

Hikari Tsushin Inc.
Financial Report
Year Ended March 31, 2007

May 24, 2007

Company Name: Hikari Tsushin, Inc.

Listed on: TSE First Section

Code No.: 9435

Head Office: Tokyo

(URL <http://www.hikari.co.jp>)

Representative Director: Yasumitsu Shigeta, Chairman and CEO

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Scheduled date of ordinary general meeting of shareholders for year ended March 31, 2007:
 June 28, 2007

Scheduled date of submission of securities report: June 28, 2007

Scheduled date of start of payment of dividend: June 29, 2007

1. Summary of consolidated business results for the year ended March 31, 2007 (April 1, 2006, to March 31, 2007)

(1) Consolidated operating results

(Rounded down to the nearest million yen)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ended March 31, 2007	211,881	9.9	18,558	(32.1)	20,374	(31.9)	18,483	(10.1)
Year ended March 31, 2006	192,837	12.8	27,344	26.0	29,908	1.1	20,569	5.7

	Net income per share	Diluted net income per share	Return on equity	Ratio of ordinary income to total assets	Ratio of operating income to net sales
	Yen	Yen	%	%	%
Year ended March 31, 2007	318.39	317.40	15.4	10.2	8.8
Year ended March 31, 2006	349.80	346.52	20.1	18.1	14.2

Notes:

1) Equity method investment gain (loss)

Year ended March 31, 2007: ¥55 million

Year ended March 31, 2006: (¥234 million)

2) Percentages for net sales, operating income, ordinary income, and net income denote changes compared with the previous fiscal year.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
At March 31, 2007	214,191	138,193	57.9	2,134.75
At March 31, 2006	183,612	116,424	63.4	2,000.46

Note: Equity capital

Year ended March 31, 2007: ¥123,987 million; Year ended March 31, 2006: –

(3) Consolidated cash flows

(Millions of yen)

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of the year
Year ended March 31, 2007	10,941	(8,110)	3,978	21,725
Year ended March 31, 2006	17,341	(43,522)	12,065	14,915

2. Dividends

(Reference date)	Dividends per share			Total dividend amount (Full year) Millions of yen	Payout ratio (Consolidated) %	Ratio of dividend to net assets (Consolidated) %
	End first half	Year-end	Full year			
Year ended March 31, 2006	Yen —	Yen 40.00	Yen 40.00	2,320	11.4	2.3
Year ended March 31, 2007	—	40.00	40.00	2,323	12.6	1.9
Year ended March 31, 2008 (estimate)	—	40.00	40.00	—	11.6	—

3. Outlook for the fiscal year ending March 31, 2008 (April 1, 2007, to March 31, 2008)

(Millions of yen)

	Net sales	Operating income	Ordinary income	Net income
First half	126,000	8,500	9,000	7,500
Full year	280,000	23,000	24,000	20,000

Reference: Projected net income per share (Full year): ¥344.35

Notes: The forecasts set out above have been prepared on the basis of information available as of the date on which this document is released. Owing to a variety of factors, actual results may vary from these forecasts. Please note also that the profits (losses) of the investment partnerships that are the Company's consolidated subsidiaries and other investment funds in which the Company invests are heavily dependent on external conditions such as the market environment and the economic situation, and thus are difficult to forecast. In view of this, they have not been reflected in the figures above.

4. Other matters

- (1) Changes among significant subsidiaries (Changes among specific subsidiaries resulting in changes in the scope of consolidation): No
- (2) Changes in principles and practices in the preparation of the consolidated financial statements, or method of presentation (Items to be listed under changes in the basis of presentation of consolidated financial statements)
 - a) Changes arising from revision of accounting standards: Yes
 - b) Other changes: No
- (3) Number of shares issued and outstanding (common stock)
 - a) Number of shares issued and outstanding at year-end (including treasury stock)
At March 31, 2007: 58,226,942; At March 31, 2006: 58,160,342
 - b) Number of shares of treasury stock at year-end
At March 31, 2007: 146,583; At March 31, 2006: 146,279

