approach of providing products in pursuit of customer interests in the optical and information fields, with a motto of creating the future of optics and information, and seeks to develop and provide products that customers trust in every respect, including quality, delivery time, and price.

The Group will aggressively allocate management resources to supply optical lens blanks for digital devices, a market expected to experience sustained growth, and focus on developing new products to meet the needs of customers. To realize this goal, the Group has adopted the following basic management policies from a medium- to long-term perspective.

1) Bolstering financial strength

The main business of the Group is manufacturing and selling optical lens blanks. The Group is part of the so-called smokestack industry, so that low asset turnover and a time-consuming recovery of investments in fixed assets are financial issues. To address these issues, we closely examine the recoverability of capital expenditures and aim to develop production technologies that enable us to maximize production with minimal capital outlays. Another issue is that our efforts to meet market needs for different types of optical lens blanks tend to increase inventories. To deal with these challenges, we are reducing inventories through precise demand forecasts and shorter lead times. We will reduce interest-bearing debt by overcoming these challenges and improving cash flows.

2) Launching new products

With the rise of Chinese manufacturers, prices of general optical glass is declining. In response, the Group seeks to establish a stable profit structure in the optical products segment with the timely launch of new products that not only are of high quality but also meet the needs of customers. In the information products segment, we will introduce high value-added products, by exploring the potential of optical glass.

3) Undertaking business reforms

- Business reform activities

To introduce high-quality products at lower prices in a timely manner, eliminating waste in daily operations is important. To achieve significant cuts in production costs, examining the production process from the development phase is effective. The Group will also review production technologies, aiming to lower costs.

- HR system reform

We will establish a strong human resources system based on a clear evaluation system, thereby motivating employees while developing skills over the medium and long terms.

- Corporate culture reform

Officers and managerial-level staff take the lead in ensuring an awareness of compliance at all levels of the Group and in setting examples for employees. The Group aims to create a work environment in which employees and their families can feel happy.

(2) Target management indicators

The Group is seeking to achieve the following targets set in its three-year medium-term management plan, which runs until the fiscal year ending October 31, 2008.

- Sales of at least ¥28.6 billion
- Ordinary profit of at least ¥7.4 billion
- ROA (return on assets) of at least 10%
- Ratio of interest-bearing debt to total assets of no more than 10%

(3) Medium-to long-term management strategies

In developing the three-year medium-term management plan, we have established basic strategies from the following four perspectives, on which we base our activities:

- Financial perspective / bolstering financial strength
Bolster financial strength and always create high margin percentages.
- Customers' perspective / adding high value to products
Provide distinctive and superior materials for the market in a timely fashion.
- Perspective of business processes / establishing a stable profit structure
Enlarge and strengthen the pillar of optical products and develop many pillars of information products.
- Perspective of learning and growth / reforming corporate culture
Create a free and generous corporate culture and promote speed and teamwork.

With sales increasing favorably in the fiscal year under review, the second year of the medium-term management plan, the Group is expected to achieve its sales target in the final year. For ordinary profit, although we have achieved the targets for both the first year and second year, we will continue to devote ourselves to achieving the target for the final year to maximize corporate value, as we are aware that the business environment surrounding the Company does not allow for any optimism, particularly given rising raw material and resource prices as described in "(4) Key management issues."

(4) Key management issues

The business environment is expected to remain in the balance going forward, given concerns such as the impact that the turmoil in the international financial market triggered by the subprime loan problem in the United States could have on the real economy as well as rising resource prices, including crude oils, although the economy is expected to remain firm for the foreseeable future in both Japan and overseas.

In the optical device and information and communications equipment sectors in which the Group operates, leading Japanese manufacturers are set to maintain their competitive advantage, supported by their impressive capabilities in technological development. In the area of basic materials, however, Japanese manufacturers continue to take steps to reduce costs and improve quality, as a response to intensifying competition with competitors in other Asian countries such as China as well as rising raw material and energy prices.