Reference: Non-consolidated results

1. Summary of non-consolidated business results for the year ended March 31, 2007 (April 1, 2006, to March 31, 2007)

(1) Non-consolidated operating results

(Rounded down to the nearest million yen)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	% change	Millions of yen	% change	Millions of yen	% change	Millions of yen	% change
Year ended March 31, 2007	17,076	(34.8)	6,267	44.6	8,240	(31.0)	9,083	42.1
Year ended March 31, 2006	26,204	(51.0)	4,334	(71.5)	11,938	(49.4)	6,390	43.9

	Net income per share	Diluted net income per share
	Yen	Yen
Year ended March 31, 2007	156.47	155.99
Year ended March 31, 2006	104.26	103.28

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
At March 31, 2007	181,578	98,793	54.3	1,698.74
At March 31, 2006	161,141	100,171	62.2	1,720.31

Note: Equity capital

Year ended March 31, 2007: ¥98,663 million ; Year ended March 31, 2006: –

Note: Explanation concerning appropriate use of the earnings forecast, and other matters to note
Earnings forecasts contained in this document and other forward-looking statements are forecasts based on the Company's own judgment supported by currently available information. Accordingly it is possible that, owing to various factors, actual future performance will differ substantially from the forecasts. For the notes on the assumptions on which these forecasts are premised and on the use of results forecasts, please see the Analysis of Business Results section on page 3.

Analysis of Business Results

During the year under review the Company placed emphasis on expanding the scale of all its business activities. As a result, performance was strong and according to plan, generating net sales of ¥211,881 million, operating income of ¥18,558 million, ordinary income of ¥20,274 million, net income before income taxes of ¥24,887 million, and net income of ¥18,483 million. In non-operating income and expenses categories the company posted a gain on sales of investment securities of ¥1,457 million, and in extraordinary income categories a gain on sale of shares of subsidiaries of ¥4,389 million.

Overview by Segment

Corporate Business

In the corporate business segment we engage in business primarily for small and medium enterprises (SMEs), our activities centering on direct sales, principally of office automation (OA) equipment; the sale of services for telecommunications lines, including fixed lines and broadband lines; and the planning and sale of Internet advertising. In direct sales, which are centered on OA equipment, we continued the previous term's efforts to educate and train sales personnel, and proceeded with building a marketing structure designed to enhance sales of mobile phones to companies. In the field of sales of services for telecommunications lines we expanded the marketing structure by opening new call centers and increasing the number of telemarketing staff. At our consolidated subsidiary e-machitown Co., Ltd. (TSE Mothers Market: Code 4747), we have been taking steps to enhance the media value of that company's own e-machitown local portal site. As a result of these activities the net sales of the corporate business segment totaled ¥82,296 million in the year under review, and operating income totaled ¥8,078 million.

Insurance Business

In the insurance business segment we use telemarketing methods for the insurance agency business and sales of insurance policies. During the year under review we continued the steps taken in the previous year to expand the marketing structure, spurred by the robust state of the medical insurance market. As a result, by the end of the year under review the number of telemarketers had reached 3,600, and revenue generated from the insurance business during the term totaled ¥20,838 million, with operating income of ¥6,373 million.

Shop Business

In the shop business segment we engage in sales activity, primarily of mobile phones, using a nationwide network of outlets as the principal sales channel. Since the introduction of mobile phone number portability in Japan in October 24, 2006, we have devoted ourselves to expanding our network of outlets, the core of which is formed by agents. This led to a substantial increase in unit sales of mobile phones. As a result, net sales generated in the shop business segment totaled ¥110,150 million, and operating income totaled ¥3,559 million.

Venture Fund Business

In the venture fund business segment we recorded a favorable increase in the balance of funds under management in the venture capital funds managed by our subsidiaries. Revenues in this segment during the year under review totaled ¥2,200 million, and we achieved an operating income of ¥338 million.

1. Consolidated Balance Sheets

(Millions of yen)

	Fiscal year ended March 31, 2006 (As of March 31, 2006)		Fiscal year ended March 31, 2007 (As of March 31, 2007)	
	Amount	Ratio	Amount	Ratio
ASSETS		%		%
I. Current Assets				
1. Cash and bank deposits	14,807		21,663	
2. Notes and accounts receivable-trade	22,346		36,876	
3. Marketable securities	449		314	
4. Operational investment securities	15,199		7,028	
5. Inventories	3,955		9,034	
6. Accounts receivable-other	2,971		3,342	
7. Deferred tax assets	4,387		2,124	
8. Other current assets	1,382		1,726	
9. Allowance for loss on operational investment	(11,575)		(2,690)	
10. Allowance for doubtful accounts	(365)		(221)	
Total current assets	53,559	29.2	79,199	37.0
II. Fixed Assets				
1. Property and equipment				
(1) Buildings and structures	4,270		5,455	
Accumulated depreciation	1,072	3,198	1,389	4,065
(2) Machinery and vehicles	39		42	
Accumulated depreciation	30	9	30	12
(3) Tools and equipment	5,065		6,037	
Accumulated depreciation	2,110	2,954	2,813	3,223
(4) Land		2,275		2,275
Total property and equipment		8,438		9,576
		4.6		4.5
2. Intangible assets				
(1) Consolidated adjustment accounts	834		—	
(2) Goodwill	—		1,532	
(3) Other intangible assets	1,016		1,122	
Total intangible assets		1,850		2,654
		1.0		1.2
3. Investments and other assets				
(1) Investment securities	112,884		108,586	
(2) Long-term loans	1,730		2,859	
(3) Lease deposits	4,315		5,019	
(4) Bankrupt credits	1,387		676	
(5) Deferred tax assets	464		6,664	
(6) Other investments	1,740		1,741	
(7) Allowance for doubtful accounts	(2,758)		(2,786)	
Total investments and other assets	119,763	65.2	122,761	57.3
Total fixed assets	130,052	70.8	134,992	63.0
Total assets	183,612	100.0	214,191	100.0

(Millions of yen)

	Fiscal year ended March 31, 2006 (As of March 31, 2006)		Fiscal year ended March 31, 2007 (As of March 31, 2007)	
	Amount	Ratio	Amount	Ratio
LIABILITIES		%		%
I. Current liabilities				
1. Notes and accounts payable-trade	14,298		20,564	
2. Short-term borrowings	5,000		8,000	
3. Current portion of bonds	1,600		—	
4. Accounts payable-other	10,124		19,688	
5. Income tax payable	1,312		4,707	
6. Advances	3,340		3,443	
7. Accrued bonuses	604		944	
8. Accrued bonuses-directors and auditors	—		347	
9. Other current liabilities	2,963		3,174	
Total current liabilities	39,243	21.4	60,870	28.4
II. Long-term liabilities				
1. Bonds	10,000		10,000	
2. Long-term borrowings	47		1	
3. Long-term advances	6,653		3,979	
4. Retirement benefits for directors and auditors	108		122	
5. Deferred tax liabilities	1,146		94	
6. Other long-term liabilities	942		929	
Total long-term liabilities	18,900	10.3	15,127	7.1
Total liabilities	58,143	31.7	75,997	35.5

(Millions of yen)

	Fiscal year ended March 31, 2006 (As of March 31, 2006)		Fiscal year ended March 31, 2007 (As of March 31, 2007)	
	Amount	Ratio	Amount	Ratio
MINORITY INTERESTS		%		%
Minority interests	9,043	4.9	—	—
SHAREHOLDERS' EQUITY				
I. Common stock	54,016	29.4	—	—
II. Additional paid-in capital	25,050	13.7	—	—
III. Retained earnings	25,521	13.9	—	—
IV. Net unrealized holding gains on securities	12,508	6.8	—	—
V. Foreign currency translation adjustments	(0)	(0.0)	—	—
VI. Treasury stock	(670)	(0.4)	—	—
Total shareholders' equity	116,424	63.4	—	—
Total liabilities, minority interests, and shareholders' equity	183,612	100.0	—	—
NET ASSETS				
I. Shareholders' equity				
1. Common stock	—	—	54,122	25.3
2. Additional paid-in capital	—	—	25,156	11.7
3. Retained earnings	—	—	41,314	19.3
4. Treasury stock	—	—	(672)	(0.3)
Total shareholders' equity	—	—	119,921	56.0
II. Valuation and translation differences				
1. Net unrealized holding gains on securities	—	—	4,060	1.9
2. Foreign currency translation adjustments	—	—	4	0.0
Total valuation and translation differences	—	—	4,065	1.9
III. Stock acquisition rights	—	—	153	0.1
IV. Minority interests	—	—	14,053	6.5
Total net assets	—	—	138,193	64.5
Total liabilities and net assets	—	—	214,191	100.0