The Group will endeavor to increase sales by launching superior new products that offer high customer satisfaction and constantly create significant profit margins by improving production efficiency and achieving comprehensive cost savings in its business innovation activities. The Group will also reform the personnel system to secure human resources able to shoulder the sustainable growth of the Group. We will contribute to society as a company, to fulfill our corporate social responsibility by strengthening the internal control system to support corporate governance.

Consolidated Financial Statement

CONSOLIDATED BALANCE SHEETS

At October 31

(Thousands of yen)

	2006		2007		Change from the previous year
	Amount	%	Amount	%	Amount
ASSETS					
I. Current assets:					
1. Cash on hand and in banks	11,354,001		10,520,738		(833,263)
2. Notes and accounts receivable, trade	9,248,917		8,935,617		(313,299)
3. Marketable securities	1,184,962		1,016,636		(168,325)
4. Inventories	5,054,741		5,125,849		71,108
5. Deferred tax assets	849,288		775,022		(74,265)
6. Other current assets	318,746		445,690		126,944
7. Less: allowance for doubtful accounts	(7,314)		(12,692)		(5,378)
Total current assets	28,003,342	50.2	26,806,862	47.6	(1,196,480)
II. Fixed assets:					
1. Tangible fixed assets:					
(1) Buildings and structures	6,846,476		7,932,331		
Accumulated depreciation and amortization	3,192,703		3,514,229		
	3,653,772		4,418,102		764,329
(2) Machinery and vehicles	10,883,883		13,875,113		
Accumulated depreciation and amortization	6,297,504		7,427,836		
	4,586,378		6,447,276		1,860,897
(3) Tools, furniture, and fixtures	8,992,664		9,444,592		
Accumulated depreciation and amortization	1,152,564		1,110,448		
	7,840,099		8,334,143		494,044
(4) Land	362,459		412,202		49,743
(5) Construction-in-progress	676,427		731,758		55,331
Total tangible fixed assets	17,119,137	30.7	20,343,484	36.1	3,224,347
2. Intangible assets	59,445	0.1	50,544	0.1	(8,901)
3. Investments and other assets:					
(1) Investment securities	7,720,023		6,938,870		(781,152)
(2) Long-term deposit	2,500,000		1,800,000		(700,000)
(3) Deferred income taxes	57,182		66,785		9,602
(4) Others	283,707		317,284		33,577
Total investments and other assets	10,560,914	19.0	9,122,940	16.2	(1,437,973)
Total fixed assets	27,739,497	49.8	29,516,969	52.4	1,777,472
Total assets	55,742,840	100.0	56,323,832	100.0	580,992

At October 31

(Thousands of yen)

	2006		2007		Change from the previous year
	Amount	%	Amount	%	Amount
LIABILITIES					
I. Current liabilities:					
1. Notes and accounts payable, trade	3,837,302		2,714,396		(1,122,905)
2. Short-term borrowings	2,199,341		1,831,520		(367,821)
3. Corporate bond with a maturity of less than one year	225,000		25,000		(200,000)
4. Accrued income taxes	1,846,390		1,040,613		(805,777)
5. Deferred tax liabilities	2,398		---		(2,398)
6. Allowance for employees' bonuses	704,057		648,872		(55,185)
7. Allowance for directors' bonuses	109,700		68,499		(41,200)
8. Account payable-nontrade	467,334		977,983		510,649
9. Allowance for environmental measures	---		15,000		15,000
10. Other current liabilities	481,807		614,775		132,967
Total current liabilities	9,873,332	17.7	7,936,661	14.1	(1,936,671)
II. Long-term liabilities:					
1. Corporate bond	150,000		125,000		(25,000)
2. Long-term debt	1,429,625		489,525		(940,100)
3. Deferred tax liabilities	2,398,923		2,126,331		(272,591)
4. Accrued retirement benefits for employees	1,187,124		1,114,321		(72,803)
5. Accrued retirement benefits for directors and corporate auditors	217,187		273,367		56,179
6. Allowance for special repair	77,600		10,800		(66,800)
7. Long-term accrued expenses	99,577		54,146		(45,431)
8. Other long-term liabilities	870		870		---
Total long-term liabilities	5,560,908	10.0	4,194,361	7.4	(1,366,546)
Total liabilities	15,434,240	27.7	12,131,023	21.5	(3,303,217)

At October 31

(Thousands of yen)

	2006		2007		Change from the previous year
	Amount	%	Amount	%	Amount
NET ASSETS					
I. Shareholders' equity:					
1. Capital stock	5,855,000	10.5	5,855,000	10.4	---
2. Capital surplus	7,930,785	14.2	7,930,785	14.1	---
3. Retained earnings	22,473,987	40.3	26,695,657	47.4	4,221,670
4. Treasury stock, at cost	(2,662)	(0.0)	(3,752)	(0.0)	(1,090)
Total shareholders' equity	36,257,109	65.0	40,477,690	71.9	4,220,580
II. Valuation and translation adjustments:					
1. Net unrealized holding gain on securities	3,772,325	6.8	3,308,633	5.9	(463,692)
2. Foreign exchange adjustment	(162,130)	(0.3)	(41,584)	(0.1)	120,546
Total valuation and translation adjustments	3,610,195	6.5	3,267,049	5.8	(343,146)
III. Minority interests					
Total net assets	40,308,599	72.3	44,192,809	78.5	3,884,210
Total liabilities and net assets	55,742,840	100.0	56,323,832	100.0	580,992

CONSOLIDATED STATEMENTS OF INCOME

Years ended October 31

(Thousands of yen)

	2006		2007		Change from the previous year
	Amount	%	Amount	%	Amount
I. Net sales	27,761,868	100.0	28,248,607	100.0	486,739
II. Cost of sales	15,643,434	56.3	16,173,743	57.3	530,308
Gross profit	12,118,433	43.7	12,074,864	42.7	(43,569)
III. Selling, general and administrative expenses	4,565,473	16.5	5,000,508	17.7	435,035
Operating income	7,552,960	27.2	7,074,355	25.0	(478,605)
IV. Non-operating income:					
1. Interest income	69,672		117,556		
2. Dividend income	82,637		106,112		
3. Rental fee	11,142		10,831		
4. Gain on revaluation of foreign currency	124,622		36,057		
5. Equity in earnings of affiliates	7,899		7,359		
6. Reversal of loss on impairment	66,616		---		
7. Other non-operating income	63,500		130,197		
	426,090	1.5	408,115	1.5	(17,975)
V. Non-operating expenses:					
1. Interest expense	93,813		49,846		
2. Loss on devaluation of inventory	---		15,587		
3. Other non-operating expenses	64,098		13,914		
	157,911	0.5	79,347	0.3	(78,563)
Ordinary profit	7,821,139	28.2	7,403,123	26.2	(418,016)
VI. Extraordinary gain:					
Gain on sale of tangible fixed assets	5,246		895		
	5,246	0.0	895	0.0	(4,351)
VII. Extraordinary losses:					
1. Loss on sale of tangible fixed assets	1,142		---		
2. Loss on disposal of tangible fixed assets	73,250		36,736		
	74,393	0.3	36,736	0.1	(37,656)
Income before income taxes	7,751,993	27.9	7,367,282	26.1	(384,710)
Income taxes	2,674,502		2,434,647		
Income tax adjustment	(110,240)		111,476		
	2,564,262	9.2	2,546,123	9.0	(18,138)
Minority interests (deducted)	41,158	0.2	30,615	0.1	(10,542)
Net income	5,146,572	18.5	4,790,543	17.0	(356,028)

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended October 31

(Thousands of yen)