2. Consolidated Statements of Income

(Millions of yen)

	Fiscal year ended March 31, 2006 (April 1, 2005–March 31, 2006)			Fiscal year ended March 31, 2007 (April 1, 2006–March 31, 2007)		
	Amount		Ratio	Amount		Ratio
		%			%	
I. Net sales	192,837	100.0	%	211,881	100.0	%
II. Cost of sales	83,289	43.2		98,480	46.5	
Gross profit	109,547	56.8		113,401	53.5	
III. Selling, general, and administrative expenses	82,203	42.6		94,842	44.7	
Operating income	27,344	14.2		18,558	8.8	
IV. Non-operating income						
1. Interest income	50			41		
2. Dividend income	435			743		
3. Gain on sales of investment securities	1,931			1,457		
4. Gain on investments in VC funds	263			—		
5. Amortization of consolidation adjustment account	373			—		
6. Amortization of negative goodwill	—			206		
7. Equity in net gain of affiliates	—			55		
8. Other non-operating income	715	3,768	1.9	551	3,056	1.4
V. Non-operating expenses						
1. Interest expenses	125			327		
2. Equity in net loss of affiliates	234			—		
3. Loss on investments in VC funds	—			84		
4. Provision for doubtful accounts	331			80		
5. Fees paid	63			115		
6. Other non-operating expenses	449	1,204	0.6	632	1,240	0.6
Ordinary income		29,908	15.5		20,374	9.6
VI. Extraordinary income						
1. Gain on sales of investment securities	76			60		
2. Gain on sale of shares of subsidiary	759			4,389		
3. Gain from change of interest in investments in subsidiaries and affiliates	370			788		
4. Reversal of reserve for doubtful account	214			211		
5. Gain from business transfers	—			301		
6. Other extraordinary income	—	1,420	0.7	17	5,769	2.7

(Millions of yen)

	Fiscal year ended March 31, 2006 (April 1, 2005–March 31, 2006)		Fiscal year ended March 31, 2007 (April 1, 2006–March 31, 2007)	
	Amount	Ratio	Amount	Ratio
VII Extraordinary losses		%		%
1. Loss on disposal and sale of fixed assets	434		150	
2. Devaluation of investment securities	65		246	
3. Loss on sales of investment securities	4		2	
4. One-time amortization of consolidation adjustment account	233		—	
5. Impairment loss	90		—	
6. Provision for doubtful accounts	—		820	
7. Other extraordinary losses	47	875	36	1,255
		0.4		0.6
Net income before income taxes		30,452		24,887
		15.8		11.7
Income and enterprise taxes	1,936		5,448	
Deferred income taxes	3,671	5,608	886	6,335
		2.9		3.0
Minority interests		4,274		68
		2.2		0.0
Net income		20,569		18,483
		10.7		8.7

3. Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal year ended March 31, 2006 (April 1, 2005–March 31, 2006)	Fiscal year ended March 31, 2007 (April 1, 2006–March 31, 2007)
	Amount	Amount
I. Operating Activities		
Income (loss) before income taxes and minority interests	30,452	24,887
Depreciation and amortization	1,283	1,718
Amortization of consolidated adjustment account	331	—
Amortization of goodwill	—	171
Allowance for doubtful accounts	(101)	948
Allowance for loss on investment	(575)	—
Allowance for loss on operational	(3,347)	(8,885)
Interest and dividend income	(485)	(785)
Interest expense	125	327
Sale of shares of subsidiary	—	(4,353)
Loss on sales of investment securities	(2,002)	(1,514)
Loss on investment in VC funds	(263)	84
Loss on devaluation of investment securities	65	246
Equity in net loss or gain of affiliates	234	(55)
Loss on sale and disposal of property and equipment, net	434	150
Notes and accounts receivable	102	(13,924)
Inventories	61	(5,525)
Operational investment securities	7,191	7,322
Accounts receivable – other	(116)	(676)
Accounts payable – trade	(578)	5,871
Accounts payable – other	1,126	8,987
Advances	(17,491)	(2,571)
Other current assets	1,675	(269)
Other current liabilities	688	368
Other cash flow from operating activities	(617)	(461)
Subtotal	18,193	12,063
Interest and dividends received	481	769
Interest paid	(103)	(342)
Income tax paid	(2,837)	(2,918)
Tax refund	1,607	1,368
Net cash provided by operating activities	17,341	10,941