	2006	2007	Change from the previous year
	Amount	Amount	Amount
I. Cash flows from operating activities			
Income before income taxes	7,751,993	7,367,282	(384,710)
Depreciation and amortization	1,290,607	1,558,038	267,430
Reversal of loss on impairment	(66,616)	---	66,616
Equity in earnings of affiliates	(7,899)	(7,359)	540
Increase (decrease) in retirement benefit costs	(32,844)	(147,269)	(114,424)
Increase (decrease) in director's retirement benefit costs	37,411	56,554	19,143
Increase (decrease) in allowance for employees' bonuses	83,145	(59,005)	(142,151)
Increase (decrease) in allowance for doubtful accounts	(25,528)	5,363	30,892
Increase (decrease) in allowance for special repair	31,000	(66,800)	(97,800)
Increase (decrease) in allowance for environmental measures	---	15,000	15,000
Interest and dividend income	(152,309)	(223,669)	(71,359)
Interest expense	93,813	49,846	(43,967)
Gain / Loss on revaluation of foreign currency	(30,547)	(101,750)	(71,203)
Gain on sale of tangible fixed assets	(5,246)	(895)	4,351
Loss on disposal of tangible fixed assets	73,250	36,736	(36,514)
Loss on sale of tangible assets	1,142	---	(1,142)
Decrease (increase) in notes and accounts receivable, trade	(1,321,672)	360,520	1,682,192
Decrease (increase) in inventories	46,281	(26,866)	(73,148)
Increase (decrease) in notes and accounts payable, trade	1,296,612	(1,020,768)	(2,317,381)
Other	(497,789)	179,353	677,142
Subtotal	8,564,804	7,974,310	(590,493)
Interest and dividend income received	146,435	220,500	74,064
Interest expense paid	(95,584)	(51,877)	43,706
Income taxes paid	(1,298,863)	(3,308,664)	(2,009,801)
Net cash provided by operating activities	7,316,791	4,834,269	(2,482,522)

Year ended October 31	(Thousands of yen)		
	2006	2007	Change from the previous year
	Amount	Amount	Amount
II. Cash flows from investing activities			
Increase in time deposits	1,000,000	79,285	(920,715)
Decrease in time deposits	(540,539)	(1,460,550)	(920,011)
Payments for purchase of investment securities	(313,705)	---	313,705
Payments for acquisition of tangible fixed assets	(3,737,457)	(4,417,746)	(680,288)
Proceeds from sale of tangible fixed assets	7,911	1,315	(6,595)
Payments for purchase of intangible assets	(11,686)	(12,965)	(1,279)
Other	519	(14,941)	(15,460)
Net cash used in investing activities	(3,594,956)	(5,825,602)	(2,230,645)
III. Cash flows from financing activities			
Increase (decrease) in short-term borrowings, net	(1,200,000)	(7,738)	1,192,261
Repayment of long-term debt	(2,048,597)	(1,302,520)	746,077
Repayment of corporate bonds	(25,000)	(225,000)	(200,000)
Acquisition of treasury stock	(2,283)	(1,090)	1,193
Payment by installments	(21,801)	(22,405)	(603)
Dividends paid	(442,860)	(508,821)	(65,961)
Dividends paid to minority interests	(19,893)	(19,562)	331
Net cash provided by (used in) financing activities	(3,760,436)	(2,087,138)	1,673,298
IV. Effect of exchange rate changes on cash and cash equivalents	130,810	(33,372)	(164,182)
V. Net increase (decrease) in cash and cash equivalents during the term	92,208	(3,111,844)	(3,204,053)
VI. Cash and cash equivalents at beginning of year	12,180,451	12,272,659	92,208
VII. Cash and cash equivalents at end of year	12,272,659	9,160,815	(3,111,844)

(Segment Information)

a. Business segment information

Fiscal year 2006 (from November 1, 2005 to October 31, 2006)

(Thousands of yen)

	Optical products	Information products	Total	Elimination or company total	Consolidated
I. Net sales and operating income					
Net sales					
(1) Sales to external customers	20,865,282	6,896,585	27,761,868	---	27,761,868
(2) Intergroup sales and transfers	---	---	---	---	---
Total	20,865,282	6,896,585	27,761,868	---	27,761,868
Operating expenses	14,385,185	5,823,721	20,208,907	---	20,208,907
Operating income	6,480,096	1,072,864	7,552,960	---	7,552,960
II. Assets, depreciation and capital expenditures					
Assets	26,773,996	11,784,084	38,558,080	17,184,760	55,742,840
Depreciation	742,147	548,460	1,290,607	---	1,290,607
Capital expenditures	1,287,628	2,102,696	3,390,324	---	3,390,324

(Note 1.) Business classification method

Business segments are classified by categories which we have adopted for internal management.

(Note 2.) Main products by business segment

Segment	Main products
Optical products	Optical lens blanks, lens materials for optical equipment
Information products	Glass disks for hard disks devices, special glass products for liquid crystal exposure devices

(Note 3.) No unallocated operating expense is included in "Elimination or company total."

(Note 4.) Assets that are included in "Elimination or company total" in the fiscal year under review are ¥17,184,760 thousand, and the major items are undesignated funds (cash on hand and in banks) and long-term investment funds (investment securities) etc.

Fiscal year 2007 (from November 1, 2006 to October 31, 2007)

(Thousands of yen)

	Optical products	Information products	Total	Elimination or company total	Consolidated
I. Net sales and operating income					
Net sales					
(1) Sales to external customers	21,352,144	6,896,462	28,248,607		28,248,607
(2) Intergroup sales and transfers	---	---	---	---	---
Total	21,352,144	6,896,462	28,248,607	---	28,248,607
Operating expenses	15,114,519	6,059,732	21,174,252	---	21,174,252
Operating income	6,237,625	836,730	7,074,355	---	7,074,355
II. Assets, depreciation and capital expenditures					
Assets	26,462,291	13,566,122	40,028,414	16,295,417	56,323,832
Depreciation	826,282	731,756	1,558,038	---	1,558,038
Capital expenditures	2,076,816	2,901,169	4,977,985	---	4,977,985

(Note 1.) Business classification method
Business segments are classified by categories which we have adopted for internal management.

(Note 2.) Main products by business segment

Segment	Main products
Optical products	Optical lens blanks, lens materials for optical equipment
Information products	Glass disks for hard disks devices, special glass products for liquid crystal exposure devices

(Note 3.) Changes in allocation method of operating expenses
Although the Company has traditionally allocated overhead costs relating to sales and administration divisions submitting a report to business segments based on cost of goods manufactured, etc., starting the fiscal year under review the allocation method has changed to that based on the sales ratio, to improve the effectiveness of the segment information by reflecting operating results more adequately. As a result, operating expenses fell ¥273,038 thousand and operating income declined by the same amount in the optical products segment, in comparison with the case in which the old allocation method is used. In the information products segment, operating expenses declined ¥273,038 thousand and operating income increased by the same amount.

(Note 4.) No unallocated operating expense is included in "Elimination or company total."

(Note 5.) Assets that are included in "Elimination or company total" in the fiscal year under review are ¥16,295,417 thousand, and the major items are undesignated funds (cash on hand and in banks) and long-term investment funds (investment securities) etc.

b. Geographical segment information

Fiscal year 2006 (from November 1, 2005 to October 31, 2006)

(Thousands of yen)

	Japan	Asia	North America	Europe	Total	Elimination or company total	Consolidated
I. Net sales and operating income							
Net sales							
(1) Sales to external customers	16,198,453	8,809,269	1,249,572	1,504,572	27,761,868	---	27,761,868
(2) Intergroup sales and transfers	6,712,688	2,751,759	259	570	9,465,277	(9,465,277)	---
Total	22,911,141	11,561,029	1,249,831	1,505,143	37,227,146	(9,465,277)	27,761,868
Operating expenses	18,597,149	8,903,740	1,036,875	1,043,733	29,581,499	(9,372,591)	20,208,907
Operating expenses	4,313,992	2,657,288	212,956	461,409	7,645,647	(92,686)	7,552,960
II. Assets	49,008,872	15,386,387	853,490	1,148,575	66,397,326	(10,654,486)	55,742,840

(Note 1.) Geographical segments are classified by the geographical proximity of countries or regions.