(Millions of yen)

	Fiscal year ended March 31, 2006 (April 1, 2005–March 31, 2006)	Fiscal year ended March 31, 2007 (April 1, 2006–March 31, 2007)
	Amount	Amount
II. Investing Activities		
Purchases of property, equipment and intangible assets	(2,288)	(2,967)
Proceeds from sale of property, equipment, and intangible assets	110	97
Purchases of investment securities	(48,540)	(15,181)
Proceeds from sale of investment securities	6,106	6,491
Purchases of shares in subsidiaries	(71)	(118)
Proceeds from sale of shares in subsidiaries	652	1,812
Expenditure for sales of shares in subsidiaries resulting in change in scope of consolidation	(204)	(166)
Purchases of shares in subsidiaries resulting in change in scope of consolidation	(2,010)	(269)
Proceeds from sale of shares in subsidiaries resulting in change in scope of consolidation	239	2,958
Income from business transfers	—	571
Increase in loans receivable	(743)	(846)
Decrease in loans receivable	1,504	515
Increase in lease deposits	(466)	(1,412)
Decrease in lease deposits	676	478
Proceeds from repayment of time deposits	1,340	—
Other investing activities	172	(73)
Net cash used in investing activities	(43,522)	(8,110)
III. Financing Activities		
Proceeds from short-term borrowings	5,054	2,768
Payment of long-term debt	(13)	(588)
Proceeds from issuance of bonds	9,956	—
Redemption of bonds	(103)	(1,600)
Proceeds from issuance of common stock	1,052	212
Proceeds from sale of common stock of subsidiaries to minority shareholders	3,798	7,903
Purchases of treasury stock	(2)	(1)
Payment of dividends	(2,298)	(2,316)
Payment of dividends to minority shareholders	(6,690)	(1,963)
Proceeds from sale and lease-back	1,478	—
Payments of lease obligations	(166)	(436)
Net cash used in financing activities	12,065	3,978
IV. Effect of exchange rate changes on cash and cash equivalents	(6)	0
V. Net (decrease) increase in cash and cash equivalents	(14,121)	6,809
VI. Cash and cash equivalents at beginning of the year	28,111	14,915
VII. Increase in cash and cash equivalents arising from increase in consolidated subsidiaries	925	—
VIII. Cash and cash equivalents at end of the year	14,915	21,725

Reference Information: Consolidated financial statements based on the accounting method in which funds are excluded from the consolidation (Unaudited)

Note: Hikari Tsushin believes that the previous accounting method, in which venture capital funds managed by its subsidiaries were excluded from its consolidated financial statements (method with funds unconsolidated), is useful for showing the Group's operating results and financial position, and will therefore continue to use that method to present them.

Reference: Business results for the year ending March 31, 2007 (April 1, 2006, to March 31, 2007) using the method with funds unconsolidated

(1) Consolidated operating results

(Rounded down to the nearest million yen)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	% change	Millions of yen	% change	Millions of yen	% change	Millions of yen	% change
Year ended March 31, 2007	209,705	15.0	18,166	(15.0)	20,244	(23.1)	18,374	(11.8)
Year ended March 31, 2006	182,307	6.6	21,370	(1.5)	26,331	(11.0)	20,832	7.0

	Net income per share	Diluted net income per share	Ratio of net income to equity	Ratio of ordinary income to total assets	Ratio of operating income to net sales
	Yen	Yen	%	%	%
Year ended March 31, 2007	316.51	315.52	15.0	10.4	8.7
Year ended March 31, 2006	354.36	351.03	17.8	14.8	11.7

(2) Consolidated financial position

	Total assets	Total assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
At March 31, 2007	210,308	134,425	61.2	2,216.32
At March 31, 2006	177,620	117,022	65.8	2,017.13