(Note 2.) Countries or regions that belong to segments other than Japan

- (1) Asia: Malaysia, Taiwan, Hong Kong, China
- (2) North America: The United States
- (3) Europe: Germany

(Note 3.) No unallocated operating expense is included in "Elimination or company total."

(Note 4.) No company-wide assets are included in "Elimination or company total."

Fiscal year 2007 (from November 1, 2006 to October 31, 2007)

(Thousands of yen)

	Japan	Asia	North America	Europe	Total	Elimination or company total	Consolidated
I. Net sales and operating income							
Net sales							
(1) Sales to external customers	15,676,208	8,967,365	1,362,885	2,242,147	28,248,607	---	28,248,607
(2) Intergroup sales and transfers	7,145,017	3,458,935	3,205	3,007	10,610,166	(10,610,166)	---
Total	22,821,225	12,426,301	1,366,090	2,245,155	38,858,774	(10,610,166)	28,248,607
Operating expenses	18,588,399	10,752,650	1,102,286	1,566,525	32,009,861	(10,835,609)	21,174,252
Operating expenses	4,232,825	1,673,651	263,804	678,630	6,848,912	225,443	7,074,355
II. Assets	47,381,485	15,524,016	774,325	1,602,689	65,282,518	(8,958,685)	56,323,832

(Note 1.) Geographical segments are classified by the geographical proximity of countries or regions.

(Note 2.) Countries or regions that belong to segments other than Japan

- (1) Asia: Malaysia, Taiwan, Hong Kong, China
- (2) North America: The United States
- (3) Europe: Germany

(Note 3.) No unallocated operating expense is included in "Elimination or company total."

(Note 4.) No company-wide assets are included in "Elimination or company total."

c. Overseas sales

Fiscal year 2006 (from November 1, 2005 to October 31, 2006)

(Thousands of yen)

	Asia	North America	Europe	Total
I. Overseas sales	8,897,612	1,228,268	1,497,282	11,623,162
II. Consolidated sales	---	---	---	27,761,868
III. Ratio of overseas sales to consolidated sales (%)	32.1	4.4	5.4	41.9

(Note 1.) Geographical segments are classified by the geographical proximity of countries or regions.

(Note 2.) Countries or regions that belong to segments other than Japan

- (1) Asia: Malaysia, Taiwan, China, etc.
- (2) North America: The United States, Canada
- (3) Europe: Germany, other European countries

(Note 3.) Overseas sales are the aggregate sum of sales of the Company and consolidated subsidiaries in countries or regions other than Japan.

Fiscal year 2007 (from November 1, 2006 to October 31, 2007)

(Thousands of yen)

	Asia	North America	Europe	Total
I. Overseas sales	10,315,239	1,262,493	2,234,184	13,811,918
II. Consolidated sales	---	---	---	28,248,607
III. Ratio of overseas sales to consolidated sales (%)	36.5	4.5	7.9	48.9

(Note 1.) Geographical segments are classified by the geographical proximity of countries or regions.

(Note 2.) Countries or regions that belong to segments other than Japan

- (1) Asia: Malaysia, Taiwan, China, etc.
- (2) North America: The United States, Canada
- (3) Europe: Germany, other European countries

(Note 3.) Overseas sales are the aggregate sum of sales of the Company and consolidated subsidiaries in countries or regions other than Japan.